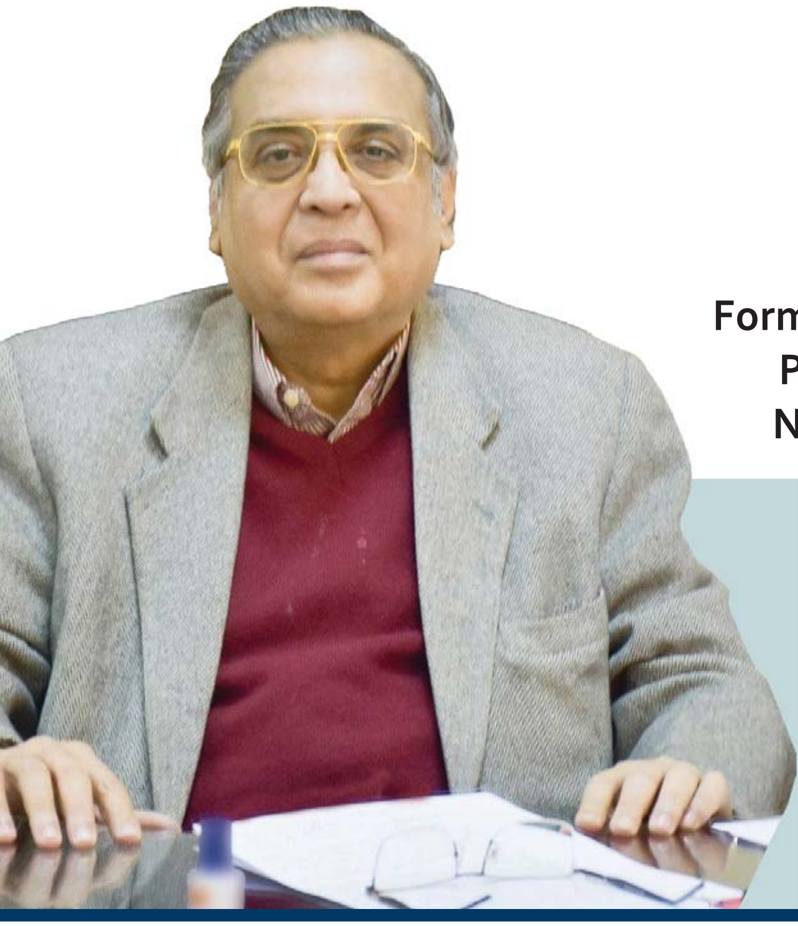
Exclusive Interview



BNU

Dr. Hafiz A. Pasha

Former Federal Minister for Finance and Professor Emeritus Beaconhouse National University (BNU) Lahore

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ICMA: In your view, what role does the IMF play in shaping economic reforms in Pakistan?

Dr. Hafiz A. Pasha: IMF supports Pakistan in managing a difficult economic situation in which foreign exchange reserves have fallen to a critically low level. This is achieved through extension of loan under a special facility. Disbursement of this loan is conditional on implementing the agreed agenda of reforms and meeting the performance criteria with the objective of stabilizing the economy.

ICMA: How would you assess the current IMF program, particularly in terms of the established targets and their attainment?

Dr. Hafiz A. Pasha: The current IMF program is Stand-by Facility of nine months with a loan amount of $3 billion. It has contributed to a significant increase in foreign exchange reserves and helped in stabilizing the economy. The first review was successfully completed and the second and last review is currently under way. The IMF may ask for gas and electricity tariff increases and some taxation proposals to ensure that the FBR meets the annual revenue target.

ICMA: What are the major challenges facing Pakistan's economy, especially concerning the repayment of loans?

Dr. Hafiz A. Pasha: Despite the recent increase in the foreign exchange reserves, they still remain low at under $8 billion. This provides import cover for only one and a half months. The 'safe' level is three months.

Pakistan's annual external financing requirement is $18 to $20 billion, net of likely rollovers. There has been no inflow of funds from private creditors this year, because of the low credit rating, despite the umbrella of an IMF program.

Achieving the annual external financing requirement is the biggest challenge today.

ICMA: How do the conditions set by the IMF impact Pakistan's economic landscape?

Dr. Hafiz A. Pasha: The actions and reforms agreed to with the IMF focus primarily on stabilization of the economy by reduction especially in the current account deficit and the budget deficit. This requires more intensive use of the policy instruments of exchange rate depreciation, hike in interest rates and tax rates, and expenditure cuts.

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This is accompanied by a short-run increase in the rate of inflation and some slowdown in the growth process in the process of stabilization.

ICMA: How can Pakistan navigate IMF conditions while protecting its economic interest and priorities?

Dr. Hafiz A. Pasha: The process of stabilization is likely to accompanied by rise in the level of unemployment and the incidence of poverty. Therefore, a program of social protection and relief for the poor will need to be simultaneously put in place.

ICMA: Are there specific sectors or areas where you believe Pakistan should concentrate its efforts to enhance stability and secure a more stable future?

Dr. Hafiz A. Pasha: The first priority is for raising the level of exports, through appropriate steps to increase competitiveness and achieve greater diversification. Next in importance is significantly enhancing the tax-to-GDP ratio, which has fallen in recent years. This requires the implementation of progressive tax reforms, leading to more effective taxation of sectors like real estate, wholesale and retail trade, and agriculture.

Further, there is need for rationalization of federal current expenditure, focusing especially on reduction in costs of running the civil administration, subsidies, grants and pensions.

Also, the energy sector of Pakistan has emerged as a 'black hole' in the economy. Fundamental steps will have to be taken to reduce the very high transmission distribution and billing losses of over 23%, while moving towards renewable energy.

The level of human development of Pakistan has also now fallen from the medium to the low level. Appropriate changes will have to be made in the level and composition of allocations of public expenditure to education and health.

ICMA: Does Pakistan consistently require support from IMF?

Dr. Hafiz A. Pasha: Pakistan has been a country which is notorious for its very frequent resort to IMF Programs. Since 1988, Pakistan has been in 23 programs, but has successfully completed only one program. It is hoped that when Pakistan goes shortly for its 24th program with the IMF, spread over the next three years, a comprehensive and strong set of reforms will be implemented such that the country then finally embarks on the path of self-reliant, sustainable, and relatively rapid growth.

ICMA: What other avenues can Pakistan explore instead of depending on the IMF?

Dr. Hafiz A. Pasha: The SIFC has set a very ambitious target of attracting foreign direct investment into Pakistan to solve the balance of payments problem

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and accelerate the process of growth. However, since its formation there has been no upsurge yet in this inflow. There is, in fact, no substitution to implementation of a comprehensive agenda of reforms to stabilize the economy, preferably under the umbrella of an IMF Program. Foreign direct investment is likely to increase only after the economy has stabilized. There will simultaneously also be a need for political stability to stimulate both domestic and foreign investment in the country.

*The Editorial Board thanks **Former Federal Minister for Finance and Professor Emeritus Beaconhouse National University (BNU) Lahore** for sparing from his precious time to give exclusive interview for Chartered Management Accountant Journal.*