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## Ms. Teresa Daban Sanchez

Resident Representative of the  
International Monetary Fund (IMF) to Pakistan

“ The government's strong commitment provides a strong signal of optimism that this time it will be different ”

**ICMA Pakistan:** How do you look back on your professional journey?

**TDS:** I am very excited about the opportunity to work as Resident Representative of the International Monetary Fund (IMF) to Pakistan. For a macro-economist, working for an organization such as the IMF, and having an assignment such as Pakistan is a dream job. Pakistan is a large emerging market economy, with special geopolitical relevance, very interesting history and cultural heritage, and difficult macroeconomic challenges. In other words, Pakistan is what we usually call a high-profile case. It will be demanding, but also very rewarding and interesting from both professional and personal points of view.

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**ICMA Pakistan:** How would you define your mission statement after you took charge as Resident Representative of IMF to Pakistan?

**TDS:** Pakistan has a long and fruitful, yet complex, relationship with the IMF. For years, we have worked together with Pakistan on several issues, through financial assistance, policy advice and technical assistance. In the last few years, despite having an active IMF-supported program with Pakistan, the IMF visibility was hampered because of security concerns. For instance, during several years, missions from our headquarters in Washington did not visit Pakistan. All discussions were conducted in Dubai. Reflecting on a noticeable improvement in Pakistan's security situation, IMF missions have now started coming to Pakistan again. One of my goals would be to strengthen the engagement of the IMF with Pakistan and make it more visible and approachable, by reaching out as many segments as possible of the Pakistani society. It is in this context that I appreciate very much the opportunity to contribute to this edition of the magazine of the Institute of Cost and Management Accountants of Pakistan.

**ICMA Pakistan:** Why Pakistan is engaged again in an IMF-supported program?

**TDS:** This is the result of weak and unbalanced policies implemented in recent years. Under these policies, public deficits and losses in state-owned companies ballooned as successive governments have been unable to increase revenues. Government borrowing - both domestic and international - gave rise to heavy debt. Interest payments absorb around 25 percent of the government revenue, leaving little money for much-needed spending on health, education and infrastructure. The budget deficits together with the focus on keeping a constant exchange rate and the lack of structural reforms led to a steady loss of competitiveness and a surge in the trade deficit. Despite the foreign borrowing, to finance imports, the central bank had to dip into its reserves, which dropped to precariously low

levels. As a result, growth was focused mostly on consumption, while the difficult business environment continued to discourage investment and job creation while fostering a large informal economy. Without a substantial change of direction, financial and economic stability was at risk, causing higher unemployment, higher inflation and debt servicing problems.

**ICMA Pakistan:** What are the main pillars of Pakistan's IMF program?

**TDS:** The government's program focuses on three priorities. First, significantly improve in tax revenues at federal and provincial levels, by broadening the tax base while maintaining tax rates. This necessitates the elimination of exemptions and preferential treatment for many industries, and individuals since only one percent of Pakistanis pay income tax. Also, a major effort is needed to fight tax evasion, improve compliance, and document the economy. The additional revenue generated will enable greater social and infrastructure investment critical for Pakistan's development. Second, allow the exchange rate to be market-determined, as it is done in many emerging markets, rather than continue borrowing to maintain a certain level that only benefited imports and not local industry. A flexible and competitive exchange rate will support domestic producers and exporters by giving them access to fairer prices. The new regime will also help rebuild central bank reserves to provide a buffer against external shocks and to develop the financial markets, which is critical to support growth. A strengthened and more independent central bank will guide monetary policy to reduce uncertainty and contain inflation, which hurts the poor disproportionately. Third, protect vulnerable groups by increasing spending on the social safety net. The government's program strengthens the Benazir Income Support Program by increasing allocations by 80 percent,

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finalizing the updates on the National Socio-Economic Registry and expanding its coverage. The Conditional Cash Transfer program will also be expanded to insulate the poorest households from any adverse impact of these necessary reforms. The government has factored in continual reassessment (and upscaling, if needed) of social spending levels as policies take hold.

**ICMA Pakistan:** How could Pakistan achieve a robust and sustainable path of growth?

**TDS:** The IMF-supported program aims not only at stabilizing the economy but also at laying the foundation for robust and balanced growth. The first review under the program was completed recently in December. It shows that the policies and reforms are bearing fruit and stabilization is emerging. More needs to be done. Once implemented in full, the program will help put the economy on a sustainable path to stability and prosperity. This is because the program also envisages a concerted push to address long-standing structural issues that perennially hold back growth. This includes reforms to strengthen government institutions and increase the trust that Pakistanis have in them. A key element is creating a more transparent business and investment climate, by:

- (a) streamlining regulations;
- (b) simplifying tax compliance;
- (c) bringing greater transparency and accountability in public spending;
- (d) reforming the energy sector including the automatic implementation of regulatory decisions; and
- (e) improving governance at state-owned enterprises.

**ICMA Pakistan:** How does the IMF work with other bilateral and international partners?

**TDS:** The IMF, together with other international partners, is working closely with the government to implement the

policies and reforms envisaged under the IMF-supported program, sending a strong signal to the international community that underlying issues can be resolved and economic prospects can be improved. It is very welcoming that key bilateral lenders, including China, Saudi Arabia and the UAE are also committed to providing financial support, amounting to over US\$38 billion during 2019-22. This support should encourage additional financing and investment from the private sector.

**ICMA Pakistan:** Any special message to our readers?

**TDS:** With an export-oriented manufacturing sector, a large domestic market, a privileged geographic situation, access to international financial markets and extensive donor support, Pakistan has the potential to become a full-fledged emerging market economy. But to unleash that potential, there is a need to implement good policies in the short and medium-term. Several past IMF-supported programs were not completed or when completed the policies quickly reversed. A determined implementation to overcome entrenched resistance to reforms will be critical to rebuilding public trust. The government has developed a

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plan that is adapted to the unique circumstances of Pakistan and has already begun implementing many of the policies. The government's strong commitment provides a strong signal of optimism that this time it will be different.

*The Editorial Board thanks Ms. Teresa Daban Sanchez, Resident Representative of the International Monetary Fund (IMF) to Pakistan for giving her exclusive interview for Management Accountant Journal.*