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Pakistan asks for leeway on fiscal reforms

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By Alan Beattie in Washington

Published: August 23 2010 18:31 | Last updated: August 23 2010 18:31

Pakistan started talks with the International Monetary Fund on Monday in a bid to ease further strains in a financial rescue plan that had been struggling even before the country was hit by devastating floods.

Pakistani officials have asked for leeway in implementing the tough conditions in the $11.3bn (€8.9bn, £7.3bn) lending programme, first agreed in 2008 and enlarged in 2009. Monday's talks were at a technical level, with Abdul Hafeez Shaikh, Pakistan's finance minister, due to arrive towards the end of the week.

But experts say the IMF may face difficulty in adapting its crisis-lending function to a country needing large amounts of humanitarian aid.

The IMF on Monday did not respond to requests for comment, but a letter published on Saturday from Masood Ahmed, head of the fund's Middle East and Central Asia department, suggested that the fund was open to renegotiating the agreement. "The scale of the tragedy means that the country's budget and macroeconomic prospects, which are being supported by an IMF financed programme, will also need to be reviewed," Mr Ahmed said.

Pakistan, which had been borrowing heavily from international investors and suffered rising inflation, was hit hard in 2008 by the worldwide food crisis and then the global recession. After China had turned down Pakistani appeals for a bilateral rescue, Islamabad agreed a three-year deal with the IMF. Although inflation fell and the current account deficit narrowed under the terms of the programme, Pakistan has found it hard to raise tax revenue to close the government budget deficit and has repeatedly missed targets agreed with the fund. Islamabad has also failed to prevent loss-making electricity companies and other public enterprises continuing to burden the public finances.

Experts in IMF programmes said the floods would make these challenges even worse through a combination of the direct fiscal cost, the need to focus all ministerial attention on the floods and the domestic political damage the government is sustaining thanks to perceptions that its response has been slow and inadequate.

Eswar Prasad, former head of the fund's China department and now at Cornell University, said: "The government has lost a lot of popularity as a result of its response to the floods and because of the security situation. Serious reform carries short-run political costs, and even after the crisis is over they will not want to do it."

Prof Prasad suggested that the IMF might continue to pay out loans while temporarily relaxing the conditions placed on them. But he said that Pakistan needed a large amount of humanitarian aid very quickly and that the IMF, which gives loans rather than grants, was not best placed to deliver it.

"The IMF is not well adapted to cope with situations like this,' he said. "It is not set up to give money with no strings attached."