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Pakistan needs $27 bn for financing requirements of external front: IMF

ISLAMABAD: The IMF has estimated that Pakistan's gross financing requirements of external front stood at $27.332 billion during the current fiscal year 2019-20.

The IMF's staff review report has given its projection for five years and stated that this gross financing requirements would be estimated at $26.696 billion in next fiscal year 2020-21, $28.119 in financial year 2021-22, $26.684 billion in 2022-23 and $28.685 billion in fiscal year 2023-24.

The IMF report states that the Fund sponsored programme remains fully financed for the next 12 months and with good prospects for the remainder of the programme.

Financing assumptions remain in line with the forecasts at the time of the programme request, fully financed with the expected support from multilateral development banks and bilateral creditors including China's $5.2 billion, Saudi Arabia $6.2 billion, UAE $1 billion, the World Bank's $1.7 billion, the Asian Development Bank's $2.5 billion, and the Islamic Development Bank $1 billion.

The IMF further states that in line with the programme financing commitments, key bilateral creditors (China, Saudi Arabia, and the UAE) have maintained their exposure to Pakistan by extending new financing in the amount of $700 million from China and $3 billion from Saudi Arabia, fully covering their matured loans.

According to the IMF, Pakistan's capacity to repay its IMF obligations in a timely manner remains adequate, but subject to higher than usual risks. Risks to Pakistan's repayment capacity are elevated on account of the low reserves and delayed adoption of adjustment policies.

Moreover, higher public debt and gross financing needs are adding to these risks. As of end-November 2019, the IMF's exposure to Pakistan stood at SDR 4,659 million (229 percent of quota or 76.2 percent of gross reserves). Full purchases under the programme will result in outstanding purchases of SDR 6,146 million by September 2022 (41 percent of projected reserves or 303 percent of quota). Adequate capacity to repay and debt sustainability will depend on strong policy implementation and the adequate execution of the existing financing commitments.

Regarding SBP's safeguard assessment, the IMF says that an update safeguards assessment of the SBP is substantially completed. The assessment found that the SBP has maintained a broadly strong safeguards framework since the last assessment in 2013, except for its legal framework, in particular with regards to autonomy and governance. The financial reporting, external and internal audit mechanisms, and an enterprise-wide risk management framework all highlight sound practices. However, legislative reforms are necessary to strengthen SBP's autonomy and governance arrangements, and a medium-term strategy is required to phase out its involvement in quasi-fiscal activities.

The IMF staff in its appraisal stated that the authorities' programme, supported by the EFF, is on track and already producing early results.

Unsustainable policies in recent years led to large fiscal and current account deficits, debt accumulation, and imbalances that threatened Pakistan's financial stability. External bilateral financing gave a respite but was mostly used to support an overvalued exchange rate and postpone the current adjustment. Policies under the programme have started to address these deep-seated problems. The exchange rate overvaluation has been corrected. Adept monetary policy has helped rein in the inflationary pressures, and fiscal adjustment has started to bring debt and debt service to more sustainable levels.

Still, significant challenges remain. The fiscal position is still not strong enough and quasi-fiscal losses undermine public finances. Growth has slowed as the economy adjusts to the new polices, which affects social conditions. The authorities need to show resolve to implement decisively the programme. Prudent policies and structural reforms are the only sustainable option to increase resilience and restore strong and inclusive growth.

Fiscal reforms to support revenue mobilisation and medium-term fiscal consolidation are necessary to place debt on a downward path. Q1 domestic tax revenue growth rates were strong. The focus going forward needs to remain on implementing high-quality tax measures, including the elimination of tax exemptions and loopholes. The introduction of new exemptions would undermine base-broadening efforts and lead to a less equitable distribution of the adjustment. “Preparations for a wholesale tax policy reform envisaged as part of the FY 2021 budget need to start early to ensure timely implementation” the IMF stated.

The IMF noted that the current monetary stance is appropriate. The positive real policy rate is consistent with SBP's medium-term inflation objective. Monetary easing should only be considered after data shows that disinflation is entrenched and inflation trends are consistent with the SBP medium term objective. The commitment to a flexible, market-determined exchange rate is welcomed and intervention should be limited to prevent disorderly market conditions, the IMF concluded.