

Which IMF programme?

The funding gap, according to SBP presentation to the PM in the presence of panel of economists, is \$10-12 billion this year, and that cannot be plugged without the IMF. Seeing that, and based on the recommendations of senior economists, government reluctantly agreed to request the IMF for a fresh bailout.

The question is what kind of programme is the government eyeing. There are two options. One is to ask for a Standby Facility (SBA) and the other is to seek an Extended Finance Facility (EFF). In the past, Pakistan has availed both kinds of facilities, where the frequency of SBA is higher.

The SBA is primarily for shorter term aimed at averting immediate balance of payment crisis. The length of SBA is typically 12-24 months and can be extended to 36 months. It is front loaded with higher disbursement in early days to fill in financing needs to bring stability. The processing time is quicker as the Fund accelerates negotiation seeing urgent needs of financing.

There are fewer conditions in the SBA as the new framework has eliminated structural performance criteria. The Fund usually critically assesses the borrowing country's implementing structural measures holistically at the time of designing the programme.

The caveat is that repayments starts relatively earlier, the amount is due within 3.25-5 years of disbursement i.e. amount is repaid in eight equal installments starting from 3.25 years of disbursement to complete repayment in 5 years.

In case of EFF, countries facing serious payment imbalances due to structural impediments are entertained or ones with slow growth and inherit balance of payment situation are considered. The programme is usually spread over 36-48 months with little money up front. There are normally more conditions and structural benchmarks. The loan is on concessionary terms and repayment period is extended with easier plans.

Both the plans have their own merits and demerits. And the decision is not unilateral as both the parties (including IMF) ought to be on one page.

Economists are divided on the structure of the programme. Few opine that EFF is better as the country needs structural adjustments and that cannot be done without the Fund's blessings. Plus, the repayment in EFF is long term and the economy would have much more time to recover before the repayments start. In 2013, the PMLN government entered an EFF programme primarily to pay back the SBA acquired in 2008. The government may need another EFF in 2023 to pay back loan in 2018-19.

The other side is of the view that the country needs a breather for a year or two in an otherwise thriving economy based on growing domestic demand. Plus, they are confident on the PTI agenda of reforms and see that the crisis is not as deep as 2008; hence the recovery might be fast to eliminate the need of any long term structural programme.

This argument seems to have more weight and it seems to sync with PTI's agenda. The PTI

probably did not want an IMF programme as it was exploring all other options. Now that the IMF is the only option, the government may like to keep the programme short and sweet.

The other important factor is that the external financing needs are urgent and EFF may not be enough for bringing stability in the foreign exchange market. The game plan of PTI appears to bring stability in the economy by filling the external gaps and cut the deficits through austerity measures.

Once done, the agenda is to reform the economy to not let the imbalances grow in the years to come. Seeing all this, Pakistan might and rightly so, go for an SBA arrangement.

Also in case of SBA, government is eying nothing short of \$8-10 billion with a good chunk upfront. If it is EFF, at best, the country can get \$7.5 billion which might not be enough.

The government has already taken a few steps which could well be the conditions of IMF such as free float currency and upward revision in energy prices. This implies that the ground work for SBA programme is happening, as this arrangement usually focuses on pre-programme actions.

That said, nothing is certain as it is hard to read what is on the Fund's board mind. There are instances, both in case of Pakistan and other member countries, where the stiff conditions were applied in case of SBA and lenient programmes were designed under EFF.

A very important factor is the relationship with the heavyweight on board (USA). Seeing, the deteriorating relationship of Pakistan and the US, IMF may show more sticks than carrots. And if financial relaxations are made, they will probably be at the cost of non-financial factors. Yes, political and military relationships are key in negotiating a relatively lenient programme for Pakistan. One of a senior economist was against the IMF programme. And there was some pressure on PTI to delay the programme. It took the decision after the Foreign Minister had talks with US senators and congressmen in Washington.

Under Trump, the non-economic factors cannot be ignored. The party is not over yet. Let's keep the fingers crossed till the programme papers are signed.