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$30 billion needed to support external financing needs: Moody""s

Moody""s Investors Service (Moody""s) has estimated Pakistan""s gross external financing needs for fiscal 2019 at around $30 billion, of which $7-8 billion are the government""s external repayments. Moody""s in its latest report on Pakistan has stated that an International Monetary Fund (IMF) program provides immediate external funding support for Pakistan, but external and fiscal challenges remain.

On 11 October, IMF Managing Director Christine Lagarde confirmed that Pakistan (B3 negative) had formally requested financial assistance to address ongoing macroeconomic and fiscal challenges, the most proximate of which are ongoing balance-of-payments pressures.

An IMF program would be credit positive for Pakistan because access to a cheap, stable source of external financing would provide immediate support to the government""s external financing needs. Additionally, support and technical assistance from the IMF would aid macroeconomic rebalancing and the government""s structural reform agenda. However, external and fiscal challenges remain, particularly in light of investments, imports and external borrowing related to projects under the China-Pakistan Economic Corridor (CPEC).

It further states macroeconomic and external imbalances have risen since the country""s previous IMF program finished in 2016. In particular, foreign exchange reserves adequacy has fallen to low levels, sufficient to cover barely two months of goods imports and below the IMF""s minimum adequacy threshold of three months.

Despite the State Bank of Pakistan depreciating the Pakistani rupee approximately 25% against the US dollar and hiking its policy rate by a cumulative 275 basis points since December 2017, and fiscal authorities implementing one-off measures such as a tax amnesty scheme to incentivise capital repatriation, the current-account deficit remains wide.

"We expect the current-account deficit to total 4.6% of GDP in fiscal 2019 (ends June 2019), which is slightly narrower than the 5.8% deficit in fiscal 2018 but wider than the average deficit of 1.3% fiscal 2013-16," Moody""s maintained in the report.

In part owing to the wide current-account deficit, Moody""s estimates Pakistan""s gross external financing needs for fiscal 2019 to be around $30 billion, of which $7-$8 billion are the government""s external repayments.

The financing gap - which excludes foreign-exchange reserves - is likely to total $8-$9 billion; taking into account the government""s borrowing plans and Moody""s expectations for capital inflows including foreign direct investment and portfolio flows.

An IMF program will not only bridge the financing gap but also serve as a strong signal to other official sector creditors that will be crucial to meet financing requirements over the coming years. This is particularly the case if a more front-loaded program provides greater market confidence when Pakistan""s upcoming Eurobond and Sukuk repayments totaling $1 billion each are due in April and December 2019, respectively.

An IMF program will also provide crucial policy support and technical assistance to the recently elected government, led by Prime Minister Imran Khan""s Pakistan Tehreek-e-Insaf (PTI) party, in advancing its structural reform agenda.

Moody""s further states that the government has pledged a reform-based policy agenda, including raising economic competitiveness through pro-business policies, addressing corruption issues, reforming state-owned enterprises, enforcing greater discipline in government spending and broadening the tax base. However, external and fiscal risks will remain significant, absent further macroeconomic adjustments.

Ongoing implementation of CPEC projects, which will likely amount to 9%-10% of GDP in fiscal 2019, and higher oil prices will keep the import bill elevated. The government""s export package in June 2018 was extended for three years through fiscal 2021 and aims to boost export competitiveness and incentivise investment in export-oriented production by removing customs duty on exported goods, reducing sales taxes on exporters"" inputs and providing subsidies on certain raw materials.

Although this extension will benefit exports, they remain half the level of goods imports. Higher government spending has also contributed to the macroeconomic imbalance. Moody""s expects the fiscal deficit to narrow slightly to 5.4% of GDP in fiscal 2019 after a deficit of 6.4% in fiscal 2018, notwithstanding the government""s recently announced mini-budget to cut development spending and raise revenue through import duties and other administrative measures.

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