DAWN

PTI INSISTS IMF IS A 'FALLBACK'

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ASAD Umar, the man expected to get the most important job of bringing the faltering economy back on its feet in the incoming Pakistan Tehreek-i-Insaf (PTI) government, views an International Monetary Fund (IMF) bailout as a "fallback option".

He does not rule out the possibility of knocking at the door of the lender for its dollars to prop up the depleting foreign currency reserves and avert the impending balance-of-payment crisis, but says it is not his "preferred option".

See: *Is IMF avoidable?*

"We use a fallback option only after exploring our preferred options," he briefly told this correspondent over the telephone. "Our preferred choice is to boost exports and offer overseas Pakistanis profitable bonds. We also have the option of seeking bilateral funds (from friendly countries) before looking for multilateral cash."

Since the PTI's win in the July election, the finance minister-in-waiting has repeatedly told journalists that a decision to use the IMF option will be made by the end of next month. During his recent media interaction, he had said that Pakistan is running a monthly current account deficit of $2 billion for the last three months.

"The incoming finance team better acquire funds from every available source — multilateral, bilateral, overseas Pakistanis — until we can boost our exports and convince overseas Pakistanis to invest... dollars can only help avert the looming crisis," says Dr Shahid Zia

Despite his assertion that he would like to ask the IMF for money only after exhausting other preferred options, he has at least once hinted at seeking dollars from every source available. "The (external account) situation is so dire, we don't have the luxury of choosing one option, but will have to plan all options in parallel, including the IMF support," he had told a media briefing last week.

Pakistan had run up a current account of $18bn during the last financial year.

Mr Umar told this correspondent that he could not say anything about the exact size of the country's financing requirements for the ongoing year because he did not have access to official numbers. However, leading economist Dr Hafiz Pasha had recently told Dawn that Pakistan's financing needs stood around over $26bn.

This compares with the IMF estimates of $27bn and the finance ministry's calculation of $23bn. The former caretaker finance minister was of the view that the incoming government would be facing a massive financing gap of around $12bn during the current year.

His advice for the new finance minister was to take the first flight to Washington after taking oath to secure the IMF funds before the country ran out of its meagre foreign currency stock of $9bn.

Dr Waqar Masood, a former finance secretary who negotiated the last two bailout packages with the IMF in 2008 and 2013, feels that immediate IMF support is the only option available to bail out the crumbling economy. "Bilateral cash from friendly governments (like China and Saudi Arabia) is not an option. Bilateral funds are no substitute for the Fund's dollars."

Indeed, the Fund is not going to hand cash to next government without demanding something in return. Economists like Dr Pasha believe the IMF dollars will have many economic and non-economic strings attached to them.

“It is not going to be an easy job to get the money from the IMF given the current state of Pakistan’s relationship with the United States. We’ll need a team of skilful negotiators for the job to be done on our terms.”

Others like Dr Masood agree that the loan conditions could be tough. They had severely criticised the previous government’s policies under former prime minister Shahid Khaqan Abbasi and his finance minister Miftah Ismail for letting the budget deficit swell to 7.1pc, keeping interest rates low despite increasing the aggregate demand that fuelled the current account deficit and allowing massive personal tax concessions in the last budget.

But they insist those conditions are in Pakistan’s interest to accept.

“What can the IMF ask from us in exchange for its dollars? They will demand structural reforms like privatisation of state-owned businesses, expansion of the tax base and imposition of fiscal discipline. That means interest rates will go up and the rupee will lose a little more of its value.

“But, the implementation of good economic policies is in our own interest, no?” the former finance secretary said, explaining his assertion why bilateral cash cannot substitute the IMF dollars.

But many economists such as Dr Shahid Zia argue that the incoming government will have to explore all options available to it for securing funds to prop up the foreign currency reserves and stall a balance-of-payment crisis.

“IMF funds are needed for forced structural reforms and fiscal discipline. But that will not be enough. A large chunk of the Fund money will go back to it (as Pakistan already owes it $6.4bn).

“The incoming finance team better acquire funds from every available source — multilateral, bilateral, overseas Pakistanis, etc — until we can boost our exports and convince overseas Pakistanis to invest in their homeland. But dollars can only help avert the looming crisis. If we want to put our house in order and avoid a similar crisis after five years, the PTI government will have to take some unpopular, tough decisions and people will be required to tighten their belts.”

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