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- EDITORIALS

Woeful financing gap

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In an exclusive interview to Aaj News former Finance Minister Dr Hafiz Pasha stated that the external financing gap would be as high as 18 billion dollars in the event that the Pakistan Tehreek-e-Insaf (PTI) government opts not to seek around 6.6 billion dollar bailout package from the International Monetary Fund (IMF). His assessment was based on an external financing requirement of 31 billion dollars given a projected 21 billion dollar current account deficit (a reasonable assessment given that it was 18 billion dollars in 2017-18) and 10 billion dollar loan repayment liabilities (inclusive of heavy reliance on short-term high interest commercial loans).

This data contrasts with the reported assessment of the Finance Minister-designate Asad Umar in three important aspects. First, Umar assessed the external financing requirement at 12 billion dollars. One would assume that once he takes over the portfolio he would have access to more credible data though here too there are concerns given that the top officials are likely to endorse the PML-N administration's penchant for massive data manipulation to show a much better performance than was in fact the case.

Secondly, there were reports that created an impression that Umar has indicated that the government maybe able to access the entire 12 billion dollars financing requirement from the IMF which in fact is not possible. A member country's access to a bailout package is dependent on the country's quota in the IMF, assessed on the basis of any pre-existing loans that have yet to be repaid. The previous PML-N government took a 6.6 billion dollar three-year Extended Fund Facility from the IMF in September 2013 and its repayments are scheduled to begin this year hence the maximum amount that can be accessed from the Fund is a little more than half of what Umar estimated as the external financing requirement. However, a package from the IMF would imply that other multilaterals have a comfort level in extending programme (budget) support to Pakistan, including the World Bank, Islamic Development Bank as well as some bilaterals given the Fund's strict quarterly monitoring of its programmes.

And finally, even if the PTI government opts to procure an IMF package, and is successful in spite of the US Secretary of State Pompeo's recent warning that any bailout package would be opposed that seeks to repay Chinese commercial loans (estimated at over 13 billion dollars during the tenure of the PML-N), the conditions would be extremely challenging for the PTI as they would require at least a 6 billion dollar reduction in the budget deficit (ideally through a voluntary reduction in allocations by stakeholders, for example, defence and civil administration) privatisation of loss-making units and the overvalued currency to be set by market conditions.

Dr Pasha's contention that the government would have to rely on multiple sources of funds (bilateral/multilateral/issue diaspora bonds/sukuk/eurobonds) to meet the massive financing gap would need careful deliberation by the Cabinet as whatever source if preferred would have starkly obvious implications on our foreign policy.

The ideal situation would be for the government-elect to begin implementing reforms prior to going on a Fund programme. This entails voluntary sacrifices by major stakeholders in the budget. Moreover, all non-essential imports must be curtailed immediately, though for this policy to be effective, the government would require better policing on our large porous borders as smuggling across our eastern and western borders tends to negate the effectivity of any attempt to reduce imports, and exports must be promoted through release of refunds and at the same time an attempt has to be made (long-term) to bring our utilities, major inputs for production, at line with our major regional competitors. The rupee value has to be set at a level where our exports are not at a cost disadvantage with competitors but, at the same time, care has to be taken to ensure that our massive external debt repayments are within achievable limits.

Dr Pasha stated that the Fund may insist on the government fulfilling conditions not honoured by the PML-N government and in this context, privatisation as well as conditions relating to ending power sector subsidies may resurface. Privatisation experience worldwide has not always been beneficial and as noted by Nobel laureate Joe Stiglitz: "the theoretical case for privatisation is, at best, weak or non-existent". The Fund insistence to privatise can and should 'proactively be negotiated' in some instances however, where the decay is deep rooted and where state-owned entities (SOEs) are close to non-operational one would advise Umar to keep an open mind.

Power sector governance remains appalling with a circular debt in excess of what was inherited by the previous government. Additionally, the PML-N government's failure to adopt a holistic approach with respect to the power sector accounts for generation in excess of what the obsolete distribution and transmission network can possibly evacuate - the cause of much tripping during the ongoing summer. Thus much work needs to be done in this area and with the oil prices rising the PTI's honeymoon period maybe extremely short-lived if it agrees to withdrawing subsidies.