INTERNATIONAL THE NEWS

PTI-led govt faces 'immediate' pressure to lure external funding: Fitch Ratings

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KARACHI: The Pakistan Tehreek-e-Insaaf- (PTI) led coalition government will be under immediate pressure to arrest the deterioration in external finances and address fiscal challenges, as well as to attract the foreign funding necessary to meet its financing gap, an international credit rating agency said on Thursday.

"Pakistan's incoming PTI-led coalition government has more political capital to take positive though difficult policy actions, but it has a thin majority in parliament and faces a strong opposition, which could complicate policymaking," Fitch Ratings said in a statement.

PTI leader Imran Khan outlined a broad economic agenda for a 'New Pakistan' during his campaign, with a focus on confronting corruption, reducing inequality and expanding social services.

Fitch Ratings said advancement of the policy agenda is, however, likely to be limited in the short term, with external and fiscal problems taking priority.

The current account deficit reached 5.6 percent of GDP in the last fiscal year, up from 4.7 percent in FY17, while liquid foreign exchange reserves fell almost four billion dollars from end-December 2017 to end-July 2018 to just over $10 billion.

"The sharp rise in global risk aversion towards emerging markets, and a projected pickup in Pakistan's external debt obligations in 2019 are adding to financing pressures," Fitch Ratings said.

"The fiscal deficit has also widened and is likely to well exceed our previous estimate of 6 percent of GDP in FY18, up from 5.8 percent a year earlier."

The rating agency has already revised the outlook on Pakistan's 'B' rating to negative from stable in January to reflect the rising external and fiscal pressures.

Fitch Ratings said rupee depreciation and interest rate hikes have so far not been enough to prevent the widening of the large external financing gap, which has been bridged with support from China, including an agreement to provide $2 billion in additional bilateral lending in July. The Saudi-backed Islamic Development Bank has also reportedly extended a $4 billion loan.

The rating agency expects Pakistan to seek potential financing from several sources, including China and multilateral development banks, and possibly the International Monetary Fund (IMF).

“The IMF would probably require further fiscal and monetary tightening, greater exchange-rate flexibility, and wide-ranging structural reforms, which could also help attract other sources of financing,” Fitch said.

“Moreover, the IMF has unique monitoring mechanisms to implement corrective policies, without which there will continue to be significant uncertainty over the medium-term sustainability of Pakistan’s finances.” The rating agency, however, said negotiations over an IMF agreement could be complicated by loans linked to the China-Pakistan Economic Corridor (CPEC), particularly amid rising global geopolitical tensions.

“US pressure could lead to stricter program conditionality, including the curtailment of CPEC projects and greater transparency in CPEC financing.”

The $62 billion CPEC project makes Pakistan one of the largest recipients of Belt and Road Initiative financing.

“These loans have financed imports of capital goods, which have in turn inflated the current account deficit. The loans will eventually need to be repaid or refinanced,” Fitch said.