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- EDITORIALS

IMF bailout strings

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The United States Secretary of State, Mike Pompeo, warned Pakistan that any potential International Monetary Fund (IMF) bailout package must not be used to pay off loans to China. "Make no mistake, we will be watching what the IMF does," he added. This concern is not limited to the US and has been privately expressed by some other members of the G-7 comprising of the seven most industrialized nations of the world, and hence should come as no surprise to the Pakistan Tehreek-e-Insaf government-in-waiting. The Chinese Foreign Ministry's spokesman's reaction to this statement was "I think the IMF has its own standards and rules when it cooperates with relevant countries. I believe they will handle it properly."

The process of acquiring an IMF bailout package begins with a formal request by the member country, premised on an unsustainable current account deficit, with the exact amount of the package determined by its quota. In this context, it is relevant to highlight the last IMF report titled First Post-Programme Monitoring Discussions uploaded on its website dated 6 March 2018: "at present, gross reserves amount to about twice Pakistan's outstanding Fund repurchases (SDR 4.4 billion). Repayments to the Fund are scheduled to start at SDR 243 million (including GRA charges and surcharges) in 2018 and peak at SDR 820 million in 2021... . while these obligations do not exceed 6 percent of total external debt service in any year, their share in gross reserves is expected to rise significantly in the medium term, reaching close to 15 percent in 2022."

Once the package amount is determined which is unlikely to be 12 billion dollars, (our quota stands at 6 billion dollars) calculated to be what the country's economy requires, then negotiations on time bound actions begin and the agreed package is then on-sent to the IMF board of directors for formal approval. The Board members, especially those who are major donors to the Fund and the G-7 member countries certainly are, can then stipulate additional conditions, though the Board of Directors' views are routinely sought prior to the submission of the programme by the IMF negotiating team for formal approval.

The IMF too has repeatedly expressed concerns at the project agreements under the umbrella of the China Pakistan Economic Corridor (CPEC) and in its 6 March 2018 report it stated that "the elevated current account deficit and rising external debt service, in part driven by CPEC-related outflows (loan repayments and profit repatriation) are expected to lead to higher external financing needs which are expected to rise from 21.5 billion dollars (7.1 percent of GDP) in fiscal year 2016-17 to around 45 billion dollars by fiscal year 2022-23 (9.9 percent of GDP)." Blaming the previous PML-N government for agreeing to terms and conditions for CPEC projects that account for the current impasse is not likely to cut any ice with the public that would expect the PTI government to deal with the crisis. The question therefore is what can be done to deal with the crisis.

PTI sources claim that they are looking at multiple solutions to the problem and have mentioned: (i) getting oil on deferred payments and seeking loans from oil rich Arab countries but in return these countries may seek greater engagement with the Saudi-led army of 40 plus Sunni Muslim countries that are at odds with Iran and Qatar. The PTI voted against this move in parliament; (ii) issuing Pakistani diaspora sukuk bonds but this itself is unlikely to generate the required amount (around 10 to 12 billion dollars) and the rate of interest would have to be well above the market rate in the absence of an IMF programme this in turn would increase the country's indebtedness; (iii) seeking more loans from China and renegotiating the agreements made under the CPEC. China is not big in extending credit or indeed in renegotiating its investment projects that has led countries Sri Lanka and Malaysia to abandon Chinese-funded infrastructure projects; and (iv) attempt to reschedule past loans but given that the implementation of reforms by successive Pakistani administrations has been far from exemplary, and Pakistan is on currently the grey list of Financial Action Task Force, it would be a tough sell.

The solutions that would work however would entail decisions that are politically extremely challenging even if taken during the honeymoon period of a newly-elected government. These include beginning engagement, not with bilaterals or multilaterals which can follow, but with the defence and civil establishment to cut down their allocated budgeted expenditure by a substantial amount for the current fiscal year as a measure to deal with the prevailing economic emergency. At the same time, the exercise to formulate a fair, equitable and non-anomalous tax structure must commence immediately; administrative measures to improve the performance of the Federal Board of Revenue must start forthwith and so must measures to deal with the 1.14 trillion rupees stuck up in tax-related litigations (although bulk of it may reflect arbitrary and trumped up tax demand to shoe performance). And, finally Imran Khan would have to make good on his pre-election assurance that he alone can mobilise Pakistanis resident abroad to remit ever larger amounts back home to help in debt servicing and repayment of loans as and when due.