

IMF or no IMF: which way forward?

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Prime Minister Imran Khan has already told the nation how he sees today's Pakistan and where he wants to take it in the next five years.

His cabinet members are supposed to make strategies to fulfil the mission of their leader. By the time this write-up is published, our new finance minister Asad Umar will hopefully come up with a strategic plan about fixing external-sector issues.

The rupee is stable for the time being. But in the first month of the current fiscal year, our overall balance of payments turned negative with a gap of \$582 million and a monthly current account deficit of \$2.2 billion. The central bank's foreign exchange reserves stood at \$10.15bn or equal to just over two months of imports.

Delay in seeking a balance-of-payments support programme by the International Monetary Fund (IMF) can shake the confidence in the health of the rupee because we don't know as to where else billions of dollars will come within a few months.

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The rupee might come under pressure once again by end-December if the IMF loan is not finalised. Exercising other options to fix holes in the balance of payments needs a long time to yield results. Pakistan facing an immediate foreign exchange crisis cannot afford to rely solely on them.

"We don't know when exactly the government will go to the IMF and what will be the size of new financing. We also don't know what alternative plans the government has to fill in the balance-of-payments gap if the IMF option is not worth exploring at the moment. We're picking clues from here and there and that's why uncertainty persists in financial markets," says a senior executive of one of the top five banks.

"IMF or no IMF, this uncertainty must end to help banks and financial markets make key realistic projections regarding their foreign exchange business," says a senior executive of another large local bank.

"Importers and exporters rely a lot on forward currency rates (that are set by banks in anticipation of the rupee's health vis-à-vis the dollar). Unless we know exactly which way and how our government will move in handling the foreign exchange crisis — traditional reliance on the IMF, extended amnesty scheme for offshore holders of undeclared wealth, out-of-the box measures to boost exports and larger remittances — making realistic forward rate projections is difficult. And that matters a lot in foreign trade."

On the other hand, individual foreign currency (FCY) accountholders have another problem. After the opening of FCY accounts of foreign exchange companies with banks and indirect dollar pumping in the open market via these accounts, open-market rates have fallen below the interbank rates recently. This is an incentive for individual accountholders to keep dollars in their FCY accounts. This is good, but what if those among them who are not return filers are stopped from operating their accounts, some of these accountholders worry.

The Federal Board of Revenue (FBR) has clarified that the accounts of non-filers are not being closed down and they are legally entitled to keep operating their accounts. The clarification that came before Eidul Azha is expected to calm the agitated nerves of such accountholders.

But this is a general reassurance. Unless the FBR comes up with a similar clarification exclusively for foreign currency accountholders, they will likely remain worried.

Such worries must be put to rest. All the individuals and businesses that have foreign currency accounts in Pakistan are not feeding those accounts with ill-gotten money. Similarly, others having FCY accounts abroad are not using them to park undeclared wealth.

The FBR and the central bank periodically make it clear that genuine FCY accountholders who feed their accounts with taxed earnings at home or abroad have nothing to worry about. But branch-level bankers apparently lack clarity, which reflects in their day-to-day dealings with the holders of FCY accounts. Perhaps the State Bank of Pakistan (SBP) and Pakistan Banks Association (PBA) can jointly launch a programme to update bankers and educate people.

Reports keep surfacing about our external-sector financing gap during this fiscal year citing official sources and calculations of leading economists and cabinet members of the just-out caretaker government.

“Mr Umar has made a detailed presentation to Imran Khan on not only the projected size of external-sector financing gaps but also viable options the government can exercise to bridge them,” says a well-placed source in the Ministry of Finance.

If the Pakistan Tehreek-i-Insaf (PTI) decides to return to the IMF to seek immediate balance-of-payments support, it will take parliament into confidence as Mr Umar has already hinted. Besides, expected improvement in Pak-US ties during the visit of US Secretary of State Mike Pompeo in early September is also worth waiting for before rushing to the IMF.

In addition to the IMF bailout, some other options for fixing the external-sector issues include borrowing from Islamic Development Bank and Asian Infrastructure and Development Bank, seeking financial support from China, Saudi Arabia and the United Arab Emirates, recovery of “plundered wealth”, launching of sovereign bonds and initiating investment schemes for overseas Pakistanis. Substantive reforms in the export sector can also boost dollar earnings with some time lag.

Regardless of what combination of these options is exercised in the near future, the austerity drive that Mr Khan has already kick-started will continue.

But that alone will not contain the fiscal deficit to the level that its impact on the external account can be checked effectively. A slash in development expenses, a big revenue generation plan and a fierce crusade against corruption are going to become an integral part of the PTI government’s response to the external-sector issues, bankers anticipate.

And to make that happen, our new finance minister will have to seek input more regularly from the Fiscal and Monetary Coordination Board to shape up his policies. During the last five years under the PML-N, the board meetings remained infrequent and the element of consultation seemed missing. Then Finance Minister Ishaq Dar would allegedly disregard certain views that emerged during those meetings. One good example is his peculiar stance on keeping the rupee overvalued. Pakistan can hardly afford the repeat of a similar attitude.

In addition to everything that the new government plans to do to fix the external sector, resisting the temptation to keep the rupee artificially stable will be important, senior bankers opine.

“We celebrate when the dollar falls in the open market below the interbank rate, but forget the fact that it’s an engineered move. Excessive dollar pumping in the open market makes this possible,” says the treasurer of a large local bank. “Such temporary dollar pumping from

whatever source cannot cover up the facts about external-sector weaknesses and inadequacy of the current level of foreign exchange reserves.”

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