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The IMF challenge

There are two opposing economic narratives doing the rounds today: the country must go an International Monetary Fund (IMF) programme given our external requirements of around 30 billion dollars, backed by an overwhelming majority of Economic Advisory Council (EAC) members as well as some notable independent economists; or Pakistan must not go on the Fund programme as it would be tantamount to 'suicide', reportedly supported by the Prime Minister who remains the final arbiter on the matter.

First, however, there is a need to determine Pakistan's exact foreign exchange requirements for the current year? According to the State Bank of Pakistan (SBP) website, by October 2018, external loan repayments as and when due and interest due on loans for the current year are as follows: (i) interest and maturing loans within the month 936.46 million dollars; (ii) more than one month and up to three months 2,369.04 million dollars; and (iii) more than three months and up to one year 7,624.25 million dollars. Thus the total amount required to pay off past loans (multilateral, bilateral, dues from issuance of Eurobonds/sukuk and from commercial banks) is 10,929.75 million dollars. Finance Minister Asad Umar, no doubt briefed by the Ministry of Finance, gave the total foreign exchange requirements for the current year a month later (in November) at around 12 billion dollars.

Imran Khan's visits to three friendly countries - Saudi Arabia, China and the United Arab Emirates (UAE) - were proclaimed to be highly successful in generating assistance to meet the country's foreign exchange requirements. The Khan led administration shared details of the Saudi package - 3 billion dollars parked in the SBP for balance of payment support for one year and another 3 billion dollars to be extended as deferred oil payment up to 3 years. Foreign Minister Shah Mehmud Qureshi and Finance Minister Asad Umar held a joint press conference on 6 November soon after the return of the Imran Khan-led delegation from China with the former stating that a high-level government representative and the Governor State Bank of Pakistan would leave for China on 9 November to discuss features of financial assistance, while the latter maintained that Pakistan has come out of the balance-of-payments crisis because Saudi Arabia and China have agreed to fill the 12 billion dollar gap.

There has been an ominous silence on the Chinese package since and no mention has been made of the terms and conditions of a UAE package other than to state that these were very successful visits. While critics, including the opposition, are seeking details of the actual assistance from the three friendly countries, yet the emerging consensus is that the government has been informed in no uncertain terms that none of these three friendly countries is comfortable with a public announcement of the extent and terms of their pledged assistance. Therefore, the consensus is that the government has succeeded in meeting the country's massive debt obligations - obligations which are courtesy the PML-N government.

As per the Economic Survey 2017-18 China has emerged as the single largest lender to Pakistan with 8.82 billion dollars as on 28/2/2018 followed by Japan with 6.1 billion dollars with multilaterals accounting for 11 billion dollars. In short, while it is expected that China may roll over the debt owed by Pakistan for a few years without actually transferring any cash to the SBP yet the large sums owed to multilaterals, leave alone to Paris Club countries, gives the West a leverage that Pakistan can better manage while on an IMF programme, including ensuring that the diaspora bonds envisaged by the PTI government can be issued at reasonable rates of return.

The current account deficit (exports and remittances minus imports/transfers including remitting profits abroad) is at present around negative 19 billion dollars. Some economists add the current account deficit to the amount of external liabilities in the current year to determine the foreign exchange requirements for 2018-19: 10.929 billion dollars plus 19 billion dollars to get a total of around 30 billion dollars. This may not be quite fair. The IMF in a report uploaded on its website maintains that "the need to cover current account deficit is never imminent. The current account balance seems to be an abstruse economic concept. But in countries that are spending a lot more abroad than they are taking in current account is the point at which international economics collides with political reality......Another way to look at the current account is in terms of the timing of trade. We are used to intra-temporal trade-exchanging cloth for wine today. But we can also think of inter-temporal trade - importing goods today (running a current account deficit) and, in return, exporting goods in the future (running a current account surplus then). Just as a country may import one good and export another under intra-temporal trade, there is no reason why a country should not import goods of today and export goods of tomorrow." The PML-N administration and now the PTI government maintain that China Pakistan Economic Corridor (CPEC) must be looked at as inter-temporal trade, however, there can be no independent analysis as terms and conditions of CPEC projects remain shrouded in secrecy.

Loans extended by the three friendly countries to pay off past loans provide a reprieve to the government for one year alone. In other words, exports would need to pick up dramatically, imports curtailed and foreign direct investment of billions of dollars must flow into the country in the current year for the economic impasse to be appropriately dealt with.

Imran Khan, the inveterate optimist, believes that this is happening and he cites three trends to prove his point: (i) exports have begun to rise and imports to decline that would reduce the trade deficit. It is true that exports rose by 14.5 percent in October 2018 as per the SBP website however imports rose by a whopping 24.4 percent (for which Asad Umar's policy to raise regulatory duty on non essential imports rather than to ban these items for a year to two can be held partially accountable); (ii) foreign investors are showing a keen interest in investing in Pakistan and the Prime Minister mentioned Suzuki Motors proposed 450 million dollar investment, Coca Cola's 500 million dollar investment, Pepsi's 400 million dollars and Exxon Mobil's 200 million dollars. There is no doubt that these are positive signs however the Prime Minister must be made aware that international companies rarely take investment decisions on the spur of the moment and there is ample evidence that all these companies approached the Pakistan authorities during the tenure of the PML-N government. Additionally, he must be briefed that profit repatriation by foreign companies operating in Pakistan have limited the beneficial impact of FDI on our economy; and (iii) subsidized electricity/gas to zero rating industries as a means to fuel exports would be opposed by the IMF and other donors in the event that Pakistan does seek IMF assistance. Besides, it would raise expenditure with a commensurate impact on the budget deficit which in turn would fuel inflation.

To conclude, the Prime Minister must revisit his earlier proposal and seek advice from internationally respected economists (whether they are of Pakistani origin or not) and request them to provide a possible alternative to an IMF package if he believes that going on one would be 'suicide'. Additionally, the government has yet to come up with a strategy to deal with the prevailing economic crisis in the event that it does not go on an IMF programme and the need for clarity in the way forward is becoming critical with each passing day.

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