

The Pakistan Banao Certificate

The government of Pakistan seems to be determined to try all the options to bridge the gap in the external sector accounts before finalising a bailout package with the IMF. According to a report in this newspaper on 27th December, 2018, the federal government is to issue dollar-denominated Pakistan Banao Certificates (PBC) for resident and non-resident Pakistanis to generate funds to build depleting foreign exchange reserves and support the balance of payments. These certificates are to be issued for maturities of three and five years, bearing coupon rates of 5 percent and 5.5 percent, respectively, and payable in US dollars on semi-annual basis in the investors' nominated dollar accounts maintained overseas. In this connection, the government has promulgated the PBC Rules, 2018 under which the government intends to issue these certificates in which Pakistani individuals having CNIC, NICOP or holders of Pakistan Origin Card (POC) will be eligible to invest, either individually or jointly. It will be mandatory that the funds for purchase of certificates must originate from the investor's own account or joint account maintained abroad and remitted through official banking channels. The PBC will be advertised on multiple platforms to ensure maximum outreach to potential investors. Roadshows, awareness sessions, etc., will also be held for the overseas Pakistanis in the target countries. SBP would engage the services of banks operating in Pakistan particularly those having strong presence in the target countries. All banks operating in Pakistan and having overseas presence through branches, subsidiaries, parent organisations, etc., have been invited to submit their expressions of interest to undertake the services for SBP by December 31, 2018.

It is more than apparent that the PBCs are to be introduced and have been designed in an effort to generate foreign exchange funds to support the fast dwindling foreign exchange reserves of the country. This was necessary because Pakistan has been facing serious pressures on its external sector due to lower inflows and massive external debt obligations. A huge current account deficit (CAD) of over dollar 18 billion was faced by the country during FY18 but the then PML (N) government tried to finance the deficit through external borrowings from various sources at a great cost to the economy. The present government has prioritised this issue and taken various steps to fill the gap but has yet not been able to overcome the problem. It is true that CAD in the first five months of FY19 has improved by 11 percent but it was almost entirely due to increase in official transfers and a rise of about 1 billion dollars in home remittances which clearly shows that the improvement was due to some transitory factors and was not a reflection of improvement in the fundamental factors such as trade account. In fact, trade account has worsened by 5 percent during July-November, 2018 despite a huge depreciation of Pak rupee and imposition of a large number of regulatory duties on various imports. So far as foreign assistance is concerned, despite placement of dollar 3 billion by Saudi Arabia with SBP for one year, foreign exchange reserves of the country continue to decline, reaching the mark of about dollar 8 billion last week or barely enough to finance 6 weeks of imports. The inflows from the UAE and China could only be sufficient to cover the external gap during FY19. What will happen afterwards is, however, difficult to tell. The issuance of PBCs could provide additional resources to tide over a dismal situation. Nonetheless, it is impossible to predict the quantum of inflow of resources from this source which could depend on the amount of savings with the expatriate community and its willingness to invest in PBCs. The advertisement through media and roadshows could help mobilise additional funds to a certain extent. Another factor which could attract the Pakistanis abroad is the higher rate of interest of 5 percent and more offered on the PBC compared to a very low interest rate prevailing in most other countries.

However, it needs to be remembered that the PBCs, like other assistance/loans from friendly countries, would only increase external indebtedness of the country and its servicing and are no substitute to structural improvements needed in the external sector of the economy which could only come through an increase in exports, containment in imports and a rise in direct foreign investment and home remittances. Hopefully, the present government is fully aware of the situation; it is expected to find ways to reverse the trend in the foreign sector so that the country has not to beg or borrow from other sources after FY19. Resident

Pakistanis having foreign currency accounts within the country are to be barred from investing in the PBC. We feel that the government needs to analyse this aspect of the PBC more closely so that a part of the foreign exchange now held by the commercial banks could also be transferred to the pool of foreign reserves held by the SBP.

RECORDER REPORT