How to meet the foreign currency shortfall

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Prime Minister Imran Khan and the federal finance minister Asad Umar have repeatedly lamented the high levels of indebtedness due to the PML-N administration, a view fully supported by Business Recorder and independent economists, though there is a difference of opinion as to how much is the dollar shortfall - 12 or 18 billion dollars – that would be required to meet foreign borrowing costs in the current year as well as to balance the current account deficit. The International Monetary Fund team, under the leadership of Harald Finger, is currently in the country for the purpose of carrying out a routine assessment of the state of the economy under Article IV consultations. The team will meet senior bureaucrats of the Ministry of Finance and the Governor of the State Bank of Pakistan. Finance ministers generally are present during negotiations with a Fund team because of the political implications of accepting a package. In the case of Finger, the government should be even more careful as he approved subsequent tranche releases during the 2013-2016 Extended Fund Facility programme in spite of some highly questionable policy decisions taken by the then finance minister Ishaq Dar that included (i) a focus on raising revenue rather than reforming the tax system that led to heavy reliance on raising taxes on existing taxpayers; (ii) raising foreign exchange reserves through debt equity; and (iii) keeping the rupee value artificially raised that accounted for a decline in exports though there was a mention of an overvalued rupee in the Fund's mandatory quarterly reports yet it was never made a structural benchmark.

The visit of the Prime Minister-led mission to Saudi Arabia has been hailed as a success with a major delegation of Saudi officials, businesses and investors scheduled to visit the country early October to sign a series of major deals, yet the actual amount has not been revealed. There was no mention of procuring oil on deferred payments, which would have reduced our foreign exchange requirements, or borrowing at reasonable rates with the amortization period not starting for at least nine months (the time left for the end of the fiscal year) though such agreements could have been signed during the visit. Without challenging the Khan administration's optimistic assertions with respect to the visit, the safe conclusion would have to be that reliance on external borrowing is not 'Plan A'.

'Plan A' of the PTI government appears to be to place considerable optimism with respect to three possible sources of foreign exchange: (i) investment from Saudi Arabia as well as other countries including China; (ii) the success of the Prime Minister's call to overseas Pakistanis to send 1000 dollars per family to assist the country meet its immediate foreign exchange requirements – an optimism based on his resounding success in generating large sums of money for Shaukat Khanum cancer hospitals; and (iii) diaspora bonds. There is no doubt that 'Plan A' is certainly the most attractive form of meeting the country's external obligations.

However, there needs to be a 'Plan B' as well. It, however, appears that details of 'Plan B' have not been worked out by the Cabinet. The government may be giving time to determine the success or otherwise of these three identified sources of foreign exchange inflows but to-date three months (or a quarter) of the current year is over while repayment of past borrowing has not been rescheduled and neither has the rise in the current account deficit been controlled. Granted that the current appalling state of the economy is not the PTI's fault; however, forming the government implies that the onus of resolving issues is now theirs and for that it is imperative that 'Plan A' and equally importantly 'Plan B' must be formulated and shared with the public that would ease market concerns and not compromise domestic productivity or the performance of the stock market.

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