A LIFE WITHOUT IMF

Pakistan needs to work systematically to enhance its capacity to generate additional net foreign exchange earnings compared to the current levels.

By DR. ISHRAT HUSSAIN | November 2024

After the approval of the IMF Board of Pakistan's request for a 37-month Extended Fund Facility, there were strong voices from the Prime and Finance Ministers that this would be the last program with the IMF. We have heard such pronouncements before, but they have not been translated into action. A broad consensus is emerging that it is in Pakistan's best interests to exit to regain control over economic decision-making, set its priorities and their phasing, timing and sequencing, and get out of a straitjacket framework of short-term performance criteria.
How can we ensure that this rhetoric is turned into a reality? Is this doable? Yes. Is this feasible? It depends on the gumption, courage, and persistence of those at the helm of affairs. However, there are some complicated prerequisites for this strategy to be successful.

First, the present political polarization has to give way to an agreed economic agenda by all political parties pledging their support for its implementation, whether in the government or the Opposition. This would add credibility to the policy actions. Second, the present law and order situation and the acts of terrorism in Balochistan and Khyber Pakhtunkhwa have to be brought to the peaceful situation that prevailed after 2014. The unending spate of attacks on Chinese business partners does not inspire confidence among the investors. Third, the incumbent government has to pursue the reforms steadily and uninterruptedly, not giving up in light of pressure tactics exerted by their

supporters, who will likely be adversely affected by these reforms. What is the probability of these prerequisites being achieved? We better forget that we can tread this path if the likelihood is low.

Assuming, for the sake of argument and with the blessings of Almighty Allah, we can meet these preconditions, what concrete measures should we undertake to fulfill our stated goal?

The compelling reason for approaching the Fund and other creditors is to fill in the external financing gap of $25 billion resulting from the current account deficit and repayments of principal amounts.

So, the main goal of this exit strategy ought to be to take action in the next three years so that by FY28, we can meet our obligations without recourse to excessive borrowing.

Therefore, we must work systematically to enhance the capacity to generate additional net foreign exchange earnings compared to the current levels. Pakistan registered a negligible current account deficit in FY24 and less than 1 percent in the last four years, except in 2022. The objective is to turn it into a $6-9bn surplus by FY28.

Exports of goods recorded a 14pc growth rate of merchandise exports in August (In FY22, the increase was 26pc). If this average rate of 14pc is maintained for the next four years, $50bn of exports can be earned by FY28.

The problems the exporters face, such as obtaining refunds, competitive energy prices, tax incentives, etc., are quickly resolved. The focus should shift from five traditional sectors to every exportable sector. The Export-Import Bank should begin providing supplier and buyer's credit and pre-shipment and post-shipment finance to non-traditional and value-added sectors. IT exports, and other service exporters are provided reliable and fast connectivity, and the flow of skilled manpower is expanded.

New markets are penetrated, the exchange rate is kept stable, and new free trade agreements (FTAs) are negotiated to support Pakistani exports. Investment in Reko Diq should be geared up to start the flow of export revenues. Tariff rationalisation would enable the exporters to become part of the global supply chain, particularly in China. At least four special economic zones must be fully operational to attract Chinese companies planning to relocate their labour-intensive export industries and other investors from Gulf Cooperation Council (GCC) countries.

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Large export firms should invest in their labour to increase productivity, making their products competitive in international markets.

Exports of IT services are estimated to hit $6bn, which should neutralize the deficit on the balance of services. Targeting workers' remittances at 10pc annually (as the number of workers abroad is expanding fast, and the growth rate in FY24 was 10.7pc) to reach

$45bn seems feasible. The current monthly average is around $3 billion and has to touch 3.8 billion by 2028.

Foreign direct investment and disbursements from the existing pipeline of multilateral and bilateral loans make a conservative estimate of $6bn. Therefore, the total earnings would amount to approximately $100bn, or $95bn, if there is some shortfall.

As tariffs and non-tariff barriers are reduced, import restrictions are entirely unwound, and merchandise imports are projected to be $83bn by FY28, assuming an annual growth rate of 12pc (The latest growth rate is 7pc.) Adding unrestricted payments on interest, remittances and dividends of $8bn, the current account can potentially generate a surplus of $6-9bn that can be used to redeem and repay one-year deposits and short-term liabilities.
These liabilities can be reduced to zero by FY 29, augmenting foreign exchange reserves to $20bn, which would cover three months' imports.

On the import side, why is a 12pc target proposed? Oil and gas exploration and development companies — particularly foreign companies — should be incentivized both through remunerative pricing and facilitative regulations to invest in developing and producing domestically to reduce dependence upon imported POL products, along with the implementation of a new refinery policy that is lingering on for the last four years. Pakistan badly needs a petrochemical complex as the downstream industries would benefit from these raw materials.

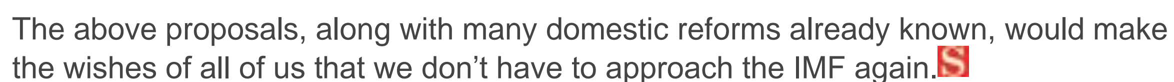
The RLNG contract with Qatar should be renegotiated in 2026 as the demand for imported fuel for power is on a downward curve. Power distribution and gas companies should be opened up to competition at the retail level. Russian and Chinese companies were interested in setting up a new steel mill with a capacity of 3 million tonnes that would replace imports used by the auto, white goods, and other industries.

A country with the largest contiguous irrigated system has been importing food items amounting to $10bn. A smart agriculture policy should be able to save $6-7bn. The government has to discontinue fixing wheat, sugar cane and cotton prices, procure wheat, and sell it below market prices. Maize and rice are unregulated commodities that have increased their output significantly and are exporting surplus.

By removing government interventions, wheat, sugar and cotton would no longer be imported. Oil seed cultivation should be another priority area. Meat, poultry, fruits and vegetables, fisheries, and milk have a high potential for exports, but these are fragmented, and there is no champion either at the federal or provincial level to act as their facilitator. My calculations show that these commodities can add $2bn by FY28 if their problems are quickly resolved.

FDI has to be screened, and only those investments that are export-oriented, bring in technology transfer and generate employment should be given preference

The above proposals, along with many domestic reforms already known, would make the wishes of all of us that we don't have to approach the IMF again.



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