POSSIBLE EXIT STRATEGY FROM THE IMF PROGRAMME

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THE International Monetary Fund's (IMF) executive board is set to meet next week to discuss the approval of a three-year Extended Fund Facility (EFF) for Pakistan ending in the fiscal year 2027-28 — the 24th time the country is going to enter into an agreement with the lender.

There seems to be a broad consensus that it is in Pakistan' s best interests to exit from the IMF programme. The reasons are quite obvious — the loss of autonomous decision-making by the sovereign, inability to set its own priorities and their phasing, timing and sequencing, and getting out of a straitjacket framework of short-term performance criteria, structural benchmarks agreed with the IMF.

The moot question is how to translate this rhetoric into a credible strategy as many such promises have been made in the past but never fulfilled. The imperative prerequisites are that we achieve durable political stability, tackle security concerns and are willing to take tough extraordinary actions uninterruptedly without succumbing to pressures from vested interests. Next, we have to move away from generalised, vague and contradictory statements of intentions and move towards achieving verifiable, quantifiable and measurable targets.

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 actions in the next three years that by FY28 this amount is reduced and the ratios of external debt to GDP, external debt to total foreign exchange earnings, external debt servicing to export earnings, and external debt servicing to foreign exchange reserves are brought down to manageable levels. On the domestic debt side, we have to focus on debt servicing payments as a percentage of total revenues.

Actions, rather than speeches, will establish credibility and restore investor confidence

Working around these targets, the main endeavour is to work systematically on enhancing the capacity to generate additional net foreign exchange earnings compared to the current levels. Pakistan has registered a negligible current account deficit in FY24 and less than 1 per cent in last four years except 2022. The objective is to turn it around into a surplus of $6-9bn by FY28. Is this feasible or, as naysayers would argue, kite flying?

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.

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Foremost, the problems faced by the exporters, for example in obtaining refunds, competitive energy prices, tax incentives, etc are quickly resolved. Textile exports should raise the ratio of manmade fibre. The focus should shift from five traditional sectors to every exportable sector. The Export-Import Bank should begin providing supplier and buyer's credit, 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.

The standards and quality assurance procedures are digitalised, trade flows facilitated through a national single window, new markets are penetrated supported by Export Development Fund (EDF), exchange rate is kept stable and new free trade agreements (FTAs) are negotiated tilted in favour of Pakistani exports. Investment in Reko Diq should be geared up to start flow of export revenues. Tariff rationalisation would enable the exporters to become part of global supply chain, particularly to China, while liberalising the domestic markets and ensuring competition bringing the consumer prices down.

At least four special economic zones have to be made fully operational to attract the Chinese companies planning to relocate their labour-intensive export industries and other investors from Gulf Cooperation Council (GCC) countries. A 1pc increase in participation in supply chain is accompanied by an equal increase in per capita income. Being connected to global supply chains provides access to new technology, new markets and makes the domestic ecosystem vibrant.

Large export firms should invest in their labour to raise their productivity. I have observed during my visits that some of the progressive firms are already doing so as the business case is quite obvious. Two-thirds of incremental returns from increase in productivity accrue to the owners making their products competitive in international markets.

Exports of IT services are estimated to hit $6bn and this should be able to neutralise the deficit on balance on services. Targeting workers' remittances at 10pc annually (as the number of workers abroad is expanding fast and growth rate in FY24 was 10.7pc) to reach $45bn seems feasible through the provision of performance-linked incentives to the banks and the exchange companies.

Foreign Direct Investment and disbursements form the existing pipeline of multilateral and bilateral loans making a conservative estimate could be $6bn. Therefore, the total earnings would amount to approximately $100bn, or $95bn if there is some shortfall.

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As tariffs and non-tariff barriers are reduced, import restrictions are completely unwound, 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 have a potential of generating surplus of $6-9bn that can be utilised to redeem and repay one-year deposits and short-term liabilities.

By FY 29 these can be brought down to zero. Together with other flows in the financial account (e.g. NPCs, portfolio investment, purchases from the market), this would result in foreign exchange reserves to $20bn by FY28 as projected by the IMF. These are point estimates but sensitivity analysis should further refine these estimates and make them robust.

On the import side, why a 12pc target is proposed? It is because if we take a multipronged approach, this would be the outcome. POL and RLNG are the largest import items. Oil and gas exploration and development companies — particularly the foreign companies — should be incentivised both through remunerative pricing, a facilitative regulatory environment where they do not have to run to the ministry or the regulator for securing permission at each stage.

These companies want to invest $5bn but are waiting for changes in the policy. The CCI decision to offload 35pc of their production to third parties has not yet been implemented. It is hard to comprehend that once constitutional bodies such as CCI or NEC or high-powered coordination bodies such as SIFC make decisions, why there is foot-dragging in implementing those.

Similarly, the refinery policy is lingering on for the last four years coming across one stumbling block or the other. Pakistan badly needs a petrochemical complex as the downstream industries would benefit from these raw materials. Saudi Crown Prince Mohammed bin Salman had announced his commitment to this project four years ago, but it is now going through another feasibility study while the previous studies have been shelved.

RLNG contract with Qatar should be revised in 2026 as the demand for the imported fuel for power is on a downward curve. Power distribution and gas companies should be opened up to competition at 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 and 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 prices for wheat, sugar cane and cotton and procuring wheat and selling it at below market prices. Compare this to maize and rice, the unregulated commodities which have increased their output significantly 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 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 the problems faced by them are quickly resolved.

FDI has to be screened and only those investments which are export-oriented, bring in technology transfer and generate employment should be given the incentives comparable to those in our regional competing countries.

A question which arises frequently is: who would manage this highly ambitious agenda given our bleak past track record of implementation? The SIFC has proved to be a useful platform for coordination, problem-solving and monitoring and should assign targets to each implementing agency, review the progress periodically and remove the hurdles if any.

Actions rather than speeches would establish credibility and restore investor confidence. The above strategy has to be accompanied by many reforms on domestic side which would form a separate discussion piece. Both external and domestic reforms, if implemented seriously, would allow Pakistan to raise its present growth speed limit from 4pc to 6pc, which is badly needed. Failing this, the country would again be knocking at the doors of the IMF in September 2028.

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