PAKISTAN’S ECONOMIC CRISIS: LONG MARCH FOR IMRAN KHAN

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Pakistan’s Prime Minister Imran Khan, in his inaugural address to the nation, unveiled his constructive vision for the nation and vowed to make Pakistan an Islamic welfare state. While the newly appointed PTI government has major challenges in waiting, the top priority for Imran, undeniably, is managing the looming financial crisis. Pakistan reportedly has foreign reserves just over $10 billion sufficient to cater to imports for 2 months. The current account deficit stands at $18 billion. Pakistan’s external debts and liabilities stand at a record $91.8 billion and the economy requires an urgent bailout of at least $12 billion to stabilize. Pakistan’s import bill has shot up owing to the rising oil prices and also the lack of remittances and sluggish exports. Imran Khan has engaged foreign economists in the newly formed economic advisory panel.

Pakistan is under immense pressure to prove the credibility of its measures related to money laundering and counter-terror financing. Pakistan is currently on the grey list of the Financial Action Task Force (FATF). Pakistan has also been on the grey list between 2012-2015. Insufficient efforts to curb terror financing and money laundering could lead Pakistan to FATF ‘black list’ adding to Pakistan’s economic woes. Currently, two countries which are on the FATF black list are Iran and North Korea. FATF black list would have severe financial implications for Pakistan including: increased scrutiny, increased transaction cost, longer transaction time and costly loans. Also, the FATF black list is a major discouragement for investors. The Asia Pacific Group (APG) of FATF visited Pakistan recently and were reportedly dissatisfied with the anti-terror funding initiatives claimed by Pakistan. APG raised serious concerns including the funding of UN designated organisations and terrorists. It is interesting to note that despite FATF earlier warnings and being placed on the grey list in June this year, Hafiz Saeed’s party Allah-O-Akbar Tehreek (AAT) fought the 2018 elections in July (over 200 candidates). The
funding of the AAT candidates for the general elections remains a question mark.

Pakistan needs a substantial infusion of economic assistance to avoid a financial breakdown and is looking at various options as a reliever for its economic woes. The most desirable option is the International Monetary Fund (IMF) bailout. IMF has in the past given 12 bailouts to Pakistan. The Trump administration has adopted a strict posture towards Pakistan, drastically reducing financial and security assistance to Pakistan. US Secretary of State, Mike Pompeo, recently made a statement that the IMF bailout cannot be used by Pakistan to repay ‘Chinese debt’. China-Pakistan Economic Corridor, which is seen by most of the Pakistanis as a game changer, has apparently added to the debt burden of Pakistan. Chinese debt amounts to approximately 10 percent of the total debt of Pakistan. The IMF bailout for Pakistan will come with strict conditions and austerity measures such as a tax hike, spending cuts, requirement of greater transparency in financial dealings (including CPEC) and demand of structural reforms. Although meeting the IMF conditions will be a challenge for Pakistan but the nation should gain in the longer run as the IMF bailout adds to the credibility of the nation and would open doors for lending/assistance from other international financial institutions, like the World Bank and the Asian Development Bank. For New Delhi, it’s better that Pakistan gets an IMF bailout as it would require more transparency and openness from Pakistan. Also, IMF lending makes Pakistan accountable on the international platform.

Pakistan will be looking at China, its all weather friend, as an option and there have been reports of Beijing offering a reliever to Pakistan. Pakistan has already received around $5billion from China in a mix of bilateral and commercial loans during the latest fiscal year. In case Pakistan fails to get an IMF bailout, it is quite probable that Beijing will come as a saviour in some form. Additional debt from Beijing at this point of time would add to the existing debt burden for Pakistan. For China, the financial stability of Pakistan is important given its strategic significance and also for the successful implementation of the CPEC. Islamabad needs to be careful if it decides to go for Chinese loans, given what happened in Sri Lanka, where the government was compelled to handover Hambantota port to the Chinese due to its inability to service the Chinese debt. Also, the Chinese loans are unlikely to come without conditions. There have been repeated concerns voiced in Pakistan regarding the fallouts of Islamabad’s excessive reliance on China. For the international community, Chinese financial assistance to Pakistan would mean little transparency.

Pakistan’s good friend Saudi Arabia has very often provided timely economic assistance in the past. The Islamic Development Bank (IDB), a Saudi backed financial institution, has
reportedly agreed to extend $4 billion to Pakistan. The Saudi money is restricted to financing Pakistan’s oil imports.

Imran Khan, in his inaugural speech, also reached out to the Pakistani diaspora living outside Pakistan. He has urged for donations/transfer of money from the Pakistanis living outside the country.

Pakistan’s economic situation is alarming and Imran Khan has a long march ahead towards economic recovery. Engaging external expertise is a good step but the new government needs to find a sustainable solution to the economic woes and reducing its reliance on the external funding in the longer run.

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