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USD 10 Billion Exchange Stabilization Fund Request: Economic and Political Implications for Pakistan

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Pakistan has requested a USD 10 billion loan from the US under the Exchange Stabilization Fund (ESF), a specialized but relatively less prevalent funding mechanism. So far, government officials from either country have not formally acknowledged the request.

1. Current Status of the Proposed Financing

Though the reported USD 10 billion request has not been confirmed officially by either side, it has been acknowledged by Pakistan's embassy in the US; meanwhile, the US has given no public confirmation. It is noted that the request itself would not have been floated publicly without some prior signal from Washington. The exact instrument — loan, guarantee, or standby facility — remains unclear and will depend on which Pakistani authority signs the agreement: a Finance Ministry-signed deal would imply availability for broader use. In contrast, a State Bank of Pakistan (SBP) agreement would confine it to balance-of-payments/ reserve support, drawn only when needed rather than disbursed upfront.

2. Understanding the Exchange Stabilization Fund

The ESF is a US Treasury-administered facility historically used to backstop foreign currencies under stress, for example, Mexico's 1994–95 crisis and a USD 20 billion facility extended to Argentina in 2025. Unlike a conventional loan, an ESF facility is typically "parked" as a reserve buffer and drawn down only if needed, closer in spirit to an IMF reserve tranche than to a disbursed bilateral loan. It differs from IMF programs in being bilateral, US-discretionary, and generally free of the standardized multilateral conditionality framework. However, it is argued that it would not come without informal demands attached.

3. Economic Rationale and Repayment Capacity

The request reflects a genuine balance-of-payments pressure on Pakistan's economy: import costs reached roughly USD 6 billion per month, exports remain stagnant, and remittance growth is likely to taper, compounded by potential pressure on Gulf-based returnees amid Middle East instability. Pakistan's current account is roughly balanced, and reserves have risen by about USD 4 billion, yet a financing gap persists. The proposed arrangement is reported to carry a five-year maturity — overlapping with the current IMF program's expiry in 2027 — meaning Pakistan would remain in a "stabilization" posture for a further five years. Any additional external debt raises annual debt-servicing costs, tightening fiscal space and risking further cuts to development spending.

4. Intended Utilization of the Financing

Based on available details, the facility appears oriented toward reserve and exchange-rate stability rather than a specific spending purpose. Whether it could also support budgetary or investment needs depends on the finally agreed ToRs and consequently the signing authority. However, it is less likely that it would flow directly into new investment; it is best understood as a fallback reserve cushion against shocks (e.g., *a few months back such a need arose owing to UAE's sudden withdrawal of deposits*), not a growth-financing instrument

5. Conditions and Policy Commitments

No conditions have been disclosed so far, but informal demands are likely to accompany any US-Pakistan financial arrangement, drawing a parallel with the earlier 'Coalition Support Fund' during the war on terror era, where reimbursements were tied to specific performance. Though the likely structure would be closer to an IMF-style reserve "parking" arrangement than a project loan, with the precise conditionality only becoming clear once details are published.

6. Long-Term Economic Implications

The central concern is complacency. Pakistan has pursued fiscal consolidation for roughly five years — a fiscal deficit near 3.6% of GDP, targeted at 3% next year — without translating stabilization into growth, investment or employment. It is feared that new financing, absent structural reform (civil service, productivity, human capital), simply extends a decades-long cycle of external dependency rather than resolving it, citing Pakistan's underutilized post-9/11 window as a cautionary precedent.

7. Geopolitical and Diplomatic Dimensions

The political dimension cannot be ruled out, while noting that US engagement with Pakistan "happens for a reason." Reference to Pakistan's improved regional standing following recent tensions with India and its position amid regional conflicts, alongside the Abraham Accords context, as background factors that could plausibly shape US calculus, without asserting a direct quid pro quo

8. Regional, Strategic and Foreign Policy Implications

Though it will be too early to state about regional implications, a lesson may be learned for any new financing facility from the experience of CPEC – a cautionary example of a major financing relationship Pakistan failed to convert into export capacity or human-capital gains.

No explicit foreign-policy conditionality is confirmed. But the bigger risk is economic rather than diplomatic; if Pakistan cannot convert its improved international standing into real investment, financing alone will not sustain either economic or strategic leverage.

9. Future Financing Strategy

Pakistan is reportedly also pursuing a roughly USD 6.7 billion long-term oil financing facility with Saudi Arabia, alongside similar discussions with other countries — suggesting a broader shift toward diversified bilateral financing rather than a single-source arrangement. However, it is cautioned that such facilities should be packaged with long-term reforms; otherwise, they add to the financing burden without resolving Pakistan's structural growth deficit.