**[Re-profiling Chinese debt](https://www.dawn.com/news/1849362/re-profiling-chinese-debt)**

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THERE was one line in Finance Minister Muhammad Aurangzeb’s remarks last Sunday that caught my eye. In his press conference on that day, he announced that Islamabad is seeking the [re-profiling of $27 billion](https://www.dawn.com/news/1848664/27bn-re-profiling-needed-to-secure-imf-bailout) worth of debt owed to China, Saudi Arabia and the UAE, as per a news report.

He did not bring up the subject of debt re-profiling himself, preferring to focus his remarks on less sensitive matters such as how the tax burden should and will have to be borne. But in the question and answer session, multiple reporters asked pointed questions about his visit to China, and he slowly divulged the contents of his discussions there.

He [landed in China](https://www.dawn.com/news/1848103) one week ago, and on the day he arrived *Reuters* ran a [report](https://www.reuters.com/world/asia-pacific/pakistans-finance-minister-beijing-seek-debt-relief-say-sources-2024-07-25/) saying he was there to seek debt relief. The only official comment at the time was a finance ministry statement asserting that the minister would inform the Chinese side about Pakistan’s reform agenda, the tax- and energy-related steps it was going to take under the IMF programme whose staff-level agreement was signed a few weeks ago.

But on his return, it was confirmed that the matter was raised, and a few details trickled out. When he was asked specifically about the amount of debt he is asking to be re-profiled, he demurred at first, but then, when pressed, said “it is a manageable amount” and “let me tell you who the partners are; they are Saudi Arabia, UAE and China”.

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In time, we learned the amount is $27bn; the figure was carried in the headlines the next day. This comes more than a month after Prime Minister Shehbaz Sharif visited China and [met President Xi Jinping](https://www.dawn.com/news/1838396) himself, along with a large number of other officials. They had disguised that visit as seeking some sort of revival of CPEC, but yours truly had written back then that its real purpose seemed to be to seek debt relief of some sort under the IMF requirement. That was one month ago.

Now comes the key part. In his Sunday presser, Aurangzeb stated that the Chinese side said that discussions need to take place between the government of Pakistan and the project sponsors of the [Chinese power producers](https://www.dawn.com/news/1830697). He added that the real problem for the Chinese side is not so much the debt whose repayments are either being made or being rolled over. The real problem is the return on equity guaranteed under the contractual terms to the sponsors of the power projects, which “because of our FX situation, right now we are behind schedule”.

He said the government will now start talks with the project sponsors, as well as financial market players, especially the People’s Bank of China, and they will hire a local adviser to help structure their approach. He also talked about a Panda bond, and confirmed that a local adviser for floating a Panda bond had already been retained. An obvious question arises, and let’s acknowledge it tangentially before getting to the real point: why would anyone want to own a Pakistani Panda bond when the government is, at the same time, acknowledging that it is struck with FX shortages and needs to reschedule existing liabilities?

However, for now just note the following. More than a month after the prime minister’s visit, they are only at the beginning of the process. I was under the impression that by now they would either have sealed some agreements, or at least made enough headway to be able to announce something concrete upon their return. But no, he returned to announce that now they are ready to begin the process. They will now begin to hire the advisers. They will now begin to approach the project sponsors. And they will now begin to structure some sort of proposal around which to build their approach and pursue an agreement. Yes, they have, after all this time, reached the beginning.

Make no mistake, this is being done at the behest of the IMF, even though the Fund will officially deny that it is forcing the government to undertake these re-profiling actions. Money given by the IMF cannot flow to China in the form of dividend payouts for Chinese project sponsors. It is now quite clear that this has been communicated to the government by the IMF; they would not take this step on their own.

So now we have a bit of a problem, and hopefully they will be able to solve it quickly. It seems they have to reach an understanding with the Chinese project sponsors, as well as the central banks of China, Saudi Arabia and the UAE on re-profiling the maturities that will be falling due during the programme period (three years from Board approval). They should be able to manage the central banks, but talks with the project sponsors to re-profile the return on equity can take longer.

Meanwhile the clock is ticking. Some sort of agreement must be reached before the staff-level agreement can be forwarded for Board approval at the Fund. If the talks with the project sponsors drag out too long, the projections around which the agreement is built could become outdated.

We can only hope that from here on the matter will progress smoothly and an agreement with the Chinese project sponsors will be reached within this month. If the matter lingers, and let me be clear that I am not saying it is inevitable that it will drag out, the risks to economic stability will be great.

I am not sure how much room the Fund has to show leniency here. My understanding is room for such leniency has shrunk since the [spring meetings in April](https://www.dawn.com/news/1828139) this year, when the Fund was specifically instructed by the US Treasury to “be willing to walk away if a country will not take the needed steps”.

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