INTERNATIONAL MONETARY FUND

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PAKISTAN

September 2022

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FOR EXTENSION, AUGMENTATION, AND REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Article IV Consultation and Continuation Discussion for 6th Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its August 29, 2022 consideration of the staff report on issues related the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 29, 2022, following discussions that ended on May 25th 2022, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 16th, 2022
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

The documents listed below have been or will be separately released. **Select as appropriate**:

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/293

IMF Executive Board Completes the Combined Seventh, and Eighth Reviews of the Extended Fund Facility for Pakistan

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) completed the combined seventh and eighth reviews under the Extended Fund Facility (EFF) for Pakistan, allowing the authorities to draw the equivalent of SDR 894 million (about US$1.1 billion).
- The authorities have taken important measures to address Pakistan's worsened fiscal and external positions resulting from accommodative policies in FY22 and spillovers from the war in Ukraine, and which have placed significant pressure on the rupee and foreign reserves.
- The immediate priority is to continue the steadfast implementation of the recently approved budget for FY23, adherence to a market-determined exchange rate, and pursuit of a proactive and prudent monetary policy. It is also important to continue to expand social safety to protect the most vulnerable and accelerate structural reforms including to improve the performance of state-owned enterprises (SOEs) and governance.

Washington, DC – **August 29, 2022:** The Executive Board of the International Monetary Fund (IMF) completed today the combined seventh and eighth reviews of the Extended Arrangement under the Extended Fund Facility (EFF) for Pakistan. The Board's decision allows for an immediate disbursement of SDR 894 million (about US$1.1 billion), bringing total purchases for budget support under the arrangement to about US$3.9 billion.

The EFF was approved by the Executive Board on July 3, 2019 (see Press Release No. 19/264) for SDR 4,268 million (about US$6 billion at the time of approval, or 210 percent of quota). In order to support program implementation and meet the higher financing needs in FY23, as well as catalyze additional financing, the IMF Board approved an extension of the EFF until end-June 2023, rephasing and augmentation of access by SDR 720 million that will bring the total access under the EFF to about US$6.5 billion.

Pakistan is at a challenging economic juncture. A difficult external environment combined with procyclical domestic policies fueled domestic demand to unsustainable levels. The resultant economic overheating led to large fiscal and external deficits in FY22, contributed to rising inflation, and eroded reserve buffers. The program seeks to address domestic and external imbalances, and ensure fiscal discipline and debt sustainability while protecting social spending, safeguarding monetary and financial stability, and maintaining a market-determined exchange rate and rebuilding external buffers.

The Executive Board also approved today the authorities' request for waivers of nonobservance of performance criteria.

Following the Executive Board's discussion on Pakistan, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

“Pakistan’s economy has been buffeted by adverse external conditions, due to spillovers from the war in Ukraine, and domestic challenges, including from accommodative policies that resulted in uneven and unbalanced growth. Steadfast implementation of corrective policies and reforms remain essential to regain macroeconomic stability, address imbalances and lay the foundation for inclusive and sustainable growth.

“The authorities’ plan to achieve a small primary surplus in FY2023 is a welcome step to reduce fiscal and external pressures and build confidence. Containing current spending and mobilizing tax revenues are critical to create space for much-needed social protection and strengthen public debt sustainability. Efforts to strengthen the viability of the energy sector and reduce unsustainable losses, including by adhering to the scheduled increases in fuel levies and energy tariffs, are also essential. Further efforts to reduce poverty and protect the most vulnerable by enhancing targeted transfers are important, especially in the current high-inflation environment.

“The tightening of monetary conditions through higher policy rates was a necessary step to contain inflation. Going forward, continued tight monetary policy would help to reduce inflation and help address external imbalances. Maintaining proactive and data-driven monetary policy would support these objectives. At the same time, close oversight of the banking system and decisive action to address undercapitalized financial institutions would help to support financial stability. Preserving a market-determined exchange rate remains crucial to absorb external shocks, maintain competitiveness, and rebuild international reserves.

“Accelerating structural reforms to strengthen governance, including of state-owned enterprises, and improve the business environment would support sustainable growth. Reforms that create a fair-and-level playing field for business, investment, and trade necessary for job creation and the development of a strong private sector are essential.”

Pakistan: Selected Economic Indicators, 2020/21–2022/23 1/

Population: 222.6 million (2020/21)
Quota: SDR 2,031 million
Main exports: Textiles (US$15.4 billion, 2020/21)
Key export markets: European Union, United States, UAE

Per capita GDP: US$1,555.4 (2020/21)
Poverty rate: 21.9 percent (national line; 2018/19)

	2020/21	2021/22	2022/23
		Proj.	Proj.
Output and prices			
Real GDP at factor cost (% change)	5.7	6.0	3.5
Employment			
Unemployment rate (%)	6.3	6.2	6.0
Prices			
Consumer prices, period average (%)	8.9	12.1	19.9
Consumer prices, end of period (%)	9.7	21.3	15.0
General government finances			
Revenue and grants (% GDP)	12.4	12.1	12.4
Expenditure (% GDP)	18.5	19.1	17.1
Budget balance, including grants (% GDP)	-6.0	-7.0	-4.6
Budget balance, excluding grants (% GDP)	-6.1	-7.0	-4.7
Primary balance, excluding grants (% GDP)	-1.2	-2.4	0.2
Underlying primary balance (excluding grants) 2/	-0.5	-1.6	0.0
Total general government debt excl. IMF obligations	71.5	72.5	65.4
External general government debt	24.4	27.5	28.3
Domestic general government debt	47.1	44.9	37.1
General government debt incl. IMF obligations (% GDP)	73.6	74.6	68.2
General government and government guaranteed debt incl. IMF (% GDP)	77.9	78.9	72.1
Monetary and credit			
Broad money (% change)	16.2	10.5	12.0
Private credit (% change)	11.5	18.7	13.3
Six-month treasury bill rate (%) 3/	7.3	…	…
Balance of Payments			
Current account balance (% GDP)	-0.5	-4.7	-2.5
Foreign Direct Investment (% GDP)	0.5	0.7	0.6
Gross reserves (in millions of U.S. dollars) 4/	17,297	9,821	16,226
In months of next year's imports of goods and services	2.5	1.5	2.3
Total external debt (% GDP)	34.9	32.5	37.0
Exchange rate			
Real effective exchange rate (% change)	7.3	-14.6	…

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.
1/ Fiscal year ends June 30. On January 21, 2022 GDP was rebased to year 2015-16, affecting ratios.
2/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it excludes IPPs related arrears clearance and COVID-19 spending.
3/ Period average.
4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

INTERNATIONAL MONETARY FUND

CONFIDENTIAL

PAKISTAN

August 16, 2022

SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FOR EXTENSION, AUGMENTATION, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Economic backdrop. Economic activity remained robust in FY22, fueled by loose fiscal policy and a delayed monetary response to inflationary pressures. These combined with the international food and fuel price shocks led to a marked deterioration of the external position with an unsustainable current account deficit, a significant decline in reserves, and a marked depreciation of the rupee. At the same time, inflation has increased considerably, putting pressure particularly on the more vulnerable.

Program performance. Program implementation deteriorated shortly after the completion of the sixth review. Amid a tense political landscape, programmed fiscal adjustment was undone and several key EFF commitments were reversed. Two end-June performance criteria (PC)—on net international reserves (NIR) and the primary budget deficit—as well as three continuous PCs were missed. Moreover, seven structural benchmarks (SBs) were unmet. However, more recently, the authorities have taken several actions to bring the EFF back on-track, including passing an ambitious budget for a primary surplus, significantly increasing the policy rate, eliminating post-tax fuel subsidies, and increasing fuel taxation and electricity tariffs. They also plan to strengthen supervision and take the necessary actions to safeguard financial sector stability.

Key policy recommendations. The program seeks to restore fiscal discipline and debt sustainability while protecting social spending, safeguarding monetary and financial stability, and maintaining a market-determined exchange rate and rebuilding external buffers. New structural benchmarks support efforts to enhance social protection (new PC), strengthen energy sector viability, and support financial stability. Despite the recalibration, the goals of mobilizing additional high-quality tax revenue and substantially increasing reserve coverage are out of reach.

Staff views. Staff supports the completion of the seventh and eighth reviews, the extension of the program through end-June 2023, and augmentation of access by SDR 720 million based on corrective actions and policy commitments. Still, program risks remain exceptionally high and consistent and decisive implementation will be essential to improve economic prospects. This review will make available SDR 894 million and help catalyze essential external financing.

Approved By
Thanos Arvanitis and Kenneth Kang

Discussions were held virtually during March 7–18, 2022 and in person in Doha during May 18–25, 2022. The staff team comprised Nathan Porter (head); Kerstin Gerling and Jan Möller (all MCD); Ignatius de Bidegain (FAD); Faezeh Raei (SPR); Jan Nolte (MCM); Jonathan Pampolina (LEG); Esther Perez Ruiz (Resident Representative); and Zafar Hayat and Saher Masood (both Islamabad office). Christine Richmond and Sebastian Acevedo (MCD); and Hui Miao (MCM) joined for parts of the discussions. Marijn Verhoeven (FAD) assisted the team on tax reform discussions. Saeed Ahmed (OED) participated in policy discussions. Laura Torrent (MCD) provided research assistance and Nataliya Bondar (MCD) document management assistance.

CONTENTS

TABLES

ANNEXES

APPENDIX