

Staff Statement by the Staff Representative on Pakistan
Executive Board Meeting on Pakistan's 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
August 29, 2022

This statement is to update the Executive Board on some recent developments following the issuance of the Staff Report for the Combined Seventh and Eighth Reviews under the Extended Arrangement under the Extended Fund Facility. These developments do not alter the thrust of the staff report or staff appraisal.

- 1. On August 19, 2022, the government appointed Jameel Ahmad as SBP governor** for a five-year term. This follows the expiration of the previous governor's term on May 4, 2022. Mr. Ahmad was until recently Chairman of the Board of Directors of the Deposit Protection Corporation and has held senior positions at the SBP, including as deputy governor.
- 2. New data released** last week is broadly consistent with the outlook presented in the macroeconomic framework underlying the review.
 - **Economic activity.** Industrial production remained strong through July and inflation remains elevated (headline inflation reached 24.9 percent, y-o-y in July, while core inflation ticked up to 12 percent). Although the authorities' policy adjustment is expected to gradually bring inflation down over the coming months, persistently high commodity prices could moderate the pace of the decline.
 - **Fiscal developments.** The final data for the FY22 outturn was released on August 19, 2022. The underlying primary deficit is estimated at -2.3 percent of GDP—somewhat higher than the expected -1.6 percent of GDP presented in the Staff Report—reflecting larger-than-initially-assessed provincial expenditure (mostly capital expenditure).
- 3. Fiscal policy.** The authorities have taken the following measures since the adoption of the FY23 budget in late June 2022:
 - **Revenue.** The authorities changed the tax collection system for small retailers in August to increase its administrative efficiency. To compensate some associated revenue loss expected in FY23-Q1 as a result of the transition, various amendments have been promulgated—

notably an increase in federal excise duties on tobacco and cigarettes—which were instituted through a Presidential Ordinance issued on August 22, 2022. The resulting small positive net budgetary impact of these measures is about PRs 18 billion (0.02 percent of GDP).

- **Expenditure.** The Cabinet confirmed an end to the concessional tariff for export-oriented industries on August 19, 2022. This will limit pressures on the budgeted envelope.

4. Monetary policy. The Monetary Policy Committee (MPC) left the policy rate unchanged at 15 percent on August 22, 2022, allowing time for past increases (cumulative 800 bps since last September) and other policy actions to work their way through the economy. The MPC reiterated its commitment to data-dependent policy setting.

5. External sector. International reserves stood at US\$7.8 billion (1.2 months of imports) in mid-August 2022. The exchange rate depreciated almost 17 percent in July but had, by August 22, subsequently appreciated by almost 10 percent. The government fully removed the import ban on luxury and nonessential items on August 19, 2022.