Day Break

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Pakistan and IMF

Pakistan secures 37-month, $7bn EFF SLA with IMF staff

- Pakistan and IMF staff successfully reached a staff level agreement during the late hours on Friday, 12th July 2024. The agreement is a 37-month long extended fund facility worth $7bn.
- The disbursement of the first tranche is subject to the approval of IMF executive board once the findings of the IMF staff are presented to them.
- The new program is supposed to assist the authorities in reinforcing macroeconomic stability and fostering conditions for stronger and sustainable growth.
- This program involves measures to enhance fiscal and monetary policies and reforms aimed at broadening tax base, strengthening competition ensuring a fair investment environment, expanding social protection by increasing the generosity and coverage of the Benazir Income Support (BISP), enhancing human capital, and improving the management of State-Owned Enterprises (SOEs).

We highlight some of the key points from the IMF's press release under the new Extended Fund Facility (EFF) Staff Level Agreement (SLA).

Pakistan and IMF reach an Staff Level Agreement for the new Extended Fund Facility

IMF team led IMF's Mission Chief to Pakistan on request of Pakistani authorities visited Pakistan and held discussions for the new EFF program during May 13-23, 2024. The discussions continued virtually after the team left Pakistan and towards the end of the discussion the IMF Mission chief to Pakistan told the press that Pakistan and IMF have successfully reached an SLA on a comprehensive program on 12th-Jul-2024 endorsed by the federal and provincial governments. The agreement would be a 37-month long EFF equivalent to SDR 5,320 million (around US $ 7bn at the current exchange rate). This agreement would be subject to the approval of the IMF's executive board and the timely confirmation of necessary financing assurances from Pakistan's development and bilateral partners.

The program seeks to build on the macroeconomic stability attained over the past year by continuing efforts to enhance public finances, lower inflation, restore external reserves, and eliminate economic distortions to encourage private sector-driven growth. One new focus area that has been added as part of the program is tax on agriculture income. Other focus areas remain as usual including energy sector reforms, flexible exchange rate, appropriate monetary policy, fiscal consolidation and improving SOEs.

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Exhibit: Pakistan and IMF				
Facility	Start Date	Expiration Date	Amount (SDR)	Amount Drawn (SDR)
Standby Arrangement	Dec-58	Sep-59	25	-
Standby Arrangement	Mar-65	Mar-66	38	38
Standby Arrangement	Oct-68	Oct-69	75	75
Standby Arrangement	May-72	May-73	100	84
Standby Arrangement	Aug-73	Aug-74	75	75
Standby Arrangement	Nov-74	Nov-75	75	75
Standby Arrangement	Mar-77	Mar-78	80	80
Extended Fund Facility	Nov-80	Dec-81	1,268	349
Extended Fund Facility	Dec-81	Nov-83	919	730
Structural Adjustment Facility Commitment	Dec-88	Dec-91	382	382
Standby Arrangement	Dec-88	Nov-90	273	194
Standby Arrangement	Sep-93	Feb-94	265	88
Extended Credit Facility	Feb-94	Dec-95	607	172
Extended Fund Facility	Feb-94	Dec-95	379	123
Standby Arrangement	Dec-95	Sep-97	563	295
Extended Fund Facility	Oct-97	Oct-00	455	114
Extended Credit Facility	Oct-97	Oct-00	682	265
Standby Arrangement	Nov-00	Sep-01	465	465
Extended Credit Facility	Dec-01	Dec-04	1,034	861
Standby Arrangement	Nov-08	Sep-11	7,236	4,936
Extended Fund Facility	Sep-13	Sep-16	4,393	4,393
Extended Fund Facility	Jul-19	Jun-23	4,988	2,144
Standby Arrangement	Jun-23	Mar-24	2,250	2,250
Extended Fund Facility	Jul-24	Aug-27	5,320	-

Source: IMF, IGI Research

Key focus areas for Pakistan under new EFF SLA

- **Fiscal**: The Federal and Provincial governments have agreed to a National Fiscal Pact, aligning with the 18th constitutional amendment, to distribute fiscal responsibilities more fairly. This pact shifts more spending on education, health, social protection, and infrastructure to the provinces, improving public services. Provinces will also boost tax collection efforts, including sales tax on services and agricultural income tax, harmonizing their Agriculture Income Tax laws with federal tax regimes from 01-Jan-2025. Sustainable public finances will be achieved through gradual fiscal consolidation, broadening the tax base, and removing exemptions while increasing funds for key development and social spending. Authorities plan to boost tax revenues by 1.5% of GDP in FY25 and 3% over the program. The FY25 budget targets a primary surplus of 1% of GDP, supported by simpler, fairer taxes on retail, export, and agriculture income. Additional resources will expand social protection, BISP, education, and health spending.

- **Monetary Policy and Inflation**: Reducing inflation, enhancing access to financing, and building strong external reserves are crucial for development and resilience. Monetary policy will focus on supporting disinflation to protect real incomes, especially for the vulnerable. For financial stability, authorities will deepen access to financing, strengthen financial institutions, address undercapitalized banks, and upgrade the crisis management framework.

- **Tax on agriculture income**: The Fund has stated that all provinces are committed to fully harmonize their Agriculture Income Tax Regimes though legislative changes with federal personal and corporate tax regimes. This will become effective from 01-Jan-2025. To note, provinces currently collect tax on agriculture income but contribution to overall tax collection is very low. The proposal is to bring it in line with taxes levied by federal government on non-salaried individuals. If implemented this would significantly reduce fiscal deficit for FY25.

- **Exchange rate and FX reserves**: The State Bank of Pakistan (SBP) will maintain a flexible exchange rate, improve the foreign exchange market, and increase transparency in FX operations to build reserves and buffer against shocks.

- **Structural Reforms**: Promoting private sector and export growth involves improving the business environment, ensuring fair competition, and eliminating state distortions. Authorities are enhancing SOE operations, prioritizing the most profitable for privatization, and improving transparency and governance of the Pakistan Sovereign Wealth Fund.

- **Phasing out subsidies and incentives**: Authorities are also ending incentives for Special Economic Zones, phasing out agricultural support prices and subsidies, and avoiding new regulatory or tax-based incentives that could distort investment.

- **Trade Policy**: Pakistan is committed to anti-corruption, governance, and transparency reforms, as well as gradually liberalizing trade policy.

- **Energy Sector**: IMF has emphasized on improving energy sector viability and reducing risk on fiscal front by timely notification of adjustment in energy tariff, cost reducing reforms and unnecessary expansion in generation capacity. The authorities remain committed to undertaking targeted subsidy reforms and replace cross-subsidies to households with direct and targeted BISP support.

Impact on Stock Market

The SLA announcement for EFF program is likely to improve investor confidence and further boost market confidence as valuations remain attractive. A longer tenure EFF program is likely to provide more clarity on macroeconomic front and bring stability, sustainability and growth in to the economy. Unlocking new EFF program would further facilitate confidence of bilateral and multilateral partners and pave way for new financing. Focus is likely to remain on upcoming monetary policy and energy sector where further rate cuts and timely notification of energy tariffs are likely to act as key triggers.

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