

Pakistan and IMF

IMF Executive Board Completes Final review of SBA; Approves US\$ 1.1bn Tranche

- IMF Executive Board completed the second and Final review for the SBA signed in Jun-23. The Technical and Policy level talks commenced on 14-Mar-24 and concluded on 19-Mar-24.
- IMF Executive board has allowed an immediate disbursement of US\$ 1.1bn, bringing the total disbursements under arrangement to US\$ 3.0bn.
- IMF Executive Board highlighted that the successful completion of the stand-by agreement reflects the authorities' stronger commitment to the policies, which have supported the stabilization of economy and return of modest growth.
- IMF mentioned that in order to move Pakistan from stabilization to strong and sustainable growth the policy efforts need to be continued and the fiscal targets are to be strictly adhered to and the market-determined exchange rate is to absorb external shocks and broadening of structural reforms to support stronger and more inclusive growth.

We highlight some of the key points from the IMF's press release under Stand-By Agreement (SBA).

IMF Executive Board Completes Final review of the Stand-by Agreement (SBA) for Pakistan

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To recall, Pakistan and IMF signed new 9 month SBA in Jun-23 as previous EFF program concluded as incomplete. Due to ongoing macroeconomic crisis, new SBA was crucial in averting default risk fears. The duration of SBA was of nine months.

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fiscal targets are to be strictly adhered to and the market-determined exchange rate is to absorb external shocks and broadening of structural reforms to support stronger and more inclusive growth.

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

Source: IMF, IGI Research

Key focus areas and achievements of Pakistan under SBA

- Fiscal:** The program placed emphasis on implementing fiscal adjustments and sustainability of debt through execution of FY24 budget. Effective revenue management and federal spending control led to a substantial primary surplus of 1.8% of GDP in 1HFY24 and is on track to achieve and surpass FY24 target of 0.4% of GDP.
- Monetary Policy and Inflation:** A tighter monetary policy stance was maintained to ensure price stability and progress towards disinflation. IMF emphasized that a data driven monetary policy

stance is necessary to ensure inflation comes down to moderate levels and within SBP's medium-term target range.

- **Exchange rate and FX reserves:** A proper functioning of exchange rate market was restored and market determined exchange rate eliminated exchange rate shortage and mitigate impact of external shocks. As a result, gross revenues increased from US\$ 4.5bn at start of program to currently at US\$ 8bn.
- **Structural Reforms:** Pakistan made significant progress on structural reforms especially by enhancing viability of energy sector, stabilizing circular debt by notification of timely tariff adjustments and improving governance of State-owned Enterprises (SOE).

IMF highlighted few policy guidelines for Pakistan in its press release:

- **Continuation of Policy Efforts:** The Policy Efforts by Pakistan's authorities have made progress in stabilizing economy, moderate growth has returned; external pressures are low and inflation is declining. Pakistan still needs to implement and continue sound macroeconomic policies and structural reforms to create stronger, inclusive, and sustainable growth.
- **Fiscal Discipline and Revenue Mobilization:** Sustaining this surplus hinges on ongoing efforts to increase revenue, particularly from non-filers and undertaxed sectors, alongside improving public financial management. This strategy is crucial for maintaining fiscal stability and creating room for future social and development expenditure.
- **Energy Sector Circular Debt:** The government has managed to control the energy sector's circular debt during the SBA by adjusting tariffs on time and improving collection efforts. These efforts must continue, but it is equally important for the government to make cost-side reforms to tackle the sector's fundamental problems and ensure its long-term viability.
- **Monetary Policy and Exchange Rate:** The SBP's tight monetary policy stance remains appropriate until inflation returns to more moderate levels. Improvements in the foreign exchange market and a market-driven exchange rate will protect against external shocks, attract financing, and support competitiveness and growth. Building up foreign exchange reserves under the SBA

should continue. Additionally, addressing undercapitalized financial institutions and maintaining vigilance over the financial sector are crucial for stability.

- **Long-term inclusive Growth:** To achieve robust, lasting inclusive growth and job creation, there is a need to speed up structural reforms and ensure adequate funding for programs like the Benazir Income Support Program, which protects vulnerable groups. Key priorities include reforming state-owned enterprises (SOEs) to align with the new policy framework, enhancing governance and anti-corruption measures, and reinforcing climate resilience efforts.

Exhibit: Key Economic Indicators Projected by IMF (FY23-25)				
		FY23	FY24 (Proj.)	FY25 (Proj.)
Output and Prices				
Real GDP	% Change	-0.2	2.0	3.5
Employment				
Unemployment	%	8.5	8.0	7.5
Prices				
Consumer Prices	%, period average	29.2	24.8	12.7
Consumer Prices	%, period end	29.4	19.6	9.5
General Government Finances				
Revenue and grants	% of GDP	11.4	12.5	12.4
Expenditure	% of GDP	19.2	20.0	19.8
Budget Balance, including grants	% of GDP	-7.8	-7.4	-7.4
Budget Balance, excluding grants	% of GDP	-7.8	-7.5	-7.4
Primary Balance, excluding grants	% of GDP	-1.0	0.4	0.4
Underlying primary balance (excluding grants)	% of GDP	-0.8	0.4	0.4
Total general govt. guaranteed debt incl. IMF	% of GDP	74.7	69.6	68.1
External general govt. debt	% of GDP	28.5	26.2	25.0
Domestic general govt. debt	% of GDP	46.2	43.3	43.2
General Govt. Debt Incl. IMF	% of GDP	77.1	72.1	70.0
General Govt. and Govt. guaranteed Debt Incl. IMF	% of GDP	81.3	76.0	73.6
Monetary and Credit				
Broad Money	% Change	14.2	13.5	22.0
Private Credit	% Change	2.3	3.5	20.0
Six-month treasury bill rate	%, period average	18.3
Balance of Payments				
Current account balance	% of GDP	-0.7	-0.8	-1.2
Foreign Direct Investment	% of GDP	0.5	0.2	0.3
Gross Reserves	\$ mn	4,455	9,029	13,364
Import Cover	Months	0.8	1.5	2.1
Total External Debt	% of GDP	40.1	36.6	34.7
Exchange Rate				
Real Effective Exchange Rate	% Change	-8.0

Source: IMF, IGI Research

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