

# IMF Extended Fund Facility Arrangement for Pakistan



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# Overview of the Presentation

- Introduction: What is the IMF? How are the IMF-Pakistan relations?
- What are Pakistan's Macro-Critical Imbalances?
- What are the POLICIES and REFORMS envisaged under the IMF-Supported Program?
- GOALS, RISKS and MITIGATING FACTORS
- How the IMF-Supported Program will be Implemented and Reviewed?

OVERVIEW



# IMF - An Overview

- **What is the IMF?** Some confusion in the public opinion, even after 18 arrangements...
- **How IMF serve to its country members?**
  - Policy Assessment and Advice (e.g. Article IV Consultations)
  - Lending (Facilities to support governments' programs)
  - Capacity Building (e.g. Trainings and Technical Assistance]
- **What are the main IMF Facilities?**
  - Concessional rates: Poverty Reduction and Growth Facility (PRGF), and the Extended Credit Facility (ECF);
  - Market Based rates: such as the Stand-By Arrangements (SBA), Extended Fund Facility (EFF), among others



# IMF-Pakistan: A Historical Perspective

- Pakistan Joined IMF on July 11 1950
- 18 Lending arrangements since 1958,
- Why? Pakistan's recurrent BOP Crisis, either for external shock or internal factors
- Only the EFF 2013-2016 2013-16 was fully disbursed
- The stability gains achieved since late 2016 eroded. Pakistan again in a challenging situation
- Information about Pakistan and IMF at
- <https://www.imf.org/en/Countries/PAK>



# What are Pakistan's Main Macro-Critical Imbalances?

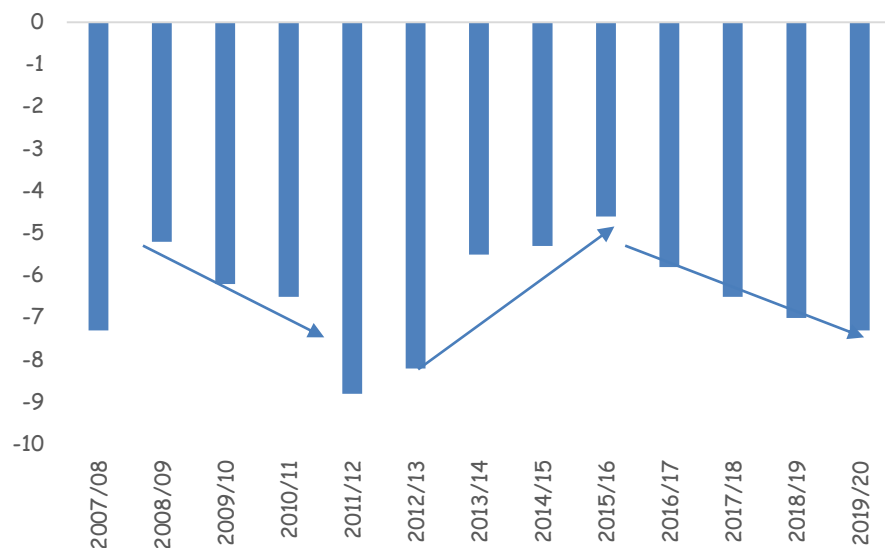
- Ballooning public deficits and losses in state owned companies, in a context of perennial low tax revenues and base.
- Increasing government borrowing—both domestic and international, a high and unsustainable debt level and interest payments (25 percent of the government revenue)
- Increase in trade deficit, reflecting high deficit, and keeping the exchange rate constant.
- Loose monetary policy, decline in SBP's reserves to finance increasing imports, and despite extra funding
- Inflation increase, growth skewed toward consumption, competitive loss, low investment and job creation.



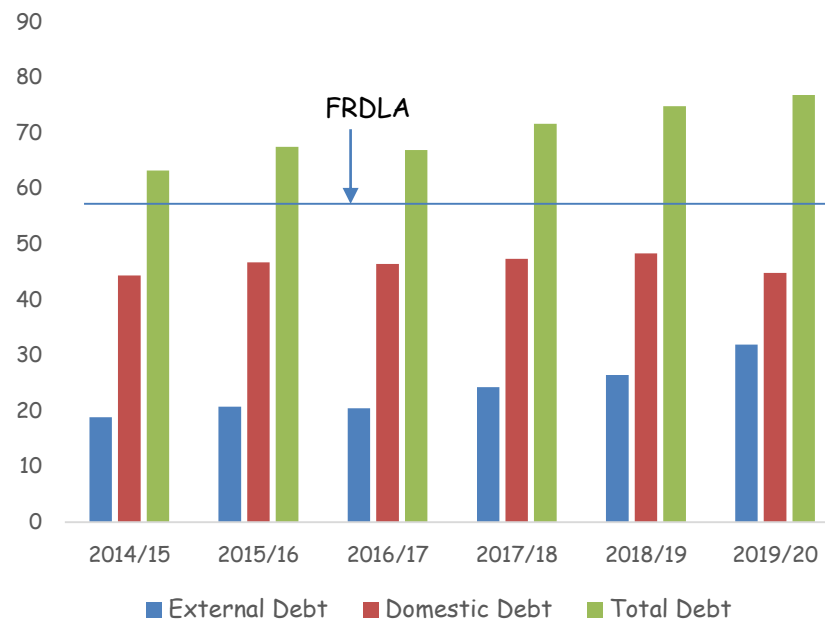
# Pakistan Economy: Key Macro-Critical Imbalances

- High Fiscal Deficit and High Level of Debt

High Fiscal Deficit (excluding grants)  
% of GDP



Public Debt Profile (as a % of GDP)

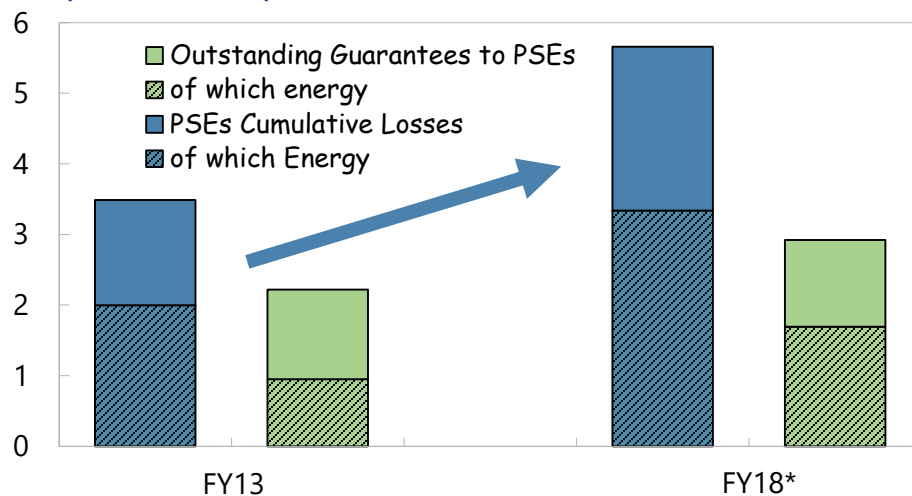


# Pakistan Economy: Key Macro-Critical Imbalances

- Increasing losses of SOEs and power sector circular debt

## PSEs Losses and Government Guarantees

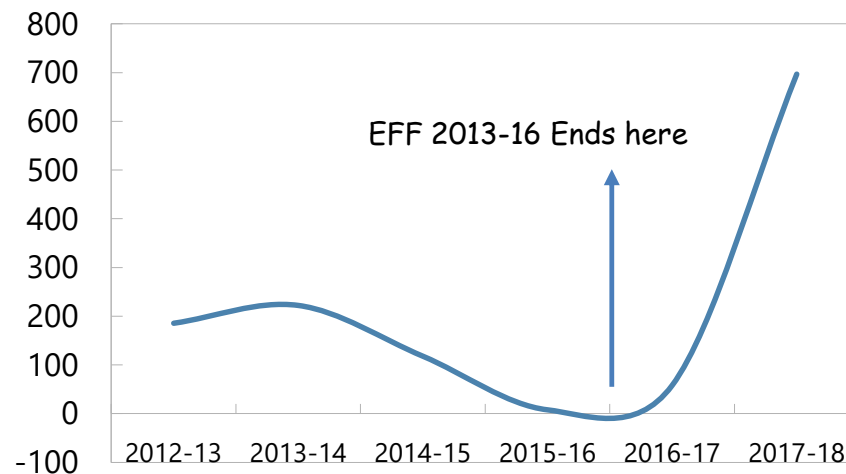
(Percent of GDP)



\* Preliminary. Includes PIA, PSM, Railways, and DISCOS.

## Accumulation of power sector arrears

(In PRs billion)



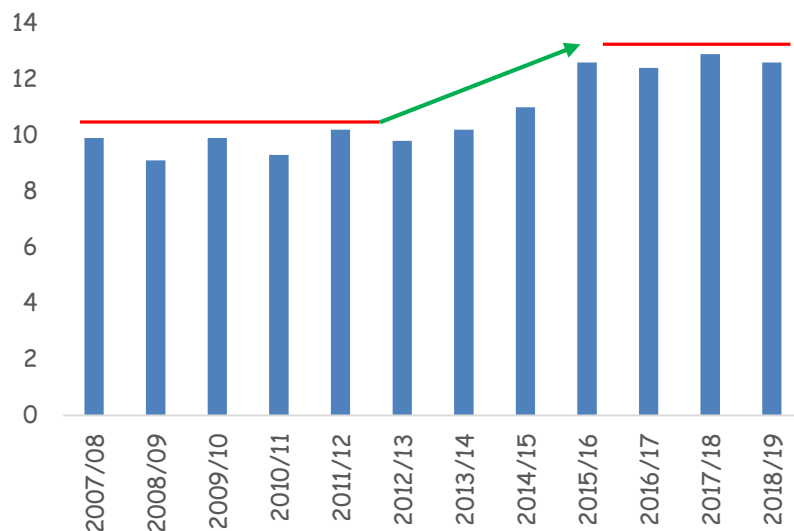
Note: Includes new circular debt and new loans to the Power Holding Company Limited (PHCL).



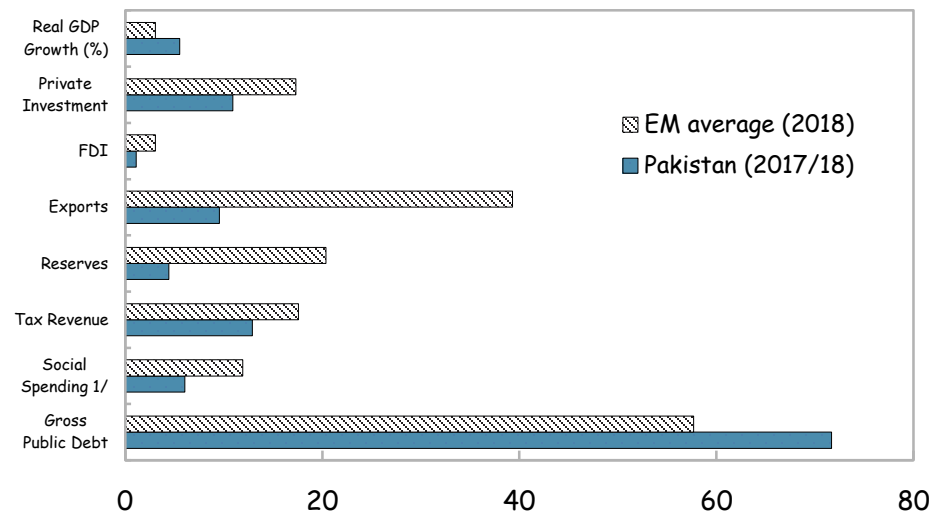
# Pakistan Economy: Key Macro-Critical Imbalances

- Low Tax Revenue and Comparative Macroeconomic Position

Tax Revenue (as a % of GDP)



Pakistan Relative to Emerging Market Economies  
(In percent of GDP, unless otherwise indicated)



Sources: IMF WEO Database, World Bank ASPIRE and WDI Database. 1/ Health, education and social safety net spending.

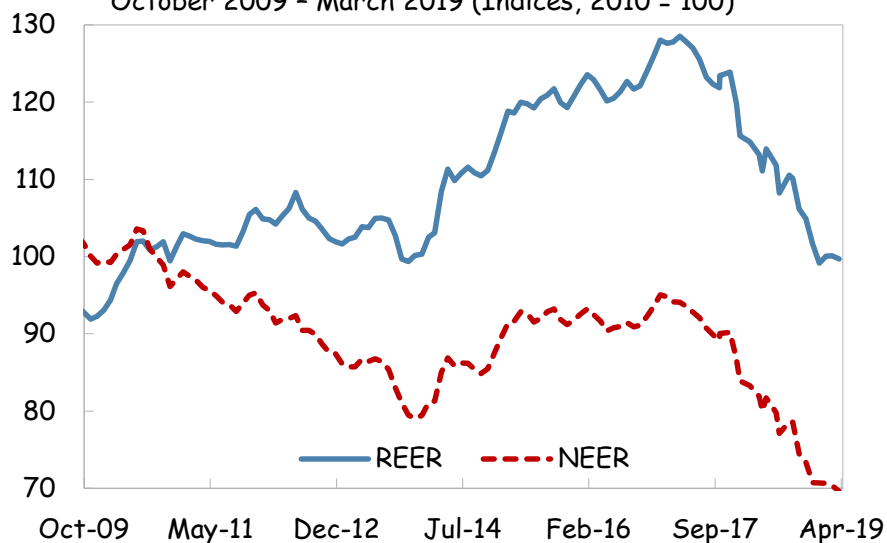


# Pakistan Economy: Key Macro-Critical Imbalances

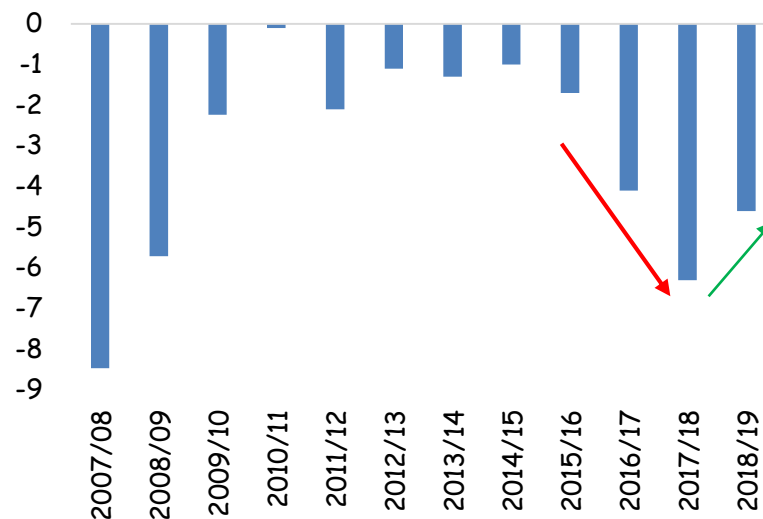
- An Overvalued Exchange Rate and Increasing Current Account Deficit

External competitiveness remains weak, some recent improvements notwithstanding.

Real and Nominal Effective Exchange Rate  
October 2009 - March 2019 (Indices, 2010 = 100)



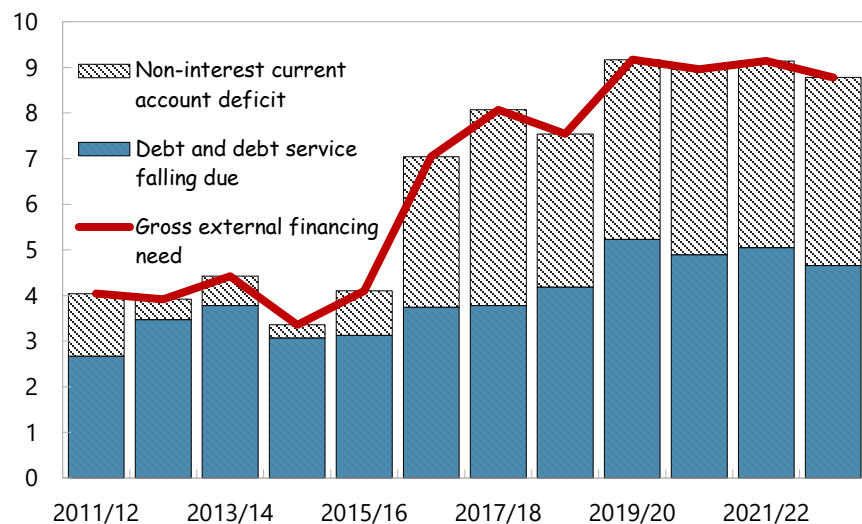
Continued External Pressures.....  
Current Account Balance (as a % of GDP)



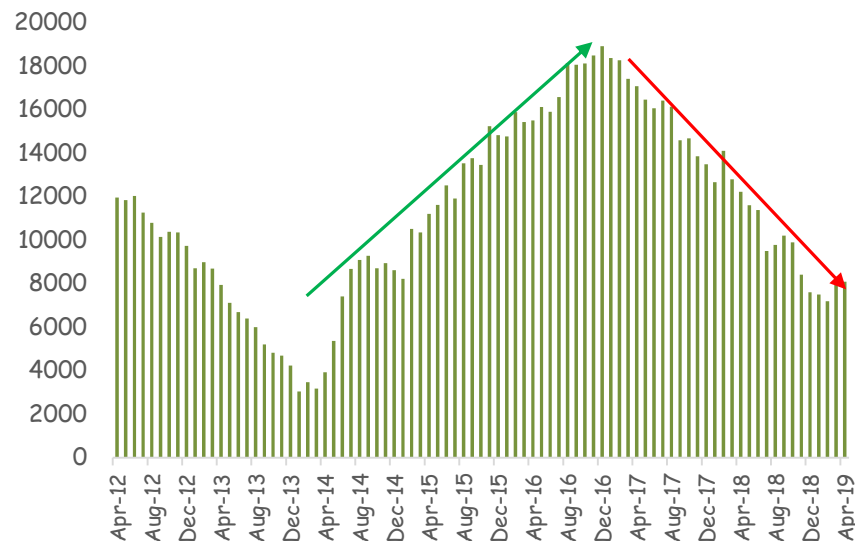
# Pakistan Economy: Key Macro-Critical Imbalances

- Rising External Financial Needs and Erosion in SBP Reserves

**Rising External Financing Needs...**  
(Gross external financing needs, percent of GDP)



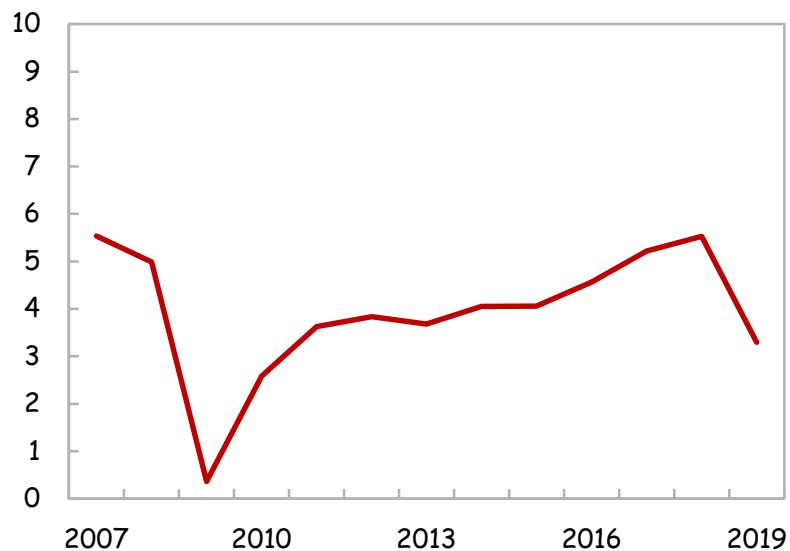
**Erosion of FX Reserves (million U.S. dollars)**



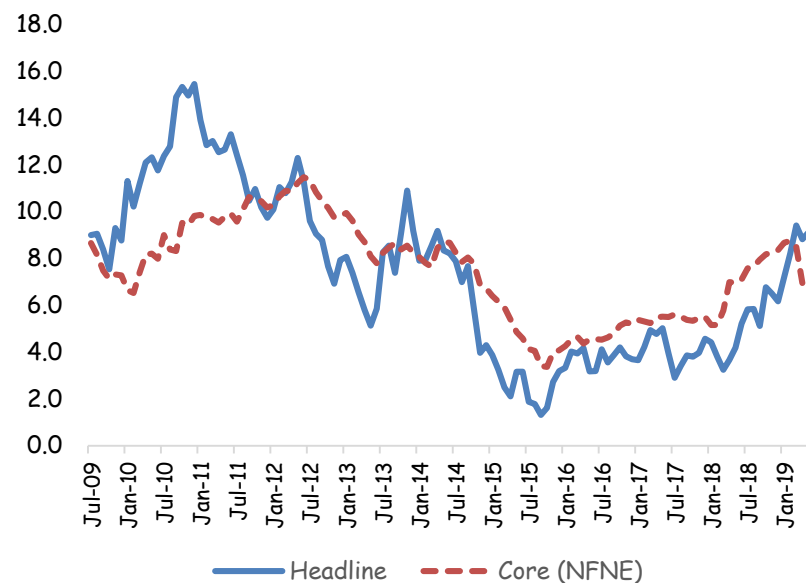
# Pakistan Economy: Key Macro-Critical Imbalances

- Declining and consumption-focused growth, and increasing inflation

Trend in Real GDP Growth (%)



Headline and Core Inflation



# Pakistani Authorities' Spade Work

- Some steps to stabilize the economy since early 2018: some exchange rate depreciation, monetary tightening (e.g. increase in the SBP policy rate), power and gas tariffs adjustments, and two minibudgets. In addition, the government secured sizable short-term financing from bilateral creditors.
- All these measures fell short of the comprehensive policy actions and reforms needed to ensure macroeconomic stability.
- The government has developed a comprehensive 3-year program to stabilize the economy and lay the foundation for robust and balanced growth.



# What are the POLICIES envisaged under the IMF-supported Program?

- **FIRST**, a revenue-based fiscal consolidation, focused on removing exemptions and privileges, greater coordination with provinces, and an elimination of quasi-fiscal circular debt
- **SECOND**, a market-determined and flexible exchange rate, and a strengthened central bank focused on achieving price stability
- **THIRD**, the strengthening of social safety net, to protect the most vulnerable as needed, by expanding coverage and budget allocation of Benazir Income Support Program and Conditional Cash Transfer



# What are the REFORMS aimed under the IMF-Supported Program?

- Improving public financial management to instill fiscal discipline and transparency (e.g. new PFM Law)
- More autonomy for the State Bank of Pakistan as it prioritizes price stability (e.g. no more government borrowing from SBP)
- Strengthening tax policy and administration
- Reforming the energy sector to ensure efficiency and better services
- Modernizing the SOE legal framework
- Strengthening anticorruption institutions; and progressing on FATF issues
- Removing bottlenecks and regulatory impediments to investment and job creation (e.g. speeding custom clearance, simplifying procedures to start a business, etc).



# What are the GOALS that this program aims at achieving over the medium term?

- Debt sustainability
- Stronger tax collections and a better FBR
- Independent Central Bank
- Market-determined Exchange Rate regime
- Moderate inflation trajectory
- Sustainable and inclusive growth
- Power Sector Efficiency
- A new PFM regime/framework
- Better management of SOE
- Getting out of FATAF grey list



## Pakistan

The country's economic plan seeks to return sustainable growth to the economy by adopting reforms to foster stronger and more sustainable growth

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# RISKS

- Fiscal slippages, resistance to fiscal measures, debt sustainability at risk
- Opposition to governance and institutional building by vested interests
- The absence of a majority by the ruling party in the upper house; provinces may underdeliver on their surplus commitments
- Large amount of rollover needs for short-term debt, and
- Failure to get out of grey-list by FATF could have implications of capital inflows to Pakistan, and jeopardizing the financing assurances under the program.



# Supporting Factors

- Strong ownership by incumbent government and authorities and continuation of reforms
- Upfront adoption of key policy measures, especially on greater exchange rate flexibility
- Securing formal agreements with the provinces on the overall fiscal strategy, including procedures to address deviations
- Increasing social spending to protect the most vulnerable from the impact of reforms and garner support for these measures; and
- strong commitments of support from the World Bank, ADB, and key bilateral partners and conservative assumptions on private financing flows.



# How the IMF-Supported program will be implemented and reviewed?

- Quarterly Reviews; first one before end December; if successful, they will be followed by disbursements.
- Performance Criterion; numerical targets of key variables such as primary balance, level of reserves, etc.
- Indicative Targets; numerical targets that help monitor quality of the adjustment, such revenues collections, spending on health and education
- Structural Benchmarks; actions, such as preparing a piece of legislation



it's  
Q&A  
TIME!

