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IMF Executive Board Completes Second Review Under the Extended Arrangement for Pakistan and Approves US$555.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Pakistan's economic performance under a three-year program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review enables an immediate disbursement of an amount equivalent to SDR 360 million (about US$555.6 million).

The 36-month extended arrangement under the EFF in the amount of SDR 4.393 billion (about US$6.78 billion, or 425 percent of Pakistan's quota at the IMF) was approved by the Executive Board on September 4, 2013 (See Press Release No. 13/322).

In completing the second review, the Executive Board also approved the authorities' request for waivers of non-observance of the end-December 2013 performance criteria on net swap/forward position and government borrowing from the State Bank of Pakistan (SBP) based on corrective actions taken by the authorities.

Following the Executive Board's discussion on Pakistan, Mr. David Lipton, First Deputy Managing Director and Acting Chair, said:

"The Pakistani authorities have made commendable progress in stabilizing the economy and launching important structural reforms. However, economic conditions remain challenging, and more needs to be done to reduce vulnerabilities.

"Fiscal consolidation is on track, but additional efforts to broaden the revenue base and improve tax administration are needed to sustain the adjustment. Recent steps to increase the equity and transparency in taxation are in the right direction. However, the December 2013 investment incentive package runs against these steps. Slippages on targeted cash transfers should be avoided to protect the most vulnerable segments of the population. It will also be important to strengthen public debt management.

“Monetary policy should increasingly focus on containing inflationary pressures and every effort should be made to reduce the stock of government borrowing from the State Bank of Pakistan in line with program targets. Efforts to build up foreign reserves should continue, including through greater exchange rate flexibility and a higher policy rate. Agreed legislation to enhance central bank independence should be presented for parliamentary approval without undue delay.

“Tackling financial sector risks is an important policy priority. In particular, capital shortfalls at some banks and high nonperforming loans need to be addressed promptly. Additional steps to deepen the government debt market would also strengthen financial stability.

“Progress on structural reforms is welcome but more remains to be done. The rationalization of gas prices should move beyond the gas levy; regulation of the energy sector needs to be strengthened; privatization of public sector enterprises should move forward; and bolder actions are needed to improve trade policies and the business climate.”