

Pakistan Economy

IMF's Executive Board approves EFF of USD 7bn

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IMF's Executive Board approves EFF of USD 7bn

- IMF has approved a 37-Month Extended Fund Facility for Pakistan amounting to SDR 5.32bn (~USD 7bn), the second highest amount ever agreed upon under any IMF program in terms of SDRs. Following this approval, an initial disbursement of SDR 760mn (~USD 1.1bn) has been released.
- The new IMF program is underpinned by effective policies and reforms aimed at assisting the Pakistani authorities in enhancing macroeconomic stability, addressing significant structural challenges, and creating conditions conducive to stronger, more inclusive, and resilient growth.
- Key priorities under the new EFF-supported program are:
 - Rebuilding policy credibility and achieving macroeconomic sustainability:** This requires consistent implementation of sound fiscal, monetary, and exchange rate policies. Priorities include better public spending, fairer and more efficient taxation, especially from undertaxed sectors, and creating fiscal space for increased spending on health, education, and social protection programs.
 - Enhancing productivity and competitiveness:** Reforms should focus on improving the private sector business environment by removing state-created distortions and ensuring a fair and competitive playing field. This includes streamlining subsidies, improving the foreign direct investment regime, deepening bank intermediation, and scaling up investment in human capital.
 - Restructuring State-Owned Enterprises (SOEs) and public service improvement:** SOE reform and privatization, coupled with governance and transparency measures, will help improve public service provision. Additional measures include reducing the cost structure of the energy sector and phasing out the government's role in price setting.
 - Building climate resilience:** Implementing the C-PIMA Action Plan and supporting the National Adaptation Plan will strengthen the country's resilience to climate change, with a focus on sustainable infrastructure and disaster risk reduction.

Exhibit: History of Lending Commitments

| Facility | Date of Arrangement | Expiration Date | Amount Agreed SDR mn | Amount Drawn SDR mn |
|---|---------------------|-----------------|-------------------------|------------------------|
| 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 | Jul-23 | Apr-24 | 2,250 | 2,250 |
| Extended Fund Facility | Sep-24 | Oct-27 | 5,320 | 760 |
| Total | | | 31,947 | 18,948 |

Source (s): IMF, AHL Research

Pakistan Economy

Pakistan's performance review and outlook

Progress made during FY24

- **Policy implementation & economic stability:** Pakistan has made significant strides in restoring economic stability through consistent policy measures under Stand-by Arrangement in FY24.
- **Growth recovery:** Economic growth has improved to 2.4% in FY24, which is primarily supported by the agriculture sector.
- **Deceleration in inflation:** Inflation has witnessed significant reduction, reaching single-digit levels, due to tight fiscal and monetary policies.
- **Stability on external front:** The build-up of reserve buffers has been supported by a stable current account and calm foreign exchange market conditions.
- **Monetary policy adjustments:** Keeping in view lower inflation and stability in domestic and external conditions, SBP has reduced the policy rate by 450bps from Jun'25, aided by a tight FY25 budget.

Challenges

- **Business environment & governance issues:** Investment, which remains low compared to peers, is hindered by a challenging business environment, weak governance, and an excessive role of the state.
- **Narrow tax base:** Tax fairness, fiscal sustainability, and support for Pakistan's significant social and development spending needs are hindered by the narrow tax base.
- **Gaps in social spending:** Insufficient investment in health and education has held up efforts to reduce persistent poverty.
- **Addressing structural challenges:** Faster implementation of structural reforms is necessary to tackle issues like low productivity, resource misallocation, and climate vulnerability.
- **Energy sector reforms:** Timely energy tariff adjustments have stabilized circular debt, but deeper cost reforms are needed to ensure the energy sector's long-term viability.

Pakistan Economy

Key economic indicators (FY23 - FY25)

Pakistan: Selected Economic Indicators, FY2023 – FY2025

| | | FY2023 | FY2024 Est. | FY2025 Proj. |
|---|-------------------|---------|----------------|-----------------|
| Output and prices | | | | |
| Real GDP | % Change | (0.2) | 2.4 | 3.2 |
| Employment | | | | |
| Unemployment rate | % | 8.5 | 8.0 | 7.5 |
| Prices | | | | |
| Consumer prices | %, period average | 29.2 | 24.8 | 12.7 |
| Consumer prices | %, end of period | 29.4 | 19.6 | 9.5 |
| General government finances | | | | |
| Revenue and grants | % of GDP | 11.5 | 12.6 | 15.4 |
| Expenditure | % of GDP | 19.2 | 19.3 | 21.4 |
| Budget balance, including grants | % of GDP | (7.7) | (6.7) | (6.0) |
| Budget balance, excluding grants | % of GDP | (7.8) | (6.8) | (6.1) |
| Primary balance, excluding grants | % of GDP | (0.9) | 0.9 | 2.0 |
| Underlying primary balance (excluding grants) | % of GDP | (0.8) | 0.4 | 0.4 |
| Total general government debt excluding IMF obligations | % of GDP | 74.7 | 69.6 | 68.1 |
| External general government debt | % of GDP | 28.6 | 22.6 | 24.0 |
| Domestic general government debt | % of GDP | 46.3 | 44.5 | 45.0 |
| General government debt incl. IMF obligations | % of GDP | 77.3 | 69.2 | 71.4 |
| General government and government guaranteed debt including IMF | % of GDP | 81.3 | 76.0 | 73.6 |
| Monetary and credit | | | | |
| Broad money | % Change | 14.2 | 16.1 | 13.8 |
| Private credit | % Change | 2.3 | 3.9 | 16.0 |
| Six-month treasury bill rate | %, period average | 18.3 | ... | ... |
| Balance of Payments | | | | |
| Current account balance | % of GDP | (1.0) | (0.2) | (0.9) |
| Foreign Direct Investment | % of GDP | 0.5 | 0.5 | 0.4 |
| Gross reserves | \$ mn | 4,455.0 | 9,029.0 | 13,364.0 |
| Import Cover | Months | 0.8 | 1.5 | 2.1 |
| Total external debt | % of GDP | 40.2 | 31.4 | 33.6 |
| Exchange rate | | | | |
| Real effective exchange rate | % Change | (8.0) | ... | ... |

Sources (s): IMF Press Release, AHL Research

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