

## Economy

### Pakistan-IMF Concludes Staff Level Visit

- According to the statement, the IMF team, led by Mr. Nathan Porter, expressed its appreciation for the commitment shown by the Prime Minister of Pakistan to implement policies aimed at promoting macroeconomic stability.
- The successful completion of the IMF review will unlock significant funding from both bilateral and multilateral partners and provide crucial support to Pakistan's dwindling foreign exchange reserves, which currently stand at US\$ 2.9bn.

We highlight some of the key points from press release issued post conclusion of IMF Staff visit to Pakistan, and thereon media briefing session done by Finance Minister.

### IMF Concludes Staff Level Visit of 9th Review with Commitment-Linked Disbursements

The International Monetary Fund (IMF) has recently released a press statement regarding the conclusion of its staff visit to Pakistan for the 9th review of the IMF Extended Fund Facility (EFF) arrangement. According to the statement, the IMF team, led by Mr. Nathan Porter, expressed its appreciation for the commitment shown by the Prime Minister of Pakistan to implement policies aimed at promoting macroeconomic stability.

"The IMF team welcomes the Prime Minister's commitment to implement policies needed to safeguard macroeconomic stability and thanks the authorities for the constructive discussions." – IMF Press Release

### Broad Economic Corrective Measures Laid Out by IMF

The IMF has outlined several key measures aimed at achieving this stability;

- Allow the exchange rate to be market determined to gradually eliminate the foreign exchange shortage
- Enhancing energy provision by preventing further accumulation of circular debt and ensuring the viability of the energy sector
- Resolute financial support from official partners are critical for Pakistan to successfully regain macroeconomic stability and advance its sustainable development.

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## IMF Disbursement of US\$1.2bn Hinges on Successful Review of MEFP by Pakistan

In a subsequent media briefing session, the Finance Minister of Pakistan, Ishaq Dar, stated that the authorities have received a draft of the Memorandum of Economic and Financial Policy (MEFP) and will be reviewing it over the weekend. If the review is successful and the Staff Level Agreement (SLA) is reached, the disbursement of US\$1.2bn (~840mn SDR) will take place. This will bring the total disbursements under the EFF to US\$5.1bn, or 78% of the total allocation. To recall, the IMF authorities extended EFF until end-June 2023, and raised the amount to US\$ 6.5bn ([link](#)), as to accommodate the adverse developments on economic and political front which stalled program progress post Apr-22.

**Exhibit:** Timeline of Pakistan and IMF reviews under EFF

Date	Review
3-Jul-19	IMF Approves US\$6 billion 39-Month EFF Arrangement
8-Nov-19	1st Review Staff-Level Agreement
19-Dec-19	1st Review Concludes
27-Feb-20	2nd Review Staff-Level Agreement
16-Apr-20	US\$ 1.386bn Disbursement to Pakistan to Address the COVID-19 Pandemic
16-Feb-21	2nd, 3rd, 4th and 5th Review Staff-Level Agreement
24-Mar-21	2nd, 3rd, 4th and 5th Review Concludes
21-Nov-21	6th Review Staff-Level Agreement
2-Feb-22	6th Review Concludes
13-Jul-22	7th and 8th Reviews Staff-Level Agreement
29-Aug-22	7th and 8th Reviews Concludes
<b>9-Feb-23</b>	<b>9th Review Staff Visit Concludes</b>

Source: IMF, IGI Research

## Finance Minister Briefs on Key Elements of IMF Agreement for Pakistan's Economic Stability

The Finance Minister also highlighted some key points during the media briefing;

- Government's is hopeful on receiving financial support from friendly countries in the range of US\$5-7bn.
- He also stated that the new taxes introduced will be worth PKR 170bn, contrary to media reports of PKR 600-700bn. Additionally, the Petroleum Development Levy (PDL) on motor gasoline (MS) will remain unchanged at PKR 50/litre, but will increase by a total of PKR 10/litre for High Speed Diesel (HSD) by April 2023.
- The government will also increase the fund size for the Benazir Income Support Program (BISP) by PKR 40bn from budgeted PKR

360bn, to protect the low-income group, while reviewing and removing unbudgeted subsidies.

- The Finance Minister stated that efforts will be made to eliminate any further buildup of circular debt in the gas sector, in line with IMF requirements. However, the Finance Minister did not disclose the specifics related to resolution of circular debt.

### Modest Inflation Expectations Ahead: Reduced Taxes and No Pass-On to Low-Income Consumers

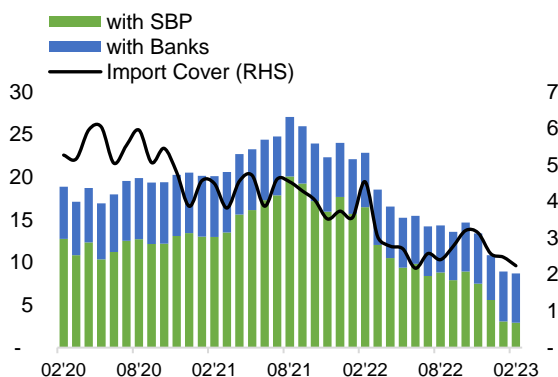
The successful completion of the IMF review will unlock significant funding from both bilateral and multilateral partners and provide crucial support to Pakistan's dwindling foreign exchange reserves, which currently stand at US\$ 2.9bn. Furthermore, the actual tax amount of PKR 170bn is lower than the initially estimated amount of PKR 600-700bn, which was perceived as inflationary.

While we are unsure on the specifics of government plans to resolve circular debt, but going by OGRA and NEPRA, tariffs needs to go up significantly in order to restrict additional circular debt accumulation. However, as per the news, the Government has contested with IMF on keeping the protected segment of the economy away from such potential increases of energy tariff.

Henceforth, by keeping the tax amount low and whether the government will be successful in not passing on the impact of circular debt adjustments through higher electricity or gas tariffs to low-income consumers, inflation expectations are expected to remain modest than initially envisaged.

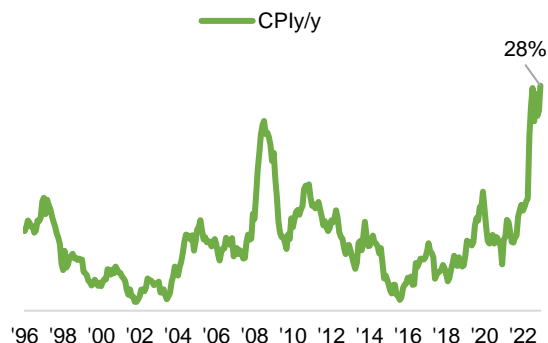
#### Exhibit: Foreign Exchange Reserves

As of latest, SBP reserves stand at US\$2.9bn leaving less than a month of import cover.



#### Exhibit: Headline Inflation (historical)

For the month of Jan-23 CPI rose to a multi-year high of +27.6%



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