MINISTRY OF FINANCE

Joint Press Conference of Senator Mohammad Ishaq Dar, Finance Minister and Mr. Harald Finger, IMF Mission Chief on successful completion of Eleventh Review under IMF Extended Fund Facility Program

Dubai: 12th May, 2016

1. Pakistan and the IMF have successfully completed negotiations on the Eleventh Review under the 3-year Extended Fund Facility (EFF) program for an amount of $6.4 billion. This will lead to release of the eleventh tranche of approx. $500 million.

2. Completion of the Eleventh Review is indicative of government's strong commitment in implementing difficult structural reforms in areas of taxation, energy, monetary/financial sectors and public sector enterprises.

Overall Program Performance

Our performance on the Eleventh Review has been highly satisfactory:

3. We met all of the end-March 2016 Quantitative Performance Criteria - SBP's Net Domestic Assets, Net International Reserves, Foreign currency swap/forward position by significant margins. Similarly, the Quantitative Performance Criteria on government borrowing from the SBP and budget deficit for end-March, 2016 have been over performed underlining government's commitment to sustained fiscal consolidation.

4. The indicative target for end-March, 2016 on targeted cash transfers through BISP and on power sector arrears were also met.

5. FBR not only achieved its third quarter target of Rs. 715 billion but exceeded it, thus wiping out almost the entire shortfall recorded in the FBR collection for the first quarter. This indeed is a remarkable achievement as for the first time after several years, no downward revision has been made in FBR targets and we are on course to achieving the originally fixed targets. Against the indicative target of Rs. 2105 billion for the first nine months of the year, FBR has collected Rs. 2103 billion. The collections improved by around 19 percent as compared to the last fiscal year.

Real

6. We achieved real GDP growth rate of 4.24 percent in FY 2015, which is the highest in the last 7 years. In view of the damage to the cotton crop, the growth rate for the current year is expected to be around 5 percent, which will be an 8 year high. For the next fiscal year, growth is projected at over 6 percent in our macroeconomic framework.

7. LSM growth remained robust at 4.4 percent during Jul-Feb 2016 compared to 2.4 percent last fiscal year. The LSM growth is the highest in the last 8 years. Major sectors like Automobiles registered growth at 28 percent followed by Fertilizers 16 percent, Rubber products 11.6 percent, Leather products 11.5 percent, and Chemicals 11.2 percent. Cement dispatches witnessed uptick by over 19 percent and there has been a continued credit expansion. A welcome development is the increase in fixed investment. Electricity and gas supplies continued to improve since the start of the current fiscal year. The CPEC will also play a significant role in further boosting economic activities.

8. The Pakistan Stock Exchange (PSX) has scaled new height of 36,265 index on 10th May, 2016 crossing the highest index achieved previously in August, 2015 indicating robust economic activity and reflecting investor confidence.

9. Inflation remained contained to less than 3 percent during the period Jul-Apr FY 2016 as compared to 8.62 percent in FY 2014 and 4.53 percent in FY 2015.

Balance of Payments

10. The external sector is stable on the back of continued growth in remittances despite high base, continued flows from IFIs, stable exchange rate, and low oil prices, which helped contain the current account deficit. The foreign exchange reserves are close to $21 billion as of May 9th, 2016 of which SBP reserves stood at $16.125 billion and that of scheduled banks at $4.802 billion.

Financial and Fiscal

11. Performance of the banking sector remained steady with improved earnings and robust solvency. The sector has high Return on Assets (RoA) of 2.3 percent and strong Capital Adequacy Ratio (CAR) of 16.3 percent, well above the 10.25 percent minimum regulatory requirement.

12. We are continuing with the financial sector reforms agenda for strengthening the legal, regulatory and supervisory framework aimed at safeguarding stability of the financial sector.

13. The budget deficit which stood at over 8 percent of GDP in FY 2013 was brought down to 5.3 percent in FY 2015 and is targeted for 4.3 percent in current FY 2016. We are also committed to reduce public debt, and lay the foundations for a more sustained growth.

14. Despite the fact that the government is reducing its fiscal deficit, allocation for Public Sector Development Program (PSDP) has doubled and social safety net expenditures have increased by 267 percent through three budgets of the current government.

15. The ratio of FBR taxes to GDP has improved significantly over the last two years, from 8.45 percent in FY 2013 to 9.5 percent in FY 2015, and is projected to increase to 10.2 percent in the current fiscal year. Moreover, in the same period the total tax revenue has increased from 10 percent of GDP to 12.2 percent.

Social Protection

16. Government is committed to support the poor and the most vulnerable segments of population through BISP. With significant expansion in allocation of BISP cash transfers, which has been enhanced from Rs.40 billion in FY 2013 to Rs.107 billion in FY 2016; increasing the coverage from 3.7 million to 5.3 million families; and extensively enhanced income support annual stipend from Rs.12000 to Rs.18800 during this period.

17. In partnership with the provincial governments, significant progress has been made in the rollout of the education-Conditional Cash Transfers (CCT) to the targeted needy students. Currently, more than 1 million children are beneficiaries of the CCT in 32 districts across the country. We will further expand the total number of children benefitting from the program to 1.3 million by end-June 2016.

Debt Management

18. We continue to diversify financing from both domestic and external sources, lengthen the maturity profile of domestic debt and improve the balance between

domestic and external debt. To achieve these objectives, we are working to strengthen the Debt Policy Coordination Office (DPCO). We have appointed the Risk Management staff and the Medium Term Debt Management Strategy (MTDS) has already been published. Rate setting between retail and wholesale markets have also been synchronized.

Energy Sector

19. The energy sector reforms is on priority agenda of the government and is regularly monitored by the Prime Minister through the Cabinet Committee on Energy. To implement the reforms:

    i. We are working to reduce energy shortages with special emphasis to ensure sustained supply to industry with the goal of adding over 10,000 MW of electricity to the system by March 2018.

    ii. We have added imported Liquefied Natural Gas (LNG) to the system, which has improved energy supply in the country, especially to the industrial sector, as the import of LNG has doubled to 400 mmcfd.

Business Climate Reforms

20. For improving business climate, we have finalized and put into implementation a new countrywide ease of doing business reform strategy with time bound measures to strengthen business climate and foster private investments.

21. We have developed a comprehensive National Financial Inclusion Strategy (NFIS) to implement financial reforms to meet financing needs of the marginalized and unbanked segments of society. The strategy lays particular emphasis on including the female gender into financial inclusion. Under SBP guidelines for opening 'Asaan' Simple and Small Accounts, banks and Microfinance banks have opened about 750,000 accounts.

Public Sector Entities (PSEs)

22. We are continuously working to reform PSEs focusing on improving performance, reducing losses and improvement in service delivery.

Before closing, I would like to reiterate that Pakistan is committed to successfully implement the macroeconomic stability program announced by the Government in June 2013; and positive achievement in meeting the performance criteria under the program reflected the seriousness with which the program is being concluded. It is not only the quantitative targets but also the rich agenda of structural reforms being undertaken with the aim of stabilization of economy and creation of room for faster and inclusive growth, and poverty reduction.

We have successfully completed the negotiations of the Eleventh Review. This has been a good team effort from both sides. As we move forward, our effort would be to consolidate the economic gains achieved so far towards macroeconomic stability and work towards higher growth and jobs creation.

I would like to compliment Mr. Harald Finger, the IMF Mission Chief and his team for an outstanding job they have done in conducting the Eleventh Quarterly Review.

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