Extended Fund Facility

Pakistan entered into an extended fund facility (EFF) program with IMF on September 4, 2013. It is a 36-month extended arrangement under the Extended Fund Facility (EFF) for SDR 4.393 billion (US$6.64 billion, 425 percent of quota).

First tranche of SDR 360 million ($544.5 million, 34.8 percent of quota) became available on September 6 2013, and the remainder will be evenly phased thereafter subject to quarterly reviews.

An Extended Fund Facility with IMF provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period. It has a comparatively longer repayment period of 4½–10 years, with repayments in twelve equal semiannual installments.

Some of the factors, which led Pakistan to enter into this facility and introduce economic reforms, were as follows:

Substandard economic performance during the past few years where GDP growth averaged only 3 percent over the past five years, insufficient to significantly improve living standards or fully absorb the growing labor force, with a rising inflation rate of over 8%.

Domestic private investment dropped from 14 percent of GDP in 2007/08 to an estimated 10.9 percent of GDP in 2012/13. Weak private sector credit growth contributed to the decline.

State Bank of Pakistan gross reserves dropped to US$6 billion (under 11⁄2 months of imports) as of end-June 2013.

The 2012/13 fiscal deficit (excluding grants) is estimated to be over 81⁄2 percent of GDP, well above the original budget target (4.7 percent of GDP) due to slippages on both revenues and expenditures. The revenue shortfall of 11⁄4 percent of GDP relative to the 2012/13 budgets is largely explained by the underperformance in tax collections in the previous fiscal year, inadequate tax administration, and a slowdown in economic activity. Higher expenditures (23⁄4 percent of GDP) reflect higher energy subsidies.

The energy sector remained saddled with considerable problems that have led to unreliable electricity supply and large fiscal costs, including price distortions, insufficient collections, costly and poorly targeted subsidies, inadequate governance and low efficiency in energy supply and distribution, regulatory inadequacies, and insufficient investment in new energy production and modernization. As a result, power outages ("load shedding") averaged around 8–10 hours a day, constraining production and employment. Output losses were estimated at 2 percent of GDP annually.

To overcome these challenges, an economic reform program was introduced by the present government under the Extend Fund Facility to strengthen macroeconomic and structural policies, reduce economic imbalances, and foster sustained inclusive growth and employment generation. It has the following objectives and elements:

Objectives:

- Improve the medium-term growth outlook and move toward sustainable fiscal and external positions.
- Provide macroeconomic stability and improve economic performance during the term of the program.

Elements:

- Raising growth gradually to near 5 percent by 2015/16 as macroeconomic stability is entrenched and structural reforms are pursued.
- Bringing inflation down to 6-7 percent range by 2015/16, from the current level of 8.3 percent.
- Increasing central bank reserves to over 3 ½ months of imports by 2015/16.
- Reducing the fiscal deficit to 3 ½ percent of GDP by 2015/16 from an estimated 8.0 percent in 2012/13, with provincial

governments contributing their fair share of the fiscal consolidation process.

- Energy Sector Reforms
- Liberalizing the trade regime and reforming public sector enterprises through restructuring and/or privatization.
- Improving the business climate.
- Strengthening the tax system.
- Protecting the most vulnerable from the direct and indirect impacts of reform measures.

The policies underlying this program have the firm support of Prime Minister Sharif, the cabinet and provincial government leaders as indicated by the recent decision to this effect by the Council of Common Interest.

Progress in the implementation of the program will be assessed through quarterly reviews, quantitative performance criteria, indicative targets, and agreed structural benchmarks (Annexure 1).

An IMF mission, led by Mr. Jeffrey Franks, visited Pakistan during October 28-November 8, 2013 to conduct discussions on the first review of Pakistan's IMF-supported program under the Extended Fund Facility (EFF). The mission was encouraged by the overall progress made so far. The mission was also pleased with the strong fiscal performance in the first quarter of 2013/14 and the steady implementation of the government's structural reform agenda. The IMF mission staff will prepare a report for the IMF Executive Board on the first review under Pakistan's EFF that is tentatively scheduled for consideration in late-December. Upon approval, SDR 360 million (about US$550 million) would be made available to Pakistan.

Annexure 1

Structural Benchmarks		
Fiscal sector		
1.	Develop and launch initiatives to enhance revenue administration for sales tax, excises, and customs similar to that prepared for income tax.	End-December 2013
2.	Announce a rationalization plan for gas prices which will involve a gas price adjustment to generate 0.4 percent of GDP fiscal savings by end-December 2013	End-December 2013
Monetary sector		
3.	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective while strengthening its governance and internal control framework, in line with the fund advice.	End-March 2014
Financial sector		
4.	Prepare detailed plans to achieve compliance of all banks that fall below minimum capital adequacy, including specific actions, end dates, and contingency arrangements. Also detail a plan for recapitalization, consolidation or liquidation of 9 banks that fall below the minimum capital requirement but not CAR.	End-December 2013
5.	Enact the Deposit Protection Fund Act, inline with fund staff advice	End-September 2014
6.	Enact the Securities Bill, in line with the fund advice.	End-December 2014
Structural policies		
7.	Develop and approve PSE reform strategy for thirty firms among the 65 PSEs approved for privatization by the Council of Common Interest (CCI).	End-September 2013
8.	Hire a professional audit firm to conduct a technical and financial audit of the system to identify the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited).	End-November 2013
9.	Make Central Power Purchasing Agency (CPPA) operational by separating it from the National Transmission and Despatch Company (NTDC), hire key staff, issue CPPA rules and guidelines, and initiate the payment and settlement system.	End-December 2013
10	Enact amendments to the Pakistan Penal Code 1860 and the Code of Criminal Procedures 1898.	End-December 2013
11.	Privatize 26 percent of PIA's shares to strategic investors.	End-June, 2014

Table1. Pakistan: Quantitative Targets for FY2013/14/ 1/
(In Billion of Rupees at Program Exchange Rate unless otherwise specified)

	FY2013/14	FY2013/14	FY2013/14	FY2013/14	FY2013/14
	End june	End Sep	End Dec	End March	End June
	Act	Program	Program	Projections	Projections
Performance Criteria					
Floor on net international reserves of the SBP (millions of US dollars)	-2473	-2499	-2090	-141	2532
Ceiling on net domestic assets of the SBP (Stock, billion of Pakistan Rupees)	2402	2877	2901	2571	2227
Ceiling on overall budget deficit (Cumulative, excluding grants, billions of Pakistani Rupees)/2	2012	419	882	1209	1464
Ceiling on SBP's stock of net foreign currency swaps/forward position (million of US dollars)	2255	2255	2005	2005	1755
Ceiling on net Government borrowing from the SBP (including provincial Governments, stock, billion of Pakistan rupees) 3/	2168	2690	2560	2560	2240
Continuous Performance Criterion					
Accumulation of External public payments arrears by the general Government (Continuous)	0	0	0	0	0
Indicative Targets					
Cumulative floor on Targeted Cash Transfers Spending (BISP) (Billion of Pakistani rupees)	54	19	38	56	75

Source: Pakistani Authorities; and Fund staff estimates.

1/ All items as defined in the TMU. Fiscal year runs from July 01 to June 30.

2/ Excluding grants, FY 2012-13 overall budget deficit is a stock.

3/ FY 2012-13, total stock of Government debt as of June 30, 2013.