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## IMF Reaches Staff-Level Agreement with Pakistan on the First Review under the Extended Fund Facility

November 8, 2019

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- The authorities and the IMF mission reached staff level agreement on the first review under the Extended Arrangement (EFF).
- All performance criteria for end- September were met with comfortable margins and progress continues towards meeting all structural benchmarks.
- The government's policies have started to bear fruit, helping to reverse the buildup of vulnerabilities and restore economic stability. The external and fiscal deficits are narrowing, inflation is expected to decline, and growth, although slow, remains positive.
- Sustaining sound policies and advancing structural reforms remain key priorities to enhance resilience and pave the way for stronger and sustainable growth.

An International Monetary Fund (IMF) mission led by Ernesto Ramirez Rigo visited Islamabad from October 28 to November 8, 2019 to conduct discussions on the first review under the EFF. At the end of the visit, Mr. Ramirez Rigo made the following statement:

"The Pakistani authorities and IMF staff have reached a staff-level agreement on policies and reforms needed to complete the first review under the EFF. The agreement is subject to approval by IMF management and the Executive Board of Directors. Completion of the review will enable disbursement of SDR 328 million (or around US\$ 450 million) and will help unlock significant funding from bilateral and multilateral partners."

"Despite a difficult environment, program implementation has been good, and all performance criteria for end-September were met with comfortable margins. Work continues towards completing the remaining structural benchmarks for end-September. Significant progress has been made in improving the AML/CFT framework, although additional work is needed before March 2020. International partners remain committed to supporting the authorities' reform efforts, providing the necessary financing assurances."

"On the macroeconomic front, signs that economic stability is gradually taking hold are steadily emerging. The external position is strengthening, underpinned by an orderly transition to a flexible, market-determined exchange rate by the State Bank of Pakistan (SBP) and a higher-than-expected increase in SBP's net international reserves. Budgetary revenue collections are growing on the back of efforts on tax administration and policy changes, and despite the ongoing compression in import-related taxes. Inflation pressures are expected to recede soon, reflecting an appropriate monetary stance. Importantly, measures to strengthen the social safety net are being implemented, and development spending is being prioritized.

"The near-term macroeconomic outlook is broadly unchanged from the time of the program approval, with gradually strengthening activity and average inflation expected to decelerate to 11.8 percent in FY2020. However, domestic and international risks remain, and structural economic challenges persist.

"Discussions focused on policies to support Pakistan achieve strong and balanced growth. Fiscal prudence needs to be maintained to reduce fiscal vulnerabilities, including by carefully executing the FY 20 budget, implementing the new Public Finance Management legislation, and continuing to broaden the tax base by removing preferential tax treatments and exemptions, while protecting critical social and development spending. Advancing the strategy for electricity sector reforms, agreed with international partners, is important to put the sector on a sound footing, and remove recurrent arrears and accumulation of debt. Further efforts to strengthen SOE governance and operations, advance anti-corruption reform, and improve the business environment are key to mobilize investment and support growth and job creation. The authorities recognize that decisive implementation of these policies is indispensable for entrenching macroeconomic stability and restoring robust and balanced growth."

"The IMF team is grateful to the Pakistani authorities for open and constructive discussions and their hospitality."

## **IMF Communications Department**

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