

**EXECUTIVE
BOARD
MEETING**

EBS/21/18
Supplement 1

March 22, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Pakistan—Second, Third, Fourth, and Fifth Reviews Under the Extended Arrangement Under the Extended Fund Facility and Request for Rephasing of Access—Supplementary Information**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, March 24, 2021
Publication:	Yes*
Questions:	Mr. Ramirez Rigo, MCD (ext.34340) Ms. Gerling, MCD (ext. 39733) Ms. Richmond, MCD (ext. 34864)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Asian Development Bank, Asian Infrastructure Investment Bank, European Investment Bank, Islamic Development Bank, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



PAKISTAN

March 22, 2021

SECOND, THIRD, FOURTH, AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR REPHASING OF ACCESS—SUPPLEMENTARY INFORMATION

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This supplement provides an update on the status of the prior actions (PAs) based on developments since the issuance of the report on March 9, 2021. The update does not alter the thrust of the staff appraisal.

1. The authorities have met three of the five PAs for the reviews:

- **Central bank legislation.** Following Cabinet approval on March 9, 2021, the government submitted the amendments to the State Bank of Pakistan (SBP) Act to the National Assembly in line with IMF staff recommendations.
- **Circular debt.** The Cabinet approved an updated Circular Debt Management Plan (CDMP) in line with international partners' advice on March 16, 2021.
- **Electricity tariff adjustment.** The authorities implemented the first stage of the FY 2021 annual rebasing of 1.95 PRs/kWh in January 2021 and completed the FY 2020 Q2 and Q3 quarterly tariff adjustments of 1.63 PRs/kWh in December 2020. The Cabinet also approved first steps to reform energy subsidies to reduce the regressive nature of the tariff structure on March 16, 2021.

2. The remaining two PAs, relating to the reforms of the corporate income tax (CIT) and the power regulator (NEPRA Act amendments), were not met, but the authorities enacted the reforms via alternative procedures. Parliamentary adoption of the two laws, as stipulated in the PA, was prevented by extraordinary circumstances that led to the unforeseen closure of the National Assembly for two weeks as a result of a renewed surge in Covid-19 cases. However, the authorities

adopted both laws by presidential ordinance on March 22, 2021. The Pakistani Constitution provides for the enactment of laws through presidential ordinance, which is valid for six months, in circumstances when the National Assembly is not in session. The authorities argued, and staff agreed, that postponing the Executive Board meeting to when the Board reconvenes after the Spring Meetings would be detrimental to their efforts to access donor and market financing at a time of heavy needs. They stressed their firm commitment to adopting the two laws by the National Assembly as soon as it reopens to make implementation permanent. Staff is of the view that although the two PAs were not met as stipulated, the program objectives would still be achieved through presidential ordinance until the National Assembly considers and adopts the two laws in the period ahead.

3. Against this backdrop, staff continues to recommend the completion of the reviews based on the satisfactory program performance against extraordinary circumstances related to the pandemic and the authorities' commitments set forth in the March 2021 LOI and the attached MEFP and TMU.