

**EXECUTIVE  
BOARD  
MEETING**

EBS/21/123  
Supplement 2

January 31, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Pakistan—Staff Report for the 2021 Article IV Consultation, Sixth Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for Waivers of Applicability and Nonobservance of Performance Criteria and Rephrasing of Access—Supplementary Information, Revised Proposed Decisions, and Supplementary Letter of Intent**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Wednesday, February 2, 2022</b>
Publication:	Yes*
Proposed Decisions:	Pages 3-5
Additional Information:	Decision 1 is unchanged. Decision 2 has been revised to reflect the supplementary information.
Questions:	Mr. Ramirez Rigo, MCD (ext. 34340) Ms. Gerling, MCD (ext. 39733) Ms. Richmond, MCD (ext. 34864) Mr. Moeller, MCD (ext. 36814)
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

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERIA AND REPHASING OF ACCESS— SUPPLEMENTARY INFORMATION, REVISED PROPOSED DECISIONS, AND SUPPLEMENTARY LETTER OF INTENT

January 28, 2022

Approved By  
**Thanos Arvanitis and  
Kenneth Kang**

Prepared by the Middle East and Central Asia Department

*This supplement provides an update on recent developments and the status of the prior actions (PAs), since the issuance of the report on December 23, 2021. The update does not alter the thrust of the staff appraisal.*

- 1. Recent economic developments.** Economic activity remains broadly in line with the macroeconomic framework underlying the review. Inflation increased to 12.3 percent in December (y-o-y), and although the authorities' policy adjustment is expected to gradually bring inflation down in the coming months, persistently high commodity prices might keep it somewhat higher than anticipated at the time of issuance of the report.
- 2. COVID-19 situation.** Since end-December 2021, COVID-19 cases have been on the rise, and the test positivity rate has increased markedly in various cities. In response, on January 20, 2022, the authorities introduced bans on indoor gatherings as well as capacity limits for cities with a test positivity rate above 10 percent. The vaccination campaign has been progressing, albeit as of mid-January 2022, only 36 percent of the population are fully vaccinated.
- 3. The authorities have met all five PAs for the review:**
  - **Supplementary budget.** The National Assembly adopted a supplementary finance bill (with the GST reform) broadly in line with staff agreement on January 13, 2021, which the President signed into law on January 15, 2021 to take effect immediately. The Ministry of Finance also published a Statement of Contingent Liabilities with all guarantees expected

to be issued during the remainder of the current fiscal year on January 11, 2022, which was laid before the National Assembly on January 21, 2022.

- **Fuel taxes.** The authorities raised the development levy on gasoline and diesel by PRs 8/liter in two equal steps on November 5 and December 1, 2021 (PA) and by another PRs 4/liter on January 1, 2022.
- **Central bank legislation.** Parliament adopted the amendments to the State Bank of Pakistan (SBP) Act, prepared in consultation with the IMF staff, which the President signed into law on January 28, 2022.
- **Governance and transparency I.** The authorities are publishing key information on COVID-related awarded procurement contracts on the Public Procurement Regulatory Authority's website.
- **Governance and transparency II.** The Auditor General of Pakistan conducted an ex-post audit of the procurement of COVID-related supplies and social payments made during FY 2020. The full audit report was published on the website of the Ministry of Finance on November 19, 2021.

**4. Given the delay in the Executive Board meeting, information has become available on:**

- **one PC proposed to be set for end-2021.** As the information on the ceiling on the SBP's stock of net foreign currency swaps/forward position for the end-December 2021 is already available,<sup>1</sup> in line with Fund policy, staff proposes that this performance criterion (PC) be set only for end-March and end-June 2022 (Attachment II).<sup>2</sup> The Proposed Decision 2 has been revised accordingly (Attachment I).
- **two structural benchmarks (SBs) proposed to be set for end-January 2022.** The cabinet adopted the second step of the energy subsidy reform for residential consumers on December 16, 2021, thereby meeting the related SB. However, given delays arising from capacity constraints in establishing a robust asset declaration system with a focus on high-level public officials (including elected and unelected members of the Federal Cabinet), staff supports the authorities' request to reset the related SB to end-March 2022.

**5. Against this backdrop, staff continues to recommend the completion of the review as set forth in the main staff report, the authorities' December 2021 LOI and the attached MEFP and TMU.**

<sup>1</sup> The information shows that the end-December 2021 indicative target has been met.

<sup>2</sup> In line with Fund policy, the Executive Board may only set PCs retroactively subject to two conditions: (i) the Letter of Intent/MEFP is signed and circulated to the Board before the relevant test date, and (ii) the data on those PCs is not yet available at the time of the Board meeting.

## Revised Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

### **Proposed Decision 1 – Temporary Approval of the Exchange Restrictions and Multiple Currency Practice**

1. Pakistan maintains two exchange restrictions and a multiple currency practice (MCP) subject to Fund jurisdiction under Article VIII, Sections 2(a) and 3 of the Fund’s Articles of Agreement. These measures are as follows:

- (i) An exchange restriction and a MCP arising from a 100% cash margin requirement on the import on imports of certain non-essential consumer goods; and
- (ii) An exchange restriction arising from limitations on access to foreign exchange for the purposes of advance payment for imports against letters of credit.

2. In the circumstances of Pakistan, the Fund grants approval of the retention of these exchange restrictions and the MCP for a period of twelve months from the date of this decision or until the completion of the next Article IV Consultation for Pakistan, whichever is earlier.

### **Proposed Decision 2 – Sixth Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for Waivers of Applicability and Nonobservance of Performance Criteria and Rephasing of Access**

1. Pakistan has consulted with the Fund in accordance with paragraph 3(b) of the Extended Arrangement under the Extended Fund Facility for Pakistan (EBS/19/61, 7/3/2019) (the “Arrangement”) in order to review program implementation.

2. The letter dated December 17, 2021 (“December 2021 letter”) and the supplemental letter dated January 28, 2022 from the Minister for Finance and Revenue, and Governor of the State Bank of Pakistan (the “January 2022 Supplemental Letter”), together with December 2021 letter’s Memorandum of Economic and Financial Policies (the “December 2021 MEFP”) and Technical Memorandum of Understanding (the “December 2021 TMU) shall be attached to the Arrangement, and the letter dated June 19, 2019 from the Advisor to the Prime Minister on Finance, Revenue, and

Economic Affairs of Pakistan and the Governor of the State Bank of Pakistan, together with its attachments, as supplemented and modified, shall be read as supplemented and modified by the December 2021 Letter and the January 2022 Supplemental Letter and their attachments.

3. Accordingly, the Arrangement for Pakistan shall be amended as follows:

a. Paragraph 2 shall be revised to read as follows:

Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 716 million until December 6, 2019, the equivalent of SDR 1,044 million until March 6, 2020 the equivalent of SDR 1,094 million until June 5, 2020, the equivalent of SDR 1,144 million until September 4, 2020, equivalent of SDR 1,194 million until March 5, 2021, the equivalent of SDR 1,394 million until September 3, 2021, the equivalent of SDR 2,144 million until March 4, 2022, the equivalent of SDR 2,831 million until June 3, 2022, the equivalent of SDR 3,518 million until September 2, 2022."

b. The quantitative performance criteria referred to in paragraph 3(a)(i), 3(a)(ii) and 3(a)(iv) through (vi) of the Arrangement for December 31, 2021, and the performance criteria referred to in paragraph 3(a)(i) through (vi) of the Arrangement for March 31, 2022, and June 30, 2022 shall be as specified in Table 1 of the January 2022 Supplemental Letter and as further specified in the December 2021 TMU.

c. Paragraph 3(b) shall read as follows:

"after December 5, 2019, March 5, 2020, June 4, 2020, September 3, 2020, March 4, 2021, September 2, 2021, March 3, 2022, June 2, 2022 and September 1, 2022 until the respective program reviews contemplated in paragraph 30 of the December 2021 MEFP are completed, or"

d. The continuous performance criteria referred to in paragraph 3(c) of the Arrangement shall be as specified in Table 1 of the December 2021 MEFP and further specified in the December 2021 TMU.

4. The Fund decides that the sixth review contemplated in paragraph 3(b) of the Arrangement is completed, and that Pakistan may make a purchase under the Arrangement notwithstanding the unavailability of the information necessary to assess the observance of the end-December 2021 performance criteria on (i) the floor on net international reserves of the State Bank of Pakistan; (ii)

the ceiling on net domestic assets of the State Bank of Pakistan; (iv) the ceiling on general government primary budget; (v) the ceiling on the net government budgetary borrowing from the State Bank of Pakistan; and (vi) the ceiling on the amount of government guarantees, specified in paragraph 3(a)(i), 3(a)(ii) and 3(a)(iv) through (vi) of the Arrangement, respectively, on the condition that Pakistan has accurately represented that such information is unavailable and that the information provided by Pakistan on performance under these criteria for end-June 2021 is accurate, and notwithstanding the nonobservance of (i) the continuous performance criterion on the ceiling on the new net flow of the State Bank of Pakistan credit to general government, (ii) the continuous performance criterion on the non- imposition and non-intensification of exchange restrictions, and (iii) the continuous performance criterion on the non-introduction and modification of multiple currency practices, as specified in paragraphs 3(c)(i) and 3(d)(i) and (ii) of the Arrangement, respectively, on the condition that the information provided by Pakistan on performance under these criteria is accurate, and on further condition that the information provided by Pakistan on the implementation of the measures specified as prior actions in Table 2 of the December 2021 MEFP is accurate.

## Appendix I. Supplementary Letter of Intent

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C. 20431  
USA

Islamabad, January 28, 2022

Dear Ms. Georgieva:

1. This letter updates our Letter of Intent dated December 17, 2021, as subsequently corrected. Importantly, we have completed all prior actions required for the review:

- The National Assembly adopted a supplementary finance bill on January 13, 2022, which included a GST reform in line with IMF staff agreement. On January 15, 2022, the President signed this into law, with it immediately coming into effect. Separately, we presented to the National Assembly on January 21, 2022, a Statement of Contingent Liabilities with all guarantees expected to be issued during the remainder of the current fiscal year.
- We raised the petroleum development levy (PDL) on gasoline and diesel by PRs 8/liter in two equal steps on November 5 and December 1, 2021, and by an additional PRs 4/liter effective from January 1, 2022.
- On January 13, 2022, the National Assembly approved amendments to the State Bank of Pakistan (SBP) Act, aimed at strengthening SBP's independence, decision making structure, and mandate. Subsequently the Senate approved the amendments and the President signed this into law on January 28, 2022.
- We are publishing key information on COVID-related awarded procurement contracts on the Public Procurement Regulatory Authority's website, with information available here: <https://www.ppra.org.pk/pcontract.asp>.
- The Auditor General of Pakistan conducted an ex-post audit of the procurement of COVID-related supplies and social payments made in FY 2020. The full audit report was published on November 19, 2021, and is available here: <https://www.agp.gov.pk/SiteImage/Policy/53.%20Covid-19%20Audit%20Report%2008.06.2021.pdf>.

2. Due to the timing of the Executive Board meeting falling after the end-December 2021 test date, the information on the ceiling on the net foreign currency swaps/forward position of the SBP for end-December 2021 is already available. Based on this information (position of negative

US\$4,382 million), we met the end-December indicative target that was set at the time of the 2<sup>nd</sup>-5<sup>th</sup> reviews. As a result, we confirm our understandings that this performance criterion will be set for end-March and end-June 2022. A revised QPC table is included in Table 1.

3. On the same basis, we need to update some of our structural conditionality commitments. On December 16, 2021, we adopted a cabinet decision for the second step of the energy subsidy reform for residential consumers, thereby completing this structural benchmark (SB) proposed for end-January 2022. However, we have requested to establish a robust asset declaration system with a focus on high-level public officials (including elected and unelected members of the Federal Cabinet) by end-March 2022 to permit sufficient time to complete this important SB. A revised table of structural conditionality is included in Table 2.

Sincerely yours,

/s/  
Shaukat Tarin  
Minister for Finance and  
Revenue

/s/  
Dr. Reza Baqir  
Governor of the State Bank of  
Pakistan

**Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2020/21-21/22 (Revised) 1/**  
(Cumulative flow since the beginning of the year, unless otherwise indicated)

	FY 2020/21								FY 2021/22					
	end-March				end-June				end-September		end-December		end-March	end-June
	Program (PC) CR 21/73	Adjusted Prog.	Actual	Status	Program (PC) CR 21/73	Adjusted Prog.	Actual	Status	Program (II) CR 21/73	Est.	Program (II) CR 21/73	Proposed (PC)	Proposed (PC)	Propose (PC)
<b>Performance Criteria</b>														
Floor on net international reserves of the SBP (millions of U.S. dollars)	-10,238	-10,198	-7,836	Met	-8,676	-8,041	-4,434	Met	-8,518	-2,303	-7,677	-5,450	-6,000	-5,100
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	9,655	9,650	9,044	Met	10,173	10,083	9,290	Met	9,947	8,793	10,190	9,850	10,233	10,792
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars) 9/	5,200	...	4,285	Met	5,200	...	4,870	Met	4,900	4,870	4,600	...	4,300	4,000
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	-230	-350	-505	Met	246	412	462	Not met	-130	-137	-96	-300	-389	25
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	6,908	...	5,127	Met	6,618	...	5,274	Met	6,333	4,973	6,049	6,049	6,049	6,049
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	2,715	...	2,682	Met	2,715	...	2,626	Met	2,735	2,649	2,765	2,797	2,954	2,956
<b>Continuous Performance Criteria</b>														
Zero new flow of SBP's credit to general government 8/	0	...	0	Met	0	...	475	Not met	0	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	Met	0	...	0	Met	0	0	0	0	0	0
<b>Indicative Targets</b>														
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees) 7/	114	...	76	Not met	199	...	194	Not met	48	6	102	86	199	250
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	975	...	1,006	Met	1,567	...	1,583	Met	356	336	752	783	1,287	2,014
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	3,394	...	3,395	Met	4,691	...	4,764	Met	1,181	1,397	2,585	2,852	4,343	6,100
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees) 4/ 5/	65	...	112	Not met	65	...	-30	Met	0	17	0	11	5.5	0
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) 4/	319	...	269	Met	354	...	297	Met	-166	114	-154	67	184	166
Gross issuance of PIBs, Sukuks, and Eurobonds (cumulative, billions of Pakistani rupees) 6/	2,850	...	2,341	Not met	4,250	...	3,496	Not met	1,000	1,443	2,200	2,450	3,650	4,900

Sources: Pakistani authorities; and Fund staff estimates.

1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.

2/ Cumulative from the start of each fiscal year. "-" means surplus. End-June 2019 actual measured from above the line.

3/ Definition changed at the time of the second review. Applicable for end-March 2021 targets onward.

4/ Data for December 2018/June 2019 is an actual/projected stock as of the end of the month. Quarterly targets are cumulative flows for each fiscal year.

5/ The projected end-June 2019 figure included only sales tax arrears, while the actual end-June 2019 tax arrears includes all tax arrears and adheres to the TMU definition.

6/ Added at the time of the second through the fifth EFF review. Applicable for end-March 2021 onward. This floor applies to the cumulative gross issuance of Pakistan Investment Bonds (PIBs) and GoP Ijara Sukuks, and Eurobonds starting from the beginning of the fiscal year. This is defined as the cumulative sum—since the start of the fiscal year—of the total acceptance of the bids of each auction of PIBs, GoP Ijara Sukus across all maturities (both at fixed and floating rate), and that of Eurobonds evaluated at the program exchange rate.

7/ Excludes spending by the Poverty Alleviation Fund amounting to PRs 5 billion that was originally programmed to be executed in FY 2021/22 by BISP.

8/ On November 18, 2021 the SBP on-lent PRs 475 billion (SDR 1.947 billion equivalent) to the government of Pakistan amounting to 100 percent of the SDR allocation received on August 23, 2021.

9/ The QPC for end-December 2021 is not proposed as the information became available before the Executive Board meeting for the sixth review.

Table 2. Pakistan: Structural Conditionality (Revised)

Actions			
<b>Prior Actions</b>		<b>Rationale</b>	
1 National assembly adoption of a supplementary finance bill (GST reform), which the President signs into law, in line with staff agreement together with supporting measures (published list of expected guarantees).		Critical to ensure achievement of fiscal objectives.	
2 Petroleum development levy on gasoline and diesel raised by PRs 8/liter.		Critical to ensure achievement of fiscal objectives.	
3 Adoption by parliament, and signed into law by the President, of the amendments to the State Bank of Pakistan Act, prepared in consultation with the IMF staff, aimed at strengthening the SBP independence, decision making structure, and mandate.		Critical for central bank independence.	
4 Publication of key information on all COVID-related awarded procurement contracts on the Public Procurement Regulatory Authority's website.		Critical for transparency, governance, and tackling corruption.	
5 Auditor General of Pakistan will conduct an ex-post audit of the procurement of COVID-related supplies and social payments made during FY 2020. The full audit report will be published on the website of the Ministry of Finance.		Critical for transparency, governance, and tackling corruption.	
<b>Structural Benchmarks</b>		<b>Date</b>	<b>Revised Date</b> <b>Status</b>
<b>Fiscal</b>			
1 Commit to not grant further tax amnesties.	Continuous		Met.
2 Avoid the practice of issuing new preferential tax treatments or exemptions.	Continuous		Not met.
3 Ministry of Finance will establish and make functional the TSA-1.	end-May 2021		Not met. Implemented with delay in September 2021.
4 Reintroduce and roll out the track-and-trace systems for tobacco products.	end-Jun. 2021		Not met. Reintroduced and rolled out only in one company out of 16 in October 2021.
<b>Social Protection and Gender</b>			
5 Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry).	end-Jun. 2021		Not met. Implemented with delay in October 2021 with a coverage of 33 million households.
<b>Monetary and Financial</b>			
6 Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force list of jurisdictions with serious deficiencies.	end-Jun. 2021	end-Mar. 2022	Not met.
<b>Energy Sector, State-Owned Enterprises, and Governance</b>			
7 Reduction in CPPA-G payables to power producers through a payment up to PRs 180 billion with no more than 1/3 in cash and the remainder in debt instruments.	end-May 2021		Not met. Implemented with delay on June 4 through a payment of PRs 89.9 billion, with 1/3 in cash and the remainder in debt instruments.
8 Completion of the FY 2021 annual rebasing (AR).	Jun. 1, 2021		Not met. Implemented with delay on November 5, 2021.
9 Notification of FY 2020 Q4 electricity tariff adjustment for capacity payments.	end-Sep. 2021		Not met. Implemented with delay on October 1, 2021.
10 Finalization of the energy cross-subsidy reform for the FY 2022 budget.	end-Jun. 2021		Not met. To be implemented through a new SB #4.
11 Adoption by parliament of amendments to the OGRA Act.	end-Jun. 2021	end-Jun. 2022	Not met.
12 Conduct and publish external audit of the Utility Stores Corporation (USC) based on FY 2020 financials.	end-Apr. 2021		Not met.
13 Publication of awarded COVID-spending related contracts and beneficial ownership information of bidding and awarded legal persons in a centralized and publicly accessible website.	end-Apr. 2021		Not met. To be partially implemented through PA #4, with beneficial ownership transparency addressed with a delayed but broader reform (new SB#6) that covers all large contracts (not just COVID-related spending).
14 Auditor General of Pakistan will conduct an ex-post audit of the procurement of urgently needed medical supplies related to Covid-19. Audits results will be published on the website of the Ministry of Finance.	end-Apr. 2021		Not met. To be implemented through PA #5.
15 Establish a robust asset declaration system with a focus on high-level public officials (including elected and unelected members of the Federal Cabinet).	end-Jun. 2021	end-Mar. 2022	Not met.
<b>New Structural Benchmarks</b>			
1 Preparation of draft personal income tax (PIT) legislation.	end-Feb. 2022		
2 Preparation of a plan by Ministry of Finance and State Bank of Pakistan, in consultation with other stakeholders, to establish an appropriate Development Finance Institution to support the eventual phasing out of SBP refinance facilities.	end-Apr. 2022		
3 Completion of the first stage recapitalization of the two private sector banks that are undercapitalized.	end-May 2022		
4 Cabinet decision on the second step of the energy subsidy reform for residential consumers.	end-Jan. 2022		Met.
5 Parliamentary approval of new SOE law in line with staff recommendations.	end-Jun. 2022		
6 Issuance of regulations by the Public Procurement Regulatory Authority to require collection for publication of beneficial ownership information from companies which are awarded public procurement contracts for PRs 50 million and above.	end-Mar. 2022		