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Statement by an IMF Staff Mission on Pakistan

An International Monetary Fund (IMF) staff mission, led by Mr. Adnan Mazarei, visited Islamabad and Dubai over the past 12 days to conduct the 2009 Article IV consultation and the first review under Pakistan's Stand-By Arrangement (SBA). The SDR 5.169 billion (about US\$7.6 billion) SBA was approved by the Executive Board of the IMF on November 24, 2008 and a first disbursement of SDR 2.067 billion (about US\$3.1 billion) was made on November 26, 2008 (see [Press Release No. 08/303](#)).

At the conclusion of its work today, the mission issued the following statement:

“The IMF mission held extensive discussions with government and central bank officials. These discussions focused on Pakistan's recent economic performance, the main challenges lying ahead, and the policies needed to build and consolidate macroeconomic stability in light of the uncertain and deteriorating global economic environment. The mission was impressed by the authorities’ strong resolve to sustain prudent macroeconomic policies, strengthen and broaden the social safety net, and pursue reforms to enhance Pakistan’s medium-term growth prospects.

“The authorities’ program remains on track. Initial developments since the approval of Pakistan's IMF-supported program have been generally positive, and all the program’s quantitative performance criteria for end-December 2008 were observed. The exchange rate has remained broadly stable and the international reserves position has strengthened significantly (the State Bank of Pakistan’s (SBP) gross foreign exchange reserves exceeded US\$6.8 billion at end-January, excluding reserves of commercial banks). There has also been a strong positive response from the T-bill market to the 200-basis point increase in the central bank discount rate in mid-November, allowing the government to retire some of its debt to the SBP.

“Recently, however, the global economic environment deteriorated markedly, which is having an impact on Pakistan’s economy. While the external current account deficit has started to narrow and inflation has declined, the decline in the demand for exports and

uncertainty regarding the prospects for workers' remittances constitute risks to the external outlook. In this context, while recognizing the need for flexibility, the authorities and the staff agree that the continued implementation of sound policies is crucial to reduce inflation and lay the basis for sustained growth.

“The deterioration in the global economic environment and weaker economic activity call for an update of the economic framework and a recalibration of economic policies. In particular, discussions focused on the fiscal program and the monetary policy stance. On the fiscal side, the discussions resulted in understandings on measures to assure the achievement of the program's fiscal targets for 2008/09 (July-June) and 2009/10 through mobilization of revenue and some expenditure rationalization.

“The authorities and the IMF staff team agreed that the current monetary policy stance was appropriate and will continue to promote domestic and external stability. Looking ahead, they agreed that, if both headline and core inflation decline, there should be scope for lower rates, provided that the international reserves position continues to improve and the government avoids resorting to SBP financing.

“Structural reforms have progressed broadly as envisaged. A contingency plan for handling problem banks has been prepared and is being strengthened; an action plan to reform tax policy and administration has been adopted and will be implemented with technical assistance from the IMF and World Bank; electricity subsidies will be fully eliminated by the end of the current fiscal year; and a plan has been designed to address the circular debt issue.

“Social protection is a key element of the authorities' program. Improvements in targeting of the social safety net are in train and the IMF staff team welcomed these improvements as well as increased social safety net spending.

“The resolve of the Pakistani authorities as well as the initial success in stabilizing the economy augurs well for the future, despite the risks associated with the deterioration in the global economy. Mobilization of additional external budget assistance is particularly crucial now in order to support the broadening of the social safety net and a higher level of development expenditure. The Donor Meeting that is expected to take place in March/April provides an important opportunity for the international community to support Pakistan's efforts in stabilizing its economy, mobilizing more resources for social protection, and laying the basis for a high and sustainable growth.

“The IMF mission staff will prepare a report for the IMF Executive Board on the first review under Pakistan's SBA and the 2009 Article IV consultation that is scheduled for consideration in late-March.”