INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/100
FOR IMMEDIATE RELEASE
March 30, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Stand-By Arrangement with Pakistan and Approves US$847.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Pakistan's economic performance under a program supported by a 23-month Stand-By Arrangement (SBA). The completion of the review enables the immediate disbursement of an amount equivalent to SDR 568.5 million (about US$ 847.1 million), bringing total disbursements under the program to an amount equivalent to SDR 2.64 billion (about US$3.93 billion).

The Executive Board also approved Pakistan's request for a waiver for the non-observance of the continuous performance criterion on non-imposition or intensification of exchange restrictions, on the basis of the authorities' plan to reverse the intensification by end-June.

The SBA was approved on November 24, 2008 (see Press Release No. 08/303) for an amount equivalent to SDR 5.169 billion (about US$7.7 billion). The arrangement entails exceptional access to IMF resources, amounting to 500 percent of Pakistan's quota.

Following the Executive Board's discussion on Pakistan, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Pakistan's economy is gradually recovering from the macroeconomic and external imbalances of 2007–08. Policy steps taken by the authorities under the SBA-supported stabilization program, which aims at restoring financial stability while protecting the poor, have been instrumental in this regard.

"The program is firmly on track. The end-December fiscal deficit target, which proved challenging, was achieved through a combination of revenue and expenditure measures. The authorities also made good progress toward addressing the circular debt problem in the energy sector. And, they are taking important steps toward expanding the Benazir Income Support Program in order to provide targeted cash transfers for the poor households.

"Initial developments under the program have been positive. The exchange rate has been broadly stable, enabling the State Bank of Pakistan (SBP) to nearly double its gross reserves since late 2008. Inflation has been falling more rapidly than expected and the external current account deficit has been narrowing. T-bill auctions have been consistently oversubscribed, following the 200-basis point increase in the SBP discount rate last November, and the government has retired some of its debt to the SBP. However, despite improved confidence, credit and money growth have been slow.

"Looking ahead, despite the achievements made in recent months, domestic economic activity has weakened and the global environment has deteriorated significantly. Accordingly, the near-term growth outlook has been revised downward, and economic performance is subject to downside risks.

"Banks have weathered the crisis well, but need to continue to be monitored carefully as the worsening macroeconomic environment may affect banks' asset quality and profitability. The SBP's contingency planning will help detect and address emerging risks.

"Given the limited scope for countercyclical fiscal policy, the authorities have chosen to adhere to the program's fiscal target for 2008/09 and to continue with fiscal adjustment in 2009/10. They also aim to raise government revenues over the medium term to allow for more public investment and social spending. The authorities' medium-term fiscal strategy will depend on the success of the envisaged ambitious tax reforms.

"The SBP discount rate remains on hold, but there could be scope in the future to lower it if inflation abates further, the external reserve position continues to improve, and the government can sell its T-bills to banks and nonbank private investors. Exchange rate flexibility will continue to facilitate external adjustment.

"Pakistan needs additional external assistance to reduce risks, and provide for greater development and social spending. The upcoming donor meeting provides an important opportunity for mobilizing additional assistance," Mr. Portugal said.