

Pakistan Economy SLA reached for 1st EFF review; New RSF program signed

26-Mar-2025



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A press release of IMF on 25th Mar'25 confirmed that:

- Pakistan and the IMF reached a staff-level agreement on the first review of the 37-month, USD 7bn Extended Fund Facility (EFF), subject to Executive Board approval, enabling a USD 1.0bn (SDR 760mn) disbursement. With this tranche, the total disbursements under the EFF program will reach USD 2.0bn.
- In addition to this, IMF and Pakistan also signed a new 28 month arrangement under the Resilience and Sustainability Facility (RSF), amounting to USD 1.3bn (SDR 1bn).

Key takeaways from IMF press release

- The Press Release by the IMF highlights that Pakistan has made significant progress in restoring macroeconomic stability and rebuilding confidence in past 18months.
- While moderate economic growth persists, inflation has been reduced to its lowest level since 2015, financial conditions have been enhanced, sovereign spreads have significantly narrowed, and external balances have been strengthened.
- Although economic activity is expected to improve, significant risks persist. Policy missteps, geopolitical shocks, global financial tightening, or growing protectionism could undermine macroeconomic stability.
- It is crucial to maintain progress by strengthening public finances, ensuring price stability, rebuilding external buffers, and removing distortions to support resilient, inclusive, and sustained private-sector growth.

Exhibit: History of Lending Commitments

Facility	Date of Arrangement	Expiration Date	Amount Agreed SDR mn	Amount Drawn SDR mn
Standby Arrangement	Dec-58	Sep-59	25	-
Standby Arrangement	Mar-65	Mar-66	38	38
Standby Arrangement	Oct-68	Oct-69	75	75
Standby Arrangement	May-72	May-73	100	84
Standby Arrangement	Aug-73	Aug-74	75	75
Standby Arrangement	Nov-74	Nov-75	75	75
Standby Arrangement	Mar-77	Mar-78	80	80
Extended Fund Facility	Nov-80	Dec-81	1,268	349
Extended Fund Facility	Dec-81	Nov-83	919	730
Structural Adjustment Facility Commitment	Dec-88	Dec-91	382	382
Standby Arrangement	Dec-88	Nov-90	273	194
Standby Arrangement	Sep-93	Feb-94	265	88
Extended Credit Facility	Feb-94	Dec-95	607	172
Extended Fund Facility	Feb-94	Dec-95	379	123
Standby Arrangement	Dec-95	Sep-97	563	295
Extended Fund Facility	Oct-97	Oct-00	455	114
Extended Credit Facility	Oct-97	Oct-00	682	265
Standby Arrangement	Nov-00	Sep-01	465	465
Extended Credit Facility	Dec-01	Dec-04	1,034	861
Standby Arrangement	Nov-08	Sep-11	7,236	4,936
Extended Fund Facility	Sep-13	Sep-16	4,393	4,393
Extended Fund Facility	Jul-19	Jun-23	4,988	2,144
Standby Arrangement	Jul-23	Apr-24	2,250	2,250
Extended Fund Facility	Sep-24	Oct-27	5,320	760
Resilience & Sustainability Facility	Mar-25	Jun-27	1,000	-
Total			32,947	18,948
Source (s): IMF, AHL Research				

While we await IMF's detailed document on the review, a few 'policy priorities' mentioned in the IMF press release are as follows:

Fiscal consolidation

- Fiscal consolidation continues to reduce debt, create space for social and development spending, and limit private investment crowding out.
- Authorities aim for an FY25 primary surplus of at least 1.0% of GDP and plan to sustain consolidation in FY26. While keeping current spending within budget, they will maintain BISP support, reduce energy subsidies, and prioritize development spending.

Enhancing structural reforms

- The authorities remain committed to fiscal reforms by enhancing revenue mobilization, spending efficiency, and transparency.
- All provinces have amended Agriculture Income Tax regimes, a key step toward tax equity, with effective implementation crucial for success and fiscal devolution in FY26.
- Efforts continue to improve public financial management, ensure spending transparency via e-PADS, and strengthen debt management for sustainability and governance.
- Authorities will enhance efforts to fully implement the SOE governance framework across all state-owned enterprises.
- Governance mechanisms and safeguards will be adopted for the Pakistan Sovereign Wealth Fund (PSWF).
- Institutional capacity to combat corruption will be further strengthened.
- Trade barriers will be significantly reduced to promote inclusive growth and a level playing field for business and investment.

Maintaining an appropriately tight monetary policy

- Acknowledging the lagged impact of recent rate cuts, authorities will maintain a tight, data-driven monetary policy to keep inflation within SBP's medium term target of 5–7%.
- Moreover, authorities remain committed to a functional forex market, ensuring exchange rate flexibility and rebuilding FX reserves.

Reducing energy costs to improve viability and lower tariffs

- Timely tariff adjustments and early reforms have helped reduce circular debt, which remains a priority.
- Accelerating cost-side measures, including efficient distribution, captive power integration, transmission upgrades, privatization of inefficient firms, and renewable energy expansion, is essential.

Enhancing Climate Resilience & Disaster Risk Mitigation

Backed by the RSF, the authorities' program focuses on:

- Expanding climate reforms to reduce disaster risks and enhance resilience.
- Strengthening public investment for disaster-resilient projects.
- Optimizing water resource usage with better pricing mechanisms.
- Enhancing coordination on disaster financing across government levels.
- Improving climate risk disclosure in financial and corporate sectors.
- Promoting green mobility to combat pollution and health hazards.

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