

**Pakistan: Request for an Extension of the Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion.**

In the context of the request for an extension of the stand-by arrangement, the following documents have been released and are included in this package:

- The staff report for the Request for an Extension of the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on December 17, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 27, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its discussion of the staff report that completed the request.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Pakistan\*

\*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19<sup>th</sup> Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623-7430 • Telefax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

PAKISTAN

**Request for an Extension of the Stand-By Arrangement**

Prepared by Middle East and Central Asia Department  
(In consultation with other departments)

Approved by Alfred Kammer and James Roaf

December 27, 2010

1. In the attached letter, the Pakistani authorities request a nine-month extension of the Stand-by Arrangement (SBA) through September 30, 2011. They believe that a nine-month extension is necessary to implement the policy measures needed to complete the two reviews remaining under the program and enable two purchases of approximately SDR 1.15 billion each (Table 1).
2. On November 24, 2008, the Executive Board approved a 23-month SBA in an amount equivalent to SDR 5,169 million (500 percent of quota). On August 7, 2009, the arrangement was augmented to SDR 7,235.9 million (700 percent of quota) and extended through December 30, 2010. Following the completion of the fourth review on May 14, 2010, purchases under the arrangement reached SDR 4,936.04 million. Separately, to help the authorities cope with the catastrophic floods that affected Pakistan this summer, the Executive Board approved on September 15, 2010 the disbursement of SDR 296.98 million (28.73 percent of quota) under the policy on emergency assistance for natural disasters.
3. The fifth review, originally scheduled to take place before end-September 2010, has been delayed. The structural benchmark on implementing a value added tax on July 1, 2010 and the end-June 2010 performance criteria on general budget deficit and government borrowing from the central bank were missed. Subsequently, the economic conditions deteriorated markedly as a result of the floods, requiring significant amendments to the 2010/11 budget. Corrective actions needed to complete the fifth review could thus not be implemented before the expiry of the SBA.
4. Discussions between the authorities and the Fund staff on the ways and prior actions to complete the fifth review are ongoing. Among the main issues, the change of tax reform from the implementation of a value added tax to a reform of the existing general sales tax (GST) has required significant modifications to the proposed legislative framework and renewed consultations with provincial governments, the private sector, and other stakeholders. Draft legislation to reform the GST on goods (the federal part) was introduced

in the National Assembly in November 2010 and is to be complemented by the legislation to cover GST on services (the provincial part). The authorities and staff are discussing the measures needed to achieve the authorities' revised 2010/11 budget deficit target of 4.7 percent of GDP, while accommodating flood-related assistance. These discussions also cover energy sector reform, which is needed to increase electricity output, curtail the inter-enterprise debt of the electricity sector (circular debt) and contain untargeted electricity subsidies.

5. A nine-month extension will provide the authorities with time for completing the GST reform, implementing a set of measures to correct the course of fiscal policy, and amending the legislative framework for the financial sector. It would also allow time to establish a track record of performance. Full implementation of a reformed GST involving a broader base, reduced exemptions, and input crediting, both at the federal and provincial level, parliamentary passage of the amendments to the State Bank Act and the Banking Companies' Ordinance, agreement on measures to achieve the revised fiscal deficit target, including a realistic envelope for energy subsidies in 2010/11 based on a plan that is yet to be endorsed by the Asian Development Bank and World Bank staffs, and third-quarter fiscal performance that is consistent with achieving the full-year target are among the actions that will be critical for the completion of the fifth review.

6. Staff expects to conduct discussions for the fifth review in early 2011 with a view to presenting to the Board a request for the completion of the fifth review before end-June 2011, at which time, staff will also propose a set of performance criteria for end-June 2011 and structural benchmarks that would form the basis for the sixth and final review under the SBA.

7. Staff supports the authorities' request for an extension of the arrangement until September 30, 2011. Accordingly, the following draft decision is proposed for adoption by the Executive Board.

**Table 1. Pakistan: Access and Phasing under the Stand-by Arrangement, 2008–11**

Review	Availability Date	Action	Purchase		Of which:
			In millions of SDRs	In percent of quota	financed In millions of SDRs
<b>Approved phasing</b>					
	November 24, 2008	Board approval of SBA	2,067.400	200.00	...
First Review	March 15, 2009 1/	Observance of end-December 2008 performance criteria, completion of first review	568.535	55.00	...
Second Review	June 15, 2009 2/	Observance of end-March 2009 performance criteria, completion of second review	766.700	74.17	475.60
Third Review	November 30, 2009 3/	Observance of end-September 2009 performance criteria, completion of third review	766.700	74.17	237.75
Fourth Review	February 28, 2010 4/	Observance of end-December 2009 performance criteria, completion of fourth review	766.700	74.17	237.75
Fifth Review	August 15, 2010	Observance of end-June 2010 performance criteria, completion of fifth review	1,150.050	111.26	...
Sixth Review	November 15, 2010	Observance of end-September 2010 performance criteria, completion of sixth review	1,149.815	111.23	...
Total			7,235.900	700.00	951.10
<b>Possible rephasing</b>					
Sixth Review	August 15, 2011	Observance of end-June 2011 performance criteria, completion of sixth review	1,149.815	111.23	...

Source: Fund staff.

1/ The first review was completed on March 30 and the second purchase was made on April 1.

2/ The second review was completed on August 7 and the third purchase was made on August 11; the availability of the third purchase became conditional on the observance of end-June 2009 PCs.

3/ The third review was completed on December 23 and the fourth purchase was made on December 28.

4/ The fourth review was completed on May 14; the availability of the fifth purchase became conditional on the observance of end-March 2010 PCs.

Islamabad, Pakistan  
December 17, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Mr. Strauss-Kahn:

On November 24, 2008, the IMF's Executive Board approved a 23-month Stand-by Arrangement (SBA) for Pakistan that was augmented on August 7, 2009 and extended through December 30, 2010. We hereby request that the SBA be extended for a further nine months, to enable us to implement the policy measures envisaged under our reform program, and to allow sufficient time to complete the remaining fifth and sixth reviews under the SBA. In pursuit of our program objectives, we have submitted to the National Assembly the federal part of the legislative package for the reformed General Sales Tax and the provincial part of the package will be submitted to the provincial assemblies shortly. We have also made progress in devising a plan to ensure financial viability of the electricity sector, which—together with the package of other measures—will enable us to achieve the budget deficit target of 4.7 percent of GDP, revised from the original target of 4.0 percent of GDP to accommodate additional flood-related spending.

The Government and State Bank of Pakistan believe that extending the arrangement through September 30, 2011 will support confidence and help restore macroeconomic stability at a time when our economy is still recovering from the recent devastating floods. We remain committed to implementing a Fund-supported program, and will continue to consult with the Fund in accordance with the relevant Fund policies.

Sincerely yours,

/s/

Abdul Hafeez Shaikh  
Minister of Finance

/s/

Shahid H. Kardar  
Governor of the State Bank of Pakistan



Press Release No. 10/515  
FOR IMMEDIATE RELEASE  
December 27, 2010

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Approves Nine-Month Extension of Stand-By Arrangement for Pakistan**

The Executive Board of the International Monetary Fund (IMF) today approved - on a lapse-of-time basis<sup>1</sup> - a nine-month extension of Pakistan's Stand-By Arrangement (SBA), to September 30, 2011.

The extension will provide time to the Pakistani authorities to complete the reform of the General Sales Tax, implement measures to correct the course of fiscal policy, and amend the legislative framework for the financial sector. The IMF staff is continuing its dialogue with the Pakistani authorities on the program's fifth review.

A 23-month SBA in an amount equivalent to SDR 5.1685 billion (about US\$7.61 billion) was originally approved on November 24, 2008 (see [Press Release No. 08/303](#)). On August 7, 2009 the SBA was augmented to SDR 7.2359 billion (about US\$10.66 billion) and extended through December 30, 2010 (see [Press Release No. 09/281](#)). Following the completion of the fourth review in May 2010, disbursements under the arrangement reached SDR 4.936 billion.

---

<sup>1</sup> The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.