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Increase in gas, power rates among prior conditions

International Monetary Fund (IMF) in its Staff Report on $6 billion Extended Fund Facility Arrangement (EFF) for Pakistan has claimed that flexible, market-determined exchange rate, increase in discount rate by 150 bps and increase in electricity and gas tariff were prior conditions for the programme.

According to the IMF, the following prior actions for required for approval of programme; (i) move to a flexible, market-determined exchange rate by announcing that the SBP moves to a flexible market-determined exchange rate with a focus on price stability and interventions are limited to safeguarding financial stability and preventing disorderly market conditions (DMC) and (ii) tightening the monetary stance by 150 bps, (iii) reach formal public agreement between the federal and provincial governments on the fiscal targets consistent with the program and (iv) adopt by parliament the FY 2020 budget consistent with programme targets.

Another prior condition was to adopt a package of measures in the energy sector: (i) implement a quarterly automatic tariff adjustment in the electricity sector by about 10 percent to generate Rs 150 billion in additional revenues and (ii) notify by government the FY 2020 gas tariff adjustment as proposed by the regulator to become effective on July 1st, 2019.

The following structural benchmarks were agreed with the Fund for the 39-month EFF:

Fiscal- (i) commit to not grant further tax amnesties; (ii) issue licences for the track-and-trace system for excises on cigarettes.

Monetary/Financial: (i) 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; (ii) submit to Parliament, in consultation with IMF staff, amendments to the State Bank of Pakistan Act to address all recommendations of the new 2019 Safeguards Assessment Report and the 2016 Technical Assistance Report on Central Bank Law Reform.

State-Owned Enterprises: (i) Notify the FY 2020 electricity tariff schedule as determined by the regulator-end-September 2019; (ii) prepare a comprehensive circular debt reduction plan in collaboration with international partners - end-September 2019; (iii) submit to parliament amendments to the Nepra Act to (a) ensure full automaticity of the quarterly tariff end-December 2019 adjustments and (b) eliminate the gap between the regular annual tariff determination and notification by the government; (iv) conduct and publish new audits by reputable international auditors of Pakistan International Airlines - end-December 2019 - and Pakistan Steel Mills (PSM); (v) conduct a triage of all SoEs, dividing them into companies to (a) maintain under state management; end-September 2020 (b) privatise; or (c) liquidate.

It was also made mandatory to submit to Parliament a new State-Owned Enterprise law to improve governance and transparency by end-September 2020 in line with IMF recommendations

Social Protection and Gender: Finalise BISP"s banking contracts and launch financial inclusion strategy for women by end-October 2019, update the benefit structure of Waseela-e-Taleem (WeT) to narrow the educational gender gap end-December 2019 and finalise the update of the BISP beneficiaries" database (National Socio-Economic Registry) by end-June 2020.

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