



## **Frequently Asked Questions about the IMF's Emergency Assistance to Pakistan**

The International Monetary Fund (IMF) is deeply saddened by the natural catastrophe that hit Pakistan and the suffering of people affected by the floods. The floods have claimed nearly two thousand lives and affected about twenty million people in one of the worst climate-related catastrophes in recent decades. The floods are still causing great hardship to the survivors and have seriously damaged infrastructure. The IMF stands with Pakistan at this difficult time and will do its part to help the country.

### **What has been the IMF's contribution to the relief efforts?**

On September 17, the IMF disbursed about US\$450 million under its Emergency Natural Disaster Assistance (ENDA) facility. The purpose of the package is to help Pakistan manage the immediate impact of the massive and devastating floods that have hit the country, in particular to help the poor and vulnerable groups. Further, the IMF is working with the government and the State Bank to help formulate post-flood macroeconomic policies.

### **What is the significance of the \$450 million ENDA assistance?**

The ENDA disbursement is fast, has no conditions attached, and is additional to the existing Fund-supported program. Pakistan's financing under the ENDA carries the IMF's basic rate of charge, has a three-year and three-month grace period, and is repaid in eight equal installments with a final maturity of 5 years. The IMF disbursed these funds very rapidly in order to help meet the urgent need for assistance.

### **How will the resources under the ENDA be used?**

The US\$450 million in emergency assistance will be directed to the country's budget. It will help finance the additional spending to assist the population affected by the floods and the associated immediate foreign exchange needs.

### **Does the ENDA lead to any reduction in other Fund disbursements?**

No. The ENDA does not lead to a reduction in our ongoing assistance program for Pakistan. The next disbursement under the Stand-by Arrangement (SBA) <http://www.imf.org/external/np/exr/facts/sba.htm> is about \$1.7 billion on the completion of the fifth review, which could take place before the end of this year.

### **Will the fifth review provide for more flexibility in the SBA program?**

Yes. The authorities' macroeconomic program under the SBA is being adjusted to take into account the additional expenditure required to deal with this humanitarian disaster. The discussions on the fifth review will use the damage and needs assessment—prepared by the World Bank and the Asia Development Bank (ADB)—to adapt the authorities'

macroeconomic program to respond to the challenges facing Pakistan's economy and lay the basis for restoring growth momentum in the economy.

**Why is the IMF pressing for the reformed general sales tax (GST) in the context of the SBA program?**

The GST reform aims to broaden the tax base and remove exemptions and special tax rates. The timely implementation of the GST reform is important for two reasons:

- a) In its current form the Pakistan's tax system is socially unfair, as many interest groups— including the wealthy—have managed to be exempted, while the main burden is carried by the most vulnerable groups in Pakistani society.
- b) Pakistan's tax collection is one of the lowest in the world. This seriously limits the government's ability to provide basic services to the population, fight poverty, and invest in people and in physical infrastructure.

This problem has become even more urgent in the aftermath of the floods because the need to increase spending to assist the population and to finance reconstruction is likely to rise substantially.

**What is the reason for the IMF's insistence on a review of the energy subsidy for the disbursement of the next tranche of the SBA program?**

Electricity shortages are a major constraint on economic activity and growth in Pakistan. Businesses suffer from recurring blackouts, and consumers are deprived of electricity for long periods, including during hot summer months. Therefore, a reform is needed to ensure a reliable supply of electricity to support economic growth in Pakistan. Further, this reform must focus on ending bad governance and fighting corruption in the electricity sector, and include action to reduce electricity theft and to improve technical performance in the electricity network. Currently, electricity subsidies are large and untargeted. Last year alone, these subsidies cost well over US\$2 billion, more than 1 percent of GDP. Most of these subsidies do not benefit the poor. We believe there should be targeted support to the poor; those who can afford it should pay their electricity bills. The resources freed-up by reform could then be used for additional social spending on health, education and infrastructure, which would help alleviate poverty and create jobs.