The IMF's Staff Report published on December 19, provides a good handle to gauge how Pakistan is doing in the EFF. The report reveals that the IMF was just as surprised as the GoP about how sharply the current account deficit has narrowed in FY20 (the CA deficit has shrunk from $ 6.7 bln to only $ 1.8 bln in the first five months). This comfort means the hard targets for the external sector were achieved by significant margins. Since subsequent targets have not been adjusted accordingly, meeting them should be easy enough. The fact that the Staff Report endorsed Rs 155/$ as a stable equilibrium, suggests that SBP will not allow the rupee to appreciate beyond this level.

The fiscal side is less heartening. Unlike government sources, the IMF report explains the cause of the fiscal fiasco last year, when the authorities admitted that the fiscal deficit in FY19 was 8.9% of GDP against a target of 7%. It also reveals that against a primary deficit target (ceiling) of Rs 102 bln in Q1, Pakistan over-performed by posting a primary *surplus* of Rs 305 bln. The report explains that this was because of one-off non-tax revenues, which means subsequent revenue targets will be challenging. The full year FBR revenue target has only been reduced by Rs 265 bln, to a still ambitious Rs 5.24 trn, with Rs 3 trn to be collected in 2H-FY20.

In terms of tone, the Staff Report was surprisingly somber. Against the stock market optimism that the country would soon enter a growth phase, the IMF report talks about elevated risks and the need to stay firm with program objectives. The report reveals that 15% of direct taxes and 58% of sales tax are collected at the customs stage, which shows that tax assessment and collection is concentrated at the import stage because it is easier to collect. We take this as proof that Pakistan's economy is largely undocumented, but were disappointed that the IMF had little to say about concrete steps to enhance documentation. The report also reveals the lack of an action plan to meet the ambitious revenue targets.

Our paper also touches on the concern that the likely amendment in the SBP Act to make price stability SBP's primary objective, is not in the country's interests. We also highlight how the sharp increase in GoP's cash buffers have spiked Pakistan's domestic debt. We conclude by saying that revenue challenges are likely to dominate policy thinking, while more fundamental structural reforms could be delayed. We think this EFF is being managed as previous programs were (in a *business as usual* approach), which is not a good omen. However, with $ 1.6 bln worth of carry trades in the country, this exposure does weaken the country's ability to negotiate with the IMF.