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The Chairman's Summing Up at the Conclusion of the
1983 Article IV Consultation with Pakistan
Executive Board Meeting 83/180 - December 21, 1983

Executive Directors generally complimented Pakistan on the successes achieved under the extended arrangement despite adverse circumstances; indeed, several of them considered the results to be an example of what a well-devised extended arrangement could achieve. The growth performance of Pakistan had been most impressive: the economy had expanded at an average rate of about 6 percent, while inflation had been kept under control. At the same time, there had been a considerable improvement in the balance of payments by the end of the program period. The three-year current account deficit had turned out well below forecast, and the overall position was in surplus although a deficit had been projected. International reserves had also moved into a more comfortable position--although one Director remarked that the net reserve position was not as strong as might have been expected--and debt servicing had been carried out on schedule. Nevertheless, there remained several areas where there had been some slippages or delays and where further action was necessary. The economy remained vulnerable, and noninflationary growth would not be easily sustained without a number of additional measures.

Directors commended the authorities for the reform of the exchange rate system and for the effective use of exchange rate policy to restore external competitiveness. Those actions had strongly contributed to the positive outcome in the external sector. Particular note was taken of the rapid expansion in nontraditional manufactured exports, which was a promising development. Executive Directors also welcomed the substantial progress made in import liberalization and trade reform during the program period and endorsed the reduced reliance on export subsidies.

Directors observed that considerable progress toward structural reform had also been made in a number of other important areas; in that regard, the framework provided by successive national development plans was considered by several Directors to have been of particular importance to the achievement of growth targets. Also, price rationalization had been advanced in the agricultural and energy sectors, development spending had been reoriented, and corrective programs had been introduced in the public enterprise sector. To reap full benefits from all those initiatives in the long run, the authorities would need to complete the reforms already initiated and strengthen their efforts in various areas. For example, deregulation and the reform of the tariff system had yet to be achieved, and a meaningful start in those fields would be most desirable. The new import system would also benefit from simplification at an early date; and a number of Directors urged the authorities to continue their programs of import liberalization and price rationalization, particularly in the energy sector.

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Turning to the financial sphere, Directors stated that the implementation of tight demand and credit management policies during the first two program years had been a major policy success and had contributed to the improved balance of payments performance and to the declining rates of inflation. That demand management outcome had been assisted by the authorities' success in achieving the broad quantitative fiscal targets set out in the program. However, the structure of public finances had not been strengthened as envisaged. Revenue performance had been weak, partly due to delays in reforming the tax system. Current expenditures had grown more rapidly than expected and, to contain the budget deficit it had been necessary to restrain development spending. Aggregate investment had fallen short of targets; and there had also been a heavy reliance on private savings to finance the fiscal deficit.

Since a continuation of the aforementioned trends could impair implementation of the new development plan, Directors urged that the authorities strengthen their fiscal reform effort, a move that was seen as the key to continued success of the adjustment process. In the taxation area, for example, a broadening of the domestic sales tax would be helpful. Also, Directors agreed with the authorities' decision to deregulate sugar marketing; but some noted that, as the financing of the Government's commodity operations had presented problems for demand management during the program, further measures and better policy coordination would be needed. Concern was also expressed over the apparent weakening of demand management in 1982/83. While recognizing that rapid money growth was in large part due to the positive balance of payments outcome, Directors observed that a weakening of domestic credit management had also played a role.

Directors endorsed the authorities' commitment to a strengthening of demand management in 1983/84. While welcoming the assignment of greater responsibilities to the private sector, they expressed the view that such action would need to be complemented by measures to reduce public sector credit needs and the use of private savings to finance the fiscal deficit. The generation of private savings had not come up to expectations, and greater efforts would be needed in that very important area. Moreover a tighter monetary stance would be necessary in 1983/84 to effect a greater degree of absorption, than presently targeted by the authorities, of the excess in domestic liquidity expansion that had occurred in 1982/83. The view was expressed that, without additional measures, a resurgence of demand pressures could occur, leading to a weakening of the external position and higher rates of inflation.

In sum, Directors noted the many successes under the extended arrangement. They encouraged the authorities to strengthen demand management, to make further progress with import liberalization, and to continue their structural reform program in order to underpin the positive results of the past three years and enhance Pakistan's favorable economic prospects.

It is expected that the next Article IV consultation with Pakistan will be held on a 12-month cycle.