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FOR AGENDA

EBS/83/249

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November 23, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Pakistan - Staff Report for the 1983 Article IV Consultation and Review of the Extended Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Pakistan and review of extended arrangement. A draft decision appears on page 30.

This subject has been tentatively scheduled for discussion on Wednesday, December 21, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Hitti (ext. 76068) or Mr. Jakubiak (ext. (5)7109).

Att: (1)

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INTERNATIONAL MONETARY FUND

PAKISTAN

Staff Report for the 1983 Article IV Consultation and Review of the Extended Arrangement

Prepared by the Staff Representatives for the 1983 Article IV Consultation with Pakistan

Approved by A.S. Shaalan and Subimal Mookerjee

November 22, 1983

Contents

I. Introduction

The 1983 Article IV consultation discussions were held in Islamabad during August 15-21 and resumed in Washington, D.C. during September 24-30. The discussions relating to the review of performance during the third program year (1982/83) 1/ under the extended arrangement were initiated during May 13-16, 1983 and continued parallel with the consultation discussions. The Pakistan representatives were led by Mr. H.U. Beg, Finance Secretary, and included Mr. A.G.N. Kazi, Governor of the State Bank of Pakistan, and the Secretaries and other senior officials from concerned ministries and government agencies. The staff also had the benefit of discussions with Mr. Ghulam Ishaq Khan, Minister of Finance, Commerce, and Coordination, and Dr. Mahbub ul Haq, Minister for Planning and Development. The staff representatives were Messrs. A.S. Shaalan (Head of the May mission), S.H. Hitti (Head of the August mission), H.E. Jakubiak, M. Shadman, and S. Takagi (all of MED), Ms. M. Kelly (ETR), Mr. K. O'Connor (FAD), Mrs. J. Polk (Secretary - MED), and Mrs. H. Ayeb (Secretary - ADM). Mr. A.S. Shaalan participated in the concluding meetings of the August consultation discussions in Islamabad and in the subsequent discussions in Washington. The last consultation discussions were held over the period August-October 1982, and the staff report (EBS/83/3) was discussed by the Executive Board on February 4, 1983. Pakistan continues to avail itself of the transitional arrangements of Article XIV and does not maintain exchange restrictions subject to approval under Article VIII.

The Executive Board approved on November 24, 1980 an extended arrangement for Pakistan (EBS/80/243) in an amount of SDR 1,268 million. 2/ That arrangement was replaced on December 2, 1981 by a new arrangement (EBS/81/222) covering the remaining period of the original arrangement in order to effect reapportionment between the use of ordinary and borrowed resources; the content of the medium-term program supported by the arrangement remained unchanged. Pakistan made eight drawings totaling SDR 1,079

1/ Fiscal year beginning July 1.
2/ Pakistan's relations with the Fund and the World Bank are summarized in Appendices I and II.

million (252 percent of quota) under the two arrangements. The arrangement became inoperative at end-June 1983 because of nonobservance of certain performance criteria. The third-year program review under which certain understandings were to be reached was not concluded because there was no agreement on the financial program for 1983/84. The amount of undrawn purchases under the arrangement totaled SDR 189 million.

II. Economic Background and Main Features of the EFF Program

The medium-term program under the extended arrangement was adopted in response to Pakistan's weak economic performance during the mid-1970s. In that period the economy evidenced low growth and weak domestic and external financial positions due to the intensification of structural imbalances and shortcomings in the implementation of demand management policies. The sluggish rate of real economic growth reflected efficiency problems in the major goods-producing sectors and in the public manufacturing enterprises, depressed private sector confidence and investment, low savings ratios, and cost-price distortions. Inappropriate fiscal policies together with lax expenditure control and an inelastic tax system resulted in substantial overall budget deficits and large government domestic bank borrowing. The latter contributed to high rates of domestic credit and monetary growth. With widespread price regulation, inflation was in part suppressed, and there was a buildup of excess liquidity in the economy, putting pressure on the balance of payments. This was reflected in a growing trade imbalance and substantial current account and overall external deficits, which were financed by borrowing abroad and drawdowns of reserves. Starting in 1977 the Pakistan authorities initiated policy reforms aimed at the restoration of growth and financial balance. Measures were taken to increase output and productivity, strengthen demand management, and contain the deterioration in the balance of payments. By 1979/80 improvements were evident in the domestic and external financial accounts. Nevertheless, the authorities recognized that further major gains in economic performance would necessitate a sustained reform effort over the medium term.

The program 1/ under the extended arrangement emphasized an upgrading of financial policies, implementation of structural reforms, and increased resource mobilization. In the area of the budget, the objectives were to limit the overall deficit to 5 percent of GDP on average and government domestic bank borrowing to 2 percent. This was to be facilitated by the introduction of tax reforms, improved expenditure control, and a reduction in budgetary subsidization. Overall demand management aimed at holding liquidity growth to 14-15 percent per annum, well below the projected increase in nominal GDP, in order to contain inflation to an annual rate of 10 percent. These targets were to be supported additionally by tight control over credit increments for the nongovernment sector. On the supply side, reforms were directed toward production improvements which

1/ Covering the fiscal years 1980/81-1982/83.

would benefit the balance of payments. The public sector development program was to be reoriented away from capital-intensive industrial projects and input subsidies toward essential economic and social infrastructure and export-oriented projects. Increased reliance was to be placed on the private sector for the industrialization of the economy. The aggregate investment ratio was expected to rise gradually, and with a declining dependence on external savings the program entailed a substantial domestic savings effort to mobilize resources. Measures were to be put in place that would improve the efficiency and financial performance of the public enterprises. Price adjustments were envisaged for agriculture in order to enhance production incentives and export availabilities and to reduce the subsidization of fertilizer and irrigation water. In the energy sector, consumer and producer prices were to be adjusted to encourage conservation and the development of oil and natural gas resources.

The objective for the balance of payments was to place the current account on a gradually improving trend toward a deficit that could be financed on a sustainable basis. A major external sector reform was to be a restructuring of the import system and a phased import liberalization intended to improve access to needed inputs and to allow external competition to provide a spur to more efficient utilization of domestic resources. The reform of the trade system was to be accompanied by a comprehensive reform of the tariff structure. It was recognized that the initial impact of import liberalization along with higher investment levels and sustained economic growth might limit the scope for an immediate improvement in the external accounts. Therefore, the strategy was to utilize the resources available from the Fund to help finance the payments deficit, while the financial and structural reforms incorporated in the program were being put in place.

III. Recent Developments and Performance Under the Three-Year Program

1. Overview

Pakistan made substantial progress toward many of the financial and structural reform objectives envisioned for the three-year program under the extended arrangement (Table 1). Most notably, the balance of payments result for the three years taken together was considerably better than projected, with an aggregate current account deficit well below the proram forecast and a three-year overall external surplus compared with a projected deficit (Chart 1). This outcome reflected in particular a strong recovery in the external sector in 1982/83, following a weak performance in the previous year. The recovery was assisted to a large degree by a reform of the exchange system in early 1982 and a subsequent effective use of exchange rate policy to restore external competitiveness. This facilitated a brisk growth of nontraditional manufactured exports, helped contain the demand for imports, and encouraged the flow of private remittances. Over the program period the external position also benefited from weak import prices and a slow import liberalization.

Table 1. Pakistan: Selected Economic and Financial Indicators, 1979/80-1983/84

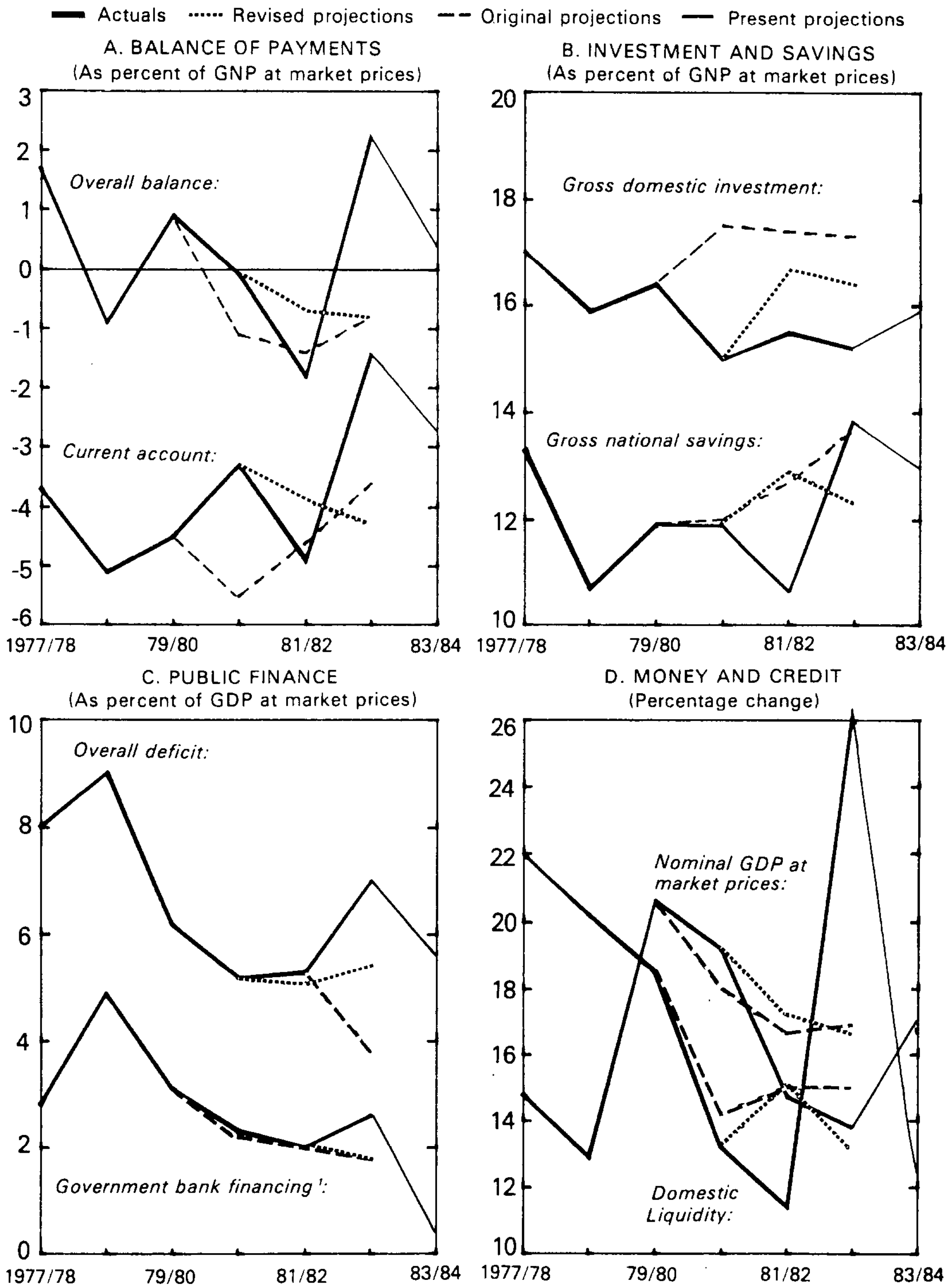
	Actual	Program	Actual	Original Proj.	Program	Actual	Original Proj.	Program	Actual	Official Proj.
	1979/80	1980/81		1981/82			1982/83			1983/84
	(Annual percent change, unless otherwise specified)									
National income and prices										
GDP (at constant factor cost)	7.3	5.5	6.4	5.7	6.1	5.6	5.8	6.7	5.8	6.4
GDP deflator	9.7	10.0	10.8	10.0	10.0	10.5	10.0	8.0	6.5	6.5
Consumer prices (period average)	10.7	10.0	12.4	10.0	10.0	10.0	10.0	8.0	4.5	6.5
External sector (in U.S. dollars)										
Exports (f.o.b.)	42.2	16.0	19.5	16.4	14.4	-17.1	16.4	12.5	13.3	11.7
Imports (f.o.b.)	27.3	18.8	14.5	9.1	14.5	3.7	8.8	4.1	-4.1	17.2
Non-oil imports (volume)	1.4	4.4	7.1	--	18.5	6.8	--	5.4	-4.3	21.6
Private sector imports (volume)	1.6	32.9	30.3	--	29.2	12.1	--	6.2	-0.4	20.7
Workers' remittances	26.7	9.0	20.3	11.0	11.6	6.1	11.0	14.7	29.7	10.0
Nominal effective exchange rate (depreciation-)	-1.9	--	12.2	--	--	-13.4	--	--	-3.2	--
Real effective exchange rate (depreciation-)	-2.2	--	15.0	--	--	-12.6	--	--	-2.5	--
Money and Credit										
Money and quasi-money	18.5	14.2	13.2	--	15.1	11.4	--	13.1	26.3	12.3
Domestic credit (net), of which:	15.1	18.4	15.1	--	17.9	16.8	--	15.4	16.5	11.5
Government	(11.6)	(12.1)	(11.1)	(--)	(11.8)	(12.2)	(--)	(10.8)	(15.0)	(2.5)
Nongovernment	(18.6)	(22.0)	(18.9)	(--)	(21.4)	(20.0)	(--)	(18.4)	(20.7)	(18.2)
Velocity	2.1	3.8	6.0	--	2.1	3.3	--	3.6	-12.5	1.3
Interest rates (annual rate, one year savings deposits)	10.5	--	10.5	--	--	10.5	--	--	10.5	--
Government										
Total revenue	25.4	22.8	22.1	13.3	12.4	10.5	11.0	26.5	13.5	21.3
Tax revenue	29.5	24.1	19.5	14.1	14.2	10.7	11.0	27.7	13.4	23.3
Current expenditure	16.5	12.6	13.4	13.5	11.8	15.0	8.4	27.0	28.8	13.1
Development expenditure	3.2	25.9	22.2	16.0	15.4	5.7	16.0	21.1	9.8	8.2
	(In percent of GDP)									
Government										
Total revenue	16.3	17.0	16.8	16.8	16.2	16.1	15.9	17.5	16.0	17.1
Tax revenue	13.7	14.5	13.9	14.4	13.6	13.3	13.7	14.6	13.3	14.4
Total expenditure	23.1	23.1	22.8	22.9	22.0	22.0	21.9	23.6	23.6	23.2
Overall deficit	6.2	5.2	5.2	5.3	5.1	5.3	3.8	5.4	6.9	5.5
Domestic bank budgetary financing	2.7	1.6	0.8	1.8	1.7	1.7	1.5	1.4	1.7	0.6
Domestic nonbank financing	0.6	0.5	1.9	0.7	0.9	1.9	0.6	1.8	3.8	2.9
Foreign financing	2.9	3.1	2.5	2.8	2.5	1.7	1.7	2.2	1.4	2.0
	(In percent of GNP, unless otherwise specified)									
Gross domestic investment, of which:	16.4	17.5	15.1	17.4	16.7	15.6	17.3	16.4	15.4	15.9
Gross domestic fixed capital formation	(15.6)	(15.5)	(13.6)	(16.0)	(14.6)	(13.6)	(16.4)	(14.8)	(13.3)	(14.2)
Gross domestic savings	5.5	6.4	5.6	7.5	6.9	4.5	8.8	5.2	5.7	4.8
Gross national savings	11.9	12.0	11.9	12.7	12.9	10.7	13.7	12.3	14.1	13.2
External sector										
Current account deficit	4.5	5.5	3.3	4.6	3.8	4.9	3.6	4.1	1.4	2.7
Overall balance	0.9	-1.1	-0.1	-1.4	-0.7	-1.8	-0.8	0.8	2.3	0.4
Debt service ratio (in percent of current account receipts)										
Including the IMF	14.3	--	14.7	--	--	14.0	--	--	13.2	12.4
Exluding the IMF	11.3	--	11.5	--	--	10.2	--	--	10.4	10.6
	(In millions of U.S. dollars, unless otherwise specified)									
Current account deficit	-1,145	-1,607	-991	-1,574	-1,353	-1,610	-1,427	-1,345	-435	-920
Overall balance	238	-334	-24	-474	-257	-580	-313	-255	723	153
Gross official reserves (in weeks of projected imports)	7.0	6.1	8.5	5.0	8.4	7.0	--	7.6	14.5	14.1

Sources: Appendix Tables 3, 4, 5, 6, and 8; and Table 7 of the Annex to Section V of the 1983 Recent Economic Developments report.

CHART 1

PAKISTAN

ECONOMIC INDICATORS, 1977/78-1983/84



Source: Data provided by Pakistan authorities.

[1]Government bank financing is the sum of budgetary support and commodity operations.

Growth performance was strong over the three-year period as the economy expanded steadily at a high rate. However, overall investment fell short of target. Due to buoyant remittance inflows, the national savings performance was close to the program forecast, but with the lower investment level this translated into a reduced dependence on external resources.

A major policy success over the first two years of the program was the implementation of tight overall demand and credit management policies which contained the growth of liquidity to well below the expansion in nominal GDP. This contributed to absorbing the liquidity overhang from earlier years, a reduction in inflation, and the favorable three-year balance of payments result. However, in 1982/83 the substantial balance of payments surplus generated a large expansion of domestic liquidity, and this was compounded by a surge in domestic credit utilizations toward the end of the year, which resulted in breaches of the quantitative credit ceilings.

Price performance responded to the tight demand management policies of the first two program years, improved supply availabilities, and lower rates of world inflation, so that the rate of increase in consumer prices was lower at the end of each year. The monetary growth of 1982/83 has not yet been strongly reflected in prices. This may be due to the late emergence of the external surplus, normal lags in the money-price relationship, as well as the extent of price regulation in the economy.

With regard to public finance, the quantitative objectives of the program were broadly met as the ratios to GDP for the budget deficit and government recourse to the banking system for budgetary financing on average were not far off from those envisioned. However, this was achieved in a different manner than had been anticipated. The program envisioned implementation of policies which would improve tax performance, expand investment outlays, and contain current expenditure. In the event the major tax reform was not implemented, and tax revenue remained heavily dependent on imports. Consequently, with lower than expected import growth in rupee terms and tax shortfalls elsewhere, the ratio of tax revenue to GDP declined over the program. Total expenditure was close to the original projection, but this was achieved by constraining public development outlays to levels broadly consistent with the reduced availability of budget revenue as the expected degree of restraint on current outlays did not materialize. With large shortfalls in external financing, domestic bank borrowing was contained by heavy reliance on private savings. This use of private savings may have been a factor contributing to the lower than projected level of real capital formation.

Government bank borrowing to finance its commodity operations proved to be an area of difficulty and was the primary cause for all breaches of credit ceilings. While early in the program there were signs that commodity financing could threaten the demand management effort, a start on policy adjustments in this area was delayed until 1983/84. The commodity credit requirement expanded greatly over the program period, in part because policies affecting agricultural pricing and procurement, which were successful in increasing output, were not well integrated with export pricing and marketing policies.

Under the arrangement, progress was made in many of the areas targeted for structural reform. The public sector investment program was reoriented broadly as envisaged. The program emphasized the importance of pricing policies in order to reduce cost-price distortions, particularly in the agricultural and energy sectors. While much was achieved in moving agricultural output and input prices toward international levels, the reduction in the fertilizer subsidy fell short of the program objective. Moreover, while maintenance and operation expenditures on the irrigation system increased sharply as envisaged and irrigation water charges were raised, the latter increases were not sufficient to raise the cost recovery ratio. In the energy sector, the authorities acted to ensure that petroleum product prices fully reflected cost increases, introduced substantial adjustments of domestic producer prices for petroleum and natural gas, as well as of consumer prices for natural gas, and put in place institutional improvements to facilitate flexible energy pricing policies. Nevertheless, some energy prices remain well below international levels. Some policy measures intended to assist the public enterprises lagged behind schedule and may have contributed to the weakness in enterprise profitability. This may reflect also the slippage from the program objective of enhanced pricing autonomy for the enterprises. Certain reforms intended to support private sector investment and industrial efficiency were postponed.

The external sector reforms introduced during the program were substantive. In addition to the improvement in the exchange system, the measures taken in early 1983/84 to reform the import system and implement import liberalization moved trade policy close to the position envisaged for the end of the program, although over the program period the pace of import liberalization was slower than envisioned. The intended reform of the tariff structure was delayed for technical reasons.

2. Real sector

Real economic growth averaged about 6 percent over the three program years, bringing to six years the period during which this rate of expansion characterized the economy (Appendix III, Table 3). The agricultural sector performed well on balance, with growth averaging 4 percent and output for all major crops reaching new peaks. Pakistan became self-sufficient in major foodgrains in 1980/81, and the substantial increase in wheat output in recent years has opened up the possibility of export. The economy's overall rate of growth was buoyed most by the rapid expansion of manufacturing output, which averaged 10 percent. In general, this reflected the coming on stream of new capacity for import substitution, fuller capacity utilization deriving from the growth of real income and demand, and improved import availabilities.

Gross domestic fixed capital formation was equivalent to about 13 percent of GNP on average, which was lower than the program target. In the public sector, the overall investment level was constrained by the availability of budget resources. With respect to the private sector, the authorities' policy was to reduce public sector industrial investment and assign increasing responsibility for industrialization to private investors. However, the recovery in private industrial investment did not materialize to the extent anticipated. This outcome may in part have reflected the postponement of some reforms, such as deregulation and labor reform, intended to support private investment activity. Gross national savings as a percentage of GNP was on average in line with the program forecasts. The buoyancy of national savings reflected substantially higher than forecast workers' remittances; however, this did not result in attaining the investment target, but rather in an aggregate current account deficit below the program estimate.

A major supply-side component of the program was a gradual reorientation of public development spending toward the agricultural, energy, and social sectors to be facilitated by reduced outlays for fertilizer subsidies 1/ and industry. On balance, development outlays were reoriented as envisaged, although the magnitude of the reallocation was less than originally programmed. The reorientation of development spending was accompanied by action to correct cost-price distortions. In the agricultural sector, the Government regularly adjusted input and output prices in order to bring them closer into line with real resource costs, contain subsidies, and maintain incentives. On the output side, procurement prices for the four major crops were raised by 17-52 percent over the three program years. The authorities largely eliminated subsidies on pesticides, and to contain the fertilizer subsidy prices were raised for urea by almost 50 percent shortly before the program began and for all varieties by a further 25 percent on a weighted average basis during the program. Moreover, irrigation water charges were raised on a weighted average basis by 56 percent over the three years. It is estimated that water charges now cover 56 percent of the operation and maintenance expenditures on the irrigation system. This proportion is somewhat lower than before the program began since these outlays rose by 68 percent over the program period.

The Government also sought to rationalize prices in the energy sector in order to promote conservation and create the incentives needed for further exploration and development. On the consumption side, increases in the cost of imported and domestic petroleum were fully passed through to consumers, while natural gas prices, following the increase in January 1983, were 62 percent higher than when the program was initiated. The Government also adopted a policy of adjusting upward producer prices for oil and gas. New price formulas for incremental oil production from proven fields were established which indexed producer prices to international prices at a discount. As a result, producer prices were doubled, although they remain at about 35 percent of international levels. Oil

1/ Development subsidies are accounted by the authorities in development spending rather than current outlays.

from new fields is priced at international levels. Partly as a result of these measures, domestic oil production increased by 30 percent over the program period to 12,900 barrels per day (b/d). The output of natural gas rose by 18 percent over the three-year period but still lagged behind the increase in demand, and as a result power shortages emerged. To expand further natural gas supplies the wellhead prices for Pakistan's major field were indexed to international energy prices and raised by 58 percent in January 1983.

The authorities also focused on the task of upgrading industrial efficiency in the private and public sectors. The high-level government committee set up in 1980/81 to review the status of problem industrial units in the private sector had considered 683 cases by end-1982/83 and recommended 353 units for various kinds of financial relief, of which the Government will absorb a considerable amount. As a result of the improved financial positions of these firms, the arrears to the specialized financial institutions serving the industrial sector were substantially reduced. In the public sector, progress was relatively limited in implementing final action to deal with the 17 problem industrial units identified for special measures; final action was taken or a profitable position emerged in only 7 cases. The program undertaken in collaboration with the World Bank to implement a performance incentive system in the public enterprises under the Ministry of Production proceeded on schedule, with the final incentive phase to be broadly implemented in 1983/84. Enterprise profitability showed some improvement in the 1980/81-1981/82 period but eroded last year. However, full implementation of the performance incentive system is expected to benefit profitability in the near term.

3. Public finance

The quantitative fiscal objectives of the Government were broadly met over the first two program years. In 1980/81 the overall budget deficit was held to the targeted level of 5.2 percent of GDP, and domestic bank financing of the budget at 0.8 percent of GDP was well below its indicative limit of 1.6 percent in part due to special factors (Appendix III, Table 4). However, total bank borrowing by the Government, which includes commodity financing, at 2.3 percent of GDP was slightly above the program ceiling due essentially to a larger than projected credit requirement for wheat procurement. 1/ In 1981/82 the overall deficit at 5.3 percent of GDP was only slightly over target. Total expenditure and revenue were both below the budgeted level. The revenue shortfall arose primarily in import duties and sales taxes on imports which together were about 10 percent below estimate. Despite the revenue shortfall, the ceiling on total bank financing was observed because of much larger than forecast domestic nonbank financing. This latter reflected a combination of high nominal rates of return on government small savings schemes and a decline in the inflation rate which together yielded attractive real rates of return.

1/ A waiver of the ceiling breach was not required since to effect reapportionment the arrangement was canceled and replaced by a new arrangement.

The 1982/83 budget was formulated with the objective of maintaining the cautious fiscal stance of the first two program years. The principal measures taken at the time of the budget included a 5 percent surcharge on nearly all imports (including those normally exempt from customs duties) and increases in major excise taxes and petroleum product prices. Subsequently, a number of factors emerged which had a negative impact on the budgetary position, in particular the nonavailability of assumed debt relief and a depreciation of the rupee beyond the level on which the budget forecasts were based. Partly in response to these developments, the prices of nitrogenous fertilizers, petroleum products, and natural gas were raised. These measures were expected to reduce the overall deficit to about 5.4 percent of GDP and to limit bank financing of the budget to 1.7 percent.

The provisional fiscal outcome for 1982/83 evidenced a weakened budgetary performance, as a result of a substantial shortfall in revenue and above program current spending. Overall revenue fell 10 percent below forecast, an amount equivalent to 1.8 percent of GDP. Shortfalls emerged in all revenue categories, but primarily in taxes on imports and excise duties. Import duties, which were below target for the second consecutive year, fell 15 percent under the program projection, as dutiable imports stagnated and accounted for only 47 percent of nondefense imports as opposed to the 60 percent assumed in the budget forecast. These factors also accounted for lower than projected receipts from sales taxes on imports. The expenditure outcome reflected a shortfall of about PRs 2.7 billion in development expenditures, partly offset by a level of current expenditures higher than the budget estimate due largely to higher domestic interest payments on domestic nonbank financing.

As a result of these developments, the overall deficit rose to 6.9 percent of GDP, well above the previous two years. The notional limit on bank borrowing for budgetary support was observed, but this was again made possible by a much higher than forecast level of domestic nonbank financing necessitated by the revenue shortfall. Total bank financing of the Government at 2.6 percent of GDP was well above the program ceiling as a result of a large excess in commodity financing, for which a policy target of about PRs 1 billion or 0.3 percent of GDP had been established. The absence of timely measures to contain the commodity financing requirement, particularly for sugar and rice, as well as weak control over credit use for this purpose were the primary factors accounting for the overage and the breaching of the program ceilings.

Reform of the indirect tax system had been a major structural goal of the authorities' three-year program. Shortly before the start of the program, the authorities had implemented a major reform of income taxation which led to substantial revenue growth. Following this it had been intended that the domestic revenue base would be broadened through a substantial reduction of exemptions from taxes on domestic consumption and production. In 1981/82 a number of actions were taken to improve the structure and administration of indirect taxes, particularly shifting the sales tax to an excise mode of collection from the income tax administration procedures formerly followed. The Government also set as a goal the establishment of a broad general sales tax by progressively eliminating exemptions. In the budget for 1982/83, however, little progress was made in reducing these exemptions, and the domestic sales tax did not increase substantially as a revenue source.

4. Money and credit

Demand management in 1980/81 and 1981/82 targeted at a monetary growth of 14-15 percent (Appendix III, Table 5) compared with a projected expansion in nominal GDP of 17-18 percent. To support the monetary targets, ceilings were established to limit the increase in total credit, and to ensure a shift of credit resources toward the nongovernment sector ceilings were also established on government credit use. The authorities' financial program was implemented broadly as envisaged in the first two program years, and monetary growth averaged 12 percent, while GDP expanded annually by 17 percent. The containment of monetary expansion and a slowed rate of world inflation were reflected after some lag in a decline in the rate of domestic inflation. The GDP deflator rose by 11 percent in 1980/81, but by end-1981/82 consumer prices were only 7 percent above their level a year earlier.

The financial program for 1982/83 aimed at continuing tight demand management policies. A slowing of the rates of increase for aggregate domestic credit and government borrowing was programmed into the credit ceilings, while a program limit was also established for public enterprise credit to avert a crowding out of the private sector in view of the large borrowing requests submitted by the enterprises at the start of the year and the decision to limit their access to budget resources.

The monetary and credit outcomes for last year were substantially different from the program forecasts. Domestic liquidity grew by 26 percent, which was sharply above target and the 14 percent growth of nominal GDP. About 90 percent of the excess monetary expansion was attributable to the turnaround in the balance of payments over the second half of the year. Compared with the projected deficit, a surplus of nearly US$725 million emerged. The effect of the balance of payments on liquidity was compounded by a weakening of control over credit disbursements toward the end of the year. The subceiling on total credit to Government was exceeded (by 28 percent, equivalent to 2.8 percent of the projected end-year stock) due to the substantial overage in commodity financing; the indicative limit on net credit for budgetary support, however, was observed (see Section III.3 above). The breach of the subceiling on credit to the Government resulted in a breach of the program ceiling on the increase in net domestic assets (by 5 percent, equivalent to 0.7 percent of the projected end-year stock). On a net basis, total credit to the nongovernment sector was under the aggregate target established by the central bank. However, this latter outcome was made possible by a substantial increase (by nearly 200 percent) in the net unclassified liabilities of the banking system; the factors underlying this movement have not been fully identified. On a net basis, commercial bank lending to the private sector (excluding cotton financing) was about 33 percent over the ceilings established in the central bank's credit plan. The program limit on credit to the public enterprises was also exceeded (by 5 percent, equivalent to 0.8 percent of the projected end-year stock). The causes for the above overages in nongovernment credit use have not yet been identified by the authorities.

The liquidity excess in 1982/83 has not yet been strongly reflected in price developments, and this may reflect the late emergence of the external surplus, a lag in price behavior, and the effect of price regulation. Over the year the rate of inflation as measured by the GDP deflator fell to 6.6 percent, although consumer prices edged up toward end-year.

5. External sector

a. Balance of payments

The balance of payments outcome for the program period was substantially better than projected. 1/ The aggregate current account deficit was about 30 percent lower than forecast, and the external accounts recorded an overall surplus, compared with a projected deficit. There was, however, a significant deterioration in the performance of external receipts in the second year, primarily as a result of the weakening in the international environment and a loss of competitiveness due to the real effective appreciation of the rupee (Chart 2). In response to the latter, the rupee was delinked from the U.S. dollar in January 1982 and allowed to float downward.

In 1980/81 the current account recorded a deficit slightly below US$1 billion, equivalent to only 3.3 percent of GNP compared with a program projection of 5.5 percent (Appendix III, Tables 3 and 6). Contributing to this result were higher than expected exports and workers' remittances and a net service and import payments shortfall. Thus, although net capital inflows were well below the program forecast, the overall deficit was only US$24 million as against a program projection of US$344 million. In 1981/82 the external performance weakened. The current account deficit widened to 4.9 percent of GNP against a program projection of 3.8 percent. The higher deficit reflected mainly a disappointing performance by exports, which fell short of the program target by 28 percent. In large part this resulted from weak world demand and an associated decline in prices for Pakistan's major commodity exports, an erosion of competitiveness related to the appreciation of the U.S. dollar, and delays in crop sales. Workers' remittances also exhibited a substantially lower growth than in the previous year, possibly due in part to anticipation early in the year of a depreciation of the currency. The shortfall in external receipts was partly offset by lower than projected imports and an associated shortfall

1/ Projections in this context refer to the program estimates for each year as given in Appendix III, Table 6.

in service payments. The slower growth in imports was largely accounted for by lower prices in U.S. dollar terms and a more limited than projected impact on private sector imports from import liberalization. Net capital inflows fell somewhat below the program estimate. The overall deficit amounted to US$580 million, compared with an expected deficit of US$257 million. Gross international reserves fell to about seven weeks of forecast 1982/83 imports (c.i.f.).

In 1982/83 the balance of payments result was substantially more favorable than the program projection. The current deficit amounted to US$435 million, or 1.4 percent of GNP compared with a program forecast of 4.1 percent. As net capital inflows only slightly exceeded the program projection, the strong current account performance was the primary factor accounting for an overall surplus of US$723 million, compared with a forecast deficit of US$255 million. The external surplus and net use of Fund resources contributed to a surge of US$1.1 billion in gross reserves, which at end-June 1983 were equivalent to 14.5 weeks of projected 1983/84 imports.

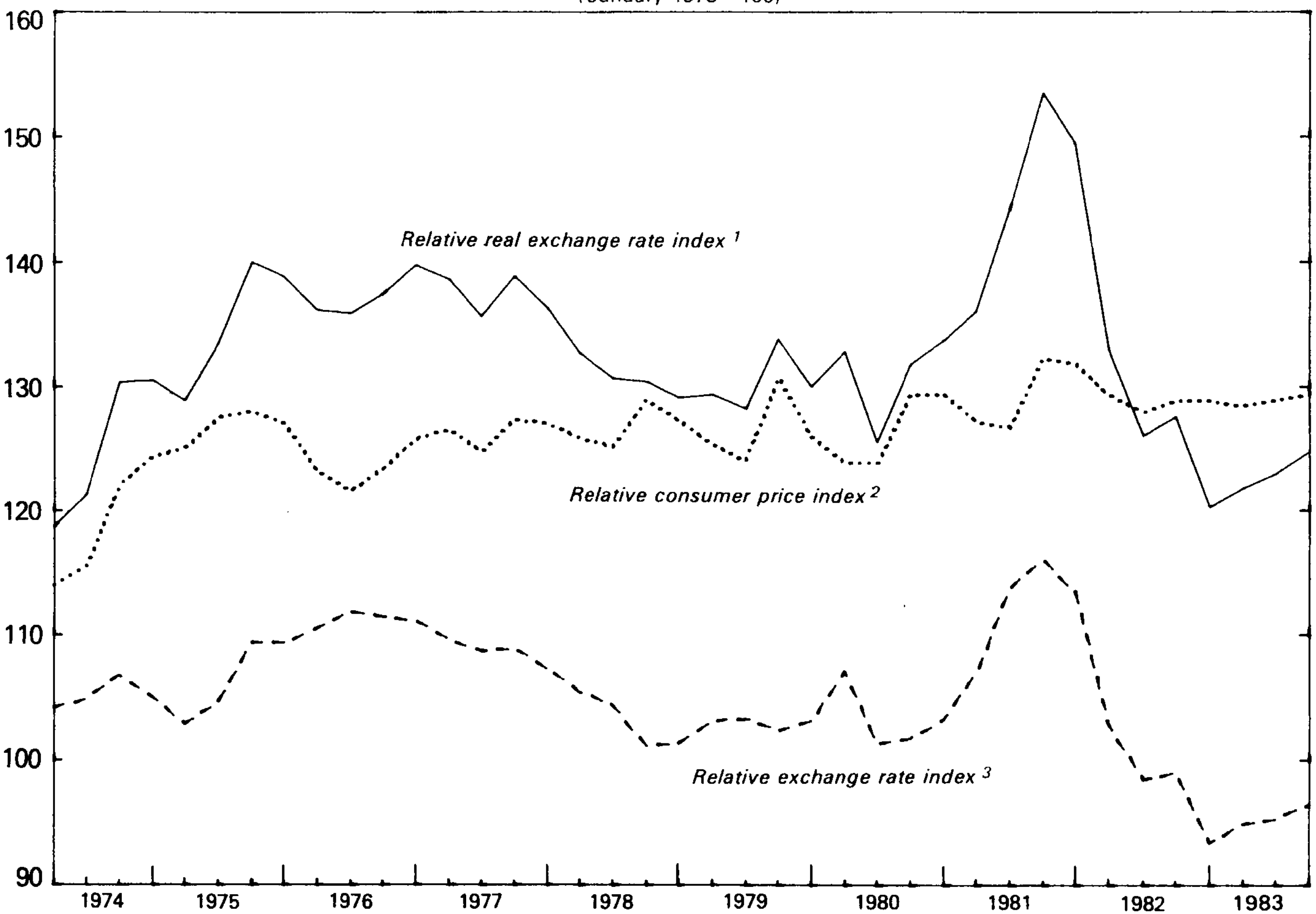
The current account performance in 1982/83 reflected largely lower than forecast import payments (by US$470 million) and more buoyant foreign workers' remittances (by US$335 million). Most of the import shortfall arose in non-oil imports. Private sector imports were 37 percent lower than forecast. In the public sector, project aid imports fell below forecast, while payments for edible oil and fertilizer imports were also less than projected due to lower world prices. The appreciation of the U.S. dollar also was a factor suppressing the recorded import payments level. Oil imports were somewhat below program due to the weakening of world oil prices. The authorities attributed the strength of workers' remittances primarily to the depreciation of the rupee in real effective terms during 1982.

Export performance in 1982/83 was essentially on target. While weak demand contributed to commodity exports as well as other major exports falling below forecast, this was offset by a stronger performance by nontraditional manufactured exports, which were US$375 million above the program estimate. Although to some extent the strong growth in these exports reflected special factors, there was nevertheless a genuine resumption of the high rates of growth of previous years, engendered to a large degree by the depreciation of the rupee. The buoyancy was also assisted by the small individual volumes of these numerous exports, making market penetration somewhat easier, and the large share which is exported to nonindustrial countries where the slowdown in market growth was less pronounced.

In the capital account, the higher than projected level of net inflows resulted almost entirely from a substantial net increase in foreign currency deposits. 1/ These deposits rose by US$288 million, against a program projection of US$100 million, responding more strongly

1/ These deposits are included in the other net long-term capital entry.

CHART 2
PAKISTAN
MOVEMENTS IN THE TRADE-WEIGHTED REAL EXCHANGE RATE AND ITS COMPONENTS, 1974-83
(January 1973 = 100)



Sources: *International Financial Statistics, Direction of Trade,* and Fund staff estimates, as of end-August 1983.
[1] Equals (relative consumer price index x relative exchange rate index) ÷ 100; values in excess of 100 are indicative of a relative real appreciation of the Pakistan rupee since January 1973.
[2] Pakistan consumer price index relative to trade weighted consumer price indices of 14 major trading partners.
[3] Trade weighted exchange rates of 14 major trading partners relative to exchange rate of the Pakistan rupee, a rise in the index indicates a relative appreciation of the rupee.

than anticipated to the extension of Eurocurrency interest rates to deposits of under US$100,000 and also possibly to the lags which emerged in adjusting downward interest rates on all foreign currency deposits following the decline in Eurocurrency rates. On the other hand, inflows of long-term official assistance were lower than expected. Project assistance was below forecast due to delays in implementation, and there was also a shortfall in commodity assistance. This latter reflected essentially lower than projected economic assistance from the United States. Disbursements under the World Bank's Structural Adjustment Loan were higher than expected, and amortization payments were below forecast primarily due to the effect of the appreciation of the U.S. dollar on nondollar debt payments.

The authorities pursued cautious external debt policies over the program period, and debt servicing was carried out as scheduled. At end-June 1983 total civilian external public debt 1/ amounted to US$13.4 billion or 42 percent of GNP; the increase in the debt ratio from 39 percent at end-June 1982 reflects the statistical effect of the depreciation of the rupee. 2/ The ratio of debt service payments (including Fund repurchases and charges) to current account receipts averaged 14 percent over the program (Appendix III, Table 8).

b. Exchange and trade system

On January 8, 1982 Pakistan delinked the rupee from its peg to the U.S. dollar and introduced a managed floating exchange system utilizing a currency basket; the U.S. dollar remained the intervention currency. During 1980 and 1981 the rupee had appreciated on a real trade-weighted basis by about 17.6 percent (Chart 2), reflecting the continued rise of the U.S. dollar against most major currencies as well as Pakistan's adverse inflation differential vis-a-vis its major trading partners. The new policy involves frequent adjustments to the rupee/U.S. dollar rate, taking into account exchange rate and price developments for Pakistan's major trading partners and competitors, domestic inflationary trends, and the requirements of the balance of payments. During 1982 the real effective depreciation of the rupee amounted to 17 percent. The depreciation restored external competitiveness.

Before the adoption of the new exchange system, the authorities had used a number of other measures to encourage exports. Export subsidies (rebates) were introduced; controls over certain categories of exports were relaxed; and the system of duty drawbacks was extended and standardized. In the financial area, the provisions of the export refinance scheme were made more attractive for carpets and leather, and the term of the concessionary long-term credit facility for engineering goods was extended.

1/ Includes short-term credits, disbursed debt repayable in local currency, and undisbursed debt repayable in foreign currency.

2/ At the predepreciation exchange rate of PRs 9.9 = US$1, the total debt/GNP ratio would have declined to 36 percent in 1981/82 and to 33 percent in 1982/83.

During 1982/83 the export of chemical fertilizer was allowed, and provisions of the export finance and duty drawback schemes were extended to engineering goods produced locally against tender. In May 1983 export subsidies on cotton yarn were reduced from 7.5 percent to 4.5 percent. At the same time, subsidies were introduced for woolen yarn at a rate of 4.5 percent and made retroactive to July 1982 at a rate of 7.5 percent. The authorities explained that it had been necessary to extend export subsidies to woolen yarn in order to compensate for the withholding of duty drawbacks on these exports due to abuses with the latter.

A central feature of the EFF program was a reform of the import system and a phased implementation of import liberalization. 1/ During 1980/81 a number of restrictions affecting imports were eased, including the removal of licensing ceilings on virtually all nonconsumer goods and the liberalization of virtually all raw material imports. Further, to reform the trade system the authorities undertook to convert from a positive import list system to a negative/restricted system by July 1, 1983. They also indicated that detailed studies of the tariff structure would be made with a view to reforming the tariff system in order to reduce inefficiencies. In 1981/82 a detailed list of all prohibited imports was compiled, and preliminary estimates were made of the extent to which domestic manufacturing was protected either by outright import prohibitions or broadly equivalent restrictions. On the basis of these estimates, the authorities decided to reduce the proportion of industry protected by import bans (approximately two thirds) by at least 40 percent by the end of the program period (i.e., by 26.1 percentage points). Implementation was to take place in two balanced stages, by July 1, 1982 and July 1, 1983, with proportionately greater emphasis being given to liberalizing the importation of intermediate and capital goods. The authorities also indicated that their study of the tariff system would focus on effective rates of protection and be undertaken in collaboration with the World Bank. This study would provide the basis for the comprehensive tariff reform to be introduced by July 1, 1983. In addition, the process of easing restrictions on imports was continued. Importation of cement, which is a domestically produced item, was permitted along with the lifting of bans on 212 other items from the Standard International Trade Classification (SITC). 2/

1/ A description of Pakistan's import system prior to the inception of the extended arrangement together with a discussion of commitments made in the context of the program and the progress toward meeting these commitments is provided in the Annex to Section V of the 1983 Recent Economic Developments report.

2/ Under the program the liberalization of import items (before the July 1, 1983 conversion to the negative list system) was implemented by adding to the positive import list (1) items produced domestically and identified in the census of manufacturing industries (these are specified in the text), and (2) items from the SITC, most of which were not produced in Pakistan to a significant extent. The definition of items and categories on the positive list and in the SITC are not comparable.

At the start of 1982/83 the liberalization measures announced permitted the free import of all types of cotton yarn (most of which were previously prohibited) and caustic soda and soda ash (previously importable only by the public sector). Taking into account the prior liberalization of cement, the specific items liberalized under the program by July 1, 1982 corresponded to 15 percent of industrial production--well in line with the program objective. In addition, 91 other previously banned items in the SITC were shifted to the free list; a number of items were shifted from the tied to the free list provided they were not locally manufactured; the value limits on imports of machinery under special programs were increased; and the licensing (value) ceilings were removed from 6 consumer items.

The customs tariffs applied to the newly liberalized items were 25 percent for cement, 50 percent for cotton yarn, 1/ and 85 percent for caustic soda and soda ash. The authorities indicated that they would keep the appropriateness of these tariffs under review but reserved the right to impose temporary quotas on cotton yarn, caustic soda, and soda ash if imports exceeded certain prespecified quantities. Actual imports of liquid caustic soda exceeded this limit, and in response the tariff on all caustic soda was increased in May 1983 to 140 percent. 2/ The appropriateness of other tariffs was also reviewed in late 1982/83 and revisions, where appropriate, were made in the context of the 1983/84 budget and Import Policy Order (see Section IV.4).

IV. Prospects and Policies for 1983/84

The policy objectives of the authorities for 1983/84 include sustaining real growth at a rapid pace. In the fiscal sector, the authorities are looking forward to a strengthened performance, mostly arising out of severe restraint in expenditure growth and improved tax administration. They intend to correct, to the extent they consider feasible, for the excess liquidity creation which took place last year. With regard to the external sector, the improved foreign exchange availability has allowed the authorities to encourage the private sector to expand its imports, particularly of capital goods. An overall surplus is forecast.

1. Real sector

In 1983/84 economic growth is targeted at over 6 percent. In the agricultural sector, output targets for the major crops have been set at 3-7 percent above the actual production level achieved in 1982/83, resulting in an overall growth target of nearly 5 percent. Manufacturing

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1/ The tariff on cotton yarn was reduced from 85 percent to 50 percent in January 1983.

2/ Subsequently, with the 1983/84 budget the tariff on liquid caustic soda was further increased to 250 percent, while the tariff on solid caustic soda was reduced to 85 percent. The authorities indicated that liquid caustic soda was being dumped.

output is projected to expand by 9 percent, again largely due to expansions in productive capacity, particularly in steel and synthetic yarn. The authorities expect total capital formation to rise by 21 percent in nominal terms, compared with 14 percent in the previous two years; private investment would rise by 36 percent compared with 18 percent in 1982/83, due primarily to increased investment in the manufacturing sector. This reflects the import liberalization measures affecting capital goods implemented since the start of the year (see below) and the Government's decision to provide financial institutions with US$200 million of central bank foreign exchange for financing private sector imports of capital goods. A higher reliance on foreign resources and a decline in the national savings ratio are projected.

Enhanced private sector investment activity is a goal of the new Sixth Five-Year Development Plan, which begins in 1983/84. The new Plan projects a 117 percent increase in nominal investment outlays over the five-year period compared with actual investment spending during the last Plan period. Of total outlays, 46 percent would come under the Annual Development Plans (ADP), the private sector share would be 41 percent, and the balance would be financed by the public enterprises and local governments. The 1983/84 ADP outlays are broadly consistent with the thrust of the Plan which continues to be increasing development allocations for the priority sectors (i.e., agriculture and irrigation, energy, social services, and rural development) and reducing development spending for industry and the fertilizer subsidy. In line with this, allocations for the priority sectors were increased to 59 percent; this latter compares with 47 percent of total development expenditures in 1980/81.

The availability of infrastructure and energy represent major bottlenecks for private industrial investment. Consequently, while supply is being expanded through new investment, the authorities are relying on provincial boards to coordinate investment activity and infrastructural and energy availability in order to lessen the impact of the shortages. To further encourage private sector industrial investment, the authorities, apart from the above-noted import liberalization measures and foreign exchange allocation, also doubled the rupee ceiling on new investments for which no government approval is required and the related ceilings on capital goods imports.

The Pakistan representatives stated that the Government intended to continue emphasizing price adjustments to improve structural relationships in the economy. In the agricultural sector, procurement prices for the 1983/84 crops were raised by 2-4 percent for rice and by 1-2 percent for cotton; fertilizer prices were raised on a weighted average basis by 9 percent in June 1983. Domestic prices for the major crops and nitrogenous fertilizer are presently on balance close to international levels. Despite the increase in fertilizer prices, the fertilizer subsidy still remains relatively large due to technical and contractual factors relating to two urea producers and low nonurea prices. Pakistan has agreed with the World Bank to increase irrigation water charges sufficiently to cover the full cost of the maintenance and operation of the irrigation system by the early 1990s. The authorities continue to have this as their objective but, as farmers were asked this year to pay either ushr (an Islamic welfare tithe on agricultural production) or increased land revenue rates, the authorities decided not to raise water charges. A major institutional development related to agricultural pricing was the decontrol and derationing of sugar effective August 1, 1983, under which the Government turned over to the private sector primary responsibility for sugar stocks and marketing in the country.

In the energy sector, the Government is considering a further increase in producer prices for domestic oil in order to accelerate the pace of exploration and development. Oil production is expected to rise by a further 8.5 percent. With respect to natural gas, despite efforts to explore for and develop new supplies, production is expected to grow only marginally. Therefore, in order to encourage conservation, consumer prices of natural gas were raised in June 1983 by an average of 25 percent and were at roughly 40 percent of the international price equivalent; the authorities' target is to reach two thirds of the international equivalent by mid-1988. Despite previous measures, gas shortages are expected during the coming winter months which might constrain power supplies and industrial activity.

2. Public finance

The Government's fiscal policy stance for 1983/84 is reliant on a substantial reduction in the growth of total expenditures and on measures to accelerate the growth of tax revenues and other receipts. The overall deficit was projected in the budget to be equivalent to 5.4 percent of GDP, with bank financing of the budget held to 1.4 percent. However, total government recourse to the banking system, including credit for commodity financing, was forecast at only 1.0 percent of GDP due to the projected contractionary effect on commodity financing expected from the decontrol of sugar and the transfer of primary responsibility for sugar stocks and marketing to the private sector. Nonbank domestic financing grew sharply in 1982/83 but was projected in the 1983/84 budget to decline by about 40 percent. The authorities stated that the budget forecast of this item was cautious and based on revised estimates for certain savings receipts in 1982/83 which eventually turned out to be considerably below the actual outcome.

The budget projected the rise in tax revenue at 26 percent due to a substantial increase in base revenue and discretionary revenue measures amounting to PRs 4.9 billion. Excluding these new measures, tax collections were projected to rise by 17 percent, principally owing to estimated high growth rates for imports and domestic production subject to excise duties. The resultant basic elasticity was estimated at about 1.25 compared with the actual average elasticity in recent years of about 0.7. The principal revenue measures included increases in excise duties on cement, cigarettes, and beverages (PRs 725 million), increases in import duties (PRs 620 million), and price increases for fertilizers, natural gas, and railway and telecommunications services (PRs 2,044 million). In addition, improvements in tax administration were targeted to generate PRs 2,000 million. However, the income tax basic exemption was increased and income tax surcharges were abolished, resulting in a loss to the budget of PRs 700 million. Total expenditure was budgeted to rise by 13 percent compared with 22 percent in 1982/83. Current outlays which increased by 29 percent in 1982/83 were to be limited to one half that rate despite an across-the-board salary increase for civil servants amounting to PRs 2.7 billion. Development outlays were budgeted at about the same nominal level as in 1982/83.

Commodity financing was projected at the time of the budget to decline by PRs 1.8 billion due to a reduction in sugar finance of PRs 3.5 billion resulting from sugar decontrol. This sharp reduction depends on the Government disposing of about 0.6 million tons of its sugar stocks, leaving a buffer stock of about 0.2 million tons. Net financing for rice was projected to decline as part of the stock buildup of 1982/83 was to be reduced, and wheat financing was expected to increase based on procurement patterns similar to 1982/83 and projected wheat exports of 0.5 million tons.

The discussions regarding public finance focused on the appropriateness of the projected fiscal stance. In the staff's view a number of elements in the forecasts gave rise to concern. The increases projected for excises and import duties, before measures, were substantially higher than those observed in recent years, while actual data for 1982/83 import duties indicated that only 47 percent of nondefense imports were dutiable, compared with the assumption used in the budget of 60 percent, the average over the previous three years. In addition, the PRs 2,000 million projected increase in revenue arising from improvements in tax administration appeared difficult to achieve, since substantial progress had already been made in this area previously. For these reasons and considering the recent experience of considerable revenue shortfalls, the staff considered the authorities' budget forecast for 1983/84 to be on the optimistic side. Moreover, there was an absence of any significant structural fiscal measures to deal with the problems of overreliance on foreign trade taxes, the narrow base, and the inelasticity of taxes on domestic production and consumption. On the other hand, it appeared that receipts from domestic nonbank financing might be somewhat underestimated, given the rapid growth trend in recent years and the very high level of 1982/83.

In the staff's view, the above factors taken together pointed to the possibility of a fiscal result similar to that of 1982/83 and comprising a higher than budgeted overall deficit with bank financing at about the level budgeted due to enhanced domestic nonbank financing. Emergence of a trend in this direction would be of concern for the medium-term performance of the economy, as the structural weakness in public finance would continue to be offset by mobilizing a large proportion of the economy's private savings to finance the budget. Another issue was that, while bank financing of the budget in 1983/84 was forecast to be somewhat lower than in 1982/83 both nominally and in relation to GDP, it was still high relative to the need to absorb the excess liquidity injected into the economy last year.

In the course of the discussions and subsequently, the authorities undertook a reassessment of the fiscal outlook and policy for the year in recognition of a possible revenue shortfall and the need to increase the contribution of the budget to a more tightened demand management policy. In this context, a number of measures were introduced in August-September 1983. Certain export subsidies were reduced leading to estimated expenditure savings of PRs 500 million, and additional import liberalization was implemented along with a second allocation of US$100 million to permit expanded private sector importation of investment goods. Taken together, these were estimated to generate about PRs 500 million in import duties. The importation of certain consumer durables was also permitted at high duties and sales taxes. The authorities' reassessment also led to their revising certain budget estimates. The projected cost of the government salary increase which had been budgeted at PRs 2.7 billion was reduced by PRs 500 million to reflect the recapture of income taxes. Moreover, nonbank domestic financing was revised to a level PRs 4,000 million above the budget estimate in view of the 1982/83 actual level and taking into account collections during the first two months of 1983/84. The net result of these adjustments was to leave the overall fiscal deficit at roughly the budget forecast but to reduce budgetary bank financing to 0.6 percent of GDP. Total government bank financing was forecast to be 0.4 percent. This included a less contractionary impact from commodity financing than had been assumed in the budget due to a revised forecast of end-1983/84 rice stocks and the likelihood that wheat exports would fall short of the earlier estimate. The net effects of these two revisions was to reduce the contractionary impact of commodity operations from PRs 1.8 billion to slightly over PRs 0.8 billion. 1/ With respect to tax reform, the authorities took the position that for the time being they would continue to rely on improved tax administration and reducing tax evasion.

The staff's reservations concerning these budget re-estimates are presented in the context of demand management policy which points to the need for further fiscal measures so that, within the constraint of a permissible increase for total domestic credit, bank borrowing could be released for use by the private sector.

3. Money and credit

The authorities' demand management framework for 1983/84 is intended to make a partial correction for the excess liquidity expansion of 1982/83. Monetary growth is targeted at 12 percent compared with a projected growth in nominal GDP of 14 percent. The authorities believe that the strong buildup in time and savings deposits last year, as opposed to narrow money, will help contain the inflation rate to 6.5 percent. The monetary expansion target reflects a smaller projected external surplus and the goal of holding the increase in total domestic credit to 11.5 percent, substantially below the 1982/83 rate.

1/ Subsequently, the domestic consumption allocation of Basmati rice was increased to further constrain the rice financing requirement.

The largest credit containment effort occurs in government bank borrowing, which is projected to increase by only 2.5 percent. Within this amount, budgetary support is to be limited to about 57 percent of the average annual level during the program period. The reduction is facilitated by the authorities' decision to continue relying heavily on nonbank domestic financing. As explained above, bank borrowing to finance commodity operations is expected to be contractionary.

With the containment of government borrowing from the banking system, the authorities have allowed for an 18 percent increase in credit to the nongovernment sector, similar to the target rate for 1982/83. Within this total, credit earmarked for the public sector enterprises is forecast to grow by only 10 percent, substantially below the increase allowed this sector in 1982/83. The authorities believe that the sharp expansion in credit use by the enterprises at the end of last year and this year's allocation will provide adequate resources. For the private sector, credit is projected to increase by 21 percent, similar to the actual increase last year. This includes an allocation to finance that proportion of the increase in private sugar stocks (60 percent and priced before taxes) which the authorities estimate will be held by sugar mills. The authorities have assumed that the balance would be held by private wholesalers and retailers and financed out of own resources. (The value of this 40 percent would be higher at PRs 1.4 billion since it would be priced after taxes are paid at the factory gate.) Special global allocations to finance agriculture and private sector fixed industrial investment have also been made. These targets are equivalent to 13 percent and 28 percent of the total credit allocation to the private sector, respectively. The private industrial investment allocation is 21 percent above last year's allocation for this purpose. The authorities believe that the aggregate credit allocation to the private sector will be sufficient in conjunction with the large increase in private liquidity last year for the sector to carry out, inter alia, the sugar stocking and marketing operations assigned to it as a result of decontrol, to continue financing the budget at a very high level, as well as to implement the projected high level of industrial investment, resulting in part from the US$200 million foreign exchange allocation provided from central bank resources to facilitate private sector capital goods imports.

The discussions on credit planning centered on two areas: first, the magnitude of the correction needed this year for the excess liquidity expansion in 1982/83 in order to contain pressures on prices and the balance of payments and, second, the assumptions concerning private sector behavior with regard to own financing of sugar and to savings. In the staff's view, the correction for last year's excess monetary growth which is incorporated in the authorities' macroeconomic framework for this year is relatively modest as, with a projected expansion in nominal GDP of 13.6 percent and assuming unitary elasticity of demand for money, the authorities' proposed monetary expansion would absorb only 12 percent of last year's excess. Ideally, a full correction would have been desirable to avert serious pressures on prices and the balance of payments. However, as this was not feasible since it would have required an extremely tight monetary stance, the staff was of the view that a reasonable approach would be to correct for at least one half the excess liquidity expansion of 1982/83.

The staff reservations concerning the budget and the credit plan focused on the assumptions regarding private sector financing and savings behavior. Success in sugar decontrol and the transfer of most of the national sugar stocks to the private sector is dependent on the assumption that the private sector will supply more than one half of the associated financing requirement from its own resources. With regard to savings behavior, the authorities' revisions to the budget and credit plan of August-September 1983 incorporate substantially higher projections for domestic nonbank budget financing and for private investment and capital goods imports (and thus a lower balance of payments surplus), all based on the assumption that private sector savings this year would be at the requisite level. However, no specific policy adjustments have been introduced to ensure this, and adequate domestic credit provision has not been made in the credit plan to facilitate purchase of foreign exchange out of the US$200 million central bank allocation to the private sector for capital goods imports or for financing the associated domestic component of the investment. Since in recent years private sector own financing of industrial investment has been a relatively small proportion of national savings, the high level of private investment in the staff's view would need to be supported by an appropriate credit allocation from the banking system, particularly since the budget projects a continued high level of government reliance on national savings (at about 20 percent). In this context and under the constraint of the need to limit total domestic credit, the staff's analysis pointed to the need for fiscal measures to reduce further government use of bank credit and release credit for use by the private sector. If because of inadequate credit or other reasons the projected level of private industrial investment were not to materialize, capital goods imports would be less and result in a larger external surplus, with a commensurately larger expansionary impact on domestic liquidity. The authorities' evaluation was that private savings would be sufficient for that sector to carry out the roles assigned it in the macroeconomic framework for this year and that supportive fiscal measures were not required.

4. External sector

a. Balance of payments

For 1983/84 Pakistan's balance of payments is expected by the authorities to register a current account deficit of US$920 million (2.7 percent of GNP) and an overall surplus of about US$150 million. Taking into account scheduled repayments to the Fund and without drawing the remaining SDR 189 million under the extended arrangement, gross reserves would increase by US$90 million to US$2.1 billion but remain roughly unchanged in terms of import coverage at 14.1 weeks of projected 1984/85 imports. The anticipated erosion in the current account from last year's position primarily reflects the authorities' projection of a large increase in imports of almost US$1.0 billion and a considerable slowdown in the growth of workers' remittances to 10 percent from the 30 percent recorded in 1982/83. Exports are forecast to increase by about 12 percent, similar to last year's rate.

Within the import aggregate, non-oil imports (c.i.f.) are projected to increase by US$1.2 billion. About 50 percent of the increase represents private sector imports, which are expected to respond in particular to the measures taken in July and September 1983 to liberalize imports and facilitate the financing of private sector capital goods imports. The rest is accounted for primarily by public sector imports, including higher project aid, edible oil, and defense imports. Oil import payments are expected to decline again; the decline assumes an 8 percent increase in domestic production and a 10 percent increase in consumption and incorporates the full-year effect of the 1983 petroleum price reductions.

The projected increase in exports assumes a rise in primary commodity exports of 15.5 percent and in all other exports of 11 percent. The recovery in primary commodity exports reflects improved prices for cotton and rice (other than the superior Basmati variety) and an increased availability of these commodities for export. The expansion in other exports assumes a continuation of the recovery of the world economy, higher unit prices in dollar terms, and a growth in world trade of 2-3 percent, along with a lagged effect from the 1982 exchange rate depreciation. The latter assumes maintenance of the real effective exchange rate of mid-1983.

All categories of long-term official capital inflows (project aid, commodity and food aid, and refugee assistance) are projected to increase. Included within gross long-term inflows are disbursements of US$100 million under a new Structural Adjustment Loan, for which negotiations with the World Bank are yet to be finalized, and US$86 million of special U.S. economic assistance already in the pipeline. The major change in the long-term capital entry compared with 1982/83 is a projected zero net inflow to foreign currency deposit accounts held with domestic banks. This is attributed by the authorities to the virtual elimination in June 1983 of the differential over Eurocurrency interest rates which had arisen previously, and they intend to adjust the rates paid on these deposits during the year to keep the stock unchanged. The projection for official assistance and debt relief assumes no additional debt relief and a small net inflow of short-term loans from commercial banks.

b. Medium-term balance of payments and debt prospects: 1984/85-1987/88

The authorities have provided the staff with provisional balance of payments projections covering the remaining four years of the Sixth Five-Year Development Plan (Appendix III, Table 9); these are essentially based on the forecasts contained in the draft Plan. The basic assumptions underlying the projections are a modest upturn in world economic activity, roughly unchanged terms of trade, a 15 percent average growth for exports, a slowdown in the growth of workers' remittances to under 9 percent, continuation of a flexible exchange rate policy, a continued phased liberalization of imports (resulting in an average increase in the volume of private sector imports of about 6 percent a year), a program of deregulation of the economy, and continuing adjustments in domestic consumer energy prices along with intensified nonprice measures to conserve domestic energy resources. World oil prices are assumed to remain constant in dollar terms through end-1984 and thereafter to be held approximately constant in real terms. No debt relief other than the winding down of the agreement with the Pakistan Consortium members of January 1981 is assumed. Commitments of bilateral aid (other than U.S. aid) and multilateral aid are forecast to increase by 10 percent a year in nominal terms; U.S. aid is based on known commitments. No increase is assumed in food aid. The projections also assume that two further Structural Adjustment Loans, each of US$200 million, will be approved and disbursed over the period.

On the basis of these assumptions, the current account deficit would decline from 2.7 percent of GNP in 1983/84 to 1.7 percent in 1987/88. 1/ An overall surplus of about US$400 million would emerge in each year. These projections result in improved external debt service ratios by the end of the period and would enable repurchases falling due to the Fund to be made without placing a strain on the gross reserves position.

The authorities have stressed the tentative nature of these projections, given the uncertainties in projecting developments in world trade and inflation, foreign workers' remittances, the evolution of oil prices, and foreign aid funding, and have indicated that the projections would be adjusted somewhat in the context of finalizing the draft Five-Year Plan. The staff assessment is that, while most of the assumptions underlying the projections appear individually possible, little allowance has been made for adverse domestic and international economic developments. The assumptions regarding export growth, the import volume elasticity, and capital inflows appear to be particularly optimistic.

c. Exchange and trade system

The program for reform of the import system under the extended arrangement envisioned action in three major areas by July 1, 1983: the conversion to a negative/restricted list system from a positive list system; the removal of bans or equivalent restrictions protecting an additional 11.5 percent of domestic industrial production; and implementation of a comprehensive tariff reform.

The 1983/84 Import Policy Order announced the introduction of the negative/restricted list system. The negative list contained 438 categories from the SITC and was accompanied by 3 restricted lists, covering items importable only by the public sector, tied imports, and a list of 5 consumer items subject to quantitative restrictions. To facilitate

1/ The assumed average annual GNP growth rate for 1984/85-1987/88 is 12 percent in nominal terms.

transition to the new system, the positive list (adjusted for items made importable in 1983/84) was retained. In moving to the new system, 148 items in the SITC that previously were implicitly or explicitly banned, 5 items previously importable only by the public sector, and 15 items previously importable only from tied sources were made freely importable. The 148 items included 8 machinery items (out of 14 that previously were not specifically importable), computers, grey cloth, and milled wheat, as well as a large number of items previously banned for technical reasons. The 5 items previously reserved to the public sector included sugar, non-nitrogenous fertilizers, and new standardized trucks, buses, and light commercial vehicles in assembled condition; in unassembled condition, the latter 3 items were made importable by recognized assemblers.

In addition to the above changes and in conjunction with the doubling to PRs 60 million of the ceiling on new industrial investment for which no approvals from any government agency are required, the value limit applicable to imports of capital goods for these investments was also doubled to PRs 30 million. This ceiling was also extended to expansions of industrial plant, effectively abolishing therefore the previous distinction made in the import regulations between capital goods imports used for new investment and plant expansion. As noted above, to enhance further the access of private sector industrial investors to capital imports, US$200 million of central bank foreign exchange was made available to certain financial institutions to release (against rupees) to investors in approved projects.

Subsequent to the announcement of the Import Policy Order, certain adjustments were made to the new system. The program objective had been to limit the negative list to items banned for religious, security, or luxury consumption reasons (List A); consumer and capital goods banned temporarily for protective reasons (List B); and certain intermediate goods used almost exclusively in the production of the consumer and capital goods protected temporarily by bans (List C). The list published in August 1983, however, contained a number of items classified as "other" in the SITC as well as items not produced in any significant quantity in Pakistan. To make the negative list simpler and to eliminate certain machinery and other items initially included in List B but not produced domestically, the authorities on September 15, 1983 removed from the negative list 70 additional items or categories, including 16 items classified as "other." This reduced the list to 401 categories of imports. Of the 70 items or categories, 14 were transferred to the tied list, 17 were placed on the list of items restricted to the public sector, and the remaining 39 were made freely importable. The additional items made importable included a number of consumer durables, such as dishwashing machines, clothes washing and drying machines, hot water heaters, and car air conditioners, as well as some items produced domestically such as railway and tram equipment and vans. Also on September 15, an amendment was issued to clarify the status of the positive list, stating that this list was for indicative purposes only and published for the convenience of importers. In the staff's view, the additional liberalization in September was substantive and moved the import system reform close to the objective of the EFF program. Nevertheless, the negative list as presently constructed remains complex and difficult to use, and with the temporary retention of the positive list the conversion of the import system fell somewhat short of the full program objective.

With regard to the program commitment to remove by July 1, 1983 bans or equivalent restrictions protecting another 11.5 percent of industrial production, the specific items liberalized in the 1983/84 Import Policy Order were sugar, milled wheat, grey cloth, non-nitrogenous fertilizers, machinery, and transport equipment. Taken together, these accounted for 20.1 percent of industrial production and brought the specific items liberalized by July 1, 1983 to 34.6 percent of industrial production, compared with a program target of 26.1 percent. The freeing of sugar imports (sugar accounts for 9.5 percent of industrial production) is subject to qualification as a liberalization measure because of the current large domestic stocks of sugar, the high cost of domestic production, and a high regulatory duty of PRs 6.50 per kilo equivalent to 225 percent of the current international price. Of the items liberalized, 78 percent are classified as intermediate and investment goods, consistent with the program objective of giving greater emphasis to the liberalization of these goods.

The study of effective protection, undertaken by the Pakistan Institute of Development Economics (PIDE) in collaboration with the World Bank, that was to have been completed by March 1983 was not received by the authorities in time to allow them to implement the comprehensive tariff reform by July 1, 1983 as envisioned under the program. The authorities have now received the report and have formed a committee consisting of officials of the Ministries of Finance and Planning to review the PIDE report and develop policy recommendations. They intend to introduce reforms of the tariff system based on the committee's recommendations beginning with the 1984/85 budget and Import Policy Order.

As provided in the 1982/83 program, the authorities reviewed the tariff applicable to cotton yarn, which was liberalized last year, and reduced the tariff on yarns with counts of 30 or less (about 90 percent of domestic production) from 50 percent to 40 percent, but left unchanged at 50 percent the tariff for higher counts. However, on the other specific items previously liberalized under the program (cement, caustic soda, and soda ash), they indicated that domestic cost calculations did not permit a reduction in tariffs. Moreover, the tariff on caustic soda was differentiated between liquid and solid forms, and the tariff on the liquid form was increased to 250 percent (compared with 85 percent at the beginning of 1982/83) to prevent dumping. The tariff on cement was also increased from 40 percent to 55 percent, although at its new level the tariff is still less than the excise tax on domestic cement and thus does not afford net protection to domestic producers. The tariffs on the items liberalized in the 1983/84 Import Policy Order other than sugar were set at 70 percent for grey cloth, 40 percent for milled wheat, zero for non-nitrogenous fertilizers, 60 percent for new standardized trucks, buses, and light commercial vehicles in assembled condition (30 percent in unassembled condition), and 85 percent for most of the machinery items liberalized. In the course of the discussions, the staff expressed its concern that the height of some of the above tariffs might limit progress toward increasing the exposure of domestic industry to external competition and toward reducing inefficiencies. In addition to the tariff changes affecting liberalized items, a large number of other tariff adjustments were announced with the 1983/84 budget and Import Policy Order, and some more recently in the context of amending the Import Policy Order. The tariff increases on previously importable items announced in the budget were mainly intended to raise revenue or remove anomalies in the tariff schedule, but some increases were also introduced to provide greater protection to domestic industry. For most of the items liberalized in September 1983, the notional tariffs previously applicable in the Pakistan Customs Tariff to the banned items were maintained. The authorities indicated that the tariff structure would be reviewed in the context of the overall tariff reform.

The authorities have acted to reduce further export subsidization. In August 1983 export subsidies (rebates) were eliminated for both cotton and woolen yarn, reduced from 10 percent to 5 percent for grey cloth, and from 12.5 percent to 7.5 percent for ten other items, including other textile products, hand-knotted carpets, and leather goods. Export rebates on engineering goods, plastics, surgical goods, cutlery, and sports goods remain at 12.5 percent.

With regard to exchange rate policy, the authorities indicated their intention to take a flexible approach in responding to changing circumstances in order to sustain external competitiveness. During 1982/83 a number of minor measures were taken to liberalize and simplify the exchange system, including a delegation of some powers of the central bank to authorized dealers, a simplification of rules relating to foreign exchange use by students, increases in exchange quotas for professional training abroad, and a liberalization of rules relating to repatriation of principal and capital gains from the purchase of domestic securities held by non-resident Pakistanis. The bilateral payments agreement with the Islamic Republic of Iran, which expired in May 1983, has not yet been renewed. If renewed, the authorities will ensure that the agreement would not incorporate features which constitute restrictions under Article VIII. The bilateral payments arrangements with China and Hungary are gradually being phased out.

V. Staff Appraisal

Under the extended arrangement, Pakistan was successful in achieving many of the quantitative financial objectives established for the three-year program and in moving forward in a substantive manner the structural reform effort initiated by the authorities before the commencement of the arrangement. In the external sector, the quantitative program targets for the balance of payments were exceeded, the level of international reserves moved into a comfortable position, and the servicing of external debt was carried out on schedule. In the domestic sphere, real economic growth was maintained at the high level projected for the program period, while as a result of the effective implementation of tight demand management policies over the first two program years the ratios to GDP for the budget deficit and government domestic bank financing and the growth rate of total domestic credit were held to levels consistent with the program goals. Consequently, monetary expansion was restrained, and the economy benefited from the absorption of excess liquidity, a substantial slowing of the rate of inflation, and reduced demand pressures on the external payments position. Although there was a weakening of demand management in 1982/83, the authorities have indicated that they are committed to restoring the restrained stance pursued previously.

Progress was made in the area of structural reform. The most substantive measures included the adoption of a flexible exchange rate policy to restore external competitiveness, the restructuring of the import system and the initiation of the import liberalization program, and the implementation of a program of price rationalization in the agricultural and energy sectors. The steps taken in each of these areas supported the economy's buoyant performance during the program period. However, these reforms also have importance for future economic performance since in each case new institutional or regulatory features were put in place which should facilitate the implementation of flexible and timely policy measures. Other reforms were also adopted which had and will have important benefits. These include the reorientation of the public sector investment program, nonprice programs to expand agricultural output, and the implementation of the performance incentive system in the public enterprise sector.

While good progress was made under the program in restructuring the economy, there remain areas of economic policy toward which the authorities will need to direct their attention as they continue their structural reform efforts over the medium term. In the external sector, there is a need to strengthen the structure of the balance of payments and contain its vulnerability to adverse external developments. In this regard, the authorities are aware of the unstable nature of remittance flows, and they intend to remain cautious in assessing the future contribution of remittances to the balance of payments. At the same time, however, sustaining economic growth in the future at the high level of recent years may require a resumption of real import growth beyond the levels currently envisaged in the new development plan. Therefore, exchange rate policy must remain flexible in order to sustain external competitiveness and strengthen export performance.

With regard to the budget, its structural evolution over the program differed from what had been envisaged in large part due to the delays in implementing fiscal reforms. Consequently, the revenue ratio stagnated and current expenditures rose more rapidly than expected, while public investment spending fell short of target and budget financing became heavily dependent on private savings. In the staff's view, continuation of these trends might cause problems for demand management over the medium term and in addition could threaten the investment performance of both the public and private sectors under the new development plan. For these reasons, it is important to take substantive action toward greater mobilization of revenues, particularly through reform of the tax system, and to direct expenditure growth toward investments and those social and economic areas important to structural reform and growth of the economy. In the related area of government commodity financing, the authorities should be commended for acting to deregulate sugar marketing. However, the privatization of commodity operations would also need recourse to bank credit. Consequently, to contain further problems in this area which might impinge on the demand management effort, there is a need for a better integration of agricultural and export policy decisions. Without this the danger exists that the commodity procurement program will assume too large an income maintenance function.

While economic growth was high over the program period, the sustaining of this performance will likely necessitate an improvement in the economy's investment and savings ratios, which are relatively low by international standards. As noted above, fiscal reforms could benefit the economy's future investment and growth path, but in addition measures more directly supportive of private sector investment and activity may also be needed. In view of this, reconsideration should be given to implementing some of the structural reforms, such as a broad deregulation of the economy and adjustments in the labor law, which were postponed during the program. Future economic growth may also be affected by the domestic energy shortages which began to emerge during the program, given the potential these have for disrupting domestic manufacturing activity. Therefore, further measures will be needed to bring certain domestic energy prices closer into line with border prices.

In the staff's view, it is essential to continue the momentum behind the structural reforms affecting the trade system. Some further action is needed to make the new negative list effectively operational and to make a clean break with the positive list, but the economy would also benefit from a continued reduction in reliance on import prohibitions. Under the program, trade reform was to have been complemented by the comprehensive reform of the tariff system in order to ensure that comparative advantage considerations would influence growth patterns, particularly in the industrial sector. While tariff reform was delayed, the authorities recognize that its importance has not diminished, and they intend to initiate action in this area as soon as possible.

In formulating macroeconomic policies for 1983/84, the authorities were aware that the large excess liquidity expansion of last year could threaten domestic financial stability and the balance of payments. Therefore, their objective is to strengthen demand management and to correct in part for the overshooting of the monetary growth target of 1982/83. The staff has reservations regarding the authorities' dependence in achieving their macroeconomic goals on assumptions of private sector savings and financing behavior which have not been supported by policy measures. The authorities are projecting that private sector investment and capital goods imports will rise substantially in the current year. However, the incremental credit resources earmarked for private investors have not been maintained at a level comparable to their past investment credit needs, since the authorities believe that the excess liquidity in the hands of the public will be consolidated into financial savings. At the same time, however, the private sector is expected to use a substantial proportion of its savings to finance the government budget deficit and to use primarily its own financial resources to absorb most of the national sugar stock. The staff is of the opinion that, in Pakistan's present circumstances, it is unlikely that the private sector will find it feasible to undertake in a relatively short period a very large increase in industrial investment financed entirely from its own resources. Consequently, there is a need to release adequate credit to the private sector within the credit aggregate now envisioned in order to assist it in assuming these increased responsibilities. Apart from these reservations concerning the formulation of the demand management program, the staff also believes that the degree of correction planned for the monetary excess of 1982/83 will not be sufficient to contain the emergence of pressures on prices and the external position. The staff would hope that firm action will be taken soon to restore the degree of effectiveness in demand management exercised during the first two program years.

An assessment of the overall performance under the three-year program should be seen against the background of the goals set out by the authorities. Considering the breadth of the authorities' program, it was inevitable that some reforms would be accorded priority in implementation while others would be delayed. Implementation may also have been hampered by the adverse international environment during most of the program period, but despite this the authorities persisted in their efforts to reform the economy and succeeded in improving its performance. To anchor these favorable results more firmly, however, it is necessary that the slippages that have occurred be rectified as soon as feasible.

It is recommended that the 1984 Article IV consultation discussions be held at about the same time next year.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Pakistan's exchange measures subject to Article VIII, Section 2, and in concluding the 1983 Article XIV consultation with Pakistan, in the light of the 1983 Article IV consultation with Pakistan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund hopes that Pakistan will continue to pursue policies that will facilitate a relaxation of restrictions on payments and transfers for current international transactions. The Fund notes that Pakistan has eliminated a bilateral payments agreement with one Fund member and hopes that further progress will be made toward eliminating the bilateral payments agreements with two Fund members.

Fund Relations with Pakistan 1/

Date of membership:	July 1950.
Status:	Article XIV.
Quota:	SDR 427.5 million; the proposed quota is SDR 546.3 million.
Fund holdings of currency:	The equivalent of SDR 1,685.9 million, or 394.4 percent of quota. Pakistan made eight drawings totaling SDR 1,079 million during the period of the extended arrangement, two first credit tranche drawings totaling SDR 69 million and a purchase under the CFF of SDR 180 million.
SDR position:	SDR 17.4 million, equivalent to 10.24 percent of net cumulative allocation of SDR 169.99 million.
Trust Fund loan disbursements (first and second periods):	SDR 229.7 million, of which SDR 6.63 million has been repaid with the outstanding balance of SDR 223.07 million.
Direct distribution of profits from gold sales:	US$37.3 million.
Gold distribution (four distributions):	201,097.447 fine ounces.
Oil facility subsidy payments:	SDR 30.32 million.
Exchange system:	With effect from January 8, 1982 the rupee ceased to be pegged to the U.S. dollar. Pakistan at present maintains a managed floating exchange rate system, with the U.S. dollar continuing to be the intervention currency. The average exchange rate for 1982/83 was PRs 12.72 per U.S. dollar.
Technical assistance:	The Fund has provided Pakistan with technical assistance on reform of indirect taxation. A mission visited Pakistan in the second half of November 1980 and the report was given to the Government on April 13, 1981.

1/ As of October 31, 1983.

Last Article IV Consultation: August 16-23 and September 20-October 4, 1982. The Staff Report (EBS/83/3) was discussed by the Executive Board on February 4, 1983.

The Executive Board decision [Decision No. 7319-(83/28)], adopted February 4, 1983 was as follows:

1. The Fund takes this decision relating to Pakistan's exchange measures subject to Article VIII, Section 2, and in concluding the 1982 Article XIV consultation with Pakistan, in the light of the 1982 Article IV consultation with Pakistan conducted under Decision No. 5392(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Pakistan has recently entered into a bilateral payments agreement with a Fund member which is subject to approval under Article VIII. The Fund notes Pakistan's intention not to renew this agreement in a form which retains features that are inconsistent with Article VIII. In the circumstances, the Fund grants approval of the restrictions or multiple currency practices inherent in the bilateral payments agreement until May 31, 1983.

3. The Fund hopes that Pakistan will continue to pursue policies that will facilitate a relaxation of restrictions on payments and transfers for current international transactions and that further progress will be made toward eliminating the bilateral payments agreements with three Fund members.

Documentation

The 1980 Article IV consultation reports (SM/80/162 and Sup. 1 and SM/80/194), together with the request for use of Fund resources under extended Fund facility (EBS/80/243), were discussed by the Board on November 24, 1980. On March 27, 1981 requests for a waiver of performance criterion under the arrangement and a first credit tranche drawing (EBS/81/60 and Sup. 1) were approved. The reports on the 1981 Article IV consultation and use of Fund resources under the arrangement (EBS/81/222 and SM/81/219) were discussed on December 2, 1981. The Board approved the 1982 mid-term review (EBS/82/64) on May 5, 1982. On August 2, 1982 the Board approved the use of Fund resources under the compensatory financing facility (EBS/82/119 and Sup. 1). The reports on the 1982 Article IV consultation and program under the extended arrangement (EBS/83/3 and Sup. 1 and SM/83/14) were discussed by the Board on February 4, 1983.

Table 2. Pakistan: Schedule of Purchases and Repurchases, November 1980-November 1983

	1980	1981		1982		1983		
	Nov.-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Nov.	Total
				(In millions of SDRs)				
Purchases	105.0	312.9	170.0	275.0	180.2	285.0	--	1,328.1
First credit tranche	6.0	62.9	--	--	--	--	--	68.9
Extended Fund facility	99.0	250.0	170.0	275.0	--	285.0	--	1,079.0
Ordinary	(49.5)	(125.0)	(87.4)	(137.5)	(--)	(142.5)	--	(541.9)
Supplementary financing facility	(49.5)	(125.0)	(82.6)	(137.5)	(--)	(142.5)	--	(537.1)
Compensatory financing facility	--	--	--	--	180.2	--	--	180.2
Repurchases	8.4	53.5	79.1	58.4	49.1	24.3	--	272.8
Oil facility	8.4	29.5	27.6	15.6	9.1	4.3	--	94.5
Compensatory financing facility	--	24.0	51.5	--	--	--	--	75.5
Reserve and credit tranches	--	--	--	20.0	40.0	20.0	--	80.0
Schedule B, paragraph (ii)	--	--	--	22.8	--	--	--	22.8
Net purchases	96.6	259.4	90.9	216.6	131.1	260.7	--	1,055.3
Fund holdings 1/ Total (cumulative)	727.2	986.6	1,077.5	1,294.1	1,425.2	1,685.9	1,685.9	
				(As percent of quota)				
Total holdings 2/	170.1 (255.2)	230.8 (346.2)	252.1 (378.1)	302.7 (454.1)	333.4 (500.1)	394.4 (591.5)	394.4 (591.5)	

Sources: IMF, Treasurer's Department and extended arrangement.

1/ End of period.

2/ Pakistan's quota is SDR 427.5 million. The percentages in parentheses are based on the previous quota of SDR 285 million.

Pakistan - Financial Relations with the World Bank Group

(In millions of U.S. dollars)

	IBRD	Third Window	IDA	Total
IBRD/IDA lending operations 1/				
Fully disbursed operations 2/	781.4	32.0	936.1	1,749.5
Ongoing operations 3/	115.2	10.0	881.6	1,006.8
Agricultural and rural development	20.2	10.0	269.0	299.2
Education	--	--	50.0	50.0
Power and utilities	40.0	--	337.6	377.6
Transportation	--	--	100.0	100.0
Industry	--	--	100.0	100.0
Population	--	--	18.0	18.0
Energy	55.0	--	7.0	62.0
Total 1/4/	896.6	42.0	1,817.7	2,756.3
Repayments	473.1	0.4	34.7	508.2
Total now held by IBRD/IDA 5/	423.5	41.6	1,783.0	2,248.1
IFC investments 6/	--	--	--	92.3

Source: World Bank.

1/ Loans and credits as of August 31, 1983.
2/ Ninety-three loans and credits fully disbursed.
3/ The IBRD, Third Window, and IDA have made commitments of US$83.3 million, US$5.5 million, and US$506.3 million, respectively, in 1983 which have not become operational as yet and are therefore excluded.
4/ Excludes the disbursed portion of loans and credits wholly or partly for projects in former East Pakistan which have now been taken over by Bangladesh. Also excludes amounts which have been canceled.
5/ Prior to exchange adjustments.
6/ As of August 31, 1983.

Table 3. Pakistan: National Product and Expenditure, 1979/80-1983 /84

(In percent)

	Revised Actual 1979/80	Program 1980/81	Revised Actual 1980/81	Original Proj. 1981/82	Program 1981/82	Revised Actual 1981/82	Original Proj. 1982/83	Program 1982/83	Prov. Actual 1982/83	Official Proj. 1983/84
Real growth rates:										
GDP at factor cost 1/	7.3	5.5	6.4	5.7	6.1	5.6	5.8	6.7	5.8	6.4
Agriculture	6.9	4.7	3.8	5.5	5.1	3.5	4.6	6.1	4.8	4.9
Manufacturing	10.1	8.9	10.9	7.9	9.5	11.9	8.6	9.0	8.3	9.3
Consumption	9.6	6.5	4.5 2/	4.7	6.1	2.3 2/	4.7	7.6	5.1	6.4
Gross domestic fixed capital formation (GDFC)	1.9	6.6	-2.1 3/	8.8	5.8	13.1 4/	8.6	10.8	13.8 4/	13.7 4/
GNP at market prices	9.5	6.7	6.6	5.5	6.5	3.9	5.9	8.5	7.7	7.0
GDP growth at current market prices	20.6	18.0	19.2	16.6	17.2	14.7	16.8	16.6	13.8	13.6
GDP deflator change (at market prices)	9.7	10.0	10.8	10.0	10.0	10.5	10.0	8.0	6.5	6.5
Consumer prices change										
Annual average	10.7	10.0	12.4	10.0	10.0	10.0	10.0	8.0	4.5	6.5
Year end	12.6	...	12.1	...	...	7.1	...	...	6.6	...
Ratios: 5/										
Consumption/GNP	88.1	88.0	88.1	87.3	87.1	89.3	86.3	87.7	85.9	86.8
Gross domestic investment/GNP	16.4	17.5	15.1	17.4	16.7	15.6	17.3	16.4	15.4	15.9
Of which GDFC/GNP	(15.6)	(15.5)	(13.6)	(16.0)	(14.6)	(13.6)	(16.4)	(14.8)	(13.3)	(14.2)
Current account deficit/GNP	4.5	5.5	3.3	4.6	3.8	4.9	3.6	4.1	1.4	2.7
Gross national savings/GNP	11.9	12.0	11.9	12.7	12.9	10.7	13.7	12.3	14.1	13.2
Gross domestic savings/GNP	5.5	6.4	5.6	7.5	6.9	4.5	8.8	5.2	5.7	4.8
Marginal national savings rate	16.7	13.2	11.9	17.0	10.6	2.8	19.7	15.8	34.4	7.2
Marginal domestic savings rate	10.3	10.6	6.3	14.9	7.7	-3.0	17.0	5.0	16.2	-2.9

Sources: Ministry of Finance and Economic Affairs, State Bank of Pakistan, and staff projections.

1/ The original targets were staff projections.

2/ The lower than projected growth rates in 980/81 and 1981/82 are due almost entirely to higher consumption deflators than had been assumed in deriving the targets.

3/ The negative real growth rate results from a shortfall in 1980/81 public and to a lesser extent private investment outlays and upward revisions for both investment components for 1979/80 (all in current prices).

4/ For 1981/82 the high real growth rate results from lower than projected investment outlays in 1980/81 in current prices and an investment deflator significantly below the deflator assumed in deriving the target. The investment deflator was substantially below the GDP deflator. For 1982/83 and 1983/84 a similar investment deflator problem exists. The investment deflator series is being reviewed by the authorities.

5/ Calculated from current price data.

Table 4. Pakistan: Summary of Public Finance, 1979/80-1983/84

	1979/80	1980/81		1981/82						1982/83			1983/84	
	Actuals	Program	Actuals	Original Proj.	Budget	Program	Actuals	Original Proj.	Rev. Proj.	Budget 1/	Program 2/	Prov. Actuals	Budget	Official Revised Est.
	(In millions of Pakistan rupees)													
Revenue	38,502	47,276	47,002	53,576	54,344	52,844	51,930	59,443	59,008	62,475	65,712	58,928	72,729	71,478
Tax	32,507	40,342	38,846	46,018	45,847	44,347	43,003	51,099	49,645	51,856	54,927	48,776	61,374	60,123
Nontax	5,995	6,934	8,156	7,558	8,497	8,497	8,927	8,344	9,363	10,619	10,785	10,152	11,355	11,355
Surplus of autonomous bodies	1,464	2,226	2,019	2,191	2,393	2,443	1,909	2,410	3,028	2,738	2,738	2,286	2,327	2,327
Expenditures	54,629	64,032	63,639	73,294	71,573	71,973	71,013	81,552	83,917	86,754	88,715	86,774	97,753	96,825
Current 3/	35,547	40,016	40,318	45,436	44,711	45,069	46,370	49,238	52,464	56,921	58,882	59,718	68,489	67,561
Development 3/	19,082	24,016	23,321	27,858	26,862	26,904	24,643	32,314	31,453	29,833	29,833	27,056	29,264	29,264
Overall deficit (-)	-14,663	-14,530	-14,618	-16,955 3/	-14,836	-16,686	-17,174	-14,214 4/	-16,095 5/	-21,541	-20,265	-25,560	-22,697	-23,020
Financing	14,663	14,530	14,618	16,955	14,836	16,686	17,174	14,214	16,095	21,541	20,265	25,560	22,697	23,020
External (net)	6,951	8,595	6,977	8,889	8,153	8,153	5,345	6,252	7,857	9,370	8,384	5,068	8,286	8,286
Domestic nonbank	1,407	1,560	5,286	2,194	1,239	2,955	6,313	2,459	2,745	6,505	6,505	14,368	8,391	12,391
Banking system	6,305	4,375	2,355	5,872	5,444	5,578	5,516	5,503	5,493	5,666	5,376	6,124	6,020	2,343
Memorandum items:														
Domestic bank financing	7,359	6,028	6,502	6,388	6,406	6,540	6,576	6,714	6,704	6,666	6,484	9,690	4,220	1,509
Budgetary support	6,305	4,375	2,355	5,872	5,444	5,578	5,516	5,503	5,493	5,666	5,376	6,124	6,020	2,343
Commodity operations	1,054	1,653	4,147	516	962	962	1,060	1,211	1,211	1,000	1,108	3,566	-1,800	-834
GDP at current market prices	236,509	274,013	281,988	319,383	326,910	326,910	323,489	373,016	382,700	375,760	375,760	367,972	418,059	418,059
	(As percent of GDP at market prices)													
Tax revenue	13.7	14.7	13.9	14.4	14.0	13.6	13.3	13.7	13.0	13.8	14.6	13.3	14.7	14.4
Total revenue	16.3	17.3	16.7	16.8	16.6	16.2	16.1	15.9	15.4	16.6	17.5	16.0	17.4	17.1
Expenditure	23.1	23.4	22.8	22.9	21.9	22.0	22.0	21.9	21.9	23.1	23.6	23.6	23.4	23.2
Overall deficit	6.2	5.3	5.2	5.3	4.5	5.1	5.3	3.8	4.2	5.7	5.4	6.9	5.4	5.5
Domestic bank financing	3.1	2.2	2.3	2.0	2.0	2.0	2.0	1.8	1.8	1.8	1.7	2.6	1.0	0.4
Of which: budgetary support	(2.7)	(1.6)	(0.8)	(1.8)	(1.7)	(1.7)	(1.7)	(1.5)	(1.4)	(1.5)	(1.4)	(1.7)	(1.4)	(0.6)

Sources: Ministry of Finance and Economic Affairs; and staff estimates.

1/ The budget was formulated assuming an exchange rate of PRs 11.5 per U.S. dollar.
2/ Based on an average exchange rate for the year of PRs 12.6 per U.S. dollar and post-budget measures.
3/ Implied additional measures of PRs 0.6 billion.
4/ Implied additional measures of PRs 5.5 billion.
5/ Implied additional measures of PRs 5.8 billion.

Table 5. Pakistan: Factors Affecting Changes in Money and Quasi-Money, 1979/80-1983/84 1/

	1979/80	Program 1980/81	Actual 1980/81	Program 1981/82	Actual 1981/82	Program 1982/83	Prov. Actual 1982/83	Official Proj. 1983/84
	(In millions of Pakistan rupees)							
Money and quasi-money	14,163	13,121	12,197	15,826	11,889	15,211	30,664	18,166
Foreign assets (net)	2,737	-3,307	-1,279	-2,544	-5,356	-3,251	10,908	2,050
Domestic assets (net)	11,426	16,428	13,476	18,370	17,245	18,462	19,756	16,116
Claims on Government (net)	4,993	6,028	5,568	6,540	6,756	6,700	9,346	1,809
Budgetary support	(4,897)	(4,375)	(2,355)	(5,578)	(5,519)	(5,592)	(6,124)	(2,643)
Commodity operations	(1,043)	(1,653)	(4,147)	(962)	(1,059)	(1,108)	(3,566)	(-834)
Government deposits with scheduled banks	(-460)	(--)	(-1,045)	(--)	(457)	(--)	(249)	(--)
Zakat Fund deposits at SBP	(-487)	(--)	(111)	(--)	(-279)	(--)	(-593)	(--)
Claims on nongovernment sectors	7,938	11,100	9,531	12,830	12,012	13,262	14,898	15,807
Claims on private sector	(6,024)	(7,400)	(6,635)	(9,363)	(8,986)	(9,462)	(10,898)	(13,307)
Claims on public enterprises	(1,914)	(3,700)	(2,896)	(3,467)	(3,026)	(3,800)	(4,000)	(2,500)
Counterpart funds	216	--	-3	--	31	--	-55	--
Other items (net) (increase-)	-1,720	-700	-1,620	-1,000	-1,554	-1,500	-4,433	-1,500
	(Changes in percent)							
Money and quasi-money	18.5	14.2	13.2	15.1	11.4	13.1	26.3	12.3
Domestic assets (net)	15.1	18.4	15.1	17.9	16.8	15.4	16.5	11.5
Claims on Government (net)	11.6	12.1	11.1	11.8	12.2	10.8	15.0	2.5
Claims on nongovernment sectors	18.6	22.0	18.9	21.4	20.0	18.4	20.7	18.2
Claims on private sector	19.5	20.4	18.3	21.8	21.0	21.1	21.0	21.2
Claims on public enterprises	16.3	26.0	20.3	20.2	17.7	18.8	19.8	10.3
Memorandum items:								
GDP (at current market prices)	20.6	18.0	19.2	17.2	14.7	16.6	13.8	13.6
Velocity	2.1	3.8	6.0	2.1	3.3	3.5	-12.5	1.3

Source: State Bank of Pakistan.

1/ Data for 1979/80 are on a monetary reporting year ending the last Thursday of the fiscal year and thereafter on an end-fiscal year basis.

Table 6. Pakistan: Balance of Payments, 1979/80-1983/84

(In millions of U.S. dollars)

	1979/80	1980/81		1981/82			1982/83			1983/84
	Actual	Program	Actual	Original Proj.	Pro-gram	Actual	Original Proj.	Pro-gram	Prov. Actual	Official Proj.
Trade balance	-2,516	-2,936	-2,765	-3,008	-3,172	-3,450	-3,029	3,397	-2,906	-3,560
Exports, f.o.b.	2,341	2,716	2,798	3,161	3,200	2,319	3,680	2,608	2,628	2,935
Imports, f.o.b.	-4,857	-5,652	-5,563	-6,169	-6,372	-5,769	-6,709	6,005	-5,534	-6,495
Services (net) 1/	-524	-701	-459	-815	-676	-548	-888	-658	-592	-724
Private transfers (net)	1,895	2,030	2,233	2,249	2,495	2,388	2,490	2,710	3,063	3,364
Of which: workers' remittances	1,743	1,900	2,097	2,109	2,340	2,224	2,340	2,550	2,885	3,174
Current account balance	-1,145	-1,607	-991	-1,574	-1,353	-1,610	-1,427	-1,345	-435	-920
Long-term capital (net)	747	758	581	661	761	746	765	1,025	1,145	1,019
Gross disbursements	1,054	1,174	956	1,125	1,248	1,092	1,175	1,345	1,224	1,489
Amortization 1/	-395	-504	-516	-554	-551	-492	-500	-445	-407	-470
Other (including private long-term capital) 2/	88	88	141	90	64	146	90	125	328	--
Private short-term capital and errors and omissions(net)	20	22	13	--	--	10	--	12	38	--
SDR allocation	39	39	37	--	--	--	--	--	--	--
Balance requiring official financing	-339	-788	-360	-913	-592	-854	-662	-308	748	99
Official assistance and debt relief	577	454	336	439	335	274	349	53	-25	54
IMF Trust Fund	157	15	16	--	--	--	--	--	--	--
Debt relief	90	203	161	339	257	258	249	38	35	28
Official short-term capital (net)	52	36	134	--	8	6	--	15	-60	26
Other	278	200	25	100	70	10	100	--	--	--
Overall balance	238	-334	-24	-474	-257	-580	-313	-255	723	153
Net foreign assets (increase-)	-238	334	24	474	257	580	313	255	-723	-153
Net use of Fund credit	-79	241	315	394	381	345	425	422	424	-63
Other central bank and commercial banks	-159	93	-291	80	-124	235	-112	-167	-1,147	-90
Memorandum items:										
Net capital inflows 3/	1,272	1,176	783	1,100	1,088	1,014	1,114	1,063	1,180	1,047
Gross official reserves (in weeks of imports)	7.0	6.1	8.5	5.0	8.4	7.0	...	7.6	14.5	14.1
					(In percent)					
Growth rates 4/										
Exports, f.o.b.	42.2	16.0	19.5	16.4	14.4	-17.1	16.4	12.5	13.3	11.7
Imports, f.o.b.	27.3	18.8	14.5	9.1	14.5	3.7	8.8	4.1	-4.1	17.2
Workers' remittances	26.7	9.0	20.3	11.0	11.6	6.1	11.0	14.7	29.7	10.0

Sources: Pakistan authorities and staff estimates.

1/ Includes actual and rescheduled debt service payments.
2/ Includes foreign currency deposits.
3/ Includes "long-term capital (net)" and "official assistance and debt relief" other than official short-term capital (net).
4/ For 1980/81 program calculated with respect to the 1979/80 provisional actual and actual calculated with respect to 1979/80 actual; for 1981/82 "original EFF" calculated with respect to 1980/81 program and "program" and "actual" calculated with respect to 1980/81 actual; for 1982/83 "original EFF" calculated with respect to "original EFF" for 1981/82 and "program" and "actual" calculated with respect to actual 1981/82; for 1983/84 calculated with respect to 1982/83 actual.

Table 7. Pakistan: Observance of Quantitative Performance Criteria Under the Extended Arrangement, 1980/81-1982/83

Ceilings for Increases for the Period Ending	Domestic Assets (Net) 1/2/			Claims on Government 1/4/			Memorandum Items: Expected External Budgetary Financing 5/		Memorandum Items: Claims on Public Sector Enterprises		Contracting of External Debt 6/: 1-5 Years' Maturity		Contracting of External Debt 6/: 1-12 Years' Maturity	
	Original Ceiling	Adjusted 3/ Ceiling	Actual	Original Ceiling	Adjusted 3/ Ceiling	Actual	Projection	Actual	Limit	Actual	Ceiling	Actual	Ceiling	Actual
	(In millions of Pakistan rupees)										(In millions of U.S. dollars)			
1980/81														
December 31, 1980	11,075	11,075	10,378	3,275	3,275	3,550	5,414	3,694	...	...	70	...	300	189
March 31, 1981	14,737	14,687	6,989	4,369	4,319	2,165	5,414	5,464	...	...	70	17	300	202
June 30, 1981	16,428	16,428	12,661	6,028	6,028	6,503	5,414	4,730	...	...	70	19	300	251
1981/82														
December 31, 1981	16,293	15,097	8,595	4,300	3,104	1,608	4,634	5,830	...	...	100	0	325	48
March 31, 1982	18,703	18,591	11,235	4,905	4,793	3,560	6,345	6,457	...	...	100	60	325	116
June 30, 1982	18,370	19,370	17,103	6,540	7,540	6,576	8,467	7,149	...	...	100	60	325	133
1982/83														
March 31, 1983	17,653	17,881	14,555	6,700	6,928	5,036	9,362	9,134	2,856	1,837	294	286	644	404
June 30, 1983	18,462	19,356	20,349	6,700	7,594	9,690	10,634	9,740	3,800	4,000	294	286	644	459

Sources: EBS/80/243, Attachment III, paragraphs 21 and 22, and Table 1; EBS/81/222, Table 6, and Attachment III, paragraphs 5e and 6a and Table 1; and EBS/83/3, Table 6, Attachment II, paragraphs 6e and 7a, and Table 1.

1/ The ceilings applied to increases in credit through the date indicated.
2/ Excludes Zakat Fund deposits at the State Bank of Pakistan.
3/ As provided in the annual programs, the ceilings were adjusted for the excess or shortfall in public sector external financing relative to the amounts envisaged in the program forecasts for the budget.
4/ The sum of budgetary support and commodity financing.
5/ Excludes project aid. For 1980/81 calculated on net basis and for 1981/82 and 1982/83 on a gross basis.
6/ The ceilings applied throughout each of the program years to public and publically guaranteed loans and excluded concessional loans and refinancing loans from existing creditors within the framework of bilateral or multilateral debt rescheduling arrangements. For 1982/83 the original ceilings were US$100 million and US$450 million for debt in the 1-5 year and 1-12 year maturities, respectively. These ceilings were adjusted to include refinancing of under 1-year borrowing at 2-year and 3-year maturities as provided in the program.

Table 8. Pakistan: Actual and Projected Debt Service Payments, 1980/81-1987/88

(In millions of U.S. dollars)

	Actual			Offical Projections				
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Scheduled debt service								
Medium- and long-term debt								
Debt already contracted								
as of June 30, 1983	802	749	656	722	799	852	845	849
Principal	516	492	407	466	493	546	543	557
Interest	286	257	249	256	306	306	302	292
Fresh debt	--	--	--	18	17	53	98	144
Principal	--	--	--	4	1	8	16	20
Interest	--	--	--	14	16	45	82	124
Short-term debt 1/	200	513	536	368	140	162	96	74
Principal	153	426	463	299	105	130	75	60
Interest	47	87	73	69	35	32	21	14
Debt owed to the IMF	192	214	182	132	224	363	432	375
Repurchases	168	159	80	15	91	241	330	301
Charges	24	55	102	117	133	122	102	74
Rescheduled debt service 2/	161	258	35	28	26	25	10	9
Principal	133	204	31	27	25	24	9	9
Interest	28	54	4	1	1	1	1	--
Debt service payments 3/								
Including the IMF	880	792	876	913	1,049	1,275	1,386	1,373
Excluding the IMF	688	578	694	781	825	912	954	998
Ratio of debt service payments to current account receipts 4/								
Including the IMF	14.7	14.0	13.2	12.4	12.8	14.0	13.6	12.2
Excluding the IMF	11.5	10.2	10.4	10.6	10.1	10.0	9.4	8.9
Memorandum item:								
Current account receipts	5,976	5,642	6,653	7,350	8,195	9,113	10,155	11,242

Sources: Data provided by the Pakistan authorities and staff estimates.

1/ Assumes that short-term commercial bank borrowing is lengthened in maturity and completely phased out by 1986/87.
2/ Takes account of provisions of the January 1981 rescheduling agreement with the Pakistan Consortium.
3/ Excludes principal repayments on short-term debt.
4/ Current account receipts exclude official transfers.

Table 9. Pakistan: Official Balance of Payments Projections, 1983/84-1987/88

(In millions of U.S. dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88
Trade balance	-3,560	-3,633	-3,922	-4,235	-4,563
Exports, f.o.b.	2,935	3,356	3,850	4,432	5,106
Imports, f.o.b.	-6,495	-6,989	-7,772	-8,667	-9,669
Services (net)	-724	-807	-892	-974	-1,048
Private transfers	3,364	3,700	4,033	4,393	4,701
Current account balance	-920	-740	-781	-816	-910
(Percent of GNP)	(2.7)	(1.9)	(1.8)	(1.7)	(1.7)
Long-term capital (net)	1,019	1,140	1,176	1,278	1,383
Official assistance and debt relief 1/	54	21	-5	-65	-51
Overall balance	153	421	390	397	422
Net use of Fund resources 2/	-63	-113	-289	-379	-347
Change in reserves 2/	-90	-308	-101	-18	-75
Memorandum items:					
Gross reserves in weeks of projected imports 3/	14.1	14.6	13.6	12.3	...
	(13.4)	(14.0)	(13.1)	(11.8)	(...)
Oil price increase in U.S. dollars	0.0	2.0	4.0	4.0	5.0
World inflation	5.0	4.0	4.0	5.0	6.0
International interest rates	10.0	10.0	10.0	11.0	11.0
Growth in workers' remittances	10.0	10.0	9.0	8.0	7.0

Source: Pakistan authorities.

1/ Includes short-term commercial borrowing.
2/ Increase (-).
3/ Figures in parentheses assume no further Structural Adjustment Loans.

Table 10. Pakistan: Principal Assumptions Underlying the Balance of Payments Projections for 1980/81-1982/83

(Percentage change)

	1980/81		1981/82			1982/83		
	Original Program	Actual	Original Program	Program	Actual	Original Program	Program	Prov. Actual
Exports								
Cotton								
Unit value	6.6	11.5	7.7	2.9	-23.5	7.1	13.7	5.8
Volume	29.5	37.5	5.5	-0.4	-29.3	5.3	15.7	6.4
Rice								
Basmati								
Unit value	-2.2	-1.1	4.3	2.4	1.4	2.7	-16.9	-11.0
Volume	11.2	30.1	2.9	-2.3	-36.1	4.2	33.6	-12.6
Other								
Unit value	5.9	29.4	7.4	6.1	-10.6	6.9	-16.1	-29.2
Volume	13.4	8.1	2.9	-4.1	-17.4	5.6	16.1	-1.9
Petroleum products								
Value	26.3	-10.0	20.0	39.7	21.2	18.5	-20.9	-60.3
Other exports								
Value	13.4	19.4	18.3	14.7	-8.9	18.4	15.1	27.1
Oil imports (value)	22.0	29.5	13.0	10.2	5.1	15.8	0.5	-3.7
Workers' remittances	9.0	20.3	11.0	11.6	6.1	11.0	14.6	29.7