FOR AGENDA

EBD/98/137

December 28, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Pakistan—Enhanced Structural Adjustment Facility—
Policy Framework Paper, 1998/99–2000/01**

Attached for consideration by the Executive Directors is the policy framework paper for Pakistan for the period 1998/99–2000/01. This subject, together with the staff report for the 1998 Article IV consultation with Pakistan, the second review under the Extended Arrangement, the request for the second annual arrangement under the Enhanced Structural Adjustment Facility, the request for a purchase under the Compensatory and Contingency Financing Facility, waiver of performance criteria, and approval of exchange restrictions (to be issued shortly), is tentatively scheduled for discussion on Thursday, January 7, 1999.

Ms. Eken (ext. 36511) or Mr. Gajdeczka (ext. 37124) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, January 7, 1999; and to the Asian Development Bank (AsDB), the European Investment Bank (EIB), the Food and Agriculture Organization (FAO), the Islamic Development Bank (IsDB), the United Nations Development Programme (UNDP), and the World Food Programme (WFP), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

PAKISTAN

Enhanced Structural Adjustment Facility Policy Framework Paper, 1998/99–2000/01

Prepared by the Pakistan Authorities in collaboration with the staffs of the Fund and the World Bank

December 23, 1998

I. INTRODUCTION

1. Pakistan is determined to sustain real economic growth of 5 percent or more over the medium term in order to create employment opportunities for a rapidly growing population, improve social indicators and substantially increase per capita income. A sustained high rate of economic growth is predicated on macroeconomic stabilization policies anchored on wide-ranging structural reforms to lay the foundation for an environment of financial stability and external payments viability. These policies are being implemented in the context of a three-year program for the period July 1, 1997–June 30, 2000, formulated in consultation with the staffs of the IMF and the World Bank. In support of this program, the government intends to request financial assistance under the second year of the Fund's Enhanced Structural Adjustment Facility (ESAF) combined with use of Fund resources under the Extended Fund Facility (EFF), as well as financial support from the World Bank, the Asian Development Bank (AsDB) and bilateral donors, and restructuring of Pakistan's external debt.

2. Economic performance had begun to show signs of stability and growth through most of 1997/98, and the country was on its way to achieving the ESAF/EFF targets for that fiscal year. Most notably, the economy witnessed stronger GDP growth, lower inflation, and a major contraction in the external current account deficit. However, following the developments in May 1998 and the subsequent bilateral sanctions and suspension of new nonhumanitarian assistance from international financial institutions, the balance of payments deteriorated significantly, and the effective implementation of several structural reform measures envisaged under the program at the time of its inception was adversely affected. While significant progress was made in the area of financial sector reform and experience gained in developing the foreign exchange interbank market, delays were faced in public enterprise restructuring, tax reform, and privatization of financial institutions and industrial units. One of the key challenges faced by the country is to bring the economy back on the path to sustained growth and financial stability, and reduce external vulnerability.

II. MACROECONOMIC DEVELOPMENTS AND STRUCTURAL POLICY ISSUES

A. Macroeconomic Performance

3. Pakistan's economic performance in the 1990s reflects the combined impact of exogenous, structural and policy factors. The economy is dependent on agricultural output which continues to remain volatile, reflecting its vulnerability to poor weather conditions and to cotton plant disease. Fluctuations in the harvests of major agricultural crops have had an adverse bearing on performance of the related large-scale manufacturing and trade sectors. These exogenous factors aggravated the impact of deep-rooted structural impediments to growth, such as low saving and investment, inefficiencies in financial intermediation and underdeveloped social and economic infrastructure. Pakistan's experience of the 1990s also clearly demonstrates how slippages in reform implementation and relaxation of macroeconomic discipline frustrated efforts to re-invigorate economic growth on a sustained basis.

4. The thrust of policies initiated by the present government in early 1997 was to reverse the declining trend in economic activity and to contain macroeconomic imbalances. In 1997/98, the economy experienced real GDP growth of 5.4 percent, reflecting favorable performance of agriculture and its contribution to expansion in large scale manufacturing, as well as a recovery in other industrial sectors (Table 1). Strong growth and prudent fiscal and monetary policies contributed to lowering of inflation to 7.8 percent. The budget deficit was contained at 5.5 percent of GDP. A substantial improvement in the external current account also took place, but it was more than offset by a weak capital account performance after the developments of May 1998. Accordingly, gross official reserves declined significantly.

5. Following the May 1998 developments, financial conditions have deteriorated as a result of loss of investor confidence, a decline in private capital inflows, imposition of economic sanctions, and the suspension of new official bilateral and multilateral disbursements for nonhumanitarian purposes. In response, the government took several measures to contain the threat of imminent balance of payments difficulties and to sustain domestic economic activity. In the fiscal area, it raised retail gasoline prices by 25 percent and revised the structure of tariffs on telephone calls. In parallel, planned development expenditure was also reduced. In addition to the above-described fiscal measures, the government devalued the rupee vis-à-vis the U.S. dollar by 4.2 percent on June 26, 1998. This was reinforced by a subsequent decisive move toward a market-determined exchange rate system (exchange rate float in the interbank market), which resulted in a further depreciation of the Pakistan rupee. In the aftermath of the freeze on withdrawal in foreign exchange of foreign currency deposits, the SBP temporarily reduced reserve and liquidity requirements to protect the liquidity of the banking system.

6. Notwithstanding these measures, the economy remained vulnerable. In the first months of 1998/99, there was a substantial compression in imports, official external reserves declined to US$450 million (three weeks of imports) by end-October, and external payments arrears

accumulated to US$1.4 billion on both current and capital accounts. However, the adverse impact of these developments on economic growth was partially contained due to strong performance of the agricultural sector.

7. The slowdown in growth and the compression of imports adversely affected budgetary revenues and, despite the additional fiscal measures discussed above, the budgetary deficit widened in the first quarter of 1998/99. Moreover, a new electricity subsidy for household consumers introduced in October is estimated to have a budgetary cost of PRs 8.2 billion in 1998/99. The electricity subsidy will be phased out in two stages by September 1999. A sustainable improvement in Pakistan's economic performance would require vigorous efforts to contain the impact of the recent adverse external developments and to overcome the key structural impediments to growth. In response to these challenges, the government's economic strategy has emphasized an acceleration and broadening of the structural reforms, in particular in the areas of agricultural policy, tax administration and tax policy, government and public enterprise restructuring, containment of nonessential expenditures, austerity, and self-reliance and promotion of exports.

B. Key Structural Issues

8. The recent progress in advancing structural reform in a number of areas has been strong. In early 1997, parliament approved key legislation for financial sector reforms, including increased autonomy for the State Bank of Pakistan, and improvements in governance and public accountability. An important change was introduced in the revenue sharing arrangement between the provinces and the federal government, whereby all federally collected taxes are included in the divisible pool at the ratio of 62.5 percent and 37.5 percent of the net taxes shared between the federal and provincial governments, respectively, thereby removing the disincentives for taxation and tariff reforms. The maximum import tariff was brought down and the regulatory duty was eliminated for most imports, the tariff structure was simplified, and the GST net was extended to several areas ahead of the schedule agreed earlier with the Fund. The State Bank took a number of measures to strengthen prudential regulations, improve the capital base of the nationalized banking system, redress administrative weaknesses in financial institutions, intensify loan recovery, rationalize staffing and branch network, and in general improve the process of financial intermediation. The total cost of the restructuring operation of the public sector financial institutions amounted to PRs 30.7 billion, which was financed mainly by a World Bank loan. In the area of loan recovery, a total of about PRs 33.3 billion was recovered by banks in cash from loan defaulters during 1997–98. The implementation of the new loan recovery law (Banking Companies Act 1997) is being made more effective, particularly to improve the transparency and effectiveness of the banking courts. Monetary policy was increasingly conducted with market-based instruments, interest rate policy was liberalized, financial discipline was imposed and new lending was done on a prudent basis.

9. However, progress was less satisfactory in the fiscal policy area and in privatization. A narrow revenue base and a lack of buoyancy in tax revenues have been perhaps the most important factors undermining Pakistan's effort to reduce the fiscal deficit and enhance

financial stability. Resource mobilization has been inadequate and the tax to GDP ratio has showed little secular improvement. The expansion in the base of the GST has been slow, its administration is far from completed and difficulties persist in enforcing broad-based and revenue productive consumption tax. Progress in expanding the income tax also remains unsatisfactory, particularly in the agricultural sector which is undertaxed. These weaknesses in revenue effort have been compounded by a rapid increase in debt payment obligations. Interest and defense expenditures together account for 54 percent of total budgetary outlays, undermining the government's ability to maintain a level of capital and social expenditures that would be consistent with the requirements of higher growth and social welfare.

10. Over the past years, strengthening of the financial position of public sector enterprises has been hampered by the slow pace of their restructuring, particularly that of the Water and Power Development Authority (WAPDA) and the Karachi Electricity Supply Company (KESC). The envisaged regulatory framework was not effectively implemented, and pricing reforms for natural gas and electricity have been behind schedule. Consequently, the financial situation of the energy utilities deteriorated significantly despite a large tariff increase in March 1998, and there has been a substantial buildup of inter-enterprise arrears. Commercial negotiations with independent power producers (IPPs) were complicated by allegations of corruption, contributing to investment uncertainties.

11. The government's ability to address these structural problems was hampered by the institutional decay extended over several years. The erosion in the effectiveness of public institutions and poor governance contributed importantly to tax evasion, large arrears in payments of utility bills, and slow progress in loan recoveries by the banking system. Recently, efforts have been initiated to increase transparency, enforce the rule of law, and rebuild public institutions and public trust. In this regard, the government has recently developed and began to implement an orderly framework to resolve IPP related issues, restructuring of utilities is in progress, administrative reforms in the public sector are being implemented, the legislative framework for regulatory agencies has been strengthened, accountability has been enforced and in general governance has been improving.

III. THE MEDIUM-TERM POLICY FRAMEWORK

12. Achievement of Pakistan's medium-term objective of annual GDP growth of 5-6 percent is predicated on rapid structural reforms which can reinvigorate private sector-led and export-oriented growth. In the near term, policies need to concentrate on restoring macroeconomic stability and balance of payments viability, but over the medium term attention needs to shift toward increasing savings and investment, development of social sector infrastructure and enhancing the efficiency of capital for sustained high rates of economic growth. In particular, public finances need to be strengthened to increase domestic saving and reduce the accumulation of public debt. This in turn requires better revenue mobilization and improvements in the quality of public expenditures. Exchange rate and monetary policies would need to aim at safeguarding competitiveness and international reserves, and at maintaining domestic price stability. Simultaneous implementation of structural reforms and their consolidation over the medium term would lower the burden on monetary and exchange rate policies in achieving macroeconomic stability.

A. Macroeconomic Objectives and Policies

13. The macroeconomic objectives for 1998/99–2000/01 are: (i) recovery of real GDP growth from 3-4 percent during 1998/99–1999/2000 to a medium-term range of 5-6 percent; (ii) reduction in annual inflation from about 10-11 percent in 1998/99–1999/2000 to about 6 percent in 2001/02; (iii) contraction of the external current account deficit (excluding official transfers) from about 3 percent of GDP in 1998/99 to less than 1.5 percent of GDP in 2001/02; and (iv) stabilization of the total public sector debt-to-GDP ratio by 2001/2002. To underpin such objectives, gross capital formation would need to increase from less than 15 percent of GDP in 1998/99 to about 17 percent in 2001/02, largely reflecting a recovery in private sector investment. To support higher investment rates and accommodate external adjustment, gross national savings would need to rise from about 12 percent to about 16 percent of GDP during the same period, largely on account of increased public sector savings.

14. Fiscal consolidation will be key to achieving the macroeconomic objectives. A stronger budgetary position is consistent with the need for increased availability of resources to the private sector and with the need to reduce the vulnerabilities associated with the large stock of public debt. The consolidated budget deficit is targeted to decline from 5.5 percent of GDP in 1997/98 to 4.3 percent of GDP in 1998/99 and to 3.3 percent in 1999/2000. To achieve this fiscal target, in addition to measures already incorporated under the 1998/99 budget announced in June and the fiscal measures implemented in July, the program incorporates mainly the following measures: (i) an increase in the GST rate to 15 percent (from 12½ percent) prior to the IMF Board meeting; (ii) an enhancement of the tax incidence on petroleum products; (iii) a reduction in the budgeted amount of unproductive expenditure; (iv) a strengthening of the financial position of WAPDA and KESC; (v) a reduction in the federal subsidy on wheat; and (vi) a lowering of the budget appropriation for several components of noninterest current expenditure. In 1998/99, the government is committed to maintain the level of the budgetary Public Sector Development Program (PSDP) at PRs 98 billion while protecting allocations for high-priority projects and programs. With respect to basic social services, the government will ensure that total rupee expenditures (not including foreign project assistance) under the Social Action Program (SAP) will be at least PRs 56.5 billion in 1998/99, including at least PRs 5.5 billion on critical quality-enhancing nonsalary SAP recurrent expenditures in the provinces and federal areas. From 1999/2000 onward, fiscal adjustment will have to rely largely on revenue enhancement. The budget will also have to accommodate the costs of restructuring public enterprises and civil service reform. Given the projected path for interest payments on government debt, further overall expenditure reductions could jeopardize the provision of government services in the areas of education, health, and basic infrastructure.

15. Demand management, in conjunction with exchange rate policy, will have an important role in containing inflation while ensuring favorable conditions for export growth. The monetary policy stance would also have to be geared toward restoring confidence in domestic financial markets and ensuring a steady flow of credit to the private sector consistent with

growth and balance of payments objectives. Once the adverse effects of the external shocks experienced during 1998 are absorbed and confidence is restored, inflation should decline rapidly, giving room for monetary policy to accommodate the anticipated increase in real money demand.

16. In the external sector, the objective of achieving external equilibrium will need to be reconciled with the need for a gradual relaxation of the recently imposed restrictions, regularization of external payments arrears and the envisaged trade liberalization. In that context, exchange rate policy will need to play an important role in safeguarding external competitiveness and supporting the achievement of the official reserve targets. Consistent with tight fiscal and monetary policies, the external current account deficit (excluding official transfers) will contract further, from 3.2 percent of GDP in 1997/98 to around 1.5 percent of GDP starting in 2000/01. To achieve such an adjustment, export volumes will need to grow at a rate higher than that of real GDP. However, owing to the anticipated improvements in Pakistan's terms of trade, import volumes could grow even more rapidly, while the trade account will register small surpluses starting from 1999/2000. Such an adjustment, combined with substantial amounts of external financing, is consistent with the official reserve target of three months of imports by 2001.

B. Structural Policies

17. The future structural reform agenda is largely focused on the budget and on restructuring and strengthening of the financial position of the public enterprises. Substantial efforts will have to be made to broaden the base of domestic taxes, revamp tax administration, implement the restructuring plans for the energy sector and a number of other public sector enterprises, and raise the productivity of government expenditure. In parallel, the government will move forward with privatization of financial institutions, trade liberalization, and make further progress in the development of the market-based foreign exchange and payments system.

Public finance

Tax reform

18. The thrust of the tax reform program is to achieve a significant enhancement of the revenue effort, while promoting a more equitable distribution of the tax burden and greater documentation of the economy. To this end, the tax base will be broadened by including hitherto untaxed income and undertaxed sectors, and tax administration improved in order to provide scope for a lowering of statutory tax rates. A comprehensive review of the income tax system is to be completed soon, and recommendations emanating from the review are to be implemented in the 1999/2000 fiscal year.

19. Progress has been made over the last two years in reforming the General Sales Tax (GST), but difficulties were encountered in 1997/98 with respect to a number of important

elements. In particular, serious setbacks were encountered in enforcing the GST at the manufacturing stage: a significant part of the textile sector remained outside of the tax net; and a large number of industries continued to be taxed under fixed tax schemes. Progress was also slower than expected in the reform of the refund system, the enhancement of audit activities and the coordination, through information exchange, of the administration of the GST, income tax, and customs taxes.

20. In response to these problems, the government conducted a comprehensive review of ways to broaden the GST base. In the 1998/99 Budget, all fixed tax schemes were abolished, and the GST was extended to the retail sector a full year ahead of schedule. Administration of the GST in the textile sector will be improved in 1998/99 and the GST will be formally extended to services, petroleum products, electricity and agricultural inputs in 1999/2000. Legislation will also be introduced shortly to amend the GST Act to abolish the discretionary power of the government to grant exemptions under the GST. These actions, which are ahead of the schedule of the original policy framework, will constitute a major strengthening of the GST base, promote a much larger degree of documentation in the economy, and impart beneficial effects on other taxes. To reduce the burden of compliance under the GST, the return and payment forms have been simplified, restrictions on the crediting mechanism have been removed and the refund system will be reformed by March 1999 to ensure expedited payments of refunds to exporters.

21. The government remains fully committed to the implementation of a meaningful agricultural income taxation. The imposition of this tax will meet the dual objectives of promoting equitable sharing of the tax burden across different sectors as well as tapping a potentially significant additional source of revenue for the provinces. All four provinces will strengthen their collection mechanisms and ensure achievement of the 1998/99 budgeted revenue target of PRs 2.5 billion. Subsequently, with further technical assistance from the World Bank, an action plan will be developed by March 1999 to strengthen the system of taxation of agricultural income. Such a plan would include a combination of measures to broaden the base as well as increase the rates. These reform efforts will ensure a significant enhancement of revenue from agricultural taxation in 1999/2000 and thereafter a steady increase in revenue from this source to at least 0.3 percent of GDP over the medium term.

Reform of tax administration

22. The recent efforts to improve tax administration will be intensified over the next two years. The government's program aims to improve taxpayer compliance, reduce compliance costs, and broaden the tax base in order to achieve a sustained growth of tax revenues. More specifically, the Central Board of Revenue (CBR) will be converted into an independent and autonomous body: the Pakistan Revenue Service (PRS). The PRS will be empowered to undertake management and staff selection, recruitment and retrenchment. The CBR/PRS operating budget would also be made performance-based. Legislation establishing PRS, along the above lines, will be presented for enactment to parliament by December 31, 1998, and a comprehensive institution-building program for PRS will be implemented shortly, with

technical assistance from the World Bank. Budgetary support for the CBR has also been increased in 1998/99 and additional staff will be allocated in support of the GST reform. In particular, it is envisaged that about 500 officers (including 400 auditors) will be recruited for assignment to the GST administration by end-March 1999.

23. An important step in strengthening tax administration will be the introduction of a unique tax identifier number (TIN) that will replace all previous numbering systems in use in the tax and customs administration. The assignment of the TIN will be completed for all taxes by May 1999. A computerized information exchange system (based on the TIN) will be operational by end-June 1999 and will form the basis for the harmonization of the operations of the major tax departments. The coordination of the administration of major taxes, which will focus initially on large taxpayers, will cover 70 percent of corporate taxpayers by June 1999 and will cover all taxpayers by June 2000. The new TIN and information exchange system will provide the foundation for a major expansion of tax registration and an improvement in tax enforcement.

24. Ambitious targets have been set for the registration of new taxpayers. The number of registered taxpayers is expected to increase to 1.6 million by December 31, 1998 and to 1.8 million by May 31, 1999. Tax enforcement will also be strengthened with a view to reducing the number of nonfilers for GST to 10 percent by June 1999. To strengthen the audit function within the CBR, a separate audit department has been established with the responsibility for developing a joint audit program for all tax liabilities. This program will cover 10-15 percent of taxpayers by September 1999 and 20-25 percent by December 1999. These reform efforts could be supported and deepened through a World Bank Governance Improvement Adjustment loan.

Expenditure and civil service reform

25. Improvements in expenditure policy will concentrate on maximizing its effectiveness and developmental impact. In line with this policy, the government made considerable progress in the context of the 1997/98 budget in reducing spending on lower-priority activities. Building on this momentum, and consistent with the substantial fiscal adjustment required in 1998/99, the government will continue to: (i) prioritize and appropriately scale back the public investment program; (ii) rationalize spending on personnel; (iii) reallocate budgetary resources toward high-priority and essential operating and maintenance expenditures; (iv) provide adequate budgetary allocations for basic social services which are part of the SAP; and (v) improve the planning and monitoring of budgetary expenditures.

26. Following a review of federal ministries and divisions, attached departments, and autonomous bodies, the government has completed operational plans for restructuring all 31 federal divisions and will begin implementing the restructuring of these entities in 1999/2000. In order to further contain establishment costs and shift resources to essential nonwage operating and maintenance expenditures, existing hiring freezes at the federal level will be maintained (with the exception of service delivery personnel and key managerial and

supervisory staff in the SAP sectors and, when needed, to augment essential skills, in the tax departments particularly), and the provinces will be encouraged to maintain similar policies. Based on completed and ongoing studies and the work of the Commission on Administrative Restructuring and the Good Governance Group, the government will prepare, by June 1999, an action plan for civil service reform and begin its implementation during 1999/2000 to improve accountability, enhance the skills base, and rationalize management and compensation, including the pension system.

27. Starting with the 1999/2000 budget, the government intends to take steps to adopt a unified budgeting of development and recurrent expenditures to facilitate better prioritization and management of spending. This will enable better coordination of investment plans with their downstream recurrent cost implications and will prevent over-programming of investment that had occurred in the past. In parallel, new budget preparation procedures will be implemented to ensure the consistency of public expenditure allocations with the agreed medium-term resource framework. As a result, the predictability of allocations will be enhanced, and the budget constraints of line agencies will become more transparent, thereby increasing incentives for efficient and effective use of funds. This will facilitate the process of establishing strategic objectives and priorities, and developing sectoral expenditure strategies (based on reconsideration of the appropriate role of government in each sector). The provinces will be encouraged to initiate a similar change. In the context of PIFRA (Project for Improvement to Financial Reporting and Auditing), an action plan will be developed during 1998/99 to improve the quality and timeliness of reports relating to public expenditures. The government will finalize an agreement on the basic structure of the accounting model proposed under the PIFRA project and sign a memorandum of understanding to that effect by December 15, 1998.

28. The government will intensify efforts to better prioritize, manage, and implement the federal PSDP and will encourage the provinces to take similar steps. The government intends to protect high-priority projects even in the current difficult economic circumstances. The government has also reached an agreement with the World Bank that in view of the continuing fiscal constraint, any new project will need to be carefully scrutinized.

Public enterprise reform

29. In the course of 1997/98, seven major public sector enterprises developed action plans to restructure their operations and to improve their financial performance. As a result of these actions, the financial outlook for these seven major public sector enterprises for 1998/99 is expected to improve. A major effort is underway, with the support of the AsDB, to restructure the operations of the KESC to prepare it for early privatization. In the context of the energy sector reform, the envisaged institutional and financial restructuring of WAPDA will lead to substantial improvements in efficiency. A comprehensive restructuring and privatization plan for Pakistan Railways is proceeding on schedule, and it is expected that its corporatized units will be privatized in a phased manner over the next two years. At the federal government level, a database and management information systems will be developed for the purpose of monitoring the performance of public enterprises.

Public debt management

30. Taking into account the high burden of public debt and its implications for the structure of the budget, the government has adopted a prudent debt management policy which will result in a reduction in the debt and debt-service ratios. In support of this policy, the government will limit its contracting of nonconcessional external borrowing under this program and will seek to reduce its more expensive domestic public debt. As part of this strategy, the government will establish a debt management office with the responsibility for consolidating all information on public domestic and external debt, and on guarantees extended to public sector enterprises. Based on a computerized information system, a review of the cost of public debt and of an appropriate borrowing strategy will be conducted in 1999/2000. With regard to domestic public debt, there is a need to coordinate the government's borrowing strategy from the banking system and through more costly nonbank debt instruments. In the context of the capital market reforms being implemented in coordination with the AsDB, the government will review the taxation of various debt instruments. With regard to external debt, the government has already initiated efforts to improve coordination between the various agencies for monitoring debt service payments and preparing a full inventory of Pakistan's external debt, supported by technical and financial assistance from the AsDB.

Financial sector and capital markets reform

Banking sector

31. The banking reform program has begun to bear fruit. The hemorrhage caused by politically motivated lending and operating losses has been stemmed. Corporate governance in the nationalized commercial banks (NCBs) and in development financial institutions (DFIs) has been improved with the change in their management and the reduction in outside interference in their operations. Overstaffing and excessive numbers of branches in the NCBs and DFIs have been reduced through a staff separations and branch closures policy. Prudential regulations and financial disclosure standards have been brought to international levels to increase transparency. A plan to unify banking supervision has been prepared and is currently being reviewed by international consultants that have been hired to upgrade the SBP's supervisory capability. The central bank's autonomy, especially as regards its role in monetary policy and banking supervision, has been strengthened through an appropriate amendment of the law. The government continues to take steps to strengthen the legal and judicial processes for financial contract enforcement through the adoption of loan recovery and banking court legislation. The banking court system is being revamped and strengthened to facilitate loan recovery.

32. The privatization of banks and financial institutions will complete the banking reforms. The government's plan calls for divestiture of the government's remaining ownership interests in the Muslim Commercial Bank and Allied Bank Limited and privatization of Habib Bank Limited (HBL), United Bank Limited (UBL), National Bank of Pakistan (NBP), National

Development Finance Corporation (NDFC), and Industrial Development Bank of Pakistan (IDBP). Some of these institutions have been recapitalized by the SBP in anticipation of their privatization. While many of the institutions are at or close to the point of sale, the government cannot proceed with their privatization until market conditions improve. The government is evaluating, with technical assistance from the AsDB, possible privatization of two mutual funds and an insurance company. This will need to be supported by external governance from an effective regulator and supervisor, competitive markets and a well-functioning legal and judicial system.

33. In order to enhance the regulatory and supervisory system, improve the legal environment, and strengthen judicial institutions for loan recovery, the following steps will be taken: (i) prudential regulations on capital adequacy, loan classification and provisioning, loan concentration and exposure limits, and accounting and auditing standards will be increasingly enforced from December 1998 to June 2000; (ii) an early warning system and on-site and off-site supervision mechanisms, now operational, will be further strengthened; and (iii) a deposit insurance scheme will be in place by January 2000 to provide a minimum level of protection for depositors.

Reform of financial markets

34. The government, with the assistance of the AsDB, has developed a comprehensive program to accelerate the development of capital markets in Pakistan. Its objectives are to augment mobilization of long-term financial resources and improve the efficiency of their allocation and to encourage broad-based participation of issuers and investors. To this end, the government will: (i) remove the existing tax discrimination against private corporate debt, and reduce restrictions on investments by institutional investors; (ii) strengthen market regulation and supervision by restructuring the Corporate Law Authority into an independent and autonomous Securities Exchange and Corporate Commission of Pakistan; (iii) amend the securities and company laws; and (iv) strengthen self-regulation of stock exchanges coupled with restructuring of their governing boards. The government intends to modernize and upgrade the securities market infrastructure, enhance integration of markets through automated trading and developing electronic linkages among stock exchanges and develop centralized clearing, settlement and depository systems. In parallel, the development of the corporate debt market and the mutual fund industry will be promoted, and the regulatory framework for the securities industry will be strengthened. Reforms and consolidation are also envisaged in the leasing industry by strengthening its regulatory and legal frameworks. Contractual savings will be promoted through reforms of the insurance and pension and provident fund industries. The implementation of the reform agenda in line with the timetable set out in the program is to be supported by the release of the second tranche of the AsDB Capital Market Reform loan in June 1999.

35. Progress has continued to be made in the use of market-based instruments for monetary control. The SBP has been managing domestic liquidity by intervening in the secondary market through open market operations. To facilitate these operations, in June

1998 three-month, six-month, and one-year treasury bills were issued in discount form to replace the existing six-month short-term federal bonds.

36. The agenda for monetary policy reform will target further liberalization and greater reliance on market-based instruments of monetary control and ensure comparable and market-related terms on the various debt instruments. The SBP is in the process of reforming its primary dealer system, which at present includes all banks, nonbank financial institutions, and some members of the stock exchange. Specifically, a new tier of specialized primary dealers will be established with stricter obligations and certain privileges compared with the standard primary dealers, the averaging scope for cash reserve and liquidity requirements will be gradually expanded, and the operational procedure for open market operations will be refined to promote interbank market activities and reduce the short-term volatility of the interbank interest rate. A centralized system for registering bank securities will be operational by September 1999.

Exchange system and trade reform

Foreign exchange market development

37. Significant experience was gained in 1997/98 in the area of exchange market reform, which sought to enhance the role of market forces in the process of determining the exchange rate by developing the spot and forward interbank markets. In March 1998, banks were authorized to quote their own rupee/U.S. dollar rate and the spreads between buying and selling rates of the SBP were widened. Following the emergence of balance of payments pressures starting from end-May, a dual exchange rate system was introduced, with a freely floating interbank rate and the official rate reserved for a narrow category of transactions. Most current account transactions are conducted at the "composite" exchange rate determined as a weighted average of the free interbank market rate and the official exchange rate. The exchange rate will be fully unified by July 1, 1999. The next step in exchange market reform will be the development of a suitably staffed and well-equipped foreign exchange dealing room at the SBP. Once the immediate balance of payments pressures are relieved and the country's external position has improved sufficiently, the overall limits on banks' open foreign exchange positions will be increased in line with international standards.

Tariff reform

38. The government is fully committed to further progress in liberalizing Pakistan's trade regime. In particular, plans have been articulated for removing the remaining restrictions on exports and imports and for further lowering of import tariffs. Reduction of the maximum tariff rate from 45 percent to 35 percent and reduction in the number of nonzero rates from five to four will be implemented by end-March 1999, three months earlier than originally programmed. The authorities are committed to a further reduction in the maximum import tariff to the range of 25-30 percent by June 2000, taking into account the balance of payments and budget revenue situation. Regarding nontariff barriers, the number of export bans was

reduced from 24 to 9 in July 1998. The remaining export bans, export duties, and export minimum price and quota restrictions will be withdrawn in July 1999. A timetable for the elimination of import bans on textile products is expected to be agreed in bilateral negotiations between Pakistan and its main trading partners. The remaining restrictions on imports subject to procedural restrictions will be eliminated in July 1999, except those acceptable for health, safety, religious, national security, or environmental reasons, and those applying to automobile imports, which will remain for balance of payments reasons.

Social policies

39. Pakistan's Social Action Program (SAP) was launched in 1992 to expand and improve the country's very weak social services in elementary education, primary health, population welfare, and rural water supply and sanitation. While the SAP focuses mainly on expanding provision and improving delivery of basic social services by the government, it also strives to strengthen nongovernmental organizations and private sector involvement to enhance community participation. The second phase of the SAP (now underway) emphasizes improvements in the quality of services, particularly education, and maximization of the impact of expenditures at the facility level. The SAP program and its related subprograms will continue to be agreed upon on an annual basis by the government, the World Bank, and other participating donors. In 1998/99, the government will ensure that total rupee expenditure (not including foreign project assistance) for basic social services will be at least PRs 56.5 billion, including at least PRs 5.5 billion on critical quality-enhancing nonsalary expenditures in the provinces and federal areas. To monitor effectiveness, the government will carry out systematic reviews in the context of the Quarterly Monitoring Reports at both departmental and provincial levels.

40. In the **education** sector, the focus will be on enhancing the quality of services through improvements in the teaching environment; provision of textbooks and materials; and greater access to educational opportunities, particularly for girls. The provincial governments will develop and implement a teacher redeployment plan with the objective of achieving efficiency gains and reductions in unit costs. To facilitate school-level improvement, management and supervision will be strengthened and appropriate incentives for greater community, NGO, and private sector participation will be provided.

41. In the **health** area, the focus will be on strengthening of basic health care and family planning services at the community level. A prioritized package of primary health care services is being readied for implementation; family planning services with female staff will be expanded to all health care facilities; a greater role for the private sector and NGOs in the provision of family planning services will be encouraged; and the Tuberculosis, Nutrition, AIDS and the Immunization Programs will be strengthened and broadened.

42. In the **population** area, the focus will be on improving the utilization of budgetary allocations for the Population Welfare Program with a focus on increasing quality of service

delivery, including by recruitment of key managerial staff. Rural water supply and sanitation schemes will be transferred to communities to manage and operate, thus reducing the operating liabilities of the government.

Social safety nets

43. A multifaceted strategy will be adopted to minimize potential social costs of macroeconomic adjustment and to strengthen the social safety net. By protecting the SAP and high-priority public investments (agreed with the World Bank) from expenditure cutbacks, the government expects to maintain the level of basic social services provided to the poor. Based on a review of existing public sector safety nets (i.e., Zakat and Ushr, Bait-ul-Mal), the government will ensure better targeting of the most vulnerable groups among the poor. As part of the second phase of the SAP, the government is strengthening the Participatory Development Program to support nongovernmental organizations and the private sector in the management and delivery of basic social services. The Pakistan Poverty Alleviation Fund (PPAF) has been set up to mobilize and assist poor communities in developing income-generating activities through human resource development and micro credit programs. The government has started funding the PPAF and intends to provide its full endowment amounting to PRs 500 million by December 2000. The government is seeking technical and financial assistance from the donor community to compensate and retrain workers affected by the implementation of various restructuring programs.

Sectoral policies

Agriculture

44. Agriculture needs to grow at a steady rate of about 4 percent per year in order to achieve Pakistan's growth and anti-poverty objectives and to reduce external imbalances. Currently, the agricultural sector suffers from exhaustion of past sources of productivity growth, worsening degradation of agricultural land, deteriorating and poorly managed irrigation infrastructure, inadequate research and extension services, and distortions in the prices of inputs and outputs as well as imperfections in the land market. Moreover, irrigated land is seriously affected by waterlogging and soil salinity, contributing to a significant loss in the output of major crops.

45. The government's strategy in this area is to limit the role of the public sector, transfer management to the private sector, strengthen local capacity, remove policy distortions in factor and output markets, and assist in natural resource management and environmental protection. The government's control over imports of fertilizers and the remaining restrictions on imports and exports of agricultural commodities will be phased out. The wheat subsidy will be phased out in two stages, and the private sector will be gradually allowed to participate in the wheat market on terms similar to those of the public sector. The functioning of the agricultural credit market will be improved by gradually phasing out credit subsidies and directed credit and by developing more effective, market-based credit institutions.

Concurrently, the government will explore the possibility of reforming the land titling and registration process through improvements and computerization of land records. The sectoral reform program envisages decentralization of the management of the irrigation and drainage systems. WAPDA's Water Wing will be restructured and reoriented to focus on basin-wide water resource management.

Transport

46. Pakistan's growth and export potential depends importantly on the modernization of its outmoded transportation systems. To substantially improve the transport system, the government will implement a reform program over the next three years to upgrade and expand the country's highways, railways, and ports. Regarding highways, public sector allocation of resources for rehabilitation and selective improvements of the highest-priority sections of the network will be enhanced, and an institutional framework to encourage greater private sector investment will be established. Road maintenance will be financed primarily through road user charges. Provincial governments will be encouraged to adopt a similar system. With respect to railways, important institutional changes are being implemented with a view to reducing inefficiencies and preparing the ground for privatization. The corporatization of the railways core businesses will be completed and privatization will be undertaken in a phased manner during 1999/2000. The government will implement management reforms and seek increased private sector participation to develop Karachi Port.

Urban infrastructure

47. The provision of basic infrastructure and services in the urban and water sector lags considerably behind the rapidly growing urban population. To improve the living conditions of the urban population, particularly those of the poor, major efforts are required to revamp Pakistan's water supply and sewerage and solid waste management systems. The government will undertake major reforms to develop local governments' capacity to meet this need with private sector participation in urban services delivery. A policy statement will be issued confirming the primary responsibility of local governments for oversight and regulatory functions and for basic urban services. To carry out these functions, local governments will receive resources through financial transfers from provincial governments or expansion of their own resource base, including devolution of the property tax. In return, the provinces will be required to develop public expenditure programs, including for urban investment, and implement the reform measures needed to strengthen their resource mobilization.

Power sector

48. In the energy sector, Pakistan's reform program seeks to increase the efficiency and reliability of energy supply and to create a competitive market structure. The government has been pursuing a two-pronged approach consisting of encouraging private sector investment in new energy supply facilities, while initiating the restructuring and partial privatization of the energy utilities. This strategy has succeeded in attracting private IPPs investments in thermal power plants. However, the economic slowdown has contributed to a temporary excess

generating capacity. This, in turn, undermined the financial position of public utilities which operate under fixed power purchasing contracts. The government has reached an agreement with all IPPs which received Notices of Intention to Terminate and one IPP which received a Notice to Terminate. A new IPP committee, which includes representatives of the private sector, has been created to accelerate the resolution of outstanding issues.

49. The implementation of the restructuring and privatization programs of the energy utilities has been slow. The National Electric Power Regulatory Authority (NEPRA) was established in December 1997, but it is still not fully operational. The Ordinance issued in October 1997 has not yet been enacted by parliament as the Gas Regulatory Act. Meanwhile, the operational efficiency of the utilities has deteriorated. Pricing reforms for natural gas and electricity aimed at reducing cross-subsidies and adjusting average tariffs to fully reflect changes in the costs have been implemented at a slower pace than originally envisaged. Consequently, the financial situation of the energy utilities has rapidly deteriorated, and there has been a substantial buildup of cross-arrears between the government, the utilities, and the fuel suppliers. WAPDA, KESC, Sui Northern Gas Pipelines Ltd. (SNGPL), and Sui Southern Gas Company (SSGC) all have great difficulties in meeting their financial obligations, and the situation has become untenable.

50. The government is now taking important steps to address the financial difficulties of the energy utilities and accelerating the reform programs in order to achieve significant efficiency improvements in the medium term. In the power sector, electricity tariffs were increased in March 1998. This included a reduction in cross-subsidies to households and agricultural tubewells. The Pakistan Electric Power Company (PEPCO) has been established to manage the restructuring process, to help with the commercialization and efficiency improvement programs and to prepare the companies for privatization. PEPCO will assume control over the Power Wing of WAPDA, except for hydel generation which will remain with the Water Wing. The Power Wing will be restructured into three thermal generation companies, one national transmission and dispatch company, and eight distribution companies. The corporations have already been registered and the transfer of assets, liabilities, and staff is in progress. Financial restructuring plans for WAPDA and KESC have been designed. Preparatory work for the privatization of KESC has been initiated.

51. Over the medium term, the reform agenda for the power sector would focus on:
(i) completing the corporatization process and establishing commercially oriented autonomous corporations, with NEPRA issuing licenses for the new corporatized entities;
(ii) implementing theft and loss reduction programs and introducing other efficiency improvements; (iii) intensifying bill collection efforts from both public and private customers so that the level of overdues remains within three months of sales equivalent;
(iv) implementing financial and other restructuring measures, including if necessary, tariff adjustment to restore the financial viability of the energy utilities and the remaining WAPDA;
(v) implementing the orderly framework to regularize and maintain normal commercial relations with the IPPs; and (vi) accelerating the privatization program for the thermal generation and electricity distribution companies. Specifically, during 1999/2000, at least three electricity distribution companies will be brought to the point of sale.

52. In the **petroleum sector**, the government will consider restructuring and privatization of Pakistan State Oil Ltd., the largest oil marketing company. In the **gas sector**, shares of SNGPL, a major gas distribution company, will be offered for sale to a strategic investor in 1998/99, while the government is considering restructuring the Oil and Gas Development Corporation (the state-owned hydrocarbon exploration and production company) to separate its technical services from its exploration and production functions, with a view to its subsequent privatization during the program period. Natural gas consumer tariffs will be adjusted to achieve a rate of return on assets as agreed with the World Bank. The Gas Regulatory Authority will be made fully operational by June 1999.

Environmental issues

53. One of the most pressing priorities for sustainable development in Pakistan is the strengthening of the institutional and regulatory framework for improved monitoring and enforcement of environmental protection. Specific areas of concern include the inability of provincial environmental protection agencies to design cost-effective strategies for the enforcement of National Environmental Quality Standards and other provisions of the Environmental Protection Ordinance, and the absence of a pollution control system at the national level. Against this background, the following steps will be taken over the program period: (i) preparation and enactment of the implementation rules and regulations for the 1997 Environmental Protection Act, including clarification of prerogatives and missions of various agencies to ensure coherence in implementation and consistency with the decentralization of environmental management at the provincial level, and setting up the institutions called for under the Act; (ii) promulgation of environmental assessment procedures; (iii) development of provincial capacity for monitoring and enforcement; (iv) implementation of mass awareness programs with regard to environmental protection; (v) development of a comprehensive and well-prioritized pollution control and environmental impact assessment enforcement system by December 1998; and (vi) increased enforcement of compliance by the industrial sector with sound pollution control strategies.

Governance and transparency

54. Governance problems impair the effectiveness of public expenditures and contribute to poor economic performance, low investment, and inadequate social services. Politicization of routine decision making has weakened the civil service and diverted expenditures to lower-priority activities. The resulting erosion in the effectiveness of public institutions contributed importantly to tax evasion and large arrears in payments of utility bills, as well as slow progress in loan recoveries by the banking system. This in turn undermines the financial foundation of public policy and results in a widening gap between announced policy intentions and results, contributing further to an erosion of confidence in the government and dysfunctional social behavior. In this connection, attention will have to be given to ensuring Pakistan has a professionally strong and independent Auditor General's office.

55. The Auditor General has identified significant issues of poor financial management and lack of transparency in several Bank-funded projects, including the Family Health projects and the Social Action Program Project. As highlighted by the government's reactions to these reports, there is a growing awareness of the need to increase transparency and public accountability and to pay more particular attention to the findings of the Auditor General. In view of this need for more effective financial management of public expenditures, implementation of the main components of the PIFRA project (i.e., development of a new chart of accounts and the separation of the responsibility for accounting and auditing functions) is even more critical. Timely preparation, review and issuance of financial statements and the Auditor General reports, including follow-up by the Ministry of Finance on lapses in financial management and internal controls, are effective measures in enhancing public accountability. It is recommended that the Auditor General foster linkages with the professional accounting bodies in Pakistan and utilize their services wherever possible to strengthen financial accountability of government institutions.

56. The government is fully aware of the need for a fundamental change toward greater respect for the rule of law. To achieve this objective, the government began implementing during this fiscal year the Prime Minister's agenda for instilling good financial governance in Pakistan. In addition to promoting a permanent change to a culture of financial discipline, these efforts should set the stage for stronger public and private institutions with much better financial prospects for the future. Key to achieving financial discipline and accountability in such institutions is to ensure they adopt international Accounting Standards and that audits are performed in accordance with International Standards on Auditing. In the banking area, the stock of nonperforming loans is being reduced. A major effort has been launched to enforce payments of electricity bills and strengthen the financial position of public utilities. In parallel, a new professional framework for negotiations with the IPPs with were respect to energy tariffs was established and the pursuit of corruption charges was separated from commercial considerations. In the budgetary area, measures have been agreed to strengthen tax administration and to strengthen accountability for public expenditures and the financial independence of the Auditor General's Office.

Statistical issues

57. In addition to plans for improvement of the quality and timeliness of data on public expenditures, the government will address remaining deficiencies in the economic database of Pakistan: in national accounts, through the use of results of the surveys of households and enterprises undertaken in the framework of the Improvement of National Accounts Statistics in Pakistan project (INAS); and, in money and banking statistics, through the implementation of the recommendations of previous Fund technical assistance missions.

IV. EXTERNAL FINANCING REQUIREMENTS

58. Total external financing requirements excluding changes in gross official reserves for 1998/99–2000/01 are estimated at US$19.0 billion (see Table 2). Following the recent change in investor sentiments and the balance of payments difficulties, medium-term private inflows are expected to increase only slowly from an initial very low level, and to reach US$1.3 billion over the entire period. After a relatively modest buildup of gross official reserves (by US$1.3 billion), large residual financing gaps are projected in the period ahead. These gaps could be covered by official project loans amounting to US$4.0 billion and grants (about US$400 million), which are linked to the public sector investment program; and trade credits of about US$680 million covering government-sponsored food imports. In addition, the government expects to mobilize US$0.4 billion of medium-term commercial loans and US$1.3 billion of short-term commercial loans. The residual financing needs, estimated at US$12.1 billion, would be covered by expected financing over the program period from the Fund (US$1.6 billion), the World Bank (US$1.4 billion), the Asian Development Bank (US$1.0 billion), some potential bilateral creditors (US$400 million), as well as large exceptional financing in 1998/99, 1999/2000 and 2000/01 (amounting to US$7.7 billion). This exceptional financing would arise from a comprehensive rescheduling of public and publicly guaranteed debt owed to Paris Club and other bilateral creditors, as well as to commercial and private creditors; a restructuring or refinancing of government short-term debt; and the roll-over of short-term liabilities of financial institutions.

V. TECHNICAL ASSISTANCE REQUIREMENTS

59. Pakistan has received substantial technical assistance in formulation and implementation of structural reforms underpinning the ESAF/EFF supported program. The authorities expect to benefit from further support in this regard during the period corresponding to the above-described program. Technical assistance from the IMF will be requested for: (i) undertaking a comprehensive review of the income tax system; (ii) reforming the primary dealer system for government securities; (iii) improving foreign exchange market operations and the SBP's monitoring/supervisory capacity; and (iv) improving the compilation and reporting of the monetary statistics. Technical assistance from the World Bank would be directed at: (i) enhancing the agricultural income tax; (ii) developing operational plans to improve the quality and timeliness of reports relating to public expenditures; (iii) developing a database and management information system for monitoring public enterprises (in collaboration with the IMF); (iv) reforming and strengthening tax administration; (v) implementing the privatization program; (vi) establishing the regulatory bodies for basic infrastructure; (vii) corporatization and privatization of the power distribution and generation companies; and (viii) developing a framework for introduction of clean fuels and energy conservation measures. The World Bank is now considering the government's request for technical assistance to implement a medium-term tax administration reform program. In addition to its ongoing support for strengthening regulatory and legal frameworks for capital markets, technical assistance from the AsDB will focus on: (i) support for power sector reforms, in particular strengthening the capacity of sector institutions; (ii) support for national economic management systems and public administration reform; and (v) the modernization of the export incentive framework.

Attachments (4):
Table 1. Pakistan: Key Economic Indicators, 1993/94–2002/3
Table 2. Pakistan: External Financing Requirements and Sources, 1997/98–2000/01
Appendix I. Pakistan: Policy Matrix, 1997/98–1999/2000
Appendix II. Pakistan: Income and Social Indicators

Table 1. Pakistan: Key Economic Indicators, 1993/94–2002/03

	1993/94	1994/95	1995/96	1996/97	Prog. 1997/98	Prel. 1997/98	Prog. 1998/99	Proj. 1999/00	Proj. 2000/01	Proj. 2001/02	Proj. 2002/03
					(Annual changes in percent)						
Output and prices											
Real GDP at factor cost	4.5	5.2	5.2	1.3	5.5	5.4	3.0	3.0	4.5	5.5	6.0
GDP deflator at factor cost	12.8	13.8	9.9	11.4	11.0	8.9	11.1	10.0	8.0	6.5	6.0
Consumer price index (annual average)	11.3	13.0	10.8	11.8	10.5	7.8	10.7	10.2	8.0	6.5	6.0
Consumer price index (end-of-period)	11.8	12.1	10.3	12.5	9.0	6.5	14.9	8.4	7.6	6.5	6.0
Nominal GDP at market prices	17.2	19.7	15.1	11.0	17.1	14.8	14.5	13.3	12.9	12.4	12.4
					(In percent of GDP)						
Investment and savings											
Total investment	19.4	18.4	18.7	17.4	17.8	17.3	15.0	14.5	15.5	16.9	17.9
Public	7.7	6.9	7.0	5.8	4.9	4.8	5.0	5.0	5.1	5.1	5.1
Private	11.7	11.5	11.7	11.6	12.8	12.5	10.0	9.5	10.4	11.8	12.8
Gross national savings	15.8	14.5	11.2	11.2	12.6	14.0	12.0	12.1	14.0	15.7	16.6
Public	-0.3	-0.9	-0.7	-2.3	-1.2	-1.3	-0.2	1.4	2.2	2.7	2.9
Private	16.1	15.3	11.9	13.5	13.8	15.4	12.2	10.7	11.8	13.0	13.7
Savings-investment balances	-3.6	-3.9	-7.5	-6.2	-5.1	-3.2	-3.0	-2.4	-1.5	-1.2	-1.3
Public	-8.1	-7.7	-7.6	-8.1	-6.2	-6.1	-5.2	-3.6	-2.8	-2.4	-2.2
Private	4.4	3.8	0.2	1.8	1.0	2.9	2.2	1.2	1.4	1.3	0.9
Budgetary Operations											
Budgetary revenue	17.2	17.0	17.0	16.0	15.7	15.8	15.9	17.5	18.1	18.5	18.8
Budgetary expenditure	23.9	23.9	24.1	22.4	20.6	21.3	20.2	20.8	20.6	20.6	20.6
Budgetary balance	-6.7	-6.9	-7.1	-6.4	-4.9	-5.5	-4.3	-3.3	-2.5	-2.1	-1.8
Primary balance	-1.2	-1.9	-1.2	-0.3	1.4	1.1	2.3	3.3	3.8	3.8	3.8
Domestic debt	43.9	41.4	41.3	42.7	39.3	41.9	37.7	35.0	32.4	29.9	27.2
					(Changes in percent of beginning-of-period stock of broad money)						
Monetary sector											
Net foreign assets	5.6	3.8	-4.7	-3.5	1.3	-0.9 4/	-0.6	...	...	...	...
Net domestic assets	12.4	13.4	18.5	15.8	14.4	13.8 4/	8.3	...	...	...	...
Of which : credit to the private sector	11.2	17.8	14.9	7.5	8.1	7.9 4/	8.5	...	...	...	...
Broad money	18.0	17.2	13.8	12.2	15.7	12.9 4/	7.8	...	...	...	...
					(In percent of GDP)						
External sector											
Exports	12.9	13.2	12.9	13.1	13.5	13.2	14.0	14.9	15.1	15.2	15.3
Imports	16.6	16.8	18.6	18.2	17.1	16.1	14.2	14.5	14.5	14.7	14.9
Current account excluding official transfers	-3.6	-3.9	-7.5	-6.2	-5.1	-3.2	-3.0	-2.4	-1.5	-1.2	-1.3
External public debt 1/	49.3	45.4	43.5	45.9	46.1	46.0	54.4	60.3	60.1	57.0	53.6
					(In millions of U.S. dollars)						
External sector											
Current account, excluding official transfers	-1,904	-2,413	-4,820	-3,851	-3,418	-2,076	-1,791	-1,408	-913	-800	-939
Current account balance	-1,590	-2,101	-4,593	-3,562	-3,283	-1,874	-1,676	-1,282	-734	-616	-747
Gross reserves 2/	2,302	2,741	2,053	1,141	1,673	932	1,340	1,750	2,150	2,650	2,950
Gross reserves 2/ (in weeks of imports)	12.6	12.7	8.2	4.9	7.0	4.3	7.6	9.8	11.8	12.8	13.0
External debt service ratio 1/ 3/	22.7	23.8	25.3	28.2	24.9	24.3	33.0	32.9	27.1	24.5	24.3
Memorandum item:											
Nominal GDP at market prices (PRs billion)	1,573	1,882	2,166	2,405	2,931	2,760	3,159	3,579	4,039	4,538	5,099

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

1/ Excludes foreign currency deposit liabilities and is based on GDP in U.S. dollars valued at the average annual exchange rate.
2/ Excluding gold.
3/ Medium- and long-term debt service (commitment basis) in percent of exports of goods and services and receipts of private transfers.
4/ Preliminary monetary data for 1997/98 is shown on the basis of program exchange rates rather than actual exchange rates. See Table 4 for monetary data based on actual exchange rates.

Table 2. Pakistan: External Financing Requirements and Sources, 1997/98–2000/01

(In millions of U.S. dollars)

	Prel. 1997/98	Prog. 1998/99	Proj 1999/00	Proj. 2000/01	Proj. 1998/99–2000/01
Current account balance excluding official transfers	-2,076	-1,791	-1,408	-913	-4,112
Trade balance	-1,874	-121	256	396	531
Exports, f.o.b.	8,437	8,299	8,801	9,488	26,589
Imports, f.o.b.	-10,311	-8,420	-8,545	-9,092	-26,058
Service balance	-3,409	-2,990	-3,188	-3,211	-9,389
Private transfers	3,207	1,320	1,524	1,902	4,746
Amortization	-6,049	-5,876	-5,422	-2,876	-14,173
Repayments to IMF	-195	-192	-266	-243	-701
Change in gross official reserves (increase -)	194	-407	-410	-500	-1,317
Total financing requirements	**-8,126**	**-8,265**	**-7,506**	**-4,532**	**-20,303**
Official transfers	202	115	126	179	420
Medium- and long-term capital	4,936	3,184	2,716	3,253	9,154
Public and publicly guaranteed	3,282	2,900	2,393	2,515	7,807
Project and nonproject aid	2,628	2,620	2,373	2,455	7,447
Project loans	1,380	1,220	1,300	1,450	3,970
Food loans	623	150	223	305	677
Program loans	625	1,250	850	700	2,800
Multilateral creditors	375	850	850	700	2,400
Bilateral creditor	250	400	0	0	400
Other public and publicly guaranteed 1/	654	280	20	60	360
Private sector	1,654	284	324	739	1,346
Short-term capital inflows	2,660	654	358	379	1,392
Public sector 1/	1,501	479	420	420	1,319
Private sector	1,159	175	-62	-41	73
IMF	328	860	617	120	1,597
Total identified financing	**8,126**	**4,813**	**3,818**	**3,932**	**12,563**
Financing gap	**0**	**-3,452**	**-3,688**	**-600**	**-7,740**

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

1/ Includes borrowing from commercial banks and the Islamic Development Bank.

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
1. Tax reform Improve resource mobilization, rationalize the tax system, broaden the tax base, promote a more equitable distribution of the tax burden, and improve tax administration.			
a. GST	• Unifying the GST rates (10, 18, and 23 percent) into a single standard rate of 12.5 percent; compulsory registration of importers, wholesalers, and distributors, and abolition of replacement invoices; extension of the GST to steel; improved refund procedures; strengthening of legal provisions to deal with delinquent taxpayers.	1997/98 (completed)	
	• Extending GST to sugar and edible oils.	(completed: sugar March 98, edible oil June 1998)	
	• Extending GST to the retail sector	Initiated June 1998	
	• Abolishing discretionary power to grant exemptions	By end-December 1998	
	• Improving the refund system for exports	By end-March 1999	FAD TA Mission
	• Extending coverage of GST in the textile sector	1998/99	
	• Extending the GST to service sectors	June 1999	
	• Removing GST exemptions for electricity, petroleum products, and agricultural inputs.	1999/2000	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
b. Personal and corporate income tax	• Reforming the income tax through expansion of the base and introduction of obligatory filing.	1997/98 (completed)	
	• Comprehensive review of the income tax system.	By end-March 1999	FAD TA mission on income tax system.
	• Implementing changes in the income tax system taking into account recommendations emanating from the above-mentioned review.	1999/2000	
c. Agricultural income tax Promote equitable sharing of the tax burden across different sectors while tapping significant additional sources of revenue for the provinces.	• Implementing the existing agricultural income tax in all four provinces, with exemption limits based on farm size, and variation in rates by irrigation status and coverage of types of farm land.	1997/98 (partially completed)	
	• Establishing and agreeing with each province annual provincial targets for revenues from agricultural taxation, and strengthening collection mechanisms to ensure achievement of the budgeted revenue targets of PRs 2.1 billion in 1997/98, PRs 2.5 billion in 1998/99, and PRs 3.5-4.0 billion in 1999/2000.	Each program year (1997/98 target not achieved)	
	• Conducting a study, with technical assistance from the World Bank, on various options for improving the agricultural income tax.	(completed: August 1998)	
	• Developing an action plan to achieve the budgeted revenue targets for agricultural taxation through a broadening of the base and an increase in rates.	By end-March 1999	
	• The federal government will assist the provinces in developing the institutional, legal and administrative arrangements to improve the existing institutions in charge of land recordation, land assessment, and collection.	During the program period	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
2. Reform of tax administration a. Improve tax administration in support of tax reforms to mobilize revenue in an effective, equitable, sustainable, and transparent manner.	• Strengthening the federal tax collection agency—the Central Bureau of Revenue (CBR)/Pakistan Revenue Service (PRS)—through incentives to ensure appropriate recruitment, proper training, simplified procedures, and provision of resources to acquire and maintain suitable facilities, equipment, and supplies.	During the program period	World Bank assistance
	• Recruiting 500 officers (including 400 auditors) for GST administration	By end-March 1999	
	• Reducing non filers to: Less than 1 percent for large taxpayers Less than 8 percent for medium taxpayers Less than 15 percent for small taxpayers	June 1999	
	• Implementing an audit program covering: 10-15 percent of taxpayers 20-25 percent of taxpayers	 By September 1999 By December 1999	
b. Income tax	• Establishing a Tax Audit and Investigation Unit to audit large taxpayers.	December 1997 (completed)	
c. Pakistan Revenue Service (PRS)	• Presidential executive order empowering CBR to operate autonomously.	August 1998 (completed)	
	• Submission of Pakistan Revenue Service Act to the National Assembly to give PRS full legal standing.	By December 1998	
d. Information improvements	• Introducing new single unified taxpayer number system covering GST, customs, and income tax.	By end-March 1999	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Based on unified numbering system, establishing an information exchange program encompassing income tax, GST, and customs administration to promote integration of the tax system for:		
	70% of corporate taxpayers	By June 1999	
	others (including non-corporate)	By June 2000	
3. Trade reform			
a. Statutory tariffs Further lowering and rationalizing the rate structure.	• Lowering the maximum tariff rate to 35 percent and the number of non-zero tariff rates to four.	By end-March 1999	
	• Lowering the maximum tariff rate to 25-30 percent.	By end-June 2000	
b. Quantitative restrictions Further liberalize the trade regime.	• Elimination of remaining export restrictions and procedural restrictions on imports and developing a plan and timetable to phase out import bans on textile products.	By July 1999	
c. Export promotion Improve institutional environment for sustained rapid export growth and diversification.	• Improving the duty drawback mechanism by strengthening the capacity of the existing special cell for computing duty drawback rates. Streamlining procedures and enforcing standards on timing of repayments.	During the program period.	
	• Expanding and simplifying eligibility criteria for access to suspense schemes (temporary importation and bonded manufacturing); establishing a computer-based system for monitoring transactions under suspense to control potential leakages.	During the program period.	
	• Developing a plan to improve institutional support and streamline administrative processes for exporters.	By June 1998 (completed)	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
4. Expenditure and civil service reform			
Improve composition, prioritization, and quality of public expenditure.	• Introducing/maintaining hiring freezes at the federal level and encouraging the provincial governments to do the same (except for front-line staff in the Social Action Program (SAP) sectors and, on an exceptional basis, to provide essential skills), and ensuring that these freezes apply to nonregular as well as regular employees.	In place and on-going for each year during the program period.	
Improve the prioritization and quality of public investment.	• Identifying, in consultation with the World Bank and other donor agencies: (i) a set of development priorities and allocations in the Public Sector Development Plan (PSDP), such that funding for high-priority projects is protected from budgetary cutbacks; and (2) contingent government liabilities related to projects in the budgetary and nonbudgetary PSDP.	In place for 98/99 and for each year of the program period.	
Strengthen medium-term perspective of public expenditure decision-making.	• Developing a medium-term expenditure framework to set strategic priorities for use in preparation of annual budgets. Preparing multi-year development plans to ensure that the consequences of new and ongoing projects for PSDP and other budgetary expenditures in subsequent years are taken into account.	During the program period.	
	• Integrating budgeting of development and recurrent expenditures, initially within existing departments and other public sector entities, but subsequently moving toward sector- and program-based budgeting.	1999/2000 budget and each subsequent program year	
	• As part of the PIFRA (Pakistan Improvement to Financial Reporting and Auditing) project, developing operational plans and Terms of Reference to improve the quality and timeliness of information flows relating to public expenditures.	In place and on-going.	
	• Preparing operational plans for restructuring government ministries and divisions, attached departments, and autonomous bodies.	By June 1998 (completed for all 31 federal divisions)	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Initiate action to implement operational plans in a phased manner.	During the program period.	
	• Preparing a program of civil service reform and an action plan for implementations of reform within a medium-term time horizon.	December 1998 (study completed) June 1999 (action plan for implementation)	World Bank TA
	• Implementing the initial phase of the civil service reform program	1999/2000	
5. Public enterprises reform Strengthen financial position while preparing action plans for privatization.	• Developing action plans for restructuring of the seven major public enterprises.	Completed.	
	• Implementing plans in a phased manner.	During the program period.	
	• Developing a database and a Management Information System (MIS) for monitoring Public Enterprises.	During the program period.	IMF/ World Bank TA
6. Financial sector and capital market reforms.			
a. Monetary reform Enhancing the enabling institutional environment for market-based monetary control.	• Initiating the reform of the primary dealer system for government securities.	By July 1997 (completed)	
	• Introducing treasury bills covering a range of maturities (three months, six months, and one year).	By June 1998 (completed)	
	• Eliminating the existing six-month federal bonds.	By June 1998 (completed)	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
b. Privatization of banking institutions			
Restore good governance, enhance financial discipline, and increase efficiency in the banking institutions.	• Fully implementing actions to enable privatization banks and nonbank financial institutions: (a) rationalizing staffing and branches before privatization; and (b) replacing bad assets (net of capital and reserves) by government securities at the time of privatization.	During the program period	
	• Completing divestiture of the government's remaining ownership interests in: - Pakistan Industrial Credit and Investment Corporation (PICIC) - Bankers' Equity Limited (BEL)	By March 1998 (PICIC and BEL completed)	
	- Allied Bank Limited (ABL) - Muslim Commercial Bank (MCB)	Ready for privatization as market conditions improve.	
	• Bringing National Development Finance Corporation to the point of sale.	By June 1999	
	• Bringing United Bank Limited to the point of sale.	By March 2000	
	• Bringing the Industrial Development Bank of Pakistan to the point of sale.	By December 1999	
	• Bringing Habib Bank Limited to the point of sale.	By June 1999	
	• Bringing National Bank of Pakistan to the point of sale.	By December 1999	
c. Regulation and supervision of financial institutions			
Enhance the SBP's supervisory and regulatory capacity.	• Making all prudential regulations on capital adequacy, loan classification and provisioning, loan concentration and exposure limits, and accounting and auditing standards consistent with international norms.	By December 1997 (completed)	
	• Enforcing compliance by banks and nonbank financial institutions with the new capital adequacy standards.	During the program period	
	• Making the early warning system and on-site examination mechanism fully operational.	By January 1998 (On-going)	
	• Introducing a deposit insurance scheme.	By January 2000	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
d. Legal and judicial reforms Improve the legal environment for loan recovery and facilitate the enforcement of financial contracts.	• Securing legislative approval of the following ordinances: Banks (Nationalization, Fourth Amendment) Ordinance 1996. Banks (Nationalization, Amendment) Ordinance 1997. Banking Companies (Amendment) Ordinance 1997. State Bank of Pakistan (Amendment) Ordinance 1997. Central Depositories Ordinance 1997.	By June 1997 (completed)	
	• Adopting a new Bank Loan Recovery Law.	By June 1997 (completed)	
	• Increasing the number of banking courts and providing adequate resources for their operations.	By December 1997 (completed)	
	• Submitting to the National Assembly an amendment to the Loan Recovery Act of 1997 to facilitate execution of banking court decisions in order to strengthen banks' ability to seize assets and recover debts.	By December 1998	
	• Establishing a centralized system for registering bank securities (completed for corporate securities but not government securities).	By September 1999	
e. Capital market reform Augment mobilization of long-term financial resources and improve the efficiency of their allocation through a diversified and competitive capital market in order to encourage broad-based participation of issuers and investors.	• Eliminating market distortions: - Rationalization of tax treatment of public and private mutual funds.	June 1997 (completed)	
	- Removal of the existing tax discrimination against private corporate debt.	By September 1997 (Completed)	
	- Lowering restrictions on investments by institutional investors.	By June 1999	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Strengthening market regulation and supervision: - Improving stock exchanges' corporate governance by restructuring their Governing Board and inducting an independent chief executive officer - Restructuring the Corporate Law Authority to establish an independent Securities Exchange and Corporate Commission of Pakistan - Strengthening self-regulation of stock exchanges - Strengthening self-regulation of financial industries	June 1999 By June 1999 By June 1999 By June 1999	
	• Modernizing and upgrading of securities market infrastructure including integration of markets through operationalization of harmonized and automated trading, development of electronic linkages among exchanges, and development of a centralized clearing, settlement, and depository system.	By December 1999	
	• Improving investment alternatives and efficiency of market participants: - Development of corporate debt market. - Development of the mutual fund industry, improvements in regulatory framework, and introduction of money market and fixed-income funds.	 By June 1999 By June 1999	
7. Exchange market and exchange system reforms Liberalize the foreign exchange market and unify the exchange rate based on a free float.	• Equip the SBP's foreign exchange dealing room, train foreign exchange dealers and incorporate existing domestic money market operations.	By June 1999	
	• Unification of the exchange rate to the new Free Interbank Rate	By July 1, 1999	
	• Increasing the nostro account limits by 100% to reverse the action taken on November 16, 1998 and agreement on further phased increases.	By December 1999	
	• Agreement on a timetable for phasing out the surrender requirement for export earnings by June 2000.	By December 1999	
	• Set prudential limits on banks' open positions in foreign exchange, related to each bank's capital.	By December 1999	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
8. Privatization Raise productivity, improve governance, enhance competition and efficiency.	• Strengthening the regulatory bodies and creating an enabling environment for privatization of core infrastructure.	During the program period	
	• Making the Pakistan Telecommunications Authority fully operational.	By June 1998 (completed)	
	• Selling at least 18 industrial units.	By June 1998 (not done)	
	• Sale/divestiture of about 10 industrial units—including cement, vegetable oil facilities, a heavy electrical complex and real estate holdings.	By June 1999	
	• Bringing Pakistan National Shipping Corporation and National Tanker Company to the point of sale.	By June 1999	
	• Bringing Pakistan Telecommunication Corporation to the point of sale.	By June 2000	
9. Social Policies Improve Pakistan's social indicators through expanded delivery and better quality of basic social services.	• Protecting from budgetary cuts the agreed FY 99 level of total rupee expenditures on SAP, especially the SAP non-salary budgets.	1998/99	
	• Re-establishing the framework for expanding SAP expenditures as a share of GDP in line with macroeconomic developments.	The 1999/2000 budget allocations to reflect this framework.	
	• Effectively spending the levels of non-salary budget agreed in the annual operational plans for SAP education and health subprograms.	Each year during the program period	
	• Implementing satisfactorily the SAP as agreed in the operational plans of the sub-programs based on periodic reviews by the supporting donors and the World Bank and in the light of Quarterly Monitoring Reports prepared by the implementing agencies.	Each year during the program period.	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Conducting regular assessments of the impact and effectiveness of SAP, based on the annual Integrated Household Survey (PIHS).	During the program period	
Ease the adjustment burden on the poor and promote improvements in living standards of poor communities.	• Operationalizing the Pakistan Poverty Alleviation Fund (PPAF) to assist poor communities in developing small-scale infrastructure and income-generating activities through micro-credits and human resource development.	1997/98 (Completed)	
	• Providing adequate budgetary grant-in-aid to PPAF and budgetary allocation for operations in 1998/99, and for expansion in subsequent years.	Done for 1998/99. Each year during program period.	
Ensure fair treatment of those affected by public sector restructuring.	• Developing and implementing safety net programs for public sector employees affected by restructuring.	During the program period	
10. Sectoral policies			
a. Agriculture			
Increase productivity and income generation.	• Removing remaining controls on international trade in agricultural commodities.	By December 1999	
	• Reducing federal subsidy on wheat by 50 percent and allowing the public sector agencies to compete with the private sector on equal terms.	By December 1999	
	• Eliminating the remaining government subsidy on wheat.	By December 2001	
	• Improving the functioning of the agricultural credit market by gradually phasing out credit subsidies and directed credit, and promoting development of more effective, market-based credit institutions for agriculture.	During the program period	
	• Decentralizing in a phased manner management of the irrigation and drainage system to autonomous Provincial Irrigation Development Authorities and to Area Water Boards, and enhancing farmers' participation through Farmers' Organizations.	By June 1999	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Initiating steps to phase out subsidies for operation and maintenance costs of the irrigation system, while ensuring adequate provincial spending on O&M and adequate collection of water charges during the transition process.	By June 1999	
	• Restructuring of the Water and Power Development Authority (WAPDA) Water Wing and re-orienting its focus toward basin-wide resource management.	By July 1999	
	• Ensuring that provinces allocate adequate operation and maintenance expenditures, and improve collection of water charges during transformation of system control.	Each year during the program period	
b. Energy To raise efficiency by rationalizing the public sector utilities and promoting a greater role for the private sector.	• National Electric Power Regulatory Authority (NEPRA) to issue Rules and Standards for determination, modification or revision of electricity tariff rates, and other terms and conditions related to generation, transmission, and distribution by licensees.	By December 1998	
	- NEPRA to issue licenses to the Distribution Companies (DISCOs).	By June 30, 1999	
	- NEPRA to issue licenses to the Generation Companies (GENCOs) and the National Grid Company (NGC).	By September 30, 1999	
Separate WAPDA's water and power wings and restructure WAPDA's power wing into twelve independent and autonomous companies under the Companies Ordinance regulated by NEPRA.	• Complete corporatization of the Distribution Companies.	By June 30, 1999	
		By September 30, 1999	
	• Complete corporatization of GENCOs and NGC.	1999/2000	
	• At least three DISCOs along with KESC to be offered for sale to the private sector.		

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
Improve financial discipline, accelerate collection of arrears, improve collection of current bills, and commercialize operations of WAPDA and 12 corporatized entities.	• Federal and provincial governments to settle monthly WAPDA bills within one month of bill presentation.	Starting December 1998	
	• Implement agreed orderly framework for resolving Independent Power Producers (IPPs) issues.	During the program period	
	• Convert flat rates for agricultural customers into metered rates, complete metering program for agricultural customers, and apply time of day tariffs for large industrial consumers.	During the program period	
	• Introduce tariff adjustment that would enable WAPDA to reach financial targets agreed with the World Bank.	By March 31, 1999	
	• Maintain financial viability of WAPDA and 12 corporations in accordance with agreed targets.	During the program period	
	• Satisfactory progress of implementation of Karachi Electric Supply Corporation (KESC) financial restructuring plan as agreed with AsDB.	By March 31, 1999	
Natural Gas sector	• Separating the technical services from the exploration and production functions in the Oil and Gas Development Corporation (OGDC).	By June 1999	
	• Completing restructuring and bringing OGDC to the point of sale.	By June 2000	
	• Maintaining gas prices for industry, power, and commercial sector at parity with domestic price of fuel oil.	By March 1999	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Maintaining gas prices for residential consumers at parity with border price of fuel oil.	By March 1999	
	• Adjusting prescribed gas tariffs as required to achieve rate of return on assets target for SNGPL and SSGC as agreed with the World Bank and adjusting consumer gas prices according to the variation in the domestic price of fuel oil.	Each year during the program period.	
	• Reducing cross-arrears among energy utilities and.the government to sustainable levels.	Each program year	
	• Establishing the Gas Regulatory Authority		
	- Legislation enacted by Parliament	By March 1999	
	- Regulatory Authority fully staffed	By June 1999	
	• Completion of preparatory work for the privatization/ issuance of sale prospectus for Sui Northern Gas Pipelines Ltd. and Sui Southern Gas Company, and bringing these companies to the point of sale.	By March 1999	
c. Infrastructure Promote development of an efficient transport sector.			
(i) Highways	• Adopting a Highway Private Sector Policy and Institutional Framework to encourage private sector investment.	By December 1997 (completed)	
	• Establishing an adequate source of funding for road maintenance at the federal level by the National Highway Authority (NHA), based primarily on enhanced road user charges and a mechanism to involve road users in allocation and management of road maintenance funds. Encouraging the provincial governments to do the same.	By June 1999	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Reprioritize public investment program, enhance allocations for rehabilitation and selective improvements of high priority road sections. Ensuring appropriate balance between budget allocations for capital expenditure and recurrent costs in the highway sector.	During the program period	
(ii) Railways	• Separating the Railway Board from the Ministry of Railways and reconstituting the Board to include private sector members for facilitating the privatization process.	By December 1997 (completed)	
	• Establishing a Railway Resettlement Authority and a Regulatory Authority.	By December 1999	
	• Corporatize three railway core business units under the Company's Act.	1999/2000	
	• Bringing to point of sale railway core business units and noncore services.	1999/2000	
(iii) Ports	• Moving toward [landlord] Port role for Karachi Port. Undertake management reforms, labor rationalization and commercialization of operations.	During the program period	
d. Environment Improve legal framework for environmental protection and strengthen enforcement.	• Enacting the Environmental Protection Law.	By September 1997 (completed)	
	• Developing an action plan for the finalization and promulgation of National Environmental Quality Standards and their implementation at the national and provincial levels.	December 1998	
	• Developing a comprehensive pollution control scheme for existing and proposed industry (EA system).	By December 1998	

Pakistan: Policy Matrix, 1997/98–1999/2000

Policy Area/Objectives	Actions	Implementation	TA Needs
	• Developing provincial capacity in implementing EA procedures, monitoring and enforcement (under new Act).	By December 1998	
Greening Pakistan	• Developing a policy framework for mass environmental awareness.	During the program period	
Introduction of clean fuels and new technology.	• Developing a Policy Framework	1999/2000	With assistance from World Bank (clean fuels study).
Fuel efficiency (ENERCON)	• Implementing the National Energy Conservation Policy and energy conservation measures.	During the program period	
e. Urban and Water	• Issuing a policy statement confirming the role of local government as the prime urban institution for basic urban services, including oversight and regulatory functions thereof.	June 1999	
	• Provinces to prepare a phased devolution plan of the responsibility for property tax evaluation and collection to local governments by June 1999 and implementing the plan thereafter.	1999/2000	
	• Issuing a policy statement for putting in place a regulatory framework encouraging private sector participation in urban services delivery, particularly water and wastewater services and solid waste management services.	June 1999	

Pakistan: Income and Social Indicators

	1970–75	1980–85	1990–95	1996/97	1997/98
Population					
Population (in millions) 1/	71.0	96.2	129.9	135.3	139.0
Population growth rate (in percent) 2/	3.2	3.1	2.8	2.8	2.7
Urban population (in percent of population)	26.4	29.8	...	28.8	32.7
Total fertility rate (in percent)	7.0	7.0	5.2	...	...
Poverty					
Rural poverty line	...	296 3/	296 3/	...	...
National headcount index (percent of population)	...	...	34.0	...	...
Urban headcount index	...	38.0	28.0	...	...
Rural headcount index	...	49.0	36.9	...	...
Income					
U.S. dollar GNP per capita	150	360	460	452	457
Income/consumption distribution					
Share of income or consumption (in percent)					
Lowest quintile	8.0	...	8.4	...	...
Highest quintile	41.8	...	39.7	...	...
Social indicators					
Share of public expenditure (percent of GDP)					
Health	0.3	0.5	0.8	0.8	0.7
Education	1.4	1.7	2.0	2.6	2.3
Social security and welfare	...	0.1	0.1	0.1	...
Net primary school enrollment rate (percent of age group) 4/					
Total			56	60	...
Male			67	70	...
Female			44	49	...
Access to safe water (percent of population)					
Total	25.0	44.0	60.0	...	...
Urban	75.0	84.0	85.0	...	...
Rural	5.0	28.0	47.0	55.0	...
Immunization rate (percent under 12 months)					
Measles	...	23	53	72	...
DPT	...	30	55	77	...
Child malnutrition rate (in percent under 5 years)	...	...	40	...	...
Life expectancy at birth (years)					
Total	51	56	63	...	63
Male	51	56	62	...	63
Female	51	57	64	...	63
Mortality					
Infant mortality rate (per 1,000 live births)	140	120	90	...	97
Under 5 mortality rate (per 1,000 live births)	...	...	127	...	...
Adult (15-59) mortality rate (per 1,000 population)					
Male (per 1,000 population)	...	...	208	...	...
Female (per 1,000 population)	...	...	228	...	...
Maternal mortality rate (per 100,000 live births)	...	600	500	...	...

Sources: Data provided by the authorities; World Bank, World Development Indicators, February 1997; and Fund and World Bank staff estimates.

1/ Mid-year population estimates.
2/ Annual averages.
3/ Poverty line of PRs 296 per capita per month in 1991/92 rural prices.
4/ 1990–95 figures refer to 1994.