

**FOR
AGENDA**

EBS/09/35
Supplement 1

CONFIDENTIAL

March 17, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Pakistan—Staff Report for the 2009 Article IV Consultation and First Review Under the Stand-By Arrangement—Informational Annex**

The attached informational annex is being issued as a supplement to the 2009 Article IV consultation with Pakistan and the first review under the Stand-By Arrangement for Pakistan (EBS/09/35, 3/17/09), which is tentatively scheduled for discussion on **Monday, March 30, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Pakistan indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Mazarei (ext. 34902) and Mr. Wiczorek (ext. 37338) in MCD.

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 Wednesday, March 25, 2009; and to the Asian Development Bank, the European Investment Bank, and the Islamic Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

PAKISTAN

**Staff Report for the 2009 Article IV Consultation and
First Review Under the Stand-By Arrangement**

Informational Annex

Prepared by Middle East and Central Asia Department

March 16, 2009

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ANNEX I. PAKISTAN: RELATIONS WITH THE FUND

As of February 28, 2009

I. Membership Status: Joined: 07/11/1950; Article VIII

II. General Resources Account:	<u>SDR Million</u>	<u>% Quota</u>
Quota	1,033.70	100.00
Fund Holdings of Currency	3,104.14	300.29
Reserve position in Fund	0.12	0.01

III. SDR Department:	<u>SDR Million</u>	<u>% Allocation</u>
Net cumulative allocation	169.99	100.00
Holdings	111.33	65.49

IV. Outstanding Purchases and Loans:	<u>SDR Million</u>	<u>% Quota</u>
Stand-by Arrangements	2,067.40	200.00
PRGF arrangements	740.82	71.67
Extended arrangements	3.16	0.31

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	11/24/08	10/23/2010	5,168.50	2,067.40
PRGF	12/06/2001	12/05/2004	1,033.70	861.42
Stand-By	11/29/2000	09/30/2001	465.00	465.00

VI. Projected Payments to the Fund¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	132.37	172.28	1,205.98	1,180.14	86.14
Charges/Interest	28.38	35.86	29.65	12.62	0.98
Total	160.75	208.14	1,235.63	1,192.76	87.12

¹ This schedule presents all currently scheduled payments to the IMF, including repayment expectations and repayment obligations. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the member if its external payment position is not strong enough to meet the expectations without undue hardship or risk.

A. Nonfinancial Relations

VII. Exchange System

On May 19, 1999, the dual exchange rate system was unified, with all international transactions conducted at the interbank market exchange rate (FIBR). The Fund classifies Pakistan's exchange rate regime as floating. Pakistan has accepted the obligations of Article VIII. It maintains a restriction subject to Fund approval in the form of a 25 percent limit on advance payments for imports of goods and various cash margin requirements imposed on letters of credit.

VIII. Last Article IV Consultation

The last Article IV consultation (Country Report 08/21) was discussed by the Executive Board on December 17, 2007.

IX. Safeguards Assessments

In accordance with the Fund's safeguard assessment policy, the State Bank of Pakistan (SBP) was subject to a full safeguards assessment under the Stand-By Arrangement that was approved in November 2008. This update assessment included a safeguard mission to the SBP in late January 2009. The assessment found improved transparency of the audited financial statements, coupled with stronger governance oversight by the Central Board and the Audit Committee. The SBP embarked on a modernization program that saw the implementation of a new organization structure, IT systems, and the recruitment of a qualified professional staff. However, prompt action is needed to safeguard central bank independence via amending the SBP Act, and expedite its transition to the inter-agency group formed by the authorities to facilitate its enactment. Also, staff noted the need to strengthen controls over program data reporting to the Fund through an independent review mechanism.

X. FSAP Participation and ROSCs

Fiscal Transparency Module	11/28/2000	(www.imf.org)
Fiscal Transparency Module—Update	11/22/2004	Country Report No. 04/416
Financial System Stability Assessment Financial Sector Assessment Program	6/23/2004	Country Report No. 04/215
Data Module and Detailed Assessment Using Quality Assessment Framework	11/29/2004	Country Report No. 04/398
Data Module, Reassessment of Monetary Statistics and Detailed Assessment Using Quality Assessment Framework	2/2/2007	Country Report No. 07/74
Fiscal Transparency Module—Draft Update	2/13/2007	Country Report No. 08/129
Financial System Stability Assessment, Financial Sector Assessment Program Update	9/22/2008	In progress

XI. Recent Technical Assistance

FAD

January 2002: Fiscal data management, quality, and transparency.

January 2003: Tax administration.

February/March 2003: Customs administration.

April 2004: Fiscal reporting.

April 2007: Public financial management.

MCM

November/December 2004: Public debt reform and capacity building program (joint with World Bank).

March/April 2005: Development of the Insurance Sector.

December 2006: Monetary policy framework.

April 2007: Monetary policy framework, the SBP's balance sheet, and the Banking Services Corporation.

STA

February 2002: External sector statistics/SDDS subscription.

April/May 2005: National accounts and consumer price statistics.

May 2007: Statistics on the international investment position.

LEG

July 2008: Deposit Protection Fund.

July 2008: Central Bank Law.

August 2008: Banking Law.

XII. Resident Representative

A resident representative has been stationed in Islamabad since August 1991.

ANNEX II. PAKISTAN: RELATIONS WITH THE WORLD BANK GROUP

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1. Pakistan is among the largest recipients of World Bank financial assistance. In FY2007, World Bank support to Pakistan totaled US\$985 million, making it the seventh largest borrower in the world. The World Bank Group program in Pakistan consists of an integrated package of financial support, including IBRD lending, concessional IDA credits and IFC investments, along with complementary analytical and advisory services.
2. The Bank Group's Board of Directors endorsed a new Country Assistance Strategy (CAS) for Pakistan on June 1, 2006, covering fiscal years 2006 through 2009. The CAS outlines the Bank's strategic approach to helping Pakistan achieve its development goals over a four-year period. Despite recent good economic performance, Pakistan's development challenges remain formidable. The strategy addresses the key challenge of sustaining rapid growth in order to further reduce poverty. This will require accelerating human development so that the poor can participate in and benefit from growth. Sustained growth will also require sound macroeconomic management along with improvements in the investment climate, including regulatory reform and significant investment in infrastructure.
3. The CAS is designed around three main pillars:
 - **Sustained Growth and Improved Competitiveness:** The principal focus of this pillar will be to support investments and reforms needed to improve the business environment for trade and investment and sustain rapid, private sector-led growth. The Bank will provide support to key sectors such as agriculture and infrastructure, and help the government strengthen macroeconomic management through improving public expenditures and supporting ongoing tax reforms.
 - **Strengthened Governance and Service Delivery:** Priorities in this area will be to support further reforms and investment to increase efficiency, transparency, and accountability in the use of public resources, while supporting cross-cutting reforms needed to improve service delivery at all levels of government—with particular attention to health, education, water and sanitation, safety nets, and municipal services.
 - **Improved Lives and Protection of the Vulnerable:** The Bank will focus on increased investment in the education and health sectors to help build the skilled, healthy work force needed to sustain strong growth. This area of the CAS also features targeted interventions to help the poor, including strengthened safety nets and targeted interventions and community-based approaches in rural areas.

4. In line with Pakistan's recent performance and the government's request for increased Bank Group support, the CAS outlines a substantial increase in the volume of lending to Pakistan through FY2009. The expansion in lending will take place primarily in infrastructure (mainly in energy, water, and transport) and human development. One priority will be to continue to assist in addressing the impact of the October 2005 earthquake—up to US\$1 billion will be used to support reconstruction and recovery. Overall, a flexible lending program of up to US\$6.5 billion is set forth in the CAS. About half of this amount (US\$3.1 billion) will take the form of IDA credits. Policy-based lending will account for up to half of planned financial support.

5. The IFC strategy in Pakistan, as expressed in the CAS, seeks to increase investments with a target range of US\$500–600 million during the FY2006–09 period. IFC activity will focus on three main sectors: financial, SME and infrastructure. IFC has also initiated a substantial TA program in Pakistan to build capacity and address constraints of the SME, infrastructure and financial sectors.

IBRD/IDA financial operations since FY2002 are summarized below:

Pakistan: World Bank Group Financial Operations (In millions of U.S. dollars)						
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Commitments						
IBRD	50	347	315	100
IDA	800	297	731	500	1,161	885
Disbursements						
IBRD	38	40	13	203	149	154
IDA	830	316	290	778	1,061	1,030
Repayments						
IBRD	255	257	277	299	289	265
IDA	71	83	96	111	117	170
Debt Disbursed and Outstanding						
IBRD	2,820	2,706	2,526	2,406	2,247	2,132
IDA	5,097	5,604	6,020	6,651	7,627	8,700

ANNEX III. PAKISTAN: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Further improvements in the availability and timeliness of key economic statistics would help policy analysis and formulation. The Report on the Observance of Standards and Codes (ROSC)—Data Module, a Response by the Authorities, and a Detailed Assessment Using the Data Quality Assessment Framework (DQAF) were published on the IMF website in December 2004. A ROSC reassessment focusing on monetary statistics was conducted in November 2006 and published on the IMF website in February 2007.
2. Pakistan participates in the General Data Dissemination System (GDDS) since 2003, meeting the recommendations for the coverage, periodicity, and timeliness of most GDDS data categories. For subscription to the Special Data Dissemination Standard (SDDS), Pakistan will need to disseminate (a) monthly data on central government operations with a timeliness of one month; (b) quarterly data on the national accounts, employment and unemployment, wages/earnings, and external debt, all with a timeliness of one quarter; (c) more detailed breakdown of data on central government debt and external debt; and (d) update and expand the metadata on compilation and dissemination practices.
3. In 2004, the Federal Bureau of Statistics (FBS) completed a revision of the national accounts statistics to bring them in line with the concepts and definitions of the *1993 System of National Accounts (1993 SNA)*. As noted by the December 2004 data ROSC, informal economic activities need to be better captured, while newly emerging activities, such as in the information technology sector, continue to pose challenges. The FBS is currently working on producing quarterly national accounts (QNA), which would be completed with a rebasing of the national accounts to the year 2005/06. With respect to labor market statistics, the FBS has recently started to compile quarterly employment/ unemployment data (although not with the frequency required for subscription to the SDDS) and is investigating the feasibility of disseminating data on wages/salaries.
4. The FBS produces three price indices: the CPI, the wholesale price index (WPI), and the sensitive price indicator (SPI). The CPI and WPI are compiled on a monthly basis. The SPI is compiled on a weekly basis and consists of 46 essential commodities that are consumed by the lowest income group. The concepts and definitions of the CPI and WPI follow international guidelines. Plans have been made to introduce the classification of individual consumption by purpose (COICOP) and to complete the work to develop a Producer Price Index (PPI), with base year 1999/2000; an IMF mission also provided some advice in this regard.
5. The concepts and definitions used in compiling government finance statistics are broadly based on the *GFSM 1986*, except that privatization proceeds are included below the

line. The scope of central government data is further limited because it does not cover the activity of extrabudgetary funds. Classification and sectorization in source data follow *GFSM 1986* standards to a limited extent. The classification of expenditure deviates from *GFSM 1986* methodology because the economic and functional classifications are mixed in reporting, in particular, with defense and government administration expenditures not clearly identified according to economic classification. The basis of recording GFS is on, or close to, a cash basis. Transactions are recorded on a gross basis. Corrective transactions are not necessarily made in the original period, as required by *GFSM 1986*. The authorities have indicated their intent to adopt the methodology of *GFSM 2001* over the medium term, and are in the process of improving government finance statistics in the context of the Project for the Improvement of Financial Reporting and Auditing (PIFRA). Budgetary central government operations data are regularly reported for publication in the *GFS Yearbook*, and use the *GFSM 2001* framework. However, no data are reported on transactions in nonfinancial and financial assets and liabilities. The authorities do not report higher frequency data for inclusion in the *IFS*.

6. The ROSC mission found that the scope of the monetary statistics is comprehensive. The classification and sectorization of the monetary survey compiled by the State Bank of Pakistan's (SBP) Statistics Department for reporting to the IMF and for internal use are broadly in line with the *Monetary and Financial Statistics Manual (MFSM)*. The basis for recording flows and stocks is largely consistent with the *MFSM*, and the SBP has indicated its intention to adopt the *MFSM* in order to further improve monetary statistics. The ROSC mission that conducted the reassessment of monetary statistics in November 2006 found that the authorities had implemented the *MFSM* guidelines on the sectorization of institutional units, classification of financial instruments, and the recording of securities repurchase agreements (repos). Also, a new reporting framework for other depository corporations has been designed and is being implemented. Further progress is needed in resolving discrepancies in the data on interbank positions between the SBP and scheduled banks. The SBP is in the process of implementing the Standardized Report Form framework for reporting monetary data to the Fund.

7. Starting in the third quarter of 2003 (July–September), Pakistan's balance of payments statements have been prepared according to the methodology of the *Balance of Payments Manual*, fifth edition (*BPM5*). A 2007 Fund technical assistance mission made recommendations to more closely align some recording practices with the *BPM5*, including in the areas of residency, sectorization, and consistency across related data sets. Based on these recommendations, a number of improvements have been made. Differences between the two sources of trade data (customs records for FBS and exchange records for SBP) for exports and imports have been widening. Most of the differences can be reconciled ex post (see SBP's Second Quarterly Report for FY2006), and the authorities are working to narrow these differences before the publication of the data.

8. Annual international investment position data are compiled and published on the SBP website. Data are available back to 2003.

PAKISTAN: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF FEBRUARY 27, 2009

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality – Accuracy and reliability ⁹
Exchange Rates	real time	real time	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jan. 2009	Feb. 2009	M	M	M		
Reserve/Base Money	Jan. 2009	Feb. 2009	M	M	M	O, O, O, LO	O, O, O, O, LO
Broad Money	Jan. 2009	Feb. 2009	M	M	M		
Central Bank Balance Sheet	Jan. 2009	Feb. 2009	M	M	M		
Consolidated Balance Sheet of the Banking System	Jan. 2009	Feb. 2009	M	M	M		
Interest Rates ²	Jan. 2009	Feb. 2009	M	M	M		
Consumer Price Index	Jan. 2009	Feb. 2009	M	M	M	O, LO, LO, O	O, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Dec. 2008	Feb. 2009	Q	Q	Q	LO, LO, LNO, LO	O, O, LO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Dec. 2008	Feb 2009	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Jan. 2009	Feb. 2009	Q	Q	Q		
External Current Account Balance	Jan. 2009	Feb 2009	M	M	M	LO, LO, LO, O	O, O, O, O, LNO
Exports and Imports of Goods and Services	Jan. 2009	Feb. 2009	M	M	M		
GDP/GNP	2007/08	Jul. 2008	A	A	A	LO, LNO, LO, LO	LNO, LNO, O, LNO, O
Gross External Debt	Jan. 2009	Feb. 2009	M	M	M		
International Investment Position ⁶	2007	Jun. 2008	A	A	A		

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing. Only Federal Board of Revenue's outcome is received on monthly basis

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); or Not Available (NA).

⁸Reflects the assessment provided in the data ROSC published in December 2004 and its update published in February 2007, and based on the findings of the missions that took place during December 1–16, 2003 for the dataset corresponding to the variable in each row, and during November 1–15, 2006 for monetary statistics, respectively. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹Same as Footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.