FOR AGENDA



SM/87/137

CONTAINS CONFIDENTIAL INFORMATION

June 22, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Pakistan - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Pakistan, which is proposed to be brought to the agenda for discussion on Monday, August 3, 1987. A draft decision appears on page 21.

Mr. Maciejewski (ext. 7112) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

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PAKISTAN

# Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the
1987 Consultation with Pakistan

Approved by A. S. Shaalan and S. Kanesa-Thasan

June 18, 1987

## I. Introduction

The 1987 Article IV consultation discussions were held in Islamabad during February 1-12 and April 27-May 3. The Pakistan representatives were led by Mr. H.U. Beg, Finance Secretary, and included Mr. A.G.N. Kazi, Deputy Chairman of the Planning Commission, Mr. V.A. Jafarey, Governor of the State Bank of Pakistan, Mr. Izharul Haq, Special Secretary, Ministry of Finance, and other senior officials. The staff missions also had discussions with Mr. M.M.Y.K. Wattoo, Minister for Finance and Economic Affairs, and Dr. Mahbub ul Haq, Minister for Planning, Development and Commerce. Staff representatives who participated in one or both missions were Messrs. S.H. Hitti (Head), H.E. Jakubiak, M. Knight, E. Maciejewski, E. Bell (all of MED), and J. Hicklin (ETR). Miss M. Pirret (MED) and Mrs. J. Carbonell (ADM) were the secretaries. Mr. W. McCleary and Ms. L. Yap (IBRD) attended the meetings as observers. Mr. Iqbal Zaidi from the Office of the Executive Director for Pakistan attended the meetings in April-May.

Pakistan continues to avail itself of the transitional arrangements of Article XIV and is eligible for loans under the Structural Adjustment Facility.

The staff report (SM/86/51, and Supplement 1) on the 1985 Article IV consultation discussions was reviewed by the Executive Board on March 31, 1986 (SUR/86/29). On that occasion, Directors expressed concern about the weak efforts at domestic resource mobilization, the low rates of domestic savings and investment, the deteriorating fiscal balance, and the vulnerable external reserves position. In view of these considerations, the authorities were urged to implement substantive tax reform at an early date; to tighten control over public expenditures, particularly budgetary subsidies; to take early action on deregulation and other structural reforms; to move toward greater flexibility in exchange rate policy; and to pursue a cautious external borrowing policy.

The World Bank has a large program in Pakistan; its relations with Pakistan are described in Appendix II. The quality of Pakistan's economic and financial data is generally good. Specific statistical issues are discussed in Appendix V.

## II. Developments Through 1985/86

In recent years, Pakistan has recorded relatively strong economic growth with moderate rates of inflation. From 1981/82 to 1985/86, 1/ real GDP rose at an average annual rate of 7 percent (Table 1). Following declines in the early 1980s the inflation rate rose to 8-10 percent in 1983/84, in part due to a rapid expansion of liquidity during the preceding year. Thereafter, inflation declined to around 5 percent by 1985/86. Variations in real GDP growth were mainly due to agricultural sector developments: the slowdown in 1983/84 reflected in large part a weather-related decline in cotton output. In 1985/86 cotton and wheat production both rose by 20 percent to record levels as a result of favorable weather conditions and enhanced price incentives. Cotton output also benefited from the widespread use of a new high-yielding and early-maturing variety. The increased availability of raw cotton, together with gains in chemical and cement production, contributed to buoyant growth in manufacturing output. Over 1984/85-1985/86, there was a tripling of domestic crude oil output to 39,000 barrels a day (b/d), equivalent to one fourth of domestic consumption. Underlying this outcome were improved petroleum producer prices which encouraged intensified exploration and development activity. Although natural gas production rose in 1985/86 in response to increased wellhead prices, domestic gas demand continued to exceed supply by a substantial margin.

With regard to social indicators, despite relatively high real economic growth Pakistan's per capita real income has remained low (US$360 in 1985/86), partly reflecting a 3 percent rate of population increase. Progress has been made in the areas of education, health, and infant mortality. Nevertheless, the adult literacy rate is currently 24 percent; less than 50 percent of primary aged and 17 percent of secondary aged children attend school; and 2 percent of the relevant group is enrolled in tertiary education. Corresponding rates for the female population are lower than those for males.

Significant structural reform and price adjustments were implemented in the early 1980s. From 1983/84 onward, measures were taken in the nonenergy areas to enhance the efficiency of public sector enterprises and to stimulate private sector investment via tax rate reductions and easing of licensing procedures, while there was only moderate progress in correcting agricultural input and output prices. In particular, fertilizer prices were not changed until late 1985/86, entailing sizable cash subsidies to both producers and users, and the lack of progress in adjusting irrigation charges resulted in large implicit subsidies.

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1/ All references are to fiscal years, which begin on July 1.

Table 1. Pakistan: Selected Economic and Financial Indicators, 1981/82-1986/87

| | Actuals 1981/82 | 1982/83 | 1983/84 | 1984/85 | Prov. Actuals 1985/86 | Official Proj. 1/ 1986/87 |
|---|---|---|---|---|---|---|
| | (Annual change, unless otherwise specified) | | | | | |
| National income and prices | | | | | | |
| GDP (at constant factor cost) | 7.0 | 6.4 | 4.4 | 9.0 | 7.3 | 7.0 |
| GDP deflator (market price) | 9.1 | 5.7 | 9.7 | 5.9 | 5.0 | 3.6 |
| Consumer prices (period average) | 10.0 | 4.2 | 7.7 | 6.1 | 4.6 | ... |
| External sector (in U.S. dollars) | | | | | | |
| Exports (f.o.b.) | -17.1 | 13.3 | 1.6 | -7.9 | 19.7 | 17.7 |
| Imports (f.o.b.) | 3.7 | -2.7 | 6.7 | 0.3 | -0.4 | -2.5 |
| Non-oil imports (c.i.f.) | 3.2 | -1.7 | 11.3 | 2.3 | 6.0 | 2.7 |
| Workers' remittances | 6.1 | 29.8 | -5.2 | -10.6 | 6.1 | -11.4 |
| Real effective exchange rate | | | | | | |
| Trade basket 2/ | 5.4 | -14.5 | -0.7 | -1.4 | -13.7 | -15.5 3/ 4/ |
| Industrial country basket 5/ | 8.1 | -12.2 | 2.4 | 1.2 | -19.1 | -20.3 6/ 4/ |
| Money and credit | | | | | | |
| Money and quasi-money | 11.4 | 25.3 | 11.8 | 12.6 | 14.8 | 19.0 7/ |
| Domestic assets (net), of which: | 16.8 | 16.3 | 14.4 | 22.8 | 14.9 | 17.4 7/ |
| Government | (12.2) | (14.8) | (10.5) | (23.2) | (8.9) | (19.0) 7/ |
| Nongovernment | (20.0) | (20.7) | (21.7) | (16.8) | (18.6) | (14.6) 7/ |
| Velocity | 1.6 | 1.1 | -3.0 | 1.0 | -2.0 | ... |
| Interest rates (annual rate, one-year savings deposits) | 10.5 | 10.5 | 10.5 | 10.5 | ... 8/ | ... 8/ |
| Rate of return on deposits under PLS (overall) | 9.9 | 9.7 | 8.9 | 10.0 | 8.3 | ... |
| Government | | | | | | |
| Total revenue | 10.5 | 14.0 | 22.2 | 7.1 | 15.7 | 10.1 |
| Tax revenue | (10.7) | (14.0) | (18.8) | (5.1) | (17.3) | (8.3) |
| Total expenditure | 11.6 | 22.7 | 14.8 | 16.8 | 15.1 | 12.7 |
| | (In percent of GDP) | | | | | |
| Government | | | | | | |
| Total revenue | 16.1 | 16.3 | 17.3 | 16.2 | 16.6 | 16.4 |
| Tax revenue | (13.3) | (13.5) | (13.9) | (12.8) | (13.3) | (12.9) |
| Total expenditure | 22.0 | 24.1 | 23.9 | 29.4 | 24.9 | 25.2 |
| Overall deficit | 5.3 | 7.1 | 6.0 | 7.7 | 7.8 | 8.3 |
| Budgetary financing | | | | | | |
| Domestic bank | 1.7 | 1.7 | 1.9 | 3.9 | 1.1 | 1.8 |
| Domestic nonbank | 2.0 | 4.0 | 2.9 | 2.7 | 4.7 | 4.6 |
| Foreign (including grants) | 1.6 | 1.4 | 1.2 | 1.1 | 2.0 | 1.9 |
| Total bank financing (including commodity operations) | 2.0 | 2.7 | 1.6 | 3.8 | 1.8 | 2.3 |
| | (In percent of GNP, unless otherwise specified) | | | | | |
| Gross domestic investment, of which: | 16.6 | 16.0 | 15.7 | 15.7 | 15.7 | 16.4 |
| Gross domestic fixed capital formation | (14.3) | (14.3) | (14.0) | (14.0) | (14.1) | (14.9) |
| Gross domestic savings | 5.5 | 5.8 | 4.9 | 4.4 | 6.1 | 8.9 |
| Gross national savings | 11.9 | 14.2 | 12.6 | 10.8 | 12.2 | 13.9 |
| External sector | | | | | | |
| Current account deficit 9/ | 4.9 | 1.8 | 3.0 | 5.0 | 3.5 | 2.5 |
| Overall balance | -1.8 | 2.2 | -0.3 | -2.4 | -- | 0.4 |
| External debt 10/ | 34.5 | 39.5 | 37.5 | 38.1 | 41.4 | 41.2 11/ |
| Debt service ratios (in percent of current account receipts) | | | | | | |
| Including use of Fund credit | 14.0 | 13.2 | 17.7 | 20.9 | 25.7 | 28.3 11/ |
| Excluding use of Fund credit | 10.2 | 10.5 | 15.6 | 17.3 | 20.2 | 22.2 11/ |
| Interest payments (in percent of current account receipts) | 5.5 | 6.3 | 8.7 | 9.7 | 8.8 | 9.5 11/ |
| | (In millions of U.S. dollars, unless otherwise specified) | | | | | |
| Current account deficit | -1,609 | -557 | -997 | -1,680 | -1,236 | -928 |
| Overall balance | -580 | 699 | -86 | -819 | -7 | 133 |
| Gross official reserves (in weeks of c.i.f. imports) | 6.9 | 15.2 | 13.9 | 5.3 | 7.5 | 6.6 |

Sources: Ministry of Finance and Economic Affairs; and State Bank of Pakistan.

1/ Unless otherwise indicated.
2/ Depreciation (-). Based on major trade partner weights (excluding petroleum).
3/ Average for July 1986-April 1987 over average for July 1985-April 1986.
4/ Staff estimates.
5/ Depreciation (-). Based on a basket of currencies of major industrial countries.
6/ Average for July 1986-April 1987 over average for July 1985-April 1986.
7/ Staff projections.
8/ The financial system was changed to an Islamic noninterest basis effective July 1, 1985.
9/ Excludes official grants which are included in long-term capital.
10/ Total civilian debt consisting of medium- and long-term disbursed debt repayable in foreign currency, use of Fund credit, short-term debt (of one year or less), including foreign exchange bearer certificates and foreign currency deposits, and disbursed foreign debt repayable in local currency.
11/ Staff estimates based on authorities' assumptions.

In 1985/86 procurement prices for the major crops were improved, but since consumer prices for wheat were not raised, wheat subsidies remained sizable. These developments contributed to the weakening of the fiscal position.

Performance in other key areas has fallen short of expectations. Over 1981/82-1985/86 gross fixed investment remained low, averaging 14 percent of GNP, while gross domestic savings declined to 4 percent of GNP in 1984/85; gross national savings, reflecting reduced workers' remittances, fell to 11 percent (Table 1 and Chart 1). In 1985/86, reduced dependence on net foreign resources implied a sharp increase in the gross domestic savings ratio to 6 percent of GNP.

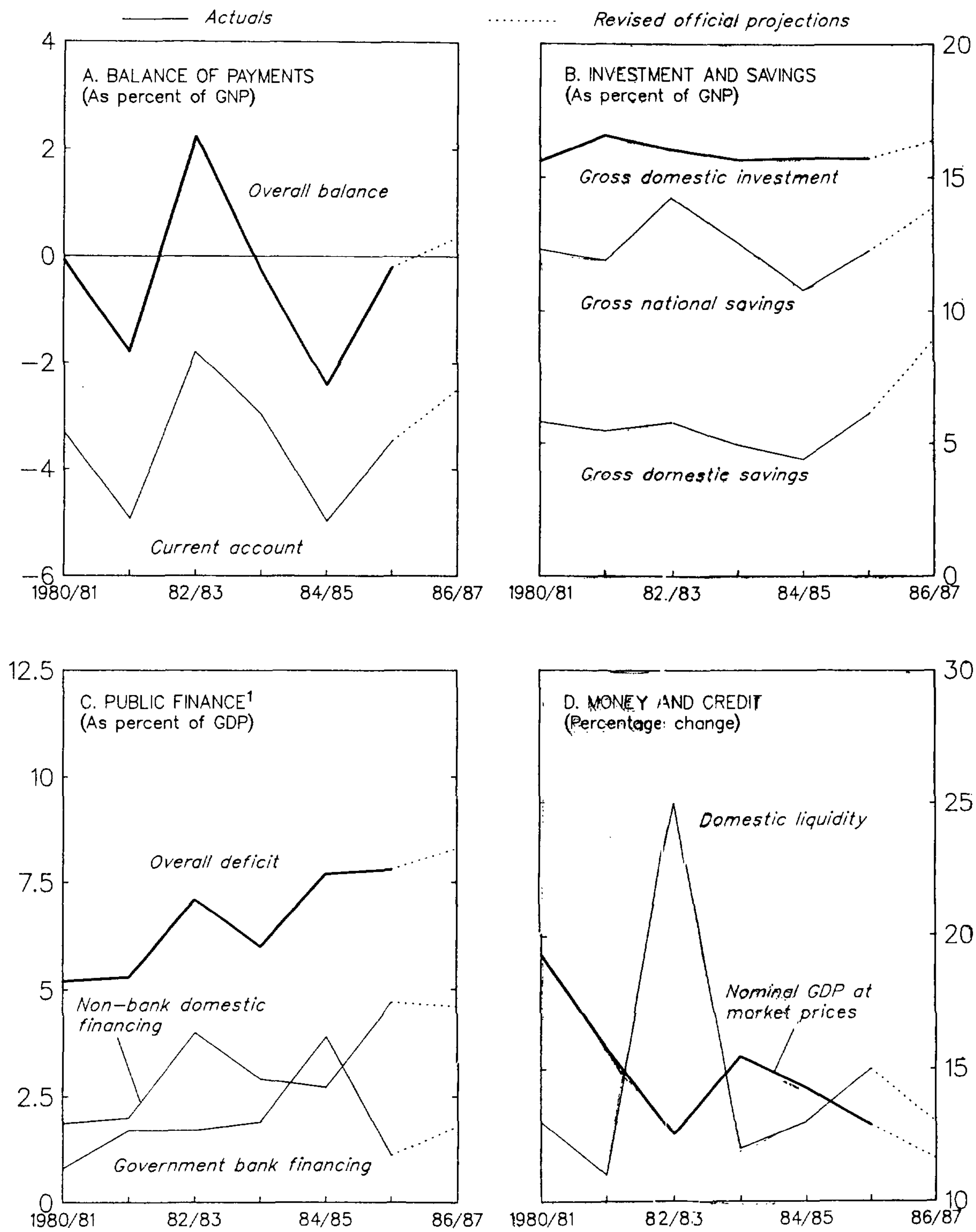
The overall fiscal deficit has deteriorated since the early 1980s, rising from 5.3 percent of GDP in 1981/82 to 7.8 percent in 1985/86. Broadly, this development reflected slower growth of government revenue, sustained increases in current expenditures, attributable in large part to rising subsidy, interest, and defense outlays and, beginning in 1984/85, higher development outlays. The overall fiscal deficit for 1985/86 exceeded the original budget target by 1 percent of GDP, despite the benefits accruing to the budget from lower world prices of petroleum, edible oils, and fertilizers. To finance the expanded deficit and make up for a shortfall in net external financing, it was necessary to increase substantially recourse to domestic nonbank private savings. Moreover, although the credit plan for 1985/86 was formulated in the context of a budget that did not require domestic bank financing, in the event such financing could not be avoided. There were also overruns in commercial bank credit to the private sector and the public enterprises. As a result, total domestic credit rose by 15 percent; with little change in the net foreign asset position, monetary growth--at 15 percent--was well above the targeted increase. However, with low world inflation and further delays in certain domestic price adjustments, the domestic inflation rate remained moderate.

With effect from July 1, 1985 all financial operations of the scheduled banks were placed on an Islamic noninterest basis. Broadly, this conversion has resulted in greater flexibility in rates of return than existed previously. In particular, with the introduction of a system of profit and loss sharing deposit accounts, banks have been free to act individually on their deposit rates. The present structure of returns on deposits and other savings instruments involves relatively high real rates of return on government obligations. The Pakistan representatives commented, however, that in their view there was no evidence to date that this situation had diverted available resources from private domestic investment.

CHART 1

PAKISTAN

# ECONOMIC INDICATORS, 1980/81–1986/87




Source: Data provided by the Pakistan authorities.

[1] Absolute values.

Pakistan's external position, which had improved in the early 1980s, weakened considerably in 1984/85, with the current account deficit/GNP ratio rising to 5 percent. Underlying this development were a decline in remittances and a sizable erosion in exports, resulting mainly from domestic cotton shortages and a real appreciation of the rupee against the currencies of major competitors. The current account and overall balance of payments positions improved in 1985/86. With a 20 percent expansion in exports and an unexpected increase in worker remittances, the current account deficit was reduced to 3.5 percent of GNP. The strong export performance encompassed substantially higher cotton and rice shipments and larger exports of cotton manufactures and other traditional items, but the performance of nontraditional manufactured exports remained sluggish. While imports were essentially unchanged from their level in 1984/85, net nonmonetary capital inflows rose by 40 percent to US$1.3 billion, as a result of sharply higher disbursements on project aid reflecting the Government's objective of achieving a major expansion in development spending and of the introduction of foreign exchange bearer certificates (FEBCs). Higher capital inflows, together with the reduced current account deficit, resulted in a small overall balance of payments deficit of US$7 million. However, to boost gross official reserves the authorities introduced a policy of attracting foreign currency deposits from nonresident commercial banks. With these deposits, gross official reserves rose to US$915 million, equivalent to 7.5 weeks' imports.

Reflecting the increased short-, medium-, and long-term foreign borrowing and the effects of the weaker U.S. dollar, Pakistan's outstanding external civilian public debt rose by US$2 billion in 1985/86 to US$15 billion, 41 percent of GNP. With sharply higher amortization payments, Fund repurchases, and increased interest payments on short-term commercial borrowings, debt service payments rose to 26 percent of current account receipts.

Regarding exchange rate management, the rupee moved broadly in line with the U.S. dollar. In addition, to offset partially the effect of the elimination of compensatory export rebates in May 1986, the authorities made discretionary adjustments to the rupee/U.S. dollar exchange rate. As a result, from March 1985 to June 1986 the real effective rate of the rupee depreciated by 30 percent against the currencies of major industrial countries (Chart 2). The import regime was changed to a negative list system in July 1983, and in September 1983 bans on a large number of imports were removed. Only limited liberalization measures were introduced subsequently.

## III. Policy Discussions

The consultation discussions focused on the likely results for 1986/87 and the policies that should be pursued, in a medium-term context, to reverse the deterioration in the fiscal position, to strengthen balance of payments performance, and to improve the net foreign assets position of the banking system while maintaining growth with low inflation. As a proportion of GDP, the overall fiscal deficit has risen by 2.5 percentage points since 1981/82 (Table 2). Three fourths of the increase in the deficit was financed by borrowings from the domestic nonbank sector, attracted by offerings of public debt instruments yielding high real rates of return and exempt from taxation. By 1986/87 interest payments on this debt were absorbing 16 percent of budgetary revenues. The servicing of the external debt rose to the equivalent of 28 percent of external current receipts in 1986/87, twice the ratio of 1981/82. A small overall balance of payments surplus was recorded in 1985/86. Nevertheless, the overall external asset position has failed to recover from the large deficit incurred in 1984/85 and by 1985/86 the net foreign asset position was negative, at US$0.9 billion. Reflecting in part repurchases from the Fund, gross reserves would have been reduced to a negligible level over the past two years, had it not been for deposits totaling US$680 million from foreign commercial banks.

In the discussions, the authorities and the staff were in agreement that these trends were not sustainable and that effective policy measures were needed if economic growth and domestic financial stability were not to be put at risk. There was, however, a difference in emphasis with regard to the urgency, pace, and scope of the needed reorientation in policies.

### 1. Fiscal policy

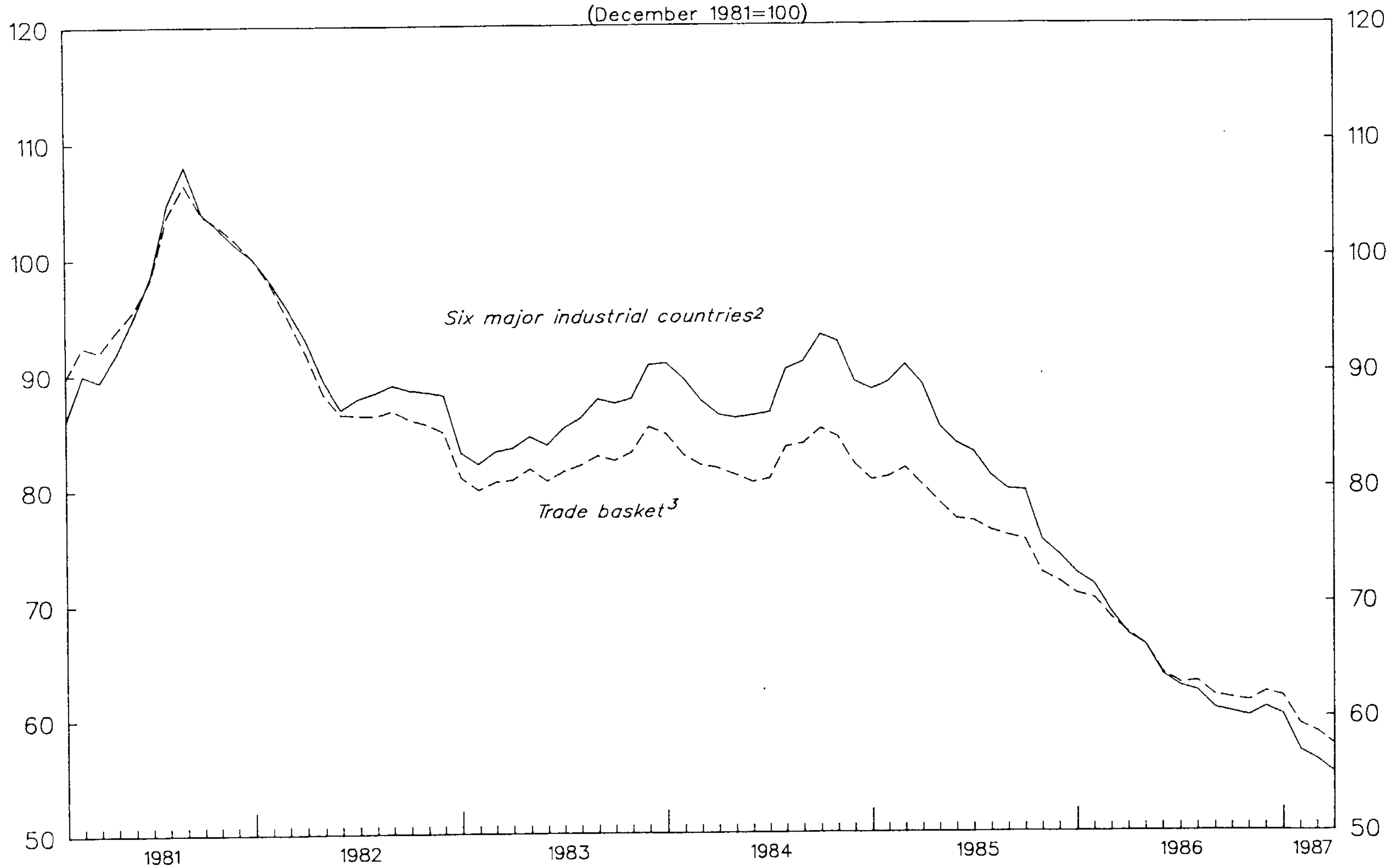
The 1986/87 budget estimates contemplated an overall fiscal deficit/GDP ratio of 7.5 percent, a level marginally lower than that in 1985/86 (Appendix III, Table 3). The budget foresaw little improvement in the underlying structure of public finances. The projected growth in revenue was largely based on the decision to maintain the domestic retail prices of petroleum products essentially unchanged following the sharp fall in world oil prices in early 1986. The actions to standardize the sales tax on both imports and domestic manufactures at 12.5 percent, rationalize the structure of excise rates on cigarettes, increase the excise rates on some other items, and reduce customs duties on imports of machinery and capital equipment were expected to benefit the performance of the economy, but their net revenue effect was small. The decision to discontinue export subsidies under the compensatory export rebate system was appropriate. Nevertheless, the latitude afforded by this step was taken up by new subsidies for cotton exports and domestic steel production and by a provision for the settlement of losses incurred through 1985/86 from trade in sugar.

CHART 2

PAKISTAN

# EFFECTIVE EXCHANGE RATES, 1981–1987[1]

(December 1981=100)




Source: Staff calculations based on *IFS* data.
1 Increases mean appreciation.
2 Based on export weights for manufactured products.
3 Based on major trade partner weights (excluding petroleum).

Table 2. Pakistan: Selected Indicators on the Budget and External Reserves Positions and Debt Service Payments, 1981/82-1987/88

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | Prov. Actuals 1985/86 | Original Budget Estimates 1986/87 | Official Revised Estimates 1986/87 | Staff Proj. 1987/88 |
|---|---|---|---|---|---|---|---|---|
| | | | | (In billions of rupees) | | | | |
| Overall fiscal deficit | 17.2 | 25.7 | 25.1 | 36.8 | 42.1 | 44.6 | 49.8 | 81.0 1/ |
| External financing (net) | 5.3 | 5.2 | 5.0 | 5.2 | 10.6 | 16.3 | 11.3 | 14.7 |
| Domestic nonbank borrowing | 6.3 | 14.4 | 12.2 | 12.9 | 25.4 | 23.5 | 27.9 | 23.8 |
| Domestic bank borrowing | 5.5 | 6.1 | 7.9 | 18.7 | 6.1 | 4.8 | 10.6 | 42.5 |
| | | | | (In percent of GDP) | | | | |
| Overall fiscal deficit | 5.3 | 7.1 | 6.0 | 7.7 | 7.8 | 7.5 | 8.3 | 12.0 |
| | | | | (In percent) | | | | |
| Interest payments on domestic debt over total revenue | ... | ... | ... | 13.8 | 15.0 | 14.9 | 16.3 | 18.4 |
| Interest payments on domestic and external debt over total revenue | 14.8 | 18.8 | 19.5 | 21.4 | 22.1 | 21.3 | 23.8 | 26.0 |
| | | | | (In millions of U.S. dollars) | | | | |
| Net foreign assets of the banking system 2/ | ... | ... | 19 | -864 | -948 | ... | -862 3/ | -1,013 |
| Gross official reserves (excluding gold) | ... | ... | 1,732 | 668 | 915 | ... | 865 3/ | 292 |
| Foreign currency deposits | ... | ... | -644 | -585 | -1,895 | ... | -1,356 3/ | -1,356 |
| Banks | (...) | (...) | (--) | (--) | (-480) | (...) | (-680) | (-680) |
| Nonbanks | (...) | (...) | (-644) | (-595) | (-615) | (...) | (-676) | (-676) |
| Outstanding use of Fund credit | ... | ... | -1,344 | -1,216 | -1,169 | ... | -878 3/ | -586 |
| Other | ... | ... | 275 | 279 | 401 | ... | 507 3/ | 637 |
| | | | | (In percent of current account receipts) | | | | |
| External debt service payments | | | | | | | | |
| Including use of Fund credit | 14.0 | 13.2 | 17.7 | 20.9 | 25.7 | 27.0 | 28.3 | 27.4 |
| Excluding use of Fund credit | 10.2 | 10.5 | 15.6 | 17.3 | 20.2 | 20.8 | 22.2 | 22.6 |

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

1/ Preliminary budget estimates before measures but including an allowance for a wage increase.
2/ At end of period.
3/ Change during 1986/87 includes a valuation adjustment equivalent to 5 percent of the opening period stock.

Overall, the ratio of total subsidies to total expenditures remained basically unchanged. Moreover, the budget continued the heavy reliance on domestic nonbank private savings (with two thirds of such receipts being needed to cover interest payments on the domestic debt alone), as well as on external financing.

Actual developments in 1986/87 are expected to have followed the pattern of past years, with an inelastic tax system contributing to a shortfall in revenues and expenditure pressures resulting in overruns in current outlays. In particular, total revenues are officially estimated to have increased by only 10 percent (compared with 16 percent in the original budget), reflecting lower receipts from the petroleum and natural gas development surcharges, income taxes, and federal excises. Additionally, substantial shortfalls in receipts from the divestiture of public enterprises are anticipated. Current expenditures, excluding subsidies, are estimated to have risen by more than 14 percent (compared with 10 percent in the approved budget), mainly reflecting large overruns in defense spending and interest payments. Development outlays are expected to have increased by 9 percent, compared with 26 percent in the original budget. Despite the shortfall in development spending, these revisions raise the overall fiscal deficit/GDP ratio to 8.3 percent. With this expanded deficit and an expected shortfall in net external financing, higher recourse to domestic nonbank borrowing and substantially larger borrowing from domestic banks are anticipated. The latter is projected to rise to 1.8 percent of GDP, compared with 0.8 percent in the budget.

The mission observed that with possible further slippages in expenditures and shortfalls in some revenue areas, the overall fiscal deficit was likely to exceed the revised official forecast. In particular, prospects suggested a further overage in total current expenditures. On the revenue side, given the performance in recent years and the outcome for the first nine months, a further shortfall in tax receipts could occur. In addition, it was possible that the assumed operational shortfall in development spending might not materialize fully. Taking these factors into account, the deficit might approximate 9 percent of GDP. This would be an unsatisfactory result, especially considering that the budget had benefited from the declines in crude oil, fertilizer, and edible oil prices.

The Pakistan representatives indicated that part of the overall deficit resulted from the financing of a portion of the investments and/or deficits of a number of public corporations. To reflect the overall deficit of the Government only, consideration was being given to requiring these agencies to seek financing outside the budgetary framework. The mission commented that a rearrangement of accounts would not change the picture for public finances, as steps would need to be taken to present comparable accounts that would consolidate back into public finances the agencies that had been excluded. In addition, measures to require public agencies to seek financing of their deficits outside the budget would need to be accompanied by greater autonomy for these agencies to reduce their deficits through price and employment adjustments.

The Pakistan representatives stated that the authorities were concerned about the difficult fiscal position and considered the size of the deficit worrisome. The need for a major correction in the structure of public finances was acknowledged, and the Government intended to take measures to strengthen fiscal performance in connection with the 1987/88 budget. In this regard, the National Taxation Reform Commission had submitted to the Cabinet its recommendations for major tax changes, including in particular the introduction of an across-the-board single-rate sales tax (which was viewed as a particularly promising avenue for raising additional receipts), presumptive taxes for small and medium enterprises, reduced customs duty rates, and the removal of sales tax exemptions. However, the taxation of agricultural income remained unresolved, since this matter was constitutionally within the competence of the provincial governments.

The Pakistan representatives emphasized at the time of the discussions that the available estimates for the federal budget for 1987/88 were still preliminary and were aimed at showing the budget outlook before taking account of any new discretionary measures. They represented an intermediate step in the preparation of the final budget for 1987/88. Therefore, they were likely to be revised with a view to bringing down the projected fiscal deficit to a level consistent with the balance of payments targets for 1987/88. The projections did not include a provision for the expected increases in wages and pensions, and assumed that transfers to the provincial governments would be contained to the levels proposed by the Ministry of Finance, although government policy for next year would be to eliminate ceilings on provincial spending for agriculture and education. The defense estimate, which showed an increase of 19 percent, did not represent defense expenditure requests but rather a target that the Ministry of Finance intended to recommend to the Government. On this basis, the fiscal position appeared difficult. A number of policy proposals were presently being formulated within the Ministry of Finance for presentation to the Cabinet, but these could not be revealed until after the budget presentation in June.

Regarding the 1987/88 federal budget, the mission observed that the authorities' preliminary estimate of the gap requiring domestic bank financing, together with the projected net external and domestic nonbank borrowings, suggested an overall deficit equivalent to 9.8 percent of projected GDP. Furthermore, this deficit was predicated--in addition to the assumptions noted above--on a level of development spending that was lower than that suggested by the Planning Division. With the apparent overestimation of revenue and underestimation of current expenditures, the expected increase in wages and pensions, and higher than anticipated provincial and/or defense expenditures, the deficit could be about 12 percent of GDP. A deficit of such magnitude was of serious concern, as it would have substantial adverse consequences for the economy. While the external financing position for 1987/88 was expected to be assisted by the increased level of program aid to be provided by Consortium donors, there would still be a need for substantially higher recourse to domestic bank financing. Moreover, the expanded recourse to external financing would impact upon the debt service ratio, which was already high. Greater reliance on the domestic banking system would undermine the authorities' demand management stance, leading to stronger pressures on domestic prices and on the balance of payments. Also, higher recourse to borrowing from the domestic nonbank sector would give rise to larger interest payments, which would put pressure on the already unsustainable structure of current expenditures and contribute to crowding out of the private sector. Further recourse to domestic nonbank private savings may adversely affect private investment and thereby weaken the prospects for raising the overall investment level and for ensuring that recent high rates of economic growth are maintained in the future.

In the mission's view, a very substantial reduction in the deficit should be aimed at in the context of a comprehensive corrective program. On the revenue side, the Taxation Commission had identified the areas for reform to make the system more elastic. Nevertheless, in the beginning phase of tax reform it was important not to be overoptimistic with regard to the incremental revenues that might be available; therefore it was important not to approve additional expenditures in advance of clear indications that the expected increase in revenue was in fact materializing. Furthermore, the mission's view was that even with a strong effort on taxes, it did not appear that the overall fiscal deficit could be reduced sufficiently without action on the expenditure side as well. Therefore, the mission recommended a further review of expenditure priorities in order to target specific areas, such as subsidies, for budgetary cuts.

The Pakistan representatives were in broad agreement with the analysis of the mission, but emphasized that the estimates under discussion represented only the preliminary phase of the budget formulation process, and that there would be discretionary tax measures for 1987/88. With regard to expenditures, while the authorities would endeavor to constrain the growth in current spending, there were regional factors that rendered a sizable increase in defense allocations unavoidable. Overall, the authorities' objective would be to make every possible effort to contain the ratio of the fiscal deficit to GDP to a level below that estimated for 1986/87.

## 2. Demand management and supply policies

In recent years, the growth in domestic liquidity has been broadly in line with that of nominal GDP, although the components contributing to monetary growth have tended to depart from the authorities' plans. Generally, larger than planned increases in domestic credit have been offset by weaker than envisaged balance of payments performance. This pattern of developments is expected to have continued in 1986/87, including a much higher level of domestic credit and bank financing for the budget.

The authorities' credit plan for 1986/87 projected that total net domestic credit growth would decline to 8 percent (15 percent in 1985/86), consistent with an initially projected balance of payments surplus of US$415 million and monetary growth limited to 12 percent. Data for the first nine months of 1986/87 indicate that credit expansion was under pressure from two sources: credit to the nongovernment sector had already reached 95 percent of the end-June target, while the budgetary outlook suggested a sizable overrun in domestic bank financing. Assuming an overall fiscal deficit of 9 percent of GDP and other budgetary financing turning out as presently forecast, the mission estimated that domestic bank borrowing to finance the budget could rise by 19 percent. Such an outcome indicated expansions of 17 percent for total domestic credit and 19 percent for money supply, despite a much smaller balance of payments surplus than contemplated in the original credit plan. Such prospects could result in inflationary pressures substantially higher than those suggested by recent movements in the consumer price index. The Pakistan representatives stated that credit and monetary growth would not reach these levels. The authorities were seeking to contain the overall fiscal deficit, and additional recourse to nonbank domestic borrowing was envisaged. Moreover, a lower credit requirement for commodity financing, together with some reduction in cotton stocks, was expected to help keep credit expansion to the nongovernment sector within the planned limits. On this basis, and assuming adequate supply of basic consumption goods and good performance of the major crops, a significant acceleration of domestic prices was viewed as unlikely in the remainder of 1986/87.

Regarding prospects for 1987/88, credit planning was still at a preliminary stage, given the uncertainties surrounding the budgetary picture. Nevertheless, the authorities were intending to target monetary expansion at a moderate rate. They also recognized the need to contain the overall fiscal deficit in order to allow a sufficient flow of credit to the nongovernment sector to support the growth of domestic supply.

The Pakistan authorities' recent supply enhancement policies have centered on actions in three areas: deregulation, price incentives, and flexibility in exchange rate management. Beginning in late 1985/86, steps have been taken toward the deregulation of pricing and/or trade for edible oils, Basmati rice, nitrogenous fertilizer, and wheat. The representatives said that the authorities were satisfied with the successful deregulation of edible oils trade, noting that the introduction of the edible oil regulatory duty had benefited the budget. Domestic prices and trade in Basmati rice had also been deregulated, but the results so far had not been up to expectations. The Government continued to monitor market developments in the nitrogenous fertilizer sector, primarily through government sales of imported and domestic fertilizers. No budget subsidies were to be provided to domestic urea producers, but to compensate for the elimination of such subsidies the Government reduced the prices for natural gas supplied to these producers. 1/ Arrangements for domestic wheat pricing and trade were changed in April 1987. The new measures involved the abolition of the wheat rationing system and its replacement by a market intervention approach to controlling the domestic wheat price which sought to reduce budgetary subsidies for wheat.

The mission noted that the authorities were pursuing deregulation in measured steps, in some cases continuing to influence domestic prices through indirect means and in others maintaining extensive supervision over the private sector. While a cautious attitude to deregulation was understandable, the presentation of the authorities tended to indicate slower progress than had been expected in achieving enhanced efficiency and lower subsidies. The Pakistan representatives responded that deregulation was proceeding as rapidly as possible in the country's present circumstances. There was a need to recognize that vested interests had mounted strong opposition to the removal of controls and therefore compromises were unavoidable. The intention, however, was to persist in removing impediments to the efficient functioning of the economy. With regard to private investment, the authorities intended to continue liberalizing the economy and removing unnecessary controls. Steps were taken in this direction in March 1987 when the Cabinet decided to liberalize the procedures concerning government approval of private investment in industrial projects--which entailed the removal of 12 industries from the specified list--and to increase the industrial investment limit below which no government approval was required.

Deregulation and enhanced price incentives have contributed to continued strong economic performance. The authorities expect a 7 percent real GDP growth in 1986/87 (Appendix III, Table 4). Growth in manufactured output is projected to be at around 7 percent. In the agricultural sector, the cotton crop has exceeded the record level of 1985/86 and another good wheat crop is anticipated. The authorities expect that recent increases in procurement prices of 10 percent for Basmati rice and 22 percent for sugarcane will provide additional financial incentives to increase production of these two crops in 1987/88. In the energy sector, the continued implementation of enhanced price incentives for domestic producers is projected to result in a further increase in domestic crude oil production. Moreover, the Government intends to intensify exploration by expanding both onshore and offshore drilling. Natural gas production is projected to rise

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1/ A gas price reduction that had been afforded to fertilizer producers and WAPDA was not adequately taken into account when the 1986/87 budget was formulated. The mission noted that while this price reduction helped reduce the budget subsidies, it also represented the surrender of some budgetary resources and caused a differentiation in the structure of natural gas prices that could result in an inefficient allocation of resources.

moderately in 1986/87, and the authorities intend to continue implementing the agreement with the World Bank concerning the wellhead price of natural gas.

In the area of development outlays, and in line with the Prime Minister's Five Point Program, there has been increased emphasis on spending in the social sectors (including education, health, and rural development), while spending on power and agriculture continues to receive priority. With the expectation of buoyant private sector investment, the gross fixed investment ratio is projected to rise to 15 percent of GNP in 1986/87. With a continued narrowing of the investment-savings gap, the gross domestic savings/GNP ratio is forecast to show a further rise of nearly 3 percentage points.

The mission noted that the large increases in the gross domestic savings/GNP ratio over 1985/86-1986/87, totaling 4.5 percent of GNP, seemed to be an unusual achievement. The Pakistan representatives responded that this was the result of the estimates for investment and for the external current account deficit, both of which were believed to be accurate; however, it was possible that the increases could partly reflect compilation problems. In this regard, recommendations recently put forward to improve the national accounting methodology were currently under review. For 1987/88, the authorities forecast somewhat lower real GDP and agricultural growth rates (6 percent and 4 percent, respectively) but somewhat higher real growth in manufacturing (8 percent). The gross domestic and national savings/GNP ratios and the gross fixed investment/GNP ratio are projected to increase further to 10 percent, 14 percent, and 16 percent, respectively.

### 3. Exchange and trade policies

The authorities have continued to implement a flexible exchange rate policy and have essentially let the rupee move down with the decline of the U.S. dollar against other major currencies. From July 1986 to April 1987 the rupee depreciated further by 13 percent in real effective terms against the currencies of major industrial countries. However, on the basis of a basket reflecting the importance of Pakistan's developing country competitors in the market for manufactured exports, the improvement in competitiveness has been smaller.

The current level of the exchange rate of the rupee in terms of the U.S. dollar was viewed as appropriate by the authorities, who believed that it offered sufficient incentive to exporters. The authorities were aware of the problems confronting nontraditional exports. However, they took the view that these problems could not be handled by exchange rate action alone, but required industry-specific measures to remove barriers restraining the growth of particular exports. The mission expressed the view that further flexibility in exchange rate management was needed--in conjunction with fiscal and monetary restraint--to improve the performance of nontraditional exports and broaden the export base. While industry-specific measures might be needed, the exchange rate instrument provided a broad policy tool that could be utilized to stimulate existing exports and encourage new exports. The mission believed that improving the structure of the current account and strengthening external reserves required the implementation of a more active exchange rate policy, guided by targets for growth in nontraditional exports and improvement in the reserves position. Action on the exchange rate would also support any liberalization of the import regime intended to facilitate increased domestic productivity and export growth.

In contrast with exchange rate policy, progress on import liberalization and on reducing effective protection has been limited. Only minor changes were introduced in the import system in 1986/87. In particular, a small number of items were removed from the negative list and placed on the restricted lists. The staff observed that for the third consecutive year the changes represented limited progress toward simplification, and that the import regime continued to be restrictive and complex.

With regard to the exchange system, the Pakistan representatives indicated that introduction of foreign exchange bearer certificates (FEBCs) in 1985 1/ and permission for authorized dealers to issue travellers' checks against encashment of FEBCs to conduct external transactions in November 1986, had resulted in a de facto liberalization of access to foreign exchange for current and capital transactions. The staff noted that the premia quoted for these certificates on the Karachi stock exchange fluctuated between 5 percent and 9 percent, resulting in a multiple currency practice. The Pakistan representatives noted that although the authorities had accepted that external transactions could be made through encashments of FEBCs, the policy had been one of acquiescing in, rather than encouraging, such transactions. They stated that their main objective in introducing FEBCs had been to develop a new source of foreign exchange receipts. At present, the authorities did not intend either to end the sales of FEBCs or to liberalize current transactions so that they could be made freely at the official exchange rate.

Bilateral payments arrangements continue to be in effect with four Fund members (the People's Republic of China, Hungary, the Islamic Republic of Iran, and Poland). The agreements with China, Hungary, and Poland are being phased down, with an increasing proportion of trade being conducted on a cash basis. The agreement with the Islamic Republic of Iran was originally signed in 1982 and a new memorandum of

1/ The FEBC scheme was instituted in the official gazette of June 9, 1985. The certificates may be issued by banks and agencies authorized by the Government against specified foreign exchange receipts and are traded on the stock exchange. Information on the premia has become available to the staff since the 1985 Article IV consultation. For further details see Recent Economic Developments, to be issued shortly.

understanding was signed in 1986. These four arrangements had not been approved by the Fund, and the staff urged the authorities to terminate them as soon as possible.

## 4. Balance of payments developments and prospects

The authorities envisage a further improvement in the balance of payments position in 1986/87. Despite an anticipated 11 percent fall in worker remittance inflows, a further decline in the current account deficit to 2.5 percent of GNP is anticipated, while the overall position is expected to show a surplus of about US$130 million (Appendix III, Table 5). The improvement is predicated on a 25 percent expansion in exports of cotton-based manufactures and good performance by other traditional manufactured exports. Total import payments are expected to decline marginally, reflecting continued low world prices for petroleum, fertilizers, and edible oils. Net capital inflows are projected to decline by 15 percent from the exceptionally high level registered in 1985/86, reflecting mainly lower net inflows of medium- and long-term capital. With these expectations, and taking into account further large repurchases from the Fund, gross official reserves would decline to seven weeks' imports.

For 1987/88, the authorities' estimates showed export growth of 15 percent, a rise in imports of 9 percent, and a widening of the current account deficit to 3 percent of GNP. Including the quick-disbursing loans pledged at the last Consortium meeting, net capital inflows were forecast to rise to US$1.5 billion and, on this basis, the overall surplus would be about US$250 million.

The mission indicated that it was in broad agreement with most elements of the authorities' balance of payments forecast for 1986/87, although its evaluation was that the overall surplus would be US$100 million smaller, owing to lower exports of rice and cotton and lower capital inflows. Regarding 1987/88, the export projection seemed optimistic, since it relied on favorable assumptions for several exports. Nevertheless, it appeared that the balance of payments would remain in overall surplus, mainly due to the projected large increase in net capital inflows. The mission observed, however, that despite the likelihood of the small overall balance of payments surplus in 1986/87 and the projection of another surplus in 1987/88, there remained fundamental concerns about the external situation. In particular, with the recessionary trends in the oil producing countries of the region, worker remittance inflows were expected to decline in the future. Hence, to compensate for the anticipated losses, alternative sources of foreign exchange earnings were needed. Although the growth of total exports had been impressive, exports of nontraditional manufactures had been stagnant, while in addition the prospects for further strong growth in textile exports could be influenced by restrictions in major industrial countries. In view of this, it was upon the diversification of nontraditional exports that the long-term growth of exports and the improvement in the structure of the current account depended. With regard to imports, the considerable declines in world commodity prices, especially for petroleum and edible oils, might have concealed a volume growth in other imports. In this regard, the acceleration in imports projected for 1987/88 was of concern. Moreover, gross reserves had been maintained only by accumulating large short-term bank liabilities, notably in the form of foreign currency deposits by nonresident commercial banks and nonbank entities. With these borrowings the net foreign asset position of the banking system had weakened, and a negative position of US$1 billion was projected for end-June 1988 (Table 2). Reflecting in part these developments, the civilian debt service burden had risen sharply and was projected to be equivalent to 27 percent of current receipts in 1987/88 (Appendix III, Table 6). In view of these considerations, there was a need to implement policies to restore owned reserves to a normal level and to strengthen the underlying structure of the current account.

The Pakistan representatives concurred that the export base needed to be diversified further and that a strengthening of the external asset position was necessary. On external reserves, the authorities considered a gross reserves level of US$600 million (four weeks of imports, c.i.f.) as manageable, although a level of US$1.0-1.2 billion would be desirable. In this regard, they were no longer actively canvassing for foreign currency deposits from nonresident banks. Short-term commercial borrowing was viewed as a transitional measure, while finance with longer maturities was sought, and pending the implementation of policies to strengthen the current account. Although at present there were no firm limits on commercial bank borrowing, the authorities intended to continue their cautious external debt policy so as to limit short-term borrowing, particularly on commercial terms, and to contain debt service payments within manageable levels.

Turning to the medium-term balance of payments projections, the staff commented that the authorities' projections showed a favorable prospect (Appendix III, Table 7). Small overall surpluses were forecast for each year with relatively little recourse to commercial borrowing, although gross reserves would continue to fall to about half their present level. This scenario was predicated on export growth averaging 12 percent per annum, import growth of 8-9 percent, worker remittances not falling below US$2 billion per annum, and disbursements of concessional aid averaging US$1.9 billion per annum between 1987/88 and 1992/93. The staff underlined that the realism of the trade and capital flows projections would depend critically on the policies pursued, but these had not yet been clearly enunciated. In particular, the fiscal adjustment that would implicitly underlie these projections was expected to be substantial; but given the present stage of budget preparations for 1987/88, a precise specification of the fiscal stance was not available. Furthermore, export growth might be too optimistic in the absence of firm supporting policies. Debt service and the ex-ante financing gaps could be much larger, as these were underestimated by the methodology used in projecting debt service on disbursements from the existing pipeline and from new commitments. Finally, omission of military debt service payments made it difficult to evaluate the debt service burden accurately.

To examine the sensitivity of the medium-term forecasts to different assumptions, the staff has calculated two scenarios. One is based on macroeconomic and structural policies remaining essentially unchanged from their current stance; the other is based on a comprehensive medium-term adjustment covering a spectrum of budgetary, demand management, and external and structural policies. In particular, it involves a substantial reduction in the overall fiscal deficit from the 1986/87 level. Both scenarios (Appendix III, Table 8) are predicated on the crucial assumptions that workers' remittances would average US$2 billion annually and that the world price for crude oil imports would average US$18 per barrel. Under the first scenario, with imports rising by 6-7 percent per annum and exports growing by 8 percent per annum, the current account deficit would rise to 4 percent of GNP by 1989/90. Assuming net aid disbursements of US$1.2 billion per annum over 1987/88-1989/90, the net foreign assets position of the banking system would improve by US$0.9 billion over the same period. However, ex ante financing gaps totaling nearly US$3 billion over 1987/88-1989/90 would be implied in this scenario and would increase thereafter. There would be no improvement in the gross reserve position. Additionally, there would be a substantial deterioration in the debt service ratio, which would remain in the range of 27-28 percent of current receipts over 1987/88-1989/90 and could rise to 40 percent by 1992/93. In the staff's view, even if the implied ex ante financing were forthcoming, debt servicing would pose substantial difficulties unless the additional financing were obtained on highly concessional terms.

Under the second scenario, with an average annual export growth of 12-13 percent (to be achieved through the implementation of adequate exchange rate action and domestic and external liberalization policies) and an average annual import growth of 5 percent, the current account deficit could be maintained at less than 2.5 percent of GNP over 1987/88-1989/90, and around 2 percent thereafter. With net aid disbursements averaging US$1.2 billion annually, and cumulative financing of US$1.2 billion representing a financing gap which could reasonably be filled, the net foreign assets position of the banking system would improve by US$1.8 billion, and gross official reserves would be raised to the equivalent of 11 weeks of imports by 1989/90. The latter could be maintained at 10-11 weeks of imports thereafter, with the same annual level of net aid disbursements and no additional financing. In addition, the debt service ratio would be contained to more manageable levels, declining from 28 percent in 1986/87 to 23 percent by 1989/90, and remaining at about this level thereafter.

## IV. Staff Appraisal

Pakistan's growth and inflation performance in recent years is commendable: high real economic growth rates have been recorded and the inflation rate has been moderate. The sharp recovery in cotton output in 1984/85 was followed by record levels of cotton and wheat production. Another notable development in the economy has been the strong expansion in domestic crude oil production. These impressive gains provide evidence of the positive returns to the policy of enhancing producer price incentives. Moreover, with increased cotton supplies and strong foreign demand, manufacturing output has remained buoyant. The authorities' recent deregulation actions are encouraging, and the recent decision to abolish the wheat rationing system is a step in the right direction. These policies provide an environment conducive to further economic expansion and more efficient use of resources.

Although a number of useful steps have recently been implemented, explicit or implicit subsidies have continued to expand in several areas. The staff believes that in order to reverse this trend the authorities should intensify their efforts at price adjustment, taking full account of long-run trends in domestic and international costs and in exchange rates while avoiding the substitution of implicit for cash subsidies. Moreover, it appears that most of the recent initiatives continue to entail intervention mechanisms that limit the involvement of the private sector, and provide no assurances that related subsidies can be reduced and eventually eliminated. In the staff's view, stronger actions in extending the scope of deregulation and structural reform would benefit real economic growth and export diversification, and would improve the budgetary situation. In addition, to facilitate the objective of reorienting the economy toward export-led growth, the recent efforts to liberalize investment sanctioning should be accelerated, and comprehensive tariff and trade reforms should be implemented at an early date.

Overall fiscal performance has weakened considerably in recent years. In 1985/86 and 1986/87 the overall fiscal deficit/GDP ratio was in the 8-9 percent range, despite the benefits accruing to the budget from lower world commodity prices. These outcomes are unsatisfactory and could have adverse effects on domestic financial stability, and on the balance of payments. With the lack of a comprehensive revenue effort and continuing strong growth in expenditures, the Government has had to rely increasingly on higher levels of external financing and borrowing from domestic nonbank private sources, adding to a rapid accumulation of domestic and external debt and debt servicing obligations. Moreover, despite the sharp increase in these borrowings, the financing of the overall fiscal deficit has necessitated considerable recourse to domestic bank credit at levels that have been out of line with the authorities' credit program. This development, along with some sizable overruns in credit to the nongovernment sector, has contributed to a sustained demand for imports and possibly diverted available resources away from export production.

To reverse these trends, given the very difficult prospects for the fiscal situation in 1987/88, a determined effort to strengthen fiscal performance is needed. Without a substantial revenue effort and reduction in current expenditures beginning in 1987/88, development outlays may have to be cut back, with possible adverse consequences for economic growth. Moreover, in the event of substantial inflationary finance the balance of payments would be exposed to intensified pressures. In view of these prospects, the authorities should implement major new tax measures directed at increasing the elasticity of the tax system and quickly raising the tax to GDP ratio. In this regard, the early implementation of the measures recommended in the report of the National Taxation Reform Commission, including in particular the implementation of the proposed across-the-board single sales tax measure, would be of particular assistance. However, a strong revenue effort alone is unlikely to achieve a sufficient improvement in the budgetary position. Therefore the authorities also need to implement price adjustments and measures aimed at limiting the growth in current expenditures to a more moderate rate. A combined effort to correct the structural weaknesses in public finances would also help reduce the budget's excessive reliance on nonbank private savings, and thereby assist in raising Pakistan's savings and investment ratios to levels more likely to sustain economic growth over the medium term.

Pakistan's overall balance of payments moved into approximate balance in 1985/86 and 1986/87. This outcome resulted from a substantial improvement in the current account deficit/GNP ratio to under 3 percent, and from relatively large capital inflows. For 1987/88, with the realization of the additional aid flows pledged during the last consortium meeting, the overall balance of payments position should be manageable. Nevertheless, the underlying structure of the balance of payments has remained weak and vulnerable. In particular, the current account has continued to be heavily dependent on worker remittance inflows and on agricultural and cotton-based manufactured exports, for both of which the medium-term prospects are uncertain. Of particular concern is the stagnation of nontraditional exports. The magnitude of the imbalance between export earnings and import payments has remained unsustainably large. Moreover, the external reserves position has weakened considerably and, reflecting in part a substantial recourse to various forms of short-term commercial borrowing, external debt service payments have been rising rapidly. These developments--together with the prospects for a further deterioration in the debt service ratio and the possible emergence of sizable financing gaps over the medium term in the absence of adjustment policy measures--require implementation of a substantial structural and adjustment effort at an early stage. Such a comprehensive effort should involve deeper structural reforms in the real sector, a substantially tightened fiscal and credit policy stance, appropriate external policies, and improved external debt management.

There have been no significant changes in the exchange and trade system since the last consultation. A flexible approach to exchange rate management has continued to be implemented, resulting in a considerable real effective depreciation of the currency. The authorities' exchange rate policy, including the recent discretionary adjustments in the rupee/U.S. dollar rate which facilitated the removal of export subsidies, is commendable. However, to overcome the inertia displayed by noncotton-based manufactured exports in recent years, and in order for this source of foreign exchange earnings to become a major replacement for diminishing worker remittance inflows over the medium term, more discretionary adjustments to the rupee/U.S. dollar rate appear to be needed. The market in foreign exchange bearer certificates has resulted in a multiple currency practice subject to Fund approval under Article VIII. No major changes were made in the import system. It is hoped that with the adoption of appropriate domestic and external policies, renewed progress toward import system reform would be undertaken with a view to assisting the implementation of the required export-led strategy. Pakistan maintains bilateral payments arrangements with four Fund members that are subject to Fund approval under Article VIII. Other exchange restrictions are maintained by Pakistan under the transitional arrangements of Article XIV. 1/

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

1/ See Recent Economic Developments, to be issued shortly.

## V. Proposed Decision

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

1. The Fund takes this decision relating to Pakistan's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1987 Article XIV consultation with Pakistan, in the light of the 1987 Article IV consultation with Pakistan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Pakistan maintains restrictions on payments and transfers for current international transactions, including those maintained under the transitional arrangements of Article XIV, as described in SM/87/__, and bilateral payments arrangements with four Fund members. The introduction of the foreign exchange bearer certificates, while having the indirect effect of easing the restrictions on current payments, has given rise to a multiple currency practice. The Fund urges the authorities to eliminate the bilateral payments arrangements with Fund members and the multiple currency practice as soon as possible, and to take appropriate steps toward early removal of the remaining restrictions on the making of payments and transfers for current international transactions.

## Pakistan - Fund Relations

(As of End-May 1987)

I. a. Date of membership — July 1950

b. Status — Article XIV

### A. Financial Relations

II. General Department (General Resources Account)

| | SDR Millions | Percent of Quota |
|---|---|---|
| a. Quota | 546.3 | |
| b. Total Fund holdings of rupees | 1,288.6 | 235.9 |
| c. Fund credit | 742.4 | 135.9 |
| Credit tranches | -- | -- |
| Extended Fund facility | 451.5 | 82.6 |
| Supplementary Fund facility | 268.3 | 49.2 |
| Compensatory financing facility | 22.5 | 4.1 |
| d. Reserve tranche position | -- | -- |

III. Use of Fund Resources

a. Previous stand-by and extended arrangements

(1) 1980/81-1982/83 extended arrangement

(i) Duration: three years beginning November 1980
(ii) Amount: SDR 1,268 million
(iii) Utilization: SDR 1,079 million (85 percent)

(2) 1977/78 stand-by arrangement

(i) Duration: one year beginning March 1977
(ii) Amount: SDR 80 million
(iii) Utilization: 100 percent

b. Special facilities

(1) Compensatory financing facility

(i) Approved: August 2, 1982
(ii) SDR 180 million

c. Reserve tranche

(i) Fully drawn on July 25-26, 1985
(ii) Amount: SDR 88.57 million
(iii) Utilization: 100 percent

IV. SDR Department

a. Net cumulative allocation: SDR 170 million

b. Holdings: SDR 1.1 million, or 0.65 percent of net cumulative allocations

V. Administered Accounts

a. Trust Fund

(i) Disbursed: SDR 229.65 million
(ii) Outstanding: SDR 103.47 million

b. SFF Subsidy Account

(i) Payments by the Fund: SDR 55.94 million

VI. Financial Obligations Due to the Fund

| | Total Principal Outstanding June 2, 1987 | Overdue Financial Obligations June 2, 1987 | Principal and Interest Due | | | |
|---|---|---|---|---|---|---|
| | | | June 3, 1987– Dec. 31, 1987 | Jan. 1, 1988– Dec. 31, 1988 | Jan. 1, 1989– Dec. 31, 1989 | Jan. 1, 1990– Dec. 31, 1990 |
| | | | (In millions of SDRs) | | | |
| Principal | | | | | | |
| Repurchases | 623.63 | — | 195.76 | 196.59 | 143.14 | 108.14 |
| Trust Fund repayments | 102.58 | — | 22.88 | 39.17 | 26.27 | 14.26 |
| Charges and interest, including SDR and Trust Fund (provisional) | 132.01 | — | 29.84 | 46.70 | 32.76 | 22.71 |
| Total | 858.22 | — | 228.48 | 282.46 | 202.17 | 145.11 |

## B. Nonfinancial Relations

### VIII. Exchange System

With effect from January 8, 1982, the rupee ceased to be pegged to the U.S. dollar, and Pakistan introduced a managed floating exchange rate system based on currency baskets, with the U.S. dollar continuing to be the intervention currency. As of June 11, 1987 the Central Bank's buying exchange rate was PRs 17.35 per U.S. dollar. Pakistan maintains restrictions on payments and transfers for current international transactions.

### IX. Last Article IV Consultation

The last Article IV consultation discussions were held in Islamabad during September 9-18, 1985 and December 8-15, 1985. The staff report (SM/86/51 and Sup. 1) was discussed by the Executive Board on March 31, 1986 (SUR/86/29). The Executive Board's decision [Decision No. 8244-(86/59)], adopted on March 31, 1986 was as follows:

1. The Fund takes this decision relating to Pakistan's exchange measures subject to Article VIII, Section 2, and in concluding the 1985 Article XIV consultation with Pakistan, in the light of the 1985 Article IV consultation with Pakistan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Pakistan maintains restrictions on payments and transfers for current international transactions, including those maintained under the transitional arrangements of Article XIV, as described in SM/86/51, and bilateral payments arrangements with three Fund members. The introduction of the foreign exchange bearer certificates has the indirect effect of easing the restrictions on current payments. The Fund urges the authorities to eliminate the bilateral payments arrangements with Fund members as soon as possible, and to take appropriate steps toward early removal of the remaining restrictions on the making of payments and transfers for current international transactions.

Pakistan is on the standard 12-month cycle.

### X. Technical Assistance

a. The Fiscal Affairs Department has provided technical assistance to the Government of Pakistan on reform of the indirect taxation system (April 1981).

b. The Bureau of Statistics has provided technical assistance to the State Bank of Pakistan on price index methodologies (July 1983) and on balance of payments statistics (December 1983 and August 1984).

c. The Bureau of Computing Services has provided technical assistance to the Ministry of Finance on the development of a computer-based data management system (March 1984).

## Pakistan--Relations with the World Bank Group

The World Bank Group has been involved in most sectors of the Pakistan economy in recent years. Before 1982, the Group's financial assistance was mostly in the form of project lending. However, under the Structural Adjustment Loan (SAL I) of May 1982, the Bank Group also provided balance of payments financing to support structural reform policies at the time of the extended arrangement with the Fund (1980/81-1982/83).

The policy focus of SAL I (1982) included a number of institutional reforms, mostly in investment planning, agriculture, and energy. In planning, the Bank staff assisted in the reorientation of the development program toward the priority sectors of agriculture, irrigation, and energy and the reconciliation of investment spending plans with available financial resources. In the agricultural sector, the Bank helped establish the Agricultural Prices Commission in order to improve the quality, timing, and flexibility of pricing decisions. With regard to specific pricing policies, targets were established to eliminate gradually the subsidization of agricultural inputs in order to release domestic resources for the priority investment programs. This effort incorporated the target of eliminating budgetary fertilizer subsidies by mid-1985, and gradually increasing irrigation water charges in order that receipts from this source cover fully the costs of the operation and maintenance of the irrigation system by about the early 1990s.

In the energy sector, the Bank Group supported institutional and producer pricing reforms in order to accelerate the pace of exploration and development of energy resources. For petroleum, this included the initiative of linking producer prices for older fields to international equivalents, less a discount; these efforts continued subsequently so that by 1983/84 producer prices for all fields were broadly in line with international levels. With regard to natural gas production, the SAL assisted in developing an investment program and identifying the finance for Pakistan's largest gas field (Sui) and in establishing natural gas producer prices that made the investment program financially attractive. In the area of consumer energy prices, the Bank Group's objectives supported the efforts under the extended arrangement to bring domestic user prices for petroleum products generally into line with international equivalents, while for natural gas a program was worked out to move consumer prices to two thirds of the international equivalent by mid-1988.

The SAL reform effort in the industrial public enterprise sector included a program entailing a performance evaluation system for individual firms and financial incentives to reward efficient management. The phased implementation of this program was completed in 1983/84. An additional policy area targeted under the SAL was the reform of the tariff system. Here, the Bank provided financial assistance for a study of the tariff protection system which was to be used as the basis for a comprehensive tariff reform.

Since SAL I, the Bank Group's financial assistance has been channeled through project loans and two sector lending operations. Post-SAL lending commitments totaled some US$2.2 billion over the 1983/84-1986/87 period, of which over 11 percent was in the form of project lending and the balance in the form of an energy sector loan and an export development loan. 1/ Among the project loans carrying policy objectives were an Industrial Investment Loan Credit (1984 and 1986), the Second and Third Small Industries Projects (1984 and 1987), the Fourth, Fifth and Seventh Water and Power Development Authority (WAPDA) Power (Transmission) Projects (1985 and 1987), the second Toot Oil and Gas Project (1984), the Petroleum Exploration Project (1984), the Petroleum Resources Joint Venture Loan (1985), the Telecommunications V Loan (1986), and the Refinery Energy Conservation Loan (1987).

The first two of these project loans were directed at supporting the policy of greater private sector involvement in industry through providing foreign exchange resources to individual firms via the domestic development financial institutions. The three WAPDA loans focused on a national power plan, expansion of generation capacity through new investments or improvements in the efficiency of existing plants, and improvements in self-financing of investments. The second Toot loan addressed producer pricing and self-financing of the public sector Oil and Gas Development Corporation. The Petroleum Exploration and the Petroleum Resources Joint Venture loans sought to promote greater investments through joint ventures with foreign private investors and addressed issues of oil and gas pricing. The Telecommunication V loan would expand the domestic and international networks while providing additional resources through changes in rates. The Refinery Energy Conservation Project would support the formulation of an investment program for the petroleum products subsector and the rationalization of the structure of refinery prices.

The Energy Sector Loan (1985) had as its major policy objective the continuation of price and investment program rationalization in the energy sector. This included a continued emphasis on the target of raising domestic gas user prices to two thirds of the international equivalent by mid-1988 and a new policy objective for natural gas producer pricing. In this latter regard, a policy was introduced linking natural gas producer prices to two thirds of the international equivalents less a discount for all new concessions granted after September 1985. Moreover, a strengthening of electric power pricing policies was also included by directly linking electricity prices to self-financing of a quantified capital investment program. More specifically, in conjunction with the Fourth WAPDA loan, the Energy Sector Loan provided that electricity prices be adjusted so that self-financing by WAPDA cover 40 percent of the specified investment level.

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1/ As of March 31, 1987, the Group's ongoing financial operations in Pakistan of US$2.4 billion (on a commitment basis) evidenced a broad sectoral distribution (see attached table).

The Export Development Loan (1986) had as its major policy objective the continuation of the industrial and trade policy reforms of SAL I, including in particular an improvement in the export incentives framework and a resumption of efforts to liberalize the import regime. To this end, both direct and indirect exporters are to be put on a free-trade basis by having access to imported inputs at duty free prices; the standard duty drawback rates are to be systematically updated and revised on a continuous basis in the future, and an "open bonded manufacturing system" is to be introduced. Regarding import liberalization, the loan provided that no additions would be made to the list of banned imports for protective or balance of payments reasons and that a review of existing import bans would be undertaken with the objective of reducing the number of such bans in the 1987/88 Import Policy Order.

For 1987/88, the focus of the Bank's project lending would be on power generation, irrigation rehabilitation, oilseeds development, and urban development. The focus of sector lending would be on agriculture, industry, energy, and transportation.

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(In millions of U.S. dollars)

| | IBRD | Third Window | IDA | Total |
|---|---|---|---|---|
| IBRD/IDA lending operations 1/ | | | | |
| Fully disbursed operations 2/ | 826.3 | 42.0 | 1,340.7 | 2,209.0 |
| Total undisbursed | 1,030.7 | -- | 929.0 | 1,959.7 |
| Ongoing operations 3/ | 1,279.2 | -- | 1,089.9 | 2,369.1 |
| Agricultural and rural development | 185.2 | -- | 720.2 | 905.4 |
| Education | -- | -- | 117.7 | 77.5 |
| Power and utilities | 430.0 | -- | 111.0 | 541.0 |
| Transportation | -- | -- | -- | -- |
| Industry | 306.5 | -- | 102.0 | 408.5 |
| Population | -- | -- | 18.0 | 18.0 |
| Energy | 357.5 | -- | -- | -- |
| Other 4/ | -- | -- | 21.0 | 21.0 |
| Total 1/ | 2,105.5 | 42.0 | 2,430.6 | 4,578.1 |
| Repayments | 546.2 | 5.3 | 61.2 | 612.7 |
| Total now held by IBRD/IDA 5/ | 1,559.3 | 36.7 | 2,369.4 | 3,965.4 |
| IFC investments 6/ | -- | -- | -- | 71.1 |

Source: World Bank.

1/ Loans and credits as of March 31, 1987.

2/ One hundred and twelve loans and credits fully disbursed. Excludes the disbursed portion of loans and credits wholly or partly for projects in former East Pakistan which have now been taken over by Bangladesh. Also excludes amounts which have been cancelled.

3/ Includes one IDA credit amounting to US$42.1 million that was approved by the Board but is not yet effective.

4/ Includes three technical assistance projects.

5/ Prior to exchange adjustments.

6/ As of March 31, 1987. Gross commitment less cancellation, terminations, repayments, and sales held by IFC.

Table 3. Pakistan: Summary of Public Finance, 1983/84-1986/87

| | Actuals 1983/84 | Actuals 1984/85 | Original Estimates 1985/86 | Prov. Actuals 1985/86 | Original Estimates 1986/87 | Official Revised Estimates 1986/87 |
|---|---|---|---|---|---|---|
| | (In billions of Pakistan rupees) | | | | | |
| Revenue | 72.3 | 77.4 | 92.5 | 89.5 | 103.4 | 98.5 |
| Tax | 58.2 | 61.2 | 73.4 | 71.8 | 81.6 | 77.7 |
| Nontax | 14.1 | 16.2 | 19.1 | 17.7 | 21.8 | 20.8 |
| Surplus of autonomous bodies | 2.6 | 2.6 | 4.8 | 2.9 | 3.7 | 2.8 |
| Expenditure | 100.0 | 116.8 | 135.9 | 134.5 | 153.7 | 151.5 |
| Current (excluding subsidies) | 66.7 | 75.8 | 85.0 | 89.1 | 97.9 | 101.8 |
| Subsidies | 7.7 | 9.5 | 12.9 | 8.7 | 9.6 | 9.7 |
| Development | 25.6 | 31.5 | 38.0 | 36.7 | 46.2 | 40.0 |
| Net lending and equity participation | -- | -- | -2.0 1/ | -- | -2.0 1/ | -0.4 1/ |
| Overall deficit (-) | -25.1 | -36.8 | -36.5 | -42.1 | -44.6 | -49.8 |
| Financing | 25.1 | 36.8 | 36.5 | 42.1 | 44.6 | 49.8 |
| External (net) | 5.0 | 5.2 | 19.8 | 10.6 | 16.3 | 11.3 |
| Domestic nonbank | 12.2 | 12.9 | 16.7 2/ | 25.4 2/ | 23.5 | 27.9 |
| Banking system | 7.9 | 18.7 | -- 2/ | 6.1 2/ | 4.8 | 10.6 |
| Memorandum items: | | | | | | |
| Domestic bank financing | 6.6 | 18.0 | -0.2 | 9.8 | 7.8 | 13.6 |
| Budgetary support | 7.9 | 18.7 | -- 3/ | 6.1 3/ | 4.8 4/ | 10.6 |
| Commodity operations | -1.3 | -0.7 | -0.2 3/ | 3.7 3/ | 3.0 4/ | 3.0 |
| GDP (at current market prices) | 418.2 | 478.0 | 543.1 | 539.5 | 592.5 | 602.2 |
| | (Change in percent) | | | | | |
| Revenue | 22.2 | 7.1 | 19.5 | 15.7 | 15.5 | 10.1 |
| Expenditure, of which: | 14.8 | 16.8 | 16.3 | 15.1 | 14.3 | 12.7 |
| Current (excluding subsidies) | (25.3) | (13.6) | (12.1) | (17.5) | (9.9) | (14.3) |
| Development | (-6.7) | (23.4) | (20.4) | (16.3) | (25.9) | (8.9) |
| GDP | 15.5 | 14.3 | 13.6 | 12.9 | 9.8 | 11.6 |
| | (Percent of GDP at current market prices) | | | | | |
| Revenue, of which: | 17.3 | 16.2 | 17.0 | 16.6 | 17.5 | 16.4 |
| Tax revenue | (13.9) | (12.8) | (13.5) | (13.3) | (13.8) | (12.9) |
| Expenditure | 23.9 | 29.4 | 25.0 | 24.9 | 25.9 | 25.2 |
| Current (excluding subsidies) | (16.0) | (15.8) | (15.6) | (16.5) | (16.5) | (16.9) |
| Subsidies | (1.8) | (2.0) | (2.4) | (1.6) | (1.6) | (1.6) |
| Development | (6.1) | (6.6) | (7.0) | (6.8) | (7.8) | (6.7) |
| Overall deficit | 6.0 | 7.7 | 6.7 | 7.8 | 7.5 | 8.3 |
| External financing (net) | 1.2 | 1.1 | 3.6 | 2.0 | 2.7 | 1.9 |
| Domestic nonbank financing | 2.9 | 2.7 | 3.1 | 4.7 | 4.0 | 4.6 |
| Domestic bank financing Of which: | 1.6 | 3.8 | -- | 1.8 | 1.3 | 2.3 |
| Budgetary support | (1.9) | (3.9) | (--) | (1.1) | (0.8) | (1.8) |

Source: Ministry of Finance and Economic Affairs.

1/ Proceeds from sales of government shares in public enterprises.

2/ The proceeds from sales of Special National Fund Bonds (SNFBs), financed by bank credit to the private sector of PRs 11 billion, were used to repay outstanding bank credit for commodity operations. To maintain data comparability with earlier years, such credit has not been included within the definition of credit to the Government.

3/ Excludes effect of SNFBs/commodity financing transactions of PRs 11 billion.

4/ Revised subsequent to the July 1986 Credit Plan; the Plan was prepared in accordance with the Budget Speech.

Table 4. Pakistan: National Product and Expenditures, 1981/82-1987/88

(In percent)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | Prov. Actuals 1985/86 | Official Projections 1986/87 | 1987/88 |
|---|---|---|---|---|---|---|---|
| Real growth rates | | | | | | | |
| GDP (at factor costs) | 7.0 | 6.4 | 4.4 | 9.0 | 7.3 | 7.0 | 6.2 |
| Agriculture | 3.7 | 3.8 | -6.2 | 12.2 | 6.6 | 5.9 | 3.6 |
| Manufacturing | 14.0 | 7.3 | 8.2 | 8.4 | 7.8 | 7.4 | 8.0 |
| GNP growth at current market prices | 15.6 | 15.2 | 14.5 | 12.8 | 12.6 | 10.2 | 10.9 |
| GDP growth at current market prices | 15.8 | 12.5 | 15.5 | 14.3 | 12.9 | 11.6 | 12.0 |
| GDP deflator change (at market prices) | 9.1 | 5.7 | 9.7 | 5.9 | 5.0 | 3.6 | 5.1 |
| Consumer prices change | | | | | | | |
| Annual average | 10.0 | 4.2 1/ | 7.7 | 6.1 | 4.6 | 3.5 2/ | ... |
| Year end | 7.1 | 5.2 1/ | 7.2 | 6.7 | 3.2 | 3.9 2/ | ... |
| Ratios 3/ | | | | | | | |
| Consumption/GNP | 88.1 | 85.8 | 87.4 | 89.2 | 87.7 | 86.1 | 86.1 |
| Gross domestic investment/GNP | 16.6 | 16.0 | 15.7 | 15.7 | 15.7 | 16.4 | 17.1 |
| Of which: GDFCF/GNP | (14.3) | (14.3) | (14.0) | (14.0) | (14.1) | (14.9) | (15.6) |
| Net exports of goods and services/GNP | -4.7 | -1.8 | -3.1 | -4.9 | -3.5 | -2.5 | -3.2 |
| Gross national savings/GNP | 11.9 | 14.2 | 12.6 | 10.8 | 12.2 | 13.9 | 13.9 |
| Gross domestic savings/GNP | 5.5 | 5.8 | 4.9 | 4.4 | 6.1 | 8.9 | 9.8 |

Source: Ministry of Planning and Development.

1/ Starting in 1982/83 the series have been calculated on the basis of a new household expenditure survey.
2/ First half 1985/86 - first half 1986/87.
3/ Calculated from current price data.

Table 5. Pakistan: Balance of Payments, 1983/84-1987/88

(In millions of U.S. dollars)

| | 1983/84 | 1984/85 | Official Sept. 1985 Proj. 1985/86 | Prov. Actuals 1985/86 | Official Projections 1986/87 | Official Projections 1987/88 |
|---|---|---|---|---|---|---|
| Current account balance | -997 | -1,680 | -1,408 | -1,236 | -928 | -1,211 |
| Trade balance | -3,324 | -3,552 | -3,201 | -3,042 | -2,370 | -2,385 |
| Exports, f.o.b. | 2,669 | 2,457 | 2,945 | 2,942 | 3,462 | 3,965 |
| Imports, f.o.b. | -5,993 | -6,009 | -6,146 | -5,984 | -5,832 | -6,350 |
| Services (net) | -717 | -815 | -825 | -1,016 | -1,081 | -1,126 |
| Receipts | 975 | 941 | 1,075 | 962 | 976 | 1,019 |
| Payments | -1,692 | -1,756 | -1,900 | -1,979 | -2,057 | -2,145 |
| Of which: interest | (-585) | (-529) | (...) | (-593) | (-662) | (-680) |
| Private transfers (net) | 3,044 | 2,687 | 2,618 | 2,822 | 2,523 | 2,300 |
| Of which: workers' remittances | (2,737) | (2,446) | (2,400) | (2,596) | (2,300) | (2,070) |
| Capital account balance | 917 | 892 | 1,501 | 1,255 | 1,061 | 1,060 |
| Official transfers (net) | 299 | 390 | 537 | 468 | 428 | 421 |
| Of which: refugee assistance | (155) | (150) | (200) | (135) | (190) | (190) |
| Medium- and long-term capital (net) | 576 | 508 | 789 | 608 | 484 | 555 |
| Public and publicly guaranteed | (543) | (399) | (711) | (408) | (399) | (445) |
| Project and nonproject loans | [387] | [335] | [680] | [438] | [482] | [477] |
| Disbursements | /880/ | /876/ | /1,262/ | /1,073/ | /1,136/ | /1,171/ |
| Scheduled amortization | /-493/ | /-541/ | /-582/ | /-635/ | /-654/ | /-694/ |
| Commercial bank and Islamic Development Bank (IDB) loans | [170] | [64] | [31] | [4] | [21] | [30] |
| Disbursements | /234/ | /185/ | /215/ | /194/ | /130/ | /200/ |
| Amortization | /-64/ | /-121/ | /-184/ | /-190/ | /-151/ | /-170/ |
| Other official (including Trust Fund) | [-14] | [--] | [--] | [-34] | [-62] | [-61] |
| Private (net) | (33) | (109) | (78) | (200) | (85) | (110) |
| Short-term capital (net) | 14 | -31 | 150 | 154 | 140 | 75 |
| Official (net) | (-109) | (-31) | (150) | (163) | (140) | (75) |
| Foreign exchange bearer certificates | [--] | [--] | [125] | [148] | [90] | [75] |
| Commercial bank and IDB loans | [-127] | [-16] | [25] | [-21] | [50] | [--] |
| Other official | [18] | [-15] | [--] | [35] | [--] | [--] |
| Private (net) | (123) | (--) | (--) | (-9) | (--) | (--) |
| Foreign currency deposits (FCDs) 1/ | [102] | [--] | [--] | [--] | [--] | [--] |
| Other private (net) | [21] | [--] | [--] | [-9] | [--] | [--] |
| Debt relief | 28 | 25 | 25 | 25 | 10 | 9 |
| Errors and omissions | -6 | -31 | -- | -26 | -- | -- |
| Additional financing | -- | -- | -- | -- | -- | 400 2/ |
| Overall balance | -86 | -819 | 93 | -7 | 133 | 249 |
| Net foreign assets | 86 | 819 | -93 | 7 | -133 | -249 |
| State Bank of Pakistan | 157 | 954 | -93 | -379 | -283 | -249 |
| Gross reserves (increase -) | (203) | (1,036) | (...) | (-146) | (96) | (173) |
| IMF (net) | (-15) | (-82) | (-225) | (-250) | (-349) | (-292) |
| Purchases | [--] | [--] | [--] | [--] | [--] | [--] |
| Repurchase | [-15] | [-82] | [-225] | [-250] | [-349] | [-292] |
| Other | (-31) | (--) | (132) 3/ | (17) | (-30) | (-130) |
| Deposit money banks | -71 | -135 | ... | 386 | 150 | -- |
| FCDs: nonresident banks | (--) | (--) | (...) | (480) | (200) | (--) |
| FCDs: nonresident nonbanks | (--) | (-49) | (...) | (16) | (--) | (--) |
| Other | (-71) | (-86) | (...) | (-110) | (-50) | (--) |
| Memorandum items: | | | | | | |
| Gross official reserves | 1,732 | 668 | 640 | 915 | 865 | 692 |
| (In weeks of following year's imports, c.i.f.) | (13.9) | (5.3) | (4.9) | (7.5) | (6.6) | (5.0) |
| Current account deficit (as percent of GNP) | -3.0 | -5.0 | -3.9 | -3.5 | -2.5 | -3.0 |
| Growth rates | | | | | | |
| Exports, f.o.b. | 1.6 | -7.9 | 25.3 | 19.7 | 17.7 | 14.5 |
| Imports, f.o.b. | 6.7 | 0.3 | 3.5 | -0.4 | -2.5 | 8.9 |
| Workers' remittances | -5.2 | -10.6 | -1.9 | 6.1 | -11.4 | -10.0 |

Sources: State Bank of Pakistan; and Ministry of Finance and Economic Affairs.

1/ Nonbank foreign currency deposits. Beginning 1984/85, these deposits have been included within net foreign assets of the banking system.
2/ Amount of quick disbursing loans pledged at the April 1987 Consortium Meeting.
3/ Changes in other net foreign assets of both the central and commercial banks.

Table 6. Pakistan: External Debt Service Payments, 1/ 1983/84-1987/88

| | 1983/84 | 1984/85 | Prov. Actuals 1985/86 | Staff Projections 1986/87 | 1987/88 |
|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | |
| Payments on public debt | 1,006 | 1,082 | 1,407 | 1,573 | 1,555 |
| Debt service 2/ | 863 | 866 | 1,035 | 1,143 | 1,202 |
| Scheduled amortization | (520) | (537) | (679) | (711) | (750) |
| Scheduled interest | (343) | (329) | (356) | (432) | (452) |
| Fund credit | 143 | 216 | 372 | 430 | 353 |
| Repurchases | (15) | (82) | (250) | (349) | (292) |
| Charges | (128) | (134) | (122) | (81) | (61) |
| Other payments | 178 | 188 | 325 | 400 | 442 |
| Principal payments on commercial bank and Islamic Development Bank (IDB) loans of more than one year | 64 | 121 | 191 | 151 | 170 |
| Principal on PAYE loans and guaranteed suppliers' credits | -- | -- | 18 | 20 | 25 |
| Interest on PAYE loans and suppliers' credits | 51 | 6 | 11 | 10 | 10 |
| Repayment of foreign central bank loans | -- | -- | -- | 80 | 80 |
| Interest paid by banks (including FCDs) | 37 | 34 | 77 | 98 | 108 |
| Interest paid by State Bank of Pakistan on deposits and loans | 26 | 27 | 28 | 24 | 20 |
| Accrued interest on foreign exchange bearer certificates | -- | -- | -- | 17 | 29 |
| Total | 1,184 | 1,270 | 1,732 | 1,973 | 1,997 |
| Principal | 599 | 740 | 1,138 | 1,311 | 1,317 |
| Interest | 585 | 529 | 593 | 662 | 680 |
| | (In percent) | | | | |
| Debt service ratios | | | | | |
| As percent of current receipts | | | | | |
| Including Fund credit | 17.7 | 20.9 | 25.7 | 28.3 | 27.4 |
| Excluding Fund credit | 15.6 | 17.3 | 20.2 | 22.2 | 22.6 |
| As percent of exports of goods and services | | | | | |
| Including Fund credit | 32.5 | 37.4 | 44.4 | 44.5 | 40.1 |
| Excluding Fund credit | 28.6 | 31.0 | 34.8 | 34.8 | 33.0 |
| Memorandum items: | | | | | |
| Total civilian external public debt 3/ (in billions of U.S. dollars) | 12.7 | 12.8 | 14.8 | 15.2 | 15.9 |
| Total external public debt/GNP (in percent) | 38 | 38 | 41 | 41 | 41 |
| Current account receipts (in billions of U.S. dollars) | 6.7 | 6.1 | 6.7 | 7.0 | 7.3 |

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

1/ Public and publicly-guaranteed debt of more than one year and interest on short-term debt. Excludes military debt.

2/ Includes Trust Fund repayments but excludes charges and repurchases on use of Fund credit.

3/ Excludes military debt, but includes monetary liabilities, i.e., deposits of foreign monetary authorities at the State Bank of Pakistan, foreign currency deposits of banks, and foreign liabilities of commercial banks. For 1986/87 and 1987/88, figures are projections with no account taken of potential valuation changes.

Table 7. Pakistan: Medium-Term Balance of Payments and Debt Service Projections Based on the Authorities' Assumptions, 1987/88-1992/93

(In millions of U.S. dollars)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992/93 |
|---|---|---|---|---|---|---|
| Balance of payments | | | | | | |
| Current account balance | -1,211 | -1,402 | -1,425 | -1,552 | -1,644 | -1,722 |
| Trade balance | -2,385 | -2,500 | -2,522 | -2,607 | -2,675 | -2,729 |
| Exports, f.o.b. | (3,965) | (4,441) | (4,974) | (5,571) | (6,239) | (6,988) |
| Imports, f.o.b. | (-6,350) | (-6,941) | (-7,496) | (-8,178) | (-8,914) | (-9,717) |
| Services (net) | -1,126 | -1,152 | -1,153 | -1,195 | -1,219 | -1,243 |
| Private transfers (net) | 2,300 | 2,250 | 2,250 | 2,250 | 2,250 | 2,250 |
| Of which: | | | | | | |
| Workers' remittances | (2,070) | (2,020) | (2,000) | (2,000) | (2,000) | (2,000) |
| Capital account balance | 1,060 | 1,286 | 1,410 | 1,510 | 1,599 | 1,699 |
| Gross disbursements | 1,571 | 1,790 | 1,905 | 1,911 | 2,000 | 2,100 |
| Amortization, 1/ except commercial banks and Islamic Development Bank (IDB) | -750 | -723 | -689 | -585 | -585 | -585 |
| Commercial bank and IDB | | | | | | |
| Disbursements | 200 | 200 | 200 | 190 | 190 | 190 |
| Amortization | -170 | -140 | -165 | -165 | -165 | -165 |
| Other private long-term capital | 110 | 150 | 150 | 150 | 150 | 150 |
| Foreign exchange bearer certificates (FEBCs) | 75 | -- | -- | -- | -- | -- |
| Debt relief | 9 | 9 | 9 | 9 | 9 | 9 |
| Other capital inflows (net) | 16 | -- | -- | -- | -- | -- |
| Additional financing | 400 | 217 | 155 | 78 | 115 | 54 |
| Overall balance (including additional financing) | 249 | 101 | 141 | 36 | 70 | 31 |
| Net foreign assets | -249 | -101 | -141 | -36 | -70 | -31 |
| Fund repurchases | -292 | -222 | -174 | -111 | -70 | -31 |
| Repayment of central bank deposits | -80 | -40 | -- | -- | -- | -- |
| Reserves | 173 | 111 | 33 | 75 | -- | -- |
| Other | -50 | 50 | -- | -- | -- | -- |
| Civilian debt service payments | 1,997 | 1,883 | 1,813 | 1,695 | 1,706 | 1,718 |
| Project and nonproject loans | | | | | | |
| Principal | 750 | 723 | 689 | 585 | 585 | 585 |
| Interest | 408 | 455 | 490 | 542 | 592 | 642 |
| IMF | | | | | | |
| Repurchases | 292 | 222 | 174 | 111 | 70 | 31 |
| Charges | 61 | 42 | 24 | 12 | 9 | 3 |
| Medium- and long-term commercial bank and IDB loans | | | | | | |
| Principal | 170 | 140 | 165 | 165 | 165 | 165 |
| Interest | 40 | 42 | 44 | 44 | 44 | 44 |
| Short-term commercial bank and IDB loans | | | | | | |
| Interest | 4 | 6 | 6 | 6 | 6 | 6 |
| PAYE/suppliers' credit | | | | | | |
| Principal 2/ | 25 | 25 | 25 | 25 | 25 | 25 |
| Interest 2/ | 10 | 10 | 10 | 10 | 10 | 10 |
| Central bank deposits | | | | | | |
| Repayment | 80 | 40 | -- | -- | -- | -- |
| Interest paid by banks 2/ | 108 | 108 | 108 | 108 | 108 | 108 |
| Interest paid by State Bank of Pakistan | 20 | 10 | 5 | 5 | 5 | 5 |
| Accrued interest on FEBCs 2/ | 29 | 36 | 35 | 35 | 35 | 35 |
| Additional financing | | | | | | |
| Principal | -- | -- | -- | -- | -- | -- |
| Interest | -- | 24 | 38 | 47 | 52 | 59 |
| Memorandum items: | | | | | | |
| Current account receipts | 7,284 | 7,761 | 8,347 | 9,000 | 9,729 | 10,540 |
| Debt service/current receipts (in percent) | 27.4 | 24.3 | 21.7 | 18.8 | 17.5 | 16.3 |

Source: Ministry of Finance and Economic Affairs.

1/ Assumes no amortization on disbursements made over the projection period.
2/ Staff estimate based on authorities' assumptions.

Table 8. Pakistan: Medium-Term Balance of Payments, 1986/87-1992/93

(In billions of U.S. dollars)

| | Staff Estimates 1986/87 | Staff Projections 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992/93 |
|---|---|---|---|---|---|---|---|
| | | **Staff Scenario I: Maintenance of Current Policy Stance** | | | | | |
| Current account balance | -1.0 | -1.4 | -1.6 | -1.9 | -2.2 | -2.4 | -2.7 |
| Exports, f.o.b. | 3.4 | 3.7 | 4.0 | 4.3 | 4.6 | 5.0 | 5.4 |
| Imports, f.o.b. | -5.8 | -6.3 | -6.7 | -7.1 | -7.5 | -8.0 | -8.5 |
| Services (net) | -1.1 | -1.1 | -1.3 | -1.4 | -1.6 | -1.7 | -1.9 |
| Private transfers (net) | 2.5 | 2.4 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 |
| Capital account balance | 1.0 | 1.8 | 1.9 | 2.0 | 2.3 | 2.6 | 2.8 |
| Concessional assistance (net) | 0.8 | 1.4 | 1.2 | 1.1 | 1.0 | 1.1 | 1.2 |
| Of which: disbursements | (1.5) | (2.2) | (2.0) | (1.9) | (1.8) | (1.9) | (2.2) |
| Medium-term commercial borrowing (net) | -- | 0.2 | 0.6 | 0.7 | 1.1 | 1.4 | 1.6 |
| Of which: disbursements | (0.1) | (0.4) | (0.7) | (1.0) | (1.6) | (2.2) | (2.8) |
| Other capital flows (net) | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Overall balance | -- | 0.4 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 |
| Net foreign assets | -- | -0.4 | -0.3 | -0.2 | -0.1 | -0.1 | -0.1 |
| Of which: gross reserves (increase -) | (0.2) | (--) | (--) | (--) | (--) | (--) | (--) |
| IMF (net) | (-0.3) | (-0.3) | (-0.2) | (-0.2) | (-0.2) | (-0.1) | (-0.1) |
| Memorandum items: | | | | | | | |
| Gross official reserves | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| (in weeks of following year's imports, c.i.f.) | (5.8) | (5.4) | (5.1) | (4.9) | (4.6) | (4.3) | (4.1) |
| Current account deficit (as percent of GNP) | 2.7 | 3.5 | 3.7 | 3.9 | 4.0 | 4.1 | 4.2 |
| Financing gap 1/ 2/ | -- | 0.8 | 0.9 | 1.1 | 1.4 | 1.9 | 2.5 |
| Net foreign assets of the banking system (end-period stock) | -1.0 | -0.5 | -0.3 | -0.1 | -- | 0.2 | 0.3 |
| Debt service (as percent of current receipts) 3/ | 28.5 | 28.1 | 26.5 | 26.9 | 29.1 | 34.3 | 39.8 |
| External civilian debt | 15.2 | 16.1 | 17.1 | 18.4 | 20.0 | 21.7 | 23.7 |
| | | **Staff Scenario II: With Policy Adjustment Measures** | | | | | |
| Current account balance | -1.0 | -0.8 | -0.8 | -0.8 | -0.9 | -1.0 | -1.1 |
| Exports, f.o.b. | 3.4 | 3.9 | 4.4 | 4.9 | 5.4 | 5.9 | 6.5 |
| Imports, f.o.b. | -5.8 | -6.0 | -6.4 | -6.8 | -7.3 | -7.8 | -8.3 |
| Services (net) | -1.1 | -1.1 | -1.2 | -1.3 | -1.4 | -1.5 | -1.6 |
| Private transfers (net) | 2.5 | 2.4 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 |
| Capital account balance | 1.0 | 1.6 | 1.4 | 1.3 | 1.1 | 1.2 | 1.3 |
| Concessional assistance (net) | 0.8 | 1.4 | 1.2 | 1.1 | 1.0 | 1.1 | 1.2 |
| Of which: disbursements | (1.5) | (2.2) | (2.0) | (1.9) | (1.8) | (2.0) | (2.2) |
| Medium-term commercial borrowing (net) | -- | -- | -- | -- | -- | -- | -- |
| Of which: disbursements | (0.1) | (0.2) | (0.2) | (0.2) | (0.2) | (0.3) | (0.3) |
| Other capital flows (net) | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Overall balance | -- | 0.8 | 0.5 | 0.5 | 0.2 | 0.2 | 0.2 |
| Net foreign assets (increase -) | -- | -0.8 | -0.5 | -0.5 | -0.2 | -0.2 | -0.2 |
| Of which: gross reserves (increase -) | (0.2) | (-0.4) | (-0.3) | (-0.3) | (--) | (-0.1) | (-0.1) |
| IMF (net) | (-0.3) | (-0.3) | (-0.2) | (-0.2) | (-0.1) | (-0.1) | (-0.1) |
| Memorandum items: | | | | | | | |
| Gross official reserves | 0.8 | 1.1 | 1.4 | 1.7 | 1.7 | 1.8 | 1.9 |
| (in weeks of following year's imports, c.i.f.) | (6.1) | (8.4) | (9.7) | (11.2) | (10.8) | (10.5) | (10.1) |
| Current account deficit (as percent of GNP) | 2.7 | 2.4 | 2.3 | 2.2 | 2.2 | 2.1 | 2.0 |
| Financing gap 1/ 4/ | -- | 0.6 | 0.3 | 0.3 | -- | -- | -- |
| Net foreign assets of the banking system (end-period stock) | -1.0 | -0.2 | 0.3 | 0.8 | 1.0 | 1.2 | 1.4 |
| Debt service (as percent of current receipts) 3/ | 28.5 | 27.4 | 24.7 | 23.1 | 22.4 | 23.4 | 23.5 |
| External civilian debt | 15.2 | 15.9 | 16.4 | 16.9 | 17.3 | 17.7 | 18.1 |

Source: Staff estimates and projections.

1/ Loan disbursements greater than "normal" inflows are considered ex ante financing gaps.

2/ The ex ante financing gaps comprise US$1.2 billion of the gross concessional assistance disbursements shown for 1987/88-1989/90 and US$7.4 billion of medium-term commercial borrowing over the period 1987/88-1992/93.

3/ Assumes that ex ante financing gaps are closed. Excludes debt service payments on military debt (see footnote 3 of Appendix III, Table 6).

4/ The ex ante financing gaps comprise US$1.2 billion of the gross concessional assistance disbursements shown for 1987/88-1989/90.

## Pakistan - Basic Data

| | |
|---|---|
| Population | 99.2 million (January 1, 1986 estimate) 1/ |
| Population growth | 3 percent per annum 1/ |
| GNP per capita | US$357 (1985/86) 2/ |

| Year ended June 30 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | Prov. Actuals 1985/86 |
|---|---|---|---|---|---|
| | | | (In percent) | | |
| Annual changes in national product aggregates (1959/60 prices) | | | | | |
| GNP (at market prices) | 6.0 | 7.4 | 5.3 | 6.6 | 6.9 |
| GDP (at factor cost) | 7.0 | 6.4 | 4.4 | 9.0 | 7.3 |
| Agriculture | 3.7 | 3.8 | -6.2 | 12.2 | 6.6 |
| Manufacturing | 14.0 | 7.3 | 8.2 | 8.4 | 7.8 |
| Services | 7.1 | 7.0 | 7.1 | 8.4 | 6.3 |
| Investment, consumption, and savings ratios | | | | | |
| Gross domestic fixed capital formation/GNP | 14.3 | 14.3 | 14.0 | 14.0 | 14.1 |
| Consumption/GNP | 88.1 | 85.8 | 87.4 | 89.2 | 87.7 |
| Gross domestic savings/GNP | 5.5 | 5.8 | 4.9 | 4.4 | 6.1 |
| Gross national savings/GNP | 11.9 | 14.2 | 12.6 | 10.8 | 12.2 |
| Oil production | 10.7 | 22.0 | -0.6 | 96.0 | 56.1 |
| | | | (In billions of Pakistan rupees) | | |
| Government finances | | | | | |
| Tax revenue | 43.0 | 49.0 | 58.2 | 61.2 | 71.8 |
| Nontax revenue | 8.9 | 10.2 | 14.1 | 16.2 | 17.7 |
| Surplus of autonomous bodies | 1.9 | 2.3 | 2.6 | 2.6 | 2.9 |
| Current expenditure 3/ | 46.4 | 59.7 | 74.4 | 85.3 | 97.8 |
| Development expenditure | 24.6 | 27.4 | 25.6 | 31.5 | 36.7 |
| Overall deficit (-) | -17.2 | -25.7 | -25.1 | -36.8 | -42.1 |
| External financing (net) | (5.3) | (5.2) | (5.0) | (5.2) | (10.6) |
| Domestic nonbank financing (net) | (6.3) | (14.4) | (12.2) | (12.9) | (25.4) |
| Bank financing | (5.5) | (6.1) | (7.9) | (18.7) | (6.1) |
| | | | (In percent) | | |
| Rate of change of: | | | | | |
| Total revenue | 10.5 | 14.0 | 22.2 | 7.1 | 15.7 |
| Tax revenue | (10.7) | (14.0) | (18.8) | (5.1) | (17.3) |
| Nontax revenue | (9.5) | (13.7) | (38.3) | (15.4) | (9.5) |
| Current expenditure | 15.0 | 28.8 | 24.6 | 14.6 | 14.7 |
| Development expenditure | 5.7 | 11.2 | -6.7 | 23.4 | 16.3 |
| Overall deficit | 17.5 | 49.4 | -2.0 | 46.2 | 14.2 |
| As percent of GDP: | | | | | |
| Tax revenue | 13.3 | 13.5 | 13.9 | 12.8 | 13.3 |
| Nontax revenue | 2.8 | 2.8 | 3.4 | 3.4 | 3.3 |
| Current expenditure | 14.4 | 16.5 | 17.8 | 17.8 | 18.1 |
| Development expenditure | 7.6 | 7.6 | 6.1 | 6.6 | 6.8 |
| Overall deficit | 5.3 | 7.1 | 6.0 | 7.7 | 7.8 |
| External financing (net) | 1.6 | 1.4 | 1.2 | 1.1 | 2.0 |
| Budgetary support | 1.7 | 1.7 | 1.9 | 3.9 | 1.1 |
| Domestic nonbank financing (net) | 2.0 | 4.0 | 2.9 | 2.7 | 4.7 |

1/ Pakistan Sixth Plan Progress and Future Prospects, 1987, IBRD.
2/ The average exchange rate of PRs 16.13 per U.S. dollar for 1985/86 was used to convert rupee per capita income.
3/ Includes fertilizer subsidies which in the ADP are classified as development expenditures.

Pakistan - Basic Data (Concluded)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | Prov. Actuals 1985/86 |
|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | |
| Balance of payments | | | | | |
| Trade balance | -3,450 | -2,989 | -3,324 | -3,552 | -3,042 |
| Exports, f.o.b. | (2,319) | (2,627) | (2,669) | (2,457) | (2,942) |
| Imports, f.o.b. | (-5,769) | (-5,616) | (-5,993) | (-6,009) | (-5,984) |
| Services (net) | -546 | -607 | -717 | -815 | -1,016 |
| Private transfers (net) | 2,387 | 3,039 | 3,044 | 2,687 | 2,822 |
| Current account balance | -1,609 | -557 | -997 | -1,680 | -1,236 |
| Official transfers (net), of which: | 421 | 327 | 299 | 390 | 468 |
| Refugee assistance | (293) | (178) | (155) | (150) | (135) |
| Long-term capital (net) | 303 | 804 | 576 | 508 | 608 |
| Short-term capital (net) | 38 | 72 | 14 | -31 | 154 |
| Official (net), of which: | (-9) | (-233) | (-109) | (-31) | (163) |
| Foreign exchange bearer certificates | [--] | [--] | [--] | [--] | [148] |
| Identified private (net), of which: | (47) | (305) | (123) | (--) | (-9) |
| Foreign currency deposits (nonbank) | [63] | [273] | [102] | [--] | [--] |
| Debt relief | 258 | 35 | 28 | 25 | 25 |
| Errors and omissions | 9 | 18 | -6 | -31 | -26 |
| Net foreign assets (increase -) | 580 | -699 | 86 | 819 | 7 |
| Memorandum items: | | | | | |
| Gross official reserves (end-period) 1/ | 809 | 1,910 | 1,732 | 668 | 915 |
| Gross official reserves (in weeks of following year's imports, c.i.f.) | (6.9) | (15.2) | (13.9) | (5.3) | (7.5) |
| | (In percent) | | | | |
| Rates of change | | | | | |
| Merchandise exports (f.o.b.) | -17 | 13 | 2 | -8 | 20 |
| Cotton and rice (c.i.f.) | (-40) | (-10) | (-6) | (-10) | (71) |
| Cotton-based manufacturers (c.i.f.) | (...) | (18) | (8) | (-6) | (19) |
| Other traditional manufacturers (c.i.f.) | (...) | (34) | (--) | (-20) | (16) |
| Nontraditional exports (c.i.f.) | (...) | (30) | (11) | (-8) | (-2) |
| Merchandise imports (f.o.b.) | 4 | -3 | 7 | -- | -- |
| Workers' remittances | 6 | 30 | -5 | -11 | 6 |
| Money and quasi-money | 11 | 25 | 12 | 13 | 15 |
| Domestic assets (net) | 17 | 16 | 14 | 23 | 15 |
| Claims on Government (net) | 12 | 15 | 11 | 23 | 9 2/ |
| Claims on nongovernment sectors | 20 | 21 | 22 | 17 | 19 2/ |
| Consumer prices 3/ | 10 | 4 | 8 | 6 | 5 |
| Wholesale prices 3/ | 8 | 5 | 10 | 5 | 5 |
| GDP deflator | 9 | 6 | 10 | 6 | 5 |

Social and Demographic Indicators 4/

| Area | Population | Density |
|---|---|---|
| 803,943 km2 | 99.2 million (mid-1985/86) | 123 per km2 |

Population characteristics (1983)

| | |
|---|---|
| Crude birth rate (per '000) | 42 |
| Crude death rate (per '000) | 11 |
| Infant mortality (per '000 live births) | 119 |

Health (1985)

| | |
|---|---|
| Population per physician | 3,460 |
| Population per hopital bed | 1,800 |

Income distribution (1979)

| | |
|---|---|
| % of national income, highest quintile | 44.1 |
| lowest quintile | 7.6 |

Distribution of land ownership

| | |
|---|---|
| % owned by top 10% of owners | ... |
| % owned by smallest 10% of owners | ... |

Access to safe water (1983)

| | |
|---|---|
| % of population | 34.6 |

Access to electricity (1973)

| | |
|---|---|
| % of population - urban | 54 |
| - rural | 5 |

Nutrition (1982)

| | |
|---|---|
| Calorie availability as % of requirements | 99 |
| Per capita protein intake | 65 |

Education (1984)

| | |
|---|---|
| Adult literacy rate % | 24 |
| Primary school enrollment % | 49 |

1/ Excludes gold.
2/ Excludes effect of scheduled bank financing of Special National Fund Bonds.
3/ Change in the average level of the index compared with the previous year.
4/ Data are from World Bank report on Pakistan--Sixth Plan Progress and Future Prospects, February 26, 1987.

# Pakistan - Statistical Issues

## 1. National income accounts

Pakistan compiles full nominal and constant price national income data. The overall quality of the data is good although some problems exist with the manufacturing investment deflator price series. At present the constant price national income accounts use 1959/60 price weights. The authorities are in the process of rebasing the income accounts to 1975/76 price weights. The new series are expected to be available in July 1987.

## 2. Prices

While the price data are generally good, there is in both the consumer and wholesale price indices a large administered price component which may result in understatements of price movements. Revised series rebased to 1980/81 price weights were introduced in 1986.

## 3. Government finance

The budgetary data in consultation reports are a consolidation of the accounts of the federal and provincial governments. Some of the available data for budgetary receipts are provided with expenditures netted against gross receipts. To the extent possible, the staff has adjusted such data to show gross receipts and expenditures separately. Due to the lack of detailed data, however, such adjustment has not been possible in a number of instances.

## 4. Monetary accounts

Pakistan's monetary and credit data are broadly accurate. However, in 1983/84, a problem emerged with the treatment of the transactions of certain banks, which had the effect of overstating considerably the contractionary impact from the net unclassified liabilities of the banking system. In 1984/85 the authorities sought to correct for this accounting misclassification to the extent feasible. Discrepancies that existed between the changes in the net foreign assets position of the banking system and the overall balance of payments position have been corrected and these data are now comparable.

## 5. Balance of payments

The balance of payments data are good and the coverage is extensive. The authorities have recently made considerable progress in reconciling the capital account and external debt data. Improvements are needed in the quality of the export and import unit price and volume indices.

6. External debt

The coverage of civilian official foreign debt data is reasonably good. The present official data on debt stock, however, evidence a number of shortcomings, particularly with regard to official short-term debt, guaranteed and nonguaranteed private debt, and military debt. There is also a need to improve the data on the maturity structure of official debt and debt service forecasts on a timely basis to reflect exchange rate and interest rate changes. These problems would suggest that the establishment of an External Debt Cell to centralize and compute the debt information could be of assistance in improving the quality of existing external debt and debt servicing data.

Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Pakistan in the June 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the State Bank of Pakistan, which during the past year have been provided on a timely basis.

| | | Latest Data in June 1987 IFS |
|---|---|---|
| Real Sector | - National Accounts | 1985 |
| | - Prices | March 1987 |
| | - Production | Q2 1985 |
| | - Employment | N.A. |
| | - Earnings | N.A. |
| Government Finance | - Deficit/Surplus | 1986 |
| | - Financing | 1986 |
| | - Debt | 1985 |
| Monetary Accounts | - Monetary Authorities | January 1987 |
| | - Deposit Money Banks | January 1987 |
| | - Other Financial Institutions | January 1987 |
| Interest Rates | -Bank Rates | February 1987 |
| | -Bank Yield | February 1987 |
| | -Bank Deposit/Lending Rates | N.A. 1/ |
| External Sector | - Merchandise Trade: Values | March 1987 |
| | - Balance of Payments | Q1 1986 |
| | - International Reserves | April 1987 |
| | - Exchange Rates | April 1987 |

1/ The financial system was changed into an Islamic noninterest basis effective July 1, 1985.