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To: Members of the Executive Board

From: The Acting Secretary

Subject: Pakistan - Structural Adjustment Facility - Policy Framework Paper, 1991/92-1993/94

Attached for consideration by the Executive Directors is the policy framework paper under the structural adjustment facility for Pakistan, which is tentatively scheduled for discussion on Monday, December 16, 1991.

Mr. Knight (ext. 7474), Mr. Ouanes (ext. 8970), or Mr. Wajid (ext. 7114) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

PAKISTAN

Structural Adjustment Facility - Policy Framework Paper, 1991/92-1993/94

Prepared by the Pakistan authorities

(In collaboration with the staffs of the Fund and the World Bank)

November 15, 1991

I. Introduction

1. Since July 1988, Pakistan has been implementing a comprehensive macroeconomic adjustment and structural reform program designed to improve the country's growth performance while redressing the external and domestic imbalances that had developed in the 1980s and rectifying the persistent structural weaknesses. The key elements of this medium-term program are fiscal deficit reduction through structural revenue reform and expenditure restraint; correction of domestic price rigidities and distortions through adjustments in administered prices and deregulation; trade and exchange liberalization and tariff reform; firm domestic credit restraint and reform of the financial system; enhanced private sector investment and activity through investment deregulation and implementation of an ambitious privatization program; and prudent exchange rate management to support firm demand management and assist in preserving international competitiveness. The Government's reform efforts have been supported by the International Monetary Fund through disbursements under two annual arrangements under the Structural Adjustment Facility (SAF) (1988/89 and 1989/90; fiscal years begin July 1) and a stand-by arrangement for the period December 1988-November 1990. The program has also been supported by the World Bank through projects and sectoral adjustment loans in agriculture, energy, and the financial sector; by the Asian Development Bank under various programs;

and by other multilateral and bilateral donors. 1/ Extensive technical assistance has also been furnished by the Fund and the multilateral development banks, and by many other donors.

II. Implementation of the Adjustment and Structural Reform Program in 1988/89-1989/90

2. In 1988/89, implementation of the policy measures under the first annual SAF program was broadly on track as regards trade liberalization, domestic credit restraint, and exchange rate management. Real GDP at market prices grew at 5.0 percent, roughly in line with the program target, while inflation abated markedly toward the end of the year. Fiscal and domestic pricing measures reduced the overall fiscal deficit by 1.0 percent of GDP, to 7.6 percent. The Government's policies also contributed to a strengthening of private investment. Despite these achievements, the external current account deficit was considerably larger than targeted in 1988/89, mainly because of an unexpected deterioration of more than 10 percent in the external terms of trade. As a result, the program was revised in December 1989, and the target date for attaining external viability was postponed by one year to 1991/92. 2/

3. Overall macroeconomic performance in 1989/90 under the second annual SAF arrangement was somewhat short of the Government's expectations. Slippages from the programmed path of fiscal and monetary adjustment, as well as the slow pace of structural reform in certain areas resulted in a failure to

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1/ In support of the Government's program, on December 28, 1988 the Fund's Executive Board approved a three-year arrangement under the structural adjustment facility for a cumulative amount of SDR 382 million and a first annual SAF arrangement for SDR 109 million, as well as a 15-month stand-by arrangement (SBA) for an amount of SDR 273 million. In December 1989, the Pakistan Government's revised Policy Framework Paper for 1989/90-1991/92 was reviewed by the Fund's Executive Board and the World Bank's Committee of the Whole, which agreed to the Government's request to extend the time period for attaining fiscal and external viability by one year to 1991/92. On December 22, 1989 the Fund's Executive Board approved a second annual SAF arrangement for an amount of SDR 164 million, as well as an extension of the SBA through June 30, 1990; subsequently, the SBA was extended further to November 30, 1990. Moreover, to support the authorities' reform program the World Bank Board approved an Agricultural Sector Adjustment Loan (ASAL) for US$200 million in August 1988, a Financial Sector Adjustment Loan (FSAL) for US$150 million in March 1989, and a second Energy Sector Loan (ESL-II) for US$250 million in June 1989. The World Bank Board also approved a Transport Sector Project Loan for US$184 million in June 1990.

2/ A detailed discussion of the macroeconomic adjustment and structural reform objectives of the revised program is given in "Structural Adjustment Facility - Policy Framework Paper, 1989/90-1991/92" (EBD/89/376, 11/30/89).

meet a number of performance criteria under the stand-by arrangement and benchmarks under the second annual SAF arrangement during 1989/90. While economic growth was in line with the program target, gross domestic investment as a share of GDP declined somewhat, as the rise in private sector investment was not sufficient to offset a slowdown in public sector development spending. Despite a large overrun in defense expenditure associated with tensions in Kashmir, there was a further reduction in the overall fiscal deficit 1/ to 6.6 percent of GDP in 1989/90, which helped to improve domestic savings performance and contain the external current account deficit. Although domestic credit expansion was somewhat higher than programmed, the inflation rate declined to 6.2 percent during 1989/90. However, inflationary pressures had begun to increase from May 1990 onward. On the external front, despite strong performance of nonprimary exports, higher than anticipated defense-related imports and a deterioration in the services account resulted in an external current account deficit of US$1.9 billion (4.6 percent of GNP), compared with a revised program target of 3.9 percent of GNP.

4. Further progress was made in structural reforms during 1989/90, although the achievements were less than expected under the second annual SAF program. The new steps in the fiscal area included: extension of sales tax coverage; introduction of excise duties on certain services; conversion of many specific customs duties to an ad valorem basis and indexation of many of the remaining specific duties; expansion of income tax withholding; and completion of a comprehensive review of the income tax system. In addition, domestic prices of petroleum products and natural gas supplied to households were raised, and electricity tariffs and several charges and fees, including the import license fee, were increased. Moreover, the domestic sales prices of imported fertilizers were adjusted, and the procurement and issue prices of wheat were increased to bring them closer to world market levels.

5. The second stage of the medium-term program to liberalize the trade regime was implemented on July 1, 1989 with the 1989/90 Import Policy Order. Following the initial reduction of nontariff barriers in 1988/89 a further large number of categories of items was removed from the negative and restricted import lists in 1989/90. Steps were also taken to enhance export diversification. In addition to continued flexible management of the exchange rate, these included the introduction of an open bond system for certain export items and simplified export control and registration procedures.

1/ Defined as the consolidated fiscal position of the federal government and the provincial governments, including surpluses and total development expenditures of four large government-owned autonomous bodies (the Water and Power Development Authority (WAPDA), Oil and Gas Development Corporation (OGDC), Pakistan Television Corporation (PTVC), and Pakistan Tourism Development Corporation (PTDC)).

6. As part of a comprehensive financial sector reform program, initial steps were taken to improve public debt management. In February 1990, certain high-yielding public debt instruments that had been available on tap were replaced by new lower yielding instruments, while the yields on others were reduced in line with the moderating inflation trend. In June 1990, legislation and amendments to the Bank Nationalization Act were approved that enabled the Government to unify supervision of all financial institutions under the State Bank of Pakistan (SBP). However, owing to institutional difficulties and insufficient preparation, most of the other programmed financial sector reform measures could not be implemented as scheduled. Further initiatives were also taken to foster industrial deregulation. The 1989/90 Industrial Policy Statement substantially increased the sanctioning limit for both foreign and domestic investments, and substantially reduced the number of industries for which domestic investment required sanctioning.

III. Economic Developments During 1990/91

7. In addition to two changes of government, economic and financial developments during 1990/91 were adversely affected by the Middle East crisis which exerted pressure on the external financing position and on price performance. In particular, it was necessary to make large adjustments in domestic energy-related prices in several phases over November-April 1990/91. The direct costs of the crisis to the external current account--largely owing to sharply higher petroleum prices during August 1990-March 1991--are estimated at US$560 million, equivalent to 1.2 percent of GNP. Since the difficulties and uncertainties associated with the Middle East crisis disturbed the pace of structural reform during the first half of 1990/91, it was not possible to reach agreement on a third annual SAF arrangement during the year.

Overall macroeconomic performance

8. Overall macroeconomic performance was robust in most areas during 1990/91, considering the difficult external circumstances. Real GDP at market prices grew by about 6.5 percent, owing to very strong export growth, better performance of the industrial sector, and gains in agricultural output. Strong inflationary pressures were largely contained. However, there were slippages in other areas. On the fiscal front, developments were dominated by substantial shortfalls in both tax and nontax revenues, owing mainly to the crisis in the Middle East and a number of other temporary factors. A shortfall of approximately 7 percent reduced tax revenues from 13.7 percent of GDP in 1989/90 to 12.9 percent of GDP in 1990/91. The shortfall in nontax revenue reflected the lower profit transfers from several state enterprises as well as receipts from interest income and various fees.

9. The difficulties and uncertainties created by the Middle East crisis also nullified the impact of several important fiscal measures that were introduced with the 1990/91 budget. In the income tax area the most important measures were: an increase in the super tax rate on companies' profits; a reduction in the lower limit on companies' profits subject to the 10 percent tax surcharge; a lowering of the exemption limits regarding dividend income and bank profits; and improvements in assessment and auditing systems. In the area of excise duties an excise license fee was imposed, the coverage of federal excises was expanded, and existing excises on certain items were indexed. The coverage of sales tax was increased to 32 percent of large-scale industrial production. Moreover, a number of modifications were made to the structure of customs duty rates, including a reduction in the maximum tariff rate to 100 percent in July 1990 and later to 95 percent in January 1991, as well as increases in the import surcharge and license fee.

10. Efforts to contain spending and to improve its structure were not fully successful for current expenditure, while the share of development spending increased slightly from 6.3 percent to 6.5 percent of GDP. Mainly as a result of the weak revenue performance, and several other temporary factors, the overall fiscal deficit was over 8 percent of GDP. If the effect of the abnormal factors is excluded, the slippage is significantly smaller, some 2 percent of GDP above the program target for the year. 1/

11. With the difficulties that were experienced in marketing government debt to nonbanks, the Government's desire to restrain increases in market interest rates, and the sharp deterioration in the fiscal position during the latter half of 1990/91, money and credit growth accelerated sharply. Over the year as a whole, the net domestic assets of the banking system rose by 15.6 percent, and broadly defined money increased by 17.9 percent. While a portion of this increase was necessary to accommodate increases in domestic petroleum prices, these rates of money and credit expansion were far above the levels that the Government had programmed at the beginning of the year on the basis of the targeted rates of inflation and output growth for 1990/91. Consequently, liquidity expansion exacerbated the price pressures occasioned by the Middle East crisis. The growth in net domestic assets of the banking system was largely due to substantial government borrowing from the State Bank of Pakistan which became necessary in order to offset the impact of lower levels of net domestic nonbank borrowing resulting from the transitional problems associated with the introduction of

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1/ In 1990/91 the Telegraph and Telephone (T and T) Department was incorporated as a government-owned autonomous body--Pakistan Telecommunications Corporation (PTC). For the purposes of assessing the overall fiscal deficit PTC is treated in the same manner as the other four autonomous bodies.

auctions for government securities. 1/ However, recently a strengthened monetary stabilization program, enhanced flexibility of the rates of return on auctioned instruments, and improved revenue performance has permitted the authorities to restrain domestic credit to levels consistent with monetary stability.

12. As regards external sector developments, the beneficial impact of strong export performance on the current account position was offset by a substantial rise in private sector imports, as well as the direct costs associated with the crisis in the Middle East including an estimated US$530 million on account of higher import costs for crude oil and petroleum products. Largely because of these developments, the terms of trade deteriorated by 13 percent during 1990/91. There was also a small shortfall of workers' remittances compared to their projected level. The additional burden was only partly offset by receipts of US$125 million in foreign grants. While the estimated external current account deficit of US$2.1 billion exceeded the program target of US$1.4 billion, the outcome excluding the net effects of the Middle East crisis was only US$120 million above the target. The very strong export performance was attributable to improved external competitiveness during the year, as well as various export promotion policies pursued by the Government. The sharp rise in private sector imports resulted from the increased inputs and capital equipment needed to support rapidly expanding exports and from aggregate demand pressures emanating from the accommodative stance of fiscal and monetary policies in 1990/91. On the other hand, adjustments in the exchange rate of the rupee and higher domestic energy prices helped to contain private sector import growth.

Energy pricing policies

13. From August 1990 until early 1991 world market prices of crude petroleum were very high, and the availability of petroleum products was seriously constrained. Accordingly, shortly after taking office the present Government responded in November 1990 by implementing several measures aimed at mitigating the effects of the Middle East crisis on the domestic economy and bringing the fiscal situation back on track. In November 1990 the administered domestic prices of petroleum products were increased by 42 percent on a weighted average basis, and spending agencies were instructed to conserve energy. In addition, once international petroleum prices had stabilized the prices of domestic petroleum products were lowered accordingly in March 1991, while other energy-related prices were adjusted upward in April 1991 to obtain an appropriate pricing structure. Electricity tariffs were also raised by 12 percent in April 1991; this allowed the Water and Power Development Authority to meet the target set in the World

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1/ As a result of the closure of a major savings scheme instrument (the Khaas Deposit Certificates), as well as delays in introducing auctions of the new Federal Investment Bonds, substantial bank borrowing was required in order to roll over the maturing government debt.

Bank's Energy Sector Loan (ESL-II) that at least 40 percent of the utilities' power investments be financed through internal cash generation. To cover increased fuel costs and reduce the operating deficit of Pakistan Railways, railway tariffs were also increased by 12 percent for passengers and 15 percent for freight in April 1991.

Structural fiscal reforms

14. Starting in November 1990 the Government initiated several measures to strengthen the structure of the tax system significantly over the medium term. To meet Pakistan's undertakings under the three-year SAF arrangement, the delayed new General Sales Tax (GST) was put into effect in November 1990. With a view to ensuring acceptance of the GST, its scope remained somewhat more limited than originally intended, owing to the large number of exempted and zero-rated items and the initial enforcement procedures. In recent months, however, the institutional mechanisms for collecting this tax and auditing taxpayers have been more firmly established, and computerization has begun. The Government also established a National Taxation Commission which has made comprehensive proposals on the reform and extension of direct and indirect taxes.

15. During 1990/91, the Government constituted a National Finance Commission to make recommendations to the President on the distribution of financial resources between the federal and provincial governments, with the objective of ensuring an appropriate correspondence between the expenditure needs and revenues of the four provinces. The approved NFC award substantially increased the size of the total budgetary resources that accrue to the provinces. Correspondingly, the provincial governments will henceforth finance their own recurrent expenditures and debt servicing, while they can use recurrent surpluses for enlarging the size of provincial development programs. The award also establishes the principle that provincial fiscal deficits would not be automatically financed by the federal government. These changes have given a strong incentive to the provinces to mobilize additional resources by exploiting their revenue base more intensively.

Other structural reforms

16. Early in 1991 the Government initiated a forceful broad-based supply-side program aimed at creating a more liberal economy, expanding the role of the private sector, and gradually enhancing Pakistan's self-reliance by reducing its dependence on foreign borrowing. New measures implemented since January 1991 include virtually complete deregulation of domestic investment; privatization of two of the nationalized commercial banks (NCBs); commitment to a vigorous program of privatization in the industrial sector; and liberalization of the exchange and payments system and the foreign direct investment regime. In several areas, these important structural initiatives went significantly beyond those contemplated in the three-year SAF arrangement. In addition, despite pressing external

difficulties the Government persevered with trade liberalization measures programmed under the SAF, met debt servicing obligations on time, and pursued a prudent exchange rate policy.

17. In the area of industrial policy several important measures were taken to encourage greater private sector participation. Investment sanctioning was eliminated at both the federal and provincial levels, except for a few specified industries. 1/ As a major element of its broad policy to expand private sector activities and rationalize the role of the public sector, the Government has identified a large number of public sector enterprises (including banks) for privatization at an early date. In all, some 115 public sector enterprises have been identified for privatization. To enhance industrial incentives the Government has recently extended generous tax concessions to the private sector, mainly for new investment in rural or disadvantaged areas.

18. In the financial sector the Government accelerated the pace of reform during the second half of 1990/91. To move forward with the program for auctioning government securities it appointed primary market dealers and initiated auctions of government securities in February 1991. Long-term Federal Investment Bonds are now being purchased by a wide range of participants, and a secondary market for these instruments is developing. Since the introduction of auctions, yields on treasury bills have risen from 6 percent to 9.7 percent during a period when the inflation rate has declined from 13.3 percent to 9.9 percent. As regards other financial sector reforms, access to concessional credit schemes has been strictly limited and the cost to borrowers has been raised. These actions, together with the abatement in inflation, are expected to lead to positive real rates of return on these schemes. In order to assess the financial strength of the NCBs, the Government undertook an audit of their 1989 portfolio and an analysis of their nonperforming loans. Based on these, the capital increases needed to meet prudential capital ratios have been determined. As part of the Government's major initiative to enhance private sector participation in the economy, these financial sector reforms now include a fast-paced program to privatize NCBs and foster the establishment of other private sector financial institutions. To this end, the Government transferred the management and 26 percent of the capital of Muslim Commercial Bank and Allied Bank to the private sector, and amended the law to allow establishment of full-fledged private commercial banks. Ten new banking licenses have recently been issued. In support of its financial sector reforms the Government has also initiated appropriate organizational changes in the Ministry of Finance and the State Bank of Pakistan. In particular, three new departments have been created in the SBP: a securities department; a department to supervise nonbank financial

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1/ They include: arms and ammunition, security printing and mint, explosives, radioactive substances, alcohol and beverages based on imported concentrates, automobiles and farm machinery, and petroleum blending plants.

institutions; and a bureau to manage credit information. The authorities are also receiving technical assistance in the area of securities management and banking supervision from the Fund and the World Bank.

19. Expanding the role of the private sector also necessitates liberalization of international transactions and the foreign direct investment regime. As regards the exchange system, measures were taken in early 1991 to enhance the availability of foreign exchange for certain invisible transactions; to introduce Dollar Bearer Certificates (DBCs); 1/ and to liberalize the rules under which residents of Pakistan may hold foreign currency accounts (FCAs). With regard to the foreign direct investment regime, specific measures were introduced to allow the private sector full discretion in choosing both the sector and level of participation in new and existing enterprises and to facilitate profit and dividend transfers and other foreign exchange transactions relating to equity participation by foreign residents in domestic firms.

20. The Government also continued with its medium-term program of tariff reforms. In January 1991, the maximum ad valorem customs duty rate was reduced to 95 percent, 2/ slightly below the level envisaged for 1990/91 under the SAF program. Furthermore, the Government continued to meet its commitments to remove nontariff barriers as scheduled, although no annual SAF arrangement was in place in 1990/91. In addition, it further rationalized the structure of customs duties and abolished the import licensing requirement except for imports on the negative or restricted lists.

IV. Objectives and Policy Strategy for 1991/92-1993/94

21. Despite slippages from the originally programmed path, Pakistan has endeavored to persevere with its macroeconomic adjustment program since 1988 and has made significant progress in a number of areas of structural reform. However, the pace of structural fiscal reform--which is a major objective of Pakistan's structural reform program--has been slower than expected. While revenues from income and sales taxes have increased modestly in relation to GDP, and the reliance on customs duties has declined as a proportion of fiscal revenues, these extensions of direct and indirect taxation have not been as extensive as envisioned in the original Policy Framework Paper (PFP) for 1988/89-1990/91. Furthermore, provincial revenues have remained

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1/ DBCs of one-year maturity were introduced on February 1, 1991. This instrument can be purchased by residents and nonresidents using foreign exchange. The rate of return on DBCs is currently 0.25 percent over LIBOR on date of purchase. DBCs and the return on them are denominated in dollars and can be encashed in foreign exchange.

2/ Except for automobiles of over 1,000 cc, tobacco products, and a limited number of other imports.

virtually constant in relation to GDP. In 1990/91, partly owing to the pricing difficulties associated with the Middle East crisis, the net revenue from the petroleum and natural gas surcharges declined as a percent of GDP compared to the average level in preceding years. The net result of these developments was that the average ratio of total tax revenue to GDP for the three-year period 1988/89-1990/91 was 13.6 percent. In view of the special circumstances of last year, total tax revenue was only 12.9 percent of GDP. Moreover, the fiscal tax system continues to depend heavily on taxes on international trade, with customs receipts accounting for over 40 percent of total federal tax receipts.

22. The Government remains convinced that reducing further the overall fiscal deficit through enhanced domestic resource mobilization and firm control over expenditures is crucial to achieving macroeconomic adjustment while providing a solid foundation for various structural reforms over the next three years. Accordingly, the Government has implemented policies to ensure that the overall fiscal deficit is reduced in 1991/92 to a level consistent with the program target. In particular, as detailed below, the Government has taken several measures in 1991/92 that are intended to widen the tax base, enhance the elasticity of the tax system, and strengthen tax administration as well as constrain current expenditure. In 1991/92 the authorities also requested a Fund technical assistance mission which has recently recommended measures to strengthen tax policy and administration.

23. The Government is aware that despite the good performance of exports in 1989/90 and 1990/91 the external payments situation remains weak. External debt service payments, at 27.6 percent of total current account receipts, remained high in 1990/91, although they were slightly lower than had been projected in the revised PFP of December 1989. Furthermore, Pakistan's short-term external monetary liabilities rose in 1990/91 by about US$500 million. In light of these developments, the Government considers that the balance of payments objective of the macroeconomic framework for 1989/90-1991/92 that was reviewed by the Fund's Executive Board and the Bank's Committee of the Whole in December 1989 will now need to be revised again. In particular, given the large adverse terms of trade movement last year and the consequent need to rebuild gross reserves, as well as the current account impact of large investment outlays in the power sector this year, the date for achieving balance of payments viability will have to be extended to 1992/93. The Government believes that the fiscal and monetary adjustment path set out under the macroeconomic framework for 1991/92 and beyond is adequate to attain these revised external objectives while ensuring that the economy takes full advantage of the supply-side measures that have recently been introduced.

24. As regards its structural reform program, the Government of Pakistan will broaden and deepen its efforts not only in the policy areas identified in the revised program of December 1989, but also in areas where major new initiatives were undertaken in 1990/91. In important areas where slippages have occurred in the past, such as fiscal revenue and the financial sector, the Government intends not only to make up for past weaknesses but also to

address the additional problems arising from the Middle East crisis. The Government also intends to augment the pace of its structural reform program in all areas envisaged by the SAF/PFP, including public finances, financial sector reform, and trade and exchange liberalization. Its steps in the areas of economic deregulation and increasing the participation of the private sector will continue to go beyond the original objectives of the SAF program. The program for 1991/92-1993/94 also establishes the foundation for a medium-term strategy aimed at enhancing the quality of the public sector investment program, with a special emphasis on education, health, infrastructure, environment, and poverty alleviation.

Overall macroeconomic targets and objectives

25. The updated macroeconomic framework has a somewhat higher average real GDP growth target of at least 6.3 percent per annum over the period 1991/92-1993/94, based on a strengthening of investment and the continued strong export performance. The ambitious growth objective will require an increase in investment levels from slightly above 18 percent of GDP in 1990/91 to 20 percent of GDP in 1993/94. In response to firm monetary restraint, inflation (as measured by the GDP deflator) is projected to decline to 6 percent in 1992/93. Recently, inflation has moderated from the high rate resulting mainly from the Middle East crisis in 1990/91. Nevertheless, given the price pressures that have been built into the economy it has been necessary to revise the inflation target for 1991/92 upward to 8 percent.

26. Following the rise to 4.6 percent of GNP in 1990/91, primarily owing to substantially higher oil import payments, the external current account deficit is targeted to decline to a level of 2.5 percent of GNP in 1993/94, and thereafter to be maintained at about this level. Consistent with this objective, the overall fiscal deficit is targeted to decline to 4.8 percent of GDP in 1991/92 and to be maintained at that level in the subsequent two years. The reduction in the fiscal deficit, together with increases in private savings, is projected to help raise total gross domestic savings from 14 percent of GDP in 1991/92 to 16 percent of GDP by 1993/94.

27. The program is expected to improve the gross official reserves position to about four weeks of imports by end-1991/92, and further to over six weeks of imports by end-1993/94. Under the program the total external debt service ratio is expected to decline from 25.4 percent of current receipts in 1991/92 to 22.7 percent by 1993/94. The total external debt to GNP ratio is projected to decline from 48 percent of GNP in 1991/92 to 45 percent of GNP in 1993/94.

28. The achievement of these objectives is predicated on implementation of structural reforms, supported by firm credit restraint and prudent exchange rate management.

Structural reform policies in public finances

29. A fundamental objective of the SAF is to extend the base of both direct and indirect taxation to make it more elastic and more equitable while increasing revenue as a percentage of GDP to 20.6 percent in 1991/92 and further in 1992/93-1993/94. Achievement of this goal will entail major reform of tax policy, as well as substantial improvements in tax administration. In particular, the Government is committed to take structural revenue reform measures sufficient to increase income and wealth tax receipts to 2.4 percent of GDP in 1991/92 and further to 2.9 percent in 1993/94. Similarly, the Government will also take measures to increase the sum of the GST and federal excise revenues to 4.9 percent of GDP in 1991/92 and to 5.9 percent of GDP by 1993/94.

30. In order to meet its revenue objectives for 1991/92 the Government has put in place several measures with significant structural content, particularly in the areas of income taxation, the GST, and excise taxation. Among others, this revenue package includes the introduction of a turnover-based minimum tax on income and profits, a full withholding tax on individual interest and dividend earnings, the elimination of a number of income tax exemptions, a presumptive tax on small businesses, an overhaul of excise taxes so that revenues will better reflect firms' actual production capacity, and both horizontal and vertical extensions of the base of the GST. As regards direct taxation, these measures are primarily directed at widening the tax base by gradually bringing the exempt and informal sectors into the tax net and broadening the base of the income tax on interest and dividends. Similarly, in the area of indirect taxes the main efforts undertaken in 1991/92 are also directed at widening the tax base. Specifically, the base of the sales tax has been extended vertically to the wholesale stage for certain important consumer durables, and horizontally by eliminating some exemptions and identifying new taxpayers.

31. In the medium term, the primary goal of direct tax reform is to bolster the share of revenue from the direct tax system while enhancing its horizontal and vertical equity. The Government has also begun work on the formulation of a comprehensive package of income tax reforms which it expects to implement with the 1992/93 budget. The package will eliminate a large number of the existing exemptions from income tax and from audit. In addition, the Government intends to retain its executive power to eliminate exemptions and concessions under the existing income tax law. The Government remains committed to extending the scope of taxation to the agricultural sector at the earliest feasible date.

32. In the area of indirect taxation the Government intends to make additional improvements to the current GST system to enhance its effectiveness and expand its coverage as well as strengthen excise taxation and increase its elasticity. The present GST system is mainly levied at the manufacturer-importer level at the uniform rate of 12.5 percent; besides food items and medicines, numerous other items are exempted or zero rated. The Government is committed to continue expanding the GST; by 1993/94 the

GST will cover most large-scale domestic production and imports except for food, medicines, fertilizers and pesticides, and only exports will be zero rated. The Government will also continue to index existing federal excise duties, and will extend federal excises to new lines of services. By 1992/93, excise duties will be levied on most organized services at the same uniform ad valorem rate of 12.5 percent as for the GST. Moreover, in order to maintain total development surcharge revenue at an appropriate level while enhancing economic efficiency and energy conservation, the need for further increases in domestic petroleum and natural gas prices will be continuously reassessed in line with the energy sector reform program supported by the World Bank ESL-II. To this end, the Government will ensure that increases in the rupee equivalent of the international prices of crude oil and petroleum products relative to the July 1991 level will be passed through fully and promptly to domestic consumers.

33. In line with the Government's medium-term objectives, further steps will also be taken to rationalize the external tariff system with a view to facilitating export expansion and enhancing efficiency as described below (paragraph 41). Finally, to maintain nontax revenue at adequate levels, the Government will also continue to adjust utility tariffs, service charges, and fees in a timely manner.

34. As regards expenditures, the Government's most important objectives are to contain overall expenditures to levels consistent with macroeconomic stability while improving their structure through continued emphasis on restraining economically unproductive spending and redirecting resources to priority sectors. Total expenditures are expected to remain at around 25-26 percent of GDP during 1991/92-1993/94. The most effective instrument to achieve the long-term objective of reducing public expenditure will be a fundamental contraction of the Government's role in the economy, through the process of privatization and deregulation. In addition, the Government will continue to restrain allocations to ministries, divisions, and departments at the federal level and to severely restrict allocations for nonproductive expenditure categories. In particular, it will ensure that, to the extent feasible, budgetary defense spending does not rise as a percent of GDP relative to its current level (6.4 percent of GDP), and that subsidy payments are reduced to a minimum or eliminated entirely though further adjustments in the domestic sale prices of imported fertilizers, wheat issue price, and public transportation tariff.

35. To enhance expenditure monitoring, reporting, and control, the Government has already started to implement several of the specific measures that have been recommended by recent IMF technical assistance missions such as the use of a monthly cash flow forecasting system and of enhanced expenditure control and monitoring. The Government intends to complete the implementation of these recommendations by December 31, 1991. Provincial current expenditure will also need to be closely monitored through better coordination between the federal and provincial governments, and a system for monitoring federal and provincial development expenditures on a quarterly basis will be put in place by March 31, 1992. In addition, the

Government has constituted a committee to improve the monitoring of financial flows between the federal authorities and the public enterprises that are included in the budget. Finally, the Government will also foster improved accounting and auditing of public accounts by the Pakistan Audit Department, with support from the World Bank.

36. Despite the increases in outlays in the social sectors, the above policies are expected to help contain the level of current expenditure in 1991/92-1993/94 so that more resources will be available for development spending and the share of the social sectors in current expenditures will increase. Total budgetary development spending is targeted to rise from 6.8 percent of GDP in 1991/92 and to over 7.0 percent in 1993/94 (see paragraph 45 below).

Monetary stability and financial sector reform

37. A primary concern of the authorities is to implement monetary policies directed at reducing inflation and restraining domestic demand. Through vigorous implementation of a monetary stabilization program, the authorities have recently brought the money and credit aggregates back on track. Continuation of restrained credit growth during 1991/92 will allow the inflation rate to decline from 10.7 percent in 1990/91 to 8 percent in 1991/92. The Government is committed to continuing its restrained credit policy during 1992/93 and 1993/94 in order to enhance the prospects for achieving its inflation and balance of payments objectives.

38. A second primary objective in this area is to improve the efficiency of the financial sector by moving to a market-based system of credit allocation, rates of return, and monetary management. To this end, the Government intends to act forcefully in the following areas: (1) a continued move toward the use of more market-oriented instruments of monetary policy, including in particular the effective management of an auction system for treasury bills, and transition to a market-based system for issuing all other government debt; (2) strengthening of the supervisory and regulatory role of the State Bank of Pakistan over both bank and nonbank financial institutions; (3) privatizing the NCBs and allowing the entry of new private banks; and (4) improving domestic public debt management. Decisive and appropriately sequenced actions in each of these areas are expected to help to correct the distorted structure of rates of return on financial instruments and reduce the cost of servicing the public debt while strengthening the domestic banking system. In addition the Government will, if necessary, increase the interest rates on all concessional programs to at least the target inflation rate by December 15, 1991 and limit the growth of direct credit in general.

39. To enhance the effectiveness of the auction system, the Government will take further steps to ensure that treasury bills are, at the margin, competitive with other instruments and that auctioned bills are available to a wide range of purchasers. Thus, the Government does not intend to pursue a policy of capping yields at treasury bill auctions. The Government's

recourse to domestic bank borrowing will be limited to overdrafts under the Government's ways and means in between two auctions of treasury bills, as appropriate. The State Bank of Pakistan's portfolio of the ad hoc and tap treasury bills will be gradually converted into standard transferable bills at market rates. Auction sales targets will be guided by the monitoring and forecasting framework that is being put in place. Since February 1991, Federal Investment Bonds (FIBs) are also being auctioned on a monthly basis. These bonds, which carry a maturity of more than one year and up to ten years, are expected to replace all forms of existing government securities with maturities of more than a year by July 1, 1992. The cost of government borrowing from the banking system is being adjusted to market levels, and yields on other government debt instruments are being linked to the rates obtained at auctions. In the future, the Government will ensure that the yields on all public debt instruments continue to be related to those obtained at most recent auctions.

40. Another key element of the authorities' financial sector reform program is to enhance private sector banking activities by encouraging the development of new banks and the privatization of the four NCBs. To this end, the Government will ensure that an appropriate regulatory framework governing financial institutions will be in place by December 1991. Substantial progress has been made toward the privatization of the four NCBs. Two 1/ of them have already been privatized and bidding for the third is under preparation. The Government intends to also privatize the fourth NCB as soon as feasible. Finally, the Government will consider requesting technical assistance from the Fund's Central Banking Department to assist in these reform efforts.

External tariff reform and trade liberalization

41. To facilitate export expansion, reduce price distortions, and enhance efficiency, the Government has been implementing a medium-term trade reform program including both reform of the tariff structure and trade liberalization. With a view to reducing tariff dispersion and lowering and harmonizing effective rates of protection, the Government intends to rationalize the tariff structure. The Government's medium-term objectives are to eliminate most exemptions and concessions from customs duties (except those related to exports, food, medicines, fertilizers, and pesticides), lower the maximum ad valorem rate to 50 percent, introduce a minimum across the board tariff rate of 6 percent, and eliminate all import surcharges by 1994/95. As intermediate steps, the authorities will index all remaining specific customs duty rates by July 1992 except for those commodities with administered prices at their ad valorem equivalent, further reduce the maximum ad valorem tariff to 75 percent by July 1993, and merge the existing license fee of 6 percent into the tariff structure without increasing the maximum ad valorem tariff. No new significant exemptions or concessions will be granted on import duties and fees in 1991/92 and, with the exception

1/ The Muslim Commercial Bank and the Allied Commercial Bank.

of those exemptions granted as part of the economic reforms of the Government which have legal protection for specified periods, they will gradually be eliminated in 1992/93 and 1993/94. Finally, the advisory role of the National Tariff Commission on trade policy is being enhanced and efforts to improve customs valuation procedures will be strengthened, as announced in the 1991/92 budget.

42. The Government's medium-term objective in the area of trade liberalization is to replace most of the nontariff barriers by tariffs by June 1994. To this end, the Government, by removing further items from the negative list in 1991/92, will limit it almost entirely to those items that are banned on account of religion, security, health, international agreements and, in the case of textiles, reciprocity. The Government is also committed not to add any items to the restricted list and to reduce it further in 1992/93. Finally, the Government intends to increase further in real terms the value ceilings on imports of machinery and millwork against cash licenses and on those by actual users by July 1, 1992 and to eliminate such limits by July 1, 1994. There are no limits if purchase is made from foreign currency accounts.

43. The Government will pursue its flexible exchange rate management in support of prudent demand management policies, with a view to ensuring international competitiveness. With regard to export incentives, the Government will expand rebates to exporters to include capital goods and import surcharges and to expand the coverage of the bonded warehouse regime in 1991/92-1992/93. In July 1991 the Government also increased the export tax on cotton yarn in order to encourage production and exports of higher value-added cotton-based products.

Poverty alleviation and development strategy

44. The objectives of the Government's medium-term development strategy are to alleviate poverty, increase the low per capita income (US$370), and enhance employment opportunities over the medium term. To achieve these objectives, there is an urgent need to reduce the population growth rate which is over 3 percent per annum, reduce infant mortality, improve basic health and education services, and expand the provision of safe drinking water. The limited progress in these areas has become a major impediment to Pakistan's longer term development. The rapid economic growth throughout the 1980s notwithstanding, current and development expenditures have been insufficient in key sectors such as energy, irrigation and drainage, transportation, and the social sectors. Moreover, there has been a substantial deterioration in existing infrastructure.

Public sector investment program

45. Recognizing these inadequacies in basic economic and social infrastructure, the Seventh Plan (1988/89-1992/93) stresses the objectives of poverty alleviation and improvement in infrastructure. The Plan entails a redirection of public investment toward the priority areas of education,

health, population, drinking water supply, sanitation, and energy. Private sector participation is to be encouraged in both commercial and infrastructure investments (power generation, highways, port facilities, and airports), petroleum exploration and development, as well as in education and health, while public investment would focus on infrastructure projects and basic social services. Consistent with this strategy, public sector development outlays are planned to expand annually by some 8 percent in real terms, implying a target for government development spending equivalent to 7.0-7.5 percent of GDP on average over the plan period.

46. Owing in large part to insufficient domestic resource mobilization and implementation bottlenecks, development expenditure fell from 6.9 percent of GDP in 1987/88 to 6.5 percent of GDP in 1990/91. Although some progress has been made in telecommunications and the power sectors, expenditures in irrigation, transport, and health and education, particularly at the provincial level, have been substantially lower than planned. Private sector participation in infrastructure has also come on stream very slowly, thus further slowing efforts to address the country's large development agenda.

47. The Government remains committed to increasing development spending as a share of GDP. As an initial step, development spending under the 1991/92 budget (including both federal and provincial expenditures) is programmed to increase to 6.8 percent of GDP, thereby exceeding budgetary defense expenditures for the first time in many years, and to over 7 percent of GDP by 1993/94. At the federal level, large increases for physical infrastructure are envisaged, especially in energy, telecommunications, and transport. At the provincial level, development spending for the social sectors is programmed to expand. As in the past, the Government will review the public sector investment program annually with the World Bank. Several policy actions which the Government has taken during the past year enhance the country's development effort. The agreement on water allocation between the provinces opens the way for improving management of Pakistan's water resources, as well as for increased investment in the water sector. The NFC award provides increased revenues to the provinces for both development and recurrent spending, while also offering incentives to spur additional provincial resource mobilization which can be used for development purposes, especially in the social sectors. The accelerated effort at privatization would free resources for development purposes.

Health and population policy

48. In the health policy statement, which is being finalized, the Government intends to continue giving priority to the health needs of the poor through enhancing the availability and quality of primary care services. The recent NFC award would help the provinces to allocate more resources to basic social services. Within this framework, the Government intends to maintain the target of increasing current expenditures for health and population in real terms by at least 3 percent annually. The two-year plan for the health sector which is being prepared would emphasize primary health care for

mothers and children, decentralization and strengthening of management, and female staff recruitment and development. Reflecting its concerns about the high rate of population growth, the Government plans to strengthen existing programs and extend their coverage by providing family planning services through the wider network of health facilities, and to increase the funding of both ministries and provincial departments. A population information campaign, which is being supported at the highest political levels, is also planned. In support of these policies, the Government is considering a more rapid increase (5 percent in real terms) in the recurrent budget allocation for primary health care and family planning programs.

Education

49. The thrust of government policy in education has been to expand coverage of primary and secondary education, increase enrollment, particularly for girls, and improve the quality of education. However, implementation has been hampered by resource constraints and difficulties in the coordination with provincial governments, which are responsible for primary and secondary education. The Government has initiated steps, with external assistance, to improve the database by establishing a National Education Management Information System which will facilitate joint planning with the provinces in the education sector. Experience with targeted programs to increase enrollment of girls in rural areas has been positive, and will be expanded. Other priorities include steps to facilitate the recruitment of female teachers and expand the supply of educational materials. These actions aim at increasing public investment and recurrent expenditure every year by at least 6 percent and 8 percent in real terms, respectively. To supplement these efforts, the Government will facilitate the establishment of private schools by removing barriers to entry and financing.

Social action program

50. In order to strengthen government efforts to tackle social sector issues, the Government is formulating a Social Action Program (SAP) during 1991/92 as part of its social sector reform agenda for the Eighth Plan period. It is also intended to discuss the SAP at the 1992 meeting of the Pakistan Consortium. In addition to addressing specific subsectoral issues, including family planning, primary education, and health, particularly in rural areas, the SAP is intended to focus on: (i) increasing the share of spending on the social sectors through both improved utilization of existing resources, higher budget allocations, and steps to increase private sector involvement; (ii) improved targeting within sectors through broader participation and more balanced allocation of resources; and (iii) clarifying the roles in the provision of social services of the federal and provincial governments as well as the private sector, local communities, and nongovernmental organizations (NGOs). The purpose of the SAP is to provide a detailed blueprint of programs and policy actions--together with concrete implementation steps--aimed at more rapidly expanding basic services and improving Pakistan's social indicators. The institutional framework for this purpose was put in place in August 1991.

Basic infrastructure

51. Basic physical infrastructure in both urban and rural areas is insufficient to support sustained economic development and has been a constraint on productivity improvement. The Government intends to reverse this through a combination of investments in rural electrification, water and sanitation; actions to improve institutional capacity; regularization of land ownership; and removal of constraints on the operation of land markets. Given federal resource constraints, an increasing proportion of these investments is expected to be financed from the private sector and through enhanced local resource mobilization. In this context, pricing policies for water and sewerage will be revised, and the local bodies will be encouraged to adjust tariffs annually so as to progressively achieve full-cost recovery.

52. The transport system also needs major improvements. Roads and railways have deteriorated for lack of maintenance and rehabilitation, and the system is strained at periods of peak demands. In particular, the railway has been slow to adjust to competition from the largely deregulated private road transport sector, which has replaced the railway as the dominant transport mode. As a result, railway losses had become a growing burden on the federal budget. In 1989/90 the Government began to implement a program that aims at improving the capacity and quality of the transport system through increased operational efficiency of railway and road transport and deregulation of the sector. The program is being supported by a Transport Sector Project Loan from the World Bank. In the railway subsector, a restructuring program emphasizes cost cutting, private sector participation, the development of services with commercial potential, and the closure of uneconomic lines unless they are maintained for social reasons and financed through an explicit budgetary subsidy. Concerning road transportation, enhanced maintenance will be given priority over new investments.

53. During 1991/92, the following specific measures are being implemented: (1) to further reduce railway subsidies, tariffs have already been increased and rationalization of operations is in progress, including the implementation of a staff reduction plan; (2) funding for railway maintenance and rehabilitation has been increased in the 1991/92 budget; (3) private sector participation in handling, storage, and transport of bulk commodities will be enhanced; and (4) the Government intends to prepare an action program to develop the trucking industry.

Energy

54. With a large potential in hydropower and substantial reserves of coal and natural gas, Pakistan has good prospects for a sustained increase in domestic energy output, provided appropriate policies are followed. To narrow the current gap between domestic energy production and demand, the Government will continue to implement the medium-term sectoral adjustment program adopted in 1989/90. The private sector is expected to play a

crucial role in supplementing public investments in the energy sector. The Government has given impetus to the Hub River thermal power plant, which is expected to be followed by several other private investments in the sector. Progress in this area, however, has been slower than anticipated; consequently, implementation of thermal power generation projects in the public sector will be fostered pending implementation of major private sector projects. To ensure fulfillment of the long-term power generation needs, domestic resources--especially hydropower--will be developed. Following the agreement reached in March 1991 on water rights of the Indus River, consideration is again being given to developing a number of hydroelectric generation stations which would allow to return a least-cost development program for the power sector. The feasibility study of a hydroelectric project at Basha will be undertaken as soon as funding can be arranged. To reverse the deterioration of the subtransmission and distribution systems that contributed to large line losses and load shedding, rehabilitation of the systems is now being given high priority.

55. The Government will continue to rationalize energy prices on the basis of two principles: all imported energy sources will be at least priced at equivalent border prices plus the cost of inland handling, while all domestic energy sources will be at least priced at economic cost. Consistent with this policy, the Government will continue to pass through fully to domestic consumers any increases in the international price of crude oil and petroleum products (paragraph 32). With regard to gas, the Government will continue to adjust gas prices in line with the commitments under the World Bank's Energy Sector Loan-II; prices for household consumers, which were 58 percent of the border price of fuel oil equivalent in April 1991, will continue to be adjusted with a view to reaching full parity with the border price by 1992/93; and the producer price formula for gas will continue to be implemented. Electricity tariffs will be revised annually, as necessary, to meet WAPDA's 40 percent self-financing requirement and the tariff structure will be rationalized.

56. The Government intends to improve the quality of service, cost recovery, and management accountability by reorganizing the power subsector and restructuring WAPDA and the Karachi Electricity Supply Corporation (KESC). In line with the Cabinet decision of January 1991, the Government has reviewed the role of WAPDA and is introducing measures to increase its autonomy, privatize power operations, establish a regulatory framework for the power sector, and reduce the Government's share in the utility. Efforts are underway to increase private sector participation in the petroleum subsector. The Oil and Gas Development Corporation is taking initial steps to separate its exploration and production arm from the technical services arm, which should compete with other companies operating in Pakistan, including those in the private sector. In addition, by June 1993 the Government will study the options regarding the future role of the technical services arm, including its privatization. The Government also intends to promulgate a petroleum policy before the end of 1991 that allows foreign

investors to explore and develop oil and gas fields without necessarily entering into a joint venture with OGDC. Foreign investment is also being promoted in refining and in the coal subsector.

Agriculture

57. The principal objective of the Government's agricultural policy is to accelerate output growth, with particular emphasis on enhancing productivity and yields which--with the exception of cotton--have stagnated in recent years. Accelerating the pace of agricultural and rural development is also key to improving living standards, given widespread poverty in rural areas. To achieve these objectives, the Government remains committed to improving management of the water sector; maintaining appropriate sector pricing policies; strengthening support services; and providing adequate funding for investment and key services.

58. With respect to the water sector, the milestone agreement reached in March 1991 on the allocation of the Indus waters among the provinces establishes a solid basis for rationalizing the utilization of water and improving the management of the irrigation system. In the context of this agreement the Government recognizes the need for review of federal and provincial investment programs to ensure optimal utilization of agreed water allocations, and a detailed project preparation and investment review is being initiated during 1991/92. Equal importance will be given to ensuring adequate funding for operation and maintenance of irrigation and drainage, which has fallen far short of requirements in all provinces, with the exception of the North West Frontier Province (NWFP). The Government intends to press for increases in farmers' contributions to on-farm irrigation works through higher water charges and the creation of additional water users' associations. Sind and Punjab are committed to achieving full recovery of operations and maintenance charges, and a plan for increasing water charges and improving collection has recently been agreed. The Government will also intensify efforts to privatize tubewells in ground water areas.

59. Concerning pricing policy, the Government will continue to review and adjust procurement and support prices for key crops (wheat, rice, cotton, sugarcane) on an annual basis with a view to ensuring that they are in line with levels and trends in international prices. The Government has also taken steps to promote private sector participation in rice and cotton exports, and has completed a plan to improve the operations of the Rice and Cotton Export Corporations. It will also continue to implement a plan of action to encourage the domestic production of edible oils initiated in 1988/89. For input pricing, the Government has already removed price and distribution controls on urea and intends to remove the economic subsidy on phosphatic fertilizers in 1991/92 and that on potash fertilizers by October 1995. The Government is also taking steps to facilitate the distribution of imported fertilizers by the private sector, and restrictions on private sector imports have been removed. To improve its agriculture policy

framework, the Government is planning to commission a study on agricultural prices and a study on institutions in the sector, with particular emphasis on federal and provincial relations in this area.

60. In addition to problems in water management and the timely availability of water, productivity and yields have also been affected by poor coordination between the institutions responsible for irrigation and for agriculture and by inadequate links between research, extension, and the farmer's requirements. To address these issues, the Government's program also stresses the importance of strengthening research and extension to facilitate the transfer of technology, while also working to improve linkages and coordination between institutions in irrigation and agriculture.

Industrial policy

61. The manufacturing sector has become more diversified in recent years, and the Government has already taken a number of steps to support a continuation of this trend. Despite the progress already achieved, a number of issues must be addressed to encourage efficient industrial growth and facilitate innovation. To this end, the Government will continue to deregulate investment and prices. The Government intends to terminate the deletion program in parallel with the implementation of the tariff reform. 1/ It will also increase domestic and international competition through the trade policy and financial sector reforms described above as well as through a wide-ranging privatization program. In February 1991, the Government started a major program of privatizing 115 industrial units owned by the public sector. Moreover, a public enterprise rationalization/restructuring program has already been developed to enhance efficiency in the enterprises remaining in the public sector. Financial and management autonomy and accountability will be instituted, and corporate investment and financial planning will be improved in these enterprises.

62. The Government also aims at attracting increasing amounts of foreign direct investment. Full repatriation of capital, dividends, and profits related to foreign direct investment is already guaranteed, and all sanctioning limits have been abolished. The Government has deregulated procedures for investment approval, removed restrictions on payment of fees and royalties for technology transfers, and improved access to domestic financing for foreign joint ventures.

1/ The deletion program allows concessional duties for certain industries with a specific timetable for switching from imports to local production; it is enforced through import duty penalties for noncompliance.

Environment

63. Pakistan faces substantial conservation and environmental problems. Deforestation which leads to soil erosion and frequent floods has hampered management of water resources. In addition, the expansion of the irrigation system has increased salinity and waterlogging on farmland. Air, water, and marine pollution is widespread as a result of unregulated emissions, excessive use of pesticides, lack of adequate sewerage and drainage facilities in urban areas, and dumping of toxic effluents. Environmental problems have also been exacerbated by high population growth, uncontrolled urban expansion, and inadequate environmental standards for industry.

64. The Government has started to address these environmental problems. To tackle salinity and waterlogging, projects are underway to lower the water table by pumping water through tubewells, surface and subsurface drains, and by normalizing land for agricultural purposes (SCARP projects). A number of reforestation projects have also been initiated. With regard to air, water, and waste contamination, although an Environmental Protection Ordinance was promulgated in 1983, progress in adopting regulations and standards has been slow. The Government has now begun to establish an institutional framework for addressing environmental problems, although funding and staffing remain a constraint. A federal Environmental Protection Agency has been established, and environmental agencies have also been set up in each of the provinces. More recently, the Government has appointed a Minister for Environmental Affairs. The Government is also finalizing, with external assistance, a National Conservation Strategy. This strategy will serve as a blueprint for an environmental action program, including steps to further develop institutional capacity, develop and enforce environmental legislation, and strengthen public awareness of environmental issues.

The social impact

65. Although the adjustment program is carefully phased to minimize any negative impact and large unemployment and dislocation problems are to be avoided through strong growth, the Government is aware that, as a result of the major structural changes envisaged, some socioeconomic groups may be adversely affected in the short run. Accordingly, the Government has introduced policies designed to benefit poorer strata of society (for example, the Bait-ul-Mal program). 1/ While overall public expenditure will be constrained, the program provides for a shift of resources to enhance the provision of social services, especially in education and health, to all segments of society. Increased investment in basic health and education is expected to improve living conditions and contribute to alleviating poverty in the longer term. The program includes investment for urban infrastructure, as well as the protection of priority projects in

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1/ The Bait-ul-Mal is an extrabudgetary welfare fund which is financed by earmarked taxes on bank advances and a one-time levy on large businesses and industrial establishments.

transport; it also seeks other institutional improvements which will help provide a social safety net for the most vulnerable groups. Thus, while sales taxes on consumer goods may result in some upward pressure on prices, monetary policy and financial sector reform will ensure that inflation be contained. Increasing the elasticity of income tax and broadening its base will affect the middle- and upper-income groups rather than the poor, most of whom are below the tax net. The resulting increased tax will progressively improve income distribution. Finally, the outward-oriented development strategy underlying the program is expected to have long-term beneficial social effects, including employment creation and improved living standards. Faster export growth as a result of a more open economy is expected to encourage the development of small-scale enterprises and to increase employment opportunities. Trade liberalization measures under the program should benefit a wide range of consumers and have a similar impact. Finally, measures like deregulation in industry, appropriate pricing in agriculture, and institutional improvements and incentives in energy are expected to induce faster productivity growth, and ultimately to foster overall income growth.

V. External Financing Requirements, 1991/92-1993/94

66. During the period 1991/92-1993/94, effective implementation of the structural adjustment program is expected to strengthen the external payments position markedly by reducing the external current account deficit to a sustainable level and raising gross reserves. Firm demand restraint, continued flexible exchange rate policy, further import liberalization, and industrial policies are expected to foster continued increases in export values, averaging 14.6 percent per annum over the period. The U.S. dollar value of imports is projected to grow by only 7.6 percent per annum over the three-year period reflecting the projected sharp decline in oil prices in 1991/92 compared to 1990/91. As indicated in Section IV, over the adjustment period the external current account deficit (excluding official grants) is targeted to decline from 4.6 percent of GNP in 1990/91 to 2.5 percent in 1993/94. This would result in a cumulative financing requirement for current transactions of US$4.4 billion over 1991/92-1993/94. Including debt amortization payments, repurchases from the Fund, and the targeted improvement in gross official reserves, the total financing requirement for the three-year period is projected to amount to US$9.0 billion (Table 2).

67. Pakistan expects to continue to receive substantial amounts of foreign assistance on relatively concessional terms over the next several years from traditional multilateral and bilateral creditors, mainly in the form of project, food, and commodity aid. Disbursements of already committed or projected new commitments of official grants and project- and nonproject-related medium- and long-term loans from bilateral and multilateral creditors are expected to total about US$7.0 billion during 1991/92-1993/94. Disbursements from the World Bank are projected to total about US$2 billion over that period, of which US$750 million will consist of IDA credits and at

least US$325 million will come from adjustment loans. Disbursements from the Asian Development Bank are projected to amount to US$1.2 billion over the program period. Disbursements from commercial banks and from other institutions on nonconcessional terms, together with net short-term and private capital inflows, would contribute an additional US$1.6 billion.

68. In 1991/92 financing requirements of US$3.1 billion are expected to be met in part through balance of payments assistance, including: (i) grants (US$371 million), project loans (US$1,261 million), food/nonfood assistance (US$642 million), commercial loans (US$268 million) and disbursements of US$146 million from the Fund under the third annual SAF arrangement, and an amount provisionally estimated at US$163 million under the CCFF; (ii) World Bank disbursements of US$225 million; and (iii) disbursements of US$50 million in sector loans from the Asian Development Bank. The Government is confident that the remainder of US$138 million will be fully financed through additional commercial borrowings. By 1992/93, it is expected that the external current account deficit would decline to 2.7 percent of GNP, a level that could be financed without recourse to exceptional financing.

Table 1. Pakistan: Key Indicators, 1986/87-1993/94 1/

(In percent, unless otherwise indicated)

	Actuals				Prov. Actual	Program		
	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
GDP growth rate (1980/81 market prices)	6.5	7.6	5.0	5.3	6.5	6.2	6.3	6.4
Real consumption/capita growth rate	1.3	6.2	3.2	2.5	2.2	1.6	1.5	2.4
Debt service (million US$)	2,176.0	2,329.0	2,363.0	2,482.0	2,591.0	2,706.0	2,774.0	2,935.0
Debt service/current receipts	30.7	30.7	30.5	29.0	27.7	25.4	23.6	22.7
Gross investment/GDP	19.1	18.1	17.5	18.6	18.3	19.0	19.5	20.0
Domestic savings/GDP	12.2	10.6	12.2	11.5	12.0	14.0	15.4	16.2
National savings/GDP	17.0	13.7	12.6	14.0	13.7	15.6	16.8	17.5
Marginal national savings rate	35.5	-5.1	5.5	12.9	12.6	27.9	26.8	22.9
Government investment/GDP 2/	6.1	7.2	6.3	6.4	6.5	6.8	6.9	7.0
Government savings/GDP 3/	-2.0	-1.4	-1.0	-0.3	-2.3	2.0	2.1	2.2
Private investment/GDP	13.0	10.9	11.2	12.2	11.8	12.2	12.7	13.0
Private savings/GDP	19.0	15.2	13.7	14.3	16.0	13.6	14.9	15.4
Ratio of government/private investment	47.0	65.2	55.6	52.4	55.2	55.7	54.3	53.8
Government revenues/GDP 4/	16.6	20.6	18.8	18.4	16.6	20.6	21.0	21.2
Government expenditures/GDP	26.6	27.1	26.5	25.0	25.4	25.8	25.8	26.0
Overall fiscal position/GDP (deficit = -)	-8.2	-8.6	-7.3	-6.6	-8.8	-4.8	-4.8	-4.8
Broad money (M2) (growth rate)	13.7	12.2	4.7	13.0	19.9	12.9	12.0	11.8
Net domestic assets for program purposes (growth rate) 5/	11.1	11.9	5.6	12.4	15.5	12.5	11.0	10.0
Exports, f.o.b. (growth rate in current US$)	18.9	24.7	5.3	6.3	18.8	18.4	13.1	12.5
Exports/GDP	10.5	11.4	11.5	12.2	12.9	14.8	15.4	15.9
Imports, f.o.b. (growth rate in current US$)	-3.2	19.5	4.1	2.8	12.3	5.9	7.0	9.8
Imports/GDP	17.4	18.1	17.9	18.4	18.4	18.9	18.5	18.7
Workers' remittances	-12.2	-11.6	-5.8	0.1	-1.3	3.2	3.0	3.0
Current account (million US$)	-719.0	-1,682.0	-1,959.0	-1,890.0	-2,110.0	-1,606.0	-1,375.0	-1,405.0
Current account/GNP	-2.1	-4.3	-4.7	-4.6	-4.6	-3.4	-2.7	-2.5
GDP deflator (percentage change)	4.5	9.3	9.2	6.2	10.7	8.0	6.0	6.0
Consumer price index (percentage change)	3.6	6.3	10.5	6.0	12.7	8.0	6.0	6.0
Real effective exchange rate (percentage change) 6/	-15.9	-7.1	-1.9	-7.1	-2.4	...	...	...

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

1/ Owing to the full revision of the National Accounts, the ratios to GDP/GNP in this Table are not strictly comparable to those indicated in Table 1 of the original Policy Framework Paper (EBD/88/331, November 15, 1988).
2/ Government investment is defined as budgetary development expenditures.
3/ Budgetary current revenues plus surplus of autonomous bodies minus current expenditures.
4/ Includes surplus of autonomous bodies.
5/ Excludes Zakat fund deposits.
6/ A minus sign indicates a depreciation.

Table 2. Pakistan: External Financing Requirements, 1990/91-1993/94

(In millions of U.S. dollars)

	Program Projections 1990/91	Provisional Actuals 1990/91	Revised Program Projections 1991/92	Revised Program Projections 1992/93	Revised Program Projections 1993/94
Current account balance	-1,426.0	-2,107.7	-1,606.4	-1,374.9	-1,404.7
Trade balance	-2,039.0	-2,473.2	-1,885.8	-1,614.8	-1,563.1
Exports, f.o.b.	5,491.0	5,850.4	6,925.1	7,830.3	8,809.1
Imports, f.o.b.	-7,530.0	-8,323.6	-8,811.0	-9,445.1	-10,372.2
Services balance	-1,588.0	-1,688.8	-1,846.5	-1,954.8	-2,107.6
Private transfers	2,201.0	2,054.3	2,126.0	2,194.8	2,265.9
Amortization	-1,054.0	-1,123.8	-1,221.0	-1,042.0	-1,145.3
Repurchases	-108.0	-120.0	-99.0	-149.5	-98.9
Gross official reserves 1/	-285.0	72.0	-179.2	-413.9	-297.0
Total financing requirements	-2,873.0	-3,279.5	-3,105.6	-2,980.0	-2,946.0
Grants	458.0	592.0	371.5	335.0	255.0
Project assistance	252.0	324.0	170.3	200.0	230.0
Food/non-food assistance	76.0	156.5	40.8	25.0	25.0
Refuge assistance	130.0	111.5	160.4	110.0	--
Medium- and long-term assistance	1,515.0	1,541.0	1,903.0	1,946.0	2,171.0
Of which:					
Project assistance	1,010.0	1,083.6	1,261.0	1,460.0	1,695.0
Food/nonfood assistance	505.0	457.7	642.0	486.0	476.0
Of which:					
Bilateral creditors	...	484.8	837.3	950.0	1,132.0
World Bank and IDA	604.0	536.3	656.5	598.0	577.0
Of which: sectoral adjustment loans	225.0	80.3	225.0	100.0	...
Asian Development Bank	...	519.9	409.2	398.0	462.0
Of which: sectoral adjustment loans	100.0	200.6	50.0	--	--
Commercial loans 2/	289.0	205.0	406.2	200.0	100.0
Already committed	...	...	268.0	200.0	100.0
Not committed yet	...	...	138.2	--	--
Private and short-term 3/	339.0	932.5	107.0	490.0	420.0
Of which:					
Private medium and long term (net)	--	233.0	280.0	300.0	300.0
IMF, purchases	--	--	163.3	--	--
IMF, SAF disbursements	137.0	--	145.5	--	--
Identified financing	2,738.0	3,279.5	3,105.6	2,980.0	2,946.0
Financing gap	-135.0	--	--	--	--

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

1/ A minus sign indicates an increase in reserves.
2/ Includes commercial bank loans, loans by the Islamic Development Banks, and trade-related credits by the public sector.
3/ Includes foreign currency deposits by banks and nonbanks.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
I. <u>Fiscal Policy</u>				
a. Overall deficit	Reduce the overall fiscal deficit/GDP ratio to 4.8 percent by 1991/92, and keep it at or below that level in subsequent years.	Enhance domestic resource mobilization and control expenditure growth.	1991/92-1993/94	In progress.
b. Revenue	Increase the revenue/GDP ratio to 20.6 percent in 1991/92 and further in 1992/93-1993/94	Continue implementation of tax reform aimed at widening the tax basis, enhancing the elasticity of the system and strengthening tax administration.	1991/92-1993/94	In progress.
	Increase <u>direct taxes</u> to 2.4 percent of GDP in 1991/92 while broadening the base and improving equity, and further in 1992/93-1993/94.	Broaden <u>income tax</u> basis:		
		-introduce minimum tax on income and profits.	July 1, 1991	Implemented.
		-introduce presumptive fixed tax on small businesses.	July 1, 1991	Implemented.
		-introduce withholding tax on interest and dividends.	July 1, 1991	Implemented.
		-tax new issues of government debt (except National Saving Scheme instruments held by individuals) at source.	1991/92	In progress.
		-eliminate exemptions of Section 14 of Income Tax Act.	1992/93-1993/94	
		-eliminate 30 income tax exemptions.	July 1991	Implemented.
	<u>Indirect taxes</u>: increase share of GST and excises as percent of GDP by 1993/94 while reducing reliance on international trade taxes.	<u>GST</u>: enlarge the tax base and improve administration.	1991/92-1993/94	
		-extend base to wholesale level and additional goods.	July 1, 1991	Implemented.
		-limit exemptions to food, medicines, fertilizer, pesticides, and cottage industries.	July 1, 1992	
		-complete computerization of registration of taxpayers and filing of returns.	December 1991	In progress.
		<u>Excises</u>: increase elasticity and coverage.		
		-increase yield by shifting to capacity base.	1991/92-1992/93	Being implemented.
		-levy 25 percent excise on telephone calls.	September 1991	Implemented.
		-increase coverage to most organized services.	1992/93-1993/94	
		<u>Customs duties</u>: reduce reliance on international trade taxes in line with domestic resource mobilization (see Section V below).		
	Enhance nontax revenues.	Adjust fees and charges.	1991/92-1993/94	Being implemented.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

olicy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
c. Expenditure	Contain current expenditures while improving their structure.	Contain current expenditures to 18.8 percent of GDP in 1991/92; target development expenditures to grow slightly faster than the expansion of nominal GDP.	1991/92-1993/94	Being implemented.
		-Substantially reduce cash and economic subsidies through price adjustments.	1991/92-1993/94	Being implemented.
		-Restrict allocations to federal ministries.	1991/92	Being implemented.
		-Restrict allocations for non-productive expenditures.	1991/92	Being implemented.
		-Restrain budgetary defense expenditure to 6.4 percent of GDP, including the portion of the already allocated salary increase that accrues to the military.	1991/92	Being implemented.
d. Monitoring and control	Improve expenditure reporting.	Implement first set of measures: -monthly cash flow forecasting.	July 1991	Being implemented
		-introduce an expenditure control system.	1991/92	In progress.
		-report on major components of revenues and public debt with full reconciliation of AGPR and SBP records.	1991/92	Work has been initiated.
		-produce a monthly report to monitor major current expenditure categories as recommended in the IMF FAD report of September 1990.	1991/92	Being implemented.
		Implement second set of measures: -budget planning and control.	July 1992	
		-report on public enterprises. -report on provincial expenditures.	1992/93	
		-report on subsidies.	1992/93	
		Improve accounting and auditing.	1991/92-1992/93	
II. Monetary Policy and Financial Sector Reform				
	Reduce inflation to 8 percent in 1991/92 and further to 6 percent in 1992/93.	Limit the rate of domestic credit expansion to less than the growth of nominal GDP at the targeted inflation rate.	1991/92-1993/94	Being implemented.
		Continue to maintain global ceilings on the annual rate of expansion of domestic credit.	1991/92-1993/94	Being implemented.
	Improve efficiency of credit allocation and move towards market-determined system of credit allocation.	Move toward market-oriented rates of return for concessional credit schemes:	1991/92-1993/94	Being implemented
		-increase rate of return to at least target inflation rate.	December 1991	

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
	Mandatory programs.	Continue to limit the scope of mandatory credit programs and concessional credit schemes.	1991/92-1993/94	Being implemented.
	Improve public debt management.	Continue to fully implement market-based auction of treasury bills.	1991/92-1993/94	Being implemented.
		Replace existing medium- and long-term securities with long-term federal government bonds.	July 1, 1992	Being implemented
		Link yields on all public debt instruments to those obtained at most recent auctions.	1991/92-1993/94	Being implemented.
	Strengthen supervision/ regulation of financial institutions.	Implement an action program to strengthen supervisory and regulator roles of the SBP over bank and nonbank financial institutions.	1991/92-1992/93	Being implemented.
	Strengthen the financial position of nationalized commercial banks (NCBs).	Implement the program for privatization/recapitalization/ restructuring of NCBs.	1991/92-1993	Being implemented.
		Achieve 3 percent capital/liability ratio for all commercial banks (except United Bank Limited for which this is to be achieved by December 1993) based on new prudential regulations.	December 1992	Being implemented.
	Establish private financial institutions.	Allow private domestic commercial banks to enter the markets.	1991/92	Implemented.
III. Exchange System				
a. Exchange rate policy	Improve resource allocation by complementing and reinforcing trade and industrial liberalization. Improve structure of balance of payments by stimulating nontraditional exports and raising the level of reserves.	Continue pursuit of a flexible policy, in support of restrained demand management and consistent with maintaining external competitiveness.	1991/92-1993/94	Being implemented.
b. Forward cover rates	Take steps to efficiently allocate resources and avoid central bank losses.	Continue to implement flexible market rates for forward cover, with exchange rate premiums that reflect interest rate differentials.	1991/92-1992/93	Being implemented.
c. Bilateral payments	Promote multilateral system of payments.	Phase out restrictive features of existing bilateral agreements with Fund members.	December 1991	Being implemented.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
IV. External Debt Management	Limit the prospective debt service burden and maintain orderly relations with creditors.	Limit contracting of loans of 1-12 years' and 1-5 years' maturity.	1991/92-1992/93	Being implemented.
	Improve the structure of debt.	Limit outstanding stock of public and publicly guaranteed debt of one year or less, including debt of domestic banking system.	1991/92-1993/94	Being implemented.
V. Trade Policy				
a. Imports	Improve international competitiveness and reduce distortions through a reduction in effective protection and tariff dispersion.	Enhance effectiveness and reduce distortions of tariff system:		
		-remove exemptions except for exporters.	1992/93-1993/94	
		-reduce maximum tariff to 90 percent.	July 1, 1991	Implemented.
		-integrate import license fee into minimum tariff without raising the maximum.	July 1, 1992	
		-restructure customs duty rates.	July 1, 1992	
		-do not increase surcharges/ licensing fee.	1991/92	
		-improve customs administration.	1991/92	Being implemented.
		-index remaining specific duty rates.	July 1993	
		-reduce maximum tariff to 75 percent.	July 1993	
		-integrate import surcharge and Iqra surcharge into minimum tariff without raising the maximum.	July 1, 1993	
		-replace most NTBs by tariffs.	1991/92-1993/94	In progress.
		-reduce negative list further	1991/92-1993/94	Being implemented.
		-eliminate most items of restricted list.	July 1, 1992	
b. Exports	Improve international competitiveness.	Make import regime more conducive to exports.		
		-expand rebates to surcharges and duty on capital goods.	July 1992	
VI. Public Sector Investment Program				
	Rationalize public investment program to improve its contribution to economic growth and welfare.	Review and monitor public expenditure program annually.	1991/92-1993/94	Being implemented. 1991/92 program was reviewed in May 1991.
		Implement annual public investment program, in line with Seventh Plan objectives.	1991/92-1992/93	Being implemented.
		Introduce quarterly monitoring of ADP.	1991/92	Under preparation.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
VII. Social Sectors				
Investment program and recurrent expenditures	Raise living standards by emphasizing basic education, and health care in public expenditures.	Public investment and recurrent expenditure for education to grow annually at least at the real rates of 6 percent and 5 percent, respectively.	1991/92-1993/94	Being implemented.
		Increase current expenditure for health and population by at least 3 percent per capita in real terms per annum.	1991/92-1993/94	Being implemented.
		Provide population services through health care facilities.	1991/92	In progress.
		Prepare Social Action Program.	February 1992	Under preparation.
VIII. Infrastructure				
a. Urban infra-structure	Improve cost recovery and resource mobilization.	Adjust water and sewarage tariffs annually for Karachi, Lahore, and several other cities.	1991/92-1993/94	Being implemented.
b. Rural infra-structure	Improve basic water and sanitation provision.	The federal government will request the provincial governments to work with executing agencies to improve operation and maintenance of existing systems, including payment by communities of at least operating costs; and to reorient investment to rehabilitation, provision of basic water service levels, improved sanitation, and drainage.	1991-92-1993/94	Being implemented.
c. Transportation	Improve transport sector's contribution to growth and welfare by rationalizing investment program to achieve better balance between sectors and between new investments, rehabilitation, and maintenance.	In the context of the Seventh Plan, implement a public expenditure program for the transport sector.	1991/92-1993/94	Being implemented.
		-Highways: Improve balance between new investment, maintenance, and rehabilitation; introduce modern planning and construction methods.	1991/92-1993/94	Being implemented.
	Rationalization of prices/charges to manage demand, allocate costs among beneficiaries, and mobilize public sector resources.	Implement phased adjustments in taxes, fees, and user charges for road, rail, and aviation.	1991/92-1993/94	Being implemented.
		-Increase railway tariffs by 5 percent.	September 1991	Implemented.
	Improve institutional framework, with a view to enhancing railway efficiency.	Implement a program for restructuring Pakistan Railways.	1991/92-1993/94	Being implemented.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
IX. Energy				
a. Investment and institutional framework	Rationalize investments within and across subsectors, minimize energy shortfalls, and meet demand at least cost.	Continue reliance on core investment program (CIP) and supporting financing arrangements to assure appropriate levels of investment. Expedite processing of proposals received for private sector investments in energy; and review CIP annually.	1991/92-1993/94	Being implemented. Review of 1991/92 CIP took place in May 1991.
		Promulgate a new policy for the petroleum sector.	1991/92	
	Facilitate growth and efficient development of energy resources through adjustments in institutional framework.	Implement a program to increase WAPDA's autonomy, privatize its operations, establish regulatory framework, and reduce the Government's share in the utility; implementation of financial and corporate restructuring of OGDC and KESC.	1991/92-1993/94	Being implemented.
		Implement a program to foster private generation of power and sales to the national grid.	1991/92-1993/94	Being implemented.
b. Pricing, resource mobilization, demand management				
Power tariffs	Conserve energy and assure appropriate contribution by WAPDA toward financing of agreed investment program.	Annually adjust and further rationalize power tariffs as required to gradually phase out economic distortions and achieve 40 percent self-financing of agreed WAPDA investment program.	1991/92-1993/94	Being implemented.
Petroleum	Shift away from cost-plus formula for ex-refinery pricing of petroleum products; enhance efficiency; and encourage new private investments in the refinery subsector.	Implement the revised ex-refinery pricing formula.	1991/92-1993/94	Being implemented.
	Restrain demand and generate resources for the government budget.	Pass through to domestic consumers the full increases in the international price of crude oil.	1991/92-1993/94	Being implemented.
Gas consumer prices	Restrain demand and generate resources for the government budget.	Annually adjust the prices for natural gas supplied to domestic household consumers, with a view to reaching 100 percent of the border price of fuel oil equivalent by 1992/93.	1991/92-1993/94	Being implemented.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
Gas producer prices	Provide adequate incentives to encourage foreign and private investment in exploration and development of gas resources.	Implement agreed new gas producer pricing formula and adjust discount for new concessions as necessary if low world prices inhibit exploration and development.	1991/92-1993/94	Being implemented.
c. Resource development	Facilitate the efficient development of coal resources.	Agree on the program for restructuring the institutions responsible for exploration, development, and production of coal; develop the Lakhra coal field; and provide an incentives framework for encouraging greater private sector participation in coal development and the arrangements for granting coal concessions.	1991/92	ECC approval of proposed Action Plan is pending.
		Begin implementation of this program.	1991/92	
X. Agriculture				
a. Investment	Contribute to increased agricultural productivity by emphasizing completion of ongoing public investment projects.	Assure adequate funding for high-priority projects in agriculture/irrigation.	1991/92-1993/94	Being partially implemented.
b. Water management	Develop integrated water management system in context of Indus Waters Accord.	Carry out detailed review of Federal and Provincial investment program in water sector to ensure optimum use of water allocation.	1991/92-1992/93	To be initiated in 1991/92.
c. Irrigation operations and maintenance and cost recovery	Enhance efficiency in operation of the irrigation system; improve provision of irrigation services and contain their budget costs.	Annually establish a program of operations and maintenance allocations for various types of irrigation facilities.	1991/92-1993/94	Being partially implemented.
		Improve assessment and collection of water charges, on the basis of the implementation plan.	1991/92-1993/94	Being implemented.
		Continue phasing out all public tubewells in fresh groundwater areas, except south Rohri and Ghotki, and refrain from installing or replacing public tubewells in these areas.	1991/92-1993/94	Being implemented.
d. Agricultural output prices	Provide correct incentives to farmers and improve efficiency of resource allocation.	Review prices annually for key crops with a view to adjusting them to reflect trends and levels in world prices and exchange rate changes.	1991/92-1993/94	Being implemented.

Pakistan: Summary and Time Frame for Structural Adjustment Policies, 1991/92-1993/94 (continued)

Policy Areas	Objectives and Targets	Strategies and Measures	Timing of Measures	Implementation Status
e. Agricultural input pricing	Efficiently allocate resources and eliminate subsidies for fertilizers.	Assure that no net cash subsidy for urea will reappear. Complete an agreed schedule of reductions of economic subsidies:	1991/92-1993/94	Being implemented.
		-eliminate the subsidy for phosphatic fertilizers.	1991/92	Being implemented.
		-implement an agreed schedule for the elimination of subsidy for potash fertilizer by October 1995.	1991/92-1993/94	Being implemented.
XI. Industry				
a. Deregulation	Improve private and public sector productivity through increased competition and reliance on market forces.	The Government will not expand the list of specified industries.	1991/92-1993/94	Being implemented.
		Eliminate investment sanctioning for both local and foreign projects, except in the following sectors: arms and ammunition, security printing, currency and mint, explosives, radioactive materials, and alcohol.	1991/92	Implemented on February 1, 1991
		Phase out deletion programs and other administered investment controls in parallel with tariff reform.	1991/92-1993/94	Being prepared.
b. Public enterprises	Improve industrial efficiency.	Implement program aimed at privatizing 115 government-owned industrial units.	1991/92-1992/93	Being implemented.
		For remaining PSEs, institute complete autonomy and accountability.	1991/92-1993/94	Being implemented.