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January 29, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Pakistan - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Pakistan. A draft decision appears on page 21.

It is proposed to bring this subject to the agenda for discussion on Wednesday, February 27, 1985.

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

Att: (1)

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INTERNATIONAL MONETARY FUND

PAKISTAN

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Consultation with Pakistan

Approved by A.S. Shaalan and J.T. Boorman

January 28, 1985

I. Introduction

The 1984 Article IV consultation discussions were held in Islamabad during August 26-30 and December 1-2, 1984. The Pakistan representatives were led by Mr. H.U. Beg, Finance Secretary, and included Mr. A.G.N. Kazi, Governor of the State Bank of Pakistan, and the Secretaries and other senior officials from concerned ministries and government agencies. The staff also had discussions with Mr. Ghulam Ishaq Khan, Minister of Finance, Commerce, and Coordination, and Dr. Mahbub ul Haq, Minister for Planning and Development. In the August discussions, the staff representatives were Messrs. S.H. Hitti (Head), H.E. Jakubiak, and M. Shadman (of MED), K.M. Huh (ETR), and K. O'Connor (STAT), and Ms. A. Wall (Secretary--FAD). Mr. A.S. Shaalan (Director of MED) participated in the concluding meetings. Mr. Z.M. Qureshi, Advisor to the Executive Director, attended the meetings as an observer. In the December discussions, the staff representatives were Messrs. Hitti and Jakubiak. The last consultation discussions were held over the period August-September 1983, and the staff report (EBS/83/249 and Sup. 1) was discussed by the Executive Board on December 21, 1983. Pakistan continues to avail itself of the transitional arrangements of Article XIV.

II. Background

Economic and financial policies pursued during the early 1980s were designed to effect substantial correction of the financial and structural imbalances that emerged in the 1970s (Table 1 and Chart 1). The authorities' efforts were supported by an extended arrangement with the Fund and a structural adjustment loan from the IBRD. 1/ The program under the extended arrangement was described, and Pakistan's performance relative to its targets and objectives reviewed, in EBS/83/249 (11/23/83).

1/ With effect from November 24, 1980, Pakistan had an extended arrangement with the Fund for an amount of SDR 1,268 million, of which SDR 1,079 million was drawn (198 percent of the present quota or 252 percent of the quota effective December 1980). Pakistan's relations with the Fund and the World Bank Group are summarized in Appendices I and II, respectively.

Table 1. Pakistan: Selected Economic and Financial Indicators, 1980/81-1984/85

	Actual			Official Proj.	Prov. Actual	Official Proj.
	1980/81	1981/82	1982/83	1983/84		1984/85
	(Annual change, unless otherwise specified)					
National income and prices						
GDP (at constant factor cost)	6.5	6.6	6.1	6.4	4.5	8.5
GDP deflator (market price)	10.8	9.0	6.0	6.5	9.6	6.6
Consumer prices (period average)	12.4	10.0	4.5	6.5	8.3	6.6
External sector (in U.S. dollars)						
Exports (f.o.b.)	19.5	-17.1	13.3	11.7	1.6	10.7
Imports (f.o.b.)	14.5	3.7	-2.6	17.2	6.9	8.6
Non-oil imports	10.0	3.2	-1.7	26.5	11.8	9.9
Workers' remittances	20.3	6.1	29.8	10.0	-5.2	2.5
Nominal effective exchange rate (depreciation-)	10.4	-16.0	-5.7	...	-1.9	...
Real effective exchange rate (depreciation-)	14.9	-13.2	-3.9	...	1.1	...
Money and credit						
Money and quasi-money	13.2	11.4	25.3	12.3	11.4	11.1
Domestic assets (net), of which:	15.1	16.8	16.3	11.5	13.5	13.1
Government	(11.2)	(12.2)	(14.8)	(2.5)	(8.8)	(7.2)
Nongovernment	(18.9)	(20.0)	(20.7)	(18.2)	(21.7)	(16.6)
Velocity	5.4	2.2	-9.9	1.2	3.6	4.1
Interest rates (annual rate, one-year savings deposits)	10.5	10.5	10.5	...	10.5	10.5
Government						
Total revenue	22.1	10.5	14.0	21.3	23.6	9.3
Tax revenue	19.5	10.7	14.0	23.3	19.1	9.4
Total expenditures	16.5	11.6	22.7	11.6	16.0	8.7
	(In percent of GDP)					
Government						
Total revenue	16.6	16.1	16.3	17.1	17.4	16.5
Tax revenue	13.7	13.3	13.5	14.4	13.9	13.2
Total expenditure	22.5	22.0	23.9	23.2	24.1	22.7
Overall deficit	5.2	5.3	7.1	5.5	6.0	5.6
Budgetary financing:						
Domestic bank	0.8	1.7	1.7	0.6	1.9	1.2
Domestic nonbank	1.9	2.0	3.9	3.0	2.7	3.0
Foreign (including grants)	2.5	1.7	1.4	2.0	1.4	1.4
Total government financing (including commodity operations)	2.3	2.0	2.7	0.4	1.6	1.2
	(In percent of GNP, unless otherwise specified)					
Gross domestic investment, of which:	15.0	15.8	16.0	15.9	15.5	16.0
Gross domestic fixed capital formation	(13.5)	(13.8)	(13.8)	(14.2)	(13.8)	(14.3)
Gross domestic savings	5.2	4.7	6.2	4.8	4.8	6.0
Gross national savings	11.7	11.0	14.2	13.2	12.5	12.9
External sector						
Current account deficit 1/	3.2	4.9	1.8	2.7	3.0	3.2
Overall balance	-0.1	-1.8	2.2	0.4	-0.2	-0.5
External debt 2/	40.5	38.9	42.7	...	41.8	38.3
Debt service ratio (in percent of current account receipts)						
Including the IMF	15.1	14.0	13.2	12.4	15.2	14.8
Excluding the IMF	11.5	10.2	10.5	10.6	13.0	11.4
Interest payments (in percent of current account receipts)	7.3	6.1	6.2	...	6.9	6.4
	(In millions of U.S. dollars, unless otherwise specified)					
Current account deficit	-991	-1,610	-558	-920	-1,029	-1,182
Overall balance	-24	-580	698	153	-67	-168
Gross official reserves (in weeks of c.i.f. imports)	8.8	6.9	15.2	14.1	12.7	10.9

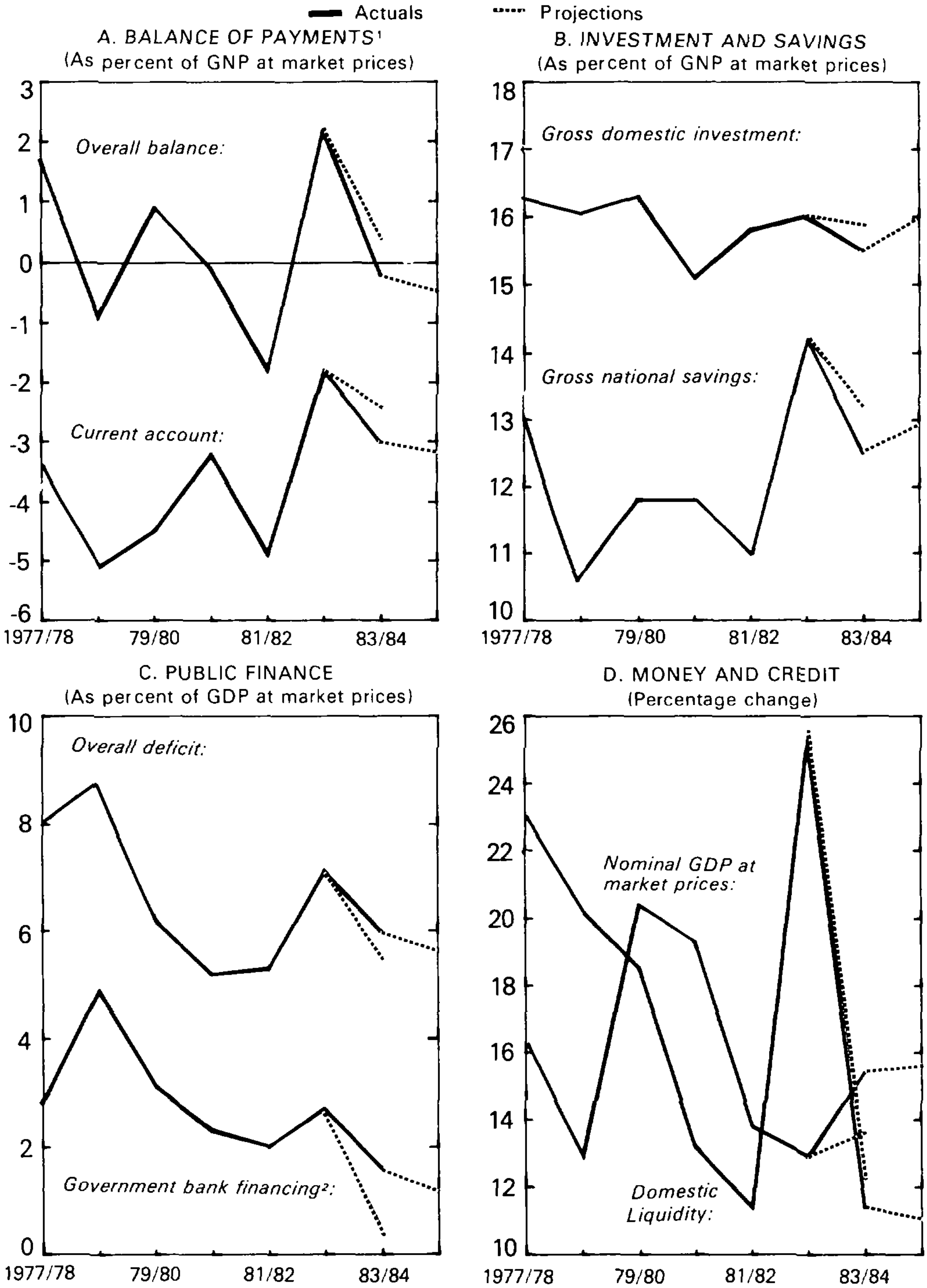
Sources: Ministry of Finance and Economic Affairs and State Bank of Pakistan.

1/ Excludes grants, which are included in long-term capital.
2/ Total civilian debt includes short-term debt, disbursed foreign debt repayable in local currency, and medium- and long-term disbursed and undisbursed debt repayable in foreign currency.

CHART 1

PAKISTAN

ECONOMIC INDICATORS, 1977/78-1984/85



Source: Data provided by Pakistan authorities.

[1]The plot incorporates the official projections for 1984/85.

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

During the 1980/81-1982/83 1/ period, real output rose at an average annual rate of over 6 percent (Appendix IV, Table 2). Responding in part to substantial increases in procurement prices, production of all four major crops reached new peaks, and beginning in 1980/81 Pakistan became self-sufficient in foodgrains. During that period the performance of domestic savings was disappointing; the national savings ratio was initially stagnant but rose sharply in 1982/83 due to buoyant remittance inflows. The gross domestic fixed investment ratio remained unchanged over the three years at about 14 percent of GNP. Public investment outlays for development as a percentage of GDP declined gradually averaging about 8 percent per annum. These outlays, however, were reoriented away from capital-intensive, long-gestation projects toward agriculture, rural development, and energy. Producer prices for oil and natural gas were increased substantially and these adjustments contributed to increases in the domestic production of oil and natural gas. Consumer prices for petroleum products were kept in line with the international equivalents, while those for natural gas were increased by 60 percent but remained well below international levels.

The authorities also sought to upgrade the performance of industry in the private and public sectors. By end-1983/84, financial relief was recommended for 370 problem industrial firms in the private sector. However, progress in the implementation of the Government's program regarding divestiture, closure, or financial restructuring of certain public enterprises was limited. To improve profitability and performance of the public enterprises, the authorities, in collaboration with the World Bank, devised a system of management performance objectives and incentives for the public enterprises under the Ministry of Production. Progress under this program is broadly on schedule.

In 1980/81 and 1981/82, the ratio of the overall fiscal deficit to GDP averaged 5.2 percent annually (Appendix IV, Table 3) but rose to 7.1 percent of GDP in 1982/83 mainly due to a sharp rise in current expenditures. In that year, total outlays as a percentage of GDP rose substantially, after having decreased in the three previous years. The ratio of tax revenue to GDP declined over the three years ended in 1982/83 underlining the structural deficiencies of a tax system characterized by low elasticity and an overreliance on import taxes as a source of revenue. Reform of the tax system had been a major structural goal of the extended arrangment program, but relatively few measures were taken to expand tax coverage or to shift reliance onto domestic production and consumption taxes. With shortfalls in external financing, domestic bank borrowing was contained by a heavy reliance on domestic nonbank borrowing from the private sector. These receipts financed 56 percent of the deficit in 1982/83 compared with less than 10 percent in 1979/80.

During 1980/81-1981/82, domestic liquidity grew at an average annual rate of over 12 percent while nominal GDP expanded annually at about 17 percent (Appendix IV, Table 4). The tight monetary stance

1/ The fiscal year begins on July 1.

contributed to an absorption of liquidity from earlier years, a reduction of inflationary pressures, and a favorable turnaround in the balance of payments position. In 1982/83 a large balance of payments surplus in combination with a surge in the utilization of domestic credit toward the end of the fiscal year resulted in domestic liquidity growing at over 25 percent while nominal GDP rose by 13 percent.

In 1980/81 the current account registered a deficit equivalent to 3.2 percent of GNP, while the overall balance of payments position was in approximate balance, but in 1981/82 the current account deficit widened to 4.9 percent of GNP due principally to weak performance of both exports and workers' remittances (Appendix IV, Table 5). An overall deficit was incurred and gross international reserves fell to the equivalent of seven weeks of imports. In 1982/83 the current account deficit was reduced to the equivalent of 1.8 percent of GNP and an overall surplus of about US$700 million was achieved. Contributing to this outcome was a decline in import payments, a rise in inflows of workers' remittances, and a rise in foreign currency deposits. For the three-year period, a cumulative overall balance of payments surplus was recorded. By end-June 1983, gross international reserves (excluding gold) stood at US$1.9 billion and were equivalent to 15.2 weeks of imports (c.i.f.) at the 1983/84 level. Debt service payments continued to be made as scheduled. Over the three years ended 1982/83, the ratio of debt service payments, including Fund charges and repurchases, to current account receipts changed little and averaged 14 percent.

During 1980-81 the Pakistan rupee appreciated in real trade-weighted terms (Chart 2). In January 1982 the authorities delinked the rupee from the U.S. dollar and adopted a managed floating system based on a currency basket. Between end-1981 and end-June 1983, the real effective exchange rate of the rupee depreciated by about 19 percent. At the start of 1983/84 there were some reductions in the rates of export subsidization.

An objective of the extended arrangement was the reform of the import system, a reduction of import prohibitions to be accompanied by a phased liberalization of imports, and a comprehensive restructuring of the tariff regime. 1/ Substantive steps were taken including the removal of licensing ceilings for most nonconsumer goods, raising the ceilings on items that continued to be subject to licensing, and reducing over the three years ended in June 1983 the proportion of domestic industry protected by import bans or equivalent restrictions from 65 percent to 31 percent. 2/

1/ A detailed description of the import system in operation before the program period and a discussion of policy commitments and the progress made toward meeting these commitments are provided in the Annex to Section V of the 1983 Recent Economic Developments report (SM/83/246, 12/5/83).

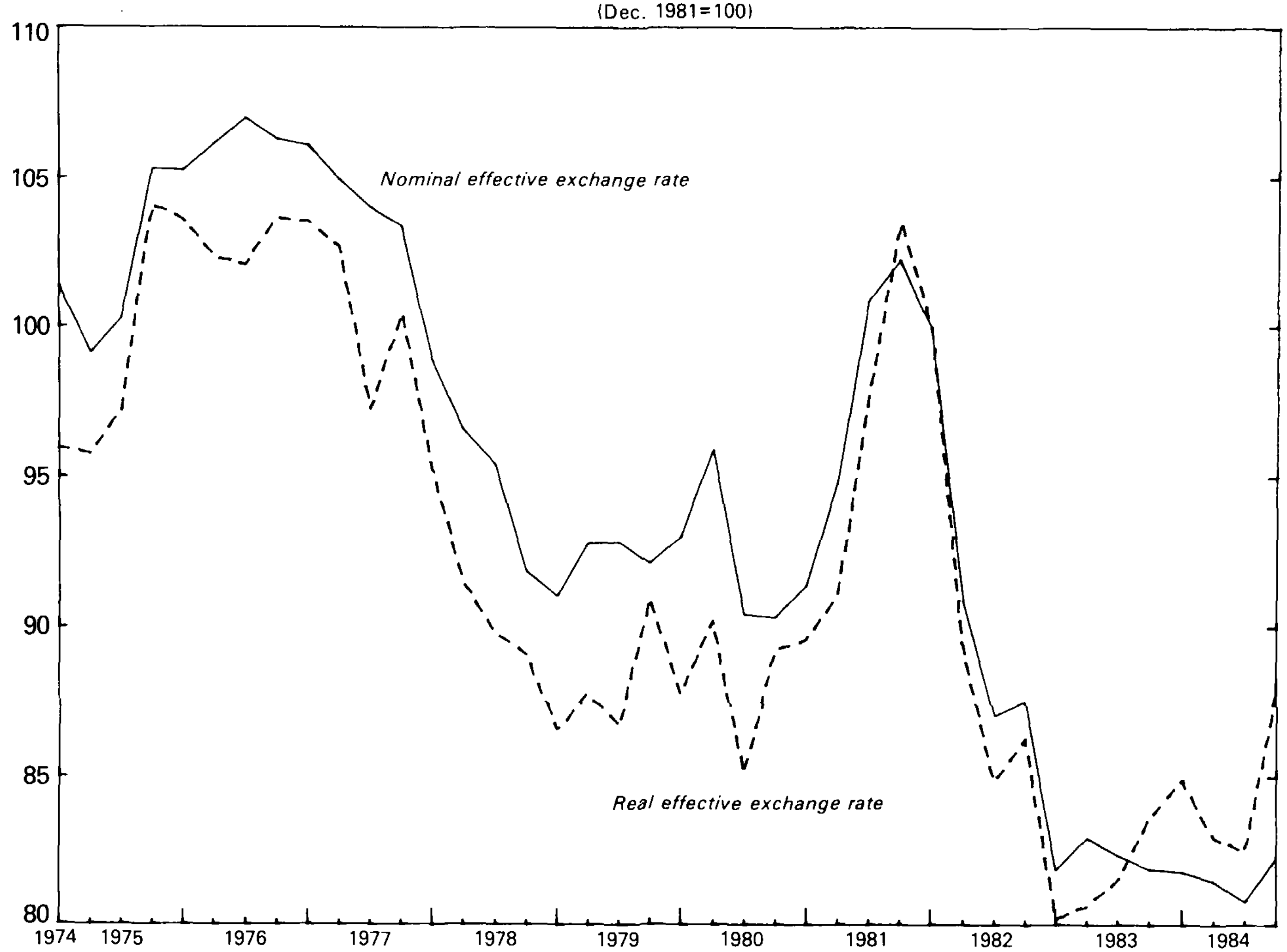
2/ If the liberalization of sugar is excluded in view of the qualifications attached to its liberalization arising from the existence of surplus sugar stocks, the high cost of domestic production, and the high regulatory duty imposed, the percentage is 40 percent.

CHART 2

PAKISTAN

MOVEMENT IN THE TRADE-WEIGHTED REAL EXCHANGE RATES, Q4 1974 - Q3 1984[1]

(Dec. 1981=100)



Sources: *International Financial Statistics*, and Fund staff estimates.

[1]These indices utilize 1982 83 trade weights. A rise in the index indicates a relative appreciation of the rupee.

The conversion of the import regime from a positive list system that enumerated importable items to a negative list system that allowed all imports not specifically prohibited or restricted was officially announced in the 1983/84 import policy order (IPO). However, the positive list was retained as a guide for the convenience of importers. As the negative list was basically constructed as a mirror image of the positive list, it was long and included SITC categories described as "other." As a result, it was difficult for importers to use the negative list. To improve on this situation, an amendment to the 1983/84 IPO was issued on September 15, 1983 which eliminated a few additional SITC items or categories and some of the "other" categories from the negative list.

The envisaged comprehensive tariff reform was not implemented by July 1, 1983 because the completion of the study of effective protection being undertaken in collaboration with the World Bank was delayed. However, a number of adjustments in tariff rates were introduced with the annual budgets during the program period. These changes were intended to raise revenue, to reduce anomalies in the tariff schedule, and/or to provide additional protection. In a few cases, the protective rates were raised on newly liberalized items.

In the area of statistical data, the coverage and currentness of reporting has been generally good. 1/ However, during the 1982/83-1983/84 period, problems emerged in the accounting of the net unclassified liabilities of the commercial banking system; in this regard the authorities have initiated corrective action (see Section III, 3. below). The authorities are in the process of revising the national income accounts; the revised accounts are expected to be available in the course of the current fiscal year.

III. Policy Discussions

The discussions focused on reviewing developments in 1983/84 and assessing economic and financial prospects and policies for 1984/85. In the discussions, the staff was guided by the views of the Executive Board as reflected in the Chairman's summing up of the Board discussion of the Pakistan 1983 Article IV consultation (SUR/83/49). In this discussion, Executive Directors generally encouraged the authorities to strengthen demand management, make further progress on import liberalization, and continue their structural reform program.

1. Production trends and policies

A real GDP growth rate of about 4.5 percent was achieved in 1983/84 despite a weak agricultural performance. Due to adverse weather conditions, cotton output dropped by nearly 40 percent, imparting an adverse impact on the ginning industry, but wheat production was also 12 percent

1/ Statistical issues are reviewed in Appendix V.

lower than in 1982/83. The authorities are expecting a rebound in agricultural production and in overall economic growth in 1984/85. In early December, the prospects for the 1984/85 cotton crop were good with total output expected to approximate a record 5 million bales. With regard to overall growth, real GDP is projected to rise by 8.5 percent with agricultural and industrial output each forecast to rise by about 10 percent. In the area of savings and investment, the ratio of development outlays to GDP, which dropped to about 6.5 percent in 1983/84, is forecast to remain unchanged. Lower remittance inflows in 1983/84 reduced the national savings ratio sharply, and the domestic savings ratio fell as well. In 1984/85 national savings are expected to be adversely affected by a likely decline in remittances.

The Pakistan representatives stated that the Government would continue to pursue supply policies aimed at alleviating impediments to efficient resource allocation in order to expand production and benefit the balance of payments. To promote further price rationalization in agriculture, procurement prices for rice and cotton were raised marginally in 1983/84, a further small increase for certain varieties of cotton was approved for 1984/85, and in October 1984 the procurement price of wheat was increased by 9 percent. Fertilizer prices were raised by 9 percent in 1983/84 on a weighted average basis, but were not changed for 1984/85 due to a stagnation in fertilizer offtake as a result of the adverse weather conditions which affected the cotton and wheat crops, the emergence of an excess supply of urea, and weak international urea prices at the time of the budget. Irrigation water charges were not adjusted in 1983/84 due to the introduction of ushr (an Islamic welfare tax on agricultural production), and as a result the cost recovery ratio is estimated to have declined. In 1984/85, water charges were raised by 10 percent in Sind and by 25 percent in Baluchistan, but it is not clear whether the decrease in the cost recovery ratio would be reversed. The stocking and marketing of sugar was turned over to the private sector on August 1, 1983, but the Government continued to maintain a small sugar stock for precautionary purposes.

In the energy sector, the authorities have responded to the domestic energy shortages by continuing to adjust prices. Producer prices for the major oil fields were increased substantially in 1983/84 and thereby the discount from international prices was reduced from about 70 percent to under 50 percent. In August the authorities projected domestic oil output in 1984/85 to rise by over 50 percent, 1/ but in December the representatives indicated that this forecast might be exceeded. For natural gas, producer prices were increased by 62 percent for unassociated gas and by 150 percent for associated gas. Consumer prices for natural gas were increased by about 25 percent in 1983/84 and a further 20 percent in 1984/85. Despite these increases, they remained at less than half the international price equivalent. The Government's medium-

1/ The absolute level of output would remain modest accounting for 15-20 percent of domestic consumption.

term objective is to raise the weighted average consumer price for natural gas to two thirds of the world equivalent price by mid-1988. In order to promote further energy conservation and expand budget revenues, in June 1984 consumer prices for most petroleum products were raised by 6-10 percent. The authorities are also developing a program to expand coal output in order to substitute for petroleum and natural gas.

With regard to encouraging private industrial investment and deregulating the economy, the Industrial Policy Statement (IPS) for the current development plan (1983/84-1987/88) was issued in June 1984. In the statement, licensing procedures and the approval requirement for investments were eased. The Government has undertaken to increase the amount of central bank foreign exchange investors may purchase by two thirds (to PRs 50 million), provided that a project's foreign exchange component does not exceed 50 percent of the total cost of the capital investment. Moreover, standard payment terms for which government approval is not required have been outlined for foreign loans or supplier credits received by the private sector and for agreements on transfer of technology. The IPS also established a location policy entailing regional restrictions on industrial investment.

The upgrading of the performance of industry in the private and public sectors continues to be an objective of the authorities. Under the new system of public enterprise performance monitoring and management incentives, financial profitability targets were negotiated in 1983/84 for 41 of the 63 companies under the Ministry of Production's jurisdiction; performance of each unit against its target is being evaluated and bonuses to management are to be distributed in accordance with a grading formula. In the private sector the Government decided early in 1983/84 to provide financial institutions with US$100 million of central bank foreign exchange for financing private imports of capital goods; the allocation was doubled subsequently. Of the total, US$40 million was utilized.

2. Fiscal policy

The authorities' objective in the 1983/84 budget was to reduce the overall deficit through a combination of expenditure restraint and measures to increase revenues. Tax revenue was forecast to increase by 25 percent due to the projected growth in imports and domestic production, the implementation of wide ranging discretionary measures, and improved tax administration. Expenditure growth was to be limited to 12 percent. Development outlays were to increase by about 7 percent and current expenditure increases were to be kept in line with the rate of growth of GDP. The overall deficit was projected in the original budget to be equivalent to 5.4 percent of GDP. Bank financing of the budget was to be 1.4 percent of GDP, but total government bank financing 1/ was to be limited to 1 percent of GDP due to the projected

1/ Bank financing of the Government encompasses the total of net bank financing of the budget proper and bank financing of commodity operations.

contractionary impact of commodity operations that was to result from the derationing and decontrol of sugar. Measures taken after the adoption of the budget included reducing export subsidy rates on a number of commodities and allocating an additional US$100 million of central bank foreign exchange for private sector investment goods imports. The authorities also raised considerably the estimate of nonbank domestic financing of the budget (primarily borrowing from the private sector) and consequently the projected bank financing for budgetary support was reduced sharply.

Despite an impressive revenue performance, partly reflecting certain nonrecurring factors and partly the discretionary measures, the provisional actual data for 1983/84 show a fiscal outcome weaker than envisaged in the authorities' plan but improved relative to 1982/83. While the authorities had intended to reduce the overall deficit/GDP ratio by 1.6 percentage points, the outcome was a reduction in this ratio equivalent to 1.1 percentage points. The principal reason for the weaker than targeted fiscal performance was that the increase of current outlays (at 23 percent) was much larger than forecast; the rate of increase was sharply higher than that of nominal GDP. With nonbank domestic financing and net external financing falling short of expectations, domestic bank financing of the budget amounted to 1.9 percent of GDP, slightly higher than in 1982/83 and substantially above the authorities' projections. Total bank financing of Government was 1.6 percent of GDP as commodity financing was contractionary.

The staff expressed the view that the sharp growth in current outlays for two years in succession was cause for concern. The authorities attributed the large increase in current expenditures in 1983/84 to four major factors--increased subsidies, higher provincial outlays, increased debt service payments, and prepayment of July 1984 salaries. 1/ The last factor represented a technical adjustment which shifted expenditure and related bank financing forward by about ten days which happened to overlap fiscal years. If adjustment were made for this outlay, current expenditure would have grown by 20 percent. The growth in subsidies was due in part to higher prices for imported vegetable oil, which was only partially compensated for by domestic price increases, and in part to payments to cement producers to cover the higher costs incurred in shifting from natural gas to fuel oil. 2/ Export subsidies were also higher than estimated as the reduction in subsidy rates announced in August-September 1983 did not affect exporters who already had contracts and export financing. Provincial outlays, particularly those related to maintenance and use of capital assets, were substantially above budgeted

1/ The prepayment of salaries for the first month of 1984/85 was necessitated by the timing of Ramadan and the subsequent holidays.

2/ The budgetary subsidy for cement, which rose sharply in 1983/84 due to higher production costs, was associated with the conversion from natural gas to fuel oil, not compensated for by consumer price increases. The reduction in this subsidy projected for 1984/85 was accompanied by a decrease by one half in the excise on cement.

amounts. As the Federal Government is responsible for the deficits of the provinces, this gave rise to transfer payments. The authorities believed that these increases were necessary and that adequate provision for maintenance had not been made in the original budget. Interest payments exceeded the budget estimates due to the rapid rise in domestic nonbank borrowing by the Government. 1/

The Pakistan representatives stated that the authorities' objective was to secure a further tightening in the overall fiscal stance in 1984/85 mainly through strict restraint on current expenditures. The budget forecasts an overall deficit equivalent to 5.6 percent of projected GDP, a reduction of almost half a percentage point from the ratio of 1983/84, while bank financing for budgetary support is expected to fall to 1.2 percent of GDP. Both total revenue and tax revenue are estimated to grow by slightly over 9 percent, substantially under the GDP growth rate and indicating a buoyancy after measures of only 0.77 compared with 1.25 in 1983/84. Relatively few new measures were introduced with the budget and practically none that would improve the structure and elasticity of the tax system. The principal revenue-generating measures were price increases for petroleum products and natural gas.

With respect to expenditure, the staff noted that total outlays were to grow by about 9 percent and current outlays by only 6 percent, and inquired about the measures taken to contain current expenditure to this level after the large increases of the two previous years. The representatives explained that the allocations for current outlays were reasonable in light of several factors, mostly related to the causes of the overruns in 1983/84. Subsidies were projected to decline by 22 percent due to reduced subsidies for cement and edible oil; further savings were also possible for edible oil as the present international price projections were below those assumed in the budget. Debt servicing was forecast to increase at a much slower rate in large part due to projected lower international interest rates. Provincial budgets were reviewed in detail and the rise that occurred in 1983/84 provided the authorized expenditure levels for 1984/85 with an adequate margin.

Regarding fiscal trends in the first months of the 1984/85 fiscal year, the representatives stated in early December that recourse to financing from the domestic banking system for budgetary support had reached PRs 9 billion by November 8, compared with the forecast of PRs 5.8 billion for the year as a whole. Since thus far revenue developments had been largely in line with expectations, this outcome essentially reflected PRs 0.9 billion in external debt servicing payments that should have been made in the last days of 1983/84 but were carried over into 1984/85, and PRs 1.2 billion in supplementary capital grants to public corporations. These two items were irreversible and

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1/ Such financing of the budget bears interest costs of about 15 percent compared with the 0.5 percent cost of borrowing from the central bank.

added some 0.4 percent of GDP to the estimated bank borrowing needs for 1984/85 as a whole. However, the authorities hoped that some of the slippage in the budgetary position due to these factors would be made up later in the year. Certain favorable developments, such as higher production of crude oil and thus higher revenue from this source than originally forecast, could provide a partial offset. Taking all factors into consideration, it appears that the overall fiscal deficit and the Government's recourse to bank financing for the 1984/85 budget would be larger than originally estimated. The representatives asserted that they were keenly aware of the tight resource position of the budget and cited their refusal to grant a recent request for increasing export rebates as a case in point. Moreover, they indicated that a decision had been made to reinstitute the three-year rolling investment program within the context of the five-year development plan in order to focus on plan priorities. At the same time the ADP spending target for the five-year plan period had been reduced from PRs 225 billion to PRs 180 billion. In the area of government commodity financing, the bank borrowing requirement was expected to be the same as estimated earlier in the year.

The staff expressed the view that the current expenditure targets for 1984/85 appeared to be very tight and asked if the authorities had contingency plans in the event that expenditures were to rise faster than projected. It was also pointed out that the interest payments arising from the continued heavy reliance on domestic nonbank financing of the budget deficit in lieu of structural tax measures were contributing to the persistent rise in current outlays. The Pakistan representatives responded that no further tax or price measures would be considered during the year and that the fiscal policy targets would be achieved through expenditure control. They stated that while there was an imbalance in the revenue structure, this was an issue to be resolved in the medium term. The Government's use of private savings was temporary until measures are implemented to strengthen the tax structure.

3. Monetary and credit policies

The authorities' financial plan for 1983/84 aimed at making a partial correction for the excess liquidity created in the previous year. Net domestic assets and net claims on Government were targeted to grow at about 12 percent and 3 percent, respectively, representing a marked slowdown in use of bank credit by the Government. Claims on nongovernment sectors were targeted to grow at 18 percent, largely in line with the previous year's developments but more rapidly than the projected 13.6 percent growth in the nominal GDP. Within this group, bank borrowing by the public enterprises was to be curtailed sharply. Given the then projected balance of payments surplus, domestic liquidity was forecast to grow at 12 percent. The authorities believed that their demand management stance would contribute to containing the inflation rate to about 6.5 percent.

In the event, domestic liquidity grew by 11 percent, while nominal GDP growth at 15.4 percent was above forecast. The movement in nominal GDP encompassed a sharply lower real growth and a higher deflator than originally forecast. The excess liquidity created in 1982/83 appears to have intensified price pressures in 1983/84 as indicated by the increase in the GDP deflator to nearly 10 percent. Domestic prices were also affected by shortages of certain items. The moderation in the growth of the monetary aggregate in 1983/84 was due in part to the emergence of a balance of payments deficit and in part to a large rise in the net unclassified liabilities of the banking system. Gross credit use by the nongovernment sectors was sharply higher than the target set by the authorities, but this was offset by a rise in the net unclassified liabilities of the banking system equivalent to about 26 percent of the expansion in gross domestic assets. Such a development occurred for the second year in succession, and the authorities believe that accounting practices used by certain commercial banks with regard to their interbranch transactions and government commodity financing have been primarily responsible for this outcome. While the State Bank of Pakistan planned to implement corrective measures, adjustments in the historical data might be difficult.

Commercial bank interest rates are regulated in Pakistan and have not been altered in recent years during which period real rates have been mostly zero or negative for deposits with one-year and under maturities, although for similar maturities, returns to profit and loss sharing deposits (equivalent to about 23 percent of quasi-money) have been moderately positive; real returns on government small savings schemes have been large.

The 1984/85 credit plan provides for smaller credit increments in the current year for the major sectors with the exception of the public enterprises. Despite this, the increase in net domestic assets is projected to be nearly PRs 2 billion more than in 1983/84. This reflects the sharply lower projected growth in the net unclassified liabilities of the banking system on the assumption that movements of these items would revert to a more normal pattern. The envisaged credit stance in the nongovernment sector appears to be appropriate. The Government's credit needs have been scaled down in the current year, but very strict expenditure restraints would be needed to stay within this allocation. The staff was of the view that budgetary contingency plans should be prepared to be implemented in the event of a revenue shortfall and/or expenditure pressures began to threaten the fiscal and credit targets. The balance of payments was expected to record a deficit in 1984/85 providing a contractionary element. Overall domestic liquidity was projected to increase by 11 percent, some 4.5 percentage points below the forecast nominal GDP growth. The implied monetary restraint was appropriate in view of the excess liquidity in the economy, the pressures on the price level that were felt in 1983/84, and the weakening in the external sector position. The staff stressed the need to monitor closely credit developments and the movements in the unclassified accounts to ensure that credit control targets were not circumvented.

In early December, the Pakistan representatives said that the implementation of the credit plan was on course in the first four months of the year. In addition, some steps had been taken to correct the accounting practices of the commercial banks which had led to the build-up of their net unclassified liabilities over the past two years. In the period July 1-November 15, 1984, there had been a decline in the banks' net other items entry equivalent to about one half of the increase in 1983/84. During the July-October 1984 period, the stock of domestic liquidity did not change because of the very large decrease in net foreign assets which more than offset the expansionary impact of the large net borrowing by the Government from the domestic banking system and the decline in the banks' net other items entry. As to price movements, over the 12 months ended October 1984 the rate of inflation was 6.5 percent.

With regard to recent initiatives toward Islamization of the financial system, the Pakistan representatives stated that it was the Government's intention to shift the entire banking system to Islamic financial modes during the current fiscal year. As of January 1, 1985 all bank credit provided to the federal and provincial governments, public corporations, and public or private joint stock companies would be provided on a noninterest (profit and loss sharing) basis, and on April 1, 1985 credit to all other private entities, including individuals, would also be moved to this basis. Finally, as of July 1, 1985, no interest-bearing deposits would be accepted by the domestic banks; deposits thereafter would be only on a profit and loss sharing basis. Foreign borrowing will be governed by the terms of the loans and the operation of the commercial banks' foreign currency deposits will continue to be interest-based, as would government nonbank domestic borrowing from the private sector. In line with the Islamization objectives, the Government has issued an illustrative list of permissible modes of financing for various transactions. 1/ The staff noted the cautious approach being pursued by the authorities in shifting the banking sector to Islamic principles. This step, however, represented a new departure and its successful implementation was dependent upon supportive adjustments in both management and accounting practices.

4. Balance of payments policies

The balance of payments weakened in 1983/84; the current account deficit was almost double the level in 1982/83 and its ratio to GNP widened to 3.0 percent, from 1.8 percent a year earlier. An overall deficit of US$67 million 2/ was recorded. Total export earnings grew by less than 2 percent last year as earnings from cotton exports fell by 56 percent due to the poor crop. This, however, was partly offset by a sharp increase in earnings from rice exports due entirely to a

1/ For details, see the report on Recent Economic Developments, Annex to Section III (to be issued shortly).

2/ The deficit would have been US$125 million if certain debt service payments were not delayed beyond the end of the fiscal year.

substantially higher export volume, in part reflecting the shipment of stocks carried over from the previous year. The performance of manufactured exports was mixed and they rose by only 6 percent; the growth rate for nontraditional manufactured exports which had been buoyant in recent years slowed considerably in 1983/84. The total value of imports grew by 7 percent. The value of petroleum imports declined due to lower prices, but edible oil imports nearly tripled due to higher volume and to international prices. Other non-oil public sector imports rose by only 2 percent, while imports by the private sector were 8 percent higher in nominal terms and 12 percent in volume terms. Workers' remittances fell by 5 percent. Net long-term capital inflows amounted to US$782 million in 1983/84, compared with US$1,014 million in the previous year, in part because a structural adjustment loan from the World Bank was not obtained in view of the large external surplus in 1982/83. At end-June 1984, total civilian external debt was equivalent to 42 percent of GNP, similar to a year earlier. In 1983/84 debt service payments (inclusive of Fund charges and repurchases) increased to US$1 billion, and the debt service ratio (in terms of total current account receipts) rose by 2 percentage points to 15 percent.

The authorities' initial balance of payments projections for 1984/85 undertaken in August 1984 envisioned an overall deficit of about US$170 million, with the current account deficit to GNP ratio rising slightly to 3.2 percent. This forecast postulated an 11 percent growth in export earnings, a 2.5 percent rise in workers' remittances, and a 30 percent higher net capital inflow, while imports were forecast to rise by 9 percent. The export projection envisaged a recovery in cotton output and exports, and the authorities explained that the sharp increase in project aid disbursements reflected generally the higher project aid commitments from the Pakistan Consortium. To the extent disbursements did not rise to the expected level, the shortfall would be offset by lower associated imports.

Pakistan's gross official reserves dropped by US$684 million (or 40 percent) in the quarter ended September 1984 to US$1.1 billion and became equivalent to eight weeks of imports. In the view of the staff, this development appeared to have changed the balance of payments prospects for 1984/85 and consequently further consultation discussions were proposed to the authorities. These were held in early December and focused essentially on an examination of the causes of the drop in reserves and on a reconsideration of the balance of payments prospects for the year as a whole.

The banking data supplied to the staff showed that the balance of payments deficit over the four months July-October 1984 amounted to nearly US$600 million, while the gross reserves data for November 22, 1984 showed no further erosion from the end-September 1984 level. In the July-October 1984 period, a weak performance by remittances and exports accounted for most of the deterioration in Pakistan's external position. These two items were, respectively, 13 percent and 24 percent below their levels in the comparable period of 1983. While the relatively weak performance of cotton and rice exports were understandable given the poor cotton crop last year and the 1983/84 sales out of carry-over stocks for both commodities, most other export items also showed declines or were flat compared with the same period of last year. The Pakistan representatives explained that all cotton product exports had been adversely affected by the high domestic price for cotton lint as a result of the poor 1983/84 crop, but with the good crop this year, this situation would be self-correcting and a recovery in these exports was expected shortly. A good rice harvest was also anticipated and this would correct the weakness in first quarter rice exports. As for other exports, the authorities had set up working groups to study the performance of specific exports.

The staff observed that to achieve the export target forecast last August, exports would have to grow by an annualized rate of 22 percent over the last eight months of the year. Even after allowing for some recovery in cotton and rice exports it appeared that the initial export forecast would not be achieved and that an export shortfall (as compared with the August projections) of US$200-300 million seemed likely. Similarly the prospects for achieving the August forecast for remittances appeared improbable. If the recent trend in remittance flows continued, a shortfall (from the August projections) in the range of US$300-400 million might occur. On the other hand, imports in 1984/85 might be some US$100-150 million less than initially forecast partly because of lower petroleum imports due to the expected increase in domestic output. These revisions in estimates result in a projected current account deficit equivalent to 4.6 percent of GNP and suggest an additional full year overall external deficit in the order of US$500 million beyond the August forecast for a balance of payments deficit of US$170 million. This meant a total deficit for the year of some US$670 million, most of which had already been incurred in the first four months of the year.

Commenting on the staff assessment, the Pakistan representatives stated that the pickup in cotton and rice exports was expected to begin soon and that cotton lint exports might exceed the August forecast and provide some cushion for shortfalls in other export items. The authorities felt that the shortfall in export earnings would be less than was being estimated by the staff. Moreover, the shortfall in remittances was estimated by the authorities at only US$100-150 million. The view of the authorities was that it was too early to arrive at a precise revised forecast for the current account deficit. Consequently, while they considered the balance of payments situation worrisome, they did not wish to revise officially their initial estimates prefering to wait for the results of the second quarter of the year before developing a revised forecast and deciding whether measures were needed to shore up the balance of payments position. In this regard the Pakistan representatives indicated that while some exporters had requested increased subsidization, these pressures were being resisted in view of the limitations on budgetary resources. The staff agreed that export subsidies would be an inappropriate response and that an exchange rate adjustment would be a superior method for enhancing Pakistan's competitiveness. In this context, the authorities were encouraged to review the mechanics of the calculations of the real effective exchange rate (REER) in order to ascertain whether there were deficiencies that might have led to insufficient depreciation of the rupee against the U.S. dollar thereby causing its appreciation in real effective terms against the currencies of certain major competitors. The Pakistan representatives stated that consideration was being given to updating the weights in the currency basket and to undertaking cost studies for a number of industries to find out whether Pakistan's competitiveness had been eroded. These reviews would guide the authorities in deciding what adjustment, if any, in the rate was needed. The staff added that beyond this, however, Pakistan might need to adopt comprehensive policy measures to adjust for a permanent loss in the flow of remittances.

In EBS/83/249 (pp. 22-23), the staff reviewed the medium-term (1983/84-1987/88) balance of payments prospects based on projections prepared by the authorities. During the August 1984 discussions, the authorities presented projections for the five years through 1988/89 showing that over this period as a whole, external developments would be such that reserves would be sustained at approximately three months' imports (see Appendix IV, Table 7). As noted earlier, the Pakistan authorities have not yet revised the official balance of payments estimates for 1984/85 and without this revision re-estimating the forecast for 1985/86-1988/89 would not be meaningful. In the December discussions the Pakistan representatives observed that recent external developments underlined the hazards of undertaking a numerical medium-term forecast and that it would be preferable to handle the medium-term outlook in a qualitative manner. In any event, the authorities intended the August five-year forecasts to be indicative targets and they recognized that measures would be needed to achieve these objectives. The staff suggested that as the authorities proceeded with their exercise of reassessing the balance of payments prospects for 1984/85 and deciding on the measures that might need to be adopted to strengthen external sector performance, they might find it useful to cast this exercise in a medium-term context. The staff has calculated, for illustrative purposes, that starting with the revised estimates for 1984/85 exports would in the following four years have to grow by about 20 percent and remittances by 3 percent annually if imports are to grow by 7 percent, reserves are to be maintained at the equivalent of two months of imports, and a financing gap is to be avoided. Simulations based on more realistic assumptions regarding export and remittance growth under present policies point to a possible financing gap of the order of US$2-5 billion over the four years ending in 1988/89. A financing gap of about US$5.0 billion could emerge if remittances were to decline by 2-3 percent per annum, exports and imports were to grow by 10 percent and 7 percent per annum, respectively, and gross reserves equivalent to two months' imports were to be maintained. A financing gap could be close to US$2.0 billion if export receipts over the medium term were to grow at an average rate of 10 percent per annum and imports and remittances were to increase at average annual rates of 4 percent and 2.5 percent, respectively. The broad conclusion is that measures were likely to be needed to strengthen external sector performance and the authorities who have traditionally pursued cautious external policies could be expected to react appropriately if adverse factors threatened balance of payments viability.

5. Exchange and trade system

There has been no change in exchange arrangements since the last consultation, and a managed floating exchange system has continued to be used. There also have been no further reductions in the rates of export subsidies. In 1983/84, the rupee apprciated in real effective terms by 1 percent, and by a further 4 percent between end-June 1983 and end-October 1984, the latest month for which reasonably full price data are available. Since the last consultation, a number of changes were introduced in restrictions on invisible payments. The Pakistan representatives stated that all of these changes represented liberalizations. 1/

With regard to bilateral payments arrangements, the trade and payments arrangement with the Islamic Republic of Iran was renewed after it expired in May 1983, and it will be in effect until termination is mutually agreed upon. The Pakistan representatives stated that they are discussing with the authorities of the Islamic Republic of Iran the possible elimination of the bilateral features of the arrangement (namely, the nontransferability of balances in the clearing account as well as the concessionary interest rate provision). The bilateral payments arrangement with Hungary expires in June 1985, and the arrangement with the People's Republic of China is operative until end-1985. The Pakistan authorities intend to continue phasing down in future years the magnitude of trade conducted under these arrangements. The bilateral payments arrangements with the three Fund members constitute exchange restrictions subject to Article VIII, Section 2 (a) of the Fund's Articles of Agreement. 2/ Accordingly, the staff encouraged the authorities to eliminate the restrictive features of these arrangements as soon as possible.

The representatives stated that the changeover to a negative/restricted list import system had been completed with the 1984/85 import policy order (IPO) as the IPO contained only the negative list and the three restricted lists and the former master positive list had not been published in the IPO. Furthermore, several additional SITC categories had been deleted from the negative list and a large number of such categories had been removed from the tied list. The staff observed that the 1984/85 IPO still contained extensive positive list features, namely, lists of goods which were importable only by specified sectors or entities, and that the former master positive list was available

1/ For details, see the report on Recent Economic Developments (to be issued shortly).

2/ A statement was inadvertently included on page 1 of EBS/83/249 that Pakistan did not maintain exchange restrictions subject to Article VIII.

separately. Consequently, further progress toward the objective of exposing domestic industry to increased competition so as to enhance its efficiency and toward the free flow of technology from abroad was needed. The Pakistan representatives stated that the former master positive list was available as a separate document only for the convenience of the license issuing authority and private sector importers because in some cases the goods on the list benefited from concessional tariff rates and these goods needed to be specified. The private sector continued to find the positive list useful because it provided an easy reference by indicating which goods were importable and their SITC numbers, thus facilitating applications for import licenses. The importation of goods not appearing on the negative list was not prohibited. The sectoral positive lists helped control speculation in goods which were not directly consumed by industrial users.

In the area of tariff reform, the Pakistan representatives stated that an Interministerial Working Group had reviewed the study of the structure of effective protection undertaken by the Pakistan Institute of Development Economics. The Working Group believed that a comprehensive tariff reform would require a more up-to-date and detailed study of the cost structures of the major industrial sectors, and therefore limited its initial recommendations for adjustments in duty rates to products in certain chapters of the Tariff Nomenclature. These chapters covered mainly products or imported inputs of the engineering and pharmaceutical industries. Apart from these and certain other tariff changes, the duty on cement, a liberalized item, had been raised from 55 percent to 70 percent. The tariff reform was expected to be completed within four to five years. The staff observed that this time frame represented a substantial delay from the original target of July 1983. Both this delay and the qualifications which continued to apply to the negative list import system were likely to have adverse implications for the objective of enhancing industrial efficiency and export diversification.

IV. Staff Appraisal

Over the 1980/81-1982/83 period Pakistan made considerable efforts in implementing an ambitious adjustment program and achieved notable successes in many areas. While there were slippages and delays with regard to some objectives and in some policy areas, the authorities established a basis for further advancing their reform and adjustment efforts. Against this background the consultation discussions focused on reviewing developments in 1983/84 and assessing economic and financial prospects and policies for 1984/85.

The economy was adversely affected in 1983/84 by a weak performance in the agricultural sector, but a strong rebound in agriculture and in overall economic growth is anticipated in 1984/85. Further important progress has been made recently in rationalizing prices for hydrocarbons in response to the severe domestic energy shortage, and the procurement price of wheat for 1984/85 was increased. Elsewhere, however, the pace of cost/price rationalization appears generally to have slowed as the changes in administered prices that were announced with the 1984/85 budget were limited in scope. In particular, the increases in fertilizer prices and irrigation water charges over the past and the current years have been modest in relation to the target dates agreed with the IBRD on the elimination of fertilizer subsidies and achieving full recovery of irrigation costs.

For some time Pakistan's savings and investment ratios have been low by international standards, and this situation continued in 1983/84 when falling remittances caused national savings to decrease, while public investment under the ADP declined in real terms. Since 1982/83 public investment outlays have been financed almost entirely by internal and external borrowings.

The weakness in Pakistan's savings and investment performance reflects to a large extent structural fiscal problems. Public finance suffers from an inelastic domestic tax system, rapidly growing current outlays, and large overall deficits. With delays in the implementation of tax reform, the authorities have sought to hold budget deficits to manageable proportions by constraining development spending. Nevertheless, even these deficits have been too large to be financed safely from the domestic banking system and external resources, given the authorities' demand management and external borrowing policy objectives. Consequently, the financing of the budget has required substantial reliance on private sector savings, and this may have contributed to the weakness in private investment performance. At the same time the financing of the deficit results in an increasing burden on the budget from domestic interest payments. In view of this situation, the staff believes that there is a need to implement effective tax reform measures in order to facilitate increases in public and private investment expenditures in a context of domestic financial stability.

The authorities were successful in reducing the overall budget deficit/GDP ratio in 1983/84 by one percentage point, but this ratio as well as the bank-financed deficit ratio, were higher than originally planned. For 1984/85 the authorities are forecasting that the overall fiscal deficit/GDP ratio would decline by about one-half percentage point. However, without new measures, revenue is expected to grow at a substantially slower rate than GDP reflecting the basic inelasticity of the tax system. The reduced deficit ratio is therefore predicated on holding current expenditure growth to a very moderate pace compared with the large increases that occurred in the two previous years. The staff believes that the authorities' fiscal stance in 1984/85 is very tight and will require substantial efforts to assure its successful implementation. Already there are signs that the bank-financed deficit might exceed the budget estimate. While it is appreciated that the fiscal stance in the current year is of necessity constrained by the limitations imposed by political circumstances of an election year, it is hoped that the authorities will develop a fall-back position to be implemented in case of a revenue shortfall and/or an unexpected increase in expenditure. For the future, it is essential that a major effort be undertaken as soon as possible to implement tax reforms in order to alleviate the structural weakness in the budget and its effect on the economy's growth prospects.

The monetary aggregates grew in 1983/84 at a rate less than one half of that recorded in 1982/83, reflecting in part the turnaround in the overall external position from surplus to deficit and a further large increase in the net unclassified liabilities of the banking system which offset part of the sharp rise in gross credit. For 1984/85 the authorities are projecting an 11 percent increase in domestic liquidity, a rate several percentage points below the forecast rise in nominal GDP. Smaller increases in credit than took place in 1983/84 have been allocated to the Government and the private sector, and the balance of payments is expected to exert a contractionary impact on domestic liquidity. The staff's judgment is that while the credit plan as formulated is appropriate, its successful implementation is dependent on the authorities' ability to contain the Government's recourse to the banking system and ensure that gross credit utilization by other sectors remains in line with allocations. The authorities have taken measures to correct the accounting practices of certain commercial banks which had caused the abnormal growth in the unclassified items, and in early 1984/85 the effect of these measures was to reverse the movement. Moreover, the sharp contractionary impact of the external deficit in the first few months of 1984/85 has offset the rapid rise in net domestic credit and caused the stock of money to remain unchanged. Price pressures which had intensified somewhat in 1983/84 seem to have slowed down in the latter part of the year, and available information suggests that the recent increases were moderate.

Pakistan's balance of payments deteriorated in 1983/84 as the current account deficit widened and an overall deficit was recorded compared with a large surplus in the previous year. The weakening of the external position largely reflected a decline in remittance inflows, the impact of a poor cotton crop on exports, and lower net capital inflows. For 1984/85 the initial expectations of the authorities were for a US$100 million increase in the overall payments deficit. However, movements in gross reserves through late November 1984 and banking data on the change in net foreign assets for the period July-October 1984 show a substantial weakening, indicating that the overall deficit for the year as a whole is likely to be substantial. The anticipated good export performance has so far failed to materialize and remittances have been considerably below the levels of last year. While a comprehensive analysis of the balance of payments prospects for the medium term is not possible in the currently fluid situation, there are indications that without a strong recovery in remittances and a vigorous growth of exports considerable unfinanced gaps would emerge.

In the external sector there are two major issues of concern. These are the decline of remittances and the weak export performance. The latter issue raises the question of competitiveness, while the former in addition to raising the competitiveness issue may also imply a structural change in the balance of payments situation. The authorities are concerned about the recent course of events in the external sector and are already examining the situation while awaiting the results for the second quarter of the fiscal year to determine whether, and to what extent, the adverse trends have been reversed. In the light of this examination, they will decide what measures might be needed to strengthen the external sector's performance. Already they have, quite rightly, refused the request of exporters to expand the subsidy program. The staff is of the view that the enhancement of export competitiveness is better achieved through action on the exchange rate. The authorities have continued to operate a managed float for the rupee and are reviewing whether the procedures being followed do in fact maintain export competitiveness. The staff would encourage the authorities to make a correction as soon as possible if this examination reveals that the rupee has not been depreciating sufficiently against the U.S. dollar. Beyond this technical adjustment, however, the authorities will need to consider whether Pakistan is facing a permanent change in its balance of payments structure resulting from a major change in remittance flows and what comprehensive measures will need to be implemented to adjust to the changed circumstances.

With regard to the exchange and trade system, there was some further relaxation in 1983/84 of restrictions on certain invisible payments. However, the maintenance of bilateral payments arrangements with the three Fund members gives rise to restrictions for which the staff does not recommend approval. Formally, the conversion of the import regime from a positive list system to a negative one has been accomplished, but the import policy order is too complex and contains extensive appendices that are inconsistent with the negative list system. In the circumstances, the hoped for benefits to the economy from reforming the import system have not materialized fully. Therefore, the staff recommends that the authorities simplify the import system in order to permit the substantive purposes of the reform to take effect. With respect to tariff reform, the authorities have made first tentative moves in the 1984/85 budget, and it is hoped that they will now find it possible to move within a reasonable time framework toward rationalizing Pakistan's industrial protection system.

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

V. Proposed Decision

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

1. The Fund takes this decision relating to Pakistan's exchange measures subject to Article VIII, Section 2(a), in concluding the 1984 Article XIV consultation with Pakistan, and in the light of the 1984 Article IV consultation with Pakistan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in SM/../..., Pakistan has relaxed certain restrictions on payments for current invisible transactions. The Fund urges that the authorities remove the restrictive features of the three bilateral payments arrangements with Fund members and encourages the authorities to remove the remaining restrictions on the making of payments and transfers for current international transactions as soon as possible.

Pakistan - Fund Relations

(As of End-December 1984)

I. Membership Status

a. Date of membership — July 1950

b. Status — Article XIV

A. Financial Relations

II. General Department (General Resources Account)

		SDR Millions	Percent of Quota
a.	Quota	546.3	
b.	Total Fund holdings of rupees	1,723.36	315.46
c.	Fund credit	1,265.61	231.67
	Credit tranches	39.29	7.19
	Extended Fund facility	537.06	98.31
	Supplementary Fund facility	509.06	93.18
	Compensatory financing facility	180.20	32.98
d.	Reserve tranche position	88.55	16.21

III. Use of Fund Resources

a. Previous stand-by and extended arrangements

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

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

(2) 1977/78 stand-by arrangement

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

(3) 1974/75 stand-by arrangement

(i) Duration: one year beginning November 1974.
(ii) Amount: SDR 75 million.
(iii) Utilization: 100 percent.

b. Special facilities

(1) Compensatory financing facility

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

IV. SDR Department

a. Net cumulative allocation: SDR 169.99 million.

b. Holdings: SDR 37.40 million, or 22 percent of net cumulative allocations.

V. Administered Accounts

a. Trust Fund

(i) Disbursed: SDR 229.65 million
(ii) Outstanding: SDR 203.59 million

b. SFF Subsidy Account

(i) Payments by the Fund: SDR 38.18 million

VI. Overdue obligations

None

B. Nonfinancial Relations

VIII. Exchange System

With effect from January 8, 1982, the rupee ceased to be pegged to the U.S. dollar, and Pakistan introduced a managed floating exchange rate system based on a currency basket with the U.S. dollar continuing to be the intervention currency. As of January 15, 1984 the exchange rate was PRs 15.50 per U.S. dollar. Pakistan maintains restrictions on payments and transfers for current international transactions.

IX. Last Article IV Consultation

The last Article IV consultation discussions and a review under the extended arrangement were held in Islamabad during August 15-21, 1983, and resumed in Washington, D.C. during September 24-30, 1983. The staff report (EBS/83/249, and Sup. 1) was discussed by the Executive Board on December 21, 1983 (SUR/83/49). The Executive Board's decision [Decision No. 7588-(83/180)], adopted on December 21, 1983 was as follows:

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

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

Pakistan is on the standard 12-month cycle.

X. Technical Assistance

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

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

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

Pakistan - Financial Relations with the World Bank Group

(In millions of U.S. dollars)

	IBRD	Third Window	IDA	Total
IBRD/IDA lending operations 1/				
Fully disbursed operations 2/	781.4	32.0	960.8	1,774.2
Ongoing operations 3/	285.2	10.0	1,001.4	1,296.6
Agricultural and rural development	20.2	10.0	499.8	530.0
Education	--	--	50.0	50.0
Power and utilities	40.0	--	112.6	152.6
Transportation	--	--	100.0	100.0
Industry	88.5	--	200.0	288.5
Population	--	--	18.0	18.0
Energy	136.5	--	7.0	143.5
Other	--	--	14.0	14.0
Total 1/4/	1,066.6	42.0	1,962.2	3,070.8
Repayments	497.1	0.7	33.5	531.3
Total now held by IBRD/IDA 5/	569.5	41.3	1,928.7	2,539.5
IFC investments 6/	--	--	--	52.6

Source: World Bank.

1/ Loans and credits as of July 31, 1984.
2/ Ninety-five loans and credits fully disbursed.
3/ Includes one IBRD loan of US$43 million and five IDA credits amounting to US$174.5 million that were approved by the Board but are not yet effective.
4/ Excludes the disbursed portion of loans and credits wholly or partly for projects in former East Pakistan which have now been taken over by Bangladesh. Also excludes amounts which have been canceled.
5/ Prior to exchange adjustments.
6/ As of July 31, 1984. Gross commitment less cancellation, terminations, repayments and sales held by IFC.

Pakistan - Basic Data

Population	91.88 million (January 1, 1984 estimate) 1/
Population growth	3.1 percent per annum 1/
GNP per capita	US$367 (1983/84) 2/

Year ended June 30	1980/81	1981/82	1982/83	Prov. Actual 1983/84
	(In percent)			
Annual changes in national product aggregates (1959/60 prices)				
GNP (at market prices)	6.8	4.2	7.5	5.8
GDP (at factor cost)	6.5	6.6	6.1	4.5
Agriculture	3.7	4.1	3.8	-4.9
Industry	9.2	10.0	7.2	8.3
Services	7.0	6.5	7.0	8.0
Investment, consumption, and savings ratios				
Gross domestic fixed capital formation/GNP	13.5	13.8	13.8	13.8
Consumption/GNP	88.3	89.0	85.8	87.5
Gross domestic savings/GNP	5.2	4.7	6.2	4.8
Gross national savings/GNP	11.7	11.0	14.2	12.5
	(In millions of Pakistan rupees)			
Government finances				
Revenue	47,002	51,930	59,181	73,157
Surplus of autonomous bodies	2,019	1,909	2,286	2,565
Current expenditure 3/	40,318	46,370	59,718	73,621
Development expenditure	23,321	24,643	27,403	27,455
Overall deficit (-)	-14,618	-17,174	-25,654	-25,354
External financing (net)	(6,977)	(5,345)	(5,162)	(6,018)
Domestic nonbank financing (net)	(5,286)	(6,313)	(14,368)	(11,470)
Bank financing	(2,355)	(5,516)	(6,124)	(7,866)
	(In percent)			
Rate of change of:				
Revenue	22.1	10.5	14.0	23.6
Current expenditure	13.4	15.0	28.8	23.3
Development expenditure	22.2	5.7	11.2	0.2
Overall deficit	-0.3	17.5	49.4	-1.2
As percent of GDP:				
Revenue	16.6	16.1	16.3	17.4
Expenditure	22.5	22.0	23.9	24.1
Overall deficit	5.2	5.3	7.1	6.0
External financing	2.5	1.7	1.4	1.4
Bank financing	2.3	2.0	2.7	1.6

1/ Pakistan Economic Survey, 1983-84, Appendix II, Table 1.1.
2/ The average exchange rate of PRs 13.476 per U.S. dollar for 1983/84 was used to convert rupee per capita income.
3/ Includes development subsidies which in the ADP are classified as development expenditures.

Pakistan - Basic Data (Concluded)

	1980/81	1981/82	1982/83	Prov. Actual 1983/84
	(In millions of SDRs)			
Balance of payments				
Trade balance	-2,199	-3,034	-2,759	-3,174
Exports, f.o.b.	(2,225)	(2,039)	(2,425)	(2,540)
Imports, f.o.b.	(-4,424)	(-5,073)	(-5,184)	(-5,714)
Services (net)	-364	-481	-565	-679
Private transfers (net)	1,775	2,099	2,809	2,873
Current account balance	-788	-1,416	-515	-980
Long-term capital (net)	417	601	895	731
Errors and omissions (net)	10	9	17	40
SDR allocations	29	--	--	--
Exceptional financing	313	296	248	145
Official short-term capital (net)	(107)	(5)	(-46)	(35)
Official balance of payments assistance	(20)	(9)	(9)	(--)
Debt relief	(128)	(227)	(32)	(27)
IMF Trust Fund	(13)	(--)	(--)	(-13)
Change in foreign currency deposits	(45)	(55)	(252)	(96)
Net foreign assets (increase-)	19	510	-645	64
Memorandum items:				
Gross official reserves (end-period) 1/	920	741	1,788	1,680
Gross official reserves (in weeks of following year's imports, c.i.f.) 2/	(8.8)	(6.9)	(15.2)	(...)
	(In percent)			
Rates of change 2/				
Merchandise exports	20	-17	13	2
Merchandise imports	15	4	-3	7
Workers' remittances	20	6	30	-5
Money and quasi-money	13	11	25	11
Domestic assets (net)	15	17	16	14
Claims on Government (net)	11	12	15	9
Claims on nongovernment sectors	19	20	21	22
Consumer prices 3/	12	10	5	8
Wholesale prices 3/	13	8	4	11
GDP deflator	11	9	6	10

1/ Excludes gold.
2/ Calculated from U.S. dollar values.
3/ Change in the average level of the index compared with the previous year.

Table 2. Pakistan: National Product and Expenditure, 1979/80-1984/85

(In percent)

	Actual				Off. Proj.	Prov. Actual	Off. Proj.
	1979/80	1980/81	1981/82	1982/83	1983/84		1984/85
Real growth rates:							
GDP at factor cost	7.3	6.5	6.6	6.1	6.4	4.5	8.5
Agriculture	6.9	3.7	4.1	3.8	4.9	-4.9	10.2
Manufacturing	9.9	10.3	13.2	8.9	9.3	7.7	9.2
Consumption	10.7	3.9	3.2	3.2	6.4	7.8	8.0
Gross domestic fixed capital formation (GDFCF)	2.2	-2.4 1/	14.4 2/	14.4 2/	13.7	6.6	12.2
GNP at market prices	9.6	6.8	4.2	7.5	7.0	5.8	8.0
GDP growth at current market prices	20.4	19.3	13.8	12.9	13.6	15.4	15.6
GDP deflator change (at market prices)	9.6	10.8	9.0	6.0	6.5	9.6	6.6
Consumer prices change							
Annual average	10.7	12.4	10.0	4.5	6.5	8.3	6.6
Year end	12.6	12.1	7.1	6.6	...	7.1	...
Ratios: 3/							
Consumption/GNP	88.1	88.3	89.0	85.8	86.8	87.5	87.1
Gross domestic investment/GNP	16.3	15.0	15.8	16.0	15.9	15.5	16.0
Of which: GDFCF/GNP	(15.5)	(13.5)	(13.8)	(13.8)	(14.2)	(13.8)	(14.3)
Current account deficit/GNP	4.5	3.2	4.9	1.8	2.7	3.0	3.2
Gross national savings/GNP	11.9	11.7	11.0	14.2	13.2	12.5	12.9
Gross domestic savings/GNP	5.6	5.2	4.7	6.2	4.8	4.8	6.0
Marginal national savings rate	17.1	10.6	6.4	35.1	7.2	1.2	15.9
Marginal domestic savings rate	10.6	3.6	1.2	20.0	-2.9	-4.9	14.2

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

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

2/ For 1981/82 the high real growth rate results from a low level of investment outlays in 1980/81 in current prices and a low investment deflator substantially below the GDP deflator. For 1982/83 a similar investment deflator problem exists. The investment deflator series is being reviewed by the authorities.

3/ Calculated from current price data.

Table 3. Pakistan: Summary of Public Finance, 1979/80-1984/85

	Actual 1979/80	Actual 1980/81	Actual 1981/82	Actual 1982/83	Original Budget Estimate 1983/84	Revised Estimate 1/ 1983/84	Prov. Actual 1983/84	Budget Estimate 1984/85
	(In billions of Pakistan rupees)							
Revenue	38.5	47.0	51.9	59.2	72.7	71.5	73.2	80.0
Tax	32.5	38.8	43.0	49.0	61.4	60.1	58.4	63.9
Nontax	6.0	8.2	8.9	10.2	11.4	11.4	14.8	16.1
Surplus of Autonomous bodies	1.5	2.0	1.9	2.3	2.3	2.3	2.6	2.6
Expenditure	54.6	63.6	71.0	87.1	97.8	96.8	101.1	109.9
Current	35.5	40.3	46.4	59.7	68.5	67.6	73.6	78.1
Development	19.1	23.3	24.6	27.4	29.3	29.3	27.5	31.8
Overall deficit(-)	-14.7	-14.6	-17.2	-25.7	-22.7	-23.0	-25.4	-27.3
Financing	14.7	14.6	17.2	25.7	22.7	23.0	25.4	27.3
External (net)	7.0	7.0	5.3	5.2	8.3	8.3	6.0	6.8
Domestic nonbank	1.4	5.3	6.3	14.4	8.4	12.4	11.5	14.7
Banking system	6.3	2.4	5.5	6.1	6.0	2.3	7.9	5.8
Memorandum items:								
Domestic bank financing	7.4	6.5	6.6	9.7	4.2	1.5	6.6	5.6
Budgetary support	6.3	2.4	5.5	6.1	6.0	2.3	7.9	5.8
Commodity operations	1.1	4.1	1.1	3.6	-1.8	-0.8	-1.3	-0.2
	(As percent of GDP at current market prices)							
Tax revenue	13.7	13.7	13.3	13.5	14.7	14.4	13.9	13.2
Total revenue	16.2	16.6	16.1	16.3	17.4	17.1	17.4	16.5
Expenditure	23.0	22.5	22.0	23.9	23.4	23.2	24.1	22.7
Overall deficit	6.2	5.2	5.3	7.1	5.4	5.5	6.0	5.6
Domestic bank financing	3.1	2.3	2.0	2.7	1.0	0.4	1.6	1.2
Of which:								
Budgetary support	(2.7)	(0.8)	(1.7)	(1.7)	(1.4)	(0.6)	(1.9)	(1.2)

Source: Ministry of Finance and Economic Affairs.

1/ Official revised estimates prepared in September 1983.

Table 4. Pakistan: Factors Affecting Changes in Money and Quasi-Money, 1980/81-1984/85 1/

	1980/81	1981/82	1982/83	Official Proj. 1983/84	Prov. Actual 1983/84	July-October 2/ 1983/84	July-October 2/ 1984/85	Official Proj. 1984/85
	(In billions of Pakistan rupees)							
Money and quasi-money	12.2	11.9	29.5	18.2	16.6	2.3	-0.6	18.1
Foreign assets (net)	-1.3	-5.4	10.0	2.1	-2.3	-1.9	-8.8	-2.6
Domestic assets (net)	13.5	17.3	19.5	16.1	18.9	4.2	8.2	20.7
Claims on Government (net)	5.6	6.8	9.2	1.8	6.3	2.7	5.4	5.6
Budgetary support	(2.4)	(5.5)	(6.1)	(2.6)	(7.9)	(2.7)	(8.6)	(5.8)
Commodity operations	(4.1)	(1.1)	(3.6)	(-0.8)	(-1.3)	(-0.2)	(-3.0)	(-0.2)
Government deposits with scheduled banks	(-1.0)	(0.5)	(0.1)	(--)	(0.2)	(0.4)	(-0.3)	(--)
Zakat Fund deposits at SBP	(0.1)	(-0.3)	(-0.6)	(--)	(-0.5)	(-0.2)	(--)	(--)
Claims on nongovernment sectors	9.5	12.0	14.9	15.8	18.8	0.8	0.8	17.6
Claims on private sector	(6.6)	(9.0)	(10.9)	(13.3)	(15.2)	(0.3)	(1.4)	(13.6)
Claims on public enterprises	(2.9)	(3.0)	(4.0)	(2.5)	(3.6)	(0.5)	(-0.6)	(4.0)
Counterpart funds	--	--	-0.1	--	0.3	-0.1	0.1	--
Other items (net) (increase-)	-1.6	-1.6	-4.5	-1.5	-6.5	0.8	1.9	-2.5
	(Change in percent)							
Money and quasi-money	13.2	11.4	25.3	12.3	11.4	1.6	-0.4	11.1
Domestic assets (net)	15.1	16.8	16.3	11.5	13.5	3.0	5.2	13.1
Claims on Government (net)	11.2	12.2	14.8	2.5	8.8	3.7	6.9	7.2
Claims on nongovernment sectors	18.9	20.0	20.7	18.2	21.7	0.9	0.7	16.6
Claims on private sector	18.3	21.0	21.1	21.2	24.2	0.4	1.8	17.4
Claims on public enterprises	20.3	17.7	19.7	10.3	15.1	2.2	-2.2	14.4
Memorandum items:								
GDP (at current market prices)	19.3	13.8	12.9	13.6	15.4	...	...	15.6
Velocity	5.4	2.2	-9.9	1.2	3.6	...	...	4.1

Source: State Bank of Pakistan.

1/ Fiscal year ending June 30.
2/ The change has been taken with respect to end-June data for the previous fiscal year.

Table 5. Pakistan: Balance of Payments, 1979/80-1984/85

	1979/80	1980/81	1981/82	1982/83	Official Proj. 1/ 1983/84	Prov. Actual 1983/84	Prov. Actual July-Sept. 1984/85	Official Proj. 1984/85
	(In millions of U.S. dollars)							
Trade balance	-2,516	-2,765	-3,450	-2,989	-3,560	-3,334	-978	-3,564
Exports, f.o.b.	2,341	2,798	2,319	2,627	2,935	2,668	497	2,953
Imports, f.o.b.	-4,857	-5,563	-5,769	-5,616	-6,495	-6,002	-1,475	-6,517
Services (net) 2/	-524	-458	-547	-612	-724	-713	-306	-710
Private transfers (net)	1,895	2,232	2,387	3,043	3,364	3,018	669	3,092
Of which: workers' remittances	1,743	2,097	2,224	2,886	3,174	2,737	605	2,805
Current account balance	-1,145	-991	-1,610	-558	-920	-1,029	-615	-1,182
Long-term capital (net)	716	524	683	969	1,019	768	171	1,002
Gross official disbursements	1,054	956	1,092	1,301	1,489	1,234	295	1,418
Amortization 2/	-395	-516	-492	-420	-470	-555	-139	-517
Other (including private long-term capital)	57	84	83	88	--	89	15	101
Errors and omissions (net) 3/ (including private short-term capital)	20	13	10	18	...	42	-85	--
SDR allocations	39	37	--	--	--	--	--	--
Balance requiring official financing	-370	-417	-917	429	99	-219	-529	-180
Exceptional financing	608	393	337	269	54	152	-66	12
IMF Trust Fund	157	16	--	--	--	-14	--	-21
Debt relief	90	161	258	35	28	28	--	25
Official short-term capital (net)	52	134	6	-49	26	37	-71	8
Other official financing	278	25	10	10	--	--	--	--
Foreign currency deposits	31	57	63	273	--	101	5	--
Overall balance	238	-24	-580	698	153	-67	-595	-168
Net foreign assets (increase-)	-238	24	580	-698	-153	67	595	168
Net use of Fund credit	-79	315	345	413	-63	-15	-16	-90
Other central bank and commercial banks	-159	-291	235	-1,111	-90	82	611	258
Memorandum items:								
Total long-term capital (net) 3/	1,241	726	951	1,014	1,047	782	171	1,006
Gross official reserves (in weeks of projected imports, c.i.f.)	6.4	8.8	6.9	15.2	14.1	12.7	...	10.9
	(In percent)							
Growth rates								
Exports, f.o.b.	42.2	19.5	-17.1	13.3	11.7	1.6	...	10.7
Imports, f.o.b.	27.3	14.5	3.7	-2.6	17.2	6.9	...	8.6
Workers' remittances	24.9	20.3	6.1	29.8	10.0	-5.2	...	2.5
Current account deficit/GNP	4.5	3.2	4.9	1.8	2.7	3.0	...	3.2

Sources: Pakistan authorities and staff estimates.

1/ Projected in August 1983.
2/ Includes actual and rescheduled debt service payments.
3/ Includes "long-term capital (net)," IMF Trust Fund, debt relief, and other official financing.

Table 6. Pakistan: Actual and Projected Official Debt Service Payments, 1981/82-1988/89 1/

	Actual			Official Projections				
	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
	(In millions of U.S. dollars)							
Scheduled debt service								
Medium- and long-term debt								
Debt already contracted as of June 30, 1984	749	668	853	777	795	787	792	793
Principal	492	420	555	517	493	489	504	514
Interest	257	248	298	260	302	298	288	279
Fresh debt	--	--	--	18	31	62	87	122
Principal	--	--	--	3	6	13	16	21
Interest	--	--	--	15	25	49	71	101
Short-term debt 2/	506	496	336	233	162	96	74	74
Principal	420	432	284	181	130	75	60	60
Interest	86	64	52	52	32	21	14	14
Debt owed to the IMF 3/	214	182	146	244	408	458	374	247
Repurchases	159	80	29	111	286	356	300	214
Charges	55	102	117	133	122	102	74	33
Rescheduled debt service 4/	258	35	28	25	25	10	9	9
Principal	204	31	27	24	24	9	9	9
Interest	54	4	1	1	1	1	--	--
Debt service payments 5/								
Including the IMF	791	879	1,023	1,066	1,241	1,318	1,258	1,167
Excluding the IMF	577	697	877	821	833	860	884	920
	(In percent)							
Ratio of debt service payments to current account receipts 6/								
Including the IMF	14.0	13.2	15.2	14.8	15.7	15.4	13.4	11.4
Excluding the IMF	10.2	10.5	13.0	11.4	10.5	10.0	9.4	9.0
Memorandum item:								
Current account receipts	5,642	6,644	6,719	7,202	7,881	8,581	9,388	10,244

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

1/ Public and publicly guaranteed debt. Excludes private debt and the foreign liabilities and foreign currency deposits of commercial banks.
2/ Assumes that short-term commercial bank borrowing is lengthened in maturity and completely phased out by 1986/87.
3/ Includes Trust Fund.
4/ Takes account of provisions of the January 1981 rescheduling agreement with the Pakistan Consortium.
5/ Excludes principal repayments on short-term debt.
6/ Current account receipts exclude official transfers.

Table 7. Pakistan: Official Balance of Payments Projections, 1984/85-1988/89

	1984/85	1985/86	1986/87	1987/88	1988/89
		(In millions of U.S. dollars)			
Trade balance	-3,564	-3,313	-3,291	-3,274	-3,282
Exports, f.o.b.	2,953	3,480	3,943	4,498	5,079
Imports, f.o.b.	-6,517	-6,793	-7,234	-7,772	-8,361
Services (net)	-710	-790	-815	-854	-915
Private transfers (net)	3,092	3,171	3,251	3,332	3,415
Of which: workers' remittances	2,805	2,875	2,947	3,021	3,096
Current account balance	-1,182	-932	-855	-796	-782
(Percent of GNP)	(3.2)	(2.3)	(1.9)	(1.6)	(1.4)
Long-term capital (net)	1,002	1,211	1,288	1,325	1,355
Official assistance and debt relief 1/	12	-12	12	-11	-24
Overall balance	-168	267	445	518	549
Net use of Fund resources 2/	-90	-239	-308	-255	-181
Change in reserves 2/	258	-28	-137	-263	-368
Memorandum item:					
Gross reserves in weeks of projected imports, (c.i.f.)	10.9	10.4	10.6	11.3	...
			(In percent)		
Assumptions 3/					
Exports, of which:	10.7	17.8	13.3	14.1	12.9
Cotton	(68.9)	(70.4)	(11.1)	(17.8)	(7.0)
Other	(7.6)	(13.6)	(13.6)	(13.6)	(13.6)
Imports	8.6	4.2	6.5	7.4	7.6
Growth in workers' remittances	2.5	2.5	2.5	2.5	2.5
Increase in oil price in U.S. dollars 4/	--	2.3	4.5	4.5	4.5
Increase in world market prices for manufactures 4/	4.5	4.5	4.5	4.5	4.5
International interest rates 4/	11.5	10.3	9.0	8.5	8.0

Source: Pakistan authorities.

Pakistan - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest Data in December 1984 IFS
Real Sector	- National Accounts	1983
	- Prices	August 1984
	- Production	December 1983
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	1983
Monetary Accounts	- Central Bank	August 1984
	- Deposit Money Banks	August 1984
	- Other Financial Institutions	August 1984
External Sector	- Merchandise Trade: Values	July 1984
	- Merchandise Trade: Prices	Q1 1984
	- Balance of Payments	Q4 1983
	- International Reserves	October 1984
	- Exchange Rates	October 1984

During the past year, the reporting of data for inclusion in *IFS* has been timely.

2. Outstanding Statistical Issues

Prices

A technical assistance mission to review the compilation of the wholesale and consumer price indices visited Pakistan in July 1983 and a report was sent on February 8, 1984. No response has been received so far.

Monetary Accounts

There are some definitional differences between the data published in *IFS* and those used by the area department but these can be readily reconciled. In the past two years large increases have been recorded in net unclassified liabilities of the banking system. The causes of the underlying movements are currently under examination by the State Bank of Pakistan.

Balance of Payments

There was a technical assistance mission in balance of payments statistics in August 1984 to review recommendations made during an earlier visit. It was learned that a number of these recommendations are being implemented. During the mission the methodology for compiling data on the outstanding foreign assets and liabilities of Pakistan was reviewed and suggestions for improvements are contained in the mission's report which was sent to the authorities in December 1984.