INTERNATIONAL MONETARY FUND

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PAKISTAN

April 2021

SECOND, THIRD, FOURTH, AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT, AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Second, Third, Fourth, and Fifth Reviews Under the Extended Arrangement Under the Extended Fund Facility and Request for Rephasing of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 24, 2021, following discussions that ended on February 15, 2021, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on March 9, 2021.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.

PR21/83

IMF Executive Board Completes the Combined Second, Third, Fourth, and Fifth Reviews of the Extended Fund Facility for Pakistan

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed today the combined second through fifth reviews of the Extended Arrangement under the Extended Fund Facility (EFF) for Pakistan, allowing for an immediate purchase equivalent to about US$500 million for budget support.*
- *Program performance has remained satisfactory notwithstanding the unprecedented challenges of the Covid-19 shock, and the authorities' policies have been critical in supporting the economy and saving lives and livelihoods.*
- *The Pakistani authorities remain committed to ambitious policy actions and structural reforms to strengthen economic resilience, advance sustainable growth, and achieve the economic reform program medium-term objectives.*

Washington, DC – March 24, 2021: The Executive Board of the International Monetary Fund (IMF) completed today the second through fifth reviews of the Extended Arrangement under the Extended Fund Facility (EFF) for Pakistan. The Board's decision allows for an immediate disbursement of SDR 350 million (about US$500 million), bringing total purchases for budget support under the arrangement to about US$2 billion.

Pakistan's 39-month EFF arrangement was approved by the Executive Board on July 3, 2019 (see Press Release No. 19/264) for SDR 4.268 billion (about $6 billion at the time of approval of the arrangement, or 210 percent of quota). The program aims to support Pakistan's policies to help the economy and save lives and livelihoods amid the still unfolding Covid-19 pandemic, ensure macroeconomic and debt sustainability, and advance structural reforms to lay the foundations for strong, job-rich, and long-lasting growth that benefits all Pakistanis.

Following the Executive Board discussion on Pakistan, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"The Pakistani authorities have continued to make satisfactory progress under the Fund-supported program, which has been an important policy anchor during an unprecedented period. While the Covid-19 pandemic continues to pose challenges, the authorities' policies have been critical in supporting the economy and saving lives and livelihoods. The authorities have also continued to advance their reform agenda in key areas, including on consolidating central bank autonomy, reforming corporate taxation, bolstering management of state-owned enterprises, and improving cost recovery and regulation in the power sector.

“Reflecting the challenges from the unfolding pandemic and the authorities’ commitment to the medium-term objectives under the EFF, the policy mix has been recalibrated to strike an appropriate balance between supporting the economy, ensuring debt sustainability, and advancing structural reforms while maintaining social cohesion. Strong ownership and steadfast reform implementation remain crucial in light of unusually high uncertainty and risks.

“Fiscal performance in the first half of FY 2021 was prudent, providing targeted support and maintaining stability. Going forward, further sustained efforts, including broadening the revenue base carefully managing spending and securing provincial contributions, will help achieve a lasting improvement in public finances and place debt on a downward path. Reaching the FY 2022 fiscal targets rests on the reform of both general sales and personal income taxation. Protecting social spending and boosting social safety nets remain vital to mitigate social costs and garner broad support for reform.

“The current monetary stance is appropriate and supports the nascent recovery. Entrenching stable and low inflation requires a data-driven approach for future policy rate actions, further supported by strengthening of the State Bank of Pakistan’s autonomy and governance. The market-determined exchange rate remains essential to absorb external shocks and rebuild reserve buffers.

“Recent measures have helped contain the accumulation of new arrears in the energy sector. Vigorously following through with the updated IFI-supported circular debt management plan and enactment of the National Electric Power Regulatory Authority Act amendments would help restore financial viability through management improvements, cost reductions, regular tariff adjustments, and better targeting of subsidies.

“Despite recent improvements, further efforts to remove structural impediments will strengthen economic productivity, confidence, and private sector investment. These include measures to (i) bolster the governance, transparency, and efficiency of the vast SOE sector; (ii) boost the business environment and job creation; and (iii) foster governance and strengthen the effectiveness of anti-corruption institutions. Also, completing the much-advanced action plan on AML/CFT is essential.”

INTERNATIONAL MONETARY FUND

PAKISTAN

March 9, 2021

SECOND, THIRD, FOURTH, AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR REPHASING OF ACCESS

EXECUTIVE SUMMARY

Context. While the Covid-19 shock temporarily disrupted Pakistan's progress under the program supported by the IMF's Extended Fund Facility (EFF), the authorities' policies have been critical in supporting the economy and saving lives and livelihoods. Aside from health-related containment measures, their response included a temporary fiscal stimulus, large expansion of social safety nets, monetary policy support, and targeted financial initiatives. These measures, supported by sizable emergency financing from the international community, including under an RFI, helped contain the first Covid-19 wave of cases and the impact on the economy. Growth slowed to –0.4 percent in FY 2020 (July–June), but is expected to recover to 1.5 percent in FY 2021. The external position improved, and inflation continued to decelerate through early 2021 despite supply-driven spikes in food prices. However, a second Covid-19 wave is unfolding, triggering exceptionally high uncertainty and downside risks.

Program performance. The EFF-supported program—last reviewed in December 2019—remained on track until March 2020. However, policy priorities inevitably shifted during the height of the Covid-19 crisis. Most quantitative targets were met through June 2020 and structural reforms have been implemented (albeit many with delays), including on consolidating central bank autonomy, reforming corporate taxation, bolstering SOE management, and improving cost recovery in the power sector and vesting its regulator with more powers.

Program focus. Reflecting the challenges from the unfolding pandemic and the authorities' commitment to the medium-term objectives under the EFF, the policy mix has been recalibrated to strike an appropriate balance between supporting the economy and ensuring debt sustainability. It builds on sustaining fiscal discipline while protecting critical social spending, safeguarding monetary and financial stability, and maintaining a market-determined exchange rate. New structural benchmarks support current efforts to strengthen revenue mobilization, public financial management, energy sector viability, governance, and the AML/CFT framework.

Staff supports completion of the reviews and rephasing of access. It would make available SDR 350 million, bringing total access to SDR 1,394 million, and help anchor essential financing from other official partners and markets.

Approved By
Thanos Arvanitis and Kristina Kostial

Discussions were held over recent months, and more recently during Jan 6–February 15, 2021. The staff team comprised Ernesto Ramirez Rigo (head); Kerstin Gerling, Tannous Kass-Hanna, Christine Richmond, and Ricardo Llaudes (all MCD); Svetlana Cerovic (FAD); Hui Miao and Carlos de Barros Serrao (MCM); Faezeh Raei and Jongsoon Shin (SPR); Teresa Daban-Sanchez (Resident Representative); Zafar Hayat and Saher Masood (both Islamabad office). Jonathan Pampolina (LEG) joined for parts of the discussions. Marijn Verhoeven (FAD) assisted the team on tax reform discussions. Saeed Ahmed (OED) participated in policy discussions. Jesus Sanchez and Tetyana Sydorenko (MCD) provided research assistance and Maria Orihuela-Quintanilla provided document management (MCD).

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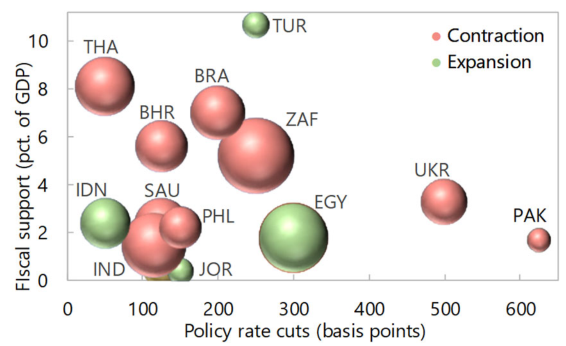
RECENT ECONOMIC DEVELOPMENTS

1. **Prior to the Covid-19 pandemic, the Pakistani economy was turning the corner**. Decisive policy and reform implementation under the EFF-supported program started to reduce economic imbalances and set the stage for improving economic performance. Importantly, under the new market-determined exchange rate, the external position and confidence in the rupee strengthened, attracting considerable foreign participation in the domestic debt market. Fiscal reforms started to improve budgetary discipline and broaden the tax base, mainly by eliminating concessions and exemptions and greater coordination with provinces. The strengthening of social safety nets and a rise in health and social spending helped improve the protection of the most vulnerable; and the adjustments of energy tariffs brought them closer to cost recovery. Inflation started to stabilize, and market confidence gradually returned.

2. **However, the Covid-19 shock forced the authorities to shift their policy priorities toward supporting the economy and saving lives and livelihoods**. Their policy response was enabled by the fiscal and monetary policy gains attained in the first nine months of FY 2020. Aside from health containment measures, the authorities executed a proactive and comprehensive set of measures, including a temporary fiscal stimulus, large expansion of the social safety net, monetary policy support and targeted financial initiatives.[1] They allowed the exchange rate to act as a shock absorber. Sizeable emergency financing from the international community has helped ease financing pressures, including from the IMF's Rapid Financing Instrument (RFI) and G20 Debt Service Suspension Initiative (DSSI).

Policy Support and FY 2019/20 Growth 1/
(Percent of GDP)



Sources: Authorities; Haver Analytics; IMF staff calculations.
1/ Policy support in February–June 2020. Bubble size reflects change in real GDP (in July 2019–June 2020 relative to the same period the year before).

3. **Those actions have mitigated the human and economic impact of the pandemic**. The first Covid-19 wave started to abate over the summer, but a second wave hit Pakistan in the fall and peaked in December 2020, although with a lower number of cases and less severe lockdowns than observed in peer countries (Annex I). In that context, an economic recovery has gained momentum (Tables 1–8).

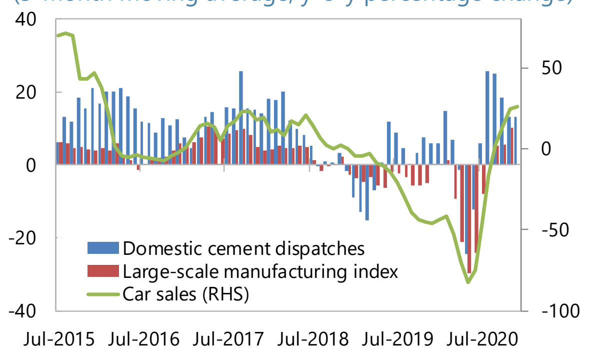
- ***Growth shows signs of revival***. Real GDP contracted modestly by 0.4 percent in FY 2020, a first since 1952, triggered by a significant drop in manufacturing and services as a result of the Covid-19 containment measures. Following the easing of lockdowns, high-frequency indicators suggest a growth rebound since the summer, pulled by manufacturing, construction and

[1] See Annex I for a detailed account of the course of the pandemic and the Pakistani authorities' policy response.

agriculture. However, activity in the services sector—contributing more than 60 percent to GDP—has remained hampered by persisting social distancing measures and the second wave of Covid-19. Nevertheless, consumer and business sentiments have further strengthened over the fall of 2020.

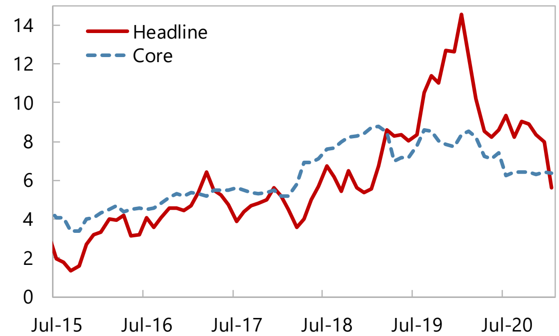
- ***Inflation continues to ease***. After spiking at 14.6 percent (y-o-y) in January 2020, and again in late summer, headline inflation fell to 5.7 percent in January 2021, its lowest rate in two years, mirroring soft domestic demand, low international prices, and the recent improvements in supply conditions of food items, including through strategic imports by the government. Core inflation remains subdued in line with tepid demand-side pressures. Wages have continued their downward trend amid spare capacity in the labor market.

Key High-Frequency Indicators, 2015M07–2020M12
(3-month moving average, y-o-y percentage change)



Sources: Pakistani authorities; IMF staff calculations.

CPI Inflation, 2015M07–2021M01
(Y-o-y percentage change, FY 2015/16=100)



Sources: Pakistani Bureau of Statistics; IMF staff calculations.

- ***Monetary policy remains accommodative***. The State Bank of Pakistan (SBP) cut the policy rate sharply by a cumulative 625 basis points amid the Covid-19 shock to 7.0 percent between March and June 2020 to support the economy. It also expanded the existing refinancing facilities and introduced new ones, bringing SBP refinancing to commercial banks to a record level and supporting the recovery of credit (4.8 percent y-o-y in December 2020).

- ***The banking sector remains stable***. It was well capitalized entering the crisis and financial sector indicators appear sound as of December 2020 (Table 6). The average capital adequacy ratio (CAR) stood at 18.6 percent. Gross non-performing loans (NPLs) have increased somewhat to 9.2 percent of total loans,[2] but the bulk of NPLs are provisioned (88.3 percent at end-September 2020). So far, the banking system seems to have weathered well the SBP's targeted financial initiatives, such as the deferment of principals and loan restructuring.

- ***External imbalances have improved significantly***. The current account deficit fell to 1.1 percent of GDP in FY 2020, better-than-projected at the RFI, and turned into a surplus of 0.4 percent of GDP in the first half of FY 2021. The main drivers include the fall in oil prices, increase in inflows of remittances, import compression following the decline in domestic

[2] Exposure to the energy and textile sector stayed high at 15.4 and 14.9 percent of outstanding loans, respectively.

demand, and a mild export recovery (notably in textiles). More recently, imports show signs of recovery in line with stronger economic activity and higher oil prices. International reserves grew to US$13.4 billion by end-December 2020 amid continued official and private inflows, and foreign exchange (FX) purchased by the SBP.

- ***Prudent fiscal policies continued***. The primary deficit narrowed to 1.8 percent of GDP in FY 2020, implying a fiscal effort of 1.8 percent of GDP. The good fiscal performance early in the year allowed the authorities to absorb a Covid-19 shock drop in tax revenues of 1.4 percent of GDP and to adopt targeted fiscal measures of 1.7 percent of GDP to meet Covid-related needs in the last quarter of FY 2020. This outturn mainly reflects (i) careful spending management; (ii) prudent execution by provincial governments; and (iii) higher SBP dividend transfers. These efforts carried over into the first half of FY 2021, delivering a primary surplus of 0.7 percent of GDP (exceeding projections by about 0.75 percent of GDP). While tax revenues (net of refunds) grew by 12 percent y-o-y, primary spending remained strictly controlled. Public debt, despite the Covid-19 shock, grew only by 2 percentage points of GDP over FY 2020, although it is elevated at 92.8 percent of GDP. Finally, the government has relied on domestic bank and external financing and refrained from SBP borrowing since the EFF-supported program started.

PROGRAM PERFORMANCE

4. **The EFF-supported program has been an important anchor in an unprecedented context**. Although policy priorities inevitably shifted and implementation pace slowed amid the Covid-19 crisis, the authorities have remained committed to the EFF's medium-term objectives in the face of challenging economic and political conditions:

- ***Quantitative targets***. Between end-December 2019 and end-September 2020, the last date for which ITs were set prior to the crisis, the authorities met several targets by large margins (MEFP Table 1), including those on net international reserves, net domestic assets of the central bank, and no government borrowing from the SBP. They also met the target on targeted cash transfer spending at end-June 2020. However, they missed other fiscal targets, set prior to the pandemic, because of the need to make room for essential mitigation and support measures. Furthermore, they missed the target on government guarantees after conducting significant improvements in the database, with World Bank assistance, and identifying some previously omitted guarantees.

- ***Structural reform agenda***. Notwithstanding the challenges from the Covid-19 crisis, the authorities have continued to advance the program's structural reform agenda and achieved most of the twelve structural benchmarks (SBs) that fell due during this relatively long review period, albeit many with delay and supported by five prior actions (PAs) (MEFP Table 2), which are critical to ensure achieving program fiscal objectives, financial viability of the power sector, and institutional strengthening. Parliament was scheduled to convene to adopt a corporate tax reform in March 2021 (*PA*) and the National Assembly received a mid-year budget review on time in February 2020. The amendments to the SBP Act were submitted to parliament in March 2021 (*PA*). In the energy sector, parliament was scheduled to convene to adopt amendments to the National Electric Power Regulatory Authority (NEPRA) Act (*PA*) and the cabinet approved a circular debt management plan (*PA*). The authorities also adjusted electricity prices and took first steps to reform energy subsidies (*PA*). Moreover, they submitted a new SOE law to parliament and published a triage of all SOEs in March 2021. They also published audits of key SOEs: Pakistan International Airlines and Pakistan Steel Mills in January and July 2020, respectively. Reflecting capacity constraints and Covid-related difficulties, the authorities have experienced delays on three much-advanced reforms, including the (i) GST and PIT reforms; (ii) full implementation of FATF actions 9 and 10 to improve the effectiveness of their AML/CFT regime (*reset for end-June 2021*); and (iii) update of the BISP beneficiaries' database (*reset for end-June 2021*). They also missed the two continuous SBs on the avoidance of further tax amnesties and new preferential tax treatments after launching a temporary tax amnesty for construction in July 2020 (extended for one year in December 2020).

OUTLOOK AND RISKS

5. **The economic outlook continues to be uncertain**. Growth projections are broadly unchanged from the RFI request (Table below and Tables 1–8).

Pakistan: Selected Economic Indicators, FY 2017/18–25/26

	2017/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
			Prel.			Proj.			
Real GDP growth (%)	5.5	1.9	-0.4	1.5	4.0	4.5	5.0	5.0	5.0
Consumer prices (period average, % change)	3.9	7.3	10.8	8.7	8.0	7.3	6.5	6.5	6.5
Gen. gov. overall balance (incl. grants, %GDP)	-6.4	-9.0	-8.0	-7.1	-5.5	-3.9	-3.9	-3.5	-2.9
Gen. gov. primary balance (underlying, excl. grants, %GDP) 1/	-2.2	-3.6	-1.8	-0.5	0.8	1.5	1.6	1.6	1.6
Gen. gvt. debt (incl. guarantees and IMF obligations, %GDP)	76.2	90.7	92.8	92.9	88.2	82.1	77.7	73.3	69.2
Current account balance (%GDP)	-6.1	-4.9	-1.1	-1.5	-1.8	-2.0	-2.4	-2.7	-2.9
External debt (%GDP)	30.0	37.5	41.3	42.1	41.7	40.3	39.2	38.8	36.6
Gross official reserves (billions of US$)	9.8	7.3	12.2	14.4	17.8	19.0	21.1	23.8	25.7
Gross official reserves (months of next year's GNFS imports)	1.9	1.7	2.7	2.9	3.3	3.3	3.3	3.5	3.5
Gross official reserves (% IMF reserve adequacy metrics) 2/	48.3	35.0	55.4	61.6	70.7	71.1	72.4	76.4	81.9

Sources: Pakistani authorities; IMF staff estimates and projections.
1/ Excludes one-off transactions, incl. asset sales (Tables 4a and b). 2/ Assumes a flexible exchange rate and no capital controls.

- ***Real GDP growth*** is projected to remain subdued at 1.5 percent in FY 2021—consistent with the forecasted course of the pandemic and vaccinations, and global recovery in the WEO baseline—and recover to 4 percent in FY 2022 as the vaccine rollout, confidence, and investment take hold. Growth is expected to gradually improve, but only reach its medium-term potential of 5 percent in FY 2024, later than envisioned in the first EFF review, due to the large shock and the need for continued fiscal adjustment, which is expected to offset some of impact of the stronger private sector growth on the overall economy.

- ***Average CPI inflation*** is expected to average 8.7 percent in FY 2021 and 8 in FY 2022, as continued high food prices and energy price adjustments outweigh soft international oil prices and weak domestic demand.

- ***The current account deficit*** is forecast to widen to 1.5 percent of GDP in FY 2021, as a result of the recovery and it should continue to gradually widen toward 3 percent over the medium term with stronger imports triggered by revived domestic demand and exports. However, the market-determined exchange rate, together with adequate monetary policy, would help strengthen reserve cover to over 3½ months of imports by FY 2025.

- ***Debt*** is projected to enter a downward path with narrower twin deficits: public debt is forecast to fall toward 70 percent by FY 2026 and total external debt below 40 percent of GDP by FY 2024.

6. **Substantial risks cloud the outlook, amplified by the Covid-19 pandemic**. These fall under four broad groups: First, high uncertainty—notably around the global recovery and thus the prospects for growth, trade, and remittances—arises from the second wave of the pandemic and emergence of new strains worldwide. These could reverse the current course of the pandemic in Pakistan and require additional mitigation efforts, especially if domestic vaccination efforts were to stall. Second, policy slippages remain a risk, amplified by weak implementation capacity and influential vested interests. This particularly affects the fiscal area and thus debt sustainability, including the risk with provinces under-delivering on their commitments to budget parameters. Third, failures to meet program objectives, including those related to the authorities' AML/CFT action plan with the Financial Action Task Force (FATF), could hamper external financing and investment. Fourth, geopolitical tensions could increase oil prices and an adverse shift in investor sentiment affect external financing. At the same time, an upside for growth and program objectives arises from the political calendar: with the senate election having taken place in March 2021, there is a window to accelerate reforms until the general elections scheduled for August 2023. The Debt Sustainability Analysis (DSA, Annex III) confirms that public debt remains sustainable with strong policies, but also points to risks from policy slippages and contingent liabilities.

POLICY DISCUSSIONS

Amid the evolving Covid-19 shock, staff supported the authorities in recalibrating the macroeconomic policy mix and formulating a package of measures that strikes a balance between supporting the economy, ensuring debt sustainability, and advancing structural reforms while maintaining social cohesion. The program builds on five pillars: (i) sustaining fiscal discipline anchored on medium-term consolidation, while mobilizing revenues and controlling spending to make space for more infrastructure and social spending; (ii) ensuring disinflation through an adequate monetary policy stance; (iii) preserving the market-determined exchange rate and continuing rebuilding external buffers; (iv) restoring the financial viability of the energy sector; and (v) advancing structural reforms, including by addressing deficiencies in the AML/CFT regime, SOE governance, and the business climate.

A. Fiscal Policies

Background

7. **A gradual improvement in the primary balance remains the key fiscal anchor to ensure fiscal sustainability and build resilience**. The authorities recognize that the elevated debt burden makes Pakistan susceptible to shocks and remain firmly invested in the program's fiscal strategy

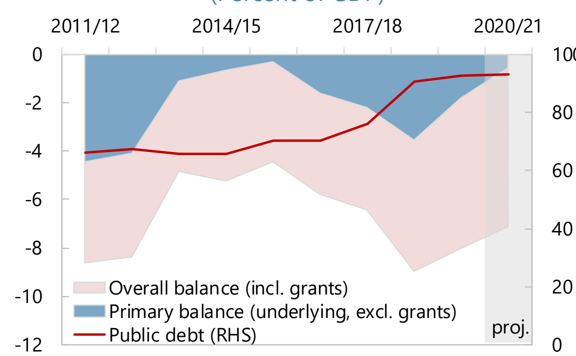
based on spending discipline and an ambitious revenue mobilization effort supported by high-quality, permanent tax policy measures and administration reforms. In the medium term, their strategy aims to increase tax revenues by 3–4 percentage points of GDP. However, revenues during the program period are expected to remain below projections at the first EFF review due to the challenge of the Covid-19 shock and resulting large revision to the growth outlook compared to the first EFF review. Nevertheless, increasing revenues over the medium term will be essential to ensure debt sustainability while creating space for much-needed social and development spending.

Policy Discussion

8. **The fiscal program for FY 2021 targets an underlying primary deficit of 0.5 percent of GDP (excluding grants and one-off spending)**. This is in line with the budget adopted in June 2020 and balances the program debt sustainability objectives against the economy's cyclical position. Execution was broadly on track until end-December 2020 (¶3). Key aspects of the FY 2021 fiscal program are:

Fiscal Developments, FY 2011/12–20/21

(Percent of GDP)



Sources: Pakistani authorities; IMF staff calculations.

Fiscal Consolidation, FY 2020/21

(Percent of GDP)

Underlying primary deficit reduction (excl. grants)	**1.3**
Deficit-enlarging measures	**-1.1**
Revenue reduction	-0.8
Lower SPB profits	-0.8
Spending increase	-0.3
Higher social and health spending	-0.3
Deficit-reducing measures	**2.1**
Phasing-out of Covid-related measures	0.9
Revenue increase	0.5
Higher petroleum surcharge	0.3
Non-tax other than SBP profit	0.2
Spending reduction	0.7
Lower current federal spending	0.6
o/w civil government and pensions	0.3
o/w lower subsidies	0.3
Lower development spending	0.1
Automatic stabilizers	**0.3**
One-offs	**0.6**
Power sector spending	0.6

Sources: Pakistani authorities; IMF staff estimates.

- ***Stronger revenues***. Revenues are expected to increase by 0.5 percent of GDP from FY 2020 due to the net impact of: (i) revenue measures (especially a hike in the petroleum levy on gasoline and diesel toward PRs 30/liter); (ii) reinforced tax administration efforts; and (iii) automatic stabilizers. The authorities have made an important step in their multi-year tax policy strategy by committing to parliamentary adoption of a comprehensive corporate income tax (CIT) reform in March 2021 (*PA*). The reform simplifies the CIT system by streamlining numerous tax exemptions and bringing provisions in line with best international practices (including tax credits, accelerated deductions, exempted income, reduced tax rates, and tax liability reductions).

- ***Reprioritizing and improving spending efficiency***, through: (i) the gradual unwinding of crisis-related spending, notably the withdrawal of the exceptional support schemes to households and businesses (Annex I); (ii) rationalization of non-priority current spending and streamlining of subsidies (¶21); and (iii) recalibration of development spending to reflect Covid-related execution delays. At the same time, the program accommodates targeted and one-off increases to social spending, including a substantial expansion of the Benazir Income Support Program (BISP, ¶11) and health care spending, by 80 and 31 percent respectively, and includes a Covid-19 related spending adjuster (up to 0.5 percent of GDP) to mitigate the economic and human impact of the crisis beyond the baseline. It also supports power sector reforms (¶22) by facilitating the clearance of arrears to independent power producers (IPPs) and the assumption of a share of the Power Holding Private Limited's (PHPL) publicly-guaranteed debt to unlock critical medium-term cost savings in the power sector (¶22).

- ***Provincial contributions***. The provinces formally agreed again to contribute to the federal government's fiscal strategy via Memoranda of Understanding (MoU), targeting a surplus of around 0.5 percent of GDP in FY 2021, conditional on FBR tax collection. To achieve this, they will increase their tax revenues by at least 0.1 percent of their respective provincial GDPs relative to their FY 2020 performance and constrain the expenditure side while protecting health and education spending.

9. **Ambitious tax policy reforms will underpin the FY 2022 budget**. The authorities' key fiscal objective remains to broaden the tax base, reduce informality, and simplify and modernize the tax system. In this regard, they plan to introduce a high-quality tax reform package in the FY 2022 budget (of about 0.7 percent of GDP), based on the recommendations of previously provided technical assistance (TA). It builds on two pillars (MEFP ¶8):

- ***General sales tax (GST)***. The GST reform will broaden the GST tax base and harmonize the system between federal and provincial governments. Specifically, it will: (i) eliminate non-standard preferential rates and tax exemptions, and bring those goods to the standard rate of 17 percent; (ii) harmonize the service sales tax across provinces, in coordination with the World Bank; and (iii) unify the current fragmentation with services subject to provincial taxation and goods under federal government taxation.

- ***Personal income tax (PIT)***. The PIT reform will simplify the system, increase progressivity and support labor formalization.[3] It will: (i) reduce the number and decrease the size of the current income slabs; (ii) halve current tax credits and allowances (except those for disabled and senior citizens, and Zakat receipts); (iii) introduce special tax procedures for very small taxpayers; and (iv) bring additional taxpayers into the net.

10. **Other broad-based reforms will improve the fiscal framework**. Specifically (MEFP ¶¶9–10):

- ***Strengthening tax administration***. The authorities recognize that tax administration reforms and enforcement efforts need to complement their tax policy measures. Leveraging TA (including from the IMF and World Bank), the authorities plan to: (i) introduce a centralized, risk-based

[3] At only 2.1 percent of GDP in FY 2018, PIT collection is low relative to peer countries. This is due to (i) high labor market informality with only 1.9 percent of the labor force being active PIT taxpayers; (ii) insufficient progressivity with only incomes above 91 times GDP p.c. paying the top marginal rate of 35 percent and 72 percent of taxpayers paying 5 percent or less; and (iii) generous tax expenditures, including exemptions and tax credits.

compliance function; (ii) update IT and automation; (iii) use third-party data, cross-checks and analysis; (iv) simplify registration and filing processes; (v) modernize and target audit practices; and (vi) bolster the large taxpayer office (LTO). Efforts will also be made to establish a single filing, taxpayer, and return portal, and redress high outstanding tax arrears. To contain smuggling, the authorities will reintroduce the track-and-trace system for tobacco products by end-FY 2021 (*new end-June 2021 SB*).

- ***Enhancing Public Financial Management (PFM)***. The authorities have taken important steps, including through the presentation of a mid-year budget review to the National Assembly in February 2020 (*end-February 2020 SB*) and February 2021. With IMF TA, they have also created new coordination mechanisms for cash and debt management, tightened procedures for supplementary grants, and disclosed first fiscal risks and contingent liabilities in the FY 2021 budget. They are also ramping up operations in the recently established macro-fiscal unit in the Ministry of Finance to better monitor fiscal risks, and in the planning commission to improve the efficiency of public investment spending. While some steps have faced delays, the authorities are committed to achieve a functional single treasury account (TSA-1) by May 2021 (*new end-May 2021 SB*), move swiftly to TSA-2 and improve, with EU assistance, their annual and multi-annual commitments control systems. Improving the budget process to achieve greater spending efficiency and control remains another priority.

- ***Improving debt management***. Notwithstanding notable strides in enhancing debt reporting and debt management, more progress on tackling long-standing institutional and technical capacity weaknesses is crucial, most importantly by fully implementing the medium-term debt strategy and establishing a central debt management office (Box 1). In addition, the authorities continue to focus on lengthening the maturity profile of public debt to lower rollover risks, while balancing the impact on financing costs.

- ***Safeguarding the quality and transparency of Covid-related spending***. The authorities are committed to the timely publication of: (i) awarded contracts and beneficial ownership information of bidding and awarded legal persons on a centralized and publicly accessible website of the Public Procurement Regulatory Agency (*new end-April 2021 SB*); and (ii) an ex-post audit by the Auditor General of Pakistan of the procurement of Covid-related supplies and social payments (*new end-April 2021 SB*).

B. Poverty Reduction and Social Protection

Background

11. **The authorities have made important strides in expanding social safety nets, and other policies aimed at reducing poverty**. This remains key to catching up to peers' levels of economic and human development and garnering broad buy-in for their policies. As noted earlier, the authorities increased the FY 2021 budget allocation for BISP spending by almost 80 percent over its FY 2020 execution level (excluding one-off Covid-related spending). This follows the January 2020

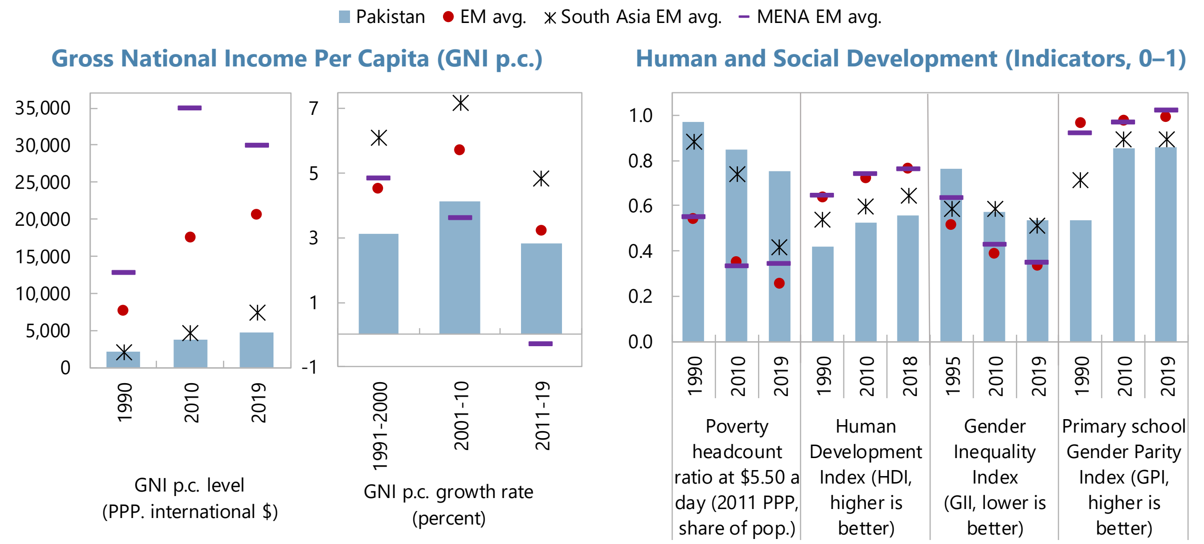
Box 1. Debt Management

The authorities have made notable strides in managing Pakistan's public debt, including on the medium-term debt strategy (MTDS) and debt management office (DMO). Nonetheless, more progress on tackling long-standing institutional and technical capacity weaknesses is crucial to further enhance debt reporting and debt management. In doing so, the authorities continue to rely on technical assistance (TA) from international partners, including from the IMF and the World Bank.

- ***Implementing the Medium-Term Debt Strategy (MTDS) for FY 2020–23***. The authorities focus on advancing six key pillars:
  - *(i)* *Lengthening the maturity profile of domestic debt*. The average time to maturity (ATM) of domestic debt held by the market stood at 2.6 years at end-2020, an increase of 0.6 years since July 2019.
  - *(ii)* *Boosting transparency and investor relations*. Publication has started of a monthly, 3-month forward-looking auction calendar for government securities and investor seminars. However, a more active engagement of market participants would be desirable and could include more periodic meetings, conference calls, and investor presentations as well as consultations.
  - *(iii)* *Diversifying instruments and investor base*. Several new instruments were recently introduced (including 15-, 20-, and 30-year fixed-rate Pakistan Investment Bonds (PIBs) and 3- and 5-year floating-rate PIBs) or re-introduced and scaled up (particularly Shariah-compliant instruments). In addition, a ban was imposed on institutional investments in National Saving Schemes to enhance institutional participation in competitive primary and secondary markets of long-term debt.
  - *(iv)* *Maintaining adequate cash buffers*. Budget reserves need to remain well-funded for liquidity and liability management purposes, commensurate with fiscal vulnerabilities and the government's commitment to zero borrowing from the State Bank of Pakistan (SBP). Recent IMF TA also highlights the importance of improving cash forecasting and better coordinate debt and cash management.
  - *(v)* *Garnering concessional external financing*. Favorable financing terms and conditions have persisted, both from multilateral development banks and bilateral partners. Also, participating in the G20 Debt Service Suspension Initiative (DSSI) amid the Covid-19 crisis has resulted in debt suspension through the end of FY 2021 by an estimated US$2.6 billion (0.9 percent of FY 2021 GDP).
  - *(vi)* *Facilitating investment by non-residents*. Foreign participation in domestic debt auctions has markedly increased in the first half of FY 2020, only to be reversed by the Covid-19 crisis, and the ensuing monetary policy response. Going forward, more efforts to encourage such participation and tap into the international capital markets would help decrease the reliance on domestic resources and hence reduce crowd-out effects.
- ***Establishing a central debt management office (DMO)***. It will replace the current decentralized institutional framework, characterized by a duplication of responsibilities, deficient coordination, and inconsistencies of strategies and implementation. The authorities are following the recommendations of the joint IMF-World Bank TA on the Institutional Framework for Debt Management conducted in early January 2020. Hence, they are establishing proper rules of business (describing the DMO's activities and organization) and plan to seek parliamentary approval of the requisite amendments by end-June 2021. They also expect to finalize the setup of the front-, middle- and back- offices of the new DMO by end-June 2021; complete staff recruitment by end-September 2021; and migrate relevant functions to DMO from other parts of government agencies by end-December 2021. Meanwhile, the Finance Division has assigned additional functions to the existing Debt Policy and Coordination Office and approved an organogram which will allow for hiring additional staff commensurate with the responsibilities. Moreover, the Finance Division is enhancing cooperation with other government units, such as the Economic Affairs Division, to ensure accurate compilation and reporting of debt-related statistics, starting with the establishment of a new Working Group in February 2021.

increase in BISP beneficiaries' cash stipends by 20 percent. Furthermore, they increased the cash transfers for primary education (Waseela-e-Taleem) to boost girls' enrollment and developed a nutrition program for mother and children to reduce stunting. When Covid-19 hit, the authorities launched the Ehsaas Emergency Cash (EEC) program that provided immediate one-time financial support until end-September 2020 to almost 15 million households identified with the support of the provinces (MEFP ¶11). At the same time, the pandemic has slowed the update of the National Socio-Economic Registry (NSER, *end-June 2020 SB*), as social distancing measures complicated the field work.

Socioeconomic Indicators 1/



Sources: World Bank WDI; UNDP; IMF staff calculations.
1/ Simple averages using country data for the indicated year or the last available observation within a -/+ 3-year window.

Policy Discussion

12. **Further progress remains crucial to reduce hardship among the most vulnerable** (MEFP ¶12). Staff embraced the authorities' determination to fully execute the augmented budget allocation for BISP spending.[4] This will support their ongoing expansion of the BISP program's coverage from 3.4 to 6 million households within the current FY. In this regard, staff called for finalizing the update of the NSER database (*end-June 2020 SB, reset to end-June 2021*), which will allow for better reflecting Pakistan's poverty structure and thus to ensure a well-targeted expansion of the BISP beneficiary base and design of new programs. Going forward, staff recommended further increasing BISP stipends and introducing an adequate indexation of benefits; and better aligning educational cash transfers (under BISP) with actual child schooling costs to boost school enrollment, attendance, and educational outcomes over the medium term.

[4] Administrative bottleneck—which had caused an underexecution in Q2 and Q3 FY 2020, notably the removal of more than 800,000 individuals from the program as part of the NSER update and the slower-than-expected enrollment of beneficiaries in new bank accounts—had been fully resolved by mid-2020 (MEFP ¶12b).

C. Monetary and Financial Sector Policies

Background

13. **Preemptive monetary policy easing has been crucial in navigating the COVID-19 shock**. Enabled by stronger international reserves and the ability to absorb shocks through the market-determined exchange rate, the SBP (Annex I): (i) cut its policy rate by 625 basis points cumulatively since March 2020; (ii) sizably expanded its refinancing facilities; and (iii) introduced temporary regulatory measures. Consequently, refinancing reached a record level of PRs 1,013 billion at end-October 2020, and private credit demand recovered to 4.8 percent y-o-y in December 2020. Inflation pressures have waned well into early 2021 amid soft domestic demand conditions, a delay of programmed energy price adjustments, and more recently by improved food supply conditions and the government's strategic imports.

Policy Discussion

14. **The current accommodative policy stance remains appropriate in view of the considerable slack in the economy, the more constrained fiscal policy, and the absence of balance of payment pressures**. Monetary conditions are thus expected to continue supporting the recovery in the near term, barring unforeseen developments. Once the recovery becomes more entrenched and the economy returns toward full capacity, measured and gradual adjustments in the policy rate should follow to help achieve mildly positive real interest rates. The authorities concurred that monetary policy should remain data-driven on a forward-looking basis to anchor inflation within the SBP's target range of 5–7 percent over the medium term, with due consideration of public policies' price impact and tradeoffs. Staff welcomed the introduction of forward guidance in the January 2021 monetary policy statement as an important step to strengthen communication and monetary policy transmission.[5]

15. **Once the crisis starts to abate, the authorities should phase out the temporary Covid-19 response measures**, particularly those aimed at sustaining economic activity (including through targeted sectoral schemes) (Annex I):

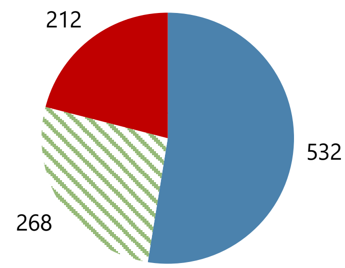
- ***Refinancing schemes*** (MEFP ¶15). Already prior to the crisis, the SBP had been expanding refinancing schemes to address long-standing large credit gaps and market failures. It has further expanded those since March 2020 by (i) establishing three new temporary facilities and (ii) extending the existing ones. The SBP has allocated over 1.8 percent of GDP to the facilities, of which banks drew about 0.5 percent of GDP through October 2020.[6] Staff cautioned that this

[5] Monetary policy transmission remains weak, mainly due to a delayed interest rate pass-through that reflects sizable refinancing schemes at subsidized rates, shallow secondary markets for government securities and private bonds, and high demand for currency that reduces the money multiplier.

[6] As of end-October 2020, refinancing facilities had increased by more than 60 percent since end-December 2019 and stood at 13.2 percent of the SBP's net domestic assets and about 15 percent of private sector credit.

expansion, if not temporary, risks undermining the SBP's efforts to credibly implement monetary policy, achieve its primary objective, and improve monetary policy transmission channels. The authorities agreed that the emergency measures should be temporary, but they believed that in the current context, the risks to the economy of a too early withdrawal outweigh the risks highlighted by staff. However, they agreed to review the terms of the three new facilities depending on the Covid-19 situation. Going forward, the amended SBP Act allows refinancing facilities only in pursuit of the SBP's mandate, and without compromising the primary objective of price stability.

SBP Refinancing Schemes
(Billions of Pakistani rupees; October 31, 2020)



Sources: SBP; IMF staff calculations.

- ***Housing package*** (MEFP ¶14). In July 2020, the SBP introduced mandatory targets on banks to double to 5 percent the share of their lending portfolio to the housing and construction sectors by December 2021. As an incentive, the SBP allowed compliant banks to lower their reserve requirements. Staff urged the authorities to unwind this measure out of concerns for financial stability and efficiency.[7] It noted that a direct and well-targeted budget subsidy program for the vulnerable parts of the population would be a more effective way to achieve social policy objectives, and recommended stronger focus on addressing long-standing structural deficiencies to support private sector lending.

- ***Regulatory measures*** (MEFP ¶17). To safeguard financial sector stability, staff encouraged the authorities to prepare to phase out temporary regulatory measures introduced since March 2020. Those include a relaxation of lending standards and payment deferrals, even if so far, banks have only limitedly taken advantage of them. Due to regulatory forbearance, including payment deferrals, there is uncertainty around the full extent of potential losses that will be realized as and when these measures are unwound.

16. **Progress continues toward bolstering the SBP's autonomy, governance, and mandate**. The authorities submitted amendments to the SBP Act to parliament in March 2021 (*end-March 2020 SB; PA*), prepared in consultation with IMF staff, and aiming to (MEFP ¶16): (i) establish domestic price stability as the primary objective; (ii) create the SBP's functions to help achieve its objectives; (iii) strengthen financial autonomy; (iv) prohibit the extension of direct credits or guarantees to the general government; (v) lay the statutory basis for audits; (vi) secure stronger protection of senior officials' personal autonomy; (vii) improve the decision making at the executive

[7] Salient concerns include structural deficiencies in Pakistan, such as the (i) lack of market participants' capacity to manage risks; (ii) lack of a well-established yield curve for government bonds to guide mortgage prices; (iii) existence of financial inclusion gaps arising from weak credit information, technology, and enforcement mechanisms; (iv) lack of a workable legal and regulatory system (including a functional land registration and titling system, foreclosure system, and the availability of reliable data on household income/debt and property valuations); and (v) existence of distortive taxes which can encourage sales and underreporting of prices.

management level through the introduction of a collegial decision-making mechanism; (viii) provide stronger oversight by the Board; and (ix) improve the SBP's accountability to the public vis-à-vis the conduct of monetary policy and achievement of objectives. Staff urged the timely adoption of the amendments by parliament.

17. **Efforts in support of financial sector stability and governance need to be sustained**.

- ***Maintaining financial sector soundness*** (MEFP ¶17). Staff encouraged the authorities to remain vigilant and intensify efforts to safeguard financial sector stability when withdrawing crisis-response measures (¶16), especially as banks have increased their exposure to the power and construction sectors. Staff further emphasized the importance of continuing to: (i) ensure that all banks meet the minimum capital requirements; (ii) accurately measure NPLs and potential losses; and (iii) upgrade the resolution and crisis management arrangements, including the deposit insurance scheme. In addition, staff reminded the authorities that the Covid-19 crisis context warrants preemptive measures, including intensive supervisory monitoring, requiring banks to continually assess borrowers' creditworthiness until conditions have normalized, collecting information from banks on interest income accrued but not received, closely monitoring and following up proactively with weaker banks, and ensuring banks are prepared to tackle a rise in NPLs. The authorities are monitoring the recapitalization of two non-systemic private banks and the privatization of one public bank.

- ***Bolstering AML/CFT effectiveness*** (MEFP ¶18). The authorities made substantial progress by satisfactorily completing 24 of the 27 items in their AML/CFT action plan, which was recognized by the February 2021 FATF plenary. Capacity constraints and the Covid-19 context have hampered progress in: (i) satisfying the remaining action items related to Immediate Outcome 9 on terrorism financing investigations and Immediate Outcome 10 on targeted financial sanctions (*end-March 2020 SB, subsumed by (ii)*); and (iii) full completion of their AML/CFT action plan to demonstrate a substantial level of AML/CFT effectiveness (*end-June 2020 SB; reset to end-June 2021)*. In parallel, the authorities are addressing the priority recommendations identified by the Asia Pacific Group on Money Laundering in the 2019 Mutual Evaluation Report, including deficiencies in the legal framework.

- ***Fostering financial development***. The authorities are expanding efforts to promote financial development and inclusion. In late 2019, the SBP launched a draft for consultation[8] with external stakeholders to reduce the gender gap in financial inclusion. In addition, to advance fintech and digitalization efforts, in 2020 the SBP launched: (i) Pakistan's instant payments system (Raast), which should encourage greater use of more secure digital payments and reduce cash transactions when fully rolled out by 2022;[9] and (ii) digital bank accounts (Roshan), in collaboration with commercial banks, which permits non-resident Pakistanis to undertake banking, payment, and investment activities in Pakistan and foster greater integration of the

[8] State Bank of Pakistan, 2019, Banking on Equality: Policy to Reduce the Gender Gap in Financial Inclusion.

[9] Note though that the low fixed and mobile broadband subscriptions in Pakistan (remaining significantly below comparators) could slow Fintech development.

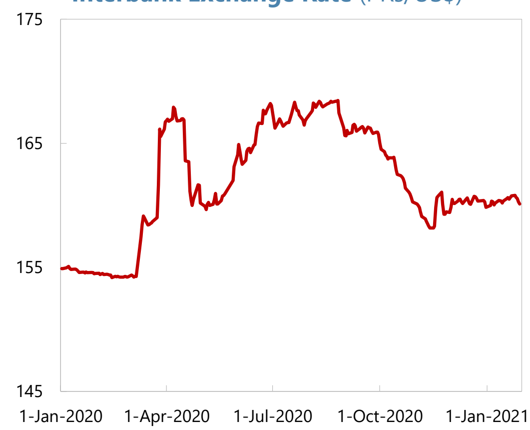
Pakistani diaspora. Roshan is showing promising results with over US$500 million inflows in the first 5 months. Staff applauded these efforts, particularly the focus on data collection to assess progress in closing gender gaps, and recommended a stronger focus on financial literacy, including digital literacy.

D. Exchange Rate Policy

Background

18. **The market-determined exchange rate has supported external adjustment and reserve accumulation**. During the Covid-19 crisis, two-sided rupee flexibility served as an essential buffer to protect economic activity during heightened external volatility and opened monetary space to respond to the crisis.[10] This also made it easier for the SBP to make FX purchases and scale back its net short swap/forward FX position once market conditions improved. Consequently, FX reserves strengthened to US$13.4 billion (2.8 months of prospective imports and about 65 percent of the IMF's ARA metric) at end-2020.

Interbank Exchange Rate (PRs/US$)



Sources: SBP; IMF staff calculations.

Policy Discussion

19. **The SBP remains committed to a market-determined exchange rate and further accumulating reserves**. This remains crucial to absorb external shocks, maintain competitiveness and current account sustainability, and build adequate reserve buffers. Going forward, the authorities will continue to (MEFP ¶13): (i) use purchases in the FX interbank market to rebuild reserve buffers amid favorable market conditions, but not to influence exchange rate trends; and (ii) limit sales to only offset disorderly market conditions.

20. **Despite some easing of existing exchange restrictions and multiple currency practice (MCP), further extension of those remaining is needed**. Introduced at a time of heightened volatility to support the balance of payments (BOP), the authorities still maintain: (i) an exchange restriction and MCP arising from the imposition of a 100 percent cash margin requirement on imports of certain goods (imposed in 2017); and (ii) an exchange restriction resulting from the limitation on advance payments for imports against letters of credit (LCs) and advance payments up to the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018). The authorities have made progress in easing them (MEFP ¶19) but request more time to remove them fully when BOP conditions permit and within the program period.

[10] On February 23, 2021 the FX spread between the interbank and open market rate against the US$ was PRs 0.02.

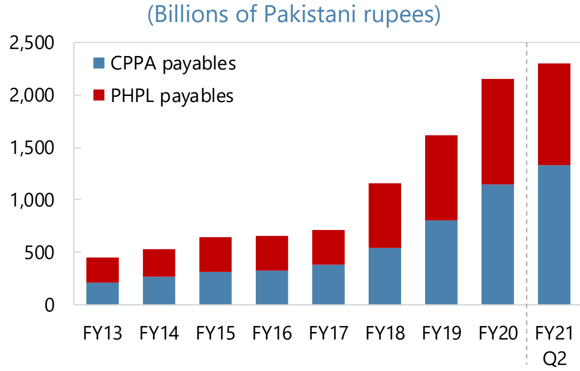
E. Energy Sector Policies

Background

21. **Long-standing deficiencies have pushed the energy sector to the edge**. Over the past decade, they have resulted in an unsustainable stock of arrears (circular debt) that affects the entire power-gas/petroleum chain and weighs on the financial sector, budget, and real economy. Sectoral viability eroded further during CY 2020 as the authorities delayed price adjustments, deferred payments, and granted temporary subsidies in response to the Covid-19 pandemic, economic slowdown, and concerns about inflation.

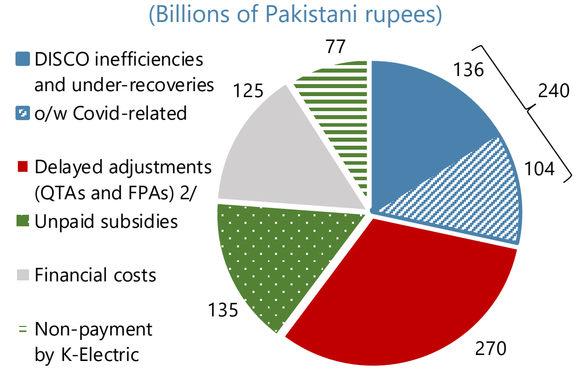
- ***Power***. The stock of arrears surged to 5.2 percent of GDP at end-FY 2020. This represents a 1.3 percent of GDP increase in the year and largely exceeds the 2019 IFI-supported Circular Debt Management Plan (CDMP), which was part of the reform agenda underpinning the first EFF review. The Covid-19 shock directly caused a loss of about 0.3 percent of GDP to the distribution companies (DISCOs), arising from payment deferrals and a change in the consumer mix (from high-tariff industry to low-tariff domestic consumers). Beyond this, other drivers include: (i) delays in updating tariffs;[11] (ii) unpaid subsidies;[12] and (iii) DISCOs' usual operational inefficiencies. With the Covid-crisis and some measures lasting into FY 2021 and despite the partial collection of the deferred payments, an additional 0.4 percent of GDP in new arrears were accumulated until end-December 2020.

Power Sector: Stock of Circular Debt 1/
(Billions of Pakistani rupees)



Sources: Pakistani authorities; IMF staff calculations.
1/ Only the part held by the Power Holding Private Limited (PHPL) is publicly guaranteed.

Power Sector: FY 2020 Gross Circular Debt Flow 1/
(Billions of Pakistani rupees)



Sources: Pakistani authorities; IMF staff calculations.
1/ Excludes arrears-reducing flows of PRs 309 billion (prior-year adjustments).
2/ Includes impact of delayed ARs.

- ***Gas***. The stock of arrears grew by 0.1 percent of GDP to 0.5 percent of GDP in FY 2020, steadily fueled by high unaccounted for gas losses (UFG), often delayed sales price adjustments, uncovered subsidies (especially for export and zero-rated industry), and collection shortfalls. The stock is projected to rise by an additional 0.1 percent of GDP by end-FY 2021, driven by a higher

[11] Each month of delaying an adjustment of PRs 1 per kWh adds about PRs 8½ billion to the stock of arrears.

[12] This includes PRs 23 billion for the time-bound new industrial support package and zero-rated industrial rebate.

cost-revenue mismatch as more liquefied natural gas (LNG) has recently been diverted from the high-price power sector to low-price domestic users.

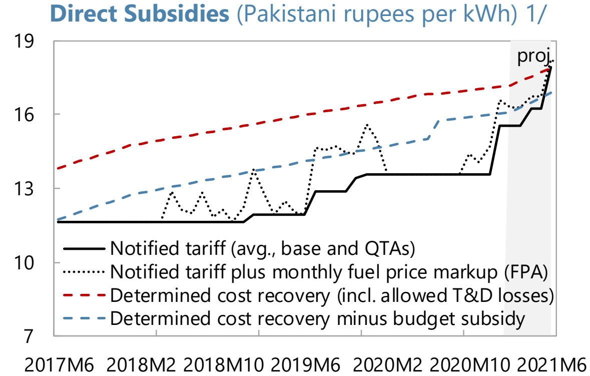
Policy Discussion

22. **Turning the energy sector around requires strong and sustained reforms**. While some recent steps (including tariff adjustments and renegotiated IPP contracts) have helped tackle rising arrears, making a dent requires steadfast implementation of a comprehensive reform strategy. More specifically (MEFP ¶¶21–24):

- ***Recalibrating the CDMP***. The authorities remain committed to an ambitious and sustained decline in the accumulation of power sector arrears. To this effect, they prepared—in close consultation with the World Bank, Asian Development Bank (ADB), and IMF staff—an updated CDMP, which was approved by the Cabinet in March 2021 (*PA*). The CDMP incorporates a detailed action plan, including the short- and medium-term measures listed below. To underpin implementation, the Ministries of Finance and Energy introduced a monthly monitoring scheme.

- ***Aligning power tariffs with cost recovery levels***. To strike a balance between achieving cost recovery and softening the social and economic impact of Covid-19, the Cabinet approved a timetable for the outstanding power price adjustments, which include the FY 2021 annual rebasing (AR, estimated as a PRs 3.34 per kWh hike in the base tariff) and quarterly tariff adjustments (QTAs, estimated as PRs 1.63 per kWh to catch up with past deferrals). As a first step (*PA*), the authorities: (i) notified the first-step AR of PRs 1.95 per kWh in January 2021; (ii) completed the Q2–Q3 FY 2020 QTAs of PRs 1.63 per kWh in December 2020 (*end-January 2020 SB*); and (iii) implemented a first tariff restructuring in March 2021 (see bullet below).[13] A second-step AR is due in June (*new June 1st, 2021 SB*) and the Q4 FY 2020 QTA in September (*new end-September 2021 SB*). The Q1 FY 2021 QTA falls in April 2021 and is expected to be timely implemented under the automaticity of the amended NEPRA Act.

Power Sector: Tariff, Cost Recovery, and Direct Subsidies (Pakistani rupees per kWh) 1/



Sources: Pakistani authorities; WB and IMF staff estimates.
1/ Cost recovery and direct subsidies are trends, calculated based on annual averages.

- ***Enacting the NEPRA Act amendments***. Committed to be adopted by parliament in March 2021 (*PA*), the amendments will ensure the automaticity of quarterly tariff adjustments (QTAs) and reintroduce the option to levy surcharges if necessary.

[13] The adjusted tariff now recovers about 90 percent of the power cost (excluding subsidies).

- ***Better targeting power subsidies***. The authorities recognize that existing subsidies—covering 93 percent of domestic users[14]—represent a heavy budgetary burden and necessitate high tariffs for a narrow group of unsubsidized consumers. Thus, they have embarked on a reform path, supported by World Bank assistance, to improve the fairness and efficiency of the system. As a first step, the authorities started to reduce regressivity and retarget cross-subsidies by restructuring the tariff system in March 2021 (*PA subpart*) through an adjusted eligibility criterion for the subsidized slabs (based on maximum usage in the previous 12 months) and an expansion of the lifeline tariff for small consumers. They plan to finalize this cross-subsidy reform in June, and ahead of the FY 2022 budget (*new end-June 2021 SB*). Thereafter, they agreed to shift their efforts to rationalizing subsidies by improving targeting, including to households and the agricultural sector, while protecting the most vulnerable.

- ***Renegotiating purchasing power arrangements (PPAs) with IPPs***. The authorities and more than 45 private IPPs signed formal agreements on renegotiated PPA terms that will result in cost savings of about 1.8 percent of GDP over the next two decades of remaining life of these IPPs.[15] In particular, the agreements will reduce capacity payments by lowering—and converting into domestic currency—the guaranteed return on equity and sharing excess returns on operational and maintenance expenses from contractual efficiencies. In return, the government agreed to settle outstanding arrears to these IPPs, of which it scheduled to pay two fifth by end-May 2021 and the remainder for August 2021. In this vein, the stock of CPPA-G payables to power producers will decline through a payment of up to PRs 180 billion by end-May 2021 (*new SB for end-May 2021*). The authorities are also actively seeking similar renegotiations with other groups of power producers (including the state-owned).

- ***Pursuing other medium-term reforms***. A range of ongoing reforms seeks to gradually (i) reduce commercial and technical losses, power generation costs, and greenhouse gas (GHG) emissions; (ii) improve governance; and (iii) introduce competition. Staff stressed the need for steadfast progress and addressing capacity constraints with international partners' assistance, especially once the Covid-19 situation allows unhindered field work again.[16]

- ***Addressing the stock of PHPL arrears***. The stock of publicly guaranteed PHPL arrears reached about 2.2 percent of GDP at end-December 2020. Staff cautioned against the repeated use of guarantees out of concerns about fiscal risks and debt sustainability. The authorities agreed and have devised a ten-year plan for gradually absorbing costly PHPL debt into cheaper central government debt, which would lower debt servicing costs. They, however, agreed with IMF staff

[14] This includes households up to 300 kWh per month, the agricultural sector and exporters.

[15] This group includes IPPs under the pre-1994/1994/2002/and renewable energy 2006 policies.

[16] Key measures comprise: (i) boosting antitheft and collection efforts; (ii) closing old inefficient generation companies (GENCOs); (iii) expanding cheaper and cleaner energy generation as per the recently approved Alternative and Renewable Energy (ARE) Policy; (iv) updating generation and transmission infrastructure; (v) fostering DISCOs' governance, also as per the new SOE law and policies (¶24), also to prepare their phased commercialization as per the recent triage (¶24); and (vi) making the wholesale power market competitive with multiple buyers and sellers through the establishment of a Competitive Trading Bilateral Contract Market (CTBCM).

that implementation will depend on adequate budget space and implementation progress of the CDMP. For now, they will only assume an amount of up to 0.2 percent of GDP this FY (¶8). Moreover, the authorities also confirmed that they will use several proceeds to reduce the circular debt stock, including privatization proceeds from power sector assets and recoveries from the outstanding stock of receivables.

- ***Amending regulation and improving performance in the gas sector***. The authorities hiked gas sale prices in September 2020 by a weighted average of 5 percent for all consumers (sparing residentials and street food vendors). For the first time going beyond the prescribed price by the Oil and Gas Regulatory Authority (OGRA), it covered the FY 2021 AR and some arrears of one of the two transmission and distribution (T&D) companies. Staff urged for a swift mid-year sale price revision to ensure cost recovery. Going forward, this will be ensured by the amended OGRA Act, once adopted by parliament (*new end-June 2021 SB*). Moreover, the two T&D companies have stepped up measures to bring down UFG losses. The publication of their newly established quarterly monitoring reports now guides infrastructure improvements, networks rehabilitation and theft control programs. Staff noted that the unbundling of the T&D companies would further incentivize a speedy implementation of these UFG-reducing programs.[17]

F. Structural Policies

Background

23. **Higher growth, investment, and job creation will crucially depend on addressing long-standing structural weaknesses**. An uneven playing field for SOEs and private companies, corruption, and red tape (especially excessive regulations and licensing requirements, obstacles to paying taxes, and difficulties trading across borders and registering property) remain a drag on productivity, investment, and the development of a vibrant private sector that can create high-quality jobs for a growing labor force. Against this backdrop, the authorities have put their reform focus on bolstering governance, efficiency, and the business climate.

Policy Discussion

24. **Recent achievements offer a good basis to accelerate much-needed structural reforms**. Staff welcomed recent steps, encouraged continued reliance on extensive TA from development partners to mitigate capacity constraints, and identified follow-up measures with the authorities in three areas:

- ***Enhancing SOEs' governance, transparency, and efficiency*** (MEFP ¶26) by:
    - *Strengthening the SOE legal, regulatory, and policy framework*. The authorities have submitted a new SOE law to parliament in March 2021 (*end-September 2020 SB*), aiming to (i) define a rationale for state ownership; (ii) ensure commercially sound SOE operations; and

[17] The unbundling implies in the first phase a separation of supply (gas sale) from network functions (T&D).

(iii) regulate oversight and ownership arrangements. The preparation of the law benefitted from IMF TA, which now also helps advance the authorities' ongoing efforts to define a new ownership policy, amend several SOEs' Acts, and operationalize a central monitoring unit within the Ministry of Finance (all by the end of summer 2021).

- *Performing a triage of the SOE sector and advancing divestments*. In March 2021 and supported by World Bank TA, the authorities published a classification of all federal SOEs into those remaining under state ownership and those for sale/liquidation (*end-September 2020 SB*). On that basis, the authorities are now gradually planning to reduce the footprint of the state in the economy to foster efficiency and reduce fiscal risks. The divestment of two LNG power plants and two small public banks is already at an advanced stage.
- *Publishing audits of key SOEs*. Recent audits include Pakistan Railways in March 2020, Pakistan International Airways in January 2020, and Pakistan Steel Mills in July 2020 (*end-December 2019 SB*). The next audit will cover the Utility Stores Corporation (*new end-April 2021 SB*).

- ***Boosting the business environment, job creation, and green development*** (MEFP ¶27) by:
  - *Improving domestic and international competitiveness*. Current priorities include simplifying processes to start businesses and approving FDI by reducing regulations and streamlining red tape. In addition, efforts focus on facilitating trading across borders by advancing further the ongoing enhancement in customs efficiency and simplifying paying taxes through a new simple and fully automated payment system. This would also help boost the formal private sector. Besides, the Companies Law was amended in May 2020 to foster startups while also attracting innovators, including from abroad. However, to expand Pakistan's information technology, digitalization, and outsourcing sectors going forward, it will also be important to invest more in education and human capital, improve product market access, and increase information and communications technology (ICT) adoption.
  - *Implementing the approved national tariff policy*. Tariff rationalization aims to reduce the level of protection while reducing also input costs to promote competition, exports, and domestic production ("Made in Pakistan") for import substitution purposes.
  - *Implementing the National Electric Vehicle Policy*. It provides a framework to achieve ambitious targets for the sale of electric cars until 2030, with the aim to (i) reduce Pakistan's GHG emissions and fuel import bill; and (ii) promote industrial growth and job creation through new investments and the introduction of new technologies.

- ***Fostering governance and the control of corruption*** (MEFP ¶28) by:
  - *Strengthening the effectiveness of anticorruption institutions*. Priority measures include the establishment of an asset declaration system with a focus on high-level public officials by end-June 2021 (*new end-June 2021 SB*), publication of the second review cycle report under the UN Convention against Corruption (UNCAC), and review of the institutional framework for Pakistan's anticorruption institutions by international experts. Efforts to enhance international anti-corruption cooperation and recover stolen assets abroad are encouraged.

- *Enhancing the use of AML tools to support anti-corruption efforts*. Financial institutions should be effectively supervised to comply with due diligence obligations for politically exposed persons and suspicious transaction reporting. The effectiveness of Pakistan's financial intelligence unit should be enhanced, and its membership to the Egmont Group be pursued.

PROGRAM MODALITIES

25. **Strong and focused conditionality continues to guide program implementation**.

- ***Quantitative targets***. New PCs for end-March and end-June 2021 and ITs for end-September and end-December 2021 will support the fiscal deficit reduction, limit public debt built-up through government guarantees, contain inflationary pressures through a deceleration of base money growth and cap on government borrowing from the SBP, and support adequate reserve coverage (MEFP Table 1b). A new IT on the cumulative gross issuance of PIBs, Sukuks, and Eurobonds will support the public debt's maturity profile (MEFP Table 1b). Additional adjusters for the PC on the primary deficit will account for the clearance of CPPA arrears to IPPs, the repayment of PHPL debt, and expenditures associated with addressing the Covid-19 pandemic (¶8; TMU ¶20.g–h). Moreover, an adjustment of the PC on budget borrowing from the SBP for liability management operations is no longer needed (TMU ¶21).

- ***Structural benchmarks***. Staff proposes to reset the delayed SBs (¶4), merge the two FATF-related SBs (¶17), and set eleven new SBs on critical next steps for already ongoing reforms (MEFP Table 2). The latter include: the (i) establishment of the TSA-1 (end-May 2021); (ii) reintroduction of the track-and-trace system for tobacco products (end-June 2021); (iii) publication of awarded Covid-spending related contracts and beneficial ownership information of bidding and awarded legal persons on a centralized website (end-April 2021); (iv) publication of the Auditor General's ex-post audit of the procurement of urgently needed medical supplies related to Covid-19 (end-April 2021); (v) reduction in CPPA-G payables to power producers through a payment up to PRs 180 billion (end-May 2021); (vi) completion of the FY 2021 annual rebasing of the electricity tariff (June 1, 2021); (vii) finalization of the energy cross-subsidy reform for the FY 2022 budget (end-June 2021); (viii) notification of the FY 2020 Q4 electricity tariff adjustments for capacity payments (end-September 2021); (ix) parliamentary adoption of the OGRA Act amendments (end-June 2021); (x) publication of an external audit of the Utility Stores Corporation (USC) (end-April 2021); and (xi) establishment of a robust asset declaration system (end-June 2021).

- ***Review schedule and access***. Staff agrees with the authorities' request to modify the schedule of reviews and retain the quarterly schedule of reviews until end-2021 to closely guide policy implementation (including critical tax policy reforms) in the face of persisting macroeconomic vulnerabilities and heightened uncertainty arising from the ongoing Covid-19 pandemic. Staff also concurs with the authorities' request to rephase the remaining access under the program from this review onwards as suggested in Table 9b, with the disbursement for the combined second, third, fourth, and fifth reviews adjusted to the temporarily lower-than-expected BOP need.

- ***Existing exchange restrictions and MCP***. Staff supports the authorities' request for approval under Article VIII of the IMF's Articles of Agreement of their temporary retention, given the authorities' progress made to date in easing them and their renewed commitment to fully eliminate them when BOP conditions stabilize and by the end of the program (¶20).

26. **The program remains fully financed**. Financing commitments from bi- and multilateral partners and the temporary suspension of debt service to official bilateral creditors granted under the G20 DSSI initiative[18] will cover gross external financing needs amounting to US$27 billion (9.9 percent of GDP) over the next twelve months (Table 3b).[19] And good prospects remain for the remainder of the program. While, on aggregate, key bilateral creditors have maintained their exposure to Pakistan, there has been a rebalancing between creditors in recent months. In this regard, staff encourages all key bilateral creditors to maintain their exposure to Pakistan in line with program commitments.

27. **Pakistan's capacity to repay the IMF is adequate, but risks remain high**. The IMF's exposure reaches SDR 5,386.42 million (or 265 percent of quota and about 60 percent of gross reserves) with this review. With full purchases, it will peak at 344 percent of quota in 2022 (Table 7). As assessed before, elevated risks—notably from delayed adoptions of reforms, high public debt and gross financing needs, and low reserves—could jeopardize program objectives, and erode repayment capacity and debt sustainability. Uncertainty about global economic and financial conditions amid the Covid-19 pandemic add to those risks. The reinforced framework for program monitoring (including continued quarterly reviews and updated program conditionality, ¶25), focused technical assistance in support of program implementation (Annex II), and adequate execution of existing financing commitments are essential mitigation strategies.

28. **The 2019 safeguards assessment found a broadly strong safeguards framework at the SBP**. The financial reporting, external and internal audit mechanisms, and an enterprise-wide risk management framework all highlight sound practices. Areas that require strengthening include the SBP legal framework (¶16) and involvement in quasi-fiscal activities which need to be phased-out in the medium term (¶15), and are being addressed through amendments to the SBP Act and commitments under the program. Importantly, four out of eight non-executive director positions on the SBP Board have been vacant for a prolonged period of time and need to be filled urgently to strengthen independent oversight of the SBP.

[18] It covers about US$2.5 billion falling due over May 2020–June 2021, of which US$0.8 billion relate to the second round of DSSI covering the January–June 2021 debt service.

[19] They include support from China (US$10.8 billion), UAE (US$2 billion), World Bank (US$2.8 billion), Asian Development Bank (US$1.1 billion), and Islamic Development Bank (US$1 billion), and other bilateral support under the G20 initiative (US$1.8 billion).

STAFF APPRAISAL

29. **The authorities' multifaceted policy response to the Covid-19 pandemic has been crucial in mitigating its human and economic impact**. Enabled by the policy gains made prior to the crisis and supported by sizable emergency financing from the international community, the policy response included health-related containment measures, a temporary fiscal stimulus, a large expansion of social safety nets, monetary policy support, and targeted financial initiatives. This timely and comprehensive response helped mitigate the impact on the economy. After a mild—yet Pakistan's first recession in almost seven decades—in FY 2020, the economy is poised to achieve modest growth in FY 2021. Notwithstanding this temporary shift in policy priorities and additional challenges posed by high inflation and the political background, the authorities have remained committed to the EFF's medium-term objectives. They have moved key reforms forward, including the timely adoption of the FY 2021 budget in line with IMF advice in June 2020, the signature of MoUs with IPPs in August 2020, and the approval of 14 pieces of AML/CFT legislation over the summer 2020. Recently, they also recalibrated the EFF-supported program in a way that strikes an adequate balance between supporting the economy and ensuring debt sustainability. The authorities now need to follow through with its steadfast implementation to ensure a strong and sustainable recovery.

30. **The fiscal strategy remains anchored on a gradual, revenue-based, fiscal consolidation**. It importantly creates space for higher social spending and Covid-related priority spending to minimize the short-term impact on growth and the most vulnerable. Meeting the FY 2021 primary deficit target requires following through with careful spending management and the envisaged revenue measures, including in the provinces. The recently adopted reform of corporate taxation is an important first step to improve fairness, transparency, and revenue collection over the medium term. Staff urged the authorities to also follow through with the completion of the reform and harmonization of general sales and personal income taxation in the FY 2022 budget as they are key milestones to improve the tax system and place debt firmly on a downward path while making space for much-needed social and development spending.

31. **Reducing poverty and boosting social protection remains a key priority**. Staff lauded the authorities for their swift rollout of the emergency cash support program to alleviate the Covid-19 shock on the vulnerable. It also commended their ongoing efforts to expand social safety nets and reduce poverty, including by expanding and timely updating the regular BISP beneficiary base. A revamped NSER database will further support a targeted scaling-up of social spending, allowing to better identify vulnerable households and design new programs.

32. **The current accommodative monetary stance remains appropriate**. It has served Pakistan well in navigating the Covid-19 crisis in FY 2020 and supporting the nascent recovery in the face of constrained fiscal policy in FY 2021. Further policy rate steps should be data-driven, aiming to maintain stable and low inflation. The introduction of forward guidance is welcome and should help further anchor expectations. At the same time, maintaining financial stability warrants ensuring that

the financial emergency facilities and regulatory measures remain temporary to avoid a deterioration of banks' asset quality. Moreover, the banks' housing lending targets could present risks to financial stability and entail a misallocation of credit. The parliamentary submission of the amendments to the SBP Act is a very welcome step toward strengthening the central bank's independence, governance, and mandate, and should be followed by its timely approval by parliament. Enhancing the effectiveness of the AML/CFT framework remains another urgent priority to progress in completing their action plan with the FATF.

33. **Preserving a market-determined exchange rate remains crucial to absorb external shocks, maintain competitiveness, and rebuild international reserves**. Strong policies and reforms will help further build confidence in the rupee. In parallel, staff encouraged the authorities to continue to strengthen the central bank balance sheet, including by building buffers.

34. **Addressing structural deficiencies in the energy sector is key to ensuring its financial viability**. While recent measures go into the right direction, staff reiterated the need to rigorously follow through with the comprehensive IFI-supported Circular Debt Management Plan (CDMP) given the power sector's soaring circular debt level and the repercussions on the financial sector, budget, and real economy. The CDMP aims at financial viability through management improvements, cost reductions, and adjustments in tariffs; and through improvements in the targeting of subsidies to provide adequate support to the most vulnerable and to attenuate social and sectoral impacts.

35. **Unlocking Pakistan's growth potential requires accelerating structural reforms**. Staff urged the authorities to build on recent momentum and move ahead with governance, efficiency, and business climate reforms to improve fairness, opportunities, and living standards for all Pakistanis. Staff called for progress especially on (i) enhancing SOEs' governance, transparency, and efficiency; (ii) boosting the business environment by simplifying procedures for starting a business, approving FDI, preparing trade documentation, and paying taxes; and (iii) fostering governance to level the playing field and improve the rule of law by bolstering the effectiveness of existing anticorruption institutions. Improving data recording and dissemination, including on public finances, remains essential for strengthening transparency. Beyond this, investing more in education and human capital remains crucial to empower people and to become more competitive in the production of more complex goods.

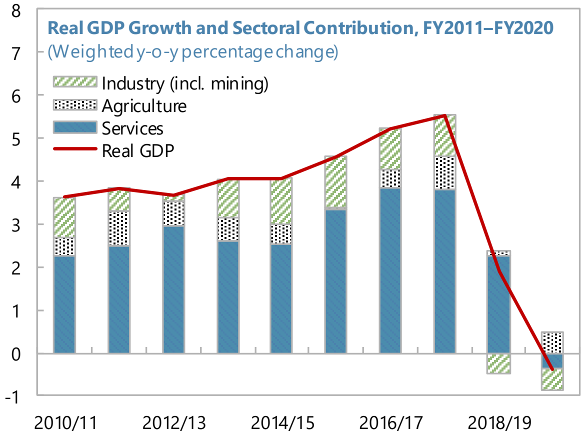
36. **Program risks remain significant, both from domestic and external factors**. Amid the unfolding second Covid-19 wave, uncertainty remains high around the domestic economic recovery, trade, and remittances. In addition, political tensions over reforms could weaken policy implementation, and undermine Pakistan's adjustment and recovery path as well as debt sustainability. Geopolitical tensions could increase oil prices and an adverse shift in investor sentiment affect external financing. Close program monitoring, interlinked TA, and financing assurances from key lenders mitigate those risks.

37. **Based on the performance under the very challenging circumstances and commitments ahead, staff supports the authorities' request for the completion of the second, third, fourth, and fifth reviews under the EFF**. It also supports: (i) setting new quantitative targets for end-March,

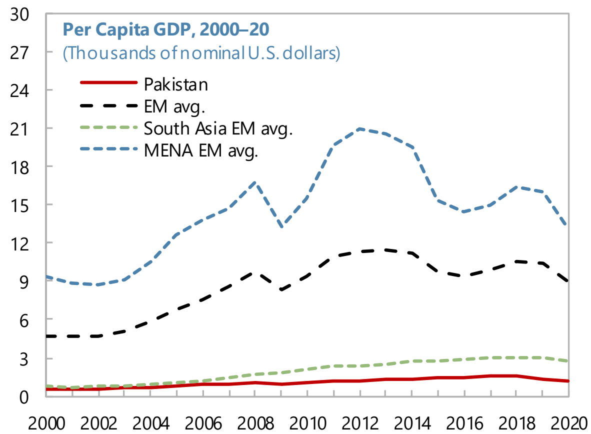
end-June, end-September, and end-December 2021; (ii) rephasing access consistent with the modified review schedule; (iii) making all funds available for budget support; and (iv) extending the approval for the retention of the current existing exchange restrictions and MCP, because they are temporary, non-discriminatory, and needed for balance of payments reasons.

Figure 1. Pakistan: Selected Economic Indicators

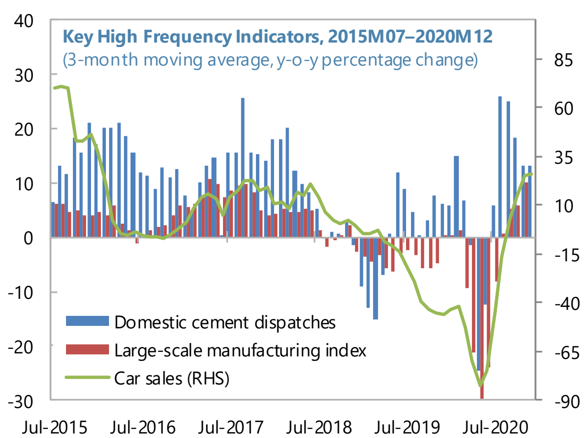
The Covid-19 shock resulted in the first negative growth since 1952 amid declining confidence and tighter financing conditions,...



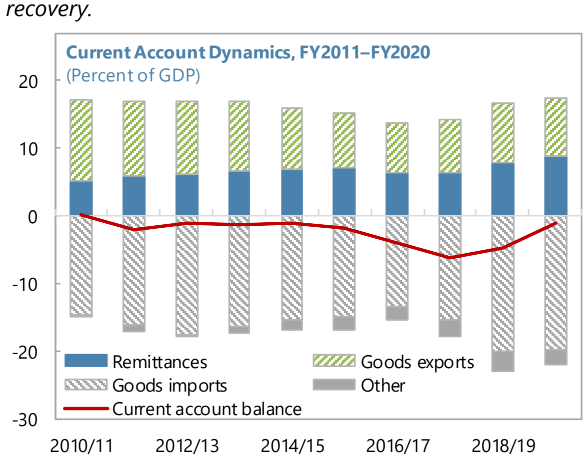
...while Pakistan continues to lag regional peers and other EMs in economic convergence.



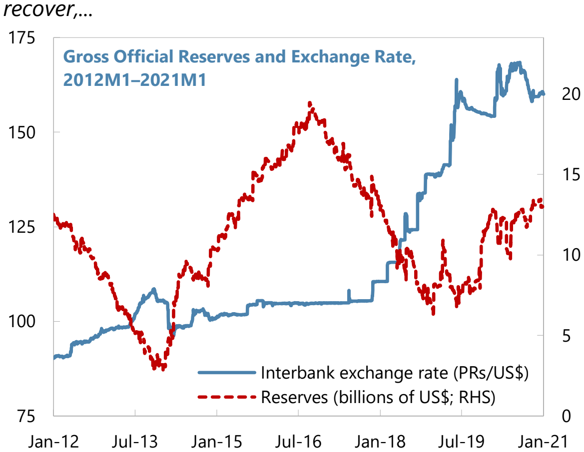
Following the easing of lockdowns, high-frequency indicators suggest a growth rebound since the summer.



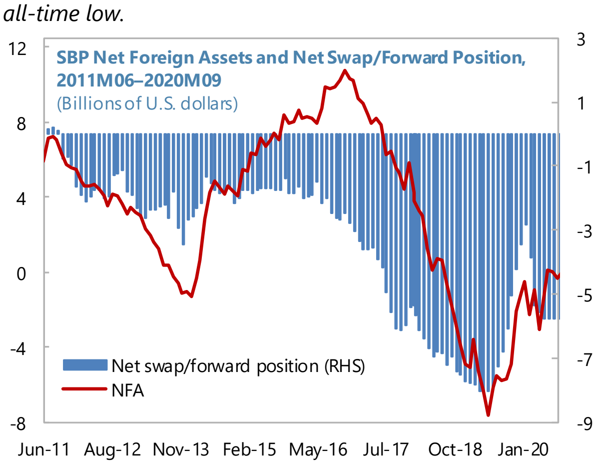
The current account has improved, driven by low oil prices, record remittances, import compression, and a mild export recovery.



Despite the shock, foreign reserves have continue to recover,...



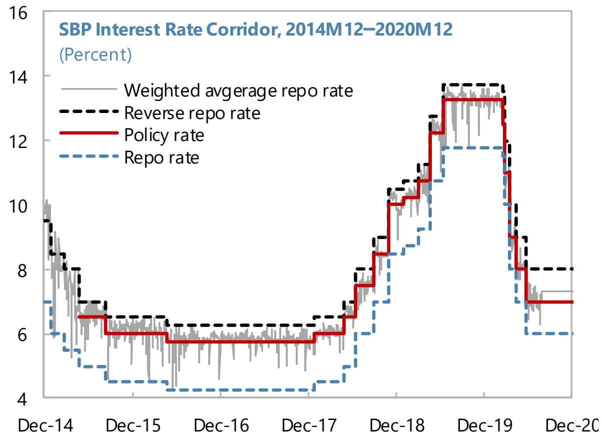
....and the SBP has improved its derivative position from an all-time low.



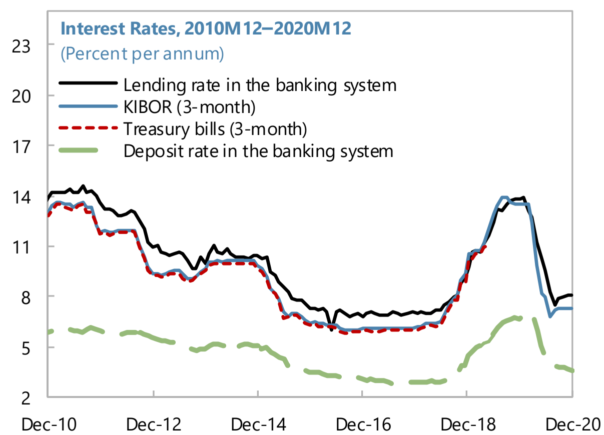
Sources: Pakistani authorities; IMF World Economic Outlook Database; and IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators

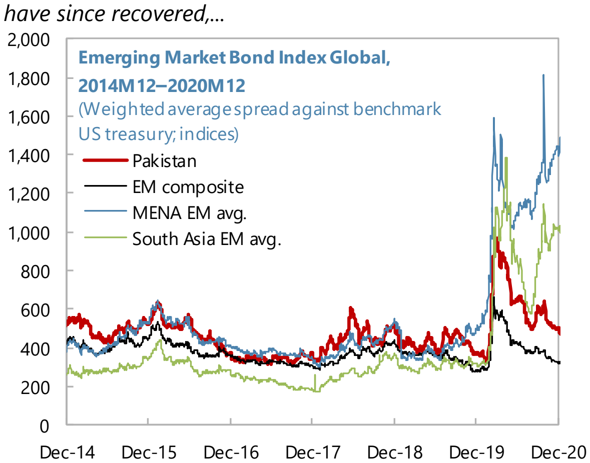
The SBP has proactively loosened its monetary policy in response to the Covid-19 shock...



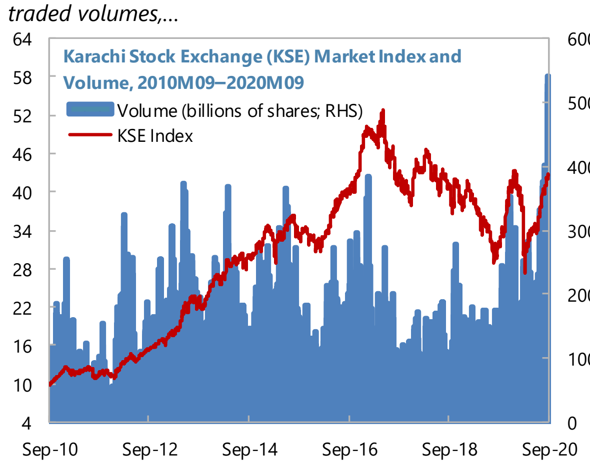
...and market rates have moved down in line with the policy rate.



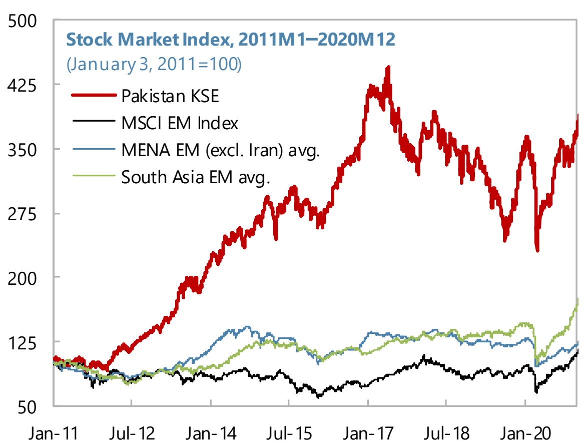
Pakistan's bond spreads spiked amid the Covid-19 crisis, but have since recovered,...



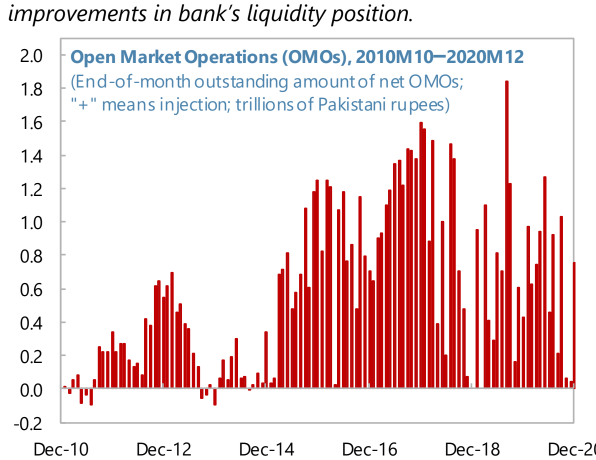
...mirrored by a temporary dip in the stock market and traded volumes,...



... though still outperforming regional peers.



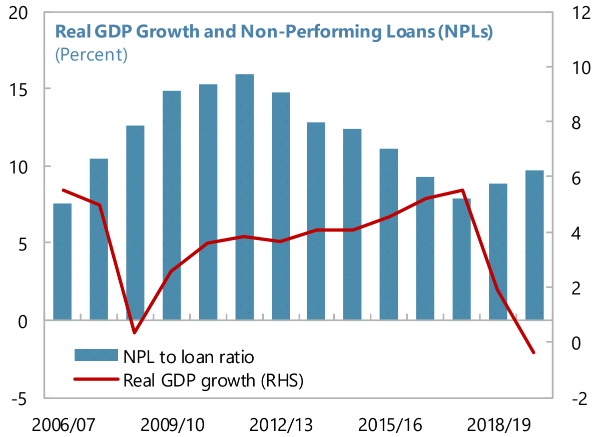
Liquidity injections via OMOs have recently eased with the improvements in bank's liquidity position.



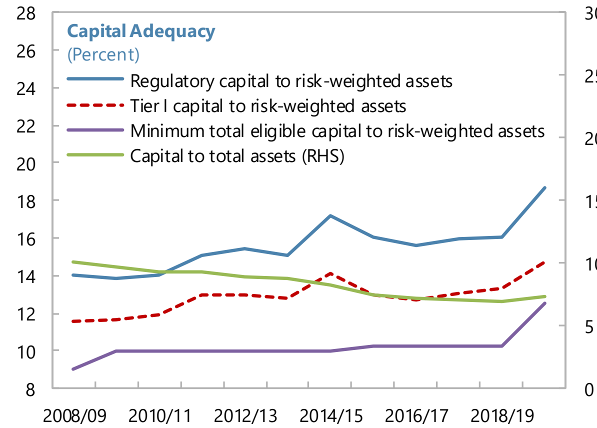
Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators, 2006/07–2018/19

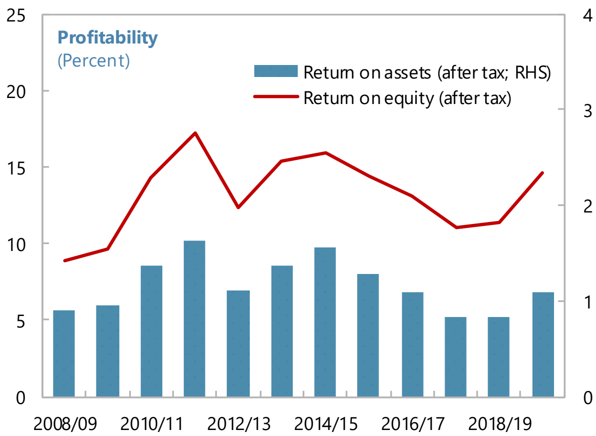
NPLs have continued to rise with the economic slowdown.



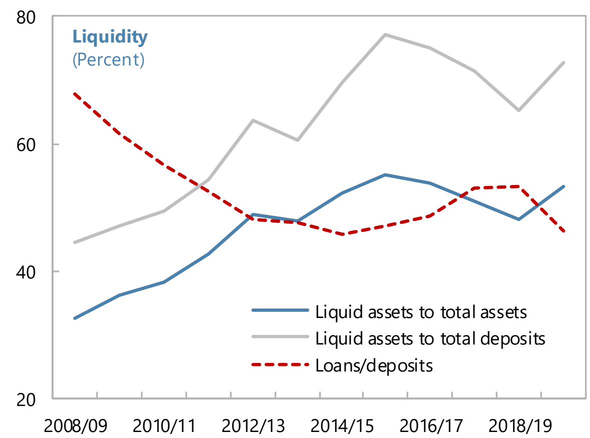
The banking system's overall capitalization has recently further improved,...



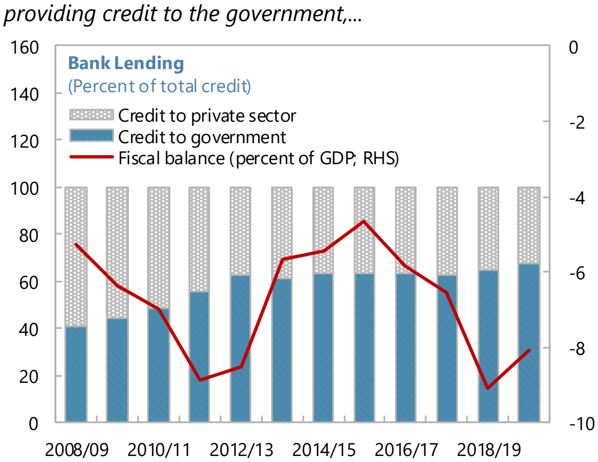
...reflecting improved profitability on the back of wider margins and lower interest rates,....



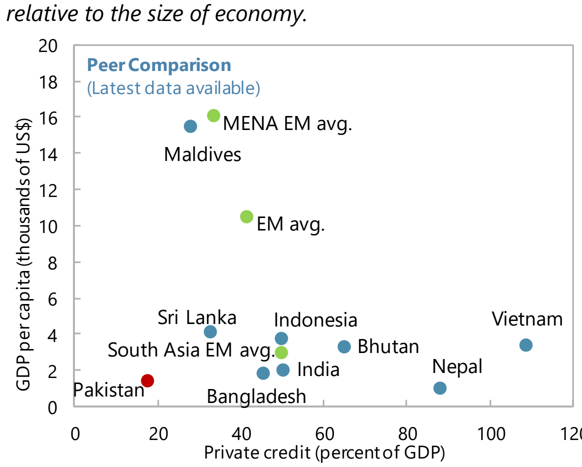
...and so has liquidity.



However, the banking system has remained oriented toward providing credit to the government,...



...leaving Pakistan behind its peers in terms of private credit relative to the size of economy.



Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

Table 1. Pakistan: Selected Economic Indicators, 2017/18–2021/22 1/

Population: 216.6 million (2019/20)
Per capita GDP: US$1,284.7 (2019/20)
Poverty rate: 24.3 percent (at national line; 2015/16)

Main exports: Textiles (US$12.7 billion, 2019/20)
Unemployment: 4.1 percent (2018/19)

	2017/18	2018/19	2019/20	2020/21	2021/22
			Est.	Proj.	Proj.
Output and prices			(Annual percentage change)		
Real GDP at factor cost	5.5	1.9	-0.4	1.5	4.0
GDP deflator at factor cost	2.4	8.4	9.1	8.7	8.0
Consumer prices (period average)	3.9	6.7	10.7	8.7	8.0
Consumer prices (end of period)	5.2	8.0	8.6	10.0	7.9
Pakistani rupees per U.S. dollar (period average)	5.5	24.4	15.5	...	...
Pakistani rupees per U.S. dollar (end of period)	15.9	31.7	5.0	...	...
Saving and investment			(Percent of GDP)		
Gross saving	11.2	10.7	14.3	14.0	14.1
Government	-2.2	-6.3	-5.4	-4.6	-2.8
Nongovernment (including public sector enterprises)	13.4	17.1	19.7	18.6	16.8
Gross capital formation 2/	17.3	15.6	15.4	15.5	15.9
Government	4.2	2.7	2.6	2.5	2.7
Nongovernment (including public sector enterprises)	13.1	13.0	12.8	13.0	13.2
Public finances					
Revenue and grants	15.2	13.0	15.1	15.8	17.0
Expenditure (including statistical discrepancy)	21.6	22.0	23.1	22.9	22.5
Budget balance (including grants)	-6.4	-9.0	-8.0	-7.1	-5.5
Budget balance (excluding grants)	-6.5	-9.1	-8.1	-7.2	-5.6
Primary balance (excluding grants)	-2.2	-3.6	-1.8	-1.1	0.3
Underlying primary balance (excluding grants) 3/	-2.2	-3.6	-1.8	-0.5	0.8
Total general government debt excl. IMF obligations	69.9	83.2	84.1	84.4	79.9
External general government debt	22.5	28.6	28.3	28.8	27.2
Domestic general government debt	47.4	54.6	55.8	55.6	52.7
General government debt incl. IMF obligations	72.1	85.6	87.2	87.7	83.3
External general government debt	24.7	31.0	31.4	32.0	30.6
Domestic general government debt	47.4	54.6	55.8	55.6	52.7
Monetary sector			(Annual changes in percent of initial stock of broad money, unless otherwise indicated)		
Net foreign assets	-5.6	-8.1	5.6	3.4	3.2
Net domestic assets	15.3	19.4	11.9	12.6	10.0
Broad money (percent change)	9.7	11.3	17.5	16.0	13.2
Reserve money (percent change)	12.7	19.9	16.8	16.5	13.3
Private credit (percent change)	14.9	11.9	3.0	7.0	14.2
Six-month treasury bill rate (period average, in percent)	6.0	10.2	11.9	...	...
External sector			(Annual percentage change, unless otherwise indicated)		
Merchandise exports, U.S. dollars	12.6	-2.1	-7.2	5.0	5.5
Merchandise imports, U.S. dollars	16.0	-6.8	-18.2	8.8	8.7
Current account balance (in percent of GDP)	-6.1	-4.9	-1.1	-1.5	-1.8
Financial account (billions of U.S. dollars)	13.6	11.8	7.7	5.1	7.5
			(Percent of exports of goods and services, unless otherwise indicated)		
External public and publicly guaranteed debt	216.9	234.8	266.8	281.5	269.2
Debt service	26.9	40.7	52.3	46.6	56.9
Gross reserves (in millions of U.S. dollars) 4/	9,789	7,274	12,175	14,356	17,798
In months of next year's imports of goods and services	1.9	1.7	2.7	2.9	3.3
Memorandum items:					
Underlying fiscal balance (excl. grants; % GDP) 3/	-6.5	-9.1	-8.1	-6.7	-5.1
General government and government guaranteed debt (incl. IMF; % GDP)	76.2	90.7	92.8	92.9	88.2
Net general government debt (incl. IMF; % GDP)	66.5	77.2	79.6	80.7	77.3
Real effective exchange rate (annual average, percentage change)	-6.4	-11.6	-4.0	...	...
Real effective exchange rate (end of period percentage change)	-11.1	-15.3	3.3	...	...
Terms of trade (percentage change)	-3.9	6.1	-10.3	-0.6	-1.0
Real per capita GDP (percentage change)	3.6	0.0	-2.2	-0.4	2.1
GDP at market prices (in billions of Pakistani rupees)	34,616	37,972	41,727	45,778	52,057
Per capita GDP (in U.S. dollars)	1,543.4	1,336.1	1,248.3	...	...
Population (millions)	201.0	204.7	208.6	212.5	216.5
GDP at market prices (in billions of U.S. dollars)	313.1	276.1	262.8	...	...

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.

1/ Fiscal year ends June 30. Revised FY 2018/19 GDP and provisional FY 2020 GDP were published by the authorities in May 2020, affecting ratios.

2/ Including changes in inventories.

3/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance and IPPs related arrears clearance; in FY 2022 it excludes IPPs related arrears clearance.

4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2017/18–2025/26 1/

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Proj.	Proj.	Proj.		Proj.	
	(Annual percentage change, unless otherwise indicated)								
Output and prices									
Real GDP at factor cost	5.5	1.9	-0.4	1.5	4.0	4.5	5.0	5.0	5.0
Net exports (percent contribution to real GDP at factor cost)	-2.0	0.6	2.5	-0.7	-0.7	-0.9	-0.8	-0.5	-0.7
GDP deflator at factor cost	2.4	8.4	9.1	8.7	8.0	7.3	6.5	6.5	6.5
Consumer prices (period average)	3.9	6.7	10.7	8.7	8.0	7.3	6.5	6.5	6.5
	(Percent of GDP)								
Saving and investment balance	-6.1	-4.9	-1.1	-1.5	-1.8	-2.0	-2.4	-2.7	-2.9
Government	-6.4	-9.0	-8.0	-7.1	-5.5	-3.9	-3.4	-3.2	-3.0
Nongovernment (including public sector enterprises)	0.3	4.1	6.9	5.6	3.7	1.9	1.0	0.5	0.2
Gross national saving	11.2	10.7	14.3	14.0	14.1	14.2	14.2	14.2	14.5
Government	-2.2	-6.3	-5.4	-4.6	-2.8	-1.2	-0.6	-0.3	-0.1
Nongovernment (including public sector enterprises)	13.4	17.1	19.7	18.6	16.8	15.4	14.7	14.5	14.6
Gross capital formation	17.3	15.6	15.4	15.5	15.9	16.3	16.6	16.9	17.3
Government	4.2	2.7	2.6	2.5	2.7	2.8	2.9	2.9	2.9
Nongovernment (including public sector enterprises)	13.1	13.0	12.8	13.0	13.2	13.5	13.7	13.9	14.4
	(Billions of U.S. dollars, unless otherwise indicated)								
Balance of payments									
Current account balance	-19.2	-13.4	-3.0	-4.2	-5.4	-6.5	-8.3	-10.0	-11.5
Current account balance (in percent of GDP)	-6.1	-4.9	-1.1	-1.5	-1.8	-2.0	-2.4	-2.7	-2.9
Net capital flows 2/	13.1	11.9	8.3	5.3	7.8	7.9	12.2	14.3	14.3
Of which: foreign direct investment 3/	2.8	1.4	2.5	2.1	2.5	3.4	4.7	5.4	5.8
Gross reserves	9.8	7.3	12.2	14.4	17.8	19.0	21.1	23.8	25.7
In months of imports 4/	1.9	1.7	2.7	2.9	3.3	3.3	3.3	3.5	3.5
External debt (in percent of GDP)	30.0	37.5	41.3	42.1	41.7	40.3	39.2	38.8	36.6
Terms of trade (annual percentage change)	-3.9	6.1	-10.3	-0.6	-1.0	-0.1	0.0	0.2	-0.2
Real effective exchange rate (annual average, percentage change)	-6.4	-11.6	-4.0	...	...	...	...	...	...
Real effective exchange rate (end of period, percentage change)	-11.1	-15.3	3.3	...	...	...	...	...	...
	(Percent of GDP)								
Public finances									
Revenue and grants	15.2	13.0	15.1	15.8	17.0	17.5	17.6	17.6	17.6
Of which: tax revenue	12.9	11.8	11.4	12.7	14.2	14.7	14.8	14.8	14.8
Expenditure (including statistical discrepancy)	21.6	22.0	23.1	22.9	22.5	21.4	21.5	21.1	20.5
Of which: current	17.3	19.2	20.6	20.2	19.7	18.6	18.5	18.0	17.5
Of which: development	4.2	2.7	2.6	2.6	2.7	2.8	2.9	2.9	2.9
Primary balance (including grants)	-2.1	-3.5	-1.7	-1.0	0.4	1.6	1.7	1.7	1.6
Primary balance (excluding grants)	-2.2	-3.6	-1.8	-1.1	0.3	1.5	1.6	1.6	1.6
Underlying primary balance (excluding grants) 5/	-2.2	-3.6	-1.8	-0.5	0.8	1.5	1.6	1.6	1.6
Budget balance (including grants)	-6.4	-9.0	-8.0	-7.1	-5.5	-3.9	-3.9	-3.5	-2.9
Budget balance (excluding grants)	-6.5	-9.1	-8.1	-7.2	-5.6	-4.0	-4.0	-3.6	-3.0
Underlying fiscal balance (excl. grants) 5/	-6.5	-9.1	-8.1	-6.7	-5.1	-4.0	-4.0	-3.6	-3.0
General government and government guaranteed debt (incl. IMF)	76.2	90.7	92.8	92.9	88.2	82.1	77.7	73.3	69.2
General government debt (incl. IMF)	72.1	85.6	87.2	87.7	83.3	77.7	73.6	69.5	65.5
Net general government debt (incl. IMF)	66.5	77.2	79.6	80.7	77.3	72.4	68.8	65.2	61.6
Memorandum item:									
Nominal GDP (market prices, billions of Pakistani rupees)	34,616	37,972	41,727	45,778	52,057	59,105	65,911	73,521	82,136

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Fiscal year ends June 30. Revised FY 2018/19 GDP and provisional FY 2020 GDP were published by the authorities in May 2020, affecting ratios.

2/ Difference between the overall balance and the current account balance.

3/ Including privatization.

4/ In months of next year's imports of goods and services.

5/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance and IPPs related arrears clearance; in FY 2022 it excludes IPPs related arrears clearance.

Table 3a. Pakistan: Balance of Payments, 2017/18–2025/26
(In millions of U.S. dollars, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Proj.			Proj.		
Current account	**-19,195**	**-13,434**	**-2,970**	**-4,154**	**-5,419**	**-6,527**	**-8,305**	**-9,949**	**-11,459**
Balance on goods	-30,903	-27,612	-19,910	-22,533	-25,253	-28,097	-31,142	-34,360	-37,508
Exports, f.o.b.	24,768	24,257	22,507	23,635	24,937	26,358	27,967	29,659	31,593
Imports, f.o.b.	55,671	51,869	42,417	46,168	50,190	54,455	59,109	64,018	69,101
Services (net)	-6,426	-4,970	-2,827	-3,092	-3,368	-3,673	-4,044	-3,842	-3,986
Services: credit	5,851	5,966	5,440	4,912	5,601	6,079	7,036	8,456	9,151
Of which: Coalition Support Fund	0	0	0	0	0	0	0	0	0
Of which: 3G Licenses	0	0	0	0	0	0	0	0	0
Services: debit	12,277	10,936	8,267	8,004	8,969	9,752	11,080	12,297	13,137
Income (net)	-5,437	-5,610	-5,682	-5,742	-5,549	-5,454	-5,944	-5,858	-7,126
Income: credit	726	578	562	303	174	408	538	587	567
Income: debit	6,163	6,188	6,244	6,045	5,723	5,862	6,482	6,445	7,694
Of which: interest payments	3,056	3,647	3,805	1,899	3,115	3,564	3,762	3,957	4,513
Of which: income on direct investment	3,217	2,848	2,666	2,895	2,608	2,298	2,720	2,488	3,181
Balance on goods, services, and income	-42,766	-38,192	-28,419	-31,367	-34,170	-37,224	-41,130	-44,059	-48,620
Current transfers (net)	23,571	24,758	25,449	27,213	28,751	30,697	32,825	34,110	37,161
Current transfers: credit, *of which:*	23,800	24,990	25,813	27,451	28,910	30,856	32,984	34,269	37,320
Official	1,007	761	483	439	335	415	415	415	415
Workers' remittances	19,914	21,740	23,131	24,667	26,179	27,888	29,646	31,500	33,471
Other private transfers	2,879	2,489	2,199	2,345	2,397	2,553	2,923	2,354	3,434
Current transfers: debit	229	232	364	238	159	159	159	159	159
Capital account	**376**	**229**	**290**	**188**	**249**	**248**	**149**	**115**	**97**
Capital transfers: credit	376	229	293	188	249	248	149	115	97
Of which: official capital grants	375	219	278	127	249	248	149	115	97
Capital transfers: debit	0	0	3	0	0	0	0	0	0
Financial account	**13,611**	**11,759**	**7,693**	**5,115**	**7,533**	**7,686**	**12,079**	**14,158**	**14,206**
Direct investment abroad	-10	74	-37	-63	-26	-25	-25	-25	-25
Direct investment in Pakistan	2,782	1,362	2,561	2,135	2,526	3,431	4,751	5,407	5,854
Portfolio investment (net)	2,257	-1,274	-400	1,413	2,630	2,530	3,540	4,312	5,392
Financial derivatives (net)	0	0	8	-1	0	0	0	0	0
Other investment assets	-273	67	244	-2,781	-3,228	-2,590	-2,737	-2,993	-3,267
Monetary authorities	0	0	0	0	0	0	0	0	0
General government	-41	-48	-48	1	0	0	0	0	0
Banks	322	92	-90	-1,186	-1,200	-300	-200	-200	-200
Other sectors	-554	23	382	-1,596	-2,028	-2,290	-2,537	-2,793	-3,067
Other investment liabilities	8,855	11,530	5,317	4,411	5,632	4,340	6,550	7,456	6,251
Monetary authorities	1,548	5,495	-498	-1,486	0	0	0	0	0
General government, *of which:*	4,894	4,294	5,829	4,741	912	-29	-2,583	-2,468	706
Disbursements	8,507	10,255	13,092	13,272	13,001	12,642	12,447	12,292	12,044
Amortization	4,107	5,982	7,300	9,672	12,088	12,671	15,030	14,760	11,348
Banks	-109	467	-163	-334	1,268	799	1,600	2,223	1,200
Other sectors	2,522	1,274	149	1,490	3,451	3,569	7,533	7,701	4,345
Net errors and omissions	**-933**	**-58**	**286**	**-34**	**0**	**0**	**0**	**0**	**0**
Reserves and related items	**6,141**	**1,504**	**-5,299**	**-1,116**	**-2,363**	**-1,407**	**-3,923**	**-4,324**	**-2,843**
Reserve assets	6,227	1,880	-7,379	-1,670	-3,442	-1,242	-2,100	-2,633	-1,910
Use of Fund credit and loans	-86	-376	2,080	554	1,079	-165	-1,823	-1,691	-933
Memorandum items:									
Current account (in percent of GDP)	-6.1	-4.9	-1.1	-1.5	-1.8	-2.0	-2.4	-2.7	-2.9
Current account (in percent of GDP; excluding fuel imports)	-1.9	0.2	2.4	2.1	1.9	1.6	1.1	0.8	0.5
Exports f.o.b. (growth rate, in percent)	12.6	-2.1	-7.2	5.0	5.5	5.7	6.1	6.0	6.5
Exports volume (growth rate, in percent)	9.8	-6.2	-1.0	6.7	4.7	5.6	4.0	3.2	3.3
Remittance (growth rate, in percent)	2.9	9.2	6.4	6.6	6.1	6.5	6.3	6.3	6.3
Remittances (in percent of GDP)	6.4	7.9	8.8	9.0	8.9	8.7	8.6	8.5	8.4
Imports f.o.b. (growth rate, in percent)	16.0	-6.8	-18.2	8.8	8.7	8.5	8.5	8.3	7.9
Imports volume (growth rate, in percent)	7.9	-6.1	-14.1	8.0	7.0	8.4	6.5	5.7	5.5
Oil imports (in million US$, cif)	13,263	13,929	9,249	9,859	11,044	11,538	12,175	12,901	13,339
Terms of trade (growth rate, in percent)	-3.9	6.1	-10.3	-0.6	-1.0	-0.1	0.0	0.2	-0.2
Foreign Direct Investment (in percent of GDP)	0.9	0.5	1.0	0.8	0.9	1.1	1.4	1.5	1.5
External debt (in millions of U.S. dollars)	93,963	103,548	108,615	114,841	122,831	128,837	134,419	142,936	145,166
o/w external public debt	72,508	76,605	82,238	88,994	92,009	92,272	88,357	85,702	88,861
Gross external financing needs (in millions of U.S. dollars) 1/	30,005	25,552	21,879	27,013	23,643	28,016	37,625	36,451	39,578
End-period gross official reserves (millions of U.S. dollars) 2/	9,789	7,274	12,175	14,356	17,798	19,039	21,140	23,773	25,693
(In months of next year's imports of goods and services)	1.9	1.7	2.7	2.9	3.3	3.3	3.3	3.5	3.5
GDP (in millions of U.S. dollars)	313,073	276,114	262,799	…	…	…	…	…	…

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

2/ Excluding foreign currency deposits held with the State Bank of Pakistan (cash reserve requirements) and gold.

Table 3b. Pakistan: Gross Financing Requirements and Sources, 2017/18–2025/26

(In millions of U.S. dollars, unless otherwise indicated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
						Proj.			
Gross External Financing Requirements (A)	**30,005**	**25,552**	**21,879**	**27,013**	**23,643**	**28,016**	**37,625**	**36,451**	**39,578**
(In percent of GDP)	9.6	9.3	8.3	9.9	8.0	8.8	11.0	9.9	10.0
Current account deficit	19,195	13,434	2,970	4,154	5,419	6,527	8,305	9,949	11,459
(In percent of GDP)	6.1	4.9	1.1	1.5	1.8	2.0	2.4	2.7	2.9
Amortization	10,724	11,742	18,164	21,819	17,156	20,370	27,497	24,811	27,186
Public Sector	5,651	6,982	12,800	17,760	14,088	15,671	21,602	16,760	15,848
Short-term Borrowing	1,488	1,538	1,123	4,329	6,100	5,950	5,950	5,950	5,950
Long-term Borrowing (non-IMF)	4,163	4,444	10,677	13,431	6,988	8,721	14,652	10,810	9,398
Bonds	0	1,000	1,000	0	1,000	1,000	1,000	0	500
Private Sector 1/	5,073	4,760	5,364	4,059	3,068	4,699	5,895	8,052	11,338
Short-term Borrowing	4,094	3,474	3,610	3,377	2,978	3,812	4,303	5,334	6,753
Long-term Borrowing	979	1,286	1,754	683	90	887	1,593	2,718	4,586
IMF Repurchases	86	376	745	1,040	1,068	1,119	1,823	1,691	933
Available Financing (B)	**23,873**	**23,103**	**23,955**	**27,600**	**24,939**	**28,304**	**39,726**	**39,085**	**41,499**
Foreign Direct Investment (net) 2/	2,772	1,436	2,524	2,073	2,500	3,406	4,726	5,383	5,829
Disbursement	21,658	21,496	20,863	25,370	22,190	24,650	34,851	33,587	35,573
From private creditors	13,326	5,103	11,129	7,519	11,460	13,258	19,982	22,666	22,669
Disbursement to Private Sector 3/	8,110	4,268	7,752	2,844	6,149	7,968	14,792	17,255	17,479
Disbursement to Public Sector 4/	5,216	835	3,377	4,675	5,311	5,290	5,190	5,411	5,190
From official creditors (non-IMF)	8,332	16,393	9,734	17,850	10,730	11,392	14,868	10,921	12,904
o/w Project Loans	3,458	2,673	1,578	1,392	2,207	2,357	2,072	2,003	1,876
o/w China	1,811	1,987	486	131	127	127	127	127	0
o/w Program Loans	261	17	3,666	3,802	2,369	1,809	2,177	1,869	1,869
o/w WB	205	0	729	2,408	1,669	809	1,177	869	1,130
o/w ADB	50	0	2,347	1,126	700	1,000	1,000	1,000	1,000
o/w Rollover of short-term debt	5,344	5,187	12,641	8,642	9,439	9,966	10,601	11,949	10,501
o/w Public Sector	1,871	3,136	4,611	5,150	5,950	5,950	5,950	5,950	5,950
o/w Private Sector	3,474	2,051	8,031	3,492	3,489	4,016	4,651	5,999	4,551
Other Net Capital Inflows (net) 5/	-557	171	568	157	249	248	149	115	97
Remaining Financing Needs (C=A-B)	**6,132**	**2,449**	**-2,076**	**-587**	**-1,296**	**-288**	**-2,101**	**-2,634**	**-1,920**
Borrowing from IMF (D)	**0**	**0**	**2,825**	**1,594**	**2,146**	**954**	**0**	**0**	**0**
Reserve Assets (decrease = +) (E=C-D)	6,132	2,449	-4,901	-2,181	-3,442	-1,242	-2,101	-2,634	-1,920
Memorandum items:									
Gross official reserves (stock, in US$ billions)	9.8	7.3	12.2	14.4	17.8	19.0	21.1	23.8	25.7
(In months of prospective imports)	1.9	1.7	2.7	2.9	3.3	3.3	3.3	3.5	3.5
(In percent of IMF ARA metric: assuming fixed ER)	29.9	22.3	35.5	39.5	45.6	46.0	47.6	50.3	53.3
(In percent of IMF ARA metric: assuming flexible ER)	48.3	35.0	55.4	61.6	70.7	71.1	72.4	76.4	82.0
Net FX derivative position (in US$ billions)	6.7	8.1	7.6	5.5	4.0	4.0	4.0	4.0	4.0

Sources: State Bank of Pakistan, and Fund staff estimates and projections.

1/ Includes banks and non-bank private sector.

2/ Includes privatization receipts.

3/ Includes equity and debt portfolio inflows, and borrowing by banks and other sectors.

4/ Includes syndicated loans and Euro bonds.

5/ Includes capital account, financial derivatives, errors and omissions.

Table 4a. Pakistan: General Government Budget, 2017/18–2025/26

(In billions of Pakistani rupees)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Proj.			Proj.		
Revenue and grants	**5,265**	**4,934**	**6,306**	**7,210**	**8,861**	**10,345**	**11,618**	**12,936**	**14,432**
Revenue	5,228	4,901	6,273	7,166	8,814	10,291	11,556	12,877	14,370
Tax revenue	4,467	4,473	4,748	5,819	7,395	8,679	9,759	10,872	12,130
Federal	4,066	4,072	4,334	5,251	6,666	7,769	8,704	9,695	10,816
FBR revenue	3,842	3,829	3,998	4,691	5,963	6,941	7,829	8,752	9,796
Direct taxes	1,537	1,446	1,524	1,789	2,233	2,618	2,954	3,295	3,701
Federal excise duty	206	234	250	275	365	443	495	552	616
Sales tax/VAT	1,491	1,465	1,597	1,926	2,563	2,969	3,354	3,764	4,212
Customs duties	608	685	626	700	802	911	1,027	1,141	1,267
Petroleum surcharge	179	206	294	511	607	718	742	781	820
Gas surcharge and other	30	14	33	40	45	51	67	85	113
GIDC	15	21	9	10	52	59	65	78	87
Provincial	401	402	414	568	729	910	1,055	1,177	1,314
Nontax revenue	761	427	1,524	1,347	1,420	1,612	1,797	2,005	2,240
Federal	614	341	1,422	1,179	1,234	1,401	1,563	1,743	1,947
Provincial	147	86	102	167	185	210	235	262	292
Grants	37	33	33	45	47	54	62	60	62
Expenditure (including statistical discrepancy)	**7,488**	**8,345**	**9,649**	**10,477**	**11,731**	**12,674**	**14,184**	**15,505**	**16,835**
Current expenditure	5,982	7,274	8,597	9,254	10,244	10,966	12,198	13,270	14,338
Federal	3,918	4,946	6,081	6,426	7,042	7,381	8,200	8,831	9,379
Interest	1,500	2,091	2,620	2,813	3,060	3,272	3,678	3,786	3,753
Domestic	1,323	1,821	2,313	2,646	2,734	2,874	3,244	3,357	3,238
Foreign	177	270	306	162	307	367	404	429	515
IMF budget support	0	0	1	5	19	31	30	0	0
Other	2,418	2,855	3,462	3,617	4,001	4,140	4,552	5,044	5,625
Defense	1,030	1,147	1,213	1,283	1,444	1,639	1,828	2,039	2,278
Other	1,387	1,708	2,249	2,334	2,557	2,501	2,724	3,005	3,347
Of which: subsidies	114	195	360	459	530	260	290	324	362
Of which: grants	512	612	917	884	980	1,098	1,214	1,355	1,513
Provincial	2,065	2,328	2,516	2,829	3,202	3,585	3,998	4,440	4,960
Development expenditure and net lending	1,494	1,049	1,139	1,223	1,487	1,709	1,985	2,235	2,497
Public Sector Development Program	1,456	1,008	1,090	1,169	1,426	1,639	1,908	2,148	2,400
Federal	576	502	468	503	627	722	851	969	1,082
Provincial	880	506	622	665	799	917	1,057	1,180	1,318
Net lending	38	41	49	54	61	69	77	86	96
Statistical discrepancy ("+" = additional expenditure)	12	22	-87	0	0	0	0	0	0
Overall Balance (excluding grants)	**-2,260**	**-3,445**	**-3,376**	**-3,311**	**-2,917**	**-2,384**	**-2,628**	**-2,628**	**-2,465**
Overall Balance (including grants)	**-2,223**	**-3,412**	**-3,343**	**-3,266**	**-2,871**	**-2,330**	**-2,566**	**-2,569**	**-2,403**
Financing	**2,223**	**3,412**	**3,343**	**3,266**	**2,871**	**2,330**	**2,566**	**2,569**	**2,403**
External	785	417	896	1,093	892	520	11	192	1,091
Of which: privatization receipts	0	0	0	0	0	0	0	0	0
Of which: IMF	0	0	389	267	379	176	0	-14	0
Domestic	1,438	2,995	2,447	2,173	1,979	1,810	2,555	2,376	1,311
Bank	1,086	2,230	1,907	1,521	1,385	1,267	1,789	1,667	918
Nonbank	353	765	540	652	594	543	767	709	393
Memorandum items:									
Underlying fiscal balance (excl. grants) 1/	-2,260	-3,445	-3,376	-3,059	-2,647	-2,384	-2,628	-2,628	-2,465
Provincial balance	-17	190	225	156	571	805	942	1,050	1,173
Primary balance (excluding grants)	-760	-1,353	-756	-498	143	888	1,051	1,158	1,289
Underlying primary balance (excluding grants) 1/	-760	-1,353	-756	-246	413	888	1,051	1,158	1,289
Primary balance (including grants)	-723	-1,320	-723	-453	189	942	1,112	1,218	1,350
Total security spending	1,030	1,147	1,213	1,283	1,444	1,639	1,828	2,039	2,278
Energy sector circular debt accumulation	450	447	538	...	...	...	...	...	...
Energy sector circular debt clearance	147	200	200	...	...	...	...	...	...
General government debt incl. IMF obligations	24,950	32,487	36,388	40,126	43,387	45,929	48,515	51,066	53,773
Domestic debt	16,416	20,732	23,281	25,454	27,433	29,243	31,798	34,161	35,472
External debt	8,534	11,756	13,107	14,672	15,954	16,686	16,718	16,905	18,301
General government and government guaranteed debt (incl. IMF)	26,386	34,456	38,732	42,510	45,898	48,537	51,213	53,889	56,801
Net general government debt (incl. IMF)	23,022	29,300	33,225	36,963	40,224	42,765	45,352	47,903	50,610
Nominal GDP (market prices)	34,616	37,972	41,727	45,778	52,057	59,105	65,911	73,521	82,136

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance and IPPs related arrears clearance; in FY 2022 it excludes IPPs related arrears clearance.

Table 4b. Pakistan: General Government Budget, 2017/18–2025/26
(In percent of GDP, unless otherwise indicated)

	2017/18	2018/19	2019/20 Est.	2020/21 Proj.	2021/22	2022/23	2023/24 Proj.	2024/25	2025/26
Revenue and grants	**15.2**	**13.0**	**15.1**	**15.8**	**17.0**	**17.5**	**17.6**	**17.6**	**17.6**
Revenue	15.1	12.9	15.0	15.7	16.9	17.4	17.5	17.5	17.5
Tax revenue	12.9	11.8	11.4	12.7	14.2	14.7	14.8	14.8	14.8
Federal	11.7	10.7	10.4	11.5	12.8	13.1	13.2	13.2	13.2
FBR revenue	11.1	10.1	9.6	10.2	11.5	11.7	11.9	11.9	11.9
Direct taxes	4.4	3.8	3.7	3.9	4.3	4.4	4.5	4.5	4.5
Federal excise duty	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8
Sales tax	4.3	3.9	3.8	4.2	4.9	5.0	5.1	5.1	5.1
Customs duties	1.8	1.8	1.5	1.5	1.5	1.5	1.6	1.6	1.5
Petroleum surcharge / Carbon tax	0.5	0.5	0.7	1.1	1.2	1.2	1.1	1.1	1.0
Gas surcharge and other	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
GIDC	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Provincial	1.2	1.1	1.0	1.2	1.4	1.5	1.6	1.6	1.6
Nontax revenue	2.2	1.1	3.7	2.9	2.7	2.7	2.7	2.7	2.7
Federal	1.8	0.9	3.4	2.6	2.4	2.4	2.4	2.4	2.4
Provincial	0.4	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure (including statistical discrepancy)	**21.6**	**22.0**	**23.1**	**22.9**	**22.5**	**21.4**	**21.5**	**21.1**	**20.5**
Current expenditure	17.3	19.2	20.6	20.2	19.7	18.6	18.5	18.0	17.5
Federal	11.3	13.0	14.6	14.0	13.5	12.5	12.4	12.0	11.4
Interest	4.3	5.5	6.3	6.1	5.9	5.5	5.6	5.2	4.6
Domestic	3.8	4.8	5.5	5.8	5.3	4.9	4.9	4.6	3.9
Foreign	0.5	0.7	0.7	0.4	0.6	0.6	0.6	0.6	0.6
IMF budget support	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Other	7.0	7.5	8.3	7.9	7.7	7.0	6.9	6.9	6.8
Defense	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.8
Other	4.0	4.5	5.4	5.1	4.9	4.2	4.1	4.1	4.1
Of which: subsidies	0.3	0.5	0.9	1.0	1.0	0.4	0.4	0.4	0.4
Of which: grants	1.5	1.6	2.2	1.9	1.9	1.9	1.8	1.8	1.8
Provincial	6.0	6.1	6.0	6.2	6.2	6.1	6.1	6.0	6.0
Development expenditure and net lending	4.3	2.8	2.7	2.7	2.9	2.9	3.0	3.0	3.0
Public Sector Development Program	4.2	2.7	2.6	2.6	2.7	2.8	2.9	2.9	2.9
Federal	1.7	1.3	1.1	1.1	1.2	1.2	1.3	1.3	1.3
Provincial	2.5	1.3	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional expenditure)	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	**-6.5**	**-9.1**	**-8.1**	**-7.2**	**-5.6**	**-4.0**	**-4.0**	**-3.6**	**-3.0**
Overall Balance (including grants)	**-6.4**	**-9.0**	**-8.0**	**-7.1**	**-5.5**	**-3.9**	**-3.9**	**-3.5**	**-2.9**
Financing	**6.4**	**9.0**	**8.0**	**7.1**	**5.5**	**3.9**	**3.9**	**3.5**	**2.9**
External	2.3	1.1	2.1	2.4	1.7	0.9	0.0	0.3	1.3
Of which: privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.0	0.9	0.6	0.7	0.3	0.0	0.0	0.0
Domestic	4.2	7.9	5.9	4.7	3.8	3.1	3.9	3.2	1.6
Bank	3.1	5.9	4.6	3.3	2.7	2.1	2.7	2.3	1.1
Nonbank	1.0	2.0	1.3	1.4	1.1	0.9	1.2	1.0	0.5
Memorandum items:									
Underlying fiscal balance (excl. grants) 1/	-6.5	-9.1	-8.1	-6.7	-5.1	-4.0	-4.0	-3.6	-3.0
Provincial balance	-0.1	0.5	0.5	0.3	1.1	1.4	1.4	1.4	1.4
Primary balance (excluding grants)	-2.2	-3.6	-1.8	-1.1	0.3	1.5	1.6	1.6	1.6
Underlying primary balance (excluding grants) 1/	-2.2	-3.6	-1.8	-0.5	0.8	1.5	1.6	1.6	1.6
Primary balance (including grants)	-2.1	-3.5	-1.7	-1.0	0.4	1.6	1.7	1.7	1.6
Total security spending	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.8
Energy sector circular debt accumulation	1.3	1.2	1.3	…	…	…	…	…	…
Energy sector circular debt clearance	0.4	0.5	0.5	…	…	…	…	…	…
General government debt incl. IMF obligations	72.1	85.6	87.2	87.7	83.3	77.7	73.6	69.5	65.5
Domestic debt	47.4	54.6	55.8	55.6	52.7	49.5	48.2	46.5	43.2
External debt	24.7	31.0	31.4	32.0	30.6	28.2	25.4	23.0	22.3
General government and government guaranteed debt (incl. IMF)	76.2	90.7	92.8	92.9	88.2	82.1	77.7	73.3	69.2
Net general government debt (incl. IMF)	66.5	77.2	79.6	80.7	77.3	72.4	68.8	65.2	61.6
Nominal GDP (market prices, billions of Pakistani rupees)	34,616	37,972	41,727	45,778	52,057	59,105	65,911	73,521	82,136

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance and IPPs related arrears clearance; in FY 2022 it excludes IPPs related arrears clearance.

Table 5. Pakistan: Monetary Survey, 2017/18–2021/22

	2017/18	2018/19	2019/20	2020/21				2021/22			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
			Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of Pakistani rupees, unless otherwise indicated)										
Monetary survey											
Net foreign assets (NFA)	-208	-1,507	-516	-209	63	-252	189	280	474	629	969
Net domestic assets (NDA)	16,206	19,306	21,424	21,377	22,008	22,758	24,064	24,000	24,687	24,961	26,486
Net claims on government, *of which:*	10,200	12,337	14,547	14,772	14,906	15,551	15,834	16,435	16,672	16,963	17,219
Budget support, *of which:*	9,284	11,546	13,471	13,722	14,022	14,877	14,955	15,579	15,857	16,236	16,270
Banks	5,744	4,857	7,016	7,633	8,137	8,993	9,361	10,269	10,832	11,210	11,245
Commodity operations	820	756	813	754	734	673	878	856	814	727	948
Credit to nongovernment	7,034	8,073	8,372	8,286	8,690	8,819	9,003	9,252	9,742	9,959	10,216
Private sector 1/	5,989	6,703	6,906	6,831	7,253	7,308	7,390	7,652	8,161	8,297	8,442
Public sector enterprises	1,044	1,370	1,466	1,455	1,437	1,511	1,613	1,600	1,581	1,662	1,774
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	-987	-1,063	-1,455	-1,640	-1,548	-1,571	-732	-1,646	-1,686	-1,921	-908
Broad money	15,997	17,798	20,908	21,168	22,071	22,506	24,253	24,280	25,161	25,589	27,455
Currency outside scheduled banks	4,388	4,950	6,142	6,102	6,206	6,551	7,043	6,986	7,101	7,423	7,903
Rupee deposits	10,780	11,739	13,691	13,965	14,811	14,820	16,067	16,167	16,972	16,996	18,375
Foreign currency deposits	829	1,110	1,075	1,102	1,054	1,134	1,143	1,127	1,088	1,171	1,177
State Bank of Pakistan (SBP)											
NFA	12	-1,127	-181	-48	164	83	524	615	809	963	1,304
NDA	5,472	7,701	7,861	7,579	7,527	8,126	8,423	8,128	7,998	8,394	8,833
Net claims on government	3,600	6,676	6,524	6,242	5,939	6,023	5,698	5,422	5,128	5,140	5,134
Of which: budget support	3,539	6,689	6,455	6,089	5,885	5,885	5,595	5,310	5,026	5,026	5,026
Claims on nongovernment	-8	12	19	21	23	21	19	17	15	13	11
Claims on scheduled banks	570	683	877	1,007	1,194	1,204	1,214	1,264	1,264	1,264	1,264
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	1,350	371	482	350	412	919	1,533	1,466	1,632	2,018	2,466
Reserve money, *of which:*	5,485	6,573	7,680	7,531	7,692	8,208	8,947	8,743	8,807	9,358	10,137
Banks' reserves	814	1,246	1,171	1,047	1,081	1,154	1,258	1,229	1,238	1,315	1,425
Currency	4,644	5,294	6,468	6,431	6,553	7,055	7,689	7,514	7,569	8,042	8,712
	(Annual percentage change, unless otherwise indicated)										
Broad money	9.7	11.3	17.5	18.2	17.9	16.5	16.0	14.7	14.0	13.7	13.2
NFA, banking system (in percent of broad money) 2/	-5.6	-8.1	5.6	5.8	3.7	2.4	3.4	2.3	1.9	3.9	3.2
NDA, banking system (in percent of broad money) 2/	15.3	19.4	11.9	12.4	14.2	14.1	12.6	12.4	12.1	9.8	10.0
Budgetary support (in percent of broad money) 2/	7.7	14.1	10.8	12.8	13.0	14.1	7.1	8.8	8.3	6.0	5.4
Budgetary support	13.7	24.4	16.7	20.1	21.0	22.5	11.0	13.5	13.1	9.1	8.8
Private credit 1/	14.9	11.9	3.0	2.2	4.8	4.0	7.0	12.0	12.5	13.5	14.2
Currency	12.2	12.8	24.1	16.5	17.5	15.5	14.7	14.5	14.4	13.3	12.2
Reserve money	12.7	19.9	16.8	18.3	14.1	17.3	16.5	16.1	14.5	14.0	13.3
Memorandum items:											
Velocity	2.3	2.3	2.2	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Money multiplier	2.9	2.7	2.7	2.8	2.9	2.7	2.7	2.8	2.9	2.7	2.7
Currency to broad money ratio (percent)	27.4	27.8	29.4	28.8	28.1	29.1	29.0	28.8	28.2	29.0	28.8
Currency to deposit ratio (percent)	37.8	38.5	41.6	40.5	39.1	41.1	40.9	40.4	39.3	40.9	40.4
Foreign currency to deposit ratio (percent)	7.1	8.6	7.3	7.3	6.6	7.1	6.6	6.5	6.0	6.4	6.0
Reserves to deposit ratio (percent)	7.0	9.7	7.9	6.9	6.8	7.2	7.3	7.1	6.9	7.2	7.3
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	1,121	2,262	1,925	251	551	1,406	1,484	623	902	1,280	1,315
By commercial banks	-119	-887	2,159	-3,538	1,122	1,977	2,345	908	1,471	1,849	1,884
By SBP 3/	1,240	3,150	-234	3,789	-571	-571	-861	-285	-569	-569	-569
4/	-7.8	-9.4	8.1	0.8	2.2	1.6	4.2	0.6	1.9	2.5	4.4
NFA of commercial banks (millions of U.S. dollars)	-2,107	-3,127	-2,092	-1,026	-656	-2,008	-1,992	-2,021	-2,095	-1,946	-1,936
NDA of commercial banks (billions of Pakistani rupees)	10,733	11,605	13,563	13,798	14,481	14,632	15,641	15,872	16,689	16,566	17,653

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Items pertaining to Islamic Financing previously reported under "Other assets" have been reclassified as "Credit to private sector" beginning March 2016.
2/ Denominator is the stock of broad (reserve) money at the end of the previous year.
3/ Includes use of government deposits.
4/ Includes valuation adjustments.

Table 6. Pakistan: Financial Indicators for the Banking System, 2013–20

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.	2019 Mar.	2019 Jun.	2019 Sep.	2019 Dec.	2020 Mar.	2020 Jun.	2020 Sep.	2020 Dec.
Capital adequacy														
Regulatory capital to risk-weighted assets 1/	14.9	17.1	17.3	16.2	15.8	16.2	16.1	16.1	17.1	17.0	17.2	18.7	19.5	18.6
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	13.2	13.3	13.3	14.2	14.0	13.8	14.7	15.5	14.8
Capital to total assets	9.0	10.0	8.4	7.8	7.1	7.1	7.6	7.0	7.0	7.2	7.3	7.3	7.5	7.2
Asset composition and quality														
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	8.4	8.0	8.2	8.8	8.8	8.6	9.1	9.7	9.9	9.2
Provisions to NPLs	78.4	79.8	84.9	85.0	87.2	83.8	84.1	78.4	80.5	81.4	81.9	81.6	84.6	88.3
Net NPLs to total eligible capital	14.7	10.1	7.7	7.3	5.8	7.8	7.8	11.5	9.8	8.9	9.0	9.0	7.4	5.3
Earnings and profitability														
Return on assets (after tax)	1.1	1.5	1.5	1.3	0.9	0.8	0.8	0.8	0.8	0.8	0.8	1.1	1.1	1.0
Return on equity (after tax)	12.4	16.1	15.6	14.4	11.5	10.7	10.8	11.4	10.8	11.3	11.0	14.6	14.8	13.8
Net interest income to gross income	70.4	71.3	70.4	71.2	72.7	75.4	77.7	78.4	79.4	79.3	80.7	79.2	79.3	79.7
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	57.1	60.2	55.8	57.1	57.4	57.6	56.6	48.9	47.9	50.0
Liquidity														
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	48.7	45.3	48.0	50.8	49.7	49.8	53.3	54.4	54.8
Liquid assets to total deposits	61.3	64.5	73.3	72.1	76.1	67.2	59.8	65.3	73.5	68.4	69.3	72.6	73.8	74.3
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	55.8	55.6	53.2	53.6	51.7	51.4	46.3	45.0	44.8

Source: State Bank of Pakistan.

1/ Starting Dec. 2015 and in line with Basel requirements, the authorities used regulatory capital instead of balance sheet capital for the calculation.

Table 7. Pakistan: Indicators of Fund Credit, 2015–27
(In millions of SDR, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections 1/							
					Projected level of credit outstanding based on existing and prospective drawings								
Total	**3,600.0**	**4,393.0**	**4,393.0**	**4,243.0**	**4,867.0**	**5,192.5**	**6,542.3**	**6,982.2**	**5,996.1**	**4,732.2**	**3,900.5**	**3,266.4**	**2,555.1**
Of which:													
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility and Rapid Financing Instrument	3,600.0	4,393.0	4,393.0	4,243.0	4,867.0	5,192.5	6,542.3	6,982.2	5,996.1	4,732.2	3,900.5	3,266.4	2,555.1
In percent of quota	348.3	216.3	216.3	208.9	239.6	255.7	322.1	343.8	295.2	233.0	192.0	160.8	125.8
In percent of end-period gross official reserves	31.4	32.4	44.1	81.6	59.2	55.7	61.3	54.7	40.7	29.0	22.2	17.3	12.6
As a share of external debt	7.3	7.9	7.1	6.0	6.1	6.8	8.0	8.1	6.7	5.0	3.9	3.1	2.3
					Projected debt service to the Fund based on existing and prospective drawings								
Total	**338.1**	**51.1**	**75.0**	**248.0**	**532.7**	**361.5**	**832.2**	**869.3**	**1,146.7**	**1,376.2**	**897.3**	**675.2**	**744.0**
Of which:													
Principal	303.0	0.0	0.0	150.0	420.0	330.0	732.2	702.2	986.0	1,263.9	831.7	634.1	711.3
Interest and charges	35.1	51.1	75.0	98.0	112.7	31.5	100.0	167.2	160.7	112.3	65.5	41.1	32.7
SBA and ENDA principal	303.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility principal	N.A.	N.A.	N.A.	150.0	120.0	330.0	732.2	702.2	732.2	756.2	577.8	634.1	711.3
Rapid Financing Instrument principal	N.A.	N.A.	N.A.	0.0	0.0	0.0	0.0	0.0	253.9	507.8	253.9	0.0	0.0
In percent of quota	32.7	2.5	3.7	12.2	26.2	17.8	41.0	42.8	56.5	67.8	44.2	33.2	36.6
In percent of end-period gross official reserves	2.9	0.4	0.8	4.8	6.5	3.9	7.8	6.8	7.8	8.4	5.1	3.6	3.7
As a share of total external debt service	7.2	1.1	1.1	3.6	5.3	4.1	7.9	6.8	8.7	8.4	5.1	3.6	3.7
Memorandum items:													
Quota (millions of SDRs)	1,034	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031
Total external debt (percent of CY GDP)	25.0	25.7	28.5	33.2	41.1	41.1	42.1	41.2	40.0	39.2	38.7	38.3	37.9
Total external debt service (millions of U.S. dollars)	6,541	6,274	9,703	9,498	13,830	12,555	15,406	18,828	19,472	24,059	25,825	27,720	29,754

Source: IMF staff projections.

1/ Using the GRA rate of charge = 1.089 as of December 17, 2020 for projected charges.

Table 8. Pakistan: Selected Vulnerability Indicators, 2017/18–2025/26

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Proj.			Proj.		
Key economic and market indicators									
Real GDP growth (factor cost, in percent)	5.5	1.9	-0.4	1.5	4.0	4.5	5.0	5.0	5.0
CPI inflation (period average, in percent)	3.9	7.3	10.8	8.7	8.0	7.3	6.5	6.5	6.5
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	582	420	650	...	...	...	...	...	...
Exchange rate PRs/US$ (end of period)	121.5	160.1	168.1	...	...	...	...	...	...
External sector									
Current account balance (percent of GDP)	-6.1	-4.9	-1.1	-1.5	-1.8	-2.0	-2.4	-2.7	-2.9
Net FDI inflows (percent of GDP)	0.9	0.5	1.0	0.8	0.8	1.1	1.4	1.5	1.5
Exports (percentage change of U.S. dollar value; GNFS)	9.7	-1.3	-7.5	2.1	7.0	6.2	7.9	8.9	6.9
Gross international reserves (GIR) in billions of U.S. dollars	9.8	7.3	12.2	14.4	17.8	19.0	21.1	23.8	25.7
GIR in percent of ST debt at remaining maturity (RM) 1/	88.3	45.9	74.6	68.3	66.0	63.8	64.8	85.5	106.5
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 1/	54.6	31.9	53.6	51.9	53.2	52.3	53.3	67.2	79.6
Total gross external debt (ED) in percent of GDP, *of which:*	30.0	37.5	41.3	42.1	41.7	40.3	39.2	38.8	36.6
ST external debt (original maturity, in percent of total ED)	6.4	5.5	4.8	3.8	4.1	4.3	4.9	5.6	6.1
ED of domestic private sector (in percent of total ED)	33.4	32.0	30.9	30.9	33.7	36.9	42.8	49.1	49.9
ED to foreign official sector (in percent of total ED)	66.6	68.0	69.1	69.1	66.3	63.1	57.2	50.9	50.1
Total gross external debt in percent of exports	306.9	342.6	388.6	402.3	402.2	397.2	384.1	375.1	356.3
Gross external financing requirement (in billions of U.S. dollars) 2/	28.5	26.6	18.3	16.5	18.0	21.3	27.4	29.8	30.9
Public sector 3/									
Overall balance (including grants)	-6.4	-9.0	-8.0	-7.1	-5.5	-3.9	-3.9	-3.5	-2.9
Primary balance (including grants)	-2.1	-3.5	-1.7	-1.0	0.4	1.6	1.7	1.7	1.6
Debt-stabilizing primary balance 4/	2.1	5.6	-0.1	-0.8	-3.2	-3.3	-1.3	-1.6	-1.9
Gross PS financing requirement 5/	31.7	36.8	29.2	27.7	26.1	25.4	24.2	7.6	5.9
General government and government guaranteed debt (incl. IMF)	76.2	90.7	92.8	92.9	88.2	82.1	77.7	73.3	69.2
General government debt incl. IMF obligations	72.1	85.6	87.2	87.7	83.3	77.7	73.6	69.5	65.5
Net general government debt (incl. IMF) 6/	66.5	77.2	79.6	80.7	77.3	72.4	68.8	65.2	61.6
Financial sector 7/									
Capital adequacy ratio (in percent)	15.9	16.1	18.7	...	...	...	...	...	...
Nonperforming loans (NPLs) in percent of total loans	7.9	8.8	9.7	...	...	...	...	...	...
Provisions in percent of NPLs	87.1	78.4	81.6	...	...	...	...	...	...
Return on assets (after tax, in percent)	0.8	0.8	1.1	...	...	...	...	...	...
Return on equity (after tax, in percent)	11.0	11.4	14.6	...	...	...	...	...	...
FX deposits held by residents (in percent of total deposits)	7.1	8.6	7.3	...	...	...	...	...	...
Government debt held by FS (percent of total FS assets)	63.8	69.3	69.6	...	...	...	...	...	...
Credit to private sector (percent change)	14.9	11.9	3.0	...	...	...	...	...	...
Memorandum item:									
Nominal GDP (in billions of U.S. dollars)	313.1	276.1	262.8	...	...	...	...	...	...

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Debt at remaining maturity is defined as maturing short-, medium-, and long-term external official debt.

2/ Current account deficit plus amortization of external debt.

3/ Public sector covers general (consolidated) government.

4/ Based on the end of period debt stock in year t-1, and the baseline assumptions for the relevant variables (i.e., growth, interest rates, inflation, exchange rates)

5/ Overall balance plus debt amortization.

6/ Net debt is defined as gross debt minus government deposits with the banking system.

7/ Financial sector includes all commercial and specialized banks; for government debt also includes nonbanks, but excludes State Bank of Pakistan.

Table 9a. Pakistan: Original Schedule of Reviews and Purchases

Availability Date 1/	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
July 3, 2019	716	35	Approval of arrangement
December 6, 2019	328	16	First review and end-September 2019 performance/ continuous criteria
March 6, 2020	328	16	Second review and end-December 2019 performance/ continuous criteria
June 5, 2020	328	16	Third review and end-March 2020 performance/ continuous criteria
September 4, 2020	328	16	Fourth review and end-June 2020 performance/ continuous criteria
March 5, 2021	560	28	Fifth review and end-December 2020 performance/ continuous criteria
September 3, 2021	560	28	Sixth review and end-June 2021 performance/ continuous criteria
March 4, 2022	560	28	Seventh review and end-December 2021 performance/ continuous criteria
September 2, 2022	560	28	Eighth review and end-June 2022 performance/ continuous criteria
Total	4,268	210	

Source: IMF staff estimates.

1/ Date on which resources become available.

Table 9b. Pakistan: Proposed Schedule of Reviews and Purchases After Rephasing

Availability Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
July 3, 2019	716	35	Approval of arrangement
December 6, 2019	328	16	First review and end-September 2019 performance/ continuous criteria
March 5, 2021	350	17	Second, Third, Fourth, and Fifth reviews performance/ continuous criteria 1/
June 4, 2021	750	37	Sixth review and end-March 2021 performance/ continuous criteria
September 3, 2021	491	24	Seventh review and end-June 2021 performance/continuous criteria
December 3, 2021	491	24	Eighth review and end-September 2021 performance/ continuous criteria
March 4, 2022	491	24	Nineth review and end-December 2022 performance/ continuous criteria
September 2, 2022	651	32	Tenth review and end-June 2022 performance/ continuous criteria
Total	4,268	210	

Source: IMF staff estimates.

1/ The purchases have become available on March 6, 2020, June 5, 2020, September 4, 2020, and March 5, 2021, respectively.

Note: On April 16, 2020 the authorities made a SDR 1,015.5 million purchase (50 percent of quota) under the Rapid Financing Instrument.

Table 10. Pakistan: Public External Liabilities and Repayment Schedule, 2019/20–2022/23 1/

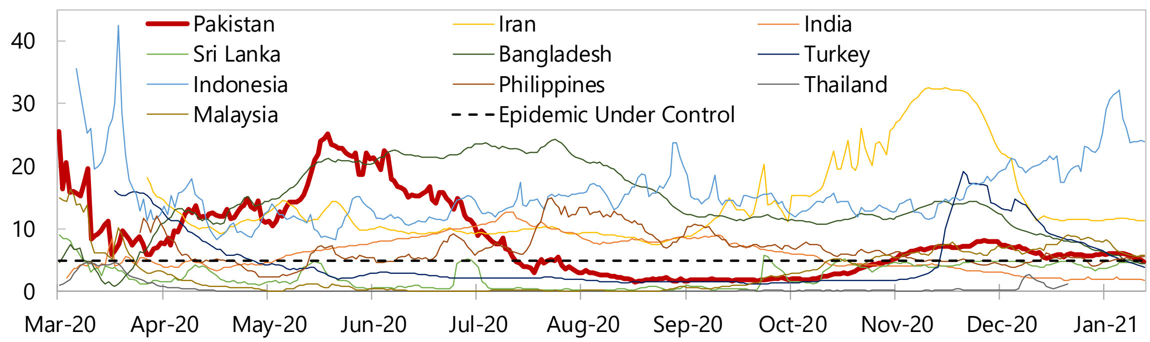
	Outstanding debt	Amortization over the EFF period				
		FY2019/20	FY2020/21	FY2021/22	FY2022/23 (through Q1)	Total
Paris Club	**11,547**	**409**	**54**	**830**	**399**	**1,692**
Austria	25	1	0	4	2	8
Belgium	18	1	0	3	2	6
Canada	403	7	21	23	12	63
Finland	3	0	0	1	0	1
France	1,748	80	9	165	81	335
Germany	1,422	33	8	84	42	166
Italy	175	-1	0	5	3	7
Japan	5,810	224	10	337	145	716
Korea	433	2	6	52	28	87
The Netherlands	89	2	0	5	2	10
Norway	10	1	0	2	1	3
Russia	68	4	0	13	7	24
Spain	61	2	0	5	3	10
Sweden	86	5	0	16	9	30
Switzerland	82	4	0	11	6	20
United Kingdom	5	0	0	1	0	2
United States	1,108	44	0	105	56	205
Non-Paris Club Bilateral	**21,873**	**7,730**	**14,038**	**4,733**	**1,014**	**14,785**
China 2/	18,029	3,660	8,796	4,697	1,003	9,496
Kuwait	158	25	12	14	1	27
Libya	4	0	0	0	0	0
Saudi Arabia 3/	954	3,034	3,231	20	10	3,260
UAE	2,028	1,012	2,000	2	0	2,002
Other	700	0	0	0	0	0
Multilateral	**33,741**	**3,039**	**2,503**	**2,622**	**624**	**6,993**
Islamic Development Bank 4/	1,517	837	958	1,000	150	1,150
ADB	13,665	1,260	888	869	260	3,278
AIIB	831	0	0	7	1	7
ECO Trade Bank	40	41	1	0	0	42
IBRD	1,745	170	123	135	30	458
IDA	15,562	710	514	591	175	1,990
Int'l Fund for Agri. Development	288	11	9	10	4	34
Nordic Development Fund	8	1	1	1	0	2
OPEC FUND	83	11	9	9	4	33
EIB	0	0	0	0	0	0
Commercial	**9,638**	**1,651**	**3,460**	**4,448**	**0**	**7,859**
China	6,735	900	2,500	4,348	0	6,048
Others	2,903	1,316	1,205	394	0	1,810
Bonds	**5,832**	**1,000**	**457**	**1,000**	**0**	**2,457**
IMF	**7,493**	**741**	**1,039**	**1,068**	**273**	**3,120**
Total	**90,124**	**14,571**	**21,551**	**14,701**	**2,309**	**36,907**

Sources: Pakistani authorities; and the IMF calculations.
1/ Outstanding debt includes SBP debt. Estimates as of end-Dec 2020 and provisional. IMF credit, China PBOC Swap, SAFE deposits, and Saudi Arabia support as of end-Jan-2021. Estimates of amortization are provisional and reflect the DSSI estimated impact and various rollover assumptions under the program.
2/ Includes PBOC currency swap and SAFE deposits.
3/ The debt to Saudi Arabia includes the flows from the oil facilities disbursed over FY2020.
4/ Includes short-term oil facilities of about US$0.5 billion.

Annex I. Policy Response to the Covid-19 Shock

1. **Background**. Covid-19 was reported for the first time on February 26, 2020. Starting on March 23, both the federal and provincial governments implemented containment and mitigation measures, including selective quarantines, border closures, international and domestic travel restrictions, closure of educational institutions, banning of public events, social distancing, and varying levels of lockdown. Despite these measures, the number of new daily cases increased rapidly, hitting the peak of 6,000 in mid-June, before slowing down in July. Between August and October, the number of daily new cases was consistently below 1,000 (reaching a low of 300 cases in early September). A second wave of infections emerged starting in November as the positivity rate had been on an upward trend before moderating in mid-December and decreasing to less than the 5 percent mark in end-January.

Covid-19 Incidence: Share of Daily Positive Test 1/
(Percent, 7-day rolling average)



Source: University of Oxford; IMF staff calculations.
1/ According to criteria published by WHO in May, a positive rate of less than 5% is one indicator that the epidemic is under control in a country.

2. **Reopening of the economy and additional containment efforts**. Since mid-April, the federal government, in coordination with provinces, started to gradually ease lockdown arrangements. By the end of summer, further lockdown restrictions were lifted, as educational institutions, recreational places, restaurants, malls, and retail outlets could reopen. This trend was partially reversed in the last months of CY 2020 by better enforcing Standard Operating Procedures (SOPs) and mandating the use of face masks. To mitigate the second wave, smart lockdown measures have been re-imposed, along with a general ban on public meetings and rallies, and the closure of educational institutions and venues such as cinemas, theaters, and wedding halls. Educational institutions have started to reopen in phases from January 18. In early December, the government applied to the UN’s COVAX Facility which will cover priority groups—around 20 percent of the population. It has given emergency use approval for three vaccines—the Oxford-AstraZeneca vaccine, Sinopharm, and Sputnik V. Pakistan is also in discussions with other vaccine manufacturers and with donors (notably the World Bank and Asian Development Bank) for the procurement of extra vaccines which will be funded with a US$ 250 million budget allocation. The launch of the vaccination drive is expected in the second quarter of CY 2021.

3. **Key policy responses**. The authorities took measures in three areas:

- ***Fiscal***. A relief package worth PRs 1,200 billion (2.9 percent of GDP) was announced by the federal government on March 24, 2020 of which PRs 715 billion (1.7 percent of GDP)) was executed in FY 2020.[1] Key measures include the: (i) elimination of import duties on emergency health equipment (recently extended until December 2020); (ii) cash transfers to 6.2 million daily wage workers (PRs 75 billion); (iii) cash transfers to more than 12 million low-income families (PRs 50 billion); (iv) accelerated tax refunds to exporters (PRs 100 billion); and (v) support to SMEs and the agriculture sector (PRs 100 billion) in the form of power bill deferment, bank lending, as well as subsidies and tax incentives. The economic package also earmarked resources for an accelerated procurement of wheat (PRs 280 billion), financial support to utility stores (PRs 50 billion), a reduction in regulated fuel prices (with a benefit for end consumers estimated at PRs 70 billion), support for health and food supplies (PRs 15 billion), electricity bill payments relief (PRs 110 billion), an emergency contingency fund (PRs 100 billion), and a transfer to the National Disaster Management Authority (NDMA) for the purchase of Covid-19 related equipment (PRs 25 billion). In addition, the FY 2021 budget includes further increases in health and social spending, tariff and custom duty reductions on food items, an allocation for 'Covid-19 Responsive and Other Natural Calamities Control Program' (PRs 70 billion), a housing package to subsidize mortgages (PRs 30 billion), as well as the provision of tax incentives to the construction sector (retail and cement companies)) which got extended in the context of the second wave until the end of December 2021.

  Provincial governments also implemented supportive fiscal measures from the onset of the shock, including cash grants to low-income households, tax relief, and additional health spending (including a salary increase for healthcare workers). The government of Punjab implemented a PRs 18 billion tax relief package and a PRs 10 billion cash grants program. The government of Sindh's measures included cash grant and ration distribution program of PRs 1.5 billion for low-income households. The FY 2021 provincial budgets also provide tax relaxations and sizeable increases in expenditure allocations, especially on health services.

- ***Monetary and macro-financial***. The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by a cumulative 625 basis points to 7 percent since March 17, 2020. The SBP has expanded the scope of existing refinancing facilities and introduced three new ones to: (i) support hospitals and medical centers to purchase COVID-19-related equipment (39 hospitals, PRs 8.36 billion, to date); (ii) stimulate investment in new manufacturing plants and machinery, as well as modernization and expansion of existing projects (346 new projects, PRs 278 billion, until end-CY 2020); (iii) incentivize businesses to avoid laying off their workers during the pandemic

[1] The FY 2021 budget retains some of this emergency spending (0.8 percent of GDP) to continue to mitigate the economic and human impact of the Covid-19 crisis. They authorities stand ready to increase this emergency spending by PRs 200 billion (0.4 percent of GDP) to, if need be, respond to a potential exacerbation of the Covid-19 crisis beyond the baseline.

(2,958 firms, PRs 238 billion, to date). These facilities have been extended beyond their original deadline of June 2021 to September or December 2021.

Moreover, the SBP introduced temporary regulatory measures to maintain banking system soundness and sustain economic activity. These include: (i) reducing the capital conservation buffer by 100 basis points to 1.5 percent; (ii) increasing the regulatory limit on extension of credit to SMEs by 44 percent to PRs 180 million from PRs 120 million; (iii) relaxing the debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer clients' payment of principal on loan obligations by one year; (v) relaxing regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year; and (vi) reducing margin call requirements of 30 percent vis-à-vis banks' financing against listed shares to 10 percent and banks are allowed to take exposure on borrowers against the shares of their group companies. As of January 22, 2021, almost 1.7 million applications for principle deferral and loan restructuring under the debt relief scheme were received, of which more than 96 percent of applications were approved, covering PRs 884 billion. As part of the housing program, the SBP has also introduced mandatory targets for banks to ensure loans to construction activities account for at least 5 percent of the private sector portfolios by December 2021.

- ***Exchange rate and balance of payments***. The SBP has introduced further regulatory measures to facilitate the import of COVID-19-related medical equipment and medicine. These include (i) lifting the limit on import advance payments and import on open account; and (ii) allowing banks to approve an Electronic Import Form (EIF) for the import of equipment donated by international donor agencies and foreign governments. The SBP has also relaxed the condition of the 100 percent cash margin requirement on the import of certain raw materials to support the manufacturing and industrial sectors.

Annex II. Agenda for Technical Assistance
(IMF FYs 2019/20–2020/21)

	Receiving Agency 1/	Status 2/
Fiscal Affairs Department (FAD)		
Medium-term tax policy, including e.g. on general sales tax (GST) harmonization, corporate income tax (CIT) simplification, and tax policy diagnostics	FBR/MOF	ongoing*
Public financial management, including cash management and treasury functions, fiscal risks, and PFM law	MOF	ongoing*
Revenue administration, incl. e.g. on priority reforms to support revenue mobilization and reform of the inland revenue service	FBR	ongoing*
Sustainable development goals (SDG) costing	MOF	delivered FY 2019/20
Legal Department (LEG)		
State-owned enterprise law	MOF	delivered FY 2020/21*
State-owned enterprise governance	MOF	ongoing*
Anti-money laundering and combating the financing of terrorism (AML/CFT), incl. e.g. on supervision and legislative drafting	SBP/MOF/MOI	ongoing*
Bank resolution (jointly with MCM)	SBP	upcoming*
Central bank law reform	SBP	delivered FY 2019/20*
Monetary and Capital Markets Department (MCM)		
Debt management	MOF	delivered FY 2019/20
Banking resolution framework (jointly with LEG)	SBP	upcoming*
Central bank communication	SBP	delivered FY 2020/21
Cyber risks	SBP	upcoming
Statistics Department (STA)		
Money and banking statistics	PBS	delivered FY 2019/20

1/ Ministry of Finance (MOF), Ministry of Interior (MOI), Federal Board of Revenue (FBR), State Bank of Pakistan (SBP), and Pakistan Bureau of Statistics (PBS).
2/ * indicates that the technical assistance is/was delivered in multiple missions and/or continuously over a longer time/period, including remotely.

Annex III. Public and External Debt Sustainability Analysis

Debt sustainability analysis (DSA) indicates that Pakistan's public debt remains sustainable, especially as financing needs have decreased compared to the last DSA at the time of the Rapid Financing Instrument (RFI) in April 2020. This reflects the authorities' multi-year efforts to lengthen debt maturities and a sizable debt relief in the context of the G20 Debt Service Suspension Initiative (DSSI) (amounting to US$2.5 billion). Gross financing needs (GFNs) are also projected to continue to decline in the medium term on account of better cash and debt management. Pakistan's public debt profile has also improved despite the recognition of previously unaccounted public guarantees and the Covid-19 shock and the associated policy response coupled with the protracted recovery. However, risks remain high in the short and medium term, given the elevated debt, although, with the EFF-supported reforms public debt is projected to firmly decline over the medium term.

1. **Public debt remains on a clear downward path, although at higher levels than forecast at the time of RFI approval and the first EFF review**. This mainly owes to: (i) a downward revision to the overall path of real growth; (ii) the recognition of some public guarantees; and (iii) an upward revision to primary fiscal deficits to accommodate for one-off spending related to key Covid-19 social spending and payments related to the clearance of outstanding arrears to some independent power producers (IPPs). Nevertheless, despite the Covid-19 shock, total debt has increased by only 2.1 percent of GDP in FY 2020 to 92.8 percent of GDP and is projected to decline from 92.9 percent of GDP at end-FY 2021 to 69.2 percent of GDP by end-FY 2026.

2. **The maturity structure of public debt has improved, and it is poised to improve further with the authorities' multi-pronged efforts, in turn lowering the GFN in the medium term**. The FY 2020 GFN remained below the previously projected level due to a lower fiscal primary deficit than assumed in the RFI approval, and lower interest payments and amortizations resulting from the DSSI. The GFN is expected to further decrease in FY 2021 thanks to the extension of the DSSI and the authorities' successful efforts in lengthening the maturity profile of domestic debt. The reprofiling of government debt held by the SBP into longer-term instruments in June 2019 has supported debt sustainability. Since then, the authorities have also managed to lengthen the average time to maturity (ATM) of domestic debt held by the market by 0.6 years to 2.6 years by end-FY 2020. With SBP financing no longer available, the government has managed to secure ample financing primarily from domestic commercial banks, through the issuance of short-term T-Bills and long-term PIBs denominated in domestic currency. This is has brought down the GFN from 36.7 percent of GDP in FY 2019 to an estimated 28.9 percent of GDP in FY 2021. Further medium-term efforts are crucial to lowering GFNs to a projected 15.8 percent of GDP in FY 2026. These include: (i) fiscal discipline and revenue mobilization; (ii) better cash flow management through a treasury single account; (iii) establishment of a central Debt Management Office (see Staff Report, Box 1); and (iv) a successful implementation of the Medium Term Debt Strategy (see Staff Report, Box 1), particularly by continuing to lengthen the maturity profile of debt, and diversifying instruments and the investor base (especially by scaling up Shariah-compliant instruments).

3. **Macro-fiscal shocks continue to pose a risk in the medium term, despite an improvement in the debt profile** (see heatmap in Figure 1). The most extreme shock to medium-term debt dynamics would emanate from a large and sustained real interest rate shock (Figure 5). Under this stress test, debt levels and GFNs would still decelerate to 76 percent of GDP and 20 percent of GDP, respectively.

4. **Contingent liabilities from loss-making SOEs— to the extent not covered by government guarantees—continue to represent a fiscal risk**. The authorities have recognized parts of contingent liabilities in the context of the circular debt stock in the power sector held by the Central Power Purchasing Authority's (CPPA) (worth about 1 percent of GDP).[1] Remaining contingent liabilities from CPPA arrears (amounting to around 1.6 percent of GDP) as well as contingent liabilities from other loss-making SOEs (about 2 percent of GDP) are accounted for in this DSA through a stress test to debt dynamics consisting of a "non-financial sector contingent liability shock," illustrated in Figure 5 below. Staff aims to continue the strengthening of transparency related to contingent liabilities from loss-making SOEs. The impact of both the financial and non-financial contingent liability shocks are less extreme on debt dynamics than the real interest rate shock.

5. **The authorities have remained engaged with external creditors to secure financing to meet the EFF program's debt sustainability objectives**. China has maintained its exposure by renewing (and augmenting) the CYN 30 billion (about US$4.6 billion) three-year bilateral currency swap (about US$3 billion at the time of EFF approval), as well as by renewing the maturing commercial loans as part of the program financing assurance commitment. China has also provided an additional US$1bn deposit in July 2020, raising the State Administration of Foreign Exchange (SAFE) deposits to US$4bn. Good prospects for financing remain for the remainder of the program. Moreover, the G20 Debt Service Suspension Initiative (DSSI) amounting to about US$2.5 billion (0.9 percent of FY 2021 GDP) has helped reduce gross financing needs in the near term.

[1] The part held by the Power Holding Private Limited (PHPL) is already accounted for under public guarantees.

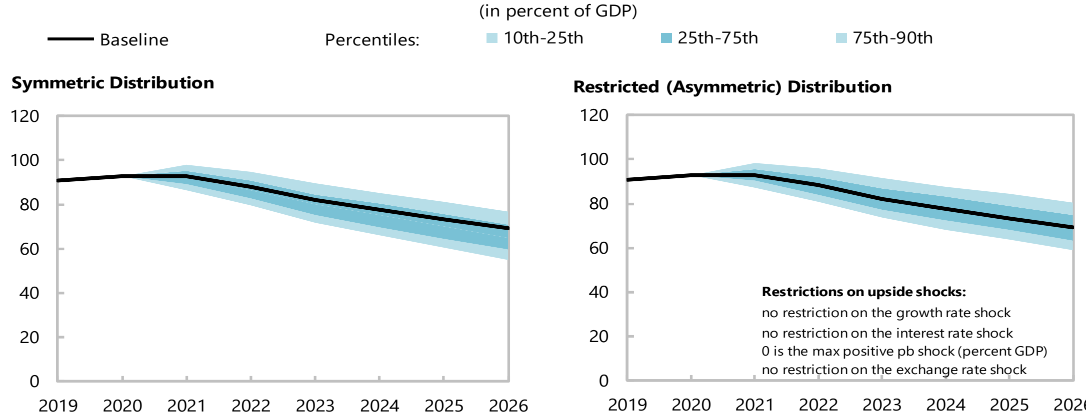
Figure 1. Pakistan: Public DSA – Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

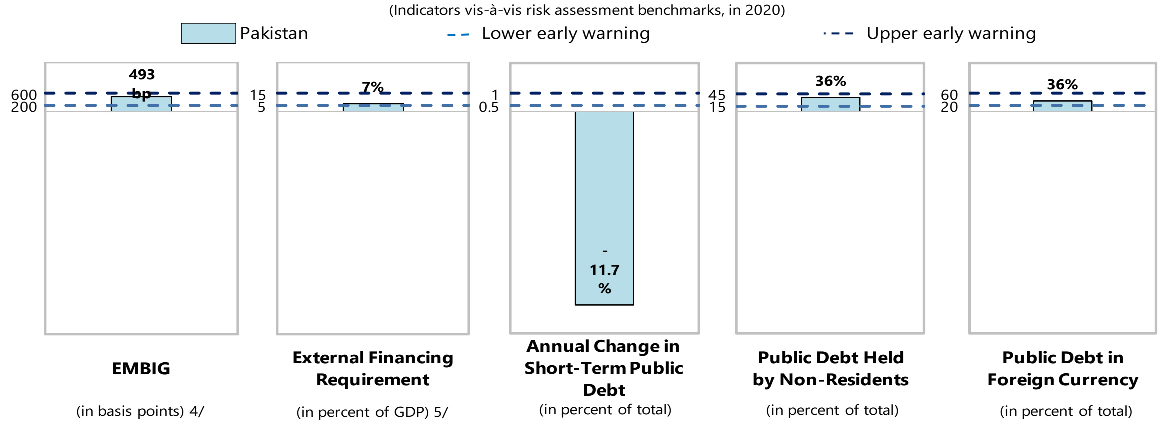
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

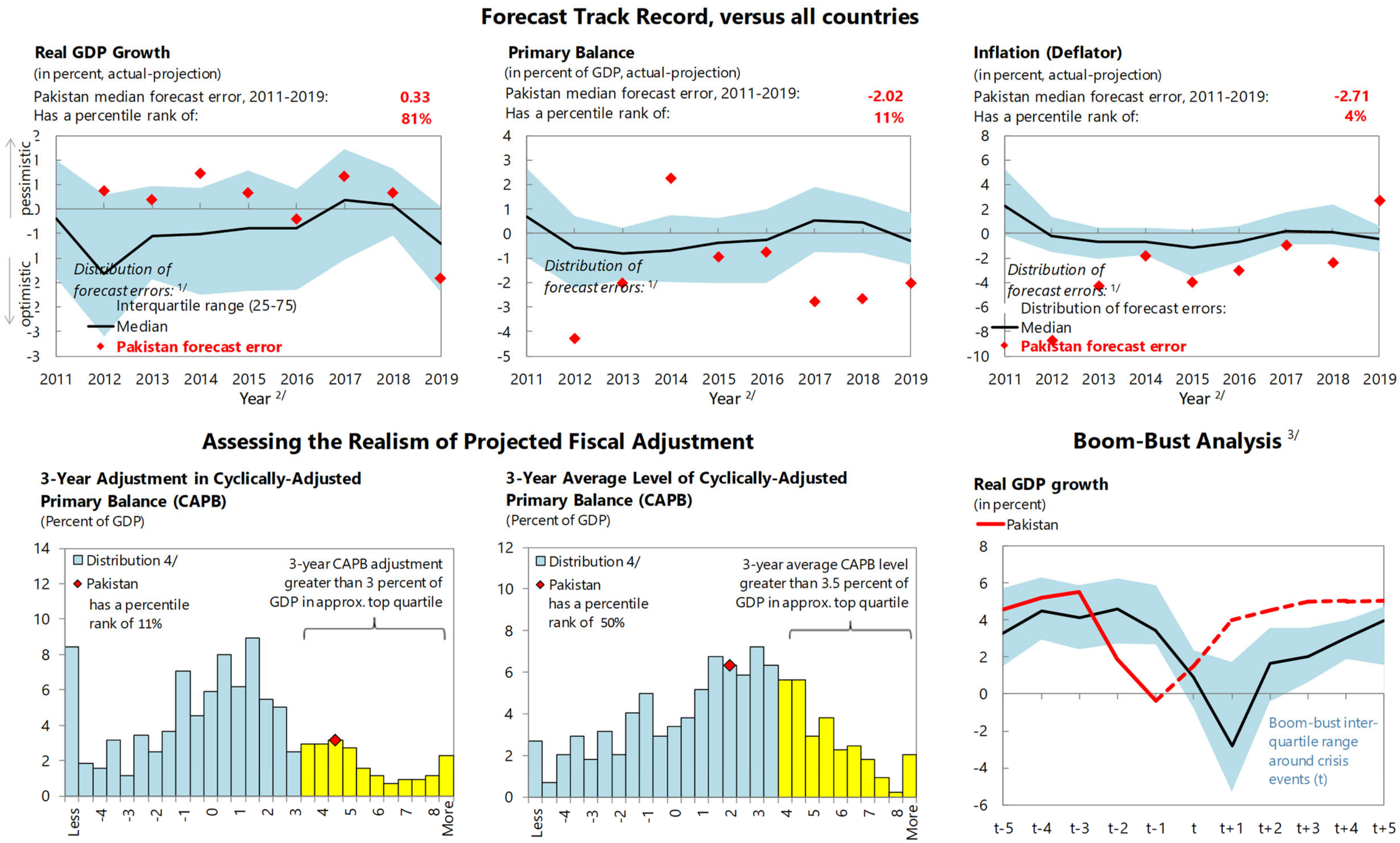
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 12-Nov-20 through 10-Feb-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Pakistan: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Pakistan has had a positive output gap for 3 consecutive years, 2018-2020. For Pakistan, t corresponds to 2021; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Pakistan: Public DSA – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

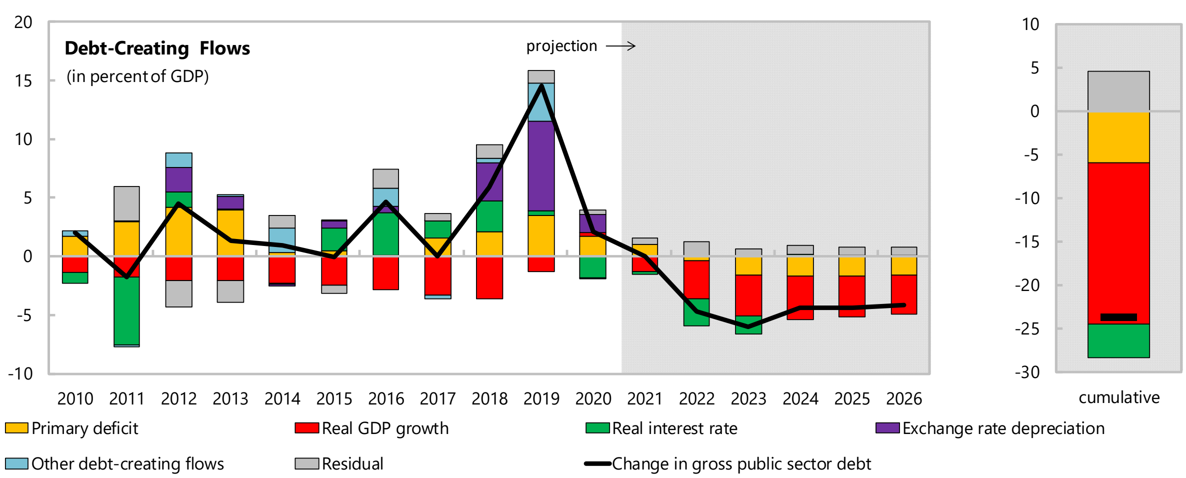
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2012-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	68.1	90.7	92.8	92.9	88.2	82.1	77.7	73.3	69.2
Of which: guarantees	2.9	5.2	5.6	5.2	4.8	4.4	4.1	3.8	3.7
Public gross financing needs	30	36.7	29.1	28.9	25.5	21.5	20.6	17.7	15.8
Real GDP growth (in percent)	4.4	1.9	-0.4	1.5	4.0	4.5	5.0	5.0	5.0
Inflation (GDP deflator, in percent)	4.9	7.6	10.3	8.1	9.4	8.6	6.2	6.2	6.4
Nominal GDP growth (in percent)	9.6	9.7	9.9	9.7	13.7	13.5	11.5	11.5	11.7
Effective interest rate (in percent) [4/]	7.7	8.4	8.1	7.9	6.9	7.0	6.8	6.7	6.8

As of February 10, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		432
5Y CDS (bp)		383
Ratings	Foreign	Local
Moody's	B3	n.a.
S&Ps	B-	n.a.
Fitch	B-	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2012-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.5	14.5	2.1	0.0	-4.7	-6.0	-4.4	-4.4	-4.1	-23.7	
Identified debt-creating flows	2.5	13.5	1.7	-0.6	-6.0	-6.7	-5.2	-5.1	-4.9	-28.3	
Primary deficit	1.8	3.5	1.7	1.0	-0.4	-1.6	-1.7	-1.7	-1.6	-6.0	-3.2
Primary (noninterest) revenue and grants	14.6	13.0	15.1	15.8	17.0	17.5	17.6	17.6	17.6	103.1	
Primary (noninterest) expenditure	16.4	16.5	16.8	16.7	16.7	15.9	15.9	15.9	15.9	97.1	
Automatic debt dynamics [5/]	0.0	6.7	0.0	-1.5	-5.6	-5.1	-3.5	-3.4	-3.2	-22.3	
Interest rate/growth differential [6/]	-1.1	-0.9	-1.5	-1.5	-5.6	-5.1	-3.5	-3.4	-3.2	-22.3	
Of which: real interest rate	1.6	0.4	-1.8	-0.3	-2.4	-1.5	0.2	0.1	0.1	-3.8	
Of which: real GDP growth	-2.7	-1.3	0.3	-1.3	-3.2	-3.5	-3.7	-3.5	-3.3	-18.5	
Exchange rate depreciation [7/]	1.1	7.6	1.5	…	…	…	…	…	…	…	
Other identified debt-creating flows [8/]	0.8	3.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [9/]	-0.1	1.0	0.4	0.6	1.3	0.6	0.8	0.7	0.7	4.6	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as guarantees to PSEs.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ In 2019 and 2020, "other identifed debt creating flow" is driven by the accumulation and drawdown of cash buffers, respectively.

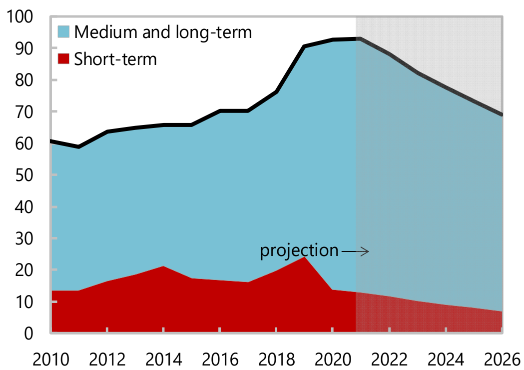
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

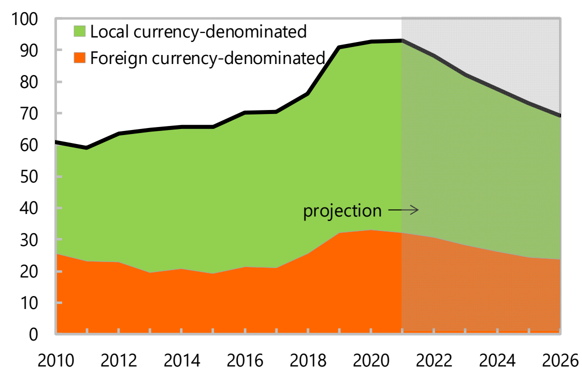
Figure 4. Pakistan: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



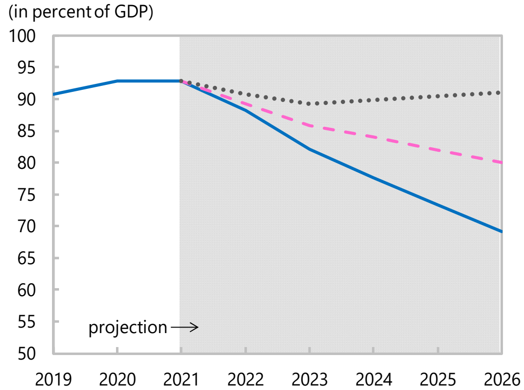
By Currency
(in percent of GDP)



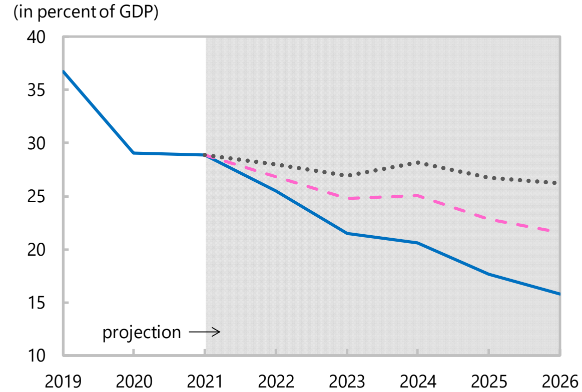
Alternative Scenarios

Baseline　Historical　Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

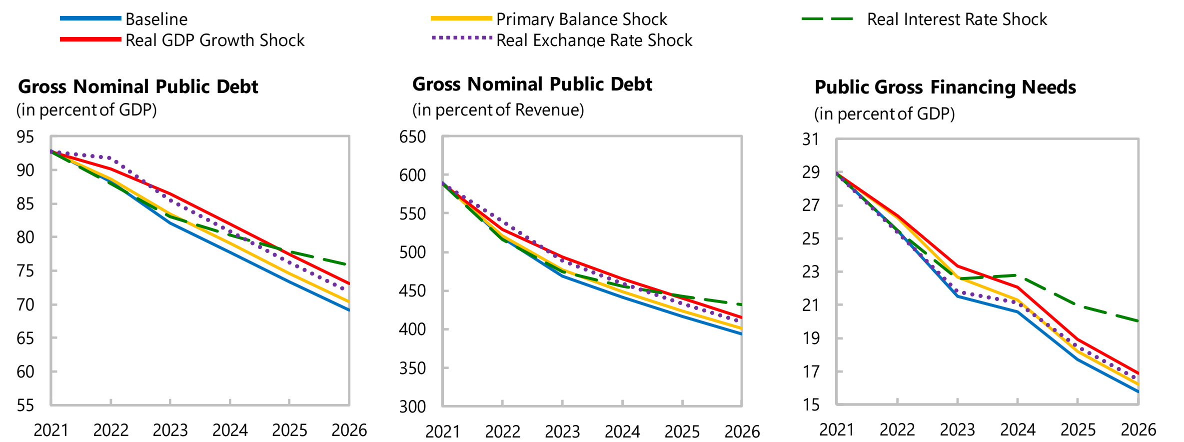
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	4.0	4.5	5.0	5.0	5.0
Inflation	8.1	9.4	8.6	6.2	6.2	6.4
Primary Balance	-1.0	0.4	1.6	1.7	1.7	1.6
Effective interest rate	7.9	6.9	7.0	6.8	6.7	6.8
Constant Primary Balance Scenario						
Real GDP growth	1.5	4.0	4.5	5.0	5.0	5.0
Inflation	8.1	9.4	8.6	6.2	6.2	6.4
Primary Balance	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	7.9	6.9	7.0	6.8	6.6	6.8

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	3.6	3.6	3.6	3.6	3.6
Inflation	8.1	9.4	8.6	6.2	6.2	6.4
Primary Balance	-1.0	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	7.9	6.9	7.3	7.2	7.3	7.5

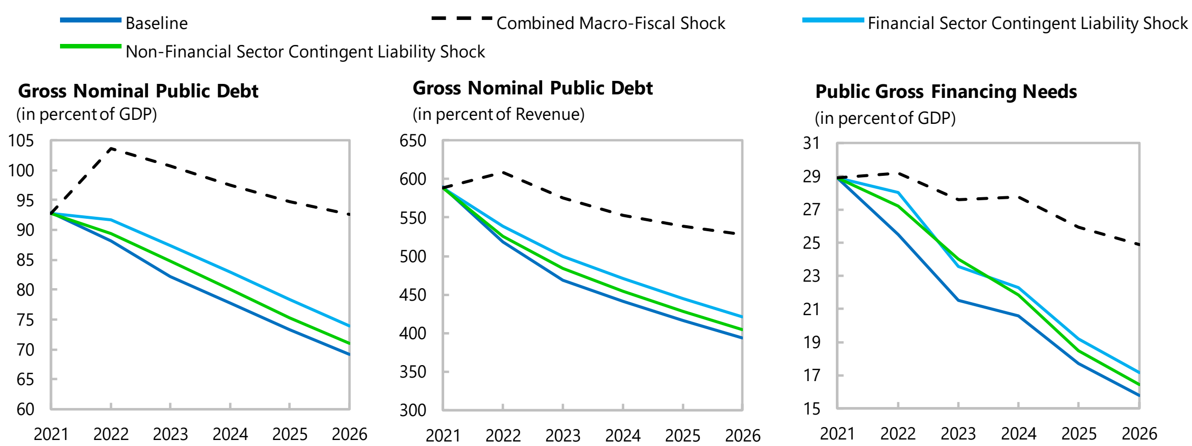
Source: IMF staff.

Figure 5. Pakistan: Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	4.0	4.5	5.0	5.0	5.0
Inflation	8.1	9.4	8.6	6.2	6.2	6.4
Primary balance	-1.0	-0.4	0.8	1.7	1.7	1.6
Effective interest rate	7.9	6.9	7.1	6.9	6.7	6.9
Real Interest Rate Shock						
Real GDP growth	1.5	4.0	4.5	5.0	5.0	5.0
Inflation	8.1	9.4	8.6	6.2	6.2	6.4
Primary balance	-1.0	0.4	1.6	1.7	1.7	1.6
Effective interest rate	7.9	6.9	8.5	9.1	9.8	10.4
Combined Shock						
Real GDP growth	1.5	2.3	2.8	5.0	5.0	5.0
Inflation	8.1	8.9	8.2	6.2	6.2	6.4
Primary balance	-1.0	-0.4	0.8	1.7	1.7	1.6
Effective interest rate	7.9	7.3	8.0	9.1	9.8	10.4

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	2.3	2.8	5.0	5.0	5.0
Inflation	8.1	8.9	8.2	6.2	6.2	6.4
Primary balance	-1.0	0.0	0.9	1.7	1.7	1.6
Effective interest rate	7.9	6.9	7.1	6.8	6.7	6.9
Real Exchange Rate Shock						
Real GDP growth	1.5	4.0	4.5	5.0	5.0	5.0
Inflation	8.1	20.0	8.6	6.2	6.2	6.4
Primary balance	-1.0	0.4	1.6	1.7	1.7	1.6
Effective interest rate	7.9	7.3	6.5	6.4	6.3	6.5
Contingent Liability Shock						
Real GDP growth	1.5	2.3	2.8	5.0	5.0	5.0
Inflation	8.1	8.9	8.2	6.2	6.2	6.4
Primary balance	-1.0	-1.3	1.6	1.7	1.7	1.6
Effective interest rate	7.9	7.3	7.1	6.9	6.7	6.9

Source: IMF staff.

Table 1. Pakistan: External Debt Sustainability Framework, 2016–26

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**26.1**	**27.0**	**30.0**	**37.5**	**41.3**			**42.1**	**41.7**	**40.3**	**39.2**	**38.8**	**36.6**	**-3.0**
Change in external debt	2.4	0.9	3.0	7.5	3.8			0.7	-0.4	-1.4	-1.1	-0.4	-2.2	
Identified external debt-creating flows (4+8+9)	0.3	1.0	4.5	8.4	2.1			0.2	-0.6	-0.8	-0.8	-0.6	-0.4	
Current account deficit, excluding interest payments	1.0	3.2	5.2	3.5	-0.3			0.8	0.8	0.9	1.3	1.6	1.7	
Deficit in balance of goods and services	8.2	10.1	11.9	11.8	8.7			9.4	9.7	9.9	10.3	10.4	10.5	
Exports	9.9	9.2	9.8	10.9	10.6			10.5	10.4	10.1	10.2	10.3	10.3	
Imports	18.0	19.2	21.7	22.7	19.3			19.8	20.1	20.1	20.4	20.7	20.7	
Net non-debt creating capital inflows (negative)	-0.9	-0.8	-0.9	-0.5	-1.0			-0.8	-0.9	-1.1	-1.4	-1.5	-1.5	
Automatic debt dynamics 1/	0.1	-1.5	0.2	5.3	3.3			0.1	-0.5	-0.6	-0.8	-0.8	-0.7	
Contribution from nominal interest rate	0.8	0.8	1.0	1.3	1.4			0.7	1.1	1.1	1.1	1.1	1.1	
Contribution from real GDP growth	-1.1	-1.2	-1.5	-0.7	0.2			-0.6	-1.5	-1.7	-1.9	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	0.4	-1.0	0.7	4.7	1.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.1	-0.1	-1.5	-0.9	1.8			0.6	0.2	-0.6	-0.3	0.2	-1.8	
External debt-to-exports ratio (in percent)	265.0	294.7	306.9	342.6	388.6			402.3	402.2	397.2	384.1	375.1	356.3	
Gross external financing need (in billions of US dollars) 4/	**11.7**	**22.1**	**28.5**	**26.6**	**18.3**			**27.0**	**23.6**	**28.0**	**37.6**	**36.5**	**39.6**	
in percent of GDP	4.2	7.2	9.1	9.6	7.0	10-Year	10-Year	9.9	8.0	8.8	11.0	9.9	10.0	
Scenario with key variables at their historical averages 5/								**42.1**	**44.1**	**45.4**	**46.3**	**47.8**	**47.0**	**-1.2**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	4.6	5.2	5.5	1.9	-0.4	3.6	1.7	1.5	4.0	4.5	5.0	5.0	5.0	
GDP deflator in US dollars (change in percent)	-1.6	4.1	-2.6	-13.5	-4.5	0.7	7.7	2.4	3.8	3.8	2.2	2.3	2.5	
Nominal external interest rate (in percent)	3.4	3.3	3.7	3.9	3.7	3.0	0.6	1.8	2.7	2.9	2.9	2.9	3.2	
Growth of exports (US dollar terms, in percent)	-8.5	1.8	9.7	-1.3	-7.5	1.6	10.0	2.1	7.0	6.2	7.9	8.9	6.9	
Growth of imports (US dollar terms, in percent)	-0.2	16.9	16.0	-7.6	-19.3	3.5	11.5	6.9	9.2	8.5	9.3	8.7	7.8	
Current account balance, excluding interest payments	-1.0	-3.2	-5.2	-3.5	0.3	-1.5	1.9	-0.8	-0.8	-0.9	-1.3	-1.6	-1.7	
Net non-debt creating capital inflows	0.9	0.8	0.9	0.5	1.0	0.7	0.2	0.8	0.9	1.1	1.4	1.5	1.5	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

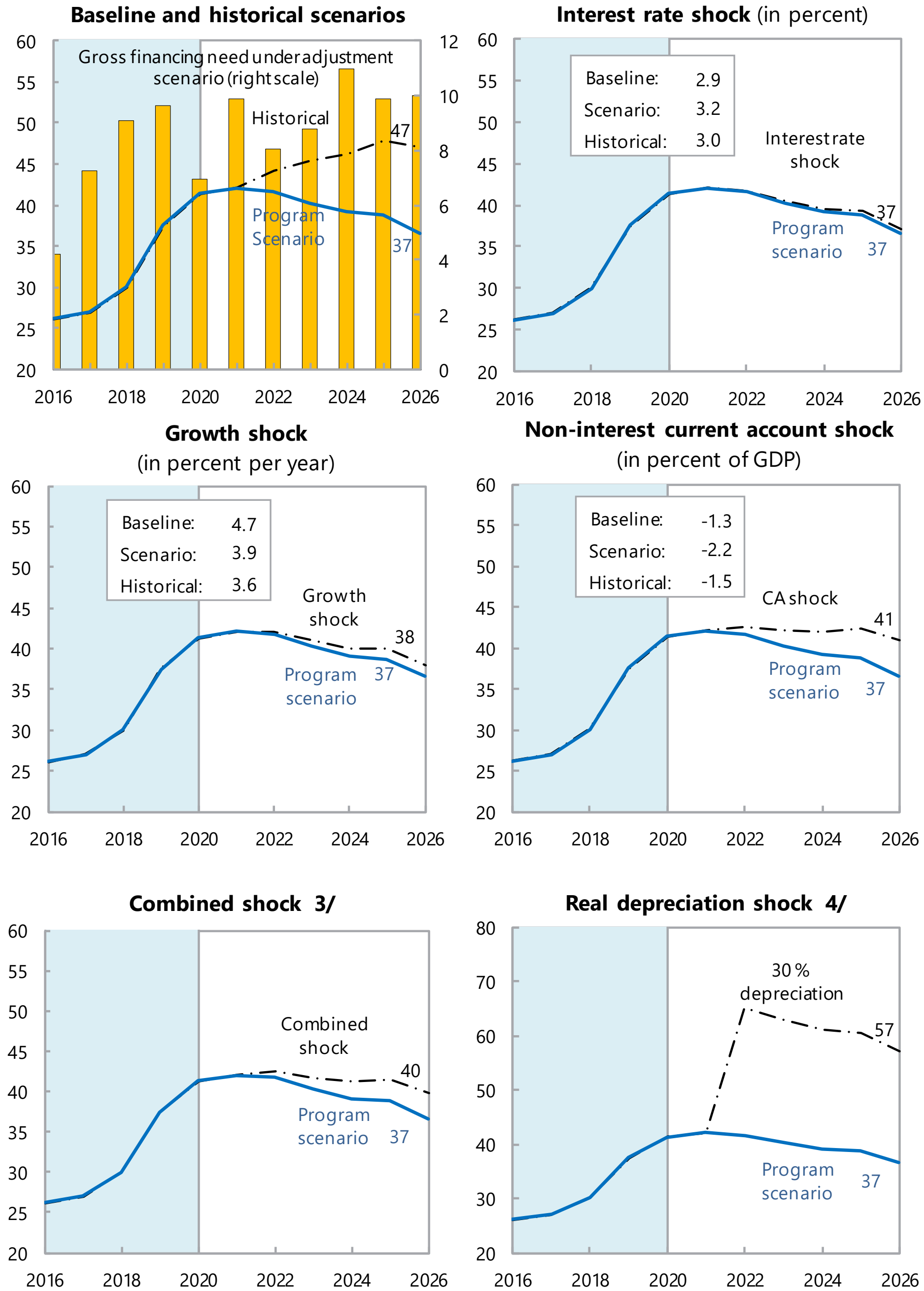
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Pakistan: External Debt Sustainability: Bound Tests 1/ 2/

(Percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in first projection year.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Islamabad, March 9, 2021

Dear Ms. Georgieva:

1. We reaffirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF). In the attached supplement to the Memoranda of Economic and Financial Policies (MEFPs) from June 19 and December 2, 2019, we outline further steps toward meeting these objectives against the unprecedented backdrop of the Covid-19 pandemic.

2. Like the rest of the world, Pakistan has been hard hit by the Covid-19 outbreak on both the social and economic fronts. We have recorded 592,100 confirmed cases and 13,227 deaths as of March 8—despite the broad-based containment and mitigation measures that we introduced since the start of the pandemic in March 2020. At the same time, real GDP in FY 2020 declined by 0.4 percent, the first economic contraction since FY 1952, and growth is expected to remain subdued in FY 2021.

3. To contain the economic fall-out from the pandemic, we have taken a number of emergency actions. Notably, we implemented a comprehensive fiscal package worth about 1 percent of GDP in FY 2020—supported by emergency IMF financing under the Rapid Financing Instrument (RFI)—that was disbursed beginning in mid-April 2020 along with swift measures to support liquidity and credit conditions (including cumulative cuts in the policy rate by 625 basis points). Importantly, our Ehsaas Emergency Cash (EEC) program provided one-time cash assistance to over 15 million families, covering about 90 million people or more than 40 percent of the population.

4. The Covid-19 shock, has taken a large toll on our economy, necessitating a swift adjustment to the macroeconomic policy mix. Despite the Covid-19 shock, we were able to meet several ITs by large margins, including net international reserves, net domestic assets, and government borrowing. However, the pandemic has temporarily affected the implementation of some policies and pace of the structural reforms envisaged under the EFF-supported program. More specifically:

- We missed the end-June 2020 indicative targets which had been set before the onset of the Covid crisis, (MEFP Table 1a). These missed targets were due to the necessary fiscal response to the health and humanitarian crisis and also the dramatic deterioration in macroeconomic conditions in Q4 FY 2020. However, we want to particularly highlight that despite the budget pressures, we met the target on the cumulative floor on targeted cash transfers spending thanks to our one-time emergency assistance to 15 million families as part of our Covid-19 emergency response. At the same time, we also missed the target on the ceiling on the stock of government guarantees as some previously excluded guarantees needed to be incorporated into our figures.

- Our measures, including the use of smart lockdowns, to contain the pandemic have produced positive results. Despite a second Covid-19 wave starting in late-2020, per capita confirmed cases and the mortality rate remain low by international experiences. The economy is showing positive signs of responding to the government policies, although uncertainty remains significant. Our focus is now on policies to boost the economy, preserving the stabilization gains achieved in the first nine months of the program, while minimizing the scarring effects from the impact of Covid-19 by pressing ahead with the implementation of critical structural reforms—including those under the EFF program—to support the economic recovery and strengthen resilience (MEFP Table 2). As such, we have made good progress in the following areas: we (i) approved a CIT reform to simplify the tax system and support our fiscal objectives in March 2021 (**PA for completion of the review**); (ii) submitted the amendments to the State Bank of Pakistan Act (SBP) to parliament (**end-March 2020 SB and PA for the completion of the review**); (iii) approved the NEPRA Act reform that will strengthen our power sector strategy in March (**PA for the completion of the review**); (iv) contained the circular debt flow in the power sector with Cabinet approval of a timetable for outstanding adjustments, notifying the FY 2020 Q2 and Q3 quarterly tariff adjustments in a staggered way in October and December 2020 (end-January 2020 SB), and implementing the first half of the annual rebasing (AR) determined for FY 2021 in January 2021, accompanied by first energy subsidy reform steps (**PA for completion of the review**); (v) secured Cabinet approval of the updated Circular Debt Management Plan (CDMP) in March 2021 (**PA for completion of the review**); (vi) published a triage of our state-owned enterprise (SOE) portfolio in March 2021 (**end-September 2020 SB**); and (vii) submitted a new SOE law to parliament in March 2021 (**end-September 2020 SB**). On the other hand, we have made progress toward the completion of our AML/CFT action plan to support our exit from the Financial Action Task Force's (FATF) list of jurisdictions under increased monitoring (grey list), but owing to capacity constraints we require additional time to complete the two outstanding SBs, namely the adoption of measures to effectively: (i) strengthen the AML/CFT framework (**end-June 2020 SB, reset to end-June 2021**) and (ii) address terrorism financing consistent with FATF Immediate Outcomes 9 and 10 (**end-March 2020 SB; subsumed under the end-June 2020 SB**). Moreover, the finalization of the BISP beneficiaries' database has faced delays as the Covid-19 pandemic hindered field work (**June 2020 SB, reset to end-June 2021**).

5. Based on the strong steps that we have already taken and our resolute commitments for the period ahead, we request the completion of the combined second, third, fourth, and fifth reviews under the EFF. We also request the rephasing of access and modification of the review schedule due to delays in completing reviews as well as to better align them with reform implementation. The program will continue to be monitored through quarterly reviews (and, as our track record strengthens, move to semi-annual reviews) as well as quantitative and structural conditionality (i.e., through PAs, quantitative performance criteria, indicative targets, and SBs) as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

6. We believe that the policies set forth in the attached MEFP are very strong and a guarantee for the successful implementation of our program, although we remain committed to taking any additional measures that may be appropriate for this purpose. We are aware that the outlook remains uncertain, particularly if the trajectory of the Covid-19 pandemic reverses course in Pakistan. We will consult with the IMF on the adoption of any additional measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will supply the IMF with timely and accurate data that are needed for program monitoring. Reaffirming our commitment to our policy of transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/s/	/s/
Dr. Abdul Hafeez Shaikh	Dr. Reza Baqir
Minister of Finance and Revenue	Governor of the State Bank of Pakistan

Attachment I. Memorandum on Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. **The Covid-19 shock jeopardized the momentum our economy had gained on the back of strong policies and significantly reduced economic imbalances**. Prior to the pandemic, growth had picked up (projected at 2.4 percent in FY 2020), the current account deficit had significantly narrowed, and fiscal performance had strengthened. However, the social and economic impact of the Covid-19 shock has been severe, stressing our health system and altering dramatically the near-term economic outlook. As a result of the containment and mitigation measures, including various degrees of lockdown, and the global fall-out from the pandemic, real GDP is provisionally estimated to have contracted by 0.4 percent in FY 2020,[1] the first negative growth outturn since FY 1952. Nevertheless, our policy responses—together with emergency support from the international community (including the IMF)—have helped mitigate the impact of the crisis. At the same time, the current account deficit narrowed to 1.1 percent of GDP, owing to import compression driven by the fall in global oil prices and domestic demand, and strong remittances as a result of our efforts to promote formal channels.

2. **While the economy is showing early signs of improvement, we expect the near-term recovery from the Covid-19 shock to be subdued**. High frequency indicators in H1 FY 2021 have been positive: cement production and exports showed strong monthly growth, while car sales reached a two-year high in October, and business sentiment and consumer confidence are recovering. However, with a still slow recovery in the service sector and large uncertainty around the full impact of Covid-19, we project GDP growth to recover to 1.5–2.5 percent in FY 2021, in line with the expected global recovery, and to strengthen thereafter. Inflation would decline to an average of 9 percent in FY 2021, helped by developments in international oil prices and soft domestic demand, but continuing to face pressures from perishable food items. On the external side, we expect the current account deficit to be 0.5–1.5 percent in FY 2021, as imports pick up on the back of some recovery in domestic demand. However, the outlook remains highly uncertain. On the upside, a successful containment of the pandemic during the remainder of FY 2021 until vaccines are gradually deployed would result in a stronger recovery in the service sector and the economy as a whole. While on the downside, if the trajectory of the pandemic evolves more unfavorably, policy adjustments could be needed to support the economy and the most vulnerable.

[1] Based on provisional results published by the Pakistan Bureau of Statistics in May 2020.

B. Economic Program

Fiscal Policy

3. **Our fiscal policies remain centered on an ambitious revenue mobilization strategy to ensure debt sustainability while creating space for social and development spending**. As we overcome the severe setback from the Covid-19 shock, we remain committed to broadening the tax base and gradually increasing the tax-to-GDP ratio by more than 3 percent of GDP through FY 2023, with a cumulative fiscal primary adjustment of 3.3 percent of GDP. As these efforts will bring results over the medium term, we have also been proactive in creating fiscal space in the near term for much-needed priority spending on health, education, infrastructure, and targeted programs for social protection. This includes taking action to reduce the debt service, including by requesting debt relief under the Debt Service Suspension Initiative (DSSI), supported by the G20 and Paris Club.

4. **We will ensure the highest levels of quality and transparency in all Covid-related spending and programs in line with international best practices**. The enacted emergency measures will remain targeted and temporary and not result in permanent distortions of the overall fiscal envelope. Moreover, we will safeguard the quality of emergency spending in the health sector through the transparency of Covid-related spending (by the executing agencies), including publication of awarded contracts and beneficial ownership information of bidding and awarded legal persons in a centralized and publicly accessible website (**new end-April 2021 SB**), and will subject the procurement of Covid-related supplies and social payments to an ex-post audit by the Auditor General of Pakistan, the results of which will be published on the website of the Ministry of Finance (MoF) (**new end-April 2021 SB**). Regarding the temporary construction program—which we recently extended until end-December 2021—we will ensure full compliance with FATF principles on voluntary tax compliance schemes to mitigate potential money laundering and terrorist financing (ML/TF) risks and monitor financial institutions' implementation of their AML/CFT obligations on financial transactions related to the investments in the construction sector (e.g., effective application of AML/CFT preventive measures, disqualification of politically exposed persons, family members, and when they are the beneficial owners). In this context, we reaffirm our commitment to both not granting further tax amnesties (**continuous SB**) and avoiding the practice of issuing new preferential tax treatments or exemptions (**continuous SB**).

5. **Our better-than-expected FY 2020 budget outturn set a solid base for FY 2021**. The general government posted a primary deficit of 1.8 percent of GDP, marking a 1.8 percent of GDP improvement compared to FY 2019. This reflected our fiscal consolidation efforts undertaken during the first nine months of FY 2020, capacity to carefully manage spending, overperforming sales tax and customs duties collection in June, and higher dividend transfers by the SBP. These efforts have had positive carryover effects in H1 FY 2021, where the general government registered a primary surplus of 0.7 percent of GDP (including the provincial surplus of 0.6 percent of GDP), about 0.8 percent of GDP better than projected. Tax revenues, net of

refunds grew 12 percent y-o-y, while primary spending was strictly controlled, allowing us to contain the overall fiscal deficit at 2.5 percent of GDP.

6. **The FY 2021 budget strikes a careful balance between providing support to the economy and remaining on the path of fiscal consolidation**. The FY 2021 budget, adopted by parliament on June 29, 2020, targets a general government primary deficit of 0.5 percent of GDP—excluding additional Covid-19 related spending (see TMU) and payments related to the clearance of outstanding arrears to some IPPs (see ¶21)—which we remain committed to achieving. Key elements include:

- On the *expenditure side*. As the economy gradually recovers, we are unwinding the Covid-crisis related economic stimulus spending measures (1.2 percent of GDP) and freezing non-priority spending, while preserving space for necessary health and social spending. Key expenditure rationalization measures include the nominal freeze of wages and pensions, decline in real military spending, and streamlining of subsidies. At the same time, we have budgeted for increased social spending under the BISP program to PRs 200 billion (up by 77 percent relative to the FY 2020 execution, excluding Covid-19 one-off spending of PRs 133 billion) and have almost doubled health sector spending relative to the FY 2020 budget allocation to address health sector needs.

- On the *revenue side*. While our budget assumed 26 percent nominal growth of tax revenue, we now recognize that this is not attainable, especially in the face of the duration of the Covid pandemic. Therefore, to achieve our primary deficit target, we will rely on several one-off non-FBR tax measures and non-tax revenues. These include, among others, increased environmental taxation by increasing petroleum levy on gasoline and diesel toward PRs 30/liter and additional transfers of SBP dividends.

- *Agreement with provinces*. As was done in the context of the FY 2020 budget, we have signed formal written agreements with the provinces on the fiscal strategy and the required provincial fiscal efforts, including revenue and fiscal surplus targets by province for FY 2021 and implications in case of missed targets. We have made this agreement public to ensure accountability and measure progress and performance.

7. **As the first step of our multi-year tax policy reform agenda, we have adopted a comprehensive reform of our corporate income tax (CIT) (PA for completion of the review)**. We have substantially modernized our CIT and streamlined all tax incentives, in consultation with IMF staff, with a view to simplifying the system and eliminating the existing distortionary measures. These include tax credits, accelerated deductions, exempt income, reduced tax rates, and tax liability reductions.

8. **In the next step of our tax policy reform efforts and to further support our fiscal objectives, we will introduce both a general sales tax (GST) and a personal income tax (PIT) reform with the FY 2022 budget, yielding an estimated 1.1 percent of GDP**. We recognize that this is crucial for broadening the tax base, our key strategic fiscal objective, reducing

informality, and simplifying and modernizing the tax system. The reforms will be underpinned by high-quality tax measures in line with IMF staff recommendations.

- *Broaden and harmonize the GST base.* We will advance the reforms to our GST system, underpinned by a unified tax base and within the confines of the current constitution. Notably, we will: (i) eliminate all zero-rated goods (Fifth Schedule), except on export and capital machinery goods and move them to the standard sales tax rate; (ii) remove reduced rates under the Eight Schedule and bring all those goods to the standard sales tax rate; (iii) eliminate exemptions (Sixth Schedule) excluding a small subset of goods (i.e., basic food, medicines, live animals for human consumption, education and health-related goods) and bring all others to the standard rate; and (iv) remove the Ninth Schedule to replace a specific tax rate for cell phones with the standard rate. These reforms are expected to yield an estimated 0.7 percent of GDP on an annualized basis. Moreover, we are also in the process of harmonizing the service sales tax across provincial jurisdictions, with support from the World Bank, expected to be completed by end-June 2021.

- *Simplify and increase PIT progressivity.* In line with IMF TA recommendations, we will seek to: (i) change the existing tax rate structure by reducing the number of rates and income tax brackets from eleven to five and decreasing the size of the income slabs, with a view to simplifying the system and increasing progressivity; (ii) reduce tax credits and allowances by 50 percent (except for Zakat and those provided for disabled and senior citizens); (iii) introduce a special tax procedures for very small taxpayers, aimed at preventing further tax base erosion and facilitating the formalization of the economy; and (iv) adopt a long-term strategy to reduce labor informality and to bring additional taxpayers into the PIT net. This reform is expected to yield 0.4 percent of GDP on an annualized basis.

9. **We are also accelerating the implementation of broad-based fiscal structural reforms**. We are pressing ahead with tax administration and public finance management (PFM) reforms to buttress our public finances. More specifically:

- *PFM reforms.* While we have advanced on some elements of our PFM reform strategy (including the establishment of a macro-fiscal unit in the MoF for proper identification and monitoring of macroeconomic and specific fiscal risks), more needs to be done. In line with our PFM Act, we presented the mid-year budget review to the National Assembly in February 2020 (**end-February 2020 SB**) and February 2021. Going forward, we plan to intensify our efforts to establish a treasury single account (TSA-1). In September 2020, we prepared and shared the accounts level data with public sector entities (MDAS) for arranging closure of the accounts and transfer of funds to TSA-1. This will allow us to establish the TSA-1 and make it functional by end-May 2021 (**new end-May 2021 SB**). We have also initiated work on the TSA-2. Moreover, to strengthen budget execution and expenditure controls, we will, with the assistance of the EU, develop guidelines related to annual and multi-annual commitments control system by end-March 2021.

- *Tax administration*. We recognize that for tax policy measures to be successful and to generate the expected revenues, we need to step up tax administration reforms and enforcement. To this end, we will focus on: (i) introducing a centralized, risk-based compliance function; (ii) modernizing the IT system and further advancing automation; (iii) actively using third-party data, strengthening data cross-checking, and analysis; (iv) simplifying registration and filing processes; (v) modernizing audit practices and taking a more targeted audit approach; and (vi) further strengthening the large taxpayer approach and expanding the activities of the Large Taxpayer Office (LTO). Additionally, we will continue the process of sales tax harmonization, implement the single return and taxpayer portal by end-June 2021, and launch a *Collectible Debt Campaign* by end-March 2021 to redress the high percentage of outstanding debt. The procurement procedures related to the track-and-trace licenses to address the smuggling of tobacco products have been declared invalid by the Islamabad High Court (IHC) and the roll-out of the track-and-trace system for tobacco products was suspended. Nonetheless, and building on the lessons from this experience, we are seeking to reintroduce and roll out the track-and-trace systems for tobacco products by end-June 2021 (**new end-June 2021 SB**) and will consider its introduction for other items subject to high levels of smuggling, including sugar, drinks, and cement. To support GST harmonization, we will establish the single filing portal by September 2024.

10. **We have taken decisive measures to revamp our debt management framework and maintain debt sustainability**. Despite the unprecedented Covid-19 shock, our debt stood at 92.8 percent of GDP at end-FY 2020 (up by less than 3 percentage points compared to end-FY 2019). This has been in part the result of our proactive efforts to address debt vulnerabilities, specially by working on reducing our short-term financing needs. Key measures include:

a. *Securing debt relief under the DSSI* through which we have reduced Pakistan's external debt service through the end of FY 2021by an estimated US$2.6 billion (0.9 percent of FY 2021 GDP) over and above the assurances currently in place under the EFF.

b. *Lengthening the maturity profile of domestic debt.* Since FY 2019, our domestic borrowing strategy has been tilted toward issuing medium- and long-term debt instruments, thereby reducing our reliance on short-term debt issuance. As a result, the Average Time to Maturity (ATM) of domestic debt held by the market (i.e., excluding the debt held by the central bank) has increased from two years to 2.6 years over a period of 18 months (July 2019-December 2020). We intend to continue with our strategy subject to maintaining stability in the financial markets and keeping our borrowing costs within reasonable limits.

c. *Updating and implementing our Medium-Term Debt Strategy (MTDS)*, which among other things explicitly targets a Gross Financing Needs (GFN) figure lower than 24 percent of GDP by FY 2023, down from more than 30 percent of GDP in FY 2020. To effectively implement this strategy, a number of steps have been taken including the: (i) reintroduction of 15-, 20-, and 30-year fixed rate Pakistan Investment Bonds (PIBs); (ii) reintroduction of Shariah Compliant Sukuks of longer tenors (5-years); introduction of new long-term instruments (including 3- and 5-year floating rate PIBs); and (iv) imposition of a ban on institutional investments in National Savings Schemes with effect from July 1, 2020 in order to enhance institutional participation in competitive primary and secondary markets of long-term debt. This strategy is already producing favorable results: between April and December 2020 more than PRs 100 billion has been raised through 15–20 year instruments and PRs 562 billion has been raised from Sukuks. To further help support the implementation of the MTDS, we have committed to a new IT on the cumulative gross issuance of PIBs, Sukuks, and Eurobonds starting in March 2021 (**new Indicative Target**).

d. *Establishing a debt management office (DMO)* to strengthen our debt management strategy. In line with World Bank and IMF recommendations, we have established the proper rules of business, describing the activities and organization of the DMO, as we are in the process of amending the Fiscal Responsibility and Debt Limitation Act (2005). The Draft Bill for requisite amendments were submitted to the Federal Cabinet Committee on Disposal of Legislative Cases (CCLC) in February 2021 and are expected to be submitted to the National Assembly and the Senate for their approval by end-June 2021. In the interim, the Finance Division has assigned additional functions to the existing Debt Policy and Coordination Office and we approved an organogram which will allow us to hire additional staff commensurate with the responsibilities. We expect the setup of the front office/middle office/back office of the new DMO will be completed by end-June 2021 and we are committed to completing the recruitment of staff by end-September 2021 with some staff already being recruited by end-June 2021. Migration of relevant functions to DMO from other parts of government agencies will be completed by end-December 2021. Moreover, we are enhancing cooperation with other government units, the Economic Affairs Division in particular, to ensure accurate compilation and reporting of debt-related statistics, starting with the establishment of a new Working Group in February 2021.

Poverty Reduction and Social Protection

11. **We have swiftly provided significant emergency cash support to the most vulnerable in response to the Covid-19 shock**. On April 1, 2020, the Prime Minister launched the Ehsaas Emergency Cash (EEC) program to provide immediate one-time cash assistance (PRs 12,000 per beneficiary) to an eligible 17 million families—covering about one-half of all families and the two lowest income quintiles—identified jointly with the provinces and supported by a far-reaching communication campaign. By end-June 2020, we had reached over 12.5 million households and had disbursed PRs 133 billion coming from the fiscal stimulus package, while in Q1 FY 2021 we reached an additional 2.3 million households. Upon successful completion of the EEC program at end-September 2020, we reverted our post-crisis social support to regular BISP beneficiaries in October 2020, while we seek to permanently broaden the scope of coverage (see below).

12. **Going forward, we are intensifying our efforts in expanding social safety nets and fostering human development**. Pakistan has fallen behind regional peers in the implementation of the Sustainable Development Goals (SDGs), especially in the areas of health, education, and gender equality. We have already adopted significant measures to correct these shortcomings,

including by: (i) approving a significant increase in budgetary allocations for social programs; (ii) improving our educational cash transfers to boost girl's primary educational enrollment and narrow the gender gap; and (iii) developing a nutrition program for mother and children to reduce stunting. This progress notwithstanding, we are working on additional initiatives aimed at strengthening our social support, including:

a. *Ensuring timely disbursement of benefits and expanding the number of beneficiaries*. We met the end-June target on cash transfers by BISP thanks to the one-off disbursement of the Ehsaas Emergency Cash (EEC) transfer amid our Covid-19 response efforts, after missing the end-March target largely owing to exceptional challenges—i.e., on account of the removal of more than 800,000 individuals from the program (as part of the update of the National Socio-Economic Registry (NSER)) and the slower-than-expected enrollment in new bank accounts by beneficiaries. Going forward though, the removal of those obstacles will allow us to meet disbursement targets on time. We are also on track to expand the BISP cash transfers to 6 million families during FY 2021 (up from about 4.3 million at end-FY 2020), and 7 million families over the medium term.[2]

b. *Finalizing the update of the National Socio-Economic Registry (NSER) and using it to ensure adequate targeting*. As of end-December 2020, we have now completed 55 percent of the update through a combination of a door-to-door survey and a desk-based self-registration mechanism. In parallel, we are proceeding with the re-certification of surveyed beneficiaries. However, all field activities have been stopped as a result of the Covid-related lockdown measures. As we were already facing increasing challenges deploying field workers (especially in remote areas with greater security concerns), we now expect a one-year delay in the completion of the registry update (**end-June 2020 SB, reset to end-June 2021**). This will help us ensure adequate targeting of BISP cash transfers to all beneficiaries and to introduce an adequate indexing scheme.

c. *Expanding BISP benefits*. We have already approved a 20 percent increase, to PRs 6,000 effective January 2020, in the cash stipends to BISP beneficiaries to be disbursed on a monthly basis rather than quarterly. Moreover, we doubled stipends in the educational CCT program to PRs 1,500 for boys and PRs 2,000 for girls in August 2020 and expanded it in all 154 districts of the country. Going forward, we are also exploring options to (i) further expand the amount of BISP cash benefits in the context of the FY 2022 budget; (ii) continue the roll out of the nutrition program on the basis of the lessons drawn from the pilot phase; (iii) allow "never married" women to become eligible for BISP benefits; and (iv) help beneficiaries to open savings bank accounts to advance financial inclusion.

[2] Within eligible households, BISP defines a family as an ever-married woman holding a valid computerized national identity card (CNIC). Only she is eligible to receive the cash transfer.

Monetary and Exchange Policies

13. **Our policies remain centered on entrenching monetary and financial stability by maintaining a market-determined exchange rate, lowering inflation, and building foreign exchange reserves**. Specific actions include:

a. *Continued commitment to a market-determined exchange rate.* The exchange rate has served as an essential buffer protecting economic activity during a period of heightened external volatility. It depreciated by around 8 percent against the U.S. dollar between early-March and end-June 2020 as the Covid-19 crisis unfolded, and appreciated by 5 percent in H1 FY 2021 and 1.7 percent between January 1 and March 5, 2021 when the economy started to recover. In this context, SBP's interventions remain guided by market conditions and the objective of rebuilding reserve buffers. Forex sales are limited to preventing disorderly market conditions (DMCs), while not suppressing an underlying trend. As a result, our NIR buffers were rebuilt by US$6 billion and the net short swap/forward foreign exchange position was scaled back by more than US$2 billion in FY 2020. Moreover, this trend has continued, with our reserve buffers increasing by US$1.2 billion in H1 FY 2021 and the net short swap/forward foreign exchange position being further reduced by more than US$1 billion.

b. *Appropriate monetary policy stance*. The SBP was proactive in responding to the initial Covid-19 shock, cutting the policy rate by 625 basis points cumulatively to 7 percent by end-June 2020 on the back of weakening domestic demand conditions and a quick deceleration of inflation. The current monetary policy stance is accommodative to support the economic recovery as fiscal policy has become more constrained. However, we remain vigilant to the impact that supply side driven inflation from some products might have in inflation expectations. Monetary policy decisions will continue to be guided by the primary goal of safeguarding price stability to ensure the program monetary targets are met and guide inflation to our medium-term objective.

14. **To support the economic recovery and promote housing and construction sector, in July 2020 we introduced mandatory targets on banks to support the sector**. By December 2021, the SBP will require banks to provide 5 percent of their domestic private sector lending for the financing of housing and construction of buildings. To incentivize banks to meet the targets, the SBP has announced that banks achieving their quarterly targets will be permitted to lower their cash reserve requirements in the subsequent quarter. We see this as a temporary measure supporting private sector lending, which is low compared to peer countries and is hindering private sector growth, but recognize that further steps to improve the housing and construction sector—including an improved bankruptcy regime and more comprehensive property registry system—are necessary. In this context, the Supreme Court decision to vacate the stay order against the foreclosure law, the automation of rural land records by the Government of Punjab, and the constitution of a high-level inter-provincial committee to resolve issues related to housing and construction are some positive developments we have achieved since November 2019 .

15. **We are committed to phasing out the temporary refinancing schemes introduced as part of the emergency Covid-response as the crisis abates**. In the context of supporting financial markets and businesses during the Covid-19 crisis**,** the SBP has substantially expanded its refinancing schemes, introducing three new facilities and expanding the coverage of one existing facility. Since their introduction in March 2020, the SBP has allocated PRs 707.9 billion to banks through end-November, of which PRs 234.2 billion has already been disbursed. In line with the SBP's primary objective of price stability to be enshrined in the SBP Act, we will review the terms of the temporary facilities published in the SBP circulars depending on the evolving Covid-19 situation.

16. **We are making good progress toward strengthening the SBP's autonomy, governance, and mandate**. We have worked closely with IMF staff in the preparation of amendments to the SBP Act to address existing gaps. The amendments aim to: (i) establish domestic price stability as the primary objective, with financial stability and growth as secondary objectives; (ii) clearly define the SBP's functions to help achieve these objectives; (iii) strengthen the SBP's financial autonomy, including through statutory mechanisms for sufficient recapitalization and profit retention; (iv) prohibit the extension of direct credits or guarantees to the general government; (v) establish the statutory underpinnings for audits; (vi) secure stronger protection of the personal autonomy of senior officials; (vii) further strengthen collegial decision making at the executive management level; (viii) provide stronger oversight by the Board; and (ix) improve SBP's accountability regarding the conduct of its monetary policy and the achievement of its objectives. The MoF submitted the amendments to parliament in March 2021 (**end-March 2020 SB, PA for completion of the review**) and we expect adoption by parliament by end-September 2021.

17. **We are closely monitoring the health of the financial sector to safeguard its resilience**. We will remain vigilant that the regulatory forbearance and relaxation of lending standards introduced as part of the Covid-19 response do not weaken the sector's resilience as we also seek to return to the existing loan classification, provisioning rules, and pre-Covid-19 lending standards once the situation normalizes. Further to these efforts, we remain engaged with two non-systemic private sector banks and one public sector bank to ensure compliance with the minimum capital requirements. However, due to technical difficulties during the crisis, the deadlines to ensure the compliance with the capital requirements have been reset to end-September 2021. The public sector bank is undergoing a privatization process that is expected to be completed by end-September 2021. In case the privatization is not successful, we will consider other resolution options, including liquidation. We also recognize the need to address gaps in our bank resolution and crisis management frameworks, including the deposit insurance scheme, and we will complete a self-assessment of key attributes of an effective resolution regime for financial institutions by end-March 2021 and with the support of IMF technical assistance we plan to strengthen and modernize them by end-2021.

18. **We are committed to the full completion of the AML/CFT Action Plan**. To this end, we have engaged several capacity development providers, including the IMF, and we have made

significant progress toward completion of our Action Plan. By February 2021, satisfactory progress has been made across 24 of the 27 action items, which was appreciated during the FATF February 2021 Plenary with pending action items related to terrorist financing investigations (Immediate Outcome 9) and targeted financial sanctions (Immediate Outcome 10) (**end-March 2020 SB; subsumed under the end-June 2020 SB**). In light of the efforts to build capacity and the challenges presented by the Covid-19 pandemic, we will need additional time to demonstrate effectiveness of our AML/CFT regime toward a substantial level of effectiveness in line with our AML/CFT Action Plan (**end-June 2020 SB; reset to end-June 2021**). In parallel, we continue to make efforts to address the deficiencies identified by the 2019 Mutual Evaluation Report of the Asia Pacific Group on Money laundering (APG) and implement its priority recommendations. We have enacted amendments in 14 laws to address the technical compliance requirements and align with the FATF standards. An internal roadmap has been developed to phase-wise implement the Mutual Evaluation Report recommended actions. Dedicated teams have also been formed for implementing the recommended actions on all 11 Immediate Outcomes.

19. **We are easing foreign exchange restrictions and administrative measures as conditions allow**. We have refrained from introducing or intensifying exchange restrictions, multiple currency practices (MCPs), or import restrictions for balance of payment (BOP) measures. Moreover, we remain committed to phase out the existing measures as the balance of payments stabilizes and to eliminate them by the end of the program, and request approval of the retention of the exchange restrictions and the MCP for a period of 12 months. In this respect, we have taken additional steps to relax existing measures:

- In January 2020, we relaxed existing measures permitting: (i) banks to make advance payments up to US$10,000 per invoice on behalf of manufacturing/industrial concerns and commercial importers (which was already allowed for manufacturing concerns in November 2019) for the import of raw materials, spare parts, and machinery, ultimately used by manufacturing and industrial concerns; and (ii) banks to make advance payment against irrevocable letter of credit up to 100 percent of the value of the letter of credit for the import of plants, machinery, spare parts, and raw materials on behalf of manufacturing concerns for their own use.

- In March 2020, banks were allowed to make advance payments up to US$25,000 per invoice on behalf of manufacturing, industrial concerns, and commercial importers for the import of raw materials, spare parts, and machinery, for ultimate use by manufacturing and industrial companies.

- In March 2020, in the context of combatting Covid-19, we allowed all federal and provincial government departments, public and private sector hospitals, charitable organizations, and commercial importers to make Import Advance Payment, without limit, for the import of medical equipment, medicine, and other ancillary items for the treatment of Covid-19.

- In September 2020, we took an additional step to ease restrictions in the context of the economic recovery post-Covid: the 100 percent cash margin requirement on 106 HS Codes items were removed, relating to the import of certain raw materials to support manufacturing and industrial sectors.

Energy Sector Policies

20. **We recognize that the power sector has reached a critical situation**. During 2020, we introduced policies aimed at providing relief to power sector consumers from the economic slowdown, rising inflation, and, more importantly, from the impact of the Covid-19 shock. Among these measures, we (i) paused the adjustments of tariffs for monthly fuel and quarterly capacity payments since January 2020, including the Q2 FY 2020 adjustment (**end-January 2020 SB**) and (ii) introduced payment deferrals beginning in March to provide relief to low-end consumers. These policies, together with a significant decline in consumer demand from the Covid-related containment measures, contributed to a significant accumulation of arrears, erasing the gains we had achieved in improving sector performance through the implementation of the circular debt reduction plan (CDRP). As a result, PRs 538 billion of arrears were accumulated during FY 2020, significantly higher than projected under the Circular Debt Management Plan (CDMP) and bringing the total stock of arrears to PRs 2,150 billion at end-June 2020. An additional PRs 102 billion were accumulated during Q1 FY 2021 and PRs 50 billion during Q2 FY 2021.

21. **In response, we have reinforced our efforts to ensure power sector viability**. We already took some important initial steps to contain the accumulation of power sector arrears, also reflecting the intense collaboration with the technical experts from the World Bank and Asian Development Bank (ADB):

a. *NEPRA Act amendments*. Adopted by parliament in March 2021 (**PA for completion of the review**), these: (i) give the regulator the power to determine and notify quarterly tariffs; (ii) ensure timely submissions of quarterly and annual petitions by the distribution companies (DISCOs); (iii) eliminate the gap between the regular annual tariff determination and notification by the government; and (iv) reinstate the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.

b. *Power prices.* The cabinet has approved a timetable for the determined, but not yet notified electricity price adjustments. This timetable includes a two-staged implementation of the FY 2021 annual rebasing (AR), determined as a 3.34 PRs/kWh increase in the base tariff. To mitigate the impact on the consumer and economic recovery in the context of Covid-19, we have notified the first increase of 1.95 PRs/kWh in January 2021 and completed the notification of the FY 2020 Q2 and Q3 quarterly tariff adjustments (QTAs) in December 2020, along with accompanying measures aimed at attenuating the social and sectoral impacts and strengthening reform traction (**PA for completion of the review**):[3] first energy subsidy reform steps aimed at reducing the regressive structure of the tariff structure, which include

[3] This corresponds to over 50 percent of the total outstanding electricity price adjustment needed.

a more expanded definition of the lifeline tariff as a relief for the vulnerable and the determination of the subsidized tariff slab based on households' maximum usage from the previous 12-months (rather than monthly) consumption. Furthermore, we launched a public outreach campaign to explain the reform need and strategy to consumers. By end-May 2021 we will reduce our CPPA-G payables to power producers through a payment of up to PRs 180 billion with no more than one-third in cash and the remainder in debt instruments (**new end-May 2021 SB**). We have scheduled the remaining AR step-increase to be completed by June 1, 2021 (see ¶22.a).

c. *Medium-term measures on the cost side.* In mid-August 2020, we signed a Memorandum of Understanding (MoU) with a group of private Independent Power Producers (IPPs)[4] to lower, and convert into domestic currency, the guaranteed return on equity (ROE) as well as sharing excess returns on operational and maintenance expenses from contractual efficiencies. However, before the MoU could be converted into binding contractual agreements, we first needed to settle PRs 403 billion in outstanding arrears to those IPPs. We are doing this in two tranches, each one-third in cash and two-thirds in 5- to 10-year debt instruments. The first tranche of PRs 161 billion came due in March 2021 and the remainder will be due in August 2021. However, to noticeably reduce agreed capacity payments and ultimately the need for power tariff increases, we are working to negotiate similar terms with other groups of power producers (including those owned by the government).

d. *Recalibrating the CDMP*. Supported by the World Bank and ADB, the Cabinet approved an updated CDMP in March 2021 (**PA for completion of the review**) that reflects in particular: (i) the impact of the timetable for determined but not yet notified electricity price adjustments adopted by cabinet, implementation of the first-stage AR (see ¶21.b), notification of the FY 2020 Q4 QTA by September 2021 (**new end-September 2021 SB**), and amendments to the NEPRA Act; (ii) an alignment of the required subsidies in the FY 2021 budget; and (iii) a decision on the budgeted subsidies for FY 2022. The CDMP remains ambitious in the envisaged measures to deliver a sustained decline in the accumulation of power sector arrears. Moreover, the CDMP incorporates savings that are envisaged in the later part of the plan from measures to reduce transmission and distribution losses and the cost of electricity generation (such as the coming-on-stream of cheaper renewable energy production, impact of renegotiated power purchasing arrangements (PPAs), and improvements in transmission and distribution losses).

22. **Going forward, we will take additional measures that are crucial for halting the accumulation of arrears**:

a. *Updating power tariffs*. While the enactment of the NEPRA Act amendments will ensure the automaticity of QTAs (beyond the already automatic monthly fuel price adjustments, FPAs),

[4] This group includes IPPs under the pre-1994/1994/2002/and renewable energy 2006 policies.

we will ensure that we follow through on time with the remaining AR step-increase by June 1, 2021 (**new June 1, 2021 SB,** see ¶21.b). We will also finalize the cross-subsidy reform, which will underpin a better targeting of energy subsidies in the FY 2022 budget (amongst others through the introduction of more tariff slabs for large consumers) (**new end-June 2021 SB**). At the same time, we will renew our public awareness campaign.

b. *Streamlining of tariff adjustments.* Preserving the principle embedded in the CDMP of automaticity of tariff adjustments and in line with the plan's declining path of accumulation of new arrears, we are streamlining the process of power tariff adjustments to increase its predictability. The new tariff adjustment plan, designed in consultation with our international partners, will consolidate tariff adjustments to significantly reduce the number of end-consumer tariff adjustments in FY 2022 while delivering the required revenue for the system. In particular, the fuel price adjustment, the quarterly adjustment for capacity payments, and the annual rebasing of tariffs will continue to take place, but their timing will be adjusted to alleviate consumers from the impact of continued tariff adjustments. Crucially, we will ensure that the consolidation of tariff adjustments will not generate any new accumulation of power sector arrears.

c. *Improving the targeting of subsidies*. We recognize that the existing system of subsidies, covering 93 percent of domestic users,[5] represents a significant budgetary drain and, through cross-subsidies, implies elevated tariffs for the narrow group of unsubsidized users. For the FY 2022 budget and based on the first steps to redesign the tariff structure in FY 2021 (see ¶21.b), we plan to finalize, with the support of the World Bank, a comprehensive subsidy reform that covers a restructuring of the tariff and measures and improves targeting (including to households and the agricultural sector), while protecting the most vulnerable (**new end-June 2021 SB**, see ¶22.a).

d. *Strengthening DISCOs governance*. We have initiated the process of appointing board members and CEOs in all DISCOs under competitive and transparent procedures. Moreover, we are exploring options for their phased privatization.

23. **We are advancing our strategy to reduce the stock of power sector arrears**. The stock of power sector arrears held by the Power Holding Private Limited (PHPL) stands at over PRs 1,000 billion (about 2.2 percent of GDP) as of end-December 2020, representing a significant quasi-fiscal risk. We continue to work with international partners on the design of a strategy to settle the stock of arrears in PHPL, while limiting the impact on government finances and subject to adequate progress implementing our CDMP. In this context, the Economic Coordination Committee (ECC) has issued a notification allowing for the conversion of PHPL debt into public debt over a 10-year period. An initial PRs 25.5 billion were converted in December 2020 and another PRs 47 billion will be cleared until the end of FY 2021—with subsequent transfers continuing to take place under a semi-annual schedule and seeking to transfer the most

[5] This includes households consuming up to 300 kWh/month, the agricultural sector, and exporters (as of January 2020).

expensive debt first and subject to satisfactory implementation of the revised CDMP. As part of this strategy, we also raised PRs 200 billion through a Sukuk in May 2020, issued with government guarantee, to transfer costly Central Power Purchase Agency (CPPA) payables to independent power producers (IPPs) into the PHPL

24. **We are taking steps to advance reforms in the gas sector**. In view of the sector's high stock of arrears (amounting to about PRs 199 billion at end-FY 2020, up from PRs 144 billion at end-FY 2019, we are taking crucial measures to improve the sector's performance:

a. *Timely updates of tariffs.* We have revised gas sales prices upwards by September 2020 to fully reflect the projected annual revenue requirement of both Sui companies for FY 2021 and a part of Sui Sothern arrears. We will consider the OGRA determination on annual revenue requirement of both Sui companies and further revise gas sale prices upwards in the second half of FY 2021.

b. *Amending the OGRA Act*. The Council of Common Interests (CCI) has adopted amendments to the OGRA Act aimed at ensuring that recovery requirements are met in a timely manner in December 2019. The Draft Bill for requisite enactment has been submitted to the CCLC in April 2020 and is expected to be adopted by parliament before end-June 2021 (**new end-June 2021 SB**).

c. *Reducing unaccounted for gas losses (UFG).* The two gas companies are working to reduce UFG losses based on the reduction plans approved by Cabinet. We published the first annual monitoring report covering FY 2020 in January 2021 and the first quarterly report covering Q1 FY 2021 in February 2021. We will continue to publish the reports on a quarterly basis which, *inter alia*, include: (i) an assessment of progress reducing UFGs against relevant benchmarks; (ii) a quantitative analysis of the impact of the various initiatives and measures; and (iii) an assessment of contingency measures to address areas of weakness.

Structural Policies and Investing in the Green Recovery

25. **Structural reforms are a key pillar of our economic program to unleash the potential of our economy**. We are striving to create an enabling environment for investment and job creation, strengthen SOEs' productivity, and enhance trust in government.

26. **We are committed to improving SOEs' governance, transparency, and efficiency**. Specific actions include:

a. *Advancing privatization.* Against the backdrop of Covid-19 and economic uncertainty, we have not been able to finalize the privatization of two LNG power plants by end-FY 2020 as previously planned. We now expect to complete the process by end-February FY 2022, with proceeds still to be channeled to debt reduction and poverty programs. In parallel, we are progressing with the privatization of two small public banks and expect to complete these operations by end-December 2021. Finally, we are also assessing options to divest Pakistan International Airlines' (PIA) non-core assets (two hotel properties).

b. *Increasing transparency*. We have completed and published the audits of PIA and Pakistan Steel Mills in January 2020 and July 2020, respectively (**end-December 2019 SB**). The Auditor General of Pakistan completed a special audit of Pakistan Railroads in March 2020 based on FY 2019 financials and were published in November 2020. We will also conduct and publish an audit of the Utility Stores Corporation (USC) based on FY 2020 financials (**new end-April 2021 SB**).

c. *Strengthening the monitoring of SOEs.* We completed, with support from the World Bank, and published a triage of our SOEs in March 2021 (**end-September 2020 SB**). This stocktaking and analysis of our SOE portfolio resulted in a division of companies to: (i) maintain under state management; (ii) privatize; or (iii) liquidate. The next step will be the execution of the included action plan.

d. *Enhancing the SOE legal and regulatory framework.* Building on IMF-provided technical assistance and in cooperation with international partners, we prepared a new SOE law and submitted it to parliament in March 2021 (**end-September 2020 SB**). We expect it to be adopted by end-December 2021. Once enacted, the new SOE law will, *inter alia*, (i) define the rationale for state ownership; (ii) ensure that SOE operations are grounded on commercial footing, including by defining what constitutes a commercial SOE; and (iii) regulate oversight and ownership arrangements. Thereafter, we will focus on the:

   (i) cabinet adoption of an SOE ownership policy by end-September 2021—to help operationalize the principles of the SOE law (once enacted) into a policy that clarifies ownership arrangements and the division of roles within the federal government;

   (ii) parliamentary submission of amendments of four SOEs' Acts by end-August 2021, which were chosen in November 2020 based on their debt levels—to help ensure that the scope of the SOE law brings governance changes to statutory enterprises; and

   (iii) operationalization of a Central Monitoring Unit (CMU) within the MoF by end-July 2021—to centralize SOE monitoring functions and provide better analysis at the aggregate level.

27. **Other comprehensive structural reforms must be accelerated to improve competitiveness and the business environment**. These reforms are crucial for raising medium-term growth and supporting job creation. Going forward, we will:

a. *Continue to implement the approved national tariff policy*, based on time-bound strategic, infant, and greenfield industry protection. In line with our revenue mobilization strategy, we will rationalize tariffs to boost competitiveness for 'Made in Pakistan' products, including phasing out tariffs on capital goods, intermediate products, and raw materials.

b. *Take steps to improve the business environment*. In particular, we will: (i) simplify procedures to start a business and eliminate other unnecessary regulations, including the introduction of one portal for all business registrations and integration of federal and provincial entities involved in starting a business; (ii) streamline the approval process for foreign direct investment (FDI); (iii) improve trading across borders by reducing customs-related processing time and reducing hours to prepare import/export documentation; (iv) simplify and harmonize the process of paying taxes through the introduction of a simple and fully automated regime for paying taxes, contributions, and fees; and (v) launch a communication drive to disseminate information regarding the reforms undertaken.

c. *Step up implementation of our recently launched National Electric Vehicle Policy (NEVP) (2020-2025).* The main objectives of the policy are: (i) mitigating negative aspects of climate change through the reduction in CO^2 emissions; (ii) strengthening our external position by reducing the oil import bill; and (iii) creating a pivot toward industrial growth and generating employment through new investments and the introduction of new technologies. The NEVP targets electric cars to reach 30 percent of new sales by 2030 as well as 2-and 3-wheelers and electric buses to reach 50 percent of new sales. This policy provides the framework which will bring the necessary transformation in a planned and phased manner, while having a positive socio-economic impact in terms of industrial growth, employment generation, and improved environment for future generations.

28. **Measures to strengthen governance and the control of corruption remain key**. Our priorities include:

- *Strengthening the effectiveness of anticorruption institutions*. We will establish a robust asset declaration system with a focus on high-level public officials by end-June 2021 (**new end-June 2021 SB**), which is comprehensive in scope (e.g., assets beneficially owned or located abroad), filed with a central federal agency, electronically available to the public and searchable, and appropriately and effectively verified. We are undertaking the second review cycle under the UNCAC implementation mechanism, and will publish the full report, including the findings, analysis, and recommendations for improving the anti-corruption framework. A task force with inputs from reputable international experts and civil society organizations will complete a review of the institutional framework of our anticorruption institutions by end-December 2021 to enhance their independence and effectiveness in investigating and prosecuting corruption cases, with proposals for legislative amendments as appropriate. With the assistance from capacity development providers, we will continue to upgrade the capacities of law enforcement agencies such as Federal Investigation Agency, National Accountability Bureau and provincial Counter Terrorism Departments for financial investigations through training. The Mutual Legal Assistance Act of 2020 also designated the NAB as a recipient and requesting authority for international cooperation in the field of anti-corruption. The NAB is engaging with several foreign law enforcement authorities to secure memoranda of understanding for information sharing. Efforts continue to be pursued in identifying and recovering stolen assets located abroad.

- *Enhancing the use of AML tools to support anti-corruption efforts*. We continue to support financial institutions and other reporting institutions in improving their capacities to identify politically exposed persons and apply enhanced due diligence measures. We are conducting further outreach and continue enhancing risk-based supervision of financial institutions and other reporting institutions to improve the quality of suspicious transaction reporting, particularly on corruption activities. We are committed to enhancing the effectiveness of the Financial Monitoring Unit (Pakistan's financial intelligence unit), by ensuring its fiscal autonomy and providing sufficient human and financial resources to improve the dissemination of financial intelligence to support corruption investigations. Our application for membership in the Egmont Group of Financial Intelligence Units is already under submission.

Financing and Program Monitoring

29. **We have secured adequate long-term financing from our international partners to support our economic reform program**. The current projections suggest that with the policies outlined in this MEFP, the gross external financing needs for the next 12 months (April 2021-March 2022) will amount to US$25 billion, of which about US$17 billion is amortizations to multilateral and bilateral official and commercial creditors. To close this gap, we have secured financing commitments from bilateral and multilateral partners: China US$10.8 billion, UAE US$2 billion, the World Bank US$2.8 billion, the Asian Development Bank US$1.1 billion, and the Islamic Development Bank US$1 billion. Crucially, key bilateral creditors have maintained their exposure to Pakistan in line with program financing commitments. In addition, we have benefitted from the temporary suspension of debt service to official bilateral creditors provided under the G20 DSSI initiative, which covered US$2.5 billion falling due over May 2020-June 2021 (of which US$0.8 billion related to the second round of DSSI covering January-June 2021 debt service). Moreover, good prospects remain for the remainder of the program.

30. **Implementation of the policies under the program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, continuous performance criteria, structural benchmarks, and schedule of reviews**, as envisaged in our MEFPs dated June 19 and December 2, 2019, along with this MEFP. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the program. The quantitative targets for end-March and end-June 2021, along with continuous quantitative performance criteria, and indicative targets for end-September and end-December 2021, are set out in Table 1b. The prior actions and structural benchmarks are set out in Table 2.

Table 1a. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2019/20 1/

(In billions of rupees, at program exchange rates, unless otherwise specified)

	FY 2019/20								
	end-December			end-March			end-June		
	Program (PC) CR 19/380	Adjusted Prog.	Actual	Program (PC) CR 19/380	Adjusted Prog.	Actual	Program (IT) CR 19/380	Adjusted Prog.	Actual
Performance Criteria									
Floor on net international reserves of the SBP (millions of U.S. dollars)	-16,061	-18,861	-10,355	-11,827	-18,273	-10,183	-10,248	-17,417	-12,029
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	8,815	9,439	8,202	8,474	9,385	8,437	9,066	10,079	9,380
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	8,055	...	4,212	8,055	...	4,906	7,555	...	5,778
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	-87	-290	-120	96	-441	-299	264	-705	574
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	7,756	...	5,842	7,756	...	5,925	7,187	...	6,455
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	1,763	...	2,571	1,763	...	2,639	1,863	...	2,851
Continuous Performance Criteria									
Zero new flow of SBP's credit to general government	0	...	0	0	...	0	0	...	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	0	...	0	0	...	0
Indicative Targets									
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	86	...	29	133	...	63	180	...	246
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	570	...	593	997	...	948	1,524	...	1,380
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,198	...	2,089	3,520	...	3,044	5,238	...	3,998
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees) 4/ 5/	-53	...	-63	-77	...	-33	-105	...	48
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) 4/	93	...	149	116	...	303	134	...	538

Sources: Pakistani authorities; and Fund staff estimates.

1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.

2/ Cumulative from the start of each fiscal year. "-" means surplus. End-June 2019 actual measured from above the line.

3/ Definition changed at the time of the second review. Applicable for end-March 2021 targets onward.

4/ Data for December 2018/June 2019 is an actual/projected stock as of the end of the month. Quarterly targets are cumulative flows for each fiscal year.

5/ The projected end-June 2019 figure included only sales tax arrears, while the actual end-June 2019 tax arrears includes all tax arrears and adheres to the TMU definition.

Table 1b. Pakistan: Quantitative Performance Criteria and Indicative Targets, FYs 2020/21–2021/22 1/
(Cumulative flow since the beginning of the year, unless otherwise indicated)

	FY 2020/21						FY 2021/22	
	end-September			end-December	end-March	end-June	end-September	end-December
	Program (IT) CR 19/380	Adjusted Prog.	Actual	Actual Est.	Proposed (PC)	Proposed (PC)	Proposed (IT)	Proposed (IT)
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	-8,841	-15,047	-10,966	-8,528	-10,238	-8,676	-8,518	-7,677
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	8,529	9,406	9,080	8,897	9,655	10,173	9,947	10,190
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	7,305	...	5,778	4,610	5,200	5,200	4900	4600
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	-58	-311	-253	-420	-230	246	-130	-96
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	7,187	...	6,089	5,885	6,908	6,618	6333	6049
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	1,922	...	2,843	2,826	2,715	2,715	2,735	2,765
Continuous Performance Criteria								
Zero new flow of SBP's credit to general government	0	...	0	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	0	0	0	0	0
Indicative Targets								
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	41	...	14	67	114	199	48	102
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	121	...	289	580	975	1,567	356	752
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,324	...	1,011	2,210	3,394	4,691	1,181	2,585
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees) 4/ 5/	-133	...	39	65	65	65	0.0	0.0
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) 4/	27	...	102	152	319	354	-166	-154
The gross issuance of PIBs, Sukuks, and Eurobonds (cumulative, billions of Pakistani rupees) 6/	n.a.	n.a.	1,268	1,986				

Sources: Pakistani authorities; and Fund staff estimates.

1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.

2/ Cumulative from the start of each fiscal year. "-" means surplus. End-June 2019 actual measured from above the line.

3/ Definition changed at the time of the second review. Applicable for end-March 2021 targets onward.

4/ Data for December 2018/June 2019 is an actual/projected stock as of the end of the month. Quarterly targets are cumulative flows for each fiscal year.

5/ The projected end-June 2019 figure included only sales tax arrears, while the actual end-June 2019 tax arrears includes a

6/ Added at the time of the second through the fifth EFF review. Applicable for end-March 2021 onward. This applies to the cumulative gross issuance of Pakistan Investment Bonds (PIBs) and GoP Ijara Sukuks, and Eurobonds starting from the beginning of the fiscal year. This is defined as the cumulative sum—since the start of the fiscal year—of the total acceptance of the bids of each auction of PIBs, GoP Ijara Sukus across all maturities (both at fixed and floating rate), and that of Eurobonds evaluated at the program exchange rate.

Table 2. Pakistan: Structural Conditionality

Actions

	Prior Actions	Rationale
1	Adoption by parliament of a CIT reform in consultation with IMF staff to simplify the tax system and meet program targets.	Critial to ensure achievement of program fiscal objectives.
2	Submission to parliament of the amendments to the State Bank of Pakistan Act in consultation with IMF staff.	Critical to ensure SBP independence.
3	Adoption by parliament of amendments to the NEPRA Act.	Critical to ensure tariff automacity.
4	Electricity prices: Implementation of the first-stage of the FY 2021 annual rebasing (AR) of 1.95 PRs/kWh and notification of the FY 2020 Q2 and Q3 quarterly tariff adjustments (QTAs) of 1.62 PRs/kWh; accompanied by first energy subsidy reform steps aimed at reducing the regressive nature of the tariff structure.	Critical to stem flow of power sector arrears.
5	Approval by the Cabinet of an updated Circular Debt Management Plan (CDMP) in line with international partners' advice.	Critical to bring down power sector arrears.

	Structural Benchmarks	Date	Revised Date	Status
	Fiscal			
1	Commit to not grant further tax amnesties.	Continuous		Not met.
2	Avoid the practice of issuing new preferential tax treatments or exemptions.	Continuous		Not met.
3	Presentation of the federal government mid-year budget review report to the National Assembly in line with the PFM Act.	end-Feb. 2020		Met.
	Monetary/Financial			
4	Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force list of jurisdictions with serious deficiencies.	end-Jun. 2020	end-Jun. 2021	Not met. Advanced stage.
5	Improve towards a substantial level the effectiveness in addressing terrorism financing consistent with FATF Immediate Outcomes 9 and 10.	end-Mar. 2020		Not met. Advanced stage, to be implemented with SB #4.
6	Submit to parliament, in consultation with IMF staff, amendments to the State Bank of Pakistan Act to address all recommendations of the new 2019 Safeguards Assessment Report and the 2016 Technical Assistance Report on Central Bank Law Reform.	end-Mar. 2020		Not met. Proposed as PA #2.
	State-Owned Enterprises			
7	Submit to parliament amendments to the NEPRA Act to (i) give the regulator the power to determine and notify quarterly tariffs; (ii) ensure timely submissions of quarterly and annual petitions by the DISCOs; (iii) eliminate the gap between the regular annual tariff determination and notification by the government; and (iv) reinstate the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.	end-Dec. 2019		Not met. Submitted in January 2020.
8	Notification of FY 2020 Q2 electricity tariff adjustment for capacity payments.	end-Jan. 2020		Not met. Proposed as PA #4.
9	Conduct and publish new audits by reputable international auditors of Pakistan International Airlines (PIA) and Pakistan Steel Mills (PSM).	end-Dec. 2019		Not met. PIA and PSM audits published in January and July 2020, respectively.
10	Conduct a triage of all SOEs, dividing them into companies to (i) maintain under state management; (ii) privatize; or (iii) liquidate.	end-Sep. 2020		Not met. Published in March 2021.
11	Submit to parliament a new State-Owned Enterprise law to improve governance and transparency in line with IMF recommendations.	end-Sep. 2020		Not met. Submitted in March 2021.
	Social Protection and Gender			
12	Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry).	end-Jun. 2020	end-Jun. 2021	Not met. In progress.

	New Structural Benchmarks	Date
1	Minister of Finance will establish and make functional the TSA-1.	end-May 2021
2	Reintroduce and roll out the track-and-trace systems for tobacco products.	end-Jun. 2021
3	Publication of awarded Covid-spending related contracts and beneficial ownership information of bidding and awarded legal persons in a centralized and publicly accessible website.	end-Apr. 2021
4	Auditor General of Pakistan will conduct an ex-post audit of the procurement of urgently needed medical supplies related to Covid-19. Audits results will be published on the website of the Ministry of Finance.	end-Apr. 2021
5	Reduction in CPPA-G payables to power producers through a payment up to PRs 180 billion with no more than 1/3 in cash and the remainder in debt instruments.	end-May 2021
6	Completion of the FY 2021 annual rebasing (AR).	Jun. 1, 2021
7	Finalization of the energy cross-subsidy reform for the FY 2022 budget.	end-Jun. 2021
8	Notification of FY 2020 Q4 electricity tariff adjustment for capacity payments.	end-Sep. 2021
9	Adoption by parliament of amendments to the OGRA Act.	end-Jun. 2021
10	Conduct and publish external audit of the Utility Stores Corporation (USC) based on FY 2020 financials.	end-Apr. 2021
11	Establish a robust asset declaration system with a focus on high-level public officials.	end-Jun. 2021

Attachment II. Technical Memorandum of Understanding

March 9, 2021

1. **This Technical Memorandum of Understanding (TMU)** sets out the understanding between the Pakistani authorities and the IMF staff regarding: (i) the ***definitions*** of quantitative performance criteria (and their adjustment mechanisms), indicative targets, and—if needed—prior actions and structural benchmarks in Section A below; and (ii) the respective ***reporting requirements*** used to monitor developments—for the economic program under the Extended Arrangement under the Extended Fund Facility (EFF)—as described in the authorities' latest Letter of Intent (LOI) dated March 9, 2021 and the attached Memorandum of Economic and Financial Policies (MEFP, notably its Tables 1 and 2) in Section B below. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in program design and accounting classifications introduced during the program period.

2. For the purposes of **monitoring under the program**, all assets and liabilities as well as debt contracted, denominated in Special Drawing Rights (SDRs) or in currencies other than the U.S. dollar, are converted into U.S. dollars at the program exchange rate. Net external budget financing and external cash grants are converted into Pakistani rupees (PRs) at the program exchange rate. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at PRs 141.3172 per U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Text Table 1.

Text Table 1. Program Exchange Rates

(Units of currency per U.S. dollar) 1/

Currency	Rate	Currency	Rate
EUR	0.896456	THB	32.035948
JPY	111.699717	MYR	4.141502
CNY	6.741081	SGD	1.362695
GBP	0.769292	INR	69.267944
AUD	1.428981	SDR	0.723019
CAD	1.346196		

1/ As of May 3, 2019 except for: JPY and CNY (as of April 30, 2019), and CAD (as of May 2, 2019).

A. Quantitative Targets

3. **The program sets performance criteria and indicative targets** for defined test dates (MEFP Table 1) as well as defines continuous performance criteria that apply throughout the program period. The program sets the following performance criteria:

Performance Criteria

- Floor on the net international reserves (NIR) of the State Bank of Pakistan (SBP) (millions of U.S. dollars);
- Ceiling on the net domestic assets (NDA) of the SBP (stock, billions of Pakistani rupees);
- Ceiling on SBP's stock of net foreign currency swap/forward position (millions of U.S. dollars);
- Ceiling on the general government primary budget deficit excluding grants (cumulative flows, billions of Pakistani rupees);

- Ceiling on net government budgetary borrowing from the SBP (including provincial governments) (stock, billions of Pakistani rupees); and
- Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees).

Continuous Performance Criteria

- No new flow of SBP's credit to general government;
- Zero ceiling on the accumulation of external payment arrears by the general government; and
- Other (see ¶25).

Indicative Targets

- Floor on targeted cash transfers spending (BISP) (cumulative, billions of Pakistani rupees);
- Floor on general government budgetary health and education spending (cumulative, billions of Pakistani rupees);
- Floor on net tax revenues collected by the Federal Board of Revenue (FBR) (cumulative, billions of Pakistani rupees);
- Ceiling on net accumulation of tax refund arrears (flow, billions of Pakistani rupees);
- Ceiling on power sector payment arrears (flow, billions of Pakistani rupees).

Floor on the Net International Reserves (NIR) of the SBP

Definition

4. **The general government** is defined as the central (federal) government and local (provincial) governments, excluding state-owned enterprises. The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities, that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001. The authorities will inform IMF staff on the creation of any such entities without delay.

5. **Net international reserves (stock) of the SBP** are defined as the U.S. dollar value of the difference between usable gross international reserve assets and reserve-related liabilities, evaluated at program exchange rates. On April 16, 2019, the NIR of SBP are estimated at negative US$15,557 million.

6. **Usable gross international reserves of the SBP** are readily available claims on nonresidents denominated in foreign convertible currencies and controlled by the monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets

to affect the currency exchange rate, and for other related purposes. Gross official reserves include: (i) holdings of foreign currencies; (ii) holdings of SDRs; (iii) the reserve position in the IMF; and (iv) holdings of fixed and variable income instruments. Excluded from usable reserves, inter alia, unless there is also a reserve-related liability associated with it, are: (i) claims on residents; (ii) assets in nonconvertible currencies; (iii) precious metals; (iv) illiquid assets; (v) assets that are pledged or collateralized; (vi) any reserve assets that are not readily available for intervention in the foreign exchange market because of lack of quality or liquidity that limits marketability at the book price; and (vii) balances held at foreign branches of non-investment rated domestic banks.

7. **Reserve-related liabilities of the SBP** include all foreign exchange liabilities to residents (except general government) or nonresidents, including: (i) foreign currency liabilities, excluding liabilities to the general government, with remaining maturity of one year or less; (ii) any foreign exchange liabilities of SBP and general government arising from derivatives positions (such as futures, forwards, swaps, and options) on a net outstanding basis (defined as the long position minus the short position); (iii) outstanding IMF credits to Pakistan; and (iv) foreign exchange deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks (excluding regulatory capital deposits of foreign banks with the SBP), international organizations, and foreign nonbank financial institutions, as well as domestic financial institutions (excluding regulatory capital deposits of domestic financial institutions with the SBP). The reserve-related liabilities of the SBP exclude SDR allocations and accrued interest on reserve-related liabilities.

8. **Aggregate net position in the foreign exchange derivatives** is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP and general government vis-à-vis the domestic currency (including the forward leg of currency swaps). At end-April 2019, the SBP's aggregate net derivative position was negative US$8,055 million.

9. **Gross sale of foreign exchange** includes outright and swap sales of foreign exchange by the SBP to banks in the foreign exchange interbank market by using foreign exchange market intervention. The swap sale of foreign exchange and maturities of the forward transactions will be measured on a net daily basis.

10. **Net purchase of foreign exchange** is defined as outright and swap purchases of foreign exchange minus outright and swap sales of foreign exchange by the SBP from/to banks in the foreign exchange market by using foreign exchange market intervention. The net purchase of foreign exchange will be measured on a net daily basis.

Adjustment mechanism

11. The floor on NIR will be **adjusted** upward (downward) by the cumulative excess (shortfall) in:

a. ***cash inflows from multilateral and bilateral creditors, commercial borrowing, and bond issuance*** relative to the projected inflows (Table 1). Cumulative cash inflows are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to the Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to bilateral oil facilities, China, Saudi Arabia, UAE, DFID-UK, and USAID), external bond placements and other commercial borrowings that are usable for the financing of the central government budget;

b. the ***actual stock of NIR*** at end-June 2019 relative to the projected amount. The stock of NIR of SBP at end-June 2019 is projected at negative US$17,743 million; and

c. the ***use by the SBP of the foreign assets related to commercial consortium loan*** to make import payments relative to the amounts expected under the baseline (Text Table 2).

Text Table 2. Use by SBP of Foreign Assets Related to Commercial Consortium Loan
(Cumulative flows from the start of the fiscal year; millions of Renminbi)

End-Mar 2021	End-Jun 2021	End-Sep 2021	End-Dec 2021
0	0	0	0

Ceiling on the Net Domestic Assets (NDA) of the SBP

Definition

12. **Net domestic assets of the SBP** are defined as the difference between reserve money (as defined below) minus the NIR of the SBP (as defined above). For the purposes of computing the NDA target, the NIR is valued at the program exchange rate (¶2) and expressed in Pakistani rupee.

13. **Reserve money (RM)** is defined as the sum of: (i) currency outside schedule banks (deposit money banks); (ii) schedule banks' domestic cash in vaults; (iii) schedule banks' required and excess rupee and foreign exchange deposits with the SBP; and (iv) deposits of the rest of the economy with the SBP, excluding those held by the federal and provincial governments and the SBP staff retirement accounts.

Adjustment mechanism

14. Consistent with the NIR target adjustment mechanism (as defined above), the ceiling on the NDA will be **adjusted** downward (upward) by the cumulative excess (shortfall) in:

a. ***cash inflows from multilateral and bilateral creditors, and commercial borrowings and bond issuances*** relative to the projected inflows (Table 1) and evaluated at the program exchange rate;

b. the ***actual stock of NIR at end-June 2019*** relative to the projected amount (see above) and evaluated at the program exchange rate; and

c. the ***use by the SBP of the foreign assets related to commercial consortium loans to make import payments*** relative to the amounts expected under the baseline (Text Table 2) and evaluated at the program exchange rate.

Ceiling on SBP's Stock of Net Foreign Currency Swap/Forward Position

15. The **stock of net foreign currency swap/forward positions** is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). It will be evaluated at the program exchange rate. At end-April 2019, the SBP's aggregate net FX derivative position was negative US$8,055 million.

Ceiling on the General Government Primary Budget Deficit Excluding Grants

Definition

16. The **general government primary budget deficit (excluding grants)** is monitored quarterly as the general government's overall budget deficit, excluding its: (i) paid interest bill and (ii) received budget grants.

17. The **general government overall budget deficit** is measured as its cash deficit from below the line, defined as the sum of its:

a. ***net external budget financing***, excluding valuation changes;

b. ***change in net domestic credit from the banking system (cash basis)***, excluding valuation changes from deposits denominated in foreign currency and government securities bought by foreigners (notably T-bills, Pakistan Investment bonds (PIBs), Naya Pakistan Certificates, and Banao Certificates);

c. ***change in the net domestic nonbank financing***, excluding valuation changes. These comprise: (i) privatization receipts (either received directly or transferred from the privatization accounts to the general government budget, including from abroad and in foreign currency); (ii) change in the stock of issued government securities held outside the general government and the banking system, net of valuation changes; (iii) change in net deposits and reserves received by the general government (public accounts deposits); (iv) any other government borrowing from domestic nonbank sources net of repayments; minus (v) the change in general government deposits with nonbank financial institutions; and *d.* ***total external grants to the federal and provincial governments***, which are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants.

18. **Budget grants** are the total of grants received by the general government budget for the purpose of project support, budget support, capital support (reflecting the principal amounts of external debt cancellation or swaps), and others. They can be in cash and in kind.

19. **Net external program financing** (excluding valuation changes and all external financing counted as reserve liabilities of the SBP, as defined above) is defined as the sum of:

a. ***external budget loans*** to the general government, including those on-lent to financial institutions and companies (public or private) and external emergency relief lending. It comprises those with: (i) medium- and long-term maturity from official multilateral sources (including IMF budget support), official bilateral sources, and private sector sources (e.g., bonds and non-residents' purchases of PIBs, Naya Pakistan Certificates, and Banao Certificates); and (ii) short-term maturity, net of foreign portfolio investment excluding non-residents' purchases of Naya Pakistan Certificates and Banao Certificates but including non-residents' purchases of domestic T-bills; and

b. ***net external debt amortization flow*** of the general government, which is the change in its stock of external debt service arrears net of the debt amortization due on its external budget loans (with the latter accounting for the impact of any rescheduled, relieved, or accelerated amortization, including that related to debt swaps or debt cancellation recorded as capital grants).

Adjustment mechanism

20. The ceiling on general government primary budget deficit (excluding grants) will be **adjusted** on a cumulative basis since the beginning of the fiscal year:

a. downward (upward) by any shortfall (excess) in ***external project financing*** relative to the program projections evaluated in Pakistani rupee terms at actual average exchange rates (see Table 1). External project financing is defined as disbursements from bilateral and multilateral creditors to the general government for specific project expenditure;

b. downward by any underexecution in the ***targeted cash transfers (BISP)*** relative to their indicative program target. In FY 2019/20 it is also adjusted upward for any overexecution relative to their indicative program target of up to PRs 40 billion;

c. downward by any excess in the flow of ***power sector payment arrears*** above the respective indicative program targets, excluding non-recoveries and excess line losses (see Text Table 4);

d. downward by any increase in the ***stock of budgetary arrears on social payments*** (such as wages, pensions, social benefits) accumulated since the beginning of the fiscal year;

e. downward by any excess in the flow of ***tax refund arrears*** (as defined below) relative to their respective indicative program targets;

f. for SBP profit transfers:

(i) *until the amended SBP Act is approved and enacted by the National Assembly*, downward (upward) for any excess (shortfall) in the actual interim SBP profit transfers to the general government budget relative to its programmed SBP level (Text Table 3); and

(ii) *after the amended SBP Act is approved and enacted by the National Assembly*, upward by any shortfall in actual interim SBP profit transfer to the general government budget relative to its programmed level (Text Table 3).

Text Table 3. Fiscal Program: Selected Projections
(Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

	End-Mar 2021	End-Jun 2021	End-Sep 2021	End-Dec 2021
Clearance of CPPA arrears to IPPs	180	180	270	270
Repayment of PHPL debt	72.6	72.6	0	0
SBP profit transfers to the budget	502.3	650.6	96	217

g. downward by any shortfall in both the ***clearance of CPPA arrears to IPPs*** and ***repayment of PHPL debt*** relative to their respective programmed levels (Text Table 3); and

h. upward by up to PRs 200 billion for any ***supplementary grants issued by the federal government for the purpose of fighting COVID-19*** (coronavirus) in FY 2020/21. Supplementary grants are supplementary budget appropriations authorized by the Cabinet granting additional spending to budget units beyond what is established in the current fiscal year federal budget and consistent with Article 84 of the Constitution.

Ceiling on Net Government Budgetary Borrowing from the SBP

Definition

21. **Net government budgetary borrowing from the SBP** (including provincial governments) is defined as SBP claims on the general government minus general government deposits with the SBP. Those claims include government securities, treasury bills, treasury currency, and debtor balances, whereas those claims exclude accrued profits on government securities. Government deposits with the SBP exclude the Zakat Fund (Table 2).

Ceiling on the Amount of Government Guarantees

22. The **ceiling on the amount of government guarantees** applies to the stock of publicly guaranteed debt for which guarantees have been issued by the central government. It includes both domestic and external government guarantees. Beginning with the end-March 2021 test date, the external government guarantees will be converted into Pakistani rupees at the program exchange rate. This ceiling excludes guarantees issued by the Ministry of Finance for the SBP borrowing from the IMF. The stock of issued guarantees at end-September 2019 was PRs 2,580 billion.

No New Flow of SBP's Credit to General Government—Continuous Performance Criterion

23. To protect the capability of the central bank to pursue its price stability objective, there should be no new flow of **SBP's direct credit to the general government**, including in the form of purchases of public debt securities on the primary market. The performance criterion applies on a continuous basis throughout the program period.

Zero Ceiling on the Accumulation of External Payment Arrears by the General Government—Continuous Performance Criterion

24. **External payment arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (federal and provincial government, SBP, and state-owned enterprises) to nonresidents arising in respect of public sector loans, debt contracted or guaranteed (including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date). The definition of debt, for the purposes of the EFF, is set out in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 14416-(09/91), adopted August 31, 2009). The ceiling on the accumulation of external payment arrears is set at zero. The performance criterion applies on a continuous basis throughout the program period.

Other Continuous Performance Criteria

25. During the program period, **Pakistan will not**:

a. impose or intensify ***restrictions on the making of payments and transfers*** for current international transactions;

b. introduce or modify ***multiple currency practices (MCPs)*** excluding though MPCs arising from the introduction and/or modifications of the multiple-price foreign exchange auction system operating in line with IMF staff advice with the objective of supporting flexible market-determined exchange rate;

c. conclude ***bilateral payment agreements*** that are inconsistent with Article VIII of IMF Articles of Agreement; and

d. impose or intensify ***import restrictions*** for balance of payments purposes.

Floor on Targeted Cash Transfers Spending (BISP)—Indicative Target

26. The floor on **targeted cash transfers spending (BISP)** applies to the cumulative targeted cash transfers spending by the Benazir Income Support Program (BISP).

Floor on General Government Budgetary Health and Education Spending—Indicative Target

27. The floor on the **general government budgetary health and education spending** will apply to the cumulative budgetary spending on health and education by the federal and provincial governments.

Floor on Net Tax Revenues Collected by the Federal Bureau of Revenue (FBR)—Indicative Target

28. **Net tax revenues collected by the FBR** are defined as the sum of revenues collected from: (i) general sales tax (GST) on goods (including GST on services collected in Islamabad Capital Territory); (ii) customs duties, customs registration fees and levies; (iii) excise duties on imported products; (iv) excise duties on domestic products; (v) levies (toll) on oil derivatives; (vi) other proceeds and fees; (vii) sales tax; and (viii) unclassified revenues minus the tax refunds. Net revenue collection is defined, for each test date, as the cumulative sum of net revenues collected since the beginning of the respective fiscal year. The floor on the collection of net revenues by the FBR is measured quarterly based on cumulative end-of-quarter data.

Ceiling on Net Accumulation of Tax Refund Arrears—Indicative Target

29. The ceiling on the **net accumulation of tax refund arrears** applies to the cumulative flow of tax refund arrears. The stock of tax refund arrears is defined as the amount of tax refund claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond/promissory note or an official decision to reject the claim) within a specified time period after the tax refund claim has been submitted to the FBR. The stock of tax refund arrears as of end-December 2020 was PRs 499 billion.

Ceiling on Power Sector Payment Arrears—Indicative Target

30. **Power sector payment arrears** are defined as power sector payables in arrears that arise from: (i) non-recoveries from supply to Azad Jammu and Kashmir (AJ&K), industrial support package, other federal and provincial governments including FATA, private consumers, and Baluchistan Tube Wells; (ii) accrued markup from the servicing of PHPL; (iii) line losses and non-collections that are not recognized by NEPRA; (iv) GST non-refunds,; (iv) late payment surcharges; (v) delays in subsidy payments; and (vi) delays in tariff determinations.

31. **Monitoring mechanism** to track the stock and flow of payables. The stock of payment arrears includes the payables of PRs 2,150 billion (of which PRs 1,007 billion held at PHPL) as of end-December 2020. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) and its components are given in Text Table 4 below.

Text Table 4. Flow of Power Sector Payment Arrears
(Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

	FY2020/21		FY2021/22	
	end-Mar	end-Jun	end-Sep	end-Dec
	Target	Target	Target	Target
Total flow	**319**	**354**	**-166**	**-154**
Operational part	**16**	**93**	**76**	**130**
DISCOs' losses inefficiency	22	50	27	45
DISCOs' under-recoveries	-5	43	50	85

Source: Pakistani authorities

B. Program Reporting Requirements

32. **To effectively monitor the program performance, the authorities will provide all the needed data** to the IMF in line with Article VIII, Section 5 of the IMF Articles of Agreement as deemed necessary. Performance under the program is monitored from data supplied to the IMF by the SBP, Ministry of Finance, FBR, Pakistan Bureau of Statistics, Ministry of Water and Power, and other agencies as outlined in Table 3 below. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Pakistan: Projected Disbursements

(Millions of U.S. dollars)

	FY 2020/21			FY 2021/22	
	Sep-Dec. 2020	Jan-Mar 2021	Apr-Jun 2021	Jul-Sep 2021	Sep-Dec 2021
	Est.	Proj.			
Multilateral and bilateral disbursements	1,316	2,929	3,684	1,637	1,254
of which: in cash 1/	1,172	2,790	3,521	1,494	1,033
of which: Saudi oil facility and IDB commodity loans	500	150	300	150	200
of which: project support	393	374	443	378	577
International bond issuance	10	10	1,510	10	2,010
Commercial borrowing	750	1,050	1,200	250	250
Other	0	0	0	0	0
Gross inflows	2,076	3,989	6,394	1,897	3,514
of which: in cash	1,932	3,850	6,231	1,754	3,293

1/ Assumes that 65 percent of project loans and 50 percent of project grants were received in cash.

Table 2. Pakistan: Government Sector (Budgetary Support)

(End-of-period stocks, millions of Pakistani Rupees)

ITEM	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20	31-Dec-20
A. Central Government	**12,586,952**	**12,933,003**	**13,118,407**	**13,939,638**	**14,972,589**	**15,301,056**	**15,650,396**
1. Scheduled Banks	**5,753,677**	**7,461,389**	**6,697,593**	**7,259,336**	**8,222,465**	**8,767,130**	**9,254,690**
a) Government Securities	2,568,289	3,319,899	3,552,790	3,581,969	4,441,763	5,498,121	6,115,941
b) Treasury Bills	4,413,731	5,316,079	4,348,498	4,934,845	5,152,667	4,643,369	4,528,674
c) Government Deposits	-1,228,344	-1,174,589	-1,203,695	-1,257,478	-1,371,965	-1,374,360	-1,389,926
2. State Bank	**6,833,275**	**5,471,615**	**6,420,814**	**6,680,302**	**6,750,124**	**6,533,926**	**6,395,706**
a) Government Securities	7,189,745	7,189,745	7,189,745	7,189,740	7,189,740	6,904,745	6,904,745
b) Accrued Profit on MRTBs	2,909	259,192	109,331	285,953	83,618	167,834	68,278
c) Treasury Bills	570,158	570,148	285,170	285,191	2,816	3,270	3,270
of which: MTBs created for replenishment of cash balances	569,000	569,000	284,000	284,000	0	0	0
d) Treasury Currency	9,569	9,569	9,789	9,789	9,789	9,788	9,789
f) Government Deposits (Excl. Zakat and Privatization Fund)	-967,305	-2,584,405	-1,202,341	-1,119,397	-565,997	-577,503	-616,694
B. Provincial Governments	**-990,484**	**-1,180,548**	**-1,335,318**	**-1,376,713**	**-1,224,280**	**-1,267,549**	**-1,464,836**
1. Scheduled Banks	**-849,079**	**-813,920**	**-865,864**	**-907,882**	**-1,012,953**	**-990,486**	**-1,022,026**
a) Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024	1,024	1,024	1,024
b) Government Deposits	-850,103	-814,944	-866,888	-908,906	-1,013,977	-991,510	-1,023,050
2. State Bank	**-141,405**	**-366,628**	**-469,454**	**-468,831**	**-211,327**	**-277,063**	**-442,810**
a) Debtor Balances (Excl. Zakat Fund)	0	0	0	0	0	0	0
b) Government Deposits (Excl.Zakat Fund)	-141,405	-366,628	-469,454	-468,831	-211,327	-277,063	-442,810
C. Net Govt. Budgetary Borrowings From Banking System	**11,596,468**	**11,752,456**	**11,783,089**	**12,562,925**	**13,748,309**	**14,033,507**	**14,185,560**
Through SBP	6,691,870	5,104,987	5,951,360	6,211,471	6,538,797	6,256,863	5,952,896
Through Scheduled Banks	4,904,598	6,647,469	5,831,730	6,351,454	7,209,512	7,776,644	8,232,664
Memorandum Items							
1. Accrued Profit on SBP & BSC holding of MRTBs & MTBs	2,912	259,201	109,341	285,997	83,618	167,834	68,278
2. Scheduled banks ' deposits of Privitization Commission	-2,979	-2,516	-3,272	-2,289	-2,410	-2,438	-3,448
3. Outstanding amount of MTBs (Primary market; discounted value)	4,363,090	5,243,197	4,259,110	4,803,332	4,956,617	4,497,227	4,429,945
Net Govt. Borrowings (Cash basis) From Banking System	**11,545,893**	**11,422,889**	**11,587,632**	**12,147,705**	**13,471,051**	**13,721,969**	**14,022,001**
(i) From SBP	**6,688,958**	**4,845,786**	**5,842,019**	**5,925,475**	**6,455,179**	**6,089,030**	**5,884,619**
(ii) From Scheduled Banks	**4,856,935**	**6,577,103**	**5,745,614**	**6,222,230**	**7,015,872**	**7,632,939**	**8,137,383**

Table 3. Pakistan: Monitoring and Reporting Requirements

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within five working day
	Foreign exchange market	SBP foreign exchange operations, and intervention (volume), distinguishing within spot transactions the outright purchase/sale and purchase/sale related to forward contract	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	SBP operations against the domestic currency in swap/forwards (including all legs of transactions): for each day, the initial outstanding FX swap/forward position, summary of transactions during the day, the end-of-day position	Daily	Within one day
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Monthly	Third working day of the following month
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates, disaggregated between new operations and outstanding stock	Monthly	Within 25 working days of the end of each month.
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month
	Banking indicators	Core Financial Stability Indicators (FSIs), including but not limited to capital adequacy; asset composition and quality; profitability; liquidity; open FX positions – in aggregate and bank-by-bank (without names)	Quarterly	Within 45 days of the following quarter
	Banking indicators	Liquidity data and deferred/restructured loans	Weekly	Within 5 days of the end of each week
	Banking data	Banks' net open foreign exchange positions split between total foreign assets and foreign exchange liabilities: in aggregate for the system and bank by bank (without names)	Monthly	Within five days of the end of each month
	Banking data	Holdings of government securities – in aggregate and bank-by-bank (without names)	Monthly	Within 7 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	SBP refinance schemes	Outstanding position under SBP refinance schemes (by program)	Monthly	Within 25 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter
	Domestic debt	Domestic debt composition	Monthly	Within 25 days of the end of each month
	Domestic debt	T-Bill and PIB Bid sheet from domestic debt auctions	Daily	Within 1 day of each T-Bill and PIB auction
	Federal government	State budget	Monthly	Within 30 days of the end of each month
	Federal government	Government guarantees - issued and executed (reported separately). Name of entity receiving the guarantee and the value of the guarantee.	Quarterly	Within 15 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Quarterly	Within 45 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Annual	Within 180 days of the end of each year
	Federal government	Fiscal financing sources: Detailed quarterly financing plan for the coming 12 months including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.	Monthly	One month in advance
	General government	Total general government budgetary spending on health and education broken down into spending by the federal and provincial governments	Monthly	Within 15 days of the end of each month
	Federal government	Stock of government borrowing from the SBP	Quarterly	Within the first five days of each quarter.
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
Federal Board of Revenue (FBR)	Revenue collection Tax credits	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions.	Monthly	Within seven days of the end of each month
	Tax arrears	By category	Monthly	Within seven days of each month
		By type of tax	Monthly	Within seven days of the end of each month
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	Monthly	Within seven days of the end of each month

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within seven days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Quarterly	Within seven days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large taxpayer units (LTUs)	Quarterly	Within seven days of the end of each month
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, Rs. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance DISCOs Consolidated Income Statement Net Electrical Output & Power Purchase Price by Source, GWh Generation, Demand and Shortfall for FY 2010 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type	Quarterly	Within 30 days
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection form current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter

Table 3. Pakistan: Monitoring and Reporting Requirements (concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Domestic expenditure arrears	Energy arrears (stock) Flow of arrears by source	Quarterly	Within 45 days of the end of each month for government arrears
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification
Ministry of Petroleum and Natural Resources		Gas supply Gas prices Gas sales by consumers	Quarterly on monthly frequency	Within 30 days from the end of the quarter
		UFG losses	Quarterly	Within 30 days from the end of the quarter
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by conditional and unconditional transfers.	Quarterly	Within 30 days from the end of the quarter
Ministry of Finance	Financial statements	Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	Quarterly	Within 30 days from the end of the quarter

PAKISTAN

March 22, 2021

SECOND, THIRD, FOURTH, AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR REPHASING OF ACCESS—SUPPLEMENTARY INFORMATION

Approved By
Thanos Arvanitis and
Kristina Kostial

Prepared by the Middle East and Central Asia Department

This supplement provides an update on the status of the prior actions (PAs) based on developments since the issuance of the report on March 9, 2021. The update does not alter the thrust of the staff appraisal.

1. **The authorities have met three of the five PAs for the reviews**:

- ***Central bank legislation***. Following Cabinet approval on March 9, 2021, the government submitted the amendments to the State Bank of Pakistan (SBP) Act to the National Assembly in line with IMF staff recommendations.
- ***Circular debt.*** The Cabinet approved an updated Circular Debt Management Plan (CDMP) in line with international partners' advice on March 16, 2021.
- ***Electricity tariff adjustment***. The authorities implemented the first stage of the FY 2021 annual rebasing of 1.95 PRs/kWh in January 2021 and completed the FY 2020 Q2 and Q3 quarterly tariff adjustments of 1.63 PRs/kWh in December 2020. The Cabinet also approved first steps to reform energy subsidies to reduce the regressive nature of the tariff structure on March 16, 2021.

2. **The remaining two PAs, relating to the reforms of the corporate income tax (CIT) and the power regulator (NEPRA Act amendments), were not met, but the authorities enacted the reforms via alternative procedures**. Parliamentary adoption of the two laws, as stipulated in the PA, was prevented by extraordinary circumstances that led to the unforeseen closure of the National Assembly for two weeks as a result of a renewed surge in Covid-19 cases. However, the authorities

adopted both laws by presidential ordinance on March 22, 2021. The Pakistani Constitution provides for the enactment of laws through presidential ordinance, which is valid for six months, in circumstances when the National Assembly is not in session. The authorities argued, and staff agreed, that postponing the Executive Board meeting to when the Board reconvenes after the Spring Meetings would be detrimental to their efforts to access donor and market financing at a time of heavy needs. They stressed their firm commitment to adopting the two laws by the National Assembly as soon as it reopens to make implementation permanent. Staff is of the view that although the two PAs were not met as stipulated, the program objectives would still be achieved through presidential ordinance until the National Assembly considers and adopts the two laws in the period ahead.

3. Against this backdrop, staff continues to recommend the completion of the reviews based on the satisfactory program performance against extraordinary circumstances related to the pandemic and the authorities' commitments set forth in the March 2021 LOI and the attached MEFP and TMU.

Statement by Hossein M. Hosseini, Executive Director for Pakistan and Saeed Ahmed, Senior Advisor to Executive Director
March 24, 2021

Our Pakistani authorities wish to thank the mission team, led by Mr. Ramirez Rigo, for engaging consultations and their constructive and candid advice. They also express their gratitude to Management and the Executive Board for their continued support during these challenging times. The authorities are also thankful to the country's bilateral and multilateral development partners for their support in facilitating the implementation of broad-based structural reforms, combating the pandemic, and mitigating its social and economic fallout.

Pre-Covid Program Performance

Before the outbreak of Covid-19 and the ensuing lockdown, Pakistan's reform program supported by the Extended Fund Facility approved in July 2019 was progressing very well. The first review was successfully completed in December 2019 and the authorities continued to make significant progress in implementing sound economic policies and advancing deep-rooted structural reforms. All structural benchmarks were completed on time and all end-December 2019 targets were met, some with significant margins. A staff level agreement on the second review had been reached in February 2020, but the outbreak of Covid-19 drastically changed the economic landscape. As a result, the program targets had to be recalibrated due to heightened uncertainty and the shift in near term priorities towards combating the pandemic, preventing the ensuing temporary liquidity shock from creating more permanent solvency problems, and protecting the most vulnerable segments of the society. To help meet the large fiscal and external gaps arising from the crisis, Pakistan purchased US$ 1.386 billion under the Rapid Finance Instrument (RFI) in April 2020.

Policy Response to Covid-19 Crisis

Like the rest of the world, Pakistan has been hit severely by the Covid-19 pandemic. As of March 18, the country has recorded 615,810 confirmed cases and 13,717 deaths, despite the broad-based containment and mitigation measures that have been in place since the start of the pandemic. A third, more virulent wave of the pandemic has recently manifested, necessitating a resumption of partial lockdowns in several parts of the country. The daily cases have alarmingly jumped to 3,495, the most daily infections since early December, with positivity climbing to 7.8 percent. Pakistan has begun a mass vaccination program to inoculate its population against Covid-19. It has applied to the UN's COVAX Facility which will cover priority groups comprising around 20 percent of the population and approved an array of vaccines for emergency use. The authorities are also in discussions with donors (notably the World Bank and Asian Development Bank) for the procurement of extra vaccines which will be funded with a US$ 250 million budget allocation.

To address the economic and social fallout of the pandemic, the authorities, in consultation with Fund staff, delivered a well-calibrated, time-bound, and swift policy response without compromising financial stability and earlier progress on key reforms. The significant progress towards advancing reforms and a notable reduction in macroeconomic imbalances under the program created much needed policy space for the authorities. A comprehensive fiscal package amounting to around 1 percent of GDP was rolled out with IMF support under the RFI. The package provided significant emergency cash support to the most vulnerable under the Ehsaas Emergency Cash program (¶11 MEFP). By end September 2020, the authorities had reached 14.8 million families and disbursed PRs 179 billion, meeting the end-June indicative target for cumulative cash transfers under the program. Despite the 1.4 percent of GDP drop in government revenues, the authorities adhered to the indicative ceiling on government budgetary borrowing from SBP and the continuous performance criteria of zero new flow of SBP credit to the government.

During the Covid-19 crisis, the flexible market-determined exchange rate system functioned exceptionally well as a front-line shock absorber and supported sustained external adjustment and reserve accumulation. Two-sided rupee flexibility acted as an essential buffer to protect economic activity during heightened external volatility and provided monetary space to respond to the crisis.

The SBP also acted swiftly to ease credit and liquidity conditions to support businesses and households without compromising financial stability. The policy rate was cut by a cumulative 625 bps during March-June 2020 and was supported by regulatory measures, notably to facilitate principal repayment extension and rescheduling of loans to sound borrowers, and three well-targeted and time bound temporary refinancing facilities. The facilities included: (i) Rozgar (Employment) Scheme to prevent layoffs by financing wages and salaries of private businesses for six months from April to September 2020; (ii) a time bound Refinance Facility for Combating Covid-19 aimed at enhancing the capacity of the health sector; and (iii) a Temporary Economic Relief Facility to support Balancing, Modernization and Replacement (BMR) and new investments. Together, these measures played a crucial role in supporting economic activity while maintaining financial stability. Several countries around the world, both advanced and emerging, deployed similar refinancing facilities in the wake of the Covid-19 shock. Without these facilities, the SBP's ability to counter the shock would have been severely compromised, with grave economic consequences. In addition, the SBP continued to make strides on several important aspects of its broader structural reform agenda, including digitization, financial inclusion and reducing gender disparities in financial access.

Importantly, our Pakistani authorities have remained closely engaged with Fund staff throughout the crisis. The Letter of Intent signed in April 2020 in connection with the RFI request expressed the authorities' desire to resume the EFF program as soon as conditions permitted. Despite the significant Covid-19 economic fallout, the authorities were able to meet all ITs, several by large margins, including those on net international reserves, net domestic assets, and government borrowing. The continuous engagement and dialogue with staff ensured sustained implementation of policies—notably, structural components—and eventually culminated in the staff level agreement on four combined reviews. The completion of program reviews will help ensure that the balance of payments and fiscal financing needs are fully met, support the economic recovery, and strengthen macroeconomic stability, while protecting the vulnerable segments of society. As always, Fund support will also be an important catalyst in mobilizing donor support.

Recent Economic Developments and Outlook

Notwithstanding the severity of the Covid-19 crisis, the economy has shown great resilience. Following a contraction in economic activity in FY 2020, largely reflecting the pandemic's impact on the manufacturing and services sectors, signs of recovery started to emerge last summer. The rebound in exports, manufacturing, and construction were facilitated by the lifting of lockdowns and reopening of the economy. With a still slow recovery in the services sector, and high uncertainty around the full impact of Covid-19, the authorities project GDP growth to recover to 1.5-2.5 percent in FY2021, well below Pakistan's long-term average of around 5 percent. Inflation continues to face pressures from higher food prices, which is a matter of considerable concern at present, but core inflation remains soft. With a still negative output gap and well-anchored inflation expectations, inflationary pressures are expected to remain contained. Recent utility tariff adjustments may cause a transient uptick in inflation. Average inflation for FY2021 is expected to decline to close to the upper range of the previously announced forecast range of 7-9 percent. On the external front, the authorities expect a current account deficit of 0.5-1.5 percent of GDP in FY2021 as imports pick up on the back of recovery in domestic demand while remittances maintain their recent record run and exports continue to recover. Gross international reserves should gradually strengthen to three months of imports coverage amid continued high official inflows. With the Covid-19 second wave still unfolding around the world and a third wave beginning in Pakistan, however, the outlook is subject to a high level of uncertainty and downside risks.

Monetary and Exchange Rate Policies

The authorities view the smooth transition toward a flexible market-determined exchange rate regime as one of the key reforms successfully implemented under the program The new regime has been subject to an unprecedented real time stress-test as mounting uncertainty due to the pandemic triggered flight to safety, causing portfolio outflows (0.9 percent of GDP) during the second half of FY2020. This together with concerns about the country's external account led to an 8.2 percent depreciation of the rupee between end-February and end-June 2020. However, this proved to be short lived as the current account balance remained strong, recording a surplus of US$ 0.9 billion during July-January FY2021, compared to a deficit of US$ 2.5 billion during the same period last year. This allowed the SBP to purchase foreign exchange to build up reserves and reduce its short swap/forward position. Exchange rate flexibility was reflected in a rupee appreciation of 6.3 percent during July 2020-February 2021.

With a flexible market-determined exchange rate, price stability was the primary objective of monetary policy. The SBP had tightened the policy stance before the outbreak of Covid-19, which not only helped smooth the transition to a flexible exchange rate regime, but also contributed to price stability by dampening aggregate demand pressures. This, together with the collapse of international oil prices in early 2020 significantly improved the inflation outlook. In response to the benign inflation outlook and a sudden stop in economic activity, the SBP reduced the policy rate by 625 bps during a short period and it is now slightly negative in real terms on a forward-looking basis. This accommodative monetary policy stance is appropriate in light of the negative output gap, well-anchored near term inflation expectations, relatively subdued core inflation, and the comfortable current account position. Nevertheless, the SBP is committed to taking monetary policy decisions in line with its assessment of inflation developments, financial stability and growth. The government's strong commitment to no new central bank funding of the budget and retirement of outstanding central bank debt, as per the Liability Management Operations at the start of the program, have significantly improved the policy environment.

Efforts to further strengthen the SBP's autonomy and set price stability as a primary goal of monetary policy are at an advanced stage. Amendments to the SBP Act have been finalized in close consultation with Fund staff and in line with recommendations of the 2019 Safeguards Assessment, and were submitted to Parliament in March 2021.

Fiscal Policy and Debt Sustainability

Despite significant challenges due to the pandemic, fiscal policy continued to focus on revenue mobilization and expenditure rationalization to create much-needed space for social and development spending, and to ensure debt sustainability. Benefiting from strong fiscal performance under the program before the outbreak of Covid-19, the authorities were able to achieve significant fiscal consolidation (reducing the primary deficit by 1.8 percent of GDP) in FY2020 owing to strong revenue collections, and built on it further by achieving a primary balance surplus of 0.7 percent of GDP during July-December FY2021. The authorities are aiming for a cumulative fiscal consolidation of 3.3 percent of GDP during the program period, which would help improve the country's debt sustainability. This improvement is envisaged to primarily come from the revenue side as tax revenues are expected to increase by 3.3 percent of GDP by FY2023.

The pandemic has nevertheless delayed the implementation of some policies and affected the pace of structural reforms. Given signs of recovery, the authorities are keen to accelerate the pace of reforms and have adopted a comprehensive program to substantially modernize the corporate income tax regime as a first step of their multi-year tax reform agenda (¶7 MEFP). As the recovery becomes further entrenched, the authorities are also committed to introducing GST and PIT reforms in the upcoming FY2022 budget, with an estimated yield of 1.1 percent of GDP in the first year (¶8 MEFP).

On the expenditure side, the authorities are unwinding the Covid crisis related economic stimulus spending measures (1.2 percent of GDP) and freezing non-priority spending, while preserving space for necessary health and social spending. Key expenditure rationalization measures include a nominal freeze of wages and pensions, decline in real military spending, and streamlining of subsidies. At the same time, the authorities have budgeted for increased social spending under the BISP program, and have nearly doubled health sector spending relative to the FY2020 budget allocation to address health sector needs.

Thus, fiscal policy has been recalibrated to strike an appropriate balance between supporting the economy and ensuring debt sustainability. The authorities have made notable strides in managing Pakistan's public debt. Despite the Covid-19 shock, public debt increased by only 2 percentage points of GDP in FY2020. With narrower twin deficits, public debt is projected to enter a downward path consistent with the medium-term objectives under the EFF. The authorities have taken decisive measures to modernize the debt management framework and to ensure debt sustainability. External debt servicing has been reduced by securing debt relief under the DSSI. The maturity profile of domestic debt is improved by liability management operations and fresh loans of longer maturity. The authorities are also in the process of amending the Fiscal Responsibility and Debt Limitation Act of 2005, in line with recommendations of IMF and World Bank staff.

Energy Sector Policies

Relief to power sector consumers in the wake of the Covid-19 shock increased circular debt, and the shift in policy focus towards mitigating the impact on household and businesses temporarily delayed the implementation of some policies in the electricity sector. Recently, the authorities have stepped up their efforts to implement the critical policy measures. The amendments to the National Electric Power Regulatory Authority (NEPRA) Act, have empowered NEPRA to determine and notify quarterly tariffs, and have reinstated the power of the government to levy tariff surcharges in addition to the system's revenue requirements under the Act (¶21 MEFP). In August 2020, the government signed a Memorandum of Understanding with a group of 45 private Independent Power Producers (IPPs) with expected cost savings of about 1.8 percent of GDP over the next two decades of remaining life of these IPPs. The authorities have also initiated the process of strengthening governance structure of electricity distribution companies (DISCOs), updating power tariffs, and improving the targeting of the subsidies. Planned amendments to the Oil and Gas Regulatory Authority (OGRA) Act will improve efficiency of the gas sector.

State-Owned Enterprises (SOEs)

While the planned privatization of SOEs could not take place due to heightened uncertainty, the authorities continued to improve SOE transparency and monitoring. The process of strengthening the legal and regulatory frameworks of SOEs is at an advanced stage. Benefitting from Fund TA, the authorities submitted a new SOE law to the Parliament in March 2021, aiming to: (i) define a rationale for state ownership; (ii) ensure commercially sound SOE operations; and (iii) regulate oversight and ownership arrangements. Special audits of key SOEs—Pakistan Railways, Pakistan Steel Mills, and Pakistan International Airlines—were finalized in 2020 and the audit reports were published. With the help of the World Bank, the authorities have completed a triage of SOEs, which would help expedite the process of privatization once the crisis abates.

AML/CFT Developments

The authorities have demonstrated a high level of commitment to working closely with the FATF and the Asia Pacific Group on Money Laundering (APG) to strengthen the AML/CFT regime. With the assistance of several capacity development providers, including the Fund, the authorities have made significant progress towards the completion of the Action Plan. Specifically, the authorities have made amendments in 14 laws to meet the technical compliance requirements of the FATF standards (¶18 FEFP). Moreover, a comprehensive internal roadmap is being prepared for the implementation of the actions recommended in the Mutual Evaluation Report. In its February 2021 meeting, the FATF acknowledged the significant progress made in addressing deficiencies in 24 of the 27 action plan items, and urged the authorities to complete the remaining items by June 2021, thus allowing Pakistan to exit the FATF grey list.

Social Protection and Poverty Reduction

Reducing poverty and boosting social protection remains a key priority for our authorities as Pakistan has fallen behind regional peers in the implementation of the Sustainable Development Goals (SDGs), especially in the areas of health, education, and gender equality. The authorities have already adopted significant measures to correct these shortcomings. The authorities increased the FY2021 budget allocation for BISP spending by almost 80 percent over its FY2020 execution level (excluding one-off Covid-related spending). This follows the January 2020 increase in BISP beneficiaries' cash stipends by 20 percent. Furthermore, they increased the cash transfers for primary education (Waseela-e-Taleem) to boost girls' enrollment and developed a nutrition program for mother and children to reduce stunting. The authorities will continue their efforts to expand social safety nets and reduce poverty, including by expanding and timely updating the regular BISP beneficiary base. A revamped National Socio-Economic Registry database will further support a targeted scaling-up of social spending, allowing to better identify vulnerable households and design new programs.

Concluding Remarks

Based on the authorities' strong track record in program implementation and their resolute commitment to program target and policies for the period ahead, they request the completion of the combined second, third, fourth, and fifth reviews under the EFF. They also request the rephasing of access and modification of the review schedule due to delays in completing reviews as well as to better align them with reform implementation.

Finally, we would like to reiterate the authorities´ strong ownership of reforms and their commitment to the successful completion of the EFF program. They believe the program provides a strong policy anchor for safeguarding macroeconomic stability, supporting a smooth economic recovery, and facilitating inclusive growth over the medium term, while protecting the poor.

The Pakistani authorities look forward to continued support from the Executive Board, Management, and Staff.