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PAKISTAN

May 2024

SECOND AND FINAL REVIEW UNDER THE STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Second Review Under the Stand-by Arrangement, 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 April 29, 2024 following discussions that ended on March 19, 2024, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on April 8, 2024.
- A **Statement by the Executive Director** for Pakistan.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes Second and Final Review of the Stand-By Arrangement for Pakistan

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the second review under the Stand-By Arrangement (SBA) for Pakistan, allowing for an immediate disbursement of SDR 828 million (around $1.1 billion), bringing total disbursements under the arrangement to SDR 2.250 billion (about $3 billion). The completion of the second and final review reflects the authorities' stronger policy efforts under the SBA, which have supported the stabilization of the economy and the return of modest growth.
- To move Pakistan from stabilization to a strong and sustainable recovery the authorities need to continue their policy and reform efforts, including strict adherence to fiscal targets while protecting the vulnerable; a market-determined exchange rate to absorb external shocks; and broadening of structural reforms to support stronger and more inclusive growth.

Washington, DC – **April 29, 2024:** Today, the Executive Board of the International Monetary Fund (IMF) completed the second and final review of Pakistan's economic reform program supported by the IMF's Stand-By Arrangement (SBA). The Board's decision allows for an immediate disbursement of SDR 828 million (around $1.1 billion), bringing total disbursements under the arrangement to SDR 2.250 billion (about $3 billion).

Pakistan's 9-month SBA, approved by the Executive Board on July 12, 2023, successfully provided a policy anchor to address domestic and external imbalances as well as a framework for financial support from multilateral and bilateral partners. The program focused on (i) necessary fiscal adjustment and maintenance of debt sustainability via FY24 budget implementation; (ii) protection of critical social spending; (iii) buffering external shocks and eliminating FX shortages by returning to proper FX market functioning; (iv) making progress on disinflation by maintaining a tight monetary policy; and (v) furthering progress on structural reforms, focused on energy sector viability, SOE governance, and climate resilience.

Macroeconomic conditions have improved over the course of the program. Growth of 2 percent is expected in FY24 given continued recovery in the second half of the fiscal year. The fiscal position continues to strengthen with a primary surplus of 1.8 percent of GDP achieved in the first half of fiscal year 2024, well ahead of projections and putting Pakistan on track to achieve its end-FY24 target primary surplus of 0.4 percent of GDP. Inflation, while still elevated, continues to decline, and, with appropriately tight, data-driven monetary policy maintained, is expected to reach around 20 percent by end-June. Assuming ongoing sound policies and reform efforts, inflation should return to the SBP's target with growth continuing to strengthen over the medium term. Gross reserves have increased to around $8 billion, up from $4.5 billion at the start of the program, and are projected to continue being rebuilt over the medium term.

Following the Executive Board discussion, Antoinette Sayeh, Deputy Managing Director and Chair, made the following statement:

“Pakistan’s determined policy efforts under the 2023 Stand-By Arrangement (SBA) have brought progress in restoring economic stability. Moderate growth has returned; external pressures have eased; and while still elevated, inflation has begun to decline. Given the significant challenges ahead, Pakistan should capitalize on this hard-won stability, persevering—beyond the current arrangement—with sound macroeconomic policies and structural reforms to create stronger, inclusive, and sustainable growth. Continued external support will also be critical.

“The authorities’ revenue performance, as well as federal spending restraint, helped achieve a sizeable primary surplus in the first half of FY2024, in line with program targets. Continued revenue mobilization efforts and spending discipline at both federal and provincial levels remain critical to ensure that the primary surplus target is achieved. Beyond FY2024, continued fiscal sustainability and additional space for social and development spending depend on further mobilizing revenues, especially from non-filers and undertaxed sectors, and on improving public financial management.

“The authorities have stabilized the energy sector’s circular debt over the course of the SBA through timely tariff adjustments and enhanced collection efforts. While these actions need to continue, it is also critical that the authorities undertake cost-side reforms to address the sector’s underlying issues and viability.

“The State Bank of Pakistan’s tight monetary policy stance remains appropriate until inflation returns to more moderate levels. Further improvements in the functioning of the foreign exchange (FX) market, together with a market-determined exchange rate, will help buffer external shocks and attract financing, thereby supporting competitiveness and growth. The significant rebuilding of FX reserves under the SBA needs to continue. Moreover, stronger action to address undercapitalized financial institutions and, more broadly, vigilance over the financial sector are needed to ensure financial stability.

“Achieving strong, long-term inclusive growth and creating jobs require accelerating structural reforms and continued protection of the most vulnerable through an adequately-financed Benazir Income Support Program. Priorities include advancing the reform of state-owned enterprises (SOEs), including to ensure that all SOEs fall under the new policy framework; strengthening governance and anti-corruption institutions; and continuing to build climate resilience.

Table 1. Pakistan: Selected Economic Indicators, FY2023–FY2025 1/

Population: 231.6 million (2022/23)
Quota: SDR 2,031 million
Main exports: Textiles (US$16.5 billion, 2022/23)
Key export markets: European Union, United States, UAE

Per capita GDP: US$1,446.3 (FY2023)
Poverty rate: 21.9 percent
(national line; FY2019)

	FY2023	FY2024	FY2025
		Proj.	Proj.
Output and prices (% change)			
Real GDP at factor cost	-0.2	2.0	3.5
Employment (%)			
Unemployment rate	8.5	8.0	7.5
Prices (%)			
Consumer prices, period average	29.2	24.8	12.7
Consumer prices, end of period	29.4	19.6	9.5
General government finances (% GDP)			
Revenue and grants	11.4	12.5	12.4
Expenditure	19.2	20.0	19.8
Budget balance, including grants	-7.8	-7.4	-7.4
Budget balance, excluding grants	-7.8	-7.5	-7.4
Primary balance, excluding grants	-1.0	0.4	0.4
Underlying primary balance (excluding grants) 2/	-0.8	0.4	0.4
Total general government debt excl. IMF obligations	74.7	69.6	68.1
External general government debt	28.5	26.2	25.0
Domestic general government debt	46.2	43.3	43.2
General government debt incl. IMF obligations	77.1	72.1	70.0
General government and government guaranteed debt incl.	81.3	76.0	73.6
Monetary and credit (% change, unless otherwise indicated)			
Broad money	14.2	13.5	22.0
Private credit	2.3	3.5	20.0
Six-month treasury bill rate (%) 3/	18.3	…	…
Balance of Payments (% GDP, unless otherwise indicated)			
Current account balance	-0.7	-0.8	-1.2
Foreign direct investment	0.5	0.2	0.3
Gross reserves (millions of U.S. dollars) 4/	4,455	9,029	13,364
Months of next year's imports of goods and services	0.8	1.5	2.1
Total external debt	40.1	36.6	34.7
Exchange rate (% change)			
Real effective exchange rate	-8.0	…	…

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ Excludes one-off transactions, including asset sales.
3/ Period average.
4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

INTERNATIONAL MONETARY FUND

PAKISTAN

April 8, 2024

SECOND AND FINAL REVIEW UNDER THE STAND-BY ARRANGEMENT

EXECUTIVE SUMMARY

Recent developments. The signs of economic stabilization are strengthening, with gradual disinflation underway and external pressures easing further since the first review on the back of improved fiscal balances. However, the outlook remains challenging, with downside risks remaining exceptionally high.

Program performance. The 9-month Stand-by Arrangement (SBA), approved on July 12, 2023, is on track with key program objectives largely achieved (see Annex I). All seven QPCs and all four ITs for end-December were met. All structural benchmarks since the completion of the first review were also met. Support from multilateral and bilateral creditors remains strong and the program is financed.

Policies. The new coalition government that took office on March 11 expressed its commitment to continue to implement policies in line with the SBA to address Pakistan's structural weaknesses and cement the stability established over the past 9 months. In this regard, strict adherence to the FY24 fiscal target and further adjustment beyond FY24, while protecting development needs and the social safety net, are essential to alleviate external and domestic pressures and ensure fiscal sustainability. A flexible exchange rate is necessary to buffer shocks and rebuild reserves, and monetary policy should remain tight to bring inflation to more moderate levels and agile to respond proactively if signs of inflation reemerge. Continued regular energy tariff adjustments, keeping pace with costs, are necessary to end the creation of CD, but broader reforms are needed to fundamentally restore energy sector viability. Further progress is also needed on the state-owned enterprise and broader governance reform agendas, which are critical to spur private sector investment, activity, and jobs.

SBA review. Staff supports completion of the review, which would make available SDR 828 million, bringing total access to SDR 2,250 million, and help anchor essential financing from official partners.

Approved By
Thanos Arvanitis and Kenneth Kang

Policy discussions were held in Islamabad during March 14-19, 2024. The staff team comprised Nathan Porter (head); Tom Best, Jan Möller, Jason Weiss (all MCD); Julieth Pico Mejía (FAD); Gonzalo Huertas (SPR); Jan Nolte (MCM); Jonathan Pampolina (LEG); Esther Perez Ruiz (Resident Representative); Zafar Hayat and Saihan Mohammad (all Islamabad office). Laura Torrent (MCD) provided research assistance and Nataliya Bondar (MCD) document management assistance.

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APPENDIX

RECENT DEVELOPMENTS

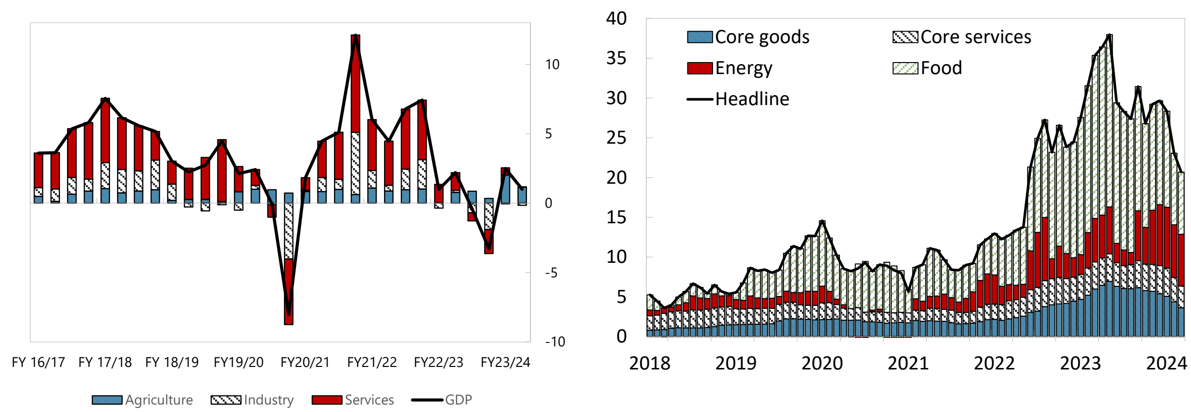
1. **Following the February 8 elections, a new cabinet was sworn in on March 11**. The two leading parties of the previous government (April 2022-August 2023), the PML-N and PPP, together with some small parties formed a new coalition, and Shehbaz Sharif (PML-N) was elected as prime minister. Independents associated with former prime minister Imran Khan's PTI party won more votes than any other group and have formed a sizable opposition in the National Assembly.

2. **Macroeconomic conditions continue to improve:**

- ***Economic activity***. The gradual economic recovery has continued over recent months. Real GDP grew by 1.0 percent yoy in Q2, with agricultural output continuing to rebound strongly (+5.1 percent), offsetting weaker industrial (-0.8 percent) and services (0.0 percent) activity. Q1 GDP growth has also been revised up, to +2.5 percent yoy. The large-scale manufacturing index grew by 1.8 percent yoy in January 2024, and preliminary yield estimates for the Rabi crop suggest a further strengthening of the agricultural recovery. Survey measures of business and consumer confidence have rebounded from September's lows, and the stock market rallied from October-December, and again following the election, attracting foreign portfolio inflows (Figure 2).
- ***Inflation and monetary policy***. Although still high, headline inflation fell to 20.7 percent yoy in March, helped by favorable base effects, lower food inflation (16.8 percent), and gradually easing core inflation (15.4 percent). Noting the still high level of inflation, and considerable risks to its outlook, including from elevated inflation expectations, the Monetary Policy Committee (MPC) kept the policy rate unchanged at 22 percent at its meeting on March 18.

Pakistan: Recent Economic Developments

Quarterly GDP and Contributions, FY17Q1–FY24Q2 (Percentage change, yoy) | **Inflation and Contributions, 2018M1–24M3** (Percent, yoy)

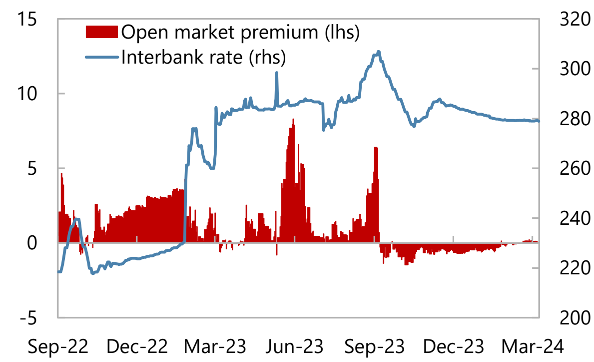


Sources: PBS; IMF staff calculations. | Sources: PBS; IMF staff calculations.

- ***Foreign exchange market***. The SBP has completed the transition of the interbank spot market to electronic trading, with a new centralized trading system (featuring anonymized bids) coexisting alongside the pre-existing bilateral trading venue. The FX market has been functioning more normally following SBP efforts to improve pricing transparency in the open market and strengthen the governance requirements for exchange companies. In particular, the premium between interbank and open market rates has remained negligible, and there is no evidence of pressures in the parallel market.[1] The authorities have eliminated, effective January 31, the remaining multiple currency practice (MCP) related to exchange rates applied to transactions between the SBP and the government,[2] and effective January 30, the remaining exchange restriction resulting from the limitation on advance payments for imports.[3]

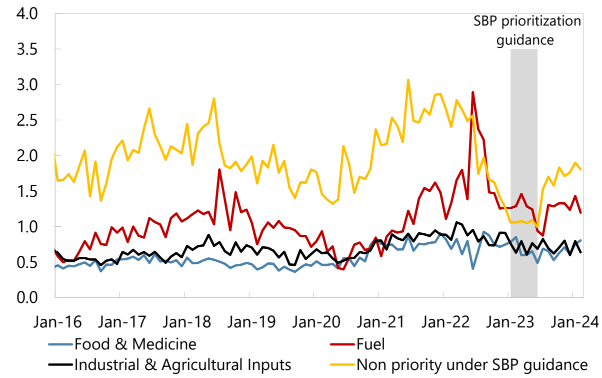
Pakistan: External Sector Developments

Exchange Rate, 2022M9–24M3
(Percent on LHS, PRs/US$ on RHS)



Sources: SBP; IMF staff calculations.

Goods Import Payments through Banks 2016M1–24M2 (US$ billions, CIF basis)



Sources: SBP; IMF staff calculations.

- ***External conditions***. The current account deficit narrowed to around US$1 billion over July-February FY24 (against US$3.8 billion over the same period in FY23), driven by higher exports and lower imports and some recovery in remittances. The authorities implemented a first National Tariff Policy (2019-24) which has reduced the complexity of the tariff schedule and introduced duty-free access for imported inputs. Gross reserves remain around US$8 billion, as the SBP's FX purchases helped offset ongoing debt service payments and the decline in the SBP's swap/forward book. Market sentiment has improved further, with EMBIG spreads currently around 750 bps, down from 1,400 bps in early January. The external sector assessment finds that Pakistan's FY23 external position was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex II). However, as the inflation differential between Pakistan and its peers is still high and the exchange rate has remained broadly stable at around

[1] In relation to commitments for the first review of the SBA (MEFP ¶12.a), the SBP has published a report on pricing and broader developments in informal FX markets.

[2] This MCP arose from the potential deviation of more than 2 percent between the previous day's weighted average customer exchange rates used for the FX transactions between the SBP and the government and the spot exchange rates prevailing on the FX market at the time. Under the new instructions, for transactions with the government, the SBP will apply the weighted average exchange rate of actual interbank transactions of the previous day. The revised methodology meets criteria established by the new MCP policy (¶8 of the guidance note) for the calculation of one-day lagged official exchange rates which do not give rise to an MCP.

[3] This exchange restriction resulted from the limitation on advance payments for imports against letters of credit (LCs) and advance payments beyond the certain amount per invoice (without LCs) for the import of eligible items. See EPD Circular Letter No. 01 of 2024 for details on the removal. To prevent the misuse of advance payments for imports, the SBP has complemented the removal of the exchange restriction with a penalty mechanism applicable if the goods against advance payment are not imported and/or the funds remitted in advance are not repatriated within the prescribed period. This provides incentives for banks to repatriate funds from clients who do not follow-through with imports of goods.

PRs 280 per US$ in recent months, the real effective exchange rate has appreciated somewhat since the beginning of the year.

- ***Banking sector***. Banks' sovereign exposure has continued to increase from 48 percent of assets at end-FY21 to 57.4 percent at end-January 2024, crowding out credit to the private sector. As of end-December 2023, banks' capital adequacy ratio (CAR), at 19.7 percent, remains well above the regulatory minimum of 11.5 percent (including the capital conservation buffer). NPLs remained at 7.6 percent, with provisioning at 92.7 percent. Out of 32 banks, three small banks (two private and one public, holding less than 1.5 percent of total banking sector assets) continue to report CAR below the regulatory minimum while the microfinance bank sector faces persistent vulnerabilities.

- ***Fiscal developments***. Fiscal balances improved on the back of strong budget execution and revenue performance. The general government achieved a primary surplus of 1.8 percent of GDP in FY24H1, exceeding projections by 0.4 percent of GDP, driven by strong PDL, excise, and direct tax revenues, which offset lower-than-expected import-related revenues and SBP profits. Federal current spending matched program forecasts, but federal PSDP was significantly under-executed. Provincial overspending was only PRs 136 billion in FY24H1, as Punjab's total expenditures in FY24Q2 were curtailed to partially offset an earlier overrun.[4] Other provinces' PSDP is anticipated to remain close to SBA projections given the government's constraints and the time required for the new government to develop new schemes.

Pakistan: Fiscal Developments

Revenue Growth in FY24H1 (percent)

	Nominal	Real
Revenue	**45.9**	**13.3**
Federal	**48.2**	**15.1**
FBR	**30.4**	**1.2**
Domestic tax	**41.2**	**9.7**
Direct tax	42.7	10.8
Sales tax	31.3	1.9
FED	56.8	21.7
Import tax	**15.5**	**-10.3**
Direct tax	26.2	-2.0
Sales tax	12.2	-12.9
FED	178.0	115.9
Custom	15.9	-10.0
Other federal	**116.5**	**68.1**
Provincial	**18.9**	**-7.7**

Budget Execution in FY24H1 (PRs billions)

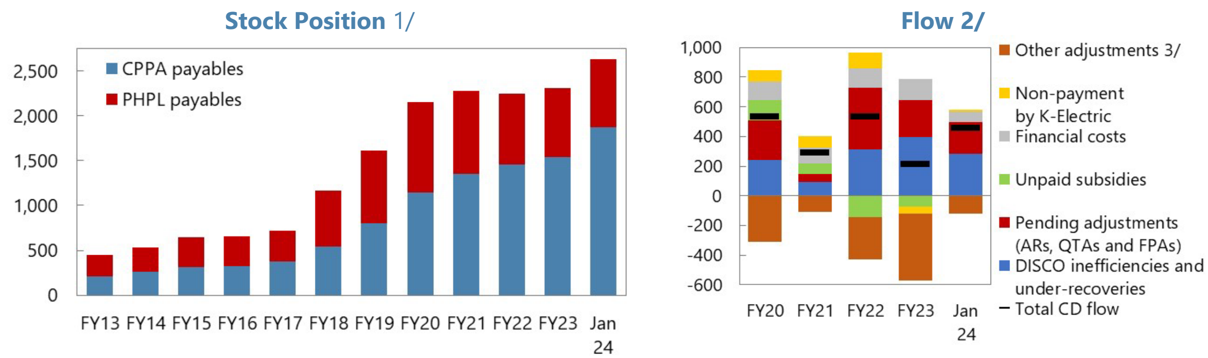
	SBA 1st review	Realization	% annual budget: SBA 1st review	% annual budget: Realization
Revenue	**6,781**	**6,854**	**51**	**51**
FBR revenue	4,432	4,469	47	47
Federal non-FBR revenue	1,916	1,941	69	67
Provincial tax revenue	357	365	41	42
Provincial NTR	76	79	37	38
Primary expenditure	**5,362**	**5,006**	**41**	**39**
Federal Current Expenditure	2,464	2,309	41	38
Provincial Current Expenditure	2,203	2,035	48	44
PSDP and Net Lending	695	661	30	28
Federal PSDP and Net Lending	263	118	29	13
Provincial PSDP	431	543	30	38
Cumulative Primary Surplus 1/	**1,420**	**1,884**		
As % of GDP	1.3	1.8		

1/ Primary surplus includes PRs 36 billion statistical discrepancy

[4] In FY24H1, Punjab settled its decade-long accumulated commodity debt (created by provincial food departments outside its fiscal perimeter). It made non-budgeted payments to the principal of PRs 190 billion, with the last payment in October 2023.

- ***Energy sector***. The circular debt (CD) stock stabilized in late 2023 and early 2024, secured by continued efforts to bring energy tariffs in line with costs and, in the power sector, continued anti-theft measures. Power CD, at PRs 2.6 trillion (2.5 percent of GDP), has remained broadly flat since October 2023 after some slippage earlier in the fiscal year (due largely to lower-than-expected recoveries following the large annual tariff rebasing in July 2023). In the gas sector, the authorities implemented another significant (24 percent on average) gas tariff increase on February 15. The change maintained a progressive rate structure to protect vulnerable residential consumers; significantly increased and equalized prices for fertilizer companies in the system; and modestly increased prices for captive power and some industrial users.

Pakistan: Circular Debt in the Power Sector, FY13–January 2024
(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 (PRs 765 billion as of January 2024), not that of the Central Power Purchasing Agenda (CPPA). Changes in the stock reflect the CD flow and sustained gradual clearance of payment arrears.
2/ Does not reflect stock clearance.
3/ Includes, among others, change in input costs (fuel, exchange rate, and interest rates), generation mix, prior-year recoveries.

PROGRAM PERFORMANCE

3. Overall performance against end-December quantitative performance criteria (QPCs), Indicative Targets (ITs), and Structural Benchmarks (SBs) under the SBA was satisfactory (LOI Tables 1–2, Annex I).

- ***Performance Criteria (PCs)***. The authorities met all seven quantitative PCs for end-December 2023: the floors on (i) net international reserves of the SBP; and (ii) targeted cash transfer spending; and the ceilings on (iii) net domestic assets of the SBP; (iv) the SBP's FX swap/forward book; (v) net government budgetary borrowing from the SBP; (vi) the general government primary budget deficit; and (vii) government guarantees. They also met both continuous PCs on (i) zero new flow of SBP credit to the government; and (ii) zero external public payment arrears.

- ***Indicative targets (ITs)***. The authorities also met all four ITs for end-December 2023: the floors on (i) budgetary health and education spending; and (ii) FBR net tax revenues; and the ceilings on (iii) net accumulation of tax refund arrears; and (iv) power sector payment arrears.

- ***Structural benchmarks (SBs)***. The SBs on (i) the BISP inflation adjustment; (ii) notification of the semiannual gas tariff adjustment determination; and (iii) development of a plan to strengthen the SBP's internal control systems in lending operations were met. The continuous SBs on (i) not granting further tax amnesties; (ii) avoiding new preferential tax treatments or exemptions; and (iii) maintaining an average premium of no more than 1.25 percent between the interbank and open market rate were also met. Work toward amending four dedicated SOE laws (missed SB, end-November 2023) remains in progress to align legislation with requirements; the timing of its passage is contingent on the recently-seated National Assembly.

OUTLOOK AND RISKS

4. The baseline macroeconomic outlook is broadly in line with the first review's projections, (Tables 1–7):

Pakistan: Selected Economic Indicators, FYs 21–29 1/

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
						Proj.			
Real GDP growth (%)	5.8	6.2	-0.2	2.0	3.5	4.5	5.0	5.0	5.0
Consumer prices (period average, % change)	8.9	12.1	29.2	24.8	12.7	7.6	6.5	6.5	6.5
Gen. gov. overall balance (incl. grants, % of GDP)	-6.0	-7.8	-7.8	-7.4	-7.4	-5.8	-5.2	-4.7	-4.6
Gen gov. primary balance (underlying, excl. grants, % of GDP) 2/	-0.5	-2.3	-0.8	0.4	0.4	0.4	0.4	0.4	0.4
Gen. gov. debt (incl. IMF obligations, % of GDP)	73.5	76.2	77.1	72.1	70.0	68.8	67.2	65.3	63.5
Current account balance (% of GDP)	-0.8	-4.7	-0.7	-0.8	-1.2	-1.2	-1.3	-1.4	-1.5
Gross official reserves (billions of US$)	17.3	9.8	4.5	9.0	13.4	16.9	19.1	20.2	22.0
Gross official reserves (months of next year's G&S imports)	2.5	2.0	0.8	1.5	2.1	2.5	2.7	2.7	2.7
Gross official reserves (% of IMF ARA meteric) 3/	72.6	41.3	19.5	40.9	56.4	68.4	73.8	72.5	78.1

Sources: Pakistani authorities; IMF staff estimates and projections.
1/ The fiscal year (FY) runs from July 1 through June 30.
2/ Excludes one-off transactions, incl. asset sales (Tables 4a and b).
3/ With flexible exchange rate and no capital controls.

- ***Inflation*** developments have generally been close to the first review's expectations, but food inflation has slowed somewhat more gradually than anticipated. As a result, year-end inflation in FY24 and FY25 has been revised up modestly**.**

- ***Balance of Payments***. For FY24, the current account deficit (CAD) is projected at US$3.0 billion (0.8 percent of GDP), somewhat lower than projected at the first review. A more muted import rebound is now expected, reflecting favorable commodity price changes and a larger than anticipated drop in food and cotton imports given the domestic agricultural recovery, while exports are slightly higher. Staff expects the CAD to remain around 1½ percent of GDP over the medium term, reflective of a flexible exchange rate consistent with efforts to rebuild reserves.

- ***Public debt***. The end-FY24 debt-to-GDP ratio is projected to decrease markedly, driven by fiscal consolidation and ex-post negative real interest rates. That said, risks to debt sustainability remain acute given very large gross financing needs and the persistent challenges in obtaining external financing, and that real interest rates are projected to become an adverse driver of debt dynamics in the coming years. Provided that program policies are sustained over the medium term and assuming adequate multilateral and bilateral financial support, public debt would remain sustainable and on a downward path.

5. Downside risks remain exceptionally high. While the new government has indicated its intention to continue the SBA's policies, political uncertainty remains significant. A resurgence in social tensions (reflecting the complex political scene and high cost of living) could weigh on policy and reform implementation. Policy slippages, together with lower external financing, could undermine the narrow path to debt sustainability and place pressure on the exchange rate. Delays in post-program external financing disbursements would also place further pressure on banks to finance the government (further exacerbating crowding out of the private sector). Geopolitically-driven higher commodity prices and disruptions to shipping, or tighter global financial conditions, would also adversely affect external stability.

POLICY DISCUSSIONS

A. Fiscal Policy

6. The authorities remain committed to achieving a FY24 general government primary surplus of at least PRs 401 billion (0.4 percent of GDP), which will require steadfast effort. While the FY24H1 fiscal targets were met, rapid provincial spending, small additional federal current expenditure, and a shortfall in anticipated SBP profits (0.1 percent of GDP) require:

- ***Strengthening revenue collection to ensure alignment with the FY24 budget***. The annual FBR revenue targets remain unchanged but there are risks of shortfalls in April and May 2024 due to holidays that will see port closures and weigh on revenue collection. Agreed contingency measures will be adopted should collections fall short. Additional efforts are also needed to meet the SBA's revenue administration goals. Efforts to collect additional revenue from retailers have been delayed (¶8), and challenges continue in the tobacco sector where, despite the mandatory implementation of track-and-trace systems, smuggling and clandestine production continue despite efforts to curtail informal production and imports. The FBR is expanding its track-and-trace system to additional commodities such as sugar, fertilizer, and cement to tighten control over informal markets in these sectors. The FBR has, however, successfully registered 1.1 million new filers, from which 170,999 new returns have been obtained through enforcement measures, with the remainder coming voluntarily.
- ***Containing primary expenditure to PRs 12,912 billion (12.1 percent of GDP) while preserving space for priority social spending***. As foreshadowed in the first review, federal PSDP was reduced by PRs 61 billion to offset the SBP profit shortfall and further projected savings (PRs 40 billion) are expected from rationalization of unnecessary subsidies. Conversely, additional expenditures of PRs 49 billion are expected, mainly due to unanticipated increases in the military wage and pension bills. The authorities reaffirmed their commitment to stay within the overall primary expenditure envelope, avoid any supplementary grants, and use the PRs 250 billion budgeted emergency fund to absorb budget deviations.
- ***Continued fiscal coordination with provincial governments***. The provinces have reiterated their commitment to achieving their FY24 budget surplus targets as specified in their December 2023 MoUs with the federal government. Punjab, in particular, has pledged to further contain current and development expenditures for the remainder of FY24. Sindh will continue settlement

of its accumulated commodity debt over coming years with a total of PRs 63 billion allocated for principal payments in FY24 (PRs 40 billion scheduled for FY24H2). The federal government will maintain an ongoing dialogue with each province to ensure their plans remain consistent with the general government fiscal goal.

7. **The authorities are moving forward with plans to privatize Pakistan International Airlines (PIA) and other assets and have advanced their broader privatization agenda**. The authorities aim to complete, by June 2024, the bidding for PIA's core business, of which the government would likely seek to sell a (controlling) 51 percent stake. To limit state balance sheet implications, the use of divestment proceeds would prioritize the settling of government-guaranteed debt—to be transferred from PIA's balance sheet to a holding company—held by commercial banks (PRs 242 billion, of a total of PRs 629 billion in liabilities to be transferred). Several smaller SOEs are also currently on an active privatization list.

8. **Fiscal structural reforms remain essential to longer-term fiscal sustainability**:

- ***Strengthening revenue mobilization through tax policy reforms and enhanced revenue administration***. Implementation of some reforms started by the caretaker government have been delayed, and renewed efforts are needed to expedite their execution. The anticipated launch of a scheme to register retailers and enforce filing and collection of their tax obligations, initially scheduled for January 1, 2024, has been postponed. The authorities published the Statutory Regulatory Order (SRO), which creates the legal framework for the scheme, on March 30, 2024. The first phase, involving registration, has started, and tax collection will begin by July 1, 2024. Plans to transform the FBR into a semi-autonomous Revenue Authority have been delayed so that an international consulting firm can be engaged for final reforms. Despite these setbacks, there has been progress in other areas, such as the passage of the documentation law mandating data sharing with the FBR and collaboration with NADRA to ensure secure data transmission. The Compliance Risk Management team, which focuses on the identification and audit of high-risk cases, has identified 39 cases, with 31 audited, with projected additional revenues of at least PRs 40 billion. Plans are in place to extend risk management training to local offices across provincial capitals and Islamabad. The framework for the digital invoicing system is established, though implementation challenges led to a second licensing round, expected to conclude by June 30, 2024.
- ***Enhancing Public Financial Management (PFM)***. The authorities agreed to prepare quarterly reports comparing budget projections with actual execution and undertake corrective measures in response to any significant deviations. The authorities have committed not to issue any supplementary grants, and instead seek ex-ante approval from the National Assembly for any non-budgeted expenditures exceeding the parliamentary-approved FY24 budget appropriation. To enhance federal-fiscal reporting and coordination with the provinces over budget execution, standardized monthly data reporting templates have been established and a first set of data shared.
- ***Increasing spending transparency***. Federal ministries and provincial agencies continue to increase utilization of the electronic procurement system (e-PADS), with PRs 1,587 billion of

planned procurement entered into the system. Continued public access to suppliers' beneficial ownership information and a future audit by the Auditor General of Pakistan will further promote spending transparency and prevent corruption and misappropriation.

- ***Improving debt management***. The initial primary issuances of Shariah-compliant instruments via the Pakistan Stock Exchange in December 2023, with the goal of deepening financial markets and widening the investor base for domestic securities, received ample interest from investors. However, since the initial auction, interest savings for the government have been limited as rates across government securities markets converged. Staff and the authorities agreed that a ceiling on government guarantees remains a key tool for limiting debt risks outside of the general government perimeter, and the authorities have advanced work to include SOE debts related to commodity operations in the guarantee perimeter.

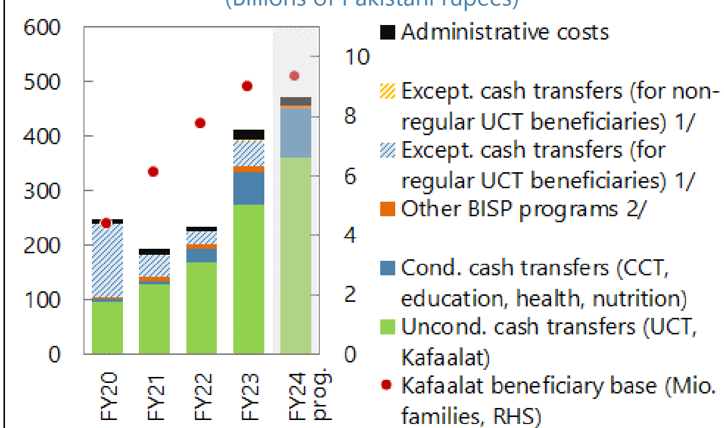
B. Poverty Reduction and Social Protection

9. The authorities are on pace to execute the FY24 BISP envelope of PRs 472 billion (0.4 percent of GDP), a significant increase over FY23 BISP spending. The larger envelope allowed the program to absorb another 300,000 families into the Kafaalat UCT program this fiscal year, bringing total enrollment to 9.3 million. The benefit adjustment carried out in January (end-January 2024 SB) protected the scheme's generosity level, which remains low by international standards. Such adjustments should be institutionalized to at least maintain generosity levels in real terms.

10. Improving health and education outcomes means accelerating enrollment into, and improving the quality of, the BISP conditional cash transfer (CCT) programs. In FY24 0.9 million families and 1.9 million children, respectively, have been enrolled into these health and education CCT programs. Health and education spending outside of BISP, for which the end-December 2023 target was met, should be protected and fully executed as budgeted for the rest of FY24. Pakistan's progressive energy tariff structure continues to protect the most vulnerable, but in the long term this should be replaced by BISP cash transfers.

Pakistan: Composition of BISP Spending, FYs20-24

(Billions of Pakistani rupees)



Sources: BISP; IMF staff calculations.

1/ Provide exceptional support, such as for the floods in FY23 or the Covid-19 pandemic in FYs20–22.

2/ Includes regular BISP programs for undergraduate scholarships, digital skill development, and complementary initiatives.

11. The authorities continue to improve BISP's administrative apparatus. The authorities aim to have 20 million households in the fully operational dynamic registry by September 2024, at which point the next recertification cycle will proceed. BISP has updated its contracts with banks to expand coverage across the country, enhance payment efficiency, and reduce administrative costs.

C. Monetary, Exchange Rate, and Financial Sector Policies

12. Continuing a tight monetary stance is critical to durably entrench disinflation and demonstrate that the monetary policy framework is fit for purpose. Considering the risks to inflation and the criticality of re-anchoring expectations to the SBP's medium-term inflation objective, staff welcomed the MPC's decision to keep policy rates on hold. The authorities agreed that any loosening of the policy stance should be supported by further evidence that inflation remains on a declining trend, pass-through remains contained, and possible exchange rate pressures from FX market normalization are limited. Guiding inflation down successfully is critical to reinvigorating public confidence in a consistent and effective monetary policy framework, with (i) the primacy of the medium-term inflation objective; (ii) the interest rate as the main policy tool (rather than the exchange rate as an intermediate tool); and (iii) monetary transmission operating, albeit slowly, through the standard channels.

13. The authorities are committed to a flexible exchange rate and a transparent interbank FX market, which are needed to support external sector rebalancing and the rebuilding of reserves. Staff welcomed the elimination of the remaining MCP and the exchange restriction, and steps to modernize the FX market environment (¶2).[5] Staff recommended continuing to proactively build reserves via interbank purchases, and positively noted that the reduction of the SBP's swap/forward position aided the decompression of forward premia. However, the recent stability of the rupee should not lead to renewed expectations that this will persist in the future. In this regard, banks should be free to transact in the interbank FX market without any constraints, which together with the SBP's efforts to improve its functioning, would help build a deeper FX market that can serve as a buffer for shocks.

14. Close monitoring of the banking sector and addressing undercapitalized institutions remains essential. Amendments to the bank resolution and deposit insurance legislation will further strengthen Pakistan's crisis management and bank resolution framework. With the National Assembly elected, the reform package, in line with Fund TA, should be swiftly adopted and operationalized by the SBP, for which the first steps have already been taken. The authorities again reported mixed progress on the three undercapitalized banks. More progress was made in winding down an undercapitalized public bank, with almost all deposits repaid and branches closed, although the commencement of liquidation procedures faced some delay. Two private banks remain undercapitalized, despite some initial progress in partially recapitalizing one bank, with the authorities continuing to pursue options with the shareholders. Regarding vulnerabilities in the microfinance sector, the authorities have asked owners to provide time-bound recapitalization plans where necessary. This approach has been successful in returning two institutions to regulatory minimum standards. Staff welcomed work on a plan to strengthen internal control systems in the SBP's lending operations but urged that the counterparty eligibility policy include a requirement that counterparties are financially sound.

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[5] The SBP recently completed a feasibility study for conducting FX purchases and sales via auctions (see first SBA review MEFP ¶12.a). Staff would welcome greater transparency around SBP's FX operations, including to strengthen ownership and accountability.

D. Energy Sector Policy

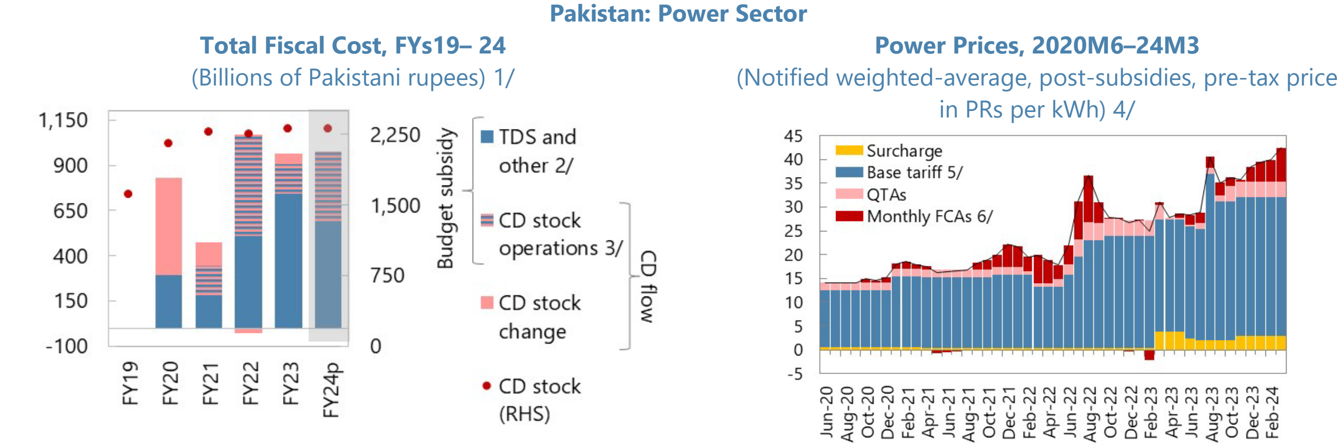
15. Timely implementation of scheduled tariff adjustments, full disbursement of budgeted FY24 power subsidies, and broader reform efforts are critical to restoring energy sector viability.

- ***Power sector***

  - With the April 1, 2024 notification of the delayed Q2 FY24 quarterly tariff adjustment, the continuation of anti-theft efforts, and the release of budgeted subsidies, the authorities should be able to meet their FY24 CDMP target of PRs 2.3 trillion (net zero stock accumulation).[6] Timely notification of the FY25 annual rebasing will be critical to the continued prevention of further CD flow, as will further collections efforts, including steps to enhance and institutionalize digital monitoring. In parallel, the authorities should press ahead with agricultural tube well subsidy reform, for which a finalized plan is targeted by end-FY24.

  - However, restoring energy sector viability requires strong cost-side reforms. This includes (i) continuing efforts underway to improve transmission infrastructure, including for better integration and expansion of renewable energy capacity; (ii) improving DISCO performance via either privatization or long-term management concessions; (iii) moving captive power demand to the grid; (iv) revisiting, where feasible, the terms of power purchase agreements; and (v) continuing to convert publicly-guaranteed PHPL debt into cheaper public debt.

Pakistan: Power Sector



Sources: Pakistani authorities; IMF staff calculations.
1/ FY19 only shows stocks, no flows. FY24 shows projections after programed measures.
2/ Includes the inter-DISCO tariff differential subsidy (TDS) and special subsidy packages, where applicable.
3/ Includes repayment of CPPA arrears to IPPs and GPPs, and amortization of PHPL debt.
4/ Includes regular tariff adjustments through March 2024, projected from December onward.
5/ Includes application of delayed rebasing billing increase from July to August 2023.
6/ Includes the impact of the non-collection from residentials with a monthly consumption of less than 300 kwh and agriculture consumers of the June and July 2022 FCAs in September and October 2022 and their staggered deferred collection from March through October 2023.

[6] About one-third of the PRs 976 billion in budgeted subsidies had been disbursed as of end-January 2024. Pending budgeted subsidies included tariff differential and other subsidies (PRs 249 billion), additional subsidies related to arrears penalties (PRs 125 billion), and payments toward PHL stock and power producer-related arrears (PRs 255 billion).

- ***Gas sector***: After some delays, the resumption of gas tariff adjustments in line with cost recovery has contributed to a modest decline in natural gas CD, to PRs 2,083 billion (2.0 percent of GDP) as of January 2024.[7] Continued timely gas tariff determinations and notifications within the required 40-day window, while protecting vulnerable households, starting with the June 2024 semiannual adjustment, are critical to preventing further CD flow. Price adjustments should continue to move toward the full phasing out of captive power usage this year, with cheaper natural gas prioritized for the most efficient power plants. They should also include efforts to fully equalize gas prices for all fertilizer companies. The authorities signaled an intention to move toward fully implementing a weighted average cost of gas (WACOG) across Pakistan, which would introduce a uniform gas price while helping to ensure cost recovery.

E. Structural Policies

16. Further progress on the structural agenda is needed to achieve long-term sustainability and inclusive growth. Key aspects of the agenda include:

- ***Enhancing SOE effectiveness***. The authorities are implementing the SOE Act and SOE policy framework, including (i) an effective updating of the March 2021 SOE Triage Plan to propose which SOEs are to be retained, privatized, and/or restructured; (ii) a review of any required governance restructuring to align with the new provisions; (iii) furthering amendments for four statutory SOEs to be brought into line with the SOE Act (a missed SB for end-November 2023). The authorities anticipate then moving on to the remaining 16 statutory SOEs; (iv) the issuance of legal guidelines and training for SOEs on the application of the new framework; and (v) the further operationalization of the Central Monitoring Unit (CMU), which published its first SOE Report in December 2023. The CMU's next report in June 2024 should make further progress toward reporting elements required by the SOE Act; progress against performance benchmarks is expected in later reports in FY25.
- ***Further clarifying the classification and governance arrangements for the seven SOEs under the Sovereign Wealth Fund established in August 2023***, which is not yet operational but which exempts these SOEs from the SOE Act. Governance safeguards for these SOEs should be brought on par with the SOE Act and its framework.
- ***Building a level investment- and job-friendly business environment***. The Special Investment Facilitation Council (SIFC) created in August 2023, aimed at attracting and facilitating investment in Pakistan, requires safeguards to bring projects identified through the SIFC under Pakistan's existing PIMA framework to ensure accountability and transparency. This is particularly important given the SIFC's power to offer regulatory relief and other immunities and the centrality of a level playing field for all investors.
- ***Strengthening anti-corruption institutions***. Safeguarding the independence of anti-corruption institutions and enhancing their effectiveness in combating corruption will help protect public

[7] RLNG has become an increasingly larger component of the gas mix in Pakistan given declining natural gas supplies (partly driven in turn by years of underpricing); RLNG has subsequently been diverted to domestic users at below full cost.

funds, improve the business climate, and boost public and donor confidence. The authorities are committed to publishing, as soon as they are finalized, the anti-corruption framework review by the Ministry of Justice and Law task force, with participation of independent experts, and the full UNCAC review report after its finalization. Further training and engagement with banks to leverage their access to the FBR's database of asset declarations of high-level public officials for AML/CFT purposes can prevent, detect, and deter laundering of proceeds of corruption, tax evasion, and smuggling through the financial sector. A digital portal will help efficiently facilitate access requests by banks and the FBR's responses, which are still low relative to the risks. Public access to asset declarations of elected and unelected Federal Cabinet members is also expected to be institutionalized. Undertaking a comprehensive governance diagnostic assessment in the future will help the authorities identify severe governance vulnerabilities and prioritize key anti-corruption structural reforms.

- ***Continued progress on building climate resilience***. Following the cabinet's adoption of the C-PIMA action plan (SB end-December 2023), the authorities are moving forward on near-term agenda items that target climate-related investment and urban planning, project selection, fiscal risk analysis, and capacity building. Beyond the C-PIMA, the authorities have drafted and plan to submit to parliament carbon market policy guidelines and aim to have developed a climate scoring methodology for National Adaptation Plan-aligned projects in the PSDP portfolio by September 2024.

PROGRAM MODALITIES AND CAPACITY TO REPAY

17. Financing. The program is fully financed and the reserve position at end-FY24 is consistent with program objectives (Table 3a). While total delivery of the SBA financing commitments in FY24 is expected to fall somewhat short of projections in the SBA request (US$4.0 billion out of the US$4.6 billion have been disbursed), with some disbursements spilling into FY25, this has been compensated by a tighter current account and savings from a debt rearrangement with a major bilateral creditor prior to the first review. Nonetheless, given Pakistan's external sector vulnerabilities, it is important that the remaining commitments are delivered in a timely way. Over the medium-term, risks arise from large public sector external rollover needs, a persistent current account deficit, a difficult external environment for Eurobond and Sukuk issuance, and limited reserve buffers.

18. Capacity to repay. Pakistan's capacity to repay the Fund is subject to significant risks and remains critically dependent on policy implementation and timely external financing. The Fund's exposure reaches SDR 6,546 million (322 percent of quota, approximately 102 percent of projected gross reserves at end-April 2024) with completion of all purchases under the SBA (Table 8). Exceptionally high risks—notably from delayed adoption of reforms, high public debt and gross financing needs, low gross reserves and the SBP's net FX derivative position, a decline in inflows, and sociopolitical factors—could jeopardize policy implementation and erode repayment capacity and debt sustainability. Restoring external viability is critical to ensure Pakistan's capacity to repay the Fund, and hinges on strong policy implementation, including, but not limited to, external asset accumulation and exchange rate flexibility. Geopolitical instability is an additional source of risk, even as uncertainty surrounding global financial conditions has declined somewhat since the last review.

19. Enterprise risk. The SBA poses significant enterprise risks which are largely unchanged from the time of the first review. These include risks related to credit concentration, capacity to repay, reputation and engagement, sociopolitical tensions, and the security situation. In addition to the factors discussed in the first review, there is further mitigation from the newly formed government's intention to continue the policy adjustment after the SBA, and interest in a successor arrangement from the Fund, although political uncertainty remains significant.

STAFF APPRAISAL

20. Consistent implementation of stronger policies over the past nine months has brought the economy back from the brink and onto a path of stability. A gradual economic recovery has increasingly taken hold and inflation has declined substantially in recent months, though remaining well above target. The SBP has taken advantage of increased inflows, easing external pressures, and the moderation of the current account deficit to begin rebuilding FX reserves. Fiscal performance has also improved, with the government posting a large primary surplus in H1. This overall satisfactory performance suggests that unwavering and consistent policy implementation can bring positive results, rebuild confidence, and support economic recovery.

21. Although this SBA broadly achieved its narrow objectives, the challenges ahead remain uncomfortably high and will require sustained efforts to effectively address them. Pakistan's fiscal and external vulnerabilities remain very high, including debt sustainability and refinancing risks as well as crowding out of the private sector, and structural weaknesses constrain productivity, investments, and growth. The SBA recognized that resolving Pakistan's structural challenges will require continued adjustment and creditor support beyond the program period. It is now critically important that the effort that started under this SBA continues. In this regard, the authorities' interest in a successor arrangement is welcomed to anchor the policy adjustment in the coming years, restore Pakistan's medium-term sustainability, and pave the way for strong and inclusive growth.

22. The caretaker government should be commended for its decisive efforts to meet the FY24 primary surplus target, overcoming political cost considerations, and these efforts should continue to put debt on a firm downward trajectory. Ensuring strict budget compliance and fostering close coordination with the provinces is critical to mitigate significant risks to macroeconomic stability and fiscal sustainability. There is an urgent need to accelerate the adoption and implementation of structural reforms aimed at enhancing revenue mobilization and spending efficiency. Securing ex-ante approval from the National Assembly for any budget deviation will bolster the authorities' credibility and budget transparency.

23. Notable progress made on strengthening social spending and institutions to alleviate poverty and effectively protect the most vulnerable is welcome and must continue beyond

this program. Efforts to maintain, if not increase, generosity levels in real terms via annual inflation indexation going forward and to expand CCT programs where possible are welcome, as are continued improvements in BISP's administrative capacity.

24. With inflation still well above target, monetary policy should remain appropriately tight and vigilant against emerging pressures. The recent deceleration of inflation is welcome and will reduce the high burden on Pakistani society, and particularly the most vulnerable. Monetary policy should remain data-driven and attentive of stickiness in core inflation, as well as resolutely address any emerging risk. Guiding inflation back to target is imperative not only to buttress a sustainable recovery but also to build central bank credibility.

25. A flexible exchange rate resulting from a deep and well-functioning FX market is critical to buffer external shocks and allow the rebuilding of FX reserves. The authorities' resolve in eliminating the remaining MCP and the exchange restriction and efforts to improve the functioning of the FX market are welcome. Efforts should continue to achieve greater FX market depth, while proactively rebuilding reserves via interbank purchases as conditions permit. The external position of Pakistan in FY23 was broadly in line with the level implied by medium-term fundamentals and desirable policies.

26. Maintaining financial sector stability requires continued vigilance, and actions to address undercapitalized institutions are long overdue. This includes ensuring all banks and microfinance banks are compliant with the minimum capital requirements or otherwise exit the market in an orderly fashion. The long noncompliance of banks with those requirements risks undermining the credibility of banking supervision and prudential standards. Passing the legal reform of the crisis management framework remains crucial to ensure the authorities have the appropriate powers and toolkit to deal with weak institutions.

27. Recent energy tariff increases represent major steps to prevent further CD arrears, but broader cost-side reforms are critical for sectoral viability. The regularization of energy tariff increases, in line with costs and legal requirements, represents a major step for the authorities in addressing Pakistan's energy crisis. However, the only sustainable solution for the sector is decisive action to address cost-side and infrastructure issues.

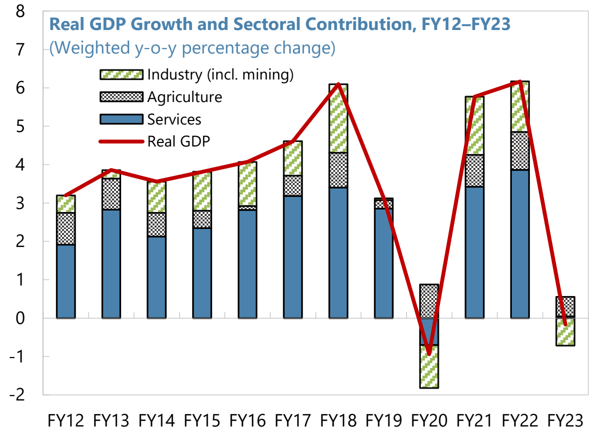
28. Structural reforms must progress to create a basis for sustainable and inclusive growth. The progress made on the SOE reform agenda is an important step toward reducing the footprint of the state and spurring private sector growth. Momentum in this area must be continued and further steps need to be taken to ensure a level playing field with regard to the investment environment. Effective and independent anti-corruption institutions and tools (e.g, asset declarations) and AML/CFT measures, which could be further supported by a future governance diagnostic assessment, are critical to safeguarding public funds, inclusive growth, and political stability. Sustainable growth also requires building up climate resilience.

29. Downside risks remain exceptionally high. The external environment remains challenging, with still tight global financial conditions, volatile commodity prices, and elevated geopolitical tensions. External and domestic financing needs in coming years are very large, and policy adjustment will need to be sustained in the post-SBA period to materialize this financing and prevent a re-intensification of fiscal and balance of payments pressures.

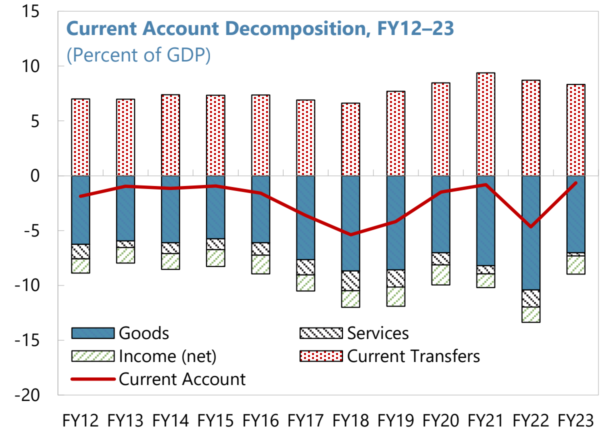
30. On the basis of the authorities' program implementation and policy commitments, staff supports the authorities' request for completion of the second review under the SBA.

Figure 1. Pakistan: Selected Economic Indicators

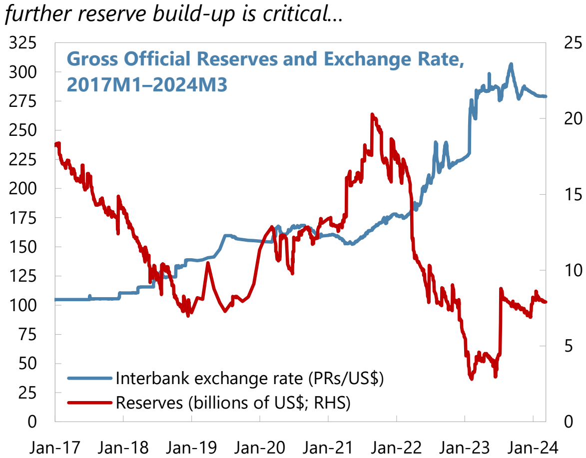
Growth contracted in FY23 in the context of floods, tight external financing, and adverse domestic policies…



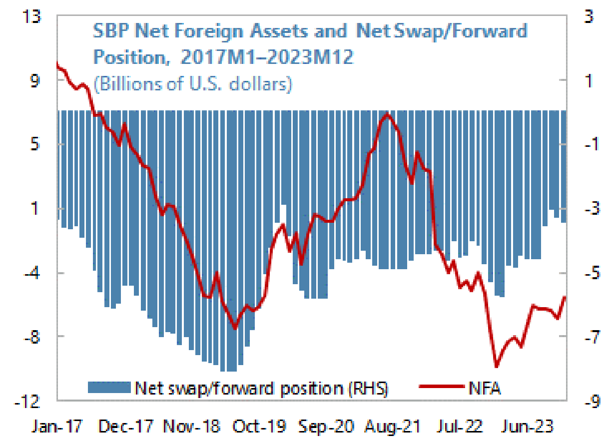
…with import compression driving a narrowing of the current account deficit.



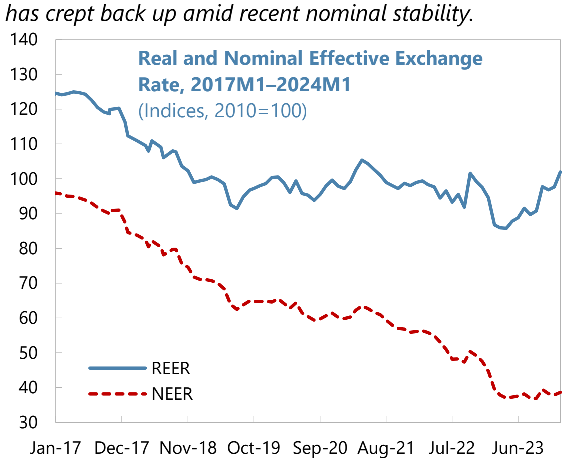
Although reserves have risen from their lows in early 2023, further reserve build-up is critical…



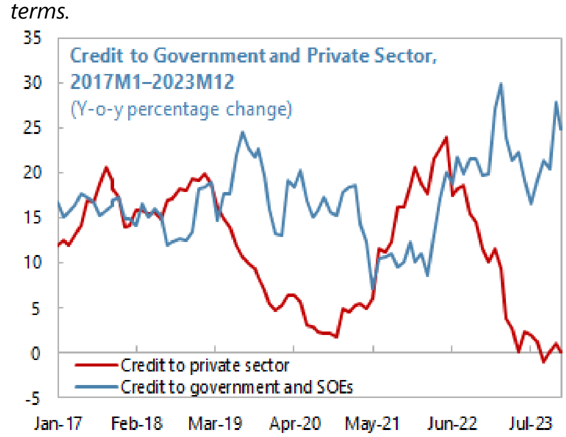
…and the recent narrowing of the SBP's derivative position should continue.



External competitiveness remains challenging, as the REER has crept back up amid recent nominal stability.



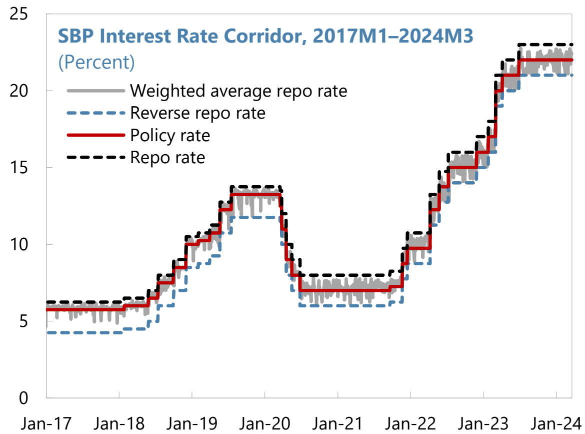
Credit to the private sector has declined sharply in real terms.



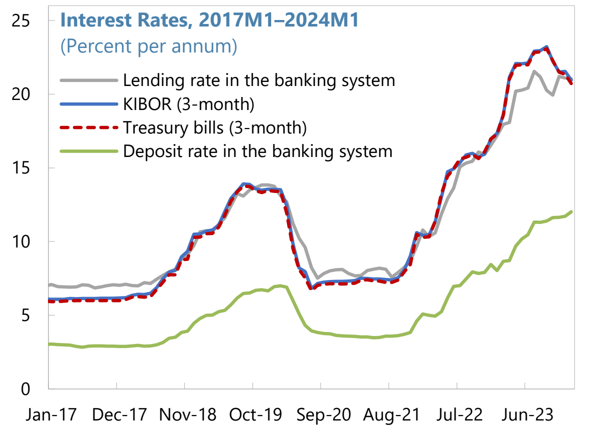
Sources: Pakistani authorities; IMF World Economic Outlook Database; IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators

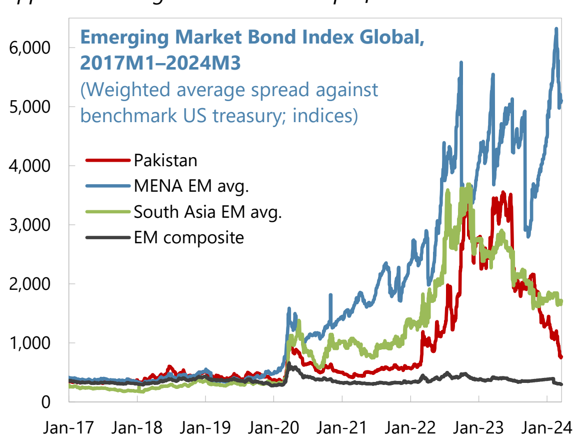
The SBP has held the policy rate at 22 percent since June 2023…



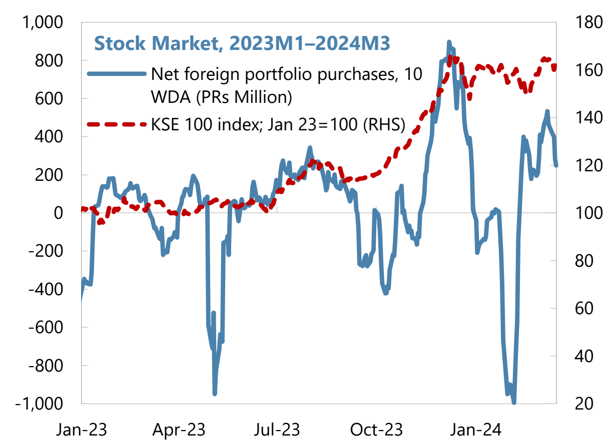
…and market rates have generally been aligned amid heightened uncertainty and external pressures.



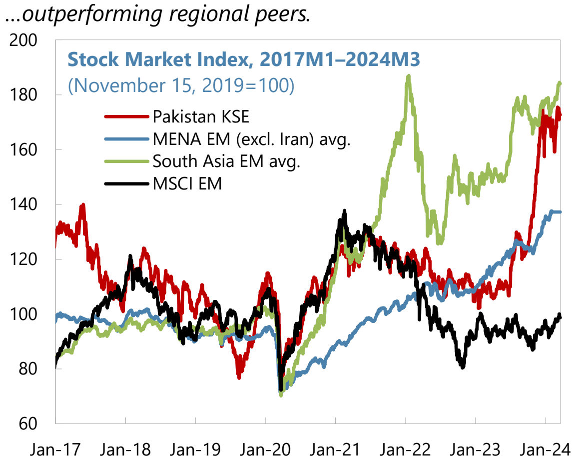
Pakistan's bond spread dropped significantly following SBA approval and against the backdrop of relative calm…



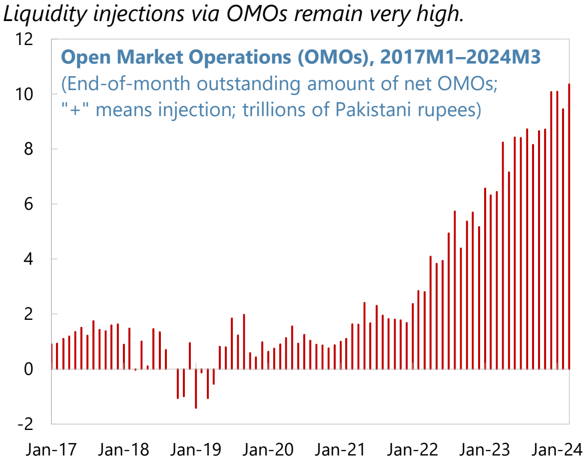
…while the stock market experienced a boom in late 2023…



…outperforming regional peers.



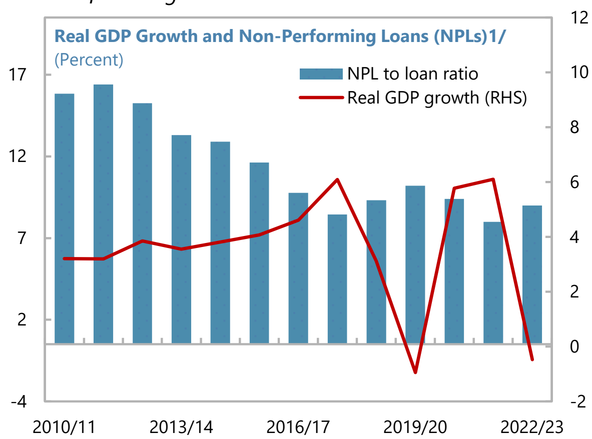
Liquidity injections via OMOs remain very high.



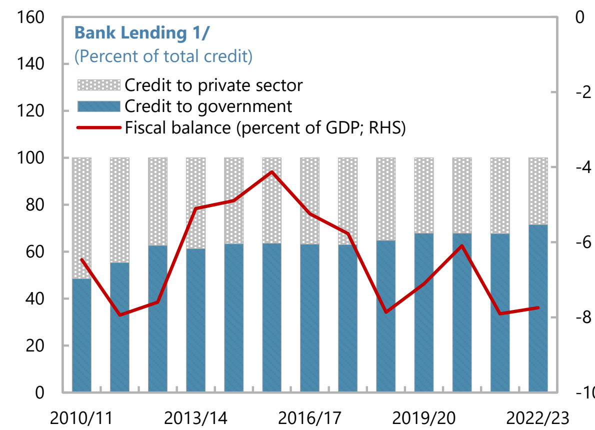
Source: Pakistani authorities; Bloomberg; IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators, 2010/11–2022/23

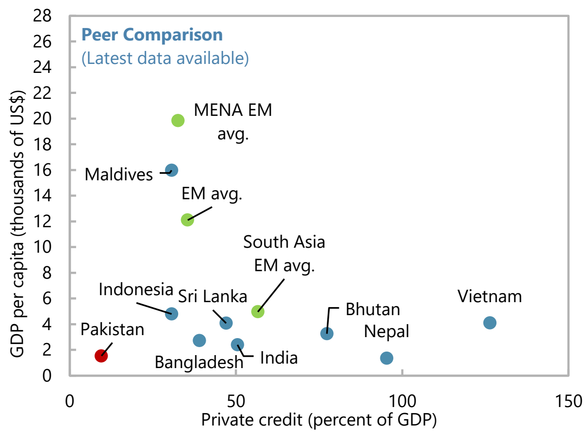
NPLs rose in FY23 but remained relatively contained in the context of the large economic deceleration.



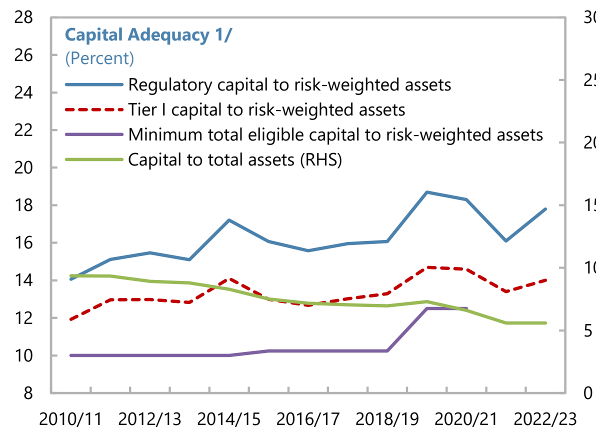
The banking system remains oriented toward providing credit to the government…



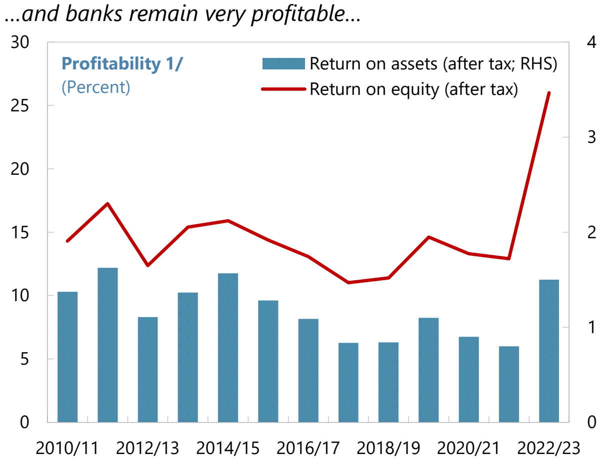
…leaving Pakistan behind its peers in terms of private credit relative to the size of its economy.



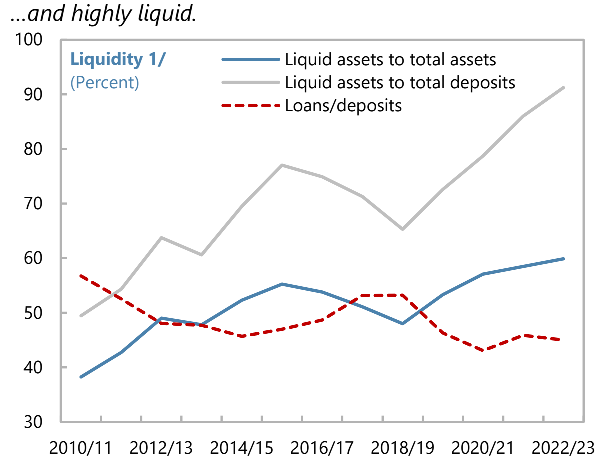
In part due to investments in government securities with zero risk weights, banks' capital ratios appear healthy…



…and banks remain very profitable…



…and highly liquid.



1/ The data for the fiscal year 2022/23 is available up to June 2023.
Source: Pakistani authorities; Bloomberg; IMF staff calculations.

Table 1. Pakistan: Selected Economic Indicators, 2018/19–2024/25 1/

Population: 231.6 million (2022/23) — Main exports: Textiles (US$16.5 billion, 2022/23)
Per capita GDP: US$1,446.3 (2022/23) — Unemployment: 6.2 percent (2021/22)
Poverty rate: 21.9 percent (at national line; 2018/19)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25
					Est.	Prog.	Proj.	Proj.
Output and prices	(Annual percentage change)							
Real GDP at factor cost	3.1	-0.9	5.8	6.2	-0.2	**2.0**	2.0	3.5
GDP deflator at factor cost	9.2	9.9	10.4	14.1	26.1	**24.0**	24.8	12.7
Consumer prices (period average)	6.7	10.7	8.9	12.1	29.2	**24.0**	24.8	12.7
Consumer prices (end of period)	8.0	8.6	9.7	21.3	29.4	**18.5**	19.6	9.5
Pakistani rupees per U.S. dollar (period average)	24.0	16.0	1.2	11.0	39.8	**...**	...	...
Pakistani rupees per U.S. dollar (end of period)	31.7	5.0	-6.3	30.0	39.6	**...**	...	...
Saving and investment	(Percent of GDP)							
Gross saving	11.3	13.3	13.7	10.7	13.0	**12.0**	11.4	11.6
Government	-5.5	-4.7	-3.9	-5.4	-5.5	**-5.7**	-5.5	-5.3
Nongovernment (including public sector enterprises)	16.8	18.1	17.6	16.1	18.5	**17.7**	16.9	16.9
Gross capital formation 2/	15.5	14.8	14.5	15.4	13.7	**13.6**	12.2	12.7
Government	2.3	2.3	2.2	2.4	2.3	**2.0**	1.9	2.1
Nongovernment (including public sector enterprises)	13.2	12.5	12.4	13.0	11.5	**11.6**	10.3	10.7
Public finances								
Revenue and grants	11.3	13.3	12.4	12.1	11.4	**12.5**	12.5	12.4
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	19.2	**20.2**	20.0	19.8
Budget balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.8	**-7.6**	-7.4	-7.4
Budget balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.8	**-7.7**	-7.5	-7.4
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-1.0	**0.4**	0.4	0.4
Underlying primary balance (excluding grants) 3/	-3.1	-1.6	-0.5	-2.3	-0.8	**0.4**	0.4	0.4
Total general government debt excl. IMF obligations	75.4	76.8	71.4	74.1	74.7	**70.3**	69.6	68.1
External general government debt	28.1	27.9	24.4	27.4	28.5	**27.4**	26.2	25.0
Domestic general government debt	47.3	49.0	47.0	46.6	46.2	**42.9**	43.3	43.2
General government debt incl. IMF obligations	77.5	79.6	73.5	76.2	77.1	**72.8**	72.1	70.0
External general government debt	30.2	30.6	26.5	29.5	30.9	**30.0**	28.8	26.8
Domestic general government debt	47.3	49.0	47.0	46.6	46.2	**42.9**	43.3	43.2
General government and government guaranteed debt (incl. IMF; % GDP)	82.0	84.5	77.8	80.7	81.3	**76.8**	76.0	73.6
Monetary sector	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)							
Net foreign assets	-8.1	5.6	5.9	-6.1	-7.0	**1.1**	1.2	4.6
Net domestic assets	19.4	11.9	10.3	19.7	21.2	**9.9**	12.3	17.4
Credit to the private sector	4.5	1.1	3.8	5.5	0.8	**1.5**	1.0	5.4
Net claims on the government	13.4	12.4	8.2	13.8	13.5	**17.8**	18.1	14.9
Broad money (percent change)	11.3	17.5	16.2	13.6	14.2	**11.0**	13.5	22.0
Reserve money (percent change)	19.9	16.8	12.8	7.7	22.4	**11.0**	11.0	25.7
Private credit (percent change)	11.9	3.0	11.5	17.4	2.3	**5.0**	3.5	20.0
Six-month treasury bill rate (period average, in percent)	10.2	11.9	7.3	11.0	18.3	**...**	...	...
External sector	(Annual percentage change, unless otherwise indicated)							
Merchandise exports, U.S. dollars	-2.1	-7.1	13.8	26.7	-14.2	**8.8**	11.9	4.3
Merchandise imports, U.S. dollars	-6.8	-15.9	24.4	31.8	-27.5	**12.4**	6.0	10.0
Current account balance (in percent of GDP)	-4.2	-1.5	-0.8	-4.7	-0.7	**-1.6**	-0.8	-1.2
Financial account (billions of U.S. dollars)	11.8	6.5	8.3	10.2	-2.5	**9.3**	6.5	10.3
	(Percent of exports of goods and services, unless otherwise indicated)							
External public and publicly guaranteed debt	277.2	312.6	301.5	245.4	258.9	**258.9**	247.1	246.3
Debt service	40.8	51.5	34.1	37.5	57.8	**40.0**	39.6	39.8
Gross reserves (in millions of U.S. dollars) 4/	7,274	12,175	17,297	9,821	4,455	**9,101**	9,029	13,364
In months of next year's imports of goods and services	1.7	2.3	2.5	2.0	0.8	**1.5**	1.5	2.1
Memorandum items:								
Underlying fiscal balance (excl. grants; % GDP) 3/	-7.9	-7.1	-5.5	-7.1	-7.6	**-7.5**	-7.6	-7.5
Net general government debt (incl. IMF; % GDP)	70.2	72.9	66.0	69.9	72.1	**68.9**	68.2	66.6
Real effective exchange rate (annual average, percentage change)	-11.5	-4.0	2.0	-1.2	-5.9	**...**	...	...
Real effective exchange rate (end of period percentage change)	-15.0	3.5	7.2	-6.0	-8.0	**...**	...	...
Terms of trade (percentage change)	-1.7	2.3	2.1	-1.2	-1.5	**-5.8**	-4.8	0.7
Real per capita GDP (percentage change)	1.1	-2.9	3.7	4.1	-2.1	**0.0**	0.0	1.5
GDP at market prices (in billions of Pakistani rupees)	43,798	47,540	55,836	66,640	84,069	**106,577**	106,679	124,813
Per capita GDP (in U.S. dollars)	1,485.8	1,362.9	1,550.1	1,634.4	1,446.3	**...**	...	...
Population (millions)	214.0	218.2	222.6	227.0	231.6	**236.2**	236.2	240.9
GDP at market prices (in billions of U.S. dollars)	321.1	300.4	348.5	374.7	338.2	**...**	...	...

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

1/ Fiscal year ends June 30.

2/ Including changes in inventories.

3/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it and COVID-19 spending.

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

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2019/20–2028/29 1/

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.	Est.	Prog.	Proj.	Proj.				
	(Annual percentage change, unless otherwise indicated)											
Output and prices												
Real GDP at factor cost	-0.9	5.8	6.2	**-0.2**	-0.2	**2.0**	2.0	3.5	4.5	5.0	5.0	5.0
Net exports (percent contribution to real GDP at factor cost)	1.2	-2.2	-1.8	**5.8**	5.8	**-0.9**	0.2	-1.4	-0.3	-0.5	-0.5	-0.5
GDP deflator at factor cost	9.9	10.4	14.1	**26.1**	26.1	**24.0**	24.8	12.7	7.6	6.5	6.5	6.5
Consumer prices (period average)	10.7	8.9	12.1	**29.2**	29.2	**24.0**	24.8	12.7	7.6	6.5	6.5	6.5
	(Percent of GDP)											
Saving and investment balance	-1.5	-0.8	-4.7	**-0.7**	-0.7	**-1.6**	-0.8	-1.2	-1.2	-1.3	-1.4	-1.5
Government	-7.0	-6.0	-7.8	**-7.7**	-7.8	**-7.6**	-7.4	-7.4	-5.8	-5.2	-4.7	-4.6
Nongovernment (including public sector enterprises)	5.6	5.2	3.2	**7.1**	7.1	**6.0**	6.6	6.2	4.6	3.8	3.3	3.1
Gross national saving	13.3	13.7	10.7	**13.0**	13.0	**12.0**	11.4	11.6	12.4	12.6	12.5	12.2
Government	-4.7	-3.9	-5.4	**-5.5**	-5.5	**-5.7**	-5.5	-5.3	-3.8	-3.1	-2.6	-2.6
Nongovernment (including public sector enterprises)	18.1	17.6	16.1	**18.5**	18.5	**17.7**	16.9	16.9	16.1	15.7	15.1	14.8
Gross capital formation	14.8	14.5	15.4	**13.7**	13.7	**13.6**	12.2	12.7	13.6	13.9	13.9	13.7
Government	2.3	2.2	2.4	**2.2**	2.3	**2.0**	1.9	2.1	2.1	2.1	2.1	2.1
Nongovernment (including public sector enterprises)	12.5	12.4	13.0	**11.5**	11.5	**11.6**	10.3	10.7	11.5	11.8	11.8	11.7
	(Billions of U.S. dollars, unless otherwise indicated)											
Balance of payments												
Current account balance	-4.4	-2.8	-17.5	**-2.2**	-2.2	**-5.6**	-3.0	-4.6	-5.0	-6.0	-6.9	-7.8
Current account balance (in percent of GDP)	-1.5	-0.8	-4.7	**-0.7**	-0.7	**-1.6**	-0.8	-1.2	-1.2	-1.3	-1.4	-1.5
Net capital flows 2/	6.9	7.9	10.1	**-3.1**	-3.1	**9.0**	6.2	10.4	9.2	9.3	10.2	11.2
Of which: foreign direct investment 3/	2.7	1.6	1.7	**0.6**	0.6	**0.7**	0.8	1.3	1.5	1.9	2.3	2.7
Gross reserves	12.2	17.3	9.8	**4.5**	4.5	**9.1**	9.0	13.4	16.9	19.1	20.2	22.0
In months of imports 4/	2.3	2.5	2.0	**0.8**	0.8	**1.5**	1.5	2.1	2.5	2.7	2.7	2.7
External debt (in percent of GDP)	37.6	35.1	32.2	**34.4**	34.8	**34.9**	33.7	33.9	33.1	31.9	30.3	28.8
Terms of trade (annual percentage change)	2.3	2.1	-1.2	**-1.3**	-1.5	**-5.8**	-4.8	0.7	-3.0	-0.5	0.0	-0.3
Real effective exchange rate (annual average, percentage change)	-4.0	2.0	-1.2	**-5.9**	-5.9	**...**	...	...	...	...	...	...
Real effective exchange rate (end of period, percentage change)	3.5	7.2	-6.0	**-8.0**	-8.0	**...**	...	...	...	...	...	...
	(Percent of GDP)											
Public finances												
Revenue and grants	13.3	12.4	12.1	**11.4**	11.4	**12.5**	12.5	12.4	12.4	12.4	12.4	12.4
Of which: tax revenue	10.0	10.3	10.4	**10.0**	10.0	**10.6**	10.6	10.7	10.7	10.7	10.7	10.7
Expenditure (including statistical discrepancy)	20.3	18.5	20.0	**19.2**	19.2	**20.2**	20.0	19.8	18.2	17.6	17.1	17.0
Of which: current	18.1	16.3	17.3	**17.3**	17.2	**18.0**	17.9	17.7	16.1	15.4	15.0	14.9
Of which: development	2.3	2.2	2.4	**2.2**	2.3	**2.0**	1.9	2.1	2.1	2.1	2.1	2.1
Primary balance (including grants)	-1.5	-1.1	-3.0	**-0.8**	-0.9	**0.4**	0.4	0.5	0.4	0.4	0.4	0.5
Primary balance (excluding grants)	-1.6	-1.2	-3.1	**-0.8**	-1.0	**0.4**	0.4	0.4	0.4	0.4	0.4	0.4
Underlying primary balance (excluding grants) 5/	-1.6	-0.5	-2.3	**-0.6**	-0.8	**0.4**	0.4	0.4	0.4	0.4	0.4	0.4
Budget balance (including grants)	-7.0	-6.0	-7.8	**-7.7**	-7.8	**-7.6**	-7.4	-7.4	-5.8	-5.2	-4.7	-4.6
Budget balance (excluding grants)	-7.1	-6.1	-7.9	**-7.8**	-7.8	**-7.7**	-7.5	-7.4	-5.9	-5.2	-4.7	-4.7
Underlying fiscal balance (excl. grants) 5/	-7.1	-5.5	-7.1	**-7.5**	-7.6	**-7.7**	-7.5	-7.4	-5.9	-5.2	-4.7	-4.7
General government and government guaranteed debt (incl. IMF)	84.5	77.8	80.7	**81.3**	81.3	**76.8**	76.0	73.6	72.2	70.4	68.2	66.3
General government debt (incl. IMF)	79.6	73.5	76.2	**77.1**	77.1	**72.8**	72.1	70.0	68.8	67.2	65.3	63.5
Net general government debt (incl. IMF)	72.9	66.0	69.9	**72.1**	72.1	**68.9**	68.2	66.6	65.8	64.6	62.9	61.3
Memorandum item:												
Nominal GDP (market prices, billions of Pakistani rupees)	47,540	55,836	66,640	**84,069**	84,069	**106,577**	106,679	124,813	140,491	156,951	175,490	196,253

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

1/ Fiscal year ends June 30. On January 21, 2022 GDP was rebased to base year 2015-16, 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, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it arrears clearance and COVID-19 spending.

Table 3a. Pakistan: Balance of Payments, 2018/19–2028/29
(In millions of U.S. dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					Prog.	Est.	Prog.	Proj.	Proj.				
Current account	-13,434	-4,449	-2,820	-17,481	-2,235	-2,235	-5,649	-3,010	-4,554	-5,024	-5,955	-6,876	-7,772
Balance on goods	-27,612	-21,109	-28,634	-39,050	-23,955	-23,955	-27,934	-23,758	-27,923	-29,269	-30,783	-32,634	-34,761
Exports, f.o.b.	24,257	22,536	25,639	32,493	27,879	27,879	30,327	31,204	32,556	34,412	36,747	38,943	41,394
Imports, f.o.b.	51,869	43,645	54,273	71,543	51,834	51,834	58,262	54,962	60,479	63,680	67,530	71,578	76,155
Services (net)	-4,970	-3,316	-2,516	-5,840	-969	-969	-1,771	-1,772	-2,010	-2,630	-3,140	-3,756	-4,449
Services: credit	5,966	5,437	5,945	7,102	7,599	7,599	7,985	7,931	8,448	8,996	9,570	10,171	10,808
Of which: Coalition Support Fund	0	0	0	0	0	0	0	0	0	0	0	0	0
Services: debit	10,936	8,753	8,461	12,942	8,568	8,568	9,755	9,702	10,458	11,625	12,710	13,927	15,257
Income (net)	-5,610	-5,459	-4,400	-5,248	-5,671	-5,671	-6,537	-6,741	-5,914	-6,487	-7,255	-7,671	-7,960
Income: credit	578	479	508	652	652	652	1,061	1,020	1,040	846	772	760	760
Income: debit	6,188	5,938	4,908	5,900	6,323	6,323	7,599	7,761	6,954	7,333	8,027	8,430	8,720
Of which: interest payments	3,683	3,540	2,594	3,375	4,901	4,901	5,396	5,405	5,620	5,870	6,304	6,398	6,545
Of which: income on direct investment	2,848	2,664	2,565	2,717	1,646	1,646	2,193	2,338	1,334	1,463	1,723	2,032	2,175
Balance on goods, services, and income	-38,192	-29,884	-35,550	-50,138	-30,595	-30,595	-36,242	-32,271	-35,847	-38,385	-41,178	-44,061	-47,170
Current transfers (net)	24,758	25,435	32,730	32,657	28,360	28,360	30,594	29,261	31,293	33,361	35,223	37,185	39,398
Current transfers: credit, *of which:*	24,990	25,802	33,027	32,949	28,674	28,674	30,954	29,653	31,662	33,731	35,594	37,554	39,768
Official	761	468	281	376	380	380	409	431	410	410	410	410	410
Workers' remittances	21,740	23,131	29,450	31,279	27,333	27,333	29,470	28,081	29,870	31,596	33,051	34,513	36,105
Other private transfers	2,489	2,203	3,296	1,294	961	961	1,075	1,141	1,382	1,725	2,132	2,631	3,253
Current transfers: debit	232	367	297	292	314	314	361	391	369	370	371	370	370
Capital account	229	285	224	205	375	375	221	225	157	100	100	100	100
Capital transfers: credit	229	288	224	205	375	375	221	225	157	100	100	100	100
Of which: official capital grants	219	273	204	190	144	144	215	220	157	100	100	100	100
Capital transfers: debit	0	3	0	0	0	0	0	0	0	0	0	0	0
Financial account	11,759	6,479	8,268	10,207	-2,487	-2,487	9,296	6,523	10,252	9,062	9,162	10,059	11,095
Direct investment abroad	74	54	-171	-234	-957	-957	-367	-32	0	0	0	0	0
Direct investment in Pakistan	1,362	2,598	1,819	1,936	1,547	1,547	1,056	827	1,258	1,521	1,902	2,310	2,695
Portfolio investment (net)	-1,274	-409	2,774	-55	-1,012	-1,012	344	-119	2,962	3,932	4,812	5,212	5,212
Financial derivatives (net)	0	8	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	67	127	-1,345	-2,613	1,029	1,029	-184	568	-640	-480	-320	0	0
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0	0
General government	-48	-48	-15	-914	883	883	0	5	0	0	0	0	0
Banks	92	-140	-608	-382	-218	-218	261	400	-320	-240	-160	0	0
Other sectors	23	315	-722	-1,317	364	364	-445	163	-320	-240	-160	0	0
Other investment liabilities	11,530	4,101	5,191	11,173	-3,094	-3,094	8,448	5,280	6,672	4,090	2,768	2,537	3,187
Monetary authorities	5,495	-498	-1,468	-1	0	0	999	999	0	0	0	0	0
General government, *of which:*	4,294	3,085	5,238	5,064	-3,245	-3,245	5,952	3,501	4,767	2,355	662	-747	-97
Disbursements	8,255	10,347	9,308	10,203	8,731	8,731	12,168	9,610	13,002	10,951	8,981	10,415	9,690
Amortization	5,982	7,299	5,855	8,343	11,660	11,660	6,209	6,166	8,234	8,596	8,320	11,162	9,787
Banks	467	-124	499	846	1,241	1,241	77	275	250	350	450	500	500
Other sectors	1,274	1,638	922	2,491	-1,090	-1,090	1,421	504	1,655	1,385	1,657	2,785	2,785
Net errors and omissions	-58	150	-619	-303	-1,046	-1,046	-503	-527	0	0	0	0	0
Overall balance	-1,631	2,465	5,053	-7,371	-5,384	-5,384	3,363	3,212	5,855	4,138	3,307	3,283	3,422
Financing	1,504	-2,465	-5,053	7,371	5,384	5,384	-3,363	-3,212	-5,855	-4,138	-3,307	-3,283	-3,422
Change in reserve assets (- denotes accumulation)	1,880	-4,554	-4,473	7,333	5,185	5,185	-4,728	-4,577	-4,335	-3,572	-2,185	-1,097	-1,774
Net use of Fund credit and loans (without augmentation)	-376	2,089	-580	38	199	199	1,365	1,365	-1,521	-566	-1,121	-2,186	-1,648
Memorandum items:													
Current account (in percent of GDP)	-4.2	-1.5	-0.8	-4.7	-0.7	-0.7	-1.6	-0.8	-1.2	-1.2	-1.3	-1.4	-1.5
Current account (in percent of GDP; excluding fuel imports)	0.2	1.6	2.0	0.3	4.5	4.5	3.4	4.1	3.4	3.0	2.6	2.3	2.2
Exports f.o.b. (growth rate, in percent)	-2.1	-7.1	13.8	26.7	-14.2	-14.2	8.8	11.9	4.3	5.7	6.8	6.0	6.3
Exports volume (growth rate, in percent)	-1.7	-1.0	2.8	4.7	-11.8	-11.5	20.2	22.8	5.5	8.3	6.5	5.6	5.8
Remittance (growth rate, in percent)	9.2	6.4	27.3	6.2	-12.6	-12.6	7.8	2.7	6.4	5.8	4.6	4.4	4.6
Remittances (in percent of GDP)	6.8	7.7	8.5	8.3	8.1	8.1	8.4	7.8	7.8	7.7	7.4	7.2	7.0
Imports f.o.b. (growth rate, in percent)	-6.8	-15.9	24.4	31.8	-27.5	-27.5	12.4	6.0	10.0	5.3	6.0	6.0	6.4
Imports volume (growth rate, in percent)	-9.8	-12.0	20.2	10.9	-29.2	-29.1	15.9	9.7	12.0	5.8	6.1	5.5	5.5
Oil imports (in million US$, cif)	13,929	9,280	9,747	18,743	17,539	17,539	17,630	17,923	17,574	17,395	17,633	18,144	18,888
Terms of trade (growth rate, in percent)	-1.7	2.3	2.1	-1.2	-1.3	-1.5	-5.8	-4.8	0.7	-3.0	-0.5	0.0	-0.3
Foreign Direct Investment (in percent of GDP)	0.4	0.9	0.5	0.5	0.5	0.5	0.3	0.2	0.3	0.4	0.4	0.5	0.5
External debt (in millions of U.S. dollars)	106,705	113,013	122,292	120,534	116,217	117,768	122,903	121,991	129,548	136,478	142,012	145,567	149,016
o/w external public debt	82,561	86,522	93,806	96,073	90,974	90,975	98,302	95,856	100,120	104,129	106,676	105,759	106,012
Gross external financing needs (in millions of U.S. dollars) 1/	25,552	23,430	22,206	33,736	22,819	22,819	24,965	22,268	21,044	23,111	22,716	29,203	27,890
End-period gross official reserves (millions of U.S. dollars) 2/	7,274	12,175	17,297	9,821	4,455	4,455	9,101	9,029	13,364	16,936	19,121	20,218	21,992
(In months of next year's imports of goods and services)	1.7	2.3	2.5	2.0	0.8	0.8	1.5	1.5	2.1	2.5	2.7	2.7	2.7
GDP (in millions of U.S. dollars)	321,071	300,410	348,481	374,748	338,237	338,237	…	…	…	…	…	…	…

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, 2018/19–2028/29

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

	2018/19	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					Prog.	Est.	Prog.	Proj.			Proj.		
Gross External Financing Requirements (A)	**25,552**	**23,430**	**22,206**	**33,736**	**22,819**	**22,819**	**24,965**	**22,268**	**21,044**	**23,111**	**22,716**	**29,203**	**27,890**
(In percent of GDP)	8.0	7.8	6.4	9.0	6.7	6.7	7.1	6.1	5.5	5.6	5.1	6.1	5.4
Current account deficit	13,434	4,449	2,820	17,481	2,235	2,235	5,649	3,010	4,554	5,024	5,955	6,876	7,772
(In percent of GDP)	4.2	1.5	0.8	4.7	0.7	0.7	1.6	0.8	1.2	1.2	1.3	1.4	1.5
Amortization	11,742	18,236	18,306	15,240	19,617	19,617	17,675	17,614	14,970	17,521	15,640	20,141	18,470
Public Sector	6,982	12,799	13,943	11,343	14,971	14,971	13,780	13,738	11,234	13,396	11,320	15,662	13,787
Short-term Borrowing	1,538	1,182	784	532	1,327	1,327	1,211	850	2,389	2,800	2,928	2,928	2,928
Long-term Borrowing (non-IMF)	4,444	10,617	13,159	9,811	12,333	12,333	11,569	11,888	8,845	8,796	8,391	11,234	9,859
Bonds	1,000	1,000	0	1,000	1,311	1,311	1,000	1,000	0	1,800	0	1,500	1,000
Private Sector 1/	4,760	5,437	4,363	3,897	4,646	4,646	3,895	3,876	3,736	4,125	4,320	4,479	4,683
Short-term Borrowing	3,474	3,610	3,110	2,786	2,983	2,983	2,812	2,612	2,783	2,738	2,933	3,092	3,296
Long-term Borrowing	1,286	1,827	1,253	1,111	1,663	1,663	1,083	1,265	953	1,387	1,387	1,387	1,387
IMF Repurchases	376	745	1,080	1,015	967	967	1,641	1,644	1,521	566	1,121	2,186	1,648
Available Financing (B)	**21,103**	**24,890**	**26,826**	**25,208**	**16,282**	**16,289**	**26,583**	**23,833**	**25,379**	**26,682**	**24,901**	**30,300**	**29,664**
Foreign Direct Investment (net) 2/	1,436	2,652	1,648	1,702	590	590	689	795	1,258	1,521	1,902	2,310	2,695
Disbursement	19,496	21,811	25,573	20,839	16,363	16,370	26,176	23,340	23,964	25,062	22,899	27,890	26,869
From private creditors	8,366	14,822	11,932	10,762	7,271	7,278	6,659	6,261	13,862	15,317	14,349	19,406	18,386
Disbursement to Private Sector 3/	4,268	11,445	4,645	3,713	5,065	5,072	4,381	3,968	6,962	7,111	7,918	10,975	11,180
Disbursement to Public Sector 4/	4,098	3,377	7,287	7,049	2,206	2,206	2,278	2,293	6,900	8,206	6,431	8,431	7,206
From official creditors (non-IMF)	11,130	6,989	13,640	10,077	9,092	9,092	19,517	17,079	10,102	9,745	8,550	8,484	8,484
o/w Project Loans	2,673	1,799	1,933	1,899	1,899	1,899	3,721	3,835	2,702	2,788	1,821	1,755	1,755
o/w China	1,574	487	204	162	128	128	9	68	132	49	47	41	0
o/w Program Loans	288	3,666	2,120	1,514	2,341	2,341	3,000	1,407	3,500	2,460	2,232	2,232	2,232
o/w Short-term debt (incl. rollovers)	3,694	10,170	6,772	7,427	4,497	4,505	4,426	4,337	5,538	6,078	6,078	6,258	6,438
o/w Public Sector	1,643	2,774	2,954	4,444	1,517	1,517	2,494	2,389	2,800	2,928	2,928	2,928	2,928
o/w Private Sector	2,051	7,397	3,817	2,983	2,981	2,988	1,932	1,948	2,738	3,150	3,150	3,330	3,510
Other Net Capital Inflows (net) 5/	171	427	-395	-98	-671	-671	-282	-302	157	100	100	100	100
IMF SDR allocation	0	0	0	2,765	0	0	0	0	0	0	0	0	0
Remaining Financing Needs (C=A-B)	**4,449**	**-1,459**	**-4,620**	**8,528**	**6,537**	**6,530**	**-1,618**	**-1,565**	**-4,335**	**-3,571**	**-2,185**	**-1,097**	**-1,774**
Borrowing from IMF (D)	**0**	**2,834**	**500**	**1,053**	**1,166**	**1,166**	**3,006**	**3,009**	**0**	**0**	**0**	**0**	**0**
Reserve Assets (decrease = +) (E=C-D)	**4,449**	**-4,293**	**-5,120**	**7,475**	**5,371**	**5,364**	**-4,624**	**-4,574**	**-4,335**	**-3,571**	**-2,185**	**-1,097**	**-1,774**
Memorandum items:													
Gross official reserves (stock, in US$ billions)	7.3	12.2	17.3	9.8	4.5	4.5	9.1	9.0	13.4	16.9	19.1	20.2	22.0
(In months of prospective imports)	1.7	2.3	2.5	2.0	0.8	0.8	1.5	1.5	2.1	2.5	2.7	2.7	2.7
(In percent of IMF ARA metric: assuming fixed ER)	32.3	34.8	45.5	26.4	12.9	12.8	26.6	26.4	36.5	44.1	47.5	47.2	50.4
(In percent of IMF ARA metric: assuming flexible ER)	34.5	54.2	72.6	41.3	19.6	19.5	41.4	40.9	56.4	68.4	73.8	72.5	78.1
Net FX derivative position (in US$ billions)	8.1	5.8	4.9	4.0	4.5	4.5	4.0	4.0	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 (PRs bn), 2018/19–2028/29

(In billions of Pakistani rupees)

	2018/19	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					Prog.	Est.	Prog.	Proj.	Proj.				
Revenue and grants	4,934	6,306	6,933	8,076	9,621	9,621	13,366	13,362	15,485	17,418	19,445	21,741	24,345
Revenue	4,901	6,273	6,903	8,035	9,586	9,586	13,317	13,313	15,424	17,374	19,400	21,694	24,296
Tax revenue	4,473	4,748	5,755	6,943	8,396	8,396	11,298	11,302	13,320	15,006	16,755	18,737	20,989
Federal	4,072	4,334	5,247	6,331	7,752	7,752	10,430	10,435	12,306	13,865	15,479	17,311	19,394
FBR revenue	3,829	3,998	4,764	6,142	7,133	7,133	9,415	9,415	11,113	12,522	13,979	15,633	17,518
Direct taxes	1,446	1,524	1,732	2,280	3,250	3,250	4,216	4,597	5,291	5,945	6,642	7,466	8,390
Federal excise duty	234	250	277	321	367	367	571	561	672	756	850	950	1,063
Sales tax/VAT	1,465	1,597	1,990	2,532	2,581	2,581	3,425	3,166	3,855	4,359	4,855	5,407	6,034
Customs duties	685	626	765	1,009	935	935	1,204	1,091	1,296	1,461	1,632	1,809	2,032
Petroleum surcharge	206	294	424	128	580	580	918	923	1,080	1,215	1,358	1,518	1,698
Gas surcharge and other	14	33	39	42	28	28	66	67	78	88	99	110	123
GIDC	21	9	19	19	11	11	30	30	35	39	44	49	55
Provincial	402	414	508	612	644	644	868	867	1,014	1,142	1,275	1,426	1,595
Nontax revenue	427	1,524	1,147	1,092	1,190	1,190	2,019	2,011	2,103	2,368	2,645	2,958	3,307
Federal	341	1,422	997	964	1,025	1,025	1,811	1,804	1,861	2,095	2,340	2,616	2,926
Provincial	86	102	150	128	165	165	208	207	243	273	305	341	382
Grants	33	33	31	41	35	35	49	49	61	44	46	47	49
Expenditure (including statistical discrepancy)	8,345	9,649	10,306	13,301	16,110	16,137	21,518	21,283	24,710	25,619	27,582	29,996	33,430
Current expenditure	7,274	8,597	9,111	11,535	14,553	14,474	19,146	19,130	22,037	22,610	24,221	26,247	29,238
Federal	4,946	6,081	6,292	8,369	10,785	10,676	14,555	14,414	16,712	16,617	17,525	18,760	20,865
Interest	2,091	2,620	2,750	3,197	5,832	5,722	8,602	8,371	9,787	8,822	8,817	9,024	9,976
Domestic	1,821	2,313	2,524	2,829	5,046	4,936	7,489	7,254	8,517	7,436	7,354	7,483	8,331
Foreign	270	302	226	354	714	714	996	1,003	1,158	1,287	1,463	1,541	1,645
IMF budget support	0	5	0	14	72	72	116	115	112	99	0	0	0
Other	2,855	3,466	3,542	5,186	5,025	5,026	6,069	6,158	7,037	7,893	8,708	9,737	10,889
Defense	1,147	1,213	1,316	1,412	1,573	1,586	1,804	1,839	2,152	2,422	2,706	3,025	3,383
Other	1,708	2,253	2,226	3,774	3,452	3,441	4,265	4,319	4,886	5,472	6,002	6,711	7,505
Of which : subsidies	195	360	425	1,530	1,104	1,080	1,396	1,396	1,509	1,698	1,897	2,121	2,372
Of which : grants	612	917	855	1,142	981	988	1,312	1,272	1,488	1,675	1,871	2,092	2,340
Provincial	2,328	2,516	2,819	3,167	3,769	3,798	4,591	4,716	5,325	5,994	6,696	7,487	8,373
Development expenditure and net lending	1,049	1,139	1,288	1,649	1,938	1,953	2,179	2,135	2,673	3,009	3,361	3,749	4,192
Public Sector Development Program	1,008	1,090	1,211	1,609	1,879	1,893	2,108	2,064	2,590	2,916	3,257	3,632	4,062
Federal	502	468	441	397	648	652	782	782	890	1,002	1,119	1,242	1,388
Provincial	506	622	770	1,212	1,230	1,241	1,325	1,282	1,700	1,914	2,138	2,390	2,673
Net lending	41	49	77	40	60	60	71	71	83	93	104	117	130
Statistical discrepancy ("+" = additional expenditure)	22	-87	-93	116	-381	-290	194	19	0	0	0	0	0
Overall Balance (excluding grants)	-3,445	-3,376	-3,404	-5,266	-6,524	-6,550	-8,201	-7,970	-9,286	-8,245	-8,183	-8,302	-9,133
Overall Balance (including grants)	-3,412	-3,343	-3,373	-5,224	-6,490	-6,516	-8,152	-7,921	-9,225	-8,201	-8,137	-8,254	-9,084
Financing	3,412	3,343	3,373	5,224	6,490	6,516	8,152	7,921	9,225	8,201	8,137	8,254	9,084
External	417	896	1,418	677	-1,133	-1,132	1,256	489	1,590	1,446	1,087	210	465
Of which: privatization receipts	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which: IMF	0	390	80	187	191	191	-197	-197	-296	-106	-203	-248	-258
Domestic	2,995	2,447	1,955	4,548	7,622	7,648	6,896	7,432	7,635	6,755	7,050	8,045	8,619
Bank	2,230	1,907	1,746	3,183	5,335	5,354	4,827	5,203	5,345	4,760	4,996	5,706	6,111
Nonbank	765	540	209	1,364	2,287	2,294	2,069	2,230	2,291	1,995	2,054	2,339	2,508
Memorandum items:													
Underlying fiscal balance (excl. grants) 1/	-3,445	-3,376	-3,051	-4,737	-6,344	-6,370	-8,201	-7,970	-9,286	-8,245	-8,183	-8,302	-9,133
Primary balance (excluding grants)	-1,353	-756	-654	-2,069	-692	-828	401	401	501	576	634	722	843
Underlying primary balance (excluding grants) 1/	-1,353	-756	-301	-1,540	-512	-648	401	401	501	576	634	722	843
Primary balance (including grants)	-1,320	-723	-623	-2,028	-658	-794	450	450	562	620	680	769	892
Total primary spending	6,254	7,029	7,557	10,104	10,279	10,415	12,916	12,912	14,923	16,798	18,765	20,972	23,453
Total security spending	1,147	1,213	1,316	1,412	1,573	1,586	1,804	1,839	2,152	2,422	2,706	3,025	3,383
General government debt incl. IMF obligations	33,946	37,823	41,044	50,766	64,828	64,828	77,636	76,913	87,346	96,663	105,547	114,553	124,579
Domestic debt	20,732	23,283	26,265	31,085	38,810	38,810	45,706	46,242	53,878	60,528	67,374	75,172	83,533
External debt	13,214	14,540	14,779	19,680	26,018	26,018	31,930	30,671	33,468	36,136	38,173	39,381	41,046
General government and government guaranteed debt (incl. IMF)	35,915	40,167	43,451	53,749	68,342	68,343	81,896	81,074	91,876	101,379	110,454	119,711	130,020
Net general government debt (incl. IMF)	30,759	34,659	36,847	46,568	60,630	60,630	73,438	72,716	83,148	92,466	101,350	110,356	120,382
Nominal GDP (market prices)	43,798	47,540	55,836	66,640	84,069	84,069	106,577	106,679	124,813	140,491	156,951	175,490	196,253

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, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it excludes IPPs related arrears clearance and COVID-19 spending.

Table 4b. Pakistan: General Government Budget (percent of GDP), 2018/19–2028/29

(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					Prog.	Est.	Prog.	Proj.	Proj.				
Revenue and grants	11.3	13.3	12.4	12.1	**11.4**	11.4	**12.5**	12.5	12.4	12.4	12.4	12.4	12.4
Revenue	11.2	13.2	12.4	12.1	**11.4**	11.4	**12.5**	12.5	12.4	12.4	12.4	12.4	12.4
Tax revenue	10.2	10.0	10.3	10.4	**10.0**	10.0	**10.6**	10.6	10.7	10.7	10.7	10.7	10.7
Federal	9.3	9.1	9.4	9.5	**9.2**	9.2	**9.8**	9.8	9.9	9.9	9.9	9.9	9.9
FBR revenue	8.7	8.4	8.5	9.2	**8.5**	8.5	**8.8**	8.8	8.9	8.9	8.9	8.9	8.9
Direct taxes	3.3	3.2	3.1	3.4	**3.9**	3.9	**4.0**	4.3	4.2	4.2	4.2	4.3	4.3
Federal excise duty	0.5	0.5	0.5	0.5	**0.4**	0.4	**0.5**	0.5	0.5	0.5	0.5	0.5	0.5
Sales tax	3.3	3.4	3.6	3.8	**3.1**	3.1	**3.2**	3.0	3.1	3.1	3.1	3.1	3.1
Customs duties	1.6	1.3	1.4	1.5	**1.1**	1.1	**1.1**	1.0	1.0	1.0	1.0	1.0	1.0
Petroleum surcharge	0.5	0.6	0.8	0.2	**0.7**	0.7	**0.9**	0.9	0.9	0.9	0.9	0.9	0.9
Gas surcharge and other	0.0	0.1	0.1	0.1	**0.0**	0.0	**0.1**	0.1	0.1	0.1	0.1	0.1	0.1
GIDC	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
Provincial	0.9	0.9	0.9	0.9	**0.8**	0.8	**0.8**	0.8	0.8	0.8	0.8	0.8	0.8
Nontax revenue	1.0	3.2	2.1	1.6	**1.4**	1.4	**1.9**	1.9	1.7	1.7	1.7	1.7	1.7
Federal	0.8	3.0	1.8	1.4	**1.2**	1.2	**1.7**	1.7	1.5	1.5	1.5	1.5	1.5
Provincial	0.2	0.2	0.3	0.2	**0.2**	0.2	**0.2**	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.1	0.1	0.1	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	**19.2**	19.2	**20.2**	20.0	19.8	18.2	17.6	17.1	17.0
Current expenditure	16.6	18.1	16.3	17.3	**17.3**	17.2	**18.0**	17.9	17.7	16.1	15.4	15.0	14.9
Federal	11.3	12.8	11.3	12.6	**12.8**	12.7	**13.7**	13.5	13.4	11.8	11.2	10.7	10.6
Interest	4.8	5.5	4.9	4.8	**6.9**	6.8	**8.1**	7.8	7.8	6.3	5.6	5.1	5.1
Domestic	4.2	4.9	4.5	4.2	**6.0**	5.9	**7.0**	6.8	6.8	5.3	4.7	4.3	4.2
Foreign	0.6	0.6	0.4	0.5	**0.8**	0.8	**0.9**	0.9	0.9	0.9	0.9	0.9	0.8
IMF budget support	0.0	0.0	0.0	0.0	**0.1**	0.1	**0.1**	0.1	0.1	0.1	0.0	0.0	0.0
Other	6.5	7.3	6.3	7.8	**6.0**	6.0	**5.7**	5.8	5.6	5.6	5.5	5.5	5.5
Defense	2.6	2.6	2.4	2.1	**1.9**	1.9	**1.7**	1.7	1.7	1.7	1.7	1.7	1.7
Other	3.9	4.7	4.0	5.7	**4.1**	4.1	**4.0**	4.0	3.9	3.9	3.8	3.8	3.8
Of which : subsidies	0.4	0.8	0.8	2.3	**1.3**	1.3	**1.3**	1.3	1.2	1.2	1.2	1.2	1.2
Of which : grants	1.4	1.9	1.5	1.7	**1.2**	1.2	**1.2**	1.2	1.2	1.2	1.2	1.2	1.2
Provincial	5.3	5.3	5.0	4.8	**4.5**	4.5	**4.3**	4.4	4.3	4.3	4.3	4.3	4.3
Development expenditure and net lending	2.4	2.4	2.3	2.5	**2.3**	2.3	**2.0**	2.0	2.1	2.1	2.1	2.1	2.1
Public Sector Development Program	2.3	2.3	2.2	2.4	**2.2**	2.3	**2.0**	1.9	2.1	2.1	2.1	2.1	2.1
Federal	1.1	1.0	0.8	0.6	**0.8**	0.8	**0.7**	0.7	0.7	0.7	0.7	0.7	0.7
Provincial	1.2	1.3	1.4	1.8	**1.5**	1.5	**1.2**	1.2	1.4	1.4	1.4	1.4	1.4
Net lending	0.1	0.1	0.1	0.1	**0.1**	0.1	**0.1**	0.1	0.1	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional expenditure)	0.1	-0.2	-0.2	0.2	**-0.5**	-0.3	**0.2**	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	**-7.8**	-7.8	**-7.7**	-7.5	-7.4	-5.9	-5.2	-4.7	-4.7
Overall Balance (including grants)	-7.8	-7.0	-6.0	-7.8	**-7.7**	-7.8	**-7.6**	-7.4	-7.4	-5.8	-5.2	-4.7	-4.6
Financing	7.8	7.0	6.0	7.8	**7.7**	7.8	**7.6**	7.4	7.4	5.8	5.2	4.7	4.6
External	1.0	1.9	2.5	1.0	**-1.3**	-1.3	**1.2**	0.5	1.3	1.0	0.7	0.1	0.2
Of which: privatization receipts	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
Of which: IMF	0.0	0.8	0.1	0.3	**0.2**	0.2	**-0.2**	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Domestic	6.8	5.1	3.5	6.8	**9.1**	9.1	**6.5**	7.0	6.1	4.8	4.5	4.6	4.4
Bank	5.1	4.0	3.1	4.8	**6.3**	6.4	**4.5**	4.9	4.3	3.4	3.2	3.3	3.1
Nonbank	1.7	1.1	0.4	2.0	**2.7**	2.7	**1.9**	2.1	1.8	1.4	1.3	1.3	1.3
Memorandum items:													
Underlying fiscal balance (excl. grants) 1/	-7.9	-7.1	-5.5	-7.1	**-7.5**	-7.6	**-7.7**	-7.5	-7.4	-5.9	-5.2	-4.7	-4.7
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	**-0.8**	-1.0	**0.4**	0.4	0.4	0.4	0.4	0.4	0.4
Underlying primary balance (excluding grants) 1/	-3.1	-1.6	-0.5	-2.3	**-0.6**	-0.8	**0.4**	0.4	0.4	0.4	0.4	0.4	0.4
Primary balance (including grants)	-3.0	-1.5	-1.1	-3.0	**-0.8**	-0.9	**0.4**	0.4	0.5	0.4	0.4	0.4	0.5
Total primary spending	14.3	14.8	13.5	15.2	**12.2**	12.4	12.1	12.1	12.0	12.0	12.0	12.0	12.0
Total security spending	2.6	2.6	2.4	2.1	**1.9**	1.9	**1.7**	1.7	1.7	1.7	1.7	1.7	1.7
General government debt incl. IMF obligations	77.5	79.6	73.5	76.2	**77.1**	77.1	**72.8**	72.1	70.0	68.8	67.2	65.3	63.5
Domestic debt	47.3	49.0	47.0	46.6	**46.2**	46.2	**42.9**	43.3	43.2	43.1	42.9	42.8	42.6
External debt	30.2	30.6	26.5	29.5	**30.9**	30.9	**30.0**	28.8	26.8	25.7	24.3	22.4	20.9
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.8	80.7	**81.3**	81.3	**76.8**	76.0	73.6	72.2	70.4	68.2	66.3
Net general government debt (incl. IMF)	70.2	72.9	66.0	69.9	**72.1**	72.1	**68.9**	68.2	66.6	65.8	64.6	62.9	61.3
Nominal GDP (market prices, billions of Pakistani rupees)	43,798	47,540	55,836	66,640	**84,069**	84,069	**106,577**	106,679	124,813	140,491	156,951	175,490	196,253

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, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it excludes IPPs related arrears clearance and COVID-19 spending.

Table 5. Pakistan: Monetary Survey, 2018/19–2023/24

	2018/19	2019/20	2020/21	2021/22	2022/23		2023/24				
							Q1	Q2	Q3	Q4	
					Prog.	Est.	Est.	Est.	Proj.	Prog.	Proj.
	(Billions of Pakistani rupees, unless otherwise indicated)										
Monetary survey											
Net foreign assets (NFA)	-1,507	-516	725	-753	**-2,688**	-2,688	-2,436	-2,126	-2,195	**-2,328**	-2,314
Net domestic assets (NDA)	19,306	21,424	23,573	28,356	**34,211**	34,211	33,961	35,062	35,043	**37,318**	38,092
Net claims on government, *of which:*	12,337	14,547	16,265	19,623	**23,351**	23,351	24,566	25,213	26,851	**28,963**	29,053
Budget support, *of which:*	11,546	13,471	15,248	18,331	**21,863**	21,863	22,938	23,930	25,751	**27,463**	27,553
Banks	4,857	7,016	9,974	13,294	**16,923**	16,923	18,558	20,713	22,534	**23,083**	24,336
Commodity operations	756	813	904	1,134	**1,486**	1,486	1,309	1,257	1,100	**1,500**	1,500
Credit to nongovernment	8,073	8,372	9,114	10,413	**10,916**	10,916	10,732	11,322	11,112	**11,491**	11,331
Private sector 1/	6,703	6,906	7,702	9,044	**9,253**	9,253	9,058	9,637	9,393	**9,715**	9,577
Public sector enterprises	1,370	1,466	1,413	1,369	**1,663**	1,663	1,674	1,686	1,719	**1,776**	1,754
Privatization account	-41	-41	-41	-41	**-41**	-41	-41	-41	-41	**-41**	-41
Other items, net	-1,063	-1,455	-1,766	-1,640	**-16**	-16	-1,296	-1,433	-2,880	**-3,096**	-2,251
Broad money	17,798	20,908	24,298	27,603	**31,523**	31,523	31,525	32,936	32,848	**34,990**	35,779
Currency outside scheduled banks	4,950	6,142	6,910	7,572	**9,149**	9,149	8,288	8,452	8,350	**9,649**	9,095
Rupee deposits	11,739	13,691	16,342	18,817	**20,847**	20,847	21,698	22,990	22,892	**23,603**	24,988
Foreign currency deposits	1,110	1,075	1,046	1,213	**1,527**	1,527	1,539	1,494	1,606	**1,737**	1,696
State Bank of Pakistan (SBP)											
NFA	-1,127	-181	931	-560	**-2,013**	-2,013	-1,642	-1,422	-1,491	**-1,534**	-1,610
NDA	7,701	7,861	7,733	9,886	**13,433**	13,433	12,101	12,095	12,959	**14,210**	14,286
Net claims on government	6,676	6,524	5,320	5,124	**5,233**	5,233	4,954	3,490	3,490	**4,954**	3,490
Of which: budget support	6,689	6,455	5,274	5,037	**4,940**	4,940	4,380	3,217	3,217	**4,380**	3,217
Claims on nongovernment	12	19	49	61	**62**	62	61	60	60	**61**	60
Claims on scheduled banks	683	877	1,265	1,603	**1,542**	1,542	1,491	1,538	1,538	**1,491**	1,538
Privatization account	-41	-41	-41	-41	**-41**	-41	-41	-41	-41	**-41**	-41
Other items, net	371	482	1,140	3,139	**6,637**	6,637	5,635	7,047	7,911	**7,744**	9,238
Reserve money, *of which:*	6,573	7,680	8,663	9,327	**11,420**	11,420	10,459	10,672	11,468	**12,676**	12,676
Banks' reserves	1,246	1,171	1,307	1,229	**1,634**	1,634	1,613	1,619	1,740	**1,954**	1,923
Currency	5,294	6,468	7,288	8,002	**9,674**	9,674	8,742	8,934	9,728	**10,721**	10,753
	(Annual percentage change, unless otherwise indicated)										
Broad money	11.3	17.5	16.2	13.6	**14.2**	14.2	12.9	17.9	14.0	**11.0**	13.5
NFA, banking system (in percent of broad money) 2/	-8.1	5.6	5.9	-6.1	**-7.0**	-7.0	-4.0	-0.8	2.2	**1.1**	1.2
NDA, banking system (in percent of broad money) 2/	19.4	11.9	10.3	19.7	**21.2**	21.2	16.9	18.7	11.8	**9.9**	12.3
Budgetary support (in percent of broad money) 2/	14.1	10.8	8.5	12.7	**12.8**	12.8	15.4	18.6	18.9	**17.8**	18.1
Budgetary support	24.4	16.7	13.2	20.2	**19.3**	19.3	23.1	27.8	26.8	**25.6**	26.0
Private credit 1/	11.9	3.0	11.5	17.4	**2.3**	2.3	-1.0	0.1	0.5	**5.0**	3.5
Currency	12.8	24.1	12.5	9.6	**20.8**	20.8	8.3	9.9	0.9	**5.5**	-0.6
Reserve money	19.9	16.8	12.8	7.7	**22.4**	22.4	12.5	14.7	13.0	**11.0**	11.0
Memorandum items:											
Velocity	2.6	2.5	2.5	2.6	**2.9**	2.9	3.0	3.1	3.1	**3.3**	3.2
Money multiplier	2.7	2.7	2.8	3.0	**2.8**	2.8	3.0	3.1	2.9	**2.8**	2.8
Currency to broad money ratio (percent)	27.8	29.4	28.4	27.4	**29.0**	29.0	26.3	25.7	25.4	**27.6**	25.4
Currency to deposit ratio (percent)	38.5	41.6	39.7	37.8	**40.9**	40.9	35.7	34.5	34.1	**38.1**	34.1
Foreign currency to deposit ratio (percent)	8.6	7.3	6.0	6.1	**6.8**	6.8	6.6	6.1	6.6	**6.9**	6.4
Reserves to deposit ratio (percent)	9.7	7.9	7.5	6.1	**7.3**	7.3	6.9	6.6	7.1	**7.7**	7.2
Budget bank financing (change from the beginning of the fiscal year; in PRs billions), *of which:*	2,262	1,925	1,777	3,083	**3,532**	3,532	1,075	2,067	3,888	**5,600**	5,690
By commercial banks	-887	2,159	2,958	3,320	**3,629**	3,629	1,635	3,790	5,611	**6,161**	7,413
By SBP 3/	3,150	-234	-1,181	-237	**-97**	-97	-561	-1,723	-1,723	**-561**	-1,723
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 4/	-9.4	8.1	6.7	-9.1	**-6.3**	-6.3	2.6	3.5	4.6	**4.5**	4.2
NFA of commercial banks (millions of U.S. dollars)	-3,127	-2,092	-1,225	-1,227	**-3,292**	-3,292	-3,475	-3,108	-2,480	**-2,776**	-2,461
NDA of commercial banks (billions of Pakistani rupees)	11,605	13,563	15,840	18,469	**20,778**	20,778	21,860	22,967	22,084	**23,108**	23,807

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, 2013–23

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.	2019 Dec.	2020 Dec.	2021 Dec.	2022 Dec.	2023 Dec.
Capital adequacy											
Regulatory capital to risk-weighted assets 1/	14.9	17.1	17.3	16.2	15.8	16.2	17.0	18.6	16.7	17.0	19.7
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	13.2	14.0	14.8	13.5	14.2	16.0
Capital to total assets	9.0	10.0	8.4	7.8	7.1	7.1	7.2	7.2	6.3	5.9	5.9
Asset composition and quality											
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	8.4	8.0	8.6	9.2	7.9	7.3	7.6
Provisions to NPLs	78.4	79.8	84.9	85.0	87.2	83.8	81.4	88.3	91.2	89.5	92.7
Net NPLs to total eligible capital	14.7	10.1	7.7	7.3	5.8	7.8	8.9	5.3	4.0	4.6	2.7
Earnings and profitability											
Return on assets (after tax)	1.1	1.5	1.5	1.3	0.9	0.8	0.8	1.0	1.0	1.0	1.7
Return on equity (after tax)	12.4	16.1	15.6	14.4	11.5	10.7	11.3	13.8	14.1	16.9	27.1
Net interest income to gross income	70.4	71.3	70.4	71.2	72.7	75.4	79.3	79.7	77.9	79.8	82.9
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	57.1	60.2	57.6	50.0	53.5	48.4	41.2
Liquidity											
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	48.7	49.7	54.8	55.4	56.6	63.5
Liquid assets to total deposits	61.3	64.5	73.3	72.1	76.1	67.2	68.4	74.3	76.7	86.4	101.1
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	55.8	51.7	44.8	46.6	50.4	41.8

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, 2015–29
(In millions of SDR, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
											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**	**4,810.3**	**5,722.2**	**5,660.1**	**5,752.2**	**4,983.0**	**4,504.3**	**3,145.9**	**1,626.3**	**847.0**
Of which:															
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	894.0	2,250.0	2,250.0	2,138.3	1,286.2	273.0	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	4,810.3	5,722.2	4,766.1	3,502.2	2,733.0	2,366.0	1,859.7	1,353.3	847.0
In percent of quota	348.3	216.3	216.3	208.9	239.6	255.7	236.8	281.7	278.7	283.2	245.3	221.8	154.9	80.1	41.7
In percent of end-period gross official reserves	31.4	32.4	44.1	81.6	59.2	55.7	38.0	136.4	91.8	79.6	42.5	32.9	22.3	10.4	4.9
As a share of external debt	7.3	7.7	6.9	5.8	6.0	6.4	5.5	6.4	6.2	6.1	5.0	4.3	2.9	1.5	0.8
					Projected debt service to the Fund based on existing and prospective drawings										
Total	**338.1**	**51.4**	**77.5**	**248.0**	**532.7**	**799.3**	**833.4**	**901.5**	**1,382.1**	**1,759.6**	**1,206.3**	**868.1**	**1,682.3**	**1,756.1**	**951.7**
Of which:															
Principal	303.0	0.0	0.0	150.0	420.0	690.0	732.2	732.2	956.0	1,263.9	769.2	478.8	1,358.3	1,519.6	779.3
Interest and charges	35.1	51.4	77.5	98.0	112.7	109.3	101.2	169.3	426.1	495.7	437.1	389.3	324.0	236.5	172.4
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	111.7	852.0	1013.3	273.0
Extended Fund Facility principal	0.0	0.0	0.0	150.0	420.0	690.0	732.2	732.2	702.2	756.2	515.3	367.0	506.3	506.3	506.3
Rapid Financing Instrument principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	253.9	507.8	253.9	0.0	0.0	0.0	0.0
In percent of quota	32.7	2.5	3.8	12.2	26.2	39.4	41.0	44.4	68.1	86.6	59.4	42.7	82.8	86.5	46.9
In percent of end-period gross official reserves	2.9	0.4	0.8	4.8	6.5	8.6	6.6	21.5	22.4	24.4	10.3	6.3	11.9	11.2	5.5
As a share of total external debt service	7.2	1.1	1.1	3.6	5.3	8.9	9.9	6.4	10.7	14.6	9.4	6.3	10.6	10.7	11.7
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	2,031	2,031
Gross official reserves (millions of U.S. dollars)	15,886	18,269	14,107	7,199	11,334	13,412	17,686	5,575	8,220	9,636	15,633	18,279	18,813	20,884	23,159
Net International reserves (millions of U.S. dollars)					-10,842	-8,528	-3,210	-16,893	-12,425	-11,160	-4,137	-853	1,493	5,592	8,906
Exports of goods and services (millions of US dollars)	6,630	6,875	7,689	7,521	7,732	8,054	9,887	8,990	10,239	10,097	10,689	11,405	12,094	12,854	14,883
Total External Debt (millions of U.S. dollars)	68,473	76,436	90,464	100,681	110,957	117,115	121,690	119,485	121,617	125,099	134,172	140,044	143,670	147,972	150,068
Total external debt (percent of CY GDP)	22.3	23.4	26.0	29.7	35.7	36.1	33.7	33.5	34.7	33.4	33.4	32.6	29.1	29.0	59.0
Total external debt service (millions of U.S. dollars)	6,468	6,217	9,664	9,498	13,807	12,940	11,775	18,796	17,239	16,026	17,156	18,365	21,144	21,813	10,881

Source: IMF staff projections.

1 / Using the GRA rate of charge = 5.131 as of March 21, 2024 for projected charges.

Table 8. Pakistan: Schedule of Reviews and Purchases

Availability Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
July 12, 2023	894	44.0	Approval of arrangement
December 1, 2023	528	26.0	First review and end-September 2023 performance/ continuous criteria
March 15, 2024	828	40.8	Second review and end-December 2023 performance/ continuous criteria
Total	2,250	110.8	

Source: IMF staff estimates.

Table 9. Pakistan: Decomposition of Public Debt and Debt Service by Creditor 2022/23–2024/25 1/

	Debt Stock (end of period)			Debt Service					
	Dec-23			2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)* 2	*(In US$ million)*			*(Percent GDP)*		
Total	253,843	100.0	75.0	84,147	87,410	54,199	24.9	24.1	14.2
External	102,748	40.5	30.4	18,699	13,309	11,872	5.5	3.7	3.1
Multilateral creditors[3]	46,509	18.3	13.7	5,210	5,581	5,289	1.5	1.5	1.4
IMF	7,596	3.0	2.2						
World Bank	20,121	7.9	5.9						
ADB/AfDB/IADB	15,367	6.1	4.5						
Other Multilaterals	3,425	1.3	1.0						
o/w: IsDB	99	0.0	0.0						
AIIB	1,698	0.7	0.5						
Bilateral Creditors	41,689	16.4	12.3	4,282	4,054	2,923	1.3	1.1	0.8
Paris Club	7,541	3.0	2.2	1,317	1,416	1,056	0.4	0.4	0.3
o/w: Japan	3,609	1.4	1.1						
France	1,246	0.5	0.4						
Non-Paris Club*	34,148	13.5	10.1	2,965	2,637	1,867	0.9	0.7	0.5
o/w: China **	23,651	9.3	7.0						
Saudi Arabia**	6,661	2.6	2.0						
Bonds***	7,804	3.1	2.3	1,611	1,584	501	0.5	0.4	0.1
Commercial creditors	6,094	2.4	1.8	6,433	1,605	2,996	1.9	0.4	0.8
o/w: Chinese commercial banks	5,395	2.1	1.6						
Other	699	0.3	0.2						
Other international creditors	652	0.3	0.2	1,164	486	163	0.3	0.1	0.0
o/w: NPC/NBP/BOC deposits/PBC****	652	0.3	0.2						
Domestic	151,096	59.5	44.7	65,448	74,101	42,327	19.3	20.5	11.1
T-Bills	29,695	11.7	8.8	31,631	36,097	3,852	9.4	10.0	1.0
Held by: central bank	271	0.1	0.1						
local banks	20,078	7.9	5.9						
local non-banks	9,346	3.7	2.8						
Bonds*****	106,539	42.0	31.5	22,776	30,045	34,069	6.7	8.3	8.9
Held by: central bank	19,429	7.7	5.7						
local banks	66,138	26.1	19.5						
local non-banks	20,971	8.3	6.2						
Loans/Other	14,862	5.9	4.4	11,040	7,959	4,406	3.3	2.2	1.2
Held by: central bank******	1,685	0.7	0.5						
local banks*******	2,091	0.8	0.6						
National Savings Scheme	11,086	4.4	3.3						
Memo items:									
Collateralized debt[4]		0.0	0.0						
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: Public guarantees	12,401	4.9	3.5						
o/w: Other explicit contingent liabilities[5]	n.a.	n.a.	n.a.						
Central bank deposit liabilities	3,700	1.5	1.1						
Central bank bilateral swap liabilities	4,271	1.7	1.2						
Nominal GDP[2]	350,160								

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for the inclusion of guaranteed debt (excluded from the DSA). Debt service is reported based on the outstanding stock at end-December, 2023.

2/ Nominal GDP reported and used for shares of debt-to-GDP is the average of fiscal year 2023 and projected fiscal year 2024 (FY: July 1 to June 30).

3/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/ Despite some progress under the 2019-23 EFF and the 2023-24 SBA, comprehensive recording of explicit contingent liabilities remains incomplete due to capacity weaknesses.

* Includes central bank deposit liabilities from UAE and Kuwait of US$3.7 billion in total.

** Includes China State Adminstratation of Foreign Exchange (SAFE) deposits of US$4 billion, and central bank bilateral swap liabilities of US$4.2 billion, and Saudi Arabia include KSA deposits of US$5 billion.

*** Includes local currency bonds (T-Bills and PIBs) held by non-residents.

**** Pakistan Banao Certificates (PBC) and Naya Pakistan Certificates (NPC) are issued by Government of Pakistan for overseas Pakistanis.

***** Includes Government Ijara Sukuk.

****** Represents on-lending of the SDR allocation from SBP to the federal government.

******* Includes foreign currency loans from local branches of international banks.

Annex I. Progress Under the SBA and Challenges Ahead

1. The objectives of Pakistan's 2023-24 Stand-By Arrangement (SBA) were largely achieved. The SBA began at a difficult juncture: Pakistan was recovering from devastating floods; faced acute external financing pressures; and was adversely affected by misaligned domestic policies. Reflecting significant policy effort by the authorities, the SBA succeeded in stabilizing the economy, rebuilding buffers, and making some progress on the structural reform agenda.

2. Projected outcomes are broadly in line with initial program projections. Projected FY24 growth was revised down from 2.5 to 2.0 percent at the time of the first review, reflecting weaker-than-expected domestic demand. The FY24 current account is now expected to be stronger, reflecting outturns over the course of FY24, though this was offset by lower than anticipated financing inflows. Market sentiment has improved significantly since the start of the program, with EMBIG spreads down over 1,300 bps, although risks to debt sustainability remain large. The medium term growth outlook is broadly the same, although external balances are expected to be stronger than at the time of the SBA request. Reserve buildup is also expected to be larger.

Pakistan: Selected Economic Indicators, SBA Request v. Current, FYs 23–28 1/

	2022/23	2023/24		2024/25		2025/26		2026/27		2027/28	
	Actual	SBA Req	Current	SBA Req	Current	SBA Req	Current	SBA Req	Current	SBA Req	Current
Real GDP growth (%)	-0.2	2.5	2.0	3.6	3.5	4.5	4.5	5.0	5.0	5.0	5.0
Consumer prices (period average, % change)	29.2	25.9	24.8	11.4	12.7	7.4	7.6	6.5	6.5	6.5	6.5
Underlying primary balance (excluding grants) 2/	-0.8	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Gen. gov. debt (incl. IMF obligations, % of GDP)	77.1	74.9	72.1	72.1	69.9	70.6	68.8	68.2	67.2	66.1	65.2
Current account balance (% of GDP)	-0.7	-1.8	-0.8	-1.7	-1.2	-1.7	-1.2	-1.7	-1.3	-1.7	-1.4
Gross official reserves (billions of US$)	4.5	9.0	9.0	12.9	13.4	14.1	17.0	15.3	19.1	15.7	20.2
in months of next year's G&S imports	0.8	1.4	1.5	1.8	2.1	1.9	2.5	1.9	2.7	1.9	2.7

Sources: Pakistani authorities; IMF staff estimates and projections.
1/ The fiscal year (FY) runs from July 1 through June 30.
2/ Excludes one-off transactions, including asset sales (Tables 4a and 4b)

3. Macroeconomic resilience has improved as short-term vulnerabilities eased. The authorities are on track to fully implement the FY24 budget, representing a strong primary balance improvement during the program, including strong revenue performance. They also maintained an appropriately tight monetary policy that saw the start of disinflation (despite the implementation of necessary energy tariff increases to avoid CD accumulation); and amid easing external pressures FX market functioning has improved.

4. Good progress was made on the structural reform agenda. Benchmarks related to sound budget practices; social spending; the FX market; energy sector stability; SOE governance reform (work toward the missed end-November 2023 SB on amending four dedicated SOE laws remains in progress); climate resilience; and macroeconomic statistics were all achieved.

5. Significant challenges remain beyond the life of this program. Debt sustainability remains a large risk. Continued revenue-driven fiscal consolidation is critical. Inflation remains high despite the disinflation trajectory and the SBP must remain vigilant, ready to take prompt actions if needed. Likewise, a flexible exchange rate is key to moderating balance of payments pressures and rebuilding international reserves. Significant progress was made over a short period on the structural reform agenda (though the creation of the SWF and SIFC in August 2023 pose risks to the SOE reform and business environment agendas). However, much more is required in the areas noted above to achieve medium-term viability and address Pakistan's broader structural challenges, including its narrow export base, low private investment and FDI, weak revenue base relative to public investment needs, low health and education spending levels in the context of major human capital development needs, elevated poverty levels, and income and gender inequality.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Pakistan in FY23 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The current account (CA) deficit narrowed to 0.7 percent of GDP, compared to 4.7 percent in FY22. Nevertheless, without import payment restrictions, the CA deficit in FY23 would have been larger, requiring additional real exchange rate depreciation in order to bring the CA back to equilibrium.*

Potential Policy Responses: *The authorities should allow the exchange rate to act as a buffer for shocks and refrain from any restrictions on import payments, which could artificially compress the CA. There is also a need for fiscal tightening to alleviate real exchange rate appreciation pressures, as well as structural reforms to boost productivity and competitiveness.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Pakistan's Net International Investment Position (NIIP) reached US$-131 billion in 2023, a similar level to 2022 but markedly lower than FY2019-2022, when NIIP averaged US$-116 billion. Net direct investment stood at US$-28.8 billion, whereas net portfolio investment reached US$-9.3 billion. Pakistan's IIP does not feature substantial positions in financial derivatives.

Assessment. Gross debt-service obligations remain substantial, and current account imbalances stemming from insufficient exchange rate flexibility and import restrictions may require additional policy adjustment to reach external equilibrium.

2023 (% GDP)	NIIP: -38.7	Gross Assets: -6.6	Gross Liab.: - 45.3

Current Account

Background. The CA posted a small surplus in FY24Q2 of about US$200 million, driven by an increase in exports. Staff projects imports to increase over the remaining two quarters, with the CA balance for FY24 reaching approximately -0.8 percent of GDP, compared to -0.7 in FY23, -4.7 in FY22, and -0.8 in FY21.

Assessment. The cyclically adjusted CA in FY23 is estimated to have been -0.6 percent of GDP. While the EBA CA norm is estimated at -0.7 percent of GDP, staff judges the norm to be closer to -0.5 percent of GDP, consistent with the need to strengthen NIIP through building external assets and reducing external liabilities. As a result, staff judges the CA gap to be -0.1 (compared to 0.1 in the CA model).

The impact of import payment restrictions on the CA in FY23 is not captured by the EBA model; these distortions, when unwound, tend to move the CA gap towards a weaker external position and the REER gap towards further overvaluation.

Pakistan: Model Estimates for 2023 (in percent of GDP)

	CA Model	REER Model	ES Model
CA-Actual	-0.7		
Cyclical Contributions (from model)	-0.1		
Additional temporary/statistical factors	0		
Adjusted CA	-0.6		-0.6
CA norm (from model) 1/	-0.7		
Adjustments to the norm 2/	0.2		
Adjusted CA norm	-0.5		
CA gap	-0.1		2.5
o/w Policy gap	-1.6		
Elasticity	0.16		
REER gap	0.7	-7.2	-16.3

1/ Cyclically adjusted, including mulitlateral consistency adjustments.
2/ Consistent with a NIIP of -30 percent of GDP by FY29 (assuming gradual convergence to CA norm).

Real Exchange Rate

Background. Pakistan's REER has depreciated over the past two years (5.8 percent in FY23 and 1.2 in FY22). In contrast, the REER appreciated 2 percent in FY21. The change in the 2023 REER reflects a trade-weighted nominal depreciation of about 26.5 percent, as well as foreign inflation of around 7.5 percent among Pakistan's trading partners, and domestic inflation of 29 percent. This trend has reversed during the current fiscal year, however: by end-FY24Q2 the REER had appreciated about 10 percent compared to FY23 Q1, with the nominal exchange rate remaining broadly stable at around PRs 280 per US$ since July 2023.

Assessment. Staff's assessment places the FY23 REER gap at 0.7 percent using the EBA CA model. Results do not take into account the influence of import payment restrictions, which, when removed, would likely require additional real depreciation. In light of these considerations, staff continues to see a need for greater exchange rate flexibility.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account posted a deficit of US$2.5 billion in FY23, driven primarily by government debt repayments: general government amortizations exceeded disbursements by US$2.9 billion. These flows were partially offset by US$900 million in "Other investment assets" of the general government. Net portfolio investment totaled just over US$-1 billion, whereas net FDI reached US$600 million. In previous years, however, the financial account remained in positive territory, averaging US$9.1 billion over FY19-22, and driven primarily by disbursements to the general government (and to monetary authorities in the specific case of FY19). Pakistan's international financial integration continues to be limited, with a normalized Chinn-Ito Index of 0.16 placing the country at the 25th percentile of the world sample in terms of capital mobility, a score that has remained unchanged over the past five years.

Assessment. Authorities have been proactive in their intent to phase out distortive measures, but there is still space for additional reforms.
FX Intervention and Reserves Level
Background. Gross reserves decreased sharply during FY23, totaling US$4.5 billion (about 1.3 percent of GDP, or 0.8 months of imports) in contrast to US$9.8 billion in FY22 and US$17.2 billion in FY21. More recently, reserves have gradually recovered, reaching US$8.2 billion in December 2023. In addition to spot FX interventions to accumulate reserves, the SBP has also gradually reduced its negative net forward position, from US$-4.5 billion in July 2023 to US$-3.4 billion by end-December 2023. During 2024, SBP's forward position has remained broadly unchanged. **Assessment.** Pakistan's gross reserves in 2023 reached 18.2 percent of the IMF's (capital controls-adjusted) ARA metric, well below the normative adequacy range of 100-150 percent of the ARA metric. In order for SBP's ongoing reserve accumulation efforts to continue (gross reserves are projected to reach US$22 billion by end-FY29), it is imperative to avoid any actions to manage the current account, which could lead to excessive real appreciation.

Appendix I. Letter of Intent

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

Islamabad, April 5, 2024

Dear Ms. Georgieva:

1. The final review of the 9-month Stand-By Arrangement (SBA) approved in July 2023 finds Pakistan in a strengthened economic and financial position, with the economy recovering due to the policy efforts of the caretaker government and resumption of official inflows. While the situation has improved over the course of the SBA, the path forward remains challenging with very high risks, including due to elevated external and domestic financing needs as well as from geopolitical tensions through global commodity prices and financial conditions. Given this we recognize the ongoing need to implement sound policies geared toward resolving Pakistan's macroeconomic and external imbalances and restoring sustainability.

2. Recovery from the FY23 recession has become increasingly evident in the months since the first review. Large-scale manufacturing rebounded in FY24H1, growing by 1.8 percent (yoy) in January 2024, as has agricultural output from flood-affected levels last year. However, both headline (20.7 percent yoy in March) and core inflation (12.8 and 20.0 percent yoy in urban and rural areas, respectively) remain very high, despite some recent moderation. On the external front, the current account posted a US$0.8 billion deficit in FY24H1, as increased exports and remittances helped offset the ongoing unwinding of import compression. The resumption of official inflows has permitted the rebuilding of reserves to around US$8 billion, almost double that before approval of the SBA.

3. Our performance under the SBA has been strong. Thanks to continued consistent implementation of the FY24 budget, timely energy price adjustments, an appropriate monetary policy stance, and continued efforts to rebuild foreign reserves, all end-December 2023 quantitative performance criteria (QPCs) and all indicative targets (ITs) were met (Table 1). We have also met the Structural Benchmarks (SBs) on the notification of the semiannual gas tariff adjustment, on inflation adjustment of BISP, and on developing a plan to strengthen internal controls in the SBP's lending operations, in line with the recommendations of the 2023 Safeguards Assessment (Table 2). We have made progress on amending the Acts of four SOEs to make the new SOE law fully applicable to those SOEs (missed end-November SB). Finally, the SBP issued instructions to eliminate (i) the multiple currency practice related to the exchange rate used for SBP-GoP FX transactions, effective January 31; and (ii) the exchange restriction from limitations on advance payments for imports, effective January 30.

4. We reaffirm our commitment to the policies and objectives of the SBA, as detailed in the Memorandum of Economic and Financial Policies (MEFP) for the first review and recognize that the policy and reform effort started under the SBA must continue. We are preparing a home-grown medium-term policy agenda geared to addressing Pakistan's vulnerabilities and moving from stabilization to recovery and transformation. With this in mind, we want to underline our commitment to pursue the following core goals beyond the SBA:

- **We recognize the need to strengthen Pakistan's fiscal sustainability, and continue fiscal consolidation. These are necessary** to address Pakistan's debt vulnerabilities, as well as reduce crowding out and support monetary policy in bringing inflation lower. To achieve this:
    - We will take all necessary measures to deliver the FY24 general government primary balance (excluding grants) target of PRs 401 billion (0.4 percent of GDP). In this regard, we will reconfirm with each province their commitment to delivering the previously agreed fiscal surplus in support of this goal.
    - We will continue fiscal consolidation in the FY25 budget, consulting closely with IMF staff throughout its preparation. Our aim for FY25 will be to reach a general government primary surplus of 1.0 percent of GDP. The consolidation will continue over the following years.
    - To facilitate the sustainable medium-term adjustment, we will focus on mobilizing significant additional revenue through policy reforms to broaden the tax base, especially in undertaxed sectors; enhance revenue administration; and incentivize greater and more balanced fiscal efforts by the provinces. We have supported these efforts by issuing an SRO for implementing a new scheme to register and collect taxes from non-filing supply chain operators and retailers of goods and services in the tax net on March 30, 2024. Enforcing income tax returns and collecting the due minimum advance income tax will begin from July 1, 2024. This exercise will be launched first in four provincial capitals and Islamabad. Alongside, we will finalize the FBR reform plans, building on the proposal prepared by the caretaker government, in line with international best practice. Separately, we will pursue digitalization initiatives to enhance transparency, client experience and revenue collection. Furthermore, we will strengthen our budget process to bolster its credibility and transparency, as well as spending efficiency. In particular, given their role in undermining fiscal discipline, we commit not to make any future use of supplementary grants. Finally, we will (i) limit guarantees to no more than PRs 4,300 billion and 4,900 billion by end-June and end-December 2024, respectively; and (ii) not grant any further tax amnesties or new preferential tax treatments or exemptions in FY24 or FY25 including through Statutory Regulatory Orders without prior NA approval.
- **Without addressing its energy sector viability, Pakistan's ongoing sustainability will be at risk**. We are committed to reaching the end-June goal of net zero CD accumulation and recognize that restoring energy sector viability will entail dramatically reducing the cost-side pressures of the energy sector while maintaining cost recovery tariffs. We are thus committed to continuing regular, timely, and automatic notifications of adjustments to natural gas and electricity tariffs in a manner that is consistent with full cost recovery and to reduce natural gas

price disparities between regions and industries and within industries. We will also seek to find cost reductions and will accelerate structural reforms to address the sector's fundamental issues, including reforming the governance of DISCOs; moving captive power demand to the electricity grid; finalizing a proposal on tube well subsidy reform by end-FY24; expanding renewable energy capacity in line with the IGCEP; improving electricity transmission and distribution efficiencies; and continuing to refine anti-theft efforts. In the post-SBA period, we remain committed: (i) to protect low-income consumers through the progressive tariff structure, for both electricity and gas and avoid any subsidized or preferential industrial tariffs; (ii) not to introduce any new fuel subsidy or cross-subsidy schemes in FY24 and beyond; (iii) to refrain from netting out cross-arrears without proper due diligence and ex ante independent auditing; (v) not to use "non-cash" settlements (e.g., payables against the reimbursement of on-lent loans to DISCOs); and (vi) to avoid issuing additional government guarantees to entities in the sector except where a replacement guarantee is required on expiry of a previous guarantee. In FY25 we will seek to reduce or at least maintain the stock of CD through implementation of the above reforms.

- **Monetary policy, supported by a flexible exchange rate, will be decisively geared towards returning inflation to target, and we will continue building reserves**. While there has been a welcome recent decline in headline and core inflation, we recognize the importance of maintaining an appropriately tight monetary policy stance, and of remaining proactive in case of signs of increased pass-through from recent gas price increases or possible exchange rate pressures from FX market normalization. We are also committed to ensuring a flexible exchange rate, both to support external rebalancing and as a buffer for shocks, and intend to advance policies to promote a deeper FX market, which would help Pakistan attract private inflows on a sustained basis. Given that limited reserve buffers remain our main constraint to entrenching external stability, we will continue to rebuild foreign reserves, with FX sales limited to episodes of disorderly market conditions and not used to prevent a trend depreciation of the rupee driven by fundamentals.

- **Supporting a rebalancing from state- to private-led activity, through the removal of distortionary protection, subsidies, and concessions and reforms to improve SOE performance**. This will include further progress on SOE reform through privatization and restructuring, and seek to limit the role of the state, including in the setting of prices and through the provision of concessions/subsidies for economic activity. Where privatization is appropriate, as with PIA, we will ensure that these plans are transparent and minimize impacts on the public balance sheet. We will also further advance SOE governance reforms, including bringing the legal frameworks of all SOEs into line with the SOE Act in a phased manner, and further strengthening the operational capacity of the Central Monitoring Unit. In the case of SOEs under the umbrella of the Sovereign Wealth Fund, we will ensure their governance frameworks are at least on par with the principles required by the SOE Act. We remain committed to ensuring the Special Investment Facilitation Council (SIFC) does not (i) create an uneven playing field, (ii) promise (or propose the government provide) incentives of any sort or guaranteed returns, or (iii) distort the investment landscape. We will also establish a set of best transparency and accountability practices for SIFC operations, including to ensure that all investment made under SIFC result from the standard Public Investment Management framework.

- **Building resilience and making growth inclusive.** We will ensure that social protection is strengthened further, including through increasing the generosity and coverage of existing schemes, and increasing its efficiency and transparency. We will also engage the provinces on sharing the social expenditure burden under BISP. Other priority areas will include increasing our investment in human capital, further developing our governance and anti-corruption frameworks, completing the reforms of the bank resolution and deposit insurance framework while addressing undercapitalized banks, and building climate resilience.

5. Overall, we believe that the policies set out here are adequate for the successful implementation of our program and we will consult with the IMF on the adoption of any new measures. We will continue to supply the IMF with timely and accurate data as agreed and consent to the IMF's publication of this letter, the TMU, and accompanying Executive Board documents.

6. Based on our strong program performance and our commitments for the period ahead, we request approval by the IMF Executive Board of the completion of the second review under the SBA and the related purchase in the amount of SDR 828 million (40.8 percent of quota).

Sincerely yours,

/s/	/s/
Muhammad Aurangzeb	Jameel Ahmad
Minister of Finance and Revenue	Governor of the State Bank of Pakistan

Attachments: Technical Memorandum of Understanding

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets, FY2023/24 1/

(Billions of Pakistani rupees, at program exchange rates, unless otherwise indicated)

	end-September 2023				end-December 2023				
	Program CR 23/260	Adjusted Prog.	Actual	Status	Program CR 23/260	Program CR 24/17	Adjusted Prog.	Actual	Status
I. Quantitative Performance Criteria									
Floor on net international reserves of the SBP (millions of U.S. dollars)	-14,550	-15,673	-13,781	Met	-13,800	-13,400	-14,670	-12,720	Met
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,048	15,370	14,410	Met	14,888	14,450	14,814	14,319	Met
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars) 3/	4,200	...	3,540	Met	4,000	...	...	3,423	Met
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	4,708	...	4,380	Met	4,708	4,708	...	3,217	Met
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-87	-389	-376	Not met	-1,232	-1,420	-1,402	-1,812	Met
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees)	4,000	...	3,806	Met	4,050	4,050	...	3,748	Met
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	87.5	...	89.8	Met	185.5	185.5	...	186.1	Met
II. Continuous Performance Criteria									
Zero new flow of SBP's credit to general government	0	...	0	Met	0	0	...	0	Met
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	Met	0	0	...	0	Met
III. Indicative Targets									
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	465	...	482	Met	1,031	905	...	1,007	Met
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,977	...	2,042	Met	4,425	4,425	...	4,469	Met
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	32	...	-15	Met	43	43	...	-31	Met
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	-155	...	227	Not Met	64	385	...	378	Met

Sources: Pakistani authorities; 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.
3/ The QPC outcome for end-December 2023 was already available at the time of the Executive Board meeting for the first review.

Table 2. Pakistan: Structural Conditionality Under the SBA

Actions		Date	Status
Structural Benchmarks		**Date**	**Status**
Fiscal			
1	Commit to not grant further tax amnesties.	Continuous	Met.
2	Avoid the practice of issuing new preferential tax treatments or exemptions.	Continuous	Met.
3	Issuance by the Central Monitoring Unit (CMU) of its first periodic report on the performance	end-Dec. 2023	Met.
Social			
4	Inflation adjustment of the unconditional cash transfer (Kafaalat).	end-Jan. 2024	Met.
Monetary and Financial			
5	Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.	Continuous	Met.
6	Submission to parliament of amendments to align Pakistan’s early intervention, bank resolution, and crisis management arrangements with international good practices, in line with	end-Dec. 2023	Met.
7	Develop a plan to strengthen internal control systems in lending operations, including updates to collateral policy and counterparty eligibility policy, in line with recommendations from the 2023 Safeguards Assessment.	March 8, 2024	Met.
Energy Sector and State-Owned Enterprises			
8	Notification of the annual rebasing (AR) for FY24 to take effect on July 1, 2023.	end-Jul. 2023	Met.
9	Notification of the December 2023 semiannual gas tariff adjustment determination.	February 15, 2024	Met.
10	Improve state-owned enterprise (SOE) governance by: (i) operationalizing the recently approved SOE law into a policy that clarifies ownership arrangements and the division of roles within the federal governments; and (ii) amending the Acts of four selected SOEs to make the new SOE law fully applicable to those SOEs.	end-Nov. 2023	Not met.
Climate			
11	Cabinet adoption of a Climate-PIMA and PIMA action plan.	end-Dec. 2023	Met.
Economic Statistics			
12	Compilation and dissemination of Quarterly National Accounts for FY24Q1 and revised annual estimates for FY23.	end-Nov. 2023	Met.

Attachment I. Technical Memorandum of Understanding

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 Stand-By Arrangement (SBA)—as described in the authorities' latest Letter of Intent (LOI) dated December 18, 2023, 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.

Text Table 1. Pakistan: Program Exchange Rates
(Units of currency per U.S. dollar) 1/

Currency	Rate	Currency	Rate
EUR	0.918274	THB	35.200194
JPY	143.118405	MYR	4.676498
CNY	7.231199	SGD	1.352850
GBP	0.785114	INR	82.008266
AUD	1.498464	SAR	3.750498
CAD	1.316900	SDR	0.749411

1/ As of June 26, 2023.

2. **For 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 rates. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at 286.7091 rupee per one U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Text Table 1.

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Overview

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);

- *Ceiling on the amount of government guarantees* (stock, billions of Pakistani rupees); and
- *Floor on targeted cash transfers spending (BISP)* (cumulative, 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 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); and
  - *Ceiling on power sector payment arrears* (flow, billions of Pakistani rupees).

B. Performance Criteria

B.1. 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 2014. 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.

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).

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. For the end-December 2023 test date, the floor on NIR will be **adjusted** upward (downward) by the cumulative excess (shortfall) in ***cash inflows usable for the financing of the government budget from multilateral and bilateral creditors, commercial borrowing, and bond issuance*** relative to the projected inflows (Table 1). Cumulative cash inflows usable for the financing of the government budget 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, plus proceeds from sales of state-owned assets to official bilateral partners, sovereign wealth funds. Downward adjustment of the floor on NIR will be limited to a maximum of US$2,000 million for the December 2023 test date.

B.2. 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 ***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. As in the case for NIR, the upward adjustment of the ceiling on NDA will be limited to the same maximum adjustor limit set for NIR evaluated at the program exchange rate.

B.3. 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.

B.4. 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 grants) minus the consolidated interest bill of the federal and provincial budgets.

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

a. ***net external budget financing***, excluding valuation changes, with foreign currency disbursements/payments converted into PRs at the actual exchange rates applied to each transaction;

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 non-residents (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) 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. External grants in foreign currencies are converted into PRs at the actual exchange rates applied to each transaction.

18. **Net external budget 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

19. The ceiling on general government primary budget deficit (excluding grants) for the end-December 2023 test date 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*** during the period October-December 2023 relative to the program projections (US$664 million for October-December 2023) evaluated in Pakistani rupee terms at actual average quarterly exchange rates. For avoidance of doubt, no adjustment will be made for the period July-September 2023 (actual external project financing US$333 million). 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 targets (PRs 185.5 billion for July-December 2023);

c. downward by any excess in the flow of ***power sector payment arrears*** above the respective indicative program targets (PRs 385 billion for July-December 2023), excluding non-recoveries (relative to the projection of PRs 255 billion for July-December 2023) and excess line losses (relative to the projection of PRs 76 billion for July-December 2023); and

d. downward by any excess in the flow of ***tax refund arrears*** (as defined below) relative to their respective indicative program targets (PRs 43 billion for June-December 2023).

B.5. Ceiling on Net Government Budgetary Borrowing from the SBP

Definition

20. **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.

B.6. Ceiling on the Amount of Government Guarantees

21. 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. 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.

B.7. Floor on Targeted Cash Transfers Spending (BISP)

22. The floor on **targeted cash transfers spending (BISP)** applies to the cumulative targeted cash transfers spending by the Benazir Income Support Program (BISP), i.e., all spending on BISP programs.

C. Continuous Performance Criteria

C.1. No New Flow of SBP's Credit to General Government

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.

C.2. Zero Ceiling on the Accumulation of External Payment Arrears by the General Government and SOEs

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, and 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 SBA, is set out in ¶8 of 2020 Guidelines on Public Debt Conditionality in Fund Arrangements. 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.

C.3. 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 those MCPs 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.

D. Indicative Targets

D.1. Floor on General Government Budgetary Health and Education Spending

26. 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.

D.2. Floor on Net Tax Revenues Collected by the Federal Board of Revenue (FBR)

27. 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 (including income tax) 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.

D.3. Ceiling on Net Accumulation of Tax Refund Arrears

28. 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 income tax refund arrears is PRs 215.2 billion as of end-May 2023, and the net accumulation of income tax refund arrears will be counted from the starting point of PRs 215.2 billion; the stock of sales tax arrears at end-May 2023 is PRs 183.8 billion, and the net accumulation of sales tax refund arrears will be counted from the starting point of PRs 183.8 billion.

D.4. Ceiling on Power Sector Payment Arrears

29. **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.

PROGRAM REPORTING REQUIREMENTS

30. **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 Energy (Power and Petroleum Division), and other agencies as outlined in Table 2 below. Irrespective of the requirements outlined in Table 2, the authorities will report on an ongoing/continuous basis any non-observance of continuous PCs. 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)

	FY24	
	Jul-Sep 2023	Oct-Dec 2023
	Est.	Proj.
Multilateral and bilateral disbursements	3,832	5,893
of which: in cash 1/	3,693	5,647
of which: Saudi oil facility and IDB commodity loans	400	350
of which: project support	333	664
of which: sales of state-owned assets	0	0
International bond issuance 2/	28	0
Commercial borrowing	0	600
Other	0	0
Gross inflows	3,860	6,493
of which: in cash	3,721	6,247
memo: New loans/deposits at SBP 3/	1,000	0

1/ Assumes that 65 percent of project loans and 50

2/ Includes Naya Pakistan Certificates (NPC). NPC flows are recorded on a net basis.

3/ Not included in multilateral and bilateral disbursments for the purposes of the adjustor

Note: Cumulative excess/shortfall cumulates from October 1, 2023 onwards

Table 2. 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
	International reserves	Inflows/outflows into/out of Naya Pakistan Certificates.	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	Interbank market transactions in the spot market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), weighted average price transacted (untrimmed), simple average price transacted (simple mean, untrimmed), standard deviation of values transacted (untrimmed), and standard deviation of prices transacted (untrimmed).	Daily	Within one day

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	Foreign exchange market	Interbank market transactions in the forward market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), standard deviation of values transacted (untrimmed), average maturity (simple mean, untrimmed), standard deviation of maturity (untrimmed).	Daily	Within one day
	Foreign exchange market	Aggregate customer transactions of commercial banks, with breakdown into gross sales and purchases.	Weekly	Third working day of the following week
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Daily	Within one day
	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
	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

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	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, but with consistent identifiers across datasets)	Monthly	Within five days of the end of each month
	Banking data	Holdings of government securities – in aggregate and bank-by-bank (without names, but with consistent identifiers across datasets)	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
	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
	External financing	List of all disbursements and amortization payments for external budget financing and external grants (above US$3 million or equivalent), including date of the transaction, foreign currency amount, exchange rate applied, rupee amount credited, creditor (or donor agency).	Quarterly	Within 25 days of the end of each quarter

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Ministry of Finance (MOF)	Domestic financing	Gross disbursements and amortization of Naya Pakistan Certificates by residents.	Quarterly	Within 25 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 (including fiscal outcomes broken down by province)	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 2. Pakistan: Monitoring and Reporting Requirements (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Federal Board of Revenue (FBR)	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, PR. 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 FY10 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 from current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter

Table 2. 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 by consumer category Gas sales by consumer category	Quarterly on monthly frequency	Within 60 days from the end of the quarter
		Gas prices by consumer category	Biannually	Within 30 days of price notification.
		UFG losses	Quarterly	Within 60 days from the end of the quarter
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by all BISP programs.	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

<u>Statement by Mr. Bahador Bijani and Mr. Saif Ullah Dogar</u>
April 29, 2024

On behalf of our Pakistani authorities, we thank Mr. Porter and his team for their untiring efforts and close engagement since the start of the Standby Arrangement (SBA) in July 2023. The team deserves special appreciation for the policy advice helping Pakistan to complete all actions committed under the previous Extended Fund Facility (EFF), which although could not be completed fully for technical reasons, led to a seamless transition to the SBA. Our authorities have lived up to their commitment by meeting all targets agreed under the program and complete the second review under the SBA. Our authorities also profoundly appreciate the continued support of Management and the Executive Board during these unusually complex and challenging times. Our Pakistani authorities would also like to thank Pakistan's bilateral and multilateral partners for their generous support.

I.Recent Developments

In March 2024, a newly elected government came into power after almost seven months of a caretaker government, which continued the steadfast implementation of the SBA just as was agreed between the outgoing elected government and the Fund. The current coalition government consists of almost the same political parties which despite heavy political cost implemented all the actions committed under the EFF program and approved all the prior actions under the SBA. The return of the outgoing government to power after the elections means continued commitment to the reform agenda agreed at the time of the SBA. This not only means a higher likelihood for the continuity of reforms but also political stability for the next five years. Although the elections were followed by litigation against the election results in some constituencies at the Election Commission of Pakistan and superior courts, the initial decisions in the favor of the sitting government have reinforced legitimacy and stability to the constitutional and political system of the country. The socio-political tensions have attenuated following the elections and confidence has returned following the Staff Level Agreement (SLA) for the completion of the second review.

II.Economic Recovery

On the economic front, Pakistan's economic and financial position continues to improve reflecting prudent policy management and the resumption of inflows from multilateral and bilateral partners. The economic recovery can be witnessed over the last two quarters and inflation has started to decline with the core inflation hovering around 15 percent from its peak of 38 percent in May 2023. The SBP maintained the policy rate at 22 percent at its last meeting on March 18, 2024—the same rate since June 2023—due to continued elevated inflation expectations. The SBP is committed to bringing inflation down to the medium target of 5-7 percent in the second half of 2025 through data-driven and appropriately tight monetary policy stance.

Pakistan ran current account deficit of US$ 17.5 billion in FY22, which was about 4.7 percent of the GDP. The current account posted a surplus of US$ 619 million in March 2024 as opposed to monthly average deficit of US$ 1.46 billion in 2022 and US$ 0.19 billion in 2023. It is six times higher than in the previous month and the highest monthly surplus in the last nine years. Overall, during the nine months of FY24 (July 2023-March 2024), the current account balance stood at a deficit of only US$ 0.5 billion (0.15 percent of GDP) compared with to a deficit of than US$ 4 billion (1.15 percent of GDP) in the corresponding period of the last FY. The ongoing efforts in policy reform are easing pressures on the gross financing needs in an increasingly uncertain and complex external environment. The key factor for this improvement is a decline in the trade deficit in goods with both exports and imports of goods and services declining but, with balance on primary income improving due to lower primary income debit. With these trends, the current account is expected to remain well within the sustainable limit in FY24.

On the fiscal side, during July-March FY24, tax collection by the Federal Board of Revenue (FBR) increased by 30 percent compared to the corresponding period last FY, with the net federal revenues in July-February grew by 51 percent. On the expenditure side, total expenditure increased by 45 percent during July-February FY24, with current spending rising by 46 percent primarily due to a 59 percent increase in markup payments. In the first eight months of FY24 the primary surplus stands at (1.7 percent of the GDP), compared to a surplus of 0.9 percent during the corresponding period last FY. The overall deficit in the first eight months of the current fiscal year is estimated at 3.0 percent of GDP against 2.8 percent of GDP last year owing to higher costs of debt servicing.

On the back of a strong growth in agriculture, the recovery of the large-scale manufacturing sector is expected to continue during the remaining months of FY24, with high-frequency indicators signaling continued growth. Increasing external and fiscal sustainability is adding to confidence and contributing to economic recovery. Strict adherence to the SBA targets and expectations of a successful conclusion of the second review have enhanced positive investor sentiment, witnessed by the strong performance of the Pakistan Stock Exchange (PSX). The PSX closed at a record high on April 22, 2024. Despite all positive developments, the authorities realize that sustained economic recovery is contingent on their commitments to a prudent policy stance, supported by timely and adequate financial inflows to meet the external gross financing needs.

III.Program Performance

Pakistan's program performance has remained strong, which holds testimony to the authorities' resolute commitment to a broad and deep agenda of reforms to ensure fiscal consolidation and debt sustainability as prerequisites of economic growth and poverty alleviation. All seven performance criteria were met. The authorities also met all four indicative targets and six structural benchmarks. The authorities continue to work on an extended agenda of SOE reforms and privatization.

IV. Way Forward

The authorities remain committed to the reforms supported by IMF programs. In fact, the authorities have an expansive home-brewed additional agenda of structural reforms, which they have been sharing with staff for alignment with the Fund's policy advice. Increasing tax-to-GDP ratio materially, expanding the social safety net, reforming and/or privatizing SOEs, digitalizing the economy, and ensuring financial sustainability of the energy sector remain the priority areas for future reforms. The authorities are cognizant that the delay in investment into human capital and critical infrastructure may result in loss of hard-earned development gains of the past decades. To arrest and reverse the declining outcomes in social sectors, it is of utmost importance that early fiscal consolidation ultimately leads to sustained, inclusive economic growth and investment in areas that buttress growth and development.

Our Pakistani authorities are also highly appreciative of Fund's support in the form of capacity development and technical assistance that now include areas related to monetary policy, tax policy, budgeting, and debt management. In areas of SOE governance and social protection, the World Bank and Asian Development Bank have been area already assisting.

It is worth highlighting that the creation of the Special Investment Facilitation Council (SIFC) and Sovereign Wealth Fund (SWF) are initiatives to enhance broad-based institutional ownership and coordination across the government. The authorities seek to ensure timely structural reforms in tax collection machinery and divestment of entities which have been drags on the national exchequer and have restricted the fiscal space for investment in human capital and climate resilience infrastructure.

The authorities believe that the completion of the SBA will prove to be a significant milestone in their journey toward economic stability and growth. Building on its successful completion, the authorities seek to maintain the momentum and undertake reforms to improve the living standards of around 250 million people of Pakistan.

The Pakistani authorities look forward to continued support from the Executive Board, management, staff, and our bilateral partners.