INTERNATIONAL MONETARY FUND

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PAKISTAN

May 2025

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINANBLE FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the First Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for Modification of Performance Criteria, And Request for an Arrangement Under the Resilience and Sustainable Facility, 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 May 9, 2025, following discussions that ended on March 14, 2025, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 25, 2025.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director and Senior Advisor** for Pakistan.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 25/137

IMF Executive Board Completes First Review of the Extended Fund Facility Arrangement with Pakistan and Approves the Request for an Arrangement under the Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under the Extended Fund Facility (EFF) Arrangement, allowing the authorities to draw the equivalent of about $1 billion. The authorities have demonstrated strong program implementation, which has contributed to improving financing and external conditions, and a continuing economic recovery.
- Moving forward, policy priorities will include advancing reforms to strengthen competition, raise productivity and competitiveness, reform SOEs, improve public service provision and energy sector viability, and build climate resilience.
- The Executive Board also approved the authorities request for an arrangement under the Resilience and Sustainability Facility (RSF), which will support Pakistan's efforts in building economic resilience to climate vulnerabilities and natural disasters, with access of around $1.4 billion.

Washington, DC – **May 9, 2025:** Today, the Executive Board of the International Monetary Fund (IMF) completed the first review of Pakistan's economic reform program supported by the EFF Arrangement. This decision allows for an immediate disbursement of around $1 billion (SDR 760 million), bringing total disbursements under the arrangement to about $2.1 billion (SDR 1.52 billion). In addition, the IMF Executive Board approved the authorities' request for an arrangement under the Resilience and Sustainability Facility (RSF), with access of about US$1.4 billion (SDR 1 billion).

Pakistan's 37-month EFF was approved on September 25, 2024, and aims to build resilience and enable sustainable growth. Key priorities include (i) entrenching macroeconomic sustainability through consistent implementation of sound macro policies, including rebuilding international reserve buffers and broadening of the tax base; (ii) advancing reforms to strengthen competition and raise productivity and competitiveness; (iii) reforming SOEs and improving public service provision and energy sector viability; and (iv) building climate resilience.

Pakistan's policy efforts under the EFF have already delivered significant progress in stabilizing the economy and rebuilding confidence, amidst a challenging global environment. Fiscal performance has been strong, with a primary surplus of 2.0 percent of GDP achieved in the first half of FY25, keeping Pakistan on track to meet the end-FY25 target of 2.1 percent of GDP. Inflation fell to a historic low of 0.3 percent in April, and progress on disinflation and steadier domestic and external conditions, have allowed the State Bank of Pakistan to cut the policy rate by a total of 1100 bps since June 2025. Gross reserves stood at $10.3 billion at end-April, up from $9.4 billion in August 2024, and are projected to reach $13.9 billion by end-June 2025 and continue to be rebuilt over the medium term.

The RSF will support the authorities' efforts to reduce vulnerabilities to natural disasters and to build economic and climate resilience. The authorities' program: (i) prioritizes resilience to natural disasters and strengthen public investment processes at all levels of government; (ii) makes the use of scarce water resources more efficient, including through better pricing; (iii) strengthens coordination of natural disaster response and financing between federal and provincial governments; (iv) improves the information architecture, for and disclosure of, climate-related risks by banks and corporates; and (v) supports Pakistan's efforts to meet its mitigation commitments and reduce related macro-critical risks.

Following the Executive Board discussion, Nigel Clarke, Deputy Managing Director and Chair, made the following statement:

"Pakistan has made important progress in restoring macroeconomic stability despite a challenging environment. Since the approval of the Extended Fund Facility, the economy continues to recover, with inflation sharply lower and external buffers notably stronger. Risks to the outlook remain elevated, however, particularly from global economic policy uncertainty, rising geopolitical tensions, and persistent domestic vulnerabilities. Against this backdrop, the authorities need to maintain sound macroeconomic policies and accelerate reforms to safeguard the macroeconomic gains and underpin stronger and sustainable, private sector-led medium-term growth.

"The steadfast implementation of the FY2025 budget and the passage of key fiscal reforms, notably the Agricultural Income Tax, underpin the process of rebuilding policy making credibility. Continuing to mobilize greater revenue from undertaxed sectors and the noncompliant will make the tax system more equitable and efficient. This, combined with federal and provincial spending discipline, will strengthen sustainability, build resilience, and reduce the public sector's crowding out of private credit.

"Timely implementation of power tariff adjustments has helped reduce the stock and flow of circular debt. Meanwhile, cost-side reforms are showing early signs of success but need to be accelerated to safeguard the energy sector's viability and improve Pakistan's competitiveness.

"The State Bank of Pakistan's (SBP) tight monetary policy stance has been pivotal in reducing inflation to historic lows. Monetary policy should remain appropriately tight and data-dependent to ensure inflation is anchored within the SBP's target range. A more flexible exchange rate will facilitate the adjustment to external and domestic shocks, aiding the rebuilding of reserves. Prompt action to address undercapitalized financial institutions and vigilance over the financial sector are necessary for financial stability. Strengthening of AML/CFT frameworks is also needed.

"Accelerating structural reforms will unlock Pakistan's competitiveness, creating conditions to attract high-impact private investment. Reform priorities include reducing trade and investment barriers, advancing SOE reforms, and decisively strengthening governance and anti-corruption institutions.

"Reducing Pakistan's vulnerability to extreme weather events will enhance macroeconomic stability and fiscal sustainability. The reforms under the Resilience and Sustainability Facility aim to build resilience to natural disasters by strengthening public investment processes, supporting efficient use of scarce water resources, strengthening coordination of natural disaster response and financing, improving the information on climate-related risks, and supporting Pakistan in meeting its international commitments."

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

Population: 236.0 million (2023/24)		Per capita GDP: US$1,566.0 (2023/24)
Quota: SDR 2,031 million		Poverty rate: 21.9 percent (national line; FY2019)
Main exports: Textiles (US$16.3 billion, 2023/24)		
Key export markets: European Union, United States, UAE		

	FY2024	FY2025 Proj.	FY2026 Proj.
Output and prices (% change)			
Real GDP at factor cost	2.5	2.6	3.6
Employment (%)			
Unemployment rate	8.3	8.0	7.5
Prices (%)			
Consumer prices, period average	23.4	5.1	7.7
Consumer prices, end of period	12.6	6.5	6.6
General government finances (% GDP)			
Revenue and grants	12.6	15.9	15.2
Expenditure	19.4	21.6	20.3
Budget balance, including grants	-6.8	-5.6	-5.1
Budget balance, excluding grants	-6.8	-5.7	-5.1
Primary balance, excluding grants	0.9	2.1	1.6
Underlying primary balance (excluding grants) 2/	0.9	1.0	1.6
Total general government debt excl. IMF obligations	67.9	71.2	69.2
External general government debt	22.7	24.0	22.2
Domestic general government debt	45.2	47.3	47.0
General government debt incl. IMF obligations	70.1	73.6	71.9
General government and government guaranteed debt incl. IMF	74.1	77.6	75.6
Monetary and credit (% change, unless otherwise indicated)			
Broad money	16.0	11.0	14.6
Private credit	6.0	11.0	17.5
Six-month treasury bill rate (%) 3/	21.5	…	…
Balance of Payments (% GDP, unless otherwise indicated)			
Current account balance	-0.5	-0.1	-0.4
Foreign direct investment	0.6	0.5	0.6
Gross reserves (millions of U.S. dollars) 4/	9,390	13,921	17,682
Months of next year's imports of goods and services	1.6	2.3	2.8

Total external debt	31.7	33.1	31.3
Exchange rate (% change)			
Real effective exchange rate	15.4	…	…

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. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.

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 25, 2025

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Recent Developments. The authorities' policy efforts have continued to bear fruit. Financial and external conditions have continued to improve, with a current account surplus in the first eight months of FY25 and reserves exceeding program projections. Inflation has recently declined to historical lows, although core inflation remains elevated at around 9 percent. The economic recovery is continuing, although growth in FY25H1 was somewhat lower than anticipated**.**

Program Performance. The 37-month Extended Arrangement under the Extended Fund Facility (EFF), approved on September 25, 2024, is on track. All seven QPCs and five of eight ITs were met at end-December. Most continuous and other SBs were met. Completion of the first EFF review would make available SDR 760 million (about US$1 billion) bringing total disbursements to SDR 1,520 million.

EFF Policies. Continued strong and timely program implementation remains critical to safeguard recent hard-won economic stability and support sustainable growth. The FY25 primary surplus target is on track, but further fiscal reforms are necessary to strengthen revenue mobilization and reduce debt, while creating space for social and development spending. Monetary policy should remain tight and data dependent to ensure that inflation stays moderate, within the SBP's target range. A more flexible exchange rate remains critical to absorb shocks and support the rebuilding of reserves. Efforts to ensure energy sector cost recovery via timely tariff adjustments remain necessary supported by broader reforms to restore viability and reduce the sector's high costs. Structural reforms to improve governance and the trade and investment environment need to deepen, to support stronger sustainable and inclusive growth.

RSF Request. The proposed arrangement under the Resilience and Sustainability Facility (RSF), with access set at 49.2 percent of quota (equivalent to SDR 1 billion), aims to reduce Pakistan's balance of payments stability risks stemming from climate vulnerabilities. Reform Measures (RMs) aim to: (i) prioritize resilience to natural disasters and strengthen public investment processes at all levels of government; (ii) make the use of scarce water resources more efficient, including through better pricing; (iii) strengthen coordination of natural disaster response and financing between federal and provincial governments; (iv) improve the information architecture, for and disclosure of, climate-related risks by banks and corporates; and (v) support Pakistan's efforts to meet its mitigation commitments and reduce related macro-critical risks.

Approved By
Thanos Arvanitis and Kenneth Kang

Policy discussions were held in Islamabad and Karachi during February 24–March 14, 2025. The staff team comprised Nathan Porter (head); Tom Best, Jan Möller, Jason Weiss (all MCD); Chuku Chuku (SPR); Emre Balibek and Etienne Yehoue (MCM); Julieth Pico Mejía, Suphachol Suphachalasai, and Ed Hearne (all FAD); Ron Snipeliski (LEG); Mahir Binici (Resident Representative); Zafar Hayat and Saihan Mohammad (all Islamabad office). Jonathan Pampolina (LEG) assisted remotely on governance. Rhea Gupta (MCD) provided excellent research assistance and Nataliya Bondar (MCD) assisted with document preparation.

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APPENDICES

ANNEXES

Acronyms and Abbreviations

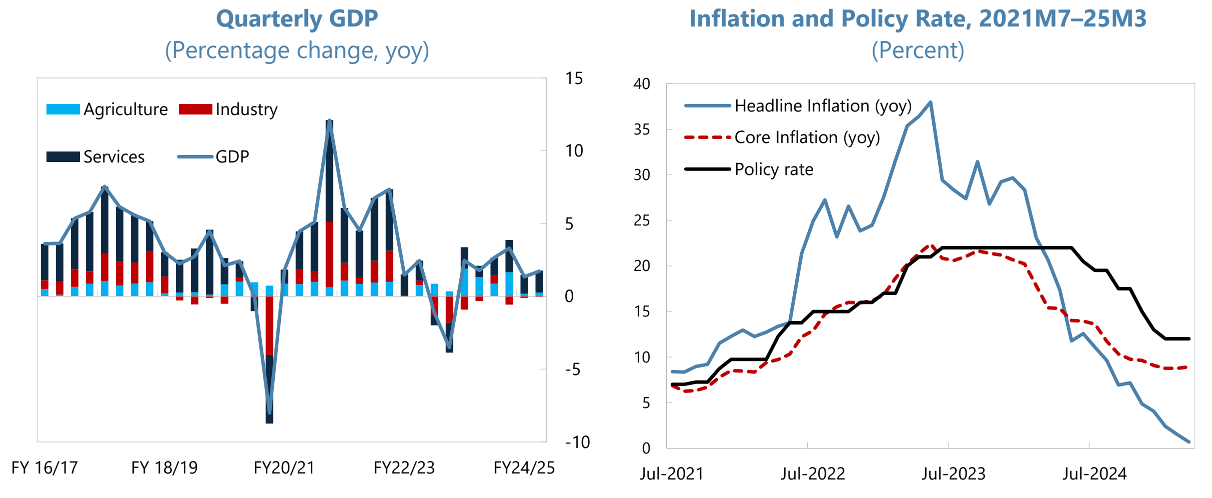
AIT	Agricultural Income Tax
BISP	Benazir Income Support Programme
CPPs	Captive Power Producers
CPPA	Central Power Purchase Authority
CD	Power Sector Circular Debt
C-PIMA	Climate Public Investment Management Assessment
DISCO	Distribution Companies
FBR	Federal Board of Revenue
IPPs	Independent Power Producers
MPC	Monetary Policy Committee
NEPRA	National Electric Power Regulatory Authority
OGRA	Oil and Gas Regulatory Authority
PBS	Pakistan Bureau of Statistics
PIMA	Public Investment Management Assessment
PSDP	Public Sector Development Programme
SECP	Securities and Exchange Commission of Pakistan
SBP	State Bank of Pakistan

RECENT DEVELOPMENTS

1. Financial and external conditions have continued to improve, but growth softened more than expected in FY25H1:

- ***Economic activity and inflation***. Following 2.5 percent GDP growth in FY24, growth slowed somewhat in H1, recording 1.3 percent and 1.7 percent (yoy) in FY25 Q1 and Q2, respectively, reflecting lower yields from the major Kharif crops and still-subdued industrial activity. Inflation fell to 0.7 percent (yoy) in March driven by tight macro policies and, principally, lower food and energy prices. However, core inflation is still elevated at around 9 percent.

Pakistan: Recent Economic Developments



Quarterly GDP (Percentage change, yoy)

Inflation and Policy Rate, 2021M7–25M3 (Percent)

Sources: PBS; IMF staff calculations.

Sources: PBS; IMF staff calculations.

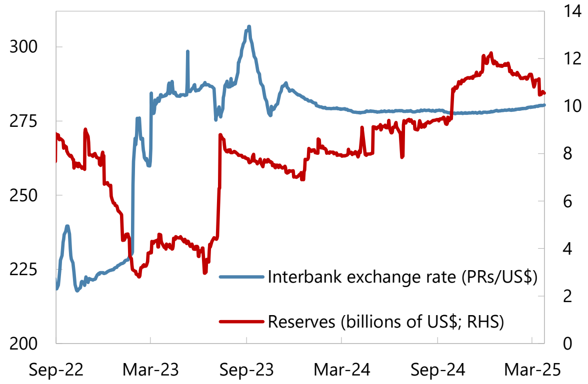
- ***External conditions and the FX market***. The current account recorded a surplus of US$0.7 billion in the first eight months of FY25, a significant improvement from the US$1.7 billion deficit in the same period of FY24. This reflects strong remittances and resilient exports, which offset higher imports. Gross international reserves exceeded program targets and stood at US$10.7 billion at end-March 2025, down from a peak of US$12 billion in November, reflecting ongoing government debt service. The SBP continued foreign exchange purchases, benefiting from the generally improved financial conditions, which were also reflected in a broadly stable exchange rate since program approval. Sovereign bond spreads declined sharply over the past year and stabilized at around 600 bps in March before rising by more than 300 bps following the April 2 tariff announcements. There has been no discernible parallel market pressure and interbank and open market rates remain aligned. Effective January 1, 2025, the SBP adopted a new regulatory framework for Exchange Companies (MEFP ¶15.e).

- ***Monetary policy***. Following the rapid disinflation on the back of tight monetary policy and easing of commodity prices, the Monetary Policy Committee (MPC) cut the policy rate by a cumulative 1,000 bps between June 2024 and January 2025, before holding it at 12 percent in their March 10 meeting and leaving forward-looking real rates still considerably positive. Private sector credit growth has moderated, containing growth in monetary aggregates, and following a temporary spike during FY25Q2 (25 percent q-o-q), reflecting banks' efforts to circumvent a tax on their income from government securities.

Pakistan: External Sector Developments

Exchange Rate, 2022M9–25M3

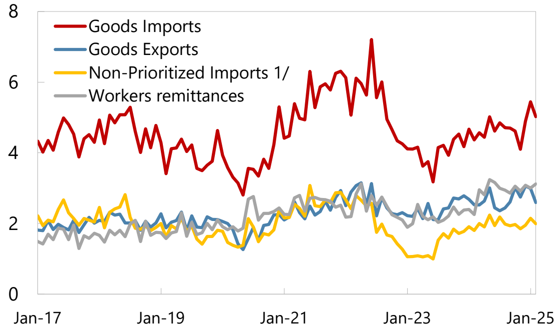
(PRs/US$ on LHS, US$ billions on RHS)



Sources: SBP; IMF staff calculations.

Goods Trade and Remittances 2016M1–25M2

(US$ billions)



1/ Based on priority items specified in SBP EPD Circular 20/2022 (subsequently rescinded in June 2023)

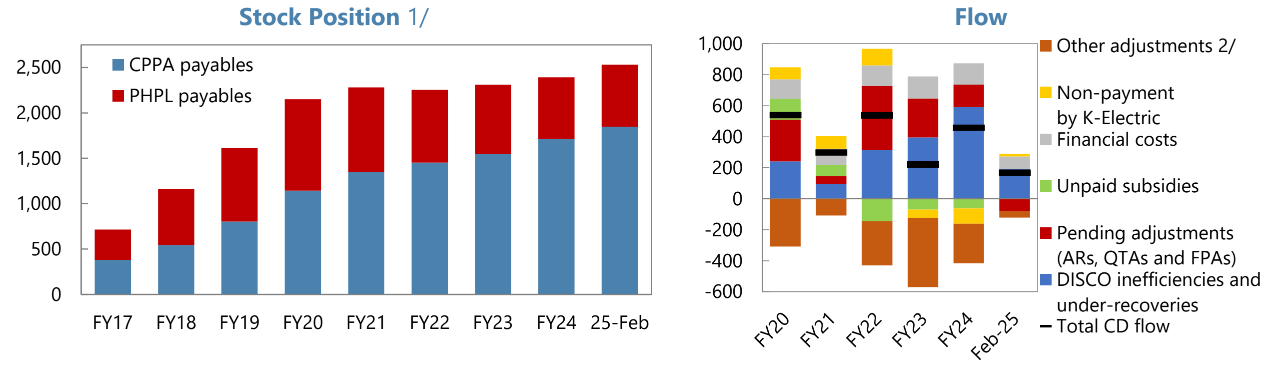
Sources: SBP; IMF staff calculations.

- ***Fiscal developments***. Fiscal performance in FY25H1 was strong, continuing the discipline observed in FY24. The general government recorded an underlying primary surplus of PRs 2,264 billion (2.0 percent of GDP). FBR revenue grew by 26 percent year-on-year but fell short of end-September and end-December targets due to lower-than-expected sales tax and import duties amid subdued imports and growth. Direct tax collection overperformed, partially offsetting the shortfall in indirect taxes, alongside stronger non-tax and provincial tax revenues. Provinces met their aggregate primary surplus commitments. BISP spending met its targets, while expenditures on subsidies, grants, health, education and federal PSDP were below budget projections due to administrative delays.

- ***Energy sector***. The flow of power sector circular debt (CD) strongly overperformed September and December, rising PRs 166 billion from end-June through February 2025 (well below the March IT of PRs 554 billion), with the stock standing at PRs 2,530 billion (2.2 percent of GDP) by end-February. This was driven by strong collection performance; lower interest charges on arrears amid falling interest rates; and timely and favorable intra-year tariff adjustments, which countered higher-than-expected losses and supported a reduction in electricity tariffs by roughly PRs 5/kWh between July 2024 and March 2025 (text chart, ¶X). In the gas sector, continued timely gas tariff adjustments also contained net CD flow to PRs 28 billion during July—December 2024, limiting the stock to PRs 2,842 billion (2.7 percent of GDP), a provisional estimate.

Pakistan: Circular Debt in the Power Sector, FY17– February 2025

(Billions of Pakistani rupees)



Stock Position 1/

Flow

Sources: Pakistani authorities; IMF staff calculations.

1/ Only the part held by the Power Holding Private Limited (PHPL) is publicly guaranteed (PRs 683 billion as of Feb 2025), 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/ Includes, among others, change in input costs (fuel, exchange rate, and interest rates), generation mix, prior-year recoveries.

PROGRAM PERFORMANCE

2. Performance against quantitative performance criteria (QPCs), Indicative Targets (ITs), and Structural Benchmarks (SBs) under the EFF has been strong (MEFP Tables 1–2):

- ***Performance Criteria (PCs)***. The authorities met all seven quantitative PCs for end-December 2024: the floors on (i) net international reserves of the SBP; (ii) targeted cash transfer spending; and (iii) the number of new tax returns from new filers; and the ceilings on (iv) net domestic assets of the SBP; (v) the SBP's FX swap/forward book; (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 majority of ITs were met at end-December, including the ceilings on: (i) the aggregate provincial primary budget deficit; (ii) net accumulation of tax refund arrears; and (iii) power sector payment arrears; and the floors on: (iv) revenues collected by provincial revenue authorities; and (v) the weighted average maturity of local currency debt securities. However, the ITs at end-December were missed for the floors on (i) government health and education spending; (ii) net tax revenues collected by the FBR; and (iii) net tax revenues collected from retailers under the *Tajir Dost* scheme.

- ***Structural benchmarks (SBs)***. Nine SBs were met, including on approval of a National Fiscal Pact, improving safeguards for monetary policy operations and approval of amendments to bank resolution and deposit legislation. Three continuous SBs on not granting tax amnesties, seeking ex-ante parliamentary approval for any non-budgeted expenditures, and the maximum average premium between the interbank and open market rates were also met. The SB on provincial Agricultural Income Tax (AIT) legislation was not met at end-October, but this legislation was subsequently passed in February 2025, while another two SBs were missed due to delays in passing amendments to of the Civil Servants and Sovereign Wealth Fund (SWF) Acts, respectively. Finally, two SBs relating to resolving undercapitalized banks and to captive power producers were missed, but subsequent policy actions are expected to accomplish the underlying objectives (see ¶¶ 12 and 14, respectively).

OUTLOOK AND RISKS

3. The baseline macroeconomic projections reflect a moderately lower outlook for near-term activity, including due to the impact of higher US tariffs on Pakistan (Box 1), while inflation and current account deficits are also revised down (Tables 1–7):

Pakistan: Selected Economic Indicators, FYs 23–30 1/

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
		Est.			Proj.			
Real GDP growth (%)	-0.2	2.5	2.6	3.6	4.1	4.5	4.5	4.5
Consumer prices (period average, % change)	29.2	23.4	5.1	7.7	6.5	6.5	6.5	6.5
Gen. gov. overall balance (incl. grants, % of GDP)	-7.7	-6.8	-5.6	-5.1	-3.9	-3.4	-3.2	-2.9
Gen gov. primary balance (underlying, excl. grants, % of GDP) 2/	-0.7	0.9	1.0	1.6	2.0	2.0	2.0	2.0
Gen. gov. debt (incl. IMF obligations, % of GDP)	78.2	70.1	73.6	71.9	70.0	67.0	63.9	61.0
Current account balance (% of GDP)	-1.0	-0.5	-0.1	-0.4	-0.5	-0.8	-0.9	-1.1
Gross official reserves (billions of US$)	4.5	9.4	13.9	17.7	23.0	24.4	27.1	30.6
Gross official reserves (months of next year's G&S imports)	0.8	1.6	2.3	2.8	3.4	3.4	3.5	3.7
Gross official reserves (% of IMF ARA metric) 3/	18.0	35.5	51.5	63.1	76.1	79.5	85.5	95.8

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), and windfall SBP profits.
3/ With flexible exchange rate.

- ***GDP and Inflation***. FY25 growth is revised down to 2.6 percent based on the weaker activity in H1 and broader global uncertainty, but the recent monetary easing is expected to support an acceleration in FY25H2 and beyond. FY25 inflation is also revised down, although it is projected to increase notably in the coming months due to adverse base effects, with a durable return to the target range (5–7 percent) expected during FY26 provided policy remains appropriately tight.

- ***Balance of Payments***. The current account deficit (CAD) for FY25 is now projected at about US$0.2 billion (0.1 percent of GDP), helped by resilient exports and a stronger remittance outlook, as improved macro and FX stability has supported a rebound in remittance inflows through formal channels. Over the medium term, the CAD is expected to widen modestly to around 1 percent of GDP as imports rebound. Gross international reserves are expected to continue to strengthen, supported by financing committed by multilateral and bilateral creditors, as well as prospective RSF disbursements (US$1.3 billion). Access to external commercial financing is expected to remain limited during the program, with a small "Panda" bond issuance anticipated in FY26, ahead of a gradual return to the Eurobond/Global Sukuk market assumed in FY27, reflecting a restoration of policy credibility.

- ***Fiscal***. The FY25 primary deficit target is within reach, although reflecting the anticipated lower nominal GDP in FY25, nominal tax revenues have been revised down, and efforts to accelerate revenue collection will continue in the coming months. Offsetting expenditure savings are expected to deliver the programmed FY25 nominal EFF primary balance. Ongoing revenue mobilization and spending rationalization efforts, including with considerable CD assistance, are expected to support the fiscal path for FY26 and beyond.

- ***Public debt***. Under the baseline, public debt remains sustainable over the medium-term (Annex I). Notwithstanding the continuation of fiscal consolidation and progress with lengthening maturities of domestic debt, near-term risks of sovereign stress remain high, reflecting Pakistan's very large gross financing needs and past challenges in obtaining external financing.

4. **Downside risks have declined somewhat but remain high**. Uncertainties around the impact of recent tariff announcements on Pakistan's economic and financial conditions are significant, with risks skewed to the downside. More broadly, geopolitically driven increases in commodity prices, tightening in global financial conditions, weakening of remittances, or higher trade barriers in other trading partners could adversely affect external stability. The other main immediate risk relates to policy slippages given pressures to ease policies and provide tax and other concessions and subsidies to connected interests. An intensification of political or social tensions could also weigh on policy and reform implementation. Finally, climate-related risks are substantial, driven by both Pakistan's high exposure to natural disasters and large adaptation and mitigation needs.

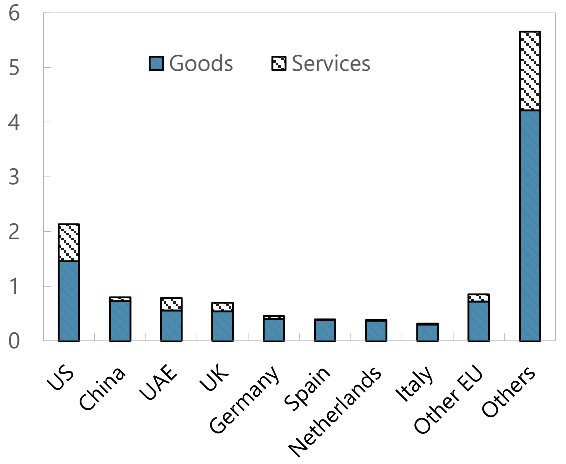
Box 1. Impact of Recent US Tariff Announcements

On April 2, 2025, the US announced a large increase in country-specific tariffs, including a 29 percent tariff on Pakistan. While Pakistan's export sector is relatively small (10 percent of GDP), the US is Pakistan's largest trading partner, with the export of textiles and apparel the largest segment of that trade. Although some tariffs may be changed after negotiations, many of Pakistan's competitors in these product segments also face large tariffs at this moment, including Bangladesh (37 percent), China (145 percent), India (26 percent) and Vietnam (46 percent).

While there is considerable uncertainty about the final impact on the economy, the tariffs and subsequent financial market reaction are expected to weigh on Pakistan's exports and GDP, with growth revised down marginally in FY25 (as less than a quarter is left in the year) **and around 0.3ppts in FY26.** In addition to the direct impact on Pakistan's exports to the US, Pakistan is expected to face indirect effects including via the impact of the tariffs on the economies of Pakistan's other trading partners, tighter global financial conditions, potentially lower remittances, and increased trade policy uncertainty. The net impact on the balance of payments is projected to be moderated by the recent commodity price declines and the downgrade in activity, which will reduce Pakistan's import bill. Pakistan's sovereign spreads have increased sharply since April 2, but market access to external financing in the near term is already limited vitiating any near-term impact. Nonetheless, if outflow pressures intensify it will be critical that the exchange rate is allowed to adjust. The net impact on inflation is also projected to be modest, with some downward pressure expected from lower commodity prices and weaker growth.

Pakistan: Goods and services exports by partner

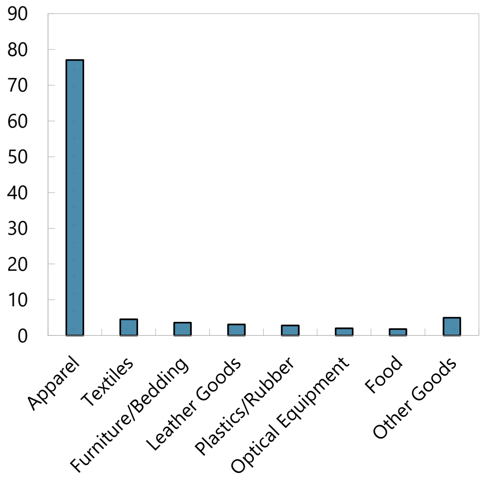
(FY24, percent of GDP)



Sources: SBP, PBS and Staff Calculations

Pakistan: Goods exports to the US by category

(FY24, percent of total)



Sources: PBS and Staff Calculations

EFF POLICY DISCUSSIONS

A. Fiscal Policy

5. The authorities remain committed to achieving an underlying general government primary surplus of 1.0 percent of GDP in FY25. The nominal fiscal targets have been recalibrated to reflect the weaker outlook for nominal GDP, while preserving the original objectives in percent-of-GDP terms. The fiscal position relies more on federal non-tax revenue, projected at 3.0 percent of GDP. Provincial tax authorities have also demonstrated robust performance supporting the overall fiscal effort. Achieving the FY25 primary balance target will require:

- ***Strengthening tax revenue collection*** to ensure general government revenue reaches 12.3 percent of GDP in FY25, including FBR collections of 10.6 percent of GDP (PRs 12,332 billion). To support this effort, revenue administration measures to reduce the compliance gap will continue, focusing on compliance risk management (CRM), digital value chain monitoring, and detection of irregularities in sales tax returns, as well as closer monitoring of irregular import patterns (MEFP ¶5.d) and strengthened faceless customs assessments. The authorities are also actively pursuing the resolution of outstanding litigation cases (PRs 367 billion of a total of PRs 770 billion under dispute in these cases), including those before the Supreme Court (PRs 43 billion), High Courts in Islamabad, Sindh, and Lahore (PRs 217 billion), and the Appellate Tribunal Inland Revenue (PRs 104 billion). The Supreme Court has completed its initial hearing, with a final decision expected by mid-April. A favorable ruling could effectively resolve related cases worth an estimated PRs 120 billion (MEFP ¶5.a). Resolving these cases will help clarify the legal basis for federal taxation of the disputed claims, thereby supporting future revenue by reducing uncertainty and discouraging future litigation.

- ***Containing primary expenditure*** to PRs 15,958 billion (13.8 percent of GDP), while preserving space for priority social spending (MEFP ¶5.b). Expected savings relative to the budget include PRs 54 billion from unnecessary energy subsidies reflecting overperformance (¶1), and PRs 188 billion from unused contingency allocations. An additional PRs 87 billion will be withheld from the Public Sector Development Programme (PSDP) allocation as a contingency to cover gaps that could emerge if litigation cases are not resolved favorably or on time, as the timing and outcome of these cases (currently expected in May and June) is uncertain. While fiscally prudent, this measure could slow the implementation of ongoing development projects. Proportional expenditure cuts will be applied in the event of a revenue shortfall (MEFP ¶5.a).

6. Important reforms to improve the fiscal framework and support the planned fiscal consolidation in the coming years are being implemented:

- ***Provincial and Federal Tax reforms***. In a significant achievement, provinces have amended their AIT regimes to align with federal income tax rules, with implementation starting January 2025 and collection in September 2025 (**end-October 2024 SB**). With support from both the World Bank and IMF, provinces are now preparing implementation plans to operationalize the new legislation, including compliance measures and communication/information campaigns (**new end-June 2025 SB**). Progress also continues on transitioning the goods and services tax (GST) on services to a negative list, effective FY26, and on moving to a capital-based property tax (MEFP ¶5.e). As a pilot initiative, all tax policy proposals for the FY26 budget will undergo cost-benefit analysis, with a full review of tax expenditures also being conducted so that cost-ineffective measures to be phased out starting July 1, 2025 (MEFP ¶7.a).

- ***Strengthening tax administration***. Compliance risk management (CRM) systems are now operational in the Large Taxpayer Offices (LTOs) in Islamabad, Karachi, and Lahore (**end-December 2024 SB**), and have also been extended to the Corporate Tax Units. The FBR has integrated internal data and will incorporate third-party information, with the final goal of developing an automated CRM system. While the *Tajir Dost* scheme (FBR initiative to bring traders and retailers into the tax net through simplified registration and fixed monthly tax liabilities) has underperformed, recent increases in withholding taxes on unregistered retailers have yielded positive results, including a 51 percent year-on-year increase in filers among retailers, wholesalers, and traders, and a 38 percent increase in filers with positive tax liabilities as of January 2025. A new indicative target (**new IT**) on income tax revenue from this group has been introduced to monitor progress on bringing retailers into the tax net. To further improve compliance, a bill has been submitted to Parliament proposing the elimination of the “non-filer” category, which if approved would restrict non-filers from engaging in key economic transactions such as vehicle and real estate purchases. In parallel, efforts to improve compliance and expand the tax base will be monitored under a modified QPC on the number of new taxpayers *with a positive tax liability*.[1]

- ***Federal-provincial fiscal relations***. On September 30, 2024, the federal government and all provincial governments signed the National Fiscal Pact (**end-September 2024 SB**). The pact is an ambitious effort to rebalance spending responsibilities and better align provincial and federal taxation policies. Provinces agreed to the devolution of specific expenditures from the federal to provincial governments in line with the 18th Constitutional Amendment. Provinces have also committed to enhancing tax collection, and implementation efforts are underway. Starting in FY26, all new PSDP projects impacting just one province are expected to be financed directly from provincial budgets (MEFP ¶7.d). The federal right-sizing exercise is progressing, with Phase IV currently underway and implementation of Phase I recommendations nearly complete (**September 2024 SB**). The right-sizing committee is expected to finalize recommendations for all ministries by end-June 2025. Ambitions over the extent of federal streamlining under the federal government's right-sizing efforts, however, may need to increase so that they (as outlined in the National Fiscal Pact) correspond to the extent of the reallocation of expenditure mandates under the 18th constitutional amendment. Staff also recommended the authorities develop a framework to guide provincial investment of their accumulated cash surpluses in government securities through non-competitive bidding (MEFP ¶7.e).

- ***Public financial management (PFM)***. The FY26 budget process was advanced by one month, with the budget circular issued in January, allowing the Ministry of Finance adequate time to engage with ministries and review allocations. To strengthen fiscal monitoring and analysis, monthly and mid-year budget execution reports will be enhanced with more detailed information on execution and the drivers of deviations (MEFP ¶7.g.i). Implementation of PIMA and C-PIMA recommendations remains ongoing, including the introduction of a scorecard to evaluate new development projects and the application of a 10 percent cap on the inclusion of new projects in the PSDP pipeline (**end-January 2025 SB**) (MEFP ¶7.g.ii). The pipeline has been streamlined, with low-priority projects identified for capping (and removal from the pipeline in FY26) and priority projects expedited for completion in FY25. Cash management is improving, with sweeping arrangements expected to be expanded to cover all current accounts, followed by the inclusion of savings accounts (MEFP ¶7.g.iii).

- ***Spending Transparency***. Continued roll-out at the federal and provincial levels of the electronic procurement system (developed with WB support) will improve spending transparency and accountability, especially through public disclosure of beneficial ownership. Access by the National Accountability Bureau and Competition Commission to information in the system and the planned external audit by the Auditor General are also positive developments (MEFP ¶7.h).

- ***Institutionalizing Tax Policy improvements***. The Tax Policy Office (TPO) was established within the Ministry of Finance last September as part of efforts to strengthen institutional

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[1] Previously the QPC monitored all new filers, but many of these returns claim no tax obligation.

capacity for tax policy design and analysis. The authorities have requested IMF technical assistance to support the development of short- and medium-term work plans for the TPO (MEFP ¶7.c). While the office is in the early stages of operationalization, the World Bank is providing interim analytical support for budget preparation, including cost-benefit analyses of tax proposals and tax expenditures to be published alongside the budget.

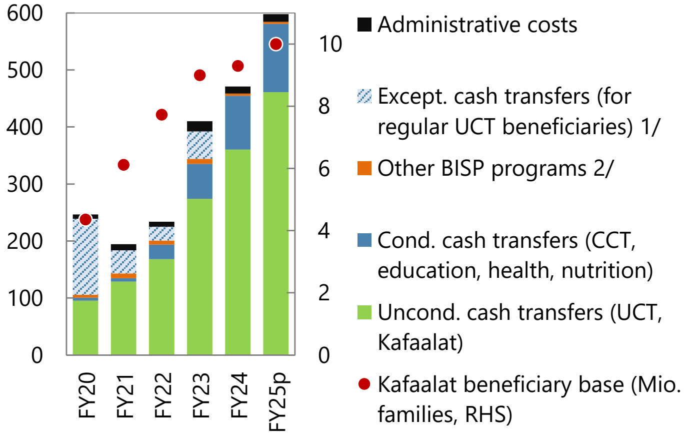
- ***Debt Management***. Effective debt management is essential for addressing debt vulnerabilities. Thanks to a favorable market environment, the authorities successfully extended the maturities of domestic debt issuance towards the end of 2024, thereby achieving the end-December 2024 IT. However, approximately 80 percent of domestic debt consists of either short-term or floating-rate instruments, making it highly exposed to interest rate risk. The authorities should revise their medium-term debt management strategy to reflect the current financial and fiscal outlook, aiming to strike a balance between costs and risks. Ideally, the revised strategy should be published before the start of FY26 to inform the annual borrowing plan. Broadening the investor base is key to mitigating debt vulnerabilities given the significant dependence on banks for borrowing. To facilitate this, the authorities should conduct a thorough assessment of the local currency bond market to identify obstacles and opportunities for further market development. Issuance of government guarantees (**QPC**), including those related to SOEs' commodity operations, should continue to be contained to limit fiscal risks.

B. Poverty Reduction and Social Protection

7. The year's BISP budget, which is on pace to be fully executed, includes a significant increase in unconditional cash transfer (UCT), an effort which should continue. The larger envelope—a 27 percent nominal increase over FY24—allowed for the January 2025 implementation (**structural benchmark**) of an increase in the quarterly UCT Kafaalat program benefit from PRs 10,500 to PRs 13,500. This benefit increase included an inflation adjustment, a one-time additional adjustment to increase the stipend's generosity level (from 9.6 percent of the bottom income quintile's consumption basket to 12.4 percent), with the absorption of an additional 700,000 families into the program, bringing total enrollment to 10 million this fiscal year. Going forward, it is critical that Kafaalat benefits maintain their purchasing power—another inflation adjustment that would increase the quarterly benefit from PRs 13,500 to PRs 14,500 is planned

Pakistan: Composition of BISP Spending, FY20-25

(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.

(**end-January 2026 new SB**) —and that, upon the availability of a new household survey (HIES), the generosity level, which is low by international standards, is again increased gradually towards 15 percent of the bottom income quintile's consumption basket (MEFP ¶8). Recent improvements in the BISP electronic payment model—in which more banks participate, and users move from limited mandate to full mandate accounts—will provide greater choice and access to beneficiaries (MEFP ¶9).

8. **The authorities are also on track to execute the planned conditional cash transfer (CCT) budgets**. CCT expansion this year has included an increase in education program enrollment by 1.1 million, to 10.8 million, and an anticipated 500,000 increase in nutrition program enrollment, to 2.5 million. Federal and provincial authorities are coordinating their efforts on BISP and provincial CCT programs, a process which should continue such that (i) CCT programs remain complementary and do not overlap; (ii) there is a common base of users, based on the National Socio-Economic Registry; and (iii) eligibility standards are common across the federal and provincial levels.

9. **Efforts need to be strengthened to improve provincial health and education spending capacity. Health and education spending, the large majority of which outside of social support programs is provincial, has declined since 2018**. The FY25 budget targeted a modest increase in general government health and education spending to 2.4 percent of GDP. However, execution has fallen short this year, particularly in Sindh and Khyber-Pakhtunkhwa, due to issues related to absorption. Improved health and education outcomes are critical to boosting long-term growth; as such, provinces should improve efforts to execute spending in these areas, for which a similar amount should be allocated for FY26 (MEFP ¶10).

C. Monetary, Exchange Rate, and Financial Sector Policies

10. **Monetary policy has successfully lowered inflation and needs to remain sufficiently tight to anchor inflation durably inside the SBP's target range**. The MPC's decision to hold the policy rate in their March 10 meeting was appropriate, allowing time for past rate cuts to feed through to the economy, ward against growing external uncertainty, and minimize the risk of costly policy reversals, especially considering still-elevated core inflation. Changes to central bank communication, particularly greater clarity on the MPC's assessment of the current and desired policy stance, have been welcome and should continue to help the public better understand the MPC's reaction function to incoming data, and guide expectations between meetings. The revised regulations concerning SBP's collateral framework and counterparty eligibility policy, in line with the recommendations of the 2023 Safeguards Assessment, to become effective in July 2025, will help mitigate financial and reputational risks arising from monetary policy operations (MEFP ¶14) .

11. **Reserve rebuilding through FX purchases should continue while the interbank FX market should be deepened**. The reserve buildup during FY25H1 is welcome and should continue as buffers still remain low for Pakistan's conditions. Notwithstanding this improvement, underlying structural vulnerabilities persist in Pakistan's economy, and the authorities should monitor the recent REER appreciation to avoid eroding competitiveness. Exchange rate flexibility remains necessary to support external rebalancing and resilience to shocks. In addition, efforts should continue to deepen

the FX market. Banks continue to satisfy their FX inflows and outflows mostly in house, minimizing reliance on the interbank market, resulting in low turnover volumes. Banks, both those on the long- and short-side of the market, should more actively see the interbank FX market as the most effective way to manage their positions, regardless of the extent of market liquidity, and this will lead to a deeper interbank FX market. Staff continue to recommend unwinding the January 2022 shortening of the period of repatriation of export proceeds (which is assessed as an outflow CFM according to the IMF Institutional View on the Liberalization and Management of Capital Flows) once macroeconomic and BOP stability is being restored.[2]

12. Progress has been made in addressing undercapitalized financial institutions, which will further bolster financial stability. Significant strides have been made toward the recapitalization of two undercapitalized private banks (MEFP ¶16.b): One of these banks has completed a merger with a larger bank, and the consolidated entity is compliant with capital requirements. The shareholders of the second bank are executing their multi-step recapitalization plan. Since the plan of the second bank was not in place by end-October 2024 and lacked legally binding status, the end-November 2024 SB was missed. However, the shareholders of the second bank have given their regulator, the SBP, an unconditional commitment to fully align this bank's capital with the minimum requirement by end-April 2025. If the bank fails to meet the prescribed capitalization requirements by end-April, the SBP is ready to exercise its powers to put the bank under resolution. Beyond these two private banks, an undercapitalized public bank was put into liquidation and its license was revoked in December 2024. In the microfinance banking sector, the SBP should continue to engage with owners and potential investors to address capital shortfalls, with five of twelve microfinance banks remaining undercapitalized. Following the approval of the amendments to bank resolution and deposit insurance legislation in October 2024 (end-October 2024 SB), the SBP should now develop the necessary operational toolkit to implement the new framework through the recently established "Financial Institutions Resolution Unit" (MEFP ¶16.a).

13. Clarity on the structure and ground rules of the financial system post-2027 will allow market participants to prepare and to ensure financial stability during the transition. The authorities' financial sector strategy should clearly identify and prepare for the implications of the mandated removal of 'riba' (interest) from the economy by January 2028, following the 26th constitutional amendment in October 2024, which would have significant implications for the structure of the financial sector, financial stability, banking supervision and monetary policy implementation (MEFP ¶16.d). Publication of this plan and all necessary guidance will help align the expectations of market participants, investors, and regulators, allow them time to prepare, and mitigate concerns about any possible cliff effect (proposed new SB, end-June 2026). More broadly, the authorities should develop a strategic action plan to support further capital market development to address the sovereign-bank nexus and improve access to private sector financing. Finally, AML/CFT effectiveness should be enhanced with respect to risk-based supervision, beneficial ownership transparency, and risk mitigation of trade-based money laundering (MEFP ¶16.e).

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[2] Staff is currently assessing whether the annual limit on cross-border transactions through debit/credit cards constitutes a CFM measure under the IMF Institutional View on the Liberalization and Management of Capital Flows.

D. Energy Sector Policy

14. Timely tariff adjustments have improved the power sector but need to be supplemented by structural reforms to restore the sector's viability.

- The end-June 2025 CD flow IT has been tightened, from PRs 417 billion to PRs 337 billion, given strong overperformance in FY25H1, over FY24 (PRs 457 billion, 0.4 percent of GDP).[3] This overperformance reflects lower than anticipated interest rates and, importantly, the early initial impact of reforms to strengthen tariff payment/collection. Achieving the revised target will require timely notification of remaining quarterly tariff adjustments and monthly fuel cost adjustments; continued effort on collection; improved performance on loss prevention; and the disbursement of remaining budgeted subsidies of PRs 353 billion. Recent reform actions aimed at reducing costs in the sector in the near term—including the application of the Captive Power Transition Levy (CPL, ¶15) and the renegotiation of some independent power producer (IPP) contracts—as well as a temporary and limited subsidy (ending June 2026) across all non-lifeline consumer categories (MEFP¶20.c) to bring forward some reform benefits already evident, should also help reduce pressure on tariffs and thus both the non-payment of bills and CD pressures. Going forward, timely notification of the annual rebasing for FY26, set at cost recovery and incorporating cautious assumptions that take account of the sensitivity of costs to internal and external factors (**July 1, 2025, new SB**), is critical.

- The authorities are also implementing a plan to convert most (up to 80 percent) of the existing CD stock (effectively CPPA payment arrears) to CPPA debt through a new sukuk which, given low interest rates, would reduce the financial burden on the power sector (MEFP¶20.b). The operation will significantly reduce interest charges on arrears, which in recent years have comprised nearly half of CD flow. CD targets have consequently been set lower for FY26H1—it is anticipated that, with this operation and other reforms cited below, CD flow should continue to decline through the end of the operation (repayment of the sukuk) in FY31, and with it the need for budgeted power subsidy (a third of which is currently dedicated to CD stock clearance). It is imperative, given limited fiscal space, that payments for the operation are entirely financed out of the existing debt service surcharge (DSS). While DSS flows are expected to fully cover payments, the authorities must remove the existing DSS cap (**end-June 2025 new SB**) to ensure that the DSS can be adjusted if needed to cover payments should there be any shortfall.

- These efforts should be supported by fundamental structural reforms to restore the power sector to viability. Key measures include continued progress on DISCO privatization and/or moves toward private concessions to improve DISCO performance and services; sustained efforts to shift captive power to the electricity grid (¶15); complete the restructuring of the National Transmission Dispatch Company to improve efficiencies; privatizing inefficient public

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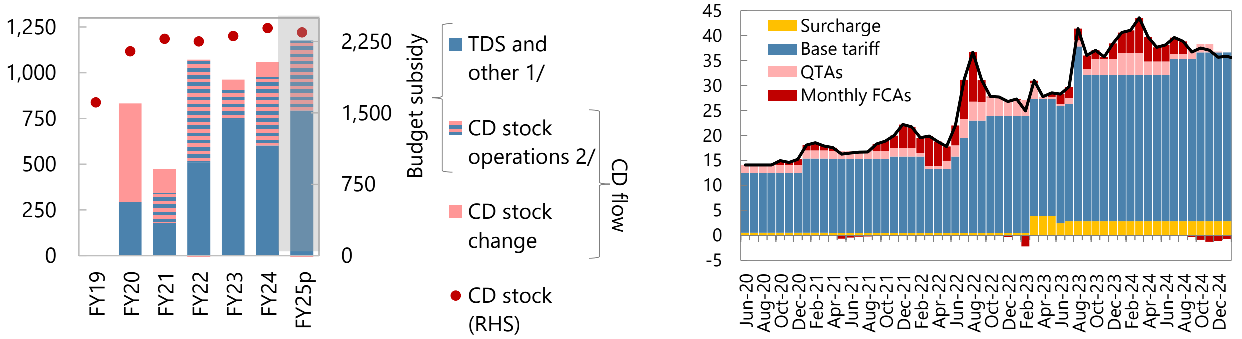
[3] The CD flow IT sets a ceiling on the flow accumulation of CD. While the pace of CD accumulation has declined in recent years, and net CD stock increase has been minimal, some additional CD accumulation still occurs due to technical losses and theft; under-collections; and interest payments on the CD stock and arrears. Ongoing structural reforms are aimed at addressing these various factors.

generation companies; and making further gradual progress toward a competitive electricity market (MEFP ¶20.d). The authorities have committed to ensure that implementation these reforms will bring the flow of any new CD to zero by FY31 (when the above stock operation ends) at the latest (MEFP ¶20.b).

Pakistan: Power Sector

Total Fiscal Cost, FYs19– 25
(Billions of Pakistani rupees)

Power Prices, June 2020–March 2025
(Notified weighted-average, post-subsidies, pre-tax price in PRs per kWh)



Sources: Pakistani authorities; IMF staff calculations.
1/ Inter-DISCO tariff differential subsidy and special subsidy packages. 2/ Repayment of CPPA arrears to IPPs and GPPs and amortization of PHPL debt.

15. Gas tariffs should continue to be adjusted on time in line with revenue requirements while further progress is made on CD monitoring and shifting CPPs to the electricity grid.

- The large gas CD stock warrants vigilance with regard to on-time tariff adjustments in line with sectoral revenue requirements, while maintaining a progressive tariff structure, including ahead of the next adjustment in mid-2025 (**July 1, 2025, and February 15, 2026 new SBs**). The authorities should maintain momentum on the significant progress over the past year in developing a well-defined data set of CD statistics for monitoring purposes. The next step would be the start of regular quarterly CD reporting, creating the basis for a gas sector CD Management Plan (CDMP). These tools would allow the authorities to pinpoint the sources of CD flow and further guard against fiscal and financial risks in the sector.

- The shifting of CPPs to the electricity grid—to boost grid demand while preserving scarce gas resources to more efficient gas-based power generators— remains a reform priority for the sector. The cutoff of CPPs from gas supplies did not happen at end-January 2025 as planned, partly because approximately a quarter of CPPs were not operationally ready to move to the grid. As an alternative, the authorities decided to use the price mechanism to incentivize the shift to the grid. Specifically, a CPL was introduced on February 1, 2025, which set the price of all gas for CPPs equivalent to the industrial grid plus a 5 percent levy; the levy will increase by an additional 5 percent every six months until it reaches 20 percent in August 2026. Levy proceeds—the difference between the actual price (levy included) and the OGRA-determined CPP gas price—will be transferred to the electricity grid to reduce the average effective grid tariff (evenly across the existing tariff structure). In support this effort, the authorities have made progress in facilitating service-level agreements between DISCOs and CPPs, and this should continue as quickly as possible so that CPPs can reliably use the grid. The CPL was introduced as an ordinance, but to ensure the CPL becomes permanent, the authorities must pass CPL legislation through parliament (**end-May 2025 new SB**).

E. Other Structural Policies

16. Continued efforts to strengthen governance, SOE management, and private sector development are necessary for generating sustainable growth, improving living standards and social outcomes:

- ***Governance Diagnostic Assessment (GDA)*** (MEFP ¶25.a). The target date of the publication of the GDA report (supported through IMF TA) faced operational delays related to the identification of a focal point (**proposed resetting of end-July 2025 SB to end-August 2025**). In addition to publication of the GDA, the authorities are also committed to publish their action plan to implement the GDA's recommendations (**proposed new SB, end-October 2025**).

- ***Strengthening the effectiveness of anti-corruption institutions*** (MEFP ¶25.b-e). The authorities are working to enact legislation to publish asset declarations of high-level public officials, but additional time is needed owing to delays in the legislative process (**proposed resetting of end-February 2025 SB to end-June 2025**). Cabinet agreement to publish the full UNCAC Review Report is expected after an assessment of the relevant cabinet committee led by the Law Ministry. Banks' access to asset declarations for AML/CFT purposes has been enhanced with FBR's launch of new digital portal, and future access will also include high-level provincial public officials. Provincial anti-corruption establishments will be authorized to receive and request financial intelligence from the Financial Monitoring Unit in relation to corruption-related investigations.

- ***Ensuring that all SOEs are subject to the SOE Act and SOE Policy***. This includes amending the laws of nine remaining statutory SOEs to bring them into line with the SOE Act (**end-June 2025 SB**).[4] Operationalization of the SWF should occur only after governance safeguards for the SWF and SOEs transferred to it are brought on par with the new SOE governance framework and international standards and best practices on SOE holding companies and public asset management. Needed amendments to the SWF Act should include (i) clarifying the SWF's mandate and strengthening its governance arrangements; (ii) requiring transparent and competitive procedures for divestment and procurement; (iii) ensuring that appropriate fiscal safeguards are in place, and (iv) subjecting SWF-SOEs to the SOE Act (MEFP ¶23.b; **end-March 2026** proposed **reset SB**).

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[4] While the structural benchmark reads 10 additional statutory SOEs but the authorities have since determined that only 9 entities meet the definition of an SOE.

- ***SOE transparency and governance*** It is critical that the new SOE Act and Policy are fully implemented to limit losses, improve public services, protect public assets, reduce the state's role and enhance accountability. Some progress has been made, with development partner support, establishing business plans, statements of corporate intent, and published and audited financial statements and annual reports for all SOEs, as well as on the identification and contracting of public service obligations with the government. These efforts should be accelerated, including via the revision of manuals and issuance of supplementary guidance notes, in line with development partner recommendations. Greater progress is also needed in establishing majority-independent boards; this is currently the case for only about half of commercial SOEs. Finally, the Central Monitoring Unit (CMU) should continue to refine its electronic database to meet all reporting requirements under the SOE Act and ensuring that its reporting is in line with OECD best practice.

- ***Interventions in commodity markets*** (MEFP ¶24). The authorities refrained from wheat procurement operations during the past year and in absence of government-imposed support prices, consumers have seen large benefits as reflected in subdued food inflation. Meanwhile, provinces have paid off most of the legacy debt related to commodity operations, and the authorities are working towards a new food security framework for wheat that will neither create distortions in the market nor jeopardize fiscal sustainability. While these steps are welcome, the authorities should broaden their efforts to other commodities, including by reviewing the relevant legislation and empowering competition authorities, to enable an agile and competitive agricultural sector that also serves the needs of consumers.

- ***Trade and Industrial Policy***. Addressing the anti-export bias resulting from restrictive trade policies and an ineffective tariff structure is central to unlocking Pakistan's competitiveness and attracting private investment (MEFP ¶¶26–28). The new National Tariff Policy (FY25–30) should substantially streamline and reduce tariffs (customs and regulatory duties) and reduce nontariff barriers and move away from the regime of special duties applied to imports for particular industries. Trade barriers are particularly extensive in the automotive sector, and the next iteration of the automobile policy (covering FY26–31), on which consultations are still ongoing, should reduce tariffs and preferential support for local production. Ahead of this, the authorities will remove the existing ban on commercial imports of used vehicles (**new end-July 2025 SB** for submission of legislation). Where contractual provisions allow, ineffective incentives for Special Economic Zones (SEZs), Export Processing Zones (EPZs), Special Technology Zones (STZs) and any other industrial zone or park should be phased out (**end-June 2025 SB** and **new end-December 2025 SB** for comprehensive implementation plans for SEZ/EPZ and STZ/other zones, respectively) and no new special zones should be created.

- ***Strengthening the macroeconomic statistics***. Efforts to enhance the national accounts continue, with the PBS publishing quarterly estimates of the expenditure side for the first time in December. Field work for three major surveys (Agricultural Census, Labor Force Survey, and Household Integrated Economic Survey) is at an advanced stage, and results will be published by end-December (MEFP ¶29), which will help address important gaps in the economic statistics and be an important input for the upcoming GDP rebasing. More broadly, preparations are underway for three other major surveys (the Family Budget Survey, and surveys of both large and small-scale manufacturing) in FY26, and to commence monthly data collection from July 2025 for a new producer price index.

RSF ARRANGEMENT: BOOSTING CLIMATE RESILIENCE

17. Pakistan is highly exposed to extreme weather events, creating significant macroeconomic, fiscal, and development risks (Figure 4, Annex II.A). Analysis suggests that steps to build resilience would buffer Pakistan from climate-related growth and balance of payments shocks: for instance, an additional 1 percent of GDP in investment in climate adaptation and resilient infrastructure per year for five years would reduce the negative impact of a natural disaster shocks on growth by about half, five years after the shock and would allow a much quicker return of the economy to the previous GDP level (Annex III). Importantly, it will reduce the humanitarian impact (loss of lives, and displacement of people) such shocks have, most recently evidenced by the catastrophic 2022 floods. In addition, Pakistan's large greenhouse gas emissions, driven by the agriculture and energy sectors, have nearly doubled in 30 years, placing Pakistan among the world's top emitters. Pakistan’s main source of energy consumption is fossil fuels, with weak energy policies (including, until recently, underpricing, as well as large subsidies) exacerbating inefficient energy use. (Figure 4, Annex II.B).

18. The authorities have ambitious international climate commitments and national adaptation plans. The 2023 National Adaptation Plan sets Pakistan's sectoral adaptation agenda across sectors (Annex II.D) and the authorities are working with development partners on its implementation, as well as on strengthening policy gaps in areas identified by diagnostics (including the IMF’s 2023 C-PIMA, the World Bank’s 2022 Country Climate Development Report, and the Asian Development Bank’s 2024 Climate and Disaster Resilience Enhancement Program) such as disaster risk management, public financial management, and climate finance (Annex II.D, H). Mitigation policies follow Pakistan's 2021 Nationally Determined Contribution (NDC), which sets a 15-50 percent reduction target (below business-as-usual emission levels) and ambitious transportation transition for Pakistan by 2030 (Annex II.E).

19. The authorities' RSF request aims to support their efforts to address key gaps in adaptation and mitigation policies, while focusing on macro-critical and/or transformative reform measures. The RSF will help the authorities address long-standing vulnerabilities to climate shocks; build economic resilience and prospective balance of payments stability by complementing ongoing policy efforts; and catalyze support from other multilateral and regional partners and private sector investment by strengthening Pakistan’s green investment enabling environment. In particular, the RSF package will reduce balance of payments stability risks stemming from its climate vulnerabilities by (i) strengthening public investment and budget planning processes at all levels of government to assess and prioritize projects that build resilience to natural resources (RMs 1, 2, and 3); (ii) advancing the more efficient use of scarce water resources, including through improving water pricing practices (RMs 4 and 5); (iii) strengthening federal-provincial coordination of natural disaster risk financing (RM 6); (iv) improving Pakistan's climate information architecture and disclosure of climate-related risks by banks and corporates to improve the enabling environment for climate finance (RMs 7 and 8); and (v) shifting away from imported fuels/petroleum products via decarbonization (RMs 9, 10, and 11). Other reform measures (RMs12 and 13) will support Pakistan's efforts, as a major emitter, to meet its mitigation commitments and reduce related macro-critical risks.

Reform Area 1: Mainstreaming Climate Issues in Budget and Investment Planning

20. The RSF will support the authorities' efforts to boost climate's prominence in Pakistan's PIM and budget processes. Doing so will help Pakistan better identify and target projects facilitating the adaptation investment required to boost resilience to climate shocks (¶19, Annex III), as well as those to support Pakistan meet its NDC commitments. This will include increasing the weight of climate elements in PSDP selection for infrastructure projects (**RM1**, MEFP ¶32); revising public investment management (PIM) policies such that, for potential projects costing PRs 7.5 billion or more, only those that have gone through climate assessments will be included in the PSDP (**RM2**, MEFP ¶32); and, building on initiatives already undertaken at the federal level to introduce and expand green budgeting, take measures to enhance federal green budgeting transparency and expand green budgeting practices to provincial governments (**RM3**, MEFP ¶33). These RMs fills gaps in the authorities' C-PIMA Action Plan adopted in December 2023 (a completed SB under the 2023-24 Stand-By Arrangement), on which much progress has already been made.

Reform Area 2: Improving Water System Resilience and Disaster Response Financing

21. Measures to improve irrigation water pricing and revenue collection will bolster water management and infrastructure. Pakistan's irrigation system suffers from weak revenues and irregular tariff adjustments, which hinders cost recovery and limits provinces' ability to cover operational and maintenance expenditures. This, in turn, drives low service standards, poor reliability and supply adequacy; problems related to waterlogging, soil salinization, groundwater depletion; and, ultimately, water insecurity and low irrigation productivity, leaving Pakistan more exposed to climate shocks (Annex II ¶4, Annex II. Figure 7). In addition, artificially low irrigation water tariffs discourage efficient water use. To this end, the RSF will support the digitization of revenue collection processes for irrigation authorities in three provinces, following the successful recent example of Punjab (**RM4**, MEFP ¶34); and the introduction of an irrigation water tariff adjustment mechanism in Punjab and Sindh (**RM5**, MEFP ¶34), which represent the large majority of Pakistan's agricultural production. Such reforms would be expected to allow for improved water distribution efficiency, and thus an improved delivery system.

22. Improving coordination capacity on disaster risk financing (DRF) will fill a gap in Pakistan's disaster risk management (DRM) framework. DRM practices between the federal and provincial governments are inconsistent, and federal-provincial DRM and DRF coordination remains a key challenge that is not currently covered by development partners' engagement on the issue (Annex II. ¶21). **RM6** (MEFP ¶35) will support the adoption of an implementation framework for the authorities' National Disaster Risk Financing Strategy (NDRFS). It will establish a coordination mechanism that consolidates federal and provincial DRF needs and facilitates smooth national disbursement of disaster financing and access to appropriate financing instruments in the event of a relevant shock, plugging a gap in Pakistan's existing DRM framework.

Reform Area 3: Strengthening the Climate Information Architecture and Management of Climate-related Financial Risk

23. The RSF will support Pakistan's green finance agenda by strengthening the enabling environment for green investment. Reforms under the RSF will include (i) improving climate-related financial risk management and supervision; and (ii) adopting and implementing Pakistan's green taxonomy, which is currently in development with the World Bank and is anticipated to be completed by end-June 2025. Specifically, the SBP will issue guidelines for the implementation of climate-related financial risk management and supervision, in line with 2022 BCBS principles and applicable to supervised commercial banks (**RM7**, MEFP ¶36); and the SECP will develop guidelines based on a phased approach to enable listed companies to disclose climate-related risks and opportunities information, including taxonomy-aligned data (**RM8**, MEFP ¶37). This should support adaptation by allowing banks and private firms to incorporate climate-related risk considerations into their risk management and investment activities.

Reform Area 4: Promoting Green Mobility and Transport Decarbonization

24. Reforms will shift Pakistan further support decarbonization and support its transition to greener and less polluting transportation in the process delivering significant CO_2 emissions reductions. The authorities will do this by adopting a carbon levy via the FY26 Finance Act (**RM9**, MEFP ¶38), to be phased in over two years for gasoline and diesel products, and to be applied to fuel oil as well, disincentivizing fossil fuel use (especially the use of ICE vehicles and heavy-polluting fuel oil in electricity generation). Possible distributional impacts of this levy would be counterbalanced by annual BISP UCT benefit inflation adjustments for inflation ¶7). The RSF will also help to implement the authorities' new 2025-30 New Energy Vehicle (NEV) Policy which seeks to, in line with NDCs, ensure 30 percent of new vehicles are EVs by 2030. This will include a subsidy scheme for EVs combined with a supplementary sales tax on ICE vehicles (**RM10**, MEFP ¶38), calibrated in a revenue-neutral fashion and in line with Pakistan's NDC targets for new EV uptake; and a viability gap funding framework to promote the private sector development of the necessary charging station infrastructure in Pakistan via one-off subsidies (**RM11**, MEFP ¶38), with modalities to be determined in line with FAD recommendations. The Fund's Climate Policy Assessment Tool (CPAT) and associated transport module suggest that, taken together, by 2030 these policies would reduce emissions by 9.6 MtCO2e per year relative to the current policy scenario and support Pakistan meeting its NDC commitments (Annex II. ¶14, Figure 15).[5] The emission reduction is equivalent to a 4 percent reduction from the baseline CO2 emission in 2030. Beyond the climate

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[5] This estimate is attributable to RM9-5 per liter on top of the current policy efforts. The current policy scenario includes the recent increase of PDL to Rs 70 per liter of gasoline and diesel in March 2025. This level of PDL translates to carbon prices in the range of US$100-112 per tCO2. RM9 is expected to raise the carbon prices in Pakistan to US$107-120 per tCO2, while introducing a carbon price on fuel oil for the first time at US$100 per tCO2.

impact, these reforms should significantly reduce the heavy health impact from the high level of pollution in a number of Pakistani cities.

Reform Area 5: Aligning Energy Sector Reforms with National Climate Mitigation Commitments

25. Reforms to power subsidies and improvements in energy efficiency will reduce regressive overconsumption, losses, and wastage. Pakistan's energy subsidies are poorly targeted, resulting in overconsumption among upper income quintiles. The RSF will support transferring power (**RM12**, MEFP ¶39) subsidies from the budget and tariff structure to budget-financed, targeted subsidies delivered through BISP. This will support the poorest forty percent of energy consumers while wealthier consumers will face higher tariffs, providing an incentive to conserve energy. The RSF will also support (**RM13**, MEFP ¶40) the implementation of recently adopted requirements that new electric appliances entering the market (specifically fans, LEDs, refrigerators, air conditioners, and motors) meet minimum energy performance standards (MEPS) by setting targets for each by the end of the RSF; and by ensuring that MEPS for these five appliances are applicable in all public procurement. This is expected to deliver large energy savings and spur efforts for similar efficiency adoption in the private sector, thereby complementing the energy pricing efforts in RMs 9 and 12.

PROGRAM MODALITIES

26. Updates to EFF-related conditionality are proposed to guide program implementation in the coming year (MEFP Tables 1-2):

- **Modifications to end-June targets**. The PCs on the floor on the SBP’s net international reserves and the ceiling on net domestic assets of the SBP are proposed to be tightened, to lock in progress in rebuilding reserves and containing monetary aggregates. The end-June PC on the floor on the number of tax returns is proposed to be raised given the sharp increase already achieved by January, and the definition of new tax returns has been narrowed. Similarly, the IT on power sector payment arrears is proposed to be tightened to lock in progress in containing arrears through February. Conversely, the PC on the general government primary deficit and the IT on net tax revenues collected by the FBR are proposed to be reduced in line with the revised outlook for nominal GDP growth. Finally, the IT on net tax revenues from the *Tajir Dost* is proposed to be replaced by a new IT on income tax revenues collected by the FBR from retailers.
- **New quantitative targets**. New PCs and ITs are proposed for end-September 2025 and end-December 2025 consistent with the EFF objectives, including supporting revenue mobilization and fiscal adjustment, containing inflationary pressures and bolstering FX reserves.
- **Structural Benchmarks**. Test dates for four SBs (including two of the missed SBs) whose implementation has been delayed are proposed to be reset. New SBs are proposed covering critical areas of the authorities’ agenda for the next year, including fiscal structural reforms, governance, the energy sector, and trade liberalization.

27. RSF Access, Phasing and Modalities. Pakistan is eligible for RSF financing (Group C). Access is proposed at 49.2 percent of quota (SDR 1,000 million), in line with the overall strength and quality of the reform package and Pakistan's sustainable debt and capacity to repay. Access would begin in parallel with the second review of the EFF and continue over the remaining reviews of the EFF. Reform implementation will be monitored through semiannual reviews concurrent with EFF reviews. The proposed RSF will be used as budget support, creating fiscal space to address Pakistan's climate vulnerabilities and substituting for more expensive domestic commercial financing. Disbursements will increase reserves and thus improve the balance of payments.

28. Financing. The program is fully financed, with firm commitments for the next 12 months and good prospects for the remainder of the Fund-supported program (Text Table). Substantial progress has been made in realizing financing committed ahead of the EFF request, with US$2.6 billion already disbursed or expected to disburse in the coming months, including from Saudi Arabia, the Islamic Development Bank, and a commercial loan backed by an ADB-partial guarantee. Firm commitments are also in place for an additional US$1 billion of financing in the next 12 months. Key bilateral partners remain committed to rolling over existing short-term liabilities in the remaining program period.

Pakistan: Program Financing 1/ (Millions of U.S. Dollars)

	2024/25	2025/26	2026/27	2027/28	Total (FY25-28)
A. Financing gap (without RSF) 1/	3,636	4,428	3,032	1,018	12,113
Underlying BoP Gap 2/	-933	1,078	-1,794	25	-1,623
Gross international reserves (+= accumulation, without RSF)	4,568	3,350	4,826	992	13,736
B. IMF EFF	2,036	2,028	2,032	1,018	7,113
C. Other program financing (A-B) 3/	**1,600**	**2,400**	**1,000**	**0**	**5,000**
Commercial loan (w/ ADB partial guarantee)	1,000				1,000
Saudi Arabia Oil Financing	400	800			1,200
Additional IsdB Trade Financing	200	200			400
Additional Commitments 3/	0	1,400	1,000		
D. RSF Disbursement	0	410	514	412	1,337
Additional change in GIR (+ = accumulation)	0	410	514	412	1,337
Memorandum items					
IFI Budget Support	1,100	250	550	650	2,550
WB	0	0	0	0	0
ADB	1,100	250	550	650	2,550
External Bond Issuance 4/	0	400	1,000	2,000	3,400
(Net) Commercial Bank borrowing 5/	815	85	853	1,022	2,775

1/ Excluding financing needs associated with rollover of short-term bilateral financing, and expected commercial bank rollovers

2/ Change in reserves absent IMF and other program financing

3/ Additional financing commitments, including from China and IFIs.

4/ Including through prospective "Panda" bond in FY26

5/ Including through ITFC facility

29. Enterprise risks are broadly unchanged from the time of approval of the EFF request. Program performance to-date, complemented by ongoing reforms and new commitments for this review, demonstrates the authorities’ strong ownership and keeps business risks in check, though residual risks to program performance persist (¶4). While the new RSF will increase the Fund’s financial exposure, it would help mitigate financial risks by supporting improved resilience to withstand the impact of climate change, and also reduce business risks by addressing critical challenges of a member country.

30. Capacity to repay. Pakistan's capacity to repay the Fund has improved somewhat but remains subject to significant downside risks and critically dependent on policy implementation and timely external financing. The Fund’s exposure would peak at SDR 9,466 million in September 2027 (466 percent of quota and about 51 percent of projected gross reserves in 2027). Pakistan’s outstanding debt to the Fund as a percent of gross international reserves is above the 75 percentile of comparator countries. The three flow indicators (i.e., debt-service to the fund as a percent of government revenues, exports, and gross international reserves) are all above the 75 percentiles of the comparator group, indicating significant risks (Figure 5). Risks to consistent policy implementation include resistance to adoption of reforms, underperformance of tax revenue, high gross financing needs, low gross reserves, and sizeable net FX derivative position of the SBP, coupled with sociopolitical tensions, which could erode repayment capacity and debt sustainability. Uncertainty about global geoeconomic and financial conditions in major trading partners adds to these risks. Adequate and timely execution of the firm and credible financing assurances from official creditors remains essential to mitigate these risks.

STAFF APPRAISAL

31. Commendable program implementation has restored economic stability and is laying the foundations for sustainable economic growth. The economic turnaround since the approval of the 2023 SBA has been impressive, and the ongoing EFF-supported program is helping the authorities address deep seated structural challenges and navigate a difficult external environment. However, the gains are still fragile, and policy and reform efforts need to be sustained to strengthen public finances, rebuild external buffers, improve the provision of critical public services, and create a favorable environment for private sector led growth.

32. The authorities' frontloaded revenue mobilization effort under the EFF and commitment to meet the FY25 primary surplus target demonstrate the government’s commitment to tackling key economic vulnerabilities. The full implementation of ongoing fiscal reforms are the only way to bolster fiscal sustainability. Strict adherence to the FY25 budget will help reduce risks to macroeconomic stability and fiscal sustainability. Efforts should also continue to improve revenue administration, including by ensuring effective implementation of tax policy, and to broaden the tax base by addressing under-taxed sectors and reducing compliance gaps. In this regard, the legislative approval of AIT by provinces and the new National Fiscal Pact are major achievements, which along with continued reforms in areas such as property taxation and the rationalization of tax expenditures, will support a more equitable and efficient tax system. In parallel, preserving social assistance while curtailing non-priority spending, right sizing the federal government, prioritizing productive public investment, and enhancing public financial management will be important to optimize the use of scarce public resources. Diversification of the investor base for government securities is also important to help unwind the sovereign-bank nexus and reduce the crowding-out of private sector financing. Steadfast implementation of these efforts will lay the basis for meeting the fiscal objectives for the coming years, strengthening public finances, and bolstering debt sustainability.

33. **The SBP has skillfully managed to lower inflation, and monetary policy should remain appropriately tight and data-dependent to ensure that inflation is anchored within the SBP's target range**. While the reduction in headline inflation has been impressive, core inflation remains elevated and the SBP should continue to calibrate monetary policy carefully, removing monetary restraint gradually and contingent on clear evidence that inflation is firmly anchored within the SBP's target range. Effective communication will help the public better understand the MPC's reaction function and build support for its policy decisions.

34. **A more flexible exchange rate should be an integral part of Pakistan's policy framework, facilitating a smooth adjustment of the economy in the face of external and domestic shocks**. The SBP needs to continue efforts to deepen the interbank FX market, which will facilitate international transactions and trade, while also enabling effective price discovery. Thanks to SBP's sustained efforts gross international reserves have increased significantly since mid-2023, and they should continue to build reserve buffers to more comfortable levels, helping bolster confidence and increasing Pakistan's resilience to external shocks.

35. **The authorities need to remain proactive on their financial sector agenda.** Completing the process of addressing undercapitalized financial institutions is essential, with the SBP exercising its powers as needed under the upgraded resolution framework. The remaining Safeguards Assessment recommendations—clarifying the prohibition on quasi-fiscal activities in legislation and filling SBP senior management positions—should also be implemented quickly, while clarity around anticipated changes in the post-2027 regulatory and institutional framework would help ensure a smooth transition.

36. **Protecting the most vulnerable and building human capital is vital to long term and inclusive growth**. The authorities' commitment to maintaining UCT benefits in real terms and gradually increasing its generosity and coverage is welcome and should continue. Efforts are needed to ensure complementarity between BISP and provincial CCT programs, with consistent eligibility and generosity. Efforts to absorb greater provincial health and education spending need to improve.

37. **Timely energy tariff adjustments have supported a marked improvement in the energy sector finances and must be complemented by broader reforms to restore energy sector viability and competitiveness**. Continued power and gas tariff adjustments in line with cost recovery should be combined with medium- and long-term reforms to improve distribution governance and management, transmission, and generation operations; coordination between DISCOs and CPPs to ensure the latter move to the electricity grid; and follow-through on gas CD

monitoring developments to boost planning capacity. Full implementation of the new CPL is a key part of this process.

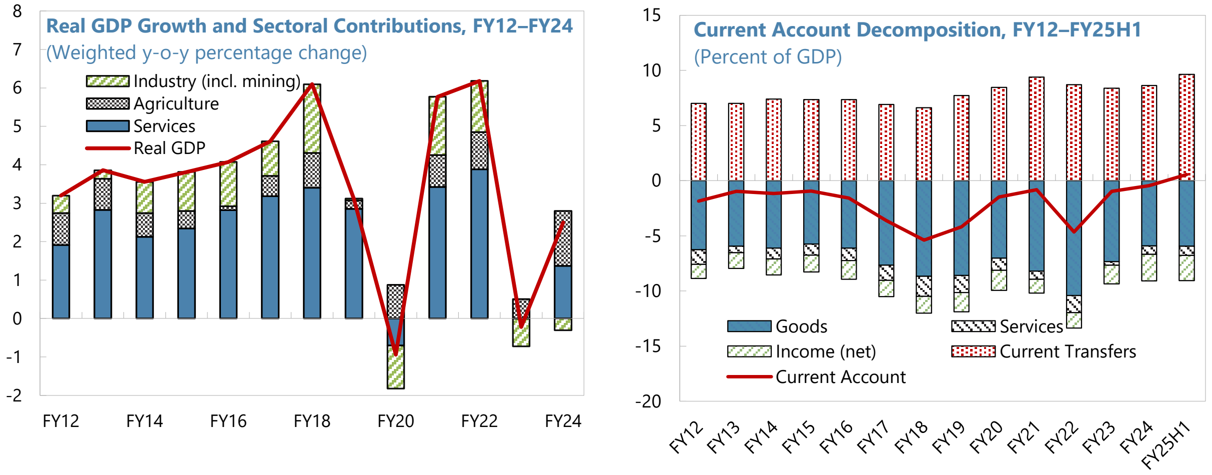
38. Advancing structural reforms is critical to generate sustainable and inclusive growth. Full implementation of the SOE governance framework, and the inclusion of all SOEs within that framework, is crucial to improving their performance and reducing fiscal risks. Governance frameworks should continue to be strengthened to enhance transparency and accountability and mitigate risks of undue influence and corruption in policy making and implementation. The new national tariff and auto sector policies should set an ambitious course for reducing protection from external competition, which combined with ending subsidies, concessions, and preferences are critical to the unlocking of Pakistan's competitiveness and attracting new higher-productivity private investment. Ongoing efforts to improve the macroeconomic statistics will support more informed policymaking, including by providing a better basis for assessing the adequacy of social support.

39. Pakistan's high vulnerability to climate-related shocks and status as a large emitter pose significant macroeconomic risks and challenges, which the proposed RSF-supported program aims to address. The authorities have made strong progress in addressing many of these challenges in recent years but large gaps, and thus vulnerabilities remain. The RSF is designed to help Pakistan bolster its macroeconomic resilience via better incorporation of climate considerations into PIM and budgeting processes at the federal and provincial levels; strengthening water management and infrastructure; improving federal-provincial DRF coordination; and enhancing the climate finance enabling environment by improving the information architecture; while at the same time addressing mitigation commitments and related macroeconomic risks through climate-relevant energy sector reforms and efforts to decarbonize the transport sector.

40. Risks remain elevated amidst rising global uncertainty. External risks are increasing, notably from the economic and financial impact of the April 2 US tariff announcements and subsequent market reaction, broader geopolitical tensions and elevated global economic policy uncertainty, with potential spillovers to (already tight) global financial conditions and commodity prices. Domestic political economy pressures to unwind and delay reforms remain present and may intensify, which would quickly eviscerate Pakistan's hard-won economic stability.

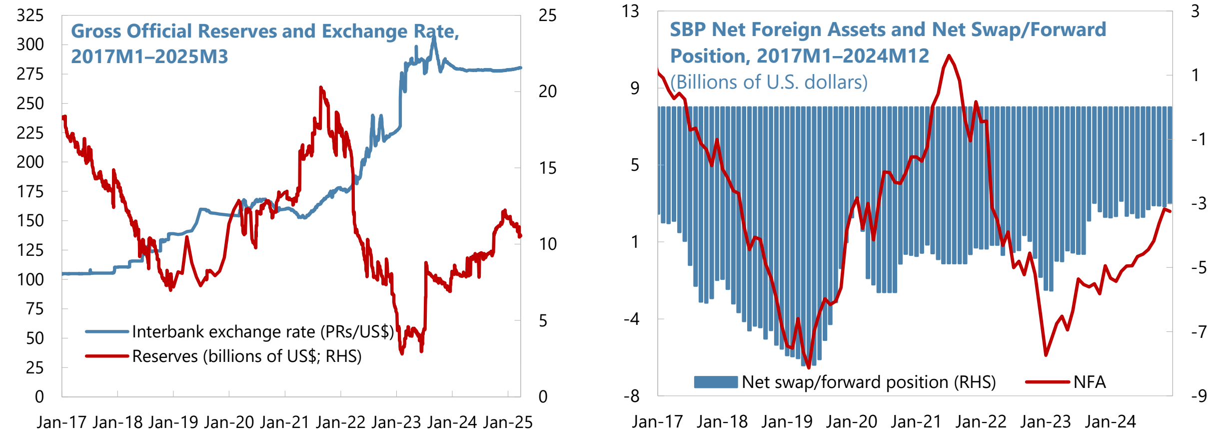
41. On the basis of the authorities' program implementation and policy commitments, staff supports their request for completion of the first review under the EFF and for an RSF arrangement. Staff also supports the authorities' request for modification of performance criteria under the EFF.

Figure 1. Pakistan: Selected Economic Indicators



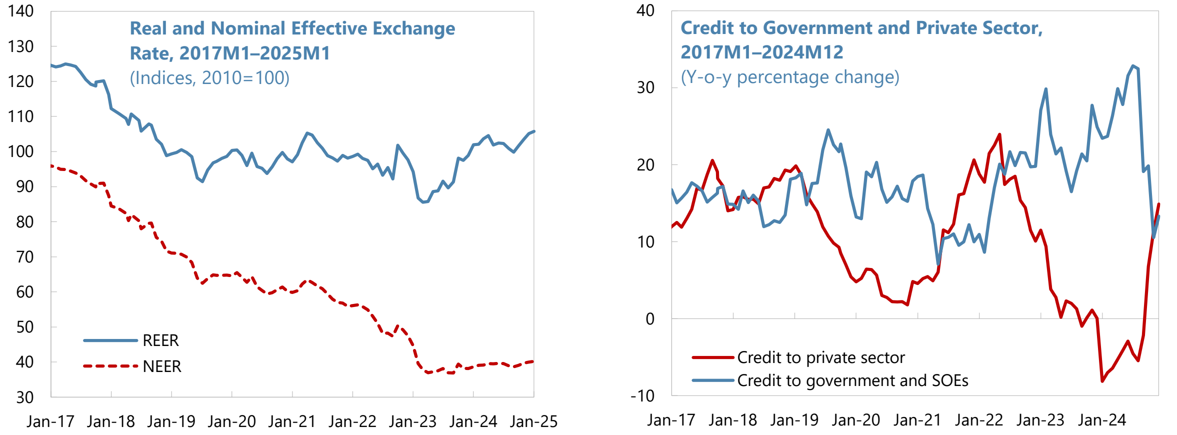
Growth rebounded in FY24, supported by agriculture and services…

…with surging remittances supporting a move into current account surplus in FY25 H1, even as imports rebounded.



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

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



Stronger external conditions have helped the exchange rate stabilize.

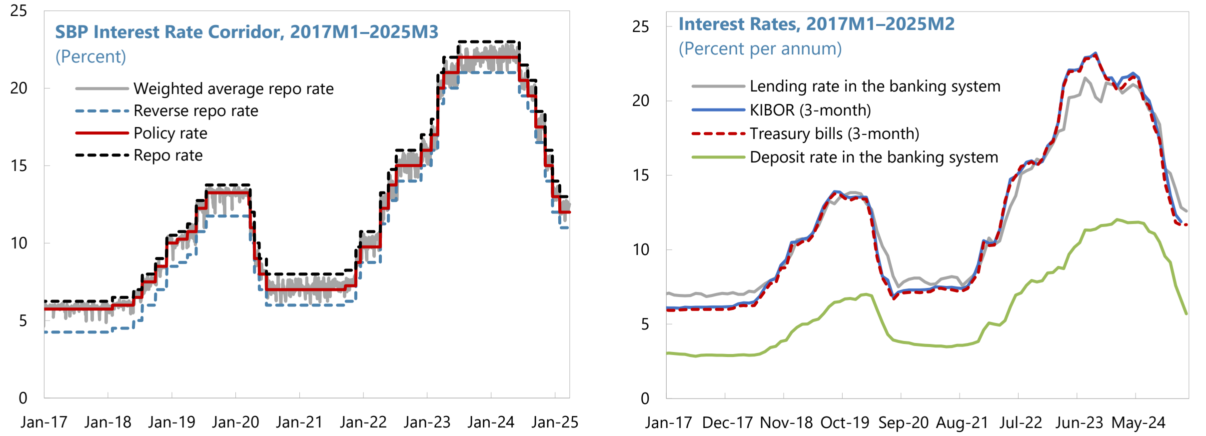
Credit to the private sector picked up sharply in late 2024, largely due to non-fundamental factors.

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

Figure 2. Pakistan: Selected Financial Indicators

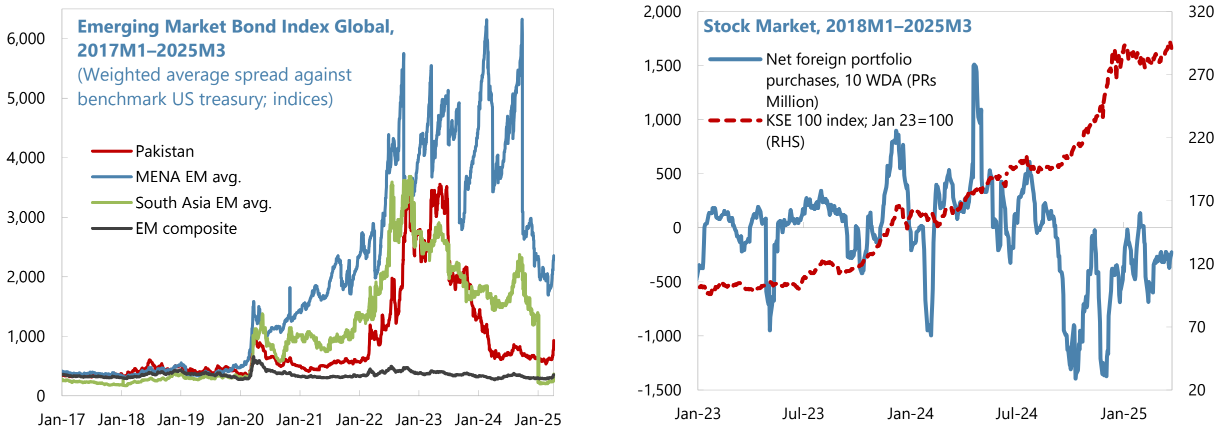
The SBP has cut the policy rate by a cumulative 1000 bps since June 2024…

…and policy rate cuts have been broadly passed through to market rates.



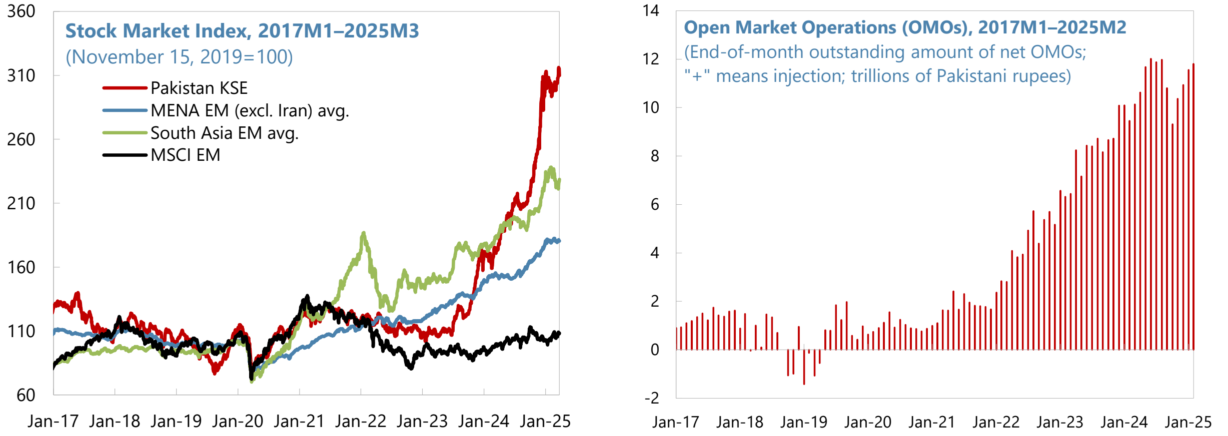
Pakistan' bond spreads have been declining, but rose sharply following the April 2 US tariff announcements

…and the stock market boom continued through early 2025, some portfolio outflows notwithstanding…



… outperforming regional peers by a wide margin.

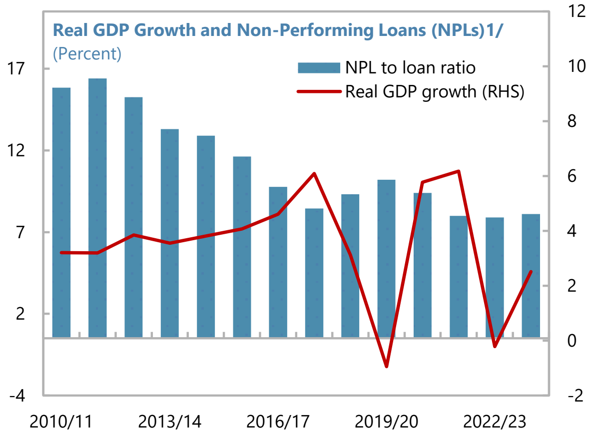
Liquidity injections via OMOs have moderated somewhat.



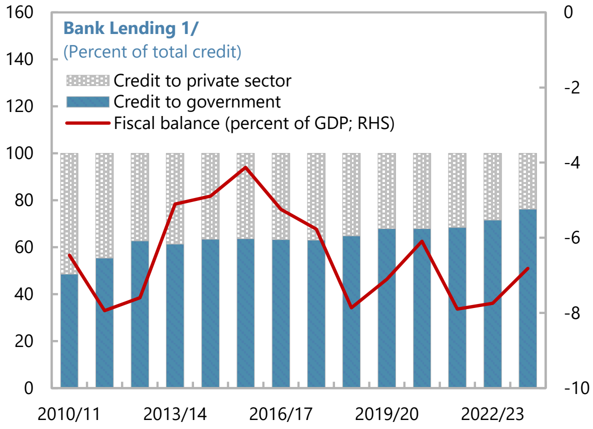
Source: Pakistani authorities; Bloomberg; IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators, 2010/11–2023/24

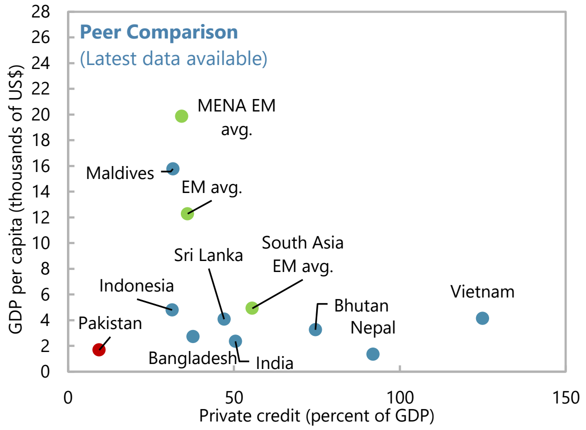
NPLs rose in FY24 but remained relatively contained in the context of the large economic deceleration.



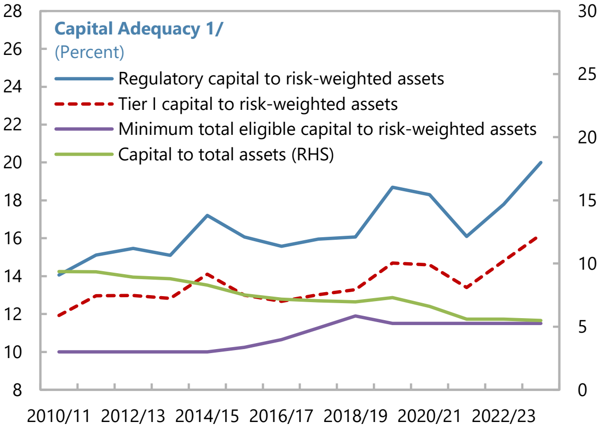
The banking system remains oriented toward providing credit to the government…



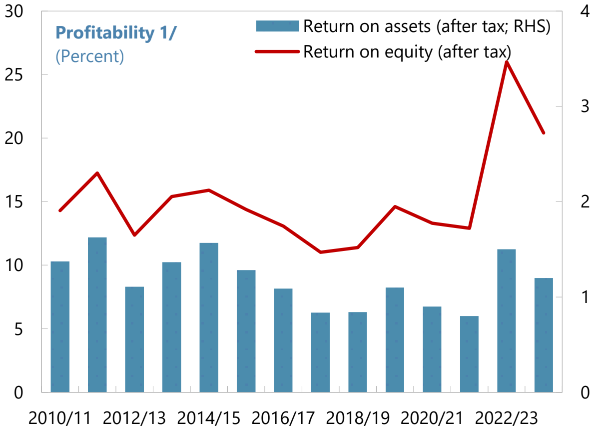
…leaving Pakistan behind its peers in terms of private credit relative to the size of its economy.



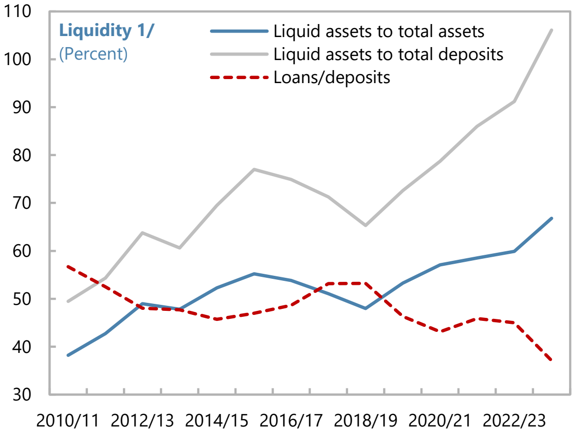
In part due to investments in government securities with zero risk weights, banks' capital ratios appear healthy…



…and banks remain very profitable…



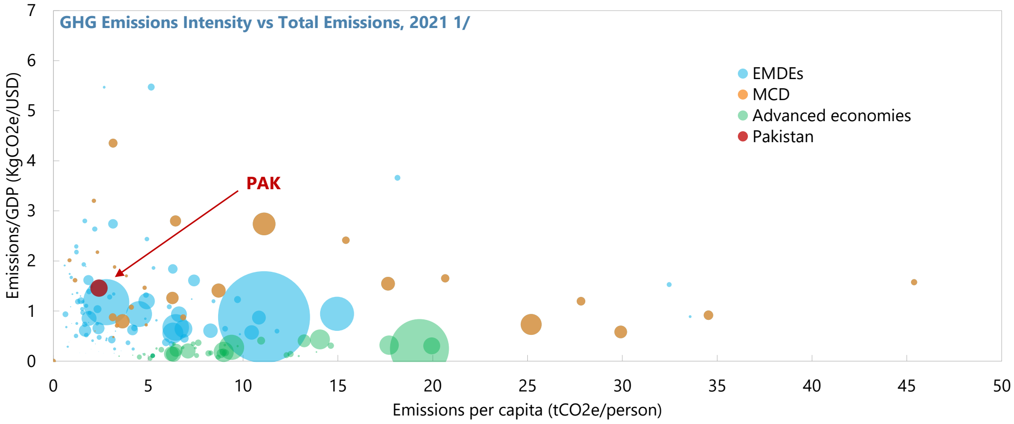
…and highly liquid.



1/ The data for the fiscal year 2023/24 is available up to June 2023.
Source: Pakistani authorities; Bloomberg; IMF staff calculations.

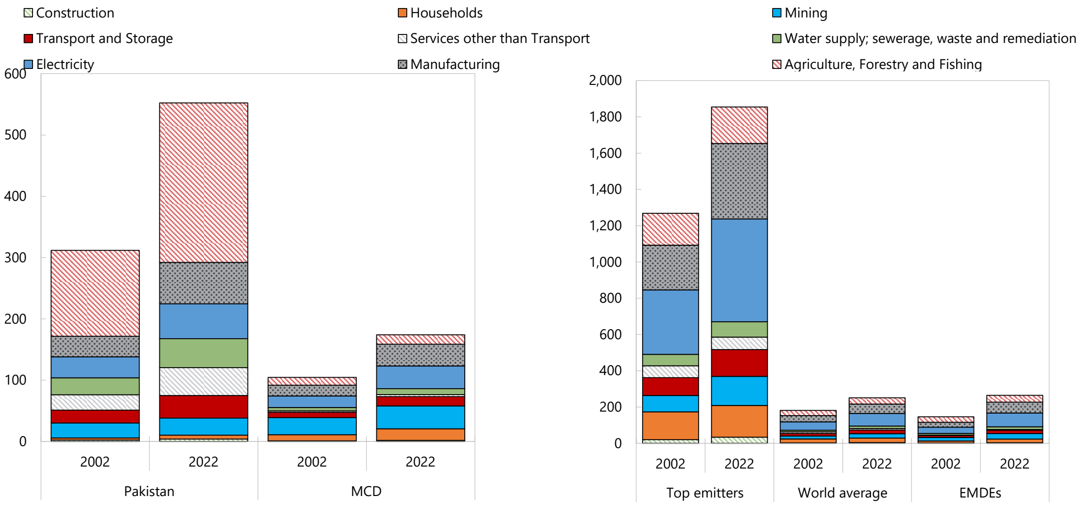
Figure 4a. Pakistan: Climate Indicators, Mitigation

Pakistan is among the world's top emitters. Although Pakistan's per capita emissions are relatively low compared to other MCD countries, its carbon intensity, measured as emissions per unit of GDP, is relatively high compared to peers in the MCD region.


GHG Emissions Intensity vs Total Emissions, 2021 1/

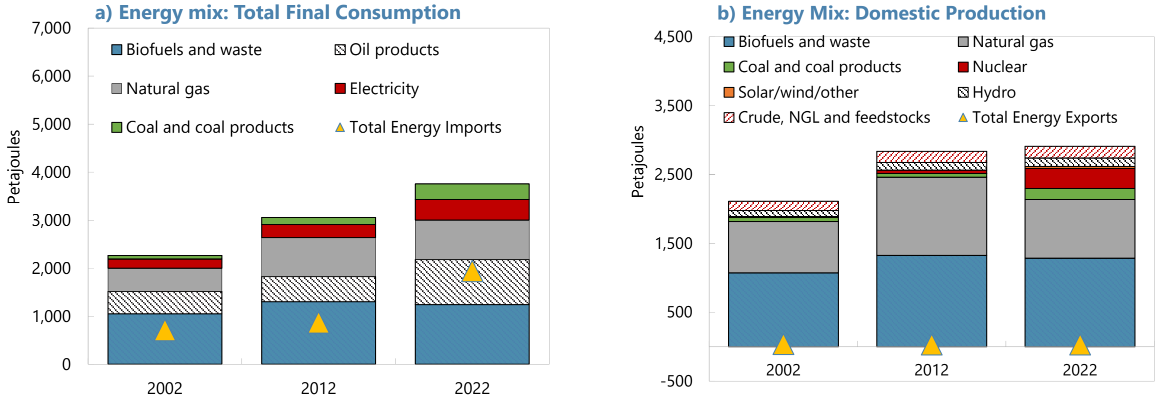
The agriculture, manufacturing, and energy sectors account for 70% of the country's emissions. Emissions have nearly doubled in the past 20 years and stand significantly above the world average.

Emissions by Sector 2/



Energy consumption has nearly doubled in the last twenty years, while energy production, primarily used to meet domestic demand, has stagnated. As a result, Pakistan imported over 50% of its final energy consumption in 2022.

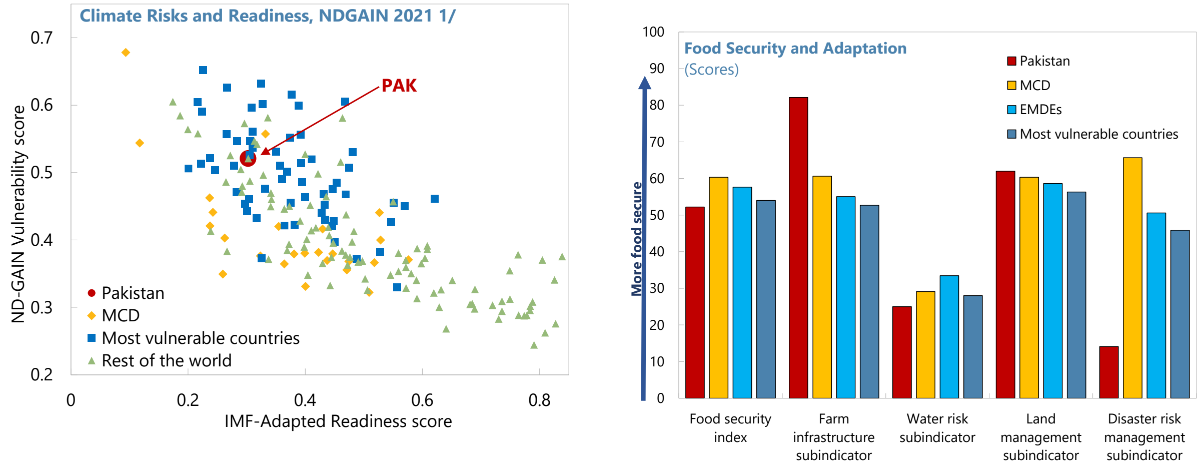
Energy Mix


a) Energy mix: Total Final Consumption

b) Energy Mix: Domestic Production

1/ Bubble size indicates total GHG emissions excluding land-use, land-use change, and forestry. Outliers are excluded.
2/ GHG emissions excluding land-use and land-use change and forestry are shown.
Sources: IMF Climate Change Indicators Dashboard, WEO, OECD Air Emission Accounts; UNFCCC, EDGAR, World Energy Balances (2022)., and IMF Staff calculations.

Figure 4b. Pakistan: Climate Indicators, Adaptation



Ranked in the 34th position in the IMF-Adapted ND-GAIN, Pakistan is vulnerable to climate risks, yet faces low readiness to face these risks.

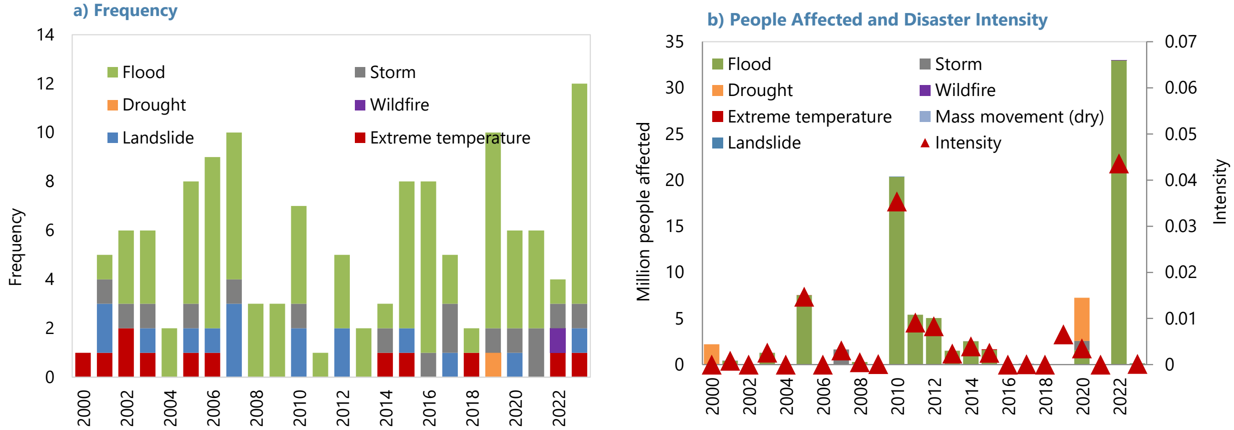
Climate Risks and Readiness, NDGAIN 2021 1/

Water risks and disaster risk management drive food insecurity in Pakistan.

Food Security and Adaptation
(Scores)

Pakistan is particularly vulnerable to floods, droughts, storms and extreme temperatures. The country frequently faces multiple and concurrent hazards yearly, yet most damages have been tied to floods. Floods in 2010 and 2022 have affected more than 20 million inhabitants.

Key Natural Hazard Statistics 2/



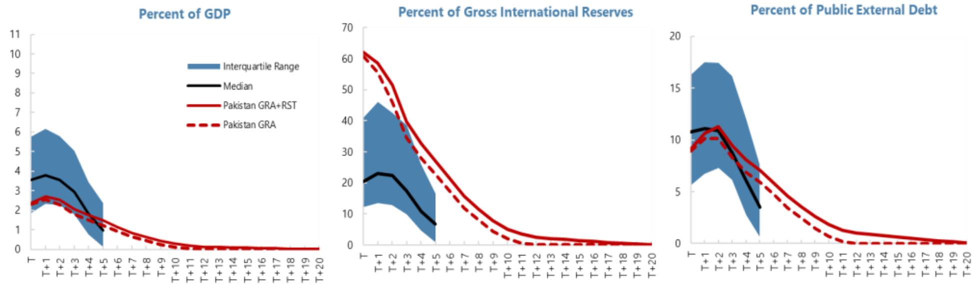
a) Frequency

b) People Affected and Disaster Intensity

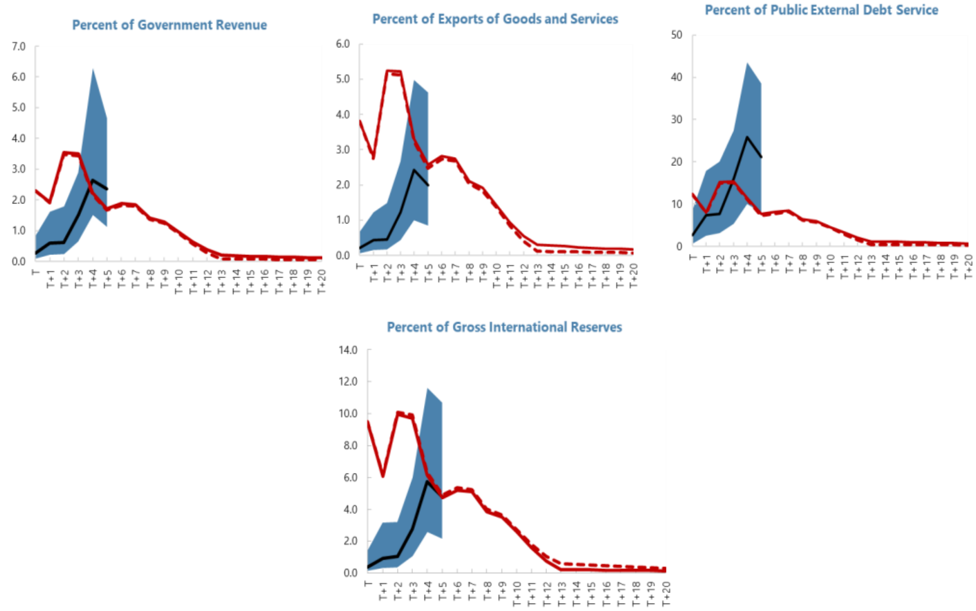
1/ The Vulnerability Score assesses a country's current vulnerability to climate reflecting exposure, sensitivity, and adaptive capacity. The Readiness Score assesses a country's readiness to leverage public and private sector investment for adaptative actions.
2/ Intensity is defined as (Total death+30% Total Affected)/Total population.
Sources: IMF Climate Change Indicators Dashboard, EMDAT, Pondi and others (2022)., Global Food Security Index 2022, and IMF Staff calculations.

Figure 5. Pakistan: Capacity to Repay Indicators Compared to GRA-only borrowing countries, all programs

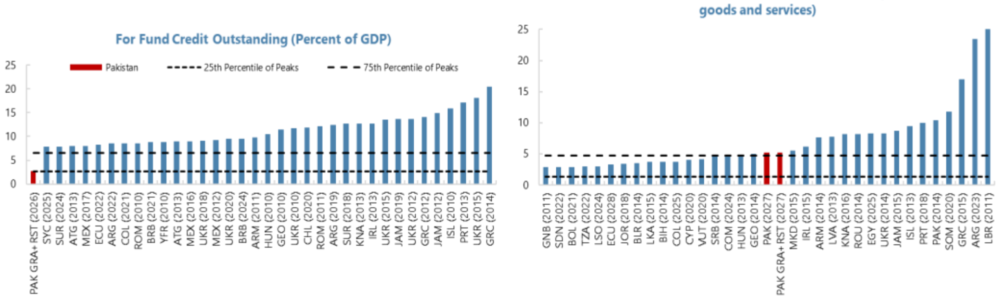
A. Total Fund Credit Outstanding



B. Total Debt Service to the Fund



C. Largest Peaks



Sources: IMF Finance Department, World Economic Outlook.

Notes: 1. T = date of GRA arrangement approval.

2. Red lines/bars indicate the CtR indicator for the arrangement of interest.

3. The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and February 23, 2024.

4. Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.

5. Comparator series is for GRA arrangements only and runs up to T+5.

6. Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.

7. All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.

The peak value for LBR (2011) is 81.7% and is not fully visible in the chart.

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

Population: 236.0 million (2023/24)
Per capita GDP: US$1,572.3 (2023/24)
Poverty rate: 21.9 percent (at national line; 2018/19)

Main exports: Textiles (US$16.3 billion, 2023/24)
Unemployment: 6.2 percent (2021/22)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	
						Prog.	Est.	Prog.	Proj.
Output and prices					(Annual percentage change)				
Real GDP at factor cost	3.1	-0.9	5.8	6.2	-0.2	**2.4**	2.5	**3.2**	2.6
GDP deflator at factor cost	9.2	9.9	10.4	14.1	25.9	**23.2**	21.9	**9.5**	5.1
Consumer prices (period average)	6.8	10.7	8.9	12.2	29.2	**23.4**	23.4	**9.5**	5.1
Consumer prices (end of period)	8.0	8.6	9.6	21.3	29.4	**12.6**	12.6	**10.6**	6.5
Pakistani rupees per U.S. dollar (period average)	24.0	16.0	1.2	11.0	39.8	**13.9**	13.9	**...**	...
Pakistani rupees per U.S. dollar (end of period)	31.7	5.0	-6.3	30.0	39.6	**-2.7**	-2.6	**...**	...
Saving and investment					(Percent of GDP)				
Gross saving	11.3	13.3	13.7	10.9	13.1	**13.0**	12.5	**12.7**	13.5
Government	-5.5	-4.7	-3.9	-5.4	-5.4	**-4.8**	-4.9	**-3.7**	-3.1
Nongovernment (including public sector enterprises)	16.8	18.1	17.6	16.3	18.5	**17.8**	17.3	**16.4**	16.6
Gross capital formation 2/	15.5	14.8	14.5	15.6	14.0	**13.1**	12.9	**13.6**	13.5
Government	2.3	2.3	2.2	2.4	2.3	**1.9**	1.9	**2.3**	2.5
Nongovernment (including public sector enterprises)	13.2	12.5	12.4	13.1	11.8	**11.2**	11.0	**11.3**	11.1
Public finances									
Revenue and grants	11.3	13.3	12.4	12.1	11.5	**12.6**	12.6	**15.4**	15.9
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	19.2	**19.3**	19.4	**21.4**	21.6
Budget balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.7	**-6.7**	-6.8	**-6.0**	-5.6
Budget balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.7	**-6.8**	-6.8	**-6.1**	-5.7
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-0.9	**0.9**	0.9	**2.0**	2.1
Underlying primary balance (excluding grants) 3/	-3.1	-1.6	-0.5	-2.3	-0.7	**0.9**	0.9	**1.0**	1.0
Total general government debt excl. IMF obligations	76.6	78.1	72.7	75.2	75.8	**67.0**	67.9	**69.0**	71.2
External general government debt	28.1	27.9	24.4	27.4	28.6	**22.6**	22.7	**24.0**	24.0
Domestic general government debt	48.5	50.2	48.3	47.8	47.2	**44.5**	45.2	**45.0**	47.3
General government debt incl. IMF obligations	78.7	80.8	74.7	77.3	78.2	**69.2**	70.1	**71.4**	73.6
External general government debt	30.2	30.6	26.5	29.5	31.0	**24.8**	24.9	**26.4**	26.4
Domestic general government debt	48.5	50.2	48.3	47.8	47.2	**44.5**	45.2	**45.0**	47.3
General government and government guaranteed debt (incl. IMF; % G	83.7	86.2	79.4	82.3	83.2	**73.0**	74.1	**75.1**	77.6
Monetary sector					(Annual changes in percent of initial stock of broad money, unless otherwise indicated)				
Net foreign assets	-4.7	6.3	5.4	-6.0	-6.0	**1.7**	2.1	**2.1**	2.8
Net domestic assets	13.4	11.0	10.6	19.2	21.6	**14.4**	13.8	**13.8**	8.2
Credit to the private sector	1.3	0.4	3.3	6.3	0.2	**1.1**	1.6	**1.6**	2.8
Net claims on the government	13.3	12.7	8.4	14.2	13.9	**23.4**	23.8	**23.8**	1.9
Broad money (percent change)	8.7	17.3	16.0	13.1	15.6	**16.1**	16.0	**16.0**	11.0
Reserve money (percent change)	19.3	16.8	12.8	7.6	22.5	**2.6**	2.3	**2.3**	11.5
Private credit (percent change)	3.4	1.0	10.7	21.6	0.6	**3.9**	6.0	**6.0**	11.0
Six-month treasury bill rate (period average, in percent)	10.2	11.9	7.3	11.0	18.3	**21.5**	21.5	**...**	...
External sector					(Annual percentage change, unless otherwise indicated)				
Merchandise exports, U.S. dollars	-2.1	-7.1	13.8	26.7	-14.2	**11.6**	11.1	**2.1**	1.1
Merchandise imports, U.S. dollars	-6.8	-15.9	24.4	31.8	-26.3	**0.9**	0.7	**7.5**	8.6
Current account balance (in percent of GDP)	-4.2	-1.5	-0.8	-4.7	-1.0	**-0.2**	-0.5	**-0.9**	-0.1
Financial account (billions of U.S. dollars)	11.8	6.5	8.3	10.2	-1.6	**5.4**	6.1	**6.3**	4.3
					(Percent of exports of goods and services, unless otherwise indicated)				
External public and publicly guaranteed debt	277.2	312.6	301.5	245.4	259.0	**244.8**	244.4	**249.4**	251.4
Debt service	40.8	51.5	34.1	37.5	57.9	**42.0**	42.0	**37.2**	40.4
Gross reserves (in millions of U.S. dollars) 4/	7,274	12,175	17,297	9,821	4,455	**9,381**	9,390	**12,757**	13,921
In months of next year's imports of goods and services	1.7	2.3	2.5	1.9	0.8	**1.6**	1.6	**2.1**	2.3
Memorandum items:									
Underlying fiscal balance (excl. grants; % GDP) 3/	-7.9	-7.1	-5.5	-7.1	-7.5	**-6.8**	-6.8	**-7.1**	-7.1
Net general government debt (incl. IMF; % GDP)	71.4	74.2	67.2	70.0	72.2	**63.5**	64.3	**65.6**	67.5
Real effective exchange rate (annual average, percentage change)	-11.5	-4.0	2.0	-1.2	-5.8	**...**	6.7	**...**	...
Real effective exchange rate (end of period percentage change)	-15.0	3.5	7.2	-5.9	-7.9	**...**	15.4	**...**	...
Terms of trade (percentage change)	-1.7	1.9	2.5	-1.2	-1.5	**-10.9**	-4.2	**1.7**	-5.3
Real per capita GDP (percentage change)	1.1	-2.9	3.7	4.1	-2.1	**0.4**	0.5	**1.2**	0.7
GDP at market prices (in billions of Pakistani rupees)	43,798	47,540	55,836	66,658	83,949	**106,045**	105,616	**121,662**	115,446
Per capita GDP (in U.S. dollars)	1,485.8	1,362.9	1,550.2	1,635.3	1,445.2	**1572.3**	1,566.0	**...**	...
Population (millions)	214.0	218.2	222.6	227.0	231.5	**236.0**	236.0	**240.5**	240.5
GDP at market prices (in billions of U.S. dollars)	321.1	300.4	348.5	374.9	337.8	**374.6**	373.1	**...**	...

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 FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.

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

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2019/20–2029/30 1/

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
					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	**2.4**	2.5	**3.2**	2.6	3.6	4.1	4.5	4.5	4.5
Net exports (percent contribution to real GDP at factor cost)	1.2	-2.2	-1.8	-0.1	**-1.7**	-1.1	**-1.5**	-1.5	-0.9	-0.6	-0.6	-0.7	-0.7
GDP deflator at factor cost	9.9	10.4	14.1	25.9	**23.2**	21.9	**9.5**	5.1	7.7	6.5	6.5	6.5	6.5
Consumer prices (period average)	10.7	8.9	12.2	29.2	**23.4**	23.4	**9.5**	5.1	7.7	6.5	6.5	6.5	6.5
(Percent of GDP)													
Saving and investment balance	-1.5	-0.8	-4.7	-1.0	**-0.2**	-0.5	**-0.9**	-0.1	-0.4	-0.5	-0.8	-0.9	-1.1
Government	-7.0	-6.0	-7.8	-7.7	**-6.7**	-6.8	**-6.0**	-5.6	-5.1	-3.9	-3.3	-3.1	-2.8
Nongovernment (including public sector enterprises)	5.6	5.2	3.2	6.7	**6.6**	6.3	**5.1**	5.5	4.7	3.4	2.5	2.1	1.8
Gross national saving	13.3	13.7	10.9	13.1	**13.0**	12.5	**12.7**	13.5	13.9	14.3	14.5	15.0	14.9
Government	-4.7	-3.9	-5.4	-5.4	**-4.8**	-4.9	**-3.7**	-3.1	-2.6	-1.4	-0.7	-0.5	-0.2
Nongovernment (including public sector enterprises)	18.1	17.6	16.3	18.5	**17.8**	17.3	**16.4**	16.6	16.6	15.6	15.2	15.4	15.1
Gross capital formation	14.8	14.5	15.6	14.0	**13.1**	12.9	**13.6**	13.5	14.3	14.8	15.4	15.9	16.0
Government	2.3	2.2	2.4	2.3	**1.9**	1.9	**2.3**	2.5	2.4	2.5	2.6	2.6	2.6
Nongovernment (including public sector enterprises)	12.5	12.4	13.1	11.8	**11.2**	11.0	**11.3**	11.1	11.9	12.2	12.7	13.3	13.3
(Billions of U.S. dollars, unless otherwise indicated)													
Balance of payments													
Current account balance	-4.4	-2.8	-17.5	-3.3	**-0.7**	-1.7	**-3.6**	-0.2	-1.5	-2.1	-3.9	-4.7	-5.7
Current account balance (in percent of GDP)	-1.5	-0.8	-4.7	-1.0	**-0.2**	-0.5	**-0.9**	-0.1	-0.4	-0.5	-0.8	-0.9	-1.1
Net capital flows 2/	6.9	7.9	10.1	-2.1	**4.3**	5.3	**6.5**	4.3	3.4	6.0	6.0	9.1	10.3
Of which: foreign direct investment 3/	2.7	1.6	1.7	0.7	**1.6**	2.1	**1.5**	2.1	2.1	2.2	2.4	2.6	2.8
Gross reserves	12.2	17.3	9.8	4.5	**9.4**	9.4	**12.8**	13.9	17.7	23.0	24.4	27.1	30.6
In months of imports 4/	2.3	2.5	1.9	0.8	**1.6**	1.6	**2.1**	2.3	2.8	3.4	3.4	3.5	3.7
External debt (in percent of GDP)	37.6	35.1	32.2	34.9	**32.0**	32.2	**31.3**	30.3	30.8	29.9	28.5	27.3	26.2
Terms of trade (annual percentage change)	1.9	2.5	-1.2	-1.5	**-10.9**	-4.2	**1.7**	-5.3	0.3	0.2	-1.3	-1.2	-0.5
Real effective exchange rate (annual average, percentage change	-4.0	2.0	-1.2	-5.8	**...**	6.7	**...**	...	...	...	...	...	...
Real effective exchange rate (end of period, percentage change)	3.5	7.2	-5.9	-7.9	**...**	15.4	**...**	...	...	...	...	...	...
(Percent of GDP)													
Public finances													
Revenue and grants	13.3	12.4	12.1	11.5	**12.6**	12.6	**15.4**	15.9	15.2	15.7	15.9	15.9	15.9
Of which: tax revenue	10.0	10.3	10.4	10.1	**10.5**	10.6	**12.3**	12.6	13.2	13.7	13.9	13.9	13.9
Expenditure (including statistical discrepancy)	20.3	18.5	20.0	19.2	**19.3**	19.4	**21.4**	21.6	20.3	19.6	19.2	19.0	18.8
Of which: current	18.1	16.3	17.3	17.2	**17.6**	17.7	**18.9**	18.9	17.8	17.0	16.5	16.3	16.1
Of which: development	2.3	2.2	2.4	2.3	**1.9**	1.9	**2.3**	2.5	2.4	2.5	2.6	2.6	2.6
Primary balance (including grants)	-1.5	-1.1	-3.0	-0.9	**0.9**	1.0	**2.1**	2.1	1.6	2.0	2.0	2.0	2.0
Primary balance (excluding grants)	-1.6	-1.2	-3.1	-0.9	**0.9**	0.9	**2.0**	2.1	1.6	2.0	2.0	2.0	2.0
Underlying primary balance (excluding grants) 5/	-1.6	-0.5	-2.3	-0.7	**0.9**	0.9	**1.0**	1.0	1.6	2.0	2.0	2.0	2.0
Budget balance (including grants)	-7.0	-6.0	-7.8	-7.7	**-6.7**	-6.8	**-6.0**	-5.6	-5.1	-3.9	-3.4	-3.2	-2.9
Budget balance (excluding grants)	-7.1	-6.1	-7.9	-7.7	**-6.8**	-6.8	**-6.1**	-5.7	-5.1	-3.9	-3.4	-3.2	-2.9
Underlying fiscal balance (excl. grants) 5/	-7.1	-5.5	-7.1	-7.5	**-6.8**	-6.8	**-7.1**	-6.7	-5.1	-3.9	-3.4	-3.2	-2.9
General government and government guaranteed debt (incl. IMF)	86.2	79.4	82.3	83.2	**73.0**	74.1	**75.1**	77.6	75.6	73.5	70.3	67.0	64.0
General government debt (incl. IMF)	80.8	74.7	77.3	78.2	**69.2**	70.1	**71.4**	73.6	71.9	70.0	67.0	63.9	61.0
Net general government debt (incl. IMF)	74.2	67.2	70.0	72.2	**63.5**	64.3	**65.6**	67.5	66.4	65.1	62.5	59.9	57.4
Memorandum item:													
Nominal GDP (market prices, billions of Pakistani rupees)	47,540	55,836	66,658	83,949	**106,679**	105,616	**121,662**	115,446	129,517	143,839	160,079	178,157	198,176

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

1/ Fiscal year ends June 30.

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 FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.

Table 3a. Pakistan: Balance of Payments, 2019/20–2029/30

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

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
						Est.	Prog.	Proj.	Proj.				
Current account	-4,449	-2,820	-17,481	-3,275	**-665**	-1,695	**-3,578**	-229	-1,493	-2,125	-3,851	-4,735	-5,744
Balance on goods	-21,109	-28,634	-39,050	-24,819	**-22,065**	-22,089	**-25,428**	-26,330	-26,618	-27,184	-28,546	-30,213	-31,738
Exports, f.o.b.	22,536	25,639	32,493	27,876	**31,101**	30,967	**31,751**	31,305	32,981	35,970	38,591	41,491	44,629
Imports, f.o.b.	43,645	54,273	71,543	52,695	**53,166**	53,056	**57,180**	57,634	59,599	63,154	67,137	71,704	76,368
Services (net)	-3,316	-2,516	-5,840	-1,042	**-2,306**	-2,822	**-3,190**	-3,716	-4,090	-4,513	-4,975	-5,501	-6,102
Services: credit	5,437	5,945	7,102	7,596	**7,803**	7,870	**7,965**	7,944	8,481	9,027	9,603	10,209	10,848
Of which: Coalition Support Fund	0	0	0	0	**0**	0	**0**	0	0	0	0	0	0
Services: debit	8,753	8,461	12,942	8,638	**10,109**	10,692	**11,155**	11,660	12,571	13,540	14,578	15,709	16,950
Income (net)	-5,459	-4,400	-5,248	-5,765	**-8,623**	-8,996	**-6,636**	-8,440	-8,802	-8,977	-9,426	-9,543	-9,713
Income: credit	479	508	652	652	**959**	909	**1,117**	912	800	752	686	651	654
Income: debit	5,938	4,908	5,900	6,417	**9,582**	9,905	**7,753**	9,352	9,603	9,729	10,112	10,194	10,368
Of which: interest payments	3,540	2,594	3,375	4,933	**5,828**	5,828	**5,421**	5,484	5,694	5,622	5,837	5,755	5,732
Of which: income on direct investment	2,664	2,565	2,717	1,708	**3,724**	3,724	**2,332**	3,855	3,908	4,107	4,276	4,440	4,636
Balance on goods, services, and income	-29,884	-35,550	-50,138	-31,626	**-32,994**	-33,907	**-35,254**	-38,486	-39,510	-40,674	-42,948	-45,256	-47,554
Current transfers (net)	25,435	32,730	32,657	28,351	**32,329**	32,212	**31,676**	38,257	38,017	38,548	39,096	40,522	41,810
Current transfers: credit, *of which:*	25,802	33,027	32,949	28,665	**32,816**	32,699	**32,072**	38,793	38,422	38,954	39,502	40,927	42,216
Official	468	281	376	380	**439**	449	**416**	513	503	503	503	503	503
Workers' remittances	23,131	29,450	31,279	27,333	**30,250**	30,251	**29,831**	36,201	35,761	36,161	36,461	37,556	38,487
Other private transfers	2,203	3,296	1,294	952	**2,127**	1,999	**1,825**	2,080	2,158	2,290	2,538	2,868	3,226
Current transfers: debit	367	297	292	314	**487**	487	**397**	536	406	406	406	406	406
Capital account	285	224	205	375	**182**	202	**183**	141	110	98	93	94	94
Capital transfers: credit	288	224	205	375	**182**	202	**183**	141	110	98	93	94	94
Of which: official capital grants	273	204	190	144	**172**	172	**183**	140	110	98	93	94	94
Capital transfers: debit	3	0	0	0	**0**	0	**0**	0	0	0	0	0	0
Financial account	6,479	8,268	10,207	-1,643	**5,446**	6,083	**6,273**	4,272	3,271	5,943	5,920	9,018	10,207
Direct investment abroad	54	-171	-234	-957	**-267**	-220	**-152**	-53	-153	-153	-153	-153	-153
Direct investment in Pakistan	2,598	1,819	1,936	1,627	**1,902**	2,346	**1,680**	2,166	2,263	2,377	2,538	2,734	2,941
Portfolio investment (net)	-409	2,774	-55	-1,012	**-377**	-376	**12**	-583	-1,288	1,512	2,712	3,462	3,512
Financial derivatives (net)	8	0	0	0	**0**	0	**0**	0	0	0	0	0	0
Other investment assets	127	-1,345	-2,613	964	**120**	352	**-640**	371	-240	-80	320	320	320
Monetary authorities	0	0	0	0	**0**	0	**0**	0	0	0	0	0	0
General government	-48	-15	-914	883	**-13**	-10	**0**	-3	0	0	0	0	0
Banks	-140	-608	-382	-283	**-96**	-8	**-320**	800	0	80	320	320	320
Other sectors	315	-722	-1,317	364	**229**	370	**-320**	-426	-240	-160	0	0	0
Other investment liabilities	4,101	5,191	11,173	-2,265	**4,068**	3,981	**3,373**	2,371	1,289	1,287	503	2,655	3,587
Monetary authorities	-498	-1,468	-1	0	**999**	999	**0**	0	0	0	0	0	0
General government, *of which:*	3,085	5,238	5,064	-3,251	**2,337**	2,325	**1,252**	3,274	933	581	-554	583	995
Disbursements	10,347	9,308	10,203	8,725	**8,067**	6,012	**8,155**	9,938	8,478	9,093	10,637	8,748	8,748
Amortization	7,299	5,855	8,343	11,660	**5,943**	5,935	**6,903**	6,937	7,544	8,513	11,191	8,166	7,754
Banks	-124	499	846	1,241	**739**	715	**250**	-5	350	450	500	500	500
Other sectors	1,638	922	2,491	-255	**-7**	-58	**1,871**	-898	6	256	556	1,572	2,092
Other prospective program financing							**2,000**	0	1,400	1,000	0	0	0
Net errors and omissions	150	-619	-303	-850	**-1,302**	-929	**0**	-116	0	0	0	0	0
Overall balance	2,465	5,053	-7,371	-5,384	**3,654**	3,654	**2,878**	4,049	1,888	3,916	2,161	4,377	4,557
Financing	-2,465	-5,053	7,371	5,384	**-3,654**	-3,654	**-2,878**	-4,049	-1,888	-3,916	-2,161	-4,377	-4,557
Change in reserve assets (- denotes accumulation)	-4,554	-4,473	7,333	5,185	**-5,016**	-5,016	**-3,376**	-4,568	-3,760	-5,340	-1,404	-2,643	-3,571
Net use of Fund credit and loans	2,089	-580	38	199	**1,362**	1,362	**498**	519	1,872	1,424	-757	-1,734	-986
o/w RSF					**0**		**0**	0	410	514	412	0	0
Memorandum items:													
Current account (in percent of GDP)	-1.5	-0.8	-4.7	-1.0	**-0.2**	-0.5	**-0.9**	-0.1	-0.4	-0.5	-0.8	-0.9	-1.1
Current account (in percent of GDP; excluding fuel imports)	1.6	2.0	0.3	4.6	**3.9**	3.6	**2.9**	3.4	2.6	2.3	1.9	1.8	1.6
Exports f.o.b. (growth rate, in percent)	-7.1	13.8	26.7	-14.2	**11.6**	11.1	**2.1**	1.1	5.4	9.1	7.3	7.5	7.6
Exports volume (growth rate, in percent)	-1.0	2.7	4.5	-11.8	**26.5**	17.4	**4.7**	13.5	6.4	7.4	7.7	7.6	7.5
Exports (in percent of GDP)	9.3	9.1	10.6	10.5	**10.4**	10.4	**10.0**	9.6	10.1	10.2	10.3	10.3	10.3
Remittance (growth rate, in percent)	6.4	27.3	6.2	-12.6	**10.7**	10.7	**-1.4**	19.7	-1.2	1.1	0.8	3.0	2.5
Remittances (in percent of GDP)	7.7	8.5	8.3	8.1	**8.1**	8.1	**7.5**	8.9	8.7	8.2	7.8	7.5	7.2
Imports f.o.b. (growth rate, in percent)	-15.9	24.4	31.8	-26.3	**0.9**	0.7	**7.5**	8.6	3.4	6.0	6.3	6.8	6.5
Imports volume (growth rate, in percent)	-12.3	20.6	10.8	-27.4	**5.7**	5.4	**8.0**	11.6	6.4	4.9	5.3	5.7	5.9
Imports (in percent of GDP)	17.4	18.0	22.5	18.2	**16.9**	17.1	**17.1**	17.0	17.5	17.4	17.4	17.4	17.4
Oil imports (in million US$, cif)	9,280	9,747	18,743	18,882	**15,162**	15,162	**15,223**	13,941	12,289	12,410	12,931	13,530	14,072
Terms of trade (growth rate, in percent)	1.9	2.5	-1.2	-1.5	**-10.9**	-4.2	**1.7**	-5.3	0.3	0.2	-1.3	-1.2	-0.5
Foreign Direct Investment (in percent of GDP)	0.9	0.5	0.5	0.5	**0.5**	0.6	**0.4**	0.5	0.6	0.5	0.5	0.5	0.5
External debt (in millions of U.S. dollars)	113,013	122,292	120,534	117,766	**119,719**	120,253	**124,828**	123,338	126,731	131,688	133,622	136,815	140,744
o/w external public debt	86,522	93,806	96,073	90,974	**94,395**	94,395	**98,223**	98,175	101,005	104,893	104,111	104,432	106,364
Gross external financing needs (in millions of U.S. dollars) 1/	23,430	22,206	33,736	23,859	**20,357**	21,368	**18,813**	16,399	19,316	19,757	31,351	23,133	22,162
End-period gross official reserves (millions of U.S. dollars) 2/	12,175	17,297	9,821	4,455	**9,381**	9,390	**12,757**	13,921	17,682	23,022	24,426	27,069	30,640
(In months of next year's imports of goods and services)	2.3	2.5	1.9	0.8	**1.6**	1.6	**2.1**	2.3	2.8	3.4	3.4	3.5	3.7
(In percent of ARA metric)	52.9	67.1	36.0	18.0	**35.9**	35.5	**47.2**	51.5	63.1	76.1	79.5	85.5	95.8
Gross official reserves - without RSF (millions of U.S. dollars) 2/							12,757	13,921	17,271	22,097	23,089	25,733	29,303
GDP (in millions of U.S. dollars)	300,410	348,481	374,850	337,754	**374,595**	373,078	**…**	…	…	…	…	…	…

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: External Gross Financing Requirements and Sources, 2022/23–2029/30

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

	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
	Est.	Prog.	Est.	Prog.	Proj.			Proj.		
Gross External Financing Requirements (A)	**23,859**	**20,357**	**21,368**	**18,813**	**16,399**	**19,316**	**19,757**	**31,351**	**23,133**	**22,162**
(In percent of GDP)	7.1	5.4	5.7	4.7	4.0	4.7	4.5	6.7	4.6	4.1
Current account deficit	3,275	665	1,695	3,578	229	1,493	2,125	3,851	4,735	5,744
(In percent of GDP)	1.0	0.2	0.5	0.9	0.1	0.4	0.5	0.8	0.9	1.1
Amortization	19,617	18,049	18,030	13,719	14,653	17,257	16,510	25,313	16,665	15,432
Public Sector	14,971	13,514	13,506	9,903	9,937	12,344	11,513	20,262	12,166	10,754
Short-term Borrowing	1,327	162	162	995	350	1,840	3,000	3,500	2,300	2,300
Long-term Borrowing (non-IMF)	12,333	12,352	12,344	8,908	9,587	8,705	8,513	15,262	8,866	8,454
Bonds	1,311	1,000	1,000	0	0	1,800	0	1,500	1,000	0
Private Sector 1/	4,646	4,535	4,524	3,816	4,716	4,913	4,997	5,051	4,499	4,678
Short-term Borrowing	2,983	2,612	2,612	2,863	2,816	2,640	2,774	2,928	3,112	3,291
Long-term Borrowing	1,663	1,923	1,912	953	1,900	2,273	2,223	2,123	1,387	1,387
IMF Repurchases	967	1,643	1,643	1,516	1,516	566	1,122	2,187	1,734	986
Available Financing (B)	**17,327**	**22,278**	**23,298**	**18,175**	**18,895**	**19,239**	**21,551**	**31,325**	**25,776**	**25,733**
Foreign Direct Investment (net) 2/	670	1,635	2,126	1,528	2,113	2,110	2,224	2,385	2,581	2,788
Disbursement	17,132	21,763	21,899	16,464	16,757	17,018	19,228	28,847	23,102	22,851
From private creditors	8,046	4,890	7,078	8,562	7,927	8,141	10,163	16,539	16,253	16,003
Disbursement to Private Sector 3/	5,840	3,708	5,896	5,309	3,277	5,541	6,135	8,639	9,103	9,603
Disbursement to Public Sector 4/	2,206	1,182	1,182	3,253	4,650	2,600	4,028	7,900	7,150	6,400
From official creditors (non-IMF)	9,086	16,873	14,821	7,902	8,830	8,878	9,065	12,308	6,848	6,848
o/w Project Loans	1,894	2,373	2,373	3,602	3,255	3,528	3,415	3,187	2,598	2,598
o/w China	128	82	82	132	118	49	47	47	47	47
o/w Program Loans	2,341	1,357	-636	800	1,100	250	550	650	350	350
o/w Short-term debt (incl. rollovers)	4,077	2,427	2,966	4,090	4,743	5,970	6,650	5,540	5,720	5,900
o/w Public Sector	1,465	995	995	1,100	1,840	3,000	3,500	2,300	2,300	2,300
o/w Private Sector	2,612	1,432	1,971	2,990	2,904	2,970	3,150	3,240	3,420	3,600
Other Net Capital Inflows (net) 5/	-475	-1,120	-727	183	25	110	98	93	94	94
IMF SDR allocation	0	0	0	0	0	0	0	0	0	0
Underlying BOP Gap (C=A-B)	**6,532**	**-1,921**	**-1,930**	**638**	**-2,496**	**78**	**-1,794**	**25**	**-2,643**	**-3,571**
Borrowing from IMF (EFF) (D)	**1,166**	**3,005**	**3,005**	**2,014**	**2,036**	**2,028**	**2,032**	**1,018**	**0**	**0**
Other prospective financing (E)				**2,000**	**0**	**1,400**	**1,000**	**0**	**0**	**0**
Reserves without RSF (decrease = +) (E=C-D-E)	**5,366**	**-4,926**	**-4,935**	**-3,376**	**-4,532**	**-3,350**	**-4,826**	**-992**	**-2,643**	**-3,571**
RSF Financing (F)				**0**	**0**	**410**	**514**	**412**	**0**	**0**
Reserves with RSF (decrease = +) (G = E + F)				**-3,376**	**-4,532**	**-3,760**	**-5,340**	**-1,404**	**-2,643**	**-3,571**
Memorandum items:										
Gross official reserves (stock, in US$ billions)	4.5	9.4	9.4	12.8	13.9	17.7	23.0	24.4	27.1	30.6
(In months of prospective imports)	0.8	1.6	1.6	2.1	2.3	2.8	3.4	3.4	3.5	3.7
(In percent of IMF ARA metric)	18.0	35.9	35.5	47.2	51.5	63.1	76.1	79.5	85.5	95.8
Gross official reserves without RSF (stock, in US$ billions)		9.4	9.4	12.8	13.9	17.3	22.1	23.1	25.7	29.3
Net FX derivative position (in US$ billions)	4.5	-3.4	-3.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5

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, 2019/20–2029/30

(In billions of Pakistani rupees)

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
					Prog.	Est.	Prog.	Proj.	Proj.				
Revenue and grants	6,306	6,933	8,076	9,671	**13,321**	13,321	**18,676**	18,402	19,663	22,552	25,410	28,279	31,459
Revenue	6,273	6,903	8,035	9,637	**13,269**	13,269	**18,611**	18,353	19,619	22,510	25,368	28,235	31,414
Tax revenue	4,748	5,755	6,943	8,448	**11,159**	11,159	**14,954**	14,545	17,035	19,640	22,174	24,681	27,460
Federal	4,334	5,247	6,331	7,805	**10,385**	10,385	**14,036**	13,561	15,815	17,701	19,491	21,695	24,139
FBR revenue	3,998	4,764	6,142	7,186	**9,311**	9,311	**12,913**	12,332	14,307	16,026	17,662	19,660	21,874
Direct taxes	1,524	1,732	2,280	3,245	**4,531**	4,531	**5,712**	5,542	6,470	7,269	8,090	9,003	10,015
Federal excise duty	250	277	321	366	**577**	577	**1,124**	1,037	1,153	1,289	1,365	1,519	1,690
Sales tax/VAT	1,597	1,990	2,532	2,613	**3,099**	3,099	**4,515**	4,273	4,943	5,523	6,086	6,774	7,539
Customs duties	626	765	1,009	962	**1,104**	1,104	**1,563**	1,479	1,741	1,945	2,123	2,363	2,631
Petroleum surcharge	294	424	128	580	**1,019**	1,019	**1,066**	1,117	1,311	1,456	1,586	1,765	1,963
Gas surcharge and other	33	39	42	27	**52**	52	**54**	110	195	216	241	268	298
GIDC	9	19	19	11	**3**	3	**3**	2	2	2	3	3	3
Provincial	414	508	612	643	**774**	774	**918**	984	1,220	1,939	2,683	2,986	3,321
Nontax revenue	1,524	1,147	1,092	1,189	**2109.65**	2,110	**3,657**	3,808	2,584	2,870	3,194	3,555	3,954
Federal	1,422	997	964	1,024	**1,887**	1,887	**3,411**	3,501	2,324	2,581	2,873	3,197	3,556
Provincial	102	150	128	165	**223**	223	**246**	307	260	289	321	358	398
Grants	33	31	41	35	**52**	52	**65**	49	44	42	42	44	45
Expenditure (including statistical discrepancy)	9,649	10,306	13,301	16,137	**20,476**	20,476	**26,020**	24,888	26,250	28,164	30,781	33,906	37,228
Current expenditure	8,597	9,111	11,535	14,474	**18,653**	18,653	**23,055**	21,811	22,991	24,424	26,439	29,074	31,853
Federal	6,081	6,292	8,369	10,676	**14,052**	14,052	**17,269**	16,154	16,497	16,869	17,669	19,314	20,996
Interest	2,620	2,750	3,197	5,722	**8,160**	8,160	**9,844**	8,930	8,685	8,508	8,539	9,152	9,753
Domestic	2,313	2,524	2,829	4,936	**7,164**	7,164	**8,729**	7,928	7,503	7,273	7,174	7,718	8,234
Foreign	302	226	354	714	**882**	882	**1,018**	926	1,119	1,163	1,285	1,362	1,457
IMF budget support	5	0	14	72	**114**	114	**97**	76	64	72	81	72	62
Other	3,461	3,542	5,172	4,954	**5,892**	5,892	**7,424**	7,224	7,811	8,361	9,130	10,161	11,243
Defense	1,213	1,316	1,412	1,586	**1,859**	1,859	**2,122**	2,152	2,414	2,681	2,984	3,321	3,694
Other	2,248	2,226	3,760	3,369	**4,033**	4,033	**5,302**	5,072	5,397	5,680	6,146	6,840	7,549
Of which: subsidies	360	425	1,530	1,080	**1,149**	1,149	**1,402**	1,418	1,367	1,362	1,340	1,492	1,659
Of which: grants	917	855	1,142	988	**1,292**	1,292	**1,699**	1,664	1,619	1,641	1,826	2,032	2,260
Of which: contingency reserve	0	0	0	0	**0**	0	**348**	160	389	432	480	534	534
Provincial	2,516	2,819	3,167	3,798	**4,601**	4,601	**5,786**	5,657	6,494	7,555	8,770	9,760	10,857
Development expenditure and net lending	1,139	1,288	1,650	1,953	**1,996**	1,996	**2,965**	2,938	3,259	3,740	4,342	4,832	5,375
Public Sector Development Program	1,090	1,211	1,610	1,893	**2,027**	2,027	**2,853**	2,853	3,164	3,633	4,224	4,701	5,229
Federal	468	441	397	652	**635**	635	**983**	983	1,065	1,102	1,227	1,365	1,519
Provincial	622	770	1,212	1,241	**1,392**	1,392	**1,870**	1,870	2,099	2,531	2,997	3,335	3,710
Net lending	49	77	40	60	**-30**	-30	**113**	85	96	106	118	132	146
Statistical discrepancy ("+" = additional expenditure)	-87	-93	116	-290	**-173**	-173	**0**	139	0	0	0	0	0
Overall Balance (excluding grants)	-3,376	-3,404	-5,266	-6,500	**-7,207**	-7,207	**-7,409**	-6,534	-6,632	-5,654	-5,413	-5,671	-5,814
Overall Balance (including grants)	-3,343	-3,373	-5,225	-6,465	**-7,155**	-7,155	**-7,344**	-6,485	-6,588	-5,612	-5,372	-5,627	-5,769
Financing	3,343	3,373	5,225	6,465	**7,155**	7,155	**7,344**	6,485	6,588	5,612	5,372	5,627	5,769
External	896	1,418	677	-1,133	**114**	-329	**716**	642	325	823	-109	410	714
Of which: privatization receipts	0	0	0	0	**0**	0	**0**	0	0	0	0	0	0
Of which: IMF	390	80	187	191	**-197**	-197	**-275**	-256	32	-21	-91	-241	-208
Domestic	2,447	1,955	4,548	7,598	**7,041**	7,484	**6,629**	5,843	6,262	4,789	5,481	5,217	5,054
Bank	1,907	1,746	3,184	5,319	**4,928**	5,239	**4,640**	4,090	4,374	3,358	3,864	3,724	3,600
Nonbank	540	209	1,364	2,279	**2,112**	2,245	**1,989**	1,753	1,888	1,430	1,617	1,493	1,454
Memorandum items:													
Underlying fiscal balance (excl. grants) 1/	-3,376	-3,051	-4,737	-6,320	**-7,207**	-7,207	**-8,667**	-7,792	-6,632	-5,654	-5,413	-5,671	-5,814
Primary balance (excluding grants)	-756	-654	-2,070	-778	**953**	953	**2,435**	2,396	2,054	2,854	3,126	3,482	3,939
Underlying primary balance (excluding grants) 1/	-756	-301	-1,541	-598	**953**	953	**1,177**	1,138	2,054	2,854	3,126	3,482	3,939
Primary balance (including grants)	-723	-623	-2,028	-744	**1,005**	1,005	**2,500**	2,444	2,098	2,896	3,168	3,525	3,984
Primary expenditure	7,029	7,557	10,105	10,415	**12,316**	12,316	**16,176**	15,958	17,565	19,655	22,242	24,754	27,475
Total security spending	1,213	1,316	1,412	1,586	**1,859**	1,859	**2,122**	2,152	2,414	2,681	2,984	3,321	3,694
General government debt incl. IMF obligations	38,415	41,737	51,538	65,673	**73,434**	74,007	**86,920**	85,018	93,140	100,720	107,262	113,827	120,938
Domestic debt	23,875	26,959	31,858	39,655	**47,160**	47,724	**54,789**	54,567	60,861	65,629	71,019	75,995	80,841
External debt	14,540	14,779	19,680	26,018	**26,274**	26,283	**32,131**	30,451	32,280	35,091	36,244	37,832	40,096
General government and government guaranteed debt (incl. IMF	40,980	44,355	54,883	69,828	**77,362**	78,210	**91,412**	89,600	97,923	105,736	112,544	119,406	126,846
Net general government debt (incl. IMF)	35,252	37,540	46,658	60,571	**67,293**	67,866	**79,778**	77,877	85,999	93,579	100,121	106,685	113,796
Nominal GDP (market prices)	47,540	55,836	66,658	83,949	**106,045**	105,616	**121,662**	115,446	129,517	143,839	160,079	178,157	198,176

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

1/ Excludes one-off transactions, including asset sales. In FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.

Table 4b. Pakistan: General Government Budget, 2019/20–2029/30

(In percent of GDP, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
					Prog.	Est.	Prog.	Proj.			Proj.		
Revenue and grants	13.3	12.4	12.1	11.5	**12.6**	12.6	**15.4**	15.9	15.2	15.7	15.9	15.9	15.9
Revenue	13.2	12.4	12.1	11.5	**12.5**	12.6	**15.3**	15.9	15.1	15.6	15.8	15.8	15.9
Tax revenue	10.0	10.3	10.4	10.1	**10.5**	10.6	**12.3**	12.6	13.2	13.7	13.9	13.9	13.9
Federal	9.1	9.4	9.5	9.3	**9.8**	9.8	**11.5**	11.7	12.2	12.3	12.2	12.2	12.2
FBR revenue	8.4	8.5	9.2	8.6	**8.8**	8.8	**10.6**	10.7	11.0	11.1	11.0	11.0	11.0
Direct taxes	3.2	3.1	3.4	3.9	**4.3**	4.3	**4.7**	4.8	5.0	5.1	5.1	5.1	5.1
Federal excise duty	0.5	0.5	0.5	0.4	**0.5**	0.5	**0.9**	0.9	0.9	0.9	0.9	0.9	0.9
Sales tax	3.4	3.6	3.8	3.1	**2.9**	2.9	**3.7**	3.7	3.8	3.8	3.8	3.8	3.8
Customs duties	1.3	1.4	1.5	1.1	**1.0**	1.0	**1.3**	1.3	1.3	1.4	1.3	1.3	1.3
Petroleum surcharge	0.6	0.8	0.2	0.7	**1.0**	1.0	**0.9**	1.0	1.0	1.0	1.0	1.0	1.0
Gas surcharge and other	0.1	0.1	0.1	0.0	**0.0**	0.0	**0.0**	0.1	0.2	0.2	0.2	0.2	0.2
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	0.8	**0.7**	0.7	**0.8**	0.9	0.9	1.3	1.7	1.7	1.7
Nontax revenue	3.2	2.1	1.6	1.4	**2.0**	2.0	**3.0**	3.3	2.0	2.0	2.0	2.0	2.0
Federal	3.0	1.8	1.4	1.2	**1.8**	1.8	**2.8**	3.0	1.8	1.8	1.8	1.8	1.8
Provincial	0.2	0.3	0.2	0.2	**0.2**	0.2	**0.2**	0.3	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.1	0.1	0.0	**0.0**	0.0	**0.1**	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure (including statistical discrepancy)	20.3	18.5	20.0	19.2	**19.3**	19.4	**21.4**	21.6	20.3	19.6	19.2	19.0	18.8
Current expenditure	18.1	16.3	17.3	17.2	**17.6**	17.7	**18.9**	18.9	17.8	17.0	16.5	16.3	16.1
Federal	12.8	11.3	12.6	12.7	**13.3**	13.3	**14.2**	14.0	12.7	11.7	11.0	10.8	10.6
Interest	5.5	4.9	4.8	6.8	**7.7**	7.7	**8.1**	7.7	6.7	5.9	5.3	5.1	4.9
Domestic	4.9	4.5	4.2	5.9	**6.8**	6.8	**7.2**	6.9	5.8	5.1	4.5	4.3	4.2
Foreign	0.6	0.4	0.5	0.9	**0.8**	0.8	**0.8**	0.8	0.9	0.8	0.8	0.8	0.7
IMF budget support	0.0	0.0	0.0	0.1	**0.1**	0.1	**0.1**	0.1	0.0	0.0	0.1	0.0	0.0
Other	7.3	6.3	7.8	5.9	**5.6**	5.6	**6.1**	6.3	6.0	5.8	5.7	5.7	5.7
Defense	2.6	2.4	2.1	1.9	**1.8**	1.8	**1.7**	1.9	1.9	1.9	1.9	1.9	1.9
Other	4.7	4.0	5.6	4.0	**3.8**	3.8	**4.4**	4.4	4.2	3.9	3.8	3.8	3.8
Of which: subsidies	0.8	0.8	2.3	1.3	**1.1**	1.1	**1.2**	1.2	1.1	0.9	0.8	0.8	0.8
Of which: grants	1.9	1.5	1.7	1.2	**1.2**	1.2	**1.4**	1.4	1.2	1.1	1.1	1.1	1.1
Of which: contingency reserve	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.3**	0.1	0.3	0.3	0.3	0.3	0.3
Provincial	5.3	5.0	4.8	4.5	**4.3**	4.4	**4.8**	4.9	5.0	5.3	5.5	5.5	5.5
Development expenditure and net lending	2.4	2.3	2.5	2.3	**1.9**	1.9	**2.4**	2.5	2.5	2.6	2.7	2.7	2.7
Public Sector Development Program	2.3	2.2	2.4	2.3	**1.9**	1.9	**2.3**	2.5	2.4	2.5	2.6	2.6	2.6
Federal	1.0	0.8	0.6	0.8	**0.6**	0.6	**0.8**	0.9	0.8	0.8	0.8	0.8	0.8
Provincial	1.3	1.4	1.8	1.5	**1.3**	1.3	**1.5**	1.6	1.6	1.8	1.9	1.9	1.9
Net lending	0.1	0.1	0.1	0.1	**0.0**	0.0	**0.1**	0.1	0.1	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional expenditure)	-0.2	-0.2	0.2	-0.3	**-0.2**	-0.2	**0.0**	0.1	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-7.1	-6.1	-7.9	-7.7	**-6.8**	-6.8	**-6.1**	-5.7	-5.1	-3.9	-3.4	-3.2	-2.9
Overall Balance (including grants)	-7.0	-6.0	-7.8	-7.7	**-6.7**	-6.8	**-6.0**	-5.6	-5.1	-3.9	-3.4	-3.2	-2.9
Financing	7.0	6.0	7.8	7.7	**6.7**	6.8	**6.0**	5.6	5.1	3.9	3.4	3.2	2.9
External	1.9	2.5	1.0	-1.3	**0.1**	-0.3	**0.6**	0.6	0.3	0.6	-0.1	0.2	0.4
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	0.8	0.1	0.3	0.2	**-0.2**	-0.2	**-0.2**	-0.2	0.0	0.0	-0.1	-0.1	-0.1
Domestic	5.1	3.5	6.8	9.1	**6.6**	7.1	**5.4**	5.1	4.8	3.3	3.4	2.9	2.6
Bank	4.0	3.1	4.8	6.3	**4.6**	5.0	**3.8**	3.5	3.4	2.3	2.4	2.1	1.8
Nonbank	1.1	0.4	2.0	2.7	**2.0**	2.1	**1.6**	1.5	1.5	1.0	1.0	0.8	0.7
Memorandum items:													
Underlying fiscal balance (excl. grants) 1/	-7.1	-5.5	-7.1	-7.5	**-6.8**	-6.8	**-7.1**	-6.7	-5.1	-3.9	-3.4	-3.2	-2.9
Primary balance (excluding grants)	-1.6	-1.2	-3.1	-0.9	**0.9**	0.9	**2.0**	2.1	1.6	2.0	2.0	2.0	2.0
Underlying primary balance (excluding grants) 1/	-1.6	-0.5	-2.3	-0.7	**0.9**	0.9	**1.0**	1.0	1.6	2.0	2.0	2.0	2.0
Primary balance (including grants)	-1.5	-1.1	-3.0	-0.9	**0.9**	1.0	**2.1**	2.1	1.6	2.0	2.0	2.0	2.0
Primary expenditure	14.8	13.5	15.2	12.4	**11.6**	11.7	**13.3**	13.8	13.6	13.7	13.9	13.9	13.9
Total security spending	2.6	2.4	2.1	1.9	**1.8**	1.8	**1.7**	1.9	1.9	1.9	1.9	1.9	1.9
General government debt incl. IMF obligations	80.8	74.7	77.3	78.2	**69.2**	70.1	**71.4**	73.6	71.9	70.0	67.0	63.9	61.0
Domestic debt	50.2	48.3	47.8	47.2	**44.5**	45.2	**45.0**	47.3	47.0	45.6	44.4	42.7	40.8
External debt	30.6	26.5	29.5	31.0	**24.8**	24.9	**26.4**	26.4	24.9	24.4	22.6	21.2	20.2
General government and government guaranteed debt (incl. IMF	86.2	79.4	82.3	83.2	**73.0**	74.1	**75.1**	77.6	75.6	73.5	70.3	67.0	64.0
Net general government debt (incl. IMF)	74.2	67.2	70.0	72.2	**63.5**	64.3	**65.6**	67.5	66.4	65.1	62.5	59.9	57.4
Nominal GDP (market prices, billions of Pakistani rupees)	47,540	55,836	66,658	83,949	**106,045**	105,616	**121,662**	115,446	129,517	143,839	160,079	178,157	198,176

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

1/ Excludes one-off transactions, including asset sales. In FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.

Table 5. Pakistan: Monetary Survey, 2020/21–2025/26

	2020/21	2021/22	2022/23	2023/24	2024/25				2025/26			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Billions of Pakistani rupees, unless otherwise indicated)							
Monetary survey												
Net foreign assets (NFA)	1,232	-195	-1,797	-1,138	-998	-514	-514	-141	13	158	436	521
Net domestic assets (NDA)	22,431	26,963	32,740	37,020	36,592	36,097	36,661	39,970	41,196	42,479	43,679	45,123
Net claims on government, *of which:*	16,255	19,612	23,341	30,717	29,050	28,252	29,244	31,399	32,123	33,890	34,892	35,782
Budget support, *of which:*	15,237	18,320	21,853	29,076	27,211	27,050	28,244	30,499	31,423	33,390	34,592	35,532
Banks	9,973	13,293	16,922	24,811	24,685	23,672	25,116	27,621	28,795	31,012	32,464	33,655
Commodity operations	904	1,134	1,486	1,378	1,139	1,162	1,000	900	700	500	300	250
Credit to nongovernment	8,648	10,214	10,765	11,174	11,069	13,297	11,731	12,286	12,687	13,102	13,530	14,222
Private sector	6,923	8,420	8,473	8,983	8,862	11,072	9,461	9,971	10,326	10,693	11,073	11,716
Public sector enterprises	1,725	1,794	2,291	2,191	2,207	2,225	2,270	2,315	2,361	2,409	2,457	2,506
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	-2,432	-2,823	-1,325	-4,831	-3,487	-5,411	-4,273	-3,674	-3,573	-4,472	-4,702	-4,840
Broad money	23,662	26,768	30,943	35,882	35,594	35,583	36,147	39,829	41,209	42,637	44,115	45,644
Currency outside scheduled banks	6,910	7,572	9,149	9,153	8,817	9,116	9,170	10,104	10,454	10,817	11,192	11,579
Rupee deposits	15,748	17,993	20,193	25,124	25,053	24,760	25,236	27,822	28,838	29,890	30,978	32,104
Foreign currency deposits	1,004	1,203	1,601	1,605	1,724	1,706	1,741	1,902	1,917	1,931	1,946	1,960
State Bank of Pakistan (SBP)												
NFA	1,503	209	-881	-71	152	580	636	1,009	1,162	1,308	1,586	1,670
NDA	7,117	9,066	12,238	11,684	11,013	10,999	11,469	11,942	11,861	12,029	12,324	12,575
Net claims on government	5,311	5,115	5,224	4,504	3,063	3,614	3,364	3,114	2,864	2,614	2,364	2,114
Of which: budget support	5,265	5,028	4,931	4,265	2,526	3,377	3,127	2,877	2,627	2,377	2,127	1,877
Claims on nongovernment	98	112	119	116	116	115	115	115	115	115	115	115
Claims on scheduled banks	1,265	1,603	1,542	1,410	1,403	1,378	1,378	1,378	1,378	1,378	1,378	1,378
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	484	2,277	5,394	5,695	6,471	5,932	6,652	7,375	7,544	7,962	8,507	9,008
Reserve money, *of which:*	8,620	9,275	11,357	11,613	11,164	11,579	12,104	12,950	13,023	13,337	13,910	14,245
Banks' reserves	1,307	1,229	1,634	1,842	1,736	1,808	2,300	2,203	1,898	1,815	1,978	1,892
Currency	7,288	8,002	9,674	9,708	9,382	9,713	9,805	10,747	11,126	11,522	11,931	12,353
					(Annual percentage change, unless otherwise indicated)							
Broad money	16.0	13.1	15.6	16.0	15.0	10.1	9.0	11.0	15.8	19.8	22.0	14.6
NFA, banking system (in percent of broad money) 1/	5.4	-6.0	-6.0	2.1	1.8	2.1	1.9	2.8	2.8	1.9	2.6	1.7
NDA, banking system (in percent of broad money) 1/	10.6	19.2	21.6	13.8	13.2	8.0	7.1	8.2	12.9	17.9	19.4	12.9
Budgetary support (in percent of broad money) 1/	8.7	13.0	13.2	23.3	13.8	9.7	7.8	4.0	11.8	17.8	17.6	12.6
Budgetary support	13.2	20.2	19.3	33.1	18.7	13.1	10.0	4.9	15.5	23.4	22.5	16.5
Private credit	10.7	21.6	0.6	6.0	5.8	23.8	8.2	11.0	16.5	-3.4	17.0	17.5
Currency	12.5	9.6	20.8	0.0	6.4	7.9	6.0	10.4	18.6	18.7	22.0	14.6
Reserve money	12.8	7.6	22.5	2.3	7.4	9.1	9.0	11.5	16.6	15.2	14.9	10.0
Memorandum items:												
Velocity	2.5	2.7	3.0	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.0	3.0
Money multiplier	2.7	2.9	2.7	3.1	3.2	3.1	3.0	0.0	0.0	0.0	0.0	0.0
Currency to broad money ratio (percent)	29.2	28.3	29.6	25.5	24.8	25.6	25.4	25.4	25.4	25.4	25.4	25.4
Currency to deposit ratio (percent)	41.2	39.4	42.0	34.2	32.9	34.4	34.0	34.0	34.0	34.0	34.0	34.0
Foreign currency to deposit ratio (percent)	6.0	6.3	7.3	6.0	6.4	6.4	6.5	6.4	6.2	6.1	5.9	5.8
Reserves to deposit ratio (percent)	7.8	6.4	7.5	6.9	6.5	6.8	8.5	7.4	6.2	5.7	6.0	5.6
Budget bank financing (change from the beginning of the fiscal year; in PRs billions), *of which:*	1,776	3,083	3,532	7,223	-1,865	-2,026	-832	1,423	924	2,891	4,093	5,033
By commercial banks	2,958	3,320	3,629	7,889	-126	-1,138	306	2,811	1,174	3,391	4,843	6,033
By SBP 2/	-1,182	-237	-97	-666	-1,739	-888	-1,138	-1,388	-250	-500	-750	-1,000
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	6.2	-7.6	-5.6	4.1	0.8	2.3	2.5	3.5	0.5	0.9	1.7	2.0
NFA of commercial banks (millions of U.S. dollars)	-1,616	-2,565	-4,471	-3,729	-4,132	-3,935	-4,051	-3,706	-3,679	-3,651	-3,624	-3,597
NDA of commercial banks (billions of Pakistani rupees)	15,314	17,897	20,502	25,336	25,579	25,098	25,192	28,028	29,335	30,450	31,355	32,548

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

1/ Denominator is the stock of broad (reserve) money at the end of the previous year.

2/ Includes use of government deposits.

3/ Includes valuation adjustments.

Table 6. Pakistan: Financial Indicators for the Banking System, 2013–24

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	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	20.6
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	16.4
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	6.3
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	6.3
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	103.9
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	-1.2
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	1.6	1.3
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	21.5
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	77.7
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	43.3
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	60.3
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	101.9
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	55.8	51.7	44.8	46.6	50.4	41.8	49.7

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, 2023–47

(In millions of SDR, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047
													Projections 1/												
Existing and prospective Fund credit (SDR million)																									
Disbursements	894	2,116	1,674	1,828	2,058	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRA (2023 SBA, 2025 EFF)	894	2,116	1,520	1,520	1,520	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF 2/	0	0	154	308	538	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	5,660	6,512	7,417	8,766	9,466	7,946	6,977	6,201	5,201	4,103	3,217	2,330	1,633	1,167	919	819	719	619	519	419	319	219	119	42	0
GRA	5,660	6,512	7,263	8,304	8,466	6,946	5,977	5,201	4,202	3,103	2,217	1,330	633	190	0	0	0	0	0	0	0	0	0	0	0
RSF	0	0	154	462	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	977	919	819	719	619	519	419	319	219	119	42	0
Obligations	1,382	1,754	1,134	919	1,859	1,986	1,352	1,118	1,310	1,369	1,121	1,088	867	613	380	226	222	218	214	210	205	201	197	170	133
Principal (repayments/repurchases)	956	1,264	769	479	1,358	1,520	969	776	1,000	1,098	887	887	697	466	248	100	100	100	100	100	100	100	100	77	42
GRA	956	1,264	769	479	1,358	1,520	969	776	1,000	1,098	887	887	697	443	190	0	0	0	0	0	0	0	0	0	0
RSF	0	0	0	0	0	0	0	0	0	0	0	0	0	23	58	100	100	100	100	100	100	100	100	77	42
Charges and interest	426	490	365	440	501	466	383	342	310	271	234	201	170	147	133	126	122	118	114	110	105	101	97	94	91
O/w GRA basic charges	266	306	250	286	311	289	241	212	179	140	103	71	39	17	4	0	0	0	0	0	0	0	0	0	0
O/w GRA surcharges	60	70	15	44	63	47	11	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
O/w Level-based surcharges	40	47	11	32	46	34	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
O/w Time-based surcharges	20	23	4	12	17	13	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fund obligations (repurchases and charges) in percent of:																									
Quota	68.1	86.4	55.8	45.2	91.5	97.8	66.6	55.0	64.5	67.4	55.2	53.6	42.7	30.2	18.7	11.1	10.9	10.7	10.5	10.3	10.1	9.9	9.7	8.4	6.6
GDP	0.4	0.4	0.3	0.2	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	5.1	5.7	3.8	2.8	5.2	5.2	3.3	2.6	2.8	2.8	2.1	1.9	1.4	0.9	0.5	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Gross international reserves	22.4	19.6	9.5	6.2	10.1	9.9	6.3	4.9	5.4	5.2	4.0	3.7	2.7	1.8	1.0	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2
Government revenue	4.7	4.9	2.3	1.9	3.5	3.5	2.2	1.7	1.9	1.8	1.4	1.3	1.0	0.6	0.4	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
External debt service, public	13.2	17.9	12.4	8.1	15.2	15.4	11.4	7.6	8.1	8.5	6.5	5.9	4.6	3.2	2.0	1.2	1.1	1.1	1.0	0.9	0.8	0.8	0.7	0.6	0.4
Fund credit outstanding in percent of:																									
Quota	278.7	320.6	365.2	431.6	466.1	391.3	343.5	305.3	256.1	202.0	158.4	114.7	80.4	57.5	45.3	40.3	35.4	30.5	25.6	20.6	15.7	10.8	5.9	2.1	0.0
GDP	2.1	2.2	2.4	2.7	2.5	2.1	1.8	1.5	1.2	0.8	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	20.8	21.3	24.9	26.6	26.7	20.9	17.1	14.2	11.2	8.2	6.0	4.1	2.7	1.8	1.3	1.1	0.9	0.7	0.6	0.4	0.3	0.2	0.1	0.0	0.0
Gross international reserves	91.8	72.9	62.1	58.7	51.4	39.7	32.7	27.2	21.3	15.7	11.5	7.8	5.1	3.4	2.5	2.1	1.7	1.4	1.1	0.8	0.6	0.4	0.2	0.1	0.0
Government revenue	19.4	18.2	15.0	18.4	18.0	14.0	11.5	9.6	7.5	5.5	4.1	2.8	1.8	1.2	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
External debt, public	7.6	8.5	9.1	10.7	11.3	9.4	8.1	7.1	5.9	4.6	3.6	2.6	1.8	1.3	1.0	0.9	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0
Memorandum items:																									
Quota (millions of SDRs)	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	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)	8,220	11,720	15,676	19,599	24,141	26,277	28,014	29,946	32,011	34,218	36,578	39,100	41,797	44,679	47,760	51,053	54,574	58,337	62,360	66,660	71,257	76,171	81,423	87,038	93,040
Net International reserves (millions of U.S. dollars)	-12,648	-10,171	-7,401	-5,248	-1,625	2,505	5,514	7,446	9,511	11,718	14,078	16,600	19,296	22,179	25,260	28,553	32,074	35,837	39,860	44,160	48,757	53,670	58,923	64,538	70,540
Exports of goods and services (millions of US dollars)	36,317	40,179	39,085	43,176	46,548	49,894	53,531	57,111	61,049	65,259	69,759	74,570	79,712	85,209	91,085	97,366	104,080	111,257	118,929	127,130	135,897	145,268	155,286	165,994	177,441
Total external cebt, public (millions of U.S. dollars)	99,300	100,824	107,035	107,721	109,821	110,341	113,438	115,192	115,803	117,234	117,833	117,563	117,393	117,563	118,242	119,167	120,322	125,011	133,631	142,846	152,697	163,226	174,482	186,514	199,376
Total external debt, public (percent of CY GDP)	27.9	25.8	26.2	25.3	24.2	22.7	21.9	20.8	19.5	18.5	17.4	16.2	15.2	14.2	13.4	12.6	11.9	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
External debt service, public (millions of U.S. dollars)	13,953	12,872	12,045	14,928	16,097	16,925	15,557	19,260	21,223	21,085	22,603	24,042	24,560	24,856	25,055	25,563	26,130	26,428	28,251	30,199	32,282	34,508	36,887	39,431	42,150

Source: IMF staff projections.

1/ Using the GRA rate of charge = 3.688 percent as of April 3, 2025, for projected charges.

2/ RSF Group C

Table 8a. Pakistan: Schedule of Reviews and Purchases Under the EFF

Availability Date	EFF Purchase		Conditions
	Millions of SDRs	Percent of Quota	
September 25, 2024	760	37.4	Approval of arrangement
March 15, 2025	760	37.4	First review and end-December 2024 performance/ continuous criteria
September 15, 2025	760	37.4	Second review and end-June 2025 performance/ continuous criteria
March 15, 2026	760	37.4	Third review and end-December 2025 performance/ continuous criteria
September 15, 2026	760	37.4	Fourth review and end-June 2026 performance/ continuous criteria
March 15, 2027	760	37.4	Fifth review and end-December 2026 performance/ continuous criteria
September 15, 2027	760	37.4	Sixth review and end-June 2027 performance/ continuous criteria
Total	5,320	261.9	

Source: IMF staff estimates.

Table 8b. Pakistan: Proposed Schedule of Reviews and Disbursements Under the RSF

Availability Date	RSF Disbursement		Conditions
	Millions of SDRs	Percent of Quota	
May 2, 2025	0.0	0.0	Approval of arrangement
September 15, 2025	76.9	3.8	Implementation of RM9
	76.9	3.8	Implementation of RM10
March 15, 2026	76.9	3.8	Implementation of RM7
	76.9	3.8	Implementation of RM8
September 15, 2026	76.9	3.8	Implementation of RM1
	76.9	3.8	Implementation of RM6
March 15, 2027	76.9	3.8	Implementation of RM5
	76.9	3.8	Implementation of RM11
	76.9	3.8	Implementation of RM12
September 15, 2027	76.9	3.8	Implementation of RM2
	76.9	3.8	Implementation of RM3
	76.9	3.8	Implementation of RM4
	77.2	3.8	Implementation of RM13
Total	1,000	49.2	

Source: IMF staff estimates.

Table 9. Pakistan: Decomposition of Public Debt and Debt Service by Creditor, 2023/24–2025/26 1/

	Debt Stock (end of period)			Debt Service					
	Dec-24			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ million)*			*(Percent GDP)*		
Total	**281,707**	**100.0**	**70.9**	**85,260**	**97,743**	**81,608**	**22.9**	**24.0**	**19.8**
External	**101,299**	**36.0**	**25.5**	**13,119**	**13,685**	**12,990**	**3.5**	**3.4**	**3.2**
Multilateral creditors[3]	48,546	17.2	12.2	4,846	5,827	4,843	1.3	1.4	1.2
IMF	8,493	3.0	2.1						
World Bank	20,253	7.2	5.1						
ADB/AfDB/IADB	15,933	5.7	4.0						
Other Multilaterals	3,868	1.4	1.0						
o/w: IsDB	159	0.1	0.0						
AIIB	1,441	0.5	0.4						
Bilateral Creditors	37,930	13.5	9.5	4,114	3,588	2,556	1.1	0.9	0.6
Paris Club	5,746	2.0	1.4	1,410	1,688	618	0.4	0.4	0.2
o/w: Japan	2,904	1.0	0.7						
France	990	0.4	0.2						
Non-Paris Club*	32,185	11.4	8.1	2,704	1,901	1,938	0.7	0.5	0.5
o/w: China**	23,016	8.2	5.8						
Saudi Arabia**	5,323	1.9	1.3						
Bonds***	7,581	2.7	1.9	1,611	501	2,281	0.4	0.1	0.6
Commercial creditors	6,176	2.2	1.6	1,632	3,073	2,303	0.4	0.8	0.6
o/w: Chinese commercial banks	5,365	1.9	1.4						
Other	811	0.3	0.2						
Other international creditors	1,064	0.4	0.3	916	696	618	0.2	0.2	0.2
o/w: NPC/NBP/BOC deposits/PBC****	1,064	0.4	0.3						
Domestic	**180,408**	**64.0**	**45.4**	**72,141**	**84,058**	**68,618**	**19.3**	**20.6**	**16.7**
T-Bills	31,256	11.1	7.9	39,026	43,529	28,222	10.5	10.7	6.9
Held by: central bank	301	0.1	0.1						
local banks	16,193	5.7	4.1						
local non-banks	14,762	5.2	3.7						
Bonds*****	132,721	47.1	33.4	30,304	36,376	23,136	8.1	8.9	5.6
Held by: central bank	19,686	7.0	5.0						
local banks	83,097	29.5	20.9						
local non-banks	29,938	10.6	7.5						
Loans/Other	16,432	5.8	4.1	2,811	4,153	5,338	0.8	1.0	1.3
Held by: central bank******	1,707	0.6	0.4						
local banks*******	3,295	1.2	0.8						
National Savings Scheme	11,430	4.1	2.9						
Memo items:									
Collateralized debt[4]	0.0	0.0	0.0						
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: Public guarantees	15,129	5.4	3.9						
o/w: Other explicit contingent liabilities[5]	n.a.	n.a.	n.a.						
Central bank deposit liabilities	3,700	1.3	0.9						
Central bank bilateral swap liabilities	4,181	1.5	1.1						
Nominal GDP[2]	390,092								

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, and includes debt for commodity operations by provincial governments. Debt service is reported based on the outstanding stock at end-December 2024.

2/ Nominal GDP reported and used for shares of debt-to-GDP is the average of FY24 and FY25 (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 EFF program, comprehensive recording of explicit contingent liabilities remains incomplete due to capacity weaknesses.

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

** Includes for China the State Adminstratation of Foreign Exchange (SAFE) deposits of US$4 billion and central bank bilateral swap liabilities of US$4.1 billion, and for Saudi Arabia 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, and loans for commodity operations by provincial governments.

Annex I. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Pakistan: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	The overall risk of sovereign stress is high, reflecting a high level of vulnerability from elevated debt and gross financing needs and low reserve buffers. Risks are mitigated by (i) the fiscal adjustment which commenced under the SBA and is to be safeguarded by the EFF onto the medium term, (ii) financial commitments by bilateral partners, and (iii) the ability of the banking system to rollover existing domestic debt.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	**High**	**High**	Medium-term risks are assessed as high (in line with the mechanical signal). Risks include uneven program implementation, political risks, and access to adequate multilateral and bilateral financing in view of the high gross financing needs.
Fanchart	**Moderate**	...	
GFN	**High**	...	
Stress test	Cont. Liabty.	...	
Long term	...	**Moderate**	Long-term risks are assesed as moderate. Public investment to address adaptation needs and actions underpinning mitigation goals would slow the reduction of debt and financing requirements. Pakistan benefits from favorable demographics but pension reform in the public sector is urgent.
Sustainability assessment 2/	...	Sustainable	If the macroeconomic prudence continues for the medium term as envisioned by the EFF baseline, the debt path is expected to remain on a downward trajectory. The GFNs, although high, would be covered by official bilateral and domestic financing. However, the underlying vulnerabilities and risks are very high, including due to the significant sovereign exposure of domestic banks, and the scope for policy to respond flexibly is extremely limited.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Staff commentary: Public debt continues to be assessed as sustainable in the baseline scenario underpinned by steadfast implementation of the proposed EFF policies, with fiscal consolidation continuing in FY26 and beyond, and a further pick-up of growth in the coming years. While somewhat lower than at the time of the EFF request, elevated gross financing needs continue to pose high risks to debt sustainability, particularly as fiscal and reserve buffers are very low. In this regard, timely disbursements of committed bilateral and multilateral support are critical in the period ahead. Higher-for-longer interest rates, a prolonged stagnation due to tight macro policies, renewed pressures on the exchange rate, possibly policy reversals, and contingent liabilities related to SOEs pose significant risks to debt sustainability.

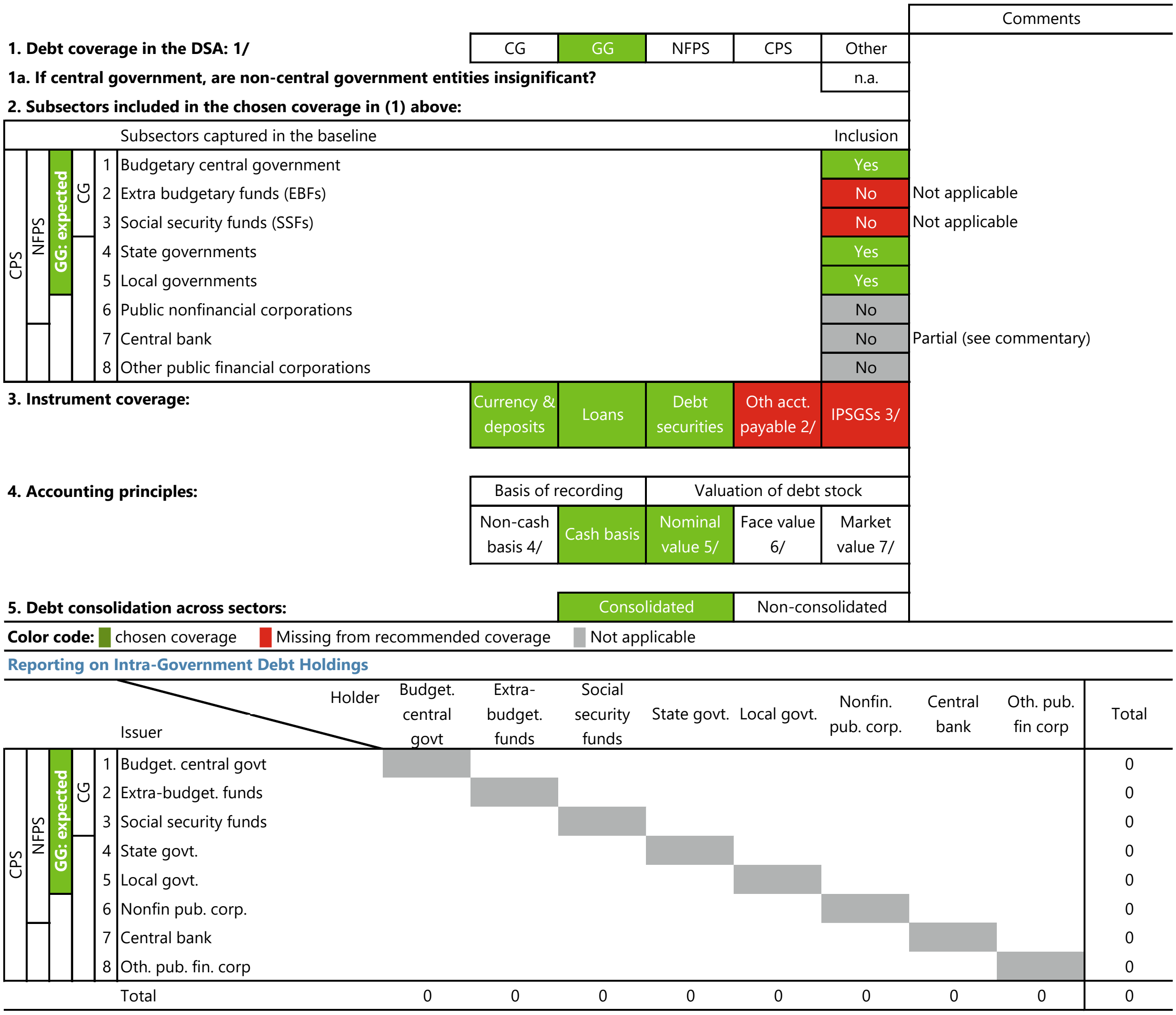
Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Pakistan: Debt Coverage and Disclosures



1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
CG	🟩 GG	NFPS	CPS	Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	🟩 Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	🟥 No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	🟥 No	Not applicable
CPS / NFPS / GG: expected	4	State governments	🟩 Yes	
CPS / NFPS / GG: expected	5	Local governments	🟩 Yes	
CPS / NFPS	6	Public nonfinancial corporations	▨ No	
CPS	7	Central bank	▨ No	Partial (see commentary)
CPS	8	Other public financial corporations	▨ No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
🟩	🟩	🟩	🟥	🟥

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	🟩 Cash basis	🟩 Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors: 🟩 Consolidated | Non-consolidated

Color code: 🟩 chosen coverage 🟥 Missing from recommended coverage ▨ Not applicable

Reporting on Intra-Government Debt Holdings

	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt	▨								0
2	Extra-budget. funds		▨							0
3	Social security funds			▨						0
4	State govt.				▨					0
5	Local govt.					▨				0
6	Nonfin pub. corp.						▨			0
7	Central bank							▨		0
8	Oth. pub. fin. corp								▨	0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

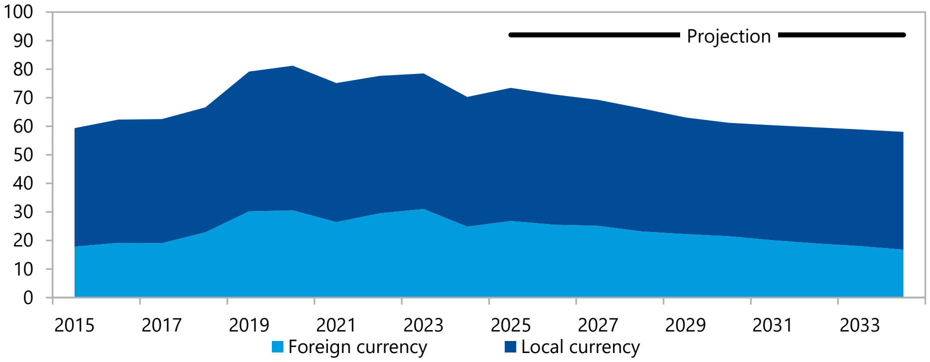
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

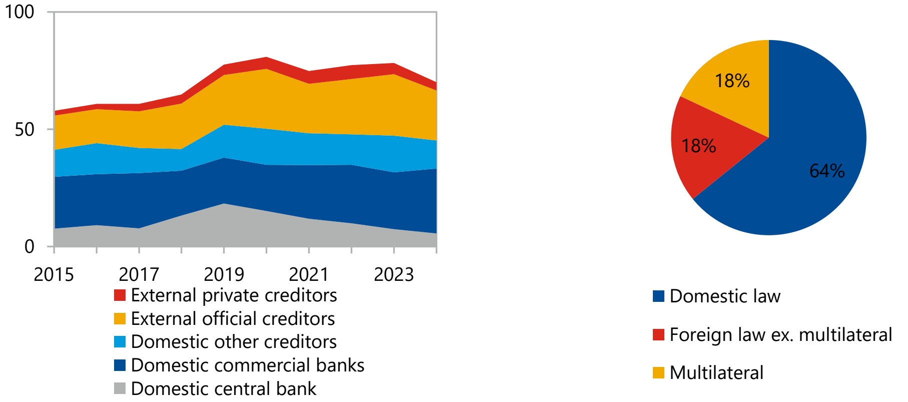
Staff commentary: Debt coverage includes bilateral FX swap liabilities of the central bank and deposits of official creditors at the central bank, domestic PIA debt, provincial commodity operations debt. As of end-December 2024, contingent liabilities not included in the perimeter consist of: (i) guarantees, including for SOE's commodity operations (PRs 4,211 billion), (ii) non-guaranteed circular debt in the power and gas sector (PRs 1,701 billion and PRs 2,842 billion), (iii) non-guaranteed SOE debt (PRs 141 billion external, PRs 939 billion domestic), (iv) other contingent liabilities (PRs 500 billion, estimated). The estimated total of those exposures amounts to 9.3 percent of GDP.

Figure 3. Pakistan: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



Note: The perimeter shown is general government.

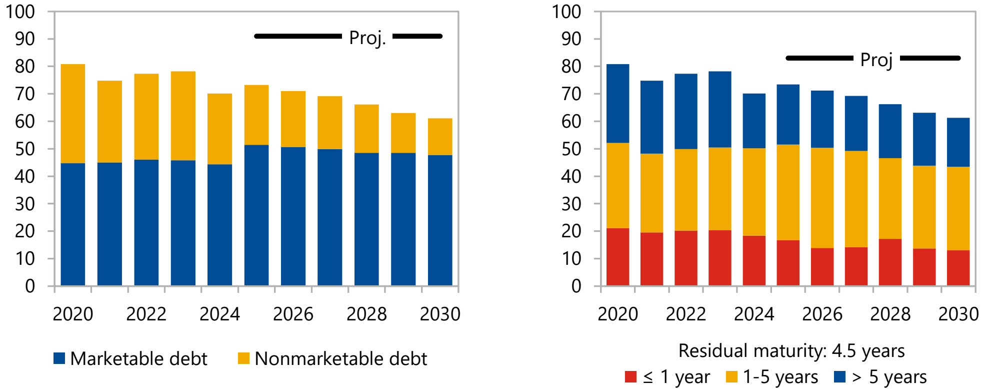


Public Debt by Holder (Percent of GDP)

Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)

Note: The perimeter shown is general government.



Debt by Instruments (Percent of GDP)

Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)

Note: The perimeter shown is general government.

Staff commentary: Pakistan's external debt is predominantly to bilateral and multilateral creditors. Although the maturity structure has improved somewhat, the high share of short-term debt poses risks to debt sustainability and will require careful management. Pakistan’s domestic debt is mostly to domestic banks, increasing the sovereign-bank nexus.

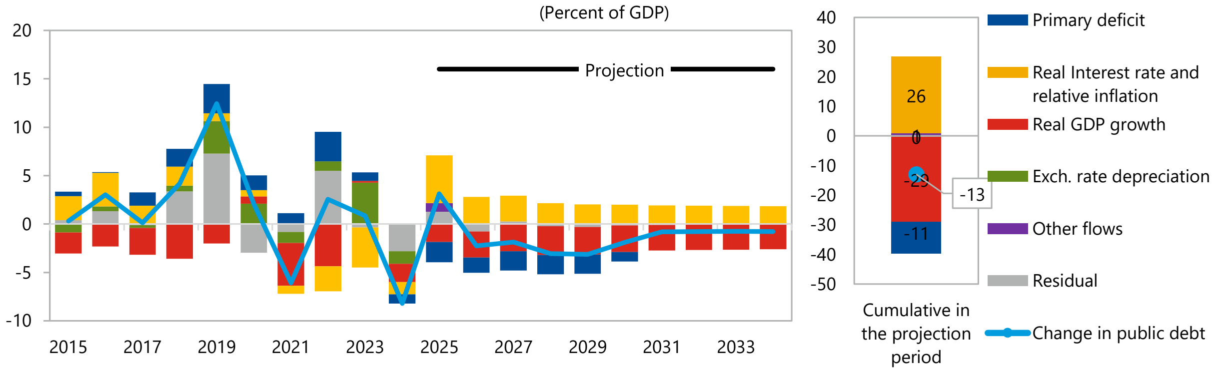
Figure 4. Pakistan: Baseline Scenario

(Percent of GDP, unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	70.3	73.4	71.2	69.3	66.2	63.1	61.2	60.4	59.6	58.8	58.1
Change in public debt	-8.2	3.1	-2.3	-1.9	-3.1	-3.1	-1.9	-0.8	-0.8	-0.8	-0.8
Contribution of identified flows	-5.4	1.8	-1.5	-2.1	-2.8	-2.8	-1.7	-0.7	-0.7	-0.7	-0.7
Primary deficit	-1.0	-2.1	-1.6	-2.0	-2.0	-2.0	-1.0	0.0	0.0	0.0	0.0
Noninterest revenues	12.6	15.9	15.1	15.6	15.8	15.8	15.8	15.8	15.8	15.8	15.8
Noninterest expenditures	11.7	13.8	13.5	13.6	13.8	13.8	14.8	15.8	15.8	15.8	15.8
Automatic debt dynamics	-4.4	3.1	0.1	-0.1	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7
Real interest rate and relative inflation	-1.3	4.9	2.8	2.7	2.1	2.0	2.0	1.9	1.9	1.9	1.8
Real interest rate	-6.0	4.1	1.3	1.6	1.1	1.1	1.1	1.0	1.1	1.1	1.1
Relative inflation	4.7	0.9	1.5	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.7
Real growth rate	-1.9	-1.8	-2.7	-2.8	-3.0	-2.9	-2.7	-2.6	-2.6	-2.6	-2.5
Real exchange rate	-1.3	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-2.8	1.3	-0.8	0.3	-0.2	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1
Gross financing needs	22.3	22.3	20.1	16.8	16.3	18.8	16.4	16.6	15.5	14.4	15.5
of which: debt service	23.3	24.4	21.7	18.8	18.3	20.8	17.4	16.6	15.5	14.4	15.5
Local currency	20.3	22.1	18.5	15.8	14.5	17.6	14.3	12.9	12.1	11.2	12.2
Foreign currency	3.0	2.3	3.2	2.9	3.9	3.2	3.1	3.7	3.4	3.2	3.4
Memo:											
Real GDP growth (percent)	2.5	2.7	3.8	4.1	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Inflation (GDP deflator; percent)	21.9	5.6	8.3	6.4	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Nominal GDP growth (percent)	25.8	9.9	13.1	11.0	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Effective interest rate (percent)	12.4	11.9	10.3	9.0	8.3	8.3	8.4	8.4	8.5	8.6	8.6

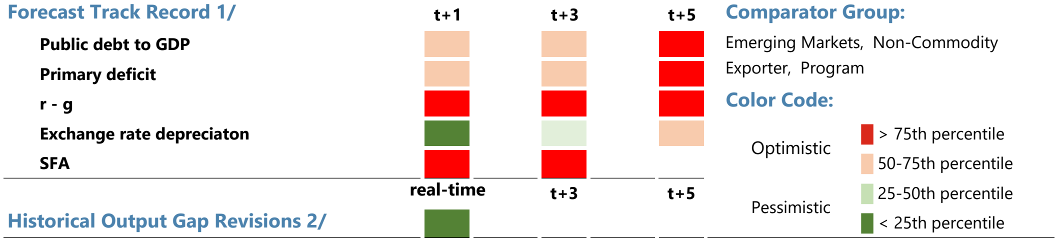
Contribution to Change in Public Debt

(Percent of GDP)



Staff commentary: With the continuation of prudent policies under the baseline, public debt is projected to decline gradually from FY26 onwards. The margin of error for policy slippages and delays in urgently needed structural reforms remains very small.

Figure 5. Pakistan: Realism of Baseline Assumptions



Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP	🟧	🟧	🟥
Primary deficit	🟧	🟧	🟥
r - g	🟥	🟥	🟥
Exchange rate depreciaton	🟩	▨	🟧
SFA	🟥	🟥	
	real-time	**t+3**	**t+5**
Historical Output Gap Revisions 2/	🟩		

Comparator Group:

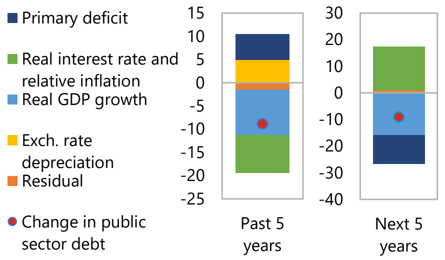
Emerging Markets, Non-Commodity Exporter, Program

Color Code:

Optimistic	🟥 > 75th percentile
	🟧 50-75th percentile
Pessimistic	▨ 25-50th percentile
	🟩 < 25th percentile

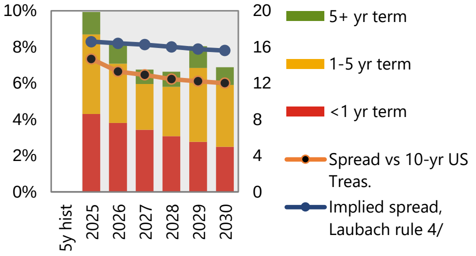
Public Debt Creating Flows

(Percent of GDP)



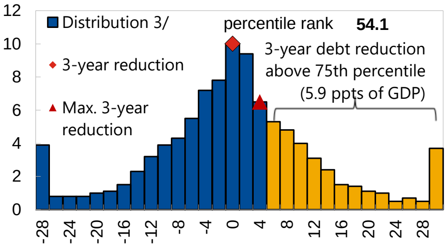
Bond Issuances

(Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



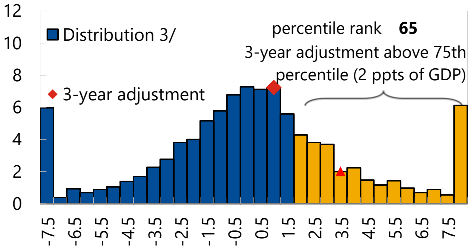
3-Year Debt Reduction

(Percent of GDP)



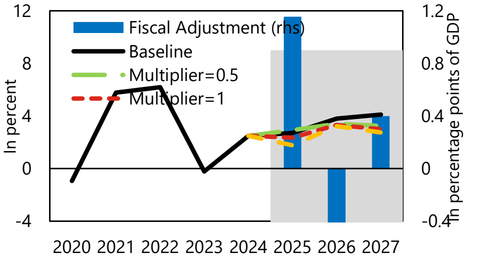
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



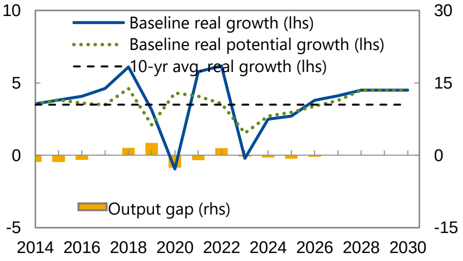
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



Staff commentary: The programmed fiscal adjustment path is ambitious but feasible given broad political support for the EFF, support from a broad set of partners, favorable demographic dynamics, and significant scope for revenues by widening the tax base (limiting the adverse consequences for growth from fiscal consolidation). However, renewed efforts for structural reforms are needed to lift growth potential, and avoid Pakistan from getting trapped in negative debt dynamics. T-bill issuance as a share of total domestic issuance is projected to decline gradually.

Source: IMF Staff.

1/ Projections made in the October and April WEO vintage.

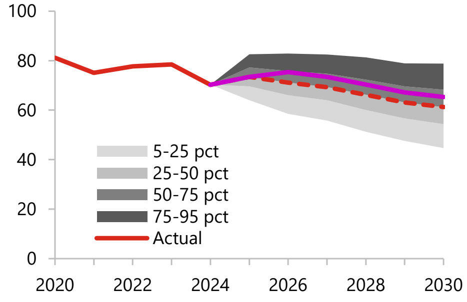
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Pakistan: Medium-Term Risk Analysis

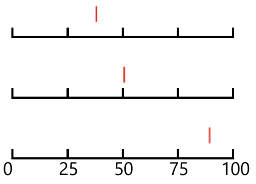
Final Fanchart (Percent of GDP)



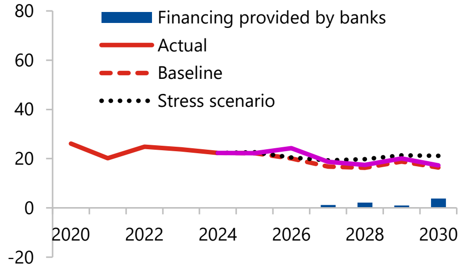
Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	34.2	0.5
Probability of debt non-stabilization *(percent)*	2.0	0.0
Terminal debt-to-GDP x institutions index	48.4	1.1
Debt fanchart index (DFI)		1.6
Risk signal: 3/		**Moderate**

Percentile in peer group 2/

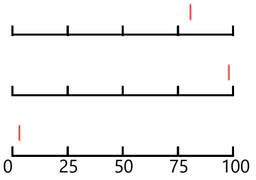


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

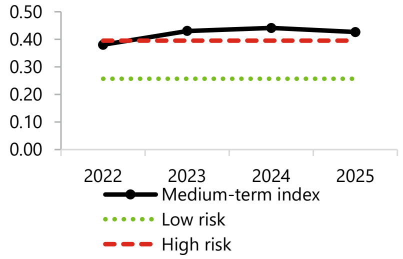
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	18.4	6.3
Initial Banks' claims on the gen. govt *(pct bank assets)*	60.3	19.5
Chg. In banks' claims in stress *(pct banks' assets)*	1.3	0.4
GFN financeability index (GFI)		26.3
Risk signal: 4/		**High**



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | ▨ Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.6	0.3	0.5	0.2
GFN finaceability index	26.3	0.5	0.5	0.3
Medium-term index		0.4		
Risk signal: 5/		**High**		
Final assessment:		**High**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 54.5 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 8.0 pct.

Staff commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, predicated on the strong fiscal effort underlying the program setting Pakistan on a declining debt-to-GDP trajectory. The GFN Financeability Module suggests a high level of risk due to the high share of bank assets invested in government securities (which limits the scope for the government to flexibly respond to future crises) and the average GFN-to-GDP ratio above the 75th percentile of the comparator group. The aggregated index, while marginally improved relative to 2024, points to a high level of risk.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, program.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7a. Pakistan: Long-Term Risk Analysis

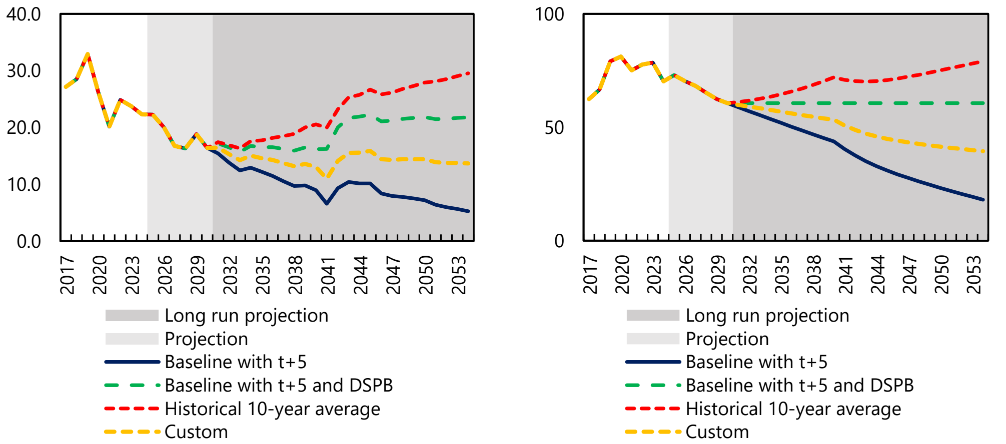
Pakistan: Triggered Modules

Large amortizations	**Pensions**	**Climate change: Adaptation**	Natural Resources
	Health	**Climate change: Mitigation**	

Pakistan: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	🟩
	Amortization-to-GDP ratio	🟩
	Amortization	🟥
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	🟩
	Amortization-to-GDP ratio	🟩
	Amortization	🟥
Historical average assumptions	GFN-to-GDP ratio	🟩
	Amortization-to-GDP ratio	🟩
	Amortization	🟥
Overall Risk Indication		🟩

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	4.5%	4.5%	4.5%
Primary Balance-to-GDP ratio	1.0%	1.0%	0.0%
Real depreciation	-2.3%	-2.3%	-2.3%
Inflation (GDP deflator)	6.5%	6.5%	6.5%



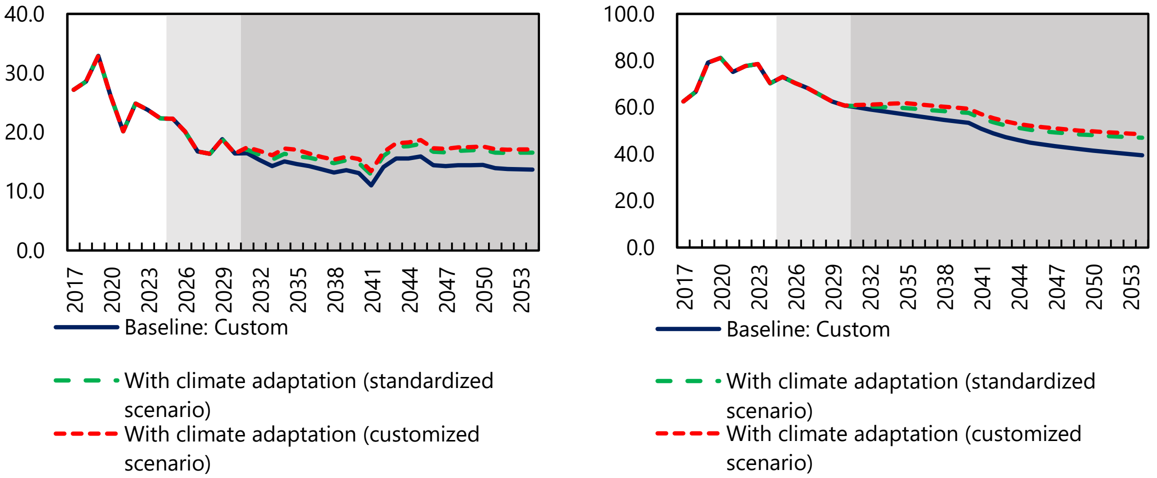
GFN-to-GDP Ratio

Total Public Debt-to-GDP Ratio

Commentary: Although elevated GFN are a key risk for Pakistan's debt sustainability, the risk of large amortizations is not triggered because projected GFN-to-GDP and Amortization-to-GDP ratios for years t+6 through t+30 do not exceed the historical average (plus one standard deviation) threshold given elevated historical time series over the past 10 years. With the primary balance held constant at its baseline year t+5 value (1 percent of GDP), Pakistan would experience rapid debt decumulation. However, Pakistan has many unmet development needs, thus if macroeconomic stability was firmly entrenched in the long-run, an expansion of development spending would serve the country well. The custom scenario therefore assumes a zero primary balance from 2031 onwards.

Figure 7b. Pakistan: Long-Term Risk Analysis

Pakistan: Climate Change: Adaptation

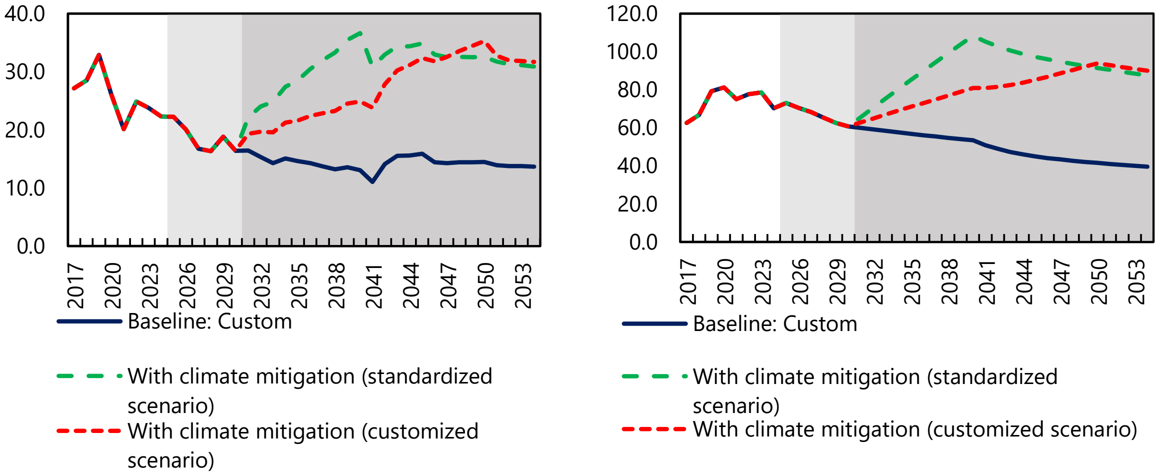


GFN-to-GDP Ratio

Total Public Debt-to-GDP Ratio

Commentary: Given Pakistan's exceptionally high vulnerability to climate change, freeing up fiscal space for adaptation investment within the confines of debt sustainability will be critical. The customized scenario assumes adaption investment of 1 percent of GDP annually over a five-year period (see ¶17 and Annex III) whereas the standardized scenario reflects adaptation costs of only 0.6 percent of GDP annually. By reducing the growth impact of natural disaster significantly, higher adaptation investment would help support the relatively modest increase in the debt-to-GDP ratio relative to baseline (Annex III).

Pakistan: Climate Change: Mitigation



GFN-to-GDP Ratio

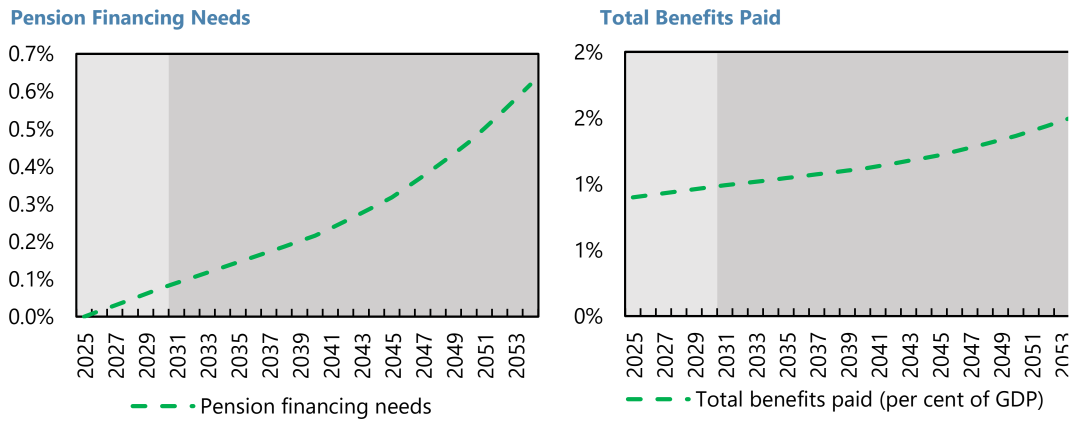
Total Public Debt-to-GDP Ratio

Commentary: Estimates of mitigation costs by development partners amount to 5.6 percent of GDP annually over the 2023-30 period, very close to the 5.7 percent of GDP under the standardized scenario. Given fiscal and implementation constraints the customized scenario distributes these costs over a 20-year period. The massive increase in the debt-to-GDP ratio relative to baseline, to more than 80 percent of GDP by the mid-2050s, points to the need for a well thought-out climate financing strategy and support from bilateral and multilateral partners.

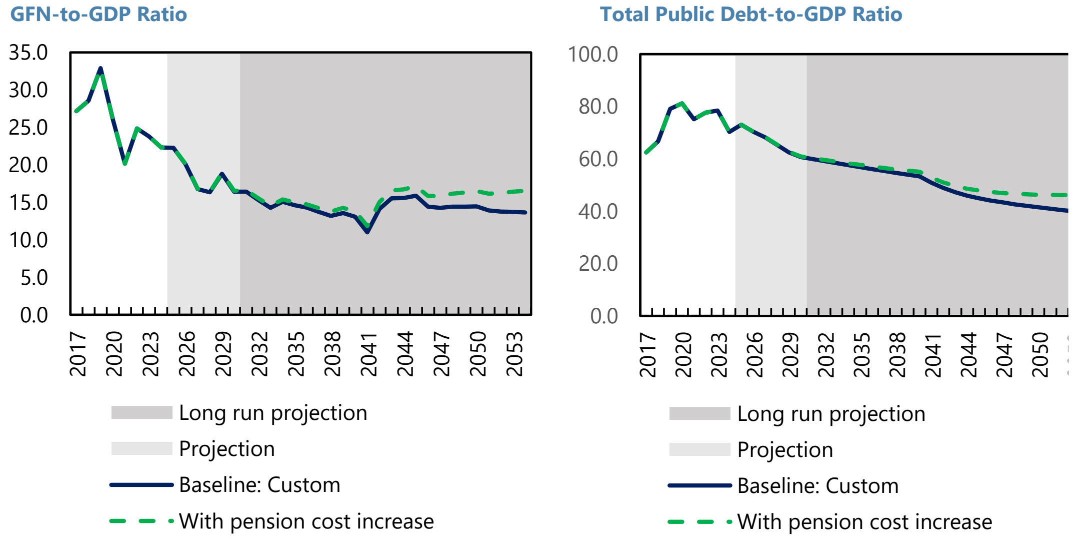
Figure 7c. Pakistan: Long-Term Risk Analysis

Pakistan: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	**30 years**	**50 years**	**Until 2100**
(pp of GDP per year)	0.3%	0.7%	1.2%


Pension Financing Needs

Total Benefits Paid

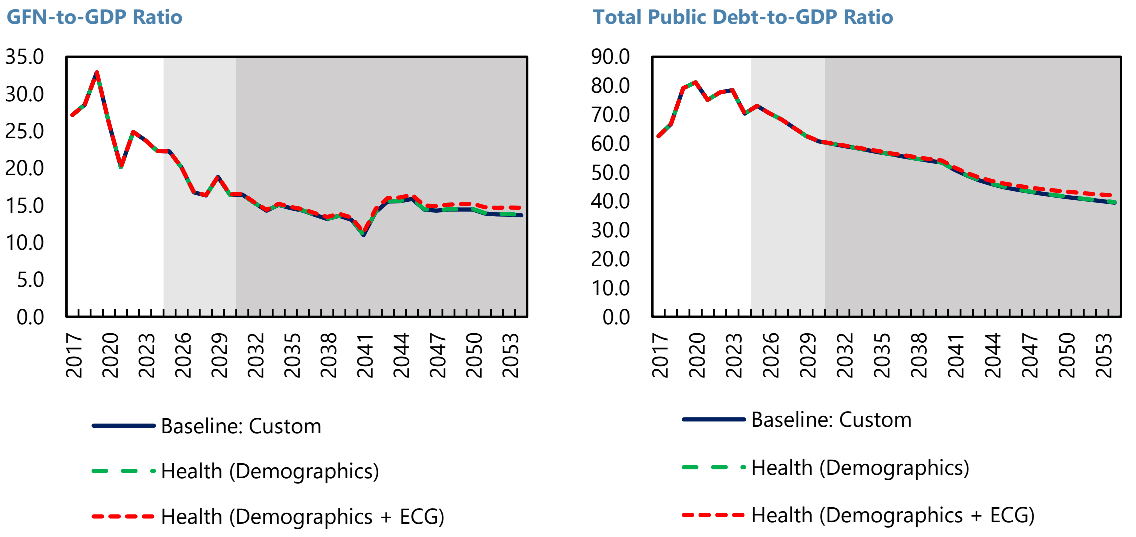

GFN-to-GDP Ratio

Total Public Debt-to-GDP Ratio

Commentary: The pension system only covers public servants and the military. While the system is currently non-contributory, with running expenditures of around 0.9 percent of GDP, reforms to contain the fiscal burden over the medium-term are currently ongoing.

Figure 7d. Pakistan: Long-Term Risk Analysis

Pakistan: Demographics: Health



Commentary: Health expenditures are currently very limited. Given Pakistan's favorable demographics, debt-related risks from excess health care costs appear manageable.

Annex II. Pakistan's Climate Challenges and Policies

Pakistan is highly exposed to climate change and is one of the world's largest carbon emitters. The impact of climate change has been strongly felt this century and is expected to worsen over the coming decades as risks escalate. The authorities have actively responded to these challenges in recent years via improvements to Pakistan's legal and institutional framework, policies to build resilience and adapt to climate change (including the 2023 adoption of the National Adaptation Plan), significant international commitments to mitigate the impact of climate change and reduce emissions, efforts to improve Pakistan's enabling environment and green financial architecture to attract needed climate finance, and close engagement with development partners on implementation. However, significant gaps remain. Support under an RSF, backed by strong reform measures, will help to close these gaps, create space for badly-needed adaptation infrastructure investment, and catalyze additional sources of climate finance.

A. Background: Significant Climate Vulnerabilities[1]

1. **Pakistan's climate is diverse and characterized by extremes**.[2] Although located in a temperate climate zone, Pakistan's climate varies along its topography. The climate is mostly dry and hot near the coast and along the lowland plains of the Indus River and cooler in the northern uplands and Himalayas. Continental air prevails through most of the year, interrupted by the monsoon in summer[3] and the Western Disturbances in winter.[4] Temperatures peak in June (Figure 1) and exhibit extreme fluctuations daily and seasonally.[5] Precipitation also varies heavily throughout the year, with more than half of annual levels coming with the summer monsoon and the bulk of the remainder with the winter Western Disturbances. Weather patterns, particularly rainfall, also show significant sub-national and intra-year variations, historically giving rise to successive patterns of droughts and floods.

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[1] Sections A and B draw from and update on the 2023 SBA Request Annex (IMF 2023a) and 2021 Selected Issues Paper (IMF 2021).

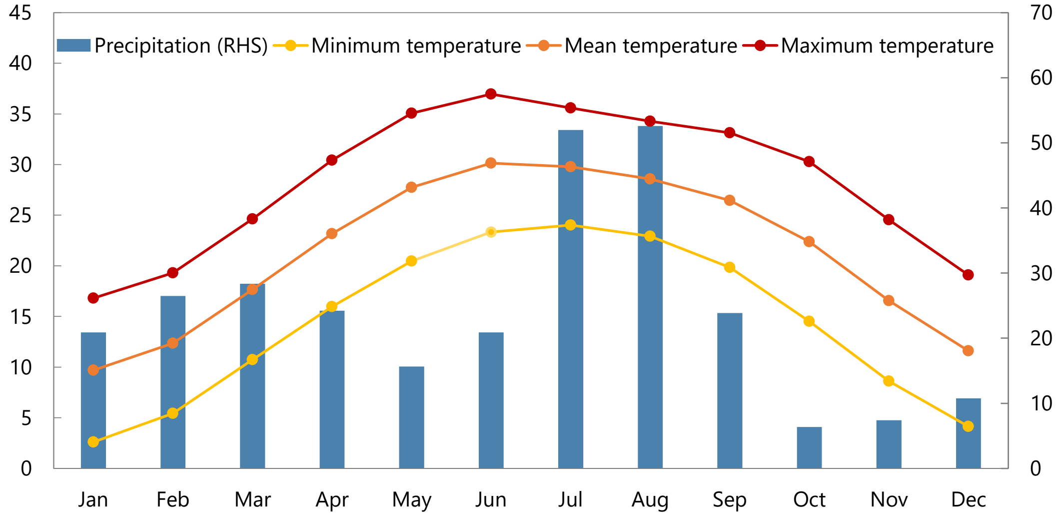
[2] See e.g., World Bank (2024), World Bank and ADB (2021), ADB (2017), or US Library of Congress (2022).

[3] The monsoon is a seasonal wind in South and Southeast Asia, bringing wet air when blowing from the southwest (mostly between May and September) and dry air when blowing from the northeast (usually during the rest of the year, see e.g., Hunt et al., 2019).

[4] Western Disturbances are extratropical cyclonic weather systems originating in the Mediterranean region, bringing sudden winter rains to the northern parts of the Indian subcontinent (see e.g., Hunt et al., 2019),

[5] Extreme diurnal cycles, with daily ranges exceeding 20°C in arid regions, are not reflected in the averages.

Figure 1. Pakistan: Average Monthly Climatology, 1991–2022
(Degree Celsius and millimeters)

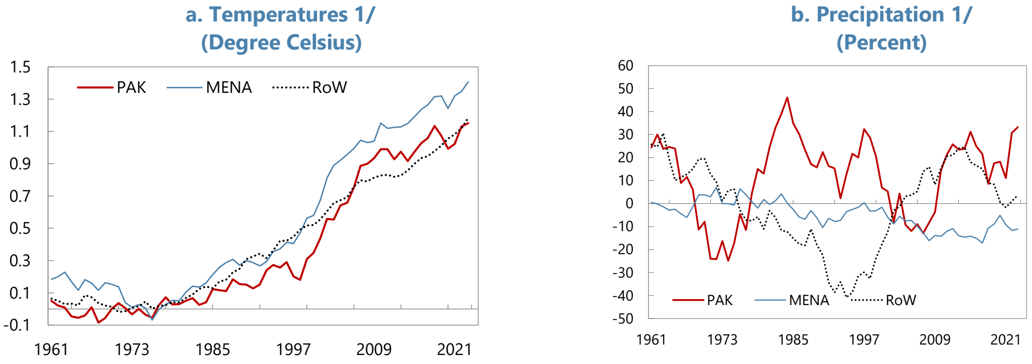


Sources: World Bank Climate Change Knowledge Portal (CCKP).

2. The impact of global warming has intensified during this century. As with many peers in the Middle East and North Africa (MENA), high temperatures, erratic precipitation, and related disasters have worsened.

- ***Weather patterns.*** Pakistan has seen annual mean temperatures increase by some 1.2°C since pre-industrial times, slightly above the global average of 1°C. Most of that increase occurred over the past three decades (Figure 2.a). In contrast, annual precipitation is unpredictable (Figure 2.b), but masks sizable sub-national rainfall variation (ADB 2017)—less on the arid plains and coastal belt and more elsewhere (particularly the mountainous north).

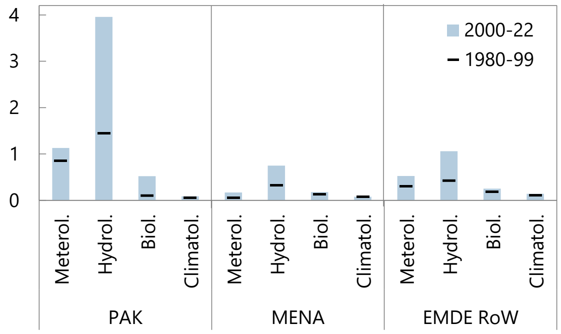
Figure 2. Pakistan and Peers: Past Climate Trends, 1961–2023
(10-year rolling average of countries' weather pattern deviation from their 1901–50 averages)



Sources: World Bank CCKP; IMF staff calculations.
1/ Anomalies correspond to the departure in country average annual temperature or precipitation from the 1900-1950 mean of country average annual temperature or precipitation. Graph displays average across countries within each region.

- ***Climate disasters.*** These changes in weather patterns have increased the frequency and severity of weather anomalies and disasters in Pakistan, often more than in peers. On average, the country experienced almost 6 events annually over 2000–22 (Figure 3), a near-doubling over the preceding two decades. The number of events caused by a hydrological hazard increased the most, followed by biological hazards, climatological hazards, and meteorological hazards.[6]

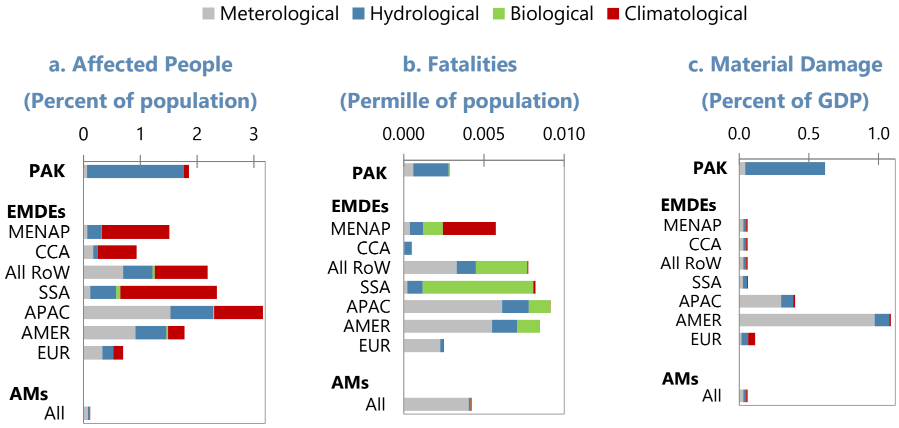
Figure 3. Pakistan and Peers: Occurrence of Climate Disaster, 1980–2022 (Simple average)



Sources: EM-DAT; IMF staff calculations.

3. **Pakistan's climate disasters have been very costly.** The Global Climate Risk Index ranks Pakistan among the top 15 countries with the highest climate risk worldwide (Eckstein et al. 2021). Hydrological hazards represented, from 2000-22, over 90 percent of affected people, over 75 percent of fatalities, and some 93 percent of material damage from climate disasters (Figure 4).

Figure 4. Pakistan and Peers: Impact of Climate Hazards, 2000–22 (Simple annual average)



a. Affected People (Percent of population)

b. Fatalities (Permille of population)

c. Material Damage (Percent of GDP)

Sources: EM-DAT, WB WDI, IMF WEO, and IMF staff calculations.

4. **Pakistan's large climate-related disaster losses reflect not only the strength of the natural hazard, but also the country's low climate resilience.** In Pakistan, vulnerabilities are highest where readiness is lowest: (Figure 5).

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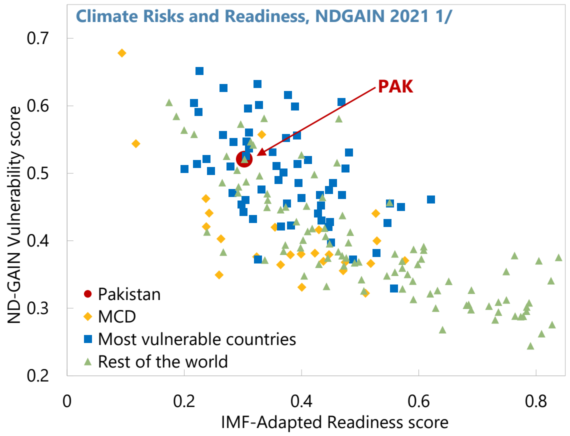
[6] For a review of EM-DAT data (including coverage and quality) and complete typology of disaster hazards and types, see IMF (2022a), Annex III.A.

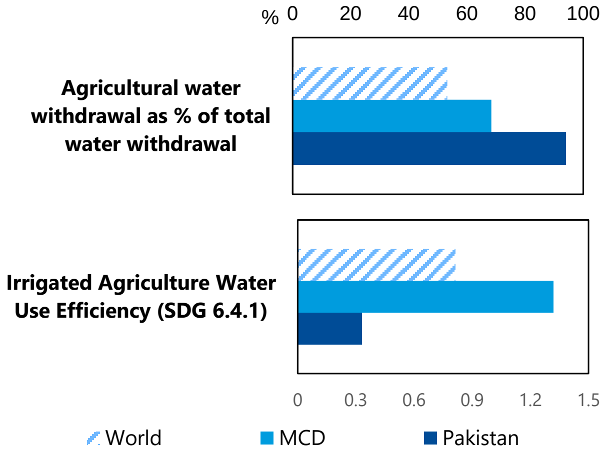
- ***Large vulnerabilities—reflecting the large population and activity in harm's way.*** The semi-aid country (¶1) depends on the Indus River: its valley hosts most of the population and agriculture, while its northern dams are a key power source. The Indus's level, however, is tied to the weather—not only precipitation but also temperatures via glacial melting. This exposes livelihoods, infrastructure, and economic production in proximity to the Indus River to the devastating effects of flash floods, landslides, and droughts. More than half of the country's arable land depends on river-fueled irrigation. Agriculture represents 20 percent of Pakistan's economy and 40 percent of its labor force, including most employed women, and is its largest source of export earnings. However, the sector is hampered by inefficient and wasteful use of water and land, environmentally damaging agriculture practices and food price supports, inadequate value chains, and a weak irrigation system (Figure 6). Inefficient water management practices, in particular – exacerbated by years of underpricing and weak collections that have left irrigation authorities short of resources and unable to invest in infrastructure (World Bank 2024a) – have led to greater water insecurity and low irrigation productivity. This gives rise to low productivity and yields, lack of crop diversity and associated degradation of arable land and water resources, and suboptimal food security (World Bank 2022). Rising temperatures and weather variability exacerbate these issues, adding to growing demand for scarcer water resources and putting the food system further at risk (ADB 2012, ¶2).

Figure 5: Pakistan and Peers: Climate Risks and Readiness, NDGAIN 2021 1/



Source: IMF Climate Change Indicators Dashboard

Figure 6: Pakistan and Peers: Water Availability and Use Efficiency



Source: IMF Climate Change Indicators Dashboard

- ***Low readiness—reflecting highly sensitive livelihoods and economic activity.*** Pakistan's vulnerabilities include: (i) historically weak, volatile, and non-inclusive growth and macroeconomic instability; (ii) low socioeconomic and financial development; (iii) inadequate infrastructure and social investment; and (iv) weak institutional frameworks, capacity, and regulation, limiting ex-ante disaster reduction and ex-post disaster response abilities**.**

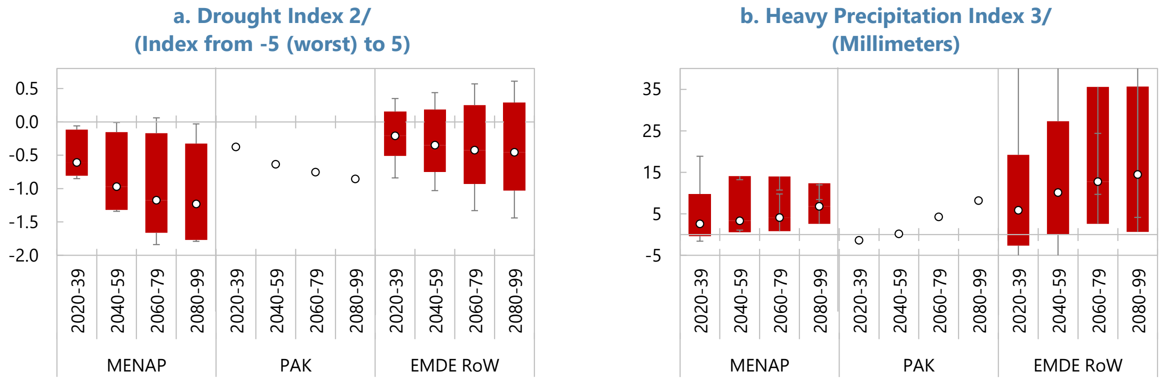
5. These intensifying climate stressors exacerbate existing adaptation challenges, especially land degradation and desertification, water stress, and glacial melting and sea-level rise. Compared with peers, Pakistan sees more internal migration because of soil degradation (ADB

2012), and is among the 30 most water "at-risk" countries in the world (WRI 2023).[7] In addition, Pakistan is experiencing increased melting of its 7,200 glaciers, stressing its hydropower infrastructure (Yao et al. 2022; Hugonnet 2021),[8] and faces high risk from sea-level rise, prolonged cyclonic activity, and greater salt-water intrusion in Karachi (ADB 2012).[9] Crop yields and productivity are battered by the erosion of arable land and reduction in its quality, saline intrusion in the coastal zone, attrition of surface and underground waters, and destruction of coastal habitats. These developments strain infrastructure and traditional adaptation skills, leading to economic disruptions that endanger food, water, and energy security, especially for many marginal communities,[10] fueling internal migration (ADB 2012).

6. **Pakistan's weather patterns will become more volatile and extreme.** Drought conditions will likely continue to worsen (Figure 7.a), as will intense rains, increasing the chance of floods (Figure 7.b).

Figure 7. Pakistan and Peers: Projected Intensification of Weather Anomalies, 2020–99

(Absolute change relative to the reference period 1986–2005, RCP 4.5 scenario) 1/



Sources: World Bank CCKP; IMF staff calculations.

1/ The white dot shows the average of the median change across each region, red box the 10 and 90 percentiles, and whiskers the minimum and maximum. The median change masks large natural variability comprised in the underlying projections.

2/ The Standardized Precipitation-Evapotranspiration Index (SPEI) for a 12-month period uses the daily difference between precipitation and potential evapotranspiration to determine droughts.

3/ Maximum of five-day precipitation amount in a given time period.

7. **The ramifications of increased climate stress would be:** (i) pressure on health, livelihoods, and ecosystems; (ii) reduced yields in many key food and cash crops; and (iii) strains on urban dwellers and outdoor laborers (World Bank and ADB 2021). This would further exacerbate economic fragility, causing up to 20 percent GDP loss per year by 2050 (World Bank 2022). Damage could grow in non-linear ways (IMF 2022a), especially when physical thresholds are surpassed (e.g., making

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[7] Over 80 percent of the population face "severe water scarcity" for at least one month per year (Mekonnan and Hoekstra 2016).

[8] Also called the "Third Pole," the Hindu Kush–Karakoram–Himalayan (KHK) system holds the world's largest store of ice outside of the polar regions, providing reliable water supply to almost 2 billion people in the region (Yao et al. 2022).

[9] Karachi is the country's largest cityfirst commercial and industrial center, and hosts the main port.

[10] See e.g., UNDP (2016), Maqbool (2022), or Parry et al. (2016).

water-constrained areas full-fledged water-short or permanently flooding areas), climate issues reinforce each other (such as intense rains after a heatwave and/or coinciding with glacial melt), or vicious cycles of worsening climate hazards and waning resilience occur (e.g., lower resilience after a disaster than before, if impacts remain are not fully addressed).

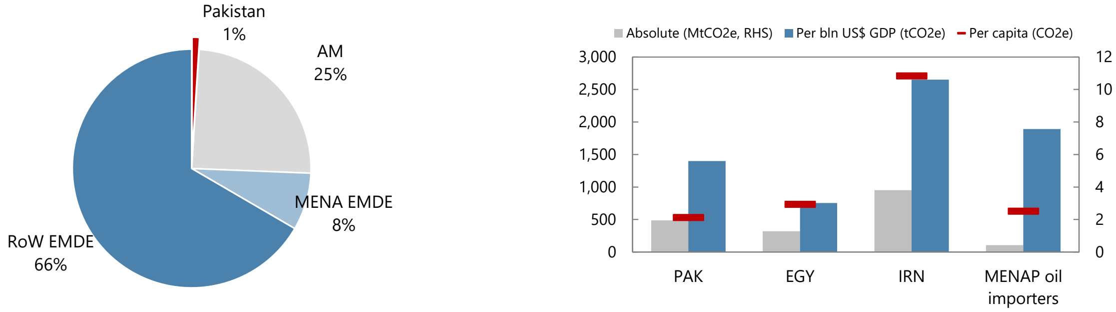
B. Background: Large Emissions

8. Pakistan is among the world's largest emitters of greenhouse gases (GHG). In 2021, the country contributed about 1 percent of the world's total GHG emissions (Figures 8a, 20.M1), which represented 488 million tons of GHG. This places Pakistan among the largest 20 GHG emitters worldwide, together with the two largest economies in the MENAP region (Iran and Saudi Arabia). Collectively, they represent about half of MENAP's GHG emissions. Relative to regional peers and other MENAP oil importers, Pakistan, on average, emits more GHG in absolute terms, though less per capita and per unit of output (Figures 8b, 20.M2). Since 1990, Pakistan's GHG emissions have grown by 190 percent (Figure 8c), greater than the MENAP country average (165 percent) and well above the world's (60 percent).

Figure 8. Pakistan and Peers: Greenhouse Gas (GHG) Emissions, 2021

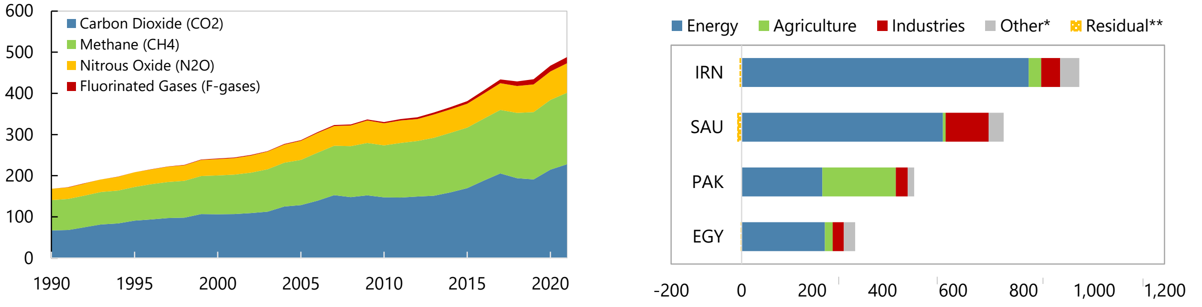
a. Global GHG Emissions
(Percentage shares)

b. Average Emission Levels



c. Evolution and Composition (MtCO2e)

d. Largest MENAP Emitters and Sources (MtCO2e) 1/

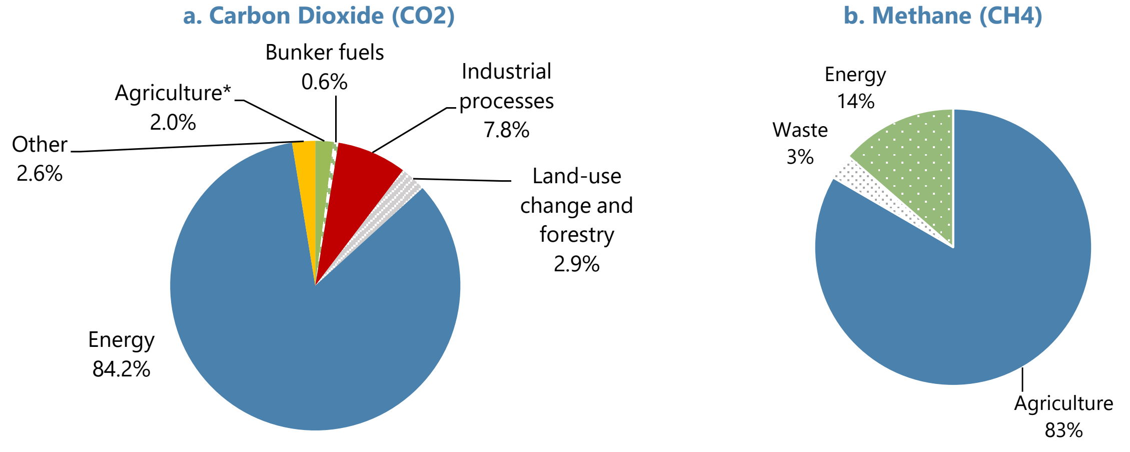


Sources: CAIT, WB WDI, IMF WEO and staff calculations.
All GHGs are converted to CO2-equivalents to account for their different warming potential. This is important as, for instance, methane is more than 25 times as potent as carbon dioxide at trapping heat in the atmosphere and thus at contributing to global warming (EPA 2021; IPCC 2021; IEA 2021). See WRI (2015) for more information on the CAIT GHG data.
1/ Energy emissions includes electricity production as well as emissions from fuel combustion related to building, manufacturing/construction, transportation, and fugitive emissions.

9. **Mitigation and energy-efficient production technologies are crucial in view of Pakistan's growth potential and large share of methane in its GHG mix.** While Pakistan's economy is still relatively small—accounting for about 0.3 of world output but 3 percent of world population—GHG emissions are set to increase with economic growth and development. Together, the energy and agriculture sectors already account for nearly 90 percent of Pakistan's GHG emissions (Figure 8d). For energy, this mainly reflects carbon dioxide emissions from electricity and heat production, transportation, and manufacturing and construction (Figure 9a). For agriculture, this mainly reflects methane emissions (Figure 9b) from enteric fermentation and agricultural soil (Ijhaz and Goheer 2021).[11]

Figure 9. Pakistan: Sources of Selected Greenhouse Gas (GHG) Emissions, 2021

(Share of total)


a. Carbon Dioxide (CO2)

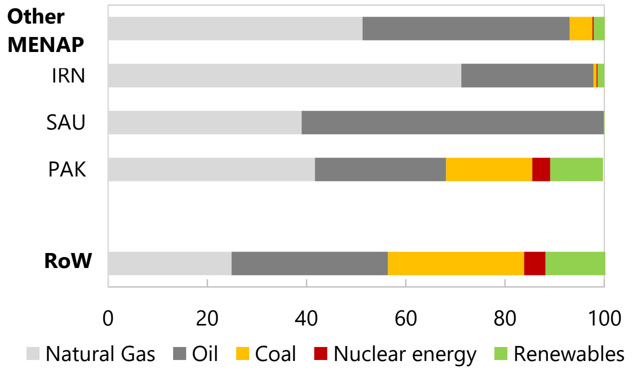
b. Methane (CH4)

CAIT and IMF staff calculations.

10. **Pakistan's primary energy consumption, which has nearly doubled in the last 20 years , largely depends on fossil fuels:** Natural gas, oil, and coal accounted for about 85 percent of the consumption mix in 2021, with renewables about 11 percent (though generation of fossil fuels and renewables represented two-thirds and one-third of total generation, respectively, in 2024, ¶26), which represents a relatively greener fossil-renewable mix compared to the rest of the MENAP region (Figure 10). It also puts it on par with the global average (with Pakistan

Figure 10. Pakistan and Peers: Primary Energy Consumption by Fuel, 2021

(Percentage shares)



Sources: BP Statistical Review of World Energy (2022), and staff calculations.

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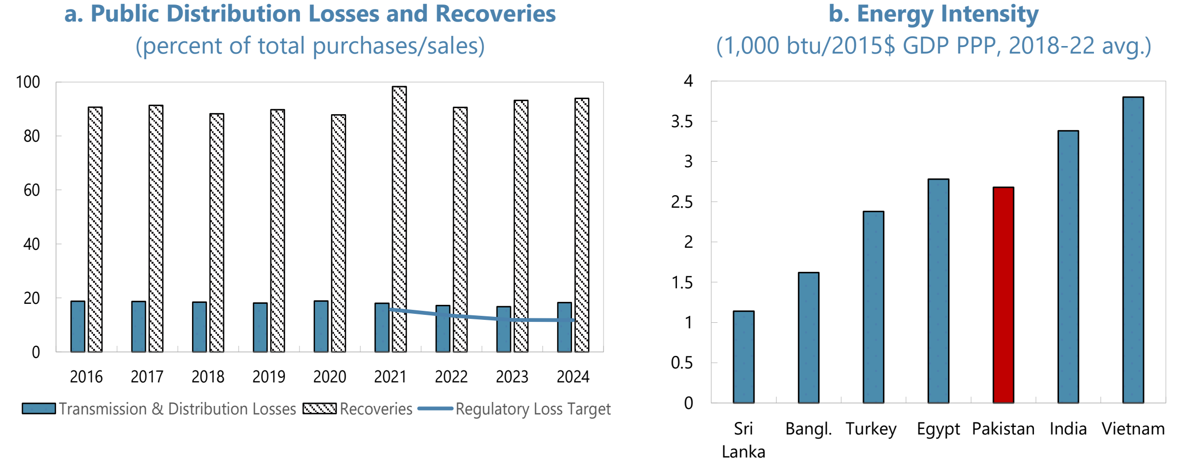
[11] According to Habib and Khan (2018), enteric methane dominates agricultural methane emissions (63 percent), followed by feed production and processing (25 percent), manure management (11 percent), and energy use (1 percent). This reflects a particularly high carbon footprint of milk production, beef, and mutton.

leaning more heavily toward relatively cleaner natural gas and less toward oil and coal). In 2024, about 78 percent of Pakistan's renewables came from hydropower, with the remainder from solar, wind, and bagasse.

11. Pakistan's energy sector is one of the largest contributors to GHG emissions and pollution in Pakistan and critical to efforts to mitigate climate change. Energy sector emissions have been exacerbated by the long-running mismanagement of the sector, along with an historical unwillingness to keep tariffs consistent with costs and ensuing financial gaps and poorly targeted, often regressive subsidies (¶12). This led, in turn, to a spike in circular debt (CD) over 2013-21 and 2020-23 for the electricity and gas sectors, respectively: Underpricing led to delayed payments to energy producers, deferred maintenance, declining services, lower collections, and reduced incentives to invest in energy-efficient production capacity. On the gas side, it also led to the rapid depletion of indigenous natural gas and greater imports of costly RLNG. This has resulted in a highly inefficient energy sector, with a poor distribution and transmission infrastructure and underperforming public utilities that translate to very high transmission and distribution losses, above even those already permitted by the regulator (Figure 11a). The energy intensity of Pakistan's GDP is, consequently, higher than many peers (Figure 11b), increasing its dependence on imported fossil fuels and further exacerbating energy insecurity. Persistently high system CD, large losses, and underpricing has meant that public funds available for investment in greater efficiencies and improved infrastructure in Pakistan's gas and power distribution network, which would guard against such losses, have been limited. They have also deterred private sector involvement in a solution.

Figure 11. Pakistan: Power Sector Losses and Energy Intensity



a. Public Distribution Losses and Recoveries
(percent of total purchases/sales)

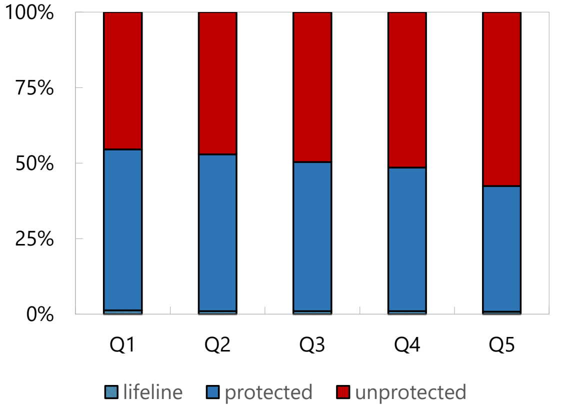
b. Energy Intensity
(1,000 btu/2015$ GDP PPP, 2018-22 avg.)

Source: National Electric Power Regulatory Authority (NEPRA), country authorities, US Energy Information Administration, IMF staff calculations.

12. Pakistan's energy subsidies have exacerbated these issues. They are large, poorly targeted, regressive, and opaque. They consist, on the power side, of large on-budget subsidies (about 1 percent of GDP, centered on bridging the gap between regulator-determined and government-notified tariffs and clearing CD stock) and a complex network of cross-subsidies; and, on the gas side, a smaller amount of on-budget subsidies but a similarly complex network of cross-subsidies. The cross-subsidies in both sectors aim to provide progressivity to the tariff structure but are ineffective at doing so: Due to data limitations at the time of inception, they rely on household consumption as a proxy for income. Recent World Bank analysis suggests that they are poorly targeted, with low-income, high-consumption households often paying higher tariffs, and vice versa (Figure 12). Likewise, about 70 percent of residential gas consumption falls under subsidized slabs. In addition to being regressive, these policies subsidize overconsumption and energy wastage by higher-income households. The cost of the cross-subsidies are generally borne by industry in both sectors, leading to frequent pressures from interest groups, distortions across the tariff structure, and additional risks to cost recovery and sector viability.

Figure 12. Pakistan: Income Distribution of Residential Electricity Tariff

(share of various tariff slabs per income quintile)

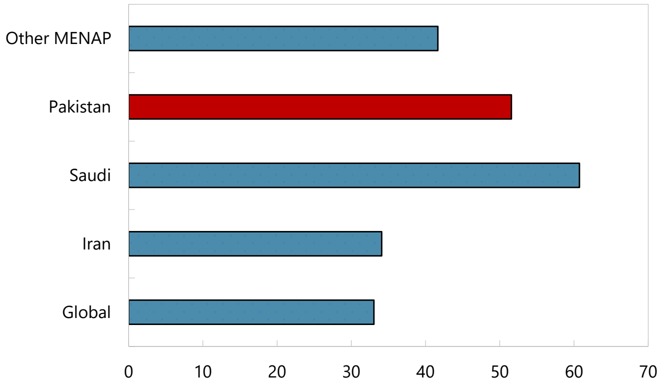


Sources: World Bank, country authorities.
Note: Lifeline and protected consumers receive lower tariffs based on lower consumption; higher-volume unprotected consumers receive higher tariffs.

13. Heavy fossil fuel consumption and increased motor vehicle usage have also contributed to dangerously high levels of pollution. As of 2019, mean concentrations of fine particulate matter in urban areas in Pakistan were nearly double the global average and well above most MENAP peers (Figure 13), with concentrations in Lahore as high as 24 times the WHO's Air Quality guidelines, and with many cities' air quality indices breaching 400 in the winter months (WHO 2024). The poor health outcomes exacerbated by this dynamic in turn contribute to Pakistan's slow progress on inclusion and labor force adaptability and productivity (IMF 2024). Key sources of air pollution include poor regulation of industrial and vehicular emissions, open burning of waste, and issues with land use planning; heavy reliance on fossil fuels (despite a relatively higher mix of renewables than in many peer countries); and a substantial increase in road vehicles, from 5.2 million in 2007 to 26.5 million in 2018 (Government of Pakistan 2023a).

Figure 13. Pakistan and Peers: Annual Mean Concentration of Fine Particulate Matter (PM2.5) in Urban Areas

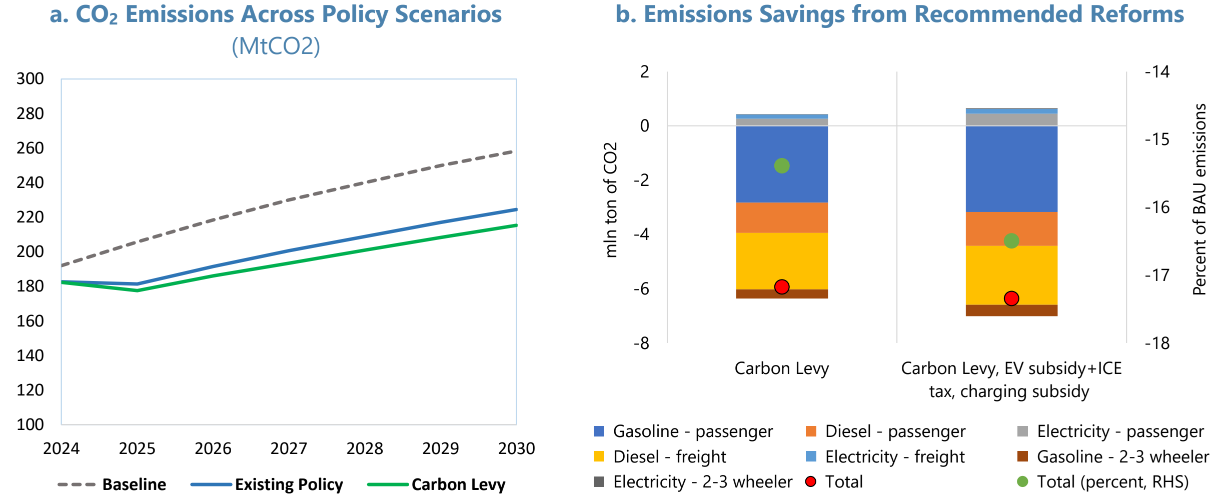
(µg/m3)



Sources: World Health Organization and IMF staff calculations.

14. Measures to disincentivize fossil fuels and vehicle emissions would help to address high pollution levels and meeting mitigation commitments. For example, the addition of fuel oil for inclusion in Pakistan's existing Petroleum Development Levy, and the gradual increase of this as a supplemental carbon levy on gasoline and diesel by Rs 5 per liter between July 2025-27 would reduce projected 2030 CO_2 emissions by 17 percent from the no-policy baseline and by 4 percent from the existing policy path (Figure 14a). Additional policies to incentivize the substitution of EVs for ICE vehicles and development of charging station infrastructure, calibrated in line with Pakistan's 2030 EV uptake objectives,[12] would result, overall, in a 16 percent (6.4 million tons of CO2) net reduction in transport-related emissions by 2030 (Figure 14b).

Figure 14. Pakistan: Projected Emissions Reductions from Reforms



Sources: Country authorities, IMF staff calculations.

15. Methane, which is significantly more potent than carbon dioxide, is one of the largest drivers of GHG emissions in Pakistan. Pakistan is the 7th-largest emitter of methane globally.[13] Emissions are driven by agriculture, primarily livestock, as well as mining and the water sector. Pakistan's inefficient gas sector also contributes via methane leakage from the gas network, including onshore gas, gas pipelines, and LNG facilities (World Bank 2022). Inefficient agriculture practices and policies (¶6) also drive high methane emissions via, for instance, poor crop choices and overuse of fertilizer due to subsidies.

C. Legal and Institutional Framework

16. The March 2017 Climate Change Act and 2021 National Climate Change Policy underpin Pakistan's climate institutional and legal framework. The *Climate Change Act* established (1) the Climate Change Council (CCC), chaired by the Prime Minister and consisting of relevant federal and provincial ministers and other officials, tasked with overseeing the

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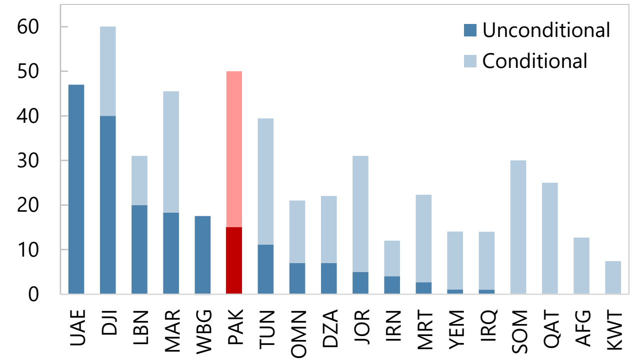
[12] Assumes a budget-neutral scheme to subsidize EVs ($600 per passenger EV consistent with 5 percent of their value and $200 per 2- and3-wheeler, about 18 percent of their value with 98 percent share of two-wheelers; and a 3 percent ad valorem tax on ICE passenger vehicle sales) and a 10 percent producer cost subsidy to EV charging stations consistent with the authorities' PPP-viability gap financing plan.

[13] The ranking is based on the IMF Climate Change Dashboard. Rankings may differ across sources. For instance, the IEA methane tracker ranks Pakistan in the 8th position in 2023. Methane emissions from the use of bioenergy are linked to solid bioenergy, liquid biofuels, and biogases. For example, from the incomplete combustion of bioenergy from the traditional use of biomass.

implementation of national climate change policy and international agreements related to climate change; mainstreaming climate change into federal and provincial decision making; and approving and implementing adaptation and mitigation policies and strategies; (2) the Pakistan Climate Change Authority (CCA), comprised of government-appointed technical experts, to formulate adaptation and mitigation policies, plans, and mechanisms; and (3) the Pakistan Climate Change Fund (CCF), geared toward gaining financial assistance for adaptation and mitigation initiatives. The *Ministry of Climate Change and Environmental Coordination (MoCC)* was subsequently established in August 2017 to act as a focal cabinet-level agency to lead the coordination and implementation of climate policy, environmental action, and disaster risk management across the government, effectively taking on the CCC's implementation and coordination role. The *2021 National Climate Change Policy (NCCP)*, updated from 2012 in collaboration with the UNDP to align with the 2015 Paris Climate Accord and Sustainable Development Goals, linked climate action with economic growth and took a strong focus on mainstreaming and integrating climate change policy with other policies. The NCCP brought initiatives to, for instance, strategically plan for energy efficiency and conservation and promote the use and adoption of renewable energy and electric vehicles (EVs), the latter via the National Electric Vehicle Policy (2019), which is currently being revised. The *National Adaptation Plan (NAP)*, developed in conjunction with the World Bank, was formally adopted in 2023 and lays out a cross-sectoral framework for building climate resilience and adaptation (¶20).

17. Pakistan's climate framework also includes a number of ambitious international commitments. Pakistan is a signatory to the 2015 Paris Climate Accord, at which it committed to contribute to global emissions efforts. Its subsequently updated Nationally Determined Contributions (NDCs)[14] include an unconditional commitment to reduce emissions by 15 percent below its business as usual level by 2030 (resulting in in a 240.15 MtCO2e emissions reduction) and an additional 35 percent (resulting in another 561.05 MtCO2e emissions reduction) conditional on climate finance availability;[15] increase renewable energy's share of all energy produced in the country to 60 percent by 2030; increase the share of EVs among all new vehicles sold in various categories to 30 percent by 2030; restrictions on new coal power plants; and a ten-year afforestation program. Pakistan's emission targets are among the more ambitious within the MENAP region (Figure 15). Pakistan also signed the Global Methane Pledge in 2021 to curb its methane emissions (a major source of emissions in Pakistan, ¶9, 14) by 30 percent from its 2020 level by 2030. On the adaptation side, the NDC envisages the reduction of

Figure 15. MENAP: Targeted Nationally Determined Contributions Reduction in GHG
(percent, v. 2030 Business as Usual)



Sources: Country NDC reports (as publicly available on January 2, 2025).

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[14] Government of Pakistan (2021a).

[15] This was a significant increase relative to its previous NDC for the 2015 COP21 in Paris (Government of Pakistan (2016)).

flood risk and enhanced water recharge at six sites in the Indus Basin by 2030 and an increase in protected area coverage from 12 to 15 percent of Pakistan's territory by 2023.

18. Pakistan's decentralized structure complicates this framework, requiring better intergovernmental collaboration. Given Pakistan's decentralized governmental structure – the 2010 18th Amendment to the constitution mandates devolution to Pakistan's four provinces – provincial governments also play a key role. While they are less formally part of the national framework than the federal government, each province has its own Environmental Protection Agency responsible for environmental policy and programs, including climate change mitigation and adaptation. Punjab, Sindh, and Khyber-Pakhtunkhwa have developed their own policies and action plans, which attempt to align with federal policy, although capacity is inconsistent across provinces and some responsibilities overlap with provincial irrigation and agricultural departments. Moreover, there are no sub-provincial climate institutions; such entities' involvement would be required for certain investments in climate-related municipal services and climate investments (World Bank 2022). In the past, provinces' capacity to take action on climate change has been limited given their reliance on the federal government for revenues and complicated by the transboundary nature of many climate issues (water management, for example). However, recent efforts, supported by Pakistan's Extended Fund Facility (EFF), to realign federal-provincial revenue and expenditure sharing; boost provinces' capacity to raise more of their own revenues; and enhance federal-provincial coordination via a National Fiscal Pact could help to improve policy alignment and provinces' fiscal capacity.

D. Policies to Build Resilience and Adapt to Climate Change

19. Pakistan needs to make tangible progress to shore up its ex-ante resilience to climate change, including by building capacity to help advance critical needs assessments and strategies for particularly vulnerable and exposed sectors. Immediate priorities should focus on fully embedding climate change in its medium-term inclusive growth and development agenda, informed by the NAP, which can help to systematically incorporate, prioritize, and manage climate risks in a holistic medium-term framework for macroeconomic policy and structural reforms.

20. The NAP outlines a sectoral and cross-cutting approach to the government's adaptation strategy.[16] The MoCC has overall national coordination and implementation responsibilities for the NAP, while the Ministry of Planning is the focal point for the provincial planning and development departments. Key sectors and cross-cutting policy areas are:

- *The agriculture-water nexus*: Policy priorities focus on achieving more efficient water and arable land use and improved agricultural practice and productivity (¶6). They include transitioning farmers to climate-smart water and land management practices, including by restructuring existing policies (such as the existing wheat price support/procurement system, which benefits mainly large- and medium-sized farmers, commercial banks, and millers) to incentivize crop diversification, improved water productivity, and improved land management; modernizing

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[16] Government of Pakistan (2023b).

irrigation services; improving agriculture productivity; and planning for river flow and rainfall variability.

- *Natural capital*: Policies are geared toward preserving and improving forest cover and waterways that have been damaged by, and remain at risk of, drought and rising temperatures (¶6). These include mainstreaming sustainable land, watershed, and wastewater management practices; investing in coastal and marine resources; and investing in ways to address air pollution.

- *Urban resilience*: Policies aim to build resilience to urban climate change-exacerbated flood hazards, extreme heat, and severe air pollution by mainstreaming climate adaptation across all levels of government; improving land-use regulation and planning; bolstering climate-smart municipal services; and leveraging nature-based solutions to manage climate risks.

- *Human capital*: The NAP aims to strengthen human capital to bolster climate-resilient and equitable development by mainstreaming climate adaptation in health and education policies; enhancing resilience via disaster emergency preparedness and response; and building workforce capacities to address and adapt to climate risks.

- *Disaster risk management (DRM)*: The 2022 floods highlighted the shortcomings of Pakistan's DRM system, which suffered from poor federal-provincial coordination; a suboptimal understanding of the roles and responsibilities of stakeholders; weak stakeholder capacity; insufficient investment in integrated disaster risk reduction; and inadequately disaster risk financing (DRF).[17] Priority initiatives include upgrading Pakistan's early warning systems; strengthening DRM governance by establishing clear policies, institutional frameworks, and coordination mechanisms, including between the federal and sub-national governments; investing in disaster risk reduction; and enhancing preparedness by incorporating risk-informed recovery and reconstruction efforts (¶21).

- *Gender, youth, and social inclusion*: Recognizing that climate change disproportionately challenges marginalized groups with limited capacity to respond and recover, the NAP aims to support vulnerable groups in strengthening their capacity for DRM and fostering climate-resilient livelihoods.

21. Progress has been made recently in improving Pakistan's DRM framework. With support from the Asian Development Bank (ADB), the authorities are:[18]

- *Building institutional capacity.* The National Disaster Management Authority (NDMA) commenced implementation of its recently-adopted National Disaster Management Plan III by establishing the National Emergencies Operation Center, which will monitor and analyze disaster risk and response, and the Disaster Management Coordination Forum, which will coordinate disaster management policies and plans; the National Disaster Risk Management Fund's (NDRMF's) operationalization of the NatCat natural catastrophe model; and the Ministry of Water Resources'

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[17] Government of Pakistan (2023b) and ADB (2024).

[18] ADB 2024.

advancement of a risk-based approach to flood risk management in strategic planning. Going forward, the NDMA plans to approve an ex-ante disaster recovery framework and the NDRMF plans to broaden the scope of and access to NatCat for public and private entities.

- *Risk-layering the DRF framework*. The NDRMF recently approved its National Disaster Risk Financing Strategy 2024-2034, which provides for a risk-layered approach to DRF in a single framework. Subsequently, the Ministry of Finance established an ex ante contingency allocation for disaster events in the FY25 budget. Also, as part of this effort, Pakistan's national social support system, the Benazir Income Support Program (BISP), launched a dynamic registry and issued a methodology for identifying and targeting affected households following a disaster event. Future efforts in this area (supported by the ADB) will include NDRMF's operationalization of a new fund to support risk-transfer solutions, such as agriculture insurance, while the National Insurance Company will complete a registry of public sector assets and insure prioritized assets against natural hazards. Inconsistent federal-provincial DRF coordination remains a challenge.[19] In parallel, the authorities are working with the World Bank on a program to build up a social protection savings mechanism via BISP that would be utilized in the event of a disaster, with an initial target of 150,000 families.

22. Addressing gaps which hinder the incorporation of climate considerations into investment planning is a key next step to build climate resilience and mitigation impact. As highlighted in Section A, there is an urgent need for climate-adaptive infrastructure as well as investments toward mitigating the impacts of climate change and natural disasters in Pakistan. Doing so will require additional investment and greater fiscal space. The Fund's 2023 Climate Public Investment Management Assessment (C-PIMA) assessed prospects in this area and found:[20]

- Gaps in the national planning framework that weaken investment planning to meet climate change objectives (although the anticipated NAP is already an improvement); insufficient analysis regarding the vulnerability of Pakistan's infrastructure assets to climate-related risks; failure of spatial and urban planning and construction regulations to address climate risks and their impact on public investment; weak incorporation of climate factors into the project appraisal process and a lack of a standard methodology containing technical details; low transparency on climate-related actions that have budgetary implications; lack of comprehensive selection criteria in the development of budget funding that includes climate change; lack of analysis of climate change disaster risks in the government' DRM strategy and fiscal risk analyses; and capacity constraints with regard to the implementation of Pakistan's climate agenda.

- The C-PIMA found that the National Climate Change Policy sets the stage well for the coordination of climate change-relevant public investment across the federal government. However, that degree of coordination does not always translate to federal-provincial planning. Moreover, while the institutional design is comprehensive, coordination can be limited by capacity constraints, particularly at the MoCC and Planning Commission, limited budget and

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[19] ADB 2024.

[20] IMF 2023b.

authority at the MoCC, limited staff at the CCA, and challenges at the Planning Commission for integrating climate considerations into development planning.

23. Strong progress has been made in addressing the above gaps in Pakistan's C-PIMA framework, although some remain. The authorities have taken strong steps to implement their C-PIMA Action Plan since its formal adoption in December 2023. This has included, with the support of the ADB, the NDRF's adoption of a model analyzing sectoral vulnerabilities to flood risks and a Business Strategy 2022-23, with a three-year investment plan; development of manuals to integrate climate considerations into project design and development planning; publication of climate-related spending for FY2024; and incorporation of climate-related fiscal risks into the authorities' Statement on Fiscal Risks (the analysis included modeling of long-term fiscal sustainability under different climate scenarios and discrete risks). The authorities have also announced the operationalization and staffing of the CCA; established a Climate Finance wing at the MoCC to facilitate and report on climate finance mobilization; and initiated preparation of the national climate finance strategy.

- Remaining items from the C-PIMA Action Plan to be completed include an updating of provincial urban planning codes to adopt climate resilient principles; the extension of the FY24 federal green budget tracking exercise to provide more guidance to line ministries, and to gradually extend the practice to revenue measures as well; the rollout of green budget tracking to the provinces; and the enhancement of climate-related training for public officials involved in development planning.

E. Policies to Mitigate Climate Change

24. Pakistan's National Climate Change Policy (NCCP, 2021) highlights the authorities' priorities for mitigating the impacts of climate change. Following the 2021 NDCs, the NDCC's mitigation objectives focus on the two biggest sources of GHG emissions in Pakistan: the energy and agriculture sectors. Policy goals for the former include (i) preferences for the development and promotion of hydro power generation and renewable energy resources when additional capacity is needed; (ii) consideration of a carbon tax on fossil fuel energy generation; (iii) prioritization of imports of natural gas and LNG over oil and coal; and (iv) steps to improve energy efficiency across Pakistan. Fuel efficiencies and improved emissions standards are also targeted in the transport sector. The NCCP advocates a number of improved agricultural and livestock practices to reduce methane emissions and also places priority on policies geared at carbon sequestration and forestry. Steps for the latter have included an urban forestation drive launched in 2021; efforts to reduce carbon dioxide emissions under the Ten Billion Tree Tsunami Program21; and work toward membership of the UN's Reducing Emission from Deforestation and Forest Degradation (REDD+) program.

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[21] A reforestation initiative targeting 10 billion trees planted but also a comprehensive ecosystem conservation and management program to address decades-long environmental degradation. The TBTTP sequestered 8.4 MtCo2e emissions over 2016-21 and is projected to sequester another 149 MtCo2e emissions by 2031 (Government of Pakistan 2021b).

25. The authorities have taken strong steps to begin addressing issues in the energy sector, but follow-through on their necessary energy sector reform agenda is critical. After years of underpricing, the authorities began to significantly adjust electricity and gas tariffs in line with costs beginning in 2022 and 2023, respectively. This, along with still-sizeable subsidies, has broadly stabilized the flow of CD. However, continued tariff increases will become increasingly socio-politically difficult, while fiscal space cannot accommodate persistently large power subsidies and should be used for more productive purposes. As such, energy efficiencies and large losses and wastage continue. Fundamental cost-side reforms to improve efficiencies in the system while easing price pressures are required. The authorities' reform agenda, supported by World Bank TA, can reduce GHG emissions through lower consumption while creating fiscal space for badly needed investments in climate technology, infrastructure, and social support. It includes:

- *Supply-side efficiency improvements:*
  - *Continued steps to keep tariffs in line with costs and improve the tariff adjustment framework*: Recent steps to keep tariffs closer to costs were accompanied by refinements to improve the electricity tariff adjustment framework, wherein an annual tariff rebasing is supplemented by quarterly and monthly adjustments to account for differences over the course of the year between the estimated and actual revenue requirement. Regulator-determined tariffs are also now automatically notified after 40 days, failing government takes no action. The gas adjustment framework has automatic notification in law, but this has not been operationalized.
  - *Subsidy reform*: Looking forward, the above efforts need to be supplemented by a reform to the costly electricity and gas subsidy schemes (¶12) to reduce incentives for overconsumption and waste, boost fiscal savings, and significantly increase the progressivity of energy tariffs in Pakistan.
  - *Private sector participation in distribution and transmission networks.* Improving the performance of Pakistan's public distribution companies (DISCOs) and the frayed transmission network is key to reducing system bottlenecks and boosting supply-side energy efficiency. The agenda, supported by the World Bank and the EFF, includes DISCO privatization and/or private management concessions to improve practices and improve collection and finances, for which action is already underway. On the transmission side, the restructuring of the National Transmission and Dispatch Company (NTDC) into three constituent regulatory entities will increase independence and oversight of transmission and market operations, after which preparations for private investment can be taken forward.
  - *Institutionalizing anti-theft procedures*. Weak collections and theft have historically been a large driver of CD (operational losses accounted for, on average, 89 percent of annual CD flow over FY20-24), contributing to the sector's lack of viability through deferred maintenance and declining services and infrastructure and, ultimately, greater losses. It has also made DISCOs less attractive to potential investors ahead of potential privatization, which would be a key step toward improved management and operations and reduced energy losses. The authorities are working on an amendment to the criminal code that would legally institutionalize anti-theft procedures that had been in place in 2023 (that were associated with declines in losses and increases in recoveries. Such a measure would also help to incentivize

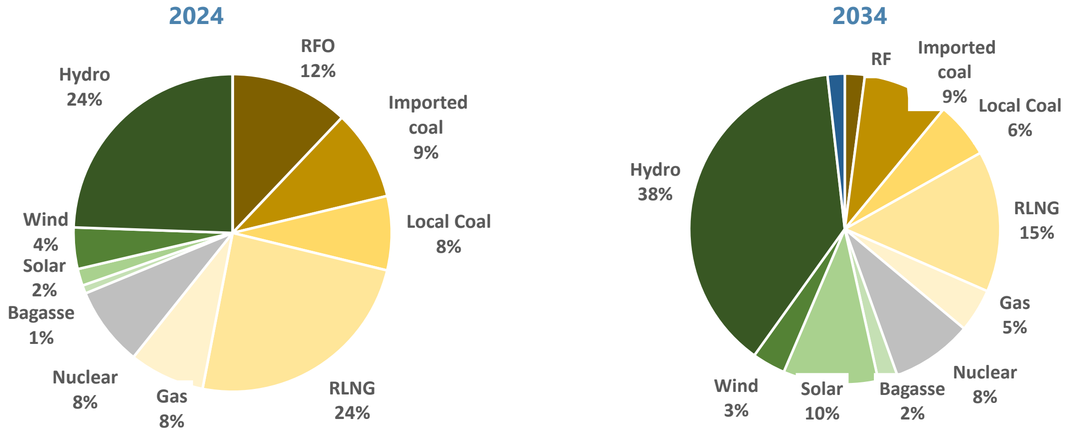
private investors during the ongoing DISCO privatization process, which is another key component of the authorities' agenda to improve the sector's management and thus viability.

- *Demand-side efficiency improvements:* The NDC cites energy efficiency as a key policy goal, Subsequently, the National Energy Efficiency and Conservation Authority (NEECA)'s draft NEECA Action Plan (2023-30)[22] provides an implementation roadmap for a set of cross-sectoral policies that would increase energy saving and reduce GHG emissions by 9 MtCO2e and 35 MtCO2e, respectively. A key focus of the plan is the residential sector, which the World Bank estimates accounted for more than 20 percent of Pakistan's energy consumption in FY 2021 via cooking, lighting, and space cooling, with space-cooling fans, for instance, consuming 46,524 GWh annually. The World Bank estimates that a replacement program for electric fans would have a payback period of 8-9 months, and a similar program for LED lightbulbs of 1 month (World Bank 2023). NEECA estimates that over 16 GWh (14 percent of total consumption) of electricity could be saved through more efficient domestic appliances. The World Bank (2022) separately estimates that 5,500 GWh alone could be saved via LED lightbulb replacement. NEECA presents a detailed plan for adopting minimum energy performance standards for domestic electric and gas appliances, although the plan remains in draft form.

26. **In parallel to these reform efforts, the Indicative Generation Capacity Expansion Plan (IGCEP 2024-34) sets out revised renewable energy generation goals.** The IGCEP's[23] base case anticipates a sizeable increase in the share of renewables in Pakistan's installed capacity by 2034, with high-potential hydropower and variable renewable energy (solar, wind, and bagasse) increasing their share of the energy mix from 24 and 7 percent in FY24 to 38 and 15 percent, respectively (a total renewable increase from 31 to 54 percent), while RLNG and RFO fall from 24 and 12 percent in FY24 to 15 and 2 percent, respectively, and other fossil fuels' contribution also falls (Figure 16).

Figure 16. Pakistan: Evolution of the Fuel Share of the Energy Generation Mix, 2024 to 2034

(Share of Total)



Source: National Transmission & Dispatch Co., IMF staff estimates.

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[22] Government of Pakistan (NEEC) (2023c).

[23] The IGCEP, along with Pakistan's Transmission System Expansion Plan (TSEP), establishes a 10-year electricity generation planning study and strategy.

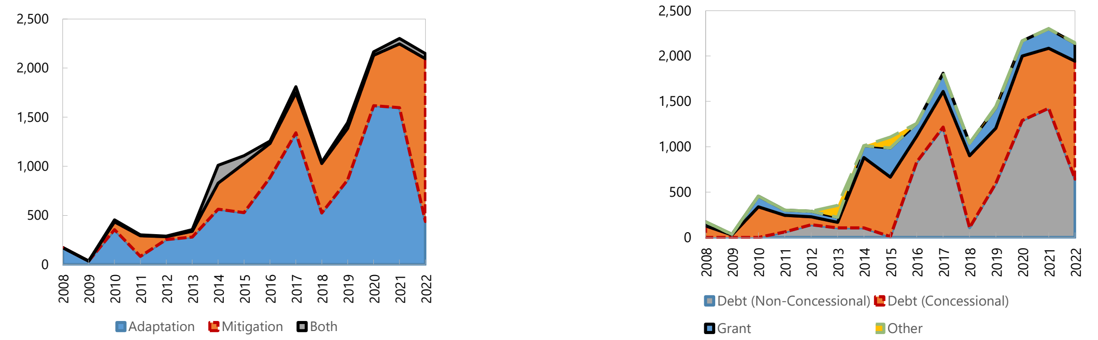
27. The 2020-25 New Electric Vehicle Policy set ambitious targets to decarbonize the transport sector. The Policy sought to make EVs 30 percent of new vehicles in Pakistan by 2030, and 90 percent by 2040. But there remains very little uptake of EVs in Pakistan, with about 2,000 fully electric cars and a few electric buses in Karachi and Punjab and 8 charging stations nationwide, and thus little impact on emissions. However, EVs could yield about 57 percent of the emission reduction (relative to a business-as-usual baseline) in the passenger sector by 2050 (World Bank 2022). The authorities' New Electric Vehicle Policy (2025-30) would provide an opportunity to refine policies to incentivize the shift to EVs. Given Pakistan's limited fiscal space and broader macroeconomic and structural reform agenda, it will be important to design focused policies that spur uptake of electric vehicles without a wider-ranging network of policies that might create market distortions and misplaced incentives.

F. Costs of Climate Action and Financing Policies

28. Taking action to build resilience to climate shocks and mitigate climate vulnerabilities carries a large cost. As discussed in Section A, large economic costs of climate change have already materialized for Pakistan; addressing these vulnerabilities will also mean large costs. DIGNAD analysis (Annex III) suggests significant long-term benefits but also large up-front costs of ex-ante adaptation investment. The World Bank estimated that $348 billion in investment would be needed over 2023-30 (equivalent to 10.7 percent of projected cumulative GDP over this period) for a comprehensive response to Pakistan's climate challenges (World Bank 2022). This includes $152 billion for adaptation and resilience measures and $196 billion for decarbonization efforts. The NDC estimated that the total cost of implementing its proposed policies would be nearly $200 billion, and that Pakistan's energy transition (completing in-progress renewable energy projects and additional hydropower and transmission investments and phasing out coal) alone would require $101 billion by 2030 and an additional $65 billion by 2040. The MoCC, for its part, estimated a total need of $85.6 billion over 2022-30 for adaptation associated with disaster response and recovery. Given limited fiscal space, bringing in the necessary amount of financing will require greater support from bilateral and multilateral financing sources, building out Pakistan's green financing architecture, further progress in creating fiscal space via domestic resource mobilization and reprioritizing public spending (such as via subsidy reform), and attracting private capital.

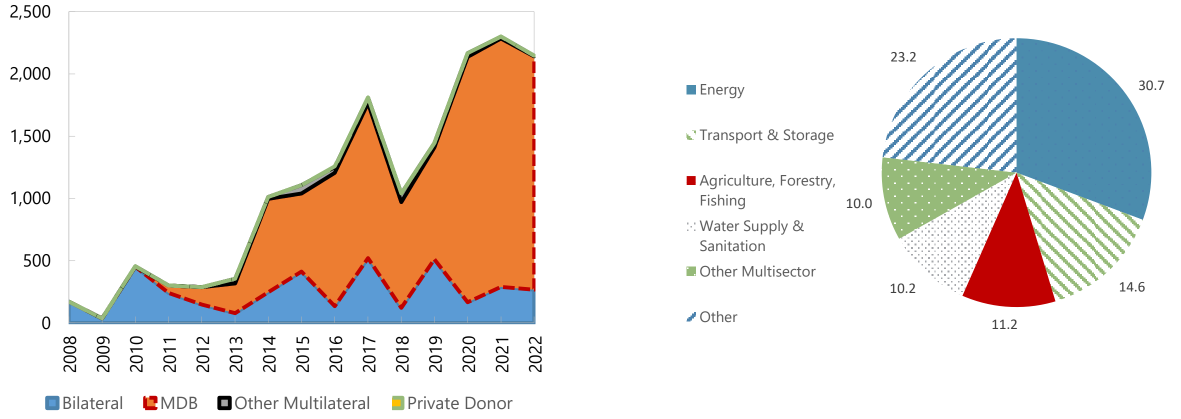
29. External support, including official financing, increased in recent years but remains well below these identified needs. This includes both financing related to Pakistan's overall climate reform agenda and assistance related to disaster recovery following the 2022 floods. OECD data shows total climate financing commitments of nearly $16 billion over 2000-2022, largely via debt (concessional and non-concessional), with about two-thirds of this amount coming from multilateral development banks and about two-thirds also going toward adaptation efforts, largely in the energy, transport and agriculture sectors (Figure 17). Additional multilateral climate financing can also help to catalyze green financing from the private sector, which has been very small.

Figure 17. Pakistan: Climate Financing, 2008-23



a. Financing Commitments by Focus Area
(Millions of US dollars)

b. Financing Commitments by Instrument
(Millions of US dollars)



c. Financing Commitments by Provider
(Millions of US dollars)

d. Largest Sectoral Recipients of Financing Commitments, 2018-22 (share of total)

Sources: OECD and IMF staff calculations.

30. The authorities have actively sought to build up their climate financing framework in recent years. The Security and Exchange Commission of Pakistan (SECP's) published green bond and green sukuk guidelines in 2021, following which the Water and Power Development Authority (WAPDA) issued Pakistan's first green bond, a $500 million 10-year bond to finance hydropower generation, in the same year. Since then, the SECP issued guidelines on green bonds and green sukuks for corporate entities to encourage greater private sector participation. More broadly, the authorities recently established a Climate Finance wing at the MoCC to oversee and coordinate green financing efforts; are working with the World Bank on developing a National Climate Finance Strategy; and plan to submit applications for three national entities to the Board of the Green Climate Fund.

31. The authorities have made progress in incorporating climate considerations into Pakistan's financial sector architecture, although gaps remain. The State Bank of Pakistan (SBP) issued its first green banking guidelines in 2017, focusing on integrating environmental risk into banks' core credit policies; scaling up green finance; and reducing banks' carbon footprints from business operations. It also issued an Environmental and Social Risk Management (ESRM) manual in 2022 to ensure minimum standards under the guidelines and allows banks a three-year window to implement and green guidelines for listed firms in 2023. The guidelines promote the incorporation of climate risks into bank and firm activities and credit risk evaluation processes, although this is voluntary. The SBP's 2023 Financial Stability Review included a climate scenario analysis and plans to develop climate stress-testing guidelines for banks in FY26. The SBP is also currently developing a national green finance taxonomy with the support of the World Bank, focusing both on mitigation and adaptation, which is expected to be in place by mid-2025. Following completion, implementing mandatory disclosure requirements for financial institutions to improve climate-related risks and opportunities information and their availability will be required. In parallel, the SECP has established a digital disclosure platform for ESG for listed companies. The SBP also plans to develop a framework for the acquisition of climate risk-related data.

32. **Broader cross-sectoral fiscal and structural reforms supported by Pakistan's EFF will be an important of Pakistan's efforts to combat climate change.** Further progress on fiscal consolidation (in particular, broadening Pakistan's overly narrow tax base) and fiscal structural reforms (including climate-related and conventional public investment efficiency) will be critical to achieving greater fiscal space. Such adjustment will also free up bank balance sheets, allowing for more private sector lending, including green lending, which should be aided by the architecture being developed (¶31). In parallel, cross-sectoral structural reforms to address underlying impediments to macroeconomic stability and inclusive growth will also help support climate adaptation efforts. This includes efforts to raise productivity and competitiveness by expanding and improving social protection, health, and education spending; shoring up financial sector stability and achieving energy sector viability; and reforming the business environment, reducing the footprint of the state, and improving public service provision. This will help to establish the enabling environment needed for greater private sector participation and investment in climate efforts.

G. RSF Strategy

33. **Pakistan's authorities have requested support under the Resilience and Sustainability Facility (RSF) arrangement to help advance their efforts to address climate change risks, strengthen their climate agenda, and catalyze additional climate financing.** Previous diagnostic analyses conducted by the Fund, World Bank, and ADB—including the 2023 C-PIMA report, Selected Issues Papers (SIPs) under the 2021 and 2024 Article IV consultations, the World Bank's 2022 Country Climate and Development Report, and the ADB's 2024 CDREP—identified Pakistan's vulnerability to climate change, efforts taken by the authorities, policy gaps, and remaining challenges. The RSF will help to build Pakistan's resilience to future climate shocks and mitigate the existing negative effects of climate change while catalyzing donor support and helping to build an environment for additional private sector support.

34. **Reforms under the RSF will address identified gaps in the authorities' climate policy agenda to help them meet their ambitious climate goals**. Reform measures (RMs) will target gaps in areas identified by the above diagnostics, covering both mitigation and adaptation needs, and will complement existing reform efforts, including those being supported by development partners, and the EFF by facilitating efforts that require either additional technical support or strong additional

effort given past setbacks to achieve meaningful progress. RMs will focus on the following reform objectives:

- *Mainstreaming climate issues in budget and investment planning.* Three proposed RMs will seek to fill remaining gaps in the C-PIMA Action Plan by supporting greater climate-sensitivity in the project selection and assessment processes and the provincial rollout of green budget tagging.

- *Improving water system resilience and disaster response financing.* A proposed RM will support the digitization of irrigation service charges among the provinces, while another RM will introduce a water tariff adjustment mechanism in Punjab and Sindh, to increase water revenue collections, enhance cost recovery, and boost the capacity of the sector to make efficiency-enhancing investments (¶4). A third RM will support the strengthening of federal-provincial DRF coordination.

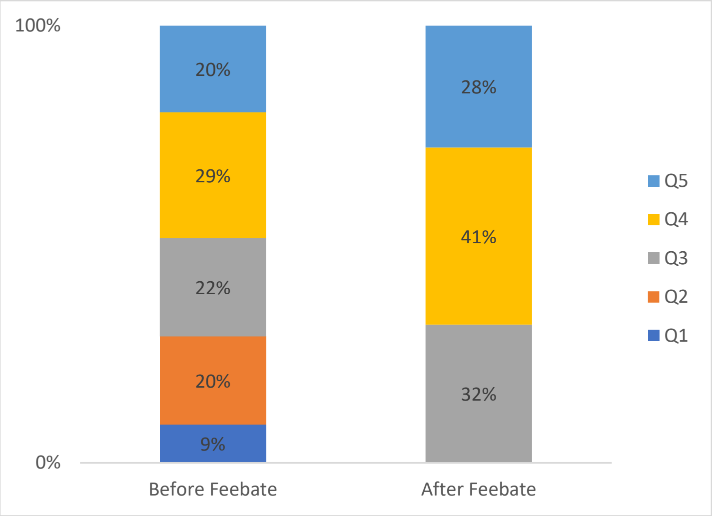
- *Strengthen the climate information architecture.* RMs will support climate architecture development via issuance of guidelines for the implementation of climate-related financial risk management and supervision for the banking sector and guidelines to enable listed companies to disclose climate-related risk, which will incentivize their mitigation and investment decisions.

- *Promoting green mobility and transport decarbonization.* Proposed RMs will seek to move the authorities' EV agenda forward via (1) an additional carbon levy on the use of liquid fuels based on their carbon content, incorporating more carbon-intensive fuels not previously subject to levies; (2) a budgeted subsidy for adoption of EVs, particularly favoring two- and three-wheelers, and thus lower-income drivers (and which comprise about 80 percent of all registered vehicles in Pakistan (Pakistan Economic Survey 2022-23)), paired (in a revenue-neutral fashion) with a supplementary tax on ICE vehicles; and (3) a PPP-viability gap financing framework to promote the development of Pakistan's charging station infrastructure.

- *Aligning energy sector reforms with national mitigation commitments.* Proposed energy-centric RMs will seek to boost supply- and demand-side efficiencies in line with Pakistan's international mitigation commitments and national goals; reduce CD pressures and subsidy bills; and improve targeting of energy price support so it is aligned with need. This will entail unwinding the

Figure 18. Pakistan: Distribution of Consumers Facing Price Increase Under Subsidy Reform

(share of total)



Sources: World Bank.

Note: Following subsidy removal, all consumers will pay the national average tariff, which will mean an increase in price for consumers previously in protected slabs (including higher-income consumers). Q1 and Q2 consumers will be protected from this increase via feebate.

cross-subsidized tariff structure and replacing the existing tariff differential subsidy with transfers run through BISP and targeted at qualifying lower-income families. World Bank analysis suggests that such a scheme would protect all consumers in the two lowest quintile income groups from the price increase that would then apply to most higher-income residential consumers (Figure 18). It will also cover enhanced efficiency standards for new consumer appliances and public procurement practices.

H. Collaboration With Development Partners

35. Current and ongoing work with development partners covers a broad range of the authorities' climate agenda, including several areas identified as key priorities by World Bank and Fund diagnostics:

- *Public financial management:* The ADB's recently approved Climate and Disaster Resilience Enhancement Program (CDREP) includes a strong focus on building climate considerations into Pakistan's PFM/PIM framework, drawing explicitly from the C-PIMA Action Plan (¶22). This includes a number of steps to incorporate climate into the Planning Commission's project selection and appraisal manuals, guidelines, and processes. The FCDO is also providing assistance in building up federal line ministries' budget tagging capacities. In parallel, the ADB's PPP program is supporting the adoption and implementation of guidelines for resilient infrastructure PPPs.

- *Disaster risk management:* The ADB CDREP also has a strong DRM component, focusing on building up the NDMA's coordination role, improving DRM systems and databases, and linking federal and provincial disaster response mechanisms (¶21). The World Bank's ongoing projects in this area are focused on flood reconstruction and emergency housing, largely at the provincial level.

- *Climate finance:* The ADB's CDREP's third core area focuses on building up Pakistan's disaster risk financing framework (¶30), including the scaling up of DRF instruments and the implementation of a DRF strategy and monitoring system, seeking to mobilize at least PRs 200 billion of risk-informed DRF at the federal level and to facilitate disaster-responsive cash transfers through BISP. In parallel, the World Bank has supported the authorities in establishing their National Climate Finance Strategy (NCFS) and, with the IFC, is providing support in developing climate-related financing instruments.

- *Greening the financial sector:* The World Bank has been engaged with the SBP on climate scenario analyses and, currently, the development of a national green finance taxonomy, anticipated to be completed in June 2025 (¶31); developing a stress testing framework for the assessment of climate risk; and a project to address climate-related risks faced by microfinance institutions. The SBP is also engaged with the Alliance for Financial Inclusion to improve climate-smart agriculture financing.

36. Increased climate resilience and cleaner energy and better air quality make up two of the six key goals of the World Bank's new FY26-35 Country Partnership Framework (CPF),

which should help to move the climate agenda forward. The CPF anticipates potential new engagements in the following areas in the coming 24 months (World Bank 2025), which would complement ongoing work discussed above as well as proposed reform measures under an RSF (¶34):

- *Increased resilience to climate change.* Upcoming new engagements would potentially focus on strengthening agriculture and markets in Punjab; flood resilience in Balochistan; Sindh emergency housing reconstruction and expansion of flood-resilient infrastructure; and IFC investments in and/or advice on ag-tech and agri-value chains and climate-resilient urban and industrial infrastructure.

- *Cleaner energy and better air quality.* Upcoming new engagements would potentially focus on the expansion of power distribution efficiency; improving power transmission; clean air and clean cities programs (with the latter focusing on waste management); IFC investment in and advice on power transmission and distribution; investments in decarbonization across sectors; and engagement in networked geothermal heating and cooling.

37. The RSF, which will target some of the gaps not covered by development partners above, will benefit from the technical support of development partners in key areas:

- *Irrigation water pricing (RM4, 5).* World Bank staff have previously provided support on the implementation of the digital water tariff (e-Abiana) scheme in Punjab. The Bank will support Fund staff in the design and adoption of e-Abiana across Pakistan's other three province (RM9) and the institutionalization of water tariff adjustments in Punjab and Sindh (RM10).

- *Energy subsidy reform (RM12).* The World Bank is engaging with the Power ministry and BISP to develop (1) a method to identify electricity consumers by income rather than consumption level and (2) a transfer mechanism that could replace the current energy subsidy frameworks. It anticipates continuing its advisory role and, as such, will serve as a close partner of the Fund in support of RM12.

- *Energy efficiency standards (RM13).* The World Bank's previously prepared energy efficiency project forms the analytical and policy underpinnings for RM13. Staff anticipate, in turn, working closely with relevant Bank staff on its implementation and monitoring.

Other actions under the RSF—including promoting green mobility, strengthening climate-related budget and investment planning, DRF strengthening, and creating a climate information architecture—are not covered by existing partner efforts. However, Fund staff will remain in close coordination with development partners in these areas, are they are generally addressing gaps in existing World Bank (climate information architecture) and ADB (PIM/PFM, DRF) programs that cover similar areas.

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Annex III. An Application of the DIGNAD Model to Pakistan

1. **The Dynamic Investment Growth and Natural Disasters (DIGNAD) model can be applied to offer perspectives on policy choices aimed at building resilience to such climate shocks.** Pakistan's climate vulnerabilities and its 2022 flood experience highlight its large climate adaptation infrastructure needs. However, such investment is generally more expensive and entails choices about greater up-front spending and greater resilience to future climate shocks in the context of very limited fiscal space. The DIGNAD model is a dynamic general equilibrium model that can analyze the impact of public investment on growth and debt under various climate shock scenarios. Applied here, it takes into account damage to public and private capital, productivity, public investment efficiency, and debt sustainability; and considers the impact of ex-ante policies, such as adaptive infrastructure investment and improved public investment efficiency, in buffering climate shocks.

2. **The model is calibrated to Pakistan's economy.** The steady state is calibrated to historical averages, excluding FY2020 (COVID-19) and FY2022 (the flood). As such, public infrastructure investment is set at 3 percent of GDP per year and the public investment efficiency gap is set at 62 percent, in line with the FAD corruption database value (IMF 2021). The model applies, after a five-year period of growth and investment, a shock of 5 percent of GDP, broadly in line with that of the 2022 floods, and assumes a five-year recovery process.

3. **Based on this, the model looks at three illustrative scenarios (see results in Figure 1):**

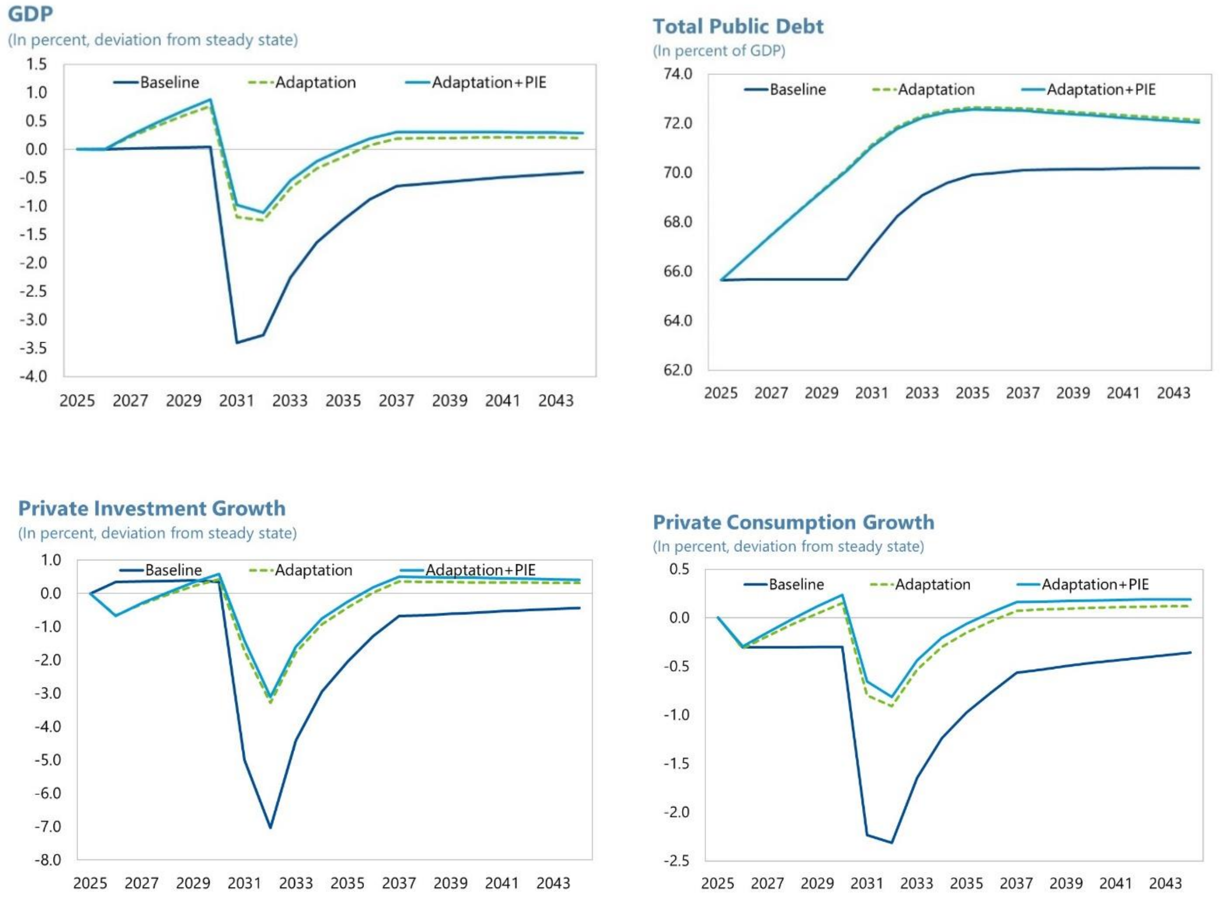
- **Baseline (status quo):** The baseline assumes that public investment remains at its steady state level and no adaptative infrastructure investments are made. A climate shock in year six leads to large declines in GDP, private consumption, and private investment. Large reconstruction spending needs lead to a large and sustained increase in public investment. GDP remains below its steady state 13 years after the shock. The debt-to-GDP ratio increases sharply (by about 4.5 percentage points of GDP to 70 percent) following the shock and remains at that level in the long term.

- **Adaptation:** This scenario assumes that conventional public investment remains at its steady state level while an additional 1 percent of GDP per year is invested in adaptation infrastructure. About 40 percent of this additional investment is financed via concessional debt, with most of the balance financed by domestic debt, in line with Pakistan's current debt structure. Given the larger levels of investment in this scenario, and the higher return on adaptation investment (relative to conventional investment, in line with Marto and others 2018), the negative deviations of GDP, private consumption, and private investment from the steady state following the shock are between about one third and one half of that in the baseline scenario, and Pakistan's GDP returns to its steady state 5 years after the shock. Given the additional five years of ex-ante investment, debt-to-GDP steadily rises before the shock and then increases to a greater degree following the shock, settling about 2 percentage points of GDP higher in the long term than under the baseline scenario.

- **Adaptation + efficiency improvements.** This scenario assumes the same adaptation investment and debt financing as the previous scenario but also assumes an improvement in Pakistan's public investment efficiency score to the global average (IMF 2021). The downturn is, in turn, moderately shallower and GDP returns to its steady state four years after the shock. The long-term debt path is broadly in line with that of the previous scenario.

4. The DIGNAD results illustrate how adaptation infrastructure investment would increase Pakistan's climate resilience and buffer climate shocks. Ex-ante adaptation investments would reduce the growth impact of a natural disaster shock by about half and return Pakistan to its previous GDP level more quickly. Enhancements in public investment efficiency in line with the PIMA and C-PIMA Action Plans would further improve such resilience, particularly in the immediate aftermath of the shock. The additional investment needed to bolster resilience would lead to moderately higher debt levels. A scenario in which fiscal instruments—consumption and income taxes—responded to such a shock would put public debt on a downward path following recovery, although such a policy may not be feasible or desirable in the face of a large natural disaster. As such, further progress on fiscal consolidation and fiscal structural reforms are critical to maintaining the fiscal space that would be necessary to weather such a shock.

Figure 1. Pakistan: DIGNAD Simulation Results



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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 24, 2025

Dear Ms. Georgieva:

1. Our economic program, supported by the Extended Arrangement under the Extended Fund Facility (EFF), has got off to a good start and significant progress has been made in restoring macroeconomic stability and rebuilding confidence despite a challenging global environment. In particular, economic growth has started to resume, inflation is at historic lows, sovereign spreads have moderated significantly, external balances have improved, and foreign buffers have almost tripled.

2. These achievements have been the result of our renewed policy efforts, including strong performance under the EFF program. We met all end-December 2024 Quantitative Performance Criteria (QPCs), reflecting our enduring efforts on the fiscal and external fronts. Notably, we surpassed the floor on net international reserves by a wide margin (thanks to sizeable FX purchases by the SBP) and met by a significant margin the ceiling on the general government primary budget deficit (owing to prudent budget execution). We have also shown resolve to policy adjustments where needed, meeting the end-December Indicative Target (IT) on the floor on the average time-to-maturity on domestic debt after missing the respective end-September IT. The end-September and end-December ITs on the floor on net tax revenues by the FBR were not met, owing to lower-than-anticipated nominal growth and weaker performance in indirect taxation (including excise duties), and lower than expected revenue yields from the measures introduced in the FY25 Finance Act, however with robust effort we are committed to achieving the agreed tax-to-GDP ratio at end-FY25. Finally, the ITs on the general government health and education spending were not met due to lack of execution capacity in Sindh and KP.

3. Many key items on our structural reform agenda have also progressed well, albeit with some delays. Nine structural benchmarks (SBs) were met on time, including the approval of a National Fiscal Pact with the four provinces and the inflation adjustment of the Kafaalat cash transfers. The adoption of the Agricultural Income Tax is also a major achievement, that will help broaden the tax base and increase the fairness of the tax system, although the relevant SB was implemented with a small delay, owing to the need for extensive federal-provincial coordination. Considering the technical complexities of switching captive power plants (CPPs) to the grid, we were not able to meet the end-January 2025 SB, however we have introduced forceful price-based incentives that will engender a shift of CPPs to the grid in line with our earlier commitments. The SB on the recapitalization of two private sector banks was missed, but prospects remain favorable to achieve the objective within the next few months. Finally, the SB concerning amendments to the Sovereign

Wealth Fund (SWF) Act was missed due to the need for extensive consultations on technical aspects of the reform package, and progress towards meeting the substance of this commitment is underway. All three continuous SBs were also met.

4. Given challenges from an increasingly uncertain external environment and lingering vulnerabilities and structural rigidities of our economy, we are firmly committed to continuing with sound and prudent macroeconomic policies and structural and institutional reforms to place Pakistan on a path toward long-term sustainable and inclusive growth that will help raise living standards for all Pakistani citizens. Specifically, in the months ahead our policies will be guided by the following:

- Prudent execution of the FY25 budget will continue and the FY26 budget, to be formulated in close consultation with the Fund, will serve as our fiscal anchor with an underlying primary surplus of 1.6 percent of GDP. Efforts will also continue as planned to raise revenue-to-GDP, broaden the revenue base, and improve tax compliance.

- Monetary policy will remain appropriately tight, with due consideration to lagged pass-through from past rate cuts, to ensure that inflation durably stays within the target rate, while the exchange rate will be allowed to adjust freely to buffer external pressures.

- Cost-reducing reforms in the energy sector will be accelerated to help restore the sector's viability; energy tariff adjustments will be promptly implemented to minimize fiscal risks.
- Efforts will redouble to fully implement our State-Owned Enterprise (SOE) governance framework across all SOEs, enhance the SWF's governance through key legislative amendments, advancing other governance and anti-corruption reforms, gradually relaxing trade barriers, and adopting policies to build climate resilience.

5. Considering the progress made over the last two years and to support our program going forward, we request approval by the IMF Executive Board for (i) modifications to the end-June 2025 targets for net international reserves and net domestic assets, to lock in our progress in rebuilding reserves and containing monetary aggregates; (ii) modification of the QPC on the floor on the number of new tax returns from new filers, to reflect a narrower perimeter of filers; and (iii) the completion of the first review under the Extended Arrangement and the related purchase in the amount of SDR 760 million. We are confident that our continuing commitment to sound policies will further bolster market confidence and allow for a return to international capital markets within the next 2 years, as well as catalyze additional support from development and bilateral partners. In fact, since approval of the EFF, we have already made significant progress towards realizing the financial commitments of our primary official and bilateral donors.

6. Given Pakistan's significant macroeconomic, fiscal, and development risks stemming from its high exposure to the adverse consequences of climate change—shown most recently during the devastating 2022 floods—we are scaling up our efforts to reduce our vulnerabilities. In this context, we request the support of a 28-month arrangement under the Resilience and Sustainability Facility (RSF) in the amount of SDR 1,000 million (49 percent of quota), with reform implementation

monitored through semi-annual reviews to occur concurrently with EFF reviews. We request that disbursements under the RSF arrangement are provided as budget support, creating fiscal space to address our economic vulnerabilities and increase economic resilience, including by adapting our economy to withstand the impact of climate change. To ensure the appropriate safeguards, we have finalized a Memorandum of Understanding (MoU) between the State Bank of Pakistan and the Ministry of Finance that clarifies the responsibilities for timely servicing of the financial obligations to the IMF under the RSF arrangement.

7. The policies set forth in the attached Memorandum of Economic and Financial Policies will guide the successful implementation of our program. All provinces agree that they will not introduce any policy or action which could be considered to undermine or run against any of the commitments or policies outlined in this letter or the attached MEFP. We will monitor economic developments and performance and will stand ready to take additional measures that may become necessary to achieve our program objectives. We will consult with the IMF before modifying the measures contained in the MEFP or before adopting new measures that deviate from the goals of the program, in accordance with the Fund's policies on such consultations. All provinces agree to consult with the IMF through the federal Ministry of Finance before modifying or adopting any measures that could affect or undercut the program specified here or which deviates from the goals of the program. We will supply the IMF with timely and accurate data as needed for program monitoring. The understandings between us and the IMF regarding performance criteria and structural measures described in this letter are further specified in the attached Technical Memorandum of Understanding. We consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

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

Attachments: Memorandum of Economic and Financial Policies, Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. **During FY25H1 the economy continued to recover, broadly as anticipated, with a somewhat sharper decline in inflation and more subdued growth, while external conditions remained favorable**. Disinflation has proceeded rapidly, with headline CPI reaching 1.54 percent (yoy) in February 2025, and core inflation also declining to 7.8 and 10.4 percent (yoy) in urban and rural areas, respectively. However, economic activity has been somewhat more subdued than anticipated, with GDP growth estimated at 1.3 percent yoy in Q1, and 1.7 percent in Q2. On the external front, gross reserves increased to US$10.7 billion at end-March, as the State Bank of Pakistan (SBP) took advantage of the current account surplus in FY25H1 to undertake substantial FX purchases.

2. **Reflecting recent developments and the agreed policy stance, we see the following baseline macroeconomic scenario**:

- ***Real GDP growth*** is now expected in the range of 2½–3 percent in FY25. Output of major crops disappointed in H1 and industrial activity has remained subdued, but recent high frequency indicators suggest an acceleration in FY25H2 and thereafter. Over the medium-term, the implementation of economic policies geared to entrenching macroeconomic stability, boosting external competitiveness, and improving the private sector business environment will support a gradual growth pickup to 4½ percent, bolstered by increased investment and exports.

- ***Headline CPI inflation*** is expected to pick up toward the upper end of the SBP's 5–7 percent target range by June 2025, due to adverse base effects from food and energy prices in the coming months. However, core inflation is expected to remain contained, with appropriately tight monetary policy supporting a durable return to the target range during FY26.

- ***The current account*** moved into a surplus of US$1.1 billion in FY25H1, a significant improvement from the deficit of US$1.4 billion in FY24H1. This shift reflects strong remittances and resilient exports, although reflecting a strong acceleration in imports the current account has been in deficit in FY25H2. For FY25, the current account deficit is now projected at 0.0 percent of GDP but is expected to increase gradually over the medium term to around 1 percent of GDP by 2030.

3. **Risks to the baseline remain very high**. Amid an increasingly uncertain external environment, geopolitical frictions could adversely impact external stability via higher commodity prices, a tightening in global financial conditions, or greater protectionism in key trading partners. Considering Pakistan's high exposure to natural disasters, weather-related events could further elevate fiscal and external pressures. In view of this, it is critical that policy and structural reforms are implemented consistently, and delays or slippages are avoided as they could jeopardize the nascent economic recovery and the path to debt and external sustainability, and could adversely impact the external financing outlook, including from bilateral partners.

B. Economic Program

Fiscal Policy

4. **We are on track to achieve an underlying primary surplus of at least 1.0 percent of GDP, and are committed to continuing the fiscal consolidation in the FY26 budget**. In FY25H1 the general government's primary surplus reached PR 3,604 billion, exceeding expectations, while the provinces also met their joint primary surplus target through FY25H1. General government overperformance was partly attributable to spending restraint in the execution of budgeted grants and development projects (PRs 718 billion observed against PRs 1,130 billion projected) and lower than expected execution of power subsidies. Direct taxes and provincial non-tax and tax revenues (increasing 29 percent and 32 percent yoy, respectively), were stronger-than-expected. However, weak performance of indirect taxation resulting from lower nominal growth as well as ongoing challenges in taxing undertaxed sectors (¶5.d) and the continued expansion of the informal tobacco market undermined our revenue mobilization effort. Overall, despite increasing 26 percent (yoy), Federal Board of Revenue (FBR) revenue underperformed relative to program projections. Looking ahead, we remain resolute in our commitment to continue our fiscal consolidation efforts to ensure debt sustainability, and will prepare the FY26 budget, in close consultation with the Fund, budgeting a primary surplus of at least 1.6 percent of GDP (**new end-June 2025 SB**).

5. **We recognize the need for consistent implementation of strong policies, especially to raise tax-to-GDP, creating space for much-needed social and development spending**. In particular, we will aim at the following:

a. ***Revenue.*** We will intensify our ongoing efforts to broaden the tax base and meet the primary FY25 surplus target. To this end, we will continue our efforts to resolve pending litigation cases in courts, with most of these cases expected to be settled by April and May 2025. This should help ensure revenue-to-GDP reaches at least 12.3 percent of GDP in FY25 (including FBR revenue of 10.6 percent of GDP). We will diligently monitor key revenue streams, including income tax (encompassing advance payments and withholding taxes), sales tax, and the Federal Excise Duty (FED), the expansion of the taxpayer base, along with the resolution of pending litigation cases, ensuring that the IMF team receives timely monthly data on agreed-upon performance indicators. Should FBR revenue fall short of expectations by the end of the month from March to April, and if other tax revenues are insufficient to bridge the gap, we are committed to implementing proportional expenditure adjustments. Furthermore, given the uncertainty surrounding PRs 87 billion in the ongoing litigation cases, which are anticipated to be resolved in May and June, we will withhold an equivalent amount from the PSDP allocations until these cases are resolved in court.

b. ***Expenditure.*** In the remaining FY25, we commit to: (i) refrain from granting any further increases in salaries and pensions beyond those approved in FY25H1, ensuring these items will remain within their FY25 appropriated limits; and while safeguarding the generosity level of the BISP unconditional cash transfer (UCT) Kafaalat program consistent with the allocation outlined in the FY25 budget (¶8), create fiscal space by (ii) savings on energy subsidies over what is needed to meet the CD target; (iii) expediting prioritization and rationalization of the PSDP based on recommendations from the review conducted in FY25H1; and (iv) delaying non-priority PSDP expenditure to maintain budget discipline and ensure fiscal targets remain on track, considering updated growth and inflation projections.

c. ***Prudent use of the SBP dividends windfall.*** We have used the windfall from SBP dividends received in September 2025 to reduce our borrowing need and retire debt and lower our gross financing requirements (¶7.j). Going forward, we remain committed to utilizing any windfall from SBP dividends exceeding 1.0 percent of GDP in this manner, allowing us to mitigate the crowding out of the internal market and fostering a more balanced and sustainable economic environment.

d. ***Enhancing revenue administration and compliance.*** We will continue to enhance tax compliance by leveraging the CRM system to identify high-risk taxpayers (including in the retail, real estate, and corporate sectors), augmenting the number of auditors to bolster enforcement and reduce tax evasion, and maintaining targeted mass nudging/notification strategies. Additionally, we will expand the participation of retailers in the integrated Point-of-Sale (POS) system and will closely monitor import declarations—particularly from importers exhibiting irregular patterns—and sustaining our anti-smuggling initiatives to facilitate revenue mobilization. To combat tax evasion in the informal tobacco market, we will (i) conduct thorough audits of acetate tow imports misclassified under incorrect HS codes; (ii) mandate the utilization of bonded warehouses for these imports; (iii) restrict acetate tow imports to registered tobacco and filter-producing companies; and (iv) prohibit transit imports of acetate tow to Afghanistan. To further enhance revenue administration and improve the efficiency of our track-and-trace system, we will continue with the implementation of the system to monitor production and escalate anti-smuggling campaigns and reinforce checkpoint operations, particularly in the northwestern regions.

e. ***Provincial tax reforms***. In a landmark step toward strengthening tax equity and broadening the tax base, the four provinces have amended their Agriculture Income Tax (AIT) regimes to fully align them with the federal personal income tax regime for small farmers and the corporate income tax regime for commercial agriculture (**end-October 2024 SB**). The new tax regimes apply on income from January 1, 2025, with the tax liability for the second half of FY25 collected in September 2025. In collaboration with the World Bank and the IMF, provinces are developing comprehensive implementation plans to ensure effective enforcement of the new legal framework (**new end-June 2025 SB**), including measures to develop a strong approach to compliance (and identify under-reported income) and launch targeted communication campaigns. Provinces have also made notable progress transitioning the GST on services from a positive to a negative list approach, which will take effect at the start of FY26. While the negative list is not harmonized across provinces due to regional differences, bilateral agreements, and prior commitments of provincial governments, it includes, primarily services covering essential sectors such as health and education, as well as government provided services. Additionally, provincial authorities are working to develop a harmonized property taxation framework, to commence in FY26, by transitioning from rent-based valuation to a capital valuation framework. Provincial efforts will be discussed at the upcoming National Tax Council (NTC) meeting, scheduled for early April 2025.

f. ***Improving information***. We will continue to enhance our collaboration with the provincial revenue authorities to establish a more efficient and streamlined information-sharing process with the FBR. Our commitment is particularly focused on the timely exchange of data, including Agriculture Income Tax (AIT) reported in income tax filings submitted to the FBR, alongside information related to claims for goods and services GST credits claims.

6. To ringfence our fiscal program, we reiterate going forward: (i) our commitment not to allow supplementary grants for any additional unbudgeted spending over the parliamentary approved level, except in cases of severe natural disasters. Furthermore, we commit to seek ex-ante approval from the National Assembly for any expenditures exceeding the budget appropriation (**continuous SB**); (ii) our commitment not to launch any new tax amnesties or to issue any new preferential tax treatment (including exemptions, zero rating, tax credits, accelerated depreciation allowances, or special rate), including through the budget or Statutory Regulatory Orders (SRO) (**continuous SB**); (iii) our continuing focus on critically urgent energy sector policies, outlined below; and (iv) our commitment not to introduce any fuel subsidy, or cross-subsidy scheme.

7. We will also continue our structural fiscal reform efforts, especially:

a. ***Tax Policy reforms aimed at simplifying collection and broadening the tax base***. In our commitment to strengthen the tax policy-making process, we will launch a pilot initiative, to subject all tax policy proposals for the FY26 budget to a cost-benefit analysis. Recognizing the current lack of standardization in this process, we will develop a comprehensive framework for standardized ex-ante and ex-post evaluations of tax policy measures, thereby ensuring consistency and facilitating evidence-based policymaking. We also aim to tackle the complexity of our tax system, particularly within the income tax framework, which presents compliance challenges for taxpayers by developing a simplified tax return and plan to redesign the simplified tax regimes for micro and small enterprises. Additionally, we will conduct a comprehensive review of tax expenditures to phase out those that are not cost-effective starting July 1, 2025. Nonetheless, navigating federal and provincial tax regulations remains a challenge for many taxpayers, and we will engage with various stakeholders, including the IMF, to explore the feasibility of a comprehensive rewrite to simplify the tax code. Furthermore, our new TPO will expand our tax expenditure assessment capacity to encompass both their costs and benefits of tax expenditures.

b. ***Revenue administration reforms aimed to collect taxes broadly and fairly***. We have successfully established compliance risk management measures in the Large Taxpayers Offices (LTO) in Islamabad, Karachi, and Lahore as of December 2024 (**end-December 2024 SB**). The systems developed adhere to international best practices, and we are committed to utilizing these systems across all sectors to maximize their effectiveness. Furthermore, we will continue to strengthen our compliance efforts with the ultimate goal of implementing an automated CRM system. As an initial step, we have integrated all FBR internal data. We are now focusing on data cleaning and quality control to incorporate in the near future information shared by the 145 agencies under the Memoranda of Understanding (MOUs) signed under the documentation law. We continued our implementation of the Compliance Improvement Plan and remain committed to bringing more taxpayers (including retailers) into the tax net through these efforts.

c. ***Tax Policy Office (TPO)***. The establishment of the Tax Policy Office (TPO) within the Ministry of Finance in September 2024 represents a significant advancement in our tax policy framework. We have initiated the staffing process with the FBR, supported by the World Bank, leading analytical functions, including budget preparation assessments, during the transition period. To this end, the World Bank is financing seven experts who are providing support to evaluate tax proposals for the next budget. Furthermore, we will take necessary actions to finalize data-sharing arrangements between the FBR and the TPO and, recognizing the importance of clear coordination between the TPO and the FBR's International Centre of Tax Excellence (ICTE), we will establish a collaboration framework that reduces competition between these two bodies. Furthermore, with the support of the IMF, we will develop short- and medium-term work plans for the TPO by end-July 2025, covering staffing requirements, stakeholder engagement, and operation of the TPO Advisory Board.

d. ***National Fiscal Pact***. The National Fiscal Pact, signed by the federal government and the provinces at the end of September 2024 (**end-September 2024 SB**), marks a significant milestone in enhancing our fiscal framework. This agreement formalizes the devolution of specific spending responsibilities from the federal government to provincial governments, in alignment with the spending allocations established in the 18th Constitutional Amendment. It involves the devolution of expenditures in sectors such as higher education, health, social protection, and regional public infrastructure investment to the provinces. In tandem, the provinces have committed to improving their tax collection efforts, particularly focusing on the sales tax on services, property tax, and agricultural income tax (AIT). The implementation of the National Fiscal Pact is already underway, highlighted by the passage of new AIT laws. Looking ahead, we aim to further advance the devolution process in FY26 such that from the FY26 budget onwards, all new PSDP projects that only impact one province will be entirely covered by the provincial budget.

e. ***Use of provincial budget cash surplus***. Effective management of provincial budget surpluses is vital for Pakistan's fiscal sustainability. To maximize returns and reduce inefficiencies, in close consultation with the Fund, we will establish a framework for provinces to invest in government securities. Provinces will submit non-competitive bids at auction-determined prices and disclose intended bid amounts in advance, ensuring transparency and market stability. Any allocation of cash surpluses to other instruments, will be treated as expenditure.

f. ***Progress on the privatization agenda***. We renewed our efforts to privatize PIA and anticipate completion of the transaction by August 2025; have made significant progress with the privatization of First Women's Bank and HBFC (and aim to have completed both transactions by May 2025). A financial advisor has been hired for the privatization of three Batch I DISCOs (IESCO, FESCO, GEPCO) and sell side due diligence is currently underway, with bidding targeted for December 2025. Additionally, we are now targeting a third bank, ZTBL, for privatization by the end of this year; and aim to initiate the process for hiring a financial advisor for the privatization of Batch II DISCOs (HESCO, SEPCO, PESCO) by end-April 2025. We are also moving forward with GENCO privatization, with bidding for Nandipur targeted for January 2026. We are nearing a final decision on the transaction structure for the Roosevelt Hotel. We will continue to prioritize the privatization of commercial SOEs, with the highest priority on profitable commercial SOEs and supported by the completion of SOE privatization classification, to reduce the government's commercial footprint and attract investments that can contribute to Pakistan's development.

g. Enhancing public financial management (PFM) to improve fiscal transparency and effectiveness.

i. *Improve budget practices*. To strengthen fiscal discipline and enhance budget credibility, we will incorporate additional clarification notes in the monthly fiscal operation reports, comparing actual outcomes with projections. Additionally, we will improve the mid-year and year-end budget execution reports by providing a more detailed analysis of the key drivers behind discrepancies, enabling us to refine future projections more effectively. Lastly, to ensure the Minister of Finance has sufficient time to negotiate with line ministers and conduct a comprehensive review of budget allocations, the issuance of the budget circular has been moved forward to January for the FY26 budget preparation process, with a greater emphasis also placed on establishing strategic budget goals.

ii. *Public Investment Management*. As we continue to implement the recommendations from the PIMA and C-PIMA, we have completed a thorough review of all investment projects within the Public Sector Development Program (PSDP) and produced a comprehensive report detailing the outcomes, which we will share with the Fund in the first week of April 2025. This review has allowed significant streamlining of the PSDP pipeline by identifying 152 projects for expenditure capping. These projects will not receive any additional funding beyond what has been allocated in FY25 and will be removed from the PSDP pipeline starting in FY26. Furthermore, 175 priority projects are planned for completion in FY25. To further enhance our project selection framework, we have consistent with PIMA recommendations developed a scorecard-based system that clearly outlines the criteria for project selection, the weighting assigned to each criterion, and the methodology for calculating sectoral project scores (**end-January 2025 SB**). Going forward, we will work to further enhancing the scorecard and will: (i) streamline the criteria to eliminate overlap and prevent double counting; (ii) introduce pass/fail criteria for certain dimensions; (iii) provide explicit guidance on scoring; (iv) allow negative marking for impacts such as risks or for projects that contradict policy objectives; (v) increase the focus on climate considerations by assigning a higher weighting and distinguishing between environmental impacts, climate mitigation, and climate adaptation; ensure appropriate treatment of project financing in the project selection process; and (vi) clarify the interaction between sectoral ranking and cross-sectoral scoring. We will continue to engage with the IMF throughout this process. We remain committed to strengthening the governance and risk management frameworks for Public-Private Partnerships (PPPs), subjecting PPPs to the same rigorous selection criteria applied to projects funded through other sources.

iii. *Cash Management*. We continue to take steps to improve our practices for management of cash flows and balances. We will continue expanding the coverage of the sweeping arrangements to encompass all bank accounts, covering all current accounts and then savings accounts.

h. ***Spending transparency***. We will ensure transparency in all public procurement at the federal and provincial levels through the electronic Pakistan Acquisition and Disposal System (e-PADS), established with World Bank support. The Pakistan Public Procurement Regulatory Authority (PPRA) are expanding the e-PADS to federal agencies and provincial governments. As of end-February 2025, total of 623 procuring agencies belonging to 51 federal ministries and departments/organizations are already integrated into the system. In line with the National Fiscal Pacts, two provinces are continuing to ramp up their usage of the e-PADS; with another province already piloting their use in 2025 and the fourth province reviewing their current system for integration with e-PADS. As of the current fiscal year, out of the 32,359 planned procurement contracts (amounting to PRs 821.13 billion) at the federal level in the e-PADS, 21,339 contracts (amounting to PRs 74.5 billion) have been completed. PPRA continues to report quarterly on public procurement made through the e-PADS (see Table 2 of the TMU). Suppliers are required to disclose beneficial ownership information upon registration with the e-PADS, which is then verified with the databases of the National Database and Registration Authority, Federal Board of Revenue and Securities and Exchange Commission of Pakistan. The PPRA also makes publicly accessible information on the beneficial owners of suppliers of awarded procurement contracts above PRs 50 million on their website. PPRA continues to support procuring agencies as well as suppliers with trainings to increase familiarity and usage of the e-PADS. In December 2024 and February 2025, PPRA entered into separate memoranda of understanding with the Competition Commission and National Accountability Bureau, respectively, to facilitate exchange of information and cooperation on data in the e-PADS to further promote competition, transparency and accountability. The Auditor General of Pakistan will conduct an external audit of the e-PADS to be initiated this year, and the final report completed by Q1 2026.

i. ***Fiscal risks***. Comprehensive recording of fiscal risks as well as operational safeguards to limit such risks are of paramount importance for fiscal sustainability, and we remain committed to the prudent issuance on government guarantees, including guarantees for SOE’s commodity operations, through the Ministry of Finance. Considering that PPPs may play an enhanced role to mobilize private capital for medium-term development, we acknowledge that adequately recording PPP-related risks and contingent liabilities, including those at the provincial level, is urgent. Therefore, the Risk Management Unit (RMU) in the Ministry of Finance, in coordination with provincial RMUs, DMO, and other relevant agencies will, supported by the ADB, introduce a risk monitoring framework for quantifying contingent liabilities related to PPPs and publish first estimates by end-December 2025. More generally, we will not offer any new fiscal incentive or guaranteed returns (in any currency) to firms or any investment project.

j. ***Debt management***. We continue to closely monitor the debt vulnerabilities stemming from the elevated gross financing needs and a significant sovereign-bank nexus. The buy-back auctions conducted in September-October 2024 helped mitigate the refinancing risks concentrated at end-2024. Building on progress with program implementation and the improving market sentiment, we were able to lengthen domestic debt maturities, meeting the end-December IT on the average time to maturity (ATM) of the local currency domestic debt stock. Our updated medium-term debt management strategy, to be published before the start of FY26, will prioritize achieving a portfolio composition that carefully considers the costs and risks associated. By end-September 2025, the Ministry of Finance and SBP will prepare and publish a strategy to mitigate refinancing risks arising from the PRs 5.2 trillion Pakistan Investment Bond held by the SBP (maturing in June 2029). We will continue to improve our practices on debt transparency, providing better guidance to market participants and ex-post analysis on implementation of issuance plans. Further development of the domestic government securities market and diversification of the investor base also remains a priority. To achieve this, by end-FY26 we will undertake a comprehensive study to evaluate the stages of development of the key pillars within the market environment. Finally, we are proceeding with a comprehensive assessment of the Central Directorate for National Savings (CDNS), due by end-FY25, which will provide actionable recommendations to ensure that CDNS operations are consistent with our debt management objectives and our overall financial market development strategy.

Poverty Reduction and Social Protection

8. **We are working to improve the generosity, coverage, and capacity of Benazir Income Support (BISP) programs amid necessary fiscal consolidation**. Our FY26 budget will include a PRs 716 billion (0.5 percent of GDP) BISP allocation, a 20 percent nominal increase relative to FY25. This includes an increase in unconditional cash transfer (UCT) Kafaalat program benefits to adjust for anticipated annual inflation in 2025 (**new end-January 2026 SB**), allowing an increase in the quarterly benefit from PRs 13,500 to PRs 14,500 beginning in January 2026. It will also allow us to maintain the total number of enrolled households at 10 million. Going forward, we commit to (i) continued annual inflation adjustments for UCT benefits to ensure that the most vulnerable households' purchasing power remains, at a minimum, constant in real terms; and (ii) readjust UCT benefits upon the release of any new household surveys to continue transfers equivalent to 15 percent of the bottom quintile's consumption once this threshold is reached. We are working closely with the World Bank to enhance our education and health and nutrition conditional cash transfer (CCT) programs, and with provinces to avoid overlap of BISP and provincial CCT programs; the FY26 budget will keep spending on these programs' constant as a share of GDP.

9. **We are also working closely with the World Bank to refine BISP administrative systems**. We commit to keeping the NSER live and covering all of Pakistan's poor; keeping BISP enrollment open; and administering the regular re-declaration of BISP beneficiaries' status on the intended three-year cycle. We are continuing to gradually expand our new electronic payment model, which will allow greater choice for beneficiaries. We will have bank accounts, which will enable beneficiaries to build saving, in place in pilot districts by FY26Q1. We are continuing our efforts to enroll interested UCT Kafaalat families into the two CCT programs: We have already exceeded our FY25 education CCT enrollment target of 10.4 million by 400,000; and are on track to achieve our nutrition CCT target of 2.1 million. We have also opened our enrollment data base for other province to use, which will allow for BISP and provincial social protection programs to target beneficiaries in a consistent manner; to this end, we recently signed an MoU with Punjab.

10. **We also commit to rebuilding non-BISP health and education spending at the federal and provincial level**. We recognize the decline in non-BISP federal and provincial spending on health and education programs in recent years and commit to gradually rebuilding this as a share of GDP over the course of our program. We missed health and education targets in FY25H1, largely due to execution constraints in Sindh and KP, but will endeavor to fully executing the budgeted PRs 2,882 billion (2.4 percent of GDP) by end-FY25. The FY26 budget will include a similar level of health and education spending as a share of GDP, equivalent to PRs 3,156 billion.

Monetary, Exchange Rate, and Financial Sector Policies

11. **Preserving price, external, and financial stability is critical to successfully navigate Pakistan's medium-term development path**. We reiterate our commitment to pursue strong policies and strengthen our institutional and policy frameworks to anchor inflation within our medium-term target range of 5-7 percent, maintain a fully functioning foreign exchange market based on a flexible exchange rate to rebuild our FX reserves and buffer shocks, and enhance financial sector policies to foster a financial system that can support private sector growth and provide risk sharing opportunities.

12. **Monetary policy will remain appropriately tight and data dependent as inflation rebounds from its current low levels in coming months, while we will continue improving our policy framework and strengthen monetary transmission**. We recognize that the anticipated near-term rebound of inflation (likely to reach close to the upper end of our target range), primarily due to base effects from food and energy components, and the elevated level of core inflation will require maintaining our tight monetary stance. This will also provide time to monitor the pass-through of past rate cuts to credit and the broader economy and give reassurance to the public and investors that our firm objective is anchoring inflation within the target range over the medium-term. We also stand ready to increase policy rates if new inflationary pressures emerge or external pressures were to threaten external and financial stability. Given the criticality of ensuring well-anchored inflation expectations to enhance central bank credibility, we have advanced work to align our inflation expectations surveys with best practice and expect the new survey to be launched and published by end-June 2025. To help the public better understand our monetary policy reaction

function, we will continue strengthening our communication around policy decisions, including via the issuance of a dedicated monetary policy report.

13. **We strive to foster a more efficient allocation of credit and strengthen monetary transmission** while, consistent with SBP's mandate, refraining from involvement, or influence in, decisions allocating credit. We reiterate our commitment to refrain from sectoral disbursement targets and instead accelerate work to remove barriers to credit in the respective sectors (¶17). Concerning the Export Finance Scheme (EFS) operated by Exim Bank (E-EFS) we have assessed options for improved targeting of the scheme and from July 1, 2025, onwards will implement an action plan, setting ambitious goals for the E-EFS to support non-traditional exports and new markets, aiming to move beyond traditional beneficiaries of the schemes. In relation to the legacy EFS, for which subsidized refinancing is made available by SBP, we will accelerate the phase out, rolling off the final 40 percent of the initial (June 2022) EFS portfolio envelope during FY27, such that all EFS refinancing via SBP will cease by end-June 2027. Going forward, the envelope for E-EFS will depend on the availability of fiscal space for the on-budget subsidy, and the requisite capacity of Exim Bank to manage operations and associated risks. Finally, the SBP remains fully committed to not introduce any new refinancing schemes during the transition period or thereafter.

14. **Strong risk mitigating measures for SBP's monetary policy operations will reduce inherent counterparty risks**. Following the recommendation from the 2023 Safeguards Assessment, and with support from the Fund, we have revised relevant regulations and methodologies underlying our risk mitigating measures, including enhanced collateral policy and by requiring counterparties to be financially sound, and have issued a corresponding circular on December 26, 2024 (**end-December 2024 SB**). Implementation of the adopted measures is set to begin from July 2, 2025, onwards (**end-September 2025 SB**). We will also refrain from any outright secondary market purchases of government securities or from any further extension of maturities of securities currently held by the SBP.

15. **A properly functioning foreign exchange market based on a flexible exchange rate is a cornerstone of our policy framework and key to better allocating resources and rebuilding buffers**. In this regard, our FX market policy will continue to be guided by the following principles:

a. ***Embracing flexibility***. We reiterate our commitment to maintaining a flexible exchange rate regime, with price discovery in the interbank market where banks are able to act freely without restrictions or preference by SBP.

b. ***Building buffers***. Given that limited reserve buffers are a key constraint to external stability, the SBP will continue its efforts to build stronger FX buffers in line with the program's NIR targets. FX sales will be limited to episodes of disorderly market conditions and not used to prevent a trend depreciation of the rupee driven by fundamentals. In this regard, we commit to limiting net FX sales to banks to at most balancing FX purchases within each quarter and will consult with the Fund if gross sales exceed US$200 million in any rolling 30-day period.

c. ***Improving communication and transparency***. To strengthen accountability and foster market development, we will continue to publish SBP's monthly FX interventions with a three-month lag (started in September 2024), and to announce (semiannually) our six month-ahead gross reserve target and FX debt service of the government over the corresponding period.

d. ***Refraining from restrictions***. Building on our efforts during the SBA to remove distortive import payment restrictions, we will maintain an exchange system free from restrictions on payments and transfers for current international transactions and in accordance with our commitments under Article VIII. Thanks to our data collection efforts concerning such payments, we can report that no payments, having cleared any necessary regulatory processes, are pending execution.

e. ***Upgrading FX market frameworks***. To further strengthen the integrity and efficiency of our FX market framework, in December 2024 we introduced an updated regulatory framework for Exchange Companies, outlining corporate governance structures, setting forth internal controls and IT systems requirements, and strengthening the supervisory and enforcement regime. As part of our market infrastructure agenda, we are also working on an FX swap mechanism for Islamic institutions and a local USD clearing mechanism.

16. **Financial sector stability is a key pillar of our program**. We acknowledge that overcoming the current economic challenges requires public confidence in the soundness of banks and other financial institutions. We are committed to closely monitoring the sector and are prepared to take decisive action to ensure its resilience.

a. ***Upgrading the crisis management framework***. We are progressing in our efforts to strengthen our bank resolution and crisis management frameworks, including the deposit insurance scheme, and align these with international best practice. To that end, the amendments to bank resolution and deposit insurance legislation were signed into law at end-October 2024 (**end-October 2024 SB**). The new "Financial Institutions Resolution Department" established within the SBP in December 2024 will perform the function of resolution of distressed regulated entities. With technical assistance from the World Bank, we are working on developing the necessary toolkit to operationalize the new framework as envisaged in the legal amendments.

b. ***Addressing undercapitalized financial institutions.*** We are implementing the cabinet-approved wind-down plan of the undercapitalized public bank. All customers were requested to withdraw their deposits at the bank by December 2024, and as of January 2025, any remaining deposits were transferred to the National Bank of Pakistan. The legal entity was put into liquidation as of December 17, 2024. Subsequently, the liquidation order has been passed by the court and the banking license has been revoked. We have made significant progress towards ensuring that two undercapitalized private banks remedy their non-compliance with the minimum capital requirements. One of these banks has completed a merger with a larger bank, effective March 11, 2025. The existing shareholders of the second bank have started to execute a multi-step recapitalization plan, including a capital injection, NPL recovery, and asset disposal, which we expect to result in compliance with the nominal Minimum Capital Requirement (MCR) and the prescribed Capital Adequacy Ratio (CAR) at end-April. Given that the plan of the second bank was not in place at end-October 2024 and not of a legally binding character, the end-November 2024 SB was missed. However, the shareholders of the second bank have provided the SBP with an unconditional commitment to the SBP that they will fully align this bank's capital with the minimum requirement by end-April 2025 even if all steps in their process cannot be completed on time. We remain committed towards achieving full recapitalization of both banks by end-April 2025, and if full recapitalization is, however, not achieved as envisaged we will exercise our powers to put these banks under resolution by May 2, 2025. Going forward, we will take prompt supervisory action to address any additional banks which may become undercapitalized. We will also continue our efforts to tackle vulnerabilities in the microfinance banking sector. Currently, 5 out of 11 microfinance banks are undercapitalized. We are engaged with the owners and potential investors to address the capital shortfalls. We will not extend the deposit insurance system to this sector until these issues have been addressed to the satisfaction of the supervisor and other preconditions are met. Discussions are also on-going with development partners to develop schemes to help ensure longer-term sustainability of the sector.

c. ***Reduction of Non-Performing Loans (NPLs) of the banking sector***. SBP has adopted a comprehensive strategy to address high levels of NPLs. In July 2024, we issued guidelines requiring banks to develop comprehensive plans for dealing with the existing stock of NPLs and minimizing further build-up by January 2025. Almost all banks, particularly those that have higher NPLs, have submitted their plans, with a few banks expected to follow suit by end-March 2025. Going forward, we will closely monitor the implementation of these plans.

d. ***Clarity on the post-2027 financial system***. We recognize that clarity on the financial sector reform objectives helps build trust in institutions and policies, and thus the Ministry of Finance will lead a government effort which, in collaboration with SBP, will prepare a plan outlining the government's post-2027 financial sector strategy, outlining the institutional and regulatory environment from 2028 onwards and providing clear expectations for financial institutions (**new end-June 2026 SB**), with work starting by end-October 2025.

e. ***Effective implementation of AML/CFT.*** We continue to strengthen the effectiveness of our system to combat money laundering and terrorist financing. The National AML/CFT Authority is an overarching body for implementation by the relevant competent authorities under the relevant laws with respect to AML/CFT/TFS. The Authority, *interalia*, is coordinating the activities and monitoring the performance of relevant AML/CFT agencies, to address high risk offenses identified in the 2023 National Risk Assessment (such as corruption, smuggling, tax crimes and unlicensed hawala operators). Reforms are currently focusing on (i) enhancing the effectiveness of AML/CFT supervision of designated non-financial businesses and professions and virtual asset service providers, and (ii) to prevent the misuse of entities for criminal purposes, improving the availability and accuracy of beneficial ownership information (including through risk-based verification by the Securities and Exchange Commission of

Pakistan). To prevent risks from trade-based money laundering (TBML), the SBP updated in August 2024 its overall AML/CFT supervisory framework in assessing risks and plans to issue new standalone supervisory framework on TBML by end-June 2025. The Financial Monitoring Unit (FMU) developed guidance on TBML risks, conducted training sessions with banks on submission of TBML-related suspicious transaction reports in its GoAML system, and coordinated with the customs authorities in sharing TBML-related financial intelligence.

17. **We recognize that Pakistan's financial sector requires further deepening to play an effective role as an intermediary of capital to the private sector.** Through SBP's 2023-28 Strategy, we prioritize achieving inclusive and sustainable access to financial services, including through innovative digital solutions. In this context, we published our National Financial Inclusion Strategy for 2024-2028, to leverage the progress made since 2015, with the goal of bringing up the financial inclusion level (percent of adults with bank accounts) up to 75 percent over the next 5 years (from 64 percent currently), with a particular focus on reducing the gender gap. The financial sector plays a critical role in efforts for greater digitalization and documentation of the economy. In this regard, the SBP and federal and provincial governments will move swiftly towards the complete digitalization of government payments and will promote digitalizing public records which would enhance access to credit by currently underserved segments of the population. Further, we have completed the rollout of the instant payment system RAAST and aim to (i) advance further integration of micropayment systems with other countries to reduce costs to consumers; and (ii) modernize the Real Time Gross Settlement (RTGS) system and integrate it with the Central Securities Depository (CDS). We are also committed to implement the five-year strategic plan of the Securities and Exchange Commission of Pakistan (SECP) to develop the insurance sector whose penetration rate remains below 1 percent.

18. **As part of our efforts to modernize the financial ecosystem, we are taking steps to limit the role of the public sector in the financial sector**. By end-June 2025, SBP will transfer its stakes in two financial institutions to the government, thus limiting conflicts of interest. Federal and provincial governments will also reassess the public interest in government ownership of banks considering the dynamic and innovative private sector and propose guardrails to ensure that government-owned banks are not co-opted into off-budget lending schemes. Concerning Development Financial Institutions (DFIs), we are working towards consolidation of the sector and a redesign of the business model, supported by a revised regulatory regime, ensuring that DFIs are focused on their development finance mandate instead of principally investing in government securities. Finally, we are determined to take the appropriate actions from our forthcoming assessment of the CDNS (¶7.j) towards ensuring that the public sector neither duplicates functions of private institutions nor inhibits growth and innovation therein, especially considering that more and more Pakistanis are served by banks and gain access to market-based saving opportunities, for example via asset managers or retail investment in government securities traded at PSX.

Energy Sector Policies

19. **Fundamental cost-reducing reforms in the energy sector is the only sustainable way to sectoral viability and lower tariffs.** Our energy sector strategy aims to stem circular debt (CD)

flow while addressing the structural impediments to a viable energy sector and protecting vulnerable consumers from elevated tariffs. This strategy for overperformed in FY25H1 by around PRs450 billion, reflecting lower financing costs and our early success on recoveries. The stock of power CD stood at PRs 2,444 billion (2.1 percent of GDP) at end-January 2025, while the stock of gas CD stood at PRs 2,294 billion (2.2 percent of GDP) at end-June 2024. We remain committed to keeping energy tariffs in line with costs while implementing fundamental energy sector reforms to reduce our fiscal risks, ensure viability of the sector and debt sustainability, build a business environment conducive to dynamic growth, and ease price pressures.

20. **We are on track to achieve net zero CD flow for FY25 and will strive for the same in FY26, through a combination of timely tariff increases, targeted subsidies, and cost-reducing reforms**. This strategy will be detailed in our FY26 CD Management Plan (CDMP), to be adopted by cabinet by end-July 2025. Key elements include:

a. ***Timely electricity tariff increases consistent with cost recovery***. NEPRA will continue with timely automatic notifications of regular quarterly tariff adjustments (QTAs) and monthly fuel cost adjustments (FCAs) to capture any gaps between the base tariff and actual revenue requirements that arise during the year, to prevent CD flow. We will ensure the full implementation of the July 2025 annual rebasing (**new SB, July 1, 2025**), QTRs, and FCAs going forward. All provinces agree not to introduce any subsidy for electricity or gas.

b. ***Reducing the financial burden on the power sector by converting the existing CD stock to CPPA debt***. Of our existing CD stock of PRs 2.4 trillion (2.1 percent of GDP), we will clear, by end-FY25, PRs 348 billion via renegotiation of arrears with IPPs (PRs 127 billion of which will be via already-budgeted subsidy for CD stock clearance and PRs 221 billion of which will be via CPPA cash flow); PRs 387 billion via waived interest fees; and PRs 254 billion via additional already-budgeted subsidy for CD stock clearance; PRs 224 billion in non-interest-bearing liabilities will not be cleared. The remaining PRs 1,252 billion will be borrowed from banks to repay all PHL loans (PRs 683 billion) and to clear the remaining stock of interest-bearing arrears to power producers (PRs 569 billion). The loan will be taken on at a rate favorable to that currently paid on the CD stock (a major driver of CD flow and accumulation) and annual payments will be financed through debt service surcharge (DSS) revenues over six years. The DSS will be set at 10 percent of the NEPRA-determined revenue requirement, adjusted each year at the time of annual rebasing, per current practice. In the event that DSS revenues fall short of the annual payment requirement, the DSS will be increased to make up for the shortfall and calibrated per any anticipated future shortfalls in the succeeding year. To facilitate this, we will adopt legislation to remove the 10 percent DSS cap by end-June 2025 (**new end-June 2025 SB**). There will be no fiscalization of any revenue shortfall. We will prepare a plan to retire, in a timely way, the interest-bearing CD stock anticipated at the end of FY25 (expected to be no greater than PRs 337 billion, a result of gross flows this year), alongside the FY26 budget process, which will not utilize subsidy resources. With one of the primary drivers of CD flow—interest charges on delayed payments to IPPs—significantly reduced, CD targets have been set lower. These targets will continue to decline to zero by FY31, the end of the operation.

c. ***Necessary budget allocations for power subsidies***. With signs of energy sector reforms already having some initial impact in terms of reducing electricity costs, the FY26 budget will include lower subsidies than in FY25. This reflects the impact of the aforementioned CD stock operation (which lowers the need for CD stock payments) and the ongoing impact of our energy sector reform strategy (¶20.d). Nonetheless, we have decided from March 17, 2025, to introduce a limited subsidy, financed by a PRs 10 per liter PDL increase, which will expire on June 30, 2026, at an annualized amount of PRs 182 billion. These revenues will finance a subsidy to be applied to all non-lifeline consumer categories, resulting in an average electricity tariff reduction of PRs 1.7/kwh. We have also begun to receive flows from the captive power plant (CPP) transition levy (¶21.b), the revenue from which will allow for additional tariff reduction (through this financed subsidy) for all grid consumers: We estimate the impact to be PRs 0.90/kWh at the start, anticipating further reductions as the CPP levy is increased at regular intervals already in law through 2026. These subsidies will allow front loading of our reforms' benefits to be felt by grid consumers while the longer-term structural cost reduction impact of the reform process, including from the CPP transition, gradually takes effect. The subsidy will be limited to at most 0.8 percent of GDP and will cover (i) PDL-derived revenues of PRs 182 billion noted above to provide further temporary tariff relief; (ii) the projected tariff differential; (iii) arrears payments of FATA and KE; (iv) agricultural tubewells; and (v) CD stock payments to compensate for the any CD flow, which will be targeted to be much lower following the CD conversion operation (¶20.b).

d. ***Moving forward, in parallel, with fundamental cost-reducing reforms***. We recognize the need to continue and accelerate cost-side reforms to address the sector's fundamental challenges and are moving forward, with the assistance of the World Bank, ADB, and other development partners, with our agenda that includes:

    i. *Improving distribution efficiencies*. We have taken the necessary policy and financial prerequisite steps, with the support of the World Bank, to privatize three DISCOs (IESCO, GEPCO, and FESCO) (**end-January 2025 SB**), and hired a financial advisor in February, which will help improve performance, efficiency, and governance, addressing significant drivers of power sector CD accumulation (and thus the need for higher tariffs Due diligence is now being carried out and we will begin the first bidding for these three DISCOs by end-December 2025. We are also moving ahead with the process to privatize three additional DISCOs, and to seek concessions for the private management of three additional DISCOs, which we expect to proceed through 2026.

    ii. *Shifting captive power to the electricity grid*. To further encourage CPPs to move to the electricity grid (¶21.b), we have finalized and shared with all CPPs a *service level agreement* which sets a performance standard, as prescribed by NEPRA, of uninterrupted electricity supply for CPPs that connect to the grid, including penalties for DISCOs that are not able to meet this standard.

iii. *Improving the transmission system*. We have made strong progress in restructuring the National Transmission and Dispatch Company (NTDC) into three entities, which will allow for more efficient power transmission, boosting sector viability: the Independent System Operator and Market Operator (ISMO), which will assume the NTDC's system operator function; the Energy Infrastructure Development Management Company (EIDMC), which will be responsible for projects and development, will be operational by end-August 2025; and the National Grid Company (NGC), which will take over responsibility from NTDC for operating and maintaining the grid and transmission lines, including further restructuring, will be complete by end-December 2025.

iv. *Privatizing inefficient generation companies (GENCOs)*. We are moving forward with plans to improve generation efficiency and performance by privatizing at least two GENCOs (Nandipur and Guddu 747). We expect that necessary prior actions will be completed by end-April 2025 to enable the start of the process to hire a financial advisor by end-May 2025, with bidding for Nandipur targeted for January 2026.

v. *Complete the transition to a competitive electricity market*. We are approaching the operationalization of the Competitive Trading and Bilateral Contract Market (CTBCM), which will enable bulk power consumers to purchase electricity from DISCOs or a competitive supplier of their choice, with the ultimate aim of lowering wholesale market prices for consumers. NEPRA is considering licensing requests, transfer agreements, and service level agreements with relevant power sector bodies and the government is determining costing, including the wheeling charge. At the outset, 800 MW will be allowed in the market until 2031, in line with IGCEP capacity planning; this and the level at which the wheeling charge is set will ensure sufficient capacity remains on the grid. The transition will be carried out in a phased and responsible manner to minimize the impact on consumers and the budget.

vi. *Accelerate the move to renewable energy*. A key step in this process will be to build upon the IGCEP and TSEP (2024-34), including a recent update, to mandate an increased share of cheaper renewable energy in the generation mix. Projects following from this effort will be on a least cost basis; we envision the elimination of a significant a significant portion of surplus, unused capacity through this effort. Private sector investments will help to facilitate achieve this goal.

vii. *Expansion of capacity*. Given the excessive cost pressure caused by the capacity payments required on existing generation plants when not in use, and consistent with our efforts to revisit PPAs, we will carefully review whether there is need for any additional capacity in the near term, and will not enter into any further capacity commitments without a prior commitment for new transmission infrastructure and once that infrastructure comes on line and existing capacity is fully utilized at peak times.

viii. *We will continue to refrain from* netting out cross-arrears (unless they are independently audited); using "non-cash" settlements (e.g., payables against the reimbursement of on-lent loans to DISCOs); and issuing government guarantees except where there is a need to substitute an existing government guarantee on maturity.

21. **Our gas sector reform agenda focuses on price normalization across sectors and captive power elimination**. Keeping end-user gas prices in line with costs, including the cost of diverted RLNG, is critical to improving the sector's CD dynamics. Important reforms will include:

a. ***Continuing with timely tariff adjustment as required***. We notified the semiannual gas tariff adjustment as determined by OGRA on January 26, 2025 (**SB, February 15, 2025**), preserving the current progressive tariff structure and protecting vulnerable household consumers. We will continue to notify semiannual gas tariff adjustments as determined by OGRA (**new SBs, July 1, 2025, and February 15, 2026)**. Gas tariff adjustments will continue to include the cost of imported RLNG.

b. ***Eliminating captive power.*** Shifting captive power plans (CPPs) to the electricity grid – which will boost grid demand while channeling scarce indigenous gas resources to the most efficient gas-based power generators – remains a key objective. We did not immediately end captive power usage by end-January 2025 (**end-January 2025 SB**) as large take-or-pay RLNG import contracts would have led to significant adverse impacts on gas CD. We have, instead, increased the price of all gas for CPPs to the equivalent of the industrial grid price plus a 5 percent through an increase in the cost of gas to CPPs plus created a new CPP Transition Levy (CPL) via Presidential Ordinance on January 31. The CPL will automatically increase the premium over the grid equivalent price by an additional 5 percentage points every six months until the premium is 20 percent in August 2026. Levy proceeds (the delta between the headline CPP gas price and baseline CPP gas price of PRs 3,500/mmbtu) will be transferred to the electricity grid on a monthly basis to reduce the average effective tariff and reduce prices evenly across the existing power tariff structure. Taken together, these price-based incentives will motivate a shift of CPPs to the grid, while CPPs' continued access to gas will provide the quarter of CPPs that were not operationally ready to move to the grid in January additional time to prepare to do so. With this, CPL passed by ordinance, we will introduce and pass legislation through parliament making this levy permanent in its current form (**new end-May 2025 SB**) so there is no lapse of coverage. We also commit to taking the actions needed on the public side—for instance, by DISCOs—to facilitate this transition (¶20.d.ii). We also commit to refrain from contracting any additional external RLNG contracts, in the context of the large RLNG surplus now faced by Pakistan.

c. ***Unifying pricing across indigenous gas and imported RLNG***. We will continue to work to develop an implementation strategy for WACOG. Once implemented, the WACOG will allow full cost recovery of more expensive imported RLNG and provide a more adequate price signal to guide gas consumption across all sectors and help reduce power generation costs. We will also work toward adopting a new, targeted and budgeted gas subsidy framework that will allow us to eliminate the current cross-subsidy system (¶32).

d. ***Introducing automatic notification of semiannual gas price determinations***. The 2022 amendment to the OGRA Ordinance mandates automatic notification of OGRA determinations to better ensure timely price adjustments. We commit to providing timely advice to OGRA within 40 days of determination of revenue requirements in respect of category-wise consumer gas prices. Under the referred amendment, OGRA is already empowered to notify the prices in case the government is unable to provide the requisite advice within 40 days of determination, and we will provide the necessary policy guidance to OGRA to enable them to do so.

e. ***Improving the monitoring and management of the gas CD***. With a view toward replicating the approach in the power sector, we have made strong progress with private consultants and international development partners to (i) devise a precise definition of CD for the gas sector (that includes oil but excludes power sector elements); (ii) compile detailed and verified gas CD stock statistics, including sub-components and drivers of CD; (iii) establish a monthly gas CD flow reporting system (also benefitting from improved data management and projection capacity); and (iv) devise a gas CDMP. Salient elements of the CDMP will include regular adjustments of end-user gas prices as per established formulas (and in line with the OGRA Amendments Ordinance effective since March 2022) and tangible cost-reducing reforms (including measures to reduce unaccounted for gas (UFG) losses, including through improvements in infrastructure, rehabilitation of networks, and theft controls). A third-party consultant has completed its evaluation and analysis of existing data on gas CD and gas company cash flow, and an international development partner is completing its work on modeling and reporting on gas CD. We commit to providing development partners, including the Fund, quarterly data on CD stock and flow details and to publish our initial CDMP by end-June 2025.

Structural Policies

22. **The remainder of our structural reform agenda will seek to reduce inefficiencies, boost productivity, and support private sector development**.

23. **Following through on our SOE reform agenda is key to scaling back the state's footprint and improving services**. Following the adoption of a SOE legal framework in 2023, we remain committed to filling the remaining gaps in our governance framework and, in parallel, implementing the framework to improve the SOE sector's viability, reduce fiscal liabilities and the role of the state in commercial enterprises, and improve services for Pakistanis. This will include:

a. ***Ensuring coverage of all SOEs under the SOE governance framework***. We are committed to amend SOE-dedicated laws for the remaining 9 statutory SOEs[1], to fully align them with the provisions of the SOE Act (**end-June 2025 SB**).

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[1] EXIM Bank of Pakistan, National Bank of Pakistan, State Life Insurance Corporation, Pakistan Railways, Water and Power Development Authority, National Telecommunication Corporation, Gwadar Port Authority, Karachi Port Trust

(continued)

b. ***Adopting appropriate governance mechanisms and safeguards for the Sovereign Wealth Fund (SWF) and its SOEs***. In line with international standards (for example, the OECD Guidelines on Corporate Governance of SOEs and the Santiago Principles) and good practices on public asset management and SOE holding companies, by end-March 2026 we will, in consultation with Fund staff, enact the necessary legal amendments to the SWF Act and other legislation to strengthen the SWF's legal framework, governance arrangements, transparency and accountability mechanisms to accomplish the objectives outlined below (**end-December 2024 SB, reset to end-March 2026**).

   i. *Clarify the legal nature and mandate of the SWF*. Legally define the SWF as a SOE, subject it to the SOE Act (adopting specific provisions to ensure the SWF's governance structures correspond with a holding entity's nature and mandate), and narrow its mandate to (i) holding and managing SOEs on behalf of the state and creating value through their operational and financial improvement; and (ii) attracting foreign direct investment by facilitating and mobilizing co-investment in strategic commercial ventures that generate financial returns in line with the SWF's Investment Mandate, while ensuring that the SWF and any sub-funds are neither the sole investors nor the first loss in any project, and that any investment is only motivated by financial risk-return considerations.

   ii. *Divestments and procurement*. Requiring that privatization or sales of assets and its procurement processes are conducted based on rules and policies adopted and published by the SWF's Board that are in line with international standards and best practices and ensure open, competitive, transparent and non-discriminatory procedures, establishing minimum disclosure requirements for each stage of the process, including on beneficial ownership. These rules and policies will be independent of the government regulations but will generally be in line with those set by the government for divestment and procurement.

   iii. *SWF governance*. Establish that the appointment of the SWF's Board and Advisory Committee's members is done through transparent, merit-based, and participatory processes to safeguard their professionalism and independence from undue public and private influence, including by introducing strong independence requirements from all branches of government, public institutions and political parties with effective cooling off periods.

   iv. *Governance of SWF-SOEs*. Ensure that SWF-owned SOEs remain under the same high-quality governance structures and accountability standards as all other SOEs, including by amending section 50 of the SWF Act to explicitly establish that SWF-owned SOEs are subject to the SOE Act and SOE Policy and any necessary additional amendments to

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and Port Qasim Authority. After thorough review, the government determined that National Insurance Company Limited is no longer a statutory SOE and therefore no legal amendments are needed. Similarly, the government found that Small and Medium Enterprise Development Authority and Export Processing Zones Authority shall no longer be considered SOEs as they do not fall within the legally established SOE definition.

regulate and operationalize the SWF's SOE ownership functions with SWF being owner/holding entity with appropriate oversight systems as agreed with Fund staff.

v. *Fiscal safeguards*. Ensure that appropriate fiscal safeguards are in place, including by requiring that all revenues from SWF and sub-funds operations will be provided directly to the government and not retained by the SWF and that any funds required for SWF investments shall be allocated by the Federal Government through the budgetary process. In addition, by prohibiting the SWF to (i) incur debt or borrowing in any way; (ii) provide guarantees or collateral, including over SWF-SOEs shares or assets; (iii) lend to public or private entities, or any persons, foreign or domestic; (iv) participate in PPPs; (v) acquire financial assets or instruments of any kind; or (vi) receive any contributions from the central bank, SOEs or any other public body.

The execution of the SWF Act and any other action aimed at preparing the SWF for its operation will only be carried out after the above-mentioned reforms are complete and the amendments as agreed with the IMF become law.

c. ***Ensuring compliance with the SOE governance framework***. We remain committed to achieving compliance with the SOE governance framework, as established by the 2023 SOE Act and SOE Policy. To this end, to refresh our privatization and restructuring plans, we completed categorization and recommendations for reform (thus updating the March 2021 Triage Plan) in line with paragraph 11 of the SOE Policy. Line ministries are developing plans to transform SOEs, in line with paragraph 12 of the SOE Policy. The federal rightsizing committee is also carrying out a review of the purpose and rationale of various SOEs, which we will complete by end-December 2025. The 15 largest commercial SOEs by asset size have adopted business plans, published statements of corporate intent (SCI), and have adopted and published externally audited, IFRS-compliant financial statements and annual reports. We commit to another 40 commercial SOEs having done the same by end-December 2025. A similar number of SOEs will fully adopt IFRS at all SOEs, per the SOE Act, by end-December 2025. We will ensure that all commercial SOE Boards are majority independent, per section 12(2) of the SOE Act. We commit to achieve majority-independent Boards for the remaining 28 SOEs that currently do not have majority-independent boards by end-December 2025. We are working with to identify suitable directors and will develop a database to help facilitate this by end-October 2025. The identification, costing, and contracting of public service obligations (PSOs), in the seven commercial SOEs with the largest PSO claim on government, entering into PSO agreements with the government, in line with the SOE Act (Schedule II) and SOE Policy, is on track to be completed by end-June 2025. We have also facilitated initiation of comprehensive training programs for SOEs, Line Ministries, Directors, and Civil Servants, through corporate training institutions, to equip them with the skills to ensure compliance with the SOE Act and SOE Policy. We have selected two SOEs for comprehensive restructuring and reforms. The detailed implementation and monitoring plans will be published on the websites of the respective SOEs by end-December 2025.

d. ***Fully operationalizing the CMU***. To ensure effective transparency and monitoring of the SOE sector, we commit to (i) completing the development of our electronic database such that the CMU can fully meet its reporting requirements under Section 31 of the SOE Act by end-June 2025; (ii) further developing our aggregate SOE report, first published in December 2023, such that it meets OECD good practice guidelines for SOE aggregate reporting. To that end, we included SOEs' performance against FY24 financial and non-financial benchmarks in our December 2024 report; and (iii) issuing, in close coordination with the ADB and in line with requirements under the SOE Policy, guidance notes on PSO framework, as well as reviewing and updating the director selection and appointment guidelines. This will complete the requirements under the SOE Act, with the guidelines on 'preparation of business plans and SCI' and 'CMU Operational Manual' having already been issued.

24. **As we work to phase out federal and provincial government price-setting for agricultural commodities by end-FY26, substantive progress has already been made towards a new framework for the wheat sector**. To enable an agile, productive, diversified, and internationally competitive agricultural sector to the benefit of all Pakistanis, we will refrain from announcing support prices (for raw commodities) and discontinue procurement operations that crowd out the private sector. In the wheat sector we have abstained from announcing support prices and undertaking provincial procurement operations during the 2025 Rabi season and are committed to continue this approach going forward. To support these efforts, we are considering improving the availability of information on the growing season and prices and are exploring the inclusion of wheat on the Pakistan Mercantile Exchange, which should support market development for this commodity. At the same time, a working group, led by the Ministry of National Food Security and Research and including all provincial governments and other stakeholders, is finalizing a new food security framework for wheat, part of which includes winding down PASSCO and transferring its functions to a new entity. We envision this entity to be jointly owned by the four provinces, two regions, and the federal government, with objectives and parameters of operations for this new entity to be clearly defined ex ante, and all transactions to be executed at market prices and any sales from its stocks to happen at cost recovery. However, we may pursue an alternative arrangement, in agreement with the provinces involved, with the same underlying objectives and principles. Current provincial stocks will be either transferred to the new entity or sold at market prices according to a pre-announced schedule, but not be used to manage prices. More broadly, by end-December 2025, we will review the relevant legislation underpinning government interventions in commodity markets,[2] and prepare a report with comprehensive recommendations on how key policy objectives, such as abuse of market power and uncompetitive behavior, can instead be addressed through competition policy and less protectionist trade policies. These recommendations will also inform the further deregulation steps in end-FY26, while ensuring that producers do not extract undue rents from consumers.

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[2] Among others, this includes federal legislation, such as The Price Control and Prevention of Profiteering and Hoard Act, 1977, as well as provincial legislation, for example The Food Stuff Control Act, 1958 (Punjab), and The Sindh Essential Commodities Price Control and Prevention of Profiteering and Hoarding Act, 2005.

25. **We will strengthen our institutional capacities to fight corruption to support inclusive growth and provide a level playing field for businesses and investments**.

a. ***Governance and Corruption Diagnostic (GCD) Assessment***. With IMF capacity development support, we are undertaking a GCD Assessment to analyze critical governance and corruption vulnerabilities and identify priority structural reforms moving forward. We will publish the full GCD report (**end-July 2025 SB, reset for end-August 2025**). In addition, we will develop and publish an action plan in response and to implement the priority recommendations in the final GCD report (**new end-October 2025 SB**).

b. ***UNCAC Review Report***. Following completion of the UNCAC review process, the Cabinet of Ministers in March convened a committee to assess the UNCAC Review Report. Subject to the Committee's recommendations, the cabinet intends to publish the full and complete UNCAC Review Report and make it publicly available in a government website.

c. ***National Accountability Bureau (NAB) and Provincial Anti-Corruption Establishments (PACEs)***. Following the decision of the Supreme Court on the petition on the NAB Ordinance, we will continue to enhance NAB's operational effectiveness and independence in investigating corruption cases above the PRs 500 million threshold and coordination with other investigative bodies such as the Federal Investigation Agency and PACEs. In line with the AML Act and the National Fiscal Pact, the relevant federal notification process initiated by the Financial Monitoring Unit will be issued by end-December designating the PACEs to investigate money laundering related to corruption offenses within their jurisdiction, and to request and receive financial intelligence from the FMU as an investigating agency.

d. ***Asset Declaration of High-Level Public Officials***. To further operationalize the Government Servants (Conduct) Rules 1964 (Sections 12, 13, and 13-A) and consistent with the Right to Information Act of 2017, we will amend the Civil Servants Act of 1973 to ensure that asset declarations of high-level public officials (BPS 17-22) (including domestic and foreign assets beneficially owned by them or a member of their family) will be digitally filed and publicly accessible (with sufficient safeguards over data protection and privacy of personal information such as ID numbers, residential addresses, bank account or bond numbers) through the FBR with a robust framework, resources and tools for the Establishment Division to conduct risk-based verification (**end-February 2025 SB, reset to end-June 2025**). Thereafter, the Establishment Division and FBR will issue regulations to centralize collection, digitize submissions, publish information subject to safeguards, and verify information. Both Establishment Division and FBR are coordinating and undertaking preparations for speedily implementing this reform measure, supported by relevant federal ministries.

e. ***Bank's Access to Asset Declarations for AML/CFT Purposes***. The SBP, FBR and FMU continue to support banks' access to asset declarations of high-level federal public officials (BPS17-22), which has helped banks comply with their AML/CFT obligations and better -risk profile their customers who are politically exposed persons. In December 2024, the FBR launched a new digital portal (Customer Due Diligence Online Portal) to electronically receive information requests from banks and timely respond to such requests (usually within 24 hours). In line with their commitments under the National Fiscal Pacts, the Provinces with support from FBR, Establishment Division and Ministry of Finance will issue respective regulations to similarly grant banks' access to asset declarations of high-level provincial public officials (BPS17-22).

26. **We are committed to substantially reduce barriers to international trade, including through duty elimination under the new National Tariff Policy (NTP) and the next Auto Policy**. The new National Tariff Policy for 2025–30 is expected to come into effect on July 1, 2025, after being approved by cabinet and incorporated into Finance Act for FY26. The policy envisages substantial tariff reductions and simplification of the customs regime, including by phasing out all additional customs duties (ACDs), reducing all regulatory duties (RDs) by 80 percent, and reforming the 5th Schedule to the Customs Act. Together these measures under the NTP will result in a gradual reduction in the weighted average applied tariff from 10.6 percent in FY25 to 7.4 percent by FY30. Going forward, we will avoid introducing any new RDs. We recognize that trade protection for the automobile sector under the Auto Industry Development and Export Policy (AIDEP) 2021–26 is particularly extensive and imposes large welfare costs on Pakistanis and are committed to implementing a substantial reduction in protection for this sector in the next auto policy, which will come into effect and be implemented from July 1, 2026. Specifically, we are committed to addressing vehicle affordability by setting out a path to progressively reduce protection by 2030 in line with the principles and objectives of the NTP 2025–30, including by eliminating all ACDs and RDs in the sector and substantially reducing CDs. When added to the duty reductions envisaged under the new NTP, this will bring the weighted average tariff to below 6 percent by FY30. We will also remove all quantitative restrictions on the commercial importation of used motor vehicles (initially only for vehicles less than five years old, subject to meeting minimum environmental and safety standards) during FY26Q1 and will submit all required legislation to parliament by July 2025 (**new end-July 2025 SB**). During FY26, we will put in place regulation and a testing regime for safety and environmental standards of such imported vehicles, which will replace the vehicle age limit from July 2026 onwards. For FY26, the tariff rates (incorporating CDs, ACDs and RDs) for such used vehicles will initially be set 40 percent above the corresponding rate for new vehicles, with this premium to be reduced by 10 percentage points per year, to reach zero by 2030. More broadly, we are committed to addressing non-tariff measures, and plan to complete an ongoing stock-take of the existing export-import policy order by end-December 2025, with a view to simplifying and eliminating distortionary NTBs.

27. **We will take additional steps to promote investment and ensure competitive neutrality and a level playing field**. We commit to ensuring that the Special Investment Facilitation Council (SIFC) does not propose, nor that the government provide, regulatory, spending, or tax-based incentives of any sort, or any guaranteed returns, or take any other action that could distort the investment landscape. We will also ensure that all investment made under the SIFC results from the standard Public Investment Management framework.

28. **As part of our ongoing efforts to improve efficiency and provide a level playing field for investment, the government will refrain from providing any fiscal incentives, such as tax breaks or subsidies (including for credit)**.

a. ***Special Economic Zones (SEZs)***. We have hired a consultant and agreed TORs for a review of the fiscal costs and effectiveness associated with each existing Special Economic Zone (SEZ) (including Export Processing Zones, EPZs), and will publish the results of this study in FY25. Based on the results of this study, we will formulate a comprehensive plan to fully phase out all current SEZ (and EPZ) incentives by 2035, subject to preexisting contractual obligations (**end-June 2025 SB**). We will also publish a report on fiscal costs and effectiveness of Special Technology Zones (STZs) and other industrial parks and zones and will by end-October 2025 prepare a similar comprehensive plan to phase out these incentives by 2035, subject to preexisting contractual obligations (**new end-December 2025 SB**). During the transition period, we, in consultation with stakeholders, will seek to replace preexisting profit-based incentives (such as tax exemptions) with cost-based incentives (such as immediate expensing on tangible assets), while adhering to existing legal commitments. Where contractual provisions allow, we will, in consultation with stakeholders, seek to phase out existing SEZ (and other zones) incentives through early termination or renegotiation. We remain committed to refrain from creating any new SEZs (or other zones, including by provincial governments); to refrain from providing new fiscal or other incentives to any new or existing SEZs firms, sectors or investments; and not to renew any such existing incentives.

b. ***Eliminating Preferential Treatment of Local Production***. We are committed to phasing out all additional duties (including through import and sales taxes) currently charged for "localized" items/inputs in the auto sector, and to removing the regime of special duties applied to imports used for the auto sector, including through the 5th Schedule to the Customs Act and SRO 655(I)/2006. These changes will be implemented gradually, as envisaged in the NTP 2025–30. This principle will also apply to any new electric vehicle (EV) production, which will mean an increase and regularization of the tariffs and other protection (including through preferential sales taxes) of some inputs. By July 2026, we will seek to extend the principle of removing the preferential treatment of local production to other industries, to be implemented in a gradual manner over the period until FY30, in consultation with the relevant ministries.

c. ***Regulatory Streamlining***. We are committed to simplifying business processes, reducing bureaucratic inefficiencies, and fostering a more investment-friendly environment. To advance this agenda, we have drafted the Asaan Karobar Act, which will create a legal framework for reforms, including: (i) establishing a single-window system to streamline business registration and documentation; (ii) developing an electronic registry for business-related records to enhance transparency and efficiency; and (iii) eliminating redundant regulatory requirements to lower compliance costs and improve ease of doing business. The cabinet has already approved the draft Asaan Karobar Act for placement before parliament by June 2025.

Furthermore, we are collaborating with the provincial governments to enact similar legislation, ensuring nationwide consistency and streamlined business facilitation.

29. **Our efforts to improve the timeliness, reliability and coverage of macroeconomic data are advancing**. Data collection for three major surveys (Agriculture Census, Labor Force Survey and Household Integrated Economic Survey) is well underway and the Pakistan Bureau of Statistics will publish the final reports (and post the results to the National Summary Data Page portal) by end-December 2025, which will provide a better basis to assess recent developments in key areas of the macroeconomic statistics, and for assessing the adequacy of social spending. Work on a new PPI index has also progressed, including on agreeing modalities with provincial statistics agencies for monthly data collection starting in July 2025. Preparations are also underway to conduct three major surveys in FY26: the Census of Manufacturing Industries, the survey of Small and Household Manufacturing Industries, and the Family Budget Survey, which will incorporate spending on online platforms for the first time. Work on strengthening the Quarterly National Accounts has continued, and a first set of estimates covering the expenditure side were released in December 2024. Finally, work on strengthening the Government Financial Statistics is continuing, with the establishment of a GFS team and agreement of a multi-year roadmap for GFS expansion and improvements, including transitioning to GFSM 2014 and incorporating SOE data.

Building Climate Resilience

30. **Reducing economic and social vulnerabilities and building resilience to withstand the impact of climate change is an urgent and existential challenge for Pakistan**, as most recently highlighted by the catastrophic 2022 floods. Such external shocks can exacerbate macroeconomic imbalances, reduce growth, and aggravate social conditions. Pakistan ranks among the world's most climate change-vulnerable and least climate change-ready countries. Over the past eight years, Pakistan has been taking steps to improve its resilience and adapt to the increasing challenges from climate change. Underpinning these efforts are the 2023 adoption of its National Adaptation Plan and the 2021 updating of its Nationally Determined Contribution (NDC). However, to bolster its resilience, we will embark on further far-reaching actions, for which we request support under the RSF.

31. **The RSF will support these efforts to improve resilience and address climate change challenges**. The RSF will focus on (i) mainstreaming climate issues into budget investment and planning; (ii) improving water system resilience and disaster response financing; (iii) enhancing the enabling environment for green investments by strengthening Pakistan's climate information architecture; (iv) promoting green mobility and transport decarbonization; and (v) aligning energy sector reforms with our national climate change commitments.

Reform Area 1: Mainstreaming Climate Issues Into Budget and Investment Planning.

32. **We will enhance the climate sensitivity of public investment management (PIM)**. The National Adaptation Plan, adopted by Government in 2023, prioritizes investment to bolster the resilience of critical public infrastructure to the impacts of climate change and natural disasters.

Similarly, achieving the mitigation targets set out in Pakistan's Nationally Determined Commitments will require significant public investment in a range of sectors. Since the 2023 PIMA and C-PIMA, we have taken steps to improve PIM systems and to enhance the climate-sensitivity of infrastructure governance. Key reforms have included incorporating mitigation and adaptation considerations in the Planning Commission forms and mandating climate risk, adaptation and resilience, and mitigation assessments for all projects through the Handbook on Climate Risk Screening. We will embed and build upon these reforms through two further steps:

a. ***Project weighting***. We will update the draft project selection criteria and increase the climate change weighting in the PSDP selection process for investment in infrastructure sectors of at least 30 percent, provide explicit protocols for scoring projects against criteria and publish the distribution of scores for new projects entering the PSDP (**RM1, end-August 2026**). As part of the report on schemes approved by the CDWP and ECNEC each year, we will report on the selection process used and publish the distribution of scores for each project reviewed.

b. ***Adaptation and mitigation assessment***. We will screen all major new infrastructure projects and ensure that only projects that have undertaken climate vulnerability, adaptation and mitigation assessments will be included in the PSDP and we will publish a consolidated report summarizing the screening assessments for these projects (**RM2, end-August 2027**). Focusing initially on all new infrastructure projects costing over PRs 7.5 billion (the current ECNEC threshold), we will publish a consolidated report summarizing the Climate Adaptation and Resilience Assessments and the Climate Mitigation Assessments in line with the Handbook on Climate Risk Screening.[3] We will publish the PC1 forms of all new infrastructure projects costing over PRs 7.5 billion on the PC website. We will improve the quality of project appraisals and climate screening assessments to support the prioritization of the most impactful infrastructure.

33. **To support more climate-sensitive public spending, we will extend the scope of climate tagging and budget reporting**. We have introduced and expanded green budgeting initiatives recently, including reflecting priorities of the National Climate Change Policy in the Budget Call Circular, climate tagging certain components of the federal budget and producing a summary climate budget. Building on this foundation we will publish a climate budget statement in the annual budget statement disaggregated to the level of detail in the sub-classification of expenditure in the Budget Call Circular. We will establish a new quarterly climate budget execution report that will provide consolidated details of actual expenditure against the sub-classification of climate change, comparing budgeted expenditure to outturns and explaining any variances in execution. We will expand the federal government's budget tagging system to incorporate spending on grants and subsidies and we will extend the same methodology to tagging of spending by the provincial governments (**RM3, end-August 2027**). We will work towards tagging

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[3] Projects covered are those that fall within the "infrastructure sectors" category in the PC-I Proforma, namely: transport and communication, telecommunication, energy, power, housing, government buildings, and town planning, and irrigation, drainage and flood control.

and tracking of climate-harmful expenditure and towards harmonizing budget tagging with other green taxonomies in use in Pakistan.

Reform Area 2: Improving Water System Resilience and Disaster Response Financing.

34. **Increasing water system resilience and strengthening disaster response financing are important climate adaptation policy priorities**. To facilitate water revenue collections and improve the effectiveness of water pricing, we will adopt the e-Abiana irrigation service charge collection system in Sindh, Khyber Pakhtunkhwa, and Balochistan (**RM4, end-August 2027**), following the example of the existing e-Abiana system adopted in Punjab. Building on the current Abiana tariff structure, we will introduce an irrigation water tariff adjustment mechanism in Punjab and Sindh, with the primary aim of fully recovering the operational and maintenance (O&M) costs incurred by the respective province on irrigation infrastructure under the administrative control of respective province (**RM5, end-February 2027**) and to incentivize more efficient use of water resources in a supply-constrained environment. For any costs regarding the operations and maintenance (O&M) of the irrigation infrastructure of which a province is beneficiary but is under the administrative control of any other government than the respective province, Federal Government would evolve a consensus mechanism with the respective provinces at the forum of Council of Common Interest (CCI). In the context of RM5, we will publish design documents of the mechanisms for the two provinces, including tariff-setting methodologies that are reflective of O&M cost recovery principle. In addition, we are committed to rolling out similar irrigation water tariff adjustment mechanisms in Balochistan and Khyber Pakhtunkhwa.

35. **Recognizing the importance of an efficient and effective response to natural disasters, we have developed a National Disaster Risk Financing Strategy (NDRFS)** that provides a strategic roadmap for resource mobilization. To improve coordination across the federal and provincial governments and ensure adequate resources and access to innovative instruments for the provincial governments, we will adopt an implementation framework for the NDRFS that encompasses federal and provincial financing needs and establish a coordination mechanism for disaster risk financing across the federal and provincial authorities to facilitate smooth national disbursement of disaster financing whenever necessary as specified by the implementation framework (**RM6, end-August 2026**).

Reform Area 3: Strengthening the Climate Information Architecture.

36. **To promote our green and sustainable finance agenda, the SBP is expanding its capacity for enhanced and comprehensive oversight**. This will be followed by the issuance of guidelines for the implementation of climate-related financial risk management and supervision, in line with the 2022 BCBS principles for the effective management and supervision of climate-related financial risks end-December 2025 (**RM7, end-December 2025**)**.** The guidelines will include time-bound targets to monitor implementation progress.

37. **We will operationalize our NDC-aligned green taxonomy, which is currently being finalized for adoption**. To support the taxonomy's implementation, the SECP by end-December

2025 will develop specific requirements or guidelines for listed companies to disclose climate-related risk and opportunities information, including relevant taxonomy-aligned data, (**RM8, end-December 2025**). In this regard, a phased approach is envisaged whereby climate-related disclosures be made by listed companies on a voluntary basis until July 1, 2029, during which period the SECP and World Bank will provide training to companies to facilitate disclosures over time. SECP will develop the thresholds and timelines for mandatory reporting in a phased manner. Listed companies above certain size thresholds (in terms of assets and turnover or number of employees) as advised by the SECP will comply with taxonomy-aligned disclosures over three phases, from the annual reporting period starting on or after 2029. In the first phase, companies falling under the largest size threshold shall start to comply with mandatory reporting and in second phase, the companies falling in the next size threshold. Listed companies falling below those size thresholds will comply with taxonomy-aligned disclosures from the third phase. The SBP will also establish a dedicated Sustainable Finance Implementation Unit, with clear authority and oversight capabilities, including the ability to provide detailed guidance for assessing taxonomy-aligned investment.

Reform Area 4: Promoting Green Mobility and Transport Decarbonization.

38. **We are fully committed to ambitious reforms to shift away from fossil fuels and accelerate the transition toward cleaner transport**. The New Energy Vehicle Policy (NEVP) 2025-2030 sets the objectives of achieving EV penetration of 30 percent new sale of EVs by 2030, among other targets. We will adopt a supplementary carbon levy on liquid fuels based on carbon content.

a. ***Carbon Levy***. This will include a supplementary carbon levy levied through the PDL on gasoline and diesel of PRs 5 per liter, which will be phased in over two years. As part of this reform, fuel oil will be added to the PDL, with the base and supplementary rate applicable to it (**RM9, end-June 2025**). The scope, phasing and level of the supplementary carbon levy will be legislated through the FY26 Finance Act. Future Finance Acts will be able to raise the carbon levy beyond this initial rate as required.

b. ***Electric vehicle adoption***. As part of the FY26 budget law, we will adopt a revenue-neutral scheme comprising a subsidy for EVs and a supplementary tax on internal combustion engine vehicles, in line with the draft NEVP 2025-2030 (**RM10, end-June 2025**). We will continue to implement the scheme in subsequent fiscal years over the course of the RSF program.

c. ***Charging stations***. To incentivize private sector investment in EV charging stations, we will adopt a viability gap funding (VGF) framework that (i) provides one-off subsidies; (ii) ensures sufficient competition through an open bidding process and includes clear criteria to evaluate the eligibility of projects for gap funding; and (iii) implements the first bid window (**RM11, end-February 2027**). With the support of the ADB or IFC, we will ensure that the VGF framework and rules are consistent with international good practices and minimize contingent liability risks to the government. In addition, we will publish tender documents and the list of bidders and successful bidders for all bid windows.

We expect that the combined package of RMs 9, 10, and 11 will yield substantial CO2 emissions reductions and make significant contributions to Pakistan's NDC.

Reform Area 5: Aligning Energy Sector Reforms with our National Climate Mitigation Commitments.

39. **We will reform our energy subsidy system to reduce incentives for overconsumption, wasted energy, and incentives for theft and losses**. Our existing electricity subsidies are large, distortive, and broadly targeted, with subsidies sometimes accruing to higher-income households, leading to overconsumption and energy wastage, distortions across the tariff structure, and risks to cost recovery and power sector viability. With this in mind, we will implement an electricity subsidy reform that will replace the existing budgeted tariff differential subsidy and cross-subsidy system with a targeted budgeted subsidy framework for low-income consumers, to be facilitated via BISP, and a simplified tariff structure, in the context of the FY27 budget and 2026-27 annual rebasing, with initial rebates to begin by end-January 2027 (**RM12, end-January 2027**). Ahead of this implementation, we will work closely with the IMF and World Bank to identify and verify consumers to be targeted under the new subsidy framework by end-January 2026; define eligibility criteria by end-July 2026; have a rebate mechanism in place with financial institutions by end-July 2026; and begin to roll out our communications campaign around this by end-June 2025. We will also seek to reform our gas subsidy system, which also entails a distortive and broadly targeted cross-subsidy system that spur overconsumption and wastage, to target low-income consumers. We will undertake analysis to better assess the viability of a scheme similar to that to be implemented in the power sector and will decide on a path forward by end-June 2026.

40. **Efforts to boost energy efficiency will help us to meet our national mitigation commitments**. We will improve energy efficiency in Pakistan by implementing recently-adopted regulations on minimum energy performance standards (MEPS) for consumer appliances by achieving MEPS compliance for all new fans (40 percent), LEDs (30 percent), refrigerators (35 percent), air conditioners (30 percent), and motors (25 percent) by end-June 2027; and via Public Procurement Regulatory Agency adoption of new regulations, by end-December 2025, mandating that procurement of the same five appliances, at the federal and provincial levels, are MEPS-compliant (**RM13, end-June 2027**). To support tracking and implementation of this objective, the National Energy Efficiency and Conservation Authority will provide tracking data on progress toward consumer appliance adoption on a quarterly basis, beginning in December 2025.

41. **Institutionalization of anti-theft procedures in the power sector will help to further minimize energy losses**. We have submitted to the National Assembly legislation in line with the substance of the Criminal Law (Amendment) Ordinance, 2023 such that the Pakistan Penal Code, 1860, Section 462 (O) is amended to institutionalize our enhanced collection efforts, which will be an important step toward reducing power sector losses.

Financing and Program Monitoring under the EFF and RSF

42. **We have secured adequate financing from our international partners to support our economic reform program and durably increase our external buffers**. Substantial progress has been made in securing the financing committed ahead of the program approval. To close the remaining gap for the next 12 months of the arrangement, we have secured financing commitments from bilateral and multilateral partners, including China, Saudi Arabia, the Asian Development Bank and the Islamic Development Bank. As committed at the outset of the EFF, our bilateral partners will also continue rolling over short-term claims (including loans, swaps and deposits) for the duration of the program, and we are seeking to lengthen the maturity of these claims as they roll over.

43. **Implementation of policies under the program will be monitored through semiannual reviews, with semiannual performance criteria and continuous performance criteria**, as set out in our MEFP dated September 11, 2024, along with this MEFP. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, continuous performance criteria, indicative targets, and structural benchmarks under the program. Completion of the second review scheduled for September 2025 will require observance of the quantitative performance criteria for end-June 2025, as set out in Table 1, along with continuous PCs and ITs. The structural benchmarks are set out in Table 2. Progress in the implementation of policies under the RSF will be monitored through RMs, which are detailed in Table 3, and semiannual reviews are to occur concurrently with EFF reviews.

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

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

	FY2024/25												FY2025/26	
	end-Sep 2024				end-Dec 2024				end-Mar 2025	end-Jun 2025		end-Sep 2025	end-Dec 2025
	Prog. (IT) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (PC) CR 24/310	Adjusted Prog.	Actual	Status	IT	Prog. (PC) CR 24/310	Proposed (PC)	IT	PC
I. Quantitative Performance Criteria													
Floor on net international reserves of the SBP (millions of U.S. dollars)	-12,150	-12,709	-11,316	Met	-12,050	-12,793	-9,716	Met	-10,200	-8,650	-7,450	-7,000	-6,500
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,044	15,200	14,387	Met	15,211	15,418	14,283	Met	15,179	15,820	15,024	14,971	15,146
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-3,250	...	-3,050	Met	-3,000	...	-2,990	Met	-2,750	-2,500	-2,500	-2,250	-2,000
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-198	-2,672	-3,202	Met	-2,877	-2,808	-3,604	Met	-2,707	-2,435	-2,397	-460	-2,095
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	5,100	...	4,470	Met	5,200	...	4,419	Met	5,400	5,600	5,600	5,700	5,800
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	101	...	102	Met	235	...	236	Met	415	599	599	103	262
Cumulative floor on the number of new tax returns (thousands) 4/	75	...	621	Met	225	...	941	Met	300	450	850	450	900
II. Continuous Performance Criteria													
Zero new flow of SBP's credit to general government	0	...	0	Met	0	...	0	Met	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	Met	0	...	0	Met	0	0	0	0	0
III. Indicative Targets													
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	2.8	...	2.66	Not met	2.8	...	3.32	Met	3.0	3.0	3.0	3.4	3.4
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	685	...	535	Not met	1,405	...	1,172	Not met	2,150	2,863	2,863	600	1,200
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-342	...	-384	Met	-750	...	-824	Met	-1,028	-1,217	-1,217	-432	-851
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,652	...	2,564	Not met	6,009	...	5,625	Not met	9,168	12,913	12,332	3,023	6,695
Floor on the consolidated net tax revenues collected by provincial revenue authorities (cumulative, billions of Pakistani rupees)	184	...	213	Met	376	...	443	Met	606	918	918	246	504
Floor on net tax revenues collected by the FBR from retailers under the *Tajir Dost* scheme (cumulative, billions of Pakistani rupees) 5/	10	...	0.003	Not met	23.4	...	0.004	Not met	36.7	50	...	...	...
Floor on income tax revenues collected by the FBR from retailers (cumulative, billions of Pakistani rupees) 5/	...	...	...	...	...	...	...	...	...	...	531	133	295
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	32	...	-40	Met	43	...	-9	Met	56	-24	-24	34	43
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	255	...	77	Met	461	...	11	Met	554	417	337	200	300

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/ Including guarantees for commodity operations by SOEs.

4/ Modified at the time of the First Review to narrow the definition of new tax returns.

5/ Indicative Target on tax revenues from retailers under the *Tajir Dost* scheme discontinued at the time of the First Review, and substituted by new target on income tax revenue from retailers.

Table 2. Pakistan: Structural Conditionality

Actions				
Structural Benchmarks		**Rationale**	**Date**	**Status**
Fiscal				
1	Do not grant tax amnesties, and do not issue any new preferential tax treatment (including exemptions, zero rating, tax credits, accelerated depreciation allowances, or special rates).	Protect tax revenue.	Continuous	Met.
2	Seek ex-ante parliamentary approval for any expenditures that are non-budgeted or that exceed the budgetary appropriation.	Improved parliamentary oversight of budget execution.	Continuous	Met.
3	Approve a National Fiscal Pact devolving some spending functions to the provinces.	Address the mismatch of federal and provincial revenues and expenditures.	end-September 2024	Met.
4	Share with the IMF staff a report detailing actions to reduce the federal government's footprint.	Reduce the footprint of the state.	end-September 2024	Met.
5	Each province amends their Agriculture Income Tax legislation and regime to fully align it with the federal personal income tax regime for small farmers and the federal corporate income tax regime for commercial agriculture, so that taxation can commence from January 1, 2025.	Protect tax revenue.	end-October 2024	Not met. Implemented with delay in February 2025.
6	Fully implement compliance risk management measures in Large Taxpayer Units in large markets in Islamabad, Karachi, and Lahore Regional Offices.	Improve tax compliance.	end-December 2024	Met.
7	Develop and publish on the Ministry of Planning website: (i) the criteria for project selection, including a scorecard, detailing the weight assigned to each criterion and the methodology for calculating the score; and (ii) the annual limit on the total size of new projects entering the PSDP portfolio.	Better public investment management.	end-January 2025	Met.
8	Introduce a 5 percent FED on fertilizer and pesticide.	Protect tax revenue.	end-June 2025	In progress.
Governance				
9	Amend the Civil Servants Act to ensure that asset declarations of high-level public officials (including assets beneficially owned by them and a member of their family) are digitally filed and publicly accessible (with sufficient protection over private information) through the FBR, with a robust framework for risk-based verification by a single authority.	Enhance effectiveness of anti-corruption framework.	end-February 2025	Not met. Reset to end-June 2025.
10	Publish the full Governance and Corruption Diagnostic Assessment report.	Publicly identify critical governance vulnerabilities.	end-July 2025	Reset to end-August 2025.
Social				
11	Annual Inflation adjustment of the unconditional cash transfer (Kafaalat).	Maintain purchasing power in real terms.	end-January 2025	Met.
Monetary and Financial				
12	Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.	Maintain FX market functioning.	Continuous	Met.
13	Parliamentary approval of amendments to the bank resolution and deposit insurance legislation, in a manner that preserves the integrity of the draft legal amendments.	Strengthen crisis management toolkit.	end-October 2024	Met.
14	Place undercapitalized private banks under resolution unless (i) these banks are fully recapitalized by end-October 2024; or (ii) a legally binding agreement is in place by end-October 2024 towards a merger with other banks or with a new sponsor that would achieve full recapitalization by April 2025.	Enforce regulatory standards.	end-November 2024	Not met.
15	In consultation with Fund staff, revise regulations and underlying methodologies on risk mitigating measures, including enhanced collateral policy and by requiring counterparties to be financially sound.	Improve safeguards in monetary policy operations.	end-December 2024	Met.
16	Implement revised regulations on risk mitigating measures.	Improve safeguards in monetary policy operations.	end-September 2025	In progress.
Energy Sector				
17	Complete all policy actions needed to prepare two DISCOs for privatization and concession transactions.	Improve DISCO management and efficiency.	end-January 2025	Met.
18	Eliminate captive power usage in the gas sector.	Push captive gas users on to the electricity grid and channel gas to the most efficient generators.	end-January 2025	Not met.
19	Public notification by the government of the December 2024 semiannual gas tariff adjustment determination.	Maintain tariffs at cost recovery levels.	February 15, 2025	Met.

Table 2. Pakistan: Structural Conditionality (concluded)

	Actions	Rationale	Date	Status
	Structural Benchmarks			
	State-Owned Enterprises and Investment Policy			
20	Amend the SWF Act and other legislation, in consultation with Fund staff and in line with MEFP ¶25.b, to adopt appropriate governance mechanisms and safeguards following international standards and good practices to (i) ensure that SOEs under the ownership of the SWF revert to the SOE Act's governance structures, (ii) that the SWF itself comes under governance mechanisms and safeguards in line with its principal nature as a holding company, and appropriate fiscal safeguards are in place for the SWF's operations.	Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023 and strenghten SWF governance and accountability.	end-December 2024	Not met. Reset to end-March 2026.
21	Amend the laws for 10 additional statutory SOEs, in consultation with Fund staff and in line with MEFP ¶25.a., to bring them in line with the SOE Act.	Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023.	end-June 2025	In progress.
22	Prepare a plan based on the assessment conducted to fully phase out all current Special Economic Zone (including Export Processing Zone) incentives by 2035.	Improve efficiency and provide a level playing field for investment.	end-June 2025	In progress.
	New Structural Benchmarks			
	Fiscal			
1	Parliamentary approval of a FY26 budget in line with IMF staff agreement to meet program targets.	Ensure achievement of fiscal objectives.	end-June 2025	
2	Implement the new AIT laws through a comprehensive plan, including the establishment of an operational platform for processing returns, taxpayer identification and registration, a communication campaign, and a compliance improvement plan.	Protect tax revenue.	end-June 2025	
	Governance			
3	Publish governance action plan based on the recommendations of the Governance Diagnostic Assessment.	Publicly identify reform measures to address critical governance vulnerabilities.	end-October 2025	
	Social			
4	Annual inflation adjustment of the unconditional cash transfer (Kafaalat) program.	Maintain UCT real purchasing power.	end-January 2026	
	Monetary and Financial			
5	Prepare and publish a plan outlining the government's post-2027 financial sector strategy, outlining the institutional and regulatory environment from 2028 onwards.	Safeguard financial stability.	end-June 2026	
	Energy Sector			
6	Notifications of the annual electricity tariff rebasing and gas tariff adjustment.	Maintain energy tariffs at cost recovery levels.	July 1, 2025	
7	Notification of the semi-annual gas tariff adjustment.	Maintain energy tariffs at cost recovery levels.	February 15, 2026	
8	Adopt legislation to make captive power levy ordinance permanent.	Promote uptake of electricity grid usage and incentivize more efficient use of energy sources.	end-May 2025	
9	Adopt legislation to remove the cap on the debt service surcharge.	Ensure adequate financing is available for CD conversion operation.	end-June 2025	
	Trade, Investment Policy, and Deregulation			
10	Prepare a plan based on the assessment conducted to fully phase out all incentives in relation to Special Technology Zones and other industrial parks and zones by 2035.	Improve efficiency and provide a level playing field for investment.	end-December 2025	
11	Submit to parliament all required legislation for lifting all quantitative restrictions on the commercial importation of used motor vehicles (initially only for vehicles less than five years old, subject to meeting minimum environmental and safety standards).	Liberalize trade and increase vehicle affordability.	end-July 2025	

Table 3. Pakistan: RSF Reform Measures

Reform Area	Reform Measure	Timing	EFF Review	Expected Outcome	IMF CD Input	Development Partner Inputs
Mainstreaming climate issues into budget and investment planning.	**RM1.** Increase the climate change (adaptation and mitigation) weighting in the Public Investment Procedures and Parameters methodology to at least 30 percent for infrastructure projects, develop explicit protocols for scoring projects against criteria, and publish the selection process and distribution of scores for new projects entering the PSDP.	end-August 2026	4th EFF Review	Comprehsive system for identifying climate-relevant spending across federal and provincial government, detailed budgeting in line with National Climate Change Policy, ongoing system for monitoring execution against planned climate spending.	FAD advising.	FAD to consult with the World Bank on the climate finance element of the selection process
	RM2. Revise PSDP call circular such that, for all new major infrastructure projects (greater than PRs 7.5 bn), only projects that have undertaken climate vulnerability, adaptation, and mitigation screening will be included in the budget; and publish a consolidated report summarizing the screening assessments for these projects.	end-August 2027	6th EFF Review	Enforcement of requirements for project selection; enhanced climate-sensitivity of PSDP over time.	FAD advising.	Supplemental support from the ADB, along with new budget preparation TA from the World Bank.
	RM3. Expand the federal climate budget-tagging framework to include expenditure on grants and subsidies and extend budget-tagging to expenditure by the provinces. Publish an annual climate budget statement and quarterly execution reports, tracking climate expenditure across each category and explaining any deviations from targets.	end-August 2027	6th EFF Review	Enforcement of climate screening requirements in practice. Stronger evidence base on climate mitigation impacts and adaptation aspects of public investment projects. Enhanced scrutiny of project preparation and appraisal.	FAD advising.	European Commission developing new PFM TA support. FCDO coordinating provincial green budget integration.
Improving water system reslience and diaster response financing.	**RM4.** Adoption and implementation of the e-Abiana irrigation service charge collection system by the irrigation authorities of Sindh, Khyber-Pakhtunkhwa, and Balochistan.	end-August 2027	6th EFF Review	Increased water revenue collections among the three provinces. Improve the effectiveness of water pricing.		World Bank to provide techncial support.
	RM5. Introduce an irrigation water tariff adjustment mechanism in Punjab and Sindh with the aim to recover the operational and maintenance costs of irrigation infrastructure.	end-February 2027	5th EFF Review	Incentivize more efficient use of water resources in a supply-constrained environment.		World Bank to provide techncial support.
	RM6. In the context of the National Disaster Risk Financing Strategy, adopt an implementation framework that encompasses federal and provincial disaster risk financing needs as part of the national risk layering approach and establishes a coordination mechanism for disaster risk financing across the federal and provincial authorities.	end-August 2026	4th EFF Review	Improve the coordination of DRF across the federal and provincial governments, consolidiate pronvincial DRF needs in the national DRF strategy to ensure adequate resources and access to innovative instruments.	FAD advising, TA as needed.	
Strenghten the climate information architecture and management of cliamte-related financial risk	**RM7.** SBP issuance and adoption of guidelines for the implementation of climate related financial risk management by supervised commercial banks in line with the 2022 BCBS principles for the effective management and supervision.	end-December 2025	3rd EFF Review	Incorporation of climate related financial risk considerations into risk management of banks and bank supervision.		
	RM8. Ministry of Finance to adopt by way of decree a green finance taxonomy adapted to Pakistan's updated NDC. Based on the adopted taxonomy, the SECP will issue disclosure guidelines to enable listed companies to disclose climate-related risk and opportunities information, including taxonomy-aligned data.	end-December 2025	3rd EFF Review	Fuller incorporation of climate considerations into Pakistan's financial and private sector architecture.	MCM to advise as needed.	World Bank working with the authorities on developing a green taxonomy.
Promoting green mobility and transport decarbonization	**RM9.** Adopt a supplementary carbon levy via the PDL on gasoline and diesel of Rs 5 per liter, phased in over two years; and add fuel oil to the PDL, with the base and supplementary rate applicable.	end-June 2025	2nd EFF Review	Significant reduction of CO2 emission. Incentivize the uptake of EVs, contributing to the authorities' goal of 30% penetration of new passenger EV sales and 50% for electric 2-3 wheelers by 2030. Reduce balance of payments stability risks by shifting away from imported fuels/petroleum products.	FAD advising, including via CPAT modeling.	
	RM10. Adopt, as part of the FY26 budget law, a revenue-neutral scheme including a subsidy for EVs and a supplementary tax on internal combustion engine vehicles, in line with the New Energy Vehicle Policy 2025-2030 and Fund recommendations.	end-June 2025	2nd EFF Review	Significant reduction of CO2 emission. Incentivize the uptake of EVs in a progressive fashion,contributing to the authorities' goal of 30% penetration of new passenger EV sales and 50% for electric 2-3 wheelers by 2030. educe balance of payments stability risks by shifting away from imported fuels/petroleum products.	FAD providing modeling and advice on subsidy and tax modalities and magnitude.	
	RM11. Adopt a PPP-viability gap funding framework that provides one-off subsidies to incentivize private sector investment in EV charging stations; ensure an open bidding process and include clear criteria to evaluate the eligibility of projects for gap funding; and implement the first bid window, in line with Fund recommendations.	end-February 2027	5th EFF Review	Significant reduction of CO2 emission. Create efficient incentives for the uptake and use of EVs, contributing to the authorities' goal of 30% penetration of new passenger EV sales and 50% for electric 2-3 wheelers by 2030. educe balance of payments stability risks by shifting away from imported fuels/petroleum products.	FAD providing modeling and advice on the framework.	
Aligning energy sector reforms with national mitigation commitments.	**RM12.** Budgeted electricity tariff differential subsidy and cross-subsidy system replaced with targeted subsidy framework for low-income consumers, with BISP disbursements through new system by end-January 2027.	end-January 2027	5th EFF Review	Better-targeted and more progressive subsidies leads to reduced incentive to overconsume electricity among higher-income consumers; reduced pressure from industry to deliver lower tariffs that do not align tariffs with cost and lead to wasted power; and reduced incentive for theft among lower-income consumers and thus lower energy losses.		World Bank to provide support, including analysis and advice to the authorities on consumer identification and verification, subsidy design, and implementation.
	RM13. PPRA adoption of new regulation by end-December 2025 mandating certain new electric appliances (fans, LEDs, refrigerators, air conditioners, and motors) procured at the federal and provincial level are MEPS-compliant; and achievement of new appliances entering the market for sale as MEPS-compliant (40 percent fans; 30 percent LEDs; 35 percent refrigerators; 30 percent air conditioners; 25 percent motors) by end-June 2027.	end-June 2027	6th EFF Review	By end-June 2027, new appliances (fans, LEDs, refrigerators, air conditioners, and motors) entering the market carry labels or comply with MEPS.		World Bank to provide support, including work with the authorities on the development of a tracking methodology for the uptake of MEPS-compliant appliances.

Attachment II. 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 Extended Fund Facility (EFF)—as described in the authorities' latest Letter of Intent (LOI) dated April 24, 2025, 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	0.935016	THB	36.800095
JPY	160.909469	MYR	4.717496
CNY	7.266408	SGD	1.357050
GBP	0.790920	INR	83.448119
AUD	1.507727	SAR	3.751497
CAD	1.371050	SDR	0.760260

1/ As of June 28, 2024.

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 278.3412 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 the amount of government guarantees* (stock, billions of Pakistani rupees);

  - *Floor on targeted cash transfers spending (BISP)* (cumulative, billions of Pakistani rupees); and
  - *Floor on the number of new tax returns* (cumulative, thousands).

- ***Continuous Performance Criteria***.
  - *No new flow of SBP's credit to general government*.
  - *Zero ceiling on the accumulation of external public 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);
  - *Ceiling on power sector payment arrears* (flow, billions of Pakistani rupees);
  - *Floor on the weighted average time-to-maturity of the domestic debt securities stock in local currency, including T-bills, PIBs, and Sukuks* (years);
  - *Ceiling on the aggregate provincial governments' primary* budget (cumulative, billions of Pakistani rupees);
  - *Floor on the consolidated net tax revenues collected by provincial revenue authorities* (cumulative, billions of Pakistani rupees); and
  - *Floor on the income tax revenue collected by the FBR from retailers* (cumulative, 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. The floor on NIR will be **adjusted** upward (downward) by the cumulative excess (shortfall) in:

a. 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 (ADB), 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 (including foreign currency financing extended by local branches of foreign banks), 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 both the December 2024 and June 2025 test dates.

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:**

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

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) will be **adjusted** on a cumulative basis since the beginning of the fiscal year:

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

b. downward by any under execution in the ***targeted cash transfers (BISP)*** relative to the indicative program target.

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

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

e. downward (upward) by any excess (shortfall) in the flow of ***SBP profit transfer*** relative to their respective projections (Text Table 1).

Text Table 1. Pakistan: Projections for SBP profit transfer
(Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

end-Mar 2025	end-Jun 2025	end-Sep 2025	end-Dec 25
2,500	2,500	0	1,309

B.5. Ceiling on the Amount of Government Guarantees

20. 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 government guarantees, including guarantees to SOEs for commodity operations, and external government guarantees. External government guarantees will be converted into Pakistani rupees at the program exchange rate. If any entity incurs interest arrears on borrowings backed by the guarantee, for purposes of the QPC such guarantee shall be evaluated as the higher of the value of the guarantee issued or the total amount owed. This ceiling excludes guarantees issued by the Ministry of Finance for the SBP borrowing from the IMF.

B.6. Floor on Targeted Cash Transfers Spending (BISP)

21. 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.

B.7. Floor on the Number of New Tax Returns

22. The floor on **the number of new tax returns** will be measured as the additional non-nil-tax returns beyond the existing stock of non-nil-tax filers. Non-nil-tax filer returns are defined as filers presenting a tax return with a liability greater than zero. The stock of non-nil-tax filers is 2,546,167 as of end-June 2024, and the floor on the number of new tax returns will be counted from the starting point of 2,546,167. For the targets set for September and December 2025, the number of new tax returns will be counted from the stock of non-nil-tax filers as of end-June 2025.

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 EFF, 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)***;

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 the Weighted Average Time-To-Maturity of the Domestic Debt Securities Stock

26. The weighted average time-to-maturity (ATM) of the local currency domestic debt securities stock is calculated based on the exact remaining time to maturity (in years) of each instrument in the portfolio (T-bills, PIBs, Sukuks). The remaining time to maturity of each instrument as of the relevant test date will be weighted by (i) the realized value at issuance for short-term instruments (original maturities of one year or less), including T-bills and short-term Sukuks; and (ii) the face value for longer-term instruments (original maturities greater than one year), including PIBs and longer-term Sukuks.

D.2. Floor on General Government Budgetary Health and Education Spending

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

D.3. Ceiling on the Aggregate Provincial Primary Budget Deficit

28. The **aggregate provincial primary budget deficit** is monitored quarterly as the aggregate overall budget deficit of the four provincial governments (Punjab, Sindh, Khyber Pakhtunkhaw, Balochistan), minus the aggregate interest bill of the four provincial budgets.

29. The **aggregate provincial overall budget deficit** is measured as the cash deficit from below the line.

D.4. Floor on Net Tax Revenues Collected by the Federal Board of Revenue (FBR)

30. 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.5. Floor on the Consolidated Net Tax Revenues Collected by Provinces

31. Net tax revenues collected by the provinces are defined as the sum of revenues collected from: (i) general sales tax (GST) on services (excluding GST on services collected in Islamabad Capital Territory); (ii) stamp duties; (iii) property tax; (iv) agriculture income tax; (v) registration fees; and (vi) unclassified revenues minus the tax refunds. Net revenue collection is defined, for each test date, as the cumulative sum of net revenues collected since the beginning of the respective fiscal year. The floor on the collection of net revenues by the provinces is measured quarterly based on cumulative end-of-quarter data.

D.6. Ceiling on Net Accumulation of Tax Refund Arrears

32. 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 230.9 billion as of end-May 2024, and the net accumulation of income tax refund arrears will be counted from the starting point of PRs 230.9 billion; the stock of sales tax arrears at end-May 2024 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; for the targets set for September and December 2025, the net accumulation of income and sales tax refund arrears will be counted from the stock of income and sales tax refund arrears as of end-June 2025

D.7. Floor on the Income Tax Revenue collected by the FBR from Retailers

33. The floor on the **income tax revenue from retailers** is defined as the sum of revenues from: (i) income tax return filings; (ii) withholding income taxes; and (iii) advance income taxes, paid by (i) retailers; (ii) wholesalers; and (iii) traders. Income tax revenue is defined, for each test date, as the cumulative sum of revenues collected since the beginning of the respective fiscal year.

D.8. Ceiling on Power Sector Payment Arrears

34. **Power sector payment arrears** are defined as power sector payables in arrears that arise from: (i) line losses and non-recoveries that are not recognized by NEPRA; (ii) non-recoveries from supply to Azad Jammu and Kashmir (AJ&K), other federal and provincial governments including FATA, private consumers, and Baluchistan Tube Wells; (iii) accrued markup from the servicing of PHPL; (iv) late payment surcharges; (v) delays in subsidy payments; (v) delays in tariff determinations resulting in pending generation cost; (vi) non-payments by K-Electric; and (vii) other adjustments (including prior year recoveries, spillovers etc.).

PROGRAM REPORTING REQUIREMENTS

35. **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 External Disbursements

(Millions of U.S. dollars)

	FY2025		FY2026	
	Jan-Mar 2025	Apr-Jun 2025	Jul-Sep 2025	Oct-Dec 2025
	Proj.	Proj.	Proj.	Proj.
Multilateral and bilateral disbursements	3,396	5,042	2,636	4,678
of which: in cash 1/	3,142	4,670	2,397	4,411
of which: Saudi oil facility and IDB commodity loans	386	514	450	550
of which: project support	724	1,224	652	807
of which: sales of state-owned assets	0	0	0	0
International bond issuance 2/	0	0	200	0
Commercial borrowing 3/	1,400	3,778	200	300
Other	0	0	0	0
Gross inflows	4,796	8,820	3,036	4,978
of which: in cash	4,542	8,448	2,797	4,711
memo: New loans/deposits at SBP 4/	0	0	0	0

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

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

3/ Includes foreign currency denominated loans from local branches of foreign banks.

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

Note: Cumulative excess/shortfall of flows cumulates from January 1, 2025 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	Stock of dividend/profit payments pending execution which have cleared any necessary regulatory processes.	Monthly	Within one 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 opens 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 (in PRs) and non-residents (in PRs and US$).	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, PIB, and Sukuk Bid sheet from domestic debt auctions, including auctions via PSX.	Daily	Within 1 day of each T-Bill and PIB auction
	Federal government	Federal and provincial governments fiscal operations (including fiscal outcomes broken down by province)	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. Interest arrears on guaranteed loans, if any.	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	Monthly	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	Monthly	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)	Monthly	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	Monthly	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)
	New taxpayers	Total number of notifications delivered; Number of taxpayers newly registers (voluntary and notified); Number and value if tax returns filed by newly taxpayers (voluntary and notified); Total value of revenue collected (voluntary and notified)	Monthly	Within seven days of the end of each month
	New taxpayers (retailers)	Number of registered retailers; Number and value of tax returns filed by newly registered taxpayers; Total value of revenue collected	Monthly	Within seven days of the end of each month
	Track and trace system	Number of facilities with track and traces; machines installed (cigarettes, fertilizer, sugar, cement); Total value of revenue collected per facility	Monthly	Within seven days of the end of each month
Ministry of Water and Power		CD flow report (detailing key components of CD flow); DISCO collections, broken down by DISCO; DISCO losses, broken down by DISCO; Electricity consumption by major consumer group (domestic and industrial, with domestic separated by slab); Revenues by major consumer group (domestic and industrial, with domestic separated by slab); Number of consumers by major consumer group (domestic and industrial, with domestic separated by slab); Tariffs by major consumer group (domestic and industrial, with domestic separated by slab) Anti-theft yields; Arrears to IPPs (broken down by each IPP)	Monthly	Within 25 days from the end of the month.

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Ministry of Petroleum and Natural Resources		Detailed CD flow (receivables) data by entity and receiver, per file; Gas tariffs, broken down by consumer category, with domestic consumers further broken down by slab; Gas volume sales, broken down by consumer category, with domestic consumers further broken down by slab; Gas revenues, broken down by consumer category, with domestic consumers further broken down by slab; UFG losses per entity	Monthly	Within 30 days from the end of the month
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by all BISP programs.	Monthly	Within 30 days from the end of the month
Ministry of Finance	Financial statements	Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	Quarterly	Within 30 days from the end of the quarter
Pakistan Public Procurement Authority	Public Procurement	Number and amounts of public procurement through the e-PADS system (planned, in-progress, and completed) at the Federal and Provincial levels (including petty purchase, request for quotation, open competitive bidding, and other alternate methods of procurement)	Quarterly	Within 30 days from the end of the quarter

INTERNATIONAL MONETARY FUND

PAKISTAN

May 7, 2025

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—SUPPLEMENTARY INFORMATION

Prepared by the Middle East and Central Asia Department

This supplement provides an update on recent economic developments and program performance since the issuance of the report on April 28, 2025. These recent developments do not alter the thrust of the staff appraisal.

1. **Tensions between Pakistan and India have risen significantly over the past two weeks after the April 22, 2025 attacks.** So far, the market reaction has been modest with the stock market retaining most of its recent gains and spreads widening moderately.

2. **CPI Inflation fell to a historic low of 0.3 percent (yoy) in April, below expectations**. Food and energy prices surprised to the downside, driven by declines in the price of wheat and key perishable food items, and lower global oil prices. Core inflation fell 1 ppt to 8 percent (yoy) in April, in line with expectations.

3. **The Monetary Policy Committee reduced the policy rate by 100 bps in their May 5 meeting**. The committee noted the additional downside surprises to inflation since their last meeting, and views that with the latest cut the real policy rate remains adequately positive to stabilize inflation in the target range.

4. **Progress continued toward recapitalizing the second private bank**, but with some aspects of the process in the midst of court processes, its full recapitalization was delayed. The SBP expects completion of the court cases and other steps within a month.

5. **Power sector CD flow continued to overperform through end-March 2025.** Gross circular debt (CD) flow of PRs 154 billion strongly outperformed the March

indicative target ceiling of PRs 554 billion, driven by continued strong distribution company recoveries, timely monthly and quarterly tariff adjustments, and lower than expected interest charges to power producers.

6. Enterprise risks have increased. The rising tensions between India and Pakistan, if sustained or deteriorate further, could heighten enterprise risks to the fiscal, external and reform goals of the program. Reputational risks could also come from any perceived lack of evenhanded or if there was a perceived misuse of Fund disbursements. As mitigants, the Pakistani authorities have reiterated their strong commitment to the program, which is designed to help restore economic stability, build resilience through stronger reserve buffers, and advance reforms to create stronger and inclusive growth. Moreover, disbursements under the EFF are dedicated to build reserves, and the program's ambitious fiscal and reserve goals (including floors on social spending) limit the space for non-priority spending and the use of reserves to finance imports. Given the RSF's different purpose, its disbursements are available for fiscal financing, although there cannot be any disbursements outside of an EFF review and not before completion of the second review. Careful Fund communication will be essential to underscore the Fund's neutral role and avoid misperceptions about its lending activities.

7. Against this backdrop, staff supports the authorities' request for modification of performance criteria and continues to recommend the completion of the review and request for a Resilience and Sustainability Facility (RSF) as set forth in the main staff report, the authorities' April 2025 Letter of Intent (LOI) and the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU).

INTERNATIONAL MONETARY FUND

PAKISTAN

May 7, 2025

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This note provides the World Bank's current assessment of Pakistan's vulnerability to climate change as well as government policies and commitments for adaptation and mitigation. An assessment has been requested in relation to the Board Meeting on Pakistan's first EFF Review and RSF Request.

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. **Climate change is a risk multiplier, with potentially highly negative consequences that can have ripple effects**. Pakistan ranks among the top 10 countries worldwide most affected by climate change and natural disasters. The country faces further warming of its already hot climate at a rate considerably above the global average. By the end of the 21st century, the number of days a year with a heat index greater than 35°C is projected to rise by 9–13 days under the SSP1-1.9 scenario, 16–30 days under SSP2-4.5, and 21–39 days under SSP3-7.0 scenario. There is a significant probability of ever more climatic variability and extreme events. Progressive warming of the air and soil will result in the reduced availability of water. Periodic heatwaves will intensify these effects and contribute to more severe, more frequent, and longer droughts. Climate change and deposits of anthropogenic black carbon (BC) will hasten the melting of glaciers, leading to changes in the flow of river systems and seriously affecting Pakistan's economy and ecology. A more variable monsoon regime, and likely more intense storm and cyclone events, will result in floods and induce landslides. Continued and accelerating sea-level rise will cause the ocean to encroach on coastal settlements and infrastructure and commit low-lying coastal ecosystems to submergence and loss.

2. **The 2022 floods showed Pakistan's high vulnerability to climate change despite contributing less than one percent of global greenhouse gas emissions**. One-third of the country was submerged under water, and 33 million people were affected. Nearly 8 million people were reportedly displaced. The floods took the lives of more than 1,700 people, one-third of them children. The total damage is estimated at US$14.9 billion, total loss at US$15.2 billion, and total needs at US$16.3 billion. Housing, Agriculture and Livestock, and Transport and Communications sectors suffered the most significant damage, at US$5.6 billion, US$3.7 billion, and US$3.3 billion, respectively. Sindh was the worst affected province with close to 70 percent of total damages and losses, followed by Balochistan, Khyber Pakhtunkhwa, and Punjab.

3. **The adverse impacts of climate change on Pakistan's natural and human capital are likely to be severe**. Over the past three decades, climate-related disasters have caused significant loss of life and enough socioeconomic damage to precipitate a reversal of development gains. Between 1992 and 2021, climate- and weather-related disasters in Pakistan resulted in a total of US$29.3 billion of economic losses (inflation-adjusted to 2021 US dollars) from damage to property, crops, and livestock, equivalent to 11.1 percent of 2020 GDP. The flood in 2010 alone resulted in an adjusted economic loss of 4.5 percent of 2020 GDP. Climate change will increasingly put pressure on food production and access. It will also enhance the impact of air and water pollution on human health. Further, labor productivity is likely to decline across the board because of extreme heat. Precipitation changes and declining water availability could damage riverine ecology, impair water security, and affect hydropower production. Sea-level rise will contribute to the further salinization of soils and coastal erosion, and inundation will harm fisheries and aquaculture. Over time, there is likely to be a partial collapse in the natural systems that underpin Pakistan's economy.

B. Government Policies and Commitments

4. **Given its extreme vulnerability to the impacts of climate change, the Government of Pakistan (GoP) has taken proactive steps over the last decade in policymaking and enhancing its commitment to climate action**. The Ministry of Climate Change and Environmental Coordination (MoCC&EC), established in August 2017, has assumed major responsibilities and gained oversight of key functions related to environmental action and disaster risk management. In the same year, the Pakistani Parliament passed the Pakistan Climate Change Act 2017, which mandated the establishment of the Climate Change Council, the Climate Change Authority, and the Climate Change Fund. However, the fund is yet to be established, and the authority was only established in 2024 following an order from the Supreme Court of Pakistan to the Federal Government. Despite its establishment, the authority remains largely non-functional due to operational delays, hurdles, and a lack of clarity on how both the MoCC&EC and the Authority will operate given their similar mandates.

5. **Pakistan's updated 2021 Nationally Determined Contributions (NDC) represents a paradigm shift toward an inclusive, innovative, whole-of-economy approach to tackling climate change challenges through targeted adaptation and mitigation actions**. The National

Climate Change Policy (NCCP), first launched in 2012, was updated in 2021 to support the implementation of the NDCs. This update linked climate action with economic growth, emphasizing the mainstreaming and integration of climate change policy with other national policies. According to its updated NDCs, Pakistan has committed to a 50% reduction in greenhouse gas (GHG) emissions (35% contingent upon international financial support and 15% through domestic financing) and to producing 60% of all energy from renewable energy resources, including hydropower, by the year 2030. Since then, the country has introduced multiple policies to support its adaptation and mitigation ambitions

Adaption and Priority Areas to Strengthen Resilience

6. **The GoP officially launched the National Adaptation Plan (NAP) in 2023, in the aftermath of the 2022 floods, to prioritize building resilience and adaptation to the adverse impacts of climate change**. The NAP prioritizes six areas: the Agriculture-Water nexus, Natural Capital, Urban Resilience, Human Capital, Disaster Risk Management, and Gender, Youth, and Social Inclusion. The NAP was developed in consultation with provincial stakeholders, emphasizing Pakistan’s vulnerability to climate change and the centrality of adaptation to its economic and developmental progress. The NAP emphasizes tackling climate challenges through better institutional collaboration and implementing climate adaptation mechanisms, such as climate budget tagging, which can support line ministries in understanding the depth and reach of pro-climate programs and policies and guide climate-resilient planning in Pakistan's long-term development and strategic planning.

7. **As per the updated NDCs, the high-priority adaptation actions include**: (i) the Recharge Pakistan Program (reducing flood risk and enhancing water recharge at six sites in the Indus Basin, building the resilience of 10 million people, and strengthening vulnerable ecosystems) and (ii) expanding protected areas from 12 percent of Pakistan's geographical area to 15 percent by 2023. Pakistan has committed to unconditionally reducing its overall emissions by 15 percent by 2030, relative to its projected emissions. It has also committed to reducing emissions by an additional 35 percent conditional on the availability of climate finance (see Figure 5.5). The NDC commits the government to continue investments in nature-based solutions (NBSs) such as the Ten Billion Tree Tsunami Program (TBTTP), a four-year project that will have the quadruple benefits of natural capital restoration, carbon sequestration, and livelihood improvements, especially for poor households.

Mitigation and Priority Areas to Reduce GHG Emissions

8. **A number of new sectoral policies supporting decarbonization efforts have been adopted**. For instance, the 2019 Alternative Renewable Energy (ARE) Policy aims to create an environment and framework for the sustainable growth of Pakistan's ARE sector. The promotion of energy efficiency and conservation is now supported by the Strategic Plan for Energy Efficiency & Conservation (2020–2023), and the 2019 National Electric Vehicle Policy (NEVP) for 2020–2025 promotes the development of the transport supply chain (e.g., reduced import duties on batteries and charging equipment) and the use of electric vehicles (EVs). Collectively, these initiatives, reforms,

and policy changes signal new momentum toward taking fuller ownership of the climate change-related challenges and crises the country faces, supporting the implementation of its NDCs. In 2021, Pakistan signed the Global Methane Pledge to curb its methane emissions by 30 percent from the 2020 level (141 million MtCO2e) to about 99 million MtCO2e by 2030. Furthermore, the National Clean Air Policy (NCAP), introduced in 2023, provided key recommendations aimed at improving air quality across the country by reducing GHG emissions from critical sectors such as transport, industry, agriculture, waste, and households.

9. Priority mitigation measures in the NDC include: (i) expanding renewable energy (RE); (ii) greening transportation (30 percent of all new vehicles sold in Pakistan in various categories must be EVs by 2030); and (iii) reducing dependence on coal (there is a moratorium on new coal power plants from 2020 onward, a ban on imported coal, the shelving of plans for two new coal-fired power plants in favor of hydro-electric power, and a focus on coal gasification and liquefaction for indigenous coal). Pakistan is currently developing its NDC 3.0, and the MoCC&EC has initiated the process of consultative workshops with provincial counterparts to ensure that the process is collaborative and that the document has the ownership of all stakeholders.

C. Other challenges and opportunities

10. Part of Pakistan's challenge is a lack of policy consistency and continuity. Policies, budgets, and programs related to climate risk have thus far been subject to changing political currents. As a result, although climate-change issues have featured in Pakistan's overall development policies since the 2012 National Development Strategy (NDS), specific actions or implementation steps have been lacking. The first National Climate Change Policy (NCCP 2012) provided guidelines for developing national adaptation and mitigation plans across sectors, but in practice, it had little impact on sectoral programs. Three years later, in its first Intended Nationally Determined Contribution (INDC 2015), Pakistan made a handful of very limited commitments to mitigation and adaptation but has not moved significantly beyond that point. One reason is that government ownership of climate change policy and responsibilities for action has been fragmented. For the past several years, this responsibility has shifted between different institutions and levels, with blurred lines of responsibility and weak forms of accountability.

11. Additionally, challenges exist in transferring environmental, water, agriculture and climate-change policies and programs from the national level down to the provincial level, and across sectors. With the advent of devolution in Pakistan, the provinces became responsible for sectoral policies and implementation within their respective jurisdictions. As a result, although the MoCC has the overall mandate for climate change policy, each province has its own Environmental Protection Agency (EPA) responsible for environmental policy and programs within that province. This includes climate-change mitigation and adaptation measures. Two provinces have also set up climate-change centers under their EPAs. However, provincial capacity remains weak. In addition, because almost all climate and environmental challenges are multifaceted and multisectoral, most climate and environment actions require close coordination and coherence across departments within the provincial governments, as well as across provincial boundaries and with federal departments, but the capacity and skill to develop that level of coordination and coherence are lacking. The same applies to the irrigation and agriculture departments.

12. **Another major challenge for Pakistan is the access to climate finance required to address its climate challenges**. The NDC (2021) estimates that, by 2030, the total cost of NDC implementation will reach nearly US$200 billion. It is estimated that the clean energy transition alone will require US$101 billion. The cost of adaptation associated with disaster response and recovery is at present hard to gauge—one estimate from the MoCC using a top-down approach is about US$10.7 billion a year, with a total estimation of US$85.6 billion for 2022–2030. Pakistan CCDR estimates that the total investment needs for a comprehensive response to Pakistan's climate and development challenges between 2023 and 2030 amount to around US$348 billion. This figure underscores the significant financial resources required to address both mitigation and adaptation measures effectively. To address this need, the GoP developed a National Climate Finance Strategy and launched it in November 2024 at the COP in Baku. The strategy focuses on domestic resource mobilization by removing inefficiencies and inequities in spending and revenue collection, mobilizing additional domestic finance by widening the tax base and recovering service delivery costs, and creating a policy environment that encourages private investment and strengthens the country's capacity to access international climate finance.

D. World Bank Engagement in the Area of Climate Change

13. **The World Bank Group's lending, technical assistance, and knowledge instruments support the implementation of the government's climate change objectives and initiatives**. The new 10-year Country Partnership Framework (CPF) for Pakistan has made increased resilience to floods and other climate-related disasters and better food and nutrition security in the face of climate impacts on the water-agriculture nexus as one of its six key country outcomes, which showcases the WBG's long-term commitment to enhancing Pakistan's resilience to climate impacts. Furthermore, since FY2014, all IDA/IBRD projects approved in Pakistan have been screened for climate and disaster risks to inform project design. From FY2014 to FY2024, approximately US$ 9.16 billion—or 39 percent—of the total US$ 23.51 billion in IDA/IBRD commitments had climate co-benefits. Of this, 39 percent (US$ 3.59 billion) supported adaptation and 61 percent (US$ 5.57 billion) supported mitigation.

14. **To support Pakistan's resilience and energy transition, the WBG, in partnership with the GoP, launched the Pakistan Country Climate and Development Report (CCDR) in 2022**. The CCDR has influenced Pakistan's climate policies, informed WBG operations and client support, and informed the climate programmes of other development partners as well. Following the devastating 2022 floods, the CCDR's "Build Back Better" principles guided Pakistan's Resilient Recovery, Rehabilitation, and Reconstruction Framework (4RF, 2022). The CCDR also informed Pakistan's first National Adaptation Plan, with a focus on the agriculture-water nexus, human capital development, and disaster risk management – key areas emphasized by the CCDR. Many ongoing projects—

including the Sindh Water and Agriculture Transformation (SWAT) Project, Sindh Flood Emergency Housing Reconstruction Project (SFEHRP), Sindh Flood Emergency Rehabilitation Project (SFERP), Integrated Flood Resilience and Adaptation Project (IFRAP), and Khyber Pakhtunkhwa Rural Investment and Institutional Support Project (KP-RIISP) are aligned with the CCDR. The CCDR provided a foundation to provide technical assistance to the Government in key areas, including the development of a Climate and Disaster Risk Finance Strategy, Partnership for Market Implementation (PMI) engagement, and a Crisis Preparedness Gap Analysis (CPGA). The CPGA, for instance, assessed and provided recommendations on the preparedness for natural hazards, food insecurity, and health emergencies in Pakistan, with a dedicated focus on understanding and monitoring risks associated with climate change and disasters.

Statement by Mr. Bahador Bijani, Executive Director and Mr. Saif Ullah Dogar,
Senior Advisor on Pakistan
May 9, 2025

On behalf of the Pakistani authorities, we express our sincere appreciation to the IMF mission team, led by Mr. Porter, for their close and constructive engagement following the approval of the Extended Fund Facility (EFF) arrangement in September 2024. This collaboration has been instrumental in sustaining policy discipline—and achieving a timely staff-level agreement on the first review under the EFF and on a new arrangement under the Resilience and Sustainability Facility (RSF). We acknowledge staff's recognition of the authorities' policy ownership, program implementation fidelity, and reform resolve—which characterize the performance over the past two years and under the new EFF. The authorities also extend their gratitude to IMF Management and the Executive Board for their continued confidence, valuable counsel, and steadfast support. They reaffirm their full commitment to the program's objectives and to maintaining a steady reform trajectory. The authorities further extend deep appreciation to bilateral and multilateral partners—particularly the People's Republic of China, the Kingdom of Saudi Arabia, and the United Arab Emirates—for their timely and critical external financing support during this pivotal phase of macroeconomic stabilization and structural reform.

I. Macroeconomic Performance and Outlook

The economic landscape of Pakistan indicates a discernible recovery, following a protracted period of external and fiscal imbalances. Despite ongoing adjustment pressures, the economy recorded year-on-year (YoY) growth of 1.5 percent in H1 FY25, compared to 2.1 percent in the same period of FY24. This deceleration is largely attributed to stabilization measures yet reflects a foundational shift toward sustained macroeconomic facilitating the restoration of equilibrium across fiscal, monetary, and external sectors across fiscal, monetary, and external sectors.

A particularly encouraging development has been the turnaround in the external account. Pakistan has posted a current account surplus during July-March FY25 of 0.5 percent of the GDP against the deficit of an equal proportion in the corresponding period last fiscal year, which clearly is an outcome driven primarily by the resurgence in remittances amid improved political stability and exchange rate normalization. These positive externalities offset deficits in trade and primary income, demonstrating the economy's growing resilience.

Equally important is the attenuation of sovereign risks. The ongoing IMF program, coupled with prudent fiscal stewardship, has led to a **sovereign credit rating upgrade** and compression of international borrowing spreads. These indicators reflect enhanced investor confidence and validate the authorities' capacity to meet external obligations without resorting to disruptive policy measures.

The inflationary spiral that once threatened macroeconomic stability has now been contained. From a peak of nearly 40 percent in mid-2023, headline inflation has been tamed to a mere 0.7 percent by March 2025. This dramatic disinflationary trend has allowed the State Bank of Pakistan (SBP) sufficient space to reduce the policy rate by 10 percentage points since June 2024, bringing it down to 12 percent by January 2025. The recalibration of monetary policy not only aims to bolster investment and consumption but also to reinforce financial stability.

Economic projections point to further consolidation, with growth expected to accelerate in FY25 and in FY26. These forecasts, although moderate, are realistic and rooted in ongoing policy reforms and institutional improvements. They indicate a transition from crisis containment to recovery and signal an inflection point toward more broad-based growth.

II. Program Performance

The performance under the Extended Fund Facility (EFF) remains robust, reflecting the authorities' sustained commitment to the program's structural and quantitative objectives. Staff assessments underscore strong implementation fidelity, despite a challenging macroeconomic backdrop and an ambitious reform agenda. While a limited number of indicative targets were missed—primarily owing to a sharper-than-anticipated disinflation trajectory—and some structural benchmarks experienced short-term delays, these forced deviations are well-explained, temporary in nature, and have been addressed with appropriate remedial actions. The authorities' concerted efforts, including front-loaded and politically challenging reforms, led to the timely staff-level agreement for the first review under the EFF.

The authorities' delivery on core reform pillars—fiscal consolidation, monetary tightening, SOE governance, and climate resilience—demonstrates program ownership and institutional resolve. The reforms are anchored in a medium-term macroeconomic framework that aims to ensure fiscal sustainability, enhance external buffers, contain inflation expectations, and safeguard financial stability. The achievement of a staff-level agreement in March 2025 is a testament to the credibility of Pakistan's policy stance and the authorities' institutional capacity to meet demanding reform milestones under the program. Structural reform progress has been particularly noteworthy in the areas of public financial management, SOE oversight, climate-informed fiscal policy, and revenue mobilization.

III.Fiscal Consolidation: Anchoring Stability and Enabling Reform

The authorities recognize that fiscal consolidation remains a critical pillar of Pakistan's macroeconomic stabilization strategy. The authorities have demonstrated strong ownership and discipline in advancing a consolidation path that safeguards macroeconomic stability while preserving space for pro-poor and growth-enhancing expenditure.

The underlying primary balance of 1.0 percent is targeted to reach a primary surplus of 2.1 percent of GDP in FY25—up from 0.9 percent in FY24—representing a significant fiscal adjustment amid challenging domestic and external conditions. The overall fiscal deficit is projected to narrow to 5.7 percent of GDP in FY25, down from 6.8 percent in the previous fiscal year. These improvements are underpinned by stronger revenue mobilization, expenditure rationalization, and enhanced fiscal governance. In the first eight months of FY25, the fiscal deficit declined to 2.2 percent of GDP from 3.1 percent in the same period last year, while the primary surplus improved to 3.0 percent from 1.7 percent.

This fiscal trajectory is being achieved through a calibrated approach—eschewing abrupt expenditure cuts in favor of sustained, broad-based reforms. The strategy reflects a transition from reactive adjustments to a forward-looking fiscal policy paradigm, balancing fiscal consolidation with development priorities and social protection.

a. Revenue Mobilization: Broadening the Base and Enhancing Equity

Recognizing that a narrow tax base undermines fiscal sovereignty and macroeconomic resilience, the authorities are executing an ambitious tax policy and administration reform agenda. The medium-term objective is to raise the tax to-GDP ratio from below 10 percent to 13–14 percent through base-broadening measures, removal of distortive exemptions, and improvements in compliance.

Despite lower-than-expected nominal GDP growth, Federal Board of Revenue (FBR) tax collections rose by 26.3 percent in FY25, a performance that reflects administrative efficiency and intensified enforcement. Key measures include:

- Integration of taxpayer data across FBR, NADRA, and provincial entities.
- Phasing out of tax exemptions amounting to 1.5 percent of GDP.
- Expansion of the tax net to previously undertaxed sectors such as retail, real estate, and agriculture.
- Accelerated digitalization of tax administration systems.

The National Fiscal Pact (NFP) has further institutionalized intergovernmental coordination. Under the NFP, provinces have committed to enhancing own-source revenue mobilization, harmonizing key taxes, and aligning spending responsibilities. This is a critical milestone for sustainable federal fiscal architecture.

The Transformation Plan prioritizes digitization, transparency, and equity in tax administration. Consultative sessions with global experts are being used to refine risk-based audit systems, streamline dispute resolution, and improve taxpayer services. The focus is on establishing a rules-based, technology-enabled tax system that is insulated from political cycles. Moreover, governance enhancements are being implemented through performance-linked budgeting, merit-based appointments, and greater transparency in procurement and expenditure tracking. These measures are designed not just to increase efficiency, but to rebuild public trust in institutions.

b. Expenditure Rationalization: Efficiency with Equity

Expenditure management reforms are aimed at improving allocative efficiency while maintaining a strong social safety net. Federal current expenditure has been capped, while targeted spending on pro-poor programs has expanded. The Benazir Income Support Programme (BISP) now supports over 9 million families—an all-time high—demonstrating the authorities' continued commitment to protecting the most vulnerable.

From July to February FY25, PRs 347 billion was disbursed under BISP, representing an 82.6 percent increase over the previous year, against a full-year allocation of PRs 592.5 billion. Complementary interventions through the Pakistan Poverty Alleviation Fund provided over 18,000 interest-free loans, contributing to income generation at the grassroots level.

Energy subsidies have been restructured to target the bottom 40 percent of the population, thereby ensuring fiscal savings without compromising social equity. Meanwhile, comprehensive rationalization of public administration is underway, involving streamlining of over 43 ministries and 400 departments.

Pension reform is high on the agenda, with a shift toward defined-contribution schemes to manage long-term liabilities. Concurrently, governance reforms in state owned enterprises and public investment management are being pursued to improve public service delivery and reduce contingent fiscal risks.

Pakistan's reform architecture has evolved beyond macroeconomic stabilization toward a structurally integrated agenda for sustained, inclusive growth. The URAAN Pakistan initiative embodies a multidimensional policy framework designed to stimulate economic dynamism, crowd in private sector investment, and elevate national competitiveness across strategic high-growth sectors including textiles, agriculture, small and medium enterprises, and information technology.

Central to this reform trajectory is the Transformation Plan, first articulated in November 2024, which delineates five interlocking pillars: productivity enhancement, digitalization, climate resilience, equity, and infrastructure modernization. Conceptualized in close coordination with the Fund and the World Bank, the plan seeks to institutionalize systemic reforms in tax administration, regulatory governance, and public sector efficiency. The blueprint has secured both high-level political commitment and multilateral validation, underscoring its credibility and alignment with international development benchmarks.

IV. Monetary Policy Management: Re-Anchoring Stability through Credibility and Precision

The monetary policy stance has remained appropriately contractionary, effectively anchoring inflation expectations and supporting the broader stabilization effort. Following an extended period of tight monetary conditions to curb inflationary pressures and stabilize the exchange rate, the State Bank of Pakistan (SBP) has cautiously transitioned to a data-driven easing cycle. The reduction in the policy rate—by a cumulative 10 percentage points since June 2024—was underpinned by sustained disinflation, a marked improvement in the external position, and contained demand-side pressures.

Headline inflation, which had peaked at nearly 40 percent in mid-2023, declined sharply to 0.7 percent by March 2025, reflecting the impact of decisive monetary tightening, prudent fiscal management, normalization of food and energy supply chains, and currency stabilization. This significant disinflation has allowed the SBP to recalibrate its policy rate to 12 percent as of January 2025, in line with its medium-term inflation target range of 5–7 percent.

The authorities have maintained a prudent and forward-looking approach to monetary policy, cognizant of the risks of premature easing. The Monetary Policy Committee (MPC) has emphasized the importance of preserving real interest rate buffers and safeguarding macro-financial stability. The policy rate path remains guided by inflation dynamics, exchange rate pass-through, external account developments, and the pace of fiscal consolidation.

The SBP continues to prioritize transparency and accountability in the conduct of monetary policy. Enhanced forward guidance, improved communication of the MPC's rationale, and timely publication of analytical reports have contributed to greater market predictability and investor confidence. Institutional reforms have been undertaken to reinforce the operational framework of monetary policy. These include:

- Revisions to the SBP's collateral eligibility and counterparty frameworks, improving the effectiveness and risk management of liquidity operations.
- Enhancements to the monetary policy transmission mechanism, including greater pass-through of policy rates to market instruments and lending rates.
- Ongoing reforms to the domestic government securities market, which will bolster liquidity, support public debt management, and strengthen the transmission of monetary policy signals.

The SBP has exceeded the floor on Net International Reserves (NIR), driven by proactive market purchases, improved balance-of-payments dynamics, and stable remittance inflows. Nonetheless, the authorities remain vigilant regarding reserve adequacy and are committed to continued accumulation of reserves to fortify external buffers and enhance resilience to exogenous shocks.

The exchange rate regime has remained market-determined, with interventions confined to addressing excessive volatility and disorderly market conditions. The authorities have allowed two-way exchange rate flexibility, and the SBP has refrained from any sustained intervention or targeting of a specific exchange rate level. This approach has facilitated external adjustment, improved foreign exchange market functioning, and contributed to the rebuilding of confidence among market participants.

The ongoing reforms to the foreign exchange regulatory framework—focused on transparency, simplification, and alignment with international best practices—are being pursued in consultation with the IMF and other development partners. These include liberalizing current account transactions, streamlining foreign currency payments, and enhancing documentation and monitoring of capital flows. The SBP remains firmly committed to preserving price and financial stability, safeguarding the credibility of its inflation-targeting framework, and advancing institutional reforms that will underpin a more robust, transparent, and market-oriented monetary policy environment.

V. Climate Resilience and Fiscal Risk Management

As per Global Climate Risk Index Pakistan is among the top 15 countries in the world with the highest climate risk, where the frequency, intensity and scale of climate disaster have increased manifold compared to countries in the region or rest of the world. Due to a considerably low climate resilience these exogenous shocks impose unbearably high costs which disrupt the public investment plans and force deviation from the sustainable economic path. As explained and appropriately highlighted by staff in the report, Pakistan's climate vulnerabilities are among the highest, however, the readiness is among the lowest.

VI. Resilience and Sustainability Facility

Climate change poses severe fiscal and developmental risks. Following the **catastrophic floods in 2022 that affected over 33 million Pakistanis** and caused losses of over USD 30 billion, the authorities initiated a national effort to decisively deal with both the challenges. While Pakistan was looking forward to availing itself of the RSF to build resilience and leverage its catalytic effect to attract external inflows, given the access criteria, the new EFF in 2024 was the only opportunity for Pakistan to access it. However, in the meantime, in line with the Fund advice and with the assistance of multilateral and bilateral development partners, the authorities made significant progress in the form of Country Climate Development Report (CCDR), National Adaptation Plan (NAP), Climate Prosperity Plan (CPP), C-PIMA and Climate-Informed Fiscal Risk Framework.

Pakistan has an elaborate and comprehensive legal and institutional framework available that could be ignited to achieve the objectives laid out under the National Climate Change Policy (NCCP). A dedicated legislation was introduced to create an Authority and a Fund with an aim to access finances for adaptation and mitigation initiatives.

The Resilience Support Facility (RSF) is designed to serve two primary objectives. First, to strengthen Pakistan's capacity to absorb climate-related shocks to economic growth and the balance of payments. Second, to effectively implement the legal and institutional frameworks introduced by the National Climate Change Policy (NCCP), including the promotion and adoption of renewable energy and electric vehicles (EVs). While the access request approaches the upper limit, it remains below the standard normative threshold of 75 percent of quota. The adequacy of the request's magnitude as a signaling mechanism to international markets and institutional investors is pivotal, as it conveys the urgency and huge needs of Pakistan's to bridge climate financing gap—thereby facilitating the activation of the facility's catalytic function.

As a signatory to the 2015 Paris Climate Accord, Pakistan has committed to reducing greenhouse gas emissions by 15 percent by 2030. In addition, national targets have been set for increasing the share of renewable energy, expanding EV adoption, curbing the development of coal-fired power plants, and implementing a ten-year afforestation initiative.

The current juncture calls for translating climate strategies into concrete investments. Urgent action is required to finance both climate-adaptive infrastructure and mitigation efforts, necessitating the creation of additional fiscal space.

The integration of climate risk into public financial management—through tools such as green budget tagging and disaster risk budgeting—reflects a shift toward a forward looking fiscal policy paradigm. Over 5,000 cost centers have now been categorized under climate-responsive classifications, with corresponding allocations and contingency funds prepositioned to safeguard the credibility and integrity of the national budget in the face of potential exogenous climate shocks.

VII. Structural Reforms:

a. **Implementation of SOE Reforms:** Our authorities are vigorously implementing the State-Owned Enterprises (Governance and Operations) Act, 2023 and the SOEs (Ownership and Management) Policy, 2023 to strengthen the performance, transparency, and governance of SOEs.

i. *Board Restructuring:*

The boards of key SOEs have been reconstituted to ensure that most directors are independent, as mandated by the SOEs Act. These board members possess the professional qualifications, sectoral expertise, and skills required to ensure sound corporate governance and operational efficiency.

ii. *SOE Categorization and Rightsizing:*

The Cabinet Committee on SOEs (CCoSOEs) and the Committee on Rightsizing have completed the categorization of SOEs in accordance with the new legislation. Rightsizing and rationalization of public sector entities are currently underway to improve fiscal sustainability and service delivery.

iii. *Operational Guidelines by the Central Monitoring Unit (CMU):* The

CMU has issued comprehensive guidelines covering key areas such as:

a) Preparation of business plans.

b) Criteria for the appointment of senior management.

c) Director nomination and performance evaluation.

d) Costing of Public Service Obligations.

e) Audit committee regulations; and

f) Internal controls and risk management frameworks.

iv. *Legal Alignment of Statutory Bodies:* The governing laws of four major statutory bodies have already been aligned with the SOE framework and alignment of nine more statutory SOEs is targeted by June 2025.

v. *Institutional Restructuring Plans:* In line with the directives of the CCoSOEs, detailed restructuring, transformation, and merger plans for selected SOEs are under active consideration and development.

vi. *Digital SOE Database:* The CMU, in collaboration with the National Information Technology Board is developing a centralized digital database for SOEs to enhance monitoring, performance evaluation, and data-driven decision-making.

b. **Privatization Update*:*** Comprehensive details of the privatization process are provided in the staff report. We wish to share an update that significant progress has been made in removing key obstacles that previously deterred investor interest in the privatization of PIA. These include the resolution of critical investor concerns regarding negative equity and tax liabilities, the lifting of the European Union ban on PIA operations, and sustained investor outreach efforts.

VIII. ***International Support and Collaborative Engagement***

Pakistan's development agenda is being undergirded by robust international cooperation. Pakistan’s appetite and willingness to take the decisive actions and build on the reform momentum has found traction with multilateral development partners and the ongoing initiatives in line with the C-PIMA recommendations are expected to help accessing the concessional financing, technical assistance, and access to global climate finance mechanisms—including the Green Climate Fund.

Pakistan is now the first country to enter a 10-year ‘Country Partnership Framework’ with the World Bank which would focus the global institution's pledge of

USD 20 billion in areas including clean energy and climate resilience starting 2026. Strategic partnerships with the World Bank through the RISE and PRRIs initiatives further enhance institutional resilience and fiscal transparency. These collaborations not only provide financial buffers but also enrich domestic capacity through knowledge sharing and institutional benchmarking.

Conclusion

In sum, Pakistan's economic outlook, while not devoid of challenges, is evolving in a constructive direction. Through disciplined fiscal management, pragmatic monetary policy, and far-reaching structural reforms, the country is charting a path toward sustainable, inclusive, and climate-resilient growth. The ongoing reforms, combined with a conducive global environment and strong political resolve, provide a solid foundation for an economic renaissance that is both equitable and enduring.