IMF Country Report No. 19/380

PAKISTAN

December 2019

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—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 and request for modification of performance criteria, 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 December 19, 2019, following discussions that ended on November 8, 2019, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 4, 2019
- A **Statement by the Executive Director** for Pakistan.

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

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December 19, 2019

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IMF Executive Board Completes the First Review of Pakistan's Extended Fund Facility

- Pakistan's economic reform program is on track. Decisive policy implementation by the Pakistani authorities is helping to preserve economic stability aiming to put the economy on the path of sustainable growth.
- Transition to a market-determined exchange rate has been orderly; inflation has started to stabilize, mitigating the impact on the most vulnerable groups of the population.
- The authorities remain committed to expanding the social safety nets, reducing poverty, and narrowing the gender gap.

The Executive Board of the International Monetary Fund (IMF) on December 19, 2019 completed the first review of Pakistan's economic performance under the Extended Fund Facility (EFF). The completion of the review will allow the authorities to draw SDR 328 million (about US$ 452.4 million), bringing total disbursements to SDR 1,044 million (about US$ 1,440 million).

The Executive Board approved the 39-month, SDR 4,268 million (about $6 billion at the time of approval of the arrangement, or 210 percent of quota) EFF for Pakistan on July 3, 2019 (see Press Release No. 19/264).

Following the Executive Board's decision, Mr. David Lipton, First Deputy Managing Director and Acting Chair, issued the following statement:

"Pakistan's program is on track and has started to bear fruit. However, risks remain elevated. Strong ownership and steadfast reform implementation are critical to entrench macroeconomic stability and support robust and balanced growth.

"The authorities are committed to sustaining the progress on fiscal adjustment to place debt on a downward path. The planned reforms include strengthening tax revenue mobilization, including the elimination of tax exemptions and loopholes, and prudent expenditure policies. Preparations for a comprehensive tax policy reform should start early to ensure timely implementation. Enhanced social safety nets will help alleviate social costs and build support for reforms.

“The flexible, market-determined exchange rate remains essential to cushion the economy against external shocks and rebuild reserve buffers. The current monetary stance is appropriately tight and should only be eased once disinflation is firmly entrenched. Strengthening the State Bank of Pakistan’s autonomy and governance will support these efforts.

“Faster progress is needed to improve the AML/CFT framework, supported by technical assistance from the IMF and other capacity development providers. Swift adoption of all the necessary measures is needed to exit the FATF’s list of jurisdictions with AML/CFT deficiencies.

“The authorities have adopted a comprehensive plan to address the accumulation of arrears in the power sector. Its full implementation is key to improve collection, reduce losses, and enhance governance. Timely and regular adjustment of energy tariffs will bring the sector in line with cost recovery.

‘Efforts are ongoing to further improve the business environment, strengthen governance, and foster private sector investment. Reform of the state-owned enterprise sector will help put Pakistan’s public finances on a sustainable path and have positive spillovers by leveling the playing field and improving the provision of services.”

INTERNATIONAL MONETARY FUND

PAKISTAN

December 4, 2019

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Recent economic developments. Decisive policy implementation since June has started to reverse Pakistan's large imbalances, preserving financial stability. The external adjustment is proceeding quickly on the back of an orderly adjustment to a market-determined exchange rate. Fiscal performance was strong in the first quarter of FY 2020 and budgetary allocations to the Benazir Income Support Program (BISP) have been expanded. Growth has slowed, broadly in line with expectations, and market confidence is gradually returning. Inflation has started to stabilize and the State Bank of Pakistan has paused its interest rate hike cycle.

Program performance. The 39-month Extended Fund Facility (EFF) approved on July 3, 2019 is on track. All end-September performance criteria (PCs) were observed and all structural benchmarks for end-September were completed, albeit some with delays, including the adjustment in power tariffs for Q1 FY 2020 (prior action). Although there has been progress in the end-October structural benchmark on strengthening the AML/CFT framework, it has not been completed and has been reset to allow the authorities more time to advance this critical reform. Support from international institutions and bilateral creditors has been strong and financing assurances are in place. Completion of the review will allow the authorities to draw SDR 328 million, bringing total disbursements to SDR 1,044 million. Notwithstanding the satisfactory progress to date, the challenges ahead are still significant.

Policy recommendations. Full—and timely—implementation of program commitments is critical to strengthen macroeconomic stability and support robust and balanced growth. Fiscal discipline, including by provinces, needs to be sustained while efforts should continue to expand the social safety net. The market-determined exchange rate should be maintained to support external stability and buildup of international reserves. The action plan to reduce arrears in the power sector should be timely implemented to support the sector's viability and limit fiscal risks. Financial sector reforms should focus on deepening access to financing and strengthening resolution frameworks. Additional structural reforms to strengthen governance, including through critical improvements in the AML/CFT framework, are needed to improve the business climate and support private sector development.

New program commitments. The authorities have requested the modification of some PCs, which strengthen the objectives of the program. Also, new structural benchmarks are proposed in the area of energy sector reform, AML/CFT, and public financial management.

Approved By
Thanos Arvanitis and Kristina Kostial

Discussions were held in Islamabad and Karachi during October 28–November 8, 2019. The staff team comprised Ernesto Ramirez Rigo (head), Ricardo Llaudes (all MCD), Svetlana Cerovic (FAD), Carlos de Barros Serrao (MCM), Jongsoon Shin (SPR), Teresa Daban Sanchez (resident representative), Zafar Hayat and Hiba Zaidi (Islamabad office). Jonathan Pampolina (LEG) joined for part of the mission. Christine Richmond (MCD) participated from headquarters. Tetyana Sydorenko (MCD) provided research assistance and Maria Orihuela-Quintanilla provided document management (MCD).

CONTENTS

RECENT ECONOMIC DEVELOPMENTS 4

PROGRAM PERFORMANCE 7

OUTLOOK AND RISKS 8

PROGRAM POLICY DISCUSSIONS 9

A. Fiscal Policies 9
B. Poverty Reduction and Social Protection 11
C. Monetary and Financial Sector Policies 12
D. Structural Policies 15

PROGRAM MODALITIES 16

STAFF APPRAISAL 18

BOX

1. Recent Revenue Performance 6

FIGURES

1. Selected Economic Indicators 20
2. Selected Financial Indicators 21
3. Selected Banking and Financial Indicators 22

TABLES

1. Selected Economic Indicators, 2015/16–2019/20 23
2. Medium-Term Macroeconomic Framework, 2016/17–2023/24 24
3a. Balance of Payments, 2016/17–2023/24 25
3b. Gross Financing Requirements and Sources, 2017/18–2023/24 26

4a. General Government Budget, 2016/17–2023/24 (In billions of Pakistani rupees) 27
4b. General Government Budget, 2016/17-2023/24 (In percent of GDP) 28
5. Monetary Survey, 2016/17-2020/21 29
6. Financial Indicators for the Banking System, 2013–19 30
7. Indicators of Fund Credit, 2015–27 31
8. Selected Vulnerabilities Indicators, 2016/17–2023/24 32
9. Schedule of Reviews and Purchases 33
10. Public External Liabilities and Repayment Schedule 34
11.Quantitative Performance Criteria and Indicative Targets for FY 2019/20–2020/21 35
12. Structural Conditionality 36

ANNEXES

I. Pakistan's Power Sector and Circular Debt 37
II. Public and External Debt Sustainability 42

APPENDIX

I. Letter of Intent 50
Attachment I. Memorandum on Economic and Financial Policies 52
Attachment II. Technical Memorandum of Understanding 66

RECENT ECONOMIC DEVELOPMENTS

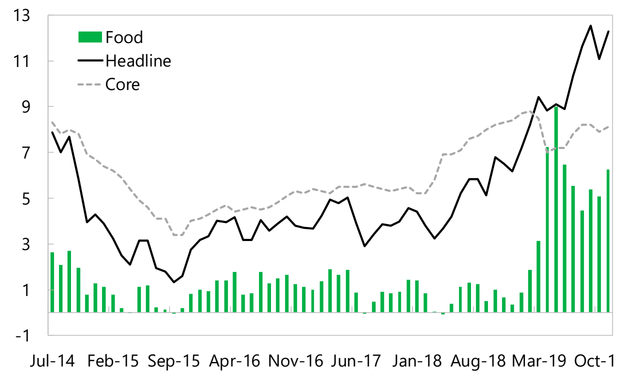
1. **Economic activity has softened, broadly as expected**. Following rapid but unbalanced growth in recent years, propped up by unsustainable policies that led to a soaring debt burden and depletion of reserves, growth has slowed in recent months as the economy is adjusting to the new policies. The latest high frequency indicators point to a mixed picture, with weaker large-scale manufacturing activity, but higher exports of food and textiles and stronger domestic cement production. Anecdotal evidence suggests unemployment is rising, but this may be masked by considerable underemployment in the informal sector. Social conditions remain challenging.

2. **The transition to a market-determined exchange rate has been orderly, allowing the rupee to find its new equilibrium quickly**. After depreciating by about 15 percent in H2 FY 2019[1] to a peak of PRs/US$164 in late-June, the rupee has stabilized around PRs/US$155. Importantly, the State Bank of Pakistan (SBP) has abstained from foreign exchange sales since program approval. Instead, taking advantage of favorable market conditions it has occasionally purchased foreign exchange from the interbank market, boosting its gross reserves by more than US$1.8 billion between July 1 and November 29. At the same time, the SBP has reduced its net short swap/forward forex position by more than US$3 billion.

3. **Headline inflation has started to stabilize, along with core inflation**. The passthrough from the rupee depreciation has, so far, been more contained than expected. Headline inflation stood at 12.3 percent y-o-y in November, while core inflation was at 8.1 percent.[2] The SBP has kept the policy rate at 13.25 percent since July 2019.

Contribution to inflation

(Percent y-o-y)



Sources: SBP, IMF staff calculations.

4. **The external position has improved considerably**. Overall, the Q1 FY 2020 current account deficit shrunk by almost two-thirds compared to Q1 FY 2019. Total imports fell by 23 percent y-o-y in Q1 FY 2020, but imports of machinery and equipment were more resilient, rising about 2 percent y o-y. At the same time, exports are showing some signs of recovery, up 2 percent y-o-y for the same period with 17 percent volume growth, mainly driven by food and textiles. Remittances, however, are stagnating.

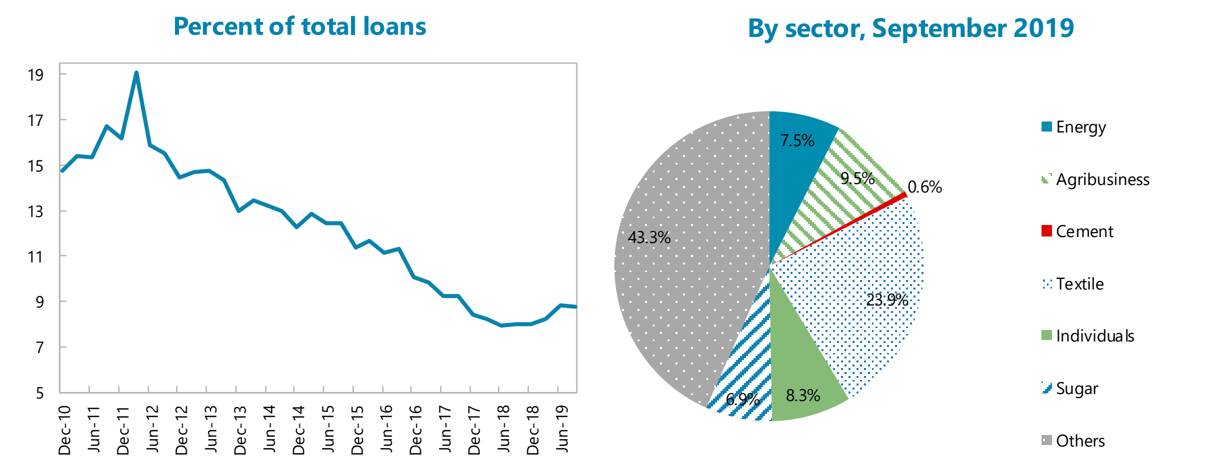
5. **The banking sector remains stable, but credit conditions are tight**. At end-September, capital adequacy ratios (CAR) improved, with average CAR moving to 17.1 percent from 16.2 percent

[1] Fiscal year runs from July 1-June 30.

[2] In September 2019 the Pakistan Bureau of Statistics released a rebased CPI series (2015–16=100). This index is more comprehensive as it now includes rural markets. Staff analysis and reporting is expected to be based on the 2005–06 CPI series until end-FY 2020.

at end-December 2018. Private sector credit growth has slowed to 9.3 percent y-o-y in September. Gross non-performing loans (NPLs) increased slightly to 8.8 percent of total loans, up from 8.0 percent at end-December 2018, with the banking sector highly exposed to the energy sector (17 percent of outstanding loans). However, the bulk of NPLs are provisioned (80.5 percent at end-September).

Non-performing loans

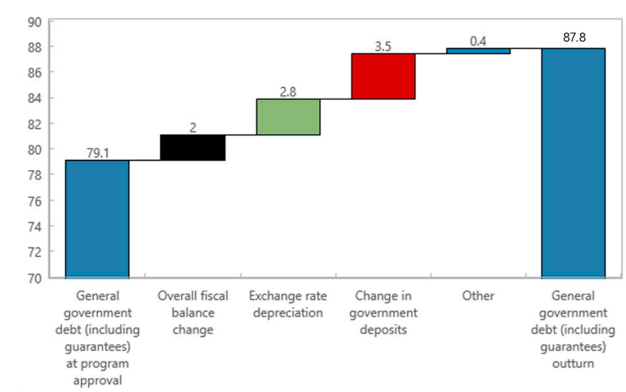


Source: SBP; IMF staff calculations.

6. The fiscal outturn was strong in Q1 FY 2020 after significant slippages in FY 2019.

- **In FY 2019, the general government registered a primary deficit of 3.5 percent of GDP and an overall deficit of 8.9 percent of GDP, against its target of 1.8 and 7 percent, respectively**. Revenue collection at the Federal level came in 2 percent of GDP lower than expected, while total expenditures and provincial fiscal balances were in line with projections. Around ¾ of the revenue shortfall were due to one-off factors, which are not expected to carry over into FY 2020. In particular, delays in renewing telecom licenses, a temporary delay in the sale of state assets, and weaker than the authorities expected tax amnesty proceeds contributed around 1 percent of GDP, while a shortfall in the transfer of SBP profits to the budget stemming from losses related to the exchange rate depreciation in late-FY 2019 contributed an additional 0.5 percent of GDP. As a consequence of the fiscal slippages and the exchange rate depreciation, but also the government's decision to increase cash deposits considerably to provide a financing cushion

Contribution to public debt increase in FY2019
(Percent of GDP)



Source: Ministry of Finance and IMF staff calculations.

against potentially unfavorable market conditions (see ¶14), general government debt (including guarantees and IMF borrowing) rose to 88 percent of GDP.

- **In Q1 FY 2020, budget execution improved considerably, and the general government registered a primary surplus of 0.6 percent of GDP (measured from above-the-line) and an overall deficit of 0.6 percent of GDP, about 1 percent of GDP better than programmed.**[3] The overperformance was driven by stronger than expected non-tax revenues, accompanied by double-digit growth in tax revenue net of refunds (Box 1). At the same time, due to import compression, customs receipts and other external sector-related taxes have suffered (up only 6 percent y-o-y). Spending, including by the provinces, has remained prudent. General government debt (including guarantees and IMF borrowing) fell to 84.7 percent of GDP at end-September.

Box 1. Recent Revenue Performance

Revenue performance in Q1 FY 2020 was strong. With 34 percent nominal growth compared to Q1 FY 2019, total revenue overperformed programmed projections by 0.2 percent of GDP.

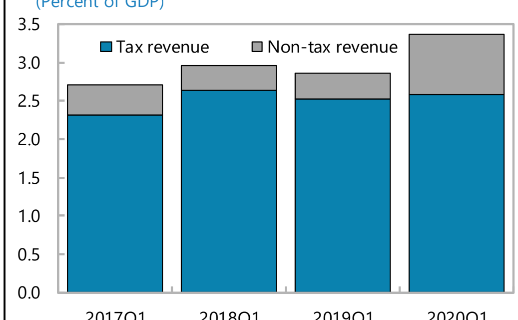
Tax revenue performance was driven by three main factors: (i) tax policy measures; (ii) import developments; and (iii) one-off events. On account of tax policy measures implemented at the beginning of FY 2020, the domestic component of tax revenue collected by the FBR recorded robust growth of 25 percent y-o-y. Growth was particularly strong in sales and direct taxes, where most measures were targeted (including removal of tax exemptions, zero and reduced rates). At the same time, taxes collected at the import stage were impacted by substantial import compression, with a decline in all revenue categories except of sales tax (text table). Given that more than 40 percent of total tax revenue in Pakistan is collected at the import stage, this shortfall had a notable impact on overall tax revenue performance—0.2 percent of GDP lower than programmed. One-off tax revenue inflows (around PRs 30 billion) also contributed to the overall result and are related to tax advances and tax amnesty receipts that were not collected at the end of FY 2019 but were realized in Q1 FY 2020 instead. Tax revenues collected at provincial level were also strong, increasing by 18 percent y-o-y.

Tax Revenue Performance in Q1

	FY 2018/19	FY 2019/20	growth (%)
Tax revenue	**975.2**	**1142.9**	**17.2**
Federal	**886.6**	**1038.4**	**17.1**
FBR	**832.2**	**964.4**	**15.9**
Domestic tax	414.2	517.8	25.0
Direct tax	241.1	303.1	25.7
Sales Tax	134.6	168.9	25.5
FED	38.5	45.8	19.0
Import tax	418.1	446.6	6.8
Direct tax	57.4	52.6	-8.4
Sales Tax	200.5	235.0	17.2
FED	3.6	3.4	-5.1
Custom	156.6	155.6	-0.6
Other federal	**54.4**	**74.0**	**36.2**
Provincial	**88.6**	**104.5**	**17.9**

Non-tax revenues almost tripled in Q1. The reprofiling of government debt held by the SBP boosted its profit, leading to higher SBP interim profit transfers, while a one-off inflow of PRs 70 billion (0.2 percent of GDP) from the delayed telecom licenses renewal from FY 2019 further improved the outcome. As a result, non-tax revenues reached 0.8 percent of GDP, about 0.4 percent of GDP higher than programmed.

General government revenue (excluding grants)
(Percent of GDP)



Sources: MOF, IMF staff calculations.

[3] Excluding one-offs, the primary surplus was 0.1 percent of GDP, or 0.3 percent of GDP better than programmed.

PROGRAM PERFORMANCE

7. The program is on track (MEFP Tables 1-2). The authorities reiterated their commitments to all program objectives and targets.

- **All end-September 2019 and continuous performance criteria (PCs) were observed**. The floor on net international reserves (NIR), ceiling on net domestic assets (NDA), ceiling on SBP's stock of net foreign currency swaps/forwards, ceiling on net government budgetary borrowing from the SBP, and ceiling on the general government primary budget deficit were met by wide margins. The ceiling on government guarantees was also observed and no external public payment arrears were incurred.

- **However, five indicative targets (ITs) for end-September were missed**. The IT on targeted cash transfers spending was missed but is expected to be corrected by end-December. The ITs on net accumulation of tax refund arrears and power sector arrears were also missed, but with the newly proposed ITs they are on track to be met by end-December. Spending on health and education came in short of the target as, at the time the target was set, only very preliminary estimates of FY 2019 expenditures on health and education were available, especially at the provincial level. Since the actual outturns turned out to be significantly lower, the IT on health and education has been revised accordingly to reflect the authorities' spending capacity. Nonetheless, the revised IT still envisages an increase in health and education spending as percent of GDP against FY 2019. Net tax revenues collected by the Federal Board of Revenue (FBR) was also missed due to lower than expected customs receipts that have been negatively affected by the faster-than-expected external adjustment.

- **Most structural benchmarks (SBs) have been implemented, albeit with delays**. The licenses for the track-and-trace system for excises on cigarettes were issued in October (end-September 2019 SB), while the finalization of BISP's banking contracts and launching the financial inclusion strategy for women were implemented according to the agreed timeline (end-October 2019 SB). In November, the circular debt reduction plan was completed (end-September 2019 SB) in line with staff and other IFI recommendations. Similarly, the electricity tariff adjustments as determined by the regulator was notified on September 30[4], although the Q1 FY 2020 tariff adjustment, critical to stem the accumulation of new arrears, only took place on November 29 (completing the end-September 2019 SB; prior action for completion of the first review). The continuous SB on the commitment to not grant further tax amnesties was also observed. However, while there has been progress on measures to strengthen the effectiveness of the AML/CFT framework (end-October 2019 SB), this has not been completed.

[4] This was largely related to FY 2019 arrears recoveries.

- **The authorities have made progress on end-December SBs**. Amendments to the National Electric Power Regulatory Authority (NEPRA) Act are being prepared; international auditors have been selected to conduct the audits of Pakistan International Airlines and Pakistan Steel Mills; and the benefit structure of Waseela-e-Taleem was updated in October.

OUTLOOK AND RISKS

8. The economic outlook is broadly unchanged from the program request (Tables 1–8).

- **Real GDP growth** is projected at 2.4 percent in FY 2020, but net exports are now expected to provide a larger contribution to growth mainly due to greater import compression. Growth is projected to strengthen to around 3 percent in FY 2021, as policies take hold and confidence and investment strengthen, and 4.5–5 percent over the medium-term, with the output gap closing at the end of the projection horizon.

- **Average CPI inflation** is projected to decelerate slightly to 11.8 percent in FY 2020 as administrative and energy tariff adjustments are expected to offset the effects from weak domestic demand. Thereafter, inflation is expected to converge to SBP's 5–7 percent medium-term objective, hitting the midpoint by FY 2022.

- **The current account deficit** is expected to decline to 2.4 percent of GDP in FY 2020, mainly owing to import compression, and to decline to around 1.8 percent of GDP over the medium-term, as exports gradually pick up.

9. Notwithstanding the encouraging start of the program, risks to the outlook remain high. Growth is currently weak and significant fiscal adjustment is needed in the coming years. While the risk of a disorderly adjustment has abated due to the well-managed transition to a market-determined exchange rate and the availability of external financing, risks to the economic outlook are significant. Fiscal slippages and, more generally, resistance to reform from vested interest groups could undermine the program's fiscal consolidation strategy and put debt sustainability at risk. Moreover, the absence of a majority by the ruling party in the upper house may hinder the adoption of legislation needed to achieve program objectives. Also, provinces may underdeliver on their commitments to budget parameters and related objectives over the program period. Lukewarm progress on structural reforms especially those aimed at strengthening governance of economic institutions may result in stagnant economic activity and little tangible benefits for the population, intensifying pressures to backtrack on policy commitments. Failure to meet program objectives could jeopardize the availability of external financing. Also, a potential blacklisting by the Financial Action Task Force (FATF) could result in a freeze of capital flows and lower investment to Pakistan. Finally, the global economic backdrop poses increasing headwinds and weaker than expected activity may affect growth and current account deficit projections. Against all these risks, the authorities' steadfast commitment to the program and decisive policy and reform implementation could lead to a faster recovery.

PROGRAM POLICY DISCUSSIONS

A. Fiscal Policies

10. **The authorities reiterated their resolve to press ahead with fiscal consolidation to place public debt on a firm downward path**. Nonetheless, staff flagged the risks stemming from the composition of adjustment, with an important component from non-tax revenues to date, and cautioned that fiscal consolidation must be achieved on the back of high-quality measures to ensure the sustainability of the adjustment. The discussions focused on policies to achieve this.

11. **The FY 2020 general government primary deficit target is achievable, but the composition of revenue has changed**. Tax revenue is now expected to be 0.5 percent of GDP lower than originally expected: while domestic collection is envisaged to remain strong, growing by over 25 percent y-o-y over FY 2020, growth in trade-related tax revenues is expected to remain subdued as declining imports continue to weigh on collections—more than 40 percent of total tax revenue in Pakistan is collected at the import stage. On the other hand, non-tax revenue is expected to be 0.8 percent of GDP higher than originally expected due to some one-off revenues (originally envisaged in FY 2019) and higher central bank profits, more than offsetting the shortfall in tax revenue. Primary spending is on track, although some budgetary reallocations are envisaged to spur growth, including greater development spending and PRs 10 billion to facilitate subsidized financing to boost the export sector. Staff stressed that this support must take place within the agreed budgetary envelope so as to not jeopardize the achievement of targets.

12. **To strengthen revenue mobilization and support the medium-term fiscal consolidation objectives, the authorities are advancing the following reforms**:

- In October, the authorities issued licenses for the track-and-trace system for excises on cigarettes (end-September 2019 SB), with a system rollout expected by end-March 2020;
- Sales tax refunds are being expedited through the fully-automated sales tax e-refund (FASTER). To address past tax refund arrears and provide some liquidity to businesses, staff recommended the authorities use part of the government cash buffer to buy back up to PRs 30 billion of existing promissory notes to exporters that were issued in FY 2019 and FY 2020;
- The provinces are meeting their commitments under the program by stepping up efforts to improve tax revenue collection and undertaking prudent spending, resulting in provincial tax revenue increasing by 18 percent y-o-y in Q1. They also commenced coordination and consultation meetings between provincial sales tax administrations;
- The authorities announced plans to establish a new semi-independent national tax authority tasked with tax administration, that will facilitate closer coordination between the Federal and provincial governments;

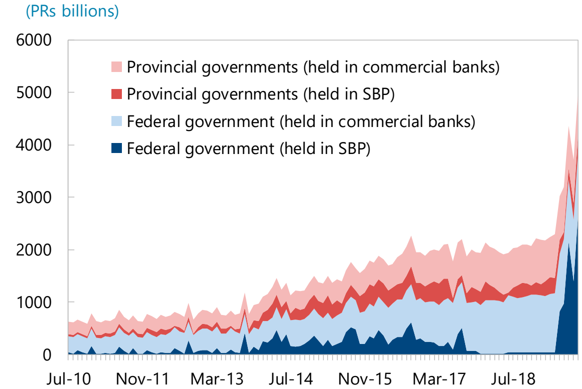
- The groundwork is being laid for tax policy reforms envisaged as part of the FY 2021 budget. Staff recommended the reform aim to simplify the tax laws and regulations, in particular the simplification of the corporate income tax and necessary further streamlining of exemptions and preferential rates related to sales tax on goods. The reform should also create a simpler, more efficient distribution of tax bases between the Federal government and provinces. In this context, staff recommended the establishment of a joint working group to provide recommendations on GST tax harmonization to be approved by the Council of Common Interest (CCI) by end-March 2020. To build capacity on tax policy matters, a Tax Policy Unit will be established in the Ministry of Finance;

- The authorities agreed to avoid the practice of issuing new preferential tax treatments or exemptions (new continuous SB), conscious that the distortions erode the tax base, weaken fiscal discipline, and prevent a level playing field for firms.

13. The authorities are also moving forward with PFM reforms, which will help instill budgetary discipline, improve transparency, and build confidence in the spending of budgetary resources. In this vein, and in line with the recently enacted Public Financial Management Act, the authorities will present a mid-year budget review report (new end-February 2020 SB) to provide budget and actual comparisons of revenue, expenditure, and financing during H1 FY 2020 as well as revised estimates for the budget year. Staff argued that the review would also be an opportunity to indicate corrective measures in the event that fiscal risks to the annual targets materialize. In the short-term, staff recommended a focus on preparing the first fiscal risk statement, approving and publishing the budget manual, developing a PFM reform strategy, and establishing a macro-fiscal unit.

14. Elevated cash buffers highlight the need for a sound debt management strategy. Ahead of IMF program approval and with possible risks from market rollover requirements, the authorities built a sizable contingency cash buffer,[5] which grew further in Q1 FY 2020 (to around 8.5 percent of GDP at the Federal level as of end-September). Staff and the authorities agreed to draw down some of the cash buffer and in October the authorities used PRs 1.4 trillion (in net terms) to retire short-term government securities held by the private sector. Recognizing the benefits of improved cash management, the authorities: (i) have initiated work to introduce a single treasury account (TSA-1) by end-September 2020; and (ii) will establish a dedicated Treasury and Debt Management wing by December 2020, which will consolidate debt management

Pakistan: Government Cash Buffers
(PRs billions)



Sources: SBP, IMF staff calculations.

[5] These were government deposits held at the SBP.

functions as well as execute cashflow forecasting and management. To reduce rollover risks, the authorities agreed to continue to extend maturities and aim to accept prevailing market rates so that volumes issued in primary auctions are closer to the previously announced targets.

15. Debt continues to remain sustainable. Overall, staff continues to assess that debt remains sustainable over the medium-term, given the broadly unchanged macroeconomic framework, the policies to date, and the authorities' policy commitments ahead. However, debt sustainability has become subject to somewhat higher risks due to the fiscal underperformance in FY 2019, a higher debt outturn, and higher financing needs, as explained in ¶9 (see also DSA Annex).

B. Poverty Reduction and Social Protection

16. The authorities remain committed to expanding social safety nets, reducing poverty, and narrowing the gender gap. The more benign inflation and exchange rate depreciation paths since program approval have mitigated somewhat the impact on the most vulnerable segments of the population, however, poverty remains a significant concern and there is a large gender gap. To address these issues, the authorities are undertaking a number of initiatives:

- An additional one-off disbursement of PRs 1,000 to existing Benazir Income Support Program (BISP) beneficiaries was made in August. However, the authorities informed that the end-September IT on BISP spending was not met due to technical constraints,[6] but committed to rectify the shortfall by end-December and reaffirmed that budgetary allocations to BISP were being scheduled. The authorities also reported that the BISP's banking contracts were finalized and the financial inclusion strategy for women ("one woman one account") was launched in October (end-October 2019 SB).

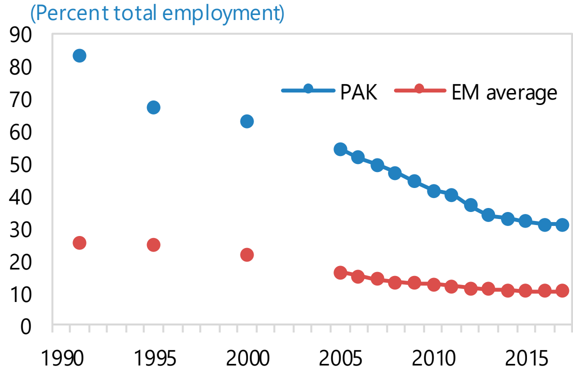
- The structure of Waseela-e-Taleem (WeT) was modified in October to provide a girl bonus of PRs 250 on a quarterly basis (end-December 2019 SB).

- A new Mother and Child Nutrition Program was launched under BISP with the aim to bring the stunting rate down from 40 percent to less than 30 percent. To incentivize enrollment—particularly girls—quarterly cash stipends of PRs 2,000 for girls and PRs 1,500 for boys up to age two will be provided.

- The affordable housing programs administered by Ehsaas will be scaled up, with a budget reallocation of PRs 20-30 billion in FY 2020 in order to channel funds directly to Ehsaas beneficiaries and cover the 10 percent down payment on affordable housing.

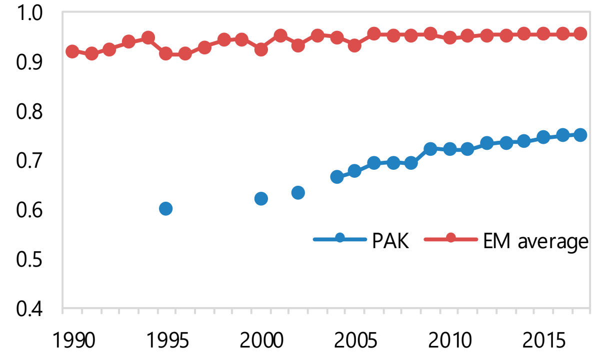
[6] These relate to the time needed by BISP beneficiaries to enroll in the new bank accounts following the finalization of the new banking contracts. The process of re-enrollment is expected to be completed by Q2 FY 2020.

Working Poor at PPP$3.10 per Day
(Percent total employment)



Source: UNDP.
Note: Proportion of employed living on less than $3.10 (in PPP terms) per day. Lower is better.

Gender Development Index



Source: UNDP.
Note: Ratio of female to male HDI values. Higher is better.

C. Monetary and Financial Sector Policies

17. **The SBP confirmed its commitment to a flexible, market-determined exchange rate, using interventions only for disorderly market conditions**. Staff stressed that the market-determined exchange rate remains crucial to avoid the reemergence of external imbalances and to support the build-up of reserves.

18. **Staff and the SBP agreed that monetary policy stance is appropriate for now and should remain tight, until inflation shows a clear declining trend on a forward-looking basis**. Monetary policy under the program remains guided by SBP's medium-term inflation objective, supported by a positive policy rate in real terms, and the monetary aggregate targets that were met and should enable inflation to decline to the 5–7 percent range over the next two years. Despite signs that inflation has started to stabilize, headline and core inflation remain high and are expected to decline only gradually as upcoming energy tariff adjustments and the pass-through from volatile international oil prices put upward pressure on inflation. The authorities committed to keep the monetary policy stance consistent with a policy interest rate that is positive in real terms.

19. **Since program approval the SBP has not financed the budget deficit**. Prior to program approval, SBP and the government reprofiled PRs 7,756 billion of short-term government debt held by SBP into tradable instruments carrying market interest rates in tenors of one, three, five, and ten years. Maturing debt held by the SBP will not be rolled over while the authorities will seek to amortize the existing long-term instruments to avoid financing pressures.

SBP provision of government budget support (stock)
(PRs billion)

Sources: SBP, IMF staff calculations.

20. Steps have been initiated to strengthen SBP's autonomy, governance, and mandate. The SBP is preparing to submit amendments to the SBP Act, in consultation with IMF staff, to address all recommendations of the new 2019 Safeguards Assessment Report. These amendments would, inter alia: (i) establish domestic price stability as the SBP's primary objective; (ii) prohibit monetary financing of the public sector debt; (iii) remove of quasi-fiscal operations following a phase-out period; (iv) introduce statutory mechanisms for sufficient capitalization and profit retention; (v) secure stronger protection of the personal autonomy of senior officials; (vi) statutory underpinnings for external auditors, audit committee, and internal audit function; (vii) improve decision-making at the executive management; and (viii) provide stronger oversight by the Board. In light of the wealth of changes recommended, the amendments to the SBP Act will be forwarded by the SBP to the Ministry of Finance by end-January 2020 and submitted to parliament by end-March 2020 (end-December 2019 SB; reset to end-March 2020 SB).

21. Financial sector conditions remain sound, but two non-systemic banks are undercapitalized.[7] The authorities are actively engaged with the two private sector banks to develop plans to meet the minimum capital requirements by end-June 2020. They reported that one state-owned bank was liquidated in September, and another state-owned bank was included in the government's privatization list. Staff stressed the importance of addressing this long-standing issue promptly. The authorities recognize the need to address weaknesses in the bank resolution and crisis management frameworks, including the deposit insurance scheme. They committed to strengthen and modernize the resolution frameworks—supported by IMF technical assistance—and submit necessary legislation to Parliament by end-May.

22. Pakistan has made progress on AML/CFT deficiencies, although much remains to be done. Pakistan continues to be included in FATF's list of jurisdictions with serious AML/CFT deficiencies. The authorities have been addressing the AML/CFT action plan agreed with FATF through an inter-agency and high-level working group. The Asia Pacific Group on Money Laundering also discussed Pakistan's Mutual Evaluation Report, noting that existing efforts were inconsistent with the level of risks and greater effectiveness needs to be demonstrated. With assistance from capacity development providers (including the IMF), the authorities are committed to completing the actions in the structural benchmark by end-June 2020 (end-October 2019 SB; reset to end-June 2020), with an improvement towards a substantial level of effectiveness to be achieved by end-March 2020 and consistent with FATF Immediate Outcome 9 on terrorism financing investigations and Immediate Outcome 10 on targeted financial sanctions (new end-March 2020 SB).

23. The authorities have not introduced any new exchange restrictions, multiple currency practices, or import restrictions for balance of payments purposes and have not intensified any existing exchange measure (continuous PC). The authorities are monitoring the balance of payments and remain committed to phase out the existing exchange measures when conditions permit and to eliminate them by the end of the program. As a first step, the authorities allowed

[7] The two banks account for less than 1.5 percent of total banking assets.

banks to make advance payments up to US$10,000 per invoice on behalf of manufacturing and industrial companies for the import of raw materials and spare parts beginning in early-November.

Energy Sector Policies

24. Stronger efforts are needed to improve the viability of the power sector, and tackle rising arrears. At end-September, the stock of power sector arrears stood at PRs 1,690 billion[8] (about 4 percent of GDP), of which PRs 465 billion were accumulated in FY 2019. The main contributors to these new arrears were technical and distribution losses, delays in updating tariffs, and provision of unbudgeted subsidies. The authorities have taken steps to address some of the sources of arrears, including by: (i) investing in infrastructure to reduce technical losses; (ii) launching an antitheft drive and stepping up enforcement to increase collections; (iii) adjusting tariffs gradually (quarterly) to cost recovery levels, including on September 30 (end-September 2019 SB) by around 5 percent, largely to recover arrears accumulated over FY 2019, and on November 29, 2019 (prior action) by around 2 percent on account of Q1 FY 2020 capacity payments; and (iv) budgeting or eliminating all power sector subsidies.[9] These efforts are already showing some results, with accumulation of new arrears falling from about PRs 38 billion/month in FY 2019 to around PRs 10 billion/month in the first three months of FY 2020. The authorities remain committed to bring the flow of power sector arrears to zero by end-2023.

25. Staff urged the authorities to swiftly implement the comprehensive plan to reduce the flow of circular debt adopted in November (end-September 2019 SB).[10] The plan, prepared in consultation with international partners and IMF staff, aims to reduce the annual flow of circular debt from the current level to around PRs 50–75 billion by FY 2023 through improving collection and reducing losses, streamlining tariff updates, and rationalizing subsidies. Monitoring of the plan will take place through implementation reports published by the Ministry of Energy. Key measures of the plan include: (i) timely updating tariffs, including the Q2 FY 2020 adjustment for capacity payments to take place by end-January (new end-January 2020 SB); (ii) streamlining of tariff procedures and reintroducing surcharges via amendments to the NEPRA Act to be submitted to Parliament by end-December (modified end-December 2019 SB); (iii) improving efficiency and collection; and (iv) rightsizing of subsidies (Annex I).

26. The stock of arrears is restricting cashflows of the public distribution companies (DISCOs), hampering the sector's development. It also represents a significant quasi-fiscal risk, including combined annual debt servicing costs exceeding PRs 100 billion. The authorities are developing a strategy, together with IFIs, to settle the stock of arrears. The main elements of the

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[8] About half of the stock is held in the Power Holding Private Limited (PHPL), a government-owned entity established for the purpose of securing financing for the power sector.

[9] However, some accumulation of arrears on account of subsidies took place in Q1 FY 2020. These subsidies, while budgeted, were unpaid on account of the PFM-related transfer of expenditure responsibilities from the Ministry of Finance to the Ministry of Energy. It is expected that the unpaid subsidies will be disbursed during Q2 FY 2020.

[10] Circular debt refers to the cash flow shortfall incurred in the power sector from the non-payment of obligations by consumers, distribution companies, and the government.

strategy include: (i) issuance of new government guarantees in the amount of PRs 200 billion to transfer costly system arrears into PHPL; (ii) absorption of PHPL into the general government, which will lower debt servicing costs; and (iii) reduction in the stock of outstanding payables through the use of power assets privatization proceeds, recoveries from the outstanding stock of receivables, the existing debt servicing surcharge, and the rightsizing of sector-related subsidies. Staff stressed that progress in the stock strategy must be linked to timely and measurable progress in the implementation of the circular debt reduction plan and be consistent with the fiscal envelope.

27. The authorities are taking steps to improve performance in the gas sector. The adjustment of tariffs in July and the upcoming adjustment by end-December 2019, based on the regulator's mid-year decision on tariffs, are key measures to stop the flow of arrears in the sector. Recognizing the need to improve performance, the two gas companies have prepared plans, approved by the Economic Coordination Committee, aimed at significantly reducing unaccounted for gas (UFG) losses. Salient elements of the plans include, inter alia, improvements in infrastructure, rehabilitation of networks, and theft control. Staff urged the authorities to proceed expeditiously on these and other initiatives, including the amendments to the OGRA Act to ensure timely notification of tariffs.

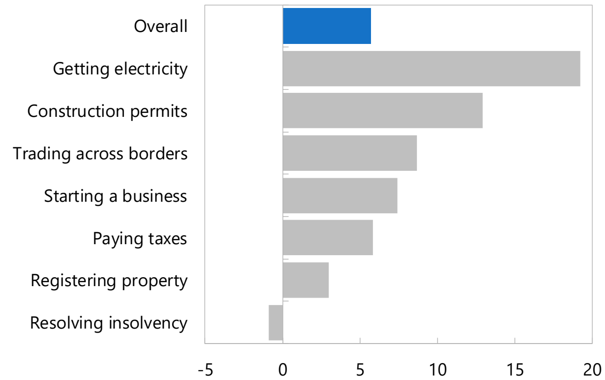
D. Structural Policies

28. The authorities recognize that structural reforms are key to rekindle economic activity and growth. In this regard, efforts are underway, but need to be accelerated, to improve governance, transparency, and efficiency of SOEs:

- *Privatization of selected enterprises*. Financial advisors were appointed for the privatization of two LNG fired power plants and the transaction structure was approved. The authorities expect to finalize the process by end-FY 2020.
- *Audits of key SOEs*. International auditors have been hired to conduct new audits of Pakistan International Airlines and Pakistan Steel Mills. Work is underway to complete and publish the audits of the 2018 accounts by end-December (end-December 2019 SB).
- *SOE legal framework*. Technical assistance provided by the IMF is underway to support the development of a new State-Owned Enterprise Law (end-September 2020 SB).
- *Triage of SOEs*. The authorities are still in the process of designing a strategy and the criteria to classify SOEs into companies for sale, liquidation, or retaining under state ownership (end-September 2020 SB). The authorities plan to engage international partners to support these efforts.

29. Efforts are also advancing to improve the business climate. Staff noted the progress reflected in the 2020 World Bank Doing Business Indicators, in which Pakistan climbed from 136th place to 108th place, with the greatest improvements identified in access to electricity and construction permits. However, Pakistan's score slipped in resolving insolvency and remains very low for paying taxes and enforcing contracts-weaknesses that are also reflected in other surveys of the business environment. Staff emphasized the importance of enforcing documentation of the informal economy, strengthening the rule of law, and reducing regulatory burdens. The authorities reported that the PRs 50,000 threshold on a tax identification number came into effect at end-October, which will increase formality and the introduction of online portals for GST and CIT modules of tax payments as well as for new commercial electricity connections is streamlining business procedures.

Pakistan: Ease of doing business (2020)
(Percentage point change)



Sources: World Bank, IMF staff calculations.

30. The full implementation of anti-corruption reforms and enhancing governance are a key priority. A dedicated financial crimes unit in the Federal Investigation Agency has been established and capacities of law enforcement agencies to conduct financial investigations continue to be upgraded. A task force review of the institutional framework of anti-corruption institutions will be completed by end-June 2020. The establishment of an effective and centralized asset declaration system for high-level public officials (by end-October 2020) and enhancing the fiscal autonomy and resources of the Financial Monitoring Unit to disseminate financial intelligence should also progress. Reforms discussed elsewhere in this report to strengthen fiscal governance, central bank governance, and AML/CFT controls will also be key to enhancing governance and safeguarding public resources

PROGRAM MODALITIES

31. Staff proposes the updated program conditionality (MEFP Tables 1–2):

- One prior action was set on the notification of Q1 FY 2020 electricity tariff adjustment for capacity payments, critical to stem the flow of power sector arrears.

- The following end-December PCs are proposed to be modified: (i) government guarantees to accommodate the issuance of guarantees in the power sector, in line with the adopted circular debt reduction plan and to support investment in the energy sector; (ii) net international reserves and net domestic assets of SBP to lock-in some of the overperformance achieved by end-September; and (iii) general government primary budget deficit to reflect the better-than-expected end-September outturn.

- The following end-December ITs are proposed to be modified: (i) budgetary health and education spending to more accurately reflect spending plans by the provinces; (ii) net tax collection by the FBR to recognize the faster-than-expected external adjustment negatively impacting customs revenue; (iii) net accumulation of tax refund arrears to capture the authorities plans to reflect the end-June stock of tax refund arrears; and (iv) power sector payment arrears to reflect the end-September outturn.

- March PCs and ITs for March, June, and September are proposed in line with updated quarterly projections.
- An additional adjustor for the general government primary budget deficit is proposed on SBP profit transfers to the budget to ensure a rules-based approach (see TMU).
- The definition governing the PC on the stock of government guarantees is proposed to be modified to measure the stock of issued or executed government guarantees to broaden coverage (see TMU).
- The end-October 2019 SB for the adoption of measures to strengthen the effectiveness of the AML/CFT framework is proposed to be reset for end-June 2020 to allow more time to advance reforms. The end-December 2019 SB for the submission of amendments to the SBP Act is proposed to be reset for end-March 2020 to allow more time for the technical preparation and consultative process.
- The end-December SB for the submission of amendments to the NEPRA Act to parliament has been modified to reinstate the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.
- The following new structural benchmarks are being proposed: (i) avoid the practice of issuing new preferential tax treatments or exemptions (continuous); (ii) Q2 FY 2020 tariff notification for capacity payments (end-January 2020); (iii) presentation of the federal government mid-year budget review report to the National Assembly in line with the PFM Act (end-February 2020); (iv) improve towards a substantial level the effectiveness in addressing terrorism financing, consistent with FATF Immediate Outcomes 9 and 10 (end-March 2020).

32. The program remains fully financed for the next 12 months and with good prospects for the remainder of the program. Financing assumptions remain in line with the forecasts at the time of the program request, fully financed with the expected support from multilateral development banks and bilateral creditors: China US$5.2 billion, Saudi Arabia US$6.2 billion, UAE US$1 billion, the World Bank US$1.7 billion, the Asian Development Bank US$2.5 billion, and the Islamic Development Bank US$1 billion. In line with program financing commitments, key bilateral creditors (China, Saudi Arabia, and UAE) have maintained their exposure to Pakistan by extending new financing in the amount of US$700 million from China and US$3 billion from Saudi Arabia, fully covering their matured loans.

33. Pakistan's capacity to repay its IMF obligations in a timely manner remains adequate, but subject to higher than usual risks. Risks to Pakistan's repayment capacity are elevated on account of the low reserves and delayed adoption of adjustment policies. Moreover, higher public debt and gross financing needs are adding to these risks. As of end-November 2019, the IMF's exposure to Pakistan stood at SDR 4,659 million (229 percent of quota or 76.2 percent of gross reserves). Full purchases under the program will result in outstanding purchases of SDR 6,146 million by September 2022 (41 percent of projected reserves or 303 percent of quota). Adequate capacity to repay and debt sustainability will depend on strong policy implementation and the adequate execution of the existing financing commitments.

34. An update safeguards assessment of the SBP is substantially completed. The assessment found that the SBP has maintained a broadly strong safeguards framework since the last assessment in 2013, except for its legal framework, in particular with regards to autonomy and governance. The financial reporting, external and internal audit mechanisms, and an enterprise-wide risk management framework all highlight sound practices. However, legislative reforms are necessary to strengthen SBP's autonomy and governance arrangements, and a medium-term strategy is required to phase out its involvement in quasi-fiscal activities.

STAFF APPRAISAL

35. The authorities' program, supported by the EFF, is on track and already producing early results. Unsustainable policies in recent years led to large fiscal and current account deficits, debt accumulation, and imbalances that threatened Pakistan's financial stability. External bilateral financing gave a respite but was mostly used to support an overvalued exchange rate and postpone the current adjustment. Policies under the program have started to address these deep-seated problems. The exchange rate overvaluation has been corrected. Adept monetary policy has helped rein in the inflationary pressures, and fiscal adjustment has started to bring debt and debt service to more sustainable levels. Still, significant challenges remain. The fiscal position is still not strong enough and quasi-fiscal losses undermine public finances. Growth has slowed as the economy adjusts to the new polices, which affects social conditions. The authorities need to show resolve to implement decisively the program. Prudent policies and structural reforms are the only sustainable option to increase resilience and restore strong and inclusive growth.

36. Fiscal reforms to support revenue mobilization and medium-term fiscal consolidation are necessary to place debt on a downward path. Q1 domestic tax revenue growth rates were strong. The focus going forward needs to remain on implementing high-quality tax measures, including the elimination of tax exemptions and loopholes. The introduction of new exemptions would undermine base-broadening efforts and lead to a less equitable distribution of the adjustment. Preparations for a wholesale tax policy reform envisaged as part of the FY 2021 budget need to start early to ensure timely implementation.

37. The current monetary stance is appropriate. The positive real policy rate is consistent with SBP's medium-term inflation objective. Monetary easing should only be considered after data shows that disinflation is entrenched and inflation trends are consistent with the SBP medium term objective. The commitment to a flexible, market-determined exchange rate is welcomed and intervention should be limited to prevent disorderly market conditions.

38. **Pakistan must decisively address its AML/CFT deficiencies**. While the authorities have recently stepped up efforts with the creation of a high-level inter-agency working group, the bulk of measures in the structural benchmark remain outstanding. Efforts should focus on effectiveness in addressing terrorism financing and improving financial integrity.

39. **Energy sector linkages with the financial sector, budget, and real economy highlight the need to address long-standing energy sector deficiencies**. The comprehensive plan developed in collaboration with IFIs aims to improve collection, reduce losses, and enhance governance. The issuance of new government guarantees should take place in the context of the comprehensive plan to avoid moral hazard concerns. Timely adjustment of energy tariffs will be required to prevent the accumulation of new arrears, as well as a rationalization of existing subsidies to address the outstanding stock of arrears.

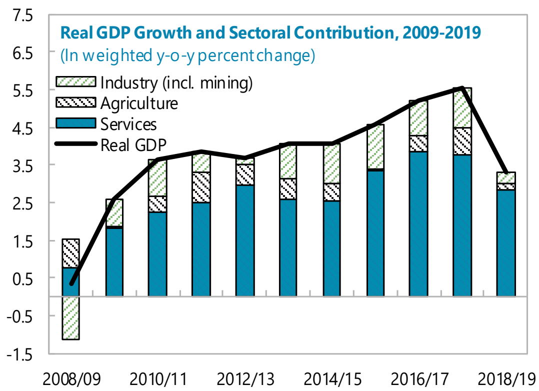
40. **The business environment is improving but significant impediments remain, and efforts to enhance governance must push forward**. Pakistan needs to focus on ensuring that the changes underway are perceived as permanent to instill confidence and rekindle private sector investment. There is a need to reduce the footprint of the state in the productive economy, which will require steadfast progress in reforming the vast SOE sector. Reform of this sector can help Pakistan put its public finances on a sustainable path by reducing budget support and containing fiscal risks, while having positive spillovers for the private sector by leveling the playing field and better provisioning of services. Reforms to strengthen the governance of core economic institutions will also be key to improving economic outcomes and fostering private-sector investment.

41. **The program continues to face significant risks, both from domestic and external factors**. These include pushback on policy initiatives by vested interest groups and lack of majority by the ruling party in the upper house, as well as fiscal slippages including through the provinces' under-delivery on commitments to budget parameters, which could put debt sustainability at risk. Potential external risks include a potential blacklisting by FATF, which could result in a freeze of capital flows to Pakistan, slow progress in refinancing/reprofiling loans from major bilateral creditors, and increasing headwinds from a weaker global economic backdrop. The risks are ameliorated by close monitoring under the program and financing assurances.

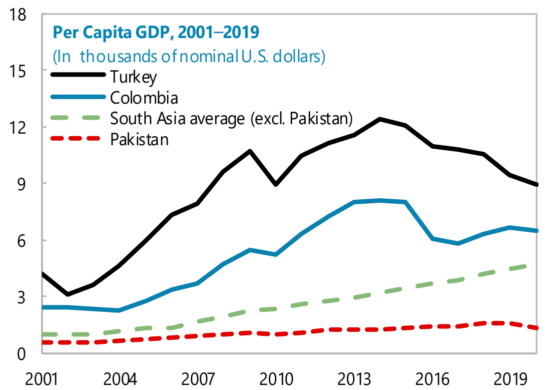
42. **Staff supports the authorities' request for the completion of the First Review under the Extended Arrangement and modification of performance criteria, given the program performance so far and the policy commitments going forward**.

Figure 1. Pakistan: Selected Economic Indicators

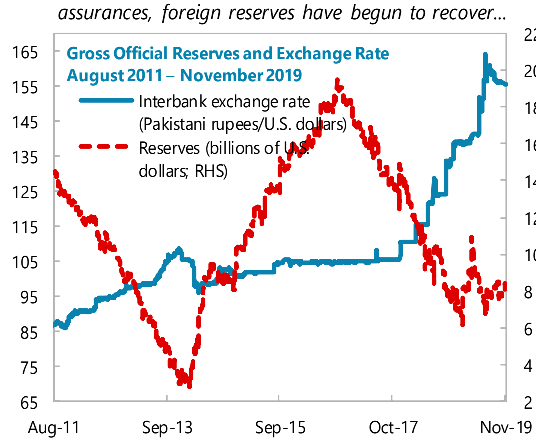
Reflecting declining confidence and tighter financing conditions, growth slowed down sharply in FY18/19...



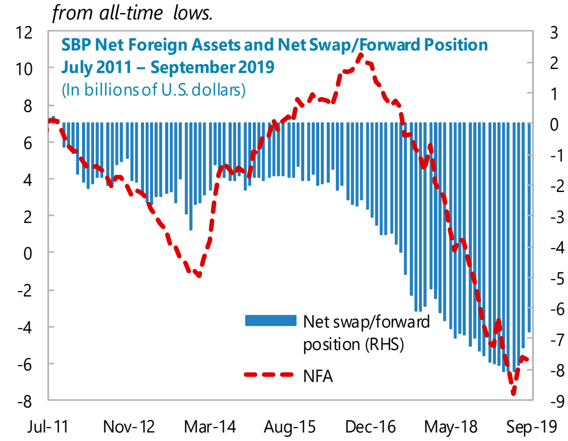
...as Pakistan continues to lag regional peers and other EMs in economic convergence.



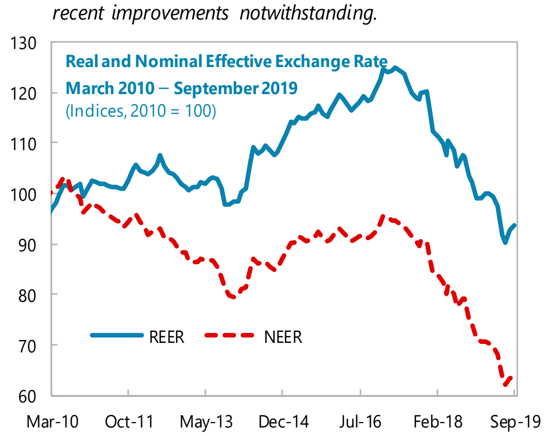
After the recent devaluation and bilateral financing assurances, foreign reserves have begun to recover...



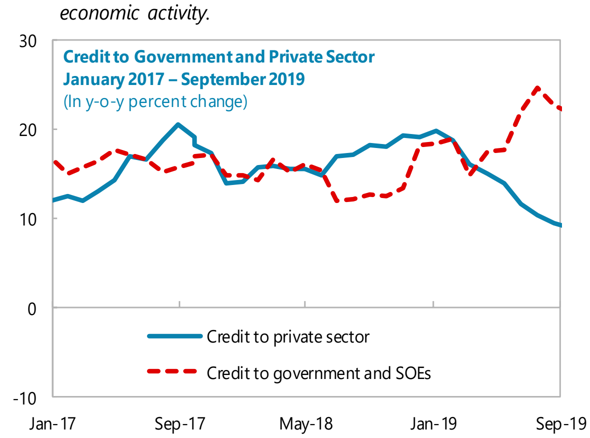
...allowing SBP to improve its derivative position from all-time lows.



External competitiveness remains weak, some recent improvements notwithstanding.

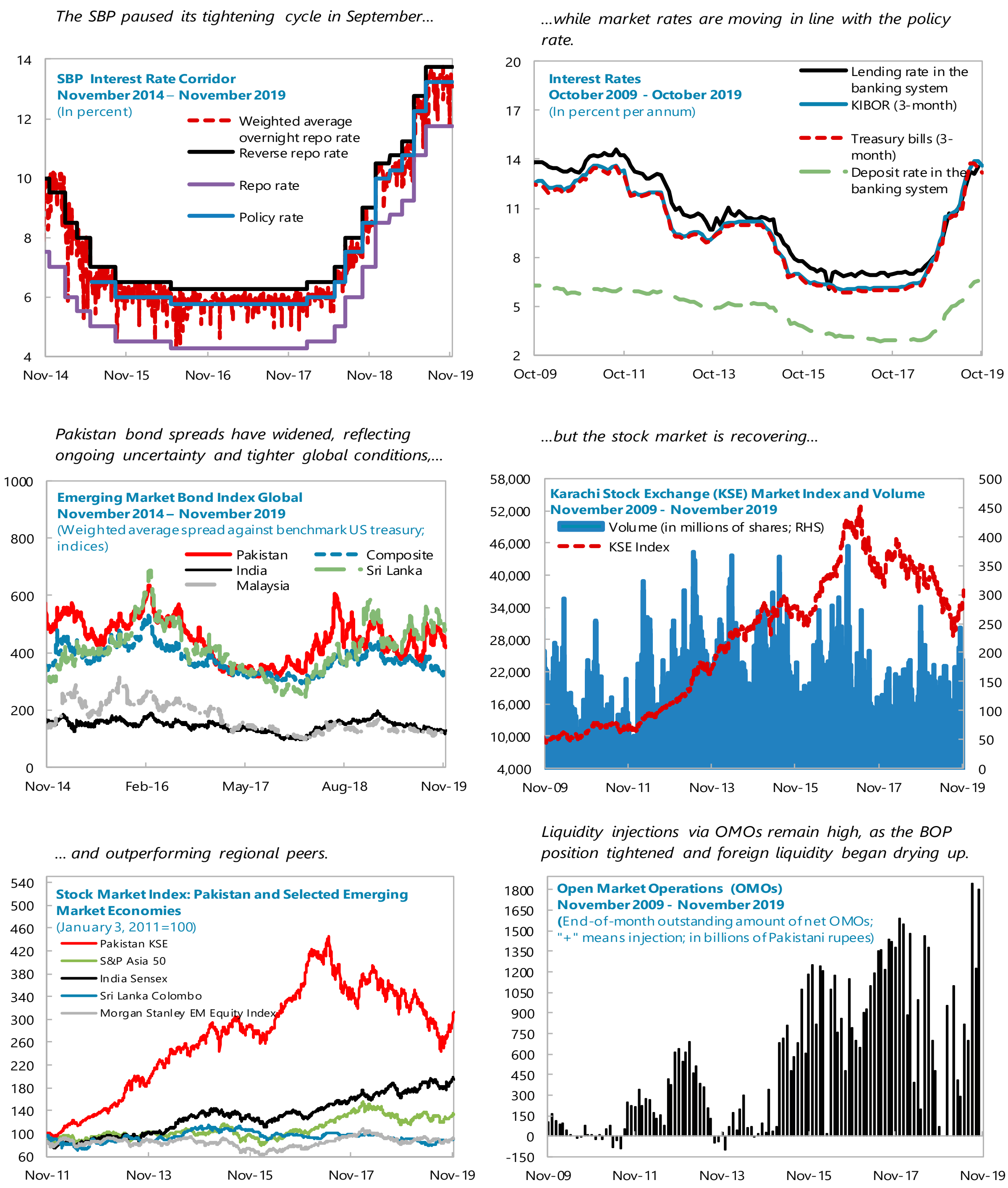


Private sector credit growth is decelering in line with economic activity.



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

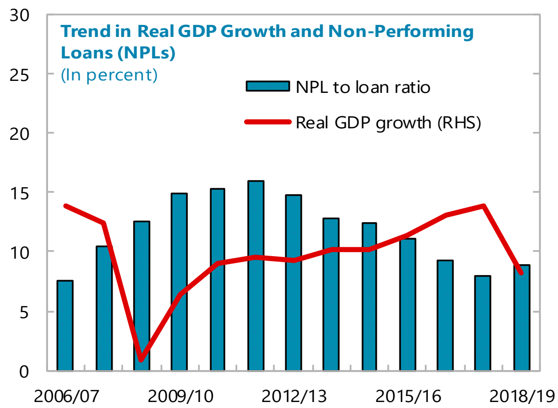
Figure 2. Pakistan: Selected Financial Indicators



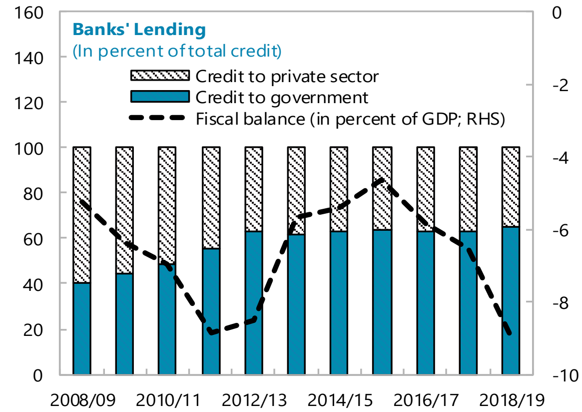
Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators

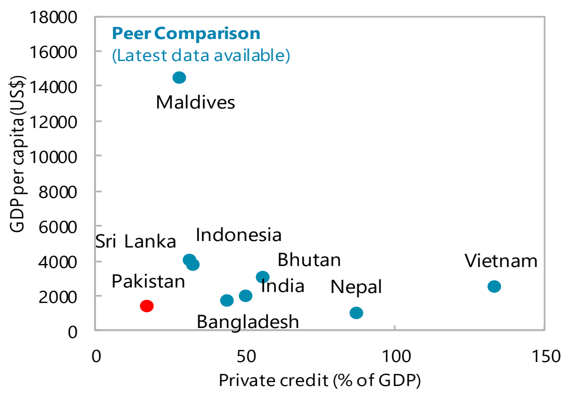
NPLs are rising as the economy slows.



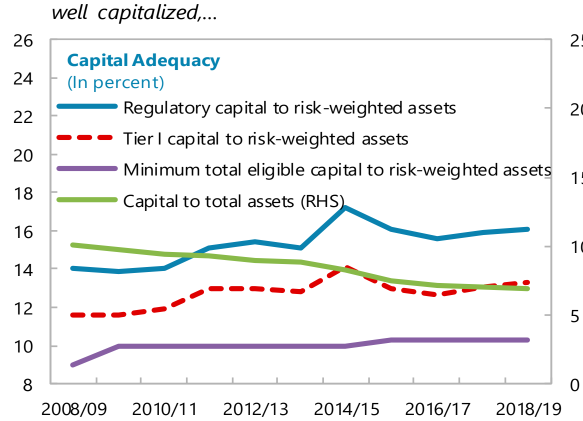
The banking system is oriented toward providing credit to government...



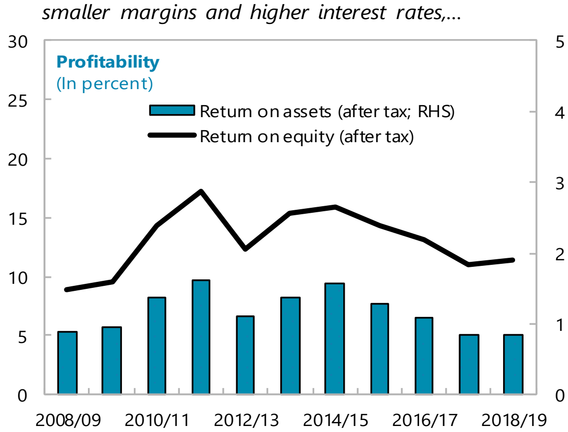
...leaving Pakistan behind its peers in terms of private credit relative to the size of economy.



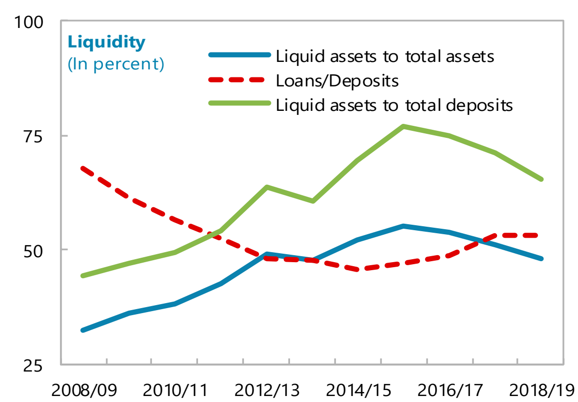
Nonetheless, the banking system remains well capitalized,...



...though profitability has been moderating reflecting smaller margins and higher interest rates,...



...while banks remain highly liquid.



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

Table 1. Pakistan: Selected Economic Indicators, 2015/16–2019/20 1/

Population: 207.8 million (2016/17; provisional)
Per capita GDP: US$1,463 (2016/17)
Poverty rate: 29.5 percent (2012/13)
Main exports: Textiles ($12.8 billion, 2015/16)
Unemployment: 5.9 percent (2014/15)

	2015/16	2016/17	2017/18	2018/19		2019/20	
				Prog.	Est.	Prog.	Proj.
			(Annual percentage change)				
Output and prices							
Real GDP at factor cost	4.6	5.2	5.5	**3.3**	3.3	**2.4**	2.4
GDP deflator at factor cost	0.4	4.0	2.4	**7.5**	7.5	**11.8**	11.8
Consumer prices (period average)	2.9	4.1	3.9	**7.3**	7.3	**13.0**	11.8
Consumer prices (end of period)	3.2	3.9	5.2	**8.4**	8.9	**11.8**	11.4
Pakistani rupees per U.S. dollar (period average)	2.9	0.4	5.0	**...**	24.0	**...**	...
Pakistani rupees per U.S. dollar (end of period)	2.8	0.2	13.9	**...**	30.5	**...**	...
			(In percent of GDP)				
Saving and investment							
Gross saving	13.9	12.0	10.4	**10.8**	10.6	**12.1**	12.1
Government	-0.7	-0.8	-2.2	**-3.6**	-6.2	**-3.8**	-4.2
Nongovernment (including public sector enterprises)	14.6	12.8	12.6	**14.5**	16.8	**15.9**	16.3
Gross capital formation 2/	15.7	16.2	16.7	**15.4**	15.4	**14.7**	14.5
Government	3.7	4.9	4.2	**3.1**	2.6	**3.3**	3.3
Nongovernment (including public sector enterprises)	11.9	11.2	12.5	**12.3**	12.8	**11.4**	11.2
Public finances							
Revenue and grants	15.5	15.5	15.2	**15.0**	12.8	**16.3**	16.4
Expenditure (including statistical discrepancy)	19.9	21.3	21.6	**21.7**	21.6	**23.4**	23.9
Budget balance (including grants)	-4.4	-5.8	-6.4	**-6.8**	-8.8	**-7.1**	-7.5
Budget balance (excluding grants)	-4.6	-5.8	-6.5	**-7.0**	-8.9	**-7.3**	-7.6
Primary balance (excluding grants)	-0.3	-1.6	-2.2	**-1.8**	-3.5	**-0.6**	-0.6
Total general government debt excl. IMF obligations	65.5	65.1	69.5	**74.7**	81.2	**75.8**	77.7
External general government debt	18.6	18.5	22.1	**24.4**	27.4	**29.1**	28.0
Domestic general government debt	46.8	46.5	47.4	**50.2**	53.8	**46.7**	49.8
General government debt incl. IMF obligations	67.6	67.1	71.6	**74.9**	83.5	**76.9**	80.5
External general government debt	20.8	20.5	24.2	**26.5**	29.7	**32.0**	30.7
Domestic general government debt	46.8	46.5	47.4	**48.4**	53.8	**44.9**	49.8
	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)						
Monetary sector							
Net foreign assets	1.7	-3.2	-5.6	**-6.3**	-8.1	**8.9**	8.7
Net domestic assets	11.9	16.9	15.3	**17.1**	19.4	**3.2**	5.7
Broad money (percent change)	13.7	13.7	9.7	**10.8**	11.3	**12.1**	14.4
Reserve money (percent change)	26.5	22.5	12.7	**15.7**	19.9	**13.5**	15.9
Private credit (percent change)	11.1	16.6	14.9	**17.1**	11.6	**13.3**	15.5
Six-month treasury bill rate (period average, in percent)	6.3	5.9	6.0	**...**	9.6	**...**	...
External sector							
Merchandise exports, U.S. dollars (percentage change)	-8.8	0.1	12.6	**0.2**	-2.1	**8.2**	5.8
Merchandise imports, U.S. dollars (percentage change)	0.0	17.9	16.2	**-4.2**	-6.6	**-4.7**	-5.7
Current account balance (in percent of GDP)	-1.7	-4.1	-6.3	**-4.6**	-4.9	**-2.6**	-2.4
Financial account (billions of U.S. dollars)	6.8	10.2	14.3	**10.7**	11.9	**8.7**	8.4
	(In percent of exports of goods and services, unless otherwise indicated)						
External public and publicly guaranteed debt	193.3	209.4	218.3	**225.2**	239.4	**234.0**	245.6
Debt service	22.2	30.1	26.3	**37.9**	39.7	**45.7**	51.0
Gross reserves (in millions of U.S. dollars) 3/	18,143	16,141	9,789	**6,824**	7,274	**11,187**	11,231
In months of next year's imports of goods and services	3.7	2.9	1.9	**1.4**	1.5	**2.2**	2.2
Memorandum items:							
Underlying fiscal balance (excl. grants; percent of GDP) 4/	...	-6.3	-6.5	**-7.3**	-8.9	**-7.3**	-7.6
General government and government guaranteed debt (incl. IMF; % GDP)	70.1	70.0	75.2	**79.1**	87.8	**80.5**	84.7
Net general government debt (incl. IMF; % GDP)	61.3	61.5	66.1	**70.7**	75.2	**73.5**	73.7
Real effective exchange rate (annual average, percentage change)	4.6	4.3	-6.4	**...**	-18.9	**...**	**...**
Real effective exchange rate (end of period percentage change)	2.1	3.4	-11.2	**...**	-23.3	**...**	**...**
Terms of trade (percentage change)	11.1	0.1	-3.2	**-1.3**	-5.3	**-0.1**	-13.3
Real per capita GDP (percentage change)	2.6	3.2	3.6	**1.4**	1.4	**0.5**	0.5
GDP at market prices (in billions of Pakistani rupees)	29,076	31,922	34,619	**38,559**	38,559	**44,446**	44,307
Per capita GDP (in U.S. dollars)	1,426.0	1,529.6	1,550.9	**...**	1,367.1	**...**	**...**
Population (millions)	193.6	197.3	201.0	**...**	204.7	**...**	208.6
GDP at market prices (in billions of U.S. dollars)	278.7	304.6	314.6	**284.2**	282.5	**...**	**...**

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

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2016/17–2023/24

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Prog.	Est.	Prog.	Proj.	Proj.			
	(Annual percentage change, unless otherwise indicated)									
Output and prices										
Real GDP at factor cost	5.2	5.5	**3.3**	3.3	**2.4**	2.4	3.0	4.5	5.0	5.0
Net exports (percent contribution to real GDP at factor cost)	-3.5	-1.9	**…**	0.1	**…**	2.2	0.2	0.1	0.1	0.1
GDP deflator at factor cost	4.0	2.4	**7.5**	7.5	**11.8**	11.8	8.3	6.0	5.0	5.0
Consumer prices (period average)	4.1	3.9	**7.3**	7.3	**13.0**	11.8	8.3	6.0	5.0	5.0
	(In percent of GDP)									
Saving and investment balance	-4.1	-6.3	**-4.6**	-4.9	**-2.6**	-2.4	-2.0	-1.8	-1.7	-1.8
Government	-5.8	-6.4	**-6.8**	-8.8	**-7.1**	-7.5	-5.4	-3.9	-2.7	-2.5
Nongovernment (including public sector enterprises)	1.6	0.1	**2.2**	4.0	**4.6**	5.1	3.4	2.1	1.0	0.7
Gross national saving	12.0	10.4	**10.8**	10.6	**12.1**	12.1	13.2	14.0	14.4	14.5
Government	-0.8	-2.2	**-3.6**	-6.2	**-3.8**	-4.2	-1.9	-0.2	1.0	1.3
Nongovernment (including public sector enterprises)	12.8	12.6	**14.5**	16.8	**15.9**	16.3	15.1	14.2	13.4	13.3
Gross capital formation	16.2	16.7	**15.4**	15.4	**14.7**	14.5	15.2	15.8	16.1	16.3
Government	4.9	4.2	**3.1**	2.6	**3.3**	3.3	3.5	3.8	3.8	3.8
Nongovernment (including public sector enterprises)	11.2	12.5	**12.3**	12.8	**11.4**	11.2	11.7	12.0	12.4	12.6
	(In billions of U.S. dollars, unless otherwise indicated)									
Balance of Payments										
Current account balance	-12.6	-19.9	**-13.1**	-13.8	**-6.7**	-6.6	-5.9	-5.9	-6.0	-6.8
Current account balance (in percent of GDP)	-4.1	-6.3	**-4.6**	-4.9	**-2.6**	-2.4	-2.0	-1.8	-1.7	-1.8
Net capital flows 1/	10.7	13.8	**10.9**	12.3	**9.4**	9.0	9.3	11.2	12.7	11.3
Of which: foreign direct investment 2/	2.7	3.5	**1.8**	1.7	**2.1**	2.2	3.0	3.9	4.9	5.6
Gross reserves	16.1	9.8	**6.8**	7.3	**11.2**	11.2	14.8	20.7	27.1	30.5
In months of imports 3/	2.9	1.9	**1.4**	1.5	**2.2**	2.2	2.8	3.7	4.5	4.8
External debt (in percent of GDP)	27.4	30.3	**36.7**	37.6	**43.4**	41.2	40.9	40.1	38.9	36.8
Terms of trade (annual percentage change)	0.1	-3.2	**-1.3**	-5.3	**-0.1**	-13.3	-0.1	-0.5	-0.5	-0.6
Real effective exchange rate (annual average, percentage change)	4.3	-6.4	**…**	-18.9	**…**	…	…	…	…	…
Real effective exchange rate (end of period, percentage change)	3.4	-11.2	**…**	-23.3	**…**	…	…	…	…	…
	(In percent of GDP)									
Public finances										
Revenue and grants	15.5	15.2	**15.0**	12.8	**16.3**	16.4	18.0	19.1	19.7	19.6
Of which: tax revenue	12.4	12.9	**12.6**	11.6	**14.2**	13.7	15.6	16.7	17.3	17.2
Expenditure (including statistical discrepancy)	21.3	21.6	**21.7**	21.6	**23.4**	23.9	23.5	23.0	22.4	22.2
Of which: current	16.6	17.3	**18.6**	18.9	**20.1**	20.6	19.9	19.2	18.7	18.4
Of which: development	4.9	4.2	**3.1**	2.6	**3.3**	3.3	3.5	3.8	3.8	3.8
Primary balance (including grants)	-1.5	-2.1	**-1.6**	-3.4	**-0.4**	-0.5	1.0	2.0	2.7	2.7
Primary balance (excluding grants)	-1.6	-2.2	**-1.8**	-3.5	**-0.6**	-0.6	0.9	1.9	2.6	2.6
Budget balance (including grants)	-5.8	-6.4	**-6.8**	-8.8	**-7.1**	-7.5	-5.4	-3.9	-2.7	-2.5
Budget balance (excluding grants)	-5.8	-6.5	**-7.0**	-8.9	**-7.3**	-7.6	-5.5	-4.0	-2.8	-2.6
Underlying fiscal balance (excl. grants; percent of GDP) 4/	-6.3	-6.5	**-7.3**	-8.9	**-7.3**	-7.6	-5.5	-4.0	-2.8	-2.6
General government and government guaranteed debt (incl. IMF)	70.0	75.2	**79.1**	87.8	**80.5**	84.7	81.4	77.6	73.6	69.8
General government debt (incl. IMF)	67.1	71.6	**74.9**	83.5	**76.9**	80.5	77.2	73.4	69.4	65.7
Net general government debt (incl. IMF)	61.5	66.1	**70.7**	75.2	**73.5**	73.7	71.2	68.1	64.6	61.3

Sources: Pakistani authorities; and IMF staff estimates and projections.
1/ Difference between the overall balance and the current account balance.
2/ Including privatization.
3/ In months of next year's imports of goods and services.
4/ Excludes one-off transactions, including asset sales.

Table 3a. Pakistan: Balance of Payments, 2016/17–2023/24
(In millions of U.S. dollars, unless otherwise stated)

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Prog.	Est.	Prog.	Proj.	Proj.			
Current account	-12,621	-19,897	**-13,082**	-13,830	**-6,695**	-6,621	-5,933	-5,870	-6,015	-6,750
Balance on goods	-26,754	-31,911	**-29,468**	-28,687	**-24,891**	-24,280	-24,485	-24,998	-25,678	-26,502
Exports, f.o.b.	21,996	24,758	**24,809**	24,241	**26,834**	25,653	27,780	29,853	32,349	34,955
Imports, f.o.b.	48,750	56,669	**54,277**	52,928	**51,725**	49,933	52,264	54,851	58,027	61,457
Services (net)	-4,247	-5,878	**-3,190**	-4,061	**-2,022**	-2,526	-2,241	-2,198	-2,132	-1,997
Services: credit	5,535	5,257	**5,399**	5,254	**5,712**	6,070	6,622	7,103	7,610	8,162
Of which: Coalition Support Fund	550	0	**0**	0	**0**	0	0	0	0	0
Of which: 3G Licenses	0	0	**0**	0	**0**	0	0	0	0	0
Services: debit	9,782	11,135	**8,589**	9,315	**7,734**	8,595	8,862	9,301	9,742	10,159
Income (net)	-5,066	-5,587	**-4,806**	-5,745	**-5,456**	-5,364	-5,874	-6,368	-7,158	-8,289
Income: credit	696	721	**750**	696	**757**	768	960	1,081	1,109	1,275
Income: debit	5,762	6,308	**5,557**	6,441	**6,213**	6,131	6,833	7,449	8,266	9,564
Of which: interest payments	2,421	3,056	**2,978**	3,644	**3,570**	3,584	3,719	4,114	4,525	4,949
Of which: income on direct investment	3,327	3,217	**2,560**	2,847	**2,643**	2,614	3,114	3,335	3,741	4,615
Balance on goods, services, and income	-36,067	-43,376	**-37,464**	-38,493	**-32,369**	-32,170	-32,599	-33,564	-34,968	-36,787
Current transfers (net)	23,446	23,479	**24,382**	24,663	**25,674**	25,549	26,666	27,695	28,952	30,037
Current transfers: credit, *of which:*	23,647	23,708	**24,581**	24,868	**25,833**	25,735	26,825	27,854	29,111	30,196
Official	541	913	**505**	689	**97**	555	427	335	415	415
Workers' remittances	19,351	19,914	**21,567**	21,838	**22,538**	22,711	23,798	24,819	25,882	26,911
Other private transfers	3,755	2,881	**3,120**	2,341	**3,198**	2,623	2,600	2,699	2,815	2,871
Current transfers: debit	201	229	**199**	205	**159**	187	159	159	159	159
Capital account	375	376	**402**	245	**690**	426	469	480	486	473
Capital transfers: credit	375	376	**402**	245	**690**	426	469	480	486	473
Of which: official capital grants	367	375	**394**	235	**690**	421	469	480	486	473
Capital transfers: debit	0	0	**0**	0	**0**	0	0	0	0	0
Financial account	10,209	14,286	**10,708**	11,933	**8,744**	8,364	8,862	10,698	12,194	10,803
Direct investment abroad	-86	-10	**-12**	-8	**-13**	-6	-3	-2	-2	-2
Direct investment in Pakistan	2,749	3,471	**1,807**	1,666	**2,107**	2,211	2,960	3,861	4,855	5,631
Portfolio investment (net)	-239	2,243	**-1,226**	-1,273	**333**	862	1,856	2,040	2,328	2,328
Financial derivatives (net)	0	0	**0**	0	**0**	0	0	0	0	0
Other investment assets	-1,180	-273	**-252**	67	**-641**	-541	-1,733	-1,422	-586	-756
Monetary authorities	0	0	**0**	0	**0**	0	0	0	0	0
General government	-69	-41	**-47**	-45	**0**	0	0	0	0	0
Banks	-313	322	**551**	90	**-133**	-113	-1,170	-800	100	0
Other sectors	-798	-554	**-756**	22	**-508**	-428	-563	-622	-686	-756
Other investment liabilities	8,965	8,855	**10,391**	11,481	**6,958**	5,838	5,782	6,221	5,599	3,603
Monetary authorities	4	-1,548	**4,993**	-5,495	**4,000**	4,497	1,000	0	0	0
General government, *of which:*	5,040	4,894	**3,018**	4,285	**8,133**	8,143	3,425	2,564	1,985	-181
Disbursements	9,414	8,507	**9,534**	10,241	**17,613**	18,788	15,364	15,473	13,342	8,431
Amortization	4,374	4,107	**6,516**	5,981	**9,480**	10,654	11,940	12,910	11,357	8,611
Banks	1,631	-109	**572**	467	**1,259**	578	1,484	1,784	2,084	2,034
Other sectors	2,298	2,522	**1,808**	1,234	**1,567**	1,615	1,873	1,873	1,531	1,750
Net errors and omissions	102	-920	**-391**	108	**0**	350	0	0	0	0
Reserves and related items	1,946	6,141	**2,206**	1,544	**-2,739**	-2,339	-3,398	-5,308	-6,665	-4,526
Reserve assets	1,914	6,226	**2,582**	1,920	**-4,364**	-3,957	-3,626	-5,858	-6,374	-3,477
Use of Fund credit and loans	32	-85	**-377**	-376	**1,625**	1,618	228	550	-291	-1,049
Memorandum items:										
Current account (in percent of GDP)	-4.1	-6.3	**-4.6**	-4.9	**-2.6**	-2.4	-2.0	-1.8	-1.7	-1.8
Current account (in percent of GDP; excluding fuel imports)	-0.7	-2.1	**0.6**	0.4	**3.5**	3.3	3.6	3.8	4.0	4.1
Exports f.o.b. (growth rate, in percent)	0.1	12.6	**0.2**	-2.1	**8.2**	5.8	8.3	7.5	8.4	8.1
Exports volume (growth rate, in percent)	-4.3	9.8	**0.9**	1.3	**6.2**	2.0	7.1	6.2	6.4	6.0
Remittance (growth rate, in percent)	-2.8	2.9	**8.3**	9.7	**4.5**	4.0	4.8	4.3	4.3	4.0
Remittances (in percent of GDP)	6.4	6.3	**7.6**	7.7	**8.7**	8.3	8.1	7.7	7.5	7.2
Imports f.o.b. (growth rate, in percent)	17.9	16.2	**-4.2**	-6.6	**-4.7**	-5.7	4.7	4.9	5.8	5.9
Imports volume (growth rate, in percent)	14.0	9.7	**-6.1**	-6.1	**-6.6**	-10.0	3.5	3.3	3.4	3.5
Oil imports (in million US$, cif)	10,607	13,263	**14,852**	14,852	**15,671**	15,665	16,491	18,055	19,955	22,057
Terms of trade (growth rate, in percent)	0.1	-3.2	**-1.3**	-5.3	**-0.1**	-13.3	-0.1	-0.5	-0.5	-0.6
Foreign Direct Investment (in percent of GDP)	0.9	1.1	**0.6**	0.6	**0.8**	0.8	1.0	1.2	1.4	1.5
External debt (in millions of U.S. dollars)	83,477	95,342	**104,165**	106,312	**112,538**	113,514	120,808	128,372	134,467	137,813
o/w external public debt	63,752	71,621	**73,713**	76,249	**83,521**	85,257	90,454	94,621	97,362	97,184
Gross external financing needs (in millions of U.S. dollars) 1/	21,688	28,841	**25,502**	26,395	**23,188**	21,909	20,794	21,905	22,669	22,582
End-period gross official reserves (millions of U.S. dollars) 2/	16,141	9,789	**6,824**	7,274	**11,187**	11,231	14,857	20,715	27,089	30,566
(In months of next year's imports of goods and services)	2.9	1.9	**1.4**	1.5	**2.2**	2.2	2.8	3.7	4.5	4.8
GDP (in millions of U.S. dollars)	304,567	314,588	**…**	282,519	**…**	…	…	…	…	…

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

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

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

Table 3b. Pakistan: Gross Financing Requirements and Sources, 2017/18–2023/24
(in millions of U.S. dollars unless otherwise stated)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Est.		Proj.			
Gross External Financing Requirements (A)	**30,385**	**25,363**	**27,332**	**26,696**	**28,119**	**26,684**	**29,685**
(In percent of GDP)	9.7	9.0	9.9	9.0	8.8	7.7	7.9
Current account deficit	19,897	13,830	6,621	5,933	5,870	6,015	6,750
(In percent of GDP)	6.3	4.9	2.4	2.0	1.8	1.7	1.8
Amortization	10,403	11,157	19,957	19,738	21,210	19,579	21,886
Public Sector	5,703	6,984	16,154	16,028	16,110	12,357	12,699
Short-term Borrowing	1,488	1,537	2,990	6,336	9,440	7,240	4,000
Long-term Borrowing (non-IMF)	4,163	4,444	12,164	9,692	5,670	4,117	7,699
Bonds	52	1,003	1,000	0	1,000	1,000	1,000
Private Sector 1/	4,700	4,173	3,802	3,711	5,100	7,222	9,187
Short-term Borrowing	4,094	3,474	3,610	3,600	4,628	5,847	7,277
Long-term Borrowing	606	699	192	111	473	1,375	1,910
IMF Repurchases	85	376	755	1,025	1,040	1,089	1,049
Available Financing (B)	**24,034**	**22,848**	**28,917**	**29,069**	**30,188**	**32,259**	**33,162**
Foreign Direct Investment (net) 2/	3,461	1,658	2,205	2,957	3,859	4,853	5,629
Disbursement	21,117	20,837	25,935	25,644	25,849	26,920	27,061
From private creditors	12,130	4,290	7,138	7,192	10,875	15,078	17,042
Disbursement to Private Sector 3/	7,569	3,615	6,138	5,692	8,375	11,578	13,542
Disbursement to Public Sector 4/	4,561	675	1,000	1,500	2,500	3,500	3,500
From official creditors (non-IMF)	8,987	16,547	18,797	18,452	14,973	11,842	10,019
o/w Project Loans	3,458	2,656	2,573	2,957	2,859	2,821	2,910
o/w China	1,811	1,987	1,062	1,100	1,100	1,100	1,100
o/w Program Loans	261	17	2,850	1,967	2,374	1,781	21
o/w WB	205	0	750	945	1,450	707	0
o/w ADB	50	0	2,100	1,000	900	1,050	0
o/w Rollover of short-term debt	5,141	3,788	4,868	11,922	9,869	11,315	12,705
o/w Public Sector	1,667	1,906	2,111	7,240	4,000	4,000	4,000
o/w Private Sector	3,474	1,882	2,757	4,682	5,869	7,315	8,705
Other Net Capital Inflows (net) 5/	-544	353	776	469	480	486	473
Remaining Financing Needs (C=A-B)	**6,352**	**2,515**	**-1,584**	**-2,373**	**-2,068**	**-5,576**	**-3,477**
Borrowing from IMF (D)	**0**	**0**	**2,372**	**1,253**	**1,590**	**799**	**0**
Reserve Assets (decrease = +) (E=C-D)	6,352	2,515	-3,957	-3,626	-3,658	-6,374	-3,477
Memorandum items							
Gross official reserves (stock, in US$ billions)	9.8	7.3	11.2	14.9	20.7	27.1	30.6
(In months of prospective imports)	1.9	1.5	2.2	2.8	3.7	4.5	4.8
(In percent of IMF ARA metric: assuming fixed ER)	29.6	22.0	30.7	37.7	49.5	62.2	67.9
(In percent of IMF ARA metric: assuming flexible ER)	48.0	34.7	47.0	57.3	75.6	96.3	106.2
Net FX derivative position (in US$ billions)	6.7	8.1	7.6	5.5	4.0	4.0	4.0

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

1/ Includes banks and non-bank private sector.
2/ Includes privatization receipts.
3/ Includes equity and debt portfolio inflows, and borrowing by banks and other sectors.
4/ Includes syndicated loans and Euro bonds.
5/ Includes capital account, financial derivatives, errors and omissions.

Table 4a. Pakistan: General Government Budget, 2016/17–2023/24
(In billions of Pakistani rupees)

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Prog.	Est.	Prog.	Proj.		Proj.		
Revenue and grants	4,962	5,265	**5,775**	4,934	**7,246**	7,278	9,032	10,709	12,203	13,429
Revenue	4,937	5,228	**5,684**	4,901	**7,165**	7,219	8,984	10,653	12,142	13,369
Tax revenue	3,969	4,467	**4,845**	4,473	**6,328**	6,049	7,817	9,348	10,700	11,780
Federal	3,647	4,066	**4,398**	4,072	**5,812**	5,533	7,183	8,560	9,743	10,704
FBR revenue	3,361	3,842	**4,153**	3,829	**5,503**	5,238	6,799	8,075	9,207	10,153
Direct taxes	1,343	1,537	**1,629**	1,446	**2,027**	1,964	2,536	3,027	3,449	3,802
Federal excise duty	199	206	**257**	234	**384**	356	503	619	727	857
Sales tax/VAT	1,323	1,491	**1,586**	1,465	**2,203**	2,112	2,732	3,194	3,631	3,984
Customs duties	496	608	**681**	685	**889**	806	1,028	1,235	1,399	1,510
Petroleum surcharge	167	179	**203**	206	**260**	264	349	446	493	503
Gas surcharge and other	78	30	**18**	14	**21**	16	19	21	23	25
GIDC	42	15	**25**	21	**29**	15	17	19	21	23
Provincial	322	401	**447**	402	**515**	516	634	788	957	1,076
Nontax revenue	967	761	**838**	427	**838**	1,170	1,166	1,305	1,441	1,589
Federal	888	614	**728**	341	**710**	1,070	1,054	1,179	1,303	1,436
Provincial	79	147	**111**	86	**127**	99	112	126	139	153
Grants	25	37	**91**	33	**81**	60	49	56	62	60
Expenditure (including statistical discrepancy)	6,801	7,488	**8,380**	8,345	**10,419**	10,608	11,765	12,917	13,906	15,141
Current expenditure	5,314	5,982	**7,190**	7,274	**8,935**	9,122	9,983	10,801	11,569	12,564
Federal	3,588	3,918	**4,850**	4,946	**6,262**	6,479	6,992	7,454	7,871	8,487
Interest	1,348	1,500	**1,994**	2,091	**2,978**	3,125	3,244	3,327	3,378	3,561
Domestic	1,220	1,323	**1,733**	1,821	**2,620**	2,785	2,860	2,876	2,886	3,032
Foreign	128	177	**261**	270	**349**	336	369	425	461	499
IMF budget support	0	0	**0**	0	**10**	4	15	26	31	30
Other	2,239	2,418	**2,856**	2,855	**3,293**	3,358	3,762	4,153	4,524	4,956
Defense	888	1,030	**1,160**	1,147	**1,312**	1,338	1,514	1,694	1,872	2,063
Other	1,351	1,387	**1,696**	1,708	**1,982**	2,021	2,248	2,459	2,653	2,892
Of which : subsidies	159	114	**211**	195	**273**	273	309	336	352	388
Of which : grants 1/	462	512	**625**	612	**743**	746	844	944	1,033	1,139
Provincial	1,726	2,065	**2,340**	2,328	**2,693**	2,643	2,991	3,347	3,697	4,076
Development expenditure and net lending	1,565	1,494	**1,190**	1,049	**1,484**	1,486	1,782	2,116	2,337	2,577
Public Sector Development Program	1,578	1,456	**1,210**	1,008	**1,484**	1,481	1,776	2,110	2,331	2,570
Federal	726	576	**500**	502	**631**	659	796	947	1,046	1,153
Provincial	852	880	**710**	506	**853**	822	980	1,163	1,285	1,416
Net lending	-13	38	**-20**	41	**0**	5	5	6	7	7
Statistical discrepancy ("+" = additional expenditure)	-78	12	**0**	22	**0**	0	0	0	0	0
Overall Balance (excluding grants)	-1,864	-2,260	**-2,697**	-3,445	**-3,254**	-3,389	-2,781	-2,264	-1,764	-1,772
Overall Balance (including grants)	-1,839	-2,223	**-2,606**	-3,412	**-3,173**	-3,329	-2,733	-2,208	-1,703	-1,712
Financing	1,839	2,223	**2,606**	3,412	**3,173**	3,329	2,733	2,208	1,703	1,712
External	560	785	**275**	417	**1,801**	1,792	1,050	902	678	135
Of which: privatization receipts	4	0	**0**	0	**0**	0	0	0	0	0
Of which: IMF	0	0	**0**	0	**408**	382	213	278	143	-14
Domestic	1,279	1,438	**2,331**	2,995	**1,372**	1,538	1,682	1,305	1,024	1,577
Bank	895	1,086	**1,631**	2,230	**961**	1,076	1,178	914	717	1,104
Nonbank	384	353	**699**	765	**412**	461	505	392	307	473
Memorandum items:										
Underlying fiscal balance (excl. grants) 2/	-2,023	-2,260	**-2,815**	-3,445	**-3,254**	-3,389	-2,781	-2,264	-1,764	-1,772
Provincial balance	-16	-17	**73**	37	**463**	348	874	1,243	1,612	1,790
Primary balance (excluding grants)	-515	-760	**-702**	-1,353	**-276**	-264	463	1,064	1,614	1,790
Primary balance (including grants)	-490	-723	**-611**	-1,320	**-195**	-204	512	1,120	1,676	1,850
Total security spending	888	1,030	**1,160**	1,147	**1,312**	1,338	1,514	1,694	1,872	2,063
Energy sector circular debt accumulation	58	450	**...**	447	**...**	...	...	...	...	...
Energy sector circular debt clearance	19	147	**...**	200	**...**	...	...	...	...	...
General government debt incl. IMF obligations	21,408	24,804	**28,889**	32,177	**34,200**	35,655	38,701	41,188	43,027	44,868
Domestic debt	14,849	16,416	**18,674**	20,729	**19,976**	22,049	23,732	25,037	26,062	27,638
External debt	6,559	8,388	**10,215**	11,448	**14,224**	13,605	14,969	16,151	16,966	17,230
General government and government guaranteed debt (incl. IMF)	22,345	26,040	**30,500**	33,868	**35,787**	37,516	40,807	43,545	45,631	47,696
Net general government debt (incl. IMF)	19,635	22,875	**27,266**	28,977	**32,647**	32,672	35,718	38,206	40,045	41,886
Nominal GDP (market prices)	31,922	34,619	**38,559**	38,559	**44,446**	44,307	50,150	56,110	61,988	68,342

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

1/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development expenditure as reported in the original FY2015/16 budget.

2/ Excludes one-off transactions, including asset sales.

Table 4b. Pakistan: General Government Budget, 2016/17-2023/24

(In percent of GDP, unless otherwise stated)

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Prog.	Est.	Prog.	Proj.		Proj.		
Revenue and grants	15.5	15.2	**15.0**	12.8	**16.3**	16.4	18.0	19.1	19.7	19.6
Revenue	15.5	15.1	**14.7**	12.7	**16.1**	16.3	17.9	19.0	19.6	19.6
Tax revenue	12.4	12.9	**12.6**	11.6	**14.2**	13.7	15.6	16.7	17.3	17.2
Federal	11.4	11.7	**11.4**	10.6	**13.1**	12.5	14.3	15.3	15.7	15.7
FBR revenue	10.5	11.1	**10.8**	9.9	**12.4**	11.8	13.6	14.4	14.9	14.9
Direct taxes	4.2	4.4	**4.2**	3.7	**4.6**	4.4	5.1	5.4	5.6	5.6
Federal excise duty	0.6	0.6	**0.7**	0.6	**0.9**	0.8	1.0	1.1	1.2	1.3
Sales tax	4.1	4.3	**4.1**	3.8	**5.0**	4.8	5.4	5.7	5.9	5.8
Customs duties	1.6	1.8	**1.8**	1.8	**2.0**	1.8	2.0	2.2	2.3	2.2
Petroleum surcharge / Carbon tax	0.5	0.5	**0.5**	0.5	**0.6**	0.6	0.7	0.8	0.8	0.7
Gas surcharge and other	0.2	0.1	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
GIDC	0.1	0.0	**0.1**	0.1	**0.1**	0.0	0.0	0.0	0.0	0.0
Provincial	1.0	1.2	**1.2**	1.0	**1.2**	1.2	1.3	1.4	1.5	1.6
Nontax revenue	3.0	2.2	**2.2**	1.1	**1.9**	2.6	2.3	2.3	2.3	2.3
Federal	2.8	1.8	**1.9**	0.9	**1.6**	2.4	2.1	2.1	2.1	2.1
Provincial	0.2	0.4	**0.3**	0.2	**0.3**	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.1	**0.2**	0.1	**0.2**	0.1	0.1	0.1	0.1	0.1
Expenditure (including statistical discrepancy)	21.3	21.6	**21.7**	21.6	**23.4**	23.9	23.5	23.0	22.4	22.2
Current expenditure	16.6	17.3	**18.6**	18.9	**20.1**	20.6	19.9	19.2	18.7	18.4
Federal	11.2	11.3	**12.6**	12.8	**14.1**	14.6	13.9	13.3	12.7	12.4
Interest	4.2	4.3	**5.2**	5.4	**6.7**	7.1	6.5	5.9	5.5	5.2
Domestic	3.8	3.8	**4.5**	4.7	**5.9**	6.3	5.7	5.1	4.7	4.4
Foreign	0.4	0.5	**0.7**	0.7	**0.8**	0.8	0.7	0.8	0.7	0.7
IMF budget support	0.0	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.1	0.0
Other	7.0	7.0	**7.4**	7.4	**7.4**	7.6	7.5	7.4	7.3	7.3
Defense	2.8	3.0	**3.0**	3.0	**3.0**	3.0	3.0	3.0	3.0	3.0
Other	4.2	4.0	**4.4**	4.4	**4.5**	4.6	4.5	4.4	4.3	4.2
Of which : subsidies	0.5	0.3	**0.5**	0.5	**0.6**	0.6	0.6	0.6	0.6	0.6
Of which : grants 1/	1.4	1.5	**1.6**	1.6	**1.7**	1.7	1.7	1.7	1.7	1.7
Provincial	5.4	6.0	**6.1**	6.0	**6.0**	6.0	6.0	6.0	6.0	6.0
Development expenditure and net lending	4.9	4.3	**3.1**	2.7	**3.3**	3.4	3.6	3.8	3.8	3.8
Public Sector Development Program	4.9	4.2	**3.1**	2.6	**3.3**	3.3	3.5	3.8	3.8	3.8
Federal	2.3	1.7	**1.3**	1.3	**1.4**	1.5	1.6	1.7	1.7	1.7
Provincial	2.7	2.5	**1.8**	1.3	**1.9**	1.9	2.0	2.1	2.1	2.1
Net lending	0.0	0.1	**-0.1**	0.1	**0.0**	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy ("+" = additional expenditure)	-0.2	0.0	**0.0**	0.1	**0.0**	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-5.8	-6.5	**-7.0**	-8.9	**-7.3**	-7.6	-5.5	-4.0	-2.8	-2.6
Overall Balance (including grants)	-5.8	-6.4	**-6.8**	-8.8	**-7.1**	-7.5	-5.4	-3.9	-2.7	-2.5
Financing	5.8	6.4	**6.8**	8.8	**7.1**	7.5	5.4	3.9	2.7	2.5
External	1.8	2.3	**0.7**	1.1	**4.1**	4.0	2.1	1.6	1.1	0.2
Of which: privatization receipts	0.0	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.0	**0.0**	0.0	**0.9**	0.9	0.4	0.5	0.2	0.0
Domestic	4.0	4.2	**6.0**	7.8	**3.1**	3.5	3.4	2.3	1.7	2.3
Bank	2.8	3.1	**4.2**	5.8	**2.2**	2.4	2.3	1.6	1.2	1.6
Nonbank	1.2	1.0	**1.8**	2.0	**0.9**	1.0	1.0	0.7	0.5	0.7
Memorandum items:										
Underlying fiscal balance (excl. grants; percent of GDP) 2/	-6.3	-6.5	**-7.3**	-8.9	**-7.3**	-7.6	-5.5	-4.0	-2.8	-2.6
Provincial balance	0.0	-0.1	**0.2**	0.1	**1.0**	0.8	1.7	2.2	2.6	2.6
Primary balance (excluding grants)	-1.6	-2.2	**-1.8**	-3.5	**-0.6**	-0.6	0.9	1.9	2.6	2.6
Primary balance (including grants)	-1.5	-2.1	**-1.6**	-3.4	**-0.4**	-0.5	1.0	2.0	2.7	2.7
Total security spending	2.8	3.0	**3.0**	3.0	**3.0**	3.0	3.0	3.0	3.0	3.0
Energy sector circular debt accumulation	0.2	1.3	**...**	1.2	**...**	...	...	...	...	...
Energy sector circular debt clearance	0.1	0.4	**...**	0.5	**...**	...	...	...	...	...
General government debt incl. IMF obligations	67.1	71.6	**74.9**	83.5	**76.9**	80.5	77.2	73.4	69.4	65.7
Domestic debt	46.5	47.4	**48.4**	53.8	**44.9**	49.8	47.3	44.6	42.0	40.4
External debt	20.5	24.2	**26.5**	29.7	**32.0**	30.7	29.8	28.8	27.4	25.2
General government and government guaranteed debt (incl. IMF)	70.0	75.2	**79.1**	87.8	**80.5**	84.7	81.4	77.6	73.6	69.8
Net general government debt (incl. IMF)	61.5	66.1	**70.7**	75.2	**73.5**	73.7	71.2	68.1	64.6	61.3
Nominal GDP (market prices, billions of Pakistani rupees)	31,922	34,619	**38,559**	38,559	**44,446**	44,307	50,150	56,110	61,988	68,342

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

1/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development expenditure as reported in the original FY2015/16 budget.
2/ Excludes one-off transactions, including asset sales.

Table 5. Pakistan: Monetary Survey, 2016/17-2020/21

	2016/17	2017/18	2018/19		2019/20					2020/21
			Q4		Q1	Q2	Q3	Q4		Q4
			Prog.	Est.				Prog.	Proj.	Proj.
	(In billions of Pakistani rupees, unless otherwise indicated)									
Monetary survey										
Net foreign assets (NFA)	602	-208	**-1,223**	-1,507	-1,247	-585	-136	**354**	41	1,005
Net domestic assets (NDA)	13,979	16,206	**18,945**	19,306	19,150	19,121	19,247	**19,510**	20,316	21,693
Net claims on government, *of which:*	8,956	10,200	**11,831**	12,338	12,477	12,746	13,083	**12,792**	13,676	14,854
Budget support, *of which:*	8,163	9,284	**11,071**	11,547	11,424	12,006	12,342	**12,031**	12,936	14,113
Banks	5,863	5,744	**3,315**	4,857	6,577	5,459	5,795	**4,845**	6,746	8,493
Commodity operations	687	820	**760**	756	741	741	741	**760**	741	741
Credit to nongovernment	6,011	7,034	**8,368**	8,055	8,036	8,553	8,952	**9,436**	9,227	10,372
Private sector 1/	5,213	5,989	**7,014**	6,685	6,668	7,150	7,489	**7,946**	7,719	8,714
Public sector enterprises	799	1,044	**1,354**	1,370	1,368	1,403	1,463	**1,490**	1,507	1,658
Privatization account	-41	-41	**-41**	-41	-41	-41	-41	**-41**	-41	-41
Other items, net	-947	-987	**-1,213**	-1,047	-1,322	-2,137	-2,747	**-2,677**	-2,546	-3,492
Broad money	14,581	15,997	**17,722**	17,798	17,904	18,536	19,111	**19,864**	20,358	22,699
Currency outside scheduled banks	3,911	4,388	**5,165**	4,950	5,239	5,378	5,545	**5,690**	5,831	6,502
Rupee deposits	10,014	10,780	**11,578**	11,739	11,604	12,087	12,463	**12,973**	13,412	15,043
Foreign currency deposits	655	829	**979**	1,110	1,061	1,071	1,104	**1,201**	1,115	1,154
State Bank of Pakistan (SBP)										
NFA	829	12	**-1,003**	-1,127	-910	-234	215	**575**	391	1,355
NDA	4,039	5,472	**7,348**	7,701	7,276	6,779	6,588	**6,627**	7,226	7,024
Net claims on government	2,337	3,600	**7,766**	6,677	5,089	6,789	6,789	**7,288**	6,411	5,853
Of which: budget support	2,300	3,539	**7,756**	6,690	4,847	6,547	6,547	**7,187**	6,190	5,621
Claims on nongovernment	-9	-8	**-10**	-5	-6	-6	-6	**-12**	-6	-14
Claims on scheduled banks	500	570	**662**	683	673	673	773	**662**	823	823
Privatization account	-41	-41	**-41**	-41	-41	-41	-41	**-41**	-41	-41
Other items, net	1,251	1,350	**-1,030**	387	1,561	-636	-927	**1,270**	39	403
Reserve money, *of which:*	4,868	5,485	**6,345**	6,573	6,366	6,545	6,803	**7,202**	7,617	8,379
Banks' reserves	669	814	**951**	1,246	806	829	861	**1,130**	965	1,103
Currency	4,176	4,644	**5,394**	5,294	5,525	5,716	5,941	**6,073**	6,653	7,276
	(Annual percentage change, unless otherwise indicated)									
Broad money	13.7	9.7	**10.8**	11.3	11.8	11.8	13.7	**12.1**	14.4	11.5
NFA, banking system (in percent of broad money) 2/	-3.2	-5.6	**-6.3**	-8.1	-5.6	1.8	4.1	**8.9**	8.7	4.7
NDA, banking system (in percent of broad money) 2/	16.9	15.3	**17.1**	19.4	17.3	10.0	9.6	**3.2**	5.7	6.8
Budgetary support (in percent of broad money) 2/	8.2	7.7	**11.2**	14.1	12.8	12.9	13.5	**5.4**	7.8	5.8
Budgetary support	14.7	13.7	**19.3**	24.4	21.8	21.7	22.5	**8.7**	12.0	9.1
Private credit 1/	16.6	14.9	**17.1**	11.6	9.0	9.0	13.4	**13.3**	15.5	12.9
Currency	17.3	12.2	**17.7**	12.8	19.7	18.7	17.0	**10.2**	17.8	11.5
Reserve money	22.5	12.7	**15.7**	19.9	16.7	15.8	17.0	**13.5**	15.9	10.0
Memorandum items:										
Velocity	2.3	2.3	**2.2**	2.3	2.3	2.3	2.3	**2.2**	2.3	2.4
Money multiplier	3.0	2.9	**2.8**	2.7	2.8	2.8	2.8	**2.8**	2.7	2.7
Currency to broad money ratio (percent)	26.8	27.4	**29.1**	27.8	29.3	29.0	29.0	**28.6**	28.6	28.6
Currency to deposit ratio (percent)	36.7	37.8	**41.1**	38.5	41.4	40.9	40.9	**40.1**	40.1	40.1
Foreign currency to deposit ratio (percent)	6.1	7.1	**7.8**	8.6	8.4	8.1	8.1	**8.5**	7.7	7.1
Reserves to deposit ratio (percent)	6.3	7.0	**7.6**	9.7	6.4	6.3	6.3	**8.0**	6.6	6.8
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	1,046	1,121	**1,787**	2,263	-123	459	795	**961**	1,389	1,178
By commercial banks	158	-119	**-2,429**	-887	1,720	602	938	**1,529**	1,889	1,747
By SBP 3/	888	1,240	**4,216**	3,150	-1,843	-143	-143	**-569**	-500	-569
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 4/	-2.0	-7.8	**-7.2**	-7.3	1.4	5.8	8.5	**10.4**	9.6	5.6
NFA of commercial banks (millions of U.S. dollars)	-2,163	-1,850	**-1,567**	-2,437	-2,147	-2,215	-2,145	**-1,277**	-2,122	-2,051
NDA of commercial banks (billions of Pakistani rupees)	9,940	10,733	**11,598**	11,605	11,875	12,343	12,659	**12,883**	13,090	14,670

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

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

.Table 6. Pakistan: Financial Indicators for the Banking System, 2013–19

	Dec. 2013	Dec. 2014	Dec. 1/ 2015	Dec. 1/ 2016	Dec. 1/ 2017	Mar. 1/ 2018	Jun. 1/ 2018	Sep. 1/ 2018	Dec. 1/ 2018	Mar. 1/ 2019	Jun. 1/ 2019	Sep. 1/ 2019
Capital adequacy												
Regulatory capital to risk-weighted assets	14.9	17.1	17.3	16.2	15.8	15.9	15.9	16.1	16.2	16.1	16.1	17.1
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	12.9	13.0	13.2	13.2	13.3	13.3	14.2
Capital to total assets	9.0	10.0	8.4	7.8	7.1	7.7	7.1	7.6	7.1	7.6	7.0	7.0
Asset composition and quality												
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	8.4	8.3	7.9	8.0	8.0	8.2	8.8	8.8
Provisions to NPLs	78.4	79.8	84.9	85.0	87.2	89.2	87.1	86.0	83.8	84.1	78.4	80.5
Net NPLs to total eligible capital	14.7	10.1	7.7	7.3	5.8	4.9	5.9	6.5	7.8	7.8	11.5	9.8
Earnings and profitability												
Return on assets (after tax)	1.1	1.5	1.5	1.3	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Return on equity (after tax)	12.4	16.1	15.6	14.4	11.5	11.8	11.0	10.7	10.7	10.8	11.4	10.8
Net interest income to gross income	70.4	71.3	70.4	71.2	72.7	74.3	73.6	74.7	75.4	77.7	78.4	79.4
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	57.1	57.8	59.6	60.5	60.2	55.8	57.1	57.4
Liquidity												
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	49.7	51.1	47.7	48.7	45.3	48.0	50.8
Liquid assets to total deposits	61.3	64.5	73.3	72.1	76.1	65.6	71.3	63.6	67.2	59.8	65.3	73.5
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	51.4	53.1	54.6	55.8	55.6	53.2	53.6

Source: State Bank of Pakistan.

1/ As required by Basel requirements, the authorities used regulatory capital instead of balance sheet capital to calculate FSI figures.

Table 7. Pakistan: Indicators of Fund Credit, 2015–27

(In millions of SDR, unless otherwise specified; calendar year basis)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections								
	Projected level of credit outstanding based on existing and prospective drawings												
Total	3,600.0	4,393.0	4,393.0	4,243.0	4,867.0	5,161.0	5,548.8	5,966.7	5,234.5	4,423.7	3,726.8	3,083.3	2,372.0
Of which:													
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility	3,600.0	4,393.0	4,393.0	4,243.0	4,867.0	5,161.0	5,548.8	5,966.7	5,234.5	4,423.7	3,726.8	3,083.3	2,372.0
In percent of quota	348.3	216.3	216.3	208.9	239.6	254.1	273.2	293.8	257.7	217.8	183.5	151.8	116.8
In percent of end-period gross official reserves	31.4	32.4	44.1	81.6	67.7	58.8	43.8	34.7	26.6	19.9	15.5	11.9	8.4
As a share of external debt	7.3	7.8	7.0	5.9	6.2	6.3	6.3	6.4	5.5	4.4	3.5	2.7	1.9
	Projected debt service to the Fund based on existing and prospective drawings												
Total	338.1	51.1	75.0	248.0	121.6	822.2	891.7	880.5	901.3	942.8	790.8	712.5	767.9
Of which:													
Principal	303.0	0.0	0.0	150.0	120.0	690.0	732.2	702.2	732.2	810.8	696.8	643.5	711.3
Interest and charges	35.1	51.1	75.0	98.0	1.6	132.2	159.5	178.3	169.1	132.0	94.0	69.0	56.5
SBA and ENDA Principal	303.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility Principal	0.0	0.0	0.0	150.0	120.0	690.0	732.2	702.2	732.2	810.8	696.8	643.5	711.3
In percent of quota	32.7	2.5	3.7	12.2	6.0	40.5	43.9	43.4	44.4	46.4	38.9	35.1	37.8
In percent of end-period gross official reserves	2.9	0.4	0.8	4.8	1.7	9.4	7.0	5.1	4.6	4.2	3.3	2.7	2.7
As a share of total external debt service	8.0	1.1	1.2	3.8	1.3	7.5	6.8	6.1	7.1	7.4	5.8	4.8	4.8
Memorandum items													
Quota (millions of SDRs)	1,034	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031
Total External Debt (percent of CY GDP)	24.9	26.0	28.9	33.2	39.4	40.8	40.7	39.8	37.9	36.8	36.4	36.0	35.7
Total External Debt Service (millions of U.S. dollars)	5,881	6,179	8,818	8,941	13,302	15,558	18,527	20,487	18,300	18,238	19,737	21,359	23,114

Source: IMF staff projections.

Table 8. Pakistan: Selected Vulnerabilities Indicators, 2016/17–2023/24

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Prog.	Est.	Prog.	Proj.		Proj.		
Key economic and market indicators										
Real GDP growth (factor cost, in percent)	5.2	5.5	**3.3**	3.3	**2.4**	2.4	3.0	4.5	5.0	5.0
CPI inflation (period average, in percent)	4.1	3.9	**7.3**	7.3	**13.0**	11.8	8.3	6.0	5.0	5.0
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	317	582	**…**	420	**…**	…	…	…	…	…
Exchange rate PRs/US$ (end of period)	104.9	119.4	**…**	155.9	**…**	…	…	…	…	…
External sector										
Current account balance (percent of GDP)	-4.1	-6.3	**-4.6**	-4.9	**-2.6**	-2.4	-2.0	-1.8	-1.7	-1.8
Net FDI inflows (percent of GDP)	0.9	1.1	**0.6**	0.6	**0.8**	0.8	1.0	1.2	1.4	1.5
Exports (percentage change of U.S. dollar value; GNFS)	0.5	9.0	**0.6**	-1.7	**7.7**	7.6	8.4	7.4	8.1	7.9
Gross international reserves (GIR) in billions of U.S. dollars	16.1	9.8	**6.8**	7.3	**11.2**	11.2	14.9	20.7	27.1	30.6
GIR in percent of ST debt at remaining maturity (RM) 1/	161.1	87.9	**39.1**	42.0	**59.7**	53.5	65.2	72.7	107.1	189.4
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 1/	99.2	54.1	**28.0**	29.7	**43.5**	40.5	50.3	57.9	81.6	123.8
Total gross external debt (ED) in percent of GDP, *of which:*	27.4	30.3	**36.7**	37.6	**43.4**	41.2	40.9	40.1	38.9	36.8
ST external debt (original maturity, in percent of total ED)	6.7	6.3	**6.9**	5.3	**11.8**	7.2	8.3	7.1	5.4	6.3
ED of domestic private sector (in percent of total ED)	25.0	29.2	**27.5**	28.3	**27.8**	28.5	30.6	32.3	34.4	37.3
ED to foreign official sector (in percent of total ED)	75.0	70.8	**72.5**	71.7	**72.2**	71.5	69.4	67.7	65.6	62.7
Total gross external debt in percent of exports	303.2	317.6	**344.8**	360.4	**345.8**	357.8	351.2	347.4	336.5	319.6
Gross external financing requirement (in billions of U.S. dollars) 2/	21.7	28.8	**25.5**	26.4	**23.2**	21.9	20.8	21.9	22.7	22.6
Public sector 3/										
Overall balance (including grants)	-5.8	-6.4	**-6.8**	-8.8	**-7.1**	-7.5	-5.4	-3.9	-2.7	-2.5
Primary balance (including grants)	-1.5	-2.1	**-1.6**	-3.4	**-0.4**	-0.5	1.0	2.0	2.7	2.7
Debt-stabilizing primary balance 4/	-1.9	1.7	**1.5**	4.1	**1.8**	-2.3	-1.9	-1.4	-0.9	-0.8
Gross PS financing requirement 5/	29.4	31.7	**36.0**	39.3	**23.6**	26.1	21.7	19.8	19.0	16.3
General government and government guaranteed debt (incl. IMF)	70.0	75.2	**79.1**	87.8	**80.5**	84.7	81.4	77.6	73.6	69.8
General government debt incl. IMF obligations	67.1	71.6	**74.9**	83.5	**76.9**	80.5	77.2	73.4	69.4	65.7
Net general government debt (incl. IMF) 6/	61.5	66.1	**70.7**	75.2	**73.5**	73.7	71.2	68.1	64.6	61.3
Financial sector 7/										
Capital adequacy ratio (in percent)	15.6	15.9	**…**	16.1	**…**	…	…	…	…	…
Nonperforming loans (NPLs) in percent of total loans	9.3	7.9	**…**	8.8	**…**	…	…	…	…	…
Provisions in percent of NPLs	83.7	87.1	**…**	78.4	**…**	…	…	…	…	…
Return on assets (after tax, in percent)	1.1	0.8	**…**	0.8	**…**	…	…	…	…	…
Return on equity (after tax, in percent)	13.1	11.0	**…**	11.4	**…**	…	…	…	…	…
FX deposits held by residents (in percent of total deposits)	6.1	7.1	**…**	8.6	**…**	…	…	…	…	…
Government debt held by FS (percent of total FS assets)	61.4	63.8	**…**	69.3	**…**	…	…	…	…	…
Credit to private sector (percent change)	16.6	14.9	**…**	11.6	**…**	…	…	…	…	…
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	304.6	314.6	**…**	282.5	**…**	…	…	…	…	…

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

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

2/ Current account deficit plus amortization of external debt.

3/ Public sector covers general (consolidated) government.

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

5/ Overall balance plus debt amortization.

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

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

Table 9. Pakistan: Schedule of Reviews and Purchases

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

Source: IMF staff estimates.

1/ Date on which resources become available.

Table 10. Pakistan: Public External Liabilities and Repayment Schedule 1/

(In millions of U.S. dollars)

	Outstanding debt	Amortization over the EFF period				
		FY2019/20	FY2020/21	FY2021/22	FY2022/23 (through Q1)	Total
Paris Club	**11,220**	**706**	**787**	**836**	**43**	**2,372**
Austria	24	3	4	4	0	11
Belgium	17	2	3	3	0	8
Canada	395	22	23	24	0	68
Finland	4	0	1	1	0	2
France	1,591	131	152	167	15	466
Germany	1,312	79	81	81	0	241
Italy	161	5	5	5	0	15
Japan	5,797	301	332	343	27	1,004
Korea	364	40	45	52	1	138
The Netherlands	82	5	5	5	0	14
Norway	10	1	2	2	0	5
Russia	73	1	11	13	0	25
Spain	63	4	5	5	0	14
Sweden	92	12	14	16	0	42
Switzerland	77	8	9	10	0	27
United Kindom	4	1	1	1	0	2
United States	1,153	90	96	105	0	291
Non-Paris Club Bilateral	**24,391**	**7,897**	**6,744**	**733**	**373**	**15,746**
China	15,297	3,354	3,480	696	363	7,893
Kuwait	163	13	14	15	8	49
Libya	4	0	0	0	0	1
Saudi Arabia 2/	6,398	3,023	2,245	20	0	5,288
UAE	2,029	1,006	1,005	2	2	2,015
Qatar	500	500	0	0	0	500
Multilateral	**29,066**	**2,357**	**1,627**	**1,717**	**597**	**6,298**
Islamic Develoment Bank 3/	1,899	918	92	93	25	1,128
ADB	11,351	848	878	872	281	2,878
AIIB	64	0	0	7	4	11
ECO Trade Bank	42	2	1	0	0	3
IBRD	1,433	116	124	136	60	436
IDA	13,928	457	515	592	224	1,788
Int'l Fund for Agri. Development	257	8	9	9	2	28
Nordic Development Fund	8	1	1	1	0	2
OPEC FUND	84	8	8	8	1	25
EIB	0	0	0	0	0	0
Commercial	**9,713**	**3,959**	**2,548**	**2,336**	**0**	**8,843**
China	6,736	2,200	2,300	2,236	0	6,736
Others	2,977	1,759	248	100	0	2,107
Bonds	**6,300**	**1,000**	**0**	**1,000**	**0**	**2,000**
IMF	**6,518**	**757**	**1,025**	**1,040**	**265**	**3,088**
Total	**87,208**	**16,676**	**12,731**	**7,662**	**1,278**	**38,347**

Sources: The Pakistani authorities; and the IMF calculations.

1/ Estimated as of end-August 2019; IMF as of end-September 2019.

2/ The debt to Saudi Arabia includes agreed inflows from oil facilities scheduled to be disbursed over FY2020.

3/ Includes short-term oil facilities of $0.6 billion.

Table 11. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2019/20–2020/21 1/

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

	FY 2018/19			FY 2019/20								FY 2020/21
	end-December	end-June		end-September				end-December		end-March	end-June	end-September
	Actual	Projected CR 19/212	Actual	Program (PC) CR 19/212	Adjusted Prog.	Actual	Status	Program (PC) CR 19/212	Revised (PC)	Proposed (PC)	Proposed (IT)	Proposed (IT)
Performance Criteria												
Floor on net international reserves of the SBP (millions of U.S. dollars)	-11,853	-17,743	-17,731	-18,478	-19,199	-16,475	Met	-16,311	-16,061	-11,827	-10,248	-8,841
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	7,296	8,852	9,079	8,911	9,241	8,694	Met	8,800	8,815	8,474	9,066	8,529
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	7,532	8,055	8,040	8,055	...	6,770	Met	8,055	8,055	8,055	7,555	7,305
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	153	702	1,353	102	-27	-305	Met	145	-87	96	264	-58
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	4,737	7,756	6,689	7,756	...	4,846	Met	7,756	7,756	7,756	7,187	7,187
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	1,313	1,611	1,555	1,611	...	1,556	Met	1,611	1,763	1,763	1,863	1,922
Continuous Performance Criteria												
Zero new flow of SBP's credit to general government				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	0	0	0
Indicative Targets												
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	30	100	116	45	...	5	Not met	86.4	86.4	133.2	180	40.7
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)		1,411.0	1,287.1	349.2	...	257.2	Not met	698.4	569.8	997.1	1,524.4	120.9
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,795	4,153	3,829	1,071	...	964	Not met	2,367	2,198	3,520	5,238	1,324
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees) 4/ 5/	90	90	235.5	-75	...	-33.1	Not met	-57.5	-53.1	-77.1	-105.1	-133.1
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) 4/	1,415	1,686	1,619	23	...	77	Not met	39	93	116	134	27

Sources: Pakistani authorities; and Fund staff estimates.

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

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

3/ Definition changed at the time of the first review. Applicable for end-December 2019 targets onward.

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

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

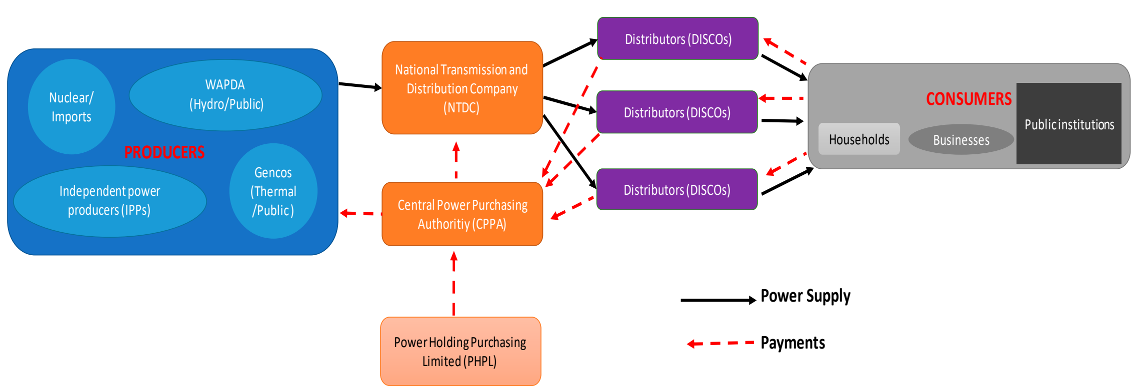
Table 12. Pakistan: Structural Conditionality

	Prior Actions for the First Review		
1	Notification of Q1 FY 2020 electricity tariff adjustment for capacity payments		Completed on November 29.
	Structural Benchmarks	**Date**	**Status**
	Fiscal		
1	Commit to not grant further tax amnesties	Continuous	Met.
2	Issue licenses for the track-and-trace system for excises on cigarettes	end-September 2019	Not met. Issued on October 28.
	Monetary/Financial		
3	Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force list of jurisdictions with serious deficiencies	end-October 2019	Not met. Reset to end-June 2020.
4	Submit to parliament, in consultation with IMF staff, amendments to the State Bank of Pakistan Act to address all recommendations of the new 2019 Safeguards Assessment Report and the 2016 Technical Assistance Report on Central Bank Law Reform	end-December 2019	Reset to end-March 2020.
	State-Owned Enterprises		
5	Notify the FY 2020 electricity tariff schedule as determined by the regulator	end-September 2019	Not met. Completed with implementation of PA #1
6	Prepare a comprehensive circular debt reduction plan in collaboration with international partners	end-September 2019	Not met. Adopted in November.
7	Submit to parliament amendments to the NEPRA Act to (i) ensure full automaticity of the quarterly tariff adjustments and (ii) eliminate the gap between the regular annual tariff determination and notification by the government	end-December 2019	Modified. Submit to parliament amendments to the NEPRA Act to (i) give the regulator the power to determine and notify quarterly tariffs; (ii) ensure timely submissions of quarterly and annual petitions by the DISCOs; (iii) eliminate the gap between the regular annual tariff determination and notification by the government; and (iv) reinstate the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.
8	Conduct and publish new audits by reputable international auditors of Pakistan International Airlines and Pakistan Steel Mills	end-December 2019	
9	Conduct a triage of all SOEs, dividing them into companies to (i) maintain under state management; (ii) privatize; or (iii) liquidate	end-September 2020	
10	Submit to Parliament a new State-Owned Enterprise law to improve governance and transparency in line with IMF recommendations	end-September 2020	
	Social Protection and gender		
11	Finalize BISP's banking contracts and launch financial inclusion strategy for women	end-October 2019	Met.
12	Update the benefit structure of Waseela-e-Taleem (WeT) to narrow the educational gender gap	end-December 2019	Met.
13	Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry)	end-June 2020	
	Proposed new Structural Benchmarks		
1	Avoid the practice of issuing new preferential tax treatments or exemptions	Continuous	
2	Notification of Q2 FY 2020 electricity tariff adjustment for capacity payments	end-January 2020	
3	Presentation of the federal government mid-year budget review report to the National Assembly in line with the PFM Act	end-February 2020	
4	Improve towards a substantial level the effectiveness in addressing terrorism financing consistent with FATF Immediate Outcomes 9 and 10	end-March 2020	

Annex I. Pakistan's Power Sector and Circular Debt[1]

1. The power sector has long been a significant constraint on growth in Pakistan. Over the past decade, the power sector has been characterized by a significant demand-supply gap, manifested in frequent scheduled power outages (load shedding). As recently as 2017, power outages averaged five hours a day in urban areas and 10 hours in rural areas, severely affecting investment and economic activity. To address these challenges, Pakistan embarked on a wide-ranging initiative to increase and diversify its energy supply, including in the context of the China-Pakistan Economic Corridor (CPEC): around $50 billion worth of long-term investment projects in the power sector were identified in 2017. As a result, new independent power producers (IPPs) have entered the market and generation capacity has increased by around 45 percent over 2015–18. On the other hand, investment in transmission and distribution has been lagging, with increases in capacity by around 26 and 33 percent respectively, creating bottlenecks and inefficiencies in the system.

Pakistan Power Sector Structure



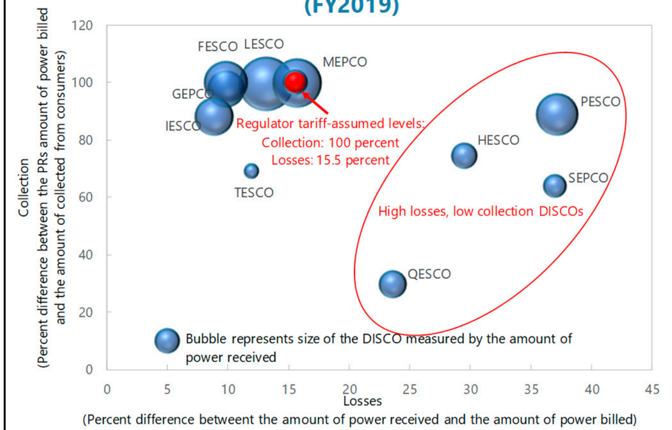
Sources: Ministry of Energy, IMF staff calculations.

2. Generally weak operational and commercial performance by the distribution companies remains a critical challenge. There are 10 public distribution companies (DISCOs) operating across Pakistan with varying degrees of efficiency and performance. Some, such as IESCO (Islamabad) and LESCO (Lahore), operate in urban areas where provision of infrastructure and law and order are adequate. On the other hand, other DISCOs, such as PESCO (Peshawar) or QESCO (Quetta) operate inremote areas characterized by lagging infrastructure and poor law and order conditions. Moreover, DISCOs' governance frameworks tend to be weak, with Board of Directors exposed to political interference and inadequate management structures, so that their operations

[1] Prepared by Ricardo Llaudes.

are not run on a commercial basis. As a result of these shortcomings, the operational efficiency of a number of DISCOs, as measured by their transmission and distribution losses, is weak, with energy losses in the range of 20–40 percent of the energy received. Similarly, collection from consumers in many of the DISCOs falls significantly short of the amount of energy billed. These challenges point to the need for a comprehensive reform of the DISCOs to improve their collections and reduce their transmission and distribution losses.

Public Distribution Companies Performance (FY2019)



Sources: Ministry of Energy, IMF staff calculations.

3. **End-consumer tariffs in the power sector are determined by the National Electric Power Regulatory Authority (NEPRA), the sector's regulator**. Tariffs are determined on the basis of power purchase agreements (PPAs) signed between producers (IPPs and public Gencos) and a single buyer, the Central Power Purchasing Agency (CPPA), that allow for the calculation of the revenue requirements in the sector to be recovered through the tariffs. The main elements of the end-consumer tariff include:[2] (i) capacity payments, to cover generation companies' costs related to the design and construction of plants, the generators' guaranteed return on equity, and debt financing charges. These charges are indexed for, among others, exchange rate and domestic interest rates; (ii) energy charges, mostly related to the cost of fuel; and (iii) distribution margins, retained by DISCOs and meant to cover their costs pertaining to operation and maintenance, salaries and depreciation, as well as their rate of return. Currently, deviations in fuel prices from the regulator's benchmark (the energy charge component of the tariff) are automatically passed on to consumers on a monthly basis as fuel price adjustments (FPA), while the DISCOs distribution margins are adjusted in the annual determination of tariffs. Regarding capacity payments, the authorities are now moving to a model of quarterly determination of tariffs. Finally, while the regulator determines the tariffs, the notification of tariffs is made by the government.

4. **Crucially, the regulator assumes in the determination of tariffs losses and collection levels not reflective of DISCO's actual performance**. In determining the end-consumer tariffs, the regulator assumes 100 percent collection and transmission and distribution losses at 15.5 percent, a significant deviation from what DISCOs are able to achieve. This implies that the tariff is set at a level lower than cost recovery, therefore generating a structural shortfall in revenues in the system.

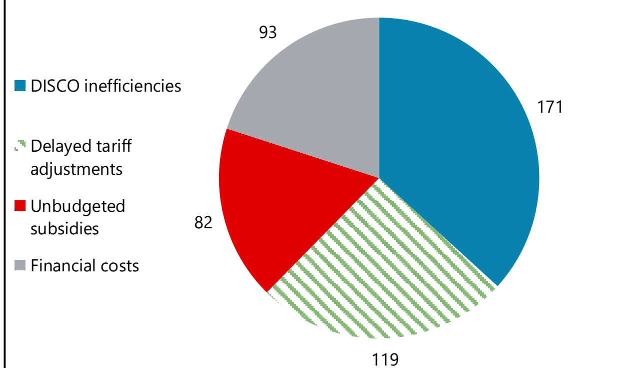
5. **The inefficiencies and distortions in the system have led to the emergence of arrears in the power sector, or circular debt**. As defined by the Economic Coordination Committee of the

[2] The tariff also includes a Use of System Charge (UoSC) payable to the National Transmission and Distribution Company (NTDC) to meet its revenue requirements.

Cabinet in 2014, circular debt is "the amount of cash shortfall within the Central Power Purchasing Agency (CPPA) which it cannot pay to power supply companies. The overdue amount is the result of: (a) the difference between the actual cost and the tariff determined by the NEPRA which is the distribution company's losses above and collections under those allowed by NEPRA; (b) the delayed or non-payment of subsidies by government; and (c) delayed determination and notification of tariffs." Over the years, circular debt has stripped the sector of working capital, constraining investment and capacity utilization, leading to unreliable supply that hinders economic growth.

6. **These factors largely explain the accumulation of circular debt over FY 2019**. The amount of new circular debt was PRs 465 billion, with around 1/3 of this amount coming from the inefficiencies in the DISCOs described above. Another significant source of circular debt, over 40 percent of the accumulation, comes from policy decisions related to the provision of unbudgeted subsidies, government provided subsidies that remain unpaid as there is no allocation in the budget, and delays in tariff notifications, whereby the government does not proceed with timely notification of tariffs. Addressing these two last sources of arrears has been a key priority of the Fund-supported program. The remaining accumulation of arrears stems from the financial costs generated by the existing stock of circular debt, including significant late payment fees payable to producers (see below).

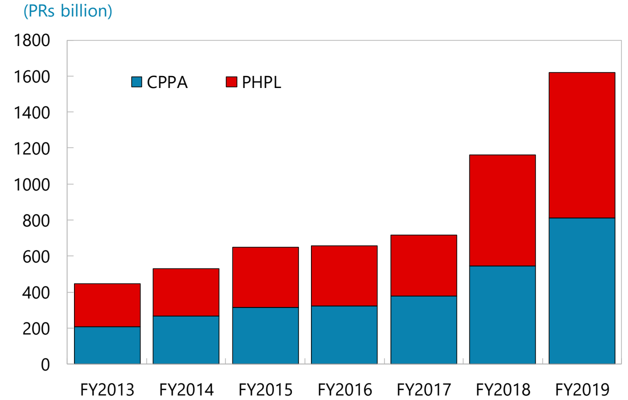
Composition of circular debt
(PRs billion, FY 2019)



Sources: Ministry of Energy, IMF staff calculation.

7. **A significant stock of circular debt has been accumulated over the recent years**. The stock of circular debt has grown from around PRs 450 billion in FY 2013 to PRs 1,618 billion in FY 2019 (around 4.2 percent of GDP), with a more pronounced increase over the past two years. Of this amount, PRs 812 billion are accumulated in CPPA as payables to the generators, which carry a late payment charge of about KIBOR+4 percent, or around PRs 80 billion annually and contributes to a feedback loop for additional arrears accumulation. A similar amount of circular debt is accumulated in the Power Holding Private Limited (PHPL). PHPL is a wholly owned government entity established for the purpose of injecting liquidity in the power sector. PHPL uses government guarantees to borrow from commercial banks, typically 5–7 year borrowing at KIBOR+2 percent, with the proceeds used to reduce CPPA liabilities to producers.

Stock of circular debt
(PRs billion)



Sources: Ministry of Energy, IMF staff calculations.

Servicing of PHPL loans is partly made through a surcharge in the tariff, equivalent to around PRs 40 billion annually, that covers around ½ of the servicing costs. The remaining amount is covered by diverting power sector revenues, which again generates additional arrears.

8. **Against the above challenges, the authorities have prepared a comprehensive circular debt reduction plan**. The plan, prepared in consultation with IMF staff and other international partners, aims to reduce the annual flow of circular debt from the current level to around PRs 50–75 billion by FY 2023 through improving collection and reducing losses, streamlining tariff updates, and rationalizing subsidies. Monitoring of the plan will take place through implementation reports published by the Ministry of Energy. Key measures of the plan include:

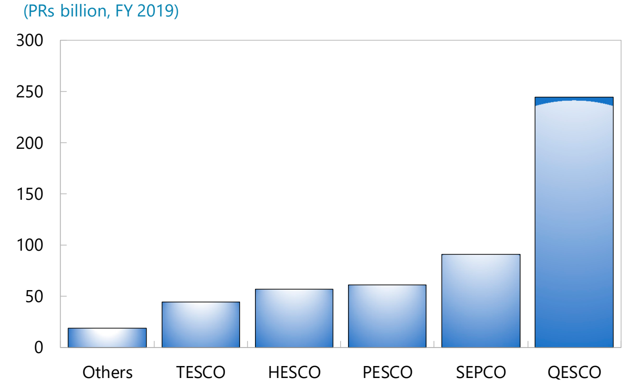
- *Antitheft drive*: Theft of electricity is one of the main causes of non-recovery from consumers. The antitheft drive is run by the government with assistance from law enforcement agencies. The drive includes measures to physical secure electricity feeders in high-loss areas as well as awareness campaigns of the negative effects imposed by electricity theft.

- *Streamlining tariff procedures and reintroducing surcharges*. To this end, the National Electric Power Regulatory Authority (NEPRA) Act will be amended to (i) give the regulator the power to determine and notify quarterly tariffs; (ii) ensure timely submission of tariff petitions by the DISCOs; (iii) streamline the notification of annual tariffs by the government; and (iv) reintroduce the power of the government to introduce tariff surcharges to stem the accumulation of arrears. Amendments to the NEPRA Act are expected to be submitted to parliament by end-December 2019.

- *Timely updating of tariffs*. Until the process of adjusting quarterly tariffs becomes fully automatic, the government will continue to notify tariffs for capacity payments on a quarterly basis shortly after the end of the preceding quarter. For example, the Q2 FY 2020 adjustment will take place by end-January 2020.

- *Improving efficiency and collection*. The government plans to sign performance-based contracts with all distribution companies (DISCOs) by end-January 2020, with KPIs for improvements in collection and reductions in losses. Moreover, the authorities will enforce existing legal procedures to initiate disconnections of non-paying consumers.[3] Finally, regulatory

Arrears from running defaulters
(PRs billion, FY 2019)



Note: Others includes LESCO, GEPCO, FESCO, IESCO, MEPCO.
Sources: Ministry of Energy, IMF staff calculations.

[3] These refer to running defaulters, consumers who do not pay their electricity bill, often times for more than two years, but still receive service.

benchmarks will be reassessed-the regulator's assumption of 100 percent recoveries-to address the structural accumulation of circular debt embedded in the system.

- *Rightsizing of subsidies*. Energy sector subsidies are very poorly targeted, requiring significant cross-subsidization in the tariff-thus increasing the level of tariffs on all consumers-and sizeable budgetary allocations. Recognizing these costs, the authorities plan to revisit all government-provided power sector subsidies so the FY 2021 budget reflects better targeting of the subsidies provided to residential consumers, industrial sectors, and agricultural sector.

- *Strengthening DISCOs governance*. All DISCOs will appoint independent Board of Directors on the basis of merit and without any political interference. Similarly, all senior management will be appointed through a competitive process

9. The authorities are also taking actions to reduce the stock of power sector arrears. The large stock of power sector arrears represents a significant quasi-fiscal risk, including combined annual debt servicing costs exceeding PRs 100 billion. The authorities, together with international partners, are designing a strategy to settle the stock of arrears while limiting the impact on government finances. The plan envisages the following steps: (i) the government will issue new guarantees to transfer costly CPPA payables to IPPs into the PHPL; (ii) the government will absorb PHPL into its budget, fully recognizing the liabilities in PHPL as debt of the government of Pakistan and taking over the servicing of the loans contained in PHPL; and (iii) the government will reduce the stock of outstanding payables through the use of power assets privatization proceeds, recoveries from the outstanding stock of receivables, the existing debt servicing surcharge, and the rightsizing of sector-related subsidies.

Annex II. Public and External Debt Sustainability

Despite the higher debt outturn for FY 2019, the bottom-line DSA remains unchanged since the program approval in July, where public debt continues to be judged sustainable. Public debt for end-FY 2019 was higher than projected due to a larger fiscal deficit, build-up of precautionary fiscal buffers, and greater exchange rate depreciation than projected, as the SBP transitioned to a flexible exchange rate earlier than expected. However, the earlier elimination of the overvaluation in the rupee and a gradual reduction in precautionary government cash deposits would lower public debt of GDP in the medium-term broadly as projected. Efforts to strengthen debt sustainability are proceeding as envisaged under the program, including the refinancing of loans from major bilateral creditors.

1. **Public debt for FY 2019 turned higher than projected, but public debt continues to be projected to decline as broadly envisaged at the time of program approval**. Public debt (including guarantees) is now estimated at 87.8 percent of GDP at end-FY 2019, compared with program approval of 78.5 percent of GDP. This is because of the larger fiscal deficit, a decision to increase cash deposits to provide a financing cushion against potentially unfavorable market conditions, and a more depreciated exchange rate. Still, the debt trajectory is envisaged to be steadily decline due to favorable exchange rate developments, while continuing to be supported by fiscal consolidation. As a result, total debt is projected to decline to just below 70 percent of GDP by end FY 2024, compared with 67.1 percent of GDP at the time of program approval. Gross financing needs edged up to 19.4 percent from 16¾ percent at the program approval, reflecting the higher deficit and gross financing needs in FY 2019 but continue to be on a clear downward path.

2. **The successful reprofiling of government debt held by the SBP into longer term instruments has supported debt sustainability**. With SBP financing no longer available, the government has been successful in securing ample bank financing, including at longer maturities and with some foreign participation. Contingent liabilities from loss-making SOEs, to the extent not covered by government guarantees, continue to represent additional fiscal risks (about 2 percent of GDP). Staff will aim to strengthen the transparency related to other types of contingent liabilities, such as in the context of power generation projects.

3. **The authorities have remained engaged with external creditors to secure financing consistent with the program debt sustainability objectives**. The oil facility with Saudi Arabia (worth $3.2 billion) was activated in August and is providing support to the balance of payments. Similarly, the authorities have secured the roll-over of matured obligations to China Development Bank in September ($700 million). The authorities have engaged with Saudi Arabia, which refinanced BOP support loans that matured in November ($1 billion). Official lenders are also advancing their disbursement plans. The ADB is planning to approve in December a new Special Policy-Based Loan of $1 billion, which would further strengthen the BOP.

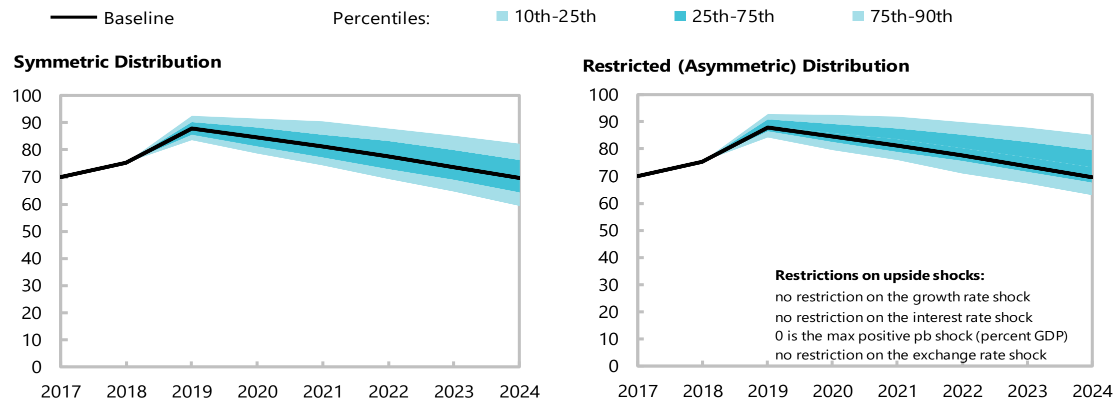
Figure 1. Pakistan: Public DSA Risk Assessment

Heat Map

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

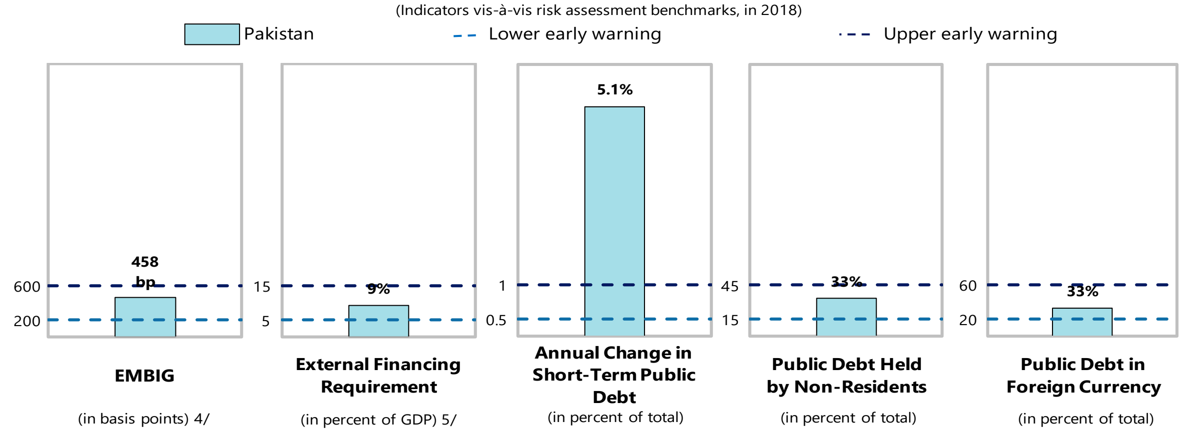
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

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

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

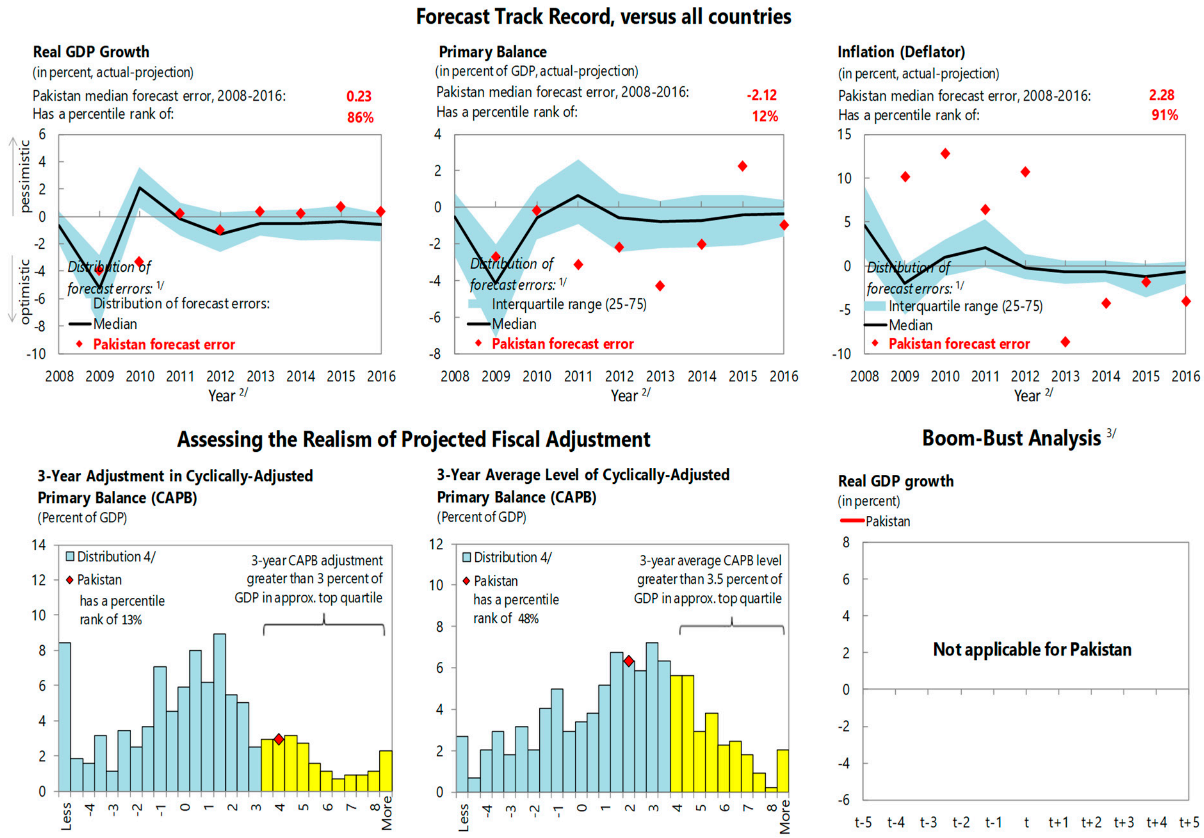
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 22-Aug-19 through 20-Nov-19.

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

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



Source : IMF Staff.

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

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

3/ Not applicable for Pakistan, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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

Figure 3. Pakistan: Public DSA

(In percent of GDP unless otherwise indicated)

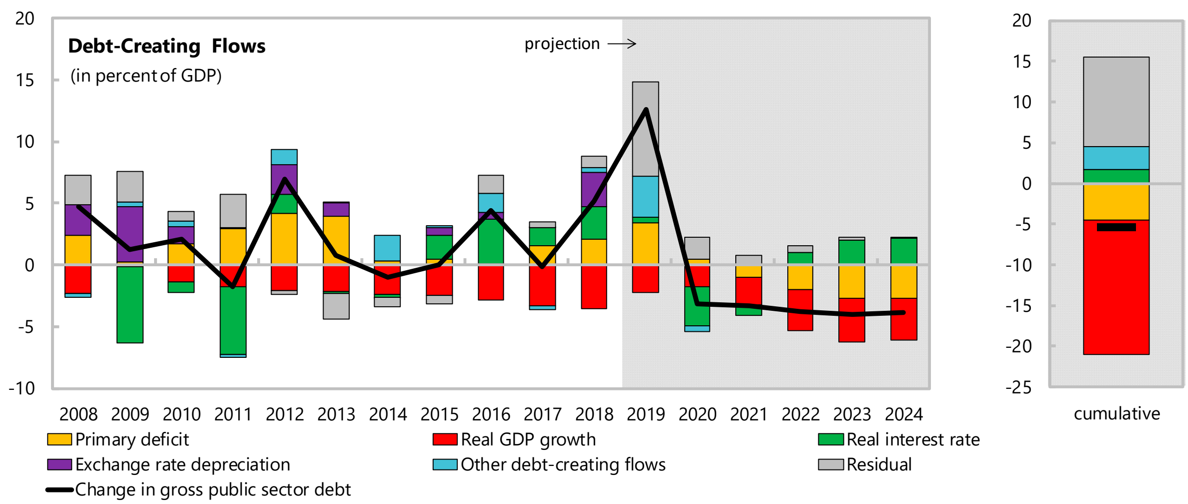
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	63.3	70.0	75.2	87.8	84.7	81.4	77.6	73.6	69.8
Of which: guarantees	2.2	2.9	3.6	4.4	4.2	4.2	4.2	4.2	4.1
Public gross financing needs	27	29.4	33.7	38.9	28.8	26.0	22.6	21.0	19.4
Real GDP growth (in percent)	3.5	5.2	5.5	3.3	2.4	3.0	4.5	5.0	5.0
Inflation (GDP deflator, in percent)	9.9	4.3	2.8	7.8	12.3	9.9	7.0	5.2	5.0
Nominal GDP growth (in percent)	13.7	9.8	8.4	11.4	14.9	13.2	11.9	10.5	10.2
Effective interest rate (in percent) [4/]	8.6	6.9	7.0	8.8	8.5	9.1	8.8	8.4	8.5

As of November 20, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		423
5Y CDS (bp)		433
Ratings	Foreign	Local
Moody's	B3	n.a.
S&Ps	B-	n.a.
Fitch	B-	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	1.9	-0.1	5.2	12.6	-3.2	-3.3	-3.8	-4.0	-3.8	-5.4	
Identified debt-creating flows	1.3	-0.6	4.4	4.9	-5.0	-4.1	-4.3	-4.2	-3.9	-16.4	
Primary deficit	1.8	1.5	2.1	3.4	0.5	-1.0	-2.0	-2.7	-2.7	-4.5	-1.2
Primary (noninterest) revenue and gra	14.1	15.5	15.2	12.8	16.4	18.0	19.1	19.7	19.6	105.7	
Primary (noninterest) expenditure	16.0	17.1	17.3	16.2	16.9	17.0	17.1	17.0	16.9	101.1	
Automatic debt dynamics [5/]	-1.1	-1.8	1.8	-1.8	-4.9	-3.1	-2.3	-1.5	-1.2	-14.7	
Interest rate/growth differential [6/]	-2.6	-1.9	-0.9	-1.8	-4.9	-3.1	-2.3	-1.5	-1.2	-14.7	
Of which: real interest rate	-0.6	1.5	2.6	0.5	-3.1	-0.8	1.0	2.0	2.2	1.7	
Of which: real GDP growth	-1.9	-3.3	-3.6	-2.2	-1.8	-2.2	-3.3	-3.5	-3.3	-16.4	
Exchange rate depreciation [7/]	1.5	0.0	2.8	…	…	…	…	…	…	…	
Other identified debt-creating flows [8/]	0.6	-0.3	0.4	3.3	-0.5	0.0	0.0	0.0	0.0	2.8	
Residual, including asset changes [9/]	0.6	0.4	0.9	7.7	1.8	0.8	0.5	0.2	0.1	11.0	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

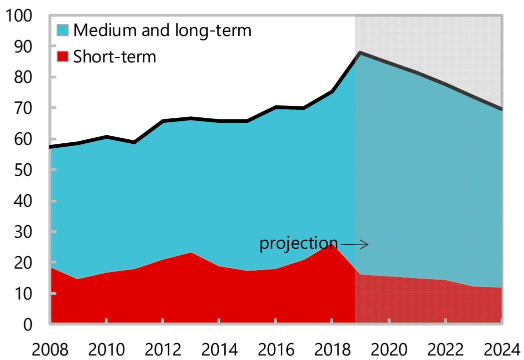
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

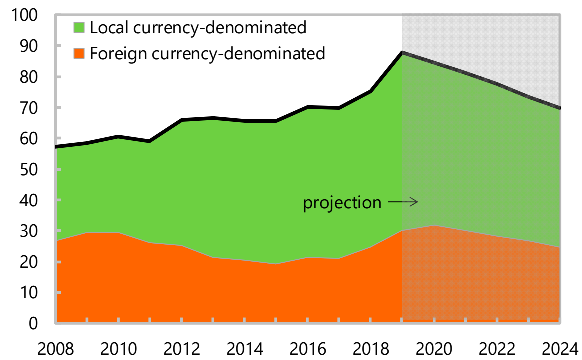
Figure 4. Pakistan: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



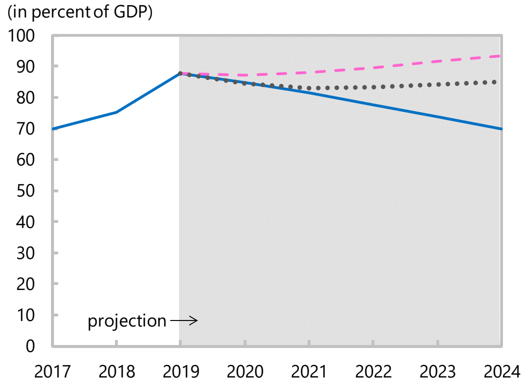
By Currency
(in percent of GDP)



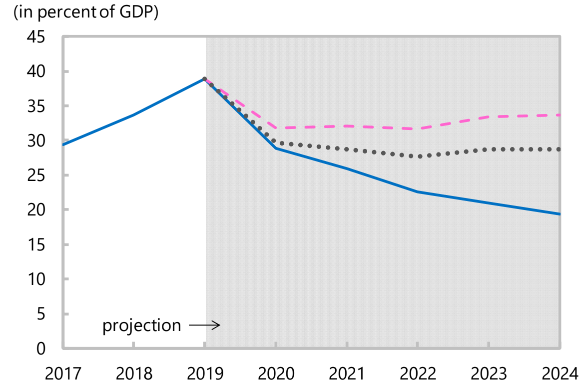
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

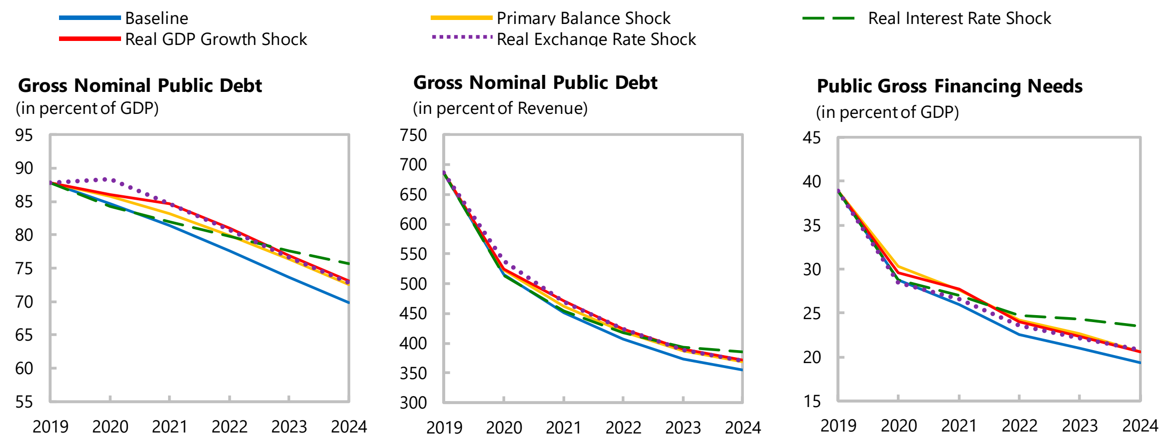
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	7.8	12.3	9.9	7.0	5.2	5.0
Primary Balance	-3.4	-0.5	1.0	2.0	2.7	2.7
Effective interest rate	8.8	8.5	9.1	8.8	8.4	8.5
Constant Primary Balance Scenario						
Real GDP growth	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	7.8	12.3	9.9	7.0	5.2	5.0
Primary Balance	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4
Effective interest rate	8.8	8.5	9.0	8.7	8.2	8.5

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.3	3.8	3.8	3.8	3.8	3.8
Inflation	7.8	12.3	9.9	7.0	5.2	5.0
Primary Balance	-3.4	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	8.8	8.5	8.8	8.3	7.7	7.7

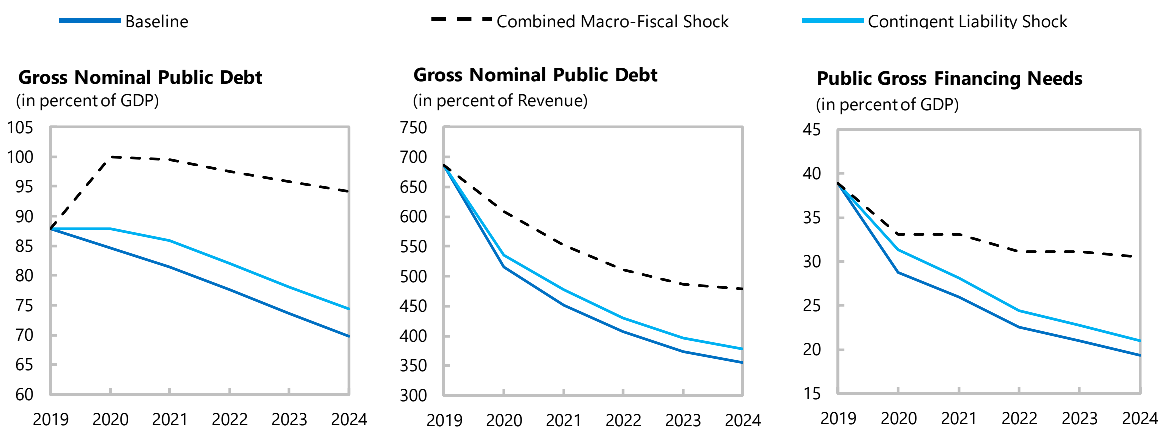
Source: IMF staff.

Figure 5. Pakistan: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	7.8	12.3	9.9	7.0	5.2	5.0
Primary balance	-3.4	-1.9	0.3	1.5	2.3	2.7
Effective interest rate	8.8	8.5	9.2	8.9	8.5	8.6
Real Interest Rate Shock						
Real GDP growth	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	7.8	12.3	9.9	7.0	5.2	5.0
Primary balance	-3.4	-0.5	1.0	2.0	2.7	2.7
Effective interest rate	8.8	8.5	10.6	11.1	11.0	11.5
Combined Shock						
Real GDP growth	3.3	0.9	1.5	4.5	5.0	5.0
Inflation	7.8	11.9	9.5	7.0	5.2	5.0
Primary balance	-3.4	-1.9	0.3	1.5	2.3	2.7
Effective interest rate	8.8	9.2	10.0	11.1	11.0	11.5

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	3.3	0.9	1.5	4.5	5.0	5.0
Inflation	7.8	11.9	9.5	7.0	5.2	5.0
Primary balance	-3.4	-0.8	0.4	2.0	2.7	2.7
Effective interest rate	8.8	8.5	9.1	8.9	8.4	8.5
Real Exchange Rate Shock						
Real GDP growth	3.3	2.4	3.0	4.5	5.0	5.0
Inflation	7.8	22.9	9.9	7.0	5.2	5.0
Primary balance	-3.4	-0.5	1.0	2.0	2.7	2.7
Effective interest rate	8.8	9.1	8.5	8.3	8.0	8.1
Contingent Liability Shock						
Real GDP growth	3.3	0.9	1.5	4.5	5.0	5.0
Inflation	7.8	11.9	9.5	7.0	5.2	5.0
Primary balance	-3.4	-2.1	1.0	2.0	2.7	2.7
Effective interest rate	8.8	9.0	9.2	8.9	8.5	8.5

Source: IMF staff.

Table 1. Pakistan: External Debt Sustainability Framework, 2014–24

(In percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections						
	2014	2015	2016	2017	2018	Historical Average	Standard Deviation	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	26.8	24.1	26.5	27.4	30.3			**37.6**	**41.2**	**40.9**	**40.1**	**38.8**	**36.8**	**-3.0**
Change in external debt	0.4	-2.7	2.5	0.9	2.9			7.3	3.6	-0.3	-0.9	-1.2	-2.0	
Identified external debt-creating flows (4+8+9)	-0.8	-1.9	0.2	1.0	4.3			3.2	0.7	-0.2	-1.1	-1.5	-1.5	
Current account deficit, excluding interest payments	0.6	0.3	1.0	3.3	5.4			3.6	1.1	0.8	0.5	0.4	0.5	
Deficit in balance of goods and services	7.9	7.5	8.1	10.2	12.0			11.6	9.7	9.1	8.5	8.0	7.6	
Exports	12.4	11.1	9.8	9.0	9.5			10.4	11.5	11.7	11.5	11.5	11.5	
Imports	20.3	18.5	18.0	19.2	21.6			22.0	21.3	20.7	20.0	19.6	19.1	
Net non-debt creating capital inflows (negative)	-0.7	-0.3	-0.8	-0.9	-1.1			-0.6	-0.8	-1.0	-1.2	-1.4	-1.5	
Automatic debt dynamics 1/	-0.8	-1.9	0.1	-1.5	0.1			0.2	0.4	0.1	-0.4	-0.6	-0.5	
Contribution from nominal interest rate	0.6	0.7	0.8	0.8	1.0			1.3	1.3	1.3	1.3	1.3	1.3	
Contribution from real GDP growth	-1.0	-1.0	-1.1	-1.3	-1.5			-1.1	-0.9	-1.2	-1.7	-1.9	-1.8	
Contribution from price and exchange rate changes 2/	-0.4	-1.6	0.4	-1.0	0.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.2	-0.8	2.3	-0.1	-1.4			4.1	2.9	-0.1	0.2	0.3	-0.5	
External debt-to-exports ratio (in percent)	215.2	217.4	269.8	303.2	317.6			360.4	357.8	351.2	347.4	336.9	319.8	
Gross external financing need (in billions of US dollars) 4	10.8	9.1	11.4	21.7	28.8			26.4	21.9	20.8	21.9	22.7	22.7	
in percent of GDP	4.4	3.4	4.1	7.1	9.2			9.3	8.0	7.1	6.8	6.6	6.0	
Scenario with key variables at their historical averages 5/								**37.6**	**38.2**	**39.2**	**40.4**	**41.3**	**41.4**	**-2.2**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.1	4.1	4.6	5.2	5.5	3.8	1.5	3.3	2.4	3.0	4.5	5.0	5.0	
GDP deflator in US dollars (change in percent)	1.6	6.4	-1.5	3.9	-2.1	2.6	5.6	-13.1	-4.8	4.1	3.9	2.9	3.0	
Nominal external interest rate (in percent)	2.5	3.0	3.3	3.3	3.7	3.0	0.7	3.8	3.4	3.3	3.4	3.5	3.7	
Growth of exports (US dollar terms, in percent)	-3.6	-1.5	-8.5	0.5	9.0	2.6	9.7	-1.7	7.5	8.4	7.4	8.0	8.0	
Growth of imports (US dollar terms, in percent)	2.5	0.9	0.0	16.8	15.8	4.5	9.9	-8.2	-6.0	4.4	4.9	5.6	5.7	
Current account balance, excluding interest payments	-0.6	-0.3	-1.0	-3.3	-5.4	-1.7	1.9	-3.6	-1.1	-0.8	-0.5	-0.4	-0.5	
Net non-debt creating capital inflows	0.7	0.3	0.8	0.9	1.1	0.9	0.5	0.6	0.8	1.0	1.2	1.4	1.5	

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

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

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

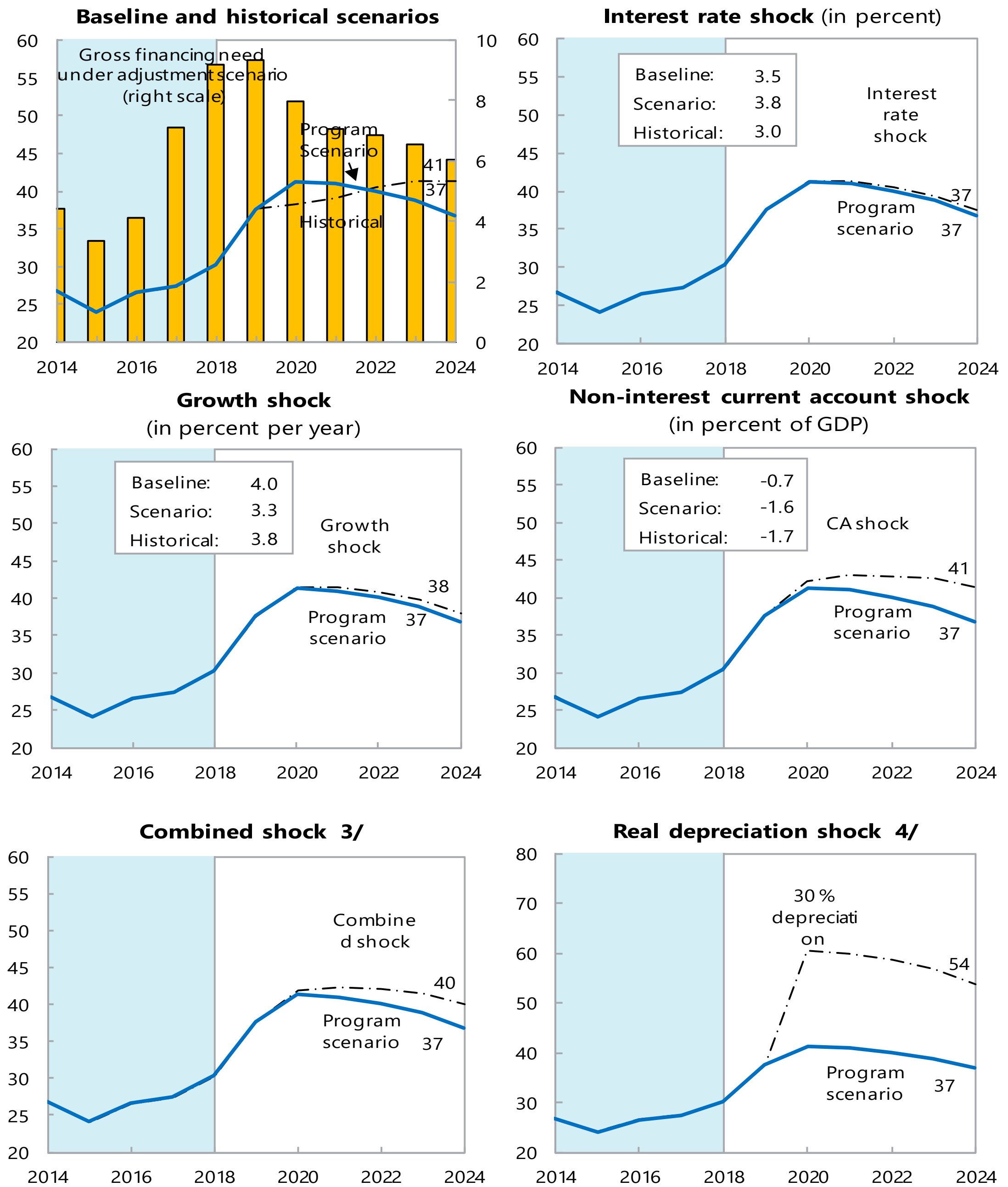
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(External debt in percent of GDP)



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

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

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

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

4/ One-time real depreciation of 30 percent occurs in 2018.

Appendix I. Letter of Intent

December 2, 2019

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from June 19, 2019, we confirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF). We also describe progress and further policy steps toward meeting these objectives.

Notwithstanding the challenging economic environment, we have made steadfast efforts to implement policies under the EFF-supported program, reflecting our strong commitment to economic reforms. The external position has improved faster than expected, underpinned by a smooth transition to a market-determined exchange, which has enabled the State Bank of Pakistan (SBP) to step up purchases both in the spot and forward markets and to strengthen its international reserve position. The SBP has also remained proactive in adjusting the policy rate to shore up confidence and anchor inflation expectations. We have stepped up our efforts to increase revenue, which are already paying off, with a significant growth in tax collection (by 17.2 percent in Q1 FY 2020). Similarly, our strategy to reduce the flow of arrears in the power sector is already bearing fruit, with accumulation of new arrears falling from about PRs 38 billion/month in FY 2019 to around PRs 10 billion/month in FY 2020. Finally, we have delivered on our commitment to the most vulnerable segments of society by increasing social spending and further strengthening our safety nets.

Our actions ensured that all end-September 2019 and continuous performance criteria (PCs) were observed, including the floor on net international reserves (NIR), the ceiling on net domestic assets (NDA), and the primary balance by wide margins. Indicative targets (ITs) were missed, although by small margins, and we expect these deviations to be corrected in the next quarter. In particular, the end-September IT on the net tax revenues collected by the Federal Board of Revenue (FBR) was missed mainly due to lower than expected customs receipts. All but one structural benchmarks (SBs) through end-October have been implemented, albeit some with delays. We finalized the BISP's banking contracts and launched the financial inclusion strategy for women on October 10, 2019 (end-October 2019 SB). We also notified the electricity tariff adjustment as determined by the regulator on September 30, 2019 and adjusted the Q1 FY 2020 tariff on November 29, 2019 (prior action). The licenses for the track-and-trace system for excises on cigarettes (end-September 2019 SB) were issued on October 28, 2019 and we finalized the circular debt reduction plan, in consultation with international partners including IMF staff, on November 8, 2019 (end September 2019 SB). We have made significant progress to strengthen the effectiveness of our AML/CFT framework, developed an inter-agency roadmap to address identified deficiencies, and engaged capacity development providers. Regarding the end-October SB on the adoption of measures to strengthen the effectiveness of the AML/CFT framework, we have intensified our efforts to advance this crucial reform, including through IMF-provided technical assistance, and request to reset this benchmark to end-June 2020 with substantial milestones to be achieved by end-March 2020. Finally, we have refrained from granting further tax amnesties.

Going forward, our efforts remain focused on securing macroeconomic stability and setting the stage for sustainable and balanced growth, critical for the Pakistani people. This includes actions to (i) increase tax revenues and preserve fiscal discipline, including by the provinces, to create space for much-needed social spending and infrastructure investment; (ii) strengthen the operations and independence of the SBP; (iii) address AML/CFT weaknesses; (iv) eliminate the flow and stock of arrears in the power sector; and (v) improve governance and the business climate through far-reaching structural reforms. In support of the program, we have specified additional structural benchmarks for the coming period.

On the basis of steps that we have already taken and commitments for the period ahead, we request completion of the first review, and a disbursement in the amount of SDR 328 million. We request the modification of the end-December PCs on net international reserves, net domestic assets, and general government primary budget deficit to better reflect the good program implementation. We also request a modification of the end-December PC on the amount of government guarantees to accommodate the issuance of guarantees in the power sector, in line with the adopted circular debt reduction plan. The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

We believe that the policies set forth in the attached MEFP are adequate for the successful implementation of our program, but we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will supply the Fund with timely and accurate data that are needed for program monitoring. Reaffirming our commitment to our policy of transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/s/
Dr. Abdul Hafeez Shaikh
Advisor to the Prime Minister on Finance
and Revenue
Pakistan

/s/
Dr. Reza Baqir
Governor of the State Bank of Pakistan
Pakistan

Attachment I. Memorandum on Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. **Economic activity has softened as expected**. High frequency indicators, including the large-scale manufacturing index (down by 5.6 percent y-o-y in September 2019) continue to point to weakened activity, but there are some encouraging signs in several sectors benefiting from our policies. This includes a recovery in agricultural output, increased production in import-competing industries, and volume growth of traditional export sectors. On balance, we still expect growth at around 3.5 percent in FY 2020 driven by a greater contribution from net exports, with a pick-up in momentum thereafter. Annual headline inflation reached 11.1 percent[1] y-o-y in October driven mostly by food and energy prices but is projected to decelerate to around 10.5 percent by end FY 2020, supported by the timely adjustments to the policy rate.

2. **The balance of payments is improving faster than initially expected**. The transition to a market-determined exchange rate has been orderly, with limited volatility in the exchange rate and the rupee strengthening to around PRs/US$156 after peaking at PRs/US$164 towards end-June. This, together with the lagged impact of previous adjustments, has resulted in a narrowing of the current account deficit in July-October FY 2020 by almost ¾ from the same period last FY on the back of a 22.9 percent y-o-y decline in imports. Encouragingly, exports are showing some sign of revival, up 3.4 percent y-o-y for the same period (and 10.3 percent in volume terms). We have observed encouraging foreign exchange inflows on the back of positive market sentiment. In this context, we have built up our NIR buffers, with the SBP not selling in the FX market but taking advantage of these positive developments to purchase from the interbank market both in the spot and forward markets.

B. Economic Program

Fiscal Policy

3. **Notwithstanding the fiscal slippages in FY 2019, budget implementation through Q1 FY 2020 has been strong on the back of our revenue mobilization efforts**. The FY 2019 fiscal outturn was worse than expected with Federal revenue collections 2 percent of GDP lower than projected at the time of program request. However, we are working to ensure that the budget execution in FY 2020 is on track. Reassuringly, our revenue mobilization efforts and prudent spending policies, including by the provinces, are already paying off, with the general government registering a primary surplus in Q1 of 0.6 percent of GDP (including provincial surplus of 0.4 percent of GDP), about 0.9 percent of GDP better than programmed. In particular, tax revenues net of refunds are growing at double-digit rates, especially with domestic-oriented tax revenue jumping by 25 percent y-o-y, as we emphasize a broadening of the domestic tax base, including through (i) eliminating certain exemptions and preferential tax rates; (ii) enhancing the sales tax on

[1] Based on the old CPI base.

petroleum products; (iii) lowering income thresholds; and (iv) rationalizing some income tax credits and incentives. On the other hand, customs receipts and other external sector-related revenues have suffered (growing only by 6 percent y-o-y) from the adverse impact of declining imports. As a result, the Q1 FY 2020 indicative target on tax revenues was missed. Non-tax revenue mobilization has been strong, including from one-off revenues that did not materialize in FY 2019 as originally envisaged, including the renewal of telecom licenses.

4. **Fiscal targets for the remainder of FY 2020 remain on track**. Our consolidation plans are strongly centered on limiting the primary deficit of the general government to no more than 0.6 percent of GDP. To this end, we expect that larger than expected non-tax revenues (0.8 percent of GDP higher than originally expected) will compensate for the lower than expected trade-related tax revenues as declining imports continue to weigh on collections. We aim to maintain a prudent spending policy and, in this context, have refrained from issuing any unbudgeted subsidy, including to the power sector, while ensuring timely disbursements for social spending in line with budget commitments. In this context, within the existing budget envelope and to stimulate lending to the exporting sector upwards of PRs 200 billion, we will also devote additional subsidies of PRs 10 billion to provide a 5p.p. mark-down on the interest charged by commercial banks to exporters. Interest expenses have increased due to the extension of about 2 percent of GDP in SBP financing at market rates in Q4 FY 2019.

5. **After peaking in FY 2019, general government debt is expected to decline**. Gross public and publicly guaranteed debt rose to 88 percent of GDP in FY 2019 because of the fiscal slippages, exchange rate depreciation, and our decision to increase the government's cash buffers to provide a financing cushion against potentially unfavorable market conditions. This year we expect a decline in the general government debt-to-GDP ratio to 84 percent (including guarantees and IMF borrowing), the first decline since 2015. This includes the planned issuance of an additional PRs 200 billion in government guarantees over FY 2020 as part of our comprehensive strategy to tackle circular debt in the power sector (see below).

6. **Looking ahead, we remain resolute in our commitment to further expand our revenue sources to support human capital development and ensure debt sustainability**. Our goal remains to reach a general government primary surplus of 2.6 percent of GDP by FY 2023, which is critical to reduce Pakistan's vulnerabilities and strengthen confidence in our economy. To this end, planned policies will advance our consolidation efforts and reduce distortions in our tax system. In particular, we will:

- *Roll out the track-and-trace system for excises on cigarettes.* Following the issuance of licenses in October (end-September SB), the system rollout will take place by end-March 2020.

- *Expedite sales tax refunds*. This will provide much-needed liquidity to business operations and incentivize the formalization of the economy. Initially, we will use our existing cash buffers to buy back up to PRs 30 billion worth of existing promissory notes to exporters that have been issued to address legacy arrears in GST refunds. Moreover, to support our exporting companies and boost trade we will process refunds for exporters through the Fully Automated Sales Tax e- Refund (FASTER) system.

- *Advance tax policy reforms*. These will moreover help us to prepare the key elements of the FY 2021 budget. With support from IMF-provided technical assistance, we have identified the following key priorities: (i) Corporate Income Tax (CIT) reform so that it is simpler and with less exemptions and crediting schemes; ii) continue with the simplification of the sales tax on goods with further streamlining of exemptions and preferential rates; and iii) harmonization of the service sales tax base and rates in collaboration with the provinces. To this end, we will establish a joint working group that will provide recommendations on tax harmonization to be approved by the Council of Common Interest (CCI) by end-March 2020. The approved recommendations will be incorporated in the FY 2021 budget.

- *Press ahead with PFM reforms*: Our aim is to instill budgetary discipline and transparency and build confidence that resources are being spent properly. Key immediate milestones include the preparation of the first fiscal risk statement, finalizing the budget manual by end-December 2019, and developing a PFM reform strategy. We have also initiated the work to introduce a single treasury account (TSA) by finalizing the inventory of government accounts by end-December 2019 and establishing a dedicated TSA implementation team by the same date. We plan to have the TSA-1 system functioning by end-September 2020. We will request technical assistance on this implementation. In line with the recently enacted Public Financial Management Act we initiated the required analytical work and data gathering for the timely preparation of (i) a mid-year budget review and (ii) a strategy paper by March 15, 2020. We will present the budget review to parliament by end-February (new end-February 2020 SB) to guide implementation of the FY 2020 budget, containing budget and actual comparisons of revenue, expenditure, and financing through H1 FY 2020 as well as an assessment of the budget estimates for the entire budget year. On the basis of the review's findings, we will implement additional measures as needed to ensure that FY 2020 annual targets are observed.

- *Strengthen and streamline Pakistan's tax policy and administration frameworks.* To this end, we will: (i) build capacity on tax policy matters in the Ministry of Finance with a view to establishing a Tax Policy Unit; (ii) establish a macro-fiscal unit in the MoF by end-September 2020 for proper identification and monitoring of macroeconomic and specific fiscal risks; and (iii) create a new semi-independent national tax authority tasked with tax administration.

- *Deepen fiscal coordination with the provinces*. We will launch regular coordination and consultation meetings between the federal and provincial tax authorities, by calling for quarterly meetings of the Fiscal Coordination Committee, to facilitate, *inter alia*, the work towards full harmonization of the tax base. This work will be designed under the auspices of the National Finance Commission (NFC). Moreover, provinces will step up their efforts to improve tax collection, in particular sales tax on services, property tax and agricultural tax income.

- We will avoid the practice of issuing new preferential tax treatments or exemptions (new continuous SB) as we recognize that these distortions erode the tax base, weaken fiscal discipline, and are not conducive to a level playing field. This continuous structural benchmark does not apply to our provisions on taxation under international treaties.

7. **We are strengthening our debt management strategy**. We have already taken significant steps to strengthen debt sustainability, including by lengthening the average maturity and lowering the cost of domestic debt. These measures, combined with future lower fiscal deficits, will help to place debt on a firm downward and sustainable path. Relatedly, the reprofiling of government debt held by the SBP into long-term securities has significantly lengthened the average maturity of domestic debt and has reduced the government's gross financing needs. We have been successful at securing ample financing in longer-term domestic government securities. There has been some foreign participation in domestic government securities which is a positive development that will increase competition in the domestic financial markets. Going forward, we will seek a greater diversification of instruments and tenors, meeting most of the domestic borrowing needs through longer-term government securities, and will aim to accept the prevailing market rates so that volumes issued in primary auctions are closer to the previously announced targets. In this context, we have created a cash buffer to smooth any short-term cashflow mismatches. The size of the cash buffer varies with the short-term liquidity needs and we are committed to keep it within prudent limits. We will also improve cash management and for this purpose we will establish a cash management committee at the Finance Division, with all relevant stakeholders, by end-November 2019 which will be followed by the creation by end-December 2020 of a dedicated Treasury and Debt Management Wing tasked with consolidating Debt Management function as well as executing cashflow forecasting and management. We have requested further technical assistance on this matter.

Poverty Reduction and Social Protection

8. **We remain committed to expanding social safety nets and reducing poverty in Pakistan**. Unfortunately, high poverty and weak social outcomes remain deep-seated challenges, as reflected by Pakistan's ranking 150 out of 189 countries in the UN's Human Development Index. However, we are determined to improve social conditions, and have prioritized policies to support the most vulnerable. This includes the allocation of PRs 180 billion in the FY 2020 budget to expand existing social assistance programs, which has allowed us to provide: (i) an additional one-off disbursement of PRs 1,000 to existing Benazir Income Support Program (BISP) beneficiaries at end-August; (ii) timely transfer budgetary allocations to BISP to expand existing programs and develop new ones; and (iii) budget subsidies to protect over 70 percent of consumers from the impact of power tariff adjustments. Moreover, we finalized the new banking contracts for BISP's stipend disbursements and launched our financial inclusion strategy for women ("one woman one account") in October (end-October SB), that will provide saving accounts to women under BISP and new access to e-banking products. We are also making steady progress on a number of additional initiatives:

a. *Narrowing the educational gender gap.* To boost girls' primary educational enrollment, we have modified the structure of *Waseela-e-Taleem (WeT)* to provide a girl bonus of PRs 250 to be regularly disbursed on a quarterly basis (end-December 2019 SB).

b. *Finalizing the update to the National Socio-Economic Registry (NSER)*. We will have 35 percent of the estimated household caseload surveyed, quality assured and validated with NADRA database by end-December 2019. We will finalize the updating of the NSER by end-June 2020 *(*end-June 2020 SB*)*. Thereafter, we will aim to expand BISP cash transfer coverage under a progressive design.

c. *Mother and Child Nutrition Program.* Developed in cooperation with international partners, we have launched this initiative under BISP to bring the stunting rate down from 40 percent to less than 30 percent. To incentivize enrollment, and girls' enrollment in particular, we are providing a quarterly cash stipend of PRs 2,000 for girls and PRs 1,500 for boys up to two years of age. We are launching the program on a pilot basis in 8 districts and will aim to gradually roll out to the whole country. We will ensure that the necessary financial resources are available.

d. *Scaling up affordable housing programs in Ehsaas through:*

   - A budgetary reallocation of PRs 20–30 billion in FY 2020 consistent with program fiscal targets to channel funds directly to Ehsaas beneficiaries to cover the 10 percent down payment on affordable housing.
   - Incentives to construction companies engaged in Ehsaas. Companies may choose from:
     - Tax credits equal to 10 percent of the amount of expense related to these projects, including labor-related costs, will be allowed to the developer for the first two years of construction. This will provide a timely cash-flow benefit to businesses as they plan out their investment decisions.
     - A tax credit equivalent to half of the difference between the sale price and the actual market price.

Monetary and Exchange Policies

9. We remain committed to securing monetary and financial stability by maintaining a market-determined exchange rate, lowering inflation, and building SBP reserves. Specific actions include:

a. *Continued commitment to a market-determined exchange rate.* This remains crucial to avoid the emergence of external imbalances and to boost the competitiveness of our economy. Going forward, we will strengthen the operations and credibility of the new exchange rate system. In particular, SBP's interventions will be guided by market conditions and the program's reserves targets, limiting FX interventions to prevent a possible overshooting or disorderly market conditions (DMCs), while not suppressing an underlying trend.

b. *Rebuilding reserves.* We will continue our efforts to rebuild a strong international reserve position in line with the program. SBP reserves have risen to about $8.7 billion as of November 22, 2019, from $7.1 billion at program approval. Similarly, the SBP has also scaled back its net short swap/forward foreign exchange position by around $2 billion by end-October since program adoption, well ahead of program targets. As a result of these efforts, the end-September NIR target was met by a significant margin. Building on this performance, we will continue to strengthen our NIR buffers.

c. *Adequately tight monetary policy*. We have remained proactive in adjusting the policy rate to shore up confidence and anchor inflation. Against this backdrop, we met the end-September NDA target comfortably. Going forward, the SBP's monetary policy stance will remain consistent with our medium-term inflation objective while maintaining a positive policy interest rate in real terms on a forward-looking basis. This will continue to support the achievement of our monetary targets under the program and bring the growth of broad money down.

d. *No central bank financing of the budget deficit*. We will continue not to provide central bank financing of the budget deficit. Maturing debt held by the SBP will not be rolled over and we will seek to amortize the existing long-term instruments to avoid financing pressures.

10. We are taking the necessary measures to strengthen SBP's autonomy, governance, and mandate in line with the recommendations of IMF safeguards assessment. We are preparing amendments to the SBP Act to address recommendations of the new 2019 Safeguards Assessment Report, including: (i) setting domestic price stability as a primary objective; (ii) prohibiting monetary financing of the public sector debt; (iii) removing quasi-fiscal operations following a phase-out period; (iv) statutory mechanisms for sufficient capitalization and profit retention; (v) securing stronger protection of the personal autonomy of senior officials; (vi) statutory underpinnings for external auditors, audit committee, and internal audit function; (vii) enhancing collegial decision-making at the executive management; and (viii) providing stronger oversight by the Board. We have requested IMF-provided technical assistance to support us in the preparation of this broad-ranging piece of legislation. Amendments to the SBP Act will be forwarded by the SBP to the Ministry of Finance by end-January 2020, and submitted to cabinet. Thereafter, we will submit the amendments to parliament by end-March 2020 (a new deadline for this structural benchmark, reset from end-December 2019).

11. Safeguarding financial sector resilience and strengthening our resolution framework are key to enhancing macroeconomic stability. To this end, we proceeded with the liquidation of one small state-owned bank in September 2019 and included another small state-owned bank in the government's privatization list. Moreover, we will ensure that the remaining two private sector banks meet the minimum capital requirements by end-June 2020. We also recognize the need to address gaps in our bank resolution and crisis management frameworks, including the deposit insurance scheme. Thereby, we will submit, supported by IMF technical assistance, legislation to parliament by end-May 2020 aimed at strengthening and modernizing our resolution frameworks.

12. We are committed to addressing all remaining AML/CFT deficiencies. We have established the National Coordination Committee and FATF secretariat, which have been mandated to complete the AML/CFT action plan agreed with the FATF. With technical assistance from several capacity development providers, including the IMF, we will complete the action plan by end-June 2020 (resetting the end-October 2019 structural benchmark) including with respect to risk-based AML/CFT supervision, terrorist financing investigations of designated entities, confiscation (specifically as regards cross-border currency controls) and targeted financial sanctions on designated entities of concern. By end-March 2020, we will improve AML/CFT measures for (a) FATF Immediate Outcome 9 (pursuing investigations and prosecutions of terrorist financing by UN designated entities of concern); and (b) FATF Immediate Outcome 10 (effective implementation of targeted financial sanctions against their assets), towards a substantial level of effectiveness, in line with the FATF assessment methodology (structural benchmark).. In parallel, we will exert efforts to address the deficiencies identified by the 2019 Mutual Evaluation Report of the Asia Pacific Group on Money laundering (APG). In this regard, we have developed a roadmap to prioritize key recommendations and will engage with capacity development providers, including to align the AML/CFT legal framework with international standards. We are also actively pursuing membership to the Egmont Group of financial intelligence units.

13. We will ease foreign exchange restrictions and administrative measures as conditions allow. We have refrained from introducing or intensifying exchange restrictions, multiple currency practices, or import restrictions for balance of payment measures. Moreover, we remain committed to phase out the existing measures as the balance of payments stabilizes and to eliminate them by the end of the program. As a first step, we allowed banks to make advance payments up to US$10,000 per invoice on behalf of manufacturing and industrial companies for the import of raw materials and spare parts in early November.

Energy Sector Policies

14. Tackling arrears in the power sector remains a key pillar of our reform program. With the stock of power sector arrears, or circular debt, at over PRs 1,600 billion (over 4 percent of GDP) and new arrears in the amount of PRs 465 billion accumulated in FY 2019, the situation in the power sector has become critical, severely impacting government finances and economic growth. We remain committed to eliminating the flow of circular debt over the medium term and, to this end, we have already taken immediate measures, including: (i) ensuring the implementation of quarterly tariff adjustments, including on July 1 and September 30; (ii) budgeting or eliminating all power sector subsidies; and (iii) stepping up enforcement to increase collection of arrears. These efforts are already showing some results, with the accumulation of new arrears falling from about PRs 38 billion/month in FY 2019 to around PRs 10 billion/month in the first three months of FY 2020.

15. In November, we adopted a comprehensive circular debt reduction plan to guide our reforms efforts going forward. The plan (end-September SB) was formally adopted by the Economic Coordination Committee (ECC) and was prepared in consultation with international partners including IMF staff. It aims to reduce the annual flow of circular debt from the current level to around PRs 50–75 billion by FY 2023. Key salient features of the plan include annual improvements in collections by selected distribution companies in the range of 2–5 percent, annual reductions in losses by around 1 percent; and rationalization of subsidy allocations. The Ministry of Energy has developed a monitoring mechanism for the implementation of the plan and will prepare and publish the first report by end-January 2020. The plan includes near and medium-term measures:

- **Key near-term measures**:

i. *Quarterly notification of tariffs*. Until the process of adjusting quarterly tariffs becomes fully automatic, we will continue to timely notify tariffs on a quarterly basis. In this regard, on November 29, we announced the increase in tariffs for capacity payments by around 2 percent, effective for Q1 FY 2020 (prior action) and we will adjust Q2 FY 2020 tariffs for capacity payments by end-January 2020 (new SB).

ii. *Recovery of Net Hydel Profits stock of arrears*. The tariff update of January 2020 will incorporate the recovery from consumers of half the outstanding stock of remaining Net Hydel Profits arrears, equivalent to PRs 73 billion.

iii. *Eliminating delays in tariff adjustments and reintroducing the government's power to introduce tariff surcharges*. To this end, we are preparing amendments to the NEPRA Act focusing on (i) giving the regulator the power to determine and notify quarterly tariffs; (ii) ensuring timely submissions of quarterly and annual petitions by the DISCOs; (iii) eliminating the gap between the regular annual tariff determination and notification by the government; and (iv) reinstating the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act. We will submit these changes to the NEPRA Act to parliament, in consultation with international partners, by end-December 2019 (a modified end-December SB).

iv. *Ensuring timely disbursement of power sector-related subsidies*. We will aim to streamline and facilitate the disbursement of sector-related subsidies and, to this end, by end-November 2019 the Ministry of Energy will streamline the required auditing procedures to ensure the timely disbursement of subsidies.

v. *Performance-based management of DISCOs*. To improve efficiencies and collections the government will sign performance-based contracts with all DISCOs by end-January 2020. The contracts will contain KPIs for improvements in collection, reductions in losses, and meeting the regulatory timelines for petitions submissions, with mechanisms to reward good performance and/or compensate for shortfalls. DISCOs will submit quarterly performance reports to NEPRA and will published in NEPRA's website.

vi. *Start legal process against defaulters*. Ensuring compliance with the Consumer Service Manual, we will immediately start abolishing running defaulters categories and disconnect non-paying consumers, with reconnections made with higher security deposits and/or pre-paid meters. The Ministry of Law will ensure that all legal aspects are adequately followed.

vii. *Recovery of late payment charges*. In connection to PRs 110.6 billion of late payment charges accumulated prior to FY 2016, NEPRA will allow this cost in the tariff by end-June 2020 so that it can be incorporated in the tariff from FY 2021.

viii. *Targeting of subsidies*. Before end-March 2020, we will revisit all government-provided power sector subsidies with a view to their streamlining and rationalization. In particular, in the FY 2021 budget we will aim to better target the subsidies provided to residential consumers, the industrial sectors, and the agricultural sector.

ix. *Reassessing regulatory benchmarks.* Currently, NEPRA assumes in the determination of the tariffs 100 percent recoveries for all DISCOs. This feature of the system leads to the structural accumulation of circular debt. The Ministry of Energy will engage all stakeholders on possible options to adequately address this aspect of the system and will propose to the CCI by end-December 2019 revisions to the benchmarks and standards, including permission for write-offs, while preserving the adequate incentives to improve DISCOs performance.

x. *Introduction of surcharges*. We will introduce new surcharges as needed to ensure that the circular debt reduction targets under the plan are met.

- **Medium-term measures**:

i. *Addressing tax refunds in the power sector.* The Ministry of Energy and the Federal Board of Revenue will work together to address the various tax issues outstanding, including the timely payment of tax refunds to DISCOs. Proposals will be submitted to the ECC by end-March 2020 so they can be included in the FY 2021 finance bill.

ii. *Strengthening DISCOs governance.* All DISCOs will appoint independent Board of Directors on the basis of merit and without any political interference. Similarly, all senior management will be appointed through a competitive process.

16. We are also taking actions to reduce the stock of power sector arrears. The large stock of power sector arrears represents a significant quasi-fiscal risk, including combined annual debt servicing costs exceeding PRs 100 billion. In this context, we are working with our international partners in the design of a strategy to settle the stock of arrears while limiting the impact on government finances. Subject to adequate progress implementing our circular debt plan, we will take the following steps: first, the government will issue new guarantees in the amount of PRs 200 billion to transfer costly Central Power Purchase Agency (CPPA) payables to independent power producers (IPPs) into the Power Holding Private Limited (PHPL). Second, the government will absorb PHPL into its budget, fully recognizing the liabilities in PHPL as debt of the government of Pakistan and taking over the servicing of the loans contained in PHPL. Third, we will reduce the stock of outstanding payables through the use of power assets privatization proceeds, recoveries from the outstanding stock of receivables, the existing debt servicing surcharge, and the rightsizing of sector-related subsidies.

17. Reforms in the gas sector are advancing as planned. Key achievements include:

a. *Timely update of tariffs.* The tariff adjustment on July 1 eliminated the flow of gas sector arrears. Going forward, we will adjust tariffs by end-December 2019 based on OGRA's mid-year decision on tariffs.

b. *Reducing unaccounted for gas losses (UFG).* The ECC has approved the UFG reduction plans prepared by the two gas companies. The 3-year plans envisage an annual 1–2 percent reduction in UFGs to bring their levels in line with the regulator's allowance through, *inter alia*, improvements in infrastructure, rehabilitation of networks, theft control. Quarterly monitoring reports will be published by the regulator.

c. *Other initiatives* remain on track, such as the preparation of amendments to the OGRA Act to ensure timely notification of tariffs and the changes to the petroleum policy to facilitate new explorations and streamline regulations and rules.

Structural Policies

18. Structural reforms are a key pillar of our economic program to unleash the potential of our economy. We must take bold measures to create an enabling environment for investment and job creation, strengthen productivity of SOEs, and enhance trust in government.

19. We are committed to improving State-Owned Enterprises (SOEs) governance, transparency, and efficiency. To this end, we have: (i) advanced the privatization of two LNG power plants by appointing financial advisors and approving the transaction structure. We expect to finalize the process by end-FY 2020; (ii) hired international auditors to conduct new audits of Pakistan International Airlines (PIA) and Pakistan Steel Mills. Work is already underway to complete and publish the audits of the 2018 accounts by end-December 2019 (end-December SB); and (iii) engaged IMF technical assistance to support our ongoing efforts to develop a new State-Owned Enterprise Law (end-September 2020 SB). We plan to request technical assistance from international partners to start the work on classifying SOEs into companies for sale, liquidation, or retaining under state ownership (end-September 2020 SB). The Ministry of Finance will lead this work, with support from line ministries.

20. Improving the business environment will encourage private investment, both foreign and domestic, and will support job creation and medium-term growth. Our efforts in this area are already paying off, as shown by our improvement in the 2020 World Bank Doing Business Indicators from 136th place to 108th place. Going forward, we will press ahead with our strategy to enforce documentation of the informal economy, strengthen the rule of law, and reduce regulatory burdens. The PRs 50,000 threshold on a tax identification number came into effect end-October, which will increase formality. Other measures to streamline business procedures include the introduction of online portals for GST and CIT modules of tax payments and for new commercial electricity connections. We will also adopt by end-February 2020 the new national tariff policy developed jointly with the World Bank.

21. Our program includes important measures to strengthen governance and the control of corruption. Our priorities include:

a) *Strengthening the effectiveness of anticorruption institutions*. We are undertaking the second review cycle under the UNCAC implementation mechanism that will identify areas for improving the anti-corruption framework. A task force with inputs from reputable international experts and civil society organizations will complete by end-June 2020 a review of the institutional framework of our anticorruption institutions to enhance their independence and effectiveness in investigating and prosecuting corruption cases, with proposals for legislative amendments as appropriate. In addition, our program will aim at supporting provinces to strengthen the Provincial Anticorruption Establishments by reforming local laws to ensure their independence and providing sufficient staffing and financial resources. A dedicated AML unit in the Federal Investigation Agency (FIA) responsible for ML investigations and prosecutions was established. With assistance from capacity development providers, we will continue to upgrade the capacities of law enforcement agencies such as FIA and NAB for financial investigations through training. The Asset Recovery Unit at the Prime Minister's Office, in cooperation with the FBR's International Taxation Unit, continue to identify assets abroad owned by Pakistani residents.

b) *Enhancing the use of AML tools to support anti-corruption efforts*. Leveraging on the computerized national identify card system, we will support financial institutions and other reporting institutions in improving their capacities to identify politically exposed persons and apply enhanced due diligence measures. We will conduct further outreach to financial institutions and other reporting institutions to improve the quantity and quality of suspicious transaction reporting, particularly on corruption activities. To further strengthen the independence of the Financial Monitoring Unit (Pakistan's financial intelligence unit), we will grant it with fiscal autonomy and provide sufficient human and financial resources to improve the dissemination of financial intelligence to support corruption investigations. We will establish a robust asset declaration system with a focus on high-level public officials by end-October 2020, which is comprehensive in scope (i.e., assets beneficial owned or located abroad), filed with a central federal agency, electronically available to the public and searchable, and appropriately and effectively verified.

c) *Registering prize bonds and other bearer instruments* to rein in their use as bearer instruments for potential illegal activities/tax avoidance.[1]

Financing and Program Monitoring

22. In support of this program and our long-term debt sustainability, we have secured long-term financing from our international partners. The current projections suggest that with the policies outlined in this memorandum the financing needs for the next 12 months (the program

[1] Prize bonds are high-denomination bearer instruments issued by the government to mobilize retail savings, which can effectively be used as anonymous medium of exchange and a substitute to Pakistan rupee currency (outstanding stock about 20 percent of currency in circulation).

period) will amount to $27.5 billion. To close this gap we have secured financing commitments from bilateral and multilateral partners as follows: China $5.2 billion, Saudi Arabia $6.2 billion, UAE $1 billion, the World Bank $1.7 billion, the Asian Development Bank $2.5 billion, and the Islamic Development Bank $1 billion. In line with program financing commitments, key bilateral creditors have maintained their exposure to Pakistan by extending new financing in the amount of China, $700 million and Saudi Arabia, $3 billion, fully covering their matured loans.

23. Implementation of the policies under the program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, continuous performance criteria, structural benchmarks, and quarterly reviews, as envisaged in our Memoranda of Economic and Financial Policies dated June 19, 2019 along with this Memorandum. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the program. The quantitative targets for target dates for end-March 2020, along with continuous quantitative performance criteria, and indicative targets for end-September 2020, are set out in Table 1. The prior actions and structural benchmarks are set out in Table 2.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2019/20–2020/21 1/

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

	FY 2018/19			FY 2019/20								FY 2020/21
	end-December	end-June		end-September				end-December		end-March	end-June	end-September
	Actual	Projected CR 19/212	Actual	Program (PC) CR 19/212	Adjusted Prog.	Actual	Status	Program (PC) CR 19/212	Revised (PC)	Proposed (PC)	Proposed (IT)	Proposed (IT)
Performance Criteria												
Floor on net international reserves of the SBP (millions of U.S. dollars)	-11,853	-17,743	-17,731	-18,478	-19,199	-16,475	Met	-16,311	-16,061	-11,827	-10,248	-8,841
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	7,296	8,852	9,079	8,911	9,241	8,694	Met	8,800	8,815	8,474	9,066	8,529
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	7,532	8,055	8,040	8,055	...	6,770	Met	8,055	8,055	8,055	7,555	7,305
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	153	702	1,353	102	-27	-305	Met	145	-87	96	264	-58
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	4,737	7,756	6,689	7,756	...	4,846	Met	7,756	7,756	7,756	7,187	7,187
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	1,313	1,611	1,555	1,611	...	1,556	Met	1,611	1,763	1,763	1,863	1,922
Continuous Performance Criteria												
Zero new flow of SBP's credit to general government				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	0	0	0
Indicative Targets												
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	30	100	116	45	...	5	Not met	86.4	86.4	133.2	180	40.7
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)		1,411.0	1,287.1	349.2	...	257.2	Not met	698.4	569.8	997.1	1,524.4	120.9
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,795	4,153	3,829	1,071	...	964	Not met	2,367	2,198	3,520	5,238	1,324
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees) 4/ 5/	90	90	235.5	-75	...	-33.1	Not met	-57.5	-53.1	-77.1	-105.1	-133.1
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) 4/	1,415	1,686	1,619	23	...	77	Not met	39	93	116	134	27

Sources: Pakistani authorities; and Fund staff estimates.

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

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

3/ Definition changed at the time of the first review. Applicable for end-December 2019 targets onward.

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

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

Table 2. Pakistan: Structural Conditionality

		Date	Status
	Prior Actions for the First Review		
1	Notification of Q1 FY 2020 electricity tariff adjustment for capacity payments		Completed on November 29.
	Structural Benchmarks	**Date**	**Status**
	Fiscal		
1	Commit to not grant further tax amnesties	Continuous	Met.
2	Issue licenses for the track-and-trace system for excises on cigarettes	end-September 2019	Not met. Issued on October 28.
	Monetary/Financial		
3	Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force list of jurisdictions with serious deficiencies	end-October 2019	Not met. Reset to end-June 2020.
4	Submit to parliament, in consultation with IMF staff, amendments to the State Bank of Pakistan Act to address all recommendations of the new 2019 Safeguards Assessment Report and the 2016 Technical Assistance Report on Central Bank Law Reform	end-December 2019	Reset to end-March 2020.
	State-Owned Enterprises		
5	Notify the FY 2020 electricity tariff schedule as determined by the regulator	end-September 2019	Not met. Completed with implementation of PA #1
6	Prepare a comprehensive circular debt reduction plan in collaboration with international partners	end-September 2019	Not met. Adopted in November.
7	Submit to parliament amendments to the NEPRA Act to (i) ensure full automaticity of the quarterly tariff adjustments and (ii) eliminate the gap between the regular annual tariff determination and notification by the government	end-December 2019	Modified. Submit to parliament amendments to the NEPRA Act to (i) give the regulator the power to determine and notify quarterly tariffs; (ii) ensure timely submissions of quarterly and annual petitions by the DISCOs; (iii) eliminate the gap between the regular annual tariff determination and notification by the government; and (iv) reinstate the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.
8	Conduct and publish new audits by reputable international auditors of Pakistan International Airlines and Pakistan Steel Mills	end-December 2019	
9	Conduct a triage of all SOEs, dividing them into companies to (i) maintain under state management; (ii) privatize; or (iii) liquidate	end-September 2020	
10	Submit to Parliament a new State-Owned Enterprise law to improve governance and transparency in line with IMF recommendations	end-September 2020	
	Social Protection and gender		
11	Finalize BISP's banking contracts and launch financial inclusion strategy for women	end-October 2019	Met.
12	Update the benefit structure of Waseela-e-Taleem (WeT) to narrow the educational gender gap	end-December 2019	Met.
13	Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry)	end-June 2020	
	Proposed new Structural Benchmarks		
1	Avoid the practice of issuing new preferential tax treatments or exemptions	Continuous	
2	Notification of Q2 FY 2020 electricity tariff adjustment for capacity payments	end-January 2020	
3	Presentation of the federal government mid-year budget review report to the National Assembly in line with the PFM Act	end-February 2020	
4	Improve towards a substantial level the effectiveness in addressing terrorism financing consistent with FATF Immediate Outcomes 9 and 10	end-March 2020	

Attachment II. Technical Memorandum of Understanding

December 2, 2019

1. This memorandum sets out the understanding between the Pakistani authorities and the IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements used to monitor developments, for the economic program under the Extended Arrangement, as described in the authorities' Letter of Intent (LOI) dated June 19, 2019 and the attached Memorandum of Economic and Financial Policies (MEFP). 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 accounting classifications introduced during the program period.

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

3. The quantitative performance criteria are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP, with corresponding definitions in Section A below. Definitions of the quantitative targets and the adjustment mechanisms are specified in Section A below. Reporting requirements are described in Section C.

A. Quantitative Targets

4. **The program sets performance criteria and indicative targets** for defined test dates (Table 1 in the LOI) 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 rupees);

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

Continuous Performance Criteria

- No new flow of SBP's credit to general government;
- Zero ceiling on the accumulation of external payment arrears by the general government;

Indicative Targets

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

Floor on the Net International Reserves (NIR) of the State Bank of Pakistan

Definition

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

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

7. Usable gross international reserves of the SBP are those 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) holding 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.

8. 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, (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).

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

10. Gross sale of foreign exchange includes an outright and a swap sale 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.

11. Net purchase of foreign exchange is defined as an outright and swap purchase of foreign exchange minus outright and swap sale 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

12. The floor on NIR will be adjusted upward (downward) by the cumulative excess (shortfall) of cash inflows from multilateral and bilateral creditors, commercial borrowing and bond issuance relative to the projected inflows (Table 2). Cumulative cash inflows are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to bilateral oil facilities, China, Saudi Arabia, UAE, DFID-UK, USAID), external bond placements and other commercial borrowing that are usable for the financing of the central government budget.

13. The floor on NIR will be adjusted upward (downward) by the cumulative excess (shortfall) of the actual stock of NIR at end-June 2019 relative to the projected amount. The stock of NIR of SBP at end-June 2019 is projected at negative US$17,743 million.

14. The floor on NIR will be adjusted upward (downward) by the cumulative excess (shortfall) of the use by the SBP of the foreign assets related to commercial consortium loan to make import payments over (under) the amounts expected under the baseline projections (Table A).

Table A. Use by SBP of Foreign Assets Related to Commercial Consortium Loan
(Cumulative flows from July 1, 2019; millions of Renminbi)

End-Sep 2019	End-Dec 2019	End-Mar 2020	End-Jun 2020	End-Sep 2020
0	0	2,000	4,000	7,000

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

Definition

15. **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 defined in paragraph 2 and expressed in rupee.

16. **Reserve money (RM)** is defined as the sum of: currency outside schedule banks (deposit money banks); schedule banks' domestic cash in vaults; schedule banks' required and excess rupee and foreign exchange deposits with the SBP; and 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

17. Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) of cash inflows from multilateral and bilateral creditors, and commercial borrowings and bond issuance relative to the projected inflows (Table 2) and evaluated at the program exchange rate.

18. Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted downward (upward) by the cumulative excess (shortfall) of the actual stock of NIR at end-June 2019 relative to the projected amount (see above) and evaluated at the program exchange rate.

19. Consistent with the NIR target adjustment mechanism (as defined above), NDA targets will be adjusted downward (upward) by the cumulative excess (shortfall) of the use by the SBP of the foreign assets related to commercial consortium loan to make import payments over (under) the amounts expected under the baseline projections (Table A) and evaluated at the program exchange rate.

20. NDA targets for September 2019 and December 2019 will be adjusted upward (downward) by the full amount of the excess (shortfall) of actual stock of reserve money in end-June 2019 relative to the projected amount of 6,345 billion rupees.

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

21. Stock of net foreign currency swap/forward position is defined as the aggregate net positions in forward and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). At end-April 2019, the SBP's aggregate net FX derivative position was negative US$8,055 million.

Ceiling on the General Government Primary Budget Deficit Excluding Grants

Definition

22. The **overall general government budget deficit (excluding grants)** will be monitored quarterly under the cash balance of the general government balance, excluding grants, including the operations of local (provincial) governments financed from local funds. It will be measured below the line and will include:

- **Net external budget financing**, excluding valuation gains and losses.
- **Change in net domestic credit from the banking system (cash basis)**, excluding valuation gains and losses from deposits denominated in foreign currency.
- **Change in the net domestic nonbank financing**, excluding valuation gains and losses. These include (i) domestic privatization receipts transferred from the privatization accounts to the budget, (ii) the stock of issued government securities held outside the general government and the banking system, net of valuation changes, (iii) net deposits and reserves received by the government (public accounts deposits), (iv) any other government borrowing from domestic nonbank sources net of repayments, minus (v) government deposits with nonbank financial institutions.
- **Total external grants to the federal and provincial governments**. These 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.

23. General government primary budget deficit (excluding grants) is defined as the overall general government budget deficit (excluding grants) minus the consolidated interest bill of the federal and provincial budgets.

24. **Net external program financing** is defined to include external privatization receipts; budget support grants; budget support loans from multilateral (including IMF budget support, World Bank and Asian Development Bank (ADB) budget support and program loans), official bilateral budget support loans, and private sector sources (e.g., bonds); rescheduled government debt service and change in stock of external debt service arrears net of government debt amortization due on foreign loans, the latter including any accelerated amortization including related to debt swaps or debt cancellation recorded as capital grants. It also includes foreign loans on lent to financial institutions and companies (public or private) and emergency relief lending. Program financing excludes all external financing counted as reserve liabilities of the SBP (defined above).

25. **Net external budget financing** is defined as net external program financing minus privatization receipts, minus budget support grants, plus all other external loans for the financing of public projects or other federal or provincial budget expenditures, plus transfers of external privatization receipts from the privatization account to the budget.

Adjustment Mechanism

26. The ceiling on general government primary budget deficit (excluding grants) will be adjusted upward (downward) by the cumulative excess (shortfall) in external project financing relative to the program projections evaluated in rupee terms at actual exchange rates. External project financing is defined as disbursements from bilateral and multilateral creditors to the general government for specific project expenditure.

27. The ceiling will be adjusted downward for any shortfall in the targeted cash transfers (BISP) and it will be adjusted upward for over performance in the BISP spending up to PRs 40 billion in FY 2019/20 from their indicative targets.

28. In FY 2019/20, the ceiling will be adjusted downward for any excess (cumulatively, starting from July 1, 2019) in the flow of power sector payment arrears above the respective indicative program targets, excluding non-recoveries and excess line losses (see table in paragraph 43).

29. The ceiling on general government primary budget deficit (excluding grants) will be adjusted downward by the full amount of any increase in the stock of budgetary arrears on social payments such as wages, pensions, social benefits accumulated since the beginning of the fiscal year.

30. The ceiling on general government primary budget deficit (excluding grants) will be adjusted downward by the full amount of any excess in the cumulative flow of tax refund arrears (as defined below) above the respective indicative program targets.

31. The ceiling on general government primary budget deficit (excluding grants) will be adjusted upward (downward) for any shortfall (excess) in the difference between actual interim SBP profit transfers to the budget and programmed SBP profit transfers (on a cumulative basis).

Table B. Programmed SBP Profit Transfers to the Budget (Cumulative flows from start of fiscal year; billions of Rupees)				
End-Sep 2019	End-Dec 2019	End-Mar 2020	End-Jun 2020	End-Sep 2020
185	341	478	604	117

Ceiling on Net Government Budgetary Borrowing from the SBP

Definition

32. Net government budgetary borrowing from the SBP (including provincial governments) is defined as SBP claims on the general government minus general government deposits with the SBP. SBP claims on the general government include government securities, treasury bills, treasury currency, and debtor balances. SBP claims on the general government exclude accrued profits on government securities. Government deposits with the SBP exclude the Zakat Fund (Table 3).

33. Liability management operation will transform the stock of government credit held by the SBP into short- and long-term tradeable instruments at 1, 3, 5 and 10-year maturities at interest rates close to the market levels. The expected amount of the operation is 7,756 billion rupees. The 3-year and 5-year papers will be amortizing instruments and 1- and 10-year papers will be bullet bonds.

Adjustment Mechanism

34. The ceiling on net government budgetary borrowing from the SBP will be adjusted upward (downward) by the amount of cumulative excess (shortfall) in the total amount of liability management operation relative to the baseline projection.

Ceiling on the Amount of Government Guarantees

35. The ceiling on the amount of government guarantees will apply to the stock of publicly guaranteed debt for which the guarantees have been issued or executed by the central government. The mark-to-market revaluation exchange rate will apply to all foreign currency denominated guaranteed debt. This ceiling excludes guarantees issued by the Ministry of Finance for the SBP borrowing from the IMF. The stock of issued or executed guarantees at end-September 2019 was 1,693 billion rupees.

Zero flow of SBP's Credit to General Government (continuous performance criterion)

36. 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 will apply on a continuous basis throughout the program period.

Zero Ceiling on the Accumulation of External Payment Arrears by the General Government (continuous performance criterion)

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

Other Continuous Performance Criteria

38. During the period of the Extended Arrangement, Pakistan will not (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payment agreements that are inconsistent with Article VIII of IMF Articles of Agreement; and (iv) impose or intensify import restrictions for balance of payments purposes. The performance criterion on the non-introduction and non-modification of multiple currency practices (MCP) will exclude multiple currency practices arising from introduction and/or modifications of the multiple-price foreign exchange auction system operating in line with IMF staff advice with the objective of supporting flexible market-determined exchange rate.

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

39. The floor will apply to the cumulative targeted cash transfers spending by the Benazir Income Support Program.

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

40. The floor will apply to cumulative budgetary spending on health and education by the federal and provincial governments.

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

Definition

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

Ceiling on Net Accumulation of Tax Refund Arrears—Indicative Target

42. The ceiling will apply 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 Federal Board of Revenue. The stock of tax refund arrears as of June 30, 2019 was 235.5 billion rupees.

Ceiling on Power Sector Payment Arrears—Indicative Target

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

44. Monitoring mechanism to track stock and flow of payables. The stock of payment arrears includes the payables of PRs 762.4 billion, and the stock of PHPL of PRs 807 billion as of end-March 2019. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) for FY 2019/20 and its components are given in the following table.

(billion PRs)	2019/20								2020/21
	Q1		Q2		Q3		Q4		Q1
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Non recoveries	27	44	25		33		29		28
Excess lines losses	18	12	12		22		39		10
Accrued markup PHPL									9
GST non Refund	6	3	5		8		6		7
Delay determination									
Recovery from defaulters									
Stock clearance									
Delayed payment to IPPs (interest charge)		6							
Additional remittance with tariff/Qtr Adj	(28)	(22)	(26)		(40)		(56)		(27)
Delayed subsidy payments		35							
Total Flow	23	77	16		23		18		27

B. Other Definitions

45. Electricity Tariff Pricing Formulas and Definitions. The current notified uniform weighted average electricity tariff is PRs 13.51/kWh for all classes of consumers and includes the following tariffs and surcharges: (i) weighted average tariff of PRs 11.95/kWh, (ii) inter-disco tariff rationalization of PRs 1.03/kWh, (iii) debt servicing surcharge (DSS) of PRs 0.43/kWh, and (iv) Neelum-Jhelum Surcharge of PRs 0.1/kWh. The current notified electricity tariffs for users at 0–50 kWh/month of PRs 2/kWh will be retained.

(i) The uniform weighted average tariffs on electricity consumers' electricity consumption is defined as follows:

Uniform Weighted Average Notified Tariff for electricity consumers =

(Industrial Users Tariff Rate for each category x DISCOs' estimated sales to Industrial Users for each category

+ Residential Users Tariff Rate for each category x DISCOs' estimated sales to Residential Users for each category

+ Commercial Users Tariff Rate for each category x DISCOs' estimated sales to Commercial Users for each category

+ Single Point Supply for further distribution Tariff Rate for each category x DISCOs' estimated sales to Point Supply for further distribution Users for each category)

+ AJ&K users' Tariff Rate for each category x DISCO's estimated sales to AJ&K Users for each category

+ Agriculture Tube-wells Tariff Rate for each category x DISCO's estimated sales to Agriculture Tube-wells Users for each category

+ Other users' Tariff Rate for each category x DISCOs' estimated sales to Other Users for each category)/ DISCO's total sales to Industrial, Residential Users consuming more than 200kWh, Commercial, Single Point Supply, Other Users, AJ&K Users, and Agriculture Tube-wells)

= PRs 11.95 kWh

(ii) Inter-disco tariff Rationalization PRs 1.03/kWh to maintain the uniform tariff across DISCOs after taking into account the target subsidy to the protected consumer categories.

(iii) Debt servicing surcharge (DSS) to cover the servicing the Syndicated Term Credit Financing obtained by PHPL to finance financing to power sector of PRs 0.43/kWh

(iv) Neelum-Jhelum Surcharge to contribute to the financing needs for the Neelum-Jhelum Hydropower Project. It will be levied at a rate of PRs 0.10/kWh on all classes of consumer except the lifeline consumption of 0–50 kWh/month.

C. Program Reporting Requirements

46. 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 will be monitored from data supplied to the IMF by the SBP, the Ministry of Finance, Pakistan Bureau of Statistics, the Federal Board of Revenue, the Ministry of Water and Power and other agencies as outlined in the table below. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

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

Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	financing, SBP securities			
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates	Monthly	Within 25 days of the end of each month.
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month
	Banking indicators	Core Financial Stability Indicators (FSIs), including but not limited to capital adequacy; asset composition and quality; profitability; liquidity; open FX positions – in aggregate and bank-by-bank (without names)	Quarterly	Within 45 days of the following quarter
	Banking data	Banks' net open foreign exchange positions split between total foreign assets and foreign exchange liabilities: in aggregate for the system and bank by bank (without names)	Monthly	Within five days of the end of each month
	Banking 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
	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
	Federal government	State budget	Monthly	Within 30 days of the end of each month
	Federal government	Government guarantees - issued and executed (reported separately). Name of entity receiving the guarantee and the value of the guarantee.	Quarterly	Within 15 days of the end of each quarter

Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Consolidated general government	Federal and provincial governments	Quarterly	Within 45 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Annual	Within 180 days of the end of each year
	Federal government	Fiscal financing sources: Detailed quarterly financing plan for the coming 12 months including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.	Monthly	One month in advance
	General government	Total general government budgetary spending on health and education broken down into spending by the federal and provincial governments	Monthly	Within 15 days of the end of each month
	Federal government	Stock of government borrowing from the SBP	Quarterly	Within the first five days of each quarter.
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
Federal Board of Revenue (FBR)	Revenue collection Tax credits	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions.	Monthly	Within seven days of the end of each month
	Tax arrears	By category	Monthly	Within seven days of each month
		By type of tax	Monthly	Within seven days of the end of each month
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	Monthly	Within seven days of the end of each month
	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within seven days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Quarterly	Within seven days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large tax payer units (LTUs)	Quarterly	Within seven days of the end of each month
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports;	Quarterly	Within 30 days of the end of each quarter

Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
		Number of total transactions involving nonduty free recorded imports		
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, Rs. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance DISCOs Consolidated Income Statement Net Electrical Output & Power Purchase Price by Source, GWh Generation, Demand and Shortfall for FY 2010 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type	Quarterly	Within 30 days
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection form current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter
	Domestic expenditure arrears	Energy arrears (stock) Flow of arrears by source	Quarterly	Within 45 days of the end of each month for government arrears
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification
Ministry of Petroleum and Natural Resources		Gas supply Gas prices Gas sales by consumers	Quarterly on monthly frequency	Within 30 days from the end of the quarter
		UFG losses	Quarterly	Within 30 days from the end of the quarter
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by conditional and unconditional transfers.	Quarterly	Within 30 days from the end of the quarter

Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
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

Table 1. Program Exchange Rates of the SBP
(As of May 3, 2019 in units of currency per U.S. dollar

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

Note: JPY, CNY as of April 30, 2019; CAD as of May 2 2019

Table 2. Projected Disbursements to Pakistan
(In millions of U.S. dollars)

	Jul-Sep 2019		Oct-Dec 2019		Jan-Mar 2020	Apr-Jun 2020	Jul-Sep 2020
	Prog. approval	Actual	Prog. approval	Revised proj.	Proj.	Proj.	Proj.
Multilateral and bilateral disbursements	2,305	1,661	4,029	4,693	5,785	4,241	2,084
of which: in cash	2,042	1,250	3,711	4,433	5,524	3,857	1,796
of which: Saudi oil facility and IDB commdity loans	835	486	856	670	1,080	1,100	960
International bond issuance	0	0	1,000	1,000	0	0	0
Commercial borrowing	700	759	0	700	200	1,300	0
Other	0	0	0	0	0	0	0
Gross Inflows	3,005	2,420	5,029	6,393	5,985	5,541	2,084
of which: in cash	2,742	2,009	4,711	6,133	5,724	5,157	1,796

Table 3. Government Sector (Budgetary Support)

(End-of-period stocks/PRs millions)

ITEM	30-Jun-18	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19
A. Central Government	**10,191,037**	**11,115,217**	**11,305,701**	**12,586,952**	**12,933,003**
1. Scheduled Banks	**6,523,418**	**6,011,620**	**3,930,955**	**5,753,677**	**7,461,389**
a) Government Securities	2,825,874	2,392,359	2,570,893	2,568,289	3,319,899
b) Treasury Bills	4,781,299	4,726,007	2,476,396	4,413,731	5,316,079
c) Government Deposits	-1,083,755	-1,106,745	-1,116,334	-1,228,344	-1,174,589
2. State Bank	**3,667,619**	**5,103,597**	**7,374,746**	**6,833,275**	**5,471,615**
a) Government Securities	2,748	2,740	2,745	7,189,745	7,189,745
b) Accrued Profit on MRTBs	73,948	133,617	129,653	2,909	259,192
c) Treasury Bills	3,594,318	4,970,154	7,242,341	570,158	570,148
of which: MTBs created for replenishment of cash balar	3,593,670	4,969,500	7,240,300	569,000	569,000
d) Treasury Currency	9,562	9,565	9,569	9,569	9,569
f) Government Deposits (Excl. Zakat and Privatization Fund)	-40,546	-38,281	-38,057	-967,305	-2,584,405
B. Provincial Governments	**-798,077**	**-1,071,620**	**-1,083,945**	**-990,484**	**-1,180,548**
1. Scheduled Banks	**-743,864**	**-838,523**	**-767,505**	**-849,079**	**-813,920**
a) Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024	1,024
b) Government Deposits	-744,888	-839,547	-768,529	-850,103	-814,944
2. State Bank	**-54,213**	**-233,097**	**-316,440**	**-141,405**	**-366,628**
a) Debtor Balances (Excl. Zakat Fund)	5,515	0	0	0	0
b) Government Deposits (Excl.Zakat Fund)	-59,728	-233,097	-316,440	-141,405	-366,628
C. Net Govt. Budgetary Borrowings From Banking System	**9,392,960**	**10,043,597**	**10,221,756**	**11,596,468**	**11,752,456**
Through SBP	3,613,406	4,870,500	7,058,307	6,691,870	5,104,987
Through Scheduled Banks	5,779,554	5,173,097	3,163,450	4,904,598	6,647,469
Memorandum Items					
1. Accrued Profit on SBP & BSC holding of MRTBs & MTBs	73,953	133,626	129,658	2,912	259,201
2. Scheduled banks ' deposits of Privitization Commission	-2,007	-3,741	-2,091	-2,979	-2,516
3. Outstanding amount of MTBs (Primary market; discounted value)	4,743,836	4,673,434	2,453,412	4,363,090	5,243,197
Net Govt. Borrowings (Cash basis) From Banking System	**9,283,551**	**9,861,138**	**10,071,205**	**11,545,893**	**11,422,889**
(i) From SBP	**3,539,453**	**4,736,874**	**6,928,649**	**6,688,958**	**4,845,786**
(ii) From Scheduled Banks	**5,744,098**	**5,124,264**	**3,142,556**	**4,856,935**	**6,577,103**

Statement by Jafar Mojarrad, Executive Director for Pakistan and Cyrus Sassanpour, Senior Advisor to Executive Director December 19, 2019

Our Pakistani authorities thank Mr. Ramirez Rigo and his team for candid and comprehensive discussions over the past few months, and management and the Executive Directors for their continued support for Pakistan. The authorities also extend their appreciation to Pakistan's international development partners and bilateral donors for helping to finance Pakistan's reform efforts, also supported by the Fund under a 39-month EFF arrangement, approved on July 3, 2019.

Program Performance

Pakistan's program has over-performed on a number of fronts: all end-September performance criteria (PCs) were observed with significant margins and all structural benchmarks (SBs) through end-October were completed, with one exception. In particular, the shift in the exchange rate regime to a market-based system—something that has eluded many countries in the region—was implemented smoothly and without excessive overshooting or market upheaval. Its successful implementation has led to a turnaround in the foreign exchange market sentiment and allowed the State Bank of Pakistan (SBP) to significantly rebuild its reserves. Similarly, fiscal revenues have grown strongly, allowing the government to post a primary surplus in the first quarter of the fiscal year. The Pakistani authorities are committed to the full and timely implementation of the program, and with financing assurances from the international institutions and bilateral partners already in place (MEFP ¶22), they are requesting Board approval of the first review under the arrangement and for modification of some PCs, which would further strengthen the program.

Recent Economic Developments and Outlook

Pakistan's current economic problems are rooted in unsustainable policies of the past that tried to maintain a high rate of consumption-led growth and an untenable exchange rate that were ultimately reflected in large twin deficits and a substantial erosion of external reserves. The authorities' economic reform program has sought to correct these large imbalances and the progress has been encouraging. The current account posted a surplus in October 2019—the first monthly surplus in over four years—reflecting largely the sharp adjustment in the real exchange rate. FBR tax revenues grew 18.2 percent in November 2019—well above nominal GDP growth—due to the government's continued drive to widen the tax net and the impact of measures introduced in the FY2020 budget. Inflation has risen in recent months in part due to the depreciation of the exchange rate and also due to temporary increases in food prices.

The Pakistani authorities are optimistic about the economic outlook. Inflationary pressures are expected to begin to recede in the second half of the current fiscal year and growth is expected at 3-4 percent though with downside risks. The authorities are keen to ensure that the reform momentum is sustained, and the reform program successfully completed.

Monetary and Exchange Rate Policies

The authorities consider the smooth transition to the market-based exchange rate regime a key measure of the success of the program to date. The transition was initially associated with some volatility—and public criticism—as the public was concerned about a free fall in the value of the rupee. With consistent and proactive communication about the changes and adequate advance preparation by the SBP, the market has successfully adopted the new system and policy credibility is growing. Combined with the continued adjustment in the current account, this has led to a turnaround in market sentiment, allowing the SBP to make foreign exchange purchases to build reserves and considerably reduce its short swap/forward position. Since its low of PRs 164.1 to US$ in June 2019, rupee has appreciated about 6 percent. The Pakistani authorities also wish to convey their appreciation for the support provided by Fund staff to make this transition a success.

The transition to the market-based exchange rate system was also supported by a significant tightening of monetary policy. The SBP increased its policy rate to maintain a positive real interest rate to shore up confidence and anchor inflation expectations. Future decisions on monetary policy will be taken with primary consideration given to the inflation outlook. The authorities reaffirm their commitment to secure monetary stability and to lower and maintain the inflation rate in mid single digits half way through the program period. There will be no central bank financing of the budget deficit as the maturing debt held by the SBP will not be rolled over.

Measures to strengthen SBP's mandate and autonomy are critical to price and monetary stability going forward. Preparations are well underway to amend the SBP Act to address recommendations of the 2019 Safeguard Assessment Report (MEFP ¶10) and submit the amendments to parliament by end-March 2020. The authorities also intend to place before parliament by end-May 2020 legislation to strengthen and modernize bank resolution frameworks.

Fiscal Policy Reforms and Debt Sustainability

Fiscal policy is the linchpin of the program, guided by front loaded revenue mobilization: of the 6.1 percent of GDP adjustment in the primary balance (excluding grants) during the program period (FY2020-FY2024), about half is expected in the first year. Fiscal outturn during Q1 FY2020 (July-September 2019) has been very strong, over-performing the program target by 1 percent of GDP. The momentum is expected to be carried forward and the 0.6 percent of GDP primary deficit target for FY2020 should be met comfortably. Domestic tax revenue performance is expected to be particularly strong this year (25 percent growth) compensating for lower tax collection at the import stage due to the sharp compression of imports following the rupee depreciation. Primary current spending is also on track: the government has refrained from issuing any unbudgeted subsidies, including to the power sector, while meeting its commitments to expand social spending.

Revenue mobilization will remain the centerpiece of government's fiscal efforts going forward, with the tax to GDP ratio expected to increase by 5½ percentage points during the program period (MEFP ¶6) through broadening of tax base, strengthening the tax policy and administrative frameworks, and reforming PFM. Most of the revenue measures are well advanced in preparation and are expected to form the core elements of the FY2021 budget that will be submitted to parliament in May-June 2020. Establishing a strong formal fiscal coordination mechanism between the federal and provincial governments, under the auspices of the National Finance Commission, has been a major milestone of this program, with provinces also stepping up their efforts to improve tax collection. Primary current spending is expected to remain flat at around 7 ½ percent of GDP during the program period, while the public sector development program—centered on large housing schemes, dam construction and urban transport projects—is targeted to rise modestly over the medium term.

Public debt (including guarantees) climbed steeply—by 9 percent of GDP—to 88 percent of GDP by the end of FY2019, reflecting the significant fiscal slippage in that year, large rupee depreciation (about 1/3 of public debt is in foreign exchange), as well as the government's decision to buildup sizable cash buffers at the SBP (of the order of 3 ½ percent of GDP) to smooth cash flow mismatches. Beginning with the program, the government has begun taking important steps to strengthen debt sustainability by lengthening maturities and re-profiling public debt, and significantly reducing the government's gross financing needs. The government efforts have been successful in securing ample financing in longer tenor government securities and, for the first time, attracting foreign interest in rupee securities as the currency stabilized, yields became attractive, and confidence began to return. A number of administrative measures in debt management are also in train (MEFP ¶7), which together with targeted fiscal consolidation, are expected to lower the public debt ratio to 70 percent of GDP by end-FY2024—about 20 percent of GDP lower than in FY2019—thus placing it on a firm downward trajectory.

Poverty Reduction and Social Protection

Maintaining social cohesion and protecting the poor and the vulnerable—especially girls and women—have been key pillars of the program since the beginning (MEFP ¶8). The government's social protection agenda is multi-faceted. The Benazir Income Support Program (BISP) that had been already in place and tested, serves as the main channel for social protection and poverty alleviation. As a part of the program, cash transfers under the BISP have increased, additional bonuses are being paid for the education of young girls (under Waseela-e-Taleem), and a major mother and child nutrition program has been launched, also under BISP, with higher allowances for girls to incentivize their enrollment in the program. Affordable housing schemes are being promoted through Ehsaas program. Also, as a part of power sector reforms, small users of electricity, representing over 70 percent of consumers, are being exempted from tariff increases.

Addressing Remaining AML/CFT Deficiencies

Despite the significant progress already achieved to date, in consultation with staff, the end-October 2019 SB related to actions on AML/CFT to help exit the FATF "gray list" had to be reset to end-June 2020 because of implementation constraints (MEFP ¶12). The high-level, inter-agency National Coordination Committee, dedicated to the purpose will continue to work closely with the FATF secretariat to complete the action plan, drawing on technical assistance from a number of capacity development providers, including the IMF. As a part of this process, the authorities intend to make significant and sustained progress across the full range of actions by the next plenary session of FATF (in February 2020) and continue to improve AML/CFT measures for the FATF Immediate Outcome 9 and Immediate Outcome 10 (a new SB set for end-March 2020) towards a substantial level of effectiveness, in line with FATF assessment methodology. The Pakistani authorities would continue to welcome Fund staff to assess progress on the full range of measures included in the FATF action plan for the next review.

Energy Sector Reforms

Pakistan's entrenched energy sector problems are sources of fiscal drain and quasi-fiscal risks, are contributing to widespread inefficiencies across the energy sector, and are hampering the sector's development. The power sector's stock of arrears—"circular debt"—had ballooned to 4 percent of GDP by end-September 2019, of which more than a quarter was accrued in Q1 FY2020. The authorities have begun taking steps—as part of a comprehensive plan prepared in consultation with IFIs, including the IMF—to address the root causes of these arrears (MEFP ¶14-16) and positive results are already noted. Through sustained implementation, the authorities aim to reduce the accumulation of new arrears from PRs 450-500 billion in FY2019 to PRs 50-75 billion by FY2023 and eliminate all new arrears by end-2023. The plan will be monitored closely by the Ministry of Energy and the first report on plan implementation will be published by end-January 2020. Reforms in the gas sector are also progressing well; the July 2019 tariff adjustment eliminated the flow of gas sector arrears and tariffs will be further adjusted by end-December.

SOE Reform

SOE reform aimed at improving governance, transparency and efficiency is progressing along a number of fronts: (i) international auditors are expected to complete and publish the 2018 audits of Pakistan Steel Mills and Pakistan International Airlines by end-December 2019; (ii) a new SOE law is in the workstream with IMF technical support; and (iii) a triage of SOEs to decide on sale, liquidation, or public retention is under way (MEFP ¶19).

Business Environment and Governance Issues

The authorities recognize that, in a departure from the past, future economic model of Pakistan should be built on non-debt creating flows, notably FDI, as well as domestic private investment. And nothing is more critical to private sector investment confidence than a level-playing field and a friendly business environment based on the rule of law, ease of starting business, and low regulatory burden. In this context, right measures resulting in improvement of Pakistan's ease of doing business ranking from 136 to 108 in one year is an encouraging start. The authorities also intend to address, through better documentation, the high degree of informality of the economy, which has been a source of tax leakage and corruption (MEFP ¶20). Also central to their efforts are measures to strengthen governance and fight corruption. In this vein, a second review cycle under the UNCAC will inform areas to strengthen Pakistan's anti-corruption framework. A dedicated AML unit to investigate and prosecute cases of money laundering has been established and is working, and the financial intelligence unit will be granted more independence and fiscal autonomy to pursue corruption cases (MEFP ¶21). An assets declaration system focusing on senior public officials will be established by end-October 2020. Anti-corruption efforts will be facilitated by progress in automation, including the computerized national identity system, and the authorities' outreach to financial and other reporting institutions.

Concluding Remarks

Pakistan's EFF-supported program has had a strong start and significant progress has already been achieved on several fronts in a fairly short time span. The Pakistani authorities wish to reconfirm their ownership of the program and their resolute commitment to program objectives and its successful completion. Perhaps the most important achievement was the quick and orderly stabilization of the foreign exchange market that is highly critical to building overall confidence and anchoring the authorities' hard push towards macroeconomic stability. The SBP also acted preemptively to contain the inflationary impact of second round effects of depreciation passthrough. The program's fiscal objectives are firmly on track on the back of a strong domestic tax performance and the historical federal-provincial fiscal accord, while social spending has increased. Major efforts are also in train to address the deep-rooted financial problems of the power sector. The economic adjustment component of the program is firmly entrenched and already bearing fruit, but a structural benchmark related to the completion of the FATF action plan had to be reset, due to implementation constraints, yet remaining part of a continuous and sustained effort towards a substantial level of effectiveness.