INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/260

PAKISTAN

July 2023

REQUEST FOR A STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the request for a Stand-by Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 12, 2023, following discussions with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 30, 2023.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/261

IMF Executive Board Approves US$3 billion Stand-By Arrangement for Pakistan

FOR IMMEDIATE RELEASE

- *Pakistan's' economic reform program aims to support immediate efforts to stabilize the economy and guard against shocks while creating the space for social and development spending to help the people of Pakistan.*
- *Steadfast policy implementation will be critical for Pakistan and the success of the program. This will require greater fiscal discipline, a market-determined exchange rate to absorb external pressures, and further progress on reforms related to the energy sector, climate resilience, and the business climate.*
- *The Fund's immediate disbursement will be SDR894 million (or about US$1.2 billion).*

Washington, DC – **July 12, 2023:** Today, the Executive Board of the International Monetary Fund (IMF) approved a 9-month Stand-By Arrangement (SBA) for Pakistan for an amount of SDR2,250 million (about $3 billion, or 111 percent of quota) to support the authorities' economic stabilization program.

The arrangement comes at a challenging economic juncture for Pakistan. A difficult external environment, devastating floods, and policy missteps have led to large fiscal and external deficits, rising inflation, and eroded reserve buffers in FY23.

Pakistan's new SBA-supported program will provide a policy anchor for addressing domestic and external imbalances and a framework for financial support from multilateral and bilateral partners. The program will focus on (1) implementation of the FY24 budget to facilitate Pakistan's needed fiscal adjustment and ensure debt sustainability, while protecting critical social spending; (2) a return to a market-determined exchange rate and proper FX market functioning to absorb external shocks and eliminate FX shortages; (3) an appropriately tight monetary policy aimed at disinflation; and (4) further progress on structural reforms, particularly with regard to energy sector viability, SOE governance, and climate resilience.

The Executive Board's approval allows for an immediate disbursement of SDR894 million (or about US$1.2 billion). The remaining amount will be phased over the program's duration, subject to two quarterly reviews.

Following the Executive Board discussion, Kristalina Georgieva, Managing Director and Chair, made the following statement:

"Pakistan's economy was hit hard by significant shocks last year, notably the spillovers from the severe impacts of floods, the large volatility in commodity prices, and the tightening of external and domestic financing conditions. These factors together with uneven policy implementation under the EFF combined to halt the post-pandemic recovery, sharply increase inflation, and significantly depleted internal and external buffers. The authorities' new Stand-By Arrangement, implemented faithfully, offers Pakistan an opportunity to regain macroeconomic stability and address these imbalances through consistent policy implementation."

"The authorities' FY24 budget, which targets a modest primary surplus, is a welcome step toward fiscal stabilization. The anticipated improvement in tax revenues is critical to strengthen public finances, and to eventually create the fiscal space needed to bolster social and development spending. Maintaining discipline over non-critical primary expenditure will be essential to support budget execution within the envisaged envelope. In parallel, the authorities urgently need to strengthen energy sector viability by aligning tariffs with costs, reforming the sectors cost base, and better-targeting power subsidies. Looking beyond this fiscal year, enhanced efforts to expand the tax base and improve public financial management, including in the delivery of quality infrastructure, are needed and increase progressivity and efficiency."

"The recent increase in the policy rate by the SBP is appropriate given the very high inflationary pressures, which disproportionately impact the most vulnerable. A continued tight, proactive, and data-driven monetary policy is warranted going forward. A market-determined exchange rate is also critical to absorbing external shocks, reducing external imbalances, and restoring growth, competitiveness, and buffers. Close oversight of the banking system and decisive action to address undercapitalized financial institutions would support financial stability."

"Accelerating structural reforms to build climate resilience, enhance safety nets, strengthen governance, including of state-owned enterprises, and improve the business environment by creating a level-playing-field for investment and trade are necessary for job creation and raising inclusive growth."

Pakistan: Selected Economic Indicators, FY2022–FY2024 1/

Population: 231.6 million (2022/23)
Quota: SDR 2,031 million
Main exports: Textiles (US$19.3 billion, FY2022)
Key export markets: European Union, United States, UAE

Per capita GDP: US$1,642 (FY2022)
Poverty rate: 21.9 percent (national line; FY2019)

	FY2022	FY2023	FY2024
		Proj.	Proj.
Output and prices (% change)			
Real GDP at factor cost	6.1	-0.5	2.5
Employment (%)			
Unemployment rate	6.2	8.5	8.0
Prices (%)			
Consumer prices, period average	12.1	29.6	25.9
Consumer prices, end of period	21.3	34.0	16.2
General government finances (% GDP)			
Revenue and grants	12.1	11.4	12.3
Expenditure	20.0	18.9	19.8
Budget balance, including grants	-7.8	-7.6	-7.5
Budget balance, excluding grants	-7.9	-7.6	-7.5
Primary balance, excluding grants	-3.1	-1.0	0.4
Underlying primary balance (excluding grants) 2/	-2.3	-0.8	0.4
Total general government debt excl. IMF obligations	74.0	74.9	68.4
External general government debt	27.4	31.1	28.4
Domestic general government debt	46.6	43.8	40.0
General government debt incl. IMF obligations	76.1	77.4	70.9
General government and government guaranteed debt incl. IMF	80.6	81.8	74.9
Monetary and credit (% change, unless otherwise indicated)			
Broad money	13.6	13.3	14.5
Private credit	21.1	1.0	8.0
Six-month treasury bill rate (%) 3/	12.6	…	…
Balance of Payments (% GDP, unless otherwise indicated)			
Current account balance	-4.6	-1.2	-1.8
Foreign direct investment	0.5	0.4	0.2
Gross reserves (millions of U.S. dollars) 4/	9,821	4,056	8,982
Months of next year's imports of goods and services	1.9	0.7	1.4
Total external debt	32.1	36.4	37.3
Exchange rate (% change)			
Real effective exchange rate	-6.0	…	…

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ Excludes one-off transactions, including asset sales. In FY 2022 it excludes IPPs related arrears clearance and COVID-19 spending.
3/ Period average.
4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

INTERNATIONAL MONETARY FUND

PAKISTAN

REQUEST FOR A STAND-BY ARRANGEMENT

June 30, 2023

EXECUTIVE SUMMARY

Context. Pakistan's economy was buffeted by significant shocks over the past year. The severe impact of the floods, the commodity shock from the war in Ukraine, and the tightening of external and domestic financing conditions together with policy backsliding aggravated economic conditions and halted the post-pandemic recovery. Growth stalled, inflation surged, international reserves dropped to very low levels, and fiscal and external pressures have become acute. Despite some efforts in FY23H2, the difficult economic, social, and political environment as well as insufficient external financing, have prevented sufficient progress in completing the Extended Fund Facility (EFF) which expired on June 30. To address the challenges and sustain macroeconomic stability, the authorities have renewed their policy efforts, and are seeking support under a new Stand-By Arrangement.

Program objectives. Policies under the new program aim to support the authorities' immediate efforts to stabilize the economy and rebuild buffers. Key policy pillars include: (i) an appropriate FY24 budget to support needed fiscal adjustment; (ii) a return to a market-determined exchange rate and proper functioning of the foreign exchange (FX) market to absorb balance of payment (BOP) pressures and eliminate FX shortages; (iii) adequately tight monetary policy to support disinflation and anchor expectations; and (iv) continuation of structural efforts to strengthen energy sector viability, SOE governance, and the banking sector, while supporting efforts to build Pakistan's climate resilience. Resolving Pakistan's structural challenges, including long-term BOP pressures, will require continued adjustment and creditor support beyond the program period. A possible successor arrangement could help anchor the policy adjustment needed to restore Pakistan's medium-term viability and capacity to repay.

Program modalities. The authorities have requested a 9-month Stand-By Arrangement (SBA) in the amount of SDR 2,250 million (111 percent of quota or about US$3.0 billion). The authorities believe that the SBA can play a crucial role in rebuilding confidence by anchoring policies during the upcoming period and providing a framework that could catalyze support from multilateral and bilateral creditors, which is crucial for Pakistan to meet its large financing needs in FY24.

Risks. Pakistan's economic challenges are complex and multifaceted, and risks are exceptionally high. Addressing them requires steadfast implementation of agreed policies, as well as continued financial support from external partners. Consistent and decisive implementation of program agreements will be essential to reduce risks and maintain macroeconomic stability.

Approved By
Thanos Arvanitis and Kenneth Kang

Policy discussions were held virtually over the span of several weeks and particularly in June 2023. The staff team comprised Nathan Porter (head); Sebastian Acevedo, Kerstin Gerling, Jan Möller, Jason Weiss (all MCD); Ignatius de Bidegain (FAD); Tom Best (SPR); Jan Nolte (MCM); Jonathan Pampolina (LEG); Esther Perez Ruiz (Resident Representative); and Zafar Hayat and Saher Masood (both Islamabad office). Marijn Verhoeven (FAD) assisted the team on tax reform discussions. Laura Torrent (MCD) provided research assistance and Nataliya Bondar (MCD) document management assistance.

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CONTEXT

1. **The economy is at a challenging point**. Economic activity has slowed considerably, affected by the ongoing crisis, the devastating 2022 floods (Annex I; Box 1), the significant tightening of external financing conditions, and the adverse effects of domestic policies. International reserves have declined considerably and stand at about ¾ month of imports (US$4.2 billion), inflation is at a record high (38 percent in May 2023), and fiscal pressures stemming from the floods and policy slippages have increased, further putting debt sustainability at risk. Social discontent has risen over the deteriorating economic conditions and eroded living standards, and political tensions escalated significantly in May, with political and institutional fissures coming to the fore.

Box 1. Pakistan: Climate Vulnerabilities[1]

Pakistan has historically been strongly affected by natural disasters given its extreme and diverse climates and topography. This vulnerability has only worsened with the intensification of climate stressors in recent decades. Climate-related hydrological events have been particularly frequent and often severe—and amplified by low climate resilience—resulting in large human and material losses.

The 2022 floods are the most recent example of Pakistan's high climate vulnerability. Extreme monsoon rains throughout the summer were exacerbated by a preceding exceptional heatwave in March–April that resulted in dry grounds and greater-than-usual glacial snowmelt. Flash flooding occurred in the northern mountains and water slowly accumulated on the southern plains. The floods had become one of Pakistan's worst-ever natural disasters, surpassing the devastation caused by the 2010 floods (Annex I Figure 6 and Table 1).

The recent floods have caused extensive human and material damage. Thirty-three million people (14 percent of the population) in half of Pakistan's 160 districts were adversely affected. Over 1,700 people were confirmed dead and 500,000 people were relocated to relief camps. Nearly 2.2 million houses were damaged (one-third beyond repair); critical transport networks were disrupted (including 400 bridges and 13,000 km of roads); and important water and sanitation infrastructure was damaged, spurring related diseases. The floods inundated 45 percent of Pakistan's cropland and killed 1.2 million livestock.

The authorities appropriately responded with fiscal support to mitigate the floods' impact. This included a package of flood relief and reconstruction initiatives totaling PRs 452 billion (equivalent to about 0.5 percent of GDP) and a one-off emergency cash transfer of PRs 25,000 to more than 2 million vulnerable families.

However, estimated aggregate material losses and rebuilding needs are very large. The authorities and the UN estimated that total damage and losses amounted to US$30 billion (about 8.5 percent of GDP) and that Pakistan faces rebuilding needs of US$16.8 billion (about 4.5 percent of GDP). Rebuilding would focus on housing, agriculture, and transport in Sindh and Baluchistan provinces.

Donors pledged US$10.9 billion in support at a January 2023 conference on Climate Resilient Pakistan, co-chaired by the UN. These funds would target humanitarian assistance and rehabilitation over the next five years, however, to-date, only a small fraction has been disbursed.

The floods underscore the need for Pakistan to accelerate its climate adaptation and resilience efforts (¶24). Immediate priorities are to (i) adjust the policy framework to fully incorporate climate change into its growth and development agenda and mobilize climate finance; (ii) accelerate high-value investments, with priority given to social and infrastructure measures; and (iii) improve structural preconditions – in social spending, governance, business climate, public financial management, financial stability, and energy sector viability – to provide the stability needed to boost climate adaptation efforts.

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[1] See Annex I on "*Pakistan's Climate Disasters—Looking Back and Ahead in Times of Accelerating Climate Change*."

2. **The financial pressures ahead have become formidable**. Gross financing needs are very large, mostly due to large debt service payments, while external market financing has dried up. Confidence is weak, and credit rating agencies have downgraded Pakistan to just above default rating. Multilateral and official bilateral support has been critical to enable Pakistan to meet its debt obligations.

3. **To preserve economic stability, the authorities have requested a new SBA to support their renewed policy efforts**. The authorities believe that the new program can play a crucial role in anchoring policies ahead of the national elections due in the Fall and until a new government is formed. The new program will build on Pakistan's recent EFF-supported program (Box 2) and help address its BOP needs by supporting the needed adjustment, bolstering confidence, and catalyzing multilateral and bilateral financing. Notwithstanding the increasing polarization and tensions between the main political parties, there is a broad recognition that Pakistan needs to remain engaged with the Fund and other international partners and that strong policies should be sustained even after the SBA expires in April 2024.

Box 2. Pakistan: Looking Back—Program Performance Under 2019–23 EFF

The EFF was approved in July 2019 when Pakistan's economy was again at a critical juncture. Misaligned economic policies—including large fiscal deficits, loose monetary policy, and defense of an overvalued exchange rate—had fueled consumption and short-term growth, steadily eroded macroeconomic buffers, increased external and public debt, and depleted international reserves. Long-standing structural weaknesses had remained, including a narrow tax base and weak tax administration, a difficult business environment, inefficient and loss making SOEs, and low labor productivity amid a large informal economy. Overarching program objectives included: (i) a decisive fiscal consolidation, supported by comprehensive efforts to drastically improve revenue mobilization (by 4–5 percentage points of GDP); (ii) allowing the exchange rate to be flexible and market-determined, supported by appropriate monetary policy and a strengthened and independent central bank; (iii) energy sector reforms to eliminate large quasi-fiscal costs; (iv) a scale up of social spending, and (v) structural reforms (mainly in the areas of SOE performance, governance, and business climate).

The program period can be broadly separated into three phases. First, an *early phase* with considerable success in stabilizing the economy. Second, the *pandemic phase* during which Fund support proved instrumental in buffering this unprecedented shock. And third, an extended *stop-and-go phase*, as the program repeatedly went off-track, often immediately after the successful completion of a review. The sequence of shocks (COVID-19 pandemic, the war in Ukraine, 2022 floods) coupled with compounding policy reversals in the second half of the program required multiple recalibrations of the program and the original program goals fell out of reach.

Following the program approval in July 2019, the authorities' decisive policy implementation started to reverse Pakistan's large imbalances, allowing for successful completion of the 1st review in December 2019. The external adjustment advanced quickly as the transition to a market-determined exchange rate proceeded in an orderly way and fiscal performance was consistently strong. International reserves rose quickly to more comfortable levels.

Buffers built in the early phase of the EFF, along with quick support under the RFI, the DSSI, and from other partners helped Pakistan mitigate the severe pandemic shock and the authorities' policies proved critical in supporting the economy and saving lives and livelihoods. Aside from health-related containment measures, their response included a temporary fiscal stimulus, a large expansion of social safety nets, monetary policy support, and targeted financial initiatives. These measures, supported by sizable emergency financing from the international community helped contain the first COVID-19 wave of cases and the impact on the economy.

Although policy priorities inevitably shifted and the pace of implementation slowed amid the COVID-19 crisis, the authorities remained committed to the EFF's medium-term objectives in the face of challenging economic and political conditions. The program resumed with the completion of the combined 2nd–5th reviews in March 2021. Supported by the completion of the reviews, in April 2021 Pakistan was able to access international markets for the first time since 2017.

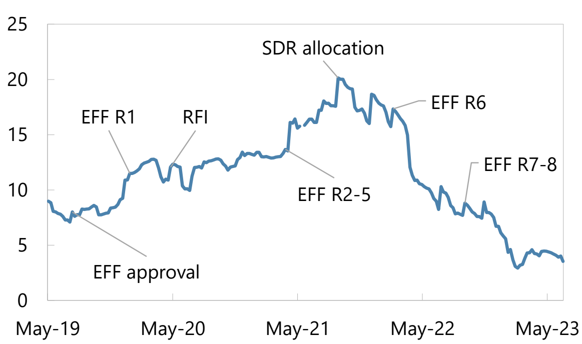
Box 2. Pakistan: Looking Back—Program Performance Under 2019–23 EFF (concluded)

Amid the robust recovery from the pandemic and an incipient commodity price boom, the authorities deviated from the EFF path with the passage of an expansionary FY22 budget. The EFF remained off track throughout 2021 (the end-June fiscal target had been missed) before the authorities corrected course with the passage of a mini-budget in January 2022. However, external imbalances had started to build up amid the mis-timed fiscal expansion and a delayed monetary policy response to rising inflationary pressures. Moreover, the authorities viewed the terms-of-trade shock as temporary, with a role for FX interventions to smooth trend depreciation, against staff advice. Despite delays in many areas, an important reform was completed with the passage of amendments to the State Bank of Pakistan (SBP) Act to strengthen central bank independence, its decision-making structure, and mandate. Again, positive sentiment around the 6th review, completed in early February 2022, allowed Pakistan to tap international markets, which would be the last time that Pakistan would raise fresh financing from commercial creditors during the program period.

The second stop-and-go phase began only weeks after the completion of the 6th review. Amid the spike of commodity prices following the Russian invasion of Ukraine the government proceeded with large, unbudgeted fuel subsidies, and continued efforts to stem depreciation pressures through large FX intervention. Following political volatility and a change in government, the new authorities kept subsidies in place for months before deciding to bring the EFF back on track in June 2022. Measures included the passage of an agreed FY23 budget (the end-June fiscal target was missed by a wide margin), significantly increasing the policy rate, eliminating post-tax fuel subsidies, and increasing fuel taxation and electricity tariffs. To signal their resolve to returning to macroeconomic stability, the authorities also requested an extension of the EFF through June 2023, which was approved by the Board, supported by financing assurances from bilateral partners to fill a financing gap of US$4 billion, with the completion of the combined 7th–8th reviews in August 2022.

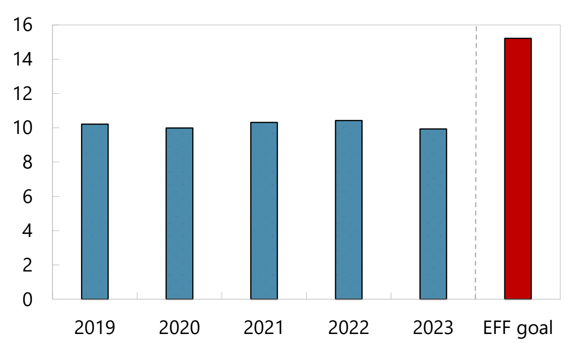
Around that time Pakistan was hit by devastating floods, which provided the backdrop for the program's final part. Amid great uncertainty about the economic and humanitarian impact, the direction of economic policies and their compatibility with EFF objectives became increasingly unclear. The exchange rate became tightly controlled and public statements about a possible debt restructuring caused market turmoil and a spike in sovereign spreads. Gaps in the functioning of the FX market and uncertainty around fiscal policy and the flood recovery prevented the completion of a review. Meanwhile, amid limited external financing, debt service drained reserves to low levels, fiscal targets were missed, and SBP's forward/book started to grow. Following the January 2023 conference on Climate Resilient Pakistan, understandings were reached on key policies. However, with policy slippages and a growing financing gap, including from the non-disbursement of financing pledged for the combined 7th–8th reviews, a review could not be completed. In May-June, discussions resumed on policies to resume the program and the completion of the remaining EFF reviews, however time constraints prevented bringing a review to the Board. As a result, the EFF expired on June 30, 2023.

Pakistan: Gross Reserves, 2019M5–2023M6
(US$ billion)



Sources: SBP; IMF staff calculations.

Pakistan: Tax Revenue, FYs19–23
(Percent of GDP)



Sources: Pakistani authorities; IMF staff calculations.

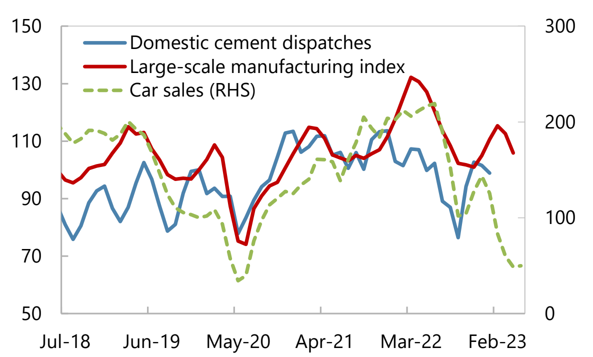
RECENT ECONOMIC DEVELOPMENTS

4. Macroeconomic conditions deteriorated considerably in FY23, halting the post-pandemic recovery.[1]

- ***Economic activity***. The economy took a tumble in FY23 amid worsening domestic and external conditions, stringent import payment restrictions, and the impact of the floods (especially in the cotton and rice sector). Provisional estimates for FY23 released by Pakistan Bureau of Statistics (PBS) in May put real GDP growth at +0.3 percent, however data outturns in recent months have disappointed and staff assesses that real GDP could decline by 0.5 percent in FY23. Production in large-scale manufacturing dropped by 9.4 percent in the first ten months of FY23 (yoy) amid frequent announcements of temporary plant shutdowns due to the inability to import machinery and intermediate inputs in a timely manner. Diesel and gasoline sale volumes dropped by 28 and 17 percent (yoy), respectively, and cement sales remain anemic. Growth in consumer credit has also slowed considerably (2.8 percent, yoy, in April 2023, down from 23.9 percent, yoy, in May 2022). Against significant economic and political uncertainty, rising risk premia, and speculation in the media about a possible sovereign debt default, consumer and business confidence have weakened sharply.

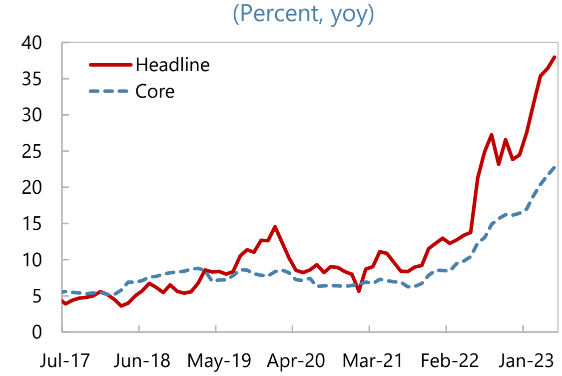
Pakistan: Recent Economic Developments

Key High-Frequency Indicators, 2018M7–23M5
(3-month MA, Index, 2019Q4=100)



Sources: PBS; APCMA; PAMA; IMF staff calculations.

Inflation, 2017M7–23M5
(Percent, yoy)



Sources: SBP; IMF staff calculations.

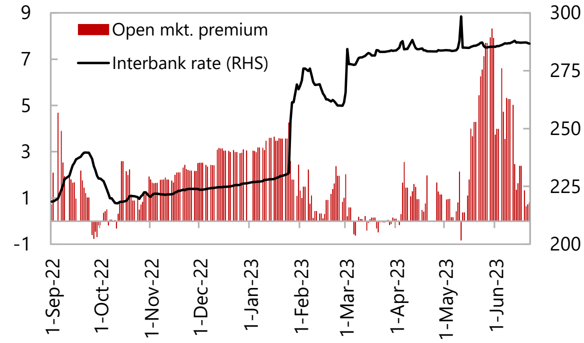
- ***Exchange rate***.[2] External pressures escalated in FY23H1 as foreign inflows came to a standstill and scheduled debt service drained reserves to critically low levels. Without the ability to formally intervene in the FX market, informal efforts began in the Fall, including moral suasion on banks, to nudge the exchange rate to appreciate. When this did not succeed, import-payment restrictions (¶18) and a crawl-like behavior from October 2022 through end-January 2023 fueled pressures in the FX interbank market, exacerbated the scarcity of dollars, allowed the FX black market to grow (with a rising informal premium), and caused disruptions in the timely import of

[1] The fiscal year (FY) runs from July 1 through June 30.

[2] The interbank and open (also known as Kerb) are the official regulated FX markets in Pakistan. The open market refers to the transactions carried out by Exchange Companies. The parallel or black market refers to illegal transactions outside the SBP's jurisdiction.

key inputs for domestic production and exports. After reserves declined to about US$3 billion (½ month of import coverage) in mid-January 2023, the exchange rate was allowed to depreciate by almost 10 percent on January 26. However, the normalization in the FX market was short-lived, with premia reemerging in February (amid a notable appreciation) and again from May onwards on the back of import restrictions (while price movements in the interbank market remained minimal).

Pakistan: Exchange Rate, 2022M9–23M6
(Percent on LHS, PRs/US$ on RHS)



Sources: SBP; IMF staff calculations.

- ***Inflation and monetary policy***. In the last six months, inflation has continued to rise, in part due to rising food prices and the passthrough from the depreciation, but also as the abovementioned shortages placed upward pressure on prices. Price dynamics became increasingly broad-based with core inflation reaching 22.8 percent (yoy) and headline inflation reaching 38 percent in May 2023, a record high, hurting especially the poor. Despite the mounting pressures, actions by the State Bank of Pakistan (SBP) lacked clarity, as it kept its policy rate unchanged in Monetary Policy Committee meetings in August, October, and early June, expecting that the price rises had peaked and would subside, but hiked rates in November, March, April, and late June. The last hike brought policy rates to 22 percent (cumulatively, an 825 bps (basis points) increase since the beginning of FY23).

- ***External conditions***. The current account deficit narrowed substantially in the first eleven months of FY23 (to US$2.9 billion, compared to US$17.5 billion in FY22), driven by a sharp contraction of imports (-24 percent) that reflected both administrative restrictions (¶17) and limited FX availability. However, FX reserves fell sharply from US$8.2 billion after the combined 7th–8th EFF reviews, following sizeable debt service payments, even as the SBP became a net buyer on the interbank market mostly through swaps/forwards. Also, despite commitments at the time of the 7th–8th EFF reviews from bilateral partners on US$4 billion of new financing above rollovers, this did not materialize due to policy slippages. Reflecting Pakistan's fragility, sovereign bond spreads tightened to above 3,500 bps, and Fitch and Moody's revised their sovereign rating to CCC- and Caa3, respectively, in February. International reserves were replenished to US$4.2 billion by late-June 2023 on the back of support from key bilateral partners.

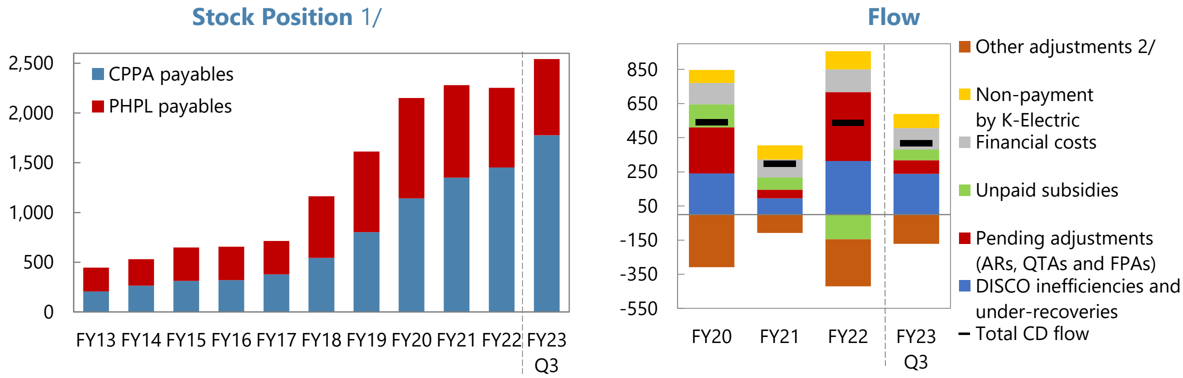
- ***Fiscal***. Deteriorating revenue—particularly the petroleum development levy (PDL) and general sales tax (GST) levied on imported goods—and unbudgeted expenditure, including for energy subsidies and immediate relief to those affected by the devastating post-monsoon floods, placed significant additional pressures on the budget. The primary surplus[3] reached only PRs 586 billion in FY23H1, thus falling short of the budget target by 0.4 percent of GDP, and the fiscal shortfall

[3] Excluding statistical discrepancy.

deepened in FY23H2 despite the authorities' efforts with the adoption of a supplementary finance bill in February.

- ***Energy sector***.
  - *Power*. Underperformance continued until end-March 2023 (Text Figure, MEFP ¶15), sending the circular debt (CD) stock to a new historical high of PRs 2.5 trillion (3 percent of GDP), mainly on account of CD flow overruns of PRs 387 billion (0.5 percent of GDP) relative to the Circular Debt Management Plan (CDMP) from early-FY23. Key drivers were policy slippages (mostly from new unbudgeted, untargeted energy subsidies for exporters and agriculture, and some deferred tariff adjustments for certain residential consumers) and slow progress with structural cost-side reforms. Amid mounting liquidity pressures for fuel inputs, debt payments, and capacity charges to independent power producers (IPPs), the authorities took a set of corrective socially-balanced measures from March 2023 to contain both the FY23 budget subsidy (to 1.1 percent of GDP) and CD flow (to 0.4 percent of GDP). Also enshrined in their cabinet-adopted FY23 CDMP update in February 2023, these measures (worth 0.2 percent of GDP in FY23 alone) not only helped catch up with the deferred tariff adjustments, but also permanently (i) expand the base and level of the debt service surcharge; and (ii) remove all new unbudgeted subsidies.

Pakistan: Circular Debt in the Power Sector, FYs13– 23Q3
(Billions of Pakistani rupees)



Sources: Pakistani authorities; IMF staff calculations.
1/ Only the part of the Power Holding Private Limited (PHPL) is publicly guaranteed (PRs 765 billion at end-March 2023), not that of the Central Power Purchasing Agency (CPPA). Changes in the stock reflect the CD flow and sustained gradual clearance of payment arrears (of PRs 417 billion and PRs 128 billion, respectively in FY23 until end-March). 2/ Includes, among others, change in input costs (fuel, exchange, and interest rates), generation mix, prior-year recoveries.

  - *Natural gas*. Partially available data suggest that the CD stock in the gas sector (also including petroleum and late payment fees) has also grown rapidly and is now almost on par with that in the power sector. The main drivers remain below cost-recovery prices from delays in regular biannual tariff adjustments (since September 2020), high operational losses (especially from unaccounted for gas losses (UFG) and collection shortfalls), and uncovered subsidies (especially for export and zero-rated industries). To avoid burdening the budget with additional subsidies, the authorities implemented a gas price hike in mid-February 2023: (i) of, on average, 75 percent as determined by the Oil and Gas Regulatory Authority (OGRA) in January 2023; and (ii) along an updated tariff slab system, which, developed with the support of the World Bank, ensures full cost recovery, affordability, and efficiency.

PROGRAM OBJECTIVES AND POLICY

The authorities' economic program, supported by the proposed SBA, aims to help Pakistan navigate the economic challenges amid a volatile near-term outlook. The policy dialogue has been extensive, and staff and the authorities have remained engaged since the completion of the combined 7th–8th EFF reviews, first in an effort to revive the EFF and later, when this was not possible before the EFF expired, to provide support under a new arrangement. The discussions focused on four policy pillars: (i) an appropriate FY24 budget to support needed fiscal adjustment; (ii) a return to a market-determined exchange rate and proper functioning of the FX market to absorb BOP and eliminate FX shortages; (iii) adequately tight monetary policy to support disinflation and anchored expectations; and (iv) continuation of structural efforts to strengthen energy sector viability, SOE governance, and the banking sector, while supporting efforts to build Pakistan's climate resilience.

A. Macroeconomic Outlook and Risks

5. The framework assumes that strong policy implementation and timely external financing would reduce near-term uncertainty and help the real economy to gradually stabilize and recover (Tables 1–8).

Pakistan: Selected Economic Indicators, FYs20–28 1/

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
						Proj.			
Real GDP growth (%)	-0.9	5.8	6.1	-0.5	2.5	3.6	4.5	5.0	5.0
Consumer prices (period average, % change)	10.7	8.9	12.1	29.6	25.9	11.4	7.4	6.5	6.5
Gen. gov. overall balance (incl. grants, %GDP)	-7.0	-6.0	-7.8	-7.6	-7.5	-6.6	-5.2	-4.6	-4.2
Gen. gov. primary balance (underlying, excl. grants, %GDP) 2/	-1.6	-0.5	-2.3	-0.8	0.4	0.4	0.4	0.4	0.4
Gen. gov. debt (incl. IMF obligations, %GDP)	79.6	73.5	76.1	77.4	70.9	68.5	67.3	65.1	63.1
Current account balance (%GDP)	-1.5	-0.8	-4.6	-1.2	-1.8	-1.7	-1.7	-1.7	-1.7
External debt (%GDP)	37.6	35.1	32.1	36.4	37.3	36.8	35.2	33.5	31.7
Gross official reserves (billions of US$)	12.2	17.3	9.8	4.1	9.0	12.9	14.1	15.3	15.7
Gross official reserves (months of next year's GNFS imports)	2.3	2.5	1.9	0.7	1.4	1.8	1.9	1.9	1.9
Gross official reserves (% IMF reserve adequacy metrics) 3/	54.1	72.1	41.0	16.7	36.9	48.1	50.4	53.9	52.5

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

- ***Real GDP growth***. Growth will likely pick up moderately in FY24, reaching about 2.5 percent. Although base effects from the flood recovery (especially in agriculture and the textile sector) will provide a boost, the unwinding of the tight management of imports will take time to percolate through the economy (e.g., re-opening of closed factories), and continuing external challenges and the need for tight macro policies will limit the recovery. Assuming sustained policy and reform implementation and adequate financial support from multilateral and bilateral partners, growth is expected to gradually return to its potential, 5 percent, over the medium term.

- ***Inflation***. After nearly two years of steadily rising headline inflation, base effects from last year's increase in fuel and electricity prices and diminished contributions from food items are expected to lower headline inflation from June onwards. But price pressures are projected to remain elevated, including as a result of the much-delayed monetary tightening, thus average headline inflation is expected to remain above 25 percent in FY24, with end-of-period (eop) inflation falling below 20 percent only in FY24Q4. Likewise, core inflation is set to recede only very gradually in FY24 on account of elevated inflation expectations and the necessary tightening of policies operating with a lag. The deceleration of headline inflation is set to continue in FY25, with eop inflation falling to single digits only in mid-FY26.

- ***Fiscal***. As fiscal space has been severely depleted (¶7) and substantial vulnerabilities remain, small primary surpluses should be maintained in the coming years, with strong revenue efforts to create space for priority social and development spending and to strengthen debt sustainability. Without such efforts, the fiscal and debt position will remain fragile, and could undermine macroeconomic stability.

- ***Current account deficit*** (CAD). Following the sharp correction in the trade balance during H1, staff projects a CAD of about US$4 billion in FY23, around US$5.3 billion less than projected at the time of the combined 7th–8th EFF reviews and increasing to around US$6½ billion in FY24, with a recovery both in exports and imports. The CAD will need to remain moderate at around 2 percent of GDP over the medium term, commensurate with projected official and capital flows and efforts to rebuild reserves.

- ***Public debt***. Risks to debt sustainability, already elevated at the time of the combined 7th–8th EFF reviews, have become more acute, given the scarcity of external financing and the large gross financing needs that persist over the coming years, further narrowing the path to sustainability.[4] Assuming decisive implementation of program policies, macroeconomic prudence continuing onto the medium term, and adequate multilateral and bilateral financing, public debt can remain sustainable over the medium term (SRDSF, Annex III). Any further downward revisions to the baseline could push debt towards unsustainability. FX payments will continue to challenge the authorities, given the low level of reserves and scarcity of market financing, and real interest rates have become an adverse driver for debt dynamics, and interest payments now absorb a significant part of federal government revenue (see Annex III, Figure 4).

6. Downside risks to the baseline and program implementation are exceptionally high (Annex II). Amplified by the tense political environment, policy slippages could undermine program implementation, in turn jeopardizing macro-financial and external stability and already stretched debt sustainability. External financing risks are exceptionally high and delays in the disbursement of planned external financing from IFIs and bilateral creditors pose major risks to a very fragile external balance given the extremely limited buffers. Spillovers from Russia's invasion of Ukraine through high food and fuel prices and tighter global financial conditions continue to put pressures on the

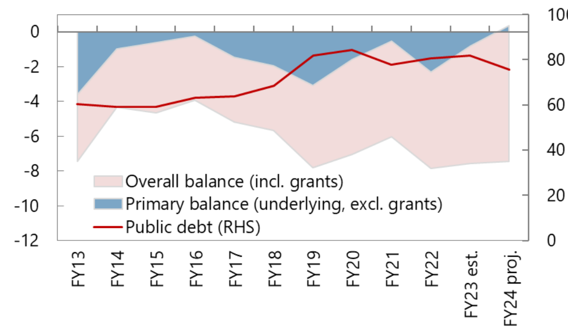
[4] The debt perimeter under the new Sovereign Risk and Debt Sustainability Framework (SRDSF) excludes guarantees, resulting in lower headline debt-to-GDP ratios than those reported under the previous Debt Sustainability Assessment (DSA) at the time of the combined 7th–8th reviews.

exchange rate and external stability. Besides, weak capacity, powerful vested interests, sociopolitical tensions (rising with high food and fuel prices), and a tenuous political coalition (with a slim majority in parliament and elections in a few months) continue to weigh on policy decisions and reform implementation. Elevated near-term domestic financing needs may overstretch the financial sector's absorption capacity and cause market disruption. Delays on structural reforms—notably those related to the financial sector (including resolving undercapitalized banks and reducing the SBP's involvement in the refinancing schemes)—could hamper financial sector stability and monetary policy effectiveness. Finally, the lasting macroeconomic impact of the floods could be larger than currently estimated, also highlighting the mounting risks from climate change (Annex I).

B. Fiscal Policies

7. Insufficient implementation of fiscal adjustment policies increased fiscal pressures. While the devastating floods at the start of FY23 justified urgent relief, additional low-priority spending initiatives (including untargeted subsidies) and delays in implementing agreed revenue measures (e.g., PDL) further delayed necessary fiscal adjustment in the first half of FY23. Furthermore, the persistent suppression of imports throughout FY23 severely undermined the revenue base by damaging import-related sales tax and customs duty revenue, as well as tax revenue more generally because of a scarcity-induced collapse in economic activity and closure of various industrial production plants.

Pakistan: Fiscal Developments, FYs13–24
(Percent of GDP)



Sources: Pakistani authorities; IMF staff calculations.

8. To limit fiscal slippages while accommodating higher social spending, the authorities passed a mini-budget in February 2023. Key aspects of the initiative included (i) new tax measures, including several permanent changes to taxation, to raise an additional PRs 170 billion (0.2 percent of GDP, equivalent to an annualized 0.5 percent of GDP) centered on a 1 percent increase to the GST standard rate (PRs 60 billion); higher federal excise duties (FED) on cigarettes (PRs 60 billion); and other measures (PRs 50 billion); (ii) PDL increases largely in line with the path chosen at the time of the June 2023 budget; (iii) expenditure measures focused on reducing non-social related spending (PRs 161 billion), partly to make space for flood relief; limiting power subsidies; and a socially-balanced gas price increase to avoid higher subsidies.

9. Despite the measures taken in February, the budget deficit is projected to reach 1 percent of GDP in FY23. Total tax revenue is projected at 9.9 percent of GDP, compared to the 10.8 percent projection targeted at the time of the February Supplementary Finance Bill. In addition to the lower revenue resulting from import suppression, other delays have also played a role; for example, implementation gaps in track-and-trace have led to early signs of increased cigarette contraband, partially undermining the gains from recent FED increases and require the authorities to quickly correct these gaps. Expenditure cuts, notably a curtailment of federal development expenditure by ¼ percent of GDP, were implemented to contain the deficit at 1 percent of GDP.

10. More generally, revenue efforts to broaden the tax base fell short of expectations during the EFF period, and the tax-to-GDP ratio has declined. At the same time, as financing conditions tightened and the cost of domestic and external borrowing increased, the interest bill reached 6.6 percent of GDP, and absorbed 2/3 of tax revenue. In addition, market issuance has become increasingly challenging, with several undersubscribed Treasury auctions during FY23 and the issuance of domestic debt tilted heavily toward floating rate instruments.

Pakistan: General Government Fiscal Operations, FYs23–24
(Percent of GDP)

	FY23			FY24
	Budget (Jun. 2022)	Program (mini-budget, Feb. 2023)	Projection	Program (budget, Jun. 2023)
Revenue and grants	**12.4**	**12.2**	**11.4**	**12.3**
Tax revenue	**11.0**	**10.8**	**10.0**	**10.3**
Federal	10.1	9.8	9.2	9.5
o/w FBR	8.9	8.9	8.5	8.6
o/w PDL	1.0	0.8	0.6	0.8
Other	0.1	0.1	0.1	0.1
Provincial	0.9	0.9	0.8	0.8
Non-tax revenue	**1.4**	**1.4**	**1.4**	**1.9**
Federal	1.1	1.2	1.2	1.8
o/w SBP profits	0.4	0.4	0.4	1.0
Provincial	0.3	0.3	0.2	0.2
Grants	0.0	0.0	0.0	0.0
Expenditure	**16.9**	**19.1**	**18.9**	**19.8**
Interest	**4.8**	**6.3**	**6.6**	**7.9**
Current primary	**9.9**	**10.5**	**10.3**	**9.8**
Federal	5.6	6.0	5.7	5.5
Subsidies	0.8	1.4	1.3	1.1
Power sector	0.7	1.1	1.1	0.9
Petroleum and gas	0.1	0.1	0.1	0.0
Other	0.1	0.2	0.1	0.1
Grants	1.3	1.3	1.2	1.2
BISP	0.4	0.5	0.5	0.4
Other	0.9	0.8	0.7	0.8
Provision for emergencies	0.2	0.2	0.0	0.2
Other	3.3	3.1	3.2	3.0
Provincial	4.2	4.5	4.6	4.2
PSDP and net lending	**2.3**	**2.3**	**2.1**	**2.2**
Federal	0.8	0.7	0.6	0.8
o/w Provincial	1.5	1.5	1.5	1.3
Overall balance (excl. grants)	**-4.5**	**-6.9**	**-7.6**	**-7.5**
Primary balance (excl. grants)	**0.2**	**-0.5**	**-1.0**	**0.4**

Sources: Pakistani authorities; IMF staff calculations.

Policy Discussion

11. The FY24 budget aims to set in a gradual fiscal improvement. The budget approved by parliament on June 25 targets a primary surplus of PRs 401 billion, 0.4 percent of GDP (*Prior Action (PA)*). Key policies include:

- ***Strengthening tax revenues*** to 10.3 percent of GDP on the back of measures worth over PRs 254 billion (almost ¼ percent of GDP), so that Pakistan has space to scale up investment in social and development sectors.
  - *Increase in the maximum PDL; PRs 79 billion.* The maximum will be raised to PRs 60 per liter, with a path to reach an average rate of PRs 55 per liter over FY24.
  - *Increase of personal income tax (PIT); PRs 30 billion.* The Finance Act 2023 increases rates as of July 2023 by 2.5 percentage points: (i) for wage earners on their taxable annual income in

excess of PRs 2.4 million; and on all income for persons earning income from business activities. In addition, the top two brackets for PIT are merged.

- *Rationalization of tax exemptions for fertilizer; PRs 34 billion.* Instead of an exemption, the Finance Act 2023 levies GST at a rate of 5 percent on diammonium phosphate (DAP) fertilizer. In addition, all fertilizers, including DAP and Urea, are subjected to FED at the rate of 5 percent.
- *Increase of FED on sugary drinks; PRs 8 billion.* The rate is doubled to 20 percent.
- *Increases of the advance tax on the purchase and sale of immovable property yielding PRs 46 billion.* The rate is increased from 2 percent to 3 percent.
- *Broadening of the base of the tax on second homes and other high-wealth items for non-filers; PRs 19 billion.* This tax at an effective rate of 1 percent was enacted from July 2022, with a threshold of PRs 25 million and first homes excluded. The Finance Act 2023 abolished the threshold and exclusion of first homes for non-filers, with no changes for those on the active taxpayer list.
- *Increase in the advance tax for builders and developers based on land size of the project under development; PRs 15 billion.*
- *Increase of the additional GST on deliveries to businesses that are not registered for VAT; PRs 23 billion.* The additional rate is increased from 3 to 4 percent.

- ***Containing primary expenditure*** to PRs 12,976 billion (11.9 percent of GDP), while preserving space for priority social and development spending. Within this envelope, the generosity level of the Benazir Income Support Programme's (BISP) unconditional cash transfer (UCT) Kafalat program in FY24 will be protected (¶14) and energy subsidies will be limited to reflect the cabinet-approved update of the CDMP for FY24 by end-July 2023 (¶22). At the same time, the budget includes a contingency for emergencies of PRs 250 billion. Critically, the authorities have committed not to use "supplementary grants" via executive fiat to authorize spending over what has been legislatively appropriated by parliament outside of severe natural disasters (MEFP ¶6).

12. Broad-based reforms will have to continue to improve the fiscal framework.

- ***Strengthening revenue administration***. The work to create a Compliance Risk Management (CRM) framework in FY23 will allow for Compliance Improvement Plans (CIPs) to yield results in FY24. The authorities will seek to expand the PIT base by another 300,000 persons through the use of data on the withholding tax of businesses, third-party data, and physical surveys to book new individuals. They will also seek to bring the service sector, notably retailers, into the tax net by making better use of data (e.g., from tax collected through electricity bills on commercial connections). Continued progress on the roll-out of track-and-trace will be essential to secure the full benefit of recent taxation changes, notably FED on cigarettes.
- ***Enhancing Public Financial Management*** (PFM). To improve SOE oversight functions and provide better analysis at the aggregate SOE level, the authorities are advancing the delayed full operationalization of a central monitoring unit (CMU) within the Ministry of Finance (MoF, ¶24)

and the issuance of its first periodic report on the performance of SOEs to the government (*end-November 2023 SB*). The authorities plan to fully operationalize the treasury single account (TSA-2) by end-October 2023. To realize the full benefits of the TSA, the newly created Treasury and Cash Management Unit and Cash Forecasting Unit in the Federal Treasury Office in Islamabad have been developing monthly and quarterly cash forecasts since January 2023, with technical assistance (TA) from the Asian Development Bank (ADB). In March 2022, new guidelines were issued on the implementation of annual and multiannual commitment control systems, to strengthen budget execution and expenditure controls; further TA will provide recommendations for additional improvements. Finally, the authorities are benefiting from TA on climate public investment management assessment (Climate-PIMA) to strengthen public investment management capacity generally but particularly for climate-related public investment (¶24).

- ***Strengthening spending transparency*** (MEFP ¶7). With World Bank support, the Public Procurement Regulatory Authority (PPRA) piloted the e-procurement system to the health and education ministries in March 2023. Its full roll-out to the federal and provincial levels will contribute to enhancing transparency in public procurement, including for future post-flood reconstruction efforts. This will complement ongoing efforts by PPRA to implement May 2022 regulations on publication of beneficial ownership information in procurement contracts above PRs 50 million.
- ***Improving debt management***. Although the new Debt Management Office (DMO) is formally in place–following the passage of Amendments to the Fiscal Responsibility and Debt Limitation Act—supported by World Bank and IMF TA—important resources to make it fully functional are lacking. Some progress has been made with the cabinet approval of DMO rules and the appointment of a new Director General in February 2023, but to overcome long-standing institutional and technical capacity weaknesses, it will be critical to (i) provide adequate resources for DMO staffing and expeditiously fill vacant positions, including at the director-level; and (ii) effectively empower the DMO to implement the agreed medium-term debt management strategy (MTDS), which will be updated annually. Going forward, with the resumption of appropriate macro policy settings, it will be key to lengthen the maturity profile of public debt as well as managing the cost-risk trade-off of fixed-rate versus floating-rate long-dated debt. Relatedly, work with international partners to develop the local bond market would be helpful to address Pakistan's debt management challenges. Growing funding pressures suggest the need for a contingency plan to deal with possible payment issues. Greater recording and reporting of contingent liabilities and SOE debts, including guaranteed debts for commodity operations, will also improve fiscal planning and debt management.

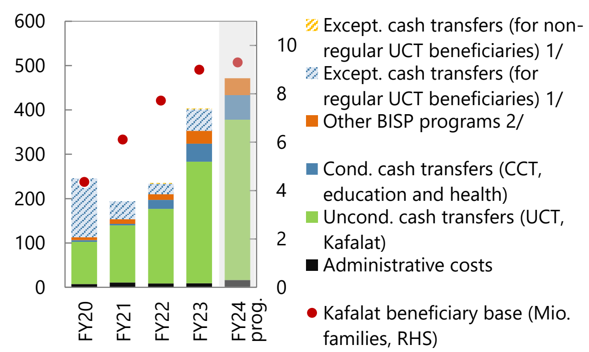
C. Poverty Reduction and Social Protection

13. Efforts are continuing to reduce poverty and improve social protection. The authorities spent about PRs 404 billion (0.4 percent of GDP) on regular and exceptional BISP schemes in FY23, exceeding the FY22 executed level by more than 70 percent (Text Figure).[5] The enlarged BISP envelope mainly allowed for: (i) a full execution of all regular BISP schemes; (ii) a faster-than-envisaged enrollment of 1 million newly identified families into the UCT Kafalat program (now covering 9 million families) on the basis of the live National Socio-Economic Registry (NSER); (iii) an inflation adjustment of the UCT Kafalat stipend (25 percent) to PRs 8,750 per family and quarter, effective from January 1, 2023; and (iv) an exceptional one-off emergency cash transfer of PRs 25,000 to more than 2.7 million flood-affected regular BISP families in FY23Q1. However, education and health care spending remained below budgeted targets because of weak budget planning and execution (in parts undermined by temporary school closures in the aftermath of the 2022 floods).

Policy Discussion

14. Strengthening social spending remains critical to increase Pakistan's growth potential, catch up with peers' level of socioeconomic development, and protect the most vulnerable (MEFP ¶9). In view of the high inflation and resulting threats to food security, the authorities increased BISP budget allocation to PRs 472 billion (0.4 percent of GDP) in FY24, which is about 1/3 above the executed regular BISP spending in FY23 (i.e., excluding one-off transfers for floods). This increase will not only allow the authorities to accommodate all current BISP programs, but also to absorb: (i) an additional 300,000 families in the UCT Kafalat program from July 2023; and (ii) the regular inflation adjustment of the UCT Kafalat stipend from January 2024 (*end-January 2024 SB*). However, given Pakistan's still inadequate level of social spending, weak socio-economic outcomes (Annex I, Table 2), and the ongoing cost-of-living crisis, staff called on the authorities to continue to protect the most vulnerable through lifeline and protected power and gas tariff slabs (¶22) and work toward their medium-term priorities with support from development partners:

Pakistan: Composition of BISP Spending, FYs20–24
(Billions of Pakistani rupees)



Sources: BISP; IMF staff calculations.
1/ Provide exceptional support, such as for the floods in FY23 or the COVID-19 pandemic in FYs20–22. 2/ Includes regular BISP programs for nutrition, undergraduate scholarships, digital skill development, and complementary initiatives.

- ***Creating the needed fiscal space for substantially ramping up social spending***, notably throughout more resolute revenue mobilization from the more affluent parts of society:
    - *Social protection*. A higher BISP envelope—still strictly targeted at the most vulnerable and monitored through a QPC under the SBA-supported program—should help: (i) achieve a more meaningful UCT Kafalat generosity level;[6] (ii) accelerate enrollment into the conditional cash transfer (CCT) schemes for child education and health, which will also enhance school

[5] PRs 25 billion of the FY22 BISP spending were exceptional cash transfers, mainly amid the COVID-19 pandemic.

[6] The UCT Kafalat's current generosity level remains low at about 9.3 percent of the average consumption level of the bottom quintile, compared to a global best practice of 25 percent.

enrollment rates of girls;[7] (iii) align CCT stipends with actual schooling and food costs; and (iv) ensure an adequate budgetary contingency to address exogenous shocks (including climate events, ¶24). Over the longer term, a targeted BISP scheme should also replace the protection of the most vulnerable currently built into the power and gas price structure (through highly subsidized lifeline and protected slabs for small consumers (¶22)).

  - *Education and health*. Meeting FY24 program targets requires full execution of the budgeted health and education spending (monitored through an IT under the SBA-supported program), while tangibly improving socio-economic and inclusive growth outcomes for Pakistan's masses needs substantially more resources going forward.[8]

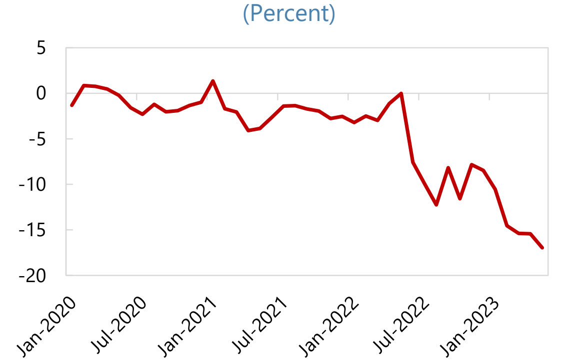
- ***Persevering with administrative efforts*** to ensure: (i) the NSER remains alive and covers all poor; (ii) BISP enrollment stays open; (iii) re-declaration of BISP beneficiaries' status becomes regular on a triannual basis; and (iv) BISP payments become fully electronic.

- ***Boosting structural reforms*** (¶23f) remains key to not only lay the foundation for strong and resilient growth, but also create opportunities for all Pakistanis, including the middle class, youth, and women.

D. Monetary and Exchange Rate Policies

15. Monetary policy fell behind the curve, as price pressures built up to a five-decade high inflation and de-anchored expectations. Several pauses in the policy rate tightening cycle and the dramatic increase in the size of SBP's open market operations (OMOs) to maintain the policy rate within its corridor resulted in loose monetary policy conditions, at a time when inflation was already on the rise.[9] Consequently, inflation expectations became un-anchored, with over 90 percent of consumers expecting higher prices over the next 6 months in SBP's May survey. The Monetary Policy Committee increased the policy rate by 100 bps on June 26, bringing it to 22 percent, while at the same time the interest rates on its two main refinancing schemes (EFS and LTFF) similarly increased, maintaining the gap with the policy rate at 3 percentage points.

Pakistan: Real Policy Rate, 2020M1–23M5
(Percent)



Sources: Haver; IMF staff calculations.

[7] While more than 80 percent of UCT Kafalat families were eligible for CCT at end-December 2022, only about 40 percent of them also had at least one child enrolled in at least one of the two CCT schemes.

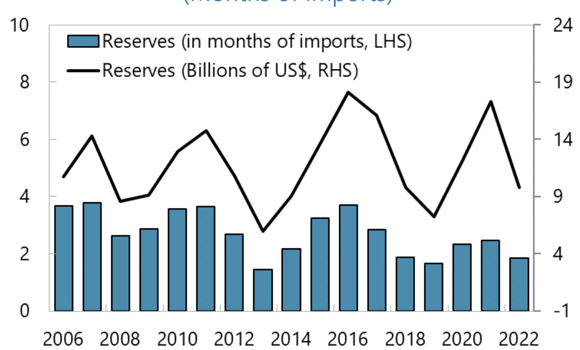
[8] See IMF WP/2021/108, *Pakistan: Spending Needs for Reaching Sustainable Development Goals (SDGs)*.

[9] Outstanding liquidity injections are currently almost four-times larger than at end-2021 with their maturity about 6-times longer (above 40 days).

Policy Discussion

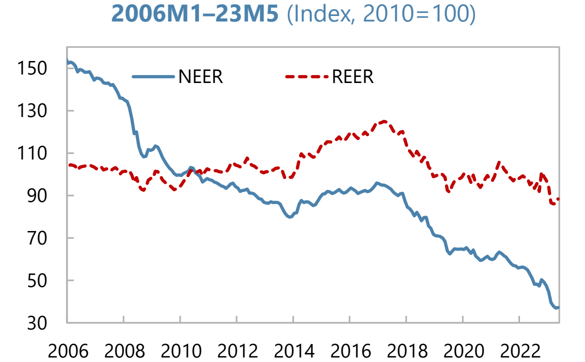
16. A tighter monetary policy stance is critical to reduce inflation, re-anchor expectations, and support external sector rebalancing through the exchange rate. Although the latest policy rate move from the SBP is a welcome step, the authorities have generally been sanguine about inflationary pressures quickly receding and returning to their 5–7 percent inflation target range by end-FY25. Staff emphasized that the SBP will need to continue its tightening cycle to re-anchor expectations given that inflationary pressures are expected to persist over the coming year, including because the impact of exchange rate corrections will continue to reverberate through the economy. The SBP agreed to maintain a tight monetary policy stance—higher rates and prudent use of liquidity injections— as needed, given incoming data, to achieve real positive interest rates, on a forward-looking basis, and place inflation and inflation expectations on a clear downward path. At the same time, improving the monetary transmission and the monetary operation framework will be important. The SBP is also committed to not introduce new refinancing schemes and to keep the outstanding credit of the refinancing facilities below their current limits.[10]

Pakistan: Gross Official Reserve Cover, 2006–22
(Months of imports)



Sources: SBP; IMF staff calculations.

Pakistan: Nominal and Real Effective Exchange Rate, 2006M1–23M5 (Index, 2010=100)



Sources: SBP; IMF staff calculations.

17. Reducing external imbalances and rebuilding reserves requires permanently ending administrative controls and actions to manage the current account and returning to a market-determined exchange rate. The reliance on administrative measures to manage imports since May 2022 and the tightly controlled exchange rate since September 2022 have caused significant damage to growth and exacerbated external pressures by dissuading inflows, especially remittances. These interventions have undermined public trust in the exchange rate system and, going forward, it will be necessary to ensure that the exchange rate will be market determined, allowed to act as a shock absorber, and free from formal or informal guidance or restrictions. Staff also recommended

[10] To enhance monetary policy transmission and strengthen governance and transparency, a new framework has been developed under which SBP's operational involvement in the two largest refinancing schemes (EFS and LTFF) is set to cease at the end of a 5-year transition period. Commercial banks would extend credit to export industries at preferential rates, supported by an on-budget subsidy administered via Ex-Im Bank, and obtain liquidity at market rates via SBP's regular open market operations instead of refinancing at below-market rates, as is currently the case. With implementation set to begin in July 2023. the required subsidy allocation has been included in the FY24 budget.

unwinding the January 2022 shortening of the period for repatriation of export proceeds[11] as macroeconomic and BOP stability is restored.

18. To support the effective functioning of a market-determined FX market, the authorities (MEFP ¶11.a, MEFP ¶13):

- ***Have withdrawn the circular on prioritization in providing FX for certain types of imports issued in December 2022 (PA)***. On December 27, 2022, the authorities introduced guidance to banks on prioritization of import transactions which, although legally non-binding, gave rise to a new exchange restriction, given the close monitoring by SBP, adherence by banks, and associated undue delays in certain 'non-priority' import payments. The relevant circular was withdrawn on June 23, 2023, and staff would be looking to confirm that the discouraging effect on banks of the circular and the authorities' relevant informal guidance has ceased in practice.
- ***Are working toward restoring market-determination of the exchange rate***. Following the depreciation in late January and further moves in March, FX market functioning has improved, and some liquidity has returned to the market; and rates in the interbank and open market have converged, although a sizable premium remains in the informal market. Going forward, restoring full market determination of the exchange rate is expected to ensure that the interbank–open market premium remains within a ±1.25 percent range on average (*continuous SB*). Staff emphasized that a functioning and flexible exchange rate market should be the means to address BOP pressures, rather than administrative and exchange measures.
- ***Remain committed to removing the remaining exchange restriction and multiple currency practice (MCP) when BOP conditions stabilize by the end of the program***. Pakistan continues to maintain an exchange restriction resulting from the limitation on advance payments for imports against letters of credit (LCs) and advance payments beyond the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018). The authorities noted concern about disorderly conditions in the FX market, should these restrictions be removed while complementary macroeconomic policies have not yet fully kicked in. Pakistan also maintains an MCP arising from the potential deviation of more than 2 percent between the previous day's weighted average customer exchange rates used for the FX transactions between the SBP and the government and the spot exchange rates prevailing on the FX market at the time. The authorities requested more time to eliminate these remaining restrictions when BOP conditions permit by the end of the SBA in April 2024.[12]

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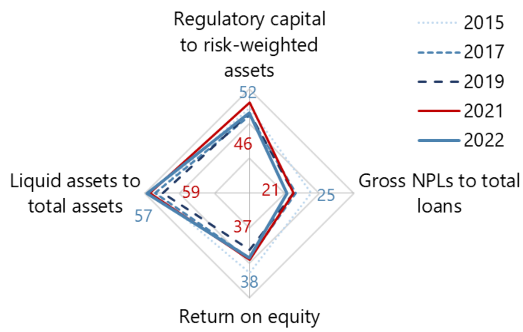
[11] Specifically, the repatriation requirement for export proceeds, which is considered an outflow capital flow management measure (CFM), was amended by shortening the maximum repatriation period from 180 to 120 days.

[12] Note that since the completion of the 7th–8th EFF reviews in August 2022 the previously identified and approved exchange restriction and MCP arising from the imposition of a 100 percent cash margin requirement on imports of certain goods (imposed in 2017 and subsequently amended) and an exchange restriction arising from a requirement for prior approval of initiating payments for imports of certain goods introduced in May 2022 were removed.

E. Financial Sector

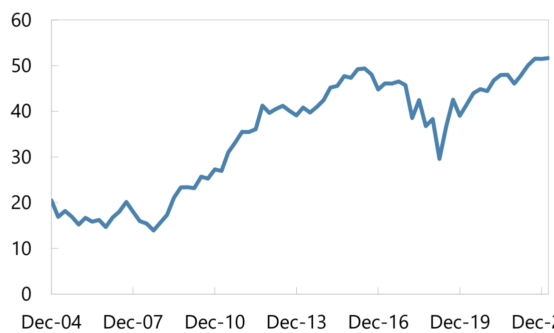
19. The banking sector appears stable, but the full impact of the economic downturn has yet to materialize (Table 6). Having weathered COVID-19 and the devastating 2022 floods, bank profitability has increased against the backdrop of rising interest rates. As of end-March 2023, banks' capital adequacy ratio (CAR) at 16.3 percent remained well above the regulatory minimum of 11.5 percent (including the 1.5 percent capital conservation buffer) but deteriorated by 0.7 percent when compared to end-December 2022.[13] NPLs rose to 7.8 percent while NPL provisioning stood high at 90.7 percent, although 11 out of 32 banks report NPLs above 10 percent. Nonetheless, amid heightened FX market pressures some banks temporarily breached net open position limits and four banks remain undercapitalized. Also, banks are exposed to sovereign risk, given the high and growing share of government debt in their asset portfolio. The banking systems' sovereign exposure has grown from 48 percent of assets at end-FY21 to 51.6 percent at end-March 2023, while banks accounted for 50 percent of the government's financing in FY23H1.

Pakistan: Financial Soundness Indicators, 2015–22 (Percent)



Sources: Pakistani authorities; IMF staff calculations.

Pakistan: Bank Claims on Government, 2004Q4–23Q1 (Percent of bank assets)



Sources: SBP; IMF staff calculations.

20. Heightened monitoring of financial stability risks and efforts in support of governance need to be sustained and strengthened (MEFP ¶14).

- ***Safeguarding financial sector soundness***. Staff encouraged close monitoring of the financial sector, noting that the economic downturn and external financing challenges may reverberate through the financial sector. The supervisor should continue to ensure that all commercial and microfinance banks meet the minimum capital requirements and take timely and resolute action to address any capital shortfalls or other regulatory non-compliance, including through time-bound recapitalization plans, or otherwise ensuring their orderly market exit. Also, staff emphasized that strict adherence to the regulatory limits for banks' foreign currency exposure is critical, noting that the return to a market-determined exchange rate would alleviate banks'

[13] As part of the COVID-19 relief measures, in March 2020 the capital conservation buffer (CCB) was reduced from 2.5 percent to 1.5 percent. Currently, four banks (two privately and two publicly owned) with 2.2 percent of total banking sector assets are below the regulatory minimum of 11.5 percent. If the minimum CAR would be restored to 12.5 percent, one additional bank would be close to the minimum (per end-March 2023 data). SBP will carry out a reassessment regarding the possible restoration of the CCB in FY24Q1.

needs to resort to negative net open positions. Staff noted the need to postpone the envisioned extension of the deposit insurance framework to microfinance banks until vulnerabilities within the sector have been addressed. The authorities committed to: (i) ensure that the two undercapitalized private sector banks enter resolution if they are not fully capitalized; (ii) move ahead with resolving one public sector bank after the cabinet has ratified its decision to delist the institution from privatization and liquidating it; (iii) work with the shareholders of a mid-sized public sector bank that has become undercapitalized as of end-December 2022 towards making it capital-compliant by end-September 2023; and (iv) address high levels of NPLs in some banks through bank-specific plans and to allow for the write-off of fully provisioned NPLs. Staff welcomed progress made regarding the revision of the early intervention, resolution, and crisis management frameworks (including the deposit insurance scheme) as the related draft amendments (prepared in line with IMF TA) were submitted to cabinet in November 2022 and the authorities committed to submitting the amendments to parliament by end-December 2023 (*end-December 2023 SB*).

- ***Ensuring effective implementation of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) measures***. The authorities completed their AML/CFT action plans, which resulted in their successful exit from the Financial Action Task Force (FATF) list. The SBP conducted a thematic AML/CFT inspection in relation to the tax amnesty for the construction sector and issued fines against financial institutions for AML/CFT shortcomings.

F. Energy Sector Policies

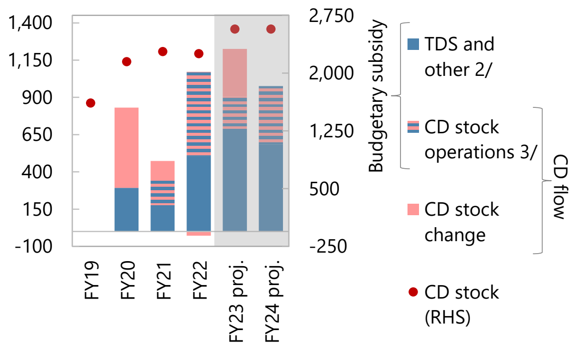
21. The energy sector's long precarious situation has become acute, with severe liquidity pressures now adding to the continued over-accumulation of unsustainable payment arrears (circular debt, CD). This situation has built up over the past decade on the back of slow reform to address deep-seated deficiencies that create operational losses and raise generation costs, aggravated by political reluctance to pass-through international commodity prices, currency depreciation, and financial and other costs to tariffs, and repeatedly granting new unbudgeted, untargeted subsidies. This was demonstrated again by the further deterioration in the power sector in FY23 (¶4, Text Figure), with substantial unexpected additional budgetary subsidy needs amid a higher-than-expected arrears accumulation, binding liquidity constraints, and increased recourse to supply shortages with regular widespread power outages (load shedding).

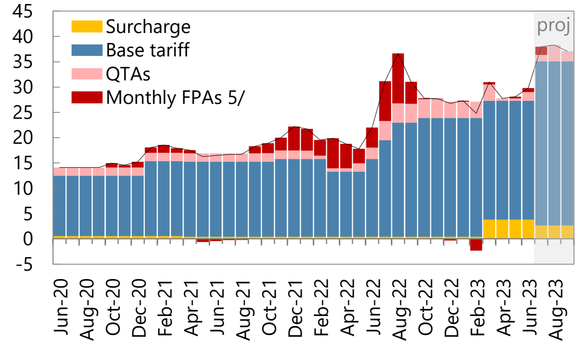
Policy Discussion

22. Restoring energy sector viability requires urgent and tangible reform.

- ***Power***. The cabinet is expected to adopt an updated FY24 CDMP in July 2023 with measures to help contain (Text Figure) the budgeted FY24 power subsidy to PRs 976 billion (0.9 percent of GDP). The FY24 power subsidy will also allow CD stock payments of PRs 392 billion (0.4 percent of GDP) to compensate the projected FY24 CD flow of PRs 392 billion and stabilize the FY24 CD stock at its expected end-FY23 level of PRs 2,374 billion (2.2 percent of GDP).

Pakistan: Power Sector





Sources: Pakistani authorities; IMF staff calculations.
1/ FY19 only shows stocks, no flows. FY23 and FY24 show projections *after* programed measures. 2/ Mainly includes the usual inter-DISCO tariff differential subsidy (TDS) and special subsidy packages (e.g., for export industries or agriculture). 3/ Includes repayment of CPPA arrears to IPPs and GPPs, and amortization of PHPL debt. 4/ Includes regular tariff adjustments up to the projected FY24 AR, projected FY23-Q3 and FY23-Q4 QTAs, and actual May 2023 FPA. 5/ Does neither include the impact of the non-collection of the June and July 2022 FPAs in September and October 2022 from residentials with a monthly consumption of less than 300 kwh, nor their staggered deferred collection from the affected consumers from March through October 2023.

Key measures include: (i) notification in full (and, if needed, retrospectively with effect from July 1, 2023) of the FY24 annual rebasing (AR) as per the National Electric Power Regulatory Authority's (NEPRA) imminent determination (*end-July 2023 SB*); (ii) some modest relief from near-term measures aimed at improving distribution efficiency (primarily on the collection side); and (iii) steadfast acceleration of crucial medium-term cost-reducing reforms (MEFP ¶16):

- *Timely alignment of power tariffs with cost recovery levels along the established tariff structure that protects the poor through lifeline and protected tariffs*. Staff stressed that regular tariff adjustments—in line with established formulas for the one AR, four quarterly tariff adjustments (QTAs), and twelve monthly fuel price adjustments (FPAs) per FY (Text Figure)—are critical to implement the CDMP, halt CD accumulation, limit fiscal pressures, lend credibility to the National Electric Power Regulatory Authority (NEPRA), lower load shedding, and restore the viability of generators and ensure their ability to operate.[14]

- *Better targeting of power subsidies*. The authorities concur that subsidy reform needs to continue to effectively protect the vulnerable, introduce more fairness, and reduce fiscal costs. Staff commended the authorities for committing to: (i) entering the third stage of their multi-year subsidy reform plan, supported by the World Bank, and submitting to cabinet a subsidy rationalization reform plan for tube-wells for large agricultural users by end-2023; and (ii) persevering with regular tariff adjustments while sparing the lifeline and protected slabs, which will increase the progressivity of the tariff structure for residential consumers and improve fairness.

- *Pursuit of other medium-term reforms to reduce costs and CD*. The authorities' efforts remain geared toward reducing commercial losses, technical losses, and generation costs; improving

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

governance and PPA terms; increasing competition; and greening the energy mix. Staff therefore called on the authorities to speed up work, mainly supported by the World Bank and ADB, to: (i) improve price signals for inputs (including gas, to help channel the most expensive inputs to the most efficient power generators in line with the merit order principle); (ii) renegotiate remaining purchasing power agreements (PPAs) in return for clearing unguaranteed CPPA arrears; (iii) convert publicly-guaranteed PHPL debt into cheaper public debt (along the 10-year repayment plan); (iv) expand renewable energy capacity; and (v) improve distribution efficiencies.

- ***Natural gas***. Staff reiterated the importance of persevering with regular biannual end-user gas price adjustments (as per established formulas and timelines), whilst sparing the protected slabs which protect the most vulnerable consumers. Besides, staff encouraged the authorities to work with the World Bank on: (i) preparing guidelines for OGRA to implement the weighted-average cost of gas pricing (WACOG) law adopted in March 2022 for the next regular OGRA determination; (ii) creating reliable CD data, management, and projection capacity; and (iii) implementing cost-reducing reforms (notably to reduce UFG losses, including through infrastructure improvements, network rehabilitation, and theft control).

G. Structural Policies

23. Long-standing structural bottlenecks are holding back Pakistan's socio-economic development, growth-enhancing investment, and job creation for its young and fast-growing population. Bottlenecks mainly include inadequate social spending (¶13f), an uneven playing field for SOEs and private companies, corruption, and red tape (notably excessive regulation and licensing), and a weak business climate (notably obstacles to paying taxes, difficulties trading across borders, and registering property). Building resilience to climate change is also a key priority. Timely provision of key macroeconomic data is also critical to improve policy making and transparency.

Policy Discussion

24. Determined implementation of the structural reform agenda is crucial to improve socioeconomic outcomes and lift the drag on productivity, investment, and development of a vibrant private sector and high-quality job creation (MEFP ¶20). Staff welcomed recent steps and encouraged continued reliance on TA from donors to mitigate capacity constraints. Key aspects of the reform agenda are:

- ***Strengthening SOEs' governance, transparency, and efficiency to limit their fiscal risk***. Staff commended the authorities for enacting the new SOE law in early 2023[15] and called for swift progress, with ADB support, on: (i) developing a new ownership policy; (ii) amending several SOE-dedicated Acts (*end-November 2023 SB,* ¶12); (iii) advancing the delayed full

[15] Notably, the new SOE law (i) defines a rationale for state ownership; (ii) ensures commercially sound SOE operations; and (iii) regulates oversight and ownership arrangements.

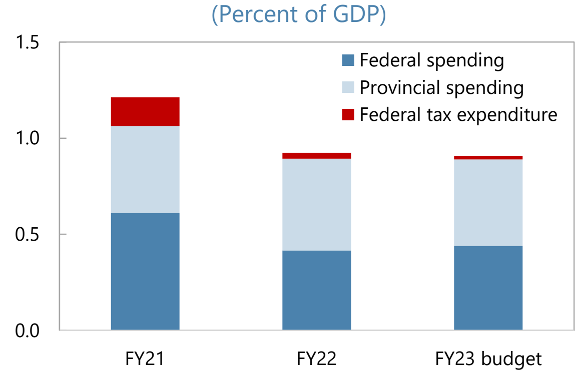
operationalization of a CMU within the MoF (*end-November 2023 SB,* ¶12); (iv) gradually reducing the footprint of the state (based on the March 2021 SOE Triage and including the divestment of two LNG-based power plants, one development finance institution, and one small public bank); and (v) continuing with regular and timely audits of key SOEs.

- ***Boosting the business environment, job creation, and investment***. This is critical to achieving sustainable growth and development objectives and requires: (i) simplifying procedures to start a business and eliminating unnecessary regulations; (ii) streamlining the FDI approval process; (iii) improving trading across borders by reducing custom-related processing time and reducing hours to prepare import/export documents; and (iv) simplifying and harmonizing the process of paying taxes. It will also be important to improve product market access and increase the adoption of information and communication technologies.

- ***Strengthening the effectiveness of anticorruption institutions***. The Federal Board of Revenue (FBR) issued regulations granting banks access to asset declarations of high-level federal civil servants for purposes of AML/CFT compliance of customer due diligence in February 2023. The task force to review the anti-corruption institutional framework has commenced its work. This comprehensive review will include participation of independent experts with international experience and civil society organizations but will see a delayed publication (along with proposals for legislative amendments, as appropriate). Staff encourages the authorities to seek capacity development support for identifying further critical institutional governance reforms.

- ***Shoring-up climate change resilience***. Given Pakistan's high vulnerability to climate change and related calamities, adaptation is among its most urgent and existential challenges (Annex I). Nascent green budgeting efforts reveal that climate-related spending already amounts to about 1 percent of GDP (Text Figure). The authorities and staff agreed that pending the finalization of Pakistan's National Adaptation Plan (expected by end-2024), they will focus on accelerating critical "no-regret" measures, including: (i) strengthening PFM to enhance capital expenditure efficiency through a Climate-PIMA supported by IMF TA, culminating in cabinet approval of a related Climate-PIMA and PIMA action plan *(end-December 2023 SB)*; and (ii) prioritizing resilience-boosting policies, such as strengthening social spending (¶13) or building back better after the 2022 floods, executing updated flood safety projects, and transforming the agri-food system. Going forward, more capacity building (supported by, amongst others, UNEP in the context of a National Adaptation Plan (NAP)) would also help advance critical needs assessments and strategies to enhance the resilience of particularly vulnerable and exposed sectors (including agriculture, power, and transport infrastructure).

Pakistan: Spending for Climate Actions, FYs21–23 1/
(Percent of GDP)



Sources: Pakistani authorities; IMF staff calculations.
1/ Including for mitigation, transition, and adaptation policies.

- ***Enhancing timely provision of key macroeconomic data***. Supported by TA from IFIs, PBS has made commendable progress in preparing for the compilation and publication of Quarterly National Accounts (QNA). The implementation of QNA will help better inform policy makers and private sector stakeholders about the state of the economy and allow for a nimbler policy response while strengthening transparency. It will also ensure more timely revisions to the provisional annual estimates, currently compiled in the last quarter of a fiscal year and usually unrevised for 12 months. The authorities agreed to work towards the compilation and dissemination of QNA starting with FY24Q1 and publication of revised annual estimates for FY23 (*end-November 2023 SB*).

PROGRAM MODALITIES AND CAPACITY TO REPAY

25. Arrangement and access. The authorities request a 9-month SBA in an amount equivalent to SDR 2,250 million, or 110.8 percent of quota (about US$3.0 billion). A 9-month SBA is proposed to cover the July 12, 2023 through April 11, 2024 period. This would help Pakistan cover its BOP needs, provide a critical anchor to support the authorities' policy efforts during a challenging year, and provide a framework for multilateral and bilateral creditors to provide the committed financing to Pakistan. The length of the SBA is also tailored to leave space to the new government to embark on a new program, if it so wishes, enhancing ownership. The authorities implemented two Prior Actions related to the: (i) passage of an appropriate FY24 budget; and (ii) withdrawal of the circular on prioritization in providing FX for certain types of imports by SBP. SDR 894 million will be disbursed upon approval and the remaining amount almost equally phased among two remaining purchases.

26. Program modalities. Program performance will be monitored through quantitative performance criteria (QPCs), indicative targets (ITs), structural benchmarks (SBs) as detailed in Tables 1 and 2 in the Memorandum of Economic and Financial Policies (MEFP), and quarterly reviews, including the regular assessment of financing commitments to ensure the program remains fully financed.

27. Exchange restrictions and MCP. Staff supports the authorities' request for temporary approval of an exchange restriction—arising from the limitation on advance payments for imports against LCs and advance payments up to the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018)—and the MCP—arising from the potential deviation of more than 2 percent between the previous day's weighted average customer exchange rates used for the FX transactions between the SBP and the government and the spot exchange rates prevailing on the FX market at the time. The approval is proposed for a period of program duration. The exchange restriction and MCP are non-discriminatory and maintained for BOP reasons, while the authorities are committed to remove them before the end of the program.

28. Financing. The program is fully financed but with exceptionally high risks. Financing commitments from bilateral and multilateral partners will help cover public gross external financing needs in FY24 and the reserve position at end-FY24 is consistent with program objectives (Table

3b).[16] Bilateral creditors are expected to maintain their exposure to Pakistan in line with program commitments and there are commitments for US$3.7 billion of additional financing expected from Saudi Arabia and the UAE. These together with commitments from multilateral institutions, including the Islamic Development Bank, and other pledges at the Geneva conference provide the necessary financing assurances. Nonetheless, financing risks remain exceptionally high, arising from large public sector external rollover needs, a sizable current account deficit, a difficult external environment for Eurobond issuance given recent downgrades and high spreads, and limited reserve buffers to help cover the financing needs in case of delays in scheduled inflows.

29. Capacity to repay. Pakistan's capacity to repay the Fund is subject to significant risks and would critically depend on policy implementation and timely external financing. The Fund's exposure reaches SDR 6,123 million (or 301 percent of quota and about 108 percent of projected gross reserves at end-September 2023) with purchases linked to the request (Table 7). With completion of all purchases under the arrangement, the Fund's exposure would peak at SDR 6,673 million in March 2024 (or 329 percent of quota and about 109 percent of projected gross reserves at end-March 2024). Exceptionally high risks—notably from delayed adoption of reforms, high public debt and gross financing needs, low gross reserves and SBP's sizeable net FX derivative position, the recent decline in inflows, and sociopolitical factors—could jeopardize policy implementation and erode repayment capacity and debt sustainability. Restoring external viability is critical to ensure Pakistan's capacity to repay the Fund, and hinges on strong policy implementation, including beyond the proposed SBA. In the absence of the proposed SBA, capacity to repay the Fund would be strained. Uncertainty about global economic and financial conditions, amid several successive shocks, adds to these risks. Adequate execution of firm and credible financing assurances is an essential mitigating factor.

30. Safeguards assessment. An update safeguards assessment of the SBP will be completed before the first review. The last safeguards assessment was completed in 2019. It noted broadly sound safeguards at the SBP and recommended strengthening SBP autonomy and governance arrangements through amendments of the central bank legal framework that were enacted in early 2022. These amendments prohibit the SBP from conducting quasi-fiscal activities which will require the refinance schemes to be phased out or transferred to another institution (¶16, MEFP ¶12). Compliance with the timelines for appointments of senior executives as per the provisions of the amended SBP Act is critical to strengthen independent oversight of the SBP and to ensure its operational readiness. Nonetheless, since FY23H1 there have been new vacancies on the SBP Board, including among directors serving on the Monetary Policy Committee, which were not filled within the requisite timeline. In addition, as of end-June 2023 a deputy governor position has been vacant for more than 30 days.

[16] The FY24 official financing includes US$10 billion as rollovers of existing and US$5.6 billion in additional financing commitments, including from China, Qatar, Saudi Arabia, UAE, and IFIs (such as the World Bank, ADB, and Islamic Development Bank).

STAFF APPRAISAL

31. The incomplete and uneven policy implementation under the 2019–23 EFF was a missed opportunity to set the economy on a sounder footing, and help Pakistan avoid the costs of yet another economic crisis. The EFF aimed to provide a comprehensive framework to strengthen fiscal and external sustainability and advance structural and institutional reforms to foster stronger and more balanced growth. The emphasis on social protection aimed to garner support for the authorities' policies. While encouraging progress was made early in the program, including on fiscal adjustment, transitioning to a flexible and market-determined exchange rate, and setting up of a more modern and independent central bank, this progress did not persist. Unprecedented shocks in 2020 (COVID-19 pandemic) and 2022 (floods) undermined growth, increased inflation, and aggravated social pressures, which together with pressure from vested interests for tax privileges and against efforts to broaden the tax base, weakened the authorities' commitment to program policies. The inability to tackle the deep-seated issues in the energy sector, the pursuit of expansionary policies to stimulate growth quickly, and the use of FX interventions to prevent the exchange rate from depreciation proved misguided and difficult to correct. Policy slippages and reversals led to long interruptions between reviews, undermining the restoration of confidence. Importantly, fundamentals remained weak, despite occasional efforts to bring the program back on track. When the external environment worsened in 2022, following Russia's war in Ukraine, with commodity prices spiking and financial conditions tightening, Pakistan was not prepared, including as the domestic political tensions became too complex to allow room for economic policies to work. At that stage, unorthodox policies, including to stabilize the exchange rate, exhausted buffers quickly, generated shortages of FX and goods, and created acute economic challenges.

32. The new SBA aims to rebuild confidence and entrench stability. To reduce near-term uncertainty and risks, the new program focuses on containing the budget and external deficits, bringing inflation under control, restoring the proper functioning of the exchange market, rebuilding reserve buffers, and advancing some critical reform efforts. While the authorities have taken actions in these areas, these need to be sustained in the program period if Pakistan is to regain stability and remain sustainable. Success will hinge on strong and sustained ownership, firm implementation, and significant external financial support, and be underpinned by program monitoring. Policies and monitoring should thus support external financing, with restored FX market functioning and stronger policies supporting a recovery in remittances in FY24 and other inflows (including FDI) thereafter.

33. The fiscal effort in the FY24 budget is an important step to protect fiscal sustainability but needs to be followed by further reforms. The consolidation envisaged in the FY24 budget is appropriate and supported by measures to boost revenue mobilization and restrain non-priority spending, whilst protecting social assistance. Strict budget execution will be needed to reduce the sizable risks surrounding macroeconomic stability and fiscal sustainability, with current expenditure restraint and strong efforts to mobilize revenue through better tax administration. Beyond FY24, efforts need to continue to build a more progressive, simple, efficient, and fair tax system which should generate adequate space for critical development and social spending, including building resilience to climate shocks. In this regard, improved public financial management is critical to improve the efficiency of scarce resources.

34. Effectively reducing poverty and enhancing social protection requires higher targeted social spending. Staff welcomed the strengthening of BISP through a targeted expansion of the beneficiary base and continued inflation adjustments to the benefit level; but called for sustained efforts to increase the generosity of BISP stipends and ensure enrollment of all deserving families into the CCT schemes.

35. Monetary policy needs to remain tight, proactive, and data-driven. The recent policy rate hike is welcome, but the tightening cycle should continue if needed to reduce inflation and facilitate external rebalancing. In the short term, the forward-looking real policy rate should return to positive territory to re-anchor expectations and achieve the SBP's inflation objective over the medium term. Implementing the plan to phase out the refinancing schemes will strengthen monetary policy traction and will bring transparency to these schemes. Importantly, the independence of the SBP should be strengthened and protected.

36. The exchange rate must be allowed to be market determined to absorb external shocks, maintain competitiveness, and help rebuild international reserves by incentivizing inflows. It is essential to allow the price signals to function unimpeded and bring back FX liquidity into the system. Abstaining from informal influence in the market, including through import management and LC approval guidance, is critical to restoring public trust in the exchange rate system. Appropriate monetary and fiscal policies and strong implementation of reforms will help further build confidence in the rupee and resolve external imbalances.

37. Maintaining financial stability requires close oversight and swift action to address undercapitalized financial institutions. The SBP should accelerate the recapitalization process using its existing powers. Strengthening the bank resolution and crisis management frameworks should be a priority by expediting the draft law, currently under discussion in the cabinet, for further legislative process. Staff noted that the SBP should fill out its institutional autonomy granted under the recently amended SBP Act, which underpins its independence and mandate. Pakistan's successful exit from the FATF list is welcome and efforts to mitigate ML/TF risks, including from tax evasion, corruption, and other financial crimes should be sustained.

38. Decisive action is essential to restore the viability of the energy sector. Restoring the power and gas sectors' financial viability remains critical to reducing unsustainable spillovers onto the budget, the financial sector, and the real economy. The recently adopted energy measures, especially the full surcharge hike and strict limitation of energy subsidies to the vulnerable, must be maintained as a first step to limiting these spillovers. In addition, it will be critical to ensure timely alignment of energy tariffs with cost structures as per NEPRA's and OGRA's formulas (while protecting the vulnerable), and to implement reforms to reduce operational, generation, and CD-related financial costs in line with the current power and emerging gas CDMP to put tariffs on a downward trajectory.

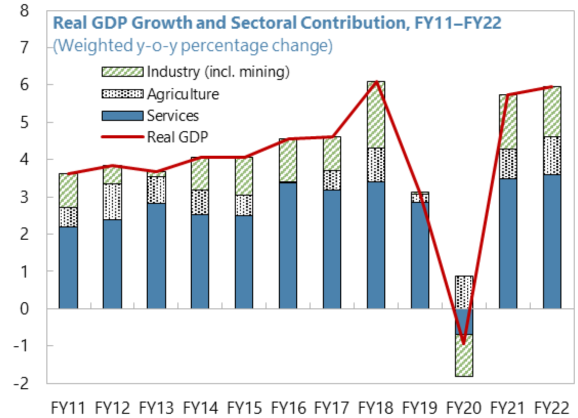
39. Structural reforms remain essential to lay the foundation for strong, resilient, and inclusive growth to the benefit of all Pakistanis. This requires foremost tangible progress on SOE governance and anti-corruption institutions, the business environment and investment climate, and adaptation to climate change.

40. Risks remain exceptionally high and tilted to the downside on both domestic and external fronts. External headwinds remain strong with tight global financial conditions and still elevated food and fuel prices due to the war in Ukraine. The difficult sociopolitical climate, including persistent political volatility, remains a key risk to policy implementation, which could undermine Pakistan's adjustment path and growth potential. Advanced economy financial tightening, geopolitical tensions, and wavering reform efforts could affect the availability of external financing. The materialization of such downside risks could tip Pakistan towards an unsustainable debt situation. Close program monitoring, supportive TA, and financing assurances from key lenders mitigate those risks to some extent.

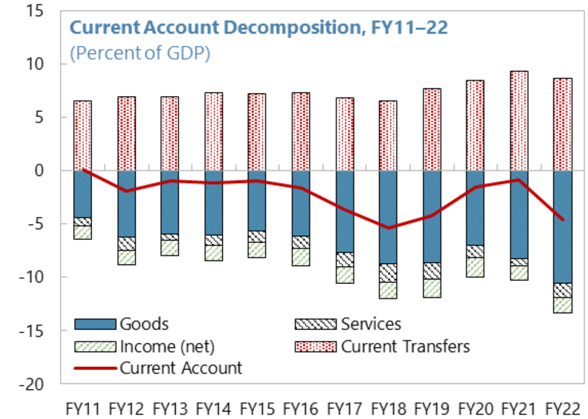
41. While recognizing these risks, staff supports the authorities' request for a 9-month SBA with access equivalent to SDR 2,250 million (about 111 percent of quota). Given the authorities' recent efforts to implement corrective measures, staff also supports approving the exchange restriction and the MCP because they are temporary, non-discriminatory, and implemented for BOP reasons.

Figure 1. Pakistan: Selected Economic Indicators

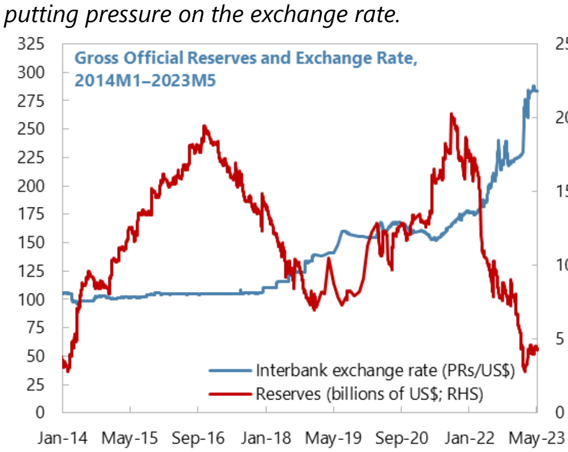
The economy rebounded in FY21 and kept momentum through FY22, helped by expansive macro policies…



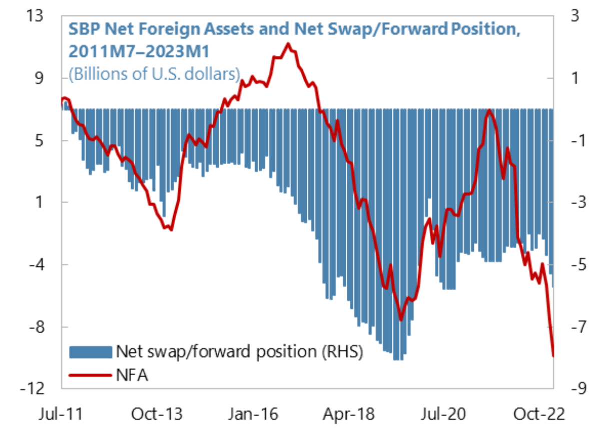
…widening the current account balance.



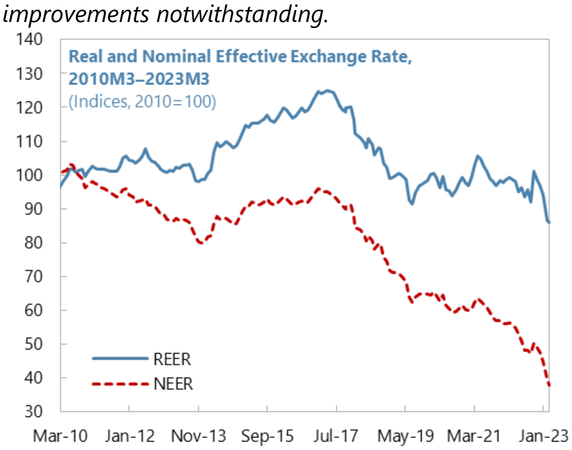
Foreign reserves started declining sharply in FY22, putting pressure on the exchange rate.



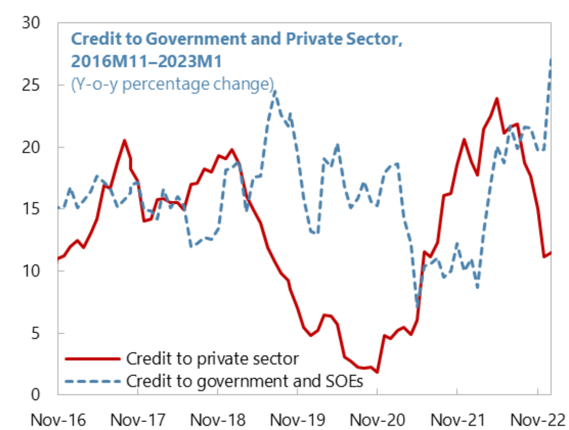
As a result, the SBP's derivative position has widened.



External competitiveness remains weak, some recent improvements notwithstanding.



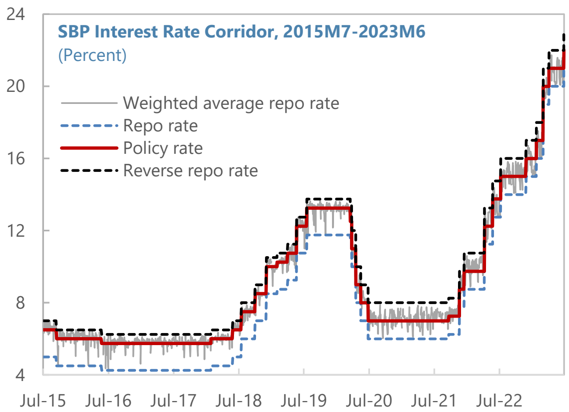
Private sector credit growth has decelerated in FY23.



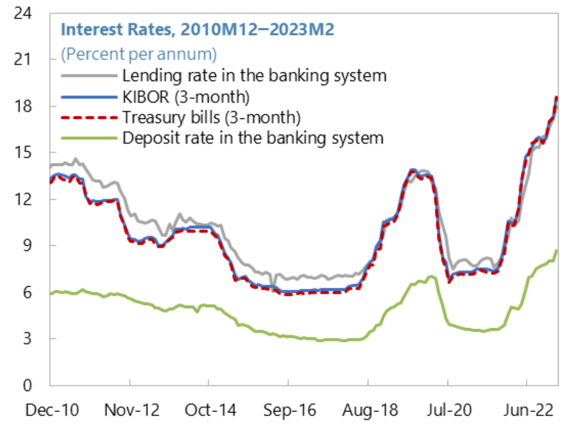
Sources: Pakistani authorities; IMF World Economic Outlook Database; IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators

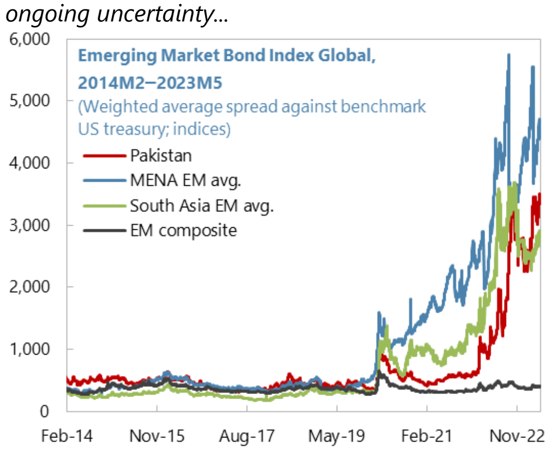
The SBP started to gradually tighten monetary policy in September 2021...



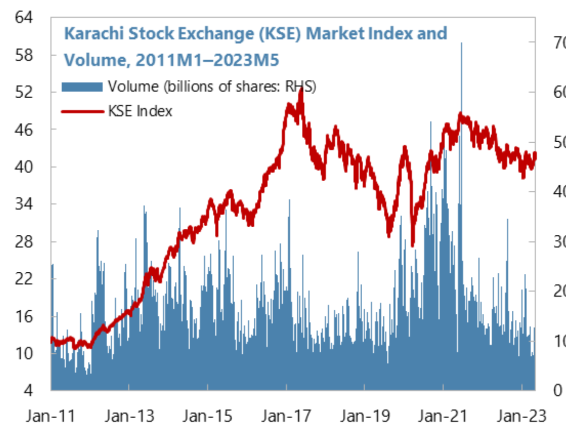
...while market rates have moved in line with the policy rate amid heightened uncertainty and external pressures.



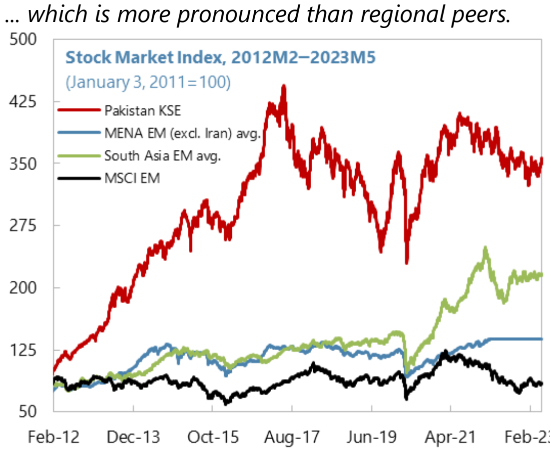
Pakistan's bond spreads have widened, reflecting ongoing uncertainty...



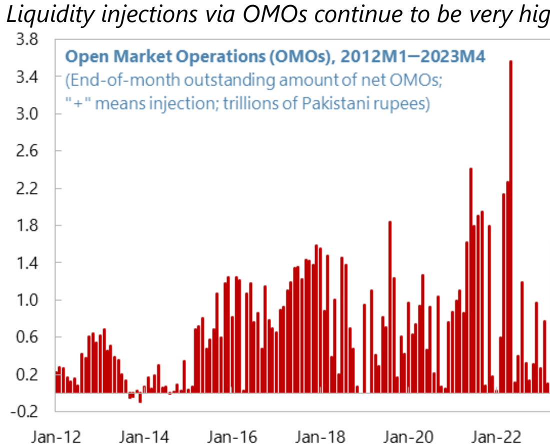
...mirrored by volatility in the stock market...



... which is more pronounced than regional peers.



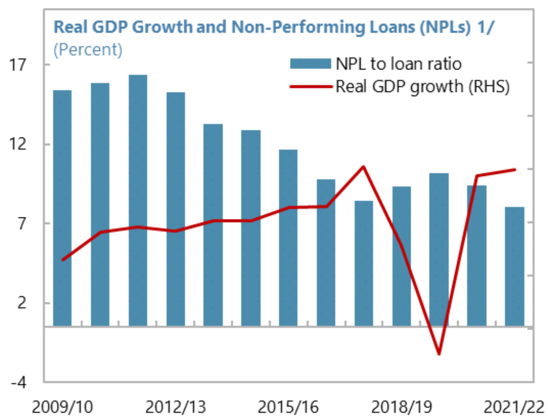
Liquidity injections via OMOs continue to be very high.



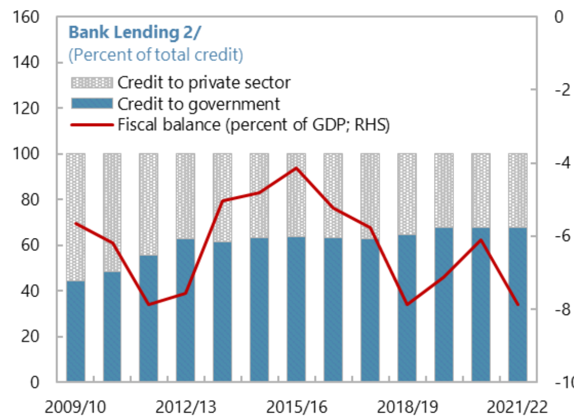
Sources: Pakistani authorities; Bloomberg; IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators, 2009/10–2021/22

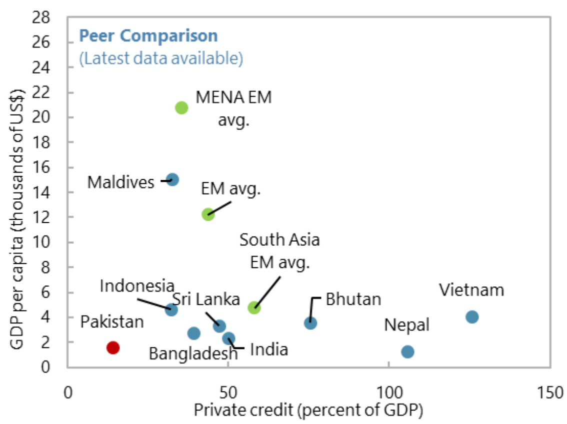
NPLs remain contained despite the economic deceleration.



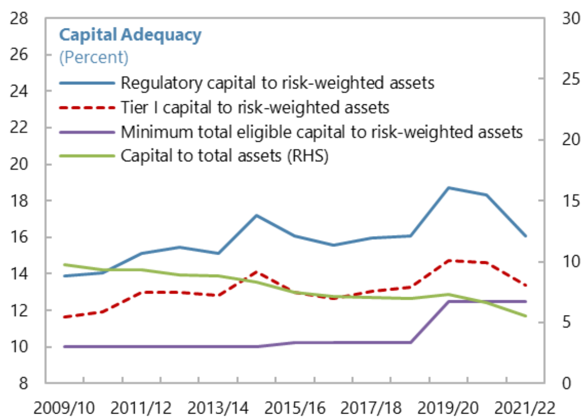
The banking system remains oriented toward providing credit to the government…



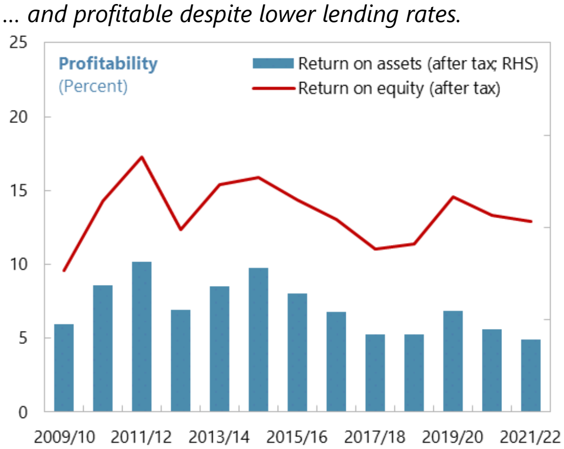
…leaving Pakistan behind its peers in terms of private credit relative to the size of the economy.



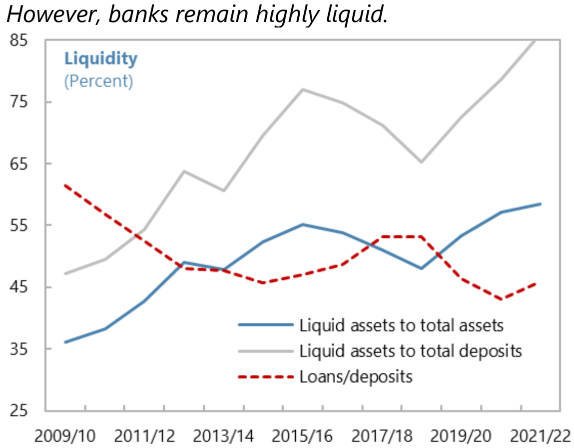
Nonetheless, the banking sector remains well capitalized …



… and profitable despite lower lending rates.



However, banks remain highly liquid.



Sources: Pakistani authorities; Bloomberg; IMF staff calculations.

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

Population: 231.6 million (2022/23)
Per capita GDP: US$1,642 (2021/22)
Poverty rate: 21.9 percent (at national line; 2018/19)

Main exports: Textiles (US$19.3 billion, 2021/22)
Unemployment: 6.2 percent (2021/22)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
						Proj.	
Output and prices			(Annual percentage change)				
Real GDP at factor cost	3.1	-0.9	5.8	6.1	-0.5	2.5	3.6
GDP deflator at factor cost	9.2	9.9	10.4	14.1	26.0	25.9	11.4
Consumer prices (period average)	6.7	10.7	8.9	12.1	29.6	25.9	11.4
Consumer prices (end of period)	8.0	8.6	9.7	21.3	34.0	16.2	8.6
Pakistani rupees per U.S. dollar (period average)	24.0	16.0	1.2	...	...	...	...
Pakistani rupees per U.S. dollar (end of period)	31.7	5.0	-6.3	...	...	...	...
Saving and investment			(Percent of GDP)				
Gross saving	11.3	13.3	13.7	11.1	12.4	12.8	13.0
Government	-5.5	-4.7	-3.9	-5.4	-5.5	-5.4	-4.6
Nongovernment (including public sector enterprises)	16.8	18.1	17.6	16.5	17.9	18.2	17.6
Gross capital formation 2/	15.5	14.8	14.5	15.7	13.5	14.7	14.7
Government	2.3	2.3	2.2	2.4	2.0	2.1	2.0
Nongovernment (including public sector enterprises)	13.2	12.5	12.4	13.3	11.5	12.6	12.7
Public finances							
Revenue and grants	11.3	13.3	12.4	12.1	11.4	12.3	12.2
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	18.9	19.8	18.8
Budget balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.6	-7.5	-6.6
Budget balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.6	-7.5	-6.7
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-1.0	0.4	0.4
Underlying primary balance (excluding grants) 3/	-3.1	-1.6	-0.5	-2.3	-0.8	0.4	0.4
Total general government debt excl. IMF obligations	75.4	76.8	71.4	74.0	74.9	68.4	66.6
External general government debt	28.1	27.9	24.4	27.4	31.1	28.4	27.2
Domestic general government debt	47.3	49.0	47.0	46.6	43.8	40.0	39.4
General government debt incl. IMF obligations	77.5	79.6	73.5	76.1	77.4	70.9	68.5
External general government debt	30.2	30.6	26.5	29.5	33.5	30.9	29.1
Domestic general government debt	47.3	49.0	47.0	46.6	43.8	40.0	39.4
General government and government guaranteed debt (incl. IMF; % GDP)	82.0	84.5	77.8	80.6	81.8	74.9	72.1
Monetary sector	nnual changes in percent of initial stock of broad money, unless otherwise indicate						
Net foreign assets	-8.1	5.6	5.9	-6.1	-3.3	-0.4	4.3
Net domestic assets	19.4	11.9	10.3	19.7	18.4	12.9	12.1
Credit to the private sector	4.5	1.1	3.8	6.7	0.3	2.4	4.3
Net claims on the government	13.4	12.4	8.2	13.8	14.2	14.5	12.2
Broad money (percent change)	11.3	17.5	16.2	13.6	13.3	14.5	16.0
Reserve money (percent change)	19.9	16.8	12.8	7.7	17.5	17.5	15.7
Private credit (percent change)	11.9	3.0	11.5	21.1	1.0	8.0	15.0
Six-month treasury bill rate (period average, in percent)	10.2	11.9	7.3	12.6	...	...	...
External sector		(Annual percentage change, unless otherwise indicated)					
Merchandise exports, U.S. dollars	-2.1	-7.1	13.8	26.6	-13.6	9.9	8.1
Merchandise imports, U.S. dollars	-6.8	-15.9	24.4	32.9	-25.2	19.9	6.5
Current account balance (in percent of GDP)	-4.2	-1.5	-0.8	-4.6	-1.2	-1.8	-1.7
Financial account (billions of U.S. dollars)	11.8	6.5	8.3	10.1	-2.5	9.7	11.7
	(Percent of exports of goods and services, unless otherwise indicated)						
External public and publicly guaranteed debt	277.2	312.6	301.5	246.5	276.0	267.5	261.5
Debt service	40.7	51.5	34.1	37.7	57.6	41.0	43.1
Gross reserves (in millions of U.S. dollars) 4/	7,274	12,175	17,297	9,821	4,056	8,982	12,888
In months of next year's imports of goods and services	1.7	2.3	2.5	1.9	0.7	1.4	1.8
Memorandum items:							
Underlying fiscal balance (excl. grants; % GDP) 3/	-7.9	-7.1	-5.5	-7.1	-7.4	-7.4	-7.5
Net general government debt (incl. IMF; % GDP)	70.2	72.9	66.0	69.8	72.4	67.1	65.2
Real effective exchange rate (annual average, percentage change)	-11.5	-4.0	2.0	-1.2	...	...	...
Real effective exchange rate (end of period percentage change)	-15.2	3.4	7.1	-6.0	...	...	...
Terms of trade (percentage change)	-1.7	2.3	2.1	-0.1	-1.7	-6.9	-1.8
Real per capita GDP (percentage change)	1.1	-2.9	3.7	4.0	-2.4	0.5	1.6
GDP at market prices (in billions of Pakistani rupees)	43,798	47,540	55,836	66,624	84,665	108,910	126,357
Per capita GDP (in U.S. dollars)	1,485.8	1,362.9	1,550.1	1,634.0	...	...	...
Population (millions)	214.0	218.2	222.6	227.0	231.6	236.2	240.9
GDP at market prices (in billions of U.S. dollars)	321.1	300.4	348.5	374.7	...	...	...

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.
1/ Fiscal year ends June 30. On January 21, 2022 GDP was rebased to base year 2015-16, affecting ratios.
2/ Including changes in inventories.
3/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it and COVID-19 spending.
4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2018/19–2027/28 1/

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
					Proj.					
	(Annual percentage change, unless otherwise indicated)									
Output and prices										
Real GDP at factor cost	3.1	-0.9	5.8	6.1	-0.5	2.5	3.6	4.5	5.0	5.0
Net exports (percent contribution to real GDP at factor cost)	-0.3	1.2	-2.2	-1.8	4.5	-0.8	-0.3	-0.4	-0.5	-0.6
GDP deflator at factor cost	9.2	9.9	10.4	14.1	26.0	25.9	11.4	7.4	6.5	6.5
Consumer prices (period average)	6.7	10.7	8.9	12.1	29.6	25.9	11.4	7.4	6.5	6.5
	(Percent of GDP)									
Saving and investment balance	-4.2	-1.5	-0.8	-4.6	-1.2	-1.8	-1.7	-1.7	-1.7	-1.7
Government	-7.8	-7.0	-6.0	-7.8	-7.6	-7.5	-6.6	-5.2	-4.6	-4.2
Nongovernment (including public sector enterprises)	3.6	5.6	5.2	3.2	6.4	5.7	4.9	3.5	3.0	2.5
Gross national saving	11.3	13.3	13.7	11.1	12.4	12.8	13.0	13.7	14.0	14.0
Government	-5.5	-4.7	-3.9	-5.4	-5.5	-5.4	-4.6	-3.2	-2.6	-2.2
Nongovernment (including public sector enterprises)	16.8	18.1	17.6	16.5	17.9	18.2	17.6	16.9	16.6	16.2
Gross capital formation	15.5	14.8	14.5	15.7	13.5	14.7	14.7	15.4	15.6	15.7
Government	2.3	2.3	2.2	2.4	2.0	2.1	2.0	2.0	2.0	2.0
Nongovernment (including public sector enterprises)	13.2	12.5	12.4	13.3	11.5	12.6	12.7	13.4	13.6	13.7
	(Billions of U.S. dollars, unless otherwise indicated)									
Balance of payments										
Current account balance	-13.4	-4.4	-2.8	-17.4	-4.0	-6.4	-6.5	-7.1	-7.3	-7.9
Current account balance (in percent of GDP)	-4.2	-1.5	-0.8	-4.6	-1.2	-1.8	-1.7	-1.7	-1.7	-1.7
Net capital flows 2/	11.9	6.9	7.9	10.0	-2.0	10.0	11.9	9.0	9.8	10.7
Of which: foreign direct investment 3/	1.4	2.7	1.6	1.6	0.0	0.2	1.5	1.9	2.3	2.7
Gross reserves	7.3	12.2	17.3	9.8	4.1	9.0	12.9	14.1	15.3	15.7
In months of imports 4/	1.7	2.3	2.5	1.9	0.7	1.4	1.8	1.9	1.9	1.9
External debt (in percent of GDP)	33.2	37.6	35.1	32.1	36.4	37.3	36.8	35.2	33.5	31.7
Terms of trade (annual percentage change)	-1.7	2.3	2.1	-0.1	-1.7	-6.9	-1.8	-0.9	0.0	-0.2
Real effective exchange rate (annual average, percentage change)	-11.5	-4.0	2.0	...	...	...	...	...	...	...
Real effective exchange rate (end of period, percentage change)	-15.2	3.4	7.1	...	...	...	...	...	...	...
	(Percent of GDP)									
Public finances										
Revenue and grants	11.3	13.3	12.4	12.1	11.4	12.3	12.2	12.2	12.2	12.2
Of which: tax revenue	10.2	10.0	10.3	10.4	10.0	10.3	10.4	10.4	10.4	10.4
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	18.9	19.8	18.8	17.4	16.8	16.3
Of which: current	16.6	18.1	16.3	17.3	16.9	17.7	16.7	15.3	14.7	14.3
Of which: development	2.3	2.3	2.2	2.4	2.0	2.1	2.0	2.0	2.0	2.0
Primary balance (including grants)	-3.0	-1.5	-1.1	-3.0	-1.0	0.4	0.5	0.5	0.5	0.5
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-1.0	0.4	0.4	0.4	0.4	0.4
Underlying primary balance (excluding grants) 5/	-3.1	-1.6	-0.5	-2.3	-0.8	0.4	0.4	0.4	0.4	0.4
Budget balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.6	-7.5	-6.6	-5.2	-4.6	-4.2
Budget balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.6	-7.5	-6.7	-5.3	-4.7	-4.2
Underlying fiscal balance (excl. grants) 5/	-7.9	-7.1	-5.5	-7.1	-7.4	-7.5	-6.7	-5.3	-4.7	-4.2
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.8	80.6	81.8	74.9	72.1	70.6	68.2	66.1
General government debt (incl. IMF)	77.5	79.6	73.5	76.1	77.4	70.9	68.5	67.3	65.1	63.1
Net general government debt (incl. IMF)	70.2	72.9	66.0	69.8	72.4	67.1	65.2	64.3	62.5	60.8
Memorandum item:										
Nominal GDP (market prices, billions of Pakistani rupees)	43,798	47,540	55,836	66,624	84,665	108,910	126,357	142,099	158,591	177,376

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

1/ Fiscal year ends June 30. On January 21, 2022 GDP was rebased to base year 2015-16, affecting ratios.

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

3/ Including privatization.

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

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

Table 3a. Pakistan: Balance of Payments, 2018/19–2027/28
(In millions of U.S. dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
					Proj.					
Current account	-13,434	-4,449	-2,820	-17,405	-4,020	-6,424	-6,462	-7,139	-7,285	-7,945
Balance on goods	-27,612	-21,109	-28,634	-39,681	-25,889	-33,857	-35,581	-37,258	-39,005	-41,869
Exports, f.o.b.	24,257	22,536	25,639	32,471	28,062	30,843	33,340	35,857	38,628	40,921
Imports, f.o.b.	51,869	43,645	54,273	72,152	53,951	64,700	68,921	73,115	77,632	82,789
Services (net)	-4,970	-3,316	-2,516	-5,019	-445	-1,566	-2,287	-2,789	-3,366	-4,030
Services: credit	5,966	5,437	5,945	6,950	7,430	7,876	8,423	8,968	9,530	10,118
Of which: Coalition Support Fund	0	0	0	0	0	0	0	0	0	0
Services: debit	10,936	8,753	8,461	11,969	7,875	9,442	10,710	11,757	12,895	14,147
Income (net)	-5,610	-5,459	-4,400	-5,296	-5,596	-5,445	-5,273	-6,109	-6,682	-7,198
Income: credit	578	479	508	762	917	1,058	782	663	624	603
Income: debit	6,188	5,938	4,908	6,058	6,513	6,503	6,055	6,773	7,306	7,800
Of which: interest payments	3,647	3,540	2,594	3,375	4,834	4,675	4,805	5,328	5,580	5,719
Of which: income on direct investment	2,848	2,664	2,565	2,717	1,656	1,828	1,250	1,445	1,726	2,081
Balance on goods, services, and income	-38,192	-29,884	-35,550	-49,996	-31,930	-40,868	-43,142	-46,156	-49,052	-53,096
Current transfers (net)	24,758	25,435	32,730	32,591	27,910	34,444	36,680	39,016	41,768	45,151
Current transfers: credit, *of which:*	24,990	25,802	33,027	32,881	28,215	34,741	36,987	39,319	42,072	45,454
Official	761	468	281	374	362	400	400	400	400	400
Workers' remittances	21,740	23,131	29,450	31,279	27,051	32,889	34,762	36,630	38,790	41,403
Other private transfers	2,489	2,203	3,296	1,228	802	1,452	1,826	2,289	2,882	3,652
Current transfers: debit	232	367	297	290	305	297	307	303	304	304
Capital account	229	285	224	208	399	300	157	97	78	30
Capital transfers: credit	229	288	224	208	399	300	157	97	78	30
Of which: official capital grants	219	273	204	190	170	300	157	97	78	30
Capital transfers: debit	0	3	0	0	0	0	0	0	0	0
Financial account	11,759	6,479	8,268	10,095	-2,459	9,690	11,749	8,870	9,700	10,632
Direct investment abroad	74	54	-171	-234	-1,343	-672	0	0	0	0
Direct investment in Pakistan	1,362	2,598	1,819	1,869	1,337	845	1,526	1,861	2,250	2,689
Portfolio investment (net)	-1,274	-409	2,774	-54	-1,009	320	4,312	5,012	5,812	6,212
Financial derivatives (net)	0	8	0	0	0	0	0	0	0	0
Other investment assets	67	127	-1,345	-2,490	676	-731	-640	-480	-480	-480
Monetary authorities	0	0	0	0	0	0	0	0	0	0
General government	-48	-48	-15	-915	898	0	0	0	0	0
Banks	92	-140	-608	-262	-428	-313	-320	-240	-240	-240
Other sectors	23	315	-722	-1,313	206	-419	-320	-240	-240	-240
Other investment liabilities	11,530	4,101	5,191	11,004	-2,121	9,928	6,551	2,477	2,117	2,212
Monetary authorities	5,495	-498	-1,468	-1	0	1,200	0	0	0	0
General government, *of which:*	4,294	3,085	5,238	5,020	-2,310	7,758	5,145	907	275	-776
Disbursements	8,255	10,347	9,308	10,177	9,700	14,686	15,169	13,988	11,045	12,279
Amortization	5,982	7,299	5,855	8,333	11,719	6,928	10,023	13,081	10,770	13,055
Banks	467	-124	499	879	1,061	250	250	250	250	250
Other sectors	1,274	1,638	922	2,333	-872	720	1,156	1,320	1,592	2,738
Net errors and omissions	-58	150	-619	-268	76	0	0	0	0	0
Overall balance	-1,631	2,465	5,053	-7,369	-5,993	3,567	5,444	1,828	2,494	2,716
Financing	1,504	-2,465	-5,053	7,369	5,993	-3,567	-5,444	-1,828	-2,494	-2,716
Change in reserve assets (- denotes accumulation)	1,880	-4,554	-4,473	7,331	5,796	-4,926	-3,906	-1,253	-1,122	-484
Net use of Fund credit and loans (without augmentation)	-376	2,089	-580	38	197	1,359	-1,538	-574	-1,372	-2,232
Memorandum items:										
Current account (in percent of GDP)	-4.2	-1.5	-0.8	-4.6	-1.2	-1.8	-1.7	-1.7	-1.7	-1.7
Current account (in percent of GDP; excluding fuel imports)	0.2	1.6	2.0	0.4	3.7	2.6	2.3	2.0	1.9	1.7
Exports f.o.b. (growth rate, in percent)	-2.1	-7.1	13.8	26.6	-13.6	9.9	8.1	7.6	7.7	5.9
Exports volume (growth rate, in percent)	-1.7	-1.0	2.8	2.6	-6.9	19.7	9.8	6.8	6.5	5.4
Remittance (growth rate, in percent)	9.2	6.4	27.3	6.2	-13.5	21.6	5.7	5.4	5.9	6.7
Remittances (in percent of GDP)	6.8	7.7	8.5	8.3	8.0	9.4	9.2	9.0	8.8	8.7
Imports f.o.b. (growth rate, in percent)	-6.8	-15.9	24.4	32.9	-25.2	19.9	6.5	6.1	6.2	6.6
Imports volume (growth rate, in percent)	-9.8	-12.0	20.2	10.1	-21.2	15.1	6.2	5.6	5.8	5.8
Oil imports (in million US$, cif)	13,929	9,280	9,747	18,743	16,522	15,381	15,339	15,462	15,757	16,133
Terms of trade (growth rate, in percent)	-1.7	2.3	2.1	-0.1	-1.7	-6.9	-1.8	-0.9	0.0	-0.2
Foreign Direct Investment (in percent of GDP)	0.4	0.9	0.5	0.5	0.4	0.2	0.4	0.5	0.5	0.6
External debt (in millions of U.S. dollars)	106,705	113,013	122,292	120,411	123,574	130,851	139,116	143,719	147,582	150,476
o/w external public debt	82,561	86,522	93,806	96,073	96,937	102,556	108,203	110,768	112,699	112,725
Gross external financing needs (in millions of U.S. dollars) 1/	25,552	23,430	22,461	34,393	25,593	28,361	27,169	31,897	28,889	32,856
End-period gross official reserves (millions of U.S. dollars) 2/	7,274	12,175	17,297	9,821	4,056	8,982	12,888	14,141	15,263	15,747
(In months of next year's imports of goods and services)	1.7	2.3	2.5	1.9	0.7	1.4	1.8	1.9	1.9	1.9
GDP (in millions of U.S. dollars)	321,071	300,410	348,481	…	…	…	…	…	…	…

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

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

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

Table 3b. Pakistan: Gross Financing Requirements and Sources, 2018/19–2027/28
(In millions of U.S. dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
					Proj.					
Gross External Financing Requirements (A)	**25,552**	**23,430**	**22,461**	**34,393**	**25,593**	**28,361**	**27,169**	**31,897**	**28,889**	**32,856**
(In percent of GDP)	8.0	7.8	6.4	9.2	7.5	8.1	7.2	7.8	6.6	6.9
Current account deficit	13,434	4,449	2,820	17,405	4,020	6,424	6,462	7,139	7,285	7,945
(In percent of GDP)	4.2	1.5	0.8	4.6	1.2	1.8	1.7	1.7	1.7	1.7
Amortization	11,742	18,236	18,561	15,973	20,604	20,278	19,169	24,183	20,233	22,678
Public Sector	6,982	12,799	13,943	11,333	15,010	14,499	13,223	18,081	13,970	16,255
Short-term Borrowing	1,538	1,182	784	504	1,658	1,461	3,511	5,992	5,992	4,992
Long-term Borrowing (non-IMF)	4,444	10,617	13,159	9,829	12,061	12,038	9,712	10,289	7,978	11,263
Bonds	1,000	1,000	0	1,000	1,291	1,000	0	1,800	0	0
Private Sector 1/	4,760	5,437	4,618	4,640	5,594	5,779	5,945	6,102	6,263	6,423
Short-term Borrowing	3,474	3,610	3,365	3,504	3,966	4,151	4,317	4,474	4,635	4,795
Long-term Borrowing	1,286	1,827	1,253	1,136	1,628	1,628	1,628	1,628	1,628	1,628
IMF Repurchases	376	745	1,080	1,015	969	1,659	1,538	574	1,372	2,232
Available Financing (B)	**21,103**	**25,497**	**27,084**	**25,864**	**18,662**	**30,269**	**31,075**	**33,150**	**30,011**	**33,340**
Foreign Direct Investment (net) 2/	1,436	2,652	1,648	1,635	-6	173	1,526	1,861	2,250	2,689
Disbursement	19,496	22,418	25,831	21,522	18,193	29,795	29,392	31,193	27,682	30,622
From private creditors	8,366	15,430	12,190	11,500	9,386	9,663	18,054	21,035	18,468	21,474
Disbursement to Private Sector 3/	4,268	12,052	4,903	4,451	5,886	7,338	9,023	10,004	10,437	12,143
Disbursement to Public Sector 4/	4,098	3,377	7,287	7,049	3,500	2,325	9,031	11,031	8,031	9,331
From official creditors (non-IMF)	11,130	6,989	13,640	10,022	8,807	20,132	11,338	10,157	9,214	9,148
o/w Project Loans	2,673	1,799	1,933	1,899	2,812	4,600	2,377	2,536	1,821	1,755
o/w China	1,574	487	204	162	63	135	132	49	47	41
o/w Program Loans	288	3,666	2,120	1,514	2,857	2,500	3,800	2,460	2,232	2,232
o/w Short-term debt (incl. rollovers)	3,694	10,778	6,644	8,511	5,675	8,512	9,651	9,807	9,942	10,122
o/w Public Sector	1,643	2,774	2,954	4,444	1,537	4,011	4,992	4,992	4,992	4,992
o/w Private Sector	2,051	8,004	3,689	4,067	4,137	4,501	4,659	4,815	4,950	5,130
Other Net Capital Inflows (net) 5/	171	427	-395	-60	475	300	157	97	78	30
IMF SDR allocation	0	0	0	2,767	0	0	0	0	0	0
Remaining Financing Needs (C=A-B)	**4,449**	**-2,067**	**-4,622**	**8,529**	**6,931**	**-1,907**	**-3,906**	**-1,253**	**-1,122**	**-484**
Borrowing from IMF (D)	**0**	**2,834**	**500**	**1,053**	**1,166**	**3,019**	**0**	**0**	**0**	**0**
Reserve Assets (decrease = +) (E=C-D)	**4,449**	**-4,901**	**-5,122**	**7,476**	**5,765**	**-4,926**	**-3,906**	**-1,253**	**-1,122**	**-484**
Memorandum items:										
Gross official reserves (stock, in US$ billions)	7.3	12.2	17.3	9.8	4.1	9.0	12.9	14.1	15.3	15.7
(In months of prospective imports)	1.7	2.3	2.5	1.9	0.7	1.4	1.8	1.9	1.9	1.9
(In percent of IMF ARA metric: assuming fixed ER)	32.3	34.8	45.4	26.3	11.2	24.6	32.4	33.9	35.8	35.1
(In percent of IMF ARA metric: assuming flexible ER)	34.5	54.1	72.1	41.0	16.7	36.9	48.1	50.4	53.9	52.5
Net FX derivative position (in US$ billions)	8.1	5.8	4.9	4.0	4.7	4.0	4.0	4.0	4.0	4.0

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

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

Table 4a. Pakistan: General Government Budget, 2018/19–2027/28
(In billions of Pakistani rupees)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
					Proj.					
Revenue and grants	4,934	6,306	6,933	8,076	9,637	13,426	15,399	17,322	19,311	21,579
Revenue	4,901	6,273	6,903	8,035	9,602	13,377	15,296	17,215	19,206	21,477
Tax revenue	4,473	4,748	5,755	6,943	8,456	11,261	13,093	14,738	16,442	18,385
Federal	4,072	4,334	5,247	6,331	7,789	10,393	12,086	13,606	15,178	16,971
FBR revenue	3,829	3,998	4,764	6,142	7,200	9,415	10,952	12,330	13,754	15,379
Direct taxes	1,446	1,524	1,732	2,280	3,271	3,884	4,420	4,961	5,536	6,232
Federal excise duty	234	250	277	321	414	600	711	800	897	1,004
Sales tax/VAT	1,465	1,597	1,990	2,532	2,566	3,607	4,297	4,853	5,404	6,019
Customs duties	685	626	765	1,009	949	1,324	1,524	1,716	1,916	2,124
Petroleum surcharge	206	294	424	128	542	869	1,008	1,134	1,265	1,415
Gas surcharge and other	14	33	39	42	38	69	80	90	100	112
GIDC	21	9	19	19	9	40	47	52	58	65
Provincial	402	414	508	612	667	868	1,007	1,133	1,264	1,414
Nontax revenue	427	1,524	1,147	1,092	1,146	2,116	2,202	2,477	2,764	3,092
Federal	341	1,422	997	964	989	1,908	1,961	2,205	2,461	2,753
Provincial	86	102	150	128	157	208	241	272	303	339
Grants	33	33	31	41	35	49	103	107	105	102
Expenditure (including statistical discrepancy)	8,345	9,649	10,306	13,291	16,041	21,590	23,708	24,724	26,615	28,986
Current expenditure	7,274	8,597	9,111	11,526	14,284	19,236	21,104	21,780	23,329	25,311
Federal	4,946	6,081	6,292	8,360	10,420	14,641	15,773	15,784	16,638	17,827
Interest	2,091	2,620	2,750	3,188	5,568	8,614	8,926	8,085	8,045	8,217
Domestic	1,821	2,313	2,524	2,829	4,855	7,753	7,937	6,885	6,806	6,881
Foreign	270	306	226	354	707	822	917	1,129	1,239	1,336
IMF budget support	0	1	0	5	5	39	72	72	0	0
Other	2,855	3,462	3,542	5,177	4,858	6,066	6,919	7,771	8,593	9,610
Defense	1,147	1,213	1,316	1,412	1,510	1,804	2,093	2,354	2,627	2,938
Other	1,708	2,249	2,226	3,765	3,348	4,262	4,826	5,417	5,966	6,672
Of which: subsidies	195	360	425	1,530	1,128	1,396	1,493	1,679	1,874	2,096
Of which: grants	612	917	855	1,142	1,008	1,312	1,522	1,712	1,910	2,137
Provincial	2,328	2,516	2,819	3,167	3,864	4,595	5,331	5,995	6,691	7,484
Development expenditure and net lending	1,049	1,139	1,288	1,649	1,757	2,354	2,605	2,944	3,286	3,675
Public Sector Development Program	1,008	1,090	1,211	1,609	1,734	2,283	2,522	2,852	3,183	3,560
Federal	502	468	441	397	485	843	852	973	1,086	1,214
Provincial	506	622	770	1,212	1,249	1,440	1,671	1,879	2,097	2,345
Net lending	41	49	77	40	23	71	82	93	103	116
Statistical discrepancy ("+" = additional expenditure)	22	-87	-93	116	0	0	0	0	0	0
Overall Balance (excluding grants)	-3,445	-3,376	-3,404	-5,256	-6,439	-8,213	-8,413	-7,509	-7,409	-7,510
Overall Balance (including grants)	-3,412	-3,343	-3,373	-5,215	-6,404	-8,164	-8,310	-7,402	-7,304	-7,407
Financing	3,412	3,343	3,373	5,215	6,404	8,164	8,310	7,402	7,304	7,407
External	417	896	1,418	677	335	1,696	2,080	972	950	495
Of which: privatization receipts	0	0	0	0	0	0	0	0	0	0
Of which: IMF	0	390	80	187	191	-199	-306	-109	-230	-335
Domestic	2,995	2,447	1,955	4,538	6,070	6,468	6,229	6,430	6,354	6,912
Bank	2,230	1,907	1,746	3,177	4,249	4,528	4,361	4,534	4,517	4,939
Nonbank	765	540	209	1,361	1,821	1,940	1,869	1,896	1,837	1,973
Memorandum items:										
Underlying fiscal balance (excl. grants) 1/	-3,445	-3,376	-3,051	-4,727	-6,259	-8,213	-8,413	-7,509	-7,409	-7,510
Primary balance (excluding grants)	-1,353	-756	-654	-2,069	-872	401	514	576	636	707
Underlying primary balance (excluding grants) 1/	-1,353	-756	-301	-1,540	-692	401	514	576	636	707
Primary balance (including grants)	-1,320	-723	-623	-2,028	-837	450	617	683	741	810
Total security spending	1,147	1,213	1,316	1,412	1,510	1,804	2,093	2,354	2,627	2,938
Energy sector circular debt accumulation	447	538	130	…	…	…	…	…	…	…
Energy sector circular debt clearance	200	200	163	…	…	…	…	…	…	…
General government debt incl. IMF obligations	33,946	37,823	41,044	50,716	65,508	77,269	86,542	95,634	103,273	111,959
Domestic debt	20,732	23,283	26,265	31,036	37,106	43,574	49,803	56,124	62,248	68,825
External debt	13,214	14,540	14,779	19,680	28,402	33,696	36,739	39,510	41,025	43,134
General government and government guaranteed debt (incl. IMF)	35,915	40,167	43,451	53,700	69,278	81,560	91,052	100,371	108,207	117,174
Net general government debt (incl. IMF)	30,759	34,659	36,847	46,519	61,311	73,072	82,344	91,437	99,075	107,761
Nominal GDP (market prices)	43,798	47,540	55,836	66,624	84,665	108,910	126,357	142,099	158,591	177,376

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

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

Table 4b. Pakistan: General Government Budget, 2018/19–2027/28
(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
							Proj.			
Revenue and grants	11.3	13.3	12.4	12.1	11.4	12.3	12.2	12.2	12.2	12.2
Revenue	11.2	13.2	12.4	12.1	11.3	12.3	12.1	12.1	12.1	12.1
Tax revenue	10.2	10.0	10.3	10.4	10.0	10.3	10.4	10.4	10.4	10.4
Federal	9.3	9.1	9.4	9.5	9.2	9.5	9.6	9.6	9.6	9.6
FBR revenue	8.7	8.4	8.5	9.2	8.5	8.6	8.7	8.7	8.7	8.7
Direct taxes	3.3	3.2	3.1	3.4	3.9	3.6	3.5	3.5	3.5	3.5
Federal excise duty	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Sales tax	3.3	3.4	3.6	3.8	3.0	3.3	3.4	3.4	3.4	3.4
Customs duties	1.6	1.3	1.4	1.5	1.1	1.2	1.2	1.2	1.2	1.2
Petroleum surcharge	0.5	0.6	0.8	0.2	0.6	0.8	0.8	0.8	0.8	0.8
Gas surcharge and other	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
GIDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Nontax revenue	1.0	3.2	2.1	1.6	1.4	1.9	1.7	1.7	1.7	1.7
Federal	0.8	3.0	1.8	1.4	1.2	1.8	1.6	1.6	1.6	1.6
Provincial	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	18.9	19.8	18.8	17.4	16.8	16.3
Current expenditure	16.6	18.1	16.3	17.3	16.9	17.7	16.7	15.3	14.7	14.3
Federal	11.3	12.8	11.3	12.5	12.3	13.4	12.5	11.1	10.5	10.1
Interest	4.8	5.5	4.9	4.8	6.6	7.9	7.1	5.7	5.1	4.6
Domestic	4.2	4.9	4.5	4.2	5.7	7.1	6.3	4.8	4.3	3.9
Foreign	0.6	0.6	0.4	0.5	0.8	0.8	0.7	0.8	0.8	0.8
IMF budget support	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Other	6.5	7.3	6.3	7.8	5.7	5.6	5.5	5.5	5.4	5.4
Defense	2.6	2.6	2.4	2.1	1.8	1.7	1.7	1.7	1.7	1.7
Other	3.9	4.7	4.0	5.7	4.0	3.9	3.8	3.8	3.8	3.8
Of which: subsidies	0.4	0.8	0.8	2.3	1.3	1.3	1.2	1.2	1.2	1.2
Of which: grants	1.4	1.9	1.5	1.7	1.2	1.2	1.2	1.2	1.2	1.2
Provincial	5.3	5.3	5.0	4.8	4.6	4.2	4.2	4.2	4.2	4.2
Development expenditure and net lending	2.4	2.4	2.3	2.5	2.1	2.2	2.1	2.1	2.1	2.1
Public Sector Development Program	2.3	2.3	2.2	2.4	2.0	2.1	2.0	2.0	2.0	2.0
Federal	1.1	1.0	0.8	0.6	0.6	0.8	0.7	0.7	0.7	0.7
Provincial	1.2	1.3	1.4	1.8	1.5	1.3	1.3	1.3	1.3	1.3
Net lending	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional expenditure)	0.1	-0.2	-0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.6	-7.5	-6.7	-5.3	-4.7	-4.2
Overall Balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.6	-7.5	-6.6	-5.2	-4.6	-4.2
Financing	7.8	7.0	6.0	7.8	7.6	7.5	6.6	5.2	4.6	4.2
External	1.0	1.9	2.5	1.0	0.4	1.6	1.6	0.7	0.6	0.3
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	0.8	0.1	0.3	0.2	-0.2	-0.2	-0.1	-0.1	-0.2
Domestic	6.8	5.1	3.5	6.8	7.2	5.9	4.9	4.5	4.0	3.9
Bank	5.1	4.0	3.1	4.8	5.0	4.2	3.5	3.2	2.8	2.8
Nonbank	1.7	1.1	0.4	2.0	2.2	1.8	1.5	1.3	1.2	1.1
Memorandum items:										
Underlying fiscal balance (excl. grants) 1/	-7.9	-7.1	-5.5	-7.1	-7.4	-7.5	-6.7	-5.3	-4.7	-4.2
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-1.0	0.4	0.4	0.4	0.4	0.4
Underlying primary balance (excluding grants) 1/	-3.1	-1.6	-0.5	-2.3	-0.8	0.4	0.4	0.4	0.4	0.4
Primary balance (including grants)	-3.0	-1.5	-1.1	-3.0	-1.0	0.4	0.5	0.5	0.5	0.5
Total security spending	2.6	2.6	2.4	2.1	1.8	1.7	1.7	1.7	1.7	1.7
Energy sector circular debt accumulation	1.0	1.1	0.2	…	…	…	…	…	…	…
Energy sector circular debt clearance	0.5	0.4	0.3	…	…	…	…	…	…	…
General government debt incl. IMF obligations	77.5	79.6	73.5	76.1	77.4	70.9	68.5	67.3	65.1	63.1
Domestic debt	47.3	49.0	47.0	46.6	43.8	40.0	39.4	39.5	39.3	38.8
External debt	30.2	30.6	26.5	29.5	33.5	30.9	29.1	27.8	25.9	24.3
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.8	80.6	81.8	74.9	72.1	70.6	68.2	66.1
Net general government debt (incl. IMF)	70.2	72.9	66.0	69.8	72.4	67.1	65.2	64.3	62.5	60.8
Nominal GDP (market prices, billions of Pakistani rupees)	43,798	47,540	55,836	66,624	84,665	108,910	126,357	142,099	158,591	177,376

Sources: Pakistani authorities; and IMF staff estimates and projections.
1/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it excludes IPPs related arrears clearance and COVID-19 spending.

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

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24			
						Q1	Q2	Q3	Q4
					Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of Pakistani rupees, unless otherwise indicated)								
Monetary survey									
Net foreign assets (NFA)	-1,507	-516	725	-753	-2,168	-1,776	-1,639	-1,993	-1,652
Net domestic assets (NDA)	19,306	21,424	23,573	28,356	33,441	33,480	33,632	34,965	37,461
Net claims on government, *of which:*	12,337	14,547	16,265	19,623	23,537	24,455	24,853	26,454	28,064
Budget support, *of which:*	11,546	13,471	15,248	18,331	22,405	23,323	23,721	25,322	26,932
Banks	4,857	7,016	9,974	13,294	17,387	18,616	19,014	20,615	22,225
Commodity operations	756	813	904	1,134	1,132	1,132	1,132	1,132	1,132
Credit to nongovernment	8,073	8,372	9,114	10,696	10,924	11,381	11,904	11,721	11,828
Private sector 1/	6,703	6,906	7,702	9,327	9,418	9,791	10,309	10,000	10,171
Public sector enterprises	1,370	1,466	1,413	1,369	1,506	1,591	1,595	1,721	1,657
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	-1,063	-1,455	-1,766	-1,922	-979	-2,315	-3,084	-3,170	-2,391
Broad money	17,798	20,908	24,298	27,603	31,274	31,704	31,993	32,972	35,808
Currency outside scheduled banks	4,950	6,142	6,910	7,572	8,908	9,106	9,189	9,471	10,285
Rupee deposits	11,739	13,691	16,342	18,817	20,834	21,022	21,182	21,832	23,806
Foreign currency deposits	1,110	1,075	1,046	1,213	1,532	1,576	1,622	1,669	1,717
State Bank of Pakistan (SBP)									
NFA	-1,127	-181	931	-560	-1,974	-1,583	-1,446	-1,799	-1,459
NDA	7,701	7,861	7,733	9,886	12,933	12,459	12,377	13,724	14,335
Net claims on government	6,676	6,524	5,320	5,124	5,533	5,223	5,223	5,223	5,223
Of which: budget support	6,689	6,455	5,274	5,037	5,018	4,708	4,708	4,708	4,708
Claims on nongovernment	12	19	49	61	63	63	63	63	63
Claims on scheduled banks	683	877	1,265	1,603	1,468	1,468	1,468	1,468	1,468
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	371	482	1,140	3,139	5,910	5,746	5,664	7,011	7,622
Reserve money, *of which:*	6,573	7,680	8,663	9,327	10,959	10,876	10,931	11,925	12,876
Banks' reserves	1,246	1,171	1,307	1,229	1,391	1,380	1,387	1,513	1,634
Currency	5,294	6,468	7,288	8,002	9,568	9,496	9,544	10,412	11,242
	(Annual percentage change, unless otherwise indicated)								
Broad money	11.3	17.5	16.2	13.6	13.3	13.5	14.5	14.5	14.5
NFA, banking system (in percent of broad money) 2/	-8.1	5.6	5.9	-6.1	-5.1	-1.7	0.9	2.9	1.6
NDA, banking system (in percent of broad money) 2/	19.4	11.9	10.3	19.7	18.4	15.1	13.6	11.6	12.9
Budgetary support (in percent of broad money) 2/	14.1	10.8	8.5	12.7	14.8	16.8	17.9	17.5	14.5
Budgetary support	24.4	16.7	13.2	20.2	22.2	25.2	26.7	24.8	20.2
Private credit 1/	11.9	3.0	11.5	21.1	1.0	4.0	6.0	7.0	8.0
Currency	12.8	24.1	12.5	9.6	17.6	19.0	19.5	14.5	15.5
Reserve money	19.9	16.8	12.8	7.7	17.5	17.0	17.5	17.5	17.5
Memorandum items:									
Velocity	2.6	2.5	2.5	2.6	2.9	3.0	3.1	3.2	3.3
Money multiplier	2.7	2.7	2.8	3.0	2.9	2.9	2.9	2.8	2.8
Currency to broad money ratio (percent)	27.8	29.4	28.4	27.4	28.5	28.7	28.7	28.7	28.7
Currency to deposit ratio (percent)	38.5	41.6	39.7	37.8	39.8	40.3	40.3	40.3	40.3
Foreign currency to deposit ratio (percent)	8.6	7.3	6.0	6.1	6.8	7.0	7.1	7.1	6.7
Reserves to deposit ratio (percent)	9.7	7.9	7.5	6.1	6.2	6.1	6.1	6.4	6.4
Budget bank financing (change from the beginning of the fiscal year; in PRs billions), *of which:*	2,262	1,925	1,777	3,083	4,074	918	1,316	2,917	4,527
By commercial banks	-887	2,159	2,958	3,320	4,094	1,228	1,626	3,227	4,837
By SBP 3/	3,150	-234	-1,181	-237	-19	-310	-310	-310	-310
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 4/	-9.4	8.1	6.7	-9.1	-6.1	2.7	3.3	3.3	4.7
NFA of commercial banks (millions of U.S. dollars)	-3,127	-2,092	-1,225	-1,227	-944	-846	-854	-681	-660
NDA of commercial banks (billions of Pakistani rupees)	11,605	13,563	15,840	18,469	20,508	21,021	21,255	21,241	23,125

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, 2013–22

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

Source: State Bank of Pakistan.

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

Table 7. Pakistan: Indicators of Fund Credit, 2015–28
(In millions of SDR, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
									Projections 1/					
	Projected level of credit outstanding based on existing and prospective drawings													
Total	**3,600.0**	**4,393.0**	**4,393.0**	**4,243.0**	**4,867.0**	**5,192.5**	**4,810.3**	**5,722.2**	**7,610.1**	**8,002.2**	**7,233.0**	**6,642.5**	**4,093.2**	**1,560.3**
Of which:														
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,422.0	2,250.0	2,250.0	2,138.3	1,116.8	103.5
Extended Fund Facility and Rapid Financing Instrument	3,600.0	4,393.0	4,393.0	4,243.0	4,867.0	5,192.5	4,810.3	5,722.2	6,188.1	5,752.2	4,983.0	4,504.3	2,976.4	1,456.8
In percent of quota	348.3	216.3	216.3	208.9	239.6	255.7	236.8	281.7	374.7	394.0	356.1	327.1	201.5	76.8
In percent of end-period gross official reserves	31.4	32.4	44.1	81.6	59.2	55.7	38.1	136.5	121.3	106.5	66.5	58.6	35.2	13.2
As a share of external debt	7.3	7.7	6.9	5.8	6.1	6.4	5.5	6.5	8.0	8.0	6.8	6.1	3.7	1.4
	Projected debt service to the Fund based on existing and prospective drawings													
Total	**338.1**	**51.4**	**77.5**	**248.0**	**532.7**	**799.3**	**833.4**	**901.5**	**1,390.3**	**1,774.1**	**1,205.1**	**867.7**	**1,847.9**	**1,753.3**
Of which:														
Principal	303.0	0.0	0.0	150.0	420.0	690.0	732.2	732.2	956.0	1,263.9	769.2	478.8	1,527.8	1,519.6
Interest and charges	35.1	51.4	77.5	98.0	112.7	109.3	101.2	169.3	434.3	510.2	435.9	389.0	320.0	233.7
SBA and ENDA principal	303.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	111.8	1021.5	1013.3
Extended Fund Facility principal	0.0	0.0	0.0	150.0	420.0	690.0	732.2	732.2	702.2	756.2	515.3	367.0	506.3	506.3
Rapid Financing Instrument principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	253.9	507.8	253.9	0.0	0.0	0.0
In percent of quota	32.7	2.5	3.8	12.2	26.2	39.4	41.0	44.4	68.5	87.4	59.3	42.7	91.0	86.3
In percent of end-period gross official reserves	2.9	0.4	0.8	4.8	6.5	8.6	6.6	21.5	22.2	23.6	11.1	7.7	15.9	14.8
As a share of total external debt service	7.2	1.1	1.1	3.6	5.3	8.9	9.9	6.4	10.8	14.7	9.7	6.8	13.7	12.8
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	2,031
Gross official reserves (millions of U.S. dollars)	15,886	18,269	14,107	7,199	11,334	13,412	17,686	5,575	8,416	10,079	14,604	15,210	15,614	15,882
Net International reserves (millions of U.S. dollars)					-10,842	-8,528	-3,210	-16,893	-13,973	-11,015	-5,458	-4,210	-1,756	552
Exports of goods and services (millions of US dollars)	6,630	6,875	7,689	7,521	7,732	8,054	9,853	8,921	9,687	10,449	11,215	12,049	12,770	13,475
Total External Debt (millions of U.S. dollars)	68,473	76,436	90,464	100,681	110,957	117,115	121,690	117,057	127,776	134,743	143,002	146,571	149,608	151,349
Total external debt (percent of CY GDP)	22.2	23.4	26.0	29.7	35.7	36.1	33.7	32.8	37.0	37.8	38.9	38.6	37.5	37.4
Total external debt service (millions of U.S. dollars)	6,468	6,217	9,664	9,498	13,771	12,940	11,788	18,804	17,216	16,147	16,669	17,207	18,055	18,338

Source: IMF staff projections.

1/ Using the GRA rate of charge = 4.98 percent as of June 29, 2023 for projected charges

Table 8. Pakistan: Selected Vulnerability Indicators, 2018/19–2027/28

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
					Proj.					
Key economic and market indicators										
Real GDP growth (factor cost, in percent)	3.1	-0.9	5.8	6.1	-0.5	2.5	3.6	4.5	5.0	5.0
CPI inflation (period average, in percent)	6.7	10.7	8.9	12.1	29.6	25.9	11.4	7.4	6.5	6.5
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	420	650	518	…	…	…	…	…	…	…
Exchange rate PRs/US$ (end of period)	160.1	168.1	157.5	204.8	…	…	…	…	…	…
External sector										
Current account balance (percent of GDP)	-4.2	-1.5	-0.8	-4.6	-1.2	-1.8	-1.7	-1.7	-1.7	-1.7
Net FDI inflows (percent of GDP)	0.4	0.9	0.5	0.4	0.0	0.0	0.4	0.5	0.5	0.6
Exports (percentage change of U.S. dollar value; GNFS)	-1.3	-7.4	12.9	24.8	-10.0	9.1	7.9	7.3	7.4	6.0
Gross international reserves (GIR) in billions of U.S. dollars	7.3	12.2	17.3	9.8	4.1	9.0	12.9	14.1	15.3	15.7
GIR in percent of ST debt at remaining maturity (RM) 1/	46.1	75.6	107.7	44.2	19.2	51.1	58.2	49.6	66.6	55.6
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 1/	32.0	54.1	76.2	34.9	15.4	39.4	46.0	40.6	51.3	44.2
Total gross external debt (ED) in percent of GDP, *of which:*	33.2	37.6	35.1	32.1	36.4	37.3	36.8	35.2	33.5	31.7
ST external debt (original maturity, in percent of total ED)	5.3	4.9	4.1	4.8	5.9	7.6	8.3	7.5	6.7	6.7
ED of domestic private sector (in percent of total ED)	31.1	29.6	32.0	34.3	31.8	30.8	32.0	33.8	36.0	38.8
ED to foreign official sector (in percent of total ED)	68.9	70.4	68.0	65.7	68.2	69.2	68.0	66.2	64.0	61.2
Total gross external debt in percent of exports	353.1	404.0	387.2	305.4	348.2	338.0	333.1	320.6	306.5	294.8
Gross external financing requirement (in billions of U.S. dollars) 2/	26.6	19.8	15.7	33.4	23.7	23.4	26.1	29.8	25.8	29.8
Public sector 3/										
Overall balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.6	-7.5	-6.6	-5.2	-4.6	-4.2
Primary balance (including grants)	-3.0	-1.5	-1.1	-3.0	-1.0	0.4	0.5	0.5	0.5	0.5
Debt-stabilizing primary balance 4/	3.9	0.7	-8.3	-0.7	0.2	-6.1	-2.0	-0.7	-1.4	-1.1
Gross PS financing requirement 5/	32.2	25.8	19.9	24.5	23.6	20.6	19.4	18.1	15.6	14.8
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.8	80.6	81.8	74.9	72.1	70.6	68.2	66.1
General government debt incl. IMF obligations	77.5	79.6	73.5	76.1	77.4	70.9	68.5	67.3	65.1	63.1
Net general government debt (incl. IMF) 6/	70.2	72.9	66.0	69.8	72.4	67.1	65.2	64.3	62.5	60.8
Financial sector 7/										
Capital adequacy ratio (in percent)	16.1	18.7	18.3	16.1	…	…	…	…	…	…
Nonperforming loans (NPLs) in percent of total loans	8.8	9.7	8.9	7.5	…	…	…	…	…	…
Provisions in percent of NPLs	78.4	81.6	88.8	91.6	…	…	…	…	…	…
Return on assets (after tax, in percent)	0.8	1.1	0.9	0.8	…	…	…	…	…	…
Return on equity (after tax, in percent)	11.4	14.6	13.3	12.9	…	…	…	…	…	…
FX deposits held by residents (in percent of total deposits)	8.6	7.3	6.0	6.1	…	…	…	…	…	…
Government debt held by FS (percent of total FS assets)	69.3	69.6	66.9	71.1	…	…	…	…	…	…
Credit to private sector (percent change)	11.9	3.0	11.5	21.1	…	…	…	…	…	…
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	321.1	300.4	348.5	374.7	…	…	…	…	…	…

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, ex

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

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

Source: IMF staff estimates.

Table 10. Pakistan: Decomposition of Public Debt and Debt Service by Creditor, 2021/22–2023/24 1/

	Debt Stock (end of period)			Debt Service					
	Dec-22			2021/22	2022/23	2023/24	2021/22	2022/23	2023/24
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ million)*			*(Percent GDP)*		
Total	246,780	104	72.6	86,186	72,792	41,519	23.0	21.4	11.8
External	100,524	42.2	29.6	12,990	17,713	12,283	3.5	5.2	3.5
Multilateral creditors[2]	44,679	18.8	13.1	3,802	5,171	5,075	1.0	1.5	1.4
IMF	7,616	3.2	2.2						
World Bank	18,192	7.6	5.4						
ADB/AfDB/IADB	15,267	6.4	4.5						
Other Multilaterals	3,605	1.5	1.1						
o/w: IsDB	1,648	0.7	0.5						
AIIB	1,385	0.6	0.4						
Bilateral Creditors	39,936	16.8	11.8	1,375	4,100	4,195	0.4	1.2	1.2
Paris Club	8,459	3.6	2.5	599	1,304	1,380	0.2	0.4	0.4
o/w: Japan	4,124	1.7	1.2						
France	1,420	0.6	0.4						
Non-Paris Club*	31,477	13.2	9.3	776	2,796	2,815	0.2	0.8	0.8
o/w: China **	23,878	10.0	7.0						
Saudi Arabia**	4,745	2.0	1.4						
Bonds***	7,805	3.3	2.3	1,587	1,611	1,585	0.4	0.5	0.5
Commercial creditors	7,411	3.1	2.2	5,508	6,482	1,381	1.5	1.9	0.4
o/w: Chinese commercial banks	5,718	2.4	1.7						
Other	1,693	0.7	0.5						
Other international creditors	693	0.3	0.2	718	350	48	0.2	0.1	0.0
o/w: NPC/NBP/BOC deposits/PBC****	693	0.3	0.2						
Domestic	146,257	61.4	43.0	73,195	55,079	29,236	19.5	16.2	8.3
Held by residents, total	146,252	61.4	43.0						
Held by non-residents, total	4	0.0	0.0						
T-Bills	27,189	11.4	8.0	40,664	24,413	3,362	10.9	7.2	1.0
Held by: central bank	-	0.0	0.0						
local banks	15,811	6.6	4.7						
local non-banks	11,378	4.8	3.3						
non-residents	-	0.0	0.0						
Bonds*****	101,444	42.6	29.9	20,307	22,287	21,993	5.4	6.6	6.3
Held by: central bank	25,821	10.8	7.6						
local banks	59,895	25.2	17.6						
local non-banks	15,724	6.6	4.6						
non-residents	4	0.0	0.0						
Loans	17,624	7.4	5.2	12,225	8,379	3,881	3.3	2.5	1.1
Held by: central bank	0	0.0	0.0						
local banks	0	0.0	0.0						
local non-banks	17,624	7.4	5.2						
non-residents	0	0.0	0.0						
Memo items:									
Collateralized debt[3]	0	0.0	0.0						
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: Public guarantees	13,604	5.7	4.0						
o/w: Other explicit contingent liabilities[4]	n.a.	n.a.	n.a.						
Central bank deposit liabilities	2,700	1.1	0.8						
Central bank bilateral SWAP liabilities	4,368	1.8	1.3						
Nominal GDP	339,818								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for the inclusion of guaranteed debt (excluded from the DSA). Debt service is reported based on the outstanding stock at end-December, 2022.

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

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

4/Despite some progress under the EFF program, comprehensive recording of explicit contingent liabilities remains incomplete due to capacity weaknesses

* Includes central bank deposit liabilities from UAE and Kuwait of $2.7bn in total.

** Includes China State Adminstratation of Foreign Exchange (SAFE) deposits of $4bn, and central bank bilateral SWAP liabilities of $4.4bn at June 2022, and Saudi Arabia include KSA Time deposits of US$ 3.0 bn

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

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

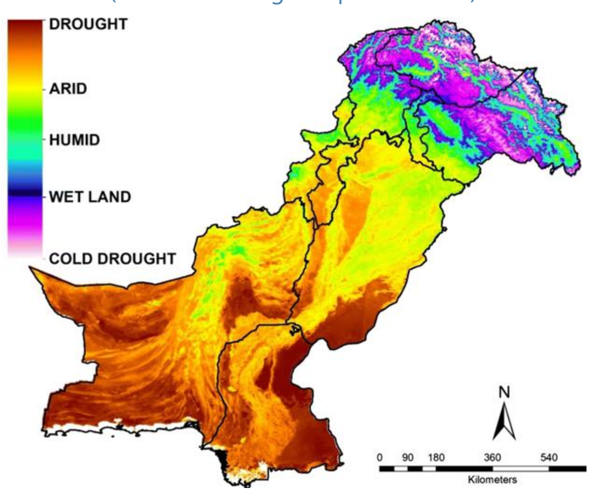
***** Includes Government Ijara Sukuk.

Annex I. Pakistan's Climate Disasters—Looking Back and Ahead in Times of Accelerating Climate Change[1]

Given its extreme and diverse climates and topography, Pakistan has always been highly affected by natural disasters, which have only worsened with the intensification of climate stressors over recent decades. Climate-related hydrological events have been especially frequent and often severe, triggering large human and material losses because of strong hazards amplified by low climate resilience. Climate change is predicted to further intensify the frequency and severity of climate disasters. Besides following through with its climate mitigation and transition policies, Pakistan therefore urgently needs to accelerate its efforts to adapt to the changing climate by boosting its climate resilience.

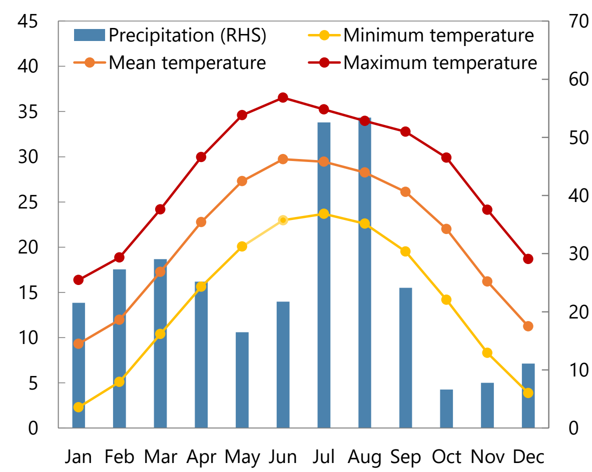
Context

Figure 1. Pakistan: Climatic Map, 2020
(Remote sensing compound index)



Source: Javid et al. (2019).

Figure 2. Average Monthly Climatology, 1951–2020
(Degree Celsius and millimeters)



Sources: World Bank Climate Change Knowledge Portal (CCKP); IMF staff calculations.

1. **Pakistan's climate, like its geography, is diverse and characterized by extremes**.[2] Although located in a temperate climate zone, Pakistan's climate varies along its topography (Figure 1). The climate is mostly dry and hot near the coast and along the lowland plains of the Indus River and cooler in the northern uplands and Himalayas. Continental air prevails through most of the year, interrupted by two key weather-altering phenomena: the monsoon in summer[3] and the Western Disturbances in winter.[4] Usually, temperatures peak in June (Figure 2) and exhibit extreme fluctuations, both daily and seasonally. Precipitation also varies heavily throughout the year, with

[1] Prepared by Kerstin Gerling.

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

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

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

more than half of the annual level amounts typically coming down with the summer monsoon and the bulk of the remainder with the winter Western Disturbances. Weather patterns, particularly rainfall, also show tremendous sub-national and inter-annual variations, historically giving rise to successive patterns of droughts and floods. These anomalies have often been linked to the El Niño cycle (del Rio et al. 2013; Ward et al. 2013).

A. Looking Back

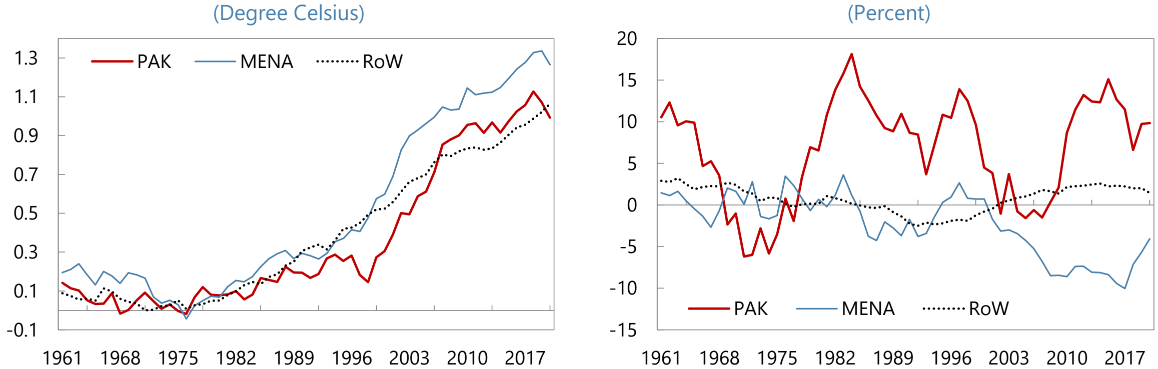
Hitherto Manifestation of Climate Change

2. **Pakistan has already felt the effects of global warming during the past two decades**.[5] Like in many peers in the Middle East and North Africa (MENA), the country's three main climate stresses—high temperatures, erratic precipitation, and related disasters—have further harshened.

- ***Weather patterns***. Since pre-industrial times, Pakistan has seen annual mean temperatures increase by some 1.2°C, slightly above the global average of 1°C.[6] Most of that average increase occurred over the past three decades (Figure 3.a) but conceals historically large temperature volatility across and within years (including with an increase in the observed higher frequency of extreme temperature events, see below). In contrast, annual precipitation has always been notoriously unpredictable, with a slight upward trend over the last half decade (Figure 3.b). This trend, however, masks sizable sub-national rain variation (ADB 2017): less in the arid plains and coastal belt (degrading wetlands and mangrove ecosystems) and more rain elsewhere (particularly the mountainous north).

Figure 3. Pakistan and Peers: Past Climate Trends, 1961–2020
(10-year rolling average of countries' weather pattern deviation from their 1901–50 averages)

a. Temperatures (Degree Celsius) — **b. Precipitation** (Percent)



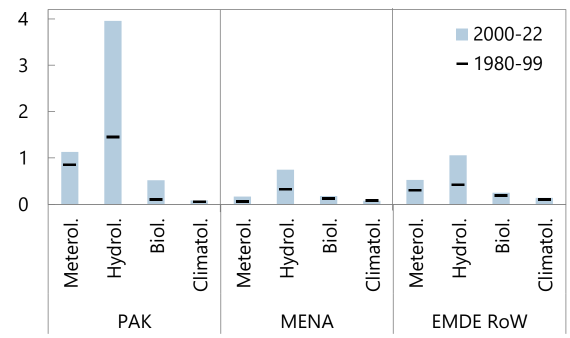
Sources: World Bank CCKP; IMF staff calculations.

[5] Focusing on the geographic domain of Pakistan, this analysis could exclude some external influences and localized impacts.

[6] See e.g., IPCC (2022) and Zachariah et al. (2022). The global rise markedly surpasses precedents from any comparable period over the last 10,000 years (Marcott et al. 2013).

- ***Climate disasters***. Together, these changes in weather patterns have also increased the frequency and severity of weather anomalies and thus associated disasters in Pakistan, often more than in other peers. On average, the country has experience almost 6 events over 2000–22 (Figure 4)—an almost 2-fold increase from the preceding two decades. Thereby, the number of events caused by a hydrological hazard increased the most in Pakistan (mainly riverine and flash floods); followed by that of biological hazards (yet from a small base and driven by insect infestations and epidemics like dengue, acute diarrhea, or leishmaniasis), climatological hazards (mainly droughts), and meteorological hazards (mainly heatwaves,[7] storms, and landslides).[8] Most underlying hazards have also become more intense in Pakistan. For instance, warm-day spells have, on average, gone up to 27 days per year during 2000–20 from 9 days during 1980–99; [9] whereas annual average rains have become slightly sparser during the same time. Again, this conceals large volatility within and across years: the number of heavy rainfall events has increased since 1960, and 2010 alone saw the nine heaviest rains recorded within a 24-hour period until end-2021 (World Bank and ADB 2021).

Figure 4. Pakistan and Peers: Occurrence of Climate Disaster, 1980–2022
(Simple average)



Sources: EM-DAT; IMF staff calculations.

Climate change also heightens multi-dimensional risks that can simultaneously strike a country. The 2022 flood is a good example. It was caused by extreme monsoonal rains throughout the summer (of about 3 times the usual rainfall in August alone), exacerbated by: (i) short spikes of very heavy rain particularly in August in the Sindh and Baluchistan provinces (each experiencing their wettest August ever recorded with 7–8 times their usual totals); (ii) drier-than-usual grounds because of a preceding heatwave in March and April (which was the most intense, widespread and persistent in the region's recorded history); and (iii) more-crowded-than-usual waterways and glacial lake outburst floods because of glacier snow melt amid the heatwave. While the role of climate change in the 2022 floods is still being under discussion (Clarke et al. 2022), some studies indicate a link as they find that the likelihood of each of these events alone has already been intensified by global warming: the (i) heatwave by a factor of about 30 (Zachariah et al. 2022); (ii) five-day total of the monsoonal

[7] Heatwaves and warm spells are periods characterized by several days of very warm temperatures compared to local or regional averages. In a warm spell, the absolute temperatures are not as high as in a heatwave and relate to unseasonably warm weather (Copernicus 2023).

[8] A climate hazard is the physical impact from a climate event that may cause loss of life, injury, or other health impacts, and damage and loss to property, infrastructure, livelihoods, service provision, ecosystems, and environmental resources (IPCC 2014). For a review of EM-DAT data (including coverage and quality) and complete typology of disaster hazards and types, see IMF (2022a), Annex III.A.

[9] Average number of days per year over a climatological interval that are part of a sequence of 6 or more days in which the projected daily maximum temperature exceeds the 90th percentile of daily maximum temperatures found in the reference period.

rainfall by up to 75 percent (Otto et al. 2022); and (iii) intensity of the 60-day rain in Sindh and Baluchistan by 50 percent (Otto et al. 2022). In addition, stagnant flood waters and displaced people's poor living, hygienic, and sanitarian conditions provide the breeding ground for the outbreak of waterborne diseases (notably diarrhea and cholera) and malaria (Sarkar 2022; OCHA 2022).

3. Together, these intensifying climate stressors are hastening Pakistan's existing most pressing adaptation challenges, especially land degradation and desertification, water stress, and glacier melting and sea-level rise. For instance, Pakistan already sees more internal migration because of soil degradation (ADB 2012); ranks among the 17 countries with 'extremely-high water risk' worldwide (WRI 2021);[10] experiences increased melting of its 7,200 glaciers in the Hindu Kush–Karakoram–Himalayan system with sudden outbursts of water in the glacial lakes stressing in particular the hydropower infrastructure (Yao et al. 2022; Hugonnet 2021);[11] and faces a high risk from sea-level rise, prolonged cyclonic activity, and greater salt-water intrusion in Karachi (ADB 2012).[12] More generally, crop yields and productivity are battered by the erosion of arable land size and quality, saline intrusion in the coastal zone, attrition of surface and underground waters (which sustain farming, fishing, and hydropower), and destruction of coastal habitats. These developments increasingly strain people's traditional adaptation skills and infrastructure to their limit. They also lead to fundamental economic disruptions that endanger food, water, and energy security, especially for many marginal and deprived communities.[13] They also fuel internal migration (ADB 2012) and a loss of social cohesion. At the same time, like in other MENA countries (IMF 2022a), several mutually reinforcing trends amplify the impact of climate stresses: high population growth, progressing urbanization, and substantial ecosystem changes (related to environmental pollution, overexploitation of agricultural land, and land tenure).[14]

Climate Damage and Resilience

4. Climate disasters have been very costly in Pakistan. According to the Global Climate Risk Index, large human and material losses even make Pakistan rank among the top10 countries with the highest climate risk worldwide (Eckstein et al. 2021). Records show that since the turn of the millennium until end-2022, climate disasters in Pakistan have on average per year: (i) directly affected almost 4 million people (1.25 percent of 2022 population); (ii) killed more than 580 people (0.002 permille of 2022 population); and (iii) caused about US$2.2 billion in inflation-adjusted material damages (0.6 percent of 2022 GDP). These records, however, still underestimate the true impacts as they fail to both close critical data collection gaps (especially those related to economic

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

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

[12] Karachi is the country's largest city, first commercial and industrial center, and hosts the main port.

[13] See e.g., UNDP (2017), Maqbool (2022), or Parry et al. (2016).

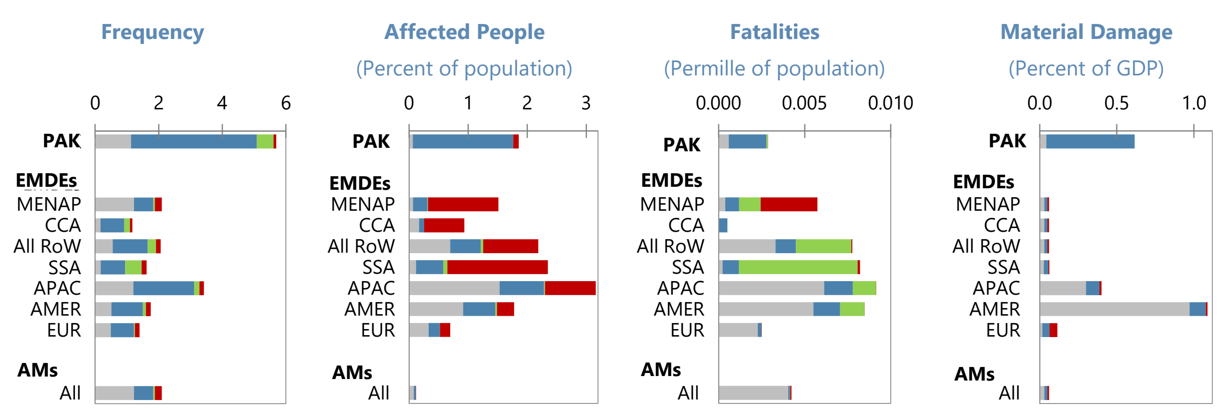
[14] *S*ee e.g., World Bank and ADB (2021), UNDP (2020), Anjum et al. (2010), or Qasim et al. (2016).

impacts and certain disaster types such as drought and heatwaves) and capture indirect impacts (such as deaths from malnutrition, disease, and displacement).[15]

5. Across climate hazards, those of hydrological nature have dominated (Figure 5). Hydrological hazards (mostly floods and some landslides) not only represent about 70 percent of the recorded climate event occurrences in Pakistan over 2000–22, but also over 90 percent of affected people, over 75 percent of fatalities and some 93 percent of material damage. The remainder were mainly climatological hazards (above all droughts) that affected people and meteorological hazards (mostly heatwaves and convective storms) that caused a loss of life.

Figure 5. Pakistan and Peers: Country Patterns of Climate Hazards, 2000–22

(Simple annual average)

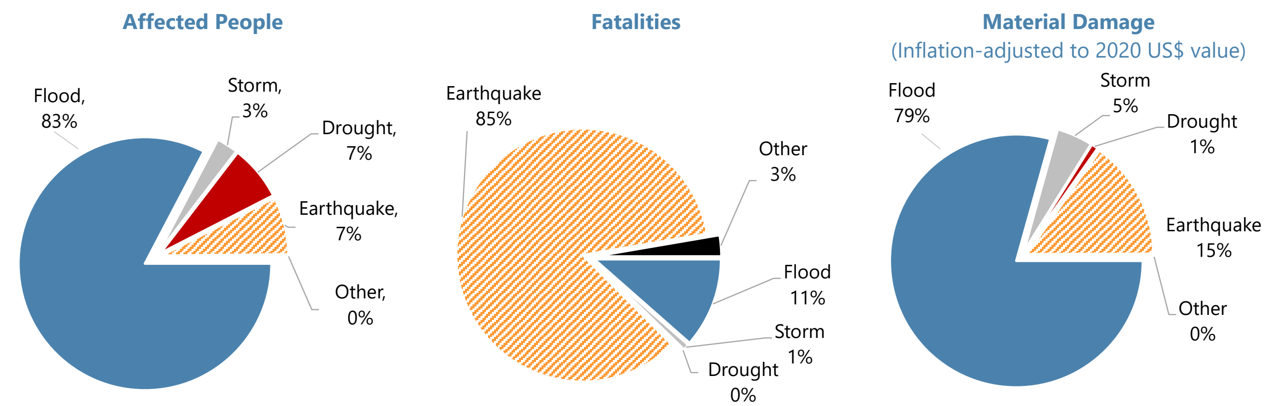


Sources: EM-DAT, WB WDI, IMF WEO, and IMF staff calculations.

6. Among not only hydrological hazards, but even all climate-related hazard types, floods have been the most impactful climate disaster type in Pakistan during recent decades. This reflects both high frequency and severity.

Figure 6. Pakistan: Main Natural Disaster Types, 2000–22

(Percent of total)



Sources: EM-DAT; IMF staff calculations.

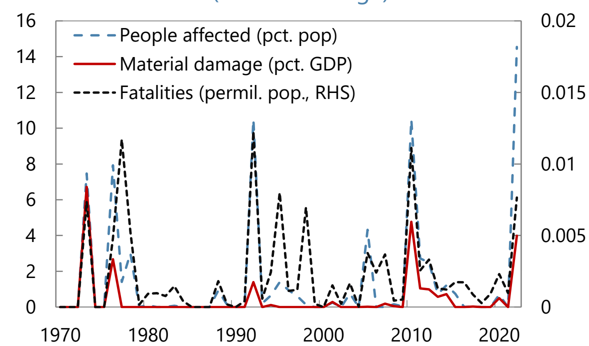
[15] See e.g., CRED and UNDRR (2020), IMF (2022a) Annex III.A, Jones et al. (2022), or CRED and USAID (2021).

- ***Total flood occurrence and damages***. Floods have chiefly driven Pakistan's total recorded climate damages (Figure 6). During 2000–22, floods made up more than 50 percent of recorded climate events, causing the lion share of damages—even surpassing the cumulative destructive power of climate-unrelated geophysical disasters (i.e., earthquakes), except for fatalities.[16]

- ***Severe flood occurrence and damages***. Severe floods have occurred regularly in Pakistan (Figure 7), most recently in 2022 (Table 1, Box 1). Since 1970, more than half of the years have experienced severe hydrological disasters in terms of human damage (defined following Fomby et al. 2009)[17] and six in terms of material damages (over 1 percent of GDP), all mainly mirroring the impact of a single large flood event during that year. Most of these large floods originated from seasonal monsoonal rains in the summer and, occasionally, heavy rain and snowfall during the winter months (¶1). The human and material impact of these floods is highly correlated.[18] The 2022 flood also mainly originated from monsoon rains (¶2) and followed similar damage patterns, with both human and economic losses at record levels over the past two decades and even surpassing those of the epochal 2010 flood.

Figure 7. Pakistan: Losses from Hydrological Disasters, 1970–22

(Annual average)



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

[16] In addition to climate-related hazards, non-climate related geophysical hazards strike regularly (mostly in the mountainous northern and western regions), at times also with high intensity. The latest recent event is the 2005 earthquake that ranks among the five most severe natural disasters in Pakistan since 2000, as it damaged about 3.9 percent of GDP, affected 3.2 percent of the population, and killed 0.5 permille of the population.

[17] Severe human damages are defined as annual deaths plus 0.3 times the affected persons exceeding 0.01 percent of population.

[18] A notable exception marks the February 2005 flood with its relatively higher fatalities, which was caused by local rains that made a dam collapse. The event was triggered by 8 days of torrential rains outside of the main growing season, sweeping away several villages along the Arabian Sea cost of the south-western province of Baluchistan.

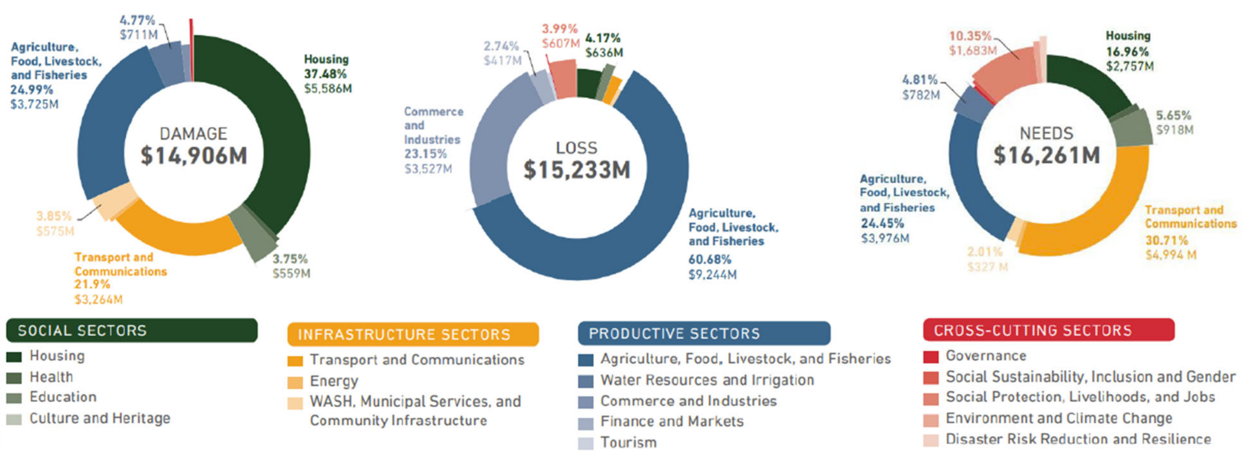
Box 1. Pakistan: The 2022 Floods

Abnormally high monsoon rains caused extensive flooding across most parts of Pakistan. Heavy rains started in mid-June after an intense heatwave and intensified in late August, triggering destructive flash floods in the northern mountains and a slow accumulation of water on the southern plains. By early-September the floods had become one of Pakistan's worst natural disasters ever.

The floods caused extensive human and material damage. Half of Pakistan's 160 districts were heavily affected, impacting 33 million people (more than 14 percent of population, of which more than 1,700 confirmed dead and more than ½ million in relief camps alone). The floods also damaged nearly 2.2 million houses (one-third beyond repair); 400 bridges and 13,000 km of roads disrupting critical transportation networks; and important water and sanitation infrastructure fueling water- and sanitation-related diseases. Agriculture was hit hard, with 45 percent of cropland inundated and over 1.2 million livestock dead. A UN flash appeal for donor support, which targeted US$816 million, has received pledges of US$548 million at end-June 2023 (OCHA 2023).

A Post-Disaster Needs Assessment (PDNA)—prepared by Government of Pakistan with support from the UN, World Bank, ADB, and the EU—was released on October 28, 2022. The estimates contained in the PDNA indicate total damage and loss of around US$30 billion (about 8½ percent of GDP), and rebuilding needs of US$16¼ billion (about 4½ percent of GDP). Reflecting the distribution of flood-related damage, around half of all needs fall in Sindh with Balochistan having the next highest needs. The greatest damage occurred to housing and agricultural operations, and transportation connections, and more than half of all losses fell on agriculture and livestock. Rebuilding needs are concentrated on transport infrastructure, agriculture, and housing.

Pakistan: Estimates of Flood-Related Damage, Loss, and Rebuilding Needs



Source: Pakistan Post 2022 Floods Damage and Needs Assessment.

The international community has expressed its commitment to support the government's rehabilitation and reconstruction plans. During a Geneva conference on Climate Resilient Pakistan, co-chaired by the UN, the government presented its Resilient Recovery, Rehabilitation and Reconstruction Framework (4RF) to donors garnering pledges of about US$10.9 billion for humanitarian assistance and projects to rehabilitate the damage caused by the floods, although this is principally for rehabilitation needs over the next 5 years, with very limited disbursements expected in FY23.

Table 1. Pakistan: Largest Monsoon Floods, 2000–22

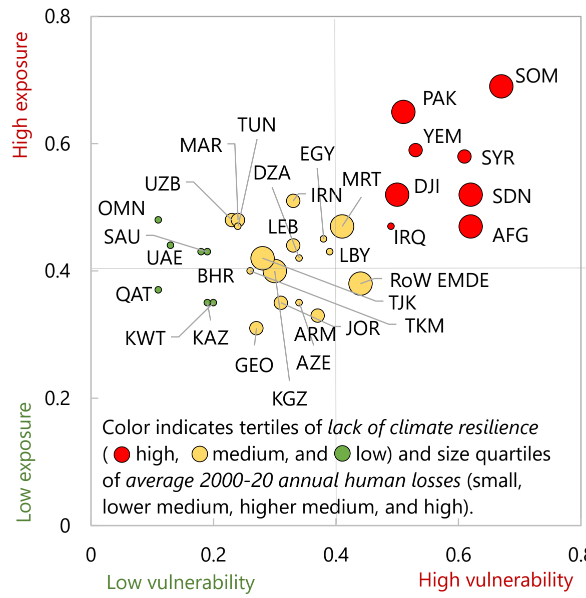
Year	Losses						Flood Details			
	Damage		Affected People		Fatalities		Extent		Duration	Affected areas
	(USD bln)	(Pct. GDP)	(Mio)	(Pct. pop.)	(Count)	(Permil. pop.)	(sq. km)	(Pct. landarea)	(Days)	
2022 Flood										
2022	30.0	8.7	33.0	14.3	1,739	0.008	231,264	30.0	since mid-June	Balochistan, Sindh, Gilgit-Baltistan, Punjab, Azad Jammu and Kashmir, and Khyber Pakhtunkhwa (KPK) provinces
Previous 5 Most Severe Floods										
2010	9.5	0.0	20.4	11.3	1,985	0.011	160,000	20.8	11	Barkhan, Bolan, Kohlu, Nasirabad, Sibi districts (Balochistan province), Mohmand Agency, Khyber Agency (Federally Administered Tribal Areas), Bannu, Batagram, Charsadda, D. I. Khan, Kohat, Kohistan, Lakki Marwat, Lower Dir, Mansehra, Nowshera, Peshawar, Shangla, Swat, Tank districts (North-West Frontier province), Khushab, Layyah, Mianwali, Muzaffargarh, Rajanpur districts (Punjab province), Bagh, Gilgit-Baltistan, Mirpur, Muzaffarabad districts (Jammu and Kashmir province), Sindh province
2011	2.5	0.0	5.4	2.9	509	0.003	32,667	4.2	82	Badin, Dadu, Ghotki, Hyderabad, Jacobabad, Karachi Central, Karachi East, Karachi South, Karachi West, Khaipur, Larkana, Malir, Mirpur Khas, Naushahro Feroze, Nawabshah, Sanghar, Shikarpur, Sukkur, Tharparkar, Thatta, Umer Kot districts (Sindh province)
2012	2.5	0.0	5.0	2.6	480	0.003	23,036	3.0	~90	Jaffarabad, Jhal Magsi, Nasirabad districts (Balochistan province), Dera Ghazi Kan, Rajanpur districts (Punjab province), Dadu, Ghotki, Jacobabad, Larkana (Sindh province), Jammu and Kashmir provinces
2020	1.5	0.0	1.6	0.7	410	0.002	n.a.	n.a.	~60	Sindh province, Khyber Pakhtunkhwa, Baluchistan
2014	2.0	0.0	2.5	1.3	255	0.001	253,686	32.9	41	Sialkot, Narowal, Lahore, Gujranwala, Mandi Bahauddin, Gujrat, Hafizabad, Jhelum, Jhang, Sargodha, Okara, Attock districts (Punjab province), Jammu and Kashmir provinces

Sources: OCHA; Pakistani authorities; EM-DAT; WB WDI; IMF WEO and staff calculations.

7. Pakistan's large climate-related disaster losses reflect not only the strength of the natural hazard, but also the country's low climate resilience. A clustering exercise for Pakistan and its regional peers (Figure 8) highlights that indeed, human losses were the largest, where resilience—mirroring a country's exposure and vulnerability—was low (IMF 2022a). Pakistan exhibits both:[1]

Figure 8. Pakistan and Regional Peers: Climate Resilience and Human Losses 1/

(Index, 0 best – 1 worst)



Source: IMF (2022a).

1/ The color and size of the circles reflects quantiles of resilience and human losses, respectively (with the latter defined as 0.3 times the number of people affected plus deaths as a share of population; Fomby et al. 2009).

- ***High exposure—reflecting the large population and activity in harm's way***. Carrying water all year (fueled by meltwater and rain in the north),[2] the semi-aid country (¶1) depends on the Indus River: its valley hosts most of the population and agricultural heartland, while its northern dams are a key power source. The Indus's` level, however, is tied to the weather—not only precipitation but also temperatures via glacier melting. This exposes livelihoods, infrastructure, and economic production in proximity to the Indus River to the devastating effects of flash floods, landslides, and droughts. In fact, more than half of the country's arable land depends on river-fueled irrigation,[3] the efficiency of which remains low due to water shortages, land degradation, and mismanagement of water resources (ADB 2021). Agriculture remains the main employer (occupying more than 1/3 of the workforce) despite the ongoing shift to a service-based semi-industrialized economy. Hydropower is an important part of the energy mix (accounting for about 27 percent of total power production).

- ***High vulnerability—reflecting highly sensitive livelihoods and economic activity***. Pakistan suffers of a pronounced sensitivity to harm and lack of capacity to cope and adapt, which arises from a combination of underlying structural factors (Table 2). Above all, these include: (i) weak and volatile inclusive growth and macroeconomic stability; (ii) low socioeconomic and financial development (with e.g., low per capita incomes and human capital accumulation, multidimensional and widespread poverty, poor living conditions, and lack of financial inclusion); (iii) inadequate infrastructure and investment (including at the public level for adequate social safety nets, health care, and education); and (iv) weak institutional frameworks, capacity, and

[1] Also see e.g., Otto et al. (2022) and World Bank (2022b).

[2] Most rivers in the western part of Pakistan are ephemeral streams, which are dry for most of the year.

[3] The irrigation system is a complex network from rivers to canals and distributaries built by the British in the 1800s.

regulation limiting ex-ante disaster reduction and ex-post disaster response abilities (including an appropriate river, water, and waste management; or appropriate zoning and building codes).

Table 2. Pakistan: Key Socio-Economic and Structural Indicators 1/

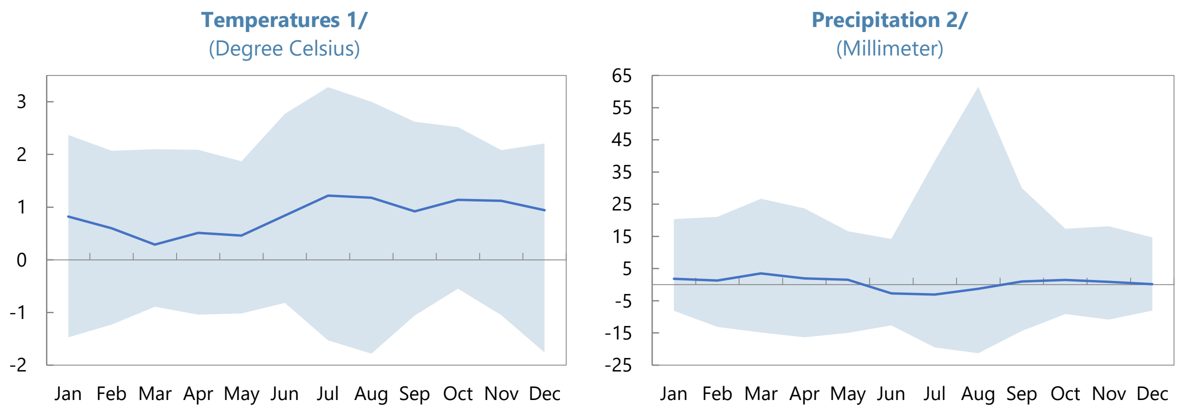
Population		**Production, Income, and Public Finances**	
Population (Mio, 2022)	227.0 ↑	GDP (USD bln, FY22)	376.5 ↑
Fertility rate (birth per woman, 2020)	3.4 ↓	GNI per capita (USD, Atlas method, 2021)	1,470 ↑
Urban population (pct. total, 2021)	37.4 ↑	Unemployment rate (2021)	6.3 ↓
Urban pop. growth (pct., avg. 2017-21)	2.7 ↑	Informal sector	
Net migration rate (pct., 2022)	-0.9 ↓	Size (share of official GDP, 2018)	32.4 ↓
		Employment (share of official employment, 2018)	80.0 ↓
Development, Poverty, and Inequality		Gen. gov. debt (pct. GDP, FY22)	75.8 ↑
Human developm. index (HDI, 0 worst – 1 best, 2021)	0.54 ↓	Gen. gov. expenditure (pct. GDP, FY22)	19.9 ↑
Human capital index (HCI, 0 worst – 1 best, 2020)	0.41 ↑	o/w targeted cash transfers (i.e., BISP) 2/	0.3 ↑
Poverty headcount (pct. pop. below nat. poverty line, 2018)	21.9 ↓	o/w capital inv. (i.e., developm. expenditure)	2.5 ↑
Undernourished share of population (pct., 2020)	16.9 ↑		
Gini index (2018)	29.6 ↓	**Agriculture**	
Share of income of bottom quintile (pct., 2018)	9.6 ↑	Value added (pct. share GDP, 2021)	22.7 ↑
Share of income of highest percentile (pct., 2018)	25.5 ↓	Employment (pct. share, 2019)	36.9 ↓
		Irrigated agricultural land (pct. share, 2020)	52.7 ↑
Education			
Literacy (pct. pop. above 15, 2019)	58.0 ↑	**Structural Context**	
School enrollment primary (pct., 2019)	95.5 ↑	Access (pct. pop.)	
School enrollment secondary (pct., 2019)	44.9 ↑	Electricity (2020)	75.4 ↑
School enrollment tertiary (pct., 2019)	12.2 ↑	Safely managed drinking water (2020)	35.8 ↑
Pupil-teacher ratio, primary (2018)	44.1 ↓	Internet (2020)	25.0 ↑
		Mobile phone subscription (2021)	82.5 ↑
Health		Commercial bank loan accounts (2021)	2.6 ↓
Trained teachers, primary (pct. total, 2019)	77.3 ↓	Commercial bank deposit account (2021)	44.5 ↑
Life expectancy at birth (years, 2020)	66.3 ↓		
Infant mortality (per 1,000 live births, 2021)	52.8 ↓	**Environment**	
Physicians (per 1,000 people, 2019)	1.1 ↑	Forest area (pct. total land, 2020)	4.8 ↓
Hospital beds (per 1,000 people, 2017)	0.6 →	Freshwater withdraws p.a. (pct. dom. resources, 2019)	322.0 ↓
Risk of catastrophic expend. for surgical care (pct pop, 2020)	53.1 ↑	Electricity production (pct. share, FY22)	
		from hydro	28.1 ↑
Gender		from renewable sources (other than hydro)	4.6 ↑
Indices (0 worst – 1 best)			
Female human capital index (HCI, 2020)	0.40 ↑	**Disaster Risk** (rankings from worst to best)	
Gender inequality index (GRI, 2019)	0.54 →	Notre Dame GAIN (out of 182 countries, 2020)	36
Gender development index (GDI, 2019)	0.75 ↑	INFORM Risk (out of 191 countries, 2023)	24
Global gender gap index (GGGI, 2021)	0.56 →	Germanwatch (out of 181 countries, 2021)	8
Women business and the law index (WBL, 2021)	0.56 →		
Female labor force participation (pct., 2021)	24.6 ↑	**Displacement**	
Female school enrollment secondary (pct., 2019)	41.6 ↑	Hosted refugees and asylum-seekers (mio., 2023)	1.6 ↑
Parliamentary seats held by women (pct., 2021)	20.2 →	Internally displaced people (mio., 2023)	0.1 ↑

Sources: World Bank WDI; UNICEF; FAO; UNDESA; UNDP; UNHCR; Pakistani authorities; IMF staff estimates.
1/ Arrows indicate recent trend (i.e., change from the previous observation). 2/ Excludes exceptional one-off support to address shocks.

B. Looking Ahead

8. Climate change models for all global warming scenario predict that Pakistan's weather patterns will become even more volatile and extreme. Pakistan's expected mean temperature rise of 1.3–4.9°C by the 2090s would be considerably above the global average.[4] Over the next two decades already, even in a scenario with sharply dropping global greenhouse gas emissions (i.e., the 1.9 scenario), average annual temperatures are projected to rise by 0.8 °C (Figure 9), accompanied by even larger increases in the annual maximum and minimum temperature. This could make vanish one-third of the Himalayan ice by 2100, swelling Pakistan's waterways (Yao et al. 2022; Hugonnet et al. 2021). In contrast, average annual precipitation is not predicted to follow a significant long-term trend, but to show large inter-annual variability (Figure 9).

Figure 9. Pakistan: Projected Weather Anomalies, 2022–39
(Monthly median within 10-90th percentile range, deviation from reference period 1995–2014, SSP1-1.9, multi-model ensemble) 1/



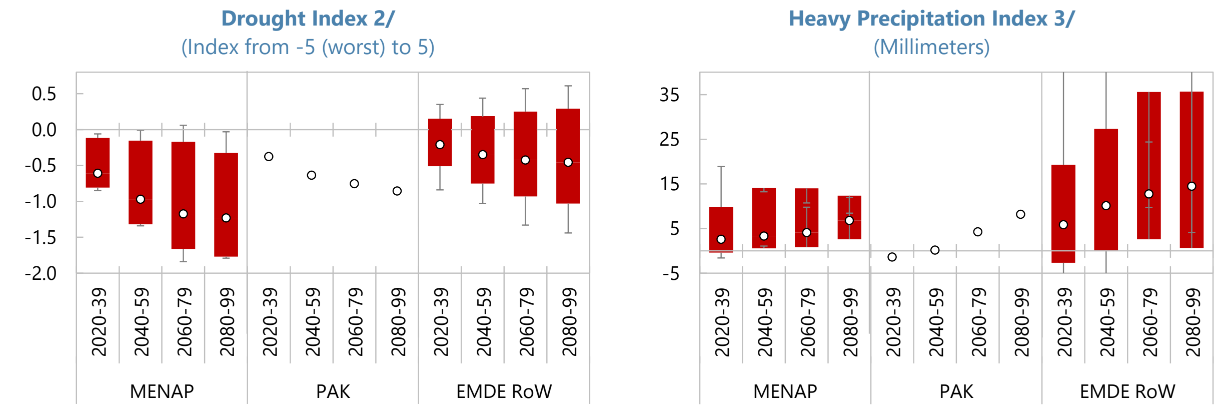
Sources: World Bank CCKP; IMF staff calculations.
1/ Over 1951–2020, the average annual mean temperature was 20.8°C (with a peak of 31.2°C in July and low of 7.7°C in January) and precipitation 19.2 mm (with a peak of 26.4 mm in April and low of 11.5 mm in October). Also see Figure 2.

9. Consequently, climate disasters, in particular hydrological ones, are set to become even more frequent and severe. Daytime temperatures are projected to reach, on average, a maximum of 42.2°C during June through August, with about 47 days surpassing the heat index at 35°C. Aridity is set to increase too, with more than 70 days more of consecutive dry days across all seasons than in the past.[5] Despite average annual precipitation levels trending up in the outer decades of this century, drought conditions will likely continue to deteriorate (Figure 10). Intense rains will likely worsen, in turn increasing the change of floods (Figure). Ultimately, it will be changes in the seasonality, regularity, and extremes of weather patterns that will increase Pakistan's risk of more frequent and more intense droughts and floods (Amin et al. 2017; Otto et al. 2022).

[4] This is over the 1986–2005 baseline, see World Bank and ADB (2021).

[5] A dry day is defined as any day in which the daily accumulated precipitation is less than 1 millimeter (mm). This indicator represents the maximum length of a dry spell, computed sequentially for the entire time series, then taking the maximum value during each month in the data period, shown below by season.

Figure 10. Pakistan and Peers: Projected Intensification of Weather Anomalies, 2020–99
(Absolute change relative to the reference period 1986–2005, RCP 4.5 scenario) 1/



Sources: World Bank CCKP; IMF staff calculations.
1/ The white dot shows the average of the median change across each region, red box the 10 and 90 percentiles, and whiskers the minimum and maximum. The median change masks large natural variability comprised in the underlying projections. 2/ The Standardized Precipitation-Evapotranspiration Index (SPEI) for a 12-month period uses the daily difference between precipitation and potential evapotranspiration to determine droughts. 3/ Maximum of five-day precipitation amount in a given time period.

10. Without adaptation, the adverse humanitarian, social, and macroeconomic costs of intensifying climate stresses will likely continue to increase—potentially even at an accelerating pace. The key ramifications of increased climate stress would be: (i) amplified pressure on human health, livelihoods, and ecosystems; (ii) reduced yields in many key food and cash crops, including cotton, wheat, sugarcane, maize, and rice; and (iii) higher strains on urban dwellers and outdoor laborers, with increased risk of heat-related sickness and death (World Bank and ADB 2021). Unless addressed, the combined climate risks will further exacerbate Pakistan's economic fragility, causing up to 20 percent GDP loss per year by 2050 (World Bank 2022b). There is an additional risk of damages growing in non-linear ways (IMF 2022a), especially when physical thresholds are surpassed (e.g., making water-constrained areas full-fledged water-short or permanently flooding areas), climate issues reinforce each other (such as intense rains after a heatwave and/or coinciding with glacial melt), or vicious cycles of worsening climate hazards and waning resilience occur (e.g., lower resilience after a disaster than before, if impacts remain are not fully addressed).

C. Policy Recommendations

11. Pakistan needs to accelerate crucial efforts to better adapt to current and future climate impacts by strengthening its climate resilience. The country's National Climate Change Policy recognizes that mitigation[6] and transition management[7] are important elements of their comprehensive climate change policy, but that the more immediate and pressing task is indeed

[6] See IMF (2022b), Selected Issues Paper on *Climate Mitigation in Pakistan* for an assessment of Pakistan's greenhouse gas emissions (GHG), review of the country's main current mitigation projects, and additional country-specific policy recommendations on how to reduce carbon and methane emissions.

[7] This requires policies to avoid that the economic changes arising from the transition to a low-carbon economy result in higher social inequality, lower productivity, and less competitive businesses sectors.

adaptation.[8] To make tangible progress though, especially in the aftermath of the 2022 floods, the authorities need to follow through more rigorously with the implementation of measures to shore-up the country's ex-ante resilience to climate change, including by shoring-up critical capacity to help advance critical needs assessments and strategies for particularly vulnerable and exposed sectors (notably agriculture, power, and transport infrastructure).. While potential returns to adaptation (benefit-cost ratios) can range as high as 100–1,000 percent—possibly avoiding up to 50–80 percent of climate damages—reaping the full benefits requires time, capacity building, and funding (IMF 2022a and 2022c; Hallegatte et al. 2019). At this stage, immediate priorities should be:[9]

- ***Adjusting the policy framework and mobilizing climate finance***. Pakistan needs to fully embed climate change in its medium-term inclusive growth and development agenda, informed by a National Adaptation Plan (NAP) under the United Nations Framework Convention on Climate Change (UNFCCC) framework. Finalizing Pakistan's NAP (currently expected by end-2024) is crucial to systematically help better understand Pakistan's country-specific climate risks, adaptation needs, and capacity constraints in detail. It will also help refine and update national initiatives and incorporate them in a cohesive climate adaptation plan, integrate climate change into national decision-making, and guide implementation and regular review. The NAP will then also help systematically incorporate, prioritize, and manage climate risks in a wholistic medium-term framework for macroeconomic policy and structural reforms. Given limited fiscal space, the implied significant additional spending and financing needs will necessitate a mix of domestic policy reforms and higher international support. While some part could be met domestically by reprioritizing public spending (e.g., removing energy subsidies) and levying taxes (including an adequate level of the PDL and GST on fuel), Pakistan also needs to better tap multi- and bilateral financing sources[10] and catalyze private adaptation investment to complement that of the public sector.

- ***Accelerating high-value, "no-regret" investments***.[11] In parallel to the NAP work, the authorities should quicken efforts to swiftly and systematically identity, prioritize, and implement "no-regret" measures to shore up much-needed climate resilience. Given capacity and financing constraints, priority should be given to measures in the social realm (especially higher and well-targeted social protection, health, and education) and infrastructure realm (including—but not limited--to flood protection,[12] water resource and irrigation management, and early warning systems). Cross-country evidence highlights that investing in preemptive resilient infrastructure—

[8] See GOP (2018).

[9] See IMF (2022a) for the full discussion of common principles of adaptation policies.

[10] Cumulatively over 2002–20, Pakistan has only mobilized US$2.8 billion in adaptation financing, with a disbursement quote of slightly over 60 percent compared to over 80 percent worldwide (Aid Atlas 2022). For an overview of climate finance sources, see e.g., IMF (2022a) or IMF (2021).

[11] "No-regret" measures are actions to respond to climate challenges that are justified under all plausible future climate change scenario, even including in the absence of man-made climate change.

[12] This includes the update and implementation of the flood safety project that was included in the National Flood Protection Plan (NFPP) in 2015 in response to the seminal 2010 floods. It was originally costed at PRs 96 billion for the erection of protection walls and installation of an early warning systems.

rather than ex-post disaster response—promises to not only contain the significant human and material damages from climate change but also reduce its adverse macroeconomic impacts (including on growth and employment, capital depreciation, and debt dynamics (e.g., Forni et al. 2019; Dabla-Norris et al. 2021).

- ***Improving structural preconditions***. Cross-sectoral structural reforms not only address long-standing underlying structural impediments to macroeconomic stability and inclusive growth but will also help boost climate adaption efforts. The authorities should thus rigorously persevere with their current structural reform agenda, especially with the strengthening of: (i) social spending on education, health, and social protection; (ii) governance, transparency, and anti-corruption institutions; (iii) business and investment climate: (iv) public financial management (PFM) including through the use of the recently launched e-procurement system; (v) financial sector stability; and (vi) energy sector viability. This will provide the basis for facilitating private sector participation in the country's climate adaptation efforts and for gradually incorporating specific climate considerations in the structural agenda. For instance, only a strong PFM can help ensure that fiscal risks are properly managed before gradually incorporating climate considerations in PFM tools and institutions, and before significantly scaling up adaptation investment or entering public private partnerships (PPPs). Above all, this requires improving public investment management (PIM) in terms of project planning, selection, and appraisal; [13] public procurement and PPP frameworks; and fiscal buffers for prompt and adequate disaster response (IMF 2022c; Gerling 2017).[14] Similarly, only a sound financial sector that can properly allocate resources and manage risks can also be upgraded to pool climate-related risks and facilitate adaptative and clean investments (IMF 2016). This mainly requires improving prudential regulation for climate change (particularly for the insurance sector), regulatory oversight and stress testing to ensure sound and resilient institutions, and well-functioning financial markets to provide adequate instruments.

[13] This could, e.g., include incorporating requirements for climate-risk evaluations, better energy efficiency standards, or better protection against natural disasters for public-funded projects.

[14] Besides, budget processes need flexibility, for instance by incorporating some escape clauses for natural disasters in budget laws and fiscal rules or streamlining the process for preparing and passing a revised budget.

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Annex II. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
GLOBAL				
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**Short Term**	**High** • Financial volatility raises risk aversion, causing financing pressures and capital outflows from emerging markets, including Pakistan. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Implement strong policies and strengthen institutions as a foundation of strong and sustainable growth. • Scale up targeted social assistance. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	**High**	**Short to Medium Term**	**High** • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Scale up targeted social assistance. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**Short Term**	**High** • Higher energy prices could weaken energy sector's financial position, especially if not permitted to pass along price increases, leading to buildup of more arrears. • Higher headline inflation. • Tighter global financial conditions and capital outflows from emerging markets, including Pakistan. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Allow energy prices increases to be passed through to end-users. • Press ahead with reforms of the energy sector. • Scale up targeted social assistance. • Maintain financial stability to weather external shocks. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers. • Allow exchange rate flexibility to absorb external shocks and facilitate adjustment.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. **China:** Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity.	Medium Medium	**Short Term**	Medium • Disruptions in trade channels leading to lower exports and supply disruptions. • Tighter financial conditions and capital outflows. • Weakening global demand decreases commodity prices.	• Maintain market-determined exchange rate to support competitiveness, while intervening only during disorderly market conditions. • Maintain financial stability. • Preserve fiscal and debt sustainability.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium	**Short to Medium Term**	Medium • Lower demand for exports after tightening. • Tighter external financial conditions. • Stock market deteriorates.	• Maintain market-determined exchange rate to cushion shocks. • Build fiscal and external buffers. • Implement structural reforms to anchor confidence and improve competitiveness. • Maintain an appropriate medium-term debt strategy. • Maintain financial stability to weather external shocks, tighten supervision to monitor banking risks.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	**Short to Medium Term**	Medium • Worsening sentiment and lower demand for Pakistan's assets resulting in increased funding costs or reduced capital inflows. • Stock market deteriorates. • Reduced interest in privatization portfolio.	• Maintain market-determined exchange rate to cushion shocks. • Build fiscal and external buffers. • Maintain an appropriate medium-term debt strategy. • Maintain financial stability to weather external shocks, tighten supervision to monitor banking risks.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**Medium to Long Term**	**Medium** • Weaker confidence and supply disruptions drag on economic growth. • Higher risk aversion, and higher risk premia leading to financing pressures and capital outflows from vulnerable countries. • Trade disruptions leading to commodity price levels and volatility, hence heightening external imbalances. • Disorderly migration	• Implement strong policies and strengthen institutions as a foundation of strong and sustainable growth. • Maintain market-determined exchange rate to support competitiveness. • Maintain financial stability. • Advance policies and reforms aiming at climate risk mitigation, adaptation, and transition to a low-carbon economy. • Build fiscal and external buffers.
COUNTRY-SPECIFIC				
Slippages in policy implementation. Pressures on the government could rise to provide incentives/exemptions to key groups. Political resistance or hesitation to delivering on structural reforms, as well as weak institutional capacity and powerful vested interests, could undermine effective reform implementation and lessen the prospects for durable adjustment and sustainable and inclusive growth.	**High**	**Short to Medium Term**	**High** • Weaker fiscal discipline could compromise the quality and durability of fiscal adjustment; expose debt sustainability risks. • Unfinished structural reform agenda would reduce growth prospects, preserve over-reliance on the public sector and large informal economy, and leave unaddressed contingent liabilities. • Subdued economic growth.	• Implement strong policies and strengthen institutions (including anti-corruption agencies) as a foundation of strong and sustainable growth. • Resist pressures to weaken fiscal discipline and preserve fiscal sustainability. • Build external buffers. • Foster more inclusive growth through scaling up targeted social assistance. • Improve external competitiveness and reduce red tape to reduce the costs of doing business.
Deterioration in security conditions. Regional tensions and possible retaliation against ongoing domestic security operations could increase security concerns.	**Medium**	**Short to Medium Term**	**Medium/ High** • Eroded confidence and discouraged investment would disrupt economic activity and reduce growth prospects. • Increased military spending/ fiscal burden could strain fiscal sustainability.	• Instill confidence through strong implementation of the economic stabilization program and structural reforms. • Maintain engagement with donors. • Build external buffers. • Preserve fiscal sustainability.
Bottom line assessment: The balance of risks is tilted to the downside.				

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10–30 percent, and "high" a probability between 30–50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Annex III. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Pakistan: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	The overall risk of sovereign stress is high, reflecting a high level of vulnerability from elevated debt and gross financing needs and low reserve buffers. Risks are mitigated by the fiscal adjustment safeguarded under the proposed SBA and continuing onto the medium term, financial commitments by bilateral partners, and the ability of the banking system to rollover existing domestic debt.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	High	High	Medium-term risks are assessed as high (in line with the mechanical signal). Risks include uneven program implementation, political risks, and access to adequate multilateral and bilateral financing in view of the high gross financing needs.
Fanchart	Moderate	…	
GFN	High	…	
Stress test	…	…	
Long term	…	Moderate	Insufficient progress with policies and structural reforms could hamper potential growth, yet with its relatively young population Pakistan also bears great potential through leveraging digital technologies. Pakistan is also very exposed to the adverse consequences of climate change, such as more frequent floods and droughts.
Sustainability assessment 2/	…	Sustainable	If the proposed program is implemented consistently and macroeconomic prudence continues for the medium term, the debt path is expected to remain on a downward trajectory. The GFNs, although high, would be covered by official bilateral and domestic financing. However, the underlying vulnerabilities and risks are very high including because of the significant sovereign exposure of domestic banks, and the scope for policy flexibly is extremely limited.
Debt stabilization in the baseline			Yes

DSA summary assessment

Staff commentary: Although the financing situation has worsened in recent months, public debt continues to be assessed as sustainable in the baseline scenario underpinned by steadfast implementation of the proposed SBA policies, with newly introduced tax measures assumed to persist beyond the program horizon, a macroframework which does not assume either additional primary consolidation or expansion beyond FY24, and the gradual resumption of growth in the coming years. Elevated gross financing needs continue to pose high risks to debt sustainability, particularly as fiscal and reserve buffers have been depleted. In this regard, timely disbursements of committed bilateral and multilateral support is critical in the period ahead. Higher interest rates, a larger-than-expected growth slowdown due to policy tightening, pressures on the exchange rate, renewed policy reversals, slower medium-term growth, and contingent liabilities related to SOEs pose significant risks to debt sustainability.

Source: Fund staff.

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

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

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

Figure 2. Pakistan: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	GG (chosen)			

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

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

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

(Groupings: CG = 1–3; GG: expected = 1–5; NFPS = 1–6; CPS = 1–8)

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

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

5. Debt consolidation across sectors: Consolidated (chosen) | Non-consolidated

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on intra-government debt holdings

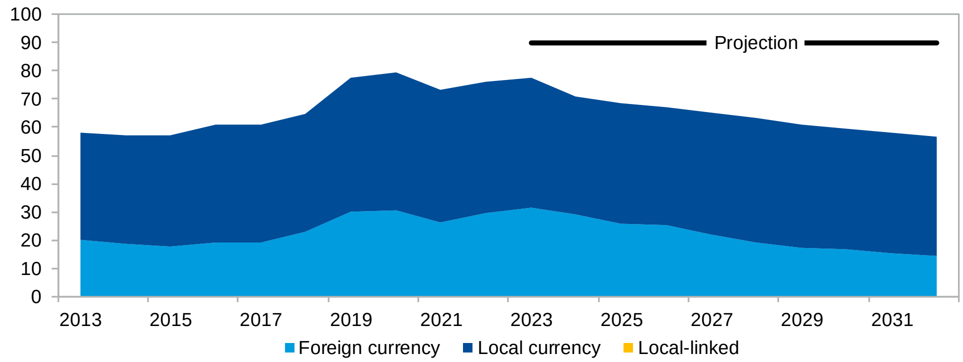
Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.				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

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Staff commentary: Includes bilateral FX swap liabilities of the central bank and deposits of official creditors at the central bank. As of end-FY22, contingent liabilities not included in the perimeter consist of: (i) guarantees (PRs 2,984 billion), (ii) non-guaranteed circular debt in the power and gas sector (PRs 1,453 billion and PRs 680 billion, estimated), (iii) debt from commodity operations (PRs 1,134 billion), (iv) non-guaranteed SOE debt (PRs 228 billion), (v) other contingent liabilities (PRs 500 billion, estimated). The estimated total of those exposures amounts to 10.4 percent of GDP.

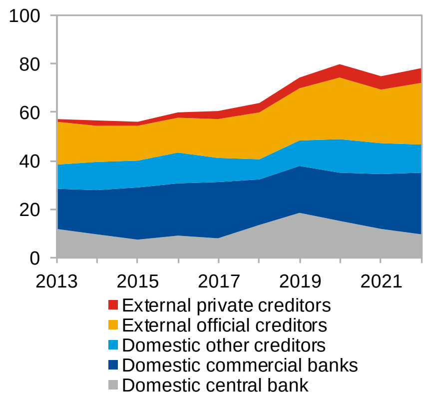
Figure 3. Pakistan: Public Debt Structure Indicators

Debt by currency (percent of GDP)



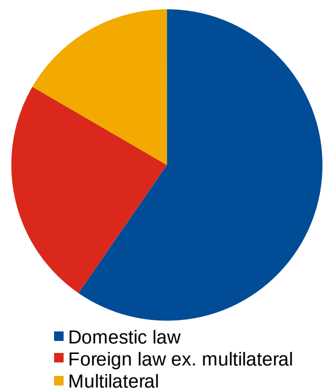
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



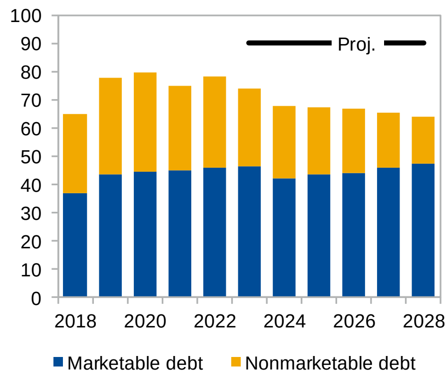
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



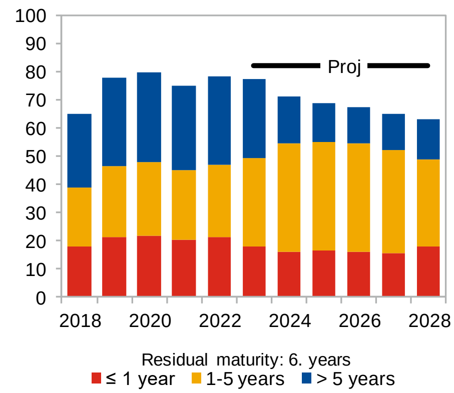
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Staff commentary: Pakistan's external debt is predominantly to bilateral and multilateral creditors. Although the maturity structure is set to lengthen over the projection horizon, the high share of short-term debt poses risks to debt sustainability and will require timely disbursements from these creditors. Pakistan's domestic debt is mostly to domestic banks, increasing the sovereign-bank nexus. During the current monetary tightening cycle, Pakistan has resorted to issuing predominantly floating-rate domestic debt, increasing sovereign exposure to interest rate risk.

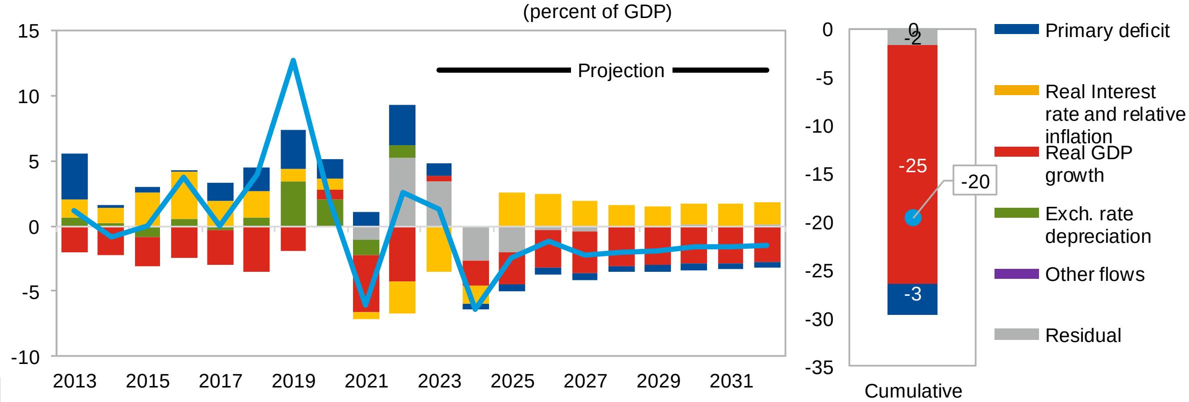
Figure 4. Pakistan: Baseline Scenario

(Percent of GDP, unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	76.1	77.4	70.9	68.5	67.3	65.1	63.1	61.2	59.6	58.0	56.5
Change in public debt	2.6	1.2	-6.4	-2.5	-1.2	-2.2	-2.0	-1.9	-1.6	-1.6	-1.4
Contribution of identified flows	-2.6	-2.2	-3.8	-0.4	-0.9	-1.7	-2.1	-2.0	-1.7	-1.6	-1.5
Primary deficit	3.0	1.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Noninterest revenues	12.1	11.4	12.3	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Noninterest expenditures	15.2	12.4	11.9	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Automatic debt dynamics	-5.7	-3.2	-3.4	0.1	-0.4	-1.3	-1.6	-1.5	-1.2	-1.2	-1.1
Real interest rate and relative inflatio	-2.4	-3.5	-1.5	2.5	2.5	2.0	1.5	1.5	1.7	1.7	1.7
Real interest rate	-3.9	-8.6	-7.1	0.2	1.3	0.9	0.6	0.7	1.0	1.0	1.1
Relative inflation	1.4	5.1	5.7	2.4	1.2	1.0	0.9	0.8	0.7	0.7	0.6
Real growth rate	-4.2	0.4	-1.9	-2.5	-2.9	-3.2	-3.1	-3.0	-2.9	-2.8	-2.8
Real exchange rate	1.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	5.3	3.4	-2.7	-2.0	-0.3	-0.5	0.1	0.1	0.1	0.0	0.1
Gross financing needs	24.5	23.7	22.2	21.2	20.6	19.4	18.2	20.1	16.7	16.5	15.7
of which: debt service	21.4	22.7	22.6	21.7	21.1	19.9	18.6	20.6	17.2	16.9	16.2
Local currency	18.4	18.1	19.4	16.6	16.9	14.7	13.2	15.9	13.6	12.8	12.6
Foreign currency	3.0	4.7	3.2	5.1	4.2	5.2	5.4	4.7	3.6	4.1	3.5
Memo:											
Real GDP growth (percent)	6.1	-0.5	2.5	3.6	4.5	5.0	5.0	5.0	5.0	5.0	5.0
Inflation (GDP deflator; percent)	14.1	26.0	25.9	11.4	7.4	6.5	6.5	6.5	6.5	6.5	6.5
Nominal GDP growth (percent)	19.3	27.1	28.6	16.0	12.5	11.6	11.8	11.8	11.8	11.8	11.8
Effective interest rate (percent)	7.8	11.8	14.0	11.7	9.4	8.0	7.5	7.7	8.2	8.4	8.6

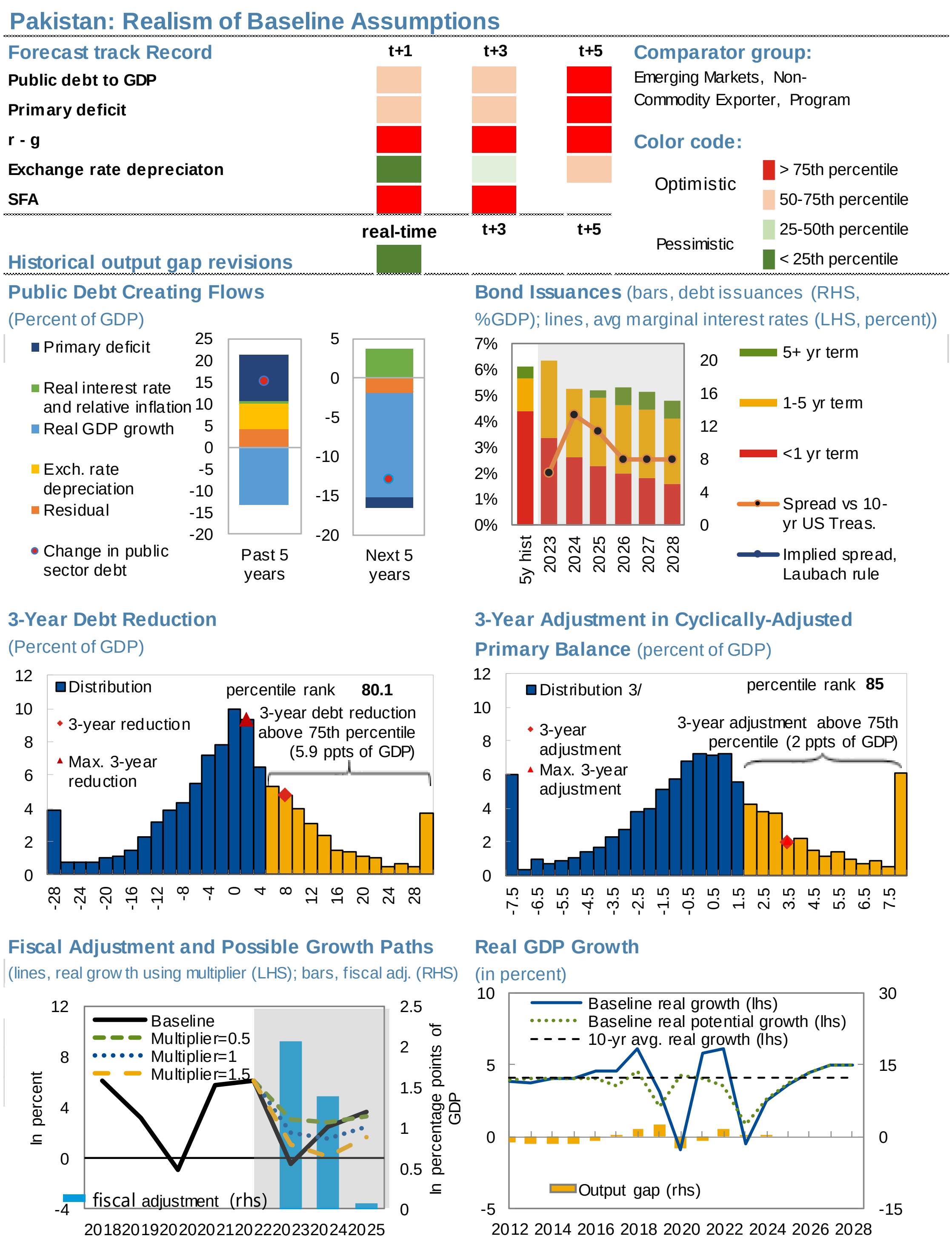
Contribution to change in public debt

(percent of GDP)



Staff commentary: Public debt is projected to decline very slowly over the projection horizon and will require the robust continuation of prudent policies beyond the program period. The margin of error for policy slippages and delays in urgently needed structural reforms remains very small.

Figure 5. Pakistan: Realism of Baseline Assumptions



Staff commentary: The programmed fiscal adjustment path is ambitious but feasible. However, renewed efforts for structural reforms are needed to lift growth potential, and avoid Pakistan from getting trapped in negative debt dynamics.

Figure 6. Pakistan: Medium-Term Risk Analysis

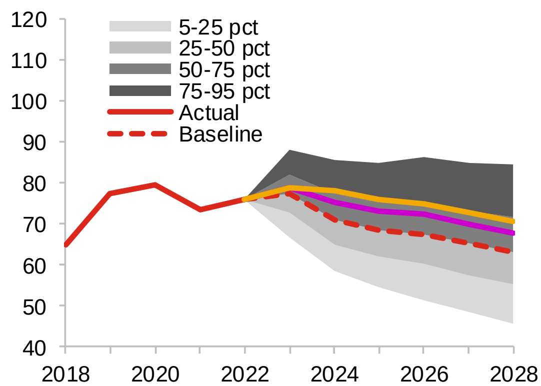
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

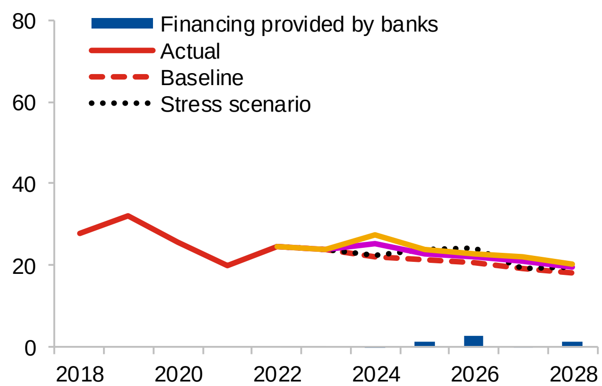
Module	Indicator	Value	Risk index	Risk signal	EM, Non-Commodity Exporter, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	38.7	0.6	…	
	Probability of debt not stabilizing (pct)	1.2	0.0	…	
	Terminal debt level x institutions index	47.0	1.0	…	
	Debt fanchart index	**…**	**1.6**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	20.9	7.1	…	
	Bank claims on government (pct bank assets)	50.0	16.2	…	
	Chg. in claims on govt. in stress (pct bank assets)	9.0	3.0	…	
	GFN financeability index	**…**	**26.4**	**High**	

Legend: Interquartile range; Pakistan

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

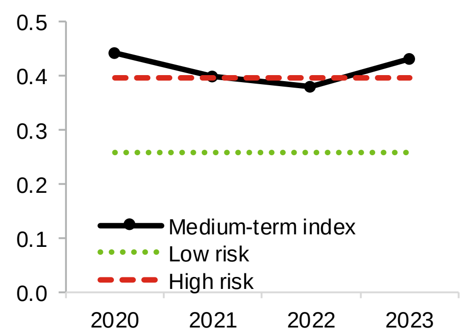


Triggered stress tests (stress tests not activated in gray)

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

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.5
Medium-term index (MTI)	0.3	0.4	…	0.4, High

Prob. of missed crisis, 2023-2028 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 8.0 pct.

Staff commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, while the GFN Financeability Module suggests a high level of risk. Specifically, the high share of bank assets invested in government securities limits the scope for the government to flexibly respond to future crises, and the average GFN-to-GDP ratio is above the 75th percentile of the comparator group. The aggregated index points to a high level of risk.

Table 1. Pakistan: External Debt Sustainability Framework, 2018-2028

(In percent of GDP, unless otherwise indicated)

	Actual 2018	2019	2020	2021	2022	10-Year Historical Average	10-Year Standard Deviation	Projections 2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**27.0**	**33.2**	**37.6**	**35.1**	**32.1**			**36.4**	**38.3**	**37.0**	**35.5**	**33.8**	**31.9**	**-1.8**
Change in external debt	2.2	6.2	4.4	-2.5	-3.0			4.2	1.9	-1.3	-1.6	-1.6	-1.9	
Identified external debt-creating flows (4+8+9)	3.4	6.7	2.9	-4.9	1.8			1.4	0.9	0.1	-0.2	-0.5	-0.4	
Current account deficit, excluding interest payments	4.5	3.0	0.3	0.1	3.7			-0.2	0.5	0.4	0.4	0.4	0.5	
Deficit in balance of goods and services	10.5	10.1	8.1	8.9	11.9			7.7	10.1	10.0	9.8	9.6	9.7	
Exports	8.6	9.4	9.3	9.1	10.5			10.4	11.0	11.0	11.0	10.9	10.7	
Imports	19.1	19.6	17.4	18.0	22.5			18.2	21.1	21.1	20.8	20.6	20.4	
Net non-debt creating capital inflows (negative)	-0.8	-0.4	-0.9	-0.5	-0.4			0.0	-0.1	-0.4	-0.5	-0.5	-0.6	
Automatic debt dynamics 1/	-0.3	4.1	3.5	-4.4	-1.6			1.6	0.5	0.0	-0.2	-0.4	-0.4	
Contribution from nominal interest rate	0.9	1.1	1.2	0.7	0.9			1.4	1.3	1.3	1.3	1.3	1.2	
Contribution from real GDP growth	-1.4	-0.9	0.3	-1.9	-2.0			0.2	-0.9	-1.3	-1.5	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	0.3	3.9	2.0	-3.3	-0.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.2	-0.5	1.5	2.3	-4.7			2.9	1.0	-1.4	-1.3	-1.2	-1.4	
External debt-to-exports ratio (in percent)	314.3	353.1	404.0	387.2	305.4			348.2	347.1	335.3	322.9	308.9	297.4	
Gross external financing need (in billions of US dollars) 4/	**28.5**	**26.6**	**19.8**	**15.7**	**33.4**			**25.6**	**28.4**	**30.4**	**32.3**	**29.3**	**33.2**	
in percent of GDP	8.0	8.3	6.6	4.5	8.9			7.5	8.1	8.0	7.9	6.7	7.0	
Scenario with key variables at their historical averages 5/								**36.4**	**38.3**	**39.1**	**39.6**	**40.0**	**40.1**	**-1.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	6.1	3.1	-0.9	5.8	6.1	4.1	2.1	-0.5	2.5	3.6	4.5	5.0	5.0	
GDP deflator in US dollars (change in percent)	-1.0	-12.6	-5.5	9.7	1.3	0.1	6.2	-8.9	0.7	4.1	3.3	2.7	2.8	
Nominal external interest rate (in percent)	3.6	3.8	3.3	2.3	2.8	3.0	0.5	4.0	3.8	3.7	3.9	3.9	3.9	
Growth of exports (US dollar terms, in percent)	9.7	-1.3	-7.4	12.9	24.8	3.3	10.3	-10.0	9.1	7.9	7.3	7.4	6.0	
Growth of imports (US dollar terms, in percent)	16.0	-7.6	-16.6	19.7	34.1	6.5	14.9	-26.5	19.9	7.4	6.6	6.7	7.1	
Current account balance, excluding interest payments	-4.5	-3.0	-0.3	-0.1	-3.7	-1.7	1.7	0.2	-0.5	-0.4	-0.4	-0.4	-0.5	
Net non-debt creating capital inflows	0.8	0.4	0.9	0.5	0.4	0.6	0.2	0.0	0.1	0.4	0.5	0.5	0.6	

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.

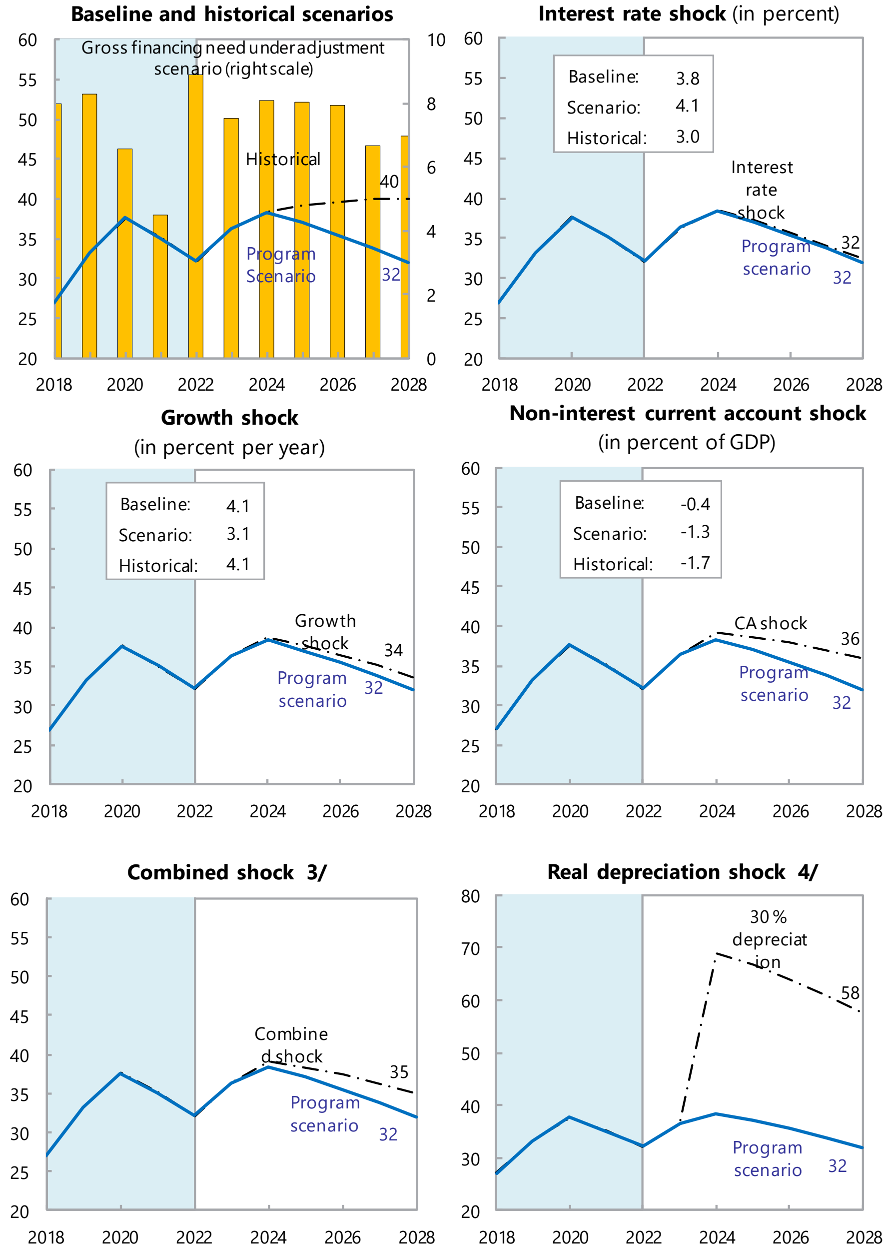
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 first projection year.

Annex IV. Agenda for Technical Assistance

Table 1. Pakistan: Technical Assistance, IMF
(FYs20–24)

	Receiving Agency 1/	Status 2/
Fiscal Affairs Department (FAD)		
• Medium-term tax policy, including e.g., on general sales tax (GST) harmonization, corporate income tax (CIT) simplification, and tax policy diagnostics	FBR/MoF	ongoing since FY20
• Public financial management, including cash management and treasury functions, fiscal risks, and PFM law	MoF	ongoing since FY20
• Revenue administration, including on tax administration diagnostics, compliance risk management, and reform of the inland revenue service	FBR	ongoing since FY20
• Climate Public Investment Management Assessment (Climate-PIMA)	MoF	delivered in FY23
• Sustainable development goals (SDG) costing	MoF	delivered FY20
Legal Department (LEG)		
• State-owned enterprise law	MoF	delivered FY21
• Anti-money laundering and combating the financing of terrorism (AML/CFT), incl. e.g., on supervision and legislative drafting	SBP/MoF/MoI	ongoing since FY20 and closing in FY23
• Bank resolution framework (jointly with MCM)	SBP	partly delivered FY22, more upcoming
• Central bank law reform	SBP	delivered FY20
Monetary and Capital Markets Department (MCM)		
• Debt management	MoF	delivered FY20
• Banking resolution framework (jointly with LEG)	SBP	delivered FY22/23
• Cyber risks	SBP	delivered FY20

1/ Ministry of Finance (MoF), Ministry of Interior (MoI), Federal Board of Revenue (FBR), State Bank of Pakistan (SBP), and Pakistan Bureau of Statistics (PBS).
2/ Technical assistance may be delivered in multiple missions and/or continuously over a longer time period, including remotely.

Appendix I. Letter of Intent

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

Islamabad, June 30, 2023

Dear Ms. Georgieva:

1. Since the completion of the combined seventh and eighth reviews under the 2019–23 Extended Fund Facility (EFF) in August 2022, the economy has faced a series of exogenous shocks—most notably the catastrophic floods during the 2022 monsoon season and the international commodity price hike in the wake of the Russian war in Ukraine. Critical infrastructure and crop production have been damaged and livelihoods have been upended. Economic activity has stalled and inflation, including for food items, is very high. Despite our efforts to reduce imports and the trade deficit, reserves have declined substantially due to scheduled debt service and scarcity of market financing against elevated sovereign spreads. At the same time, the Kerb rate diverged considerably from the interbank rate, against strong foreign exchange (FX) demand. Conditions in the power sector became acute, with a significant buildup of arrears (circular debt) and frequent loadshedding, requiring an immediate liquidity injection through additional budgetary subsidies.

2. We are firmly committed to resolving these macroeconomic and external imbalances, restoring macroeconomic stability, and laying the conditions for sustained and balanced growth. To this end, crucial priorities of our new economic program will be based on: (i) advancing gradual fiscal consolidation to bring down debt, while creating fiscal space for much-needed social and development spending; (ii) reducing quasi-fiscal deficits in the energy sector; (iii) removing all exchange restrictions; (iv) continuing strengthening of the banking sector; (v) improving state-owned enterprise (SOE) governance; and (v) boosting efforts to address challenges from climate change.

3. To support our efforts, we request a 9-month Stand-By Arrangement (SBA) with a cumulative amount of SDR 2,250 million (111 percent of quota). The SBA will build on progress made under the EFF arrangement that expired at end-June 2023. It will provide a valuable anchor for our macroeconomic policies and structural reforms during the remainder of the year, which is a challenging period with parliamentary elections due in the Fall. The SBA will also continue to play a catalytic role in mobilizing international support from multilateral and bilateral partners, and providing confidence to entice the return of some private inflows, which will help ensure that the proposed program is fully financed.

4. In line with the focus of our new SBA, we have already taken a series of important actions:

- *FY24 budget—Parliamentary approval of a FY24 budget in line with IMF staff agreement to meet program targets (Prior Action (PA) for program approval).* Passed by the National Assembly on June 25, 2023 and signed into law by the president on June 26, 2023, our FY24 budget advances fiscal consolidation through a primary surplus of PRs 401 billion (0.4 percent of GDP)—built on a set of credible measures that help: (i) sustainably raise additional revenue by targeting undertaxed sectors (such as agriculture and construction), broaden the tax base, and improve progressivity; and (ii) restrain non-priority spending (including through energy sector measures aimed at credibly containing energy sector subsidies, the public wage bill, and pensions) while making fiscal room to protect the generosity level of the Benazir Income Support Programme (BISP) Kafalat program. As in previous years, we are also working with the provinces to sign Memoranda of Understanding (MoUs) with the federal governments on their provincial fiscal targets consistent with the FY24 budget.

- *FX market functioning—Withdrawal of the circular on prioritization in providing FX for certain types of imports introduced in December 2022, with the purpose of ensuring full market determination of the exchange rate (PA for program approval).* Going forward, we will refrain from formal and informal guidance on the exchange rates of FX intermediaries and, after eliminating existing exchange restrictions and the multiple currency practice (MCP), will maintain a framework free of restrictions on payments and transfers for current international transactions and MCPs, and, by allowing no hindrance to the market determination of the exchange rate, ensure that no abnormal premium emerges in between the rate in any of the three FX markets—interbank, open, and informal. The average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period (*continuous SB*).

5. We have also continued our efforts to mobilize financial support from multilateral institutions and bilateral partners. During the January 2023 Conference on Climate Resilient Pakistan held in Geneva, co-chaired by the United Nations (UN) and Pakistan, donors' pledges exceeded US$10 billion for humanitarian assistance and projects to rehabilitate the damage caused by the floods. Since then, our efforts have focused on obtaining new financing and securing the rollover of debt falling due, which is critical to support our near-term policy efforts and replenish our gross reserves to more comfortable levels.

6. Based on these efforts and our commitments for the period ahead, we request approval by the IMF Executive Board of the proposed SBA. We also request that the Executive Board approves to make available SDR 894 million upon approval of the arrangement. In addition, we request approval by the IMF Executive Board of the retention of (i) the exchange restriction arising from the limitation on advance payments for imports against letters of credit (LCs) and advance payments up to the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018); and (ii) the MCP arising from the potential deviation of more than 2 percent between the previous day's weighted average customer exchange rates used for the FX transactions between the SBP and the government and the spot exchange rates prevailing on the FX market at the time. These measures are non-discriminatory and are maintained temporarily due to BOP difficulties and which we plan to remove before the end of the program.

7. The attached Memorandum of Economic and Financial Policies (MEFP) provides comprehensive details of our reform agenda. Completion of the two reviews scheduled for November 2023 and February 2024 will require observance of the quantitative performance criteria (QPC), indicative targets (IT), and continuous performance criteria (PCs) with end-September 2023 and end-December 2023 test dates (set out in MEFP Table 1) and defined in the attached Technical Memorandum of Understanding (TMU). Consistent with our reform agenda, our program also envisages structural benchmarks (SBs, set out in MEFP Table 2). Overall, 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 and any new measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will supply the IMF with timely and accurate data that are needed for program monitoring. In line with the Fund safeguards policy, we are committed to undergoing an update safeguards assessment of the SBP, and shall continue providing Fund staff with audit reports and authorize the SBP's external auditors to hold discussions with Fund staff. Reaffirming our commitment to our policy of transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/s/	/s/
Mohammad Ishaq Dar	Jameel Ahmad
Minister of Finance and Revenue	Governor of the State Bank of Pakistan

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

Attachment I. Memorandum of Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. Due to the adverse financial conditions and the destructive impact of the floods, as well as delays in advancing reforms, the economy has slowed sharply since July 2022 and external pressures intensified. Growth has weakened considerably in FY23, with the provisional estimates by the Pakistan Bureau of Statistics (PBS) indicating real GDP growth of only 0.3 percent. Headline inflation reached 38 percent (yoy) in May 2023 as food prices remain elevated and core inflation has climbed steadily to 20 and 26.9 percent (yoy) in urban and rural areas, respectively. Gross reserves declined to about US$4.2 billion in June 2023, against a shortage of external financing and high uncertainty.

2. Reflecting recent developments and agreed-upon policies, we see the following baseline macroeconomic scenario:

- ***Real GDP*** is expected to rebound at a moderate pace in FY24, as the economy gradually stabilizes, supported by favorable base effects from the post-flood recovery, reaching 2.5 percent. Over the medium-term, prudent management of domestic demand and the implementation of long overdue structural reforms will allow growth to rise gradually to 5 percent, supported by stronger investment and exports.
- ***Headline CPI inflation*** is projected to remain above 20 percent (yoy) through FY24Q3 as the necessary adjustment of gas and electricity prices, consumption tax increases, and the impact of the currency depreciation pass through the economy. The adjustment to appropriate macroeconomic policy settings will help re-anchor inflation expectations and guide down core inflation from FY24H2 onwards. Headline inflation is projected to decline significantly through FY25, falling to the 5–7 percent target range by FY26H1, supported by fiscal consolidation, normalization of global commodity prices, and favorable base effects.
- ***The current account deficit*** has narrowed in recent months as imports declined sharply, though exports and remittances have also fallen back. For FY23, the current account deficit is projected at 1.2 percent of GDP, but it is expected to rebound to around 1¾ percent of GDP over the medium term as trade and remittances flows rebound following the return to a market-driven exchange rate. Reserve cover is expected to rebound from the current low levels as fresh external financing inflows from official creditors pick up, including materialization of some of the funds pledged at the recent International Conference on Climate Resilient Pakistan.

3. Risks to the baseline remain exceptionally high. We recognize that delays in implementing crucial policy and structural reforms (particularly in the areas of the exchange rate, tax reform and the energy sector) would compromise the restoration of confidence and the return of growth, impede the rebuilding of reserves, and jeopardize debt and external sustainability. Fiscal slippages in the context of the upcoming election season would endanger the return to macroeconomic stability. Delays in disbursement from multilateral and bilateral partners would also put further pressure on reserves and the exchange rate and could cause an adverse shift in market sentiment.

B. Economic Program

Fiscal Policy

4. **After a weak fiscal performance in FY22, the July-October floods presented additional challenges in FY23**. As the new fiscal year began, the deadliest floods since 2010 added to fiscal pressures, by necessitating significant spending on flood relief and reconstruction, and by dampening revenue in the wake of declining economic activity due to the adverse impact of the floods on economic activity and therefore revenue. In addition, the deterioration of the state of the power sector (¶15) has required us to consider fiscalizing some part of the exceptional and unexpected FY23 circular debt (CD) flow (PRs 335 billion). The February 2023 Supplementary Finance Bill aimed to limit the primary deficit to PRs 465 billion (0.5 percent of GDP) by: (i) strengthening the tax base; and (ii) reprioritizing spending to accommodate flood-related pressures, remove all untargeted energy subsidies, and allow an inflation adjustment of BISP's unconditional cash transfers for the most vulnerable through normal budgetary processes (i.e., supplementary grants approved by the federal government). The fiscal target was relaxed relative to the original target as additional expenditure of 0.5 percent of GDP was allocated to flood relief and reconstruction, notably an increase in BISP to assist the vulnerable, a grant to the National Disaster Management Authority, and fertilizer subsidies. While some progress was made, the challenging economic conditions in the second half of FY23 hampered our revenue collection efforts, and the primary deficit is expected to reach 1.0 percent of GDP in the year as a whole.

5. **The FY24 budget aims at resuming fiscal consolidation efforts to strengthen debt sustainability, while creating more fiscal space for much-needed social and infrastructure spending**. The budget targets a primary surplus of PRs 401 billion (0.4 percent of GDP). Salient measures aim at:

a. ***Boosting revenue by PRs 254 billion***, especially by:

- *(i)* *Increasing the maximum petroleum development levy (PDL)* to PRs 60 per liter with the following path of increases to reach an average rate over FY24 of PRs 55 per liter. This will add an extra PRs 79 billion.
- *(ii)* *Increasing revenue from the personal income tax (PIT).* We aim to increase the PIT yield by PRs 30 billion by increasing tax rates for business income and wage earners by 2.5 percentage points and merging the top two brackets.
- *(iii)* *Rationalizing tax exemptions for fertilizer.* Instead of an exemption, diammonium phosphate (DAP) fertilizer will be subject to general sales tax (GST) at a rate of 5 percent and a federal excise at a rate of 5 percent. Urea fertilizer will be subject to federal excise duty (FED) at a rate of 5 percent. These measures will increase tax revenues by PRs 34 billion.

(iv) *Increasing FED on sugary drinks.* We are doubling the rate to 20 percent with an expected yield of PRs 8 billion.

(v) *Increasing the advance tax on the purchase and sale of immovable property from 2 percent to 3 percent*, which we expect to add sustainable revenue of PRs 46 billion.

(vi) *Collection of an annual tax on second homes and other high-wealth items from non-filers* at 1 percent of the value, with an expected revenue yield of PRs 19 billion.

(vii) *Raising the advance tax from builders and developers* based on land size of the project under development, with a revenue yield of PRs 15 billion.

(viii) *Increasing the additional GST on deliveries to businesses* that are not registered for value-added tax (VAT) from 3 percent to 4 percent (so at the 18 percent regular rate, unregistered businesses will pay 22 percent GST). We expect PRs 23 billion in additional revenue from this measure.

b. ***Containing spending***, especially by (i) containing the growth of the public wage bill and pensions to below inflation; (ii) creating fiscal room to protect the generosity level of the BISP unconditional cash transfer (UCT) Kafalat program in FY24 (see below); and (iii) limiting energy subsidies—as also to be reflected in the cabinet-approved update of the circular debt management plan (CDMP) for FY24 by end-July 2023—primarily through the notification of the annual rebasing (AR) of the power tariff for FY24 in full and with effect from July 1, 2023 as determined by National Electric Power Regulatory Authority (NEPRA) in July 2023, continuation of regular tariff adjustments in line with established formulas in a timely manner, and acceleration of structural cost-reducing reforms (see below). To guard against the materialization of fiscal risks in an adequate manner, we also included contingency spending for emergencies of PRs 250 billion.

6. To ringfence our fiscal program, we reiterate: (i) our commitment not to allow supplementary grants for any additional unbudgeted spending over the parliamentary approved level in FY24 at least until the formation of a new government after the elections (except if needed to respond to a severe natural disaster); (ii) our commitment not to launch any new tax amnesties or grant further any new tax exemptions in FY24 including through the budget or Statutory Regulatory Orders without prior National Assembly approval; (iii) our signature of MoUs with each province on their commitment to achieving an end-FY24 fiscal position consistent with the FY24 general government primary balance goal of PRs 401billion; (iv) our continuing focus on critically urgent energy sector policies, outlined below; and (v) our commitment not to introduce any fuel subsidy, or cross-subsidy scheme, in FY23 and beyond.

7. We will also continue with structural fiscal reforms, especially:

a. ***Revenue administration improvements to build capacity to expand the tax base and share the tax burden more widely***. In line with recent technical assistance (TA) from the IMF, the FBR has prepared a draft Compliance Risk Management (CRM) strategy and will start building a Compliance Risk Register based on information from field officers. The plan is to pilot and develop Compliance Improvement Plans in Q1 of FY24, and ultimately to design a CRM dashboard for reports that will help generate tangible improvements in FY24.

***b. Public financial management (PFM) reforms to improve fiscal transparency and effectiveness*.**

- *SOE monitoring*. We created a Central Monitoring Unit (CMU) within the Ministry of Finance (MoF) in September 2022 to improve SOE monitoring and oversight functions and provide better analysis at the aggregate SOE level. The CMU's full operationalization will be completed with the hiring of the needed staff and publish its first periodic report on the performance of SOEs, in terms of section 31(3) of the new SOE law, using latest available data (**end-November 2023 SB**).
- *Cash management*. We are making efforts to fully operationalize our treasury single account (TSA-2) by end-October 2023. To support our cash management and forecasting efforts, which are necessary to benefit from the TSA and allow for more efficient debt and cash management, we have created the Treasury and Cash Management Unit and the Cash Forecasting Unit in the Federal Treasury Office in Islamabad; and we are, since January 2022, in the process of developing monthly and quarterly cash forecasts with TA support from the Asian Development Bank (ADB). As part of our ongoing efforts to strengthen budget execution and expenditure controls, we issued newly developed guidelines related to implementing annual and multiannual commitment control systems in March 2022.
- *Spending transparency*. To enhance transparency in all public procurement and with TA support from the World Bank, the Public Procurement Regulatory Authority (PPRA) launched and piloted the e-Procurement System in early March 2023 with the health and education ministry as well as Punjab province. We will fully roll-out the system at the federal and provincial levels by end-December 2023. Leveraging the new regulations for publication of beneficial ownership information of COVID-related awarded procurement, the PPRA will have access to relevant databases on beneficial ownership, tax, and national ID registries, and make key and relevant information on procurement contracts publicly available. Following the May 2022 regulations on requiring publication of beneficial ownership information for public procurement contracts above PRs 50 million, the PPRA is continuing with awareness-raising activities and enforcement actions to ensure compliance by companies awarded public procurement contracts.

8. We will continue our proactive debt management efforts to cover the large financing requirements which are putting pressure on our debt sustainability. Given the large share of floating-rate domestic debt and elevated global interest rates our debt servicing costs are projected to rise in the near term. In view of this, there is an increasingly narrow path for fiscal and monetary discipline to ensure debt sustainability. Given the importance of maintaining an active market for domestic debt, we will continue to rely on the regular primary T-bill, PIB and Sukuk auctions as the main mechanism for raising new domestic financing; and are committed to refraining from any new financing through direct credit lines, loans, or private placements with domestic financial institutions, including but not limited to local branches of foreign banks. In this regard, the temporary exemption from relevant procurement regulations, obtained from PPRA on February 22, 2023, will be revoked by cabinet by July 30, 2023.

Poverty Reduction and Social Protection

9. Reducing poverty and strengthening social safety remains a key priority. A series of compounded exogenous shocks—notably the COVID-19 pandemic, inflation and a food price surge largely driven by the international commodity price hike in the wake of the Russian war in Ukraine, and the 2022 monsoon floods—has laid bare the disparities facing our vulnerable population, which we are determined to address in order to foster inclusive growth and shore up our country's resilience to future shocks. In response, we executed an increase in BISP spending in FY23 by over 70 percent of the FY22 execution, which allowed us to spend PRs 404 billion for BISP—PRs 353 billion on our regular programs and PRs 50 billion on exceptional one-off cash transfers (of PRs 25,000 to 2.72 million flood-affected families.)[1] Specifically, in regard to the UCT Kafalat program, we are proud to have: (i) implemented a 25-percent inflation adjustment of the UCT Kafalat stipend to PRs 35,000 per family and year from January 1, 2023; (ii) enrolled the targeted 1 million newly identified beneficiary families already by mid-February 2023 on the basis of the live NSER database, now covering a total of 9 million beneficiary families; and (iii) reinstated the quarterly disbursement schedule. Moreover, in regard to the conditional cash transfer (CCT) programs for education, health, and nutrition, we are proud of our efforts to enroll more willing families. To focus our scarce budget resources on the most vulnerable, we decided against the execution of the originally budgeted fuel subsidy program (Sasta Fuel Sasta Diesel) that would mainly have benefited the lower- and middle-middle class.

10. Going forward, we will persevere in our efforts to strengthen social protection. BISP remains our prime program to provide public support to the most vulnerable.[2] In addition, we focus on improving the level and quality of health and education spending, supported by our development partners and helped by the fiscal space created through our revenue mobilization efforts. We also strive to further enhance budgetary processes to ensure full execution of budgeted envelopes.

- ***a.*** ***For FY24***, our budget envelope for BISP amounts to PRs 471.7 billion (0.4 percent of GDP), which will allow us to continue to execute all current BISP programs, while also: (i) absorbing an additional horizontal expansion of the UCT Kafalat base by 300,000 families (whose eligibility confirmation had been pending for technical reasons in FY23) to 9.3 million families from July 1, 2023; and (ii) adequately provisioning for the regular inflation adjustment exercise to be undertaken in January 2024 (to cover calendar year 2024) (**end-January 2024 SB**).

- ***b.*** ***As a general principle***, we continue to strive to build on World Bank advice to: (i) ensure keeping the NSER live, BISP enrollment open, and the regular re-declaration of BISP

[1] This also covers administrative costs for keeping the NSER live and BISP enrollment open to facilitate people to redeclare their status at all times in case of need.

[2] This includes families with proxy-means test (PMT) scores below the threshold set for the UCT Kafalat scheme.

beneficiaries' status on the intended 3-year cycle; (ii) speed up enrollment of interested UCT Kafalat families into the two CCT programs (supporting children's education and health);[3] (iii) implement a meaningful improvement of the still low UCT Kafalat generosity level;[4] (iv) review the education and stunting CCT cash transfers to better align them with actual child schooling and food costs; (v) rely on electronic payment systems for benefit disbursements; and (vi) improve our administrative capacity and create fiscal contingency reserves to disburse emergency cash transfers in case of adverse events hitting our vulnerable families (including climate-related catastrophes, ¶22).

Monetary, Exchange and Financial Sector Policies

11. We remain committed to ensuring monetary and financial stability by returning to a market-determined exchange rate, lowering inflation toward target, and rebuilding foreign exchange reserves.

a. We are committed to return to a market-determined exchange rate and are working to reinstate external stability. Despite the narrowing current account deficit, tighter external financing conditions have placed extraordinary pressure on reserves, which now stand at around US$4.2 billion (about 3 weeks of imports). We recognize the importance of restoring proper and normal FX market functioning and alleviating external pressures, which are key to ensure convergence across markets. We therefore reaffirm our commitment to return to a market determined exchange rate and, in line with the Foreign Exchange Regulation Act, banks and exchange companies are at liberty to determine exchange rates between Pakistani rupees and foreign currencies free from any formal or informal influence. Specifically, we will refrain from providing guidance or expressing preference to market participants regarding the exchange rate or regulate demand for FX through (either formal or informal) administrative action (¶13). Once proper market functioning is restored, we are committed to maintain the average premium between the interbank and open market rate at no more than 1.25 percent and no less than -1.25 percent during any consecutive 5 business day period (**continuous SB**).[5] To enhance transparency and efficiency in the foreign exchange market, we will publish daily the interbank and open market exchange rates, and develop a framework to monitor and publish developments and pricing in the informal market. We will also accelerate work for transitioning to a new trading platform for spot transactions connecting all banks and we expect the system to go live by end-December 2023. The State Bank of Pakistan's (SBP)

[3] Out of the 8.6 million families enrolled in the UCT Kafalat program at end-December 2022, about 7.1 million families had at least one child in school- or college-going age (4–18 years) who was principally eligible for the two CCT programs. However, only 3.1 million families also had at least one child enrolled in at least one of the CCT programs.

[4] At end-FY22 (and thus prior to both the latest burst of inflation and 25-percent inflation adjustment effective from January 1, 2023), the UCT Kafalat generosity level was about 9.3 percent of the average consumption of a bottom quintile family, relative to an international best practice of about 25 percent.

[5] The premium is defined as the difference in the natural logarithms of the midpoint (average of buying and selling rate) of the interbank market rate and the midpoint of the open market rate. For purposes of the continuous SB, the average is evaluated over a five-business day period.

interventions will remain guided by market conditions and the objectives of (i) bringing reserves up to a more prudent level of at least US$6.4 billion (1 month of import coverage) by end-December 2023; and (ii) reducing the SBP's net forward/swap position below US$4 billion, notwithstanding the difficult external environment. Forex sales will not be used to prevent a trend depreciation of the rupee driven by fundamentals. To safeguard the integrity of the foreign exchange market, any abusive or anti-competitive behavior by market participants will be addressed through enforcement of the relevant regulations and the applicable laws.

b. ***Prudent and proactive monetary policy***. To anchor inflation expectations and support the exchange rate, we raised the policy rate to 22 percent on June 26, 2023; and stand ready to consider further action in the next MPC in July and the coming months, until inflation and inflation expectations are on a clear downward path, with the exact pace of future adjustments dependent on inflation data, exchange rate developments, the strength of the external position, and the fiscal-monetary policy mix. To this end, we will aim to ensure that the real policy rate returns to positive territory on a forward-looking basis to signal our commitment to bring inflation within the target band within FY26. In addition to the policy rate increase, we have reduced the interest rate gap between the policy rate and the interest rate on the two major refinancing schemes (EFS and LTFF) to 3 percentage points. To strengthen monetary policy transmission, these rates will continue to be linked to the policy rate and will adjust automatically.

12. In addition, we are taking decisive action to phase out SBP's involvement in the refinancing schemes. As of end-May 2023, the outstanding amount for all facilities was PRs 1,536 billion, or 16.7 percent of private sector credit. We are committed to keeping overall nominal outstanding credit of all facilities below the sanctioned limit as of end-April 2023. These actions will help allocate credit in a fairer, more transparent manner as beneficiary firms are generally large, well established, and concentrated in a few sectors, which already dominate access to private sector credit. To strengthen governance and allow the SBP to focus on its core objectives, we are moving to phase out the SBP's involvement in refinancing schemes. To this end, and in consultation with the IMF, the MoF and SBP have finalized a plan in consultation with other stakeholders to establish an appropriate Development Finance Institution to support the eventual phasing out of the refinance facilities. Under the plan, which foresees a transition period of no more than 5 years, commercial banks will extend credit to export industries at preferential rates upon receipt of a subsidy, to be provided transparently from the federal budget and to be administered by Ex-Im Bank. Commercial banks will no longer access the dedicated liquidity facility at below-market rates from SBP, but instead will obtain liquidity at market rates via SBP's regular open market operations. Thus, SBP's operational involvement in the refinancing schemes will cease by the end of the transition period. Ex-Im Bank will be allowed to participate in the subsidized lending schemes using its own balance sheet resources, as feasible. The plan has been approved by MoF and the SBP, and implementation of the plan will commence in July 2023 and the required subsidy allocation (PRs 5.7 billion) has been incorporated in the FY24 budget. SBP is also committed not to introduce further schemes during the transition period.

13. As part of our comprehensive policy efforts to address external imbalances, we:

a. ***Have withdrawn the circular on prioritization in providing FX for certain types of imports issued in December 2022 (PA for program approval)***. To ensure availability of FX for essential imports during a period of limited FX inflows, on December 27, 2022, we introduced guidance to banks for prioritization of import transactions. Although the guidance was legally non-binding, it had a discouraging effect on banks to provide FX for non-priority imports, thus breaching the continuous PC on the non-imposition of exchange restrictions. Consistent with our desire to move to a fully market-determined exchange rate, the relevant circular was withdrawn on June 23, 2023. We understand that the finding of an exchange restriction remains in force until the discouraging effect on banks is assessed to have ceased.

b. ***Remain committed to phasing out the existing exchange restriction and MCP***:

- We continue to maintain an exchange restriction resulting from the limitations on advance payments for imports against letters of credit (LCs) and advance payments beyond the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018). We remain committed to phase out this existing measure as BOP conditions stabilize.
- We also maintain an MCP arising from the use of the previous day's weighted average customer exchange rates (calculated and published by the SBP) for FX transactions between the SBP and the government (in place since 1999). At the time, this mechanism was introduced to bring transparency in FX transactions with the government. We are working on updating the relevant procedures for these FX transactions to eliminate the MCP.

14. Cognizant that a sound and resilient financial sector is critical for macroeconomic stabilization, we continue to closely monitor the impact of domestic and external pressures on the sector and stand ready to act decisively to safeguard its resilience. We recognize that navigating the current economic challenges requires public trust in the soundness of banks and other financial institutions. In this regard, the SBP stands ready at all times to exercise its regulatory and supervisory mandate resolutely, including by:

a. ***Addressing undercapitalized financial institutions***. Two private banks and two public banks remain undercapitalized, and we consider it critical to swiftly address this situation in order to remove any uncertainty about the health of the sector. Despite progress with the recapitalization of one private bank, neither bank has been fully recapitalized, and we have delayed resolution because of on-going talks with potential investors. We will remain closely engaged with the two undercapitalized private banks and are committed to ensuring compliance with the minimum capital requirements at the earliest. A mid-sized public sector bank has become undercapitalized during FY23 on account of credit and mark-to-market losses, and we are in close contact with the shareholders to make the bank capital-compliant by end-September 2023. Progress on the small public sector bank undergoing privatization remains slow and we were unable to complete the process in FY23. In late December 2022, the Cabinet Committee on Privatization decided to delist the bank from the privatization program. Since the cabinet ratified this decision on December 28, 2022, and decided to wind down the bank on March 17, 2023, the SBP has started the implementation of the approved winding-down plan. We have adopted a comprehensive strategy to address high levels of NPLs, including by requiring bank-specific plans for reducing NPLs, and to write off/charge off fully provisioned NPLs. Going forward, we will take prompt supervisory action to address any additional banks which may become undercapitalized, requiring their owner to ensure adequate capital levels. We will also continue our efforts to tackle pockets of vulnerability in the microfinance bank sector, which has been severely affected by the floods, among others by asking the owners for time-bound recapitalization plans to address existing capital shortfalls and by otherwise ensuring the orderly market exit of non-viable institutions. We will postpone the extension of the deposit insurance system to this sector until these issues have been addressed to the satisfaction of the supervisor, while ensuring that other preconditions have been met.

b. ***Mitigating external pressures***. Exchange market pressures cannot be allowed to threaten banking sector health. In this regard, we will ensure that foreign exchange exposures of banks remain within the regulatory limits (or else face supervisory sanction) and that adequate FX liquidity be maintained. All banks which in the interim breached their net open position limits have returned to full compliance at end-March 2023.

c. ***Upgrading the crisis management framework***. We are advancing our efforts to strengthen our bank resolution and crisis management frameworks, including the deposit insurance scheme, and align these with international best practice. To that end, we have submitted the draft law, in line with IMF staff recommendations, to the cabinet in November 2022, and will submit the amendments to parliament by end-December 2023 (**end-December 2023 SB**).

d. ***Effective implementation of AML/CFT***. Owing to progress in enhancing AML/CFT effectiveness, Pakistan has successfully exited the FATF list in October 2022. With respect to the tax amnesty program for the construction sector, the SBP shared with the banking sector key findings of the thematic inspection in September 2022. The SBP has issued fines for AML/CFT shortcomings and encouraged banks to develop internal guidelines on mitigating potential risks associated with tax amnesty programs.

Energy Sector Policies

15. We recognize that conditions in the power sector have grown acute in FY23, with power subsidy pressures growing in the face of binding cash constraints, higher-than-expected arrears accumulation, and increased load shedding. At end-March 2023, the stock of power payment arrears (called circular debt, CD) reached a new historical high of PRs 2,542 billion (3 percent of GDP), reflecting an increase of PRs 289 billion since end-FY22 (with PRs 417 billion from the CD flow and PRs 128 billion from gradual CD stock clearance from the budget[6]). Together with distribution companies' (DISCOs) continued large under-collection, policy slippages fueled the sector's financial

[6] Those include the partial settlement of: (i) due principal for the publicly-guaranteed Power Holding Private Limited (PHPL) debt (PRs 35 billion); and (ii) unguaranteed Central Power Purchasing Agency (CPPA) arrears (PRs 93 billion) to GENCOs (in return for previously revised PPA terms), WAPDA, nuclear power plants, and NPPMC.

losses: mainly new unbudgeted subsidies[7] and delays in regular tariff adjustments.[8] On the brink of a liquidity crisis and amid tight fiscal space, we had to take measures worth PRs 196 billion to contain the overrun in both: (i) budget subsidies to PRs 335 billion; and (ii) CD flow to PRs 336 billion (as also reflected in our updated FY23 CDMP approved by our cabinet on February 13, 2023). From Mach 2023, we: (i) recouped the deferred June and July 2022 FPAs (PRs 31 billion in FY23) by collecting installments over 8 months from the originally sheltered households (but the flood-affected);[9] (ii) reformed the debt service surcharge (DSS, about PRs 80 billion in FY23 and PRs 302 billion p.a. from FY24) by permanently expanding the base (from only ex- Water and Power Development Authority (WAPDA) DISCO consumers to, additionally, K-Electric (KE) consumers) and hiking the level, fully sparing protected consumers[10] (from PRs 0.43/kwh to, on average for the FY and across consumer slabs, PRs 3.82/kwh until end-FY23 PRs 2.63/kwh from FY24; (iii) phased out new and unbudgeted subsidies (PRs 65 billion in FY23) by letting the zero-rated industry and agriculture subsidy packages permanently expire; and amended the GST regime (PRs 14 billion in F23 alone) by (a) levying GST on notified (rather than the determined) power tariffs in FY23 and reimbursing DISCOs a remaining PRs 5 billion in monthly tranches until end-June 2023 that FBR continued to collect during a transition period; and (b) making DISCOs pay GST on a collection basis (rather than on a billing/accrual basis).[11]

16. Going forward, we remain resolved to address the drivers of the CD flow. We project the sector's financial gap (after revenue collection) to amount to PRs 976 billion (0.9 percent of GDP), a slight decrease from the projected FY23 financial gap thanks to permanent relief from the crucial FY23 measures on the revenue side (see above) and our steadfast reform commitment. A budget subsidy of PRs 976 billion (0.9 percent of GDP) will address urgent liquidity needs in FY24 by covering: (i) outlays for the projected power tariff differential (for DISCOs and KE, PRs 319 billion) and other—in large parts one-off or installment—payments to provinces, tribal areas, and KE (PRs 265 billion); and (ii) CD stock payments of PRs 392 billion through PHPL principal settlements (PRs 82 billion) and payments to GPPs and CPEC IPPs (PRs 310 billion). Key priorities, which will also feature in our updated FY24 CDMP that the cabinet is expected to adopt by end-July 2023, are:

a. ***Ensuring cost-recovering tariffs***. We will notify the FY24 annual rebasing (AR) in full and with effect from July 1, 2023, as determined by NEPRA (which will, amongst others, account for a

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[7] We (i) extended the power discount for key export sectors through FY23 (to PRs 19.99/kwh all inclusive); and (ii) lowered the power tariff for agriculture (by PRs 3.60/kwh).

[8] We implemented the three-step combined ARs of PRs 7.91/kwh for FYs22 and 23 on October 1, 2022; but the FY23-Q1 QTA remained outstanding until February 2023. We also deferred two monthly FPAs that were earlier notified by NEPRA for August (PRs 9.9/kwh) and September (PRs 4.34/kwh) for roughly 85 percent of residential consumers.

[9] To smooth consumer bills, the tariff markup will be differentiated across slabs in the order of magnitude of PRs 2–3/kwh in March, PRs 2–2.75/kwh in April, PRs 0.5–2.25/kwh in May, PRs 0.5–0.95/kwh in June, PRs.0.5–0.89/kwh in July, PRs 0.9–1.5/kwh in August, PRs 1–1.75/kwh in September, and PRs 0.63–1.5/kwh in October.

[10] We exclude from the hike: (i) generally, lifeline and protected residential consumers; (ii) temporarily, agriculture (until the tube-well reform is implemented); and (iii) temporarily, unprotected residential consumer in the smallest slabs up to 300kwh/month (until end-October 2023, when the FPA recovery will be completed).

[11] Cases of delinquent consumers shall be forwarded to the FBR through a mutually agreed mechanism.

projected slowdown in power demand growth, depreciation of the rupee and increase in interest rates) (**end-July 2023 SB**). NEPRA will also continue with automatic notifications of regular QTAs and FPAs in line with established formulas in a timely manner, supported by our efforts to spare the protected slabs (as this will help both achieve cost recovery and increase the progressivity of the tariff structure for residential consumers, as intended by the 2022 residential subsidy reform). To this end, we will further strengthen cooperation between the DISCOs, Ministry of Power, and NEPRA to facilitate swift petition and determination processes.

b. ***Better targeting subsidies***. After the residential subsidy reform in 2022,[12] we have taken, supported by the World Bank, the next step in our multi-year subsidy rationalization plan that focuses on tube wells for large agricultural users. Given delays, notably related to the field survey in the provinces, we have now reached the consultative stage to devise comprehensive subsidy rationalization program wells, keeping in view variable ground water table and enforcement density across the country, and differential spare land availability constraints. We aim to submit a concrete reform proposal to our cabinet by end-2023, followed by a costed realistic implementation plan by end-FY 2023.

c. ***Accelerating medium-term cost-reducing reforms***. After facing some capacity-related delays, we have recently started to accelerate various programmed structural reforms with the help of the World Bank, ADB, and other donors (supported through well-prioritized and complementary conditionality in their programs) that are aimed at reducing commercial and technical losses, improving governance and PPA terms, increasing competition as well as reducing generation costs and greening the energy mix. In FY24 we will continue to:

- *Improve price signals for inputs*. We are engaged in a series of price-setting reforms for end-user gas prices (¶17) that will ultimately also help reduce power generation costs, notably by ensuring that weighted average gas prices can help channel scarce gas resources to the most efficient gas-based power generator (merit order principle).
- *Renegotiate remaining PPAs in return for clearing unguaranteed CPPA-G arrears*. We will settle up to PRs 180 billion earmarked for IPPs and government power producers (GPPs) with revised PPA terms, using the established contract structure (10-year floating-rate PIBs and 5-year sukuks in equal parts, or a more efficient financial instruments).
- *Convert expensive government-guaranteed PHPL debt into cheaper public debt*. We have only created fiscal space to settle PRs 35 billion of the PRs 164 billion falling due in FY23 from the budget and roll over the public guarantee for the remaining PRs 129 billion.
- *Improve distribution efficiencies.* As the most critical part of managing the CD flow, we have taken measures toward improving DISCOs' efficiency and governance (also supported by the new SOE law and policies, ¶19). For FY23, while technical losses are expected to be reduced to 16.27 percent from 16.85 percent in FY22, collections are expected to remain at FY22 levels because of the floods. The measures include a combination of technology, enforcement mechanisms, and introduction of private participation.

[12] The key reform achievements were (i) anchoring lifeline tariffs; (ii) lowering the threshold for protected slabs from 300 to 200 kwh per month; and (iii) consolidating eligibility criteria for the protected slabs.

- *Pursue other reforms*, most notably: (i) accelerate the green energy transition as per the 2021 National Electricity Policy (including by seeking NEPRA's approval of both the annually updated IGCEP and Transmission System Expansion Plan (TSEP)) that meets the requirements for an increased share of variable and cheaper renewable energy in the generation mix); and (ii) seek NEPRA's approval of the updated Grid Code and Commercial Code to set the objectives, principles, rules, procedures, rights, and obligations that govern the trading in the new wholesale market (expected to be launched in April 2023), and thus to improve the efficiency in distribution. We are working on the eligibility criteria for key market entities expected to be launched beforehand, as per the NEPRA Act.

As per the established principle, we will strive to reduce capacity payments, as we pay arrears, either by renegotiating PPAs or by lengthening the duration of bank loans, depending on adequate budget space and CDMP implementation progress. The same principle applies to the assumption of PHPL amortization by the federal budget. We will also continue to refrain from netting out cross-arrears (unless they are independently audited); using "non-cash" settlements (e.g., payables against the reimbursement of on-lent loans to DISCOs); and issuing government guarantees (e.g., for PHPL-issued sukuks to transfer CPPA-G payables to PHPL).

17. We are also accelerating our reform effort in the gas sector that faces unsustainable CD dynamics and urgent liquidity pressures. Unfortunately, the CD stock in the wider gas sector has increased considerably and liquidity constraints have increased gas shortages, quickly becoming comparable to that in the power sector. The main driver of this evolution was the non-implementation of regular end-user gas price adjustments in line with semiannual OGRA determinations of prescribed prices since September 2020. Additional drivers were the accumulation of re-gasified liquid natural gas (RLNG) tariff differential since FY19, diversion costs (that mainly reflect the diversion of costly RLNG to domestic consumers during winters, and large unaccounted-for-gas (UFG) losses. In response, we have started—supported by the World Bank—to take important reforms that aim at generating more cash, reducing CD, and hence, enable gas companies to invest in their infrastructure and reduce UFG losses. Specifically, we updated end-user gas prices and changed the structural end-user gas tariff.[13] We are now in the process of:

a. ***Unifying pricing across indigenous gas and imported RLNG***. The Ministry of Energy is working on guidelines to be issued to OGRA to implement structural gas pricing changes implied by the weighted average cost of gas (WACOG) bill enacted in March 2022. Once implemented (with the then next OGRA determination), the WACOG will allow to achieve full cost recovery of more expensive imported RLNG and provide a more adequate price signal to guide gas consumption across all sectors and help reduce power generation costs.

[13] OGRA notified adjusted end-user gas prices of on average 75 percent on February 17, 2023 to generate an estimated revenue of PRs 310 billion from consumers in FY23H2: (i) as per its January 11, 2023 determination of the Revised Estimated Revenue Requirement of the gas companies for FY23 (mainly reflecting the pass-through of high international commodity prices); and (ii) along an updated tariff slab system adopted by our cabinet on February 14, 2023, notified by OGRA on February 15, 2023, and developed with the support of the World Bank. As in the power sector, the slab system ensures full cost-recovery, affordability, and efficiency (amongst others through the establishment of cross-subsidized lifetime tariffs and other protected tariffs for smaller residential consumers).

b. ***Improving the monitoring and management of the gas CD***. Replicating the reform approach in the power sector and supported by international development partners, we are working toward: (i) devising a precise definition of CD for the gas sector (that includes oil but excludes power sector elements); (ii) compiling detailed and verified gas CD stock statistics; (iii) establishing a quarterly gas CD flow reporting system (also benefitting from improved data management and projection capacity); and (iv) devising a gas CDMP. Salient elements of the CDMP will include regular adjustments of end-user gas prices as per established formulas (and in line with the OGRA Amendments Ordinance effective since March 2022) and tangible cost-reducing reforms (including measures to reduce unaccounted for gas (UFG) losses, including through improvements in infrastructure, rehabilitation of networks, and theft controls).

Structural Policies

18. We continue to implement several comprehensive structural reforms in an effort to attract investment and support growth and job creation. We will continue to focus on policies that: (i) reform state-owned enterprises (SOEs); (ii) improve the overall business environment; (iii) enhance governance; and (iv) build resilience to climate change.

19. We are committed to improving SOEs' governance, transparency, and efficiency as well as limiting their fiscal risks. In addition to the operationalization of the CMU within the MOF (¶7) that will improve the government's SOE monitoring, specific actions include:

a. ***Enhancing the SOE legal and regulatory framework***. Our new SOE law took effect in December 2022 and, inter alia: (i) ensures that SOE operations are grounded on a commercial footing, including by defining what constitutes a commercial SOE; and (ii) strengthens oversight and ownership arrangements. We are now working with ADB support to finalize further regulatory reforms, including (**end-November 2023 SB**): (i) operationalizing the recently approved SOE law into a policy that clarifies ownership arrangements and the division of roles within the federal government; and (ii) amending the Acts of four selected SOEs to make the new SOE law fully applicable to those SOEs.[14] We are currently targeting the National Highway Authority, Pakistan Post, Pakistan National Shipping Corporation, and Pakistan Broadcasting Corporation.

b. ***Increasing transparency***. SOEs are continuously audited by external auditors and their audit reports are usually published, while the Auditor General conducts the 'compliance with authority' audit of the accounts of SOEs. In addition, we have asked our Auditor General to conduct special audits of several SOEs (i.e., SSGCL, HESCO, and PESCO) because of their size and importance in their sectors. The respective line ministries are currently in the process of defining the scope and terms of reference in consultation with all relevant stakeholders, and plan to secure the necessary approvals for commissioning the audit by the end-FY23.

[14] About 20 SOEs are still operating under outdated dedicated Acts and thus ad-hoc statutory frameworks.

20. We see improving Pakistan's competitiveness and the business environment as key for supporting medium-term growth, private sector development, investment, and job creation. Going forward, we will continue to focus on:

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

b. ***Addressing structural deficiencies in the housing and construction sector***. We identified several structural impediments facing the housing and construction sector, including: (i) land title documentation; (ii) real estate regulatory authorities; (iii) availability of long-term financing; (iv) foreclosure laws; and (v) credit scoring. While headway is being made to address some of these constraints, we recognize the need for more work, in partnership with private sector participants and representatives from provincial governments. To this end, in June 2022, we established the working group comprised of relevant stakeholders (including the private sector and SBP). The working group submitted a draft strategy paper on January 31, 2023, proposing solutions to mitigate the above constraints, which is being examined.

21. Measures to strengthen governance and the control of corruption remain key. Our priority lies on strengthening the effectiveness of anticorruption institutions. To further advance transparency, accountability, and integrity in the public sector, we issued regulations to establish an electronic asset declaration system in February 2023 that is comprehensive (i.e., covering assets beneficially owned or located abroad), centrally-held with the Federal Board of Revenue, covering federal civil servants of Basic Pay Scale (BPS) 17 to 22, accessible to entities authorized by law (including banks for the limited purposes of conducting customer due diligence as required for the provision of banking services), and effectively verified. In February 2023, the FBR has issued regulations that will provide banks access to asset declarations of these covered civil servants for purposes of customer due diligence. In addition, banks shall provide bi-annual feedback to FBR on the use of information received under the regulations (end-July and end-January), and an annual compliance audit will be undertaken by the SBP. Public access for annual declarations for all members (elected and unelected) of the federal government cabinet of Pakistan will also be institutionalized. The second Review Cycle under the UNCAC implementation mechanism is already in its final stages. A country visit has been conducted by the reviewers who have shared their draft Executive Summary through UNCAC with Pakistan for comments. It is expected that the Review will be finalized soon, and we will publish the full report including the findings, analysis, and recommendations for improving the anti-corruption framework. A task force, to be established by the Ministry of Law and Justice and undertaken in consultation with the MoF, with participation and inputs from reputable independent experts with international experience and civil society organizations, will complete and publish a comprehensive review of the institutional framework of our anticorruption institutions (including the National Accountability Bureau) to enhance their independence and effectiveness in investigating and prosecuting corruption cases, with proposals for legislative amendments as appropriate. The task force has designated the Minister of Law and Justice as its chairperson and is currently undertaking consultations with key stakeholders, including the National Accountability Bureau, Federal Investigation Agency, Auditor General of Pakistan, and FBR, among others. The task force will also recommend as appropriate structural reform measures that strengthen independence of anticorruption institutions (including the appointing process of the Chair of the National Accountability Bureau, scope of investigative jurisdictions of anti-corruption institutions), prevent political influence and persecution, and provide for transparency and accountability controls against abuse (including mechanisms for discipline and accountability). The task force has designated the Minister of Law and Justice as its chairperson and is currently undertaking consultations with the National Accountability Bureau, Federal Investigation Agency, Auditor General of Pakistan, and Federal Board of Revenue, among others. Consultations with other key stakeholders and the public will also be undertaken before the report of the task force is finalized.

22. Responding to climate change is an urgent and existential challenge for Pakistan, as most recently highlighted by the catastrophic 2022 floods. We already dedicate about 1 percent of GDP per year to climate change policies, almost entirely on the spending side (split nearly equally between federal and provincial level). We have also recently taken administrative steps to improve green budgeting starting with the FY24 budget to better streamline the budget planning, execution, and reporting processes of green budget components.

a. ***Mitigation and transition management***. We are an active party to the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC) and Global Methane Pledge.[15] Key projects comprise our ambitious reforestation project (i.e., Ten Billion Tree Tsunami), greening our energy mix (¶16.c), and policies aimed at inducing changes in relative prices to guide households and firms toward a more carbon-neutral economy (including through an adequately taxing fuel products (¶5.a), and developing a tax system and incentives framework in line with international best practice).

b. ***Adaptation***. To identify adaptation needs and policies to boost resilience, we hope to finalize our UNFCCC-supported National Adaptation Plan (NAP) by mid-2024. Until then, we will prioritize "no-regret" measures, including: (i) strengthening PFM to enhance capital expenditure efficiency through a Climate-PIMA supported by IMF TA, culminating in cabinet adoption of a related Climate-PIMA and PIMA action plan in summer 2023 (**end-December 2023 SB**); and (ii) prioritizing resilience-boosting policies, notably social protection (¶10), build-back-more-resilient infrastructure destroyed during the recent floods through 4RF framework, executing the updated 2015 National Flood Protection Plan (NPFF), and

[15] For more details, see our Nationally Determined Contributions (NDCs) report https://unfccc.int/sites/default/files/NDC/2022-06/Pakistan%20Updated%20NDC%202021.pdf.

transforming the agri-food system (as also laid out in the World Bank's 2022 Country Climate and Development Report (CCDR) for Pakistan).

23. We recognize the importance of timely, reliable, and comprehensive provision of macroeconomic data for both policymakers and the private sector. In this regard, we are committed to furnishing Pakistan Bureau of Statistics (PBS) with the requisite resources to commence the planned compilation and dissemination of the Quarterly National Accounts (QNA) starting with FY24Q1 and the timely revision of annual provisional estimates (**end-November 2023 SB**).

Financing and Program Monitoring

24. We have secured adequate financing from our international partners to support our economic reform program. Current projections suggest that with the policies outlined in this MEFP, the gross external financing needs for FY24 will amount to approximately US$28.4 billion (including the current account), of which about US$14.5 billion is amortization to multilateral and bilateral official as well as commercial creditors. To close this gap, we have secured US$10 billion as rollovers and refinancing of maturing debt and US$5.6 billion in additional financing commitments from bilateral, multilateral, and commercial partners, including some of the funds pledged at the time of the combined seventh and eighth EFF reviews, at the International Conference held in Geneva in early 2023, and other sources. In line with program financing commitments, key bilateral creditors will at least maintain their exposure to Pakistan.

25. The program will be subject to quarterly reviews, prior actions, quarterly performance criteria, and continuous performance criteria as set out in this MEFP. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, continuous performance criteria, indicative targets and structural benchmarks under the program. Completion of the two reviews scheduled for November 2023 and February 2024 will require observance of the quantitative performance criteria for end-September 2023 and end-December 2023, respectively, as set out in Table 1—along with continuous PCs and ITs. The PAs and SBs are set out in Table 2.

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

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

	end-September 2023	end-December 2023
	Prog.	Prog.
I. Quantitative Performance Criteria		
Floor on net international reserves of the SBP (millions of U.S. dollars)	-14,550	-13,800
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,048	14,888
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	4,200	4,000
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	4,708	4,708
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-87	-1232
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees)	4,000	4,050
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	87.5	185.5
II. Continuous Performance Criteria		
Zero new flow of SBP's credit to general government	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	0
III. Indicative Targets		
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	465	1,031
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,977	4,425
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	32	43
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	-155	64

Sources: Pakistani authorities; Fund staff estimates.

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

2/ Cumulative from the start of each fiscal year. "-" means surplus.

Table 2. Pakistan: Structural Conditionality

Actions			
Prior Actions		**Rationale**	**Status**
1	***FY24 budget*** . Parliamentary approval of a FY24 budget in line with IMF staff agreement to meet program targets.	To ensure achievement of fiscal objectives.	Met.
2	***FX market functioning*** . Withdrawal of the circular on prioritization in providing FX for certain types of imports introduced in December 2022, with the purpose of ensuring full market determination of the exchange rate.	To ensure a market-determined exchange rate.	Met.
Structural Benchmarks		**Date**	**Status**
Fiscal			
1	Commit to not grant further tax amnesties.	Continuous	
2	Avoid the practice of issuing new preferential tax treatments or exemptions.	Continuous	
3	Issuance by the Central Monitoring Unit (CMU) of its first periodic report on the performance of SOEs, using latest available data, to the Federal Government.	end-Dec. 2023	
Social			
4	Inflation adjustment of the unconditional cash transfer (Kafalat).	end-Jan. 2024	
Monetary and Financial			
5	Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.	Continuous	
6	Submission to parliament of amendments to align Pakistan's early intervention, bank resolution, and crisis management arrangements with international good practices, in line with IMF staff recommendations.	end-Dec. 2023	
Energy Sector and State-Owned Enterprises			
7	Notification of the annual rebasing (AR) for FY24 to take effect on July 1, 2023.	end-Jul. 2023	
8	Improve state-owned enterprise (SOE) governance by: (i) operationalizing the recently approved SOE law into a policy that clarifies ownership arrangements and the division of roles within the federal governments; and (ii) amending the Acts of four selected SOEs to make the new SOE law fully applicable to those SOEs.	end-Nov. 2023	
Climate			
9	Cabinet adoption of a Climate-PIMA and PIMA action plan.	end-Dec. 2023	
Economic Statistics			
10	Compilation and dissemination of Quarterly National Accounts for FY24Q1 and revised annual estimates for FY23.	end-Nov. 2023	

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU)** sets out the understanding between the Pakistani authorities and the IMF staff regarding: (i) the ***definitions*** of quantitative performance criteria (and their adjustment mechanisms), indicative targets, and—if needed—prior actions and structural benchmarks in Section A below; and (ii) the respective ***reporting requirements*** used to monitor developments—for the economic program under the Stand-By Arrangement (SBA)—as described in the authorities' Letter of Intent (LOI) dated June 30, 2023 and the attached Memorandum of Economic and Financial Policies (MEFP, notably its Tables 1 and 2) in Section B below. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in program design and accounting classifications introduced during the program period.

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

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

1/ As of June 26, 2023.

2. **For purposes of monitoring under the program**, all assets and liabilities as well as debt contracted, denominated in Special Drawing Rights (SDRs) or in currencies other than the U.S. dollar, are converted into U.S. dollars at the program exchange rates. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at 286.7091 rupee per one U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Table 1.

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Overview

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

- ***Performance Criteria***.
  - *Floor on the net international reserves (NIR) of the State Bank of Pakistan (SBP)* (millions of U.S. dollars);
  - *Ceiling on the net domestic assets (NDA) of the SBP* (stock, billions of Pakistani rupees);
  - *Ceiling on SBP's stock of net foreign currency swap/forward position* (millions of U.S. dollars);
  - Ceiling on the general government primary budget deficit excluding grants (cumulative flows, billions of Pakistani rupees);
  - *Ceiling on net government budgetary borrowing from the SBP* (including provincial governments) (stock, billions of Pakistani rupees);
  - *Ceiling on the amount of government guarantees* (stock, billions of Pakistani rupees); and

  - *Floor on targeted cash transfers spending (BISP)* (cumulative, billions of Pakistani rupees).

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

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

B. Performance Criteria

B.1. Floor on the Net International Reserves (NIR) of the SBP

Definition

4. The general government is defined as the central (federal) government and local (provincial) governments, excluding state-owned enterprises. The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities, that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2014. The authorities will inform IMF staff on the creation of any such entities without delay.

5. Net international reserves (stock) of the SBP are defined as the U.S. dollar value of the difference between usable gross international reserve assets and reserve-related liabilities, evaluated at program exchange rates.

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

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

8. **Aggregate net position in the foreign exchange derivatives** is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP and general government vis-à-vis the domestic currency (including the forward leg of currency swaps).

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

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

Adjustment mechanism

11. For the end-September and end-December 2023 test dates, the floor on NIR will be **adjusted** upward (downward) by the cumulative excess (shortfall) in:

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

b. ***the cumulative excess (shortfall) of the actual stock of NIR at end-June 2023 relative to the projected amount***. The stock of NIR of SBP at end-June 2023 is projected at negative US$16,721 million.

Downward adjustment of the floor on NIR will be limited to a maximum of US$2,000 million for both the September 2023 and December 2023 test dates.

B.2. Ceiling on the Net Domestic Assets (NDA) of the SBP

Definition

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

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

Adjustment mechanism

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

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

b. the ***actual stock of NIR at end-June 2023*** relative to the projected amount (see above) and evaluated at the program exchange rate.

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

B.3. Ceiling on SBP's Stock of Net Foreign Currency Swap/Forward Position

15. The **stock of net foreign currency swap/forward positions** is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). It will be evaluated at the program exchange rate.

B.4. Ceiling on the General Government Primary Budget Deficit Excluding Grants

Definition

16. The **general government primary budget deficit (excluding grants)** is monitored quarterly as the general government's overall budget deficit (excluding grants) minus the consolidated interest bill of the federal and provincial budgets.

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

a. ***net external budget financing***, excluding valuation changes, evaluated at actual average quarterly exchange rates;

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

c. ***change in the net domestic nonbank financing***, excluding valuation changes. These comprise: (i) privatization receipts (either received directly or transferred from the privatization accounts to the general government budget, including from abroad and in foreign currency); (ii) change in the stock of issued government securities held outside the general government and the banking system, net of valuation changes; (iii) change in net deposits and reserves received by the general government (public accounts deposits); (iv) any other government borrowing from domestic nonbank sources net of repayments; minus (v) change in general government deposits with nonbank financial institutions; and

d. ***total external grants to the federal and provincial governments***, which are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants. External grants are evaluated at actual average quarterly exchange rates.

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

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

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

Adjustment mechanism

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

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

b. downward by any underexecution in the ***targeted cash transfers (BISP)*** relative to their indicative program target;

c. downward by any excess in the flow of ***power sector payment arrears*** above the respective indicative program targets, excluding non-recoveries and excess line losses (see Text Table 2); and

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

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

Definition

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

B.6. Ceiling on the Amount of Government Guarantees

21. The **ceiling on the amount of government guarantees** applies to the stock of publicly guaranteed debt for which guarantees have been issued by the central government. It includes both domestic and external government guarantees. External government guarantees will be converted into Pakistani rupees at the program exchange rate. This ceiling excludes guarantees issued by the Ministry of Finance for the SBP borrowing from the IMF.

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

22. The floor on **targeted cash transfers spending (BISP)** applies to the cumulative targeted cash transfers spending by the Benazir Income Support Program (BISP), i.e., all spending on BISP programs targeted at families with a poverty-means tested (PMT) score below that applies to the unconditional cash transfer program (Kafalat).

C. Continuous Performance Criteria

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

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

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

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

C.3. Other Continuous Performance Criteria

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

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

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

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

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

D. Indicative Targets

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

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

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

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

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

28. The ceiling on the **net accumulation of tax refund arrears** applies to the cumulative flow of tax refund arrears. The stock of tax refund arrears is defined as the amount of tax refund claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond/promissory note or an official decision to reject the claim) within a specified time period after the tax refund claim has been submitted to the FBR. The stock of income tax refund arrears is PRs 215 billion as of end-May, and the net accumulation of income tax refund arrears will be counted from the starting point of PRs 215 billion or the stock remaining on July 1st, whichever of the two is lower; the stock of sales tax arrears at end-May is PRs 183.8 billion, and the net accumulation of sales tax refund arrears will be counted from the starting point of PRs 183.8 billion or the stock remaining on July 1st, whichever of the two is lower.

D.4. Ceiling on Power Sector Payment Arrears

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

Text Table 2. Pakistan: Flow of Power Sector Payment Arrears (Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

	FY2023/24	
	end-Sep.	end-Dec.
	Target	Target
Total flow	**-155**	**64**
Operational part	**163**	**272**
DISCOs' losses and inefficiency	79	133
DISCOs' under-recoveries	84	139

Source: Pakistani authorities.

30. **Monitoring mechanism** to track the stock and flow of payables. The stock of payment arrears includes payables of PRs 2.5 trillion (of which PRs 765 billion held at PHPL) as of end-FY23Q3. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) and its components are given in Text Table 2.

PROGRAM REPORTING REQUIREMENTS

31. **To effectively monitor the program performance, the authorities will provide all the needed data** to the IMF in line with Article VIII, Section 5 of the IMF Articles of Agreement as deemed necessary. Performance under the program is monitored from data supplied to the IMF by the SBP, Ministry of Finance, FBR, Pakistan Bureau of Statistics, Ministry of Energy (Power and Petroleum Division), and other agencies as outlined in Table 3 below. Irrespective of the requirements outlined in Table 3, the authorities will report on an ongoing/continuous basis any non-observance of continuous PCs. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Pakistan: Projected Disbursements

(Millions of U.S. dollars)

	FY 2023		FY24	
	Jan-March 2023	Apr-Jun 2023	Jul-Sep 2023	Oct-Dec 2023
Multilateral and bilateral disbursements	3,049	3,286	5,545	6,730
of which: in cash 1/	2,820	2,885	5,346	6,328
of which: Saudi oil facility and IDB commodity loans	376	400	928	960
of which: project support	634	1,111	556	1,062
of which: sales of state-owned assets	0	0	0	0
International bond issuance 2/	-81	0	0	0
Commercial borrowing	1,700	1,600	0	0
Other	0	0	0	0
Gross inflows	4,668	4,886	5,545	6,730
of which: in cash	4,439	4,485	5,346	6,328
memo: New loans/deposits at SBP 3/	0	0	1,000	0

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

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

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

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

Table 2. Pakistan: Government Sector (Budgetary Support)

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

ITEM	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	31-Dec-21	31-Mar-22	30-Jun-22	30-Sep-22	31-Dec-22
A. Central Government	**12,586,952**	**12,933,003**	**13,118,407**	**13,939,638**	**14,972,589**	**15,301,056**	**15,650,396**	**16,110,338**	**16,894,192**	**17,246,761**	**17,610,912**	**18,654,968**	**20,356,780**	**21,129,273**	**20,910,270**
1. Scheduled Banks	**5,753,677**	**7,461,389**	**6,697,593**	**7,259,336**	**8,222,465**	**8,767,130**	**9,254,690**	**10,250,249**	**11,181,917**	**11,458,935**	**11,473,393**	**12,444,143**	**14,630,114**	**14,754,165**	**14,909,358**
a) Government Securities	2,568,289	3,319,899	3,552,790	3,581,969	4,441,763	5,498,121	6,115,941	6,400,843	6,790,862	7,081,073	8,434,399	9,999,819	11,080,300	11,833,948	13,562,583
b) Treasury Bills	4,413,731	5,316,079	4,348,498	4,934,845	5,152,667	4,643,369	4,528,674	5,268,909	6,050,056	6,128,777	4,875,795	4,206,080	5,569,890	4,890,806	3,672,870
c) Government Deposits	-1,228,344	-1,174,589	-1,203,695	-1,257,478	-1,371,965	-1,374,360	-1,389,926	-1,419,503	-1,659,001	-1,750,914	-1,836,802	-1,761,757	-2,020,076	-1,970,589	-2,326,096
2. State Bank	**6,833,275**	**5,471,615**	**6,420,814**	**6,680,302**	**6,750,124**	**6,533,926**	**6,395,706**	**5,860,089**	**5,712,275**	**5,787,826**	**6,137,519**	**6,210,825**	**5,726,667**	**6,375,109**	**6,000,912**
a) Government Securities	7,189,745	7,189,745	7,189,745	7,189,740	7,189,740	6,904,745	6,904,745	6,904,740	6,620,740	6,335,745	6,051,740	6,052,088	6,096,387	5,786,387	5,786,387
b) Accrued Profit on MRTBs	2,909	259,192	109,331	285,953	83,618	167,834	68,278	161,295	58,537	147,020	49,070	190,416	50,173	235,625	37,661
c) Treasury Bills	570,158	570,148	285,170	285,191	2,816	3,270	3,270	3,169	6,133	53,501	51,382	49,404	50,240	51,265	61,218
of which: MTBs created for replenishment of cash balances	569,000	569,000	284,000	284,000	0	0	0	0	0	0	0	0			
d) Treasury Currency	9,569	9,569	9,789	9,789	9,789	9,788	9,789	9,401	9,797	9,806	9,770	9,711	9,845	9,821	9,773
f) Government Deposits (Excl. Zakat and Privatization Fund)	-967,305	-2,584,405	-1,202,341	-1,119,397	-565,997	-577,503	-616,694	-1,240,886	-1,016,725	-784,477	-539,821	-607,961	-1,009,058	-279,620	-483,549
B. Provincial Governments	**-990,484**	**-1,180,548**	**-1,335,318**	**-1,376,713**	**-1,224,280**	**-1,267,549**	**-1,464,836**	**-1,619,932**	**-1,520,728**	**-1,796,571**	**-1,990,691**	**-2,100,769**	**-1,850,313**	**-2,071,214**	**-1,946,621**
1. Scheduled Banks	**-849,079**	**-813,920**	**-865,864**	**-907,882**	**-1,012,953**	**-990,486**	**-1,022,026**	**-1,047,915**	**-1,140,944**	**-1,128,494**	**-1,158,018**	**-1,224,152**	**-1,265,079**	**-1,279,445**	**-1,234,512**
a) Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024
b) Government Deposits	-850,103	-814,944	-866,888	-908,906	-1,013,977	-991,510	-1,023,050	-1,048,939	-1,141,968	-1,129,519	-1,159,042	-1,225,176	-1,266,103	-1,280,469	-1,235,536
2. State Bank	**-141,405**	**-366,628**	**-469,454**	**-468,831**	**-211,327**	**-277,063**	**-442,810**	**-572,017**	**-379,784**	**-668,077**	**-832,673**	**-876,617**	**-585,234**	**-791,769**	**-712,109**
a) Debtor Balances (Excl. Zakat Fund)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
b) Government Deposits (Excl.Zakat Fund)	-141,405	-366,628	-469,454	-468,831	-211,327	-277,063	-442,810	-572,017	-379,784	-668,077	-832,673	-876,617	-585,234	-791,769	-712,109
C. Net Govt. Budgetary Borrowings From Banking System	**11,596,468**	**11,752,456**	**11,783,089**	**12,562,925**	**13,748,309**	**14,033,507**	**14,185,560**	**14,490,407**	**15,373,463**	**15,450,190**	**15,620,220**	**16,554,200**	**18,506,467**	**19,058,059**	**18,963,649**
Through SBP	6,691,870	5,104,987	5,951,360	6,211,471	6,538,797	6,256,863	5,952,896	5,288,072	5,332,490	5,119,749	5,304,846	5,334,209	5,141,433	5,583,340	5,288,803
Through Scheduled Banks	4,904,598	6,647,469	5,831,730	6,351,454	7,209,512	7,776,644	8,232,664	9,202,335	10,040,973	10,330,440	10,315,374	11,219,991	13,365,035	13,474,719	13,674,846
Memorandum Items															
1. Accrued Profit on SBP & BSC holding of MRTBs & MTBs	2,912	259,201	109,341	285,997	83,618	167,834	68,278	161,295	58,537	147,020	49,070	190,416	50,173	235,625	37,661
2. Scheduled banks ' deposits of Privitization Commission	-2,979	-2,516	-3,272	-2,289	-2,410	-2,438	-3,448	-3,227	-3,807	-3,376	-3,938	-6,141	-5,505	-5,751	-5,717
3. Outstanding amount of MTBs (Primary market; discounted value)	4,363,090	5,243,197	4,259,110	4,803,332	4,956,617	4,497,227	4,429,945	5,205,372	5,979,180	6,044,578	4,828,373	4,165,284	5,493,007	4,788,479	3,580,267
Net Govt. Borrowings (Cash basis) From Banking System	**11,545,893**	**11,422,889**	**11,587,632**	**12,147,705**	**13,471,051**	**13,721,969**	**14,022,001**	**14,268,802**	**15,247,857**	**15,222,347**	**15,516,953**	**16,311,865**	**18,330,776**	**18,629,167**	**18,724,618**
(i) From SBP	**6,688,958**	**4,845,786**	**5,842,019**	**5,925,475**	**6,455,179**	**6,089,030**	**5,884,619**	**5,126,777**	**5,273,953**	**4,972,729**	**5,245,062**	**5,126,529**	**5,037,119**	**5,251,023**	**5,136,659**
(ii) From Scheduled Banks	**4,856,935**	**6,577,103**	**5,745,614**	**6,222,230**	**7,015,872**	**7,632,939**	**8,137,383**	**9,142,025**	**9,973,904**	**10,249,617**	**10,271,891**	**11,185,336**	**13,293,657**	**13,378,144**	**13,587,959**

Table 3. Pakistan: Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	International reserves	Inflows/outflows into/out of Naya Pakistan Certificates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within five working day
	Foreign exchange market	SBP foreign exchange operations, and intervention (volume), distinguishing within spot transactions the outright purchase/sale and purchase/sale related to forward contract	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	SBP operations against the domestic currency in swap/forwards (including all legs of transactions): for each day, the initial outstanding FX swap/forward position, summary of transactions during the day, the end-of-day position	Daily	Within one day

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Foreign exchange market	Interbank market transactions in the spot market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), weighted average price transacted (untrimmed), simple average price transacted (simple mean, untrimmed), standard deviation of values transacted (untrimmed), and standard deviation of prices transacted (untrimmed).	Daily	Within one day
	Foreign exchange market	Interbank market transactions in the forward market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), standard deviation of values transacted (untrimmed), average maturity (simple mean, untrimmed), standard deviation of maturity (untrimmed).	Daily	Within one day
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Daily	Within one day
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days

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

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

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within seven days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Quarterly	Within seven days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large taxpayer units (LTUs)	Quarterly	Within seven days of the end of each month
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, PR. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance DISCOs Consolidated Income Statement Net Electrical Output & Power Purchase Price by Source, GWh Generation, Demand and Shortfall for FY10 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type	Quarterly	Within 30 days
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection from current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter

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

Staff Statement by the Staff Representative on Pakistan

Executive Board Meeting on Pakistan's Request for a Stand-By Arrangement

July 12, 2023

This statement provides an update on recent developments since the issuance of the report on June 30, 2023, and the status of political assurances. The update does not alter the thrust of the staff appraisal.

1. **Recent economic developments**. Headline inflation declined to 29.4 percent in June (from 38 percent in May), primarily due to base effects related to fuel and electricity price adjustments and easing food price pressures, while core inflation declined only slightly to 21.2 percent in June (from 22.8 percent in May). Although the fall in headline inflation is somewhat more pronounced than reflected in the staff report, price pressures are anticipated to remain elevated in the coming months, including due to the impact of measures in the agreed FY24 budget. The FY23 merchandise trade deficit, based on preliminary customs data, reached US$27.7 billion (8.1 percent of GDP), down from US$48.4 billion in FY22 (12.9 percent of GDP), but slightly above projections. Merchandise imports declined by 31 percent in FY23. The announcement of the staff-level agreement was well received by financial markets, with EMBIG spreads declining below 2,000 bps for the first time since September 2022 (from about 3,500 bps in mid-June 2023) and the exchange rate appreciated by 3.8 percent on July 4. The interbank exchange rate has since displayed small fluctuations and the spread between the interbank and open market rates has remained less than 1.25 percent. At end-June, international reserves recovered to US$4.5 billion reflecting increased SBP purchases.

2. **Political assurances**. In recent days, IMF staff has met with representatives of Pakistan's major political parties—Pakistan Muslim League-Nawaz, Pakistan People's Party and Pakistan Tehreek Insaf—and explained the objectives and key policies of the proposed SBA. All these parties expressed written support for the SBA's key objectives and policies ahead of the approaching national elections. They also recognized the role that the SBA will play in preserving macroeconomic stability by anchoring policies and supporting external financing over the coming months.

Statement by Mr. Bijani and Mr. Dogar

On behalf of our Pakistani authorities, we thank the mission team, led by Mr. Porter, for the close and constructive engagement in recent months. The team deserves special appreciation for its commitment to support Pakistan during discussions under reviews of the EFF program and the lead to request for the proposed Stand-By Arrangement. The authorities also highly appreciate the Management and Executive Board's continued support during these challenging times. On behalf of the authorities, we would also like to gratefully acknowledge Pakistan's bilateral partners for their support.

I. Introduction

The confluence of severe exogenous shocks, and political crises at home have exacerbated Pakistan's economic and financial crises, making it the most challenging period in its history. The catastrophic floods in 2022 and global crisis as well as external account imbalance intensified the crisis. The post-pandemic expansionary fiscal stance and the subsequent surge in global energy and food crises pressured the external accounts and inflation. FY2023 has been a year of unprecedented challenges for Pakistan's economy.

Pakistan's 2019-23 EFF program encountered implementation difficulties reflecting the external conditions, domestic political situation and to some extent policy missteps. There were, nevertheless, several positive structural reforms. The decisive action for the independence of the central bank through legislation, introduction of market-determined exchange rate regime, ending flow of circular debt in the power sector, expansion of social protection programs, introduction of new tariff structure in gas sector, removal of tax exemptions and exit from Financial Action Task Force (FATF) grey list could be counted among the important achievement of the program. However, the completion of some reviews was delayed, and the 9th review (of total eleven reviews) could not be completed primarily due to alignment of budget FY24 with staff recommendations and external financing constraints. Nevertheless, the prior actions for the ninth review were completed in February and June 2023, but external financing remained a challenge partly due to adverse rating actions by the rating agencies. The authorities demonstrated their willingness to address policy gaps but filling the continued external financing gap remained challenging for factors beyond their control. The policy agreement was achieved a few days prior to the end-June expiration of the EFF Program necessitating a new short-term arrangement with the Fund until the national elections in the Fall and instalment of a newly elected government late this year with a strong mandate to take decisions over the medium term.

II. Recent Economic Developments and Outlook

Pakistan's economy grew by 6.1 percent in FY2022, driven by a surge in domestic demand and stimulated by post-pandemic fiscal policy, resulting in high fiscal and current account deficits. By early 2023, the authorities focused on regaining sustainable macroeconomic stability, reducing poverty, and addressing fiscal and external account deficit.

The authorities' implementation of the macroeconomic stabilization policies soon started yielding dividends. The fiscal deficit was reduced to 3.6 percent of GDP during the first three quarters of FY2023 (July 2022-March 2023) compared to the 3.9 percent of GDP in the corresponding period last year. Over the same period, the primary balance recorded a surplus of 0.6 percent of GDP, against the deficit of -0.7 percent of GDP experienced the previous year, attributed to a slowdown in the growth of non-markup expenditures. The external current account recorded a surplus of US$ 0.8 billion in the two months of March-April 2023, marking the first monthly current account surplus since 2020. The current account deficit is likely to decline from US$ 17.5 billion in FY2022 to US$ 3.7 billion in FY2023. The recently released numbers show that the headline inflation has declined to 29.4 percent in June compared to 38 percent in May. The base effect related to energy and food price has started to kick-in while core inflation has declined from 22.8 percent in May to 21.2 percent in June. Pakistan's economy continues to face pressures from an uncertain global security situation, high inflation, lower capital inflows and a growing financing requirement.

III. Program Performance under the 2019-23 EFF

Pakistan's performance under the EFF Program should be viewed in the context of unanticipated and unprecedented global and national shocks that the economy confronted during the program period. The pandemic and especially surging global commodity prices had a pronounced impact on Pakistan owing to its high dependence on food and energy imports. The 2022 catastrophic floods also made it very difficult to complete the reviews. Nevertheless, the authorities made every effort to meet the fiscal targets. At the federal level, a series of difficult and socially sensitive measures implemented since the FY2023 budget was testament to national commitment to the program despite the loss of political capital.

To meet the program targets the authorities renewed the memoranda with provinces for meeting the provisional surplus targets. This reflects the commitment and determination of authorities to lead a national effort for fiscal consolidation. Moreover, the list of revenue measures implemented since the FY23 budget, is also a testament to the fact that each time national commitment to the program won over political considerations.

IV. The New Program–Stand-By Arrangement

Our authorities firmly believe that the new program will support their efforts to stabilize economy and rebuild buffers. The program is anchored by prudent fiscal adjustment, continuation of market-determined exchange rate and proper functioning of the FX market to absorb the BOP pressures and eliminate the FX shortages. Fiscal policy would be supported by appropriately tight monetary policy to help disinflation. The program will also focus on implementation of the FY24 budget to facilitate Pakistan's needed fiscal adjustment and ensure debt sustainability, while protecting critical social spending and progress on structural reforms, particularly with regard to energy sector viability and SOE governance. It will also buttress efforts to strengthen Pakistan's climate resilience. Moreover, this program is expected to rebuild investor confidence and enable Pakistan to tap into the capital markets as economic fundamentals improve.

We have already taken important actions in the FY24 budget to address the fiscal imbalances. A primary surplus of 0.4 percent of GDP is planned on the back of a sustainable rise in revenue by targeting undertaxed sectors and rationalizing expenditure while expanding the social protection programs. The revenue measures are expected to generate a sustained income stream and rationalization of expenditures is built on removing untargeted subsidies and ensuring cost recovery in the energy sector. The recent removal of restrictions on imports imposed earlier to save foreign exchange will restore customs revenues.

V. Fiscal Policy and Debt Sustainability

For improving debt management, a new Debt Management Office (DMO) has been established through amendments to the Fiscal Responsibility and Debt Limitation Act, with the technical support of the IMF and The World Bank. DMO rules have also been approved by the cabinet. We note that Pakistan's debt has been assessed as sustainable in the baseline scenario underpinned by the steadfast implementation of the SBA. The authorities do recognize the exposure risks highlighted by staff and believe that the SBA engagement followed by an extended arrangement after installation of a new government later this year will help mitigate the socio-political risks.

VI. Monetary, Exchange Rate, and Financial Sector Policies

Inflation has proven to be quite stubborn in Pakistan. To anchor expectations and combat inflationary pressures, the monetary policy was tightened considerably as the policy rate has been raised by 800 bps since August 2022. It currently stands at 22 percent, compared with 7 percent 2 years ago. The authorities agree to maintain the tight monetary policy stance as long as necessary as they intend to return to 5-7 percent inflation target band by end June 2024. SBP further removed all FX restrictions with the purpose of ensuring full market determination of the exchange rate and has also capped the rates on its refinancing scheme facilities. Since movements in the exchange rate earlier this year, the market liquidity and functioning have improved considerably. The authorities have requested temporary approval of exchange restrictions considering the limitation on advance payments for imports against LCs. Both exchange restriction and MCP are non-discriminatory and are being maintained for BOP reasons, which we intend to remove by the end of the program.

Regarding the financial sector, as of end-March 2023, at 16.3 percent, the capital adequacy ratio (CAR) of banks stood well above the regulatory requirement. With improved investment sentiments, due to uninterrupted engagement with the Fund, the authorities expect more diversity in borrowing sources for the government in the domestic market. That would reduce the sovereign exposure of the banks. The authorities are well aware of the interdependence of risks, which may trigger in case there are external financing shortfalls.

VII. The Energy Sector Policies

The energy (Power and Gas) sector has been a major cause of fiscal hemorrhaging in Pakistan. Multiple efforts of reform the energy sector have failed due to their direct and huge perceived social costs. In February 2023, during the 9th review discussions, the cabinet adopted the Revised Circular Debt Management Plan (CDMP) for the power sector, which entailed measures worth at 0.2 percent of the GDP in FY23 alone. The measures taken by the authorities under this plan helped catch up with the deferred tariff adjustments and permanently expanded the base and level of debt service surcharge by removing all new unbudgeted subsidies. Similarly, the gas sector has seen a sharp increase in circular debt in the last few years. While agreeing to the advice of staff in February 2023, and to avoid burdening the budget with additional subsidies, the authorities introduced an increase of 75 percent in gas prices, on average, as determined by the regulator, along with an updated tariff slab system.

VIII. Social Protection and Social Sector Expenditure

Pakistan's economic crisis, political instability and natural disasters have exacerbated the vulnerabilities of the poor segments of the society. Measures undertaken under the EFF to reduce the fiscal deficit through tax hikes (especially on consumption), cutbacks in public expenditure (particularly on development and social services) and the phasing out of food subsidies (for example, on wheat) pronounced impact on the poor. The depreciation in the exchange rate and swift increase in tariffs have also burdened the poor disproportionally. All these adjustments reduce economic opportunities and increase the cost of living, which further lower the living standards of poor people.

Pakistan's 2022 floods severely affected one third of the country and took 1,700 lives. Nearly 8 million people have reportedly been displaced, and 33 million people have been affected according to Post-Disaster Needs Assessment Report of the 2022 floods. The floods of 2022 caused a significant blow to the government's poverty reduction efforts. Preliminary estimates suggest that as a direct consequence of the floods, the national poverty rate may increase up to 4.0 percentage points, potentially pushing over 9 million more people into poverty.

The catastrophic floods of 2022 further intensified the situation and led to damages of around ~US$ 31.2 billion, with the cost of recovery and rehabilitation estimated at US$ 16.3 billion. In response, the government took steps to provide health facilities in flood-affected communities by providing shelter, safe drinking water, and food, as well as health interventions amidst supply chain disruptions. The government provided flood relief assistance of PRs 70 billion to 2.8 million beneficiaries under BISP. The authorities spent about 0.4 percent of GDP on all BISP schemes in FY23, which is 70 percent higher than previous year's expenditure. Social sectors' spending, particularly on education and health, have also been consistent with the program targets. This has been further strengthened with the approval of higher allocations for the FY24, in anticipation of the SBA program.

IX. AML/CFT Developments

The authorities' *'whole of a government approach'* paid off resulting in a successful exit from FATF grey list. SBP also conducted a thematic AML/CFT inspection regarding tax amnesty for the construction sector and issued fines against the financial institutions for AML/CFT shortcomings.

X. Climate Agenda

In recognition that the severity and frequency of natural disasters are predicted to increase in the future; efforts to strengthen climate resilience are being accelerated. The authorities, in collaboration with the Fund, initiated C-PIMA to understand the gaps and identify areas of improvement going forward. We thank the staff for adequately highlighting the climate change challenges facing Pakistan. Pakistan expects the global community to recognize the enormity of this challenge and commensurately support the government's efforts to reduce the economy's vulnerability to climate change.

XI. Other Structural Reforms

- *SOEs Reforms*–With ADB's TA support, the authorities developed a new ownership policy and amended several acts of a large number of SOEs. The Central Monitoring Unit within the MoF was also operationalized. These long overdue reforms were completed in the last one year or so.

- *Transparency*–The E-procurement system was piloted in the health and education ministries in March 2023 with the plan for a full roll-out to all federal and provincial entities. In addition, the central procurement regulatory authority has adopted regulations ensuring the publication of beneficial ownership information for all contracts above PRs 50 million (~US$182,000).

- *Accountability*–In February 2023, the Federal Board of Revenue (FBR) issued regulations granting access to banks to assets details of high-level federal civil servants.

- *Anti-corruption*–A new SOE law took effect in December 2022. The authorities, with the help of international experts, will be undertaking the review of anti-corruption institutional framework, for which a task force has already been set up as a part of reforms initiated under the EFF program.

- *Tax harmonization*–To simplify the tax regime and improve ease of doing business, an agreement between various subnational tax jurisdictions was brokered by the federal government.

XII. Concluding Remarks

We believe that the delays and gaps in the area of program implementation under the 2019-23 EFF, should be assessed in the context of shocks that Pakistan has experienced since 2020. Despite all these shocks from the pandemic to surge in commodity prices to floods to political uncertainties, the country has shown considerable resilience. We believe that the proposed SBA will help neutralize the risks highlighted by staff, and henceforth request its approval by the Executive Board.

In conclusion, the Pakistan authorities wish to reiterate their ownership and unflinching commitment to macroeconomic stability and reforms in the context of the SBA against the backdrop of a complex global environment and socio-political challenges at home. The Pakistani authorities express their appreciation to Executive Board, management, and staff for their continued support.