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PAKISTAN

October 2024

2024 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the 2024 Article IV Consultation and the request for an Extended Arrangement under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its September 25, 2024, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 25, 2024, following discussions that ended on May 23, 2024, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 11, 2024.
- An **Informational Annex** prepared by the IMF.
- A **Statement by the Executive Director** for Pakistan.

The documents listed below have been or will be separately released.

Selected Issues

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.

IMF Executive Board Concludes 2024 Article IV Consultation for Pakistan and Approves 37-month Extended Arrangement

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV consultation with Pakistan and approved a 37-month Extended Arrangement under the Extended Fund Facility (EFF) for Pakistan in the amount of SDR 5,320 million (or around US$7 billion). The Fund's immediate disbursement will be SDR 760 million (or about US$1 billion).
- The new program will require sound policies and reforms to support the authorities' ongoing efforts to strengthen macroeconomic stability, address deep structural challenges, and create conditions for a stronger, more inclusive, and resilient growth.
- Continued strong financial support from Pakistan's development and bilateral partners will also be critical for the program to achieve its objectives.

Washington, DC – September 27, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV consultation[1] and approved a 37-month Extended Arrangement under the Extended Fund Facility (EFF) for Pakistan on Wednesday, September 25, 2024 in the amount of SDR 5,320 million (262 percent of quota, or around US$7 billion). The Board's decision allows for an immediate disbursement of SDR 760 million (or about US$1 billion).

Pakistan has taken key steps to restoring economic stability with consistent policy implementation under the 2023-24 Stand-by Arrangement (SBA). Growth has rebounded (2.4 percent in FY24), supported by activity in agriculture, while inflation has receded significantly, falling to single digits, amid appropriately tight fiscal and monetary policies. A contained current account and calm foreign exchange market conditions have allowed the rebuilding of reserve buffers. Reflecting disinflation and steadier domestic and external conditions, the State Bank of Pakistan has been able to cut the policy rate by a total of 450 bps since June also supported by an appropriately tight FY25 budget.

Despite this progress, Pakistan's vulnerabilities and structural challenges remain formidable. A difficult business environment, weak governance, and an outsized role of the state hinder investment, which remains very low compared to peers, while the tax base remains too narrow to ensure tax fairness, fiscal sustainability and meet Pakistan's large social and development spending needs. In particular, spending on health and education has been insufficient to tackle persistent poverty, and inadequate infrastructure investment has limited economic potential and left Pakistan vulnerable to the impact of climate change. Without a concerted adjustment and reform effort, Pakistan risks falling further behind its peers.

Because of the progress and stability achieved under the 9-month 2023 SBA, the authorities are embarking on renewed efforts to address these challenges, build resilience and enable

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

sustainable growth. Key priorities under the new EFF-supported program include (i) rebuilding policy making credibility and entrenching macroeconomic sustainability through consistent implementation of sound macro policies and a broadening of the tax base; (ii) advancing reforms to strengthen competition, and raise productivity and competitiveness; (iii) reforming SOEs and improving public service provision and energy sector viability; and (iv) building climate resilience.

Following the Executive Board discussion, Kenji Okamura, Deputy Managing Director and Acting Chair, made the following statement:

The implementation of sound policies over the past year has been critical to restore economic stability, reduce near-term risks and rebuild confidence. Growth has returned, external pressures have eased with reserves doubling over the last year, and inflation has declined markedly. However, despite this progress, significant structural challenges remain, and ambitious and sustained efforts are needed to strengthen Pakistan's resilience and economic prospects. The authorities' EFF-supported program provides a critical anchor to policies and structural reforms and provides a framework for partner financing.

Continuing fiscal consolidation in FY25 and beyond, through enhanced revenue mobilization and prudent expenditure management, is critical to securing fiscal sustainability and reducing the crowding out of private investment. Increasing revenue mobilization by broadening the tax base, removing special sectoral regimes, and placing a fairer burden on previously undertaxed sectors (including industrialists, developers, and large-scale agriculture), will enhance fairness and efficiency and create needed space for essential investments in human capital, infrastructure, and social spending. Complementary institutional and structural reforms will focus on strengthening federal-provincial institutional arrangements, improving tax administration and compliance, and making public investment management more effective.

Timely energy tariff adjustments under the previous program have helped stabilize energy sector circular debt. Going forward, deep cost-side reforms are critical to securing the sector's lasting viability and reducing its costs.

The recent marked decline in inflation is very welcome, allowing the SBP to lower the policy rate while maintaining an appropriately tight monetary stance. The buildup in FX reserves should continue, supported by inflows under the Extended Arrangement, as well as price discovery in the interbank market to help buffer external shocks, attract financing, and protect competitiveness and growth. Strong action to address undercapitalized financial institutions and, more broadly, vigilance over the financial sector is needed to ensure financial stability.

Overcoming Pakistan's longstanding structural challenges—most notably low productivity and economic openness, resource misallocation, and climate vulnerability—requires faster implementation of structural reforms. Reform priorities include advancing the SOE reform agenda; scaling back distortive incentives, promoting a level playing field for all business; strengthening governance and anti-corruption institutions; and continuing to build climate resilience.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for strengthening policymaking over the past year under the Stand-by Arrangement, which has delivered renewed economic stability. Noting the still high risks and narrow path to sustained stability, Directors urged continued strong commitment and ownership of sound policies and structural reforms under the Extended Arrangement to create the conditions for durable and inclusive growth and to put debt firmly on a downward trajectory. They emphasized in particular the criticality of sustained program implementation, supported by capacity development and close collaboration with developments partners, to mobilize additional financing and restore market access. Directors also stressed the importance of vigilant monitoring of program implementation, close consultation with the Executive Board, and robust contingency planning to safeguard the program's success.

Directors urged steadfast execution of the planned continued consolidation in the FY25 Budget and underscored the need for sustained gradual consolidation, underpinned by strengthening of fiscal institutions, to durably improve debt sustainability. In this regard, some Directors noted that given the ambitious growth projections, there is no room for policy slippages without undermining debt sustainability. Directors also welcomed steps taken toward a fairer tax system and stressed the importance of additional revenue mobilization efforts by broadening the tax base and enhancing tax administration. Alongside prudent spending management, this will create space for essential investments in human capital, infrastructure, and social protection. Directors also called for reforms to strengthen the fiscal framework, including federal-provincial institutional arrangements; measures to ensure the energy sector's lasting sustainability, including through cost-based tariffs; and enhanced liquidity and debt management.

Directors supported continued tight and data-driven monetary policy to ensure that inflation continues moving toward the target range on a sustained basis. They emphasized the importance of allowing the exchange rate to serve as a shock absorber, buffering competitiveness and helping rebuild reserves. Safeguarding financial stability requires enhancing the bank regulatory and supervisory frameworks, monitoring risks associated with the sovereign-bank nexus, and addressing long-undercapitalized financial institutions. Directors also called for continued enhancements in the AML/CFT framework.

Directors noted that Pakistan needs to move away from its state-led growth model, strengthen the business environment, and ensure a more even playing field with freer competition to reverse the decline in living standards. Priorities include reforming SOEs, removing trade barriers and market distortions, and strengthening governance frameworks. Directors emphasized the need for further steps towards building climate resilience through the effective implementation of the C-PIMA action plan and enhanced climate adaptation investments.

Directors noted the Ex-post Peer Review assessment and the negative impact caused by deviations from programmed policies, and stressed the importance of strong ownership for program implementation and financing. They emphasized the need for effective communication to build broad consensus and support for reforms.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm

It is expected that the next Article IV consultation with Pakistan will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Annex

While the 2023–24 SBA supported the restoration of economic stability, Pakistan's vulnerabilities and structural challenges remain substantial. The proposed 37-month EFF-supported program aims to underpin the authorities' efforts to address Pakistan's challenges, build resilience and enable sustainable growth. Key priorities under the EFF include:

Rebuilding policy making credibility and entrenching macroeconomic sustainability through consistent implementation of sound fiscal, monetary, and exchange rate policies, better public spending, and raising fairer and more efficient taxes, especially from undertaxed sectors, while creating space for higher spending on health and education and strengthening social protection.

Advancing reforms to raise productivity and competitiveness by creating a more favorable private sector business environment, by removing state-created distortions and ensuring a fair and level playing field with increased competition. This includes streamlined subsidies, an improved FDI regime, deepened bank intermediation, and scaled-up human capital investment.

Reforming SOEs and improving public service provision, through SOE restructuring and privatization, governance and transparency reforms, measures to reduce the cost structure of the energy sector and phasing out the government's role in price setting.

Building climate resilience through implementation of the C-PIMA Action Plan and supporting the authorities' National Adaptation Plan.

Table 1. Pakistan: Selected Indicators, FY2023-FY2025 1/

Population: 236.0 million (2023/24)
Quota: SDR 2,031 million
Main exports: Textiles (US$16.5 billion, 2022/23)
Key export markets: European Union, United States, UAE

Per capita GDP: US$1,572.3 (2023/24)
Poverty rate: 21.9 percent
(national line; FY2019)

	FY2023	FY2024	FY2025
		Est.	Proj.
Output and prices (% change)			
Real GDP at factor cost	-0.2	2.4	3.2
Employment (%)			
Unemployment rate	8.5	8.0	7.5
Prices (%)			
Consumer prices, period average	29.2	23.4	9.5
Consumer prices, end of period	29.4	12.6	10.6
General government finances (% GDP)			
Revenue and grants	11.5	12.6	15.4
Expenditure	19.2	19.3	21.4
Budget balance, including grants	-7.7	-6.7	-6.0
Budget balance, excluding grants	-7.8	-6.8	-6.1
Primary balance, excluding grants	-0.9	0.9	2.0
Underlying primary balance (excluding grants) 2/	-0.7	0.9	1.0
Total general government debt excl. IMF obligations	74.9	67.0	69.0
External general government debt	28.6	22.6	24.0
Domestic general government debt	46.3	44.5	45.0
General government debt incl. IMF obligations	77.3	69.2	71.4
General government and government guaranteed debt incl. IMF	81.5	73.0	75.1
Monetary and credit (% change, unless otherwise indicated)			
Broad money	14.2	16.1	13.8
Private credit	2.3	3.9	16.0
Six-month treasury bill rate (%) 3/	18.3	21.5	…
Balance of Payments (% GDP, unless otherwise indicated)			
Current account balance	-1.0	-0.2	-0.9
Foreign direct investment	0.5	0.5	0.4
Gross reserves (millions of U.S. dollars) 4/	4,455	9,381	12,757
Months of next year's imports of goods and services	0.8	1.6	2.1
Total external debt	40.2	31.4	33.6
Exchange rate (% change)			
Real effective exchange rate	-8.0	…	…

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ Excludes one-off transactions, including asset sales. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.
3/ Period average.
4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

INTERNATIONAL MONETARY FUND

PAKISTAN

September 11, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context. While the 2023–24 Stand-By Arrangement (SBA) supported the restoration of economic stability, Pakistan's vulnerabilities and structural challenges remain substantial. The new government formed after the February elections has continued efforts to strengthen economic conditions and is embarking on a multi-year home-grown reform program to achieve resilient and inclusive economic growth.

Program objectives. The program aims to reinforce the authorities' efforts to bolster policy credibility and entrench stability and accelerate structural reforms to strengthen public finances, improve the provision of critical public services, and create a favorable environment for private-led growth. Key policies include: (i) revenue-based fiscal consolidation and institutional reforms to strengthen the fiscal framework, including the federal-provincial fiscal relations; (ii) appropriate monetary policy to bring down inflation and exchange rate flexibility to aid the rebuilding of reserves; (iii) measures to restore the energy sector's viability, including the timely implementation of energy tariff adjustments; and (iv) reforms to state-owned enterprise (SOE) governance, deregulation of product markets, governance and anti-corruption reforms, removal of subsidies and relaxation of trade barriers which create resource misallocation, and (v) efforts to strengthen climate resilience.

Program modalities. To support their policy efforts, the authorities have requested a 37-month Extended Arrangement Under the Extended Fund Facility (EFF) in the amount of SDR 5,320 million (261.9 percent of quota, or around US$7 billion). The authorities believe that their commitment to sound policies can catalyze new multilateral and bilateral financing and restore market access.

Article IV discussions. The discussions focused on Pakistan's medium-term prospects, which helped inform policies and define program objectives. They were complemented by the ex-post peer review assessment that drew lessons from Pakistan's recent history of Fund-supported programs.

Approved By
Thanos Arvanitis and Kenneth Kang

Discussions were held in Islamabad during May 13–23, 2024. The staff team comprised Nathan Porter (head); Tom Best, Jan Möller, Jason Weiss (all MCD); Julieth Pico Mejía (FAD); Gonzalo Huertas (SPR); Emre Balibek (MCM); Jonathan Pampolina (LEG); Esther Perez Ruiz (Resident Representative); and Zafar Hayat and Saihan Mohammad (both Islamabad office). Geerten Michielse, Parvina Rakhimova, and Graham Whyte (all FAD) assisted the team remotely on tax reform and revenue administration discussions. Laura Torrent (MCD) provided research assistance and Nataliya Bondar (MCD) document management assistance. Mr. Dogar (OED) also joined the discussions.

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CONTEXT

1. **Notwithstanding recent progress, deep structural challenges continue to weigh on Pakistan's economic prospects**. Pakistani living standards have declined relative to peer EMDCs in South and South East Asia over the past decades, reflecting weak policies, inadequate investment in human and physical capital, and distortions from an outsized role of the state. At the same time, structural fiscal policy weaknesses and repeated boom-bust cycles have increased external financing needs and depleted buffers, leaving a narrow path to fiscal and external sustainability. To build on the hard-won transient stability created over the past year, sound policies and reforms need to be strengthened and sustained. Against this background, the Article IV discussions centered on the contours of a medium-term policy agenda to address Pakistan's longstanding challenges while discussions around a new Fund-supported program focused on specific measures to address them and restore fiscal and external viability.

A. Recent Developments

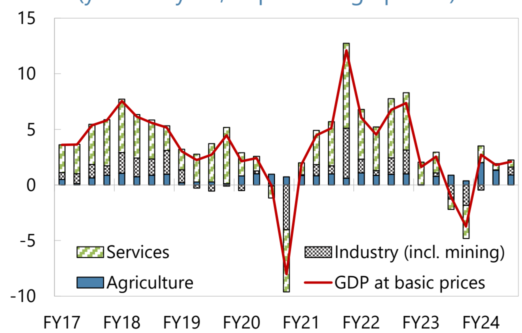
2. **Policy efforts under the 2023 SBA were critical to improve economic conditions and restore economic stability**. The SBA began at a very difficult juncture, with Pakistan facing large external financing needs, depleted reserves, and soaring country risk premia. Strong and consistent policy implementation under the SBA, including the first primary surplus in twenty years (0.9 percent of GDP), led to a near doubling of reserves, the initiation of sustained disinflation, and a resumption of official and some private inflows, which helped to stabilize the economy. In particular:

- *Growth*. Growth rebounded to around 2.4 percent (provisional estimates), driven in large part by the agricultural sector (+6.3 percent) which had suffered from flood-related impacts during FY23. The industrial and services sectors recorded subdued growth (about 1 percent), mostly due to lingering effects from the 2023 crisis and bottlenecks in the absence of reforms.

- *Inflation*. Supported by tight fiscal and monetary policy, inflation decelerated to 9.6 percent in August, after peaking at 38 percent in May 2023, and core inflation has slowed to 11.7 percent. Following a sustained disinflation trend, the SBP lowered its policy rate by 150 bps and 100 bps in June and July, respectively, to 19.5 percent.

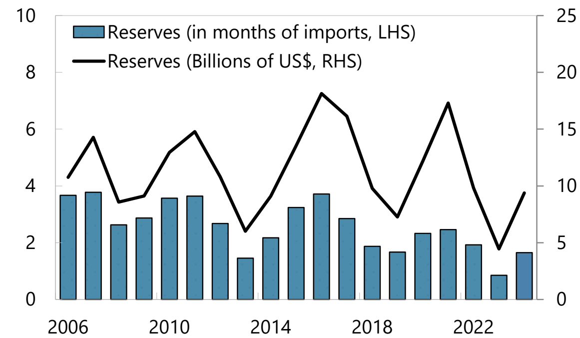
- *External*. The current account deficit shrank to US$665 million in FY24 (compared to US$3.3 billion in FY23), supported by a strong export and remittances rebound that has outpaced a more gradual import recovery. Against the backdrop of improved inflows, external dividend payments increased sharply in May 2024 to US$918 million, and the remaining backlog of dividend/profit payments was cleared in June. Gross reserves increased to US$9.4 billion at end-June 2024, as continued FX purchases by the SBP have more than offset debt service payments, including the US$1 billion Eurobond maturity in April. FX market conditions have remained relatively calm, with the rupee continuing to be stable at around 280 per US$, and spreads between FX rates in the interbank and parallel markets remaining narrow. The external position of Pakistan in FY23 was broadly in line with the level implied by medium-term fundamentals and desirable policies.

Pakistan: Quarterly Real GDP Growth and Sectoral Contributions, FY16–24
(year-on-year, in percentage points)



Sources: PBS; IMF staff calculations.

Pakistan: Gross Official Reserve Cover, 2006–24
(Months of imports)



Sources: SBP; IMF staff calculations.

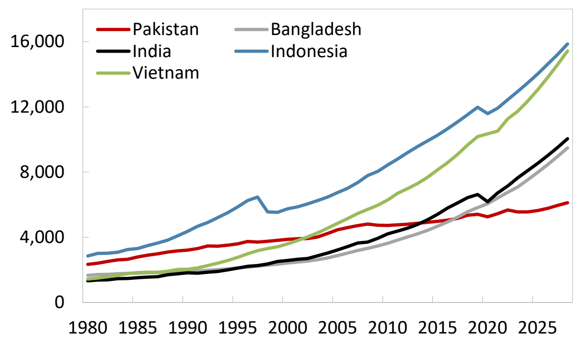
B. Pakistan's Protracted Structural Challenges

3. Despite the stability achieved over the past year, Pakistan's vulnerabilities, high volatility, and structural challenges persist.[1] A large part of the economy is uncompetitive, propped up by the extensive use of protection, subsidies, and tax concessions, which have undermined the tax base. Protectionism, including from new entrants in domestic markets has undermined competition, leading to inefficiency and low productivity. A difficult business environment and weak governance have hindered investments, which remain significantly lower than peer countries, further undermining competitiveness. Economic volatility has only increased over time, with a tight correlation between Pakistan's boom-bust economic outcomes and its macroeconomic policies (Annex VI). The repeated attempts to boost economic activity through fiscal and monetary stimulus have not translated into durable growth, as domestic demand increased beyond Pakistan's sustainable capacity, resulting in inflation and depletion of reserves, given a strong political preference for stable exchange rates. Each subsequent bust has further harmed Pakistan's policy making credibility and investment sentiment.

4. The relative decline in Pakistan's growth rates, primarily reflect low capital accumulation and productivity growth. In 1980 Pakistan had higher per capita GDP (PPP terms) than many regional peers, but its living standards have since fallen behind. Pakistan's declining growth across the decades reflect shrinking contributions from capital and broad-based (total factor) productivity, with investment rates declining across the decades. In addition, weak investment in human capital has resulted in a limited contribution from "labor quality", and Pakistan has been unable to take advantage of the significant increase in its population from about 80 million in 1980 to over 230 million in 2022.

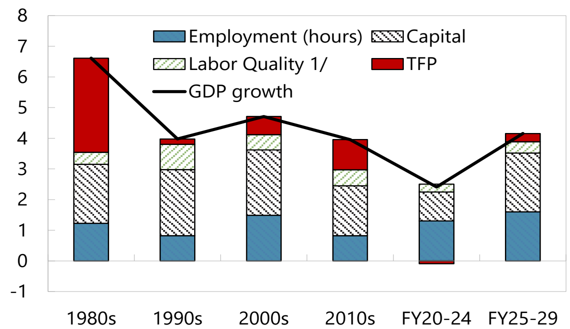
[1] See also the accompanying Selected Issues Paper, "Pakistan: Stylized Economic Performance and the Road Ahead."

Pakistan: Real GDP
(2017 PPP Terms per capita)



Sources: PBS; IMF staff calculations.

Pakistan: Growth Accounting
(Percentage point contribution)



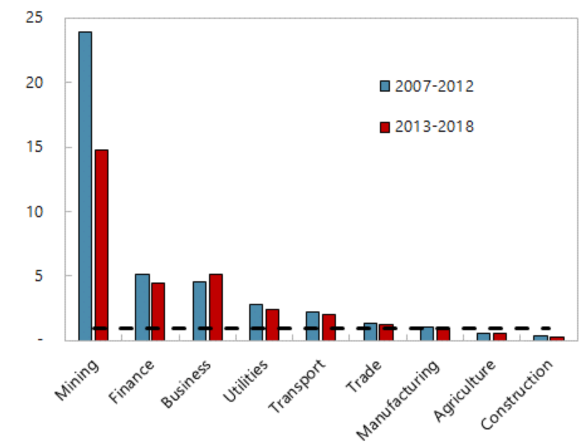
1/ APO estimate of quality-adjusted labor input.
Sources: Pakistani authorities; Asian Productivity Organization; IMF staff calculations.

5. **Insufficient investment in social sectors, especially in health and education, has been inadequate to tackle pervasive poverty and entrenched inequality**. While some health and education indicators have improved in recent years, they still lag regional and lower-middle income peers, and spending has steadily declined relative to GDP (see Figures 4 and 5). Poverty, at around 40 percent, reflects the challenging economic conditions, scarcity of high-productivity jobs particularly in rural areas, extensive informality, and lack of copying mechanisms. Under-investment in social spending, including in the generosity of the social safety net Benazir Income Support Program (BISP), undermines Pakistan's vast potential human capital given its very large and under-developed youth population, leaving a significant share of the population unable to integrate in the labor force of a modern economy.[2] Low spending on health, education, and social protection directly harms progress on inclusion and the adaptability of the labor force from low-productivity (including agriculture) to more productive and developed activities.

6. **The state's support of businesses through subsidies, favorable taxation arrangements, protection and governmental price setting has undermined the development of a dynamic and outward oriented economy**. Subsidies have taken the form of low-cost financing and other concessions, which although varied across industries, left financing and taxes net of subsidies more favorable than in peer economies and less-favored sectors (text chart). The tax system has been extensively used to provide non-transparent support through exemptions for privileged sectors like real estate, agriculture, manufacturing, and energy, as well as, through the proliferation of Special Economic Zones (SEZs). The government's intervention in price setting, including for agricultural commodities, fuel products, power, and gas (biannual), combined with high tariff and non-tariff protection tilted the playing field in favor of selected groups or sectors. Despite all this support, the business sector has failed to become an engine of growth**,** and the incentives eventually weakened competition and trapped resources in chronically inefficient (including perpetually "infant") industries.

[2] Approximately 35 percent of Pakistani youth are not in education, employment, or training; the youth unemployment rate is approximately 11 percent; and 38 percent of Pakistani children under five years of age exhibit stunting.

Pakistan: Labor Productivity Gap 1/

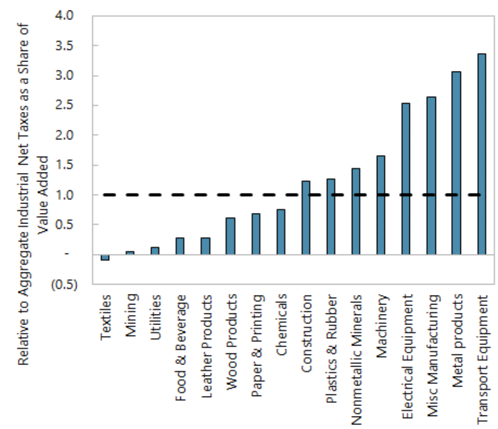


Source: Economic Transformation Database and IMF staff calculations.

1/ Relative to the aggregate industry.

Pakistan: Sectoral Net Tax Gap 1/

(2007–22 Historical Average)



Sources: ADB (2023), Input-Output tables (various countries) and staff calculations.

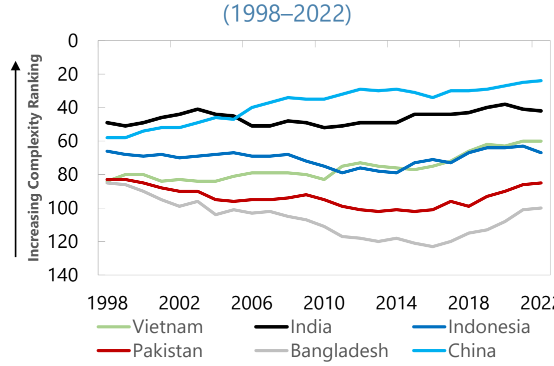
1/ The net tax gap is the ratio of taxes net of subsidies as a share of value added for each sector to the aggregate industrial sector, with the dashed line indicating a ratio of 1, highlighting the average for aggregate industry.

7. As resources were increasingly misallocated to low productivity activities, whose profitability was supported by the state, the demand for more support from vested interests only increased over time. Despite the significant (and persistent) dispersion in productivity across sectors, especially between the agricultural and non-agricultural sectors (text chart above), resources did not move from relatively less-to-more productive areas. In particular, Pakistan has seen one of the smallest declines in the share of agricultural employment amongst EMDCs since 1990. Moreover, low investment together with protectionism and weak competition, harmed innovation in tradables production (resulting in declining economic complexity) and preventing any potential transition to more complex goods which are "related" to those Pakistan currently produces (Box 1).

8. Inadequate investment in infrastructure has left Pakistan vulnerable to the impact of climate change, most recently felt with the devastating impact of the 2022 floods. Building resilience to climate risks requires both greater investment in adaptation, the reduction of subsidies which incentivize the inefficient use of natural resources (e.g., water) and excessive use of polluting inputs (e.g., fertilizers), as well as strong governance reforms to ensure that public resources used for adaptation and ex post disaster assistance are effectively deployed.

Economic Complexity Rankings

(1998–2022)



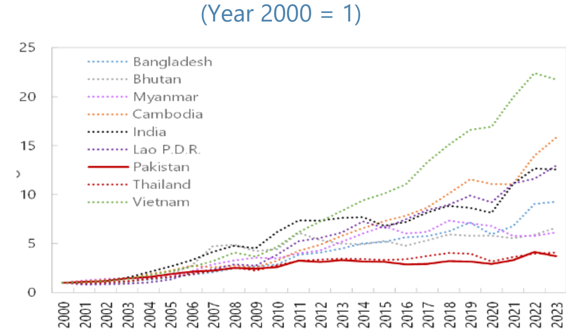
Source: Observatory of Economic Complexity.

9. Repeated efforts to reform, including under Fund-supported programs, were generally short lived, and abandoned or reversed. The short SBA in 2023, while successful in restoring macroeconomic stability, was not designed to tackle some of Pakistan's deeper structural challenges, which require a multiyear effort. Previous efforts suffered from inconsistent implementation, especially after some measure of economic stability was achieved, and did not support the structural transformation of the economy. Indeed, following the 2013–16 SBA and during the 2019–24 EFF, policies efforts weakened, undermining sustained economic stability and scope for progress on reforms. As elaborated in the Ex-Post Peer Review Assessment (Annex V), deviations from consistent implementation of programmed policies have created significant domestic and external imbalance. This program is designed around some of the lessons from this experience based on responses to past Article IV advice (Box 2) and lessons from past programs, especially around the timing, scope, and sequence of conditionality and institutional reforms, including at the federal and provincial levels, and the need for strong ownership).

Box 1. Pakistan's Trade, Competitiveness, and Openness[1]

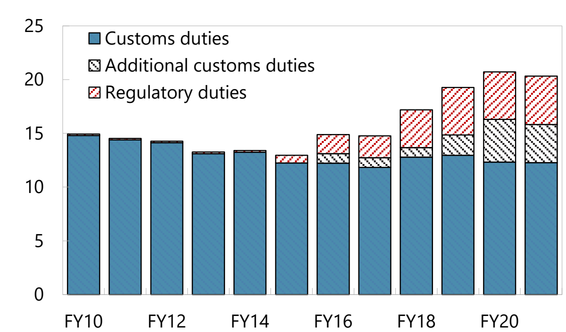
Pakistan's integration to world trade has underperformed over the past two decades, holding back economic development. Compared to nine other regional peers, the country's export growth since 2000 has been second to last, with sales to the world particularly stagnant during the 2010s. The country's trade restrictions (including exchange measures, tariff and nontariff barriers, restrictions to payments, etc.) have placed it consistently at or around the 90th percentile of the highest Measurement of Aggregate Trade Restrictions index (Estefania-Flores and others, 2022). This high level of protection has not helped improve, and likely undermined, Pakistan's competitiveness.

Exports of Goods and Services
(Year 2000 = 1)



Source: IMF WEO.

Average Tariffs in Pakistan
(Percent)



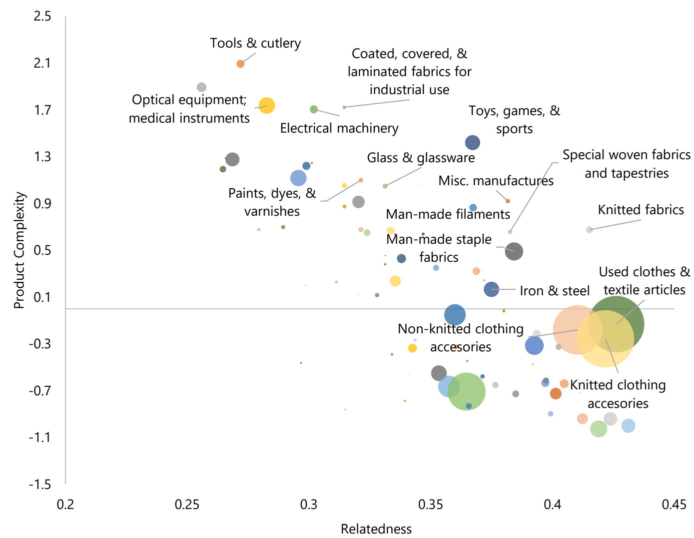
Sources: World Bank (2021); Pakistan Development Update October 2021: Reviving Exports.

The country has struggled to develop more sophisticated export goods, and the share of knowledge-intensive exports remains low. As of 2022, Pakistan ranked 85th in the Economic Complexity Index, the same rank it held in the year 2000 (Observatory of Economic Complexity, 2024). With an export basket strongly biased towards agriculture and textiles, the country has struggled to reallocate resources towards more technologically complex products. Reallocation, however, is held back by existing microeconomic distortions, including public procurement of agricultural goods, price controls on raw inputs, and fiscal and financial incentives for low productivity sectors.

Box 1. Pakistan's Trade, Competitiveness, and Openness (concluded)

By removing microeconomic distortions and fostering a more competitively neutral business environment, Pakistan could develop more technologically complex sectors and foster productivity gains. There are a number of complex goods within likely technological proximity to Pakistan's current knowhow, including glassware, paints, chemicals, special fabrics and medical instruments. Pakistan's diversification frontier (text chart) shows the relationship between a product's technological complexity and its "relatedness" (a measure of how feasible it is to develop competitiveness in that product given Pakistan's current export basket) to other, higher complexity, potential products. However, to develop production in these higher complexity industries Pakistan needs a level playing field for business, avoiding targeted policies aimed at picking winners. Greater integration to global trade and easier access to imports, both as intermediate inputs for production and as final goods to promote domestic competition, will increase competition and further enhance productivity. The removal of fiscal incentives, such as tax exemptions or subsidized credit, would further reduce the existing misallocation of resources and promote price discovery across firms.

Diversification Frontier



Source: Observatory of Economic Complexity.
Note: The size of each scatterpoint indicates a product's relative trade value.

[1] See "Pakistan: Economic Performance and the Road Ahead," 2024, Selected Issues Paper.

C. A New EFF

10. The proposed 37-month EFF-supported program aims to underpin the authorities' efforts to address Pakistan's challenges, build resilience and enable sustainable growth. The authorities recognize that Pakistan needs consistent policy making to improve economic prospects in a durable manner. To this end, key priorities under the EFF include:

- **Rebuilding policy making credibility and entrenching macroeconomic sustainability** through consistent implementation of sound fiscal, monetary, and exchange rate policies, better public spending, and raising fairer and more efficient taxes, especially from undertaxed sectors.

- **Advancing reforms to raise productivity and competitiveness by creating a more favorable private sector business environment**, by removing state-created distortions and ensuring a fair and level playing field with increased competition. This includes streamlined subsidies, an improved FDI regime, deepened bank intermediation, and scaled-up human capital investment.

- **Reforming SOEs and improving public service provision**, through SOE restructuring and privatization, governance and transparency reforms, measures to reduce the cost structure of the energy sector and phasing out the government's role in price setting.

- **Building climate resilience** through implementation of the C-PIMA Action Plan and supporting the authorities' National Adaptation Plan.

Box 2. Pakistan's Implementation of Past Fund Advice

Implementation of staff recommendations from the 2021 Article IV Consultation was varied, particularly when the 2019 EFF was off-track. There was greater alignment in key areas during the 2023–24 SBA (Annex V).

Fiscal policy. Fund advice centered on fiscal consolidation underpinned by enhanced revenue mobilization and careful spending management, including to create space for much-needed spending on development, infrastructure and social protection, while keeping public debt on a downward trajectory. In staff's view, adjustment in the FY23 budget was skewed too heavily towards expenditure cuts and as slippages materialized over the first half of FY23 additional (poor quality) revenue measures were required via a supplementary budget to stabilize the fiscal accounts. Despite some limited revenue underperformance, strict expenditure control (including avoiding the use of supplementary grants) under the caretaker and new government helped achieve the agreed primary surplus target.

Monetary, exchange rate, and financial sector policies. Fund advice was directed towards maintaining an appropriately tight monetary policy, with positive real interest rates on a forward-looking basis, ensuring exchange rate flexibility and FX market functioning, and strengthening institutional frameworks to safeguard financial sector stability. Amid the build-up of unprecedented inflationary pressures during 2023H2, staff advocated for a tight monetary policy stance to reduce inflation and re-anchor expectations. Although the Monetary Policy Committee (MPC) gradually raised the policy rate through June 2023, their incremental approach left monetary policy behind the curve for a longer than desired period. Under the SBA, and with inflation on a downward trend, the MPC appropriately opted to delay rate cuts until both headline and core disinflation was firmly entrenched.

Regarding the FX market functioning, the pursuit of administrative measures to control the current account (from May 2022 onwards) were in conflict with Fund advice and ultimately resulted in a very deep and costly external adjustment. Under the SBA, the functioning of the FX market improved gradually, and in line with Fund advice the SBP was able to significantly strengthen its reserve position and parallel market spreads have remained negligible.

On the financial sector, staff urged a proactive approach to addressing undercapitalized financial institutions, yet progress has been slow as SBP continues to be reluctant to make full use of its supervisory powers. As agreed with staff, the authorities have (i) reduced the implicit interest subsidy under SBP's refinancing schemes; and (ii) initiated phasing out SBP's involvement in the schemes, although staff believes that an accelerated transition should be pursued given the smooth initial phase.

Structural policies. Fund advice focused on measures to restore energy sector viability, improving governance, transparency, and efficiency of the SOE sector, and steps to improve the business environment and strengthen competitiveness. Efforts to ensuring cost-recovery in the energy sector continued to dwindle until early 2023, but subsequent tariff adjustments have broadly conformed with staff recommendations by limiting CD growth. Meanwhile, staff advice to undertake broader cost-side reforms and resolve infrastructure issues, even as some first steps have been taken, remains largely unaddressed. Despite some progress on the SOE reform agenda, including the enactment of the SOE Act in February 2023, actions to remove structural impediments and facilitate the structural transformation of the economy have proved insufficient. Concerning the establishment of a Sovereign Wealth Fund and the creation of the Special Investment Facilitation Council (SIFC), staff has highlighted the need to ensure a level playing field with regard to the investment environment and avoid a watering down in governance standards. These issues remain to be addressed.

MACROECONOMIC OUTLOOK AND RISKS

11. The projections are predicated on strong policy implementation and timely external financing to move the economy from stabilization to recovery (Tables 1–7).

Pakistan: Selected Economic Indicators, FYs22–29 1/

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
		Est.			Proj.		
Real GDP growth (%)	-0.2	2.4	3.2	4.0	4.1	4.5	4.5
Consumer prices (period average, % change)	29.2	23.4	9.5	7.8	6.5	6.5	6.5
Gen. gov. overall balance (incl. grants, % of GDP)	-7.7	-6.7	-6.0	-4.7	-3.6	-3.0	-2.8
Gen gov. primary balance (underlying, excl. grants, % of GDP) 2/	-0.7	0.9	1.0	1.7	2.0	2.0	2.0
Gen. gov. debt (incl. IMF obligations, % of GDP)	77.3	69.2	71.4	69.8	67.4	64.0	60.7
Current account balance (% of GDP)	-1.0	-0.2	-0.9	-0.9	-0.8	-1.0	-0.9
Gross official reserves (billions of US$)	4.5	9.4	12.8	15.5	20.2	22.5	25.4
Gross official reserves (months of next year's G&S imports)	0.8	1.6	2.1	2.4	3.0	3.1	3.3
Gross official reserves (% of IMF ARA meteric) 3/	17.9	35.9	47.2	55.1	66.9	72.1	77.8

Sources: Pakistani authorities; IMF staff estimates and projections.
1/ The fiscal year (FY) runs from July 1 through June 30.
2/ Excludes one-off transactions, incl. asset sales (Tables 4a and b), and windfall SBP profits.
3/ With flexible exchange rate.

- ***Growth and inflation***. Real GDP growth is projected to continue rebounding gradually over FY25–27, supported by a waning fiscal drag, steady implementation of reforms, and progressively improving financial conditions and confidence, reaching 4½ percent over the medium-term. Continued tight monetary and fiscal policies are expected to sustain recent disinflation, with inflation returning to the SBP's 5–7 percent target range during FY26.

- ***Fiscal***. Building on FY24's fiscal consolidation, the FY25 budget targets an underlying primary surplus of 1 percent of GDP, bolstered by permanent tax measures and efforts to improve revenue collection. The primary surplus will gradually increase to 2 percent by the end of the program (from 0.4 percent in the 2nd review of the SBA), underpinned by a net 3-percentage-point increase in the tax-to-GDP ratio, which will strengthen debt sustainability while creating room for increased priority social and development spending.

- ***Current account deficit*** (CAD). The CAD is projected to remain modest at around 1 percent of GDP over FY25-FY28, as both imports and exports are projected to increase, reflecting a recovery in domestic demand and the benefit of program policies to support a more dynamic private sector. Gross reserves would reach US$22.5 billion by end-FY28 (3.1 months of imports; 72 percent of ARA metric) from US$9.4 billion as of June 2024.

- ***External financing***. Multilateral disbursements are projected to reach US$14 billion over FY25–28 (including US$7.1 billion from the World Bank and US$5.6 billion from the Asian Development Bank) with key bilateral creditors fully maintaining their exposure through new financing activities. Modest access to new short-term borrowing from commercial banks is anticipated for FY25-FY26, with a gradual return to bond markets assumed for mid-FY27, reflecting a restoration of policy credibility.

- ***Public debt***. Under the baseline, public debt remains sustainable over the medium term (Annex II). Stronger fiscal consolidation than anticipated under the SBA 2nd review baseline puts debt on a firm downward trajectory, with the debt-to-GDP ratio falling to around 60 percent by FY29. However, near-term risks remain high, reflecting Pakistan's very large gross financing needs and past challenges in obtaining external financing. Beyond the near term, real interest rates are expected to act as an adverse driver of debt dynamics in the coming years.

12. Large uncertainty and downside risks remain (Annex I). Notwithstanding the new government's intent to deepen reforms under a new Fund-supported program, political uncertainty remains significant, and pressures for easing policies and providing tax concessions and subsidies are strong. A resurgence in political or social tensions could weigh on policy and reform implementation. Policy slippages, including particularly on needed revenue measures, together with lower external financing, could undermine the narrow path to debt sustainability, given the high level of gross financing needs, and place pressure on the exchange rate and on banks to finance the government (further exacerbating crowding out of the private sector, which could entrench a low-growth—low-financial-development equilibrium). Geopolitically-driven higher commodity prices or tighter global financial conditions could also adversely affect external stability.

Authorities' Views

13. The authorities concurred with staff's assessment on the outlook but viewed risks as more balanced. The authorities agreed that the recovery would proceed only gradually but noted that a slightly narrower current account deficit would be consistent with the outlook. While acknowledging that risks remain significant, the authorities pointed to the continuity in ownership between the government at the inception of the 2023 SBA and the government formed in March with a full five-year term ahead. They noted upside risks arising from faster-than-anticipated access to commercial borrowing and investment inflows.

POLICY DISCUSSIONS

Article IV discussions centered on medium-term policies to address Pakistan's longstanding challenges (¶¶3-9)—most notably low productivity and economic openness, resource misallocation, and climate vulnerability—while program discussions focused on specific measures to address these challenges and embed sound macroeconomic policy making.

A. Fiscal Policies

14. The authorities are committed to ambitious fiscal reforms to broaden the tax base, strengthen fiscal institutions, and durably improve debt sustainability. Despite some improvement in FY24, Pakistan's public debt remains very high, its tax-to-GDP ratio low compared to peers and its development needs, leaving a narrow path to ongoing debt sustainability. Policies under the EFF aim to support a gradual fiscal consolidation moving to a primary surplus of 2 percent of GDP on the back of a net 3 percent of GDP revenue mobilization effort and base-broadening for a fairer and more efficient tax system. This will be supported by strengthened federal-provincial institutional arrangements for more balanced revenue and spending responsibilities, including incentives to generate greater revenue from broader sources at the provincial level.

Policy Discussion

15. The FY25 budget continues the gradual fiscal adjustment and targets an underlying primary surplus of PRs 1,177 billion, 1 percent of GDP.[3] The budget was approved by parliament on June 28, 2024. Key policies include:

- ***Strengthening general government tax revenues*** to 12.3 percent of GDP will be achieved through measures worth over PRs 1,723 billion, or 1.4 percent of GDP.
    - *Personal and corporate income tax (PIT and CIT) measures* will generate PRs 357 billion by bringing exporters into the regular tax regime, streamlining PIT for salary (SI) and non-salary individuals (NSI), reducing slabs to five, and raising the maximum rate for NSI to 45 percent. Exporters will be brought into the regular income tax regime.
    - *Transforming the sales tax* aims to generate PRs 286 billion by moving most exempt and zero-rated products to the standard rate. Certain education, health and agricultural inputs products will be taxed at reduced rates of 5 and 10 percent. Limited exemptions will be retained only for essential food and health items, as well as products acquired y charitable hospitals, textbooks, fuel, fertilizers and pesticides, as well as those compliance with international and bilateral agreements. The budget also ends the preferential Export Facilitation Scheme for locally purchased inputs.
    - *Expanding FED coverage and enhancing rates* will generate PRs 413 billion by introducing an FED on property sales, sugar, acetate tow and lubricants. Harmonizing FED on locally manufactured cigarettes, e-cigarettes, and nicotine pouches, with that on imported cigarettes. Increasing the FED on cement, and airline tickets (MEFP ¶6.a.v).
    - *Enhancing withholding taxes and direct taxation* will generate PRs 240 billion by raising the withholding tax for non-filers under advance tax collection collected by manufacturers from distributors and wholesalers, and by manufacturers, dealers, and wholesalers from retailers, and expanding it to all sectors; increasing taxes on property transactions with progressive rates; eliminating reduced rates for capital gains; and removing the 1 percent concessional rate on cigarette and pharmaceuticals distributors. Transforming the withholding tax on Motor vehicle registration from a nominal value to an add-valorem tax. Capping the exemption granted by a commissioner to 80 percent of the corresponding withholding tax. Capping the deduction for advertising expenses on brands allocated to associates, where royalty for those brands is also paid to the associate, to 75 percent of the total value. Increasing the income tax on dividend income from mutual funds from 15 percent to up to

[3] The underlying primary surplus is defined as primary surplus net of windfall SBP profit transfers. Windfall profit transfers are defined as actual transfers minus projected annual transfers over the medium-term of 1 percent of GDP.

25 percent. Amending the methodology for calculating the income tax base for developers and builders

  - *Rationalizing tariffs and eliminating concessions on customs duty, additional customs duty, and regulatory duty* will generate PRs 65 billion by withdrawing exemptions and concessionary rates for the import of: (i) home appliances; (ii) fresh and dry fruits except apples from Afghanistan; (iii) ground nut, margarine, silver cans, lollipops sticks for the food and confectionary sector; (iv) electric vehicles; and (v) other items in accordance with the recommendations of the Tariff Policy Board.
  - *Improving compliance measures* will generate PRs 157 billion by imposing a minimum import value on specific items, for collection of the withholding tax and the GST, and converting the withholding tax into a minimum tax; introducing a withholding regime to prevent fraud; enhancing cross-adjustment of sales tax with provinces; and reevaluating the property valuation tables to align them with market rates.
  - *Revenue administration measures* will generate PRs 250 billion by including retailers in the tax net through the *Tajir Doost* scheme; implementing the Compliance Risk Management (CRM) framework, and expanding the Compliance Improvement Plan (CIP).
  - *Payment of GST credit claims to companies commercializing POL products:* Outstanding arrears totaling PRs 80 billion will be cleared within this fiscal year. The finance division will transfer PRs 35 billion, to partially cover the payment.

- ***Containing primary expenditure*** to PRs 16,176 billion (13.3 percent of GDP), while preserving space for priority social and development spending. Specially, (i) the wage bill and pensions will grow within nominal GDP growth; (ii) the generosity level of the Benazir Income Support Program's (BISP) unconditional cash transfer (UCT) Kalafat program in FY25 will be protected (see below); (iii) energy subsidies will be limited to 1.0 percent of GDP (see below); and (iv) provincial education and health expenditures will also rise (see below). At the same time, the budget includes a contingency for emergencies of PRs 348 billion (0.29 percent of GDP). Critically, the authorities commit to not use "supplementary grants" via executive fiat, except in cases of severe natural disasters with any expenditure exceeding the budget appropriation requiring prior approval from the National Assembly (MEFP ¶7). Should revenue collection underperform, contingency measures will be implemented in consultation with IMF staff with a priority on increases in withholding and excise taxes (MEFP ¶6.e). Additionally, "windfall" SBP dividends exceeding 1.0 percent of GDP will not be used to cover primary spending, thereby reducing the public borrowing requirement (MEFP ¶6.f).
- ***Enhancing data sharing and provincial tax revenue.*** The Federal Board of Revenue (FBR) will improve information sharing with provincial revenue authorities (MEFP ¶6.b). Provincial tax reforms will include the (i) full alignment of their Agriculture Income Tax (AIT) regimes with the federal personal and corporate income taxes by October 2024 (end-October SB) with implementation from January 1, 2025 and collection in July 2025; and (ii) the transition of GST on services from a positive to a negative list, which will take effect from the start of FY26 (MEFP ¶6.c).

16. Broad-based reforms will continue beyond FY25 to further strengthen public finances.

- ***Tax Policy Reforms****:* These reforms will focus on simplifying revenue collection and broadening the tax base while ensuring the progressivity of the tax system. Key measures include removing exemptions and preferential treatments to reduce distortions, such as moving all products at 5 percent rate of GST to the 10 percent category by FY26 (MEFP ¶8.a), and efforts to transform the GST into a broad-based VAT. Introducing in FY26 budget an FED of 5 percent on pesticides, and enhancing the FED on fertilizers by 5 percentage points (MEFP ¶6.a.v). PIT reforms aim to make the income tax fairer by eliminating further tax credits and deductions, with the special regimes for exporters and construction and developers have come to an end. Furthermore, any new exemption will be granted based on a cost-benefit assessment (MEFP ¶8.a). Other tax policy measures include (i) moves to ensure equivalent taxation of all sources of income and (ii) introduction of a single turnover-based registration threshold for both income and GST registration to all businesses (MEFP ¶8.a)

- ***Strengthening Tax Administration***. The authorities recognize the importance of adopting robust tax administration and enforcement measures to address the current 3.5 percent of GDP compliance gap, predominantly concentrated in retail (1.1 percent of GDP), transport (0.7 percent of GDP), and real estate (0.2 percent of GDP). Key measures include: (i) fully implementing the compliance risk management framework in large markets (Islamabad, Karachi, Lahore), including the use of third-party data, cross-check, and data analytics (*end-December 2024 SB*) (MEFP ¶8.b); (ii) continuing the implementation of the compliance improvement plan (CIP) to expand the tax net, targeting professionals and small businesses. Performance will be monitored via a *QPC* setting a floor on tax returns from new filers identified through the CIP; (iii) extending the *Tajir Doost* scheme to an additional 36 cities, the performance of the scheme will be monitored via an *IT* (MEFP ¶8.b); (iv) implementing digital invoicing; and (v) enhancing the track-and-trace system, accompanied by control and deterrent actions to prevent smuggling and counterfeiting (MEFP ¶8.b). Furthermore, the authorities will establish a Tax Policy Office under the Minister to improve tax policy analysis and allow the FBR to focus on revenue collection (MEFP ¶8.c)

- ***Federal-provincial fiscal relations***. As discussed above, provinces are committed to contributing more to strengthening public finances. The federal and provincial governments have agreed on the program's fiscal strategy and the required provincial surpluses, and for provinces to deliver surpluses of around 1 percent of GDP in FY 2025. The federal government and the provinces have also agreed to enter a *National Fiscal Pact* (*end-September 2024 SB*) that will devolve specific federal spending responsibilities to provinces, in line with the 18th constitutional amendment (MEFP ¶8.d), and will enhance provinces own tax-collection efforts, including agricultural income tax (FY25), sales tax on services (FY26), and property tax (FY26). The government has also established a dedicated committee, chaired by the Finance Minister, to prepare a comprehensive report on actionable items where responsibilities can be devolved to provincial governments, and with a specific implementation timeline (MEFP ¶6.d) (*end-September 2024 SB*). Strong implementation of the National Fiscal Pact will be essential to ensure the sustainability of the envisaged fiscal consolidation.

- ***Public Financial Management*** (PFM). Public financial management reforms aim to strengthen budgetary discipline, enhance transparency, build confidence in budgetary spending, and improve the management of the Public Sector Development Program (PSDP). Key measures to improve the budget process include: (i) producing and publishing quarterly reports comparing budget projections with actual execution; and (ii) initiating the budget process one month earlier to allow sufficient time for discussions with line ministries. Measures to enhance PSDP portfolio management encompass: (i) conducting a one-time review to prioritize and rationalize ongoing and approved PSDP projects; (ii) developing and publishing criteria for project selection, including an annual limit on the total size of new projects entering the PSDP portfolio (*end-January 2025 SB*); and (iii) integrating the current expenditures associated with new projects into the decision-making process. To enhance liquidity management, reduce borrowing costs, and strengthen overall debt management, efforts must continue to consolidate the TSA and implement measures to better utilize cash balances accumulating in commercial banks (MEFP ¶8.f.iii).

- ***Spending transparency***. Ensuring a highest level of transparency by leveraging digitalization (i.e., e-Pakistan Acquisition and Disposal System) can contribute to effective use of resources and prevent misuse and corruption. The authorities should proceed to fully roll-out the e-PADs to all federal and provincial agencies, continue publishing beneficial ownership information of winning suppliers, and conduct an external audit in the next fiscal year (MEFP ¶8.g).

- ***Debt management***. Effective debt management is a critical part of the overall strategy to address debt vulnerabilities. Efforts should concentrate on diversification and expansion of the investor base to reduce the severity of the sovereign-bank nexus. Sustaining the recent progress in lengthening of domestic maturities, aided by an *IT* on the average time-to-maturity of domestic securities, is also important to mitigate the risks from the elevated gross financing need. The authorities recognize the need to improve market communication about their issuance strategy and bring together information that is currently fragmented. The merits of the National Saving Scheme (NSS) should be comprehensively assessed considering its externalities on the financial sector and its operational costs. A *QPC* on issuance of government guarantees, including those related to SOEs' commodity operations will help contain fiscal risks from contingent liabilities.

Authorities' Views

17. The authorities agreed with the path of fiscal adjustment and the need for related structural reforms. The authorities acknowledge that fiscal consolidation will rely on revenue-enhancing strategies, given the rigidity of expenditure and the need to expand social spending to bolster human capital growth. The authorities underscore the importance of implementing tax administration measures to reduce the compliance gap and expand the tax base, as well as the necessity of enforcement measures to support tax policy. They agree on rationalizing the size of the PSDP, recognizing the need for an analysis to determine which current projects align with government priorities and which can be delayed or capped to reduce the throw-forward. Additionally, they agreed on the need to improve PSDP project management to prevent the unsustainable growth of the throw-forward, and are continuing efforts to expand training coverage to all relevant federal agencies on the e-PADS. The authorities stress the importance of close coordination with the provinces and continuing the expenditure devolution process to ensure better alignment of provincial revenues and expenditures, emphasizing the need for provinces to enhance their own revenue collection efforts.

B. Poverty Reduction and Social Protection

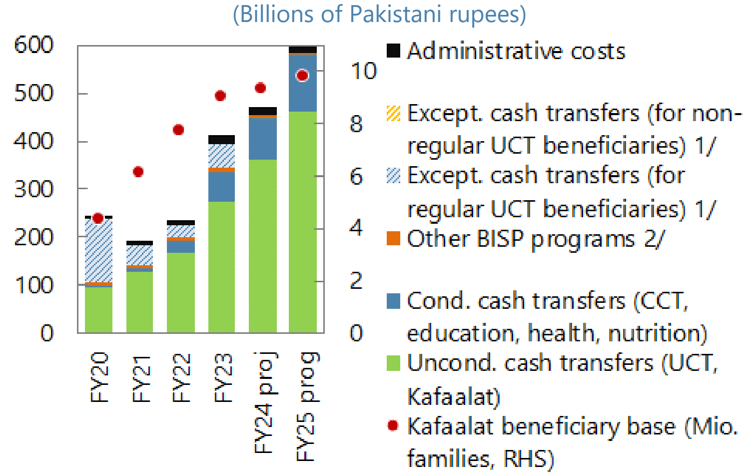
18. Creating space for higher spending on health and education and strengthening social sector schemes are key to assisting the most vulnerable and strengthening Pakistan's human capital.

Policy Discussion

19. Strengthening social and human spending remains a critical part of the program. This will be pursued via:

Pakistan: Composition of BISP Spending, FYs20-25

(Billions of Pakistani rupees)

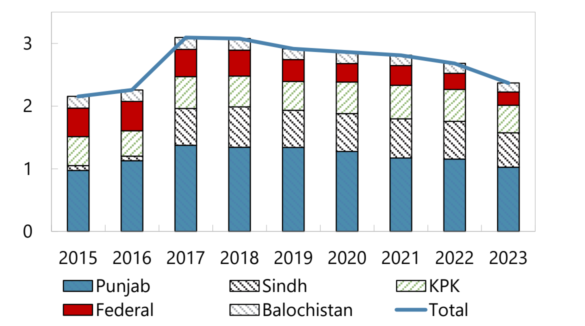


Sources: BISP; IMF staff calculations.

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

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

- ***A larger BISP spending envelope***. The FY25 budget allocates PRs 599 billion (0.5 percent of GDP) to BISP, a 27 percent increase above the budgeted and executed level in FY24. The additional fiscal space will allow for an increase in the quarterly unconditional cash transfer (UCT) Kafaalat program from PRs 10,500 to PRs 13,500, which includes (i) an annual inflation adjustment to be applied in January 2025 (*end-January 2025 SB*) to maintain benefit levels in real terms; (ii) a one-time additional adjustment in UCT benefits to bring the stipend from its current generosity level (9.6 percent of the consumption basket of the bottom quintile to 12.4 percent); (iii) the absorption of an additional 500,000 households (currently registered with BISP but not enrolled) to bring total UCT enrollment to 9.8 million households by end-2025; and (iv) a 32 percent increase in spending on conditional cash transfer (CCT) programs, with the balance focused on the Taleemi Wazaif education and Nashonama health programs, allowing for greater enrollment. Total BISP budget execution will be monitored via a QPC under the program. Going forward, annual UCT inflation indexation should continue, and generosity should be adjusted upon the availability of household survey data to build generosity toward 15 percent of the bottom quintile's consumption basket.



Source: Pakistani authorities.

- ***Continued improvements to BISP administration***. The BISP National Socio-Economic Registry (NSER) should seek to remain live and cover all of Pakistan's poor while keeping BISP enrollment open. The planned expansion of the pilot electronic payment model for next year will help to facilitate transfers and efficiency. The authorities should also continue to maintain meaningful fiscal contingency reserves to ensure that BISP's ability to disburse emergency cash transfers, which would be a key component to building climate resilience (¶39).

- ***Reversing the decline of health and education spending outside of BISP***. While the BISP CCT programs are a critical component of social support, the vast majority of health and education spending in Pakistan is carried out outside of BISP at the provincial level. This type of spending has declined since 2018. Under the EFF, a reversal of this decline will be sought via ITs, with total spending equivalent to 2.4 percent of GDP targeted for FY25 and 2.8 percent by FY28. This greater spending should target hiring more teachers and increasing teacher salaries; building more schools and improving infrastructure; and hiring more doctors and other medical personnel.

- ***Medium-term transition toward cash transfer programs for energy support***. Pakistan's most vulnerable are currently protected from excessive electricity and gas tariff increases via the tariff structure (cross-subsidies). Over the medium-term, as greater fiscal space is created, energy tariff structures can be normalized (reducing energy market distortions) with protection of vulnerable households moving to direct cash transfers via BISP.

Authorities' Views

20. The authorities were broadly aligned on social protection goals. The authorities reiterated their commitment to maintaining UCT benefits in real terms and bringing generosity up to 15 percent of bottom quintile consumption going forward. They underscored the importance of building up CCT programs in parallel. The authorities recognized the decline in non-BISP health and education spending in recent years as well as the desirability of shifting energy cross-subsidies to BISP transfers but noted the needed fiscal space to address both of these issues.

C. Monetary, Exchange Rate, and Financial Sector Policies

21. Prudent monetary policy has led to a considerable deceleration of inflation while benign FX market conditions have allowed the SBP to strengthen its reserve position. After inflation peaked in May 2023 (38 percent), tight monetary policy led to a gradual decline in inflation despite intermittent pressures from energy tariff adjustments. More recently, a pronounced drop in food inflation helped reduce headline inflation to 9.6 percent in August, and the Monetary Policy Committee lowered its policy rate by 150 bps and 100 bps (to 19.5 percent) in their June 10 and July 29 meetings. At the same time, the functioning of the FX market has improved considerably, and the interbank-open market spread continues to be negligible. Stronger policies and confidence, and relatively calm FX market conditions have enabled the SBP to conduct sizable FX purchases, which have helped double reserves.

Policy Discussion

22. Monetary policy should remain geared to reducing inflation toward the SBP's target. The authorities are committed to bringing core inflation down and re-anchoring inflation expectations. In this regard, policy rates will remain substantively positive in real terms and data-dependent to adjust quickly to evolving price dynamics. At the same time, to support monetary policy formation and implementation, the inflation expectation survey will be aligned with best practice. More broadly, reducing fiscal dominance and credit objectives (Box 3) will be conducive to stronger monetary transmission and foster financing deepening and allocative efficiency, including by (i) limiting public sector borrowing demands through fiscal consolidation; (ii) retrenching from credit allocation, such as via SBP's refinancing schemes, allowing a broader role for market forces; and (iii) relinquishing state ownership of financial institutions.

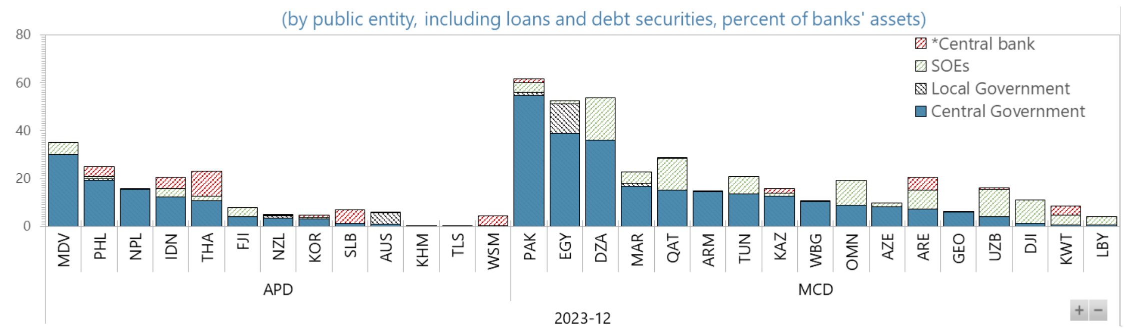
23. Rebuilding reserves needs to continue, while the functioning of the FX market should be strengthened further. The program aims to return gross reserves to at least 3 months of imports, supported by disbursement of multilateral and bilateral loans and FX purchases. Should outflow pressures return, the SBP is committed to allowing the exchange rate to adjust flexibly and not intervene against a trend depreciation. At the same time, efforts will continue to deepen the interbank FX market and allow greater price discovery where banks act freely in the FX market without restrictions. Greater transparency on SBP's interventions and reserve accumulation strategy (MEFP ¶16) will also be conducive to market development. Staff also recommended unwinding the January 2022 shortening of the period for repatriation of export proceeds (which is assessed as an outflow CFM according to the IMF Institutional View on the Liberalization and Management of Capital Flows) once macroeconomic and BOP stability is being restored.[4]

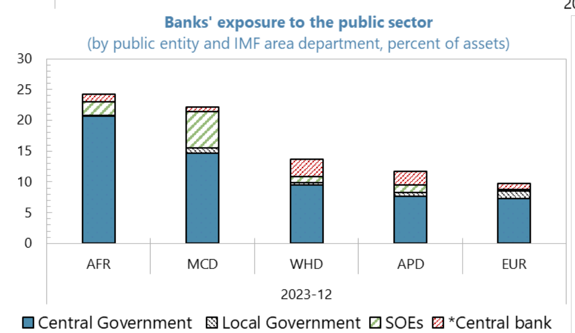
[4] The annual limit on cross-border transactions through debit/credit cards of individuals is currently being assessed as a potential CFM under the IMF Institutional View on the Liberalization and Management of Capital Flows.

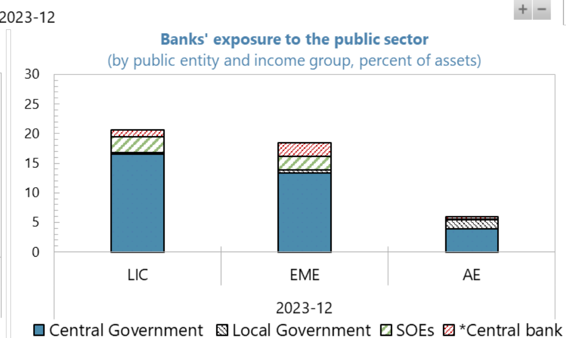
Box 3. The Sovereign–Bank Nexus in Pakistan[1]

Persistently high fiscal deficits, coupled with the impact of recent external shocks, has had significant implications for the sovereign-bank nexus in Pakistan. With limited access to external funding government debt has increasingly been taken up by the banking sector and, as a result, banks' holdings of domestic government debt has surged to around 60 percent of their assets, i.e., more than three times the average for Emerging Market Economies. With a limited depositor base, the banks have mainly financed the government's additional demand for funds through liquidity provided by the State Bank of Pakistan (SBP) via Open Market Operations (OMOs). With government credit more attractive than private lending, this has significantly crowded out the latter. Moreover, the balance sheets of the three parties, the sovereign (government), commercial banks, and the central bank have become highly interconnected. This complex tripartite relationship means that developments or actions in one domain (e.g., fiscal, monetary policy and the banking sector) can have wide-ranging effects across the economy. It also significantly affects the strength of monetary policy transmission by impinging the relationship between policy rates, private credit, and, private investment and consumption decisions.

Public Sector-Bank Nexus







Source: Salim Dehmej (2024), Exploring a New Database on the Public Sector-Bank Nexus, forthcoming IMF Working Paper

There are multiple actions to limit this nexus. Addressing the fiscal imbalances is key to first containing and then start unwinding the complicated interdependences. Cash and debt management should make better use of idle public sector cash balances and strike a balance between the banks' investment preferences and the government's strategic medium-term objectives. In particular, the authorities should closely monitor the health of the banking sector and prepare a contingency plan in case of a downside risk scenario. In the medium-term, the structural impediments to financial sector and capital market development, including the extent of the informal economy should be addressed.

[1] See "The Sovereign-Bank (-Central Bank) Nexus in Pakistan," 2024, Selected Issues Paper.

24. Safeguarding financial stability requires the authorities to use their powers decisively and judiciously, complemented by enabling reforms of the institutional framework. Amendments to the bank resolution and deposit insurance legislation, which should be advanced expeditiously (MEFP ¶17.a) and operationalized subsequently, will further strengthen Pakistan's crisis management and bank resolution framework and improve tools to address failing banks. Taking actions to unwind the interconnections resulting from the sovereign-bank nexus—including fiscal consolidation, better cash management, and capital market development—will limit risk of financial contagion (Box 3). SBP should take action in line with its supervisory framework to ensure that currently undercapitalized private banks complete recapitalization or otherwise be placed under resolution in case recapitalization efforts fail. The well-advanced wind down of the public bank should also be completed. To support financial stability, regulatory standards should be reinforced (via the restoration of capital conservation buffers) and consistently enforced (including adherence to prudential leverage ratios). While microfinance banks (MFBs) play a critical role in financing the poorer segments of society, their persistent vulnerabilities and weak business models need to be addressed before they join the deposit insurance scheme.

25. Efforts to promote financial deepening, strengthen financial inclusion, and enhance the effectiveness of AML/CFT measures should increase. In order to improve credit to the private sector, legal and regulatory reform should be contemplated to strengthen enforcement of claims, enforceability of collateral, and debt collection. Deepening of the capital markets, particularly taking steps to develop the insurance and private pension sectors, can play a catalytic role in expanding the financing base for both the government and the private sector. Implementation of SBP's comprehensive strategy to address high levels of NPLs will encourage banks to charge-off fully provisioned NPLs and transfer non-performing assets to corporate restructuring companies. Ongoing efforts to strengthen financial inclusion as well as digitalization and documentation can bolster intermediation and efficiency (MEFP ¶18). Strengthening AML/CFT effectiveness will help detect, prevent, and deter the laundering of proceeds from high-risk crimes (e.g., tax evasion, smuggling and corruption) and enhance financial inclusion. Efforts should focus on deepening inter-agency coordination by the new National AML/CFT Authority, risk-based supervision, effective implementation of AML/CFT measures, particularly, risk-based customer due diligence and enforcement against trade-based money laundering, and enhancing verification of beneficial ownership information (MEFP ¶17.d).

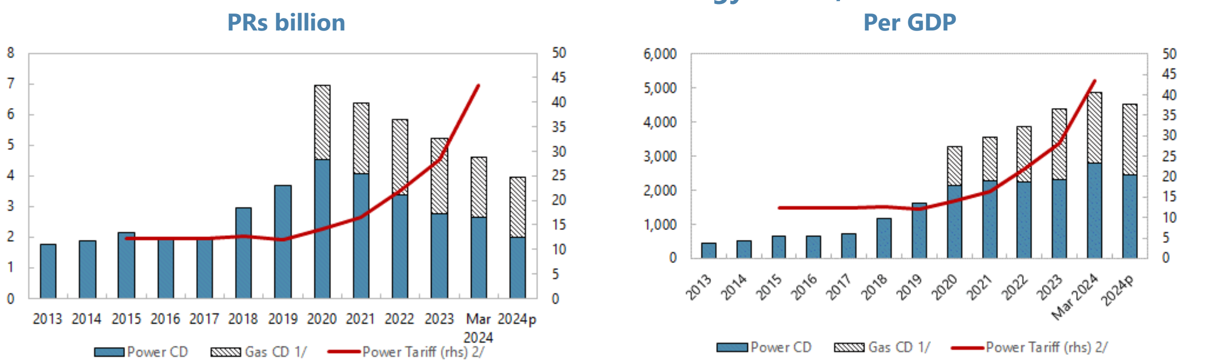
Authorities' Views

26. The authorities agreed on the need to pursue a tight monetary policy stance and that the exchange rate must absorb any emerging pressures. The limited depth of the FX market remains a concern to the authorities as it could propagate and exacerbate one-way movements in the exchange rate. While noting the achievements in bringing down inflation over the past year, the authorities recognized the risks ahead and the need to have a cautious approach in easing monetary policy. The authorities also took note of the complementarity between an appropriate fiscal stance and the central bank's ability to pursue its price stability objective, and agreed that deepening the financial system and addressing undercapitalized banks is a priority. The authorities viewed maintaining the shortening of the period for repatriation of export proceeds as appropriate given still-fragile external conditions.

D. Energy Sector Policies

27. Structural energy sector problems continue to hinder Pakistan's sustainable development. An unreliable energy supply and high and unpredictable costs negatively impact economic activity and development. Structural inefficiencies (particularly in distribution companies (DISCOs)), guaranteed US$ returns to power producers, and a long-running reluctance to adjust tariffs in line with costs, has led to large losses, accumulation of arrears, and a network of cross-subsidization among different consumer groups. In addition, inadequate maintenance, declining service, and undercollection, lead to the need for ever higher tariffs. On the gas side, longstanding underpricing against a rapid depletion of indigenous natural gas effectively led to subsidizing demand for greater imports of expensive RLNG. The energy sector has become a major point of macro-fiscal risk as circular debt (CD) spiked over 2013–21 for power and 2020–23 for gas. The authorities began to significantly adjust tariffs in line with costs beginning in 2021 (electricity) and early 2023 (gas). This, along with sizeable power subsidies (around 1 percent of GDP in FY24), broadly stabilized nominal CD flow in 2023-24 (text charts). However, large persistent power subsidies are not a viable ongoing tool to plug the sector's gaps. Broad structural reforms must take place aimed at reducing costs and tackling theft, captive power, and inefficiencies in the sector (especially DISCOs).

Pakistan: Circular Debt in the Energy Sector, FY13–24



Sources: Pakistani authorities; IMF staff calculations.
1/ Gas CD not available before 2020. Does not include late payment surcharges.
2/ PRs per kWh, national average, power tariff only (gas not available).

Policy Discussion

28. Continued timely energy tariff adjustments consistent with cost recovery, in parallel with broader reforms (¶29) to reduce costs, are needed to prevent further CD accumulation. For the *power sector*, this requires an annual rebasing notification in full by the Power Ministry at a rate consistent with cost recovery, which occurred on July 14, 2024, along with timely implementation of quarter tariff adjustments and monthly fuel cost adjustments. This, along with the budgeted FY25 power subsidy of PRs 1,229 billion (1.0 percent of GDP), would minimize net CD flow over the course of the fiscal year.[5] For the *gas sector*, this requires notification by the Petroleum Ministry of the semiannual tariff adjustments, in line with revenue requirements and continuing to include the cost of imported RLNG, which occurred on July 1, 2024 and is anticipated by February 15, 2025 (*February 15, 2025 SB*). It is critical that both power and gas tariff adjustments preserve their current progressive tariff structures, thus continuing to protect vulnerable household consumers.

29. Supportive energy sector reforms are needed swiftly to reduce inefficiencies, ease price pressures, and restore viability and sustainability.

- ***Power.*** Key reforms to reduce costs and CD (MEFP ¶21.c) focus on improving distribution efficiencies, most notably by accelerating steps to improve distribution company management via private sector participation (*end-January 2025 SB*); institutionalizing anti-theft procedures to reduce losses; improving the policy and regulatory framework of the transmission system which has been a key bottleneck; privatizing inefficient generation companies; improving power plant efficiencies; completing the transition to a competitive electricity market; and reducing capacity payments by renegotiating power purchase arrangements (which account for approximately 60 percent of generation costs).
- ***Gas*****.** Key reforms (MEFP ¶22) focus on eliminating captive power (*end-January 2025 SB*), so that users transition to the electricity grid, thus channeling scare gas resources to more efficient gas-based power generators and reducing power generation costs; further unification of pricing, including by further implementing the weighted-average cost of gas pricing (WACOG); introducing the automatic notification of semiannual gas tariff determinations by the Oil and Gas Regulatory Authority (OGRA); and via further refinements to CD data to improve monitoring and analysis, building on current ongoing efforts.

Authorities' Views

30. The authorities recognize the urgency of implementing cost-reducing reforms. At the same time, they remained committed to implementing scheduled tariff increases, recognizing the need to prevent further CD flow. They highlighted the tension inherent in a tariff structure in which certain non-residential consumer categories cross-subsidize lower-slab households and thus face higher input costs, agreeing with staff that these cross-subsidies should be phased out when they can be shifted to direct cash transfers (¶19) in the medium term (pending fiscal space). They agreed that progressive tariff structures should be maintained until then.

E. Structural Policies

31. Further progress on the remaining structural reform agenda is necessary to reduce inefficiencies, boost productivity and export earnings, and support private sector

[5] The strategy for applying the power subsidy will be outlined in the FY25 CD Management Plan, to be adopted by Cabinet in July 2024. It is expected to include CD stock and arrears payments of PRs 382 billion (0.3 percent of GDP) to compensate for anticipated positive CD flow.

development. Key areas of focus are the SOE sector, public price-setting, governance and anti-corruption institutions, and tariff policy. Liberalization in these areas to improve the efficiency of government revenue raising and spending, while making labor and product markets more liberal and competitive, can have a significant impact on further growth and inclusion (Box 4), including through better quality public investment, spurring new private investment in a more competitive environment, and increase the incentives for private individuals to save.

Policy Discussion

32. SOE reforms are key to reducing losses, improving services, and scaling back the role of the state. Many SOEs provide poor-quality services and make large losses, absorbing 8¾ percent of GDP in direct budget support (cumulative since 2016).[6] Capitalizing on progress made on SOE governance in recent years—notably, the adoption of the SOE Act and SOE Policy and establishment of the Central Monitoring Unit (CMU) in 2023 and the June 2024 completion of amendments to the laws of four selected statutory SOEs[7] to bring them in line with the SOE Act (previously a missed SB under the 2023-24 SBA)—continued efforts are critical to reforming the sector. Policies will focus on ensuring the new SOE legal framework covers the entire SOE portfolio by, in consultation with IMF staff, (i) amending the laws of the remaining 12 statutory SOEs to achieve the same objective (*end-June 2025 SB* for another 10 SOEs); and (ii) amending the 2023 Sovereign Wealth Fund (SWF) Act (*end-December 2024 SB*) to ensure that SOEs under the ownership of the SWF revert to the SOE Act's governance structures; and to ensure that the SWF itself comes under governance mechanisms and safeguards in line with its principal nature as a holding company (MEFP ¶24b).[8] Policies should also prioritize decisive implementation of the new SOE legal framework, with Asian Development Bank support, completing privatization and restructuring plans (MEFP ¶24.c) and working to fully operationalize the CMU, which notably published its first two SOE reports in December 2023 and June 2024 (MEFP ¶24.d).

33. Long-standing government interventions in agricultural commodities have created distortions inhibiting the sector's productivity and harming Pakistan's medium-term potential. Government price setting and procurement operations have made the agricultural sector unresponsive to changing consumer preferences, exacerbated price volatility and hoarding, undermined the incentives for innovation, misallocated resources, and placed a burden on fiscal sustainability. Going forward these interventions should be discontinued (MEFP ¶25). Any purchases of agricultural commodities by SOEs or provincial food departments should be done solely for purposes of a narrowly defined national food security, and not as quasi-fiscal social policies, including to boost farmers' income or provide untargeted subsidies for staples.

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[6] In addition, as of end-December 2023 the government guaranteed loans amounting to PRs 1,518 billion, mostly to SOEs, with total lending to SOEs by commercial banks reaching PRs 1,710 billion.

[7] National Shipping Corporation, Pakistan Postal Services, Pakistan Broadcasting Corporation, and the National Highway Authority.

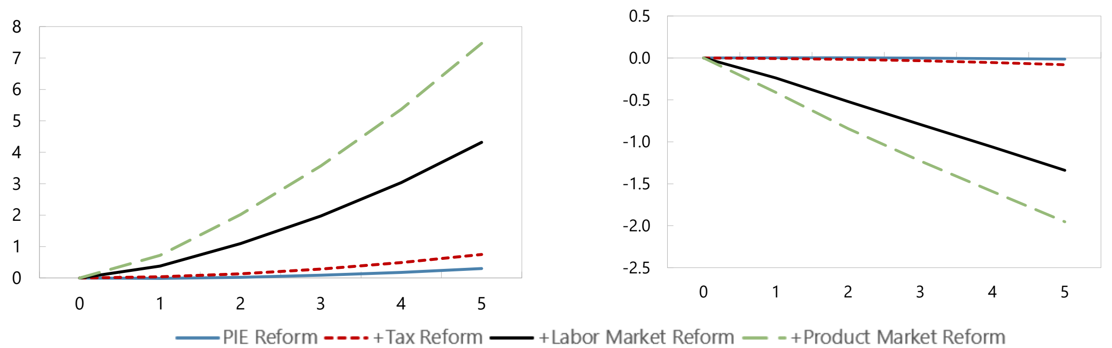
[8] The SWF has not been made active. The SWF Act transferred seven SOEs to the ownership of the SWF and exempted all SOEs under its control from the SOE Act.

Box 4. Strengthening Growth, Inclusion, and Climate Resilience[1]

Pakistan can make significant medium-term gains through consistent implementation of long-delayed structural reforms. Key policies and reforms modeled include (i) fiscal-structural reforms (improved public investment and tax efficiency); (ii) human capital investment and reduced (agricultural) subsidies that facilitate labor reallocation of more productive sectors; (iii) reduced trade barriers; and (iv) stronger market competition, privatization, and SOE efficiency. The results show that, over the medium term, significant growth gains accrue from labor market and SOE reforms as well as reduced trade barriers, with fiscal-structural reforms producing somewhat more modest gains. Implementation of such a combined reform agenda could result in more than a cumulative 7 percent increase in GDP over the medium term, with greater inclusion through a 2 percent reduction in consumption inequality.

Macroeconomic Impacts of Structural Reforms 1/

GDP (% change from initial year) | Consumption Inequality (% change from initial year)

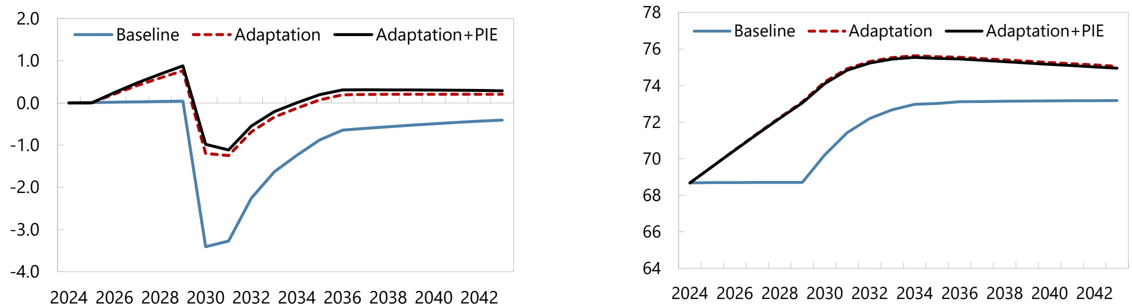


Sources: IMF staff estimates and projections.
1/ Reforms simulated using DIGNAR model.

Reforms to public investment strengthen Pakistan's climate resilience by facilitating the impact of adaptation investment and other structural reforms. The impact of ex-ante adaptive investment and improved public investment efficiency help buffer climate shocks. Model results suggest that, without an emphasis on adaptation investment, a climate shock in year six leads to a decline in activity like that experienced during the 2022 floods, while ex-ante adaptation investments could reduce the negative growth impact by about a third and return Pakistan to previous GDP levels far more quickly. Enhancements in public investment efficiency further improve such resilience, particularly in the immediate aftermath of the shock, albeit with moderately higher debt levels placing an emphasis on ongoing fiscal consolidation.

DIGNAD Climate Shock Simulation Results

GDP (in percent, deviation from steady state) | Total Public Debt (in percent of GDP)



Sources: IMF staff estimates and projections.

[1] See "Measuring the Gains from Structural Reforms and Climate Adaptation Investment in Pakistan," 2024, Selected Issues Paper.

34. Robust governance and anti-corruption institutions will contribute to inclusive growth, a level playing field and sustainability of reform efforts (MEFP ¶26). Corruption, red tape, and a weak business climate are long-standing structural bottlenecks holding back Pakistan's socio-economic development. Vested interests wield significant influence over government functions and can block or reverse reforms. In this regard, the authorities requested capacity development support from IMF staff to conduct a Governance and Corruption Diagnostic Assessment, and committed to publishing the report, including an action plan (*end-July 2025 SB*). In addition, the authorities will formalize their intent to publish the full review report of its compliance with the UN Convention against Corruption through regulations to be issued by end-September 2024, once the review process is completed. To address the impunity for corruption, allegations of politically motivated persecution and weak investigative capacities, the authorities will enhance, as required, the independence and effectiveness of the National Accountability Bureau (NAB), following the expected ruling by the Supreme Court on the agency's organic law. To ensure accountability of public officials and deter illicit enrichment, asset declarations of high-level public officials (similar to members of parliament) will be made publicly accessible through legislative amendments (*end-February 2025 SB*), subject to safeguards of limited personal data. The asset declaration system will be digitalized through the FBR and subject to risk-based verification by the Establishment Division.

35. Further efforts to remove trade barriers are urgently needed (MEFP ¶27). The first National Tariff Policy (2019-24) reduced the complexity of the tariff schedule and introduced duty-free access for many imported inputs. As consultations are ongoing on the next phase (2025–29), reforms to the tariff schedule should reduce complexity and avoid the use of tariffs to promote industrialization and protect sectors unable to compete of be self-reliant, as such policies weaken exports, hinder participation in global value chains, and incentivize rent-seeking. Trade policies aimed at promoting specific domestic sectors, including export subsidies and local content requirements, should be discontinued as they are likely to promote resource misallocation and may violate international obligations. The authorities should remain focused on reducing trade-weighted average tariffs and simplifying import/export documentation processes.

36. Data provided to the Fund is broadly adequate for surveillance in most areas, but there are weaknesses in the National Accounts (NA) and Government Finance Statistics (GFS) that somewhat hamper surveillance (Annex VII). The FY16 NA rebasing and recent publication of quarterly GDP have provided a better basis for assessing economic developments, but important shortcomings remain in the source data available for sectors accounting for around a third of GDP, while there are issues with the granularity and reliability of the GFS. The authorities are prioritizing addressing these weaknesses (MEFP ¶30), supported by Fund TA on the GFS and a new PPI index, and the Pakistan Bureau of Statistics will soon begin fieldwork for four major surveys ahead of the upcoming NA rebasing to FY26.

Authorities' Views

37. The authorities were broadly aligned on structural reform agenda priorities. The authorities agreed on the way forward on the SOE reform agenda, including on the amendment of the

SWF Act. Authorities concurred on the need to continue simplifying import/export processes and supported the reduction of regulatory and additional customs duties, but expressed concern over the potential impact of reducing custom duties on specific manufacturing sectors identified as vulnerable to import competition (including the automotive industry). The authorities raised concerns regarding potential security and harassment risks in making asset declarations of high-level public official publicly available, and made distinctions with elected members of parliament.

F. Climate Policies

38. Adaptation investment is critical to mitigating the impact of climate shock given Pakistan's significant climate vulnerabilities (¶8), while mitigation will support global greenhouse gas mitigation efforts. Indeed, additional early adaptation investment, efficiently implemented, would both significantly moderate and shorten the negative effects of future climate shocks (Box 4).

Policy Discussion

39. Climate efforts should be focused on policies to build resilience and adaptation. Analysis shows that additional ex-ante adaptation investment, and associated efficiency, of 1 percent of GDP per year would reduce the negative growth impact of a natural disaster shock by one-third and also reduce Pakistan's post-shock recovery time (see accompanying SIP).[9] Adaptation efforts should thus focus on implementation of the C-PIMA Action Plan (adopted December 2023) to set the stage for effectively incorporating adaptation-focused investments into Pakistan's overall investment strategy. The authorities have made strong progress on C-PIMA implementation thus far, including the development of a climate scoring methodology of PSDP projects aligned with their National Adaptation Plan; the incorporation of climate sensitivity into project planning; and incorporation of climate into building codes; and are moving forward on their project appraisal methodology and green budget-tagging capacity (MEFP ¶31.a). However, to maximize the impact of adaptation efforts it is critical to complete in parallel the implementation of the Fund's broader PIMA TA recommendations. Finally, efforts should continue to leverage BISP datasets to calibrate social protection disbursements in the event of disaster and to implement the National Disaster Risk Financing Strategy. As in other areas of public procurement, robust transparency and accountability safeguards will contribute towards climate financing achieving their intended purposes and preventing their misuse or corruption.

40. Greater adaptation investment requires greater fiscal space and enhanced climate financing. While Pakistan has significant climate investment needs,[10] even adaptation investment of 1 percent of GDP per year could be challenging despite efforts to raise tax revenues and improve fiscal performance (¶15, 16). In this regard, ensuring space within the fiscal envelope and finalizing

[9] Such adaptation investment could target, for instance, infrastructure investments to reduce flood risk and enhance water recharge at identified sites in the Indus Basin and expanding protected areas, as discussed in the World Bank's Country Climate Development Report (2022).

[10] World Bank, Country Climate Development Report (2022).

the National Climate Finance Strategy with the World Bank is crucial to mobilizing financing. The recent establishment of a Climate Finance Wing in the Ministry of Climate Change is welcome, as is the SBP's development of tools to account for climate shocks on financial stability (MEFP ¶31.b).

41. Pakistan's mitigation targets are ambitious. Under the UNFCCC framework, Pakistan's Nationally Determined Contribution (NDC) includes conditional and unconditional target of overall 50 and 15 percent reduction, respectively, of its projected emissions by 2030. Envisioned policies include a reforestation project, gradual efforts to green Pakistan's energy mix, and initial steps to adequately tax fuel products and develop a voluntary carbon trading system under the UNFCCC.

Authorities' Views

42. The authorities' views were broadly aligned with staff. The authorities reiterated their focus on implementing the C-PIMA Action Plan and recognized the need for greater adaptation investment, but emphasized the importance of mobilizing sufficient climate financing, including from external partners.

PROGRAM MODALITIES AND CAPACITY TO REPAY

43. Arrangement and access. The authorities request a 37-month arrangement under the Extended Fund Facility to address Pakistan's external financing needs, improve its structurally weak balance of payments position, rebuild reserves, and support structural reforms. Access will be set at 261.9 percent of quota (SDR 5,320 million, equivalent to around US$7 billion), with SDR 760 million available at program approval and the remainder phased evenly over six semiannual reviews (Table 8). The program duration allows sufficient time for implementing policies to correct the structural imbalances underlying Pakistan's inherently weak BOP position, and build policy credibility over four budget cycles. The terms of the EFF fit Pakistan's structural needs and the reform agenda under the program.

44. 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 semiannual reviews, including the regular assessment of financing commitments to ensure the program remains fully financed. All prior actions have been met following the parliamentary approval of a FY25 budget in line with the IMF staff agreement; notification of the annual electricity tariff rebasing; and notification of the semiannual gas tariff adjustment.

45. Financing. The program is fully financed, with firm commitments for the first 12 months and good prospects thereafter. Financing committed for FY25 includes US$16.8 billion of rollovers of existing short-term financing and US$2½ billion of additional commitments, including from China, Saudi Arabia, the ADB and the IsDB. The authorities have also received firm commitments from key bilateral partners to (at least) maintain their existing exposures throughout the program, including by continuing to rolling over existing short-term liabilities, which will contribute to meeting financing needs in the remaining program period. Loans from foreign commercial banks totaling US$6.6 billion, which were renewed during the 2019 EFF and 2023 SBA, are also expected to continue to be rolled during the new program period. These together with commitments from multilateral institutions provide the necessary financing assurances. Nonetheless, financing risks remain high, and continued monitoring will be needed to ensure timely and adequate financing during program reviews.

46. Safeguards assessment. A safeguards assessment, completed in December 2023, found a broadly sound safeguards framework, but recommended to strengthen internal control systems in the SBP's lending operations. Supported by Fund TA, the authorities will revise the relevant regulations concerning collateral framework and counterparty eligibility (*end-December 2024 SB*) and subsequently implement those changes (*end-September 2025 SB*). Staff also urged the timely filling of Board and deputy governor vacancies in order to safeguard governance and ensure SBP's operational readiness.

Pakistan: Financing Need and Sources 1/

	2024/25	2025/26	2026/27	2027/28	Total (FY25-28)
A. Financing gap	4,014	4,021	3,024	1,014	12,073
Underlying BoP Gap 2/	638	1,309	-1,754	-1,250	-1,057
Gross international reserves (+= accumulation)	3,376	2,712	4,779	2,263	13,130
B. IMF (prospective)	2,014	2,021	2,024	1,014	7,073
C. Residual Need / Other prospective financing (A-B) 3/	**2,000**	**2,000**	**1,000**	**0**	**5,000**
Memorandum items					
Gross Reserves	12,757	15,469	20,248	22,511	
months of imports	2.1	2.4	3.0	3.1	
percent of ARA metric	47	55	67	72	
IFI Budget Support	800	650	650	650	2,750
WB	0	0	0	0	0
ADB	800	650	650	650	2,750
External Bond Issuance	0	0	1,000	2,000	3,000
(Net) Commercial Bank borrowing 4/	700	700	1,028	847	3,275

1/ Excluding financing needs associated with rollover of short-term bilateral financing, and expected commercial bank rollovers
2/ Change in reserves absent IMF and other program financing
3/ To be met by additional commitments, including from China, Saudi Arabia, the AIIB and IsDB, and commercial borrowing backed by a prospective ADB partial guarantee
4/ Including through ITFC facility

47. Enterprise risks. The Fund faces a number of major enterprise risks associated with a new program. Notably, *business risks* are elevated due to the potential for the program to go off-track as well as Pakistan's challenging security situation, which could adversely impact FDI, among others. *Reputational risks* would arise if the Fund were perceived as treating Pakistan differently from other members that ostensibly enjoy less support. Alternatively, not proceeding with a new program also raises reputational risks as the new authorities, or other members, may accuse the Fund of not being evenhanded especially following the successful SBA. Although near-term *financial risks* have declined since SBA approval, they remain very elevated (¶48) and are to be mitigated through phased access, burden sharing, and adequate financing assurances. *Operational risks* in relation to staff's in-country activities persist, although Fund activities are closely coordinated in line with policies and supported by UNDSS.

48. Capacity to repay. Pakistan's capacity to repay is subject to significant risks and remains critically dependent on policy implementation and timely external financing. The Fund's exposure would reach SDR 6,816 million by September 2024 (336 percent of quota) with purchases linked to the request. With completion of all purchases under the arrangement, the Fund's exposure would peak in September 2027 at SDR 8,774 million (432 percent of quota; approximately 55 percent of projected gross reserves for FY27) around double the average for recent EFFs. Exceptionally high risks—notably from high public debt and gross financing needs, low gross reserves and sociopolitical factors—could jeopardize policy implementation and erode repayment capacity and debt sustainability. Restoring fiscal and external viability is critical to ensure Pakistan's capacity to repay the Fund. This hinges on strong and sustained policy implementation, including, but not limited to, fiscal consolidation and external asset accumulation, as well as decisive reforms to enable stronger and more resilient economic development.

STAFF APPRAISAL

49. While policy implementation under the 2023–24 SBA was commendable, sustained efforts during the coming years are needed to entrench macro stability and promote sustainable growth. The SBA achieved its narrow objectives in reducing near-term risks and rebuilding confidence, but deep-seated structural challenges have continued to linger. To break the history of boom-bust cycles, it is critical to fundamentally transform economic policy making, reduce the role of the state in the economy, strengthen the business environment to attract private investment, invest in human capital and development, and protect the most vulnerable. The authorities recognize these challenges, which have required them to resort to repeated Fund programs over the past decade, and have embarked on an ambitious new effort to strengthen Pakistan's resilience and economic prospects. At this stage, there is no sustainable alternative to strong and sustained ownership of sound macroeconomic policies and decisive implementation of the reform agenda.

50. The fiscal effort in the FY25 budget and the implementation of ambitious reforms to broaden the tax base are critical to strengthening fiscal sustainability. The adoption of the FY25 budget marks an important first step and its high-quality revenue measures targeting general sales taxes, personal income tax, and the corporate income tax of exporters and developers are initial milestones for enhancing fairness, transparency, and revenue collection. In view of Pakistan's low tax-to-GDP ratio, these efforts should continue and the authorities are committed to mobilizing additional tax revenue by broadening the tax base through balanced and equitable measures, including the near-term reform of provincial agricultural income taxation, and the elimination of privileges, tax exemptions, and special concessions, as well as robust revenue administration reforms, which would also support the needed fiscal consolidation. Alongside prudent spending management, this revenue mobilization will create space for essential investments in human capital development, development infrastructure, and social protection while maintaining a downward trajectory for public debt.

51. Institutional and structural reforms are needed to support a lasting fiscal adjustment. Reorganizing federal-provincial fiscal relations through the National Fiscal Pact is a critical step in broadening revenue mobilization. Provinces must decisively implement their commitment to reform agricultural income tax regimes, and support the revenue mobilization and fiscal consolidation efforts, including through taxation of property and meeting their primary surplus targets. Tax policy reforms should be accompanied by robust administration to ensure effective implementation, improved compliance, and stronger collection from a broader base. PSDP reform is crucial to efficient and effective public investment management. Additionally, efforts to consolidate the TSA and adopt necessary measures to make better use of cash balances accumulating in the commercial banking sector will improve liquidity management, reduce borrowing costs, and enhance overall debt management.

52. Improving human capital investment and protecting the most vulnerable is critical to achieving long-term sustainable growth. Following on efforts already made in the past year, the expansion of the BISP beneficiary base, increase in UCT generosity, commitment to inflation and generosity adjustments going forward, and efforts to enhance CCT programs are welcomed next steps. The authorities should continue to ensure enrollment of all eligible families while reversing the trend decline in health and education spending.

53. Monetary policy needs to remain tight and data-dependent to ensure that inflation converges promptly to the SBP's target range. The recent decrease in the policy rate was appropriate and consistent with a continued tight policy stance. Going forward, the SBP should remain vigilant as its fight against inflation is approaching the "last mile", and any further lowering of the policy rate should be predicated on evidence that core inflation is moderating and inflation expectations have re-anchored. Renewed efforts are needed to strengthen monetary transmission while enhancing SBP's safeguards in monetary policy operations is key to reduce risks to its balance sheet and strengthen governance.

54. Price discovery in the interbank market is critical to the exchange rate serving as a shock observer. The SBP's commitment to stronger transparency about its FX operations and reserves target are welcome. While Pakistan's external position in FY23 was broadly in line with the level implied by medium-term fundamentals and desirable policies, the exchange rate should continue to be allowed to adjust to buffer shocks, maintain competitiveness, and help rebuild reserves. Refraining from any restrictions on current account payments, including dividend and profit repatriation, is key to attract high quality investment.

55. Safeguarding financial stability requires a robust institutional framework and the consistent and effective use of the derived powers. Passing legal reforms to the crisis management framework remains crucial to strengthen the authorities' toolkit to address weak institutions. At the same time, the long noncompliance of some banks with the minimum capital requirements warrants prompt action using the SBP's existing powers. Effective risk-based use of

AML/CFT measures should help prevent and detect fiscal leakages from tax evasion and smuggling, prevent the abuse of the financial system, and enhance financial inclusion.

56. Energy policies need to go beyond tariff adjustments to ensure the sector's viability. Implementation of necessary electricity and gas tariff adjustments over the past year is welcome and needs to continue. In parallel, resolving the energy sector's problems and restoring its viability urgently requires reforms to improve distribution and transmission efficiencies and lower generation costs, which will ultimately also allow for tariffs to fall.

57. Sustainable and inclusive long-term growth requires faster implementation of structural reforms. Besides strengthening and harmonizing the legal framework for SOEs, Pakistan needs to reduce its sectoral resource misallocation by scaling back distortive industrial policies that introduce anti-export biases (including high rates of effective protection on imports, local content requirements, and targeted export subsidies). Effective governance frameworks and independent anti-corruption institutions are critical to overcoming poor policy making, mitigating undue influence of vested interests, and sustaining hard-fought structural reforms.

58. Building climate resilience is critical to reduce the impact of climate change. The authorities' progress on implementing the C-PIMA agenda thus far is welcome; progress on the broader PIMA agenda is also required to ensure sufficient return on investments to maximize resilience. Further developing of the authorities' climate financing strategy will be key to building the needed adaptation infrastructure, and would help catalyze necessary external financing.

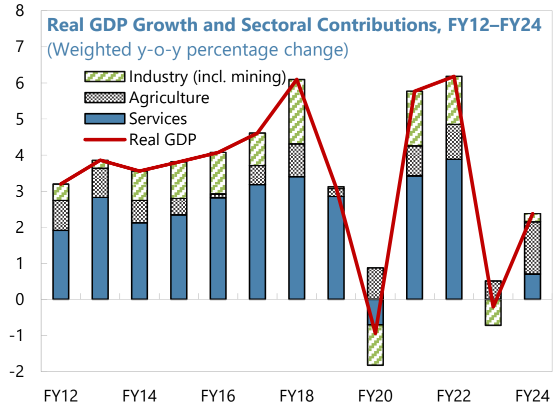
59. Uncertainty and risks remain very high. Political economy considerations and pressures from vested interests could delay or weaken the reform momentum and put at risk still-brittle stability. The external environment remains challenging as well, with still tight global financing conditions, volatile commodity prices, and elevated geopolitical tensions.

60. While recognizing these risks, staff supports the authorities' request for a 37-month EFF with access equivalent to SDR 5,320 million (261.9 percent of quota). The authorities have formulated an ambitious program, tackling areas that have remained protected in the past. Their policy actions, both under the previous SBA and since taking office in February, provide a welcome testament to their ownership and commitment to carry out the program. Going forward, sustained implementation and clear communication to ensure a broad-based understanding of the importance of actions underpinning the program will be essential to maintain support and for the program to achieve its objectives.

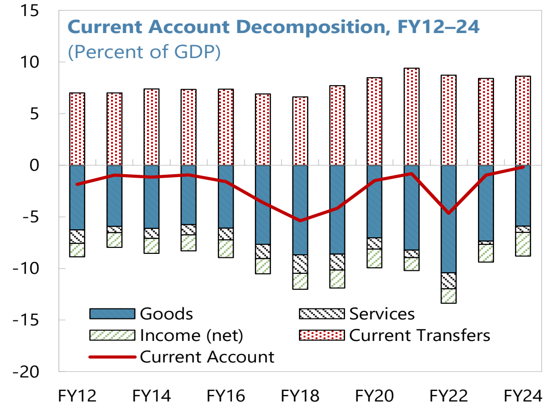
61. It is recommended that the next Article IV consultation with Pakistan be held on the 24-month cycle, in accordance with Decision No. 14747–(1096) on consultation cycles.

Figure 1. Pakistan: Selected Economic Indicators

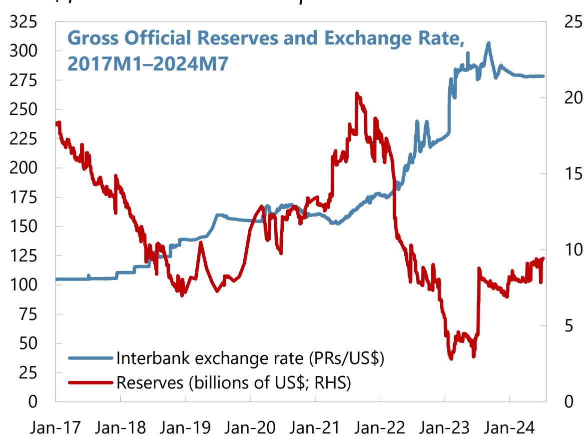
The economic rebound in FY24 was led by agricultural output, with industry and services remaining subdued …



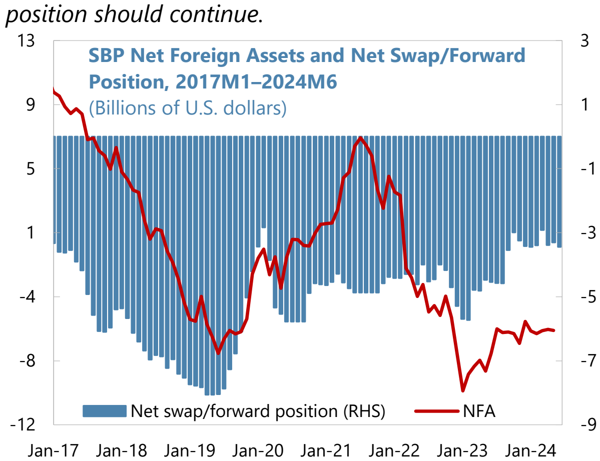
…and the current account narrowed further as exports and remittances rebounded ahead of imports.



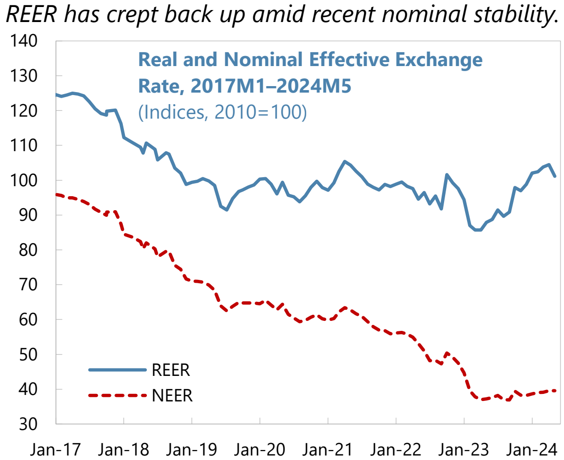
Although reserves have risen from their lows in early 2023, further reserve build-up is critical…



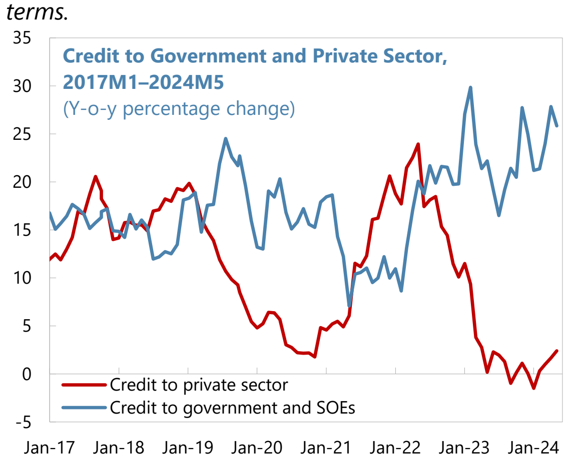
…and the recent narrowing of the SBP's derivative position should continue.



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



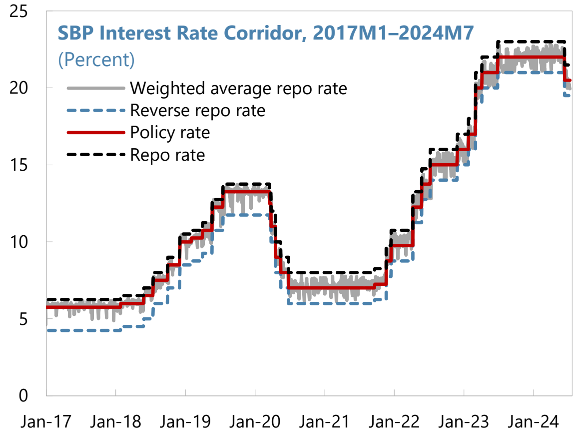
Credit to the private sector has declined sharply in real terms.



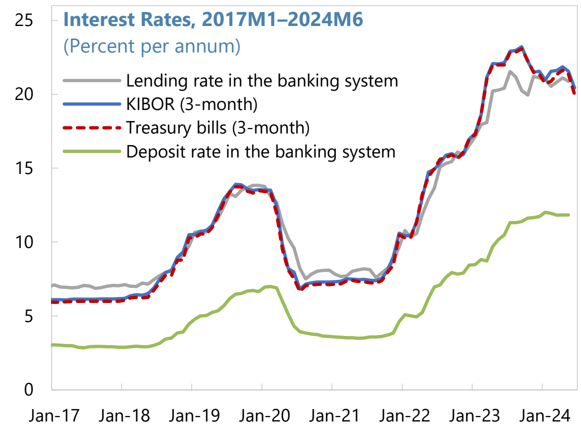
Sources: Pakistani authorities; IMF World Economic Outlook Database; IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators

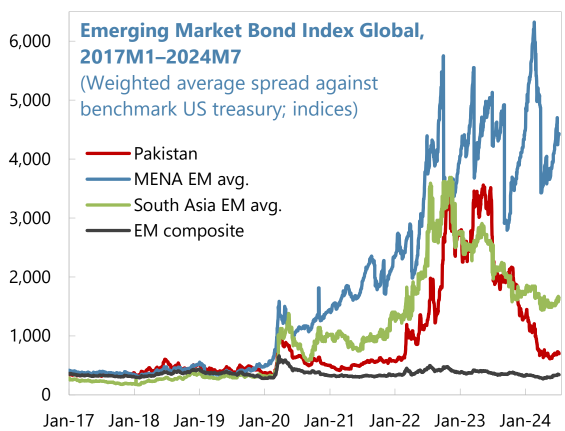
After keeping the policy rate at 22 percent during FY24, the MPC cut the rate by 150 bps in their June 10 meeting...



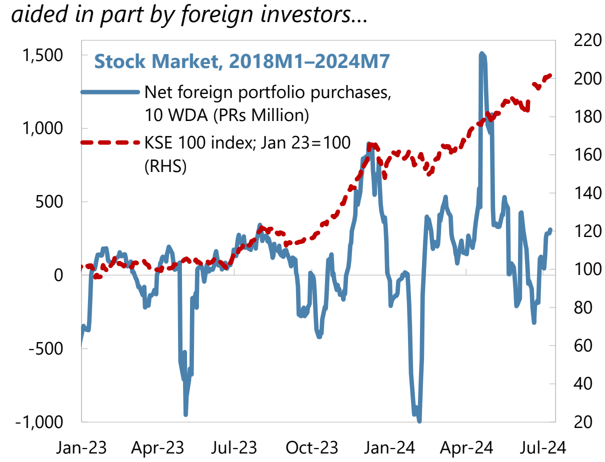
...and market rates have started to respond.



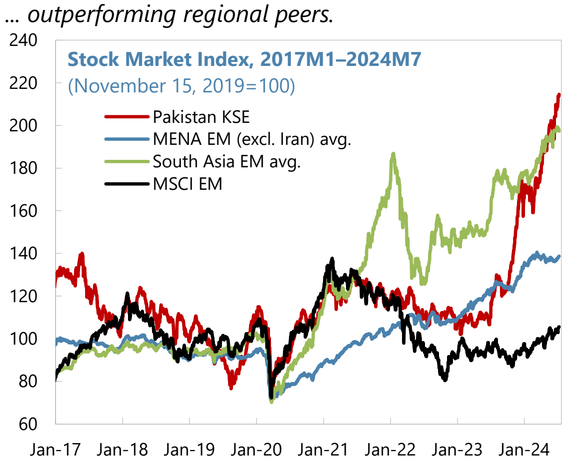
Pakistan's bond spread has stabilized at moderate yet still elevated levels, while greater confidence...



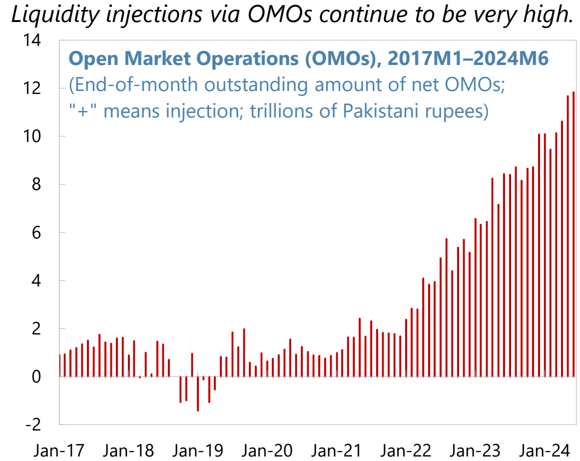
...has also propelled a stock market boom since late 2023, aided in part by foreign investors...



... outperforming regional peers.



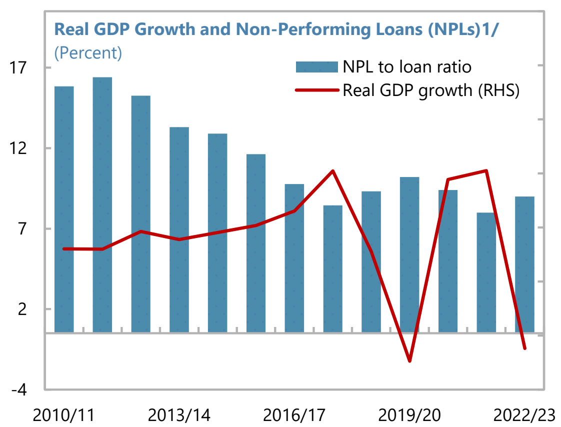
Liquidity injections via OMOs continue to be very high.



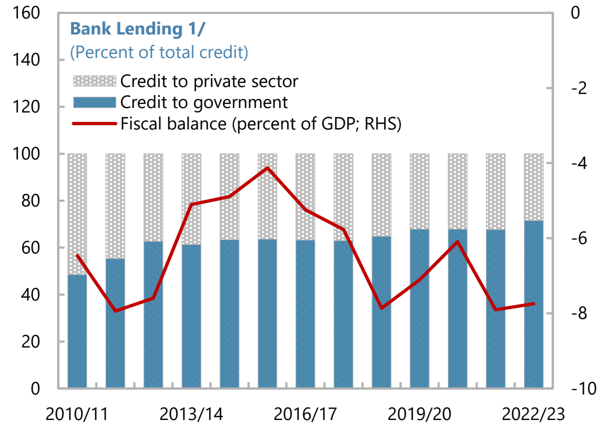
Sources: Pakistani authorities; Bloomberg; IMF staff calculations.

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

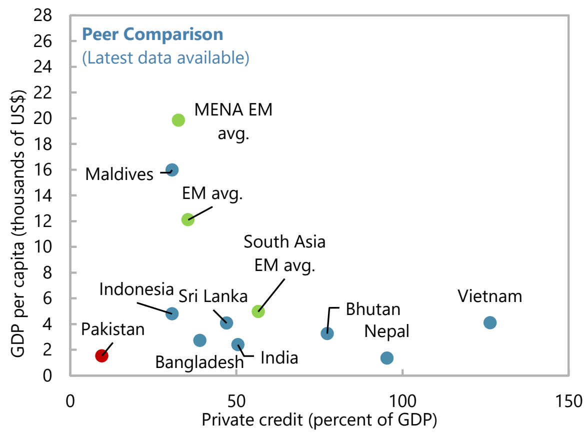
NPLs rose in FY23 but remained relatively contained in the context of the large economic deceleration.



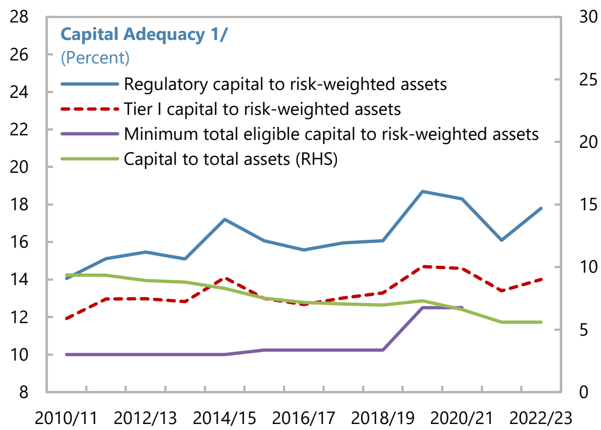
The banking system remains oriented toward providing credit to the government...



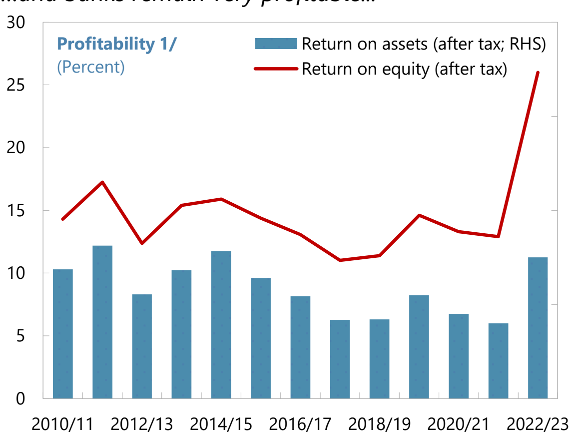
...leaving Pakistan behind its peers in terms of private credit relative to the size of its economy.



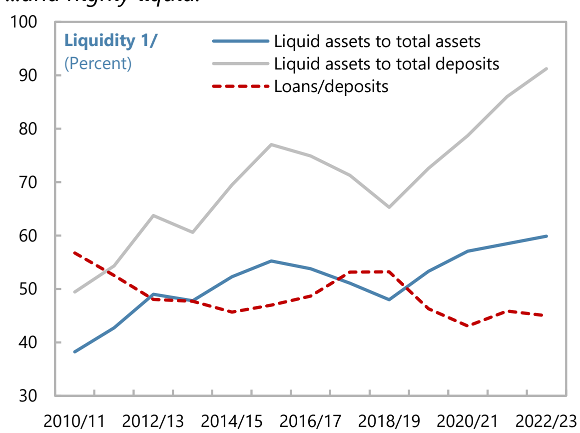
In part due to investments in government securities with zero risk weights, banks' capital ratios appear healthy...



...and banks remain very profitable...



...and highly liquid.



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

Figure 4. Pakistan: Education Performance Indicators 1/

Sources: World Bank World Development Indicators.

1/ LMC = Lower Middle Income

Figure 5. Pakistan: Health Performance Indicators 1/

Sources: World Bank World Development Indicators.

1/ LMC = Lower Middle Income

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

Population: 236.0 million (2023/24) — Main exports: Textiles (US$16.3 billion, 2023/24)

Per capita GDP: US$1,572.3 (2023/24) — Unemployment: 6.2 percent (2021/22)

Poverty rate: 21.9 percent (at national line; 2018/19)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25
						Prog.	Proj.	Proj.
Output and prices	(Annual percentage change)							
Real GDP at factor cost	3.1	-0.9	5.8	6.2	-0.2	**2.0**	2.4	3.2
GDP deflator at factor cost	9.2	9.9	10.4	14.1	25.8	**24.8**	23.2	9.5
Consumer prices (period average)	6.8	10.7	8.9	12.2	29.2	**24.8**	23.4	9.5
Consumer prices (end of period)	8.0	8.6	9.6	21.3	29.4	**19.6**	12.6	10.6
Pakistani rupees per U.S. dollar (period average)	24.0	16.0	1.2	11.0	39.8	**...**	13.9	...
Pakistani rupees per U.S. dollar (end of period)	31.7	5.0	-6.3	30.0	39.6	**...**	-2.7	...
Saving and investment	(Percent of GDP)							
Gross saving	11.3	13.3	13.7	10.9	13.2	**11.4**	13.0	12.7
Government	-5.5	-4.7	-3.9	-5.4	-5.5	**-5.5**	-4.8	-3.7
Nongovernment (including public sector enterprises)	16.8	18.1	17.6	16.3	18.6	**16.9**	17.8	16.4
Gross capital formation 2/	15.5	14.8	14.5	15.6	14.1	**12.2**	13.1	13.6
Government	2.3	2.3	2.2	2.4	2.3	**1.9**	1.9	2.3
Nongovernment (including public sector enterprises)	13.2	12.5	12.4	13.1	11.9	**10.3**	11.2	11.3
Public finances								
Revenue and grants	11.3	13.3	12.4	12.1	11.5	**12.5**	12.6	15.4
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	19.2	**20.0**	19.3	21.4
Budget balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.7	**-7.4**	-6.7	-6.0
Budget balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.8	**-7.5**	-6.8	-6.1
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-0.9	**0.4**	0.9	2.0
Underlying primary balance (excluding grants) 3/	-3.1	-1.6	-0.5	-2.3	-0.7	**0.4**	0.9	1.0
Total general government debt excl. IMF obligations	75.4	76.8	71.4	74.0	74.9	**69.6**	67.0	69.0
External general government debt	28.1	27.9	24.4	27.4	28.6	**26.2**	22.6	24.0
Domestic general government debt	47.3	49.0	47.0	46.6	46.3	**43.3**	44.5	45.0
General government debt incl. IMF obligations	77.5	79.6	73.5	76.2	77.3	**72.1**	69.2	71.4
External general government debt	30.2	30.6	26.5	29.5	31.0	**28.8**	24.8	26.4
Domestic general government debt	47.3	49.0	47.0	46.6	46.3	**43.3**	44.5	45.0
General government and government guaranteed debt (incl. IMF; % GDP)	82.0	84.5	77.8	80.6	81.5	**76.0**	73.0	75.1
Monetary sector	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)							
Net foreign assets	-8.1	5.6	5.9	-6.1	-7.0	**1.2**	1.7	1.7
Net domestic assets	19.4	11.9	10.3	19.7	21.2	**12.3**	14.4	12.1
Credit to the private sector	4.5	1.1	3.8	5.5	0.8	**1.0**	1.1	4.2
Net claims on the government	13.4	12.4	8.2	13.8	13.5	**18.1**	23.4	12.7
Broad money (percent change)	11.3	17.5	16.2	13.6	14.2	**13.5**	16.1	13.8
Reserve money (percent change)	19.9	16.8	12.8	7.7	22.4	**11.0**	2.6	14.5
Private credit (percent change)	11.9	3.0	11.5	17.4	2.3	**3.5**	3.9	16.0
Six-month treasury bill rate (period average, in percent)	10.2	11.9	7.3	11.0	18.3	**...**	21.5	...
External sector	(Annual percentage change, unless otherwise indicated)							
Merchandise exports, U.S. dollars	-2.1	-7.1	13.8	26.7	-14.2	**11.9**	11.6	2.1
Merchandise imports, U.S. dollars	-6.8	-15.9	24.4	31.8	-26.3	**6.0**	0.9	7.5
Current account balance (in percent of GDP)	-4.2	-1.5	-0.8	-4.7	-1.0	**-0.8**	-0.2	-0.9
Financial account (billions of U.S. dollars)	11.8	6.5	8.3	10.2	-1.6	**6.5**	5.4	6.3
	(Percent of exports of goods and services, unless otherwise indicated)							
External public and publicly guaranteed debt	277.2	312.6	301.5	245.4	259.0	**247.1**	244.8	249.4
Debt service	40.8	51.5	34.1	37.5	57.9	**39.6**	42.0	37.2
Gross reserves (in millions of U.S. dollars) 4/	7,274	12,175	17,297	9,821	4,455	**9,029**	9,381	12,757
In months of next year's imports of goods and services	1.7	2.3	2.5	1.9	0.8	**1.5**	1.6	2.1
Memorandum items:								
Underlying fiscal balance (excl. grants; % GDP) 3/	-7.9	-7.1	-5.5	-7.1	-7.5	**-7.6**	-7.5	-6.8
Net general government debt (incl. IMF; % GDP)	70.2	72.9	66.0	68.8	71.2	**68.2**	63.5	65.6
Real effective exchange rate (annual average, percentage change)	-11.5	-4.0	2.0	-1.2	-5.8	**...**	...	...
Real effective exchange rate (end of period percentage change)	-15.0	3.5	7.2	-6.0	-8.0	**...**	...	...
Terms of trade (percentage change)	-1.7	2.3	2.1	-1.2	-1.5	**-4.8**	-10.9	1.7
Real per capita GDP (percentage change)	1.1	-2.9	3.7	4.1	-2.1	**0.0**	0.4	1.2
GDP at market prices (in billions of Pakistani rupees)	43,798	47,540	55,836	66,658	83,875	**106,679**	106,045	121,662
Per capita GDP (in U.S. dollars)	1,485.8	1,362.9	1,550.2	1,635.3	1,444.0	**...**	1,572.3	...
Population (millions)	214.0	218.2	222.6	227.0	231.5	**236.2**	236.0	240.5
GDP at market prices (in billions of U.S. dollars)	321.1	300.4	348.5	374.9	337.5	**...**	374.6	...

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

1/ Fiscal year ends June 30.

2/ Including changes in inventories.

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

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

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

	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					Prog.	Est.	Proj.				
					(Annual percentage change, unless otherwise indicated)						
Output and prices											
Real GDP at factor cost	-0.9	5.8	6.2	-0.2	**2.0**	2.4	3.2	4.0	4.1	4.5	4.5
Net exports (percent contribution to real GDP at factor cost)	1.2	-2.2	-1.8	-0.1	**0.2**	-1.7	-1.5	-0.9	-0.9	-0.8	-0.7
GDP deflator at factor cost	9.9	10.4	14.1	25.8	**24.8**	23.2	9.5	7.8	6.5	6.5	6.5
Consumer prices (period average)	10.7	8.9	12.2	29.2	**24.8**	23.4	9.5	7.8	6.5	6.5	6.5
					(Percent of GDP)						
Saving and investment balance	-1.5	-0.8	-4.7	-1.0	**-0.8**	-0.2	-0.9	-0.9	-0.8	-1.0	-0.9
Government	-7.0	-6.0	-7.8	-7.7	**-7.4**	-6.7	-6.0	-4.7	-3.6	-3.0	-2.8
Nongovernment (including public sector enterprises)	5.6	5.2	3.2	6.7	**6.6**	6.6	5.1	3.7	2.7	2.1	1.9
Gross national saving	13.3	13.7	10.9	13.2	**11.4**	13.0	12.7	14.2	14.9	15.2	15.5
Government	-4.7	-3.9	-5.4	-5.5	**-5.5**	-4.8	-3.7	-2.3	-1.0	-0.2	0.0
Nongovernment (including public sector enterprises)	18.1	17.6	16.3	18.6	**16.9**	17.8	16.4	16.4	15.9	15.4	15.5
Gross capital formation	14.8	14.5	15.6	14.1	**12.2**	13.1	13.6	15.1	15.7	16.1	16.4
Government	2.3	2.2	2.4	2.3	**1.9**	1.9	2.3	2.4	2.6	2.8	2.8
Nongovernment (including public sector enterprises)	12.5	12.4	13.1	11.9	**10.3**	11.2	11.3	12.7	13.1	13.4	13.6
					(Billions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Current account balance	-4.4	-2.8	-17.5	-3.3	**-3.0**	-0.7	-3.6	-3.8	-3.6	-4.5	-4.8
Current account balance (in percent of GDP)	-1.5	-0.8	-4.7	-1.0	**-0.8**	-0.2	-0.9	-0.9	-0.8	-1.0	-0.9
Net capital flows 2/	6.9	7.9	10.1	-2.1	**6.2**	4.3	6.5	5.0	7.5	7.9	9.4
Of which: foreign direct investment 3/	2.7	1.6	1.7	0.7	**0.8**	1.6	1.5	2.1	2.2	2.3	2.6
Gross reserves	12.2	17.3	9.8	4.5	**9.0**	9.4	12.8	15.5	20.2	22.5	25.4
In months of imports 4/	2.3	2.5	1.9	0.8	**1.5**	1.6	2.1	2.4	3.0	3.1	3.3
External debt (in percent of GDP)	37.6	35.1	32.2	34.9	**33.7**	32.0	31.3	31.5	30.6	28.8	27.3
Terms of trade (annual percentage change)	2.3	2.1	-1.2	-1.5	**-4.8**	-10.9	1.7	-0.6	0.4	0.2	-0.2
Real effective exchange rate (annual average, percentage change	-4.0	2.0	-1.2	-5.8	**...**	...	...	...	...	...	...
Real effective exchange rate (end of period, percentage change)	3.5	7.2	-6.0	-8.0	**...**	...	...	...	...	...	...
					(Percent of GDP)						
Public finances											
Revenue and grants	13.3	12.4	12.1	11.5	**12.5**	12.6	15.4	15.0	15.5	15.8	15.8
Of which: tax revenue	10.0	10.3	10.4	10.1	**10.6**	10.5	12.3	13.0	13.4	13.7	13.7
Expenditure (including statistical discrepancy)	20.3	18.5	20.0	19.2	**20.0**	19.3	21.4	19.7	19.0	18.8	18.6
Of which: current	18.1	16.3	17.3	17.3	**17.9**	17.6	18.9	17.2	16.4	15.9	15.7
Of which: development	2.3	2.2	2.4	2.3	**1.9**	1.9	2.3	2.4	2.6	2.8	2.8
Primary balance (including grants)	-1.5	-1.1	-3.0	-0.9	**0.4**	0.9	2.1	1.7	2.0	2.0	2.0
Primary balance (excluding grants)	-1.6	-1.2	-3.1	-0.9	**0.4**	0.9	2.0	1.7	2.0	2.0	2.0
Underlying primary balance (excluding grants) 5/	-1.6	-0.5	-2.3	-0.7	**0.4**	0.9	1.0	1.7	2.0	2.0	2.0
Budget balance (including grants)	-7.0	-6.0	-7.8	-7.7	**-7.4**	-6.7	-6.0	-4.7	-3.6	-3.0	-2.8
Budget balance (excluding grants)	-7.1	-6.1	-7.9	-7.8	**-7.5**	-6.8	-6.1	-4.7	-3.6	-3.0	-2.8
Underlying fiscal balance (excl. grants) 5/	-7.1	-5.5	-7.1	-7.5	**-7.5**	-6.8	-7.1	-4.7	-3.6	-3.0	-2.8
General government and government guaranteed debt (incl. IMF)	84.5	77.8	80.6	81.5	**76.0**	73.0	75.1	73.3	70.6	67.0	63.5
General government debt (incl. IMF)	79.6	73.5	76.2	77.3	**72.1**	69.2	71.4	69.8	67.4	64.0	60.7
Net general government debt (incl. IMF)	72.9	66.0	68.8	71.2	**68.2**	63.5	65.6	64.6	62.7	59.8	56.9
Memorandum item:											
Nominal GDP (market prices, billions of Pakistani rupees)	47,540	55,836	66,658	83,875	**106,679**	106,045	121,662	136,813	151,947	169,204	188,254

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

1/ Fiscal year ends June 30.

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

3/ Including privatization.

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

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

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

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
						Prog.	Est.			Proj.		
Current account	-13,434	-4,449	-2,820	-17,481	-3,275	**-3,010**	-665	-3,578	-3,772	-3,599	-4,462	-4,784
Balance on goods	-27,612	-21,109	-28,634	-39,050	-24,819	**-23,758**	-22,065	-25,428	-26,263	-27,062	-27,979	-28,937
Exports, f.o.b.	24,257	22,536	25,639	32,493	27,876	**31,204**	31,101	31,751	34,217	36,980	39,812	42,930
Imports, f.o.b.	51,869	43,645	54,273	71,543	52,695	**54,962**	53,166	57,180	60,480	64,042	67,791	71,867
Services (net)	-4,970	-3,316	-2,516	-5,840	-1,042	**-1,772**	-2,306	-3,190	-3,679	-4,168	-4,682	-5,168
Services: credit	5,966	5,437	5,945	7,102	7,596	**7,931**	7,803	7,965	8,492	9,032	9,603	10,207
Of which: Coalition Support Fund	0	0	0	0	0	**0**	0	0	0	0	0	0
Services: debit	10,936	8,753	8,461	12,942	8,638	**9,702**	10,109	11,155	12,171	13,200	14,285	15,375
Income (net)	-5,610	-5,459	-4,400	-5,248	-5,765	**-6,741**	-8,623	-6,636	-6,401	-6,764	-7,380	-7,461
Income: credit	578	479	508	652	652	**1,020**	959	1,117	911	753	716	711
Income: debit	6,188	5,938	4,908	5,900	6,417	**7,761**	9,582	7,753	7,313	7,517	8,096	8,171
Of which: interest payments	3,683	3,540	2,594	3,375	4,933	**5,405**	5,828	5,421	5,575	5,666	5,921	5,851
Of which: income on direct investment	2,848	2,664	2,565	2,717	1,708	**2,338**	3,724	2,332	1,738	1,852	2,175	2,320
Balance on goods, services, and income	-38,192	-29,884	-35,550	-50,138	-31,626	**-32,271**	-32,994	-35,254	-36,343	-37,994	-40,041	-41,565
Current transfers (net)	24,758	25,435	32,730	32,657	28,351	**29,261**	32,329	31,676	32,571	34,396	35,579	36,781
Current transfers: credit, *of which:*	24,990	25,802	33,027	32,949	28,665	**29,653**	32,816	32,072	32,976	34,801	35,984	37,186
Official	761	468	281	376	380	**431**	439	416	416	416	416	416
Workers' remittances	21,740	23,131	29,450	31,279	27,333	**28,081**	30,250	29,831	30,356	31,852	32,713	33,556
Other private transfers	2,489	2,203	3,296	1,294	952	**1,141**	2,127	1,825	2,204	2,533	2,855	3,214
Current transfers: debit	232	367	297	292	314	**391**	487	397	406	406	406	406
Capital account	229	285	224	205	375	**225**	182	183	110	98	93	94
Capital transfers: credit	229	288	224	205	375	**225**	182	183	110	98	93	94
Of which: official capital grants	219	273	204	190	144	**220**	172	183	110	98	93	94
Capital transfers: debit	0	3	0	0	0	**0**	0	0	0	0	0	0
Financial account	11,759	6,479	8,268	10,207	-1,643	**6,523**	5,446	6,273	4,918	7,373	7,797	9,263
Direct investment abroad	74	54	-171	-234	-957	**-32**	-267	-152	-152	-152	-152	-152
Direct investment in Pakistan	1,362	2,598	1,819	1,936	1,627	**827**	1,902	1,680	2,209	2,308	2,493	2,722
Portfolio investment (net)	-1,274	-409	2,774	-55	-1,012	**-119**	-377	12	-1,288	1,512	2,912	3,662
Financial derivatives (net)	0	8	0	0	0	**0**	0	0	0	0	0	0
Other investment assets	67	127	-1,345	-2,613	964	**568**	120	-640	-480	-320	0	0
Monetary authorities	0	0	0	0	0	**0**	0	0	0	0	0	0
General government	-48	-48	-15	-914	883	**5**	-13	0	0	0	0	0
Banks	92	-140	-608	-382	-283	**400**	-96	-320	-240	-160	0	0
Other sectors	23	315	-722	-1,317	364	**163**	229	-320	-240	-160	0	0
Other investment liabilities	11,530	4,101	5,191	11,173	-2,265	**5,280**	4,068	3,373	2,628	3,024	2,544	3,031
Monetary authorities	5,495	-498	-1,468	-1	0	**999**	999	0	0	0	0	0
General government, *of which:*	4,294	3,085	5,238	5,064	-3,251	**3,501**	2,337	1,252	678	702	172	658
Disbursements	8,255	10,347	9,308	10,203	8,725	**9,610**	8,067	8,155	7,523	7,854	9,237	8,768
Amortization	5,982	7,299	5,855	8,343	11,660	**6,166**	5,943	6,903	6,846	7,152	9,066	8,110
Banks	467	-124	499	846	1,241	**275**	739	250	350	450	500	500
Other sectors	1,274	1,638	922	2,491	-255	**504**	-7	1,871	1,601	1,873	1,873	1,873
Other prospective program financing								2,000	2,000	1,000	0	0
Net errors and omissions	-58	150	-619	-303	-850	**-527**	-1,302	0	0	0	0	0
Overall balance	-1,631	2,465	5,053	-7,371	-5,384	**3,212**	3,654	2,878	1,256	3,872	3,428	4,572
Financing	1,504	-2,465	-5,053	7,371	5,384	**-3,212**	-3,654	-2,878	-1,256	-3,872	-3,428	-4,572
Change in reserve assets (- denotes accumulation)	1,880	-4,554	-4,473	7,333	5,185	**-4,577**	-5,016	-3,376	-2,712	-4,779	-2,263	-2,845
Net use of Fund credit and loans (without augmentation)	-376	2,089	-580	38	199	**1,365**	1,362	498	1,456	906	-1,165	-1,727
Memorandum items:												
Current account (in percent of GDP)	-4.2	-1.5	-0.8	-4.7	-1.0	**-0.8**	-0.2	-0.9	-0.9	-0.8	-1.0	-0.9
Current account (in percent of GDP; excluding fuel imports)	0.2	1.6	2.0	0.3	4.6	**4.1**	3.9	2.9	2.7	2.5	2.2	2.0
Exports f.o.b. (growth rate, in percent)	-2.1	-7.1	13.8	26.7	-14.2	**11.9**	11.6	2.1	7.8	8.1	7.7	7.8
Exports volume (growth rate, in percent)	-1.7	-1.0	2.8	4.7	-11.7	**22.8**	26.5	4.7	7.6	6.7	7.1	7.3
Exports (in percent of GDP)	9.4	9.3	9.1	10.6	10.5	**10.4**	10.4	10.0	10.5	10.6	10.6	10.5
Remittance (growth rate, in percent)	9.2	6.4	27.3	6.2	-12.6	**2.7**	10.7	-1.4	1.8	4.9	2.7	2.6
Remittances (in percent of GDP)	6.8	7.7	8.5	8.3	8.1	**7.8**	8.1	7.5	7.5	7.3	7.0	6.7
Imports f.o.b. (growth rate, in percent)	-6.8	-15.9	24.4	31.8	-26.3	**6.0**	0.9	7.5	5.8	5.9	5.9	6.0
Imports volume (growth rate, in percent)	-9.8	-12.0	20.2	10.9	-27.4	**9.7**	5.7	8.0	6.2	5.9	5.5	5.2
Imports (in percent of GDP)	19.6	17.4	18.0	22.5	18.2	**17.3**	16.9	17.1	17.8	17.8	17.5	17.3
Oil imports (in million US$, cif)	13,929	9,280	9,747	18,743	18,882	**17,923**	15,162	15,223	14,837	14,617	14,623	14,766
Terms of trade (growth rate, in percent)	-1.7	2.3	2.1	-1.2	-1.5	**-4.8**	-10.9	1.7	-0.6	0.4	0.2	-0.2
Foreign Direct Investment (in percent of GDP)	0.4	0.9	0.5	0.5	0.5	**0.2**	0.5	0.4	0.5	0.5	0.5	0.5
External debt (in millions of U.S. dollars)	106,705	113,013	122,292	120,534	117,766	**121,991**	119,719	124,828	128,228	132,929	134,938	137,505
o/w external public debt	82,561	86,522	93,806	96,073	90,974	**95,856**	94,395	98,223	100,584	104,072	103,606	104,009
Gross external financing needs (in millions of U.S. dollars) 1/	25,552	23,430	22,206	33,736	23,859	**22,268**	20,357	18,813	20,088	23,712	24,625	23,235
End-period gross official reserves (millions of U.S. dollars) 2/	7,274	12,175	17,297	9,821	4,455	**9,029**	9,381	12,757	15,469	20,248	22,511	25,356
(In months of next year's imports of goods and services)	1.7	2.3	2.5	1.9	0.8	**1.5**	1.6	2.1	2.4	3.0	3.1	3.3
(In percent of ARA metric)	32.2	52.7	66.8	35.9	17.9	**n.a.**	35.9	47.2	55.1	66.9	72.1	77.8
GDP (in millions of U.S. dollars)	321,071	300,410	348,481	374,850	337,457	**…**	374,595	…	…	…	…	…

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

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

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

Table 3b. Pakistan: Gross Financing Requirements and Sources, 2018/19–2028/29
(In millions of U.S. dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
						Prog.	Est.			Proj.		
Gross External Financing Requirements (A)	**25,552**	**23,430**	**22,206**	**33,736**	**23,859**	**22,268**	**20,357**	**18,813**	**20,088**	**23,712**	**24,625**	**23,235**
(In percent of GDP)	8.0	7.8	6.4	9.0	7.1	6.1	5.4	4.7	4.9	5.5	5.3	4.6
Current account deficit	13,434	4,449	2,820	17,481	3,275	3,010	665	3,578	3,772	3,599	4,462	4,784
(In percent of GDP)	4.2	1.5	0.8	4.7	1.0	0.8	0.2	0.9	0.9	0.8	1.0	0.9
Amortization	11,742	18,236	18,306	15,240	19,617	17,614	18,049	13,719	15,751	18,995	17,985	16,724
Public Sector	6,982	12,799	13,943	11,343	14,971	13,738	13,514	9,903	11,646	14,724	13,566	12,110
Short-term Borrowing	1,538	1,182	784	532	1,327	850	162	995	1,100	1,800	2,200	2,200
Long-term Borrowing (non-IMF)	4,444	10,617	13,159	9,811	12,333	11,888	12,352	8,908	8,746	12,924	9,866	8,910
Bonds	1,000	1,000	0	1,000	1,311	1,000	1,000	0	1,800	0	1,500	1,000
Private Sector 1/	4,760	5,437	4,363	3,897	4,646	3,876	4,535	3,816	4,105	4,272	4,419	4,614
Short-term Borrowing	3,474	3,610	3,110	2,786	2,983	2,612	2,612	2,863	2,718	2,885	3,032	3,227
Long-term Borrowing	1,286	1,827	1,253	1,111	1,663	1,265	1,923	953	1,387	1,387	1,387	1,387
IMF Repurchases	376	745	1,080	1,015	967	1,644	1,643	1,516	564	1,118	2,179	1,727
Available Financing (B)	**21,103**	**24,890**	**26,826**	**25,208**	**17,327**	**23,833**	**22,278**	**18,175**	**18,779**	**25,466**	**25,875**	**26,081**
Foreign Direct Investment (net) 2/	1,436	2,652	1,648	1,702	670	795	1,635	1,528	2,057	2,156	2,341	2,570
Disbursement	19,496	21,811	25,573	20,839	17,132	23,340	21,763	16,464	16,611	23,212	23,441	23,417
From private creditors	8,366	14,822	11,932	10,762	8,046	6,261	4,890	8,562	8,963	11,089	16,303	16,748
Disbursement to Private Sector 3/	4,268	11,445	4,645	3,713	5,840	3,968	3,708	5,309	6,088	6,786	9,203	9,398
Disbursement to Public Sector 4/	4,098	3,377	7,287	7,049	2,206	2,293	1,182	3,253	2,875	4,303	7,100	7,350
From official creditors (non-IMF)	11,130	6,989	13,640	10,077	9,086	17,079	16,873	7,902	7,648	12,122	7,137	6,668
o/w Project Loans	2,673	1,799	1,933	1,899	1,894	3,835	2,373	3,602	3,298	3,301	2,887	2,598
o/w China	1,574	487	204	162	128	68	82	132	49	47	47	0
o/w Program Loans	288	3,666	2,120	1,514	2,341	1,407	1,357	800	650	650	650	350
o/w Short-term debt (incl. rollovers)	3,694	10,170	6,772	7,427	4,077	4,337	2,427	4,090	4,905	5,463	5,620	5,920
o/w Public Sector	1,643	2,774	2,954	4,444	1,465	2,389	995	1,100	1,800	2,200	2,200	2,320
o/w Private Sector	2,051	7,397	3,817	2,983	2,612	1,948	1,432	2,990	3,105	3,263	3,420	3,600
Other Net Capital Inflows (net) 5/	171	427	-395	-98	-475	-302	-1,120	183	110	98	93	94
IMF SDR allocation	0	0	0	2,765	0	0	0	0	0	0	0	0
Underlying BOP Gap (C=A-B)	**4,449**	**-1,459**	**-4,620**	**8,528**	**6,532**	**-1,565**	**-1,921**	**638**	**1,309**	**-1,754**	**-1,250**	**-2,845**
Borrowing from IMF (D)	**0**	**2,834**	**500**	**1,053**	**1,166**	**3,009**	**3,005**	**2,014**	**2,021**	**2,024**	**1,014**	**0**
Other prospective financing (E)								**2,000**	**2,000**	**1,000**	**0**	**0**
Reserve Assets (decrease = +) (E=C-D-E)	**4,449**	**-4,293**	**-5,120**	**7,475**	**5,366**	**-4,574**	**-4,926**	**-3,376**	**-2,712**	**-4,779**	**-2,263**	**-2,845**
Memorandum items:												
Gross official reserves (stock, in US$ billions)	7.3	12.2	17.3	9.8	4.5	9.0	9.4	12.8	15.5	20.2	22.5	25.4
(In months of prospective imports)	1.7	2.3	2.5	1.9	0.8	1.5	1.6	2.1	2.4	3.0	3.1	3.3
(In percent of IMF ARA metric)	32.2	52.7	66.8	35.9	17.9	n.a.	35.9	47.2	55.1	66.9	72.1	77.8
Net FX derivative position (in US$ billions)	8.1	5.8	4.9	4.0	4.5	4.0	-3.4	-2.5	-2.5	-2.5	-2.5	-2.5

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

1/ Includes banks and non-bank private sector.

2/ Includes privatization receipts.

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

4/ Includes syndicated loans and Euro bonds.

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

Table 4a. Pakistan: General Government Budget, 2018/19–2028/29
(In billions of Pakistani rupees)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
						Prog.	Est.			Proj.		
Revenue and grants	4,934	6,306	6,933	8,076	9,666	**13,362**	13,321	18,676	20,523	23,492	26,691	29,651
Revenue	4,901	6,273	6,903	8,035	9,631	**13,313**	13,269	18,611	20,476	23,447	26,647	29,605
Tax revenue	4,473	4,748	5,755	6,943	8,443	**11,302**	11,159	14,954	17,731	20,398	23,252	25,828
Federal	4,072	4,334	5,247	6,331	7,800	**10,435**	10,385	14,036	16,266	18,177	20,203	22,436
FBR revenue	3,829	3,998	4,764	6,142	7,182	**9,415**	9,311	12,913	15,070	16,848	18,759	20,829
Direct taxes	1,446	1,524	1,732	2,280	3,242	**4,597**	4,531	5,712	6,741	7,526	8,419	9,367
Federal excise duty	234	250	277	321	366	**561**	577	1,124	1,273	1,422	1,492	1,660
Sales tax/VAT	1,465	1,597	1,990	2,532	2,612	**3,166**	3,099	4,515	5,222	5,843	6,575	7,292
Customs duties	685	626	765	1,009	962	**1,091**	1,104	1,563	1,834	2,057	2,273	2,510
Petroleum surcharge	206	294	424	128	580	**923**	1,019	1,066	1,132	1,257	1,365	1,519
Gas surcharge and other	14	33	39	42	27	**67**	52	54	61	68	75	84
GIDC	21	9	19	19	11	**30**	3	3	3	4	4	5
Provincial	402	414	508	612	642	**867**	774	918	1,465	2,221	3,049	3,392
Nontax revenue	427	1,524	1,147	1,092	1,188	**2011.21**	2,110	3,657	2,745	3,049	3,395	3,777
Federal	341	1,422	997	964	1,024	**1,804**	1,887	3,411	2,468	2,741	3,053	3,396
Provincial	86	102	150	128	165	**207**	223	246	277	307	342	381
Grants	33	33	31	41	35	**49**	52	65	47	45	44	46
Expenditure (including statistical discrepancy)	8,345	9,649	10,306	13,301	16,137	**21,283**	20,476	26,020	26,902	28,921	31,776	34,965
Current expenditure	7,274	8,597	9,111	11,535	14,474	**19,130**	18,653	23,055	23,475	24,895	26,894	29,532
Federal	4,946	6,081	6,292	8,369	10,676	**14,414**	14,052	17,269	16,615	16,934	17,666	19,265
Interest	2,091	2,620	2,750	3,197	5,722	**8,371**	8,160	9,844	8,761	8,525	8,477	9,042
Domestic	1,821	2,313	2,524	2,829	4,936	**7,254**	7,164	8,729	7,518	7,258	7,117	7,612
Foreign	270	302	226	354	714	**1,003**	882	1,018	1,153	1,185	1,292	1,378
IMF budget support	0	5	0	14	72	**115**	114	97	90	83	69	52
Other	2,855	3,461	3,542	5,172	4,954	**6,158**	5,892	7,424	7,854	8,408	9,188	10,223
Defense	1,147	1,213	1,316	1,412	1,586	**1,839**	1,859	2,122	2,386	2,650	2,951	3,284
Other	1,708	2,248	2,226	3,760	3,369	**4,319**	4,033	5,302	5,467	5,758	6,237	6,939
Of which : subsidies	195	360	425	1,530	1,080	**1,396**	1,149	1,402	1,435	1,437	1,425	1,586
Of which : grants	612	917	855	1,142	988	**1,272**	1,292	1,699	1,663	1,689	1,881	2,093
Of which : contingency reserve	0	0	0	0	0		0	348	391	435	484	538
Provincial	2,328	2,516	2,819	3,167	3,798	**4,716**	4,601	5,786	6,861	7,961	9,228	10,267
Development expenditure and net lending	1,049	1,139	1,288	1,650	1,953	**2,135**	1,996	2,965	3,426	4,025	4,882	5,432
Public Sector Development Program	1,008	1,090	1,211	1,610	1,893	**2,064**	2,027	2,853	3,299	3,884	4,726	5,258
Federal	502	468	441	397	652	**782**	635	983	1,014	1,046	1,165	1,296
Provincial	506	622	770	1,212	1,241	**1,282**	1,392	1,870	2,285	2,838	3,560	3,961
Net lending	41	49	77	40	60	**71**	-30	113	127	141	157	175
Statistical discrepancy ("+" = additional expenditure)	22	-87	-93	116	-290	**19**	-173	0	0	0	0	0
Overall Balance (excluding grants)	-3,445	-3,376	-3,404	-5,266	-6,506	**-7,970**	-7,207	-7,409	-6,425	-5,474	-5,129	-5,359
Overall Balance (including grants)	-3,412	-3,343	-3,373	-5,225	-6,471	**-7,921**	-7,155	-7,344	-6,378	-5,429	-5,085	-5,313
Financing	3,412	3,343	3,373	5,225	6,471	**7,921**	7,155	7,344	6,378	5,429	5,085	5,313
External	417	896	1,418	677	-1,133	**489**	114	716	191	745	-2	460
Of which: privatization receipts	0	0	0	0	0	**0**	0	0	0	0	0	0
Of which: IMF	0	390	80	187	191	**-197**	-197	-275	-104	-201	-244	-252
Domestic	2,995	2,447	1,955	4,548	7,604	**7,432**	7,041	6,629	6,187	4,684	5,087	4,853
Bank	2,230	1,907	1,746	3,184	5,322	**5,203**	4,928	4,640	4,362	3,340	3,634	3,473
Nonbank	765	540	209	1,364	2,281	**2,230**	2,112	1,989	1,825	1,345	1,453	1,380
Memorandum items:												
Underlying fiscal balance (excl. grants) 1/	-3,445	-3,376	-3,051	-4,737	-6,326	**-7,970**	-7,207	-8,667	-6,425	-5,474	-5,129	-5,359
Primary balance (excluding grants)	-1,353	-756	-654	-2,070	-784	**401**	953	2,435	2,336	3,052	3,348	3,683
Underlying primary balance (excluding grants) 1/	-1,353	-756	-301	-1,541	-604	**401**	953	1,177	2,336	3,052	3,348	3,683
Primary balance (including grants)	-1,320	-723	-623	-2,028	-749	**450**	1,005	2,500	2,383	3,096	3,392	3,729
Primary expenditure	6,254	7,029	7,557	10,105	10,415	**12,912**	12,316	16,176	18,140	20,395	23,299	25,922
Total security spending	1,147	1,213	1,316	1,412	1,586	**1,839**	1,859	2,122	2,386	2,650	2,951	3,284
General government debt incl. IMF obligations	33,946	37,823	41,044	50,766	64,828	**76,913**	73,434	86,920	95,533	102,380	108,250	114,237
Domestic debt	20,732	23,283	26,265	31,085	38,810	**46,242**	47,160	54,789	60,872	65,355	70,198	74,799
External debt	13,214	14,540	14,779	19,680	26,018	**30,671**	26,274	32,131	34,661	37,025	38,052	39,438
General government and government guaranteed debt (incl. IMF)	35,915	40,167	43,451	53,749	68,342	**81,074**	77,362	91,412	100,239	107,257	113,344	119,572
Net general government debt (incl. IMF)	30,759	34,659	36,847	45,885	59,726	**72,716**	67,293	79,778	88,392	95,239	101,109	107,095
Nominal GDP (market prices)	43,798	47,540	55,836	66,658	83,875	**106,679**	106,045	121,662	136,813	151,947	169,204	188,254

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

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

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

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
						Prog.	Est.		Proj.			
Revenue and grants	11.3	13.3	12.4	12.1	11.5	**12.5**	12.6	15.4	15.0	15.5	15.8	15.8
Revenue	11.2	13.2	12.4	12.1	11.5	**12.5**	12.5	15.3	15.0	15.4	15.7	15.7
Tax revenue	10.2	10.0	10.3	10.4	10.1	**10.6**	10.5	12.3	13.0	13.4	13.7	13.7
Federal	9.3	9.1	9.4	9.5	9.3	**9.8**	9.8	11.5	11.9	12.0	11.9	11.9
FBR revenue	8.7	8.4	8.5	9.2	8.6	**8.8**	8.8	10.6	11.0	11.1	11.1	11.1
Direct taxes	3.3	3.2	3.1	3.4	3.9	**4.3**	4.3	4.7	4.9	5.0	5.0	5.0
Federal excise duty	0.5	0.5	0.5	0.5	0.4	**0.5**	0.5	0.9	0.9	0.9	0.9	0.9
Sales tax	3.3	3.4	3.6	3.8	3.1	**3.0**	2.9	3.7	3.8	3.8	3.9	3.9
Customs duties	1.6	1.3	1.4	1.5	1.1	**1.0**	1.0	1.3	1.3	1.4	1.3	1.3
Petroleum surcharge	0.5	0.6	0.8	0.2	0.7	**0.9**	1.0	0.9	0.8	0.8	0.8	0.8
Gas surcharge and other	0.0	0.1	0.1	0.1	0.0	**0.1**	0.0	0.0	0.0	0.0	0.0	0.0
GIDC	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.9	0.9	0.9	0.9	0.8	**0.8**	0.7	0.8	1.1	1.5	1.8	1.8
Nontax revenue	1.0	3.2	2.1	1.6	1.4	**1.9**	2.0	3.0	2.0	2.0	2.0	2.0
Federal	0.8	3.0	1.8	1.4	1.2	**1.7**	1.8	2.8	1.8	1.8	1.8	1.8
Provincial	0.2	0.2	0.3	0.2	0.2	**0.2**	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.1	0.1	0.1	0.0	**0.0**	0.0	0.1	0.0	0.0	0.0	0.0
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	20.0	19.2	**20.0**	19.3	21.4	19.7	19.0	18.8	18.6
Current expenditure	16.6	18.1	16.3	17.3	17.3	**17.9**	17.6	18.9	17.2	16.4	15.9	15.7
Federal	11.3	12.8	11.3	12.6	12.7	**13.5**	13.3	14.2	12.1	11.1	10.4	10.2
Interest	4.8	5.5	4.9	4.8	6.8	**7.8**	7.7	8.1	6.4	5.6	5.0	4.8
Domestic	4.2	4.9	4.5	4.2	5.9	**6.8**	6.8	7.2	5.5	4.8	4.2	4.0
Foreign	0.6	0.6	0.4	0.5	0.9	**0.9**	0.8	0.8	0.8	0.8	0.8	0.7
IMF budget support	0.0	0.0	0.0	0.0	0.1	**0.1**	0.1	0.1	0.1	0.1	0.0	0.0
Other	6.5	7.3	6.3	7.8	5.9	**5.8**	5.6	6.1	5.7	5.5	5.4	5.4
Defense	2.6	2.6	2.4	2.1	1.9	**1.7**	1.8	1.7	1.7	1.7	1.7	1.7
Other	3.9	4.7	4.0	5.6	4.0	**4.0**	3.8	4.4	4.0	3.8	3.7	3.7
Of which : subsidies	0.4	0.8	0.8	2.3	1.3	**1.3**	1.1	1.2	1.0	0.9	0.8	0.8
Of which : grants	1.4	1.9	1.5	1.7	1.2	**1.2**	1.2	1.4	1.2	1.1	1.1	1.1
Of which : contingency reserve	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.3	0.3	0.3	0.3	0.3
Provincial	5.3	5.3	5.0	4.8	4.5	**4.4**	4.3	4.8	5.0	5.2	5.5	5.5
Development expenditure and net lending	2.4	2.4	2.3	2.5	2.3	**2.0**	1.9	2.4	2.5	2.6	2.9	2.9
Public Sector Development Program	2.3	2.3	2.2	2.4	2.3	**1.9**	1.9	2.3	2.4	2.6	2.8	2.8
Federal	1.1	1.0	0.8	0.6	0.8	**0.7**	0.6	0.8	0.7	0.7	0.7	0.7
Provincial	1.2	1.3	1.4	1.8	1.5	**1.2**	1.3	1.5	1.7	1.9	2.1	2.1
Net lending	0.1	0.1	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	-0.3	**0.0**	-0.2	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-7.9	-7.1	-6.1	-7.9	-7.8	**-7.5**	-6.8	-6.1	-4.7	-3.6	-3.0	-2.8
Overall Balance (including grants)	-7.8	-7.0	-6.0	-7.8	-7.7	**-7.4**	-6.7	-6.0	-4.7	-3.6	-3.0	-2.8
Financing	7.8	7.0	6.0	7.8	7.7	**7.4**	6.7	6.0	4.7	3.6	3.0	2.8
External	1.0	1.9	2.5	1.0	-1.4	**0.5**	0.1	0.6	0.1	0.5	0.0	0.2
Of which: privatization receipts	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.8	0.1	0.3	0.2	**-0.2**	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Domestic	6.8	5.1	3.5	6.8	9.1	**7.0**	6.6	5.4	4.5	3.1	3.0	2.6
Bank	5.1	4.0	3.1	4.8	6.3	**4.9**	4.6	3.8	3.2	2.2	2.1	1.8
Nonbank	1.7	1.1	0.4	2.0	2.7	**2.1**	2.0	1.6	1.3	0.9	0.9	0.7
Memorandum items:												
Underlying fiscal balance (excl. grants) 1/	-7.9	-7.1	-5.5	-7.1	-7.5	**-7.5**	-6.8	-7.1	-4.7	-3.6	-3.0	-2.8
Primary balance (excluding grants)	-3.1	-1.6	-1.2	-3.1	-0.9	**0.4**	0.9	2.0	1.7	2.0	2.0	2.0
Underlying primary balance (excluding grants) 1/	-3.1	-1.6	-0.5	-2.3	-0.7	**0.4**	0.9	1.0	1.7	2.0	2.0	2.0
Primary balance (including grants)	-3.0	-1.5	-1.1	-3.0	-0.9	**0.4**	0.9	2.1	1.7	2.0	2.0	2.0
Primary expenditure	14.3	14.8	13.5	15.2	12.4	**12.1**	11.6	13.3	13.3	13.4	13.8	13.8
Total security spending	2.6	2.6	2.4	2.1	1.9	**1.7**	1.8	1.7	1.7	1.7	1.7	1.7
General government debt incl. IMF obligations	77.5	79.6	73.5	76.2	77.3	**72.1**	69.2	71.4	69.8	67.4	64.0	60.7
Domestic debt	47.3	49.0	47.0	46.6	46.3	**43.3**	44.5	45.0	44.5	43.0	41.5	39.7
External debt	30.2	30.6	26.5	29.5	31.0	**28.8**	24.8	26.4	25.3	24.4	22.5	20.9
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.8	80.6	81.5	**76.0**	73.0	75.1	73.3	70.6	67.0	63.5
Net general government debt (incl. IMF)	70.2	72.9	66.0	68.8	71.2	**68.2**	63.5	65.6	64.6	62.7	59.8	56.9
Nominal GDP (market prices, billions of Pakistani rupees)	43,798	47,540	55,836	66,658	83,875	**106,679**	106,045	121,662	136,813	151,947	169,204	188,254

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

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

Table 5. Pakistan: Monetary Survey, 2018/19–2024/25

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24				2024/25
						Q1	Q2	Q3	Q4	Q4
									Est.	Proj.
	(Billions of Pakistani rupees, unless otherwise indicated)									
Monetary survey										
Net foreign assets (NFA)	-1,507	-516	725	-753	-2,688	-2,436	-2,126	-2,158	-2,157	-1,527
Net domestic assets (NDA)	19,306	21,424	23,573	28,356	34,211	33,961	35,062	35,930	38,742	43,160
Net claims on government, *of which:*	12,337	14,547	16,265	19,623	23,351	24,566	25,213	27,218	30,725	35,365
Budget support, *of which:*	11,546	13,471	15,248	18,331	21,863	22,938	23,930	25,682	29,086	34,765
Banks	4,857	7,016	9,974	13,294	16,923	18,558	20,713	21,651	24,812	31,492
Commodity operations	756	813	904	1,134	1,486	1,309	1,257	1,124	1,378	600
Credit to nongovernment	8,073	8,372	9,114	10,413	10,916	10,732	11,322	11,109	11,296	12,972
Private sector	6,703	6,906	7,702	9,044	9,253	9,058	9,637	9,439	9,614	11,152
Public sector enterprises	1,370	1,466	1,413	1,369	1,663	1,674	1,686	1,670	1,681	1,820
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	-1,063	-1,455	-1,766	-1,640	-16	-1,296	-1,433	-2,357	-3,239	-5,137
Broad money	17,798	20,908	24,298	27,603	31,523	31,525	32,936	33,772	36,585	41,633
Currency outside scheduled banks	4,950	6,142	6,910	7,572	9,149	8,288	8,452	8,651	9,153	10,208
Rupee deposits	11,739	13,691	16,342	18,817	20,847	21,698	22,990	23,626	26,055	29,807
Foreign currency deposits	1,110	1,075	1,046	1,213	1,527	1,539	1,494	1,495	1,377	1,618
State Bank of Pakistan (SBP)										
NFA	-1,127	-181	931	-560	-2,013	-1,642	-1,422	-1,562	-1,415	-824
NDA	7,701	7,861	7,733	9,886	13,433	12,101	12,095	12,729	13,133	14,235
Net claims on government	6,676	6,524	5,320	5,124	5,233	4,954	3,490	4,577	4,512	3,512
Of which: budget support	6,689	6,455	5,274	5,037	4,940	4,380	3,217	4,031	4,274	3,274
Claims on nongovernment	12	19	49	61	62	61	60	60	59	59
Claims on scheduled banks	683	877	1,265	1,603	1,542	1,491	1,538	1,462	1,390	1,390
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	371	482	1,140	3,139	6,637	5,635	7,047	6,671	7,213	9,315
Reserve money, *of which:*	6,573	7,680	8,663	9,327	11,420	10,459	10,672	11,167	11,717	13,412
Banks' reserves	1,246	1,171	1,307	1,229	1,634	1,613	1,619	1,859	1,842	2,479
Currency	5,294	6,468	7,288	8,002	9,674	8,742	8,934	9,185	9,708	10,933
	(Annual percentage change, unless otherwise indicated)									
Broad money	11.3	17.5	16.2	13.6	14.2	12.9	17.9	17.2	16.1	13.8
NFA, banking system (in percent of broad money) 1/	-8.1	5.6	5.9	-6.1	-7.0	-4.0	-0.8	2.3	1.7	1.7
NDA, banking system (in percent of broad money) 1/	19.4	11.9	10.3	19.7	21.2	16.9	18.7	14.9	14.4	12.1
Budgetary support (in percent of broad money) 1/	14.1	10.8	8.5	12.7	12.8	15.4	18.6	18.7	22.9	15.5
Budgetary support	24.4	16.7	13.2	20.2	19.3	23.1	27.8	26.5	33.0	19.5
Private credit	11.9	3.0	11.5	17.4	2.3	-1.0	0.1	1.0	3.9	16.0
Currency	12.8	24.1	12.5	9.6	20.8	8.3	9.9	4.6	0.0	11.5
Reserve money	19.9	16.8	12.8	7.7	22.4	12.5	14.7	10.0	2.6	14.5
Memorandum items:										
Velocity	2.6	2.5	2.5	2.6	2.9	3.0	3.0	3.1	3.1	2.9
Money multiplier	2.7	2.7	2.8	3.0	2.8	3.0	3.1	3.0	3.1	3.1
Currency to broad money ratio (percent)	27.8	29.4	28.4	27.4	29.0	26.3	25.7	25.6	25.0	24.5
Currency to deposit ratio (percent)	38.5	41.6	39.7	37.8	40.9	35.7	34.5	34.4	33.4	32.5
Foreign currency to deposit ratio (percent)	8.6	7.3	6.0	6.1	6.8	6.6	6.1	6.0	5.0	5.1
Reserves to deposit ratio (percent)	9.7	7.9	7.5	6.1	7.3	6.9	6.6	7.4	6.7	7.9
Budget bank financing (change from the beginning of the fiscal year; in PRs billions), *of which:*	2,262	1,925	1,777	3,083	3,532	1,075	2,067	3,819	7,222	12,902
By commercial banks	-887	2,159	2,958	3,320	3,629	1,635	3,790	4,729	7,889	14,569
By SBP 2/	3,150	-234	-1,181	-237	-97	-561	-1,723	-909	-666	-1,666
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	-9.4	8.1	6.7	-9.1	-6.3	2.6	3.5	4.3	4.9	7.0
NFA of commercial banks (millions of U.S. dollars)	-3,127	-2,092	-1,225	-1,227	-3,292	-3,475	-3,108	-2,100	-2,593	-2,386
NDA of commercial banks (billions of Pakistani rupees)	11,605	13,563	15,840	18,469	20,778	21,860	22,967	23,201	25,609	28,925

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

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

2/ Includes use of government deposits.

3/ Includes valuation adjustments.

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

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.	2019 Dec.	2020 Dec.	2021 Dec.	2022 Dec.	2023 Dec.	2024 Mar.
Capital adequacy												
Regulatory capital to risk-weighted assets 1/	14.9	17.1	17.3	16.2	15.8	16.2	17.0	18.6	16.7	17.0	19.7	19.6
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	13.2	14.0	14.8	13.5	14.2	16.0	15.8
Capital to total assets	9.0	10.0	8.4	7.8	7.1	7.1	7.2	7.2	6.3	5.9	5.9	6.1
Asset composition and quality												
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	8.4	8.0	8.6	9.2	7.9	7.3	7.6	7.9
Provisions to NPLs	78.4	79.8	84.9	85.0	87.2	83.8	81.4	88.3	91.2	89.5	92.7	105.4
Net NPLs to total eligible capital	14.7	10.1	7.7	7.3	5.8	7.8	8.9	5.3	4.0	4.6	2.7	-1.9
Earnings and profitability												
Return on assets (after tax)	1.1	1.5	1.5	1.3	0.9	0.8	0.8	1.0	1.0	1.0	1.6	1.4
Return on equity (after tax)	12.4	16.1	15.6	14.4	11.5	10.7	11.3	13.8	14.1	16.9	27.1	24.1
Net interest income to gross income	70.4	71.3	70.4	71.2	72.7	75.4	79.3	79.7	77.9	79.8	82.9	77.2
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	57.1	60.2	57.6	50.0	53.5	48.4	41.2	42.2
Liquidity												
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	48.7	49.7	54.8	55.4	56.6	63.5	64.0
Liquid assets to total deposits	61.3	64.5	73.3	72.1	76.1	67.2	68.4	74.3	76.7	86.4	101.1	100.4
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	55.8	51.7	44.8	46.6	50.4	41.8	39.3

Source: State Bank of Pakistan.

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

Table 7. Pakistan: Indicators of Fund Credit, 2015–29
(In millions of SDR, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
										Projections 1/					
Projected level of credit outstanding based on existing and prospective drawings															
Total	**3,600.0**	**4,393.0**	**4,393.0**	**4,243.0**	**4,867.0**	**5,192.5**	**4,810.3**	**5,722.2**	**5,660.1**	**6,512.2**	**7,263.0**	**8,304.3**	**8,465.9**	**6,946.3**	**5,977.0**
Of which:															
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	894.0	2,250.0	2,250.0	2,138.3	1,182.7	169.5	0.0
Extended Fund Facility and Rapid Financing Instrument	3,600.0	4,393.0	4,393.0	4,243.0	4,867.0	5,192.5	4,810.3	5,722.2	4,766.1	4,262.2	5,013.0	6,166.0	7,283.2	6,776.8	5,977.0
In percent of quota	348.3	216.3	216.3	208.9	239.6	255.7	236.8	281.7	278.7	320.6	357.6	408.9	416.8	342.0	294.3
In percent of end-period gross official reserves	31.4	32.4	44.1	81.6	59.2	55.7	38.0	136.4	91.8	91.4	70.9	65.4	52.9	38.0	31.4
In percent of exports of goods and services	16.6	21.6	22.3	19.2	22.2	26.7	21.3	19.2	21.3	22.3	24.4	25.9	24.5	18.8	15.0
In percent of general government revenues and grants	12.7	13.7	13.1	12.3	18.6	18.7	15.5	16.7	19.4	18.5	15.8	18.1	16.8	12.5	10.0
As a share of external debt	7.3	7.7	6.9	5.8	6.0	6.4	5.5	6.5	6.2	7.2	7.6	8.5	8.4	6.8	5.8
Projected debt service to the Fund based on existing and prospective drawings															
Total	**338.1**	**51.4**	**77.5**	**248.0**	**532.7**	**799.3**	**833.4**	**901.5**	**1,382.1**	**1,764.1**	**1,304.0**	**1,088.3**	**2,022.5**	**2,128.7**	**1,473.1**
Of which:															
Principal	303.0	0.0	0.0	150.0	420.0	690.0	732.2	732.2	956.0	1,263.9	769.2	478.8	1,358.3	1,519.6	969.3
Interest and charges	35.1	51.4	77.5	98.0	112.7	109.3	101.2	169.3	426.1	500.2	534.8	609.5	664.1	609.1	503.8
SBA and ENDA principal	303.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	111.7	955.5	1013.3	169.5
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	402.8	506.3	799.8
Rapid Financing Instrument principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	253.9	507.8	253.9	0.0	0.0	0.0	0.0
In percent of quota	32.7	2.5	3.8	12.2	26.2	39.4	41.0	44.4	68.1	86.9	64.2	53.6	99.6	104.8	72.5
In percent of end-period gross official reserves	2.9	0.4	0.8	4.8	6.5	8.6	6.6	21.5	22.4	24.8	12.7	8.6	12.6	11.7	7.7
In percent of exports of goods and services	1.6	0.3	0.4	1.1	2.4	4.1	3.7	3.0	5.2	6.0	4.4	3.4	5.9	5.7	3.7
In percent of general government revenues and grants	1.2	0.2	0.2	0.7	2.0	2.9	2.7	2.6	4.7	5.0	2.8	2.4	4.0	3.8	2.5
As a share of total external debt service	7.2	1.1	1.1	3.6	5.3	8.9	9.9	6.4	10.6	13.9	9.9	7.9	12.7	12.9	8.6
Memorandum items:															
Quota (millions of SDRs)	1,034	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031
Gross official reserves (millions of U.S. dollars)	15,886	18,269	14,107	7,199	11,334	13,412	17,686	5,575	8,220	9,501	13,670	16,934	21,353	24,361	25,356
Net International reserves (millions of U.S. dollars)					-10,842	-8,528	-3,210	-16,893	-12,648	-12,532	-9,365	-7,489	-3,286	1,749	4,037
Exports of goods and services (millions of US dollars)	28,604	26,869	29,491	30,775	30,670	27,333	35,612	38,967	36,442	39,109	41,168	44,310	47,662	51,219	55,078
Total External Debt (millions of U.S. dollars)	68,473	76,436	90,464	100,681	110,957	117,115	121,690	117,799	121,904	121,299	126,983	130,245	134,163	135,717	136,836
Total external debt (percent of CY GDP)	22.3	23.4	26.0	29.7	35.7	36.1	33.6	33.1	34.2	31.4	31.5	31.0	29.7	27.9	26.1
Total external debt service (millions of U.S. dollars)	6,468	6,217	9,664	9,498	13,807	12,940	11,775	18,805	17,410	16,873	17,589	18,347	21,317	22,061	22,854

Source: IMF staff projections.

1/ Using the GRA rate of charge = 5.012 percent as of July 11, 2024, for projected charges.

Table 8. Pakistan: Proposed Schedule of Reviews and Purchases

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

Source: IMF staff estimates.

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

	Debt Stock (end of period)			Debt Service					
	Dec-23			2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)* 2	*(In US$ million)*			*(Percent GDP)*		
Total	253,843	100.0	75.3	84,147	90,429	57,293	24.9	24.1	14.4
External	102,748	40.5	30.5	18,699	13,309	11,872	5.5	3.6	3.0
Multilateral creditors3	46,509	18.3	13.8	5,210	5,581	5,289	1.5	1.5	1.3
IMF	7,596	3.0	2.3						
World Bank	20,121	7.9	6.0						
ADB/AfDB/IADB	15,367	6.1	4.6						
Other Multilaterals	3,425	1.3	1.0						
o/w: IsDB	99	0.0	0.0						
AIIB	1,698	0.7	0.5						
Bilateral Creditors	41,689	16.4	12.4	4,282	4,054	2,923	1.3	1.1	0.7
Paris Club	7,541	3.0	2.2	1,317	1,416	1,056	0.4	0.4	0.3
o/w: Japan	3,609	1.4	1.1						
France	1,246	0.5	0.4						
Non-Paris Club*	34,148	13.5	10.1	2,965	2,637	1,867	0.9	0.7	0.5
o/w: China **	23,651	9.3	7.0						
Saudi Arabia**	6,661	2.6	2.0						
Bonds***	7,804	3.1	2.3	1,611	1,584	501	0.5	0.4	0.1
Commercial creditors	6,094	2.4	1.8	6,433	1,605	2,996	1.9	0.4	0.8
o/w: Chinese commercial banks	5,395	2.1	1.6						
Other	699	0.3	0.2						
Other international creditors	652	0.3	0.2	1,164	486	163	0.3	0.1	0.0
o/w: NPC/NBP/BOC deposits/PBC****	652	0.3	0.2						
Domestic	151,096	59.5	44.8	65,448	77,120	45,420	19.4	20.6	11.4
T-Bills	29,695	11.7	8.8	31,631	37,567	4,134	9.4	10.0	1.0
Held by: central bank	271	0.1	0.1						
local banks	20,078	7.9	6.0						
local non-banks	9,346	3.7	2.8						
Bonds*****	106,539	42.0	31.6	22,776	31,269	36,559	6.7	8.3	9.2
Held by: central bank	19,429	7.7	5.8						
local banks	66,138	26.1	19.6						
local non-banks	20,971	8.3	6.2						
Loans/Other	14,862	5.9	4.4	11,040	8,284	4,728	3.3	2.2	1.2
Held by: central bank******	1,685	0.7	0.5						
local banks*******	2,091	0.8	0.6						
National Savings Scheme	11,086	4.4	3.3						
Memo items:									
Collateralized debt4		0.0	0.0						
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: Public guarantees	12,401	4.9	3.5						
o/w: Other explicit contingent liabilities5	n.a.	n.a.	n.a.						
Central bank deposit liabilities	3,700	1.5	1.0						
Central bank bilateral swap liabilities	4,271	1.7	1.2						
Nominal GDP2	356,026								

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

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

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

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

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

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

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

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

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

***** Includes Government Ijara Sukuk.

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

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

Annex I. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
GLOBAL				
Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	**Short Term**	High • Financial volatility raises risk aversion, causing financing pressures and capital outflow pressures. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply/trade 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.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	**Short Term**	High • Higher energy prices could worsen the energy sector's already weak financial position, especially if cost increases are not passed through to prices, leading to buildup of more arrears and pressure for greater subsidies. • Higher headline inflation. • Tighter global financial conditions and capital outflow pressures. • Spending pressures and/or lower growth, weakening 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 to address efficiency and costs. • Scale up targeted social assistance. • Maintain financial stability to weather external shocks. • Resist pressures to weaken fiscal discipline, preserve fiscal and debt sustainability. • Build fiscal and external buffers. • Allow exchange rate flexibility to absorb external shocks and facilitate adjustment.
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Medium	**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.

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:** Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops.	Medium Medium	Short Term	Medium • Disruptions in trade channels lead to lower exports and supply disruptions. • Tighter financial conditions and capital outflows. • Weakening global demand decreases commodity prices.	• Allow exchange rate flexibility 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, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	Medium	Short to Medium Term	Medium • Lower demand for exports after tightening. • Tighter financial conditions and capital outflows. • Stock market deteriorates.	• Allow exchange rate flexibility to absorb shocks and facilitate adjustment. • 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. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	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.	• Allow exchange rate flexibility 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 driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium to Long Term**	**Medium** • Weaker confidence and supply disruptions drag on economic growth. • Fiscal pressures associated with recovery spending and reconstruction needs. • Higher risk aversion, and higher risk premia leading to financing pressures and capital outflows. • Trade disruptions leading to higher commodity price levels and volatility, heightening external imbalances. • Disorderly migration.	• Implement strong policies and strengthen institutions as a foundation of strong and sustainable growth. • Allow exchange rate flexibility 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.
Sovereign debt distress. Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	**Medium**	**Short to Medium Term**	**Medium/ High** • Worsening sentiment and lower demand for Pakistan's assets resulting in increased funding costs or reduced capital inflows. • Higher debt service and worse prospects for market access. • Weakening global demand decreases commodity prices.	• Implement strong policies and strengthen institutions as a foundation of strong and sustainable growth. • Build fiscal and external buffers. • Maintain financial stability to weather external shocks. • Maintain an appropriate medium-term debt strategy. • Allow exchange rate flexibility to absorb shocks and facilitate adjustment.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
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 implementation of program policies, lessen the prospects for durable adjustment and sustainable and inclusive growth, and undermine the narrow path to debt sustainability.	High	**Short to Medium Term**	High • Weaker fiscal discipline could compromise the quality and durability of fiscal adjustment; expose debt sustainability risks. • Deviating from exchange rate flexibility, putting pressure on reserves and/or leading to FX shortages, and undermining competitiveness. • Unfinished structural reform agenda would reduce medium-term 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. • Allow exchange rate flexibility to absorb shocks and facilitate adjustment. • Build external buffers. • Foster more inclusive growth through scaling up targeted social assistance. • Improve external competitiveness and advance reforms to enhance the private sector business environment.
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 II. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Pakistan: Risk of Sovereign Stress

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

DSA Summary Assessment

Staff commentary: Public debt continues to be assessed as sustainable in the baseline scenario underpinned by steadfast implementation of the proposed EFF policies, with gradual fiscal consolidation continuing in FY25 and beyond, 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 are very low. In this regard, timely disbursements of committed bilateral and multilateral support is critical in the period ahead. Higher-for-longer interest rates, a prolonged stagnation due to tight macro policies, renewed pressures on the exchange rate, possibly policy reversals, and contingent liabilities related to SOEs pose significant risks to debt sustainability.

Source: Fund staff.

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

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

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

Figure 2. Pakistan: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

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

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

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

Reporting on Intra-Government Debt Holdings

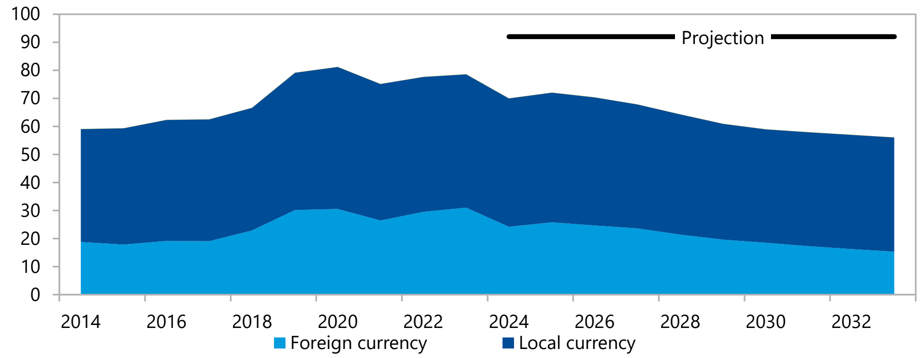
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS /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

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

Staff commentary: Debt coverage includes bilateral FX swap liabilities of the central bank and deposits of official creditors at the central bank, domestic PIA debt, provincial commodity operations debt. As of end-FY23, contingent liabilities not included in the perimeter consist of: (i) guarantees (PRs 3,291 billion), (ii) non-guaranteed circular debt in the power and gas sector (PRs 1,545 billion and PRs 2.1 trillion), (iii) debt from SOEs' commodity operations (PRs 641 billion), (iv) non-guaranteed SOE debt (PRs 255 billion), (v) other contingent liabilities (PRs 500 billion, estimated). The estimated total of those exposures amounts to 9.9 percent of GDP.

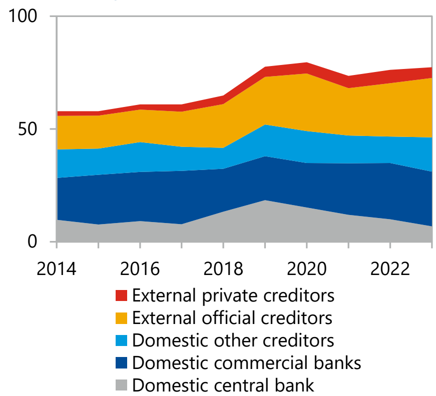
Figure 3. Pakistan: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



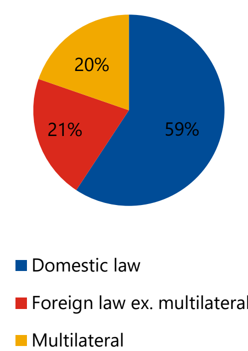
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



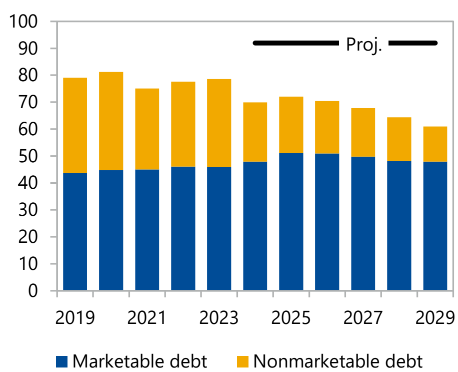
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



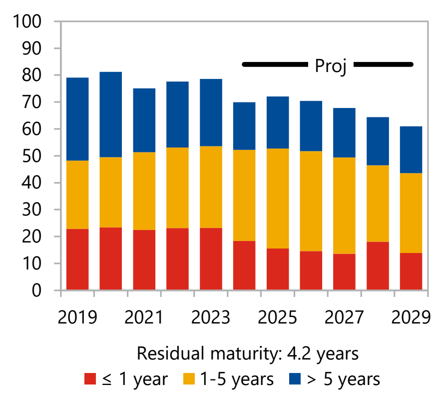
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Staff commentary: Pakistan's external debt is predominantly to bilateral and multilateral creditors. Although the maturity structure has improved somewhat, the high share of short-term debt poses risks to debt sustainability and will require careful management. Pakistan’s domestic debt is mostly to domestic banks, increasing the sovereign-bank nexus. During the latest monetary tightening cycle, Pakistan has resorted to issuing predominantly floating-rate domestic debt, such that debt servicing cost will come down only slowly.

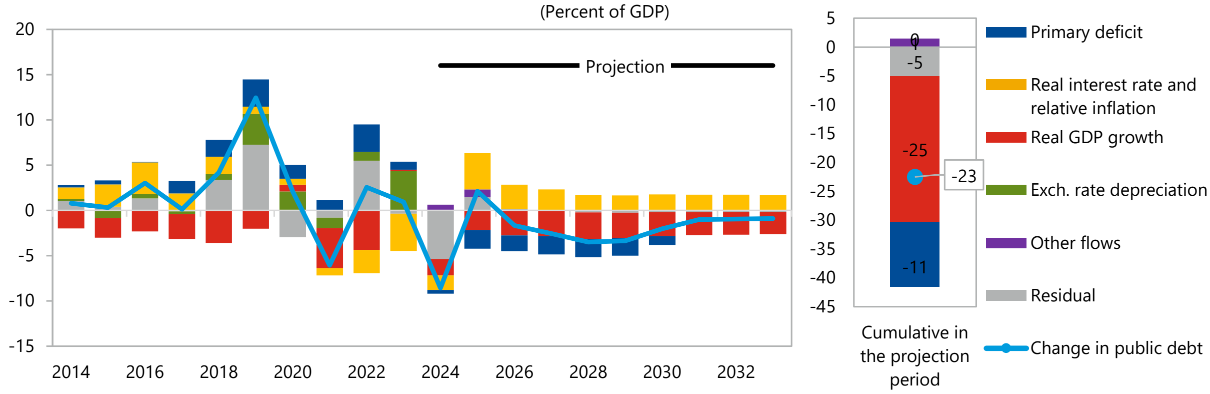
Figure 4. Pakistan: Baseline Scenario

(Percent of GDP, unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	78.6	70.0	72.1	70.4	67.8	64.3	61.0	58.9	57.9	57.0	56.1
Change in public debt	0.9	-8.6	2.1	-1.7	-2.6	-3.5	-3.4	-2.0	-1.0	-1.0	-0.9
Contribution of identified flows	1.3	-3.2	0.6	-1.8	-2.5	-3.3	-3.1	-1.8	-0.8	-0.8	-0.7
Primary deficit	0.9	-0.4	-2.1	-1.7	-2.0	-2.0	-2.0	-1.0	0.0	0.0	0.0
Noninterest revenues	11.5	12.4	15.4	15.0	15.5	15.8	15.8	15.8	15.8	15.8	15.8
Noninterest expenditures	12.4	12.0	13.3	13.3	13.4	13.8	13.8	14.8	15.8	15.8	15.8
Automatic debt dynamics	0.4	-3.4	1.8	-0.1	-0.5	-1.2	-1.1	-0.9	-0.8	-0.8	-0.7
Real interest rate and relative inflation	-4.1	-1.6	4.0	2.7	2.3	1.7	1.7	1.8	1.7	1.7	1.7
Real interest rate	-9.1	-6.6	2.4	1.4	1.3	0.7	0.8	1.0	1.0	1.0	1.0
Relative inflation	5.0	5.0	1.6	1.3	1.0	1.0	0.9	0.8	0.8	0.7	0.7
Real growth rate	0.2	-1.8	-2.2	-2.8	-2.8	-2.9	-2.8	-2.6	-2.5	-2.5	-2.5
Real exchange rate	4.3	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.4	-5.4	1.5	0.2	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2
Gross financing needs	23.5	22.7	22.5	19.0	17.0	15.3	19.3	16.4	15.8	15.0	13.7
of which: debt service	22.6	23.1	24.5	20.7	19.0	17.3	21.2	17.4	15.8	15.0	13.7
Local currency	17.9	19.9	21.6	17.6	16.3	13.6	17.5	14.4	12.6	12.1	10.9
Foreign currency	4.7	3.2	2.9	3.1	2.8	3.7	3.8	3.0	3.2	2.9	2.8
Memo:											
Real GDP growth (percent)	-0.2	2.4	3.2	4.0	4.1	4.5	4.5	4.5	4.5	4.5	4.5
Inflation (GDP deflator; percent)	25.8	23.2	9.5	7.8	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Nominal GDP growth (percent)	25.8	26.4	14.7	12.5	11.1	11.4	11.3	11.3	11.3	11.3	11.3
Effective interest rate (percent)	11.1	12.5	13.4	9.9	8.5	7.7	7.8	8.3	8.3	8.5	8.5

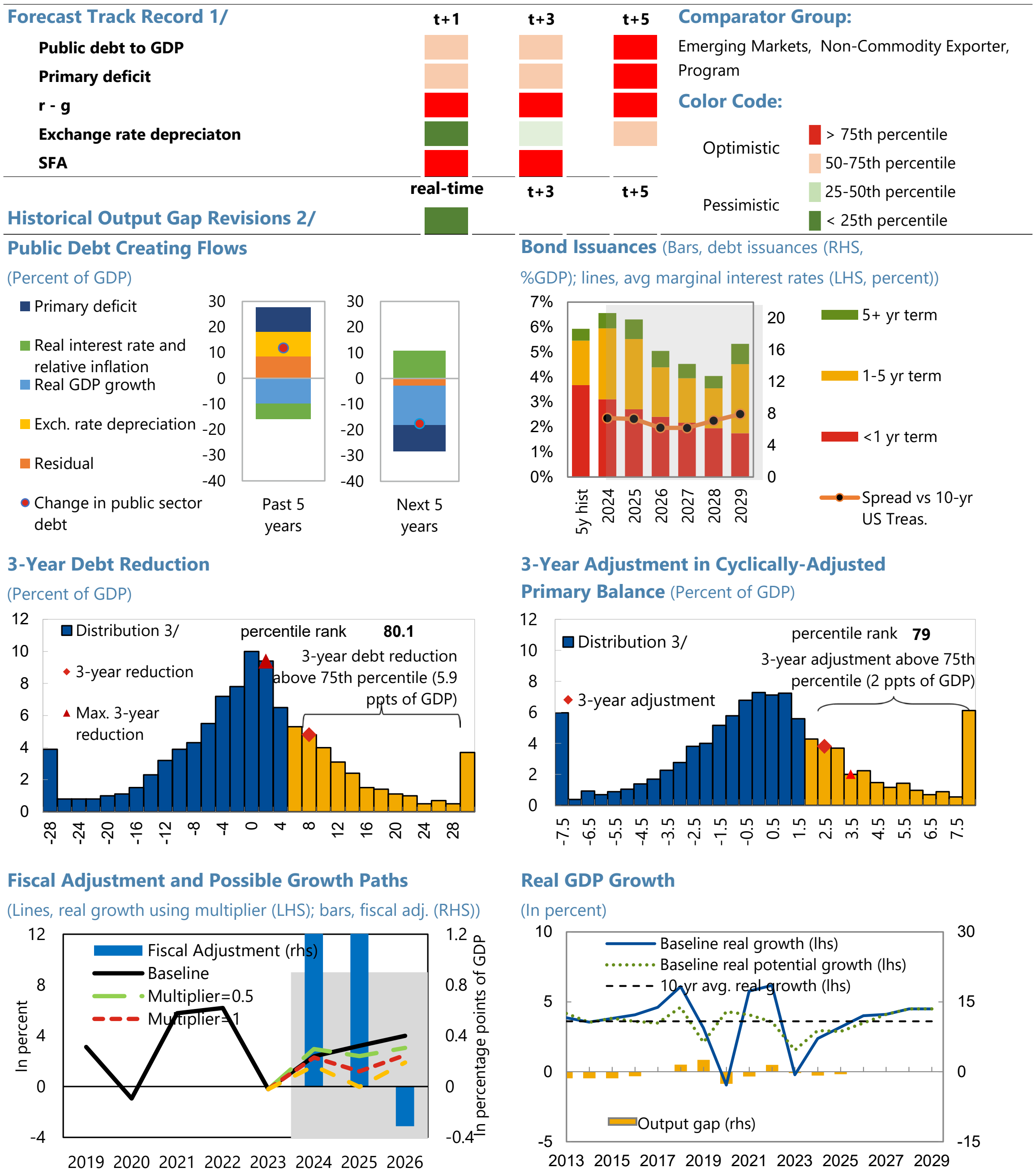
Contribution to Change in Public Debt

(Percent of GDP)



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

Source : IMF Staff.

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

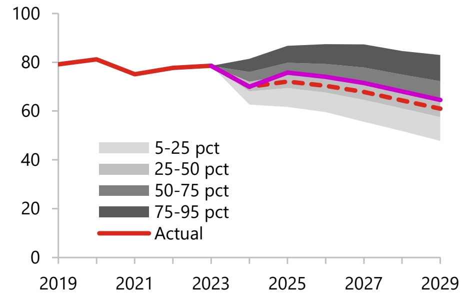
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

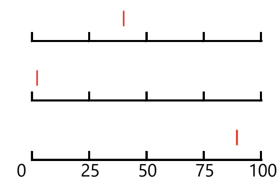
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 6. Pakistan: Medium-Term Risk Analysis

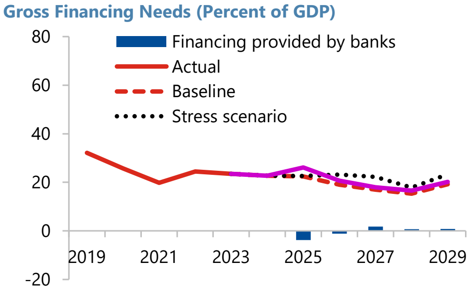
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	35.2	0.5	
Probability of debt non-stabilizaiton *(percent)*	0.0	0.0	
Terminal debt-to-GDP x institutions index	48.4	1.1	
Debt fanchart index (DFI)		1.6	
Risk signal: 3/		**Moderate**	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	19.3	6.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	59.6	19.3	
Chg. In banks' claims in stress *(pct banks' assets)*	6.0	2.0	
GFN financeability index (GFI)		27.9	
Risk signal: 4/		**High**	

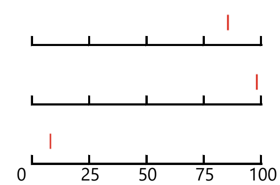
Final Fanchart (Percent of GDP)





Gross Financing Needs (Percent of GDP)

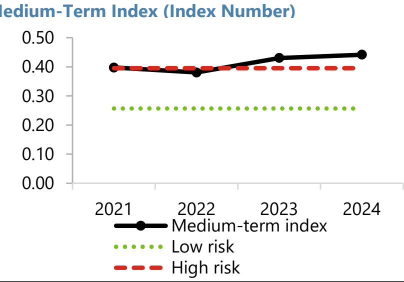




Triggered stress tests (stress tests not activated in gray)

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

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.3	0.5	0.2
GFN finaceability index	27.9	0.5	0.5	0.3
Medium-term index		0.4		
Risk signal: 5/		**High**		
Final assessment:		**High**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 54.5 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 6.8 pct.

Staff commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, in part since the gains from strong fiscal effort underlying the program in terms of improved primary balance is not undone, setting Pakistan on a declining debt-to-GDP trajectory. The GFN Financeability Module suggests a high level of risk due to the high share of bank assets invested in government securities (which limits the scope for the government to flexibly respond to future crises) and the average GFN-to-GDP ratio above the 75th percentile of the comparator group. The aggregated index points to a high level of risk.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7a. Pakistan: Long-Term Risk Analysis

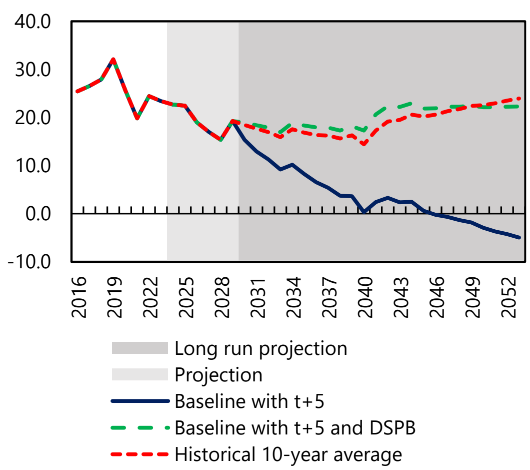
Triggered Modules

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

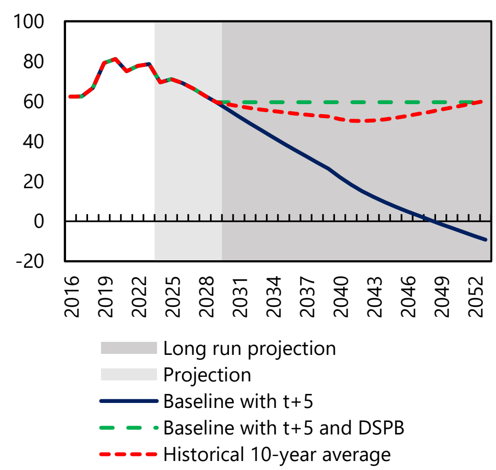
Long-Term Risk Assessment: Large Amortization

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

GFN-to-GDP Ratio



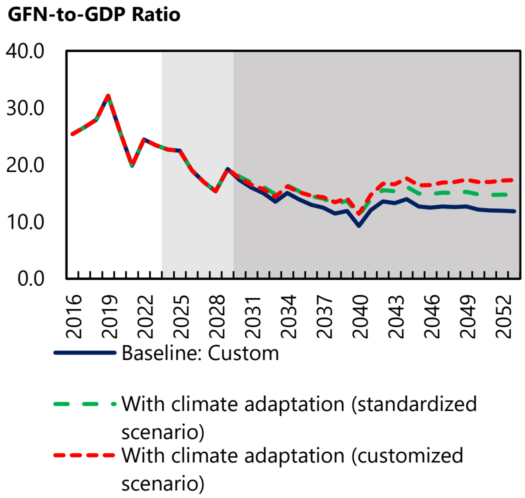
Total Public Debt-to-GDP Ratio

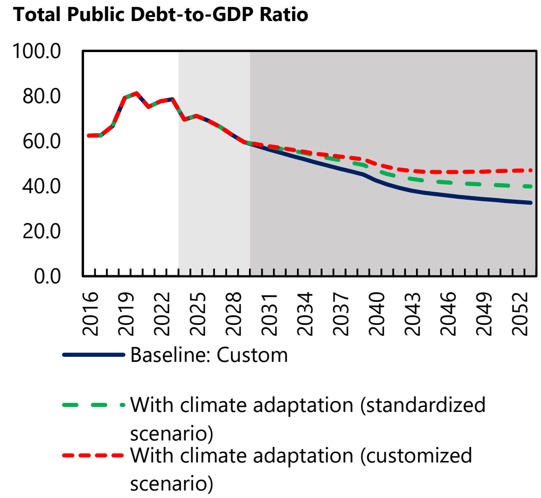


Commentary: Although elevated GFN are a key risk for Pakistan's debt sustainability, the risk of large amortizations is not triggered because projected GFN-to-GDP and Amortization-to-GDP ratios for years t+6 through t+30 do not exceed the historical average (plus one standard deviation) threshold given elevated historical time series over the past 10 years. The debt-stabilizing primary balance (-1.6 percent of GDP) is relatively close to the historical 10-year average primary balance (-1.4 percent of GDP). With the primary balance held constant at its baseline year t+5 value (2 percent of GDP), Pakistan would experience rapid debt decumulation. However, Pakistan has many unmet development needs, thus if macroeconomic stability was firmly entrenched in the long-run, an expansion of development spending would serve the country well.

Figure 7b. Pakistan: Long-Term Risk Analysis

Climate Change: Adaptation





Commentary: Given Pakistan's exceptionally high vulnerability to climate change, freeing up fiscal space for adaptation investment within the confines of debt sustainability will be critical. The custom baseline scenario assumes a zero primary balance from 2030 onwards. The standardized scenario reflects adaptation costs (i.e., a deterioration of the primary fiscal balance) of 0.6 percent of GDP annually, before gradually declining towards 0.3 percent of GDP by the mid-2030s. The illustrative customized scenario is based on reduced initial adaptation investment, which could arise due to financing constraints, among others, and relatedly lower long-term growth (3.5 percent instead 4.5 percent).

Table 1. Pakistan: External Debt Sustainability Framework, 2019-2029

(In percent of GDP, unless otherwise indicated)

	Actual 2019	2020	2021	2022	2023	10-Year Historical Average	10-Year Standard Deviation	Projections 2024	2025	2026	2027	2028	2029	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**33.2**	**37.6**	**35.1**	**32.2**	**34.9**			**32.0**	**31.3**	**31.5**	**30.7**	**28.9**	**27.3**	**-1.4**
Change in external debt	6.2	4.4	-2.5	-2.9	2.7			-2.9	-0.7	0.2	-0.8	-1.8	-1.6	
Identified external debt-creating flows (4+8+9)	6.7	2.9	-4.9	1.7	4.3			-1.0	-0.5	-0.8	-0.9	-0.8	-0.8	
Current account deficit, excluding interest payments	3.0	0.3	0.1	3.8	-0.5			-1.5	-0.5	-0.4	-0.5	-0.3	-0.2	
Deficit in balance of goods and services	10.1	8.1	8.9	12.0	7.7			6.4	7.2	7.4	7.2	7.0	6.8	
Exports	9.4	9.3	9.1	10.6	10.5			10.4	9.9	10.5	10.6	10.6	10.5	
Imports	19.6	17.4	18.0	22.5	18.2			16.8	17.1	17.8	17.8	17.6	17.3	
Net non-debt creating capital inflows (negative)	-0.4	-0.9	-0.5	-0.5	-0.2			-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	
Automatic debt dynamics 1/	4.1	3.5	-4.4	-1.6	5.0			0.8	0.4	0.1	0.1	0.0	0.0	
Contribution from nominal interest rate	1.1	1.2	0.7	0.9	1.5			1.6	1.4	1.4	1.3	1.3	1.2	
Contribution from real GDP growth	-0.9	0.3	-1.9	-2.0	0.1			-0.7	-1.0	-1.2	-1.2	-1.3	-1.2	
Contribution from price and exchange rate changes 2/	3.9	2.0	-3.3	-0.5	3.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.5	1.5	2.3	-4.7	-1.6			-1.9	-0.3	1.0	0.1	-1.0	-0.8	
External debt-to-exports ratio (in percent)	353.1	404.0	387.2	304.4	332.0			308.1	314.5	300.4	289.0	273.1	258.8	
Gross external financing need (in billions of US dollars) 4/	**26.6**	**19.8**	**15.5**	**32.7**	**22.3**			**19.8**	**18.7**	**20.0**	**23.7**	**24.6**	**23.2**	
in percent of GDP	8.3	6.6	4.4	8.7	6.6			5.3	4.7	4.9	5.5	5.3	4.6	
Scenario with key variables at their historical averages 5/								**32.0**	**33.9**	**35.4**	**37.3**	**38.4**	**39.6**	**-0.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.1	-0.9	5.8	6.2	-0.2	3.6	2.5	2.4	3.2	4.0	4.1	4.5	4.5	
GDP deflator in US dollars (change in percent)	-12.6	-5.5	9.7	1.3	-9.8	-0.6	6.9	8.4	3.3	-1.9	2.3	3.2	3.1	
Nominal external interest rate (in percent)	3.8	3.3	2.3	2.8	4.1	3.2	0.6	5.0	4.5	4.5	4.4	4.5	4.3	
Growth of exports (US dollar terms, in percent)	-1.3	-7.4	12.9	25.4	-10.4	1.7	11.2	9.7	2.1	7.5	7.7	7.4	7.5	
Growth of imports (US dollar terms, in percent)	-7.6	-16.6	19.7	34.7	-27.4	3.9	18.5	2.7	8.5	6.3	6.3	6.3	6.3	
Current account balance, excluding interest payments	-3.0	-0.3	-0.1	-3.8	0.5	-1.6	1.8	1.5	0.5	0.4	0.5	0.3	0.2	
Net non-debt creating capital inflows	0.4	0.9	0.5	0.5	0.2	0.6	0.2	0.3	0.4	0.5	0.5	0.5	0.5	

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

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

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

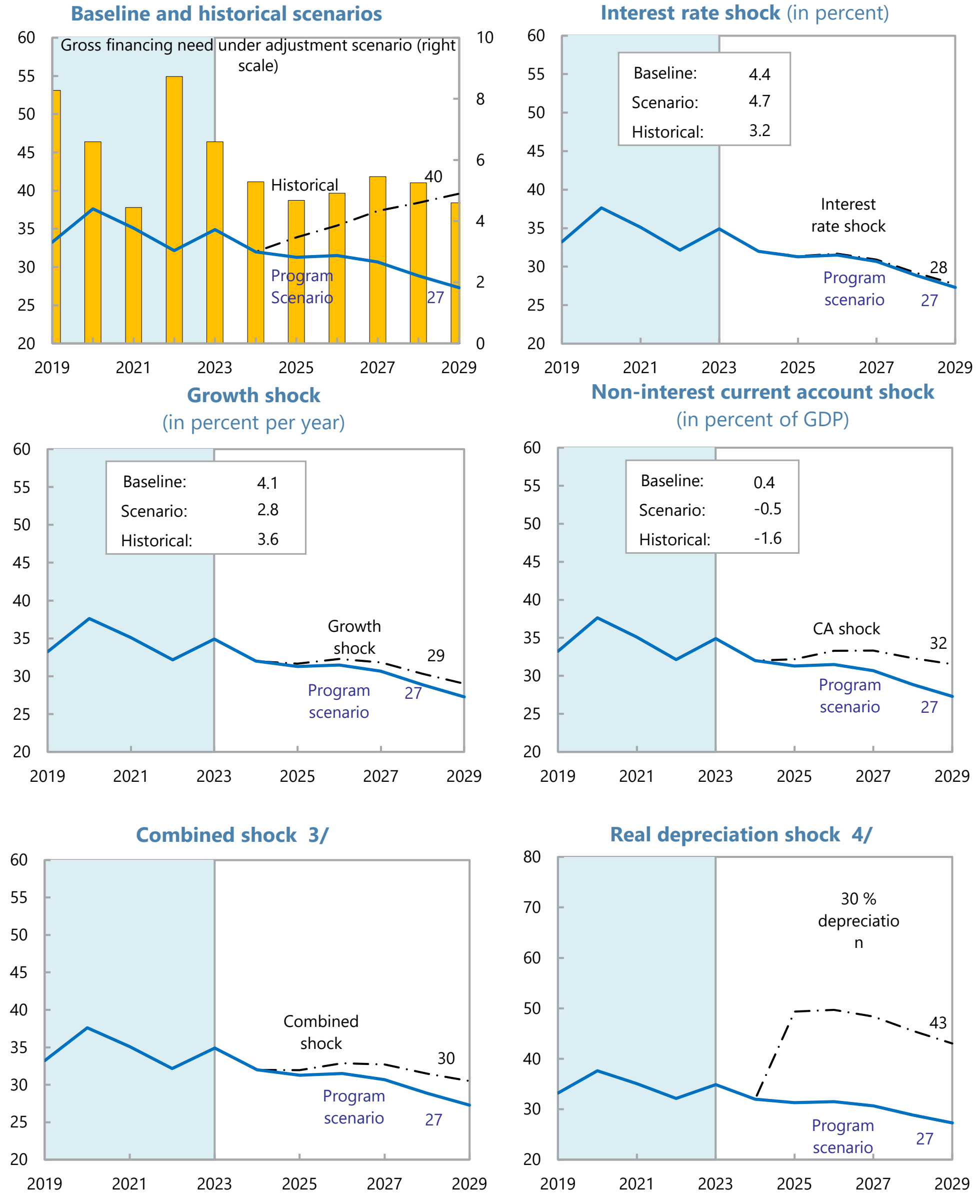
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Figure 1. 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. External Sector Assessment

***Overall Assessment**: The external position of Pakistan in FY23 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The current account (CA) deficit narrowed to 1 percent of GDP, compared to 4.7 percent in FY22. Nevertheless, without import payment restrictions, the CA deficit in FY23 would have been larger, requiring additional real exchange rate depreciation in order to bring the CA back to equilibrium.*

***Potential Policy Responses**: Under the proposed EFF program, monetary authorities would commit to a flexible exchange rate, which would act as a buffer for shocks, and refrain from imposing restrictions on import payments or dividend repatriation. The expected fiscal tightening and structural reforms anchored by the EFF would be expected to boost productivity and competitiveness, consistent with strengthening Pakistan's international investment position over the long term.*

Foreign Assets and Liabilities: Position and Trajectory

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

Assessment. Gross debt-service obligations remain substantial. Although current account imbalances in the past, stemming from insufficient exchange rate flexibility and import restrictions, may have required additional policy adjustment to reach external equilibrium, the trajectory for Pakistan's IIP is now better anchored, with the current account deficit in FY closer to zero and a proposed program that would anchor any needed adjustment.

2023 (% GDP)	NIIP: -38.8	Gross Assets: -6.6	Gross Liab.: - 45.3

Current Account

Background. The CA in FY24 is projected to reach a small deficit of about US$300 million, just under 0.1 percent of GDP. Staff projects the current account deficit to widen over the duration of the program and remain close to 1 percent of GDP.

Assessment. The external position in FY23 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The cyclically adjusted CA in FY23 is estimated to have been -0.9 percent of GDP, and the EBA CA norm is estimated at -0.6 percent of GDP, while the CA gap is estimated to be -0.2.

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

	CA Model	REER Model	ES Model
CA-Actual	-1		
Cyclical Contributions (from model)	-0.1		
Adjusted CA	-0.9		-0.6
CA norm (from model)	-0.6		
CA gap	-0.2		2.5
o/w Policy gap	-1.7		
Assumed semi-elasticity	0.15		
REER gap 1/	-1.3	-6.9	-16.5

1/ Model results from the EBA methodology for 2023.

Real Exchange Rate

Background. Pakistan's REER depreciated 5.8 percent in FY23 and 1.2 in FY22 (in contrast, the REER had appreciated 2 percent in FY21). The change in the 2023 REER reflects a trade-weighted nominal depreciation of about 26.5 percent, as well as foreign inflation of around 7.5 percent among Pakistan's trading partners, and domestic inflation of 29 percent. This trend reversed during the first half of FY24, with the REER appreciating about 10 percent. During the second half of the fiscal year, the REER appreciated an additional 2 percent (as of May 2024).

Assessment. Staff's assessment places the FY23 REER gap at -1.3 percent using the EBA CA model, based on a semi-elasticity of 0.15 of the REER gap with respect to the CA gap Staff continues to highlight the importance of exchange rate flexibility, which would contribute to maintaining the country's external position broadly in line with the level implied by medium-term fundamentals and desirable policies.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account posted a deficit of US$1.6 billion in FY23, driven primarily by government debt repayments: general government amortizations exceeded disbursements by US$2.9 billion. These flows were partially offset by US$960 million in "Other investment assets" of the general government. Net portfolio investment totaled just over US$-1 billion, whereas net FDI reached US$670 million. In previous years, however, the financial account remained in positive territory, averaging US$9.1 billion over FY19-22, and driven primarily by disbursements to the general government (and to monetary authorities in the specific case of FY19). Pakistan's international financial integration continues to be limited, with a normalized Chinn-Ito Index of 0.16 placing the country at the 25th percentile of the world sample in terms of capital mobility, a score that has remained unchanged over the past five years.

Assessment. Authorities have been proactive in their intent to phase out previously existing exchange restrictions and multiple currency practices, but there is still space for additional reforms. The EFF will support further efforts in FX market development, including a revised regulatory regime for exchange companies and the continued facilitation of clearance for dividend/profit payments on foreign investment.

FX Intervention and Reserves Level

Background. Gross reserves decreased sharply during FY23, totaling US$4.5 billion (about 1.3 percent of GDP, or 0.8 months of imports) in contrast to US$9.8 billion in FY22 and US$17.2 billion in FY21. More recently, reserves have gradually recovered, reaching US$9.3 billion in June 2024. In addition to spot FX interventions to accumulate reserves, the SBP has also gradually reduced its negative net forward position, from US$-4.5 billion in July 2023 to US$-3.4 billion by end-December 2023. During 2024, SBP's forward position has remained broadly unchanged.

Assessment. Pakistan's gross reserves in 2023 reached 18 percent of the IMF's (capital controls-adjusted) ARA metric, well below the normative adequacy range of 100-150 percent. With the proposed EFF anchoring reserve accumulation efforts, gross reserves are projected to reach US$22.5 billion, or 72.7 percent of ARA.

Annex V. Ex-Post Peer Review Assessment

Background

1. Over the past ten years, Pakistan has had three upper credit tranche arrangements, as well as one use of the Rapid Financing Instrument, under the General Resource Account (GRA). In general, these programs were requested against the backdrop of weak external conditions or unprecedented external shocks (pandemic, floods), combined with protracted fiscal and external vulnerabilities and structural challenges. While often early progress was made on the back of stronger policies under Fund-supported programs, this progress was not sustained and imbalances reemerged quickly, leading to the need for successor programs.

Program Assessment

The 2013–16 EFF

2. **Objectives**. The 2013 Fund-supported program was approved in the context of declining economic performance and a policy-driven buildup of fiscal and external imbalances, with reserves having fallen to critically low levels (US$ 5.4 billion; less than 1½ months of imports). The program aimed to reduce the risk of a near-term crisis while tackling structural impediments to medium-term growth. Key objectives included: (i) stemming the rise in public debt and significantly increasing tax-to-GDP through a large (4½ percent of GDP) and frontloaded fiscal consolidation; (ii) rebuilding reserves to reach 3½ months import cover, while reorienting FX interventions toward purchases and increasing exchange rate flexibility, (iii) enhancing the operational independence of monetary policy and ending SBP lending to the government; and (iv) addressing long-standing problems in the energy sector, considered the most critical constraint on growth and a source of large fiscal costs.

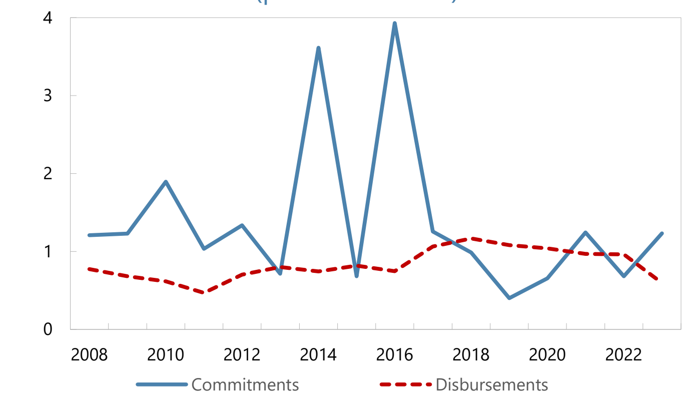
3. **Modalities**. Given the structural nature of the vulnerabilities, an extended arrangement under the EFF was proposed, with access at 425 percent of quota (SDR 4,393 million, equivalent to US$6.68 billion), phased evenly over the program. Reviews were scheduled at a quarterly frequency, with quantitative performance criteria (QPCs) on the general government fiscal balance and on the SBP's net international reserves (NIR), forward/swap position, net domestic assets (NDA), and lending to the government. A significant share (around 45 percent) of the envisaged fiscal adjustment was legislated upfront as a prior action, alongside implementation of a large increase in electricity tariffs as part of a new energy policy. The remaining structural conditionality was oriented toward strengthening the tax system, addressing energy bottlenecks, restructuring or privatizing public sector enterprises, strengthening central bank operational independence, enhancing financial sector stability, and protecting the most vulnerable.

4. **Implementation**. All twelve reviews were completed, mostly on schedule (the fourth and fifth reviews were combined), but performance against quantitative targets (Table 2) was mixed. Some QPCs were missed, requiring frequent waivers (13), with the most frequent deviations occurring on the SBP's NDA, SBP lending to government, and the fiscal deficit. The Indicative Targets (ITs) on FBR tax collection and social transfer spending were also missed repeatedly, as well

as a one-off miss of the IT on power arrears. Implementation of the structural agenda (Figure 3, Tables 4–5) was better, with 35 structural benchmarks (SBs, 69 percent) met on the original schedule and another 11 (22 percent) completed after delays or rephasing. The missed SBs related mostly to reforms of public enterprises (including privatization) and the energy sector, including the timely notification of electricity tariffs for FY16 and FY17, and the planned privatization of PIA and FESCO (one of the electricity distribution companies).

5. **Outcomes**. While the program achieved strong early gains, subsequent progress was relatively limited, and imbalances reemerged towards the end of the arrangement and built up quickly after its completion:

Text Figure: External Project Financing
(percent of GDP)



- The primary balance improved by 2¼ percentage points in FY14 (Figures 1–2), growth exceeded initial projections, and strong capital inflows allowed gross reserve targets to be met with less current account adjustment. However, fiscal adjustment underperformed program expectations from 2015 onwards, as non-tax revenues declined and planned expenditure savings failed to materialize. Public debt also exceeded projections, reflecting both the fiscal slippages and high ex-post real interest rates as inflation declined. In addition, a surge of external project contracting (text figure) in FY14 and FY16 created a large overhang of ongoing projects and related US$ payments that continue to persist[1] set the stage for increased post-program spending and borrowing that worsened debt dynamics, and contributed to subsequent cost and performance problems in the power sector.[2]

- Despite some early progress on exchange rate flexibility, from late 2014 onward the rupee traded in a tight range against the US dollar, appreciating by more than 20 percent in real terms over the duration of the arrangement, which contributed to the reemergence of external imbalances during the post-program period. While conditionality attempted to curtail the SBP's lending to the government during the program), this was not successfully institutionalized, with PC breaches at 4 separate test dates, and the lending resumed in July 2016 and later accelerated, reaching PRs 5 trillion (12 percent of GDP) in 2018 alone.

[1] IMF (2023) estimates that by 2022/23, the pipeline of ongoing projects had reached PRs 10 trillion (12 percent of GDP), which even without further additions would take over 14 years to execute.

[2] Contracts signed with independent power producers (IPPs) during this period stipulated guaranteed returns that publicly owned downstream companies subsequently proved unable to cover.

- A series of electricity tariff increases helped contain losses, but automaticity was never introduced, and arrears accumulation reaccelerated in FY17 when consumer tariff increases were delayed. The SOE reform and restructuring agenda also made limited progress, as privatization plans for Pakistan International Airways, Pakistan Steel Mill and the electricity distribution companies were scaled back following political resistance. While the program initially envisioned revisiting revenue sharing arrangements with the provinces to address federal-provincial fiscal mismatches, this was later deferred until after the program, and ultimately was never taken forward.

6. ***Authorities' Views***. The authorities argued that in some reform areas where staff identified shortcomings under the 2019 EFF (including electricity tariff automaticity, progress on SOE reform/restructuring and privatization, and revenue-sharing with provinces), a more gradual pace of implementation was appropriate to avoid creating a crisis situation in the country. They noted that several of these reform areas have been addressed under subsequent Fund programs, including the introduction of automaticity to electricity tariffs and enactment of the SOE Act. Most recently, the government has also made substantial progress on the privatization of PIA, which is in its final stages.

The 2019–23 EFF

7. **Objectives**. By July 2019, Pakistan was again at a critical juncture, as misaligned policies had, resulted in the reemergence of large fiscal and external deficits, high and increasing external and public debt, and very low international reserves, while structural weaknesses remained largely unaddressed. In this context, the key objectives of the 2019 EFF included: (i) decisive fiscal consolidation, supported by comprehensive efforts to drastically improve revenue mobilization (by 4–5 percentage points of GDP); (ii) decisively moving to a flexible and market-determined exchange rate, supported by a strengthened and independent central bank and appropriate monetary policy; (iii) energy sector reforms to eliminate large quasi-fiscal costs; (iv) a scaling up of social spending; and (v) structural reforms to strengthen institutional frameworks and foster stronger growth (mainly in the areas of SBP independence, SOE performance, governance, and business climate).

8. **Modalities**. The program request envisioned a 39-month EFF, with access at 210 percent of quota (SDR 4,268 million, equivalent to about US$6 billion). Access was somewhat frontloaded during the first year, when the program would be monitored through quarterly reviews, before moving to a semi-annual schedule after the fourth review. However, in the aftermath of the COVID-19 pandemic, the authorities requested an RFI to address the immediate challenges from the pandemic, and the program was recalibrated, with the second-to-fifth reviews combined, and the remaining reviews put back on a quarterly timetable. Quantitative conditionality built upon that in the 2013 EFF, with the fiscal position monitored through PCs on the general government primary (rather than overall) balance and a ceiling on the stock of government guarantees, and the stock target for borrowing from the SBP was augmented by a continuous limit on the flow. Several new ITs were added, including on health and education spending (floor) and tax refund arrears (ceiling), along with continuous SBs on the non-introduction of tax amnesties and preferential tax treatments. The structural agenda (Figure 3, Table 6–7) was strongest in the Energy sector, including reforms to strengthen the power and gas regulators and ensure timely and automatic tariff adjustments; fiscal policy, including new tax legislation, revenue administration and public financial management; and on central bank autonomy, including amendments to the SBP Act to strengthen operational independence and definitively end lending to the government.

9. Early Implementation. Program Implementation during the first 2½ years of the 2019 EFF can be broadly separated into three phases:

- In the initial phase, significant progress was achieved in reversing imbalances, supported by strong policy implementation. The first review was completed in December 2019, with all PCs met and good initial progress on the structural agenda, though all 5 ITs were missed. While the end-FY19 fiscal position, immediately before the start of the program, was much worse (by 1.6 pp of GDP) than estimated in the program request, there was a large (1.5pp) fiscal adjustment in FY20, and the move to a market-determined exchange rate was orderly and facilitated a rapid external adjustment, with FX reserves rebuilt more quickly than anticipated.

- Following the COVID-19 shock in March 2020, the pace of implementation inevitably showed, with the program accommodating the needs created by the pandemic. Nonetheless, the authorities remained committed to the program's medium-term objectives. Buffers built early in the EFF, and support under the RFI, DSSI and from other partners provided space for policies to contain the first wave of COVID-19 cases, and its impact on the economy. The program resumed with completion of the second-to-fifth reviews in March 2021, and while the fiscal targets were missed due to the impact of pandemic response measures, the targets on NIR and NDA were met by large margins. While the pandemic delayed implementation of the structural agenda, delayed SBs were mostly implemented prior to the review, in some cases through prior actions.

- In mid-2021, a "stop-and-go" phase began with the passage of an expansionary FY22 budget, and the program then went off-track until a course correction in the January 2022 mini budget. While all PCs were met at the sixth review in January 2022, the structural agenda continued to lag: several structural measures were either rephased or dropped, though one major reform was completed with the parliament's adoption of amendments to the SBP Act.

10. Emerging slippages. The program was substantially adjusted at the combined seventh-eighth reviews, following another period of "stop-and-go" policies that began shortly after the sixth review:

- Following the spike in commodity prices after the Russian invasion of Ukraine, the authorities introduced large and unbudgeted fuel subsidies, and began large FX sales to stem pressures on the rupee. While these policies were introduced in February, the new government, which came to power in April 2022, continued them resulting in large deviations from the program goals established at the sixth review (including the June PCs on the primary balance and net international reserves). Implementation of the structural agenda also faced further delays in this period: important measures relating to the OGRA Act and financial action task force (FATF) recommendations were eventually completed, but the draft personal income tax law fell short of earlier commitments, and several other structural measures had to be rephased.

- Supported by strengthened policies and new financing commitments, program design was adjusted as part of the seventh-eighth review to address these deviations. This included a strengthened FY23 budget, fuel tax and electricity tariff rises, and a large policy rate increase. However, given the worse starting point, the revised objectives for gross reserves (2.3 months of import cover) and the primary balance (0.2 percent) were more modest than at program approval. The increased financing needs were to be met through a combination of increased access under the EFF (by SDR 720 million, or 36 percent of quota) and US$4 billion of new financing pledges by official bilateral partners. The program was extended to June 30, 2023, given the need for longer policy adjustment, while scaling up social spending (the IT floor was elevated to a PC).

- However, after devastating floods in August 2022, further tensions in economic policymaking emerged, and an attempt to tightly control the exchange rate was combined with the introduction of additional import management measures, contributing to a "sudden stop" in financing inflows (including delays in materializing the US$4 billion of new pledges), severe import compression, sharply rising inflation, and a GDP contraction. Attempts in February and May-June to, once again, agree on policies to resume the program were unsuccessful, and the EFF expired on June 30, 2023.

11. Outcomes. The 2019 EFF ultimately failed to address Pakistan's challenges, although some progress was made on parts of the structural agenda. The initial phase successfully restored stability, and the program provided a helpful anchor through the early phase of the COVID-19 pandemic. However, when the economy was hit by subsequent shocks policymaking proved volatile, never recovering from the initial decision to implement a highly expansionary budget in FY22, delay energy tariff changes, and absorb subsequent exchange rate pressures by selling reserves. Despite some efforts, the fiscal deficit widened as revenue mobilization disappointed, public debt (and energy sector CD) significantly exceeded projections, progress on exchange rate flexibility was unwound, first through large FX sales and later via exchange restrictions and moral suasion which further deterred private inflows, and reserves fell to precariously low levels. As performance flagged, reviews were not completed, and the program went off-track (Table 2).

12. *Authorities' Views*. The authorities broadly shared staff's assessment of the program. However, they noted that some decisions during program implementation, such as to introduce expansionary budgets deviating from program goals, were made in a challenging political context, and that it is difficult to draw effective policy lessons without considering that backdrop. They also observed that Pakistan faced large external shocks during this period, including from COVID-19, spillovers from the Russia-Ukraine war, and the 2022 floods, which contributed to the deviations observed between program projections and actual outcomes. They emphasized that the program contained an ambitious fiscal consolidation plan and a robust reform agenda (supported by a large number of structural benchmarks) and was implemented by two consecutive administrations. Several major reforms were achieved, including introducing automatic quarterly tariff adjustments, moving towards a primary surplus, promulgating the SOE Act, and protecting the most vulnerable through BISP spending. Finally, they noted that the PDM government took several difficult decisions as prior actions for the ninth review of the EFF, and that while that review could not ultimately be completed for technical reasons, these actions helped to show the government's political commitment to reforms, and to provide the basis for the 2023 SBA.

The 2023–24 SBA

13. Objectives. The SBA again began with Pakistan in a very challenging situation: facing acute external financing pressures with minimal reserves, suffering the adverse effects of misaligned domestic policies, and elevated political tensions with elections scheduled initially for late 2023 and later for early 2024. The program sought to anchor the authorities' policy efforts to restore stability during this challenging period, and to help cover Pakistan's BOP needs by providing a framework for official partners to disburse committed financing. The program had four main pillars: (i) an appropriate FY24 budget to support needed fiscal adjustment and achieve a 0.4 percent primary surplus; (ii) returning to a market-determined exchange rate and proper functioning of the FX market, to absorb BOP pressures and eliminate FX shortages; (iii) adequately tight monetary policy to support disinflation and anchor expectations; and (iv) continuing structural efforts to strengthen energy sector viability, SOE governance, and the banking sector, and to build Pakistan's climate resilience.

14. Modalities. A 9-month SBA was approved on July 12, 2023, with access of SDR 2,250 million, or 110.8 percent of quota (about US$3.0 billion). SDR 894 million was available upon approval, with the remainder subject to quarterly reviews based on September and December test dates. Given the need to establish a break from the policies in the final year of the 2019 EFF, the authorities implemented prior actions on the passage of a FY24 budget in line with the program targets, and on withdrawing the SBP circulars on import prioritization, with the purpose of returning to a market determined exchange rate. Quantitative targets from the 2019 EFF were largely carried over. A new continuous SB was set on the premium between the exchange rate at exchange companies and in the interbank market to monitor the functioning of the FX market. The unfinished structural agenda from the EFF was also brought over, with new benchmarks on climate, central bank financial controls, SOE governance and economic statistics.

15. Implementation. Program performance was generally strong, and almost all quantitative targets and structural benchmarks were met (Figures 1–3, Tables 8–9). The primary balance PC was missed by a minor margin at the first review, but the authorities remained on track to meet the FY24 target. While this PC deviation was driven by technical factors, provincial spending was pushed up by payments to clear commodity operation debt, offsetting an overperformance on revenues. The IT on energy circular debt (CD) was also missed at the first review, but CD subsequently stabilized, secured by continued efforts to bring tariffs in line with costs, including two large gas tariff increases, and anti-theft measures in the power sector. The continuous SB on the interbank-open market spread was missed at the first review, and the authorities responded by introducing structural reforms to the exchange company sector, contributing to negligible premiums from September onwards. Ten of the eleven other SBs were met, with work towards the benchmark on SOE governance still in progress at the time of the second review.

16. Outcomes. The narrow objectives of the SBA were largely achieved, with the program succeeding in stabilizing the economy and rebuilding buffers, supported by strong policy efforts and a resumption of official inflows. The latest estimates for FY24 are broadly in line with initial program forecasts, with GDP growth and the primary surplus slightly exceeding initial projections and disinflation proceeding faster than initially anticipated. Market sentiment improved substantially, with EMBIG spreads declining from over 3500 bps in June 2023 to around 700 bps by April 2024. The program succeeded in catalyzing a large increase in official financing flows, and while financing from some donors was delayed and private inflows remained limited, reserve targets were nonetheless achieved thanks to sizeable interbank purchases by the SBP and a much smaller current account deficit. FX market functioning improved, supported by the removal of the remaining MCPs and exchange restrictions, though there remains scope to deepen the FX market and allow greater price discovery.

17. Despite this performance, sizeable challenges remain, and policy efforts will need to be sustained and deepened in the post-SBA period. The SBA acknowledged from the outset that Pakistan's structural challenges would require policy adjustment and financing from key partners to be maintained over the medium term. Fiscal and external debt sustainability remain fragile, with large financing needs and reserves still below desirable levels. Continued fiscal adjustment will be necessary to durably address debt sustainability and reduce crowding out; monetary policy needs to remain vigilant to ensure continued disinflation; and ensuring exchange rate flexibility will be critical to moderating balance of payments pressures and continuing to build reserves. While recent tariff increases have achieved cost recovery in the energy sector, regular adjustments will need to be sustained, alongside reforms to address costs. Structural reforms, including to strengthen SOE governance, anti-corruption institutions, and climate resilience, need to accelerate.

18. *Authorities' Views*. The authorities broadly agreed with staff's assessment of program implementation. They noted that the SBA worked as an important policy anchor for Pakistan, and reaffirmed their commitment to continue the reform process to ensure that the success achieved under the SBA is not undone.

Main Lessons

19. Staff sees the following main lessons from Pakistan's recent UCT arrangements:

- **The arrangements chosen were appropriate given the circumstances of each request**. Pakistan's vulnerabilities at the time of the 2013 and 2019 request were recognized as reflecting protracted BOP needs and deep structural issues that would take time to address, implying that an extended arrangement was the appropriate modality. The length of the 2023 SBA was unusually short, as many of the underlying issues remained, but the authorities were not in a position to agree a medium-term policy agenda given the approaching elections. However, they recognized the importance of a Fund arrangement as an anchor for policies and financing through this period. Together with the large supporting financing commitments from bilateral partners, policy commitments were assessed as sufficient to restore stability and bring reserves back to manageable levels, while leaving space for a new government to embark on a fresh program if desired, to enhance ownership. All three arrangements adopted quarterly reviews, and while this worked for monitoring the relatively short SBA, it did not help in arresting the re-emergence of imbalances toward the end of the 2013 EFF, while in practice only the first review of the 2019 EFF was completed according to the envisaged quarterly schedule.

- **Sustained, continuous, effort on sound policies is necessary to ensure ongoing macroeconomic and financial stability, with strong ownership essential to program implementation and financing**. All three UCT arrangements began in a promising way, making good early progress toward macro-stability, including large fiscal adjustments and strengthened FX reserves. However, both the 2013 and 2019 EFFs saw reform momentum fade, with economic stability unraveling within months of policy discipline flagging. The former arrangement relied on heavy use of PAs across sectors (including limit monetary financing), however, this was not a substitute for broad-based ownership. The 2019 EFF started to unravel after the large deviations from program policies in mid-2021 and again shortly after the conclusion of the sixth and seventh-eighth reviews, underscoring the difficulty of succeeding without continuous sound policy implementation. Conversely, ownership under the 2023 SBA—mostly overseen by a caretaker government—was strong throughout, allowing significant strides toward stabilization and demonstrating that orthodox policies can work in Pakistan. While strong prior actions can help temporarily overcome weakened ownership, if performance does not sustainably improve, early program success can quickly be undone. Moreover, weak program performance leads to delays in partner support and aggravates financing needs. Given this, when deviations from program policies do occur, it is important to pause and work to ensure that both policies and financing are adjusted to bring the program back in line with the original program objectives, as attempted toward the end of the 2019 EFF and (implicitly) in the SBA.

- **Reforms need to be institutionalized to durably address Pakistan's vulnerabilities**. Although the 2013 EFF featured many legislative actions, critical reforms—such as the moves toward cost-recovery tariffs and operational independence of the SBP—were not successfully institutionalized and soon broke down. The 2019 arrangement had greater success in these areas, despite some tensions as the outlook deteriorated in 2022–23, although entrenching the move to a fully flexible and market determined exchange rate has proven difficult.

- **To be effective, program conditionality has needed to evolve to capture emerging risks and policy issues, and there are several areas where this will be important for the new EFF**:

    - Reform efforts waned during the 2013 EFF, reflected in the need for 13 waivers, and while spending and current external borrowing were contained, large future borrowing commitments set the scene for the subsequent reemergence of imbalances. The stock target on SBP's lending to government proved insufficient to halt this practice, and later reviews continued despite a recognition that the lack of downward exchange rate flexibility could generate imbalances.
    - Recognizing these challenges, the 2019 EFF sought a clear public signal of a move to exchange rate flexibility and added new targets on the flow of SBP borrowing (continuous) and stock of guarantees. Program design was appropriately adjusted in 2021 to reflect the

large COVID-19 shock, and when policies began to deviate more fundamentally from program objectives at subsequent reviews, the Fund insisted on strong corrective measures to bring the program back on track. When further policy slippages and a deterioration of financing conditions made it impossible to achieve the EFF's objectives, the arrangement was allowed to expire,

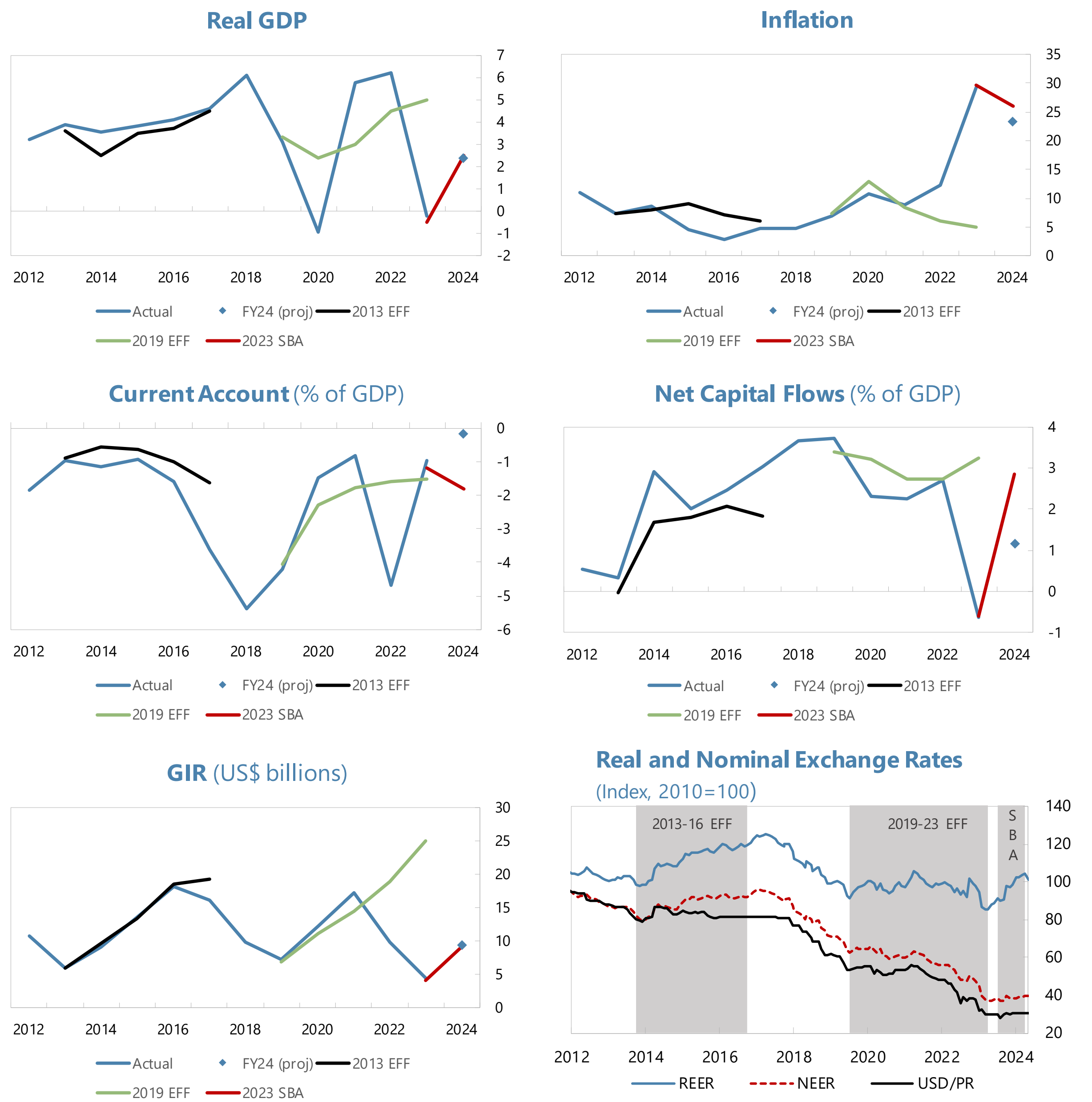
  - Program conditionality was again recalibrated for the 2023 SBA, to support the objective of stabilizing the economy. As part of this, conditionality was added to address the deterioration of FX market functioning in the prior year, including to contain the spread between the interbank market and the rate at exchange companies.

  - There are several areas where conditionality for a new arrangement will likely need to evolve to capture evolving risks and priorities. First, with slippages at the provincial level undermining fiscal performance, provincial governments need to play a larger role in ensuring general government surpluses, both through revenue mobilization and expenditure restraint. In addition, provincial off-budget operations should be included within the fiscal (and guarantees) perimeter to protect delivery of general government targets. Second, tackling the high-cost side pressures in Pakistan's energy sector will be just as important of maintaining cost-recovery tariffs to restoring energy sector and economic viability.

- **Close coordination with development partners is critical**. Pakistan's structural issues are broad and touch on the expertise of multiple institutions. Critical reforms under the energy, fiscal, social and SOE agendas have been prepared in close collaboration with other IFIs, particularly the World Bank and Asian Development Bank. Maintaining coordination on these issues, and on other topics such as climate policies, will remain important in the upcoming arrangement. Ensuring sufficient and timely delivery of financing commitments from both multilateral and bilateral partners will require ongoing strong program performance on the part of the authorities as well as close engagement by the Fund.

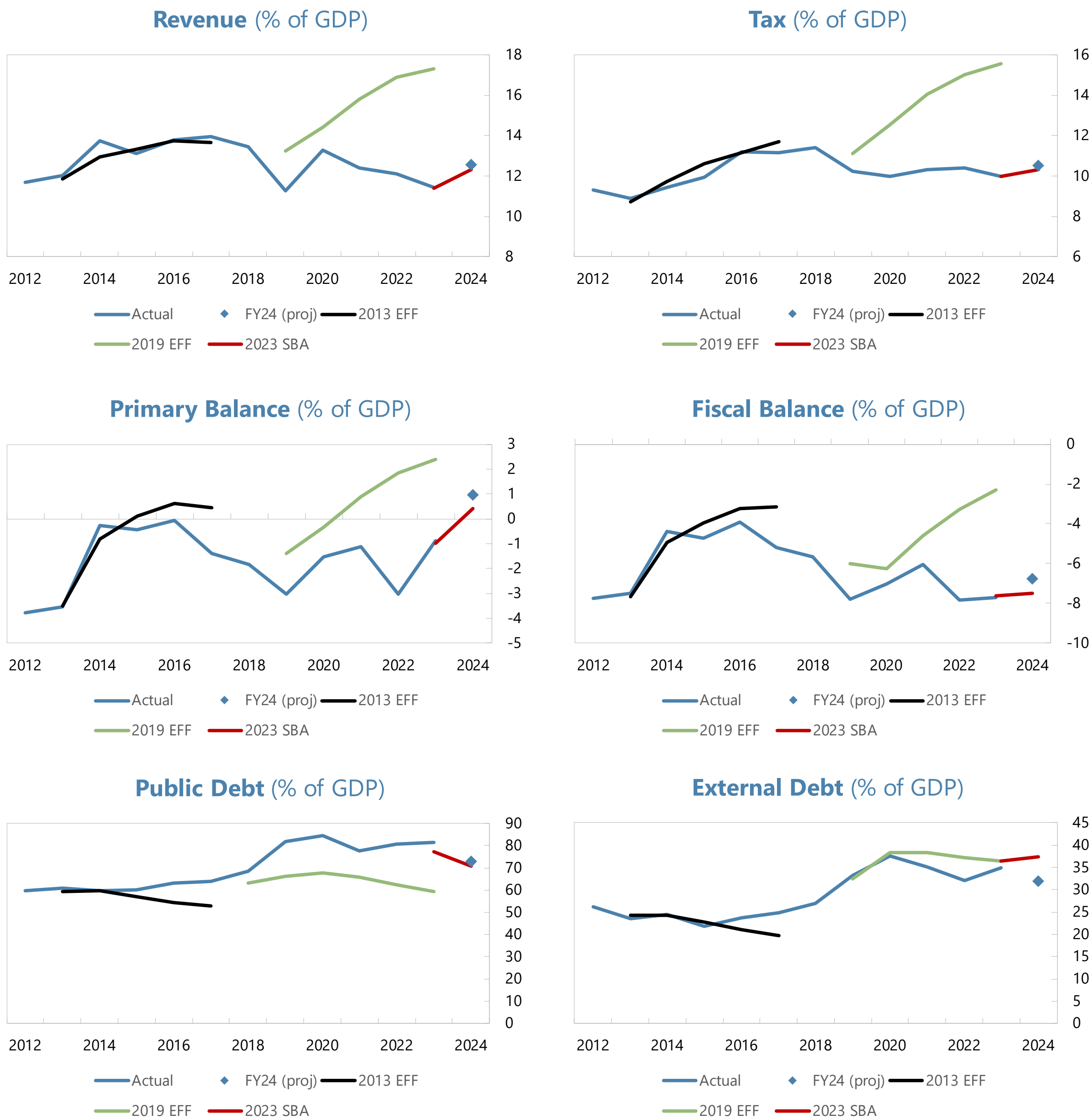
20. ***Authorities' Views***. The authorities broadly shared the Fund's assessment of the main lessons from the past three Fund programs, and the proposed areas of reform for the new engagement. They noted that while these programs were reasonably successful in stabilizing the economy, they were less successful in sustaining reforms and addressing underlying structural weaknesses, which will be essential to overcome macroeconomic imbalances and achieve high growth on a sustainable basis. The newly elected government is committed to implementing the reforms initiated under previous programs, which have helped build a foundation for the proposed EFF reform agenda. Regarding federal-provincial fiscal relations, the authorities argued that reforms will need careful design and implementation, considering the delicate relationship between the provinces and the federal government. More generally, they observed that in some areas, greater consideration of Pakistan-specific factors when designing policies could enhance program effectiveness, for example to ensure that exchange rate flexibility is complemented by other reforms to address the shallow FX market and supply side constraints for exports.

Figure 1. Program Macroeconomic Projections and Outcomes



Sources: Program Request Staff Reports and IMF Staff Calculations.
Note: Ratios are adjusted for the impact of the GDP rebasing completed in January 2022.

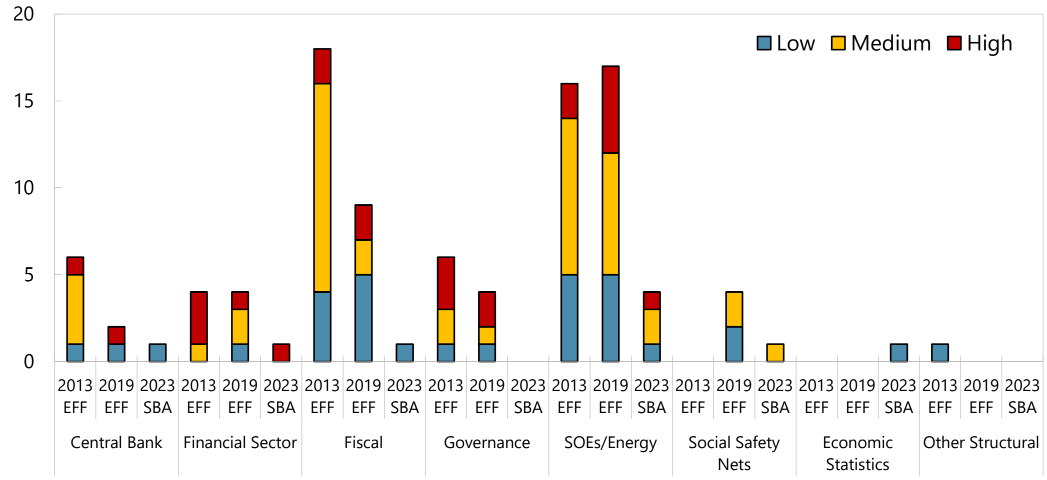
Figure 1. Program Macroeconomic Projections and Outcomes (concluded)



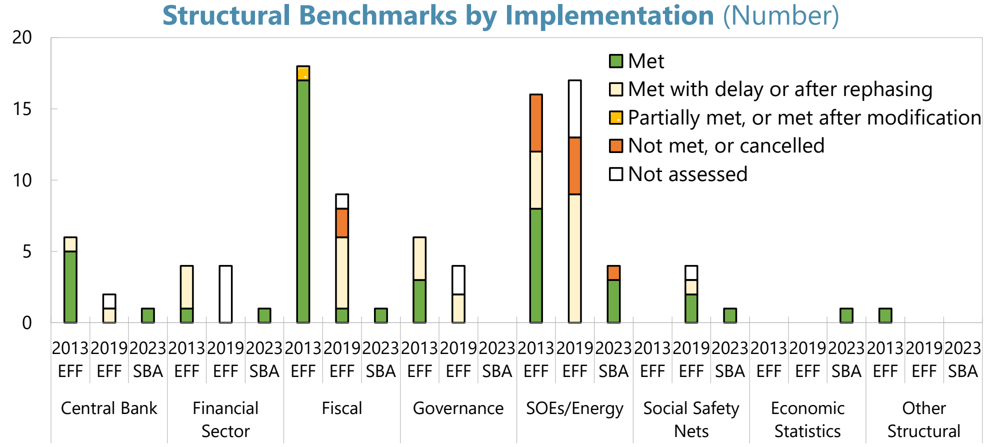
Sources: Program Request Staff Reports and Staff Calculations.
Note: Ratios are adjusted for the impact of the GDP rebasing completed in January 2022.

Figure 2. Implementation and Depth of Structural Measures by Program/Sector

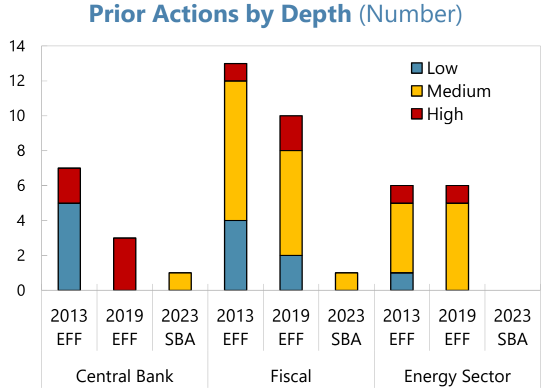
Structural Benchmarks by Depth (Number)



Structural Benchmarks by Implementation (Number)



Prior Actions by Depth (Number)



Prior Actions by Implementation

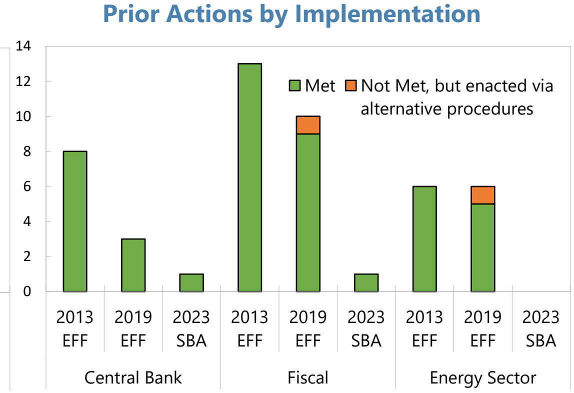


Table 1. Pakistan: 2013–16 EFF – Quantitative Performance Criteria and Indicative Target Outcomes by Test Date/Review

Test Date	9/30/2013	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016
Review for which PCs were controlling	1st Review	2nd Review	3rd Review		4th-5th Review	6th Review	7th Review	8th Review	9th Review	10th Review	11th Review	12th Review
Performance Criteria												
Floor on net international reserves of the SBP (millions of U.S. dollars)	W	M	M	M	W	M	M	M	M	M	M	M
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	M	M	W	NM	W	M	M	M	W	M	M	W
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees)	M	M	M	M	M	M	M	W	W	M	M	W
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	M	W	M	M	M	M	M	M	M	M	M	M
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	M	W	M	NM	W	M	M	W	M	M	M	M
Continuous Performance Criterion												
Accumulation of external public payment arrears by the general government (continuous)	M	M	M	M	M	M	M	M	M	M	M	M
Indicative Targets												
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	NM	NM	M	M	M	M	M	NM	M	M	M	M
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)					Introduced	NM	NM	NM	NM	NM	NM	M
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)							Introduced	NM	M	M	M	M

M	Met	W	Waiver	NM	Not Met

Table 2. Pakistan: 2019–23 EFF – Quantitative Performance Criteria, Indicative Target, and Continuous Structural Benchmark Outcomes by Test Date/Review

Test Date	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022
Review for which PCs were controlling	1st Review			ITs only 1/	ITs only 1/	2nd-5th Reviews			ITs only 1/	6th Review		7th-8th Reviews
Performance Criteria												
Floor on net international reserves of the SBP (millions of U.S. dollars)	M	M	M	M	M	Not Set 2/	M	M	M	M	NM	W
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	M	M	M	M	M	Not Set 2/	M	M	M	M	M	M
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	M	M	M	M	M	Not Set 2/	M	M	M	M	M	M
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees)	M	NM	NM	NM	NM	Not Set 2/	M	NM	M	M	NM	W
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	M	M	M	M	M	Not Set 2/	M	M	M	M	M	M
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees)	M	NM	NM	NM	NM	Not Set 2/	M	M	M	M	M	M
Continuous Performance Criteria												
Zero new flow of SBP's credit to general government	M	M	M	M	M	M	M	W	M	M	M	M
Zero ceiling on accumulation of external public payment arrears by the general government	M	M	M	M	M	M	M	M	M	M	M	M
Indicative Targets												
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	NM	NM	NM	M	NM	Not Set 2/	NM	NM	NM	NM	NM	NM
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	NM	M	NM	NM	M	Not Set 2/	M	M	NM	NM	NM	NM
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	NM	NM	NM	NM	NM	Not Set 2/	M	M	M	M	M	M
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees)	NM	M	NM	NM	NM	Not Set 2/	NM	M	NM	NM	NM	NM
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	NM	NM	NM	NM	NM	Not Set 2/	M	M	NM	NM	NM	NM
Gross issuance of PIBs, Sukuks, and Eurobonds (cumulative, billions of Pakistani rupees)						Introduced	NM	NM	M	M	M	M
Continuous Structural Benchmarks												
Commit to not grant further tax amnesties	M	M	M	M	NM	NM	M	M	M	M	NM	NM
Avoid the practice of issuing new preferential tax treatments or exemptions	Introduced	M	M	M	NM	NM	M	NM	NM	NM	NM	NM

1/ Due to the delay between reviews, the quantitative targets for this test date were set as ITs, and never converted to PCs

2/ Due to the delay between completion of the 1st and joint 2nd-5th reviews, no quantitative targets were set for this test date

Table 3. Pakistan: 2023–24 SBA – Quantitative Performance Criteria, Indicative Targets, and Continuous Structural Benchmark Outcomes by Test Date/Review

Test Date	9/30/2023	12/31/2023
Review for which PCs were controlling		Both 1st and 2nd reviews1/
Performance Criteria		
Floor on net international reserves of the SBP (millions of U.S. dollars)	M	M
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	M	M
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	M	M
Ceiling on general government primary budget deficit (cumulative, excluding grants, billions of Pakistani rupees)	NM	M
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	M	M
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees)	M	M
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	M	M
Continuous Performance Criteria		
Zero new flow of SBP's credit to general government	M	M
Zero ceiling on accumulation of external public payment arrears by the general government	M	M
Indicative Targets		
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	M	M
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	M	M
Ceiling on net accumulation of tax refund arrears (billions of Pakistani rupees)	M	M
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	NM	M
Continuous Structural Benchmarks		
Commit to not grant further tax amnesties	M	M
Avoid the practice of issuing new preferential tax treatments or exemptions	M	M
Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.	NM	M

1/ At the First Review Board on January 11, 2024, waivers of applicability were granted for most end-December PCs (aside from the target on the SBP's net foreign currency swap/forward position), as they were not yet available, but these outcomes became available for the 2nd Review.

M	Met
W	Waiver
NM	Not Met

Table 4. Pakistan: 2013–16 EFF Prior Actions

Central Bank	Central Bank Law Reforms	▲ Revise the draft SBP law in the NA committee incorporating the recommendations of the IMF safeguards assessment mission and comments provided by Fund staff and submit the revised draft to the full assembly.
		▲ Enact amendments to the SBP law by end-November 2015.
	Exchange rate policy	— Net purchase of $125 million by the SBP in the foreign exchange spot market from July 1, 2013.
	Monetary targets	▼ Bring the government borrowing level from the SBP to PRs 2,150 billion.
		▼ Limit the stock of Net Domestic Assets of the SBP to PRs 2,450 billion.
		▼ Bring net borrowing from the SBP to below PRs 1830 billion
		▼ Bring the stock of NDA to or below PRs 2,652 billion by end-November 2015.
		▼ Bring the stock of NDA of the SBP to or below PRs 3,100 billion by end-August 2016.
Fiscal	Budget Legislation	— Send to parliament a FY2014/15 budget proposal consistent with the program objectives.
		— Submit the FY2015/16 budget to the parliament, consistent with policies outlined in the MEFP and the program budget deficit target of 4.3 percent of GDP, including an adjuster of 0.3 percent of GDP (up to PRs 100 billion) for additional spending as defined in the TMU.
		— Submit the FY 2016/17 budget to parliament, consistent with the policies described in the MEFP and a budget deficit target of 3.8 percent of GDP.
	Central-Provincial Coordination	— Impose a balanced budget requirement on provinces and agree with provinces to save additional revenues generated by the program.
		— Reach agreement in writing with the provincial finance secretaries to increase provincial budget surpluses consistent with the program.
	Debt management	▼ Provide Fund staff with a detailed quarterly financing plan for the coming 12 months and extend the existing in-quarter issuance plan to a rolling quarterly issuance program published every month for domestic public securities (including local Sukuk bonds).
	Fiscal Structural	▼ Complete a calendar to eliminate the vast majority of SROs granting tax exemptions or concessions and convert the remainder into regular legislation.
		▲ Issue a presidential ordinance to limit the authority to grant tax concessions or exemptions, as specified in the TMU, and present it for parliamentary approval as part of the Finance Bill FY2015/16.
	Revenue administration	▼ Issue 10 thousand notices based on large potential fiscal liabilities.
		▼ Require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments.
	Revenue measures	— Raise the GST rate on petroleum products from 17 to 27 percent, introduce additional fiscal measures, including 0.1 percent of GDP reduction in electricity subsidies, with total yield of 0.35 percent of GDP to assure compliance with the year-end fiscal targets.
		— Take measures to recover part of the GIDC proceeds focusing on areas where large collecting agents have already collected the GIDC in their price, with yield of 0.1 percent of GDP.
	Revenue/expenditure measures	— Implement a series of fiscal adjustment measures (including those in the 2013/14 budget) totaling 2 percent of GDP on an annualized basis.
Governance	Energy Structural	— Enact the Gas (Theft Control and Recovery) Ordinance 2014.
Public Enterprises	Energy Pricing	▲ Develop and approve a three-year plan by the Government for phasing out Tariff Differential Subsidies (TDS), and implement the first step by: (i) the notification of new tariffs for FY2012/13; (ii) increasing the weighted average tariffs by 50 percent on industrial, commercial, bulk, and AJ&K consumers' electricity consumption; and (iii) announcing a reduction of the subsidy on second group of consumers (as defined in the TMU) through increasing the weighted average notified tariffs by 30 percent that will be in effect from October 1st, 2013.
		— Finalize the determination and notification of electricity tariffs for FY2013/14.
		— Notify the new electricity tariff, as determined by NEPRA for FY2014/15, to be effective from June 10, 2015; and implement surcharges or similar measures in line with the program targets, consistent with the budgetary allocation of 0.3 percent of GDP in electricity subsides and the power sector payables reduction plan, as defined in the TMU.
		— Notify and implement the new gas tariff in line with the OGRA determination.
	Public enterprise reform	▼ Submit DISCOs' quarterly performance reports for Q3 FY2015/16 for review and obtain approval of the Economic Coordination Committee of the Cabinet, and make the reports available to the public.

Status	Met	Not Met	
Depth	▲ High	— Medium	▼ Low

Table 5. Pakistan: 2013–16 EFF Structural Benchmarks

Central Bank	Central bank operations and reforms	▲ Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective, while strengthening its governance and internal control framework, in line with Fund staff advice.
		— Improve the internal operations of the SBP by: i) reestablishing an advisory monetary policy committee to advise the Board on its policy decisions; ii) establishing a Board committee to centralize and oversee risk management activities across the bank; and iii) begin publishing summaries of the monetary policy proceedings of the Board meetings and monetary policy committee deliberations.
		▼ Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.
		— Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF safeguard procedures, the Internal Audit Department will conduct reviews of the program monetary data reported to the IMF, within two months after each test date, for accuracy and compliance with the TMU and share the findings with IMF staff.
		— Make the improved interest rate corridor of the SBP operational.
		— (i) Issue an executive order to provide financial guarantee to the SBP in case of any losses that are not covered by SBP's general reserves and recapitalize the bank if it becomes necessary; and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains.
Financial Sector	Financial sector legal reforms	▲ Enact the Deposit Protection Fund Act, in line with Fund staff advice.
		▲ Enact the Securities Bill, in line with Fund staff advice.
		▲ Enact the Credit Bureau Act.
	Restructuring of financial institutions	— Prepare detailed plans to achieve compliance of all banks that fall below minimum capital adequacy, including specific actions, end dates, and contingency arrangements. Also detail a plan for recapitalization, consolidation or liquidation of 9 banks that fall below the minimum capital requirement but not CAR.
Fiscal	Financial controls	▲ Prepare and submit draft legislation for a PPP framework to the National Assembly.
		▼ Hire a professional audit firm to conduct a technical and financial audit of the system to identify the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited).
	Transparency	▼ 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.
	Revenue measures	— Announce a rationalization plan for gas prices which will involve a levy to generate 0.4 percent of GDP fiscal savings by end-December 2013.
		— Increase the issuance of first notices (u/s 114) to 75,000 and follow up with a second notice (u/s 122c) to 75 percent of those who did not respond satisfactorily to their first notice within 60 days by end-March, 2014. Issue a provisional tax assessment to 75 percent of those who did not respond satisfactorily within 60 days to the second notice by end-March, 2014.
		— Eliminate exemptions and concessions granted through SROs for an amount consistent with the fiscal deficit reduction objective in the FY2014/15 budget.
	Revenue administration	— Develop and launch initiatives to enhance revenue administration for sales tax, excises, and customs similar to that prepared for income tax.
		— Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.
		▼ Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.
		— Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people.
		— The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.
		— Prepare and submit to the National Assembly draft legislation against benami transactions.
		— Put in place a comprehensive monitoring system for tax audits, with quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators.
		▼ Identify 50 potential cases of high-net-worth individuals and other large taxpayers, based on established risk-based audits criteria, and initiate comprehensive income tax audit at least half of such cases.

Table 5. Pakistan: 2013–16 EFF Structural Benchmarks (concluded)

	Debt Management	— Approve an administrative order to consolidate the responsibilities of public debt management in the debt management office.
		— Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.
		— Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.
		▲ Submit amendments to the Fiscal Responsibility and Debt Limitation Act (as described in paragraph 18 of the MEFP) to the National Assembly.
Governance	Revenue administration	▲ Enact amendments to the relevant tax laws (as defined in the TMU) and submit amendments to the Anti-Money Laundering Act (AMLA) to Parliament.
		▲ Adopt the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU) and the definition of politically exposed persons in line with international standards.
	Anti-corruption legislation/policy	— Enact the amendments to the Pakistan Penal Code 1860 and the Code of Criminal Procedures 1898.
		▲ Enact amendments to Penal Code 1860 and the Code of Criminal Procedures 1898.
		— Enact the Gas (Theft Control and Recovery) Ordinance 2014.
		▼ Establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration.
Public Enterprises	Energy pricing	▼ Fill the vacancies in the NEPRA Board.
		— Determine and notify multi-year tariffs for FESCO, IESCO, and LESCO, as defined in the TMU.
		— Determine Multi-year tariffs for IESCO and LESCO.
		— Notify multi-year tariffs for FESCO, IESCO and LESCO.
	Privatization, public enterprise reform and restructuring	— Offer the minority shares in United Bank Limited and Pakistan Petroleum Limited to domestic and international investors by end-June 2014.
		— Develop and approve PSE reform strategy for thirty firms among the 65 PSEs approved for privatization by the Council of Common Interest (CCI).
		▲ Make Central Power Purchasing Agency (CPPA) operational by separating it from the National Transmission and Dispatch Company (NTDC), hire key staff, issue CPPA rules and guidelines, and initiate the payment and settlement system.
		▲ Privatize 26 percent of PIA's shares to strategic investors.
		▼ Hire three financial advisors for three PSEs in the capital market transactions list and three financial advisors for the three PSEs in the strategic private sector enterprises list for privatization in the TMU.
		— Initiate revenue-based load shedding in six remaining electricity distribution companies.
		▼ Conduct a diagnostic study of the regulatory framework of the power sector and prepare an interim report.
		— Enforce performance through setting quarterly loss-reduction, collection, and recovery targets (as defined in the TMU) consistent with our arrears reduction plan for each DISCO.
		— Complete the bidding process for shares of FESCO.
		— Obtain parliamentary approval for amendments to the PIA Act.
		▼ Update the plan to further limit the accumulation of new payables and gradually eliminate the outstanding stock of payables arrears in the power sector.
		▼ Solicit expressions of interest for the divestment of Kot Addu Power Company (KAPCO).
Other Structural	Private sector environment	▼ Develop a new time-bound plan with specific measures to significantly improve the business climate.

Status	Met	Met with delay or after rephasing	Partially met, or met after modification	Not met (or cancelled)	Not assessed
Depth	▲ High	— Medium	▼ Low		

Table 6. Pakistan: 2019–23 EFF Prior Actions

Central Bank	Central Bank Law Reforms	▲ Submission to parliament of the amendments to the State Bank of Pakistan Act in consultation with IMF staff.
		▲ Adoption by parliament, and signed into law by the President, of the amendments to the State Bank of Pakistan Act, prepared in consultation with the IMF staff, aimed at strengthening the SBP independence, decision making structure, and mandate.
	Exchange rate policy	▲ Move to a flexible, market-determined exchange rate by (i) announcing that the SBP moves to a flexible market-determined exchange rate with a focus on price stability and interventions are limited to safeguarding financial stability and preventing disorderly market conditions (DMC) and (ii) tightening the monetary stance by 150 bps.
Fiscal	Budget Legislation	— Adopt by parliament the FY 2020 budget consistent with program targets.
		— FY23 budget . Parliamentary approval of a FY23 budget, including a personal income tax reform and in line with IMF staff agreement to meet program targets.
	Central-Provincial Coordination	— Provincial budgets . Signature by the federal and provincial governments of Memoranda of Understanding (MoUs) on provincial fiscal targets consistent with the FY23 budget.
		— Reach formal public agreement between the federal and provincial governments on the fiscal targets consistent with the program.
	Fiscal Structural	▲ Adoption by parliament of a CIT reform in consultation with IMF staff to simplify the tax system and meet program targets.
	Fiscal Transparency	▼ Publication of key information on all COVID-related awarded procurement contracts on the Public Procurement Regulatory Authority's website.
		▼ Auditor General of Pakistan will conduct an ex-post audit of the procurement of COVID-related supplies and social payments made during FY 2020. The full audit report will be published on the website of the Ministry of Finance.
	Revenue Measures	— Petroleum development levy on gasoline and diesel raised by PRs 8/liter.
		— Relief package reversal. (i) Elimination of post-tax fuel subsidies and the PRs 5/kwh blanket power subsidy by end-June 2022; (ii) increase in the petroleum development levy (PDL) on petrol by PRs 10/liter and on diesel by PRs 5/liter on July 1 2022; (iii) increase in the PDL on petrol by PRs 10/liter and on diesel by PRs 5/liter on August 1, 2022; and (iv) we commit to implement monthly PDL increases of PRs 10/liter for petrol and PRs 5/liter for diesel on September 1, 2022, followed by increases of PRs 5/liter per month for both fuels until the PDL reaches PRs 50/liter in January 2023 (petrol) and April 2023 (diesel).
	Revenue/expenditure measures	▲ National assembly adoption of a supplementary finance bill (GST reform), which the President signs into law, in line with staff agreement together with supporting measures (published list of expected guarantees).
Public Enterprises	Energy Pricing	— Adopt a package of measures in the energy sector: (i) Implement a quarterly automatic tariff adjustment in the electricity sector by about 10 percent to generate Rs 150 billion in additional revenues and (ii) notify by government the FY 2020 gas tariff adjustment as proposed by the regulator to become effective on July 1st, 2019.
		— Notification of Q1 FY 2020 electricity tariff adjustment for capacity payments
		— Electricity prices: Implementation of the first stage of the FY 2021 annual rebasing (AR) of 1.95 PRs/kWh and notification of the FY 2020 Q2 and Q3 quarterly tariff adjustments (QTAs) of 1.62 PRs/kWh; accompanied by first energy subsidy reform steps aimed at reducing the regressive nature of the tariff structure.
		— Power price catch-up. Implementation of: (i) the first-stage increase related to the combined FYs22–23 annual rebasing (AR) (PRs 3.50/kwh) and full subsidy reform markup (PRs 0.20/kwh) on July 25, 2022; (ii) second-stage AR FYs22–23 increase (PRs 3.50/kwh) on August 1, 2022; and (iii) cabinet approval of the implementation of the third-stage AR FYs22–23 increase on October 1, 2022 (PRs 0.91/kwh).
		— Approval by the Cabinet of an updated Circular Debt Management Plan (CDMP) in line with international partners' advice.
		▲ Adoption by parliament of the amendments of the NEPRA Act.

Status	Met	Not Met	
Depth	▲ High	— Medium	▼ Low

Table 7. Pakistan: 2019–23 EFF Structural Benchmarks

Central Bank	Central Bank operations and reforms	▲ Submit to parliament, in consultation with IMF staff, amendments to the State Bank of Pakistan Act to address all recommendations of the new 2019 Safeguards Assessment Report and the 2016 Technical Assistance Report on Central Bank Law Reform (MEFP para. 14)
		▼ Preparation of a plan by Ministry of Finance and State Bank of Pakistan, in consultation with other stakeholders, to establish an appropriate Development Finance Institution to support the eventual phasing out of SBP refinance facilities.
Financial Sector	Financial sector	▼ Adoption of a comprehensive strategy to address high levels of NPLs in some banks, including by requiring bank-specific plans for reducing NPLs, and to write-off of fully provisioned NPLs.
		— Initiate orderly liquidation (resolution) of either or both of the two currently undercapitalized private sector banks by end-May 2023 should that they remain undercapitalized at that point.
	Legal reforms, regulation, and supervision	▲ Submission to Cabinet of amendments to align Pakistan's early intervention, bank resolution, and crisis management arrangements with international good practices, in line with IMF staff recommendations
	Restructuring and privatization of financial institutions	— Completion of the first stage recapitalization of the two private sector banks that are undercapitalized.
Fiscal	Revenue measures	▲ Preparation of draft personal income tax (PIT) legislation.
	Revenue administration	▼ Issue licenses for the track-and-trace system for excises on cigarettes
		▲ Ministry of Finance will establish and make functional the TSA-1
		— Reintroduce and roll out the track-and-trace systems for tobacco products
	Expenditure auditing, accounting, and financial controls	▼ Operationalization of a Central Monitoring Unit (CMU) within the Ministry of Finance.
	Fiscal transparency	▼ Presentation of the federal government mid-year budget review report to the National Assembly in line with the PFM Act
		▼ Publication of awarded Covid-spending related contracts and beneficial ownership information of bidding and awarded legal persons in a centralized and publicly accessible website.
		▼ Auditor General of Pakistan will conduct an ex-post audit of the procurement of urgently needed medical supplies related to Covid-19. Audits results will be published on the website of the Ministry of Finance.
		— Issuance of regulations by the Public Procurement Regulatory Authority to require collection for publication of beneficial ownership information from companies which are awarded public procurement contracts for PRs 50 million and above.
Governance	Financial sector	▲ Improve towards a substantial level the effectiveness in addressing terrorism financing consistent with FATF Immediate Outcomes 9 and 10
		▲ Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force list of jurisdictions with serious deficiencies
	Anti-corruption legislation/policy	— Establish a robust asset declaration system with a focus on high-level public officials
		▼ Publication of a comprehensive review of the anticorruption institutional framework (including the National Accountability Bureau) by a task force with participation and inputs from reputable independent experts with international experience and civil society organizations.
Public Enterprises	Energy pricing	— Completion of the FY 2021 annual rebasing (AR)
		— Reduction in CPPA-G payables to power producers through a payment up to PRs 180 billion with no more than 1/3 in cash and the remainder in debt instruments.
		— Notify the FY 2020 electricity tariff schedule as determined by the regulator
		▼ Prepare a comprehensive circular debt reduction plan in collaboration with international partners (para. 19 MEFP)
		▼ Notification of Q2 FY 2020 electricity tariff adjustment for capacity payments
		▲ Submit to parliament amendments to the NEPRA Act to (i) give the regulator the power to determine and notify quarterly tariffs; (ii) ensure timely submissions of quarterly and annual petitions by the DISCOs; (iii) eliminate the gap between the regular annual tariff determination and notification by the government; (iv) reinstate the power of the government to levy surcharges over and above the system's revenue requirements under the NEPRA Act.
		▲ Adoption by parliament of amendments to the OGRA Act

Table 7. Pakistan: 2019–23 EFF Structural Benchmarks (concluded)

		▲ Finalization of the energy cross-subsidy reform for the FY 2022 budget
		▼ Notification of FY 2020 Q4 electricity tariff adjustment for capacity payments
		— Cabinet decision on the second step of the energy subsidy reform for residential consumers.
		— Finalization of the combined annual rebasing (AR) for FY22 and FY23 to take effect on October 1, 2022.
		— Submission to NEPRA of petitions for the (i) FY23-July FPA by end-August; and (ii) FY23-Q1 QTA by end-October which will ensure full recovery of the revenue requirement (including lost revenue from the delayed first-stage Annual Rebasing FYs22-23 in July 2022) within FY23Q2.
	Public enterprise reform and restructuring	▲ Submit to Parliament a new State-Owned Enterprise law to improve governance and transparency in line with IMF recommendations
		▼ Conduct and publish external audit of the Utility Stores Corporation based on FY 2020 financials.
		▼ Conduct and publish new audits by reputable international auditors of Pakistan International Airlines and Pakistan Steel Mills
		— Conduct a triage of all SOEs, dividing them into companies to (i) maintain under state management; (ii) privatize; or (iii) liquidate
		▲ Parliamentary approval of new SOE law in line with staff recommendations.
Social Safety Nets	Other structural measures	▼ Finalize BISP's banking contracts and launch financial inclusion strategy for women
		— Update the benefit structure of Waseela-e-Taleem (WeT) to narrow the educational gender gap
		— Targeted increase of the BISP Kafalat beneficiary base to 9 million families using the NSER.
		▼ Finalize the update of the BISP beneficiaries' database (National Socio-Economic Registry)

Status	Met	Met with delay or after rephasing	Partially met, or met after modification	Not met (or cancelled)	Not assessed
Depth	▲ High	— Medium	▼ Low		

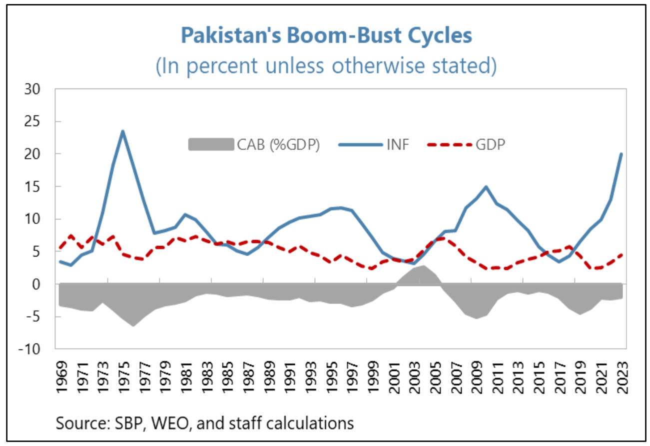
Table 8. Pakistan: 2023–24 SBA Prior Actions		
Central Bank	Exchange rate policy	— Withdrawal of the circular on prioritization in providing for certain types of imports introduced in December 2022, with the purpose of ensuring full market determination of the exchange rate.
Fiscal	Budget Legislation	— Parliamentary approval of a FY24 budget in line with IMF staff agreement to meet program targets.

Status	Met	Not Met	
Depth	▲ High	— Medium	▼ Low

Table 9. Pakistan: 2023–24 SBA Structural Benchmarks		
Central Bank	Financial controls	▼ Develop a plan to strengthen internal control systems in lending operations, including updates to collateral policy and counterparty eligibility policy, in line with recommendations from the 2023 Safeguards Assessment
Economic Statistics	Economic statistics	▼ Compilation and dissemination of Quarterly National Accounts for FY24Q1 and revised annual estimates for FY23
Financial Sector	Financial sector legal reforms	▲ 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.
Fiscal	Climate	▼ Cabinet adoption of a Climate-PIMA and PIMA action plan
Public Enterprises	Energy Pricing	— Notification of the annual rebasing (AR) for FY24 to take effect on July 1, 2023
		— Notification of the December 2023 semiannual gas tariff adjustment determination
	Public enterprise reform and restructuring	▼ 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.
		▲ Improve state-owned enterprises (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
Social Safety Nets	Other structural measures	— Inflation adjustment of the unconditional cash transfer (Kafaalat).

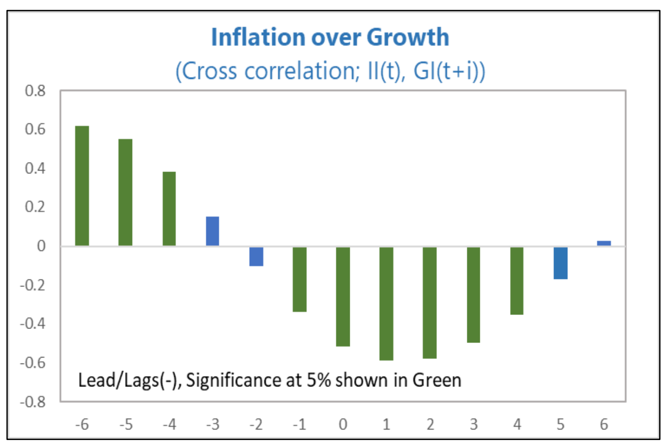
Status	Met	Met with delay or after rephasing	Partially met, or met after modification	Not met (or cancelled)	Not assessed
Depth	▲ High	— Medium	▼ Low		

Annex VI. From Boom-Bust to Stabilization: Monetary Policy and Business Cycles in Pakistan[1]



1. **Over past decades, Pakistan has faced a series of boom-bust cycles with recurrent balance of payment crises.** These cycles disrupt economic growth, undermine confidence, and adversely affect people's living standards. Understanding the role of monetary policy in these cycles can help develop strategies to achieve economic stability. This annex investigates the association between monetary stimulus, growth, and inflation. To examine the impact of discretionary monetary policy on inflation and growth cycles, we follow the indicators in Hayat and others (2016).[2]

2. **The analysis utilizes a Discretion policy Indicator (DI), which represents low frequency movements extracted from broad money (M2) through Hodrick-Prescott filter**. DI measures the use of monetary discretion by the central bank to stabilize money supply for the achievement of a desired path in inflation and growth, excluding unpredictable exogenous shocks to M2. Hayat and Hanif (2020) have shown that DI remains key in assessing the impact of monetary policy on inflation and economic activity both before and after the adoption of the policy rate as the monetary policy instrument.[3]



3. **The relationships can be seen from the cross-correlations across the main indicators: DI and the corresponding movements in inflation (II) and growth (GI).** The results imply that discretionary monetary policy induces boom-bust inflation cycles and significantly hinders economic growth. The cross-correlations between DI-II, DI-GI, and II-GI suggest that (i) a discretionary M2 impulse (DI) is associated with higher inflation; while (ii) low-frequency movements in M2 (DI) are not associated with low-frequency growth directly

[1] Prepared by Zafar Hayat.

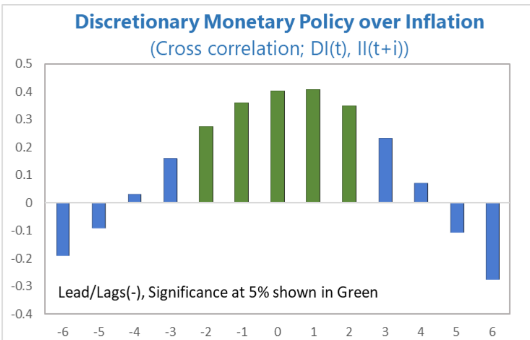
[2] Hayat Z., F. Balli, J. Obben, S. Shakur, 2016, "An Empirical Assessment of Monetary Discretion: The Case of Pakistan," Journal of Policy Modeling 38 (5), 954–970.

[3] Hayat, Z., M. N. Hanif, 2020, "Assessing the Role of Money versus Interest Rate in Pakistan," The Pakistan Development Review 59 (1), 101–114.

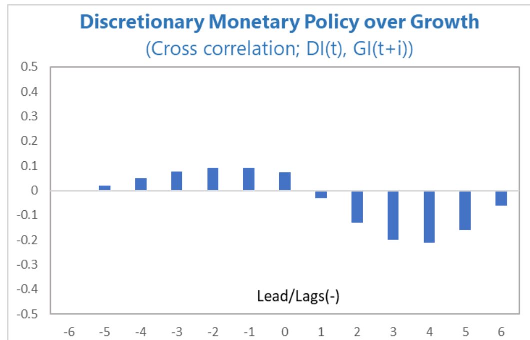
(money is neutral); and (iii) the associated inflationary pressures (II) are detrimental to growth (GI). These findings underscore the merits of strengthening the role rules play in the monetary policy framework.

The Effects of Discretionary Monetary Policy on Inflation and Growth

Discretionary monetary policy broadly coincides with inflation



Discretionary monetary policy is growth-neutral



Source: Staff calculations. The charts show the cross correlations over 1961-2023 between DI-II and DI-GI indicators. Significance at 5 percent shown in green.

Annex VII. Data Issues

Table 1. Pakistan: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/
C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	B	B	B	B

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	C	B	C	B	B	
Granularity 3/	C		D	B	B	
			A		A	
Consistency			C	B		B
Frequency and Timeliness	A	A	A	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. In most areas, data provided to the Fund is broadly adequate for surveillance, but there are weaknesses in the National Accounts (NA) and Government Finance Statistics (GFS) that somewhat hamper surveillance. Despite important steps since the last Article IV, NA shortcomings include: (i) reliance on intra-census growth rates to estimate/extrapolate sectors accounting for around a third of GDP; (ii) limited availability of source data for GDP by expenditure; (iii) the absence of income-side estimates. The most significant GFS issues are the lack of: (i) a proper economic classification of spending; (ii) granularity on revenues/expenditure of the provinces and autonomous institutions; (iii) consistency between above- and below-the-line measures of the fiscal deficit. Data on prices is relatively comprehensive and published at a high frequency, though the CPI weights (from FY15/16) are somewhat dated. External Sector data is broadly adequate, though estimates of informal flows are not available and further granularity of non-government/financial sector stocks/flows would be useful. Monetary and financial statistics provide good coverage of the banking sector, despite some shortcomings related to banks' net FX positions.

Changes since the last Article IV consultation. Improvements to the National Accounts since the last Article IV have provided a better basis for assessing economic trends in Pakistan over the last two decades, and for more timely/frequent assessments of recent developments. These include completion by the PBS of a rebasing of the national accounts to fiscal year 2015/16 in January 2022, publication of revised annual estimates for FYs 1999/2000 – 2020/21 in June 2023, and the publication of the first quarterly national accounts in November 2023, with backward estimates through FY 2015/16.

Corrective actions and capacity development priorities. Current priorities are in 3 areas: (i) Producer Prices, where Fund TA is supporting development of a new PPI index to support more accurate estimation of GDP volumes, with a view to developing an initial PPI framework by October 2026; (ii) Collecting additional and more regular source data for the National Accounts ahead of the planned 2025/26 rebasing; the PBS will begin fieldwork for four major surveys (including the Agricultural Survey, Labor Force Survey and Household Integrated Economic Survey) in July and intends to use the quarterly data from these surveys to reduce the reliance on extrapolation in the National Accounts. Results of the 7th Agriculture Census will be available for dissemination by August 2025; (iii) Government Finance Statistics, to address gaps in granularity and reliability, and move to GFSM 2014 (a Fund TA mission is planned for July 2024).

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data and/or estimates different from official statistics.

Other data gaps. The last published Labor Force Survey is for FY2020/21, which hampers staff's ability to assess more recent labor market developments, though fieldwork for a new survey will begin in July 2024.

Table 2. Pakistan: Data Standards Initiatives

Pakistan participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since January 2019.

Table 3. Pakistan: Table of Common Indicators Required for Surveillance
As of July 18, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Pakistan[8]	Expected Timeliness[6,7]	Pakistan[8]
Exchange Rates	15-Jul-24	18-Jul-24	D	D	D	M	...	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	15-Jul-24	18-Jul-24	D	D	M	M	1M	2W
Reserve/Base Money	28-Jun-24	18-Jul-24	W and M	W and M	M	M	2M	1M
Broad Money	28-Jun-24	18-Jul-24	W and M	W and M	M	M	1Q	1M
Central Bank Balance Sheet	31-May-24	24-Jun-24	W and M	W and M	M	M	2M	1M
Consolidated Balance Sheet of the Banking System	May-24	24-Jun-24	M	M	M	M	1Q	1M
Interest Rates[2]	18-Jul-24	18-Jul-24	2W	2W	M	M	...	1M
Consumer Price Index	Jun-24	1-Jul-24	M	M	M	M	2M	1W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	May-24	28-Jun-24	M	M	A	Q	3Q	2M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	May-24	28-Jun-24	M	M	Q	Q	1Q	2M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-24	15-May-24	Q	Q	Q	Q	2Q	2M
External Current Account Balance	May-24	21-Jun-24	M	M	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	May-24	21-Jun-24	M	M	M	M	12W	2M
GDP/GNP	Mar-24	21-May-24	Q	Q	Q	A	1Q	11M
Gross External Debt	Mar-24	15-May-24	Q	Q	Q	Q	2Q	1Q
International Investment Position	Mar-24	12-Jul-24	Q	Q	A	Q	3Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Appendix I. Letter of Intent

Islamabad, September 11, 2024

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

Dear Ms. Georgieva:

1. Thanks to our policy efforts supported by a Stand-By Arrangement that concluded on April 29, 2024, we have been successful in restoring macroeconomic stability despite the challenging global environment. These included strong measures to achieve a 0.9 percent of GDP primary surplus in FY24 (Pakistan's first primary surplus in 20 years), while protecting an adequate level of social protection expenditure; a consistently tight monetary policy stance to bring inflation down to more moderate levels; progress toward a fully-functioning FX market and a flexible exchange rate to buffer against external shocks; a doubling of international reserves; maintenance of financial sector stability; sizeable electricity and gas tariff increases to prevent further fiscal liabilities; and the completion of our SOE corporate governance framework. Growth, in turn, has rebounded and inflation, while still elevated, is on a downward trend.

2. Despite these achievements, Pakistan still faces large challenges. The economy remains highly vulnerable to external and domestic shocks, and shortfalls in external financing or policy weakening could jeopardize prospects for continued stability and sustainability. More broadly, structural deficiencies – including distortions created by the large role of the state in the economy and insufficient investment in physical and human capital – have left Pakistan with relatively low productivity and living standards, a weak export sector, and highly vulnerable to shocks.

3. We are firmly convinced that it is now time to capitalize on the hard-won restoration of macroeconomic stability achieved over the past year by introducing deep structural and institutional reforms, which are needed to break away from past boom-bust cycles and set Pakistan on a path toward long-term sustainable and inclusive growth. To this end, we have developed a comprehensive program, which is fully supported by all provincial governments, and is based on policy efforts to strengthen public finances, reduce inflation, and advance reforms to reduce the role of the state, improve governance and public services, and spur private sector-led growth. In particular, key targets of our program include:

- increase tax revenues by 3 percentage points of GDP over the program, including through greater provincial effort, to further drive fiscal consolidation, lock in debt sustainability, and create the space needed to expand the generosity and scope of our social safety net and rebuild education and health spending;

- tight monetary policy to re-anchor inflation expectations to continue the management of inflation down toward our target while cementing FX flexibility, continuing to rebuild international reserves, and maintaining financial stability;

- continue timely implementation of energy tariff adjustments to minimize fiscal risks while promptly implementing fundamental cost-reducing reforms to restore the sector's viability;

- fully implementing our SOE governance framework across all SOEs, enhancing the Sovereign Wealth Fund's governance, advancing other governance and anti-corruption reforms, gradually relaxing trade barriers, and adopting policies to build climate resilience.

4. We are resolved to timely implementation of our program, and have already implemented several measures, including (i) the adoption of the FY 2025 budget, which targets an underlying 1.0 percent primary surplus (2.0 percent in headline terms) driven by revenue improvements while enhancing social protection and human capital expenditure; and (ii) increased electricity and gas tariffs to prevent any further accumulation of circular debt and minimize fiscal risks.

5. To support our program we request a 37-month arrangement under the Fund's Extended Fund Facility (EFF) in the amount equivalent to SDR 5,320 million (equivalent to 261.9 percent of Pakistan's quota, or about US$7 billion at current exchange rates). The arrangement under the EFF will provide needed external financing and signal our commitment to implement sound policies, in turn bolstering market confidence and catalyzing additional support from development and bilateral partners. Our primary official and bilateral donors have already announced significant financial commitments in this regard.

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

Sincerely yours,

/s/	/s/
Muhammad Aurangzeb	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. Background

1. Pakistan's economy has regained a measure of stability following a very difficult juncture. The 2023–24 SBA, initiated at a challenging point for the Pakistani economy, succeeded in meeting its narrow objectives of regaining macroeconomic stabilization and restarting the reform agenda.

B. Recent Economic Developments and Outlook

2. The gradual economic rebound continued through the end of the fiscal year, as external conditions stabilized, and disinflation accelerated. Economic activity has picked up following the contraction in FY23, with real GDP growing by 2.4 percent according to the provisional FY24 estimate published by the Pakistan Bureau of Statistics (PBS), driven by a strong rebound of agricultural output. Headline inflation has also declined markedly in recent months, reaching 12.6 percent (yoy) in June, helped by lower food prices and declining core inflation, to 12.2 and 17.0 percent (yoy) in urban and rural areas, respectively. On the external front, gross reserves have increased to US$9.4 billion at end-June 2024 from US$4.4 billion in June 2023, supported by the resumption of official inflows and substantial SBP purchases, as the current account has remained contained.

3. Reflecting recent developments and agreed-upon policies geared to addressing Pakistan's key challenges, we see the following baseline macroeconomic scenario:

- ***Real GDP growth*** is expected to increase to around 3 percent in FY25, as the recovery broadens to the industrial and services sector, supported by gradually improving financial conditions and confidence and subdued global commodity prices. Over the medium-term, the implementation of economic policies geared to entrenching macroeconomic stability, boosting external competitiveness, and improving the private sector business sector environment will support a gradual growth pickup to 4½ percent, bolstered by increased investment and exports.
- ***Headline CPI inflation***. After declining rapidly in early 2024, headline and core inflation are expected to continue to moderate in coming months. Appropriately tight monetary policy, continued fiscal consolidation, and the subdued commodity price outlook should help sustain disinflation in FY25–26, with inflation falling into the SBP's 5–7 percent target range during FY26.
- ***The current account*** has improved in recent months, reaching US$ -464 million in July–May FY24, as remittances have increased while the trade balance has remained broadly stable. For FY24, the current account deficit is projected at 0.1 percent of GDP, but it is expected to increase to close to 1 percent of GDP in FY25, and to remain at around this level over the medium term.

4. Risks to the baseline remain very high. We recognize that implementation delays or backtracking on crucial policy and structural reforms (particularly on exchange rate policy, tax reforms and the energy sector) would compromise the improving growth outlook, impede the rebuilding of reserves, and jeopardize debt and external sustainability. Fiscal slippages would further increase already excessive pressures on domestic banks to finance the government and endanger the return to macroeconomic stability. Delays to financing from multilateral and bilateral partners would put pressure on reserves and the exchange rate and could cause an adverse shift in market sentiment. External conditions could be strained by an intensification of geopolitical conflicts, resurgent commodity prices, and a further tightening in global financial conditions.

C. Economic Program

Fiscal Policy

3. **Our fiscal strategy will focus on significantly increasing revenue to ensure debt sustainability and support human capital development and social protection**. Continuing the fiscal consolidation that commenced in FY24, which delivered a primary fiscal surplus of 0.9 percent of GDP, our fiscal program aims to bring our primary surplus to 2.0 percent of GDP by FY27 and steadily reduce debt to under 60 percent of GDP by 2029, while creating the fiscal space for much-needed priority spending on health, education, infrastructure, and targeted programs for social protection. Given Pakistan's low tax to GDP ratio, our fiscal consolidation strategy will be primarily revenue-based, designed to achieve an increase in net tax revenues by 3 percent of GDP (after allowing for some reduction in distortionary trade and indirect taxation), bringing tax revenue to 13.7 percent of GDP, and a primary fiscal surplus of 2.0 percent of GDP during the program period.

4. **The FY25 budget is a critical initial step in advancing our fiscal consolidation efforts**. The budget targets an underlying primary surplus of PRs 1,177 billion (1.0 percent of GDP) was passed on June 28, 2024.[1] Salient measures aim at:

a. ***Boosting federal revenue collection by PRs 1,723 billion***, especially by:

   i. *Enhancing direct taxes*. We aim to increase the yield of direct taxes by PRs 240 billion by (i) raising the withholding tax collected by manufacturers from distributors and wholesalers from 0.2 percent to 0.5 percent; and collected by manufacturers, dealers, and wholesalers from retailers from 1 percent to 1.5 percent for non-filers under the provisions of advance tax collection at source; , (ii) expanding the scope of tax collection at source specified in (i) to all sectors; (iii) increasing the withholding tax under sections 236C and 236K in progressive slabs according to value of property, as follows: up to 50 million, 50 to 100 million, and more than 100 million - ATL 3 , 3.5, 4 percent, respectively; and non-ATL 10 percent for section 236C and 12 percent, 16 percent, and 20 percent for 236K. Rates for late filers will be 3 percentage points higher than for regular timely filers; (iv) applying division 1 of part 1 of the first schedule slab rates on capital gains from immovable property and securities purchased from July 1, 2024 for non-filers (minimum

[1] The underlying primary surplus is the primary surplus net of SBP windfall profit transfers (transfers exceeding the projected medium-term transfers of 1 percent of GDP).

rate of 15 percent) and 15 percent for filers; (v) transforming the withholding taxes on new motor vehicle registration to an ad-valorem tax; (vi) eliminating the 1 percent concessional rate under section 153.1.a on distributors of cigarettes and pharmaceuticals; (vii) increasing income tax on dividend income from mutual funds from 15 percent to up to 25 percent; (viii) capping the exemption granted by a commissioner to 80 percent of the corresponding withholding tax; (ix) capping the deduction for advertising expenses on brands allocated to associates, where royalty for those brands is also paid to the associate, to 75 percent of the total value; and (x) modifying the income tax calculation method for developers and builders by calculating the tax base as 10, 15 and 12 percent of turnover for builders, developers, and person undertaking activities of both builders and developers respectively.

ii. *Increasing revenue from the personal income tax (PIT) and corporate income tax (CIT)*. We aim to increase the PIT and CIT yield by PRs 357 billion by: (i) rationalizing the tax rates for individuals and reducing the number of rate slabs to five for salary (SI) and non-salary (NSI) individuals; (ii) for the NSI, we will increase the rate for the high income slab (earners above PRs 5.6 million) to 45 percent; (iii) for the SI, we will lower the upper-threshold for the fifth slab to an annual income of PRs 4.1 million (iv) amending Chapter III of the ITO (Part IX and X), to eliminate exemption on subsidies given by the Federal Government; and (v) bringing exporters into the regular tax regime.

iii. *Transforming the sales tax (GST)*. We aim to increase the GST yield by PRs 286 billion in revenue by streamlining our tax system. We will tax most goods at the standard rate. Only certain education, health, and agricultural input products will be taxed at reduced rates of 5 and 10 percent. Exemptions will be retained only for essential food, health items, products acquired by charitable hospitals (excluding donations from individuals and companies), textbooks, POL, fertilizers and pesticides as well as those in compliance with international and bilateral agreements. We have terminated the Exporters Facilitation Scheme, and exporters will now use the credit tax regime to claim VAT credits on locally purchased inputs.

iv. Improving *revenue administration*. We expect to realize the initial yields from our efforts to improve compliance and expand the tax net through the different revenue administration measures in place (see below). We anticipate yields of PRs 250 billion, including the revenue collection from the nascent retailers' scheme.

v. *Expanding FED coverage and rate enhancement*. We aim to increase our yields from the Federal Excise Duty (FED) by PRs 413 billion. This will be achieved by (i) introducing a FED on the first sale of property, that will work under the VAT system, and tax credits will be allowed; (ii) increasing the FED on cement from PRs 2 per kilogram to PRs 4 per kilogram, (iii) introducing a PRs 44 per gram FED on acetate tow; (iv) introducing a PRs 15 per kilogram FED on sugar to manufacturers; (v) increasing the FED on economy class tickets from PRs 5,000 (set in 2014) to PRs 12,500, while excluding PRs 7,500 for flights taken by laborers with final destinations in any of the GCC states; (vi) increasing the FED on business and first class tickets by 40 percent; and (vii) introducing an FED of 5 percent on lubricants We will apply the same rate of excise on locally manufactured cigarettes (both tier-I and tier-II brands), regardless of whether the manufacturer is local or foreign, and we will tax e-cigarettes and nicotine pouches in a similar way to imported cigarettes. For the FY26 budget, we will introduce a 5 percent increase in the FED on fertilizer and a 5 percent FED rate on pesticide (**end-June 2025 structural benchmark**).

vi. *Rationalizing tariffs and eliminating concessions on customs duty, additional customs duty, and regulatory duty*. We aim to increase our revenue by PRs 65 billion by withdrawing exemptions and concessionary rates for the import of: (i) home appliances; (ii) fresh and dry fruits except apples from Afghanistan; (iii) ground nuts, margarine, silver cans, lollipop sticks for the food and confectionary sector; (iv) electric vehicles with value exceeding US$50,000; and (v) other items in accordance with the recommendations of the Tariff Policy Board.

vii. Other miscellaneous *measures to improve compliance through tax policy*. We aim to increase our revenue by PRs 157 billion through the following measures: (i) setting a minimum import value for specific items, for collection of the withholding tax and the GST, and converting the withholding tax into a minimum tax ; (ii) introducing a withholding regime to prevent fake and fraudulent invoices; (iii) improving the cross-adjustment system of the sales tax with the provinces; (iv) enhancing the cross-adjustment mechanism for sales tax with the provinces; and (v) reevaluating the property valuation tables to align them with market rates.

viii. *Payment of GST credit claims to companies commercializing POL products:* Currently, outstanding arrears amount to PRs 80 billion, which will be cleared within this fiscal year. The Finance Division will transfer PRs 35 billion to partially cover the payment.

ix. There will be no income tax exemption on income from livestock activities.

b. ***Improving information sharing***, particularly the Federal Board of Revenue (FBR) sharing all requested information specified under MOUs with the revenue authorities of each of the four provinces, including on Agriculture Income Tax (AIT) and GST services credits claims, in a timely manner, ensuring a delay of no more than one week.

c. ***Provincial tax reforms***. The four provinces have agreed to amend their AIT regimes to fully align them, through necessary legislative changes, with federal personal income (small farmers) and corporate income (commercial agriculture) tax regimes by **end-October 2024 (structural benchmark)**. Each province will begin taxation of agricultural income under this new regime from January 1, 2025, with collection for second half of FY25 agricultural income in July 2025. The FBR shall provide necessary technical assistance that any province needs in this regard to implement and assess this tax. This alignment of income tax regimes will increase the fairness of the tax system as income from agriculture will be taxed in the same way as other income. The provinces have agreed to transition the services GST from a positive list to a negative list approach to combat tax evasion to take effect from the start of FY26. This strategic shift aims to enhance transparency and reduce loopholes by ensuring that all items not explicitly exempted are subject to taxation.

d. ***Containing non-priority spending, while protecting social spending,*** especially by (i) allowing base public wages and pensions to grow in line with the average of the last two years' CPI inflation, although we will ensure that the public wage and pension bill as a percentage of GDP will not increase; (ii) increasing the generosity level of the BISP unconditional cash transfer (UCT) Kafaalat program in FY25 (see below); (iii) limiting the growth of the budgeted energy subsidies to no more than the GDP growth (see below); (iv) creating fiscal room to boost provincial education and health expenditure, including through social assistance programs (see below). We have also established a committee, chaired by the Finance Minister, which will prepare a report on actionable items to reduce the footprint of the federal government in line with the 18th amendment (**end-September 2024 structural benchmark**). Furthermore, to adequately safeguard against potential fiscal risks, the federal government will allocate emergency contingency funds totaling 0.3 percent of GDP, equivalent to PRs 348 billion. Provincial governments agreed to work towards allocating 1 percent of their expenditures for emergency contingencies as well in FY26.

e. ***Contingent revenue measures***. Should the 3-month rolling average revenue collection fall short of the projected target by 1 percent, in consultation with IMF staff, we will evaluate the adoption of one or more of the following contingency measures: (i) increase advance income tax on import of machinery by 1 percentage point, expected collection of PRs 2 billion per month; (ii) increase advance income tax on import of raw materials by industrial undertakings by 1 percentage point, expected collection of PRs 3.5 billion per month; (iii) increase advance income tax on import of raw materials by commercial importers by 1 percentage point, expected collection of PRs 1 billion per month; (iv) increase withholding tax on supplies by 1 percentage, expected collection of PRs 1 billion per month; (v) increase withholding tax on services by 1 percentage point, expected collection of PRs 0.5 billion per month; (vi) increase withholding tax on contracts by 1 percentage point, expected collection of PRs 0.5 billion per month; and (vii) increase FED on aerated and sugary drinks by 5 percentage point, expected collection PRs 2.3 billion per month.

f. ***Prudent use of the SBP dividends windfall***. In line with our commitment to improving the primary balance, we will wisely utilize the windfall from SBP dividends exceeding 1.0 percent of GDP to cover interest payments and reduce credit requirements, allowing us to mitigate the crowding out of the internal market and fostering a more balanced and sustainable economic environment.

5. **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 FY25, except in cases of severe natural disasters. Furthermore, we commit to seek ex-ante approval from the National Assembly for any expenditures exceeding the budget appropriation ***(continuous structural benchmark)*** (ii) our commitment not to launch any new tax amnesties or to issue any new preferential tax treatment (including exemptions, zero rating, tax credits, accelerated depreciation allowances, or special rate) in FY25 including through the budget or Statutory Regulatory Orders (SRO) ***(continuous structural benchmark)***; (iii) our signature of MoUs with each province on their commitment to achieving an end-FY25 fiscal position consistent with the FY25 general government headline primary balance goal of PRs 2,435 billion and their commitment to increase own revenue mobilization; (iv) our continuing focus on critically urgent energy sector policies, outlined below; (v) our commitment not to introduce any fuel subsidy, or cross-subsidy scheme, in FY25 and beyond.

6. Beyond FY25, we will continue our efforts to build up tax revenues to ensure viability and greater fiscal space for development needs. We aim to increase our tax to GDP ratio to 13.7 percent while achieving a primary surplus of 2.0 percent of GDP by FY28. Given Pakistan's low tax to GDP ratio, our fiscal consolidation strategy will be primarily revenue-based, designed to achieve a net 3 percentage points of GDP increase in tax revenues by the end of the program. While some tax rate increases might be unavoidable, the tax policy and administration strategy will focus on bringing in the tax net the under-tax sectors and bridge the compliance gap. The specific measures include:

a. ***Tax Policy reforms aimed at simplifying collection and broadening the tax base***. In the next three years, we will intensify our efforts to simplify our tax policy. We will start by enhancing our Annual Tax Expenditure Report with a chapter dedicated to evaluating the costs and benefits of tax incentives. This review will enable us to assess current tax credits and exemptions under the Income Tax Ordinance (ITO), repealing those whose costs outweigh their benefits and ensuring that any new concessions are grounded in a thorough cost-benefit assessment. In line with our commitment to transforming direct taxation, we plan to amend the ITO to ensure equitable taxation of all income sources. Additionally, we will repeal the remaining exemptions for donations and non-profit organizations in the Second Schedule of the ITO, making them eligible for tax credits instead. To pave the way for a more efficient and straightforward sales tax system, we will introduce a single turnover-based registration threshold for all businesses by FY27. Businesses exceeding this threshold will be required to register for both income tax and sales tax. We will continue to streamline the GST. In FY26 we aim to establish a unified reduced rate, therefore we plan to reclassify all products that will be taxed in FY25 from 5 percent GST to the 10 percent category. Lastly, we will persist in our efforts to transform the GST into a broad-based VAT.

b. ***Revenue administration reforms aimed to collect taxes broadly and fairly***. We will pursue the full implementation of the compliance risk management measures in Large Taxpayers Units (LTU) in Islamabad, Karachi, and Lahore Regional offices by **December 31, 2024** (***structural benchmark***). We will continue to strengthen our compliance efforts with the ultimate goal of implementing an automated CRM system. As the first step, we will integrate all data shared by the 145 agencies under the Memoranda of Understanding (MOUs) signed in accordance with the documentation law, by no later than December 2024. Furthermore, we will pursue the continued implementation of the Compliance Improvement Plan (CIP) and expansion of the recently launched *Tajir Doost* scheme to an additional 36 cities, bringing the total number of cities covered by the scheme to 42, to continue our efforts to bring the service sector into the tax net. A Statutory Regulatory Order (SRO) to extend the scheme to these 36 cities will be issued no later than July 2024, with mandatory collection starting in FY25Q1. We will continue the implementation of digital invoicing, track-and-trace, along with stringent control and heighted enforcement to reduce the fraud and tax evasion. To enhance our track-and-trace system, we will amend the protocol to incorporate aggregation. This improvement will facilitate comprehensive monitoring at each stage of the process and throughout the entire supply chain. To equip the FBR with additional tools to improve tax compliance, we will review Pakistan's tax penalty regime across various tax type to ascertain its effectiveness, the results of the review will be used to design a General Anti-Avoidance Rule (GAAR).

c. ***Tax Policy Office (TPO)***. We will establish a TPO under the direct oversight of the Minister of Finance by FY25Q1, thereby allowing the Federal Board of Revenue (FBR) to sharpen its focus on revenue collection. Creating the TPO will enable the FBR to concentrate on detailed revenue analysis. At the same time, the TPO will specialize in tax policy analysis by staff with specialist tax policy skills, with the FBR remaining involved in discussions around tax policy making so that revenue administration aspects are fully considered. We will equip the TPO with robust analytical capabilities, including expertise in data modeling and data analytics, revenue forecasting, and assessments of tax expenditure reviews. This will enable a thorough analysis of the distributional and financial impacts of tax measures. Additionally, we will establish an advisory board for tax policy issues, comprising external experts and stakeholders, to further support and guide the TPO's efforts.

d. ***National Fiscal Pact to rebalance inter-governmental relationship***. The federal government and the provinces have agreed to sign a *National Fiscal Pact (**end-September 2024 structural benchmark**)* whereby some spending responsibilities from the federal government will be devolved to the provincial governments in line with the spending allocations established in the 18^{th} constitutional amendment, including, additional contributions for higher education, health, social protection, and regional public infrastructure investment. At the same time the provinces will take steps to increase own tax-collection efforts in sales tax on services, property tax, and agricultural income tax.

e. ***Further progress on the privatization agenda***. We are moving forward with plans to privatize PIA (and anticipate completion of the transaction by end-August 2024), the Roosevelt Hotel, First Women's Bank, HBFC, and several DISCOs and GENCOs (¶24c). We will prioritize the privatization of commercial SOEs, including with the highest priority on profitable commercial SOEs, to reduce the government's footprint in the commercial space and attract investments that can contribute to Pakistan's development.

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

i. *Improve budget practices*. To enhance fiscal discipline and improve budget credibility, we will start producing and publishing quarterly budget performance reports in FY25. These reports compare budget projections with actual execution, helping us identify discrepancies and refine future projections. We will further integrate the budgeting processes for development and recurrent expenditures. This will involve ensuring that future current expenditures associated with new projects are considered during the decision-making process. Lastly, to provide the Minister of Finance with adequate time to negotiate with line ministers and thoroughly review budget allocations, we will advance the issuance of the budget circular by one month starting in the FY26 budget preparation process, effectively advancing the budget preparation timeline.

ii. *Public Investment Management*. We will continue to implement the PIMA and C-PIMA action plans. By December 2024, we will produce a report detailing the outcomes of our review of all investment projects in the Public Sector Development Program (PSDP). The findings from this review will enable us to streamline the PSDP pipeline by developing a prioritization mechanism for existing projects, identifying those suitable for capping or cancellation. Moreover, to enhance our project selection framework, we will publish on our website the criteria for the project selection including scorecard, detailing the weight assigned to each criterion and the methodology for calculating the score, along with an annual limit on the total size of new projects entering the PSDP portfolio (**end-January 2025 structural benchmark**). In developing these criteria and determining the annual limit, we will consult with the IMF to ensure alignment with best international practices. We are also committed to strengthening the governance and risk management frameworks for Public Private Partnerships (PPP), including to ensure that they are subject to the same project selection criteria as projects funded from other sources.

iii. *Cash Management*. We continue to take steps to improve our practices for management of cash flows and balances. We updated the "Cash Management & Treasury Single Account (TSA) Rules" in April 2024 to further progress with the TSA project. We will continue to expand the coverage of sweeping arrangements we have initiated. We will update our inventory of bank accounts of government offices and public entities and take measures to make better use of cash balances that keep accumulating in the commercial banking sector.

g. ***Increasing spending transparency. We will ensure the highest level of transparency in all public procurement*** at the federal and provincial levels through the electronic Pakistan Acquisition and Disposal System (e-PADS), established with TA support from the World Bank. The Pakistan Public Procurement Regulatory Authority (PPRA) are expanding the e-PADS to federal agencies and provincial governments. Since the e-PADS was launched in 2023, a total of 38 of the 43 federal ministries and 342 attached departments are integrated into the system. Two of the four provinces are already using the system, and the other two are in the process of integrating into the e-PADS. Out of the 295 planned procurement contracts (amounting to PRs 4 billion) at the federal level in the e-PADS, 141 contracts (amounting to

PRs 70 million) have been completed. PPRA will report quarterly on public procurement made through the e-PADS (see Table 2 of the TMU). The beneficial ownership information of suppliers is also incorporated in the e-PADS and makes that information publicly available for all procurement contracts above PRs 50 million and above. PPRA will be provided with adequate resources to conduct more trainings on the e-PADS, provide a helpdesk for procurement officers and suppliers, and ensure the system's sustainability. An external audit of the e-PADS will be considered by the Auditor General of Pakistan in FY25-26. A memorandum of understanding will be signed by end-December between the PPRA, the Competition Commission and the National Accountability Bureau to provide for cooperative and information-sharing mechanism within the e-PADS to ensure fairness, competition, and integrity in the public procurement process.

h. ***Debt management***. With our debt vulnerabilities still high, especially due to elevated gross financing needs, sustaining recent progress in lengthening of domestic maturities remains a priority. Our commitment, underpinned by an IT on the average time to maturity (ATM) of the local currency domestic debt stock, will be supported by better transparency on issuance plans and greater consistency between plans and outturns in order to anchor expectations of market participants. Starting in FY25, DMO will also publish one quarter-ahead issuance plans, consistent with our annual borrowing plan, and conduct ex-post analysis to explain plan deviations. Our efforts to diversify and expand the investors base for government debt will continue, especially taking advantage of growth in the nascent non-bank sector. Finally, the Ministry of Finance, the SBP, and other relevant stakeholders will jointly and comprehensively assess by end-FY25 whether continued operations of the Central Directorate for National Savings (CDNS), which offers retail investment products via the National Savings Scheme, is consistent with our debt management objectives and our overall financial development strategy (¶18), especially concerning cost-effectiveness and possible crowding out of market-based saving opportunities. Limiting fiscal risks is of paramount importance for fiscal sustainability, thus we will adhere to a QPC on the issuance on government guarantees, including guarantees for SOE's commodity operations. More generally, we will not offer any new fiscal incentive or guaranteed returns (in any currency) to firms or any investment project.

Poverty Reduction and Social Protection

7. We are working to improve the generosity, coverage, and capacity of Benazir Income Support (BISP) programs amid necessary fiscal consolidation. Overall, our FY25 budget includes a PRs 599 billion (0.5 percent of GDP) BISP allocation, a 27 percent nominal increase (0.1 percentage point of GDP) relative to FY24. This includes an increase in unconditional cash transfer (UCT) Kafaalat program benefits, designed in conjunction with the World Bank, to (i) ensure that the transfer gradually increases toward 15 percent of average household consumption for the bottom quintile of households, to bring consumption into line with basic needs; and (ii) adjust for anticipated annual inflation in 2024 (**end-January 2025 structural benchmark**). These two components will allow for an increase in the quarterly benefit from PRs 10,500 to PRs 13,500 beginning in January 2025. It will also allow us to bring the remaining 500,000 households (of a total of 9.8 million) registered in the BISP NSER database and eligible for, but not enrolled in, the UCT program onto the benefit rolls during this fiscal year; in case of savings, we will seek to add enroll additional families. Going forward, we commit to (i) continued annual inflation adjustments for UCT benefits to ensure that the most vulnerable households' purchasing power remains, at a minimum, constant in real terms; and (ii) readjust UCT benefits upon the release of any new household surveys to ensure that transfers remain equivalent to 15 percent of the bottom quintile's consumption. We are working closely with the World Bank to enhance our education and health and nutrition conditional cash transfer (CCT) programs; the FY25 budget will allow for a PRs 500 per quarter increase in CCT benefits.

8. **We are also working closely with the World Bank to refine BISP administrative systems**. We commit to keeping the NSER live and covering all of Pakistan's poor; keeping BISP enrollment open; and administering the regular re-declaration of BISP beneficiaries' status on the intended three-year cycle, including later this year. We rolled out the pilot of our new electronic payment model, which includes more banking options and transparency for users, in two cities, and the scheme will be gradually expanded to other cities starting in January 2025 And we are continuing our efforts to enroll interested UCT Kafaalat families into the two CCT programs, with targets of 1 million new children in the education CCT program and 100,000 new families in the health and nutrition CCT program by June 2025. Finally, we will maintain our administrative capacity and are developing fiscal contingency reserves and enhancing BISP systems to disburse emergency cash transfers in case of adverse events hitting our vulnerable families (including climate-related catastrophes).

9. **We also commit to rebuilding non-BISP health and education spending at the federal and provincial level**. We recognize the decline in non-BISP federal and provincial spending on health and education programs in recent years and commit to gradually rebuilding this as a share of GDP over the course of our program. To this end, the FY25 budget includes an increase in health and education spending to PRs 2,882 billion (2.4 percent of GDP), which represents a partial recovery to previous years' human capital spending levels.

Monetary, Exchange Rate, and Financial Sector Policies

10. **We recognize that entrenching price stability, external stability, and financial stability is critical to successfully navigate Pakistan's medium-term development path**. In this context, we are determined to pursue strong policies and strengthen our institutions and policy frameworks, including via appropriate monetary policy to anchor inflation within our medium-term target range of 5-7 percent, a flexible exchange rate to rebuild our FX reserves and buffer shocks, and financial sector policies to foster a financial system that can support private sector growth and provide risk sharing opportunities.

11. **Monetary policy will remain appropriately tight to guide down inflation towards target alongside continued efforts to improve our policy frameworks and strengthen monetary transmission**. It is crucial that inflation comes down from its elevated levels to ease the burden on Pakistani citizens, especially the poor and vulnerable. In this regard, we will maintain positive policy rates in real terms and continue our data-dependent approach, such that any lowering of the policy rate, which we expect to proceed very gradually given still elevated risks, would be predicated on clear evidence that inflation and inflation expectations are trending firmly

downward. We also stand ready to increase policy rates if new inflationary pressures emerge or external pressures were to threaten external and financial stability. Given the criticality of re-anchoring inflation expectations for enhancing central bank credibility, we will advance work to align our inflation expectations surveys with best practice by end-FY25, and to strengthen our communication around policy decisions, we are considering the issuance of a dedicated monetary policy report.

12. **Consistent with SBP's commitment to solely focus on its mandate, we will refrain from involvement, or influence in, decisions allocating credit**. We will refrain from sectoral disbursement targets and instead accelerate work to remove barriers to credit in the respective sectors (¶19). As we seek to avail every opportunity to foster a more efficient allocation of credit and strengthen monetary transmission, we will take stock of our system of subsidized loans to exporters, covering SBP's refinancing schemes that are being phased out and new schemes operated by Exim Bank. Keeping in mind that these schemes impose an explicit and implicit burden on our fiscal accounts, we will assess lessons learned from the transition to Exim Bank and prepare an action plan for better targeting of the schemes by end-December 2024, with a view to commencing implementation of this plan by end-March 2025. Further, provided that commercial banks have managed the transition smoothly and capacity at Exim Bank has strengthened sufficiently, we will accelerate the transition with the goal of removing the schemes from SBP's balance sheet as soon as feasible. Finally, the SBP remains fully committed to not introduce any new refinancing schemes during the transition period or thereafter.

13. **Given the notable expansion of our monetary policy operations in recent years, strengthening our risk mitigating measures is a priority**. Following the recommendation from the 2023 Safeguards Assessment to strengthen the integrity of monetary policy operations and better mitigate inherent counterparty risks, we will (i) revise relevant regulations and underlying methodologies, including enhanced collateral policy and by requiring counterparties to be financially sound, with support from the Fund (**end-December 2024 structural benchmark**); and (ii) implement the adopted measures (**end-September 2025 structural benchmark**). We will also refrain from any outright secondary market purchases of government securities or from any further extension of maturities of securities currently held by the SBP.

14. **A properly functioning foreign exchange market based on a flexible exchange rate is a cornerstone of our policy framework and key to better allocating resources and rebuilding buffers**. We reiterate our commitment to maintaining a flexible exchange rate regime, with price discovery in the interbank market where banks are able to act freely without restrictions or preference by SBP. If pressures re-emerge, price discovery in the interbank market, and full flexibility, are essential to allocate resources efficiently and provide incentives for inflows. At the same time, given that limited reserve buffers are a key constraint to external stability, the SBP will continue its objective and efforts to build stronger FX buffers in line with the program's NIR targets. FX sales will be limited to episodes of disorderly market conditions and not used to prevent a trend depreciation of the rupee driven by fundamentals. In this regard, we commit to limiting net FX sales to banks to at most balancing FX purchases within each quarter, and will consult with the Fund if gross sales exceed US$200 million in any rolling 30-day period. We recognize that greater understanding

around SBP's FX intervention is needed to strengthen accountability and foster market development and in our market communication, we will provide greater clarity and transparency about our strategy, including beginning in July 2024 with (i) the publication of SBP's monthly FX interventions (with a three-month lag); and (ii) the announcement (semiannually) of our six month-ahead gross reserve target and FX debt service of the government over the corresponding period. Building on our efforts during the SBA to remove distortive import payment restrictions, we will continue to maintain an exchange system free from restrictions on current account transactions and in accordance with our commitments under Article VIII. Since attracting high-quality FDI is a key underpinning of our growth strategy, dividends on foreign investments can be repatriated freely, with no preference given to any particular investor or group of investors. In this regard, banks have already cleared the backlog of pending dividend/profit payments. Going forward, we will collect information from banks at a monthly frequency on the stock of dividend/profit payments pending execution which have cleared any necessary regulatory processes. As part of our medium-term agenda, we will continue to upgrade our FX market framework and infrastructure by developing, among others, (i) a revised, more robust, regulatory regime for Exchange Companies; (ii) an FX swap mechanism for Islamic institutions; and (iii) a local USD clearing mechanism.

15. Enhancing financial sector stability is a key component of our program. We recognize that navigating the current economic challenges requires public trust in the soundness of banks and other financial institutions. We continue to closely monitor the sector and stand ready to act decisively to safeguard its resilience. In this regard, the SBP stands ready at all times to exercise its regulatory and supervisory mandate resolutely.

a. ***Upgrading the crisis management framework***. We are well-advanced in our efforts to strengthen our bank resolution and crisis management frameworks, including the deposit insurance scheme, and align these with international best practice. To that end, we submitted the draft legal amendments, reflecting IMF TA advice, to the parliament in January (Senate). We expect to obtain parliamentary approval of the amendments in a manner that preserves the integrity of the draft by **end-October 2024 (structural benchmark).**

b. ***Addressing undercapitalized financial institutions***. We are implementing the cabinet-approved wind-down plan of the undercapitalized public bank. We have closed all branches, but one, and repaid around ninety-five percent of the deposits. The government has approved a scheme to assume costs of the retrenchment of staff. The SBP plans to put the legal entity into liquidation by end-December 2024, at the latest. We are closely engaged with the two undercapitalized private banks and are committed to ensuring compliance with the minimum capital requirements. Unless (i) these banks are fully recapitalized by end-October 2024; or (ii) a legally binding agreement is in place by end-October 2024 towards a merger with other banks or with a new sponsor that would achieve full recapitalization by April 2025, the decision will be taken to place these entities under resolution (**structural benchmark end-November 2024**). Going forward, we will take prompt supervisory action to address any additional banks which may become undercapitalized. We will also continue our efforts to tackle vulnerabilities in the microfinance bank sector. Currently, 6 microfinance banks, out of 12, are undercapitalized. We are engaged with the owners and potential investors to address the capital shortfalls. We will not extend the deposit insurance system to this sector until these issues have been addressed to the satisfaction of the supervisor and other preconditions are met. Discussions are also on-going with development partners to develop schemes to help ensure longer-term sustainability of the sector.

c. ***Reduction of Non-Performing Loans (NPLs) of the banking sector***. SBP has adopted a comprehensive strategy to address high levels of NPLs. We will start its implementation within the next 3 months by requiring bank-specific plans for reducing NPLs, asking banks to charge-off fully provisioned NPLs and encouraging banks to transfer non-performing assets to corporate restructuring companies.

d. ***Effective implementation of AML/CFT.*** We continue to enhance the effectiveness of our system to combat money laundering and terrorist financing. The recently established National AML/CFT Authority will be the focal point for facilitating cooperation and overseeing the implementation of the national AML/CFT strategy. We will ensure effective coordination among relevant agencies (such as Financial Monitoring Unit, FBR, National Accountability Bureau, and Provincial Anti-Corruption Establishments) and stakeholders (including the private sector) to better combat money laundering, terrorist financing, proliferation financing and other predicate crimes (including corruption, tax evasion, smuggling, and cash smuggling) identified in the 2023 National Risk Assessment (NRA). On trade-based money laundering (TBML), the SBP has imposed nominal sanctions (amounting to PRs 242 million in fines and other administrative actions such as warnings and forfeiture of bonuses) against several banks for violations involving TBML of solar panels and is revising its risk-based supervisory framework to align with the NRA (including ensuring that sanctions are effective, proportionate, and dissuasive). With support from the ADB, the Financial Monitoring Unit (FMU) is strengthening its financial intelligence capacities within its GoAML system to identify risks of TBML. We will pursue efforts to ensure transparency of beneficial ownership information consistent with the Financial Action Task Force standards. In this regard, the SECP continues to increase compliance with beneficial ownership information requirements by registered companies (now at 30 percent) and exerting efforts to ensure risk-based verification of the information.

16. Financial sector development is critical to achieving our medium-term development goals. We recognize that Pakistan's financial sector requires further deepening to play an effective role as an intermediary of capital to the private sector. SBP's 2023-28 Strategy prioritizes achieving inclusive and sustainable access to financial services, including through innovative digital solutions. In this context, we are developing a National Financial Inclusion Strategy, with the goal of bringing up inclusion up to 75 percent over the next 5 years (from 60 percent currently) and lifting financial inclusion of women to at least 60 percent (from 43 percent currently). We will complement the strategy with a time-bound action plan. The financial sector plays a critical role in efforts for greater digitalization and documentation of the economy. In this regard, the SBP and federal and provincial governments will move swiftly towards the complete digitalization of government payments, and will promote digitalizing public records which would enhance access to credit by currently underserved segments of the population. Further, we aim to (i) complete rollout of the micropayment system RAAST by end-June 2025; (ii) advance further integration of micropayment systems with other countries to reduce costs to consumers; and (iii) modernize the Real Time Gross Settlement (RTGS) system and integrate it with the Central Securities Depository (CDS). We are also committed to implement the five-year strategic plan of the Securities and Exchange Commission of Pakistan (SECP) to develop the insurance sector whose penetration rate remains below 1 percent.

17. As part of our vision for modernizing the financial ecosystem, we will rethink the role of the public sector. To avoid conflicts of interest arising from SBP's ownership of financial institutions, we will redouble our efforts to liquidate or transfer those interests to government by end-FY25. Further, we are concerned that most Development Financial Institutions (DFIs) are not primarily focused on their development finance mandate but have strayed principally into investments in government securities. Consolidation of the sector and a redesign of the DFI business model, supported by a revised regulatory regime ensuring compliance with their mandate, bears much potential to support Pakistan's medium-term growth. Finally, we are determined to take the appropriate actions from our forthcoming assessment of the CDNS (¶8h) towards ensuring that the public sector neither duplicates functions of private institutions nor inhibits growth and innovation therein, especially considering that more and more Pakistanis are served by banks and gain access to market-based saving opportunities, for example via asset managers or retail investment in government securities traded at PSX.

Energy Sector Policies

18. Our energy sector strategy aims to stem CD flow while addressing the structural impediments to a viable energy sector. The stock of power payment arrears (circular debt, CD) stood at PRs 2,794 billion (2.6 percent of GDP) at end-March 2024, while the stock of gas payment arrears stood at PRs 2,083 billion (2.0 percent of GDP) at end-January 2024. CD has historically been driven by the failure of tariffs to keep pace with prices (although more regular tariff increases over 2023-24 helped to moderate CD flow); inefficient management of distribution and transmission companies and under-collections; and delayed maintenance coupled with weak transmission and distribution infrastructure. We see the need for fundamental energy sector reform to reduce our fiscal risks, ensure viability of the sector and debt sustainability, and build a business environment conducive to dynamic growth. Our program will keep energy tariffs in line with costs while we implement fundamental reforms to ease price pressures and shore up viability over the medium term.

19. We will strive to achieve net zero CD flow for FY25 through a combination of timely tariff increases, targeted subsidies, and cost-reducing reforms. This strategy will be detailed in our FY25 CD Management Plan (CDMP), to be adopted by Cabinet by end-July 2024. Key elements include:

a. **Timely electricity tariff increases consistent with cost recovery**. We made a final notification of the FY25 annual rebasing (AR) in full on July 14, 2024, as determined by NEPRA, to account for projected changes in power demand growth and exchange and interest rate movements, while continuing to provide protection to the most vulnerable households. NEPRA will continue with timely automatic notifications of regular quarterly tariff adjustments (QTAs) and monthly fuel cost adjustments (FCAs) to capture any gaps between the base tariff and actual revenue requirements that arise during the year, to prevent CD flow. We will ensure the full implementation of all ARs, QTRs, and FCAs going forward, and all provinces agree not to introduce any subsidy for electricity or gas.

b. **Making the necessary budget allocations for power subsidies while continuing to target subsidy reforms**. The FY25 budget includes PRs 1,229 billion (1.0 percent of GDP) in power subsidies to address liquidity needs. This, along with tariff adjustments and cost-side reforms, will broadly stabilize the CD stock. The subsidy will cover (i) the projected tariff differential (PRs 663 billion); (ii) arrears payments of FATA and KE (PRs 174 billion); (iii) agricultural tubewells (PRs 10 billion); and (iv) CD stock payments to compensate for the projected CD flow via PHPL principal payments (PRs 24 billion) and arrears payments to power producers (PRs 358 billion). The use of any resources allocated above this in the FY25 budget will be decided upon during the fiscal year, with the potential to retire up to an additional PRs 35 billion in CD stock or return these resources back to the Treasury. In parallel, we are, with the support of the World Bank, continuing our efforts to reform tubewell subsidies, which primarily benefit large agricultural users, and have not budgeted tubewell subsidies for three provinces for FY25. More broadly, over the medium term we aim to eliminate cross-subsidies to households, and replace it with directly-targeted cash transfers for vulnerable households to be provided via BISP.

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

i. ***Improving distribution efficiencies***. We are prioritizing plans to either privatize or enter into concession arrangements for the private management of 9 DISCOs to improve their performance, efficiency, and governance, lack whereof has been a key driver of power sector CD accumulation and the need for higher tariffs. The Cabinet ratified the Cabinet Committee on Privatization's decision to move forward with these arrangements in June 2024 and we are in the process of hiring a Technical Advisor. With the help of the Technical Advisor we will complete all policy actions needed to prepare two DISCOs for transactions by end-January 2025 (**structural benchmark**), including the updating of tariff guidelines to align with DISCOs' supply and distribution licenses; deciding on the treatment of existing DISCO employees; and launching a communications campaign to inform the public of our plans. We will issue an RFP for the first DISCO concession by end-May 2025 and the RFP for the first DISCO privatization by end-September 2025.

ii. ***Further institutionalizing anti-theft procedures***. We have submitted to the National Assembly the anti-theft ordinance to institutionalize our enhanced collections efforts of the past year. This will be a critical step in strengthening collections and attracting private sector participation for DISCOs.

iii. ***Improving the transmission system***. We have finalized our first Transmission System Expansion Plan and have amended the 2015 transmission policy framework to spur private investment participation in transmission services, delays in which have been a key bottleneck in the power sector and a contributor to CD accumulation. We are also finalizing the restructuring of the National Transmission and Dispatch Company (NTDC) into three entities, the Independent System Operator and Market Operator (ISMO), which will assume the NTDC's system operator function; the Power Transmission Infrastructure Development Company (PTIDC); and the National Transmission Maintenance Company (NTMC). This restructuring will increase independence and oversight of both transmission and market operations. The new entities will be operational and the full restructuring will be completed by end-December 2024.

iv. ***Privatizing inefficient generation companies (GENCOs)***. We are moving forward with plans to improve generation efficiency and performance by privatizing at least two GENCOs (Nandipur and Guddu 747). Technical Advisor will be engaged by end-August 2024 for developing a roadmap. We will complete the prior actions necessary for the transactions, including land and building rationalization and a plan for the treatment of existing employees, by end-December 2024, develop a transaction structure by end-June 2025, and begin the bidding process during Q1 FY26.

v. ***Conversion of coal-fired power plants***. Imported coal for certain coal-fired power plants represents a large cost and foreign currency risk, and thus has been a driver of higher electricity tariffs and power sector CD. We will, in turn, seek to convert existing imported coal-fired plans to domestic coal use. As an initial step in this process, we and relevant IPPs will jointly undertake an in-depth study for the purpose.

vi. ***Complete the transition to a competitive electricity market***. Following NEPRA's 2020 approval of a Competitive Trading and Bilateral Contract Market (CTBCM) and the 2022 granting of market operator licenses and approval of a market commercial code, we will finalize a policy framework by end-September 2024 to facilitate the transition toward a new wholesale market for electricity, which will improve distribution efficiency and incentivize improved DISCO management. The transition will be carried out in a phased and responsible manner to minimize the impact on consumers and the budget.

vii. ***Renegotiating remaining PPAs in return for clearing unguaranteed CPPA-G arrears***. In FY25, we will settle up to PRs 263 billion earmarked for IPPs and 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 instrument). We will also strive to reduce capacity payments as we pay arrears, either by renegotiating PPAs with a new strategy, including by lengthening the duration of bank loans, depending on adequate budget space and CDMP implementation progress.

viii. ***Converting government-guaranteed PHPL debt into cheaper public debt***. We have created the fiscal space to settle an amount of PRs 24 billion falling due in FY25 from the budget and the outstanding principal amount of PRs 659 billion at the end of FY25 will be settled as per maturity of loans falling in subsequent years.

ix. ***Accelerate the move to renewable energy***. A key step in this process will be to build upon the recently-updated IGCEP and TSEP (2024-34) to mandate an increased share of cheaper renewable energy in the generation mix, private sector investments will help to facilitate achieve this goal.

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

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

20. Gas sector reforms will focus on price normalization across sectors and captive power elimination. Keeping end-user gas prices in line with costs, including the cost of diverted RLNG is critical to improving the sector's CD dynamics. Other important reforms will include:

a. ***Continuing with timely tariff adjustment as required***. We notified the June 2025 semiannual gas tariff adjustment as determined by OGRA on July 1, 2024, preserving the current progressive tariff structure and protecting vulnerable household consumers. We will also notify the December 2024 semiannual gas tariff adjustment as determined by OGRA by **February 15, 2025** (**structural benchmark**). Gas tariff adjustments will continue to include the cost of imported RLNG.

b. ***Eliminating captive power.*** The pricing structure for non-domestic consumers will continue to be refined via semiannual notifications, including for the June 2024 determination, with the goal of directing scarce resources to more efficient assets, completely phasing out captive power in the near term, and transitioning captive power users to the electricity grid, in line with the Cabinet Committee on Energy decision of January 2021. This, in turn, will help to reduce power generation costs, including by ensuring that better-priced gas can help channel scarce gas resources to the most efficient gas-based power generators. Accordingly, we will end captive power usage by **end-January 2025 (structural benchmark)**. Prices for captive power users will continue to be increased where network distribution and reliability is present, whereas other captive power users should make the transition to the electricity grid by the end of this year, at which point prices will be increased to the RLNG-equivalent. In line with this commitment, we have already revised the tariff from PRs 1,200/mmbtu in October 2023 to PRs 2500/mmbtu in November 2023, and then to PRs 2,750/mmbtu in February 2024.

c. ***Unifying pricing across indigenous gas and imported RLNG***, improving the cross-subsidies across industries, and reducing price disparities within industries. In-line with the amendments made in the OGRA Ordinance, 2002 (enacted in March 2022) and the understanding with the mission for recovery of cost of diverted RLNG, we have already issued the requisite policy guidelines to OGRA effective November 1, 2023. For the implementation of WACOG, we will continue to work to develop implementation strategy Once implemented, the WACOG will allow full cost recovery of more expensive imported RLNG and provide a more adequate price signal to guide gas consumption across all sectors and help reduce power generation costs. Along similar lines, we have already removed the distinction between export and non-export industries by redefining the consumer categories as 'Industry (Process) and Industry (Captive Power)' and will continue to work on revision of gas tariff for captive power plants enabling their transition to power grid.

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

e. ***Improving the monitoring and management of the gas CD***. Replicating the reform approach in the power sector and supported by international development partners and private consultants, we will move 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 monthly 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). As a first step in this process, we have engaged with a third-party consultant to evaluate and analyze existing data of gas CD and cashflows of the gas companies.

Structural Policies

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

22. Following through on our SOE reform agenda is key to scaling back the state's footprint and improving services. We made significant progress under the previous EFF and SBA to establish a strong SOE legal framework—notably, with the adoption of the SOE Act and SOE Policy in 2023—and to improve transparency, monitoring, and accountability via the creation of the Central Monitoring Unit (CMU). We recognize the need to fill in the gaps remaining in our governance framework and, in parallel, implement the framework to improve the SOE sector's viability, reduce fiscal liabilities and the role of the state in commercial enterprises, and improve services for Pakistanis. This will include:

a. ***Ensuring coverage of all SOEs under the SOE governance framework***. We have begun this process by completing, on June 22, 2024, the revisions, in consultation with IMF staff, to the laws of four selected statutory SOEs (the National Highway Authority, Pakistan Postal Services, National Shipping Corporation, and Pakistan Broadcasting Corporation), which were amended by ordinances published on November 30, 2023. The revisions make the SOE Act fully applicable to those SOEs, such that they are fully aligned with key SOE corporate governance principles introduced in the new SOE Act. We are committed to continue amending SOE-dedicated laws for the remaining 12 statutory SOEs, to similarly fully align them with the provisions of the SOE Act and complete the process for at least 10 entities excluding any entities that as of end-July 2024 were listed in the privatization program and for which a specific financial adviser has been approved by the Board of the Privatization Commission and hired through a signed contract (**structural benchmark end-June 2025**). The amendments to the remaining two SOEs will be enacted by end-September 2025.

b. **Adopting appropriate governance mechanisms and safeguards for the Sovereign Wealth Fund (SWF) and its SOEs**. In line with international standards (for example, the OECD Guidelines on Corporate Governance of SOEs and the Santiago Principles) and good practices on public asset management, by end-December 2024 we will, in consultation with Fund staff, enact the necessary legal amendments to the SWF Act and other legislation, including on the SWF's objectives, governance, business scope (including around financial transactions), sources of revenue, rules around withdrawals and use of receipts, public asset management principles and transparency and accountability mechanisms to accomplish the objectives outlined below (**end-December 2024 structural benchmark**).

i. *Nature of the SWF*. Legally define the SWF as a SOE, subject it to the SOE Act (adopting specific provisions to ensure the SWF's governance structures correspond with a holding entity's nature and mandate), including by requiring that privatization or sales of assets and its procurement processes are conducted based on open, competitive, transparent and non-discriminatory principles, with the appointment of the SWF's Board and Advisory Committee's members done through transparent, merit-based, and participatory processes to safeguard their professionalism and independence from undue public and private influence.

ii. *Governance*. Ensure that SWF-owned SOEs remain under the same high-quality governance structures and accountability standards as all other SOEs, including by amending section 50 of the SWF Act to explicitly establish that SWF-owned SOEs are subject to the SOE Act and SOE Policy and any necessary additional amendments to regulate and operationalize the SWF's SOE ownership functions as a holding entity with appropriate oversight systems as agreed with Fund staff.

iii. *Fiscal safeguards*. Ensure that appropriate fiscal safeguards are in place, including by requiring that all revenues from SWF operations will be provided directly to the government and not retained by the SWF; and that SWF assets cannot be used to provide borrowing to any public entity, including SOEs, or as collateral.

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

c. ***Ensuring compliance with the SOE governance framework***. With the new framework now in place, ensuring swift compliance is critical to following through on the SOE reform agenda. To this end, to refresh our privatization and restructuring plans, we will complete categorization and recommendations for reform (thus updating the March 2021 Triage Plan) by relevant line ministries by end-September 2024, in line with paragraph 11 of the SOE Policy, and line ministries will also develop plans to transform SOEs, in line with paragraph 12 of the SOE Policy, by end-September 2024. We further commit to (i) the adoption by the 15 largest commercial SOEs by asset size of business plans and publication of statements of corporate intent (SCI) by end-October 2024; adoption and publication by the 15 largest commercial SOEs by assets of externally audited, IFRS-compliant financial statements and annual reports for FY24 by end-December 2024; (ii) ensuring that all commercial SOE Boards are majority independent, per section 12(2) of the SOE Act, by end-December 2024; and (iii) the identification, costing, and contracting of public service obligations (PSOs), in the seven commercial SOEs with the largest PSO claim on government, entering into PSO agreements with the government, in line with the SOE Act (Schedule II) and SOE Policy, by end-June 2025.

d. ***Fully operationalizing the CMU***. To ensure effective transparency and monitoring of the SOE sector, we commit to (i) completing the development of our electronic database such that the CMU can fully meet its reporting requirements under Section 31 of the SOE Act by end-June 2025; (ii) further developing our aggregate SOE report, first published in December 2023, such that it meets OECD good practice guidelines for SOE aggregate reporting. To that end, we will include SOEs' performance against FY24 financial and non-financial benchmarks in our December 2024 report; and (iii) issuing four operational manuals, to provide guidance on implementation of the PSO framework; development of business plans and SCIs; governance, including SOE director selection, appointment and performance reviews; and how CMU will undertake its monitoring functions and reporting, in line with requirements under the SOE Policy, by end-October 2024. To ensure that the CMU can fully carry out its monitoring, analysis, and reporting responsibilities, it will hire an additional three technical staff by end-2024.

23. We are taking action to phase out federal and provincial government price-setting for agricultural commodities by end-FY26. While noting the importance of food security, we recognize that the government's large-scale interventions in markets for agricultural commodities, including fertilizers, are no longer fit for purpose. They have created distortions stifling private sector activity and innovation, exacerbated price volatility and hoarding, and placed fiscal sustainability at risk. To enable an agile, productive, diversified, and internationally competitive agricultural sector to the benefit of all Pakistanis, we will refrain from announce support prices (for raw commodities)and discontinue procurement operations that crowd out the private sector, limiting purchase programs to that specifically required for the federal government's own use and a tightly defined food security (with objectives and parameters clearly defined ex ante), with all transactions at market prices and any sales from its stocks will happen at cost recovery. To set expectations for the 2025 kharif crop season and minimize disruptions, we will lay out our strategy for the transition arrangements by end-September 2024.

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

a. ***Governance and Corruption Diagnostic (GCD) Assessment***. With IMF capacity development support, we will undertake a GCD Assessment to analyze critical governance and corruption vulnerabilities and identify priority structural reforms moving forward. We will publish the full GCD report (**structural benchmark, end-July 2025**).

b. ***UNCAC Review Report***. We will issue a federal regulation by end-September 2024 to formalize our intention to publish the full and complete UN Convention against Corruption Review Report immediately after the review process is completed. The Ministry of Law and Justice also published on its website the April 2024 Task Force Review Report and is developing a plan to implement the recommended actions.

c. ***National Accountability Bureau and Provincial Anti-Corruption Establishments***. Subject to the decision of the Supreme Court on the petition on the National Accountability Bureau Ordinance, we will consider enacting legislative amendments, if required, to the National Accountability Bureau (NAB) Ordinance to strengthen the NAB's independence and effectiveness (Pakistan's main anti-corruption agency). Separately, the Provincial Anti-Corruption Establishments will be empowered under the law to investigate money laundering related to corruption offenses within their jurisdiction, request and receive financial intelligence from the FMU as an investigating agency under the AML Act, and have sufficient resources and training to conduct parallel financial investigations.

d. ***Asset Declaration of High-Level Public Officials***. To further operationalize the Government Servants (Conduct) Rules 1964 (Sections 12, 13, and 13-A) and consistent with the Right to Information Act of 2017, we will amend the Civil Servants Act of 1973 to ensure that asset declarations of high-level public officials (BPS 17-22) (including domestic and foreign assets beneficially owned by them or a member of their family) will be digitally filed and publicly accessible (with sufficient safeguards over data protection and privacy of personal information such as ID numbers, residential addresses, bank account or bond numbers) through the FBR with a robust framework, resources and tools for the Establishment Division to conduct risk-based verification (**structural benchmark, end-February 2025**).

e. ***Bank's Access to Asset Declarations for AML/CFT Purposes***. The SBP, FBR and FMU continue to support banks' access to asset declarations of high-level public officials (BPS17-22), which has helped banks comply with their AML/CFT obligations and better risk-profile their customers who are politically exposed persons. In this regard, the SBP is engaging with banks to develop their standard operating procedures to implement the FBR rules on access to asset declarations. The FBR will launch by end-September a new digital portal to timely receive and respond to such requests. We are engaging with Provinces to issue regulations to similarly grant banks' access to high-level provincial public officials (BPS17-22). We will continue to monitor banks' utilization of asset declarations through periodic assessments, and address challenges identified in the assessments.

25. We will continue to remove barriers to international trade. Tariffs erode Pakistan's competitiveness by increasing the cost of inputs and protecting inefficient producers, impose costs on consumers, and create an anti-export bias. As the National Tariff Policy 2019–2024 draws to a close, with successful progress in rationalizing and simplifying the tariff structure, we will continue with trade liberalization reforms in its 2025-2029 iteration. We commit not to increase Pakistan's trade-weighted average customs duties. In addition, trade-weighted average tariffs (defined for these purposes as customs duties, additional customs duties and regulatory duties, taken together) will decrease every year during FY25-29. We will also continue to improve Pakistan's integration into world trade by reducing non-tariff barriers and refrain from implementing (or prolonging) preexisting trade-distortive measures such as export subsidies or local content requirements as defined under WTO agreements. We will continue our efforts to simplify import/export documentation processes and improve processing times; by end-FY26 the Pakistan Single Window platform will be expanded beyond the federal level to also include provincial departments.

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

27. As we continue our efforts to improve efficiency and provide a level playing field for investment, the government will refrain from providing companies fiscal incentives such as tax breaks or other subsidies (including for credit). In keeping with this effort to improve efficiency, we will conduct an assessment of the fiscal costs and effectiveness associated with each Special Economic Zone (SEZ) (including Export Processing Zones, EPZs), to be published in FY25. The authorities will refrain from providing new fiscal incentives to any new or existing SEZs, and will not renew existing ones, as SEZs are meant to be temporary solutions to pre-existing constraints in the business environment. They will also refrain from creating new SEZs or EPZs going forward (including by provincial governments). In addition, by **end-June 2025 (structural benchmark**) authorities will prepare a plan based on the assessment conducted to fully phase out all current SEZ incentives by 2035, subject to preexisting contractual obligations. During the transition period between 2024 and 2035, the authorities will strive to replace preexisting profit-based incentives (such as tax exemptions) with cost-based incentives (such as immediate expensing on tangible assets), subject to compliance with existing legal commitments. For those cases where contractual provisions allow for early termination or renegotiation of existing SEZ incentives, authorities will phase out such incentives insofar as allowed by these legal provisions. Relatedly, no new fiscal or other incentives offered to SEZs should be provided to any firms, sectors or investments.

28. We recognize the importance of improving the timeliness, reliability and coverage macroeconomic data for both policymakers and the private sector. Increasing the granularity and reliability of the Government Finance Statistics is a high priority, and we have requested Fund Technical Assistance to review current data sources and compilation processes and provide guidance on how to improve fiscal reporting in accordance with international standards (as detailed in GSM 2014). We have made important strides in improving the timeliness and quality of the national accounts, but we recognize that there are still significant shortcomings, including in the quality of producer price data used to estimate GDP volumes, and in the source data available for sectors representing around a third of GDP, which currently rely mostly on extrapolation of growth between censuses in FY06 and FY16. In anticipation of the FY25-26 rebasing of the National Accounts, the PBS is currently working on producing a new PPI index, supported by IMF TA, with pilot data collection of agricultural and manufacturing activities expected to commence in July 2024. Relatedly, the PBS will launch fieldwork for four major surveys (including the integrated agricultural census, labor force survey, and household integrated economic survey) in July 2024, from which preliminary results are expected to become available during FY25.

Climate Change

29. Responding to climate change is an urgent and existential challenge for Pakistan, as most recently highlighted by the catastrophic 2022 floods. We improved our green budgeting processes with the FY24 budget, thus better streamlining the budget planning, execution, and reporting processes of green budget components, and are incorporating additional improvements into the FY25 budget.

a. ***Adaptation***. Our UNFCCC-supported National Adaptation Plan (NAP) identifies adaptation needs and polices to boost Pakistan’s resilience to climate change. We are in the process of translating the NAP into specific, costed investment plans to be implemented at the provincial and local levels, enhanced by our Fund-supported C-PIMA Action Plan. We recently developed a climate scoring methodology of PSDP projects aligned with the NAP and two guideline handbooks. These will be finalized and implemented by all ministries by end-September 2024. Our recently-updated National Flood Protection Plan, which envisions a range of projects, incorporated climate risk into its appraisal analysis. We also recently finalized and published a handbook on incorporating climate sensitivity into planning and project preparation and incorporated climate into our building codes. We are further refining our appraisal methodology and will finalize it by end-August 2024. We will continue to refine our green budget-tagging capacity through the FY25 budget process, and will extend this process to the provinces by end-June 2025. To improve allocation efficiency, we are incorporating climate considerations into project selection criteria, beginning with a pilot on several water sector projects; we will expand this to the transport and energy sectors and complete the process by end-December 2024. We also recently established the Climate Change Authority as the Ministry of Climate Change's implementing arm and are working toward operationalizing it. Regarding disaster risk management, our National Emergencies Operations Center is leveraging BISP datasets to calibrate social protection disbursements in the event of a disaster. Following the approval of our National Disaster Risk Financing Strategy, we will establish guidelines and implement reporting of financing sources and expenditures on disaster relief, recovery, and reconstruction beginning in January 2025.

b. ***Climate finance***. Financing climate-related investments will be critical to our success in building climate resilience: the World Bank's 2022 Country Climate and Development Report estimated Pakistan's annual climate investment needs through 2030 at equivalent to 10.7 percent of GDP. To prioritize mobilization, we recently established a Climate Finance Wing at the Ministry of Climate Change, and are working with the World Bank to develop a National Climate Finance Strategy, and toward submitting for approval to the GCF board applications for accreditation of 3 national entities. Selected projects attracting climate finance will be planned, allocated (budgeted), and implemented under Pakistan's standard public investment framework reflecting key principles outlined in the recent C-PIMA report. We will establish a national digital dashboard for climate finance, to develop a pipeline of climate resilience projects in line with our priorities, by end-June 2025. We are also developing a green financing taxonomy, ESG reporting guidelines, and a green stress-testing framework to account for the impact of climate shocks on financial stability, which we anticipate completing this process by June 2026.

c. ***Mitigation and transition management***. We are an active party to the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC) and related initiatives.[2] Key projects comprise our ambitious reforestation project (i.e., up-scaling Green Pakistan Program, of which over 2.1 billion trees have already been planted, with an estimated sequestering potential of 148.8 million tons of carbon through 2030), greening our energy mix, and policies aimed at inducing changes in relative prices to guide households and firms toward a more carbon-neutral economy. The latter includes initiatives such as adequately taxing fuel products and developing policy guidelines and a regulatory framework for a voluntary carbon trading system under the UNFCCC.

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

Financing and Program Monitoring

30. We have secured adequate financing from our international partners to support our economic reform program and durably increase our external buffers. The current projections suggest that, after incorporating pre-existing financial commitments, rollovers and the envisaged IMF program, residual financing needs during the program period will amount to US$5 billion. To close this gap for the first 12 months of the arrangement, we have secured financing commitments from bilateral and multilateral partners, including China, Saudi Arabia, the Asian Development Bank and the Islamic Development Bank. Moreover, we have secured renewed commitments from our bilateral partners to continue rolling over short-term claims (including loans, swaps and deposits) for the duration of the program, and will seek to lengthen the maturity of these claims as they roll over, which would reduce the burden of, and risks around, high gross financing needs.

31. Implementation of policies under the program will be monitored through semiannual reviews, with semiannual 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 first review scheduled for March 2025 will require observance of the quantitative performance criteria for end-December 2024, as set out in Table 1, along with continuous PCs and ITs. The structural benchmarks are set out in Table 2.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets, FY2024/25 1/
(Billions of Pakistani rupees, at program exchange rates, unless otherwise indicated)

	end-Jun 2024	end-Sep 2024	end-Dec 2024	end-Mar 2025	end-Jun 2025
	Proj.	IT	PC	IT	PC
I. Quantitative Performance Criteria					
Floor on net international reserves of the SBP (millions of U.S. dollars)	-12,349	-12,150	-12,050	-10,200	-8,650
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,542	15,044	15,211	15,179	15,820
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-3,450	-3,250	-3,000	-2,750	-2,500
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-401	-198	-2,877	-2,707	-2,435
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	4,585	5,100	5,200	5,400	5,600
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	472	101	235	415	599
Cumulative floor on the number of new tax returns from new filers (thousands)	142	75	225	300	450
II. Continuous Performance Criteria					
Zero new flow of SBP's credit to general government	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	0	0	0	0
III. Indicative Targets					
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	2.7	2.8	2.8	3.0	3.0
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)		685	1,405	2,150	2,863
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-650	-342	-750	-1,028	-1,217
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	9,251	2,652	6,009	9,168	12,913
Floor on the consolidated net tax revenues collected by Provincial revenue authorities (cumulative, billions of Pakistani rupees)	835	184	376	606	918
Floor on net tax revenues collected by the FBR from retailers under the *Tajir Doost* scheme (cumulative, billions of Pakistani rupees)	0	10	23.4	36.7	50
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	56	32	43	56	-24
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	475	255	461	554	417

Sources: Pakistani authorities; Fund staff estimates.
1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.
2/ Cumulative from the start of each fiscal year. "-" means surplus.
3/ Including guarantees for commodity operations by SOEs.

Table 2. Pakistan: Structural Conditionality

	Actions	Rationale	Status
	Prior Actions for program approval	**Rationale**	**Status**
	Fiscal		
1	Parliamentary approval of a FY25 budget in line with IMF staff agreement to meet program targets.	Ensure achievement of fiscal objectives	Met
	Energy Sector and State-Owned Enterprises		
2	Notification of the annual electricity tariff rebasing by July 10.	Maintain tariffs at cost recovery levels	Met
3	Notification of the June semiannual gas tariff adjustments by July 15.	Maintain tariffs at cost recovery levels	Met
	Structural Benchmarks	**Rationale**	**Date**
	Fiscal		
1	Do not grant tax amnesties, and do not issue any new preferential tax treatment (including exemptions, zero rating, tax credits, accelerated depreciation allowances, or special rates).	Protect tax revenue	Continuous
2	Seek ex-ante parliamentary approval for any expenditures that are non-budgeted or that exceed the budgetary appropriation.	Improved parliamentary oversight of budget execution	Continuous
3	Approve a National Fiscal Pact devolving some spending functions to the provinces.	Address the mismatch of federal and provincial revenues and expenditures	end-September 2024
4	Share with the IMF staff a report detailing actions to reduce the federal government's footprint.	Reduce the footprint of the state	end-September 2024
5	Each province amends their Agriculture Income Tax legislation and regime to fully align it with the federal personal income tax regime for small farmers and the federal corporate income tax regime for commercial agriculture, so that taxation can commence from January 1, 2025.	Protect tax revenue	end-October 2024
6	Fully implement compliance risk management measures in Large Taxpayer Units in large markets in Islamabad, Karachi, and Lahore Regional Offices.	Improve tax compliance	end-December 2024
7	Develop and publish on the Ministry of Planning website: (i) the criteria for project selection, including a scorecard, detailing the weight assigned to each criterion and the methodology for calculating the score; and (ii) the annual limit on the total size of new projects entering the PSDP portfolio.	Better public investment management	end-January 2025
8	Introduce a 5 percent FED on fertilizer and pesticide.	Protect tax revenue	end-June 2025
	Governance		
9	Amend the Civil Servants Act to ensure that asset declarations of high-level public officials (including assets beneficially owned by them and a member of their family) are digitally filed and publicly accessible (with sufficient protection over private information) through the FBR, with a robust framework for risk-based verification by a single authority.	Enhance effectiveness of anti-corruption framework	end-February 2025
10	Publish the full Governance and Corruption Diagnostic Assessment report.	Publicly identify critical governance vulnerabilities	end-July 2025
	Social		
11	Annual Inflation adjustment of the unconditional cash transfer (Kafaalat).	Maintain purchasing power in real terms	end-January 2025
	Monetary and Financial		
12	Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.	Maintain FX market functioning	Continuous
13	Parliamentary approval of amendments to the bank resolution and deposit insurance legislation, in a manner that preserves the integrity of the draft legal amendments.	Strengthen crisis management toolkit	end-October 2024
14	Place undercapitalized private banks under resolution unless (i) these banks are fully recapitalized by end-October 2024; or (ii) a legally binding agreement is in place by end-October 2024 towards a merger with other banks or with a new sponsor that would achieve full recapitalization by April 2025.	Enforce regulatory standards	end-November 2024
15	In consultation with Fund staff, revise regulations and underlying methodologies on risk mitigating measures, including enhanced collateral policy and by requiring counterparties to be financially sound.	Improve safeguards in monetary policy operations	end-December 2024
16	Implement revised regulations on risk mitigating measures.	Improve safeguards in monetary policy operations	end-September 2025
	Energy Sector		
17	Complete all policy actions needed to prepare two DISCOs for privatization and concession transactions.	Improve DISCO management and efficiency	end-January 2025
18	Eliminate captive power usage in the gas sector.	Push captive gas users on to the electricity grid and channel gas to the most efficient generators	end-January 2025
19	Public notification by the government of the December 2024 semiannual gas tariff adjustment determination.	Maintain tariffs at cost recovery levels	February 15, 2025
	State-Owned Enterprises and Investment Policy		
20	Amend the SWF Act and other legislation, in consultation with Fund staff and in line with MEFP ¶25.b, to adopt appropriate governance mechanisms and safeguards following international standards and good practices to (i) ensure that SOEs under the ownership of the SWF revert to the SOE Act's governance structures, (ii) that the SWF itself comes under governance mechanisms and safeguards in line with its principal nature as a holding company, and appropriate fiscal safeguards are in place for the SWF's operations.	Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023 and strenghten SWF governance and accountability.	end-December 2024
21	Amend the laws for 10 additional statutory SOEs, in consultation with Fund staff and in line with MEFP ¶25.a., to bring them in line with the SOE Act.	Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023.	end-June 2025
22	Prepare a plan based on the assessment conducted to fully phase out all current Special Economic Zone incentives by 2035.	Improve efficiency and provide a level playing field for investment	end-June 2025

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU)** sets out the understanding between the Pakistani authorities and the IMF staff regarding: (i) the ***definitions*** of quantitative performance criteria (and their adjustment mechanisms), indicative targets, and—if needed—prior actions and structural benchmarks in Section A below; and (ii) the respective ***reporting requirements*** used to monitor developments—for the economic program under the Extended Fund Facility (EFF)—as described in the authorities' Letter of Intent (LOI) dated September 11, 2024, and the attached Memorandum of Economic and Financial Policies (MEFP, notably its Tables 1 and 2) in Section B below. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in program design and accounting classifications introduced during the program period.

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

Currency	Rate	Currency	Rate
EUR	0.935016	THB	36.800095
JPY	160.909469	MYR	4.717496
CNY	7.266408	SGD	1.357050
GBP	0.790920	INR	83.448119
AUD	1.507727	SAR	3.751497
CAD	1.371050	SDR	0.760260

1/ As of June 28, 2024.

2. **For purposes of monitoring under the program**, all assets and liabilities as well as debt contracted, denominated in Special Drawing Rights (SDRs) or in currencies other than the U.S. dollar, are converted into U.S. dollars at the program exchange rates. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at 278.3412 rupee per one U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Text Table 1.

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Overview

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

- ***Performance Criteria***.
  - *Floor on the net international reserves (NIR) of the State Bank of Pakistan (SBP)* (millions of U.S. dollars);
  - *Ceiling on the net domestic assets (NDA) of the SBP* (stock, billions of Pakistani rupees);
  - *Ceiling on SBP's stock of net foreign currency swap/forward position* (millions of U.S. dollars);
  - *Ceiling on the general government primary budget deficit excluding grants* (cumulative flows, billions of Pakistani rupees);
  - *Ceiling on the amount of government guarantees* (stock, billions of Pakistani rupees);
  - *Floor on targeted cash transfers spending (BISP)* (cumulative, billions of Pakistani rupees); and
  - *Floor on the number of new tax returns from new filers (cumulative, thousands).*

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

- ***Indicative Targets***.
  - *Floor on general government budgetary health and education spending* (cumulative, billions of Pakistani rupees);
  - *Floor on net tax revenues collected by the Federal Board of Revenue (FBR)* (cumulative, billions of Pakistani rupees);
  - *Ceiling on net accumulation of tax refund arrears* (flow, billions of Pakistani rupees);
  - *Ceiling on power sector payment arrears* (flow, billions of Pakistani rupees);
  - *Floor on the weighted average time-to-maturity of the domestic debt securities stock in local currency, including T-bills, PIBs, and Sukuks (years);*
  - *Ceiling on the aggregate provincial governments' primary budget (cumulative, billions of Pakistani rupees);*
  - *Floor on the consolidated net tax revenues collected by provincial revenue authorities (cumulative, billions of Pakistani rupees); and*
  - *Floor on the net tax revenue from retailers register under the Tajir Dost scheme.*

B. Performance Criteria

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

Definition

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

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

6. Usable gross international reserves of the SBP are readily available claims on nonresidents denominated in foreign convertible currencies and controlled by the monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes. Gross official reserves include: (i) holdings of foreign currencies; (ii) holdings of SDRs; (iii) the reserve position in the IMF; and

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

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

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

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

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

Adjustment Mechanism

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

a. ***cash inflows usable for the financing of the government budget from multilateral and bilateral creditors, commercial borrowing, and bond issuance*** relative to the projected inflows (Table 1). Cumulative cash inflows usable for the financing of the government budget are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to the Asian Development Bank (ADB), Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to bilateral oil facilities, China, Saudi Arabia, UAE, DFID-UK, and USAID), external bond placements and other commercial borrowings that are usable for the financing of the central government budget (including foreign currency financing extended by local branches of foreign banks), plus proceeds from sales of state-owned assets to official bilateral partners, sovereign wealth funds. Downward adjustment of the floor on NIR will be limited to a maximum of US$2,000 million for both the December 2024 and June 2025 test dates.

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

Definition

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

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

Adjustment mechanism

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

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

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

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

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

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

Definition

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

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

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

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

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

d. ***total external grants to the federal and provincial governments***, which are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants. External grants in foreign currencies are converted into PRs at the actual exchange rates applied to each transaction.

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

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

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

Adjustment mechanism

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

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

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

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

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

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

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

end-Sep 2023	end-Dec 2023	end-Mar 2024	end-Jun 24
0	2,500	2,500	2,500

B.5. Ceiling on the Amount of Government Guarantees

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

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

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

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

22. The floor on **the number of new tax returns from new filers** applies to the cumulative number of file returns from new filers identified through the implementation of the Compliance Improvement Plan. This floor excludes returns filed voluntarily by new filers who had not received a prior notification letter, and returns filed by retailers under the *Tajir Dost* Scheme.

C. Continuous Performance Criteria

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

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

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

24. **External payment arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (federal and provincial government, and SBP), and state-owned enterprises to nonresidents arising in respect of public sector loans, debt contracted or guaranteed (including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date). The definition of debt, for the purposes of the EFF, is set out in ¶8 of 2020 Guidelines on Public Debt Conditionality in Fund Arrangements. The ceiling on the accumulation of external payment arrears is set at zero. The performance criterion applies on a continuous basis throughout the program period.

C.3. Other Continuous Performance Criteria

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

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

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

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

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

D. Indicative Targets

D.1. Floor on the Weighted Average Time-To-Maturity of the Domestic Debt Securities Stock

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

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

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

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

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

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

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

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

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

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

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

32. The ceiling on the **net accumulation of tax refund arrears** applies to the cumulative flow of tax refund arrears. The stock of tax refund arrears is defined as the amount of tax refund claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond/promissory note or an official decision to reject the claim) within a specified time period after the tax refund claim has been submitted to the FBR. The stock of income tax refund arrears is PRs 230.9 billion as of end-May 2024, and the net accumulation of income tax refund arrears will be counted from the starting point of PRs 230.9 billion; the stock of sales tax arrears at end-May 2024 is PRs 183.8 billion, and the net accumulation of sales tax refund arrears will be counted from the starting point of PRs 183.8 billion.

D.7. Floor on the Net Tax Revenue from Retailers under the Tajir Dost Scheme

33. The floor on the **net tax revenue from retailers register under the Tajir Dost scheme** is defined as the sum of revenues from the advance tax payed by retailers registered under the *Tajir Dost* scheme. Net revenue collection is defined, for each test date, as the cumulative sum of net revenues collected since the beginning of the respective fiscal year. The floor on the collection of net revenues by the provinces is measured quarterly based on cumulative end-of-quarter data.

D.8. Ceiling on Power Sector Payment Arrears

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

PROGRAM REPORTING REQUIREMENTS

35. **To effectively monitor the program performance, the authorities will provide all the needed data** to the IMF in line with Article VIII, Section 5 of the IMF Articles of Agreement as deemed necessary. Performance under the program is monitored from data supplied to the IMF by the SBP, Ministry of Finance, FBR, Pakistan Bureau of Statistics, Ministry of Energy (Power and Petroleum Division), and other agencies as outlined in Table 2 below. Irrespective of the requirements outlined in Table 2, the authorities will report on an ongoing/continuous basis any non-observance of continuous PCs. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Pakistan: Projected External Disbursements
(Millions of U.S. dollars)

	FY2025			
	Jul-Sep 2024	Oct-Dec 2024	Jan-March 2025	Apr-June 2025
	Proj.	Proj.	Proj.	Proj.
Multilateral and bilateral disbursements	2,241	5,040	3,445	5,359
of which: in cash 1/	1,999	4,739	3,184	4,987
of which: Saudi oil facility and IDB commodity loans	100	100	136	164
of which: project support	680	840	728	1,055
of which: sales of state-owned assets	0	0	0	0
International bond issuance 2/	0	0	0	0
Commercial borrowing 3/	200	0	1,600	2,753
Other	0	0	0	0
Gross inflows	2,441	5,040	5,045	8,112
of which: in cash	2,199	4,739	4,784	7,740
memo: New loans/deposits at SBP 4/				

1/ Assumes that 65 percent of project loans and 50 percent of project grants will be received in cash.
2/ Includes Naya Pakistan Certificates (NPC). NPC flows are recorded on a net basis.
3/ Includes foreign currency denominated loans from local branches of foreign banks
4/ Not included in multilateral and bilateral disbursments for the purposes of the adjustor.
Note: Cumulative excess/shortfall of flows cumulates from July 1, 2024 onwards.

Table 2. Pakistan: Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	International reserves	Inflows/outflows into/out of Naya Pakistan Certificates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within five working day
	Foreign exchange market	SBP foreign exchange operations, and intervention (volume), distinguishing within spot transactions the outright purchase/sale and purchase/sale related to forward contract	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	SBP operations against the domestic currency in swap/forwards (including all legs of transactions): for each day, the initial outstanding FX swap/forward position, summary of transactions during the day, the end-of-day position	Daily	Within one day
	Foreign exchange market	Interbank market transactions in the spot market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), weighted average price transacted (untrimmed), simple average price transacted (simple mean, untrimmed), standard deviation of values transacted (untrimmed), and standard deviation of prices transacted (untrimmed).	Daily	Within one day

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	Foreign exchange market	Interbank market transactions in the forward market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), standard deviation of values transacted (untrimmed), average maturity (simple mean, untrimmed), standard deviation of maturity (untrimmed).	Daily	Within one day
	Foreign exchange market	Aggregate customer transactions of commercial banks, with breakdown into gross sales and purchases.	Weekly	Third working day of the following week
	Foreign exchange market	Stock of dividend/profit payments pending execution which have cleared any necessary regulatory processes.	Monthly	Within one week
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Daily	Within one day
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates, disaggregated between new operations and outstanding stock	Monthly	Within 25 working days of the end of each month
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	Banking indicators	Core Financial Stability Indicators (FSIs), including but not limited to capital adequacy; asset composition and quality; profitability; liquidity; open FX positions – in aggregate and bank-by-bank (without names)	Quarterly	Within 45 days of the following quarter
	Banking indicators	Liquidity data and deferred/restructured loans	Weekly	Within 5 days of the end of each week
	Banking data	Banks' net open foreign exchange positions split between total foreign assets and foreign exchange liabilities: in aggregate for the system and bank by bank (without names, but with consistent identifiers across datasets)	Monthly	Within five days of the end of each month
	Banking data	Holdings of government securities – in aggregate and bank-by-bank (without names, but with consistent identifiers across datasets)	Monthly	Within 7 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	SBP refinance schemes	Outstanding position under SBP refinance schemes (by program)	Monthly	Within 25 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter
	External financing	List of all disbursements and amortization payments for external budget financing and external grants (above US$3 million or equivalent), including date of the transaction, foreign currency amount, exchange rate applied, rupee amount credited, creditor (or donor agency).	Quarterly	Within 25 days of the end of each quarter

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
Ministry of Finance (MOF)	Domestic financing	Gross disbursements and amortization of Naya Pakistan Certificates by residents (in PRs) and non-residents (in PRs and US$).	Quarterly	Within 25 days of the end of each quarter
	Domestic debt	Domestic debt composition	Monthly	Within 25 days of the end of each month
	Domestic debt	T-Bill, PIB, and Sukuk Bid sheet from domestic debt auctions, including auctions via PSX.	Daily	Within 1 day of each T-Bill and PIB auction
	Federal government	Federal and provincial governments fiscal operations (including fiscal outcomes broken down by province)	Monthly	Within 30 days of the end of each month
	Federal government	Government guarantees - issued and executed (reported separately). Name of entity receiving the guarantee and the value of the guarantee. Interest arrears on guaranteed loans, if any.	Quarterly	Within 15 days of the end of each quarter
	Consolidated general government	Federal and provincial governments (including fiscal outcomes broken down by province)	Quarterly	Within 45 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Annual	Within 180 days of the end of each year
	Federal government	Fiscal financing sources: Detailed quarterly financing plan for the coming 12 months including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.	Monthly	One month in advance
	General government	Total general government budgetary spending on health and education broken down into spending by the federal and provincial governments	Monthly	Within 15 days of the end of each month
	Federal government	Stock of government borrowing from the SBP	Quarterly	Within the first five days of each quarter.
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
Federal Board of Revenue (FBR)	Revenue collection Tax credits	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions.	Monthly	Within seven days of the end of each month
	Tax arrears	By category	Monthly	Within seven days of each month
		By type of tax	Monthly	Within seven days of the end of each month
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	Monthly	Within seven days of the end of each month

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
Federal Board of Revenue (FBR)	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Monthly	Within seven days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Monthly	Within seven days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large taxpayer units (LTUs)	Monthly	Within seven days of the end of each month
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Monthly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	New taxpayers	Total number of notifications delivered; Number of taxpayers newly registers (voluntary and notified); Number and value if tax returns filed by newly taxpayers (voluntary and notified); Total value of revenue collected (voluntary and notified)	Monthly	Within seven days of the end of each month
	New taxpayers (retailers)	Number of registered retailers; Number and value of tax returns filed by newly registered taxpayers; Total value of revenue collected	Monthly	Within seven days of the end of each month
	Track and trace system	Number of facilities with track and traces; machines installed (cigarettes, fertilizer, sugar, cement); Total value of revenue collected per facility	Monthly	Within seven days of the end of each month
Ministry of Water and Power		CD flow report (detailing key components of CD flow); DISCO collections, broken down by DISCO; DISCO losses, broken down by DISCO; Electricity consumption by major consumer group (domestic and industrial, with domestic separated by slab); Revenues by major consumer group (domestic and industrial, with domestic separated by slab); Number of consumers by major consumer group (domestic and industrial, with domestic separated by slab); Tariffs by major consumer group (domestic and industrial, with domestic separated by slab) Anti-theft yields; Arrears to IPPs (broken down by each IPP)	Monthly	Within 25 days from the end of the month.

Table 2. Pakistan: Monitoring and Reporting Requirements (concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
Ministry of Petroleum and Natural Resources		Detailed CD flow (receivables) data by entity and receiver, per file; Gas tariffs, broken down by consumer category, with domestic consumers further broken down by slab; Gas volume sales, broken down by consumer category, with domestic consumers further broken down by slab; Gas revenues, broken down by consumer category, with domestic consumers further broken down by slab; UFG losses per entity	Monthly	Within 30 days from the end of the month
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by all BISP programs.	Monthly	Within 30 days from the end of the month
Ministry of Finance	Financial statements	Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	Quarterly	Within 30 days from the end of the quarter
Pakistan Public Procuremen t Authority	Public Procurement	Number and amounts of public procurement through the e-PADS system (planned, in-progress, and completed) at the Federal and Provincial levels (including petty purchase, request for quotation, open competitive bidding, and other alternate methods of procurement)	Quarterly	Within 30 days from the end of the quarter

INTERNATIONAL MONETARY FUND

PAKISTAN

September 11, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—INFORMATIONAL ANNEX

Prepared By | Middle East and Central Asia Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of July 31, 2024)

Membership Status: Joined July 11, 1950; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	2,031.00	100.00
IMF's Holdings of Currency	8,183.44	402.93
Reserve Tranche Position	0.12	0.01

SDR Department

	SDR Million	Percent Allocation
Net Cumulative Allocation	2,935.19	100.00
Holdings	341.76	11.64

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-By Arrangements	2,250.00	110.78
Emergency Assistance	380.81	18.75
Extended Arrangements	3,521.75	173.40

Latest Financial Commitments

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jul 12, 2023	Apr 29, 2024	2,250.00	2,250.00
EFF	Jul 3, 2019	Jun 30, 2023	4,988.00	3,038.00
EFF	Sep 4, 2013	Sep 30, 2016	4,393.00	4,393.00

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Apr 16, 2020	Apr 20, 2020	1,015.50	1,015.50

Projected Payments to the Fund

	Forthcoming (SDR Million)				
	2024	2025	2026	2027	2028
Principal	400.35	769.21	478.75	1,358.33	1,519.58
Charges/Interest	243.56	419.40	372.77	308.99	224.39
Total	**643.91**	**1,188.61**	**851.52**	**1,667.33**	**1,743.98**

Implementation of HIPC Initiative

Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable.

Safeguards Assessment

The latest safeguards assessment for the State Bank of Pakistan (SBP) was completed in December 2023. It found that the SBP has maintained or strengthened safeguards in the ELRIC areas and implemented all recommendations from the 2019 safeguards assessment. External audits remain aligned with international standards and have been further strengthened through a formal external auditor selection and appointment policy. Most notably, the 2022 enactment of amendments to the SBP Act significantly strengthened the central bank's governance arrangements and autonomy provisions. Relatedly, the SBP has also stopped providing monetary financing to the government, but is still in process of phasing-out quasi fiscal developmental lending schemes. It broadly strengthened internal controls in other areas, except in monetary policy reverse repo operations. Thus, while internal controls and financial reporting have broadly sound practices, some vulnerabilities remain.

Exchange Arrangements

The de jure exchange rate arrangement is classified as floating while the de facto exchange rate arrangement is classified as crawl-like. The SBP does not explicitly or implicitly commit to an exchange rate target or path. Until 2024, the SBP did not publish data related to market intervention but will commence publication of monthly FX interventions with a three-months lag. Since November 2023, exchange rate movements have been very limited owing to an improving current account balance, strong FX inflows, and SBP's efforts to strengthen its reserve position. Pakistan has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement and maintains an exchange system free of exchange restrictions and Multiple Currency Practices (MCPs).

Last Article IV Consultation

Concluded on February 2, 2022 (IMF Country Report No. 22/27).

FSAP Participation

Pakistan participated in the Financial Sector Assessment Program (FSAP) in September 2008, however, the report was not published. The previous FSAP was conducted in February and April 2004. The Financial System Stability Assessment was published in July 2004 (IMF Country Report No. 04/215).

Technical Assistance Since Last Article IV Consultation (February 2022)

Department	Timing	Purpose	Receiving Agency[1]
FAD	2022–23	Compliance Risk Management	FBR
FAD	September 2022	Cash and Fiscal Risk Management	MOF
FAD	September 2022	Revenue Mobilization	FBR
FAD	March 2023	PIMA/C-PIMA	MOF
FAD	November 2023	Budget Execution and Controls	MOF
FAD	November 2023	Tax Policy Diagnostics	FBR/MOF
FAD	December 2023	Revenue Administration Diagnostics	FBR
FIN	September 2023	Safeguards Assessment	SBP
MCM	February 2022	Bank Resolution Law	SBP
MCM	October 2023	Central Bank Digital Currencies	SBP
MCM	July 2024	Cyber Strategy for the Financial Sector	SBP
STA	November 2023	Producer Price Index	PBS
STA	July 2024	Government Financial Statistics	MOF

[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).

Resident Representative

Ms. Esther Pérez Ruiz serves as the Resident Representative since December 2021.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other International Financial Institutions in Pakistan can be found at:

World Bank: https://www.worldbank.org/en/country/pakistan

Asian Development Bank: https://www.adb.org/countries/pakistan/main

<u>Statement by Mr. Bahador Bijani and Mr. Saif Ullah Dogar</u>
September 25, 2024

On behalf of our Pakistani authorities, we thank the mission team, led by Mr. Porter, for its regular close engagement with the authorities following the successful completion of the 2023 SBA for Article IV consultations, leading to structuring the proposed EFF Program 2024-27. The selected issues paper and the ex-post peer review assessment appropriately explain the context and inform the design of the proposed program. We thank staff for recognizing the efforts of the authorities in the last two years to break away from the legacy of program deviations and to build a solid track record of ownership, steadfast implementation, and strong program performance. The authorities also thank the Management and Executive Board for their continued support during these challenging times. On behalf of the authorities, we also express our sincere gratitude to Pakistan's bilateral and multilateral partners, particularly the Kingdom of Saudi Arabia, the People's Republic of China, and the United Arab Emirates for their external financing support, when it matters the most.

I. Introduction

Following a series of adverse external shocks combined with, Pakistan's 2019-23 EFF Program went off-track in 2022 and macroeconomic conditions deteriorated. Per the ex-post peer review assessment, before the expiry of the EFF program, the government that assumed power in around mid-CY22 took significant remedial measures and brought the EFF program back on track in August 2022 with the completion of seventh and eight reviews but, for technical reasons, the program could not be completed and was allowed to expire on June 30, 2023. **Considering the strong commitment of the authorities to stay the course and the worsening economic situation at the time, the Fund approved the SBA** (July 2023 to April 2024) to ensure momentum of corrective measures, anchor policy efforts and stabilize the economy. SBA 2023 was essentially a stabilization program, designed to function as a bridge between the two extended programs, therefore the new proposed program will build on the structural agenda of the previous EFF program.

The proposed new EFF arrangement is also firmly embedded in the ex-post peer review assessment. It is indeed a compendium of strong policy reforms. Steadfast implementation of the proposed program is expected not only to deepen the reforms introduced in the previous programs but, also to address the structural issues of the economy, which will take it towards sustainable and durable growth.

II. Economic Developments and Challenges

Pakistan's strong performance under the SBA program improved macroeconomic stability that is strengthening. Owing to an appropriately tight monetary stance and fiscal prudence, inflation has come down to single digits (9.6 percent in August 2024) from its peak of 38 percent in May 2023, FX reserves have doubled to about five weeks of import, and the rupee remained generally stable. On the fiscal side, responsible fiscal management helped post a primary surplus of 0.9 percent of GDP in FY24 and the FY25 budget aims at achieving the headline primary surplus of 2.0 percent of the GDP.

While acknowledging that long-lasting structural issues are the main impediments to sustainable growth, the authorities are determined to address them in the context of the new program decisively. The authorities are committed to fiscal consolidation predicated on an ambitious structural reforms agenda in areas of revenue generation, cost structure in the energy sector, State Owned Enterprises (SOEs) governance, removal of concessions and exemptions, improving competitiveness and privatization.

Our authorities' ownership and commitment to the reform agenda are well demonstrated by the completion of prior actions for the new program. These are politically costly but economically correct decisions to ensure that economic stability is not transient but sustained.

The current account deficit (CAD) has remained contained at 0.2 percent of the GDP reflecting contribution of the import compression. Going forward, import volumes are expected to increase, in line with the ongoing domestic economic recovery, which together with improvements in the country's terms of trade and stronger exports and robust remittance inflows are expected to contain the CAD in FY25 and remain in the region of 1.0 percent of the GDP.

III. Fiscal Policy, Debt Sustainability and Public Investment Management for Climate Resilience

The planned consolidation will be grounded in an increase in the tax-to-GDP ratio. The annual budget for FY25 envisages the tax-to-GDP increasing by ~ 2 percentage points of GDP, to 12.3 GDP, rising further to 13.4 of GDP by the end of the program. The commitment is evident from the measures taken in historically difficult and politically challenging areas, including bringing the retailers in the tax net, reduction in slabs for Personal Income Tax (PIT), expansion of coverage of FED while enhancing its rate and removal of several tax concessions and exemptions. During the program period, it has been agreed that the agriculture income tax rates will be harmonized with the PIT and Urban Immovable Property Tax will also be restructured in consultation with the Fund.

Overall fiscal management has been an area of concern but fiscal discipline during and after the SBA has strengthened fiscal consolidation. Going forward, the authorities have taken three major decisions to improve fiscal management durably. Notably, the National Fiscal Pact to re-balance the federation and the federating units' relationship, which has been agreed by the provinces in principle, under which taxes will be harmonized across jurisdictions to improve collections while protecting the social sector spending; Second, removal of tax concessions and exemptions to reduce tax expenditures is another important component of revenue mobilization. In the previous Fund programs, a continuous benchmark was in place not to introduce any new exemptions and concessions, but the existing ones continued to exist. However, starting with the Finance Act FY25, the authorities have abolished exemptions and concessions tax (yielding about 0.37 percent of the GDP). The GST on services regime is being moved from a positive list to a negative list.

Debt levels in Pakistan become a concern primarily due to volatile and unsustainable economic growth and a narrow revenue base. Under the new proposed Fund program, the authorities aim to deal with the immediate issues and resolve the structural impediments to decisively address the underlying reasons. With lower tax-to-GDP levels, even moderate debt servicing does not leave enough space for maneuverability and therefore the resultant under-investment in drivers of sustainable and inclusive economic growth such as education, health, skill development, R&D etc. Sustained improvements in the fiscal position with greater focus on revenues, lengthening of domestic debt maturities, and efforts to diversify the investor base in government securities are expected to strengthen debt sustainability in the medium term. The government has recently introduced a contributory pension scheme for new employees to end the increase in unfunded pension liabilities. The authorities are keen to take measures within and outside the program modalities to reduce the fiscal burden.

On expenditure rationalization, in addition to reduction in government footprint, and the privatization, multiple other initiatives are being taken. The authorities plan to undertake a holistic assessment of Special Economic Zones and Export Processing Zones to gradually phase out the existing incentives subject to contractual obligations. Phasing out of the incentives coupled with the decision to grant no such incentives in the future will help reduce the associated fiscal costs and create a level playing field and a more predictable business environment. The energy subsidies have been contained at 1 percent of the GDP in the annual budget for FY25 by adjusting tariffs and introducing cost-side reforms. Besides, revenue mobilization and expenditure rationalization improvements in the PFM, economic data compilation and automation have been prioritized with the technical assistance of the Fund.

We welcome staff's recognition of the government's strong performance towards the adoption of C-PIMA recommendations. The authorities hope to leverage the Fund program and their own reform agenda to mobilize sufficient climate financing to catalyze the adoption with the assistance of other development partners and MDBs. Creation of the Climate Change Authority and preparation of the National Disaster Risk Financing Strategy and National Climate Finance Strategy are various components of the overall efforts by our authorities to re-orient policy formulation and firmly embed reforms to create a more integrated and resilient planning and management framework for climate.

IV. Energy Sector Policies

The authorities are committed to restoring the energy sector's financial viability to mitigate macro-fiscal risks. To reduce market distortions, significant measures, including automaticity and implementation of tariff adjustments in the power sector, have been taken in line with the advice of the Fund and other multilateral partners. These reform measures in the power sector have also significantly reduced fiscal hemorrhaging and stabilized the nominal power sector circular debt (CD) flow. On the gas side, the collection of credible data on CD and greater transparency have helped in building momentum for the reforms. The authorities are cognizant of the structural inefficiencies in the generation, transmission, distribution and payment recovery of electricity and gas, and the importance of cost-side reforms, and are prepared to address them in the next phase of reforms in consultation with the Fund, the World Bank and Asian Development Bank (ADB). These reforms are being prioritized to create a more conducive environment for businesses by making energy more affordable and exports more competitive without perpetuating market distortions.

V. Social Protection and Social Sector Expenditure

To make up for the under-investment in human capital over time, the FY25 annual budget envisages an increasingly higher primary surplus while enhancing social protection and human capital expenditure. Around 40 percent of the 250 million population is below the poverty line. Adverse macroeconomic conditions and under-investment over time have direct implications on integration into the labor force, quality of human capital and opportunities for social mobility. At the federal level, allocation to BISP has increased by 0.5 percent of the GDP (27 percent higher compared to FY24), will be directed towards enhanced coverage and higher generosity level while protecting the same in real terms through inflation indexation. Beyond social protection, gradual enhancement of investments in the health and education sector is agreed upon under the proposed Fund arrangement. The greater fiscal space leading to a higher investment in human capital is predicated on the rationalization of primary expenditure through a reduced public sector footprint and the enhanced role of provinces in social sector investments and resource mobilization leading to a higher tax-to-GDP ratio.

VI. Monetary, Exchange Rate and Current Account Balance

The restrictive and well-calibrated monetary stance by the State Bank of Pakistan (SBP) supported by prudent fiscal management has helped contain demand and bring down inflation significantly more than market expectations. The favorable movement in global oil and food prices also contributed. Recognizing the internal and external uncertainties, the monetary stance will remain cautious with a sizable positive real policy rate (currently about 10 ppts ex-post). The authorities believe that the restrictive stance contributed significantly to driving FY25 average inflation below the earlier forecast range of 11.5—13.5 percent.

Maintaining a flexible exchange rate management and a more independent central bank have been among the strong areas of reform under the Fund programs. The new legislation made inflation the central bank’s primary objective and ended the lending to the government. The rupee has remained generally stable without major intervention and interbank and open market spread remains within the agreed band. Improved macroeconomic indicators, exchange rate stability, and continued refrainment from any restrictions of current account payments including repatriation of profits will encourage investors and help in making the overall business environment more conducive.

To address the high levels of borrowing from domestic the authorities are taking steps to deepen the capital and financial markets and improve public debt management. MoF's continued focus on addressing the fiscal imbalances, lengthening domestic maturities, reducing gross financing needs, and improving cash management by scaling up the TSA reforms—will remain central to the efforts to bring these borrowing levels to more moderate levels. Furthermore, SBP also plans to complete the advanced-stage winding-up of the undercapitalized banks and enhance the institutional framework, surveillance, inclusive access to financial services through digital solutions – and credit risk management.

VII. Implementation of AML/CFT Framework

Pakistan exited the FATF grey list in 2022 and continues to make good progress in making the institutional frameworks more robust. In 2023, Pakistan established the National AML/CFT Authority, which is now driving the National AML/CFT Strategy and leading the national efforts to address risks and remove deficiencies identified in the 2023 National Risk Assessment, by coordinating the efforts of various national and subnational entities including financial sector regulators, tax collecting authorities, banks, and anti-corruption agencies. The establishment of a legal entity with a complete legal framework will improve coordination and help sustain the hard-earned gains and catalyze future efforts.

VIII. SOE Governance, De-regulation, Privatization and Competitiveness

a. SOE Governance

Improving SOE Governance continues to be one of the important pillars of the authorities' reform agenda. On the advice of the Fund and with the technical assistance of ADB, of Pakistan formulated a SOE Policy, (promulgated the SOE Act in 2023) and established a Central Monitoring Unit at the MoF, and the process of aligning the statutes of different SOEs with the SOE Act is underway. Four such statutes have already been amended and several other statutes including of Sovereign Wealth Fund will be harmonized in FY25.

b. De-regulation and Privatization

Deregulation of the product markets and the end of price setting of commodities are being prioritized to remove distortions. The government recognizes that it needs to exit the commercial space, particularly in sectors where successful private entities already exist, to create more space for the private sector. On price-setting, the federal and provincial governments have agreed in principle to refrain from announcing the support prices for raw commodities and limiting the procurement programs to the extend of food security purposes.

This will not only help mitigate fiscal and debt sustainability risks but also improve public services, bring in investment and phase out the government's role in price setting. Currently, Pakistan International Airlines and one of the DISCOs are at the advanced stage of privatization.

c. International Trade and Barriers to Trade

The authorities are determined to remove barriers to international trade and not to increase trade-weighted average customs duties and tariffs. National Tariff Policy 2019-24 has expired and under the new Policy, the authorities aim to reduce tariffs every year during FY25-29. The authorities are also committed to reducing non-trade barriers and removing some of the trade distortions, including export subsidies. On the process side, Pakistan Single Window will further expand to the federating units.

d. Competitiveness and Investment

In addition to the support coming from the improved macroeconomic conditions, flexible exchange rate system and removal of trade barriers, several reforms are being introduced to improve competitiveness and expand the export base. Reforms in the regulatory framework under the program and the renewed emphasis on human capital investment and robust yet consistent and investment-friendly regulatory regime are expected to attract FDI and private investment.

IX. Concluding Remarks

Pakistan has shown remarkable resilience and commitment to economic recovery despite multiple shocks. The authorities have made politically costly and socially painful decisions to strengthen macro stability and remain committed to taking this further to ensure that the economy is on a durable growth path. With the belief that the proposed EFF will help neutralize the risks highlighted by staff, the authorities request approval by the Executive Board of the proposed EFF. The authorities would also like to assure the Board of their program ownership and their unflinching commitment to the path it has taken in the complex environment despite socio-political challenges. The Pakistani authorities look forward to continued support from the Executive Board, Management, and Staff.