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# Pakistan: Selected Issues and Statistical Appendix

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INTERNATIONAL MONETARY FUND

PAKISTAN

**Selected Issues and Statistical Appendix**

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Approved by the Middle Eastern Department

November 20, 2000

Contents Page

Text Boxes



Text Tables



Charts

# I. Tax Reform and Revenue Performance[1]

## A. Introduction and Background

1. Efforts to reduce Pakistan's chronically large fiscal deficit tend to focus on improving revenue performance. The poor fiscal position is the achilles heel of macroeconomic stability and it severely limits the government's ability to support poverty alleviation, sustainable growth, and economic recovery. While there is little doubt that the full arsenal of revenue augmentation, rationalization of government spending, and more efficient allocation of government resources will need to be employed for bringing about lasting betterment, highest hopes are usually placed on mobilizing additional revenue.

2. This Section tries to put the quest for additional revenue into perspective. Pakistan's tax system has indeed undergone profound changes over the last decade. The next subsection analyzes how they have affected the composition and overall performance of revenue over time. It is followed by subsections that take a closer look at the reform and performance of the main sources of revenue: the sales tax, the income tax, customs duties, and petroleum taxes. Pakistan's revenue performance is then contrasted with that of a sample of thirteen other countries from around the world at varying degrees of development. A final subsection summarizes the conclusions.

## B. Revenue Performance in Historical Perspective

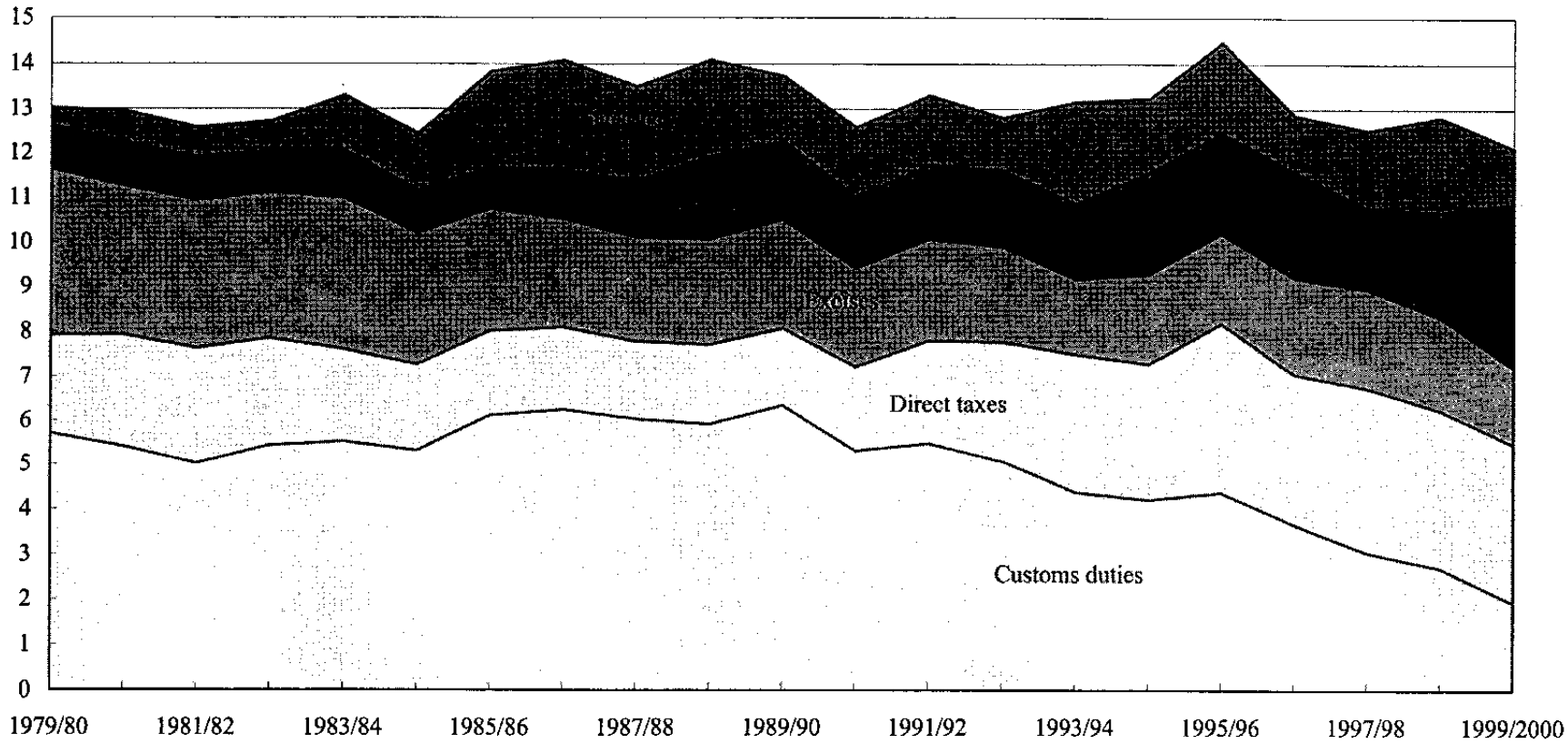
3. Notwithstanding profound changes of Pakistan's tax system, tax revenue in relation to GDP has remained remarkably stable over the last two decades (Chart I-1 and Table I-1). It averaged 13 percent of GDP, never exceeded 14.5 percent of GDP, and never dipped below 12 percent of GDP. Although 1999/2000, the final year of the observation period, registered the weakest revenue performance, the time series does not exhibit a downward trend. However, there certainly is no upward trend either. This analysis focuses on the tax revenue of the central government, comprising five components: sales taxes, excises, direct taxes, customs duties, and surcharges on petroleum products and natural gas. The remaining sources of government revenue, not covered here, are provincial tax revenue, central government nontax revenues, and provincial government nontax revenues. They typically account for around 0.5, 2.5, and 0.5 percent of GDP, respectively.

4. The composition of tax revenue has shifted towards more reliance on sales tax and direct tax collections with the contribution of customs duties and excises shrinking. The most striking feature is the declining trend of customs duty collections, which fell more or less continuously from over 6 percent of GDP in 1989/90 to just under 2 percent of GDP in 1999/2000. While they used to account for well over 40 percent of tax revenue in the 1980s, they now contribute a mere 15 percent. Equally striking is the relatively recent surge of sales tax collections, which culminated at the equivalent of 3.7 percent of GDP in 1999/2000

[1] Prepared by Christoph Klingen (FAD).

Chart I-1. Pakistan: Tax Revenue, 1979/80–1999/2000 1/

(In percent of GDP)




Source: Pakistani authorities, and staff estimates.

1/ Revised actual data for 1993/94–1998/99 and preliminary actual data for 1999/2000. Unrevised data prior to 1993/94 have been adjusted proportionately with revisions during 1993/94–1998/99.

Table I-1. Pakistan: Tax Revenue, 1979/80–1999/2000 1/

| | Surcharges | Sales tax | Excise duties | Direct taxes | Customs duties | Total |
|---|---|---|---|---|---|---|
| | | | (In percent of GDP) | | | |
| 1979/80 | 0.4 | 1.0 | 3.7 | 2.2 | 5.7 | 13.0 |
| 1980/81 | 0.7 | 1.0 | 3.3 | 2.5 | 5.4 | 13.0 |
| 1981/82 | 0.7 | 1.0 | 3.3 | 2.6 | 5.0 | 12.6 |
| 1982/83 | 0.7 | 0.9 | 3.3 | 2.4 | 5.4 | 12.7 |
| 1983/84 | 1.2 | 1.1 | 3.4 | 2.1 | 5.5 | 13.3 |
| 1984/85 | 1.3 | 0.9 | 2.9 | 2.0 | 5.3 | 12.4 |
| 1985/86 | 2.2 | 0.9 | 2.7 | 1.9 | 6.1 | 13.8 |
| 1986/87 | 2.5 | 1.1 | 2.4 | 1.8 | 6.3 | 14.1 |
| 1987/88 | 2.1 | 1.2 | 2.3 | 1.7 | 6.0 | 13.5 |
| 1988/89 | 2.2 | 1.8 | 2.4 | 1.8 | 5.9 | 14.1 |
| 1989/90 | 1.5 | 1.7 | 2.4 | 1.7 | 6.4 | 13.7 |
| 1990/91 | 1.6 | 1.6 | 2.2 | 1.9 | 5.3 | 12.6 |
| 1991/92 | 1.6 | 1.6 | 2.3 | 2.3 | 5.5 | 13.3 |
| 1992/93 | 1.2 | 1.7 | 2.1 | 2.7 | 5.1 | 12.8 |
| 1993/94 | 2.3 | 1.7 | 1.7 | 3.1 | 4.4 | 13.2 |
| 1994/95 | 1.7 | 2.3 | 2.0 | 3.1 | 4.2 | 13.2 |
| 1995/96 | 2.0 | 2.2 | 2.0 | 3.8 | 4.4 | 14.5 |
| 1996/97 | 1.3 | 2.4 | 2.1 | 3.4 | 3.7 | 12.9 |
| 1997/98 | 1.7 | 1.8 | 2.2 | 3.7 | 3.0 | 12.5 |
| 1998/99 | 2.1 | 2.4 | 2.1 | 3.6 | 2.7 | 12.8 |
| 1999/2000 | 1.2 | 3.7 | 1.7 | 3.5 | 1.9 | 12.1 |

Sources: Pakistan authorities and Fund staff estimates.

1/ Revised actual data for 1993/94–1998/99 and preliminary data for 1999/2000. Unrevised data prior to 1993/94 were adjusted in proportion to revisions during 1993/94–1998/99.

compared to just 1 percent of GDP two decades earlier. Direct tax collection improved over the observation period with most of the headway occurring in the first half of the 1990s. The importance of excise duties diminished over time while surcharges remained volatile throughout.

5. While revenue stagnated relative to GDP during the observation period, substantial headway was made in increasing revenues earlier on. During the 1960s, revenue increased from about 9 percent of GDP to over 12 percent of GDP and then flattened out.[2]

### C. Sales Tax Reform

6. Over the past ten years, Pakistan has successfully reformed the sales tax regime but important reform elements remain to be implemented. The introduction of GST in VAT mode in November 1990 together with successive broad basing and movement toward accounts-based assessment has meant that revenues increased by about 2 percentage points of GDP and that revenues are raised in a less distortionary way. Key items still on the reform agenda include: (a) extension to the retail sector; (b) firmly establishing the GST in the service sector; and (c) better enforcement in general. It will also be important to consolidate the progress already achieved and guard against policy reversals, which have frequently marked the reform process in the past.

7. The Sales Tax Act of 1990 replaced a single-stage general tax on manufacturers and importers, which was highly distortionary, difficult to administer, and unsuccessful in raising much revenue. It was beset by a large number of exemptions, cascading (despite a complex credit mechanism),[3] and tax liabilities determined on the basis of notional rather than actual prices. The credit mechanism allowed for an adjustment in the amount of the sales tax embedded in the cost of materials and supplies used up in the production process. At least in theory, it required the tracing of material and supplies through the production process. Levied at a rate of 12.5 percent, it raised on average 1.2 percent of GDP in the 1980s.

8. The GST is currently levied at a single positive rate of 15 percent—exports are zero-rated—which minimizes distortions, simplifies tax administration, and helps keep compliance costs down. Although the GST was introduced at a single positive rate of 12.5 percent, multiple rates were introduced later on. The initial rate was hiked to 15 percent in July 1993. In July 1995, the standard rate was further increased to 18 percent and two additional bands at 10 and 20 percent were introduced. Yet another band at 23 percent was added in July 1996 meaning that a total of four positive rates was in effect in 1996/97. A simplified rate structure came into effect in July 1997 when the standard rate was dropped to 12.5 percent and only one nonstandard rate of 10 percent was retained. The current rate structure was adopted in December 1999.

9. While the tax base was broadened considerably over the past ten years, coverage is not yet satisfactory. The initially narrow base of the GST was a feature that carried over from

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[2] See Ahmad, Ehtisham, and Nicholas Stern, *The Theory and Practice of Tax Reform in Developing Countries*, Cambridge University Press, 1991.

[3] A tax is called cascading if a commodity/service is taxed more than once as it passes through the various stages of the production-distribution chain and the effective tax burden therefore exceeds the nominal tax rate.

the tax it replaced, under which 8 goods accounted for about 80 percent of revenues. Outright exemptions, exclusion of large parts of the retail and service sectors, and enforcement problems all impinged on coverage.

10. GST exemptions have been reduced drastically. In its early years, the GST was riddled with exemptions which resulted in all supplies being exempted except for supplies made by a manufacturer, supplies of furniture, and supplies of certain imported or locally produced consumer durables. In addition, a government order exempted a further 120 locally produced goods, including agricultural products, many raw products and semi-manufactured goods, petroleum, electricity, pharmaceuticals, fertilizers, motor vehicles, dolls, toys, etc. Major headway in broadening the tax base was made in the context of the 1994/95 budget when 266 exemptions were eliminated. Likewise, the GST extension to petroleum products, natural gas, and electricity in August 1999 constituted an important milestone. Remaining major non-standard GST exemptions relate to agricultural inputs (including fertilizers, pesticides, and animal feeds), edible oils (excluding import of palm and soybean oil), and computer hard and software.

11. In the past, the integrity of the GST was also undermined by geographical exemptions, which were granted to promote the setting up of new industries in backward regions. In the mid-1990s, a plethora of Special Industrialized Zones, the region of Gadoon Amazai, and large parts of the North West Frontier Province and the Province of Balochistan enjoyed such preferential treatment. These incentive schemes have meanwhile been grandfathered and have, for the most part, expired. However, the Provincial and Federal Administered Tribal Areas as well as the Northern Areas remain outside the coverage of the Sales Tax Act.

12. Despite several attempts, the GST has not yet been successfully extended to the retail sector. Mindful of administrative constraints, collection of the GST was initially deliberately confined to the manufacturing and import stages, although this entailed structural weaknesses and a considerable revenue loss. As experience with the new tax grew, the extension to the retail stage was seriously contemplated from the mid-1990s. However, all moves in this direction were met with fierce taxpayer resistance. In the event, the government resorted to imposing a turnover tax of 3 percent in the retail sector in June 1997, although this was not much of an improvement from a structural point of view. In the face of renewed taxpayer resistance and implementation problems, the government agreed in April 1998 to replace the turnover tax by a system of fixed fees, so-called trade enrollment certificates, to be administered by the retail associations themselves. The new arrangement yielded little revenue and was abandoned soon afterwards. Although the GST was legally extended to the retail sector in July 1998, enforcement did not take place in earnest. In May 2000, the government started a new attempt to bring the retail sector into the tax net. Enforcement was stepped up in the context of a tax registration drive and at the same time retailers were granted the option to pay a 2 percent turnover tax in lieu of the GST up to end-June 2001. Although this new arrangement also triggered disruptive strikes and violent protests across the country, the government has stood its ground.

13. The GST has been extended to a positive list of services in the context of the 2000/01 budgets. The authority for levying sales tax on goods was transferred from provinces to the federal government in the years following the partition of colonial India. The taxation of services was not explicitly considered at the time and remained under provincial authority. This legal situation made it difficult to extend the GST to services without going against the conventional wisdom that the VAT is not a suitable instrument for lower-level jurisdictions in a federation.[4] In the event, the government opted for imposing the GST on services through identical provincial legislation, which adopts most rules and regulation of the Sales Tax Act through a blanket reference and delegates the administration to the federal government.[5] While this ensures that goods and services are taxed in an integrated fashion for now, it might create problems in the future should some, but not all, provinces decide to modify their legislation. It is also likely to complicate expanding GST coverage to include additional services. Currently, only six categories of services are covered, excluding, construction, legal, consultancy, accounting, and many transportation services. The current legal framework could be strengthened through a constitutional amendment, which would empower the federal government to levy sales taxes on services, in the context of a wider review of intergovernmental relations.

14. Accounts-based assessment is now the norm in Pakistan, although remnants of simplified assessment methods might still be practiced in some cases. Soon after the introduction of the GST in VAT mode, simplified assessment methods emerged in the textile sector and spread to as many as 31 sectors in 1994/95. In that year, almost 40 percent of the taxpayers were under so-called fixed tax schemes. Under these schemes the tax liability was typically determined as a function of some characteristics of the taxpayer, such as the capacity of the enterprise, rather than actual taxable sales net of input tax credit. While these schemes were partly motivated by breaks in the VAT chain, which meant that tax on inputs could not fully be credited, they exacerbated the problem and started to seriously undermine the viability of the VAT. The government attempted to terminate all fixed tax schemes first in July 1995, then in July 1996. But in the face of taxpayer noncompliance, an agreement was struck in November 1997 allowing for the extension of the schemes not beyond 1998. In 1998/99 all fixed tax schemes were eliminated and audits of all affected taxpayers were initiated.

15. Important progress has also been made in other areas but the small number of taxpayers remains a concern. Over the years, GST administration has been separated from the excise department, has been organized along functional lines, and is now fully

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[4] For a discussion of the problems involved and possible solutions see Keen, Michael, 2000, "VIVAT, CVAT and All That: New Forms of Value-Added Tax for Federal Systems," *Canadian Tax Journal*, 48, 409–24.

[5] Rules and regulations still need to be modified to take into account the special requirements of service taxation. This includes practices related to the import of services, the complex issue of taxing air travel and communication services, and the formulation of rules that apportion inputs of companies supplying goods as well as services.

computerized. A turnover threshold for GST registration has been put in place, replacing earlier thresholds that were defined in terms of capital employed. The working of the refund mechanism has been improved, although remaining weaknesses have prompted unwarranted calls for exempting sales to exporters and their suppliers from the GST. Despite these improvements, the number of taxpayers remains low (about 85,000). Systematic enforcement efforts therefore remain paramount in the period ahead.

16. Since the introduction of the GST in VAT mode, revenues have increased steadily with the largest improvement occurring in 1999/2000. Initially, the GST yielded around 1.6 percent of GDP about the same as the tax it replaced. The ensuing eight years brought a steady increase to 2.4 percent of GDP in 1998/99, although a temporary setback was experienced in 1997/98 when rates were lowered. The large revenue gain of 1999/2000 reflects primarily the extension of the GST to petroleum products, natural gas, and electricity. It should be noted, however, that these GST extensions were designed in an overall revenue neutral way: the gains on account of the GST are offset by revenue losses elsewhere or additional expenditure. The GST extension to petroleum products was accompanied by a commensurate lowering of petroleum surcharges; the GST on electricity increased after-tax tariffs of only those consumers which were in a position to claim input tax credit, thus necessitating subsidies to electricity producers. In the case of natural gas, the GST extension coincided with the elimination of excises but also with an increase of retail prices. The 2000/01 GST extension to services follows the same pattern; most services brought under the GST were previously subject to excises which were abolished in the process.

### D. Income Tax Reform

17. Transformation of the income tax over the last two decades was successful in mobilizing additional revenue, but tax collection continues to rely on outmoded methods that will likely constrain future buoyancy. During the 1980s, revenues from direct taxes[6] declined from 2–2.5 percent of GDP to just under 2 percent of GDP, reflecting the reduction of tax rates and the growing use of tax concessions. The aggressive development of the withholding tax regime in the 1990s meant that revenues surged ahead reaching 3.8 percent of GDP in 1995/96, followed by a slight decline in the second half of the decade, which left direct tax collections at 3.5 percent of GDP in 1999/2000. Throughout the last two decades, little progress was made in establishing a system built around modern methods of self-assessment underpinned by the threat of audit, increasing the number of taxpayers, or putting in place clear and easily accessible legislation. Moreover, with the withholding tax system already overextended, there is little hope for augmenting income tax collection further through the strategy of the 1990s.

18. The income tax has become unusually dependent on revenues raised through a complex pattern of withholding taxes. They accounted for around 70 percent of net income

[6] Income tax accounts for almost 95 percent of direct tax revenues. The balance is made up by the wealth tax, workers welfare fund tax, capital value tax, and corporate assets tax.

tax collections in the late 1990s and for almost the entire revenue augmentation over the last decade. In 1979, when the current Income Tax Ordinance was promulgated, only six kinds of payments/transactions were subject to withholding taxes, which was increased to 12 in 1989/90 and further to 24 in 1999/2000. Eight withholding taxes accounted for over 90 percent of withholding tax revenue in 1999/2000. This includes, in declining order of importance: (a) a withholding tax on payments for the supply of goods, services rendered, and contracts executed at rates generally ranging between 3.5 percent and 6 percent; (b) a 5 percent withholding tax on imports, which was raised to 6 percent in the 2000/01 budget; (c) a 30 percent withholding tax on the interest income from holding securities; (d) a withholding tax on salaries and prerequisites; (e) a 10 percent withholding tax on interest or profit on an account maintained with banks or other financial institutions; (f) a withholding tax on export proceeds of between 0.75 percent and 1.25 percent, which was raised by 0.25 percentage points in the 2000/01 budget; (g) graduated withholding taxes on electricity bills; and (h) graduated withholding taxes on telephone bills. While the four top yielding withholding taxes were already provided for in the original Income Tax Ordinance of 1979, the ones pertaining to exports and electricity bills were added in 1992/93, the one on bank account interest was introduced in 1994/95, and the one on telephone bills was first levied in 1996/97. In addition, tax rates of the two most important withholding taxes were pushed up in several rounds. Withholding taxes on supplies, contracts, and services were raised from 2 percent, 3 percent, and 3 percent at the beginning of the decade to 3.5 percent, 5 percent and 5 percent in 1999/2000, respectively.[7] The withholding tax on imports was temporarily abolished and reintroduced in 1989/90 at a rate of 1.5 percent, and increased several times to reach 6 percent in 2000/01.[8] As a result of the above policies, the share of withholding taxes increased sharply from around 50 percent to 70 percent of income tax collection during the 1990s. Moreover, collections other than those related to withholding taxes stagnated at under 1 percent of GDP throughout that time.

19. Many withholding taxes are indeed presumptive taxes, more akin to indirect taxes than to direct taxes. Their payment constitutes a final discharge of tax liability. This includes the withholding tax on supplies/contracts/services, on imports by commercial importers, and on bank account interest. Revenue from presumptive taxes as a share of withholding tax collections has remained roughly constant throughout the 1990s at around 50 percent. However, it has made up an increasing proportion of total income tax collections. Withholding taxes under the presumptive regime tend to work like indirect taxes, especially

[7] The rate pertaining to supplies was increased from 2 to 2.5 percent in 1991/92 and from 2.5 to 3.5 percent in 1997/98; the one pertaining to contracts was increased from 3 to 5 percent in 1995/96; and the one pertaining to services was raised from 3 to 5 percent in 1991/92.

[8] It was raised in 1991/92 to 2 percent, in 1995/96 to 4 percent, in 1997/98 to 5 percent, and in 2000/01 to 6 percent.

when broadbased.[9] For instance, a noncreditable income withholding tax levied on imports is equivalent to an import tariff.

20. The extensive reliance on withholding was a likely key factor behind the failure of the tax administration to adopt the procedures needed to develop a modern income tax system. The current system remains based on largely manual procedures and either routine face-to-face contact between taxpayers and assessing officers or arrangements that enable the taxpayer to escape risk of audit. A modern system, in contrast, would be built around voluntary compliance supported by an effective, trusted, and well-targeted audit.

21. The Income Tax Ordinance of 1979 provided for self-assessment from the outset, but the scheme was continuously liberalized and the scope of audit minimized. This trend was reversed in late 1999/2000 and in 2000/01. Available to all, except companies,[10] self-assessment, like elsewhere, requires taxpayers to apply the income tax rules to compute their taxable incomes and exposes them to the risk of audit. It authorizes the tax authorities to specify the operational details. These details were flawed in that they granted taxpayers immunity from audit provided that their tax payment rose by a specified percentage. Moreover, taxpayers were not legally required to keep any records or books of account which could be used to substantiate their self-assessed income. As a result, very little revenue was collected through the self-assessment scheme, about 7 percent of income tax revenues other than from withholding in 1997/98. In February 2000, the government inserted general book/record keeping requirements into the Income Tax Ordinance and the 2000/01 budget subjects filings under the self-assessment scheme to a 15 to 20 percent audit probability.

22. The number of taxpayers remains low, although progress has been made over the last ten years. In August 2000, there were 1.8 million taxpayers registered under the income tax, compared to just over one million in 1990/91. Moreover, a large proportion of enrolled taxpayers does not actually file a return (about ⅓ in 1997/98).

23. Income tax rates have been lowered considerably over the past two decades but rates remain high and highly differentiated. In 1979/80, income was highly taxed with effective tax rates in the corporate sector of between 55 percent and 71.5 percent and an effective top personal income tax rate of 66 percent.[11] Ten years later these rates had been brought down

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[9] The same is true of withholding taxes that are, in principle, creditable but not actually credited. Withholding taxpayers might chose not to file a return, in particular if that would involve having to pay taxes over and above the ones already withheld. The withholding tax then becomes, de facto, a final tax.

[10] The scope of the regime was extended to include part of the corporate sector in 2000/01. It was also available to companies in 1980/81 and 1981/82.

[11] Banks were subject to a statutory tax rate of 30 percent, a supertax of 35 percent and a surcharge of 10 percent. Companies were faced with a statutory tax rate of 30 percent, a supertax of 25 percent, and a surcharge of 10 percent. Public companies, i.e., companies that are listed on the stock exchange, were eligible for a 5 percent rebate on the supertax. The top marginal personal income tax rate was 60 percent and a 10 percent surcharge applied to income above a certain threshold.

for companies to the range of 44 to 66 percent and for individuals to 49.5 percent.[12] Rates were further reduced in the ensuing decade and in 2000/01 they were 58 percent for banks, 47.3 percent for private companies, 45.2 percent for public companies, 38.5 percent for individuals, and 30 percent for individuals whose income consists mainly of salary.[13] Moreover, the tax structure was simplified over the years by merging the separate so-called supertax and its rebate schedule into the income tax schedule and reducing reliance on surcharges. Notwithstanding the general trend toward lower rates and a simplified tax structure, the process was not continuous; e.g., the 2000/01 budget reintroduced surcharges on corporate income, which had been abolished with effect to 1992/93.

24. Progress has been made lately in broadening the coverage of the income tax. However, there is a need to rationalize remaining exemptions and guard against expectations of recurring tax amnesties. Tax concessions of various forms that were widely granted until the mid-1990s to promote priority industries and development of backward areas have been used more sparingly in the second half of the decade. So-called tax-whitener schemes, which guaranteed immunity from tax probe into the source of monies invested in certain instruments, were grandfathered in December 1999. Enabling legislation for taxing agricultural income, which is not taxable under the federal income tax, has been promulgated with the provincial finance bills of 2000. Employees' benefits in kind have been brought within the ambit of the income tax; they became taxable in 1998/99 as a separate block and are taxed together with any other income beginning 2000/01. Nonetheless, the list of exemptions and concessions still comprises several hundred items, many of them relating to interest income and allowances of the civil service and the armed forces. In March 2000, a tax amnesty was launched, which allowed whitening of evaded assets against payment of a 10 percent tax. While the scheme was relatively successful in raising revenue (0.3 percent of GDP), there is the distinct possibility that taxpayers perceive it as part of a long history of frequent tax amnesties in Pakistan, thus undermining their willingness to make regular tax payments in the future. In this context, it is problematic that the government has launched a new tax amnesty scheme in August 2000, which levies a reduced rate of 2 percent on newly declared assets provided they are in the form of inventories of traders/retailers.

25. Recognizing that a more fundamental reform of the income tax is needed to ensure its buoyancy over the medium term and to improve its structure, the government has established a reform committee. It is planned that a reformed income tax will go into effect in 2001/02.

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[12] Banks were subject to a statutory tax rate of 30 percent, a supertax of 30 percent, and a surcharge of 10 percent. Companies were faced with a statutory tax rate of 30 percent, a supertax of 15 percent, and a surcharge of 10 percent. Public companies were eligible for a 5 percent rebate on the supertax. The top marginal personal income tax rate was 45 percent and a 10 percent surcharge applied.

[13] Banks are subject to a statutory tax rate of 58 percent. Companies are faced with a statutory tax rate of 43 percent, and a surcharge of 5 percent. The statutory rate for public companies is 33 percent and they are also subject to a 5 percent surcharge.

## E. Tariff and Trade Reform

26. While certainly a significant step forward from a structural point of view, trade reform over the past 20 years has taken a heavy toll on fiscal revenues.[14] While customs duties equivalent to 5.7 percent of GDP were collected in 1979/80, tariff reductions reduced this yield to under 2 percent of GDP in 1999/2000.

27. Twenty years ago, Pakistan's import system was highly restrictive. Not only were tariff rates high, but the number and amount of permitted imports was also closely regulated. Items not explicitly listed on the positive list of imports could generally not be imported. Moreover, imports were permitted only against licenses issued by the Chief Controller of Imports and Exports and a subset of items on the positive list were subject to monetary licensing ceilings. Certain items not on the positive list were importable under special authorization, subject to complex regulations and value limits.

28. The first phase of import liberalization, which was undertaken in the 1980s, did not involve any revenue loss. Indeed, customs duties collections increased somewhat to 6.4 percent of GDP in 1989/90 from 5.7 percent of GDP ten years earlier. The first phase of liberalization was initiated in 1983/84 and basically aimed at converting reliance on the positive list of permitted imports into reliance on a negative list of prohibited/restricted imports followed by a gradual shortening of the negative list and making monetary licensing ceilings less binding. This did not involve any revenue loss as items removed from the negative list became subject to their previously notional statutory tariff rates. Moreover, during this period revenue benefited from the imposition of paratariffs, in the form of a 10 percent general surcharge, a 5 percent Iqra surcharge, and a 6 percent licensing fee. As a result, the effective tariff rate increased from 38 percent in 1979/80 to 42 percent in 1987/88.[15]

29. In the late 1980s, the government embarked on the second phase of the liberalization program, which soon started to impinge upon custom revenues. While the negative list continued to be shortened, the second phase also involved the reduction of the maximum tariff rate and the rationalization of the tariff structure. The maximum tariff rate, which stood at 225 percent in June 1988, was down to 90 percent in July 1991, further lowered to 80 percent in July 1992, reduced to 45 percent in July 1997, and reached its current level of 35 percent in March 1999. Moreover, the paratariffs were integrated into the statutory tariff schedule without raising the maximum rate in 1992/93 and 1994/95. Regulatory duties were imposed between October 1995 and March 1997 and also during part of 1999, albeit on a much smaller range of goods. At end-1999/2000, no significant regulatory duties were

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[14] For a broader discussion of the revenue implications of trade liberalization see Ebrill, Liam, Stotsky, and Gropp, *Revenue Implications of Trade Liberalization*, IMF Occasional Paper No. 180, 1999.

[15] The effective tariff rate is defined here as customs duty collections (including revenue from paratariffs) in percent of the value of dutiable imports.

levied.[16] As a result of these policy changes the effective tariff rate declined to 22 percent in 1999/2000 from 42 percent in 1987/88.

### F. Petroleum Taxation

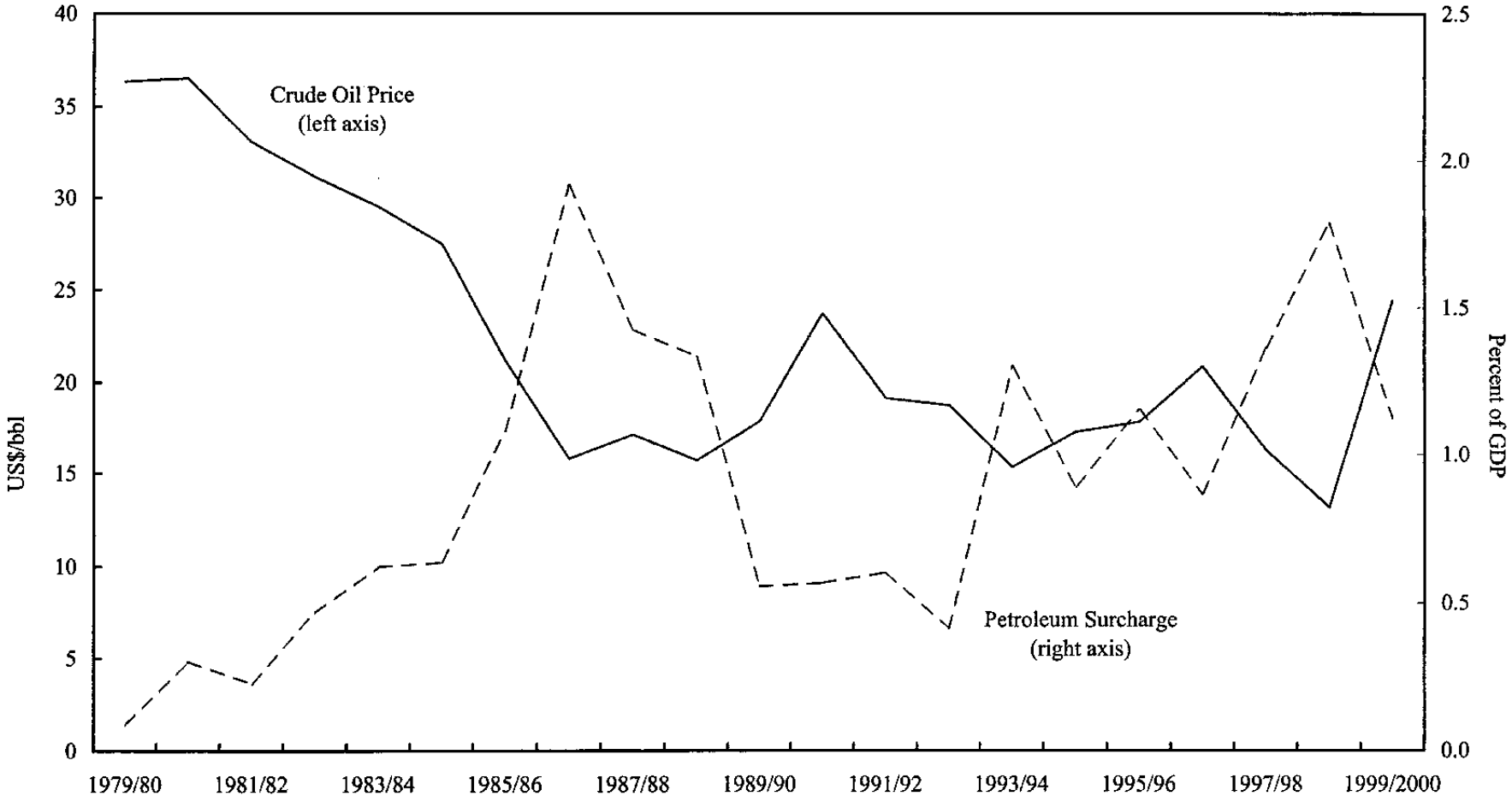
30. Budgetary revenue from the taxation of petroleum products was exposed to the vagaries of international oil prices throughout the past two decades. Collections surged as high as 2 percent of GDP in the face of declining international prices and dipped below 0.5 percent of GDP when international prices increased (Chart I-2).

31. Petroleum taxes were an unstable source of budgetary revenue because they essentially took the form of differential taxes. Retail prices, as well as margins for the distributors, transporters, and dealers are regulated. As a result, petroleum surcharges get compressed or expanded with fluctuations in the landed costs of fuel, unless the latter are fully and instantaneously passed through to retail prices, which was generally not done.

32. Several attempts have been made over the years to better insulate budgetary revenues from the volatility of international oil prices, but such efforts were insufficiently sustained. In the early 1980s, the government adopted a policy of passing through to consumers higher costs of petroleum products. However, this policy was not adopted uniformly across different types of petroleum products and gave way to a continuing program of price increases through the mid-1980s. More importantly, the government decided not to lower retail prices when international prices declined substantially in the period 1984/85–1987/88. The increase of international prices in the late-1980s and early-1990s eroded petroleum revenues despite discretionary, mostly upward, price adjustments. A renewed attempt to better link retail prices to international price movements was made in December 1995; the Fund-supported program envisaged monthly price adjustments triggered by any 3 percent change of the landed cost of fuel. However, the mechanism was suspended for need of revenue a year later when international prices started to decline. It was revived in a modified form in late-1998 when a ± 5 percent band on the petroleum tax was established. The tax, however, veered outside the band in the period January–March 1999. An automatic price adjustment formula was put in place in August 1999, which envisaged the one-to-one pass through of changes in the landed cost of fuel to retail prices on a quarterly basis. However, the government failed to implement the mechanism at the first test date in September 1999 because it would have

[16] Regulatory duties were reintroduced in the context of the unification of excise duties between imported and domestically produced goods. They will be removed once antidumping legislation goes into effect.

Chart I-2. Pakistan: Oil Prices and Petroleum Surcharge Revenue, 1979/80–1999/2000 1/




Source: Pakistani authorities, IFS, and staff estimates.

1/ The GST extension to petroleum products of August 1999 led to a reclassification of the petroleum revenue. The 1999/2000 data adjusted according to the old classification.

implied significant price hikes. After the current government took office, it increased prices in December 1999 and in subsequent quarters, largely in line with the price adjustment formula. The formula underwent a technical modification in September 2000, and retail prices are now being reset every quarter as the sum of lagged landed costs of fuel, fixed margins, petroleum surcharges fixed in PRs/liter, and all other taxes, including the 15 percent GST.

33. More fundamental change in petroleum pricing will likely be needed to better ensure that budgetary revenues are stabilized in the face of fluctuating international oil prices. While the current government has shown resolve in implementing the pricing formula, the overall track record of formula driven adjustment of regulated retail prices has been poor. As long as retail prices are regulated likely adverse customer reactions will always argue against price hikes and Pakistan's chronically weak fiscal position will always argue against price cuts. Deregulation of retail prices would mute these pressures by depoliticizing the price setting. In this context, it is encouraging that the government deregulated the prices of fuel oil in July 2000.

### G. Revenue Performance in a Cross-Country Comparison

34. This section compares Pakistan's ability to and efficiency in raising public revenue with the experience in other countries. The set of comparators consists of thirteen countries from around the world at different stages of development. It includes countries from the region such as Bangladesh, India, and Sri Lanka, as well as countries from Africa, Asia, the Middle East, the Western Hemisphere, and a transition economy. Some of the countries, such as Tanzania and Uganda, exhibit a per capita GDP below US$300, while the sample also covers countries as rich as Mexico or even South Korea. Data cover the last two available years and are drawn from Fund documents with supplementary information provided by the respective country teams. An attempt has been made to use fiscal aggregates with similar coverage and definitions across countries.

35. Pakistan's ability to raise revenue is not out of line with what one would expect from a country with a per capita GDP of around US$450 per year (Table I-2). This confirms findings of earlier cross-country studies.[17] Pakistan raises about 15 percent of GDP in general government revenue compared to an average of around 18 percent of GDP in the sample. The wedge is not surprising given that average per capita GDP is significantly higher at around US$1,700. None of the countries with per capita GDP below that of Pakistan, i.e., Bangladesh, Tanzania, and Uganda, manage to collect as much as Pakistan. India, with a very similar GDP per capita, also collects less at the central government level, but it surpasses Pakistan's revenue collection by about 1 percentage point of GDP when revenues of

[17] See Tanzi, Vito, "Quantitative Characteristics of the Tax Systems of Developing Countries," in Newbery, David and Nicholas Stern (eds.), *The Theory of Taxation for Developing Countries*, Oxford University Press, 1987.

## Table I-2. Pakistan: Revenue Performance in a Cross-Country Comparison 1/

| | Pakistan | | Comparators 2/ | Tanzania | Uganda | Bangladesh | India | Cote d'Ivoire | Sri Lanka | Albania | Philippines | Jordan | Morocco | Egypt | Mexico | South Korea |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1998/99) | (1999/2000) | | | | | | | | | | | | | | |
| **Revenue mobilization** | | | | | | | (In percent of GDP at market prices) | | | | | | | | | |
| Revenue, central government | 15.3 | 15.0 | 18.1 | 11.3 | 10.7 | 9.0 | 11.5 | 18.5 | 17.4 | 20.8 | 16.9 | 29.1 | 28.2 | 20.7 | 20.7 | 19.8 |
| Revenue, general government | 16.3 | 16.1 | ... | ... | ... | ... | 17.2 | ... | ... | ... | 19.3 | ... | ... | 23.8 | ... | ... |
| Tax revenue, central government | 12.8 | 12.2 | 14.4 | 9.9 | 10.0 | 7.1 | 8.5 | 16.9 | 14.7 | 16.5 | 15.0 | 16.6 | 24.7 | 15.8 | 16.0 | 15.6 |
| Tax revenue, general government | 13.3 | 12.7 | ... | ... | ... | ... | 13.7 | ... | ... | ... | 16.6 | ... | ... | ... | ... | ... |
| Revenue from major taxes, central government | 8.6 | 9.1 | 9.9 | 7.5 | 6.4 | 5.4 | 8.2 | 11.3 | 8.5 | 10.3 | 11.1 | 15.2 | 17.0 | 9.2 | 8.5 | 10.4 |
| Sales tax collection, central government | 2.4 | 3.7 | 4.0 | 3.3 | 3.3 | 2.2 | 3.1 | 4.3 | 3.6 | 6.1 | 3.0 | 6.9 | 5.8 | 2.7 | 3.3 | 4.2 |
| Income tax collection, central government | 3.6 | 3.5 | 3.6 | 2.8 | 1.9 | 1.2 | 2.7 | 4.4 | 2.3 | 1.7 | 6.5 | 2.8 | 7.5 | 3.2 | 4.6 | 5.2 |
| Customs duties collection, central government | 2.7 | 1.9 | 2.3 | 1.4 | 1.1 | 2.0 | 2.4 | 2.5 | 2.6 | 2.5 | 1.6 | 5.5 | 3.7 | 3.3 | 0.6 | 1.0 |
| **Efficiency** | | | | | | | (In percent) | | | | | | | | | |
| Sales tax efficiency ratio | 0.17 | 0.24 | 0.27 | 0.17 | 0.20 | 0.15 | 0.18 | 0.19 | 0.28 | 0.30 | 0.30 | 0.53 | 0.29 | 0.27 | 0.22 | 0.42 |
| Sales tax efficiency ratio (adj.) | 0.20 | 0.28 | 0.33 | 0.18 | 0.22 | 0.17 | 0.24 | 0.25 | 0.34 | 0.40 | 0.34 | 0.55 | 0.34 | 0.33 | 0.28 | 0.64 |
| Income tax efficiency ratio | 0.09 | 0.09 | 0.10 | 0.09 | 0.06 | 0.04 | 0.07 | 0.12 | 0.08 | 0.06 | 0.19 | 0.08 | 0.18 | 0.08 | 0.13 | 0.15 |
| Customs duties efficiency ratio | 0.13 | 0.11 | 0.15 | 0.11 | 0.15 | 0.10 | 0.09 | 0.17 | 0.16 | 0.22 | 0.07 | 0.36 | 0.17 | 0.16 | 0.04 | 0.12 |
| Customs duties efficiency ratio (adj.) | 0.74 | 0.68 | 0.60 | 0.58 | 0.69 | 0.55 | 0.82 | 1.02 | 0.44 | 0.73 | 0.15 | 0.72 | 0.54 | 0.84 | 0.18 | 0.47 |
| Memorandum items: | | | | | | | (In percent) | | | | | | | | | |
| Standard sales tax rate | 13.8 | 15.0 | 15.6 | 20.0 | 17.0 | 15.0 | 17.0 | 22.3 | 13.1 | 20.0 | 10.0 | 13.0 | 20.0 | 10.0 | 15.0 | 10.0 |
| Top income tax rate | 39.8 | 39.8 | 33.8 | 30.6 | 30.8 | 31.3 | 36.9 | 36.3 | 27.5 | 30.0 | 33.5 | 34.0 | 40.7 | 37.4 | 36.0 | 34.0 |
| Average customs duty rates | 20.9 | 17.0 | 16.5 | 12.5 | 7.3 | 20.5 | 25.6 | 15.2 | 16.0 | 11.4 | 23.4 | 15.0 | 22.0 | 21.2 | 16.1 | 7.9 |
| Effective duty rate | 15.4 | 11.5 | 9.7 | 7.3 | 5.1 | 11.2 | 21.0 | 15.6 | 7.0 | 8.4 | 3.5 | 10.7 | 11.9 | 17.8 | 3.0 | 3.7 |
| | | | | | | | (In percent of GDP at market prices) | | | | | | | | | |
| Budget balance, central government | -6.3 | -6.6 | -5.6 | -4.4 | -7.7 | -5.5 | -6.9 | -3.3 | -8.3 | -10.9 | -3.5 | -9.4 | -2.5 | ... | -1.1 | -3.3 |
| Budget balance, general government | -6.1 | -6.5 | ... | ... | ... | ... | -9.4 | ... | ... | ... | -3.2 | ... | ... | -6.1 | ... | ... |

Source: Fund staff estimates.

1/ Ratios are calculated on the basis of data for the last two fiscal years, except in the cases of Mexico and South Korea where only 1999 data has been used. Data pertaining to the last fiscal year are mostly preliminary actuals and sometimes estimates.

2/ Unweighted averages of values of comparator countries.

provinces are taken into account. Countries with per capita GDP in the range of US$800–1,000 (Sri Lanka, Cote d'Ivoire, the Philippines, and Albania) are doing significantly better than Pakistan. They are raising additional revenue in excess of 3 percent of GDP.

36. Basically the same picture emerges with regard to central government tax revenue. Pakistan mobilizes about 12.5 percent of GDP compared to 14.4 percent of GDP in comparator countries on average. It collects, in other words, 13 percent less tax revenue. The shortfall for total central government revenue is somewhat larger (16 percent), indicating that it disproportionately falls on nontax revenues.

37. The revenue gap with comparator countries shrinks further when focusing on collections under the three main tax heads: sales tax, income tax, and customs duties. While Pakistan collected almost 9.1 percent of GDP in 1999/2000, the average comparator country collected 9.9 percent of GDP. This corresponds to a shortfall of around 8 percent, compared to a shortfall of 16 percent for revenue from all taxes. Pakistan seems to be less at a disadvantage in raising revenue through the three main taxes than through other taxes.

38. In terms of revenue from the three main taxes, Pakistan outperforms a number of countries with higher income. It collects more than Mexico as well as Sri Lanka, and it is almost at par with Egypt. Overall these countries seem to fare better than Pakistan only because they have access to other sources of revenue: oil revenue in the case of Mexico, the National Security Levy in the case of Sri Lanka, and oil revenue, as well as revenue from the operations of the Suez Canal in the case of Egypt.

39. Pakistan is somewhat less effective in raising revenues through the three main taxes than the much richer comparator country group. If Pakistan were as effective in raising revenue from the three main taxes as the countries in the comparator group, it would have collected an additional 1 percent of GDP in 1999/2000. Effectiveness is measured by efficiency ratios. They indicate how well countries are doing in mobilizing revenue relative to the tax rates they are imposing.[18] Pakistan's tax rates are similar to those prevailing in the other countries; its standard sales tax rate is slightly lower, its top income tax rate (averaged across businesses and households) is higher, while its tariff rate (average of tariff bands) is almost the same.

40. The adjusted sales tax efficiency ratio comes to 0.28 in 1999/2000 compared to 0.33 in the other countries. Although this corresponds to a shortfall of 15 percent, it still means that Pakistan does better than some countries with higher per capita GDP (Cote d'Ivoire and Mexico) and is not outperformed by any country with a lower per capita GDP.

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[18] The efficiency ratio of a tax is defined as its yield in percent of GDP divided by the tax rate. Adjusted efficiency ratios are normalized by the share of the tax base in GDP. For instance, a sales tax yielding 5 percent of GDP at a standard rate of 10 percent and consumption accounting for 80 percent of GDP has an efficiency ratio of 0.5 and an adjusted efficiency ratio of 0.625. A low efficiency ratio would be indicative of weak tax administration, widespread exemptions, or many sales being taxed at a reduced rate.

41. Pakistan's income tax efficiency ratio of 0.09 compared to an average of 0.1 suggests an underperformance of 15 percent. Again, Pakistan surpasses richer countries like Egypt, Jordan, and Albania. However, it is also outperformed by one country with a lower per capita GDP (Tanzania). One needs to caution though that the income tax efficiency ratio likely paints too positive a picture of Pakistan's income tax performance. As discussed above, the bulk of income tax revenue is raised through nonstandard withholding taxes and is therefore largely unrelated to the rates of the income tax schedule.

42. Pakistan's effectiveness in raising customs duties exceeds those of comparator countries. The adjusted efficiency ratio comes to 0.68 in 1999/2000 compared to 0.6.[19] It does better than many richer countries including the Philippines, Morocco, Sri Lanka, and even South Korea and Mexico. The outperformance of South Korea and Mexico reflects these countries having entered into extensive free trade arrangements rather than a superior Pakistani customs administration.

43. Overall, there is little in the data presented in this section that would support the claim that Pakistan's revenue performance is out of line with experience in other countries. While Pakistan does not match the revenue mobilization of the other countries in the sample, this appears to reflect primarily Pakistan's lower level of overall development and the absence of access to certain forms of revenue. Moreover, weaknesses appear to be more pronounced in nontax revenues and provincial revenues and less pronounced in the area of the three main taxes: sales taxes, income taxes, and customs duties. However, it should be noted that many of the comparator countries are beset by severe fiscal imbalances and therefore should not be considered a wholly satisfactory benchmark.

## H. Conclusions

44. Enhancing the buoyancy of the tax system is generally perceived as key for improving Pakistan's fiscal position. As current tax rates leave only limited room for further hikes, efforts tend to focus on better tax enforcement, bringing more taxpayers into the tax net, and other improvements in the realm of tax administration. The analysis in this Section suggests that these efforts will only be successful if Pakistan breaks with its historical record and surpasses the performance of comparator countries at a similar, and sometimes even higher, level of development.

45. While Pakistan's historical record of revenue performance looks dismal at first sight, some positive signs emerge upon closer inspection. True, revenue as a percentage of GDP has not changed significantly over the last 20 years. However, this masks the significant progress that has been made in boosting non-trade taxes which now yield revenue of 10.2 percent of GDP compared to 7.4 percent of GDP only ten years ago, implying an annual

[19] Calculation of the efficiency ratios is based on the average tariff rate (simple average of tariff bands).

buoyancy coefficient of 1.27.[20] Much of the additional revenue has been mobilized in a structural sound way, especially through sales tax reform. Revenue enhancement under the income tax, however, have relied excessively on a mushrooming net of withholding taxes, with more fundamental improvements left for the period ahead.

46. The cross-country comparison suggests that Pakistan's tax system is, by and large, an average performer given the overall level of the country's development. While this might come as a pleasant surprise to the many observers with less favorable expectations, it also means that the upside potential, at least in the near term, is probably limited. It should also be noted that the cross-country comparison is subject to several caveats. First, the choice of comparator countries might have inadvertently tilted the sample too much towards countries which are either too similar to Pakistan (and therefore not suitable benchmarks) or too different from Pakistan (and therefore not comparable). Second, the exercise focuses exclusively on the revenue yield relative to GDP and relative to tax rates. It ignores other critical elements, such as the complexity of the tax system and governance issues in tax administration, which are much more difficult and judgmental to compare across countries.

47. The inherent difficulties in quickly mobilizing significant amounts of revenue through better tax enforcement means that revenue-losing measures and expenditure overruns are to be avoided if fiscal consolidation is to be achieved. Indeed, supplementary revenue measures could help secure the consolidation effort, although a pure enforcement strategy remains preferable from a structural point of view.

[20] Defined as the average growth rate of (nontrade) tax revenue relative to the average growth rate of nominal GDP.

# II. Debt and Debt Sustainability Issues in Pakistan

## A. Introduction[21]

48. It is widely believed that Pakistan suffers from acute debt problems. High levels of public and external debt are typically mentioned among the two or three most immediate economic policy issues in Pakistan.[22] Many observers also argue that the usual ramifications associated with debt problems—low investment ratios, crowding out of essential social spending and development expenditure, balance of payments financing problems, and increasing constraints on macroeconomic policy management—have also begun to surface.

49. These concerns about debt problems are not surprising given that Pakistan's public and external debt stocks at about 92 percent and 58 percent of GDP, respectively, are high by international standards. Interest payments on public debt soaked up 48 percent of revenue in the consolidated government budget, while scheduled external debt service payments reached a stunning 64 percent of current foreign exchange receipts in the last fiscal year (1999/2000). Another indication of the problem is the external debt emergency of 1998/99, when a comprehensive restructuring of Pakistan's external debt was needed in the wake of the balance of payments crisis that began to unfold after May 1998.

50. Recent debt developments and current debt data suggest that debt problems will not disappear quickly. Under the new program to be supported by a Stand-By Arrangement with the Fund, short-term balance of payments viability requires yet another round of flow restructuring of the external debt. Progress towards achieving a sustainable medium-term debt service profile will also be an important policy challenge. Moreover, while perhaps less immediate, domestic debt has become a problem for policymakers, as the high real interest rates on domestic currency debt may push the debt dynamics on to an unstable path.

51. This Section attempts to assess the nature and magnitude of Pakistan's actual "twin" debt problem in a historical context and to review policy options. The analysis focuses on two related sets of issues. The first set revolves around the burden associated with external and public debt. The second set concerns debt sustainability, that is, issues related to the question of how policies would need to be adjusted to ensure that external and public debt could be serviced in an orderly fashion, while other goals of economic policy, such as high economic growth and macroeconomic stability, could be met.

52. In Pakistan, as in so many other countries, public debt and external debt issues are often treated synonymously. Although they are closely interrelated, especially in view of the large share of public and publicly guaranteed external debt in both total external and total public debt, the two dimensions are nevertheless distinct. Analytically, they need to be

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[21] Prepared by Thomas Helbling (MED).

[22] See for example Hasan (1999), and Pasha and Ghaus (1996, 1998).

explored separately. Public debt issues mainly concern the capacity of the government to service its debt in domestic currency while external debt issues have to do with the capacity of the economy to raise the foreign exchange needed to meet the debt service obligation toward nonresidents. Instruments and issues differ in the two domains although policy actions in either domain typically affect each other. Moreover, good policy strategies in one domain need not be consistent with good strategies in the other, and analysis along the two dimensions is required to arrive at a strategy that is consistent with overall macroeconomic objectives.

53. At the outset, it should be noted that the lack of a comprehensive debt monitoring system complicates the analysis of debt issues. In particular, the total amounts and the composition of both public and external debt remain subject to uncertainties for two reasons. First, different agencies are responsible for monitoring and reporting, which has led to the regular publication of only a subset of debt data by each agency. Second, the various components are not yet fully consolidated into total domestic public debt and total external debt. Despite these caveats, the Section attempts to provide an integral perspective on the quantitative dimensions of Pakistan's debt problems.

54. The Section is organized as follows: subsection B addresses issues related to the burden and sustainability of Pakistan's external debt; the subsequent subsection focuses on the same issues for the public debt; and subsection D attempts to provide a policy perspective on Pakistan's debt problems.

### B. External Debt Burden and Sustainability

55. This section analyzes the burden and sustainability of Pakistan's external debt levels. The external debt concept used is that of total external debt, that is, the total debt that resident public and private entities in Pakistan contracted from nonresidents. The focus on total external debt is important because the severity of the 1998/99 balance of payments crisis was, in part, related to the relatively large outstanding stock of short-term private external debt at the outset.

56. External debt sustainability is concerned with the capacity of the government and other parties that have contracted external debt to service the debt in an orderly manner. Orderly debt service is, however, only a necessary condition for debt sustainability.[23] Sufficient conditions for a sustainable external debt level are that the debt can be serviced as scheduled under conditions of high medium-term economic growth and macroeconomic stability. In addition, sustainability is often understood to encompass the condition that the debt service capacity is robust to possibly persistent perturbations to the anticipated path of key variables. If these conditions are satisfied, then the burden of the external debt on the economy can be considered bearable.

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[23] The subsection on public debt discusses the concept of debt sustainability in greater detail.

57. As external debt, denoted with *F* hereafter, covers all debt owed to nonresidents, its sustainability is closely related to external current account sustainability, especially for a country at Pakistan's level of financial market development. Under such conditions, external debt transactions should account for a large fraction of all transactions recorded in the financial account of the balance of payments. Accordingly, it is assumed in this Section that the change in external debt is about equal to the change in net foreign liabilities.

58. Refinancing aspects are important in the case of external debt as the mobilization of foreign exchange resources for amortization payments is an issue, not the least because the willingness of nonresidents to refinance the principal remains outside government control. Even if macroeconomic policies are, in principle, consistent with best practices, expectations of nonresidents may be such that foreign exchange flows remain scarce. Hence, while for domestic currency debt it is primarily interest payments on public debt that matter, total debt service matter a great deal more in the case of external debt, especially in a country with recent balance of payments difficulties.

**Pakistan's external debt during the 1990s—stylized facts**

***The level of external debt***

59. Pakistan's external debt amounted to 58 percent of GDP at the end of 2000 (Table II-1).[24] Over the last few years, the ratio of external debt to GDP fluctuated around 57 percent. Compared to the beginning of the 1990s, however, the external debt as a percent of GDP increased by about 9 percentage points. In terms of exports or, more precisely, current foreign exchange receipts[25]—another frequently used yardstick to measure the external debt burden—the external debt fluctuated around 280 percent in recent years. Compared to the early 1990s, an increase in the external debt was also registered on the basis of this benchmark.

***The debtor and creditor composition of external debt***

60. External debt contracted by the public sector or guaranteed by the government has been the dominant type of external debt by debtor for many decades. At end-1999, public and publicly guaranteed debt, henceforth public external debt, accounted for about 87 percent of total external debt at end-2000 (Table II-2). During the entire last decade, this debt category fluctuated around 48 percent of GDP and 235 percent of current foreign exchange receipts.

61. While the dominance of public external debt remained unaffected, the 1990s nevertheless witnessed a profound change in the debtor composition of external debt, as the

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[24] All references to years are to fiscal years. Pakistan's fiscal year runs from July 1 to June 30. For example, 2000 refers to the fiscal year 1999/2000.

[25] Defined as the sum of exports of goods and services and workers' remittances.

Table II-1. Pakistan: External Debt, 1990–2000 1/

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In millions of U.S. dollars) | | | | | | |
| Total | 21,900 | 22,839 | 24,811 | 27,555 | 31,079 | 32,718 | 34,684 | 35,767 | 35,782 | 36,471 | 35,591 |
| Public and publicly guaranteed 2/ | 19,480 | 20,297 | 22,276 | 24,368 | 26,548 | 28,108 | 28,121 | 28,709 | 29,000 | 30,480 | 31,010 |
| Private | 2,420 | 2,542 | 2,535 | 3,187 | 4,531 | 4,610 | 6,563 | 7,058 | 6,782 | 5,991 | 4,581 |
| By Debtor/Creditor/Instrument | | | | | | | | | | | |
| Public and publicly guaranteed 2/ | | | | | | | | | | | |
| Official creditors | 15,520 | 16,329 | 18,510 | 20,354 | 21,944 | 23,876 | 24,002 | 24,752 | 24,630 | 25,078 | 25,460 |
| Commercial banks | 673 | 659 | 360 | 530 | 906 | 1,232 | 1,328 | 828 | 1,225 | 1,160 | 1,100 |
| Eurobonds and other bearer securities 3/ | 355 | 405 | 447 | 549 | 522 | 739 | 796 | 1,174 | 956 | 804 | 760 |
| Others 4/ | 2,932 | 2,904 | 2,959 | 2,935 | 3,176 | 2,261 | 1,995 | 1,955 | 2,189 | 3,438 | 3,690 |
| Private 5/ | | | | | | | | | | | |
| Foreign currency deposits 6/ | 2,116 | 2,203 | 1,989 | 2,227 | 2,920 | 3,192 | 4,158 | 4,353 | 3,655 | 2,556 | 1,739 |
| Other 7/ | 304 | 339 | 546 | 960 | 1,611 | 1,418 | 2,405 | 2,705 | 3,127 | 3,435 | 2,842 |
| | | | | | (In percent of GDP) | | | | | | |
| Total | 54.4 | 50.0 | 50.7 | 53.2 | 59.5 | 53.7 | 54.5 | 57.0 | 57.3 | 62.7 | 57.8 |
| Public and publicly guaranteed 2/ | 48.4 | 44.4 | 45.5 | 47.1 | 50.9 | 46.1 | 44.2 | 45.8 | 46.4 | 52.4 | 50.4 |
| Private | 6.0 | 5.6 | 5.2 | 6.2 | 8.7 | 7.6 | 10.3 | 11.3 | 10.9 | 10.3 | 7.4 |
| Foreign currency deposits 6/ | 5.3 | 4.8 | 4.1 | 4.3 | 5.6 | 5.2 | 6.5 | 6.9 | 5.8 | 4.4 | 2.8 |
| Other 7/ | 0.8 | 0.7 | 1.1 | 1.9 | 3.1 | 2.3 | 3.8 | 4.3 | 5.0 | 5.9 | 4.6 |
| | | | | | (In percent of current foreign exchange receipts) | | | | | | |
| Total | 257.4 | 236.9 | 218.7 | 255.6 | 287.3 | 265.7 | 279.9 | 280.1 | 270.2 | 323.1 | 281.6 |
| Public and publicly guaranteed 2/ | 229.0 | 210.5 | 196.3 | 226.1 | 245.4 | 228.3 | 227.0 | 224.8 | 219.0 | 269.3 | 245.4 |
| Private | 28.4 | 26.4 | 22.3 | 29.6 | 41.9 | 37.4 | 53.0 | 55.3 | 51.2 | 53.8 | 36.2 |
| Foreign currency deposits 6/ | 24.9 | 22.9 | 17.5 | 20.7 | 27.0 | 25.9 | 33.6 | 34.1 | 27.6 | 22.9 | 13.8 |
| Other 7/ | 3.6 | 3.5 | 4.8 | 8.9 | 14.9 | 11.5 | 19.4 | 21.2 | 23.6 | 30.8 | 22.5 |
| | | | | | (In millions of U.S. dollars) | | | | | | |
| Memorandum items: | | | | | | | | | | | |
| Short-term debt at original maturity | 3,368 | 3,494 | 3,206 | 4,003 | 5,012 | 5,148 | 6,232 | 6,430 | 6,391 | 5,120 | 4,323 |
| Effective short-term debt 8/ | ... | 4,833 | 5,098 | 5,852 | 7,258 | 7,620 | 9,030 | 9,588 | 9,670 | 4,749 | 4,885 |

Source: State Bank of Pakistan; Ministry of Finance; and Federal Bureau of Statistics.

1/ External debt after rescheduling/restructuring as of June 30 in each year.
2/ Including central bank.
3/ Foreign Currency Bearer Certificates.
4/ Public sector short-term debt and military debt.
5/ Including state-owned commercial banks.
6/ Nonresident foreign currency deposits.
7/ Includes nonguaranteed private debt, including bank borrowing other than nonresident foreign currency deposits.
8/ Short-term debt at original maturity plus amortization payments of medium-term debt of the following year.

Table II-2. Pakistan: Structure of External Debt, 1990–2000 1/

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In percent of total external debt) | | | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Public and publicly guaranteed 2/ | 88.9 | 88.9 | 89.8 | 88.4 | 85.4 | 85.9 | 81.1 | 80.3 | 81.0 | 83.6 | 87.1 |
| Private | 11.1 | 11.1 | 10.2 | 11.6 | 14.6 | 14.1 | 18.9 | 19.7 | 19.0 | 16.4 | 12.9 |
| By Debtor/Creditor/Instrument | | | | | | | | | | | |
| Public and publicly guaranteed 2/ | | | | | (In percent of public and publicly guaranteed external debt) | | | | | | |
| Official creditors | 79.7 | 80.5 | 83.1 | 83.5 | 82.7 | 84.9 | 85.4 | 86.2 | 84.9 | 82.3 | 82.1 |
| Commercial banks | 3.5 | 3.2 | 1.6 | 2.2 | 3.4 | 4.4 | 4.7 | 2.9 | 4.2 | 3.8 | 3.5 |
| Eurobonds and FCBCs 3/ | 1.8 | 2.0 | 2.0 | 2.3 | 2.0 | 2.6 | 2.8 | 4.1 | 3.3 | 2.6 | 2.5 |
| Others 4/ | 15.1 | 14.3 | 13.3 | 12.0 | 12.0 | 8.0 | 7.1 | 6.8 | 7.5 | 11.3 | 11.9 |
| Private 5/ | | | | | (In percent of private external debt) | | | | | | |
| Foreign currency deposits 6/ | 87.4 | 86.7 | 78.5 | 69.9 | 64.4 | 69.2 | 63.4 | 61.7 | 53.9 | 42.7 | 38.0 |
| Other 7/ | 12.6 | 13.3 | 21.5 | 30.1 | 35.6 | 30.8 | 36.6 | 38.3 | 46.1 | 57.3 | 62.0 |
| Memorandum items: | | | | | (In percent of total external debt unless otherwise noted) | | | | | | |
| Short-term debt at original maturity | 15.4 | 15.3 | 12.9 | 14.5 | 16.1 | 15.7 | 18.0 | 18.0 | 17.9 | 14.0 | 12.1 |
| In percent of official reserves | 557.6 | 660.5 | 308.9 | 865.7 | 217.7 | 187.8 | 303.5 | 563.5 | 685.7 | 306.2 | 471.9 |
| Effective short-term debt 8/ | ... | 21.2 | 20.5 | 21.2 | 23.4 | 23.3 | 26.0 | 26.8 | 27.0 | 13.0 | 13.7 |
| In percent of official reserves | ... | 913.6 | 491.1 | 1,265.6 | 315.2 | 278.0 | 439.8 | 840.3 | 1,037.6 | 284.0 | 533.3 |
| In percent of current forex receipts | ... | 50.1 | 44.9 | 54.3 | 67.1 | 61.9 | 72.9 | 75.1 | 73.0 | 42.6 | 38.7 |

Source: State Bank of Pakistan; Ministry of Finance.

1/ External debt after rescheduling/restructuring as of June 30 in each year.
2/ Including central bank.
3/ Foreign Currency Bearer Certificates.
4/ Public sector short-term debt and military debt.
5/ Including state-owned commercial banks.
6/ Nonresident foreign currency deposits.
7/ Includes nonguaranteed private debt, including bank borrowing other than nonresident foreign currency deposits.
8/ Short-term debt at original maturity plus amortization payments of medium-term debt of the following year.

share of private external debt rose from about 2 percent at end-1990 to a maximum of 20 percent at end-1997.[26] This increase also accounted for most of the increase in total external debt as a percent of GDP or current foreign exchange receipts registered between 1990 and 1997. With the debt crisis that began to unfold in 1999, the share of private debt decreased.

62. The debtor structure of private external debt varied during the last decade, partly because of the rise and fall of nonresident foreign currency deposits and partly because of the steady rise of other private debt. The latter debt category includes external liabilities of independent power producers (IPPs), which had begun to invest and operate in Pakistan after the market for electricity generation was opened for private sector participation in the mid-1990s.

63. In recent years, the composition of external public debt was stable in terms of creditors. At end-2000, about 80 percent was held by official creditors, about half of which is debt owed to bilateral creditors. Debt owed to the general, nonofficial public, which includes debt to commercial banks or to the general private sector in the form of bonds, only amounted to about 6 percent at end-2000. The remainder of external public debt includes military debt and short-term public debt other than debt owed to commercial banks.

***The structure of external debt by instrument and maturity***

64. With the large share of public and publicly guaranteed external debt owed to official creditors, Pakistan's external debt is mostly long-term, if classified by the criterion of original maturity (maturity at the time of contraction) and is in the form of debt contracts that are generally not tradable. The share of tradable debt in the form of securities, which consists of Eurobonds and bearer securities in foreign currency, remained very small. Short-term public and publicly guaranteed external debt by initial maturity, which includes debt owed to commercial banks, foreign currency bearer certificates, and some central bank liabilities, was typically less than 10 percent of total public and publicly guaranteed external debt.

65. Private external debt was always more short-term in nature, especially foreign currency deposits. The share of demand and time deposits with a maturity of 12 months or less in total foreign currency deposits was typically above 80 percent.[27] Details on the maturity structure of other private external debt is not available. According to the SBP's latest annual report this debt category includes only medium and long-term debt (at original maturity), including supplier credits and cash loans for import financing.

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[26] It should be noted that private debt includes external debt contracted by state-owned banks without an explicit government guarantee.

[27] Only the maturity breakdown of all foreign currency deposits, including those of residents is known.

66. Overall, short-term external debt at original maturity (excluding possible short-term elements in other private debt) was generally somewhat less than one fifth of total external debt during 1992–98. The amounts of short-term external debt were large enough to contribute to considerable external financial vulnerability, as the comparison with the usual yardstick of official foreign exchange reserves shows.

67. The picture on the short-term debt during the 1990s would not be complete if the rapid increase of effective short-term debt were not mentioned. The concept of effective short-term debt is more general because it includes all debt coming due over the next 12 months, including amortization payments on long-term debt, in addition to the short-term debt at original maturity. With the increasing amounts of scheduled debt service payments on medium-term public and private debt, which are discussed in more detail later, the amounts of *effective* short-term debt began to account for more than 20 percent of total external debt from the mid-1990s. Effective short-term debt exceeded official foreign exchange reserves by a large margin, which was yet another illustration of the increasing external financial vulnerability of the economy during the 1990s.

68. At this stage, it should also be noted that with the restructuring and rescheduling of the external debt during 1999–2000 (discussed in Box I-1), the distinction between short-term and other external debt has become blurred because some debt that was short-term, if classified by the initial maturity criterion, effectively became medium-term debt after rescheduling. Similarly, after end-1998, the effective debt also decreased if only amortization payments coming due after rescheduling are included.[28] At end-2000, the outstanding amount of effective short-term debt after rescheduling was significantly lower than at end-1998.

***The debt service burden of external debt***

69. Arguably, the most important external debt related development during the 1990s was the dramatic increase in the debt service burden of external debt. When measured on the basis of scheduled payments, the burden almost doubled to about 13 percent of GDP by 2000 (Table II-3). In terms of current foreign exchange receipts, the scheduled debt service burden increased more than twofold to about 64 percent by 2000. Toward the end of the decade, the debt service burden, based on scheduled payments, obviously became increasingly unmanageable given export receipts and capital inflows.[29] Debt service payments had to be restructured in the context of a comprehensive debt restructuring exercise, as described in

[28] In Tables II-1 and II-2, effective short-term debt was calculated on effective amortization payments after restructuring and rescheduling.

[29] The scheduled debt service in 1999 and 2000 should be interpreted with caution because of the statistical treatment of debt items that were rescheduled by the full amount. When such debt was rescheduled for the first time, the scheduled debt service assumes full repayment of the debt. This caveat is particularly relevant for some categories of FCDs.

Box II-1. Even after the debt restructuring and rescheduling, the actual debt service burden remained above 30 percent of current foreign exchange receipts during 1999–2000.

**Box II-1. Pakistan: Debt Crisis and External Debt Restructuring After May 1998**

In the aftermath of the events of May 1998, Pakistan had to embark on a comprehensive restructuring of its external debt service obligations during 1999–2000, as the debt service burden had become unmanageable. The main elements of the restructuring include:

- In January 1999, the Paris Club provided debt relief on debt service from public and publicly guaranteed debt contracted prior to September 30, 1997 falling due between January 1, 1999 and December 31, 2000 (including arrears accumulated during the first half of 1999). In January 1999, the projected debt service relief granted over the 18-month period amounts to US$3.3 billion.

- Pakistan froze withdrawals in foreign currency from all nonresident foreign currency deposits (FCDs) in May 1998, which amounted to US$4 billion at the time.[1] Subsequently, it reached agreement with nonresident institutional investors on a more favorable repayment schedule for US$1.4 billion of FCDs. Other nonresident investors have been allowed to withdraw and cash their deposits in local currency (at the official rate until May 1999 and at the interbank rate after) or to swap them with the so-called Special U.S. dollar bonds issued by the Government of Pakistan.

- In December 1999, Pakistan succeeded in exchanging three existing Eurobonds worth about US$610 million for a new six-year amortizing bond with a three-year grace period and a 10 percent coupon. Otherwise, US$450 million of repayments would have come due during 2000 (in addition, a put option on the remaining bond coming due in 2002 could have been exercised from February 2000).

- In December 1999, Pakistan also reached agreement with eight commercial banks to restructure US$512 million of short-term trade credits. In addition, Pakistan rescheduled US$415 million of medium-term commercial bank credits in 1999.

- The central bank succeeded in rolling over short-term and medium-term liabilities held by other central banks.

Overall, the amount of relief achieved through the restructuring of debt service obligations is estimated at about US$7.3 billion during 1999–2000. About 45 percent of the relief was provided by official, bilateral creditors.

[1] Foreign currency withdrawals from bearer securities denominated in foreign currency (including the so-called Foreign Exchange Bearer Certificates, Foreign Exchange Bearer Certificates, and Dollar Bearer Certificates) and foreign currency deposits held by resident investors were also frozen. The corresponding outstanding liabilities amounted to about US$7.3 billion at end-May 1998.

70. Another dimension of the debt service burden is the extent to which debt is effectively refinanced or rolled over through new debt inflows. The smaller are the amounts of refinancing or rollover funds, the more burdensome the debt service becomes because other means of financing are needed unless the external current account is in surplus. From this angle, a noticeable rise in the debt burden was also registered during the 1990s

Table II-3. Pakistan: External Debt Service, 1992–2000 1/ 2/

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | | | | | |
| Total | 3,467 | 4,336 | 4,425 | 5,542 | 5,449 | 6,856 | 7,757 | 8,361 | 8,205 |
| Principal | 2,468 | 3,177 | 3,155 | 4,076 | 3,818 | 5,111 | 5,994 | 6,901 | 6,529 |
| Interest | 999 | 1,159 | 1,270 | 1,466 | 1,631 | 1,745 | 1,763 | 1,460 | 1,676 |
| Public and publicly guaranteed 2/ | 2,999 | 3,317 | 3,753 | 4,694 | 4,301 | 4,749 | 4,554 | 5,015 | 4,549 |
| Principal | 2,237 | 2,442 | 2,854 | 3,723 | 3,248 | 3,695 | 3,480 | 3,942 | 3,322 |
| Interest | 762 | 875 | 899 | 971 | 1,053 | 1,054 | 1,074 | 1,073 | 1,227 |
| Private 3/ | 468 | 1,019 | 672 | 848 | 1,148 | 2,107 | 3,203 | 3,346 | 3,656 |
| Principal | 231 | 735 | 301 | 353 | 570 | 1,416 | 2,514 | 2,959 | 3,207 |
| Interest | 237 | 284 | 371 | 495 | 578 | 691 | 689 | 387 | 449 |
| | (In percent of GDP) | | | | | | | | |
| Total | 7.1 | 8.4 | 8.5 | 9.1 | 8.6 | 10.9 | 12.4 | 14.4 | 13.3 |
| Principal | 5.0 | 6.1 | 6.0 | 6.7 | 6.0 | 8.1 | 9.6 | 11.9 | 10.6 |
| Interest | 2.0 | 2.2 | 2.4 | 2.4 | 2.6 | 2.8 | 2.8 | 2.5 | 2.7 |
| Public and publicly guaranteed 2/ | 6.1 | 6.4 | 7.2 | 7.7 | 6.8 | 7.6 | 7.3 | 8.6 | 7.4 |
| Principal | 4.6 | 4.7 | 5.5 | 6.1 | 5.1 | 5.9 | 5.6 | 6.8 | 5.4 |
| Interest | 1.6 | 1.7 | 1.7 | 1.6 | 1.7 | 1.7 | 1.7 | 1.8 | 2.0 |
| Private 3/ | 1.0 | 2.0 | 1.3 | 1.4 | 1.8 | 3.4 | 5.1 | 5.8 | 5.9 |
| Principal | 0.5 | 1.4 | 0.6 | 0.6 | 0.9 | 2.3 | 4.0 | 5.1 | 5.2 |
| Interest | 0.5 | 0.5 | 0.7 | 0.8 | 0.9 | 1.1 | 1.1 | 0.7 | 0.7 |
| | (In percent of current foreign exchange receipts) | | | | | | | | |
| Total | 30.6 | 40.2 | 40.9 | 45.0 | 44.0 | 53.7 | 58.6 | 75.0 | 64.9 |
| Principal | 21.8 | 29.5 | 29.2 | 33.1 | 30.8 | 40.0 | 45.3 | 61.9 | 51.7 |
| Interest | 8.8 | 10.7 | 11.7 | 11.9 | 13.2 | 13.7 | 13.3 | 13.1 | 13.3 |
| Public and publicly guaranteed 2/ | 26.4 | 30.8 | 34.7 | 38.1 | 34.7 | 37.2 | 34.4 | 45.0 | 36.0 |
| Principal | 19.7 | 22.7 | 26.4 | 30.2 | 26.2 | 28.9 | 26.3 | 35.4 | 26.3 |
| Interest | 6.7 | 8.1 | 8.3 | 7.9 | 8.5 | 8.3 | 8.1 | 9.6 | 9.7 |
| Private 3/ | 4.1 | 9.5 | 6.2 | 6.9 | 9.3 | 16.5 | 24.2 | 30.0 | 28.9 |
| Principal | 2.0 | 6.8 | 2.8 | 2.9 | 4.6 | 11.1 | 19.0 | 26.6 | 25.4 |
| Interest | 2.1 | 2.6 | 3.4 | 4.0 | 4.7 | 5.4 | 5.2 | 3.5 | 3.6 |
| Memorandum items: | | | | | | | | | |
| Debt service as percent of official reserves | 334.0 | 937.7 | 192.2 | 202.2 | 265.4 | 600.9 | 832.3 | 500.1 | 895.7 |
| Public | 288.9 | 717.3 | 163.0 | 171.3 | 209.5 | 416.2 | 488.6 | 299.9 | 496.6 |
| Private | 45.1 | 220.4 | 29.2 | 30.9 | 55.9 | 184.7 | 343.7 | 200.1 | 399.1 |
| Actual debt service (in millions of U.S. dollars) 4/ | 3,467 | 4,336 | 4,425 | 5,542 | 5,449 | 6,856 | 7,757 | 4,542 | 4,241 |
| In percent of current foreign exchange receipts | 30.6 | 40.2 | 40.9 | 45.0 | 44.0 | 53.7 | 58.6 | 40.8 | 33.6 |
| In percent of official reserves | 334.0 | 937.7 | 192.2 | 202.2 | 265.4 | 600.9 | 832.3 | 271.7 | 463.0 |

Source: State Bank of Pakistan; Ministry of Finance; and Federal Bureau of Statistics.

1/ Fiscal year basis. Fiscal year runs from July 1 to June 30. For example, 1992 refers to the fiscal year running from July 1, 1991 to June 30, 1992.

2/ Scheduled debt service before restructuring and rescheduling.

3/ Including debt of state-owned commercial banks with government guarantee.

4/ Scheduled debt service minus rescheduled debt service.

Table II-4. Pakistan: External Debt Service and Capital Flows, 1992–2000 1/

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | | | | | |
| Gross debt-related capital inflows | 3,148 | 4,499 | 5,556 | 6,150 | 5,764 | 6,251 | 5,513 | 4,875 | 2,927 |
| Public | 2,870 | 3,572 | 4,059 | 4,731 | 4,210 | 4,244 | 4,435 | 4,321 | 2,592 |
| Private | 278 | 927 | 1,497 | 1,419 | 1,554 | 2,007 | 1,078 | 554 | 335 |
| Net debt-related capital flows (+=inflow) 2/ | 680 | 1,322 | 2,401 | 2,074 | 1,946 | 1,140 | -481 | -2,026 | -3,602 |
| Public | 633 | 1,130 | 1,205 | 1,008 | 962 | 549 | 955 | 379 | -730 |
| Private | 47 | 192 | 1,196 | 1,066 | 984 | 591 | -1,436 | -2,405 | -2,872 |
| | (In percent of current foreign exchange receipts) | | | | | | | | |
| Gross debt-related capital inflows | 27.7 | 41.7 | 51.4 | 49.9 | 46.5 | 49.0 | 41.6 | 43.7 | 23.2 |
| Public | 25.3 | 33.1 | 37.5 | 38.4 | 34.0 | 33.2 | 33.5 | 38.8 | 20.5 |
| Private | 2.5 | 8.6 | 13.8 | 11.5 | 12.5 | 15.7 | 8.1 | 5.0 | 2.7 |
| Net debt-related capital flows (+=inflow) 2/ | 6.0 | 12.3 | 22.2 | 16.8 | 15.7 | 8.9 | -3.6 | -18.2 | -28.5 |
| Public | 5.6 | 10.5 | 11.1 | 8.2 | 7.8 | 4.3 | 7.2 | 3.4 | -5.8 |
| Private | 0.4 | 1.8 | 11.1 | 8.7 | 7.9 | 4.6 | -10.8 | -21.6 | -22.7 |
| | (In percent of debt service obligations by sector) | | | | | | | | |
| Gross debt-related capital inflows | 90.8 | 103.8 | 125.6 | 111.0 | 105.8 | 91.2 | 71.1 | 58.3 | 35.7 |
| Public | 95.7 | 107.7 | 108.2 | 100.8 | 97.9 | 89.4 | 97.4 | 86.2 | 57.0 |
| Private | 59.4 | 91.0 | 222.7 | 167.3 | 135.4 | 95.3 | 33.7 | 16.6 | 9.2 |
| Net debt-related capital flows (+=inflow) 2/ | 19.6 | 30.5 | 54.3 | 37.4 | 35.7 | 16.6 | -6.2 | -24.2 | -43.9 |
| Public | 21.1 | 34.1 | 32.1 | 21.5 | 22.4 | 11.6 | 21.0 | 7.5 | -16.0 |
| Private | 10.0 | 18.9 | 177.9 | 125.7 | 85.7 | 28.0 | -44.8 | -71.9 | -78.6 |
| GDP at market prices | 48,918 | 51,778 | 52,197 | 60,923 | 63,620 | 62,729 | 62,486 | 58,124 | 61,531 |
| Forex receipts | 11,345 | 10,780 | 10,817 | 12,313 | 12,390 | 12,769 | 13,242 | 11,144 | 12,638 |
| Debt stock, public | 22,276 | 24,368 | 26,548 | 28,108 | 28,121 | 28,709 | 29,000 | 30,012 | 31,010 |
| Debt stock private | 2,535 | 3,187 | 4,531 | 4,610 | 6,563 | 7,058 | 6,782 | 5,991 | 4,581 |
| Memorandum item: | (In millions of U.S. dollars) | | | | | | | | |
| Net debt-related capital flows after restructuring and rescheduling | 680 | 1,322 | 2,401 | 2,074 | 1,946 | 1,140 | -481 | 1,793 | 362 |

Source: State Bank of Pakistan; Ministry of Finance.

1/ Fiscal year basis. Fiscal year runs from July 1 to June 30. For example, 1992 refers to the fiscal year running from July 1, 1991 to June 30, 1992.

2/ Gross inflows minus scheduled amortization payments before restructuring and rescheduling.

(Table II-4). The gross debt-related capital inflows decreased quite steadily after 1993/94, both in absolute value and in terms of GDP or debt service obligations. In fact, net debt-related capital flows (debt disbursements minus amortization) decreased steadily from a peak reached in 1993/94 and turned negative in 1997/98.

**The dynamics of external debt and debt service during the 1990s**

71. The identification and quantification of the factors that contributed to the evolution of the external debt in the past typically provides useful information on prospects and policy issues. However, as argued below, the dynamics of the external debt cannot explain the dynamics of the debt service, which was determined by the changes in the debt structure.

*Explaining the External Debt Dynamics*

72. As shown in Appendix A, the change in the external debt as a percent of current foreign exchange receipts between *t* and *t+1* can be decomposed into four factors that capture the most important balance of payments aggregates:

- **Net exports (the noninterest current account balance)**[30], which determine the need for the external financing of imports given overall receipts from exports of goods and service and private transfers.

- **The intrinsic debt-interest dynamics,** which emanates from the difference between the interest rate on external debt and the growth of current foreign exchange receipts. If this difference is positive, the dynamics of interest compounding applies, which can lead to continued increases in the external debt unless net exports are, on average, positive and large enough to offset the interest bill. In general, a positive difference is expected, although a country like Pakistan is likely to be an exception given the significant share of concessional external debt.[31]

- **The accumulation of gross official foreign exchange reserves,** which requires the accumulation of external debt unless the accumulation is offset by other capital flows or the current account balance.

- **Other factors,** including other capital inflows such as foreign direct investment, which reduce the need for the accumulation of external debt.

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[30] In the literature on external current account sustainability, the noninterest external current account balance is often referred to as the trade balance.

[31] This issue is discussed in more detail in Appendix II-II in the context of fiscal solvency.

73. The actual decomposition of Pakistan's external debt dynamics during the 1990s according to this scheme can be found in Table II-5.[32] In the following discussion of the results, it is convenient to distinguish between push and pull factors. Push factors are factors that would have contributed to increases in the external debt ratio if all other factors had remained unchanged. Pull factors are factors that would have pulled down the external debt ratio.

*Net exports*

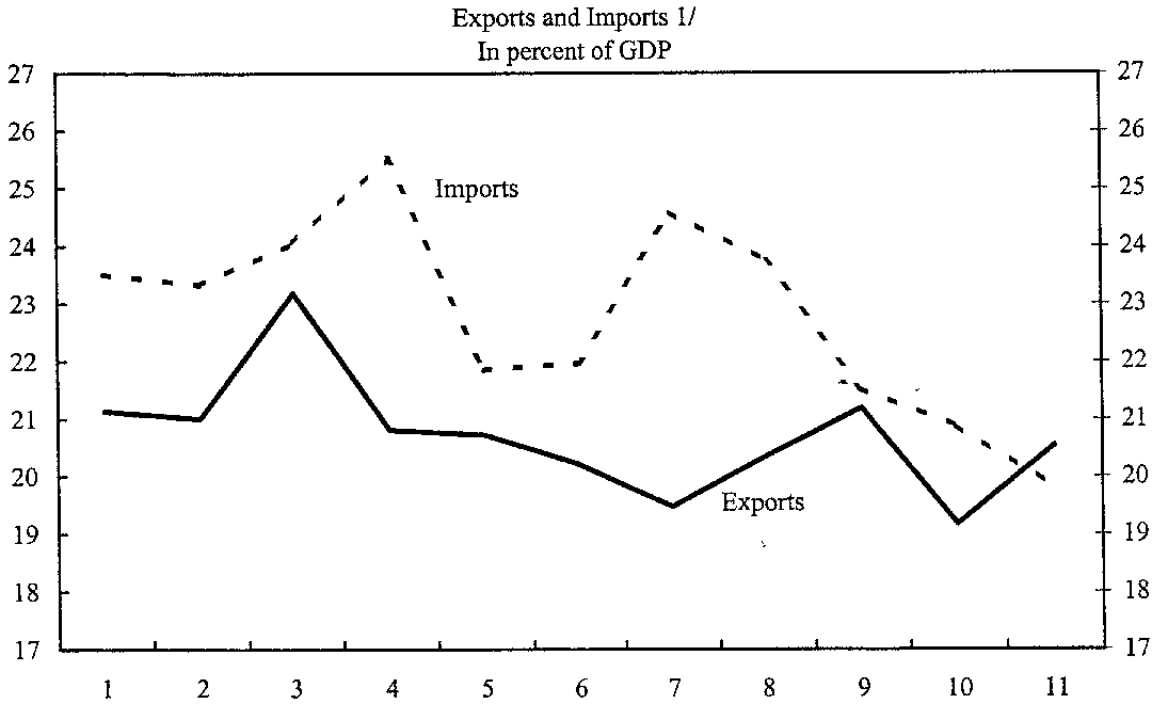
74. The generally large imbalance between exports and imports, which implied negative net exports (or noninterest external current account deficits), unambiguously was the most important "push" factor behind the increase in the external debt. These imbalances partly reflected Pakistan's fundamental external vulnerability related to productivity developments in the agricultural sector. As agricultural outputs such as cotton and wheat are important determinants of the export supply potential as well as of the import needs, a series of productivity shocks in this sector during the 1990s led to highly pro-cyclical net exports. However, as illustrated in Chart II-1, cyclical variations in net exports due to a series of negative productivity shocks to the agricultural sector were only one part of the story. In addition, the overall performance of exports, including workers' remittances during the 1990s, was disappointing, especially after significant growth in the 1980s, reflecting, inter alia, insufficient stabilization efforts and a lack of determination in carrying through the deep structural reforms needed to reduce the external vulnerabilities.

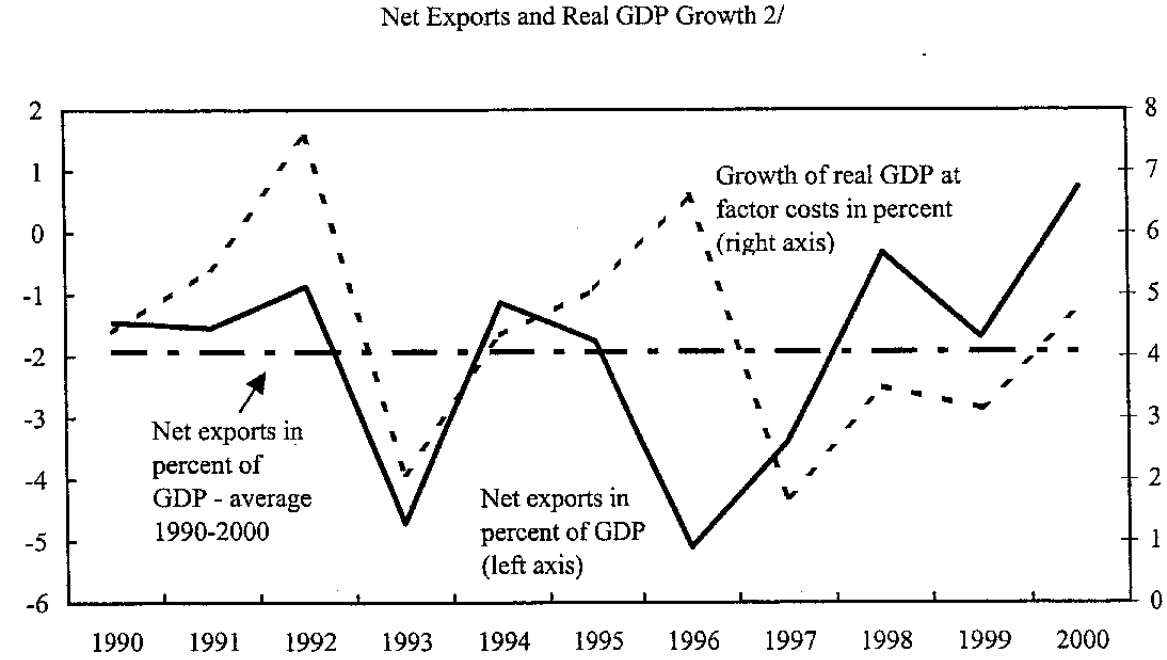
*The intrinsic debt-interest dynamics*

75. Interest payments on external debt were generally another push factor. As the growth rate of total exports fluctuated with a large amplitude in the last decade, the magnitude of the contribution depends critically on the period selected for the analysis. For the entire decade, the contribution to the debt dynamics was substantial at about 42 percentage points of current foreign exchange receipts. However, this magnitude is largely the result of a sharp drop in total exports in 1999 against the background of weak external demand related to the Asian crisis and the unfolding balance of payments crisis (workers' remittances). Between 1992 and 1998, the contribution was merely 4 percentage points of current foreign exchange receipts compared to an increase in the external debt by 33 percentage points. A relatively small contribution on average was to be expected given the relatively constant and low nominal interest rate on external debt (Chart II-2). Table II-5 also shows how in years with favorable export growth, interest payments were a pull factor because interest rates on external debt adjusted for export growth were favorably low.

[32] The decomposition was performed for the years 1992–2000. For this period, the balance of payments data is based on the same classification.

Chart II-1. Pakistan: Exports, Imports, and Net exports




Source: Staff calculations based on data provided by the authorities.

1/ Exports: exports of goods and services and workers' remittances; imports: imports of goods and services and unrequited transfers (debit items).
2/ Net exports equals exports minus imports as defined in footnote 1.

Table II-5. Pakistan: External Debt Dynamics, 1992–2000 1/

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 | Total 2/ 1992–98 | Total 2/ 1992–2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In percentage points of current foreign exchange receipts) | | | | | | | | | | |
| **Change in external debt** | -18.2 | 36.9 | 31.7 | -21.6 | 14.2 | 0.2 | -9.9 | 52.9 | -41.4 | 33.3 | 44.7 |
| **Contribution of determinants:** 3/ | -18.2 | 36.9 | 31.7 | -21.6 | 14.2 | 0.2 | -9.9 | 52.9 | -41.4 | 33.3 | 44.7 |
| Net exports | 3.7 | 22.6 | 5.5 | 8.7 | 26.2 | 16.7 | 1.5 | 8.8 | -3.6 | 84.9 | 90.1 |
| Interest factor | -26.8 | 22.2 | 10.9 | -23.0 | 11.5 | 5.4 | 3.3 | 64.0 | -24.9 | 3.5 | 42.5 |
| Change in offical reserves | 4.5 | -5.3 | 17.0 | 3.6 | -5.6 | -7.1 | -1.6 | 6.6 | -6.0 | 5.4 | 6.1 |
| Other | 0.4 | -2.6 | -1.6 | -10.8 | -17.9 | -14.7 | -13.1 | -26.6 | -6.9 | -60.5 | -94.0 |
| Memorandum items (in percent): | | | | | | | | | | | |
| Growth of foreign exchange receipts | 17.7 | -5.0 | 0.3 | 13.8 | 0.6 | 3.1 | 3.7 | -15.8 | 13.4 | 4.9 | 3.5 |
| Growth-adjusted interest rate on external debt | -11.3 | 10.2 | 4.2 | -8.0 | 4.3 | 1.9 | 1.2 | 23.7 | -7.7 | 0.4 | 2.1 |

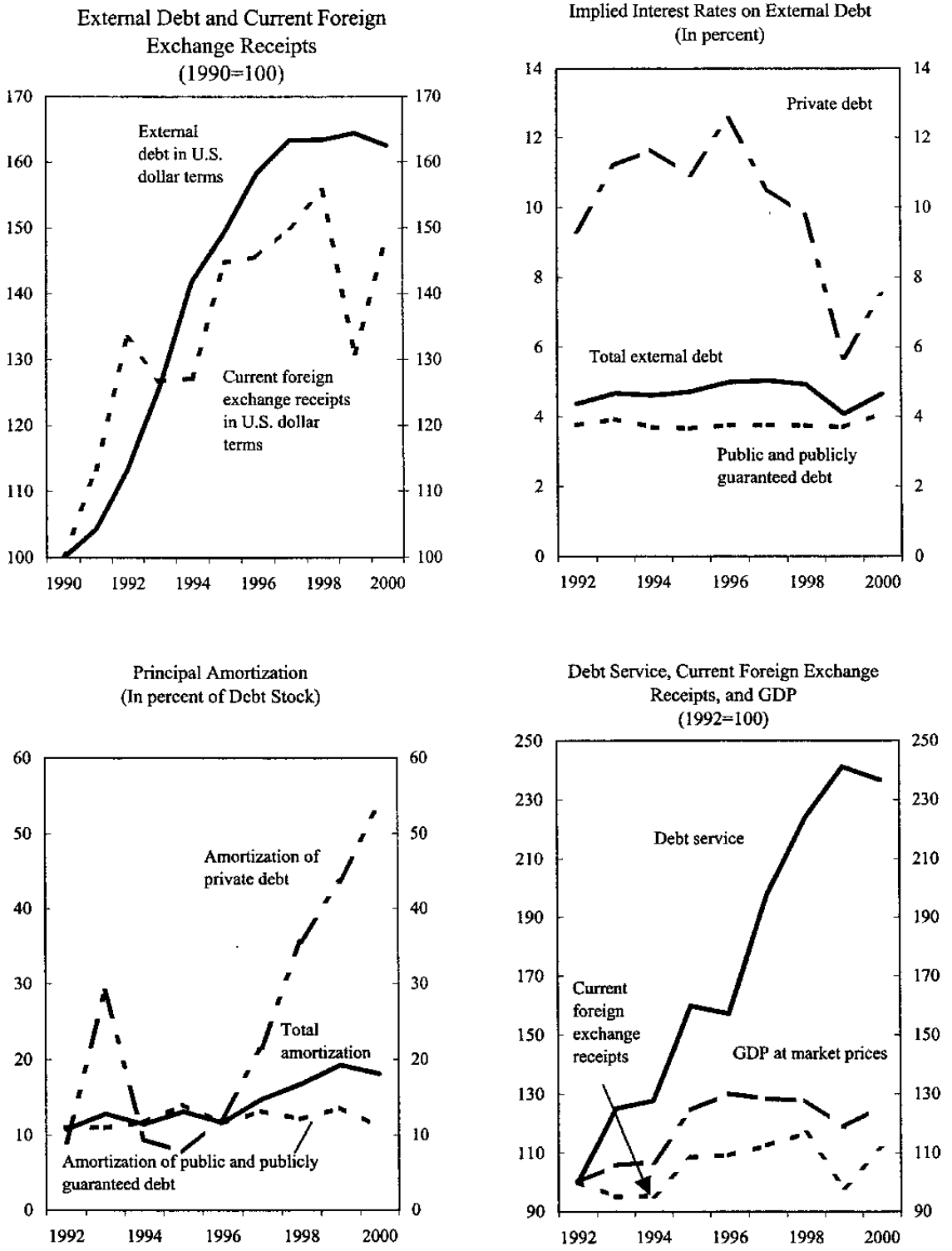
Source: Fund staff calculations based on data provided by the State Bank of Pakistan and Ministry of Finance.

1/ Fiscal year basis. Fiscal year runs from July 1 to June 30. For example, 1992 refers to the fiscal year running from July 1, 1991 to June 30, 1992.

2/ Averages for growth rate of forex receipts and the growth-adjusted interest rate on external debt.

3/ Positive sign means contribution to an increase in the debt ratio.

Chart II-2. Pakistan: External Debt and Dynamics of External Debt Burden




Source: Staff calculations based on data provided by the Pakistan authorities.

*Foreign exchange reserves and other factors*

76. Changes in reserves were sometimes a push factor and sometimes a pull factor. Overall, the accumulation of reserves contributed to the increases in external debt, although the magnitude remained small as the reserves were quite often needed for balance of payments financing during the 1990s. Other determinants were a significant pull factor. These determinants include foreign direct investment, which began to contribute substantially to the balance of payments once the IPP program became operational in the mid-1990s. Other inflows were portfolio inflows, involving the sales of Pakistani assets to nonresidents.

***Explaining the dynamics of the external debt burden***

77. Analyzing the external debt dynamics also points to a another important aspect of Pakistan's external debt problems. The change in the stock of external debt between 1991/92 and 1999/2000 cannot explain the sharp increase in the external debt service burden when measured against current foreign exchange receipts. As noted in Table II-5, the ratio of external debt to current foreign exchange receipts only increased by about 45 percent. Applying the beginning-of-period interest rate on total external debt, a seemingly innocuous assumption given the small variation over time, and the average debt maturity during the period to this increase suggests that the debt service burden should have increased by roughly 8 percentage points to about 39 percent of current foreign exchange receipts. The actual debt service ratio, however, more than doubled. It is important to note that this observation is not just the result of balance of payments arithmetic during a debt crisis, when rescheduling or exceptional financing is "below the line" and the calculation of the scheduled debt service "above the line" assume immediate repayment in full. If the same back-of-the-envelope calculation were done for the period 1992–98, a significant discrepancy between actual and "fitted" increase in the debt service ratio would also emerge.

78. The heavier debt service burden must be the result of either higher interest rates on the public debt, changes in the structure of external debt, or of a reduction in the growth of current foreign exchange receipts relative to that of debt service payments on the outstanding debt (at the outset of the comparison).

79. The increasing principal payments, which more than doubled both in terms of GDP and current foreign exchange receipts, were the first important factor underlying the sharp rise in the debt service burden during the 1990s. The increase in overall principal payments must be attributed largely to the increased share of private debt, which must have been more short-term on average compared to public debt. Nevertheless, in the early 1990s, a small rise in the ratio of principal payments on public debt to the stock of public debt (by about 1 percentage point as shown in Chart II-2) contributed also to the increased principal payments. This suggests that the structure of public and publicly guaranteed debt with regard to maturity or concessionality (interest rate, grace period) became somewhat less favorable between 1992–95. Since then, the structure of public debt appears to have remained broadly unchanged. As evinced by the increase in the ratio of principal payments on private debt to

the stock of private debt, the effective maturity of private debt must have decreased considerably from the mid-1990s. On the basis of this measure, the effective maturity of private debt fell from roughly 10 years in 1996 to about two years in 2000.[33] Again, it is important to note that this general trend began to emerge before the debt and balance of payments problems in 1999. Between 1992 and 1998, amortization payments on private debt rose from about 9 to 36 percent of the stock of private debt.[34]

80. A second factor was the increase in the implied interest rate on private external debt during the early to mid-1990s (Chart II-2). In contrast, interest payments on public debt rose broadly in line with the debt stock. This only supports the conclusion that the increased share of more expensive and more short-term private external debt was an important reason behind the deterioration in the debt service burden during the last decade.

81. A third and important factor behind the deterioration in the debt service ratios as shown in Chart II-2 was the sharp slowdown in the growth of current foreign exchange receipts from 1992. In the circumstances, debt service became more of a burden with sometimes large external current account deficits and a growing debt stock. Hence, the unfavorable export performance affected the debt service ratios also through the very unfavorable "denominator" effect on the debt service ratios, in addition to the effects on the debt dynamics through sometimes large external current account deficits (before interest payments).

**Dimensions of Pakistan's debt burden**

82. In practice, the assessment of external debt sustainability relies heavily on the analysis of past debt dynamics on the one hand, and experience, cross-country comparisons, and rules of thumbs on the other.

***A cross-country comparison of Pakistan's debt burden***

83. Table II-6 shows a cross-country comparison of indicators for the debt burden of a country, covering the period from 1990 to 1998 so that it remains unaffected by the exceptional financing received during 1999–2000. The main results of the comparison are as follows:

- As a percent of current foreign exchange receipts, Pakistan's stock of external debt was about at the average level for low-income developing countries in 1998 but

[33] It should be noted that these maturity calculations are based on scheduled payments and that "true" effective maturity of private debt would have to be assessed after restructuring.

[34] A minor element of crisis is already included in the debt service data for 1997/98, as the 1998 crisis began to unfold in May.

Table II-6. Cross-Country Comparison of Debt Burden Indicators 1/

| | 1990 | 1997 | Prel. 1998 |
|---|---|---|---|
| Total external debt | (In percent of GNP) | | |
| Pakistan | 47.2 | 56.9 | 57.8 |
| All developing countries | 33.3 | 34.9 | 37.3 |
| Low-income developing countries | 60.0 | 47.6 | 47.9 |
| Middle-income developing countries | 33.7 | 42.5 | 51.0 |
| Heavily indebted countries | 132.8 | 124.5 | 121.5 |
| South Asia | 35.3 | 26.2 | 27.6 |
| Total debt service | | | |
| Pakistan | 6.8 | 11.0 | 12.5 |
| All developing countries | 3.7 | 4.6 | 4.5 |
| Low-income developing countries | 3.9 | 3.3 | 3.1 |
| Middle-income developing countries | 4.3 | 6.2 | 6.9 |
| Heavily indebted countries | 5.6 | 5.4 | 4.4 |
| South Asia | 3.1 | 2.8 | 2.5 |
| Interest on External Debt | | | |
| Pakistan | 1.9 | 2.8 | 2.8 |
| All developing countries | 1.6 | 1.6 | 1.9 |
| Low-income developing countries | 2.0 | 1.1 | 1.3 |
| Middle-income developing countries | 1.8 | 2.3 | 2.6 |
| Heavily indebted countries | 2.3 | 2.0 | 1.7 |
| South Asia | 1.7 | 0.9 | 1.0 |
| Total External Debt | | | |
| Pakistan 3/ | 232.6 | 274.4 | 267.7 |
| All developing countries | 155.8 | 129.0 | 146.2 |
| Low-income developing countries | 343.1 | 243.3 | 273.0 |
| Middle-income developing countries | 155.3 | 140.8 | 165.2 |
| Heavily indebted countries | 503.2 | 341.8 | 386.3 |
| South Asia | 317.5 | 193.1 | 201.0 |
| | (In percent of Current Foreign exchange receipts) | | |
| Total Debt Service | | | |
| Pakistan 3/ | 30.6 | 53.0 | 58.0 |
| All developing countries | 17.4 | 17.0 | 17.6 |
| Low-income developing countries | 22.0 | 16.9 | 17.8 |
| Middle-income developing countries | 19.8 | 20.6 | 22.4 |
| Heavily indebted countries | 21.0 | 14.8 | 13.9 |
| South Asia | 28.1 | 20.3 | 17.9 |
| Interest Payments on External Debt | | | |
| Pakistan 3/ | 8.8 | 13.5 | 13.2 |
| All developing countries | 7.5 | 6.1 | 7.4 |
| Low-income developing countries | 11.3 | 5.9 | 7.4 |
| Middle-income developing countries | 8.2 | 7.4 | 8.5 |
| Heavily indebted countries | 8.7 | 5.6 | 5.4 |
| South Asia | 15.1 | 6.7 | 7.1 |

Source: World Bank, Global Development Finance 2000 (except for Pakistan); and data provided by the Pakistan authorities.

1/ Calendar year basis except for Pakistan, for which data is on a fiscal year basis.

above average when compared to developing countries as a group, middle-income developing countries, or to South Asia.[35] Compared to heavily indebted countries, the country's external debt remains below average.

- As a percent of GDP, Pakistan's stock of external debt was above average compared to all but heavily indebted countries in 1998.

- Comparing the debt stock indicators for 1990 and 1998 shows a noticeable deterioration in Pakistan's relative debt burden.

- Pakistan's debt service indicators are above average compared to all country groups in 1998. In 1990, total debt service was already above average, while interest payments on external debt were in the upper echelon but not at the highest level compared to other country groups.

84. The cross-country comparison confirms the conclusion that Pakistan suffers from a heavy external debt service burden. It also illustrates how the already high debt service burden in the early 1990s was further aggravated by large external current account deficits and a deterioration in export performance.

85. An interesting outcome of the comparison is that the Pakistan's debt service burden was above average in 1998 when evaluated against low-income developing countries, while the country's debt stock ratios were about at average levels. In light of the previous analysis of the dynamics of the external debt burden, an obvious explanation would point to above-average shares of nonconcessional public debt and private debt with shorter maturities and higher interest rates in Pakistan's external debt, which reduces both its grant element and its average maturity.

86. The hypothesis of a less favorable debt structure is confirmed by World Bank estimates.[36] In 1997, the average grant element in the debt of low-income countries was about 44 percent, while that of Pakistan was only 21 percent. In contrast, in 1990, the average grant element in Pakistan's external debt amounted to 35 percent, only slightly below the low-income countries' average of about 41 percent. Similarly, in 1997, the average maturity of Pakistan's external debt was only 12 years compared to an average of about 25 years in low-income developing countries, while in 1990, the same Chart was about 22 years for Pakistan's external debt, and about 24 percent for low-income developing countries. At the same time, the share of private external debt in Pakistan rose from roughly 1 percent to about 20 percent of total external debt. The decreasing grant elements as estimated by the World

[35] Pakistan is classified as a low-income developing country by the World Bank in the *Global Development Indicators*.

[36] World Bank, *Global Development Finance 2000 Yearbook*, Washington, D.C.: The World Bank.

Bank implies that in terms of the net present value of the debt, Pakistan's debt is more of a burden when measured by the net present value of the debt stock as a percent of current foreign exchange receipts.

***Rules of thumb: solvency index***

87. Cohen (1988) proposed a solvency index to gauge the extent of the external debt burden. The solvency index $s$ is the share of noninterest current foreign exchange receipts in period $t$ that is needed to keep the external debt $f$ (as a ratio of noninterest current foreign exchange receipts or "exports") constant at the period $t$ level in the future:

$$s = \left( \frac{r - \hat{x}}{1 + \hat{x}} \right) f$$

where the r denotes the interest rate on external debt and where x stands for current foreign exchange receipts (a hat over a variables denotes a growth rate).[37] High values of the solvency index would suggest that a significant share of foreign exchange earnings is needed for interest payments on external debt, which could indicate unsustainable debt levels.

The solvency index can be computed in two ways:

- The first is to compute the index based on recent averages of interest and export growth rates, and on the most recent debt to export ratio. The resulting solvency index can then be compared to the actual external debt service, which shows the extent to which the debt service burden is a function of principal payments.

- The second way is to compute the interest rate on external debt, adjusted by the export growth rate, which would be consistent with maintaining the current debt and debt service ratios in the indefinite future. The computed rate can then be compared with recent actual rates, which provides for an assessment from a slightly different angle.

88. Table II-7 shows external solvency indices for Pakistan, both on a year-on-year basis and on an average basis. The averages are shown for both 1992-98 and 1992–2000 to avoid that biased conclusions are drawn because of the debt restructuring and rescheduling during the last two years.

89. In the first two lines of Table II-7, the solvency index based on actual interest rate and export growth data is compared with the actual debt service ratio. The solvency index is typically small when compared to the actual debt service ratio. For example, during 1992–98,

[37] It should be noted that this index is based on the assumption of constant debt repayments as a fraction of noninterest current foreign exchange receipts.

Table II-7. Pakistan: External Solvency Index, 1992–2000 1/

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 | Averages 1992–98 | Averages 1992–2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In percentage points of noninterest, current foreign exchange receipts) | | | | | | | | | | |
| **Solvency index** | -29.1 | 24.1 | 9.3 | -20.5 | 12.5 | 5.1 | 3.3 | 66.3 | -20.9 | 0.7 | 5.6 |
| **Actual debt-service ratio** | 30.6 | 40.2 | 40.9 | 45.0 | 44.0 | 53.7 | 58.6 | 75.0 | 64.9 | 44.7 | 50.3 |
| **Solvency interest rate** | 8.5 | 12.4 | 13.3 | 13.0 | 10.7 | 15.1 | 16.2 | 22.1 | 19.1 | 12.7 | 14.5 |
| **Actual interest rate** | -11.3 | 10.2 | 4.2 | -8.0 | 4.3 | 1.9 | 1.2 | 23.7 | -7.7 | 0.4 | 2.1 |

Source: Fund Staff calculations based on data provided by the State Bank of Pakistan and Ministry of Finance.

1/ Fiscal year basis. Fiscal year runs from July 1 to June 30. For example, 1992 refers to the fiscal year running from July 1, 1991 to June 30, 1992.

on average only 0.7 percent of current foreign exchange receipts would have been needed to keep the external debt stock constant with actual interest rate and export growth rates.

90. Lines three and four of Table II-7 compare the interest rate implied by the solvency index with the actual growth-adjusted interest rate on external debt. The calculations suggest that with the actual interest payments on external debt, which averaged about 0.4 percent during 1992–98 and 2.1 percent during 1992–2000, it would have easily been feasible to keep the debt stock constant as a percent of exports. With actual export growth rates, interest rates between about 13 to 15 percent would have been consistent with keeping the debt stock ratio constant. Such interest rate levels are, of course, well above the levels registered during the 1990s. Overall, the solvency indices suggest that Pakistan's external debt problem is primarily a liquidity problem arising from an unfavorable amortization profile.

***Assessment***

91. The cross-country comparison and the analysis of solvency indices suggest that the external debt problems are not related to the interest payments on external debt. Although the interest burden appears higher than that borne by other countries, especially low-income and South Asian countries in general, nominal interest rates on external debt are nevertheless sufficiently low to keep the intrinsic interest dynamics benign. Moreover, interest payments as a percent of current foreign exchange receipts are relatively low, as shown by the solvency index calculation.

92. What emerges clearly from the above analysis is that the external debt burden must be attributed to large amortization payments, which were the results of a large stock of external debt and unfavorable changes in the structure of external debt, as well as to a deterioration in the export performance. In recent years, scheduled debt service payments were extraordinary when compared to the standard benchmark in cross-country comparisons—current foreign exchange receipts. Moreover, they became even more burdensome in light of the turnaround in gross debt-related capital flows in the second half of the 1990s. It should be noted that this turnaround began before the balance of payments crisis that began to unfold after May 1998. With hindsight, one could conclude that the debt crisis that began to unfold after May 1998 had been looming during much of the 1990s.

93. A final verdict on the sustainability of Pakistan's external debt would be premature without more detailed, forward-looking analysis of the structure of the external debt and the medium-term debt service profile. The events of the last two years obviously demonstrate that the *external debt service* was not sustainable, a conclusion that also follows from a comparison of Pakistan's debt service ratios with standard benchmarks. With debt flow restructuring and rescheduling, this liquidity problem was resolved. In the short term, the available resources remain insufficient to meet the scheduled debt service obligations unless imports and per-capita consumption contracted dramatically, with corresponding socioeconomic and sociopolitical implications. It is for this reason that the new program to be supported by a Stand-By Arrangement includes another round of flow restructuring and rescheduling. The matter is less clear-cut when it comes to the sustainability of the

outstanding debt stock. While the net present value of the debt is reduced with the flow restructurings and reschedulings, the answer to the question of whether the reduction is sufficient to allow debt ratios to return to levels considered as sustainable awaits further analysis.

### C. Public Debt Issues and Sustainability

94. This section analyzes the sustainability and other issues related to public debt. Public debt issues are related to fiscal sustainability, that is, the capacity of the federal and provincial governments to service the debt in an orderly manner. Orderly debt service requires that the government is solvent, that is, that the net present value of government assets is at least equal to the net present value of government liabilities.[38] If a government is indebted, as is typically the case, solvency requires that the net present value of future primary balances (including seignorage revenue) equals or exceeds the current stock of government (net) debt.[39] Hence, on average, solvent governments will have to run surpluses in the future if real interest rates exceed real GDP growth.[40]

95. This solvency requirement emanates from accounting identities and is by itself not very meaningful from a policy point of view. A more meaningful approach is to examine whether fiscal policies are sustainable, that is, whether their implications are consistent with basic goals of economic policy. Following Razin (1996), fiscal policies can be considered sustainable if they are consistent with the regular servicing of the public debt as well as with high medium-term economic growth and macroeconomic stability and if they are robust to possibly persistent perturbations to the anticipated path of key variables such as growth and interest rates. In terms of instruments, the issue is the level and structure of adjustment in expenditure and revenue needed to ensure that a fiscal policy program becomes sustainable.

96. From this perspective, the sustainability of a fiscal policy program depends, among other factors, on the overall macroeconomic policy mix, the current level and structure of expenditure and revenue, and the current level and structure of the debt-to-GDP ratio. Against this background, the assessment of fiscal sustainability and robustness calls in principle for a comprehensive macroeconometric model, which unfortunately is not available for Pakistan. In the circumstances, the *analysis of past debt dynamics* and *simple scenario analysis based on sustainability indicators* are often useful for the assessment of fiscal sustainability.

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[38] The solvency requirement is often referred to as the so-called present value budget constraint.

[39] Other government assets are generally disregarded in this paper, assuming that the government assets are illiquid without a readily available market valuation or marketability. In the review of policy options, however, the role of other government assets will be explored, including the possible role of privatization in resolving debt problems.

[40] Appendix II-II discusses the mechanics of the solvency requirement in some detail.

## Pakistan's public debt—some stylized facts

### *Level of public debt*

97. At 92 percent of GDP at end-June 2000, the level of net public debt in Pakistan is high by international standards (Table II-8). Net public debt is defined as gross public debt minus government deposits and its variations correspond to the budgetary financing of the consolidated federal and provincial government budgets.[41] Unfortunately, it is impossible to eliminate what is usually considered a small amount of publicly guaranteed external debt that is not serviced by the budget.[42] It should also be noted that the concept of net public debt used in this section excludes external central bank liabilities (including IMF credit) or other contingent government liabilities, as changes in these items do not affect budgetary financing. Other contingent government liabilities are also not included.[43] The debt-to-GDP ratio has been increasing steadily since the mid-1980s, when it was 76 percent of GDP (Chart II-3). The same picture of a steadily increasing debt ratio also emerges when the debt is normalized by government revenue.

### *Federal and provincial debt*

98. The outstanding public debt is by and large debt issued by the federal government; provinces have very little debt outstanding. The constitution allows provincial governments to mobilize external and domestic loans and grants. If they have outstanding loans guaranteed by the federal government, however, their borrowing must be approved by the federal government. As about 95 percent of total provincial debt is reported to be borrowing from or guaranteed by the federal government, the provinces can not make independent borrowing decisions in practice.

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[41] After a steady decrease during most of the 1990s (in percent of GDP) the government deposits increased considerably during 1999-2000 because of a buildup of debt-relief counterpart deposits.

[42] It appears that publicly guaranteed external debt accounts for the wide differences in past public debt data used in the literature (e.g., Hassan (1999) or Pasha and Gaus (1998)). The SBP publishes a series on federal public debt, which includes parts of the external debt contracted by the federal government. The SBP also publishes a total public debt aggregate which includes all gross domestic and external public debt, including publicly guaranteed external debt.

[43] For this reason, the amounts of external public debt used in this subsection are not comparable to those used in the subsection on Pakistan's external debt. It should be noted that central bank operations are not part of the consolidated federal and provincial fiscal data (except for the profit transfer as government revenue).

Table II-8. Pakistan: Net Public Debt, 1975–2000 1/

| | 1975 | 1980 | 1985 | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In billions of Pakistan rupees) | | | | | |
| Total | 71 | 164 | 360 | 808 | 1,609 | 1,831 | 2,125 | 2,395 | 2,679 | 2,915 |
| Federal | ... | ... | ... | 794 | 1,608 | 1,825 | 2,124 | 2,388 | 2,675 | 2,884 |
| Provincial | ... | ... | ... | 14 | 1 | 6 | 1 | 7 | 4 | 31 |
| By residency of holder | | | | | | | | | | |
| Domestic | ... | 65 | 164 | 391 | 798 | 915 | 1,058 | 1,232 | 1,290 | 1,461 |
| External 2/ | ... | 100 | 197 | 417 | 811 | 916 | 1,067 | 1,163 | 1,389 | 1,454 |
| | | | | | (In percent of GDP) | | | | | |
| Total | 63.6 | 70.1 | 76.2 | 94.4 | 86.3 | 86.3 | 87.5 | 89.4 | 91.9 | 91.6 |
| Federal | ... | ... | ... | 92.7 | 86.2 | 86.1 | 87.4 | 89.2 | 91.8 | 90.6 |
| Provincial | ... | ... | ... | 1.6 | 0.1 | 0.3 | 0.1 | 0.3 | 0.1 | 1.0 |
| By residency of holder | | | | | | | | | | |
| Domestic | ... | 27.8 | 34.6 | 45.7 | 42.8 | 43.2 | 43.6 | 46.0 | 44.3 | 45.9 |
| External 2/ | ... | 42.6 | 41.8 | 48.7 | 43.5 | 43.2 | 43.9 | 43.4 | 47.7 | 45.7 |
| | | | | | (In percent of government revenue) | | | | | |
| Total | 496.3 | 431.1 | 471.2 | 508.6 | 523.5 | 494.0 | 542.5 | 566.1 | 564.1 | 568.7 |
| Federal | ... | ... | ... | 499.8 | 523.2 | 492.4 | 542.2 | 564.5 | 563.2 | 562.6 |
| Provincial | ... | ... | ... | 8.9 | 0.4 | 1.6 | 0.4 | 1.7 | 0.9 | 6.1 |
| By residency of holder | | | | | | | | | | |
| Domestic | ... | 171.1 | 214.1 | 246.2 | 259.6 | 246.9 | 270.2 | 291.2 | 271.6 | 285.0 |
| External 2/ | ... | 261.5 | 258.6 | 262.5 | 263.9 | 247.1 | 272.3 | 275.0 | 292.5 | 283.7 |

Source: State Bank of Pakistan; Ministry of Finance.

1/ As of June 30 in each year.

2/ Includes some publicly guaranteed debt but excludes external liabilities of the central bank and IMF credit (net).

*Composition of domestic debt*[44]

99. Roughly 50 percent of the public debt is denominated in domestic currency and is held almost exclusively by residents. The share of domestic currency denominated debt (referred to as domestic public debt from hereon) in total public debt has remained remarkably stable in recent years and amounted to 54 percent of GDP in terms of gross debt and 45 percent in terms of net debt at end-2000 (Table II-9). The authorities classify the issued debt instruments into three main categories, permanent debt, floating debt, and unfunded debt:

- The so-called *permanent debt* comprises largely medium- to long-term securities held by banks and nonbanks. Prize bonds, that is, bonds with a lottery element are also part of this category. This debt component can be considered to be medium to long-term debt on an original maturity basis.

- *Floating debt* includes short-term government papers, especially 3-12 month treasury bills, which are mostly held by banks.

- *Unfunded debt* refers to resources mobilized through the national savings schemes (NSS) administered by the federal government's Central Directorate of National Savings. This funding category comprises a number of instruments. Most of them are of medium to long-term maturity although their effective maturity can vary in some instances as they include put option-like elements for the holder. For example, defense savings certificates have a 10-year maturity but allow for early redemption without penalty after one year.[45] Unlike most of the permanent and floating debt instruments, they are issued on tap.

100. The category other debt consists mainly of unbacked bank advances or transitory financing items such as security deposits. Bank advances are relevant mainly for the so-called commodity operations. Both the federal and the provincial governments engage in these operations, which involve the procurement of agricultural commodities such as wheat.

101. In recent years, the share of permanent decreased while that of the other two categories increased. The increase in the share of unfunded debt is especially striking. At end-June 2000, regular medium-to long-term debt accounted for less than 20 percent of domestic debt while the share of the other two categories was about 40 and 45 percent, respectively. While the average maturity structure of unfunded debt is difficult to pinpoint, the 40 percent of floating debt nevertheless constitute only a lower bound or the share of short-term debt in total net domestic public debt.

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[44] The composition of external public debt was already discussed in the previous subsection.

[45] A progressive interest remuneration over the years discourages early redemption.

Table II-9. Pakistan: Domestic Public Debt, 1990–2000 1/

| | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|
| | | | (In billions of Pakistan rupees) | | | | |
| Gross domestic public debt | 448 | 864 | 987 | 1,130 | 1,283 | 1,491 | 1,729 |
| Permanent | 99 | 290 | 278 | 281 | 277 | 257 | 260 |
| Floating | 145 | 294 | 361 | 434 | 474 | 562 | 647 |
| Unfunded | 138 | 223 | 266 | 377 | 480 | 611 | 704 |
| Other | 67 | 56 | 81 | 38 | 52 | 61 | 119 |
| Government deposits | 57 | 66 | 72 | 72 | 51 | 201 | 268 |
| Banking system | 57 | 66 | 72 | 72 | 51 | 192 | 262 |
| NBFIs | 0 | 0 | 0 | 0 | 0 | 10 | 6 |
| Net domestic public debt | 391 | 798 | 915 | 1,058 | 1,232 | 1,290 | 1,461 |
| | | | (In percent of GDP) | | | | |
| Gross domestic public debt | 52.3 | 46.3 | 46.6 | 46.5 | 47.9 | 51.2 | 54.3 |
| Permanent | 11.5 | 15.5 | 13.1 | 11.6 | 10.4 | 8.8 | 8.2 |
| Floating | 16.9 | 15.8 | 17.0 | 17.9 | 17.7 | 19.3 | 20.3 |
| Unfunded | 16.1 | 12.0 | 12.5 | 15.5 | 17.9 | 21.0 | 22.1 |
| Other | 7.8 | 3.0 | 3.8 | 1.6 | 1.9 | 2.1 | 3.7 |
| Government deposits | 6.7 | 3.5 | 3.4 | 3.0 | 1.9 | 6.9 | 8.4 |
| Banking system | 6.7 | 3.5 | 3.4 | 3.0 | 1.9 | 6.6 | 8.2 |
| NBFIs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.2 |
| Net domestic public debt | 45.7 | 42.8 | 43.2 | 43.6 | 46.0 | 44.3 | 45.9 |
| | | | (In percent of government revenue) | | | | |
| Gross domestic public debt | 267.7 | 281.0 | 266.4 | 288.5 | 303.2 | 314.0 | 337.4 |
| Permanent | 59.0 | 94.4 | 75.1 | 71.8 | 65.5 | 54.1 | 50.6 |
| Floating | 86.7 | 95.7 | 97.5 | 110.8 | 112.0 | 118.3 | 126.3 |
| Unfunded | 82.3 | 72.6 | 71.8 | 96.2 | 113.4 | 128.7 | 137.3 |
| Other | 39.8 | 18.3 | 22.0 | 9.7 | 12.3 | 12.9 | 23.1 |
| Government deposits | 34.1 | 21.4 | 19.4 | 18.3 | 12.1 | 42.4 | 52.4 |
| Banking system | 34.1 | 21.4 | 19.4 | 18.3 | 12.1 | 40.4 | 51.1 |
| NBFIs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 | 1.2 |
| Net domestic public debt | 233.7 | 259.6 | 246.9 | 270.2 | 291.2 | 271.6 | 285.0 |
| | | | (In billions of Pakistan rupees unless otherwise noted) | | | | |
| Memorandum items: | | | | | | | |
| Net public debt held by the banking system | 170 | 415 | 469 | 542 | 597 | 551 | 630 |
| In percent of GDP | 19.9 | 22.2 | 22.1 | 22.3 | 22.3 | 18.9 | 19.8 |
| In percent of M2 | 57.0 | 55.2 | 50.0 | 51.5 | 49.5 | 43.1 | 45.0 |
| Net public debt held by the central bank | 90 | 181 | 164 | 231 | 224 | 258 | 391 |
| In percent of GDP | 10.5 | 9.7 | 7.7 | 9.5 | 8.4 | 8.8 | 12.3 |
| In percent of reserve money | 68.7 | 63.2 | 52.9 | 66.6 | 60.5 | 64.8 | 78.5 |

Source: State Bank of Pakistan; Ministry of Finance.

1/ As of June 30 in each year.

102. The increase in the share of unfunded debt during the 1990s is often attributed to the emphasis on raising the share of nonbank budgetary financing to reduce inflationary pressures arising from bank-financing of the budget. Given the segmented structure of Pakistan's financial market, NSS instruments have in practice been the only debt instruments available to private investors and non-bank financial institutions.

103. Roughly 45 half of the net domestic public debt is held by the banking system. These holdings, equivalent to net credit to the government, in turn account for slightly less than one half of broad money M2. About one fourth of the net domestic public debt is held by the central bank, the holdings of which account for over 70 percent of reserve money. With such large shares of (net) government credit in total credit, it is clear that government financing needs and government debt have become an important and constraining factor for monetary policy.

***Interest burden of the public debt***

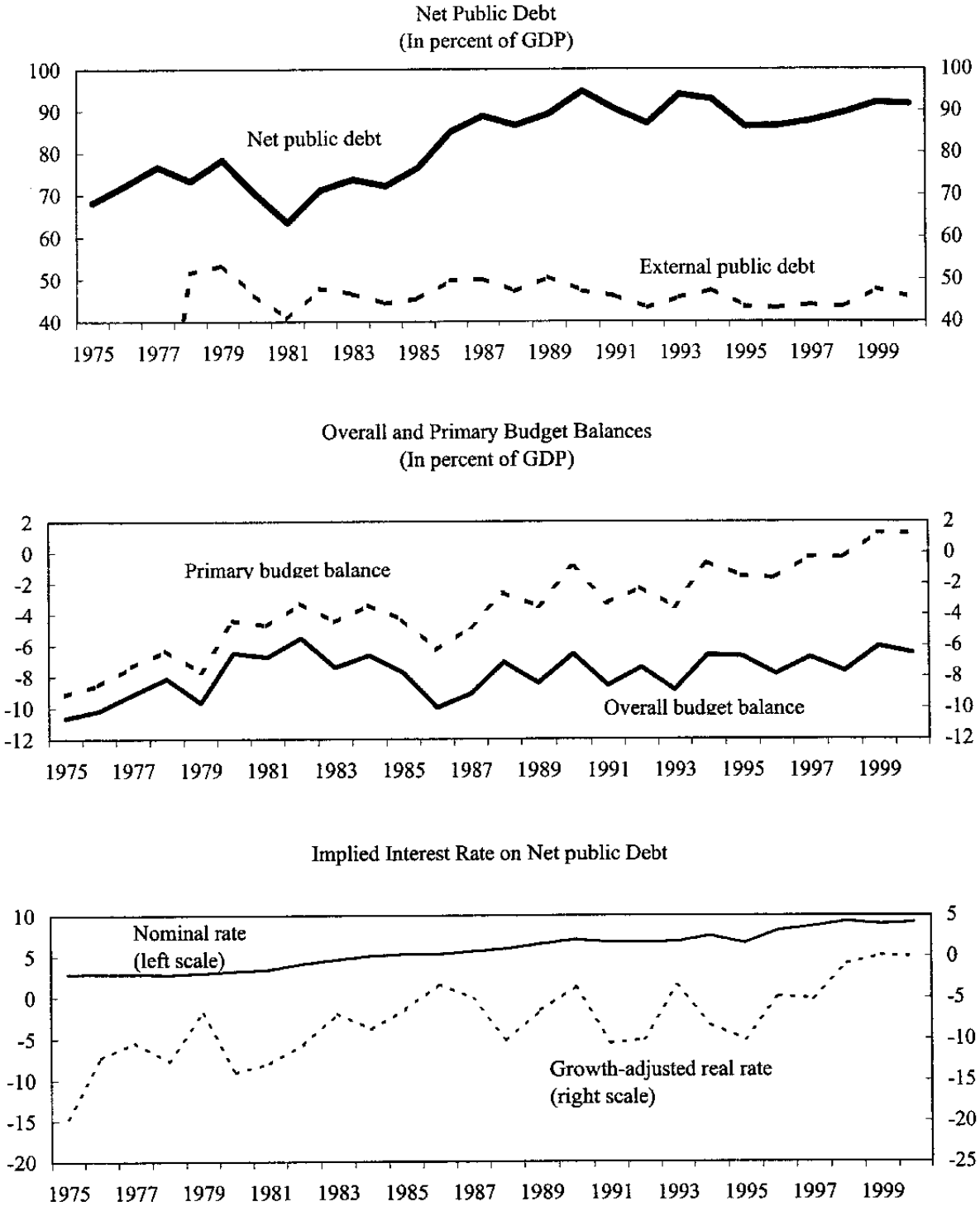
104. Overall, the average interest rate on Pakistan's net public debt has been steadily increasing over the last 25 years (Chart II-3), both in nominal and real, growth-adjusted terms.[46] Accordingly, the interest burden on public debt, as measured by budgetary interest payments as a percent of GDP, has been rising (Table II-10). In 1998, the budgetary interest burden reached, for the first time, more than 7 percent of GDP.

105. The rise in the average interest rate on the net public debt is primarily the result of increases in the average interest rate on domestic currency denominated public debt, which, in connection with decreasing inflation rates and lower real GDP growth, accentuated the intrinsic debt-interest dynamics (Table II-10). This contrasts markedly with the interest burden of external public debt. The implied interest rate on this debt category remained well below inflation and real GDP growth rates, so that the relevant interest rate for the interest burden (the growth-adjusted real interest rate) remained negative.

106. The striking difference in the interest dynamics in recent years reflects the differences in the composition of external and domestic debt. As noted above, the former is owed mostly to official creditors, which often involves concessional terms so that the related interest dynamics was somewhat less affected by economic factors. Interest rates on domestic public debt on the other hand are partly market-determined and increased significantly with some financial liberalization and the trend increase in the stock of public debt. This trend is aptly illustrated in Chart II-4, which shows the 6-month treasury bill rate and the interest on

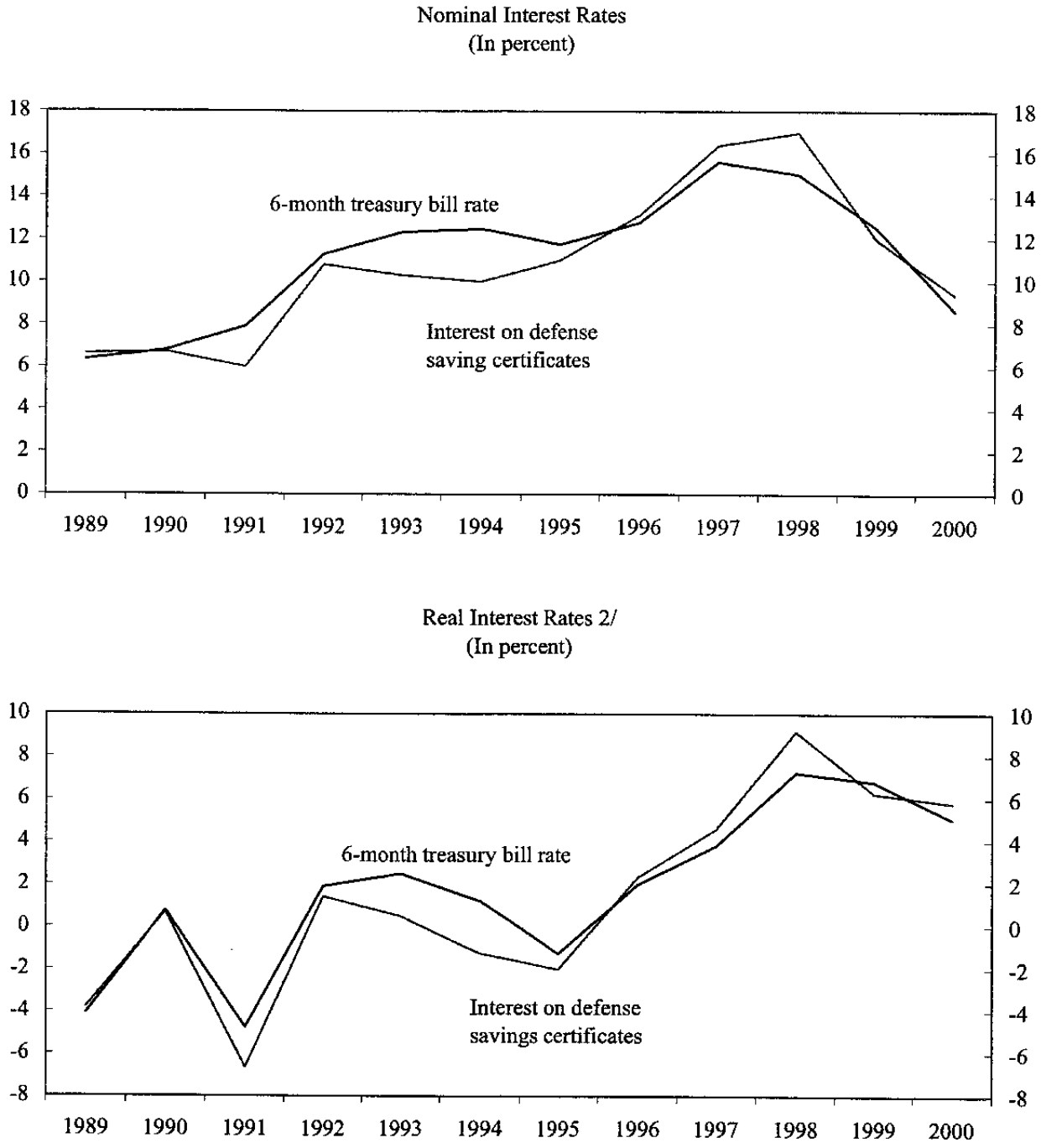
[46] It should be noted that the interest payments in the budget are on a cash basis. With rising interest rates during the 1990s, this has led to an understatement in the interest bill on an accrual basis because some long-term instruments pay bullet interest payments when they mature.

Chart II-3. Pakistan: Net Public Debt, Budget Balance, and Interest Rates




Source: Staff calculations based on the data provided by the authorities.

Chart II-4. Pakistan: Interest Rates on Domestic Public Debt Instruments 1/




Source: Data provided by the authorities and staff calculations.

1/ Period averages on a fiscal year basis. For example, 1999 refers to the values in the fiscal year 1998/99 running from July 1, 1998 to June 30, 1999.

2/ Nominal interest rates minus average annual inflation rate.

Table II-10. Pakistan: Interest Payments on Public Debt, 1990–2000 1/

| | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 | Prel. 2000 |
|---|---|---|---|---|---|---|---|
| | (In billions of Pakistan rupees) | | | | | | |
| Total | 49 | 104 | 134 | 162 | 196 | 213 | 245 |
| Domestic | 37 | 81 | 107 | 134 | 163 | 175 | 198 |
| External | 11 | 23 | 27 | 29 | 33 | 38 | 47 |
| | (In percent of GDP) | | | | | | |
| Total | 5.7 | 5.6 | 6.3 | 6.7 | 7.3 | 7.3 | 7.7 |
| Domestic | 4.3 | 4.3 | 5.0 | 5.5 | 6.1 | 6.0 | 6.2 |
| External | 1.3 | 1.2 | 1.3 | 1.2 | 1.2 | 1.3 | 1.5 |
| | (In percent of government revenue) | | | | | | |
| Total | 30.5 | 33.9 | 36.0 | 41.4 | 46.4 | 44.9 | 47.8 |
| Domestic | 23.4 | 26.3 | 28.9 | 34.1 | 38.6 | 36.9 | 38.7 |
| External | 7.2 | 7.5 | 7.2 | 7.3 | 7.8 | 8.0 | 9.1 |
| Memorandum items: | | | (In percent) | | | | |
| Implied interest rate on public debt | 8.3 | 6.5 | 7.3 | 7.6 | 8.2 | 8.0 | 8.4 |
| Inflation adjusted 2/ | -0.8 | -6.5 | -0.9 | -5.1 | 0.6 | 1.9 | 5.1 |
| Growth adjusted 3/ | -6.3 | -10.2 | -5.6 | -6.0 | -1.9 | -0.8 | -0.7 |
| Implied interest rate on domestic public debt | 11.1 | 10.1 | 11.7 | 12.6 | 13.2 | 13.6 | 13.6 |
| Inflation adjusted 2/ | 1.9 | -3.3 | 3.1 | -0.7 | 5.3 | 7.2 | 10.1 |
| Growth adjusted 3/ | -3.8 | -7.1 | -1.7 | -1.7 | 2.7 | 4.4 | 4.0 |
| Implied interest rate on external public debt | 4.5 | 2.9 | 2.9 | 2.7 | 2.8 | 2.7 | 3.2 |
| Inflation adjusted 2/ | -4.2 | -9.7 | -5.0 | -9.5 | -4.3 | -3.0 | 0.1 |
| Growth adjusted 3/ | -9.5 | -13.3 | -9.4 | -10.4 | -6.7 | -5.6 | -5.5 |

Source: State Bank of Pakistan; Ministry of Finance.

1/ Data are on a fiscal year basis. For example, 2000 stands for the fiscal year running from July 1, 1999 to June 30, 2000.

2/ Implied interest rate minus percentage change in GDP deflator (GDP at market prices).

3/ Inflation-adjusted implied interest rate minus real GDP growth rate (GDP at market prices).

defense savings certificates—an important instrument in the category of unfunded domestic debt—in nominal and real terms.[47]

107. Besides general macroeconomic developments and the rising debt stock, the increase in the interest burden has sometimes been attributed in part to current practices in public debt management. In particular, NSS instruments have been issued on tap, and their rates of return used to be set with little consideration for general financial market developments or money market benchmark rates. During the 1990s, socio-political objectives such as the promotion of savings in rural areas also appear to have played a role in the determination of NSS rates of returns. Over time, a substantial after-tax return differential on NSS instruments (compared to treasury bills or bank deposits) emerged. In the second half of the 1990s, the return differential contributed to the increased absorption of private savings through the NSS, which has led to some financial disintermediation and has hampered the developments of a general market for government bonds. Mindful of these developments, the authorities have begun to reduce rates of returns on NSS instruments in 2000.

108. The soaring real interest rates on domestic debt have become a major challenge for policy makers in Pakistan. With the disappointing progress in revenue mobilization during the 1990s, their efforts to control budget deficits required the reduction of development expenditure (as a percent of GDP) and limited the scope for providing essential social and education services. Many economist would support the hypothesis that these changes in the structure of government expenditure were among the factors underlying the decrease in the average growth rate observed during the 1990s.

**Public debt dynamics, 1975–2000**

109. The identification of the factors that contributed to the evolution of public debt ratios in the past and present provides useful information on policy issues and constraints as well as some guidance with regard to the prospects. As shown in Appendix II-III, the change in the debt-to-GDP ratio between *t* and *t+1* is determined by three main factors:[48]

- **Primary balance**, which determines the budgetary financing needs for regular government operations. Primary surpluses alleviate the debt dynamics whereas primary deficits worsen it.

[47] The difference between the yields on 10-year defense savings certificates and 6-month treasury bills is in principle a point on the yield curve, although the exact maturity difference is unclear because of the early redemption possibility for defense savings certificates.

[48] Seignorage is not listed as a separate factor because the SBP profit transfers are included in regular government revenues in Pakistan. Standard Seignorage calculations would not be meaningful because of the SBP's forward cover obligations on foreign currency deposits.

- **The intrinsic debt-interest dynamics,** which emanates from the difference between the real interest rate and real GDP growth. On average, this difference will be positive (except, possibly, for concessional external debt).[49] Positive, so-called growth-adjusted real interest rates underlie the dynamics on interest compounding and are the key behind the potential for unstable debt dynamics.

- **Valuation effects**, which arise from the effects of nominal exchange rate changes on the foreign currency denominated debt. A depreciation of the domestic currency against currencies in which external public debt was contracted raises the value of this debt in domestic currency term and, with less than proportional effects on domestic prices, in terms of GDP.

110. The actual decomposition of the debt dynamics in Pakistan into the main components can be found in Table II-11.[50] As in the section on the external debt, the exposition is in terms of push and pull factors.

***Primary balance***

111. Historically, primary deficits were arguably the most important push factor behind the increase in the debt-to-GDP ratio. During the 1990s, however, the contribution of primary deficits to the public dynamics began to decrease noticeably, especially from 1995. In 1998/99, a primary surplus was recorded for the first time.

112. The decreasing contribution of the primary balance to increases in the debt ratio was the result of the more determined fiscal adjustment efforts in recent years. In the more detailed decomposition of the primary balance shown in Table II-11, the adjustment efforts are reflected in the turnaround in the discretionary primary balance from a deficit to a surplus.[51] The rather volatile growth dynamics during the 1990s and the associated output gaps appear to have affected the primary balance only marginally.

***Intrinsic debt-interest dynamics***

113. The debt-interest dynamics was generally favorable and, as the most important pull factor, did not contribute to the rise in Pakistan's public debt ratio during 1975–2000. This was the result of low real interest rates on public debt, especially external public debt, and

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[49] In growth theory, the difference between the real interest rate and the real GDP growth rates is usually strictly positive. Otherwise, the economy could be dynamically inefficient (see Abel and others, 1989).

[50] See Appendix II-III for a detailed description of the methodology underlying the calculations.

[51] The structural balance was calculated on the basis of the average primary balance during 1991–2000. The more forceful fiscal adjustment during 1996–1998 is reflected in the increasingly negative contribution of discretionary primary balance (a surplus contributes negatively to the debt dynamics).

Table II-11. Pakistan: Public Debt Dynamics, 1978–2000 1/

| | 1978–80 | 1981–85 | 19860–90 | 1991–95 | 1996 | 1997 | 1998 | 1999 | 2000 | 1996–2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (In percentage points of GDP) | | | | | | |
| Change in public debt ratio | -6.3 | 6.1 | 18.2 | -8.4 | 0.1 | 1.2 | 1.9 | 2.5 | -0.3 | 5.4 |
| Contribution of | | | | | | | | | | |
| Primary balance | 18.4 | 20.2 | 18.2 | 11.4 | 1.7 | 0.3 | 0.3 | -1.3 | -1.2 | -0.2 |
| Structural balance 2/ | ... | ... | 5.6 | 5.6 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 5.6 |
| Output gap 3/ | ... | ... | 0.2 | -0.1 | -0.3 | 0.1 | 0.2 | 0.3 | -0.1 | 0.2 |
| Discretionary primary balance | ... | ... | 12.4 | 5.9 | 0.9 | -0.9 | -1.0 | -2.7 | -2.2 | -6.0 |
| Interest factor | -25.8 | -31.9 | 25.1 | -39.4 | -4.2 | -4.5 | -0.8 | 0.1 | -0.1 | -9.4 |
| Interest payments | 5.9 | 13.8 | 23.0 | 26.9 | 6.2 | 6.5 | 7.3 | 7.3 | 7.7 | 35.0 |
| Growth factor | -31.7 | -45.7 | -48.0 | -66.3 | -10.3 | -11.0 | -8.1 | -7.2 | -7.8 | -44.5 |
| Exchange rate valuation | 0.0 | 22.5 | 15.4 | 14.3 | 4.9 | 5.9 | 3.9 | 6.8 | 0.0 | 21.5 |
| Grants | -1.8 | -3.4 | -4.1 | -2.3 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 |
| Discrepancy | | -1.4 | 13.8 | 7.7 | -2.1 | -0.5 | -1.4 | -3.1 | 0.9 | -6.3 |

Source: Fund staff calculations based on data provided by the Pakistan authorities.

1/ Years covered in table are fiscal years. For example, 1998 denotes the fiscal year running from July 1, 1997 to June 30, 1998. See Appendix II-III for details of the underlying calculations.

2/ Based on average revenue and primary expenditure ratios during 1991-98. A negative sign denotes a surplus.

3/ Output gaps were calculated on the basis of 5-year averages of real GDP. A positive sign denotes a negative output gap, i.e., trend GDP exceeds the actual GDP.

relatively high rates of real GDP growth, which led to negative growth-adjusted real interest rates. Nevertheless, the intrinsic debt-interest dynamics became increasingly less favorable during the last 25 years, reflecting primarily the steadily rising real interest rates on domestic public debt and the growing debt stock.

***Exchange rate-related valuation losses***

114. The exchange rate-related revaluation of the public debt was another important push factor behind the increases in the public debt ratio since the early 1980s. During each five-year period, the depreciation of the Pakistani Rupee against major currencies raised the debt-to-GDP ratio, ceteris paribus, by more than 10 percentage points.

***A closer look at the debt dynamics during 1996–2000***

115. During the last five years, the debt dynamics differed markedly from previous periods. The ratio of net public debt to GDP gradually converged toward 92 percent and appears to have stabilized. On a cumulative basis, the primary balance became a (minor) pull factor after the continued improvements in the primary balance. At the same time, the interest factor, which determines the magnitude and sign of the contribution of the intrinsic debt-interest dynamics, converged toward zero. The cumulative 5-year pull factor was the lowest compared to any of the 5-year periods shown in Table II-11. The most important push factor during the period was the exchange rate-related valuation loss incurred on external debt.

**Public debt stabilization and primary gaps**

116. When the public debt is large, a threat to macroeconomic stability, and an impediment to high medium-term growth, attention typically focuses first on debt stabilization and then on debt reduction, if the latter is considered necessary. This raises the question of the fiscal effort needed to achieve this goal. Primary gaps allow for some rough estimates of the primary fiscal efforts—changes in revenue or noninterest expenditure—needed to bring the debt stock to levels considered sustainable.[52]

117. Primary gaps measure the additional adjustment in the primary balances needed to meet, on the basis of today's debt stock, a debt stock target *N* periods ahead.[53] A positive

[52] Primary gaps were used by Buiter (1997).

[53] The primary gap for the debt stock target *N* periods ahead, which is denoted with $b_{t+N}$, is defined as follows:[53]

(continued)

primary gap measure suggests that further adjustment beyond the current path envisaged for the primary balances is needed while a negative gap could support loosening fiscal policy. To make conclusions robust in view of parameter uncertainty, primary gap analysis should be conducted in the context of scenarios. In an iterative fashion, they can be used to examine the implications of various parameter constellations (inflation, interest rates, growth), debt stock targets, and targets for primary balances.

118. Table II-12 primary gap measures for debt stock targets in 5, 10, and 15 years. They were computed on the basis of the targeted primary balance in 2001 and the end-of-period stock of public debt (in percent of GDP) in June 2000. The gap measures were computed for a range of growth-adjusted real interest rates and target debt-to-GDP ratios in order to gauge the sensitivity of the gaps to various parameters.

119. For the growth-adjusted real interest rate, rates of –2, -0.7, 0, 1 and 2 percent were used.[54] This range would be consistent with both rates observed in the most recent past and allow for some prospective increase in rates. In 2000, the actual, implied growth-adjusted real interest rate was –0.7 percent, and the average rate during 1996–2000 was –3 percent. As argued below, prospects are that this rate will converge towards 0 or even become positive. For the debt-to-GDP target rate, values ranging from 60 to 100 percent were used. At end-June 2000, the actual ratio was 92 percent. The following observations emerge from the primary gap calculations:[55]

- For the growth-adjusted real interest rates observed in 2000 (-0.7 percent), the fiscal policy stance envisaged in 2001 (a primary surplus of about 1.5 percent of GDP) is

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$$GAP(b_{t+N}) = \left[\sum_{j=t}^{t+N}\prod_{i=t}^{j}\left(\frac{1+gi}{1+ri}\right)\right]^{-1}\left\{\left[b_{t-1} - b_{t+N}\prod_{i=t}^{j}\left(\frac{1+gi}{1+ri}\right)\right] - \left[\sum_{j=t}^{t+N}\prod_{i=t}^{j}\left(\frac{1+gi}{1+ri}\right)pb_{t+i}\right]\right\}$$

where the variable mnemonics is the same as in Appendices B and C. The intuition for the above definition of primary gaps is as follows: The first term in the curly brackets gives the difference, on a net present value basis, of the difference between today's debt stock and the target.[53] If the difference is positive, implying that the (discounted) debt stock target is lower than the current debt stock, the need for fiscal adjustment arises. The second term then shows the adjustment provided by the envisaged path for the primary balance—again on a net present value basis. If the fiscal adjustment need implied by the debt stock target cannot be achieved with the targeted paths for the primary balances, the primary gap is positive.

[54] Assuming negative growth-adjusted real interest rates in the case of Pakistan is sensible despite the theoretical finding that real interest rates should exceed real GDP growth in the medium term (steady state). With concessional external lending at below-market rates, the growth-adjusted real interest on total public debt can be negative without necessarily violating the dynamic efficiency condition.

[55] The values in the table give the additional annual adjustment in the primary balance (in percent of GDP) that is needed to reach the debt stock targets. For example, at a growth-adjusted real interest rate of 2 percent per annum, the primary balance would have to rise by 7.1 percentage points to 8.6 percent of GDP to reach a debt-to-GDP ratio of 60 percent after 5 years.

Table II-12. Pakistan: Primary Gap Measures 1/
(In percent of GDP)

| Target Debt-to-GDP Ratio | 5-Year Primary Gaps | | | | | 10-Year Primary Gaps | | | | | 15-Year Primary Gaps | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Real Interest Rate (in percent) 2/ | | | | | Real Interest Rate (in percent) 2/ | | | | | Real Interest Rate (in percent) 2/ | | | | |
| | 2 | 1 | 0 | -0.7 | -2 | 2 | 1 | 0 | -0.7 | -2 | 2 | 1 | 0 | -0.7 | -2 |
| 60 | 7.1 | 6.1 | 5.1 | 4.4 | 3.5 | 3.7 | 2.8 | 1.9 | 1.3 | 0.5 | *2.6* | 1.7 | 0.9 | 0.3 | -0.5 |
| 65 | 6.1 | 5.1 | 4.1 | 3.4 | 2.4 | *3.2* | 2.3 | 1.4 | 0.8 | -0.1 | *2.3* | *1.4* | 0.5 | -0.1 | -0.9 |
| 70 | 5.2 | 4.1 | 3.1 | 2.4 | 1.4 | *2.8* | 1.8 | 0.9 | 0.3 | -0.6 | *2.0* | *1.1* | 0.2 | -0.4 | -1.3 |
| 75 | 4.2 | 3.2 | 2.1 | 1.4 | 0.4 | *2.3* | *1.4* | 0.4 | -0.2 | -1.1 | *1.7* | *0.8* | -0.1 | -0.8 | -1.7 |
| 80 | *3.3* | 2.2 | 1.1 | 0.4 | -0.7 | *1.9* | *0.9* | -0.1 | -0.7 | -1.7 | *1.4* | *0.5* | *-0.5* | -1.1 | -2.0 |
| 85 | *2.3* | *1.2* | 0.1 | -0.6 | -1.7 | *1.4* | *0.4* | *-0.6* | -1.3 | -2.2 | *1.1* | *0.1* | *-0.8* | -1.5 | -2.4 |
| 90 | *1.3* | *0.2* | *-0.9* | -1.6 | -2.7 | *1.0* | *-0.1* | *-1.1* | -1.8 | -2.8 | *0.8* | *-0.2* | *-1.1* | -1.8 | -2.8 |
| 95 | *0.4* | *-0.8* | *-1.9* | *-2.7* | -3.8 | *0.5* | *-0.5* | *-1.6* | *-2.3* | -3.3 | *0.5* | *-0.5* | *-1.5* | *-2.2* | -3.2 |
| 100 | *-0.6* | *-1.7* | *-2.9* | *-3.7* | *-4.8* | *0.0* | *-1.0* | *-2.1* | *-2.8* | -3.8 | *0.2* | *-0.8* | *-1.8* | *-2.5* | -3.5 |

Source: Staff calculations based on data provided by the authorities.

1/ The figures show the additional annual adjustment need in the primary balance to reach the debt stock target in the left column at the corresponding growth-adjusted real interest. See text for details of the calculation.

2/ Growth-adjusted.

consistent with a "gradual growing out" of debt problems. As shown in Table II-12, such a surplus would be sufficient to reduce the debt-to-GDP ratio to about 83 percent in 5 years, 73 percent in 10 years, and about 64 percent in 15 years.

- For growth-adjusted real interest rates of zero, maintaining the fiscal policy stance envisaged in 2001 would lead to some reduction in stock of public debt but only over a 10 to 15- year period would the decline be noticeable.

- For positive, growth-adjusted real interest rates of 1 percent, maintaining the fiscal policy stance envisaged in 2000/01 would lead to a very gradual decline in public debt in the long term. Over a 5-year period, the debt stock would remain at about 92 percent of GDP. Over 15 years, it would fall to about 87 percent.

120. In short, the calculations suggest that for growth-adjusted real interest rates below zero, the debt dynamics would remain under control in the sense that the current debt ratio would over time be reduced noticeably with a primary surplus of about 1.5 percent of GDP. Even with growth-adjusted real interest rates of zero and above, such a primary surplus would be sufficient to stabilize the debt-to-GDP ratio in the medium term.

**Is debt stabilization sufficient?**

121. The primary gap calculations imply that the current, relatively modest adjustment effort would be sufficient to stabilize the public debt as a percent of GDP, even if the average terms on public debt were to deteriorate somewhat. Could one not conclude that the current fiscal adjustment effort, as measured by this year's target for the primary balance, is all that is needed for the future? It is argued here that this conclusion would be myopic, given some significant medium-term risks to the debt dynamics and the implications of possibly unchanged debt ratios on the economy. The following risk factors seem relevant in this regard:

- The perspective of a relatively benign interest burden hinges on low interest rates on public debt, which, in turn, depends on the prospects for external financing at favorable terms. Relatively small changes to the current share of external budget financing have the potential to change the dynamics of the debt path significantly. For example, if some external public debt had to be repaid through the issuance of domestic debt, total public debt and the interest burden would increase at current real domestic interest and GDP growth rates. Given the external debt problems, these risks can not be ignored. While substantial exceptional financing may be available in the short term, prospects are that new external financing to the budget will be linked to the amortization of outstanding debt. In addition, as pointed out above, some long-term instruments have bullet interest payments. 10-year instruments contracted at high interest rates in the mid-1990s may keep the average growth-adjusted real

interest rate on net public debt high in the medium-term even if actual interest rates decline.[56]

- A related risk is the exchange rate risk, which was not taken into account in the calculations. With a nominal depreciation of the rupee, the debt-to-GDP ratio could stagnate or increase even with growth-adjusted real interest rates below zero.[57] The significance of the exchange rate risk depends largely on the prospects for amounts and terms of net external budgetary financing, as described above.[58]

122. Quantifying the implications on growth-adjusted real interest rates if these medium-term risks were to materialize remains difficult. While it would seem certain that these rates would turn positive, it would be testing to predict whether they would exceed the 2 percent maximum rate used in the calculations above. Nevertheless, as far as the implications, it is clear that at roughly unchanged public debt ratios, positive growth-adjusted real interest rates are likely to lead to a higher interest burden for the budget compared to the burden today, which, in turn, would increase the overall budget deficit (given the assumption of an unchanged primary surplus used in the calculations).

123. Could Pakistan's economy sustain higher overall budget deficits if the medium-term risks to the debt dynamics were to materialize? The experience of the 1990s suggests otherwise. The large domestic financing needs would crowd out private sector investment, thereby undermining changes for sustained high growth. They would also be an even greater burden on macroeconomic and financial policies (given less external budget financing), thereby increasing financial vulnerabilities and threatening macroeconomic stability. In the circumstances, progress toward a better expenditure structure could also be jeopardized because progress in revenue mobilization may need to offset higher interest payments and stabilize the debt. The much needed increases in productive social and development expenditures could then not be effected.

124. These considerations suggest that some reduction of the public debt (as a percent of GDP) is needed. The magnitude of the reduction would have to be determined on the basis of the prospects for medium-term external budget financing.

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[56] With declining nominal interest rates and falling inflation rates, the incentives for holding on to these instruments until maturity are even increased.

[57] There is likely to be at least some temporary trade-off between exchange rate depreciation and the intrinsic debt dynamics, provided that external debt does not have to be repaid on a net basis. The increased value of the external debt stock in domestic currency terms reduces the implied interest rate on external debt given the significant share of long-term domestic public debt, which affects the intrinsic debt dynamics favorably. Over time, the trade-off is likely to become smaller because of interest rate and price adjustments.

[58] With unchanged shares and terms of net external financing, the only effect of an exchange rate depreciation would be an immediate increase in the debt ratio. With the adjustment of domestic prices, this increase would be partly reversed over time.

## D. Handling Pakistan's Debt Problems—A Policy Perspective

125. The analysis in this Section established that Pakistan suffers from a twin debt problem. Both the external and public debt stocks need to be brought down to sustainable levels. Addressing the external debt problem is urgent. Addressing the domestic public debt problem appears somewhat less urgent, given the still favorable intrinsic debt-interest dynamics and less acute debt refinancing problems, although the medium-term risks for the public debt path should not foster complacency either.

### Addressing the external debt problem

126. Meeting the scheduled debt service payments is simply not feasible in the short-term given Pakistan's balance of payments position. The country already runs surpluses in the external current account balance before interest payments, prospects for a reversal in net capital flows before exceptional financing in the short term seem remote, and last but not least, official foreign exchange reserves are already at dangerously low levels.

127. An external debt strategy would need to resolve both the short-term foreign exchange liquidity problems and medium-term external debt sustainability. Without achieving the latter, investor confidence would not recover, which would be a drag on medium-term growth and financial stability. The following elements would be key components of a policy strategy:

128. **Debt restructuring and rescheduling**. Restructuring and rescheduling of the debt service obligations are critical for ensuring short-term balance of payments viability, as Pakistan's debt and capital account problems are just two sides of the same coin. Short-term debt restructuring and rescheduling may, however, not be sufficient. As indicated by the cross-country comparison of the debt burden, Pakistan's debt burden remains high even after rescheduling and restructuring in 1999-2000. A medium-term policy strategy may need to be considered to ensure a smooth transition to sustainable levels of debt service.

129. **Developing the domestic production of tradables and fostering export growth.** In the short-term, export growth alone would be insufficient to ensure orderly servicing of the external debt. The short-term effects of measures to foster export growth and stabilizing domestic demand would, however, help in keeping the external current account balance at feasible levels. This remains a concern. The noticeable turnaround in net exports during 1999-2000 was in part the result of temporary increases in restrictions on current account transactions, which have in the meantime been eased or removed. Another element in the turnaround were the favorable productivity shocks in the agricultural sector in 2000, all of which may not be permanent. In the medium term, fostering export growth and tradable sector development would be the most important element of a policy strategy to bring external debt service obligations to sustainable levels. This would not only reduce the need for further external debt accumulation, which would at any rate seem inconsistent with recent capital account developments, but would also make the obligations on the existing stock of

debt more bearable. In addition, the vulnerability of the tradables sector to shocks in the agricultural sector would need to be reduced.

130. **Restoring donor and investor confidence**. Increasing capital inflows that are not debt-creating is also important to reduce the debt burden on the economy. This would help to avoid that external financing constraints become a drag on medium-term growth. Higher export growth and the improved debt service profile after restructuring and rescheduling will, of course, contribute to raising investor confidence as they reduce the likelihood of future balance of payments difficulties. However, more determined reform efforts, including in the areas of governance and transparency, are also needed for a sustained improvement in donor and investor confidence. This would also help in debt reduction, including through privatization.

131. **Prudent external debt management.** Pakistan will remain a highly indebted country over the next few years. Managing the debt with a view to keep risks related to maturity structure and the terms of new debt contracts at sustainable levels will be critical. As shown above, increased shares of short-term private external debt was one reason for the increase in the debt service burden during the 1990s. Efforts should focus on mobilizing external financing at concessional terms or at terms that are consistent with the medium-term debt service capacity of the economy.

**Addressing the public debt problem**

132. External public debt constitutes a large share in Pakistan's total public debt. Nevertheless, the policies needed to address the external debt problem would not immediately contribute to addressing the public debt problems. The following elements would be important in this regard:

133. **Increase primary surpluses.** The public debt ratio appears to have stabilized at around 90 percent of GDP. At the policy level, the next step would be to increase the primary budget surpluses to first secure the stabilization of the debt ratio and then reduce the debt stock. The latter is essential in view of the vulnerabilities in the growth dynamics related to weather and other vagaries affecting agricultural output, the prospects for higher average real interest rates on the public debt, the external financing risks, and the need to reduce the crowding out of private investment.

134. **Focus on revenue mobilization to resolve dilemma between adjustment and improving the expenditure structure**. The current fiscal policy stance, that is, maintaining a substantial primary surplus through expenditure containment to keep the debt dynamics in check, may not be sustainable, given that essential government spending on education, health, social and physical infrastructure is already at levels considered to be suboptimal, and the disappointing per-capita growth rates of income and consumption. Increased revenue mobilization must therefore be a policy priority, even if real interest rates may start declining once the reduction in public debt is perceived as sustainable and durable by investors. Substantial increases in revenue would allow to resolve the dilemma between increasing the

primary budget surpluses over time and increasing essential government expenditure to the levels needed to support high medium-term growth and alleviate poverty. This, in turn, is needed to enable the economy to grow out of the debt problem eventually.

135. **Strengthen public debt management and capital market development**. After the liberalization of financial markets in the early 1990s, the rising public debt and the steady increase in the external financial vulnerability were undoubtedly the most important factors behind the increase in domestic real interest rates during the remainder of the 1990s. Nevertheless, real interest rates on the stock of domestic public debt appear high given that the domestic currency-denominated public debt is less than 50 percent of GDP. The lack of systematic debt management and the missing linkages between benchmark interest rates and NSS rates of return may have contributed to high real interest rates. The authorities should, therefore, set-up a debt management unit that would focus on minimizing the risk-adjusted costs of government borrowing. Optimizing the composition of government debt would be an important element of a debt management policy, Another essential element would be policies aimed at promoting more integrated and deeper markets for domestic currency debt instruments in general and for government debt instruments in particular. The debt management unit should also compile more detailed and timely public debt statistics, including contingent liabilities and interest payments on an accrual basis.

## Decomposing the External Debt Dynamics

Given balance of payments identities, the change in the stock of external debt between the beginning of periods $t$ and $t+1$ in U.S. dollar terms, denoted as $F_{t+1} - F_t$, must be equal to the sum of net exports or, more precisely, the external current account balance excluding interest payments on external debt, interest payments on external debt, and the change in official reserve assets minus other capital flows.[59] The last term includes exceptional financing. Formally, this accounting identity can be expressed as follows:

$$F_{t+1} - F_t = C_t + r_t^* F_t + \Delta R_{t+1} - K_t$$

where the notation follows from the ordering above. In analogy with the case of public debt, the identity can be expressed as a ratio of noninterest foreign exchange receipts $X_t$ in period $t$:

$$f_{t+1} - f_t = c_t + \left( \frac{r_t^* - \hat{x}_t}{1 + \hat{x}_t} \right) f_t + \Delta r_{t+1} - k_t$$

where small letters denote ratios of the above capital letter variables. The term $\left( \frac{r_t^* - \hat{x}_t}{1+\hat{x}_t} \right)$ determines whether the intrinsic debt-interest dynamics is stable or unstable. If export growth rates exceed, on average, the implied nominal interest on external debt, the dynamics is stable.

[59] If the equation is treated as an identity as in this Section, other capital flows $K_t$ will include by definition a residual that accounts for valuation changes and other factors that affect the debt stock value but are not related to current or capital account flows.

**Intertemporal Government Budget Constraint and Solvency**

The concept of government solvency defines a minimum requirement for sustainability. While it is inappropriate for Pakistan under the current circumstances, the concept is nevertheless useful for understanding the broader concept of fiscal sustainability.[60] In the simplest possible form, its essentials can be summarized as follows.[61] In each period, the government's flow government budget constraint implies that under the assumption of pure debt financing the end-of-period public debt is given by:

$$B_{t+1} = GE_t - GR_t + (1 + R_t)\, B_t,$$

where $B$ denotes the outstanding public debt, $GR$ is government revenue, $GE$ represents noninterest government expenditure, $R$ is the nominal interest rate on government liabilities, and $t$ is a time subscript. For the subsequent analysis, it is useful to rewrite the flow

$$b_{t+1} = ge_t - gr_t + \left(\frac{1 + r_t}{1 + \hat{y}_t}\right) b_t,$$

constraint in equation (1) in terms of the current period GDP:
where a lowercase letter variable denotes a capital letter variable as a fraction of the current period GDP (except for $r$, the real interest rate), and $\hat{y}$ the growth rate of real GDP. The intertemporal solvency constraint requires that the flow budget constraint equation (2) is expected to hold in every period in the future, which leads to the condition:

$$\sum_{s=t}^{\infty} \prod_{v=t}^{s} \frac{1}{1 + r_v^g}\, ge_s + (1 + r_t^g)\, b_t = \sum_{s=t}^{\infty} \prod_{v=t}^{s} \frac{1}{1 + r_v^g}\, gr_s,$$

where $r^g$ denotes the growth-adjusted real interest rate, (that is, $1+r)/(1+\hat{y}$ )-1. The sum of the expected present value of all present and future expenditure and the current level of debt has therefore to be equal to the net present value of current and future revenue. The condition in equation (3) can be rewritten using the primary balance $pb$ rather than expenditure and revenue:

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[60] See Buiter (1985, 1997) and Blanchard (1990) for a more detailed discussion.

[61] This exposition abstracts from valuation problems associated with foreign currency debt. The latter is taken into account in the analysis in the main text of the paper and included in the exposition in Appendix B.

$$(1+r_t^g)\, b_t = \sum_{s=t}^{\infty} \prod_{v=t}^{s} \frac{1}{1+r_v^g}\, pb_s .$$

If the growth-adjusted real interest rate is positive on average, as suggested by standard models of economic growth, the condition in equation (4) leads to the familiar requirement that the government has to run primary surpluses in the future if it has some outstanding liabilities today. In the derivation of equations (3) and (4), it was assumed that the so-called

$$\lim_{s \to \infty} b_{t+s+1} \prod_{v=t}^{s} \frac{1}{1+r_v^g} = 0$$

transversality condition:
holds. This condition can be interpreted as a limit on the average increase in the debt-to-GDP ratio in the future, which has to be lower than the average growth-adjusted real interest rate.[62] Together, the solvency constraints in equations (3) or (4) and the transversality condition in equation (5) ensure the intertemporal consistency of a fiscal program. They provide the accounting framework for the requirements that the debt is serviced in every period and will eventually be repaid. In other words, they ensure that the government's net worth on a present value basis is positive.

The conditions in equations (3) or (4) and (5) have constituted the core of many empirical studies on fiscal sustainability.[63] In some studies, the focus lies on testing whether the primary deficit or the debt-to-GDP ratio, or the discounted debt-to-GDP ratio are stationary over a sufficiently long time period. As discussed below, stationarity of these variables is necessary for solvency but not a sufficient condition for fiscal sustainability.[64] In other studies, some arbitrary steady-state, debt-to-GDP ratio is defined, which is then used to assess the sustainability of the current fiscal policy on the basis of the current level of debt and average growth rates of expenditure, revenue, interest rates, and GDP growth.

In many circumstances, the concept of fiscal solvency is not terribly useful for policy analysis for the following reasons:

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[62]Note that the transversality condition is irrelevant if the real interest rate is, on average, lower than the GDP growth rate. However, if this case were relevant, the economy could be dynamically inefficient (see Abel and others, 1989).

[63]See Hamilton and Flavin (1986), Wilcox (1989), and Buiter and Patel (1992), among others.

[64]Note, however, that the debt-to-GDP ratio does not need to be stationary to satisfy the transversality condition, which only limits its growth rate.

(1) While it seems reasonable and pragmatic to require that the debt-to-GDP ratio be a stationary time series in a very large data sample, the requirement is weak in that it is consistent with almost any positive mean value for this variable. Even a shift in the long-run debt-to-GDP value from, say, 40 percent to 100 percent, does not violate the solvency conditions. From a general macroeconomic perspective, however, such changes would not be minor, since their implications for growth and macroeconomic policies are likely to be substantial.

(2) In many countries, the time span covered by the data sample is insufficient to allow for a meaningful distinction between stationary and nonstationary time series for the primary deficit and the debt-to-GDP ratio.

(3) Macroeconomic variables, such as the real interest rate and growth, are usually taken as given in the derivation and testing of equations (3) and (4). Many different combinations of future primary balances, growth and interest rates are consistent with solvency. These combinations must satisfy a weak technical restriction, the co-called transversality condition. This condition restricts the debt to grow on average at a rate below the average interest rate on government debt. This puts limits on government's capacities to run large primary deficits on a sustained basis, although this constraint can be quite weak in its implications for the debt-to-GDP ratio (see, for example, McCallum (1984)). However, fiscal policies have repercussions on financial market prices and growth, and many of these combinations may not be *feasible* because of the economic relationships between the fiscal policies underlying the primary balance path, real interest rates, and growth rates. Given the feedback from fiscal policies to growth, and real interest rates, fiscal policy paths that involve large deficits would actually lead to increasing real interest rates, which would undermine debt sustainability through the intrinsic debt-interest dynamics. The range of fiscal policies consistent with solvency depends on the overall macroeconomic policy mix. The solvency and sustainability of certain fiscal policies, therefore, can not be assessed without taking into account macroeconomic policies in general as well as the interaction between macroeconomic variables and policies.

For Pakistan, the problems associated with the notion of fiscal solvency are particularly relevant. In the past, the growth-adjusted real interest rate on public debt has typically been negative, which would imply that solvency and debt considerations are unimportant if solvency and sustainability were treated as one and the same. The recent experience in Pakistan has shown, however, that debt problems are very important despite the negative growth-adjusted real interest rates on public debt.

## Decomposing the Public Debt Dynamics

The stock of public debt at the end of period $t$ , $B_{t+1}$, is the sum of debt denominated in domestic currency and debt denominated in foreign currency:

$$B_{t+1} = B^D_{t+1} + B^F_{t+1} S_{t+1},$$

where $S_{t+1}$ denotes the nominal rupee-U.S. dollar exchange rate (rupees per dollar) at the end of period $t$. The change in the stock of public debt during period t has three components, the government budget deficit, denoted with $D_t$, budgetary grants $G_t$, and the valuation changes. It is assumed that the government does not retire debt prematurely so that all debt is valued at face value. Accordingly, valuation changes emerge only from changes in the nominal exchange rate. The change in the stock of public debt can therefore be written as:

$$B_{t+1} - B_t = D_t + B^F_t S_t \left[ \frac{S_{t+1}}{S_t} - 1 \right] - G_t$$

The budget deficit can be decomposed into the primary balance, i.e., the difference between budgetary revenues and budgetary, noninterest expenditure, and interest payments on public debt:

$$D_t = -PB_t + R_t B_t = -GR_t + GE_t + R_t B_t$$

For the analysis of debt developments, it is often useful to decompose the primary balance into structural, cyclical, and discretionary developments as shown in the following equation:

$$PB_t = (gr_a - ge_a) YP_t + gr_a (Y_t - YP_t) + DPB_t$$

where the notation is as follows: $gr_a$ is the average ratio of government revenue to GDP, $ge_a$ the average ratio of budgetary, noninterest expenditure to GDP, $YP$ the potential output, $Y$ the actual GDP at market prices, and $DPB$ the discretionary primary balance. In the above formula, the first term captures the structural primary balance. The latter is given by the difference between the average ratios of budgetary revenue and noninterest expenditure to GDP. With the multiplication by potential output, one obtains the structural primary balance in nominal units. The second term captures the effect of output variations on the revenue performance.[65] The third term is the discretionary primary balance, which captures all other factors. In the case of a country undergoing fiscal adjustment after a prolonged period of loose macroeconomic policies, the meaning of the structural primary is not clear because the

[65] It is assumed that output variations do not affect expenditure since there are no cyclical components such as unemployment insurance.

average revenue and expenditure ratios calculated with a long data sample are very likely to overstate the structural deficit. For this reason, the average ratios for a selected period of fiscal adjustment were calculated.

With all these elements, the change in public debt can be rewritten as:

$$B_{t+1} - B_t = -(gr_a - ge_a)YP_t - gr_a(Y_t - YP_t) - DPB_t + R_t B_t + B_t^F S_t\left[\frac{S_{t+1}}{S_t} - 1\right] - G_t$$

Dividing by the nominal GDP in period $t$ yields the change in public debt as a percent of GDP:

$$b_{t+1} - b_t = -\left\{\frac{(gr_a - ge_a)yp_t + gr_a\hat{Y}_t + dpb_t}{(1+\pi_t)(1+\hat{y}_t)}\right\} + \left[\frac{r_t - \hat{y}_t}{(1+\pi_t)(1+\hat{y}_t)}\right]b_t + b_t^F\left[\frac{\hat{s}_t}{(1+\pi_t)(1+\hat{y}_t)}\right]$$

where all small letters denote ratios or growth rates (with a hat above a letter) (the capital $Y$ with a hat denotes the output gap in percent) and where $\pi$ is the inflation rate.[66] This last formula underlies the decomposition of the public debt dynamics in section II. The term $r_t - \hat{y}_t$ is referred to as the growth-adjusted real interest rate in the text. In Table 11, the term $\left[\frac{r_t - \hat{y}_t}{(1+\pi_t)(1+\hat{y}_t)}\right]b_t$ is referred as the interest factor, which is then further decomposed into the interest payments $\left[\frac{r_{tt}}{(1+\pi_t)(1+\hat{y}_t)}\right]b_t$ and the growth factor $\left[\frac{-\hat{y}_t}{(1+\pi_t)(1+\hat{y}_t)}\right]b_t$.

[66] It should be noted that $b_t^F$ denotes the ratio of external public debt to GDP.

# III. Perspectives on Pakistan's Export Performance[67]

## A. Introduction

136. Following rapid export growth from the mid-1980s to the early 1990s, Pakistan's merchandise export performance has been disappointing in recent years. With stagnating exports, import financing became more difficult, and the continued accumulation of external debt and pressures on foreign exchange reserves became prominent features of balance of payments developments. The sluggish export performance is often explained with the congruous weakening in the performance of Pakistan's cotton and textile sectors. The latter increasingly dominated export developments during the last two decades, as growth in the tradables sector appears to have been based largely on the expanding downstream processing of the domestic cotton output.

137. This Section attempts to ascertain the factors explaining the recent stagnation in merchandise exports. It builds on the analysis of Pakistan's export performance during the 1980s and 1990s, especially with regard to the linkages between performance and the structure of exports (commodity composition and geographical destination of exports). It also attempts to put Pakistan's trade performance into perspective by comparing it with the export performance and structure, and trade regime of important regional competitors. In terms of methodology, the analysis relies on descriptive statistics in the trade domain and on the method of constant market shares analysis. The latter allows one to study the role of three key forces in the export performance of a country: the overall demand for imports in trading partner countries; the commodity composition of trading partners' import demand; and the responsiveness of the export supply to changes in the commodity composition in the import demand of trading partners.

138. The Section is organized as follows: subsection B documents trends in overall export performance, the commodity composition of exports, and the geographical direction of trade. Subsection C compares Pakistan's export performance and trade regime with those of important competitors in the region, including Bangladesh, China, India, Indonesia, Sri Lanka, and Thailand. Subsection D describes the technique of constant market share analysis and the results obtained from applying it to four important destinations of Pakistan's exports. Subsection E concludes and offers policy recommendations.

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[67] Prepared by Adedeji Olumuyiwa (INS) and Thomas Helbling (MED), with input from Aasim Husain (MED), Marcio Ronci (PDR), and Farhan Hameed (MED).

## B. Pakistan's Export Performance, 1980–2000[68]

### Overall export performance

139. Pakistan's export earnings in value terms fluctuated dramatically during the last two decades (Chart III-1). Nevertheless, a decomposition of exports into a medium-term "trend" component and a cyclical-irregular component shows a clearly recognizable pattern of a sustained acceleration in export growth rates from the mid to late 1980s and a decrease in export earnings growth from 1990.[69]

140. Chart III-1 indicates that in the mid-1980s, export volume growth was the dominant force behind the increase in the dollar value of exports. The improved export performance during this period reflected the (a) adoption of more flexible exchange rate management coupled with the launch of a trade liberalization program (Box III-1); (b) promotion of private sector investment; (c) expansion of output in cotton and textiles; and (d) the adoption of direct export subsidies. The decline in the growth of export values during the 1990s reflected both a decrease in volume and unit value growth rates, although the contribution of the two components varied considerably. During the early to mid-1990s, increases in unit values were the main factor behind export value growth. From the mid-1990s, a decline in export volumes dominated developments. As argued below, the deceleration in the growth rate of export volumes was largely related to negative productivity shocks in the agricultural sector, which in turn affected output in related downstream industries.

141. In 1999, exports were hit by the East Asian financial crisis, the recession in Japan, and the slowdown in both world trade and output in 1998 more generally. In 2000, export volumes rebounded with the bumper cotton crop, which provided a boost to the textile industry. Nominal export values rose somewhat less, as world prices for cotton had fallen significantly during the calendar year 1999.

### Commodity composition of exports

142. The expanding downstream processing of the domestic cotton crop increasingly dominated Pakistan's export developments during the last 20 years and was reflected in a dramatic change in the commodity composition of exports. Primary commodities—mostly cereal, cereal-based products, and raw cotton—as a share in total exports decreased from about 37 percent in the early 1980s to roughly 13 percent in 2000. At the same time, the share of

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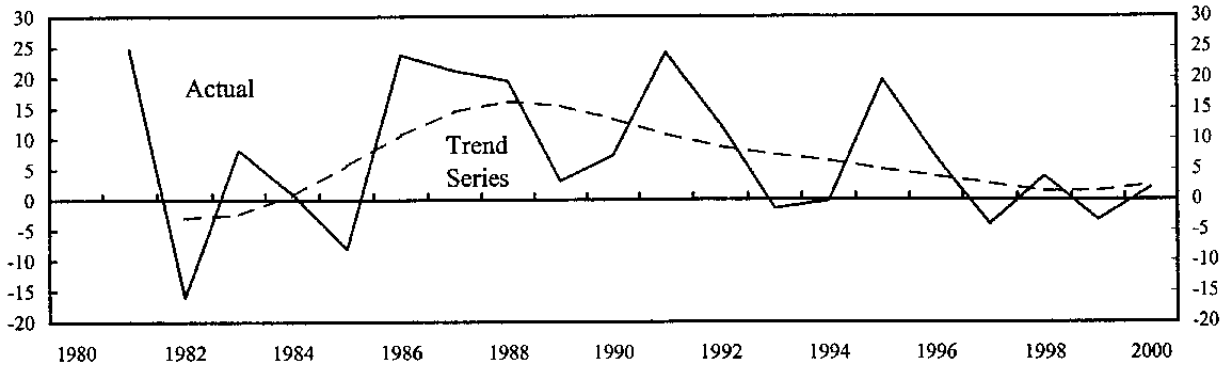
[68] The reference is to fiscal years. Pakistan's fiscal years begin on July 1 and end on June 30. For example, 1981 would refer to the fiscal year 1980/81.

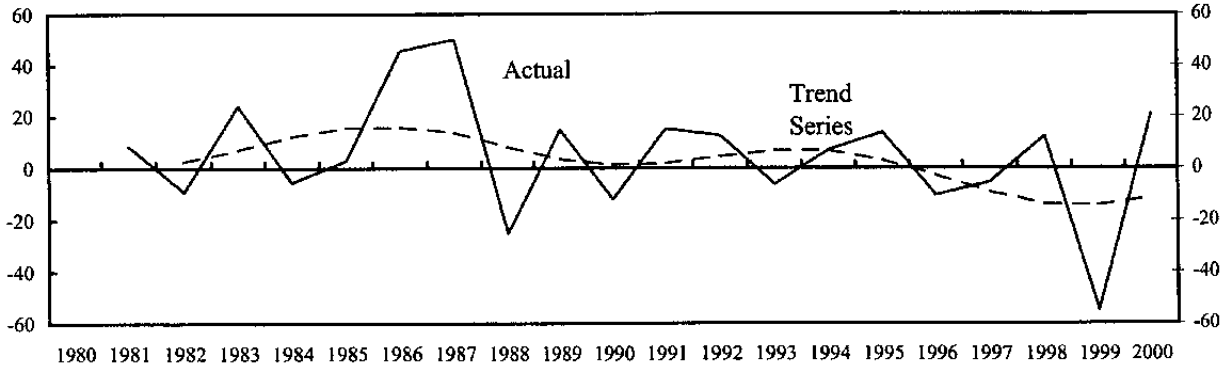
[69] Trend growth rates in Chart III-1 are the growth rates of the trend component in the log-level of the export series, which was derived with a bandpass filter (see Baxter and King, 1999). The last two years of trend growth are interpolated. As in the case of the Hodrick-Prescott filter, the end-point estimates provided by the bandpass filter are only indicative.

Chart III-1. Pakistan: Export Performance, 1980 - 2000 1/

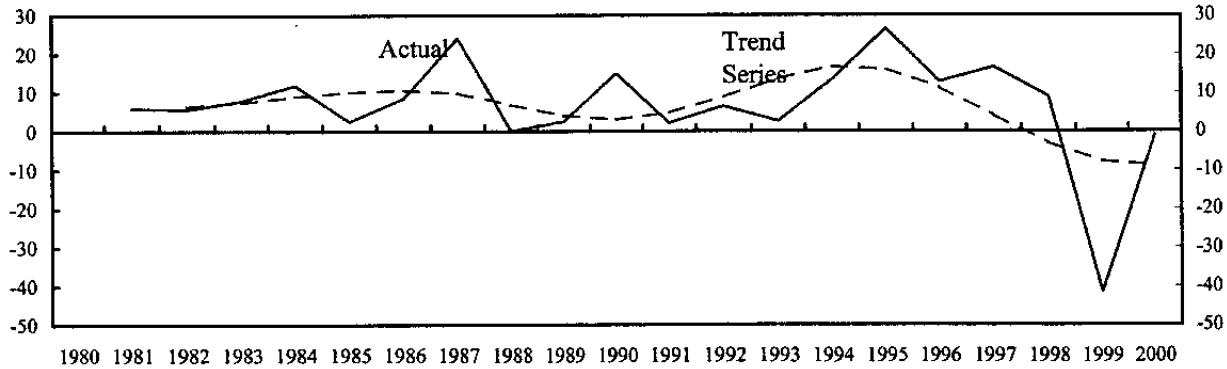
Merchandise Exports
(U.S. dollar terms, annual percentage change)




Merchandise Exports
(Volume Index, annual percentage change)




Merchandise Exports
(Unit Value Index, annual percentage change)




Source: Staff calculations and data provided by Pakistani authorities.
1/ Fiscal year basis; Fiscal year runs from July 1 to June 30.

### Box III-1. Trade Liberalization in Pakistan Since the mid-1980s

Pakistan's international trade regime has been liberalized over the past 15 years. Tariffs have been reduced, nontariff restrictions have been eased, and the role of special exemptions has declined. Nevertheless, import tariffs in Pakistan remain higher than those in most economies in the region, and restrictions are still in place on the import and export of a number of items.

Import tariffs have been reduced markedly since the late 1980s. The maximum tariff rate was cut in stages from 225 percent in 1988 to 35 percent in 1999. The simple average tariff rate declined from 123.5 percent in 1986 to 23.8 percent in 1999. The number of tariff slabs, or rates, has also been reduced, from 10 in 1986 to 5 at present. In addition, paratariffs, which include surcharges, fees, and regulatory duties have been reduced; paratariffs are now integrated into the statutory tariff schedule.[1] These changes have had a major impact on customs duty receipts, which have declined from over 6 percent of GDP, on average, in the late 1980s to 2 percent of GDP in 1999/2000.

Progress has also been made in reducing nontariff barriers. Until the early 1980s, Pakistan relied on a trade system that specified permitted imports (positive list). This was replaced with a negative list of imports; import of all items not on the negative list was permitted from 1983/84. The negative list has been narrowed from over 500 items in the mid 1980s to 44 items at present. The items that remain on the negative import list include cotton fabrics, carpets, bed linen, apparel, and clothing accessories.[2] In addition, imports of some 50 products, including vehicles, are subject to administrative procedures. On the export side, the number of items subject to quantitative restrictions has also been reduced, although 11 items remain banned and 13 products—including wheat and its milled products, cotton, rice, metals, and urea fertilizers—are subject to specific conditions and procedures.

The role of special import duty concessions and exemptions has declined in recent years. The system of statutory import tariffs in Pakistan is modified by a series of end-user-based concessions and exemptions, referred to as Statutory Regulatory Orders (SROs). The ratio of actual customs revenue from items covered by SROs to the revenue that would have been collected had the SROs not been in place has declined from close to 50 percent in 1996/97 to 36 percent in 1999/2000. In addition, the number of import-related SROs has been reduced.

[1] Most imports continue to be subject to withholding taxes. The withholding tax rate was raised from 5 percent to 6 percent in July 2000.

[2] In 1998, the Pakistan authorities agreed with the WTO to phase out quantitative restrictions on imports. The phasing-out schedule was subsequently suspended due to the weak balance of payments position.

textile manufactures—including yarn, cloth and other textile fabrics, apparel, and clothing accessories—more than doubled from about 35 percent in 1980 to about 75 percent in 1998. The shares of most other manufacturing categories except for miscellaneous manufacturing items were small and, in some cases, even decreased over the last 20 years, as shown in the first panel in Chart III-2 and Table III-1 (which are based on export data at the two-digit code level of the Standard International Trade Classification (SITC)).

143. The fact that one commodity category accounted, on average, for almost 75 percent of Pakistani exports during the last five years suggests a high degree of concentration. To measure the degree of concentration in the commodity composition of exports over time, Gini-Hirschman[70] concentration indices were computed, using the shares of 59 different commodity groups (according to the disaggregation at the two digit SITC code level). The value of the Gini-Hirschman index is bound to be in the interval between 0 and 1. The closer the index value is to 1, the higher is the degree of concentration in the commodity composition. As shown in the lower panel of Chart III-2, the index increased from 0.43 in 1981 to 0.56 in 1998, confirming the hypothesis that the concentration in the commodity composition of exports was increasing during the last two decades.[71] Data analysis also reveals that the rise in the index can be largely attributed to the increase in the share of textile-based exports.

144. The data illustrate how Pakistan's transition from a primary commodity exporter to an exporter of manufactures was closely linked to the downstream processing of the domestic cotton crop. As noted in Box III-2, the local production of cotton provided for a natural competitive advantage to the development of the textile sector, although sector-specific incentives such as price distortions, subsidized loans, tax holidays, and protection also played a role.

145. The concentration on a single category of manufactures bears considerable risks, as it increases the vulnerability of exports developments to developments in a specific world market segment as well as to the vagaries of the domestic cotton production, given restrictions on the exports and imports of raw cotton that were in place until recently.[72] As argued in Box III-2, a sequence of adverse productivity shocks to cotton production was an important if not the most important reason for the disappointing export performance in the area of textiles. In addition, world market prices for cotton and some cotton-based products

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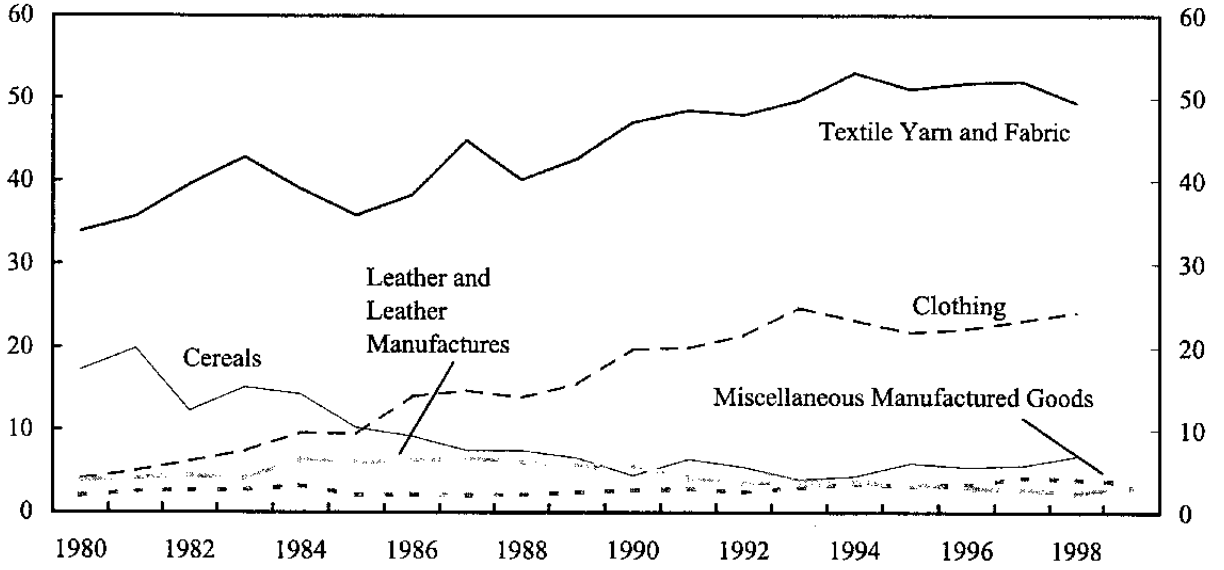
[70] The Gini-Hirschman trade concentration index is defined as $G = \sqrt{\Sigma_i (x_i / x)^2}$, where $x_i$ is the value of a country's exports in commodity category $i$, while $x$ is the value of total trade (see Hirschman, 1964).

[71] It should be noted that the finding of a rising concentration would emerge even if exports of raw cotton were included in the textiles aggregates.

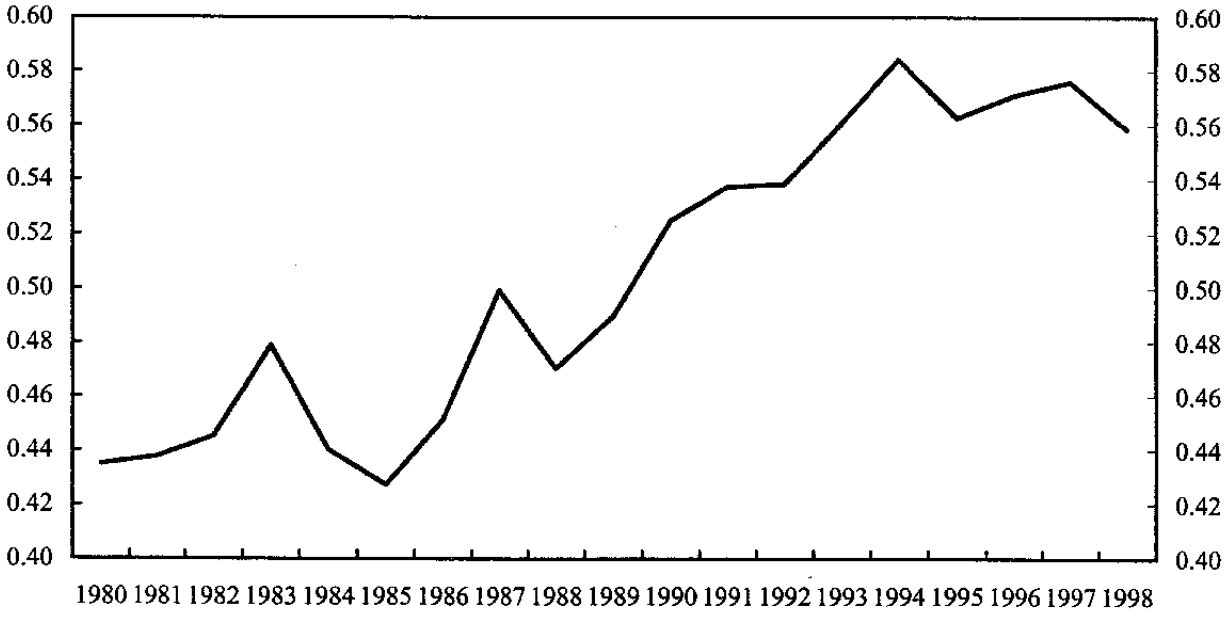
[72] Trade restrictions also included bans on the imports of semi-manufactures such as cloth or products made of artificial fibers.

Chart III–2. Pakistan: Structure of Exports by Commodity Groups

Export Commodity Shares Based on Two-Digit SITC Codes
(In percentage of total exports)




Export Commodity Diversification Based on Two-Digit SITC Codes
(Gini-Hirschman index values 1/)




Source: Data from Trade Analysis and Reporting System, United Nations.
1/ See text for details.

Table III-1. Pakistan: Shares in Total Exports by Commodity Groups 1/

(In percent of total exports)

| Sector | 1980–85 | 1986–90 | 1991–95 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| Textile Yarn and Fabrics | 37.8 | 42.6 | 50.1 | 51.8 | 52.0 | 49.5 |
| Clothing | 6.9 | 15.6 | 22.2 | 22.2 | 23.2 | 24.2 |
| Cereals and Cereal-Based Products | 14.9 | 7.0 | 5.2 | 5.5 | 5.7 | 6.9 |
| Miscellaneous Manufactured Goods | 2.5 | 2.3 | 3.0 | 3.3 | 4.2 | 4.0 |
| Leather and Leather Products, and Fur | 4.8 | 6.0 | 3.7 | 3.0 | 2.7 | 2.4 |
| Textile Fibers | 12.9 | 13.8 | 5.0 | 5.2 | 2.1 | 1.2 |
| Sugar and Sugar-based Products, and Honey | 1.1 | 0.9 | 1.5 | 0.6 | 0.9 | 3.3 |
| Fish and Fish-based Products | 2.7 | 2.5 | 2.1 | 1.6 | 2.0 | 1.6 |
| Instruments, Watches, and Clocks | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 | 1.5 |
| Fruit and Vegetables | 1.7 | 1.2 | 0.8 | 0.9 | 1.0 | 1.2 |
| Crude Animal, Vegetable Material | 1.4 | 1.3 | 0.8 | 0.9 | 0.7 | 0.7 |
| Petroleum and Products | 4.0 | 0.8 | 1.1 | 0.7 | 0.9 | 0.3 |
| Footwear | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 |
| Medical Products | 0.1 | 0.2 | 0.3 | 0.5 | 0.4 | 0.5 |
| Metal Manufactures | 0.6 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 |
| Nonmetallic Mineral Manufactures | 0.3 | 0.4 | 0.2 | 0.2 | 0.3 | 0.2 |
| Oil Seeds, Nuts, and Kernels | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.2 |
| Coffee, Tea, Cocoa, and Spices | 0.5 | 0.4 | 0.3 | 0.1 | 0.1 | 0.2 |
| Non-electrical Machinery | 0.5 | 0.2 | 0.1 | 0.1 | 0.3 | 0.2 |
| Metalliferous Ores, and Scrap | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Fertilizerers and Minerals | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Furniture | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Chemicals | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Miscellaneous Manufactured Food Products | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Transport Equipment | 0.5 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Electrical Machinery | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 |

Source: Data from the United Nations, Trade Analysis and Reporting System; and staff calculations.

1/ Data shown for the top twenty five commodity shares ranked using average value during 1994–1998. Data points for 1980–85, 1986–90, and 1991–1995 are averages for the five-year periods.

## Box III-2. Pakistan: Cotton and Textile Sector Developments, 1980–2000

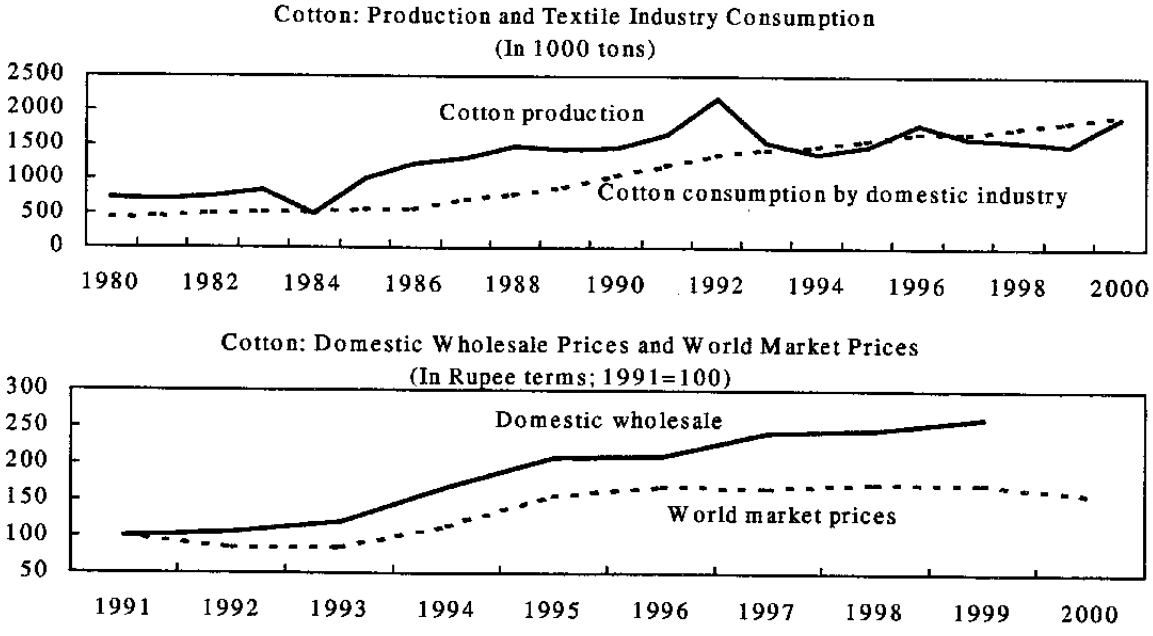
The 1980s and early 1990s were the "golden" years of rapid growth in the cotton sector and the downstream processing of cotton in the textile industry, which in turn laid the basis for substantial increases in textile related exports. Cotton output tripled from 1980 to 1992, partly reflecting productivity increases due to better seeds and more use of pesticides (following the liberalization of the pesticide industry) and of fertilizer (following the partial liberalization of the industry).

This provided a natural supply base for the rapid development of the domestic textile industry from the early 1980s, which was reflected in a smaller gap between domestic cotton production and absorption by the industry. Growth in the industry was partly spurred by the increased demand for cotton garments in lieu of polyester-based textiles. Trade restrictions and price distortions resulting from government procurement and price setting kept domestic cotton prices below world market prices, which induced massive investment including from nonresidents, especially in yarn spinning and cloth weaving.[1] Subsidized loans, tax holidays, and nontariff barriers including a ban on imports of industry-specific semi-manufactures further supported the development of the textile sector. With the expansion of the domestic industry, exports of raw cotton fell both in quantity and value.

From 1993, the cotton sector was hit by a series of negative productivity shocks, including leaf curl virus infestations during 1993-95 and the American bollworm infestation in 1996/97. This had detrimental effects on the textile industry, not only through the effects on the supply basis but also through the related effect on domestic producer prices. As trade restrictions limited imports and exports of cotton, and given the already small amounts of raw cotton exports, domestic wholesale prices for lint cotton began increasing at a faster pace than world market prices from 1992. As a result, the competitiveness of the textile industry began to suffer, especially in light of the high cost shares of cotton input in the low value added segments that dominate Pakistan's textile industry. At the same time, the profitability of the sector probably suffered, as reflected in the steady decline in the market capitalization of the textile companies listed at Pakistan's stock exchanges from 1994 or in the significant number of "sick" textile units (i.e., units against which banks hold nonperforming loans). Sluggish growth in recent years notwithstanding, the textile industry remains by far the most important industry in the country, reportedly employing 38 percent of the manufacturing labor force and accounting for 46 percent of all firms.

[1] See Hamid and others (1990) on trade and agricultural pricing policies in Pakistan until the late 1980s.

Pakistan: Cotton and Textile Developments, 1980-2000




Source: Data provided by the authorities; and IMF, International Financial Statistics.

stagnated during the second half of the 1990s and fell in 2000, which also limited the scope for export value growth.

**The geographical direction of exports**

146. With the changing commodity composition of Pakistan's exports, the geographical direction of exports shifted increasingly toward industrial countries' markets over the last two decades. In the early 1980s, about 40 percent of Pakistan's exports were directed to industrial countries. Over time, the share of exports to industrial countries rose to about 60 percent. The United States became a particularly important destination of Pakistani exports, reflecting inter alia the increased production of sportswear and the demand for this product in the US market. Export shares to the major European trading partners, the United Kingdom and Germany, have been stable throughout the last two decades. The recent decline in the share of exports to Japan in total exports can be attributed to the stagnation in Japan during the 1990s. (The upper panel of Chart III-3 shows the shares of Pakistan's exports to the five main export destinations.)

147. The proportion of Pakistan's exports directed to developing countries generally decreased. Exports to Middle Eastern countries fell from an average of 10 percent between 1980-1985 to an average of about 8 percent during the period 1992–1998. Similarly, the share of exports to African markets fell from an average of 6 percent during the period 1980-1985 to 4 percent in 1992-1998, in part reflecting slower economic growth in this continent. There was a small increase in trading relations between Pakistan and other Asian countries, as measured by the share of Pakistan' exports going to the Asian markets. This share increased from an average of 19 percent during 1980–85 to 22 percent during 1992–1998.

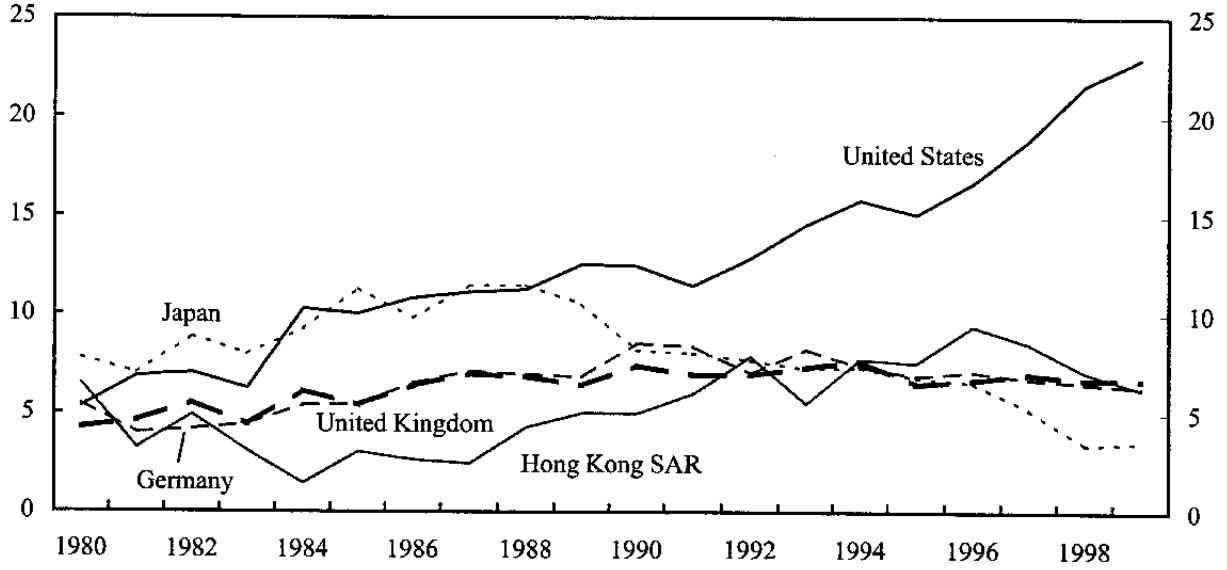
148. Pakistan's export performance during the 1990s may not only be related to the commodity concentration of its exports but also to their geographical concentration. To capture the degree of geographic concentration in exports, a time series of Gini-Hirschman concentration indices was computed with the export shares by destination, based on export to 164 countries. The corresponding index values gradually rose from 0.21 in 1981 to 0.30 in 1998 (lower panel of Chart III-3). A general trend toward concentration was therefore not only a feature of the commodity composition of exports but also of the geographical destinations of exports. Data analysis confirms that the main reason for the increase is the striking rise in the share of exports to the United States, which increased from 5 percent in 1981 to 23 percent in 1998.

### C. Comparing Pakistan's Export Performance with Regional Competitors

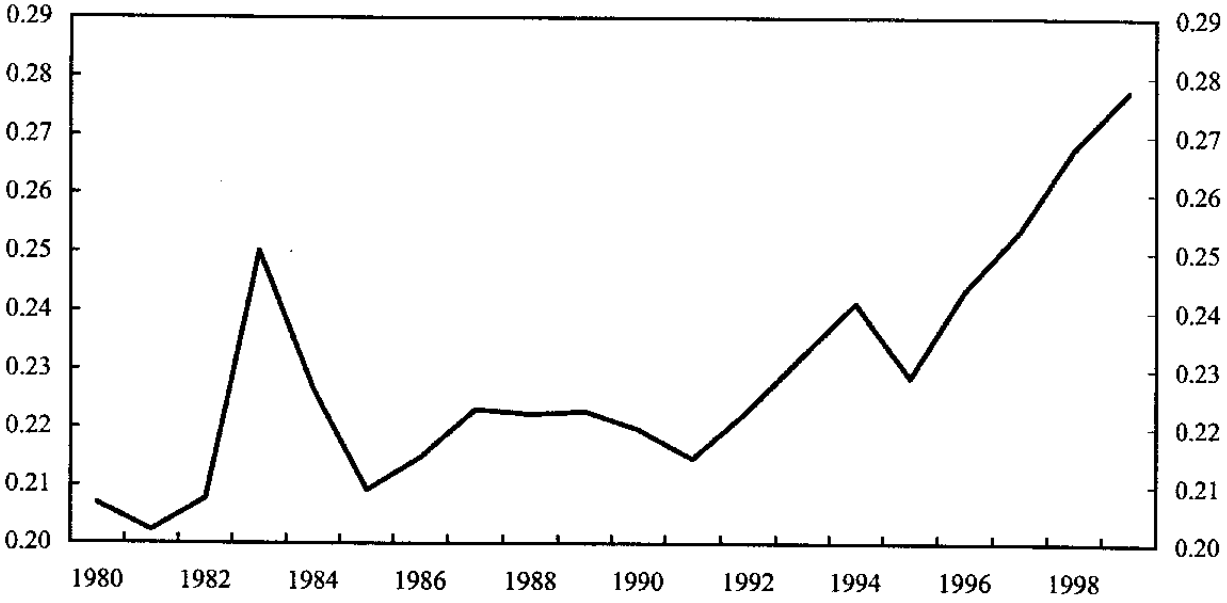
149. In this section, Pakistan's export performance is compared to that of major regional competitors. The comparison also includes the structure of exports and the trade regime to provide a cross-country perspective on the linkages between export performance and structure on the one hand and between performance and trade regime on the other.

## Chart III–3. Pakistan: Geographic Structure of Exports

Exports to Main Trading Partners
(In percent of total exports)




Geographic Diversification of Exports
(Gini-Hirschman index values 1/)




Source: Data from Trade Analysis and Reporting System, United Nations.
1/ See text for details.

**Overall export performance**

150. Pakistan's exports evolved broadly in line with total world imports, as shown in Chart III-4. Accordingly, Pakistan's share in world imports was remarkably stable during the last 20 years, ranging between a minimum of 0.12 percent in 1980 and a maximum of 0.18 percent in 1992. In 1999, the share was 0.14 percent. This would suggest that Pakistan's export performance was not worse than that of the world on average. Compared to regional competitors, however, the performance was unimpressive, especially when compared to China and Thailand throughout the 1980s and 1990s or compared to Bangladesh, India, and Sri Lanka during the 1990s. All these countries succeeded in achieving sustained market share increases in total world imports.

151. There are, of course, many factors that determine the export performance of a country. The diversification of exports by commodity groups and geographic destination are among these factors, at least in the short to medium term, as changes in the structure of exports are typically slow to occur.

**The diversification of exports by commodity groups**

152. To compare the diversification of exports of regional competitors, time series of Gini-Hirschman indices for each country were computed.[73] The upper panel in Chart III-5 clearly shows that Pakistan's high and increasing degree of concentration in exports by commodity groups was only surpassed by Bangladesh during the 1990s while that of Sri Lanka was close. Interestingly, the degree of commodity concentration also began to increase in Bangladesh from the late 1980s after having fallen during the early to mid-1980s. Except for Indonesia, other countries had stable and lower degrees of commodity concentration at the two-digit SITC level. Indonesia is the only country in which the commodity diversification of nonoil exports increased, as indicated by the fall in the Gini-Hirschman index value from about 0.45 in 1981 to 0.24 in 1998.

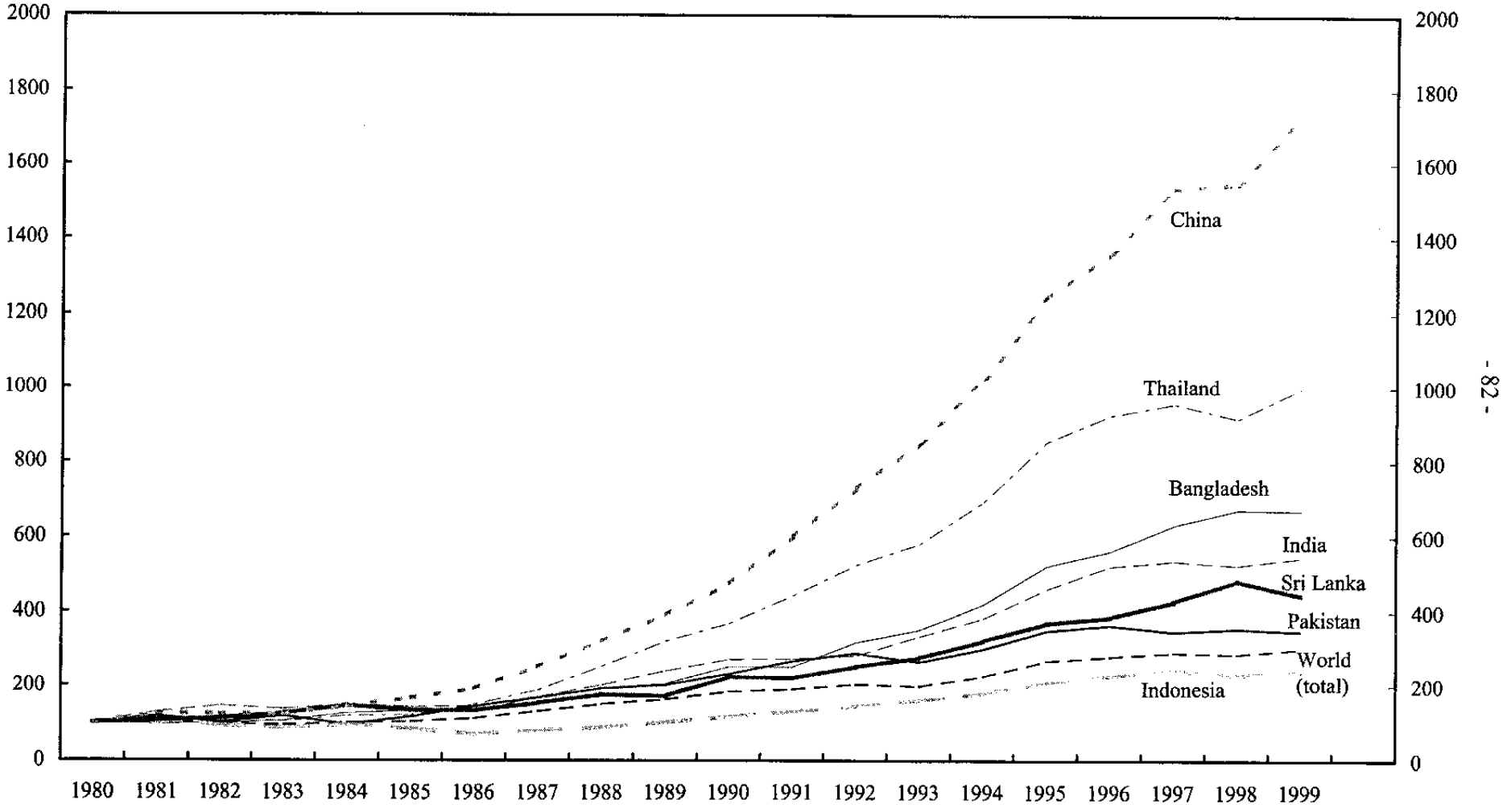
153. Comparing overall export performance and the degree of export diversification by commodity groups does not yield clear-cut conclusions. Good performers such as China or Thailand had a much more diversified export base, as was to be expected. However, Bangladesh did not benefit from a highly diversified export base but managed to position itself also among the better export performers from the mid-1980s to the late 1990s.

**Geographic Diversification of Exports**

154. Problems in the geographic concentration appear not to have been important in explaining Pakistan's the disappointing trade performance in recent years. A comparison of

[73] The index calculations are again based on data at the two-digit SITC code level.

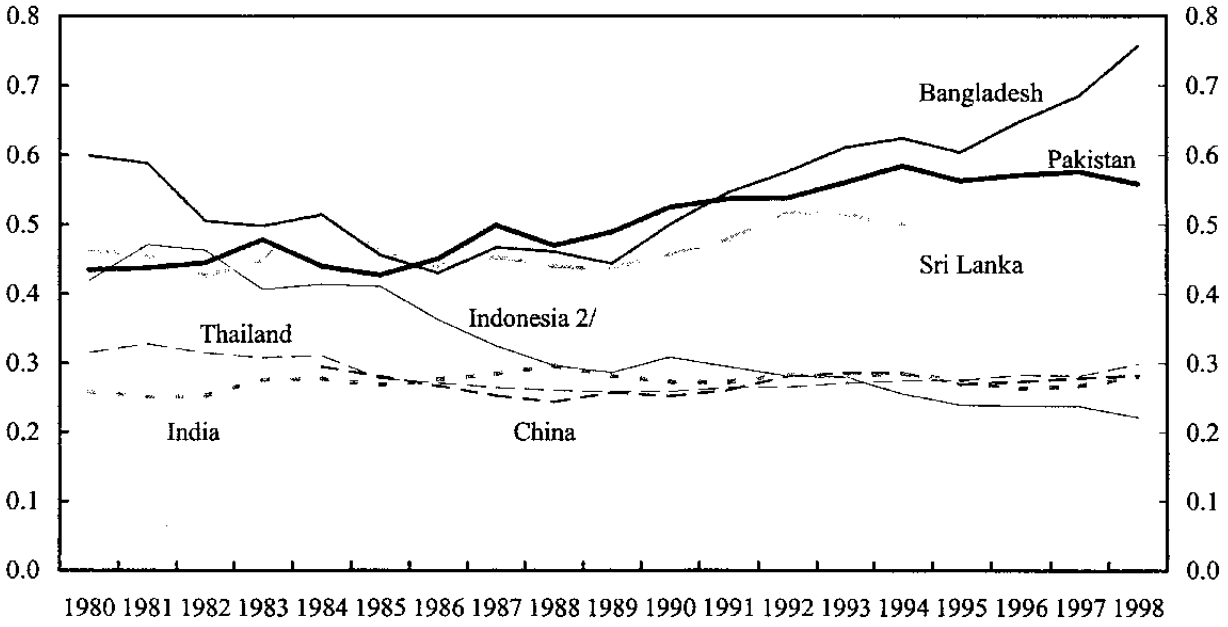
Chart III–4. Paksitan: World Imports from Pakistan, and Comparator Countries
(Index of Imports in U.S. dollars; 1980 = 100)



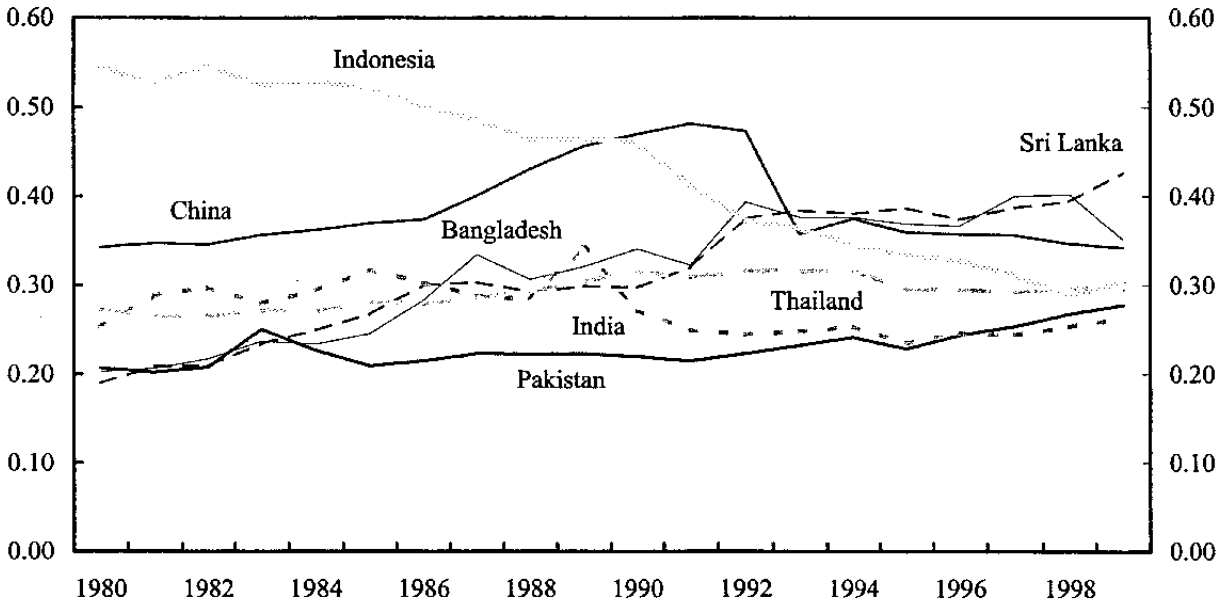

Source: Data from Trade Analysis and Reporting System, United Nations; and staff calculations.

## Chart III–5. Pakistan: Comparative Export Diversification

Export Commodity Diversification Based on Two-Digit SITC Codes
(Gini-Hirschman index values 1/)




Geographic Diversification of Exports
(Gini-Hirschman index values 1/)




Source: Data from Trade Analysis and Reporting System, United Nations
1/ See text for details.
2/ Petroleum and Petroleum products category excluded from the calculations.

Gini-Hirschman concentration indices for geographic distribution of exports of the same group of countries as above suggests that Pakistan's exports are reasonably diversified in term of export destinations (lower panel in Chart III-5). The index values for Pakistan remained consistently below the panel mean value of 0.3 for all countries over time.

**The position and structure of Pakistan's textile exports**

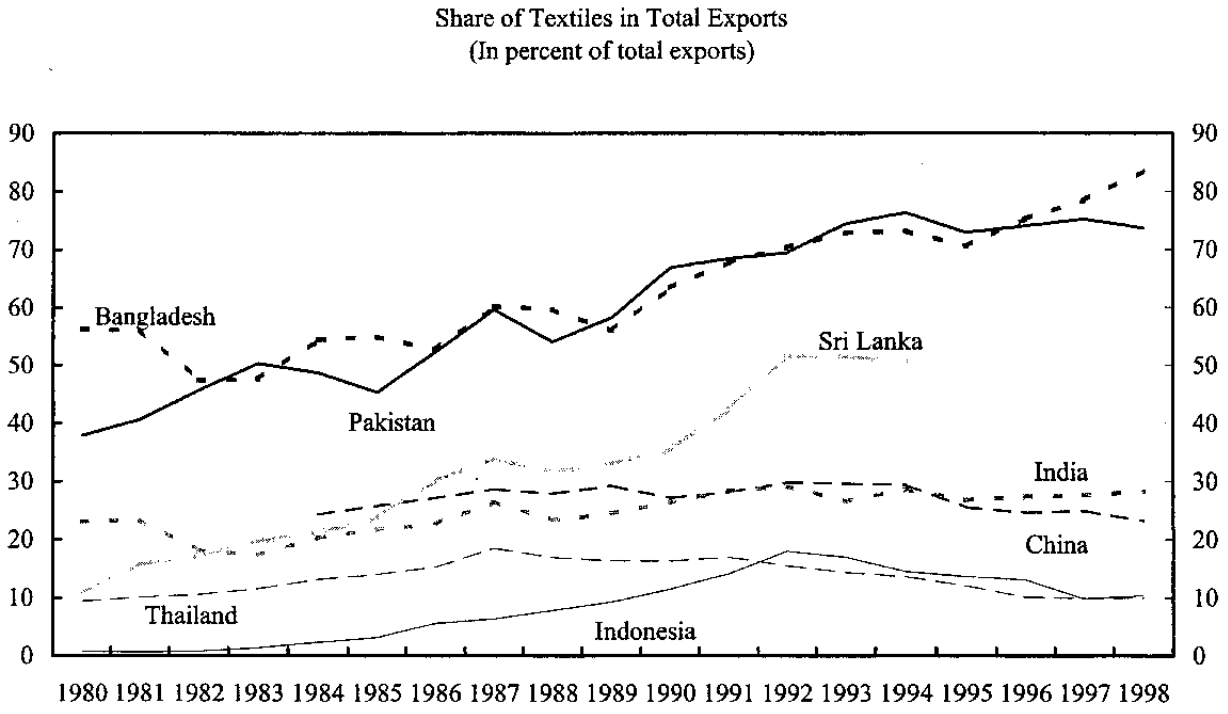
155. The analysis so far provides only limited evidence relating Pakistan's less than impressive export performance in the 1990s to the general structure of exports. This raises the question to what extent Pakistan's specialization on textiles contributed to the performance and how Pakistan's textiles export performance fared compared with other countries.

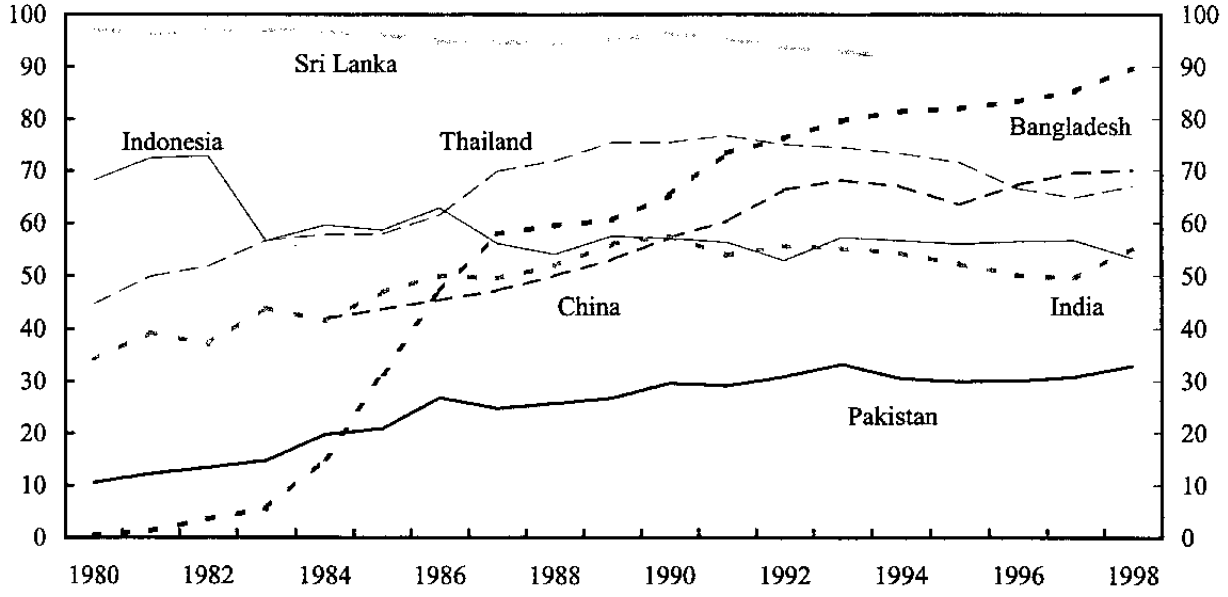
156. Pakistan shares the feature of very high ratios of textile exports to total exports with Bangladesh, as the first panel in Chart III-6 shows. In Sri Lanka, textile exports also increased as a share of total export but from a lower base. In all other countries, shares of textile exports in total exports were lower and generally stagnant or even decreasing from the mid-1990s. Bangladesh's favorable export performance during the 1990s as discussed above, which was achieved despite a high share of textiles, seems to repeat Pakistan's experience during the 1980s and early 1990s. This suggests that the specialization on textiles may not be an obstacle to export growth over a decade or so, although the risks of the associated dependency on a narrow commodity base on balance of payments vulnerability and long-term growth prospects need to be kept in mind.

157. As the contrast between the export performance in Pakistan and Bangladesh illustrates, a high share of textiles exports in total exports may not be sufficient to explain the prolonged recent stagnation in exports. The competitiveness of the textile sector is another important element. To gauge competitiveness problems in the textile sector, the values of textiles exports of the 6 comparator countries and Pakistan are compared in Chart III-7. Until 1991, Pakistan's textile exports grew broadly in line with those of competitor countries. From 1992, however, Pakistan's textile exports suffered from a noticeable slowdown compared to other countries, most notably China, Bangladesh, and Sri Lanka.

158. Without more detailed sectoral analysis, definitive conclusions about the reasons underlying the setback to the performance of Pakistan's export performance cannot be drawn. Nevertheless, several factors relating to the textile sector appear to explain the weak overall export performance to some extent. The series of adverse shocks to the cotton crop from 1992, which reduced the supply of raw material and increased domestic cotton prices given the restrictions to cotton imports in place until recently, must be an important factor. One can also point out that Pakistan's textile industry appears to have been less successful in upgrading to the higher value added segments of the industry, as the second panel in Chart III-6 shows. (Clothing generally is characterized by a higher value added content than textile fabrics such as yarn or cloth.) Unlike in other manufacturing sectors, upgrading is important for textile development and growth because of the Multi-Fiber Arrangement (MFA). The MFA regulates (and restricts) trade in textiles from developing to developed

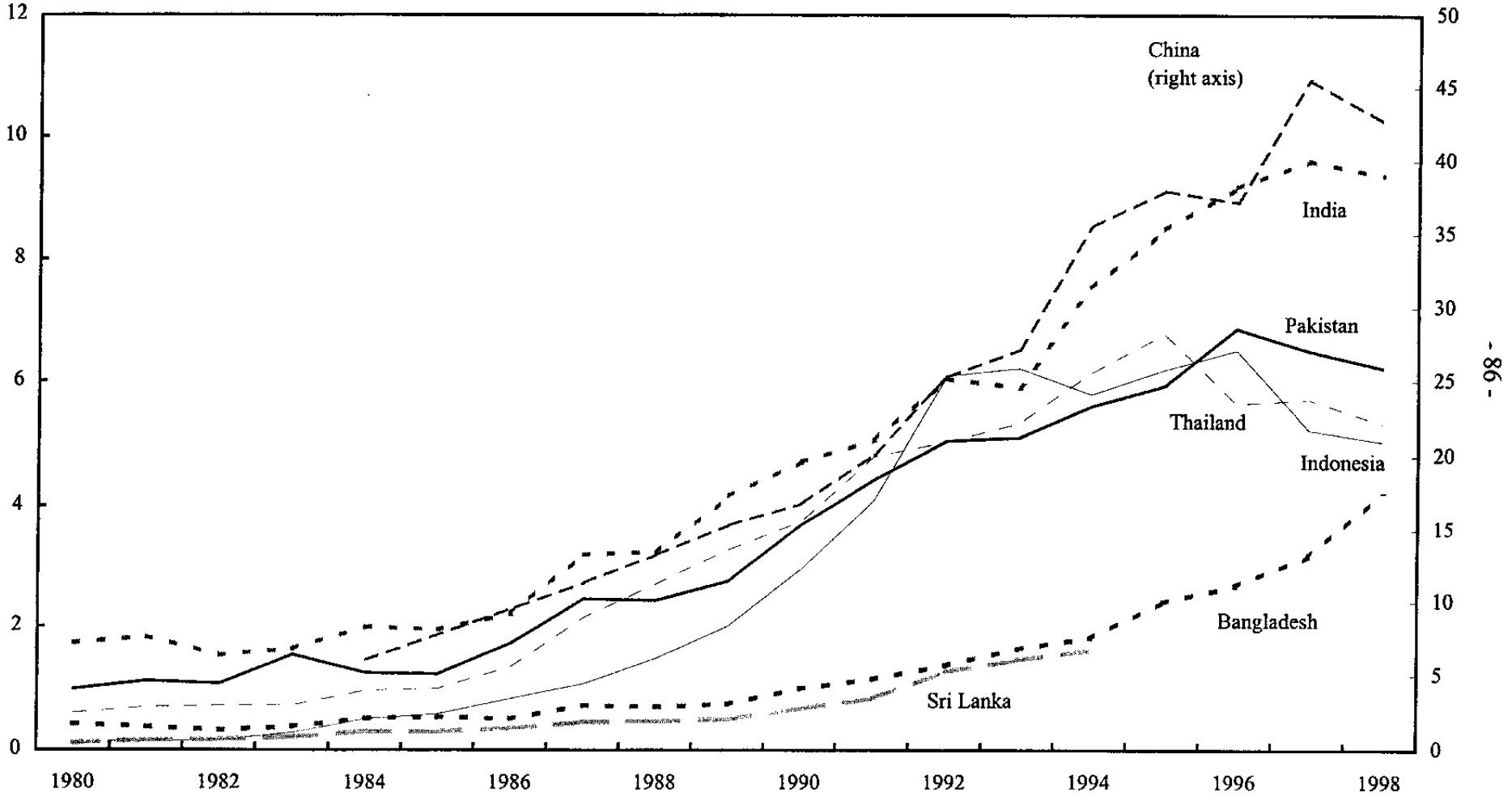
Chart III–6. Pakistan: Comparison of Textile Export Structure




Source: Data from Trade Analysis and Reporting System, United Nations.

Chart III–7. Pakistan: Comparison of Textile Export Performance
(In billions of U.S. dollars)




Source: Data from Trade Analysis and Reporting System, United Nations; and staff calculations.

countries on the basis of quota allocations. Reportedly, Pakistan made full use of its quota allocations in the lower value added segments but not in the higher value added segments. Finally, the stagnant raw cotton prices during the 1990s, which largely determine the price for cotton-based textile fabrics in view of the low cost shares of other components, were another drag on the value of textile imports.

**Trade regime**

159. Despite significant progress toward a more liberal regime during the past 15 years (as described in Box III-1), Pakistan's trade regime remains relatively restrictive by regional standards (Table III- 2). As indicated by the trade restrictiveness index, only India's trade regime remains more restrictive. Compared to other countries, the higher degree of restrictiveness is mainly due to higher average tariffs, as Pakistan has been lagging in catching up with other countries' reductions in tariff rates and bands. In the reduction of non-tariff barriers, Pakistan appears to be at par with the comparator countries that have a more liberal overall trade regime. The impact of the trade regime on exports is difficult to evaluate because of other factors and measurement problems. Nevertheless, preliminary empirical analysis suggests that in Pakistan, a negative relationship held between exports (as a percent of GDP) and import taxes during 1973–99 (Box III-3). This indicates that the relatively higher tariff rates in Pakistan have been an obstacle to export performance, including through a tariff-induced anti-export bias in favor of production for domestic markets.[74]

## D. A Constant Market Shares Analysis of Pakistan's Export Performance

160. This section applies the method of constant market share analysis to Pakistan's export data. The method is particularly suited for analyzing the linkages between export performance and changes in the commodity composition of imports of trading partners. In the case of Pakistan, this question arises naturally given the high share of cotton-based textile exports, as the latter are often thought to be suffering from declining world demand compared to the demand for mixed fiber (man-made and natural) products.

**The constant market shares method**

161. Constant market share analysis is a method to study and assess export performance. The method decomposes the performance, which is measured on the basis of changes in the market share of a country's exports in total imports of another market, into three components or effects.[75] Increasing the market share over a period would mean success while a decrease

[74] See also Khan (1998).

[75] See the following studies on the evolution of constant market analyses as a technique for assessing export performance: Tyszynski (1951); Richardson (1971); and Fagerberg and Sollie (1987).

would be interpreted as a problem. More specifically, the change in market share is decomposed as follows[76]:

Table III-2. Trade Regimes in Selected Asian Countries

( 2000 or latest unless otherwise noted)

| | Simple average tariff (percent) | Weighted average tariff (percent) | Trade Restrictiveness Index | Index of Nontariff Barriers | Exports 1/ (In percent GDP) | | Trade 1/ (In percent GDP) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 1980–89 | 1990–99 | 1980–89 | 1990–99 |
| Pakistan | 23.8 | 19.3 | 7 | 2 | 11.5 | 15.6 | 30.5 | 32.9 |
| Bangladesh | 19.2 | . . . | 7 | 2 | 6.3 | 10.0 | 22.8 | 29.6 |
| China | 14.4 | . . . | 5 | 2 | 9.3 | 18.8 | 20.0 | 35.6 |
| India | 32.9 | 27.6 | 10 | 3 | 4.7 | 7.6 | 12.0 | 17.1 |
| Indonesia 2/ | 6.8 | 3.3 | 4 | 2 | 11.5 | 18.7 | 38.4 | 48.4 |
| Korea | 13.8 | 10.6 | 4 | 2 | 31.2 | 27.8 | 60.0 | 54.1 |
| Malaysia | 9.5 | 3.3 | 4 | 2 | 51.9 | 80.3 | 94.8 | 149.3 |
| Philippines | 8.2 | 8.7 | 4 | 2 | 16.3 | 26.8 | 37.2 | 61.4 |
| Sri Lanka | 11.4 | 7.4 | 5 | 2 | 22.3 | 27.5 | 58.6 | 65.1 |
| Thailand | 17.1 | . . . | 6 | 2 | 20.9 | 34.5 | 44.8 | 68.0 |

Sources: IMF, International Financial Statistics; and UN, Trade Analysis and Reporting System; and Fund staff estimates.

1/ Period averages.
2/ Nonoil merchandise exports.

[76] See Appendix III-I for the mathematical underpinning of these effects.

## Box III-3. The Impact of Trade Liberalization on Pakistan's External Trade

Trade liberalization has enhanced the openness and external orientation of the Pakistan economy over the past two decades. Notwithstanding these gains, the ratio of external trade to GDP in Pakistan remains considerably lower than in most other economies in the region. This likely relates to the continued restrictiveness of Pakistan's trade system, especially in relation to that of most other countries.

Cyclical factors and supply shocks (e.g. bad crops) complicate the quantitative assessment of the impact of trade liberalization on trade performance, since in the short term these factors can significantly reduce exports and indirectly curb imports as income levels fall. Moreover, as trade liberalization induced investment in the export sector may materialize with a lag, and since the liberalization in Pakistan has been undertaken gradually over almost two decades, it is even more difficult to isolate the relationship between trade performance and changes in the trade system.

Empirical estimates employing cointegration techniques indicate a significant long-run relationship between the trade regime and the external orientation of the Pakistan economy over the past 25 years. The long-run cointegration tests, which abstract from short-term effects of cyclical factors and supply shocks, consider the relationship between import taxes (defined as the ratio of customs duty collections to the value of imports), openness (defined as the ratio of exports and imports to GDP and, alternatively, as the ratio of exports to GDP), real GDP, and the time trend (which is intended to capture, collectively, the effect of the trend component of all missing variables in the equation).

The estimates indicate that, over the long run, a reduction in the import tax by 1 percentage point was associated with an increase of about 0.4 percent of GDP in the ratio of total trade to GDP and of 0.3 percent of GDP in the ratio of exports to GDP.[1] The estimates also suggest that other factors—collectively captured by the time trend in the estimated equation—have tended to reduce Pakistan's external orientation over the past two decades. While difficult to identify, these factors may have included the targeting of industrial policies in favor of the textiles sector and the decline in Pakistan's access to external financing.

While the liberalization of the trade system has been associated with increased external trade, the performance of Pakistan's exports over the past decade has been weaker than that in most other countries in the region (including Bangladesh, China, India, Indonesia, Korea, Malaysia, Philippines, Sri Lanka, and Thailand) and the ratio of external trade to GDP in Pakistan remains lower than in most of these countries. The value of Pakistan's exports (in U.S. dollar terms) grew by an average of under 7 percent annually during 1990-99, while export growth in the other countries ranged from 9 percent to 16 percent a year. Pakistan's trade to GDP ratio, which averaged 33 percent in the 1990s, was significantly lower than in all the other countries except India and Bangladesh. Although cyclical factors and supply shocks during the past decade may have weakened trade performance in Pakistan, it should be noted that Pakistan's average import tariff rate remains considerably higher than in all the other countries except India.

[1] By contrast, Subramanian et. al. (2000), in a study of trade liberalization in African countries, find that a 1 percentage point reduction in trade taxes was associated with an increase in the trade ratio of 0.7-1.1 percentage points.

$$\Delta MS^{kl} = \Delta MS_{a}^{kl} + \Delta MS_{b}^{kl} + \Delta MS_{ab}^{kl} \quad (1)$$

where $k$ stands for the exporting country and $l$ for the importing country. It should be noted that all terms reflect aggregates over a range of commodities. The performance measure, the change in the total market share of exports from country $k$ in total imports of country $l$ (i.e., for all commodities $i$), is on the left hand side of the equation. The first right hand side term ($\Delta MS_a^{kl}$) captures the so-called *market share effect,* measuring the extent to which the exporting country's market share for specific commodities has changed at the original commodity composition of the imports in the partner country. The second right-hand side term ($\Delta MS_b^{kl}$) reflects the so-called *commodity composition effect*. This is the effect on which applications of the constant market share analysis have focused since Tyszynski (1951). It measures the effect of the changes in the commodity composition of country $l$'s imports on country $k$'s exports with the market shares in the base year. If the share of products on which country $k$ is specialized increases between two periods, the effect is positive. The third right hand side term ($\Delta MS_{ab}^{kl}$), labeled as the *commodity adaptation effect* by Fagerberg and Sollie (1987), is a measure of the extent to which a country has succeeded in adapting the commodity composition of its exports to changes in the commodity composition of the importing country's imports relative to other exporters. If this effect is zero, Fagerberg and Sollie (op. cit.) pointed out that the exporting country adapted to the commodity composition at the same rate as the average of all other countries.

162. In the current context, the commodity composition effect shows the extent to which the original commodity composition of exports (of the exporting country) was beneficial or problematic in view of the changes in the commodity composition of imports in the partner country. The commodity adaptation effect captures one dimension of competitiveness, namely that of competitiveness in adapting the commodity composition of exports to the need of the importing country. The market share effect can be interpreted as the residual that captures all other effects, including that of external demand by the partner country.

**Empirical results**

163. Constant market shares analysis was used to assess the change in Pakistani export market shares in four countries and regions from 1980 to 1997. The assessment is based on the decomposition of the market share changes over the entire sample period, which ranges from 1980 to 1997, and over sub-sample periods, 1980–1985, 1985–1990, 1990–1995, and 1995–1998.

164. The markets chosen were those of 15 members of the European Union (15 members), Japan, the United States and Asian Markets (excluding Japan). Pakistan's export products are assumed to compete with exports from the rest of the world in these four markets. The analysis is based on export and import data that is disaggregated at the two-digit SITC code

level. Only manufacturing sector data from the SITC categories 5–8 were used. This coverage in terms of markets and products covers about 60–65 percent of Pakistan's exports in the 1990s and is expected to allow for a reasonable assessment of the overall performance of Pakistan's export sector over the period.

165. The results of the application of the constant market shares analysis yields mixed results, depending on the recipient country and the time period (Table III-3).[77] The salient features are as follows:

- In the 15 EU countries, which constituted the largest market for Pakistan's exports among the recipient countries, Pakistan was able to increase its market share throughout the sample period. Nevertheless, the increasing specialization turned out to have had adverse effects since the commodity composition effects turned out to be negative throughout all periods, as expected. As Pakistan's specialization on textiles increased over time, the commodity adaptation effects were equally negative, except for the period 1980–85. In fact, the EU countries are a case in point for the argument of Pakistan being specialized in a shrinking market (relative to overall imports). The share of textile imports in total EU imports decreased throughout the period 1980–97 while the share of textiles in imports from Pakistan increased. Overall, the market share effects were the main factors behind the increase in Pakistan's market share in EU imports.

- In the United States, Pakistan was also able to increase its market share. The commodity composition effects were negative for the entire sample period and for 1985–90 but, unexpectedly, were positive for the periods 1980–85 and 1990–97. This reflects the increase in the share of textile imports in U.S. imports during these periods. Consequently, Pakistan was well positioned to benefit from this development with its increasing specialization in textiles and, as indicated by the positive commodity adaptation effects, was competitive in this sector. The commodity adaptation effects were positive in all periods, suggesting that Pakistan was competitive in the United States more generally. These results suggest that the case for the "textile pessimism" may not be as strong as often argued. As for the EU countries, the market share effects were the most important factors behind the increase in Pakistan's market share in U.S. imports.

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[77] The constant market share analysis is based on imports of the partner country, e.g., the United States. The dimensions of the three effects and the performance measures are percentage point changes in terms of the imports of the partner countries. However, as Pakistan's exports to any of the four partner countries covered in Table III-3 are less than 1 percent of total imports, the magnitude of the market share changes and effects is small (0.1 percentage point or less). To facilitate the interpretation of Table III-3, the results were renormalized to compare them to Pakistan's export. The this end, the percentage changes were first converted into U.S. dollar values by multiplying them with the end-of-period import values of the partner country (e.g., 1997 total U.S. imports) and then normalized by the end-of-period total exports of Pakistan. With this normalization, the magnitude of each effect over the entire period does not equal the sum of each effect over the subsample periods.

Table III-3. Pakistan: Constant Market Shares Analysis

(In percent of end-of-period total exports of Pakistan 1/)

| EEC Market | 1980–85 | 1985–1990 | 1990–1997 | 1980–1997 |
|---|---|---|---|---|
| Market Share Effect | 3.1 | 7.9 | 5.6 | 17.1 |
| Commodity Composition Effect | -0.5 | -2.4 | -2.7 | -4.6 |
| Commodity Adaptation Effect | 0.3 | -0.2 | -0.9 | -2.7 |
| Change in Market Share | 2.9 | 5.4 | 2.1 | 9.8 |
| American Market | 1980–85 | 1985–1990 | 1990–1997 | 1980–1997 |
| Market Share Effect | 0.5 | 4.0 | 3.9 | 8.1 |
| Commodity Composition Effect | 0.2 | 0.0 | 0.2 | -0.1 |
| Commodity Adaptation Effect | 0.3 | 0.0 | 0.1 | 1.8 |
| Change in Market Share | 1.0 | 4.0 | 4.2 | 9.8 |
| Asian Market | 1980–85 | 1985–1990 | 1990–1997 | 1980–1997 |
| Market Share Effect | 0.2 | -1.5 | 2.4 | 0.6 |
| Commodity Composition Effect | 0.1 | -1.8 | -3.6 | -4.0 |
| Commodity Adaptation Effect | -1.0 | 2.4 | -1.3 | 0.1 |
| Change in Market Share | -0.7 | -0.8 | -2.5 | -3.3 |
| Japanese Market | 1980–85 | 1985–1990 | 1990–1997 | 1980–1997 |
| Market Share Effect | 6.5 | -2.2 | -2.8 | 3.9 |
| Commodity Composition Effect | -0.2 | -3.2 | -1.6 | -1.9 |
| Commodity Adaptation Effect | -0.3 | 0.3 | 0.5 | -1.6 |
| Change in Market Share | 5.9 | -5.1 | -3.9 | 0.4 |

Source: Trade Analysis and Reporting System, United Nations; staff calculations.

1/ The figures were derived by applying the percentage changes at the end-of-period imports of the partner region and normalizing them with the end-of-period total exports of Pakistan.

- In Asian markets, the third largest import market in the sample after the EU countries and the United States, Pakistan lost market shares throughout 1980-97. The most important factor behind the losses was the commodity composition of Pakistan's exports, as the negative commodity composition effects illustrate. One of the main factors behind this result is the decline in the imports of textile fabrics such as yarn or cloth by Asian countries. This is, of course, the segment in which Pakistan's textile industry has specialized. The commodity adaptation effects are small, so that the loss in market shares appears not to be a reflection of problems in commodity composition competitiveness.

- For exports to Japan, the results are varied. For the period of 1980-97, Pakistan was able to increase its market share somewhat. The commodity composition and commodity adaptation effects were negative, reflecting the decline in the share of imports of textile fabrics and leather products in Japan as well as some market share losses by Pakistan in the market for leather and leather products in Japan. With the increasing share of textile fabrics in total exports to Japan, Pakistan's industry was not well positioned to take advantages of developments in Japan's total imports.

166. In general, the results show the benefits and risks associated with Pakistan's increasing specialization on textiles. Except for the case of the United States, Pakistan export products have not evolved with the needs of the importing countries because they are becoming less important in the basket of import goods of the trading partners. Nevertheless, the generally negative commodity composition and commodity adaptation effects should not be overemphasized. As indicated by the generally positive market share effects, Pakistan has been able to benefit from the general growth in overall imports of the four trading partner covered in the analysis. This could be related partly to the general relocation of the production of textiles to developing countries. In the context of this relocation process, Pakistan succeeded in increasing its market shares in textile imports of partner countries despite the general tendency towards lower shares of textile products in total imports. The policy issues that emerge from the analysis are whether Pakistan benefited from this relocation process as much as it could have with optimal policies and why the textile industry was the only industry to have benefited from a more general relocation of industrial production to developing countries.

## E. Conclusions and Policy Implications

167. The analysis of Pakistan's merchandise export performance during the last two decades highlights the dependence of overall exports to the boom and bust cycle in the cotton sector. In the 1980s, the boom in the production of cotton helped to spur rapid growth in the downstream processing of cotton in the local textile industry. This, in turn, led to strong increases in textile exports, which gradually began to dominate Pakistan's exports. The growing specialization on textiles helped Pakistan to benefit from the relocation of textiles

production from industrial countries, even though the share of textile imports in total imports fell in some of these countries.

168. While the textile boom of the 1980s illustrated the benefits associated with specialization, the series of negative productivity shocks that hit the cotton sector from the mid-1990s demonstrated the risks associated with an undiversified export base. The shocks held back output growth in the textile industry as external trade in raw cotton was restricted and textile exports stagnated. The country-specific productivity shocks also appear to help in explaining why Pakistan's export performance fell behind that of other regional competitors.

169. Pakistan's experience with the boom and bust cycle in the cotton sector and its impact on the textile industry and exports during the last two decades has important policy implications for future trade reform and trade development:

- While policies that targeted growth and trade in specific sectors such as the textiles industry were initially successful in boosting exports, they also contributed to increasing the vulnerability to sector-specific shocks. The initial success of sector-specific policies may also explain why policies aimed at fostering broad-based growth in the tradables sector, including exchange rate policy, may have played less of role. For the future, measures to strengthen the diversification of the export commodity base will be essential for balanced growth in the tradables sector and the economy.

- Pakistan's experience also illustrates how targeted trade restrictions can backfire and hurt long-term development. In Pakistan, relevant restrictions included the general ban on imports of raw cotton[78] (removed in 1999/2000), the government monopoly on the exports of raw cotton (removed in the mid-1990s), and the ban on many semi-manufactured textile inputs such as cloth. With the adverse shocks to cotton output, economic activity in the textile sector was handicapped by the restrictions on imports of raw cotton. Further progress in trade liberalization, to which Pakistan has committed, will be needed to remove the anti-export bias in today's trade regime and thereby increase the medium-term growth potential.

- Industrial policies appear to have focused too little on promoting public goods such as standards—for example, in setting standards for the quality of lint cotton—and providing essential public services including in the area of infrastructure services. Instead, policies appear to have been focused too much on providing tax and other incentives, which may have fostered overinvestment in some segments of the textile industry. This overinvestment, which resulted in a debt overhang in the sector, may have slowed the upgrading process in the industry in the 1990s. In the future, government efforts should focus on creating the enabling environment for tradables

[78] The state-owned Trading Corporation of Pakistan (TCP) did, however, occasionally import small quantities of cotton.

sector growth through the increased provision of the necessary physical and institutional infrastructure (including norms and standards).

- The combination of trade restrictions and an interventionist industrial policy targeting specific sectors through incentives may have reduced competitive pressures on the textile industry and provided incentives for rent-seeking activities. As a result, market pressures for upgrading and modernization in the textile industries were mitigated despite the evolving structure of the world textile industry and the world demand for textiles. Unfortunately, this has hampered long-term growth prospects of the industry, and as widely recognized in Pakistan, a lot of catching-up by the industry is needed. This is yet another reason for more trade liberalization and for reorienting efforts to generate the enabling environment for broad-based growth in tradables to reduce the risks of recurring boom and bust cycle elsewhere.

170. Looking forward, policies aimed at trade reform and strengthening the tradables sector in general will also help in addressing the challenges arising from the on-going evolution in the international trade regime. The implementation of agreements under the Uruguay Round accord offers a variety of opportunities for Pakistan to expand its export base and diversify its export markets. The most promising opportunities are likely to come from multilateral trade liberalization affecting the products and sectors, in which Pakistan enjoys a comparative advantage. Of particular relevance to Pakistan is the phasing out of the MFA. As Pakistan's textile and clothing exports are largely directed to quota countries, and since quota utilization rates in many segments are very high, Pakistan should benefit from the eventual removal of the MFA in 2005. Ingno and Winter (1995) estimate that Pakistan may gain more than US$500 million (1992 prices) or a permanent increase in export levels of about 6 percent. Reaping the benefits from the phasing out of the MFA, however, will neither come quickly nor without overcoming challenges. Pakistan will face fierce competition, particularly from Eastern Europe countries, which benefit from skilled and relatively low wage labor and proximity to EU market.

## Constant Market Share Analysis: The Case of Several Commodities and One Importing Country[79]

The following symbols are used in decomposing the change in market shares into market composition, commodity composition and market adaptation effects.

$n$ number of commodities;
$0,t$ these are the initial year and the final year of comparison, respectively;
$Y_i^{kl}$ country $k$'s exports of commodity $i$ to country $l$;
$B_i^l$ country $l$'s imports of commodity $i$;
$MS^{kl}$ market share of country $k$ (macro share of country $k$) in country $l$'s imports;

$$MS^{kl} = \frac{\sum_i Y_i^{kl}}{\sum_i B_i^l} \qquad (1)$$

$a^{kl}$ market shares, by commodity, of country $k$ (micro shares of country $k$) in country $l$'s imports; row vector of dimension $n$; $a^{kl} = (a_1^{kl}, \ldots\ldots\ldots\ldots, a_n^{kl})$, where

$$a_i^{kl} = \frac{Y_i^{kl}}{B_i^l} \qquad (2)$$

$b^l$ commodity shares of country $l$'s imports; column vector of dimension $n$; $b^l = (b_i^l, \ldots\ldots\ldots, b_n^l)'$, where

$$b_i^l = \frac{B_i^l}{\sum_i B_i^l} \qquad (3)$$

The macro share of country $k$ ($MS^{kl}$) may be written as the inner product of the vector of its micro shares ($a^{kl}$) and the vector of commodity shares of country $l$'s imports ($\mathbf{b}^l$):

$$MS^{kl} = \mathrm{a}^{kl}\mathrm{b}^l \qquad (4)$$

The change in $MS^{kl}$ between time 0 and time t is given by (5):

$$\Delta MS^{kl} = M_t^{kl} - M_0^{kl} \qquad (5)$$

[79] This exposition follows Fagerberg and Sollie (1987) closely.

Equation (5) can be rewritten as:

$$\Delta MS^{kl} = \Delta MS_{a}^{kl} + \Delta MS_{b}^{kl} + \Delta MS_{ab}^{kl} \quad (6)$$

where,

$$\Delta MS_{\mathbf{a}}^{kl} = \left(\mathbf{a}_t^{kl} - \mathbf{a}_0^{kl}\right)\mathbf{b}_0^{l} \quad (7)$$

$$\Delta MS_{\mathbf{b}}^{kl} = \mathbf{a}_0^{kl}\left(\mathbf{b}_t^{l} - \mathbf{b}_0^{l}\right)$$

$$\Delta MS_{\mathbf{ab}}^{kl} = \left(\mathbf{a}_t^{kl} - \mathbf{a}_0^{kl}\right)\left(\mathbf{b}_t^{l} - \mathbf{b}_0^{l}\right)$$

The first of these terms ($\Delta MS_a^{kl}$) is the so-called market share effect, and the second term ($\Delta MS_b^{kl}$) reflects the *commodity composition effect*. The third (residual) term ($\Delta MS_{ab}^{kl}$) is the inner product of a vector of changes in micro shares and a vector of changes in commodity shares and was labeled as the *commodity adaptation effect* by Fagerberg and Sollie

# IV. A Survey of Poverty in Pakistan[80]

## A. Introduction

171. Despite respectable real GDP growth rates for the past 50 years, poverty has continued to be an endemic problem in Pakistan. Even periods of high growth, as in the1960s and 1980s, have seen either rising or slowly declining poverty trends. Moreover, recent studies have found that poverty was on the rise in the 1990s. This paper attempts to shed some light on the reasons explaining Pakistan's limited success in tackling poverty, by surveying some existing literature. The primary sources include a set of studies presented at the meeting of the Pakistan Society of Development Economists, "Pakistan Poverty Assessment" (1995) by the World Bank, and "A Profile of Poverty in Pakistan" by Human Development Center and UNDP.

172. The Section is organized as follows. In discussing poverty the first question is what exactly do we mean by poverty, so the next subsection considers the definition of poverty. Subsequent subsections are devoted to poverty trends in Pakistan and broader indicators of poverty. The following subsection considers the nature of poverty in Pakistan, in particular the incidence of poverty in different sections of the population and the economy.

## B. Definition of Poverty

173. In the traditional sense poverty refers to lack of means to meet one's needs. Absolute poverty was defined as inability to meet the physiological needs for survival. This led to measures of poverty based on daily calorie intake and food production. Later, the definition of poverty was expanded to include other "basic needs" such as shelter, clothing, access to water, health, and education, leading to measures of poverty based on basic social services and human development indicators. In recent years the definition of poverty has been further expanded to include concepts of vulnerability to risks and socio/political access. Since the measures of vulnerability and access are still in the early stages of development, this paper only considers measures based on income levels and human development indicators.

174. Income is the most obvious and easily observable variable for measuring poverty status. When asking if someone is poor, we are really asking whether the person has enough income to acquire what he/she "needs". The decision of what a person "needs" is quite subjective and the root cause of lack of uniformity in poverty measures. The question of how one determines "needs" and transforms those needs into monetary units has significant implications for the level and trends in poverty. The ability of a person to afford a certain bundle of goods can be measured either by his/her income or expenditure. Income and

[80] Prepared by Farhan Hameed (MED).

expenditure would, of course, be the same if there was no access to credit and no savings. Since expenditure is more difficult to assess, most studies use income statistics.

175. Poverty line is the threshold income/expenditure level - the minimum income required to acquire what an individual or a household "needs". There are many different ways of determining the poverty line. For example, the World Bank arbitrarily uses a dollar a day as the poverty line in determining global poverty. Since the assessment of basic needs of the poor is subjective, different authors have used different poverty lines. Another method of determining the poverty line employed by Ahmad (1993) and Gazdar *et al.* (1994) is to consider a basket of basic needs. Ali (1995) uses the linear expenditure system methodology to determine the basic needs of the poor. Some authors have also used calories based measures, i.e., the estimated cost of food consistent with a benchmark daily calorie requirement.[81] Since trends in poverty are quite sensitive to the choice of the poverty line, it is difficult to compare results of studies across different time periods.

176. Once a poverty line has been chosen, the next step is to select a measure of poverty. The most obvious measure is to look at the head count ratio which gives the percentage of individuals (or households) which fall below the poverty line. The disadvantage of using this measure is that it does not capture the inequality among the poor. This led to the use of the poverty gap measure which measures both incidence of poverty and the income shortfall. These two measures are a subset of a class of poverty measures introduced by Foster, Greer, and Thorbecke (FGT; 1984).

The FGT class of poverty measures may be defined as follows:

$$P_\alpha = \frac{1}{N}\sum_{i=1}^{Q}\left(\frac{Z-Y_i}{Z}\right)^\alpha$$

$P_\alpha$ is the level of poverty
$N$ is the population size
$Q$ is the number of poor
$Z$ is the poverty line
$Y_i$ is the per capita household income

Note that if $\alpha = 0$, then this is just the head count index H. If $\alpha = 1$, then it becomes the poverty gap index. Even the poverty gap index suffers from insensitivity to inequality among the poor. If we consider $P_\alpha$ with $\alpha = 2$, this measure not only captures the shortfall of income but also the distribution of income within the poor. The main advantage of using the FGT Indices is that they are additively decomposable in the sense that the total poverty is a weighted sum of subgroup poverty levels (this will be useful when we consider the different subgroups of the population). Except for the head count index, we can interpret these

[81] See Qureshi and Arif (1999) and Gazdar, Howes, and Zaidi (1994).

measures only in relation to other known values to get a sense of the direction of the index. For this reason we will primarily use the head count index, which has a more direct interpretation.

## C. Trends in Poverty

177. It is clear from the discussion on poverty lines that trends in poverty are very sensitive to the choice of methodology employed. This section reviews the poverty studies on Pakistan and their broad findings. To make analysis of a trend easier the studies will be divided into four different periods, the 1960s, 1970s, 1980s, and 1990s.

178. There appears to be a consensus amongst various studies of poverty in Pakistan that poverty rose in the 1960s, and declined in the 1970s and early 1980s (Table IV-1). In particular, it seems that in the1960s, poverty rose in rural areas and declined in urban areas. Both the 1970s and the early 1980s saw a decline in poverty in both urban and rural areas. There does not appear to be a consensus regarding the trend in poverty for the late 1980s and the 1990s. In discussing trends in poverty, few studies have attempted to explain the trends in poverty or tried to corroborate their findings with the existing macroeconomic conditions.

179. One set of studies for the 1960s is based on a poverty line arbitrarily fixed in terms of a given per capita expenditure and income. The pioneering work on poverty in Pakistan was by Naseem (1973), using data from Household Income and Expenditure Surveys (HIES) from the 1960s. He used the income poverty line of PRs. 300 in rural areas and Rs. 375 in urban areas. This study showed that between 1963/64 and 1969/70, rural and urban poverty declined. Allaudin (1975) used expenditure data and used the poverty lines at Rs. 250 for rural areas and Rs. 300 for urban areas. Both of these studies show that poverty declined in both urban and rural areas in 1960s. The only caveat to this conclusion is that the use of per capita data instead of household level data requires adjustment for household composition. Mujahid (1978), corrected for this methodological error and found that rural poverty had actually increased over that period.

180. Another set of studies for the 1960s relates the poverty line to the recommended diet of 2550 calories per day per adult equivalent. These studies include those by Naseem (1977), Irfan and Amjad (1984), and Malik (1988). All these studies found that poverty increased in rural areas and the one by Malik (1988) found that poverty declined in urban areas.

181. Poverty trends in 1970s are difficult to establish because there were no Household Income and Expenditure Surveys (HIES) between 1971/72 and 1978/79. The four studies for the period are Amjad and Kemal (1997), Irfan and Amjad (1984), Kruijik and van Leewin (1985), and Malik (1988). These studies unanimously find that there was a decline in poverty in the 1970s. The only exception was Ali (1997) who found that overall poverty increased in the1970s. This may be due to the fact that he uses a utility function based concept of poverty which leads to a higher poverty line.

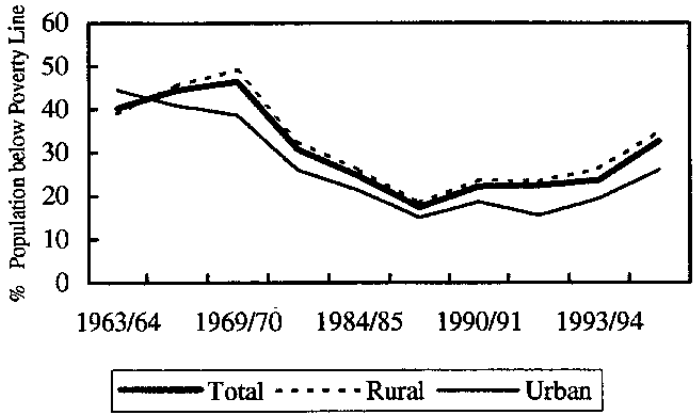
| Table IV-1. Pakistan: The Existing Evidence on Trends in Poverty | | | | | | |
|---|---|---|---|---|---|---|
| | Study | Overall | Rural | Urban | Data Points | Poverty Line/Unit |
| **Poverty in the Sixties** | | | | | | |
| 1 | Naseem (1973) | | Decline | Decline | 1963/64, 1966/67, 1968/69, 1969/70 | Per Capita Expenditure, % of Households |
| 2 | Allaudin (1975) | | Decline | Decline | " | Per Capita Income , % of Households |
| 3 | Naseem (1977) | | Increase | | " | 95%, 92%, 90% of 2100 calories |
| 4 | Mujahid (1978) | | Increase | | " except 1968/69 | Per Capita Expenditure, % of Households |
| 5 | Irfan and Amjad (1984) | | Increase | | " except 1968/69 | 2550 calories |
| 6 | MH Malik (1988) | Increase | Increase | Decline | " except 1968/69 | Per Capita Exp (2500 cal + non food), % of Population |
| **Poverty in the Seventies** | | | | | | |
| 1 | Irfan and Amjad (1984) | | Decline | | 1969/70, 1978/79 | 2550 calories, % of Population |
| 2 | MH Malik (1988) | Decline | Decline | Decline | " | Same as Malik (1988) above |
| 3 | Kruijik and Leewin (1985) | Decline | Decline | Decline | " | Monthly of Rs. 700 at 1979 prices, % of Population |
| 4 | Ali (1997) | Increase | | | " | Utility Function based concept of Poverty |
| 5 | Amjad and Kemal (1997) | Decline | Decline | Decline | " | Same as Malik (1988) above |
| **Poverty in the Eighties and Thereafter** | | | | | | |
| 1 | MH Malik (1988) | Decline | Decline | Decline | 1978/79, 1984/85 | Same as Malik (1988) above |
| 2 | Shirazi (1995) | Increase | Increase | Increase | 1987/88, 1990/91 | Basket of Basic Needs, % of Population |
| 3 | SJ Malik (1994) | Decline | Decline | Decline | 1984/85, 1987/88 | 2550 calories, % of Population |
| | | Increase | Increase | Increase | 1987/88, 1990/91 | |
| 4 | Gazdar *et.al* (1994) | Decline | Decline | Decline | 1984/85, 1987/88 | Basket of Basic Needs, % of Population |
| | | Decline | Decline | Decline | 1987/88, 1990/91 | |
| 5 | Ali (1997) | Increase | | | 1984/85, 1987/88, 1990/91 | Utility Function based concept of Poverty |
| 6 | Amjad and Kemal (1997) | Decline | Decline | Decline | 1978/79, 1984/85, 1987/88 | Same as Malik (1988) above |
| | | Increase | Increase | Increase | 1990/91, 1992/93 | |
| 7 | Jafri (1999) | Increase | Increase | Increase | 1986/87,1987/88 | Basic Needs based on Expenditure |
| | | Decline | Decline | Decline | 1990/91 | |
| | | Increase | Decline | Increase | 1992/93 | |
| | | Increase | Increase | Decline | 1993/94 | |
| | | | | | | |
| | | | | | | |
| | Source: Ali and Tahir (1999) | | | | | |

182. Poverty seems to have declined in the early the 1980s but there is some uncertainty about the trend in the late the 1980s. The two main studies for the period 1984/85 to 1990/91 are Malik (1994) and Gazdar *et al* (1994). Malik uses a calorie based poverty line approach and finds that while poverty declined between 1984/85 and 1987/88, it marginally rose between 1987/88 and 1990/91. Gazdar uses a basic needs approach and finds the poverty declined from 1984/85 to 1990/91. For the 1980s the complete HIES tapes were available for 1984/85, 1987/88 and 1990/91 surveys, which allowed calculations of the poverty gap index and FGT index. Use of these indicators yield similar results as the head count index.

183. Results on poverty trends in the 1990s differ across studies. For the periods after 1990/91 the three main studies are Jafri (1999), Qureshi and Arif (1999), and Amjad and Kemal (1997). Amjad and Kemal (1997) found that poverty rose between 1987/88 and 1992/93. They used a similar methodology to that of Malik (1996). Using HIES 1993/94 primary data set, Jafri (1999) finds a gradual decline in poverty in both urban and rural areas. Using data from the 1998–99 Pakistan Socio-Economic Survey (PSES), Qureshi and Arif (1999) estimate that basic needs based poverty in Pakistan stands at 35.2 percent with 39.8 percent rural poverty and 31.7 percent urban poverty. This is considerably higher than most of the estimates for the 1980s, and they concluded that poverty had risen from 1990/91.

184. There have been few attempts to determine comparable poverty levels over time. While a comparable time series of poverty is necessary in order to do any trend analysis or statistical work, most studies tend to simply calculate poverty rates for particular periods to determine the sensitivity of their choice of poverty line, and to compare their results with earlier findings. Two notable exceptions are Malik (1988) and Amjad and Kemal (1997). These studies use a combination of basic need and calorie in-take approach to poverty instead of a purely calorie intake based analysis. Since food expenditure account for only 50 percent of total expenditure, even for the poor, and since it is difficult to find poverty estimates for a purely calorie intake based poverty figures for recent years, a basic needs approach to poverty is appropriate. Malik (1988) defined the poverty line with reference to a calorie requirement of 2550 for the adult, and the revealed expenditure pattern of the poor between food and non-food expenditures (considered the average ratio of food to non-food consumption for the poor). Taking the 1984–85 poverty line as the benchmark, earlier poverty lines were estimated by deflating the current poverty line using the current CPIs for those years. Amjad and Kemal (op. cit.), inflated the 1984/85 poverty line by the current CPI figures to arrive at new poverty levels up to 1992/93. Qureshi and Arif (1999) used a similar methodology to arrive at poverty estimates for the period1993/94 and 1998/99. In Chart IV-1, the poverty level estimates of Amjad and Kemal (op. cit.)and Qureshi and Arif (op. cit.) were spliced to time series for the period 1963/64–1998/99.

Chart IV-1. Pakistan: Trends in Poverty, 1963/64–1998/99




Source: Amjad and Kemal (1997) and Qureshi and Arif (1999).

185. In broad strokes, the studies seem to indicate that poverty declined from beginning of the 1970s to late 1980s but has been on a rising trend since then. Although many of the studies are not strictly comparable, the conclusions seem to be that: (a) poverty rates were higher in 1969/70 than in 1963/64; (b) between 1969/70 and 1979 poverty declined in both rural and urban areas; (c) this decline continued until 1986/87; and (d) since 1992/93 there has been a gradual rise in poverty. The preliminary data sets from recent surveys also indicate that poverty is on the rise.

## D. Broader Poverty Measures

186. As the definition of poverty has grown in scope, more indicators of poverty have been suggested instead of just looking at the income, or consumption. There is a need for indicators to measure aspects of poverty such as inequality, economic opportunity, health, nutritional status, vulnerability, discrimination based on gender, ethnicity, or race, and empowerment/voice.

### Income inequality

187. Although the head count index is the most widely used measure of poverty, it is insensitive to changes in extent of poverty. Income inequality measures attempt to measure the extent of poverty. Why do we care about income inequality? The first reason is that rising inequality would explain why rampant poverty may persist despite robust economic growth. It suggests that policies are not benefiting the poorest sections of the population. Rising inequality can also make problem of poverty even more acute.

188. The most common income based measures of inequality are the Gini coefficient[82], percent shares of income (lowest 10 percent and highest 10 percent), and the FGT Index (described earlier). Gini coefficients for various years when the HIESs were conducted are presented in Table IV-2. In the 1960's there seems to have been a decline in income equality in both rural and urban areas. Generally, in 1970s there seems to be an overall worsening of income inequality, followed by a reversal of the trend in 1980s. The trend is more uncertain for the1990s but there seems to be a gradual rise.

Table IV-2. Pakistan: Income Distribution

| Year | Gini Coefficient | | |
|---|---|---|---|
| | Total | Rural | Urban |
| 1963/64 | 0.355 | 0.348 | 0.368 |
| 1966/67 | 0.351 | 0.314 | 0.388 |
| 1968/69 | 0.328 | 0.293 | 0.370 |
| 1969/70 | 0.33 | 0.295 | 0.361 |
| 1970/71 | 0.326 | 0.273 | 0.359 |
| 1971/72 | 0.344 | 0.309 | 0.381 |
| 1978/79 | 0.375 | 0.319 | 0.380 |
| 1984/85 | 0.428 | 0.345 | 0.379 |
| 1985/86 | 0.355 | 0.330 | 0.354 |
| 1986/87 | 0.346 | 0.312 | 0.357 |
| 1987/88 | 0.348 | 0.307 | 0.366 |
| 1990/91 | 0.407 | 0.410 | 0.390 |
| 1992/93 | 0.390 | 0.367 | 0.384 |

Source: HIES, Various Year (Jaffri, 1999)

189. The measures mentioned above are based on income distribution but since Pakistan is primarily an agriculture-based economy, another variable that can be used to gauge the trend in inequality is the distribution of land. Table IV-3, replicated from Jafri and Khattak (1995), shows a worsening of the inequality in distribution of land. Farm holdings of greater than 50 acres accounted for 23.8 percent of the land in 1990 as opposed to only 8.3 percent in 1981. Income inequality can be used to illustrate an important point regarding use of socio-economic indicators to measure different aspects of poverty.

[82] The Gini coefficient ranges between zero for perfect equality and one for perfect inequality. It is the ratio of the area between the 45 degree line and the Lorenz Curve to the area uner the 45 degree line, where the Lorenz curve is a plot of the proportion of total income held by each percentile of the population, ranked in order of income.

Table IV-3. Pakistan: Distribution of Land (1981 and 1990)

| Farm Size (acres) | Number of Farms (In thousands) | | Percentage of Farms | | Percentage of Area | |
|---|---|---|---|---|---|---|
| | 1981 | 1990 | 1981 | 1990 | 1981 | 1990 |
| <5 | 1384.1 | 2404.1 | 34.1 | 47.4 | 7.1 | 11.2 |
| 5 to 25 | 2302 | 2322.3 | 56.7 | 45.8 | 52.1 | 49.2 |
| 26 to 50 | 358.3 | 237.5 | 8.8 | 4.7 | 32.5 | 15.8 |
| Over 50 | 13.9 | 106.9 | 0.3 | 2.1 | 8.4 | 23.8 |

Source: Agriculture Census Organization, Agriculture Census 1981 and 1990

190. Trends in poverty are very sensitive to choice of indicators. For example although the distribution of land statistics suggest that inequality worsened between 1981 and 1990. The Gini coefficients from the intervening period 1984/85 to 1987/88 showed that income inequality has actually improved.

**Access to credit**

191. In measuring the economic opportunity aspect of poverty, one variable that stands out is the access to and use of credit, in particular the use of credit by the poor and women. To measure the access of poor to credit we can look at the actual use of credit by the poor and also the real interest rate differences between formal and informal sectors. In a recent study, Malik and Nazli (1999), used data collected by International Food and Policy Research Institute (IFPRI) from a sub-sample of households in 1985 Rural Credit Survey of Pakistan to analyze credit use in rural Pakistan. They found that using head count measures about a fifth of the rural households in Pakistan could be classified as poor or below the poverty line. However, when expenditures met through credit are netted out, about half the households drop below the poverty line. The study showed that shopkeeper credit was an important factor in meeting consumption needs. They also found evidence that households which use credit have significantly higher values of farm output in each expenditure quintile. Further, both formal and informal sources are used to finance farm expenditures, but in general, the proportion of expenditure met through the formal channels is much lower than those from the informal sources.

192. Higher credit access and use of credit for farm production are likely to be linked to poverty alleviation. However, credit access is a difficult measure to use since data on credit use are sparse and as shown in Table IV-4 (based on 1990 data compiled by IFPRI), much of

the credit for the poorer households is through informal sources. For the lowest two quintiles nearly 90 percent of the loans are from the informal sector. Since the informal sources are fragmented and thin, it is difficult to determine what percentage of the individuals have access or actually take loans. Although credit indicators such as credit to private sector or credit through agriculture development banks may not reflect trends in poverty directly, but higher credit use may result in more employment opportunities for the poor, thus leading to poverty alleviation.

Table IV-4. Pakistan: Distribution of Loans

| Per Capita Expenditure Quintiles | Formal | Informal |
|---|---|---|
| Lowest | 6.9 | 93.1 |
| Second | 10.5 | 89.5 |
| Third | 35.5 | 64.5 |
| Fourth | 27.5 | 72.6 |
| Highest | 44.4 | 55.5 |
| All | 31.7 | 68.3 |

Source: IFPRI (1990).

**Illiteracy rate**

193. Illiteracy rate is another important indicator of economic opportunity and human development. Pakistan has one of the highest illiteracy rates in the developing world. In 1997, the illiteracy rate was estimated to be 45 percent for males and 75 percent for women. Although this is an improvement from 1980s, the high rates and the stark differences between male and female rates are a cause for concern. Education has been shown to have an impact on many socio-economic variables, including income and productivity. In the case of Pakistan, Bhutt (1984) shows that for farmers, five or more years of education led to increased farm productivity, reduced use of farm labor, and increased use of yield augmenting inputs. Azhar (1988) also reports a significant relationship between number of years of schooling and increases in farm output due to increased efficiency. Education can also have an impact on health and child mortality. An educated parent would be more informed about the treatment and precautions for common diseases, and is more likely to provide better healthcare to the child. Consider the following example, despite extensive public health campaigns, Rukanuddin and Hasan (1992) found that, 21 percent of the women surveyed, reported that they had reduced the amount of fluid given to children during diarrhea episode, which could make diarrhea fatal.

194. In discussing poverty, it is sometimes difficult to distinguish between the causes and effects of poverty, particularly when poverty is measured using human development indicators. On the one hand, low levels of education can cause poverty through lower productivity and job opportunities. On the other hand, poverty can lead to lower literacy levels since parents do not have enough resources to send their children to school or they depend on the child's income to meet the household expenses. Arif *et al* (1999) using a poverty dummy in addition to an income variable found that poverty exerts a negative influence on a child's probability of attending school in addition to the effect of the low household income. But regardless of whether it causes or is an effect of poverty, higher literacy levels indicate lower poverty.

195. Illiteracy rates can also capture certain aspects of gender bias in poverty. Lower literacy rates restrict women's access to employment, training opportunities, and available social services. According to the latest statistics, the female labor participation rate is 13 percent as compared to the 74 percent male participation rate. The female labor force participation rate is extremely low compared to other countries. Since most women are uneducated, their employment opportunities are restricted primarily to agriculture. A 1987/88 Labor Force Survey[83] shows that 73 percent of the female labor force works in agriculture, 13 percent in manufacturing, and 11 percent in services. As female primary school attendance rates are low (25 percent), the prospects for a significant improvement in female literacy rates in the near term appear limited. The low primary school attendance rates and labor participation rates may also be a result of social and religious norms.

196. Illiteracy is a direct result of low primary school attendance. There are many reasons for the low primary school attendance. The first problem is the limited access to schools and teachers for much of rural Pakistan. For those who have access, variables such as household income, the father's education and tenure of status as landowner, cost of books, and village literacy level seem to play a role in school attendance decision.

**Health and nutrition**

197. Health and nutrition are essential components of human development. Poverty usually results in deprivation of food and essential medical services leading to deterioration of the health indicators. So a decrease in poverty should affect this category of variables positively. The commonly used health and nutritional indicators are infant mortality, life expectancy at birth, maternal mortality, and child malnutrition. Variables for access to health include doctors per 1000 and access to safe water. Considering the data in Table IV-5, Pakistan seems to have made some progress in health indicators, both in terms of the condition of health and access to health, suggesting that poverty may indeed have declined.

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[83] Source: World Bank, "Pakistan: Country Gender Profile"

Table IV-5. Pakistan: Main Health Indicators

| Variable | 1966–70 | 1971–75 | 1975–80 | 1981–85 | 1986–90 | 1991–95 | 1996–98 |
|---|---|---|---|---|---|---|---|
| Infant Mortality per 1000 | 145 | 142 | 140 | 127 | 111 | 105 | 95 |
| Life Expectancy (All) | 49.4 | 50.6 | 55.1 | 56.2 | 59.0 | 59.7 | 61.3 |
| Life Expectancy (M) | 49.6 | 50.6 | 54.6 | 55.6 | 58.2 | 59.6 | 60.8 |
| Life Expectancy (F) | 49.8 | 50.5 | 55.7 | 56.9 | 60.0 | 60.8 | 62.6 |
| Physicians Per 1000 | ... | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | ... |
| Access to Safe Water (Urban) | 77 | 75 | 77 | 84 | 84 | 80 | 85 |
| Access to Safe Water (Rural) | 4 | 5 | 22 | 28 | 28 | 40 | 56 |
| Access to Sanitation (R) | ... | ... | 4 | 5 | 5 | 8 | 24 |
| Access to Sanitation (U) | ... | ... | 48 | 56 | 56 | 48 | 75 |

Source: World Development Indicators by the World Bank

198. Another outcome of poverty is child malnutrition.[84] Despite an increase in per capita food availability the National Health Survey shows that prevalence of malnutrition has not changed over the last 20 years. Recent estimates place the number of malnourished children at 8 million. The three common indicators used to measure malnutrition are percent of children underweight (low weight for age), stunted (low height for age), and wasted (low weight for height). The National Nutritional Survey (1988) found that about 52 percent of the children were underweight, 42 percent were stunted and 11 percent had low weight for height ratio. The National Health Survey (1996) observed that the proportion of children stunted declined to 36 percent but the proportion of children wasted increased to 14 percent. According to the Human Development Report (1999), between 1990–97, 25 percent of the infants had low birth weights. Nearly 45 percent of the women in rural areas and 37 percent of the women in urban areas are anemic. The poor nutritional status results in increased vulnerability to infectious diseases and water borne diseases. Variables which have been shown to have a positive impact on malnutrition are the mother's education, per capita calorie intake, income, and community factors such as access to safe drinking water, sanitation, disposal of solid waste and awareness of health issues.

### E. Distribution of Poverty

199. To acquire an accurate picture of the nature of poverty in Pakistan, it is necessary to consider the incidence of poverty in different sections of the population and the economy. In

[84] This section is primarily based on Qureshi *et al* (1999)

looking at subsets of the poor, it may be possible to deduce where poverty alleviation policies may have the most impact or are most needed. Earlier in the paper the only division considered was rural versus urban poverty. In this subsection we will consider several other partitions of the population, based on geography, industry, and household characteristics.

200. It is not enough to look at just the poverty in each subgroup but it is also necessary to see how much each group contributes to overall poverty. We want a measure of whether a specific category has more than or less than its share of the poor. The share of poverty ($SP_i$) for population subgroup $i$ is define as:

$$SP_i = 100 * s_i * (\frac{p_i}{P}).$$

$s_i$ is the share of subgroup in total population,
$p_i$ is the poverty rate in the sub-group
$P$ is the poverty rate in the population

To measure the relative contribution to poverty we will use a location index (LI) defined as follows:

$$LI_i = 100 * (\frac{SP_i}{s_i})$$

The location index gives the poverty share as percent of population share. If poverty were distributed evenly across population subgroups, then the population share should be equal to the contribution to poverty, i.e, $LI_i$ is 100. If this index has a value of greater than 100, it indicates that poverty is more severe in this subgroup compared to other subgroups.

**Geographical distribution**

201. We will first consider if there are any differences in poverty across geographical units. One reason to look at geographical distribution is to see if particular areas of the country need more attention than others. There may also be some other factors such as land productivity or environmental conditions, which may explain persistent poverty in some areas compared to others.

202. According to the head count index, the highest poverty amongst the provinces appears to be in Northwest Frontier Province (NWFP) with an over-all head count index of 40 percent (Table IV-6). It is also clear from the concentration index that NWFP has a greater share of poor compared to other provinces. In particular, the urban areas in NWFP seem to have the most severe poverty compared to its size. Only 7 percent of the total urban population of Pakistan lives in NWFP but it constitutes 9.3 percent of the urban poor. Sindh appears to be better off in terms of poverty with low head count index for both urban and rural areas. Surprisingly Balochistan shows the lowest poverty rate in all areas. It should be

Table VI-6. Pakistan: Geographic Distribution of Poverty

| Geographic Unit | | Share of Population (In percent) | Poverty within Group (In percent) | Share of Poverty (In percent) | Location Index |
|---|---|---|---|---|---|
| Pakistan | | 100.0 | 34.0 | | |
| Punjab | | 59.8 | 35.9 | 63.1 | 105.6 |
| Sindh | | 22.5 | 27.6 | 18.3 | 81.2 |
| NWFP | | 13.5 | 40.0 | 15.9 | 117.6 |
| Balochistan | | 4.0 | 22.0 | 2.6 | 64.7 |
| Pakistan | Urban | 29.8 | 28.0 | 24.5 | 82.4 |
| Punjab | Urban | 16.9 | 29.4 | 59.5 | 105.0 |
| Sindh | Urban | 10.3 | 24.1 | 29.7 | 86.1 |
| NWFP | Urban | 2.1 | 37.0 | 9.3 | 132.1 |
| Balochistan | Urban | 0.6 | 26.7 | 1.9 | 95.4 |
| Pakistan | Rural | 70.2 | 36.9 | 76.2 | 108.5 |
| Punjab | Rural | 42.9 | 38.5 | 63.8 | 104.3 |
| Sindh | Rural | 12.5 | 30.8 | 14.9 | 83.5 |
| NWFP | Rural | 11.4 | 40.6 | 17.9 | 110.0 |
| Balochistan | Rural | 3.4 | 20.9 | 2.7 | 56.6 |

Source: World Bank (1995) "Pakistan Poverty Assessment" based on HIES 1990/1991.

noted that the statistics for the smaller provinces, NWFP and Balochistan, should be taken with a grain of salt. The data show inconsistencies across different surveys conducted at the same time. The HIES 1990/91 showed that Balochistan had a poverty rate of 22 percent while the PHIS 1991 (Pakistan Household Integrated Survey) yielded a reverse trend with Balochistan having the highest poverty rate at 41 percent (Pakistan Poverty Assessment, World Bank, 1998).

203. Considering the bigger provinces, Punjab seems to have a higher poverty rate than Sindh, particularly in the rural areas. There is a higher concentration of poor in Punjab than in Sindh, as indicated by the location index difference of 105 to 81. Also, poverty seems to be higher in the rural areas in comparison to urban areas, with total rural poverty in 1990/91 at 28 percent compared to 37 percent in rural areas.

**Household characteristics**

204. Household characteristics are important factors in the incidence of poverty. In the following paragraphs we will look at partitions based on household size, number of earners, and head of household characteristics, including sex, age, and education. The purpose of considering this breakdown is to see if there are any particular demographic groups which show higher poverty compared to others. In this section the poverty measure is based on the distribution of expenditure for the year 1993/94. We will be using the head count measure and the location index to compare poverty across subgroups.

205. The data clearly indicate that poverty is most concentrated in the largest subgroup, which comprises households with 7 or more individuals (Table IV-7). Household size is an important determinant of poverty because the greater number of dependents means that there will be few per capita resources available. In particular, the poverty rate is 34.3 percent which is significantly higher than the 8.2 percent for household with 1-4 individuals. Due to the size of the subgroup and high subgroup poverty, 66 percent of the poor are from households with 7 or more individuals. The size of the household may be offset by a higher number of earners so we also consider the breakdown of poverty according to number of earners. There does not seem to be much variation in poverty rates related to the number of earners for each household. Most household have one earner and on average the poverty rate seems to be around 28 percent.

206. There also does not seem to be much difference in poverty rates across sex of the head of the household. About 7 percent of the households in the survey were headed by females. Across age groups the highest poverty is in the in 30-39 group with poverty rates of 32 percent. The lowest poverty is seen in younger group (<29) and the oldest group (> 50).

207. There are no surprises in the distribution of poverty across educational subgroups. The households with the lowest levels of education have the highest incidence of poverty. About 60 percent of the households in Pakistan are headed by individuals with no formal education. The poverty rate in this group is 36 percent and it accounts for 74 percent of the poor in Pakistan. Poverty rates decline considerably for individuals with education levels higher than matriculation.

**Economic activity**

208. Productivity and real wages differ across sectors, as does the incidence of poverty. In what follows, we will consider partitions of the economy according to economic activity by sector, for Pakistan as a whole, and by type of wage earner.

209. Reflecting its central role in the economy, agriculture (including forestry and fishery) is the most important sector in terms of employment. With low productivity and real wages, the incidence of poverty in this sector is the second-highest economy-wide (Table IV-8). Poverty is only more severe in the construction sector, which employs a large work force of unskilled casual labor. Of all the poor, 14.4 percent are from this sector although it constitutes only 9.3 percent of the population.

Table VI-7. Pakistan: Household Attributes

| House Hold Size | Share of Population (In percent) | Poverty within Group (In percent) | Share of Poverty (In percent) | Location Index |
|---|---|---|---|---|
| 1 to 4 | 25.5 | 8.2 | 8.7 | 34.0 |
| 5 to 6 | 28.1 | 21.7 | 25.3 | 90.0 |
| > 7 | 46.4 | 34.3 | 66.0 | 142.3 |
| Overall | 100.0 | 24.1 | | |
| Number of Earners | | | | |
| 0 | 8.1 | 25.4 | 7.2 | 89.5 |
| 1 | 51.3 | 29.6 | 53.5 | 104.3 |
| 2 | 22.6 | 28.8 | 22.9 | 101.4 |
| 3 | 10.9 | 25.1 | 9.6 | 88.4 |
| > 4 | 7.0 | 27.2 | 6.7 | 95.8 |
| Overall | 99.9 | 28.4 | | |
| Head of the Household Characteristics | | | | |
| Sex | | | | |
| Male | 93.1 | 28.2 | 93 | 99.9 |
| Female | 6.9 | 28.5 | 7 | 101 |
| Overall | | 28.2 | | |
| Age | | | | |
| < 29 | 11.4 | 24.4 | 9.8 | 86.3 |
| 30-39 | 25.5 | 31.9 | 28.8 | 112.8 |
| 40-49 | 27.2 | 29.1 | 28 | 102.9 |
| > 50 | 35.9 | 26.3 | 33.4 | 93 |
| Overall | | 28.3 | | |
| Education | | | | |
| No Formal Education | 59.0 | 35.8 | 74.7 | 126.6 |
| Kindergaten | 2.4 | 31.8 | 2.7 | 112.5 |
| Primary | 12.9 | 26.1 | 11.9 | 92.3 |
| Middle | 7.1 | 18.5 | 4.6 | 65.4 |
| Matriculation | 9.0 | 13.2 | 4.2 | 46.7 |
| Intermediate | 3.6 | 7.9 | 1.0 | 27.9 |
| B.A/B.Sc | 3.5 | 6.0 | 0.7 | 21.2 |
| M.A/M.Sc./LL.B | 1.9 | 1.0 | 0.1 | 3.5 |
| MBBS/Eng | 0.4 | 2.2 | 0.0 | 7.8 |
| M.Phil/Ph.D etc | 0.1 | 0.0 | 0.0 | 0.0 |
| Overall | 99.9 | 28.3 | | |

Source: A Profile of Poverty in Pakistan.

Table VI-8. Pakistan: Distribution of Poverty by Economic Activity

| Activity | Share of Population (In percent) | Poverty within Group (In percent) | Share of Poverty (In percent) | Location Index |
|---|---|---|---|---|
| Agriculture/Forestry/Fishery | 28.7 | 33.7 | 34.1 | 118.7 |
| Mining | 0.2 | 12.3 | 0.1 | 43.3 |
| Manufacturing | 8.4 | 25.9 | 7.7 | 91.2 |
| Electricity/Gas/Water | 1.1 | 18.4 | 0.7 | 64.8 |
| Construction | 9.3 | 44.0 | 14.4 | 154.9 |
| Trade | 12.6 | 20.1 | 8.9 | 70.8 |
| Restaurants/Hotels | 6.3 | 25.6 | 5.7 | 90.1 |
| Transport | 1.4 | 3.4 | 0.2 | 12.0 |
| Social Services | 15.1 | 22.8 | 12.1 | 80.3 |
| Undefined | 16.8 | 27.4 | 16.2 | 96.5 |
| Overall | 99.9 | 28.4 | 99.9 | 100.0 |

Source: Profile of Poverty in Pakistan, HIES 1993/94

210. In Table IV-9, the population is divided into employment categories: agricultural workers, wage earners outside agriculture, self-employed outside agriculture, and a residual "other". The agricultural worker are further categorized based upon access to land, and the wage earners are divided into "white collar", skilled/semi-skilled and casual/manual. The reason for partitioning the population in this way is to gauge how access to capital (physical or human) affects poverty. We would expect that those groups with the least access to capital would show the worst poverty rates.

211. In the urban areas 43.8 percent of the household are headed by wage earners with a poverty rate of 28.4 percent. White collar workers constitute 14.2 percent of the total urban population and they have the lowest poverty rate in urban areas. Casual/Manual laborers appear to be the worse off with a poverty rate of 38.3 percent and a location index of 122. Poverty also seems to be high amongst self-employed and the residual category.

212. Rural areas are primarily dominated by the agricultural sector with 63.6 percent of the rural households headed by agricultural wage earners. Since access to land plays an important role in the poverty status, the agricultural workers are divided according to land ownership. As expected poverty seems to be high in sections with least access to land, i.e. the tenant farmers, and agricultural laborers. Poverty is most severe amongst the agricultural laborers with a poverty rate of 56 percent.

Table IV-9. Pakistan: Employment Profile of Household Heads and Incidence of Poverty (PIHS 1991)

| Rural | Share of Population (In percent) | Poverty within Group (In percent) | Share of Poverty (In percent) | Location Index |
|---|---|---|---|---|
| Agriculture | 63.6 | 35.1 | 64.7 | 101.7 |
| Owner cultivator | 36.6 | 30.2 | 32.0 | 87.5 |
| Tenant | 13.6 | 43.8 | 17.3 | 127.0 |
| Agricutural laborer | 7.0 | 56.0 | 11.4 | 162.3 |
| Other Agriculture | 6.4 | 21.0 | 3.9 | 60.9 |
| Wage earners in other sectors | 17.9 | 29.8 | 15.5 | 86.4 |
| Self-emp outside agricuthure | 15.2 | 36.3 | 16.0 | 105.2 |
| Other | 3.4 | 41.1 | 4.1 | 119.1 |
| Overall | 100.1 | 34.5 | | |

| | Share of Population (in percent) | Poverty within Group (in percent) | Share of Poverty (in percent) | Location Index |
|---|---|---|---|---|
| Wage earners | 43.8 | 28.4 | 39.6 | 90.4 |
| By job type: | | | | |
| White collar | 14.2 | 22.1 | 10.0 | 70.4 |
| Skilled/semi-skilled | 20.1 | 28.1 | 18.0 | 89.6 |
| Casual/manual | 9.5 | 38.3 | 11.6 | 122.1 |
| Self-employed | 36.3 | 34.0 | 39.3 | 108.3 |
| Other | 19.9 | 33.7 | 21.4 | 107.5 |
| Overall | 100.0 | 31.4 | | |

Source: Poverty in Pakistan: Measurement, Trends, and Patterns, 1994

## F. Conclusions

213. The broad conclusion seems to be that although some progress has been made in human development indices in Pakistan, overall poverty has been on the rise. Since the early 1990s we have seen a general rise in poverty, exacerbated by slowing growth, falling public social expenditure, and high population growth. Even in times of robust economic growth, Pakistan experienced high poverty due to high income inequality. This suggests that rapid economic growth by itself is not sufficient to reduce poverty, instead a more direct and comprehensive approach in needed to address the problem of poverty.

214. There is a need for increased social expenditure, particularly in education sector. As was shown in this paper education has a positive impact on many quality of life indices including economic opportunity, productivity, and health. Education is a long term strategy and will yield high returns through a more skilled pool of human capital. But in the short run more direct efforts are required to stem poverty.

215. Recently, there has been a shift of policy in Pakistan, which has brought the issue of poverty to the forefront of economic strategy. The new government has promised an integrated approach to attacking poverty, through social safety nets, small infrastructure projects in poor rural and urban areas, and establishment of a micro-credit bank. The large funding commitment for these projects promised by the new government is a good start in trying to bolster the long neglected social sector in Pakistan. Over the longer term, sustainable high rates of economic growth would be needed to meaningfully improve the living standards of the poor in Pakistan.

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Table 1. Pakistan: Sectoral Origin of Gross Domestic Product, 1995/96–1999/2000

(At 1980/81 constant prices)

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Est. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of Pakistan Rupees) | | | | |
| Agriculture | 148,832 | 149,016 | 155,748 | 158,782 | 170,056 |
| Crops | 88,847 | 86,404 | 93,510 | 94,746 | 104,225 |
| Livestock | 54,172 | 56,469 | 56,024 | 57,821 | 59,431 |
| Fishing and forestry | 5,813 | 6,143 | 6,214 | 6,215 | 6,400 |
| Industry | 144,522 | 144,082 | 152,893 | 156,746 | 161,355 |
| Manufacturing | 96,016 | 95,945 | 102,593 | 106,877 | 107,919 |
| Large-scale manufacturing | 69,424 | 67,941 | 73,102 | 75,820 | 75,213 |
| Small-scale manufacturing | 26,592 | 28,004 | 29,491 | 31,057 | 32,706 |
| Mining and quarrying | 2,833 | 2,886 | 2,744 | 2,844 | 3,062 |
| Construction | 21,944 | 22,183 | 22,462 | 21,059 | 22,373 |
| Electricity, and gas distribution | 23,759 | 23,068 | 25,094 | 25,966 | 28,001 |
| Services | 276,773 | 286,767 | 291,484 | 303,488 | 317,076 |
| Commerce | 54,798 | 56,859 | 60,959 | 62,834 | 65,282 |
| Transport, storage and communications | 92,542 | 93,208 | 92,157 | 94,131 | 96,486 |
| Banking and insurance | 15,283 | 17,039 | 12,958 | 14,907 | 15,931 |
| Ownership of dwellings | 31,435 | 33,095 | 34,842 | 36,682 | 38,618 |
| Public admin. and defense | 35,917 | 36,712 | 37,459 | 38,357 | 40,488 |
| Other services | 46,798 | 49,854 | 53,109 | 56,577 | 60,271 |
| GDP (at factor cost) | 570,157 | 579,865 | 600,125 | 619,016 | 648,487 |
| Indirect taxes less subsidies | 53,071 | 49,685 | 45,480 | 43,999 | 53,776 |
| GDP (at market prices) | 623,228 | 629,550 | 645,605 | 663,015 | 702,263 |
| | (Annual percentage changes) | | | | |
| GDP at factor cost | 6.6 | 1.7 | 3.5 | 3.1 | 4.8 |
| Agriculture | 11.7 | 0.1 | 4.5 | 1.9 | 7.1 |
| *Of which:* Crops | 5.6 | -2.7 | 8.2 | 1.3 | 10.0 |
| Industry | 4.7 | -0.3 | 6.1 | 2.5 | 2.9 |
| Manufacturing | 3.7 | -0.1 | 6.9 | 4.2 | 1.0 |
| *Of which:* Large-scale manufacturing | 3.1 | -2.1 | 7.6 | 3.7 | -0.8 |
| Construction | 3.3 | 1.1 | 1.3 | -6.2 | 6.2 |
| Electricity and gas distribution | 10.1 | -2.9 | 8.8 | 3.5 | 7.8 |
| Services | 5.0 | 3.6 | 1.6 | 4.1 | 4.5 |
| Commerce | 0.8 | 3.8 | 7.2 | 3.1 | 3.9 |
| Transport and communications | 6.1 | 0.7 | -1.1 | 2.1 | 2.5 |
| Banking and insurance | 13.8 | 11.5 | -24.0 | 15.0 | 6.9 |
| Public admin. and defense | 3.2 | 2.2 | 2.0 | 2.4 | 5.6 |

Sources: Data provided by the Pakistan authorities.

Table 2. Pakistan: Sectoral Origin of Gross Domestic Product, 1995/96–1999/2000

(At current prices)

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Est. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of Pakistan Rupees) | | | | |
| Agriculture | 491,791 | 594,554 | 677,531 | 736,834 | 773,773 |
| Crops | 277,911 | 302,168 | 366,807 | 403,309 | 419,963 |
| Livestock | 199,432 | 275,948 | 293,629 | 316,348 | 334,850 |
| Fishing and forestry | 14,448 | 16,438 | 17,095 | 17,177 | 18,960 |
| Industry | 466,319 | 523,478 | 590,504 | 635,804 | 679,110 |
| Manufacturing | 309,715 | 353,571 | 393,149 | 423,987 | 445,863 |
| Large-scale | 226,482 | 255,798 | 284,725 | 308,110 | 316,678 |
| Small-scale | 83,233 | 97,773 | 108,424 | 115,877 | 129,185 |
| Mining and quarrying | 11,272 | 11,483 | 13,510 | 14,512 | 16,851 |
| Construction | 70,769 | 81,338 | 89,322 | 88,395 | 96,645 |
| Electricity, and gas distribution | 74,563 | 77,086 | 94,523 | 108,910 | 119,751 |
| Services | 971,781 | 1,108,548 | 1,212,849 | 1,338,440 | 1,478,619 |
| Commerce | 186,091 | 218,022 | 252,752 | 276,347 | 305,919 |
| Transport storage and communications | 321,288 | 357,177 | 375,865 | 412,387 | 442,474 |
| Banking and insurance | 66,437 | 80,287 | 77,297 | 85,894 | 95,701 |
| Ownership of dwellings | 83,067 | 96,323 | 109,972 | 123,501 | 134,703 |
| Public admin. and defense | 159,164 | 171,252 | 183,932 | 200,366 | 235,543 |
| Other services | 155,734 | 185,487 | 213,031 | 239,945 | 264,279 |
| GDP (at factor cost) | 1,929,891 | 2,226,580 | 2,480,884 | 2,711,078 | 2,931,502 |
| Indirect taxes less subsidies | 190,282 | 201,732 | 196,772 | 202,436 | 250,761 |
| GDP (at market prices) | 2,120,173 | 2,428,312 | 2,677,656 | 2,913,514 | 3,182,263 |
| | (In percent of GDP at factor cost) | | | | |
| Agriculture | 25.5 | 26.7 | 27.3 | 27.2 | 26.4 |
| Industry | 24.2 | 23.5 | 23.8 | 23.5 | 23.2 |
| Manufacturing | 16.0 | 15.9 | 15.8 | 15.6 | 15.2 |
| Mining and quarrying | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 |
| Construction | 3.7 | 3.7 | 3.6 | 3.3 | 3.3 |
| Electricity and gas distribution | 3.9 | 3.5 | 3.8 | 4.0 | 4.1 |
| Services | 50.4 | 49.8 | 48.9 | 49.4 | 50.4 |
| Commerce | 9.6 | 9.8 | 10.2 | 10.2 | 10.4 |
| Transport storage and communication | 16.6 | 16.0 | 15.2 | 15.2 | 15.1 |
| Banking and insurance | 3.4 | 3.6 | 3.1 | 3.2 | 3.3 |
| Ownership of dwellings | 4.3 | 4.3 | 4.4 | 4.6 | 4.6 |
| Public admin. and defense | 8.2 | 7.7 | 7.4 | 7.4 | 8.0 |
| Other services | 8.1 | 8.3 | 8.6 | 8.9 | 9.0 |

Sources: Data provided by the Pakistan authorities.

Table 3. Pakistan: Expenditure and Savings, 1995/96–1999/2000

(At current prices)

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Est. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of Pakistan Rupees) | | | | |
| Nominal GDP at current prices (MP) | 2,120,173 | 2,428,312 | 2,677,656 | 2,913,514 | 3,182,263 |
| Net export of goods and nonfactor services | -174,963 | -179,497 | -120,060 | -142,919 | -113,102 |
| Exports | 332,490 | 378,643 | 429,259 | 442,959 | 493,652 |
| Imports | 507,454 | 558,140 | 549,319 | 585,878 | 606,753 |
| Gross domestic expenditures | 2,295,136 | 2,607,809 | 2,797,716 | 3,056,433 | 3,295,365 |
| Gross domestic investment | 403,417 | 436,043 | 475,277 | 435,893 | 476,330 |
| Gross domestic fixed capital formation | 369,079 | 397,768 | 403,877 | 387,920 | 424,609 |
| Public | 175,267 | 147,968 | 149,753 | 146,163 | 149,852 |
| Private | 193,812 | 249,800 | 254,124 | 241,757 | 274,758 |
| Change in stocks | 34,338 | 38,275 | 71,400 | 47,973 | 51,721 |
| Consumption | 1,891,719 | 2,171,766 | 2,322,439 | 2,620,540 | 2,819,035 |
| Public | 294,944 | 308,084 | 326,264 | 350,243 | 391,191 |
| Private | 1,596,775 | 1,863,682 | 1,996,175 | 2,270,297 | 2,427,844 |
| Gross domestic savings | 228,454 | 256,546 | 355,217 | 292,974 | 363,228 |
| Public | 18,550 | -14,825 | -42,891 | 3,493 | -25,358 |
| Private | 209,904 | 271,372 | 398,108 | 289,481 | 388,587 |
| | (In percent of GDP) | | | | |
| Net export of goods and nonfactor services | -8.3 | -7.4 | -4.5 | -4.9 | -3.6 |
| Exports | 15.7 | 15.6 | 16.0 | 15.2 | 15.5 |
| Imports | 23.9 | 23.0 | 20.5 | 20.1 | 19.1 |
| Gross domestic expenditures | 108.3 | 107.4 | 104.5 | 104.9 | 103.6 |
| Gross domestic investment | 19.0 | 18.0 | 17.7 | 15.0 | 15.0 |
| Consumption | 89.2 | 89.4 | 86.7 | 89.9 | 88.6 |
| Gross domestic savings | 10.8 | 10.6 | 13.3 | 10.1 | 11.4 |
| Memorandum items: | | | | | |
| Net factor income from abroad and private transfers | 1.0 | 1.7 | 1.8 | 1.1 | 1.9 |
| Gross national savings | 11.8 | 12.3 | 15.0 | 11.2 | 13.3 |

Sources: Data provided by the Pakistan authorities; and Fund staff estimates.

Table 4. Pakistan: Gross Fixed Capital Formation by Economic Sector, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Est. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of Pakistan Rupees) | | | | |
| Private sector | 193,781 | 231,732 | 262,497 | 233,693 | 255,616 |
| Agriculture | 21,776 | 20,055 | 21,419 | 29,111 | 33,639 |
| Mining and quarrying | 2,112 | 2,294 | 5,247 | 6,342 | 4,180 |
| Large-scale manufacturing | 46,718 | 51,785 | 49,897 | 41,955 | 54,785 |
| Small-scale manufacturing | 11,957 | 14,231 | 16,177 | 18,924 | 20,659 |
| Construction | 10,697 | 10,722 | 12,073 | 9,588 | 11,271 |
| Transport and communications | 13,259 | 23,441 | 33,187 | 22,164 | 28,021 |
| Banking, insurance, and other financial institutions | 4,009 | 8,869 | 5,625 | 7,550 | 5,884 |
| Ownership of dwellings | 38,730 | 44,927 | 49,182 | 53,200 | 56,093 |
| Wholesale and retail trade and other services | 4,845 | 4,475 | 5,647 | 5,853 | 6,515 |
| Public sector | 175,298 | 166,036 | 141,380 | 154,227 | 168,993 |
| Public sector enterprises | 112,478 | 113,203 | 81,802 | 92,035 | 100,049 |
| Agriculture | 9,516 | 3,150 | 3,482 | 5,474 | 7,437 |
| Mining and quarrying | 6,797 | 13,601 | 5,774 | 3,772 | 2,648 |
| Manufacturing | 3,840 | 8,684 | 5,345 | 10,894 | 10,962 |
| Construction | 5,024 | 5,330 | 4,268 | 3,298 | 2,261 |
| Electricity and gas | 51,490 | 32,555 | 26,181 | 26,613 | 29,192 |
| Transport and communications | 31,809 | 46,434 | 30,140 | 36,385 | 42,351 |
| Railway | 3,368 | 3,582 | 2,219 | 3,450 | 2,016 |
| Post office, telegraph and telephone | 14,999 | 22,647 | 9,921 | 13,326 | 12,525 |
| Others | 13,442 | 20,205 | 18,000 | 19,609 | 27,810 |
| Wholesale and retail trade | 173 | 52 | 0 | 2 | 0 |
| Financial institutions | 1,608 | 1,675 | 1,738 | 2,275 | 2,123 |
| Services | 2,221 | 1,722 | 4,873 | 3,322 | 3,075 |
| General government | 62,820 | 52,833 | 59,578 | 62,192 | 68,944 |
| Federal | 20,118 | 21,485 | 23,773 | 24,351 | 29,563 |
| Provincial | 34,522 | 24,928 | 27,824 | 29,081 | 29,794 |
| Local bodies | 8,180 | 6,420 | 7,981 | 8,760 | 9,587 |
| | (Annual changes in percent) | | | | |
| Private sector | 18.7 | 19.6 | 13.3 | -11.0 | 9.4 |
| *Of which:* | | | | | |
| Agriculture | -3.2 | -7.9 | 6.8 | 35.9 | 15.6 |
| Large-scale manufacturing | 20.1 | 10.8 | -3.6 | -15.9 | 30.6 |
| Small-scale manufacturing | 21.7 | 19.0 | 13.7 | 17.0 | 9.2 |
| Construction | 13.1 | 0.2 | 12.6 | -20.6 | 17.6 |
| Transport and communications | 65.6 | 76.8 | 41.6 | -33.2 | 26.4 |
| Ownership of dwellings | 13.8 | 16.0 | 9.5 | 8.2 | 5.4 |
| Public sector | 13.0 | -5.3 | -14.8 | 9.1 | 9.6 |
| Public sector enterprises | 16.5 | 0.6 | -27.7 | 12.5 | 8.7 |
| *Of which:* | | | | | |
| Electricity and gas | 4.0 | -36.8 | -19.6 | 1.7 | 9.7 |
| Transport and communications | 39.8 | 46.0 | -35.1 | 20.7 | 16.4 |
| General government | 7.3 | -15.9 | 12.8 | 4.4 | 10.9 |

Source: Federal Bureau of Statistics.

Table 5. Pakistan: Production of Major Crops, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (In thousand of metric tons unless otherwise specified) | | | | |
| Cotton 1/ | 10,595 | 9,374 | 9,184 | 8,790 | 11,240 |
| Wheat | 16,907 | 16,651 | 18,694 | 17,858 | 21,095 |
| Rice | 3,966 | 4,305 | 4,333 | 4,674 | 5,156 |
| Sugarcane | 45,230 | 41,998 | 53,104 | 55,191 | 46,333 |
| | (Annual changes in percent) | | | | |
| Cotton | 21.8 | -11.5 | -2.0 | -4.3 | 27.9 |
| Wheat | -0.6 | -1.5 | 12.3 | -4.5 | 18.1 |
| Rice | 15.1 | 8.5 | 0.7 | 7.9 | 10.3 |
| Sugarcane | -4.1 | -7.1 | 26.4 | 3.6 | -16.1 |

Source: Ministry of Food, Agriculture, and Livestock.

1/ In thousands of bales.

Table 6. Pakistan: Area, Production, and Yield of Major Crops, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Wheat | | | | | |
| Production (thousand metric tons) | 16,907 | 16,651 | 18,694 | 17,858 | 21,095 |
| Area (thousand hectares) | 8,377 | 8,109 | 8,355 | 8,230 | 8,462 |
| Yield (kilograms per hectares) | 2,018 | 2,053 | 2,238 | 2,170 | 2,493 |
| Rice | | | | | |
| Production (thousand metric tons) | 3,966 | 4,305 | 4,333 | 4674 | 5,156 |
| Area (thousand hectares) | 2,162 | 2,251 | 2,317 | 2424 | 2,515 |
| Yield (kilograms per hectares) | 1,835 | 1,912 | 1,870 | 1928 | 2,050 |
| Cotton (Lint) | | | | | |
| Production (thousand bales) | 10,595 | 9,374 | 9,184 | 8,790 | 11,240 |
| Area (thousand hectares) | 2,997 | 3,149 | 2,960 | 2,923 | 2,983 |
| Yield (kilograms per hectares) | 601 | 506 | 528 | 512 | 641 |
| Sugarcane | | | | | |
| Production (thousand metric tons) | 45,230 | 41,998 | 53,104 | 55,191 | 46,333 |
| Area (thousand hectares) | 963 | 965 | 1,056 | 1,155 | 1,010 |
| Yield (kilograms per hectares) | 46,968 | 43,544 | 50,279 | 47,780 | 45,883 |

Source: Ministry of Food, Agriculture, and Livestock.

Table 7. Pakistan: Output in Selected Industries, 1995/96–1999/2000

(In thousands of metric tons unless otherwise specified)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Petroleum products | 6,343 | 5,930 | 5975 | 5924 | 6056 |
| Cotton manufactures | | | | | |
| Cotton yarn | 1,495 | 1,521 | 1,532 | 1,540 | 1,675 |
| Cotton cloth (in millions of square meters) | 327 | 334 | 340 | 385 | 437 |
| Food and tobacco | | | | | |
| White sugar | 2,426 | 2,383 | 3,555 | 3,568 | 2,429 |
| Beverages (in thousands of bottles) | 1,573 | 1,390 | 1,798 | 2,220 | 2,218 |
| Vegetable products | 733 | 714 | 735 | 843 | 830 |
| Cigarettes (in billions) | 46 | 46 | 48 | 52 | 47 |
| Chemicals | | | | | |
| Urea | 3,260 | 3,259 | 3,284 | 3,522 | 3,655 |
| Superphosphate | 104 | 0 | 0 | 22 | 146 |
| Ammonium sulphate | 84 | 81 | 0 | 0 | 0 |
| Soda ash | 221 | 247 | 239 | 239 | 249 |
| Caustic soda | 109 | 118 | 116 | 120 | 141 |
| Sulphuric acid | 69 | 31 | 28 | 27 | 49 |
| Ammonium nitrate | 383 | 330 | 316 | 339 | 387 |
| Nitrophosphate | 337 | 350 | 293 | 285 | 261 |
| Cement (in millions of metric tons) | 9.6 | 9.5 | 9.4 | 9.6 | 9.0 |
| Pig iron | 1,002 | 1,069 | 1,016 | 989 | 1,107 |
| Billets | 332 | 379 | 348 | 276 | 345 |
| Paperboard | 193 | 149 | 178 | 187 | 206 |
| Chipboard | 110 | 198 | 166 | 170 | 221 |
| Tractors (in thousands) | 16.2 | 10.4 | 14.1 | 26.6 | 34.5 |
| Bicycles (in thousands) | 545 | 432 | 452 | 504 | 534 |
| Motor tires (in thousands) | 1,003 | 525 | 767 | 845 | 856 |

Sources: Federal Bureau of Statistics; and Ministry of Finance and Economic Affairs.

Table 8. Pakistan: Selected Textile Industry Statistics, 1995/96–1999/2000

| | Capacity Installed | | Capacity Utilized | | Consumption | | Export |
|---|---|---|---|---|---|---|---|
| | Spindles | Rotors | Spindles | Rotors | Raw cotton | Yarn | Yarn |
| | (Number of spindles and rotors) | | | | (In thousand of kilograms) | | |
| 1995/96 | 8,726,877 | 142,780 | 6,417,170 | 81,425 | 1,702,646 | 1,505,244 | 531,469 |
| 1996/97 | 8,230,424 | 143,460 | 6,442,167 | 86,197 | 1,681,060 | 1,530,855 | 501,605 |
| 1997/98 | 8,367,690 | 149,636 | 6,584,187 | 82,647 | 1,783,798 | 1,542,360 | 462,546 |
| 1998/99 | 8,391,663 | 166,365 | 6,598,517 | 67,589 | 1,849,609 | 1,547,632 | 417,739 |
| 1999/2000 | 8,436,767 | 146,687 | 6,741,404 | 67,845 | 1,969,765 | 1,678,198 | 511,344 |
| | (Annual percentage changes) | | | | | | |
| 1995/96 | 1.4 | 8.3 | 3.2 | 4.7 | 6.1 | 6.5 | 1.8 |
| 1996/97 | -5.7 | 0.5 | 0.4 | 5.9 | -1.3 | 1.7 | -5.6 |
| 1997/98 | 1.7 | 4.3 | 2.2 | -4.1 | 6.1 | 0.8 | -7.8 |
| 1998/99 | 0.3 | 11.2 | 0.2 | -18.2 | 3.7 | 0.3 | -9.7 |
| 1999/2000 | 0.5 | -11.8 | 2.2 | 0.4 | 6.5 | 8.4 | 22.4 |

Source: Ministry of Industries and Production (Textile Commissioner).

Table 9. Pakistan: Consumer and Wholesale Price Indices, 1995/96–1999/2000
(1990/91 = 100)

| | Index (12-month average) | | Twelve-month percent change 1/ | | Year-on-year percent change 2/ | |
|---|---|---|---|---|---|---|
| | CPI | WPI | CPI | WPI | CPI | WPI |
| | | | (Fiscal year data) | | | |
| 1995/96 | 169.2 | 176.9 | 10.8 | 11.1 | 10.3 | 10.5 |
| 1996/97 | 189.2 | 199.9 | 11.8 | 13.0 | 12.5 | 12.0 |
| 1997/98 | 204.0 | 213.1 | 7.8 | 6.6 | 6.5 | 5.3 |
| 1998/99 | 215.7 | 226.6 | 5.7 | 6.3 | 3.7 | 4.6 |
| 1999/00 | 223.4 | 230.6 | 3.6 | 1.8 | 5.1 | 3.4 |
| | | | (Monthly data) | | | |
| 1998:1 | 199.1 | 208.9 | 10.7 | 10.2 | 5.7 | 3.9 |
| 1998:2 | 199.9 | 209.5 | 10.0 | 9.2 | 5.0 | 3.6 |
| 1998:3 | 201.1 | 210.5 | 9.6 | 8.6 | 7.3 | 5.7 |
| 1998:4 | 202.0 | 211.3 | 8.9 | 7.8 | 5.3 | 4.7 |
| 1998:5 | 202.9 | 212.2 | 8.3 | 7.1 | 5.6 | 4.8 |
| 1998:6 | 204.0 | 213.1 | 7.8 | 6.6 | 6.5 | 5.3 |
| 1998:7 | 205.1 | 214.2 | 7.4 | 6.2 | 6.7 | 6.2 |
| 1998:8 | 206.2 | 215.5 | 7.1 | 6.1 | 7.0 | 7.5 |
| 1998:9 | 207.3 | 216.7 | 6.8 | 6.0 | 6.4 | 7.0 |
| 1998:10 | 208.4 | 217.9 | 6.6 | 5.8 | 6.5 | 6.7 |
| 1998:11 | 209.5 | 219.1 | 6.4 | 5.7 | 6.2 | 7.0 |
| 1998:12 | 210.5 | 220.3 | 6.2 | 5.8 | 6.4 | 6.7 |
| 1999:1 | 211.6 | 221.6 | 6.3 | 6.1 | 6.2 | 7.3 |
| 1999:2 | 212.6 | 222.9 | 6.4 | 6.4 | 6.2 | 7.6 |
| 1999:3 | 213.5 | 224.0 | 6.2 | 6.4 | 4.8 | 6.1 |
| 1999:4 | 214.3 | 224.9 | 6.1 | 6.4 | 4.6 | 5.0 |
| 1999:5 | 215.0 | 225.8 | 6.0 | 6.4 | 4.3 | 4.7 |
| 1999:6 | 215.7 | 226.6 | 5.7 | 6.3 | 3.7 | 4.6 |
| 1999:7 | 216.3 | 227.2 | 5.5 | 6.1 | 3.5 | 3.5 |
| 1999:8 | 216.8 | 227.7 | 5.1 | 5.7 | 3.1 | 2.3 |
| 1999:9 | 217.4 | 228.2 | 4.9 | 5.3 | 3.4 | 2.9 |
| 1999:10 | 218.1 | 228.7 | 4.7 | 5.0 | 3.8 | 2.5 |
| 1999:11 | 218.7 | 228.7 | 4.4 | 4.4 | 3.4 | 0.2 |
| 1999:12 | 219.3 | 228.7 | 4.1 | 3.8 | 3.0 | -0.1 |
| 2000:1 | 219.9 | 228.6 | 3.9 | 3.2 | 3.4 | -0.4 |
| 2000:2 | 220.4 | 228.6 | 3.7 | 2.6 | 3.0 | 0.0 |
| 2000:3 | 221.1 | 229.0 | 3.6 | 2.2 | 3.6 | 1.9 |
| 2000:4 | 221.8 | 229.5 | 3.5 | 2.0 | 3.9 | 2.8 |
| 2000:5 | 222.5 | 230.0 | 3.5 | 1.9 | 3.8 | 2.4 |
| 2000:6 | 223.4 | 230.6 | 3.6 | 1.8 | 5.1 | 3.4 |

Source: Federal Bureau of Statistics.

1/ For fiscal year data, refers to the change in the 12-month average of the indices during the year. For monthly data, refers to the percentage change in the current month's 12-month average of the indices over that of the corresponding month of the preceding year.

2/ For fiscal year data, refers to the change in the indeces at the end of the yar. For monthly data, refers to the percentage change in the indeces in any given month compared to the corresponding month of the preceding year.

Table 10. Pakistan: Selected Commodity Prices, 1995/96–1999/2000

(In Pakistan rupees per 100 kilograms)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Wheat | | | | | |
| Government procurement prices 1/ | 433 | 600 | 600 | 600 | 750 |
| Issue price to mills 2/ | 485 | 650 | 650 | 650 | 800 |
| Free market retail price (Multan) | 454 | 571 | 650 | 671 | 722 |
| Rice | | | | | |
| Producer prices 3/ | | | | | |
| Basmati | 555 | 638 | 775 | 825 | 875 |
| Irri-6 (Fair/Average) | 280 | 322 | 382 | 437 | 463 |
| Irri-6 (Superior) | 310 | 357 | 419 | | |
| Free market wholesale price | | | | | |
| Basmati (Rawalpindi) | 1,580 | 2,097 | 2,127 | 2,482 | 2,475 |
| Irri-6 (Hyderabad) | 676 | 779 | 837 | 903 | 979 |
| Cotton | | | | | |
| Phutti (seed cotton), floor price 4/ | | | | | |
| NIAB-78,86 &CIM 109, etc. | 1,000 | 1,250 | 1,437 | n.a. | n.a |
| Desi | 850 | 1,100 | 1,125 | n.a. | n.a |
| Sarmast, Qalandri etc. | 1,058 | 1,350 | 1,550 | n.a. | n.a |
| Sugar | | | | | |
| Cane purchase price 5/ | | | | | |
| Sindh | 54 | 61 | 90 | 90 | 90 |
| Punjab | 54 | 60 | 87 | 87 | 87 |
| N.W.F.P. | 54 | 60 | 87 | 87 | 87 |
| Free market average retail price | 1,676 | 2,114 | 1,800 | 1,880 | 2,104 |
| Edible oil | | | | | |
| Vegetable ghee retail price (Dalda) | 3,938 | 4,217 | 5,200 | 6,297 | 6,596 |
| Fertilizer | | | | | |
| Government retail price | | | | | |
| Diammonia phosphate (DAP) | 958 | 1,100 | 1,127 | 1,259 | 1,274 |
| SOP | 662 | 1,064 | 1,080 | 1,082 | 1,138 |

Sources: Ministry of Finance and Economic Affairs; and Ministry of Food, Agriculture, and Cooperatives.

1/ Usually announced in September/October.
2/ Usually announced in March/April.
3/ A government-decreed floor price.
4/ Phutti yields about one-third lint cotton and two-thirds cotton seed by weight. Until 1997/98, the government announced floor prices for phutti, although there was no government procurement of phutti.
5/ Minimum procurement prices.

Table 11. Pakistan: Increases in Procurement Prices of Selected Agricultural Commodities, 1995/96–1999/2000

(Annual percentage changes)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Wheat | 8.1 | 38.7 | 0.0 | 0.0 | 25.0 |
| Rice (Paddy) | | | | | |
| Basmati (385) | 5.3 | 15.0 | 21.4 | 6.5 | 6.1 |
| Irri-6 (fair/average quality | 9.2 | 15.0 | 18.6 | 14.4 | 5.9 |
| Seed Cotton (floor price) 1/ | | | | | |
| Desi | 0.0 | 29.4 | 2.3 | n.a. | n.a. |
| B-557, 149-F, etc. | 0.0 | 25.0 | 15.0 | n.a. | n.a. |
| Sarmast, MS-39 etc. | 0.0 | 27.7 | 14.8 | n.a. | n.a. |
| Sugarcane | | | | | |
| Sindh | 4.8 | 12.6 | 46.9 | 0.0 | 0.0 |
| Punjab | 4.9 | 11.6 | 45.8 | 0.0 | 0.0 |
| N.W.F.P. | 4.9 | 11.6 | 45.8 | 0.0 | 0.0 |

Source: Ministry of Food, Agriculture, and Cooperatives.

1/ See footnote 4 on Table 10.

Table 12. Pakistan: Domestic Retail Prices of Selected Petroleum Products, 1995/96–1999/2000

(In Pakistan rupees per liter) 1/

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 |
|---|---|---|---|---|---|
| Regular petrol | 14.44 | 15.84 | 17.60 | 22.24 | 25.98 |
| High-octane petrol | 17.72 | 18.99 | 20.47 | 25.89 | 30.58 |
| Kerosene | 6.67 | 8.14 | 9.44 | 9.56 | 10.91 |
| High speed diesel | 6.92 | 8.35 | 9.66 | 9.78 | 11.49 |
| Light diesel | 5.32 | 6.56 | 7.79 | 7.87 | 9.28 |
| Fuel oil 2/ | 3,222 | 4,710 | 6,251 | 5,567 | 7,170 |

Source: Ministry of Petroleum and Natural Resources.

1/ Annual averages.
2/ Pakistan rupees per metric ton.

Table 13. Pakistan: Natural Gas Prices, 1995/96–1999/2000

(In Pakistan rupees per thousand cubic feet)

| | 6/14/95 | 5/16/96 | 1/1/97 | 16/8/1999 |
|---|---|---|---|---|
| Fertilizer industry | 27.90 | 29.57 | 34.01 | 34.01 |
| Other industries | 84.05 | 89.09 | 102.46 | 120.00 |
| Household | | | | |
| Up to 3.55 mcf/month | 40.27 | 42.69 | 49.09 | 55.23 |
| From 3.55 to 7.1 mcf/month | 47.89 | 50.76 | 50.75 | 65.58 |
| From 7.1 to 10.65 mcf/mont | 65.38 | 69.50 | 69.30 | 89.66 |
| Above 10.65 mcf/month | 78.45 | 83.16 | 83.16 | 107.58 |
| Commercial | 94.57 | 100.24 | 115.28 | 135.02 |
| Memorandum item: | | | | |
| Weighted price index 1/ | 71.8 | 76.2 | 86.3 | 101.2 |

Sources: Ministry of Petroleum and Natural Resources; and Fund staff estimates.

1/ The weights used, based on the 1984/85 consumption pattern, are as follows: fertilizer industry, 0.148; other industries, 0.644; household use, 0.165 (with equal shares for the four classes of users); and commercial, 0.043.

Table 14. Pakistan: Summary of Consolidated Federal and Provincial Budgetary Operations, 1993/94–1999/2000

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| | | | | (In billions of Pakistan Rupees) | | | |
| Total revenue | 269.4 | 307.4 | 370.6 | 391.7 | 423.0 | 474.9 | 512.6 |
| Tax | 213.4 | 256.3 | 318.4 | 326.3 | 349.0 | 388.8 | 405.6 |
| *Of which:* CBR Revenue | 169.7 | 215.7 | 264.2 | 281.1 | 288.7 | 311.4 | 346.6 |
| Surcharges | 35.8 | 31.3 | 42.6 | 31.2 | 46.3 | 61.9 | 38.9 |
| Nontax | 56.0 | 51.1 | 52.2 | 65.4 | 74.0 | 86.1 | 107.0 |
| Total expenditure | 373.8 | 432.7 | 536.7 | 556.2 | 628.0 | 651.2 | 718.9 |
| Current | 298.7 | 343.4 | 425.9 | 465.8 | 522.5 | 563.5 | 636.2 |
| *Of which*: Interest | 94.0 | 96.4 | 131.0 | 157.7 | 196.3 | 213.3 | 245.1 |
| Defense | 94.0 | 113.3 | 119.3 | 132.4 | 136.2 | 143.5 | 150.4 |
| Development and net lending 1/ | 75.1 | 89.3 | 110.7 | 90.4 | 105.5 | 87.7 | 82.7 |
| Budget balance | -104.4 | -125.2 | -166.1 | -164.5 | -205.0 | -176.3 | -206.3 |
| Financing | 104.4 | 125.2 | 166.1 | 164.5 | 205.0 | 176.3 | 206.3 |
| External | 24.0 | 31.2 | 38.8 | 25.0 | 38.8 | 147.0 | 73.6 |
| Domestic | 78.4 | 82.9 | 115.3 | 139.5 | 166.2 | 29.3 | 132.8 |
| Bank | 23.1 | 36.4 | 51.7 | 72.5 | 48.0 | -75.0 | 40.0 |
| Nonbank | 55.3 | 46.5 | 63.6 | 67.1 | 118.1 | 104.3 | 92.8 |
| Privatization proceeds | 2.0 | 11.1 | 12.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | (In percent of GDP) | | | |
| Total revenue | 17.3 | 16.5 | 17.5 | 16.1 | 15.8 | 16.3 | 16.1 |
| Tax | 13.7 | 13.7 | 15.0 | 13.4 | 13.0 | 13.3 | 12.7 |
| *Of which:* CBR Revenue | 10.9 | 11.6 | 12.5 | 11.6 | 10.8 | 10.7 | 10.9 |
| Surcharges | 2.3 | 1.7 | 2.0 | 1.3 | 1.7 | 2.1 | 1.2 |
| Nontax | 3.6 | 2.7 | 2.5 | 2.7 | 2.8 | 3.0 | 3.4 |
| Total expenditure | 23.9 | 23.2 | 25.3 | 22.9 | 23.5 | 22.4 | 22.6 |
| Current | 19.1 | 18.4 | 20.1 | 19.2 | 19.5 | 19.3 | 20.0 |
| *Of which*: Interest | 6.0 | 5.2 | 6.2 | 6.5 | 7.3 | 7.3 | 7.7 |
| Defense | 6.0 | 6.1 | 5.6 | 5.5 | 5.1 | 4.9 | 4.7 |
| Development and net lending 1/ | 4.8 | 4.8 | 5.2 | 3.7 | 3.9 | 3.0 | 2.6 |
| Budget deficit | -6.7 | -6.7 | -7.8 | -6.8 | -7.7 | -6.1 | -6.5 |
| Memorandum items: | | | | | | | |
| Current balance | -0.7 | -1.5 | -1.7 | -0.3 | -0.3 | 1.3 | 1.2 |
| Primary balance | -1.9 | -1.9 | -2.6 | -3.1 | -3.7 | -3.0 | -3.9 |
| Government debt 2/ | 93.5 | 86.3 | 86.3 | 87.5 | 89.4 | 91.9 | 91.6 |

Source: Ministry of Finance and Economic Affairs.

1/ Includes certain current outlays under the public sector development program.
2/ Foreign currency debt is valued at the end-of-period exchange rate.

Table 15. Pakistan: Consolidated Federal and Provincial Revenue, 1993/94–1999/2000

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| | | | | (In millions of Pakistan rupees) | | | |
| Tax revenue | 213,432 | 256,335 | 318,383 | 326,277 | 348,961 | 388,788 | 405,609 |
| Taxes on income and profit | 45,481 | 53,945 | 76,610 | 75,235 | 91,499 | 94,649 | 108,011 |
| Taxes on property | 5,182 | 5,561 | 6,614 | 10,604 | 11,917 | 12,973 | 8,473 |
| Federal | 3,411 | 3,482 | 4,222 | 6,996 | 7,723 | 8,812 | 4,597 |
| Provincial | 1,771 | 2,079 | 2,392 | 3,608 | 4,194 | 4,161 | 3,876 |
| Taxes on goods and services | 88,770 | 111,452 | 134,000 | 141,678 | 155,098 | 192,443 | 212,573 |
| Excise duty | 26,560 | 37,721 | 43,749 | 52,982 | 59,706 | 61,836 | 56,964 |
| Federal | 26,017 | 37,196 | 42,934 | 52,044 | 58,795 | 60,572 | 55,630 |
| Provincial | 543 | 525 | 815 | 938 | 911 | 1,264 | 1,334 |
| Sales tax | 26,433 | 42,402 | 47,649 | 57,477 | 49,046 | 68,680 | 116,697 |
| Surcharges | 35,777 | 31,329 | 42,602 | 31,219 | 46,346 | 61,927 | 38,912 |
| Gas (net) | 15,456 | 14,715 | 18,126 | 10,183 | 9,800 | 9,855 | 13,509 |
| Petroleum | 20,321 | 16,614 | 24,476 | 21,036 | 36,546 | 52,072 | 25,403 |
| Taxes on international trade | 68,374 | 78,630 | 92,752 | 89,342 | 81,644 | 78,654 | 61,638 |
| Other taxes | 5,625 | 6,747 | 8,407 | 9,418 | 8,803 | 10,069 | 14,914 |
| Stamp duties | 2,875 | 3,410 | 4,213 | 4,463 | 4,814 | 5,267 | 6,398 |
| Motor vehicles tax | 1,246 | 1,623 | 1,667 | 1,931 | 2,113 | 2,362 | 2,803 |
| Foreign travel tax | ... | ... | ... | ... | ... | ... | 1,350 |
| Other | 1,504 | 1,714 | 2,527 | 3,024 | 1,876 | 2,440 | 4,363 |
| Nontax revenue | 55,958 | 51,098 | 52,196 | 65,401 | 74,046 | 86,113 | 110,146 |
| Interest | 16,381 | 14,805 | 18,806 | 28,428 | 18,090 | 16,448 | 25,883 |
| Dividend | 8,133 | 7,973 | 829 | 984 | 926 | 1,449 | 14,145 |
| SBP profits | 5,000 | 15,000 | 14,000 | 11,000 | 18,000 | 8,000 | 30,000 |
| Transfers from PTC | 0 | 0 | 5,341 | 1,300 | 6,840 | 8,104 | 3,186 |
| Other civil administration | 5,295 | 5,202 | 6,215 | 7,615 | 7,767 | 6,226 | 3,186 |
| Miscellaneous | 21,149 | 8,118 | 7,005 | 16,074 | 22,423 | 45,886 | 33,746 |
| | | | | (In percent of GDP) | | | |
| Tax revenue | 13.7 | 13.7 | 15.0 | 13.4 | 13.0 | 13.3 | 12.7 |
| Taxes on income and profit | 2.9 | 2.9 | 3.6 | 3.1 | 3.4 | 3.2 | 3.4 |
| Taxes on property | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 |
| Taxes on goods and services | 5.7 | 6.0 | 6.3 | 5.8 | 5.8 | 6.6 | 6.7 |
| Excise duty | 1.7 | 2.0 | 2.1 | 2.2 | 2.2 | 2.1 | 1.8 |
| Sales tax | 1.7 | 2.3 | 2.2 | 2.4 | 1.8 | 2.4 | 3.7 |
| Surcharges | 2.3 | 1.7 | 2.0 | 1.3 | 1.7 | 2.1 | 1.2 |
| Taxes on international trade | 4.4 | 4.2 | 4.4 | 3.7 | 3.0 | 2.7 | 1.9 |
| Other taxes | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.5 |
| Nontax revenue | 3.6 | 2.7 | 2.5 | 2.7 | 2.8 | 3.0 | 3.5 |

Source: Ministry of Finance and Economic Affairs.

Table 16. Pakistan: Consolidated Federal and Provincial Expenditure, 1993/94–1999/2000

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| | (In millions of Pakistan rupees) | | | | | | |
| Total expenditure | 373,809 | 432,658 | 536,686 | 556,223 | 628,003 | 651,185 | 718,917 |
| Current expenditure | 298,741 | 343,387 | 425,941 | 465,833 | 522,515 | 563,503 | 636,220 |
| Federal | 234,670 | 264,438 | 322,255 | 354,841 | 414,918 | 451,460 | 484,885 |
| Interest payments | 94,028 | 96,409 | 130,997 | 157,749 | 196,251 | 213,259 | 245,078 |
| Domestic | 74,386 | 75,045 | 104,508 | 126,737 | 167,513 | 175,273 | 198,417 |
| Foreign | 19,642 | 21,364 | 26,489 | 31,012 | 28,738 | 37,986 | 46,661 |
| Defense 1/ | 93,973 | 113,281 | 119,302 | 132,397 | 136,164 | 143,471 | 150,390 |
| General administration and services | 33,099 | 41,947 | 44,946 | 45,016 | 47,539 | 46,907 | 47,525 |
| Grants to nongovernment | 2,407 | 5,107 | 3,037 | 5,890 | 5,294 | 4,240 | 12,615 |
| Subsidies | 4,183 | 3,736 | 7,720 | 9,225 | 6,267 | 9,533 | 14,748 |
| Errors and omissions | -4,838 | -2,327 | 404 | -6,472 | 13,819 | 18,941 | 4,606 |
| Other | 11,818 | 6,285 | 15,849 | 11,036 | 9,584 | 15,109 | 9,923 |
| Provincial | 64,071 | 78,949 | 103,686 | 110,992 | 107,597 | 112,043 | 151,335 |
| Errors and omissions | -3,405 | -7,780 | -5,242 | 2,685 | -15,191 | -10,350 | 2,830 |
| Other | 67,476 | 86,729 | 108,928 | 108,307 | 122,788 | 122,393 | 148,505 |
| Development and net lending | 75,068 | 89,271 | 110,745 | 90,390 | 105,488 | 87,682 | 82,697 |
| PSDP | 81,167 | 93,489 | 118,148 | 93,169 | 105,210 | 108,994 | 95,589 |
| Net lending | -6,099 | -4,218 | -7,403 | -2,779 | 278 | -21,312 | -12,892 |
| | (In percent of GDP) | | | | | | |
| Total expenditure | 23.9 | 23.2 | 25.3 | 22.9 | 23.5 | 22.4 | 22.6 |
| Current expenditure | 19.1 | 18.4 | 20.1 | 19.2 | 19.5 | 19.3 | 20.0 |
| Federal | 15.0 | 14.2 | 15.2 | 14.6 | 15.5 | 15.5 | 15.2 |
| *Of which:* | | | | | | | |
| Interest payments | 6.0 | 5.2 | 6.2 | 6.5 | 7.3 | 7.3 | 7.7 |
| Domestic | 4.8 | 4.0 | 4.9 | 5.2 | 6.3 | 6.0 | 6.2 |
| Foreign | 1.3 | 1.1 | 1.2 | 1.3 | 1.1 | 1.3 | 1.5 |
| Defense 1/ | 6.0 | 6.1 | 5.6 | 5.5 | 5.1 | 4.9 | 4.7 |
| Provincial | 4.1 | 4.2 | 4.9 | 4.6 | 4.0 | 3.8 | 4.8 |
| Development and net lending | 4.8 | 4.8 | 5.2 | 3.7 | 3.9 | 3.0 | 2.6 |

Source: Ministry of Finance and Economic Affairs.

1/ Includes payments of interest and principal on military debt; excludes military imports financed by external grants and disbursements.

## Table 17. Pakistan: Federal Government Fiscal Operations, 1993/94–1999/2000

(In millions of Pakistan rupees)

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| Total revenue | 196,062 | 208,806 | 254,860 | 262,419 | 310,978 | 354,729 | 362,690 |
| Tax revenue (net) | 125,618 | 142,711 | 186,323 | 180,758 | 220,975 | 257,721 | 243,604 |
| Transfers to provincial tax pool | 79,875 | 104,273 | 120,446 | 131,555 | 114,078 | 115,573 | 143,231 |
| Tax revenue (gross) | 205,493 | 246,984 | 306,769 | 312,313 | 335,053 | 373,294 | 386,835 |
| Income and profit taxes | 45,481 | 53,945 | 76,610 | 75,235 | 91,499 | 94,649 | 108,011 |
| Wealth and capital taxes | 3,411 | 3,482 | 4,222 | 6,996 | 7,723 | 8,812 | 4,597 |
| Federal excise duty | 26,017 | 37,196 | 42,934 | 52,044 | 58,795 | 60,572 | 55,630 |
| Sales tax | 26,433 | 42,402 | 47,649 | 57,477 | 49,046 | 68,680 | 116,697 |
| Customs duties | 68,374 | 78,630 | 92,752 | 89,342 | 81,644 | 78,654 | 61,638 |
| Surcharges | 35,777 | 31,329 | 42,602 | 31,219 | 46,346 | 61,927 | 38,912 |
| Gas (net) | 15,456 | 14,715 | 18,126 | 10,183 | 9,800 | 9,855 | 13,509 |
| Petroleum | 20,321 | 16,614 | 24,476 | 21,036 | 36,546 | 52,072 | 25,403 |
| Foreign travel tax | ... | ... | ... | ... | ... | ... | 1,350 |
| Nontax revenue | 70,444 | 66,095 | 68,537 | 81,661 | 90,003 | 97,008 | 119,086 |
| Interest receipts (provinces) | 20,877 | 21,353 | 22,264 | 23,409 | 26,010 | 25,469 | 28,270 |
| Interest receipts (other) | 16,014 | 14,462 | 18,383 | 28,287 | 16,556 | 16,205 | 25,070 |
| Dividend | 8,133 | 7,973 | 829 | 984 | 926 | 1,449 | 14,145 |
| SBP profit | 5,000 | 15,000 | 14,000 | 11,000 | 18,000 | 8,000 | 30,000 |
| Transfers from PTC | 0 | 0 | 5,341 | 1,300 | 6,840 | 8,104 | ... |
| Other civil administration | 5,295 | 5,202 | 6,215 | 7,615 | 7,767 | 6,226 | 3,186 |
| Other federal miscellaneous | 15,059 | 1,980 | 1,360 | 8,934 | 13,706 | 31,221 | 18,415 |
| Capital revenue | 66 | 125 | 145 | 132 | 198 | 334 | ... |
| Expenditure and net lending | 315,859 | 338,576 | 416,088 | 432,246 | 515,140 | 538,947 | 573,788 |
| Current expenditures | 239,286 | 271,684 | 332,091 | 359,343 | 425,799 | 463,544 | 505,887 |
| Interest payments | 94,028 | 96,409 | 130,997 | 157,749 | 196,251 | 213,259 | 245,078 |
| Domestic | 74,386 | 75,045 | 104,508 | 126,737 | 167,513 | 175,273 | 198,417 |
| Foreign | 19,642 | 21,364 | 26,489 | 31,012 | 28,738 | 37,986 | 46,661 |
| Defense | 93,973 | 113,281 | 119,302 | 132,397 | 136,164 | 143,471 | 150,390 |
| General administration | 33,099 | 41,947 | 44,946 | 45,016 | 47,539 | 46,907 | 47,525 |
| Grants | 7,023 | 12,353 | 12,873 | 10,392 | 16,175 | 16,324 | 33,617 |
| Provinces | 4,616 | 7,246 | 9,836 | 4,502 | 10,881 | 12,084 | 21,002 |
| Other | 2,407 | 5,107 | 3,037 | 5,890 | 5,294 | 4,240 | 12,615 |
| Subsidies | 4,183 | 3,736 | 7,720 | 9,225 | 6,267 | 9,533 | 14,748 |
| Railway account | 843 | 561 | 4,526 | 2,783 | 2,368 | 5,421 | 2,657 |
| Food account | 410 | 651 | 3,224 | 523 | -2,565 | 4,532 | -208 |
| Fertilizer and other accounts | 997 | 109 | 848 | 1,336 | 1,174 | -1,171 | -44 |
| Other | 9,568 | 4,964 | 7,251 | 6,394 | 8,607 | 6,327 | 7,518 |
| Errors and omissions | -4,838 | -2,327 | 404 | -6,472 | 13,819 | 18,941 | 4,606 |
| Development expenditure and net lending | 76,573 | 66,892 | 83,997 | 72,903 | 89,341 | 75,403 | 67,901 |
| Public Sector Development Program 1/ | 61,508 | 62,241 | 88,094 | 73,870 | 81,000 | 85,419 | 59,336 |
| Net lending | 15,065 | 4,651 | -4,097 | -967 | 8,341 | -10,016 | 8,565 |
| Provinces | 21,164 | 8,869 | 3,306 | 1,812 | 8,063 | 11,296 | 21,457 |
| Other | -6,099 | -4,218 | -7,403 | -2,779 | 278 | -21,312 | -12,892 |
| Overall balance | -119,797 | -129,770 | -161,228 | -169,827 | -204,162 | -184,218 | -211,098 |
| Financing | 119,797 | 129,770 | 161,228 | 169,827 | 204,162 | 184,218 | 211,098 |
| External | 24,000 | 31,200 | 38,800 | 25,000 | 38,839 | 147,002 | 73,582 |
| Domestic | 93,797 | 87,470 | 110,428 | 144,827 | 165,323 | 37,216 | 137,515 |
| Bank | 38,790 | 41,230 | 47,316 | 78,377 | 47,194 | -67,052 | 44,713 |
| Nonbank | 55,007 | 46,240 | 63,112 | 66,450 | 118,129 | 104,268 | 92,802 |
| Privatization proceeds | 2,000 | 11,100 | 12,000 | 0 | 0 | 0 | 0 |

Source: Ministry of Finance and Economic Affairs.

1/ Includes "Plan" external loans onlent to public enterprises; excludes "non-Plan" external loans onlent to public enterprises.

Table 18. Pakistan: Provincial Government Operations, 1993/94–1999/2000

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| | | | | (In millions of Pakistan rupees) | | | |
| Total revenue | 119,985 | 136,095 | 151,125 | 158,982 | 156,983 | 169,021 | 220,608 |
| Provincial share in federal revenue | 79,875 | 104,273 | 120,446 | 131,555 | 114,078 | 115,573 | 143,231 |
| Provincial taxes | 7,939 | 9,351 | 11,614 | 13,964 | 13,908 | 15,494 | 18,774 |
| Property taxes | 1,771 | 2,079 | 2,392 | 3,608 | 4,194 | 4,161 | 3,876 |
| *Of which:* Agricultural tax | ... | ... | ... | ... | ... | 1,274 | 1,408 |
| Excise duties | 543 | 525 | 815 | 938 | 911 | 1,264 | 1,334 |
| Stamp duties | 2,875 | 3,410 | 4,213 | 4,463 | 4,814 | 5,267 | 6,398 |
| Motor vehicles tax | 1,246 | 1,623 | 1,667 | 1,931 | 2,113 | 2,362 | 2,803 |
| Other | 1,504 | 1,714 | 2,527 | 3,024 | 1,876 | 2,440 | 4,363 |
| Provincial nontax | 6,391 | 6,356 | 5,923 | 7,149 | 10,053 | 14,574 | 16,144 |
| Interest | 367 | 343 | 423 | 141 | 1,534 | 243 | 813 |
| Profits from hydro electricity | 5,032 | 7,347 | 6,860 | 6,461 | 5,442 | 6,000 | ... |
| Irrigation | -5,363 | -7,798 | -8,734 | -7,133 | -6,702 | -6,266 | ... |
| Receipts | 1,347 | 1,296 | 1,806 | 1,986 | 2,323 | 2,528 | ... |
| Expenditures | 6,710 | 9,094 | 10,540 | 9,119 | 9,025 | 8,794 | ... |
| Forest | 644 | 838 | 823 | 734 | 616 | 823 | ... |
| Other | 5,711 | 5,626 | 6,551 | 6,946 | 9,163 | 13,774 | ... |
| Federal loans and transfers | 25,780 | 16,115 | 13,142 | 6,314 | 18,944 | 23,380 | 42,459 |
| Loans (net) | 21,164 | 8,869 | 3,306 | 1,812 | 8,063 | 11,296 | 21,457 |
| Grants | 4,616 | 7,246 | 9,836 | 4,502 | 10,881 | 12,084 | 21,002 |
| Total expenditure | 104,607 | 131,550 | 156,004 | 153,700 | 157,817 | 161,087 | 215,858 |
| Current expenditure | 84,948 | 100,302 | 125,950 | 134,401 | 133,607 | 137,512 | 179,605 |
| Interest to federal government | 20,877 | 21,353 | 22,264 | 23,409 | 26,010 | 25,469 | 28,270 |
| Errors and omissions | -3,405 | -7,780 | -5,242 | 2,685 | -15,191 | -10,350 | 2,830 |
| Other | 67,476 | 86,729 | 108,928 | 108,307 | 122,788 | 122,393 | 148,505 |
| Development expenditure | 19,659 | 31,248 | 30,054 | 19,299 | 24,210 | 23,575 | 36,253 |
| Overall balance | 15,378 | 4,545 | -4,879 | 5,282 | -834 | 7,934 | 4,750 |
| Financing | -15,378 | -4,545 | 4,879 | -5,282 | 834 | -7,934 | -4,750 |
| External | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic | -15,378 | -4,545 | 4,879 | -5,282 | 834 | -7,934 | -4,750 |
| Bank | -15,644 | -4,812 | 4,411 | -5,919 | 834 | -7,934 | -4,750 |
| Nonbank | 266 | 267 | 468 | 637 | 0 | 0 | 0 |
| Privatization proceeds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | (In percent of GDP) | | | |
| Total revenue | 7.7 | 7.3 | 7.1 | 6.5 | 5.9 | 5.8 | 6.9 |
| Provincial share in federal revenue | 5.1 | 5.6 | 5.7 | 5.4 | 4.3 | 4.0 | 4.5 |
| Provincial taxes | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 | 0.6 |
| Provincial nontax | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 |
| Federal loans and transfers | 1.7 | 0.9 | 0.6 | 0.3 | 0.7 | 0.8 | 1.3 |
| Total expenditure | 6.7 | 7.1 | 7.4 | 6.3 | 5.9 | 5.5 | 6.8 |
| Current expenditure | 5.4 | 5.4 | 5.9 | 5.5 | 5.0 | 4.7 | 5.6 |
| Development expenditure | 1.3 | 1.7 | 1.4 | 0.8 | 0.9 | 0.8 | 1.1 |
| Overall balance | 1.0 | 0.2 | -0.2 | 0.2 | 0.0 | 0.3 | 0.1 |

Source: Ministry of Finance and Economic Affairs.

## Table 19. Pakistan: Budgetary Expenditure, Social Action Program, and Public Sector Development Program, 1993/94 –1999/2000

(In millions of Pakistan rupees)

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| Total expenditure (excl. net lending) | 405,401 | 465,475 | 576,189 | 586,913 | 664,616 | 710,050 | 781,081 |
| Current expenditure | 324,234 | 371,986 | 458,041 | 493,744 | 559,406 | 601,056 | 685,492 |
| Federal | 239,286 | 271,684 | 332,091 | 359,343 | 425,799 | 463,544 | 505,887 |
| *Of which*: SAP | 1,254 | 1,612 | 1,672 | 1,911 | 2,249 | 2,613 | 2,843 |
| Provincial | 84,948 | 100,302 | 125,950 | 134,401 | 133,607 | 137,512 | 179,605 |
| *Of which*: SAP | 17,972 | 21,754 | 27,540 | 36,047 | 29,622 | 31,973 | 28,013 |
| Development expenditure | 81,167 | 93,489 | 118,148 | 93,169 | 105,210 | 108,994 | 95,589 |
| Federal | 61,508 | 62,241 | 88,094 | 73,870 | 81,000 | 85,419 | 59,336 |
| Core development program | 33,600 | 32,070 | 38,086 | 36,950 | 39,971 | ... | ... |
| *Of which*: SAP | 912 | 463 | 2,283 | 4,182 | 3,993 | 3,551 | 4,843 |
| Non-core development program | 27,908 | 22,113 | 27,411 | 22,700 | 24,135 | ... | ... |
| *Of which*: SAP | 963 | 545 | 1,792 | 2,559 | 1,380 | ... | ... |
| Provincial | 19,659 | 31,248 | 30,054 | 19,299 | 24,210 | 23,575 | 36,253 |
| *Of which*: SAP | 5,907 | 11,087 | 10,720 | 12,996 | 8,011 | 12,577 | 14,643 |
| Total SAP | 27,008 | 35,461 | 44,007 | 57,695 | 45,255 | 50,714 | 50,343 |
| Current | 19,226 | 23,366 | 29,212 | 37,958 | 31,871 | 34,586 | 30,857 |
| Development | 7,782 | 12,095 | 14,795 | 19,737 | 13,384 | 16,128 | 19,486 |
| Public sector development program | 118,466 | 128,334 | 159,892 | 126,804 | 137,729 | 135,350 | 112,532 |
| *Of which*: Core development program | 43,715 | 45,797 | 60,840 | 49,393 | 52,192 | ... | ... |
| Budgetary PSDP | 81,167 | 93,489 | 118,148 | 93,169 | 105,210 | 108,994 | 95,589 |
| Core | 33,600 | 32,070 | 38,086 | 36,950 | 39,971 | ... | ... |
| Noncore | 47,567 | 61,419 | 80,062 | 56,219 | 65,239 | ... | ... |
| Extrabudgetary PSDP | 37,299 | 34,845 | 41,744 | 33,635 | 32,519 | 26,356 | 16,943 |
| Core | 10,115 | 13,727 | 22,754 | 12,443 | 12,221 | ... | ... |
| Noncore | 27,184 | 21,118 | 18,990 | 21,192 | 20,298 | ... | ... |
| Total SAP | 27,008 | 35,461 | 44,007 | 57,695 | 45,255 | 50,714 | 50,343 |
| Core development program | 43,715 | 45,797 | 60,840 | 49,393 | 52,192 | ... | ... |

Source: Ministry of Finance and Economic Affairs.

Table 20. Pakistan: Budgetary Financing, 1993/94–1999/2000

(In millions of Pakistan rupees)

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/00 |
|---|---|---|---|---|---|---|---|
| Total financing | 104,419 | 125,225 | 166,107 | 164,545 | 204,996 | 176,284 | 206,348 |
| External | 24,000 | 31,200 | 38,800 | 25,000 | 38,839 | 147,002 | 73,582 |
| Disbursements | 67,800 | 87,220 | 99,492 | 127,100 | 122,609 | 270,171 | 201,610 |
| Project aid | 44,700 | 47,149 | 45,250 | 52,700 | 48,706 | 46,943 | 43,387 |
| Commodity aid (nonfood) | 9,600 | 7,177 | 684 | 100 | 5,564 | 27,333 | 6,460 |
| Food aid | 7,600 | 7,974 | 12,608 | 16,000 | 26,617 | 12,639 | 9,845 |
| Other loans 1/ | 4,600 | 23,226 | 42,416 | 59,700 | 44,168 | 10,066 | 6,054 |
| Saudi oil facility | 0 | 0 | 0 | 0 | 0 | 13,703 | 33,443 |
| F-16 reimbursement | 0 | 0 | 0 | 0 | 0 | 16,445 | 0 |
| Special dollar bonds | 0 | 0 | 0 | 0 | 0 | 54,337 | 6,844 |
| Foreign exchange bearer certificates (net) | 1,300 | 1,695 | -1,466 | -1,400 | -1,633 | -2,243 | -1,419 |
| U.S. dollar bearer certificates (net) | 0 | -399 | -489 | -100 | -70 | -6 | -34 |
| Foreign currency bearer certificates (net) | 0 | 399 | 489 | 100 | -743 | -1,194 | -1,580 |
| Debt rescheduling | 0 | 0 | 0 | 0 | 0 | 92,147 | 98,609 |
| Repayments (due) | 43,800 | 56,020 | 60,692 | 102,100 | 83,770 | 123,169 | 128,028 |
| Domestic | 78,419 | 82,925 | 115,307 | 139,545 | 166,157 | 29,282 | 132,765 |
| Bank 2/ | 23,146 | 36,418 | 51,727 | 72,458 | 48,028 | -74,986 | 39,963 |
| Federal | 38,790 | 41,230 | 47,316 | 78,377 | 47,194 | -67,052 | 44,713 |
| Provincial | -15,644 | -4,812 | 4,411 | -5,919 | 834 | -7,934 | -4,750 |
| Nonbank | 55,273 | 46,507 | 63,580 | 67,087 | 118,129 | 104,268 | 92,802 |
| Short-term | | | | | | | |
| Medium-and long-term | | | | | | | |
| *Of which:* | | | | | | | |
| Prize bonds | 4,700 | 5,400 | 6,300 | 9,500 | 10,511 | 10,125 | -32 |
| Federal Investment Bonds | 8,500 | 3,700 | 15,800 | -600 | -10,227 | -7,943 | -2,474 |
| National Savings Schemes | 34,600 | 34,100 | 44,300 | 65,300 | 106,214 | 134,755 | 93,513 |
| Provincial nonbank | 266 | 267 | 468 | 637 | 0 | 0 | 0 |
| Privatization proceeds | 2,000 | 11,100 | 12,000 | 0 | 0 | 0 | 0 |

Source: Ministry of Finance and Economic Affairs.

1/ Includes Islamic Development Bank.
2/ Budget support (includes adjustment for budgetary use of privatization proceeds).

## Table 21. Pakistan: Domestic Debt, 1993/94–1999/2000 1/

(In millions of Pakistan rupees)

| | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|---|---|
| Bank debt 2/ | 375,879 | 414,575 | 468,917 | 542,250 | 597,496 | 551,403 | 629,636 |
| Budget support 3/ | 348,363 | 384,521 | 434,063 | 504,563 | 552,350 | 505,887 | 545,849 |
| Other 4/ | 27,516 | 30,054 | 34,854 | 37,687 | 45,146 | 45,516 | 83,787 |
| Nonbank debt | 337,316 | 383,616 | 446,222 | 516,069 | 634,198 | 738,466 | 831,268 |
| Treasury bills/Short-term federal bonds 5/ | 5,464 | 11,295 | 11,402 | 6,356 | 10,901 | 1,081 | -5,250 |
| Medium- and long-term | 280,594 | 324,264 | 385,081 | 465,745 | 582,587 | 710,524 | 806,036 |
| Securities 6/ | 56,753 | 56,235 | 66,464 | 72,215 | 72,332 | 55,389 | 57,420 |
| Prize bonds | 34,625 | 44,714 | 51,011 | 60,558 | 71,069 | 81,194 | 81,162 |
| National savings schemes | 189,216 | 223,315 | 267,606 | 332,972 | 439,186 | 573,941 | 667,454 |
| Defense savings certificates | 64,365 | 85,019 | 105,163 | 136,568 | 168,840 | 207,190 | 247,840 |
| National deposit certificates/accounts | 2,998 | 2,193 | 1,087 | 233 | 132 | 80 | 57 |
| Khas deposit certificates/accounts | 1,787 | 1,377 | 1,047 | 867 | 827 | 756 | 700 |
| Special saving certificates/accounts | 85,147 | 95,736 | 109,492 | 126,978 | 148,109 | 178,063 | 202,340 |
| Regular income scheme | 5,364 | 9,387 | 14,119 | 30,591 | 85,000 | 144,099 | 170,110 |
| Mahana Amadani account | 1,262 | 1,467 | 1,672 | 1,821 | 1,869 | 1,886 | 1,940 |
| Savings accounts | 15,787 | 15,640 | 20,312 | 14,724 | 8,025 | 10,321 | 10,603 |
| Postal life insurance | 7,087 | 6,769 | 8,837 | 10,301 | 12,441 | 14,989 | 18,159 |
| General Provident Fund | 5,419 | 5,727 | 5,877 | 10,889 | 13,943 | 16,557 | 15,706 |
| Other 7/ | 51,258 | 48,057 | 49,739 | 43,968 | 40,710 | 26,861 | 30,482 |
| Total domestic debt | 713,195 | 798,191 | 915,139 | 1,058,319 | 1,231,694 | 1,289,869 | 1,460,904 |

Source: Ministry of Finance and Economic Affairs.

1/ End of period stocks.

2/ Net claims on government by the banking system.

3/ Includes adhoc t-bills issued to the central bank for recapitalization (PRs 28.5 billion in 1998/99).

4/ Includes commodity operations net of deposits of the Zakat and privatization funds.

5/ Derived as residual holdings. Can be negative due to valuations differing across holders.

6/ Comprises market loans, government bonds, federal investment bonds, and national fund bonds.

7/ Includes public account deposits net of government deposits with NBFIs.

# Table 22. Pakistan: Summary Accounts of Seven Key Public Sector Enterprises, 1995/96–1999/2000

(In millions of Pakistan Rupees)

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| **Net operating surplus (incl. interest charges) 1/** | **26,771** | **1,885** | **-2,150** | **26,706** | **23,879** |
| WAPDA | 16,037 | -8,282 | -7,993 | 17,678 | 4,903 |
| KESC | -470 | -6,781 | -6,857 | -7,364 | -12,374 |
| OGDC | 3,316 | 5,034 | 3,875 | 3,849 | 10,422 |
| SSGCL | -69 | -302 | -1,156 | -1,030 | -773 |
| SNGPL | 166 | 241 | -250 | -222 | 93 |
| PTCL | 11,042 | 13,566 | 12,407 | 17,567 | 22,962 |
| Railways | -3,251 | -1,592 | -2,177 | -3,772 | -1,354 |
| **Gross savings 2/** | **44,107** | **23,370** | **28,649** | **56,592** | **52,408** |
| WAPDA | 24,890 | 5,546 | 9,625 | 33,704 | 18,945 |
| KESC | 2,374 | -5,062 | -4,709 | -4,638 | -9,546 |
| OGDC | 3,790 | 5,234 | 6,690 | 6,000 | 13,857 |
| SSGCL | 1,710 | 2,042 | 2,406 | 2,802 | 2,772 |
| SNGPL | 1,821 | 2,249 | 2,466 | 2,695 | 3,001 |
| PTCL | 12,774 | 14,952 | 14,348 | 19,802 | 24,733 |
| Railways | -3,251 | -1,592 | -2,177 | -3,772 | -1,354 |
| **Gross capital expenditure** | **70,730** | **68,258** | **56,654** | **43,184** | **42,384** |
| WAPDA | 31,064 | 21,652 | 22,959 | 19,185 | 15,942 |
| KESC | 10,261 | 9,031 | 6,278 | 2,386 | 2,674 |
| OGDC | 3,710 | 13,342 | 5,187 | 2,707 | 2,871 |
| SSGCL | 4,299 | 1,968 | 2,697 | 1,215 | 979 |
| SNGPL | 4,945 | 6,722 | 4,487 | 2,466 | 2,343 |
| PTCL | 12,828 | 12,828 | 12,828 | 11,776 | 15,558 |
| Railways | 3,623 | 2,715 | 2,219 | 3,450 | 2,017 |
| **Overall balance 3/** | **-41,711** | **-60,238** | **-49,271** | **-7,779** | **-13,244** |
| WAPDA | -14,109 | -25,235 | -24,473 | 3,967 | -8,656 |
| KESC | -10,731 | -15,812 | -13,135 | -9,750 | -15,048 |
| OGDC | 80 | -8,108 | -700 | 1,746 | 8,445 |
| SSGCL | -3,760 | -1,292 | -2,045 | -262 | -185 |
| SNGPL | -4,531 | -6,222 | -4,102 | -2,049 | -1,833 |
| PTCL | -1,786 | 738 | -421 | 5,791 | 7,404 |
| Railways | -6,874 | -4,307 | -4,395 | -7,222 | -3,371 |
| | | | (In percent of GDP) | | |
| Net operating surplus | 1.3 | 0.1 | -0.1 | 0.9 | 0.8 |
| *Of which:* WAPDA | 0.8 | -0.3 | -0.3 | 0.6 | 0.2 |
| Gross savings | 2.1 | 1.0 | 1.1 | 1.9 | 1.6 |
| *Of which:* WAPDA | 1.2 | 0.2 | 0.4 | 1.2 | 0.6 |
| Capital expenditure | 3.3 | 2.8 | 2.1 | 1.5 | 1.3 |
| *Of which:* WAPDA | 1.5 | 0.9 | 0.9 | 0.7 | 0.5 |
| Overall balance | -2.0 | -2.5 | -1.8 | -0.3 | -0.4 |
| *Of which:* WAPDA | -0.7 | -1.0 | -0.9 | 0.1 | -0.3 |

Source: Pakistan authorities; and Fund staff estimates.

1/ Gross operating revenue minus operating expenditure (accrual basis).

2/ Gross operating surplus plus other revenue minus other expenditure plus noncash expenditure (depreciation).

3/ Revenue minus expenditure.

Table 23. Pakistan: Accounts of Water and Power Development Authority (Power Wing), 1995/96–1999/2000

(In million of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenue | 82,672 | 95,693 | 114,526 | 129,016 | 137,145 |
| Sale of electricity | 31,910 | 34,743 | 37,604 | 40,553 | 39,365 |
| Surcharges | 49,975 | 59,896 | 74,521 | 87,200 | 91,681 |
| Other operating revenues | 787 | 1,054 | 2,401 | 1,263 | 6,099 |
| Expenditure | 66,635 | 103,975 | 122,519 | 111,338 | 132,242 |
| Cost of fuel | 24,157 | 24,118 | 23,085 | 19,536 | 27,729 |
| Purchase of power from IPPs | 634 | 35,311 | 53,148 | 42,532 | 54,761 |
| Capacity payments | 0 | 21,321 | 32,802 | 22,602 | 23,563 |
| Energy payments | 634 | 13,990 | 20,436 | 19,930 | 31,198 |
| Operating, maintenance, administative expenses | 14,373 | 14,680 | 15,970 | 14,305 | 15,476 |
| Depreciation and valuation charges | 7,935 | 9,129 | 11,139 | 10,552 | 11,659 |
| Hydel profit to provinces | 6,321 | 6,460 | 6,000 | 6,000 | 6,000 |
| Interest charges | 13,215 | 14,277 | 13,177 | 18,413 | 16,617 |
| Net operating balance including interest charges | 16,037 | -8,282 | -7,993 | 17,678 | 4,903 |
| Savings, Investment and Net Borrowing | | | | | |
| Gross savings | 24,890 | 5,546 | 9,625 | 33,704 | 18,945 |
| Net operating balance including interest charges | 16,037 | -8,282 | -7,993 | 17,678 | 4,903 |
| Depreciation and valuation charges | 7,935 | 9,129 | 11,139 | 10,552 | 11,659 |
| Other income | 918 | 4,699 | 6,479 | 5,474 | 2,383 |
| Capital expenditure | 31,064 | 21,652 | 22,959 | 19,185 | 15,942 |
| Net borrowing | 6,174 | 16,106 | 13,334 | -14,519 | -3,003 |
| Financing | 6,174 | 16,106 | 13,334 | -14,519 | -3,003 |
| Net cash collection from operations | -1,246 | 14,788 | 6,566 | -4,689 | -32,734 |
| Change in accounts receivables (- = increase) | -5,270 | -1,255 | -24,383 | -4,716 | -8,363 |
| Changes in current liabilities (+ = increase) | 4,024 | 16,043 | 30,949 | 27 | -24,371 |
| External borrowing (capital expenditure) | 14,206 | 11290 | 9,680 | 7,674 | 6,060 |
| Debt amortization | -7,329 | -6627 | -10,587 | -13,953 | -23,398 |
| Rural Electrification (budget loan) | 4,121 | 1738 | 1,244 | 1,129 | 1,161 |
| KAPCO note sale | 0 | 0 | 1,697 | 843 | 0 |
| Debt-equity conversion | 0 | 0 | 0 | 0 | 36,383 |
| Other | -3,578 | -5,083 | 4,734 | -5,523 | 9,525 |
| Memorandum items: | | | | | |
| Overall balance | -14,109 | -25,235 | -24,473 | 3,967 | -8,656 |
| Accounts receivables (end of period) | 15,466 | 16,721 | 41,104 | 45,820 | 54,183 |
| *Of which*: receivables from government | ... | ... | 36,469 | 35,014 | 39,375 |
| Current liabilities (end of period) | 119,038 | 102,995 | 72,046 | 72,073 | 47,702 |
| *Of which*: liabilities to government | ... | ... | 19,590 | 37,942 | 20,412 |

Table 23. Pakistan: Accounts of Water and Power Development Authority (Power Wing), 1995/96–1999/2000

(In million of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Production (in GWh) | | | | | |
| Units generated | ... | ... | 39,681 | 38,334 | 37,146 |
| Power purchased | ... | ... | 13,580 | 15,888 | 17,861 |
| Total system losses | ... | ... | 13,839 | 15,316 | 14,113 |
| Unit sold | ... | ... | 39,422 | 38,906 | 40,894 |
| Losses in percent of generation and purchase | ... | ... | 26.0 | 28.2 | 25.7 |
| Average tariff (in rupees per kWh) | ... | ... | 2.8 | 3.3 | 3.2 |
| Average tariff (in cents per kWh) | ... | ... | 6.6 | 6.6 | 6.2 |
| Average cost (in rupees per kWh) | ... | ... | 3.1 | 2.9 | 3.2 |
| *Of which*: fuel and electricity | ... | ... | 1.9 | 1.6 | 2.0 |
| operational | ... | ... | 0.4 | 0.4 | 0.4 |

Source: WAPDA; World Bank; and staff estimates.

Table 24. Pakistan: Accounts of the Karachi Electricity Supply Corporation, 1995/96–1999/2000

(In millions of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenue | 16,339 | 16,290 | 22,526 | 23,781 | 26,145 |
| Sale of energy | 15,988 | 15,797 | 22,113 | 23,285 | 25,565 |
| Other income | 351 | 494 | 413 | 495 | 580 |
| Expenditure | 16,809 | 23,071 | 29,382 | 31,146 | 38,519 |
| Fuel and electricity | 9,097 | 14,425 | 19,425 | 20,713 | 25,889 |
| Fuel and oil consumed | 7,393 | 10,981 | 11,685 | 9,312 | 13,770 |
| Electricity purchased | 1,704 | 3,444 | 6,063 | 9,184 | 9,563 |
| Capacity Charges (IPP) | 0 | 0 | 1,677 | 2,217 | 2,556 |
| Operation and maintenance expenses | 2,561 | 3,377 | 2,414 | 3,452 | 2,870 |
| Other provisions | 514 | 1,438 | 1,698 | 1,213 | 1,248 |
| Depreciation | 2,844 | 1,719 | 2,148 | 2,726 | 2,828 |
| Financial charges | 1,793 | 2,112 | 3,697 | 3,042 | 5,684 |
| Net operating revenue incl. interest charges | -470 | -6,781 | -6,857 | -7,364 | -12,374 |
| Savings, Investment and Net Borrowing | | | | | |
| Gross savings | 2,374 | -5,062 | -4,709 | -4,638 | -9,546 |
| Net operating balance incl. interest charges | -470 | -6,781 | -6,857 | -7,364 | -12,374 |
| Depreciation | 2,844 | 1,719 | 2,148 | 2,726 | 2,828 |
| Capital expenditure | 10,261 | 9,031 | 6,278 | 2,386 | 2,674 |
| Net borrowing | 7,887 | 14,093 | 10,987 | 7,024 | 12,220 |
| Memorandum items | | | | | |
| Overall balance accrual basis | -10,730 | -15,812 | -13,134 | -9,751 | -15,048 |
| Production (in GWh) | | | | | |
| Units generated | 8,067 | 7,458 | 7,318 | 6,613 | 7,745 |
| Power purchased | 1,329 | 1,869 | 3,030 | 4,007 | 3,681 |
| Total system losses | 3,375 | 3,687 | 3,963 | 4,489 | 4,983 |
| Unit sold | 6,021 | 5,640 | 6,385 | 6,131 | 6,443 |
| Losses in percent of generation and purchase | 35.9 | 39.5 | 38.3 | 42.3 | 43.6 |
| Sale of electricity (in million rupees) | 15,988 | 15,797 | 22,113 | 23,285 | 25,565 |
| Average tariff (in rupees per kWh) | 2.7 | 2.8 | 3.5 | 3.8 | 4.0 |
| Average tariff (in cents per kWh) | 8.0 | 7.2 | 8.1 | 7.6 | 7.7 |
| Average cost (in rupees per kWh) | 2.8 | 4.1 | 4.6 | 5.1 | 6.0 |
| *Of which*: fuel and electricity | 1.5 | 2.6 | 2.8 | 3.0 | 3.6 |
| operational | 0.4 | 0.6 | 0.4 | 0.6 | 0.4 |
| Annual percentage changes | | | | | |
| Average tariff | 20.8 | 5.5 | 23.6 | 9.7 | 4.5 |
| Unit cost | 25.8 | 46.5 | 12.5 | 10.4 | 17.7 |
| *Of which*: fuel and electricity | 26.3 | 69.3 | 8.7 | 8.5 | 20.0 |
| operational | 11.3 | 40.8 | -36.9 | 48.9 | -20.9 |

Source: Data provided by the authorities.

# Table 25. Pakistan: Accounts of the Oil and Gas Development Corporation, 1995/96–1999/2000

(In million of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenues | 10,344 | 13,459 | 14,490 | 12,736 | 21,992 |
| Net sales | 10,300 | 13,409 | 14,284 | 12,502 | 21,949 |
| Other operating revenues | 44 | 50 | 206 | 234 | 43 |
| Expenditure | 7,028 | 8,425 | 10,615 | 8,887 | 11,570 |
| Operating expenditure | 3,112 | 3,215 | 1,824 | 2,021 | 2,270 |
| Depreciation | | | 1,465 | 1,684 | 2,850 |
| Transportation charges | 209 | 169 | 200 | 208 | 223 |
| Amortization | 622 | 785 | 738 | 938 | 766 |
| Exploration expenditure written off | 1,440 | 1,238 | 1,433 | 1,288 | 1,376 |
| General and administration expenses | 465 | 556 | 322 | 324 | 415 |
| Financial charges | 968 | 1,721 | 1,292 | 1,957 | 968 |
| Workers profit participation Fund | 161 | 341 | 396 | 251 | 701 |
| Provision for current taxation | 52 | 400 | 2,945 | 216 | 2,000 |
| Net operating balance incl. interest charges | 3,316 | 5,034 | 3,875 | 3,849 | 10,422 |
| Savings, Investment and Net Lending | | | | | |
| Gross savings | 3,790 | 5,234 | 6,690 | 6,000 | 13,857 |
| Net operating balance incl. interest charges | 3,316 | 5,034 | 3,875 | 3,849 | 10,422 |
| Depreciation and amortiziation | ... | ... | 2,203 | 2,622 | 3,616 |
| Other income | 474 | 200 | 611 | 604 | 893 |
| Dividend payment | ... | ... | 0 | -1,075 | -1,075 |
| Capital expenditure | 3,710 | 13,342 | 5,187 | 2,707 | 2,871 |
| Net lending | 80 | -8,108 | 1,503 | 3,293 | 10,986 |
| Memorandum items: | | | | | |
| Overall balance | 80 | -8,108 | -700 | 1,746 | 8,445 |
| Oil sales | | | | | |
| Sales (in million rupees) | 4,503 | 6,149 | 5,220 | 4,845 | 7,336 |
| Volume (in thousands of barrels) | 9,592 | 8,209 | 7,924 | 8,074 | 7,436 |
| Unit price (in rupees per barrel) | 469 | 749 | 659 | 600 | 986 |
| Unit price (in U.S. dollars per barrel) | 14 | 19 | 15 | 12 | 19 |
| Costs (in million rupees) | 3,343 | 3,312 | 2,783 | 3,393 | 3,646 |
| Unit cost (in rupees per barrel) | 349 | 403 | 351 | 420 | 490 |
| Gas sales | | | | | |
| Sales (in million rupees) | 4,894 | 8,750 | 9,166 | 7,539 | 11,921 |
| Volume (in 000s MCF) 1/ | 108,294 | 125,356 | 124,363 | 115,968 | 212,798 |
| Unit price (rupees per MCF) 1/ | 45 | 70 | 74 | 65 | 56 |
| Unit price (in U.S. dollars per MCF) 1/ | 1.35 | 1.79 | 1.72 | 1.30 | 1.09 |
| Costs (in million rupees) | 3,633 | 4,713 | 4,887 | 5,278 | 5,925 |
| Unit cost (in rupees per MCF) | 34 | 38 | 39 | 46 | 28 |
| Total oil and gas sales (in million rupees) | 9,397 | 14,899 | 14,387 | 12,384 | 19,257 |
| Employment | 11,615 | 12,384 | 12,389 | 12,307 | ... |

Source: Data provided by the authorities.

1/ MMCF= one million of cubic feet; MCF= one thousand cubic feet.

## Table 26. Pakistan: Accounts of the Sui Southern Gas Company Limited, 1995/96–1999/2000

(In million of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenues | 13,395 | 14,790 | 15,623 | 16,350 | 20,171 |
| Gas sales | 13,042 | 14,790 | 15,623 | 16,350 | 20,171 |
| Recovery from SNGPL | 353 | 0 | 0 | 0 | 0 |
| Expenditure | 13,465 | 15,092 | 16,779 | 17,380 | 20,944 |
| Cost of gas sold | 7,953 | 10,007 | 10,098 | 8,108 | 13,524 |
| Purification/transmission/distribution costs | 2,168 | 1,700 | 1,929 | 1,922 | 2,484 |
| Financial and other charges | 993 | 1,578 | 2,780 | 2,618 | 1,793 |
| Depreciation charges | 1,171 | 1,366 | 1,754 | 1,849 | 1,978 |
| Development surcharge | 621 | 214 | -211 | 2,294 | 367 |
| Contribution to workers' profit fund | 55 | 45 | 54 | 77 | 81 |
| Corporate tax/bonus share tax | 504 | 182 | 375 | 512 | 717 |
| Net operating balance incl. interest charges | -69 | -302 | -1,156 | -1,030 | -773 |
| Savings, Investment and Net Borrowing | | | | | |
| Gross savings | 1,710 | 2,042 | 2,406 | 2,802 | 2,772 |
| Net operating balance incl. interest charges | -69 | -302 | -1,156 | -1,030 | -773 |
| Depreciation | 1,171 | 1,366 | 1,754 | 1,849 | 1,978 |
| Other income 1/ | 608 | 978 | 1,808 | 1,983 | 1,567 |
| Capital expenditure | 4,299 | 1,968 | 2,697 | 1,215 | 979 |
| Net borrowing | 2,589 | -74 | 291 | -1,587 | -1,793 |
| Memorandum items: | | | | | |
| Overall balance (accrual basis) | -3,760 | -1,292 | -2,045 | -262 | -185 |
| Gas sales (in million rupees) | 13,042 | 14,790 | 15,623 | 16,350 | 20,171 |
| Gas sales (in 000s MMCF) | 172.4 | 174.9 | 169.2 | 177.2 | 198.281 |
| Unit sale price (in rupee per MCF) | 75.7 | 84.5 | 92.3 | 92.3 | 101.7 |
| Unit sale price (in U.S. dollar per MCF) | 2.3 | 2.2 | 2.2 | 1.8 | 2.0 |
| Average cost (in rupees per MCF) | 71.6 | 84.0 | 98.2 | 82.3 | 100.2 |
| *Of which*: average cost of gas | 46.1 | 57.2 | 59.7 | 45.8 | 68.2 |
| average operational cost | 25.4 | 26.8 | 38.5 | 36.5 | 32.0 |
| Average return on assets | 0.5 | -0.7 | -4.6 | -2.9 | -0.3 |
| Prescribed price (in rupees per MCF) 2/ | 72.0 | 83.3 | 93.6 | 79.3 | 99.9 |
| Gas Development surcharge 3/ | 621 | 214 | -211 | 2,294 | 367 |
| Annual percentage change | | | | | |
| Unit sales price | 19.9 | 11.8 | 9.2 | 0.0 | 10.2 |
| Unit prescribed price | 31.2 | 15.6 | 12.3 | -15.2 | 9.8 |
| *Of which*: unit cost of gas | 53.5 | 24.0 | 4.3 | -23.3 | 49.0 |
| unit operational costs | 6.2 | 5.3 | 43.7 | -5.2 | -12.5 |
| Number of employees | 5,605 | 5,587 | 5,482 | 5,386 | 5,311 |

Source: Data provided by the Pakistan authorities.

1/ Includes meter rental, late payment surcharge, recognition of income against deferred credit, sale of gas condensate, LPG bottling division losses, meter manufacturing division profit, and other income.

2/ Equal average cost plus average rate of return on assets.

3/ Equals the difference between the sales price and the prescribed price times the volume of sales.

# Table 27. Pakistan: Accounts of the Sui Northern Gas Pipelines Limited, 1995/96–1999/2000

(In million of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenues | 14,506 | 19,693 | 20,307 | 21,185 | 27,469 |
| Gas sales | 14,181 | 17,353 | 18,739 | 20,577 | 26,571 |
| Differential margin | 0 | 1,919 | 985 | 0 | 0 |
| Rental and service income | 137 | 206 | 237 | 284 | 543 |
| Surcharge and interest on arrears of gas sale | 188 | 215 | 346 | 324 | 355 |
| Expenditure | 14,340 | 19,452 | 20,557 | 21,407 | 27,376 |
| Cost of gas sold | 9,069 | 12,598 | 12,329 | 11,088 | 16,672 |
| Operating cost | 1,778 | 2,573 | 2,522 | 2,484 | 3,672 |
| Financial and other charges | 1,631 | 2,388 | 3,297 | 3,506 | 2,723 |
| Depreciation | 1,407 | 1,749 | 2,081 | 2,278 | 2,491 |
| Development surcharge | 103 | 0 | 0 | 1,666 | 1,052 |
| Corporate tax/bonus share tax | 351 | 144 | 328 | 385 | 766 |
| Net operating balance incl. interest charges | 166 | 241 | -250 | -222 | 93 |
| Savings, Investment and Net Borrowing | | | | | |
| Gross savings | 1,821 | 2,249 | 2,466 | 2,695 | 3,001 |
| Net operating balance incl. interest charges | 166 | 241 | -250 | -222 | 93 |
| Depreciation | 1,407 | 1,749 | 2,081 | 2,278 | 2,491 |
| Other income 1/ | 248 | 259 | 635 | 639 | 417 |
| Capital expenditure | 4,945 | 6,722 | 4,487 | 2,466 | 2,343 |
| Net borrowing | 3,124 | 4,473 | 2,021 | -229 | -658 |
| Memorandum items: | | | | | |
| Current balance | 414 | 500 | 385 | 417 | 510 |
| Overall balance | -4,531 | -6,222 | -4,102 | -2,049 | -1,833 |
| Gas sales (in million rupees) | 14,181 | 17,363 | 18,739 | 20,577 | 26,571 |
| Gas sales (in 000s MMCF) 2/ | 208.9 | 231.0 | 231.6 | 253.1 | 269.8 |
| Unit sale price (in rupee per MCF) 2/ | 67.9 | 75.2 | 80.9 | 81.3 | 98.5 |
| Unit sale price (in U.S. dollars per MCF) 2/ | 2.0 | 1.9 | 1.7 | 1.6 | 1.8 |
| Average cost (in rupees per MCF) | 66.5 | 83.6 | 87.3 | 76.5 | 94.7 |
| *Of which*: average cost of gas | 43.4 | 54.5 | 53.2 | 43.8 | 61.8 |
| average operational cost | 23.1 | 29.0 | 34.1 | 32.7 | 32.9 |
| Average return on assets | 0.9 | -0.1 | -2.2 | -1.8 | -0.1 |
| Prescribed price (in rupees per MCF) 2/ 3/ | 67.4 | 83.5 | 85.2 | 74.7 | 94.6 |
| Gas Development surcharge 4/ | 103 | -1,919 | -985 | 1,666 | 1,052 |
| Annual percentage change | | | | | |
| Unit sales price | 22.6 | 10.7 | 7.6 | 0.5 | 14.5 |
| Unit prescribed price | 41.5 | 23.9 | 2.0 | -12.3 | 17.5 |
| *Of which*: unit cost of gas | 56.9 | 25.6 | -2.4 | -17.7 | 27.2 |
| unit operational costs | 21.1 | 26.0 | 17.4 | -4.1 | 0.6 |
| Average return in percent of average cost | 1.4 | -0.1 | -2.5 | -2.3 | -0.2 |
| Number of employees | 7,270 | 8,276 | 8,138 | 7,963 | 7,851 |

Source: SNGPL annual reports; and data provided by the Pakistan authorities.

1/ Includes amortization of deferred credit, net gain on sale of fixed assets, and other income.

2/ MMCF= one million of cubic feet; MCF= one thousand cubic feet.

3/ Equals average cost plus average rate of return on assets.

4/ Equals the difference between the sales price and the prescribed price times the volume of sales.

## Table 28. Pakistan: Accounts of the Pakistan Telecommunication Company Limited, 1995/96–1999/2000

(In million of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenue | 37,779 | 42,632 | 46,466 | 51,772 | 57,775 |
| Telephone/telex/telegraph | 37,779 | 42,632 | 46,466 | 51,772 | 57,775 |
| Expenditure | 26,737 | 29,066 | 34,059 | 34,205 | 34,813 |
| Operating costs | 22,765 | 23,628 | 26534 | 29,462 | 30,345 |
| *Of which*: salaries and pensions | 4,933 | 6,289 | 5626 | 6,522 | 8,298 |
| Interest expenses | 3,972 | 5,438 | 7525 | 4,743 | 4,468 |
| Net operating revenue incl. interest charges | 11,042 | 13,566 | 12,407 | 17,567 | 22,962 |
| Savings, Investment and Net Lending | | | | | |
| Gross savings | 12,774 | 14,952 | 14,348 | 19,802 | 24,733 |
| Net operating balance incl. interest charges | 11,042 | 13,566 | 12,407 | 17,567 | 22,962 |
| Other income | 1,687 | 1,300 | 1,754 | 1,939 | 1,004 |
| Interest income | 45 | 86 | 187 | 296 | 767 |
| Capital expenditure | 12,828 | 12,828 | 12,828 | 11,776 | 15,558 |
| Net lending | -54 | 2,124 | 1,520 | 8,026 | 9,175 |
| Financing | 54 | -2,124 | -1,520 | -8,026 | -9,175 |
| Financing from Federal government (net) | 949 | 45 | -67 | -839 | -227 |
| Gross lending | 949 | 1,003 | 109 | 441 | 440 |
| Amortization | 0 | 958 | 176 | 1,280 | 667 |
| Other financing | -895 | -2,169 | -1,453 | -7,187 | -8,948 |

Source: PTC and PTCL annual reports; and data provided by the Pakistan authorities.

Table 29. Pakistan: Accounts of the Pakistan Railways, 1995/96–1999/2000

(In millions of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Operating Revenue and Expenditure | | | | | |
| Revenue | 10,645 | 12,666 | 12,351 | 11,443 | 13,544 |
| Revenue receipts | 8,131 | 9,816 | 9,698 | 9,292 | 9,777 |
| Passengers | 3,602 | 4,440 | 4,500 | 4,447 | 4,740 |
| Goods | 3,568 | 4,097 | 4,235 | 3,698 | 3,758 |
| Others 1/ | 961 | 1,279 | 964 | 1,147 | 1,279 |
| Transfers from the budget 2/ | 2,514 | 2,850 | 2,653 | 2,151 | 3,767 |
| Expenditure | 13,896 | 14,258 | 14,528 | 15,215 | 14,898 |
| Ordinary working exp | 12,619 | 11,945 | 11,848 | 11,892 | 11,747 |
| Interest charges | 1,276 | 2,313 | 2,680 | 3,323 | 3,151 |
| Net operating balance incl. interest charges | -3,251 | -1,592 | -2,177 | -3,772 | -1,354 |
| Savings, Investment and Net Borrowing | | | | | |
| Gross savings | -3,251 | -1,592 | -2,177 | -3,772 | -1,354 |
| Net operating balance incl. interest charges | -3,251 | -1,592 | -2,177 | -3,772 | -1,354 |
| Capital expenditure | 3,623 | 2,715 | 2,219 | 3,450 | 2,017 |
| Net Borrowing | 6,874 | 4,307 | 4,395 | 7,222 | 3,371 |
| Financing | 6,874 | 4,307 | 4,395 | 7,222 | 3,371 |
| External financing net | 1,124 | 1,278 | 86 | 1,287 | 344 |
| Budget investment transfer | 1,750 | 661 | 1,430 | 997 | 1,035 |
| SBP overdraft | 4,000 | 2,369 | 2,879 | 4,430 | 1,992 |
| Other | 0 | 0 | 0 | 509 | 0 |
| Memorandum items: | | | | | |
| Current balance | -3,251 | -1,592 | -2,177 | -3,772 | -1,354 |
| Overall balance | -6,874 | -4,307 | -4,395 | -7,222 | -3,371 |
| Passenger Traffic | | | | | |
| Number of passengers (in million) | 73.7 | 68.6 | 64.9 | 64.9 | 66.0 |
| Number of kilometers travelled (in million) | 18,905 | 20,476 | 18,774 | 18,980 | 19,500 |
| Average kilometer per passenger | 256.5 | 298.5 | 289.3 | 292.4 | 295.5 |
| Average rate per passenger kilometer (in rupees) | 0.19 | 0.22 | 0.24 | 0.23 | 0.25 |
| Freight Traffic | | | | | |
| Number of tons (in thousands) | 6,854 | 6,400 | 6,000 | 5,500 | 5,800 |
| Number of kilometers travelled (in million) | 5,077 | 4,607 | 4,443 | 3,967 | 4,000 |
| Average kilometers per ton | 736 | 720 | 741 | 721 | 690 |
| Average rate per ton per kilometer (in rupees) | 0.71 | 0.89 | 0.95 | 0.93 | 1.21 |
| Number of employees | 111,223 | 106,997 | 104,185 | 100,643 | 97,500 |

Source: Pakistan Railways year book; and data provided by the authorities.

1/ Includes public service obligation, which are tarnsfers from the budget to cover the cost of public services provided by Railways.

2/ Transfers from the budget to cover operational shortfalls.

## Table 30. Pakistan: Monetary Survey, 1995/96–1999/2000

(End-of-period stocks; in millions of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Net foreign assets | -37,487 | -61,176 | -90,061 | -70,717 | -50,892 |
| (in millions of U.S. dollars) | -1,068 | -1,512 | -1,958 | -1,376 | -983 |
| Net domestic assets | 976,167 | 1,114,410 | 1,296,381 | 1,351,263 | 1,451,523 |
| Net claims on government | 468,917 | 542,250 | 597,496 | 551,403 | 629,636 |
| Budgetary support | 434,063 | 504,563 | 552,350 | 505,887 | 545,849 |
| Federal government | 442,360 | 518,779 | 565,732 | 527,203 | 571,915 |
| Provincial governments | -8,297 | -14,216 | -13,382 | -21,316 | -26,066 |
| Commodity operations | 47,377 | 53,079 | 63,664 | 67,309 | 107,403 |
| Zakat and Privatization Funds | -12,523 | -15,392 | -18,518 | -21,793 | -23,616 |
| Credit to the nongovernment sector | 531,064 | 593,511 | 697,496 | 816,710 | 842,751 |
| Private sector and public enterprises 1/ | 510,943 | 573,632 | 668,370 | 774,166 | 797,266 |
| Autonomous bodies | 20,121 | 19,879 | 28,302 | 41,351 | 44,477 |
| Others (NHA and CAA) | 0 | 0 | 824 | 1,193 | 1,008 |
| Privatization account | -8,734 | -3,532 | -2,930 | -2,930 | -2,930 |
| Other items (net) | -15,080 | -17,820 | 4,319 | -13,920 | -17,934 |
| Domestic liquidity | 938,680 | 1,053,234 | 1,206,320 | 1,280,546 | 1,400,631 |
| Currency | 234,110 | 244,141 | 272,922 | 287,716 | 355,677 |
| Demand deposits | 213,899 | 199,410 | 207,409 | 355,327 | 415,747 |
| Time and savings deposits | 344,713 | 386,801 | 447,433 | 516,586 | 561,040 |
| Foreign currency deposits 2/ | 145,958 | 222,882 | 278,556 | 120,917 | 68,167 |
| Memorandum items: | | | | | |
| National Savings Schemes | 303,892 | 372,328 | 483,872 | 624,581 | 714,258 |
| Deposits in NBFIs | 86,879 | 97,256 | 121,009 | 105,085 | 92,789 |
| M3 3/ | 1,329,451 | 1,522,818 | 1,811,201 | 2,010,212 | 2,207,678 |

Source: State Bank of Pakistan.

1/ Claims on private sector have been adjusted from June 1998 to exclude loan loss provisions.

2/ Refers to foreign currency deposits of residents that were frozen in May 1998.

3/ Defined as M2 plus national savings schemes plus deposits in nonbank financial institution (NBFIs).

Table 31. Pakistan: Accounts of the State Bank of Pakistan 1995/96–1999/2000

(End-of-period stocks; in millions of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Net foreign assets | 11,934 | -11,086 | -48,633 | -42,453 | -55,087 |
| Net domestic assets | 298,147 | 358,132 | 418,111 | 440,436 | 552,894 |
| Net claims on government | 163,989 | 231,265 | 223,684 | 257,819 | 391,004 |
| Budgetary support | 176,509 | 246,657 | 242,202 | 279,612 | 414,620 |
| Federal government | 195,186 | 246,674 | 235,469 | 279,732 | 409,224 |
| Provincial governments | -18,677 | -17 | 6,733 | -120 | 5,396 |
| Zakat fund | -10,779 | -13,693 | -17,272 | -20,943 | -23,170 |
| Privatization Fund | -1,741 | -1,699 | -1,246 | -850 | -446 |
| Claims on nongovernment sectors | 42,750 | 41,551 | 40,835 | 56,077 | 51,189 |
| Private sector | 42,667 | 41,468 | 40,752 | 59,646 | 59,870 |
| Public sector enterprises (PSEs) | 83 | 83 | 83 | 83 | 220 |
| Special account for PSEs' debt relief | 0 | 0 | 0 | -3,652 | -8,901 |
| Claims on scheduled banks | 66,043 | 89,865 | 158,474 | 187,188 | 193,402 |
| Privatization account | -8,734 | -3,532 | -2,930 | -2,930 | -2,930 |
| Gross inflows 1/ | 34,864 | 39,967 | 40,587 | 40,587 | 40,587 |
| Gross withdrawals 2/ | 26,130 | 36,435 | 37,657 | 37,657 | 37,657 |
| Other items (net) | 34,099 | -1,017 | -1,952 | -57,718 | -79,771 |
| Reserve money | 310,081 | 347,046 | 369,478 | 397,983 | 497,807 |
| Bank reserves | 49,852 | 77,949 | 71,375 | 85,185 | 114,703 |
| *Of which* | | | | | |
| Excess reserves | 4,468 | 10,031 | 11,052 | 17,960 | 22,571 |
| Private sector deposits | 6,791 | 7,135 | 6,412 | 6,212 | 7,959 |
| Currency | 253,438 | 261,962 | 291,691 | 306,586 | 375,145 |
| Outside scheduled banks | 234,110 | 244,141 | 272,922 | 287,716 | 355,677 |
| Held by scheduled banks | 19,328 | 17,821 | 18,769 | 18,870 | 19,468 |

Source: State Bank of Pakistan.

1/ Reflects receipts of PRs 29,127.9 million from sale of PTC vouchers in September 1994, PRs 5,736.2 million from sale of Kot Addu power plant in June 1996, and additional PRs 3,469 million from sale of Kot in July and November 1996.

2/ Reflect PRs 14 billion and PRs 12 billion use of privatization proceeds by the budget in 1994/95 and 1995/96, respectively. In 1996/97, this reflects withdrawal of PRs 5,736 million transferred to WAPDA, and PRs 1,500 million used to retire debt vis-à-vis SBP.

Table 32. Pakistan: Accounts of the Scheduled Banks, 1995/96–1999/2000

(End-of-period stocks; in millions of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Net foreign assets | -49,421 | -50,089 | -41,428 | -28,265 | 4,195 |
| Net domestic assets | 747,200 | 852,047 | 968,414 | 1,014,883 | 1,032,800 |
| Net claims on government | 298,959 | 321,222 | 374,043 | 293,584 | 238,633 |
| Budgetary support | 251,585 | 268,143 | 310,379 | 226,275 | 131,230 |
| Federal government | 247,174 | 274,062 | 330,494 | 247,471 | 162,692 |
| Provincial governments | 4,411 | -5,919 | -20,115 | -21,196 | -31,462 |
| Commodity operations | 47,377 | 53,079 | 63,664 | 67,309 | 107,403 |
| Advances to federal government | 36,499 | 40,770 | 45,453 | 44,636 | 53,381 |
| Advances to provincial governments | 10,878 | 12,309 | 18,211 | 22,673 | 54,022 |
| PTC deposits | -3 | 0 | 0 | 0 | 0 |
| Claims on nongovernment sectors | 488,314 | 561,277 | 656,661 | 760,633 | 791,562 |
| Private Sector (including CEC) 1/ | 436,034 | 505,346 | 591,273 | 675,048 | 693,313 |
| Public sector enterprises | 32,159 | 26,735 | 36,262 | 43,041 | 52,764 |
| Autonomous bodies | 20,121 | 29,196 | 28,302 | 41,351 | 44,477 |
| Others (NHA and CAA) | 0 | 0 | 824 | 1,193 | 1,008 |
| Net Claims on SBP | 3,137 | 5,905 | -68,330 | -83,133 | -59,231 |
| Liabilities to the SBP | -66,043 | -89,865 | -158,474 | -187,188 | -193,402 |
| Required/Excess reserves | 49,852 | 77,949 | 71,375 | 85,185 | 114,703 |
| Cash | 19,328 | 17,821 | 18,769 | 18,870 | 19,468 |
| Other items (net) | -43,210 | -36,357 | 6,040 | 43,799 | 61,836 |
| Liabilities to private sector | 697,779 | 801,958 | 926,986 | 986,618 | 1,036,995 |
| Demand deposits | 207,108 | 192,275 | 200,997 | 349,115 | 407,788 |
| Time deposits | 344,713 | 386,801 | 447,433 | 516,586 | 561,040 |
| Residents' foreign currency accounts | 145,958 | 222,882 | 278,556 | 120,917 | 68,167 |
| (In million of U.S. dollars) | 4,147 | 5,491 | 6,024 | 2,354 | 1,303 |

Source: State Bank of Pakistan.

1/ Claims on private sector have been adjusted from June 1998 to exclude loan loss provisions.

Table 33. Pakistan: Factors Affecting Changes in Domestic Liquidity, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (Changes in millions of Pakistan rupees) | | | | |
| Net foreign assets | -40,136 | -23,689 | -28,885 | 19,344 | 19,826 |
| Net domestic assets | 154,083 | 138,243 | 181,971 | 54,882 | 100,259 |
| Net claims on government | 54,342 | 73,333 | 55,246 | -46,093 | 78,234 |
| Budgetary support | 49,542 | 70,500 | 47,787 | -46,463 | 39,962 |
| Federal government | 45,131 | 76,419 | 46,953 | -38,529 | 44,712 |
| Provincial governments | 4,411 | -5,919 | 834 | -7,934 | -4,750 |
| Commodity operations | 5,858 | 5,702 | 10,585 | 3,645 | 40,094 |
| Zakat and Privatization Funds | -1,058 | -2,869 | -3,126 | -3,275 | -1,823 |
| Credit to the nongovernment sector | 68,707 | 71,764 | 94,668 | 119,214 | 26,041 |
| Private sector and public enterprises 1/ | 65,541 | 62,689 | 94,738 | 105,796 | 23,100 |
| Autonomous bodies | 3,166 | 9,075 | -894 | 13,049 | 3,126 |
| Privatization proceeds | 6,264 | 5,202 | 602 | 0 | 0 |
| Other items (net) | 24,770 | -12,057 | 31,225 | -18,239 | -4,015 |
| Domestic liquidity | 113,947 | 114,554 | 153,086 | 74,226 | 120,085 |
| Currency | 18,531 | 10,031 | 28,781 | 14,794 | 67,961 |
| Demand deposits | 6,989 | -14,489 | 7,999 | 147,918 | 60,420 |
| Time and savings deposits | 47,542 | 42,088 | 60,632 | 69,153 | 44,454 |
| Foreign currency deposits 2/ | 40,885 | 76,924 | 55,674 | -157,639 | -52,750 |
| | (Changes in percent of beginning of period domestic liquidity) | | | | |
| Net foreign assets | -4.9 | -2.5 | -2.7 | 1.6 | 1.5 |
| Net domestic assets | 18.7 | 14.7 | 17.3 | 4.5 | 7.8 |
| Net claims on government | 6.6 | 7.8 | 5.2 | -3.8 | 6.1 |
| *Of which:* Budgetary support | 6.0 | 7.5 | 4.5 | -3.9 | 3.1 |
| Credit to the nongovernment sector | 8.3 | 7.6 | 9.0 | 9.9 | 2.0 |
| *Of which:* Private sector 1/ | 7.6 | 7.3 | 8.1 | 8.5 | 1.4 |
| Privatization proceeds | 0.8 | 0.6 | 0.1 | 0.0 | 0.0 |
| Other items (net) | 3.0 | -1.3 | 3.0 | -1.5 | -0.3 |
| Domestic liquidity | 13.8 | 12.2 | 14.5 | 6.2 | 9.4 |
| Memorandum items: | | | | | |
| Annual growth rates in percent: | | | | | |
| Credit to the private sector 1/ | 15.0 | 14.2 | 13.7 | 16.2 | 2.5 |
| Currency | 8.6 | 4.3 | 11.8 | 5.4 | 23.6 |
| Demand deposits | 3.4 | -6.8 | 4.0 | 71.3 | 17.0 |
| Time and savings deposits | 16.0 | 12.2 | 15.7 | 15.5 | 8.6 |
| Foreign currency deposits 2/ | 38.9 | 52.7 | 25.0 | -56.6 | -43.6 |
| M3 3/ | 15.3 | 14.5 | 18.9 | 11.0 | 9.8 |
| Velocity of domestic liquidity | 2.6 | 2.5 | 2.2 | 2.3 | 2.3 |

Source: State Bank of Pakistan.

1/ Claims on private sector have been adjusted from June 1998 to exclude loan loss provision. The growth rate of private credit in 1997/98 is based on unadjusted data.

2/ Refers to residents' foreign currency deposits that were frozen in May 1998.

3/ Defined as M2 plus national savings schemes plus deposits in NBFIs.

Table 34. Pakistan: Factors Affecting Changes in Reserve Money, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (Changes in millions of Pakistan rupees) | | | | |
| Net foreign assets | -21,238 | -23,020 | -37,547 | 6,180 | -12,634 |
| Net domestic assets | 48,467 | 59,985 | 59,979 | 22,325 | 112,458 |
| Net claims on government | 39,110 | 43,558 | -7,581 | 34,135 | 133,184 |
| Budgetary support | 40,168 | 46,430 | -4,455 | 37,410 | 135,007 |
| Federal government | 30,866 | 51,488 | 6,750 | -6,853 | 5,516 |
| Provincial governments | 9,302 | -5,058 | -3,579 | -3,671 | -2,227 |
| Zakat fund | -317 | -2,914 | -3,579 | -3,671 | -2,227 |
| Privatization Fund | -741 | 42 | 453 | 396 | 404 |
| Claims on nongovernment sectors | 2,537 | -1,199 | -716 | 15,242 | -4,888 |
| Private sector | 2,579 | -1,199 | -716 | 18,894 | 224 |
| Public sector enterprises | -42 | 0 | 0 | -3,652 | -5,112 |
| Claims on scheduled banks | -5,461 | 23,822 | 68,609 | 28,714 | 6,214 |
| Privatization proceeds | 6,264 | 5,202 | 602 | 0 | 0 |
| Other items (net) | 6,017 | -11,398 | -935 | -55,766 | -22,052 |
| Reserve money | 27,229 | 36,965 | 22,432 | 28,505 | 99,824 |
| Banks' reserves | 3,997 | 28,097 | -6,574 | 13,810 | 29,518 |
| Private sector deposits | 1,736 | 344 | -723 | -200 | 1,747 |
| Currency | 21,496 | 8,524 | 29,729 | 14,895 | 68,559 |
| | (Changes in percent of beginning of period reserve money) | | | | |
| Net foreign assets | -7.5 | -7.4 | -10.8 | 1.7 | -3.2 |
| Net domestic assets | 17.1 | 19.3 | 17.3 | 6.0 | 28.3 |
| Net claims on government | 13.8 | 14.0 | -2.2 | 9.2 | 33.5 |
| Budgetary support | 14.2 | 15.0 | -1.3 | 10.1 | 33.9 |
| Zakat fund | -0.1 | -0.9 | -1.0 | -1.0 | -0.6 |
| Privatization Fund | -0.3 | 0.0 | 0.1 | 0.1 | 0.1 |
| Claims on nongovernment sectors | 0.9 | -0.4 | -0.2 | 4.1 | -1.2 |
| Private sector | 0.9 | -0.4 | -0.2 | 5.1 | 0.1 |
| Public sector enterprises | 0.0 | 0.0 | 0.0 | -1.0 | -1.3 |
| Claims on scheduled banks | -1.9 | 7.7 | 19.8 | 7.8 | 1.6 |
| Privatization proceeds | 2.2 | 1.7 | 0.2 | 0.0 | 0.0 |
| Other items (net) | 2.1 | -3.7 | -0.3 | -15.1 | -5.5 |
| Reserve money | 9.6 | 11.9 | 6.5 | 7.7 | 25.1 |
| Banks' reserves | 1.4 | 9.1 | -1.9 | 3.7 | 7.4 |
| Private sector deposits | 0.6 | 0.1 | -0.2 | -0.1 | 0.4 |
| Currency | 7.6 | 2.7 | 8.6 | 4.0 | 17.2 |
| Memorandum item: | | | | | |
| Money multiplier | 3.0 | 3.0 | 3.3 | 3.2 | 2.8 |

Source: State Bank of Pakistan.

Table 35. Pakistan: Government Budgetary Support, 1995/96–1999/2000

(End of period stocks; in millions of Pakistan rupees)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Federal government | 442,315 | 518,779 | 565,963 | 527,203 | 571,915 |
| Scheduled banks | 247,129 | 272,105 | 330,494 | 247,471 | 162,692 |
| Government securities | 137,110 | 167,945 | 121,246 | 107,899 | 107,985 |
| Treasury bills/short-term federal bonds | 144,877 | 132,460 | 235,388 | 204,160 | 103,790 |
| Government deposits | -34,858 | -28,300 | -26,140 | -64,588 | -49,083 |
| State Bank of Pakistan | 195,186 | 246,674 | 235,469 | 279,732 | 409,223 |
| Treasury bills/short-term federal bonds | 151,308 | 198,032 | 166,037 | 266,301 | 457,084 |
| Other claims | 59,832 | 64,860 | 69,432 | 106,791 | 109,783 |
| Government deposits | -15,954 | -16,218 | 0 | 0 | 0 |
| Special debt retirement account | 0 | 0 | 0 | -93,360 | -157,644 |
| Provincial governments | -8,297 | -14,216 | -13,382 | -21,316 | -26,066 |
| Scheduled banks | -13,338 | -14,199 | -20,115 | -21,196 | -31,462 |
| Government securities | 3,339 | 2,399 | 2,184 | 1,969 | 1,730 |
| Advances to Punjab Government for Coop | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Government deposits | -18,677 | -18,598 | -24,299 | -25,165 | -35,192 |
| State Bank of Pakistan | 5,041 | -17 | 6,733 | -120 | 5,396 |
| Government securities | 22 | 894 | 894 | 894 | 880 |
| Debtor balances (excluding Zakat fund) | 7,464 | 7,680 | 6,394 | 7,720 | 24,621 |
| Ways and means advances | 0 | 0 | 0 | 0 | 0 |
| Government deposits (excluding Zakat fun | -2,445 | -8,591 | -555 | -8,734 | -20,105 |
| Total budgetary support | 434,018 | 504,563 | 552,581 | 505,887 | 545,849 |

Source: State Bank of Pakistan.

Table 36. Pakistan: Credit to the Private Sector and Public Sector Enterprises, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (End-of-period stocks; in millions of Pakistan rupees) | | | | |
| Total credit | 510,943 | 601,150 | 684,079 | 815,517 | 841,744 |
| SBP | 42,750 | 41,552 | 40,835 | 59,729 | 60,091 |
| *Of which* | | | | | |
| Credit to NBFIs | 83 | 83 | 83 | 83 | 220 |
| Commercial banks | 385,001 | 472,326 | 544,782 | 642,798 | 665,444 |
| Cotton export corporation | 2,604 | 2,306 | 1,649 | 968 | 1,318 |
| Export finance | 35,654 | 41,970 | 54,886 | 80,932 | 72,571 |
| Self employment scheme | 14,315 | 12,692 | 10,992 | 9,430 | 8,104 |
| Commercial credit | 332,428 | 415,358 | 477,255 | 551,468 | 583,451 |
| Specialized banks | 83,192 | 87,272 | 98,462 | 112,990 | 116,209 |
| ADBP | 61,240 | 64,229 | 74,913 | 87,139 | 90,145 |
| IDBP | 16,393 | 17,363 | 18,206 | 20,816 | 21,130 |
| FBC/PPCB | 5,559 | 5,680 | 5,343 | 5,035 | 4,934 |
| | (Annual percentage changes) | | | | |
| Total credit | 14.7 | 17.7 | 13.8 | 19.2 | 3.2 |
| Commercial banks | 17.4 | 22.7 | 15.3 | 18.0 | 3.5 |
| *Of which* | | | | | |
| Export finance | 10.0 | 17.7 | 30.8 | 47.5 | -10.3 |
| Commercial credit | 19.7 | 24.9 | 14.9 | 15.5 | 5.8 |
| Specialized banks | 7.6 | 4.9 | 12.8 | 14.8 | 2.8 |
| | (In percent of total) | | | | |
| Export finance | 7.0 | 7.0 | 8.0 | 9.9 | 8.6 |
| Commercial credit | 65.1 | 69.1 | 69.8 | 67.6 | 69.3 |
| Credit under government sponsored schemes 1/ | 28.0 | 23.9 | 22.2 | 22.5 | 22.1 |

Source: State Bank of Pakistan.

1/ Comprises SBP's credit to nonbank financial institutions, credit by the specialized banks, and credit for the self-employed scheme and the cotton export corporation.

Table 37. Pakistan: Disbursements of Mandatory Agricultural Credit, 1995/96–1999/2000

(In millions of Pakistan rupees)

| | 1995/96 | | 1996/97 | | 1997/98 | | 1998/99 | | Prel. 1999/2000 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual |
| Total disbursements | 32,426 | 19,102 | 26,041 | 19,515 | 41,456 | 32,974 | 44,806 | 42,847 | 52,922 | 39,688 |
| ADBP 1/ | 17,760 | 10,254 | 11,750 | 11,655 | 26,300 | 22,354 | 28,510 | 30,171 | 35,000 | 24,424 |
| FBC 2/ | 3,810 | 3,803 | 3,435 | 3,431 | 4,300 | 4,929 | 5,440 | 5,440 | 5,980 | 5,951 |
| Commercial banks | 10,856 | 5,045 | 10,856 | 4,429 | 10,856 | 5,691 | 10,856 | 7,236 | 11,942 | 9,313 |
| Memorandum item: | | | | | | | | | | |
| Lending rate (in percent) | | 14.0 | | 14.0 | | 14.0 | | 14.0 | | 14.0 |

Source: State Bank of Pakistan.

1/ Agricultural Development Bank of Pakistan.
2/ Federal Bank for Cooperatives.

Table 38. Pakistan: Market Share of Banks, 1995/96–1999/2000 1/

(In percent)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| **Deposit market share** 2/ | | | | | |
| Nationalized commercial banks | 49.7 | 45.6 | 45.9 | 46.1 | 47.8 |
| Habib Bank Limited | 19.7 | 18.3 | 18.6 | 18.5 | 18.9 |
| National Bank of Pakistan | 20.9 | 18.3 | 18.3 | 18.3 | 18.8 |
| United Bank Limited | 8.8 | 8.7 | 8.7 | 9.1 | 9.9 |
| First Women Bank | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| Partially privatized banks | 19.6 | 18.0 | 18.1 | 20.8 | 20.0 |
| Muslim Commercial Bank | 12.9 | 11.9 | 11.9 | 11.7 | 11.6 |
| Allied Bank Limited | 6.7 | 6.1 | 6.2 | 9.1 | 8.4 |
| Specialized banks | 1.5 | 1.5 | 1.0 | 1.4 | 1.4 |
| Domestic private banks | 10.5 | 12.7 | 12.6 | 14.3 | 14.7 |
| Branches of foreign banks | 18.7 | 22.3 | 22.4 | 17.5 | 16.0 |
| **Loan market share** 3/ | | | | | |
| Nationalized commercial banks | 41.8 | 39.0 | 42.4 | 42.4 | 42.9 |
| Habib Bank Limited | 17.7 | 16.8 | 17.3 | 19.1 | 18.5 |
| National Bank of Pakistan | 14.9 | 14.0 | 16.8 | 16.6 | 17.1 |
| United Bank Limited | 9.1 | 8.1 | 8.2 | 6.6 | 7.2 |
| First Women Bank | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Partially privatized banks | 14.1 | 14.5 | 15.2 | 15.7 | 16.5 |
| Muslim Commercial Bank | 9.2 | 5.2 | 9.9 | 8.4 | 8.7 |
| Allied Bank Limited | 4.9 | 9.3 | 5.3 | 7.3 | 7.8 |
| Specialized banks | 17.0 | 15.6 | 14.2 | 13.8 | 13.0 |
| Domestic private banks | 10.4 | 12.2 | 11.1 | 13.3 | 13.6 |
| Branches of foreign banks | 16.8 | 18.7 | 17.1 | 14.8 | 14.0 |

Source: State Bank of Pakistan.

1/ Based on end-June data.

2/ Deposits include banks' liabilities to the nongovernment sector plus deposits of the federal and provincial governments.

3/ Includes lending to the private sector, public enterprises, and autonomous bodies.

Table 39. Pakistan: Market Share of Banks in Foreign Currency Deposits, 1998–2000 1/

(By residency of deposit holders; in percent)

| | Nonresident | | | Resident | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | Prel. 2000 | 1998 | 1999 | Prel. 2000 | 1998 | 1999 | Prel. 2000 |
| Nationalized commercial banks | 25.3 | 22.3 | 24.1 | 18.6 | 29.1 | 37.4 | 20.2 | 26.3 | 31.8 |
| Habib Bank Limited | 17.2 | 16.3 | 18.2 | 7.5 | 11.9 | 14.3 | 9.9 | 13.7 | 16.0 |
| National Bank of Pakistan | 6.1 | 4.2 | 4.4 | 8.7 | 13.8 | 19.6 | 8.0 | 9.9 | 13.1 |
| United Bank Limited | 2.0 | 1.8 | 1.5 | 2.2 | 3.2 | 3.2 | 2.2 | 2.6 | 2.5 |
| First Women Bank | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.3 | 0.1 | 0.1 | 0.2 |
| Partially privatized banks | 2.2 | 1.1 | 0.9 | 12.2 | 14.2 | 14.1 | 9.7 | 8.9 | 8.5 |
| Muslim Commercial Bank | 1.6 | 0.5 | 0.4 | 8.0 | 7.2 | 6.5 | 6.4 | 4.5 | 3.9 |
| Allied Bank Limited | 0.6 | 0.6 | 0.5 | 4.2 | 7.0 | 7.6 | 3.3 | 4.4 | 4.6 |
| Specialized banks | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic private banks | 10.1 | 11.0 | 15.3 | 25.5 | 20.1 | 19.0 | 21.6 | 16.4 | 17.4 |
| Branches of foreign banks | 62.4 | 65.6 | 59.6 | 43.6 | 36.5 | 29.3 | 48.4 | 48.3 | 42.3 |

Source: State Bank of Pakistan.

1/ As of June 30.

## Table 40. Pakistan: Nonperforming Loans of Banks and Development Finance Institutions, 1995–2000

(End-December)

| | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | | 2000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | In millions of Pakistan rupees | Percentage share | In millions of Pakistan rupees | Percentage share | In millions of Pakistan rupees | Percentage share | In millions of Pakistan rupees | Percentage share | In millions of Pakistan rupees | Percentage share | In millions of Pakistan rupees | Percentage share |
| Total banks and DFIs | 107,837 | 100.0 | 121,006 | 100.0 | 143,475 | 100.0 | 198,157 | 100.0 | 221,245 | 100.0 | 239,541 | 100.0 |
| Banks | 92,904 | 86.2 | 101,529 | 83.9 | 121,997 | 85.0 | 151,782 | 76.6 | 173,407 | 78.4 | 184,300 | 76.9 |
| Nationalized commercial banks | 63,860 | 59.2 | 68,837 | 56.9 | 86,483 | 60.3 | 99,151 | 50.0 | 85,716 | 38.7 | 87,900 | 36.7 |
| Privatized banks | 10,607 | 9.8 | 11,382 | 9.4 | 12,234 | 8.5 | 14,045 | 7.1 | 17,346 | 7.8 | 17,634 | 7.4 |
| Specialized banks | 12,351 | 11.5 | 13,771 | 11.4 | 13,474 | 9.4 | 24,076 | 12.1 | 48,051 | 21.7 | 56,988 | 23.8 |
| Provincial banks | 643 | 0.6 | 743 | 0.6 | 663 | 0.5 | 1,153 | 0.6 | 1,462 | 0.7 | 2,551 | 1.1 |
| Private domestic banks | 1,878 | 1.7 | 2,427 | 2.0 | 4,093 | 2.9 | 5,886 | 3.0 | 12,600 | 5.7 | 12,694 | 5.3 |
| Foreign banks | 3,565 | 3.3 | 4,369 | 3.6 | 5,050 | 3.5 | 7,471 | 3.8 | 8,232 | 3.7 | 6,533 | 2.7 |
| Development finance institutions | 14,933 | 13.8 | 19,477 | 16.1 | 21,478 | 15.0 | 46,375 | 23.4 | 47,838 | 21.6 | 55,241 | 23.1 |
| Memorandum items: | | | | | | | | | | | | |
| Banks' outstanding claims on nongovernment | 468,458 | | 538,370 | | 613,944 | | 711,313 | | 785,393 | | 791,562 | |
| Share of defaults in outstanding claims on nongovernment | 19.8 | | 18.9 | | 19.9 | | 21.3 | | 22.1 | | 23.3 | |

Source: State Bank of Pakistan

## Table 41. Pakistan: Major Interest Rates, 1994/95–1999/2000

| | Treasury Bill Rate 1/ | SBP Discount Rate 2/ | Call Money Rate 3/ | Lending Rate 4/ | Lending Rate 5/ | Deposit Rate 6/ |
|---|---|---|---|---|---|---|
| | | | (In percent) | | | |
| 1997/98 | | | | | | |
| July | 16.6 | 18.5 | 11.0 | 17.2 | 14.7 | 9.9 |
| August | 15.5 | 18.5 | 10.5 | 16.4 | 14.7 | 9.9 |
| September | 15.3 | 18.5 | 7.3 | 16.5 | 14.7 | 9.9 |
| October | 14.2 | 18.0 | 9.6 | 16.6 | 14.7 | 9.9 |
| November | 12.5 | 18.0 | 7.5 | 17.0 | 14.7 | 9.9 |
| December | 13.9 | 18.0 | 13.2 | 16.6 | 14.7 | 9.9 |
| January | 14.7 | 18.0 | 15.8 | 16.2 | 15.6 | 9.7 |
| February | 14.8 | 18.0 | 13.2 | 16.3 | 15.6 | 9.7 |
| March | 16.0 | 18.0 | 13.3 | 16.3 | 15.6 | 9.7 |
| April | 16.0 | 18.0 | 17.4 | 16.6 | 15.6 | 9.7 |
| May | 16.2 | 18.0 | 13.3 | 16.4 | 15.6 | 9.7 |
| June | 15.7 | 18.0 | 14.6 | 16.1 | 15.6 | 9.7 |
| 1998/99 | | | | | | |
| July | 15.7 | 16.5 | 9.2 | 15.0 | 15.4 | 9.8 |
| August | 14.9 | 16.5 | 3.9 | 14.6 | 15.4 | 9.8 |
| September | 13.6 | 16.5 | 2.6 | 15.5 | 15.4 | 9.8 |
| October | 13.6 | 16.5 | 12.7 | 16.1 | 15.4 | 9.8 |
| November | 12.0 | 16.5 | 4.9 | 16.1 | 15.4 | 9.8 |
| December | 11.9 | 16.5 | 7.6 | 15.9 | 15.4 | 9.8 |
| January | 12.5 | 16.5 | 14.1 | 15.8 | 14.8 | 8.9 |
| February | 13.3 | 16.5 | 8.2 | 15.4 | 14.8 | 8.9 |
| March | 11.4 | 15.5 | 5.8 | 15.2 | 14.8 | 8.9 |
| April | 10.6 | 14.0 | 13.4 | 15.4 | 14.8 | 8.9 |
| May | 10.6 | 13.0 | 8.9 | 15.0 | 14.8 | 8.9 |
| June | 10.6 | 13.0 | 2.8 | 14.6 | 14.8 | 8.9 |
| 1999/2000 | | | | | | |
| July | 10.6 | 13.0 | 9.2 | 14.8 | 14.5 | 8.0 |
| August | 9.4 | 13.0 | 8.2 | 13.9 | 14.5 | 8.0 |
| September | 10.3 | 13.0 | 7.9 | 14.7 | 14.5 | 8.0 |
| October | 10.4 | 13.0 | 10.6 | 14.9 | 14.5 | 8.0 |
| November | 10.1 | 13.0 | 9.2 | 14.8 | 14.5 | 8.0 |
| December | 10.1 | 13.0 | 10.1 | 14.4 | 14.5 | 8.0 |
| January | 8.4 | 11.0 | 8.2 | 14.3 | 13.5 | 7.1 |
| February | 7.5 | 11.0 | 6.3 | 13.6 | 13.5 | 7.1 |
| March | 7.4 | 11.0 | 6.7 | 13.6 | 13.5 | 7.1 |
| April | 7.1 | 11.0 | 5.6 | 13.5 | 13.5 | 7.1 |
| May | 7.2 | 11.0 | 9.3 | 12.9 | 13.5 | 7.1 |
| June | 7.2 | 11.0 | 10.9 | 12.9 | 13.5 | 7.1 |
| | | | (Annual averages in percent) | | | |
| 1994/95 | 11.8 | 15.2 | 10.3 | 16.4 | 13.6 | 9.0 |
| 1995/96 | 12.8 | 16.5 | 11.2 | 17.0 | 14.1 | 9.4 |
| 1996/97 | 15.6 | 19.2 | 13.0 | 17.1 | 14.3 | 9.6 |
| 1997/98 | 15.1 | 18.1 | 12.2 | 16.5 | 15.2 | 9.8 |
| 1998/99 | 12.5 | 15.6 | 7.8 | 15.4 | 15.1 | 9.3 |
| 1999/00 | 8.8 | 12.0 | 8.5 | 14.0 | 14.0 | 7.5 |

Source: State Bank of Pakistan.

1/ Primary auction rate on six-month treasury bills. In July 1996, treasury bills were replaced by six-month short-term federal bonds (STFB).

2/ SBP discount rate for its three-day repo facility.

3/ Defined as the monthly average of daily minimum and maximum rates.

4/ Weighted average lending rates for all commercial banks based on gross disbursement.

5/ Weighted average lending rates for all commercial banks based on stock data.

6/ Average rate of return on deposits under the profit and loss sharing system determined on a six-monthly basis.

Table 42. Pakistan: Balance of Payments, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 | |
|---|---|---|---|---|---|---|
| | (in millions of U.S. dollars) | | | | | |
| Current account excluding official transfers | -4,820 | -3,851 | -1,922 | -2,382 | -1,143 | |
| Current account balance | -4,593 | -3,562 | -1,702 | -2,188 | -1,008 | |
| Trade balance | -3,704 | -3,145 | -1,868 | -2,086 | -1,435 | |
| Exports f.o.b. | 8,311 | 8,096 | 8,433 | 7,526 | 8,163 | |
| Imports f.o.b | -12,015 | -11,241 | -10,301 | -9,612 | -9,598 | |
| Services (net) | -3,499 | -3,662 | -3,264 | -2,573 | -2,771 | |
| *Of which*: interest payments | -1,631 | -1,745 | -1,763 | -1,460 | -1,676 | |
| Private transfers (net) | 2,383 | 2,956 | 3,210 | 2,277 | 3,062 | |
| *Of which*: Workers' remittances | 1,461 | 1,409 | 1,490 | 1,060 | 983 | |
| Official transfers (net) | 227 | 289 | 220 | 194 | 135 | |
| Capital account | 4,163 | 2,530 | 1,421 | -807 | -2,879 | |
| Public medium- and long-term capital | 936 | 747 | 1,001 | 922 | -660 | |
| Project and nonproject loans | 681 | 199 | 726 | 572 | 127 | |
| Disbursements | 2,364 | 1,996 | 2,617 | 2,610 | 2,095 | |
| *Of which*: non-project financing 1/ | 19 | 0 | 625 | 929 | 916 | |
| Amortization | -1,683 | -1,797 | -1,891 | -2,038 | -1,968 | |
| Commercial banks and IDB | 104 | 54 | 399 | -370 | -170 | |
| Other | 151 | 494 | -124 | 720 | -617 | 2/ |
| Net public sector short-term (net) | 180 | 30 | 173 | -894 | -254 | 3/ |
| Private medium- and long-term | 1,700 | 1,493 | 735 | 466 | 278 | |
| Private short-term (incl. errors & omissions) | 1,347 | 260 | -488 | -1,301 | -2,243 | 4/ |
| Nonbank | 411 | 645 | -653 | -1,052 | -915 | |
| Deposit money banks | 736 | -456 | -208 | -1,315 | -1,831 | |
| Errors and omissions | 199 | 71 | 373 | 1,066 | 504 | |
| Overall balance, before debt relief granted | -431 | -1,032 | -281 | -2,995 | -3,887 | |
| Financing | 431 | 1,032 | 281 | 2,995 | 3,887 | |
| Net international reserves (increase -) | 395 | 1,199 | 148 | -1,254 | 209 | |
| Use of Fund credit (net) | 36 | -167 | 133 | 430 | -287 | |
| Exceptional Financing | ... | ... | ... | 3,819 | 3,964 | 5/ |
| End-period gross official reserves (excl. gold) | 2,053 | 1,141 | 932 | 1,740 | 1,358 | |
| (In weeks of imports of goods and nonfactor services) | 7.4 | 4.4 | 3.9 | 8.1 | 6.3 | |

Table 42. Pakistan: Balance of Payments, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | | | (In percent of GDP) | | |
| Current account (excluding official transfers) | -7.6 | -6.1 | -3.1 | -4.1 | -1.9 |
| Current account balance | -7.2 | -5.7 | -2.7 | -3.8 | -1.6 |
| Private medium and long term capital | 2.7 | 2.4 | 1.2 | 0.8 | 0.5 |
| Exports f.o.b. | 13.1 | 12.9 | 13.5 | 12.9 | 13.3 |
| Imports f.o.b. | -18.9 | -17.9 | -16.5 | -16.5 | -15.6 |
| | | | (Annual change in percent) | | |
| Exports f.o.b. | 7.1 | -2.6 | 4.2 | -10.8 | 8.5 |
| Imports f.o.b. | 16.7 | -6.4 | -8.4 | -6.7 | -0.1 |

Sources: State Bank of Pakistan; Ministry of Finance; and Fund staff estimates.

1/ Includes all financing from Saudi Arabia for oil imports.

2/ Eurobond repayment in 1999/00 shown as capital outflow, with rescheduling shown in exceptional financing

3/ Includes repayment of $300 million in UAE's deposits.

4/ Includes repayment of FCDs held in banks and NBFIs in 1999-2000 (reschedulings of $1.1 billion shown as exceptional financing); counterpart of conversion into rupees of institutional and non-institutional bank and nonbank FCDs.

5/ Includes Paris Club debt relief and rolling over $1.1 billion in FCDs, $300 million in deposits at the SBP, and US$500 million in deposits at the NBP.

Table 43. Pakistan: Merchandise Exports, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of U.S. Dollars) | | | | |
| Total exports, balance of payments basis f.o.b. | 8,311 | 8,096 | 8,433 | 7,526 | 8,163 |
| Total exports, customs basis | 8,707 | 8,320 | 8,651 | 7,779 | 8,569 |
| Cotton | 506 | 31 | 126 | 2 | 73 |
| Rice | 504 | 469 | 562 | 533 | 540 |
| Basmati rice | 295 | 205 | 253 | 283 | 291 |
| Other varieties | 209 | 264 | 309 | 251 | 249 |
| Petroleum products | 67 | 82 | 45 | 47 | 82 |
| Cotton manufactures | 4,981 | 4,993 | 4,866 | 4,538 | 5,092 |
| Yarn | 1,540 | 1,412 | 1,160 | 945 | 1,072 |
| Cloth | 1,276 | 1,262 | 1,250 | 1,115 | 1,096 |
| Ready-made garments | 648 | 734 | 747 | 651 | 772 |
| Tents and canvas | 39 | 36 | 58 | 41 | 53 |
| Hosiery | 703 | 689 | 697 | 742 | 887 |
| Towels and other made-up articles | 775 | 859 | 955 | 1,044 | 1,213 |
| Other traditional exports | 1,067 | 1,100 | 1,198 | 902 | 1,036 |
| Leather | 260 | 240 | 208 | 178 | 175 |
| Carpets | 209 | 199 | 200 | 203 | 264 |
| Fish products | 141 | 149 | 172 | 122 | 139 |
| Synthetic textiles | 457 | 512 | 618 | 398 | 458 |
| Other exports | 1,582 | 1,647 | 1,831 | 1,757 | 1,746 |
| *Of which* | | | | | |
| Leather garments and leather gloves | 333 | 364 | 343 | 334 | 339 |
| Sports goods | 248 | 309 | 384 | 256 | 279 |
| Surgical goods | 127 | 126 | 125 | 112 | 120 |
| Fruits and vegetables | 54 | 89 | 90 | 107 | 122 |
| Petroleum and petroleum products | 67 | 78 | 75 | 47 | 82 |
| Adjustment for freight and valuation 1/ | -396 | -224 | -218 | -253 | -406 |
| | (Annual percentage changes) | | | | |
| Total exports, f.o.b. | 7.1 | -2.6 | 4.2 | -10.8 | 8.5 |
| Cotton | 721.0 | -93.9 | 310.7 | -98.2 | 3,056.5 |
| Rice | 11.0 | -7.0 | 20.0 | -5.2 | 1.2 |
| Petroleum products | -22.0 | 21.8 | -44.9 | 5.4 | 72.7 |
| Cotton manufactures | 7.7 | 0.2 | -2.5 | -6.7 | 12.2 |
| Other traditional exports | -11.0 | 3.1 | 8.9 | -24.7 | 14.9 |
| Other exports | -7.4 | 4.1 | 11.2 | -4.0 | 1.2 |

Sources: Ministry of Commerce; and Ministry of Finance and Economic Affairs.

1/ Customs data may differ from the f.o.b. figures used in the balance of payments estimates. in terms of timing, coverage and valuation.

Table 44. Pakistan: Merchandise Imports, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | | | (In millions of U.S. dollars) | | |
| Total imports, f.o.b. | 12,015 | 11,241 | 10,301 | 9,612 | 9,598 |
| Freight and insurance | 1,033 | 968 | 918 | 844 | 801 |
| Total imports, c.i.f. | 13,048 | 12,209 | 11,219 | 10,456 | 10,361 |
| Petroleum products | 2,010 | 2,246 | 1,750 | 1,485 | 2,783 |
| Crude oil | 509 | 581 | 453 | 431 | 790 |
| Fuel oil, f.o.b. | 540 | 584 | 536 | 432 | 906 |
| Other petroleum products. f.o.b. | 961 | 1,081 | 761 | 622 | 1,087 |
| Raw cotton imports | ... | ... | ... | ... | ... |
| Wheat | 455 | 477 | 709 | 407 | 284 |
| Fertilizer | 345 | 387 | 208 | 265 | 198 |
| Edible oils | 855 | 611 | 768 | 824 | 414 |
| Palm oil | 738 | 493 | 669 | 597 | 325 |
| Soy oil | 117 | 118 | 99 | 227 | 88 |
| Project-related imports | 1,133 | 1,047 | 859 | 1,013 | 611 |
| Defense-related imports | 1,093 | 891 | 862 | 630 | 510 |
| Other public sector imports | 377 | 316 | 285 | 260 | 215 |
| Private sector imports | 6,688 | 6,155 | 5,691 | 5,545 | 5,320 |
| Personal baggage 1/ | 72 | 78 | 86 | 26 | 26 |
| Afghan refugee assistance | 20 | 1 | 1 | 2 | 1 |
| | | | (Annual percentage changes) | | |
| Total imports, c.i.f. | 16.5 | -6.4 | -8.1 | -6.8 | -0.9 |
| Petroleum products | 16.7 | 11.7 | -22.1 | -15.1 | 87.4 |
| Wheat | 27.4 | 4.8 | 48.6 | -42.6 | -30.2 |
| Fertilizers | 170.1 | 12.2 | -46.3 | 27.5 | -25.5 |
| Edible oils | -14.2 | -28.5 | 25.7 | 7.3 | -49.8 |
| Project-related | -13.5 | -7.6 | -18.0 | 17.9 | -39.7 |
| Defense-related imports | 30.3 | -18.5 | -3.3 | -26.9 | -19.0 |
| Other public sector imports | -0.8 | -16.2 | -9.8 | -8.8 | -17.3 |
| Private sector imports | 34.0 | -8.0 | -7.5 | -2.6 | -4.1 |

Sources: Ministry of Commerce, and Ministry of Finance and Economic Affairs.

1/ Includes nonrepatriable investment.

Table 45. Pakistan: Trade Indices, 1995/96–1999/2000
(1991/92 = 100; annual percentage changes)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Export volume index | 5.4 | 4.2 | 9.7 | -7.7 | 11.5 |
| *Of which:* | | | | | |
| Rice | -13.6 | 10.4 | 18.4 | -14.5 | 7.1 |
| Cotton manufactures | 4.9 | 7.2 | 3.3 | -2.0 | 10.9 |
| Other traditional exports | -13.8 | 9.0 | 14.2 | -23.8 | 8.8 |
| Export price index 1/ | 1.6 | -6.5 | -5.1 | -3.3 | -3.1 |
| *Of which:* | | | | | |
| Rice | 28.5 | -15.8 | 1.4 | 10.8 | -5.5 |
| Cotton manufactures | 2.7 | -6.5 | -5.6 | -4.8 | -10.4 |
| Other traditional exports | 3.2 | -5.4 | -4.6 | -1.2 | 5.6 |
| Import volume index | 10.6 | -3.4 | -0.3 | 0.5 | -6.7 |
| *Of which:* | | | | | |
| Petroleum and petroleum products | 12.2 | -4.7 | 5.2 | 6.0 | 5.4 |
| Wheat | -24.8 | 27.0 | 64.0 | -22.0 | -37.5 |
| Fertilizers | 146.5 | 14.8 | -38.4 | 54.1 | -29.8 |
| Edible oils | -18.1 | -7.4 | 11.5 | 12.4 | -20.7 |
| Private sector imports | 29.8 | -4.4 | -1.3 | -1.3 | 2.1 |
| Import price index 1/ | 5.5 | -3.2 | -8.1 | -7.1 | 7.1 |
| *Of which:* | | | | | |
| Petroleum and petroleum products | 4.1 | 17.3 | -25.9 | -19.9 | 77.8 |
| Wheat | 69.4 | -17.5 | -9.4 | -26.5 | 11.5 |
| Fertilizers | 9.6 | -2.3 | -12.7 | -17.3 | 7.5 |
| Edible oils | 4.7 | -22.8 | 12.7 | -4.6 | -36.7 |
| Private sector imports | 3.2 | -5.4 | -4.6 | -1.2 | -3.3 |
| Terms of trade | -7.3 | 0.3 | 6.0 | 4.1 | -9.5 |
| (Excluding crude oil) | 3.2 | -6.0 | -1.0 | -0.9 | 1.9 |

Source: Fund staff estimates.

1/ The estimated export and import unit price indices are based on U.S. dollar prices.

Table 46. Pakistan: Major Merchandise Exports, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of U.S. dollars; unless otherwise specified) | | | | |
| Rice | | | | | |
| Value | 504 | 469 | 562 | 534 | 540 |
| Volume (thousand metric tons) | 1,601 | 1,764 | 2,091 | 1,789 | 1,916 |
| Unit value (US$ per metric ton) | 315 | 266 | 269 | 298 | 282 |
| Basmati | | | | | |
| Value | 295 | 205 | 253 | 283 | 291 |
| Volume | 716 | 457 | 552 | 589 | 570 |
| Unit value | 411 | 449 | 459 | 481 | 510 |
| Other varieties | | | | | |
| Value | 209 | 264 | 309 | 250 | 249 |
| Volume | 884 | 1,307 | 1,539 | 1,200 | 1,346 |
| Unit value | 236 | 202 | 201 | 209 | 185 |
| Raw cotton | | | | | |
| Value | 507 | 31 | 126 | 2 | 73 |
| Volume (thousand metric tons) | 311 | 21 | 89 | 2 | 83 |
| Unit value (US$ per kilogram) | 1.6 | 1.5 | 1.4 | 1.3 | 0.9 |
| Cotton yarn | | | | | |
| Value | 1,540 | 1,411 | 1,160 | 945 | 1,072 |
| Volume (thousand metric tons) | 536 | 508 | 462 | 422 | 513 |
| Unit value (US$ per kilogram) | 2.9 | 2.8 | 2.5 | 2.2 | 2.1 |
| Cotton cloth | | | | | |
| Value | 1,276 | 1,262 | 1,250 | 1,115 | 1,096 |
| Volume (million square meters) | 1,323 | 1,257 | 1,272 | 1,355 | 1,575 |
| Unit value (US$ per square meter) | 1.0 | 1.0 | 1.0 | 0.8 | 0.7 |
| Woolen carpets and rugs | | | | | |
| Value | 205 | 199 | 200 | 203 | 264 |
| Volume (thousand square meters) | 3,276 | 2,296 | 3,465 | 3,860 | 5,156 |
| Unit value (US$ per square meter) | 62.6 | 86.7 | 57.8 | 52.5 | 51.3 |
| Leather | | | | | |
| Value | 259 | 240 | 208 | 177 | 175 |
| Volume (thousand metric tons) | 16 | 10 | 13 | 13 | 13 |
| Unit value (US$ per square meter) | 15.8 | 23.1 | 16.2 | 14.1 | 13.6 |
| Fish and fish preparations | | | | | |
| Value | 141 | 149 | 172 | 123 | 139 |
| Volume (thousand metric tons) | 66 | 80 | 77 | 79 | 90 |
| Unit value (US$ per kilogram) | 2.1 | 1.9 | 2.2 | 1.5 | 1.5 |
| Memorandum item: | | | | | |
| Major exports as percent of total exports | 50.9 | 45.2 | 42.5 | 39.8 | 39.2 |

Source: Ministry of Finance and Economic Affairs.

Table 47. Pakistan: Merchandise Trade by Economic Category, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 19998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | |
| Exports (f.o.b.) 1/ | 8,707 | 8,320 | 8,627 | 7,780 | 8,569 |
| Primary commodities | 1,413 | 932 | 1,095 | 900 | 1,037 |
| Semi-manufatured goods | 1,885 | 1,711 | 1,495 | 1,401 | 1,320 |
| Manufactured goods | 5,409 | 5,677 | 6,037 | 5,479 | 6,212 |
| Of which: Cotton manufactures | 4,981 | 4,993 | 4,866 | 4,538 | 5,092 |
| Imports (c.i.f) | 11,805 | 11,894 | 10,118 | 9,437 | 10,361 |
| Consumer goods | 1,606 | 1,805 | 1,805 | 1,484 | 1,461 |
| Raw material for consumer goods | 5,361 | 5,177 | 4,534 | 4,465 | 5,585 |
| Raw material for capital goods | 669 | 569 | 541 | 519 | 601 |
| Capital goods | 4,169 | 4,343 | 3,238 | 2,969 | 2,715 |
| | (In percent of total) | | | | |
| Exports (f.o.b) 1/ | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Primary commodities | 16.2 | 11.2 | 12.7 | 11.6 | 12.1 |
| Semi-manufatured goods | 21.6 | 20.6 | 17.3 | 18.0 | 15.4 |
| Manufactured goods | 62.1 | 68.2 | 70.0 | 70.4 | 72.5 |
| Of which: Cotton manufactures | 57.2 | 60.0 | 56.4 | 58.3 | 59.4 |
| Imports (c.i.f) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Consumer goods | 13.6 | 15.2 | 17.8 | 15.7 | 14.1 |
| Raw material for consumer goods | 45.4 | 43.5 | 44.8 | 47.3 | 53.9 |
| Raw material for capital goods | 5.7 | 4.8 | 5.3 | 5.5 | 5.8 |
| Capital goods | 35.3 | 36.5 | 32.0 | 31.5 | 26.2 |

Source: Ministry of Commerce.

1/ On the basis of customs data, which may differ from the figures used in the balance of payments in terms of timing, coverage, and valuation.

Table 48. Pakistan: Direction of Trade, 1995/96–1999/2000
(In percent)

| | 1995/96 | 1996/97 | 1997/98 | 19998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Exports | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| European Community | 30.0 | 32.0 | 31.0 | 28.7 | 27.3 |
| UK | 6.0 | 7.0 | 7.0 | 6.6 | 6.8 |
| Other | 24.0 | 25.0 | 24.0 | 22.1 | 20.5 |
| United States | 16.0 | 18.0 | 21.0 | 21.8 | 24.8 |
| Japan | 7.0 | 6.0 | 4.0 | 3.5 | 3.1 |
| Hong Kong | 9.0 | 9.0 | 7.0 | 7.1 | 6.1 |
| Singapore | 1.0 | 1.0 | 1.0 | 0.5 | 0.6 |
| China | 2.0 | 1.0 | 2.0 | 2.0 | 2.1 |
| Baltic and CIS countries 1/ | ... | ... | ... | 0.1 | 0.04 |
| Oil-producing trading partners 2/ | ... | ... | ... | 4.6 | 3.7 |
| Other | 35.0 | 33.0 | 34.0 | 31.8 | 32.3 |
| Imports | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| European Community | 22.0 | 22.0 | 19.0 | 17.4 | 15.1 |
| UK | 4.0 | 5.0 | 4.0 | 4.4 | 3.5 |
| Other | 18.0 | 17.0 | 15.0 | 13.0 | 11.6 |
| United States | 9.0 | 12.0 | 11.0 | 7.7 | 6.3 |
| Japan | 11.0 | 9.0 | 8.0 | 8.3 | 6.3 |
| Hong Kong | 0.4 | 0.3 | 0.4 | 0.6 | 0.5 |
| Singapore | 2.0 | 2.0 | 2.0 | 3.5 | 2.6 |
| China | 5.0 | 5.0 | 5.0 | 4.2 | 4.6 |
| Baltic and CIS countries 1/ | ... | ... | ... | 0.6 | 0.9 |
| Oil-producing trading partners 2/ | ... | ... | ... | 15.8 | 23.9 |
| Other | 50.6 | 49.7 | 54.6 | 41.9 | 39.8 |

Source: Federal Bureau of Statistics

1/ Excludes informal trade with Central Asian Republics.
2/ Indonesia, Iran, Kuwait, and Saudi Arabia.

Table 49. Pakistan: Services, Income, and Current Transfers, 1995/96–1999/2000

(In millions of U.S. dollars)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Services | -3,499 | -3,662 | -3,264 | -2,573 | -2,771 |
| Non-factor sevices | -1,546 | -1,492 | -934 | -765 | -757 |
| Receipts | 1,666 | 1,685 | 1,584 | 1,311 | 1,382 |
| Transportation | 806 | 802 | 804 | 678 | 785 |
| Travel | 105 | 103 | 100 | 69 | 76 |
| Other | 755 | 780 | 680 | 564 | 521 |
| Payments | -3,212 | -3,177 | -2,518 | -2,076 | -2,139 |
| Transportation | -1,747 | -1,717 | -1,601 | -1,374 | -1,441 |
| Travel | -609 | -644 | -379 | -191 | -219 |
| Other | -856 | -816 | -538 | -511 | -479 |
| Income | -1,953 | -2,170 | -2,330 | -1,808 | -2,014 |
| Receipts | 184 | 155 | 124 | 95 | 116 |
| Interest on reserves | 120 | 83 | 96 | 75 | 105 |
| Other | 64 | 72 | 28 | 20 | 11 |
| Payments | -2,137 | -2,325 | -2,454 | -1,903 | -2,130 |
| Interest | -1,631 | -1,745 | -1,763 | -1,460 | -1,676 |
| Other | -506 | -580 | -691 | -443 | -454 |
| Current transfers | 2,610 | 3,245 | 3,430 | 2,471 | 3,197 |
| Private transfers (net) | 2,383 | 2,956 | 3,210 | 2,277 | 3,062 |
| Receipts | 2,413 | 2,988 | 3,225 | 2,307 | 3,093 |
| Workers' remittances | 1,461 | 1,409 | 1,490 | 1,060 | 983 |
| Other | 952 | 1,579 | 1,735 | 1,247 | 2,110 |
| Payments | -30 | -32 | -15 | -30 | -31 |
| Official transfers (net) | 227 | 289 | 220 | 194 | 135 |
| Receipts | 249 | 306 | 224 | 198 | 149 |
| Project and nonproject aid | 202 | 237 | 186 | 154 | 125 |
| Project aid | 189 | 234 | 183 | 112 | 123 |
| Food aid | 0 | 0 | 0 | 40 | 0 |
| Other commodity aid | 2 | 2 | 2 | 0 | 0 |
| Refugee assistance | 11 | 1 | 1 | 2 | 2 |
| IMF subsidy | 5 | 0 | 0 | 0 | 0 |
| Taxes & subsidies | 21 | 8 | 8 | 21 | 23 |
| Others | 21 | 61 | 30 | 23 | 2 |
| Payments | -22 | -17 | -4 | -4 | -14 |

Sources: State Bank of Pakistan; Ministry of Finance and Economic Affairs; and Fund staff estimates.

Table 50. Pakistan: Home Remittances from Pakistani Nationals Abroad, 1995/96–1999/2000

(In millions of U.S. dollars)

| | 1995/96 | 1996/97 | 1997/98 | Prel. 1998/99 | Est. 1999/2000 |
|---|---|---|---|---|---|
| Total | 1,461 | 1,409 | 1,490 | 1,060 | 983 |
| Total cash flow | 1,227 | 1,078 | 1,238 | 876 | 913 |
| Middle East | 822 | 706 | 843 | 641 | 682 |
| United Kingdom | 110 | 98 | 99 | 74 | 73 |
| United States | 142 | 146 | 166 | 82 | 80 |
| Germany | 26 | 19 | 17 | 12 | 10 |
| Other | 127 | 109 | 113 | 67 | 67 |
| Encashment and Profits of Bearer Certificates | 234 | 331 | 252 | 185 | 70 |

Source: State Bank of Pakistan.

Table 51. Pakistan: Foreign Interest Payments, 1995/96–1999/2000

(In millions of U.S. dollars)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Total interest payments | 1,631 | 1,745 | 1,763 | 1,460 | 1,676 |
| Interest on medium- and long-term public and publicly guaranteed debt | 973 | 965 | 1,004 | 977 | 1,133 |
| Project and nonproject aid | 855 | 819 | 817 | 813 | 871 |
| Commercial banks and IDB 1/ | 40 | 61 | 77 | 51 | 53 |
| Foreign Currency Bearer Certificates | 30 | 35 | 68 | 69 | 149 |
| IMF charges | 48 | 50 | 42 | 44 | 60 |
| Interest on public sector short-term debt | 80 | 89 | 70 | 96 | 94 |
| Commercial banks and IDB 1/ | 54 | 36 | 21 | 41 | 64 |
| FEBCs and DBCs 2/ | 26 | 53 | 49 | 55 | 30 |
| Interest on the foreign-currency deposit liabilities of the banking system | 434 | 544 | 497 | 173 | 202 |
| State Bank of Pakistan | 19 | 28 | 54 | 50 | 65 |
| Scheduled banks | 415 | 516 | 443 | 123 | 137 |
| Interest on unguaranteed private debt | 144 | 147 | 192 | 214 | 247 |

Sources: State Bank of Pakistan; Ministry of Finance and Economic Affairs; and Fund staff estimates.

1/ Islamic Development Bank.
2/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

Table 52. Pakistan: Medium- and Long-Term Capital Flows, 1995/96–1999/2000

(In millions of U.S. dollars)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Total medium- and long-term capital | 2,636 | 2,240 | 1,736 | 1,388 | -382 |
| Public and publicly guaranteed | 936 | 747 | 1,001 | 922 | -660 |
| Project and nonproject aid | 681 | 199 | 726 | 572 | 127 |
| Disbursements | 2,364 | 1,996 | 2,617 | 2,610 | 2,095 |
| Project loans | 1,962 | 1,587 | 1,369 | 1,451 | 988 |
| Food loans | 383 | 409 | 623 | 230 | 191 |
| Program loans | 19 | 0 | 625 | 929 | 916 |
| Amortization | 1,683 | 1,797 | 1,891 | 2,038 | 1,968 |
| Commercial banks and IDB 1/ | 104 | 54 | 399 | -370 | -170 |
| Commercial banks | 68 | 40 | 453 | -376 | -197 |
| Disbursements | 323 | 565 | 595 | 0 | 0 |
| Amortization | 255 | 525 | 142 | 376 | 197 |
| IDB 1/ | 36 | 14 | -54 | 6 | 27 |
| Disbursements | 58 | 52 | 0 | 14 | 27 |
| Amortization | 22 | 38 | 54 | 8 | 0 |
| Eurobonds and Foreign Exchange | 151 | 494 | -124 | 720 | -617 |
| Bearer Certificates | 165 | 457 | -150 | 164 | -602 |
| Credits | 165 | 457 | 0 | 208 | 8 |
| Debits | 0 | 0 | 150 | 44 | 610 |
| Other | -14 | 37 | 26 | 556 | -15 |
| Credits | 119 | 64 | 58 | 933 | 7 |
| Debits | 133 | 27 | 32 | 377 | 22 |
| Private sector | 1,700 | 1,493 | 735 | 466 | 278 |
| Private sector, nonbank | 1,705 | 1,486 | 733 | 466 | 280 |
| Direct investment | 1,106 | 700 | 572 | 428 | 473 |
| Inflows | 1,106 | 712 | 602 | 478 | 473 |
| Outflows | 0 | 12 | 30 | 50 | 0 |
| Portfolio investment | 205 | 268 | 221 | 28 | 73 |
| Inflows | 205 | 268 | 221 | 28 | 73 |
| Outflows | 0 | 0 | 0 | 0 | 0 |
| Private unguaranteed | 385 | 298 | 373 | -241 | -422 |
| Inflows | 759 | 675 | 797 | 195 | 166 |
| Outflows | 374 | 377 | 424 | 436 | 588 |
| Other nonbank | 9 | 220 | -433 | 251 | 156 |
| Inflows | 9 | 250 | 31 | 251 | 161 |
| Outflows | 0 | 30 | 464 | 0 | 5 |
| Deposit money banks | -5 | 7 | 2 | 0 | -2 |
| Inflows | 0 | 11 | 3 | 0 | 1 |
| Outflows | 5 | 4 | 1 | 0 | 3 |

Sources: State Bank of Pakistan; Ministry of Finance and Economic Affairs; and Fund staff estimates.

1/ Islamic Development Bank.

Table 53. Pakistan: Selected External Aid Indicators, 1995/96–1999/2000

(In millions of U.S. dollars)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Commitments | 2,681 | 1,759 | 2,106 | 2,219 | 666 |
| By category | | | | | |
| Project aid | 2,219 | 1,351 | 776 | 1,382 | 261 |
| Commodity aid | 462 | 408 | 1,330 | 837 | 405 |
| Nonfood | 67 | 3 | 752 | 652 | 2 |
| Food | 395 | 405 | 578 | 185 | 403 |
| By maturity | | | | | |
| Loans | 2,477 | 1,603 | 2,008 | 1,941 | 541 |
| 1–5 years | 427 | 85 | 523 | 344 | 390 |
| 5–10 years | 173 | 45 | 19 | 612 | 0 |
| 10–15 years | 177 | 109 | 294 | 342 | 0 |
| Over 15 years | 1,700 | 1,364 | 1,172 | 643 | 151 |
| Grants | 204 | 156 | 98 | 278 | 125 |
| Memorandum items: | | | | | |
| Average interest rate in percent on disbursed debt outstanding 1/ | 3.7 | 3.6 | 3.5 | 3.6 | 3.7 |

Sources: Ministry of Finance and Economic Affairs; and Fund staff estimates.

1/ Scheduled interest payments on debt with maturity of more than one year as percent of the average stock of debt outstanding in each year.

Table 54. Pakistan: Short-Term Capital Flows, 1995/96–1999/2000

(In millions of U.S. dollars)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Total short-term capital | 1,327 | 219 | -688 | -3,261 | -3,000 |
| Public sector | 180 | 30 | 173 | -894 | -254 |
| Commercial banks and IDB 1/ | 87 | -150 | -9 | -493 | -49 |
| Credits | 1,086 | 1,097 | 1,006 | 197 | 92 |
| Debits | 999 | 1,247 | 1,015 | 690 | 141 |
| China Commercial banks | 61 | -228 | -52 | -482 | 0 |
| Credits | 963 | 985 | 848 | 59 | 0 |
| Debits | 902 | 1,213 | 900 | 541 | 0 |
| IDB 1/ | 26 | 78 | 43 | -11 | -49 |
| Credits | 123 | 112 | 158 | 138 | 92 |
| Debits | 97 | 34 | 115 | 149 | 141 |
| FEBCs and DBCs 2/ | -61 | -48 | -37 | -50 | -21 |
| Credits | 0 | 0 | 0 | 0 | 0 |
| Debits | 61 | 48 | 37 | 50 | 21 |
| Other | 154 | 228 | 219 | -351 | -184 |
| Credits | 249 | 241 | 378 | 8 | 179 |
| Debits | 95 | 13 | 159 | 359 | 363 |
| Private sector 3/ | 1,147 | 189 | -861 | -2,367 | -2,746 |
| Private nonbank | 411 | 645 | -653 | -1,052 | -915 |
| Credits | 602 | 853 | 340 | 110 | 40 |
| Debits | 191 | 208 | 993 | 1,162 | 955 |
| Deposit money banks | 736 | -456 | -208 | -1,315 | -1,831 |
| Foereign currency deposits | 526 | -380 | -542 | -1,361 | -1,661 |
| Credits | 526 | 417 | 90 | 0 | 0 |
| Debits | 0 | 797 | 632 | 1,361 | 1,661 |
| Other (export bills) | 210 | -76 | 334 | 46 | -170 |
| Credits | 212 | 219 | 396 | 165 | 61 |
| Debits | 2 | 295 | 62 | 119 | 231 |

Sources: State Bank of Pakistan; Ministry of Finance and Economic Affairs; and Fund staff estimates.

1/ Islamic Development Bank.
2/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.
3/ These figures differ from the figures in Table 42 because they do not include erroes and ommissions.

Table 55. Pakistan: Total External Debt, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | |
| Total external debt | 34,684 | 35,766 | 35,782 | 36,471 | 35,591 |
| Total Public and publicly guaranteed external debt excluding external SBP liabilities | 27,871 | 27,874 | 27,817 | 29,210 | 29,575 |
| Medium- and long-term | 24,757 | 25,922 | 26,185 | 27,428 | 27,800 |
| Project and nonproject aid | 22,275 | 23,145 | 23,042 | 23,101 | 23,834 |
| Commercial banks and IDB 1/ | 647 | 701 | 1,100 | 730 | 560 |
| Eurobonds | 300 | 760 | 628 | 608 | 613 |
| US special bonds | 0 | 0 | 0 | 1,164 | 1,297 |
| Fund credit | 1,535 | 1,316 | 1,415 | 1,825 | 1,496 |
| Military debt | 1,745 | 1,120 | 1,006 | 1,004 | 958 |
| Public sector short-term (at original maturity) | 1,369 | 832 | 626 | 779 | 818 |
| Commercial banks and IDB 1/ | 873 | 418 | 298 | 583 | 671 |
| FEBCs, DBCs and FCBCs 2/ | 496 | 414 | 328 | 196 | 147 |
| Deposit liabilities of the banking system | 3,300 | 3,502 | 3,222 | 2,937 | 2,647 |
| State Bank of Pakistan | 250 | 835 | 1,183 | 1,270 | 1,435 |
| *Of which*: deposits of foreign banks | 251 | 486 | 635 | 522 | 222 |
| Deposit money banks | 3,050 | 2,667 | 2,039 | 1,667 | 1,212 |
| Liabilities to foreign banks | 1,592 | 1,533 | 772 | 953 | 784 |
| Other liabilities | 1,458 | 1,134 | 1,267 | 714 | 428 |
| Of which: FE-25 3/ | 0 | 0 | 0 | 62 | 98 |
| Deposit liabilities of the nonbank financial institutions | 1,108 | 1,685 | 1,616 | 889 | 527 |
| Private debt | 2,405 | 2,705 | 3,127 | 3,435 | 2,842 |
| | (In percent of GDP) | | | | |
| Total external | 54.5 | 57.0 | 57.3 | 62.7 | 57.8 |
| Total Public and publicly guaranteed external debt excluding external SBP liabilities | 43.8 | 44.4 | 44.5 | 50.3 | 48.1 |
| Medium- and long-term | 38.9 | 41.3 | 41.9 | 47.2 | 45.2 |
| Military debt | 2.7 | 1.8 | 1.6 | 1.7 | 1.6 |
| Public sector short-term (at original maturity) | 2.2 | 1.3 | 1.0 | 1.3 | 1.3 |
| Deposit liabilities of the banking system | 5.2 | 5.6 | 5.2 | 5.1 | 4.3 |
| State Bank of Pakistan | 0.4 | 1.3 | 1.9 | 2.2 | 2.3 |
| Deposit money banks | 4.8 | 4.3 | 3.3 | 2.9 | 2.0 |
| Deposit liabilities of the nonbank financial institutions | 1.7 | 2.7 | 2.6 | 1.5 | 0.9 |
| Private debt | 3.8 | 4.3 | 5.0 | 5.9 | 4.6 |

Sources: State Bank of Pakistan; Ministry of Finance and Economic Affairs; and Fund staff estimates.

1/ Islamic Development Bank.
2/ Foreign Exchange Bearer Certificates, Dollar Bearer Certificates, and Foreign Currency Bearer Certificates.

## Table 56. Pakistan: Foreign Currency Deposits, 1995/96–1999/2000

(End-of-period stocks, in millions of U.S. dollars, unless otherwise specified)

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| Total foreign currency deposits | 8,305 | 9,843 | 9,679 | 5,465 | 3,921 |
| Residents' deposits | 4,147 | 5,491 | 6,024 | 2,909 | 2,182 |
| *Of which:* | | | | | |
| Frozen accounts | 4,147 | 5,491 | 6,024 | 2354 | 1303 |
| New accounts | ... | ... | ... | 555 | 879 |
| Nonresidents' deposits | 4,158 | 4,352 | 3,655 | 2,556 | 1,739 |
| *Of which:* | | | | | |
| Frozen accounts | 4,158 | 4,352 | 3,655 | 2,494 | 1,641 |
| With domestic banks | 3,050 | 2,667 | 2,039 | 1,605 | 1,114 |
| Institutional deposits | 1,592 | 1,533 | 772 | 953 | 784 |
| Individual accounts | 1,458 | 1,134 | 1,267 | 652 | 330 |
| With domestic nonbank financial institutions | 1,108 | 1,685 | 1,616 | 889 | 527 |
| New accounts | ... | ... | ... | 62 | 98 |
| Maturity structure 1/ | | | | | |
| Demand deposits | 3,413 | 3,744 | 4,329 | ... | ... |
| Current | 217 | 203 | 170 | ... | ... |
| Call | 68 | 120 | 142 | ... | ... |
| Savings | 3,127 | 3,421 | 4,017 | ... | ... |
| Time deposits | 4,892 | 6,099 | 5,350 | ... | ... |
| 1 month | 266 | 407 | 424 | ... | ... |
| 3 months | 1,720 | 1,773 | 1,660 | ... | ... |
| 6 months | 1,160 | 1,347 | 697 | ... | ... |
| 1 year | 1,396 | 1,419 | 1,544 | ... | ... |
| Above 1 year | 351 | 1,153 | 1,025 | ... | ... |
| In percent of total | | | | | |
| Demand deposits | 41.1 | 38.1 | 45.2 | ... | ... |
| Time deposits | 58.9 | 61.9 | 54.8 | ... | ... |
| *Of which:* 6 months and less | 37.9 | 35.8 | 28.5 | ... | ... |
| Memorandum items: | | | | | |
| Share of resident FCDs in M2 deposits (percent) | 20.7 | 28.1 | 30.0 | ... | ... |
| Share of resident FCDs in M2 (percent) | 15.6 | 21.4 | 23.1 | ... | ... |

Source: State Bank of Pakistan.

1/ With the freeze of foreign currency deposits in 1998/99, the initial maturity of deposits has become irrelevant.

Table 57. Pakistan: Public External Debt and Debt Service, 1995/96–1999/2000

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | Prel. 1999/2000 |
|---|---|---|---|---|---|
| | (In millions of US dollars) | | | | |
| Total public and publicly guaranteed external debt 1/ | 28,121 | 28,709 | 29,000 | 30,480 | 31,010 |
| Long-term | 24,967 | 25,726 | 25,776 | 26,607 | 27,262 |
| Project & nonproject aid | 22,275 | 23,145 | 23,042 | 23,101 | 23,834 |
| Commercial banks and IDB 2/ | 647 | 701 | 1,100 | 730 | 560 |
| Other | 2,045 | 1,880 | 1,634 | 2,776 | 2,868 |
| Short-term | 1,619 | 1,667 | 1,809 | 2,049 | 2,253 |
| Commercial banks and IDB 2/ | 873 | 418 | 298 | 583 | 671 |
| FEBCs and DBCs 3/ | 496 | 414 | 328 | 196 | 147 |
| Deposits of non-residents with the SBP | 250 | 835 | 1,183 | 1,270 | 1,435 |
| Fund credit and loans | 1,535 | 1,316 | 1,415 | 1,825 | 1,496 |
| Service of medium- and long-term public and publicly guaranteed debt | 3,174 | 3,644 | 3,286 | 3,546 | 3,585 |
| *Of which:* to the Fund | 289 | 369 | 237 | 191 | 347 |
| Amortization | 2,201 | 2,679 | 2,282 | 2,569 | 2,452 |
| Interest | 973 | 965 | 1,004 | 977 | 1,133 |
| Interest on public and publicly guaranteed short-term debt | 80 | 89 | 70 | 96 | 94 |
| | (In percent of GDP) | | | | |
| Total public and publicly guaranteed external debt 1/ | 44.2 | 45.8 | 46.4 | 52.4 | 50.4 |
| Long-term | 39.2 | 41.0 | 41.3 | 45.8 | 44.3 |
| Short-term | 2.5 | 2.7 | 2.9 | 3.5 | 3.7 |
| Fund credit and loans | 2.4 | 2.1 | 2.3 | 3.1 | 2.4 |
| Service of medium- and long-term public and publicly guaranteed debt | 5.0 | 5.8 | 5.3 | 6.1 | 5.8 |
| Amortization | 3.5 | 4.3 | 3.7 | 4.4 | 4.0 |
| Interest | 1.5 | 1.5 | 1.6 | 1.7 | 1.8 |
| Interest on public and publicly guaranteed short-term debt | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| | In percent of export of goods and nonfactor services, and private transfers | | | | |
| Total public and publicly guaranteed external debt 1/ | 227.0 | 224.8 | 219.0 | 273.5 | 245.4 |
| *Of which*: Fund credits and loans | 12.4 | 10.3 | 10.7 | 16.4 | 11.8 |
| Service of medium- and long-term public and publicly guaranteed debt guaranteed external debt | 25.6 | 28.5 | 24.8 | 31.8 | 28.4 |
| Of which: to the Fund | 2.3 | 2.9 | 1.8 | 1.7 | 2.7 |
| Amortization | 17.8 | 21.0 | 17.2 | 23.1 | 19.4 |
| Interest | 7.9 | 7.6 | 7.6 | 8.8 | 9.0 |
| Interest on public and publicly guaranteed short-term debt | 0.6 | 0.7 | 0.5 | 0.9 | 0.7 |

Sources: State Bank of Pakistan; Ministry of Finance and Economic Affairs; and Fund staff estimates.

1/ Including external SBP liabilities.
2/ Islamic Development Bank.
3/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

Table 58. Pakistan: Public and Publicly Guaranteed Medium and Long-Term Debt to Official Creditors, 1995/96–1999/2000
(In millions of U.S. dollars)

| | 1995/96 | | | 1996/97 | | | 1997/98 | | | 1998/99 | | | Prel. 1999/2000 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dis-bursed | Undis-bursed | Total | Dis-bursed | Undis-bursed | Total | Dis-bursed | Undis-bursed | Total | Dis-bursed | Undis-bursed | Total | Dis-bursed | Undis-bursed | Total |
| All Official Creditors | 22,275 | 7,761 | 30,036 | 23,145 | 8,583 | 31,728 | 23,042 | 6,164 | 29,206 | 22,633 | 4,762 | 27,395 | 23,835 | 4,314 | 28,149 |
| Consortium | 20,822 | 7,201 | 28,023 | 21,590 | 8,236 | 29,826 | 21,154 | 5,882 | 27,036 | 20,684 | 4,521 | 25,205 | 21,641 | 4,046 | 25,687 |
| Bilateral | 10,015 | 2,478 | 12,493 | 9,482 | 2,732 | 12,214 | 9,120 | 1,936 | 11,056 | 10,293 | 1,866 | 12,159 | 11,064 | 1,651 | 12,715 |
| Belgium | 62 | 22 | 84 | 31 | 19 | 50 | 40 | 16 | 56 | 45 | 41 | 86 | 59 | 30 | 89 |
| Canada | 390 | 0 | 390 | 357 | 0 | 357 | 344 | 0 | 344 | 375 | 0 | 375 | 362 | 0 | 362 |
| France | 1,032 | 361 | 1,393 | 879 | 306 | 1,185 | 1,157 | 236 | 1,393 | 1,200 | 204 | 1,404 | 1,276 | 108 | 1,384 |
| Germany | 1,586 | 249 | 1,835 | 1,324 | 299 | 1,623 | 1,211 | 341 | 1,552 | 1,231 | 294 | 1,525 | 1,280 | 222 | 1,502 |
| Italy | 260 | 6 | 266 | 218 | 0 | 218 | 200 | 0 | 200 | 191 | 0 | 191 | 205 | 0 | 205 |
| Japan | 3,645 | 1,679 | 5,324 | 3,601 | 1,852 | 5,453 | 3,156 | 1,229 | 4,385 | 4,339 | 1,254 | 5,593 | 4,827 | 1,019 | 5,846 |
| Netherlands | 152 | 0 | 152 | 123 | 0 | 123 | 125 | 0 | 125 | 112 | 10 | 122 | 115 | 10 | 125 |
| Norway | 27 | 5 | 32 | 24 | 7 | 31 | 26 | 2 | 28 | 27 | 22 | 49 | 44 | 6 | 50 |
| Sweden | 71 | 27 | 98 | 89 | 22 | 111 | 97 | 10 | 107 | 100 | 6 | 106 | 104 | 8 | 112 |
| UK | 11 | 34 | 45 | 12 | 37 | 49 | 12 | 37 | 49 | 41 | 6 | 47 | 90 | 38 | 128 |
| United States | 2,779 | 95 | 2,874 | 2,824 | 190 | 3,014 | 2,752 | 65 | 2,817 | 2,632 | 29 | 2,661 | 2,702 | 210 | 2,912 |
| Multilateral | 10,807 | 4,723 | 15,530 | 12,108 | 5,504 | 17,612 | 12,034 | 3,946 | 15,980 | 10,391 | 2,655 | 13,046 | 10,577 | 2,396 | 12,973 |
| ADB | 4,327 | 1,737 | 6,064 | 4,742 | 2,878 | 7,620 | 5,179 | 1,905 | 7,084 | 4,956 | 1,192 | 6,148 | 5,107 | 1,252 | 6,359 |
| IBRD | 2,902 | 1,420 | 4,322 | 3,357 | 1,184 | 4,541 | 3,122 | 670 | 3,792 | 2,542 | 428 | 2,970 | 2,417 | 310 | 2,727 |
| IDA | 3,419 | 1,311 | 4,730 | 3,841 | 1,218 | 5,059 | 3,551 | 1,142 | 4,693 | 2,703 | 855 | 3,558 | 2,855 | 729 | 3,584 |
| IFC | 32 | 0 | 32 | 30 | 0 | 30 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| IFAD | 114 | 137 | 251 | 124 | 131 | 255 | 124 | 125 | 249 | 128 | 126 | 254 | 128 | 63 | 191 |
| Nordic | 13 | 39 | 52 | 14 | 25 | 39 | 33 | 15 | 48 | 47 | 7 | 54 | 50 | 2 | 52 |
| Baharain | 0 | 0 | 0 | 0 | 0 | 0 | 25 | 0 | 25 | 15 | 0 | 15 | 18 | 0 | 18 |
| European Investment Bank | 0 | 79 | 79 | 0 | 68 | 68 | 0 | 89 | 89 | 0 | 47 | 47 | 3 | 40 | 43 |
| Non-Consortium | 1,301 | 483 | 1,784 | 1,361 | 296 | 1,657 | 1,711 | 222 | 1,933 | 1,775 | 148 | 1,923 | 2,043 | 180 | 2,223 |
| OPEC Countries | 448 | 110 | 558 | 424 | 98 | 522 | 182 | 86 | 268 | 135 | 111 | 246 | 253 | 153 | 406 |
| Abu Dhabi | 68 | 0 | 68 | 62 | 0 | 62 | 60 | 0 | 60 | 7 | 0 | 7 | 58 | 0 | 58 |
| Iran, Islamic Rep. Of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 58 | 42 | 100 |
| Kuwait | 87 | 53 | 140 | 68 | 61 | 129 | 74 | 49 | 123 | 76 | 76 | 152 | 80 | 76 | 156 |
| Libya | 28 | 0 | 28 | 19 | 0 | 19 | 13 | 0 | 13 | 13 | 0 | 13 | 13 | 0 | 13 |
| Malasia | 22 | 0 | 22 | 44 | 0 | 44 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Qatar | 6 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Oman | 0 | 0 | 0 | 3 | 0 | 3 | 1 | 0 | 1 | 1 | 0 | 1 | 4 | 0 | 4 |
| Saudi Arabia | 237 | 57 | 294 | 228 | 37 | 265 | 34 | 37 | 71 | 38 | 35 | 73 | 40 | 35 | 75 |
| Other Countries | 853 | 373 | 1,226 | 937 | 198 | 1,135 | 1,529 | 136 | 1,665 | 1,640 | 37 | 1,677 | 1,790 | 28 | 1,818 |
| Australia | 50 | 0 | 50 | 130 | 0 | 130 | 417 | 0 | 417 | 493 | 0 | 493 | 486 | 0 | 486 |
| Austria | 28 | 0 | 28 | 21 | 0 | 21 | 344 | 0 | 344 | 379 | 0 | 379 | 382 | 0 | 382 |
| Singapore | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 3 | 3 | 0 | 3 | 2 | 0 | 2 |
| China | 477 | 56 | 533 | 412 | 48 | 460 | 369 | 32 | 401 | 369 | 32 | 401 | 409 | 28 | 437 |
| Czech | 13 | 10 | 23 | 16 | 0 | 16 | 13 | 0 | 13 | 13 | 0 | 13 | 15 | 0 | 15 |
| Denmark | 26 | 0 | 26 | 22 | 0 | 22 | 20 | 0 | 20 | 19 | 0 | 19 | 19 | 0 | 19 |
| Finland | 10 | 0 | 10 | 8 | 0 | 8 | 6 | 0 | 6 | 6 | 0 | 6 | 6 | 0 | 6 |
| Romania | 34 | 0 | 34 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Korea | 25 | 9 | 34 | 21 | 8 | 29 | 21 | 3 | 24 | 23 | 0 | 23 | 106 | 0 | 106 |
| Spain | 8 | 38 | 46 | 36 | 32 | 68 | 58 | 5 | 63 | 59 | 4 | 63 | 68 | 0 | 68 |
| Switzerland | 80 | 30 | 110 | 69 | 14 | 83 | 101 | 1 | 102 | 99 | 1 | 100 | 105 | 0 | 105 |
| Russia | 102 | 230 | 332 | 202 | 96 | 298 | 177 | 95 | 272 | 177 | 0 | 177 | 192 | 0 | 192 |
| OPEC Fund | 43 | 35 | 78 | 50 | 17 | 67 | 46 | 29 | 75 | 40 | 26 | 66 | 33 | 24 | 57 |
| Islamic Dev. Bank | 109 | 42 | 151 | 144 | 34 | 178 | 131 | 31 | 162 | 134 | 67 | 201 | 118 | 64 | 182 |

Source: Ministry of Finance and Economic Affairs.

Table 59. Pakistan: Gross Official Reserves, 1995/96–1999/2000

(In millions of U.S. dollars)

| | Gold 1/ | SDRs | Foreign Exchange | Total |
|---|---|---|---|---|
| 1995/96 | | | | |
| September | 108 | 2 | 1,518 | 1,628 |
| December | 107 | 15 | 1,774 | 1,896 |
| March | 105 | 83 | 1,709 | 1,897 |
| June | 104 | 2 | 2,044 | 2,150 |
| 1996/97 | | | | |
| September | 746 | 2 | 972 | 1,720 |
| December | 688 | 13 | 825 | 1,526 |
| March | 688 | 2 | 910 | 1,600 |
| June | 690 | 1 | 1,142 | 1,832 |
| 1997/98 | | | | |
| September | 689 | 4 | 1,276 | 1,969 |
| December | 633 | 11 | 1,459 | 2,103 |
| March | 632 | 1 | 1,329 | 1,962 |
| June | 612 | 3 | 932 | 1,546 |
| 1998/99 | | | | |
| September | 614 | 2 | 663 | 1,278 |
| December | 615 | 1 | 1,060 | 1,676 |
| March | 615 | 1 | 1,886 | 2,502 |
| June | 543 | 1 | 1,739 | 2,283 |
| 1999/2000 | | | | |
| September | 544 | 1 | 1,569 | 2,113 |
| December | 543 | 0 | 1,476 | 2,020 |
| March | 544 | 0 | 1,513 | 2,057 |
| June | 603 | 1 | 1,357 | 1,960 |

Source: State Bank of Pakistan.

1/ Valued at SDR 35 per fine ounce.

Table 60. Pakistan: Exchange Rates and Relative Consumer Prices, 1995/96–1999/2000

| | Rupee per U.S. dollar Exchange Rate 1/ | | Indices (1990 = 100; quarterly averages) | | | |
|---|---|---|---|---|---|---|
| | Level | Change 2/ | Exchange rate 1/ 3/ 4/ | Relative consumer prices | Nominal effective exchange rate 4/ | Real effective exchange rate 4/ |
| 1995/96 | | | | | | |
| First quarter | 31.1 | -2.1 | 69.3 | 126.2 | 75.8 | 95.7 |
| Second quarter | 33.3 | -8.4 | 64.6 | 128.3 | 71.5 | 91.8 |
| Third quarter | 34.2 | -10.2 | 63.2 | 130.6 | 71.1 | 92.9 |
| Fourth quarter | 34.6 | -11.1 | 62.4 | 132.7 | 71.1 | 94.4 |
| 1996/97 | | | | | | |
| First quarter | 35.6 | -12.5 | 60.7 | 135.6 | 68.9 | 93.5 |
| Second quarter | 39.2 | -15.0 | 55.0 | 139.5 | 63.0 | 87.9 |
| Third quarter | 39.9 | -14.4 | 54.1 | 144.5 | 64.9 | 93.9 |
| Fourth quarter | 40.1 | -13.7 | 53.9 | 147.1 | 65.3 | 96.1 |
| 1997/98 | | | | | | |
| First quarter | 40.3 | -11.7 | 53.6 | 147.4 | 66.2 | 97.6 |
| Second quarter | 43.3 | -9.4 | 49.9 | 148.9 | 62.4 | 93.0 |
| Third quarter | 43.8 | -8.9 | 49.3 | 150.5 | 64.0 | 96.3 |
| Fourth quarter | 43.9 | -8.7 | 49.1 | 153.1 | 63.9 | 97.9 |
| 1998/99 | | | | | | |
| First quarter | 49.5 | -18.5 | 44.5 | 155.7 | 58.0 | 90.3 |
| Second quarter | 50.1 | -13.5 | 43.0 | 156.7 | 53.1 | 83.2 |
| Third quarter | 50.0 | -12.3 | 43.4 | 158.2 | 54.4 | 86.1 |
| Fourth quarter | 50.9 | -13.7 | 44.0 | 158.6 | 56.8 | 90.1 |
| 1999/2000 | | | | | | |
| First quarter | 51.5 | -3.9 | 41.9 | 159.6 | 53.7 | 85.8 |
| Second quarter | 51.8 | -3.3 | 41.9 | 160.8 | 52.9 | 85.1 |
| Third quarter | 51.8 | -3.5 | 41.8 | 161.3 | 53.9 | 87.0 |
| Fourth quarter | 51.8 | -1.7 | 41.7 | 163.0 | 55.3 | 90.1 |

Sources: IMF, Information Notice System; and IMF, International Financial Statistics.

1/ Mid-point between buying and selling rates (period averages).
2/ Percentage change from the preceding period; refers to the exchange rate expressed in terms of U.S. dollars per rupee.
3/ In terms of U.S. dollars per rupee.
4/ Increase indicates appreciation of the rupee.