INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/17

# PAKISTAN

January 2024

## FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUESTS FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FOR REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the First Review under the Stand-by Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 11, 2024, following discussions that ended on November 15, 2023, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 18, 2023.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

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PRESS RELEASE

PR24/06

# IMF Executive Board Completes First Review of the Stand-By Arrangement for Pakistan

**FOR IMMEDIATE RELEASE**

- The IMF Executive Board decision allows for an immediate disbursement of around $700 million to Pakistan.
- Economic activity has stabilized in Pakistan, although the outlook remains challenging and dependent on the implementation of sound policies.
- Continued timely and consistent implementation of program policies remains critical, with no room for slippage. This requires strict adherence to fiscal targets while protecting social spending, a market-determined exchange rate to absorb external shocks, and further progress on structural reforms to support stronger and more inclusive growth.

**Washington, DC** – **January 11, 2024:** Today, the Executive Board of the International Monetary Fund (IMF) completed the first review of Pakistan's economic reform program supported by the IMF's Stand-By Arrangement (SBA). The Board's decision allows for an immediate disbursement of SDR 528 million (around $700 million), bringing total disbursements under the arrangement to SDR 1.422 billion (about $1.9 billion).

Pakistan's 9-month SBA was approved by the Executive Board on July 12, 2023, in the amount of SDR 2.250 billion (about $3 billion at the time of approval), aims to provide a policy anchor for addressing domestic and external balances and a framework for financial support from multilateral and bilateral partners. The program is focused on (1) implementation of the FY24 budget to facilitate Pakistan's needed fiscal adjustment and ensure debt sustainability, while protecting critical social spending; (2) a return to a market-determined exchange rate and proper FX market functioning to absorb external shocks and eliminate FX shortages; (3) an appropriately tight monetary policy aimed at disinflation; and (4) further progress on structural reforms, particularly with regard to energy sector viability, SOE governance, and climate resilience.

Macroeconomic conditions have generally improved, with growth of 2 percent expected in FY24 as the nascent recovery expands in the second half of the year. The fiscal position also strengthened in FY24Q1 achieving a primary surplus of 0.4 percent of GDP driven by overall strong revenues. Inflation remains elevated, although with appropriately tight policy, this could decline to 18.5 percent by end-June 2024. Gross reserves increased to $8.2 billion in December 2023, up from $4.5 billion in June, while the exchange rate has been broadly stable. The current account deficit is expected to rise to around 1½ percent of GDP in FY24 as the recovery takes hold. Assuming sustained sound macroeconomic policy and structural reform implementation, inflation should return to the SBP target and growth continue to strengthen over the medium term.

Following the Executive Board discussion, Antoinette Sayeh, Deputy Managing Director and Chair, made the following statement:

"Pakistan's program performance under the Stand-By Arrangement has supported significant progress in stabilizing the economy following significant shocks in FY2022-23. There are now tentative signs of activity picking-up and external pressures easing. Continued strong ownership

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remains critical to ensure the current momentum continues and stabilization of Pakistan's economy becomes entrenched.

"The authorities' strong revenue performance in FY24Q1 as well as federal spending restraint have helped to achieve a primary surplus in line with quarterly program targets. However, in the context of pressures, including from provincial spending, efforts at mobilizing revenues and ongoing non-priority spending discipline need to continue to ensure that the budgeted primary surplus and debt goals remain achievable. Going forward, broad-based reforms to improve the fiscal framework—mobilizing additional revenues particularly from non-filers and under-taxed sectors and improving public financial management—are required to create fiscal space for further social and development spending.

"The authorities took challenging steps to bring both electricity and natural gas prices closer to costs in 2023. Continuing with regularly-scheduled adjustments and pushing cost-side power sector reforms are vital to improving the sector's viability and protecting fiscal sustainability.

"Inflation remains high, affecting particularly the more vulnerable, and it is appropriate that the SBP maintains a tight stance to ensure that inflation returns to more moderate levels. Pakistan also needs a market-determined exchange rate to buffer external shocks, continue rebuilding foreign reserves, and support competitiveness and growth. In parallel, further action to address undercapitalized financial institutions and, more broadly, vigilance over the financial sector is necessary to support financial stability.

"Boosting jobs and inclusive growth in Pakistan requires continuing protection of the vulnerable through BISP and accelerating structural reforms, most notably around improving the business environment and leveling the playing field for investors, advancing the SOE reform agenda and safeguards related to the Sovereign Wealth Fund; strengthening governance and anti-corruption institutions; and building climate resilience."

## Table 1. Pakistan: Selected Economic Indicators, FY2022–FY2024 1/

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

Per capita GDP: US$1,456.6 (FY2023)
Poverty rate: 21.9 percent
(national line; FY2019)

| | FY2022 | FY2023 | FY2024 |
|---|---|---|---|
| | | Est. | Proj. |
| **Output and prices (% change)** | | | |
| Real GDP at factor cost | 6.2 | -0.2 | 2.0 |
| **Employment (%)** | | | |
| Unemployment rate | 6.2 | 8.5 | 8.0 |
| **Prices (%)** | | | |
| Consumer prices, period average | 12.1 | 29.2 | 24.0 |
| Consumer prices, end of period | 21.3 | 29.4 | 18.5 |
| **General government finances (% GDP)** | | | |
| Revenue and grants | 12.1 | 11.4 | 12.5 |
| Expenditure | 20.0 | 19.2 | 20.2 |
| Budget balance, including grants | -7.8 | -7.7 | -7.6 |
| Budget balance, excluding grants | -7.9 | -7.8 | -7.7 |
| Primary balance, excluding grants | -3.1 | -0.8 | 0.4 |
| Underlying primary balance (excluding grants) 2/ | -2.3 | -0.6 | 0.4 |
| Total general government debt excl. IMF obligations | 74.1 | 74.7 | 70.3 |
| External general government debt | 27.4 | 28.5 | 27.4 |
| Domestic general government debt | 46.6 | 46.2 | 42.9 |
| General government debt incl. IMF obligations | 76.2 | 77.1 | 72.8 |
| General government and government guaranteed debt incl. IMF | 80.7 | 81.3 | 76.8 |
| **Monetary and credit (% change, unless otherwise indicated)** | | | |
| Broad money | 13.6 | 14.2 | 11.0 |
| Private credit | 17.4 | 2.3 | 5.0 |
| Six-month treasury bill rate (%) 3/ | 11.0 | 18.3 | ... |
| **Balance of Payments (% GDP, unless otherwise indicated)** | | | |
| Current account balance | -4.7 | -0.7 | -1.6 |
| Foreign direct investment | 0.5 | 0.5 | 0.3 |
| Gross reserves (millions of U.S. dollars) 4/ | 9,821 | 4,455 | 9,101 |
| Months of next year's imports of goods and services | 2.0 | 0.8 | 1.5 |
| Total external debt | 32.2 | 34.4 | 34.9 |
| **Exchange rate (% change)** | | | |
| Real effective exchange rate | -5.9 | -8.0 | ... |

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

INTERNATIONAL MONETARY FUND

# PAKISTAN

December 18, 2023

## FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AND FOR REPHASING OF ACCESS

## EXECUTIVE SUMMARY


**Recent developments**. Following the 2022 floods and the acute financial pressures earlier in the year, economic activity has stabilized and inflation has begun to gradually decline on the back of strong policy adjustment. External pressures have eased somewhat since June, and the SBP has taken advantage of renewed inflows to begin rebuilding foreign exchange (FX) reserves. Fiscal performance has also improved, with the general government achieving a primary surplus in FY24Q1. Despite this welcome progress, the outlook is still challenging, and downside risks remain exceptionally high.

**Program performance**. The 9-month Stand-by Arrangement (SBA) approved on July 12, 2023, is on track. All but one of the seven QPCs for end-September were met, and while the ceiling on the general government primary budget deficit was missed, the deviation was minor and accounted for by technical factors. All but one structural benchmark for end-November were completed. Support from multilateral and bilateral creditors has been strong and financing assurances are in place.

**Policies**. Timely and consistent implementation of program policies remains critical, with no room for slippage. Strict adherence to the fiscal targets, while protecting development needs and strengthening the social safety net, is essential to alleviate pressures and place debt on a downward path. Maintaining a market-determined exchange rate will help buffer external shocks, rebuild reserves, and support economic recovery. Monetary policy needs to stay tight and proactive, and the Monetary Policy Committee (MPC) should respond swiftly and forcefully if signs of inflationary pressures reemerge. Recent increases in electricity and gas tariffs were important to shore up energy sector viability, but broader reforms are still needed to tackle the structurally high energy sector costs. Reforms of state-owned enterprises and of the governance framework, including safeguards for the newly-created Sovereign Wealth Fund, should be accelerated to strengthen the business environment, investment, and job creation.

**SBA review**. Staff supports completion of the review, which would make available SDR 528 million, bringing total access to SDR 1,422 million, and help anchor essential financing from official partners.

Approved By
**Thanos Arvanitis and Kenneth Kang**

Policy discussions were held in Islamabad during November 2–15, 2023. The staff team comprised Nathan Porter (head); Tom Best, Jan Möller, Jason Weiss (all MCD); Julieth Pico Mejía (FAD); Gonzalo Huertas (SPR); Jan Nolte (MCM); Jonathan Pampolina (LEG); Esther Perez Ruiz (Resident Representative); Zafar Hayat, Saher Masood and Saihan Mohammad (all Islamabad office). Marijn Verhoeven (FAD) assisted the team on tax reform discussions. Laura Torrent (MCD) provided research assistance and Nataliya Bondar (MCD) document management assistance.

## CONTENTS

**RECENT ECONOMIC DEVELOPMENTS** 4

**PROGRAM PERFORMANCE** 7

**OUTLOOK AND RISKS** 8

**POLICY DISCUSSIONS** 9

A. Fiscal Policy 9

B. Poverty Reduction and Social Protection 11

C. Monetary, Exchange Rate and Financial Sector Policies 12

D. Energy Sector Policy 13

E. Structural Policies 14

**PROGRAM MODALITIES AND CAPACITY TO REPAY** 16

**STAFF APPRAISAL** 17

**FIGURES**

1. Selected Economic Indicators 20
2. Selected Financial Indicators 21
3. Selected Banking and Financial Indicators , 2010/11–2022/23 22

**TABLES**

1. Selected Economic Indicators, 2018/19–2024/25 23
2. Medium-Term Macroeconomic Framework, 2018/19–2027/28 24

3a. Balance of Payments, 2018/19–2027/28 25

3b. Gross Financing Requirements and Sources, 2018/19–2027/28 26

4a. General Government Budget, 2018/19–2027/28 (In billions of Pakistani rupees) 27

4b. General Government Budget, 2018/19–2027/28 (In percent of GDP) 28

5. Monetary Survey, 2018/19–2023/24 29
6. Financial Indicators for the Banking System, 2013–22 30
7. Indicators of Fund Credit, 2015–28 31
8. Selected Vulnerability Indicators, 2018/19–2027/28 32
9a. Original Schedule of Reviews and Purchases 33
9b. Proposed Schedule of Reviews and Purchases 33
10. Decomposition of Public Debt and Debt Service by Creditor, 2022/23–2024/25 34

**ANNEXES**

I. Sovereign Risk and Debt Sustainability Analysis 35

**APPENDIX**

I. Letter of Intent 42
Attachment I. Memorandum of Economic and Financial Policies 45
Attachment II. Technical Memorandum of Understanding 66

# RECENT ECONOMIC DEVELOPMENTS

1. **The caretaker government in place until elections are held in February 2024 has managed to maintain economic stability on the back of decisive policy efforts**. The National Assembly was dissolved on August 9, 2023, and the Election Commission has announced that the elections will take place on February 8, 2024. Although controversial initially, as it went beyond the constitutional 90-day limit from the dissolution of parliament, the Election Commission argued that the extension was needed to redraw constituency boundaries after the outgoing government's decision to base elections on the new 2023 Census. In the meantime, the caretaker government has made decisive efforts to ease financial pressures and maintain stability in this interim period.

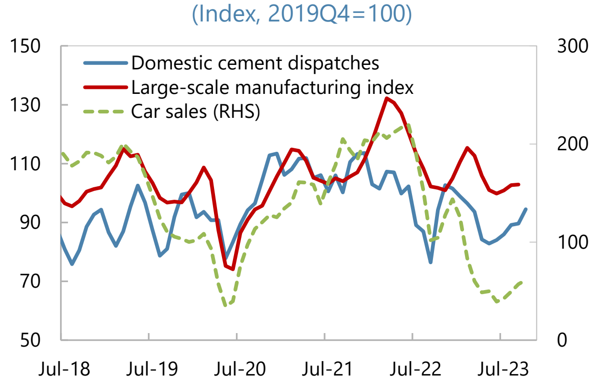
2. **Macroeconomic conditions have improved, though they remain challenging**.

- ***Economic activity***. GDP contracted by 0.2 percent in FY23, slightly less than expected, due to the impact of the floods and difficult external conditions fueled by uneven policies during the year. So far in FY24, domestic demand has remained weak, weighed down by restrictive policies, but the gradual easing of financial pressures and the shift toward accommodation of imports have given some impetus to the economy. In November 2023 the Pakistan Bureau of Statistics published the first quarterly national accounts, with GDP estimated to have increased 2.1 percent yoy in FY24Q1, with a strong agricultural recovery (+5.1 percent yoy) offsetting weaker industrial (+2.5 percent) and service sector (+0.8 percent) growth.

**Pakistan: Recent Economic Developments**

**Key High-Frequency Indicators, 2018M7–23M10**

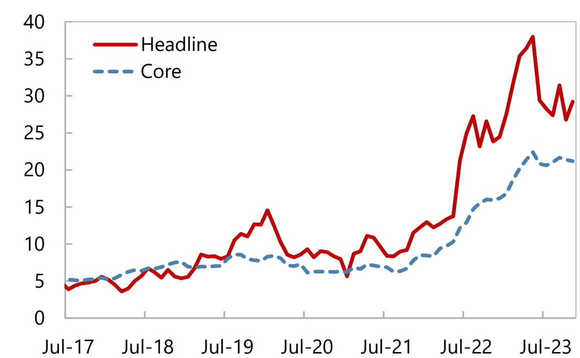
(Index, 2019Q4=100)




Sources: Pakistani authorities; IMF staff calculations.

**Inflation, 2017M7–23M11**

(Percent, yoy)



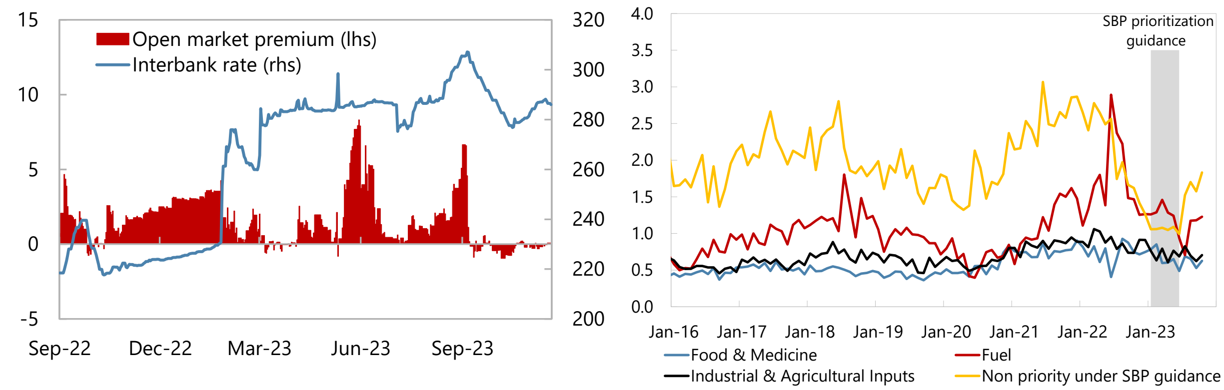

Sources: SBP; IMF staff calculations.

- ***Foreign exchange market***. After some flexibility following the SBA's approval, the interbank exchange rate came under pressure in early September, which the authorities attributed to speculation and smuggling of FX and goods over the Afghan border. In response, the authorities tightened border enforcement and the SBP announced measures to strengthen capital and governance requirements for exchange companies (ECs). The rupee strengthened gradually through mid-October on the back of strong inflows in the FX market, but weakened more recently, returning to around end-June levels. The open market premium has largely been eliminated, although interbank trading volumes have weakened significantly in recent months. Market participants have acknowledged greater autonomy for processing import transactions in recent months compared to FY23H2, and the repatriation of dividends and profits have also picked up. Nonetheless, some complaints persist about insufficient access to FX via banks amongst businesspeople and foreign investors.

**Pakistan: External Sector Developments**

**Exchange Rate, 2022M9–23M11** (Percent on LHS, PRs/US$ on RHS)

**Goods Import Payments through Banks 2016M1–23M10** (US$ billions, CIF basis)




Sources: SBP; IMF staff calculations.

Sources: SBP; IMF staff calculations.

- ***Inflation and monetary policy***. Headline inflation declined from 38 percent in May to 26.8 percent in October, but picked up in November to 29.2 percent, reflecting November's large gas tariff increase. Nonetheless, core inflation has remained relatively stable at around 21 percent since June. The MPC has kept the policy rate at 22 percent since late June 2023, considering that easing supply constraints, restrictive fiscal policy, and weak demand (reflected in negative private credit growth and a sharp slowing of reserve money in FY24H1) would place downward pressure on inflation in FY24H2.

- ***External conditions***. After declining to US$2.2 billion (0.7 percent of GDP) in FY23 on the back of tight financing constraints, the current account deficit reached US$0.9 billion in FY24Q1, as imports recovered following the removal of the prioritization guidance. Gross reserves have increased to US$7 billion (Figure 2, up from US$4.5 billion in June), supported by the resumption of official inflows—including over US$3 billion of bilateral financing—and FX purchases amid favorable market conditions. Sovereign spreads remain very high but have decreased from around 2,300 basis points in early July to below 1,500 basis points in late November.

- ***Banking sector***. Banks' sovereign exposure has grown from 48 percent of assets at end-FY21 to 55.3 percent at end-September 2023, with private sector credit contracting (-1 percent, yoy). As of end-September 2023, banks' capital adequacy ratio (CAR), at 19.1 percent, remains well above the regulatory minimum of 11.5 percent (including the capital conservation buffer). NPLs increased to 7.7 percent, with provisioning at 95.5 percent. Three banks (two private and one public) continue to report CAR below the regulatory minimum and the microfinance bank sector faces vulnerabilities in the aftermath of the 2022 floods.

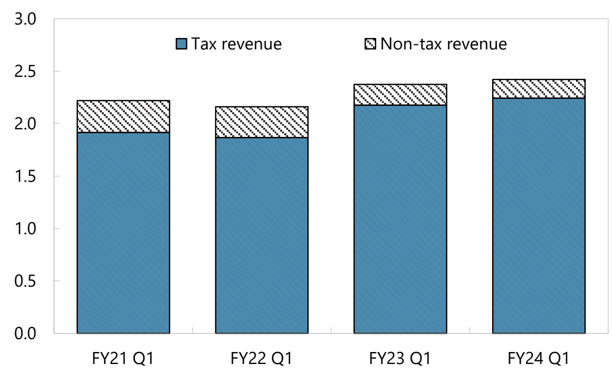
- ***Fiscal developments***. In FY23, the primary deficit reached 1.3 percent of GDP, 0.3 percent higher than anticipated at the time of the SBA approval, mainly driven by higher development spending by the federal government. So far in FY24, Pakistan's fiscal position has improved on the back of the SBA-related budget execution and strong revenue performance, with the general government achieving a primary surplus of 0.4 percent of GDP in FY24Q1. Overall revenue performance was strong, 0.1 percent of GDP above program projections. In particular, strong collection from PDL, excises, and direct taxes offset weaker than anticipated import-related revenues. Federal spending aligned closely with initial SBA projections, with some under-spending on power subsidies and public sector development program (PSDP) attributed to technical delays and expected to be fully executed in Q2. Provincial spending exceeded projections in Q1, partly due to a PRs 115 billion payment by the Punjab government to clear commodity operations debt and faster execution of PSDP. Provincial PSDP spending is anticipated to remain close to the Q1 level in Q2-Q3, given caretaker governments' limitations in establishing new schemes.

**Pakistan: Fiscal Developments**

**Tax Revenue Performance in FYQ1** (PRs billions)

| | FY22/23 | FY23/24 | Growth (%) |
|---|---|---|---|
| **Tax revenue** | **2019.4** | **2685.6** | **33.0** |
| **Federal** | **1838.4** | **2476.3** | **34.7** |
| **FBR** | **1643.8** | **2041.4** | **24.2** |
| Domestic tax | 904.7 | 1233.1 | 36.3 |
| Direct tax | 614.0 | 845.3 | 37.7 |
| Sales tax | 214.2 | 266.6 | 24.4 |
| FED | 76.5 | 121.2 | 58.5 |
| Import tax | 739.1 | 808.3 | 9.4 |
| Direct tax | 74.3 | 89.4 | 20.3 |
| Sales tax | 430.5 | 460.3 | 6.9 |
| FED | 2.6 | 6.4 | 143.2 |
| Custom | 231.6 | 252.2 | 8.9 |
| **Other federal** | **194.6** | **434.9** | **123.5** |
| **Provincial** | **181.0** | **209.3** | **15.6** |

**Revenue in FY24Q1 vs Prior Years** (PRs trillions)

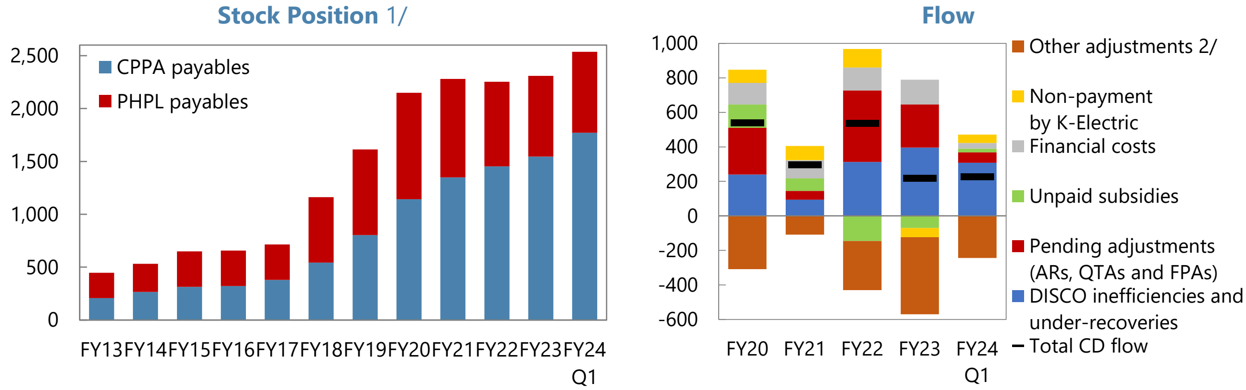



- ***Energy sector***. The caretaker government took significant action in the power and gas sectors to stem the rise in circular debt (CD), which, combined, reached approximately 5¼ percent of GDP at end-FY23.[1] In the power sector, the authorities notified the annual tariff rebasing in late July (*end-July 2023 SB*), as well as monthly and quarterly tariff increases thereafter. Despite this effort, power CD reached PRs 2.5 trillion at end-September (2.4 percent of GDP), mostly due to lower-than-expected recoveries, driven in part by a delay in the rebasing's billing application. The authorities increased natural gas tariffs sharply on November 8, partly due to the fact that no gas tariff adjustments had occurred between September 2020 and January 2023. Key features of

[1] Power sector CD closed FY23 at PRs 2.3 trillion (2.7 percent of GDP), a net increase of PRs 57 billion (0.1 percent of GDP) over FY22. Gas sector CD reached PRs 2.1 trillion (2.5 percent of GDP) at end FY23, a 28 percent increase over FY22.

the gas tariff increase included: (i) maintaining a progressive rate structure for households, with unchanged variable charges for protected households (around 60 percent of meters); (ii) significant tariff increases for most non-household consumers; and (iii) higher rates for industrial captive power users relative to non-captive users. In both the power and gas tariff adjustments, low-income and vulnerable households were protected against the increases.

**Pakistan: Circular Debt in the Power Sector, FYs13– 24Q1**
(Billions of Pakistani rupees)




Sources: Pakistani authorities; IMF staff calculations.
1/ Only the part held by the Power Holding Private Limited (PHPL) is publicly guaranteed (PRs 765 billion as of Q1 FY24), not that of the Central Power Purchasing Agenda (CPPA). Changes in the stock reflect the CD flow and sustained gradual clearance of payment arrears.
2/ Includes, among others, change in input costs (fuel, exchange rate, and interest rates), generation mix, prior-year recoveries.

# PROGRAM PERFORMANCE

**3. Overall performance against end-September quantitative performance criteria (QPCs), Indicative Targets (ITs), and Structural Benchmarks (SBs) under the SBA was satisfactory (MEFP Tables 1–2)**.

- ***Performance Criteria (PCs)***. At end-September 2023, the authorities met six quantitative PCs: the floors on: (i) net international reserves of the SBP; and (ii) targeted cash transfers spending (BISP); and the ceilings on: (iii) the SBP's FX swap/forward book; (iv) net domestic assets of the SBP; (v) net government budgetary borrowing from the SBP; and (vi) the amount of government guarantees. They also met the two continuous PCs on: (i) zero new flow of SBP credit to the government; and (ii) zero external public payment arrears. The ceiling on the general government primary budget deficit was missed by a small margin, with this deviation accounted for by technical factors (exchange rate valuation of external financing flows).[2]

[2] The Technical Memorandum of Understanding (TMU) attached to the SBA request dated June 30, 2023, requires the conversion of external financing flows at actual average quarterly exchange rates (TMU ¶17). Since a large bilateral disbursement occurred in mid-July following a period of rupee appreciation, the actual average quarterly exchange rate overstated the financing generated in domestic currency terms, leading the QPC on the general government primary budget balance to be missed. Going forward the TMU has been amended to evaluate external financing

(continued)

- ***Indicative targets (ITs)***. The authorities met three end-September ITs: the floors (i) on net tax revenue collected by FBR; and (ii) budgetary health and education spending; and the ceiling on (iii) net accumulation of tax refund arrears. However, the IT on power sector payment arrears was missed by a large margin, mostly due to under-recoveries in August (¶2) as well as a lower-than-anticipated tariff set in the annual rebasing.

- ***Structural benchmarks (SBs)***. The structural benchmarks (SBs) on the notification of the FY24 annual rebasing, and the compilation and dissemination of quarterly national accounts were met. The continuous SB on the average premium between the interbank and open market exchange rate was missed from mid-August to early-September, but subsequent structural reforms in the EC sector should enhance governance and transparency and reduce the risk of future deviations. Strong progress was made on the end-November SB on improving SOE governance, including (i) the operationalization of the SOE Act into a policy that clarifies ownership arrangements and roles; and (ii) significant progress, via ordinance, on amending the Acts of four selected SOEs to make the new SOE Act fully applicable, although final amendments remain to be completed via updated ordinance and/or adopted by parliament (¶15).

# OUTLOOK AND RISKS

**4. The baseline macroeconomic outlook has been updated to reflect the more subdued near-term outlook for domestic demand (Tables 1–8)**:

**Pakistan: Selected Economic Indictors, FYs 20/21–27/28 1/**

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Proj. | | |
| Real GDP growth (%) | 5.8 | 6.2 | -0.2 | 2.0 | 3.5 | 4.5 | 5.0 | 5.0 |
| Consumer prices (period average, % change) | 8.9 | 12.1 | 29.2 | 24.0 | 11.7 | 7.7 | 6.6 | 6.6 |
| Gen. gov. overall balance (incl. grants, % of GDP) | -6.0 | -7.8 | -7.7 | -7.6 | -7.3 | -5.7 | -5.1 | -4.6 |
| Gen gov. primary balance (underlying, excl. grants, % of GDP) 2/ | -0.5 | -2.3 | -0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Gen. gov. debt (incl. IMF obligations, % of GDP) | 73.5 | 76.2 | 77.1 | 72.8 | 70.9 | 69.7 | 67.7 | 65.7 |
| Current account balance (% of GDP) | -0.8 | -4.7 | -0.7 | -1.6 | -1.5 | -1.5 | -1.5 | -1.6 |
| Gross official reserves (billions of US$) | 17.3 | 9.8 | 4.5 | 9.1 | 13.0 | 16.8 | 19.5 | 20.7 |
| Gross official reserves (months of next year's G&S imports) | 2.5 | 2.0 | 0.8 | 1.5 | 2.0 | 2.4 | 2.6 | 2.7 |
| Gross official reserves (% of IMF ARA meteric) 3/ | 72.6 | 41.3 | 19.6 | 41.4 | 54.3 | 66.1 | 72.5 | 71.8 |

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

- ***Real GDP growth***. Reflecting weaker domestic demand, projected growth has been revised down to 2.0 percent in FY24 (from 2.5 percent). While positive base effects from flood recovery (especially in agriculture and the textile sector) are materializing, continued external challenges and necessarily tight fiscal and monetary policy are expected to mute consumption and private investment.

flows at actual exchange rates while the authorities commit to reporting external financing flows and applicable exchange rates at a more granular level (TMU Table 2).

- ***Inflation*** has generally moderated since June on easing food and energy prices, and headline CPI is now projected to average 24 percent in FY24. While the November gas tariff increase will add to headline inflation in coming months, gradual declines are expected given lower core inflation and recent commodity price movements, with year-end inflation revised to 18.5 and 9 percent in FY24 and FY25, respectively.
- ***Balance of Payments***. For FY24, the current account deficit (CAD) is projected at US$5.6 billion (1.6 percent of GDP), below the US$6.5 billion projected in the SBA Request. The import rebound is now expected to be more muted, reflecting weaker domestic demand, while exports and remittances are also more muted. Staff expects the CAD to remain around 1½ percent of GDP over the medium term, reflective of a market-determined exchange rate consistent with a sustainable CAD and efforts to rebuild reserves.
- ***Public debt***. Despite a notable improvement in market sentiment since June, risks to debt sustainability remain acute given large gross financing needs and scarce external financing. Assuming decisive implementation of program policies, which would be sustained over the medium term, and adequate multilateral and bilateral financing, public debt would remain sustainable (SRDSF, Annex I). However, policy slippages, insufficient financing or elevated gross financing needs, realization of contingent liabilities and downward risks to the baseline could all undermine the narrow the path to debt sustainability. With low reserves and scarce market financing, FX payments will remain a persistent challenge, and real interest rates have become an adverse driver of debt dynamics, with interest absorbing more than half of general government revenue.

**5. Downside risks remain exceptionally high**. External financing risks are exceptionally high and delays in the disbursement of planned financing from IFIs or bilateral partners could pose major risks to the government's program given limited buffers. Any external financing shortfalls would increase the government’s reliance on expensive financing from domestic banks, and could further crowd out private credit. Higher commodity prices and tighter global financial conditions, including due to the intensification of geopolitical conflicts, could put pressure on the exchange rate and external stability. Additionally, political tensions ahead of the upcoming elections may weigh on policy decisions and reform implementation.

# POLICY DISCUSSIONS

## A. Fiscal Policy

**6. The authorities remain committed to achieving a general government primary surplus of PRs 401 billion (0.4 percent of GDP), although securing this requires some additional effort**. While the FY24Q1 fiscal targets were met, rapid provincial spending and the shortfall in SBP profits (0.1 percent of GDP) imply the need for some measures to guarantee this goal:

- ***Strengthening revenue collection*** to ensure alignment with the FY24 budget. To achieve this the FBR has commenced bringing nine hundred thousand identified non-filers into the tax net.

The FBR will issue initial notifications to these taxpayers by mid-December and has established a monitoring system to track the yield of this operation, with corrective measures planned should collections fall short. Further reforms to enhance revenue administration, including anti-smuggling efforts and close monitoring of the track and trace system are also underway. Finally, should revenue fall short in FY24 (MEFP ¶6), the authorities have identified several contingent measures which can be adopted (MEFP ¶8b)

- ***Containing primary expenditure*** to PRs 12,915 billion (11.9 percent of GDP) while preserving space for priority social spending (MEFP ¶6). Salary and pension increases will be restricted to the allocated budget of the respective entities and, within this envelope, the generosity of the BISP unconditional cash transfer (UCT) Kafaalat will be protected. Energy subsidies are also limited to PRs 976 billion as per the budget.
- ***Improved fiscal coordination with provincial governments***. Improved coordination with the provinces, including through updated MoUs with the federal government, will help guarantee their FY24 budget targets. Furthermore, the Punjab government has committed, through its MoU, to curtail its expenditure by PRs 115 billion for the remainder of FY24 to achieve the committed surplus associated with the FY24 budget. Relatedly, provincial governments have agreed to rectify the decade-long accumulation of commodity debts (created by provincial food departments outside the government's fiscal perimeter) by implementing time-bound plans for the timely retirement of this debt.

**7. Broad-based reforms to improve the fiscal framework remain essential**.

- ***Strengthening revenue mobilization*** (MEFP ¶8a,c). The authorities are advancing reforms to lay out a tax policy agenda to raise additional revenue, including from currently undertaxed sectors, alongside supportive administration reforms. These efforts are being supported by an IMF tax diagnostic exercise to shape the agenda for future reforms. In addition, the authorities are advancing efforts to: (i) adopt a documentation law, currently in the final stages of legal procedures for adoption, which mandates 145 organizations to regularly share information with the FBR; (ii) establish a Compliance Risk Management team within the FBR focused on comprehensive risk analysis and analytics; (iii) implement the e-invoicing system, scheduled for December 2023; and (iv) launch a door-to-door campaign in four provincial capitals and Islamabad, to register non-filing retailers, which would streamline tax filling processes and significantly expand the tax base.
- ***Enhancing Public Financial Management (PFM)*** (MEFP ¶8d, ¶24b). The authorities have requested IMF TA to strengthen budget preparation and execution, and improve coordination and fiscal reporting with the provinces, which could help critically strengthen the process ahead of the FY25 budget. The recently completed Climate-PIMA assessment provides an action plan for the authorities to strengthen public investment management, including to tackle climate challenges, over the period ahead. The authorities have also made progress on operationalizing the treasury single account (TSA-2), which now encompasses 231 accounts, and have requested TA from the ADB to further refine forecasting and cash management.

- ***Increasing spending transparency*** (MEFP ¶8d). Full implementation of the electronic procurement system (e-PADS), with support from the World Bank, will enhance federal and provincial spending transparency including over beneficial ownership and conflicts of interest.

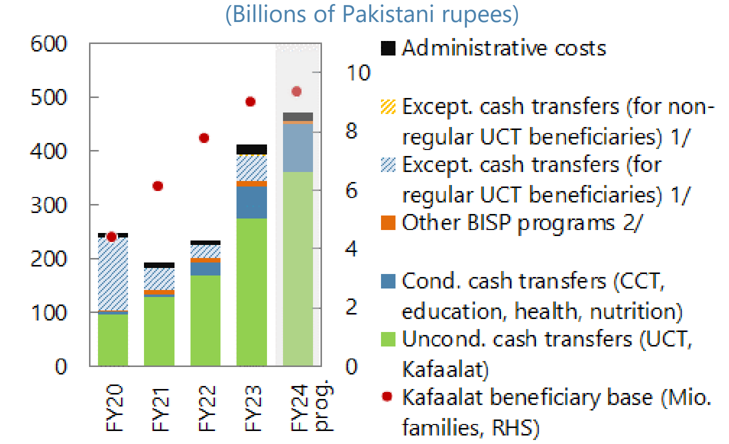
- ***Improving debt management***. Some progress has been made in resolving staffing issues in the Debt Management Office (DMO), but challenges remain in attracting skilled professionals. Staff and the authorities agreed that while deepening financial markets and widening the investor base for domestic securities are desirable, the government's borrowing requirement must continue to fall, and that a ceiling on government guarantees remains a key tool for limiting debt risks outside the general government perimeter. Going forward, to strengthen transparency in debt reporting, SOE debts related to commodity operations should be included in the guarantee perimeter.

## B. Poverty Reduction and Social Protection

**8. Protecting the most vulnerable by strengthening social protection and social spending levels is key to Pakistan's development**. Social protection spending was on pace in FY24Q1 to execute the FY24 BISP envelope of PRs 472 billion (0.4 percent of GDP), a 30 percent increase over BISP spending in FY23 (excluding one-off flood-related spending). This year's BISP envelope allows the authorities to absorb an additional 300,000 families into BISP's unconditional cash transfer (Kafaalat) program, bringing enrollment to 9.3 million families. In addition, the planned inflation adjustment of the Kafaalat stipend in January 2024 (end-January 2024 SB) will protect the scheme's current real generosity level. [3] The authorities should also accelerate the enrollment of participants into BISP's conditional cash transfer programs supporting education, health, and nutrition, for which an additional 1.2 million new children and 0.8 million new families, respectively, are targeted for enrollment in FY24.

**Composition of BISP Spending, FYs20-24**

(Billions of Pakistani rupees)




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

**9. BISP's administrative apparatus should continue to improve**. The National Socio-Economic Registry's dynamic registry is fully operational nationwide. With payments now made

[3] The UCT Kafaalat's current generosity level – 11.7 percent of the bottom two income quintiles' monthly consumption – is expected to remain below the global best practice standard of 25 percent even after the January inflation adjustment.

through a real time, biometric-based mechanism, BISP is able to quickly respond to shocks. However, there is scope to improve the efficiency and transparency of its disbursement mechanisms.

**10. Continued efforts to execute social programs outside BISP are needed**. While the end-September health and education spending target was met, the authorities expect to fall short of the original end-December target, partly due to limits on the caretaker government's ability to execute new projects. Execution of this spending needs to continue later this fiscal year when the new government is formed. Separately, the protection of the most vulnerable through lifeline and protected power and gas tariff slabs (¶14) must continue until, over the longer term, they can effectively be replaced by a targeted BISP scheme.

## C. Monetary, Exchange Rate and Financial Sector Policies

**11. A tight monetary stance is critical to reduce inflation, re-anchor expectations, and support external sector rebalancing through the exchange rate**. While staff sees the stance as broadly appropriate at the current juncture given weak domestic demand, the MPC should stand ready to respond resolutely if near-term price pressures reemerge, including due to second-round effects, and ensure that the real policy rate remains in clear positive territory. Further, it is important to continue work towards improving monetary transmission, including through the gradual phase-out of SBP's involvement in refinancing schemes (MEFP ¶14), and by strengthening internal control systems around monetary policy lending operations as recommended by the 2023 Safeguards Assessment Report (March 8, 2024 SB, ¶20, MEFP ¶13).

**12. Supporting the return to a market-determined exchange rate requires a gradual deepening of the FX market and avoiding any actions to manage the current account**. Staff emphasized that deepening FX market liquidity should result in a rebound in trading volumes to levels seen some months ago and could only occur if banks are encouraged to manage FX flows via the interbank market, offering exchange rates to ensure FX flows into the system when needed. To ensure that the exchange rate can act as a shock absorber, the authorities must refrain from formal or informal restrictions. Staff and the authorities agreed that SBP's interventions in the FX market should remain guided by the objective of building FX buffers, with sales not to be used to prevent trend depreciation of the rupee driven by fundamentals. Meanwhile, the authorities agreed to redouble efforts to eliminate the existing exchange restriction[4] and multiple currency practice[5] in early 2024. The SBP's planned reforms of the EC sector could improve oversight, governance, and

[4] Pakistan maintains an exchange restriction resulting from the limitation on advance payments for imports against letters of credit (LCs) and advance payments beyond the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018). At the time of the SBA request the IMF Executive Board approved the exchange restriction for the duration of the program.

[5] Pakistan maintains a multiple currency practice (MCP) arising from the potential deviation of more than 2 percent between the previous day's weighted average customer exchange rates used for the FX transactions between the SBP and the government and the spot exchange rates prevailing on the FX market at the time. At the time of the SBA request the IMF Executive Board approved the MCP for the duration of the program.

transparency, but further efforts to monitor the pricing in the informal exchange rate markets would helpfully identify periods of market dysfunction.

**13. Close monitoring of the banking sector remains essential, and actions to address undercapitalized institutions should move to conclusion**. The SBP recently implemented risk-based bank supervision, while banks will have to adopt IFRS 9 on January 1, 2024. Amendments to the bank resolution and deposit insurance legislation will further strengthen Pakistan's crisis management framework (submission to parliament (Senate), end-December 2023 SB, MEFP ¶16c). The authorities continue slow progress on the three undercapitalized banks: [6] The public bank is being wound down and the SBP intends to put the legal entity into liquidation by end-March 2024. However, two private banks remain undercapitalized, despite some progress in partially recapitalizing one bank, and the authorities have committed to ensuring compliance with capital requirements within six months (MEFP ¶16a). The authorities also highlighted their efforts to tackle pockets of vulnerability in the microfinance sector, including by asking owners to provide time-bound recapitalization plans where necessary, and confirmed to postpone the extension of the deposit insurance scheme to the sector until the issues have been addressed.

## D. Energy Sector Policy

**14. Timely implementation of scheduled tariff adjustments and broader reform efforts are critical to restoring energy sector viability**.

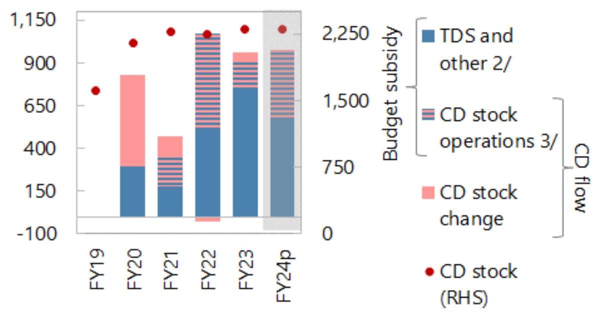
- ***Power***. The authorities' August 2023 FY24 circular debt management plan (CDMP) would contain the CD stock to its end-FY23 level of PRs 2,310 billion (2.2 percent of GDP). The plan includes the budgeted FY24 subsidy to the power sector of PRs 976 billion (0.9 percent of GDP), including direct support of PRs 584 billion (0.6 percent of GDP) and CD stock payments of PRs 392 billion (0.4 percent of GDP). Key measures include:
    - *Continued timely alignment of tariffs with cost recovery levels* to prevent further annual CD accumulation (a temporary intra-year CD stock increase is expected due to subsidy disbursement and tariff patterns) and avoid further fiscal pressures while ensuring electricity generation (MEFP ¶18a). The progressive lifeline and protected slab tariff structure must be maintained to shield the vulnerable household consumers.
    - *Collections enhancement*. With under-recoveries projected at PRs 263 billion (0.2 percent of GDP) in FY24, sustaining the enhanced collections efforts initiated in early September (MEFP ¶18c) will complement tariff increases.
    - *Further progress on reforms* (MEFP ¶18) to reduce high costs, improve DISCO performance, and increase competition and green energy. Reforms include (i) improving price signals for inputs, notably gas (see below); (ii) moving to private sector management of DISCOs through long-term concessions from 2024; (iii) renegotiating the terms of remaining power purchase agreements; (iv) continuing to convert publicly-

[6] The previously undercapitalized mid-sized public sector bank returned to capital compliance in June FY23, after a capital injection by its owners.

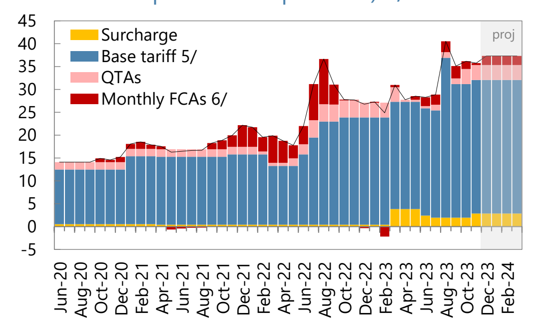
guaranteed PHPL debt into cheaper public debt; (v) expanding renewable energy capacity; and (vi) improving transmission efficiency.

**Pakistan: Power Sector**

**Total Fiscal Cost, FYs19– 24**
(Billions of Pakistani rupees) 1/




**Power Prices, 2020M6–24M11**
(Notified weighted-average, post-subsidies, pre-tax price in PRs per kWh) 4/




Sources: Pakistani authorities; IMF staff calculations.
1/ FY19 only shows stocks, no flows. FY24 shows projections after programed measures.
2/ Includes the inter-DISCO tariff differential subsidy (TDS) and special subsidy packages, where applicable.
3/ Includes repayment of CPPA arrears to IPPs and GPPs, and amortization of PHPL debt.
4/ Includes regular tariff adjustments through November 2024, projected from December onward.
5/ Includes application of delayed rebasing billing increase from July to August 2023.
6/ Includes the impact of the non-collection from residentials with a monthly consumption of less than 300 kwh and agriculture consumers of the June and July 2022 FCAs in September and October 2022 and their staggered deferred collection from March through October 2023.

- ***Gas***. Following the November tariff increase, further efforts include:
  - Regular (automatic) implementation of semiannual gas tariff adjustments, including OGRA's December 2023 determination within the required 40-day window (SB February 15, 2024, MEFP ¶19a);
  - the full phasing out of captive power usage, which reduces demand for electricity generated in the grid, forces electricity tariffs of grid consumers to cover unused capacity, and exacerbates power sector liquidity pressures (MEFP ¶19b);
  - establishing a more level playing field among non-household consumers, including by eliminating cross-subsidies to fertilizer producers and favorable rates for well-connected industries (MEFP ¶19c); and
  - the formalization of a CD stock reduction plan (MEFP ¶19e).

## E. Structural Policies

**15. Continued efforts on the structural reform agenda are critical to improving living standards, socioeconomic outcomes, and climate resilience, and reducing vulnerability to corruption**. Key aspects of the agenda include:

- **Strengthening SOE governance, transparency, and efficiency**. The authorities have made strong progress, with ABD support, in implementing the SOE Act that took effect in early 2023.

This includes adoption of a policy to operationalize the law; and the amendment via ordinance of four SOE-dedicated laws to bring them in line with the new SOE Act (end-November 2023 SB). Remaining steps toward full alignment of the individual SOE laws with the new SOE Act will require either an updated ordinance or adoption of these amendments by the new parliament (MEFP ¶21a). After some delays in the recruitment process, the authorities are also making progress toward fully staffing a Central Monitoring Unit within the Ministry of Finance (end-December 2023 SB), which will play a key role in SOE monitoring, reporting, and governance.

- **A new Sovereign Wealth Fund (SWF) poses governance risks**. The creation of a SWF in August 2023, comprising seven profitable SOEs (worth about US$8 billion), presents governance- and public financial management-related challenges: These SOEs are exempted from the SOE Act's best practice structure, including safeguards related to corporate governance, monitoring, and transparency and accountability. The authorities have recognized this by agreeing to swiftly introduce safeguards to address these challenges (MEFP ¶8d and MEFP ¶21b). These efforts should also be aligned with current SOE privatization and restructuring efforts and the March 2021 SOE Triage Plan.
- **Improving the business environment to attract investment and create jobs**. Maintaining a level playing field for all investors is critical to sustainably attracting the high-quality, long-term investments that Pakistan needs. In this regard, the legal establishment in August 2023 of the Special Investment Facilitation Council (SIFC), endowed with powers to offer regulatory relief and other immunities in an attempt to attract investment and improve intra-governmental coordination, should be accompanied by the safeguards committed by the authorities (MEFP ¶22), bringing projects identified through the SIFC under Pakistan's existing public investment management framework to ensure accountability and transparency.
- **Building effective anti-corruption institutions that will enhance the business climate, safeguard public funds, and boost public and donor confidence** (MEFP ¶23). The authorities have committed to publishing the full UNCAC report and completing the review of Pakistan's anti-corruption institutions by a taskforce with participation of independent experts. The review should identify key corruption vulnerabilities and reform actions to strengthen the independence and effectiveness of institutions (including the National Accountability Bureau, the anti-corruption investigative agency). Integration of asset declarations held by the FBR and the AML/CFT compliance functions of banks consistent with best practices would help detect, prevent, and deter the laundering of proceeds of corruption, tax evasion and smuggling through the financial sector.
- **Efforts to build up climate change adaption capacity and resilience are critical**. This includes implementation of the recently-adopted National Adaptation Plan (NAP), focused on six priority sectors; realigning the existing PSDP portfolio with NAP objectives; carrying out a costing exercise for new projects; and exploring channels for mobilizing climate finance. In parallel, the authorities should advance the recommendations of the IMF's recent Climate-PIMA (cabinet adoption end-December 2023 SB, MEFP ¶24b).

# PROGRAM MODALITIES AND CAPACITY TO REPAY

**16. The authorities have requested the following updates to program conditionality** (MEFP Tables 1-2):

- The end-December PCs for the ceilings on: (i) SBP's stock of net foreign currency swaps/forward position; and (ii) net domestic assets of the SBP; and the floor on (iii) SBP's net international reserves, are all proposed to be tightened, to lock in progress in rebuilding SBP's reserves. The end-December PC on the general government primary budget deficit is also proposed to be adjusted, to balance quasi-fiscal effort through the year while remaining consistent with the 0.4 percent of GDP target for FY24.
- The following end-December ITs would be modified: (i) the nominal floor on general government budgetary health and education spending, to maintain cumulative Q2 spending at about 1 percent of GDP; and (ii) the ceiling on power sector payment arrears, for consistency with the August CDMP.
- The following new structural benchmarks are proposed: (i) notification of the December 2023 semi-annual gas tariff adjustment determination (February 15, 2024); and (ii) for the SBP to develop a plan to strengthen internal controls systems in lending operations, in line with the recommendations from the 2023 Safeguards Assessment (March 8, 2024).
- Rephasing of access for the second review, to March 15, 2024, to provide sufficient time to complete the program's structural agenda (Table 9b).

**17. Financing**. The program is fully financed and the reserve position at end-FY24 is consistent with program objectives (Table 3a), although risks remain exceptionally high. Over US$3 billion in commitments made at the time of the SBA request have already been delivered, with an additional US$1 billion in multilateral support expected by end-2023. Further assurances for bilateral support of US$0.7 billion were reconfirmed ahead of this review. However, the Islamic Development Bank is now likely to deliver only a small fraction of the US$1 billion pledged ahead of the SBA during the program period. Offsetting that, a debt rearrangement with a major bilateral creditor has generated amortization savings of around US$1.2 billion in both FY24 and FY25. Nonetheless, financing risks remain exceptionally high, arising from large public sector external rollover needs, a persistent current account deficit, a difficult external environment for Eurobond and Sukuk issuance, and limited reserve buffers in case of delays to anticipated inflows.

**18. Capacity to repay**. Pakistan's capacity to repay the Fund is subject to significant risks and remains critically dependent on policy implementation and timely external financing. The Fund's exposure reaches SDR 5,972 million (or 294 percent of quota and about 103 percent of projected gross reserves at end-January 2024) with purchases linked to the review (Table 9b). With completion of all purchases under the arrangement, it would peak at SDR 6,673 million in March 2024 (329 percent of quota and about 102 percent of projected gross reserves at end-March 2024). Exceptionally high risks-notably from delayed adoption of reforms, high public debt and gross financing needs, low gross reserves and SBP's sizeable net FX derivative position, the recent decline in inflows, and sociopolitical factors-could jeopardize policy implementation and erode repayment capacity and debt sustainability. Restoring external viability is critical to ensure Pakistan's capacity to repay the Fund, and hinges on strong policy implementation, including beyond the SBA. Uncertainty about global economic and financial conditions, amid several successive shocks, adds to these risks. Adequate and timely execution of the firm and credible financing assurances from official creditors remains essential to mitigate these risks.

**19. Enterprise Risks**. The SBA poses a number of enterprise risks which are broadly unchanged from the time of program approval. As the fourth largest GRA credit exposure, Pakistan represents a significant concentration risk, with GRA credit outstanding representing 30 percent of FY23 precautionary balances assuming full disbursement of the SBA. Risks in capacity to repay are significant (¶18). Several factors help mitigate these risks including targeted macrocritical conditionality, phased access, burden sharing, adequate financing assurances for the program, including from key multilateral and official bilateral creditors, and assurances of broad political support for the program’s objectives and policies. Reputational and engagement risks could result from program disruptions due to partial implementation of policies necessary for adjustment or new measures not aligned with the program objectives, although the caretaker government’s ongoing commitment to strong policy implementation and timely completion of the reviews help mitigate these risks. Sociopolitical tensions could also create a challenging environment for program implementation. These risks are mitigated by calibrated communication and outreach strategies which seek to ensure a broad-based understanding of importance of the actions underpinning the Fund-supported program, including through direct outreach to CSOs, as well measures to ensure that the vulnerable are protected. Other non-financial risks (such as described in ¶5) are mitigated by the review-based nature of Fund lending, which allows policies and conditions underpinning Fund-supported program to be adjusted as macroeconomic circumstances change. Pakistan’s challenging security situation also poses risks, although all in-country Fund activities are closely coordinated in line with Fund policies and supported by UNDSS.

**20. An updated safeguards assessment of the SBP is completed**. The assessment found a broadly sound safeguards framework, with all recommendations from the 2019 assessment implemented. Legal amendments to the SBP Act in 2022 have significantly improved the institutional framework for autonomy and governance of the central bank, with SBP ceasing monetary financing and beginning the phase out of quasi-fiscal development schemes. However, monetary policy reverse repo operations have increased substantially in recent years, and the assessment recommended stronger risk mitigation measures, including by enhancing SBP's collateral policy and establishing a counterparty eligibility policy (¶11, MEFP ¶13).

# STAFF APPRAISAL

**21. The authorities’ program is on track, with tentative signs that the economy is stabilizing and external pressures are easing**. While demand remains weak, economic activity is picking up, although gradually, and inflation has started to decline, though remaining elevated. External pressures have eased somewhat, and the SBP has taken advantage of inflows to begin rebuilding FX buffers. Fiscal performance has also improved, with the general government registering a primary surplus in FY24Q1. While the current SBA has provided a much-needed respite, and the caretaker government deserves credit for its steadfast implementation, Pakistan's medium-term challenges remain acute, and the current policy efforts need to continue to address them in a sustainable manner.

**22. The authorities' measures to safeguard the FY24 primary surplus target are welcome, but further fiscal reforms remain essential to reduce debt to more sustainable levels**. Strict adherence to the budget is necessary to mitigate significant risks to macroeconomic stability and fiscal sustainability. Future revenue mobilization efforts should focus on improving revenue administration, ensuring proper tax policy implementation, and expanding the base through measures targeting under-taxed sectors. In parallel, while safeguarding social assistance, non-priority spending will need to be curtailed and projects prioritized. In this regard, enhancing public financial management is critical for optimizing the efficiency of scarce resources.

**23. Reducing poverty and effectively protecting the most vulnerable require strengthening of social spending and institutions**. Staff welcomed the higher nominal BISP budget envelope for FY24, the expansion of the UCT beneficiary base, and new enrollments into CCT schemes, but called for greater efforts to maintain planned health and education spending.

**24. Given elevated near-term inflationary risks, monetary policy needs to remain tight and proactive to guide inflation back to target**. Although the forward-looking real policy rate has returned to positive territory, there is no room for complacency given near-term risks. With inflation expectations still not firmly anchored, utmost caution is warranted and the MPC should respond forcefully and without delay if inflationary pressures reemerge.

**25. Ensuring a market-determined exchange rate is critical to help buffer external shocks, rebuild SBP's FX reserves, and support growth**. Restoring public confidence in the exchange rate system and deepening the FX market will require allowing price signals to function without impediment and decisively abandoning tight management of the FX market. Relatedly, signaling strongly that repatriation of profits and dividends will not be restricted remains indispensable to attract high-quality FDI. Imperfect FX market functioning undermines economic activity and thus the intense fixation by politicians and other stakeholders on the level of the exchange rate is ultimately damaging to private inflows and growth. The existing exchange restriction and the MCP should be eliminated as soon as possible.

**26. Maintaining financial stability requires continued vigilance**. This includes ensuring all banks and microfinance banks are compliant with the minimum capital requirements or exit the market. Passing the legal reform of the crisis management framework is crucial to ensure the authorities have the appropriate powers and toolkit to deal with weak institutions.

**27. Recent electricity and natural gas tariff increases demonstrated the caretaker government's willingness to take bold steps to shore-up energy sector viability**. It is critical that the authorities continue to implement tariff adjustments on time, while maintaining a progressive structure to protect the most vulnerable households. Swift movement is needed on broader reforms to reduce operational inefficiencies, improve performance, and reduce distortions that combine to continue to add pressure on CD flows.

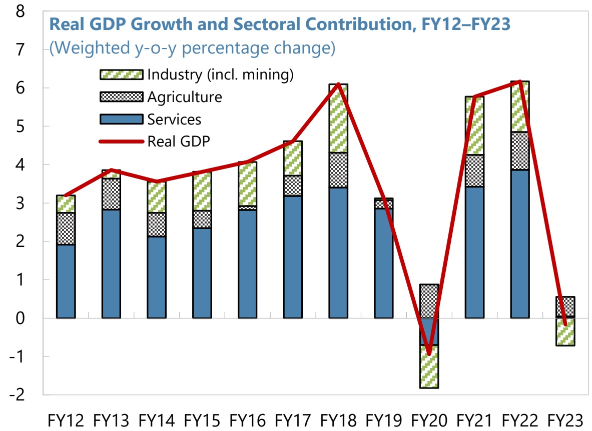
**28. Structural reforms must progress to create a basis for sustainable and inclusive growth**. Continued progress on SOE governance and anti-corruption institutional reform is essential-including introducing sufficient governance measures for the newly-created SWF and SIFC-alongside business environment improvements and critical climate change adaption efforts.

**29. Risks remain exceptionally high and tilted to the downside**. External headwinds remain strong with tight global financial conditions, volatile food and fuel prices, and geopolitical tensions, including due to the conflict in Gaza and Israel. Wavering reform efforts could undermine the adjustment effort, put pressure on the exchange rate, and affect the availability of external financing.

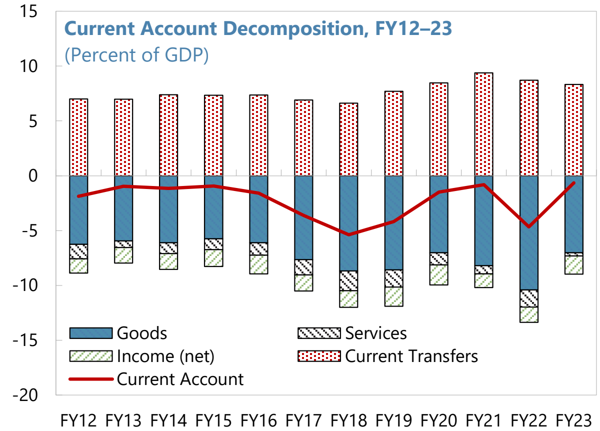
**30. While recognizing these risks, staff supports the authorities' request for completion of the first review under the SBA, modification of performance criteria and rephasing of access** (¶16). Staff also supports the authorities' request for a waiver of nonobservance for the end-September QPC on the general government primary budget deficit, as the deviation was minor and will not affect program goals.

## Figure 1. Pakistan: Selected Economic Indicators

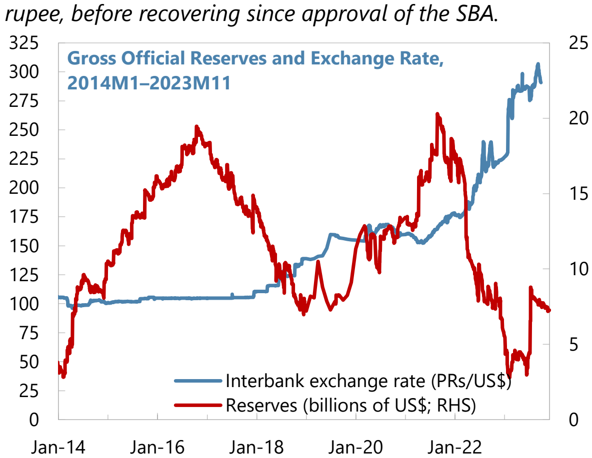
*Growth contracted in FY23 in the context of the floods, tight external financing, and adverse domestic policies…*



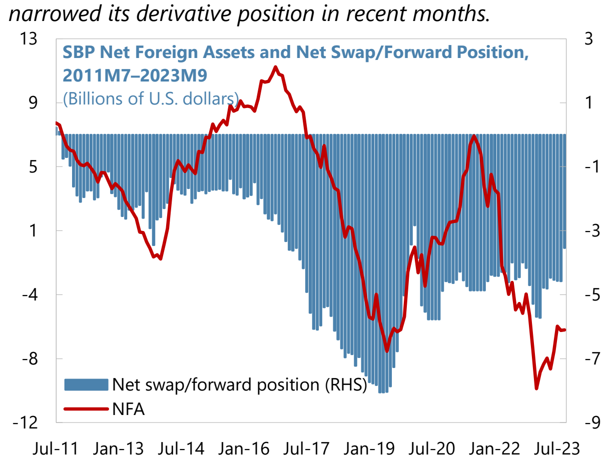

*…with import compression driving a narrowing of the current account deficit.*



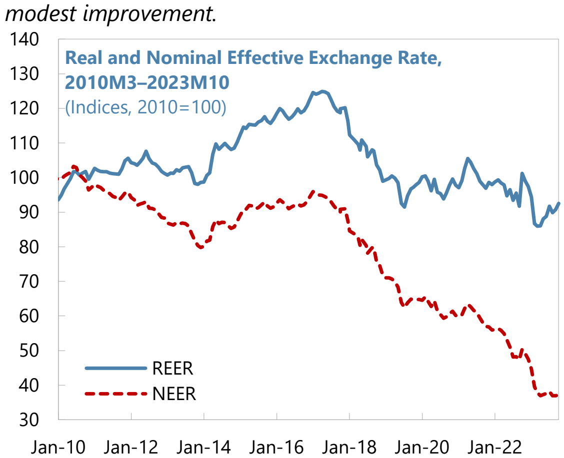

*Foreign reserves declined sharply in FYs22-23, pressuring the rupee, before recovering since approval of the SBA.*



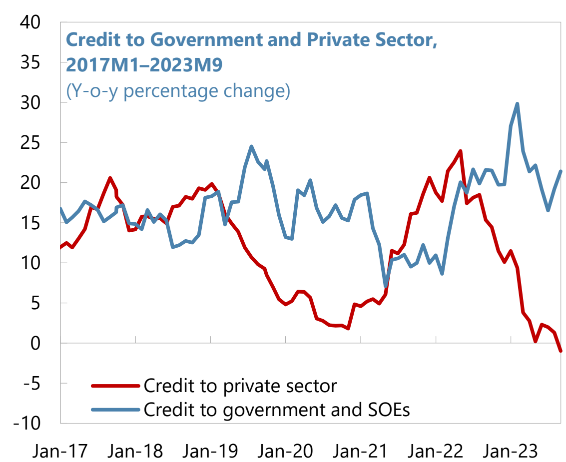

*After an increase in FY23, the SBP's has substantially narrowed its derivative position in recent months.*




*External competitiveness remains weak, despite some recent modest improvement.*



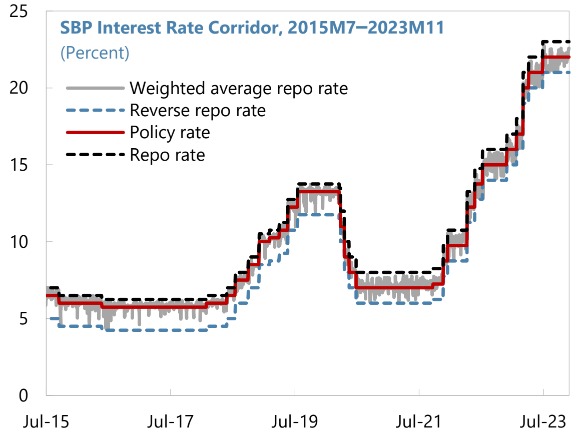

*Private sector credit growth has fallen into negative territory.*



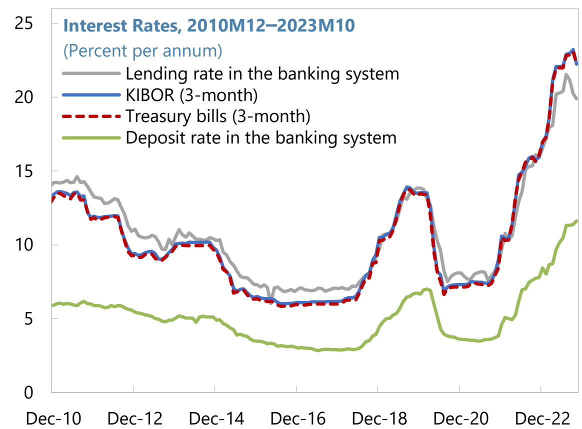

Sources: Pakistani authorities; IMF World Economic Outlook Database; IMF staff calculations.

## Figure 2. Pakistan: Selected Financial Indicators

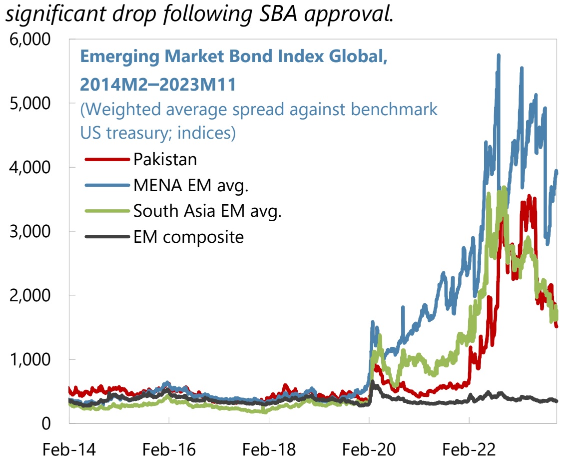
*The SBP has gradually tightened monetary policy since September 2021…*



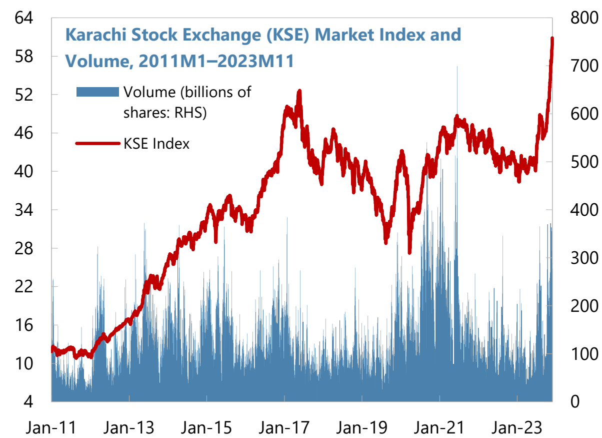

*…and market rates have moved in line with the policy rate amid heightened uncertainty and external pressures.*



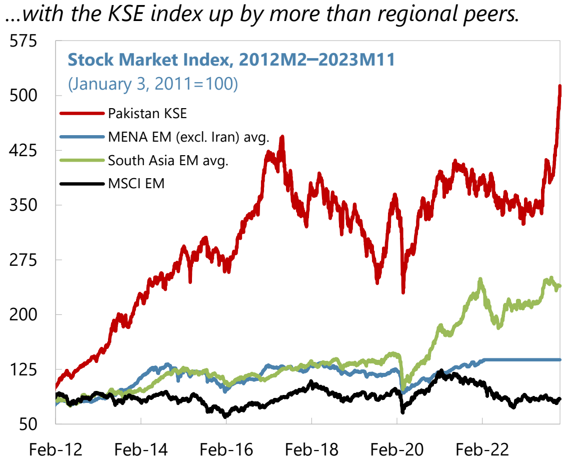

*Pakistan's bond spreads, in turn, remain elevated despite a significant drop following SBA approval.*



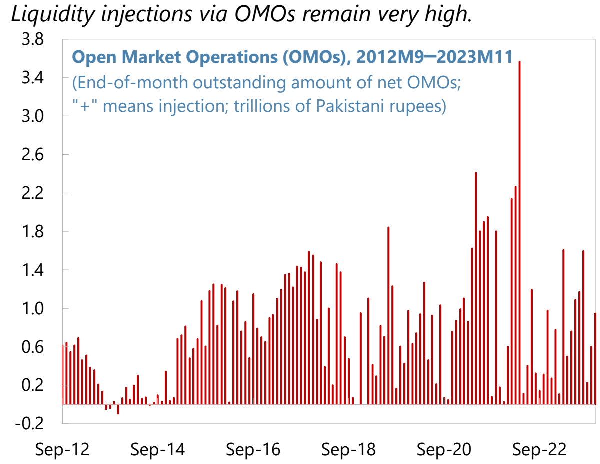

*The stock market has also rallied strongly, and trading volumes have rebounded …*




*…with the KSE index up by more than regional peers.*



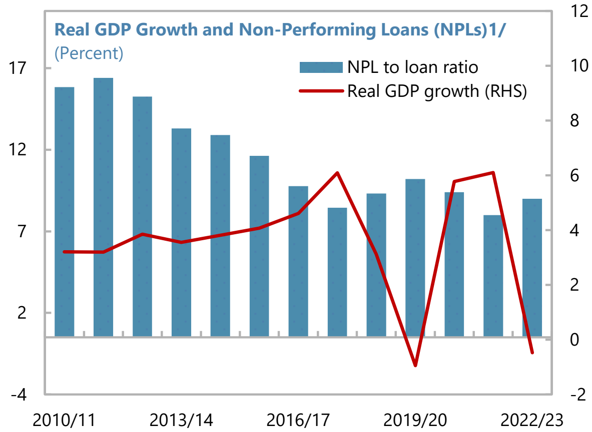

*Liquidity injections via OMOs remain very high.*



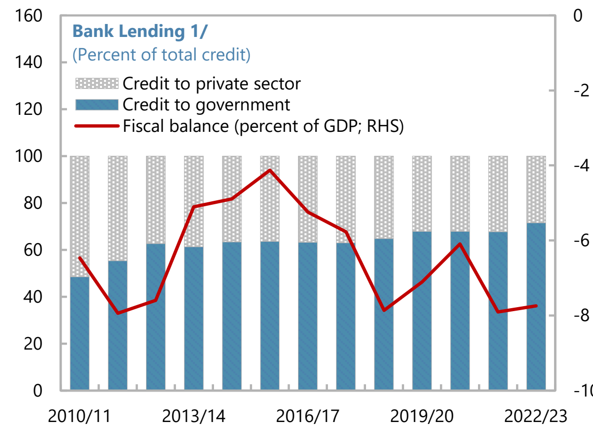

Source: Pakistani authorities; Bloomberg; IMF staff calculations.

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

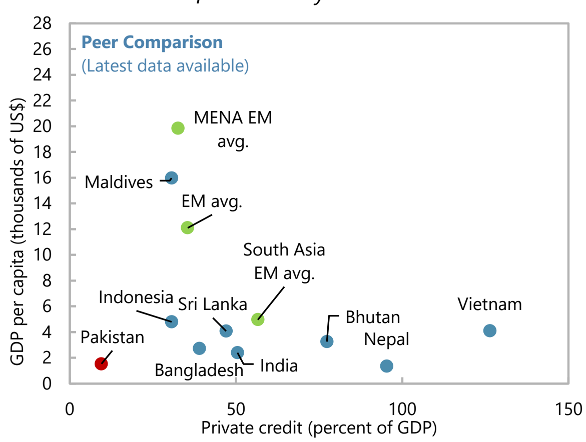
*NPLs rose in FY23 but remained relatively contained in the context of the large economic deceleration.*



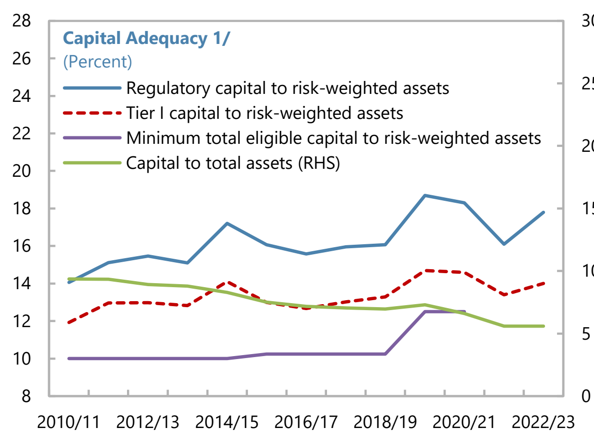

*The banking system remains oriented toward providing credit to the government…*



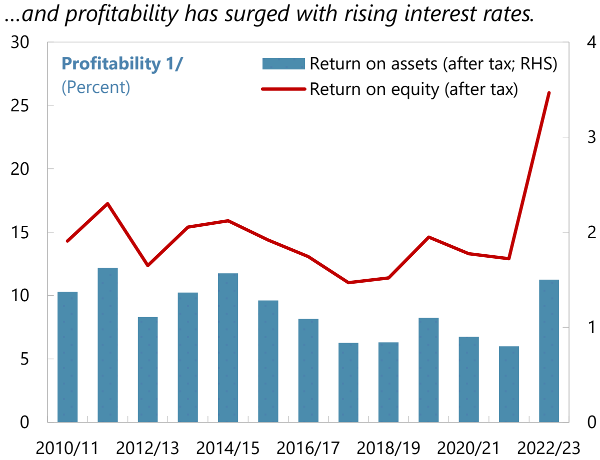

*…leaving Pakistan behind its peers in terms of private credit relative to the size of its economy.*



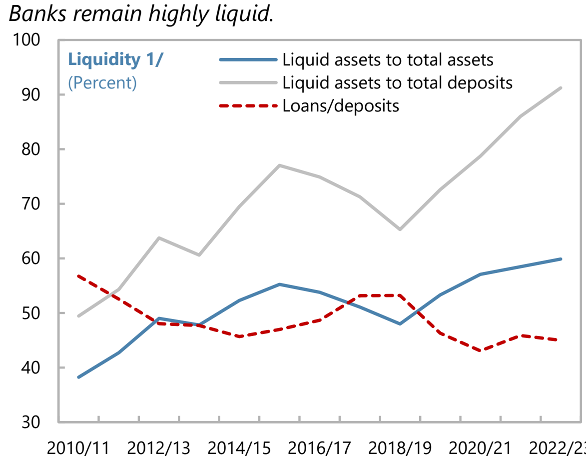

*Nonetheless, the banking sector remains well capitalized…*




*…and profitability has surged with rising interest rates.*




*Banks remain highly liquid.*




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

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

Population: 231.6 million (2022/23)
Per capita GDP: US$1,456.6 (2022/23)
Poverty rate: 21.9 percent (at national line; 2018/19)

Main exports: Textiles (US$16.5 billion, 2022/23)
Unemployment: 6.2 percent (2021/22)

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | | 2023/24 | | 2024/25 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Prog. | Est. | Prog. | Proj. | Proj. |
| **Output and prices** | (Annual percentage change) | | | | | | | | |
| Real GDP at factor cost | 3.1 | -0.9 | 5.8 | 6.2 | -0.5 | -0.2 | 2.5 | 2.0 | 3.5 |
| GDP deflator at factor cost | 9.2 | 9.9 | 10.4 | 14.1 | 26.0 | 26.1 | 25.9 | 24.0 | 11.7 |
| Consumer prices (period average) | 6.7 | 10.7 | 8.9 | 12.1 | 29.6 | 29.2 | 25.9 | 24.0 | 11.7 |
| Consumer prices (end of period) | 8.0 | 8.6 | 9.7 | 21.3 | 34.0 | 29.4 | 16.2 | 18.5 | 9.0 |
| Pakistani rupees per U.S. dollar (period average) | 24.0 | 16.0 | 1.2 | 11.0 | … | 39.8 | … | … | … |
| Pakistani rupees per U.S. dollar (end of period) | 31.7 | 5.0 | -6.3 | 30.0 | … | 39.6 | … | … | … |
| **Saving and investment** | (Percent of GDP) | | | | | | | | |
| Gross saving | 11.3 | 13.3 | 13.7 | 10.7 | 12.4 | 13.0 | 12.8 | 12.0 | 12.3 |
| Government | -5.5 | -4.7 | -3.9 | -5.4 | -5.5 | -5.5 | -5.4 | -5.7 | -5.2 |
| Nongovernment (including public sector enterprises) | 16.8 | 18.1 | 17.6 | 16.1 | 17.9 | 18.5 | 18.2 | 17.7 | 17.4 |
| Gross capital formation 2/ | 15.5 | 14.8 | 14.5 | 15.4 | 13.5 | 13.7 | 14.7 | 13.6 | 13.8 |
| Government | 2.3 | 2.3 | 2.2 | 2.4 | 2.0 | 2.2 | 2.1 | 2.0 | 2.1 |
| Nongovernment (including public sector enterprises) | 13.2 | 12.5 | 12.4 | 13.0 | 11.5 | 11.5 | 12.6 | 11.6 | 11.7 |
| **Public finances** | | | | | | | | | |
| Revenue and grants | 11.3 | 13.3 | 12.4 | 12.1 | 11.4 | 11.4 | 12.3 | 12.5 | 12.4 |
| Expenditure (including statistical discrepancy) | 19.1 | 20.3 | 18.5 | 20.0 | 18.9 | 19.2 | 19.8 | 20.2 | 19.7 |
| Budget balance (including grants) | -7.8 | -7.0 | -6.0 | -7.8 | -7.6 | -7.7 | -7.5 | -7.6 | -7.3 |
| Budget balance (excluding grants) | -7.9 | -7.1 | -6.1 | -7.9 | -7.6 | -7.8 | -7.5 | -7.7 | -7.3 |
| Primary balance (excluding grants) | -3.1 | -1.6 | -1.2 | -3.1 | -1.0 | -0.8 | 0.4 | 0.4 | 0.4 |
| Underlying primary balance (excluding grants) 3/ | -3.1 | -1.6 | -0.5 | -2.3 | -0.8 | -0.6 | 0.4 | 0.4 | 0.4 |
| Total general government debt excl. IMF obligations | 75.4 | 76.8 | 71.4 | 74.1 | 74.9 | 74.7 | 68.4 | 70.3 | 69.1 |
| External general government debt | 28.1 | 27.9 | 24.4 | 27.4 | 31.1 | 28.5 | 28.4 | 27.4 | 26.1 |
| Domestic general government debt | 47.3 | 49.0 | 47.0 | 46.6 | 43.8 | 46.2 | 40.0 | 42.9 | 43.0 |
| General government debt incl. IMF obligations | 77.5 | 79.6 | 73.5 | 76.2 | 77.4 | 77.1 | 70.9 | 72.8 | 71.0 |
| External general government debt | 30.2 | 30.6 | 26.5 | 29.5 | 33.5 | 30.9 | 30.9 | 30.0 | 28.0 |
| Domestic general government debt | 47.3 | 49.0 | 47.0 | 46.6 | 43.8 | 46.2 | 40.0 | 42.9 | 43.0 |
| General government and government guaranteed debt (incl. IMF; % GDP) | 82.0 | 84.5 | 77.8 | 80.7 | 81.8 | 81.3 | 74.9 | 76.8 | 74.7 |
| **Monetary sector** | (Annual changes in percent of initial stock of broad money, unless otherwise indicated) | | | | | | | | |
| Net foreign assets | -8.1 | 5.6 | 5.9 | -6.1 | -3.3 | -7.0 | -0.4 | 1.1 | 4.4 |
| Net domestic assets | 19.4 | 11.9 | 10.3 | 19.7 | 18.4 | 21.2 | 12.9 | 9.9 | 16.6 |
| Credit to the private sector | 4.5 | 1.1 | 3.8 | 5.5 | 0.3 | 0.8 | 2.4 | 1.5 | 5.6 |
| Net claims on the government | 13.4 | 12.4 | 8.2 | 13.8 | 14.2 | 13.5 | 14.5 | 17.8 | 14.8 |
| Broad money (percent change) | 11.3 | 17.5 | 16.2 | 13.6 | 13.3 | 14.2 | 14.5 | 11.0 | 21.0 |
| Reserve money (percent change) | 19.9 | 16.8 | 12.8 | 7.7 | 17.5 | 22.4 | 17.5 | 11.0 | 21.9 |
| Private credit (percent change) | 11.9 | 3.0 | 11.5 | 17.4 | 1.0 | 2.3 | 8.0 | 5.0 | 20.0 |
| Six-month treasury bill rate (period average, in percent) | 10.2 | 11.9 | 7.3 | 11.0 | … | 18.3 | … | … | … |
| **External sector** | (Annual percentage change, unless otherwise indicated) | | | | | | | | |
| Merchandise exports, U.S. dollars | -2.1 | -7.1 | 13.8 | 26.7 | -13.6 | -14.2 | 9.9 | 8.8 | 6.7 |
| Merchandise imports, U.S. dollars | -6.8 | -15.9 | 24.4 | 31.8 | -25.2 | -27.5 | 19.9 | 12.4 | 8.2 |
| Current account balance (in percent of GDP) | -4.2 | -1.5 | -0.8 | -4.7 | -1.2 | -0.7 | -1.8 | -1.6 | -1.5 |
| Financial account (billions of U.S. dollars) | 11.8 | 6.5 | 8.3 | 10.2 | -2.5 | -2.5 | 9.7 | 9.3 | 10.9 |
| | (Percent of exports of goods and services, unless otherwise indicated) | | | | | | | | |
| External public and publicly guaranteed debt | 277.2 | 312.6 | 301.5 | 245.4 | 276.0 | 258.9 | 267.5 | 258.9 | 253.4 |
| Debt service | 40.8 | 51.5 | 34.1 | 37.5 | 57.6 | 57.8 | 41.0 | 40.0 | 39.6 |
| Gross reserves (in millions of U.S. dollars) 4/ | 7,274 | 12,175 | 17,297 | 9,821 | 4,056 | 4,455 | 8,982 | 9,101 | 13,006 |
| In months of next year's imports of goods and services | 1.7 | 2.3 | 2.5 | 2.0 | 0.7 | 0.8 | 1.4 | 1.5 | 2.0 |
| **Memorandum items:** | | | | | | | | | |
| Underlying fiscal balance (excl. grants; % GDP) 3/ | -7.9 | -7.1 | -5.5 | -7.1 | -7.4 | -7.5 | -7.4 | -7.5 | -7.7 |
| Net general government debt (incl. IMF; % GDP) | 70.2 | 72.9 | 66.0 | 69.9 | 72.4 | 72.1 | 67.1 | 68.9 | 67.6 |
| Real effective exchange rate (annual average, percentage change) | -11.5 | -4.0 | 2.0 | -1.2 | … | -5.9 | … | … | … |
| Real effective exchange rate (end of period percentage change) | -15.2 | 3.5 | 7.2 | -5.9 | … | -8.0 | … | … | … |
| Terms of trade (percentage change) | -1.7 | 2.3 | 2.1 | -1.2 | -1.7 | -1.3 | -6.9 | -5.8 | -0.2 |
| Real per capita GDP (percentage change) | 1.1 | -2.9 | 3.7 | 4.1 | -2.4 | -2.1 | 0.5 | 0.0 | 1.5 |
| GDP at market prices (in billions of Pakistani rupees) | 43,798 | 47,540 | 55,836 | 66,640 | 84,665 | 84,069 | 108,910 | 106,577 | 123,604 |
| Per capita GDP (in U.S. dollars) | 1,485.8 | 1,362.9 | 1,550.1 | 1,634.4 | … | 1,446.3 | … | … | … |
| Population (millions) | 214.0 | 218.2 | 222.6 | 227.0 | 231.6 | 231.6 | 236.2 | 236.2 | 240.9 |
| GDP at market prices (in billions of U.S. dollars) | 321.1 | 300.4 | 348.5 | 374.7 | … | 338.2 | … | … | … |

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

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

2/ Including changes in inventories.

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

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

## Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2019/20–2027/28 1/

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | | 2023/24 | | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Prog. | Est. | Prog. | Proj. | | Proj. | | |
| | | | | (Annual percentage change, unless otherwise indicated) | | | | | | | |
| **Output and prices** | | | | | | | | | | | |
| Real GDP at factor cost | -0.9 | 5.8 | 6.2 | **-0.5** | -0.2 | **2.5** | 2.0 | 3.5 | 4.5 | 5.0 | 5.0 |
| Net exports (percent contribution to real GDP at factor cost) | 1.2 | -2.2 | -1.8 | **4.5** | 5.8 | **-0.8** | -0.9 | -0.8 | -0.5 | -0.5 | -0.5 |
| GDP deflator at factor cost | 9.9 | 10.4 | 14.1 | **26.0** | 26.1 | **25.9** | 24.0 | 11.7 | 7.7 | 6.6 | 6.6 |
| Consumer prices (period average) | 10.7 | 8.9 | 12.1 | **29.6** | 29.2 | **25.9** | 24.0 | 11.7 | 7.7 | 6.6 | 6.6 |
| | | | | (Percent of GDP) | | | | | | | |
| **Saving and investment balance** | -1.5 | -0.8 | -4.7 | **-1.2** | -0.7 | **-1.8** | -1.6 | -1.5 | -1.5 | -1.5 | -1.6 |
| Government | -7.0 | -6.0 | -7.8 | **-7.6** | -7.7 | **-7.5** | -7.6 | -7.3 | -5.8 | -5.1 | -4.7 |
| Nongovernment (including public sector enterprises) | 5.6 | 5.2 | 3.2 | **6.4** | 7.1 | **5.7** | 6.0 | 5.8 | 4.3 | 3.6 | 3.1 |
| Gross national saving | 13.3 | 13.7 | 10.7 | **12.4** | 13.0 | **12.8** | 12.0 | 12.3 | 13.0 | 13.2 | 13.1 |
| Government | -4.7 | -3.9 | -5.4 | **-5.5** | -5.5 | **-5.4** | -5.7 | -5.2 | -3.7 | -3.0 | -2.5 |
| Nongovernment (including public sector enterprises) | 18.1 | 17.6 | 16.1 | **17.9** | 18.5 | **18.2** | 17.7 | 17.4 | 16.7 | 16.2 | 15.6 |
| Gross capital formation | 14.8 | 14.5 | 15.4 | **13.5** | 13.7 | **14.7** | 13.6 | 13.8 | 14.5 | 14.7 | 14.7 |
| Government | 2.3 | 2.2 | 2.4 | **2.0** | 2.2 | **2.1** | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 |
| Nongovernment (including public sector enterprises) | 12.5 | 12.4 | 13.0 | **11.5** | 11.5 | **12.6** | 11.6 | 11.7 | 12.4 | 12.6 | 12.5 |
| | | | | (Billions of U.S. dollars, unless otherwise indicated) | | | | | | | |
| **Balance of payments** | | | | | | | | | | | |
| Current account balance | -4.4 | -2.8 | -17.5 | **-4.0** | -2.2 | **-6.4** | -5.6 | -5.6 | -6.0 | -6.5 | -7.3 |
| Current account balance (in percent of GDP) | -1.5 | -0.8 | -4.7 | **-1.2** | -0.7 | **-1.8** | -1.6 | -1.5 | -1.5 | -1.5 | -1.6 |
| Net capital flows 2/ | 6.9 | 7.9 | 10.1 | **-2.0** | -3.1 | **10.0** | 9.0 | 11.0 | 10.4 | 10.6 | 11.0 |
| *Of which:* foreign direct investment 3/ | 2.7 | 1.6 | 1.7 | **0.0** | 0.6 | **0.2** | 0.7 | 1.3 | 1.5 | 1.9 | 2.4 |
| Gross reserves | 12.2 | 17.3 | 9.8 | **4.1** | 4.5 | **9.0** | 9.1 | 13.0 | 16.9 | 19.7 | 21.2 |
| In months of imports 4/ | 2.3 | 2.5 | 2.0 | **0.7** | 0.8 | **1.4** | 1.5 | 2.0 | 2.4 | 2.7 | 2.7 |
| External debt (in percent of GDP) | 37.6 | 35.1 | 32.2 | **36.4** | 34.4 | **37.3** | 34.9 | 35.0 | 34.2 | 32.9 | 31.3 |
| Terms of trade (annual percentage change) | 2.3 | 2.1 | -1.2 | **-1.7** | -1.3 | **-6.9** | -5.8 | -0.2 | -0.4 | 0.3 | 0.4 |
| Real effective exchange rate (annual average, percentage change) | -4.0 | 2.0 | -1.2 | **...** | -5.9 | **...** | ... | ... | ... | ... | ... |
| Real effective exchange rate (end of period, percentage change) | 3.5 | 7.2 | -5.9 | **...** | -8.0 | **...** | ... | ... | ... | ... | ... |
| | | | | (Percent of GDP) | | | | | | | |
| **Public finances** | | | | | | | | | | | |
| Revenue and grants | 13.3 | 12.4 | 12.1 | **11.4** | 11.4 | **12.3** | 12.5 | 12.4 | 12.4 | 12.4 | 12.4 |
| *Of which:* tax revenue | 10.0 | 10.3 | 10.4 | **10.0** | 10.0 | **10.3** | 10.6 | 10.7 | 10.7 | 10.7 | 10.7 |
| Expenditure (including statistical discrepancy) | 20.3 | 18.5 | 20.0 | **18.9** | 19.2 | **19.8** | 20.2 | 19.7 | 18.2 | 17.5 | 17.0 |
| *Of which:* current | 18.1 | 16.3 | 17.3 | **16.9** | 17.3 | **17.7** | 18.0 | 17.5 | 16.0 | 15.3 | 14.9 |
| *Of which:* development | 2.3 | 2.2 | 2.4 | **2.0** | 2.2 | **2.1** | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 |
| Primary balance (including grants) | -1.5 | -1.1 | -3.0 | **-1.0** | -0.8 | **0.4** | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 |
| Primary balance (excluding grants) | -1.6 | -1.2 | -3.1 | **-1.0** | -0.8 | **0.4** | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Underlying primary balance (excluding grants) 5/ | -1.6 | -0.5 | -2.3 | **-0.8** | -0.6 | **0.4** | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Budget balance (including grants) | -7.0 | -6.0 | -7.8 | **-7.6** | -7.7 | **-7.5** | -7.6 | -7.3 | -5.8 | -5.1 | -4.7 |
| Budget balance (excluding grants) | -7.1 | -6.1 | -7.9 | **-7.6** | -7.8 | **-7.5** | -7.7 | -7.3 | -5.8 | -5.1 | -4.7 |
| Underlying fiscal balance (excl. grants) 5/ | -7.1 | -5.5 | -7.1 | **-7.4** | -7.5 | **-7.5** | -7.7 | -7.3 | -5.8 | -5.1 | -4.7 |
| General government and government guaranteed debt (incl. IMF) | 84.5 | 77.8 | 80.7 | **81.8** | 81.3 | **74.9** | 76.8 | 74.7 | 73.2 | 71.0 | 68.8 |
| General government debt (incl. IMF) | 79.6 | 73.5 | 76.2 | **77.4** | 77.1 | **70.9** | 72.8 | 71.0 | 69.8 | 67.8 | 65.8 |
| Net general government debt (incl. IMF) | 72.9 | 66.0 | 69.9 | **72.4** | 72.1 | **67.1** | 68.9 | 67.6 | 66.8 | 65.1 | 63.4 |
| **Memorandum item:** | | | | | | | | | | | |
| Nominal GDP (market prices, billions of Pakistani rupees) | 47,540 | 55,836 | 66,640 | **84,665** | 84,069 | **108,910** | 106,577 | 123,604 | 139,261 | 155,690 | 174,225 |

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

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

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

3/ Including privatization.

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

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

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

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | | 2023/24 | | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Prog. | Est. | Prog. | Proj. | | Proj. | | |
| Current account | -13,434 | -4,449 | -2,820 | -17,481 | -4,020 | -2,235 | -6,424 | -5,649 | -5,617 | -5,952 | -6,499 | -7,323 |
| Balance on goods | -27,612 | -21,109 | -28,634 | -39,050 | -25,889 | -23,955 | -33,857 | -27,934 | -30,669 | -31,864 | -33,239 | -35,009 |
| Exports, f.o.b. | 24,257 | 22,536 | 25,639 | 32,493 | 28,062 | 27,879 | 30,843 | 30,327 | 32,356 | 34,689 | 37,254 | 39,461 |
| Imports, f.o.b. | 51,869 | 43,645 | 54,273 | 71,543 | 53,951 | 51,834 | 64,700 | 58,262 | 63,025 | 66,553 | 70,492 | 74,470 |
| Services (net) | -4,970 | -3,316 | -2,516 | -5,840 | -445 | -969 | -1,566 | -1,771 | -2,037 | -2,570 | -3,096 | -3,724 |
| Services: credit | 5,966 | 5,437 | 5,945 | 7,102 | 7,430 | 7,599 | 7,876 | 7,985 | 8,499 | 9,057 | 9,634 | 10,235 |
| *Of which:* Coalition Support Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Services: debit | 10,936 | 8,753 | 8,461 | 12,942 | 7,875 | 8,568 | 9,442 | 9,755 | 10,535 | 11,626 | 12,729 | 13,959 |
| Income (net) | -5,610 | -5,459 | -4,400 | -5,248 | -5,596 | -5,671 | -5,445 | -6,537 | -5,562 | -6,399 | -7,076 | -7,617 |
| Income: credit | 578 | 479 | 508 | 652 | 917 | 652 | 1,058 | 1,061 | 1,056 | 815 | 746 | 734 |
| Income: debit | 6,188 | 5,938 | 4,908 | 5,900 | 6,513 | 6,323 | 6,503 | 7,599 | 6,618 | 7,214 | 7,822 | 8,351 |
| *Of which:* interest payments | 3,683 | 3,540 | 2,594 | 3,375 | 4,834 | 4,901 | 4,675 | 5,396 | 5,302 | 5,750 | 6,098 | 6,314 |
| *Of which:* income on direct investment | 2,848 | 2,664 | 2,565 | 2,717 | 1,656 | 1,646 | 1,828 | 2,193 | 1,316 | 1,464 | 1,724 | 2,037 |
| Balance on goods, services, and income | -38,192 | -29,884 | -35,550 | -50,138 | -31,930 | -30,595 | -40,868 | -36,242 | -38,268 | -40,833 | -43,411 | -46,350 |
| Current transfers (net) | 24,758 | 25,435 | 32,730 | 32,657 | 27,910 | 28,360 | 34,444 | 30,594 | 32,652 | 34,881 | 36,911 | 39,027 |
| Current transfers: credit, *of which:* | 24,990 | 25,802 | 33,027 | 32,949 | 28,215 | 28,674 | 34,741 | 30,954 | 33,002 | 35,228 | 37,261 | 39,375 |
| Official | 761 | 468 | 281 | 376 | 362 | 380 | 400 | 409 | 393 | 393 | 393 | 393 |
| Workers' remittances | 21,740 | 23,131 | 29,450 | 31,279 | 27,051 | 27,333 | 32,889 | 29,470 | 31,172 | 33,039 | 34,643 | 36,233 |
| Other private transfers | 2,489 | 2,203 | 3,296 | 1,294 | 802 | 961 | 1,452 | 1,075 | 1,437 | 1,796 | 2,224 | 2,749 |
| Current transfers: debit | 232 | 367 | 297 | 292 | 305 | 314 | 297 | 361 | 351 | 347 | 349 | 348 |
| Capital account | 229 | 285 | 224 | 205 | 399 | 375 | 300 | 221 | 157 | 100 | 100 | 100 |
| Capital transfers: credit | 229 | 288 | 224 | 205 | 399 | 375 | 300 | 221 | 157 | 100 | 100 | 100 |
| *Of which:* official capital grants | 219 | 273 | 204 | 190 | 170 | 144 | 300 | 215 | 157 | 100 | 100 | 100 |
| Capital transfers: debit | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial account | 11,759 | 6,479 | 8,268 | 10,207 | -2,459 | -2,487 | 9,690 | 9,296 | 10,889 | 10,316 | 10,495 | 10,871 |
| Direct investment abroad | 74 | 54 | -171 | -234 | -1,343 | -957 | -672 | -367 | 0 | 0 | 0 | 0 |
| Direct investment in Pakistan | 1,362 | 2,598 | 1,819 | 1,936 | 1,337 | 1,547 | 845 | 1,056 | 1,269 | 1,530 | 1,919 | 2,390 |
| Portfolio investment (net) | -1,274 | -409 | 2,774 | -55 | -1,009 | -1,012 | 320 | 344 | 3,312 | 4,012 | 5,812 | 5,212 |
| Financial derivatives (net) | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investment assets | 67 | 127 | -1,345 | -2,613 | 676 | 1,029 | -731 | -184 | -640 | -480 | -320 | 0 |
| Monetary authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| General government | -48 | -48 | -15 | -914 | 898 | 883 | 0 | 0 | 0 | 0 | 0 | 0 |
| Banks | 92 | -140 | -608 | -382 | -428 | -218 | -313 | 261 | -320 | -240 | -160 | 0 |
| Other sectors | 23 | 315 | -722 | -1,317 | 206 | 364 | -419 | -445 | -320 | -240 | -160 | 0 |
| Other investment liabilities | 11,530 | 4,101 | 5,191 | 11,173 | -2,121 | -3,094 | 9,928 | 8,448 | 6,948 | 5,254 | 3,084 | 3,269 |
| Monetary authorities | 5,495 | -498 | -1,468 | -1 | 0 | 0 | 1,200 | 999 | 0 | 0 | 0 | 0 |
| General government, *of which:* | 4,294 | 3,085 | 5,238 | 5,064 | -2,310 | -3,245 | 7,758 | 5,952 | 4,807 | 3,283 | 741 | -652 |
| Disbursements | 8,255 | 10,347 | 9,308 | 10,203 | 9,700 | 8,731 | 14,686 | 12,168 | 13,199 | 12,472 | 10,545 | 11,979 |
| Amortization | 5,982 | 7,299 | 5,855 | 8,343 | 11,719 | 11,660 | 6,928 | 6,209 | 8,392 | 9,190 | 9,804 | 12,631 |
| Banks | 467 | -124 | 499 | 846 | 1,061 | 1,241 | 250 | 77 | 250 | 350 | 450 | 500 |
| Other sectors | 1,274 | 1,638 | 922 | 2,491 | -872 | -1,090 | 720 | 1,421 | 1,891 | 1,621 | 1,893 | 3,421 |
| Net errors and omissions | -58 | 150 | -619 | -303 | 76 | -1,046 | 0 | -503 | 0 | 0 | 0 | 0 |
| Overall balance | -1,631 | 2,465 | 5,053 | -7,371 | -5,993 | -5,384 | 3,567 | 3,363 | 5,430 | 4,463 | 4,095 | 3,648 |
| Financing | 1,504 | -2,465 | -5,053 | 7,371 | 5,993 | 5,384 | -3,567 | -3,363 | -5,430 | -4,463 | -4,095 | -3,648 |
| Change in reserve assets (- denotes accumulation) | 1,880 | -4,554 | -4,473 | 7,333 | 5,796 | 5,185 | -4,926 | -4,728 | -3,906 | -3,895 | -2,830 | -1,451 |
| Net use of Fund credit and loans (without augmentation) | -376 | 2,089 | -580 | 38 | 197 | 199 | 1,359 | 1,365 | -1,524 | -568 | -1,265 | -2,196 |
| **Memorandum items:** | | | | | | | | | | | | |
| Current account (in percent of GDP) | -4.2 | -1.5 | -0.8 | -4.7 | -1.2 | -0.7 | -1.8 | -1.6 | -1.5 | -1.5 | -1.5 | -1.6 |
| Current account (in percent of GDP; excluding fuel imports) | 0.2 | 1.6 | 2.0 | 0.3 | 3.7 | 4.5 | 2.6 | 3.4 | 3.3 | 3.0 | 2.6 | 2.3 |
| Exports f.o.b. (growth rate, in percent) | -2.1 | -7.1 | 13.8 | 26.7 | -13.6 | -14.2 | 9.9 | 8.8 | 6.7 | 7.2 | 7.4 | 5.9 |
| Exports volume (growth rate, in percent) | -1.7 | -1.0 | 2.8 | 4.6 | -6.9 | -11.8 | 19.7 | 20.2 | 7.0 | 6.7 | 6.4 | 5.5 |
| Remittance (growth rate, in percent) | 9.2 | 6.4 | 27.3 | 6.2 | -13.5 | -12.6 | 21.6 | 7.8 | 5.8 | 6.0 | 4.9 | 4.6 |
| Remittances (in percent of GDP) | 6.8 | 7.7 | 8.5 | 8.3 | 8.0 | 8.1 | 9.4 | 8.4 | 8.3 | 8.2 | 7.9 | 7.7 |
| Imports f.o.b. (growth rate, in percent) | -6.8 | -15.9 | 24.4 | 31.8 | -25.2 | -27.5 | 19.9 | 12.4 | 8.2 | 5.6 | 5.9 | 5.6 |
| Imports volume (growth rate, in percent) | -9.8 | -12.0 | 20.2 | 10.9 | -21.2 | -29.2 | 15.1 | 15.9 | 8.1 | 5.8 | 6.1 | 5.5 |
| Oil imports (in million US$, cif) | 13,929 | 9,280 | 9,747 | 18,743 | 16,522 | 17,539 | 15,381 | 17,630 | 17,991 | 17,933 | 18,063 | 18,268 |
| Terms of trade (growth rate, in percent) | -1.7 | 2.3 | 2.1 | -1.2 | -1.7 | -1.3 | -6.9 | -5.8 | -0.2 | -0.4 | 0.3 | 0.4 |
| Foreign Direct Investment (in percent of GDP) | 0.4 | 0.9 | 0.5 | 0.5 | 0.4 | 0.5 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 |
| External debt (in millions of U.S. dollars) | 106,705 | 113,013 | 122,292 | 120,534 | 123,574 | 116,217 | 130,851 | 122,903 | 130,511 | 138,258 | 143,756 | 147,691 |
| o/w external public debt | 82,561 | 86,522 | 93,806 | 96,073 | 96,937 | 90,974 | 102,556 | 98,302 | 102,628 | 107,569 | 110,051 | 109,220 |
| Gross external financing needs (in millions of U.S. dollars) 1/ | 25,552 | 23,430 | 22,206 | 33,736 | 25,593 | 22,819 | 28,361 | 24,965 | 22,245 | 24,678 | 24,924 | 31,189 |
| End-period gross official reserves (millions of U.S. dollars) 2/ | 7,274 | 12,175 | 17,297 | 9,821 | 4,056 | 4,455 | 8,982 | 9,101 | 13,006 | 16,901 | 19,731 | 21,182 |
| (In months of next year's imports of goods and services) | 1.7 | 2.3 | 2.5 | 2.0 | 0.7 | 0.8 | 1.4 | 1.5 | 2.0 | 2.4 | 2.7 | 2.7 |
| GDP (in millions of U.S. dollars) | 321,071 | 300,410 | 348,481 | 374,748 | … | 338,237 | … | … | … | … | … | … |

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

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

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

## Table 3b. Pakistan: Gross Financing Requirements and Sources, 2018/19–2027/28

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

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | | 2023/24 | | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Prog. | Est. | Prog. | Proj. | | | Proj. | | |
| **Gross External Financing Requirements** (A) | **25,552** | **23,430** | **22,206** | **33,736** | **25,593** | **22,819** | **28,361** | **24,965** | **22,245** | **24,678** | **24,924** | **31,189** | **29,919** |
| (In percent of GDP) | 8.0 | 7.8 | 6.4 | 9.0 | 7.5 | 6.7 | 8.1 | 7.1 | 6.0 | 6.1 | 5.7 | 6.6 | 5.9 |
| Current account deficit | 13,434 | 4,449 | 2,820 | 17,481 | 4,020 | 2,235 | 6,424 | 5,649 | 5,617 | 5,952 | 6,499 | 7,323 | 8,379 |
| (In percent of GDP) | 4.2 | 1.5 | 0.8 | 4.7 | 1.2 | 0.7 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 |
| Amortization | 11,742 | 18,236 | 18,306 | 15,240 | 20,604 | 19,617 | 20,278 | 17,675 | 15,104 | 18,158 | 17,159 | 21,670 | 20,024 |
| Public Sector | 6,982 | 12,799 | 13,943 | 11,343 | 15,010 | 14,971 | 14,499 | 13,780 | 11,392 | 13,990 | 12,804 | 17,131 | 15,273 |
| Short-term Borrowing | 1,538 | 1,182 | 784 | 532 | 1,658 | 1,327 | 1,461 | 1,211 | 2,494 | 3,426 | 4,492 | 4,492 | 4,492 |
| Long-term Borrowing (non-IMF) | 4,444 | 10,617 | 13,159 | 9,811 | 12,061 | 12,333 | 12,038 | 11,569 | 8,898 | 8,764 | 8,312 | 11,139 | 9,781 |
| Bonds | 1,000 | 1,000 | 0 | 1,000 | 1,291 | 1,311 | 1,000 | 1,000 | 0 | 1,800 | 0 | 1,500 | 1,000 |
| Private Sector 1/ | 4,760 | 5,437 | 4,363 | 3,897 | 5,594 | 4,646 | 5,779 | 3,895 | 3,713 | 4,168 | 4,354 | 4,539 | 4,751 |
| Short-term Borrowing | 3,474 | 3,610 | 3,110 | 2,786 | 3,966 | 2,983 | 4,151 | 2,812 | 2,760 | 2,781 | 2,967 | 3,152 | 3,364 |
| Long-term Borrowing | 1,286 | 1,827 | 1,253 | 1,111 | 1,628 | 1,663 | 1,628 | 1,083 | 953 | 1,387 | 1,387 | 1,387 | 1,387 |
| IMF Repurchases | 376 | 745 | 1,080 | 1,015 | 969 | 967 | 1,659 | 1,641 | 1,524 | 568 | 1,265 | 2,196 | 1,516 |
| **Available Financing** (B) | **21,103** | **24,890** | **26,826** | **25,208** | **18,662** | **16,282** | **30,269** | **26,583** | **26,126** | **28,742** | **27,907** | **32,813** | **32,667** |
| Foreign Direct Investment (net) 2/ | 1,436 | 2,652 | 1,648 | 1,702 | -6 | 590 | 173 | 689 | 1,269 | 1,530 | 1,919 | 2,390 | 2,924 |
| Disbursement | 19,496 | 21,811 | 25,573 | 20,839 | 18,193 | 16,363 | 29,795 | 26,176 | 24,700 | 27,113 | 25,889 | 30,323 | 29,643 |
| From private creditors | 8,366 | 14,822 | 11,932 | 10,762 | 9,386 | 7,271 | 9,663 | 6,659 | 15,001 | 16,946 | 16,875 | 21,375 | 20,695 |
| Disbursement to Private Sector 3/ | 4,268 | 11,445 | 4,645 | 3,713 | 5,886 | 5,065 | 7,338 | 4,381 | 7,501 | 7,640 | 9,344 | 11,844 | 12,164 |
| Disbursement to Public Sector 4/ | 4,098 | 3,377 | 7,287 | 7,049 | 3,500 | 2,206 | 2,325 | 2,278 | 7,500 | 9,306 | 7,531 | 9,531 | 8,531 |
| From official creditors (non-IMF) | 11,130 | 6,989 | 13,640 | 10,077 | 8,807 | 9,092 | 20,132 | 19,517 | 9,699 | 10,166 | 9,014 | 8,948 | 8,948 |
| o/w Project Loans | 2,673 | 1,799 | 1,933 | 1,899 | 2,812 | 1,899 | 4,600 | 3,721 | 2,673 | 2,745 | 1,821 | 1,755 | 1,755 |
| o/w China | 1,574 | 487 | 204 | 162 | 63 | 128 | 135 | 9 | 132 | 49 | 47 | 41 | 0 |
| o/w Program Loans | 288 | 3,666 | 2,120 | 1,514 | 2,857 | 2,341 | 2,500 | 3,000 | 3,100 | 2,460 | 2,232 | 2,232 | 2,232 |
| o/w Short-term debt (incl. rollovers) | 3,694 | 10,170 | 6,772 | 7,427 | 5,675 | 4,497 | 8,512 | 4,426 | 6,207 | 8,092 | 8,092 | 8,272 | 8,272 |
| o/w Public Sector | 1,643 | 2,774 | 2,954 | 4,444 | 1,537 | 1,517 | 4,011 | 2,494 | 3,426 | 4,492 | 4,492 | 4,492 | 4,492 |
| o/w Private Sector | 2,051 | 7,397 | 3,817 | 2,983 | 4,137 | 2,981 | 4,501 | 1,932 | 2,781 | 3,600 | 3,600 | 3,780 | 3,780 |
| Other Net Capital Inflows (net) 5/ | 171 | 427 | -395 | -98 | 475 | -671 | 300 | -282 | 157 | 100 | 100 | 100 | 100 |
| IMF SDR allocation | 0 | 0 | 0 | 2,765 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Remaining Financing Needs** (C=A-B) | **4,449** | **-1,459** | **-4,620** | **8,528** | **6,931** | **6,537** | **-1,907** | **-1,618** | **-3,881** | **-4,064** | **-2,984** | **-1,624** | **-2,748** |
| **Borrowing from IMF** (D) | **0** | **2,834** | **500** | **1,053** | **1,166** | **1,166** | **3,019** | **3,006** | **0** | **0** | **0** | **0** | **0** |
| **Reserve Assets** (decrease = +) (E=C-D) | **4,449** | **-4,293** | **-5,120** | **7,475** | **5,765** | **5,371** | **-4,926** | **-4,624** | **-3,881** | **-4,064** | **-2,984** | **-1,624** | **-2,748** |
| **Memorandum items:** | | | | | | | | | | | | | |
| Gross official reserves (stock, in US$ billions) | 7.3 | 12.2 | 17.3 | 9.8 | 4.1 | 4.5 | 9.0 | 9.1 | 13.0 | 16.9 | 19.7 | 21.2 | 24.0 |
| (In months of prospective imports) | 1.7 | 2.3 | 2.5 | 2.0 | 0.7 | 0.8 | 1.4 | 1.5 | 2.0 | 2.4 | 2.7 | 2.7 | 2.9 |
| (In percent of IMF ARA metric: assuming fixed ER) | 32.3 | 34.8 | 45.5 | 26.4 | 11.2 | 12.9 | 24.6 | 26.6 | 35.4 | 43.4 | 47.9 | 48.5 | 53.5 |
| (In percent of IMF ARA metric: assuming flexible ER) | 34.5 | 54.2 | 72.6 | 41.3 | 16.7 | 19.6 | 36.9 | 41.4 | 54.4 | 66.6 | 73.4 | 73.5 | 82.1 |
| Net FX derivative position (in US$ billions) | 8.1 | 5.8 | 4.9 | 4.0 | 4.0 | 4.5 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |

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

1/ Includes banks and non-bank private sector.

2/ Includes privatization receipts.

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

4/ Includes syndicated loans and Euro bonds.

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

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

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | | 2023/24 | | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Prog. | Est. | Prog. | Proj. | | Proj. | | |
| Revenue and grants | 4,934 | 6,306 | 6,933 | 8,076 | **9,637** | 9,621 | **13,426** | 13,366 | 15,344 | 17,271 | 19,286 | 21,567 |
| Revenue | 4,901 | 6,273 | 6,903 | 8,035 | **9,602** | 9,586 | **13,377** | 13,317 | 15,282 | 17,226 | 19,240 | 21,520 |
| Tax revenue | 4,473 | 4,748 | 5,755 | 6,943 | **8,456** | 8,396 | **11,261** | 11,298 | 13,188 | 14,867 | 16,601 | 18,567 |
| Federal | 4,072 | 4,334 | 5,247 | 6,331 | **7,789** | 7,752 | **10,393** | 10,430 | 12,181 | 13,732 | 15,333 | 17,149 |
| FBR revenue | 3,829 | 3,998 | 4,764 | 6,142 | **7,200** | 7,133 | **9,415** | 9,415 | 11,005 | 12,407 | 13,852 | 15,490 |
| Direct taxes | 1,446 | 1,524 | 1,732 | 2,280 | **3,271** | 3,250 | **3,884** | 4,216 | 4,803 | 5,402 | 6,039 | 6,798 |
| Federal excise duty | 234 | 250 | 277 | 321 | **414** | 367 | **600** | 571 | 677 | 763 | 858 | 960 |
| Sales tax/VAT | 1,465 | 1,597 | 1,990 | 2,532 | **2,566** | 2,581 | **3,607** | 3,425 | 4,114 | 4,654 | 5,182 | 5,771 |
| Customs duties | 685 | 626 | 765 | 1,009 | **949** | 935 | **1,324** | 1,204 | 1,410 | 1,589 | 1,773 | 1,962 |
| Petroleum surcharge | 206 | 294 | 424 | 128 | **542** | 580 | **869** | 918 | 1,065 | 1,200 | 1,341 | 1,501 |
| Gas surcharge and other | 14 | 33 | 39 | 42 | **38** | 28 | **69** | 66 | 77 | 87 | 97 | 108 |
| GIDC | 21 | 9 | 19 | 19 | **9** | 11 | **40** | 30 | 35 | 39 | 44 | 49 |
| Provincial | 402 | 414 | 508 | 612 | **667** | 644 | **868** | 868 | 1,007 | 1,134 | 1,268 | 1,419 |
| Nontax revenue | 427 | 1,524 | 1,147 | 1,092 | **1,146** | 1,190 | **2,116** | 2,019 | 2,094 | 2,360 | 2,638 | 2,952 |
| Federal | 341 | 1,422 | 997 | 964 | **989** | 1,025 | **1,908** | 1,811 | 1,854 | 2,089 | 2,335 | 2,613 |
| Provincial | 86 | 102 | 150 | 128 | **157** | 165 | **208** | 208 | 241 | 271 | 303 | 339 |
| Grants | 33 | 33 | 31 | 41 | **35** | 35 | **49** | 49 | 62 | 45 | 46 | 48 |
| | | | | | | | | | | | | |
| Expenditure (including statistical discrepancy) | 8,345 | 9,649 | 10,306 | 13,301 | **16,041** | 16,110 | **21,590** | 21,518 | 24,359 | 25,328 | 27,226 | 29,675 |
| Current expenditure | 7,274 | 8,597 | 9,111 | 11,535 | **14,284** | 14,553 | **19,236** | 19,146 | 21,671 | 22,285 | 23,824 | 25,878 |
| Federal | 4,946 | 6,081 | 6,292 | 8,369 | **10,420** | 10,785 | **14,641** | 14,555 | 16,347 | 16,286 | 17,118 | 18,373 |
| Interest | 2,091 | 2,620 | 2,750 | 3,197 | **5,568** | 5,832 | **8,614** | 8,602 | 9,586 | 8,669 | 8,602 | 8,844 |
| Domestic | 1,821 | 2,313 | 2,524 | 2,829 | **4,855** | 5,046 | **7,753** | 7,489 | 8,398 | 7,304 | 7,195 | 7,316 |
| Foreign | 270 | 302 | 226 | 354 | **707** | 714 | **822** | 996 | 1,073 | 1,264 | 1,407 | 1,528 |
| IMF budget support | 0 | 5 | 0 | 14 | **5** | 72 | **39** | 116 | 115 | 101 | 0 | 0 |
| Other | 2,855 | 3,466 | 3,542 | 5,186 | **4,858** | 5,025 | **6,066** | 6,069 | 6,876 | 7,718 | 8,516 | 9,529 |
| Defense | 1,147 | 1,213 | 1,316 | 1,412 | **1,510** | 1,573 | **1,804** | 1,804 | 2,093 | 2,358 | 2,636 | 2,950 |
| Other | 1,708 | 2,253 | 2,226 | 3,774 | **3,348** | 3,452 | **4,262** | 4,265 | 4,783 | 5,361 | 5,880 | 6,580 |
| *Of which* : subsidies | 195 | 360 | 425 | 1,530 | **1,128** | 1,104 | **1,396** | 1,396 | 1,496 | 1,685 | 1,884 | 2,108 |
| *Of which* : grants | 612 | 917 | 855 | 1,142 | **1,008** | 981 | **1,312** | 1,312 | 1,522 | 1,715 | 1,917 | 2,145 |
| Provincial | 2,328 | 2,516 | 2,819 | 3,167 | **3,864** | 3,769 | **4,595** | 4,591 | 5,324 | 5,998 | 6,706 | 7,504 |
| Development expenditure and net lending | 1,049 | 1,139 | 1,288 | 1,649 | **1,757** | 1,938 | **2,354** | 2,179 | 2,688 | 3,043 | 3,402 | 3,797 |
| Public Sector Development Program | 1,008 | 1,090 | 1,211 | 1,609 | **1,734** | 1,879 | **2,283** | 2,108 | 2,605 | 2,950 | 3,298 | 3,681 |
| Federal | 502 | 468 | 441 | 397 | **485** | 648 | **843** | 782 | 869 | 994 | 1,111 | 1,233 |
| Provincial | 506 | 622 | 770 | 1,212 | **1,249** | 1,230 | **1,440** | 1,325 | 1,736 | 1,956 | 2,187 | 2,447 |
| Net lending | 41 | 49 | 77 | 40 | **23** | 60 | **71** | 71 | 83 | 93 | 104 | 117 |
| Statistical discrepancy ("+" = additional expenditure) | 22 | -87 | -93 | 116 | **0** | -381 | **0** | 194 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | |
| Overall Balance (excluding grants) | -3,445 | -3,376 | -3,404 | -5,266 | **-6,439** | -6,524 | **-8,213** | -8,201 | -9,077 | -8,102 | -7,987 | -8,155 |
| Overall Balance (including grants) | -3,412 | -3,343 | -3,373 | -5,224 | **-6,404** | -6,490 | **-8,164** | -8,152 | -9,015 | -8,057 | -7,941 | -8,108 |
| | | | | | | | | | | | | |
| Financing | 3,412 | 3,343 | 3,373 | 5,224 | **6,404** | 6,490 | **8,164** | 8,152 | 9,015 | 8,057 | 7,941 | 8,108 |
| External | 417 | 896 | 1,418 | 677 | **335** | -1,133 | **1,696** | 1,256 | 1,622 | 1,784 | 1,127 | 246 |
| *Of which:* privatization receipts | 0 | 0 | 0 | 0 | **0** | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| *Of which:* IMF | 0 | 390 | 80 | 187 | **191** | 191 | **-199** | -197 | -301 | -107 | -207 | -251 |
| Domestic | 2,995 | 2,447 | 1,955 | 4,548 | **6,070** | 7,622 | **6,468** | 6,896 | 7,393 | 6,273 | 6,814 | 7,862 |
| Bank | 2,230 | 1,907 | 1,746 | 3,183 | **4,249** | 5,335 | **4,528** | 4,827 | 5,175 | 4,424 | 4,832 | 5,579 |
| Nonbank | 765 | 540 | 209 | 1,364 | **1,821** | 2,287 | **1,940** | 2,069 | 2,218 | 1,850 | 1,982 | 2,283 |
| | | | | | | | | | | | | |
| **Memorandum items:** | | | | | | | | | | | | |
| Underlying fiscal balance (excl. grants) 1/ | -3,445 | -3,376 | -3,051 | -4,737 | **-6,259** | -6,344 | **-8,213** | -8,201 | -9,077 | -8,102 | -7,987 | -8,155 |
| Primary balance (excluding grants) | -1,353 | -756 | -654 | -2,069 | **-872** | -692 | **401** | 401 | 509 | 568 | 615 | 688 |
| Underlying primary balance (excluding grants) 1/ | -1,353 | -756 | -301 | -1,540 | **-692** | -512 | **401** | 401 | 509 | 568 | 615 | 688 |
| Primary balance (including grants) | -1,320 | -723 | -623 | -2,028 | **-837** | -658 | **450** | 450 | 571 | 612 | 661 | 736 |
| Total security spending | 1,147 | 1,213 | 1,316 | 1,412 | **1,510** | 1,573 | **1,804** | 1,804 | 2,093 | 2,358 | 2,636 | 2,950 |
| General government debt incl. IMF obligations | 33,946 | 37,823 | 41,044 | 50,766 | **65,508** | 64,828 | **77,269** | 77,636 | 87,719 | 97,198 | 105,541 | 114,687 |
| Domestic debt | 20,732 | 23,283 | 26,265 | 31,085 | **37,106** | 38,810 | **43,574** | 45,706 | 53,099 | 59,265 | 65,872 | 73,483 |
| External debt | 13,214 | 14,540 | 14,779 | 19,680 | **28,402** | 26,018 | **33,696** | 31,930 | 34,620 | 37,933 | 39,669 | 41,204 |
| General government and government guaranteed debt (incl. IMF) | 35,915 | 40,167 | 43,451 | 53,749 | **69,278** | 68,342 | **81,560** | 81,896 | 92,319 | 101,990 | 110,505 | 119,918 |
| Net general government debt (incl. IMF) | 30,759 | 34,659 | 36,847 | 46,568 | **61,311** | 60,630 | **73,072** | 73,438 | 83,522 | 93,000 | 101,344 | 110,489 |
| Nominal GDP (market prices) | 43,798 | 47,540 | 55,836 | 66,640 | **84,665** | 84,069 | **108,910** | 106,577 | 123,604 | 139,261 | 155,690 | 174,225 |

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

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

## Table 4b. Pakistan: General Government Budget, 2018/19–2027/28

(In percent of GDP, unless otherwise indicated)

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | | 2023/24 | | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Prog. | Est. | Prog. | Proj. | | Proj. | | |
| Revenue and grants | 11.3 | 13.3 | 12.4 | 12.1 | **11.4** | 11.4 | **12.3** | 12.5 | 12.4 | 12.4 | 12.4 | 12.4 |
| Revenue | 11.2 | 13.2 | 12.4 | 12.1 | **11.3** | 11.4 | **12.3** | 12.5 | 12.4 | 12.4 | 12.4 | 12.4 |
| Tax revenue | 10.2 | 10.0 | 10.3 | 10.4 | **10.0** | 10.0 | **10.3** | 10.6 | 10.7 | 10.7 | 10.7 | 10.7 |
| Federal | 9.3 | 9.1 | 9.4 | 9.5 | **9.2** | 9.2 | **9.5** | 9.8 | 9.9 | 9.9 | 9.8 | 9.8 |
| FBR revenue | 8.7 | 8.4 | 8.5 | 9.2 | **8.5** | 8.5 | **8.6** | 8.8 | 8.9 | 8.9 | 8.9 | 8.9 |
| Direct taxes | 3.3 | 3.2 | 3.1 | 3.4 | **3.9** | 3.9 | **3.6** | 4.0 | 3.9 | 3.9 | 3.9 | 3.9 |
| Federal excise duty | 0.5 | 0.5 | 0.5 | 0.5 | **0.5** | 0.4 | **0.6** | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| Sales tax | 3.3 | 3.4 | 3.6 | 3.8 | **3.0** | 3.1 | **3.3** | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 |
| Customs duties | 1.6 | 1.3 | 1.4 | 1.5 | **1.1** | 1.1 | **1.2** | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Petroleum surcharge | 0.5 | 0.6 | 0.8 | 0.2 | **0.6** | 0.7 | **0.8** | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Gas surcharge and other | 0.0 | 0.1 | 0.1 | 0.1 | **0.0** | 0.0 | **0.1** | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| GIDC | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provincial | 0.9 | 0.9 | 0.9 | 0.9 | **0.8** | 0.8 | **0.8** | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Nontax revenue | 1.0 | 3.2 | 2.1 | 1.6 | **1.4** | 1.4 | **1.9** | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 |
| Federal | 0.8 | 3.0 | 1.8 | 1.4 | **1.2** | 1.2 | **1.8** | 1.7 | 1.5 | 1.5 | 1.5 | 1.5 |
| Provincial | 0.2 | 0.2 | 0.3 | 0.2 | **0.2** | 0.2 | **0.2** | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Grants | 0.1 | 0.1 | 0.1 | 0.1 | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure (including statistical discrepancy) | 19.1 | 20.3 | 18.5 | 20.0 | **18.9** | 19.2 | **19.8** | 20.2 | 19.7 | 18.2 | 17.5 | 17.0 |
| Current expenditure | 16.6 | 18.1 | 16.3 | 17.3 | **16.9** | 17.3 | **17.7** | 18.0 | 17.5 | 16.0 | 15.3 | 14.9 |
| Federal | 11.3 | 12.8 | 11.3 | 12.6 | **12.3** | 12.8 | **13.4** | 13.7 | 13.2 | 11.7 | 11.0 | 10.5 |
| Interest | 4.8 | 5.5 | 4.9 | 4.8 | **6.6** | 6.9 | **7.9** | 8.1 | 7.8 | 6.2 | 5.5 | 5.1 |
| Domestic | 4.2 | 4.9 | 4.5 | 4.2 | **5.7** | 6.0 | **7.1** | 7.0 | 6.8 | 5.2 | 4.6 | 4.2 |
| Foreign | 0.6 | 0.6 | 0.4 | 0.5 | **0.8** | 0.8 | **0.8** | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| IMF budget support | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0.1 | **0.0** | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Other | 6.5 | 7.3 | 6.3 | 7.8 | **5.7** | 6.0 | **5.6** | 5.7 | 5.6 | 5.5 | 5.5 | 5.5 |
| Defense | 2.6 | 2.6 | 2.4 | 2.1 | **1.8** | 1.9 | **1.7** | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Other | 3.9 | 4.7 | 4.0 | 5.7 | **4.0** | 4.1 | **3.9** | 4.0 | 3.9 | 3.8 | 3.8 | 3.8 |
| *Of which* : subsidies | 0.4 | 0.8 | 0.8 | 2.3 | **1.3** | 1.3 | **1.3** | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| *Of which* : grants | 1.4 | 1.9 | 1.5 | 1.7 | **1.2** | 1.2 | **1.2** | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Provincial | 5.3 | 5.3 | 5.0 | 4.8 | **4.6** | 4.5 | **4.2** | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Development expenditure and net lending | 2.4 | 2.4 | 2.3 | 2.5 | **2.1** | 2.3 | **2.2** | 2.0 | 2.2 | 2.2 | 2.2 | 2.2 |
| Public Sector Development Program | 2.3 | 2.3 | 2.2 | 2.4 | **2.0** | 2.2 | **2.1** | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 |
| Federal | 1.1 | 1.0 | 0.8 | 0.6 | **0.6** | 0.8 | **0.8** | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Provincial | 1.2 | 1.3 | 1.4 | 1.8 | **1.5** | 1.5 | **1.3** | 1.2 | 1.4 | 1.4 | 1.4 | 1.4 |
| Net lending | 0.1 | 0.1 | 0.1 | 0.1 | **0.0** | 0.1 | **0.1** | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Statistical discrepancy ("+" = additional expenditure) | 0.1 | -0.2 | -0.2 | 0.2 | **0.0** | -0.5 | **0.0** | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall Balance (excluding grants) | -7.9 | -7.1 | -6.1 | -7.9 | **-7.6** | -7.8 | **-7.5** | -7.7 | -7.3 | -5.8 | -5.1 | -4.7 |
| Overall Balance (including grants) | -7.8 | -7.0 | -6.0 | -7.8 | **-7.6** | -7.7 | **-7.5** | -7.6 | -7.3 | -5.8 | -5.1 | -4.7 |
| Financing | 7.8 | 7.0 | 6.0 | 7.8 | **7.6** | 7.7 | **7.5** | 7.6 | 7.3 | 5.8 | 5.1 | 4.7 |
| External | 1.0 | 1.9 | 2.5 | 1.0 | **0.4** | -1.3 | **1.6** | 1.2 | 1.3 | 1.3 | 0.7 | 0.1 |
| *Of which:* privatization receipts | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Of which:* IMF | 0.0 | 0.8 | 0.1 | 0.3 | **0.2** | 0.2 | **-0.2** | -0.2 | -0.2 | -0.1 | -0.1 | -0.1 |
| Domestic | 6.8 | 5.1 | 3.5 | 6.8 | **7.2** | 9.1 | **5.9** | 6.5 | 6.0 | 4.5 | 4.4 | 4.5 |
| Bank | 5.1 | 4.0 | 3.1 | 4.8 | **5.0** | 6.3 | **4.2** | 4.5 | 4.2 | 3.2 | 3.1 | 3.2 |
| Nonbank | 1.7 | 1.1 | 0.4 | 2.0 | **2.2** | 2.7 | **1.8** | 1.9 | 1.8 | 1.3 | 1.3 | 1.3 |
| **Memorandum items:** | | | | | | | | | | | | |
| Underlying fiscal balance (excl. grants) 1/ | -7.9 | -7.1 | -5.5 | -7.1 | **-7.4** | -7.5 | **-7.5** | -7.7 | -7.3 | -5.8 | -5.1 | -4.7 |
| Primary balance (excluding grants) | -3.1 | -1.6 | -1.2 | -3.1 | **-1.0** | -0.8 | **0.4** | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Underlying primary balance (excluding grants) 1/ | -3.1 | -1.6 | -0.5 | -2.3 | **-0.8** | -0.6 | **0.4** | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Primary balance (including grants) | -3.0 | -1.5 | -1.1 | -3.0 | **-1.0** | -0.8 | **0.4** | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 |
| Total security spending | 2.6 | 2.6 | 2.4 | 2.1 | **1.8** | 1.9 | **1.7** | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| General government debt incl. IMF obligations | 77.5 | 79.6 | 73.5 | 76.2 | **77.4** | 77.1 | **70.9** | 72.8 | 71.0 | 69.8 | 67.8 | 65.8 |
| Domestic debt | 47.3 | 49.0 | 47.0 | 46.6 | **43.8** | 46.2 | **40.0** | 42.9 | 43.0 | 42.6 | 42.3 | 42.2 |
| External debt | 30.2 | 30.6 | 26.5 | 29.5 | **33.5** | 30.9 | **30.9** | 30.0 | 28.0 | 27.2 | 25.5 | 23.6 |
| General government and government guaranteed debt (incl. IMF) | 82.0 | 84.5 | 77.8 | 80.7 | **81.8** | 81.3 | **74.9** | 76.8 | 74.7 | 73.2 | 71.0 | 68.8 |
| Net general government debt (incl. IMF) | 70.2 | 72.9 | 66.0 | 69.9 | **72.4** | 72.1 | **67.1** | 68.9 | 67.6 | 66.8 | 65.1 | 63.4 |
| Nominal GDP (market prices, billions of Pakistani rupees) | 43,798 | 47,540 | 55,836 | 66,640 | **84,665** | 84,069 | **108,910** | 106,577 | 123,604 | 139,261 | 155,690 | 174,225 |

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

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

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

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 Prog. | 2022/23 Est. | 2023/24 Q1 Est. | 2023/24 Q2 Proj. | 2023/24 Q3 Proj. | 2023/24 Q4 Prog. | 2023/24 Q4 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (Billions of Pakistani rupees, unless otherwise indicated) | | | | | | | | | | | |
| **Monetary survey** | | | | | | | | | | | |
| Net foreign assets (NFA) | -1,507 | -516 | 725 | -753 | **-2,168** | -2,688 | -2,436 | -2,402 | -2,518 | **-1,652** | -2,328 |
| Net domestic assets (NDA) | 19,306 | 21,424 | 23,573 | 28,356 | **33,441** | 34,211 | 33,961 | 34,117 | 35,077 | **37,461** | 37,318 |
| Net claims on government, *of which:* | 12,337 | 14,547 | 16,265 | 19,623 | **23,537** | 23,351 | 24,566 | 25,236 | 26,785 | **28,064** | 28,963 |
| Budget support, *of which:* | 11,546 | 13,471 | 15,248 | 18,331 | **22,405** | 21,863 | 22,938 | 24,036 | 25,685 | **26,932** | 27,463 |
| Banks | 4,857 | 7,016 | 9,974 | 13,294 | **17,387** | 16,923 | 18,558 | 19,657 | 21,305 | **22,225** | 23,083 |
| Commodity operations | 756 | 813 | 904 | 1,134 | **1,132** | 1,486 | 1,309 | 1,200 | 1,100 | **1,132** | 1,500 |
| Credit to nongovernment | 8,073 | 8,372 | 9,114 | 10,413 | **10,924** | 10,916 | 10,732 | 11,338 | 11,367 | **11,828** | 11,491 |
| Private sector 1/ | 6,703 | 6,906 | 7,702 | 9,044 | **9,418** | 9,253 | 9,058 | 9,631 | 9,626 | **10,171** | 9,715 |
| Public sector enterprises | 1,370 | 1,466 | 1,413 | 1,369 | **1,506** | 1,663 | 1,674 | 1,707 | 1,742 | **1,657** | 1,776 |
| Privatization account | -41 | -41 | -41 | -41 | **-41** | -41 | -41 | -41 | -41 | **-41** | -41 |
| Other items, net | -1,063 | -1,455 | -1,766 | -1,640 | **-979** | -16 | -1,296 | -2,417 | -3,034 | **-2,391** | -3,096 |
| Broad money | 17,798 | 20,908 | 24,298 | 27,603 | **31,274** | 31,523 | 31,525 | 31,715 | 32,559 | **35,808** | 34,990 |
| Currency outside scheduled banks | 4,950 | 6,142 | 6,910 | 7,572 | **8,908** | 9,149 | 8,288 | 8,338 | 8,979 | **10,285** | 9,649 |
| Rupee deposits | 11,739 | 13,691 | 16,342 | 18,817 | **20,834** | 20,847 | 21,698 | 21,790 | 21,895 | **23,806** | 23,603 |
| Foreign currency deposits | 1,110 | 1,075 | 1,046 | 1,213 | **1,532** | 1,527 | 1,539 | 1,587 | 1,685 | **1,717** | 1,737 |
| **State Bank of Pakistan (SBP)** | | | | | | | | | | | |
| NFA | -1,127 | -181 | 931 | -560 | **-1,974** | -2,013 | -1,642 | -1,608 | -1,724 | **-1,459** | -1,534 |
| NDA | 7,701 | 7,861 | 7,733 | 9,886 | **12,933** | 13,433 | 12,101 | 12,216 | 13,192 | **14,335** | 14,210 |
| Net claims on government | 6,676 | 6,524 | 5,320 | 5,124 | **5,533** | 5,233 | 4,954 | 4,954 | 4,954 | **5,223** | 4,954 |
| *Of which:* budget support | 6,689 | 6,455 | 5,274 | 5,037 | **5,018** | 4,940 | 4,380 | 4,380 | 4,380 | **4,708** | 4,380 |
| Claims on nongovernment | 12 | 19 | 49 | 61 | **63** | 62 | 61 | 61 | 61 | **63** | 61 |
| Claims on scheduled banks | 683 | 877 | 1,265 | 1,603 | **1,468** | 1,542 | 1,491 | 1,491 | 1,491 | **1,468** | 1,491 |
| Privatization account | -41 | -41 | -41 | -41 | **-41** | -41 | -41 | -41 | -41 | **-41** | -41 |
| Other items, net | 371 | 482 | 1,140 | 3,139 | **5,910** | 6,637 | 5,635 | 5,751 | 6,726 | **7,622** | 7,744 |
| Reserve money, *of which:* | 6,573 | 7,680 | 8,663 | 9,327 | **10,959** | 11,420 | 10,459 | 10,608 | 11,468 | **12,876** | 12,676 |
| Banks' reserves | 1,246 | 1,171 | 1,307 | 1,229 | **1,391** | 1,634 | 1,613 | 1,636 | 1,768 | **1,634** | 1,954 |
| Currency | 5,294 | 6,468 | 7,288 | 8,002 | **9,568** | 9,674 | 8,742 | 8,972 | 9,700 | **11,242** | 10,721 |
| (Annual percentage change, unless otherwise indicated) | | | | | | | | | | | |
| Broad money | 11.3 | 17.5 | 16.2 | 13.6 | **13.3** | 14.2 | 12.9 | 13.5 | 13.0 | **14.5** | 11.0 |
| NFA, banking system (in percent of broad money) 2/ | -8.1 | 5.6 | 5.9 | -6.1 | **-5.1** | -7.0 | -4.0 | -1.8 | 1.1 | **1.6** | 1.1 |
| NDA, banking system (in percent of broad money) 2/ | 19.4 | 11.9 | 10.3 | 19.7 | **18.4** | 21.2 | 16.9 | 15.3 | 11.9 | **12.9** | 9.9 |
| Budgetary support (in percent of broad money) 2/ | 14.1 | 10.8 | 8.5 | 12.7 | **14.8** | 12.8 | 15.4 | 19.0 | 18.7 | **14.5** | 17.8 |
| Budgetary support | 24.4 | 16.7 | 13.2 | 20.2 | **22.2** | 19.3 | 23.1 | 28.4 | 26.5 | **20.2** | 25.6 |
| Private credit 1/ | 11.9 | 3.0 | 11.5 | 17.4 | **1.0** | 2.3 | -1.0 | 0.0 | 3.0 | **8.0** | 5.0 |
| Currency | 12.8 | 24.1 | 12.5 | 9.6 | **17.6** | 20.8 | 8.3 | 8.5 | 8.6 | **15.5** | 5.5 |
| Reserve money | 19.9 | 16.8 | 12.8 | 7.7 | **17.5** | 22.4 | 12.5 | 14.0 | 13.0 | **17.5** | 11.0 |
| *Memorandum items:* | | | | | | | | | | | |
| Velocity | 2.6 | 2.5 | 2.5 | 2.6 | **2.9** | 2.9 | 3.0 | 3.1 | 3.2 | **3.3** | 3.3 |
| Money multiplier | 2.7 | 2.7 | 2.8 | 3.0 | **2.9** | 2.8 | 3.0 | 3.0 | 2.8 | **2.8** | 2.8 |
| Currency to broad money ratio (percent) | 27.8 | 29.4 | 28.4 | 27.4 | **28.5** | 29.0 | 26.3 | 26.3 | 27.6 | **28.7** | 27.6 |
| Currency to deposit ratio (percent) | 38.5 | 41.6 | 39.7 | 37.8 | **39.8** | 40.9 | 35.7 | 35.7 | 38.1 | **40.3** | 38.1 |
| Foreign currency to deposit ratio (percent) | 8.6 | 7.3 | 6.0 | 6.1 | **6.8** | 6.8 | 6.6 | 6.8 | 7.1 | **6.7** | 6.9 |
| Reserves to deposit ratio (percent) | 9.7 | 7.9 | 7.5 | 6.1 | **6.2** | 7.3 | 6.9 | 7.0 | 7.5 | **6.4** | 7.7 |
| Budget bank financing (change from the beginning of the fiscal year; in PRs billions), *of which:* | 2,262 | 1,925 | 1,777 | 3,083 | **4,074** | 3,532 | 1,075 | 2,173 | 3,822 | **4,527** | 5,600 |
| By commercial banks | -887 | 2,159 | 2,958 | 3,320 | **4,094** | 3,629 | 1,635 | 2,734 | 4,382 | **4,837** | 6,161 |
| By SBP 3/ | 3,150 | -234 | -1,181 | -237 | **-19** | -97 | -561 | -561 | -561 | **-310** | -561 |
| NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 4/ | -9.4 | 8.1 | 6.7 | -9.1 | **-6.1** | -6.3 | 2.6 | 2.7 | 3.8 | **4.7** | 4.5 |
| NFA of commercial banks (millions of U.S. dollars) | -3,127 | -2,092 | -1,225 | -1,227 | **-944** | -3,292 | -3,475 | -3,506 | -2,797 | **-660** | -2,776 |
| NDA of commercial banks (billions of Pakistani rupees) | 11,605 | 13,563 | 15,840 | 18,469 | **20,508** | 20,778 | 21,860 | 21,901 | 21,885 | **23,125** | 23,108 |

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

1/ Items pertaining to Islamic Financing previously reported under "Other assets" have been reclassified as "Credit to private sector" beginning March 2016.

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

3/ Includes use of government deposits.

4/ Includes valuation adjustments.

## Table 6. Pakistan: Financial Indicators for the Banking System, 2013–22

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. | Dec. | Dec. | Dec. | Dec. | Dec. | Dec. | Dec. | Dec. | Dec. | Sep. |
| **Capital adequacy** | | | | | | | | | | | |
| Regulatory capital to risk-weighted assets 1/ | 14.9 | 17.1 | 17.3 | 16.2 | 15.8 | 16.2 | 17.0 | 18.6 | 16.7 | 17.0 | 19.1 |
| Tier I capital to risk-weighted assets | 12.6 | 14.3 | 14.4 | 13.0 | 12.9 | 13.2 | 14.0 | 14.8 | 13.5 | 14.2 | 16.0 |
| Capital to total assets | 9.0 | 10.0 | 8.4 | 7.8 | 7.1 | 7.1 | 7.2 | 7.2 | 6.3 | 5.9 | 5.7 |
| **Asset composition and quality** | | | | | | | | | | | |
| Nonperforming loans (NPLs) to gross loans | 13.3 | 12.3 | 11.4 | 10.1 | 8.4 | 8.0 | 8.6 | 9.2 | 7.9 | 7.3 | 7.7 |
| Provisions to NPLs | 78.4 | 79.8 | 84.9 | 85.0 | 87.2 | 83.8 | 81.4 | 88.3 | 91.2 | 89.5 | 95.5 |
| Net NPLs to total eligible capital | 14.7 | 10.1 | 7.7 | 7.3 | 5.8 | 7.8 | 8.9 | 5.3 | 4.0 | 4.6 | 1.8 |
| **Earnings and profitability** | | | | | | | | | | | |
| Return on assets (after tax) | 1.1 | 1.5 | 1.5 | 1.3 | 0.9 | 0.8 | 0.8 | 1.0 | 1.0 | 1.0 | 1.5 |
| Return on equity (after tax) | 12.4 | 16.1 | 15.6 | 14.4 | 11.5 | 10.7 | 11.3 | 13.8 | 14.1 | 16.9 | 26.9 |
| Net interest income to gross income | 70.4 | 71.3 | 70.4 | 71.2 | 72.7 | 75.4 | 79.3 | 79.7 | 77.9 | 79.8 | 84.4 |
| Noninterest expenses to gross income | 57.2 | 53.3 | 47.8 | 53.1 | 57.1 | 60.2 | 57.6 | 50.0 | 53.5 | 48.4 | 41.9 |
| **Liquidity** | | | | | | | | | | | |
| Liquid assets to total assets | 48.6 | 49.2 | 53.8 | 53.7 | 54.0 | 48.7 | 49.7 | 54.8 | 55.4 | 56.6 | 62.1 |
| Liquid assets to total deposits | 61.3 | 64.5 | 73.3 | 72.1 | 76.1 | 67.2 | 68.4 | 74.3 | 76.7 | 86.4 | 97.4 |
| Loans/Deposits | 49.5 | 48.2 | 46.4 | 46.6 | 50.1 | 55.8 | 51.7 | 44.8 | 46.6 | 50.4 | 42.4 |

Source: State Bank of Pakistan.

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

## Table 7. Pakistan: Indicators of Fund Credit, 2015–28

(In millions of SDR, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Projections 1/ | | | | | |
| Projected level of credit outstanding based on existing and prospective drawings | | | | | | | | | | | | | | |
| **Total** | **3,600.0** | **4,393.0** | **4,393.0** | **4,243.0** | **4,867.0** | **5,192.5** | **4,810.3** | **5,722.2** | **5,660.1** | **5,752.2** | **4,983.0** | **4,504.3** | **3,042.4** | **1,522.8** |
| *Of which:* | | | | | | | | | | | | | | |
| ECF, SBA, and ENDA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 894.0 | 2,250.0 | 2,250.0 | 2,138.3 | 1,182.7 | 169.5 |
| Extended Fund Facility and Rapid Financing Instrument | 3,600.0 | 4,393.0 | 4,393.0 | 4,243.0 | 4,867.0 | 5,192.5 | 4,810.3 | 5,722.2 | 4,766.1 | 3,502.2 | 2,733.0 | 2,366.0 | 1,859.7 | 1,353.3 |
| In percent of quota | 348.3 | 216.3 | 216.3 | 208.9 | 239.6 | 255.7 | 236.8 | 281.7 | 278.7 | 283.2 | 245.3 | 221.8 | 149.8 | 75.0 |
| In percent of end-period gross official reserves | 31.4 | 32.4 | 44.1 | 81.6 | 59.2 | 55.7 | 38.0 | 136.4 | 100.2 | 81.5 | 42.7 | 32.1 | 20.6 | 8.8 |
| As a share of external debt | 7.3 | 7.7 | 6.9 | 5.8 | 6.0 | 6.4 | 5.5 | 6.5 | 6.2 | 6.1 | 4.9 | 4.2 | 2.8 | 1.3 |
| Projected debt service to the Fund based on existing and prospective drawings | | | | | | | | | | | | | | |
| **Total** | **338.1** | **51.4** | **77.5** | **248.0** | **532.7** | **799.3** | **833.4** | **901.5** | **1,382.2** | **1,775.6** | **1,210.7** | **872.2** | **1,787.3** | **1,755.6** |
| *Of which:* | | | | | | | | | | | | | | |
| Principal | 303.0 | 0.0 | 0.0 | 150.0 | 420.0 | 690.0 | 732.2 | 732.2 | 956.0 | 1,263.9 | 769.2 | 478.8 | 1,461.8 | 1,519.6 |
| Interest and charges | 35.1 | 51.4 | 77.5 | 98.0 | 112.7 | 109.3 | 101.2 | 169.3 | 426.1 | 511.7 | 441.5 | 393.5 | 325.5 | 236.1 |
| SBA and ENDA principal | 303.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 111.7 | 955.5 | 1013.3 |
| Extended Fund Facility principal | 0.0 | 0.0 | 0.0 | 150.0 | 420.0 | 690.0 | 732.2 | 732.2 | 702.2 | 756.2 | 515.3 | 367.0 | 506.3 | 506.3 |
| Rapid Financing Instrument principal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 253.9 | 507.8 | 253.9 | 0.0 | 0.0 | 0.0 |
| In percent of quota | 32.7 | 2.5 | 3.8 | 12.2 | 26.2 | 39.4 | 41.0 | 44.4 | 68.1 | 87.4 | 59.6 | 42.9 | 88.0 | 86.4 |
| In percent of end-period gross official reserves | 2.9 | 0.4 | 0.8 | 4.8 | 6.5 | 8.6 | 6.6 | 21.5 | 24.5 | 25.2 | 10.4 | 6.2 | 12.1 | 10.2 |
| As a share of total external debt service | 7.2 | 1.1 | 1.1 | 3.6 | 5.3 | 8.9 | 9.9 | 6.4 | 10.8 | 15.0 | 9.8 | 6.8 | 12.8 | 12.3 |
| **Memorandum items:** | | | | | | | | | | | | | | |
| Quota (millions of SDRs) | 1,034 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 | 2,031 |
| Gross official reserves (millions of U.S. dollars) | 15,886 | 18,269 | 14,107 | 7,199 | 11,334 | 13,412 | 17,686 | 5,575 | 7,491 | 9,358 | 15,454 | 18,623 | 19,596 | 22,897 |
| Net International reserves (millions of U.S. dollars) | | | | | -10,842 | -8,528 | -3,210 | -16,893 | -13,154 | -11,643 | -4,528 | -724 | 2,187 | 7,503 |
| Exports of goods and services (millions of US dollars) | 6,630 | 6,875 | 7,689 | 7,521 | 7,732 | 8,054 | 9,887 | 8,990 | 9,413 | 10,061 | 10,772 | 11,545 | 12,237 | 14,170 |
| Total External Debt (millions of U.S. dollars) | 68,473 | 76,436 | 90,464 | 100,681 | 110,957 | 117,115 | 121,690 | 117,799 | 120,984 | 125,804 | 135,539 | 141,794 | 145,616 | 149,795 |
| Total external debt (percent of CY GDP) | 22.3 | 23.4 | 26.0 | 29.7 | 35.7 | 36.1 | 33.7 | 33.0 | 35.0 | 34.9 | 36.1 | 36.3 | 34.2 | 34.5 |
| Total external debt service (millions of U.S. dollars) | 6,468 | 6,217 | 9,664 | 9,498 | 13,807 | 12,940 | 11,775 | 18,796 | 17,022 | 15,653 | 16,314 | 17,004 | 18,502 | 18,869 |

Source: IMF staff projections.

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

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

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | | | Proj. | | |
| **Key economic and market indicators** | | | | | | | | | | |
| Real GDP growth (factor cost, in percent) | 3.1 | -0.9 | 5.8 | 6.2 | -0.2 | 2.0 | 3.5 | 4.5 | 5.0 | 5.0 |
| CPI inflation (period average, in percent) | 6.7 | 10.7 | 8.9 | 12.1 | 29.2 | 24.0 | 11.7 | 7.7 | 6.6 | 6.6 |
| Emerging market bond index (EMBI) secondary market spread (basis points, end of period) | 420 | 650 | 518 | 1253 | 2243 | ... | ... | ... | ... | ... |
| Exchange rate PRs/US$ (end of period) | 160.1 | 168.1 | 157.5 | 204.8 | 286.0 | ... | ... | ... | ... | ... |
| **External sector** | | | | | | | | | | |
| Current account balance (percent of GDP) | -4.2 | -1.5 | -0.8 | -4.7 | -0.7 | -1.6 | -1.5 | -1.5 | -1.5 | -1.6 |
| Net FDI inflows (percent of GDP) | 0.4 | 0.9 | 0.5 | 0.5 | 0.2 | 0.2 | 0.3 | 0.4 | 0.4 | 0.5 |
| Exports (percentage change of U.S. dollar value; GNFS) | -1.3 | -7.4 | 12.9 | 25.4 | -10.4 | 8.0 | 6.6 | 7.1 | 7.2 | 6.0 |
| Gross international reserves (GIR) in billions of U.S. dollars | 7.3 | 12.2 | 17.3 | 9.8 | 4.5 | 9.1 | 13.0 | 16.9 | 19.7 | 21.2 |
| GIR in percent of ST debt at remaining maturity (RM) 1/ | 44.7 | 72.3 | 105.5 | 43.5 | 21.8 | 52.6 | 63.6 | 71.5 | 73.0 | 68.5 |
| GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 1/ | 31.3 | 52.4 | 75.1 | 34.5 | 17.3 | 40.2 | 48.8 | 55.1 | 56.3 | 53.1 |
| Total gross external debt (ED) in percent of GDP, *of which:* | 33.2 | 37.6 | 35.1 | 32.2 | 34.4 | 34.9 | 35.0 | 34.2 | 32.9 | 31.3 |
| ST external debt (original maturity, in percent of total ED) | 5.3 | 4.7 | 3.5 | 3.9 | 2.8 | 3.3 | 3.9 | 4.6 | 4.5 | 4.5 |
| ED of domestic private sector (in percent of total ED) | 31.1 | 29.6 | 32.0 | 34.4 | 31.1 | 29.8 | 30.9 | 32.6 | 35.1 | 37.7 |
| ED to foreign official sector (in percent of total ED) | 68.9 | 70.4 | 68.0 | 65.6 | 68.9 | 70.2 | 69.1 | 67.4 | 64.9 | 62.3 |
| Total gross external debt in percent of exports | 353.1 | 404.0 | 387.2 | 304.4 | 327.6 | 320.8 | 319.5 | 316.0 | 306.6 | 297.2 |
| Gross external financing requirement (in billions of U.S. dollars) 2/ | 26.6 | 19.8 | 15.5 | 32.7 | 21.2 | 17.6 | 18.1 | 20.5 | 20.8 | 27.0 |
| **Public sector 3/** | | | | | | | | | | |
| Overall balance (including grants) | -7.8 | -7.0 | -6.0 | -7.8 | -7.7 | -7.6 | -7.3 | -5.8 | -5.1 | -4.7 |
| Primary balance (including grants) | -3.0 | -1.5 | -1.1 | -3.0 | -0.8 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 |
| Debt-stabilizing primary balance 4/ | 3.9 | 0.7 | -8.3 | -0.7 | 0.2 | -5.1 | -1.5 | -0.8 | -1.4 | -1.1 |
| Gross PS financing requirement 5/ | 32.2 | 25.8 | 19.9 | 24.6 | 23.5 | 23.0 | 22.2 | 20.4 | 18.3 | 17.6 |
| General government and government guaranteed debt (incl. IMF) | 82.0 | 84.5 | 77.8 | 80.7 | 81.3 | 76.8 | 74.7 | 73.2 | 71.0 | 68.8 |
| General government debt incl. IMF obligations | 77.5 | 79.6 | 73.5 | 76.2 | 77.1 | 72.8 | 71.0 | 69.8 | 67.8 | 65.8 |
| Net general government debt (incl. IMF) 6/ | 70.2 | 72.9 | 66.0 | 69.9 | 72.1 | 68.9 | 67.6 | 66.8 | 65.1 | 63.4 |
| **Financial sector 7/** | | | | | | | | | | |
| Capital adequacy ratio (in percent) | 16.1 | 18.7 | 18.3 | 16.1 | 17.8 | ... | ... | ... | ... | ... |
| Nonperforming loans (NPLs) in percent of total loans | 8.8 | 9.7 | 8.9 | 7.5 | 7.4 | ... | ... | ... | ... | ... |
| Provisions in percent of NPLs | 78.4 | 81.6 | 88.8 | 91.6 | 94.4 | ... | ... | ... | ... | ... |
| Return on assets (after tax, in percent) | 0.8 | 1.1 | 0.9 | 0.8 | 1.5 | ... | ... | ... | ... | ... |
| Return on equity (after tax, in percent) | 11.4 | 14.6 | 13.3 | 12.9 | 26.0 | ... | ... | ... | ... | ... |
| FX deposits held by residents (in percent of total deposits) | 8.6 | 7.3 | 6.0 | 6.1 | 6.8 | ... | ... | ... | ... | ... |
| Government debt held by FS (percent of total FS assets) | 69.3 | 69.6 | 66.9 | 71.1 | 74.1 | ... | ... | ... | ... | ... |
| Credit to private sector (percent change) | 11.9 | 3.0 | 11.5 | 17.4 | 2.3 | ... | ... | ... | ... | ... |
| **Memorandum item:** | | | | | | | | | | |
| Nominal GDP (in billions of U.S. dollars) | 321.1 | 300.4 | 348.5 | 374.7 | 338.2 | ... | ... | ... | ... | ... |

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

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

2/ Current account deficit plus amortization of external debt.

3/ Public sector covers general (consolidated) government.

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

5/ Overall balance plus debt amortization.

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

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

## Table 9a. Pakistan: Original Schedule of Reviews and Purchases

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

Source: IMF staff estimates.

## Table 9b. Pakistan: Proposed Schedule of Reviews and Purchases

| Availability Date | Amount of Purchase | | Conditions |
|---|---|---|---|
| | Millions of SDRs | Percent of Quota | |
| July 12, 2023 | 894 | 44.0 | Approval of arrangement |
| December 1, 2023 | 528 | 26.0 | First review and end-September 2023 performance/ continuous criteria |
| March 15, 2024 | 828 | 40.8 | Second review and end-December 2023 performance/ continuous criteria |
| Total | 2,250 | 110.8 | |

Source: IMF staff estimates.

## Table 10. Pakistan: Decomposition of Public Debt and Debt Service by Creditor, 2022/23–2024/25 1/

| | Debt Stock (end of period) | | | Debt Service | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sep-23 | | | 2022/23 | 2023/24 | 2024/25 | 2022/23 | 2023/24 | 2024/25 |
| | *(In US$ million)* | *(Percent total debt)* | *(Percent GDP)* [2] | *(In US$ million)* | | | *(Percent GDP)* | | |
| **Total** | 239,275 | 100.0 | 81.9 | 84,141 | 81,269 | 47,331 | 24.9 | 23.1 | 12.7 |
| **External** | 101,311 | 42.3 | 34.7 | 18,693 | 13,100 | 11,056 | 5.5 | 3.7 | 3.0 |
| Multilateral creditors[3] | 45,096 | 18.8 | 15.4 | 5,204 | 5,506 | 5,089 | 1.5 | 1.6 | 1.4 |
| IMF | 7,847 | 3.3 | 2.7 | | | | | | |
| World Bank | 19,102 | 8.0 | 6.5 | | | | | | |
| ADB/AfDB/IADB | 15,009 | 6.3 | 5.1 | | | | | | |
| Other Multilaterals | 3,138 | 1.3 | 1.1 | | | | | | |
| *o/w:* IsDB | 159 | 0.1 | 0.1 | | | | | | |
| AIIB | 1,441 | 0.6 | 0.5 | | | | | | |
| Bilateral Creditors | 41,767 | 17.5 | 14.3 | 4,282 | 4,007 | 2,472 | 1.3 | 1.1 | 0.7 |
| Paris Club | 7,703 | 3.2 | 2.6 | 1,317 | 1,387 | 1,009 | 0.4 | 0.4 | 0.3 |
| *o/w:* Japan | 3,599 | 1.5 | 1.2 | | | | | | |
| France | 1,293 | 0.5 | 0.4 | | | | | | |
| Non-Paris Club* | 34,063 | 14.2 | 11.7 | 2,965 | 2,620 | 1,464 | 0.9 | 0.7 | 0.4 |
| *o/w:* China ** | 23,518 | 9.8 | 8.0 | | | | | | |
| Saudi Arabia** | 6,708 | 2.8 | 2.3 | | | | | | |
| Bonds*** | 7,803 | 3.3 | 2.7 | 1,611 | 1,585 | 501 | 0.5 | 0.4 | 0.1 |
| Commercial creditors | 6,060 | 2.5 | 2.1 | 6,433 | 1,534 | 2,917 | 1.9 | 0.4 | 0.8 |
| *o/w:* Chinese commercial banks | 5,398 | 2.3 | 1.8 | | | | | | |
| Other | 662 | 0.3 | 0.2 | | | | | | |
| Other international creditors | 585 | 0.2 | 0.2 | 1,164 | 468 | 77 | 0.3 | 0.1 | 0.0 |
| o/w: NPC/NBP/BOC deposits/PBC**** | 585 | 0.2 | 0.2 | | | | | | |
| **Domestic** | 137,964 | 57.7 | 47.2 | 65,448 | 68,169 | 36,276 | 19.3 | 19.3 | 9.7 |
| T-Bills | 30,873 | 12.9 | 10.6 | 31,631 | 34,232 | 1,043 | 9.4 | 9.7 | 0.3 |
| *Held by:* central bank | 254 | 0.1 | 0.1 | | | | | | |
| local banks | 18,271 | 7.6 | 6.3 | | | | | | |
| local non-banks | 12,348 | 5.2 | 4.2 | | | | | | |
| Bonds***** | 92,210 | 38.5 | 31.6 | 22,776 | 28,575 | 30,720 | 6.7 | 8.1 | 8.2 |
| *Held by:* central bank | 19,033 | 8.0 | 6.5 | | | | | | |
| local banks | 57,789 | 24.2 | 19.8 | | | | | | |
| local non-banks | 15,388 | 6.4 | 5.3 | | | | | | |
| Loans/Other | 14,881 | 6.2 | 5.1 | 11,040 | 5,362 | 4,513 | 3.3 | 1.5 | 1.2 |
| *Held by:* central bank****** | 1,651 | 0.7 | 0.6 | | | | | | |
| local banks******* | 2,125 | 0.9 | 0.7 | | | | | | |
| National Savings Scheme | 11,105 | 4.6 | 3.8 | | | | | | |
| **Memo items:** | | | | | | | | | |
| Collateralized debt[4] | 0 | 0.0 | 0.0 | | | | | | |
| *o/w:* Related | | | | | | | | | |
| *o/w:* Unrelated | | | | | | | | | |
| Contingent liabilities | | | | | | | | | |
| *o/w:* Public guarantees | 12,546 | 5.2 | 3.7 | | | | | | |
| *o/w:* Other explicit contingent liabilities[5] | n.a. | n.a. | n.a. | | | | | | |
| Central bank deposit liabilities | 3,700 | 1.5 | 1.1 | | | | | | |
| Central bank bilateral swap liabilities | 4,216 | 1.8 | 1.2 | | | | | | |
| Nominal GDP[2] | 338,237 | | | | | | | | |

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

2/ Nominal GDP reported and used for shares of debt-to-GDP is for fiscal year 2023 (July 1, 2022 to June 30, 2023).

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

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

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

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

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

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

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

***** Includes Government Ijara Sukuk.

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

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

# Annex I. Sovereign Risk and Debt Sustainability Analysis

## Figure 1. Pakistan: Risk of Sovereign Stress

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

### DSA summary assessment

Staff commentary: Public debt continues to be assessed as sustainable in the baseline scenario underpinned by steadfast implementation of the proposed SBA policies, with tax measures introduced as part of the FY23 budget assumed to persist beyond the program horizon, a macroframework which does not assume either additional primary consolidation or expansion beyond FY24, and the gradual resumption of growth in the coming years. Elevated gross financing needs continue to pose high risks to debt sustainability, particularly as fiscal and reserve buffers have been depleted. In this regard, timely disbursements of committed bilateral and multilateral support is critical in the period ahead. Higher interest rates, a larger-than-expected growth slowdown due to policy tightening, pressures on the exchange rate, renewed policy reversals, slower medium-term growth, and contingent liabilities related to SOEs pose significant risks to debt sustainability.

Source: Fund staff.

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

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

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

## Figure 2. Pakistan: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | n.a. | |

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

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

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |

| | Basis of recording | | Valuation of debt stock | | |
|---|---|---|---|---|---|
| **4. Accounting principles:** | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |

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

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

**Reporting on intra-government debt holdings**

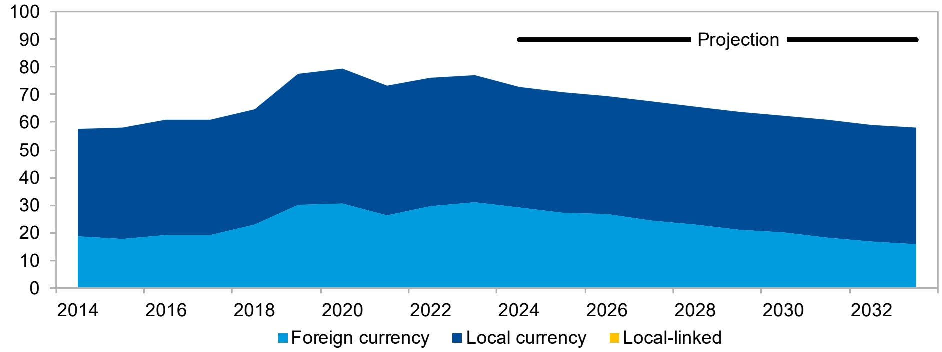
| Group | | Issuer \ Holder | Budget. central govt | Extra-budget. funds | Social security funds | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CPS / NFPS / GG: expected / CG | 1 | Budget. central govt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

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

Staff commentary: Includes bilateral FX swap liabilities of the central bank and deposits of official creditors at the central bank. As of end-FY23, contingent liabilities not included in the perimeter consist of: (i) guarantees (PRs 3,515 billion), (ii) non-guaranteed circular debt in the power and gas sector (PRs 1,545 billion and PRs 2.1 trillion), (iii) debt from commodity operations (PRs 1,486 billion), (iv) non-guaranteed SOE debt (PRs 255 billion), (v) other contingent liabilities (PRs 500 billion, estimated). The estimated total of those exposures amounts to 11.2 percent of GDP.

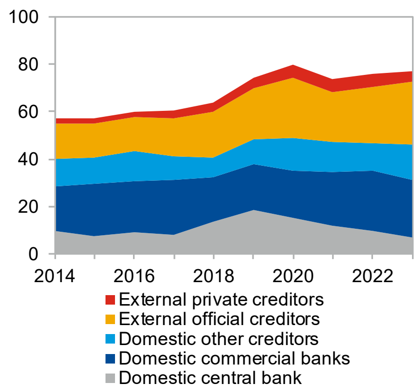
## Figure 3. Pakistan: Public Debt Structure Indicators

**Debt by currency (percent of GDP)**



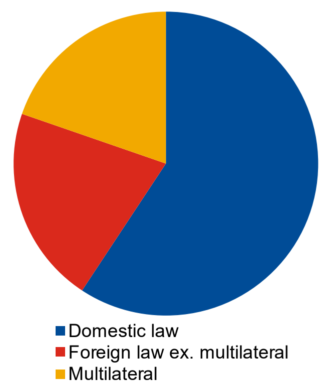

Note: The perimeter shown is general government.

**Public debt by holder (percent of GDP)**



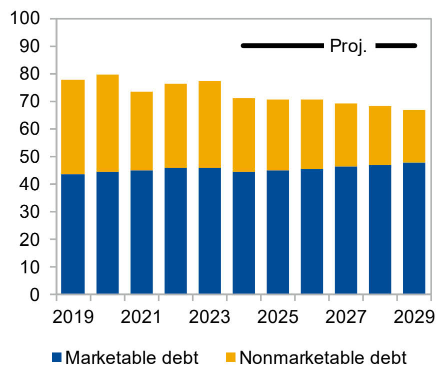

Note: The perimeter shown is general government.

**Public debt by governing law, 2023 (percent)**



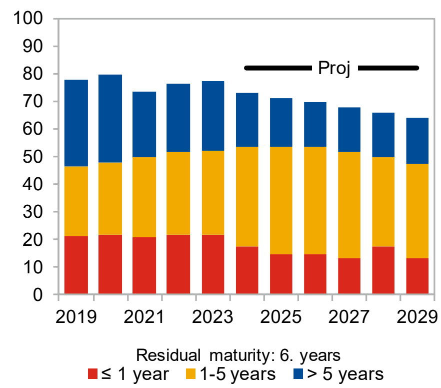

Note: The perimeter shown is general government.

**Debt by instruments (percent of GDP)**




Note: The perimeter shown is general government.

**Public debt by maturity (percent of GDP)**




Note: The perimeter shown is general government.

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

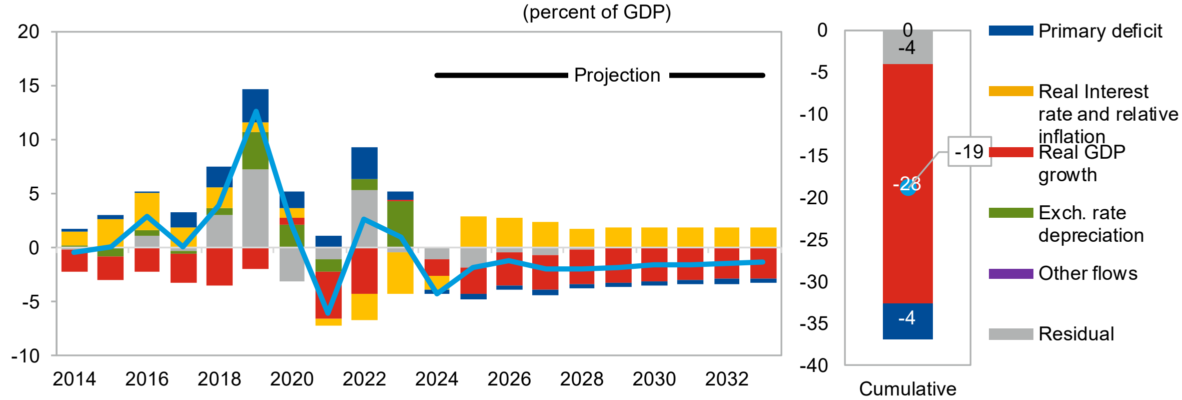
## Figure 4. Pakistan: Baseline Scenario

(Percent of GDP, unless otherwise indicated)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Public debt | 77.1 | 72.8 | 71.0 | 69.8 | 67.8 | 65.8 | 64.0 | 62.5 | 61.0 | 59.5 | 58.2 |
| Change in public debt | 0.9 | -4.3 | -1.9 | -1.2 | -2.0 | -2.0 | -1.8 | -1.5 | -1.5 | -1.4 | -1.3 |
| Contribution of identified flows | 1.4 | -3.2 | 0.0 | -0.8 | -1.4 | -1.8 | -1.7 | -1.6 | -1.5 | -1.4 | -1.4 |
| Primary deficit | 0.8 | -0.4 | -0.5 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Noninterest revenues | 11.4 | 12.5 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 |
| Noninterest expenditures | 12.2 | 12.1 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| Automatic debt dynamics | 0.6 | -2.8 | 0.4 | -0.3 | -1.0 | -1.4 | -1.3 | -1.2 | -1.1 | -1.0 | -0.9 |
| Real interest rate and relative inflatio | -3.8 | -1.3 | 2.9 | 2.7 | 2.4 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Real interest rate | -8.9 | -6.5 | 0.5 | 1.4 | 1.2 | 0.8 | 0.8 | 1.0 | 1.1 | 1.1 | 1.2 |
| Relative inflation | 5.1 | 5.3 | 2.4 | 1.4 | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 |
| Real growth rate | 0.1 | -1.5 | -2.5 | -3.1 | -3.3 | -3.2 | -3.1 | -3.0 | -3.0 | -2.9 | -2.8 |
| Real exchange rate | 4.3 | … | … | … | … | … | … | … | … | … | … |
| Other identified flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution of residual | -0.5 | -1.1 | -1.8 | -0.4 | -0.6 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | | |
| Gross financing needs | 23.4 | 23.1 | 22.8 | 19.4 | 18.7 | 16.8 | 20.3 | 16.7 | 16.2 | 15.6 | 14.1 |
| of which: debt service | 22.6 | 23.5 | 23.2 | 19.9 | 19.1 | 17.2 | 20.7 | 17.1 | 16.6 | 16.0 | 14.5 |
| Local currency | 18.0 | 19.8 | 19.5 | 15.8 | 15.3 | 12.8 | 16.2 | 13.2 | 12.0 | 12.3 | 11.0 |
| Foreign currency | 4.6 | 3.8 | 3.7 | 4.0 | 3.9 | 4.4 | 4.6 | 3.9 | 4.6 | 3.7 | 3.5 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | -0.2 | 2.0 | 3.5 | 4.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Inflation (GDP deflator; percent) | 26.1 | 24.0 | 11.7 | 7.7 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 |
| Nominal GDP growth (percent) | 26.2 | 26.8 | 16.0 | 12.7 | 11.8 | 11.9 | 11.9 | 11.9 | 11.9 | 11.9 | 11.9 |
| Effective interest rate (percent) | 11.3 | 13.4 | 12.4 | 9.8 | 8.6 | 7.9 | 8.0 | 8.4 | 8.5 | 8.7 | 8.9 |

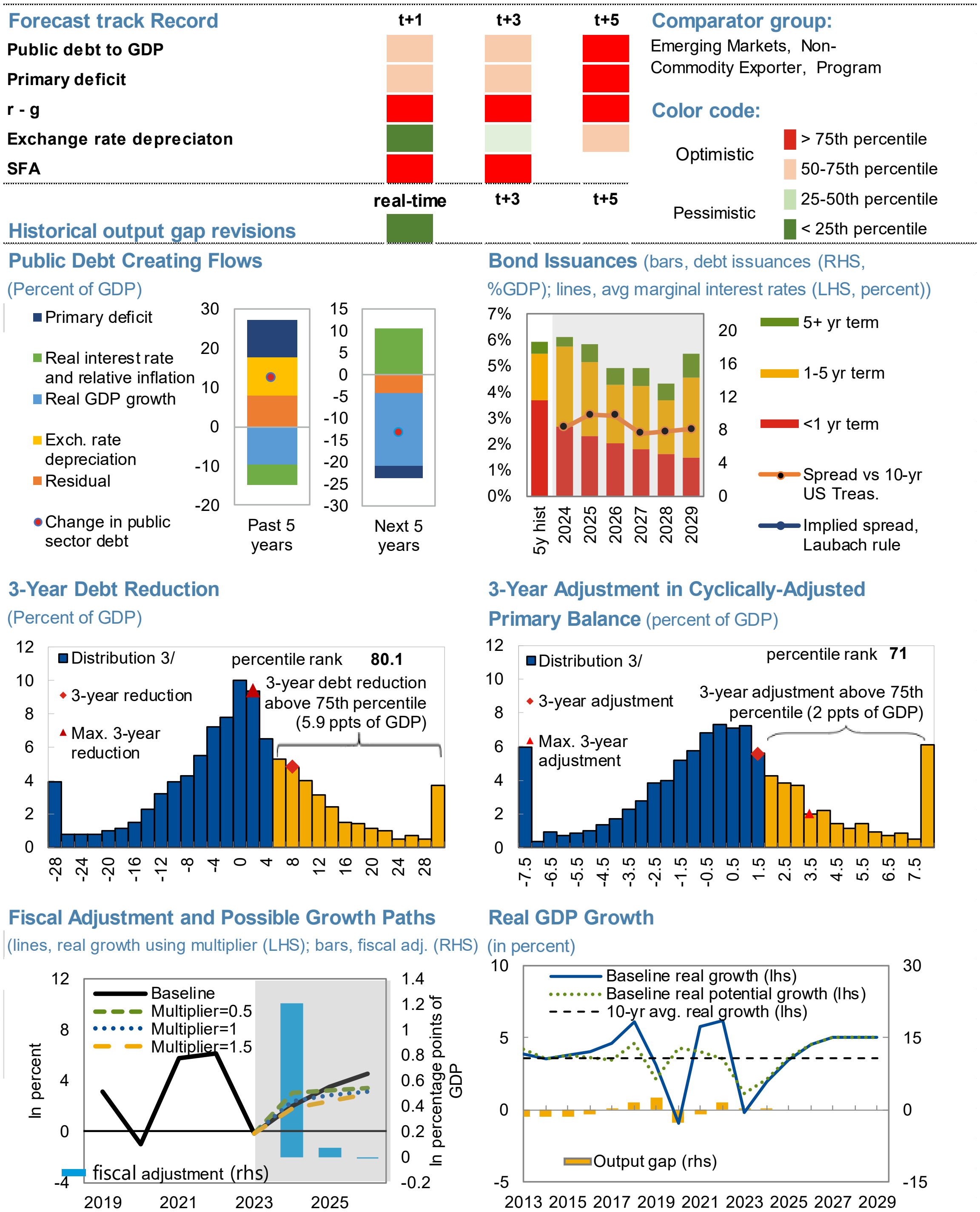
### Contribution to change in public debt

(percent of GDP)




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

## Figure 5. Pakistan: Realism of Baseline Assumptions




Staff commentary: The programmed fiscal adjustment path is ambitious but feasible given broad political support for the SBA, support from a broad set of partners, favorable demographic dynamics, and significant scope for revenues by widening the tax base. However, renewed efforts for structural reforms are needed to lift growth potential, and avoid Pakistan from getting trapped in negative debt dynamics. T-bill issuance as a share of total domestic issuance is projected to decline gradually, with some progress made in FY24H1 already.

## Figure 6. Pakistan: Medium-Term Risk Analysis

### Debt fanchart and GFN financeability indexes

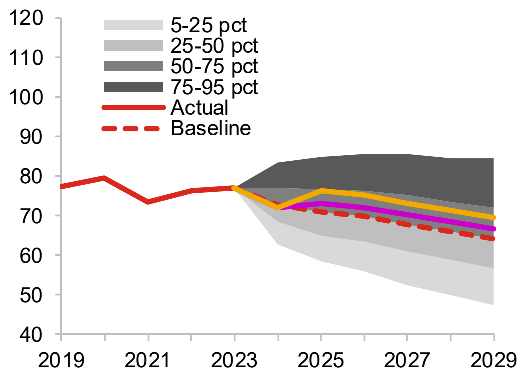
(percent of GDP unless otherwise indicated)

| Module | Indicator | Value | Risk index | Risk signal |
|---|---|---|---|---|
| Debt fanchart module | Fanchart width | 37.0 | 0.5 | … |
| | Probability of debt not stabilizing (pct) | 6.4 | 0.1 | … |
| | Terminal debt level x institutions index | 47.7 | 1.0 | … |
| | **Debt fanchart index** | **…** | **1.6** | **Moderate** |
| GFN finance-ability module | Average GFN in baseline | 20.2 | 6.9 | … |
| | Bank claims on government (pct bank assets) | 55.3 | 17.9 | … |
| | Chg. in claims on govt. in stress (pct bank assets) | 10.0 | 3.3 | … |
| | **GFN financeability index** | **…** | **28.2** | **High** |

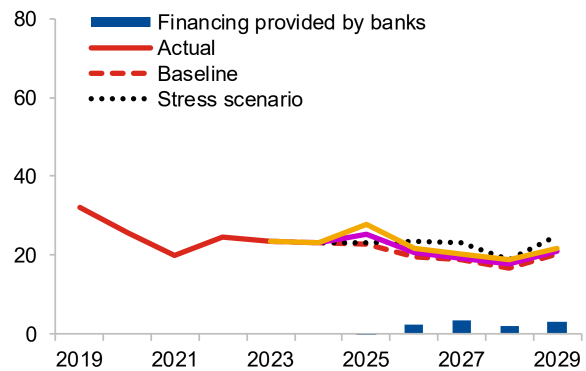
EM, Non-Commodity Exporter, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Pakistan

### Final fanchart (pct of GDP)




### Gross Financing Needs (pct of GDP)

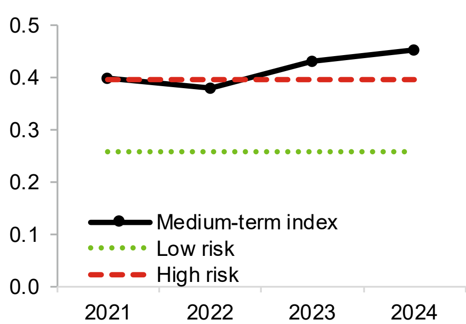



Triggered stress tests (stress tests not activated in gray)

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

### Medium-term index

(index number)




### Medium-term risk analysis

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

Prob. of missed crisis, 2024-2029 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 5.7 pct.

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

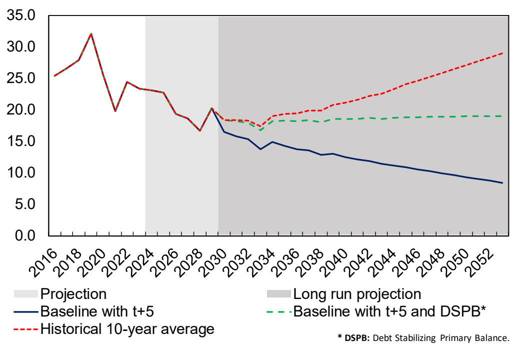
## Figure 7. Pakistan: Long-Term Risk Analysis

### Large Amortization Trigger:

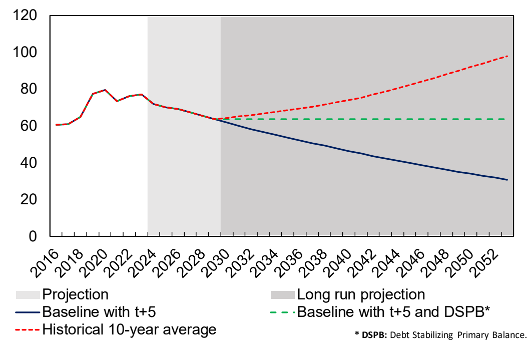
| Projection | Variable | Risk Indication |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Medium-term extrapolation with debt stabilizing primary balance | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization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

### Alternative Baseline Long-term Projections:

GFN-to-GDP ratio



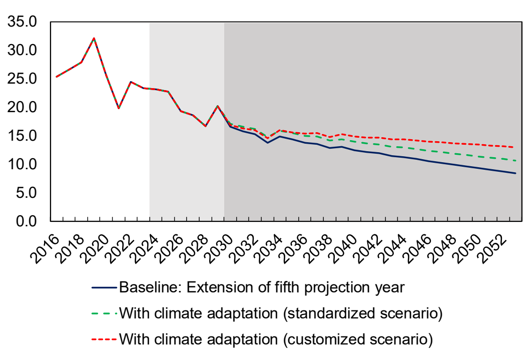

Total public debt-to-GDP ratio



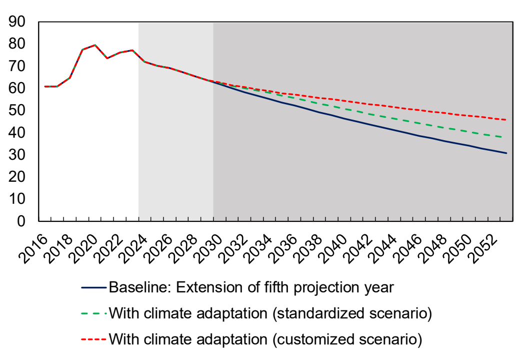

**Commentary**: Although elevated GFN are a key risk for Pakistan's debt sustainability, the risk of large amortizations is not triggered because projected GFN-to-GDP and Amortization-to-GDP ratios for years t+6 through t+30 do not exceed the historical average (plus one standard deviation) threshold given elevated historical time series over the past 10 years. Explosive dynamics for GFN and debt ratios under historical assumptions illustrate that macroeconomic adjustment as envisaged under the SBA-supported program is critical. For context, the historical 10-year average for the primary balance (-1.4 percent of GDP) is almost two percentage points of GDP lower than projected for year t+5 under the baseline (0.5 percent of GDP). The debt-stabilizing primary balance (-1.1 percent of GDP) is relatively close to the historical 10-year average.

### Climate Change: Adaption

GFN-to-GDP ratio




Total public debt-to-GDP ratio




**Commentary**: Given Pakistan's exceptionally high vulnerability to climate change, freeing up fiscal space for adaptation investment within the confines of debt sustainability will be critical. The standardized scenario reflects adaptation costs (i.e., a deterioration of the primary fiscal balance) of 0.6 percent of GDP annually, before gradually declining towards 0.3 percent of GDP by the mid-2030s. The illustrative customized scenario is based on reduced initial adaptation investment, which could arise due to financing constraints, among others, and relatedly lower long-term growth (4 percent instead 5 percent).

# Appendix I. Letter of Intent

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

Islamabad, December 18, 2023

Dear Ms. Georgieva:

1. Following the approval of the 9-month Stand-By Arrangement (SBA) in July 2023 the economy has stabilized, with a nascent recovery expected to gain strength over coming months, and inflows of committed financing have instilled greater confidence. However, the economic environment remains challenging, including due to elevated external risks, and the efforts needed to continue to sustainably resolve our macroeconomic and external imbalances. Against this backdrop, we reaffirm our commitment to the policies and objectives of the SBA, as detailed in the attached Memorandum of Economic and Financial Policies (MEFP).

2. Since the SBA was approved, our program performance has been strong. Thanks to the steadfast execution of the FY24 budget, continued adjustment of energy prices, an appropriate monetary policy stance, and prudent management of the external accounts, all but one end-September 2023 quantitative performance criteria (QPCs) and almost all indicative targets (ITs) were met. For the targets missed, the deviations were small or temporary and we have taken actions to address them. Although we stayed within the agreed nominal ceiling on the general government primary budget deficit, the related QPC was missed by a small margin due to exchange rate valuations of external financing flows as stipulated in the Technical Memorandum of Understanding (TMU). We also missed the IT on power sector payment arrears by a large margin, due largely to under-recoveries in August following the annual rebasing implementation. Since then, we have significantly enhanced enforcement and collections have improved. In addition to meeting the structural benchmarks (SBs) on the notification of the FY24 annual rebasing and the compilation and dissemination of Quarterly National Accounts, work towards the remaining SBs is well advanced. Finally, the continuous SB on the average premium between the interbank and open market exchange rate was missed from mid-August to early-September, due in part to speculative activities and illegal trading. To ensure compliance going forward, we have initiated structural reforms in the exchange companies sector that will enhance governance and transparency, and are fully committed to build reserves as conditions permit and letting the rupee find its market value as imports are normalized even if pressures reemerge.

3. In the period ahead, we will seek to build on the strong program performance to gradually widen the path to macroeconomic sustainability and lay the conditions for sustained and balanced growth. To this end, the priorities of our economic program continue to be: (i) advancing gradual fiscal consolidation—underpinned by continued spending restraint, effective execution of revenue

measures, and, if necessary, contingent measures to help lock in a solid primary surplus for FY24—to bring down debt, while creating fiscal space for much-needed social and development spending; (ii) reducing quasi-fiscal deficits in the electricity and gas sectors; (iii) completing the return to a market-determined exchange rate; (iv) further building the resilience of the banking sector; (v) pursuing state-owned enterprise (SOE) reform including improved governance; and (vi) boosting efforts to build resilience from climate change.

4. The approval of the SBA catalyzed significant financing from bilateral partners, including new disbursements of budget and balance of payment support as well as rescheduling of existing bilateral loans. We are working hard to realize the remaining committed financing during the period of the SBA. We have also continued our efforts to mobilize financial support pledged during the Conference on Climate Resilient Pakistan, held in Geneva in January 2023, for humanitarian assistance and projects to rehabilitate the damage caused by the 2022 floods. Finally, the caretaker government, in collaboration with other stakeholders, has been making concerted efforts to attract foreign investment, including through the forthcoming privatization of SOEs, which will support our efforts to improve economic performance and will help replenish our gross reserves to more comfortable levels.

5. Based on the strong program performance to-date and our commitments for the period ahead, we request approval by the IMF Executive Board for (i) a waiver of nonobservance for the missed end-September QPC ceiling on the general government primary budget deficit; (ii) modifications to the end-December 2023 targets for net international reserves, the net foreign currency swap/forward position, and net domestic assets, to lock in our progress in rebuilding reserves, and for the general government primary budget deficit, to continue progress towards our FY24 primary balance goal of 0.4 percent of GDP while balancing our quasi-fiscal effort through the year; (iii) rephasing of the access date for the second review to March 15, 2024, to allow sufficient time to complete our structural agenda; and (iv) the completion of the first review under the SBA and the related purchase in the amount of SDR 528 million (26 percent of quota). Completion of the final review scheduled for March 2024 will require observance of the quantitative performance criteria (QPCs), indicative targets (ITs), and continuous performance criteria (PCs) with end-December 2023 test dates (set out in MEFP Table 1) and defined in the attached Technical Memorandum of Understanding (TMU). Consistent with our reform agenda, our program also envisages structural benchmarks (SBs, set out in MEFP Table 2).

6. Overall, we believe that the policies set forth in the attached MEFP are adequate for the successful implementation of our program, but we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these and any new measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will supply the IMF with timely and accurate data that are needed for program monitoring. We are committed to implementing the recommendations of the 2023 Safeguards Assessment, including revisiting risk mitigating measures for monetary policy operations. Reaffirming our commitment to our policy of transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Dr. Shamshad Akhtar | Jameel Ahmad |
| Minister of Finance and Revenue | Governor of the State Bank of Pakistan |

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

# Attachment I. Memorandum of Economic and Financial Policies

## A. Recent Economic Developments and Outlook

**1. After the sharp slowdown in FY23 amid intensifying external pressures, the economy has stabilized in recent months**. Growth weakened considerably in FY23 as a result of damage from the floods and the deep import compression, but signs of an incipient recovery are appearing. Large-scale manufacturing has started to reverse its decline, growing by 0.7 percent (yoy) in FY24Q1, and initial estimates for the Kharif harvest indicate a strong rebound of agricultural output from the flood-affected levels in FY23H1. That said, macroeconomic vulnerabilities remain high and despite its decline since May, headline inflation remains very elevated (29.2 percent (yoy) in November) alongside continuing pressures on core inflation (18.6 and 25.9 percent (yoy) in urban and rural areas, respectively). On the external front, import compression has started to unwind and gross reserves have increased notably, but the recovery in the external position will proceed only gradually as our policies continue to adjust.

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

- ***Real GDP*** is expected to rebound in FY24, though more slowly than anticipated at the time of the Stand-By Arrangement (SBA) request. Growth is projected at 2 percent, with a strong post-flood recovery in the agricultural sector compensating for still subdued activity in the industrial and service sectors, with signs of weak aggregate demand. Over the medium-term, prudent policies and the implementation of long overdue structural reforms will allow growth to rise gradually to 5 percent, supported by stronger investment and exports.

- ***Headline CPI inflation*** is projected to remain above 20 percent (yoy) through FY24Q3, as the necessary recent increases in gas and electricity tariffs contribute to persistently high energy inflation, and food and core inflation ease only gradually. Maintaining a real policy rate in clear positive territory as inflation eases and reacting to any signs of new demand pressures or increasing inflation expectations will help re-anchor inflation expectations and guide down core inflation from FY24H2 onwards, provided there is no resumption in administrative import compression. Headline inflation is projected to decline significantly through FY25-26, falling within the 5–7 percent target range within FY26, supported by fiscal consolidation and the normalization of global commodity prices.

- ***The current account*** returned to a deficit in FY24Q1, ending a series of surpluses driven by the deep import contraction in FY23H2. With foreign exchange (FX) market conditions normalizing, imports are expected to pick up in the coming months alongside somewhat stronger remittances, leading to a projected FY24 current account deficit (CAD) of 1.6 percent of GDP. Provided a sustained rebound in trade, the CAD is expected to remain around 1½ percent of GDP over the medium-term. Meanwhile, gross reserves increased significantly from US$4.5 billion at end-FY23 to US$7 billion at end-November 2023, owing to the realization of committed inflows and SBP purchases.

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

## B. Economic Program

### Fiscal Policy

4. **We reiterate our firm commitment to achieve a primary surplus of at least 0.4 percent of GDP**. Following slippages in FY23 that led to overruns in the primary balance by 0.3 percent of GDP, we are committed to ensuring that budget execution in FY24 stays on track. The general government primary surplus in FY24Q1 was 0.4 percent of GDP, in line with initial expectations. That said, part of this additional primary surplus was due to technical delays in releasing power subsidies of PRs 72 billion, which were registered in early October. We also faced delays in the expenditure of PSDP; while a total of PRs 137 billion was released, only PRs 41 billion was spent in FY24Q1. Against higher spending pressures, federal revenue also performed better than expected. Non-tax revenues witnessed a substantial increase of 124 percent (yoy) as the petroleum levy collection exceeded projections by PRs 22 billion despite the significant drop in consumption in September. Likewise, FBR revenue saw a 25 percent (yoy) increase and performed better than projected at the time of the SBA approval, especially with domestic-oriented tax revenue jumping by 36 percent (yoy), although the slow recovery of imports affected revenue collection from import taxes. Provincial tax revenue performed in line with projections at the time of the SBA approval, but their current and capital expenditure in FY24Q1 exceeded the projections.

5. **Despite strong efforts by the federal government, additional measures are needed to ensure the FY24 primary surplus goal is achievable**. While the federal government has contained spending, provincial current spending increased 57 percent (yoy), partly explained by the Punjab provincial government payment of PRs 115 billion related to commodity transactions, while development spending increased 61 percent (yoy). To ensure that provincial governments remain within their initial budget plans, the provinces have amended their memorandums of understanding (MoUs) signed with the federal government to include the estimated federal revenue, annual provincial revenue, and total expenditure plans, in line with the agreed surplus. Moreover, the Punjab provincial government has committed through a supplemental MoU to restrict its spending in the remainder of FY24 by PRs 115 billion to achieve a surplus of PRs 336 billion as committed in the MoU associated with the FY24 budget. Additionally, the provinces commit to refrain from increasing their commodity debt and to adopt a definition of provincial surpluses according to

GFSM2014. Interest expenses in FY24Q1 reached 1.3 percent of GDP, consistent with budget projections.

**6. Looking ahead, we remain resolute in our commitment to continue our fiscal consolidation efforts to ensure debt sustainability, while creating more fiscal space for much-needed social spending**. We expect to continue the application of planned policies, that will allow us to meet our primary surplus target of 0.4 percent of GDP. In particular, we will:

- On the *expenditure side,* we commit to: (i) refrain from granting any further increases in salaries and pensions beyond those in FY24Q1 and these items will remain within their FY24 appropriated limits; (ii) create fiscal room to protect the generosity level of the BISP unconditional cash transfer (UCT) Kafaalat program in FY24 (see below); (iii) expedite the PSDP prioritization and rationalization process in line with recommendations, aiming to achieve savings of at least PRs 61 billion; and (iv) limit energy subsidies primarily through the continued timely notification of quarterly and monthly power tariff adjustments, as determined by National Electric Power Regulatory Authority (NEPRA), the timely notification of the December 2023 semiannual gas tariff adjustment, as determined by the Oil and Gas Regulatory Authority (OGRA), and acceleration of structural cost-reducing reforms (see below).
- On the *revenue side.* While our budget projected PRs 1,113 billion in SBP dividend transfers, the realized amount fell short by PRs 141 billion due to variations in interest rates, exchange rates and volume of liquidity operations. Although the robust revenue performance in Q1 may mitigate some of this shortfall, achieving our primary deficit target hinges on the effective execution of all FY24 budget measures, as well as measures to expand the tax base, including issuing tax notification to more than 900 thousand non-filers who have already been identified by the FBR. While internal taxes have performed better than anticipated, we anticipate they will play a more significant role in our tax collection as the year progresses. We commit to monitor the performance of the Federal Excise Duty (FED), income tax, including the advance payments and the withholding taxes, and the expansion in the taxpayer base, providing the IMF team with timely monthly data on agreed performance indicators early in the following month. Should revenue fall short, we will adopt appropriate corrective measures to ensure the targets are met. Moreover, if the monthly cumulative FBR revenue falls short of the projected target by 1.5 percent in Q2, 0.5 percent in Q3 or 0.1 percent in Q4, we will evaluate the adoption of one or more of the contingency measures (¶8.b). To enhance revenue administration, including the efficiency of the track and trace system, we will strengthen our anti-smuggling efforts, we will intensify the anti-smuggling campaigns and enhance checkpoint operations in the northern regions. Furthermore, the outcome of the tax diagnosis slated for FY24Q2 will play a crucial role in identifying the necessary additional reforms to ensure the achievement of our FY24 budget target, as well as establish significant increases in tax-to-GDP over the next year through increased taxation of undertaxed sectors (including retail, property, construction, and development, digital markets) and supportive administration efforts.

**7. To ringfence our fiscal program, we reiterate**: (i) our commitment not to allow supplementary grants for any additional unbudgeted spending over the parliamentary approved level in FY24 (except if needed to respond to a severe natural disaster); (ii) our commitment not to grant further tax amnesties or issue new preferential tax treatments or exemptions (**continuous SBs**) in FY24 including through the budget or Statutory Regulatory Orders without prior National Assembly approval; (iii) our continuing focus on critically urgent energy sector policies, outlined below; and (iv) our commitment not to introduce any fuel subsidy, or cross-subsidy scheme, in FY24 and beyond.

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

***a.*** ***Revenue administration improvements to build capacity to expand the tax base and share the tax burden more widely***. To facilitate information sharing with the FBR, we have amended the Income Tax Rules, 2022 to mandate 145 organizations to share information regularly with the FBR, and we will follow the legal procedure for its adoption. Simultaneously, in line with the IMF's recent technical assistance (TA) to improve the FBR Compliance Risk Management (CRM) analytical capability, we aim to build a team of staff with advanced data science skills to perform the CRM risk and analytics. We also plan to incorporate predictive and descriptive analytics to fine-tune our CRM case selection procedures. By December 2023, we anticipate having an initial Risk Register in place and plan to develop Compliance Improvement Plans by March 2024. Moreover, in line with our digitalization plan, by December 2023, we plan to initiate pilot testing of the e-invoicing system.

***b.*** ***Contingent revenue measures***. Should cumulative monthly revenue significantly underperform we will, in consultation with IMF staff, implement selected measures: (i) raise the GST rate for textiles and leathers tier-1 from its reduced rate of 15 percent to the standard rate of 18 percent, expected collection of PRs 1 billion per month; (ii) implement a FED of PRs 5 per kilogram on sugar, expected collection of PRs 8 billion per month; (iii) increase advance income tax on import of machinery by 1 percentage point, expected collection of PRs 2 billion per month; (iv) increase advance income tax on import of raw materials by industrial undertakings by 0.5 percentage points, expected collection of PRs 2 billion per month; (v) increase advance income tax on import of raw materials by commercial importers by 1 percentage point, expected collection of PRs 1 billion per month; (vi) increase withholding tax on supplies by 1 percentage, expected collection of PRs 1 billion per month; (vii) increase withholding tax on services by 1 percentage point, expected collection of PRs 1.5 billion per month; (viii) increase withholding tax on contracts by 1 percentage point, expected collection of PRs 1.5 billion per month.

***c.*** ***Expand our taxpayer base***. In January 2024, we plan to launch a scheme for door-to-door campaign in four provincial capitals and Islamabad, to register non-filing retailers and streamline their tax filing. By cross-referencing tax filings with electricity meter data, we will detect evasion and conduct audits when required. We will implement safeguards in the form of strict supervision through random audits of assessments filed under the scheme to verify correctness of valuations and payments. We will launch this scheme with least discretion for the field offices to alter valuations and assessments to protect the potential revenue raised from these actions. To avoid double taxation, monthly advance tax payments under the scheme will offset final income tax liabilities at year-end at the time of return filing, but no refunds of such advance payments of taxes will be issued. Moreover, we commit to provide the IMF team with timely monthly data on agreed performance indicators.

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

- *State-owned enterprise (SOE) monitoring.* We created a Central Monitoring Unit (CMU) within the Ministry of Finance (MoF) in September 2022 to improve SOE monitoring and oversight functions and provide better analysis at the aggregate SOE level. The CMU's full operationalization will be completed with the hiring of the necessary staff and the publication of its first periodic report on the performance of SOEs, in terms of section 31(3) of the new SOE Act, using latest available data, and we anticipate both being complete by the end of the year (**end-December 2023 SB**).
- *Sovereign Wealth Fund (SWF) governance safeguards.* We created a SWF in August 2023 whose assets currently comprise seven SOEs. To ensure appropriate governance of the SWF, we will adopt measures such that (i) the SWF's annual public investment plan is subject to approval and undertaken via the standard public investment process; (ii) its overall investment strategy will be approved by the Supervisory Council; (iii) its annual accounts are audited by the Auditor General; (iv) a prohibition is placed on its assets being used to provide borrowing to any public entity, including SOEs, or as collateral; and (v) it will not engage as a private partner in a PPP.
- *Cash management*. As part of our efforts to enhance fiscal oversight, we have operationalized our treasury single account (TSA-2), which now encompasses 231 accounts, including FBR and NHA. We are drafting amendments to the TSA rules, focusing on the sweep-in, sweep-out procedure. To support our cash management and forecasting efforts, we have requested technical assistance from the Asian Development Bank (ADB) to refine our forecasting and cash management tools. Moreover, we have established the cash management working group.
- *Spending transparency.* To enhance transparency in all public procurement and with TA support from the World Bank, the Public Procurement Regulatory Authority (PPRA) continue to roll out the electronic procurement system (i.e., e-Pakistan Acquisition and Disposal System (e-PADS)). Since the e-PADS was launched in early 2023 with the ministries of health and education, other federal agencies and all four provinces have signed-up to the system and are in various stages of implementation or piloting. Out of the 912 planned procurement contracts in the e-PADS system since its launch, 341 contracts (amounting to PRs 83 million) have been completed. There are 1,148 Procuring Agency users and 1,082 suppliers registered in the system. In light of the regulations for publication of beneficial ownership information, the e-PADS incorporates the beneficial ownership information in suppliers' profiles and the same has been interlinked with the beneficial ownership data maintained by the Securities and Exchange Commission of Pakistan for further validation. Moreover, for all contracts amounting to PRs 50 million and above, the system mandatorily requires beneficial ownership information. To date, 646

suppliers registered in the e-PADS have also provided the beneficial ownership information in their profiles. The PPRA continues to conduct training to procuring agencies at the federal and provincial levels as well as suppliers and vendors.

9. **We will continue our proactive debt management efforts to cover the large financing requirements which are putting pressure on our debt sustainability**. Given the large share of floating-rate domestic debt and elevated global interest rates our debt servicing costs are projected to remain high over the near term. In view of this, there is an increasingly narrow path for fiscal and monetary discipline to ensure debt sustainability. Given the importance of maintaining an active market for domestic debt, we will continue to rely on the regular primary T-bill, PIB and Sukuk auctions as the main mechanism for raising new domestic financing. At the same time, to build the foundation for strong private sector growth over the medium-term, we recognize the importance of deepening domestic financial markets and moving away from a bank-centric financial system. To this end, we will issue and list government securities, including short-term Shariah-compliant instruments, on the Pakistan Stock Exchange which will help diversify and expand the investor base for government debt. As we embark on public sector pension reform and work towards creating an enabling environment for retirement savings for all Pakistanis, we will redouble our efforts to reform the National Savings Scheme by making it more cost-effective and reducing crowding-out of market-based saving opportunities.

### Poverty Reduction and Social Protection

10. **Reducing poverty and strengthening the social safety net remain key priorities**. We are determined to mitigate disparities facing our vulnerable population, foster greater inclusion, and shore up the resilience of people to future shocks. To that end, our FY24 budget includes a PRs 472 billion (0.4 percent of GDP) BISP allocation, about a third higher than in FY23 (excluding one-off spending for flood emergencies). Spending execution through end-September was in line with the program target, as was spending execution for health and education. We have also (i) fully operationalized, across the country, our dynamic registry for regular NSER updates, which will allow the system to capture more households, remain more up to date, and be able to respond to shocks in a timelier fashion; and (ii) revised the education and stunting CCT programs to align them with actual child schooling and food costs.

11. **Going forward, we will maintain momentum on strengthening social protection**. BISP remains our prime program to provide public support to the most vulnerable.[1] In addition, we are focusing on improving the level and quality of health and education spending, supported by our development partners and helped by the fiscal space created through our revenue mobilization efforts. We also strive to further enhance budgetary processes to ensure full execution of budgeted envelopes.

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

*a.* ***For FY24***, our larger BISP budget envelope will allow us to (i) absorb an additional horizontal expansion of the UCT Kafaalat base by 300,000 families to 9.3 million families by end-FY24 (enrollment was already up to 9.2 million by end-September 2023); and (ii) adequately provision for the regular inflation adjustment exercise to be undertaken in January 2024 (to cover calendar year 2024) (**end-January 2024 SB**).

*b.* ***Looking forward***, we will continue to work with the World Bank, building on our recent gains, to: (i) keep the NSER live and covering all of Pakistan's poor, BISP enrollment open, and the regular re-declaration of BISP beneficiaries' status on the intended 3-year cycle; (ii) fully roll out our new electronic payment model which will include more banking options and transparency for users; (iii) speed up enrollment of interested UCT Kafaalat families into the two CCT programs supporting children's education and health, with targets of 1.2 million new children and 0.8 million new families, respectively, for FY24;[2] (iv) implement a meaningful improvement of the still low UCT Kafaalat generosity level;[3] and (v) maintain our administrative capacity and create fiscal contingency reserves to disburse emergency cash transfers in case of adverse events hitting our vulnerable families (including climate-related catastrophes, ¶24).

### Monetary, Exchange and Financial Sector Policies

**12. We remain committed to ensuring monetary and financial stability by completing the return to a market-determined exchange rate, lowering inflation toward target, and rebuilding foreign exchange reserves**.

*a.* ***Return to a market-determined exchange rate***. Despite the relatively narrow FY24Q1 CAD and the significant increase in gross reserves following program approval, FX market conditions were at times disorderly, such that the average premium between the interbank and open market rate (**continuous SB**)[4] exceeded 1.25 percent from mid-August to early-September against our program commitments. Supported by law enforcement agencies, we have taken robust action that helped ease pressures, but we recognize that law enforcement and administrative actions alone are inadequate to sustainably alleviate external pressures. We reaffirm our commitment to a market determined exchange rate, emphasizing that in line with the Foreign Exchange Regulation Act, banks and exchange companies (ECs) are at liberty to determine exchange rates between the Pakistani rupee and foreign currencies free from any formal or informal influence. Specifically, we will refrain from providing guidance or expressing

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[2] Out of the 9.1 million families enrolled in the UCT Kafaalat program at end-September 2023, about 7.3 million families had at least one child in school- or college-going age (4–18 years) who was principally eligible for the two CCT programs. However, only 4.8 million families also had at least one child enrolled in at least one of the CCT programs.

[3] At end-September 2023, the UCT Kafaalat generosity level was about 11.5 percent of the average consumption of a bottom quintile family, relative to an international best practice of about 25 percent.

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

preference to market participants regarding the exchange rate or regulate demand for FX through (either formal or informal) administrative action. To enhance transparency and oversight in the open market we have initiated structural reforms in the EC sector, which will lead to stronger and better-managed ECs serving the legitimate FX needs of the public, including via banks establishing wholly-owned ECs. More broadly, we are committed to further strengthen transparency and efficiency in the FX market by (i) publishing daily exchange rates in the interbank and open market as of December 2023, (ii) finalizing preparations for transitioning to a new trading platform for spot transactions connecting all banks, with the system scheduled to go live by end-January 2024, and (iii) undertaking a feasibility study to conduct FX purchases and sales via auctions, including the publication of auction results, by end-March 2024. Although only banks and exchange companies are authorized by the SBP to carry out foreign exchange business in Pakistan, the existence of informal markets and channels is a reality. In pursuit of its mandate to implement exchange rate policy, SBP is developing a framework to monitor pricing and broader developments in informal markets and publish a report with findings by end-March 2024. To safeguard the integrity of the foreign exchange market, any abusive or anti-competitive behavior by market participants will be addressed through enforcement of the relevant regulations and the applicable laws.

***b.*** ***Rebuilding foreign exchange reserves***. Limited reserve buffers continue to be our main constraint for durably entrenching external stability. For this reason, SBP's interventions in the FX market will remain guided by the objective of building FX buffers, with FX sales limited to episodes of disorderly market conditions and not used to prevent a trend depreciation of the rupee driven by fundamentals. Our reserve policy is geared to achieve the objectives of (i) bringing reserves up to a more prudent level of at least US$8.2 billion (1.4 months of import coverage) by end-December 2023, with net international reserves above US$13.4 billion; and (ii) maintaining SBP's net forward/swap position below US$3.45 billion, notwithstanding the difficult external environment.

***c.*** ***Prudent and proactive monetary policy***. Amid signs of weaker demand, favorable supply developments, and receding pressures from the exchange rate, we expect inflation to notably decline over coming months, and thus we maintained the policy rate at 22 percent at our latest Monetary Policy Committee (MPC) meeting on October 30. That said, we stand ready to respond resolutely if near-term price pressures reemerge, including due to stronger-than-expected second-round effects on core inflation, or if pressures on the exchange rate reemerge amid the normalization in the current account. Our goal is to ensure that inflation and inflation expectations are on a clear downward path, with the exact pace of future adjustments dependent on inflation data, exchange rate developments, the strength of the external position, and the fiscal-monetary policy mix. To this end, we will aim to ensure that the real policy rate remains in clear positive territory on a forward-looking basis to signal our commitment to bring inflation within the target band within FY26. To strengthen monetary policy transmission, the interest rate on the two major refinancing schemes (EFS and LTFF) will continue to be linked to the policy rate with a spread of no more than 3 percentage points.

**13. To further strengthen our internal control systems, we will revisit risk mitigating measures in our monetary policy operations**. We demonstrated our commitment to high safeguards standards by implementing all recommendations from the 2019 Safeguards Assessment, including by passing amendments to the SBP Act in early 2022 which strengthened SBP autonomy, governance, and accountability. In addition, SBP's financial autonomy has been enhanced through the prohibition of monetary financing of the government and quasi-fiscal operations (¶14), and clear rules about profit distribution. In recent years, our reverse repo lending operations for monetary policy purposes have expanded notably (43 percent of total SBP assets as of end-June 2023) and we recognize that stronger risk mitigating measures are warranted. To this end, we will develop a plan to strengthen our internal control systems in this area, including updates to our collateral policy and counterparty eligibility policy, in line with recommendations from the 2023 Safeguards Assessment (**new SB, March 8, 2024**), with implementation starting by end-December 2024. We also reaffirm our commitment to actively engage with the appointing authority to fill vacancies of senior officials in a timely manner, as prolonged vacancies may negatively impact decision-making.

**14. We have started implementation of our transition plan to phase out SBP's involvement in the refinancing schemes**. To strengthen governance and allow the SBP to focus on its core objectives, the plan envisages gradually phasing out the SBP's involvement by mid-2028, with responsibility for these schemes transferring to the EXIM Bank of Pakistan. In the first year of the plan (FY24), SBP will phase out 10 percent of its existing refinancing exposures under the export finance scheme (EFS) and long-term financing facility (LTFF), and by end-October 2023, outstanding balances on these facilities had already been reduced by 5.3 and 13 percent, respectively. The SBP has also been coordinating closely with the EXIM Bank to support operationalization of the latter's involvement in the refinancing schemes and issued EXIM a license to commence operations on November 3, 2023. In parallel, and in consultation with relevant stakeholders, EXIM Bank has drafted term sheets for administration of the government subsidy and for its short-term export financing facility, and expects to launch the first export refinancing operations by the end of December 2023. Going forward, EXIM Bank's operations will be oriented towards value addition and diversification of exports, and the government will continue to ensure that the subsidy allocations required to support these operations are fully incorporated in its annual budgets. SBP is also committed not to introduce any further refinancing schemes during the transition period or thereafter.

**15. As part of our comprehensive policy efforts to address external imbalances, we are working on updating our procedures to eliminate the multiple currency practice (MCP) on government FX transactions, and will phase out the existing exchange restriction**. We are continuing to work on updating the relevant procedures for FX transactions between the SBP and the government (in place since 1999), and intend to eliminate the MCP arising from the use of the weighted-average customer exchange rate for these transactions by end-January 2024. We continue to maintain an exchange restriction resulting from the limitations on advance payments for imports against letters of credit (LCs) and advance payments beyond the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018). We have been assessing the likely impact on the FX market of removing the exchange restriction and consider it necessary to complement the removal with alternative measures to avoid misuse of the facility. We will consult with the IMF to ensure that any such measures are consistent with Pakistan's Article VIII commitments and aim to complete the phase out by end-January 2024.

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

***a.*** ***Addressing undercapitalized financial institutions***. Following a capital injection by its owners, the previously undercapitalized mid-sized public sector bank returned to capital compliance in the last quarter of FY23. However, two private banks and one public bank remain undercapitalized, and we consider it critical to swiftly address this situation in order to remove any uncertainty about the health of the sector. We have delayed resolution because of on-going talks with potential investors, but this process has been insufficient as the banks still do not comply with regulatory requirements. Despite some movement in form of partial recapitalization of one private bank, neither bank has been fully recapitalized. We will remain closely engaged with the two undercapitalized private banks and are committed to ensuring compliance with the minimum capital requirements within the next 6 months. The SBP has started the implementation of the cabinet-approved wind-down plan of the remaining undercapitalized public bank, which anticipates the repayment of deposits, the sale of its assets and the retrenchment of staff. The SBP plans to put the legal entity into liquidation during the first quarter of 2024, at the latest. Going forward, we will take prompt supervisory action to address any additional banks which may become undercapitalized, requiring their owner to ensure adequate capital levels. We will also continue our efforts to tackle persisting pockets of vulnerability in the microfinance bank sector, which has been severely affected by the floods, among others by asking the owners for time-bound recapitalization plans to address existing capital shortfalls and by otherwise ensuring the orderly market exit of non-viable institutions. We will postpone the extension of the deposit insurance system to this sector until these issues have been addressed to the satisfaction of the supervisor, while ensuring that other preconditions have been met. SBP has adopted a comprehensive strategy to address high levels of NPLs, including by requiring bank-specific plans for reducing NPLs, and to charge-off fully provisioned NPLs (SB under the previous EEF) and is in the process of finalizing its public consultation process with the industry.

***b.*** ***Mitigating external pressures***. We will ensure that foreign exchange exposures of banks remain within the regulatory limits (or else the affected institution will face supervisory sanction) and that adequate FX liquidity be maintained by all deposit taking institutions. We will also assess options to strengthen the monitoring of FX exposures in the non-financial corporate sector, including unhedged off-balance sheet exposures through forwards.

***c.*** ***Upgrading the crisis management framework***. We are advancing our efforts to strengthen our bank resolution and crisis management frameworks, including the deposit insurance scheme, and align these with international best practice. To that end, we have finalized the technical work in the legislative committee and the cabinet-approved the draft legal framework on October 30, 2023, which is now being prepared for submission to parliament (Senate) to meet the SB (**end-December 2023 SB**). Before the submission, we will engage with IMF staff to confirm that the draft is substantially aligned with IMF TA advice, and amend the draft accordingly, where needed.

***d.*** ***Effective implementation of AML/CFT***. Following the enhancements to the AML/CFT framework, the SBP and FBR are implementing the February 2023 Regulations giving banks access to the asset declarations of public officials BPS17-22 held by the FBR. The FBR has created a Customer Due Diligence Office to respond to banks' request for information. Consistent with the regulations, the FBR will issue a feedback report by end-January 2024. The SBP will also conduct a focused inspection to assess banks' utilization of the asset declarations and internal controls to safeguard confidentiality of the information. The FBR, SBP and the Financial Monitoring Unit will plan joint trainings in the future with designated bank officers to ensure increased uptake in the system and improve AML/CFT compliance.

## Energy Sector Policies

**17. The power sector remains under pressure**. The stock of power payment arrears (circular debt, CD) stood at PRs 2,537 billion (3.0 percent of GDP) at end-September 2023, an increase of PRs 227 billion (0.2 percent of GDP) since end-FY23.[5] The increase exceeded our target due to a lower-than-anticipated annual tariff rebasing and large DISCO under-recoveries (PRs 222 billion, centered in August when the annual rebasing was implemented. Collections dipped to 77 percent during August due to the large price shock and high average monthly consumption per household. Since then, cumulative collection improved to 84 percent at end-September and to 90 percent at end-October, with the support of enhanced enforcement actions (see below).

**18. Going forward, we remain resolved to address the drivers of CD flow**. Our updated FY24 Circular Debt Management Plan (CDMP) projects zero net CD accumulation for this fiscal year. We continue to project the sector's financial gap (after revenue collection) to amount to PRs 976 billion (0.9 percent of GDP). The FY24 budget subsidy of PRs 976 billion (0.9 percent of GDP) will address these urgent liquidity needs by covering: (i) outlays for the projected power tariff differential (for DISCOs and KE, PRs 319 billion) and other—in large parts one-off or installment—payments to provinces, tribal areas, and KE (PRs 265 billion); and (ii) CD stock payments of PRs 392 billion through PHPL principal settlements (PRs 82 billion) and payments to GPPs and IPPs (PRs 310 billion). Key priorities of our FY24 CDMP are:

[5] The CD stock ended FY23 at PRs 2,310 billion (2.7 percent of GDP), down from an historical high of PRs 2,646 billion (3.1 percent of GDP) in May 2023, following the June release of unpaid subsidies, payments by K-Electric, and the implementation of delayed price adjustments, as well as the annual settlement of (i) due principal for the publicly-guaranteed Power Holding Private Limited (PHPL) debt (PRs 35 billion); and (ii) unguaranteed Central Power Purchasing Agency (CPPA) arrears (PRs 127 billion) to power producers.

***a.*** ***Ensuring cost-recovering tariffs***. We notified the FY24 annual rebasing (AR) in full on July 27, 2023, with effect from July 1, as determined by NEPRA (PRs 5.75 per unit on average across consumer slabs) (**end-July 2023 SB**). NEPRA's FY23Q3 quarterly tariff adjustment (QTA) was automatically notified in July 2023 (PRs 1.25 per unit on average across consumer slabs) and the FY23Q4 QTA was notified in October (PRs 3.28 per unit on average across consumer slabs). NEPRA will continue with automatic notifications of regular QTAs and FCAs in line with established formulas in a timely manner, supported by our efforts to spare protected slabs (as this will help both achieve cost recovery and increase the progressivity of the tariff structure for residential consumers, as intended by the 2022 residential subsidy reform). To this end, we will further strengthen cooperation between the DISCOs, Ministry of Power, and NEPRA to facilitate swift petition and determination processes.

***b.*** ***Better targeting subsidies***. After the residential subsidy reform in 2022,[6] we are, with the support of the World Bank, taking further steps in our multi-year subsidy rationalization plan that focuses on tube wells, subsidies which primarily benefit large agricultural users. In Punjab, Sindh, and Khyber-Pakhtunkhwa provinces, the first phase of the reform will remove the government subsidy only. For this reform, we plan to seek approval from our cabinet and NEPRA on a concrete proposal by end-FY24, with implementation to begin in FY25Q1. The second phase will eliminate one-third of the cross-subsidy for tube wells with implementation to begin in FY26. We are also exploring various options to replace agriculture tube well subsidies in Baluchistan.

***c.*** ***Accelerating medium-term cost-reducing reforms***. We have started to accelerate various programmed structural reforms with the help of the World Bank, ADB, and other partners (supported through well-prioritized and complementary conditionality in their programs) that are aimed at reducing commercial and technical losses, improving governance and power purchase agreement (PPA) terms, increasing competition as well as reducing generation costs and greening the energy mix. In FY24 we are continuing to:

- *Improve price signals for inputs*. We are engaged in a series of price-setting reforms for end-user gas prices (¶19) through price rationalization to channel scarce gas resources to the most efficient gas-based power generator (merit order principle). The next round will be implemented in line with OGRA's next regular semiannual gas tariff determination in December 2023.
- *Renegotiate remaining PPAs in return for clearing unguaranteed CPPA-G arrears*. This year, we will settle up to PRs 310 billion earmarked for IPPs and government power producers (GPPs) with revised PPA terms, using the established contract structure (10-year floating-rate PIBs and 5-year sukuks in equal parts, or a more efficient financial instrument).
- *Convert expensive government-guaranteed PHPL debt into cheaper public debt*. We have created fiscal space to settle the PRs 82 billion falling due in FY24 from the budget and will roll over the public guarantee for the remaining PRs 683 billion.

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

- *Improve distribution efficiencies.* As the most critical part of managing the CD flow, we are taking measures toward improving DISCOs' performance, efficiency, and governance by bringing private sector participation in the form of long-term concessions arrangements (also supported by the new SOE Act and policies, ¶21.a) as a step towards ultimate divestment or privatization. Towards this end, we plan initiation of work which include engagement of a transaction advisor by end-April 2024 and the development of a transaction structure, DISCO selection, and way forward thereafter. Over time this reform is expected to facilitate a significant reduction in the cost of distribution.
- *Institutionalize anti-theft procedures.* Our enhanced and sustained anti-theft efforts, which have yielded PRs 46 billion from September 7 to October 31, are expected to improve collections while demonstrating our commitment to reforms in this area to potential concessionaires. The sustainability of our anti-theft campaign requires the institutionalization of these recent initiatives. Formal approval of an anti-theft law by the legislature, including the creation of a dedicated police force for all DISCOs and the recognition of electricity theft as a cognizable offense, is necessary for improved DISCO governance and improved enforcement capability. In addition, an independent monitoring system through officers outside the DISCOs for 2,500 high-loss feeders is required to be implemented through the Power Planning and Monitoring Company (PPMC).
- *Pursue other reforms*, most notably: (i) accelerate the green energy transition as per the 2021 National Electricity Policy, which mandates an increased share of variable and cheaper renewable energy in the generation mix. Progress toward this was recently made with the update of the IGCEP in 2022. As an annually updated plan, we are currently working on Integrated System Planning that includes a 2024 IGCEP to be accompanied by the first ever Transmission System Expansion Plan (TSEP). Both plans will be submitted to NEPRA for approval in April 2024; and (ii) seek NEPRA's approval of the Commercial Code to set the procedures, rights, and obligations that govern the trading in the new wholesale market (expected to be launched in April 2024), and thus improve its efficiency. We have notified the rules and eligibility criteria as of September 4, 2023, for key market entities expected to be launched beforehand, as per the NEPRA Act.

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

**19. The gas sector faces unsustainable CD dynamics and urgent liquidity pressures; we are accelerating our reform effort accordingly**. The gas sector's CD stock has increased considerably—to an estimated Rs 2,084 billion (2.5 percent of GDP) at end-FY23, from PRs 1,623 billion (2.4 percent of GDP) at end-FY22, quickly approaching that of the power sector. Liquidity constraints have, on the other hand, increased gas shortages. The main driver of this evolution was the non-implementation of regular end-user gas price adjustments in line with semiannual OGRA determinations of prescribed prices since September 2020. Additional drivers were the accumulation of the re-gasified liquid natural gas (RLNG) tariff differential since FY19, and diversion costs (that mainly reflect the diversion of costly RLNG to domestic consumers during the winter months). In response, we have started—supported by the World Bank—to take important reforms that aim at generating more cash and reducing CD, thus enabling gas companies to invest in their infrastructure and reduce unaccounted for gas (UFG) losses. Specifically, we updated end-user gas prices and changed the structural end-user gas tariff in February 2023 and updated end-user gas prices again in November, effective November 1, 2023.[7] As part of our ongoing efforts to contain further CD accumulation and reform the gas sector we will:

***a.*** ***Continue with regular end-user gas price updates in line with revenue and legal requirements***. We will implement the notification for OGRA's scheduled semiannual gas price adjustment, anticipated for December 2023, within the mandated 40-day window (**new SB, February 15, 2024**). Any price adjustment will maintain the current progressive slab structure for domestic consumers and maintain protection for the most vulnerable household consumers, seek to reduce large preferential cross-subsidies across industrial and commercial users, and further disincentivize captive gas use. Finally, we will advise OGRA within 40 days to enable the automatic notification of semiannual gas price determinations, in line with the 2022 Amendment to the 2002 OGRA Ordinance.

***b.*** ***Reduce incentives for captive power***. The pricing structure for non-domestic consumers will continue to be refined via semiannual notifications, including for the December 2023 determination, with the goal of directing scarce resources to more efficient assets, phasing out captive power in the near term, and transitioning captive power users to the electricity grid, in line with the Cabinet Committee on Energy decision of January 2021. Accordingly, prices for captive power users will be increased where network distribution and reliability are present, whereas other captive power users should make the transition to the electricity grid within twelve months, at which point prices will be increased to the RLNG-equivalent. To bring the use of captive power generation to a conclusive end by January 2025, we will announce a plan to make the use of this generation uneconomic by end-March 2024.

***c.*** ***Move to reduce price disparities between regions and industries, and within industries***. This will include (i) gradually seeking moving toward prices provided to the fertilizer sector that are closer to cost-recovery. Gas provided to a section of the fertilizer sector receives a large cross-subsidy from industry and upon expiry of the current fixed concession fee tariff agreement, the cross-subsidy will end in March 2024; (ii) equalizing rates between export and

[7] OGRA notified adjusted end-user gas prices of on average 75 percent on February 17, 2023, to generate an estimated revenue of PRs 310 billion from consumers in FY23H2. End-user gas prices were again adjusted in November 2023 (following OGRA's June 2023 determination) by, on average, 65 percent to generate an estimated additional natural gas-related revenue of PRs 470 billion, to meet estimated revenue requirements for the fiscal year, including RLNG diversion to households. The increase was along the same tariff slab system adopted by the cabinet in February 2023. As in the power sector, the slab system ensures full cost-recovery, affordability, and efficiency (through, among other ways, the establishment of cross-subsidized lifetime tariffs and other protected tariffs for smaller residential consumers).

non-export industries. We will also entirely end the subsidization of fertilizer products through gas price cross-subsidies, with any subsidies being provided by explicit on-budget subsidies from July 1, 2024.

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

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

## Structural Policies

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

**21. We are committed to improving SOEs' governance, transparency, and efficiency as well as limiting their fiscal risks**. In addition to the operationalization of the CMU within the MOF (¶8.d) that will improve the government's SOE monitoring, specific actions include:

***a.*** ***Enhancing the SOE legal and regulatory framework***. Our new SOE Act took effect in January 2023 and, inter alia: (i) ensures that SOE operations are grounded on a commercial footing, including by defining what constitutes a commercial SOE; and (ii) strengthens oversight and ownership arrangements. We have, working with the support of ADB, significantly advanced further regulatory reforms, including (**end-November 2023 SB**) (i) operationalization of the new SOE Act into a policy that clarifies ownership arrangements and the division of roles within the federal government; and (ii) revision of the Laws of four selected SOEs (the National Highway Authority, Pakistan Post, Pakistan National Shipping Corporation, and Pakistan Broadcasting Corporation) to make the SOE Act fully applicable to those SOEs. We are committed to introducing further amendments to the four dedicated SOE laws during the parliamentary adoption process, in consultation with the IMF, such that they are fully aligned with key SOE corporate governance principles introduced in the new SOE Act. We are also committed to continue amending other SOE-dedicated laws, to similarly align them with the provisions of the new SOE Act. With the implementation of the SOE policy, we are committed to moving forward with the SOE triage plan, including privatization of select SOEs.

***b.*** ***Ensuring SOE governance under the new SWF***. To ensure that the SOEs that have come under the ownership of the newly-created SWF (¶8.d) remain under the same high-quality governance structure as other SOEs (as provided for under the new SOE Act), we will implement safeguards to (i) regulate SOE ownership functions, including appointment of SOE Board members, performance monitoring and evaluation, and financial oversight); (ii) ensure transparency and reporting requirements including auditing by Pakistan's Auditor General; (iii) prohibit lending by the SWF to any other public bodies; (iv) implement transparency and accountability mechanisms, including the requirement for top SOE executives and Board members to file asset declarations; and (v) ensure that SWF-owned SOEs' public investment plans are integrated into the standard public investment process, as with other SOEs.

***c.*** ***Increasing transparency***. SOEs are continuously audited by external auditors and their audit reports are usually published, while the Auditor General conducts the 'compliance with authority' audit of the accounts of SOEs. In addition, we have asked our Auditor General to conduct special audits of several SOEs (i.e., SSGCL, HESCO, and PESCO) because of their size and importance in their sectors. The scope and terms of reference have been finalized and we plan to have the audit initiated in FY24Q3.

**22. We see improving Pakistan's competitiveness and the business environment as key for supporting medium-term growth, private sector development, investment, and job creation**. Going forward, we will: (i) simplify procedures to start a business and eliminate other unnecessary regulations, including the introduction of a single portal for all company registration and digital integration of federal and provincial entities involved in starting a business; (ii) streamline the approval process for foreign direct investment; (iii) improve trading across borders by reducing customs-related processing time and reducing hours to prepare import/export documentation; (iv) simplify and harmonize the process of paying taxes through the introduction of a simple and fully automated regime for paying taxes, contributions, and fees; and (v) launch a communication drive to disseminate information regarding the reforms undertaken. To that end, we will take steps to ensure that the newly-created Special Investment Facilitation Council (SIFC) does not create an uneven playing field, promise incentives of any sort or guaranteed returns, distort the investment landscape, or increase the role of the state, which could disincentivize high-quality, long-term investments. We will establish a set of best transparency and accountability practices to the SIFC operations and decisions; ensure that all investments made under SIFC are the result of the standard Public Investment Management framework (and consistent with the affordability test under this framework) operated by the Ministries of Planning and Finance.

**23. Strengthening governance and combatting corruption are critical towards our goals of enhancing the business climate and safeguard public funds against misuse**. Our priority lies on strengthening the effectiveness of anticorruption institutions to prevent, deter and detect rent-seeking, bribery and fraud. We will institutionalize public access for annual declarations for all members (elected and unelected) of the federal government cabinet of Pakistan, through the issuance of permanent regulations. The second Review Cycle under the UNCAC implementation mechanism was completed and the Executive Summary was made available. We will publish the full UNCAC report, subject to approval by cabinet, including the findings, analysis, and recommendations for improving the anti-corruption framework. On October 5, 2023, the Ministry of Law and Justice has re-notified the task force to complete and publish a comprehensive review of the institutional framework of our anticorruption institutions (including the National Accountability Bureau) to enhance their independence and effectiveness in investigating and prosecuting corruption cases, with proposals for legislative amendments as appropriate. The task force will include the participation and inputs from reputable independent experts with international experience and civil society organizations. Taking into account the UNCAC report, the task force will also recommend an action plan with appropriate structural reform measures that strengthen independence of anticorruption institutions (including the appointing process of the Chairperson of the National Accountability Bureau, scope of investigative jurisdictions of anti-corruption institutions), prevent political influence and persecution, and provide for transparency and accountability controls against abuse (including mechanisms for discipline and accountability). Focused consultations with other key stakeholders and the public will also be undertaken before the report of the task force is finalized. The task force is expected to publish and complete the report by end-March 2024.

**24. Responding to climate change is an urgent and existential challenge for Pakistan**, as most recently highlighted by the catastrophic 2022 floods. We recently took administrative steps to improve green budgeting, starting with the FY24 budget, to better streamline the budget planning, execution, and reporting processes of green budget components.

***a.*** ***Mitigation and transition management***. We are an active party to the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC) and Global Methane Pledge.[8] Key projects comprise our ambitious reforestation project (i.e., Up-scaling Green Pakistan Program, of which 2.07 billion trees have already been planted, with a sequestering potential of 148.8 million tons of carbon through 2030), greening our energy mix (¶18.c), and policies aimed at inducing changes in relative prices to guide households and firms toward a more carbon-neutral economy (including through an adequately taxing fuel products (¶7), and developing Policy Guidelines for Trading in Carbon Markets, which we plan to send to cabinet for approval by end-December 2023).

***b.*** ***Adaptation***. We recently finalized and published our UNFCCC-supported National Adaptation Plan (NAP), which identifies adaptation needs and polices to boost Pakistan's resilience to climate change. As a next step, we are in the process of translating the NAP into specific, costed investment plans to be implemented at the provincial and local levels. We aim to

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

complete the costing exercise by September 2024. We have also instructed national entities to gain accreditation for the Green Climate Fund to better access global climate finance. We continue to focus on strengthening PFM to enhance capital expenditure efficiency through a Climate-PIMA supported by IMF TA; the Climate-PIMA and PIMA action plan that followed from this TA is on track to be adopted by our cabinet (**end-December 2023 SB**) and we are now working on its implementation. This includes the development of a handbook for climate screening in the project appraisal process; the development of a green building code for Pakistan, which should be taken to cabinet by the end of 2023; the inclusion of climate risks in our fiscal risk statement, which has been published on our website;[9] and the establishment of a sustainable finance bureau that will work with line ministries and provinces to develop capacity in preparing climate-responsive projects. We are also prioritizing resilience-boosting policies, guided by our NAP and Resilient Recovery, Rehabilitation, and Reconstruction Framework (4RF), and measures to strengthen the agriculture-water nexus, urban resilience, national and human capital (including social protection), and disaster risk management.

**25. We recognize the importance of timely, reliable, and comprehensive provision of macroeconomic data for both policymakers and the private sector**. In this regard, we met the structural benchmark on the compilation and dissemination of the Quarterly National Accounts (QNA) for FY24Q1 and the revision of annual provisional estimates for FY23 (**end-November 2023 SB**). Pakistan Bureau of Statistics published the first QNA, covering FY24Q1, in November 2023.

### Financing and Program Monitoring

**26. We have secured adequate financing from our international partners to support our economic reform program**. Current projections suggest that with the policies outlined in this MEFP, gross external financing needs for FY24 will amount to approximately US$25.0 billion (including the current account), of which about US$13.8 billion is amortizations of the public sector. Ahead of the SBA approval we secured US$5.6 billion in additional financing commitments from bilateral, multilateral, and commercial partners, of which over US$3 billion has already been disbursed. We have also secured commitments from these partners regarding US$7 billion in rollovers, US$1 billion in refinancing of maturing debt, and US$1.2 billion in amortization savings from a debt rearrangement covering some existing external loans. In line with program financing commitments, key bilateral creditors will at least maintain their exposure to Pakistan.

**27. Implementation of policies under the program will continue to be monitored through quarterly reviews, with quarterly performance criteria and continuous performance criteria**, as set out in our MEFP dated June 30, 2023, along with this MEFP. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, continuous performance criteria, indicative targets and structural benchmarks under the program. Completion of the final review scheduled for March 2024 will require observance of the quantitative

[9] https://www.finance.gov.pk/publications/Fiscal_Risk_Statement_FY2023_24.pdf

performance criteria for end-December 2023, respectively, as set out in Table 1—along with continuous PCs and ITs. The SBs are set out in Table 2.

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

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

| | end-September 2023 | | | | end-December 2023 | |
|---|---|---|---|---|---|---|
| | Program CR 23/260 | Adjusted Prog. | Actual | Status | Program CR 23/260 | Proposed (PC) |
| **I. Quantitative Performance Criteria** | | | | | | |
| Floor on net international reserves of the SBP (millions of U.S. dollars) | -14,550 | -15,673 | -13,781 | Met | -13,800 | -13,400 |
| Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees) | 15,048 | 15,370 | 14,410 | Met | 14,888 | 14,450 |
| Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars) | 4,200 | ... | 3,540 | Met | 4,000 | 3,450 |
| Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) | 4,708 | ... | 4,380 | Met | 4,708 | 4,708 |
| Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/ | -87 | -389 | -376 | Not met | -1,232 | -1,420 |
| Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) | 4,000 | ... | 3,806 | Met | 4,050 | 4,050 |
| Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees) | 87.5 | ... | 89.8 | Met | 185.5 | 185.5 |
| **II. Continuous Performance Criteria** | | | | | | |
| Zero new flow of SBP's credit to general government | 0 | ... | 0 | Met | 0 | 0 |
| Zero ceiling on accumulation of external public payment arrears by the general government | 0 | ... | 0 | Met | 0 | 0 |
| **III. Indicative Targets** | | | | | | |
| Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees) | 465 | ... | 482 | Met | 1,031 | 905 |
| Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees) | 1,977 | ... | 2,042 | Met | 4,425 | 4,425 |
| Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees) | 32 | ... | -15 | Met | 43 | 43 |
| Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) | -155 | ... | 227 | Not Met | 64 | 385 |

Sources: Pakistani authorities; Fund staff estimates.

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

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

## Table 2. Pakistan: Structural Conditionality

| Actions | Date | Status |
|---|---|---|
| **Structural Benchmarks** | | |
| **Fiscal** | | |
| 1 Commit to not grant further tax amnesties. | Continuous | Met. |
| 2 Avoid the practice of issuing new preferential tax treatments or exemptions. | Continuous | Met. |
| 3 Issuance by the Central Monitoring Unit (CMU) of its first periodic report on the performance of SOEs, using latest available data, to the Federal Government. | end-Dec. 2023 | In progress. |
| **Social** | | |
| 4 Inflation adjustment of the unconditional cash transfer (Kafaalat). | end-Jan. 2024 | In progress. |
| **Monetary and Financial** | | |
| 5 Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period. | Continuous | Not met. |
| 6 Submission to parliament of amendments to align Pakistan's early intervention, bank resolution, and crisis management arrangements with international good practices, in line with IMF staff recommendations. | end-Dec. 2023 | In progress. |
| **Energy Sector and State-Owned Enterprises** | | |
| 7 Notification of the annual rebasing (AR) for FY24 to take effect on July 1, 2023. | end-Jul. 2023 | Met. |
| 8 Improve state-owned enterprise (SOE) governance by: (i) operationalizing the recently approved SOE law into a policy that clarifies ownership arrangements and the division of roles within the federal governments; and (ii) amending the Acts of four selected SOEs to make the new SOE law fully applicable to those SOEs. | end-Nov. 2023 | Not met. |
| **Climate** | | |
| 9 Cabinet adoption of a Climate-PIMA and PIMA action plan. | end-Dec. 2023 | In progress. |
| **Economic Statistics** | | |
| 10 Compilation and dissemination of Quarterly National Accounts for FY24Q1 and revised annual estimates for FY23. | end-Nov. 2023 | Met. |
| **New Structural Benchmarks** | | |
| 1 Notification of the December 2023 semiannual gas tariff adjustment determination. | February 15, 2024 | |
| 2 Develop a plan to strengthen internal control systems in lending operations, including updates to collateral policy and counterparty eligibility policy, in line with recommendations from the 2023 Safeguards Assessment. | March 8, 2024 | |

# Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU)** sets out the understanding between the Pakistani authorities and the IMF staff regarding: (i) the ***definitions*** of quantitative performance criteria (and their adjustment mechanisms), indicative targets, and—if needed—prior actions and structural benchmarks in Section A below; and (ii) the respective ***reporting requirements*** used to monitor developments—for the economic program under the Stand-By Arrangement (SBA)—as described in the authorities' latest Letter of Intent (LOI) dated December 18, 2023, and the attached Memorandum of Economic and Financial Policies (MEFP, notably its Tables 1 and 2) in Section B below. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in program design and accounting classifications introduced during the program period.

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

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

1/ As of June 26, 2023.

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

## DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

## A. Overview

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

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

- *Ceiling on the amount of government guarantees* (stock, billions of Pakistani rupees); and
- *Floor on targeted cash transfers spending (BISP)* (cumulative, billions of Pakistani rupees).

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

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

## B. Performance Criteria

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

***Definition***

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

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

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

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

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

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

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

***Adjustment mechanism***

**11.** For the end-December 2023 test date, the floor on NIR will be **adjusted** upward (downward) by the cumulative excess (shortfall) in ***cash inflows usable for the financing of the government budget from multilateral and bilateral creditors, commercial borrowing, and bond issuance*** relative to the projected inflows (Table 1). Cumulative cash inflows usable for the financing of the government budget are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to the Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to bilateral oil facilities, China, Saudi Arabia, UAE, DFID-UK, and USAID), external bond placements and other commercial borrowings that are usable for the financing of the central government budget, plus proceeds from sales of state-owned assets to official bilateral partners, sovereign wealth funds. Downward adjustment of the floor on NIR will be limited to a maximum of US$2,000 million for the December 2023 test date.

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

***Definition***

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

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

***Adjustment mechanism***

**14.** Consistent with the NIR target adjustment mechanism (as defined above), the ceiling on the NDA will be **adjusted** downward (upward) by the cumulative excess (shortfall) in ***cash inflows from multilateral and bilateral creditors, and commercial borrowings and bond issuances*** relative to the projected inflows (Table 1) and evaluated at the program exchange rate. As in the case for NIR, the upward adjustment of the ceiling on NDA will be limited to the same maximum adjustor limit set for NIR evaluated at the program exchange rate.

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

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

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

***Definition***

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

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

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

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

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

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

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

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

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

***Adjustment mechanism***

**19.** The ceiling on general government primary budget deficit (excluding grants) for the end-December 2023 test date will be **adjusted** on a cumulative basis since the beginning of the fiscal year:

***a.*** downward (upward) by any shortfall (excess) in ***external project financing*** during the period October-December 2023 relative to the program projections (US$664 million for October-December 2023) evaluated in Pakistani rupee terms at actual average quarterly exchange rates. For avoidance of doubt, no adjustment will be made for the period July-September 2023 (actual external project financing US$333 million). External project financing is defined as disbursements from bilateral and multilateral creditors to the general government for specific project expenditure;

***b.*** downward by any underexecution in the ***targeted cash transfers (BISP)*** relative to their indicative program targets (PRs 185.5 billion for July-December 2023);

***c.*** downward by any excess in the flow of ***power sector payment arrears*** above the respective indicative program targets (PRs 385 billion for July-December 2023), excluding non-recoveries (relative to the projection of PRs 255 billion for July-December 2023) and excess line losses (relative to the projection of PRs 76 billion for July-December 2023); and

***d.*** downward by any excess in the flow of ***tax refund arrears*** (as defined below) relative to their respective indicative program targets (PRs 43 billion for June-December 2023).

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

***Definition***

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

### B.6. Ceiling on the Amount of Government Guarantees

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

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

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

## C. Continuous Performance Criteria

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

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

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

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

### C.3. Other Continuous Performance Criteria

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

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

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

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

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

## D. Indicative Targets

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

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

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

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

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

**28.** The ceiling on the **net accumulation of tax refund arrears** applies to the cumulative flow of tax refund arrears. The stock of tax refund arrears is defined as the amount of tax refund claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond/promissory note or an official decision to reject the claim) within a specified time period after the tax refund claim has been submitted to the FBR. The stock of income tax refund arrears is PRs 215.2 billion as of end-May 2023, and the net accumulation of income tax refund arrears will be counted from the starting point of PRs 215.2 billion; the stock of sales tax arrears at end-May 2023 is PRs 183.8 billion, and the net accumulation of sales tax refund arrears will be counted from the starting point of PRs 183.8 billion.

### D.4. Ceiling on Power Sector Payment Arrears

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

## PROGRAM REPORTING REQUIREMENTS

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

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

| | FY24 | |
|---|---|---|
| | Jul-Sep 2023 | Oct-Dec 2023 |
| | Est. | Proj. |
| Multilateral and bilateral disbursements | 3,832 | 5,893 |
| *of which:* in cash 1/ | 3,693 | 5,647 |
| *of which:* Saudi oil facility and IDB commodity loans | 400 | 350 |
| *of which:* project support | 333 | 664 |
| *of which:* sales of state-owned assets | 0 | 0 |
| International bond issuance 2/ | 28 | 0 |
| Commercial borrowing | 0 | 600 |
| Other | 0 | 0 |
| | | |
| Gross inflows | 3,860 | 6,493 |
| *of which: in cash* | 3,721 | 6,247 |
| | | |
| *memo: New loans/deposits at SBP 3/* | 1,000 | 0 |

1/ Assumes that 65 percent of project loans and 50 percent of
2/ Includes Naya Pakistan Certificates (NPC). NPC flows are recorded on a net basis.
3/ Not included in multilateral and bilateral disbursments for the purposes of the adjustor.

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

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

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

| Table 2. Pakistan: Monitoring and Reporting Requirements (continued) | | | | |
|---|---|---|---|---|
| **Reporting Agency** | **Type of Data** | **Description of Data** | **Frequency** | **Timing** |
| **State Bank of Pakistan (SBP)** | Banking indicators | Core Financial Stability Indicators (FSIs), including but not limited to capital adequacy; asset composition and quality; profitability; liquidity; open FX positions – in aggregate and bank-by-bank (without names) | Quarterly | Within 45 days of the following quarter |
| | Banking indicators | Liquidity data and deferred/restructured loans | Weekly | Within 5 days of the end of each week |
| | Banking data | Banks' net open foreign exchange positions split between total foreign assets and foreign exchange liabilities: in aggregate for the system and bank by bank (without names, but with consistent identifiers across datasets) | Monthly | Within five days of the end of each month |
| | Banking data | Holdings of government securities – in aggregate and bank-by-bank (without names, but with consistent identifiers across datasets) | Monthly | Within 7 days of the end of each month |
| | Banking sector stress tests | Results of stress tests on exchange rate, liquidity, and credit risk | Quarterly | Within 60 days |
| | Transfers | Workers' remittances. | Monthly | Within 25 days of the following month |
| | Other monetary data | The SBP survey, ODCs and DCs published in IFS. | Monthly | Within 45 days of the end of each month |
| | SBP refinance schemes | Outstanding position under SBP refinance schemes (by program) | Monthly | Within 25 days of the end of each month |
| | Balance of payments | Detailed export and import data<br>Detailed balance of payments data | Monthly | Within 28 days of the end of each month |
| | Privatization receipts | Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction | Quarterly | Within seven days of the end of each quarter |
| **Ministry of Finance (MOF)** | External debt | Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears. | Monthly | Within 25 days of the following month |
| | External financing | Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind. | Quarterly | Within 15 days of the end of each quarter |
| | External financing | List of all disbursements and amortization payments for external budget financing and external grants (above US$3 million or equivalent), including date of the transaction, foreign currency amount, exchange rate applied, rupee amount credited, creditor (or donor agency). | Quarterly | Within 25 days of the end of each quarter |

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

| Table 2. Pakistan: Monitoring and Reporting Requirements (continued) | | | | |
|---|---|---|---|---|
| **Reporting Agency** | **Type of Data** | **Description of Data** | **Frequency** | **Timing** |
| **Federal Board of Revenue (FBR)** | Automated GST refunds | Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues | Quarterly | Within seven days of the end of each month |
| | | Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund | Quarterly | Within seven days of the end of each month |
| | Large taxpayers | Data on the number of taxpayers and amount of taxes managed by the large taxpayer units (LTUs) | Quarterly | Within seven days of the end of each month |
| | Import data | Total value of recorded imports<br>Total value of duty-paid recorded imports;<br>Number of total transactions involving recorded imports;<br>Number of total transactions involving nonduty free recorded imports | Quarterly | Within 30 days of the end of each quarter |
| | Audits | Percentage of selected companies and identified revenue from audits | Quarterly | Within 45 days of the end of each month (monthly data provided on a quarterly basis) |
| **Ministry of Water and Power** | | Key Power Sector Statistics (Please see the attached template)<br>Cumulative Monthly Subsidy Position (Rs. Billion)<br>PEPCO Month End Payables and Receivables Positions And Aging Schedule, PR. Billion<br>Receivables Positions - Total and DISCO-wise Break-up<br>CPPA/PEPCO Month-wise Consolidated Cash Flow<br>AT&C Statistics<br>Monthly TDS Claims by DISCOs and Total<br>Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance<br>DISCOs Consolidated Income Statement<br>Net Electrical Output & Power Purchase Price by Source, GWh<br>Generation, Demand and Shortfall for FY10 to date<br>Net Electrical Output (MkWh) Plant and Fuel-wise Detail<br>Working Capital Loans For each loan type | Quarterly | Within 30 days |
| | Quantitative target on performance of DISCOs | Quarterly quantitative targets for each DISCO for technical and distribution losses, collection from current consumers and recoveries of arrears. | Quarterly | Within 30 days from the end of the quarter |

| Table 2. Pakistan: Monitoring and Reporting Requirements (concluded) | | | | |
|---|---|---|---|---|
| **Reporting Agency** | **Type of Data** | **Description of Data** | **Frequency** | **Timing** |
| | Domestic expenditure arrears | Energy arrears (stock)<br>Flow of arrears by source | Quarterly | Within 45 days of the end of each month for government arrears |
| | | Determined and Notified Tariff's for each User and User Group (Please see template) | Annual | Within 30 days of determination and notification |
| **Ministry of Petroleum and Natural Resources** | | Gas supply by consumer category<br>Gas sales by consumer category | Quarterly on monthly frequency | Within 60 days from the end of the quarter |
| | | Gas prices by consumer category | Biannually | Within 30 days of price notification. |
| | | UFG losses | Quarterly | Within 60 days from the end of the quarter |
| **BISP** | Targeted cash transfers | Coverage (number of beneficiaries paid) and payment by all BISP programs. | Quarterly | Within 30 days from the end of the quarter |
| **Ministry of Finance** | Financial statements | Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline | Quarterly | Within 30 days from the end of the quarter |

# PAKISTAN

January 8, 2024

## FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUESTS FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FOR REPHASING OF ACCESS—SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By
**Thanos Arvanitis and Kenneth Kang**

Prepared by the Middle East and Central Asia Department

*This supplement provides an update on recent economic developments and program performance since the issuance of the report on December 21, 2023, as well as on political assurances received. The update does not alter the thrust of the staff appraisal.*

**1. Recent economic developments are broadly in line with expectations**. Headline inflation remained high in December at 29.7 percent (yoy), mostly due to the recent increase in electricity tariffs, however, core inflation eased slightly to 21 percent (from 21.5 percent a month earlier). The improvement in the trade balance also continued, on the back of stronger exports and weak imports through December, with customs data showing total imports of US$26.1 billion in FY24H1 (down from US$31.2 billion in FY23H1). On the back of disbursements by IFIs and continued SBP purchases, gross reserves climbed to US$8.2 billion at end-December (from US$7 billion at end-November), while the rupee has remained stable at around 282 PRs/USD and the premium between interbank and open market rate continued to be negligible.

**2. The authorities have continued the strong performance against program targets.** Information has become available on:

- ***one performance criterion (PC) for end-December 2023***. The SBP's stock of net foreign currency swaps/forward position for end-December 2023 was met (-US$3,423 million against a target of -US$4,000 million).

- ***three structural benchmarks (SBs) for end-December 2023***. The SBs on (i) issuance by the Central Monitoring Unit (CMU) of its first periodic report on SOE performance; (ii) the submission to parliament of amendments to the bank resolution and crisis management framework; and (iii) cabinet adoption of a Climate-PIMA and PIMA action plan have been met.

3. **Political assurances**. Given the approaching parliamentary elections, and as at the time ahead of Board approval of the authorities' SBA request in July, IMF staff has met with representatives of Pakistan's major political parties—Pakistan Muslim League-Nawaz, Pakistan People's Party, and Pakistan Tehreek Insaf—to seek confirmation of their support for the program. The first two parties expressed written support for the SBA's key objectives and policies. They also recognized the role that the SBA will play in preserving macroeconomic stability by anchoring policies and supporting external financing over the coming months. The third party, which had also supported the SBA in July, issued a statement noting the importance of free and fair elections to the successful implementation of the Fund-supported program.

4. **Against this backdrop, staff supports the authorities' request for waivers of applicability for all PCs aside from the one on the SBP's net foreign currency swaps/forward position, and continues to recommend the completion of the review as set forth in the main staff report, the authorities' December 2023 Letter of Intent (LOI), and the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU)**.

# Appendix I. Supplementary Letter of Intent

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

Islamabad, January 8, 2024

Dear Ms. Georgieva:

1. This letter updates our Letter of Intent dated December 18, 2023. Due to the timing of the Executive Board meeting falling after the end-December 2023 test date, we request waivers of applicability for all performance criteria, except on the net foreign currency swaps/forward position of the SBP, as the data for these criteria will not be known before the Executive Board meeting on January 11, and there is no evidence that such performance criteria will not be met. Information on the ceiling on the net foreign currency swaps/forward position of the SBP for end-December 2023 set at the time of the SBA request indicates that the target was met (position of -US$3,423 million). Accordingly, a revised QPC table is included in Table 1.

2. We also take the opportunity to report on structural conditionality commitments. On December 30, 2023, cabinet adopted the Climate-PIMA and PIMA action plan that followed from IMF TA (**end-December 2023 SB**). In addition, on December 18, 2023, we submitted to the Senate the proposed amendments to the bank resolution and deposit insurance legislation (**end-December 2023 SB**), which is substantively aligns with IMF TA advice. Finally, the Central Monitoring Unit (CMU) within the Ministry of Finance (MoF) published its first periodic report on SOE performance on December 30 (**end-December 2023 SB**). A revised table of structural conditionality is included in Table 2.

Sincerely yours,

/s/
Dr. Shamshad Akhtar
Minister of Finance and Revenue

/s/
Jameel Ahmed
Governor of the State Bank of Pakistan

## Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets, FY 2023/24 (Revised) 1/

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

| | end-September 2023 | | | | end-December 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Program CR 23/260 | Adjusted Prog. | Actual | Status | Program CR 23/260 | Proposed (PC) | Actual | Status |
| **I. Quantitative Performance Criteria** | | | | | | | | |
| Floor on net international reserves of the SBP (millions of U.S. dollars) | -14,550 | -15,673 | -13,781 | Met | -13,800 | -13,400 | ... | ... |
| Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees) | 15,048 | 15,370 | 14,410 | Met | 14,888 | 14,450 | ... | ... |
| Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars) 3/ | 4,200 | ... | 3,540 | Met | 4,000 | ... | 3,423 | Met |
| Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) | 4,708 | ... | 4,380 | Met | 4,708 | 4,708 | ... | ... |
| Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/ | -87 | -389 | -376 | Not met | -1,232 | -1,420 | ... | ... |
| Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) | 4,000 | ... | 3,806 | Met | 4,050 | 4,050 | ... | ... |
| Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees) | 87.5 | ... | 89.8 | Met | 185.5 | 185.5 | ... | ... |
| **II. Continuous Performance Criteria** | | | | | | | | |
| Zero new flow of SBP's credit to general government | 0 | ... | 0 | Met | 0 | 0 | ... | ... |
| Zero ceiling on accumulation of external public payment arrears by the general government | 0 | ... | 0 | Met | 0 | 0 | ... | ... |
| **III. Indicative Targets** | | | | | | | | |
| Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees) | 465 | ... | 482 | Met | 1,031 | 905 | ... | ... |
| Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees) | 1,977 | ... | 2,042 | Met | 4,425 | 4,425 | ... | ... |
| Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees) | 32 | ... | -15 | Met | 43 | 43 | ... | ... |
| Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees) | -155 | ... | 227 | Not Met | 64 | 385 | ... | ... |

Sources: Pakistani authorities; Fund staff estimates.

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

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

3/ The QPC for end-December 2023 is not proposed as the information became available before the Executive Board meeting for the first review.

## Table 2. Pakistan: Structural Conditionality (Revised)

| Actions | | Date | Status |
|---|---|---|---|
| **Structural Benchmarks** | | | |
| **Fiscal** | | | |
| 1 | Commit to not grant further tax amnesties. | Continuous | Met. |
| 2 | Avoid the practice of issuing new preferential tax treatments or exemptions. | Continuous | Met. |
| 3 | Issuance by the Central Monitoring Unit (CMU) of its first periodic report on the performance of SOEs, using latest available data, to the Federal Government. | end-Dec. 2023 | Met. |
| **Social** | | | |
| 4 | Inflation adjustment of the unconditional cash transfer (Kafaalat). | end-Jan. 2024 | In progress. |
| **Monetary and Financial** | | | |
| 5 | Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period. | Continuous | Not met. |
| 6 | Submission to parliament of amendments to align Pakistan's early intervention, bank resolution, and crisis management arrangements with international good practices, in line with IMF staff recommendations. | end-Dec. 2023 | Met. |
| **Energy Sector and State-Owned Enterprises** | | | |
| 7 | Notification of the annual rebasing (AR) for FY24 to take effect on July 1, 2023. | end-Jul. 2023 | Met. |
| 8 | Improve state-owned enterprise (SOE) governance by: (i) operationalizing the recently approved SOE law into a policy that clarifies ownership arrangements and the division of roles within the federal governments; and (ii) amending the Acts of four selected SOEs to make the new SOE law fully applicable to those SOEs. | end-Nov. 2023 | Not met. |
| **Climate** | | | |
| 9 | Cabinet adoption of a Climate-PIMA and PIMA action plan. | end-Dec. 2023 | Met. |
| **Economic Statistics** | | | |
| 10 | Compilation and dissemination of Quarterly National Accounts for FY24Q1 and revised annual estimates for FY23. | end-Nov. 2023 | Met. |
| **New Structural Benchmarks** | | | |
| 1 | Notification of the December 2023 semiannual gas tariff adjustment determination. | February 15, 2024 | |
| 2 | Develop a plan to strengthen internal control systems in lending operations, including updates to collateral policy and counterparty eligibility policy, in line with recommendations from the 2023 Safeguards Assessment. | March 8, 2024 | |

**Statement by Mr. Bijani and Mr. Dogar on Pakistan**
**January 11, 2024**

*On behalf of our Pakistani authorities, we thank the mission team, ably led by Mr. Porter, for its constructive engagement to complete the first review under the Stand-By Arrangement. The authorities also extend their gratitude to the management and the Executive Board for their continued support for Pakistan's reform efforts. They further express their deep appreciation to Pakistan's bilateral creditors, friendly countries, and multilateral development partners for their continued support for Pakistan.*

## *I. Introduction*

**In July 2023, the authorities successfully transitioned from an on-going EFF arrangement into a 9-month SBA which was more suited to the economic realities and financing challenges facing Pakistan.** The interim caretaker government that was installed in August 2023 has ensured steadfast implementation of decisions to achieve the targets agreed under the SBA. Pakistan continues to face serious challenges, including those associated with the political transition, increasing geo-political conflicts, elevated external risks, and climate vulnerabilities However, due to resolute implementation of reforms under the SBA, supported by external inflows, confidence is returning, and the economy is recovering.

**The program is on track.** All except one end-September 2023 quantitative performance criteria (QPCs) and almost all indicative targets (ITs) were met. The program over-performed in several key areas (e.g., NIR floor, NDA ceiling and the SBP's forward/SWAP target) that was locked in by revising targets the end-December targets. In cases where program targets were missed, the deviations were temporary and small, and the authorities have already begun taking corrective action to return to the agreed path. The QPC on general government primary deficit was missed by a small margin due to exchange rate valuations. The deviation on the IT on power sector payment arrears was due to the annual rebasing approved by the regulator which was considerably below the petition submitted by the Power Ministry, and although the quarterly target was missed the annual target is expected to be met. To ensure that the average premium between the interbank and open market exchange rate remains within the agreed range, the authorities have initiated structural reforms in the exchange companies sector that will improve governance and transparency.

## *II. Recent Economic Developments and Outlook*

**The macroeconomic stabilization measures have started bearing fruit and helped in unlocking financing from multilateral and bilateral partners**. **Economic activity is recovering moderately, inflation is declining gradually, and the external position is strengthening materially, and external buffers are being built.** The overall real GDP growth in FY2023 is projected to be more tepid than expected initially mainly due to stabilization policies of the government, flood damage and a slower global economic activity. Growth has, however, picked up in recent months and for FY2024 is projected to be broad-based and in the range of 2.5-3.0 percent. Headline inflation has proven to be sticky primarily because of the first-round and second-round increases in energy prices. The current account deficit during July-November 2023 narrowed down to US$1.2 billion against US$3.3 billion in the corresponding period in the FY23 despite the withdrawal of import prioritization instructions in June.

## *III. Fiscal Policy and Debt Sustainability*

**Fiscal policy is supportive:** A substantial increase in revenues compared to expenditures brought down the fiscal deficit to 0.8 percent of GDP (PRs 861.7 billion) in Jul-Oct FY24 from 1.5 percent of GDP (PRs1265.8 billion) last year. The sharp rise in revenues has been largely attributed to considerable improvement in non-tax revenues that grew by more than 300 percent during this period. In absolute terms, it increased to PRs 1586.5 billion against PRs 346.4 billion last year. This growth in non-tax collection has been observed across all major heads, indicating a broad-based increase. Similarly, receipts from Federal Board of Revenue (FBR) tax collections grew by 29 percent to PRs 2748.4 billion against PRs 2138.7 billion last year. The net provisional FBR tax collection maintained its momentum with 29.6 percent growth to reach PRs 3484.7 billion during Jul-Nov FY24 from PRs 2688.4 billion last year. Within total, domestic tax revenues grew by 32 percent driven primarily by a 62.8 percent surge in FED and a 42.2 percent rise in direct taxes. Total expenditures grew by 35 percent to stand at PRs 3706.7 billion during Jul-Oct FY24 against PRs 2737.2 billion last year. Within total, current spending grew by 44 percent mainly due to a significant rise in markup payments that increased by 63 percent during the first four months of the current fiscal year, while non-markup spending witnessed a restricted growth of 19 percent on account of the government's cautious expenditure management strategy.

**The primary balance, from July to November posted a surplus of PRs 1542 billion against PRs 511 billion in the corresponding period.** The government is on track to achieve the targeted primary surplus of 0.4 percent of GDP in FY24. This fiscal consolidation is supporting monetary policy to bring inflation down to it medium-term target. **With the improvement in the fiscal balances and sustainable economic growth, the GFN to GDP ratio is expected to decline** and the authorities are continuing their efforts to reprofile the domestic debt by issuing long term bonds and reducing issuance of short-term instruments. Staff assesses the public debt as sustainable in the baseline case scenario.

**As far as the external financing plan for FY24 is concerned, external inflows during July-December 2023 have been substantial and as per plan.** Total of US$ 5.1 billion of external inflows are expected by end Dec 2023. This excludes US$ 4.0 billion of bilateral rollover. The inflows mainly represent the inflows from multilateral and bilateral sources. However, no debt from private sector was obtained i.e., foreign commercial bank loans and Eurobonds. In July, the authorities had a bilateral debt rearrangement of US$ 2.4 billion for FY24 and FY25 which created cushion. The budgeted inflows from foreign commercial banks (US$ 3.5 billion) and international capital markets (US$ 1.5 billion) seem unlikely to be materialized, but it is planned to mobilize US$ 0.5-1.0 billion from foreign commercial banks as new financing. In addition to that, government is making efforts to meet the remaining target of US$ 3.5 billion, however, it seems unlikely that this target will be met during second half of FY24. Out of US$ 3.5 billion, it is expected that authorities will be able to mobilize around US$ 0.5 billion to US$ 1.0 billion. The authorities budgeted US$ 1.5 billion through international capital markets that will only be considered once feasible.

**The authorities remain committed to completing necessary actions to ensure that multilateral program loans in pipeline for disbursed January-June 2024 are disbursed on time.** During July-

December 2023, reforms undertaken by government led to the disbursement of US$ 350 million from World Bank under RISE II program, and US$ 300 million and US$ 100 million from Asian Development Bank under Domestic Resource Mobilization and Women Inclusive programs, respectively. In addition, US$ 250 million was disbursed by the Asian Infrastructure Investment Bank.

**Government remains committed to ensure adherence to program targets on government guarantees for end-September 2023 and end-December 2023.** Currently, guarantees are issued on priority basis and within the program limits. By April 2025, the Debt Management Office will design and implement a framework for the management of guarantees in line with the Fiscal Responsibility and Debt Management Rules and will carry out the assessment of three state-owned enterprises under this framework.

### *IV. Monetary, Exchange Rate and Financial Sector Policies*

***A tight monetary policy stance and a supportive fiscal policy are helping inflation to come down.*** Headline inflation peaked at 38 percent in May 2023, has been declining trajectory since then and, barring any major supply shocks, is expected to fall within the SBP's 5-7 percent target range during FY26. This assessment is based on the following key determinants of inflation: (i) real interest rates are significantly positive on forward looking basis; (ii) Growth in monetary aggregates is decelerating; (iii) consumers and businesses inflation expectations are declining significantly; (iv) wage growth is moderating; and (v) global commodity prices are declining. The output gap is estimated to remain negative for the second consecutive year in FY24, and while the demand side remains constrained amid tighter financial conditions, the supply side has improved following flood recovery and better availability of imported goods.

**The reduction in current account deficit has enabled the SBP to meet the NIR target with a sizable margin and reduce its forward book.** Interbank FX flows were weak but subsequently improved, especially from September amidst the alignment of the interbank and open market exchange rates. The inflows helped stabilize the SBP's FX reserves around US$7.5 billion as of October 20, 2023, which in turn garnered confidence. The wedge between the interbank and open market exchange rates has narrowed and the money markets have adequate liquidity. Reforms of exchange companies introduced in early September, coupled with measures against illegal FX activities, also helped improve FX market sentiments and liquidity.

**The banking sector remains well-capitalized and profitable with improving solvency ratios**. The capital adequacy ratio strengthened and NPLs, while increasing slightly, remained well provisioned. The SBP is actively engaged with undercapitalized private sector banks for early capitalization, while one of the public sector banks is being wound down in an orderly manner. To strengthen the resolution regime, draft amendments to The Banking Companies Ordinance of 1962 and The Deposit Protection Corporation Act of 2016 have been submitted to the cabinet for approval. The authorities remain committed to enhancing the stability of the banking sector and deepening the financial system.

### *V. Energy Sector Policies*

**Energy (Power and Gas) sector reform has remained a major fiscal challenge.** In August 2023, pursuant to 9th review of the EFF, the cabinet adopted the Revised Circular Debt Management Plan (CDMP), containing measures amounting to 0.2 percent of the GDP in FY24. For FY 24, no increase in CD stock is projected in the approved CDMP. The measures taken by the authorities helped catch up with the deferred tariff adjustments and permanently expanded the base and level of debt service surcharge. In the gas sector, to halt the sharp increase in circular and to avoid burdening the budget with additional subsidies, prices were increased by 50 percent, on average, as determined by the regulator, and the tariff slab system was updated.

### *VI. Social Protection and Social Sector Expenditure*

The cumulative floor on targeted cash transfers spending (BISP) is PRs 185.5 billion. The Q1 floor on targeted cash transfers has been met and the process is on track for meeting the upcoming quarterly targets. MoF has formed an Indexation Committee to ensure that the stipends are inflation adjusted. In addition, the dynamic registry for regular/periodical NSER (spell it out) is now fully updated and is operational across the country. The enrolment in both CCTs (spell it out) is being expedited. In FY24, the enrolment target of 1.2 million new children is set for education CCT (Benazir Taleemi Wazaif) and 0.8 million new families for health and nutrition CCT (Benazir Nashonuma). The payments are being made through real time biometric based payment mechanism. BISP is working on further improving the existing system to make it beneficiary centric and to ensure that the payments are made in a transparent and efficient, manner. BISP has the capacity to respond to any disaster contingent on fiscal availability and can quickly roll out financial assistance in case of future shocks with the help of NSER database and an electronic based payment mechanism. MoF has earmarked a reserve of PRs 250 billion for emergencies.

### *VII. Climate Change*

**The federal cabinet approved the National Action Plan (NAP) for climate in August 2023.** To harmonize and align the efforts at all tiers of governments, corresponding policy and implementation frameworks are being developed at sub-national and district levels in consultation with multilateral development partners. Avenues to forge investment partnerships with the private sector are also being explored.

The Resilient Recovery, Rehabilitation and Reconstruction Framework Pakistan (4RF) document was developed by the Ministry of Planning, Development and Special Initiatives in close coordination with Economic Affairs Division. The authorities will prioritize "no-regret" measures, including resilience-boosting policies, notably social protection, build-back-more resilient infrastructure destroyed during the recent floods through the 4RF framework, executing the updated 2015 National Flood Protection Plan, and transforming the agri-food industry (as laid out in the World Bank's 2022 Country Climate and Development Report (CCDR) for Pakistan). The Ministry of Climate Change is also coordinating the flood early warning system and other pre-emptive actions as a part of a development project.

Climate sensitive cost centers in each demand are being identified and tagged in the FMIS system. During the first phase, 85 percent of the demands in the federal government were identified and tagged for the green component of budget. Climate related spending for FY 2023-24 was published as a part of Performance Based Budgeting Book (Green Book). In addition, a green budget statement was included in the Annual Budget Statement for FY 2023-24. The authorities plan to build on the current tracking exercise to provide more guidance to line ministries in budget call circular (BCC) for FY24-25, and gradually extend tracking to revenue measures; BCC preparation for FY 2024-25 is already underway. More guidance will be provided to line ministries in the BCC on climate budgeting.

## *VIII. SOE Policy and Other Structural Reforms*

**The Central Monitoring Unit (CMU) created in September 2022 will monitor and perform oversight functions of the SOEs.** It will prepare periodic reports on the performance of the SOEs after conducting thorough analysis of their operations. The process for hiring of professionals from the private sector for staffing the CMU was completed in November 2023 and the new team is already in place. The CMU completed the data collection for the SOE Performance Reports for the last three fiscal years and compiled and published a consolidated report end December 2023, after its approval by the Cabinet Committee on SOEs.

**The SOE Policy, a requirement under the SOEs Act 2023, was also developed and implemented at end November 2023 after its approval by the Federal Government.** Based on the collated feedback of SOEs, the authorities will consult the Security and Exchange Commission of Pakistan, Law Division, and other relevant stakeholders to coordinate policies on the SOEs under the Act.

**Pakistan created a Sovereign Wealth Fund (SWF) in August 2023 with assets from seven large SOEs. To operationalize the SWF, the authorities are consulting stakeholders to ensure legal, corporate, and financial alignment of the participating SOEs.** Seven SOEs will be audited by the Auditor General of Pakistan. The authorities are requesting MDBs for technical assistance to advise on operationalization of the SWF, including development of an annual public investment plan and an overall investment strategy to be approved by the Supervisory Council before implementation.

## *IX. Concluding Remarks*

The authorities believe that the performance under the program demonstrates their strong commitment to fiscal discipline, improved functioning of the markets and sustained implementation of complex reforms. The twin deficits are on downward trajectories. The authorities are confident that a significant reduction in the macroeconomic imbalances under the program will lay the foundation for sustainable economic growth well beyond the program.

The authorities believe that their full implementation of the SBA will help neutralize the risks highlighted by staff. Based on the demonstrated performance under the SBA so far, the authorities reiterate our commitment to achieve all program targets agreed under the program and undertake further reforms to improve economic governance despite all socio-political challenges. The Pakistani authorities look forward to continued support from the Executive Board, management, and staff.