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Pakistan—Recent Economic Developments

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INTERNATIONAL MONETARY FUND

PAKISTAN

Recent Economic Developments

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December 6, 1995

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Pakistan: Basic Data

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
	(Annual percentage changes, unless otherwise specified)				
National income and prices					
Real GDP (at factor cost)	5.6	7.7	2.3	3.8	4.7
GDP deflator (at factor cost)	13.2	10.2	8.9	12.9	14.5
Consumer prices (period average)	12.7	9.6	9.3	11.2	12.9
External sector (in U.S. dollars)					
Exports, f.o.b.	19.8	14.6	0.3	−1.4	17.9
Imports, f.o.b.	13.1	7.3	11.7	−13.6	16.7
Private transfers (net) 1/	3.7	29.2	−21.4	2.7	0.3
Terms of trade	−9.7	5.3	−1.4	6.6	−3.6
Real effective exchange rate 2/	−2.8	−2.7	1.5	−5.0	−0.4
Money and credit 3/					
Money and quasi−money	16.3	30.3	18.0	16.0	16.6
Domestic assets (net)	16.8	27.9	25.1	10.1	12.6
Of which: Government sector (net)	9.2	20.8	15.2	3.1	4.1
non−government sectors	6.5	8.4	13.1	6.3	10.6
Rates of return 4/	8.7	10.5	12.3	12.4	11.7
Public sector operations					
Total revenue	0.9	38.0	12.1	13.2	13.7
Of which: Tax revenue	9.6	25.6	8.5	17.0	23.3
Total expenditure	15.5	25.2	20.7	3.3	14.8
Of which: Current expenditure	14.9	23.3	15.6	7.1	17.9
	(In percent of GDP, unless otherwise specified)				
Public sector operations					
Total revenue	16.5	19.2	19.5	18.9	18.0
Of which: Tax revenue	12.8	13.6	13.3	13.3	13.8
Total expenditure	25.3	26.7	29.1	25.7	24.8
Of which: Current expenditure	18.8	19.5	20.4	18.7	18.5
Overall public sector balance	−8.7	−7.4	−9.6	−6.8	−6.8
Budgetary financing (net) 5/	8.7	7.4	8.0	5.9	5.6
External financing (including grants)	2.5	1.9	1.9	1.6	1.5
Bank budgetary support	3.9	5.8	4.7	0.8	1.1
Other domestic financing	2.3	−0.2	1.4	3.5	3.0
Investment and savings					
Gross domestic investment	19.0	20.1	20.7	19.5	19.1
Gross domestic savings	12.1	13.6	12.0	14.2	14.1
Gross national savings	14.6	17.1	13.6	15.7	15.2
External sector 6/					
Current account balance (excluding official transfers)	−4.3	−3.1	−7.1	−3.8	−4.0
Overall balance	−−	0.3	−1.2	3.1	0.4
External debt	39.3	40.4	45.4	48.4	43.4
Debt service ratio, including use of Fund credit (in percent of current account receipts) 7/	18.0	16.6	22.5	22.7	22.5

Pakistan: Basic Data (Concluded)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Current account deficit (excluding official transfers)	-1,981	-1,500	-3,687	-1,964	-2,402
Overall balance	6	130	-589	1,584	247
Gross official reserves (in weeks of current year's imports, c.i.f.) 8/	3.3	5.5	2.2	12.6	12.9

Sources: Government of Pakistan, Economic Survey 1993/94; World Bank, Social Indicators of Development 1994; and Fund staff estimates.

1/ Includes changes in foreign currency deposits held by residents.
2/ Annual averages based on monthly data reported by the Fund's Information Notice System (decrease means depreciation).
3/ Changes in percent of the initial stock of domestic liquidity.
4/ Weighted average yield (in percent per annum) of the accepted bids at treasury bill auctions. Data for 1993/94 are for July-April. Treasury bill auctions began in March 1991.
5/ Beginning in 1992/93, the budget definition excludes the operations of WAPDA, OGDC, NFC, PTVC, and PTC.
6/ In 1990/91-1991/92, defense-related payments are included in imports.
7/ Service of medium- and long-term debt.
8/ Excluding gold.

I. Overview

Following two years of rapid growth, real GDP expanded at a slower rate over the last three years (fiscal years 1992/93-1994/95). This deceleration was largely attributable to exogenous shocks that afflicted the economy. Widespread floods caused unprecedented damage to crops and infrastructure in 1992. This was followed by a drought in 1993/94 which led to shortages in the supply of wheat and several other crops. The most important exogenous shock, however, was the three-year long virus disease which, starting in 1992/93, severely depressed cotton output. Given the key role of cotton for Pakistan's industrial output and exports, the virus attack constituted a major setback in terms of aggregate growth and substantially weakened the external accounts.

Despite the difficult domestic economic conditions, and the several changes in the Government over the period under review, the Pakistan authorities have shown remarkable continuity in their approach to economic policy. The main thrust of their approach has been an emphasis on economic liberalization. In this context, they have made important gains in the area of privatization and de-regulation of economic activities; introduced significant reforms in the financial system and in the conduct of monetary policy; gradually steered the taxation system away from international trade taxes and towards greater reliance on domestic taxes; and removed all restrictions on current international payments as well as several restrictions on capital flows. These structural policies have contributed significantly to promote growth and exports. Indeed, the growth of new industries and the associated expansion of nontraditional exports provided an important cushion for the economy over the last three years given the difficulties that afflicted the traditional sources of growth and foreign exchange earnings.

The second area in which the authorities have shown continuity is emphasis on demand management, although implementation has been uneven. Their initiatives in this area enabled Pakistan to receive substantial Fund financial support during the period reviewed in this report. Most recently, this took the form of an ESAF arrangement and an extended arrangement in support of the medium-term adjustment and reform program launched by the Pakistan Government in mid-1993. In this context, the authorities succeeded in reducing the budget deficit and in slowing down the growth of the net domestic assets of the banking system in 1993/94. These tighter financial policies led to a marked reduction in the macroeconomic imbalances that had flared up in 1992/93; in particular, they were reflected in a much narrower external current account deficit. Moreover, the strong stance of demand management contributed to a turnaround in private sector confidence which was evidenced by large capital inflows. As a result, the external reserves position (which had become extremely vulnerable in mid-1993) improved sharply.

The program for 1994/95 sought to raise the real GDP growth rate and further reduce the macroeconomic imbalances. The latter was to be reflected in a lower rate of inflation and in a narrower external current account deficit; as envisaged by the program, this would form the basis for a further substantial strengthening of the external reserves position. Achievement of these objectives was predicated on a further reduction in the budget deficit and in the growth of broad liquidity which were to be accompanied by actions designed to advance deeper with the structural reforms following their intensification in 1993/94. In the event, however, fiscal and monetary policy implementation deviated significantly from the program: both the budget deficit and the rate of monetary expansion were broadly similar to those achieved in 1993/94--with the result that the inflation performance and the external current account outcomes were also similar to those achieved in 1993/94. There was an improvement in the external reserves position, as programmed, but this resulted not from the demand management policies but from unexpectedly large privatization proceeds from abroad.

In 1994/95, the slippages from the planned demand management policies have partly originated from fiscal incentives granted by the Government (mainly in the form of tax exemptions and concessions) in the pursuit of various industrial policy and social objectives. This policy was superimposed with detrimental consequences on the structural and demand management policies. Such policies were designed in a manner that sought to promote investment and growth mainly through liberalization and deregulation of domestic economic activities; removal of restrictions in the trade and exchange systems; and the creation of a stable macroeconomic environment. Social objectives were to be addressed through the combination of higher employment and lower inflation with an improvement in the quality of public expenditure (including a Social Action Program). Within this framework, fiscal incentives were not viewed as appropriate tool for promoting economic or social objectives; on the contrary, they were to be phased out in order to expand the domestic tax base and compensate for the revenue losses from the tariff reform. Nonetheless, tax exemptions and concessions were intensified in 1994/95 and broadened with the 1995/96 budget (as described in Section III), with adverse consequences for the fiscal position.

The remainder of this report, which covers developments over the five-year period 1990/91-1994/95 (fiscal years beginning July 1) with emphasis on the last two years, is organized as follows: Section II discusses output, price, and sectoral developments in the domestic economy; Section III discusses budgetary and fiscal policy developments; Section IV discusses the evolution and sources of domestic liquidity, developments in monetary and credit policy, the rates-of-return structure, and the structural reforms in the financial system; and Section V discusses balance of payments and external debt developments, exchange rate developments, and the liberalization of the exchange and trade systems.

II. The Domestic Economy

1. Overall trends in output

Following a sharp decline in the growth rate of real GDP in 1992/93, the Pakistan economy has gradually recovered its growth momentum, despite continuing adverse factors which have limited production of key crops and overall economic activity (Table 1 and Chart 1). The decline in the growth rate in 1992/93 reflected the devastating impact of widespread floods in September (which damaged crops and infrastructure), the onset of a virus attack on the cotton crop (which continued into the next two years), and political instability (which undermined confidence and contributed to a contraction in private investment). Cotton output fell by 30 percent leading to a 5 percent reduction in real agricultural GDP, with adverse consequences for the related manufacturing and service activities.

Over the next two years, real GDP growth recovered gradually to 4.7 percent by 1994/95 (from 2.3 percent in 1992/93). In 1993/94, the recovery was led by nontraditional industrial activities (mainly small-scale, export-oriented enterprises) which expanded faster than the rest of the economy (at 8.4 percent) as crop-based GDP declined due to severe drought. In 1994/95, the sources of recovery were more broadly based as agricultural production bottomed out from the low 1993/94 level, with a favorable impact on the growth of the services sector. While no reliable estimates are available regarding the effect of the security developments in Karachi, they are believed to have had a significantly negative impact on real GDP in 1994/95.

2. Trends in expenditure and savings

In line with historical trends, gross domestic expenditure exceeded GDP by substantial margins in recent years (Table 2 and Chart 2). The gap widened in 1992/93 when expenditure was boosted by outlays on reconstruction following the September 1992 floods. This temporary surge was more than reversed in 1993/94 as the Government tightened demand management policies. Consumption expenditure declined from 88 percent of GDP in 1992/93 to about 86 percent of GDP in 1993/94-1994/95 reflecting a deceleration in the growth of government current outlays. Private consumption moved narrowly in the range of 67-68 percent of GDP during the last three years. Gross domestic investment declined from 20.7 percent of GDP in 1992/93 to 19.1 percent in 1994/95 due to a sharp reduction in public sector investment which more than offset a rise in private investment. The latter included sizable fixed investment in manufacturing, transportation, and communications (Appendix Tables 15 and 16). The increase in the ratio of private investment to GDP was facilitated by governmental policies aimed at encouraging industrial development and promoting export growth.

Table 1. Pakistan: Sectoral Origin of Gross Domestic Product, 1990/91–1994/95

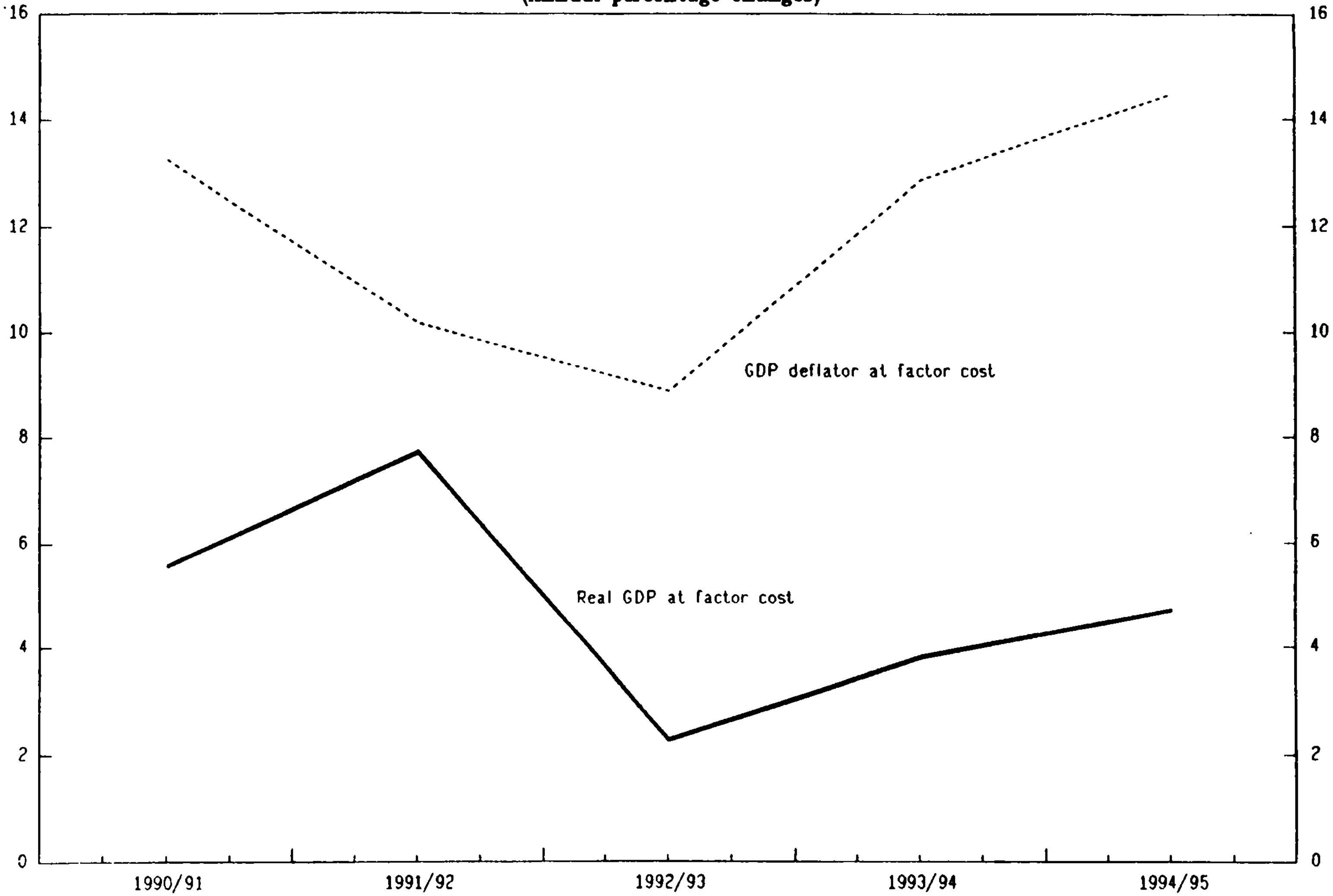
(At 1980/81 prices)

	1989/90	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
	(In billions of Pakistan rupees at 1980/81 prices)					
Agriculture	109,127	114,542	125,425	118,795	122,195	128,228
Crops	70,942	74,561	83,503	74,446	75,589	79,262
Livestock	32,481	34,105	36,133	38,308	40,599	42,848
Fishing and forestry	5,704	5,876	5,789	6,041	6,007	6,118
Industry	107,955	115,359	124,278	131,129	137,473	144,341
Manufacturing	74,324	78,969	85,324	89,889	94,734	98,914
Large–scale	53,667	56,577	61,051	63,577	66,212	67,996
Small–scale	20,657	22,392	24,273	26,312	28,522	30,918
Mining and quarrying	2,269	2,504	2,565	2,642	2,765	2,648
Construction	17,466	18,462	19,566	20,701	21,040	21,788
Electricity and gas distribution	13,896	15,424	16,823	17,897	18,934	20,991
Services	205,402	216,104	230,710	241,401	250,311	261,371
Commerce	69,655	73,380	78,760	81,061	82,952	86,003
Transport storage and communications	40,184	42,719	47,189	50,333	52,174	54,389
Banking and insurance	9,793	9,913	10,343	11,065	11,829	12,389
Ownership of dwellings	23,086	24,305	25,588	26,939	28,361	29,858
Public administration and defense	30,667	31,679	32,495	33,295	33,759	34,803
Other services	32,017	34,108	36,335	38,708	41,236	43,929
GDP (at factor cost)	422,484	446,005	480,413	491,325	509,979	533,940
Indirect taxes less subsidies	51,618	53,955	58,718	58,130	56,687	54,871
GDP (market prices)	474,102	499,960	539,131	549,455	566,666	588,811
	(Annual percentage changes)					
Real GDP (at factor cost)	4.6	5.6	7.7	2.3	3.8	4.7
Agriculture	3.0	5.0	9.5	–5.3	2.9	4.9
Industry	6.4	6.9	7.7	5.5	4.8	5.0
Of which:						
Large scale manufacturing	4.7	5.4	7.9	4.1	4.1	2.7
Construction	3.1	5.7	6.0	5.8	1.6	3.6
Services	4.5	5.2	6.8	4.6	3.7	4.4
Of which:						
Commerce	3.5	5.3	7.3	2.9	2.3	3.7
Public administration and defense	2.7	3.3	2.6	2.5	1.4	3.1

Sources: Ministry of Finance and Economic Affairs; and Planning Commission.

CHART 1

PAKISTAN
GROWTH AND INFLATION, 1990/91 - 1994/95
(Annual percentage changes)



Source: State Bank of Pakistan.

Table 2. Pakistan: Expenditures and Savings, 1990/91-1994/95

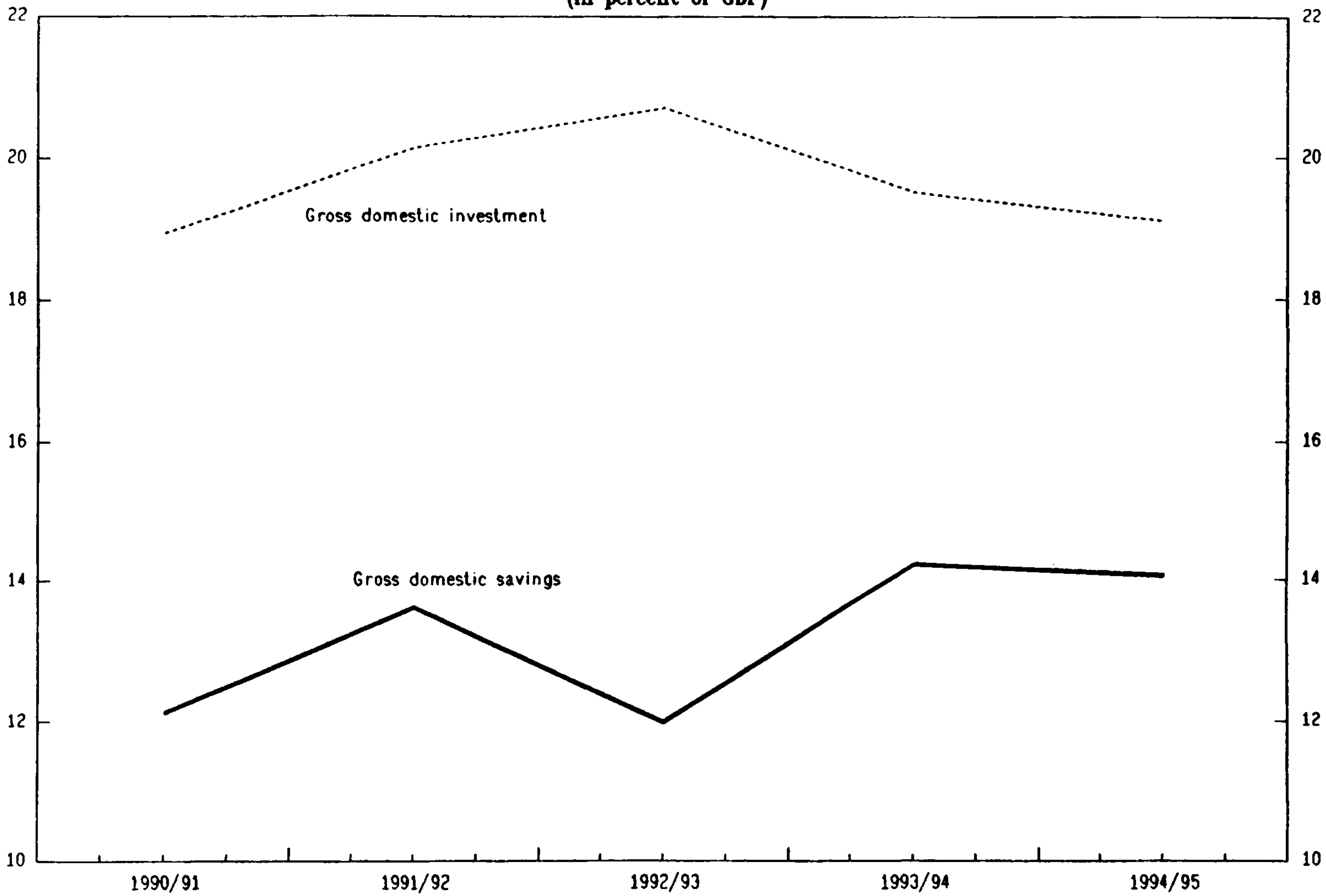
(At current prices)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
			(In millions of Pakistan rupees)		
GDP at market prices	1,020,600	1,211,385	1,341,629	1,564,645	1,866,520
Net export of goods and nonfactor services	-69,638	-79,147	-116,979	-82,922	-94,455
Exports	166,657	205,030	215,991	249,944	297,617
Imports	236,294	284,177	332,970	332,865	392,071
Gross domestic expenditures	1,090,238	1,290,532	1,458,608	1,647,567	1,960,975
Gross domestic investment	193,446	244,060	277,744	305,477	356,911
Gross domestic fixed capital formation	177,646	225,360	256,644	280,877	328,711
Private	91,226	118,878	134,768	150,369	173,660
Public	86,420	106,482	121,876	130,508	155,051
Change in stocks	15,800	18,700	21,100	24,600	28,200
Consumption	896,792	1,046,472	1,180,864	1,342,090	1,604,064
Private	751,217	813,860	1,006,204	1,149,995	1,280,600
Public	145,575	232,612	174,660	192,095	323,464
Gross domestic savings	123,808	164,913	160,765	222,555	262,456
Private	144,946	164,589	172,946	219,555	271,554
Public	-21,138	324	-12,181	3,000	-9,098
			(In percent of GDP)		
Gross domestic investment	19.0	20.1	20.7	19.5	19.1
Consumption	87.9	86.4	88.0	85.8	85.9
Gross national savings	14.6	17.1	13.6	15.7	15.2
Memorandum item:					
Net factor income from abroad and private transfers (in millions of Pakistan rupees)	25,332	42,002	21,476	23,823	20,554
Gross national savings	149,140	206,915	182,241	246,379	283,011

Source: Data provided by the Authorities; and Fund Staff estimates.

CHART 2

PAKISTAN
INVESTMENT AND SAVINGS, 1990/91 - 1994/95
(In percent of GDP)



Source: Ministry of Finance and Economic Affairs.

Gross national savings remained below the domestic investment levels. The proportion of investment financed by national resources dropped sharply to about two-thirds in 1992/93 as the output and expenditure trends described above were compounded by a marked drop in private transfers from abroad. Subsequently, reflecting the implementation of demand-restraining policies and the slowdown in investment, that proportion rose to about four-fifths of total investment in 1993/94-1994/95. In relation to GDP, gross national savings showed an improvement in 1993/94 with both public and private savings increasing. However, this was partially reversed in 1994/95 as public savings shifted back to a negative level.

3. Sectoral developments

a. Agriculture

Agriculture is the critical sector in the Pakistani economy, accounting for about 25 percent of GDP (Appendix Table 17) and about half of the total employment. It also constitutes the largest source of foreign exchange earnings and provides the base for major industries like textiles and sugar.

During 1990/91-1994/95, the growth of agriculture was marked by wide fluctuations. In 1991/92, good weather propelled the sector to rapid growth (at 9.5 percent). In 1992/93, agricultural output declined by 5.3 percent, partly because of the flood-related damage to crops and infrastructure. 1/ In addition, the key cotton crop was severely affected by leaf curl virus which contributed to a decline of cotton output by about 30 percent. Rice and sugarcane output also fell (Table 3 and Appendix Table 18). As an exception to this pattern, wheat production benefitted from the floods (as they enlarged the moist areas required for wheat).

In the last two years, agricultural output more than recovered from the flood-inflicted level. In 1993/94, the sector grew by 2.9 percent, led by substantial increases in output of rice (28 percent) and sugarcane (17 percent). These gains more than offset a further drop in cotton output resulting from the virus infection and drought; and the drought-related weakness in most other crop production, particularly for wheat. In 1994/95, agriculture registered a more normal growth of 4.9 percent. The losses associated with the viral attack on cotton were more localized, as a result of which cotton output recovered by 8 percent. Wheat production grew rapidly and sugarcane production peaked for the second consecutive year. However, rice output declined and production of several minor crops was adversely affected by heavy monsoon rains.

1/ The heavy rains and floods caused widespread damage. Some 1,300 people died and an additional 9 million were affected by damage to about 1 million houses in some 13,000 villages and towns. Public infrastructure damage was estimated at PRs 13 billion (10 percent of GDP) and private sector losses at some PRs 25 billion (19 of GDP).

Table 3. Pakistan: Output of Major Crops, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
	(In thousands of metric tons, unless otherwise specified)				
Wheat	14,565	15,684	16,157	15,213	16,983
Rice	3,261	3,243	3,116	3,995	3,447
Cotton 1/	9,628	12,822	9,054	8,041	8,697
Sugarcane	35,989	38,865	38,059	44,427	47,168
	(Annual percentage changes)				
Wheat	1.7	7.7	3.0	−5.9	11.6
Rice	1.3	−0.5	−3.9	28.2	−13.7
Cotton	12.5	33.2	−29.4	−11.2	8.2
Sugarcane	1.4	8.0	−2.1	16.7	6.2

Source: Ministry of Food, Agriculture and Livestock.

1/ In thousand bales.

The Government's agricultural policy aims at a rapid but sustainable development of the sector. To this end, the Government provides production incentives comprising support prices; subsidized agricultural inputs; and concessional credits. The Pakistan Agricultural Supply and Storage Corporation (a federal agency), in consultation with the provincial governments, determines the support prices for the agricultural products, taking into account production costs as well as price movements in both domestic and international markets. 1/ Changes in relative procurement prices are used as a means to encourage crop diversification. Input subsidies include low electricity, gas, and water tariffs; fertilizer subsidies have been substantially reduced in the context of agreements with the World Bank. Concessional credit is provided through the Agricultural Development Bank of Pakistan (ADBP), commercial banks, and the Federal Bank for Cooperatives (FBC). Targets for gross disbursements were set at PRs 8.5 billion in 1993/94 and PRs 9.5 billion in 1994/95; actual disbursements amounted to 48 percent of the targeted level in 1993/94 and to 43 percent in 1994/95. As detailed in Section IV, the concessional element of such credits has been substantially reduced beginning in 1993/94. This incentive system is supplemented by public sector outlays with emphasis on irrigation and drainage projects.

b. Industry

The industrial sector--comprising manufacturing, construction, energy (electricity and gas), and mining--plays an increasingly important role in the Pakistan economy, presently accounting for about one-quarter of GDP. 2/ The growth of real industrial value added decelerated from 7.7 percent in 1991/92 to 4.8 percent by 1993/94 as the large-scale textile industry suffered from reduced availability of locally produced cotton; and there was a slowdown in the growth of the construction and energy. The reduced domestic supply of raw cotton presented serious difficulties for the domestic textile industry in 1994/95 in view of the high cotton prices prevailing in the international market. As a result, a number of less efficient and competitive textile units were forced to shut down. Nevertheless, the growth rate of real industrial value added rose slightly (to 5 percent) as a further slowdown in large-scale manufacturing was more than compensated by a pickup in construction activity and energy generation.

In recent years, industrial policy has relied on an extensive incentive system at a substantial cost in terms of budgetary revenue (see Section III). This includes tax exemptions and concessions for special industrial zones and export processing zones; sector-specific exemptions and concessions; export incentives; concessional credit; and subsidized energy prices. Recently, the Government announced a number of industry-specific

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1/ Data on selected commodity and procurement prices are presented in Appendix Tables 19 and 20.

2/ Data on the output of selected industries is presented in Appendix Table 21.

incentive packages, including for the textile, pharmaceutical, engineering, electronic, and agri-food industries. The industrial sector has also been affected by the more general process of economic liberalization, particularly trade liberalization (discussed in Section V). While these policies have opened up new areas to the private sector and attracted foreign investment, the accompanying reduction in effective tariff protection has reduced investment and dampened growth for certain large-scale import-substituting industries.

In recent years, the relatively slow growth of large-scale manufacturing has been partly offset by the expansion of small-scale manufacturing (in the range of 8-9 percent per annum). 1/ This phenomenon is reflected in the strong performance of nontraditional exports such as sporting goods and various handicrafts (discussed in Section V). In view of the labor-intensive nature of small-scale industries, efforts are underway at the provincial level to support such industries through provision of investment guidance, export incentives, technical assistance, and specialized training.

The growth rate of real value added in the electricity and gas sector (production and distribution) rose sharply in 1994/95 (to 10.9 percent) following two years of decline. The Government has embarked on a policy of actively promoting energy investments in the private sector in order to overcome the chronic electricity shortage in Pakistan. In April 1995, the Government approved an incentive package for private sector energy projects which targets a sizable increase in power generation capacity. The package includes fixed power purchase tariffs, with priority for hydro-electric power plants over thermal plants.

c. Services

Developments in the services sector, which comprises almost 50 percent of nominal GDP, mirrored closely the trends in agricultural and industrial activities. The real growth rate declined in 1992/93 as trade activities contracted reflecting lower agricultural production and sluggish industrial growth. A further decline in the growth rate followed in 1993/94, partly because of the slow growth of public administration and defense resulting from efforts at fiscal consolidation under the medium-term adjustment program. In 1994/95, there was a pickup in the growth rate which was driven by improved performance in agriculture and industry as well as by faster real growth of public administration and defense. However, reflecting structural inefficiencies and disintermediation (discussed in Section IV), the banking and insurance sub-sector registered a lower growth rate in 1994/95 (at 4.7 percent, down from 6.9 percent in 1993/94).

1/ It should be noted, in this regard, that the estimates of value added by small-scale manufacturing are among the least reliable in Pakistan's national accounts.

4. Price developments

The twelve-month rate of inflation, as measured by the Consumer Price Index (CPI), increased gradually from 8.9 percent in June 1993 to a peak of 15.3 percent in January 1995 (Table 4). Subsequently, it has displayed a downward trend--having come down to 10.7 percent by October 1995. The acceleration in the twelve-month inflation rate was reflected in an increase in year-on-year CPI inflation, from 9.3 percent in 1992/93 to 12.9 percent in 1994/95. This price behavior has been associated with supply difficulties as well as with cost-push and demand-pull factors. The cost-push factors were associated with the 10 percent devaluation of the rupee (in July 1993), higher indirect taxes, increases in import prices (in 1994/95), 1/ and administered price adjustments. 2/ The latter included substantial increases in petroleum prices (at the outset of 1993/94); in electricity tariffs (in August 1993 and again in November 1994); and in gas tariffs (in early 1995). Supply constraints were an important factor in both 1993/94 and 1994/95 when shortages emerged in a variety of food crops. 3/ Finally, in both fiscal years, the rate of monetary expansion was high (as discussed in Section IV) in view of the lower-than-targeted real GDP growth rate, giving rise to demand-pull inflation.

5. The privatization program

The authorities initiated a privatization program in 1990/91 which has been intensified in the last two years. As of August 1995, 88 industrial units (from a list of 119 industrial units targeted for divestment) had been privatized, with proceeds amounting to PRs 7.3 billion. The management of 67 of the privatized units has been transferred to the private owners. In the financial sector, two out of five state-owned banks have been privatized and a third bank is expected to be privatized by January 31, 1996. In addition, shares of the Pakistan Telecommunications Corporation (PTC) (12 percent) and of the Marri Gas Fields (26 percent) have been sold through the local stock markets in the form of investment vouchers. The Government has also prepared plans for the privatization of public enterprises in areas of electricity generation and distribution, gas distribution, mining, and services. In this context, preparatory steps have been taken to privatize assets of the Water and Power Development Authority (WAPDA).

1/ The world prices of Pakistan's key imports (wheat and edible oil) rose significantly in 1994/95 (see Section V).

2/ Data on the evolution of key administered prices are presented in Appendix Tables 22 and 23.

3/ Food crops, particularly wheat and other minor food crops which have a relatively large weight in the CPI basket, experienced supply shortages caused by the draught in 1993/94 and, more recently, heavy rains and floods as well as related transportation and supply bottlenecks in the summer of 1994.

Table 4. Pakistan: Wholesale and Consumer Price Indices, 1990/91–1994/95

	Average Index (1980/81=100)		Twelve-month Percentage Changes 1/		Year-on-Year Percentage Changes 2/	
	Wholesale Prices	Consumer Prices	Wholesale Prices	Consumer Prices	Wholesale Prices	Consumer Prices
			Fiscal year data			
1990/91	208.0	199.8	13.4	12.6	11.7	12.7
1991/92	227.3	219.0	7.0	9.4	9.3	9.6
1992/93	243.4	239.3	8.4	9.1	7.1	9.3
1993/94	280.0	266.0	21.5	11.9	15.0	11.2
1994/95	325.0	300.4	11.4	12.1	16.3	12.9
			Monthly data			
1993:7	255.5	251.7	8.6	8.9	7.3	9.2
1993:8	262.1	255.7	9.9	9.0	7.5	9.1
1993:9	267.1	258.6	11.0	9.6	7.9	9.1
1993:10	268.7	262.5	11.9	10.9	8.4	9.3
1993:11	270.1	264.2	12.2	11.0	8.9	9.4
1993:12	270.9	263.6	12.3	10.5	9.3	9.4
1994:1	277.0	265.6	13.1	11.1	9.7	9.5
1994:2	287.0	268.8	16.9	11.9	10.5	9.7
1994:3	290.8	270.0	18.2	12.4	11.4	10.0
1994:4	300.3	276.7	20.8	13.9	12.6	10.6
1994:5	304.2	276.1	23.2	12.6	10.0	10.9
1994:6	306.6	278.5	21.5	11.9	15.0	11.2
1994:7	304.5	282.9	19.2	12.4	15.9	11.5
1994:8	308.0	285.6	17.5	11.7	16.5	11.7
1994:9	312.7	289.7	17.1	12.0	17.0	11.9
1994:10	315.2	294.6	17.3	12.2	17.5	12.0
1994:11	319.8	298.7	18.4	13.1	18.0	12.2
1994:12	328.7	301.3	21.4	14.3	18.7	12.5
1995:1	335.1	306.2	21.0	15.3	19.4	12.8
1995:2	333.6	305.6	16.2	13.7	19.3	13.0
1995:3	335.8	308.5	15.5	14.3	19.0	13.1
1994:4	336.2	308.7	12.0	11.6	18.2	12.9
1995:5	336.3	310.1	10.6	12.3	17.1	12.9
1995:6	341.7	312.3	11.4	12.1	16.3	12.9
1995:7	343.3	316.5	12.7	11.8	15.8	12.9
1995:8	348.6	322.6	13.2	13.0	15.4	13.0
1995:9	352.7	325.9	12.8	12.5	15.0	13.0
1995:10	351.2	326.3	11.4	10.8	14.5	12.9

Source: Federal Bureau of Statistics, Government of Pakistan.

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

2/ For monthly data, refers to the percentage change in the average index during the year ending in a given month over the average index in the year ending in the corresponding month of the preceding year.

III. The Public Finances

1. Overall budgetary trends

Following an improvement in 1991/92, the budget deficit widened to 8.0 percent in 1992/93 (Table 5). The floods that occurred in September 1992 had an unfavorable impact on the budgetary performance in view of the associated revenue losses combined with the need for relief and reconstruction outlays. Flood-related budgetary spending for emergency relief operations was estimated at PRs 4 billion and reconstruction outlays at PRs 9 billion (implying a combined overrun of 1.0 percent of GDP). The widening of the fiscal imbalance occurred despite revenue-raising and expenditure-restraining measures that were taken in the middle of the fiscal year.

In the context the new medium-term economic program, the budget deficit was reduced to 5.9 percent in 1993/94 through cuts in both current and development expenditure. The expenditure reduction more than offset a revenue decline as a ratio to GDP which reflected, in part, removal of temporary measures imposed in the preceding year. Although total revenue declined, certain structural improvements were introduced with the 1993/94 budget (discussed below). Also, while reducing expenditure as a percentage of GDP, the Government succeeded in improving its composition and effectiveness (see below). Concurrent with the reduction in the budget deficit, the Government mobilized substantially higher domestic nonbank financing (Appendix Tables 24 and 25) by: (i) raising the rates of return on government securities and national savings schemes; and (ii) allowing public corporations and institutional investors to invest in certain savings schemes. As a result, domestic bank financing declined from 4.7 percent of GDP to 0.8 percent of GDP despite a drop in net external financing.

The overall budgetary performance appears to have deteriorated somewhat in 1994/95, although the reported budget deficit showed a further narrowing to 5.6 percent of GDP. 1/ On the revenue side, there was some strengthening in tax revenue but this was more than offset by substantially lower nontax revenue, mainly due to the elimination of the import license fee. As a result, total revenue declined to 17.2 percent of GDP (from 17.4 percent in 1993/94). Substantial revenue increases in direct taxes,

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1/ The measured budget deficit understated the actual budget deficit because of three factors: (i) a change in the coverage of the "scheduled banks" (see Section IV) on the basis of which bank budgetary support is calculated; (ii) a change in the method for computing interest due on Treasury Bills held by the State Bank of Pakistan which implied a one-time reduction in the Government's interest bill; and (iii) a portion (PRs 3 billion) of the privatization proceeds used during 1994/95 which was not reflected in the budgetary accounts.

Table 5. Pakistan: Summary of Consolidated Fiscal Operations, 1990/91–1995/96

	1990/91	1991/92	1992/93	1993/94	1994/95 Prog.	1994/95 Prel.	Budget 1995/96
	(In billions of Pakistan rupees)						
Total revenue	168.7	232.9	241.1	272.3	365.1	321.8	386.6
Tax	130.9	164.4	178.4	208.7	297.5	257.5	299.4
Nontax	27.8	51.7	61.1	61.6	62.6	59.4	75.2
Other 1/	10.0	16.9	1.6	2.0	5.0	5.0	12.0
Total expenditure	258.0	322.8	349.0	364.3	437.0	427.2	494.9
Current (including unidentified) 2/	191.7	236.2	273.6	292.6	347.1	344.9	398.5
Development 3/	66.3	86.6	75.4	71.7	89.9	82.3	96.5
Budget deficit	−89.2	−89.8	−107.9	−92.0	−71.9	−105.3	−108.3
Federal 4/	...	−90.7	−102.4	−101.2	−71.5	−115.2	−107.9
Provinces 4/	...	0.7	−5.5	9.2	−0.5	9.9	−0.5
Financing	89.2	90.0	107.9	92.0	71.9	105.3	108.3
External	25.5	22.6	25.4	25.2	30.6	28.9	18.1
Domestic	63.7	67.4	82.2	66.8	41.3	76.4	90.2
Bank	43.0	70.3	63.6	12.5	15.0	20.0 5/	29.5
Federal	...	71.7	58.3	21.8	15.0	30.1	29.5
Provinces	...	−1.4	5.3	−9.3	0.0	−10.1	0.0
Nonbank	20.8	−3.1	18.9	54.3	26.2	56.5	60.7
Of which: Privatization proceeds 6/	--	--	--	--	--	6.1	--
	(In percent of GDP)						
Total revenue	16.5	19.2	18.0	17.4	20.5	17.2	17.8
Of which: Tax	12.8	13.6	13.3	13.3	16.7	13.8	13.8
Total expenditure	25.3	26.6	26.0	23.3	24.5	22.9	22.8
Current 2/	18.8	19.5	20.4	18.7	19.4	18.5	18.3
Development 3/	6.5	7.1	5.6	4.6	5.0	4.4	4.4
Budget deficit	−8.7	−7.4	−8.0	−5.9	−4.0	−5.6	−5.0
Federal 4/	...	−7.5	−7.6	−6.5	−4.0	−6.2	−5.0
Provinces 4/	...	0.1	−0.4	0.7	−0.0	0.5	−0.0
Memorandum items:							
Surplus of autonomous bodies (in billion of PRs) 7/	...	...	20.0	23.3	10.6	14.3	10.6
Dev. expenditure outside budget (in billion of PRs) 7/	...	...	44.2	38.3	34.6	34.9	41.8
Overall public sector balance (in percent of GDP)	...	...	−9.8	−6.8	−5.4	−6.8	−6.4

1/ In 1990/91–1991/92 this consists mainly of the surplus of the autonomous bodies which were included in the consolidated budget. Thereafter, they consists solely of privatization proceeds. Beginning in 1994/95, privatization proceeds are not fully treated as revenue, with the excess over the agreed amounts reflected as part of nonbank financing.

2/ Excludes part of the current expenditures which form part of the public sector development program.

3/ Includes capital expenditure, net lending, and the current outlays under the PSDP.

4/ Detailed separate budgets for the Federal government and for the provinces are presented in the accompaning background paper.

5/ Differs from budgetary support shown in the monetary accounts due to the change in the coverage of the banks which are used for the purpose of measuring the budget deficit. This change consisted of including two provincial banks under the supervision of SBP.

6/ See footnote 1.

7/ In 1990/91–1991/92, the budget definition comprises the federal and provincial governments (including railways and post office) and autonomous bodies--WAPDA (Water and Power Development Authority), OGDP (Oil and Gase Development Corporation), NFC (National Fertilizer Corporation of Pakistan), PTVC (Pakistan Television Corporation), and PTC (Pakistan Telecommunications Corporation). Beginning in 1992/93, the operations of the five autonomous bodies are excluded from the budget coverage reflecting the increasingly independent nature of these corporations.

sales tax, and excise taxes (amounting to 1.1 percent of GDP) were eroded by a decline in oil and gas surcharges (amounting to 0.6 percent of GDP). The expenditure to GDP ratio declined to 22.9 percent (from 23.3 percent) as the result of a fall in development spending (from 4.6 percent to 4.4 percent), a cut in defense spending (from 5.9 percent to 5.6 percent), and a one-time saving in interest payments (0.5 percent of GDP). These expenditure reductions offset an increase in other current spending (by some 0.6 percent of GDP. While most of this increase is still classified as "unidentified expenditure", it is likely to have been associated with the salary increases in the range of 20-35 percent that were granted at the beginning of the fiscal year. With respect to financing, mobilization of domestic nonbank resources declined in relation to GDP, as did net external financing. These developments implied an increase in bank budgetary support in relation to GDP.

2. Budgetary revenue

a. Expansion of the domestic tax base

In recent years, the Government has implemented a series of revenue measures directed at expanding the domestic tax base and improving revenue collection. In 1991/92, this included the introduction of withholding taxes as a means to boost income tax collections. In 1992/93, the coverage of the General Sales Tax (GST) was extended by removing exemptions for 29 domestically produced items. In 1993/94, withholding taxes on income were expanded, inter alia, through a 5 percent tax on purchases of foreign exchange for travel; some excise taxes were increased and rationalized; and the GST rate was increased by 2.5 percent to 15 percent. In addition, in order to increase revenue from surcharges, prices of petroleum products were increased by an average of 19 percent.

The 1994/95 budget also included a number of measures aimed at expanding domestic taxation and improving tax administration. The income tax base was broadened by the introduction of withholding taxes on financial transactions and contracts; this was accompanied by an increase in penalties for late filing, higher prepayment of the assessed tax and fees for appeals. In the area of wealth tax, the penalty for wrong declaration was increased to 10 times the tax evaded and wealth tax returns were required to be filed jointly with income tax returns. 1/ Structural changes were also introduced in the area of indirect taxes. Several specific excise taxes were converted into ad valorem (e.g., on cement and yarn) and others were increased (e.g., gas, tires, tubes, etc.); and new items were brought under the excise net at the retail stage (refrigerators, freezers, air

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1/ As the result of a landmark ordinance enacted in February 1994, wealth taxes were applied to agricultural assets beginning in the 1994/95 fiscal year. However, actual collections resulting from this measure have been negligible so far.

conditioners, TVs). Finally, the GST base was considerably expanded by bringing 266 additional goods (164 domestically manufactured goods and 102 imported goods) under the sales tax net.

b. Tariff reform

Concurrently with the efforts at expanding domestic taxation, the Government has been gradually lowering and rationalizing import duties. In 1991/92, the maximum tariff rate (excluding paratariffs) was lowered from 100 percent to 90 percent. In 1992/93, the 10 percent import surcharge was integrated into the tariff schedule without an increase in the maximum import duty rate (which was maintained at 90 percent). In 1993/94, the maximum import duty rate was reduced to 80 percent and several intermediate rates were lowered. As a result, the maximum all-inclusive tariff rate (given by the sum of the 80 percent maximum statutory rate; the 6 percent import license fee; the 5 percent Iqra surcharge; and 1 percent flood relief surcharge) was lowered to 92 percent. The pace of tariff reform was intensified in 1994/95. Specifically: (i) the import license fee, the Iqra surcharge, and the flood relief surcharge were incorporated in the statutory tariff schedule; and (ii) the resulting all-inclusive maximum tariff rate (92 percent) was reduced to 70 percent. The Government also introduced tariff measures aimed at reducing the incentive for smuggling. Duty rates on goods prone for smuggling were reduced to 35-45 percent.

c. Revenue developments

Government revenue rose to an average of 17.9 percent of GDP in 1991/92-1992/93 (from 15.6 percent in 1990/91) but declined thereafter to an average of 17.3 percent of GDP in 1993/94-1994/95 (Table 6 and Chart 3). The initial increase reflected the efforts described above at expanding the domestic tax base while the subsequent decline reflected, in part, the revenue losses associated with intensification of the tariff reform. In addition, there were substantial revenue losses in the last two years in connection with the enlargement of tax exemptions and concessions (discussed below) as a means to promote a variety of policy objectives, notably industrial and export growth. The drop in government revenue was dampened by the inclusion of PRs 5 billion from privatization proceeds (0.3 percent of GDP) in the 1994/95 nontax revenue.

In 1993/94, total revenue (including tax and nontax receipts) rose by 13 percent in nominal terms, but decreased in relation to GDP from 18.0 percent in 1992/93 to 17.4 percent. Tax revenue increased by 17 percent and remained unchanged as a percentage of GDP (at 13.3 percent). In line with the tax policies described above, the composition of tax revenue shifted from taxes on international trade towards domestic taxation. The GST share of tax revenue increased noticeably due to the new higher rate while the share of income taxes continued to rise. The largest advance was recorded in oil and gas surcharges, whose share increased to 12.7 percent of tax revenue (from 6.8 percent in 1992/93) as a result of the adjustment in retail prices. Nontax revenue decreased by 0.6 percent of GDP to

Table 6. Pakistan: Consolidated Federal and Provincial Revenue, 1990/91–1995/96

	1990/91	1991/92	1992/93	1993/94	1994/95 Prog.	1994/95 Prel.	Budget 1995/96
				(In millions of Pakistan rupees)			
Tax revenue	130,901	164,353	178,391	208,736	297,508	257,465	299,429
Income and profit	19,050	27,679	35,018	41,766	57,050	59,205	73,909
Property	1,586	1,864	2,555	2,919	5,232	3,474	3,558
Federal	790	899	1,744	1,985	4,200	2,380	2,336
Provincial	796	965	811	934	1,032	1,094	1,222
Goods and services	54,303	66,261	71,436	91,922	133,922	108,578	125,539
Excises	25,101	30,664	35,615	35,060	48,220	44,298	51,455
Federal	24,739	30,334	35,169	34,519	47,930	43,691	50,800
Provincial	362	330	446	541	290	607	655
Sales tax	16,909	20,794	23,610	30,379	59,760	43,571	50,665
Net development surcharges	12,294	14,803	12,211	26,483	25,942	20,710	23,419
Gas (Net)	6,344	7,291	6,549	9,284	8,228	8,220	4,199
Petroleum	5,950	7,512	5,663	17,200	17,715	12,490	19,220
International trade	50,527	61,821	63,225	65,061	91,000	77,652	87,130
Other taxes	5,435	6,728	6,158	7,068	10,303	8,556	9,293
Federal foreign travel tax	192	244	500	535	850	850	1,033
Other provincial taxes	5,242	6,484	5,658	6,533	9,453	7,706	8,260
Stamp duties	2,209	3,526	2,613	2,880	3,933	3,356	3,623
Motor vehicles tax	1,119	1,198	1,306	1,237	1,619	1,804	1,900
Other	1,914	1,760	1,739	2,416	3,902	2,545	2,737
Nontax revenue	27,845	51,716	61,137	61,564	62,551	59,367	75,198
Interest and dividends	9,490	18,006	18,129	22,206	24,555	20,402	30,871
Civil administration	15,683	20,770	27,814	25,141	18,642	21,610	24,519
Other	2,672	12,940	15,194	14,217	19,354	17,355	19,808
				(In percent of GDP)			
Tax revenue	12.8	13.6	13.3	13.3	16.7	13.8	13.8
Income and profit	1.9	2.3	2.6	2.7	3.2	3.2	3.4
Property	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Excises	2.5	2.5	2.7	2.2	2.7	2.4	2.4
Sales tax	1.7	1.7	1.8	1.9	3.3	2.3	2.3
Net development surcharges	1.2	1.2	0.9	1.7	1.5	1.1	1.1
International trade	5.0	5.1	4.7	4.2	5.1	4.2	4.0
Nontax revenues	2.7	4.3	4.6	3.9	3.5	3.2	3.5
				(In percent of total tax revenue)			
Income and profit	14.6	16.8	19.6	20.0	19.2	23.0	24.7
Excises	19.2	18.7	20.0	16.8	16.2	17.2	17.2
Sales tax	12.9	12.7	13.2	14.6	20.1	16.9	16.9
Net development surcharges	9.4	9.0	6.8	12.7	8.7	8.0	7.8
Taxes on international trade	38.6	37.6	35.4	31.2	30.6	30.2	29.1

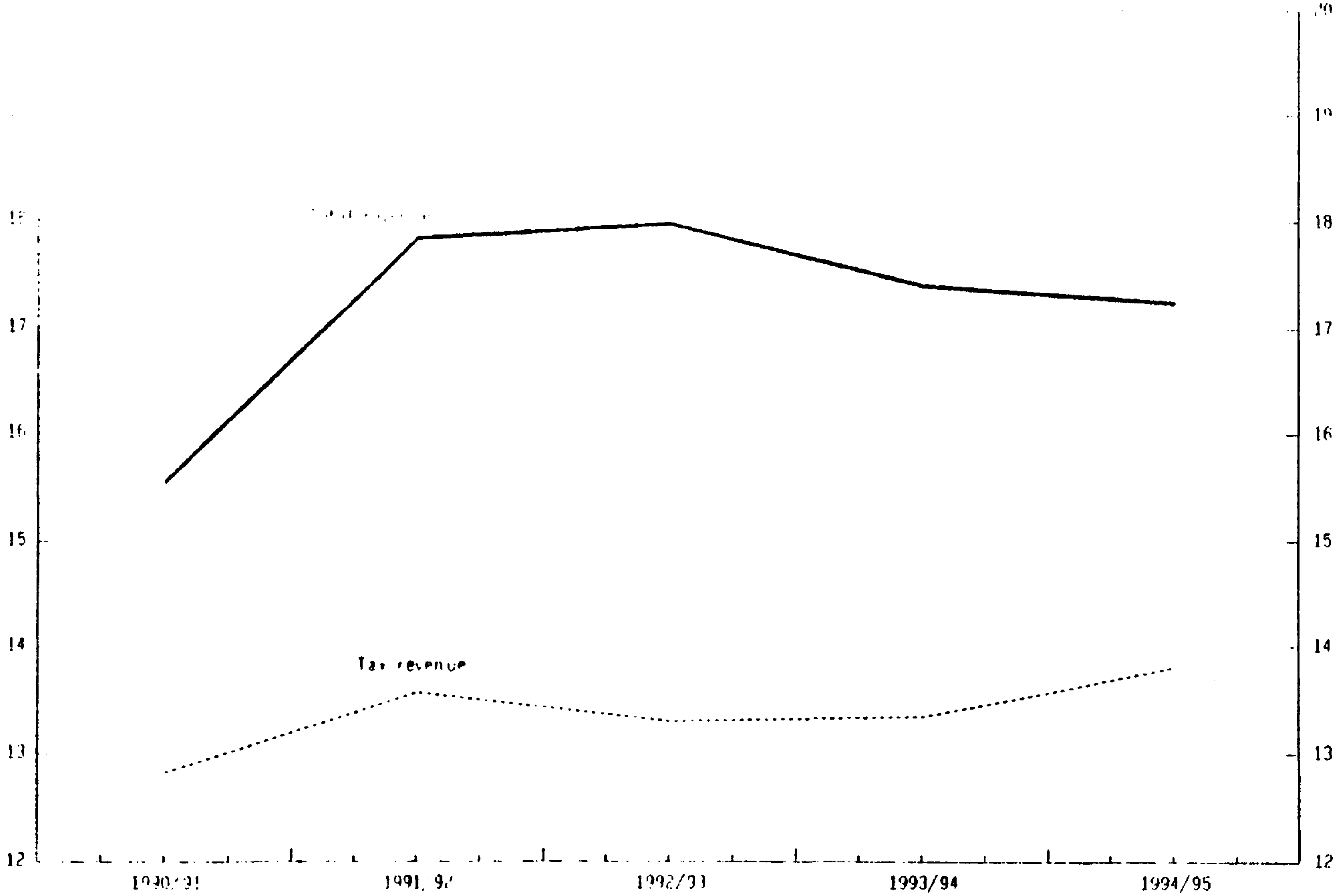
Source: Ministry of Finance and Economic Affairs.

CHART 3

PAKISTAN

GOVERNMENT REVENUE 1990/91 - 1994/95

(In percent of GDP)



Source: Ministry of Finance and Economic Affairs.

4.1 percent in 1993/94. The largest fall was recorded in profit transfers from the State Bank of Pakistan (SBP) which was halved to 0.4 percent of GDP due to significant increases in central bank losses on account of its forward cover operations following the July devaluation.

In 1994/95, total revenue decreased to 17.2 percent of GDP. Tax revenue increased by 0.5 percent of GDP to 13.8 percent. The composition tax revenue continued to shift from taxes on international trade towards domestic taxes. Revenue from income taxes increased by 0.7 percent of GDP to 3.4 percent as a result of the intensified administrative efforts. Revenue from excise taxes increased by 0.2 percent of GDP to 2.4 percent. Revenue from the GST increased by 0.4 percent of GDP to 2.3 percent reflecting the expanded coverage and administrative improvements. Despite the tariff reform measures, taxes on international trade remained stable at 4.2 percent of GDP. Collections from oil and gas surcharges decreased by 0.6 percent of GDP to 1.1 percent due to the failure to pass through higher import prices to the retail level. Nontax revenue decreased by 0.4 percent of GDP to 3.5 percent primarily due to the elimination of the import license fee. Profit transfers from the SBP increased by 0.5 percent of GDP to 0.9 percent because of a sharp drop in losses arising from foreign exchange guarantees.

d. Exemptions and concessions

The above-described revenue developments are consistent with the authorities' objectives as regards the change in the composition of government revenue in favor of domestic taxes and away from trade-based taxes. However, the decline in total government revenue as a ratio to GDP in 1993/94-1994/95 was not an intended result. Indeed, it has seriously undermined the Government's key objective of creating a stable macroeconomic environment which would provide the basis for a sustainable growth with improvement in the country's social indicators.

As noted, one of the key factors contributing to the weakness in government revenues has been the excessive reliance on the granting of tax exemptions and concessions as a policy tool in recent years. In 1992/93, a temporary tax holiday from income and property taxes was granted for the industrial zones established in rural areas. Also, temporary exemptions from import duties were granted to ease price pressures and replace lost domestic production due to the floods. In 1993/94, the eligibility for the five-year income tax holiday for investments in exploration and extraction of mineral deposits was extended until June 1998. Another unfavorable development was the extension, until June 1995, of the exemption from custom duty and sales tax available to certain industries.

The practice of granting exemptions and concessions intensified markedly in 1994/95. In the area of direct taxes sectoral concessions were granted: (i) foreign contractors executing power projects were taxed at a concessionary rate of 4 percent; (ii) in order to promote oil production, income tax concessions were granted to small refineries; and (iii) a five

year income tax holiday was granted to fruit processing plants and to soft and stuffed toy industries set up by June 1997. Direct taxation was also used as an instrument of social policy through: (i) an increase in the basic exemption limit for salaried working women; (ii) a tax rebate of 25 percent for citizens above 65 years of age earning less than PRs 100,000; and (iii) a deduction from taxable income of up to PRs 50,000 for the repayment of educational loans for higher education in specific fields. In the area of wealth tax, the exemption limit on agricultural land was increased from PRs 100,000 to PRs 1 million (and the definition of exempted tools was expanded to include tractors, tube-wells, and other farm machinery used for agriculture; in addition, farm animals and livestock--other than those used for commercial purpose--were also exempted).

For purposes of social and industrial policy, a number of goods and their imported components remained exempt from GST in 1994/95. While the budget proposed to eliminate capacity taxes for the remaining 33 industries under this treatment, small firms (with annual sales below PRs 0.5 million) in these industries were still assessed on a capacity basis. Manufacturers with capital employed below PRs 2 million (cottage industries) remained exempt from GST. In addition to the already existing exemptions and concessions from the GST, several additional ones were granted in 1994/95. For example, around 260 categories of foods were exempted from GST with the budget. Also with the budget, the time-bound exemptions for the North-Western Frontier and Baluchistan provinces were extended.

During the 1994/95 fiscal year, numerous post-budget exemptions and concessions were granted on GST, customs, and income tax in order to pursue several policy objectives. The most important were those for the development of special industrial zones (GST, customs, and income tax holidays); the energy sector (GST, Customs, and income tax holidays); agro-based industries (income tax-holidays); and imports of tractor components (customs and GST).

In the 1995/96 budget, imported and domestically manufactured machinery for the engineering sector was exempted from GST. Also, several exemptions from customs duty and GST on imported and domestically produced capital goods and intermediate goods were granted for export-oriented and import-substituting industries.

3. Budgetary expenditure

a. Expenditure developments

Budgetary expenditure declined from the flood-related high level of 26.0 percent of GDP in 1992/93 to an average of about 23 percent of GDP in 1993/94-1994/95 (Table 7). In 1993/94, defense expenditure was reduced by 0.6 percent of GDP to 5.9 percent. Interest payments fell by 0.1 percent of GDP to 5.5 percent due to the depreciation of the dollar in the second part of the year. Federal subsidies declined by 0.1 percent of GDP to

Table 7. Pakistan: Consolidated Federal and Provincial Expenditure, 1990/91–1995/96

	1990/91	1991/92	1992/93	1993/94	Prog. 1994/95	Prel. 1994/95	Budget 1995/96
	(In millions of Pakistan rupees)						
Total consolidated expenditure	257,964	322,737	349,064	364,325	436,957	427,202	494,949
Current expenditure	191,704	236,152	273,619	292,624	347,036	344,926	398,496
Federal current expenditure	150,850	181,187	209,174	226,351	261,388	266,647	299,973
General administration	7,677	10,291	11,019	16,053	15,386	17,981	16,914
Defense 1/	65,328	75,751	87,461	91,776	101,850	104,512	115,254
Law and order	3,525	4,476	4,680	5,364	5,094	6,616	7,101
Community services	2,452	2,721	3,529	4,280	4,517	4,764	4,981
Social services	6,637	6,044	7,628	7,452	8,532	8,925	8,185
Economic services	4,591	1,832	4,284	1,842	2,056	1,730	2,628
Net cash subsidies	9,545	8,135	6,721	4,783	5,511	4,828	3,581
Interest	43,083	59,862	75,534	86,165	100,665	94,186	121,206
Foreign	12,251	13,336	14,663	16,021	20,441	21,163	24,994
Domestic	30,832	46,526	60,871	70,144	80,224	73,023	96,212
Grants to enterprises and local authorities	3,461	5,002	5,684	3,686	11,240	8,944	14,299
Other	4,551	3,534	2,634	3,458	1,838	4,038	5,825
Unidentified 2/	--	3,540	--	1,493	--	10,124	--
Provincial current expenditure	40,854	54,965	64,445	66,272	85,648	78,279	98,523
Development expenditure 3/	66,260	86,585	75,446	71,701	89,921	82,276	96,453
	(In percent of GDP)						
Current expenditure	18.8	19.5	20.4	18.7	19.4	18.5	18.3
Federal	14.8	15.0	15.6	14.5	14.6	14.3	13.8
Of which: Defense 1/	6.4	6.3	6.5	5.9	5.7	5.6	5.3
Interest	4.2	4.9	5.6	5.5	5.6	5.0	5.6
Provincial	4.0	4.5	4.8	4.2	4.8	4.2	4.5
Development expenditure	6.5	7.1	5.6	4.6	5.0	4.4	4.4
	(In percent of total expenditure)						
Federal current expenditure	58.5	56.1	59.9	62.1	59.8	62.4	60.6
Of which:							
Defense 1/	25.3	23.5	25.1	25.2	23.3	24.5	23.3
Interest	16.7	18.5	21.6	23.7	23.0	22.0	24.5
Subsidies	3.7	2.5	1.9	1.3	1.3	1.1	0.7
Social and community services	3.5	2.7	3.2	3.2	3.0	3.2	2.7
Provincial current expenditure	15.8	17.0	18.5	18.2	19.6	18.3	19.9
Development expenditure	25.7	26.8	21.6	19.7	20.6	19.3	19.5

Source: Ministry of Finance and Economic Affairs.

1/ Includes payments of interest and principal on military debt; excludes military imports financed by external grants and disbursements.
2/ Unidentified expenditures are estimated residually as the excess of identified financing over the deficit implied by recorded revenues and expenditures.
3/ As of 1992/93, development expenditure of autonomous bodies was only partly included in the budget.

0.4 percent as an upward revision in wheat prices reduced wheat subsidies. 1/ Development expenditure decreased by 5 percent in nominal terms to 4.6 percent of GDP (from 5.6 percent in 1992/93). This was due to elimination of large infrastructure projects and postponement of low priority projects.

In 1993/94, the government formulated and implemented, with assistance from the World Bank, a core investment program (CIP) consisting of high priority development projects; outlays on the core investment program amounted to 2.8 percent of GDP. Concurrently, outlays on some large infrastructure projects, including motorways, were scaled back. At the same time, a three-year rolling Public Sector Development Program was also formulated, comprising both the CIP and other public sector outlays.

In 1994/95, although measured expenditure declined, the staff estimates that budgetary expenditures remained about the same as a ratio to GDP. A significant adjustment was achieved in defense expenditure, which was reduced by 0.3 percent of GDP to 5.6 percent (resulting in a total decrease of 0.9 percent of GDP since 1992/93). Interest payments decreased by 0.5 percent of GDP, to 5.0 percent, due to the one-time effect of recording interest payments on treasury bills at the time of maturity (rather than at issuance) for all treasury bills issued from February, 1995. Development expenditure decreased by 0.2 percent of GDP to 4.4 percent reflecting, in part, the improved disbursement policy of the Ministry of Finance. 2/ However, budgetary expenditures for the core investment program decreased to 1.8 percent of GDP (from 2.3 percent in 1993/94), with the ratio of core to total budgetary development expenditure decreasing to about 38 percent (from 50 percent in 1993/94). The core investment program emphasized electricity generation and distribution, irrigation and drainage, repair and maintenance of the transport infrastructure, and health and nutrition programs. Expenditure on the Social Action Program, which contains allocations both in current and development expenditure, declined to 2.05 percent of GDP (from 2.11 percent in 1993/94) (Appendix Table 27). The Federal releases of development funds to the provinces for the SAP followed a quarterly pattern agreed with the World Bank. 3/

To help improve the quality of current expenditure, the Government initiated a reform of the public administration in 1993/94. This includes: (i) a ban on hiring and creation of new posts in the Federal Secretariat and

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1/ Federal and provincial subsidies are detailed in Appendix Table 26.

2/ During the course of each fiscal year, when it is found that implementation of a specific project is lagging behind in a certain quarter, its funds are not disbursed in the following quarter. Before the drafting of the financial allocations for the second year of the rolling program, stock is taken of the status of implementation of all projects and funds are re-allocated accordingly.

3/ The figures reported here for 1994/95 on the core investment program and the Social Action Program are based on World Bank staff estimates.

affiliated Departments and Organizations; (ii) elimination of 20 departments and organizations; (iii) reduction in the number of divisions in the Federal Secretariat; (iv) elimination of 2,500 civil service posts (out of a total secretarial work force of some 15,000); and (v) closing down seven foreign missions and abolishing 130 posts in the remaining missions. 1/

b. Expenditure control

Over the last two years, the Government enhanced its efforts aimed at improving expenditure control. In 1993/94, the Budget Wing of the Ministry of Finance exercised a strong control on disbursements to spending agencies. Releases of funds were effected on a quarterly basis, and the budget allocation for each quarter was only released if the allocation for the previous quarter had been fully utilized. This expenditure control mechanism was further tightened during the last quarter by releasing funds on a monthly basis, for the main expenditure items. In 1994/95, measures were implemented to avoid current expenditure overruns. A system of monthly monitoring by the Budget Wing of the Ministry of Finance on spending agencies was implemented for major expenditure items, according to which funds were released only if those previously allocated had been spent (in previous years, this strict monthly monitoring had been carried out only during the last quarter). Moreover, any expenditure by any federal agency above PRs 50,000 had to be personally authorized by the Additional Secretary of the Ministry of Finance, even if the expenditure allocation had been authorized in the budget law.

4. Federal-provincial fiscal transfers

The Federal Government transfers to the provinces consist of both unconditional and conditional components. Unconditional transfers are determined by an independent body, the National Finance Commission (NFC), that is appointed every 5 years to conduct a review of these transfers. The NFC makes recommendations as to which of the federally collected taxes go into the divisible pool of taxes (which, by constitutional mandate, has to be shared on a 20:80 basis among federal and provincial governments). According to the recommendations of the latest NFC award, the following taxes constitute the divisible pool of taxes: income taxes, sales tax, excise duty on tobacco, sugar and natural gas, royalties on gas and crude oil, and the gas development surcharge. 2/

1/ The World Bank estimates that the public administration reform, if fully implemented, would yield around PRs 500 million in annual savings.

2/ The provincial share of income taxes, is equal to 80 percent of the total collected, after deduction of 1.35 percent civil service emoluments and 5 percent collection charges. Provincial share of sales tax and excise duties on tobacco and sugar is 80 percent after deduction of a 5 percent collection fee. The provincial share of excise duty, development surcharge, and royalties on natural gas is 98 percent.

Over the last 3 years, the shift in taxation from international taxes to domestic taxes has led to a significant increase in the divisible pool as a proportion of federally collected taxes (Appendix Tables 28 and 29). This share increased from 29 percent in 1992/93 to 38 percent in 1993/94, and further to 44 percent in 1994/95. This trend has channeled more and more resources to the provinces under the unconditional transfer mechanism. In the absence of a new NFC award, this development has been partly counteracted by reducing conditional transfers to the provinces. These transfers, which are of lesser magnitude, include matching grants for provincial resource mobilization, development grants, and federal contribution to the provinces' development expenditure (mainly under the Social Action Program).

5. The 1995/96 budget

The 1995/96 budget envisages a budget deficit target of 5 percent of GDP. The budget is predicated on a 0.6 percent of GDP increase in revenue to 17.8 percent. Budgeted expenditures amount to 22.9 percent of GDP. Defense outlays are budgeted to decrease by 0.3 percent of GDP to 5.3 percent. Development expenditure is unchanged, at 4.4 percent of GDP. The deficit is expected to be financed mainly through recourse to domestic (primarily nonbank) sources.

The budget incorporates net revenue measures amounting to PRs 16.3 billion (0.7 percent of GDP), PRs 4 billion of which are expected to originate from reduced smuggling. The measures in the area of income tax (PRs 6.9 billion) consist mostly of increases in withholding taxes. In the area of personal income tax, the exemption threshold was raised by PRs 10,000; and the scope of the self assessment scheme for income tax was broadened to include incomes higher than PRs 200,000. In the area of wealth tax, the value of the PIU was increased by 25 percent to PRs 250.

Some measures were introduced in the area of indirect taxes. Excise duties were levied on services of certain professions (10 percent) and on ship plates, wastes, and scrap (5 percent). 1/ The excise duty on bank and travellers' cheques was doubled to PRs 2. In order to reduce smuggling, excise duty rates on cigarettes, soaps, detergent, and cosmetics were lowered. A composite regime of 5 percent excise duty and 10 percent sales taxes was adopted for certain industries. This regime was introduced to reduce the inequity in the tax structure due to area-bound GST exemptions (in Baluchistan and NWFP). 2/ The GST rate on selected raw materials--

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1/ The professions included lawyers, doctors, ship chandlers, stevedores, architects, town planners, builders, and chartered accountants. Doctors and lawyers were later exempted from the duty.

2/ The main items under composite regime are cassettes, aerated water, air conditioners, deep-freezers, foam products, metal containers, matches, polyester fibre, plastic products, paper sacks, refrigerators, rock/slack wool, syrups and squashes, and televisions.

both locally produced and imported--used as inputs for manufacturing paints, soaps, detergents, laminates, plastics, foundry products, and steel pipes, was increased to 20 percent. 1/ While the tariff reform proceeded, including through a reduction in the maximum tariff rate by 5 percentage points to 65 percent, several intermediate rates were raised for revenue purposes.

Prices of petroleum products were increased by an average of 5 percent, which is budgeted to generate an additional PRs 5 billion from the development surcharge.

Federal current expenditures are budgeted at 13.8 percent of GDP. The Government granted a 7 percent tax-free cost-of-living allowance; and pension increases of 5 to 15 percent, depending on time of retirement. However, no additional funds were allocated in the budget for the salary and pension increases--spending agencies will have to find the necessary resources from current allocations. Any purchase of durable goods by federal ministries and agencies will have to be approved by the Ministry of Finance. No transfers are budgeted for the Employee Old Age Benefit Institution (old age insurance in the industrial sector) because it currently runs a surplus and does not require federal transfers. Additional grants are allocated to the Pakistan International Airways (PIA) (PRs 1 billion), the Pakistan Railways (PRs 1 billion), and the Water and Power Development Authority (WAPDA) (PRs 2.3 billion). Interest outlays are budgeted to increase by 0.6 percent of GDP. Provincial current spending is projected to increase by 0.5 percent of GDP.

As noted, budgetary development expenditure is planned at 4.4 percent of GDP. Federal development spending is budgeted to increase by 30 percent, and provincial development spending by 5.5 percent. The core investment program is planned at 2.9 percent of GDP (up from 2.2 percent in 1994/95). The budgetary portion of the core investment program expenditure represents 40 percent of the budgetary PSDP. Allocations for the SAP are increased by 0.3 percent of GDP to 2.2 percent.

IV. The Financial Sector

1. Institutional set-up

The financial system in Pakistan consists of the State Bank of Pakistan (SBP), 25 locally owned commercial banks, 19 foreign commercial banks, 12 development finance institutions (DFIs), three stock exchanges, more than

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1/ Apart from the standard GST rate of 15 percent, there are now five non-standard rates (10 percent, 12.5 percent, 17 percent, 20 percent, and 15 percent plus 2 percent tax on landed cost).

50 insurance companies, and a growing number of leasing companies, investment banks and modarabas (a form of limited partnership). Of the 25 locally owned banks, four are fully government-owned, two are partly privatized and there are four specialized banks which cater to specific sectors of the economy. The remaining 15 banks are privately owned. The DFIs are government-owned financial institutions catering to the long-term financing needs of the public and the private sector. The Government has also set up three joint-venture companies in association with other governments that operate as general purpose DFIs.

In the banking sector, there has been an increase in the number of new banks, both locally-owned and foreign, since the decision to allow private banking activity. Nevertheless, the three state-owned banks (National Bank of Pakistan, United Bank Limited, and Habib Bank Limited) and the two partially privatized commercial banks (Muslim Commercial Bank and Allied Bank Limited) still dominate the banking system. In 1992, these institutions accounted for 79 percent of commercial bank assets, received 82 percent of commercial bank deposits, and owned an overwhelming 97 percent of the commercial bank branches.

The financial sector reforms (discussed below) have encouraged deposit mobilization by financial institutions and contributed to greater intermediation through the banking system. This has led to a steady increase in real money balances and to a shift in their composition from currency holdings to bank deposits (Table 8 and Appendix Tables 30 and 31). Velocity declined steadily from 2.77 in 1990/91 to 2.36 in 1993/94; it increased somewhat to 2.41 in 1994/95. The ratio of currency to total liquidity decreased from 39.1 percent in June 1991 to 30.0 percent in both June 1994 and June 1995. This reflected a gradual increase in the rate of return on deposits, especially on time deposits. Time deposits grew faster than either currency in circulation or demand deposits, thereby reversing the shift to more liquid components of the money supply observed in previous years. Accordingly, the share of time deposits in total liquidity rose from 26.6 percent in June 1991 to 31.8 percent in June 1995. The most pronounced expansion, however, occurred in residents' foreign currency deposits following the Government's decision to allow Pakistan residents to hold such deposits with the domestic banks (effective from March 1991); their share in broad liquidity rose from 2.6 percent in June 1991 to 13.6 percent in June 1995.

Notwithstanding the above-described trends, the market for loanable funds continues to be marked by segmentation, with bank deposits yielding lower rates of return than nonbank instruments (mainly government savings schemes). This situation is associated with structural distortions in the banking system, in particular with inefficiency in the operations of the publicly-owned banks. In the last two years, however, it has been aggravated by the Government's efforts to mobilize nonbank financing for the budget which have required an enhancement in the rates of return offered by the government savings schemes (and opening some of these to financial institutions).

Table 8. Pakistan: Factors Affecting Changes in Domestic Liquidity, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
		(In billions of Pakistan rupees)			
Net foreign assets	-1.7	9.0	-34.0	33.4	27.0 1/
Net domestic assets	53.2	102.8	120.6	57.4	83.2
Net claims on Government	29.2	76.7	72.9	17.6	27.5
Budgetary support	39.9	70.3	63.6	12.5	25.0
Commodity operations	-5.3	4.2	7.3	6.6	4.7
Zakat Fund with SBP	-1.4	-1.2	1.3	-1.3	-1.5
Privatization Fund and PTC deposits	-4.1	3.4	0.6	-0.1	-0.7
Claims on nongovernment sectors	20.7	31.1	62.8	35.5	66.9
Private sector (including NBFIs and CEC)	25.1	30.2	58.3	35.4	67.7
Public sector enterprises	-4.0	-0.1	-1.6	-2.4	-1.4
Claims on autonomous bodies	-0.4	1.0	6.2	2.4	3.0
Other items (net)	3.4	-5.1	-15.1 2/	4.3	-14.3 1/
Domestic liquidity	51.6	111.8	86.6	90.8	110.2
		(In percent of beginning-of-period domestic liquidity)			
Net foreign assets	-0.5	2.4	-7.1	5.9	4.1
Net domestic assets	16.8	27.9	25.1	10.1	12.6
Net claims on Government	9.2	20.8	15.2	3.1	4.1
Budgetary support	12.6	19.1	13.2	2.2	3.8
Commodity operations	-1.7	1.1	1.5	1.2	0.7
Zakat Fund with SBP	-0.4	-0.3	0.3	-0.2	-0.2
Privatization Fund and PTC deposits	-1.3	0.9	0.1	--	--
Claims on Nongovernment sectors	6.5	8.4	13.1	6.3	10.6
Private sector (including NBFIs and CEC)	7.9	8.2	12.1	6.2	10.2
Public sector enterprises	-1.3	-0.0	-0.3	-0.4	-0.2
Claims on autonomous bodies	-0.1	0.3	1.3	0.4	0.6
Other items (net)	1.1	-1.4	-3.1	0.8	-2.2
Domestic liquidity	16.3	30.3	18.0	16.0	16.6
Memorandum items:					
Velocity	2.77	2.52	2.37	2.36	2.41
Money multiplier	2.17	2.31	2.53	2.54	2.53
Index of real balances (1990/91 = 100)	100.0	119.1	128.8	134.5	139.9

Source: State Bank of Pakistan.

1/ Reflects mainly the increases in SBP net foreign assets and in government deposits resulting from sales of shares in the telecommunications company to foreign investors.
2/ Reflects, inter alia, the increased capitalization of the banking institutions in accordance with more stringent prudential regulations introduced in August 1992.

Since 1991/92, the foreign exchange generated by the rapid growth in residents' foreign currency deposits (which is surrendered to the SBP) has been an important source of financing for Pakistan's balance of payments. Resort to this type of financing has given rise to large uncovered foreign currency liabilities for the banking system. As of end-September 1995, the banking system's foreign currency liabilities amounted to US$6.6 billion (of which US$3.5 billion was residents' foreign currency deposits) while its foreign assets amounted to only US$3.1 billion (or 47 percent of foreign currency liabilities).

2. Evolution and sources of domestic liquidity

a. Overall monetary developments

Following a sharp increase in 1991/92, the growth rate of broad liquidity (comprising currency in circulation, demand deposits, time deposits, and residents' foreign currency deposits) decelerated to 16 percent in 1993/94 and picked up slightly to 16.6 percent in 1994/95 (see Table 8). The largest source of liquidity in 1991/92 was, by far, bank credit for budgetary support (which expanded by the equivalent of 19.1 percent of the initial stock of broad liquidity). In 1992/93, budgetary support was less expansionary but credit to the nongovernment sectors accelerated markedly (partly in an attempt to alleviate the difficulties arising from the September floods). Thus, the deceleration in broad liquidity that occurred in that year was attributable to a sharp deterioration in the net foreign asset position of the banking system (discussed in Section V).

While the rate of monetary expansion in 1993/94-1994/95 was not much reduced from that in 1992/93, the sources of liquidity expansion shifted strongly from net domestic asset expansion to net foreign asset accumulation. As discussed below, net domestic credit (particularly budgetary support) decelerated sharply in 1993/94 while the monetary impact of net foreign assets shifted from contractionary to expansionary (Chart 4). This change in the sources of liquidity expansion reflected the tightening of demand management in the context of the Government's new medium-term economic program. In 1994/95, the domestic credit policy was looser. This loosening was only partly offset by a somewhat weaker balance of payments; as a result, liquidity expansion rose to 16.6 percent.

b. Net domestic assets

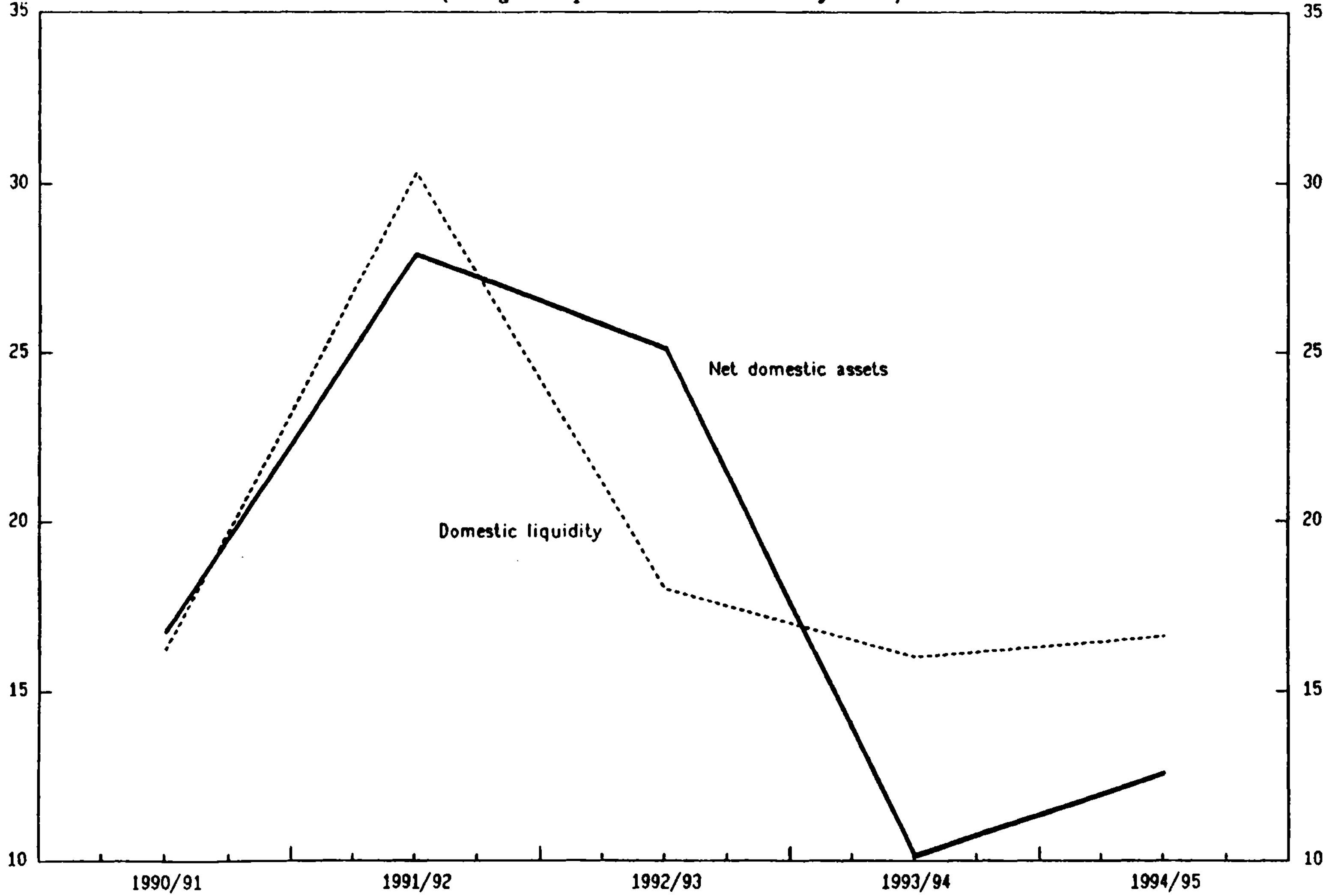
Developments in net domestic assets were dominated by the domestic financing requirements of the government sector. Net domestic asset expansion accelerated in 1991/92 reflecting increased bank borrowing by the Government. In particular, bank borrowing for budgetary support peaked at PRs 70 billion in 1991/92. This reflected, in large measure, the redemption of maturing long-term government debt instruments whose encashment was financed by borrowing from the banking system. In 1992/93, net domestic asset growth slowed somewhat to 25.1 percent of the initial stock of broad

CHART 4

PAKISTAN

MONEY AND CREDIT, 1990/91 - 1994/95

(Changes as percent of initial money stock)



Source: State Bank of Pakistan.

liquidity (compared with 27.9 percent during the previous year). Although the budget deficit widened, bank lending for budgetary support declined to PRs 64 billion due to an increase in nonbank domestic financing. The adoption of a new medium-term economic program in mid-1993 resulted in a sharp reduction in net domestic asset growth to 10.1 percent of the initial stock of domestic liquidity during 1993/94. A major contributory factor was the decline in budgetary support to only PRs 12.5 billion. Net domestic asset growth accelerated to 12.6 percent in 1994/95 as bank borrowing for budgetary support more than trebled to PRs 25 billion.

During most of the period under review, the growth of credit to the private sector has been constrained through strict enforcement of the credit control regime (discussed below) by the SBP. In 1992/93, however, bank credit to the private sector increased by PRs 58.3 billion (equivalent to 12.1 percent of the initial stock of domestic liquidity). This included about PRs 15 billion in subsidized credits to rehabilitate public transport. Elimination of that scheme in October 1993, together with an upward adjustment in the lending rates of charge, resulted in lower private sector credit growth (at PRs 35.4 billion, or 6.2 percent of the initial liquidity stock) in 1993/94. In 1994/95, the rate of private sector credit growth accelerated markedly to PRs 67.8 billion (10.2 percent of initial liquidity). This was due to: (i) increased credit extension to the cotton sector; (ii) large loan disbursements under government-sponsored credit schemes; and (iii) relaxation of prudential regulations relating to the provision of additional credit for "sick" industrial units. 1/

The banking system's claims on public sector enterprises have declined steadily since 1990/91. The underlying factors have been: (i) the restructuring of these enterprises' obligations in 1990/91; (ii) the Government's privatization program and efforts to enhance public enterprise efficiency; and (iii) greater reliance domestic on bond financing.

c. Net foreign assets

Following a sharp deterioration in 1992/93, the net foreign assets of the banking system improved markedly in the last two years. During 1993/94, NFA improved by PRs 33.4 billion in reflecting tightened demand management, an exchange rate adjustment, and strengthened private capital inflows (see Section V). The improvement exerted an expansionary impact on domestic liquidity equivalent to 5.9 percent of the initial stock of broad money. During 1994/95, a further increase of PRs 27.0 billion was recorded in NFA (equivalent to 4.1 percent of the initial liquidity stock). A major factor contributing to this development was an inflow of US$862 million on account

1/ In addition, there were large borrowings by public sector enterprises which are classified under the private sector in the monetary accounts.

of privatization of the telecommunications company. However, the balance sheet of the banking system continues to be characterized (as noted above) by large uncovered foreign currency liabilities (amounting to US$5.1 billion at end-September, 1995).

d. The money multiplier

Reflecting the financial sector reform--most notably the removal of bank-by-bank credit ceilings, and the liberalization of the credit to deposit ratio--and its impact on banking intermediation, the money multiplier increased sharply both in 1991/92 and in 1992/93 (see Table 8). Indeed, domestic liquidity grew by 30.3 percent in 1991/92 despite an expansion in reserve money by only 22.4 percent; and it decelerated to only 18 percent in 1992/93 despite the much sharper cut in reserve money expansion to 7.7 percent (Table 9 and Appendix Table 32). In 1993/94 and in 1994/95, the money multiplier stabilized and the expansion of domestic liquidity has been more or less in line with the expansion of reserve money.

3. Developments in monetary and credit policy

a. Monetary policy

A number of policy actions were taken during 1992/93 to tighten monetary conditions. The Statutory Liquid Asset Ratio (SLAR) was raised from 35 percent to 40 percent in August 1992; and further to 45 percent in December 1992, concurrent with an increase in the penalties for noncompliance with the Statutory Cash Reserve Ratio and the SLAR. At the same time, the SBP's three-day repo (discount) rate was raised from 14 percent to 15 percent per annum. These policy changes contributed to the slowdown in the rate of monetary expansion.

Early in 1993/94, two monetary policy measures were implemented with the objective of reducing monetary growth. First, all rates of return, including the repo rate, were raised in August 1993. Second, the specialized credit scheme to rehabilitate public transport (which was a source of unprecedented private sector credit expansion during 1992/93) was discontinued in October 1993. These measures contributed to a significant slowdown in the rate of monetary expansion in the first half of the fiscal year. However, following this tightening, the SBP took steps to ease monetary conditions. In this context, it lowered the rate of return structure and revised the SLR downward in March 1994. These measures contributed to an acceleration in the rate of monetary expansion during January-June 1994.

In 1994/95, in the context of the move toward indirect monetary control (discussed below), the SBP initiated the use of open market operations (from January 1995). These operations (transactions in short-term government paper) are aimed at regulating domestic liquidity in accordance with the

Table 9. Pakistan: Factors Affecting Changes in Reserve Money, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
			(In billions of Pakistan rupees)		
Net foreign assets	–6.0	1.6	–24.9	44.8	26.0 1/
Net domestic assets	35.6	36.5	40.9	–10.1	21.4
Net claims on Government	22.0	25.5	37.1	–26.6	20.9
Budgetary support	23.3	26.8	35.7	–25.1	23.1
Zakat Fund	–1.4	–1.2	1.3	–1.3	–1.5
Privatization fund	0.1	–0.1	0.0	–0.2	0.7
Claims on nongovernment sectors	2.2	1.9	3.3	2.8	4.0
Private sector	2.3	1.8	4.0	2.9	4.1
Public sector enterprises	–0.1	0.1	–0.7	–0.1	–0.1
Claims on scheduled banks	8.7	9.8	8.5	6.1	13.0
Other items (net)	2.7	–0.8	–7.9	7.6	–16.5 1/
Reserve money	29.6	38.0	16.0	34.7	47.4
Banks reserves	4.9	21.3	–2.5	13.2	14.6
Private sector deposits	0.9	0.2	1.1	1.1	–0.5
Currency	23.9	16.5	17.4	20.5	33.3
			(In percent of beginning–of–period reserve money)		
Net foreign assets	–4.3	0.9	–12.0	20.0	10.1
Net domestic assets	25.4	21.5	19.7	–4.5	8.3
Net claims on Government	15.7	15.0	17.8	–11.9	8.1
Budgetary support	16.6	15.8	17.2	–11.2	8.9
Zakat Fund	–1.0	–0.7	0.6	–0.6	–0.6
Privatization fund	0.1	–0.1	0.0	–0.1	0.3
Claims on nongovernment sectors	1.6	1.1	1.6	1.2	1.6
Private sector	1.6	1.1	1.9	1.3	1.6
Public sector enterprises	–0.1	0.0	–0.3	–0.0	--
Claims on scheduled banks	6.2	5.8	4.1	2.7	5.0
Other items net	1.9	–0.4	–3.8	3.4	–6.4
Reserve money	21.1	22.4	7.7	15.5	18.3
Banks reserves	3.5	12.6	–1.2	5.9	5.6
Private sector deposits	0.6	0.1	0.5	0.5	--
Currency	17.0	9.7	8.4	9.2	12.9

Source: State Bank of Pakistan.

1/ Reflects mainly the increase in foreign assets, and accompanying increase in government deposits, resulting from sales of shares in the telecommunications company to foreign investors.

SBP's reserve money programming. 1/ So far, reflecting excess liquidity in the money market, the operations have involved, almost exclusively, sale of treasury bills by the SBP to the authorized dealers. The yields have been in the range of 10.5-12.75 percent. During 1994/95, outright sales of treasury bills through open market operations amounted to PRs 19.9 billion while those on repurchase contracts amounted to PRs 81.6 billion. 2/

The SBP raised its reserve requirement to 6.5 percent (from 5 percent) in December 1994. This decision was taken in view of the accelerating growth in domestic credit during the second quarter of 1994/95. 3/ It is estimated that the rise in the reserve requirement resulted in a contraction of liquidity by PRs 10 billion (1.5 percent of the initial stock of broad liquidity). In March 1995, the repo rate was raised to 15.5 percent. The incremental reserve requirement was withdrawn on July 18, 1995.

b. Credit policy

The SBP has continued to allocate mandatory credit targets for the commercial banks (Appendix Table 33). Targets for agriculture are given on a gross disbursement basis and those for small business and industry on a net disbursement basis. Agriculture loans are provided at concessional rates and are directed primarily to small farmers for working capital during the production cycle (the banks are allowed to extend up to 15 percent of their target as development loans). Actual gross disbursement for agriculture has tended to fall short of the mandatory target while the targets for small business and industry have been exceeded. Mandatory credit targets for tobacco marketing were eliminated in late 1994. During 1990/91-1994/95, total outstanding credit under mandatory targets declined from 13.2 percent to 11.5 percent of total credit outstanding to the nongovernment sector (Appendix Tables 34, 35, and 36).

Concessional credit schemes have been introduced by the Government to provide subsidized credit to the private sector for specific purposes. Loans under these schemes are provided, inter alia, for agricultural production, export finance, locally manufactured machinery, youth promotion, and support for the self-employed. The share of concessional credits in total credit outstanding to nongovernment sector declined from a peak of

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1/ An open market policy committee and an open market review committee have been constituted. The policy committee meets weekly to analyze liquidity conditions in the market and take decisions regarding the conduct of open market operations. The review committee meets periodically to review the operations and to provide policy decisions.

2/ Such sales of treasury bills are conducted both on outright basis and on repurchase contract of one-week, one-month, three-months and five-months duration.

3/ The SBP decided to pay a rate of return of 11.5 percent on the incremental 1.5 percent cash reserves of banks. It pays no interest on the 5 percent cash reserves.

36.8 percent in 1992/93 to 32.9 percent in 1994/95. Nevertheless, the expansion of concessional credit contributed 15 percent of the expansion in domestic liquidity in 1994/95. This was due, in part, to the introduction in September 1994, of the Awami Tractor Scheme for financing the purchase of tractors by farmers owning up to 50 acres of land. The scheme envisaged the importation of 20,000 tractors in 1994/95, with a corresponding credit allocation of almost PRs 3 billion. The loans carry a rate of charge of 13.5 percent with ten-year maturity.

c. Level and structure of rates of return

The rates of return on financial instruments have been considerably liberalized in recent years. As research of bank deposits, the banks are free to set the rates of return. Rates on foreign currency deposits are subject to a ceiling of 0.25 percent per annum above the Eurodollar bid rates of Barclays Bank (London). The weighted average rate of return on bank deposits declined to 9.19 percent in 1994/95 (from 9.27 in 1993/94) reflecting the low profitability of domestic banks arising from high administrative costs and the larger bank's sizable portfolio of nonperforming loans (Appendix Table 37). Accordingly, the rates of return on bank deposits have remained significantly below the rate of inflation, with a detrimental effect on financial intermediation.

As regards lending rates, the SBP prescribed, until recently, a maximum lending rate for private sector credit extended by the commercial banks. The maximum rate was increased to 22 percent in August 1993 (from 20 percent); and the rates on all concessional credits were raised by 3 percentage points to 11 percent. The rate of return charged on bank lending for commodity financing was raised to 14 percent (from 12.5 percent) in November 1993. In March 1994, the maximum lending rate was lowered to 19 percent. However, in order to the reduce the subsidy on concessional lending, the rates on all such credits were increased by 1 percent to 12 percent. The maximum lending rate was lowered further to 17.5 percent in November 1994 concurrent with a 1 percent increase in the rate for concessional lending to 13 percent. The new ceiling was also made applicable to "investment-type modes of financing" (for banks) and "trade-related modes of financing" (for nonbank financial institutions); previously, the rates for these lending operations were not subject to a ceiling. The ceiling on rates of charge for trade-related and investment-type modes of financing was abolished on March 26, 1995.

4. Structural reforms in the financial sector

During 1992/93-1994/95, the Pakistan authorities intensified financial sector reforms aimed at establishing a flexible system of monetary management (with greater reliance on market mechanisms) and improving the efficiency of financial intermediation. Specifically, the reforms sought to establish a market-based system of monetary control, to enhance the autonomy of the central bank, to restructure and privatize financial institutions, and to enhance prudential regulation and supervision.

a. Liberalization of credit ceilings

Until 1992, the principal instrument of monetary control in Pakistan was the mechanism of bank-by-bank ceilings on nonpriority private sector credit. On this basis, lending by banks was held well below the level warranted by the deposit base while a major portion of the loanable funds was channeled to the Government and other privileged borrowers at low rates of return. Implicitly, this constituted a tax on banking activities and discouraged the banks from actively mobilizing deposits, thereby encouraging disintermediation.

In August 1992, as a first step in the transition toward indirect monetary control, the SBP abolished the bank-by-bank credit ceilings and replaced them with the credit-deposit ratio. Under the new system, commercial banks were required to keep their credit to the private sector within limits given by a certain proportion of their average weekly deposit base during the previous quarter. 1/ Excluded from the credit subject this form of control were: (i) credit provided under the concessional credit scheme for export finance; (ii) advances for commodity operations; (iii) credit to the Pakistan Telecommunications Corporation, autonomous bodies, public sector enterprises, and the Cotton Export Corporation; (iv) financing under the Self Employment Scheme; and (v) loans to holders of Special National Fund Bonds.

The credit-deposit ratio was liberalized in several steps (Appendix Table 38). Initially, commercial banks' outstanding credit to private sector was restricted to 30 percent of their rupee deposits plus 40 percent of their foreign currency deposits (for institutional foreign currency deposits, the ratio varied from 50 percent to 65 percent). In March 1993, these ratios were unified at 30 percent. The coverage of the credit-deposit ratio was widened in October, 1993 to include all incremental credit provided to public sector enterprises and under the Self-Employment Scheme, at which time the ratio was raised to 32 percent. This ratio was raised further to 34 percent in December 1994 and to 36 percent in March 1995. The credit-deposit ratio mechanism was abolished in October 1995.

b. Auctioning of government securities

As credit ceilings have been liberalized, the monetary authorities have undertaken efforts to develop alternative methods of monetary control, the foundation for which has been provided by the auction system for government securities introduced in March 1991. This system replaced the previous practice of direct government borrowing from the banking sector at a fixed

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1/ This base included current, time and savings deposits (including foreign currency deposits); Zakat funds; interbank borrowing; ceiling borrowing; reserves; sundry accounts; demand drafts and managers' checks outstanding; and cash collateral.

price. Two types of securities are offered at the auctions: short-term treasury bills (of six month maturity) and Federal Investment Bonds (of three-, five- and ten-year maturities). Since the inception of the program, the scope of the auctions has been enlarged through the expansion of the primary dealer network and the removal of constraints on bidding procedures.

During the last two years, the authorities introduced operational improvements in the auction system. In 1993/94, the Government started announcing separate targets for each auction and varying the size of the targets. With a view to promoting the development of secondary markets the SBP streamlined the clearance system providing for same day settlement of transactions. At the same time, nonresidents were allowed to participate in the auctions and to trade freely in auctioned securities. Starting in January 1995, the SBP was entrusted with the authority to determine the cut-off yield at treasury bill auctions based on financing requirements of the budget, maturing government debt, its reserve money target, and liquidity conditions in the market. With this key structural measure, the treasury bill auctions started to function effectively as a monetary control tool.

The weighted average yields at the treasury bill auctions rose from 7.75 percent in March 1991 to a high of 14.1 percent in December 1994 as the authorities raised the maximum accepted bid rates in order to counteract expansionary monetary conditions. However, they subsequently allowed the yields to gradually decline to 10.7 percent by June 1994. Following the transfer of the decision-making regarding cut-off points to the SBP, the weighted average yield increased steadily to 12.7 percent by June 1995. In view of the prevailing inflation rate (about 13 percent), this average was still negative in real terms. Up to end-June 1995, the treasury bill auctions attracted cumulative bids of PRs 895.4 billion of which PRs 496.2 billion (55 percent of total bids) were accepted; commercial banks accounted for about 96 percent of the accepted bids.

The Federal Investment Bonds were introduced to establish a market for government bonds and extend the maturity structure of domestic public debt. The bonds, which are auctioned monthly, carry a fixed coupon paid semi-annually at 13 percent, 14 percent, and 15 percent for three-, five- and ten-year maturities respectively. For the most part, the yields at issue on these instruments have remained close to coupon rates. The cumulative amount of bids received at the FIB auctions up to June 1995 was PRs 278.2 billion, of which the Government accepted PRs 190.1 billion (68.3 percent of total bids); commercial banks absorbed about 72 percent of all initial offerings.

c. Autonomy of the State Bank of Pakistan

In 1993/94, steps were taken to increase the autonomy of the SBP with a view to enhancing the effectiveness of monetary policy. The State Bank of Pakistan Act (1956) was amended to give the SBP's Central Board of Directors full authority to implement the range of available monetary instruments and regulate the monetary and credit system. Under the revised provisions, the

Board determines, in consultation with the Government, the annual limit on bank borrowing for budgetary support. Moreover, a Monetary and Fiscal Policies Coordination Board was established to coordinate monetary policies with fiscal and trade policies. The amended SBP Act also provides for complete freedom for the SBP to set cash the reserve requirement for financial institutions; and the Central Board is also empowered to issue regulations on all matters relating to the internal administration and the conduct of business of the SBP. Concurrently with the changes in the SBP Act, an amendment was made to the Banking Companies Ordinance (1962) authorizing the SBP to set the statutory liquidity ratio for scheduled banks.

d. Privatization and restructuring of financial institutions

As part of its broader strategy to privatize and liberalize domestic economic activities, the Government has opened the banking sector to private entities. As a result, a number of private banks, both domestic and foreign, have been set up. In addition, the Government has privatized two of the four nationalized commercial banks (NCBs). During 1991, the Government sold 51 percent of its shares in the Muslim Commercial Bank to a group of domestic private investors; and sold 26 percent of its shares in the Allied Bank to management and staff (with transfer of management). An additional 25 percent of government shares in Allied Bank was sold in August 1993. These privatized banks have outperformed the other NCBs in terms of deposit growth and containment of administrative costs. Encouraged by this initial success, the Government is currently taking steps to privatize one of the three remaining NCBs (United Bank Limited). Moreover, the Government, in collaboration with the World Bank, is undertaking measures to restructure or privatize three of the four largest Development Finance Institutions (DFIs).

e. Regulation and supervision of financial institutions

The SBP has strengthened substantially the prudential regulations governing financial institutions and improved its supervision function. A set of 17 prudential regulations for scheduled banks was issued in August 1992 including rules covering classification and provisioning requirements; concentration of credit; limits on exposure against contingent liabilities and unsecured advances; and stricter guidelines on separation of ownership and management. Also, the SBP has increased markedly the number of staff in the supervision and inspection departments; and it has provided ample training in this area, including with technical assistance from the Fund.

The SBP's enhanced autonomy and supervisory capability have been reflected in several concrete steps to improve financial intermediation. In 1993, the SBP issued a regulation prohibiting scheduled banks from lending to borrowers who were in default to the banking system unless the

outstanding liabilities were rescheduled or restructured. 1/ In March 1994, the SBP took action against a domestically-owned private bank for failing to meet its statutory obligations and for noncompliance with several SBP directives; the management of the bank was removed and a thorough audit was undertaken. 2/ In September 1994, the coverage of banks under the SBP's supervisory authority was broadened to include two important provincial banks (the Bank of Punjab and the Khyber Bank).

V. External Sector Developments

1. Balance of payments developments

a. Overall trends

Over the period under review, balance of payments developments were influenced by the Government's adjustment and structural reform program. The structural initiatives have fostered strong growth in exports, including a diversification toward nontraditional exports. During the five-year period, imports have grown less rapidly than exports reflecting a strengthening of demand management (in particular in 1993/94), exchange rate adjustments, and progressive import liberalization. Private transfers remained strong.

The current account deficit (excluding official transfers) narrowed from a high level of over 7 percent in 1992/93 (associated with the flood-related fiscal expansion) to 3.9 percent of GDP in 1993/94, largely reflecting a 14 percent drop in imports (Table 10 and Chart 5). In 1994/95, imports recovered sharply reflecting looser demand policies (particularly in the second half of the year) and the current account deficit widened to over 4 percent of GDP despite strong export growth.

The capital account surplus rose steadily from 3.9 percent of GDP in 1990/91 to 6 percent in 1993/94, reflecting mainly large inflows of nonresidents' foreign currency deposits with domestic banks, portfolio investment, and direct foreign investment. In 1994/95, continued strong private inflows (including sale of public enterprise shares) were in part offset by much lower net public short-term borrowing, resulting in a decline in the capital account surplus to 4 percent of GDP.

1/ Later, this regulation was relaxed to allow financing for "sick" industrial units on a case-by-case basis.

2/ In February 1995, this bank was merged with the National Bank of Pakistan; under the terms of the merger, all assets and liabilities of the bank were assumed by the National Bank of Pakistan.

Table 10. Pakistan: Balance of Payments, 1990/91-1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
			(In millions of U.S. dollars)		
Current account balance excluding official transfers 1/	-1,981	-1,499	-3,687	-1,964	-2,402
Trade balance	-2,483	-2,236	-3,267	-2,000	-2,253
Exports, f.o.b.	5,902	6,762	6,782	6,685	7,884
Imports, f.o.b.	-8,385	-8,998	-10,049	-8,685	-10,137
Services (net)	-1,790	-2,224	-2,748	-2,354	-2,546
Private transfers (net)	2,292	2,961	2,327	2,390	2,397
Of which: workers' remittances	1,848	1,468	1,562	1,446	1,866
Official transfers (net)	613	450	361	314	312
Current account balance	-1,368	-1,050	-3,326	-1,650	-2,091
Capital account 2/	1,374	1,179	2,738	3,234	2,470
Public and publicly guaranteed	1,291	363	1,554	1,129	597
Medium- and long-term	607	766	815	915	1,068
Project and nonproject aid	758	966	846	793	658
Commercial banks and Islamic Development Bank	-151	-165	-42	132	284
Other 3/	--	-35	11	-10	126
Short-term	684	-403	739	214	-471
Commercial bank and Islamic Development Bank	208	-133	315	290	-8
Other 4/	476	-270	424	-76	-462
Private sector, total	83	816	1,184	2,105	1,741
Private nonbank	375	1,083	866	1,769	1,832
Direct investment	239	343	310	360	440
Portfolio investment	-9	219	137	289	1,090
Private unguaranteed loans	41	559	786	792	313
Other, including errors and omissions	104	-13	-367	328	-11
Deposit money banks	-292	-267	318	336	-91
Foreign currency accounts	286	-61	62	413	60
Other 5/	-578	-206	256	-77	-151
Overall balance	6	130	-589	1,585	247
Financing	-6	-130	589	-1,585	-247
Net international reserves (increase -)	114	-352	512	-1,882	-349
State Bank of Pakistan	71	-431	613	-1,788	-391
Deposit money banks 6/	43	79	-101	-94	42
Use of Fund credit	-120	222	77	297	102
Purchases	--	257	263	376	214
Repurchases	-120	-35	-186	-79	-112
Memorandum item:					
End-year gross official reserves 7/	572	1,038	462	2,302	2,745
(in weeks of c.i.f. imports)	3.3	5.5	2.2	12.6	12.9
			(In percent of GDP)		
Current account before official transfers	-4.4	-3.1	-7.1	-3.8	-4.0
Current account balance	-3.0	-2.1	-6.4	-3.2	-3.4
Exports, f.o.b.	13.0	13.8	13.1	12.9	13.0
Imports, f.o.b.	-18.4	-18.4	-19.5	-16.7	-16.7
Services (net)	-3.9	-4.6	-5.3	-4.5	-4.2
Private and official transfers	6.4	7.0	5.2	5.2	4.5
Capital account	3.2	2.5	5.3	6.2	3.9

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

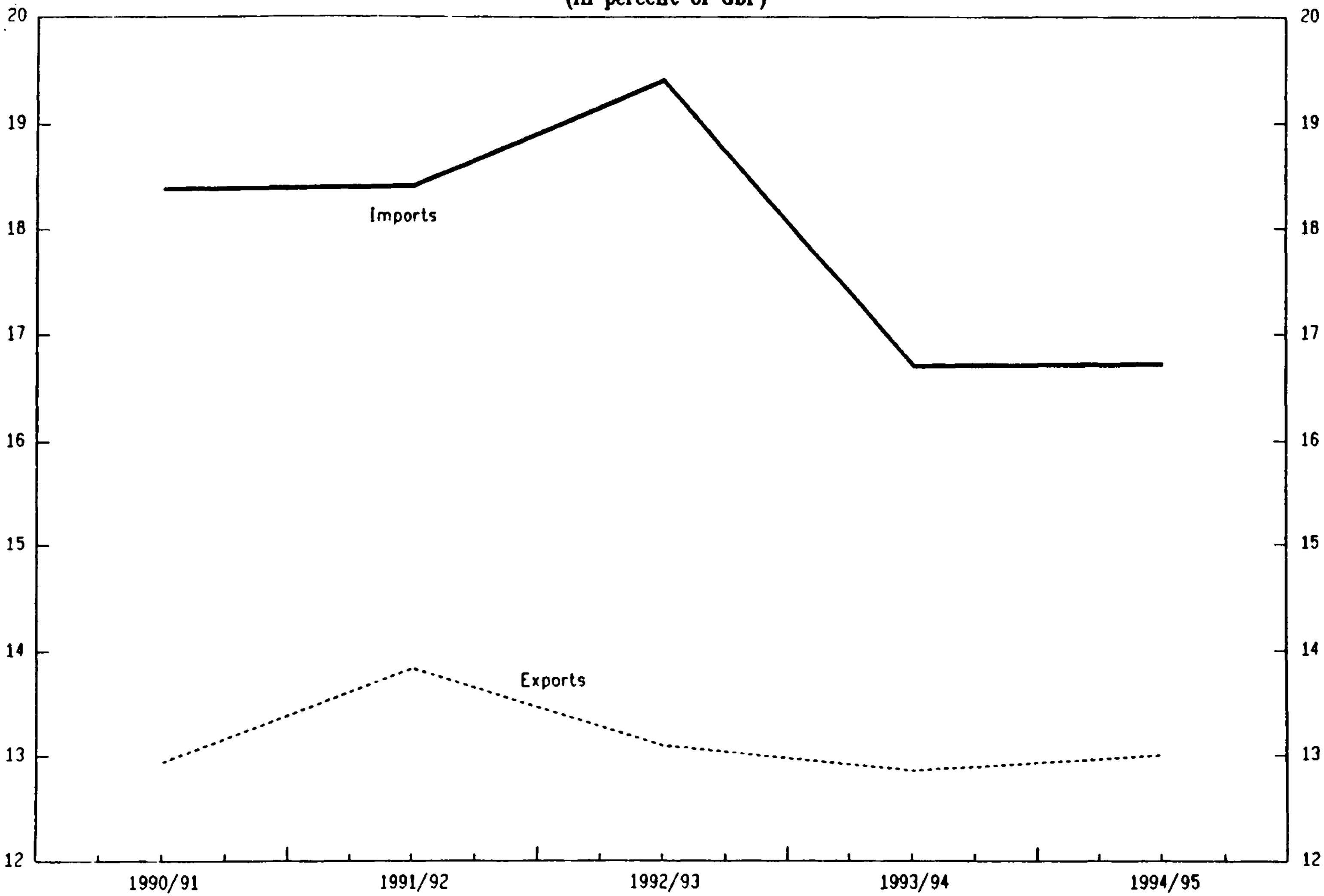
1/ In the data for 1989/90- 1991/92, defense-related external debt service payments are included in imports.
2/ The capital account as defined in this report excludes official transfers and includes changes in the medium and long-term net foreign assets of the deposit money banks.
3/ Includes Foreign Currency Bearer Certificates and Eurobond issue of US$148 million in 1994/95.
4/ Includes net sales of Foreign Exchange Bearer Certificates and Dollar Bearer Certificates.
5/ Mainly holdings of export bills.
6/ Changes in foreign exchange holdings.
7/ Excludes gold.

CHART 5

PAKISTAN

EXPORTS AND IMPORTS, 1990/91 - 1994/95

(In percent of GDP)



Source: State Bank of Pakistan.

Gross official reserves, which had fallen to two weeks of imports in July 1993, recovered sharply during 1993/94 to 13 weeks of imports by year-end. Reserves remained broadly stable in 1994/95 as large privatization inflows offset the underlying balance of payments deterioration. Pakistan's external position is made vulnerable by the large foreign currency liabilities which have steadily increased over the last three years to some US$6.5 billion at end-October 1995 (leaving the banking system with an uncovered foreign exchange position of US$5 billion).

b. Exports

Exports grew from US$5.9 billion in 1990/91 to US$7.9 billion in 1994/95 (Table 11) or at an average annual rate of 8 percent, reflecting four main factors: (i) a strong growth in cotton-based exports, with a pronounced shift from raw cotton to cotton manufactures, despite stagnating exports in 1992/93-1993/94 due to weather and virus conditions; (ii) growth in other traditional exports, in particular synthetic textiles; and (iii) strong growth (at a 12 percent annual average) in nontraditional exports, particularly leather manufactures and sport goods, and--in recent years--a wide range of other goods. The geographic distribution of exports was largely unchanged during the period, with the shares of the European Union, the United States, and Japan roughly stable at 30, 13 and 8 percent, respectively (Appendix Table 39).

During 1992/93-1993/94, Pakistan's cotton-based exports stagnated reflecting the floods in 1992/93 and the drought and virus attack in 1993/94 (Appendix Table 40). Other traditional exports also grew slowly reflecting stagnation in leather exports (associated with a shift to leather manufactures) and a drop in carpet exports (associated with competition from Iran and China). However, the negative impact of these developments on Pakistan's overall exports was somewhat attenuated by continued buoyancy in synthetic textiles, fish products, and nontraditional exports. Nontraditional exports maintained buoyant growth of 10 percent annually, although somewhat less than in previous years. The range of newly exported products includes: building materials, furniture, toys and plastic materials, sugar, molasses and biscuits, and cosmetic products.

In 1994/95, cotton-based exports recovered sharply (by over 20 percent) reflecting stronger international prices for cotton and higher unit prices for Pakistan's cotton manufactures. While other traditional exports were stagnant (in part, reflecting a drop in both fish products and synthetic textile exports), nontraditional exports are estimated to have grown by over 18 percent with continuing diversification.

c. Imports

Imports grew from US$8.4 million in 1990/91 to US$10.1 billion in 1994/95 (Table 12) or at an average annual rate of 5 percent. This average hides year-to-year fluctuations, reflecting weather conditions and demand management policies. Imports rose by 12 percent in 1992/93 reflecting high

Table 11. Pakistan: Merchandise Exports, 1990/91 – 1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total exports, customs basis f.o.b. 1/	6,133	6,904	6,813	6,803	8,137
Cotton	412	518	271	80	62
Basmati rice	218	230	199	126	184
Other rice varieties	128	185	118	116	270
Cotton-based manufactures	3,254	3,616	3,722	3,775	4,627
Cotton yarn	1,183	1,173	1,121	1,259	1,528
Cotton cloth	676	819	863	821	1,082
Ready-made garments	497	614	618	612	642
Towels, bedwear and other made-up articles	485	534	616	544	689
Hosiery (knitwear)	334	425	464	509	648
Tents and canvas	79	51	40	29	38
Other traditional exports	960	1,004	1,082	1,178	1,199
Leather	276	241	232	224	272
Carpets and rugs	222	230	173	151	198
Fish and fish preparations	115	115	182	155	154
Synthetic textiles	347	418	503	648	575
Nontraditional exports	1,161	1,351	1,421	1,528	1,795
Of which:					
Leather garments and leather gloves	263	323	399	389	329
Sports goods	136	141	131	199	246
Surgical goods	83	91	102	92	105
Fruits and vegetables	49	47	53	56	46
Petroleum and petroleum products	99	83	82	54	73
			(In millions of U.S. dollars)		
Adjustment for freight and valuation 1/	-231	-142	-31	-118	-253
Exports, f.o.b. 1/	5,902	6,762	6,782	6,685	7,884
Cotton	-7.0	25.8	-47.6	-70.7	-22.5
Rice	44.7	20.0	-23.6	-23.6	87.6
Cotton-based manufactures	30.7	11.1	2.9	1.4	22.6
Other traditional exports	17.9	4.6	7.8	8.9	1.8
Nontraditional exports	19.8	16.4	4.9	4.4	17.5
			(In percent of total exports)		
Cotton	6.7	7.4	4.0	1.2	0.8
Rice	5.6	6.0	4.7	3.6	5.6
Cotton manufactures	53.1	52.0	54.9	56.2	56.9
Other traditional exports	15.7	14.4	16.0	17.5	14.7

Source: Ministry of Commerce.

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

Table 12. Pakistan: Merchandise Imports, 1990/91-1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
			(In millions of U.S. dollars)		
Imports, c.i.f.	9,094	9,732	10,929	9,469	11,050
Petroleum products	1,730	1,377	1,578	1,459	1,732
Crude oil	634	527	538	442	483
Fuel oil	133	161	238	254	402
Other petroleum products	963	690	802	755	837
Wheat	91	251	390	199	357
Fertilizers	264	259	249	266	128
Edible oils 1/	402	403	584	488	996
Palm oil	233	324	452	408	830
Soy oil	169	79	132	80	166
Project-related imports 2/	1,011	974	925	1,153	1,024
Defense-related imports 3/	969	1,060	793	586	839
Other public sector imports	336	393	409	220	380
Private sector imports 4/	4,065	4,718	5,817	4,945	5,439
Of which: Energy projects					250
Personal baggage/NRI 5/	138	207	127	141	130
Afghan refugee assistance 6/	88	90	57	12	25
Less: freight and insurance	709	734	880	784	913
Imports, f.o.b.	8,385	8,998	10,049	8,685	10,137
			(Annual percentage changes)		
Total imports, c.i.f.	12.9	7.0	12.3	-13.4	16.7
Petroleum products	45.9	-20.4	14.6	-7.6	18.7
Wheat	-72.1	175.8	55.4	-48.9	79.2
Fertilizer	45.7	-1.8	-3.9	6.9	-52.0
Edible oils 1/	3.6	0.3	44.9	-16.4	104.1
Project-related 2/	11.2	-3.7	-5.0	24.6	-11.2
Defense-related imports 3/	-13.3	9.4	-25.2	-26.1	43.2
Private sector imports 4/	29.1	17.0	23.3	-18.1	72.7

Source: Ministry of Finance and Economic Affairs.

1/ Includes imports by the private sector.
2/ Financed by project-related foreign grants and loans.
3/ Excludes imports financed by defense-related external borrowing but includes the interest and amortization payments on account of the defense-related external debt until 1991/92.
4/ Excludes imports of edible oils by the private sector.
5/ Nonrepatriable investment.
6/ Financed by foreign grants.

wheat imports, expansionary fiscal policies, and high imports of textile machinery and cars (under the Urban Transport Scheme). In 1993/94, imports decreased by 13 percent reflecting a substantial tightening of financial policies; lower oil prices; a shift in domestic demand induced by the depreciation of the rupee; and the expectation of import tariff reduction under the 1994/95 budget. 1/ In 1994/95, the dollar value of imports grew by almost 17 percent reflecting a recovery in consumption demand related to expansionary financial policies; real exchange rate appreciation and tariff reduction; the high import content of large energy projects; and a more than 50 percent increase in dollar prices for edible oil.

As regards the structure of imports over the five-year period, there was a small rise in the share of petroleum products (with volume increases of 9 percent per year) and a drop in the share of defense-related imports (Appendix Tables 41 and 42). The geographic distribution of imports also underwent little change over the last three years, except for a gradual increase in the share of oil-producers following a drop in 1991/92. The European Union, the United States, and Japan account for about 24, 10, and 12 percent, respectively, of Pakistan's imports.

d. Terms of trade

Pakistan's terms of trade fluctuated mainly on account of variations in world prices of cotton manufactures, petroleum, and, to a lesser extent, edible oil. Following an extended period of gradual decline in the terms of trade, favorable cotton and cotton manufacture prices, combined with lower petroleum prices, led to a 6.5 percent improvement in 1993/94 (Appendix Table 43). In 1994/95, export prices continued to develop favorably; in particular, the unit-value of manufactured cotton and leather improved by 10-20 percent. However, this was more than offset by sharp increases in prices for edible oil, wheat, and (to a lesser extent) petroleum; as a result the terms of trade are estimated to have dropped by 4 percent.

e. Services and transfers

The deficit on the services account has remained at around 4.5 percent of GDP in recent years. During 1992/93-1994/95, interest payments on public debt have remained stable in terms of GDP and exports; however, private factor payments (less than one tenth of the total) have increased steadily, reflecting the increase in the stock of portfolio, suppliers', and other commercial credit. Imports and financing for the private sector energy projects started in mid-1994 and its impact on factor payments is expected to increase steadily over the coming years.

1/ The tariff reform plan, which was well-known to the public, called for a reduction in the maximum all-inclusive tariff from 92 to 70 percent in 1994/95 (see Section V.3).

Private transfers (including workers' remittances and transfers to foreign currency accounts) have been at around US$2.3 billion each year (Appendix Table 44). Workers' remittances dropped in 1991 due to the Middle East crisis, and recovered only partly thereafter as there was a shift towards residents' foreign currency accounts (Appendix Table 45). The latter showed a marked jump to US$1.7 billion in 1991/92 (from US$0.4 billion) related to the February 1991 measure allowing residents to hold foreign currency accounts. After a peak in 1991/92, the inflows to residents' foreign currency accounts remained high (some US$600 million per year) for two years before they declined in 1994/95, partly because banks made less efforts to mobilize deposits (given the increases in the SBP forward cover fee for foreign currency deposits in June and October 1994).

f. Capital account

The capital account surplus increased from 2.5 percent of GDP in 1991/92 to 6.3 percent in 1993/94 but declined to just under 4 percent of GDP in 1994/95. Net medium- and long-term government and government-guaranteed borrowing has been roughly constant at some 1.7 percent of GDP, with a large and increasing share of project aid and a small and slightly decreasing share of nonproject (food and commodity) aid. 1/ Most of this financing is on concessional terms with the average interest rate at about 3.6 percent. 2/ Although the aid pipeline remained relatively large (at US$9 billion at end-1994/95), 3/ improved administrative procedures have led to a decline in committed but undisbursed in proportion to loan disbursements (Appendix Table 47).

Program loan disbursements, such as under structural and sectoral adjustment credit, have been relatively small in Pakistan. In 1992/93, program loan disbursements included some US$200 million in flood assistance from the World Bank and Asian Development Bank each. In 1993/94, the World Bank disbursed the first tranche of the Public Sector Adjustment Loan (PSAL) (US$125 million); the second tranche, of equal size, was disbursed in 1994/95. Japan disbursed cofinancing in association with the World Bank's PSAL in two tranches of about US$75 million each. The Asian Development Bank disbursed US$100 million under an agricultural sector loan in 1993/94. In March 1994, the World Bank approved a three-year US$200 million Social Action Program Project credit.

Net short-term government and government-guaranteed borrowing has fluctuated sharply in recent years reflecting large movements in net government-guaranteed commercial bank borrowing, as well as fluctuations in net short-term liabilities of the SBP (borrowings by the SBP and withdrawals of deposits by foreign banks) (Appendix Table 48). The large inflow of

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1/ Medium- and long-term capital flows are detailed in Appendix Table 46.

2/ Most medium-term borrowing from banks is at commercial interest rates.

3/ Of the total aid pipeline, slightly over 90 percent is on account of Consortium creditors.

privatization proceeds in early 1994/95 allowed the authorities to repay US$500 million in short-term debt. The Government's issue in December 1994 of US$150 million in Eurobonds was meant, in part, to mobilize resources for further reducing short-term commercial debt so as to improve the maturity structure. 1/

Medium- and long-term private financing flows rose from about US$1.3 billion per year in 1992/93-1993/94 to US$1.8 billion in 1994/95. This reflected increases in direct and portfolio investment, suppliers' credits, and other commercial credit related to foreign and domestic investment. 2/ In particular, portfolio investment amounted to US$1.1 billion in 1994/95 reflecting--in addition to normal flows--an amount of US$860 million in PTC shares sold to foreign investors. In the second half of 1994/95, portfolio investment slowed down in line with international trends following the Mexico crisis.

The net inflow of foreign currency deposits held by nonresidents averaged US$0.4 billion per year. The net inflow of deposits with the banking system rose from US$60 million in 1992/93 to almost US$400 million in 1993/94 before slowing down to US$200 in 1994/95. The net inflow of deposits held with nonbank financial institutions increased from less than US$200 million in 1992/93 to US$250 million in 1993/94-1994/95. The inflows of foreign currency deposits have reflected: (i) confidence in the economy and a competitive interest rate; and (ii) the domestic interest rate margin which has made these deposits an attractive source of funds for domestic banks. 3/ The overall stock of foreign currency deposits has more than doubled since 1990/91, reaching almost US$6.6 billion by end-1994/95 (Appendix Table 49). Foreign currency deposits are surrendered to the SBP which provides foreign exchange forward cover at a fee which varies by currency of denomination. 4/ At end 1994/95, as a result of these "swaps," the SBP had foreign currency liabilities in an amount of US$3.4 billion to residents and US$3.2 billion to nonresidents. As regards other private short-term capital flows, outflows on account of delayed repatriation of export bills held by exporters and banks dropped significantly, from an annual average of US$350 million in 1990/91-1992/93 to about US$200 million in 1993/94-1994/95.

1/ The interest rate on five-year bonds was 3.85 basis points above the US Treasury rate for similar bonds.

2/ In 1993/94-1994/95, private capital flows on account of energy projects started to come in, adding some US$200 million per year to private inflows.

3/ The interest rates on dollar, yen, Deutsche mark, and pound sterling deposits are fixed by the SBP based on the Libor Eurodollar deposit rates.

4/ At end-1994 (following increases in June and October), the forward cover fee charged by the SBP was raided to 4.75 percent per year for U.S. dollar deposits; it has been kept at this level during 1995.

g. Official reserves

Gross official reserves (those held by the SBP) fell drastically during 1992/93, to slightly over two weeks of imports, but improved strongly to 12.5 weeks of imports (US$2.3 billion) by end-1993/94; and to almost 13 weeks of imports (US$2.7 billion) by end-1994/95 (Chart 6 and Appendix Table 50). The improvement in the last two years reflects mainly the surge in private capital inflows, including those related to privatization. This level of reserves is vulnerable in view of the foreign currency liabilities of the SBP (which exceeded reserves by almost US$4 billion at end-1994/95).

2. External debt and debt service

Pakistan's public and publicly-guaranteed external debt rose from US$20 billion in 1991/92 (about 40 percent of GDP) to US$26 billion (43 percent of GDP) in 1994/95 (Table 13). Of the total stock at end-1994/95, almost 80 percent (US$21 billion) was related to long-term project and commodity aid. The remainder consisted of credit from commercial banks and the Islamic Development Bank (US$1.3 billion); the Fund (US$1.5 billion), and other medium- and short-term debt. At end-1994/95, the largest bilateral creditors were Japan (US$3.6 billion), the United States (US$2.6 billion), Germany (US$1.5 billion), and France (US$0.8 billion). The largest multilateral creditors were the World Bank (US$6.0 billion, of which US$3.1 billion from IDA) and the Asian Development Bank (AsDB) (US$4.1 billion). Total debt to Russia amounted to the equivalent of US$250 million, half of which is denominated in U.S. dollars and half in USSR rubles. 1/ The "pipeline" of loans from official sources stood at some US$9.4 billion at end-1994/95 (or four times the average loan disbursement) of the last two years; it was split about equally among the World Bank, the AsDB, and bilateral creditors (Appendix Table 51).

Pakistan has been current on all its debt service. 2/ Debt service payments have been stable at around 23 percent of exports of goods, services, and net private transfers in the last three years (Table 14). 3/

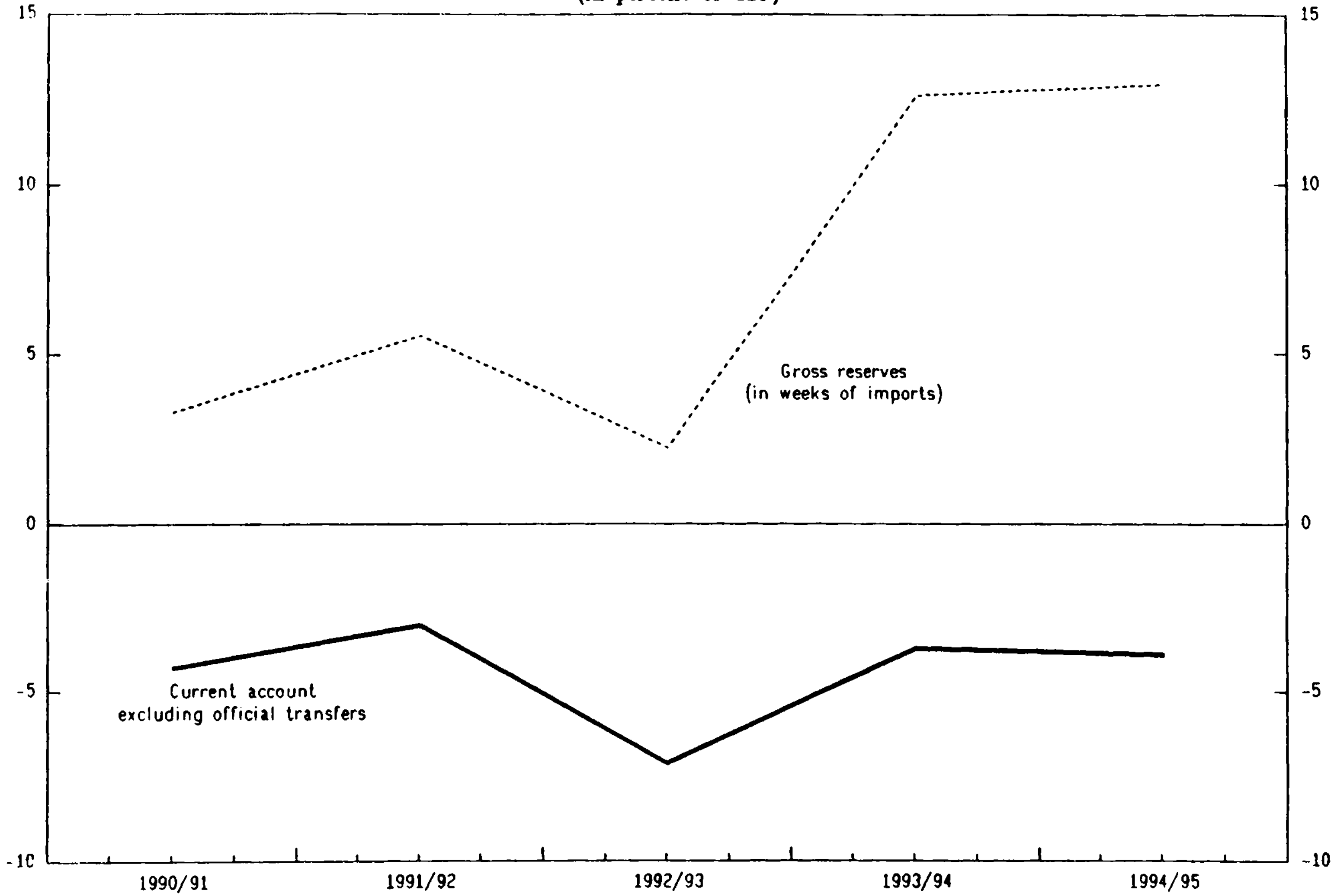
1/ The ruble debt is valued by the Pakistan authorities at the official exchange rate of USSR rub 1 = US$1.52.

2/ Pending ongoing negotiations with the Russian authorities on the amount and modalities of the 1994 debt service on ruble debt, Pakistan initially paid only 40 percent of the scheduled 1994 debt service (USSR rub 15.4 million or US$23.4 million). After several rounds of negotiations during 1994, Pakistan paid the scheduled amount. Negotiations on the 1995 debt service payments on ruble debt are ongoing.

3/ Details on foreign interest payments are provided in Appendix Table 52).

CHART 6

PAKISTAN
CURRENT ACCOUNT AND OFFICIAL RESERVES, 1990/91 - 1994/95
(In percent of GDP)



Source: State Bank of Pakistan.

Table 13. Pakistan: External Debt and Foreign Currency Liabilities, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Medium- and long-term public and publicly guaranteed 1/	16,800	18,899	22,526	23,920	25,090
Project and nonproject aid	15,471	17,361	19,044	20,322	21,294
Balance at beginning of period	14,726	15,471	17,361	19,044	20,322
Disbursements	1,564	1,913	2,145	2,250	2,266
Repayments (–)	806	947	1,013	1,127	1,271
Valuation adjustment	–13	924	551	155	–24
Balance at end of period	15,471	17,361	19,044	20,322	21,294
Borrowing from foreign commercial banks and the Islamic Development Bank (IDB)	248	158	115	260	543
Balance at beginning of period	374	248	158	115	260
Disbursements	36	63	74	212	406
Repayments (–)	187	228	116	80	122
Valuation adjustment	25	75	–1	13	–1
Balance at end of period	248	158	115	260	543
Debt repayable in local currency	367	355	344	333	323
Balance at beginning of period	381	367	355	344	333
Disbursements	--	--	--	--	--
Repayments (–)	14	12	11	11	10
Valuation adjustment	--	--	--	--	--
Balance at end of period	367	355	344	333	323
Military debt	...	2,150	1,864	1,534	1,196
Balance at beginning of period	...	2,150	2,150	1,864	1,534
Disbursements	...	...	...	...	...
Repayments	...	...	286	330	338
Valuation adjustment	...	...	...	...	...
Balance at end of period	...	2,150	1,864	1,534	1,196
Foreign Currency Bearer Certificates including Eurobonds	--	21	87	119	280
Fund credit 2/	714	1,004	1,072	1,353	1,454
Balance at beginning of period	837	714	1,004	1,072	1,353
Purchases	--	257	263	376	214
Repurchases (–)	120	35	186	79	112
Valuation adjustment	–3	68	–9	–16	
Balance at end of period	714	1,004	1,072	1,353	1,454
Short-term public debt	1,136	855	927	1,235	1,256
Commercial banks and IDB	611	429	434	724	716
FEBCs and DBCs 3/	525	426	493	511	540
Deposit liabilities of the banking system	2,626	2,399	2,817	3,136	2,705
State Bank of Pakistan	423	410	767	673	181
Deposit money banks	2,203	1,989	2,050	2,463	2,524
Liabilities to banks	951	906	864	1,059	1,199
Liabilities to nonbanks	1,252	1,084	1,186	1,404	1,325

Source: Ministry of Finance and Economic Affairs.

1/ Excludes military debt in 1990/91–1991/92.
2/ Based on data from the IMF Treasurer's Department
3/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

Table 14. Pakistan: Summary of External Debt and Debt Service, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
			(In millions of U.S. dollars)		
Total public and publicly guaranteed external debt 1/	17,935	19,754	23,453	25,155	26,346
Long-term	16,085	17,895	21,454	22,568	23,636
Project and nonproject aid	15,471	17,361	19,044	20,322	21,294
Commercial banks and IDB 2/	247	158	115	260	543
Other 1/	367	376	2,295	1,986	1,799
Short-term	1,136	855	927	1,235	1,256
Commercial banks and IDB 2/	611	429	434	724	716
FEBCs and DBCs 3/	525	426	493	511	540
Use of Fund resources	714	1,004	1,072	1,353	1,454
Service of medium- and long-term public and publicly guaranteed debt	1,769	1,885	2,420	2,461	2,757
Amortization	1,130	1,224	1,612	1,627	1,853
Interest	639	661	809	834	904
			(In percent of GDP)		
Total public and publicly guaranteed external debt 1/	39.3	40.4	45.4	48.4	43.4
Long-term	35.3	36.6	41.4	43.4	39.0
Short-term	2.5	1.7	1.8	2.4	2.1
Use of Fund resources	1.6	2.1	2.1	2.6	2.4
Service of medium- and long-term public and publicly guaranteed debt	3.9	3.9	4.7	4.7	4.5
Amortization	2.5	2.5	3.1	3.1	3.1
Interest	1.4	1.4	1.6	1.6	1.5
			(In percent of exports of goods and services, and and net private transfers)		
Service of medium- and long-term public and publicly guaranteed debt	18.0	16.6	22.5	22.7	22.5
Amortization	11.5	10.8	15.0	15.0	15.1
Interest	6.5	5.8	7.5	7.7	7.4
Interest on public and publicly guaranteed short-term debt	0.8	0.9	0.6	0.6	0.5

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

1/ Excludes defense related external debt and debt service payments in 1990/91–1991/92.
2/ Islamic Development Bank.
3/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

3. Trade regime

a. Institutional set-up

The Ministry of Commerce (together with Customs and the Central Board of Revenue of the Ministry of Finance) is responsible for trade policy formulation and implementation. Import and export policies are issued at the beginning of each fiscal year through the Import Policy Order and Export Policy Control Order. The National Tariff Commission (NTC) is an autonomous body which advises the Government on tariff protection and other incentives for domestic industry. The NTC examines requests for specific concessions and makes recommendations on these issues to the Economic Coordination Committee of the Cabinet.

Pakistan's trade regime has been liberalized in several steps over recent years. The reform of the trade system evolved broadly in the following sequence: (i) elimination of import licenses; (ii) reduction in quantitative restrictions on imports and exports; (iii) reduction and streamlining of the tariff structure; and (iv) reduction in tariff and tax exemptions. Despite progress in reforms, Pakistan's import regime is still characterized by a high degree of administrative regulation.

b. Import regime

In 1991, import licensing was eliminated for all freely importable items subject to a restricted, negative, and health and safety list. In July 1993, all import licensing was abolished including for items subject to specific conditions. At that time, the Office of the Chief Controller of Imports and Exports was abolished and the verification of specific conditions was assigned to customs and banks.

The number of quantitative restrictions embodied in the Restricted List was reduced in a number of steps with the import policy orders of 1990, 1991, and 1992; and narrowed to two items in July 1993. As a prior action for the ESAF/EFF arrangement, the Restricted List was abolished in January 1994.

The Negative List originally included prohibitions for both protective and health, religious, and security reasons. It was streamlined in each year beginning with the 1990/91 fiscal year. In 1993/94, it was narrowed to include only items for health, religious, security, and reciprocity reasons (this, for a large number of textile items). 1/ Early in 1994/95, the Negative List was further reduced, including through the removal of second-hand machinery. Under two bilateral agreements concluded in 1994 with the

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1/ The reasons for the reciprocity measure were linked mainly to a strategy to improve access to markets for manufactured textiles in industrialized countries.

United States and the European Union, Pakistan removed many textile items from the Negative List, at end-1994 and mid-1995, in exchange for removal of quantitative restrictions on its textile exports to these markets. 1/

As regards nontariff restrictions, the Health and Safety List, which does not appear to contain protective features, was extended to 34 items in 1994/95. Another list, the Procedural List, consists of 16 items for which importing requires a certain technical expertise (e.g., petroleum imports). In addition, all imports from India are prohibited (unless authorized by special legislation). Standardization requirements for tractors and other commercial motor vehicles played a restrictive and protective role until June 1994, when they were abolished.

While the maximum tariff rate had already been reduced in a number of steps (from 225 percent in 1987/88 to 90 percent in 1992/93), a major overhaul of the tariff system was only initiated in 1993/94, when the maximum rate was reduced to 80 percent (to 92 percent including paratariffs). 2/

The tariff reform measures implemented with the 1994/95 budget consisted of: (i) a reduction in the maximum all-inclusive rate to 70 percent (except cars and alcoholic drinks); (ii) a minimum rate of 10 percent (applied, inter alia, to intermediate and investment goods), except for essential items such as food, fertilizer, and medicines (which keep a zero rate); (iii) a reduction in intermediate rates (with the effect of bringing the statutory rates for many categories down to the concessional rates that had already been granted); (iv) a reduction in the value of imports under exemptions; (v) a reduction in the number of tariff rates to 13 for rates up to the maximum of 70 percent; and (vi) the elimination of the differential customs treatment of commercial and industrial importers. The all-inclusive tariff rates for cars were increased somewhat to a range of 100-265 percent in 1994/95 (depending on type of car and number of cylinders) compared with 70-250 (excluding 12 percent paratariffs) in 1993/94. 3/

The plan for the 1994/95 tariff reform had envisaged that the average effective rate on dutiable imports would remain roughly unchanged at some 39 percent of total c.i.f. import value. This was predicated on administrative improvements and reductions in exemptions and smuggling. However, due to the introduction of new exemptions, the outcome for 1994/95

1/ At the same time, Pakistan imposed the maximum import tariff of 70 percent on the textile items removed.

2/ Excluding rates in the 100-300 percent range for cars and alcoholic drinks. Paratariffs included: a 6 percent import license fee, a 5 percent Iqra surcharge, and a 1 percent flood relief surcharge.

3/ In 1993/94, the rates on cars had been brought down from a range of 110-445 percent. As a result, the Pakistan car (assembly) industry had been pushing for higher protection.

implied a reduction in the average effective rate to about 34 percent. This reflected the reduction in the average statutory rate on dutiable imports to below 50 percent which could not be offset by an improvement in duty collection. In addition, the favorable impact on import value assessment from the start of pre-shipment inspection in early 1995 was not yet felt in 1994/95. In this regard, despite the move toward pre-shipment inspection, Pakistan's customs valuation is not yet invoiced-based and the Import Trade Prices (ITP) continue to play a role in determining the duty base. 1/ Under its obligation under the GATT Uruguay Round, Pakistan is committed to moving to an invoiced-based system by the year 2000; and to adjusting its Customs Act accordingly (i.e., by removing the references to the Brussels Definition of Value and building in safeguard procedures for importers).

c. Export regime

Quantitative restrictions on exports are imposed through the Export Trade Control Order and apply to a large number of mainly agricultural products. Except for the abolition of minimum export prices for cotton and yarn in 1994, the restrictions have remained unchanged over the last several years. Given the nature of the products, the adverse impact on total exports is considered modest. The 1994 Export Trade Control Order continued to prohibit exports of certain live animals, beef and mutton (up to a limit of 50 percent of production of a unit), grains and pulses, edible oils, hides and skins, nonferrous metals, arms, re-exports of imports (unless the re-export value exceeds the c.i.f. import value by at least 10 percent), and sugar. 2/ It also maintained export quotas for a list of agriculture-based products and cement. 3/ Finally, the Order set minimum export prices for onyx and breeding animals (mainly with a view to avoiding under-invoicing); and described procedural requirements for certain exports--in particular for rice, fertilizers, and textiles to quota countries.

1/ The ITP are described in the Valuation Manual, which is published every three months and based on actual transaction values. Pakistan did not sign the Tokyo Round Customs Valuation Code based on transaction values, mainly with a view to preventing false invoicing. However, the ITP have sometimes been set above world prices and they have thus been a source of protection. Most recently, in March 1995, the ITP were substantially increased for 110 commodities, including many essential items.

2/ Exports of certain quantities of sugar are allowed under special authorization from the Economic Coordination Council (ECC); in November 1994, this body authorized 300,000 tons of sugar exports during the crop year, provided that producers supplied sugar at a fixed price per kilogram to the Utility Stores Corporation which is in charge of distribution for domestic consumption. In August 1995, however, the authorities banned the export of sugar in an attempt to contain domestic price increases.

3/ Gram and gramsplit; maize, atta, suji and maida (grains); soda ash, breeding buffaloes, cows, goats, and camels; and indigenous birds.

Exporters have benefitted from three types of incentives (in addition to concessional bank financing): (i) concessional rates for import tariffs and full exemption from the sales tax for direct imports of machinery (and certain raw materials and intermediate products in selected industries); these concessions were largely maintained at the time of the 1994/95 tariff reform; (ii) full exemption of import duties for Export Processing Zones and bonded warehouses; the number of the latter was reduced at the beginning of 1994/95 budget year to reduce illegal use of this channel; and (iii) the duty drawback system which allows reimbursement for import duties and domestic taxes paid on imported inputs that entered production for exports. This system is based on technical coefficients and tax rates, and requires customs valuation of the f.o.b. export value; it is currently under revision by the Central Board of Revenue (CBR) of the Ministry of Finance with a view to incorporating new data and rates and reducing reimbursement delays. In January 1995, duty drawback rates were reduced by 15 percent.

In June 1994, all remaining export taxes--those on cotton, yarn and chilies--were abolished. However, the export development cess, a 0.25 percent levy on the f.o.b. value of all exports introduced in 1992, remained in place. 1/ The proceeds from the cess are earmarked for the extra-budgetary Development Fund, which is used for export promotion activities and training.

d. Regional and global economic cooperation

Pakistan is a member of the Economic Cooperation Organization (ECO) which it co-founded in 1985 with Iran and Turkey. Since 1992, Afghanistan and six Central Asian republics of the former Soviet Union have joined. The promotion of regional trade, investment, and economic cooperation among ECO members has moved slowly--in part due to the conflict situation in Afghanistan, which is a transit country for a large part of potential trade in the region. In 1992, a very limited system of tariff preferences was established with a 10 percent reduction vis-à-vis each country's normal tariff rate for 16 product groups. A proposal for increasing both product coverage and extent of tariff concessions was considered by the ECO members end-November 1994. The railway project linking the Baluchistan province with Turkmenistan and Uzbekistan is stagnant owing to the conflict in Afghanistan; and Iran's initiative on air transport has received little support from other members. However, in line with Pakistan's commitment to provide a deep water port to the landlocked countries of the ECO, a US$330 million port is planned in Baluchistan, to be built and operated by private investors. In the Third ECO Summit (held in Islamabad in March 1995), the ECO Transit Trade Agreement was signed by most members (except Afghanistan and Uzbekistan); under the agreement, transiting goods are not subject to any duties. Also, discussions were held on the establishment of an ECO Trade and Development Bank; a common Shipping Company; and the ECO Air Company.

1/ Textile exports have been exempted from the cess since 1994/95.

Pakistan participates in the South Asian Association for Regional Cooperation (SAARC), which was founded in 1985 and also includes Bangladesh, Bhutan, India, the Maldives, Nepal, and Sri Lanka. In April 1993, the seven members signed the Agreement on the SAARC Preferential Trading Arrangement (SAPTA). The negotiations on the modalities of this arrangement (which include mutual tariff concessions on intra-SAARC trade) are expected to be completed by end-1995.

The treaty on transit trade with Afghanistan, which provides for duty-free imports into Afghanistan through Pakistan, expired in August 1995 and is being renegotiated. The main problem to be addressed is the massive smuggling of goods back into Pakistan. In early 1995, to stem these flows, Pakistan's Central Board of Revenue prohibited the import of a number of transit trade items and, in May 1995, it reduced the import duty and sales tax rates for a number of other items. 1/

Pakistan was a member of the GATT from its founding in 1948. It currently invokes Article XVIIIB to impose quantitative import restrictions on some 140 tariff lines for balance of payments reasons. Of these products, many are textiles and on the Negative List while the others are not subject to import restrictions. Therefore, most of the Article XVIIIB restrictions concern imports in which Pakistan is very competitive and they have little balance of payments impact. Upon its accession to the GATT, Pakistan bound 113 CCNN tariff lines. As successive waivers by the GATT since 1977 (most recently in July 1994) have authorized Pakistan to suspend the application of the relevant GATT articles, Pakistan effectively had no pre-Uruguay Round tariff bindings. Under the Uruguay Round, Pakistan is to bind about 33 percent of its tariff lines. 2/ The low proportion of tariff rates bound by Pakistan indicates that, even after the Uruguay Round, its integration into the world trading system will continue to be gradual.

The GATT Uruguay Round will mainly affect Pakistan's rice and textile exports and have little impact on its imports as there are few quantitative restrictions left. For rice, there are good prospects for expanded markets in Japan and South Korea. For textiles, only a small increase in textile exports can be expected over the next five years because: (i) at present, quotas are not always fulfilled; (ii) Pakistan has found alternative markets outside the United States and the European Union; and (iii) the tariffication of quantitative restrictions for textile items in the United States and the European Union is back-loaded toward the end of the 1995-2004 period. Nevertheless, the prospects for increasing value added per piece

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1/ According to recent estimates of the authorities, smuggled imports amount to US$700 million per year and tariff revenue losses to PRs 10 billion per year. The main smuggled items for which transit was prohibited are: electrical appliances, auto parts, tires and tubes, cigarettes, PVC, black tea, and dyes and chemicals.

2/ Comprising 81 percent of the agricultural products and 25 percent of the industrial products.

are expected to improve. Moreover, Pakistan recently obtained, from both the United States and the European Union, earlier concessions on textile quota than envisaged under the Uruguay Round. 1/ Overall, the gain in Pakistan's export value from the Uruguay Round is projected at some US$150 million per year, equivalent to 3-4 percent of average annual export earnings during the next decade.

In addition to these regional and global initiatives, Pakistan has signed so-called "goodwill" type bilateral trade agreements with 36 countries, with the objective of promoting bilateral trade, subject to rights and obligations under the GATT and other multilateral trade agreements.

4. Exchange rate policy and exchange system

a. Exchange rate policy

The exchange rate arrangement in Pakistan can be characterized as a managed float under which the SBP sets the rate at which it purchases and sells U.S. dollars in its transactions with banks and other authorized dealers. The SBP maintains a 0.5 percent margin between its buying and selling rates. On the basis of the rupee/U.S. dollar rate, the Foreign Exchange Committee determines daily rates for other foreign currencies using the U.S. dollar rates in the main trading markets outside Pakistan.

The SBP has frequently adjusted the rupee/U.S. dollar rate, attempting to strike a balance between maintaining competitiveness of the tradeables sector and the need for containing inflationary pressures. In July 1993, the rupee was devalued by 9 percent against the U.S. dollar and it was further depreciated by 3 percent during the rest of 1993/94 (Appendix Table 54). During the first half of 1994/95, the SBP exchange rate was held relatively constant at around rupee 30.7 against the U.S. dollar. However, it depreciated in effective terms reflecting the depreciation of the U.S. dollar. During the second semester of 1994/95, the SBP gradually depreciated the rupee by almost 3 percent.

The real effective exchange rate, as measured by the Fund's Information Notice System (based on the CPIs of Pakistan and its main trading partners), depreciated by some 3 percent during 1992/93-1993/94, including the effect of the July 1993 devaluation. During 1994/95, the real effective exchange rate appreciated by 1 percent as 9 percent nominal effective depreciation (mainly due to the fall in the U.S. dollar vis-à-vis the currencies of major trading partners) was more than offset by Pakistan's inflation rate (which,

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1/ Under the agreements with the United States and the European Union reached in October 1994, Pakistan removed textile items from the Negative List from January 1995 in exchange for a relaxation of its export quota. The non-tariff measures affecting Pakistan's exports to selected countries are summarized in Appendix Table 53.

at 13 percent, compared with a 3 percent average for its trading partners). However, this real effective exchange rate does not fully reflect developments in Pakistan's competitiveness because, inter alia, the CPI is highly sensitive to increases in administered prices such as wheat.

b. The exchange system

The authorities have liberalized the exchange system in a number of steps since early 1991, culminating in full convertibility of the rupee for current transactions and adoption of Article VIII status on July 1, 1994. In February 1991, Pakistan residents were permitted to hold foreign currency accounts with domestic banks, which triggered a rapid increase in these accounts. The rupee ceilings on foreign exchange purchases from the SBP for cash imports of machinery were raised by 25 percent in July 1991 and again by 20 percent in July 1992. These ceilings, which constituted exchange restrictions under Article XIV, were abolished on February 8, 1994. The 30 percent advance deposit requirement for purchasing foreign exchange for imports at the time of opening letters of credit, which was introduced at time of the foreign exchange crisis in July 1993, was abolished in August 1993. By December 1993, the authorities eliminated Article XIV restrictions on travel allowances; remittances by foreigners for living expenses abroad; allowances by Pakistani nationals for professional training; and remittances for family living expenses abroad.

In mid-June 1994, consistent with Pakistan's acceptance of Article VIII, the SBP removed the three remaining restrictions and multiple currency practices: (i) the 6 percent import license fee; (ii) the 5 percent surcharge (by way of advance income tax) on foreign exchange purchases for travel; and (iii) the SBP's foreign exchange forward cover operations for trade credit and foreign loans for working capital of foreign resident companies, concurrent with an increase in the forward cover fee for foreign currency deposits (from 4.0 to 4.5 percent for dollar deposits). 1/ Pakistan declared the rupee fully convertible for current account transactions effective July 1, 1994. 2/

Since its withdrawal from credit-related forward cover operations, the SBP has encouraged commercial banks to offer this service. To this end, during July-August 1994, the SBP increased in steps the limit on the net

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1/ The multiple currency practice related to the authorities' forward cover would arise from the expectation of an ex-ante loss. The SBP's withdrawal from credit-related forward cover schemes and the increase in the forward cover fee on foreign currency deposits have eliminated this multiple currency practice. The multiple currency practice arising from the existing forward cover contacts for foreign currency deposits remained until expiration of the last of these contracts (by end-May 1995). The Fund granted approval of this multiple currency practice at the time of the mid-term review of the ESAF/EFF program (EBS/94/159, 8/16/94).

2/ EBD/94/110 (7/1/94).

open position (including forward liabilities) of commercial banks to a total of US$30 million and that for their gross open ("nostro") position to US$300 million. This was meant to help banks match forward supply and demand, in part, from their own foreign exchange holdings. Thus far, however, banks' forward operations have been very limited. The forward cover rates surged as high as 30 percent in July 1994 after the announced withdrawal from certain forward operations by the SBP; it came down quickly thereafter, to about 9 percent in September-October 1994 (for U.S. dollars) and fell further to a range of 6-8 percent during the rest of 1994/95.

The forward cover fee charged by the SBP for foreign currency denominated deposits surrendered by banks was further increased (to 4.75 percent on U.S. dollar) in October 1994, 1/ with a view to avoiding ex-ante losses and discouraging excess inflows of these deposits (in a general situation of surging private inflows). As the SBP has not changed the interest rates on these deposits during 1994, the higher forward fee has raised banks' costs of resources, resulting in reduced efforts to mobilize them abroad and in Pakistan.

After the expiration in 1992/93 of bilateral payments agreements with eight countries (China, Finland, Sweden, and five countries in Eastern Europe), Pakistan maintains only one bilateral payment agreement, with Malaysia. 2/ The Government committed in August 1994 to settle outstanding balances within 90 days so as to avoid any restrictive features (see EBS/94/159, 8/16/94). A renewal of the agreement with Malaysia is not envisaged. In August 1994, with a view to encouraging trade, the SBP permitted private firms to enter into countertrade agreements with approval of the Ministry of Finance, subject to normal export-import policy provisions.

Before adoption of current account convertibility in July 1994, the parallel market foreign exchange transactions and above face-value transactions in foreign exchange bearer certificates (FEBCs, one year government paper mainly denominated in U.S. dollars) reflected both current and capital account restrictions. After a temporary increase to 9 percent, the parallel market premium dropped to its before-June level of around 5 percent in August, and further to 3-4 percent during the rest of the 1994/95 fiscal year. The premium for FEBCs, which had stood at 8-9 percent during most of 1990-93, fell to about 5 percent in January 1994, reflecting removal of several exchange restrictions; and further to below 3 percent in the first semester of 1995 (Appendix Table 56).

1/ The forward cover fees for DM, UK pound, and Japanese yen were increased in February 1995.

2/ The Palm Oil Credit and Payments Agreement. The trade flows and outstanding balances under bilateral payments agreements during 1990/91-1994/95 are shown in Appendix Table 55.

Regarding capital transactions, Pakistan maintains restrictions on both inward and outward capital movements. Regarding inflows, foreign-owned companies can borrow any amount abroad and no permission is required for remittance of capital, capital gains, or dividends. 1/ Inward restrictions for Pakistani companies were loosened in November 1994, when the SBP lifted the regulation limiting foreign borrowing by Pakistani firms to the foreign exchange costs of local investment. In August 1995, Pakistan's exporters were allowed to obtain short-term foreign currency loans from abroad based on the value of the export contract; the borrowing exporter bears the exchange risk and both principal and interest have to be repaid out of export proceeds or from the exporters' FEBCs and foreign currency accounts.

Outward capital restrictions for Pakistani firms and individuals are in force. However, in March 1995, the SBP allowed Pakistani residents (including firms) to make investment in foreign companies through FEBCs, subject to the condition of repatriation of earnings. There are no restrictions on foreign exchange proceeds from foreign currency deposits held by residents. Moreover, FEBCs can be bought freely on the market and cashed in dollars. Given the absence of current account restrictions, the relatively low FEBC and parallel market premia indicate that, in practice, the degree of restrictiveness for capital transactions is limited.

1/ Foreign-owned companies can also borrow freely in the domestic capital market to finance fixed investment.

Table 15. Pakistan: Gross Fixed Capital Formation by Economic Sector, 1990/91–1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Private sector	91,226	118,787	134,768	150,369	173,660
Agriculture	14,889	14,831	16,631	18,436	20,543
Mining and quarrying	258	321	371	468	562
Large–scale manufacturing	31,559	49,569	53,350	58,508	67,661
Small–scale manufacturing	4,610	5,778	6,709	8,393	9,981
Construction	1,959	4,306	6,800	8,225	8,220
Transport and communications	8,737	10,001	11,246	8,577	8,693
Banking, insurance, and other financial institutions	273	464	536	818	1,072
Ownership of dwellings	20,747	23,759	27,372	30,470	36,278
Wholesale and retail trade and other services	8,194	9,849	11,752	16,475	20,650
Public sector	86,420	106,482	121,876	130,508	155,051
Public sector enterprises	49,514	63,504	73,405	79,650	98,080
Agriculture	2,795	3,226	3,892	5,964	6,704
Mining and quarrying	2,303	3,478	3,008	4,519	7,135
Manufacturing	2,729	3,193	3,374	2,948	1,426
Large–scale	2,525	3,029	3,186	2,775	1,366
Small–scale	204	164	188	173	60
Construction	3,168	3,737	3,142	3,930	3,734
Indus basin	207	160	81	51	26
Other construction	2,961	3,577	3,061	3,879	3,708
Electricity and gas	24,103	30,881	33,076	37,412	53,587
Transport and communications	11,821	15,800	23,662	20,655	21,399
Railway	1,257	2,191	2,188	2,236	2,725
Post office, telegraph and telephone	6,449	6,290	13,223	9,238	11,517
Others	4,115	7,319	8,251	9,181	7,157
Wholesale and retail trade	313	294	63	115	96
Financial institutions	616	711	1,239	1,247	1,252
Services	1,666	2,184	1,949	2,860	2,747
General government	36,906	42,978	48,471	50,858	56,971
Federal	11,661	13,378	14,459	15,790	19,795
Provincial	18,783	23,029	26,961	27,675	28,955
Local bodies	6,462	6,571	7,051	7,393	8,221

Source: Federal Bureau of Statistics.

Table 16. Pakistan: Gross Investment in the Manufacturing Sector, 1990/91–1994/95

	Private Sector				
	Large– and medium–scale	Small–scale	Total	Public Sector	Total Manufacturing
		(In millions of Pakistan rupees at 1980/81 prices)			
1990/91	9,763	2,438	12,201	889	13,090
1991/92	14,468	2,643	17,111	899	18,010
1992/93	14,076	2,865	16,941	921	17,862
1993/94	14,448	3,106	17,554	749	18,303
1994/95 1/	14,560	3,367	17,927	314	18,241
		(In percent of GDP at current prices)			
1989/90	3.0	0.4	3.5	0.3	3.7
1990/91	3.1	0.5	3.5	0.3	3.6
1991/92	4.1	0.5	4.6	0.3	4.8
1992/93	4.0	0.5	4.5	0.3	4.7
1993/94	3.9	0.5	4.4	0.2	4.7
1994/95 1/	3.3	3.3	3.7	0.2	3.9

Sources: Ministry of Planning and Development; and Fund staff estimates.

1/ Preliminary data.

Table 17. Pakistan: Sectoral Origin of Gross Domestic Product, 1990/91-1994/95

(At current prices)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
	(In millions of Pakistan rupees)				
Agriculture	233,130	282,374	297,814	353,333	431,797
Crops	138,132	171,966	167,722	199,070	245,847
Livestock	86,219	100,726	117,792	141,683	172,401
Fishing and forestry	8,779	9,682	12,300	12,580	13,549
Industry	234,033	274,318	303,110	352,863	426,244
Manufacturing	158,840	186,832	207,273	246,860	301,176
Large-scale	112,204	130,252	142,006	171,582	212,031
Small-scale	46,636	56,580	65,267	75,278	89,145
Mining and quarrying	6,437	7,117	7,403	8,664	8,895
Construction	38,172	43,812	49,807	55,246	62,202
Electricity and gas distribution	30,584	36,557	38,627	42,093	53,951
Services	441,211	521,251	599,205	699,714	826,976
Commerce	152,017	178,040	195,301	228,094	268,968
Transport storage and communications	77,709	100,956	127,508	149,264	171,937
Banking and insurance	26,967	30,672	35,428	45,042	51,605
Ownership of dwellings	39,624	46,207	53,652	62,011	72,047
Public admin. and defense	76,518	85,472	94,560	105,298	130,658
Other services	68,376	79,904	92,756	110,005	131,761
GDP at factor cost	908,374	1,077,943	1,200,129	1,405,910	1,684,997
Indirect taxes less subsidies	112,226	133,442	141,500	158,735	181,523
GDP market prices	1,020,600	1,211,385	1,341,629	1,564,645	1,866,520
Net factor income from abroad 1/	15,470	5,045	1,724	-4,584	4,905
GNP market prices	1,036,070	1,216,430	1,343,353	1,560,061	1,871,425
	(In percent of GDP at factor cost)				
Agriculture	25.7	26.2	24.8	25.1	25.6
Industry	25.8	25.4	25.3	25.1	25.3
Of which: Large-scale manufacturing	12.4	12.1	11.8	12.2	12.6
Construction	4.2	4.1	4.2	3.9	3.7
Services	48.6	48.4	49.9	49.8	49.1
Of which:					
Commerce	16.7	16.5	16.3	16.2	16.0
Public administration and defense	8.4	7.9	7.9	7.5	7.8

Sources: Ministry of Finance; and Planning Commission.

1/ Includes workers' remittances.

Table 18. Pakistan: Area, Production & Yield of Major Crops, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Wheat					
Production (thousand M. tons)	14,565	15,684	16,157	15,213	16,983
Area (thousand hectares)	7,911	7,878	8,300	8,034	8,180
Yield (kilograms per hectares)	1,841	1,990	1,946	1,893	2,076
Rice					
Basmati					
Production (thousand M. tons)	1,220	1,092	1,124	1,267	1,353
Area (thousand hectares)	1,120	1,066	1,035	1,104	1,146
Yield (kilograms per hectares)	1,090	1,024	1,086	1,148	1,181
Irri–6					
Production (thousand M. tons)	1,832	1,950	1,798	2,524	1,926
Area (thousand hectares)	830	879	803	961	864
Yield (kilograms per hectares)	2,208	2,217	2,239	2,627	2,229
Other varieties					
Production (thousand M. tons)	209	201	194	204	168
Area (thousand hectares)	163	152	135	123	115
Yield (kilograms per hectares)	1,279	1,324	1,435	1,662	1,461
Total					
Production (thousand M. tons)	3,261	3,243	3,116	3,995	3,447
Area (thousand hectares)	2,113	2,097	1,973	2,187	2,125
Yield (kilograms per hectares)	1,543	1,546	1,579	1,826	1,622
Cotton (Lint)					
Production (thousand bales)	9,628	12,822	9,054	8,041	8,697
Area (thousand hectares)	2,662	2,836	2,836	2,805	2,653
Yield (kilograms per hectares)	615	769	543	488	558
Sugarcane					
Production (thousand M. tons)	35,989	38,865	38,059	44,427	47,168
Area (thousand hectares)	884	896	885	963	1,009
Yield (kilograms per hectares)	40,720	43,371	43,043	46,144	46,747
Output growth:					
Wheat	1.7	7.7	3.0	–5.9	11.6
Rice	1.3	–0.5	–3.9	28.2	–13.7
Basmati	0.2	–10.5	2.9	12.7	6.8
Irri–6	1.9	6.4	–7.8	40.4	–23.7
Cotton (Lint)	12.5	33.2	–29.4	–11.2	8.2
Sugarcane	1.4	8.0	–2.1	16.7	6.2

Source: Ministry of Food, Agriculture and Livestock.

Table 19. Pakistan: Selected Commodity Prices, 1990/91-1994/95

(In Pakistan rupees per 100 kilograms)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Wheat					
Government procurement prices 1/	280	310	325	400	400
Issue price to mills 2/	310	340	355	437	437
Free market retail price (Multan)	230	337	386	472	428
Rice					
Producer price (paddy) 3/					
Basmati	375	388	438	463	527
Irri-6 (Fair/Average Qty)	183	195	213	225	257
Irri-6 (Superior)	200	213	238	250	285
Export price (milled rice)					
Basmati	1,062	1,028	1,192	1,243	...
Other varieties	392	483	534	519	...
Free market wholesale price					
Basmati (Rawalpindi)	1,067	1,168	1,170	1,242	1,312
Irri-6 (Hyderabad)	354	400	480	606	578
Cotton					
Phutti (seed cotton), floor price 4/					
AC-134, NT, BS-I	588	675	728	768	...
Desi	550	638	688	725	850
B-557	613	700	750	788	1,000
Sugar					
Cane purchase price 5/					
Sind	39	43	44	46	52
Punjab	38	42	44	45	51
N.W.F.P.	38	42	44	45	51
Free market average retail price	1,126	1,162	1,219	1,298	1,364
Edible oil					
Vegetable ghee retail price (Dalda)	1,963	2,070	2,483	3,118	4,167
Fertilizer					
Government retail price					
Diammonia phosphate (DAP)	498	554	528	760	...
SOP	300	390	390	500	600

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

1/ Usually announced in September/October.
2/ Usually announced in March/April.
3/ A government-decreed floor price; paddy is heavier than milled rice by approximately a factor of 1.5 due to the weight of the husk.
4/ Phutti yields about one third lint cotton and two thirds cotton seed by weight. Floor prices are established by the Government; but there is no government procurement of phutti.
5/ Minimum procurement prices.

Table 20. Pakistan: Increases in Procurement Prices of Selected Agricultural Commodities, 1990/91–1994/95

(Annual Percentage Changes)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Wheat	16.7	10.7	4.8	23.1	--
Rice (Paddy)					
Basmati (385)	4.5	8.0	12.9	5.7	14.0
Irri–6 (F.A.Q)	10.6	6.8	9.0	5.9	14.0
Irri–6 (superior)	12.7	6.5	11.7	--	--
Seed Cotton					
Desi	14.9	15.9	7.8	5.5	17.2
B–557, 149–F	16.1	14.3	7.1	5.0	27.0
Other	15.6	11.5	6.9	4.8	30.2
Sugarcane					
Sindh	12.5	7.9	4.4	2.8	13.7
Punjab	10.9	9.8	4.5	2.9	13.9
N.W.F.P.	13.0	9.8	4.5	2.9	13.9

Source: Ministry of Food, Agriculture, and Cooperatives.

Table 21. Pakistan: Output in Selected Industries, 1990/91–1994/95

(In thousands of metric tons; unless otherwise specified)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Petroleum products	6,434	6,335	7,609	7,749	...
Cotton manufactures					
Cotton yarn	1,041	1,171	1,219	1,310	792.0 1/
Cotton cloth (in millions of square meters)	293	308	325	315	197.0 1/
Food and tobacco					
White sugar	1,934	2,323	2,384	2,922	3,001
Beverages (in thousands of bottles)	811	1,023	1,584	1,364	603 1/
Vegetable products	656	597	725	671	543 2/
Cigarettes (in billions)	32	30	33	36	19 1/
Chemicals					
Urea	2,050	1,898	2,306	3,104	2,201 3/
Superphosphate	175	194	205	195	108 3/
Ammonium sulphate	92	93	93	82	80
Soda ash	147	186	196	197	185
Caustic soda	79	82	81	89	91
Sulphuric acid	95	98	100	102	48 1/
Ammonium nitrate	319	300	302	243	235 3/
Nitrophosphate	321	310	297	251	218 3/
Cement (in millions of metric tons)	7.8	8.3	8.6	8.2	3.9 4/
Pig iron	1,013	1,048	1,098	1,253	1,044
Billets	333	307	338	404	344
Paperboard	31.6	23.9	27.0	25.8	23.8
Chipboard	36.7	39.6	39.5	37.9	37.0
Tractors (in thousands)	13.8	9.8	17.1	14.7	13.9 2/
Bicycles (in thousands)	429	478	589	564	391 2/
Motor tires (in thousands)	952	784	712	779	584 1/

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

1/ Data relate to 7 months (July–January)
2/ Data relate to 10 months (July–April)
3/ Data relate to 9 months (July–March)
4/ Data relate to 6 months (July–December)

Table 22. Pakistan: Domestic Retail Prices of Selected Petroleum Products, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
	(In Pakistan rupees per liter) 1/				
Regular petrol	10.22	10.85	11.40	13.13	13.75
High–octane petrol	12.31	13.20	13.86	14.27	16.88
Kerosene	4.28	4.95	5.20	6.00	6.25
High speed diesel	4.91	5.05	5.31	6.12	6.50
Light diesel	3.93	4.00	4.20	4.84	5.00
Lubricants 2/	12.43	13.71	13.71	13.70	
	(In Pakistan rupees per metric ton) 1/				
Fuel oil	2,350	2,350	2,350	2,843	2,986
Price equivalent in PRs/liter 3/	2.21	2.21	2.21	2.67	2.67
Asphalt	4,770	4,770	4,770	5,247	5,510
Bulk price equivalent	3,432	3,432	3,432	...	...
Price equivalent in PRs/liter 3/	4.94	4.94	4.94	5.43	5.43

Source: Ministry of Petroleum and Natural Resources.

1/ Annual averages.
2/ Average price of the various lubricants.
3/ Converted to rupees per liter using the factors 1,065.86 liter per metric ton, and 964.65 liters per metric ton, respectively, for fuel oil and asphalt.

Table 23. Pakistan: Natural Gas Prices, 1990/91–1994/95

(In Pakistan rupees per thousand cubic feet)

	4/15/91	4/01/92	7/01/93	8/19/93	6/9/94	12/5/94	6/14/95
Fertilizer industry	22.50	22.50	22.50	22.50	22.50	22.50	27.90
Other industries	54.57	54.57	54.57	62.75	67.77	67.77	84.05
Household							
Up to 3.55 mcf/month	31.00	31.00	31.00	35.65	36.36	37.45	40.27
From 3.55 to 7.1 mcf/month	34.10	34.10	34.10	39.21	42.45	44.04	47.89
From 7.1 to 10.65 mcf/month	38.75	38.75	38.75	46.50	50.22	52.73	65.38
Above 10.65 mcf/month	46.50	46.50	46.50	55.80	60.26	63.27	78.45
Commercial	61.41	61.41	61.41	70.62	76.27	76.27	94.57
Memorandum item							
Weighted price index 1/	43.99	43.99	43.99	50.76	54.10	58.35	71.84

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

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

Table 24. Pakistan: Budgetary Financing, 1990/91-1995/96

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95	Budget 1995/96
Total financing (net)	89,190	90,029	107,585	92,025	105,365	108,333
External financing (net)	12,669	22,614	25,392	25,221	28,898	18,112
Disbursements	34,337	50,637	53,926	68,748	86,036	80,985
Project-related	24,337	29,345	27,236	31,145	43,267	39,751
Commodity-related	7,514	5,428	5,819	7,789	4,061	3,465
Food-related	2,486	6,541	7,991	6,768	7,537	6,600
Other 1/	9,794	7,213	11,524	23,046	31,171	31,169
Extrabudgetary disbursements to the NHA 2/	2,996	2,110	1,355	...	...	...
Repayments	21,668	28,023	28,533	43,527	57,138	62,873
Domestic nonbank financing (net)	20,787	-3,090	18,913	54,295	50,372	60,721
Small schemes	-375	4,568	7,236	25,838	35,507	45,232
Saving schemes	1,980	1,441	3,257	24,424	33,852	43,230
Postal funds	250	250	280	308	308	370
Net deposits	-605	2,877	3,699	1,106	1,347	1,632
Suspense account	-2,000	--	--	--	--	--
Securities	21,949	13,916	17,131	27,421	16,318	15,000
Prize bonds	3,058	1,833	4,907	4,646	5,435	11,500
Federal Investment Bonds	9,741	18,038	12,224	23,143	15,470	3,500
Treasury bills	...	-1,738	--	-368	-4,487	--
Other	9,149	-4,217	...	...	--	--
Repayment of bonds	-3,976	-20,300	-1,830	--	-276	-315
Other 3/	3,183	-1,274	-3,632	1,036	-1,177	804
Domestic bank borrowing (net)	42,952	70,500	63,279	12,509	19,975	29,500
Additional drawings from privatization proceeds	--	--	--	--	6,100	--

Source: Ministry of Finance and Economic Affairs.

1/ Includes sales of Foreign Exchange Bearer Certificates; Foreign Currency Bearer Certificates and Doll: Bearer Certificates; and commercial borrowing.

2/ National Highway Authority.

3/ Includes recovery of government loans net of federal investments, plus net provincial capital receipts.

Table 25. Pakistan: Domestic Debt, 1990/91–1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total government debt outstanding	445,401	530,184	612,225	703,761	792,525
Banking sector	209,472	294,646	356,176	381,480	41,541
State Bank of Pakistan	120,297	158,864	184,610	173,802	197,632
Scheduled banks	89,175	135,782	171,566	207,678	211,771
Nonbank sector 1/	235,930	235,538	256,049	322,281	377,111
Federal government securities 2/	21,516	21,106	20,689	20,689	19,872
State Bank of Pakistan	3,371	3,400	3,348	3,348	3,047
Scheduled banks	18,145	17,706	17,341	17,341	16,825
Nonbank sector 1/	-502.3	--	--	--	--
Treasury bills (on tap)	13	13	13	13	13
State Bank of Pakistan	--	--	--	--	--
Scheduled banks	--	--	--	--	--
Nonbank sector 1/	13	13	13	13	13
Treasury bills (auction)	45,556	45,153	38,889	78,688	57,172
State Bank of Pakistan	15,349	2,000	4,220	2,555	2,848
Scheduled banks	28,586	42,605	33,259	70,848	43,193
Nonbank sector 1/	1,621	548	1,410	5,285	11,131
Treasury bills purchased for replenishment of cash balances	30,500	90,650	115,500	117,500	17,559
Market treasury bills	--	--	--	--	--
Ad hoc treasury bills 3/	69,541	613,990	61,417	61,436	61,456
Federal government bonds	69,238	50,106	51,571	53,239	54,480
Scheduled banks	8,586	8,586	8,586	8,572	9,359
Nonbank sector 1/	59,380	40,127	41,526	43,130	43,584
State Bank of Pakistan	1,272	1,393	1,459	1,537	1,537
Federal investment bonds	38,734	83,437	137,016	149,720	168,808
State Bank of Pakistan	--	--	1,046	--	--
Scheduled banks	29,060	54,498	94,807	85,639	89,527
Nonbank sector 1/	9,674	28,939	41,163	64,081	79,281
Foreign Currency Loan Repayment Bonds	...	8,353	9,904	9,248	8,577
U.S. Dollar Bearer Certificate	584	2,197	1,547	1,266	486
Provincial government securities 4/	3,974	3,995	3,995	3,456	3,450
State Bank of Pakistan	25	22	21	21	21
Scheduled banks	3,796	3,973	3,974	3,435	3,429
Nonbank sector 1/	152	--	--	--	--
Ordinary government treasury deposit receipts	5,318	36	--	--	--
State Bank of Pakistan	238	--	--	--	--
ADBP, FBC, and IDBP	944	--	--	--	--
Nonbank sector 1/	4,136	36	--	--	--

Table 25 (Concluded). Pakistan: Domestic Debt, 1990/91–1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
National prize bonds 5/	27,876	29,719	34,623	39,269	44,694
Scheduled banks	45	47	1,262	--	--
Nonbank sector 1/	27,831	29,672	33,361	39,269	44,694
Savings accounts 8/	30,574	24,658	17,689	29,054	29,443

Sources: State Bank of Pakistan; and Central Directorate of National Savings (CDNS).

1/ Includes nonbank financial institutions, public sector enterprises and entities, as well as the general private sector.
2/ Excludes National Price, Income Tax, and Compensation Bonds, and Postal Savings and Defense Savings Certificates.
3/ Held only by the State Bank of Pakistan.
4/ Includes former East Pakistan Government securities.
5/ These bonds constitute the basis for a lottery and do not bear interest.
6/ Includes Defense Savings Certificates and Postal Savings Certificates.
7/ Includes Defense Savings, National Deposit, Khaas Deposit, and Premium Savings. These certificates are issued under the auspices of the CDNS and marketed by the scheduled banks, the National Savings Centers, and the Post Office.
8/ Held by nonbank sector only. Includes deposits at National Savings Centers and Post Offices.

Table 26. Pakistan: Consolidated Federal and Provincial Government Subsidies, 1990/91 - 1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Cash subsidies	11,323	10,077	6,720	4,561	918
Wheat and sugar	4,393	4,082	2,398	354	444
Fertilizers	1,386	1,224	810	582	67
Pakistan Steel Corporation 1/	1,258	1,965	1,139	1,019	--
Losses of CECP 2/	92	141	508	800	--
Edible oils	2,141	188	455	--	--
Other	2,053	2,477	1,410	1,805	408
Economic subsidy to irrigation water	2,239	2,961	...	...	...
Memorandum item					
Cash subsidies as percent of GDP	1.1	0.8	0.5	0.3	0.05

Source: Ministry of Finance and Economic Affairs.

1/ Interest payments to commercial banks by the Federal Government on behalf of the Pakistan Steel Corporation.
2/ Cotton Export Corporation of Pakistan.

Table 27. Pakistan: Budgetary Expenditure, Social Action Program, and Public Sector Development Program, 1992/93–1995/96

	1992/93	1993/94	Prel. 1994/95	Budget 1995/96
		(In millions of Pakistan Rupees)		
Budgetary expenditure	349,065	364,324	427,202	494,949
Current expenditure	273,619	292,623	335,979	398,496
Federal	209,174	226,351	257,700	299,973
Of which: SAP	1,000	1,290	1,590	1,700
Provincial	64,445	66,272	78,279	98,523
Of which: SAP	15,400	17,900	21,670	27,800
Development expenditure	75,446	71,701	91,223 1/	96,453
Federal	54,146	50,101	67,023	70,953
Core investment program	36,808	35,709	34,348	38,363
Of which: SAP	832	1,428	2,261	3,201
Noncore investment program	17,338	14,392	32,675	32,590
Of which: SAP	768	622	1477	916
Provincial	21,300	21,600	24,200	25,500
Of which: SAP	8,500	11,770	11,291	10,500
Total SAP	26,500	33,010	38,289	44,117
Current	16,400	19,190	23,260	29,500
Core development program	832	1,428	2,261	3,201
Noncore development program	9,268	12,392	12,768	11,416
Public sector development program	112,951	121,044	126,068	138,237
Of which: Core	49,006	51,417	43,450	61,293
Budgetary PSDP	75,446	71,701	91,223	96,453
Core	36,808	35,709	34,348	38,363
Noncore	38,638	35,992	56,875	58,090
Extrabudgetary PSDP	37,505	49,343	34,845	41,784
Core	12,198	15,708	9,102	22,930
Noncore	25,307	33,635	25,743	18,854
		(In percent of GDP)		
Social Action Program	1.98	2.11	2.05	2.03
Core Investment Program	3.65	3.29	2.33	2.82
Of which: Budgetary	2.74	2.28	1.84	1.77

Source: Ministry of Finance, and World Bank staff estimates.

1/ World Bank estimate based on project data.

Table 28. Pakistan: Summary of Federal Government Operations, 1992/93–1995/96

	1992/93	1993/94	Prog. 1994/95	Prov. 1994/95	Budget 1995/96
	(In billions of Pakistan rupees)				
Total revenue	244.2	276.4	367.2	326.3	390.4
Gross federal receipts	242.6	274.4	362.2	321.3	378.4
Taxes	171.5	200.7	286.7	248.1	289.3
Nontax revenue	71.1	73.6	75.4	73.3	89.1
Of which: interest pay. provinces	18.0	20.1	22.5	21.9	22.9
Privatization proceeds	1.6	2.0	5.0	5.0	12.0
Total expenditure	346.6	377.6	438.6	441.5	498.3
Current	278.3	310.0	356.5	367.1	414.6
Transfers to prov. of share in divisible revenue	65.1	80.1	94.2	97.7	112.5
Grants to provinces for current spending	4.0	3.6	0.9	2.8	2.2
Defense	87.5	91.8	101.8	104.5	115.3
Interest	75.5	86.2	100.7	94.2	121.2
Grants to PEs and local authorities	5.7	3.7	11.2	8.9	14.3
Other current	40.5	44.7	47.6	59.0	49.2
Development	54.2	50.1	64.9	58.1	71.0
Net lending to provinces	14.1	17.4	17.2	16.3	12.7
Federal contribution to development spending	16.3	19.8	20.0	19.2	16.0
Repayment of loans	−2.1	−2.4	−2.8	−2.8	−3.3
Budget deficit	−102.4	−101.2	−71.4	−115.2	−107.9
Financing	102.4	101.2	71.4	115.2	107.9
External	25.4	25.2	30.6	28.9	18.1
Domestic	77.0	76.0	40.8	86.3	89.7
Bank	58.3	21.8	15.0	30.1	29.5
Nonbank	18.7	54.2	25.8	56.2	60.3
Of which: privatization proceeds	...	...	...	6.1	...
Memorandum item					
Divisible revenue	81.1	97.0	148.5	132.5	154.1
(in percent of consolidated federal receipts)	36.1	38.1	43.7	44.3	43.3
	(In percent of GDP)				
Total revenue	18.2	17.7	20.6	17.5	18.0
Gross federal receipts	18.1	17.5	20.3	17.2	17.4
Taxes	12.8	12.8	16.1	13.3	13.3
Nontax revenue	5.3	4.7	4.2	3.9	4.1
Total expenditure	25.8	24.1	24.6	23.7	22.9
Current	20.7	19.8	20.0	19.7	19.1
Transfers to provinces of share in divisible revenue	4.9	5.1	5.3	5.2	5.2
Defense	6.5	5.9	5.7	5.6	5.3
Interest	5.6	5.5	5.6	5.0	5.6
Other current	3.0	2.9	2.7	3.2	2.3
Development	4.0	3.2	3.6	3.1	3.3
Net lending to provinces	1.1	1.1	1.0	0.9	0.6
Budget deficit	−7.6	−6.5	−4.0	−6.2	−5.0
Memorandum item					
Divisible revenue	81.1	97.0	148.5	132.5	154.1
(in percent of consolidated federal receipts)	36.1	38.1	43.7	44.3	43.3

Source: Ministry of Finance and Economic Affairs.

Table 29. Pakistan: Summary of Provincial Government Operations, 1992/93–1995/96

	1992/93	1993/94	1994/95 Prog.	1994/95 Prov.	Budget 1995/96
	(In billions of Pakistan Rupees)				
Total revenue	98.2	117.1	132.7	134.2	146.5
Transfers from Federal government of share in divisible revenues	65.1	80.1	94.2	97.7	112.5
Provincial taxes	6.9	8.0	10.8	9.4	10.1
Provincial nontax	8.0	8.0	9.6	8.0	9.0
Net lending from the Federal government	14.1	17.4	17.2	16.3	12.7
Federal contribution to development expenditure	16.3	19.8	20.0	19.2	16.0
Repayment of loans to Federal government	−2.1	−2.4	−2.8	−2.8	−3.3
Federal grant for current spending	4.0	3.6	0.9	2.8	2.2
Total expenditure	103.7	108.0	133.2	124.3	146.9
Current	82.5	86.4	108.2	100.1	121.4
Of which: Interest payment to Federal government	18.0	20.1	22.5	21.9	22.9
Development	21.3	21.6	25.0	24.2	25.5
Budget deficit	−5.5	9.2	−0.5	9.9	−0.5
Financing	5.5	−9.2	0.5	−9.9	0.5
External	--	--	--	--	--
Domestic	5.5	−9.2	0.5	−9.9	0.5
Bank	5.3	−9.3	0.0	−10.1	0.0
Nonbank	0.2	0.1	0.5	0.3	0.5
	(In percent of GDP)				
Total revenue	7.3	7.5	7.4	7.2	6.7
Transfers from Federal government of share in divisible revenues	4.9	5.1	5.3	5.2	5.2
Provincial taxes	0.5	0.5	0.6	0.5	0.5
Provincial nontax	0.6	0.5	0.5	0.4	0.4
Net lending from the Federal government	1.1	1.1	1.0	0.9	0.6
Total expenditure	7.7	6.9	7.5	6.7	6.8
Current	6.1	5.5	6.1	5.4	5.6
Of which: Interest payment to Federal government	1.3	1.3	1.3	1.2	1.1
Development	1.6	1.4	1.4	1.3	1.2
Budget deficit	−0.4	0.6	−0.0	0.5	−0.0

Source: Ministry of Finance and Economic Affairs.

Table 30. Pakistan: Monetary Survey, 1990/91–1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	1993/94 1/	Prel. 1994/95
Net foreign assets	-24,305	-15,326	-49,339	-15,930	-15,930	11,027
SBP	-5,677	-4,114	-29,034	15,793	15,793	41,800
Scheduled banks	-18,628	-11,212	-20,305	-31,724	-31,724	-30,774
Of which: Nonresident's FCDs	-53,977	-50,442	-56,184	-75,981	-75,981	-78,765
Net domestic assets	393,088	495,870	616,508	673,883	678,735	761,972
Net claims on Government	176,614	253,308	326,242	343,871	338,879	366,385
Budgetary support	169,941	240,217	303,847	316,355	311,363	336,331
Central Government	167,284	238,936	297,290	318,936	319,259	349,039
Securities and Treasury bills	179,659	257,487	313,509	338,990	339,339	375,356
Advances and other	11,653	11,569	13,504	15,983	15,983	18,605
Deposits	-24,028	-30,120	-29,724	-36,038	-36,033	-44,922
Provincial governments	2,656	1,281	6,557	-2,581	-7,896	-12,708
Securities	3,995	3,892	3,727	3,345	3,345	3,340
Advances and other	7,892	7,250	12,626	5,775	5,775	4,874
Deposits	-9,231	-9,861	-9,796	-11,701	-17,016	-20,922
Commodity operations 2/	18,675	22,869	30,204	36,786	36,786	41,519
Zakat Fund with SBP	-7,825	-8,992	-7,661	-8,979	-8,979	-10,462
Privatization Fund and PTC deposits	-4,177	-786	-148	-291	-291	-1,002
Claims on nongovernment sectors	251,728	282,867	345,669	381,126	388,786	458,812
Private sector (including NBFIs and CEC)	221,062	251,311	309,595	345,038	352,363	420,050
Public sector enterprises	30,526	30,409	28,765	26,379	26,713	25,352
Claims on autonomous bodies	140	1,147	7,309	9,709	9,709	13,410
Other items (net)	-35,253	-40,304	-55,403	-51,114	-48,930	-63,226
Of which: Privatization proceeds	--	--	--	--	--	-13,000
Domestic liquidity	368,783	480,544	567,169	657,953	662,805	772,998
Currency outside scheduled banks	136,967	151,819	166,864	184,929	184,708	215,579
Demand Deposits	124,366	148,457	156,287	170,471	172,737	206,152
Time Deposits	97,963	137,263	176,518	210,419	213,226	246,194
Resident's FCDs	9,487	43,004	67,500	92,135	92,135	105,073
(In millions of U.S. dollars)	389	1,707	2,250	3,002	3,002	3,384

Source: State Bank of Pakistan.

1/ Includes the two provincial banks that were scheduled in September 1994.

2/ Credit extended by the schedule banks to public sector entities for the procurement of selected commodities. These loans are extended on behalf of the Government and constitute government liabilities to the scheduled banks.

Table 31. Pakistan: Accounts of the Scheduled Banks, 1990/91–1994/95

(In million of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	1993/94 1/	Prel. 1994/95
Net foreign assets	–18,628	–11,212	–20,305	–31,724	–31,724	–30,774
Foreign assets	36,943	41,606	37,590	45,789	45,789	49,796
Foreign liabilities	–55,571	–52,818	–57,895	–77,513	–77,513	–80,570
Nonresidents deposits	–53,977	–50,442	–56,184	–75,981	–75,981	–78,767
Banks	–1,594	–2,376	–1,711	–1,532	–1,532	–1,803
Net domestic assets	247,331	336,615	416,161	499,242	504,316	583,138
Net claims on Government	84,807	136,012	171,876	216,131	211,139	217,788
Budgetary support	70,309	113,806	141,713	179,348	174,356	176,272
Central Government	71,852	113,140	142,745	181,520	181,844	184,719
Securities and Treasury bills	83,912	125,101	156,859	195,616	195,965	210,741
Deposits	–12,060	–11,961	–14,114	–14,096	–14,121	–26,022
Provincial governments	–1,543	666	–1,032	–2,173	–7,488	–8,447
Securities	3,995	3,892	3,727	3,345	3,345	3,340
Advances	–1	2,000	2,000	2,000	2,000	2,000
Deposits	–5,537	–5,226	–6,759	–7,518	–12,833	–13,787
Commodity operations	18,675	22,869	30,204	36,786	36,786	41,519
Advances to Central Government	11,151	15,131	20,488	27,244	27,244	31,110
Advances to provincial governments	7,524	7,738	9,716	9,542	9,542	10,409
PTC deposits	–4,177	–663	–41	–3	–3	–3
Claims on nongovernment sectors	223,500	252,747	312,274	344,944	352,602	418,599
Private sector (including CEC)	193,837	222,253	276,553	309,099	316,423	379,962
Public sector enterprises	29,523	29,347	28,412	26,136	26,470	25,227
Autonomous bodies	140	1,147	7,309	9,709	9,709	13,410
Net claims on SBP	–27,405	–14,284	–22,930	–13,463	–13,242	–9,286
Liabilities to the SBP	–57,171	–67,019	–75,475	–81,605	–81,605	–94,641
Required/excess reserves	22,428	43,773	41,243	54,404	54,404	68,992
Cash	7,339	8,962	11,301	13,738	13,959	16,363
Other items net	–33,572	–37,860	–45,058	–48,370	–46,183	–43,964
Liabilities to private sector	228,703	325,403	395,856	467,518	472,591	552,364
Demand deposits	121,253	145,135	154,901	164,965	167,231	201,097
Time deposits	97,963	137,263	179,681	210,419	213,226	246,194
Residents' foreign currency accounts	9,487	43,004	61,274	92,135	92,135	105,073
(In millions of U.S. dollars)	389	1,707	2,250	3,002	3,002	3,384

Source: State Bank of Pakistan.

1/ Includes the two provincial banks that were scheduled in September 1994.

Table 32. Pakistan: Accounts of the State Bank of Pakistan, 1990/91–1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Net foreign assets	–5,677	–4,114	–29,034	15,793	41,800
Net domestic assets	175,524	211,990	252,891	242,784	264,188
Net claims on Government	91,806	117,297	154,366	127,741	148,597
Budgetary support	99,631	126,412	162,134	137,008	160,059
Central Government	95,433	125,797	154,545	137,416	164,320
Securities	93,841	130,510	152,560	140,984	161,919
Treasury bills	1,907	1,876	4,090	2,391	2,696
Other	11,653	11,569	13,504	15,983	18,605
Deposits	–11,968	–18,158	–15,610	–21,942	–18,900
Provincial governments	4,199	615	7,589	–408	–4,261
Debtor balances	7,867	5,132	10,508	3,726	2,852
Other	25	118	118	49	22
Deposits	–3,694	–4,635	–3,037	–4,183	–7,135
Zakat fund	–7,825	–8,992	–7,661	–8,979	–10,462
Privatization Fund	--	–123	–107	–288	–1,000
Claims on nongovernment sectors	28,227	30,120	33,395	36,182	40,213
Private sector	27,224	29,058	33,042	35,939	40,088
Public sector enterprises	1,003	1,062	353	243	125
Claims on scheduled banks	57,171	67,019	75,475	81,605	94,641
Other items net	–1,681	–2,445	–10,345	–2,744	–19,262
Of which: Privatization proceeds	--	--	--	--	–13,000
Reserve money	169,847	207,876	223,857	258,577	305,989
Banks reserves	22,428	43,773	41,243	54,404	68,992
Private sector deposits	3,114	3,322	4,449	5,506	5,055
Currency	144,306	160,781	178,165	198,667	231,942
Outside scheduled banks	136,967	151,819	166,864	184,929	215,579
Held by scheduled banks	7,339	8,962	11,301	13,738	16,363

Source: State Bank of Pakistan.

Table 33. Pakistan: Mandatory Credit Targets for the Commercial Banks Under Priority-Sector Lending Schemes, 1990/91-1994/95

(In millions of Pakistan rupees)

	1990/91		1991/92		1992/93		1993/94		1994/95	
	Target	Actual	Target	Actual	Target	Actual	Target	Prel.	Target	Actual
Small loan scheme (net)	2,226	2,247	2,645	3,157	2,984	6,864	4,120	6,145	5,202	4,268
Industry	2,108	2,070	2,507	2,622	2,789	4,292	3,897	3,599	4,930	4,542
Fixed investment	--	207	--	541	--	1,697	--	1,455	--	518
Working capital	--	1,863	--	2,081	--	2,595	--	2,144	--	4,024
Business	118	177	138	535	195	2,572	223	2,546	272	-274
Agricultural loans (gross)	5,944	3,518	6,680	4,180	7,615	4,527	8,472	4,063	9,488	4,071
Of which:										
Small loans for seasonal financing	2,972	2,395	3,340	3,054	3,808	2,978	4,236	2,935	4,744	2,802
Loans for tobacco marketing	137	344	197	484	225	749	250	569	280	538

Source: State Bank of Pakistan.

Table 34. Pakistan: Concessional and Mandatory Credit to Nongovernment Sectors, 1990/91–1994/95

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Concessional credit	86,927	96,353	127,716	133,637	150,896
LMM scheme	10,360	12,346	15,316	16,951	16,844
Export finance	14,513	19,141	25,567	28,349	32,425
Youth investment promotion scheme	516	937	1,676	2,550	4,031
Government sponsered schemes–SBFC	298	240	200	122	97
Self emplyment–SBFC	--	160	1,830	2,740	5,488
Power loom–SBFC	23	23	21	18	15
Small scale industry	194	238	252	245	315
Loans to small farmers	1,600	1,387	1,700	1,746	583
At a mark–up of 7 and 8 percent	765	443	783	891	322
Mark up free 1/	835	944	917	855	261
Advances by ADBP	42,016	43,908	47,325	46,116	57,195
Advances by Federal Bank for Cooperatives	1,836	1,902	1,718	1,705	1,856
Loans for housing sector	15,571	16,071	16,371	16,571	16,571
Self employment for public transport	--	--	14,740	16,524	15,476
Mandatory credit	33,340	36,137	42,720	48,384	52,892
of which: Mandatory credit at nonconcessional rates	27,823	30,978	37,815	43,937	48,222
Small loans	27,736	30,892	37,756	43,901	48,170
For business	6,634	7,169	9,741	12,287	12,013
For industry	21,102	23,723	28,015	31,614	36,157
Tobacco marketing	87	86	59	36	52
Agriculture 2/	5,517	5,159	4,905	4,447	4,668
of which:					
Small loans for seasonal financing	3,754	3,375	3,057	2,606	2,743
Total concessional/mandatory credit 3/	114,750	127,331	164,531	177,574	199,118
	(In percent of total credit to the nongovernment sectors)				
Concessional credit	34.5	34.1	36.7	34.9	32.9
Of which: Advances by ADBP	16.7	15.5	13.7	12.1	12.5
Export finance	5.8	6.8	7.4	7.4	7.1
Loans for housing sector	6.2	5.7	4.7	4.3	3.6
Self employment for public transport	--	--	4.3	4.3	3.4
LMM	4.1	4.4	4.4	4.3	3.5
Mandatory credit	13.2	12.8	12.4	12.7	11.5
Of which: Agriculture	2.2	1.8	1.4	1.2	1.0
Total concessional/mandatory credit	45.6	45.0	47.6	46.5	43.4
Memorandum item					
Total credit to the nongovernment sector	251,728	282,867	345,669	388,785	458,812

1/ Scheme phased out in June 1988.
2/ Mandatory credits are given at concessional rates.
3/ Less than the sum of concessional and mandatory credit because of the overlap between the two.

Table 35. Pakistan. Sectoral Distribution of Scheduled Banks' Credit to the Nongovernment Sector, 1990/91–1994/95 1/

	1990/91	1991/92	1992/93	1993/94	Dec. 1994/95
	(In millions of Pakistan rupees)				
Total credit	216,401	255,120	311,356	356,621	378,290
Agriculture, forestry, hunting and fishing	51,356	54,264	54,877	53,602	56,150
Mining and quarrying	1,803	1,898	4,459	4,023	3,748
Manufacturing	81,104	104,637	115,538	130,387	146,600
Construction	4,033	7,063	6,185	7,788	7,612
Electricity, gas, and sanitary services	4,052	5,344	3,712	7,125	7,314
Commerce	35,285	52,566	54,484	61,049	64,072
Transport, storage, and communications	1,378	1,972	13,028	14,592	16,051
Services	2,223	3,144	2,450	3,849	4,242
Personal	20,473	11,724	32,485	43,288	41,460
Other	14,696	12,508	24,138	30,918	31,041
	(In percent of total)				
Agriculture, forestry, hunting and fishing	23.7	21.3	17.6	15.0	14.8
Mining and quarrying	0.8	0.7	1.4	1.1	1.0
Manufacturing	37.5	41.0	37.1	36.6	38.8
Construction	1.9	2.8	2.0	2.2	2.0
Electricity, gas, and sanitary services	1.9	2.1	1.2	2.0	1.9
Commerce	16.3	20.6	17.5	17.1	16.9
Transport, storage, and communications	0.6	0.8	4.2	4.1	4.2
Services	1.0	1.2	0.8	1.1	1.1
Personal	9.5	4.6	10.4	12.1	11.0
Other	6.8	4.9	7.8	8.7	8.2

Source: State Bank of Pakistan.

1/ Excludes credit to autonomous bodies.

Table 36. Pakistan: Bank Financing for Commodity Operations, 1990/91–1994/95 1/

(In millions of Pakistan rupees)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Wheat	–3,148	187	6,712	905	2,688
Rice	–2,377	4,095	1,010	3,528	675
Sugar	–497	–44	--	--	376
Fertilizers	217	–202	–411	1,374	–488
Seeds	18	–1	–16	166	–14
Edible oils	293	94	101	764	1,250
Paddy/other	34	–51	21	–31	252
Gram	19	–15	–22	–32	--
Oil seed	55	120	–60	–92	–6
Total	–5,386	4,183	7,335	6,582	4,733

Source: Ministry of Finance and Economic Affairs.

1/ Credit extended by the scheduled banks to public sector entities for the procurement of selected commodities. These loans are extended on behalf of the Government and constitute government liabilities to the scheduled banks. In November 1993, the rate of return on these loans was raised to 14 percent from 12 1/2 percent.

Table 37. Pakistan: Commercial Bank Deposit and Loan Rates of Return Under the P.L.S. System 1/, 1989/90–1994/95

(In percent per annum)

	1989/90	1990/91	1991/92	1992/93	1993/94	December 1994/95
Rates of return on deposits 2/						
Overall	7.60	7.67	8.27	8.55	9.27	9.19
Call deposits	5.13	4.86	6.05	5.38	6.23	6.03
Savings accounts	6.94	6.93	7.87	7.49	8.04	7.85
Term deposits						
Less than six months	7.15	7.32	7.77	7.38	8.58	8.34
Six months to less than one year	9.00	8.96	9.73	9.92	10.72	10.58
One year to less than two years	9.35	9.26	10.27	10.72	11.24	11.62
Two years to less than three years	10.27	9.77	11.10	11.25	11.78	11.72
Three years to less than four years	10.95	10.69	11.90	12.18	12.79	12.76
Four years to less than five years	11.56	10.93	12.36	13.13	13.84	13.58
Five years and over	12.70	12.68	13.51	14.40	15.00	15.08
Rates of return on loans						
Export financing	6.00	7.00	8.00	8.00	13.00 7/	13.00 8/
Trade-related modes of financing 3/	10-20	10-20	10-20	10-20	13-17.5 7/	13-No Max. 8/
Investment type modes of financing 3/ 4/	10.00	10.00	10.00	10.00	13-17.5 7/	13-No Max. 8/

Source: State Bank of Pakistan.

1/ Profit and loss sharing system.
2/ Annual averages.
3/ Excluding export financing and financing for sales of locally manufactured machinery.
4/ Minimum allowable rates.
5/ Raised from 8 percent to 11 percent with effect from August 16, 1993 and to 12 percent with effect from March 1, 1994.
6/ Raised from 20 percent to 22 percent with effect from August 16, 1993 and reduced to 19 percent with effect from March 1, 1994.
7/ Effective November 13, 1994.
8/ Effective March 26, 1995.

Table 38. Pakistan: Commercial Banks's Permissible and Actual Outstanding Level of Credit Under the Credit-Deposit Ratio Framework, 1992/93-1994/95

(In millions of Pakistan rupees)

	1992/93				1993/94				1994/95			
	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June
Credit-deposit ratio (In percent)												
Local deposits	30	30	30	30	30	32	30.5	30.5	30.5	31.0	34.0	36.0
Foreign deposits of	40	40	40	30	30	32	30.5	30.5	30.5	31.0	34.0	36.0
$10 million and above	50-65	50-65	50-65	50-65	50-65	50-65	65	65	65	65.0	65.0	65.0
Permissible credit level	126,419	131,488	132,942	132,896	132,685	147,019	149,094	152,787	170,698	178,389	199,574	221,010
Actual credit level	111,458	130,952	131,979	131,112	122,733	146,421	146,723	154,612	158,971	188,852	195,746	211,981
Credit outstanding	145,946	163,993	167,614	166,526	160,726	186,416	187,277	192,938	198,284	227,667	235,394	243,833
Advances	112,209	131,199	137,387	134,955	128,694	154,400	155,008	158,220	158,315	188,062	193,920	201,084
Bills	8,821	8,554	9,442	11,440	12,591	12,568	13,182	14,799	14,888	14,614	16,112	16,641
Investments	24,916	24,240	20,785	20,131	19,441	19,448	19,087	19,919	25,081	24,991	25,362	26,108
Other items	-34,488	-33,041	-35,635	-35,414	-37,993	-39,995	-40,554	-38,326	-39,313	-38,815	-39,648	-31,852
Ratio of actual to permissible credit	0.88	1.00	0.99	0.99	0.92	1.00	0.98	1.01	0.93	1.06	0.98	0.96

Source: State Bank of Pakistan.

Table 39. Pakistan: Direction of Trade, 1990/91–1994/95

(In percent)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Exports	100.0	100.0	100.0	100.0	100.0
European Community	31.0	27.5	29.3	31.1	29.8
United Kingdom	7.3	6.6	7.1	7.8	7.1
Other	23.7	20.9	22.2	23.3	22.7
United States	10.8	12.8	13.9	14.4	16.2
Japan	8.3	8.2	6.8	8.0	6.7
Hong Kong	6.0	7.2	6.6	7.3	6.6
Singapore	2.2	1.7	2.0	1.4	1.3
U.S.S.R./FSU Republics 1/	0.9	--	0.1	0.4	0.2
China	1.0	0.8	0.6	0.8	1.1
Oil-producing trading partners 2/	5.8	7.9	6.8	4.7	5.1
Other	34.0	33.9	33.9	31.9	33.0
Imports	100.0	100.0	100.0	100.0	100.0
European Community	23.7	26.5	24.4	23.4	23.3
United Kingdom	4.9	5.4	5.2	4.9	5.1
Other	18.8	21.1	19.2	18.5	18.2
United States	11.8	10.4	9.4	10.6	9.4
Japan	13.0	14.3	15.9	11.8	9.6
Hong Kong	0.5	0.4	0.5	0.5	0.4
Singapore	3.2	1.4	1.6	2.0	1.8
U.S.S.R./FSU Republics 1/	0.7	--	--	0.9	1.4
China	5.1	4.3	4.2	5.2	4.4
Oil-producing trading partners 2/	10.2	8.7	11.6	13.6	13.5
Other	31.8	34.0	32.4	32.0	36.2

Source: Federal Bureau of Statistics.

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

Table 40. Pakistan: Value, Volume, and Unit Value of Major Merchandise Exports, 1990/91–1994/95

(Value in millions of U.S. dollars; volume and unit value as indicated)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Rice					
Value	346	415	317	242	454
Volume (thousand metric tons)	1,204	1,512	1,032	985	1,621
Unit value (US$ per metric ton)	641	606	307	246	280
Basmati					
Value	218	230	199	126	184
Volume	466	558	462	306	452
Unit value	468	412	431	412	407
Other varieties					
Value	128	185	118	116	270
Volume	738	954	570	679	1,400
Unit value	173	194	207	171	193
Raw cotton					
Value	412	518	271	80	62
Volume (thousand metric tons)	280	454	263	75	31
Unit value (US$ per kilogram)	1.47	1.14	1.03	1.06	2.00
Cotton yarn					
Value	1,183	1,173	1,121	1,259	1,529
Volume (thousand metric tons)	502	506	555	579	522
Unit value (US$ per kilogram)	2.36	2.32	2.02	2.20	2.93
Cotton cloth					
Value	676	819	863	821	1,080
Volume (million square meters)	1,066	1,196	1,128	1,047	1,161
Unit value (US$ per square meter)	0.63	0.68	0.77	0.78	0.93
Woolen carpets and rugs					
Value	222	230	173	151	198
Volume (thousand square meters)	3,548	3,928	3,283	3,166	...
Unit value (US$ per square meter)	62.57	58.55	52.70	47.70	...
Leather					
Value	276	241	232	224	272
Volume (thousand metric tons)	18.3	15.6	15.8	16.2	...
Unit value (US$ per square meter)	15.08	15.45	14.70	13.84	...
Fish and fish preparations					
Value	115	115	182	155	154
Volume (thousand metric tons)	48.1	64.1	86.7	68.9	...
Unit value (US$ per kilogram)	2.39	1.79	2.10	2.25	...
Memorandum item					
Major exports as percent of total exports	52.7	50.4	46.0	43.1	46.1

Source: Ministry of Finance and Economic Affairs.

Table 41. Pakistan: Composition of Imports, 1990/91–1994/95

(In percent)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0
Food and live animals	8.0	7.8	8.9	7.0	8.0
Of which:					
Wheat	1.8	3.6	4.8	2.8	4.0
Tea	2.2	1.8	2.1	2.2	1.8
Raw materials	6.2	6.5	5.4	6.6	8.0
Of which:					
Crude fertilizers	0.2	0.1	0.2	0.2	0.1
Synthetic fibers	1.2	1.7	1.2	0.9	1.2
Fuels	23.0	15.8	16.2	18.0	17.2
Animal and vegetable oils and fats	6.1	4.9	6.5	6.5	10.4
Chemicals	16.3	15.9	15.0	17.5	15.3
Of which:					
Manufactured fertilizers	3.5	2.7	2.5	3.1	1.2
Basic manufactures	10.2	10.5	8.6	9.5	9.3
Of which:					
Iron and steel	3.4	3.5	3.2	3.8	3.6
Textile yarn and thread	1.2	1.1	0.8	1.0	0.8
Machinery, transport, and other equipment	27.3	35.9	36.9	31.5	28.7
Other	2.9	2.8	2.6	3.0	3.1

Source: Ministry of Planning and Development.

Table 42. Pakistan: Merchandise Trade by Economic Category, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
			(In millions of U.S. dollars)		
Exports, c.i.f. 1/	6,133	6,929	6,819	6,773	7,947
Primary commodities	1,147	1,317	1007	698	889
Semi-manufactured goods	1,496	1,482	1406	1,607	1,981
Manufactured goods	3,489	4,130	4406	4,468	5,076
Imports, c.i.f.	9,094	9,277	9,963	9,329	11,050
Consumer goods	1,428	1,190	1389	1,263	1,495
Raw materials for consumer goods	4,056	3,583	3825	3,984	5,111
Raw materials for capital goods	618	612	551	567	577
Capital goods	2,992	3,892	4198	3,515	3,867
			(In percent of total)		
Exports, c.i.f. 1/					
Primary commodities	18.7	19.0	14.8	10.3	11.2
Semi-manufactured goods	24.4	21.4	20.6	23.7	24.9
Manufactured goods	56.9	59.6	64.6	65.9	63.9
Imports, c.i.f.					
Consumer goods	15.7	12.8	13.9	13.5	13.5
Raw materials for consumer goods	44.6	38.6	38.5	42.7	46.3
Raw materials for capital goods	6.8	6.6	5.5	6.1	5.2
Capital goods	32.9	42.0	42.1	37.7	35.0

Source: Ministry of Planning and Development.

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

Table 43. Pakistan: Trade Indices, 1990/91–1994/95

(Annual percentage changes)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Export volume index	13.0	16.3	2.7	–4.3	11.2
Of which:					
Raw cotton	–4.6	62.0	–42.4	–71.5	–58.7
Rice	61.8	25.6	–31.7	–4.6	88.0
Cotton manufactures	20.0	3.9	3.5	–5.6	15.4
Other traditional exports	12.2	11.6	13.8	10.1	–3.8
Export price index 1/	6.0	–1.5	–2.3	3.0	6.1
Of which:					
Raw cotton	–2.5	–1.5	–9.4	2.9	87.5
Rice	–10.6	–4.4	12.0	–20.0	–0.3
Cotton manufactures	9.0	6.9	–0.5	7.4	6.2
Other traditional exports	5.1	–6.3	–4.9	–1.2	5.8
Import volume index	–3.8	14.3	13.4	–10.3	6.1
Of which:					
Petroleum and petroleum products	–6.1	11.3	14.9	16.7	4.7
Fertilizers	13.2	3.0	17.7	6.8	–60.5
Edible oils	–5.4	6.3	28.2	–16.9	23.7
Private sector imports	18.5	13.7	24.4	–19.5	3.9
Import price index 1/	17.4	–6.4	–1.0	–3.4	10.0
Of which:					
Petroleum and petroleum products	55.4	–28.5	–0.3	–20.8	13.4
Fertilizers	28.7	–4.6	–18.6	0.3	21.5
Edible oils	9.6	–5.6	13.0	0.6	65.0
Private sector imports	8.9	1.8	–0.9	1.8	3.1
Terms of trade	–9.7	5.3	–1.4	6.6	–3.6

Source: Fund staff estimates.

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

Table 44. Pakistan: Services and Transfers, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Services account	–1,790	–2,224	–2,748	–2,354	2,546
Credits	1,630	1,581	1,628	1,720	1,942
Debits	–3,420	–3,805	–4,376	–4,074	–4,488
Nonfactor services	–630	–958	–1,250	–757	–817
Receipts	1,548	1,512	1,557	1,624	1,788
Freight	54	57	59	58	63
Other transportation	738	723	779	767	657
Travel	147	141	103	108	125
Other	609	591	616	691	943
Payments	–2,178	–2,470	–2,807	–2,381	–2,605
Freight	–709	–734	–880	–784	–913
Other transportation	–622	–629	–659	–667	–695
Travel	–457	–659	–761	–390	–451
Other	–390	–448	–507	–540	–546
Factor services	–1,160	–1,266	–1,498	–1,597	–1,729
Receipts	82	69	71	96	154
Interest on reserves	47	58	48	66	142
Other	35	11	23	30	12
Payments	–1,242	–1,335	–1,569	–1,693	–1,883
Interest	–944	–999	–1,159	–1,270	–1,466
Other	–298	–336	–410	–423	–417
Private transfers (net)	2,102	2,961	2,327	2,390	2,397
Workers' remittances	1,848	1,468	1,562	1,446	1,866
Other receipts	270	1,507	786	967	555
Payments	–16	–14	–21	–23	–24
Official transfers (net)	613	450	361	314	312
Receipts	648	476	380	324	320
Project aid	324	302	265	278	250
Food aid	--	2	--	--	--
Other commodity aid	179	49	26	2	15
Refugee assistance	112	105	57	19	30
Debt cancellation	4	9	4	--	--
Other official transfers	30	9	28	25	25
IMF subsidy	--	--	--	--	--
Taxes and subsidies	3	--	3	3	1
Others	27	12	25	22	24
Payments	–35	–26	–19	–10	–8

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

1/ The data for 1990/91–1991/92 excludes interest payments on defense–related external debt.

Table 45. Pakistan. Home Remittances from Pakistani Nationals Abroad, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total	1,848	1,467	1,562	1,446	1,866
Middle East	1,231	984	1,097	1,072	1,447
United Kingdom	180	137	114	101	110
United States	190	150	158	122	141
Other	247	196	194	150	168

Source: State Bank of Pakistan.

Table 46. Pakistan: Medium- and Long-Term Capital, 1990/91-1994/95 1/

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total medium- and long-term capital	881	1,903	2,049	2,353	2,912
Public and publicly guaranteed	607	766	815	915	1,068
Project and nonproject aid	758	966	846	793	658
Disbursements	1,564	1,913	2,145	2,250	2,267
Project aid	1,084	1,164	1,631	1,683	1,745
Food aid	135	282	308	251	258
Other commodity aid	345	167	206	316	264
Amortization 1/	806	1,008	1,299	1,457	1,609
Commercial banks and IDB	-151	-165	-42	132	284
Commercial banks	-128	-162	-54	141	309
Disbursements	--	12	--	170	380
Amortization	128	174	54	29	71
IDB 2/	-23	-3	12	-9	-25
Disbursements	36	51	74	42	26
Amortization	59	54	62	51	51
Other public and publicly guaranteed 3/	--	-35	11	-10	126
Credits	10	21	331	32	161
Debits	10	56	320	42	35
Private sector	274	1,137	1,234	1,438	1,844
Private sector, nonbank	271	1,142	1,233	1,441	1,843
Direct investment	239	343	310	360	440
Inflows	246	343	310	362	442
Outflows	7	--	--	2	2
Portfolio investment	-9	219	137	289	1,090
Inflows	-9	219	137	289	1,090
Outflows	--	--	--	--	--
Private unguaranteed	34	559	503	366	258
Inflows	136	662	660	633	596
Outflows	102	103	157	267	338
Other nonbank	7	21	283	426	55
Inflows	7	21	283	426	55
Outflows	--	--	--	--	--
Deposit money banks	3	-5	1	-3	1
Inflows	3	--	1	--	1
Outflows	--	5	--	3	--

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

1/ The data for 1990/91-1991/92 excludes amortization payments on defense-related external debt.
2/ Islamic Development Bank.
3/ Foreign currency bearer certificates; includes US$148 million in 1994/95.

Table 47. Pakistan: Selected External Aid Indicators, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Commitments	2,576	2,689	1,897	2,581	2,969
By category					
Project aid	1,935	2,220	1,204	1,822	2,657
Commodity aid	641	469	693	759	312
Nonfood	508	147	238	430	68
Food	133	322	455	329	244
By maturity					
Loans	2,250	2,311	1,668	2,339	2,639
1–5 years	133	322	414	329	267
5–10 years	127	375	58	78	91
10–15 years	58	297	36	112	289
Over 15 years	1,932	1,317	1,160	1,820	1,992
Grants	326	378	229	242	330
Memorandum items					
Average interest rate on disbursed debt outstanding 1/	3.6	3.7	3.9	3.6	3.7
Aid pipeline 2/	5.6	5.4	4.5	4.0	4.2

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

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

2/ Undisbursed loan balances at year end divided by the average loan disbursements in the last two years (including the current year).

Table 48. Pakistan: Short-Term Capital, 1990/91-1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total short-term capital	749	-690	663	804	-442
Public sector	684	-403	739	214	-471
Commercial banks and IDB	208	-133	315	290	-8
Commercial banks	206	-137	225	310	18
Credits	607	508	797	1,354	1,275
Debits	401	645	572	1,044	1,257
IDB 1/	2	4	90	-20	-26
Credits	55	63	177	111	75
Debits	53	59	87	131	101
FEBCs and DBCs 2/	93	32	67	18	29
Credits	93	32	67	18	29
Debits	--	--	--	--	--
Other	383	-302	357	-94	-492
Credits	392	--	405	6	16
Debits	9	302	48	100	532
Private sector	65	-287	-76	590	29
Private nonbank	170	-25	-393	251	121
Credits	170	37	185	282	210
Debits	--	62	575	31	89
Deposit money banks	-105	-262	317	339	-92
FCDs	476	-61	62	413	60
Credits	476	--	62	413	60
Debits	--	61	--	--	--
Other (export bills)	-581	-201	255	-74	-152
Credits	19	1	261	87	13
Debits	600	202	6	161	165

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

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

Table 49. Pakistan. Foreign Currency Deposits of Residents and Nonresidents, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Residents	389	1,707	2,250	3,002	3,384
Nonresidents	2,203	1,989	2,227	2,920	3,192
With domestic banks	2,203	1,989	2,050	2,463	2,524
Of which:					
Foreign banks	951	906	864	1,059	1,199
Other	1,252	1,084	1,186	1,404	1,325
With domestic nonbank financial institutions	--	--	177	457	668
Total residents and nonresidents	2,592	3,696	4,478	5,923	6,575

Source: State Bank of Pakistan.

Table 50. Pakistan. Gross Official Reserves, 1990/91–1994/95 1/

(In millions of U.S. dollars)

	Gold 2/	SDRs	Foreign Exchange	Total
1990/91				
September	95	4	405	504
December	97	1	195	293
March	92	3	172	267
June	90	2	570	662
1991/92				
September	93	6	400	499
December	98	7	409	514
March	94	2	545	641
June	101	3	926	1,030
1992/93				
September	102	1	1,050	1,153
December	97	--	841	938
March	98	1	807	906
June	100	5	457	562
1993/94				
September	101	9	205	315
December	101	1	1,177	1,279
March	101	1	1,922	2,024
June	101	2	2,300	2,403
1994/95				
September	101	1	3,119	3,221
December	101	0.3	2,899	3,000
March	101	1	2,639	2,740
June	101	4	2,741	2,846

Source: State Bank of Pakistan.

1/ On last–Thursday basis.
2/ Valued at SDR 35 per fine ounce.

Table 51. Pakistan: Public and Publicly Guaranteed Debt to Official Creditors, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91			1991/92			1992/93			1993/94			1994/95		
	Dis-bursed	Undis-bursed	Total	Dis-bursed	Undis-bursed	Total	Dis-bursed	Undis-bursed	Total	Dis-bursed	Undis-bursed	Total	Dis-bursed	Undis-bursed	Total
Consortium	14,292	8,264	22,556	16,031	8,634	24,665	17,616	8,359	25,975	18,829	8,365	27,194	19,854	8,650	28,504
Bilateral	7,789	2,009	9,798	8,511	2,450	10,961	9,091	2,350	11,441	9,394	2,930	12,324	9,564	3,144	12,708
Belgium	48	21	69	71	21	92	76	--	76	74	13	87	66	13	79
Canada	516	21	537	531	14	545	504	8	512	442	8	450	439	7	446
France	395	308	703	421	549	970	558	467	1,025	730	407	1,137	812	339	1,151
Germany	1,264	300	1,564	1,561	201	1,762	1,412	183	1,595	1,519	336	1,855	1,523	231	1,754
Italy	211	39	250	234	83	317	254	75	329	242	35	277	247	20	267
Japan	2,137	1,090	3,227	2,451	1,281	3,732	3,084	1,308	4,392	3,387	1,815	5,202	3,556	2,155	5,711
Netherlands	191	20	211	226	16	242	185	18	203	182	11	193	165	11	176
Norway	3	19	22	7	43	50	7	42	49	9	55	64	49	28	77
Sweden	14	12	26	18	72	90	--	--	--	--	29	29	71	16	87
United Kingdom	35	93	128	21	97	118	66	18	84	73	17	90	11	84	95
United States	2,975	86	3,061	2,970	73	3,043	15	80	95	11	84	95	2,625	194	2,819
Multilateral	6,503	6,255	12,758	7,520	6,184	13,704	2,930	151	3,081	2,725	149	2,874	--	46	46
Asian Development Bank	2,395	2,911	5,306	2,803	3,077	5,880	8,525	6,009	14,534	9,435	5,435	14,870	10,290	5,506	15,796
IBRD	1,809	1,889	3,698	2,122	1,620	3,742	3,197	3,116	6,313	3,760	2,688	6,448	4,153	2,504	6,657
IDA	2,172	1,359	3,531	2,456	1,381	3,837	2,558	1,306	3,864	2,663	1,079	3,742	2,842	1,394	4,236
IFC	39	8	47	42	...	42	2,626	1,487	4,113	2,864	1,572	4,436	3,148	1,488	4,636
IFAD	88	88	176	97	106	203	42	--	42	38	--	38	35	--	35
							102	100	202	110	96	206	112	120	232
Non-Consortium	1,179	747	1,926	1,330	827	2,157	1,356	684	2,040	1,493	649	2,142	1,440	737	2,177
OFEC Countries	528	112	640	497	102	599	478	83	561	499	150	649	470	141	611
Abu Dhabi	103	...	103	96	...	96	88	--	88	81	--	81	73	--	73
Iran, Islamic Rep. of	14	...	14	...	...	...									
Kuwait	102	34	136	99	33	132	98	19	117	90	36	126	84	33	117
Libya	38	...	38	34	...	34	31	--	31	28	--	28	28	--	28
Malaysia	--	--	--	--	--	--	--	--	--	47	53	100	35	43	78
Qatar	6	...	6	6	...	6	6	--	6	6	--	6	6	--	6
Saudi Arabia	265	78	343	262	69	331	255	64	319	247	61	308	244	65	309
Other countries	561	502	1,063	738	603	1,341	878	601	1,479	930	386	1,316	893	448	1,341
Australia	...	...	...	53	...	53	75	66	141	35	--	35	25	--	25
Austria	13	1	14	16	15	31	24	4	28	28	1	29	26	1	27
Bulgaria	...	...	...	...	...	...	--	--	--	--	--	--	--	--	--
China	171	212	383	230	246	476	305	171	476	397	50	447	413	128	541
Czechoslovakia	8	24	32	12	20	32	21	11	32	19	11	30	16	11	27
Denmark	13	1	14	17	1	18	14	--	14	28	--	28	25	--	25
Finland	11	9	20	19	--	19	18	--	18	13	--	13	11	--	11
Romania	67	...	67	66	...	66	66	--	66	48	--	48	44	--	44
Korea	--	--	...	...	--	--	17	22	39	28	10	38	29	8	37
Spain	...	...	...	...	--	--	--	--	--	--	--	--	--	--	--
Switzerland	31	29	60	51	14	65	45	19	64	54	14	68	55	10	65
U.S.S.R.	247	226	473	274	307	581	293	308	601	280	300	580	249	290	539
							--	--	--	--	--	--	--	--	--
OPEC Fund	50	44	94	48	48	96	43	47	90	38	45	83	40	42	82
Islamic Development Bank	40	89	129	47	74	121	29	88	117	26	68	94	37	106	143
All official creditors	15,471	9,011	24,482	17,361	9,461	26,822	19,044	9,178	28,222	20,322	9,014	29,336	21,294	9,387	30,681

Source: Ministry of Finance and Economic Affairs.

Table 52. Pakistan: Foreign Interest Payments, 1990/91-1994/95

(In millions of U.S. dollars)

	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
Total interest payments	944	999	1,159	1,270	1,466
Interest on medium- and long-term public and publicly guaranteed debt	639	661	808	834	904
Project and nonproject aid 1/	562	595	755	774	820
FCBCs, commercial banks and IDB 2/	14	19	9	19	34
IMF charges	63	47	44	41	50
Interest on short-term public debt	75	101	67	65	67
Commercial banks and IDB 2/	35	52	29	32	38
Interest on FEBCs and DBCs 3/	40	49	38	33	29
Interest on the foreign-currency deposit liabilities of the banking system	176	183	201	243	363
Deposits with the State Bank of Pakistan	16	14	25	28	24
Foreign currency deposits with scheduled banks	160	169	176	215	339
Interest on unguaranteed private debt	54	54	83	128	132

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

1/ The data for 1990/91-1991/92 excludes interest payments on defense-related external debt.
2/ Islamic Development Bank.
3/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

Table 53. Pakistan: Summary of Nontariff Trade Measures Affecting Pakistan's Exports to Selected Countries, 1994/95

Country or Country Group and Type of Measure		Ceiling for 1994	Ceiling for 1995
United States of America 1/			
Specific Limits			
219	Duck and MMF	5,885,000 sme	6,362,862 sme
226/313	Cotton sheeting	89,525,621 sme	95,756,604 sme
237	Playsuit, sunsuit, etc.	286,225 doz	309,466 doz
239	Cotton infant wear	1,347,547 kgs	1,456,968 kgs
314	Cotton popline and broad cloth	4,280,000 sme	4,627,536 sme
315, 317/617	Cotton print cloth, etc.	60,563,779 sme	89,295,348 sme
331/631	Gloves and mittens	1,752,915 dpr	1,895,252 dpr
334	Other coats (men's and boys')	169,060 doz	182,788 doz
335	Coats (men's and boys')	261,080 doz	282,280 doz
336/636	Dresses	343,470 doz	371,360 doz
338	Knitted shirts (men's and boys')	3,857,571 doz	4,081,310 doz
339	Knit shirts and blouses (women's and girls')	972,952 doz	1,051,934 doz
340/640	Shirts not knitted (men's and boys')	457,960 doz	495,146 doz 2/
341–42/641–42	Shirts and blouses not knitted (women's and girls'), etc.	515,205 doz	832,746 doz
347/348	Trousers, slacks and shorts (men's and boys')	569,325 doz	615,554 doz
351/651	Nightwears and pajamas	228,980 doz	247,573 doz
352/652	Underwear	572,450 doz	618,933 doz
359–C/659–C	Cover all & overall	1,030,410 kgs	1,114,079 kgs
360	Pillow cases	1,998,637 nos	2,160,926 nos
361	Sheets	2,598,981 nos	2,810,018 nos
363	Terry and other pile towels	35,881,062 nos	37,962,164 nos
369–F/P	Flat and pile dish towels	1,717,350 kgs	1,856,799 kgs
369–R	Bar maps	8,014,300 kgs	8,665,061 kgs
369–S	Shop towels	524,318 kgs	566,893 kgs
613/614	Sheeting/poplin and broad cloth	17,726,894 sme	18,960,686 sme
615	Print cloth	18,858,395 sme	20,170,939 sme
617, 625–29	Twills and sateen, etc.	14,292,192 sme	77,323,729 sme 3/
638/639	Knit shirts (men's and boys')	337,080 doz	360,541 doz
647/648	Trousers, slacks and shorts	639,090 doz	683,571 doz
Canada – Specific Limits			
Group I			
2	Winter outerwear	442.106 pcs	468,632 pcs
3/4 A	Suits, jackets, blazers, ensembles	1,142,339 pcs	1,210,879 pcs
5 A	Trousers, shirts MBWGC&L	1,140,709 pcs	1,209,152 pcs
6	Tailored collar shirts	563,732 pcs	597,556 pcs
7	Woven shirts, blouses	1,301,237 pcs	1,392,324 pcs
8 A	Shirts, blouses, T–shirts, sweat shirts	3,879,443 pcs	4,151,004 pcs
9	Underwear	902,221 pcs	975,434 pcs
10 A	Sleepwear MBWG	1,908,000 pcs	2,022,480 pcs
Group II			
41 A	Bedsheets	779,852 pcs	826,643 pcs
41 B	Pillow cases	667,441 pcs	707,487 pcs
42 A	Toilet and kitchen linen, cotton terry, woven	948,508 pcs	1,024,389 pcs
44	Work gloves and linens	3,380,186 pairs	3,380,186 pcs

Table 53 (Concluded). Pakistan: Summary of Nontariff Trade Measures Affecting Pakistan's Exports to Selected Countries, 1994/95

Country or Country Group and Type of Measure		Ceiling for 1994	Ceiling for 1995
E.E.C. – Specific Limits			
1	Cotton yarn	9.280 tons	9,875 tons
2	Woven fabrics of cotton, terry fabrics, Norway woven fabrics, pile fabrics, chenille fabrics, tulle, and other fabrics	26.874 tons	23,051 tons
3	Woven fabrics of synthetic fibres, pile fabrics, and chenille fabrics	39.554 tons	41,136 tons
4 (2)	Shirts, T–shirts, light–weight fineknit roll, polo or turtle–neck jumpers and pullovers, undervests and the like	19,074,000 pcs	20,027,000 pcs
5	Jerseys, pullovers, slip–overs, waistcoats, twinsets, cardigans, bed jackets and jumpers, anoraks, windcheeters, waister jackets and the like	4,915,000 pcs	5,210,000 pcs
6	Shorts, trousers	22,365,000 pcs	23,487,000 pcs
7	Blouses, shirts and shirt blouses, whether or not knitted or crocheted, of wool, cotton, or man–made fiber	13,250,000 pcs	14,045,000 pcs
8	Men's or boys' shirts, other than knitted or crocheted, of wool, cotton, or man–made fibre	4,372,000 pcs	4,503,000 pcs
9	Terry towelling and similar woven terry fabrics of cotton; toilet linen and kitchen linen, other knitted or crocheted, of terry towelling and similar terry fabrics of cotton	4.015 tons	4,256 tons
18	Bath robes	12.720 tons	13,483 tons
20	Bed linen other than knitted or crocheted	17.741 tons	18,894 tons
26	Dresses of wool, cotton, or man–made fabric	12,825,000 pcs	13,594,000 pcs
28	Outer garments knitted crocheted	46,000,000 pcs	48,760,000 pcs
39	Table linen, toilet and kitchen linen, other than knitted or crocheted, other than of terry towelling or similar terry fabrics of cotton	8.400 tons	8,820 tons
Additional categories under quota restraint in some EEC countries			
Norway – Specific Limits			
1	Outer garments of woven material men's, boy's, women's, girls': – jackets: tailored jackets, blazers, waistcoats, sports jackets (including partsof ski suits) anoraks and similar garments, parkas, one–piece suits and the like, also as part of suits, sets and costumes	65,000 pcs	68,250 pcs
2	Outer garments of woven material, men's boys', women's, girls': – trousers, slacks, jeans, breeches and the like (including bib and brace overalls), other than swimwear and shorts, also as parts of suits and sets	195,000 pcs	204,750 pcs
7	Bed linen	145,000 pcs	147,900 kgs
Finland – Specific Limits			
63.02.21.00 63.02.22.00 63.02.31.00 63.02.32.00	– Bed sheets, quilt covers, pillowcases, and similar products made of cotton or man–made fibers or blends thereof	328,545 kgs	...

Source: Ministry of Commerce.

1/ The agreement has a comprehensive coverage for certain specified cotton, man–made fabric (MMF) categories and quotas can be imposed on remaining cotton/MMF categories along with silk– and wool–blended categories as a result of consultations.

2/ Not more than 185,680 dozen shall be in dress shirts in categories 340–D/640–D/b.

3/ Not more than 31,018,400 sme shall be in category 625; not more than 31,018,400 sme shall be in category 626; not more than 31,018,400 sme shall be in category 627; not more than 6,417,600 sme shall be in category 628; and not more than 31,018,400 sme shall be in category 629.

Table 54. Pakistan: Exchange Rates and Relative Consumer Prices, 1990/91–1994/95

	Exchange Rate 1/		Indices (1980 = 100)			
	Level 2/	Change 3/	Exchange rate 1/ 4/	Relative consumer prices	Nominal effective exchange rate 5/	Real effective exchange rate 5/
1990/91						
First quarter	21.75	0.4	45.5	94.7	63.5	60.2
Second quarter	21.83	−0.4	45.3	95.5	61.3	58.5
Third quarter	22.24	−1.8	44.5	96.4	62.1	59.8
Fourth quarter	23.65	−6.0	41.9	97.6	62.2	60.7
1991/92						
First quarter	24.62	−3.9	40.2	97.6	60.4	59.0
Second quarter	24.68	−0.2	40.1	97.0	58.9	57.1
Third quarter	24.74	−0.2	40.0	97.6	59.4	58.0
Fourth quarter	25.08	−1.4	39.5	98.5	59.6	58.7
1992/93						
First quarter	25.11	−0.1	39.4	98.9	57.8	57.2
Second quarter	25.41	−1.2	39	98.5	60.8	59.9
Third quarter	26.22	−3.2	37.8	98.3	61.8	60.7
Fourth quarter	26.85	−2.5	36.8	98.0	59.8	58.6
1993/94						
First quarter	29.32	−9.2	33.8	98.5	56.3	55.4
Second quarter	30.04	−2.5	33.0	99.0	56.5	55.9
Third quarter	30.37	−1.1	32.6	98.9	57.4	56.7
Fourth quarter	30.60	−0.8	32.4	99.2	56.9	56.4
1994/95						
First quarter	30.61	--	32.4	99.4	55.6	55.3
Second quarter	30.69	−0.3	32.3	102.4	55.1	56.4
Third quarter	30.87	−0.6	32.1	105.5	54.1	57.1
Fourth quarter	30.92	−0.1	32.0	105.8	51.8	54.8

Sources: IMF, Information Notice System; and IMF, International Financial Statistics.

1/ Mid-point between buying and selling rates (period averages).
2/ In rupees per U.S. dollar, period average.
3/ Percentage change from the preceding period; refers to the exchange rate expressed in terms of U.S. dollars per rupee.
4/ In terms of U.S. dollars per rupee.
5/ Increase indicates appreciation of the rupee.

Table 55. Pakistan: Trade Flows and Outstanding Balances Under Bilateral Payments Agreements, 1990/91–1994/95

(In millions of U.S. dollars)

	1990/91			1991/92			1992/93		
	Exports	Imports	Outstanding	Exports	Imports	Outstanding	Exports	Imports	Outstanding
Bulgaria 1/	68.4	53.1	17.2	4.4	8.5	13.8	...	8.5	5.9
China 2/	0.2	2.6	−1.4	...	...	−1.4	...	...	−1.5
Czechoslovakia 1/	38.8	29.6	−4.1	18.3	21.5	−7.5	13.4	6.4	−1.7
Finland 1/ 3/	60.8	58.7	8.4	18.3	23.0	2.4	8.5	11.1	−0.9
Hungary 2/	11.8	21.4	−3.1	20.7	2.7	1.6	0.9	2.5	...
Poland 2/	...	0.4	--	...	...	--	...	...	...
Sweden 1/ 3/	84.3	67.3	8.0	48.9	37.2	22.8	1.5	16.9	8.1
Russia 2/	6.4	18.2	17.8	...	...	5.9	...	...	--
Total	270.7	251.3	42.8	110.6	92.9	37.6	24.3	45.4	9.9

	1993/94			1994/95 (July–May)		
	Exports	Imports	Outstanding	Exports	Imports	Outstanding
Bulgaria 1/	...	...	6.1	6.4	12.6	0.3
China 2/	...	...	−1.5	--	--	--
Czechoslovakia 1/	...	...	−2.7	--	--	--
Finland 1/ 3/	...	...	1.6	--	--	--
Hungary 2/	0.2	...	−0.3	--	--	--
Malaysia 4/	...	...	--	--	--	--
Poland 2/	...	...	--	--	--	--
Sweden 1/ 3/	...	...	--	--	--	--
Russia 2/	...	...	--	--	--	--
Total	...	...	3.2	6.4	12.6	−1.8

Source: Ministry of Commerce.

1/ Agreement expired on February 28, 1995.
2/ Barter agreement no longer in effect.
3/ The agreement is with a private firm.
4/ The agreement expired on December 31, 1994.

Table 56. Pakistan: Karachi Stock Exchange Quotations With Respect to Foreign Exchange Bearer Certificates, 1990–95 1/

(In percent of face value)

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1990	105.50	105.70	106.50	107.50	109.00	108.60	107.40	106.65	107.10	107.90	109.00	109.10
1991	107.85	107.25	109.00	107.80	108.80	107.60	110.00	108.50	109.00	108.00	108.00	108.00
1992	108.00	108.00	108.75	108.75	108.75	107.50	107.20	106.10	105.95	106.15	107.75	107.75
1993	107.75	109.30	109.00	107.25	106.25	107.10	107.10	110.50	108.00	107.00	107.00	107.00
1994	104.80	104.80	104.80	103.80	103.80	103.80	103.80	103.80	103.80	103.80	102.50	103.85
1995	103.20	103.20	102.80	102.70	103.25	104.25	105.00	105.00				

Source: Karachi Stock Exchange.

1/ End of period.