

February 1996

IMF Staff Country Report No. 96/8

Pakistan—Recent Economic Developments

This report on recent economic developments in Pakistan was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Pakistan or the Executive Board of the IMF.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
Telex (RCA): 248331 IMF UR
Internet: publications@imf.org
Price: \$15.00 a copy

International Monetary Fund
Washington, D.C.

This page intentionally left blank

INTERNATIONAL MONETARY FUND

PAKISTAN

Recent Economic Developments

Prepared by a staff team consisting of
Mr. B. K. Short (Head - MED), Messrs. A. Furtado,
S. Tareq, H. Hirschhofer (all MED) Mr. A. Kouwenaar (PDR),
Mr. E. Ruggiero (FAD), Mesdames R. Moalla-Fetini, and
O. Liu (all MED)

Approved by the Middle Eastern Department

December 6, 1995

	<u>Contents</u>	<u>Page</u>
Basic Data		v
I.	Overview	1
II.	The Domestic Economy	3
	1. Overall trends in output	3
	2. Trends in expenditure and savings	3
	3. Sectoral developments	8
	a. Agriculture	8
	b. Industry	10
	c. Services	11
	4. Price developments	12
	5. The privatization program	12
III.	The Public Finances	14
	1. Overall budgetary trends	14
	2. Budgetary revenue	16
	a. Expansion of the domestic tax base	16
	b. Tariff reform	17
	c. Revenue developments	17
	d. Exemptions and concessions	20
	3. Budgetary expenditure	21
	a. Expenditure developments	21
	b. Expenditure control	24
	4. Federal-provincial fiscal transfers	24
	5. The 1995/96 budget	25

	<u>Contents</u>	<u>Page</u>
IV.	The Financial Sector	26
1.	Institutional set-up	26
2.	Evolution and sources of domestic liquidity	29
a.	Overall monetary developments	29
b.	Net domestic assets	29
c.	Net foreign assets	31
d.	The money multiplier	32
3.	Developments in monetary and credit policy	32
a.	Monetary policy	32
b.	Credit policy	34
c.	Level and structure of rates of return	35
4.	Structural reforms in the financial sector	35
a.	Liberalization of credit ceilings	36
b.	Auctioning of government securities	36
c.	Autonomy of the State Bank of Pakistan	37
d.	Privatization and restructuring of financial institutions	38
e.	Regulation and supervision of financial institutions	38
V.	External Sector Developments	39
1.	Balance of payments developments	39
a.	Overall trends	39
b.	Exports	42
c.	Imports	42
d.	Terms of trade	45
e.	Services and transfers	45
f.	Capital account	46
g.	Official reserves	48
2.	External debt and debt service	48
3.	Trade regime	52
a.	Institutional set-up	52
b.	Import regime	52
c.	Export regime	54
d.	Regional and global economic cooperation	55
4.	Exchange rate policy and exchange system	57
a.	Exchange rate policy	57
b.	The exchange system	58
Text Tables		
1.	Sectoral Origin of Gross Domestic Product, 1990/91-1994/96	4
2.	Expenditure and Savings, 1990/91-1994/95	6
3.	Output of Major Crops, 1990/91-1994/95	9
4.	Wholesale and Consumer Price Indices, 1990/91-1994/95	13
5.	Summary of Consolidated Fiscal Operations, 1990/91-1995/96	15

<u>Contents</u>		<u>Page</u>
6.	Consolidated Federal and Provincial Revenue, 1990/91-1995/96	18
7.	Consolidated Federal and Provincial Expenditure, 1990/91-1995/96	22
8.	Factors Affecting Changes in Domestic Liquidity, 1990/91-1994/95	28
9.	Factors Affecting Changes in Reserve Money, 1990/91-1994/95	33
10.	Balance of Payments, 1990/91-1994/95	40
11.	Merchandise Exports, 1990/91-1994/95	43
12.	Merchandise Imports, 1990/91-1994/95	44
13.	External Debt and Foreign Currency Liabilities, 1990/91-1994/95	50
14.	Summary of External Debt and Debt Service, 1990/91-1994/95	51
 Statistical Appendix		
15.	Gross Fixed Capital Formation by Economic Sector, 1990/91-1994/95	61
16.	Gross Investment in the Manufacturing Sector, 1990/91-1994/95	62
17.	Sectoral Origin of Gross Domestic Product, 1990/91-1994/95	63
18.	Area, Production and Yield of Major Crops, 1990/91-1994/95	64
19.	Selected Commodity Prices, 1990/91-1994/95	65
20.	Increases in Procurement Prices of Selected Agricultural Commodities, 1990/91-1994/95	66
21.	Output in Selected Industries, 1990/91-1994/95	67
22.	Domestic Retail Prices of Selected Petroleum Products, 1990/91-1994/95	68
23.	Natural Gas Prices, 1990/91-1994/95	69
24.	Budgetary Financing, 1990/91-1995/96	70
25.	Domestic Debt, 1990/91-1994/95	71
26.	Consolidated Federal and Provincial Government Subsidies, 1990/91-1994/95	73
27.	Budgetary Expenditure, Social Action Program, and Public Sector Development Program, 1992/93-1995/96	74
28.	Summary of Federal Government Operations, 1992/93-1995/96	75
29.	Summary of Provincial Government Operations, 1992/93-1995/96	76
30.	Monetary survey, 1990/91-1994/95	77
31.	Accounts of the Scheduled Banks, 1990/91-1994/95	78
32.	Accounts of the State Bank of Pakistan, 1990/91-1994/95	79

<u>Contents</u>		<u>Page</u>
33.	Mandatory Credit Targets for the Commercial Banks Under Priority-Sector Lending Schemes, 1990/91-1994/95	80
34.	Concessional and Mandatory Credit to Nongovernment Sectors, 1990/91-1994/95	81
35.	Sectoral Distribution of Scheduled Banks' Credit to the Nongovernment Sector, 1990/91-1994/95	82
36.	Bank Financing for Commodity Operations, 1990/91-1994/95	83
37.	Commercial Bank Deposit and Loan Rates of Return Under the P.L.S. System, 1989/90-1994/95	84
38.	Commercial Banks Permissible and Actual Outstanding Level of Credit Under the Credit-Deposit Ratio Framework, 1992/93-1994/95	85
39.	Direction of Trade, 1990/91-1994/95	86
40.	Value, Volume, and Unit Value of Major Merchandise Exports, 1990/91-1994/95	87
41.	Composition of Imports, 1990/91-1994/95	88
42.	Merchandise Trade by Economic Category, 1990/91-1994/95	89
43.	Trade Indices, 1990/91-1994/95	90
44.	Services and Transfers, 1990/91-1994/95	91
45.	Home Remittances from Pakistani Nationals Abroad, 1990/91-1994/95	92
46.	Medium- and Long-Term Capital, 1990/91-1994/95	93
47.	Selected External Aid Indicators, 1990/91-1994/95	94
48.	Short-Term Capital, 1990/91-1994/95	95
49.	Foreign Currency Deposits of Residents and Nonresidents, 1990/91-1994/95	96
50.	Gross Official Reserves, 1990/91-1994/95	97
51.	Public and Publicly Guaranteed Debt to Official Creditors, 1990/91-1994/95	98
52.	Foreign Interest Payments, 1990/91-1994/95	99
53.	Summary of Nontariff Trade Measures Affecting Pakistan's Exports to Selected Countries, 1994-95	100
54.	Exchange Rates and Relative Consumer Prices, 1990/91-1994/95	102
55.	Trade Flows and Outstanding Balances Under Bilateral Payments Agreements, 1990/91-1994/95	103
56.	Karachi Stock Exchange Quotations with Respect to Foreign Exchange Bearer Certificates, 1990-95	104

Charts

1.	Growth and Inflation, 1990/91-1994/95	5
2.	Investment and Savings, 1990/91-1994/95	7
3.	Government Revenue, 1990/91-1994/95	19
4.	Money and Credit, 1990/91-1994/95	30
5.	Exports and Imports, 1990/91-1994/95	41
6.	Current Account and Official Reserves, 1990/91-1994/95	49

Pakistan: Basic Data

	1990/91	1991/92	1992/93	1993/94	<u>Prel.</u> <u>1994/95</u>
<u>(Annual percentage changes, unless otherwise specified)</u>					
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
<u>(in percent of GDP, unless otherwise specified)</u>					
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/					
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	<u>Prel.</u> 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.