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PAKISTAN

Selected Issues and Statistical Appendix

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November 20, 2000

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I. TAX REFORM AND REVENUE PERFORMANCE¹

A. Introduction and Background

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

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

B. Revenue Performance in Historical Perspective

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

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

¹ Prepared by Christoph Klingen (FAD).

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

(In percent of GDP)

Source: Pakistani authorities, and staff estimates.

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

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

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

Sources: Pakistan authorities and Fund staff estimates.

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

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

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

C. Sales Tax Reform

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Income Tax Reform

17. Transformation of the income tax over the last two decades was successful in mobilizing additional revenue, but tax collection continues to rely on outmoded methods that will likely constrain future buoyancy. During the 1980s, revenues from direct taxes⁶ declined from 2–2.5 percent of GDP to just under 2 percent of GDP, reflecting the reduction of tax rates and the growing use of tax concessions. The aggressive development of the withholding tax regime in the 1990s meant that revenues surged ahead reaching 3.8 percent of GDP in 1995/96, followed by a slight decline in the second half of the decade, which left direct tax collections at 3.5 percent of GDP in 1999/2000. Throughout the last two decades, little progress was made in establishing a system built around modern methods of self-assessment underpinned by the threat of audit, increasing the number of taxpayers, or putting in place clear and easily accessible legislation. Moreover, with the withholding tax system already overextended, there is little hope for augmenting income tax collection further through the strategy of the 1990s.

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

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

tax collections in the late 1990s and for almost the entire revenue augmentation over the last decade. In 1979, when the current Income Tax Ordinance was promulgated, only six kinds of payments/transactions were subject to withholding taxes, which was increased to 12 in 1989/90 and further to 24 in 1999/2000. Eight withholding taxes accounted for over 90 percent of withholding tax revenue in 1999/2000. This includes, in declining order of importance: (a) a withholding tax on payments for the supply of goods, services rendered, and contracts executed at rates generally ranging between 3.5 percent and 6 percent; (b) a 5 percent withholding tax on imports, which was raised to 6 percent in the 2000/01 budget; (c) a 30 percent withholding tax on the interest income from holding securities; (d) a withholding tax on salaries and prerequisites; (e) a 10 percent withholding tax on interest or profit on an account maintained with banks or other financial institutions; (f) a withholding tax on export proceeds of between 0.75 percent and 1.25 percent, which was raised by 0.25 percentage points in the 2000/01 budget; (g) graduated withholding taxes on electricity bills; and (h) graduated withholding taxes on telephone bills. While the four top yielding withholding taxes were already provided for in the original Income Tax Ordinance of 1979, the ones pertaining to exports and electricity bills were added in 1992/93, the one on bank account interest was introduced in 1994/95, and the one on telephone bills was first levied in 1996/97. In addition, tax rates of the two most important withholding taxes were pushed up in several rounds. Withholding taxes on supplies, contracts, and services were raised from 2 percent, 3 percent, and 3 percent at the beginning of the decade to 3.5 percent, 5 percent and 5 percent in 1999/2000, respectively.⁷ The withholding tax on imports was temporarily abolished and reintroduced in 1989/90 at a rate of 1.5 percent, and increased several times to reach 6 percent in 2000/01.⁸ As a result of the above policies, the share of withholding taxes increased sharply from around 50 percent to 70 percent of income tax collection during the 1990s. Moreover, collections other than those related to withholding taxes stagnated at under 1 percent of GDP throughout that time.

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

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

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

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

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

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

22. The number of taxpayers remains low, although progress has been made over the last ten years. In August 2000, there were 1.8 million taxpayers registered under the income tax, compared to just over one million in 1990/91. Moreover, a large proportion of enrolled taxpayers does not actually file a return (about 1/3 in 1997/98).

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

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

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

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

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

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

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

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

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

E. Tariff and Trade Reform

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

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

28. The first phase of import liberalization, which was undertaken in the 1980s, did not involve any revenue loss. Indeed, customs duties collections increased somewhat to 6.4 percent of GDP in 1989/90 from 5.7 percent of GDP ten years earlier. The first phase of liberalization was initiated in 1983/84 and basically aimed at converting reliance on the positive list of permitted imports into reliance on a negative list of prohibited/restricted imports followed by a gradual shortening of the negative list and making monetary licensing ceilings less binding. This did not involve any revenue loss as items removed from the negative list became subject to their previously notional statutory tariff rates. Moreover, during this period revenue benefited from the imposition of paratariffs, in the form of a 10 percent general surcharge, a 5 percent Iqra surcharge, and a 6 percent licensing fee. As a result, the effective tariff rate increased from 38 percent in 1979/80 to 42 percent in 1987/88.¹⁵

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

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

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

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

F. Petroleum Taxation

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

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

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

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

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

Source: Pakistani authorities, IFS, and staff estimates.

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

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

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

G. Revenue Performance in a Cross-Country Comparison

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

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

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

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

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

Source: Fund staff estimates.

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

2/ Unweighted averages of values of comparator countries.

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

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

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

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

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

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

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

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

42. Pakistan's effectiveness in raising customs duties exceeds those of comparator countries. The adjusted efficiency ratio comes to 0.68 in 1999/2000 compared to 0.6.¹⁹ It does better than many richer countries including the Philippines, Morocco, Sri Lanka, and even South Korea and Mexico. The outperformance of South Korea and Mexico reflects these countries having entered into extensive free trade arrangements rather than a superior Pakistani customs administration.

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

H. Conclusions

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

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

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

buoyancy coefficient of 1.27.²⁰ Much of the additional revenue has been mobilized in a structural sound way, especially through sales tax reform. Revenue enhancement under the income tax, however, have relied excessively on a mushrooming net of withholding taxes, with more fundamental improvements left for the period ahead.

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

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

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

II. DEBT AND DEBT SUSTAINABILITY ISSUES IN PAKISTAN

A. Introduction²¹

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

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

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

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

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

²¹ Prepared by Thomas Helbling (MED).

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

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

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

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

B. External Debt Burden and Sustainability

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

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

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

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

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

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

The level of external debt

59. Pakistan's external debt amounted to 58 percent of GDP at the end of 2000 (Table II-1).²⁴ Over the last few years, the ratio of external debt to GDP fluctuated around 57 percent. Compared to the beginning of the 1990s, however, the external debt as a percent of GDP increased by about 9 percentage points. In terms of exports or, more precisely, current foreign exchange receipts²⁵—another frequently used yardstick to measure the external debt burden—the external debt fluctuated around 280 percent in recent years. Compared to the early 1990s, an increase in the external debt was also registered on the basis of this benchmark.

The debtor and creditor composition of external debt

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

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

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

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

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

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

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

1/ External debt after rescheduling/restructuring as of June 30 in each year.

2/ Including central bank.

3/ Foreign Currency Bearer Certificates.

4/ Public sector short-term debt and military debt.

5/ Including state-owned commercial banks.

6/ Nonresident foreign currency deposits.

7/ Includes nonguaranteed private debt, including bank borrowing other than nonresident foreign currency deposits.

8/ Short-term debt at original maturity plus amortization payments of medium-term debt of the following year.

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

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

Source: State Bank of Pakistan; Ministry of Finance.

1/ External debt after rescheduling/restructuring as of June 30 in each year.

2/ Including central bank.

3/ Foreign Currency Bearer Certificates.

4/ Public sector short-term debt and military debt.

5/ Including state-owned commercial banks.

6/ Nonresident foreign currency deposits.

7/ Includes nonguaranteed private debt, including bank borrowing other than nonresident foreign currency deposits.

8/ Short-term debt at original maturity plus amortization payments of medium-term debt of the following year.

share of private external debt rose from about 2 percent at end-1990 to a maximum of 20 percent at end-1997.²⁶ This increase also accounted for most of the increase in total external debt as a percent of GDP or current foreign exchange receipts registered between 1990 and 1997. With the debt crisis that began to unfold in 1999, the share of private debt decreased.

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

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

The structure of external debt by instrument and maturity

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

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

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

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

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

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

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

The debt service burden of external debt

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

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

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

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

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

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

- In January 1999, the Paris Club provided debt relief on debt service from public and publicly guaranteed debt contracted prior to September 30, 1997 falling due between January 1, 1999 and December 31, 2000 (including arrears accumulated during the first half of 1999). In January 1999, the projected debt service relief granted over the 18-month period amounts to US\$3.3 billion.
- Pakistan froze withdrawals in foreign currency from all nonresident foreign currency deposits (FCDs) in May 1998, which amounted to US\$4 billion at the time.¹ Subsequently, it reached agreement with nonresident institutional investors on a more favorable repayment schedule for US\$1.4 billion of FCDs. Other nonresident investors have been allowed to withdraw and cash their deposits in local currency (at the official rate until May 1999 and at the interbank rate after) or to swap them with the so-called Special U.S. dollar bonds issued by the Government of Pakistan.
- In December 1999, Pakistan succeeded in exchanging three existing Eurobonds worth about US\$610 million for a new six-year amortizing bond with a three-year grace period and a 10 percent coupon. Otherwise, US\$450 million of repayments would have come due during 2000 (in addition, a put option on the remaining bond coming due in 2002 could have been exercised from February 2000).
- In December 1999, Pakistan also reached agreement with eight commercial banks to restructure US\$512 million of short-term trade credits. In addition, Pakistan rescheduled US\$415 million of medium-term commercial bank credits in 1999.
- The central bank succeeded in rolling over short-term and medium-term liabilities held by other central banks.

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

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

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

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

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

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

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

2/ Scheduled debt service before restructuring and rescheduling.

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

4/ Scheduled debt service minus rescheduled debt service.

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

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

Source: State Bank of Pakistan; Ministry of Finance.

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

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

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

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

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

Explaining the External Debt Dynamics

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

- **Net exports (the noninterest current account balance)**³⁰, which determine the need for the external financing of imports given overall receipts from exports of goods and service and private transfers.
- **The intrinsic debt-interest dynamics**, which emanates from the difference between the interest rate on external debt and the growth of current foreign exchange receipts. If this difference is positive, the dynamics of interest compounding applies, which can lead to continued increases in the external debt unless net exports are, on average, positive and large enough to offset the interest bill. In general, a positive difference is expected, although a country like Pakistan is likely to be an exception given the significant share of concessional external debt.³¹
- **The accumulation of gross official foreign exchange reserves**, which requires the accumulation of external debt unless the accumulation is offset by other capital flows or the current account balance.
- **Other factors**, including other capital inflows such as foreign direct investment, which reduce the need for the accumulation of external debt.

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

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

73. The actual decomposition of Pakistan's external debt dynamics during the 1990s according to this scheme can be found in Table II-5.³² In the following discussion of the results, it is convenient to distinguish between push and pull factors. Push factors are factors that would have contributed to increases in the external debt ratio if all other factors had remained unchanged. Pull factors are factors that would have pulled down the external debt ratio.

Net exports

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

The intrinsic debt-interest dynamics

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

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

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

Net Exports and Real GDP Growth 2/

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

1/ Exports: exports of goods and services and workers' remittances; imports: imports of goods and services and unrequited transfers (debit items).

2/ Net exports equals exports minus imports as defined in footnote 1.

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

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

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

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

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

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

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

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

Foreign exchange reserves and other factors

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

Explaining the dynamics of the external debt burden

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

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

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

the stock of private debt, the effective maturity of private debt must have decreased considerably from the mid-1990s. On the basis of this measure, the effective maturity of private debt fell from roughly 10 years in 1996 to about two years in 2000.³³ Again, it is important to note that this general trend began to emerge before the debt and balance of payments problems in 1999. Between 1992 and 1998, amortization payments on private debt rose from about 9 to 36 percent of the stock of private debt.³⁴

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

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

Dimensions of Pakistan’s debt burden

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

A cross-country comparison of Pakistan’s debt burden

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

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

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

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

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

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

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

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

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

- As a percent of GDP, Pakistan's stock of external debt was above average compared to all but heavily indebted countries in 1998.
- Comparing the debt stock indicators for 1990 and 1998 shows a noticeable deterioration in Pakistan's relative debt burden.
- Pakistan's debt service indicators are above average compared to all country groups in 1998. In 1990, total debt service was already above average, while interest payments on external debt were in the upper echelon but not at the highest level compared to other country groups.

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

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

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

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

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

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

Rules of thumb: solvency index

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

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

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

The solvency index can be computed in two ways:

- The first is to compute the index based on recent averages of interest and export growth rates, and on the most recent debt to export ratio. The resulting solvency index can then be compared to the actual external debt service, which shows the extent to which the debt service burden is a function of principal payments.
- The second way is to compute the interest rate on external debt, adjusted by the export growth rate, which would be consistent with maintaining the current debt and debt service ratios in the indefinite future. The computed rate can then be compared with recent actual rates, which provides for an assessment from a slightly different angle.

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

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

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

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

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

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

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

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

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

Assessment

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

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

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

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

C. Public Debt Issues and Sustainability

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

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

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

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

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

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

Pakistan's public debt—some stylized facts

Level of public debt

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

Federal and provincial debt

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

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

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

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

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

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

Source: State Bank of Pakistan; Ministry of Finance.

1/ As of June 30 in each year.

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

*Composition of domestic debt*⁴⁴

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

- The so-called *permanent debt* comprises largely medium- to long-term securities held by banks and nonbanks. Prize bonds, that is, bonds with a lottery element are also part of this category. This debt component can be considered to be medium to long-term debt on an original maturity basis.
- *Floating debt* includes short-term government papers, especially 3-12 month treasury bills, which are mostly held by banks.
- *Unfunded debt* refers to resources mobilized through the national savings schemes (NSS) administered by the federal government's Central Directorate of National Savings. This funding category comprises a number of instruments. Most of them are of medium to long-term maturity although their effective maturity can vary in some instances as they include put option-like elements for the holder. For example, defense savings certificates have a 10-year maturity but allow for early redemption without penalty after one year.⁴⁵ Unlike most of the permanent and floating debt instruments, they are issued on tap.

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

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

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

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

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

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

Source: State Bank of Pakistan; Ministry of Finance.

1/ As of June 30 in each year.

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

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

Interest burden of the public debt

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

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

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

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

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

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

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

Source: Data provided by the authorities and staff calculations.

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

2/ Nominal interest rates minus average annual inflation rate.

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

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

Source: State Bank of Pakistan; Ministry of Finance.

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

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

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

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

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

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

Public debt dynamics, 1975–2000

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

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

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

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

- **The intrinsic debt-interest dynamics**, which emanates from the difference between the real interest rate and real GDP growth. On average, this difference will be positive (except, possibly, for concessional external debt).⁴⁹ Positive, so-called growth-adjusted real interest rates underlie the dynamics on interest compounding and are the key behind the potential for unstable debt dynamics.
- **Valuation effects**, which arise from the effects of nominal exchange rate changes on the foreign currency denominated debt. A depreciation of the domestic currency against currencies in which external public debt was contracted raises the value of this debt in domestic currency term and, with less than proportional effects on domestic prices, in terms of GDP.

110. The actual decomposition of the debt dynamics in Pakistan into the main components can be found in Table II-11.⁵⁰ As in the section on the external debt, the exposition is in terms of push and pull factors.

Primary balance

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

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

Intrinsic debt-interest dynamics

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

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

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

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

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

	1978–80	1981–85	1986–90	1991–95	1996	1997	1998	1999	2000	1996–2000
(In percentage points of GDP)										
Change in public debt ratio	-6.3	6.1	18.2	-8.4	0.1	1.2	1.9	2.5	-0.3	5.4
Contribution of										
Primary balance	18.4	20.2	18.2	11.4	1.7	0.3	0.3	-1.3	-1.2	-0.2
Structural balance 2/	...	...	5.6	5.6	1.1	1.1	1.1	1.1	1.1	5.6
Output gap 3/	...	...	0.2	-0.1	-0.3	0.1	0.2	0.3	-0.1	0.2
Discretionary primary balance	...	...	12.4	5.9	0.9	-0.9	-1.0	-2.7	-2.2	-6.0
Interest factor	-25.8	-31.9	25.1	-39.4	-4.2	-4.5	-0.8	0.1	-0.1	-9.4
Interest payments	5.9	13.8	23.0	26.9	6.2	6.5	7.3	7.3	7.7	35.0
Growth factor	-31.7	-45.7	-48.0	-66.3	-10.3	-11.0	-8.1	-7.2	-7.8	-44.5
Exchange rate valuation	0.0	22.5	15.4	14.3	4.9	5.9	3.9	6.8	0.0	21.5
Grants	-1.8	-3.4	-4.1	-2.3	-0.2	0.0	0.0	0.0	0.0	-0.2
Discrepancy		-1.4	13.8	7.7	-2.1	-0.5	-1.4	-3.1	0.9	-6.3

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

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

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

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

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

Exchange rate-related valuation losses

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

A closer look at the debt dynamics during 1996–2000

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

Public debt stabilization and primary gaps

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

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

⁵² Primary gaps were used by Buiter (1997).

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

(continued)

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

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

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

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

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

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

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

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

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

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

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

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

2/ Growth-adjusted.

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

- For growth-adjusted real interest rates of zero, maintaining the fiscal policy stance envisaged in 2001 would lead to some reduction in stock of public debt but only over a 10 to 15- year period would the decline be noticeable.
- For positive, growth-adjusted real interest rates of 1 percent, maintaining the fiscal policy stance envisaged in 2000/01 would lead to a very gradual decline in public debt in the long term. Over a 5-year period, the debt stock would remain at about 92 percent of GDP. Over 15 years, it would fall to about 87 percent.

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

Is debt stabilization sufficient?

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

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

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

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

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

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

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

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

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

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

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

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

Addressing the external debt problem

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

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

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

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

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

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

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

Addressing the public debt problem

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

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

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

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

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

Decomposing the External Debt Dynamics

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

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

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

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

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

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

Intertemporal Government Budget Constraint and Solvency

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

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

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

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

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

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

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

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

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

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

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

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

transversality condition:

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

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

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

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

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

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

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

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

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

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

Decomposing the Public Debt Dynamics

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

$$B_{t+1} = B_{t+1}^D + B_{t+1}^F S_{t+1},$$

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

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

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

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

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

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

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

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

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

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

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

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

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

where all small letters denote ratios or growth rates (with a hat above a letter) (the capital Y with a hat denotes the output gap in percent) and where π is the inflation rate.⁶⁶ This last formula underlies the decomposition of the public debt dynamics in section II. The term $r_t - \hat{y}_t$ is referred to as the growth-adjusted real interest rate in the text. In Table 11, the term

$\left[\frac{r_t - \hat{y}_t}{(1 + \pi_t)(1 + \hat{y}_t)} \right] b_t$ is referred as the interest factor, which is then further decomposed into the

interest payments $\left[\frac{r_{it}}{(1 + \pi_t)(1 + \hat{y}_t)} \right] b_t$ and the growth factor $\left[\frac{-\hat{y}_t}{(1 + \pi_t)(1 + \hat{y}_t)} \right] b_t$.

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

III. PERSPECTIVES ON PAKISTAN'S EXPORT PERFORMANCE⁶⁷

A. Introduction

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

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

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

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

B. Pakistan's Export Performance, 1980–2000⁶⁸

Overall export performance

139. Pakistan's export earnings in value terms fluctuated dramatically during the last two decades (Chart III-1). Nevertheless, a decomposition of exports into a medium-term "trend" component and a cyclical-irregular component shows a clearly recognizable pattern of a sustained acceleration in export growth rates from the mid to late 1980s and a decrease in export earnings growth from 1990.⁶⁹

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

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

Commodity composition of exports

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

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

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

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

Source: Staff calculations and data provided by Pakistani authorities.

1/ Fiscal year basis; Fiscal year runs from July 1 to June 30.

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

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

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

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

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

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

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

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

143. The fact that one commodity category accounted, on average, for almost 75 percent of Pakistani exports during the last five years suggests a high degree of concentration. To measure the degree of concentration in the commodity composition of exports over time, Gini-Hirschman⁷⁰ concentration indices were computed, using the shares of 59 different commodity groups (according to the disaggregation at the two digit SITC code level). The value of the Gini-Hirschman index is bound to be in the interval between 0 and 1. The closer the index value is to 1, the higher is the degree of concentration in the commodity composition. As shown in the lower panel of Chart III-2, the index increased from 0.43 in 1981 to 0.56 in 1998, confirming the hypothesis that the concentration in the commodity composition of exports was increasing during the last two decades.⁷¹ Data analysis also reveals that the rise in the index can be largely attributed to the increase in the share of textile-based exports.

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

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

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

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

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

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

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

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

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

1/ See text for details.

Table III-1. Pakistan: Shares in Total Exports by Commodity Groups 1/
(In percent of total exports)

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

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

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

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

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

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

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

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

Pakistan: Cotton and Textile Developments, 1980-2000

Cotton: Production and Textile Industry Consumption
(In 1000 tons)

Cotton: Domestic Wholesale Prices and World Market Prices
(In Rupee terms; 1991=100)

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

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

The geographical direction of exports

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

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

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

C. Comparing Pakistan's Export Performance with Regional Competitors

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

Chart III-3. Pakistan: Geographic Structure of Exports

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

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

1/ See text for details.

Overall export performance

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

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

The diversification of exports by commodity groups

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

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

Geographic Diversification of Exports

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

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

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

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

Chart III-5. Pakistan: Comparative Export Diversification

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

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

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

1/ See text for details.

2/ Petroleum and Petroleum products category excluded from the calculations.

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

The position and structure of Pakistan's textile exports

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

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

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

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

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

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

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

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

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

Trade regime

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

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

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

The constant market shares method

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

⁷⁴ See also Khan (1998).

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

would be interpreted as a problem. More specifically, the change in market share is decomposed as follows⁷⁶:

Table III-2. Trade Regimes in Selected Asian Countries

(2000 or latest unless otherwise noted)

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

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

1/ Period averages.

2/ Nonoil merchandise exports.

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

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

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

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

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

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

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

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

$$\Delta MS^k = \Delta MS_a^{kl} + \Delta MS_b^{kl} + \Delta MS_{ab}^{kl} \quad (1)$$

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

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

Empirical results

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

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

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

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

- In the 15 EU countries, which constituted the largest market for Pakistan's exports among the recipient countries, Pakistan was able to increase its market share throughout the sample period. Nevertheless, the increasing specialization turned out to have had adverse effects since the commodity composition effects turned out to be negative throughout all periods, as expected. As Pakistan's specialization on textiles increased over time, the commodity adaptation effects were equally negative, except for the period 1980–85. In fact, the EU countries are a case in point for the argument of Pakistan being specialized in a shrinking market (relative to overall imports). The share of textile imports in total EU imports decreased throughout the period 1980–97 while the share of textiles in imports from Pakistan increased. Overall, the market share effects were the main factors behind the increase in Pakistan's market share in EU imports.
- In the United States, Pakistan was also able to increase its market share. The commodity composition effects were negative for the entire sample period and for 1985–90 but, unexpectedly, were positive for the periods 1980–85 and 1990–97. This reflects the increase in the share of textile imports in U.S. imports during these periods. Consequently, Pakistan was well positioned to benefit from this development with its increasing specialization in textiles and, as indicated by the positive commodity adaptation effects, was competitive in this sector. The commodity adaptation effects were positive in all periods, suggesting that Pakistan was competitive in the United States more generally. These results suggest that the case for the "textile pessimism" may not be as strong as often argued. As for the EU countries, the market share effects were the most important factors behind the increase in Pakistan's market share in U.S. imports.

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

Table III-3. Pakistan: Constant Market Shares Analysis

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

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

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

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

- In Asian markets, the third largest import market in the sample after the EU countries and the United States, Pakistan lost market shares throughout 1980-97. The most important factor behind the losses was the commodity composition of Pakistan's exports, as the negative commodity composition effects illustrate. One of the main factors behind this result is the decline in the imports of textile fabrics such as yarn or cloth by Asian countries. This is, of course, the segment in which Pakistan's textile industry has specialized. The commodity adaptation effects are small, so that the loss in market shares appears not to be a reflection of problems in commodity composition competitiveness.
- For exports to Japan, the results are varied. For the period of 1980-97, Pakistan was able to increase its market share somewhat. The commodity composition and commodity adaptation effects were negative, reflecting the decline in the share of imports of textile fabrics and leather products in Japan as well as some market share losses by Pakistan in the market for leather and leather products in Japan. With the increasing share of textile fabrics in total exports to Japan, Pakistan's industry was not well positioned to take advantages of developments in Japan's total imports.

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

E. Conclusions and Policy Implications

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

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

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

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

- While policies that targeted growth and trade in specific sectors such as the textiles industry were initially successful in boosting exports, they also contributed to increasing the vulnerability to sector-specific shocks. The initial success of sector-specific policies may also explain why policies aimed at fostering broad-based growth in the tradables sector, including exchange rate policy, may have played less of a role. For the future, measures to strengthen the diversification of the export commodity base will be essential for balanced growth in the tradables sector and the economy.
- Pakistan's experience also illustrates how targeted trade restrictions can backfire and hurt long-term development. In Pakistan, relevant restrictions included the general ban on imports of raw cotton⁷⁸ (removed in 1999/2000), the government monopoly on the exports of raw cotton (removed in the mid-1990s), and the ban on many semi-manufactured textile inputs such as cloth. With the adverse shocks to cotton output, economic activity in the textile sector was handicapped by the restrictions on imports of raw cotton. Further progress in trade liberalization, to which Pakistan has committed, will be needed to remove the anti-export bias in today's trade regime and thereby increase the medium-term growth potential.
- Industrial policies appear to have focused too little on promoting public goods such as standards—for example, in setting standards for the quality of lint cotton—and providing essential public services including in the area of infrastructure services. Instead, policies appear to have been focused too much on providing tax and other incentives, which may have fostered overinvestment in some segments of the textile industry. This overinvestment, which resulted in a debt overhang in the sector, may have slowed the upgrading process in the industry in the 1990s. In the future, government efforts should focus on creating the enabling environment for tradables

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

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

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

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

Constant Market Share Analysis: The Case of Several Commodities and One Importing Country⁷⁹

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

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

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

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

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

b^l commodity shares of country l 's imports; column vector of dimension n ; $b^l = (b_1^l, \dots, b_n^l)$, where

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

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

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

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

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

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

Equation (5) can be rewritten as:

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

where,

$$\Delta MS_a^{kl} = (a_t^{kl} - a_0^{kl}) b_0^l \quad (7)$$

$$\Delta MS_b^{kl} = a_0^{kl} (b_t^l - b_0^l)$$

$$\Delta MS_{ab}^{kl} = (a_t^{kl} - a_0^{kl}) (b_t^l - b_0^l)$$

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

IV. A SURVEY OF POVERTY IN PAKISTAN⁸⁰

A. Introduction

171. Despite respectable real GDP growth rates for the past 50 years, poverty has continued to be an endemic problem in Pakistan. Even periods of high growth, as in the 1960s and 1980s, have seen either rising or slowly declining poverty trends. Moreover, recent studies have found that poverty was on the rise in the 1990s. This paper attempts to shed some light on the reasons explaining Pakistan's limited success in tackling poverty, by surveying some existing literature. The primary sources include a set of studies presented at the meeting of the Pakistan Society of Development Economists, "Pakistan Poverty Assessment" (1995) by the World Bank, and "A Profile of Poverty in Pakistan" by Human Development Center and UNDP.

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

B. Definition of Poverty

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

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

⁸⁰ Prepared by Farhan Hameed (MED).

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

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

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

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

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

P_{α} is the level of poverty
 N is the population size
 Q is the number of poor
 Z is the poverty line
 Y_i is the per capita household income

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

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

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

C. Trends in Poverty

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

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

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

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

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

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

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

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

184. There have been few attempts to determine comparable poverty levels over time. While a comparable time series of poverty is necessary in order to do any trend analysis or statistical work, most studies tend to simply calculate poverty rates for particular periods to determine the sensitivity of their choice of poverty line, and to compare their results with earlier findings. Two notable exceptions are Malik (1988) and Amjad and Kemal (1997). These studies use a combination of basic need and calorie in-take approach to poverty instead of a purely calorie intake based analysis. Since food expenditure account for only 50 percent of total expenditure, even for the poor, and since it is difficult to find poverty estimates for a purely calorie intake based poverty figures for recent years, a basic needs approach to poverty is appropriate. Malik (1988) defined the poverty line with reference to a calorie requirement of 2550 for the adult, and the revealed expenditure pattern of the poor between food and non-food expenditures (considered the average ratio of food to non-food consumption for the poor). Taking the 1984–85 poverty line as the benchmark, earlier poverty lines were estimated by deflating the current poverty line using the current CPIs for those years. Amjad and Kemal (op. cit.), inflated the 1984/85 poverty line by the current CPI figures to arrive at new poverty levels up to 1992/93. Qureshi and Arif (1999) used a similar methodology to arrive at poverty estimates for the period 1993/94 and 1998/99. In Chart IV-1, the poverty level estimates of Amjad and Kemal (op. cit.) and Qureshi and Arif (op. cit.) were spliced to time series for the period 1963/64–1998/99.

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

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

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

D. Broader Poverty Measures

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

Income inequality

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

188. The most common income based measures of inequality are the Gini coefficient⁸², percent shares of income (lowest 10 percent and highest 10 percent), and the FGT Index (described earlier). Gini coefficients for various years when the HIESs were conducted are presented in Table IV-2. In the 1960's there seems to have been a decline in income equality in both rural and urban areas. Generally, in 1970s there seems to be an overall worsening of income inequality, followed by a reversal of the trend in 1980s. The trend is more uncertain for the 1990s but there seems to be a gradual rise.

Table IV-2. Pakistan: Income Distribution

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

Source: HIES, Various Year (Jaffri, 1999)

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

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

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

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

Source: Agriculture Census Organization, Agriculture Census 1981 and 1990

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

Access to credit

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

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

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

Table IV-4. Pakistan: Distribution of Loans

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

Source: IFPRI (1990).

Illiteracy rate

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

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

195. Illiteracy rates can also capture certain aspects of gender bias in poverty. Lower literacy rates restrict women's access to employment, training opportunities, and available social services. According to the latest statistics, the female labor participation rate is 13 percent as compared to the 74 percent male participation rate. The female labor force participation rate is extremely low compared to other countries. Since most women are uneducated, their employment opportunities are restricted primarily to agriculture. A 1987/88 Labor Force Survey⁸³ shows that 73 percent of the female labor force works in agriculture, 13 percent in manufacturing, and 11 percent in services. As female primary school attendance rates are low (25 percent), the prospects for a significant improvement in female literacy rates in the near term appear limited. The low primary school attendance rates and labor participation rates may also be a result of social and religious norms.

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

Health and nutrition

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

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

Table IV-5. Pakistan: Main Health Indicators

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

Source: World Development Indicators by the World Bank

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

E. Distribution of Poverty

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

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

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

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

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

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

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

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

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

Geographical distribution

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

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

Table VI-6. Pakistan: Geographic Distribution of Poverty

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

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

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

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

Household characteristics

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

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

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

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

Economic activity

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

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

Table VI-7. Pakistan: Household Attributes

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

Source: A Profile of Poverty in Pakistan.

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

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

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

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

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

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

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

Rural	Share of Population (In percent)	Poverty within Group (In percent)	Share of Poverty (In percent)	Location Index
Agriculture	63.6	35.1	64.7	101.7
Owner cultivator	36.6	30.2	32.0	87.5
Tenant	13.6	43.8	17.3	127.0
Agricultural laborer	7.0	56.0	11.4	162.3
Other Agriculture	6.4	21.0	3.9	60.9
Wage earners in other sectors	17.9	29.8	15.5	86.4
Self-emp outside agriculture	15.2	36.3	16.0	105.2
Other	3.4	41.1	4.1	119.1
Overall	100.1	34.5		
	Share of Population (in percent)	Poverty within Group (in percent)	Share of Poverty (in percent)	Location Index
Wage earners	43.8	28.4	39.6	90.4
By job type:				
White collar	14.2	22.1	10.0	70.4
Skilled/semi-skilled	20.1	28.1	18.0	89.6
Casual/manual	9.5	38.3	11.6	122.1
Self-employed	36.3	34.0	39.3	108.3
Other	19.9	33.7	21.4	107.5
Overall	100.0	31.4		

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

F. Conclusions

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

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

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

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

(At 1980/81 constant prices)

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

Sources: Data provided by the Pakistan authorities.

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

(At current prices)

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

Sources: Data provided by the Pakistan authorities.

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

(At current prices)

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

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

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

	1995/96	1996/97	1997/98	Prel. 1998/99	Est. 1999/2000
(In millions of Pakistan Rupees)					
Private sector	193,781	231,732	262,497	233,693	255,616
Agriculture	21,776	20,055	21,419	29,111	33,639
Mining and quarrying	2,112	2,294	5,247	6,342	4,180
Large-scale manufacturing	46,718	51,785	49,897	41,955	54,785
Small-scale manufacturing	11,957	14,231	16,177	18,924	20,659
Construction	10,697	10,722	12,073	9,588	11,271
Transport and communications	13,259	23,441	33,187	22,164	28,021
Banking, insurance, and other financial institutions	4,009	8,869	5,625	7,550	5,884
Ownership of dwellings	38,730	44,927	49,182	53,200	56,093
Wholesale and retail trade and other services	4,845	4,475	5,647	5,853	6,515
Public sector	175,298	166,036	141,380	154,227	168,993
Public sector enterprises	112,478	113,203	81,802	92,035	100,049
Agriculture	9,516	3,150	3,482	5,474	7,437
Mining and quarrying	6,797	13,601	5,774	3,772	2,648
Manufacturing	3,840	8,684	5,345	10,894	10,962
Construction	5,024	5,330	4,268	3,298	2,251
Electricity and gas	51,490	32,555	26,181	26,613	29,192
Transport and communications	31,809	46,434	30,140	36,385	42,351
Railway	3,368	3,582	2,219	3,450	2,016
Post office, telegraph and telephone	14,999	22,647	9,921	13,326	12,525
Others	13,442	20,205	18,000	19,609	27,810
Wholesale and retail trade	173	52	0	2	0
Financial institutions	1,608	1,675	1,738	2,275	2,123
Services	2,221	1,722	4,873	3,322	3,075
General government	62,820	52,833	59,578	62,192	68,944
Federal	20,118	21,485	23,773	24,351	29,563
Provincial	34,522	24,928	27,824	29,081	29,794
Local bodies	8,180	6,420	7,981	8,760	9,587
(Annual changes in percent)					
Private sector	18.7	19.6	13.3	-11.0	9.4
Of which:					
Agriculture	-3.2	-7.9	6.8	35.9	15.6
Large-scale manufacturing	20.1	10.8	-3.6	-15.9	30.6
Small-scale manufacturing	21.7	19.0	13.7	17.0	9.2
Construction	13.1	0.2	12.6	-20.6	17.6
Transport and communications	65.6	76.8	41.6	-33.2	26.4
Ownership of dwellings	13.8	16.0	9.5	8.2	5.4
Public sector	13.0	-5.3	-14.8	9.1	9.6
Public sector enterprises	16.5	0.6	-27.7	12.5	8.7
Of which:					
Electricity and gas	4.0	-36.8	-19.6	1.7	9.7
Transport and communications	39.8	46.0	-35.1	20.7	16.4
General government	7.3	-15.9	12.8	4.4	10.9

Source: Federal Bureau of Statistics.

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

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

Source: Ministry of Food, Agriculture, and Livestock.

1/ In thousands of bales.

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

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
Wheat					
Production (thousand metric tons)	16,907	16,651	18,694	17,858	21,095
Area (thousand hectares)	8,377	8,109	8,355	8,230	8,462
Yield (kilograms per hectares)	2,018	2,053	2,238	2,170	2,493
Rice					
Production (thousand metric tons)	3,966	4,305	4,333	4,674	5,156
Area (thousand hectares)	2,162	2,251	2,317	2,424	2,515
Yield (kilograms per hectares)	1,835	1,912	1,870	1,928	2,050
Cotton (Lint)					
Production (thousand bales)	10,595	9,374	9,184	8,790	11,240
Area (thousand hectares)	2,997	3,149	2,960	2,923	2,983
Yield (kilograms per hectares)	601	506	528	512	641
Sugarcane					
Production (thousand metric tons)	45,230	41,998	53,104	55,191	46,333
Area (thousand hectares)	963	965	1,056	1,155	1,010
Yield (kilograms per hectares)	46,968	43,544	50,279	47,780	45,883

Source: Ministry of Food, Agriculture, and Livestock.

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

(In thousands of metric tons unless otherwise specified)

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

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

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

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

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

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

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

Source: Federal Bureau of Statistics.

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

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

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

(In Pakistan rupees per 100 kilograms)

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

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

1/ Usually announced in September/October.

2/ Usually announced in March/April.

3/ A government-decreed floor price.

4/ Phutti yields about one-third lint cotton and two-thirds cotton seed by weight. Until 1997/98, the government announced floor prices for phutti, although there was no government procurement of phutti.

5/ Minimum procurement prices.

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

(Annual percentage changes)

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

Source: Ministry of Food, Agriculture, and Cooperatives.

1/ See footnote 4 on Table 10.

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

(In Pakistan rupees per liter) 1/

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

Source: Ministry of Petroleum and Natural Resources.

1/ Annual averages.

2/ Pakistan rupees per metric ton.

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

(In Pakistan rupees per thousand cubic feet)

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

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

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

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

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

Source: Ministry of Finance and Economic Affairs.

1/ Includes certain current outlays under the public sector development program.

2/ Foreign currency debt is valued at the end-of-period exchange rate.

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

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

Source: Ministry of Finance and Economic Affairs.

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

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

Source: Ministry of Finance and Economic Affairs.

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

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

(In millions of Pakistan rupees)

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

Source: Ministry of Finance and Economic Affairs.

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

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

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
(In millions of Pakistan rupees)							
Total revenue	119,985	136,095	151,125	158,982	156,983	169,021	220,608
Provincial share in federal revenue	79,875	104,273	120,446	131,555	114,078	115,573	143,231
Provincial taxes	7,939	9,351	11,614	13,964	13,908	15,494	18,774
Property taxes	1,771	2,079	2,392	3,608	4,194	4,161	3,876
Of which: Agricultural tax	...	...	...	...	...	1,274	1,408
Excise duties	543	525	815	938	911	1,264	1,334
Stamp duties	2,875	3,410	4,213	4,463	4,814	5,267	6,398
Motor vehicles tax	1,246	1,623	1,667	1,931	2,113	2,362	2,803
Other	1,504	1,714	2,527	3,024	1,876	2,440	4,363
Provincial nontax	6,391	6,356	5,923	7,149	10,053	14,574	16,144
Interest	367	343	423	141	1,534	243	813
Profits from hydro electricity	5,032	7,347	6,860	6,461	5,442	6,000	...
Irrigation	-5,363	-7,798	-8,734	-7,133	-6,702	-6,266	...
Receipts	1,347	1,295	1,806	1,986	2,323	2,528	...
Expenditures	6,710	9,094	10,540	9,119	9,025	8,794	...
Forest	644	838	823	734	616	823	...
Other	5,711	5,626	6,531	6,946	9,163	13,774	...
Federal loans and transfers	25,780	16,115	13,142	6,314	18,944	23,380	42,459
Loans (net)	21,164	8,869	3,306	1,812	8,063	11,296	21,457
Grants	4,616	7,246	9,836	4,502	10,881	12,084	21,002
Total expenditure	104,607	131,550	156,004	153,700	157,817	161,087	215,858
Current expenditure	84,948	100,302	125,950	134,401	133,607	137,512	179,605
Interest to federal government	20,877	21,353	22,264	23,409	26,010	25,469	28,270
Errors and omissions	-3,405	-7,780	-5,242	2,685	-15,191	-10,350	2,830
Other	67,476	86,729	108,928	108,307	122,788	122,393	148,505
Development expenditure	19,659	31,248	30,054	19,299	24,210	23,575	36,253
Overall balance	15,378	4,545	-4,879	5,282	-834	7,934	4,750
Financing	-15,378	-4,545	4,879	-5,282	834	-7,934	-4,750
External	0	0	0	0	0	0	0
Domestic	-15,378	-4,545	4,879	-5,282	834	-7,934	-4,750
Bank	-15,644	-4,812	4,411	-5,919	834	-7,934	-4,750
Nonbank	266	267	468	637	0	0	0
Privatization proceeds	0	0	0	0	0	0	0
(In percent of GDP)							
Total revenue	7.7	7.3	7.1	6.5	5.9	5.8	6.9
Provincial share in federal revenue	5.1	5.6	5.7	5.4	4.3	4.0	4.5
Provincial taxes	0.5	0.5	0.5	0.6	0.5	0.5	0.6
Provincial nontax	0.4	0.3	0.3	0.3	0.4	0.5	0.5
Federal loans and transfers	1.7	0.9	0.6	0.3	0.7	0.8	1.3
Total expenditure	6.7	7.1	7.4	6.3	5.9	5.5	6.8
Current expenditure	5.4	5.4	5.9	5.5	5.0	4.7	5.6
Development expenditure	1.3	1.7	1.4	0.8	0.9	0.8	1.1
Overall balance	1.0	0.2	-0.2	0.2	0.0	0.3	0.1

Source: Ministry of Finance and Economic Affairs.

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

(In millions of Pakistan rupees)

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

Source: Ministry of Finance and Economic Affairs.

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

(In millions of Pakistan rupees)

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

Source: Ministry of Finance and Economic Affairs.

1/ Includes Islamic Development Bank.

2/ Budget support (includes adjustment for budgetary use of privatization proceeds).

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

(In millions of Pakistan rupees)

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

Source: Ministry of Finance and Economic Affairs.

1/ End of period stocks.

2/ Net claims on government by the banking system.

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

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

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

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

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

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

(In millions of Pakistan Rupees)

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

Source: Pakistan authorities; and Fund staff estimates.

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

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

3/ Revenue minus expenditure.

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

(In million of Pakistan rupees)

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
Operating Revenue and Expenditure					
Revenue	82,672	95,693	114,526	129,016	137,145
Sale of electricity	31,910	34,743	37,604	40,553	39,365
Surcharges	49,975	59,896	74,521	87,200	91,681
Other operating revenues	787	1,054	2,401	1,263	6,099
Expenditure	66,635	103,975	122,519	111,338	132,242
Cost of fuel	24,157	24,118	23,085	19,536	27,729
Purchase of power from IPPs	634	35,311	53,148	42,532	54,761
Capacity payments	0	21,321	32,802	22,602	23,563
Energy payments	634	13,990	20,436	19,930	31,198
Operating, maintenance, administrative expenses	14,373	14,680	15,970	14,305	15,476
Depreciation and valuation charges	7,935	9,129	11,139	10,552	11,659
Hydel profit to provinces	6,321	6,460	6,000	6,000	6,000
Interest charges	13,215	14,277	13,177	18,413	16,617
Net operating balance including interest charges	16,037	-8,282	-7,993	17,678	4,903
Savings, Investment and Net Borrowing					
Gross savings	24,890	5,546	9,625	33,704	18,945
Net operating balance including interest charges	16,037	-8,282	-7,993	17,678	4,903
Depreciation and valuation charges	7,935	9,129	11,139	10,552	11,659
Other income	918	4,699	6,479	5,474	2,383
Capital expenditure	31,064	21,652	22,959	19,185	15,942
Net borrowing	6,174	16,106	13,334	-14,519	-3,003
Financing					
Net cash collection from operations	-1,246	14,788	6,566	-4,689	-32,734
Change in accounts receivables (- = increase)	-5,270	-1,255	-24,383	-4,716	-8,363
Changes in current liabilities (+ = increase)	4,024	16,043	30,949	27	-24,371
External borrowing (capital expenditure)	14,206	11,290	9,680	7,674	6,060
Debt amortization	-7,329	-6,627	-10,587	-13,953	-23,398
Rural Electrification (budget loan)	4,121	1,738	1,244	1,129	1,161
KAPCO note sale	0	0	1,697	843	0
Debt-equity conversion	0	0	0	0	36,383
Other	-3,578	-5,083	4,734	-5,523	9,525
Memorandum items:					
Overall balance	-14,109	-25,235	-24,473	3,967	-8,656
Accounts receivables (end of period)	15,466	16,721	41,104	45,820	54,183
Of which: receivables from government	...	...	36,469	35,014	39,375
Current liabilities (end of period)	119,038	102,995	72,046	72,073	47,702
Of which: liabilities to government	...	...	19,590	37,942	20,412

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

(In million of Pakistan rupees)

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

Source: WAPDA; World Bank; and staff estimates.

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

(In millions of Pakistan rupees)

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

Source: Data provided by the authorities.

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

(In million of Pakistan rupees)

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
Operating Revenue and Expenditure					
Revenues	10,344	13,459	14,490	12,736	21,992
Net sales	10,300	13,409	14,284	12,502	21,949
Other operating revenues	44	50	206	234	43
Expenditure	7,028	8,425	10,615	8,887	11,570
Operating expenditure	3,112	3,215	1,824	2,021	2,270
Depreciation			1,465	1,684	2,850
Transportation charges	209	169	200	208	223
Amortization	622	785	738	938	765
Exploration expenditure written off	1,440	1,238	1,433	1,288	1,376
General and administration expenses	465	556	322	324	415
Financial charges	968	1,721	1,292	1,957	968
Workers profit participation Fund	161	341	396	251	701
Provision for current taxation	52	400	2,945	216	2,000
Net operating balance incl. interest charges	3,316	5,034	3,875	3,849	10,422
Savings, Investment and Net Lending					
Gross savings	3,790	5,234	6,690	6,000	13,857
Net operating balance incl. interest charges	3,316	5,034	3,875	3,849	10,422
Depreciation and amortization	...	...	2,203	2,622	3,616
Other income	474	200	611	604	893
Dividend payment	...	...	0	-1,075	-1,075
Capital expenditure	3,710	13,342	5,187	2,707	2,871
Net lending	80	-8,108	1,503	3,293	10,986
Memorandum items:					
Overall balance	80	-8,108	-700	1,746	8,445
Oil sales					
Sales (in million rupees)	4,503	6,149	5,220	4,845	7,336
Volume (in thousands of barrels)	9,592	8,209	7,924	8,074	7,436
Unit price (in rupees per barrel)	469	749	659	600	986
Unit price (in U.S. dollars per barrel)	14	19	15	12	19
Costs (in million rupees)	3,343	3,312	2,783	3,393	3,646
Unit cost (in rupees per barrel)	349	403	351	420	490
Gas sales					
Sales (in million rupees)	4,894	8,750	9,166	7,539	11,921
Volume (in 000s MCF) 1/	108,294	125,356	124,363	115,968	212,798
Unit price (rupees per MCF) 1/	45	70	74	65	56
Unit price (in U.S. dollars per MCF) 1/	1.35	1.79	1.72	1.30	1.09
Costs (in million rupees)	3,633	4,713	4,887	5,278	5,925
Unit cost (in rupees per MCF)	34	38	39	46	28
Total oil and gas sales (in million rupees)	9,397	14,899	14,387	12,384	19,257
Employment	11,615	12,384	12,389	12,307	...

Source: Data provided by the authorities.

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

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

(In million of Pakistan rupees)

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

Source: Data provided by the Pakistan authorities.

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

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

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

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

(In million of Pakistan rupees)

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

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

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

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

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

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

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

(In million of Pakistan rupees)

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
Operating Revenue and Expenditure					
Revenue	37,779	42,632	46,466	51,772	57,775
Telephone/telex/telegraph	37,779	42,632	46,466	51,772	57,775
Expenditure	26,737	29,066	34,059	34,205	34,813
Operating costs	22,765	23,628	26,534	29,462	30,345
Of which: salaries and pensions	4,933	6,289	5,626	6,522	8,298
Interest expenses	3,972	5,438	7,525	4,743	4,468
Net operating revenue incl. interest charges	11,042	13,566	12,407	17,567	22,962
Savings, Investment and Net Lending					
Gross savings	12,774	14,952	14,348	19,802	24,733
Net operating balance incl. interest charges	11,042	13,566	12,407	17,567	22,962
Other income	1,687	1,300	1,754	1,939	1,004
Interest income	45	86	187	296	767
Capital expenditure	12,828	12,828	12,828	11,776	15,558
Net lending	-54	2,124	1,520	8,026	9,175
Financing	54	-2,124	-1,520	-8,026	-9,175
Financing from Federal government (net)	949	45	-67	-839	-227
Gross lending	949	1,003	109	441	440
Amortization	0	958	176	1,280	667
Other financing	-895	-2,169	-1,453	-7,187	-8,948

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

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

(In millions of Pakistan rupees)

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

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

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

2/ Transfers from the budget to cover operational shortfalls.

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

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

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

Source: State Bank of Pakistan.

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

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

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

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

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

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

Source: State Bank of Pakistan.

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

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

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

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

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

Source: State Bank of Pakistan.

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

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

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
(Changes in millions of Pakistan rupees)					
Net foreign assets	-40,136	-23,689	-28,885	19,344	19,826
Net domestic assets	154,083	138,243	181,971	54,882	100,259
Net claims on government	54,342	73,333	55,246	-46,093	78,234
Budgetary support	49,542	70,500	47,787	-46,463	39,962
Federal government	45,131	76,419	46,953	-38,529	44,712
Provincial governments	4,411	-5,919	834	-7,934	-4,750
Commodity operations	5,858	5,702	10,585	3,645	40,094
Zakat and Privatization Funds	-1,058	-2,869	-3,126	-3,275	-1,823
Credit to the nongovernment sector	68,707	71,764	94,668	119,214	26,041
Private sector and public enterprises 1/	65,541	62,689	94,738	105,796	23,100
Autonomous bodies	3,166	9,075	-894	13,049	3,126
Privatization proceeds	6,264	5,202	602	0	0
Other items (net)	24,770	-12,057	31,225	-18,239	-4,015
Domestic liquidity	113,947	114,554	153,086	74,226	120,085
Currency	18,531	10,031	28,781	14,794	67,961
Demand deposits	6,989	-14,489	7,999	147,918	60,420
Time and savings deposits	47,542	42,088	60,632	69,153	44,454
Foreign currency deposits 2/	40,885	76,924	55,674	-157,639	-52,750
(Changes in percent of beginning of period domestic liquidity)					
Net foreign assets	-4.9	-2.5	-2.7	1.6	1.5
Net domestic assets	18.7	14.7	17.3	4.5	7.8
Net claims on government	6.6	7.8	3.2	-3.8	6.1
Of which: Budgetary support	6.0	7.5	4.5	-3.9	3.1
Credit to the nongovernment sector	8.3	7.6	9.0	9.9	2.0
Of which: Private sector 1/	7.6	7.3	8.1	8.5	1.4
Privatization proceeds	0.8	0.6	0.1	0.0	0.0
Other items (net)	3.0	-1.3	3.0	-1.5	-0.3
Domestic liquidity	13.8	12.2	14.5	6.2	9.4
Memorandum items:					
Annual growth rates in percent:					
Credit to the private sector 1/	15.0	14.2	13.7	16.2	2.5
Currency	8.6	4.3	11.8	5.4	23.6
Demand deposits	3.4	-6.8	4.0	71.3	17.0
Time and savings deposits	16.0	12.2	15.7	15.5	8.6
Foreign currency deposits 2/	38.9	52.7	25.0	-56.6	-43.6
M3 3/	15.3	14.5	18.9	11.0	9.8
Velocity of domestic liquidity	2.6	2.5	2.2	2.3	2.3

Source: State Bank of Pakistan.

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

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

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

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

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

Source: State Bank of Pakistan.

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

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

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

Source: State Bank of Pakistan.

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

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

Source: State Bank of Pakistan.

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

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

(In millions of Pakistan rupees)

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

Source: State Bank of Pakistan.

1/ Agricultural Development Bank of Pakistan.

2/ Federal Bank for Cooperatives.

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

(In percent)

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

Source: State Bank of Pakistan.

1/ Based on end-June data.

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

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

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

(By residency of deposit holders; in percent)

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

Source: State Bank of Pakistan.

1/ As of June 30.

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

(End-December)

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

Source: State Bank of Pakistan

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

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

Source: State Bank of Pakistan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1/ Includes nonrepatriable investment.

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

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

Source: Fund staff estimates.

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

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

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

Source: Ministry of Finance and Economic Affairs.

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

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

Source: Ministry of Commerce.

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

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

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
Exports	100.0	100.0	100.0	100.0	100.0
European Community	30.0	32.0	31.0	28.7	27.3
UK	6.0	7.0	7.0	6.6	6.8
Other	24.0	25.0	24.0	22.1	20.5
United States	16.0	18.0	21.0	21.8	24.8
Japan	7.0	6.0	4.0	3.5	3.1
Hong Kong	9.0	9.0	7.0	7.1	6.1
Singapore	1.0	1.0	1.0	0.5	0.6
China	2.0	1.0	2.0	2.0	2.1
Baltic and CIS countries 1/	...	...	...	0.1	0.04
Oil-producing trading partners 2/	...	...	...	4.6	3.7
Other	35.0	33.0	34.0	31.8	32.3
Imports	100.0	100.0	100.0	100.0	100.0
European Community	22.0	22.0	19.0	17.4	15.1
UK	4.0	5.0	4.0	4.4	3.5
Other	18.0	17.0	15.0	13.0	11.6
United States	9.0	12.0	11.0	7.7	6.3
Japan	11.0	9.0	8.0	8.3	6.3
Hong Kong	0.4	0.3	0.4	0.6	0.5
Singapore	2.0	2.0	2.0	3.5	2.6
China	5.0	5.0	5.0	4.2	4.6
Baltic and CIS countries 1/	...	...	...	0.6	0.9
Oil-producing trading partners 2/	...	...	...	15.8	23.9
Other	50.6	49.7	54.6	41.9	39.8

Source: Federal Bureau of Statistics

1/ Excludes informal trade with Central Asian Republics.

2/ Indonesia, Iran, Kuwait, and Saudi Arabia.

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

(In millions of U.S. dollars)

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

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

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

(In millions of U.S. dollars)

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

Source: State Bank of Pakistan.

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

(In millions of U.S. dollars)

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

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

1/ Islamic Development Bank.

2/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

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

(In millions of U.S. dollars)

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

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

1/ Islamic Development Bank.

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

(In millions of U.S. dollars)

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

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

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

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

(In millions of U.S. dollars)

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

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

1/ Islamic Development Bank.

2/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

3/ These figures differ from the figures in Table 42 because they do not include errors and omissions.

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

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

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

1/ Islamic Development Bank.

2/ Foreign Exchange Bearer Certificates, Dollar Bearer Certificates, and Foreign Currency Bearer Certificates.

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

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

	1995/96	1996/97	1997/98	1998/99	Prel. 1999/2000
Total foreign currency deposits	8,305	9,843	9,679	5,465	3,921
Residents' deposits	4,147	5,491	6,024	2,909	2,182
<i>Of which:</i>					
Frozen accounts	4,147	5,491	6,024	2,354	1,303
New accounts	...	...	...	555	879
Nonresidents' deposits	4,158	4,352	3,655	2,556	1,739
<i>Of which:</i>					
Frozen accounts	4,158	4,352	3,655	2,494	1,641
With domestic banks	3,050	2,667	2,039	1,605	1,114
Institutional deposits	1,592	1,533	772	953	784
Individual accounts	1,458	1,134	1,267	652	330
With domestic nonbank financial institutions	1,108	1,685	1,616	889	527
New accounts	...	...	...	62	98
Maturity structure 1/					
Demand deposits	3,413	3,744	4,329	...	...
Current	217	203	170	...	...
Call	68	120	142	...	...
Savings	3,127	3,421	4,017	...	...
Time deposits	4,892	6,099	5,350	...	...
1 month	266	407	424	...	...
3 months	1,720	1,773	1,660	...	...
6 months	1,160	1,347	697	...	...
1 year	1,396	1,419	1,544	...	...
Above 1 year	351	1,153	1,025	...	...
In percent of total					
Demand deposits	41.1	38.1	45.2	...	...
Time deposits	58.9	61.9	54.8	...	...
<i>Of which: 6 months and less</i>	37.9	35.8	28.5	...	...
Memorandum items:					
Share of resident FCDs in M2 deposits (percent)	20.7	28.1	30.0	...	...
Share of resident FCDs in M2 (percent)	15.6	21.4	23.1	...	...

Source: State Bank of Pakistan.

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

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

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

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

1/ Including external SBP liabilities.

2/ Islamic Development Bank.

3/ Foreign Exchange Bearer Certificates; and Dollar Bearer Certificates.

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

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

Source: Ministry of Finance and Economic Affairs.

Table 59. Pakistan: Gross Official Reserves, 1995/96–1999/2000

(In millions of U.S. dollars)

	Gold 1/	SDRs	Foreign Exchange	Total
1995/96				
September	108	2	1,518	1,628
December	107	15	1,774	1,896
March	105	83	1,709	1,897
June	104	2	2,044	2,150
1996/97				
September	746	2	972	1,720
December	688	13	825	1,526
March	688	2	910	1,600
June	690	1	1,142	1,832
1997/98				
September	689	4	1,276	1,969
December	633	11	1,459	2,103
March	632	1	1,329	1,962
June	612	3	932	1,546
1998/99				
September	614	2	663	1,278
December	615	1	1,060	1,676
March	615	1	1,886	2,502
June	543	1	1,739	2,283
1999/2000				
September	544	1	1,569	2,113
December	543	0	1,476	2,020
March	544	0	1,513	2,057
June	603	1	1,357	1,960

Source: State Bank of Pakistan.

1/ Valued at SDR 35 per fine ounce.

Table 60. Pakistan: Exchange Rates and Relative Consumer Prices, 1995/96–1999/2000

	Rupee per U.S. dollar		Indices (1990 = 100; quarterly averages)			
	Exchange Rate 1/		Exchange rate 1/ 3/ 4/	Relative consumer prices	Nominal effective exchange rate 4/	Real effective exchange rate 4/
	Level	Change 2/				
1995/96						
First quarter	31.1	-2.1	69.3	126.2	75.8	95.7
Second quarter	33.3	-8.4	64.6	128.3	71.5	91.8
Third quarter	34.2	-10.2	63.2	130.6	71.1	92.9
Fourth quarter	34.6	-11.1	62.4	132.7	71.1	94.4
1996/97						
First quarter	35.6	-12.5	60.7	135.6	68.9	93.5
Second quarter	39.2	-15.0	55.0	139.5	63.0	87.9
Third quarter	39.9	-14.4	54.1	144.5	64.9	93.9
Fourth quarter	40.1	-13.7	53.9	147.1	65.3	96.1
1997/98						
First quarter	40.3	-11.7	53.6	147.4	66.2	97.6
Second quarter	43.3	-9.4	49.9	148.9	62.4	93.0
Third quarter	43.8	-8.9	49.3	150.5	64.0	96.3
Fourth quarter	43.9	-8.7	49.1	153.1	63.9	97.9
1998/99						
First quarter	49.5	-18.5	44.5	155.7	58.0	90.3
Second quarter	50.1	-13.5	43.0	156.7	53.1	83.2
Third quarter	50.0	-12.3	43.4	158.2	54.4	86.1
Fourth quarter	50.9	-13.7	44.0	158.6	56.8	90.1
1999/2000						
First quarter	51.5	-3.9	41.9	159.6	53.7	85.8
Second quarter	51.8	-3.3	41.9	160.8	52.9	85.1
Third quarter	51.8	-3.5	41.8	161.3	53.9	87.0
Fourth quarter	51.8	-1.7	41.7	163.0	55.3	90.1

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

1/ Mid-point between buying and selling rates (period averages).

2/ Percentage change from the preceding period; refers to the exchange rate expressed in terms of U.S. dollars per rupee.

3/ In terms of U.S. dollars per rupee.

4/ Increase indicates appreciation of the rupee.