CONTEXT

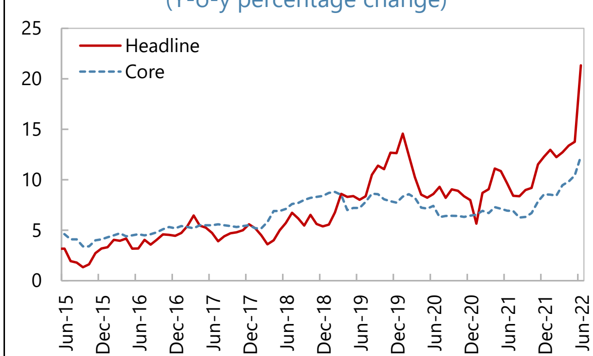
1. **On April 10, Shehbaz Sharif (Pakistan Muslim League-Nawaz) became Prime Minister (PM) of a coalition government with the Pakistan Peoples Party and other smaller parties**. The new government took power after a no-confidence vote against former PM Imran Khan. The political environment, however, is complex: the governing coalition enjoys a slim majority and comprises traditionally opposing parties, while former PM Imran Khan continues to hold large protests across the country and had a strong showing in key Punjab by-elections. The government has expressed its intention to complete its term, with elections due no later than August 2023.

2. **Political tension led to significant fiscal slippages**. The former government granted a 4-months "relief package" in late February 2022 that reversed commitments to fiscal discipline made earlier in the year. The largely untargeted package (i) reduced petrol and diesel prices (through a generous general subsidy and setting fuel taxes at zero taxation); (ii) lowered electricity tariffs by PRs 5/kwh for almost all households and commercial consumers; and (iii) provided tax exemptions and a tax amnesty. These measures were accompanied by the deferral of regular electricity tariff increases (¶27), as well as increases in the minimum wage and public wages and pensions, and additional food subsidies. The retention of these measures, as well as additional slippages in Q3 and Q4 widened the FY22 fiscal deficit by more than 1½ percent of GDP (¶10), missing the end-June fiscal target by a wide margin.

3. **The authorities have renewed efforts to stabilize the economy and bring the program back on track**. After some initial delay, the new government started to unwind the relief package in late-May 2022 removing the untargeted power and post-tax fuel subsidies, commencing the restoration of the Petroleum Development Levy (PDL, ¶14), while expanding social support schemes. Additionally, it adopted the FY23 budget, which entails a sizable primary balance adjustment, while the SBP has tightened monetary policy considerably to address inflationary pressures.

RECENT ECONOMIC DEVELOPMENTS

Pakistan: CPI Inflation, 2015M06–22M06
(Y-o-y percentage change)



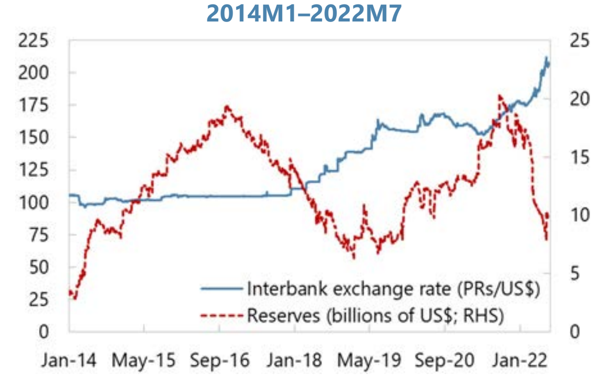
Sources: PBS; SBP; IMF staff calculations.

4. **Accommodative policies in FY22 supported strong growth momentum with signs of overheating**. Significant fiscal stimulus and delayed monetary tightening fueled domestic demand to unsustainable levels. The underlying primary deficit in FY22 is estimated to have reached 1.6 percent of GDP (against a sixth review target of a primary balance). SBP was also slow to increase the policy rate in the tightening cycle that started in September 2021, keeping ex-post real rates in negative territory in FY22 (about -2.5 percentage points on average). This helped push

growth to 6 percent (authorities' provisional estimate) in FY22 but also led to high and rising inflation (21.3 percent in June).[1] Private credit growth also picked up sharply during FY22, reaching 24 percent growth y-o-y in May 2022 amid strong demand for business credit.

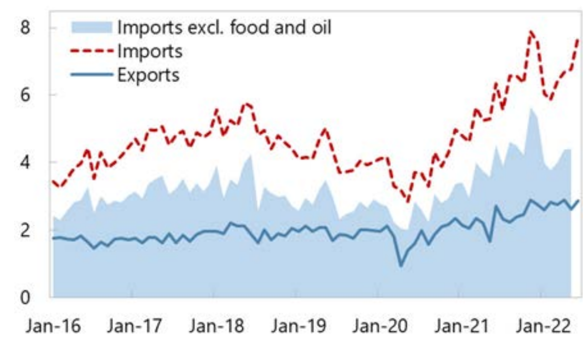
5. **Worsening external conditions, due to spillovers from Russia's war in Ukraine, are compounding domestic challenges**. In the first 11 months of FY22, the trade deficit widened to a record US$40.1 billion (10.7 percent of GDP) despite robust export growth (25 percent y-o-y). Imports surged dramatically, on the back of continued robust growth in non-oil imports and a 86-percent rise in fuel imports reflecting both higher prices and volumes. The widening trade deficit was only partially offset by remittance inflows (around US$2.5 billion per month). As a result, the current account deficit widened to about US$15 billion (4.5 percent of GDP) in FY22, a five-fold increase over FY21.[2] Gross reserves declined from US$17.6 billion at end-December 2021 to US$9.8 billion at end-June 2022, equivalent to about 1.5 months of imports coverage, due to debt repayments and frequent intervention by the SBP to mitigate exchange rate pressures. Faced with increasing inflationary pressures and eroded reserves, the SBP has hiked policy rates by 525 bps since December 2021 with the rupee seeing greater flexibility (depreciating around 30 percent in FY22). Risk premia have increased considerably, and the EMBIG spreads are close to 2,000 bps since mid-July. During FY22, Pakistan's economy has experienced little impact from COVID-19 waves, including the most recent Omicron wave in January–February 2022.

Pakistan: Gross Official Reserves and Exchange Rate, 2014M1–2022M7



Sources: SBP; IMF staff calculations.

Pakistan: Goods Exports and Imports, 2016M1–22M06 (US$ billion)



Sources: SBP; IMF staff calculations.

PROGRAM PERFORMANCE

6. **Overall program performance has remained weak since the completion of the last review and until recently** (MEFP Tables 1–2). Several quantitative criteria were missed and gaps in implementing particularly the fiscal and structural reform agenda arose amid challenging

[1] Consumer's inflation expectations increased by 7.6 percent in July (relative to May), driven mostly by food inflation (8.7 percent increase), according to the SBP and the Institute of Business Administration survey.

[2] The external assessment published in the February 2022 Article IV suggests that the external position was broadly in line with fundamentals in FY21.

circumstances, including domestic political turmoil and spillovers from the war in Ukraine (¶5), but also a waning decisiveness to push forward agreed reforms. The authorities have, however, recently renewed their commitment to the EFF's medium-term objectives, as also shown through the implementation of four prior actions (PAs, MEFP Table 2) that are critical to ensure achieving program fiscal objectives and financial viability of the power sector: (i) parliamentary approval of the FY23 budget, including a personal income tax (PIT) reform in late-June (¶12); (ii) signature of Memoranda of Understanding (MoUs) with provincial governments in late-July (¶13); (iii) reversal of the February relief package during May through July (¶¶3, 13); and (iv) catch-up on overdue power tariff adjustments during July and August (¶28).

- ***Performance criteria (PCs)***. At end-June 2022, the authorities met the four quantitative PCs on the ceilings on: (i) net domestic assets (NDA) of the SBP; (ii) the SBP's FX forward book; (iii) net government budgetary borrowing from the SBP; and (iv) the amount of government guarantees. They also met the two continuous PCs on: (i) zero new flow of SBP credit to the government; and (ii) zero external public payment arrears. At the same time, the authorities missed the two quantitative PCs on: (i) the floor on net international reserves (NIR) owing to reserve losses in a difficult external environment (¶5); and (ii) ceiling on the general government primary budget deficit due to fiscal slippages (¶2). Both these QPCs had also been missed at end-March 2022 for the same reasons. In addition, the authorities missed three continuous PCs on the: (i) non-imposition and non-intensification of exchange restrictions, (ii) non-modification of multiple currency practices (MCPs); and (iii) non-imposition of import restrictions for BOP purposes after extending cash margin requirements for imports, banning imports of luxury and nonessential items, and requiring import payment authorization for certain goods.

- ***Indicative targets (IT)***. At end-June 2022, the authorities met the two ITs on the floors on net tax revenue collection (mainly thanks to buoying import taxes just overcompensating for the elimination of sales tax on fuel) and the gross issuance of longer-term debt instruments. At the same time, they missed the four ITs on the: (i) targeted cash transfers spending (BISP) mainly because of a slower-than-envisaged enrollment into the unconditional cash transfer (UCT) program Kafalat and earlier-than-programmed phasing-out of the emergency cash transfer program on account of an improved COVID-19 trajectory; (ii) floor on health and education spending due to less expenditure on both COVID-19 vaccine procurement in FY22 Q3 and education due to the implementation of COVID restrictions; (iii) net accumulation of tax refund arrears due to administrative delays; and (iv) power sector payment arrears mainly due to delayed tariff adjustments and higher-than-expected generation and financial costs. The ITs were already missed for the same reasons at end-March 2022.

- ***Structural benchmarks (SBs)***. The authorities met one SB and implemented two with delay, against the ten SBs due through end-June 2022. Specifically, parliament adopted the OGRA Act Amendments for the gas sector in March (*end-June 2022 SB*). In addition, with delay, the Public Procurement Regulatory Authority (PPRA) issued in May regulations for publication of beneficial ownership information in large procurement contracts (*end-March 2022 SB*), and measures were adopted in June to strengthen the effectiveness of the AML/CFT framework (*end-March 2022 SB*).

At the same time, the authorities missed seven SBs, as they granted further tax amnesties (*continuous SB*) and new preferential tax treatments (*continuous SB*), most of which lapsed in line with their embedded sunset clauses by the time of the FY23 finance bill (¶11). Their draft PIT law also deviated from the commitment during the sixth EFF review (*end-February 2022 SB*). Finally, despite significant progress in the face of capacity constraints, four SBs remain outstanding and, thus, will be reset (i.e., the parliamentary approval of the new state-owned enterprise (SOE) law, a plan for the phasing out of SBP refinance facilities, first-stage recapitalization of two private sector banks, and establishment of an asset declaration system).

OUTLOOK AND RISKS

7. Amid tighter macroeconomic policies and a challenging external environment, the ongoing expansion is set to moderate in FY23, yet risks remain high (Text Table below and Tables 1–8).

Pakistan: Selected Economic Indicators, FYs19–27

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
				Est.			Proj.		
Real GDP growth (%)	3.1	-0.9	5.7	6.0	3.5	4.2	4.6	5.0	5.0
Consumer prices (period average, % change)	6.7	10.7	8.9	12.1	19.9	10.0	7.7	6.5	6.5
Gen. gov. overall balance (incl. grants, %GDP)	-7.8	-7.0	-6.0	-7.0	-4.6	-4.0	-3.7	-3.5	-3.7
Gen. gov. primary balance (underlying, excl. grants, %GDP) 1/	-3.1	-1.6	-0.5	-1.6	0.4	0.5	0.6	0.6	0.2
Gen. gvt. debt (incl. guarantees and IMF obligations, %GDP)	82.0	84.5	77.9	78.9	72.1	66.9	65.3	62.4	60.7
Current account balance (%GDP)	-4.2	-1.5	-0.5	-4.7	-2.5	-2.5	-2.5	-2.5	-2.6
External debt (%GDP)	33.5	37.7	34.9	32.5	37.0	36.2	35.0	32.7	30.2
Gross official reserves (billions of US$)	7.3	12.2	17.3	9.8	16.2	17.3	18.9	21.0	22.5
Gross official reserves (months of next year's GNFS imports)	1.7	2.4	2.5	1.5	2.2	2.3	2.4	2.4	2.5
Gross official reserves (% IMF reserve adequacy metrics) 2/	34.5	54.1	72.2	40.9	59.7	60.7	62.3	68.8	71.7

Sources: Pakistani authorities; IMF staff estimates and projections.
1/ Excludes one-off transactions, including asset sales. In FY21, it excludes PHPL debt clearance, IPP-related arrears clearance, and COVID-19 spending; in FY22, it excludes IPP-related arrears clearance and COVID-19 spending; and in FY23, it excludes IPP-related arrears clearance. 2/ Assumes a flexible exchange rate and no capital controls.

- ***Real GDP growth*** is projected to decelerate to 3.5 percent in FY23, following two years of above-trend growth as the economy recovered from the COVID-19 pandemic with support by expansionary policies. The pass-through of energy prices will have some dampening effect on activity while fiscal consolidation and the loss of purchasing power due to high inflation are expected to restrain domestic demand notably. Assuming sustained policy and reform implementation, growth is expected to gradually return to its medium-term potential of 5 percent.

- ***Average CPI inflation*** is expected to surge to 20 percent in FY23 as international commodity prices are passed on to domestic consumers. Core inflation is also projected to remain elevated due to higher energy prices and sizable depreciation. With tighter monetary and fiscal policies firmly entrenched, inflation is expected to fall significantly in FY24, supported by favorable base effects. The SBP is expected to reach its 5–7 percent inflation target range gradually with medium-term inflation slowing to 6.5 percent.

- ***The current account deficit*** is projected to narrow to 2½ percent of GDP in FY23, down from the estimated 4.7 percent of GDP in FY22, reflecting monetary, fiscal, energy policies consistent with moving demand to sustainable levels, and supported by the continued commitment to a market-determined exchange rate. This current account adjustment would strengthen the reserve coverage to some 2.3 months of imports by the end of the forecast horizon, up from about 1.7 months of imports at the onset of the program.

- ***Public debt*** is projected to fall by almost 7 percentage points of GDP to 72.1 percent of GDP at end-FY23, against a tighter fiscal stance and as inflation erodes the value of local currency debt. This follows an increase in the debt-to-GDP ratio from 77.9 percent at end-FY21 to 78.9 percent at end-FY22 on account of the large fiscal deficit and a depreciating exchange rate despite low real effective interest rates. Supported by the planned fiscal adjustment and robust growth public debt is projected to follow a downward path towards 60 percent of GDP by FY27, with external debt declining toward 25 percent of GDP.

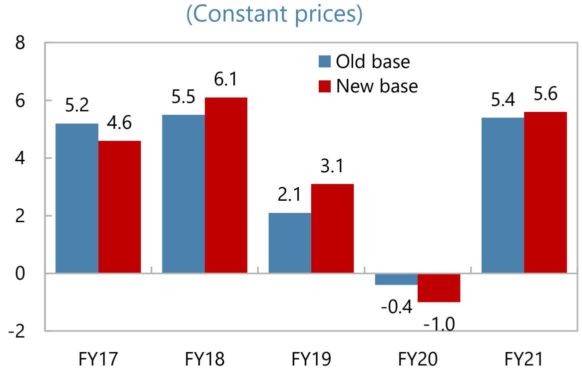
Box 1. GDP Rebasing

In January 2022, the Pakistan Bureau of Statistics (PBS) published revised annual GDP estimates for the period 2016–21 based on rebased prices (2015/16 from 2005/06 previously) and reflecting an expanded coverage. This constitutes a significant step in PBS's efforts to enhance national accounts statistics and reflects improvements required for the production of better GDP estimates. These improvements include better coverage of all sectors to properly capture economic activity, and the disaggregation of service sector segments (e.g., accommodation and food services are separated from wholesale and retail trade). The new GDP estimates follow the 2008 System of National Accounts (SNA) methodology.

Notable revisions include changes in the level of nominal GDP: revised GDP over 2016–21 is about 16 percent higher in nominal terms relative to the previous series. However, the structure of the economy has remained broadly unchanged, with services dominating the economy, albeit by a smaller share and the agricultural sector's share expanding. Note that GDP growth rates under the new base have been revised in May 2022 in the context of the release of the provisional FY22 estimates and that estimates under the old base are no longer published.

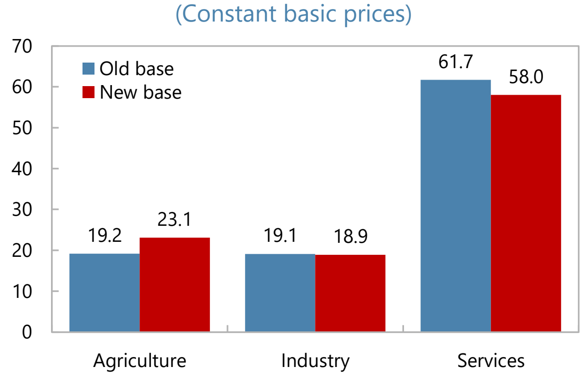
The GDP rebasing was hampered by bottlenecks related to the supporting census and survey studies. For example, the Integrated Agriculture Census faced repeated delays and agricultural estimates were instead interpolated off the 2005-06 figures. In April 2022, PBS published rich supporting documentation on data sources, estimation methodologies, and deflation methods.

GDP Growth Rates Comparison
(Constant prices)



Sources: PBS; IMF staff calculations.

GDP Sectoral Shares, FY21
(Constant basic prices)



Sources: SBP, PBS; IMF staff calculations.

8. Risks to the outlook and program implementation remain high and tilted to the downside given the very complex domestic and external environment (Annex I). Spillovers from the war in Ukraine through high food and fuel prices, and tighter global financial conditions will continue to weigh on Pakistan's economy, pressuring the exchange rate and external stability. Policy slippages remain a risk, as evident in FY22, amplified by weak capacity and powerful vested interests, with the timing of elections uncertain given the complex political setting. Socio-political pressures are expected to remain high and could also weigh on policy and reform implementation, especially given the tenuous political coalition and their slim majority in Parliament. Furthermore, high food and fuel prices could prompt social protest and instability. All this could affect policy decisions and undermine the program's fiscal adjustment strategy, jeopardizing macro-financial and external stability and debt sustainability. Moreover, elevated near-term domestic financing needs may overstretch the financial sector's absorption capacity and cause market disruption. Debt Sustainability Analysis (DSA, Annex II) highlights that public debt remains sustainable over the medium term with strong policies and robust growth albeit with increased uncertainty. Substantial risks stem from higher interest rates, a larger-than-expected growth slowdown, pressures on the exchange rate, renewed policy reversals, weaker medium-term growth, and contingent liabilities related to SOEs. Further delays on structural reforms, especially those related to the financial sector (resolving undercapitalized banks and winding down SBPs involvement in the refinancing schemes), could hamper financial sector stability and reduce the effectiveness of the monetary policy. Finally, climate change risks are mounting, including a tendency for more frequent climate-related disasters.

POLICY DISCUSSION

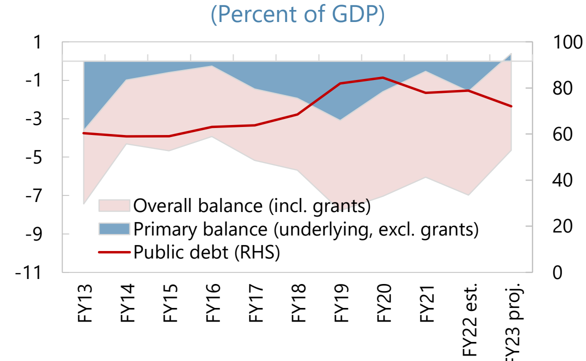
The policy dialogue focused on short-term measures to reverse policy slippages and reduce external and domestic imbalances as well as medium-term policies to promote sustainable long-term growth. Broad-based action is needed to: (i) reinforce fiscal discipline by mobilizing revenues and controlling current spending to strengthen debt sustainability and make space for more infrastructure and social spending; (ii) reduce inflation through an appropriate monetary policy stance; (iii) maintain the market-determined exchange rate and rebuild external buffers; (iv) restore the financial viability of the energy sector; and (v) advance structural reforms, including by resolving problem banks and improving monetary policy transmission.

A. Fiscal Policies

Background

9. A key goal of the EFF was a gradual improvement in the primary balance to ensure fiscal sustainability, entrench macroeconomic stability, and build resilience. This was to be achieved by broadening the tax base and mobilizing additional tax revenues through effective, efficient, and equitable tax policy and

Pakistan: Fiscal Developments, FYs13–23
(Percent of GDP)



Sources: Pakistani authorities; IMF staff calculations.

administration reforms, with a medium-term goal of adding 3–4 percentage points of GDP to tax revenue. However, policy slippages (¶10) and delayed structural/revenue administration reforms (¶11), have rendered this goal out of reach. Nonetheless, and given Pakistan's elevated vulnerabilities, it is essential to continue this effort for the remainder of the program period and over the medium term to strength public finances and reduce the debt burden to more sustainable levels, while creating space for much-needed social and development spending.[3]

Pakistan: General Government Fiscal Operations, FYs22–23
(Percent of GDP)

	FY22		FY23	
	Program 2/ (CR/2021/073)	Outcome (prel.)	Program (CR/2022/027)	Budget
Revenue and grants	**13.2**	**12.1**	**16.7**	**12.4**
Tax revenue	11.0	10.2	14.0	11.0
Federal	10.0	9.3	12.7	10.1
FBR	8.9	9.0	11.8	8.9
Other federal	1.0	0.3	0.9	1.1
o/w: PDL	0.9	0.2	0.7	1.0
Provincial	1.1	0.9	1.4	0.9
Nontax revenue	2.1	1.9	2.6	1.4
Federal	1.9	1.6	2.1	1.1
Provincial	0.3	0.3	0.5	0.3
Grants	0.1	0.0	0.1	0.0
Expenditure	**17.5**	**19.1**	**21.1**	**17.1**
Current expenditure	15.3	17.0	18.0	14.7
Interest	4.6	4.6	5.7	4.9
Other federal	6.0	7.8	6.8	5.6
o/w: subsidies (incl IPPs)	0.8	2.3	0.8	1.1
o/w: grants and COVID provision	1.5	1.8	1.6	1.3
Provincial	4.8	4.6	5.5	4.2
Development and net lending	2.3	2.1	3.1	2.3
o/w: provincial	1.2	1.4	2.0	1.5
Overall balance (incl. grants)	**-4.3**	**-7.0**	**-4.4**	**-4.6**
Primary balance (underlying, excl. grants) 1/	**0.6**	**-1.7**	**1.2**	**0.4**

Sources: Pakistani authorities; IMF staff calculations.
1/ Excludes 0.7 percent of GDP for IPP arrears clearance and spending on COVID-19 vaccines in FY22; and 0.2 percent of GDP for further IPP arrears clearance in FY23. 2/ Adjusted for rebased GDP.

10. The FY22 underlying primary balance target was missed by a large margin, reflecting high commodity prices, and extended fiscal stimulus and slippages. During FY22H1 booming imports led to a surge in tax revenue. Spending, which is typically lower in the first two quarters remained constrained, resulting in a mid-year underlying primary surplus (excluding grants) of 0.4 percent of GDP. However, a series of policy reversals and slippages in the second half of the year, resulted in an underlying primary deficit (excluding grants and one-off expenditures) of 1.6 percent of GDP, instead of the programmed zero balance. These included public sector wage increases, tax exemptions, and a package of untargeted subsidies for households (including fuel, electricity, and

[3] Pakistan has a long history of weak tax revenue mobilization, mainly owing to a very narrow tax base, the extensive use of tax concessions and exemptions, weaknesses in revenue administration, low taxpayer compliance on the back of high informality, and vulnerabilities to corruption. The inherent challenges to boost revenues are further exacerbated by Pakistan's fiscal federalism model, which leads to significant fragmentation and inefficiencies in revenue administration (for instance, there are more than ten tax administrations in Pakistan).

food). The fiscal impact of these increasingly costly subsidies continued under the new government that took office in April, and delays in reversing the reductions in the PDL and GST on fuel in FY22H2 resulted in lost revenue of 0.7 percent of GDP, contributing to the overall fiscal deterioration.

11. The structural agenda has also suffered substantial delays and slippages over the same period. Further erosion of the structural revenue mobilization agenda included a series of temporary tax exemptions and a tax amnesty which lapsed in June (but which breached of two continuous SBs precluding such practices), as well as new GST tax exemptions granted in the FY23 budget.

Policy Discussion

12. The Government's FY23 budgeted consolidation is based on sharp spending cuts. The budget approved on June 29 *(PA)* targets the underlying primary surplus of 0.4 percent of GDP, a consolidation of over 2 percent of GDP. Revenue collected by the Federal Board of Revenue (FBR) is projected to fall marginally relative to GDP (to 8.9 percent), with the fading of the import-related revenue boom largely offset by a series of 19 distinct revenue measures (including several novel taxes and adjustments to existing taxes) alongside a much smaller than initially expected PIT reform. An increase in PDL revenues (which will now reach PRs 50/liter instead of the previous PRs 30/liter) more than offsets the decline in nontax revenue (caused by lower SBP dividends), and spending cuts worth 2 percentage points of GDP make the largest contribution to consolidation.

13. Key aspects of the FY23 fiscal program include (MEFP ¶9):

- ***Tax policy.***
  - *New tax measures*. To increase progressivity and increase revenue collection, the authorities have introduced a number of novel measures aimed at high-income earners and the wealthy which encompass: (i) rate increases and new taxes on immovable property; and (ii) further taxes on direct income and wealth and a supplementary tax on the very wealthy, earning above PRs 150 million (see text table below).
  - *PIT*. Amendments to the PIT law reduce the number of slabs, thus simplifying its structure. The amendments are expected to generate about PRs 33 billion of additional revenue in FY23, well below the sixth review commitment of 0.3 percent of GDP,[4] as one of the key priorities of the new government included the alleviation of the tax burden on salary earners in the lower income slabs.
  - *Raising fuel taxation*. The government has committed to a schedule of monthly PDL increases until April 2023 (MEFP ¶9), which will generate revenue of about 1 percent of GDP.[5] Staff

[4] As stated in the Government's Letter of Intent written on December 17, 2021.

[5] The scheduled PDL is for increases by PRs 10 (5)/liter for gasoline (diesel) on July 1 *(PA)*, and August 1 *(PA)*, and September 1. After that, increases of PRs 5 per month continue for both fuels until the PDL reaches PRs 50 in January (gasoline) and April (diesel).

emphasized the importance of full normalization of fuel prices, including restoring the GST rate from its current level of zero.

- *Other.* The government has recommitted to not launch any further tax amnesties or grant further tax exemptions or concessions through Statutory Regulatory Orders (SROs) without prior National Assembly approval. Work on the harmonization of service sales tax across provincial jurisdictions will continue with World Bank support.

- ***Expenditures.***

  - *Limiting non-social related spending.* The government has committed to limiting spending to 16.9 percent of GDP, with an additional 0.2 percent of spending to clear IPP arrears, and a contingency reserve of 0.25 percent of GDP has been budgeted to hedge against potential shocks. This accommodates salary and pension increases of 15 and 5 percent, already granted by the government. It also safeguards development spending to the FY22 levels (as a share of GDP).

  - *Protecting social spending.* The authorities will continue to protect regular BISP spending on the most vulnerable (PRs 316 billion), including through the elevation of the related IT target to a QPC (¶18). They also reviewed their experience with some new programs outside of BISP and decided to (MEFP ¶14.c): (i) retire the Ehsaas Rashan Riyat Program (ERR) and re-focus food subsidies on the Utility Store Corporation (USC); and (ii) maintain as is the Kamyab Pakistan Program (KPP) for subsidized financing for SME, agriculture, and low-cost housing.

  - *Phasing out untargeted post-tax fuel subsidies*. Following the removal of the price differential claim (post-tax fuel subsidy), the government has committed to fully passing through international oil price changes to consumers. In addition, once fuel taxation is returned to its reference level, the government plans to introduce an automatic pricing mechanism (MEFP ¶9.b).

  - *Limiting power subsidies.* The federal government has reaffirmed that it is the only spending authority in the country to grant power subsidies (MEFP ¶9.b), which it will limit to PRs 570 billion (¶28) thanks to: (i) power tariff adjustments reducing the tariff differential subsidy (TDS) to PRs 225 billion; and (ii) lower remaining IPP/GPP payments (PRs 130 billion).

- ***Other.***

  - *Provincial fiscal targets.* The provinces have committed, through MOUs they have signed with the federal government in late-July 2022 *(PA)*, to deliver their individual commitment to an aggregate provincial surplus of PRs 750 billion. While this is a considerable increase from FY22, the central government is confident that the provincial authorities will exercise spending restraint, as needed, and deliver on their commitments. In this regard, quarterly data on fiscal outcomes from provinces will be shared with Staff to monitor implementation of provincial commitments and any likely impact on the Federal budget.

  - *Revenue administration.* The authorities will seek to expand the PIT tax base by another 300,000 persons through the use of data on the withholding tax of businesses, third-party

data, and physical surveys to book new individuals. They will also seek to bring the service sector, notably retailers, into the tax net by making better use of data (e.g., from tax collected through electricity bills on commercial connections). Continued progress on the roll-out of track-and-trace will create a solid basis for further revenue collection, notably from tobacco sales. The authorities have also committed to clear the large stock of income tax refund arrears to PRs 225 billion by end-July 2022, down from the 377 billion accumulated by mid-June (a 70 percent increase over the fiscal year due to slow processing)

- *Limiting guarantees.* A Statement of Contingent Liabilities laid before the National Assembly contains a list of all guarantees expected to be issues in FY23, thus setting a ceiling that will maintain guarantees as a percentage of GDP on a modest doward trajectory.

Pakistan: List of FBR Revenue Measures in the FY23 Budget

	PRs billion	Pct. of GDP
Direct taxes on wealth	**133**	**0.16%**
• Advanced income tax (IT) of 20% on deemed income (assumed = 1% of property value) from non-utilized immoveable property	15	
• Capital gains tax (CGT), increase in rates	30	
• Advanced tax upon property purchase increased from 2% to 5% for buyers who are not on the active taxpayer list	20	
• Capital value tax (CVT) of 1% on foreign properties of Pakistani residents	8	
• Increase in withholding tax (1% to 2%) on immoveable property purchase and sale; reduction of CGT exemption	45	
• CVT of 1% on liquid foreign assets of resident Pakistanis at market value as on June 30th	10	
• Increase advanced IT on luxury vehicles (above 1600cc)	5	
Direct taxes on high incomes (personal and corporate)	**211**	**0.25%**
• Super tax of 1, 2 3 and 4% on earnings over PRs 150, 200, 250 and 300 million	120	
• Super tax of 10% on high earnings in selected sectors (sugar, automobiles, banking, cement, cigarettes, fertilizers, oil and gas, and aerated beverages)	80	
• Increase differential tax on low advance to deposit ratio of banks on income attributable to all investments	11	
Other direct taxes	**110**	**0.13%**
• Personal income tax (PIT), simplification and adjustments	33	
• Increase in CIT (2% to 4%) at import stage on commercial raw material imports	20	
• Fixed tax on non-tier-1 retailers; tax varies by amount of electricity consumed	42	
• Taxing contributions to private funded gratuity and pension schemes	10	
• Removal of PIT tax credits and exemptions on allowances	5	
Indirect taxes	**45**	**0.05%**
• Increase in federal excise duty on cigarettes	50	
• Increase in customs duty (CD) on crude oil (2.5 to 5%)	30	
• Increase in CD and regulatory duty on various items	29	
• Changes to GST exemptions	-64	
TOTAL	**499**	**0.60%**

Sources: Pakistani authorities; IMF staff estimates.

14. The budget strategy requires timely and decisive implementation of program commitments but also generally entails very high risks. The approved budget and the first steps in PDL and power tariff adjustment provide a strong signal of the authorities' determination to implement commitments as agreed. Nonetheless, the fiscal risks to the program are considerable, including from the government's ability to raise the projected revenue from a number of novel taxes and staggered PDL implementation (with 90 percent revenue generated in the last three quarters), the provincial commitment to deliver the historically high surpluses agreed, and the significant containment of current spending relative to GDP in a pre-election year.[6]

15. In view of these risks, the government has committed to trigger contingency measures at the earliest signs of fiscal program underperformance. As soon as monthly data show signs of underperformance against program revenue targets (e.g., if data for an early month within a quarter suggest risks to quarterly performance), the government has committed to activate contingency measures as needed, including: (i) immediate increase in GST on fuel, as a prelude to reaching the standard rate of 17 percent; (ii) further streamlining of GST exemptions including on sugary drinks (PRs 60 billion) and other unwarranted exemptions such as those benefiting exporters; and/or (iii) increasing Federal Excise Duty on Tier I and Tier II cigarettes by at least PRs 2/stick with immediate effect to raise at least another PRs 120 billion in revenue.

16. Other broad-based reforms will improve the fiscal framework.

- ***Enhancing Public Financial Management (PFM)***. The authorities plan to fully operationalize the treasury single account (TSA-2) by end-December 2022. To realize the full benefits of the TSA, the MOF has created a Treasury and Cash Management Unit and a Cash Forecasting Unit in the Federal Treasury Office in Islamabad. Monthly and quarterly cash forecasts have been developed since January 2022, with technical assistance from the ADB. In March 2022, new guidelines were issued on the implementation of annual and multiannual commitment control systems, to strengthen budget execution and expenditure controls.

- ***Safeguarding the quality and transparency of COVID-related spending*** (MEFP ¶12). On May 14, 2022, the PPRA published procurement regulations requiring the collection for publication of beneficial ownership information of companies which are awarded procurement contracts above PRs 50 million (*end-March 2022 SB*). Legislative hearings continue on the audit report for the FY20 COVID-related spending and social payments; and for FY21, the relevant audit reports are expected to be made publicly available by end-August 2022. The e-procurement system (supported by the World Bank) will be piloted with the health and education ministries by end-August, and full rollout to the federal and provincial governments scheduled for mid-2023.

- ***Improving debt management***. Amendments to the Fiscal Responsibility and Debt Limitation Act, which were supported by World Bank and IMF TA and signed into law in June 2022 after National Assembly passage, will institutionalize the establishment of a central Debt Management

[6] Budgeted current spending declines by 2½ percent of GDP in FY23, partly reflecting the end of general fuel and power subsidies.

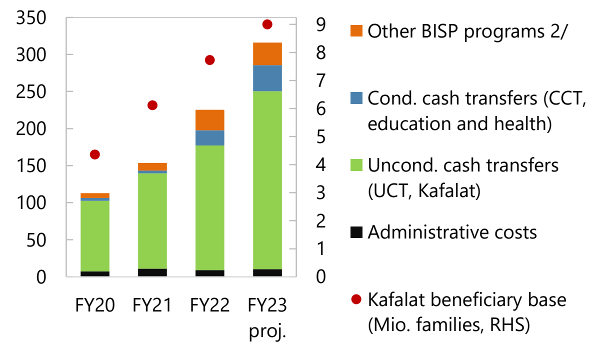
Office (DMO). To overcome long-standing institutional and technical capacity weaknesses, it will be crucial to (i) provide adequate resources for DMO staffing and expeditiously fill vacant positions at the director-level; and (ii) effectively empower the DMO to implement the agreed medium-term debt management strategy (MTDS), which will be updated annually. During FY22, progress with the lengthening of the maturity profile of public debt was insufficient (DSA, Annex II), requiring immediate, ambitious, and sustained efforts to reduce gross financing needs and roll-over risks. The loss of market access in the spring of 2022 also calls for the preparation of contingency plans to deal with possible repayment problems. Greater strides are also imperative to comprehensively record and report contingent liabilities and SOE debts, among others by including guaranteed debts for commodity operations in the guarantee perimeter.

B. Poverty Reduction and Social Protection

Background

17. The authorities have progressed with measures to reduce poverty and improve social protection. In FY22, BISP spending increased to PRs 235 billion—exceeding FY21 execution by 21 percent but still falling 6 percent short of the FY22 budget envelope, thus missing the related end-June 2022 IT (MEFP ¶14). This under-execution reflects lower-than-projected COVID-related Ehsaas Emergency Cash (EEC) transfer spending and a slower-than-envisaged horizontal expansion of the unconditional cash transfer (UCT) Kafalat program (by 0.7 million families instead of 1 million families to now 7.7 million families) due to a temporary slowdown in enrollment efforts amid a reassessment of social spending priorities.[7] The latter also triggered lower spending under the accompanying conditional cash transfer (CCT) programs for health and education. At the same time, the annual UCT Kafalat stipend saw a total increase by almost 17 percent to PRs 28,000 over FY23. Furthermore, the authorities used PRs 17 billion of the BISP under-execution to launch a special temporary cash transfer scheme (Sasta Fuel Sasta Diesel, SFSD) to mitigate the impact of high inflation and energy price reforms on the less affluent parts of the population. In June 2022, it thus disbursed a one-off cash transfer of PRs 2,000 to all UCT

Pakistan: Composition of Regular Targeted BISP Spending, FYs20–23 1/ (Billions of Pakistani rupees)



Sources: BISP; IMF staff calculations.
1/ Only includes BISP spending on regular programs targeted at beneficiaries with a poverty-means test (PMT) score below the threshold that applies to BISP's UCT Kafalat program; thus, excluding Covid-related Ehsaas Emergency Cash (ECC) transfers in FYs20–22 and fuel subsidy transfers to non-UCT Kafalat beneficiaries in FYs22–23.
2/ Includes BISP programs for nutrition, undergraduate scholarships, digital skill development, complementary initiatives, and the FY22 one-off Sasta Petrol, Sasta Diesel (SPSD) payment of PRs 2,000 per UCT Kafalat family.

[7] The EEC was launched in April 2020 as a swift response to the first COVID-19 wave and recognized by the World Bank in May 2021 as one of the top four programs globally for the number of people covered (more than 100 million by end-December 2021). It provided two rounds of one-off cash assistance (of PRs 12,000 each) disbursed to about 47 percent of the population over FY21 (worth PRs 40.6 billion) and the first half of FY22 (worth PRs 8.7 billion) before it was retired in FY22 Q3 amid improved pandemic conditions.

Kafalat families and 1 million non-Kafalat families up to the middle socio-economic status quintile (i.e., those with a poverty-means tested (PMT) score below 37).

Policy Discussion

18. Going forward, reducing poverty and boosting social protection remains a key pillar of the EFF (MEFP ¶15). This is crucial to protect the poor from economic hardship, catch up to peers' levels of economic and human development, and garner broad buy-in for current policies. The authorities raised the FY23 budget allocation for regular BISP spending (i.e., those targeted to programs benefiting UCT Kafalat families) to PRs 316 billion, marking an almost 40-percent increase over its FY22 execution level (Text Figure). This will allow to further expand the UCT Kafalat program to 9 million families by end-FY23 (*new end-June 2023 SB*), using the National Socio-Economic Registry (NSER) finalized in October 2021 and since kept live. Staff called for: (i) fully executing the FY23 envelope (supported through the elevation of the BISP IT to a QPC); (ii) finding fiscal space to further increase the UCT Kafalat stipend to achieve a meaningful generosity level (including by at least implementing the periodic inflation update by end-December 2022);[8] and (iii) reviewing the benefit levels for education and stunting CCTs to better align them with actual child schooling and food costs.

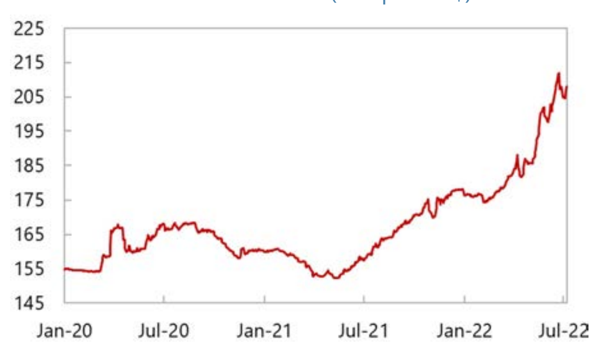
19. In addition, extending the exceptional fuel subsidy scheme will help prevent lower-middle class families from falling into poverty. In view of the still high inflation and ongoing energy price reform, the authorities decided to extend the one-off FY22 SFSD cash transfer of PRs 2,000/month to 2 million non-BISP Kafalat families until end-FY23 at a budgetary cost of PRs 48 billion. Nonetheless, progress on a broader set of structural reforms designed to unleash higher inclusive growth (¶30ff) remain crucial for improving livelihoods and creating economic opportunities for all Pakistanis, including the middle class.

C. Monetary, Exchange Rate, and Financial Sector Policies

Background

20. External pressures continued to build in H2 FY22. The rupee depreciated by 16 percent between end-December 2021 and end-June 2022, reflecting a persistently high import bill and, to a more limited extent, outflows from non-resident investors. The SBP intervened frequently in the foreign exchange (FX) market through FY22Q3 to support the exchange rate, before allowing a faster depreciation in FY22Q4 amid falling reserve buffers.

Pakistan: Interbank Exchange Rate, 2020M01–22M07 (PRs per US$)

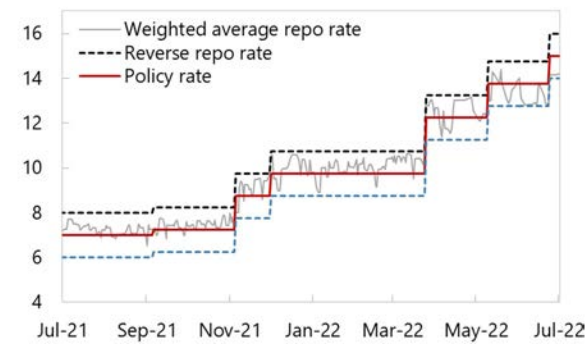


Sources: SBP; IMF staff calculations.

[8] The UCT Kafalat's current generosity level remains low at about 9 percent of the average consumption level of the bottom quintile, compared to a global best practice of 25 percent.

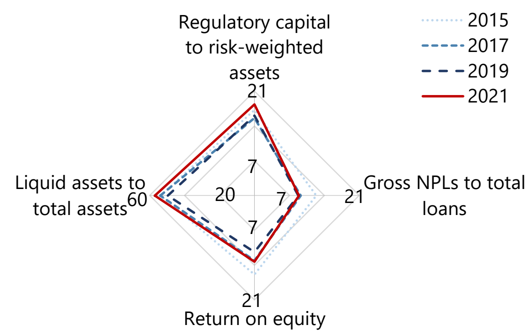
21. Monetary policy tightening has been recently catching up and, 12-months forward, the monetary policy stance is broadly neutral. The tightening cycle started in September 2021, with the policy rate more than doubling to 15 percent through July 2022. Most of these increases (525 bps) have taken place since April. Additionally, the SBP increased the interest rates on the two main refinancing schemes (EFS and LTFF) reducing the gap with the policy rate to 5 percentage points. It also linked these rates to the policy rate going forward, which will improve monetary policy transmission.[9] Inflation is expected to continue rising in FY23Q1 as the authorities increase the PDL and allow energy tariffs to catch-up.

Pakistan: SBP Interest Rate Corridor, 2021M7–2022M7 (Percent)



Sources: SBP; IMF staff calculations.

Pakistan: Financial Soundness Indicators, 2015–21 (Percent)



Sources: Pakistani authorities; IMF staff calculations.

22. The banking sector appears stable (Table 6). Having weathered the COVID-19 shock well, profitability has increased against the backdrop of rising interest rates. As of end-March 2022, banks' capital adequacy ratio (CAR) remained strong at 16.4 percent, well above the regulatory minima of 11.5 percent (including the 1.5 percent capital conservation buffer).[10] NPLs declined to 7.8 percent with non-provisioned NPLs at 0.7 percent as of end-March 2022, although 10 out of 32 banks report NPLs above 10 percent. SBP has continued to selectively tighten prudential regulations for consumer financing, most recently by modifying the terms for car financing in May 2022.

Policy Discussion

23. A tight monetary policy stance is critical to reduce inflation and reanchor expectations. The SBP will need to remain vigilant and ready to continue the tightening cycle as inflationary pressures are expected to continue over the coming year, placing further stress on expectations. It agreed to maintain a tight monetary policy stance to achieve real positive interest rates and decide

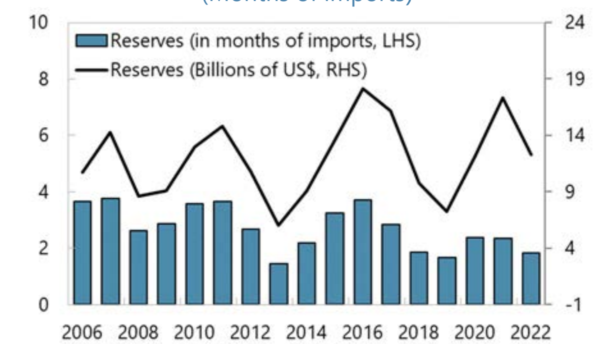
[9] Monetary policy transmission remains relatively weak, although it is expected to improve through the linking of interest rates on the refinancing facilities to the policy rate. Transmission is impeded, among others, by shallow mortgage and secondary markets for government securities and private bonds, and high demand for currency that reduces the money multiplier.

[10] As part of the COVID-19 relief measures, in March 2020 the capital conservation buffer (CCB) was reduced from 2.5 percent to 1.5 percent. Currently, three banks (two privately and one publicly owned) with 1.3 percent of total banking sector assets are below the regulatory minimum of 11.5 percent (¶26). If the minimum CAR would be restored to 12.5 percent, three more banks with 5.9 percent of total banking sector assets would be below the minimum (per end-March 2022 data). SBP guidance to restore the CCB, based on banks' capital adequacy position as of June 30, 2022, is expected to be rolled out in 2022.

policy in a forward looking and data-driven way to achieve the inflation target range of 5–7 percent over the medium term. Staff and the SBP agreed that the pace of policy rate adjustment should consider the broader policy mix including the degree of fiscal adjustment. To enhance monetary policy transmission and strengthen governance, the authorities have agreed to continuing to reduce the interest rate subsidy provided via the refinancing facilities and phase out SBP's involvement in these schemes over the medium term (MEFP ¶17), which have ballooned by almost 43 percent y-o-y and now account for 17.4 percent of private credit at end-June 2022. The authorities have advanced work on an initial plan in consultation with other stakeholders, and by bringing the pricing of these schemes closer to market rates will limit their demand and thus facilitate their phasing out with the activity transferred to an appropriate Development Finance Institution (DFI). The authorities have committed to prepare their transition plan by end-2022 (*end-April 2022 SB, reset to end-December 2022*). Finally, the SBP is also committed to managing banks liquidity in line with its monetary policy objectives.

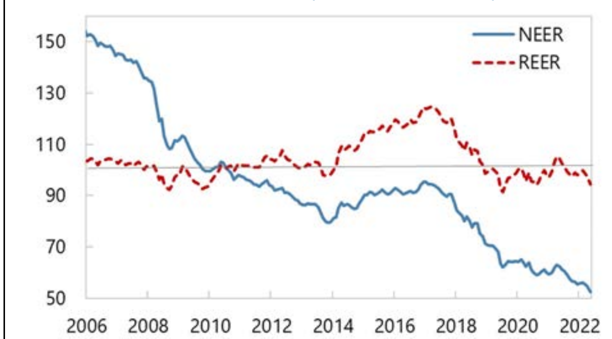
24. **Commitment to maintaining a market-determined exchange rate remains essential to reduce external imbalances and start rebuilding reserves**. A market-determined exchange rate remains a key tool to act as a shock absorber, especially in the context of persistent terms-of-trade shocks and low reserve buffers. Notwithstanding the recent depreciation (text chart), going forward the authorities should continue to allow exchange rate flexibility and avoid suppressing any trend movement. Allowing a greater role for exchange rate flexibility to address external pressures will thus help safeguard and improve reserve buffers towards more prudent levels in line with program targets.

Pakistan: Gross Official Reserve Cover, 2006–22
(Months of imports)



Sources: SBP; IMF staff calculations.

Pakistan: Nominal and Real Effective Exchange Rate, 2006M1–22M5 (Index, 2010=100)

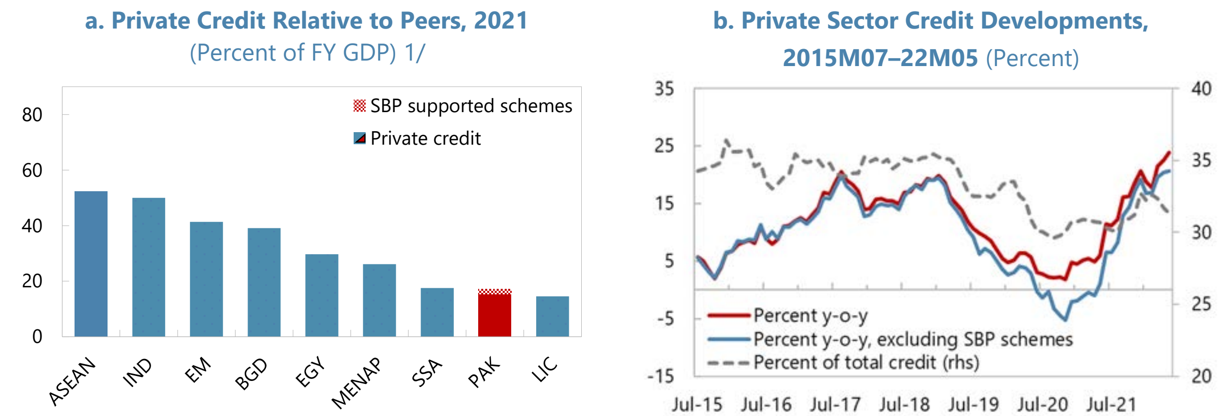


Source: SBP; IMF staff calculations.

25. **The authorities have partially repealed the import ban on luxury and nonessential items in August 2022 and have committed to removing the remaining import ban, exchange restrictions, and the MCP when BOP conditions stabilize and before end-FY23** (MEFP ¶20). As external conditions became more precarious in FY22H2, the authorities introduced new exchange restriction and import restriction for BOP purposes; and modified one existing exchange restriction and the MCP. Specifically, in early April 2022 the authorities extended the set of items subject to a 100-percent cash margin requirement (CMR) on imports by 177 items, bringing the share of items covered by CMRs to about 20 percent of total import values and missing the relevant PCs on non-intensification of exchange restrictions and on non-modification of MCPs. In May 2022, the

authorities banned the import of luxury and nonessential items to preserve FX reserves, thus breaching the PC on the non-imposition of import restrictions for BOP purposes. In addition, the authorities imposed a requirement to seek payment authorization from SBP before initiating transactions for importing certain goods, with approval granted in a discretionary manner, thereby violating the PC on the non-imposition of exchange restrictions. The authorities have partially repealed the import ban in August 2022 (leaving in place the ban on cars, mobile phones, and household appliances), and are committed to eliminate the requirement for import payment authorization at end-August 2022, depending on market conditions. Meanwhile, in early August 2022 CMRs were reduced on terms of payment above 90 days and CMRs introduced in April are set to lapse in December 2022. Finally, Pakistan also continues to maintain an exchange restriction resulting from the limitation on advance payments for imports against letters of credit (LCs) and advance payments up to the certain amount per invoice (without LCs) for the import of eligible items (imposed in 2018). The authorities noted concern about disorderly conditions in the FX market, should restrictions be removed while complementary macroeconomic policies have not yet fully kicked in. Staff emphasized that more prominence should be given to exchange rate flexibility as means to address the BOP pressures rather than to administrative and exchange measures. The authorities requested more time to eliminate all remaining restrictions when BOP conditions permit by the new end of the program at end-June 2023.

Pakistan: Private Credit



Sources: WEO; IFS; SBP; IMF staff calculations.
1/ PAK observation is for 2021; ASEAN = Association of Southeast Asian Nations; EM = Emerging Markets; LIC = Low-Income Countries; MENAP = Middle East and North Africa, Afghanistan and Pakistan; SSA = Sub-Saharan Africa.

26. Efforts in support of financial stability and governance need to be sustained and strengthened where required.

- ***Maintaining financial sector soundness*** (MEFP ¶18). Staff encouraged the authorities to closely monitor the health of the financial sector to safeguard its resilience, also by implementing IFRS 9. The supervisor should continue to ensure that all banks meet the minimum capital requirements and take timely and resolute action to address any capital shortfall. The authorities committed to: (i) ensure that the two undercapitalized private sector banks complete the delayed first-stage recapitalization (*end-May 2022 SB, reset to end-March 2023*) and that they enter resolution if they

are not fully capitalized by end-May 2023 (*new end-May 2023 SB*);[11] (ii) move ahead liquidating one public sector bank after it has been delisted from privatization by the Privatization Commission Board; (iii) address high levels of NPLs in some banks through a strategy to address these through bank-specific plans and to allow for the write-off of fully provisioned NPLs in general (*new end-June 2023 SB*); and (iv) revise the early intervention, resolution and crisis management frameworks (including the deposit insurance scheme) by submitting related draft amendments (prepared in line with IMF TA) to cabinet (*new end-October 2022 SB*). Staff once more urged the authorities to discontinue (i) the mandatory housing lending targets for banks, initially introduced in 2020 and now set to increase from 5 to 7 percent effective end-2023; and (ii) the reduction in capital adequacy risk weights applied to real estate investment trusts, as they entail financial stability risks and a misallocation of credit.

- ***Bolstering AML/CFT effectiveness*** (MEFP ¶19). The authorities completed their 2018 AML/CFT Action Plan in June (*end-March 2022 SB*) and accomplished, ahead of the deadline, all items in the 2021 AML/CFT Action Plan. The SBP conducted a thematic AML/CFT inspection of financial institutions participating in the tax amnesty program for the construction sector and will share key findings with relevant authorities and the banking sector by end-September. Moving forward, the authorities are encouraged to ensure the sustainability and effectiveness of their efforts to mitigate significant ML/TF risks including from proceeds of corruption (MEFP ¶28.b).

D. Energy Sector Policies

Background

27. Aggravated by the recent increase in global commodity prices, slow reform of long-standing deficiencies has made the energy sector's precarious situation more acute. Over the past decade, these deficiencies have resulted in an unsustainable stock of arrears (circular debt, CD) that affects the entire power-gas/petroleum chain and weighs on the financial sector, budget, and real economy. Sectoral viability eroded further during FY22, mainly due to delayed regular tariff adjustments (reflecting political decisions amid high inflation and administrative bottlenecks) and higher-than-expected generation and financial costs (especially from higher international energy prices, exchange rate depreciation, and higher interest rates). Also, medium-term structural reforms to reduce operational losses and generation costs have yet to make a dent.

- ***Power.*** The CD stock stood at PRs 2.253 trillion (3.4 percent of GDP) at end-June 2022[12]—a decrease of PRs 27 billion during FY22 as CD stock payments from the budget (PRs 564 billion)[13]

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[11] The first-stage recapitalization requires the completion of capital injections, with documentation submitted to, and accepted by, the SBP to fill 50 percent of the capital shortfall calculated as of September 30, 2021, which will result in the banks achieving positive capital.

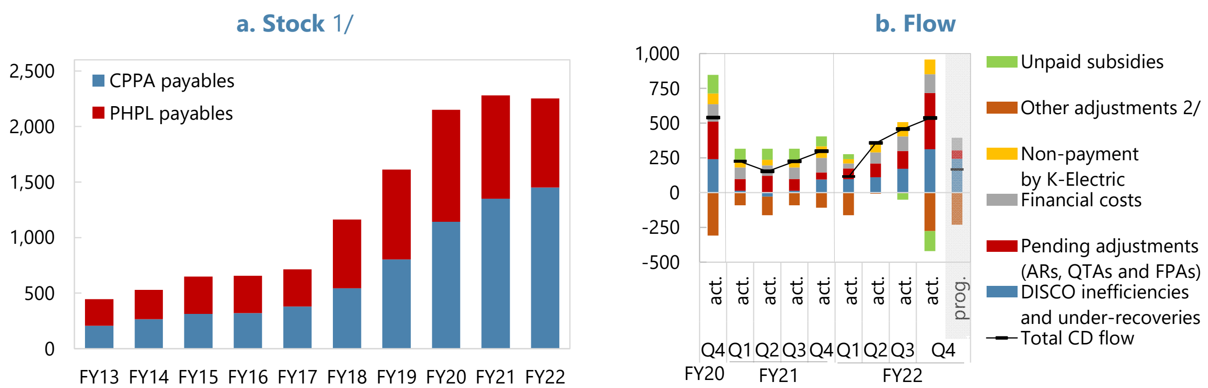
[12] This includes PRs 800 billion (1.2 percent of GDP) held by PHPL.

[13] This allowed for (MEFP ¶22.c): (i) servicing the PHPL debt (PRs 130 billion); (ii) repaying arrears to independent and government power producers (IPPs and GPPs) in return for revised purchasing power agreements (PRs 384 billion); and (iii) repaying arrears to other IPPs (PRs 50 billion).

overcompensated a record CD flow (PRs 536 billion). The CD flow was thus much higher than envisaged under the updated and IFI-supported circular debt management plan (CDMP) adopted by cabinet in March 2022, missing by more than threefold the related end-June 2022 IT under the EFF program. Acute cash flow strains have resulted in substantial power outages (load shedding) in recent months.

- ***Gas***. By end-March 2022, a substantial CD stock of about PRs 720 billion (1.1 percent of GDP) has also amassed in the gas sector only from the accumulated shortfall in revenue from below-cost-recovery prices and pending the finalization of the authorities' ongoing cleanup of the underlying data.[14] The main drivers are high unaccounted for gas losses (UFG), delayed sales price adjustments (since September 2020), uncovered subsidies (especially for export and zero-rated industries), and collection shortfalls.

Pakistan: Circular Debt in the Power Sector, FYs13– 22
(Billions of Pakistani rupees)



Sources: Pakistani authorities; IMF staff calculations.
1/ Only the part held by the Power Holding Private Limited (PHPL) is publicly guaranteed.
2/ Includes, among others, change in input costs (fuel, exchange and interest rates), generation mix, prior-year recoveries.

Policy Discussion

28. Restructuring the energy sector requires accelerating the reform efforts. This is particularly important as recovery costs are poised to continue to increase in the near term, driven by new generation capacity coming on stream, high international commodity prices, and the recent rupee depreciation. While some recent measures (including the renegotiation of IPP contracts) will somewhat help contain rising arrears, making a dent requires steadfast implementation of a comprehensive, socially-balanced reform strategy (MEFP ¶¶22–24):

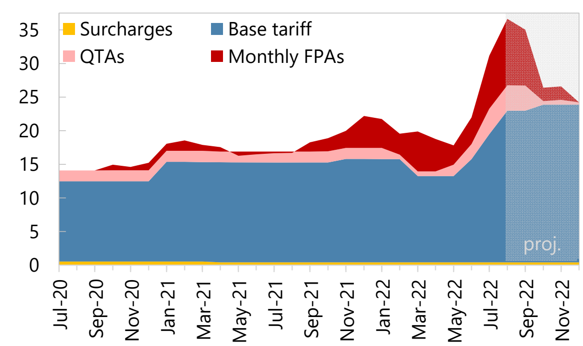
- ***Monitoring via the Circular Debt Management Plan (CDMP)***. The authorities are in the process of updating the CDMP for FY23 regarding its underlying assumptions and reform progress (supported by World Bank, Asian Development Bank (ADB), and IMF staff). This will help

[14] Other gas sector arears of more than PRs 500 billion add, including gas companies' tax adjustments/refunds, receivables from the power sector, and contested recoveries (which are partly included in the power CD flow already).

guide an ambitious and sustained decline in the CD accumulation. Persisting with monthly monitoring reports and efforts to strengthen CD projection capacity will further help.

- ***Aligning power tariffs with cost recovery levels***. After finally receiving all needed inputs the independent regulator, NEPRA, has recently determined the overdue: (i) quarterly tariff adjustments (QTAs) for FY22 Q1 and Q2 (together PRs 2.12/kwh for three months); (ii) annual rebasings (ARs) for FY22 and FY23 (PRs 7.91/kwh); and (iii) the tariff structure for the second step of the subsidy reform for residential consumers (removing the previous slab benefit and adding a markup of PRs 0.54/kwh to unprotected slabs). While the QTAs—in line with the 2021 NEPRA Act Amendments—were automatically notified by NEPRA, the government notified the other adjustments in several stages in July 2022: (i) the subsidy markup from July 5,and two rounds of AR (of PRs 3.50/kwh each) from July 25 and August 1 (*PA*); and (ii) the remaining AR of PRs 0.91/kwh from October 1 (*new end-September 2022 SBs*).[15] Cumulatively, these AR steps will likely increase the weighted average power price in October 2022 by only about 10 percent over its end-December 2021 level, as they reduce the need for corrective ex-post recovery through monthly fuel price adjustments (FPAs) and QTAs, which have been at record levels during recent months (see text chart). In addition, not applying the AR to the slabs for the smaller consumers will further cushion the impact on the vulnerable.[16] Staff stressed that regular tariff adjustments in line with established formulas are critical to implement the CDMP and limit fiscal pressures, halt the arrears accumulation, lend credibility to NEPRA, limit load shedding, and restore the viability of generators and ensure their ability to operate.[17]

Pakistan: Power Price, 2020M7–22M12
(Notified weighted-average, post-subsidies, pre-tax price in PRs per kWh)



Sources: Pakistani authorities; IMF staff calculations.

- ***Better targeting power subsidies***. The authorities concur that subsidy reform needs to continue to effectively protect the vulnerable, introduce more fairness, and reduce fiscal costs. Staff commended the authorities for committing to: (i) entering the third stage of their multi-year subsidy reform plan, supported by the World Bank, and submit to cabinet a subsidy rationalization reform plan for tube-wells for large agricultural users by November 2022; and (ii) persevere with regular tariff adjustments while sparing the protected slabs, which will increase the progressivity of the tariff structure for residential consumers and improve fairness.

[15] The FPA for July 2022 and QTA for FY23 Q1 will recover the loss from the delayed July AR implementation.

[16] Under current provisions, ARs only apply to the 56 percent of residential consumers' meters that fall into the unprotected slabs. In contrast, monthly FPAs—and the recent QTAs by decision—apply to all slabs, with the exception of the lifeline slabs (up to 100 kwh/month since fall 2021, expanded from 50 kwh/month before).

[17] Each month of delaying an adjustment of PRs 1 per kWh adds about PRs 8½ billion to the stock of arrears.

- ***Pursuing other medium-term reforms to reduce costs and CD***. The authorities set aside PRs 180 billion to settle IPP/GPP arrears with the aim of unlocking lower capacity charges including through renegotiated PPPs, and PRs 30 billion to continue to amortize PHPL debt during FY23. Work also continues with the World Bank and ADB to: (i) reduce commercial and technical losses (including by introducing smart metering, cutting off delinquent consumers, and scaling up the transmission and distribution infrastructure to be at par with generation capacity); (ii) improve DISCO governance and accountability (also supported by the new SOE law and policies, ¶30), introduce private participation, and progress with their phased privatization (as per the 2021 SOE triage); (iii) introduce competition; (iv) actively seek similar PPA renegotiations with other groups of power producers; and (v) implement the recently approved National Electricity Policy 2021.[18] The authorities also agreed to only gradually absorb maturing publicly-guaranteed PHPL debt into cheaper central government debt if fiscal space allows and use proceeds to reduce the CD stock (including privatization proceeds from power sector assets and recoveries from the outstanding stock of receivables).

- ***Turning around the gas sector***. The authorities have stepped up efforts on several fronts. On the regulatory side, the parliamentary adoption of the OGRA Act Amendments in March 2022 (*end-June 2022 SB*) will support regular recovery requirements. The government, however, needs more time than granted in the amended OGRA Act to work out the distribution of OGRA's annual Estimated Revenue Requirement (ERR) for FY22 (determined in early June 2022) across the slab system. Staff urged the authorities to swiftly finalize their work and to respect regulation. Moreover, the two T&D companies are working on bringing down UFG losses (including through infrastructure improvements, network rehabilitation, and theft control), which would benefit from proceeding with their unbundling.[19] Besides, regular UFG monitoring reports help transparency and better planning, but steadfast implementation of cost-reducing reforms is needed along the establishment of accountability and mitigation measures for missed UFG targets. Staff also recommended speeding up efforts to establish reliable CD data, a gas CDMP, and CD projection capacity.

E. Structural Policies

Background

29. Higher growth, investment, and job creation will crucially depend on addressing long-standing structural weaknesses. An uneven playing field for SOEs and private companies, corruption, and red tape (especially excessive regulations and licensing requirements, obstacles to paying taxes, and difficulties trading across borders and registering property) remain a drag on productivity, investment, and the development of a vibrant private sector that can create high-quality

[18] The reform plan also includes expanding cheaper and cleaner energy generation as per the Alternative and Renewable Energy (ARE) Policy; and making the wholesale power market competitive with multiple buyers and sellers through the establishment of a Competitive Trading Bilateral Contract Market (CTBCM).

[19] In a first step, this would require separating the supply (gas sale) from network functions (T&D).

jobs for a growing labor force. Against this backdrop, the authorities have put their reform focus on bolstering governance, efficiency, and the business climate.

Policy Discussion

30. Structural reform efforts should be accelerated. Staff welcomed recent steps, encouraged continued reliance on extensive TA from development partners to mitigate capacity constraints, and identified follow-up measures with the authorities in three areas:

- ***Enhancing SOEs' governance, transparency, and efficiency as well as limiting their fiscal risks*** (MEFP ¶26). The National Assembly adopted the new SOE law in July 2022, which is now awaiting Senate adoption (*end-June 2022 SB, reset to end-September 2022*).[20] This will also help advance the authorities' ongoing efforts to: (i) develop, with the support of the ADB, a new ownership policy; (ii) amend several SOE-dedicated Acts; (iii) operationalize a central monitoring unit (CMU) within the Ministry of Finance by January 2023 (*new end-January 2023 SB*); (iv) gradually reduce the footprint of the state in the economy (based on the SOE Triage from March 2021 and including the divestment of two LNG-based power plants, one development finance institution, and one small public bank); and (v) continue with regular and timely audits of key SOEs.

- ***Boosting the business environment, job creation, and investment*** (MEFP ¶27). Staff emphasized the importance of improving the business climate and facilitating investment and job creation to achieve sustainable growth and development objectives. In this regard, it is critical to: (i) simplify procedures to start a business and eliminating other unnecessary regulations; (ii) streamline the FDI approval process; (iii) improve trading across borders by reducing custom-related processing time and reducing hours to prepare import/export documents; and (iv) simplify and harmonize the process of paying taxes. Going forward, it will also be important to invest more in education and human capital, improve product market access, and increase the adoption of information and communication technologies (ICT).

- ***Housing and construction*** (MEFP ¶27). Staff welcomed the establishment in June 2022 of the working group tasked with developing solutions to the structural impediments to the housing and construction sector development. Staff agreed with the authorities that improvements regarding land title documentation, real estate regulatory authorities, foreclosure laws, and credit scoring bear potential for enhancing the availability of financing and allowing greater access for the less privileged population. Staff noted that continued collaboration with private sector participants and representatives from provincial governments will be crucial to find workable solutions which can be executed by the responsible authorities. Staff also reiterated that instead of prudential action to stimulate housing lending, a direct and well-targeted budget subsidy

[20] The new SOE law aims to: (i) define a rationale for state ownership; (ii) ensure commercially sound SOE operations; and (iii) regulate oversight and ownership arrangements.

program for the vulnerable parts of the population would be a more effective way to achieve social policy objectives with fewer potential risks.

- ***Fostering governance and the control of corruption by strengthening the effectiveness of anticorruption institutions*** (MEFP ¶28). Priority measures include the establishment of an asset declaration system with a focus on high-level public officials (including federal cabinet members) (*end-March 2022 SB, reset to end-September 2022*), and publication of a comprehensive review of the anticorruption institutional framework (i.e., National Accountability Bureau) by a task force with participation of independent experts with international experience and civil society organizations (*new end-January 2023 SB*).

PROGRAM MODALITIES

31. Staff supports the authorities' request for (i) waivers of nonobservance for two end-June QPCs and three continuous PCs (¶6), and (ii) approval of the exchange restrictions and MCP. As corrective actions for the missed end-June 2022 QPCs and for the continuous PCs related to import restrictions, as well as exchange restrictions and MCPs the authorities: (i) agreed to adopt a FY23 budget law with a small primary surplus backed by non-priority expenditure constraints and tax measures (¶12); (ii) for NIR to limit interventions in line with program targets and to raise interest rates to strengthen the monetary and exchange policies; and (iii) have partially repealed the import ban on luxury and nonessential items in August 2022 and are committed to phase out the remaining import ban, the existing and intensified exchange restriction and the modified MCP, as well as the newly introduced exchange restriction inconsistent with Article VIII when BOP conditions stabilize by the end of the program at end-June 2023 at the latest (¶25). Staff also supports the approval of the new exchange restriction, the intensified exchange restriction, and the modified MCP for a period of twelve months, as the measures giving rise to these exchange measures are maintained for BOP reasons, are non-discriminatory, and are temporary.

32. Program conditionality has been extended and expanded to guide program implementation.

- ***Extension, augmentation, and rephasing of access***. Staff supports the authorities' request to extend the program until June 30, 2023; augment access by SDR 720 million (around 36 percent of quota); and modify the schedule of reviews along a quarterly schedule until end-March 2023 to closely guide policy implementation in the face of persisting macroeconomic vulnerabilities as well as external and domestic risks. Staff also concurs with the authorities' request to rephase the augmented access as suggested in Table 9b in line with BOP needs and policy implementation track record. Staff views the augmentation and extension of the program, and moderately frontloaded access over the course of next year, consistent with the revised BOP needs, the need to rebuild reserves and restore confidence, and supported by strong prior actions.

- ***Quantitative targets*** (MEFP Table 1). New PCs for end-September 2022, end-December 2022, and end-March 2023 will support fiscal deficit reduction, limit public debt built-up through

public guarantees, contain inflationary pressures through a deceleration of base money growth and a cap on government borrowing from the SBP, and support adequate reserve coverage. In addition, the IT on targeted BISP spending will be elevated to a QPC and the primary balance QPC modified to be assessed using the actual rather than the program exchange rate (TMU ¶17).

- ***Structural benchmarks***. Staff supports the authorities' request to reset four delayed SBs (¶6) and proposes to set eight new SBs on critical next steps for already ongoing reforms (MEFP Table 2).

- ***New, modified, and existing exchange restrictions as well as modified and existing MCP***. Staff supports the authorities' request for temporary approval of these exchange measures under Article VIII of the IMF's Articles of Agreement (MEFP ¶20), given the authorities' (i) upfront action of partially removing the import ban on luxury and nonessential items in August 2022; and (ii) renewed commitment to fully eliminate all measures when BOP conditions stabilize by the end of the program (¶25).

33. The program remains fully financed. Financing commitments from bilateral and multilateral partners will help cover public gross external financing needs in FY23 and until the newly proposed end of the program in June 2023 (Table 3b).[21] Staff encourages all key bilateral creditors to maintain their exposure to Pakistan in line with program commitments. Nonetheless, financing risks remain exceptionally high arising from large public sector external rollover needs, the still sizable current account deficit, difficult external environment for Eurobond issuance given recent downgrades and high spreads, and limited reserve buffers to help cover the financing needs in case of delays in scheduled inflows. Firm commitments of full program financing are in place for the next 12 months.

34. Pakistan's capacity to repay the IMF is adequate subject to steadfast program implementation. The IMF's exposure reaches SDR 6,088 million (or 300 percent of quota and about 80 percent of estimated gross reserves at Sep 2022) with this review. With full purchases, it will peak at 360 percent of quota in FY23 (Table 7). As assessed before, elevated risks—notably from delayed adoptions of reforms, high public debt and gross financing needs, and low reserves—could jeopardize program objectives, and erode repayment capacity and debt sustainability. Uncertainty about global economic and financial conditions amid the war in Ukraine and COVID-19 pandemic add to these risks. The strong framework for program monitoring (including continued quarterly reviews and updated program conditionality), focused technical assistance in support of program implementation (Annex III), and adequate execution of existing financing commitments are essential mitigation strategies.

35. The 2019 safeguards assessment found a broadly adequate safeguards framework at the SBP. The financial reporting, external and internal audit mechanisms, and an enterprise-wide risk management framework all highlight sound practices. The assessment recommended strengthening of

[21] The FY23 official financing includes US$7 billion as rollovers of existing and US$4 billion in additional financing commitments, including from China, Qatar, Saudi Arabia, UAE, and IFIs (such as the World Bank, Asian Development Bank, and Islamic Development Bank).

the SBP autonomy and governance arrangements through amendments of the central bank legal framework that were enacted in early 2022. The amendments prohibit the SBP from conducting quasi-fiscal activities which need to be phased out or transferred to another institution (¶23, MEFP ¶17). Importantly, a new SBP governor needs to be appointed in line with the provisions of the amended SBP law. Also, the independent oversight of the SBP needs to be enhanced. After multiple non-executive director positions on the SBP Board became vacant (some for a prolonged period) the cabinet approved a slate of candidates in late-July which, once appointed by the president, will strengthen independent oversight of the SBP.

STAFF APPRAISAL

36. Amid a volatile political environment and external shocks, Pakistan faces again the need to address significant imbalances and rising risks. The domestic and external imbalances reflect large fiscal policy slippages, a delayed monetary response to inflationary pressures, and spillovers from the war in Ukraine. As a result, the fiscal and current account deficits have widened considerably, reserves have fallen to a low level, and inflation is at its highest level in a decade. The new government has agreed to a set of corrective policies to ensure financial stability, but strong ownership, firm implementation, and domestic support would be critical for the policy strategy to succeed.

37. The fiscal adjustment planned for FY23 provides a narrow path forward but would require consistent and decisive policy implementation. The FY23 budget proposes a very ambitious adjustment targeting a small primary surplus. Sustained implementation of this budget while avoiding further policy slippages is crucial to address imbalances, reduce elevated vulnerabilities and build confidence. Meeting the agreed schedule of increases in the PDL and energy tariffs is particularly important, as they will generate much needed revenues, strengthen the financial viability of the energy sector, reduce fiscal and external risks, and improve the provision of electricity. Achieving the budgeted adjustment would require steadfast efforts to reduce risks related to: (i) the staggered increases in the PDL (with risks policy reversals) and administrative capacity needed to ensure the yields from novel tax measures; (ii) large planned provincial surpluses; and (iii) a tight federal current spending envelope in a pre-election year. The authorities' revenue and spending contingencies provide some mitigation, but additional measures may be needed if these prove insufficient. Going forward, it will be critical to implement reforms that bring Pakistan toward a more effective, efficient, and equitable tax system; in particular, completing the overdue PIT reforms.

38. More efforts are needed to reduce poverty, enhance social programs, and protect the most vulnerable by building fiscal space and improving coordination. Although staff supports using temporary measures to protect large swathes of the population against fuel price increases (new SFSD program), it reiterated the need to enhance transfers to families already covered by BISP, especially in a high inflation environment. Scaling-up of social spending targeted to the most vulnerable remains critical for inclusion, and while staff welcomed plans to continue with the targeted expansion of the BISP beneficiary base, it restated the importance of improving a well-targeted social safety net program (i.e., BISP) through a comprehensive, fully financed, and

coordinated upscaling. Staff also cautioned against the introduction of new programs which can undermine protection of the most vulnerable. Continuing to mobilize additional revenue and careful expenditure management remain critical to creating the necessary space, while keeping public debt on a downward trajectory.

39. **Monetary policy needs to be proactive and data-driven to reduce inflation towards target**. Staff welcomed recent policy rate hikes and stressed the need to continue a tight monetary policy to reduce inflation and support efforts to address external imbalances. Monetary policy should remain forward-looking and data-driven to anchor inflation within the SBP's objective of 5–7 percent over the medium term. Phasing out the refinancing schemes that support purposes outside of the SBP's core mandate is also important to improve the functioning of monetary policy.

40. **A market-determined exchange rate and limited SBP interventions remain crucial to absorb external shocks, maintain competitiveness, and rebuild international reserves**. Staff encouraged the authorities to strengthen resilience, including by building reserve buffers, and limiting interventions in the foreign exchange market. Allowing greater exchange rate flexibility to address external pressures will help safeguard and improve reserve buffers towards more prudent levels. Strong macroeconomic policies and structural reforms will help further build confidence in the rupee and resolve external imbalances.

41. **Maintaining financial stability warrants close oversight of financial institutions and decisive action to address undercapitalized financial institutions**. The SBP should accelerate the recapitalization process using their existing powers to strengthen financial sector resilience. Moreover, lending targets on housing present risks to financial stability and the prudent allocation of credit. Staff stressed that strengthening the bank resolution and crisis management frameworks should be a key priority to safeguard financial stability and welcomed the adoption of amendments to the SBP Act as an important step toward strengthening the central bank's independence, governance, and mandate. The new Act will enable the SBP to move closer to formally adopting an inflation target regime. Staff also welcomed the completion of the AML/CFT 2018 and 2021 Action Plans and urged the authorities to sustain their efforts to mitigate ML/TF risks, including from tax evasion, corruption, and other financial crimes.

42. **Advancing electricity sector reforms is essential**. Restoring the sector's financial viability, and reducing its adverse spillovers on the budget, the financial sector, and the real economy remains a priority. In this regard, timely follow through of the proposed energy tariff increases in FY23 will be key. It also remains critical to update the CDMP for FY23 to reduce CD and costs, align power tariffs with the cost structure, and improve targeting of power subsidies to the most vulnerable. Staff welcomed the OGRA Act Amendments which support regular recovery requirements in the gas sector but urged speeding up efforts to establish reliable CD data in the sector, a gas CDMP, and CD projection capacity.

43. **Risks remain high and tilted to the downside on both domestic and external fronts**. The macroeconomic outlook remains clouded amid strong external headwinds stemming from high food and fuel prices as a consequence of the war in Ukraine, and tighter global financial conditions. On

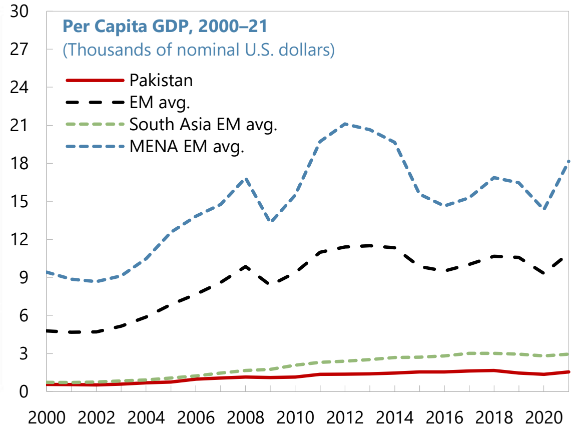
the domestic front, the need to tackle high inflation and undo the effects of the large fiscal slippage of FY22 will return growth to a more sustainable pace as fiscal and monetary policies tighten. The challenging political climate could weaken reform and policy implementation, and undermine Pakistan's adjustment path, debt sustainability, and growth potential. Moreover, reform fatigue, the political cycle and weak governance and anticorruption institutions could quickly narrow the window to undertake critical reforms. Advanced economy tapering, geopolitical tensions, and waning reform efforts could affect external financing conditions. Close program monitoring, supportive TA, and financing assurances from key lenders somewhat mitigate those risks.

44. While recognizing risks, staff supports the authorities' request for completion of the combined seventh and eighth review under the EFF. In view of the authorities' recent efforts to strengthen program performance and implement corrective measures, staff also supports: (i) granting waivers of nonobservance for both the missed quantitative and continuous PCs at end-June 2022; (ii) augmenting access by SDR 720 million (around 36 percent of quota), extending the program and rephasing access consistent with the modified review schedule; (iii) setting new quantitative targets for end-September 2022, end-December 2022, and end-March 2023; (iv) making the purchase related to the seventh and eighth EFF review available for budget support to address their BOP needs; and (v) approving the new and intensified exchange restrictions as well as modified MCP for a period of twelve months, because they are temporary, non-discriminatory, and needed for BOP reasons.

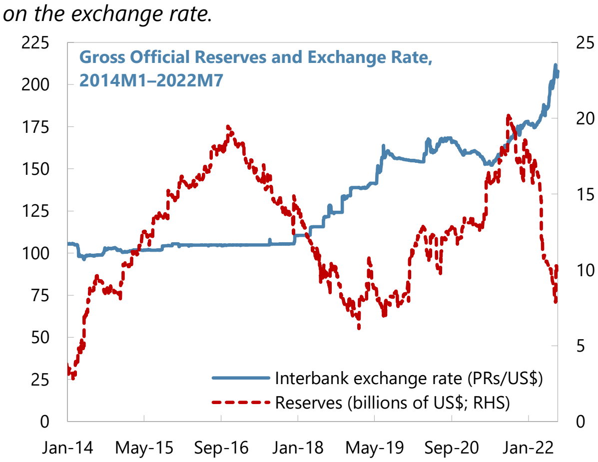
Figure 1. Pakistan: Selected Economic Indicators

The economy rebounded sharply in FY21 …

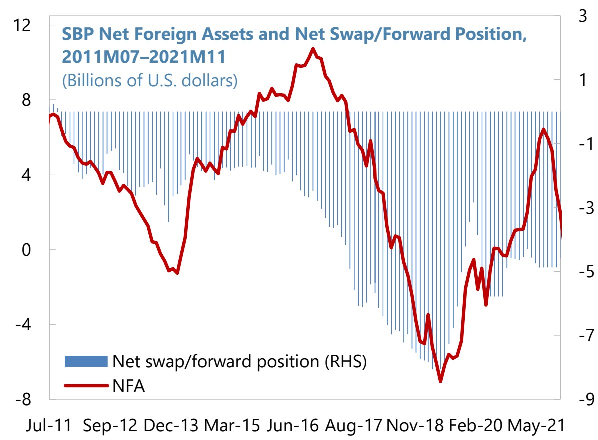
…however, Pakistan continues to lag regional peers and other EMs in economic convergence.



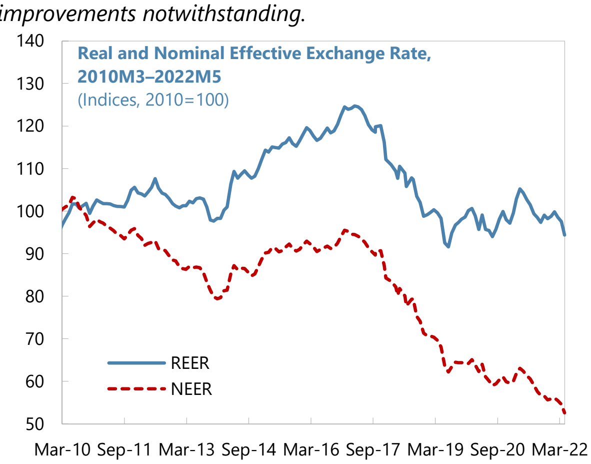
Foreign reserves declined sharply in FY22 putting pressure on the exchange rate.



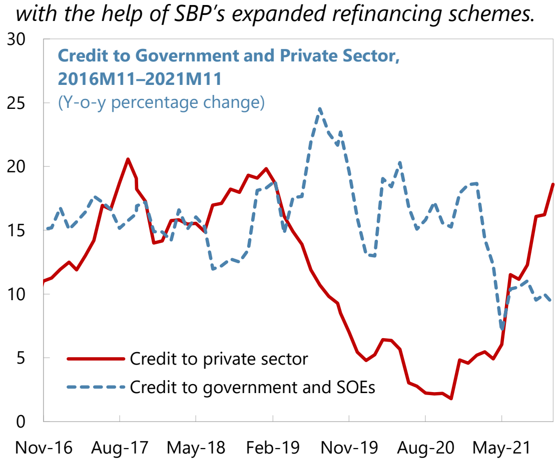
As a result, the SBP's derivative position has widened.



External competitiveness remains weak, some recent improvements notwithstanding.



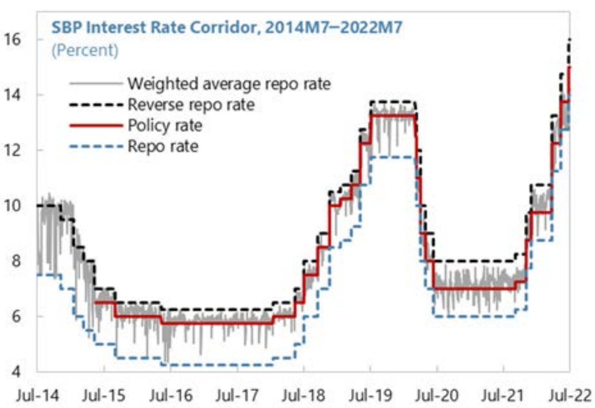
Private sector credit growth has rebounded from FY21's lows with the help of SBP's expanded refinancing schemes.



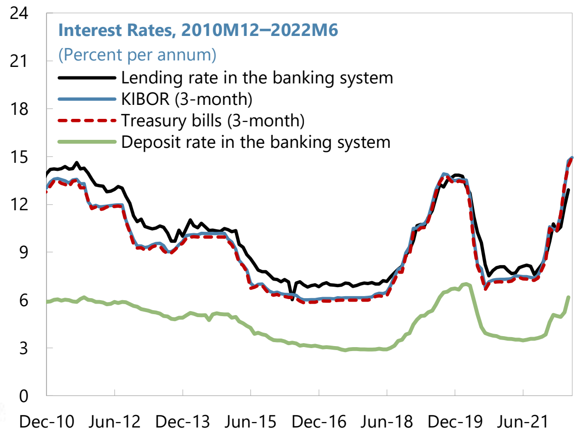
Sources: Pakistani authorities; IMF World Economic Outlook Database; and IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators

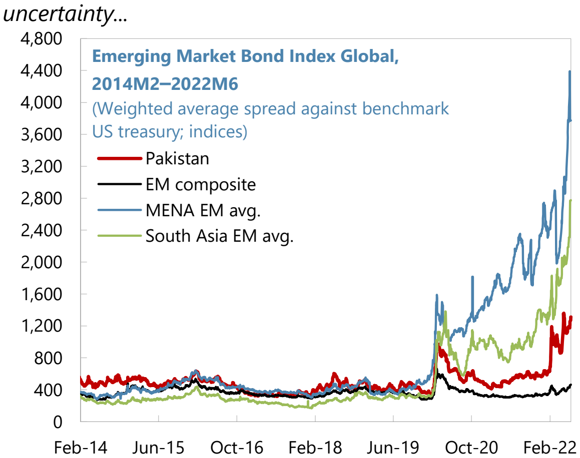
The SBP tightened monetary policy considerable in the past few months…



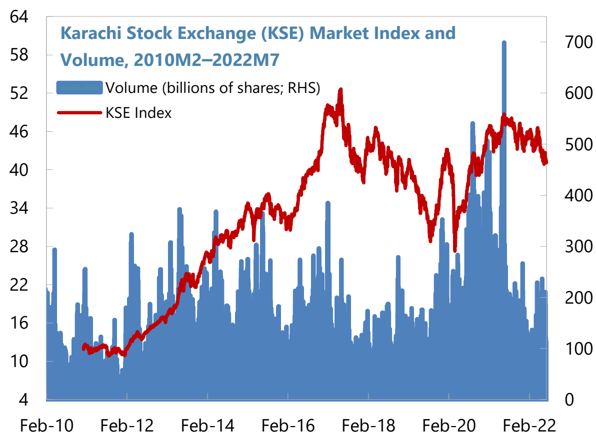
…while market rates have moved in line with the policy rate.



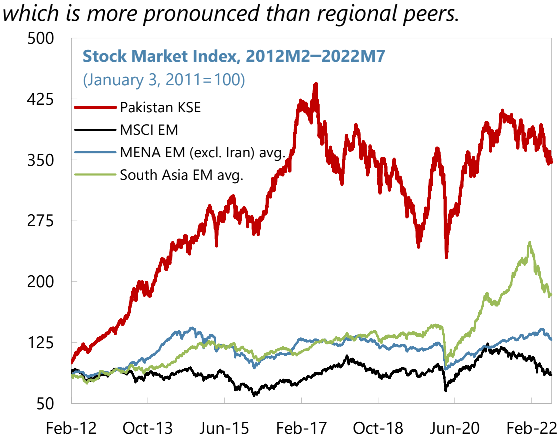
Pakistan's bond spreads have widened, reflecting ongoing uncertainty…



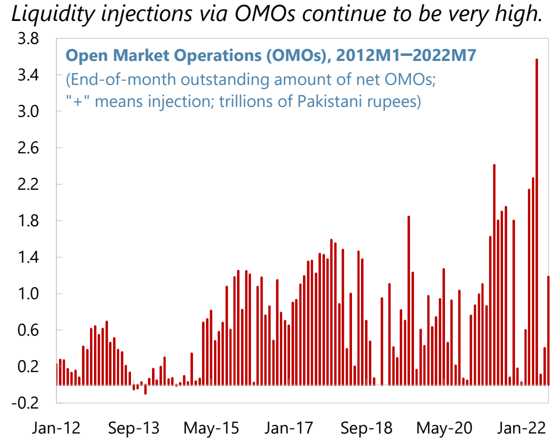
…mirrored by volatility in the stock market…



… which is more pronounced than regional peers.



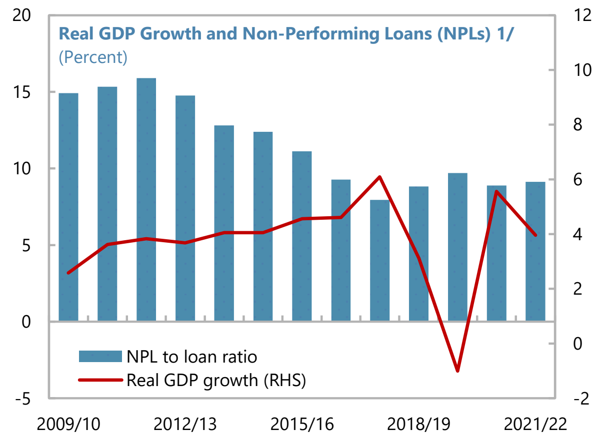
Liquidity injections via OMOs continue to be very high.



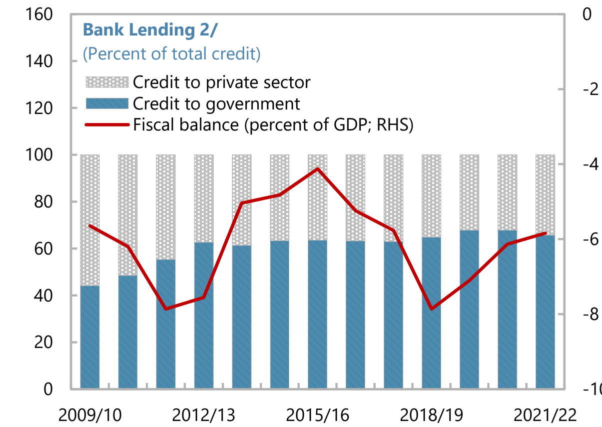
Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators, 2008/09–2021/22

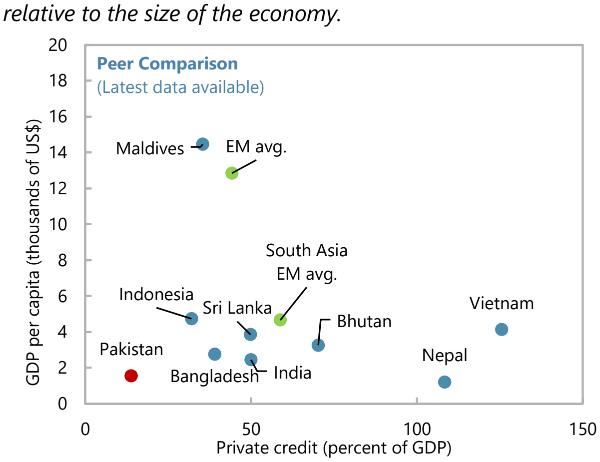
NPLs have declined as the economy recovers.



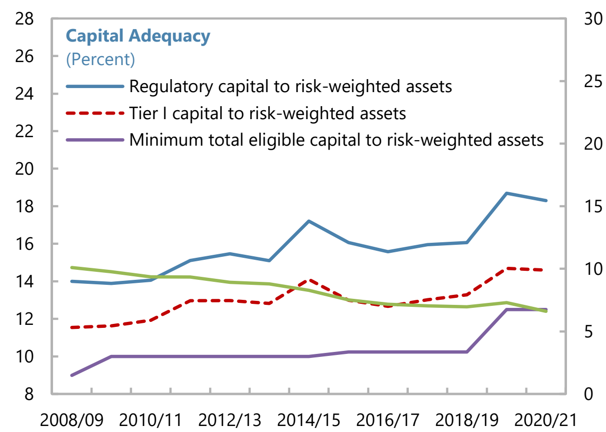
The banking system's remains oriented toward providing credit to the government…



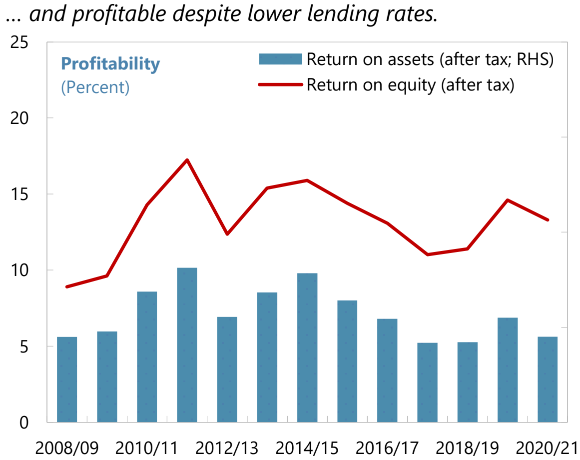
…leaving Pakistan behind its peers in terms of private credit relative to the size of the economy.



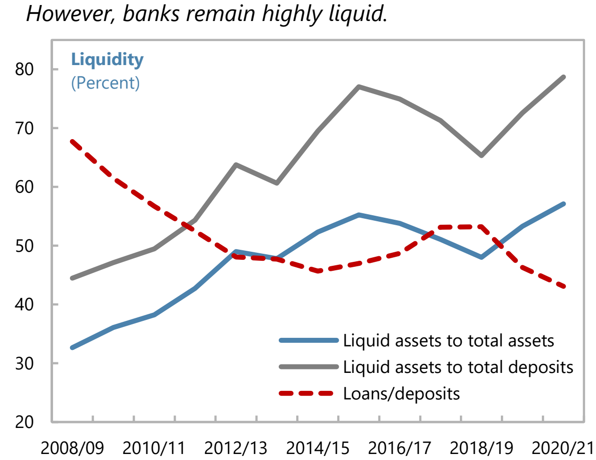
Nonetheless, the banking sector remains well capitalized overall…



… and profitable despite lower lending rates.



However, banks remain highly liquid.



Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.
1/ 2022 numbers are IMF staff estimates. 2/ 2022 numbers are IMF staff estimates.

Table 1. Pakistan: Selected Economic Indicators, 2018/19–2022/23 1/

Population: 222.6 million (2020/21)
Per capita GDP: US$1,546.8 (2020/21)
Poverty rate: 21.9 percent (at national line; 2018/19)

Main exports: Textiles (US$15.4 billion, 2020/21)
Unemployment: 6.3 percent (2020/21)

	2018/19	2019/20	2020/21	2021/22		2022/23	
				Prog.	Proj.	Prog.	Proj.
Output and prices			(Annual percentage change)				
Real GDP at factor cost	3.1	-0.9	5.7	**4.0**	6.0	**4.5**	3.5
GDP deflator at factor cost	9.2	9.9	10.3	**9.4**	13.3	**7.8**	19.9
Consumer prices (period average)	6.7	10.7	8.9	**9.4**	12.1	**7.8**	19.9
Consumer prices (end of period)	8.0	8.6	9.7	**10.2**	21.3	**7.1**	15.0
Pakistani rupees per U.S. dollar (period average)	24.4	15.5	0.5	**…**	…	**…**	…
Pakistani rupees per U.S. dollar (end of period)	31.7	5.0	-6.3	**…**	…	**…**	…
Saving and investment			(Percent of GDP)				
Gross saving	11.3	13.3	14.1	**14.1**	10.5	**14.2**	14.4
Government	-5.5	-4.7	-3.9	**-3.4**	-5.0	**-1.4**	-2.4
Nongovernment (including public sector enterprises)	16.8	18.1	18.0	**17.4**	15.4	**15.6**	16.8
Gross capital formation 2/	15.5	14.8	14.6	**18.1**	15.1	**17.7**	16.9
Government	2.3	2.3	2.2	**3.4**	2.0	**2.9**	2.3
Nongovernment (including public sector enterprises)	13.2	12.5	12.5	**14.6**	13.1	**14.7**	14.7
Public finances							
Revenue and grants	11.3	13.3	12.4	**15.9**	12.1	**16.7**	12.4
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	**22.8**	19.1	**21.1**	17.1
Budget balance (including grants)	-7.8	-7.0	-6.0	**-6.9**	-7.0	**-4.4**	-4.6
Budget balance (excluding grants)	-7.9	-7.1	-6.1	**-6.9**	-7.0	**-4.5**	-4.7
Primary balance (excluding grants)	-3.1	-1.6	-1.2	**-1.3**	-2.4	**1.2**	0.2
Underlying primary balance (excluding grants) 3/	-3.1	-1.6	-0.5	**0.0**	-1.6	**1.2**	0.4
Total general government debt excl. IMF obligations	75.4	76.8	71.5	**78.9**	72.5	**74.9**	65.4
External general government debt	28.1	27.9	24.4	**27.0**	27.5	**26.4**	28.3
Domestic general government debt	47.3	49.0	47.1	**51.9**	44.9	**48.5**	37.1
General government debt incl. IMF obligations	77.5	79.6	73.6	**82.0**	74.6	**77.7**	68.2
External general government debt	30.2	30.6	26.5	**30.0**	29.7	**29.3**	31.1
Domestic general government debt	47.3	49.0	47.1	**51.9**	44.9	**48.5**	37.1
General government and government guaranteed debt (incl. IMF; % GDP)	82.0	84.5	77.9	**86.7**	78.9	**82.1**	72.1
Monetary sector	nnual changes in percent of initial stock of broad money, unless otherwise indicate						
Net foreign assets	-8.1	5.6	5.9	**1.4**	-5.9	**3.2**	8.0
Net domestic assets	19.4	11.9	10.3	**14.4**	16.5	**10.2**	4.0
Credit to the private sector	4.5	1.1	3.8	**5.1**	5.9	**4.8**	4.5
Net claims on the government	13.4	12.4	8.2	**6.2**	11.9	**12.0**	16.8
Broad money (percent change)	11.3	17.5	16.2	**15.8**	10.5	**13.4**	12.0
Reserve money (percent change)	19.9	16.8	12.8	**16.3**	12.7	**13.2**	11.7
Private credit (percent change)	11.9	3.0	11.5	**16.0**	18.7	**15.0**	13.3
Six-month treasury bill rate (period average, in percent)	10.2	11.9	7.3	**…**	…	**…**	…
External sector			(Annual percentage change, unless otherwise indicated)				
Merchandise exports, U.S. dollars	-2.1	-7.1	13.7	**17.4**	24.4	**5.2**	12.6
Merchandise imports, U.S. dollars	-6.8	-15.9	23.3	**24.1**	33.8	**0.6**	-4.5
Current account balance (in percent of GDP)	-4.2	-1.5	-0.5	**-4.0**	-4.7	**-3.5**	-2.5
Financial account (billions of U.S. dollars)	11.8	6.5	7.7	**14.8**	10.4	**11.5**	12.7
			(Percent of exports of goods and services, unless otherwise indicated)				
External public and publicly guaranteed debt	277.2	312.6	302.0	**244.9**	254.1	**243.0**	256.5
Debt service	40.7	52.4	34.7	**42.8**	38.6	**48.8**	45.7
Gross reserves (in millions of U.S. dollars) 4/	7,274	12,175	17,297	**21,211**	9,821	**20,678**	16,226
In months of next year's imports of goods and services	1.7	2.4	2.5	**3.2**	1.5	**3.0**	2.3
Memorandum items:							
Underlying fiscal balance (excl. grants; % GDP) 3/	-7.9	-7.1	-5.5	**-5.7**	-6.2	**-5.7**	-4.5
Net general government debt (incl. IMF; % GDP)	70.2	72.9	66.0	**75.2**	68.4	**71.7**	63.2
Real effective exchange rate (annual average, percentage change)	-11.5	-3.9	2.2	**…**	**…**	**…**	**…**
Real effective exchange rate (end of period percentage change)	-15.0	3.4	7.3	**…**	**…**	**…**	**…**
Terms of trade (percentage change)	-1.8	2.3	2.4	**5.3**	1.5	**-4.4**	-6.1
Real per capita GDP (percentage change)	1.1	-2.9	3.7	**2.0**	3.9	**2.6**	1.5
GDP at market prices (in billions of Pakistani rupees)	43,798	47,540	55,796	**54,382**	66,950	**61,682**	83,739
Per capita GDP (in U.S. dollars)	1,473.8	1,358.4	1,555.4	**…**	**…**	**…**	**…**
Population (millions)	214.0	218.2	222.6	**216.5**	227.0	**220.5**	231.6
GDP at market prices (in billions of U.S. dollars)	318.5	299.4	349.7	**…**	**…**	**…**	**…**

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.
1/ Fiscal year ends June 30. On January 21, 2022 GDP was rebased to base year 2015-16, affecting ratios.
2/ Including changes in inventories.
3/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it excludes IPPs and COVID-19 spending.
4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2018/19–2026/27 1/

	2018/19	2019/20	2020/21	2021/22		2022/23		2023/24	2024/25	2025/26	2026/27
				Prog. 6 rev	Proj.	Prog. 6 rev	Proj.	Proj.			
				(Annual percentage change, unless otherwise indicated)							
Output and prices											
Real GDP at factor cost	3.1	-0.9	5.7	**4.0**	6.0	**4.5**	3.5	4.2	4.6	5.0	5.0
Net exports (percent contribution to real GDP at factor cost)	0.6	1.9	-2.7	**-1.5**	-1.4	**0.5**	3.4	-0.4	0.1	-0.6	-0.7
GDP deflator at factor cost	9.2	9.9	10.3	**9.4**	13.3	**7.8**	19.9	10.0	7.7	6.5	6.5
Consumer prices (period average)	6.7	10.7	8.9	**9.4**	12.1	**7.8**	19.9	10.0	7.7	6.5	6.5
				(Percent of GDP)							
Saving and investment balance	-4.2	-1.5	-0.5	**-4.0**	-4.7	**-3.5**	-2.5	-2.5	-2.5	-2.5	-2.6
Government	-7.8	-7.0	-6.0	**-6.8**	-7.0	**-4.4**	-4.6	-4.0	-3.7	-3.5	-3.7
Nongovernment (including public sector enterprises)	3.6	5.5	5.5	**2.8**	2.3	**0.9**	2.1	1.5	1.2	1.0	1.1
Gross national saving	11.3	13.3	14.1	**14.1**	10.5	**14.2**	14.4	14.5	14.3	14.4	14.1
Government	-5.5	-4.7	-3.9	**-3.4**	-5.0	**-1.4**	-2.4	-1.6	-1.4	-1.1	-1.3
Nongovernment (including public sector enterprises)	16.8	18.1	18.0	**17.4**	15.4	**15.6**	16.8	16.1	15.7	15.5	15.4
Gross capital formation	15.5	14.8	14.6	**18.1**	15.1	**17.7**	16.9	17.0	16.8	16.9	16.6
Government	2.3	2.3	2.2	**3.4**	2.0	**2.9**	2.3	2.3	2.4	2.4	2.4
Nongovernment (including public sector enterprises)	13.2	12.5	12.5	**14.6**	13.1	**14.7**	14.7	14.6	14.4	14.5	14.3
				(Billions of U.S. dollars, unless otherwise indicated)							
Balance of payments											
Current account balance	-13.4	-4.4	-1.9	**-13.0**	-17.5	**-12.2**	-9.3	-10.0	-10.6	-11.5	-12.6
Current account balance (in percent of GDP)	-4.2	-1.5	-0.5	**-4.0**	-4.7	**-3.5**	-2.5	-2.5	-2.5	-2.5	-2.6
Net capital flows 2/	11.9	6.9	7.0	**14.8**	10.0	**11.7**	12.8	12.8	13.9	14.2	14.8
Of which: foreign direct investment 3/	1.4	2.7	1.8	**2.3**	2.5	**3.1**	2.2	2.8	4.6	4.6	4.8
Gross reserves	7.3	12.2	17.3	**21.2**	9.8	**20.7**	16.2	17.4	19.1	21.3	22.8
In months of imports 4/	1.7	2.4	2.5	**3.2**	1.5	**3.0**	2.3	2.3	2.4	2.5	2.5
External debt (in percent of GDP)	33.5	37.7	34.9	**40.6**	32.5	**40.1**	37.0	36.2	35.0	32.7	30.2
Terms of trade (annual percentage change)	-1.8	2.3	2.4	**5.3**	1.5	**-4.4**	-6.1	-7.9	-2.2	-0.1	0.3
Real effective exchange rate (annual average, percentage change)	-11.5	-3.9	2.2	**…**	…	**…**	…	…	…	…	…
Real effective exchange rate (end of period, percentage change)	-15.0	3.4	7.3	**…**	…	**…**	…	…	…	…	…
				(Percent of GDP)							
Public finances											
Revenue and grants	11.3	13.3	12.4	**15.9**	12.1	**16.7**	12.4	12.8	12.9	12.9	12.8
Of which: tax revenue	10.2	10.0	10.3	**13.3**	10.2	**14.0**	11.0	11.1	11.1	11.1	11.0
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	**22.8**	19.1	**21.1**	17.1	16.8	16.6	16.4	16.5
Of which: current	16.6	18.1	16.3	**19.5**	17.0	**18.0**	14.7	14.4	14.2	13.9	14.1
Of which: development	2.3	2.3	2.2	**3.4**	2.0	**2.9**	2.3	2.3	2.4	2.4	2.4
Primary balance (including grants)	-3.0	-1.5	-1.1	**-1.2**	-2.3	**1.3**	0.2	0.6	0.7	0.7	0.3
Primary balance (excluding grants)	-3.1	-1.6	-1.2	**-1.3**	-2.4	**1.2**	0.2	0.5	0.6	0.6	0.2
Underlying primary balance (excluding grants) 5/	-3.1	-1.6	-0.5	**0.0**	-1.6	**1.2**	0.4	0.5	0.6	0.6	0.2
Budget balance (including grants)	-7.8	-7.0	-6.0	**-6.9**	-7.0	**-4.4**	-4.6	-4.0	-3.7	-3.5	-3.7
Budget balance (excluding grants)	-7.9	-7.1	-6.1	**-6.9**	-7.0	**-4.5**	-4.7	-4.1	-3.8	-3.6	-3.8
Underlying fiscal balance (excl. grants) 5/	-7.9	-7.1	-5.5	**-5.7**	-6.2	**-4.5**	-4.5	-4.1	-3.8	-3.6	-3.8
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.9	**86.7**	78.9	**82.1**	72.1	66.9	65.3	62.4	60.7
General government debt (incl. IMF)	77.5	79.6	73.6	**82.0**	74.6	**77.7**	68.2	63.4	61.9	59.3	57.7
Net general government debt (incl. IMF)	70.2	72.9	66.0	**75.2**	68.4	**71.7**	63.2	59.0	58.0	55.8	54.5
Memorandum item:											
Nominal GDP (market prices, billions of Pakistani rupees)	43,798	47,540	55,796	**54,382**	66,950	**61,682**	83,739	96,191	107,077	119,663	133,726

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

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

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

3/ Including privatization.

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

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

Table 3a. Pakistan: Balance of Payments, 2018/19–2026/27
(In millions of U.S. dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22		2022/23		2023/24	2024/25	2025/26	2026/27
				Prog.	Proj.	Prog.	Proj.		Proj.		
Current account	-13,434	-4,449	-1,916	**-12,994**	-17,461	**-12,163**	-9,280	-9,959	-10,598	-11,492	-12,583
Balance on goods	-27,612	-21,109	-28,188	**-36,686**	-40,140	**-35,514**	-32,856	-37,695	-38,715	-41,178	-44,141
Exports, f.o.b.	24,257	22,536	25,630	**30,078**	31,877	**31,642**	35,900	36,900	38,319	41,286	44,064
Imports, f.o.b.	51,869	43,645	53,818	**66,764**	72,017	**67,157**	68,756	74,595	77,034	82,464	88,205
Services (net)	-4,970	-3,316	-1,957	**-3,603**	-3,691	**-4,428**	-3,507	-3,596	-3,813	-4,207	-5,000
Services: credit	5,966	5,437	5,882	**6,349**	6,832	**6,805**	7,043	8,204	9,086	9,850	10,749
Of which: Coalition Support Fund	0	0	0	**0**	0	**0**	0	0	0	0	0
Of which: 3G Licenses	0	0	0	**0**	0	**0**	0	0	0	0	0
Services: debit	10,936	8,753	7,839	**9,951**	10,522	**11,233**	10,550	11,800	12,899	14,057	15,749
Income (net)	-5,610	-5,459	-4,613	**-4,983**	-5,288	**-5,515**	-4,763	-5,230	-5,295	-6,025	-7,053
Income: credit	578	479	580	**1,437**	992	**1,045**	1,354	1,118	1,191	1,309	1,382
Income: debit	6,188	5,938	5,193	**6,421**	6,280	**6,561**	6,117	6,347	6,486	7,333	8,435
Of which: interest payments	3,647	3,792	2,761	**3,680**	3,588	**4,223**	3,871	4,219	4,645	4,939	5,405
Of which: income on direct investment	2,848	2,664	2,637	**2,766**	2,774	**2,338**	2,247	2,129	1,841	2,394	3,029
Balance on goods, services, and income	-38,192	-29,884	-34,758	**-45,272**	-49,119	**-45,458**	-41,126	-46,520	-47,823	-51,410	-56,194
Current transfers (net)	24,758	25,435	32,842	**32,278**	31,658	**33,295**	31,846	36,562	37,226	39,917	43,611
Current transfers: credit, *of which:*	24,990	25,802	33,135	**32,473**	31,925	**33,454**	32,005	36,721	37,385	40,076	43,770
Official	761	468	278	**349**	357	**400**	400	400	400	400	400
Workers' remittances	21,740	23,131	29,370	**29,621**	30,117	**30,285**	28,958	33,080	34,444	36,013	38,014
Other private transfers	2,489	2,203	3,487	**2,503**	1,451	**2,769**	2,647	3,241	2,540	3,663	5,356
Current transfers: debit	232	367	293	**195**	267	**159**	159	159	159	159	159
Capital account	229	285	235	**223**	208	**127**	161	180	103	68	54
Capital transfers: credit	229	288	235	**223**	208	**127**	161	180	103	68	54
Of which: official capital grants	219	273	209	**220**	199	**127**	161	180	103	68	54
Capital transfers: debit	0	3	0	**0**	0	**0**	0	0	0	0	0
Financial account	11,759	6,479	7,726	**14,806**	10,355	**11,525**	12,682	12,669	13,765	14,171	14,749
Direct investment abroad	74	54	-76	**-88**	-34	**-80**	-4	-1	-1	-1	-1
Direct investment in Pakistan	1,362	2,598	1,862	**2,438**	2,583	**3,143**	2,170	2,773	4,617	4,644	4,833
Portfolio investment (net)	-1,562	-639	2,756	**3,280**	447	**4,710**	3,210	6,260	7,048	6,828	8,628
Financial derivatives (net)	0	8	0	**0**	0	**0**	0	0	0	0	0
Other investment assets	67	127	-471	**-962**	-2,706	**-701**	-1,043	-1,392	-1,238	-1,291	-1,264
Monetary authorities	0	0	0	**0**	0	**0**	0	0	0	0	0
General government	-48	-48	-13	**4**	-911	**0**	0	0	0	0	10
Banks	92	-140	256	**87**	-746	**505**	4	-348	-194	-248	-231
Other sectors	23	315	-714	**-1,054**	-1,049	**-1,206**	-1,047	-1,045	-1,043	-1,043	-1,043
Other investment liabilities	11,530	4,101	3,641	**9,940**	10,002	**4,372**	8,270	4,989	3,314	3,968	2,529
Monetary authorities	5,495	-498	-1,468	**3,002**	-1	**0**	0	0	0	0	0
General government, *of which:*	4,294	3,085	5,232	**2,842**	6,074	**1,588**	7,062	1,914	1,820	2,431	605
Disbursements	8,255	10,347	9,304	**11,148**	10,729	**12,565**	19,476	14,240	18,106	17,572	16,979
Amortization	5,982	7,299	5,855	**8,658**	8,288	**10,977**	12,414	12,326	16,286	15,151	16,389
Banks	467	-124	-279	**-8**	540	**80**	250	250	250	250	250
Other sectors	1,274	1,638	156	**1,332**	617	**2,704**	957	2,825	1,244	1,287	1,674
Net errors and omissions	-58	150	-991	**-185**	-608	**0**	0	0	0	0	0
Overall balance	-1,631	2,465	5,054	**1,851**	-7,504	**-511**	3,563	2,890	3,270	2,747	2,221
Financing	1,504	-2,465	-5,054	**-1,851**	7,504	**511**	-4,541	-2,890	-3,270	-2,747	-2,221
Change in reserve assets (- denotes accumulation)	1,880	-4,554	-4,473	**-3,900**	7,469	**533**	-6,405	-1,211	-1,707	-2,167	-1,520
Net use of Fund credit and loans (without augmentation)	-376	2,089	-581	**2,049**	36	**-22**	1,864	-1,680	-1,563	-580	-700
Financing gap					0	0	-977	0	0	0	0
Proposed augmentation of EFF					0	0	977	0	0	0	0
Memorandum items:											
Current account (in percent of GDP)	-4.2	-1.5	-0.5	**-4.0**	-4.7	**-3.5**	-2.5	-2.5	-2.5	-2.5	-2.6
Current account (in percent of GDP; excluding fuel imports)	0.2	1.6	2.2	**0.1**	0.3	**0.5**	3.2	2.4	1.9	1.5	1.1
Exports f.o.b. (growth rate, in percent)	-2.1	-7.1	13.7	**17.4**	24.4	**5.2**	12.6	2.8	3.8	7.7	6.7
Exports volume (growth rate, in percent)	-1.7	-1.0	2.7	**4.0**	3.1	**8.9**	13.0	14.8	7.5	6.8	5.6
Remittance (growth rate, in percent)	9.2	6.4	27.0	**0.9**	2.5	**2.2**	-3.8	14.2	4.1	4.6	5.6
Remittances (in percent of GDP)	6.8	7.7	8.4	**9.3**	8.1	**8.8**	7.9	8.3	8.1	7.9	7.7
Imports f.o.b. (growth rate, in percent)	-6.8	-15.9	23.3	**24.1**	33.8	**0.6**	-4.5	8.5	3.3	7.0	7.0
Imports volume (growth rate, in percent)	-9.9	-12.0	20.5	**8.7**	9.9	**1.0**	-12.2	11.5	4.5	7.6	6.9
Oil imports (in million US$, cif)	13,929	9,280	9,747	**13,273**	18,423	**13,912**	21,200	19,579	18,631	18,155	18,070
Terms of trade (growth rate, in percent)	-1.8	2.3	2.4	**5.3**	1.5	**-4.4**	-6.1	-7.9	-2.2	-0.1	0.3
Foreign Direct Investment (in percent of GDP)	0.4	0.9	0.5	**0.8**	0.7	**0.9**	0.6	0.7	1.1	1.0	1.0
External debt (in millions of U.S. dollars)	106,705	113,013	122,209	**129,574**	121,504	**138,568**	135,931	144,160	148,431	149,620	148,630
o/w external public debt	82,561	86,522	93,775	**98,720**	96,989	**103,027**	108,781	112,881	114,983	116,813	118,015
Gross external financing needs (in millions of U.S. dollars) 1/	25,552	23,430	21,551	**30,417**	34,331	**35,068**	30,757	36,621	35,717	38,469	39,265
End-period gross official reserves (millions of U.S. dollars) 2/	7,274	12,175	17,297	**21,211**	9,821	**20,678**	16,226	17,436	19,143	21,311	22,831
(In months of next year's imports of goods and services)	1.7	2.4	2.5	**3.2**	1.5	**3.0**	2.3	2.3	2.4	2.5	2.5
GDP (in millions of U.S. dollars)	318,478	299,415	349,670	**…**	…	**…**	…	…	…	…	…

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

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

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

Table 3b. Pakistan: Gross Financing Requirements and Sources, 2018/19–2026/27
(In millions of U.S. dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
						Proj.			
Gross External Financing Requirements (A)	**25,552**	**23,430**	**21,551**	**34,331**	**30,757**	**36,621**	**35,717**	**38,469**	**39,265**
(In percent of GDP)	8.0	7.8	6.2	9.2	8.4	9.2	8.4	8.4	8.0
Current account deficit	13,434	4,449	1,916	17,461	9,280	9,959	10,598	11,492	12,583
(In percent of GDP)	4.2	1.5	0.5	4.7	2.5	2.5	2.5	2.5	2.6
Amortization	11,742	18,236	18,555	15,853	20,490	24,983	23,557	26,397	25,982
Public Sector	6,982	12,799	13,943	11,288	15,414	19,897	18,286	20,951	20,389
Short-term Borrowing	1,538	1,182	784	1,074	4,445	6,345	5,692	5,692	5,692
Long-term Borrowing (non-IMF)	4,444	10,617	13,159	9,214	9,969	12,552	12,594	13,459	14,697
Bonds	1,000	1,000	0	1,000	1,000	1,000	0	1,800	0
Private Sector 1/	4,760	5,437	4,612	4,565	5,077	5,086	5,271	5,446	5,592
Short-term Borrowing	3,474	3,610	3,365	3,515	3,710	3,851	4,017	4,174	4,335
Long-term Borrowing	1,286	1,827	1,247	1,050	1,366	1,235	1,254	1,271	1,257
IMF Repurchases	376	745	1,080	1,017	986	1,680	1,563	580	700
Available Financing (B)	**21,103**	**25,497**	**26,175**	**25,801**	**33,334**	**37,832**	**37,425**	**40,636**	**40,784**
Foreign Direct Investment (net) 2/	1,436	2,652	1,786	2,549	2,166	2,772	4,616	4,643	4,832
Disbursement	19,496	22,418	25,145	20,886	31,007	34,880	32,705	35,926	35,898
From private creditors	8,366	15,430	11,508	9,911	16,615	21,999	21,196	22,075	22,924
Disbursement to Private Sector 3/	4,268	12,052	4,221	2,652	6,731	9,268	7,800	9,544	10,093
Disbursement to Public Sector 4/	4,098	3,377	7,287	7,259	9,884	12,731	13,396	12,531	12,831
From official creditors (non-IMF)	11,130	6,989	13,636	10,975	14,392	12,880	11,510	13,851	12,974
o/w Project Loans	2,582	1,588	1,876	2,030	1,819	1,897	2,225	2,166	2,054
o/w China	1,574	487	204	191	48	125	123	41	41
o/w Program Loans	288	3,666	2,120	1,892	7,715	2,121	1,974	2,460	2,232
o/w WB	150	729	1,009	1,049	1,050	1,121	974	1,460	1,480
o/w ADB	87	2,347	858	781	2,200	1,000	1,000	1,000	1,000
o/w Rollover of short-term debt	8,244	12,631	8,946	11,849	12,832	13,099	13,600	12,295	12,295
o/w Public Sector	6,193	4,627	5,245	8,044	9,545	9,692	9,692	9,692	9,692
o/w Private Sector	2,051	8,004	3,700	3,805	3,287	3,407	3,908	2,603	2,603
Other Net Capital Inflows (net) 5/	171	427	-756	-400	161	180	103	68	54
IMF SDR allocation	0	0	0	2,767	0	0	0	0	0
Remaining Financing Needs (C=A-B)	**4,449**	**-2,067**	**-4,623**	**8,530**	**-2,577**	**-1,211**	**-1,707**	**-2,167**	**-1,519**
Borrowing from IMF (D)	**0**	**2,834**	**499**	**1,053**	**3,828**	**0**	**0**	**0**	**0**
o/w proposed EFF augmentation					977				
Reserve Assets (decrease = +) (E=C-D)	**4,449**	**-4,901**	**-5,122**	**7,477**	**-6,405**	**-1,211**	**-1,707**	**-2,167**	**-1,519**
Memorandum items:									
Gross official reserves (stock, in US$ billions)	7.3	12.2	17.3	9.8	16.2	17.4	19.1	21.3	22.8
(In months of prospective imports)	1.7	2.4	2.5	1.5	2.3	2.3	2.4	2.5	2.5
(In percent of IMF ARA metric: assuming fixed ER)	32.3	34.8	45.4	26.3	39.6	40.3	41.9	45.8	47.7
(In percent of IMF ARA metric: assuming flexible ER)	34.5	54.1	72.2	40.9	59.9	61.2	63.0	69.8	72.8
Net FX derivative position (in US$ billions)	8.1	5.8	4.9	4.0	4.0	4.0	4.0	4.0	4.0

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

1/ Includes banks and non-bank private sector.
2/ Includes privatization receipts.
3/ Includes equity and debt portfolio inflows, and borrowing by banks and other sectors.
4/ Includes syndicated loans and Euro bonds.
5/ Includes capital account, financial derivatives, errors and omissions.

Table 4a. Pakistan: General Government Budget, 2018/19–2026/27
(In billions of Pakistani rupees)

	2018/19	2019/20	2020/21	2021/22		2022/23		2023/24	2024/25	2025/26	2026/27
				Prog.	Proj.	Prog.	Proj.		Proj.		
Revenue and grants	4,934	6,306	6,933	**8,652**	8,107	**10,272**	10,399	12,339	13,799	15,424	17,111
Revenue	4,901	6,273	6,903	**8,620**	8,075	**10,222**	10,370	12,272	13,721	15,344	17,032
Tax revenue	4,473	4,748	5,755	**7,237**	6,828	**8,640**	9,220	10,645	11,910	13,320	14,771
Federal	4,072	4,334	5,247	**6,582**	6,220	**7,804**	8,430	9,698	10,855	12,142	13,453
FBR revenue	3,829	3,998	4,764	**6,100**	6,000	**7,255**	7,470	8,652	9,716	10,882	12,133
Direct taxes	1,446	1,524	1,732	**2,182**	2,147	**2,711**	3,053	3,537	3,967	4,443	4,966
Federal excise duty	234	250	277	**356**	346	**406**	470	550	612	694	776
Sales tax/VAT	1,465	1,597	1,990	**2,777**	2,722	**3,295**	2,954	3,423	3,860	4,328	4,821
Customs duties	685	626	765	**785**	785	**843**	993	1,141	1,277	1,416	1,571
Petroleum surcharge	206	294	424	**356**	135	**406**	855	911	983	1,073	1,112
Gas surcharge and other	14	33	39	**66**	60	**75**	75	101	113	128	143
GIDC	21	9	19	**60**	25	**68**	30	34	43	58	65
Provincial	402	414	508	**655**	608	**836**	790	947	1,055	1,179	1,317
Nontax revenue	427	1,524	1,147	**1,383**	1,247	**1,582**	1,150	1,627	1,811	2,024	2,262
Federal	341	1,422	997	**1,136**	1,059	**1,300**	935	1,379	1,535	1,716	1,917
Provincial	86	102	150	**247**	188	**282**	216	248	276	308	344
Grants	33	33	31	**32**	32	**49**	29	67	78	80	79
Expenditure (including statistical discrepancy)	8,345	9,649	10,306	**12,381**	12,776	**12,994**	14,284	16,174	17,783	19,594	22,054
Current expenditure	7,274	8,597	9,111	**10,600**	11,403	**11,107**	12,335	13,861	15,177	16,652	18,803
Federal	4,946	6,081	6,292	**7,579**	8,348	**7,688**	8,778	9,785	10,655	11,598	12,701
Interest	2,091	2,620	2,750	**3,073**	3,100	**3,523**	4,067	4,418	4,705	4,964	5,287
Domestic	1,821	2,313	2,524	**2,757**	2,778	**2,983**	3,475	3,703	3,862	3,995	4,240
Foreign	270	306	226	**303**	312	**516**	569	677	809	943	1,047
IMF budget support	0	1	0	**13**	10	**24**	24	38	34	26	0
Other	2,855	3,462	3,542	**4,519**	5,258	**4,189**	4,735	5,405	5,984	6,660	7,414
Defense	1,147	1,213	1,316	**1,400**	1,450	**1,586**	1,563	1,795	1,999	2,234	2,496
Other	1,708	2,249	2,226	**3,119**	3,808	**2,603**	3,172	3,610	3,985	4,427	4,917
Of which: subsidies	195	360	425	**780**	1,515	**490**	894	1,012	1,111	1,227	1,371
Of which: grants	612	917	855	**1,326**	1,228	**1,010**	1,092	1,254	1,386	1,549	1,731
Provincial	2,328	2,516	2,819	**3,021**	3,055	**3,419**	3,557	4,076	4,522	5,054	6,102
Development expenditure and net lending	1,049	1,139	1,288	**1,782**	1,373	**1,887**	1,949	2,314	2,606	2,942	3,252
Public Sector Development Program	1,008	1,090	1,211	**1,871**	1,339	**1,810**	1,893	2,249	2,534	2,862	3,162
Federal	502	468	441	**554**	406	**559**	644	790	889	1,014	1,133
Provincial	506	622	770	**1,317**	933	**1,251**	1,249	1,460	1,645	1,848	2,029
Net lending	41	49	77	**-90**	34	**77**	56	64	72	80	89
Statistical discrepancy ("+" = additional expenditure)	22	-87	-93	**0**	0	**0**	0	0	0	0	0
Unidentified measures	0	0	0	**…**	0	**…**	0	0	0	0	0
Overall Balance (excluding grants)	-3,445	-3,376	-3,404	**-3,761**	-4,701	**-2,771**	-3,914	-3,902	-4,062	-4,250	-5,022
Overall Balance (including grants)	-3,412	-3,343	-3,373	**-3,730**	-4,669	**-2,722**	-3,885	-3,835	-3,984	-4,169	-4,943
Financing	3,412	3,343	3,373	**3,730**	4,669	**2,722**	3,885	3,835	3,984	4,169	4,943
External	417	896	1,418	**1,350**	842	**1,065**	2,893	1,380	914	633	516
Of which: privatization receipts	0	0	0	**0**	0	**0**	0	0	0	0	0
Of which: IMF	0	390	80	**520**	189	**193**	873	0	0	0	0
Domestic	2,995	2,447	1,955	**2,379**	3,827	**1,657**	992	2,455	3,070	3,536	4,426
Bank	2,230	1,907	1,746	**1,665**	2,679	**1,160**	695	1,719	2,149	2,475	3,099
Nonbank	765	540	209	**714**	1,148	**497**	298	737	921	1,061	1,328
Memorandum items:											
Underlying fiscal balance (excl. grants) 1/	-3,445	-3,376	-3,051	**-3,098**	-4,158	**-2,771**	-3,734	-3,902	-4,062	-4,250	-5,022
Provincial balance	190	225	314	**405**	604	**954**	629	758	879	981	1,065
Primary balance (excluding grants)	-1,353	-756	-654	**-688**	-1,601	**751**	153	515	644	715	265
Underlying primary balance (excluding grants) 1/	-1,353	-756	-301	**-25**	-1,058	**751**	333	515	644	715	265
Primary balance (including grants)	-1,320	-723	-623	**-657**	-1,570	**801**	182	582	721	795	344
Total security spending	1,147	1,213	1,316	**1,400**	1,450	**1,586**	1,563	1,795	1,999	2,234	2,496
Energy sector circular debt accumulation	447	538	130	**…**	…	**…**	…	…	…	…	…
Energy sector circular debt clearance	200	200	163	**…**	…	**…**	…	…	…	…	…
General government debt incl. IMF obligations	33,946	37,821	41,039	**44,583**	49,960	**47,943**	57,114	60,948	66,329	70,938	77,143
Domestic debt	20,732	23,281	26,265	**28,244**	30,092	**29,901**	31,085	33,540	36,610	40,146	44,572
External debt	13,214	14,540	14,774	**16,339**	19,868	**18,042**	26,029	27,408	29,719	30,792	32,571
General government and government guaranteed debt (incl. IMF)	35,915	40,165	43,446	**47,171**	52,796	**50,637**	60,361	64,338	69,882	74,672	81,120
Net general government debt (incl. IMF)	30,759	34,658	36,841	**40,876**	45,763	**44,236**	52,916	56,751	62,131	66,740	72,946
Nominal GDP (market prices)	43,798	47,540	55,796	**54,382**	66,950	**61,682**	83,739	96,191	107,077	119,663	133,726

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

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

Table 4b. Pakistan: General Government Budget, 2018/19–2026/27
(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22		2022/23		2023/24	2024/25	2025/26	2026/27
				Prog.	Proj.	Prog.	Proj.		Proj.		
Revenue and grants	11.3	13.3	12.4	**15.9**	12.1	**16.7**	12.4	12.8	12.9	12.9	12.8
Revenue	11.2	13.2	12.4	**15.9**	12.1	**16.6**	12.4	12.8	12.8	12.8	12.7
Tax revenue	10.2	10.0	10.3	**13.3**	10.2	**14.0**	11.0	11.1	11.1	11.1	11.0
Federal	9.3	9.1	9.4	**12.1**	9.3	**12.7**	10.1	10.1	10.1	10.1	10.1
FBR revenue	8.7	8.4	8.5	**11.2**	9.0	**11.8**	8.9	9.0	9.1	9.1	9.1
Direct taxes	3.3	3.2	3.1	**4.0**	3.2	**4.4**	3.6	3.7	3.7	3.7	3.7
Federal excise duty	0.5	0.5	0.5	**0.7**	0.5	**0.7**	0.6	0.6	0.6	0.6	0.6
Sales tax	3.3	3.4	3.6	**5.1**	4.1	**5.3**	3.5	3.6	3.6	3.6	3.6
Customs duties	1.6	1.3	1.4	**1.4**	1.2	**1.4**	1.2	1.2	1.2	1.2	1.2
Petroleum surcharge	0.5	0.6	0.8	**0.7**	0.2	**0.7**	1.0	0.9	0.9	0.9	0.8
Gas surcharge and other	0.0	0.1	0.1	**0.1**	0.1	**0.1**	0.1	0.1	0.1	0.1	0.1
GIDC	0.0	0.0	0.0	**0.1**	0.0	**0.1**	0.0	0.0	0.0	0.0	0.0
Provincial	0.9	0.9	0.9	**1.2**	0.9	**1.4**	0.9	1.0	1.0	1.0	1.0
Nontax revenue	1.0	3.2	2.1	**2.5**	1.9	**2.6**	1.4	1.7	1.7	1.7	1.7
Federal	0.8	3.0	1.8	**2.1**	1.6	**2.1**	1.1	1.4	1.4	1.4	1.4
Provincial	0.2	0.2	0.3	**0.5**	0.3	**0.5**	0.3	0.3	0.3	0.3	0.3
Grants	0.1	0.1	0.1	**0.1**	0.0	**0.1**	0.0	0.1	0.1	0.1	0.1
Expenditure (including statistical discrepancy)	19.1	20.3	18.5	**22.8**	19.1	**21.1**	17.1	16.8	16.6	16.4	16.5
Current expenditure	16.6	18.1	16.3	**19.5**	17.0	**18.0**	14.7	14.4	14.2	13.9	14.1
Federal	11.3	12.8	11.3	**13.9**	12.5	**12.5**	10.5	10.2	10.0	9.7	9.5
Interest	4.8	5.5	4.9	**5.7**	4.6	**5.7**	4.9	4.6	4.4	4.1	4.0
Domestic	4.2	4.9	4.5	**5.1**	4.1	**4.8**	4.1	3.8	3.6	3.3	3.2
Foreign	0.6	0.6	0.4	**0.6**	0.5	**0.8**	0.7	0.7	0.8	0.8	0.8
IMF budget support	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Other	6.5	7.3	6.3	**8.3**	7.9	**6.8**	5.7	5.6	5.6	5.6	5.5
Defense	2.6	2.6	2.4	**2.6**	2.2	**2.6**	1.9	1.9	1.9	1.9	1.9
Other	3.9	4.7	4.0	**5.7**	5.7	**4.2**	3.8	3.8	3.7	3.7	3.7
Of which: subsidies	0.4	0.8	0.8	**1.4**	2.3	**0.8**	1.1	1.1	1.0	1.0	1.0
Of which: grants	1.4	1.9	1.5	**2.4**	1.8	**1.6**	1.3	1.3	1.3	1.3	1.3
Provincial	5.3	5.3	5.1	**5.6**	4.6	**5.5**	4.2	4.2	4.2	4.2	4.6
Development expenditure and net lending	2.4	2.4	2.3	**3.3**	2.1	**3.1**	2.3	2.4	2.4	2.5	2.4
Public Sector Development Program	2.3	2.3	2.2	**3.4**	2.0	**2.9**	2.3	2.3	2.4	2.4	2.4
Federal	1.1	1.0	0.8	**1.0**	0.6	**0.9**	0.8	0.8	0.8	0.8	0.8
Provincial	1.2	1.3	1.4	**2.4**	1.4	**2.0**	1.5	1.5	1.5	1.5	1.5
Net lending	0.1	0.1	0.1	**-0.2**	0.1	**0.1**	0.1	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional expenditure)	0.1	-0.2	-0.2	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Unidentified measures	0.0	0.0	0.0	**…**	0.0	**…**	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-7.9	-7.1	-6.1	**-6.9**	-7.0	**-4.5**	-4.7	-4.1	-3.8	-3.6	-3.8
Overall Balance (including grants)	-7.8	-7.0	-6.0	**-6.9**	-7.0	**-4.4**	-4.6	-4.0	-3.7	-3.5	-3.7
Financing	7.8	7.0	6.0	**6.9**	7.0	**4.4**	4.6	4.0	3.7	3.5	3.7
External	1.0	1.9	2.5	**2.5**	1.3	**1.7**	3.5	1.4	0.9	0.5	0.4
Of which: privatization receipts	0.0	0.0	0.0	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.8	0.1	**1.0**	0.3	**0.3**	1.0	0.0	0.0	0.0	0.0
Domestic	6.8	5.1	3.5	**4.4**	5.7	**2.7**	1.2	2.6	2.9	3.0	3.3
Bank	5.1	4.0	3.1	**3.1**	4.0	**1.9**	0.8	1.8	2.0	2.1	2.3
Nonbank	1.7	1.1	0.4	**1.3**	1.7	**0.8**	0.4	0.8	0.9	0.9	1.0
Memorandum items:											
Underlying fiscal balance (excl. grants) 1/	-7.9	-7.1	-5.5	**-5.7**	-6.2	**-4.5**	-4.5	-4.1	-3.8	-3.6	-3.8
Provincial balance	0.4	0.5	0.6	**0.7**	0.9	**1.5**	0.8	0.8	0.8	0.8	0.8
Primary balance (excluding grants)	-3.1	-1.6	-1.2	**-1.3**	-2.4	**1.2**	0.2	0.5	0.6	0.6	0.2
Underlying primary balance (excluding grants) 1/	-3.1	-1.6	-0.5	**0.0**	-1.6	**1.2**	0.4	0.5	0.6	0.6	0.2
Primary balance (including grants)	-3.0	-1.5	-1.1	**-1.2**	-2.3	**1.3**	0.2	0.6	0.7	0.7	0.3
Total security spending	2.6	2.6	2.4	**2.6**	2.2	**2.6**	1.9	1.9	1.9	1.9	1.9
Energy sector circular debt accumulation	1.0	1.1	0.2	**…**	…	**…**	…	…	…	…	…
Energy sector circular debt clearance	0.5	0.4	0.3	**…**	…	**…**	…	…	…	…	…
General government debt incl. IMF obligations	77.5	79.6	73.6	**82.0**	74.6	**77.7**	68.2	63.4	61.9	59.3	57.7
Domestic debt	47.3	49.0	47.1	**51.9**	44.9	**48.5**	37.1	34.9	34.2	33.5	33.3
External debt	30.2	30.6	26.5	**30.0**	29.7	**29.3**	31.1	28.5	27.8	25.7	24.4
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.9	**86.7**	78.9	**82.1**	72.1	66.9	65.3	62.4	60.7
Net general government debt (incl. IMF)	70.2	72.9	66.0	**75.2**	68.4	**71.7**	63.2	59.0	58.0	55.8	54.5
Nominal GDP (market prices, billions of Pakistani rupees)	43,798	47,540	55,796	**54,382**	66,950	**61,682**	83,739	96,191	107,077	119,663	133,726

Sources: Pakistani authorities; and IMF staff estimates and projections.
1/ Excludes one-off transactions, including asset sales. In FY 2021 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY 2022 it excludes IPPs related arrears clearance and COVID-19 spending.

Table 5. Pakistan: Monetary Survey, 2018/19–2022/23

	2018/19	2019/20	2020/21	2021/22					2022/23	
				Q1	Q2	Q3	Q4		Q4	
							Prog.	Proj.	Prog.	Proj.
	(Billions of Pakistani rupees, unless otherwise indicated)									
Monetary survey										
Net foreign assets (NFA)	-1,507	-516	725	692	497	-447	**1,058**	-717	**1,964**	1,445
Net domestic assets (NDA)	19,306	21,424	23,573	23,755	24,848	25,867	**27,079**	27,577	**29,943**	28,638
Net claims on government, *of which:*	12,337	14,547	16,265	16,349	16,497	17,388	**17,752**	19,151	**21,116**	23,665
Budget support, *of which:*	11,546	13,471	15,248	15,222	15,517	16,312	**16,778**	18,017	**20,072**	22,761
Banks	4,857	7,016	9,974	10,250	10,272	11,185	**12,118**	12,501	**15,722**	17,554
Commodity operations	756	813	904	914	889	845	**974**	1,134	**1,044**	904
Credit to nongovernment	8,073	8,372	9,114	9,354	10,228	10,417	**10,462**	10,628	**11,954**	11,993
Private sector 1/	6,703	6,906	7,702	7,930	8,749	9,002	**8,908**	9,145	**10,245**	10,362
Public sector enterprises	1,370	1,466	1,413	1,424	1,480	1,415	**1,554**	1,483	**1,709**	1,631
Privatization account	-41	-41	-41	-41	-41	-41	**-41**	-41	**-41**	-41
Other items, net	-1,063	-1,455	-1,766	-1,907	-1,837	-1,897	**-1,094**	-2,162	**-3,087**	-6,979
Broad money	17,798	20,908	24,298	24,447	25,345	25,420	**28,137**	26,861	**31,907**	30,084
Currency outside scheduled banks	4,950	6,142	6,910	7,022	6,980	7,261	**7,927**	7,639	**9,024**	8,480
Rupee deposits	11,739	13,691	16,342	16,306	17,227	17,037	**19,063**	17,969	**21,681**	20,140
Foreign currency deposits	1,110	1,075	1,046	1,119	1,139	1,122	**1,147**	1,253	**1,202**	1,463
State Bank of Pakistan (SBP)										
NFA	-1,127	-181	931	904	711	-314	**1,264**	-483	**2,170**	1,016
NDA	7,701	7,861	7,733	7,564	7,993	9,199	**8,808**	10,246	**9,236**	9,888
Net claims on government	6,676	6,524	5,320	5,105	5,292	5,323	**4,728**	5,522	**4,452**	5,277
Of which: budget support	6,689	6,455	5,274	4,973	5,245	5,127	**4,660**	5,517	**4,350**	5,207
Claims on nongovernment	12	19	49	50	52	54	**22**	56	**22**	56
Claims on scheduled banks	683	877	1,265	1,284	1,431	1,511	**1,318**	1,610	**1,418**	1,710
Privatization account	-41	-41	-41	-41	-41	-41	**-41**	-41	**-41**	-41
Other items, net	371	482	1,140	1,165	1,259	2,352	**2,792**	3,098	**3,384**	2,886
Reserve money, *of which:*	6,573	7,680	8,663	8,468	8,704	8,885	**10,071**	9,763	**11,406**	10,905
Banks' reserves	1,246	1,171	1,307	977	1,283	1,173	**1,162**	1,789	**1,316**	1,998
Currency	5,294	6,468	7,288	7,420	7,335	7,626	**8,909**	7,974	**10,090**	8,907
	(Annual percentage change, unless otherwise indicated)									
Broad money	11.3	17.5	16.2	15.5	14.8	12.8	**15.8**	10.5	**13.4**	12.0
NFA, banking system (in percent of broad money) 2/	-8.1	5.6	5.9	4.3	2.0	-2.7	**1.4**	-5.9	**3.2**	8.0
NDA, banking system (in percent of broad money) 2/	19.4	11.9	10.3	11.2	12.9	15.6	**14.4**	16.5	**10.2**	4.0
Budgetary support (in percent of broad money) 2/	14.1	10.8	8.5	7.1	6.8	9.1	**5.9**	11.4	**11.7**	17.7
Budgetary support	24.4	16.7	13.2	10.9	10.7	14.3	**9.4**	18.2	**19.6**	26.3
Private credit 1/	11.9	3.0	11.5	16.1	20.6	21.5	**16.0**	18.7	**15.0**	13.3
Currency	12.8	24.1	12.5	15.1	12.5	11.0	**14.7**	10.5	**13.8**	11.0
Reserve money	19.9	16.8	12.8	12.4	13.2	12.0	**16.3**	12.7	**13.2**	11.7
Memorandum items:										
Velocity	2.6	2.5	2.5	2.5	2.5	2.6	**2.1**	2.6	**2.1**	2.9
Money multiplier	2.7	2.7	2.8	2.9	2.9	2.9	**2.8**	2.8	**2.8**	2.8
Currency to broad money ratio (percent)	27.8	29.4	28.4	28.7	27.5	28.6	**28.2**	28.4	**28.3**	28.2
Currency to deposit ratio (percent)	38.5	41.6	39.7	40.3	38.0	40.0	**39.2**	39.7	**39.4**	39.3
Foreign currency to deposit ratio (percent)	8.6	7.3	6.0	6.4	6.2	6.2	**5.7**	6.5	**5.3**	6.8
Reserves to deposit ratio (percent)	9.7	7.9	7.5	5.6	7.0	6.5	**5.8**	9.3	**5.8**	9.2
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	2,262	1,925	1,777	-26	269	1,064	**1,442**	2,770	**3,295**	4,743
By commercial banks	-887	2,159	2,958	276	298	1,212	**2,144**	2,527	**3,605**	5,053
By SBP 3/	3,150	-234	-1,181	-301	-29	-147	**-702**	243	**-310**	-310
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 4/	-9.4	8.1	6.7	-0.1	-1.1	-7.6	**2.5**	-8.6	**4.4**	8.0
NFA of commercial banks (millions of U.S. dollars)	-3,127	-2,092	-1,225	-1,279	-1,337	-870	**-1,306**	-1,484	**-1,177**	2,094
NDA of commercial banks (billions of Pakistani rupees)	11,605	13,563	15,840	16,192	16,854	16,668	**18,271**	17,332	**20,707**	18,750

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

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

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

3/ Includes use of government deposits.

4/ Includes valuation adjustments.

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

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.	2019 Dec.	2020 Dec.	2021 Dec.	2022 Mar.
Capital adequacy										
Regulatory capital to risk-weighted assets 1/	14.9	17.1	17.3	16.2	15.8	16.2	17.0	18.6	16.7	16.4
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	13.2	14.0	14.8	13.5	13.4
Capital to total assets	9.0	10.0	8.4	7.8	7.1	7.1	7.2	7.2	6.3	6.3
Asset composition and quality										
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	8.4	8.0	8.6	9.2	7.9	7.8
Provisions to NPLs	78.4	79.8	84.9	85.0	87.2	83.8	81.4	88.3	91.2	91.5
Net NPLs to total eligible capital	14.7	10.1	7.7	7.3	5.8	7.8	8.9	5.3	4.0	3.8
Earnings and profitability										
Return on assets (after tax)	1.1	1.5	1.5	1.3	0.9	0.8	0.8	1.0	1.0	1.1
Return on equity (after tax)	12.4	16.1	15.6	14.4	11.5	10.7	11.3	13.8	14.1	17.2
Net interest income to gross income	70.4	71.3	70.4	71.2	72.7	75.4	79.3	79.7	77.9	78.3
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	57.1	60.2	57.6	50.0	53.5	52.8
Liquidity										
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	48.7	49.7	54.8	55.4	55.2
Liquid assets to total deposits	61.3	64.5	73.3	72.1	76.1	67.2	68.4	74.3	76.7	79.8
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	55.8	51.7	44.8	46.6	48.6

Source: State Bank of Pakistan.

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

Table 7. Pakistan: Indicators of Fund Credit, 2015–27
(In millions of SDR, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Projections 1/					
	Projected level of credit outstanding based on existing and prospective drawings												
Total	**3,600.0**	**4,393.0**	**4,393.0**	**4,243.0**	**4,867.0**	**5,192.5**	**4,810.3**	**6,616.2**	**6,716.1**	**5,452.2**	**4,683.0**	**4,316.0**	**3,572.7**
Of which:													
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility and Rapid Financing Instrument	3,600.0	4,393.0	4,393.0	4,243.0	4,867.0	5,192.5	4,810.3	6,616.2	6,716.1	5,452.2	4,683.0	4,316.0	3,572.7
In percent of quota	348.3	216.3	216.3	208.9	239.6	255.7	236.8	325.8	330.7	268.5	230.6	212.5	175.9
In percent of end-period gross official reserves	31.4	32.4	44.1	81.6	59.2	55.7	38.0	67.2	54.4	41.2	32.7	27.8	21.2
As a share of external debt	7.3	7.7	6.9	5.8	6.0	6.4	5.6	6.8	6.5	4.9	3.9	3.4	2.6
	Projected debt service to the Fund based on existing and prospective drawings												
Total	**338.1**	**51.1**	**75.0**	**248.0**	**532.7**	**361.5**	**832.2**	**856.1**	**1,235.0**	**1,497.9**	**944.7**	**513.0**	**864.3**
Of which:													
Principal	303.0	0.0	0.0	150.0	420.0	330.0	732.2	732.2	956.0	1,263.9	769.2	367.0	743.3
Interest and charges	35.1	51.1	75.0	98.0	112.7	31.5	100.0	123.9	278.9	233.9	175.5	146.0	121.0
SBA and ENDA principal	303.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility principal	0.0	0.0	0.0	150.0	120.0	330.0	732.2	732.2	702.2	756.2	515.3	367.0	743.3
Rapid Financing Instrument principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	253.9	507.8	253.9	0.0	0.0
In percent of quota	32.7	2.5	3.7	12.2	26.2	17.8	41.0	42.1	60.8	73.7	46.5	25.3	42.6
In percent of end-period gross official reserves	2.9	0.4	0.8	4.8	6.5	3.9	6.6	8.7	10.0	11.3	6.6	3.3	5.1
As a share of total external debt service	7.2	1.1	1.1	3.6	5.3	4.0	9.7	6.2	8.8	9.5	5.5	2.8	4.3
Memorandum items:													
Quota (millions of SDRs)	1,034	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031
Gross official reserves (millions of U.S. dollars)	15,886	18,269	14,107	7,199	11,334	13,412	17,686	13,259	16,770	17,940	19,454	21,097	22,878
Exports of goods and services (millions of US dollars)	6,630	6,875	7,689	7,521	7,732	7,606	7,336	7,996	7,294	5,347	6,630	8,025	8,400
Total External Debt (millions of U.S. dollars)	68,473	76,436	90,464	100,681	110,957	117,115	119,340	130,127	140,959	150,246	161,096	173,105	186,032
Total external debt (percent of CY GDP)	22.2	23.4	26.1	29.9	35.9	36.1	33.0	35.1	36.8	36.2	35.8	35.5	35.1
Total external debt service (millions of U.S. dollars)	6,468	6,217	9,664	9,498	13,921	13,124	11,949	18,533	19,114	21,410	23,217	25,177	27,303

Source: IMF staff projections.

1/ Using the GRA rate of charge = 2.067 as of July 14, 2022 for projected charges.

Table 8. Pakistan: Selected Vulnerability Indicators, 2018/19–2026/27

	2018/19	2019/20	2020/21	2021/22		2022/23		2023/24	2024/25	2025/26	2026/27
				Prog.	Proj.	Prog.	Proj.	Proj.			
Key economic and market indicators											
Real GDP growth (factor cost, in percent)	3.1	-0.9	5.7	**4.0**	6.0	**4.5**	3.5	4.2	4.6	5.0	5.0
CPI inflation (period average, in percent)	6.7	10.7	8.9	**9.4**	12.1	**7.8**	19.9	10.0	7.7	6.5	6.5
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	420	650	518	**…**	…	**…**	…	…	…	…	…
Exchange rate PRs/US$ (end of period)	160.1	168.1	157.5	**…**	…	**…**	…	…	…	…	…
External sector											
Current account balance (percent of GDP)	-4.2	-1.5	-0.5	**-4.1**	-4.7	**-3.5**	-2.5	-2.5	-2.5	-2.5	-2.6
Net FDI inflows (percent of GDP)	0.5	0.9	0.5	**0.7**	0.7	**0.9**	0.6	0.7	1.1	1.0	1.0
Exports (percentage change of U.S. dollar value; GNFS)	-1.3	-7.4	12.7	**15.6**	22.8	**5.5**	10.9	5.0	5.1	7.9	7.2
Gross international reserves (GIR) in billions of U.S. dollars	7.3	12.2	17.3	**21.2**	9.8	**20.7**	16.2	17.4	19.1	21.3	22.8
GIR in percent of ST debt at remaining maturity (RM) 1/	46.1	75.6	112.0	**99.8**	50.8	**84.2**	65.4	54.6	58.0	65.2	68.2
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 1/	32.0	54.1	78.3	**76.3**	38.6	**66.4**	52.4	44.9	47.6	52.5	54.4
Total gross external debt (ED) in percent of GDP, *of which:*	33.5	37.7	34.9	**40.6**	32.5	**40.1**	37.0	36.2	35.0	32.7	30.2
ST external debt (original maturity, in percent of total ED)	5.3	4.9	4.1	**5.6**	4.9	**6.6**	5.9	5.2	5.1	5.2	5.3
ED of domestic private sector (in percent of total ED)	31.1	29.6	32.0	**34.5**	35.6	**37.6**	36.2	39.1	42.1	43.1	44.9
ED to foreign official sector (in percent of total ED)	68.9	70.4	68.0	**65.5**	64.4	**62.4**	63.8	60.9	57.9	56.9	55.1
Total gross external debt in percent of exports	353.1	404.0	387.8	**355.7**	313.9	**360.4**	316.5	319.6	313.1	292.6	271.2
Gross external financing requirement (in billions of U.S. dollars) 2/	26.6	19.8	14.8	**27.2**	32.8	**30.9**	26.5	27.8	31.5	32.2	33.0
Public sector 3/											
Overall balance (including grants)	-7.8	-7.0	-6.0	**-6.9**	-7.0	**-4.4**	-4.6	-4.0	-3.7	-3.5	-3.7
Primary balance (including grants)	-3.0	-1.5	-1.1	**-1.2**	-2.3	**1.3**	0.2	0.6	0.7	0.7	0.3
Debt-stabilizing primary balance 4/	3.9	0.7	-8.2	**-1.9**	-1.2	**-3.0**	-6.0	-3.7	-0.4	-1.9	-1.2
Gross PS financing requirement 5/	31.9	25.5	19.9	**27.0**	23.3	**23.0**	20.1	17.1	16.5	14.8	14.1
General government and government guaranteed debt (incl. IMF)	82.0	84.5	77.9	**86.7**	78.9	**82.1**	72.1	66.9	65.3	62.4	60.7
General government debt incl. IMF obligations	77.5	79.6	73.6	**82.0**	74.6	**77.7**	68.2	63.4	61.9	59.3	57.7
Net general government debt (incl. IMF) 6/	70.2	72.9	66.0	**75.2**	68.4	**71.7**	63.2	59.0	58.0	55.8	54.5
Financial sector 7/											
Capital adequacy ratio (in percent)	16.1	18.7	18.3	**…**	…	**…**	…	…	…	…	…
Nonperforming loans (NPLs) in percent of total loans	8.8	9.7	8.9	**…**	…	**…**	…	…	…	…	…
Provisions in percent of NPLs	78.4	81.6	88.8	**…**	…	**…**	…	…	…	…	…
Return on assets (after tax, in percent)	0.8	1.1	0.9	**…**	…	**…**	…	…	…	…	…
Return on equity (after tax, in percent)	11.4	14.6	13.3	**…**	…	**…**	…	…	…	…	…
FX deposits held by residents (in percent of total deposits)	8.6	7.3	6.0	**…**	…	**…**	…	…	…	…	…
Government debt held by FS (percent of total FS assets)	69.3	69.6	66.9	**…**	…	**…**	…	…	…	…	…
Credit to private sector (percent change)	11.9	3.0	11.5	**…**	…	**…**	…	…	…	…	…
Memorandum item:											
Nominal GDP (in billions of U.S. dollars)	318.5	299.4	349.7	**…**	…	**…**	…	…	…	…	…

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

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

2/ Current account deficit plus amortization of external debt.

3/ Public sector covers general (consolidated) government.

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

5/ Overall balance plus debt amortization.

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

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

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

Availability Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
July 3, 2019	716	35	Approval of arrangement
December 6, 2019	328	16	First review and end-September 2019 performance/ continuous criteria
March 5, 2021	350	17	Second, Third, Fourth, and Fifth reviews performance/ continuous criteria
September 3, 2021	750	37	Sixth review and end-June 2021 performance/continuous criteria
March 4, 2022	687	34	Seventh review and end-December 2021 performance/ continuous criteria
June 3, 2022	687	34	Eighth review and end-March 2022 performance/ continuous criteria
September 2, 2022	750	37	Ninth review and end-June 2022 performance/ continuous criteria
Total	4,268	210	

Source: IMF staff estimates.

Note: On April 16, 2020 the authorities made a SDR 1,015.5 million purchase (50 percent of quota) under the Rapid Financing Instrument.

Table 9b. Pakistan: Proposed Schedule of Reviews and Purchases After Program Extension As Well As Augmentation and Rescheduling of Access 1/

Availability Date	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
July 3, 2019	716	35.254	Approval of arrangement
December 6, 2019	328	16.150	First review and end-September 2019 performance/ continuous criteria
March 5, 2021	350	17.233	Second, Third, Fourth, and Fifth reviews performance/ continuous criteria
September 3, 2021	750	36.928	Sixth review and end-June 2021 performance/continuous criteria
June 3, 2022	894	44.018	Seventh and Eighth reviews and end-June 2022 performance/ continuous criteria 2/
November 3, 2022	894	44.018	Ninth review and end-September 2022 performance/ continuous criteria
February 3, 2023	528	25.997	Tenth review and end-December 2022 performance/ continuous criteria
May 3, 2023	528	25.997	Eleventh review and end-March 2023 performance/ continuous criteria
Total	4,988	245.593	

Source: IMF staff estimates.

1/ On April 16, 2020 the authorities made a SDR 1,015.5 million purchase (50 percent of quota) under the Rapid Financing Instrument.
2/ As the Board meeting for the Seventh and Eight reviews are scheduled to take place after end-June 2022, the end-June 2022 performance criteria become the controlling performance criteria for these two reviews.

Table 10. Pakistan: Decomposition of Public Debt and Debt Service by Creditor, 2020/21–2022/23 1/

	Debt Stock (end of period)			Debt Service					
	2020/21			2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ million)*			*(Percent GDP)*		
Total	275,760	100	77.9	71,830	80,573	35,115	20.5	21.6	9.6
External	99,116	35.9	28.0	11,578	16,899	15,579	3.3	4.5	4.2
Multilateral creditors[2]	41,726	15.1	11.8	4,057	3,896	3,497	1.2	1.0	1.0
IMF	7,384	2.7	2.1						
World Bank	18,135	6.6	5.1						
ADB/AfDB/IADB	13,423	4.9	3.8						
Other Multilaterals	2,783	1.0	0.8						
o/w: IsDB	1,512	0.5	0.4						
AIIB	835	0.3	0.2						
Bilateral Creditors	37,657	13.7	10.6	3,325	5,227	6,954	1.0	1.4	1.9
Paris Club	10,726	3.9	3.0	10	584	1,175	0.0	0.2	0.3
o/w: Japan	5,427	2.0	1.5						
France	1,725	0.6	0.5						
Non-Paris Club*	26,931	9.8	7.6	3,314	4,643	5,779	0.9	1.2	1.6
o/w: China**	23,084	8.4	6.5						
Saudi Arabia	961	0.3	0.3						
Bonds***	8,615	3.1	2.4	362	1,516	1,460	0.1	0.4	0.4
Commercial creditors	10,287	3.7	2.9	3,834	6,260	3,668	1.1	1.7	1.0
o/w: Chinese commercial banks	6,735	2.4	1.9						
Other	3,552	1.3	1.0						
Other international creditors	831	0.3	0.2						
o/w: NPC/NBP/BOC deposits/PBC****	831	0.3	0.2						
Domestic	176,644	64.1	49.9	60,251	63,674	19,536	17.2	17.0	5.3
T-Bills	42,404	15.4	12.0	34,958	38,925		10.0	10.4	
Held by: local banks	37,975	13.8	10.7						
local non-banks	4,429	1.6	1.3						
Bonds*****	98,108	35.6	27.7	14,755	17,921	15,090	4.2	4.8	4.1
Held by: central bank	42,025	15.2	11.9						
local banks	42,901	15.6	12.1						
local non-banks	13,182	4.8	3.7						
NSS/Other	26,163	9.5	7.4	10,539	6,829	4,446	3.0	1.8	1.2
Held by: local non-banks	26,163	9.5	7.4						
Memo items:									
Collateralized debt[3]	0	0.0	0.0						
Contingent liabilities									
o/w: Public guarantees	15,278	5.5	4.3						
o/w: Other explicit contingent liabilities[4]	n.a.	n.a.	n.a.						
Central bank deposit liabilities	2,700	1.0	0.8						
Central bank bilateral SWAP liabilities	4,650	1.7	1.3						
Nominal GDP	349,670								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Debt service for FY 2021/22 and FY 2022/23 are preliminary estimates.

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

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt.

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

* Includes central bank deposit liabilities from UAE and Kuwait of $2.7bn in total.

** Includes China State Adminstratation of Foreign Exchange (SAFE) deposits of $4bn, and central bank bilateral SWAP liabilities of $4.65bn at June 2021.

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

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

***** Includes Government Ijara Sukuk.

Annex I. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
EXTERNAL				
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	**High**	**Short Term**	**High** • Financial volatility raises risk aversion, causing financing pressures and capital outflows from emerging markets, including Pakistan. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Implement strong policies and strengthen institutions as a foundation of strong and sustainable growth. • Scale up targeted social assistance. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	**High**	**Short Term**	**High** • Higher energy prices could weaken energy sector's financial position, especially if not permitted to pass along price increases, leading to buildup of more arrears. • Higher headline inflation. • Tighter global financial conditions and capital outflows from emerging markets, including Pakistan. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Allow energy prices increases to be passed through to end-users. • Press ahead with reforms of the energy sector. • Scale up targeted social assistance. • Maintain financial stability to weather external shocks. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers. • Allow exchange rate flexibility to absorb external shocks and facilitate adjustment.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
Widespread social discontent and political instability. Social unrest fueled by increasing prices and shortages of essentials, rising inequality, inadequate healthcare, financial and social scars from the prolonged pandemic, and heavier household debt burdens amid rising interest rates trigger political instability, capital outflows, higher unemployment, and slower economic growth.	**High**	**Short to Medium Term**	**High** • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Scale up targeted social assistance. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.
Outbreaks of lethal and highly contagious COVID-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	**Medium**	**Short Term**	**Medium** • Disruptions in supply chains and distribution channels weakening economic activity and raising prices. • Worsening sentiment and lower demand for Pakistan's assets resulting in the deterioration of the stock market, increased funding costs, and/or reduced capital inflows.	• Reallocate resources to health spending to accelerate the vaccination drive and efficiently manage the pandemic. • Provide targeted support to the vulnerable, while maintaining fiscal and debt sustainability. • Maintain market-determined exchange rate, while intervening during disorderly market conditions. • Maintain financial stability.
Abrupt growth slowdown in China. A combination of extended Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	**Medium**	**Short Term**	**Medium** • Disruptions in trade channels leading to lower exports and supply disruptions. • Tighter financial conditions and capital outflows. • Weakening global demand decreases commodity prices.	• Maintain market-determined exchange rate to support competitiveness, while intervening only during disorderly market conditions. • Maintain financial stability. • Preserve fiscal and debt sustainability.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	**Medium (for U.S.)/** **Medium/ Low (for Euro area)**	**Short to Medium Term**	**Medium** • Worsening sentiment and lower demand for Pakistan's assets resulting in increased funding costs or reduced capital inflows. • Stock market deteriorates. • Reduced interest in privatization portfolio.	• Maintain market-determined exchange rate to support competitiveness. • Continue building fiscal and external buffers. • Decisive progress on structural reforms should anchor confidence and improve competitiveness. • Maintain an appropriate medium-term debt strategy. • Maintain financial stability to weather external shocks, tighten supervision to monitor banking risks.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact[1]	Policy Response
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	Medium	**Medium to Long Term**	Medium • Weaker confidence and supply disruptions drag on economic growth. • Higher risk aversion, and higher risk premia leading to financing pressures and capital outflows from vulnerable countries. • Trade disruptions leading to commodity price levels and volatility, hence heightening external imbalances. • Disorderly migration	• Implement strong policies and strengthen institutions as a foundation of strong and sustainable growth. • Maintain market-determined exchange rate to support competitiveness. • Maintain financial stability. • Advance policies and reforms aiming at climate risk mitigation, adaptation, and transition to a low-carbon economy. • Build fiscal and external buffers.
DOMESTIC				
Slippages in policy implementation. Pressures on the government could rise to provide incentives/exemptions to key groups. Political resistance or hesitation to delivering on structural reforms, as well as weak institutional capacity and powerful vested interests, could undermine effective reform implementation and lessen the prospects for durable adjustment and sustainable and inclusive growth.	High	**Short to Medium Term**	High • Weaker fiscal discipline could compromise the quality and durability of fiscal adjustment; expose debt sustainability risks. • Unfinished structural reform agenda would reduce growth prospects, preserve over-reliance on the public sector and large informal economy, and leave unaddressed contingent liabilities. • Subdued economic growth.	• Implement strong policies and strengthen institutions (including anti-corruption agencies) as a foundation of strong and sustainable growth. • Resist pressures to weaken fiscal discipline and preserve fiscal sustainability. • Build external buffers. • Foster more inclusive growth through scaling up targeted social assistance. • Improve external competitiveness and reduce red tape to reduce the costs of doing business.
Deterioration in security conditions. Regional tensions and possible retaliation against ongoing domestic security operations could increase security concerns.	Medium	**Short to Medium Term**	Medium/ High • Eroded confidence and discouraged investment would disrupt economic activity and reduce growth prospects. • Increased military spending/ fiscal burden could strain fiscal sustainability.	• Instill confidence through strong implementation of the economic stabilization program and structural reforms. • Maintain engagement with donors. • Build external buffers. • Preserve fiscal sustainability.
Bottom line assessment: The balance of risks is tilted to the downside.				

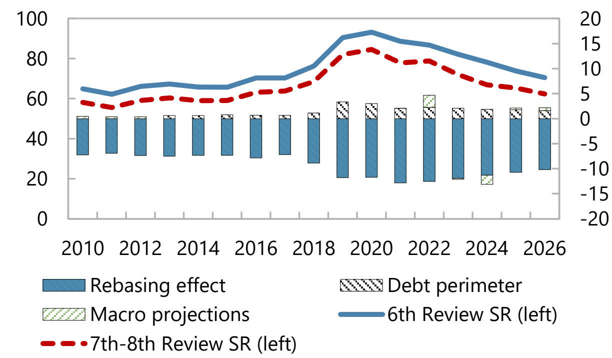
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10–30 percent, and "high" a probability between 30–50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Annex II. Public and External Debt Sustainability Analysis

Pakistan's public debt continues to be judged as sustainable with strong policies and robust growth, but with greater uncertainty, in part because the fiscal relaxation in FY22H2 prevented the debt ratio reduction projected at the time of the sixth review. The debt-to-GDP ratio is now projected to rise from 77.9 percent at end-FY21 to 78.9 percent at end-FY22 before falling to around 60 percent by end-FY27, assuming the adjustment efforts in the context of the EFF program are fully carried out. While gross financing needs (GFN) remain elevated over the near term amid sizeable fiscal deficits and limited progress in lengthening maturities, GFNs are projected to decline over the medium term—reflecting programmed fiscal consolidation and efforts to enhance cash and debt management—reaching 17.2 percent of GDP by FY27. Higher interest rates, a larger-than-expected growth slowdown due to policy tightening, pressures on the exchange rate, renewed policy reversals, slower medium-term growth, and contingent liabilities related to SOEs pose significant risks to debt sustainability.

1. **Sustained fiscal adjustment in line with program commitment and a favorable interest rate-growth differential are projected to put debt ratios back on a clear downward path**. The rebasing of GDP (see Box 1), which raised nominal GDP by 16 percent, would itself lower the end-FY21 debt-to-GDP ratio to 75.8 percent (from 88.6 percent at the time of the sixth review). In the updated debt sustainability assessment, this is partially offset by the inclusion of certain reserve-related liabilities (central bank swaps and deposits by foreign central banks) into the debt perimeter, raising the end-FY21 debt ratio by 2.1 percentage points. On account of fiscal slippages in FY22H2 and the weaker end-FY22 exchange rate, the debt-to-GDP ratio is set to increase by 1 percentage point during FY22, reaching 78.9 percent, notwithstanding stronger growth due to stimulus-fueled domestic demand. Meanwhile, the key drivers of debt dynamics over the projection horizon remain broadly unchanged: negative real rates support the debt ratio reduction in the near term while robust growth and, to a smaller extent, fiscal consolidation aid the adjustment over the medium term. The combined effect of the GDP rebasing, the broader debt perimeter, and revisions to the macro projections lead public debt to decline to 62.4 percent of GDP by end-FY26 (from 70.4 percent at the time of the sixth review) and around 60 percent in by end-FY27.

Debt-to-GDP Trajectory
(Percent of GDP)



Sources: SBP; MoF; IMF staff estimates.

2. **Near-term financing needs remain elevated amid headwinds to the authorities' debt management strategy**. Although the authorities met all indicative targets on long-term issuance by wide margins, efforts to reduce the stock of outstanding T-Bills, supported by the on-lending of the SDR allocation in local currency which provided reprieve to the reliance on short-term instruments, were undone as the fiscal deterioration in FY22 H2 generated enormous borrowing demands. As a

result, GFN are projected to have risen to 23.5 percent of GDP in FY22 (from 19.8 percent in FY21).[1] In addition, domestic bond issuance during FY22 was skewed toward 2- and 3-year instruments such that medium-term refinancing needs will remain high, currently projected to decline toward 17.2 percent in FY27. In addition, two-thirds of long-term issuance during FY22 has been at floating rates tied to the T-Bill rate, implying that the government bears much of the interest rate risk. That said, the resumption of domestic Sukuk issuance and the inverted yield curve are providing potential scope for the lengthening of maturities, albeit at the cost of locking in higher rates for longer. External financing needs rise in FY22 reflecting the large current account deficit and remain elevated over the medium term, largely reflecting rollover of the increased stock of short-term borrowing.

3. **Sustained efforts to lower GFNs are needed, particularly as the authorities navigate the current challenging environment**. The authorities' plans to raise financing periodically in international markets have been impeded by the spike in sovereign spreads following geopolitical and domestic political volatility as well as the rising global interest rates. EMBIG spreads averaged 1,070 bps between April and June and are close to 2,000 bps since mid-July, compared to 630 bps in late-January when the government placed a US$1 billion international 7-year Sukuk in London at an interest rate of 8 percent. Greater urgency to reduce GFN is also warranted as parliamentary approval of the amendments to the SBP Act have removed the legal basis for SBP financing of the government. As such, renewed efforts to lower GFNs over the medium term are key, including through (i) fiscal discipline; (ii) better cash flow management facilitated by a treasury single account; (iii) establishment of a central Debt Management Office; and (iv) a diligent implementation of the Medium-Term Debt Strategy and, in particular, through a credible commitment to longer-term issuance.

4. **Macro-fiscal shocks continue to pose a risk in the medium term, despite an improvement in the debt profile** (see heatmap below). The most extreme and persistent shock to medium-term debt dynamics would emanate from a large and sustained real interest rate shock. Under this stress test, debt levels would revert only to around 70 percent of GDP (10 percentage points over baseline) by FY27 while GFN would hover around 22 percent of GDP.

5. **Contingent liabilities from loss-making SOEs—to the extent not covered by government guarantees—continue to represent additional risks to debt sustainability**. In FY22 the authorities recognized contingent liabilities in the context of circular debt worth PRs 434 billion (0.6 percent of GDP).[2] Remaining contingent liabilities from circular debt (amounting to 2.2 percent of GDP) as well as contingent liabilities from other loss-making SOEs (assumed to be in the range of 5–6 percent of GDP) and/or from the financial sector are accounted for by a stress test to debt dynamics consisting of a contingent liability shock, illustrated in the graphs below. The EFF program aims to continue strengthening transparency related to contingent liabilities from loss-making SOEs.

[1] Like the debt-to-GDP trajectory, GFNs as a percentage of GDP are also lowered mechanically by the GDP rebasing.

[2] This corresponds to a repayment from the budget of the non-guaranteed CPPA payables. In addition, the government paid PRs 130 billion in debt service on the already guaranteed PHPL payables.

In early 2022, new investments through the China-Pakistan Economic Corridor (CPEC), originally established in 2013, were announced. Although infrastructure in these second-phase investments could raise growth prospects, attendant contingent liabilities also pose a risk to debt sustainability.

6. The authorities continue engaging external creditors to secure financing to meet the program debt sustainability objectives. In late-2021 the authorities secured a US$3 billion loan from Saudi Arabia that relieved financing pressures and a deferred oil financing facility (US$1.2 billion) that became operational in FY22Q3. China has maintained its exposure by renewing (and augmenting) the US$4.5 billion swap agreement (US$3 billion at the time of EFF approval), as well as by renewing maturing commercial loans, though some at shorter maturity and with delays in the roll-over process creating uncertainty in the marketplace. Moreover, the deposits through China's State Administration of Foreign Exchange stand at US$4 billion. Nonetheless, near-term financing risks remain elevated, reflecting the large size of public sector amortization needs. To ensure that external financing needs are covered the authorities are seeking additional financial support from their traditional bilateral partners.

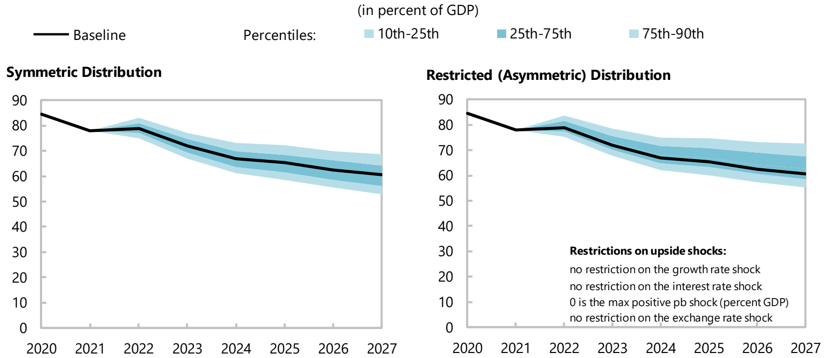
Figure 1. Pakistan: Public DSA – Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

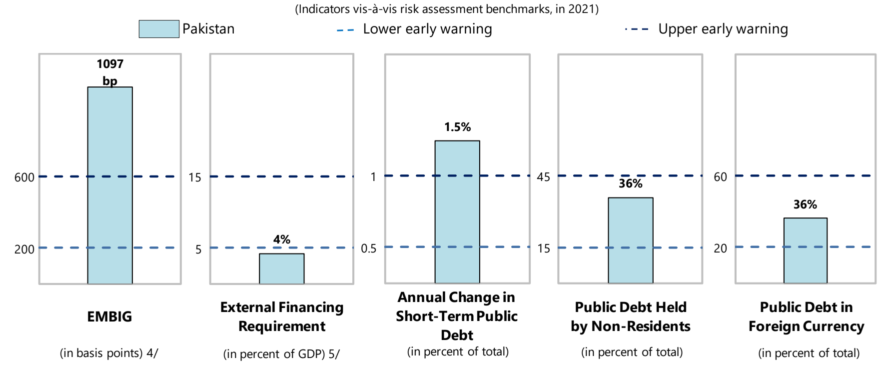
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

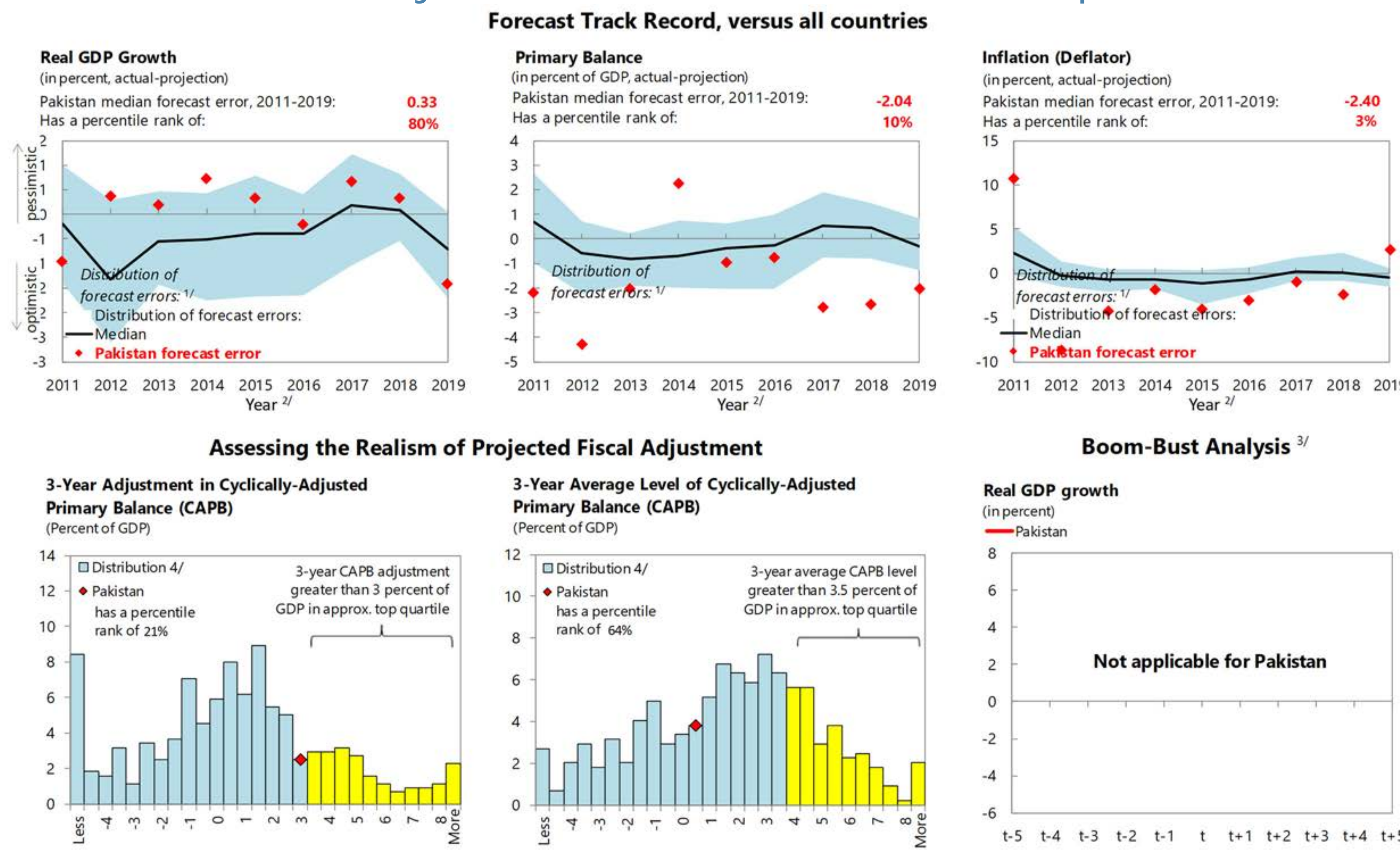
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 09-Apr-22 through 08-Jul-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Pakistan: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Pakistan, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Pakistan: Public DSA – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

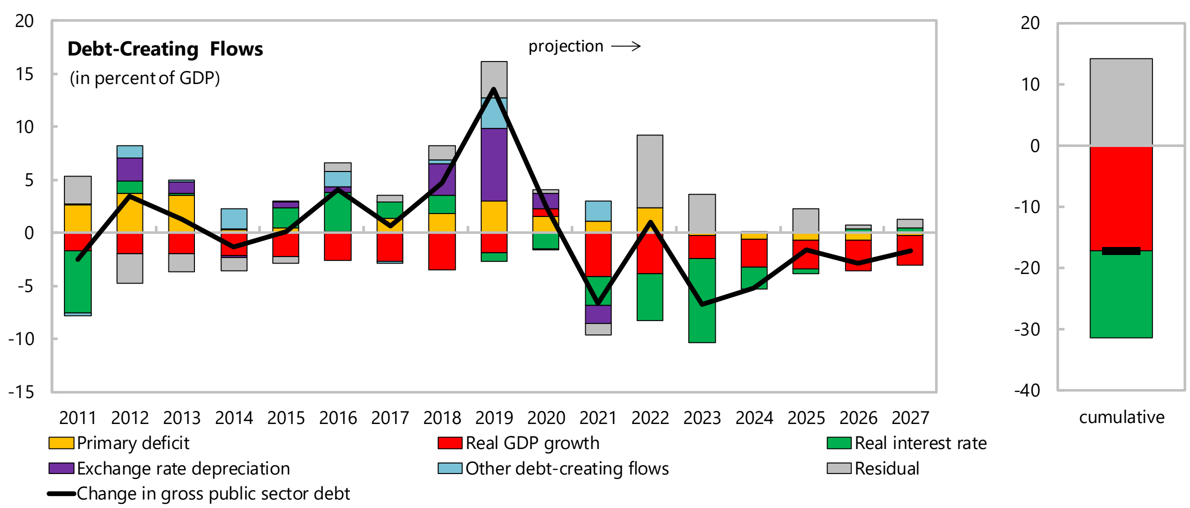
Debt, Economic and Market Indicators [1/]

	Actual			Projections						
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	63.4	84.5	77.9	78.9	72.1	66.9	65.3	62.4	60.7
Of which: guarantees	2.8	4.9	4.3	3.6	2.9	2.5	2.2	2.0	1.8
Public gross financing needs	26.5	25.4	19.8	23.5	21.4	18.1	19.6	17.5	17.2
Real GDP growth (in percent)	4.2	-0.9	5.7	6.0	3.5	4.2	4.6	5.0	5.0
Inflation (GDP deflator, in percent)	6.8	9.9	10.3	13.3	19.9	10.0	7.7	6.5	6.5
Nominal GDP growth (in percent)	11.4	8.5	17.4	20.0	25.1	14.9	11.3	11.8	11.8
Effective interest rate (in percent) [4/]	7.8	8.1	7.5	7.5	8.4	7.3	7.4	7.6	7.8

As of July 08, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		1374
5Y CDS (bp)		1588
Ratings	Foreign	Local
Moody's	B3	n.a.
S&Ps	B-	n.a.
Fitch	B-	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.7	2.5	-6.6	1.0	-6.8	-5.2	-1.6	-2.9	-1.7	-17.2	
Identified debt-creating flows	2.4	2.1	-5.6	-5.9	-10.4	-5.3	-3.9	-3.2	-2.6	-31.3	
Primary deficit	1.9	1.5	1.1	2.3	-0.2	-0.6	-0.7	-0.7	-0.3	-0.1	-2.3
Primary (noninterest) revenue and grants	12.6	13.3	12.4	12.1	12.4	12.8	12.9	12.9	12.8	75.9	
Primary (noninterest) expenditure	14.5	14.8	13.5	14.5	12.2	12.2	12.2	12.2	12.5	75.9	
Automatic debt dynamics [5/]	-0.3	0.6	-8.6	-8.3	-10.2	-4.7	-3.2	-2.6	-2.3	-31.3	
Interest rate/growth differential [6/]	-1.9	-0.9	-6.8	-8.3	-10.2	-4.7	-3.2	-2.6	-2.3	-31.3	
Of which: real interest rate	0.4	-1.6	-2.7	-4.4	-7.9	-2.1	-0.5	0.4	0.4	-14.1	
Of which: real GDP growth	-2.3	0.7	-4.2	-3.9	-2.2	-2.6	-2.7	-2.9	-2.8	-17.2	
Exchange rate depreciation [7/]	1.6	1.5	-1.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.8	-0.1	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.3	0.4	-1.0	6.9	3.6	0.1	2.3	0.4	0.9	14.1	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as guarantees to PSEs.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

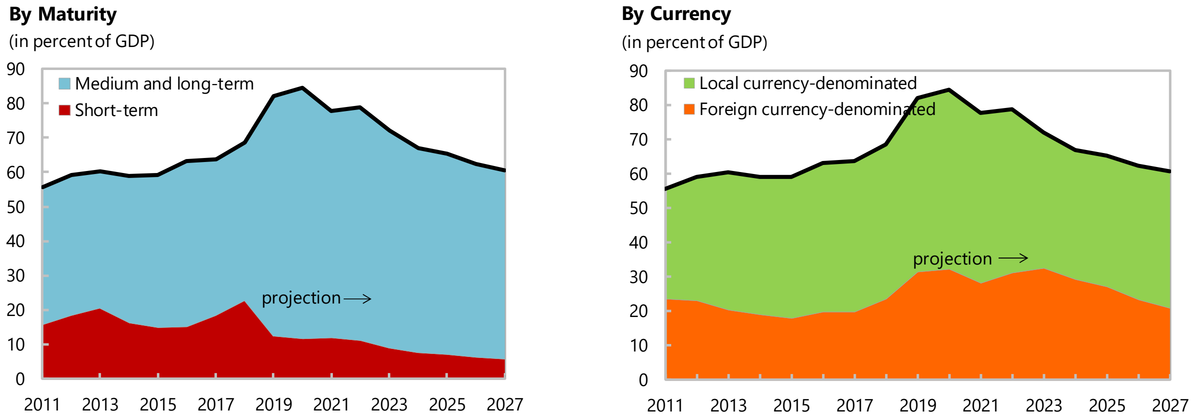
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

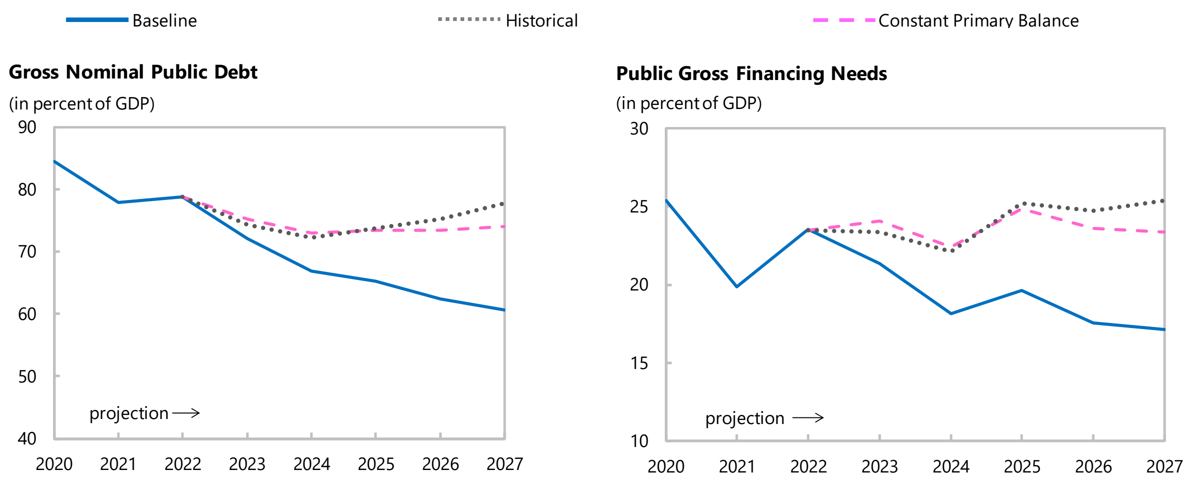
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Pakistan: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

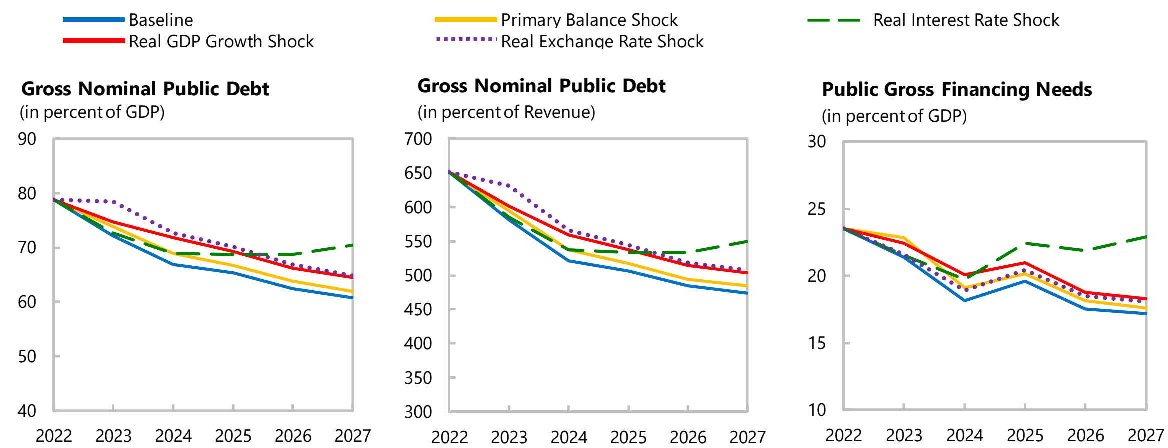
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	6.0	3.5	4.2	4.6	5.0	5.0
Inflation	13.3	19.9	10.0	7.7	6.5	6.5
Primary Balance	-2.3	0.2	0.6	0.7	0.7	0.3
Effective interest rate	7.5	8.4	7.3	7.4	7.6	7.8
Constant Primary Balance Scenario						
Real GDP growth	6.0	3.5	4.2	4.6	5.0	5.0
Inflation	13.3	19.9	10.0	7.7	6.5	6.5
Primary Balance	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Effective interest rate	7.5	8.1	7.2	7.4	7.6	7.7

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	6.0	3.9	3.9	3.9	3.9	3.9
Inflation	13.3	19.9	10.0	7.7	6.5	6.5
Primary Balance	-2.3	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	7.5	8.1	8.3	9.1	9.9	10.4

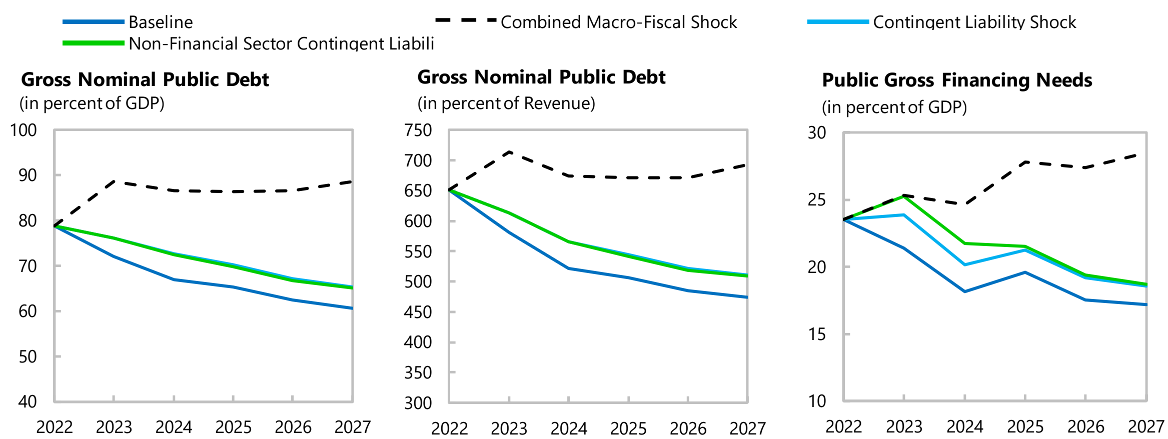
Source: IMF staff.

Figure 5. Pakistan: Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	6.0	3.5	4.2	4.6	5.0	5.0
Inflation	13.3	19.9	10.0	7.7	6.5	6.5
Primary balance	-2.3	-1.1	0.4	0.6	0.7	0.3
Effective interest rate	7.5	8.1	7.3	7.3	7.5	7.7
Real Interest Rate Shock						
Real GDP growth	6.0	3.5	4.2	4.6	5.0	5.0
Inflation	13.3	19.9	10.0	7.7	6.5	6.5
Primary balance	-2.3	0.2	0.6	0.7	0.7	0.3
Effective interest rate	7.5	8.1	9.5	11.0	12.7	13.6
Combined Shock						
Real GDP growth	6.0	1.6	2.3	4.6	5.0	5.0
Inflation	13.3	19.5	9.6	7.7	6.5	6.5
Primary balance	-2.3	-1.1	-0.1	0.6	0.7	0.3
Effective interest rate	7.5	8.7	8.9	10.6	12.3	13.3

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	6.0	1.6	2.3	4.6	5.0	5.0
Inflation	13.3	19.5	9.6	7.7	6.5	6.5
Primary balance	-2.3	-0.2	-0.1	0.7	0.7	0.3
Effective interest rate	7.5	8.1	7.2	7.3	7.5	7.7
Real Exchange Rate Shock						
Real GDP growth	6.0	3.5	4.2	4.6	5.0	5.0
Inflation	13.3	30.5	10.0	7.7	6.5	6.5
Primary balance	-2.3	0.2	0.6	0.7	0.7	0.3
Effective interest rate	7.5	8.7	6.7	6.8	7.1	7.3
Contingent Liability Shock						
Real GDP growth	6.0	1.6	2.3	4.6	5.0	5.0
Inflation	13.3	19.5	9.6	7.7	6.5	6.5
Primary balance	-2.3	-1.2	0.6	0.7	0.7	0.3
Effective interest rate	7.5	8.8	7.3	7.4	7.6	7.7

Source: IMF staff.

Table 1. Pakistan: External Debt Sustainability Framework, 2017–27
(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021	10-Year Historical Average	10-Year Standard Deviation	2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**24.8**	**27.1**	**33.5**	**37.7**	**34.9**			**32.5**	**37.0**	**36.2**	**35.0**	**32.7**	**30.2**	**-2.1**
Change in external debt	1.1	2.3	6.4	4.2	-2.8			-2.4	4.5	-0.8	-1.2	-2.3	-2.6	
Identified external debt-creating flows (4+8+9)	1.1	3.6	6.8	2.7	-5.4			2.0	0.8	0.4	0.0	0.0	0.1	
Current account deficit, excluding interest payments	2.9	4.6	3.1	0.2	-0.2			3.7	1.5	1.4	1.4	1.4	1.4	
Deficit in balance of goods and services	9.0	10.5	10.2	8.2	8.6			11.7	9.9	10.4	10.0	9.9	10.0	
Exports	8.2	8.6	9.5	9.3	9.0			10.4	11.7	11.3	11.2	11.2	11.1	
Imports	17.3	19.2	19.7	17.5	17.6			22.1	21.6	21.7	21.2	21.1	21.1	
Net non-debt creating capital inflows (negative)	-0.7	-0.8	-0.5	-0.9	-0.5			-0.7	-0.6	-0.7	-0.9	-0.9	-0.9	
Automatic debt dynamics 1/	-1.1	-0.2	4.2	3.4	-4.6			-1.0	-0.1	-0.4	-0.5	-0.5	-0.4	
Contribution from nominal interest rate	0.7	0.9	1.1	1.3	0.8			1.0	1.1	1.1	1.1	1.1	1.1	
Contribution from real GDP growth	-1.0	-1.4	-0.9	0.3	-1.9			-2.0	-1.2	-1.4	-1.6	-1.6	-1.5	
Contribution from price and exchange rate changes 2/	-0.8	0.4	4.0	1.8	-3.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.0	-1.2	-0.5	1.5	2.6			-4.5	3.7	-1.2	-1.2	-2.2	-2.6	
External debt-to-exports ratio (in percent)	301.3	314.3	353.1	404.0	387.8			313.9	316.5	319.6	313.1	292.6	271.2	
Gross external financing need (in billions of US dollars) 4/	**22.0**	**28.5**	**26.6**	**19.8**	**14.8**			**34.3**	**30.8**	**36.6**	**35.7**	**38.4**	**39.1**	
in percent of GDP	6.5	8.0	8.3	6.6	4.2			9.2	8.4	9.2	8.4	8.4	7.9	
Scenario with key variables at their historical averages 5/								**32.5**	**34.9**	**35.6**	**35.5**	**34.6**	**33.1**	**-0.9**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.6	6.1	3.1	-0.9	5.7	3.9	1.9	6.0	3.5	4.2	4.6	5.0	5.0	
GDP deflator in US dollars (change in percent)	3.6	-1.5	-12.9	-5.1	10.4	0.2	6.4	0.8	-5.0	4.1	1.8	2.7	2.7	
Nominal external interest rate (in percent)	3.3	3.6	3.8	3.6	2.4	3.0	0.6	2.9	3.2	3.1	3.2	3.3	3.6	
Growth of exports (US dollar terms, in percent)	1.8	9.7	-1.3	-7.4	12.7	0.3	7.1	22.8	10.9	5.0	5.1	7.9	7.2	
Growth of imports (US dollar terms, in percent)	16.9	16.0	-7.6	-16.6	17.7	4.1	11.4	33.9	-3.9	8.9	4.1	7.3	7.7	
Current account balance, excluding interest payments	-2.9	-4.6	-3.1	-0.2	0.2	-1.4	1.6	-3.7	-1.5	-1.4	-1.4	-1.4	-1.4	
Net non-debt creating capital inflows	0.7	0.8	0.5	0.9	0.5	0.6	0.2	0.7	0.6	0.7	0.9	0.9	0.9	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

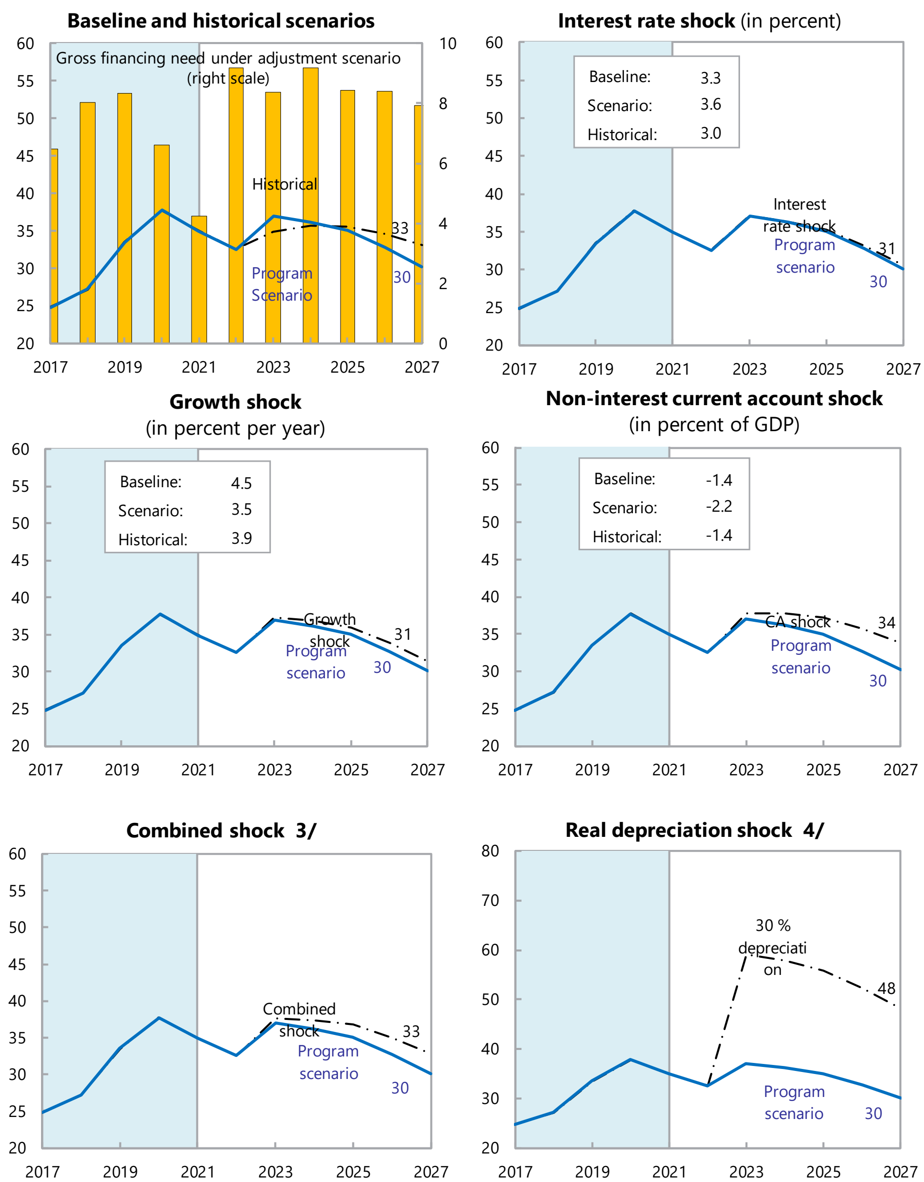
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Pakistan: External Debt Sustainability: Bound Tests 1/ 2/

(Percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in first projection year.

Annex III. Agenda for Technical Assistance

(IMF FYs 2019/20–2022/23)

	Receiving Agency 1/	Status 2/
Fiscal Affairs Department (FAD)		
• Medium-term tax policy, including e.g., on general sales tax (GST) harmonization, corporate income tax (CIT) simplification, and tax policy diagnostics	FBR/MOF	ongoing since FY20
• Public financial management, including cash management and treasury functions, fiscal risks, and PFM law	MOF	ongoing since FY20
• Revenue administration, including on tax administration diagnostics, compliance risk management, and reform of the inland revenue service	FBR	ongoing since FY20
• Sustainable development goals (SDG) costing	MOF	delivered FY20
Legal Department (LEG)		
• State-owned enterprise law	MOF	delivered FY21
• State-owned enterprise governance	MOF	delivered FY20
• Anti-money laundering and combating the financing of terrorism (AML/CFT), incl. e.g., on supervision and legislative drafting	SBP/MOF/MOI	ongoing since FY20
• Bank resolution framework (jointly with MCM)	SBP	partly delivered FY22, more upcoming
• Central bank law reform	SBP	delivered FY20
Monetary and Capital Markets Department (MCM)		
• Debt management	MOF	delivered FY20
• Banking resolution framework (jointly with LEG)	SBP	partly delivered FY22, more upcoming
• Cyber risks	SBP	delivered FY20

1/ Ministry of Finance (MOF), Ministry of Interior (MOI), Federal Board of Revenue (FBR), State Bank of Pakistan (SBP), and Pakistan Bureau of Statistics (PBS).
2/ Technical assistance may be delivered in multiple missions and/or continuously over a longer time period, including remotely.

Appendix I. Letter of Intent

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

Islamabad, August 16, 2022

Dear Ms. Georgieva:

1. In the attached update to our previous Memorandum of Economic and Financial Policies (MEFP) we confirm our commitment to the policies and objectives of our economic program supported by the IMF Extended Arrangement under the Extended Fund Facility (EFF). We also describe our progress and commitment to further policy steps toward meeting these objectives.

2. We continue to face a challenging economic and political environment. While navigating the COVID-19 pandemic well, the war in Ukraine has created uncertainty by exacerbating higher international commodity price increases and adverse external financing conditions. This has already resulted in higher inflation, elevated spreads, and wider current account deficit. At the same time, our government changed: Mian Muhammad Shehbaz Sharif (Pakistan Muslim League-Nawaz) became prime minister (PM) of a coalition government with the Pakistan Peoples Party and others on April 11 after a successful April 10 no-confidence motion against former PM Imran Khan.

3. To cushion our economy and citizens from these shocks, the previous government granted a 4-months relief package in February (including broad-based subsidies, fuel tax cuts, new tax exemptions and a tax amnesty). With elements of this package remaining in place into June 2022 amid already high inflation, we recognize that these actions are not conducive to maintaining a sustainable macroeconomic environment and also run against some of Pakistan's previous commitments under its IMF-supported program. We continue to strive to restore macroeconomic and external sustainability and, as such—beyond the policies outlined in ¶¶4–5 below and our MEFP—have implemented the following four prior actions (PA) for this review:

a. *FY23 budget.* Parliament approved the FY23 budget, including a personal income tax (PIT) reform and in line with IMF staff agreement to meet program targets on June 29, 2022, which the President signed into law on June 30, 2022 to take effect on July 1, 2022. The Ministry of Finance also published a Statement of Contingent Liabilities with all guarantees expected to be issued during FY23 on June 10, 2022, which—together with the budget bill—was laid before the National Assembly on June 10, 2022 and approved on June 29, 2022.

b. *Provincial budgets.* The federal government signed Memoranda of Understanding (MoUs) with all four provincial governments on provincial fiscal targets consistent with the FY23 budget on July 29, 2022.

c. *Reversal of the February relief package*. The government (i) eliminated post-tax fuel subsidies on June 16, 2022 and the PRs 5/kwh blanket power subsidy from June 1, 2022; (ii) increased the petroleum development levy (PDL) on petrol by PRs 10/liter and on diesel by PRs 5/liter both on July 1, 2022 and on August 1, 2022; and (iii) committed through the Finance Minister's approval on August 2, 2022 to implement monthly PDL increases of PRs 10/liter for petrol and PRs 5/liter for diesel on September 1, 2022, followed by increases of PRs 5/liter per month for both fuels until the PDL reaches PRs 50/liter in January 2023 (petrol) and April 2023 (diesel).

d. *Catch-up in power tariffs*. The government notified: (i) on July 5, 2022, the full subsidy reform markup (PRs 0.20/kwh) to take effect from July 5, 2022; and (ii) on July 25, 2022, a three-stage increase related to the combined FYs22-23 annual rebasing (AR), with the first stage (PRs 3.50/kwh) to take effect on July 25, 2022; second stage (PRs 3.50/kwh) on August 1, 2022; and third stage on October 1, 2022 (PRs 0.91/kwh).

4. Against this difficult backdrop our program performance has suffered.

a. *Quantitative targets*. At end-June 2022, we:

- Met six of the eight *quantitative performance criteria (QPCs)*. Concretely, we met the QPC on: the (1) ceiling on net domestic assets (NDA) of the SBP, (2 ceiling on the SBP's stock of net foreign currency swaps/forward position, (3) ceiling on net government budgetary borrowing from the SBP, (4) ceiling on the amount of government guarantees, and (5–6) continuous PCs on both zero new flow of SBP credit to the government and zero external public payment arrears. We, however, missed the two QPCs on the: (1) floor on net international reserves (NIR) as we lost reserves in a difficult external environment; and (2) ceiling on the primary budget deficit due to the costly relief package introduced by the previous government (most notably fuel and electricity subsidies as well as fuel taxation) and spending pressures (mainly from the energy sector which were not sufficiently budgeted for). These two QPCs were already missed at end-March 2022 for the same reasons.

- Missed three *continuous performance criteria (PCs)* on the: (1) non-intensification of exchange restrictions and the non-modification of multiple currency practices (MCP) as we extended the set of items subject to cash margin requirement on April 7, 2022; (2) non-imposition of import restrictions for balance of payment purposes as we imposed an import ban on luxury and nonessential items on May 19, 2022; and (3) non-imposition of exchange restrictions as we imposed a requirement for prior approval of initiating payments for imports of certain goods on May 20, 2022.

- Met two of the six *indicative targets (ITs)*. We met the ITs on (1) the floor on the net tax revenue collection with a small margin (mainly thanks to import-related taxes compensating for the loss of fuel-related taxes); and (2) the floor on the gross issuance of longer-term debt instruments. At the same time, we missed, some by a large margin, the four ITs on the: (1) floor on targeted cash transfers spending (BISP) mainly because of a slower-than-envisaged enrollment into the unconditional cash transfer (UCT) program

Kafalat and an earlier-than-programmed phasing-out of the emergency cash transfer program on account of an improved COVID-19 trajectory; (2) floor on health and education spending due to less expenditure on both COVID-19 vaccine procurement in FY22 Q3 and education due to the implementation of COVID restrictions; (3) ceiling on the net accumulation of tax refund arrears due to administrative delays; and (4) ceiling on power sector payment arrears mainly due to delayed tariff adjustments and higher-than-expected generation and financial costs. All of these ITs were missed for the same reasons at end-March 2022 already.

b. *Structural reform agenda.* At the same time, we completed three of the ten structural benchmarks (SBs) due for this review to reinforce our structural reform agenda: (1) parliamentary adoption of the OGRA Act Amendments for the gas sector (in time); (2) issuance of regulation to require the collection for publication of beneficial ownership information from companies with large procurement contracts by the Public Procurement Regulatory Authority (PPRA) (with delay in mid-May 2022); and (3) adoption of measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force (FATF) list of jurisdictions with serious deficiencies (with delay in June 2022). Amongst the missed SBs are the two continuous ones on the commitment to not grant further tax amnesties and to avoid the practice of issuing new preferential tax treatments or exemptions with the previous government's February 2022 relief package, although these breaches have since been allowed to lapse in line with the planned sunset clauses built into their design. We also missed the SB on parliamentary adoption of the new state-owned enterprise (SOE) law and that on the preparation of a full PIT reform in line with Fund advice. While our current PIT redraft included in the FY23 budget achieves some simplification by reducing the number of slabs, its modest increase in revenue is below the revenue yield of 0.3 percent of GDP anticipated in our MEFP for the sixth review, dated December 17, 2021. However, to avoid increasing pressure on salaried taxpayers in light of the current inflationary pressures, we decided to limit the impact of changes to the PIT.

5. On the basis of the strong actions we have already taken and our commitments for the period ahead, we request approval by the IMF Executive Board of:

a. *retention of*: the exchange restrictions, and MCP that we maintain temporarily due to BOP difficulties and that are inconsistent with our obligations under Article VIII Sections 2 (a) and 3 of the Fund's Articles of Agreement for a period of twelve months.

b. *several program-related issues*: (1) waivers of nonobservance for the (i) two missed end-June 2022 PCs on the floor on NIR of the SBP, ceiling on the general government primary budget deficit; and (ii) three missed continuous PCs on the non-imposition and non-intensification of exchange restrictions, the non-modification of MCPs, and the non-imposition of import restrictions for balance of payments purposes; (2) completion of the combined seventh and eighth review as well as the related purchase in the amount of SDR 894 million. To facilitate the implementation of our reform program, meet the higher financing needs in FY23, and catalyze additional financing, we additionally request: (1) an extension of the EFF until end-June 2023 (with new quarterly PCs that reflect macroeconomic developments and a reset

as well as new structural benchmarks); and (2) an augmentation of access by SDR 720 million (around 36 percent of quota), bringing total access to 245.6 percent of quota.

6. The program will continue to be monitored through quarterly reviews, prior actions (PAs), quantitative performance criteria (QPCs), indicative targets (ITs), and structural benchmarks (SBs) as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

7. We believe that the policies set forth in the attached MEFP are adequate for the successful implementation of our program, but we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. We will supply the Fund with timely and accurate data that are needed for program monitoring. Reaffirming our commitment to our policy of transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/s/	/s/
Miftah Ismail	Dr. Murtaza Syed
Minister of Finance and Revenue	Acting Governor of the State Bank of Pakistan

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

Attachment I. Memorandum of Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. Pakistan's economy continued its strong rebound from the pandemic with provisional estimates showing real GDP growth of 6 percent in FY22. Similar to FY21 (for which growth was revised up to 5.7 percent), the expansion in FY22 was supported by double-digit growth in manufacturing, a strong service sector, and most of the crops showing record production.[1] Reflecting these substantial gains and the rebasing of the GDP, per capita GDP has expanded by above 20 percent in US$ terms over the last two years.

2. Alongside the fast-paced expansion, signs of overheating have become apparent across the economy. Private credit growth has picked up sharply during FY22, reaching 21 percent y-o-y in June 2022 amid strong demand for business credit. On the external front, while exports have grown by 27 percent in FY22, they were significantly outpaced by imports—of which a sizable part is due to global price developments—and the overall current account deficit has widened. Despite administrative measures being taken to offset the pickup in inflation, such as temporary gasoline tax cuts in March, persistent commodity price dynamics have created considerable price pressures.

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

- ***Real GDP*** is expected to moderate to around 3½ percent in FY23 on account of the tightening of fiscal and monetary policies, and the necessary external adjustment. Prudent management of domestic demand in the face of international commodity price shocks will improve market confidence and foster stronger investment over the medium term. This will allow growth to rise gradually to 5 percent, supported by a vibrant export sector.

- ***Headline CPI inflation*** is projected to peak in FY23 Q1 before declining gradually, reaching 18-20 percent in FY23. While the removal of energy subsidies and the restoration of fuel taxes will temporarily boost headline inflation, the adjustment to appropriate macroeconomic policy settings will help keep inflation expectations anchored and thus keep in check core inflation, currently above 10 percent y-o-y. Inflation is projected to decline significantly in FY24, falling to the 5–7 percent target range by end-FY24, supported by fiscal consolidation, moderating growth, normalization of global commodity prices, and beneficial base effects.

- ***The current account deficit*** widened to around 4.5 percent of GDP in FY22, and expected to decline to around 3 percent in FY23, and settle at about 2 to 3 percent of GDP in the medium term as envisaged policies help moderate the current account deficit to more sustainable levels. Nonetheless, reserve cover, while improving, is expected to remain low; and external financing will continue to rely mostly on official and multilateral creditors, supplemented by external

[1] In January 2022, the PBS published rebased annual GDP estimates updating the base year to 2015/16 (from 2005/06 previously) and reflecting an expanded coverage.

commercial bank loans as well as the issuance of Eurobonds and international Shariah-compliant Sukuks as market conditions allow.

4. Very high risks to the baseline persist. We recognize that delays in implementing crucial policy and structural reforms (particularly in the area of tax reform and the energy sector) may compromise the durability of the fiscal adjustment, which in turn could jeopardize debt and external sustainability. Furthermore, geopolitical tensions (especially related to the war in Ukraine and Afghanistan) could cause more economic and political disruptions, disorderly migration, worsen security conditions, as well as generate higher volatility in basic food prices (if supply is disrupted), exacerbate external imbalances due to higher commodity prices, as well as increase depreciation pressure on the exchange rate. These tensions could also cause an adverse shift in investor sentiment and affect external financing channels. At the same time, monetary tapering and interest rate increases by advanced economies' central banks could lead to capital outflows and additional pressure on the exchange rate. Moreover, with continuing COVID-19 risks and climate change, we remain vulnerable to further pandemic waves and more climate-related disasters.

B. Economic Program

Fiscal Policy

5. In the first half of FY22, budget implementation was in line with program targets. Buoyed by robust imports, revenue was strong following a surge of 59 percent y-o-y in import-related taxes, and the end-December 2021 indicative target on tax revenue was met by a good margin. Together with prudent spending at the federal and provincial levels, this led the general government to register a primary surplus (excluding grants) of 0.1 percent of GDP. However, by the third quarter of FY22, the adjusted primary balance started falling behind the quarterly program targets.

6. The favorable fiscal position was reversed in FY22 Q3, as new policy announcements undermined our commitment to achieving the full-year FY22 fiscal targets. Spending up to end-February 2022 increased by 24 percent y-o-y, mostly due to higher subsidies. A series of new expenditures, (including a wage increase and new energy sector subsidies), and measures from a new 4-months relief package (including electricity, fuel and food subsidies) to shield consumers from inflation sharply accelerated spending by an additional PRs 150 billion (0.2 percent of GDP). Although FBR tax revenue continued to grow strongly (at 30 percent y-o-y) reflecting strong import growth, the decision to reduce both the general sales tax (GST) on fuel and the petroleum development levy (PDL) to zero—coupled with the decision to retain this measure and significant unplanned expenditures—put the deficit target for end-FY22 at risk of being exceeded by a wide margin while also increasing financing pressures. At the same time, the decision to introduce a new tax amnesty through the February Promotion Package for Industry (**continuous SB**) and preferential tax treatments (**continuous SB**) for investment in the industrial sector and for IT companies and freelancers through the use of an ordinance also went against our program commitments.

7. The fiscal target for FY22 will be missed by a significant margin, as the space accumulated early in the fiscal year was not enough to close the very substantial gap that emerged between targets and execution. By the start of FY22 Q3, the cumulative quarterly underlying primary position was a balance, compared to the programmed surplus of 0.6 percent of GDP. The impact of the war in Ukraine and delays in reversing the costly fiscal support package launched in February, failure to take offsetting measures, together with a weakening of revenue performance (other than those linked to imports) and high energy subsidies throughout the year, as the government did not raise power or gas tariffs more than a year, undermined fiscal performance. New spending commitments worth PRs 90 billion in FY22 alone (some of the items, such as the further increase to wages and pensions, will carry on to FY23) were made following the change of government (to mitigate the impact of the surge in inflation), and additional power sector arrears clearance (PRs 123 billion, ¶22.c) added to pressures.

8. Despite these difficulties, we remain committed to the program and have taken some actions to pare down expenditure where possible in order to reduce the size of the fiscal slippage in FY22. These actions have allowed us to limit the underlying primary deficit to 1.6 percent of GDP in FY22 (compared to a program target of 0 percent of GDP), mainly by:

a. ***Reversing the February relief package*** (**PA for completing this review**). We removed all post-tax fuel subsidies and the PRs 5/kwh blanket power subsidy in June 2022 but decided on reinstating fuel taxation only in a gradual way during FY23 (¶9.a) in an effort to contain inflationary pressures.

b. ***Curtailing public investment*** by locking in savings of PRs 150 billion arising from a slower-than-programmed execution of the federal PSDP budget and PRs 384 billion in further savings from lower-priority projects in the provincial PSDP budgets.

9. We will use the FY23 budget to return to fiscal sustainability. We will target an underlying primary surplus of 0.4 percent of GDP, facilitated by a set of revenue and spending measures:

a. ***Tax policy***.

- *Implementing the personal income taxation (PIT) reform*. The budget law includes a part of the long-discussed reform of the PIT law that will simplify the PIT and increase total PIT receipts by PRs 33 billion (0.04 percent of GDP). This simplification is achieved by reducing the number of rates and income tax brackets (slabs) in a way that increases the progressivity of this tax, and by removing exemptions to rationalize the taxation of pensions.
- *Raising fuel levy rates and crude oil customs duties*. We have (**PA for completing this review**): (1) increased the PDL on petrol by PRs 10/liter and on diesel by PRs 5/liter, both on July 1 and August 1, 2022; and (2) committed through the Finance Minister's approval on August 2, 2022 to implement the same monthly PDL increase of PRs 10/liter for petrol and PRs 5/liter for diesel on September 1, 2022, followed by increases of PRs5/liter every

month for both fuels from October 1 until the PDL level reaches PRs 50/liter on January 1, 2023 for petrol and on April 1, 2023 for diesel. The PDL will then remain at PRs 50/liter for both until the end of FY23, resulting in average PDL rates for petrol and diesel of PRs 40/liter and PRs 32/liter for petrol and diesel, respectively, over FY23; and (2) an increase in customs duty and additional customs duty on crude oil from the current 2.5 percent to 5 percent in the budget, with a commitment not to reduce this rate below 5 percent during FY23.

- *Bolstering revenue through an assortment of 17 measures.* These will add PRs 608 billion in additional revenue, with the most notable being: (1) a Federal Excise Duty increase of PRs 1/stick on Tier I and Tier II cigarettes (up to PRs 50 billion); (2) Customs duty increases on various products (PRs 59 billion), including an increase from 2.5 to 5 percent for crude oil; (3) direct taxes on high incomes (PRs 256 billion), including most notably a super tax of between 1 and 4 percent for individuals earning over PRs 150 million, (PRs 120 billion) and of 10 percent on high earnings from certain sectors (PRs 80 billion); (4) five different direct taxes on immoveable property targeting deemed income and capital gains (PRs118 billion).
- *Lining up contingency measures.* If monthly revenue data show signs of underperforming against the Q1 FY23 and subsequent targets, we will take immediate action to raise additional revenue, as necessary, through: (1) immediately setting the GST on fuel products to a rate sufficient to raise the necessary revenue up to the standard rate of 17 percent; (2) further streamlining GST exemptions including on sugary drinks (PRs 60 billion), and other unwarranted exemptions such as those benefitting exporters; and/or (3) increasing Federal Excise Duty on Tier I and Tier II cigarettes by at least PRs 2/stick with immediate effect to raise at least another PRs 120 billion in revenue.
- *Other.* We fully and unequivocally recommit to not launch any future tax amnesties or grant any further tax exemptions/concessions through Statutory Regulatory Orders (SROs) without prior National Assembly approval. Additionally, we continue to work towards the harmonization of the services sales tax across provincial jurisdictions, with support from the World Bank.

b. Expenditures.

- *Limiting spending.* We cap spending at 16.9 percent of GDP to help correct the fiscal path. We also budget a contingency of 0.25 percent of GDP to hedge against shocks and approve a number of austerity measures to contain Civil Government costs, including bans on purchases of furniture and vehicles (except for development projects, and protecting health and education), and measures to cut avoidable travel and reduce the consumption of utilities by 10 percent. On subsidies, we will abide by the principle that commodity support prices will not exceed international prices.
- *Ensuring cost-recovering fuel prices*. We remain committed to continue to fully pass-through international oil price movements to consumers to contain fiscal spending and risks. To this end, we will follow a two-step approach. First, we will increase the PDL in line with our commitments to take it to a target level of PRs 50 /liter by January for petrol, and April for

diesel. Once the fully unsubsidized prices are reached, including with the restoration of the full taxation levels, we will establish an automatic pricing mechanism in consultation with Fund Staff.

- *Limiting power subsidies*. Power subsidies (either directly to CPPAG and producers or indirectly to consumers, including through targeted transfers by BISP). As a matter of principle, energy subsidies will only be given by the federal government and will ensure equity across the provinces. They will be contained to PRs 570 billion, of which PRs 225 billion will be for the tariff differential subsidy (TDS) arising from the power tariff adjustment path (¶23.a).[2]
- *Protecting social spending*. We continue to commit to protecting social spending on our most vulnerable families (PRs 316 billion for regular BISP programs), also supported by a quantitative target under the EFF-supported program (¶15.a, Table 1).
- *Mitigating risks of greater spending pressures*. The compression of current spending is ambitious. If monthly fiscal operations data indicate that spending is running higher than the Q1 FY23 and subsequent targets, this will trigger immediate remedial action to put in place the contingency revenue measures described above.

c. Other.

- *Corroborating provincial fiscal targets*. We signed Memoranda of Understanding (MoUs) with all four provincial governments in July 2022 on their respective provincial FY23 fiscal target consistent with the FY23 general government fiscal targets under our program (**PA for completing this review**). We will also monitor and share fiscal outcomes on a provincial and quarterly basis (TMU Table 3).
- *Revenue administration*. We will pursue a substantial expansion of PIT tax base by another 300,000 persons, through the use of data on the withholding tax of businesses and identify and register new individuals as well as use of third-party data. If required, we will also conduct physical surveys to book new individuals. We also intend to vigorously pursue bringing in the service sector, including in particular the retail sector, into the tax net and to achieve this we will specifically register all retailers using data on fixed Sales Tax and Income Tax collected through electricity bills on commercial connections. We will integrate and digitize the supply chain covering revenue risks arising from operations between manufacturers or importers, and the end consumers or retailers.
- *Limiting guarantees*. To contain fiscal risks and safeguard the public debt trajectory, as part of the FY23 budget process we have laid before the National Assembly a Statement of Contingent Liabilities containing a list with all guarantees expected to be issued in FY23, which we will treat as a ceiling. The proposed guarantee envelope ensures that guarantees as a percentage of GDP remain on a modest downward trajectory.

[2] The remainder are subsidies for KE and various packages (PRs 130 billion), PHPL amortization (PRs 35 billion), and IPP clearance (PRs 180 billion).

10. We will continue to improve our revenue administration. As of end-June 2022, we have accumulated PRs 366 billion in income tax refund arrears, a 67 percent increase over the course of the fiscal year as a result of a backlog in processing refund claims. This stands in clear contrast to sales tax arrears, which have been refunded promptly and regularly without ongoing accumulation of arrears on a monthly basis. We will clear income tax arrears until the stock is reduced to PRs 225 billion, thus reversing the arrears accumulation during this fiscal year, and this will be completed by end-September 2022. We remain committed to limiting any future reoccurrence of these arrears and to improving tax administration to raise the efficiency of revenue collection and will redouble our efforts to: (1) simplify tax filing and expand e-services for taxpayers; (2) accelerate the resolution of refunds and administrative appeals; and (3) strengthen the large taxpayer office. Our revenue administration priorities are: (1) developing an overarching compliance strategy and setting up a Central Risk Management Unit and a Compliance Risk Management Committee at the central level; (2) systematic identification and assessment of compliance risks; (3) adopting a more project-based approach to addressing specific high-risk areas in tax compliance; and (4) strengthening data collection and analysis. To support GST harmonization, in December 2021 we have established a single filing portal, which removes the need to file separately with five different tax administrations and simplifies administration with a single tax base, which will critically improve the ease of doing business and enhance the trust of taxpayers.

11. We will also continue with our public financial management (PFM) reforms to improve fiscal effectiveness. We are making efforts to fully operationalize our treasury single account (TSA-2) by end-December 2022. To support our cash management and forecasting efforts, which are necessary to benefit from the TSA and allow for more efficient debt and cash management, we have created the Treasury and Cash Management Unit and the Cash Forecasting Unit in the Federal Treasury Office in Islamabad; and we are, since January 2022, in the process of developing monthly and quarterly cash forecasts with technical assistance by the ADB. We will be able to utilize the units by end-December 2022. As part of our ongoing efforts to strengthen budget execution and expenditure controls, we have issued newly developed guidelines related to implementing annual and multiannual commitment control systems in March 2022.

12. We maintain the highest levels of transparency in all COVID-related spending programs, in line with international best practices. The enacted emergency measures remain targeted and temporary and will not result in permanent distortions of the overall fiscal envelope. The Public Procurement Regulatory Authority (PPRA) continues to publish key information of COVID-related awarded procurement contracts submitted by procuring agencies on its website.[3] The PPRA published regulations on May 14, 2022 (S.R.O. 591(I)/2022) requiring collection for publication of beneficial ownership information from companies which are awarded public procurement contracts for PRs 50 million and above (**end-March 2022 SB**).[4] Such beneficial ownership information will be submitted by procuring agencies to the PPRA and made publicly available on

[3] https://www.ppra.org.pk/pcontract.asp

[4] Under Pakistan's AML Act, as amended, beneficial owners are defined to be the natural person(s) who ultimately owns or controls a customer or exercises ultimate effective control over a legal person or legal arrangement.

their website. With support from the World Bank, an e-procurement system covering procurement at the federal and provincial levels will be established, permitting the PPRA to access beneficial ownership, tax, and national ID registries, and making key and relevant information on procurement contracts publicly available. Pilot implementation of the e-procurement system with the Ministry of Health and Ministry of Education is expected by end-August 2022, with the full rollout of the system by mid-2023. The Public Accounts Committee of the National Assembly will continue to conduct hearings on the Auditor General of Pakistan's (AGP) audit report for procurement of COVID-related supplies and social payment made during FY20 and will propose recommendations and referrals for investigation, as appropriate. The AGP completed audit reports of key government agencies for FY21 (which includes COVID-related spending and social payments). The audit reports on procurement of COVID-related supplies are expected to be published by end-August 2022.

13. With large financing requirements for the primary deficit and debt service our debt vulnerabilities remain acute. Despite strong nominal GDP growth, the debt-to-GDP ratio at end-FY22 is projected to increase slightly to 78.9 from 77.9 percent a year earlier. The larger-than-anticipated fiscal deficit and the significant exchange rate depreciation (more than 30 percent over FY22) were the principal drivers of the increase in government debt. Going forward, debt levels and gross financing needs relative to GDP are expected to gradually decline on the back of strict fiscal and monetary discipline. Nevertheless, higher interest rates, uncertainties regarding raising of debt from international commercial and capital markets, and dependence on commercial banks as holders of government securities in domestic markets, pose significant risks to debt sustainability. To address these vulnerabilities, we are:

a. ***Updating and implementing our Medium-Term Debt Strategy (MTDS)***. The objective is to reduce debt vulnerabilities across multiple dimensions. In addition to targets for managing refinancing risk (see (b) below), we have established benchmarks for interest rate risk, currency risks, and the share of Sharia-compliant instruments. We met our FY21 target for the share of fixed rate debt and going forward we expect demand for fixed-rate instruments to strengthen as uncertainty about the path of short-term interest rates recedes. We are committed to updating the MTDS and revisiting targets to further enhance the credibility of our financing framework.

b. ***Reinvigorating our efforts to lengthen the maturity profile of domestic debt***. During FY22 Q1–3 we have consistently reduced T-Bill issuance, precipitated in part by the rise in short-term rates relative to long rates and supported by the local currency on-lending of newly allocated SDR via the central bank. While we did resort to a stronger reliance on T-Bills in recent months, we expect solid demand for longer-term instruments in domestic debt markets in the coming months as uncertainty eases. To further support the implementation of the MTDS and the lengthening of the maturity profile, we are committed to the floor on the cumulative gross issuance of PIBs, Sukuks, and Eurobonds (**Indicative Target**) for which all quarterly targets were met in FY22.

c. ***Devising an adaptable set of debt instruments***. These will allow us to respond flexibly to evolving domestic and international market conditions and trends in the financial industry. At

the same time, country-specific risks need to be mitigated through sustainable macroeconomic policies. Regarding our external borrowing we have expanded Naya Pakistan Certificates that tap into Pakistani emigrants abroad, placed a US$1 billion Eurobond in July 2021 in a multi-tenor transaction of 5-, 10- and 30-years instruments, and issued US$1 billion international Sukuk in January 2022. On June 21, 2022, cabinet also paved the way for further Sukuk issuances once market conditions stabilize. We have also modernized our domestic debt instruments through the (1) reintroduction of 15-, 20-, and 30-year fixed rate Pakistan Investment Bonds (PIBs); (2) reintroduction of Shariah Compliant Sukuks of longer tenors (5 years); (3) introduction of new long-term instruments (including 3- and 5-year floating rate PIBs); (4) imposition of a ban on institutional investments in National Savings Schemes with effect from July 1, 2020 in order to enhance institutional participation in competitive primary and secondary markets of long-term debt; and (5) discontinuation of the sale of some prize bonds to improve the transparency of our investor base. Going forward, we intend to explore further financing instruments such as (1) green bonds to overseas investors to take advantage of the strong global demand for ESG bonds; (2) gender bonds earmarked to promoting gender equality and women empowerment; (3) Panda bonds to tap into the Chinese market through Renminbi-denominated instruments.

d. ***Establishing a debt management office (DMO)***. The DMO will be responsible for designing and implementing our debt management strategy. In line with World Bank and IMF recommendations, we have amended the Fiscal Responsibility and Debt Limitation Act 2005 to establish an appropriately resourced DMO that consolidates fragmented functions of debt management. The requisite amendments were approved in the National Assembly in May 2022 and in the Senate in June 2022, and were subsequently signed into law by the President. In the interim, the Finance Division has assigned additional functions to the existing Debt Policy and Coordination Office, allowing us to initiate the hiring of additional staff commensurate with the responsibilities. We are currently in the process of setting up the front office/middle office/back office of the new DMO (to be completed by end-November 2022) and we are committed to filling vacant positions at the director-level by end-December 2022. Migration of relevant functions to DMO from other parts of government agencies has been completed in March 2022. Moreover, we are enhancing cooperation with other government units, particularly the Economic Affairs Division, to ensure the accurate compilation and reporting of debt-related statistics, through the Working Group we established in February 2021.

Poverty Reduction and Social Protection

14. Reducing poverty and strengthening social safety remains a key priority. The COVID-19 pandemic has laid bare the disparities facing our vulnerable population, which we need to address in order to foster inclusive growth and ensure that our country becomes more resilient to future shocks. To this end, we had increased BISP's budget allocation for FY22 to PRs 250 billion, marking a an almost 30-percent increase over the FY21 budget execution. However, we under-executed the FY22 budget envelope and thus missed the IT on BISP spending at end-June 2022 by about PRs 15 billion, not only because the improved COVID-19 situation allowed for an earlier-than-expected end of the COVID-related Ehsaas Emergency Cash (EEC) program, but also due to a slower-than-programmed enrolment of newly identified beneficiaries in our unconditional cash transfer (UCT) Kafalat program (that then also have access to all of BISP's conditional cash transfers, CCTs).[5] We have nevertheless made a lot of progress in FY22, as we have:

a. ***Permanently expanded both the horizontal coverage and benefit level of our UCT program (Kafalat)***. Concretely, we have implemented: (1) a targeted expansion of the Kafalat beneficiary base on the basis of the recently finalized NSER database to 7.7 million households by mid-June 2022 (even if slightly falling short of our objective of 8 million families);[6] (2) the programmed permanent 8.3 percent increase in the 6-monthly Kafalat stipend to PRs 13,000 per family on February 1, 2022; and (3) an additional permanent 7.7 percent increase in the 6-monthly Kafalat stipend to PRs 14,000 per family on March 1, 2022 as part of the previous government's February relief package (worth PRs 8 billion).

b. ***Exceptionally broadened BISP spending***. In light of rampant inflation and ongoing energy price reforms, we used BISP not only to support our regular BISP Kafalat beneficiaries (i.e., families with a poverty-means tested (PMT) score below 32) but also to help prevent non-BISP Kafalat beneficiary families in the lower-middle class from falling into poverty (i.e., families up to the middle socio-economic status quintile with a PMT score below 37). To this end, we launched a special temporary cash transfer scheme (Sasta Fuel Sasta Diesel, SFSD) that paid out a one-off cash transfer of PRs 2,000 per family in June 2022. Concretely, we served 7.6 million Kafalat families and 1 million non-Kafalat families at a total budgetary cost of PRs 16.8 billion.

c. ***Refocused social support to BISP.*** Based on a review of some recently launched pro-poor initiatives outside BISP, we decided to retire the Ehsaas Rashan Riyat Program (ERR)[7] and keep the Kamyab Pakistan Program (KPP) in the piloting phase.

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[5] Our BISP enrollment efforts slowed for a while when we reconsidered our social policy objectives and agenda.

[6] For better targeting, we had also finalized the exit of almost 3.6 million families by end-September 2021 whose proxy-means test (PMT) scores were either above the established threshold of 32 or whose paperwork was not yet finalized. The exited families remain eligible for re-registration and are entitled to have BISP review the exclusion decision.

[7] ERR execution has remained well below expectations (at about PRs 6.5 billion in FY22, relative to the planned PRs 106.1 billion during the 6 months of the program's life from January to June 2022). Low take-off was due to limited

(continued)

15. In FY23, we are reinforcing our efforts to bring more people into the BISP safety net. Concretely, we will:

a. ***Increase total BISP spending***. We have set aside PRs 364 billion to cover our:

- *Regular BISP programs*. We have budgeted PRs 316 billion for: (1) executing all regular BISP programs; and (2) implementing a targeted expansion of the UCT Kafalat base by another 1.3 million families to 9 million beneficiary families (**new end-June 2023 SB**). In addition, we commit to reviewing the UCT Kafalat program by end-September 2022 to ensure the stipend is adjusted for inflation in FY22 by end-December 2022. We plan to build on World Bank advice and seek ways to find fiscal space to also implement a meaningful improvement of the still low BISP Kafalat generosity level.[8] We will also review the conditional education and stunting cash transfers to better align them with actual child schooling and food costs. Moreover, we will reinstate the quarterly disbursement schedule of the Kafalat stipend. To highlight the importance of regular BISP spending for our most vulnerable segments of society in our Fund-supported program, we request to elevate the IT on regular targeted cash transfer spending by BISP to a PC (Table 1) and to contain it explicitly to all spending on regular BISP programs targeted at families with a PMT score below that applied to the UCT program (Kafalat), which is currently 32.
- *Special FY23 SFSD support for others who are vulnerable in the lower-middle class*. We are extending the new SFSD scheme into FY23 to provide a monthly benefit of PRs 2,000 to 2 million non-BISP Kafalat beneficiaries (with a PMT score below 37, worth PRs 48 billion) with a sunset at end-FY23.

b. ***Keep the NSER live and regular BISP enrollment open***. We are also continuing to work with the World Bank on established live registry points in all regions to give people an opportunity to re-declare their status in case of a shock (including, for instance, to personal circumstances or from a regional climate disaster) and to have their eligibility decision regarding their UCT and CCTs checked.

Monetary, Exchange and Financial Sector Policies

16. We remain committed to ensuring monetary and financial stability by maintaining a market-determined exchange rate, lowering inflation towards target, and rebuilding foreign exchange reserves. Our actions ahead include:

a. ***Continued commitment to a market-determined exchange rate and external stability***. External conditions have become precarious in recent months, on the back of high uncertainty, a large terms of trade shock, and persistently large current account deficits. The strong

communication and awareness campaigns, as well as multiple authentication levels across stakeholders (BISP, NADRA, PMD), resulting in a slow operationalization of the Kiryana stores and hence low beneficiary number.

[8] The current generosity level is about 9.3 percent of the average consumption of a bottom quintile family, relative to an international best practice of about 25 percent.

demand for FX from external debt repayments and imports put pressure on the exchange rate, which depreciated by 16 percent between end-December 2021 and end-June 2022, while reserves have fallen to a about 1.5 months of imports. In this context, we remain committed to the market determined exchange rate, which has served as an essential buffer protecting economic activity and reserves during this prolonged period of heightened uncertainty, while supporting the smooth function of the market. SBP's interventions will remain guided by market conditions and the objective of rebuilding reserve buffers to bring reserves up to a more prudent level of at least 2.2 months of import coverage by end-FY23 notwithstanding the difficult external environment. Forex sales will not be used to prevent a trend depreciation of the rupee driven by fundamentals.

b. ***Prudent and proactive monetary policy***. Headline inflation reached 24.9 percent in July 2022 and core inflation is in excess of 10 percent, reflecting strong domestic demand and second-round effects of supply shocks. At the same time, measures of long-term inflation expectations have also ticked up. To ensure that inflation expectations remain anchored and prevent second-round effects becoming entrenched, we acted decisively in raising the policy rate by 125 bps to 15 percent on July 7, 2022, bringing the cumulative tightening since September 2021 to 800 bps. In addition to the policy rate increase, since April 7, 2022, we have also raised the interest rates on the two major refinancing schemes (EFS and LTFF) by 700 bps and 500 bps, respectively. To strengthen monetary policy transmission, these rates have been linked to the policy rate and will adjust automatically. Monetary policy decisions will continue to be guided by the primary goal of safeguarding price stability to ensure the program monetary targets are met and guide inflation to our medium-term objective of 5–7 percent, with the exact pace of future adjustments dependent on inflation data, exchange rate developments, the strength of the external position, and the fiscal-monetary policy mix.

17. We recognize the need to take further steps to align more closely refinancing rates and market rates and to phase out SBP's involvement in the refinancing schemes. As of end-June 2022, the outstanding amount for all facilities was PRs 1,607 billion, or 17.4 percent of private sector credit. Although our assessment of the Export Refinancing Scheme (EFS) in February 2022 found that this program boosts exports, we recognize that aligning refinancing rates closer to market rates should lift the efficiency of the use of these funds and help to allocate credit in a fairer, more transparent manner as beneficiary firms are generally large, well established, and concentrated in a few sectors, which already dominate access to private sector credit. In addition, raising refinancing rates reduces the subsidy requirement for operating the schemes outside of SBP's balance sheet (see below). To this end, we have reduced the gap between the policy rate and the interest rate on the LTFF/EFS facilities to 5 percentage points. We see that a clear dividing line between SBP operations and the refinancing schemes is imperative on governance grounds, allowing SBP to focus on its core objectives. Such a structural change will allow support to the export sector transparently through an on-budget subsidy. In this regard, the Ministry of Finance and SBP have advanced work on an initial plan in consultation with other stakeholders to establish an appropriate Development Finance Institution to support the eventual phasing out of the refinance facilities (**end-April 2022 SB, reset to end-December 2022**). The plan, which was approved by the Acting Governor on May 17, 2022;

and remains a live document which will be refined with assistance of the IMF, foresees the transfer of the LTFF/EFS facilities to Ex-Im Bank under the following parameters: (1) a transition period of no more than 5 years; (2) no implicit subsidization of Ex-Im Bank through the SBP; and (3) expeditious resolution of operational constraints at Ex-Im Bank. To support this initial planning work, we created a working group in March 2022 with representatives from the Ministry of Finance, Ministry of Commerce, Securities and Exchange Commission (SECP), SBP, and Ex-Im Bank. While working towards the phasing out of the existing refinancing facilities, in line with a transitional plan agreed with the IMF, the SBP is committed not to introduce further schemes.

18. We continue to closely monitor the health of our financial sector to safeguard its resilience. Overall, banks remain well capitalized and profitable, with non-provisioned NPLs at 0.7 percent as of end-March 2022. However, there are pockets of vulnerability with three small banks remaining undercapitalized. We remain closely engaged with two undercapitalized private banks and are committed to ensuring compliance with the minimum capital requirements. Due to unanticipated delays in the process, the first-stage recapitalization of the two private sector banks will not be completed on time.[9] On March 18, 2022, a public offer was made for an equity injection into one of the private banks. However, the process could not be completed by end-May because of a legal dispute. The legal dispute is expected to be resolved shortly paving the way for equity injection, which would likely result in the bank achieving positive capital by end-September 2022, meeting the first stage recapitalization requirement. For the second private bank, the capital process was hampered but the bank has now identified an investor and a public announcement of intention has been made for an equity injection on May 31, 2022. We will require that the second bank will also complete its first-stage recapitalization, and thus the first-stage recapitalization of both banks will be complete by end-March 2023 (**end-May 2022 SB reset to end-March 2023**). Furthermore, we will initiate orderly resolution of either or both of these two banks by end-May 2023 should they remain undercapitalized at that point (**new end-May 2023 SB**). Progress on the public sector bank undergoing privatization remains slow and we were unable to complete the process by end-January 2022. As previously committed, the Privatization Commission Board has recommended to Cabinet Committee on Privatization to delist the bank from the privatization program, the SBP has formally informed the Federal Government that the bank cannot be rehabilitated and should be resolved. With the approval of the Ministry of Finance, the SBP will commence the resolution process for the bank. We are advancing our efforts to strengthen our bank resolution and crisis management frameworks, including the deposit insurance scheme, and align these with international best practice. To that end, we will submit a draft law, in line with IMF staff recommendations, to the Cabinet by end-October 2022 (**new end-October 2022 SB**), with the aim of parliamentary adoption before the end of the program. Lastly, we will adopt by end-June 2023 a comprehensive strategy to address high levels of NPLs in some banks, including by requiring bank-specific plans to reduce them, and to write off fully provisioned NPLs (**new end-June 2023 SB**).

[9] The first-stage recapitalization requires the completion of capital injections, with documentation submitted to, and accepted by, SBP, to fill 50 percent of the capital shortfall calculated as of September 30, 2021, which will result in the banks achieving positive capital.

19. We are fully committed to effective implementation of our AML/CFT framework. To this end, we have successfully completed all action items in our 2018 Action Plan, including the last item on terrorist financing investigations and prosecutions of senior leaders of UN-designated terrorist groups (Immediate Outcome 9) in June 2022 (**end-March 2022 SB**). In parallel, we have also completed all the 7 action items in our 2021 AML/CFT Action Plan, ahead of the committed deadlines. We will continue to ensure the sustainability and effectiveness of the AML/CFT efforts in addressing the significant ML/TF risks in the country. With respect to the tax amnesty program for the construction sector and the AML/CFT thematic inspection, the SBP carried out field inspections of 7[10] of the 19 participating financial institutions with respect to their compliance with AML/CFT obligations (such as customer due diligence, recordkeeping, and suspicious transaction reporting including random sampling of beneficiaries), which covers 80% of the designated bank accounts opened under the program. The thematic inspection report has been completed in June 2022, with strategic analysis inputs from the Financial Monitoring Unit. By end-September 2022, the SBP will share the key findings and recommendations of the thematic inspection with the banking sector through the compliance forum and relevant competent authorities through the General Committee under AML Act, and implement enforcement actions including changes in regulatory framework, as appropriate.

20. As part of our comprehensive policy package to address external imbalances, we have both introduced new exchange and import restrictions, and intensified an existing exchange restriction and modified the MCP for balance of payment (BOP) reasons. We, however, remain committed to phase out these new and the existing measures as BOP conditions stabilize and to eliminate them by the new end of the program at end-June 2023. We therefore request approval for all existing exchange measures subject to Article VIII. Specifically, the new measures introduced since the sixth EFF review include:

a. ***Cash margin requirements***. On April 7, 2022, we extended the set of items subject to a 100-percent cash margin requirement (CMR) on imports by 177 items and made the CMR non-remunerated, thus breaching the continuous PCs on the non-intensification of exchange restrictions and the non-modification of multiple currency practices (MCP). While we (1) reduced the CMR where the credit terms of import are more than 90 days to 25 percent and (2) eliminated the CMR where the credit terms of import are more than 181 days on August 5, the remaining CMR on the newly introduced items continues to only expire on December 31, 2022.

b. ***Import ban***. On May 19, 2022, we banned the import of 33 categories of luxury and nonessential items (including cars, mobile phones, and home appliances) to preserve our FX reserves. This measure breaches the continuous PC on the non-imposition of import

[10] Initially 6 banks were selected for inspection; however, based upon the input from "FMU strategic analysis" report an additional bank was selected.

restrictions for BOP purposes. The ban has been partially repealed in August 2022 and the remainder will be repealed in October 2022.[11]

c. ***Import payment authorization***. As of May 20, 2022, we require banks to seek permission from the SBP before initiating transactions for importing certain goods, including car and mobile phone parts destined for local assembly. The list of items subject to the requirement was extended on July 5, 2022. Due to our low reserve buffers, we have granted permission very selectively, conscious that this measure breaches the continuous PC on the non-imposition of exchange restrictions. In line with the actions on the import ban, we will terminate the requirement for import payment authorization by end-August, in consultation with the IMF and based on market conditions.

Energy Sector Policies

21. Notwithstanding efforts in recent years, financial conditions in the energy sector have worsened—with arrears accumulating, cash constraints biting, and load shedding increasing—and thus the implicit cost to the budget, and the economy more generally, unsustainably high. Through FY22, we have accumulated PRs 536 billion (0.8 percent of GDP) in new power payment arrears (also called circular debt, CD), which substantially exceeded the end-June 2022 indicative target (IT) under the EFF-supported program of PRs 166 billion (included in our cabinet-approved updated circular debt management plan (CDMP) approved in early March 2022). This overrun is mainly due to delayed regular tariff adjustments (see below) and higher-than-expected generation and financial costs (especially from higher international energy prices, exchange rate depreciation, and higher interest rates). Nevertheless, the end-FY22 CD stock slightly decreased from its historical high in FY21 to PRs 2,253 billion (3.4 percent of GDP), thanks to substantial CD stock payments from the budget of PRs 564 billion.

22. We, however, remain committed to continuing to restructure the power sector, with the objective of ensuring its financial viability and containing additional fiscal costs. To that end, in FY22, we have:

a. ***Decided on better targeting energy subsidies***. To reduce cross-subsidies, our cabinet approved the second step of the subsidy reform for residential consumers in December 2021, also supported by the World Bank.[12] Most notably, it stipulates the removal of the previous-slab benefit and increase in the effective tariff of the unprotected slabs by PRs 0.54/kwh (which corresponds to an increase of the weighted-average tariff by PRs 0.20/kwh). The new implied

[11] The introduction of the import ban resulted in the non-observation of a continuous PC under the EFF arrangement, but it does not give rise to a breach of obligations under Article VIII, Section 2(a) and 3.

[12] We completed the first step of the subsidy reform in late-September 2021 by implementing: (1) a more stringent eligibility criterion for protected consumer slabs (based on households' maximum usage from the previous 6-months consumption rather than the average over the previous 12 months); (2) a lower threshold for protected consumer slabs (of 200 rather than 300 units per month); (3) a breakdown of the unprotected 301-700 units slabs (into smaller slabs of 100 each); and (4) an expansion of the definition of lifeline consumers (to also include residential consumers with consumption of 50-100 units per month).

tariff structure was determined by NEPRA on March 18, 2022; but kept on awaiting notification until FY23 (¶23.a).

b. ***Resumed regular tariff adjustments***. After facing extended delays in DISCOs' submissions of petitions to our independent power sector regulator NEPRA for our regular quarterly tariff adjustments (QTAs) and annual rebasing (AR) over the course of FY22, we have resumed the process of aligning power tariffs with recovery levels in line with established formulas. NEPRA has: (1) notified the quarterly tariff adjustment (QTA) for FY22Q1 in early June 2022 (PRs 0.57/kwh for 3 months) and the QTA for FY22Q2 in early July 2022 (PRs 1.55/kwh for 3 months); and (2) determined the combined annual rebasing (AR) for FY22 and FY23 (PRs 7.91/kwh) on June 2, 2022, which kept on awaiting notification by the government until FY23 (¶23.a). Besides, to enable NEPRA to make timely tariff determinations, we have started strengthening collaboration between the Ministry of Energy, Ministry of Finance, NEPRA, and the DISCOs to improve data submission in terms of pace and quality and reduce regulatory processing time.

c. ***Reducing the circular debt stock***. We reduced the CD stock in the power sector by PRs 564 billion until end-June 2022 through two stock operations:

- *Settlement of unguaranteed CPPA-G payables to power producers*. We paid PRs 384 billion in return for renegotiated and revised purchasing power agreements (PPAs) terms:[13] (1) PRs 135 billion to complete arrears clearance with 20 independent power producers (IPPs) in November 2021, PRs 64 billion for the first installment to another 13 IPPs in January 2022, and PRs 96 billion in June 2022 (all with one-third in cash and the remainder in debt instruments);[14] and (2) PRs 89 billion to government power plants (GPPs) in April and June 2022 (in cash). Moreover, we settled PRs 50 billion in arrears to IPPs covered by the China-Pakistan Economic Corridor (CPEC) Arrangement in March 2022 to address their acute cash-flow shortages and ensure coal-based power production to supplement seasonal shortages in hydel power production and supply-constrained shortages in gas-based power production. Due to the high fuel prices that we have to pay, we have fallen behind in making payments for capacity charges to power producers. We are therefore striving to reduce capacity payments, as we pay the arrears, either by renegotiating the PPAs or by lengthening the duration of bank loans.
- *Conversion of government-guaranteed debt held by the Power Holding Private Limited (PHPL) into public debt*. We assumed PRs 130 billion in maturing PHPL debt in line with our 10-year PHPL repayment plan adopted in FY19, bringing the stock PHPL debt down to PRs 800 billion (about 1.2 percent of GDP) at end-June 2022.

[13] The debt instruments were 10-year floating-rate PIBs and 5-year sukuks (in equal parts). Tariffs were downward adjusted at the time of the first payment, except for GENCOs that had already adjusted their tariffs earlier.

[14] These are 20 domestic IPPs under the pre-1994, 1994, RE Wind, RE Bagasse, and RE Solar power policy (with a first installment of PRs 90 billion in June 2021); 12 domestic IPPs under the 2002 power policy and one foreign IPP under the 1994 power policy.

23. Going forward, we will continue to persevere with the implementation of our long-standing and IFI-endorsed CDMP commitments. Beyond the removal of the budget-financed blanket subsidy of PRs 5/kwh on June 1, 2022 (¶8), we focus on the following measures, which will also feature in our CDMP update until end-August 2022:

a. ***Implementing power tariff adjustments in a timely manner***. We have notified the pending combined FYs22–23 AR as a three-stage adjustment and the subsidy reform[15] as a one-stage adjustment in late and early July 2022, respectively (¶22.a, **PA for completing this review**): (1) the first-stage AR increase (PRs 3.50/kwh) took effect on July 25 and the full subsidy reform markup (PRs 0.20/kwh) on July 5, 2022; (2) the second-stage AR increase (PRs 3.50/kwh) took effect on August 1, 2022; and (3) the third-stage AR increase will take effect on October 1, 2022 (PRs 0.91/kwh), followed by automatic catch-up increases through the QTA for FY23Q1 and FPA for July to fully recover the shortfall from the delayed implementation of the first stage beyond July 1. The third-stage of the combined FY22–23 AR will take effect on October 1, 2022 (**new end-September 2022 SB**). Implementing these tariff adjustments will not only help address acute revenue shortfalls in the power sector, but also alleviate the burden on the small consumers falling into the protected slabs that currently help bear the brunt from high energy prices through historically high monthly fuel price adjustments (FPAs). Going forward, we remain committed to the timely implementation of regular tariff adjustments in line with established formulas as this will help achieve cost recovery and increase the progressivity of the new tariff structure for residential consumers (see above).

b. ***Rationalizing power subsidies through better targeting***. As a next step, we have commenced, with the support of the World Bank, work on a subsidy rationalization for tube-wells for large agricultural users in March 2022. Given delays, notably related to the field survey in the provinces, we now plan to initiate a consultative process to devise a comprehensive subsidy rationalization program for agriculture tube wells with the objective of submitting a concrete reform proposal to our cabinet by November 2022.

c. ***Accelerating medium-term cost-reducing structural reforms***. After facing some capacity-related delays, we have recently started to accelerate various programmed structural reforms with the support of the World Bank and ADB that are aimed at reducing commercial and technical losses, improve governance and PPA terms, as well as introduce greater competition. In FY23, we will continue to:

- *Renegotiate PPA terms in return for clearing unguaranteed CPPA-G arrears*. We will settle up to PRs 180 billion earmarked for IPPs and GPPs with revised PPA terms, using the established contract structure (Footnote 13).

[15] On July 6, our government has approved a schedule of tariff based on NEPRA's AR determination (¶22.b) and filed a motion with NEPRA to approve the applicable tariff after incorporating the subsidies earmarked for FY23 (¶9b).

- *Convert expensive government-guaranteed PHPL debt into cheaper public debt*. We have only created fiscal space to settle PRs 35 billion of the PRs 165 billion falling due from the budget and roll over the public guarantee for the remaining PRs 130 billion.
- *Pursue other reforms*, most importantly: (1) increasing private participation in DISCOs to improve their governance and efficiency; (2) seeking NEPRA's approval of a Transmission System Expansion Plan (TSEP) that meets the requirements for an increased share of variable and cheaper renewable energy in the generation mix; and (3) seeking NEPRA's approval of the updated Grid Code and Commercial Code to set the objectives, principles, rules, procedures, rights, and obligations that govern the trading in the new wholesale market, and thus to improve the efficiency in distribution.

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

24. We are also ramping up our reform effort in the gas sector. Based on an ongoing assessment of available data from OGRA and the two gas sector companies (SUIs), we currently estimate the circular debt stock[16] in the gas sector to have increased from PRs 620 billion at end-FY21 to about PRs 719 billion at end-March 2022 (about 1 percent of GDP, with PRs 547 billion in system gas arrears and about PRs 172 billion in RLNG arrears). The main driver of this increase was the non- implementation of the upward revisions in gas sale prices in line with OGRA determination of prescribed prices under the Estimated Revenue Requirements (ERRs) of the gas companies (i.e., SSGCL and SNGPL). The increase in the RLNG tariff differential and diversion costs mainly reflects the diversion of costly RLNG to domestic (residential) consumers during the last winter months. The amount represents the accumulation of RLNG tariff differential over a period of four winter seasons starting in FY19 until FY22. Recognizing this development, we are taking measures to improve the sector's performance:

a. ***Monitoring and managing circular debt***. Replicating the reform approach in the power sector and supported by international development partners, we have started to: (1) compile detailed and verified gas CD stock statistics; (2) establish a quarterly gas CD reporting system (also benefitting from improved data management and projection capacity); and (3) devise a gas CDMP. Salient elements of the CDMP will include regular adjustments of end-user gas prices as per established formulas and measures to reduce unaccounted for gas (UFG) losses

[16] Defined as the accumulated shortfall in revenue from a failure to cover costs due to the two SUI companies charging the 'sale price' set by the government rather than the 'prescribed price' by OGRA. When applying a wider concept of gas CD stock, also including SUIs' tax adjustments/refunds, tariff-related recoveries stuck up in courts, and receivables of SUIs, OGDCL, and PPL from the power sector (which are, however, already partly included into the power CD stock), the number grows to over PRs 1,230 billion at end-March 2022.

(inter alia, through improvements in infrastructure, rehabilitation of networks, and theft controls).

b. ***Enacting the OGRA Act amendments***. They came into effect on March 1, 2022 (**end-June 2022 SB**) and mainly support the timely notification of OGRA end-user gas price determination and thus coverage of recovery requirements.

c. ***Regularly updating end-user gas prices***. Based on the receipt of OGRA's determination of the annual Estimated Revenue Requirement (ERR) for FY22 on June 3, 2022,[17] we are now in the process of implementing more than the prescribed increase in consumer gas prices by end-August 2022 to contain the CD flow, address some of the CD stock, and improve the liquidity of the gas companies,[18] while minimizing the impact on smaller consumers. This will be the first end-user gas price adjustment since September 2020. However, we will need more time than envisaged in the amended OGRA Act (40 days) to work out a fair distribution of the increase across the various consumer categories. Moreover, we have received early feedback from the World Bank and will continue working together on the mechanism for regular updates of the end-user gas price, while also: (1) rationalizing gas subsidies; and (2) implementing the structural pricing changes implied by the recently enacted weighted average cost of gas (WACOG) bill.

Structural Policies

25. We continue to implement several comprehensive structural reforms in an effort to attract investment and support growth and job creation. We will continue to focus on policies that: (1) reform state-owned enterprises (SOEs); (2) improve the overall business environment; and (3) enhance governance.

26. We are committed to improving SOEs' governance, transparency, and efficiency as well as limiting their fiscal risks. Specific actions include:

a. ***Enhancing the SOE legal and regulatory framework***. The National Assembly adopted our new SOE law in July 2022, which is now awaiting Senate approval (**end-June 2022 SB, reset to end-September 2022**). In line with IMF staff recommendations and inter alia it will: (1) ensure that SOE operations are grounded on commercial footing, including by defining what constitutes a commercial SOE; and (2) regulate oversight and ownership arrangements. In parallel, we are working with ADB support to finalize further regulatory reforms by end-December 2022, including:

[17] This ERR determines an increase in the prescribed average end-user gas price by some 45 percent to PRs 928 per MMBtu.

[18] This will generate about PRs 666 billion the SUI companies (i.e, for Sui Northern Gas Pipelines Ltd (SNGPL) and Sui Southern Gas Company Ltd (SSGCL)) in FY23, which is PRs 120 billion higher than their ERR for FY23. The surplus revenue would make up for the partial recovery of previous year's losses.

- *Seeking cabinet adoption of an SOE ownership policy*. This will help operationalize the principles of the SOE law (once enacted) into a policy that clarifies ownership arrangements and the division of roles within the federal government; and
- *Amending SOE-dedicated acts*. We have selected four SOEs (out of about 20 that are still operating under outdated dedicated Acts and thus ad-hoc statutory frameworks) and will submit to parliament amendments to their Acts to make the new SOE law applicable to those SOEs as well and thus help improve their governance as per the new SOE law: (1) National Highway Authority; (2) Pakistan Post; (3) Pakistan National Shipping Corporation; and (4) Pakistan Broadcasting Corporation.

b. ***Strengthening the monitoring of SOEs***. We are in the process of establishing a Central Monitoring Unit (CMU) within the MoF to improve SOE performance functions and provide better analysis at the aggregate SOE level. We aim to operationalize the CMU by January 2023 (**new end-January 2023 SB**).

c. ***Increasing transparency***. SOEs are continuously audited by external auditors. We have asked our Auditor General to conduct special audits, including that of SSGCL, HESCO, and PESCO.

d. ***Advancing privatization and SOE support***. We are working toward debt recapitalization and refinancing of two RLNG power plants. After resolution of inter-ministerial issues, the process is expected to be completed by end-2022. Thereafter, the process of equity sale of the two RLNG power plants will be initiated afresh, with proceeds to be channeled to debt reduction and poverty programs. We are also advancing the privatization of (1) House Building Finance Company Limited, a development finance institution, and aim to complete the privatization process by end-March 2023, and (2) First Women Bank Limited, a public bank, for which we will complete the 2018–20 outstanding annual audits of the bank by end-November 2022 and the 2021 annual audit by end-December 2022, with the aim to complete the privatization process by end-June 2023.

27. We see improving Pakistan's competitiveness and the business environment as key for supporting medium-term growth, private sector development, investment, and job creation. Going forward, we will continue to focus on:

a. ***Implementing the approved national tariff policy***. This will be based on time-bound strategic, infant, and greenfield industry protection. In line with our revenue mobilization strategy, we will rationalize tariffs to boost competitiveness for 'Made in Pakistan' products, including phasing out tariffs on capital goods, intermediate products, and raw materials.

b. ***Taking steps to improve the business environment***. In particular, we will: (1) simplify procedures to start a business and eliminate other unnecessary regulations, including the introduction of a single portal for all company registration and digital integration of federal and provincial entities involved in starting a business; (2) streamline the approval process for foreign direct investment (FDI); (3) improve trading across borders by reducing customs-related processing time and reducing hours to prepare import/export

documentation; (4) simplify and harmonize the process of paying taxes through the introduction of a simple and fully automated regime for paying taxes, contributions, and fees; and (5) launch a communication drive to disseminate information regarding the reforms undertaken.

c. ***Addressing structural deficiencies in the housing and construction sector***. We identified several structural impediments facing the housing and construction sector, including: (1) land title documentation; (2) real estate regulatory authorities; (3) availability of long-term financing; (4) foreclosure laws; and (5) credit scoring. While headway is being made to address some of these constraints, we recognize the need for more work, in partnership with private sector participants and representatives from provincial governments. To this end, we established a working group comprised of relevant stakeholders in June 2022 that is tasked with producing a comprehensive strategy paper offering solutions by end-December 2022. This will also help increase private sector lending to the sector.

28. Measures to strengthen governance and the control of corruption remain key. Our priorities include:

a. ***Strengthening the effectiveness of anticorruption institutions.*** To further advance transparency, accountability, and integrity in the public sector, we will issue regulations to establish an electronic asset declaration system (**end-March 2022 SB, reset to end-September 2022**) that is comprehensive (i.e., covering assets beneficially owned or located abroad), centrally-held with the Federal Board of Revenue, covering federal civil servants of Basic Pay Scale (BPS) 17 to 22, accessible to entities authorized by law (including banks for the limited purposes of conducting customer due diligence as required for the provision of banking services), and effectively verified. It will also institutionalize public access for annual declarations for all members (elected and unelected) of the federal government cabinet of Pakistan. The Finance (Supplementary) Act of 2022 authorizes the FBR to provide access to asset declarations of politically exposed persons and public servants in BPS-17 and above (including their spouses, children, *benamidars*, or when they are the beneficial owner). Together with Establishment Division, SBP and Financial Monitoring Unit, FBR will issue regulations to facilitate access to law enforcement and banks. We are undertaking the 2nd review cycle under the UNCAC implementation mechanism, and will publish the full report, including the findings, analysis, and recommendations for improving the anti-corruption framework. A task force, to be established by the Ministry of Law and Justice and undertaken in consultation with the Ministry of Finance, with participation and inputs from reputable independent experts with international experience and civil society organizations, will complete and publish a comprehensive review of the institutional framework of our anticorruption institutions (including the National Accountability Bureau) to enhance their independence and effectiveness in investigating and prosecuting corruption cases, with proposals for legislative amendments as appropriate (**new end-January 2023 SB**). The task force will also recommend as appropriate structural reform measures that strengthen independence of anticorruption institutions, prevent political influence and persecution, and provide for transparency and accountability controls against abuse.

b. ***Enhancing the use of AML tools to support anti-corruption efforts***. We continue to support financial institutions and other reporting institutions in improving their capacities to identify politically exposed persons and apply enhanced due diligence measures. The resources of the Financial Monitoring Unit (Pakistan's financial intelligence unit) have been augmented with additional analyst positions to process the increasing numbers of suspicious transaction reports received through the IT system. To enhance financial investigation capacities of law enforcement agencies, we are providing training on mutual legal assistance and trade-based money laundering. We continue to pursue our application for membership in the Egmont Group of Financial Intelligence Units.

Financing and Program Monitoring

29. We have secured adequate long-term financing from our international partners to support our economic reform program. Current projections suggest that with the policies outlined in this MEFP, the gross external financing needs for FY23 will amount to approximately US$33 billion (including the current account), of which about US$22 billion is amortization to multilateral and bilateral official as well as commercial creditors. To close this gap, we have secured US$7 billion as rollovers of existing and US$4 billion in additional financing commitments from bilateral, multilateral, and commercial partners. In line with program financing commitments, key bilateral creditors have at least maintained their exposure to Pakistan.

30. Implementation of the policies under the program will continue to be monitored through prior actions (PAs), quantitative performance criteria (QPCs), indicative targets (ITs), continuous performance criteria (PCs), structural benchmarks (SBs), and schedule of reviews, as envisaged in our MEFPs dated June 19, December 2, 2019, March 9, 2021, December 17, 2021, and January 28, 2022, along with this MEFP. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the program. The quantitative targets for end-September 2022, and end-December 2022, and end-March 2023—along with continuous PCs and ITs—are set out in Table 1. The PAs and SBs as set out in Table 2.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets 1/

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

	FY 2021/22												FY 2022/23		
	end-December				end-March				end-June				end-September	end-December	end-March
	Program CR 22/27	Adjusted Prog.	Actual	Status	Program CR 22/27	Adjusted Prog.	Actual	Status	Program CR 22/27	Adjusted Prog.	Actual	Status	Proposed (PC)	Proposed (PC)	Proposed (PC)
Performance Criteria															
Floor on net international reserves of the SBP (millions of U.S. dollars)	-5,450	-3,242	-3,210	Met	-6,000	-5,481	-7,790	Not Met	-5,100	-4,653	-10,784	Not met	-11,450	-10,300	-9,800
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	9,850	9,704	9,158	Met	10,233	10,326	9,986	Met	10,792	10,895	10,850	Met	11,127	11,213	11,327
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars) 2/	…	…	4,382	…	4,300	…	4,293	Met	4,000	…	3,998	Met	4,000	4,000	4,000
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 3/	-300	-239	-281	Met	-389	-292	275	Not met	25	267	1,900	Not met	-339	-924	-897
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees)	6,049	6,506	5,245	Met	6,049	6,506	5,127	Met	6,049	…	5,077	Met	5,791	5,791	5,791
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees)	2,797	…	2,673	Met	2,954	…	2,749	Met	2,956	…	2,771	Met	2,978	3,077	3,102
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees) 4/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	70	149	232
Continuous Performance Criteria															
Zero new flow of SBP's credit to general government 5/	0	…	0	Met	0	…	0	Met	0	…	0	Met	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	…	0	Met	0	…	0	Met	0	…	0	Met	0	0	0
Indicative Targets															
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees) 4/	86	…	67	Not met	199	…	177	Not met	250	…	235	Not met	n.a.	n.a.	n.a.
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	783	…	729	Not met	1,287	…	1,198	Not met	2,014	…	1,796	Not met	446	1070	1771
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,852	…	2,901	Met	4,343	…	4,365	Met	6,100	…	6,126	Met	1569	3511	5304
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	11	…	51	Not met	6	…	127	Not met	0	…	147	Not met	0	0	0
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	67	…	357	Not met	184	…	456	Not met	166	…	536	Not met	-208	-157	30
Gross issuance of PIBs, Sukuks, and Eurobonds (cumulative, billions of Pakistani rupees)	2,450	…	2,969	Met	3,650	…	4,818	Met	4,900	…	6,267	Met	…	…	…

Sources: Pakistani authorities; and Fund staff estimates.

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

2/ The QPC for end-December 2021 was not proposed as the information became available before the Executive Board meeting for the sixth review.

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

4/ The quantitative indicative target on BISP spending will be converted into a quantitative performance criterion from September 2022 onwards.

5/ On November 18, 2021 the SBP on-lent PRs 475 billion (SDR 1.947 billion equivalent) to the government of Pakistan amounting to 100 percent of the SDR allocation received on August 23, 2021.

Table 2. Pakistan: Structural Conditionality

Actions

Prior Actions

	Actions	Rationale	Status
1	***FY23 budget*** . Parliamentary approval of a FY23 budget, including a personal income tax reform and in line with IMF staff agreement to meet program targets.	To ensure achievement of fiscal objectives.	Met.
2	***Provincial budgets*** . Signature by the federal and provincial governments of Memoranda of Understanding (MoUs) on provincial fiscal targets consistent with the FY23 budget.	To ensure achievement of fiscal objectives.	Met.
3	***Relief package reversal*** . (i) Elimination of post-tax fuel subsidies and the PRs 5/kwh blanket power subsidy by end-June 2022; (ii) increase in the petroleum development levy (PDL) on petrol by PRs 10/liter and on diesel by PRs 5/liter on July 1 2022; (iii) increase in the PDL on petrol by PRs 10/liter and on diesel by PRs 5/liter on August 1, 2022; and (iv) we commit to implement monthly PDL increases of PRs 10/liter for petrol and PRs 5/liter for diesel on September 1, 2022, followed by increases of PRs 5/liter per month for both fuels until the PDL reaches PRs 50/liter in January 2023 (petrol) and April 2023 (diesel).	To ensure achievement of fiscal objectives.	Met.
4	***Power price catch-up*** . Implementation of: (i) the first-stage increase related to the combined FYs22–23 annual rebasing (AR) (PRs 3.50/kwh) and full subsidy reform markup (PRs 0.20/kwh) on July 25, 2022; (ii) second-stage AR FYs22–23 increase (PRs 3.50/kwh) on August 1, 2022; and (iii) cabinet approval of the implementation of the third-stage AR FYs22–23 increase on October 1, 2022 (PRs 0.91/kwh).	To help restore energy-sector viability.	Met.

Structural Benchmarks

	Actions	Date	Revised Date	Status
	Fiscal			
1	Commit to not grant further tax amnesties.	Continuous		Not met.
2	Avoid the practice of issuing new preferential tax treatments or exemptions.	Continuous		Not met.
3	Preparation of draft personal income tax (PIT) legislation.	end-Feb. 2022		Not met.
	Monetary and Financial			
4	Adoption of measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force (FATF) list of jurisdictions with serious deficiencies.	end-Mar. 2022		Not met. Implemented with delay in June 2022.
5	Preparation of a plan by Ministry of Finance and State Bank of Pakistan, in consultation with other stakeholders, to establish an appropriate Development Finance Institution to support the eventual phasing out of SBP refinance facilities.	end-Apr. 2022	end-Dec. 2022	Not met.
6	Completion of the first-stage recapitalization of the two private sector banks that are undercapitalized.	end-May 2022	end-Mar. 2023	Not met.
	Energy Sector, State-Owned Enterprises, and Governance			
7	Parliamentary approval of new SOE law in line with staff recommendations.	end-Jun. 2022	end-Sep. 2022	Not met.
8	Adoption by parliament of amendments to the OGRA Act.	end-Jun. 2022		Met. Signed into effect by the President on March 1, 2022.
9	Establish a robust asset declaration system with a focus on high-level public officials (including elected and unelected members of the Federal Cabinet).	end-Mar. 2022	end-Sep. 2022	Not met.
10	Issuance of regulations by the Public Procurement Regulatory Authority (PPRA) to require collection for publication of beneficial ownership information from companies which are awarded public procurement contracts for PRs 50 million and above.	end-Mar. 2022		Not met. Implemented with delay in May 2022.

New Structural Benchmarks

	Actions	Date
1	Targeted increase of the BISP Kafalat beneficiary base to 9 million families using the NSER.	end-Jun. 2023
2	Finalization of the combined annual rebasings (AR) for FY22 and FY23 to take effect on October 1, 2022.	end-Sep. 2022
3	Submission to NEPRA of petitions for the (i) FY23-July FPA by end-August; and (ii) FY23-Q1 QTA by end-October which will ensure full recovery of the revenue requirement (including lost revenue from the delayed first-stage Annual Rebasing FYs22-23 in July 2022) within FY23Q2.	end-Sep. 2022
4	Adoption of a comprehensive strategy to address high levels of NPLs in some banks, including by requiring bank-specific plans for reducing NPLs, and to write-off of fully provisioned NPLs.	end-Jun. 2023
5	Initiate orderly liquidation (resolution) of either or both of the two currently undercapitalized private sector banks by end-May 2023 should that they remain undercapitalized at that point.	end-May 2023
6	Submission to Cabinet of amendments to align Pakistan's early intervention, bank resolution, and crisis management arrangements with international good practices, in line with IMF staff recommendations	end-Oct. 2022
7	Operationalization of a Central Monitoring Unit (CMU) within the Ministry of Finance.	end-Jan. 2023
8	Publication of a comprehensive review of the anticorruption institutional framework (including the National Accountability Bureau) by a task force with participation and inputs from reputable independent experts with international experience and civil society organizations.	end-Jan. 2023

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU)** sets out the understanding between the Pakistani authorities and the IMF staff regarding: (i) the ***definitions*** of quantitative performance criteria (and their adjustment mechanisms), indicative targets, and—if needed—prior actions and structural benchmarks in Section A below; and (ii) the respective ***reporting requirements*** used to monitor developments—for the economic program under the Extended Arrangement under the Extended Fund Facility (EFF)—as described in the authorities' latest Letter of Intent (LOI) dated August 16, 2022 and the attached Memorandum of Economic and Financial Policies (MEFP, notably its Tables 1 and 2) in Section B below. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in program design and accounting classifications introduced during the program period.

2. **For the purposes of monitoring under the program**, all assets and liabilities as well as debt contracted, denominated in Special Drawing Rights (SDRs) or in currencies other than the U.S. dollar, are converted into U.S. dollars at the program exchange rate. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at PRs 141.3172 per U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Text Table 1.

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

Currency	Rate	Currency	Rate
EUR	0.896456	THB	32.035948
JPY	111.699717	MYR	4.141502
CNY	6.741081	SGD	1.362695
GBP	0.769292	INR	69.267944
AUD	1.428981	SDR	0.723019
CAD	1.346196		

1/ As of May 3, 2019, except for: JPY and CNY (as of April 30, 2019), and CAD (as of May 2, 2019).

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. OVERVIEW

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

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

- *Ceiling on net government budgetary borrowing from the SBP* (including provincial governments) (stock, billions of Pakistani rupees);
- *Ceiling on the amount of government guarantees* (stock, billions of Pakistani rupees); and
- *Floor on targeted cash transfers spending (BISP)* (cumulative, billions of Pakistani rupees).

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

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

B. PERFORMANCE CRITERIA

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

Definition

4. **The general government** is defined as the central (federal) government and local (provincial) governments, excluding state-owned enterprises. The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities, that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001. The authorities will inform IMF staff on the creation of any such entities without delay.

5. **Net international reserves (stock) of the SBP** are defined as the U.S. dollar value of the difference between usable gross international reserve assets and reserve-related liabilities, evaluated at program exchange rates. On April 16, 2019, the NIR of SBP are estimated at negative US$15,557 million.

6. **Usable gross international reserves of the SBP** are readily available claims on nonresidents denominated in foreign convertible currencies and controlled by the monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets

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

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

8. Aggregate net position in the foreign exchange derivatives is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP and general government vis-à-vis the domestic currency (including the forward leg of currency swaps). At end-April 2019, the SBP's aggregate net derivative position was negative US$8,055 million.

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

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

Adjustment mechanism

11. The floor on NIR will be **adjusted** upward (downward) by the cumulative excess (shortfall) in:

a. ***cash inflows from multilateral and bilateral creditors, commercial borrowing, and bond issuance*** relative to the projected inflows (Table 1). Cumulative cash inflows are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to the Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to bilateral oil facilities, China, Saudi Arabia, UAE,

DFID-UK, and USAID), external bond placements and other commercial borrowings that are usable for the financing of the central government budget;

b. the ***actual stock of NIR*** at end-June 2019 relative to the projected amount. The stock of NIR of SBP at end-June 2019 is projected at negative US$17,743 million; and

c. the ***use by the SBP of the foreign assets related to commercial consortium loan*** to make import payments relative to the amounts expected under the baseline (Text Table 2).

Text Table 2. Pakistan: Use by SBP of Foreign Assets Related to Commercial Consortium Loan (Cumulative flows from the start of the fiscal year; millions of Renminbi)		
End-Sep 2022	End-Dec 2022	End-Mar 2023
0	0	0

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

Definition

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

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

Adjustment mechanism

14. Consistent with the NIR target adjustment mechanism (as defined above), the ceiling on the NDA will be **adjusted** downward (upward) by the cumulative excess (shortfall) in:

a. ***cash inflows from multilateral and bilateral creditors, and commercial borrowings and bond issuances*** relative to the projected inflows (Table 1) and evaluated at the program exchange rate

b. the ***actual stock of NIR at end-June 2019*** relative to the projected amount (see above) and evaluated at the program exchange rate; and

c. the ***use by the SBP of the foreign assets related to commercial consortium loans to make import payments*** relative to the amounts expected under the baseline (Text Table 2) and evaluated at the program exchange rate.

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

15. The **stock of net foreign currency swap/forward positions** is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). It will be evaluated at the program exchange rate. At end-April 2019, the SBP's aggregate net FX derivative position was negative US$8,055 million.

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

Definition

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

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

a. ***net external budget financing***, excluding valuation changes, evaluated at actual average quarterly exchange rates;

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

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

d. ***total external grants to the federal and provincial governments***, which are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants. External grants are evaluated at actual average quarterly exchange rates.

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

a. ***external budget loans*** to the general government, including those on-lent to financial institutions and companies (public or private) and external emergency relief lending. It

comprises those with: (i) medium- and long-term maturity from official multilateral sources (including IMF budget support), official bilateral sources, and private sector sources (e.g., bonds and non-residents' purchases of PIBs, Naya Pakistan Certificates, and Banao Certificates); and (ii) short-term maturity, net of foreign portfolio investment excluding non-residents' purchases of Naya Pakistan Certificates and Banao Certificates but including non-residents' purchases of domestic T-bills; and

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

Adjustment mechanism

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

a. downward (upward) by any shortfall (excess) in ***external project financing*** relative to the program projections evaluated in Pakistani rupee terms at actual average quarterly exchange rates (see Table 1). External project financing is defined as disbursements from bilateral and multilateral creditors to the general government for specific project expenditure;

b. downward by any underexecution in the ***targeted cash transfers (BISP)*** relative to their indicative program target;

c. downward by any excess in the flow of ***power sector payment arrears*** above the respective indicative program targets, excluding non-recoveries and excess line losses (see Text Table 4);

d. downward by any increase in the ***stock of budgetary arrears on social payments*** (such as wages, pensions, social benefits) accumulated since the beginning of the fiscal year;

e. downward by any excess in the flow of ***tax refund arrears*** (as defined below) relative to their respective indicative program targets;

f. upward by any shortfall in actual ***SBP profit transfers*** to the general government budget relative to its programmed level (Text Table 3); and

Text Table 3. Pakistan: Fiscal Program: Selected Projections
(Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

	End-Sep 2022	End-Dec 2022	End-Mar 2023
SBP profit transfers to the budget	0	300	300

g. upward by up to PRs 180 billion for the ***clearance of CPPA arrears to IPPs*** in FY23.

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

Definition

20. **Net government budgetary borrowing from the SBP** (including provincial governments) is defined as SBP claims on the general government minus general government deposits with the SBP. Those claims include government securities, treasury bills, treasury currency, and debtor balances, whereas those claims exclude accrued profits on government securities. Government deposits with the SBP exclude the Zakat Fund (Table 2).

B.6. Ceiling on the Amount of Government Guarantees

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

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

22. The floor on **targeted cash transfers spending (BISP)** applies to the cumulative targeted cash transfers spending by the Benazir Income Support Program (BISP), i.e., all spending on BISP programs targeted at families with a poverty-means tested (PMT) score below that applies to the unconditional cash transfer program (Kafalat).

C. CONTINUOUS PERFORMANCE CRITERIA

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

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

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

24. **External payment arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (federal and provincial government, SBP, and state-owned enterprises) to nonresidents arising in respect of public sector loans, debt contracted or guaranteed (including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date). The definition of debt, for the purposes of the EFF, is set out in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 14416-(09/91), adopted

August 31, 2009). The ceiling on the accumulation of external payment arrears is set at zero. The performance criterion applies on a continuous basis throughout the program period.

C.3. Other Continuous Performance Criteria

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

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

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

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

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

D. INDICATIVE TARGETS

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

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

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

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

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

28. The ceiling on the **net accumulation of tax refund arrears** applies to the cumulative flow of tax refund arrears. The stock of tax refund arrears is defined as the amount of tax refund claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond/promissory note or an official decision to reject the claim) within

a specified time period after the tax refund claim has been submitted to the FBR. The stock of tax refund arrears as of end-December 2020 was PRs 499 billion and at end-June 2022 PRs 366 billion.

D.4. Ceiling on Power Sector Payment Arrears

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

30. Monitoring mechanism to track the stock and flow of payables. The stock of payment arrears includes payables of PRs 2.3 trillion (of which PRs 800 billion held at PHPL) as of end-FY22. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) and its components are given in Text Table 4.

Text Table 4. Pakistan: Flow of Power Sector Payment Arrears
(Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

	FY2022/23		
	end-Sep	end-Dec	end-Mar
	Target	Target	Target
Total flow	**-208**	**-157**	**30**
Operational part	**127**	**200**	**263**
DISCOs' losses and inefficiency	50	78	101
DISCOs' under-recoveries	77	123	161

Source: Pakistani authorities.

D.5. Gross Issuance of PIBs, Sukuks, and Eurobonds

31. The floor on the **gross issuance of Pakistan Investment Bonds (PIBs) and GoP Ijara Sukuks, and Eurobonds** applies to the cumulative issuance starting from the beginning of the fiscal year. This is defined as the total acceptance of the bids of each auction of PIBs, GoP Ijara Sukuks across all maturities (both at fixed and floating rate), and that of Eurobonds evaluated at the program exchange rate. For bonds sold below par the issuance value is defined as the actual amount received rather than the face value.

PROGRAM REPORTING REQUIREMENTS

32. To effectively monitor the program performance, the authorities will provide all the needed data to the IMF in line with Article VIII, Section 5 of the IMF Articles of Agreement as deemed necessary. Performance under the program is monitored from data supplied to the IMF by the SBP, Ministry of Finance, FBR, Pakistan Bureau of Statistics, Ministry of Energy (Power and Petroleum Division), and other agencies as outlined in Table 3 below. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Pakistan: Projected Disbursements

(Millions of U.S. dollars)

	FY 2022/23			
	Jul-Sep 2022	Oct-Dec 2022	Jan-March 2023	Apr-June 2023
	Proj.			
Multilateral and bilateral disbursements	3,667	7,558	4,694	3,634
of which: in cash 1/	3,485	7,289	4,560	3,503
of which: Saudi oil facility and IDB commdity loans	928	960	647	226
of which: project support	498	672		
International bond issuance 2/	200	1,200	200	1,200
Commercial borrowing	415	2,449	2,220	2,000
Other	0	0	0	0
Gross inflows	4,282	11,207	7,114	6,834
of which: in cash	4,100	10,938	6,980	6,703

1/ Assumes that 65 percent of project loans and 50 percent of project grants were received in cash.

2/ Includes Naya Pakistan Certificates (NPC). NPC flows are recorded on a net basis.

Note: Cumulative excess/shortfall of flows cumulates from July 1, 2022 onwards.

Table 2. Pakistan: Government Sector (Budgetary Support)

(End-of-period stocks, millions of Pakistani Rupees)

ITEM	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	31-Dec-21	31-Mar-22
A. Central Government	**12,586,952**	**12,933,003**	**13,118,407**	**13,939,638**	**14,972,589**	**15,301,056**	**15,650,396**	**16,110,338**	**16,894,192**	**17,246,761**	**17,610,912**	**18,655,098**
1. Scheduled Banks	**5,753,677**	**7,461,389**	**6,697,593**	**7,259,336**	**8,222,465**	**8,767,130**	**9,254,690**	**10,250,249**	**11,181,917**	**11,458,935**	**11,473,393**	**12,444,273**
a) Government Securities	2,568,289	3,319,899	3,552,790	3,581,969	4,441,763	5,498,121	6,115,941	6,400,843	6,790,862	7,081,073	8,434,399	9,999,819
b) Treasury Bills	4,413,731	5,316,079	4,348,498	4,934,845	5,152,667	4,643,369	4,528,674	5,268,909	6,050,056	6,128,777	4,875,795	4,206,080
c) Government Deposits	-1,228,344	-1,174,589	-1,203,695	-1,257,478	-1,371,965	-1,374,360	-1,389,926	-1,419,503	-1,659,001	-1,750,914	-1,836,802	-1,761,627
2. State Bank	**6,833,275**	**5,471,615**	**6,420,814**	**6,680,302**	**6,750,124**	**6,533,926**	**6,395,706**	**5,860,089**	**5,712,275**	**5,787,826**	**6,137,519**	**6,210,825**
a) Government Securities	7,189,745	7,189,745	7,189,745	7,189,740	7,189,740	6,904,745	6,904,745	6,904,740	6,620,740	6,335,745	6,051,740	6,052,087
b) Accrued Profit on MRTBs	2,909	259,192	109,331	285,953	83,618	167,834	68,278	161,295	58,537	147,020	49,070	190,417
c) Treasury Bills	570,158	570,148	285,170	285,191	2,816	3,270	3,270	3,169	6,133	53,501	51,382	49,404
of which: MTBs created for replenishment of cash balances	569,000	569,000	284,000	284,000	0	0	0	0	0	0	0	0
d) Treasury Currency	9,569	9,569	9,789	9,789	9,789	9,788	9,789	9,401	9,797	9,806	9,770	9,711
f) Government Deposits (Excl. Zakat and Privatization Fund)	-967,305	-2,584,405	-1,202,341	-1,119,397	-565,997	-577,503	-616,694	-1,240,886	-1,016,725	-784,477	-539,821	-607,961
B. Provincial Governments	**-990,484**	**-1,180,548**	**-1,335,318**	**-1,376,713**	**-1,224,280**	**-1,267,549**	**-1,464,836**	**-1,619,932**	**-1,520,728**	**-1,796,571**	**-1,990,691**	**-2,100,769**
1. Scheduled Banks	**-849,079**	**-813,920**	**-865,864**	**-907,882**	**-1,012,953**	**-990,486**	**-1,022,026**	**-1,047,915**	**-1,140,944**	**-1,128,494**	**-1,158,018**	**-1,224,152**
a) Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024	1,024
b) Government Deposits	-850,103	-814,944	-866,888	-908,906	-1,013,977	-991,510	-1,023,050	-1,048,939	-1,141,968	-1,129,519	-1,159,042	-1,225,176
2. State Bank	**-141,405**	**-366,628**	**-469,454**	**-468,831**	**-211,327**	**-277,063**	**-442,810**	**-572,017**	**-379,784**	**-668,077**	**-832,673**	**-876,617**
a) Debtor Balances (Excl. Zakat Fund)	0	0	0	0	0	0	0	0	0	0	0	0
b) Government Deposits (Excl.Zakat Fund)	-141,405	-366,628	-469,454	-468,831	-211,327	-277,063	-442,810	-572,017	-379,784	-668,077	-832,673	-876,617
C. Net Govt. Budgetary Borrowings From Banking System	**11,596,468**	**11,752,456**	**11,783,089**	**12,562,925**	**13,748,309**	**14,033,507**	**14,185,560**	**14,490,407**	**15,373,463**	**15,450,190**	**15,620,220**	**16,554,329**
Through SBP	6,691,870	5,104,987	5,951,360	6,211,471	6,538,797	6,256,863	5,952,896	5,288,072	5,332,490	5,119,749	5,304,846	5,334,209
Through Scheduled Banks	4,904,598	6,647,469	5,831,730	6,351,454	7,209,512	7,776,644	8,232,664	9,202,335	10,040,973	10,330,440	10,315,374	11,220,121
Memorandum Items												
1. Accrued Profit on SBP & BSC holding of MRTBs & MTBs	2,912	259,201	109,341	285,997	83,618	167,834	68,278	161,295	58,537	147,020	49,070	190,417
2. Scheduled banks ' deposits of Privitization Commission	-2,979	-2,516	-3,272	-2,289	-2,410	-2,438	-3,448	-3,227	-3,807	-3,376	-3,938	-6,141
3. Outstanding amount of MTBs (Primary market; discounted value)	4,363,090	5,243,197	4,259,110	4,803,332	4,956,617	4,497,227	4,429,945	5,205,372	5,979,180	6,044,578	4,828,373	4,165,284
Net Govt. Borrowings (Cash basis) From Banking System	**11,545,893**	**11,422,889**	**11,587,632**	**12,147,705**	**13,471,051**	**13,721,969**	**14,022,001**	**14,268,802**	**15,247,857**	**15,222,347**	**15,516,953**	**16,311,995**
(i) From SBP	**6,688,958**	**4,845,786**	**5,842,019**	**5,925,475**	**6,455,179**	**6,089,030**	**5,884,619**	**5,126,777**	**5,273,953**	**4,972,729**	**5,245,062**	**5,126,529**
(ii) From Scheduled Banks	**4,856,935**	**6,577,103**	**5,745,614**	**6,222,230**	**7,015,872**	**7,632,939**	**8,137,383**	**9,142,025**	**9,973,904**	**10,249,617**	**10,271,891**	**11,185,466**

Table 3. Pakistan: Monitoring and Reporting Requirements

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	International reserves	Inflows/outflows into/out of Naya Pakistan Certificates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within five working day
	Foreign exchange market	SBP foreign exchange operations, and intervention (volume), distinguishing within spot transactions the outright purchase/sale and purchase/sale related to forward contract	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	SBP operations against the domestic currency in swap/forwards (including all legs of transactions): for each day, the initial outstanding FX swap/forward position, summary of transactions during the day, the end-of-day position	Daily	Within one day
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Monthly	Third working day of the following month
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates, disaggregated between new operations and outstanding stock	Monthly	Within 25 working days of the end of each month.
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month
	Banking indicators	Core Financial Stability Indicators (FSIs), including but not limited to capital adequacy; asset composition and quality; profitability; liquidity; open FX positions – in aggregate and bank-by-bank (without names)	Quarterly	Within 45 days of the following quarter
	Banking indicators	Liquidity data and deferred/restructured loans	Weekly	Within 5 days of the end of each week
	Banking data	Banks' net open foreign exchange positions split between total foreign assets and foreign exchange liabilities: in aggregate for the system and bank by bank (without names, but with consistent identifiers across datasets)	Monthly	Within five days of the end of each month
	Banking data	Holdings of government securities – in aggregate and bank-by-bank (without names, but with consistent identifiers across datasets)	Monthly	Within 7 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	SBP refinance schemes	Outstanding position under SBP refinance schemes (by program)	Monthly	Within 25 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter
	Domestic debt	Domestic debt composition	Monthly	Within 25 days of the end of each month
	Domestic debt	T-Bill and PIB Bid sheet from domestic debt auctions	Daily	Within 1 day of each T-Bill and PIB auction
	Federal government	State budget	Monthly	Within 30 days of the end of each month
	Federal government	Government guarantees - issued and executed (reported separately). Name of entity receiving the guarantee and the value of the guarantee.	Quarterly	Within 15 days of the end of each quarter
	Consolidated general government	Federal and provincial governments (including fiscal outcomes broken down by province)	Quarterly	Within 45 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Annual	Within 180 days of the end of each year
	Federal government	Fiscal financing sources: Detailed quarterly financing plan for the coming 12 months including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.	Monthly	One month in advance
	General government	Total general government budgetary spending on health and education broken down into spending by the federal and provincial governments	Monthly	Within 15 days of the end of each month
	Federal government	Stock of government borrowing from the SBP	Quarterly	Within the first five days of each quarter.
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
Federal Board of Revenue (FBR)	Revenue collection Tax credits	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions.	Monthly	Within seven days of the end of each month
	Tax arrears	By category	Monthly	Within seven days of each month
		By type of tax	Monthly	Within seven days of the end of each month
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	Monthly	Within seven days of the end of each month

Table 3. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within seven days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Quarterly	Within seven days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large taxpayer units (LTUs)	Quarterly	Within seven days of the end of each month
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, PR. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance DISCOs Consolidated Income Statement Net Electrical Output & Power Purchase Price by Source, GWh Generation, Demand and Shortfall for FY10 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type	Quarterly	Within 30 days
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection from current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter

Table 3. Pakistan: Monitoring and Reporting Requirements (concluded)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Domestic expenditure arrears	Energy arrears (stock) Flow of arrears by source	Quarterly	Within 45 days of the end of each month for government arrears
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification
Ministry of Petroleum and Natural Resources		Gas supply Gas prices Gas sales by consumers	Quarterly on monthly frequency	Within 30 days from the end of the quarter
		UFG losses	Quarterly	Within 30 days from the end of the quarter
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by conditional and unconditional transfers.	Quarterly	Within 30 days from the end of the quarter
Ministry of Finance	Financial statements	Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	Quarterly	Within 30 days from the end of the quarter