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Pakistan—Recent Economic Developments

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PAKISTAN

Recent Economic Developments

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Approved by the Middle Eastern Department

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	Contents	Page
I.	Overview	4
II.	The Domestic Economy	6
	A. Overall Trends	6
	B. Sectoral Developments	9
	C. Foreign Direct Investment and Privatization	16
	D. Public Enterprise Sector	17
III.	Budgetary Developments	20
	A. Fiscal Policy Developments	20
	B. Budgetary Revenue	24
	C. Budgetary Expenditure	26
	D. Federal-Provincial Fiscal Relations	28
	E. The 1997/98 Budget	29
IV.	Monetary Developments	30
	A. Overall Developments	30
	B. Evolution of Domestic Liquidity	31
	C. Evolution of Net Domestic and Foreign Assets	34
	D. Central Bank Operations	35
	E. Interest Rate Policy	38
	F. The Foreign Currency Deposit Scheme	39
	G. The Soundness of the Banking System	42
	H. Recent Policy Initiatives	45
V.	Developments in the External Sector	47
	A. Overall Trends	47
	B. Current Flows	47
	C. Capital Flows and Official Reserves	53
	D. External Debt and Debt Service	55
	E. Developments in the Trade System	58
	F. Developments in the Exchange System	61

Appendices

1.	Basic Data	66
2.	Changes in Regulations Concerning External Current and Capital Transactions, 1994/95–1996/97	67

Text Boxes

1.	The Agricultural Package	14
2.	The Industrial Revival Package	15
3.	Non-Bank Financial Instruments	34
4.	Changes in the Structure of the Banking System	44
5.	Amendments to Banking Legislation	46

Text Tables

1.	Sectoral Origin of Gross Domestic Product, 1992/93–1996/97	8
2.	Consumer and Wholesale Price Indices, 1992/93–1996/97	11
3.	Expenditures and Savings, 1992/93–1996/97	12
4.	Production of Major Crops 1992/93–1996/97	13
5.	Summary Accounts of the Seven Key Public Sector Enterprises	19
6.	Summary of Consolidated Fiscal Operations, 1992/93–1996/97	22
7.	Consolidated Federal and Provincial Revenue, 1992/93–1996/97	25
8.	Consolidated Federal and Provincial Expenditure, 1992/93–1996/97	27
9.	Factors Affecting Changes in Domestic Liquidity, 1992/93–1996/97	33
10.	Factors Affecting Changes in Reserve Money, 1992/93–1996/97	36
11.	Credit to the Private Sector and Public Sector Enterprises, 1992/93–1996/97	37
12.	Nonperforming Loans of Banks and Development Finance Institutions	43
13.	Balance of Payments, 1992/93–1996/97	49
14.	Merchandise Exports, 1992/93–1996/97	51
15.	Merchandise Imports, 1992/93–1996/97	52
16.	External Debt and Foreign Currency Liabilities, 1992/93–1996/97	54
17.	External Debt and Debt Service, 1992/93–1996/97	57

Statistical Appendix

18.	Sectoral Origin of Gross Domestic Product, 1992/93–1996/97	70
19.	Area, Production, and Yield of Major Crops, 1992/93–1996/97	71
20.	Disbursements of Mandatory Agricultural Credit, 1995/96–1996/97	72
21.	Gross Fixed Capital Formation by Economic Sector, 1992/93–1996/97	73
22.	Selected Commodity Prices, 1992/93–1996/97	74
23.	Increases in Procurement Prices of Selected Agricultural Commodities, 1992/93–1996/97	75
24.	Output in Selected Industries, 1992/93–1996/97	76
25.	Selected Textile Industry Statistics, 1992/93–1996/97	77
26.	Domestic Retail Prices of Selected Petroleum Products, 1992/93–1996/97	78
27.	Natural Gas Prices, 1992/93–1996/97	79
28.	Accounts of the Water and Power Development Authority, 1992/93–1996/97	80
29.	Accounts of the Karachi Electricity Supply Corporation, 1992/93–1996/97	81
30.	Accounts of the Oil and Gas Development Corporation, 1992/93–1996/97	82
31.	Accounts of the Telecommunication Company Limited, 1992/93–1996/97	83
32.	Accounts of the Sui Southern Gas Company Limited, 1992/93–1996/97	84
33.	Accounts of the Sui Northern Gas Pipelines Limited, 1992/93–1996/97	85
34.	Accounts of the Pakistan Railways, 1992/93–1996/97	86
35.	Budgetary Financing, 1992/93–1996/97	87
36.	Domestic Debt, 1992/93–1996/97	88
37.	Federal Government Fiscal Operations, 1992/93–1996/97	89

38.	Provincial Government Operations, 1992/93–1996/97	91
39.	Budgetary Expenditure, Social Action Program, and Public Sector Development Program, 1992/93–1997/98	92
40.	Monetary Survey, 1992/93–1996/97	93
41.	Accounts of the State Bank of Pakistan, 1992/93–1996/97	94
42.	Accounts of the Scheduled Banks, 1992/93–1996/97	95
43.	Government Budgetary Support, 1992/93–1996/97	96
44.	Major Interest Rates, 1994/95–1996/97	97
45a.	Market Share of Banks in Foreign Currency Deposits, 1992/93–1996/97	98
45b.	Market Share of Banks in Foreign Currency Deposits	99
46.	Commercial Banks Deposits and Loan Rates of Return under the PLS System, 1992/93–1996/97	100
47.	Sectoral Distribution of Scheduled Bank Credit to the Private Sector and Public Enterprises, 1992/93–1996/97	101
48.	Foreign Currency Deposits, 1992/93–1996/97	102
49.	Direction of Trade, 1992/93–1996/97	103
50.	Value, Volume, and Unit Value of Major Merchandise Exports, 1992/93–1996/97	104
51.	Merchandise Trade by Economic Category, 1992/93–1996/97	105
52.	Trade Indices, 1992/93–1996/97	106
53.	Services, Income, and Current Transfers, 1992/93–1996/97	107
54.	Home Remittances from Pakistani Nationals Abroad, 1992/93–1996/97	108
55.	Medium- and Long-Term Capital Flows, 1992/93–1996/97	109
56.	Selected External Aid Indicators, 1992/93–1996/97	110
57.	Short-Term Capital Flows, 1992/93–1996/97	111
58.	Gross Official Reserves, 1992/93–1996/97	112
59.	Public and Publicly Guaranteed Debt to Official Creditors, 1992/93–1996/97	113
60.	Foreign Interest Payments, 1992/93–1996/97	114
61.	Exchange Rates and Relative Consumer Prices, 1992/93–1996/97	115
62.	Karachi Stock Exchange Quotations With Respect to Foreign Exchange Bearer Certificates, 1992–97	116

Charts

1.	Key Macroeconomic Indicators, 1992/93–1996/97	7
2.	CPI Inflation, 1995/96–1996/97	10
3.	Fiscal Developments, 1992/93–1996/97	21
4.	Growth Rates and Components of Domestic Liquidity, 1990/91–1996/97	32
5.	Key Interest Rates	40
6.	Foreign Currency Deposits—Stocks and Maturity Structure	41
7.	External Sector Developments, 1992/93–1996/97	48
8.	Gross Reserves and Market Exchange Rates, 1995–97	63
9.	Exchange Rate Developments, 1990–97	64

I. OVERVIEW

1. In mid-1993, Pakistan embarked on an ambitious medium-term program of macro-economic adjustment and structural reform that sought to address deep-rooted structural problems and mounting macroeconomic imbalances that had led to a near balance of payment crisis.¹ The program achieved, initially, remarkable stabilization, including a sharp reduction in the external current account deficit, a strong buildup of reserves, and a 2 GDP percentage point reduction in the budget deficit (to 6 percent of GDP). Importantly, significant progress was made in privatizing industrial units, deregulating economic activities, liberalizing the financial system, and opening up the economy through a relaxation of trade and exchange restrictions.

2. The stabilization achieved in 1993/94 was short lived and its benefits quickly eroded as the adjustment and structural reform process lost momentum and major slippages in policy implementation started to surface, in particular in the form of a proliferation of tax exemptions and concessions. As a result, inflation accelerated, the trade deficit widened, and capital inflows weakened. The announced 1995/96 budget clearly confirmed the pause in the process of adjustment and reform, eliciting an adverse market reaction. This precipitated a rapid deterioration in the external reserves position, bringing the country back to the brink of a foreign exchange crisis in October 1995.

3. The authorities reacted by introducing, in late October 1995, a package of corrective measures, including a devaluation of the rupee by 7 percent and fiscal measures in an amount equivalent to 1.7 percent of GDP on an annual basis, including a 10 percent regulatory duty on imports.² Nevertheless, expenditure overruns and stagnant revenue fully reversed the fiscal adjustment achieved in 1993/94–94/95, and the budget deficit widened again to close to 7 percent of GDP. The 7 percent devaluation—in the absence of a tightening of fiscal policy and in the context of an accommodating monetary policy—proved insufficient to halt, let alone reverse, the progressive deterioration of the external accounts. The current account deficit widened to a record high of close to 7 percent of GDP (US\$4.4 billion). This deteriorating trend continued in early 1996/97, leading to a depletion of gross reserves and bringing the economy yet again to a near foreign exchange crisis. In response, the government

¹ The program received substantial financial assistance from major bilateral and multilateral and donors including the IMF, initially under a stand-by arrangement and later under ESAF and extended arrangements.

² This package formed the basis for a 15-month stand-by arrangement approved in December 1995, with access to Fund resources in an amount equivalent to SDR 401.85 million (equivalent to 53 percent of quota).

introduced a second package of corrective measures in October 1996, including a devaluation of 8.5 percent and fiscal measures amounting to 1.5 percent of GDP.³

4. The repeated attempts to stabilize the economy without following through with structural reforms pushed the economy in a mire of vicious circles. In particular, increased taxation on a shrinking tax base has led to further shrinkage in the tax base due to tax evasion and the expansion of the underground economy, calling for further hikes in taxation. Sluggish budgetary revenues have led to cuts in public investment in human capital and infrastructure, undermining the profitability of private sector investment and production and reinforcing the weakness in revenues. Low employment generation by the private sector has been partly compensated for by overstaffing in the public sector, which has further depressed its efficiency. Double-digit inflation has created the need for nominal depreciation, which has fed back into inflation. Declining profitability in the banking system has depressed the rate of return on bank deposits, leading to disintermediation which in turn has led to a further decline in bank profitability. More broadly, the Pakistani economy has continued to be trapped in the vicious circle of poverty, low growth, low savings, and low investment, which further hampers growth and poverty alleviation. Moreover, these structural problems have eroded the institutional fabric of the society and contributed to a deterioration in governance and in security conditions.

5. Upon the dismissal of the government by the President on November 5, 1996, a caretaker government was appointed under whose tenure important policy initiatives were launched. A new government was elected on February 3, 1997, with a strong majority of seats in the National Assembly. Backed by the strong electoral mandate, the new government moved swiftly to secure Parliament approval of important ordinances that had been introduced by the caretaker administration. On March 28, the government introduced an Economic Revival Program covering a broad range of structural reforms directed at addressing the chronic structural weaknesses that have undermined past stabilization attempts and eroded the economy's supply responsiveness.

6. The remainder of this report, which covers developments over the five-year period 1992/93–1996/97⁴ with particular emphasis on the last two years, is organized as follows: Section II discusses output and price developments, the performance of the public sector enterprises, and the packages that were introduced by the new government to revive agriculture and industry; Section III discusses budgetary and fiscal policy developments, including a discussion of the important reform of the revenue sharing arrangement between

³This package, together with additional measures taken in November 1996 by the caretaker government, formed the basis for completing the second review under the stand-by arrangement approved in December 1995, extending it through September 1997, and increasing access to SDR 562.59 million (74.2 percent of quota).

⁴Fiscal years beginning July 1.

the federal government and the provinces; Section IV discusses developments in the monetary sector, with particular emphasis on the deterioration of the soundness of the banking sector, and on the increasing policy challenge posed by the accumulation of foreign currency deposits; and Section V discusses balance of payments and external sector developments.

II. THE DOMESTIC ECONOMY

A. Overall Trends

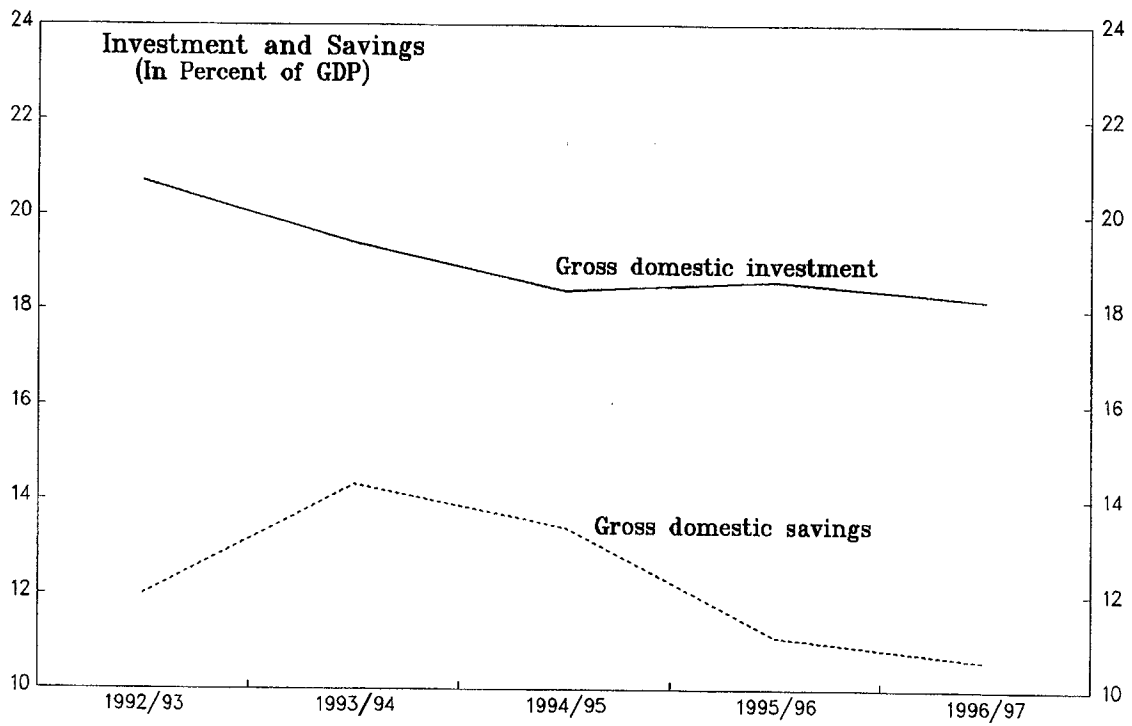
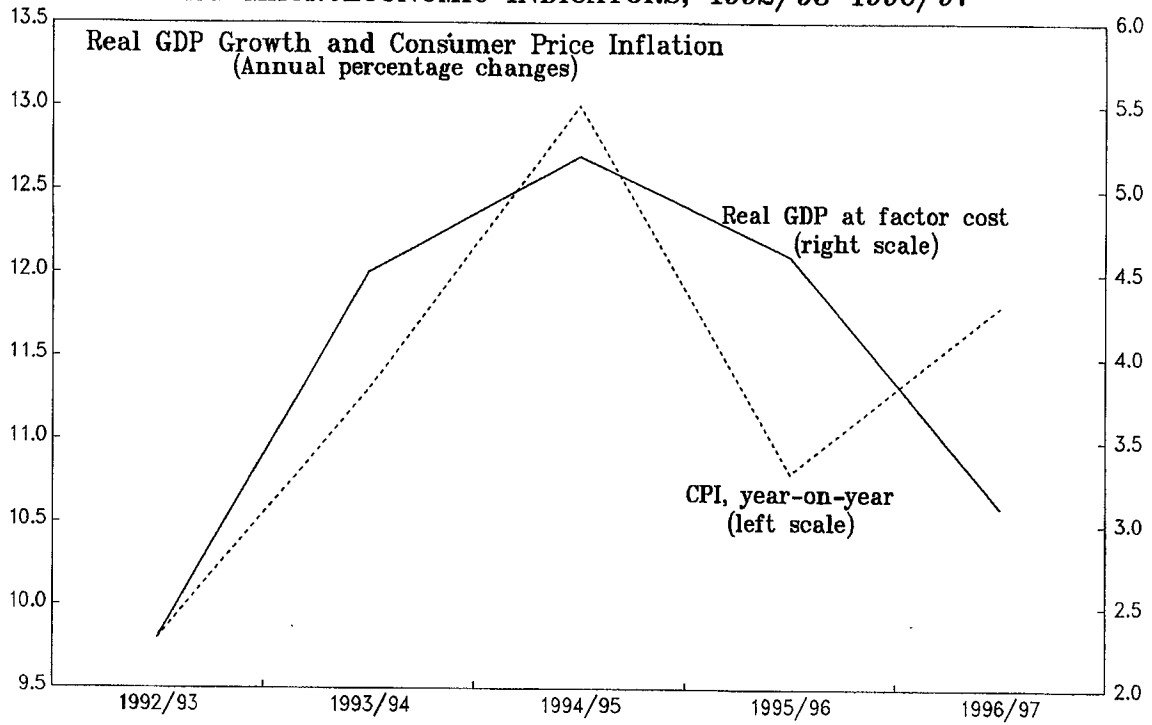
7. In recent years, Pakistan's economy has performed below its potential. The real GDP growth rate declined from an average of 6 percent in the 1980s to 4 percent in 1992/93–1996/97.⁵ This decline reflected, inter alia, poor weather conditions, a deterioration in the physical integrity of the irrigation and drainage systems, inadequate public spending on essential infrastructure and its maintenance, distortions in pricing policies, impaired international competitiveness, and stagnant productivity. Growth of large scale manufacturing has been particularly weak and became negative in 1996/97.

8. Following a sharp decline in the growth rate in 1992/93 (which reflected the devastating impact of widespread floods, the onset of a virus attack, and political instability), the growth of real GDP recovered somewhat over the next three years, helped in part by the recovery in agricultural production, a bumper cotton crop in 1995/96, investment in the energy sector in response to the energy policy announced in 1994, and expansion of certain nontraditional industrial activities (mainly small-scale, export-oriented enterprises). In 1996/97, in the context of renewed political instability that undermined private sector confidence, growth declined to 3.1 percent, barely sustaining the level of real GDP per capita. This poor performance was led by a negative growth of major crops, with repercussions on all other sectors (Chart 1 and Table 1).

9. Low growth has been combined with chronic double digit inflation, in the range of 10 percent to 13 percent, reflecting the large fiscal deficits and their monetization, adverse supply shocks associated mainly with several crop failures, and cost push factors associated with repeated devaluations, adjustments in utility prices (Appendix Table 27 and 28), increases in indirect taxes and higher import prices in 1994/95–1995/96. The 12-month rate of inflation, as measured by the Consumer Price Index (CPI), increased from 9.6 percent in June 1993 to 12.1 percent in June 1995, after which it decelerated to 10.3 percent during 1995/96 mainly because of the impact of good crops and strong leakage of excess demand through the balance of payments. Inflationary pressures resumed in the first half of 1996/97, which, together with an adjustment of petroleum prices and gas tariffs in January, led to an acceleration in the 12-month inflation rate to 13.8 percent by February 1997. In the last four

⁵1992/93 was a devastating year for agricultural growth (a decline of 5.3 percent) as a series of natural disasters caused widespread damage to crops and infrastructure, resulting in a real contraction in the production of major crops by 16 percent.

CHART 1
PAKISTAN
KEY MACROECONOMIC INDICATORS, 1992/93-1996/97



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

Table 1. Sectoral Origin of Gross Domestic Product, 1992/93–1996/97

(At 1980/81 constant prices)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of Pakistan rupees)					
Agriculture	118,795	125,005	133,215	140,240	141,223
Crops	74,446	77,772	84,109	89,175	87,233
Livestock	38,308	40,599	42,848	45,252	48,175
Fishing and forestry	6,041	6,634	6,258	5,813	5,815
Industry	131,129	137,085	143,699	148,932	153,848
Manufacturing	89,889	94,816	98,228	102,554	104,381
Large-scale manufacturing	63,577	66,294	67,310	69,039	68,051
Small-scale manufacturing	26,312	28,522	30,918	33,515	36,330
Mining and quarrying	2,642	2,765	2,646	2,833	2,891
Construction	20,701	21,040	21,253	21,944	22,475
Electricity, and gas distribution	17,897	18,464	21,572	21,601	24,101
Services	241,401	251,538	263,614	276,130	287,568
Commerce	81,061	83,378	87,245	92,613	95,078
Transport, storage and communications	50,333	52,175	54,342	54,683	57,435
Banking and insurance	11,065	12,629	13,426	14,684	14,912
Ownership of dwellings	26,939	28,361	29,858	31,435	33,095
Public admin. and defense	33,295	33,759	34,814	35,917	37,194
Other services	38,708	41,236	43,929	46,798	49,854
GDP (at factor cost)	491,325	513,628	540,528	565,302	582,639
Indirect taxes less subsidies	58,130	57,224	59,558	62,139	66,707
GDP (at market prices)	549,455	570,852	600,086	627,441	649,346
(Annual percentage changes)					
GDP at factor cost	2.3	4.5	5.2	4.6	3.1
Agriculture	-5.3	5.2	6.6	5.3	0.7
<i>Of which: Crops</i>	-10.8	4.5	8.1	6.0	-2.2
Industry	5.5	4.5	4.8	3.6	3.3
<i>Of which: Large-scale manufacturing</i>	4.1	4.3	1.5	2.6	-1.4
Construction	5.8	1.6	1.0	3.3	2.4
Electricity and gas distribution	6.4	3.2	16.8	0.1	11.6
Services	4.6	4.2	4.8	4.7	4.1
<i>Of which: Commerce</i>	2.9	2.9	4.6	6.2	2.7
Transport and communications	6.7	3.7	4.2	0.6	5.0
Banking and insurance	7.0	14.1	6.3	9.4	1.6
Public admin. and defense	2.5	1.4	3.1	3.2	3.6

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

months of 1996/97, however, inflationary pressures receded, with the 12-month rate of increase in the CPI declining to 12.5 percent by June 1997. The recent moderation of increases in the CPI occurred despite a one-time increase in the support prices of wheat, rice, and oil seed in April 1997. All in all, the year-on-year CPI inflation amounted to 11.8 percent in 1996/97 (Chart 2 and Table 2).

10. Gross national savings continued to fall short of the country's investment expenditure, with the gap widening from 3.6 percent of GDP in 1993/94 to 6.6 percent on average during the last two years. The available data suggests that the widening of the savings-investment gap has reflected mainly a sharp deterioration in national savings due to a decline in both private and public savings. Domestic investment would have declined marginally, with an increase in private investment offsetting most of the decline in public investment. Total investment and national savings, at around 18 percent of GDP and 12 percent of GDP respectively, are low and rank among the lowest in low-income countries (Table 3).

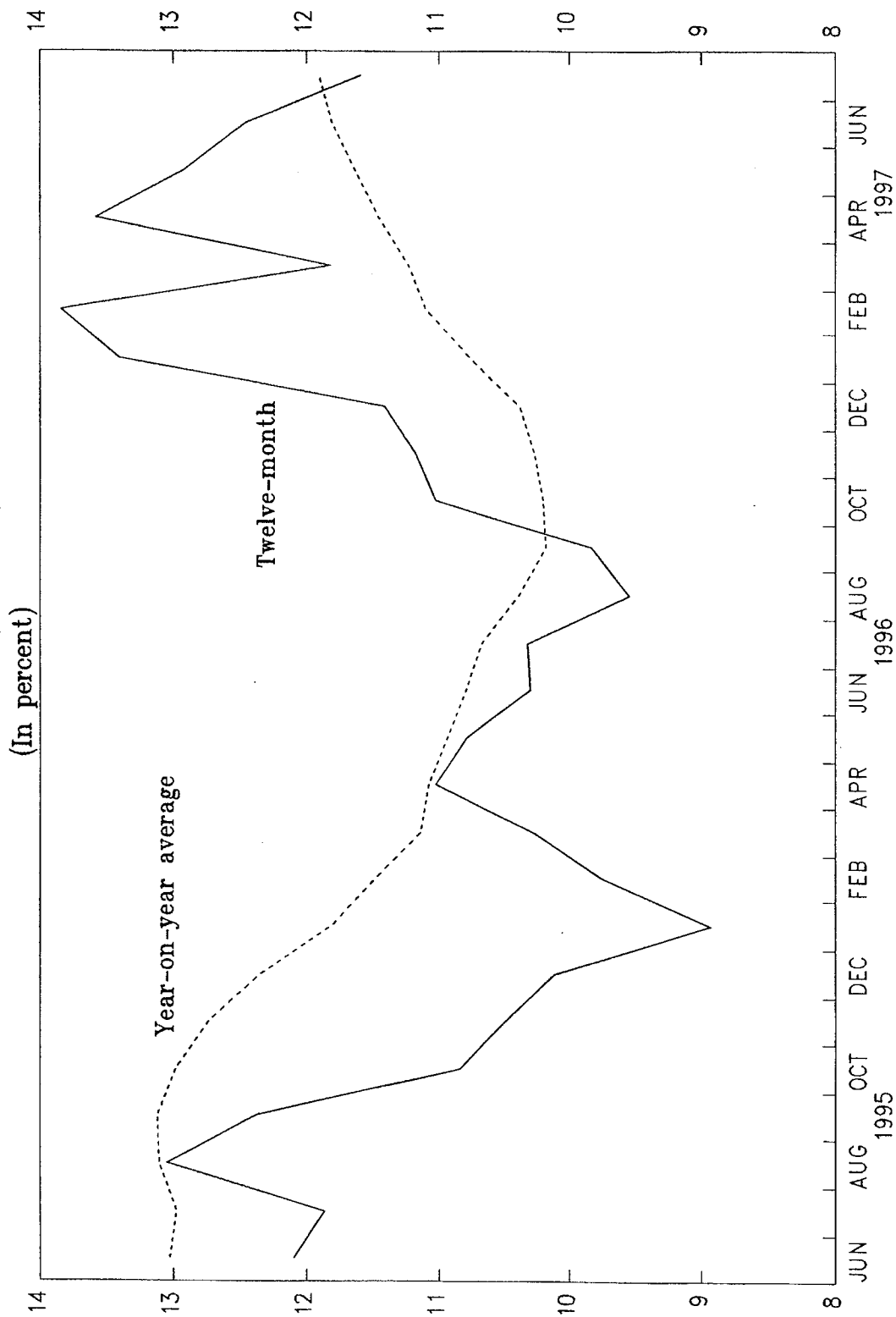
B. Sectoral Developments

Agriculture

11. Agriculture plays a vital role in the Pakistan economy because of its contribution to the supply of food and industrial raw materials, employment, and export earnings. The agricultural sector contributes about a quarter to the total real value added in the economy, accounts for half of the employed labor force, and supplies cotton to the textile industry, the largest foreign exchange earner. During 1996/97, the agricultural sector recorded a poor growth of 0.7 percent, compared to an average of 5.7 percent in 1993/94–1995/96. The production of major crops declined by 2.2 percent in 1996/97, with cotton declining by 11.5 percent, wheat by 3.3 percent, and sugarcane by 7.1 percent. As an exception to this poor performance, rice output registered a robust growth of 8.5 percent (Table 4 and Appendix Table 19). As discussed in Section V, the poor crop picture put pressure on the balance of payments as the food deficit had to be offset by higher imports.

- After a bumper harvest of 10.6 million bales in 1995/96, the cotton crop was severely attacked by the leaf curl virus and infestation of white fly in 1996/97, despite the progress that was made in introducing virus resistant seeds and in intensifying the use of pest control. The crop was further damaged by a prolonged drought condition and insufficient irrigation. The yield dropped by about 16 percent, resulting in a crop of only 9.4 million bales.
- **Wheat**, the largest grain crop in Pakistan, also registered a disappointing result, owing mainly to a drop in the cultivated area. Total production declined by 3.3 percent because of the drought in the early period of cultivation and heavy rains at the time of maturity and harvesting. In addition, the wheat output was affected by the inadequate supply of good quality seeds and (as in the case of cotton) poor irrigation.

CHART 2
PAKISTAN
CPI INFLATION, 1995/96-1996/97
(In percent)



1/ Source: Data provided by the Pakistani authorities.

Table 2. Pakistan: Consumer and Wholesale Price Indices, 1992/93–1996/97

(1990/91 = 100)

	Average Index		Twelve-month percent change 1/		Year-on-year percent change 2/	
	CPI	WPI	CPI	WPI	CPI	WPI
(Fiscal year data)						
1992/93	121.5	117.9	9.6	9.7	9.8	9.8
1993/94	135.1	137.3	11.8	21.9	11.3	7.4
1994/95	152.7	159.2	12.1	11.6	13.0	16.4
1995/96	169.2	176.9	10.3	10.5	10.8	11.1
(Monthly data)						
1995:7	154.2	160.9	11.9	13.9	13.0	15.6
1995:8	155.7	162.7	13.0	14.2	13.1	15.3
1995:9	157.3	164.4	12.4	13.4	13.1	14.9
1995:10	158.6	166.0	10.8	12.4	13.0	14.5
1995:11	159.9	167.4	10.5	10.5	12.7	13.8
1995:12	161.2	168.6	10.1	9.0	12.3	12.8
1996:1	162.4	169.7	8.9	8.0	11.8	11.9
1996:2	163.6	170.9	9.8	9.4	11.5	11.5
1996:3	165.0	172.3	10.3	10.0	11.1	11.1
1996:4	166.4	173.9	11.0	11.9	11.1	11.2
1996:5	167.8	175.4	10.8	10.8	10.9	11.2
1996:6	169.2	176.9	10.3	10.5	10.8	11.1
1996:7	170.6	178.5	10.3	11.2	10.7	10.9
1996:8	171.9	180.1	9.5	11.2	10.4	10.7
1996:9	173.3	181.6	9.8	10.7	10.2	10.5
1996:10	174.8	183.3	11.0	11.3	10.2	10.4
1996:11	176.3	185.2	11.2	13.2	10.3	10.6
1996:12	177.9	187.3	11.4	14.4	10.4	11.1
1997:1	179.8	189.6	13.4	15.7	10.8	11.7
1997:2	181.8	191.9	13.8	15.7	11.1	12.3
1997:3	183.5	193.9	11.8	13.4	11.2	12.5
1997:4	185.5	195.9	13.6	13.2	11.4	12.7
1997:5	187.4	198.1	12.9	13.8	11.6	12.9
1997:6	189.2	199.9	12.5	12.0	11.8	13.0

Source: Federal Bureau of Statistics.

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

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

Table 3. Pakistan: Expenditure and Savings, 1992/93–1996/97

(At current prices)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of Pakistan rupees)					
Nominal GDP (at market prices)	1,341,629	1,572,763	1,882,071	2,171,256	2,503,251
Net export of goods and nonfactor services	-116,990	-81,126	-94,801	-162,710	-189,404
Exports	215,980	251,740	305,931	345,620	381,687
Imports	332,970	332,865	400,732	508,329	571,091
Gross domestic expenditures	1,458,619	1,653,889	1,976,872	2,333,966	2,692,655
Gross domestic investment	277,744	305,477	346,508	404,313	455,524
Gross domestic fixed capital formation	256,644	280,877	318,308	369,113	416,724
Public	115,998	121,636	129,237	151,351	139,949
Private	140,646	159,241	189,071	217,762	276,775
Change in stocks	21,100	24,600	28,200	35,200	38,800
Consumption	1,180,875	1,348,412	1,630,364	1,929,653	2,237,131
Public	362,945	395,070	465,910	582,258	655,236
Private	817,930	953,342	1,164,454	1,347,395	1,581,895
Gross domestic savings	160,754	224,351	251,707	241,604	266,120
Public	-12,905	1,525	4,897	-24,043	-50,432
Private	173,659	222,826	246,810	265,647	316,552
(In percent of GDP)					
Net export of goods and nonfactor services	-8.7	-5.2	-5.0	-7.5	-7.6
Exports	16.1	16.0	16.3	15.9	15.2
Imports	24.8	21.2	21.3	23.4	22.8
Gross domestic expenditures	108.7	105.2	105.0	107.5	107.6
Gross domestic investment	20.7	19.4	18.4	18.6	18.2
Consumption	88.0	85.7	86.6	88.9	89.4
Gross domestic savings	12.0	14.3	13.4	11.1	10.6
Memorandum items:					
Net factor income from abroad and private transfers (in millions of Pakistan rupees)	21,476	23,853	20,554	15,008	30,225
Gross national savings	182,230	248,205	272,262	256,612	296,345

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

Table 4. Pakistan: Production of Major Crops, 1992/93–1996/97

(In thousand of metric tons; unless otherwise specified)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Cotton 1/	9,054	8,041	8,697	10,595	9,374
Wheat	16,157	15,213	17,002	16,907	16,350
Rice	3,116	3,995	3,447	3,966	4,305
Sugarcane	38,059	44,427	47,168	45,230	41,998
	(Annual percentage changes)				
Cotton	-29.4	-11.2	8.2	21.8	-11.5
Wheat	3.0	-5.8	11.8	-0.6	-3.3
Rice	-3.9	28.2	-13.7	15.1	8.5
Sugarcane	-2.1	16.7	6.2	-4.1	-7.1

Source: Ministry of Food, Agriculture, and Livestock.

1/ In thousand bales.

- **Sugarcane** was hit by a severe frost in 1996/97. Output dropped by 7.1 percent to 42 million tones, the lowest since 1992/93. This decline in production was almost entirely attributable to the sharp drop in the area under cultivation, which directly competes with the area for cotton.
- Against a negative growth in other major crops, **rice** production maintained a good performance. The growth rate reached 8.5 percent in 1996/97 and was about equally attributable to increases in acreage and in yield.
- **Minor crops** also performed relatively well in 1996/97, achieving a growth rate of about 3.4 percent, although still well below the historical trend.

12. The government's policy vis-à-vis agriculture reflects a high priority attached to the sector and the goal of achieving self-sufficiency in essential agricultural crops. Agricultural policy continued to include subsidies on water and electricity, concessional credits, and support prices for the major crops (Appendix Table 24).⁶ In addition, a special incentive package was introduced in April 1997 (Box 1). The role of private sector was enhanced in 1996/97 when the distribution of fertilizers was deregulated and output prices liberalized. In recent years, efforts for improving the irrigation and drainage system and the distribution of canal water have been insufficient. Inadequate public spending on the operation and maintenance of the irrigation and drainage systems has resulted in deterioration in the physical integrity of the system, which has become a threat to the sustainability of agricultural growth.

Box 1. The Agricultural Package

The agricultural package announced in April 1997 included:

- Adjustments in procurement and support prices of major crops. The procurement prices were raised by 38.7 percent for wheat, 15 percent for rice, 11.6 percent for sugarcane, 29.4 percent for cotton, and 42.8 percent for oil seed. Procurement prices of other minor crops were raised by an average of 25 percent.
- Relief in prices of key agricultural inputs through rationalization of tax incidence and utility tariffs.
- Improvement in the irrigation and drainage systems through the National Drainage program.
- Legislative measures against adulteration of fertilizers, pesticides, and seeds.
- Provision of special funds for agricultural research and extension services.
- Special wheat, oil seed, and livestock promotion.

⁶The area for these crops comprised about 70 percent of the total cultivated area.

Industry

13. The industrial sector accounts for about one-fourth of the overall real value added. In recent years, the performance of the industrial sector has been disappointing. Industrial output grew by only 3.3 percent in 1996/97 (as compared to an average of 4.6 percent in 1992/93–1995/96), continuing a declining trend that started in 1992/93 (Table 1). The deceleration in industrial growth in recent years reflected a combination of policy and structural weaknesses, notably the lack of competitiveness, inadequate investments in physical and human capital, distortions in input and output markets, and the law and order situation in the port city of Karachi. These factors led to the closure of a large number of mills and other industrial units in recent years.

- The growth of real value added in large-scale manufacturing, which accounts for close to 70 percent of value added in the manufacturing sector, declined from an average rate of 4.2 percent in 1992/93–1993/94 to an average of only 2 percent in 1994/95–1995/96 (Appendix Table 25). The growth performance deteriorated further in 1996/97, with output declining by 1.4 percent as the production of ginned cotton, sugar, fertilizer, and cement contracted. The difficulties of the textile industry were partly attributable to the shortage of raw cotton and slow adoption of cost-efficient technology. Concurrently with the above-noted incentive package for agriculture, the government introduced a package of measures aimed at promoting an industrial revival (Box 2).

Box 2. The Industrial Revival Package

A comprehensive plan was formulated by the new government in April 1996 aimed at reviving industrial growth. The plan includes measures targeting in particular the textile spinning industry and other high value-added sectors and exports. Special emphasis has been placed on the revival of “sick” industrial units because they have been a major source of overdue obligations to the financial institutions. By end-June 1997, about 3,206 “sick” industrial units had shut down with accumulated overdue obligations amounting to PRs 52.3 billion. In addition, there are 518 industrial units currently in the process of liquidation whose estimated outstanding obligations amount to PRs 3.8 billion.

As part of the industrial plan, the State Bank of Pakistan announced a scheme for the revival of “sick” industrial units in June 1997. Under the scheme, owners of these units would be required to participate in the loan recovery program (see Section IV). At the same time, a total of 13 committees were established to deal with the units whose owners are unable or unwilling to participate in the voluntary loan recovery program. These committees would have to make decisions on whether to revive or liquidate the “sick” units on the basis of its present net worth, prospects of loan recovery, and safety of new lending. The settlement packages for the revived units would take into account the value of the recoverable assets and the possibility of injecting new capital; and would ensure rescheduling or writing off of loans would be considered. In case of consortium financing, the financial institution with the largest exposure would negotiate the settlement package, which would be binding on the other members of the consortium. Financial institutions participating in the program will have to set up a recovery unit to facilitate the work of the committees. Progress will be reviewed periodically by a supervisory group chaired by the governor of the SBP.

- Electricity generation has expanded rapidly in recent years as a result of large public and private investments. Following a stagnation in 1995/96, the real value added grew by 9.3 percent as private electricity generation emerged. The signing of a number of power purchase agreements with independent power projects (IPPs) in 1995/96–1996/97 has played a key role in attracting private investment to power projects (Appendix Table 21).

Services

14. The services sector accounts for about 50 percent of real GDP. Real value added in this sector increased by 4.1 percent in 1996/97, as compared to an average of 4.6 percent a year in 1992/93–1995/96. Growth in commerce (at 2.7 percent) was adversely effected by the weak overall performance of the economy. In the area of banking and insurance, growth slowed markedly, constrained by the weak financial positions of the commercial banks and nonbank financial institutions. Value added in transportation and communication, which had been almost flat in 1995/96, grew by 5 percent in 1996/97, reflecting expanded capacity. The real value added in public administration and defense services grew by 3.6 percent in 1996/97, somewhat higher than in 1995/96. The growth of real value added in other service areas was in the range of 5.0–6.5 percent in 1996/97.

C. Foreign Direct Investment and Privatization

15. The Pakistan authorities have pursued an active policy to attract foreign direct investment (FDI). Foreign investors have been allowed to participate in local projects on 100 percent equity basis; foreign exchange controls have been relaxed to allow full repatriation of capital and dividend; ceilings on payments of royalties have been abolished; and work permit restrictions on expatriate managers and technical personnel working in industrial undertakings have been withdrawn and limits on their salaries removed. In addition, the negative list of activities requiring government permission for foreign investment has been reduced to items having a direct bearing on national security.⁷ Boosted by investments in the power sector, FDI increased progressively, from US\$360 million in 1993/94 to US\$1.1 billion in 1995/96. However, the upward trend was halted in 1996/97 in the context of heightened external vulnerability and the inflow of FDI declined to US\$713 million. Overall, the degree to which Pakistan has been able to attract FDI remains modest, especially compared with that in many other developing countries.

16. Progress with privatization has been quite satisfactory since the privatization program was launched in 1990/91. Rapid progress has been made in selling small industrial units.

⁷Also, there is no longer a need to obtain No Objection Certificate from the federal or provincial governments, as projects can be located anywhere in Pakistan except those areas which are notified by the government as negative areas.

With only one exception, the 87 industrial units which were targeted for privatization have been sold, consisting of automobile parts production plants (7 units), cement (11 units), chemicals (12 units), fertilizer (1 unit), engineering (8 units), ghee (16 units), rice (7 units), newspapers (5 units), and miscellaneous other items (20 units). In the utility sector, 12 percent of PTC shares were sold on the stock exchange in September 1994, and 36 percent of the shares of a thermal power plant (Kot Addu) were sold to a strategic foreign investor in June 1996.

17. In the last two years, the pace of privatization slowed as the authorities were confronted with the more complex task of privatizing public utilities, which required putting in place the appropriate regulatory framework and developing a strategy to deal with the serious labor surplus problem present in large corporations; progress in both has been very slow. In the financial sector, the government attempted to sell the United Bank Limited (UBL) on an "as is" basis in early 1996 but the offer failed to attract suitable investors. In the area of telecommunication, the plan for a second tranche of PTC privatization (26 percent share with management transfer) in 1996/97 did not attract favorable responses from investors. Looking forward, Pakistan is embarking on an ambitious privatization program which aims to privatize all banks and nonbank financial institutions as well as major public corporations in the utilities sector. This includes the National Bank of Pakistan; UBL; Habib Bank Limited; National Development Finance Corporation; Industrial Development Bank of Pakistan; Sui Northern Gas Pipeline Ltd.; Sui Southern Gas Company; Pakistan National Shipping Corporation and National Tanker Company; Karachi Electricity Supply Corporation (KESC); Oil and Gas Development Corporation (OGDC); Pakistan Telecommunication Company (PTC); Pakistan Railways; and an additional 18 industrial units.

D. Public Enterprise Sector

18. Due to the rapid progress in privatizing industrial units, the role of the public sector in the production of goods and services has declined very markedly. In the areas of public utilities and financial services, and due to the difficulties mentioned above, the public sector continues to play a dominant role. Public sector enterprises are now only about 110 (down from over 200 in the early 1990s) with a total employment of some 620,000 (compared to about 400,000 federal civil servants). They include 63 small units employing fewer than 500 workers each; 20 enterprises employing between 500 and 2,500 workers; and 8 medium-size enterprises employing between 2,500 and 10,000 workers.⁸ There are 8 large enterprises employing more than 10,000 workers and accounting for 70 percent of total employment in the public enterprise sector: the Water and Power Development Authority (160,000), Pakistan Railways (107,000), the Pakistan Telecommunications Corporation Ltd. (53,000), Habib Bank Ltd. (32,000), United Bank Ltd. (22,000), National Bank of Pakistan (21,500), Pakistan International Airlines (21,000), and Pakistan Steel Mills (21,000).

⁸Including the Oil and Gas Development Corporation (9,100), Sui Northern Gas Pipelines Ltd. (8,300), and Sui Southern Gas Company (5,600).

19. In recent years, operational inefficiencies, managerial weaknesses, and swollen employment have undermined the financial position of the major public corporations in the utility and banking sectors. Overall deficits have been contained at the expense of sharp cuts in development expenditures and in spending on operations and maintenance, with a negative impact on overall productivity. These inefficiencies have been passed on to the economy in the form of higher prices and lower quality services, hurting consumer welfare and the competitiveness of the economy. Electricity loadshedding, in particular, has caused substantial losses to the domestic industry, causing many private enterprises to turn to producing their own electricity with substantial efficiency losses nationwide. Moreover, the weakening of their financial position is hampering the capacity of the public sector enterprises to discharge their tax liabilities, service their debt, and transfer dividends to the federal budget. As of end-June 1997, the accumulated stock of debt service arrears by the public sector enterprises vis-à-vis the federal budget reached PRs 24 billion.

20. One of the main areas of reform in the new government's agenda is public sector reform. In this context, seven public enterprises, believed to be the main source of losses, have been selected for close monitoring and restructuring plans have already been drawn laying out options for their restructuring/privatization. These enterprises are Pakistan Railways (public monopoly in railways transportation), the Water and Power Development Authority (WAPDA) and the Karachi Electricity Supply Corporation (KESC) (producers of more than three-fourths of total electricity and their exclusive distributors); Sui Northern Gas Pipelines Ltd. and Sui Southern Gas Company (distributors of close to 60 percent of total gas supply); the Pakistan Telecommunications Corporation Ltd. (which, since its corporatization in 1995, has been given exclusive rights for the provision of basic telephone services for seven years); and the Oil and Gas Development Corporation (responsible for the production of close to 50 percent of locally produced oil, and close to one-fourth of locally produced gas).

21. In 1996/97, the overall deficit of these seven key public enterprises increased to 2.1 percent of GDP (from 1.9 percent of GDP in 1995/96), reflecting a major decline in their current balance surplus that was only partly offset by a curtailment of their capital outlays. The deterioration in the combined operating surplus of the seven enterprises was driven by a sharp deterioration in the financial positions of WAPDA and KESC, which was only marginally offset by improvements in PTCL, OGDC, and Pakistan Railways (Table 5 and Appendix Tables 28–34).

22. WAPDA is by far the dominant player in terms of both employment and revenue generation, with total operating revenues close to PRs 100 billion compared to PRs 120 billion for the six others combined. The current balance of WAPDA almost doubled in nominal terms in 1995/96 as a result of significant tariff hikes (leading to an increase in the average tariff by 25.5 percent) that more than compensated for the increase in its fuel costs by 21 percent. increase). Following this improvement, however, the current account balance deteriorated by 0.6 percent of GDP in 1996/97 as the average cost rose following the coming on stream of new private power projects. The average price at which WAPDA bought electricity from the private suppliers in 1996/97 was PRs 3.23 per kWh compared to its own

Table 5. Pakistan: Summary Accounts of the Seven Key Public Sector Enterprises,
1992/93-1996/97 1/

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of Pakistan rupees)					
Current balance	21,180	23,635	28,697	30,457	17,806
WAPDA	5,197	5,967	9,912	17,790	5,000
KESC	155	176	189	-469	-6,369
OGDC	2,102	1,540	1,861	3,790	5,234
SSGCL	353	492	590	538	852
SNGPL	345	434	440	415	433
PTCL	14,148	16,024	16,835	12,729	14,866
Railways	-1,120	-998	-1,130	-4,334	-2,211
Capital Expenditure	56,928	64,733	63,487	72,198	70,738
WAPDA	22,573	25,591	24,120	31,064	24,907
KESC	2,152	3,813	7,457	10,261	7,480
OGDC	1,730	4,472	5,554	3,710	13,342
SSGCL	1,858	3,934	3,999	4,299	1,968
SNGPL	3,326	4,360	3,969	3,894	3,458
PTCL	23,128	20,459	15,517	14,950	16,000
Railways	2,161	2,104	2,871	4,020	3,583
Overall balance	-35,748	-41,098	-34,790	-41,740	-52,932
<i>Of which</i> : WAPDA	-17,376	-19,624	-14,208	-13,274	-19,907
Memorandum items:					
Consolidated federal and provincial budget deficit	-109,185	-93,700	-106,100	-148,800	-153,428
Budgetary capital expenditure of WAPDA/OGDC/Railways/PTCL	16,376	14,597	16,526	15,079	15,939
Consolidated deficit of the government and the seven public enterprises	-128,557	-120,201	-124,364	-175,461	-190,421
(In percent of GDP)					
Current balance	1.6	1.5	1.5	1.4	0.7
<i>Of which</i> : WAPDA	0.4	0.4	0.5	0.8	0.2
Capital expenditure	4.2	4.1	3.4	3.3	2.8
Overall balance	-2.7	-2.6	-1.8	-1.9	-2.1
Consolidated deficit of the government and the seven public enterprises	-9.6	-7.6	-6.6	-8.1	-7.6

Sources: Annual reports of individual enterprises; and preliminary estimates.

1/ Consists of Pakistan Railways, the Water and Power Development Authority, the Karachi Electricity Supply Corporation, Sui Northern Gas Pipeline Ltd., Sui Southern Gas Company, the Pakistan Telecommunication Corporation Ltd., and the Oil and Gas Development Corporation.

average production cost of about PRs 2 per KWh. The developments in 1996/97 have highlighted the very precarious situation of WAPDA and the threat to its medium term viability in the absence of a comprehensive reform of the electricity sector. Aware of this issue, the new government has initiated a comprehensive review of its energy policy (Appendix Table 28).

III. BUDGETARY DEVELOPMENTS

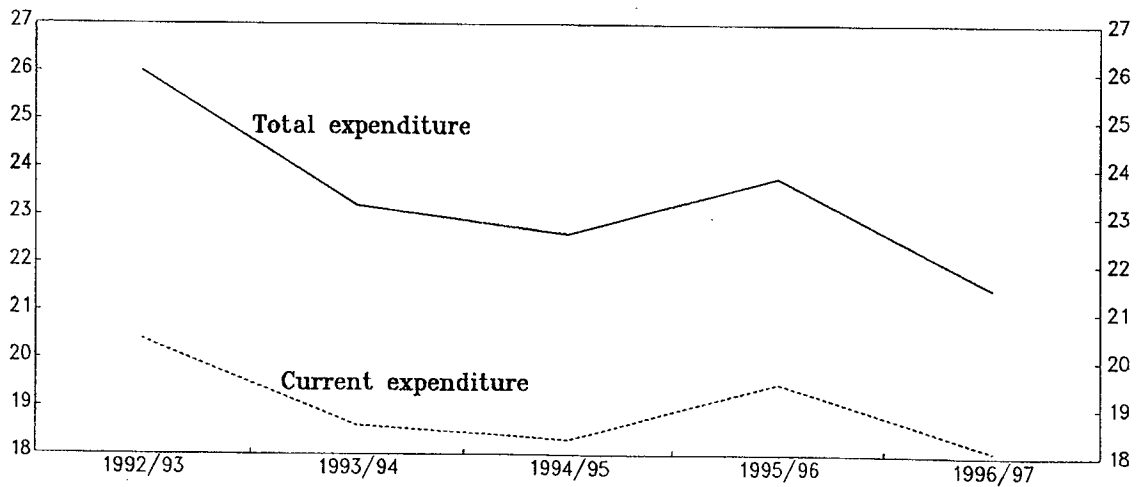
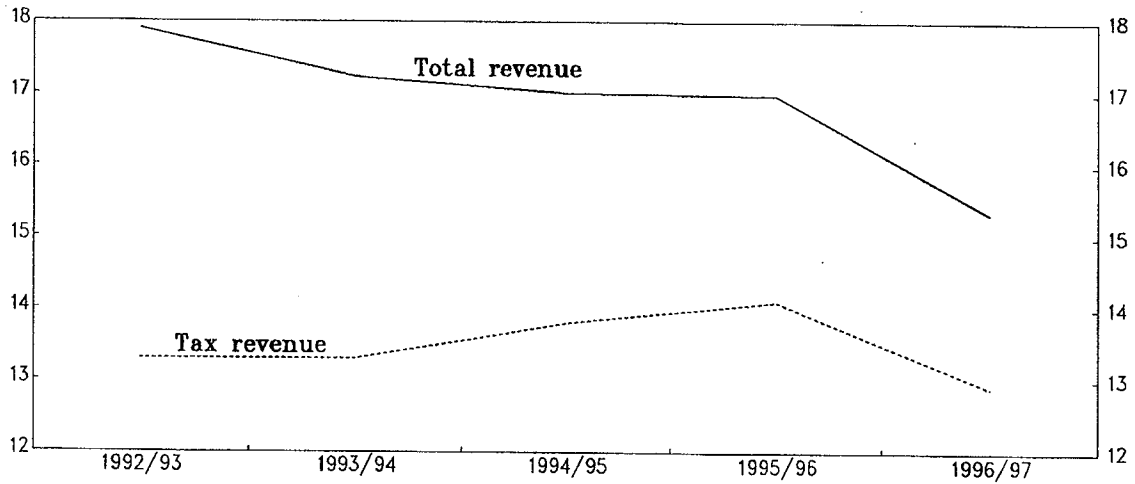
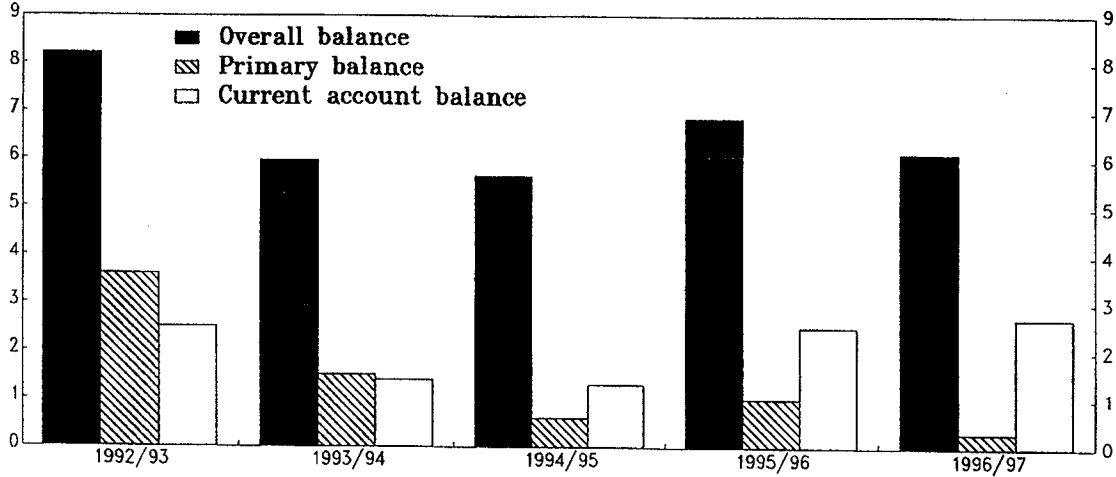
A. Fiscal Policy Developments

23. The 1995/96 budget targeted a consolidated deficit of 5.0 percent of GDP—an adjustment by 0.6 percentage points of GDP compared to the outturn for the previous fiscal year. To this end, it incorporated a host of revenue measures, including removal of tax exemptions and concessions for special industrial zones, higher withholding taxes, increased Productivity Index Unit (PIU) values for the wealth tax (by 25 percent), and a doubling of the excise duty on banks and travelers' checks. Also, there was a further expansion of excises to cover more goods, services, and certain professions. Despite these measures and their reinforcement by the fiscal package of October 1995 noted above, budgetary revenue remained flat in relation to GDP and the consolidated budget deficit widened to 6.9 percent of GDP in 1995/96, reflecting an increase in current expenditure (Chart 3, Table 6, and Appendix Tables 37–38).

24. For 1996/97, the government adopted a budget with the targeted deficit of 4.0 percent of GDP. To reach this target, a further package of revenue measures was announced which included important structural measures and would yield PRs 40.8 billion. Among these measures was an extension of the GST to the import and manufacturing stages, with an increase in the standard GST rate by three percentage points (to 18 percent), and a reduction in the number of non-zero rates to three (5, 18, and 23 percent). Most general and industry-specific exemptions from the GST were eliminated, except for basic necessities, pesticides, fertilizers, electricity and petroleum products. The 1996/97 Finance Bill also provided for a turnover threshold below which firms pay a turnover tax of 2 percent; and for refunds within a short period of the tax credit associated with purchases of capital goods and purchases of inputs for exports. The “fixed tax” schemes were eliminated, except for those on brick kilns.

25. The 1996/97 budget also included measures regarding direct taxes (curtailment of tax exemptions and holidays), central excise duties (extension to certain services and imported items), customs duties (withdrawal of exemptions and upward revision of some statutory rates), and increased federal taxation of the agricultural sector through the wealth tax. (The rate of wealth tax per PIU was raised from PRs 250 to PRs 400 and the base of the tax was broadened.) At the same time, because of revenue considerations, the authorities decided to defer the planned reduction in the maximum tariff rate from 65 percent to the 50–55 percent range and maintain the 10 percent regulatory duty imposed in October 1995.

CHART 3
PAKISTAN
FISCAL DEVELOPMENTS, 1992/93-1996/97
(In percent of GDP)



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

Table 6. Pakistan: Summary of Consolidated Fiscal Operations, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In billions of Pakistan rupees)					
Total revenue	239.5	271.0	320.1	368.6	383.7
Tax revenue	178.4	208.7	259.6	305.6	322.0
Nontax revenue	61.1	62.3	60.5	63.0	61.7
Total expenditure	349.1	364.7	426.2	517.4	537.1
Current expenditure	273.6	293.1	343.9	423.1	451.9
Development and net lending	75.5	71.5	82.3	94.2	85.2
Budget deficit	-109.5	-93.7	-106.1	-148.8	-153.4
Financing	109.5	93.7	106.1	148.8	153.4
External	25.4	25.2	28.9	27.0	21.4
Domestic	82.5	66.5	66.1	109.7	130.5
Bank	63.6	27.8	36.2	52.3	68.7
Nonbank	18.9	38.6	30.0	57.5	61.8
Privatization proceeds	1.6	2.0	11.1	12.0	1.5
Memorandum items:					
CBR revenue	158.8	173.4	226.5	268.0	281.6
Primary balance	-48.7	-23.6	-11.9	-20.8	-7.8
Current balance	-34.1	-22.2	-23.8	-54.6	-68.2
Stock of domestic debt	600.5	694.8	789.8	902.3	1,032.7
(In percent of GDP)					
Total revenue	17.9	17.2	17.0	17.0	15.3
Tax revenue	13.3	13.3	13.8	14.1	12.9
Nontax revenue	4.6	4.0	3.2	2.9	2.5
Total expenditure	26.0	23.2	22.6	23.8	21.5
Current expenditure	20.4	18.6	18.3	19.5	18.1
Development and net lending	5.6	4.5	4.4	4.3	3.4
Budget deficit	-8.2	-6.0	-5.6	-6.9	-6.1
Financing	8.2	6.0	5.6	6.9	6.1
External	1.9	1.6	1.5	1.2	0.9
Domestic	6.2	4.2	3.5	5.1	5.2
Bank	4.7	1.8	1.9	2.4	2.7
Nonbank	1.4	2.5	1.6	2.6	2.5
Privatization proceeds	0.1	0.1	0.6	0.6	0.1
Memorandum items:					
CBR revenue	11.8	11.0	12.0	12.3	11.3
Primary balance	-3.6	-1.5	-0.6	-1.0	-0.3
Current balance	-2.5	-1.4	-1.3	-2.5	-2.7
Stock of domestic debt	45.6	45.2	42.9	42.3	41.4

Source: Ministry of Finance and Economic Affairs.

26. The measures introduced with the 1996/97 budget caused serious adverse reactions, including disturbances and strikes. As a result, the government was under strong pressure to make concessions by reintroducing some exemptions in virtually all categories of taxes and by lowering some rates. Furthermore, the government carried out a clearing of the backlog of duty drawbacks from the previous years. The total loss from post-budgetary adjustments and concessions amounted to PRs 12.8 billion and contributed significantly to a deterioration in the budgetary situation and to the broader aggravation of Pakistan's macroeconomic picture in the first quarter of 1996/97.

27. As part of the above-mentioned macroeconomic stabilization package, the authorities introduced on October 22, 1996 another PRs 40 billion of measures deemed necessary to attain the budget deficit target. The package consisted of cuts in the non-core Public Sector Development Program (PRs 20 billion); reduced expenditures by provinces (PRs 3.0 billion); reduced the wheat subsidy (PRs 1.5 billion); reduced the railway subsidy (PRs 1.0 billion); reduced allocations for durable goods and honoraria (PRs 0.7 billion); a ban on fresh appointments and creation of government posts (PRs 1.0 billion); introduction of a land tax by provinces (PRs 2.0 billion); introduction of a service charge for import inspection (PRs 2.8 billion); increase in petroleum surcharges for the budget through higher petroleum prices (PRs 2.0 billion); introduction of an excise duty on gas distribution (PRs 1.3 billion); and increases in smaller taxes and fees such as passport fees, foreign travel tax, airport travel tax, and withholdings on supplies and imports (PRs 5.3 billion).

28. As in the preceding year, implementation of the fiscal plan fell far short of the target despite the corrective measures. Difficulties stemmed partly from the fact that the budgetary performance for the first half of 1996/97 was adversely affected by political turmoil and uncertainty after the dismissal of the government. Equally important, the low rate of GDP growth and the decline in imports (see Section V) contributed to a lackluster revenue performance. Preliminary data on the budgetary outcome indicate a consolidated federal-provincial deficit of 6.1 percent of GDP in 1996/97 (not directly comparable with the original target of 4.0 percent due to the reclassification of about 0.6 percent of GDP in privatization proceeds from above- to below-the-line and reform-induced revenue losses in the fourth quarter).

29. On the structural side, three important improvements were initiated by the interim government which held the office in the period of November 1996–January 1997. First, a new National Finance Commission (NFC) Award was issued to address the existing structural distortions in the financial arrangements between the Federal and the provincial governments (see below). Second, the concessionary GST rate of 5 percent was eliminated in December with most of the goods moved to the 10 percent group. Third, all four provinces adopted ordinances introducing agricultural income taxation, which were later approved by provincial assemblies.

30. The new government took steps during 1996/97 to consolidate these structural reforms initiated by the caretaker government and in addition, it implemented in April 1997, a

lowering of tax rates (see below) concurrently with a broadening of the tax base. Work has also started on a rationalization of expenditure on the basis of the Public Expenditure Review carried out by the World Bank staff in March, with the purpose of restructuring and downsizing federal ministries, attached departments, and public corporations.

B. Budgetary Revenue

31. The last two fiscal years witnessed a significant loss of budgetary revenue—from 17.0 percent of GDP in 1994/95 to 15.3 percent in 1996/97. The major part of this loss happened in 1996/97, although the revenue situation was already fragile in the previous year. Within overall revenue, the largest loss was in tax revenue (from 13.8 to 12.9 percent of GDP), although nontax revenue also decreased significantly (from 3.2 to 2.5 percent of GDP). The whole loss in tax revenue was associated with lower federal tax collections, with provincial taxes flat at 0.6 percent of GDP. The weakening in non-tax revenue was also concentrated at the federal level (Table 7).

32. The failure of the tax rate increases and other measures to produce results in 1995/96, and the continued weakness of tax collections in the first half of 1996/97, prompted the new government to implement rate-reducing and base-broadening measures as the core of the economic revival package announced in March of 1997. The adopted measures were as follows:

Tariff reform

- Removal of the regulatory duty.
- Reduction of the maximum rate to 45 percent, with 6 “slabs” (from a maximum rate was 65 percent with 13 slabs).
- Elimination of most exemptions and concessionary rates.

GST reform

- Introduction of a rate structure with only two non-zero rates (10.0 and 12.5 percent).
- Vertical extension to trade, initially in 13 major cities, by means of a turnover-type tax at 3 percent, with an option for traders to register as regular GST payers and pay the standard invoice-based GST (the timing for effectiveness of this measure has been later set for January 1998).

Reform of direct taxes

- Reduction in corporate income tax rates from 33, 43, and 58 percent to 30, 35, and 55 percent, effective with the assessment year 1997/98.

Table 7. Pakistan: Consolidated Federal and Provincial Revenue, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of Pakistan rupees)					
Tax revenue	178,393	208,661	259,577	305,580	321,966
Taxes on income and profit	35,018	41,466	59,064	75,681	80,019
Taxes on property	2,555	2,908	3,794	3,975	7,604
Federal	1,744	1,985	2,521	2,471	4,544
Provincial	811	923	1,273	1,504	3,060
Taxes on goods and services	71,437	91,924	108,361	126,667	136,653
Excise duty	35,615	35,062	44,638	51,919	56,174
Federal	35,169	34,519	43,691	51,104	55,297
Provincial	446	543	947	815	877
Sales tax	23,610	30,379	43,571	49,869	55,662
Surcharges	12,212	26,483	20,152	24,879	24,817
Gas (net)	6,549	9,284	8,220	9,752	3,182
Petroleum	5,663	17,200	12,490	15,127	21,635
Taxes on international trade	63,226	65,061	77,652	88,908	86,094
Other taxes	6,158	7,302	10,706	10,349	11,597
Stamp duties	2,613	2,877	3,423	4,213	4,497
Motor vehicles tax	1,306	1,246	1,603	1,668	1,934
Foreign travel tax	500	535	850	1,003	1,254
Other	1,739	2,644	4,830	3,465	3,912
Nontax revenue	61,138	62,324	60,539	62,979	61,734
Interest	15,901	20,152	18,456	18,375	21,684
Dividend	2,227	1,923	1,922	2,595	4,335
SBP profits	10,790	5,728	15,000	14,377	10,200
Sales proceeds and royalties	2,255	3,024	4,149	5,256	6,915
Transfers from PTC	4,148	4,100	4,100	0	0
Other civil administration	14,735	16,389	2,531	2,688	3,575
Miscellaneous	11,082	11,008	14,380	19,689	15,025
(In percent of GDP)					
Tax revenue	13.3	13.3	13.8	14.1	12.9
Taxes on income and profit	2.6	2.6	3.1	3.5	3.2
Taxes on property	0.2	0.2	0.2	0.2	0.3
Federal	0.1	0.1	0.1	0.1	0.2
Provincial	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	5.3	5.8	5.8	5.8	5.5
Excise duty	2.7	2.2	2.4	2.4	2.2
Sales tax	1.8	1.9	2.3	2.3	2.2
Surcharges	0.9	1.7	1.1	1.1	1.0
Taxes on international trade	4.7	4.1	4.1	4.1	3.4
Other taxes	0.5	0.5	0.6	0.5	0.5
Nontax revenue	4.6	4.0	3.2	2.9	2.5

Source: Ministry of Finance and Economic Affairs.

- Reduction in personal income tax rates from 10, 20, 30, and 35 percent to 5, 10, 15, and 20 percent, effective from July 1, 1997.
- Comprehensive definition of personal income to include corporate perquisites and other non-cash flows.
- Obligatory declarations for a much wider range of activities; i.e. by persons owning cars, telephones, and property, and by those who travel abroad.
- Obligatory filing of wealth tax returns based on ownership of assets.

33. The lowering of tax rates resulted in a considerable revenue loss in the fourth quarter of 1996/97 and contributed an important factor behind the weak revenue out turn for the year as a whole. The lowering of the GST rates alone led to an estimated annualized revenue loss of PRs 18 billion. Initially, the authorities had intended to immediately broaden the tax base as an offset to every lowering of the rates. However, the base-broadening has not materialized as rapidly as envisaged. In view of the reduced availability of revenue, expenditure had to be restrained so as to enable achievement of the revised budget deficit target established under the Staff Monitored Program.

C. Budgetary Expenditure

34. As a result of the revenue problems, consolidated budgetary expenditure had to be cut by 2.3 percentage points of GDP in 1996/97 (to 21.5 percent). The cuts disproportionately affected development expenditure which was reduced from 4.3 percent to 3.4 percent of GDP, while current expenditure was reduced from 19.5 percent to 18.1 percent of GDP (Table 8). However, the cuts in development expenditure were concentrated on low priority projects and the core development program was largely protected. At the federal level, the reduction in current expenditure in 1996/97 included increasing the "issue" price of the imported wheat (thereby reducing the wheat subsidy), raising fares in passenger traffic and closing 10 noneconomic lines (reducing the railway subsidy), revising budgetary allocations for durable goods and honoraria, and freezing recruitment budget which provided for the creation of 13,000 new posts (saving on "departmental charges"). The provincial governments succeeded in protecting the Social Action Program (SAP) in spite of the overall reduction in their expenditure. This appears to have been achieved, however, at the expense of an unsustainable restraint in non-wage operations and maintenance outlays in such key non-SAP areas as agricultural research and extension, irrigation, and provincial roads and highways.

35. In 1996/97, the authorities initiated an effort to strengthen public expenditure management, as reflected in an agreement with the World Bank (IDA) on an Improvement to Financial Reporting and Auditing Project covering public sector accounting and financial

Table 8. Pakistan: Consolidated Federal and Provincial Expenditure, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of Pakistan rupees)					
Total expenditure	349,064	364,681	426,246	517,352	537,089
Current expenditure	273,590	293,138	343,899	423,120	451,939
Federal	209,174	223,764	256,457	310,551	344,773
Interest payments	75,534	86,165	94,186	128,024	145,559
Domestic	60,871	70,144	73,023	102,344	115,788
Foreign	14,663	16,021	21,163	25,680	29,771
Defense 1/	87,461	91,776	104,512	119,658	127,441
General administration and services	31,140	34,991	40,015	42,908	45,372
Grants to nongovernment	5,684	3,397	8,944	8,149	7,814
Subsidies	5,911	3,978	4,762	7,982	6,088
Other/unallocable	3,687	3,458	4,038	3,830	12,499
Provincial	64,173	69,374	87,442	112,569	107,166
Development and net lending	75,473	71,543	82,343	94,232	85,150
Federal	54,200	50,041	54,183	65,497	59,650
Provincial	21,273	21,502	28,161	28,736	25,500
(In percent of GDP)					
Total expenditure	26.0	23.3	22.6	23.8	21.5
Current expenditure	20.4	18.6	18.3	19.5	18.1
Federal	15.6	14.2	13.6	14.3	13.8
<i>Of which:</i>					
Interest payments	5.6	5.5	5.0	5.9	5.8
Domestic	4.5	4.5	3.9	4.7	4.6
Foreign	1.1	1.0	1.1	1.2	1.2
Defense 1/	6.5	5.8	5.6	5.5	5.1
Provincial	4.8	4.4	4.6	5.2	4.3
Development and net lending	5.6	4.5	4.4	4.3	3.4
Federal	4.0	3.2	2.9	3.0	2.4
Provincial	1.6	1.4	1.5	1.3	1.0

Source: Ministry of Finance and Economic Affairs.

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

institutional support, as well as economic policy institutional support for the Ministry of Finance and Planning Commission. Under this project, the government has agreed to bifurcate the audit and accounting functions; independence of these functions should enhance their contribution to improvements in public expenditure management, governance, and accountability.

D. Federal-Provincial Fiscal Relations

36. The last RED paper (SM/95/305) discussed in detail the mechanism of federal government transfers to provinces, consisting of the provincial share in federally-collected taxes and surcharges (mandatory component), and grants for current expenditure and cash development loans (non-mandatory component). Under the mechanism that existed until December 1996, most of the federally-collected domestic taxes were shared with a high percentage going to provinces while import duties were allocated fully to the federal government. In particular, the provinces received 80 percent of income taxes, GST, and excise duties on tobacco and sugar. This mechanism was an obstacle to tax reform because it created a disincentive for the federal government to lower import duty rates and develop the domestic tax base. It was also an obstacle to further fiscal adjustment because measures to raise domestic taxes were diluted due to the fact that much of their yield would leak in the form of additional provincial expenditure. As a result, the tariff reform steps implemented in recent years have contributed to a deterioration in the fiscal position of the federal government and to an increased mismatch between the distribution of revenues and the assignment of expenditure within Pakistan's fiscal system.

37. The revenue sharing arrangement provided under the new National Finance Commission (NFC) Award, adopted in February 1997, has corrected the flaws of the previous arrangement by providing both an appropriate environment for tax reform and a more balanced distribution of revenues and expenditures. The new arrangement has incorporated all federally-collected taxes into the divisible pool. At the same time, the share of the provinces was lowered to 37.5 percent.⁹ This new distribution implies the need for provinces to mobilize substantial additional revenue and should therefore lead them to more fully exploit their respective tax bases. To help them in this transition, the 1997 NFC Award also stipulates grants-in-aid from the Federal Government to NWFP and Balochistan for 5 years, beginning with respective amounts of PRs 3.3 billion and PRs 4.1 billion in 1997/98 (to be increased annually by 11 percent in nominal terms, subject to subsequent adjustments in line with the actual rate of inflation for each year). Also, for 1997/98, a special transitional soft loan of PRs 12 billion was granted. The arrangement also provides for matching grants to provinces whenever their own revenue exceeds a minimum annual growth of 14.2 percent (subject to the

⁹The revenue assigned to provinces is distributed among them on the basis of their respective population (i.e., Punjab: 57.9 percent; Sindh: 23.3 percent; Northwest Frontier Province (NWFP): 13.5 percent; and Balochistan: 5.3 percent).

limits of PRs 500 million for Punjab and Sindh, and PRs 100 million for NWFP and Balochistan).

E. The 1997/98 Budget

38. The 1997/98 budget targets a reduction in the consolidated federal-provincial deficit by 1.1 percentage points of GDP (to 5.0 percent of GDP), to be achieved by increasing total revenue by 0.4 percentage points of GDP and reducing total expenditure by 0.7 percentage points of GDP. These targets are quite ambitious at the time of structural reforms, particularly in view of the significant tax rate reductions undertaken in March 1997, implying a turnaround in the primary balance—from a deficit of 0.4 percent of GDP in 1996/97 to a surplus of about 1.2 percent of GDP in 1997/98.

39. Tax revenue is expected to decline by 0.1 percentage points of GDP (to 12.8 percent of GDP), but this would be more than offset by increased nontax revenue (by 0.5 percentage points of GDP). On the tax revenue side, the loss would come primarily from customs duties. The effective duty rate is expected to fall to 17.0 percent, from 19.1 percent in 1996/97, as a result of the lowering of tariff rates in March and some realignments in April–May. Other taxes would be practically unchanged in terms of GDP due to measures amounting to about 0.8 percent of GDP directed at improving the structure of the tax system (see below). Nontax revenue would be enhanced by higher profit transfers from the central bank and significantly increased dividend transfers from PTC.

40. On the expenditure side, the 1997/98 budget provides for containment of virtually all noninterest current expenditure of the federal government (excluding mandatory grants to the provinces) at the nominal level of 1996/97. The bulk of the cuts affects defense spending and general administration and services. The authorities have also eliminated most of the remaining lower-priority development projects from the 1997/98 budget with an estimated saving of about 0.3 percent of GDP; the selection has been done in coordination with the World Bank. The lower budget deficit, together with a larger net inflow of external financing (by 0.1 percentage point of GDP), would reduce the need for domestic financing by 1.2 percentage points of GDP.

41. On the structural side, the budget introduced important changes over and above those listed above as part of the economic revival package. First and foremost, the GST rate was unified at 12.5 percent. The 1997/98 GST-related measures also include: (i) compulsory registration of importers, wholesalers and distributors; (ii) abolition of replacement invoices; (iii) changes in refund policies; (iv) reforms in the GST treatment of the steel and textile sectors; (v) improved audit; (vi) recovery of arrears; and (vii) effective elimination of fixed-tax schemes (the decision taken last year had not yet been actually implemented due to the noted post-budget setbacks). Additional measures in the area of direct taxes include: (i) amnesty for wealth tax defaulters; (ii) changes in collection of advance tax from limited companies; and (iii) compulsory filing. The government's implementation capacity is expected to gain as a

result of improved funding and restructuring of the Central Board of Revenue (CBR), and introduction of incentive schemes for tax collectors.

IV. MONETARY DEVELOPMENTS

A. Overall Developments

42. Following a tightening in 1993/94, which was somewhat sustained during 1994/95, monetary policy fully accommodated fiscal slippages in 1995/96–96/97. Developments during these last two fiscal years were characterized by an expansionary credit policy which, combined with a declining demand for money, has contributed to a serious deterioration in the net foreign asset position of the banking system (including an accumulated loss of gross reserves equivalent to US\$1.5 billion) and to the persistence of inflation in the range of 11-12 percent. The high credit expansion was mainly the result of excessive borrowing by the government, which was not offset by restricting credit to the private sector, and which was only partially counteracted through a containment of credit under government sponsored credit schemes.

43. The persistence of economic instability and high inflation, and the desire of residents to insure against macroeconomic risks, have led to further asset substitution towards foreign currency deposits (FCDs). Combined with continued build up of nonresident FCDs (which, together with resident FCDs enjoy an exchange risk cover provided by the SBP), this has constrained exchange rate flexibility and—given the low level of international reserves and the liquidity problems in some banks—heightened the risk of foreign exchange and banking crises. In the meantime, the scheme of official forward cover for FCDs has led to cumulative quasi-fiscal losses amounting to 1.5 percent of GDP during 1995/96–1996/97.

44. The performance of the banking sector has deteriorated further, highlighting the existence of longstanding structural problems. Banks' profitability decreased sharply in 1995, with the rate of return on equity for the sector as a whole estimated to have dropped to 7 percent (from a level of close to 13 percent in 1994). By the end of 1996, over 17 percent of total bank loans (equivalent to 4 percent of GDP) were nonperforming. These problems reflected a deterioration in governance and credit discipline; increased disintermediation; increased operating costs due to over staffing and expansion of the branch network; and the impact of residual financial repression in the form of high liquidity requirements, indicative credit ceilings, and mandatory and concessional credits. These trends have kept intermediation margins at a relatively high level in the range of 5–6 percent, with negative real rates of return on rupee deposits impacting negatively on private savings.

B. Evolution of Domestic Liquidity

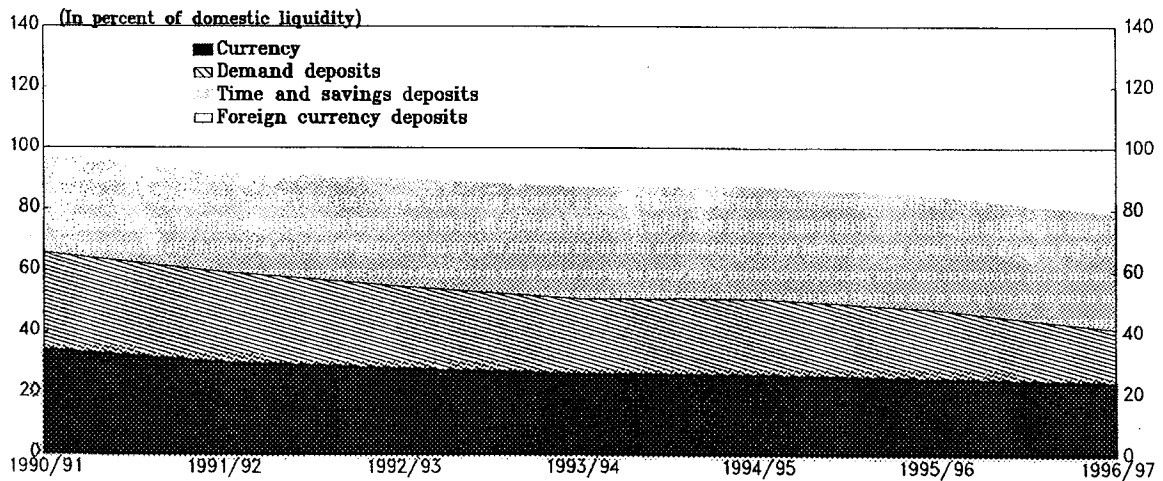
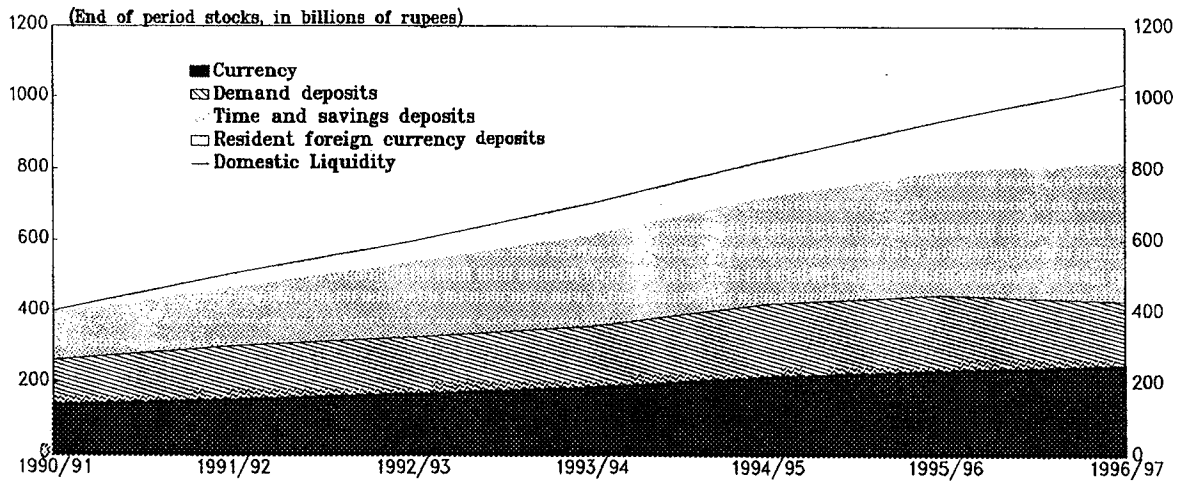
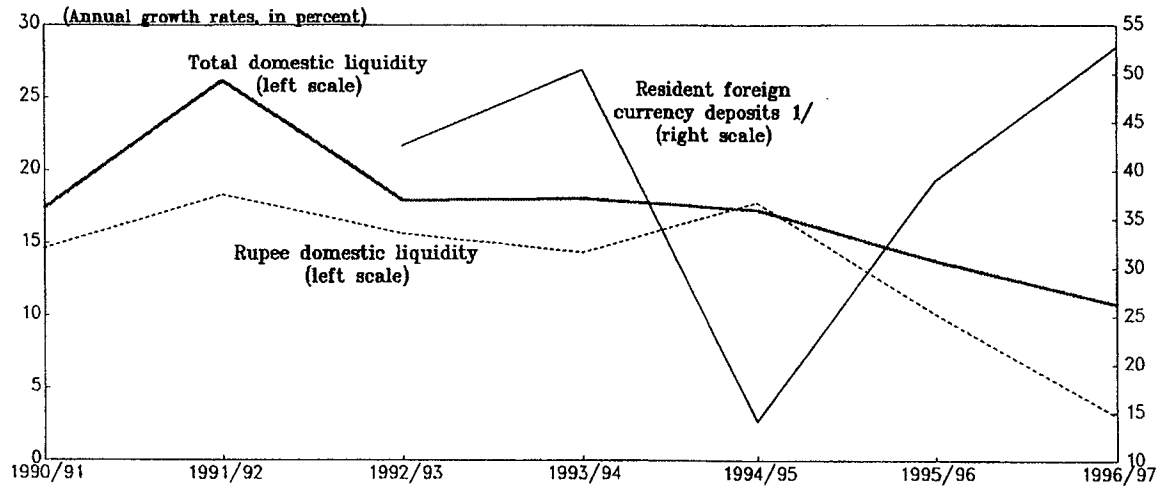
45. Following a rapid growth in the three-year period 1992/93–94/95, domestic liquidity expansion slowed down sharply in 1995/96–96/97. Specifically, following an average annual growth rate of close to 18 percent (6.5 percent in real terms, markedly ahead of real GDP growth) during the earlier three-year period, the growth of domestic liquidity slowed down to 13.8 percent in 1995/96, and further to 10.8 percent in 1996/97 (equivalent to a 1.7 percent decline in real terms). As a result, the level of monetization of the economy, as measured by the ratio of domestic liquidity to GDP, dropped from 44.7 percent in 1993/94 to 41.6 percent in 1996/97 (Chart 4 and Table 9).

46. The slower pace of domestic liquidity expansion has included an even sharper deceleration in rupee money growth, corresponding in 1996/97 to a decline in real terms of close to 10 percent. The foreign currency component of domestic liquidity (residents' foreign currency deposits), which grew at a nominal rate of 36 percent during 1992/93–94/95 (of which 26 percent reflected an increase in U. S. dollar terms), accelerated to a rate of 46 percent in the last two years. This acceleration in the rate of expansion of residents' FCDs reflected a similar growth in the stock in U.S. dollar terms and the much faster rate of nominal depreciation. As a result, the stock of residents' FCDs almost trebled as a share of domestic liquidity—increasing from 8.5 percent at end-June 1992 to 21.4 percent at end-June 1997 which has placed Pakistan on the high side of moderately dollarized economies.¹⁰

47. This decline in the demand for real balances, with a shift in its composition towards foreign currency deposits, has reflected negative real deposits rates on rupee deposits, persistent double digit inflation, growing direct borrowing by the government through the national savings schemes at high tax-advantaged rates of return, and the increasing lack of confidence of savers in the banking system. Boosted by the enhancement of their rates of return, the private sector holdings of national savings schemes, which display characteristics close to those of money, have increased in the last two years at an average rate of over 20 percent (see Box 3).

¹⁰A recent Board paper (SM/97/234) found that the average ratio of FCDs in broad money in 34 moderately dollarized economies (including Pakistan) was 16.4 percent. By comparison, the average ratio in 18 highly dollarized economies was found to be 45.5 percent.

CHART 4
PAKISTAN
DEVELOPMENTS IN DOMESTIC LIQUIDITY, 1990/91-1996/97



Source: Data provided by the Pakistani authorities.

1/ Resident foreign deposits were allowed in 1990/91. In 1991/92 they grew by 353 percent. The lower growth rate in 1994/95 reflects a growth of close to 15 percent in U.S. dollars terms and almost no change in the nominal exchange rate.

Table 9. Pakistan: Factors Affecting Changes in Domestic Liquidity, 1992/93-1996/97

	1992/93	1993/94 1/	1994/95	1995/96	Prel. 1996/97
(Changes in millions of Pakistan rupees)					
Net Foreign Assets	-34,013	33,409	26,957	-38,998	-33,438
Net domestic assets	124,572	73,863	94,376	152,900	135,139
Net claims on the government	75,437	27,963	38,696	54,297	70,572
Budgetary support	66,133	22,842	36,158	49,497	68,709
Federal government	60,857	31,980	46,285	45,086	76,346
Provincial governments	5,276	-9,138	-10,127	4,411	-7,637
Commodity operations	7,335	6,582	4,733	5,858	4,726
Zakat and private funds	1,969	-1,461	-2,195	-1,058	-2,863
Credit to the nongovernment sector	60,574	39,425	69,977	68,707	56,823
Credit to private sector and public enterprises	56,641	40,715	66,326	65,541	59,418
Credit to the autonomous bodies	3,933	-1,290	3,651	3,166	-2,595
Impact of inflows and use of privatization proceeds 2/	0	0	-14,998	6,264	2,281
Other items (net)	-11,439	6,475	700	23,632	5,463
Domestic liquidity	90,558	107,272	121,333	113,902	101,701
Currency	15,045	17,844	30,871	18,531	14,167
Local currency deposits	57,244	58,568	77,524	54,486	10,610
Foreign currency deposits	18,270	30,861	12,939	40,885	76,924
(Changes in percent of beginning of period domestic liquidity)					
Net foreign assets	-6.7	5.6	3.8	-4.7	-3.6
Net domestic assets	24.6	12.4	13.4	18.5	14.4
Net claims on the government	14.9	4.7	5.5	6.9	7.5
Of which:					
Budgetary support	13.1	3.8	5.1	6.3	7.3
Credit to the nongovernment sector	12.0	5.3	9.9	8.3	6.1
Of which:					
Credit to private sector and private enterprises	11.2	5.5	9.4	7.9	6.3
Domestic liquidity	17.9	18.0	17.2	13.8	10.8
Memorandum items:					
Annual growth rates:					
Credit to the non-government sector	20.7	11.2	17.8	14.9	10.7
Rupee deposits	18.4	15.9	18.2	10.8	1.9
Resident foreign currency deposits	42.5	50.4	14.0	38.9	52.7
M3 3/	22.5	26.3	17.7	15.4	13.4
Velocity of domestic liquidity	2.3	2.2	2.3	2.3	2.4

Sources: State Bank of Pakistan, and staff projections.

1/ End-June 1994 stocks are adjusted to include the two banks that were scheduled in September 1994.

2/ In 1996/97 reflects receipts of PRs 3,469 million from sale of Kot Addu power plant, transfers of PRs 5736 million to WAPDA and use of PRs 1500 million to retire debt vis-a-vis SBP.

3/ Defined as domestic liquidity plus deposits in nonbank financial institutions, plus investments in national savings schemes.

Box 3. Non-Bank Financial Instruments

Investment in national savings schemes (NSSs) correspond to more than two-thirds of total private sector investment in financial instruments outside the banking sector. Other financial instruments include foreign currency bearer certificates (FCBCs), foreign exchange bearer certificates (FEBCs), federal investment bonds, and deposits with nonbank financial institutions. Common characteristics among these instruments include a considerable degree of liquidity, which is ensured either through encashment options at no penalty (such as for the NSSs) or through the existence of a fairly liquid secondary market (such as for FEBCs, and FCBCs); and returns exceeding average bank deposit rates. On November 15, 1996, the government increased the rates of return on the four most popular national savings schemes by 1–2 percentage points on an annual basis.

Special savings certificates—These three-year securities were paying, on a six-monthly basis, interest at an annual rate of 15 percent for the first five payments; and at a rate of 17 percent for the last payment. These rates were raised to 16 percent and 18 percent respectively. These rates had last been increased in February 1996 (from 14 percent and 15.5 percent).

Regular Income certificates—These securities were paying monthly interest payments of PRs 1,220 for each PRs 100,000 investment, i.e. the equivalent of an annual rate of return of 15.6 percent. The monthly payments were increased to PRs 1,300 which yields an annual rate of return of 16.8 percent.

Defense savings certificates—These securities were paying interest equivalent to 341 percent over 10 years, equivalent to an annual compound rate of 16 percent (interest accrues on an annual basis and is payable at redemption). The ten-year interest rate was increased to 425 percent, equivalent to an annual compound rate of 18 percent.

Prize bonds—Over the last 35 years, the value of the prize was such that the cost to the government was 10 percent on an annual basis. The value of the prizes was increased such that the equivalent annual rate of interest has risen to 12 percent.

C. Evolution of Net Domestic and Foreign Assets

48. After having been kept at relatively moderate levels in 1993/94 and 1994/95 on the impulse of the strong stabilization program undertaken in 1993/94, the rate of expansion of net domestic assets accelerated to 18.5 percent of the initial stock of domestic liquidity in 1995/96. It later slowed down to 14.4 percent in 1996/97, with the major containment occurring in the second half of the year. Given the decline in the demand for real balances, these rates of credit expansion were consistent with a deterioration in the net foreign asset position of the banking system by 4.7 percent of initial stock of domestic liquidity in 1995/96, and an additional loss of 3.6 percent in 1996/97 (Table 9).

49. The major source of credit expansion was borrowing by the government. Failure to impose fiscal discipline, which has kept the budget deficit above 6 percent of GDP, has led to persistent need on the part of the government for bank borrowing (despite the heavy recourse to external and other domestic sources of borrowing). On average, credit to the government claimed more than 50 percent of domestic credit expansion during the last two years, with the

combined expansionary impact of direct borrowing for budgetary support plus the use of privatization proceeds (net withdrawals from the special privatization accounts) increasing from 6.8 percent of initial stock of domestic liquidity in 1995/96 to 7.7 percent in 1996/97. Moreover, the injection of high powered money to finance the budget deficit has led to a large liquidity overhang in the banking system, which has posed a challenge to monetary policy and slowed progress towards indirect methods of monetary control (Table 10). As of end-June 1997, banks' holding of government securities corresponded to 32 percent of their deposits. The excess liquidity vis-à-vis the statutory liquidity ratio was equivalent to 33 percent of reserve money.¹¹

50. The growth of credit to the non-government sector (including public enterprises) slowed down to 14.7 percent in 1995/96 (from 17.5 percent in 1994/95), and further to 11.6 percent in 1996/97. This marked deceleration was the result of the containment of credit under government sponsored schemes, which had been one of the major sources of credit expansion in 1994/95; such a containment more than offset a very robust growth of truly commercial credit. As a result, the share of credit under government sponsored schemes in total credit to the non-government declined by 5 percentage points—from 30.4 percent at end-June 1995 to 24.5 percent at end-June 1997—while the expansion of commercial credit was sustained at the levels of previous years (close to 20 percent). This pace slowed down to 16.9 percent in 1996/97, probably reflecting the impact of the ban on project lending imposed under new management on the NCBs (i.e., a limitation in their lending activities to providing credit for working capital) and a better rate of loan recovery in the context of stepped up efforts to tackle the issue of nonperforming loans (Table 11).

D. Central Bank Operations

51. Excessive budget deficit monetization combined with a very sharp drop in the demand for currency, has put a severe drain on SBP's international reserves. The net foreign asset position of SBP deteriorated in 1995/96 by an amount equivalent to 7.2 percent of the initial stock of reserve money, and further by 10.1 percent in 1996/97, a cumulative loss equivalent to US\$19 billion. Direct and indirect financing of the budget deficit (budgetary support in the form of increased holdings of treasury-bills (Appendix Table 43), withdrawal of privatization proceeds, and foreign exchange losses not passed on to the budget) contributed

¹¹Statutory liquid asset ratios were lowered from 25 percent to 20 percent for banks; and from 19 percent to 14 percent for nonbank financial institutions (effective May 28, 1997).

Table 10. Pakistan: Factors Affecting Changes in Reserve Money, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(Changes in millions of Pakistan rupees)					
Net foreign assets	-24,920	44,827	26,007	-20,231	-31,320
Net domestic assets	30,404	-14,789	13,446	47,460	64,823
Net claims on government	37,070	-26,625	20,856	39,110	40,384
Budgetary support	35,723	-25,126	23,051	40,168	43,247
Central government	28,669	-15,938	26,904	30,866	50,023
Provincial governments	7,054	-9,188	-3,853	9,302	-6,776
Zakat fund	1,331	-1,318	-1,483	-317	-2,891
Privatization fund	16	-181	-712	-741	28
Claims on nongovernment sectors	3,276	2,787	4,030	2,537	-1,442
Private sector	3,985	2,897	4,148	2,579	-1,442
Public sector enterprises	-709	-110	-118	-42	0
Claims on scheduled banks	-2,041	1,448	5,078	-5,461	22,723
Impact of inflows and use of privatization proceeds	0	0	-14,998	6,264	3,821
Other items (net)	-7,901	7,601	-1,521	5,010	-663
Reserve money	5,484	30,038	39,454	27,229	33,503
Banks' reserves	-13,027	8,479	6,630	3,997	24,257
Private sector deposits	1,127	1,058	-452	1,736	-1,231
Currency	17,384	20,502	33,275	21,496	10,477
(Changes in percent of beginning of period reserve money)					
Net foreign assets	-12.0	21.0	10.7	-7.2	-10.1
Net domestic assets	14.6	-6.9	5.5	16.8	20.9
Net claims on government	17.8	-12.5	8.6	13.8	13.0
Budgetary support	17.2	-11.8	9.5	14.2	13.9
Zakat fund	0.6	-0.6	-0.6	-0.1	-0.9
Privatization fund	0.0	-0.1	-0.3	-0.3	0.0
Claims on nongovernment sectors	1.6	1.3	1.7	0.9	-0.5
Claims on scheduled banks	-1.0	0.7	2.1	-1.9	7.3
Impact of inflows and use of privatization proceeds	0.0	0.0	-6.2	2.2	1.2
Other items (net)	-3.8	3.6	-0.6	1.8	-0.2
Reserve money	2.6	14.1	16.2	9.6	10.8
Memorandum item: Money multiplier	2.8	2.9	2.9	3.0	3.2

Source: State Bank of Pakistan.

Table 11. Pakistan: Credit to the Private Sector and Public Sector Enterprises, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(End-of-period stocks; in millions of Pakistan rupees)					
Total credit	338,360	379,075	445,402	510,943	570,361
SBP	33,395	36,182	40,213	42,750	41,308
<i>Of which</i> : credit to NBFIs	33,042	35,940	40,088	42,667	42,502
Commercial banks	240,476	278,215	327,881	385,001	445,416
Cotton export corporation	1,975	1,148	2,317	2,604	2,110
Export finance	25,567	28,349	32,425	35,750	42,027
Self employment scheme	14,740	16,524	15,476	14,315	12,667
Commercial credit	198,194	232,194	277,663	332,332	388,612
Specialized banks	64,489	64,678	77,308	83,192	83,637
ADBP	47,325	46,116	57,195	61,240	60,763
IDBP	12,794	14,258	15,302	16,393	17,319
FBC/PPCB	4,370	4,304	4,811	5,559	5,555
(Annual percentage change)					
Total credit	20.1	12.0	17.5	14.7	11.6
Commercial banks	25.9	15.7	17.9	17.4	15.7
<i>Of which</i> :					
Export finance	33.6	10.9	14.4	10.3	17.6
Commercial credit	18.6	17.2	19.6	19.7	16.9
Specialized banks	6.4	0.3	19.5	7.6	0.5
(In percent of total)					
Export finance	7.6	7.5	7.3	7.0	7.4
Commercial credit	58.6	61.3	62.3	65.0	68.1
Credit under government sponsored schemes 1/	33.9	31.3	30.4	28.0	24.5

Source: State Bank of Pakistan.

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

to an expansion in the SBP's NDA by an amount equivalent to 18.2 percent of the initial stock of reserve money in 1995/96 and by 14.9 percent in 1996/97 (Table 10).¹²

52. An additional source of NDA expansion in 1996/97 was the re-introduction of export refinance, which has contributed an expansion equivalent to 7 percent of initial stock of reserve money. From April 22, 1997, and as part of the export promotion package launched by the new government to revive the economy, the State Bank of Pakistan has stood ready to provide export refinance to banks at 10 percent mark-up rate against the concessional lending rate provided by them to exporters of 13 percent. In late July, the concessional rate to exporters was further lowered to 11 percent and consequently the refinance rate charged by SBP to banks was lowered to 9 percent. This new refinancing facility contributed 35 percent of the expansion of SBP net domestic assets, which was equivalent to 7 percent of the initial stock of reserve money.

53. The decline in the demand for broad money discussed above has included a sharper decline in the demand for currency, which has meant a further erosion in the seignorage base. In 1995/96, the stock of currency in circulation increased by 9.3 percent only, resulting in an increase in reserve money by 9.6 percent, compared to a domestic liquidity expansion of 13.8 percent. In 1996/97 these trends worsened with the rate of growth of currency in circulation dropping to 4.1 percent. Excluding the blocked deposits on account of the facility introduced in October 1996 (see below), reserve money increased by 5.1 percent, compared to a domestic liquidity expansion of 10.8 percent. This declining trend in the demand for currency has reflected the increased preference of the public towards holding deposits rather than currency, as evidenced by the steady decline in the currency to deposit ratio from 52 percent in 1990/91 to 31 percent in 1996/97. This in turn has been associated with the persistence of double-digit inflation, the availability of rupee deposits with positive nominal rates of return close to 10 percent, and the introduction of FCDs with even higher real rates of return. Reflecting these developments, the money multiplier, which had increased from 2.4 in 1990/91 to 2.9 in 1994/95, increased further in 1995/96 to 3.0 despite the introduction in December 11, 1995 of a 3.5 percent additional reserve requirement. The withdrawal of this special reserve requirement as of July 1, 1996, and the further decline in the currency to deposit ratio, contributed to an additional increase in the money multiplier to 3.2 in 1996/97.

E. Interest Rate Policy

54. As part of the October 1995 package, SBP increased the discount rate on its 3-day repo facility, from 15.5 percent to 16.5 percent. A further increase to 17 percent was implemented in December 1995. Concessional rates were raised to 14 percent except for export finance. These actions were relatively ineffective in tightening monetary conditions as

¹²Most of the foreign exchange losses incurred by the SBP as a result of the steep nominal depreciations in 1995/96 and in 1996/97 were not a major source of NDA expansion, as most of the losses were passed on to the budget in the form of lower profit transfers.

they had little impact on other interest rates in the economy, notably on interest rates at treasury bill auctions—which remained quite flat in the range of 12.7 to 13.1 percent. As part of the October 1996 stabilization package, the SBP increased its discount rate further to 20 percent, while at the same time allowing a commensurate increase in the yield on short-term government papers. The continued weaknesses in the banking system muted the response to this interest rate policy impulse. Deposits and lending rates remained virtually constant (Chart 5 and Appendix Table 44).

55. Also in October 1996, and as an attempt to stem nonresident FCDs outflows, a new facility was offered for banks to deposits with the SBP, in a special account, the rupee counterpart funds of institutional FCDs mobilized by November 28, 1996. These deposits were to earn a rate of return of 17 percent, with a maturity matching that of the mobilized FCDs. The 5 percent reserve requirement was waived, as was the 35 percent withholding income tax applicable to banks' investment in government paper. The expiration date was extended several times and the facility is still in place. The introduction of this new facility represented a substantial enhancement of banks' intermediation margin on institutional FCDs; however, partly because this enhancement was not passed on to the foreign institutional depositors, the total outstanding stock of nonresident institutions' FCDs declined by US\$125 million between end-October, 1996, and end-June, 1997.

F. The Foreign Currency Deposit Scheme

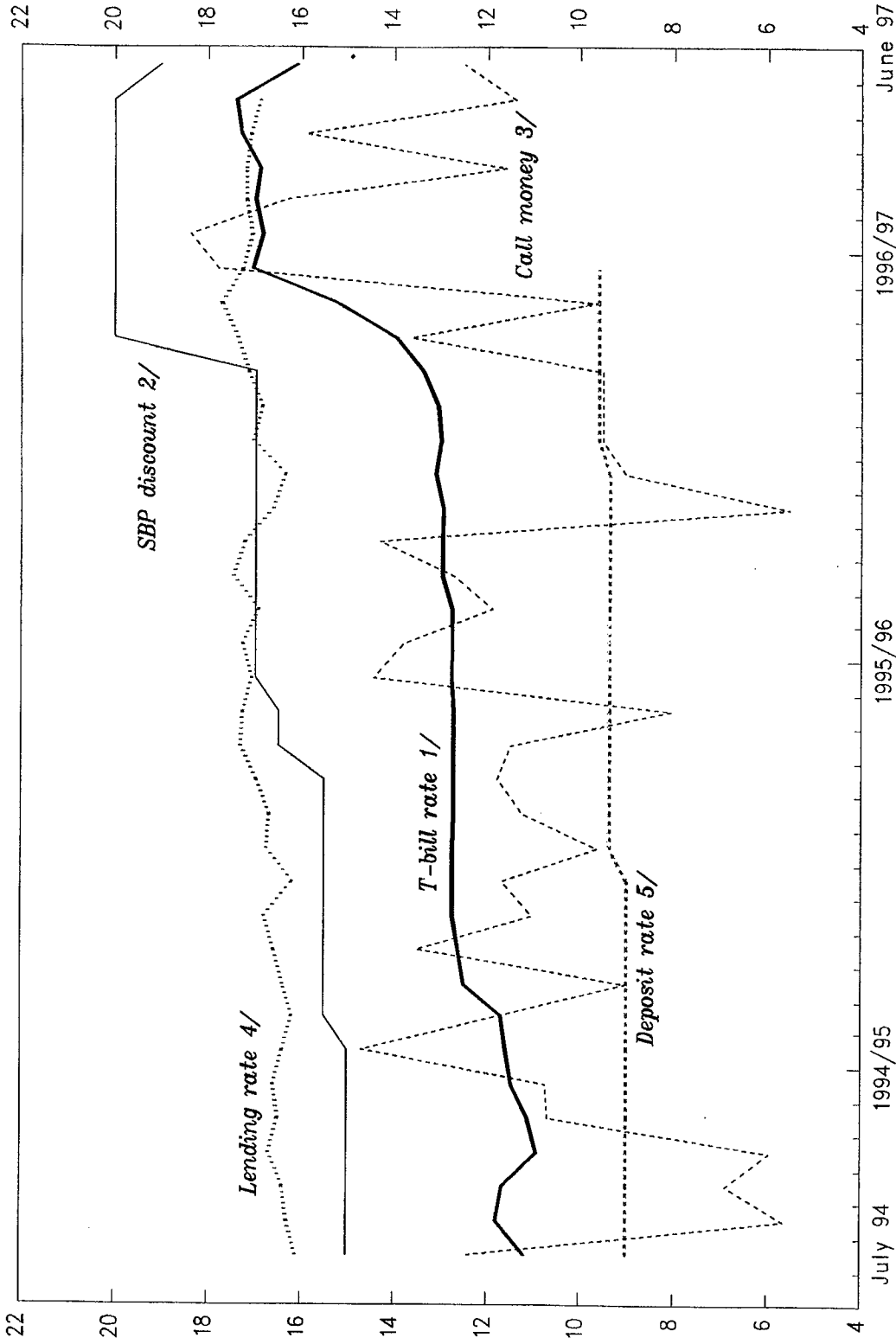
56. By end-June 1997, the stock of foreign currency deposits had swelled to US\$9,847 million, compared to less than US\$3 billion in the early 1990s, reflecting a two-fold increase in nonresidents' FCDs a 14-time increase in residents' deposits.¹³ The rapid increase in resident FCDs has reflected the tendency in recent years towards more external private transfers (mainly workers' remittances) being kept in foreign exchange rather than being surrendered to the SBP.¹⁴ Widening current account deficits and difficulties in mobilizing long-term financing (see Section V) has, on the other hand, led to the increased reliance on mobilization of nonresidents' FCDs as a form of external short-term financing (Charts 6, and Appendix Table 48).

57. Insofar as current regulations prohibit banks from lending in foreign currency and permit them to maintain only small uncovered positions in foreign exchange, FCDs are

¹³Residents' FCDs stood at US\$5,495 million and nonresidents' at US\$4,352 million.

¹⁴As mentioned above, this was caused by an erosion of confidence in the rupee, strong tax and other incentives to these deposits, and the "no questions asked" policy concerning the origin of the foreign exchange.

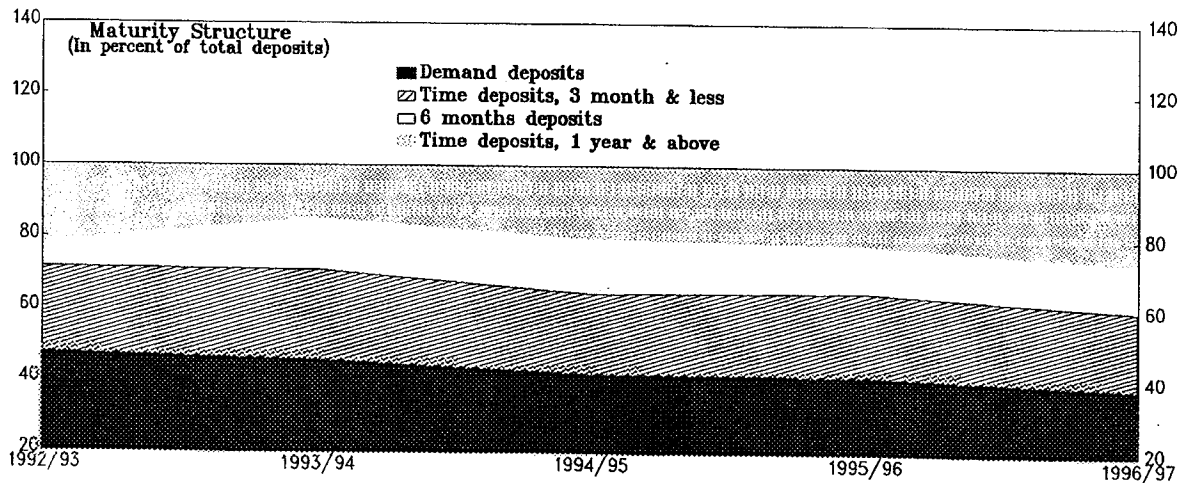
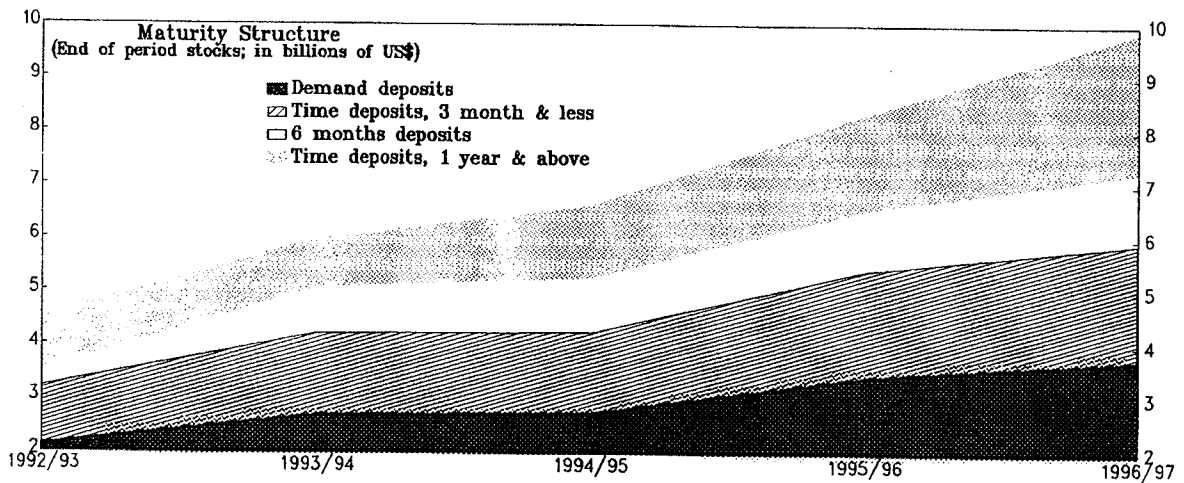
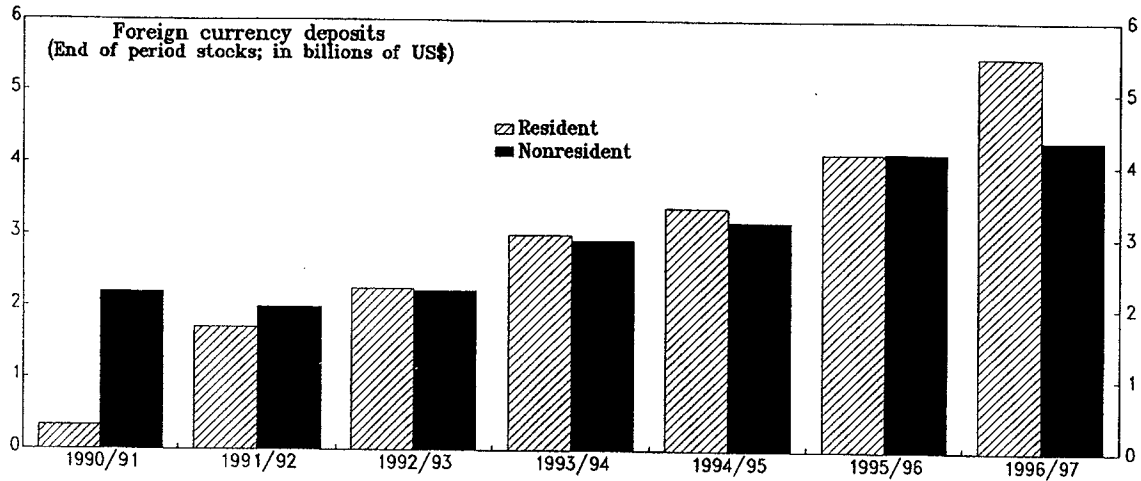
CHART 5
PAKISTAN
KEY INTEREST RATES
(In percent)



Source: State Bank of Pakistan.

1/ Primary auction rate on 6-months Treasury bill. In July 1996, treasury bills were eliminated and were replaced by 6-month short-term federal bonds.
 2/ SBP discount rate for its 3 day repo facility.
 3/ Defined as the monthly average of daily averages of minimum and maximum daily rates.
 4/ Weighted average lending rates for all commercial banks based on gross disbursement.
 5/ Average rate of return on deposits under the profit and loss sharing system determined on a six-monthly basis.

CHART 6
PAKISTAN
FOREIGN CURRENCY DEPOSITS-STOCKS AND MATURITY STRUCTURE



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

exchanged for rupees with SBP for on-lending in Pakistan.¹⁵ The banks are then required to close their open position by purchasing a forward contract from SBP. Despite several adjustments in the forward cover fee (the most recent one, implemented in late March 1997, increased the fee to 5 percent for dollar deposits), it has proven inadequate to compensate for actual exchange rate depreciation, resulting in large losses (PRs 11 billion in 1995/96 and PRs 24.3 billion in 1996/97). Given the present stock of FCDs, any additional one rupee depreciation in excess of 5 percent leads, roughly, to an additional foreign exchange loss of 0.3 percent of GDP.

58. The level of the forward cover fee has also been consistently 3 to 5 percentage points below the private market forward premium.¹⁶ The below-market level of the forward cover fee has served, in part, to lower lending interest rates—i.e., to provide a subsidy to the private sector which has access to bank credit and to mask the real cost of borrowing by the government. On the other hand, it has afforded banks a comfortable intermediation margin estimated at 5 percent. As a result, banks have found it increasingly profitable to intermediate in FCDs, and have thus increasingly relied on them as a source of funds. This has contributed importantly to the already noted rise in the share of FCDs in total bank deposit.

G. The Soundness of the Banking System

59. One of the main constraints to moving further with financial liberalization and reliance on market mechanisms of monetary control has been the marked deterioration in the financial position of the banking system, in particular of the nationalized commercial banks which continue to dominate the banking sector. In recent years, the banking sector as a whole, and most importantly the NCBs, has experienced declining profitability, increasing inefficiencies, a weakening capital base, and a build up of nonperforming assets (Changes in the structure and evolution of market shares in the banking system are described in Box 4). Loan defaults of banks and development finance institutions reached a level of PRs 121 billion as of December 31, 1996—nearly 21 percent of total advances, and close to 5 percent of GDP.¹⁷ Of the total amount of PRs 102 billion owed to banks at end-December 1996, PRs 83 billion was owed to the NCBs and to four small state-owned specialized banks. The bulk of “stuck up” loans are concentrated in project financing to the large-scale textile industry; the largest 250 defaulters account for about 70 percent of the loan defaults (Table 12).

¹⁵A ceiling on the interest rate paid by banks to the holders of these deposits is set by the SBP at a level equal to LIBOR plus a small margin. The margin has been widening to 1 percent in to increase the attractiveness of these deposits to potential investors.

¹⁶A private market for forward cover related to trade transactions, although still thin, has developed in recent years.

¹⁷Of the total amount outstanding, 60 percent is principal and the remaining 40 percent is mark-up.

Table 12. Pakistan: Non-Performing Loans of Banks and Development Finance Institutions

(In millions of Pakistan rupees)

	As of 12/31/94		Percentage		As of 12/31/95		Percentage		As of 12/31/96		Percentage	
	Principal	Interest	Share in	Total	Principal	Interest	Share in	Total	Principal	Interest	Share in	Total
Total banks and DFIs	55,095	38,199	93,294	100.0	64,368	43,469	107,837	100.0	74,265	46,741	121,006	100.0
Banks	48,660	32,826	81,486	87.3	56,036	36,868	92,904	86.2	63,262	38,267	101,529	83.9
Nationalized commercial banks	35,341	23,178	58,519	62.7	38,720	25,140	63,860	59.2	44,421	24,416	68,837	56.9
Privatized banks	4,615	4,283	8,898	9.5	5,758	4,849	10,607	9.8	6,685	4,697	11,382	9.4
Specialized banks	5,344	4,241	9,585	10.3	6,719	5,632	12,351	11.5	6,172	7,599	13,771	11.4
Provincial banks	211	52	263	0.3	525	118	643	0.6	590	153	743	0.6
Private domestic banks	1,501	469	1,970	2.1	1,385	493	1,878	1.7	1,825	602	2,427	2.0
Foreign banks	1,648	603	2,251	2.4	2,929	636	3,565	3.3	3,569	800	4,369	3.6
Development finance institutions	6,435	5,373	11,808	12.7	8,332	6,601	14,933	13.9	11,003	8,474	19,477	16.1
Memorandum items:												
Banks' outstanding credit			422,576				510,047				580,587	
Share of defaults in outstanding credit			19.3				18.2				17.5	

Source: State Bank of Pakistan.

Box 4. Changes in the Structure of the Banking System

Commercial banks represent the core of the financial system, holding about 90 percent of deposits and providing over two-thirds of total financing.¹⁸ At present, there are 25 domestic commercial banks (with 8,718 branches,) and 19 branches of foreign banks (with 78 sub branches). Domestic commercial banks include three large Nationalized Commercial Banks (NCBs), National Bank of Pakistan (NBP), Habib Bank Limited (HBL), and United Bank Limited (UBL)), two banks which were partially privatized (Muslim Commercial Bank (MCB), with 25 percent government ownership; and Allied Bank Limited (ABL), with 49 percent government ownership), four small specialized state owned banks, two provincial banks, and 13 private domestic banks.

In 1975, the banking system was fully nationalized, with a number of private banks merged into fewer larger institutions. Since the early 1990s, the government has sought private sector participation in the banking system through the privatization of the NCBs and the establishment of new privately owned banks. Some progress has been achieved and tangible shifts in market shares are taking place. Over the last four years the three NCBs have lost more than 10 percentage points of market share, the gain having been equally split between domestic private banks and branches of foreign banks.

The private domestic banks have experienced impressive growth rates: their deposit based-market share increased by 128 percent to close to 13 percent, while their loan-based market share increased by 205 percent to 12 percent. The market share of the three NCBs has declined to 46 percent for deposits and 39 percent for private sector loans. The market share of branches of foreign banks grew by some 35 percent, to 22 percent for deposits and 19 percent for loans. The two partially privatized banks, despite improvement in their operations, have not managed to expand their market share (Appendix Table 45a).

As regards the split of market shares for foreign currency deposits, the branches of foreign banks enjoy the highest share for both resident and nonresident deposits: 67 percent for nonresident deposits and 46 percent for resident deposits. Private domestic banks are active mainly in the market for resident FCDs, with a market share of 25 percent. Habib Bank and NBP share about 20 percent of the overall market for foreign currency deposits (Appendix Table 45b).

60. The declining profitability and increased inefficiencies in NCBs were due to deteriorating governance, the burden placed on these banks to fulfill several social objectives—such as employment creation, servicing of remote areas at high cost, and providing subsidized and mandatory credit under an array of government sponsored credit schemes. Analysis undertaken by the World Bank, based on 1995 data, found that the negative net worth of the three NCBs was of the order of PRs 60 billion (the equivalent of 2 percent of GDP), and that the cost of recapitalizing these banks according to BIS standards could be as high as US\$6 billion (PRs 240 billion, equivalent to 8 percent of GDP). Moreover

¹⁸ In addition to commercial banks, the financial system of Pakistan includes nine development finance institutions, 60 leasing companies, 34 modarabhas, 11 investment banks, three stock exchanges, and 60 insurance companies.

the profitability of all banks continues to suffer from remaining forms of financial repression (indicative credit ceilings and high liquidity requirements).

H. Recent Policy Initiatives

61. Encouraging reforms have been initiated during 1997 to address these structural weaknesses. These include amendments to the SBP Act to grant the SBP full autonomy in the conduct of monetary policy; amendments in banking legislation to strengthen SBP authority in bank supervision and regulation; the introduction of a foreclosure law to improve the legal environment for loan recovery; an initiative to recover bad assets through voluntary settlements; and a change in the top management of the two largest nationalized commercial banks (NCBs), with a special mandate given to the new managers to prepare these banks for privatization. A positive sign so far has been the successful privatization, in June 1997, of Habib Credit and Exchange Bank (a subsidiary of Habib Bank Ltd.).

Prudential regulations and bank supervision

62. Banking regulation and supervision over the nationalized commercial banks and development financial institutions used to be shared by three agencies (the Ministry of Finance, the Pakistan Banking Council, and the SBP), giving rise to conflicts and inefficiencies. The enactment of the amendments to the Banking Companies Law and to the Banks Nationalization Act has made the SBP the exclusive regulatory and supervisory authority for the banking system; and should insulated state-owned banks from political interference (see Box 5). The Pakistan Banking Council has been abolished, with all its former responsibilities transferred to the SBP. The managers of Habib Bank Ltd. and National Bank of Pakistan have been replaced by private sector bankers and the Boards reconstituted. Moreover, the SBP has developed a comprehensive plan to modernize and strengthen its banking supervision department, reorient its policy objectives, and adopt new supervisory techniques and data collection methods.

Box 5. Amendments to Banking Legislation

In January 1997, the caretaker government promulgated three ordinances amending the SBP Act, the Banks Nationalization Act, and the Banking Companies Law. In May, these ordinances were approved by Parliament. The amendments aim to give the SBP full autonomy in the conduct of monetary policy, to strengthen the regulatory and supervisory powers of the SBP, to insulate the SBP and state-owned banks from government interference, and to promote good governance of state-owned banks.

Amendment to the SBP Act

The amendment aims to give the SBP full autonomy in the conduct of monetary policy. Specifically, the Board of Directors of the SBP has been given the authority to determine and enforce a limit on the credit to be extended by the SBP to the government and its agencies. The governments will have to meet its additional requirements directly from commercial banks through market-based auctioning system to be conducted by SBP. Moreover, no government agency has the right to issue directives to any banking company that is inconsistent with SBP directives.

Amendment to the Banking Companies Law

The amendment gives sole authority for supervising banks and nonbank financial institutions (NBFIs) to the SBP. All previous rights for the Federal government to interfere in the activities of the banks have been transferred to the SBP. Penalty rates on various violations have been raised. The period of takeover of the management of a bank by SBP has been increased from two to three years.

Amendment to the Banks Nationalization Act

The aim of the amendment is to insulate the nationalized commercial banks and NBFIs from government interference, giving them autonomy to operate as commercial institutions. The Pakistan Banking Council, which used to have great power in overlooking the activities of all nationalized commercial banks, has been dissolved. All its assets and liabilities are transferred to SBP. Each bank will have a board of Director consisting of a Chairman, a President, who is also the Chief Executive, and between 5 to 7 other members. All Board members shall be appointed by the Federal government in consultation with SBP. The Chairman and the President will be chosen among a panel of bankers maintained and updated by SBP. The term of all Board members is three years. The Board of Directors is solely responsible for determining all bank's policies. No person with a political appointment can serve in the Board of Directors of any bank.

Legal environment and incentives for loan recovery

63. As part of the reforms to improve the legal environment for loan recovery, Parliament also passed in May 1997 the Banking Companies (Recovery of Loans, Advances, Credits and Finances) Act of 1997. This law is expected to sharply reduce the cost of resorting to the legal and judicial system to recover a loan as it provides that default cases must be disposed off in 90 days, without which the defaulter is be required to furnish security. Attachment of collaterals is permitted before judgment and appointment of a receiver. In cases where a bank is authorized to recover or take possession of the collateral without filing a suit, the bank may, at its discretion, directly recover its loan by selling the collateral.

64. An incentive package was offered to defaulters vis-à-vis state-owned banks and financial institutions to voluntarily repay their overdue loans without facing legal actions under the above mentioned new law. The incentive package provides incentive to all loan defaulters to settle their overdue obligations to NCBs and DFIs, offering some forgiveness of overdue interests. Those interested in availing themselves of these incentives would have to enter into an agreement with the respective financial institutions with one month and repayment would have to be made within a six-month period. The response to this incentive package has been good and it is estimated that PRs 35 billion of bad loans (equivalent to close to 30 percent) have been settled through this scheme, giving rise to repayments of PRs 22 billion (to be made by December 1997) and forgiveness of the balance. Additional requests are being processed for settlement of another PRs 22 billion under this scheme.

V. DEVELOPMENTS IN THE EXTERNAL SECTOR

A. Overall Trends

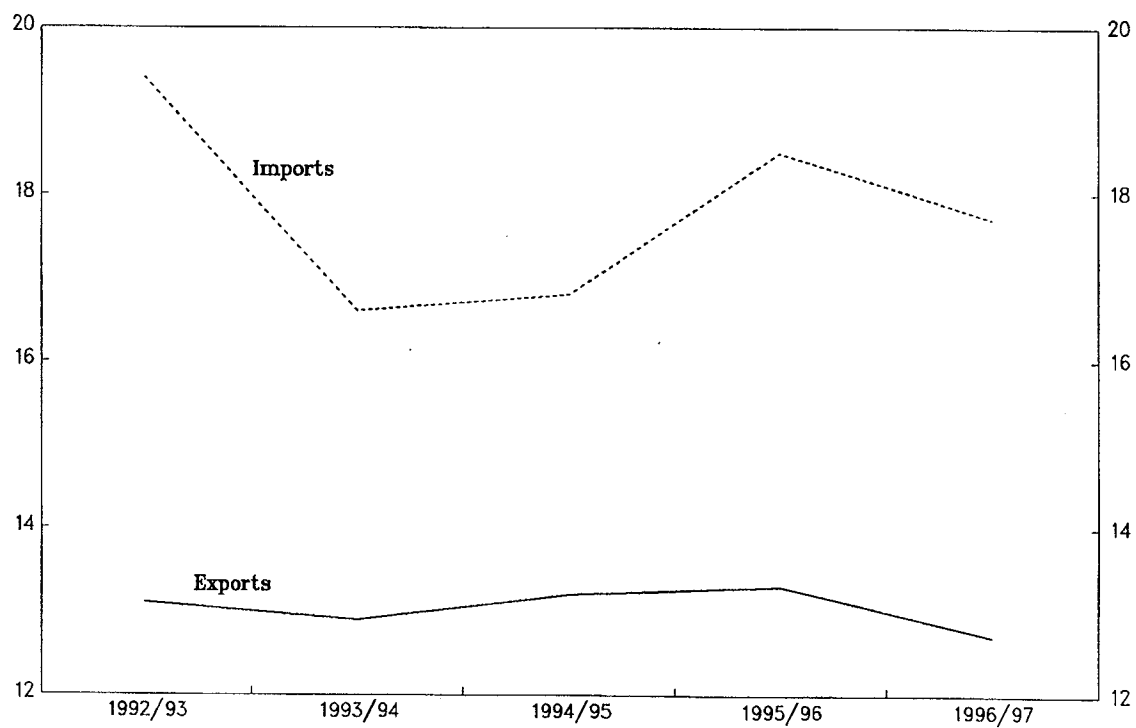
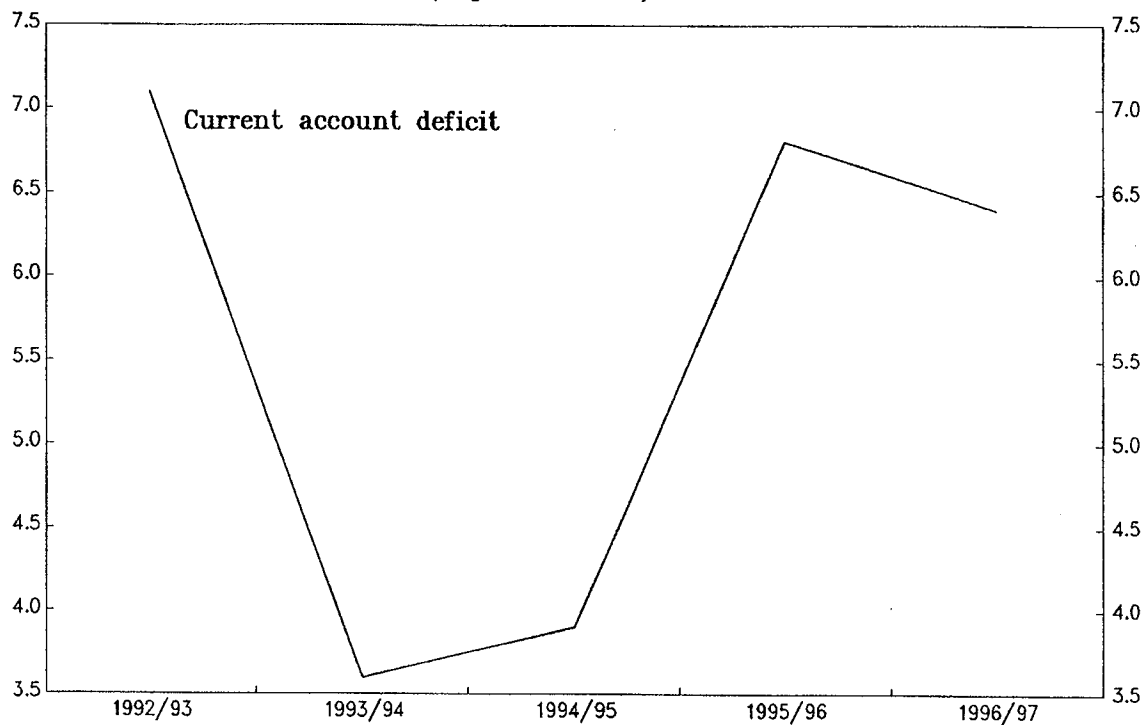
65. Pakistan's external accounts deteriorated substantially over the last two years. The current account deficit widened to 6.8 percent of GDP in 1995/96, following two years of containment below 4 percent of GDP. The sharp deterioration was mainly driven by import growth exceeding 16 percent in dollar terms on account of looser demand policies, and in the absence of timely exchange rate adjustments. The deterioration of the current account was hardly reversed in 1996/97 as both imports and exports declined by 5 percent (Chart 7 and Table 13).

66. The overall balance turned from a surplus in 1994/95 to increasing deficits during the last two years, amounting to US\$450 million in 1995/96 and over US\$1 billion in 1996/97. The capital account surplus increased in 1995/96, mainly through public short-term borrowing and the accumulation of foreign currency deposits by nonresidents. However, these short term inflows could not be sustained in 1996/97, in part because of the unstable political situation. As a consequence, the deficit was largely covered by a depletion of the official reserves—from the equivalent of 12 weeks of imports as of end 1994/95 to less than three weeks in late 1996/early 1997, before partially recovering by June 1997. Over the last two years, the total external debt (including the financial institutions' external liabilities) increased by 10 percent, reaching US\$35.7 billion at end-June 1997.

B. Current Flows

67. Developments in exports and imports have displayed great variability over the last five years, reflecting Pakistan's dependance on agricultural output and highly volatile world prices, especially for cotton products. Underlying export trends show an average growth in U.S. dollar terms reduced to less than 5 percent compared to 8 percent in the 1980s. Persisting anti-export biases in both trade and tariff policies, lagging structural reforms, and protracted commercial tensions in Pakistan's traditional markets are the main factors underlying the declining export performance. The trend growth in imports was slightly under 5

CHART 7
PAKISTAN
EXTERNAL SECTOR DEVELOPMENTS, 1992/93-1996/97
(in percent of GDP)



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

Table 13. Pakistan: Balance of Payments, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
	(In millions of U.S. dollars)				
Current account balance excluding official transfers	-3,687	-1,904	-2,413	-4,409	-4,092
Trade balance	-3,267	-1,940	-2,223	-3,363	-3,223
Exports f.o.b.	6,782	6,745	8,074	8,652	8,195
Imports f.o.b.	-10,049	-8,685	-10,296	-12,015	-11,418
Services (net)	-2,748	-2,354	-2,587	-3,437	-3,820
Of which: interest payments	-1,159	-1,270	-1,466	-1,624	-1,754
Private transfers (net)	2,327	2,390	2,397	2,391	2,951
Of which: Workers' remittances	1,562	1,446	1,866	1,461	1,409
Official transfers (net)	361	314	312	214	255
Current account balance	-3,326	-1,590	-2,101	-4,195	-3,837
Capital account	2,682	3,173	2,348	3,746	2,813
Public medium- and long-term capital	815	915	1,068	1,071	1,119
Project and nonproject loans	846	793	658	808	561
Commercial banks and IDB	-42	132	284	256	68
Other 1/	11	-10	126	7	490
Public sector short-term	739	214	-471	135	26
Private medium- and long-term	1,234	1,438	1,844	1,683	1,347
Nonbank	1,233	1,441	1,843	1,688	1,340
Deposit money banks	1	-3	1	-5	7
Private short-term (including errors and omissions)	-106	606	-93	857	321
Nonbank	-393	308	178	400	438
Deposit money banks 2/	316	339	-91	720	-432
Errors and omissions	-29	-41	-180	-263	315
Overall balance	-644	1,583	247	-450	-1,024
Financing	644	-1,583	-247	450	1,024
Net international reserves (increase -)	512	-1,880	-349	414	1,189
State Bank of Pakistan	613	-1,786	-391	636	850
Deposit money banks 3/	-101	-94	42	-222	339
Use of Fund credit	132	297	102	36	-165
Memorandum items:					
End-year gross official reserves excl. gold	462	2,302	2,741	2,053	1,238
(In weeks of c.i.f. imports)	2.2	12.6	12.7	8.2	5.2
	(In percent of GDP)				
Current account balance excluding official transfers	-7.1	-3.6	-3.9	-6.8	-6.4
Current account balance	-6.4	-3.0	-3.4	-6.5	-6.0
Private medium and long term capital	2.4	2.8	3.0	2.6	2.1
Exports, f.o.b.	13.1	12.9	13.2	13.3	12.7
Imports, f.o.b.	-19.4	-16.6	-16.8	-18.5	-17.7
	(Annual percentage changes)				
Exports, f.o.b.	0.3	-0.6	19.6	7.2	-5.3
Imports, f.o.b.	11.7	-13.6	18.6	16.7	-5.0

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

1/ Includes Foreign Currency Bearer Certificates, and Eurobond issues.

2/ Foreign currency deposit liabilities and holding of export bills.

3/ Changes in foreign exchange holdings.

percent during the same period in U.S. dollar terms, slightly less than GDP growth. Pakistan's terms of trade have deteriorated by more than 10 percent cumulatively since 1993/94, reflecting a sharp increase in the price of key imported commodities (petroleum products, wheat, edible oil) and, more recently, a decline in world prices for cotton and rice.

Merchandise exports

68. Following an exceptional export performance in 1994/95,¹⁹ export growth lost strength in 1995/96, hampered by a fall in non cotton-based products (in both traditional and nontraditional sectors) amid a renewed trend toward exchange rate appreciation and growing international concerns about possible violations of labor norms in Pakistan (see sub-section below on trade barriers to Pakistan exports). In 1996/97, exports declined by 5 percent, mainly on account of the poor cotton and rice crops which reduced to almost nil the exportable cotton surplus. Exports of traditional cotton and non-cotton manufactures also declined due to persisting trade barriers, uncertainties related to the pre-electoral climate, and mounting security problems in the main industrial cities, especially in Karachi. Pakistan's exports remained highly concentrated on cotton-based products, whose share fluctuated around 60 percent of total exports over the last five years. In addition, the proportion of high value-added manufactures in the total of cotton-based exports—about 45 percent, excluding raw cotton—has hardly increased (Table 14 and Appendix Tables 50, 51, and 52).

Merchandise imports

69. Imports declined by 5 percent in 1996/97, after two years of rapid increase boosted by sustained growth, declining competitiveness, and adverse terms of trade developments for wheat, edible oil, and—to a lesser extent—fertilizers and petroleum products. Food imports, which account for 13 percent of the total, declined by more than 12 percent in U.S. dollar terms because of a sharp reduction in the shipments of palm oil. Imported quantities of raw materials and intermediate goods also declined as activity in the manufacturing industry slowed down and industries tended to delay import orders in anticipation of a major customs tariff reform (Table 15 and Appendix Tables 51 and 52).

Direction of trade

70. The direction of trade has not changed fundamentally over the last three years. The European Union as a whole remains Pakistan's first market abroad, with a share in total exports above 30 percent in 1996/97. The United States is the second largest destination of exports, and its share has been steadily increasing in the 1990s, having reached 17.5 percent of total exports in 1996/97, reflecting mainly Pakistan's increasing success in low cost nontraditional exports such as sportswear and surgical instruments. Since 1995/96, Hong

¹⁹In 1994/95, exports showed a 20 percent increase, supported by a booming world price for cotton-based products and increased demand for textile and nontraditional exports

Table 14. Pakistan: Merchandise Exports, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
	(In millions of U.S. dollars)				
Total exports, customs basis	6,872	6,803	8,137	8,707	8,261
Cotton	271	80	62	506	30
Rice	317	242	454	504	460
Basmati rice	199	126	184	295	198
Other varieties	118	116	270	209	262
Petroleum products	90	75	86	67	78
Cotton manufactures	3,722	3,775	4,627	4,981	4,928
Yarn	1,121	1,259	1,529	1,540	1,397
Cloth	863	821	1,080	1,276	1,217
Ready-made garments	618	612	642	648	727
Tents and canvas	40	29	38	39	34
Hosiery	464	509	689	703	671
Towels and other made-up articles	616	544	649	775	882
Other traditional exports	1,082	1,178	1,199	1,067	1,078
Leather	232	224	272	260	240
Carpets	173	151	198	209	194
Fish products	182	155	154	141	148
Synthetic textiles	495	648	575	457	496
Other exports	1,390	1,453	1,709	1,582	1,687
<i>Of which</i>					
Leather garments and leather gloves	399	389	340	333	350
Sports goods	131	199	264	248	299
Surgical goods	102	92	114	127	122
Fruits and vegetables	53	56	51	54	78
Petroleum and petroleum products	82	54	81	67	78
Adjustment for freight and valuation 1/	-90	-58	-63	-55	-66
Total exports, balance of payments basis f.o.b.	6,782	6,745	8,074	8,652	8,195
	(Annual percentage changes)				
Total exports, f.o.b.	0.3	-1.4	17.9	7.2	-5.3
Cotton	-47.6	-70.7	-22.5	721.0	-94.1
Rice	-23.6	-23.6	87.5	11.0	-8.7
Petroleum products	9.1	-16.8	14.6	-22.0	16.2
Cotton manufactures	2.9	1.4	22.6	7.7	-1.1
Other traditional exports	7.8	8.9	1.7	-11.0	1.0
Other exports	4.9	4.5	17.6	-7.4	6.6

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

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

Table 15. Pakistan: Merchandise Imports, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of U.S. dollars)					
Total imports, f.o.b.	10,049	8,685	10,296	12,015	11,418
Freight and insurance	880	784	908	1,033	982
Total imports, c.i.f.	10,929	9,460	11,204	13,048	12,400
Petroleum products	1,578	1,450	1,722	2,010	2,235
Crude oil	538	442	483	509	583
Fuel oil	238	254	402	540	560
Other petroleum products	802	755	837	961	1,092
Raw cotton imports	0	181	339	...	...
Wheat	390	199	357	455	611
Fertilizer (public sector)	249	266	128	345	387
Edible oils	584	488	997	855	508
Palm oil	452	408	831	738	408
Soy oil	132	80	166	117	100
Project-related imports	925	1,153	1,310	1,133	1,050
Defense-related imports	793	586	839	1,093	955
Other public sector imports	409	220	380	377	316
Private sector imports	5,817	4,764	4,991	6,688	6,269
<i>Of which:</i> Energy projects			250	170	140
Personal baggage/NRI 1/	127	141	114	72	67
Afghan refugee assistance	57	12	28	20	2
(Annual percentage changes)					
Total imports, c.i.f.	12.3	-13.4	18.4	16.5	-5.0
Petroleum products	14.6	-8.1	18.8	16.7	11.2
Wheat	55.4	-48.9	79.2	27.4	34.2
Fertilizers	-3.9	6.9	-52.0	170.1	12.2
Edible oils	44.9	-16.4	104.2	-14.2	-40.6
Project-related	-5.0	24.6	13.6	-13.5	-7.3
Defense-related imports	-25.2	-26.1	43.2	30.3	-12.6
Private sector imports	23.3	-18.1	4.8	34.0	-6.3

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

1/ Nonrepatriable investment.

Kong has been the third largest importer of Pakistani products, reflecting in part the growing transfer to lower cost countries of domestic production of cotton yarn and fabrics used by Hong Kong producers of ready-made garments. The increasing share of Pakistan's imports from oil-producing countries over the last three years reflects both world oil price increases and the rising energy needs which are not covered by domestic supply, especially fuel oil for power generation. Imports from the United States are on the rise (12 percent of the total in 1996/97), while those from Europe and Japan have been declining (Appendix Tables 49).

Services and transfers

71. Flows of nonfactor services are increasingly unbalanced, with imports exceeding exports by more than US\$1.6 billion in 1996/97, an amount that has almost doubled since 1994/95. Exports have dropped in the past two years by US\$250 million, while imports have increased by more than US\$500 million, in part due to the liberalization on the import side and the development of services provided for energy projects (Appendix Table 53).

72. The deficit of the income balance has also increased over the last few years, having reached US\$2.1 billion in 1996/97. Rising interest payments on nonresident's FCDs and the increased interest cost of public and publicly guaranteed debt, as well as that of the growing private debt (mainly in the energy sector), boosted net foreign interest payments to 2.7 percent of GDP in 1996/97, from 2.4 percent in 1994/95 (Table 16, and Appendix Table 53).

73. Net private transfers, which had remained remarkably stable between 1992/93 and 1995/96 (at the annual level of US\$2.3 billion), surged by 23 percent in 1996/97 to the equivalent 3.6 percent of GDP. The surge is largely attributable to buoyant worker remittances as a result of firmer oil prices and increased activity in oil-producing countries.²⁰ The new government's appeal to nonresident Pakistanis to send home their savings, and the launching of donations and deposit schemes under the national debt retirement program, were additional positive factors. In 1996/97, those worker remittances which use the official bank's channels remained close to US\$1.4 billion, but other private transfers rose by US\$600 million, attracted by a premium on the parallel exchange market which exceeded 5 percent (Appendix Tables 54).

C. Capital Flows and Official Reserves

74. Pakistan was able to increase the mobilization of capital inflows in 1995/96 to cover large current account deficits, mainly through FCDs and short term debt. This strategy, however, rapidly gave rise to adverse market anticipations, accelerating the depletion of official reserves and precipitating the foreign exchange difficulties in the second half of 1996.

²⁰About two thirds of the worker remittances originate from Middle East oil-producing countries.

Table 16. Pakistan. External Debt and Foreign Currency Liabilities, 1992/93–1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Total external debt and foreign currency liabilities	27,864	30,589	32,647	34,547	35,695
Public and publicly guaranteed external debt	23,508	25,210	27,214	27,557	28,205
Medium- and long-term	22,581	23,975	25,958	26,091	26,945
Project and nonproject aid	19,044	20,333	22,117	22,275	23,096
Commercial banks and IDB 1/ Debt repayable in local currency	115	260	543	799	867
Military debt	344	333	323	309	295
FCBCs 2/	1,864	1,523	1,185	873	613
Eurobonds	87	119	132	148	151
Fund credit	0	0	148	148	603
Public sector short-term	1,127	1,408	1,510	1,539	1,320
Commercial banks and IDB 1/ FEBCs and DBCs 3/	927	1,235	1,256	1,466	1,260
Commercial banks and IDB 1/ FEBCs and DBCs 3/	434	724	716	990	832
FEBCs and DBCs 3/	493	511	540	476	428
Deposit liabilities of the banking system	2,817	3,136	2,666	3,337	3,186
State Bank of Pakistan	767	673	142	287	519
Of which : deposits of foreign banks			47	251	486
Deposit money banks	2,050	2,463	2,524	3,050	2,667
Liabilities to foreign banks	864	1,059	1,199	1,592	1,533
Other liabilities	1,186	1,404	1,325	1,458	1,134
Deposit liabilities of the nonbank financial institutions	177	514	782	1,280	1,685
Private debt	1,362	1,728	1,986	2,374	2,619

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

1/ Islamic Development Bank.

2/ Foreign Currency Bearer Certificates.

3/ Foreign Exchange Bearer Certificates and Dollar Bearer Certificates.

Since then, the confidence of markets has been increasing with the new government's package of structural reforms, and some international lenders have returned to the country. However, nondebt creating inflows (particularly foreign direct investment) are still sluggish and the external situation remains fragile (Appendix Table 55) .

75. Net medium-term government and government guaranteed borrowing has remained roughly stable at 1.7 percent of GDP over the last three years. However, diminishing official aid, deterred by the lack of significant progress towards stabilization and structural reform, had to be replaced by medium-term commercial borrowing. No program loan was mobilized from multilateral institutions over the last two years, compared with an annual average US\$300 million in the three preceding years. Commercial borrowing includes direct borrowing from international banks by public enterprises and banks, including a US\$300 million government-guaranteed loan to the National Bank of Pakistan. In addition, Pakistan appealed to financial international markets in 1996/97, borrowing US\$155 million in convertible bonds (for PTCL, the state-owned telecommunication monopoly) and US\$300 million in medium-term bonds, placed through a bank consortium led by The Australia and New Zealand Grindlay Bank in May 1997 (for the budget).

76. Private medium term inflows declined from the 1994/95 peak of 3 percent (which reflected the partial privatization of PTCL) to 2.1 percent by 1996/97. In 1996/97, foreign direct investment dropped sharply to US\$700 million, from a record high US\$1.1 billion in 1995/96 that had been attributable to the launching of private power plant projects discussed above. Portfolio investment rose somewhat to about US\$300 million in 1996/97. Net short-term inflows of capital were negligible in 1996/97 in both the public and private sectors (Appendix Table 57).

77. Gross official reserves (those held by the SBP) were held above 12 weeks of imports in 1994/95, but fell to 5 weeks of imports by end-1996/97 (US\$1.2 billion). During the near exchange crisis of September–October 1996, official reserves bottomed out at US\$600 million, equivalent to less than 3 weeks of imports. This was followed by a gradual recovery after the announcement of the October 1996 policy package (which included an 8.5 percent devaluation of the rupee), the reduction of political uncertainties in the first half of 1997, and launching of the new government's economic program (Appendix Table 58).

78. Pakistan's fragile external reserve position is compounded by the accumulation of short term foreign currency liabilities by the banking system, mostly residents' and non-residents' FCDs. Approximately 40 percent of the US\$9.9 billion stock of FCDs at end-June 1997 were demand deposits, and the rest were time deposits concentrated in three-month to one-year maturities (Appendix Table 48).

D. External Debt and Debt Service

79. With a stock of public and publicly guaranteed external debt amounting to US\$28.2 billion at the end of 1996/97, Pakistan may be regarded as a highly indebted

developing country. As a ratio of exports of goods, services, and private transfers, the public and publicly guaranteed debt was close to 220 percent at end-1996/97, and the related debt service reached 28.5 percent.²¹ Given the relatively limited openness of the country, the debt-to-GDP ratio has been contained to less striking levels—43.8 percent of GDP in 1996/97, a slight decline from 44.5 percent in 1994/95. However, the decline in the external debt to GDP ratio has not reduced Pakistan's vulnerability to exchange rate fluctuations, because of the SBP forward cover mechanism for FCDs (Table 17).

80. Over the last two years, foreign liabilities of commercial banks and NBFIs have increased by more than 22 percent to US\$4.8 billion. About half of this stock are liabilities to foreign banks, reflecting mainly deposits with their subsidiaries in Pakistan; the rest is held by private nonresidents. Total external debt, including these liabilities and the private nonguaranteed debt amounted to US\$35.7 billion at end-June 1997.

81. Of the total stock of public and publicly guaranteed debt at end-1996/97, 82 percent is related to official concessional and nonconcessional aid, including project and program loans as well as food aid. The remainder consists of loans from commercial banks and the Islamic Development Bank (US\$1.7 billion), Fund credit (1.3 billion) and other medium term and short term debt. The stock of public and publicly guaranteed debt to official creditors was evenly distributed between multilateral and bilateral sources. As of end-March 1997, multilateral creditors were, by descending order, the World Bank Group (US\$6.6 billion, of which 3.6 billion from IDA) and the Asian Development Bank (US\$4.4 billion); Japan was the first bilateral creditor (3.7 billion), followed by The United States (US\$2.7 billion), Germany (US\$1.5 billion) and France (US\$1 billion). At end-1996/97, undisbursed commitments amounted to another US\$7.5 billion, 60 percent of which was from multilateral sources (Appendix Table 59).

82. Except for the negotiation on the debt service to Russia following the breakdown of the Soviet Union (which centered on valuation issues), Pakistan has always been current in its debt obligations, and has not benefitted from any sort of debt rescheduling since 1981. The major agencies of Credit Ratings rate Pakistan's sovereign risk at non-investment grades. However, following the 1996 exchange crisis, they have downgraded Pakistan within this grade (to B2 for Moody's, and B+ for Standard and Poors). The average annual interest rate on public external debt has been stable at 3.6 percent.

²¹Although Pakistan meets the debt and debt service criteria used to define highly indebted poor countries, it is not classified by the World Bank as a HIPC case because its eligibility for IBRD resources.

Table 17. Pakistan: External Debt and Debt Service, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of U.S. dollars)					
Total public and publicly guaranteed external debt	23,508	25,210	27,214	27,557	28,205
Long-term	21,454	22,568	24,448	24,552	25,625
Project & nonproject aid	19,044	20,333	22,117	22,275	23,096
Commercial banks and IDB 1/	115	260	543	799	867
Other	2,295	1,975	1,788	1,478	1,662
Short-term	927	1,235	1,256	1,466	1,260
Commercial banks and IDB 1/	434	724	716	990	832
FEBECs and DBCs 2/	493	511	540	476	428
Fund credit and loans	1,127	1,408	1,510	1,539	1,320
Service of medium- and long-term public and publicly guaranteed debt	2,366	2,461	2,758	3,192	3,611
<i>Of which: to the Fund</i>	175	120	163	289	367
Amortization	1,557	1,627	1,854	2,217	2,641
Interest	809	834	905	975	976
Interest on public and publicly guaranteed short-term debt	66	65	67	77	88
(In percent of GDP)					
Total public and publicly guaranteed external debt	45.5	48.2	44.5	42.5	43.8
Long-term	41.5	43.2	40.0	37.9	39.8
Short-term	1.8	2.4	2.1	2.3	2.0
Fund credit and loans	2.2	2.7	2.5	2.4	2.1
Service of medium- and long-term public and publicly guaranteed debt	4.6	4.7	4.5	4.9	5.6
Amortization	3.0	3.1	3.0	3.4	4.1
Interest	1.6	1.6	1.5	1.5	1.5
Interest on public and publicly guaranteed short-term debt	0.1	0.1	0.1	0.1	0.1
(In percentage of exports of goods and services, and net private transfers)					
Total public and publicly guaranteed external debt	218.5	231.8	217.4	213.5	217.8
Service of medium- and long-term public and publicly guaranteed debt	22.0	22.6	22.0	24.7	27.9
Amortization	14.5	15.0	14.8	17.2	20.4
Interest	7.5	7.7	7.2	7.6	7.5
Interest on public and publicly guaranteed short-term debt	0.6	0.6	0.5	0.6	0.7

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

1/ Islamic Development Bank.

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

E. Developments in the Trade System

83. Following two years of stalled progress in trade liberalization, the government of Pakistan implemented important steps at the end of 1996/97, focusing on the reform of customs tariff, with a view to reducing the level and simplifying the structure of import protection, and eliminating remaining anti-export biases. However, some nontariff external trade regulations are still used by the authorities to promote sectoral objectives. Following a step-by-step liberalization of the exchange system which started in 1991, Pakistan accepted Article VIII status on July 1, 1994. Some restrictions on inward capital transactions were also eliminated during that period; more recently, however, Pakistan has remained cautious as regards further steps to liberalize the capital account.

Import tariffs

84. Pakistan has been gradually liberalizing its external tariffs over the last several years, including a sequential reduction in the maximum tariff rate from 225 percent in 1986/87 to 65 percent in 1995/96. Until end-March 1997, however, Pakistan's complex and exemption ridden import tariff regime continued to give rise to high levels of effective protection, nurtured inefficient industries, generated a strong anti-export bias, put a heavy burden on consumers, diverted resources to rent-seeking activities, and encouraged corruption and smuggling. It consisted of statutory rates modified by a comprehensive set of end-user exemptions and concessions, most of them linked to sectoral and regional policies, thus making it in effect a dual system, where about 40 percent of imports received special treatment.

85. Efforts to reform the tariff regime were limited and sometimes reversed during the period under review. The 1995/96 budget reduced the maximum import duty rate from 70 percent to 65 percent, but increased several intermediate rates for revenue purposes. Shortly thereafter, with the stabilization program which accompanied a 7.5 percent devaluation of the rupee, the authorities reversed further the liberalization process by introducing a temporary 10 percent regulatory duty on imports.²² The liberalization process resumed in March 1997 as the new government reduced the maximum tariff rate to 45 percent and merged the 14 duty rates into a six-band system (0,10, 15,20,25, 35, and 45 percent). The 10 percent regulatory duty was eliminated, except for a few items, and the list of zero-rated imported goods was reduced to a minimum. As a result, a number of exemptions and concessions became redundant. As a result of this reform, the average rate of import duties is expected to drop from 19 percent to 17 percent, with a significant parallel reduction in the dispersion. However, a number of tariff positions remain overly detailed, and characterized by the distinction between goods made in Pakistan and others.

²² This regulatory duty was capped for the higher tariff positions, so that the consolidated maximum tariff rate was kept at 65 percent.

86. Pakistan continues to use a system of **Import Trade Prices (ITP)**, rather than actual transaction values, in determining import values for customs purposes for a substantial proportion of the imported items. The system probably leads to overstatements of the import value and thus to additional import protection. Under the GATT Uruguay Round, Pakistan is committed to an invoiced-based system by the year 2000, and to adjusting its Customs Act accordingly. The authorities have cancelled, with effect from March 1997, the contract of pre-shipment inspection with the Swiss company Société Générale de Surveillance which had been in place since 1995.

Trade policy

87. Trade regulations were substantially liberalized in the early 1990s (see SM/95/305) and have not drastically changed over the last few years. These regulations are, however, revised each year by the Minister of Commerce and described in two documents, the Import Policy Order and the Import-Export Procedures.

Imports

88. In 1995/96, some restrictions were eliminated—on imports of secondhand tools, aircrafts, and books. Some additional textile and clothing items were also deleted from the **negative list** of banned imports. In 1996/97, the authorities liberalized the conditions for importing pesticides and enlarged the list of imports from India. In July 1997, the Minister of Commerce announced further liberalization measures: the list of importable goods from India was enlarged and imports of gold and silver, as well as temporary imports of equipment, were partially authorized.

89. Apart from the remaining import restrictions, which are mainly based on health, security, environment and religious reasons, there are at least 28 nontrade barriers aimed at protecting local producers, and a number of schemes restricting free imports. The **negative list**, which has been reduced to 68 items (from 214 in 1989) still contains several textile items which can compete with local products (cotton fabrics, carpets and other textile floor coverings, knitwear, bed linen). At least 17 products are subject to procedural requirements which de facto restrict imports, some of which are clearly geared toward protecting the local industry. These include motor cars—which can only be imported unassembled and according to a specific program of progressive replacement of the imported parts by locally manufactured parts (the "deletion program")—and tractors.²³ Imports of petroleum products, lubricants, and specific inputs for the oil industry require administrative authorization, which is intended to protect the local petroleum industry.

Exports

²³However, specific schemes permit individuals to import cars for their own use, provided they pay import duty rates in the 100–265 percent range.

90. Some exports remain subject to quantitative restrictions, mainly to ensure the adequacy of internal supplies at reasonable prices; however, most export duties were eliminated in 1994. In addition, exports are strongly encouraged through a multifaceted incentive system. The Export Trade Control Order (1996 Issue) lists 26 items (live animals, grains and beans, edible oils, minerals and ores, ferrous and nonferrous metals, and sugar) as nonexportable; other items need prior authorization from line Ministries (raw cotton and fertilizers), the Export Promotion Bureau (rice), or a professional association (cotton yarn). Export quotas remain for cement and clinker. Petroleum products are exportable only through public sector agencies. Export duties are only enforced for unfinished leather products and crushed bones. In addition, nontextile exports are subject to a 0.25 percent levy on their f.o.b. value, the proceeds of which are earmarked for the promotion of exports through an extra budgetary fund.

91. The system of export incentives in Pakistan is based on three elements: (i) concessional rates for import tariff rates on imports for re-exports, including a duty drawback system which allows reimbursement for import duties and domestic taxes paid on imported inputs that enter production for exports; (ii) exemptions in Export Promotion Zones (EPZ) and bonded warehouses; and (iii) export financing at concessional rates through a refinancing facility provided to commercial banks by the SBP. Duty drawback rates were substantially increased in October 1995. More recently, export incentives have been made more attractive, including through accelerating duty drawback repayments; zero-rating imports of raw materials used mainly for exports; and making a wider range of exports eligible for concessional export financing schemes .

Quotas and other trade barriers to Pakistan's exports

92. Pakistan faces a number of tariff and nontariff restrictions on its exports, some of them requiring specific export policies. On textile products, the share of restricted exports is estimated at 63 percent. The authorities have recently introduced some improvements in these policies as well as in the country's capacity to react promptly to growing commercial disputes with its main trade partners.

93. Pakistan has been managing, since 1974, a system of quotas for textile products imposed by the United States, the European Union, Canada, and Norway under the Multifiber Arrangement (MFA).²⁴ The arrangement was amended and integrated into the GATT Uruguay Round concluded in 1993, under the Agreement on Textile and Clothing (ATC). Under the ATC, the MFA is to be phased out in stages by the year 2004, with the importing country transferring to normal WTO rules, in each phase, a similar share of its total textile imports. However, the agreed phasing out leads to the integration of the more sensitive products—those subject to quotas—at the end of the period, and any substantial impact on Pakistan's textile exports is not expected before the next century. In addition, the

²⁴In addition, a system of quota on Turkey's imports was initiated on October 1996.

liberalization process for textile products has been counteracted by the multiplication of anti-dumping and countervailing investigations; in 1996/97, three of Pakistan's largest export items (cotton yarn, fabrics, and bed linen) were submitted to anti-dumping duties.

94. The existence of quotas has necessitated a complex administration, which has imposed hidden costs on the economy. In the past, the allocation of quotas was often viewed as discretionary and politically motivated, leading to efficiency losses and expensive trading among exporters. The authorities have recently taken steps to make quota allocations more efficient, progressively shifting from a quantity-based system to a value-added system. However, quotas remain allocated to established exporters, which makes it difficult for new exporters to "break into" the export allocation system.

95. Exports of noncotton products have increasingly faced trade barriers, as public opinion in industrialized countries has expressed growing concerns about labor, environment and health standards in developing countries in general, and in Pakistan in particular. For instance, the United States withdrew the General System of Preferences (GSP) for carpets and rugs, sports goods, and surgical instruments on October 20, 1996, on the issue of poor labor standards in Pakistan, including on child labor. Moreover, surgical goods have been facing anti-dumping measures and import restrictions for health and safety reasons, including the need to satisfy requirements of international standards like ISO9000 series.²⁵

Regional cooperation

96. Pakistan does not belong to any of the major regional entities. As a result, the country is suffering from increased competition from developing countries benefitting from privileged access to its major markets—for instance the transition economies' access to the European Union market, or Mexico's access to the North American market through NAFTA. In addition, progress towards regional cooperation with neighboring Central and South Asian countries has been slow in recent years, with very little so far accomplished in the trade zones to which Pakistan belongs—the Economic Cooperation Organization (ECO) and the South Asian Association for Regional Cooperation (SAARC). Over the last five years the share of internal flows in the total trade of these two zones has stagnated at below 4 percent for SAARC and 5 percent for ECO.

F. Developments in the Exchange System

97. Since 1982 Pakistan has unpegged the rupee from the U.S. dollar, and managed a floating rate system, based partly on a trade-weighted basket of major currencies. Market forces play a limited role in the short term determination of the exchange rate, since the SBP

²⁵See Emerging Global Trading Environment and Developing Asia: A case study of Pakistan, A.H. Khan and Z. Mahmood, Pakistan Institute of Development Economics, report to the Asian Development Bank, Islamabad, 1996.

fixes daily buying and selling exchange rates in transactions with banks and other authorized dealers.²⁶ In recent years, the SBP has sought to manage the rupee/U.S. dollar rate in a manner that strikes a balance between the requirements of containing inflationary pressures and maintaining a competitive tradable sector. This policy has resulted in long phases during which the SBP implements minor “technical” adjustments vis-à-vis the U.S. dollar, interspersed with more substantial step devaluations that have allowed the real effective exchange rate (REER) to recover eroded competitiveness.

98. Following a stable period in 1994/95 where the nominal exchange rate was only marginally adjusted downward, the rupee started appreciating against major currencies (in line with the appreciation of the U.S. dollar), putting pressure on foreign reserves and leading to an increase in the parallel market premium to more than 6 percent. In October 1995, the rupee was devalued by 7 percent against the US dollar, following which it was kept stable for a few months to check inflationary expectations. Creeping depreciation resumed in January 1996, leading to an additional depreciation by June 1996 of 2.5 percent against the U.S. dollar, but which fell short of protecting the real effective exchange rate. During the summer of 1996, this policy did not prove credible and the premium on the parallel exchange market rose to 10.4 percent. In September–October 1996, two step devaluations were implemented, by a total 11.8 percent, which was followed by a period without any adjustment until April 1997. Since then, four modest adjustments have reduced the value of the rupee by less than 1 percent (Chart 8 and Appendix Table 61).

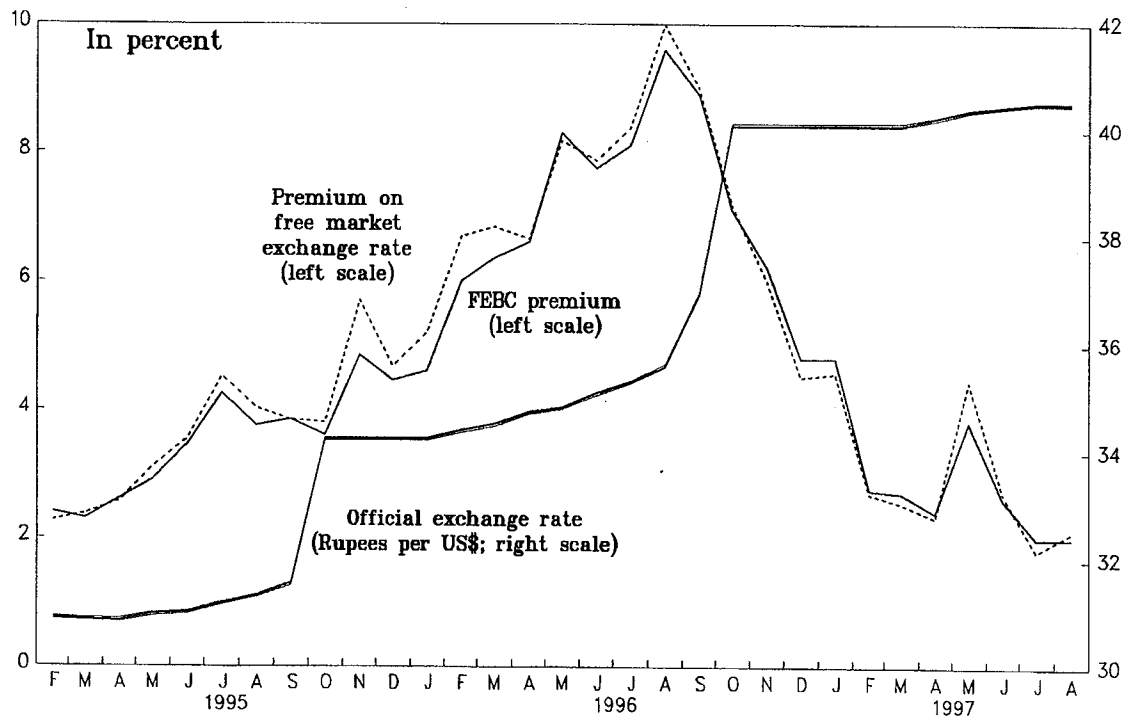
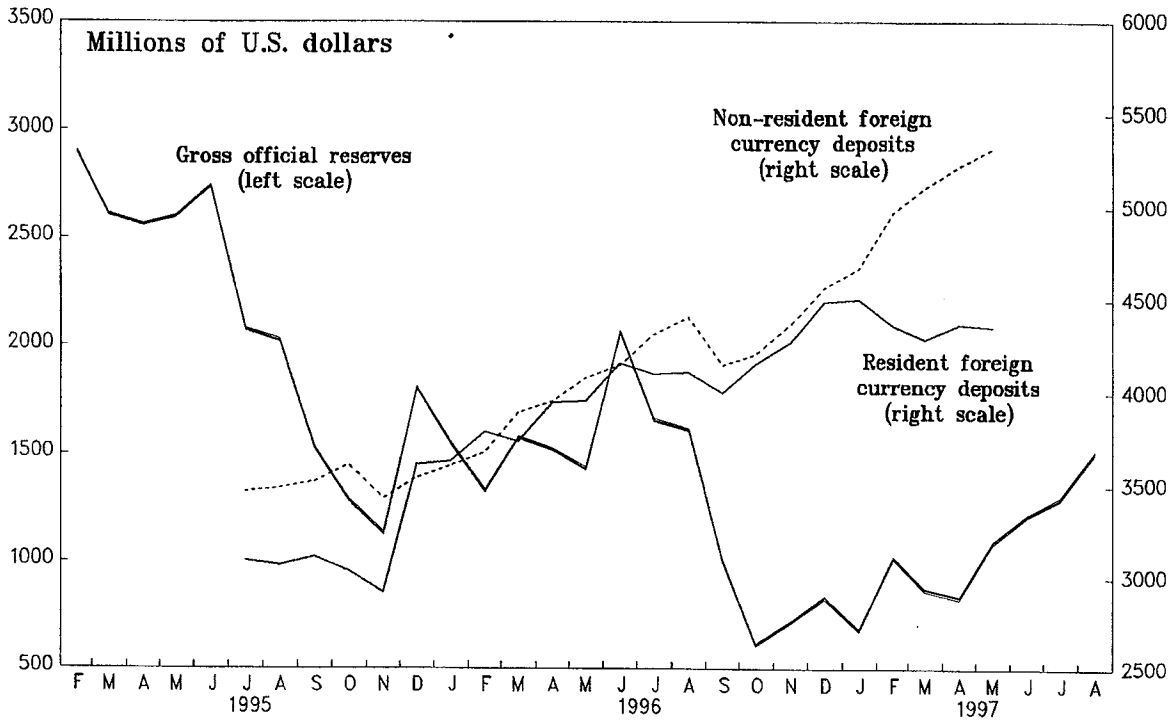
99. Over the last two years, the real effective exchange rate (REER), as measured by the Fund’s Information Notice System, has been kept broadly constant, although fluctuating widely, as increases in the REER caused by the positive CPI differential with competing countries were periodically eliminated by step devaluations. Between November 1996 and June 1997, however, the substantial appreciation of the U.S. dollar and the absence of significant exchange rate adjustments increased the REER by an estimated 11.5 percent (Chart 9). The recent steep depreciation of several currencies in South East Asian countries had only a limited impact on Pakistan’s competitive position reflecting the modest overlap of these countries’ markets with those of Pakistan.

Foreign currency deposits

100. Both residents and nonresidents can open foreign currency accounts with banks and nonbank financial institutions. As noted, insofar as current banking regulations prohibit banks from lending in foreign currency, and permit them to maintain only small uncovered positions in foreign exchange, banks surrender these deposits to the central bank against rupees for on-lending in Pakistan. The banks are then required to close the open position by purchasing a forward contract from SBP. Fees on forward cover for U.S. dollar denominated FCDs, which do not depend on the maturity of deposits, stood at 4.75 percent from October 1994 to March

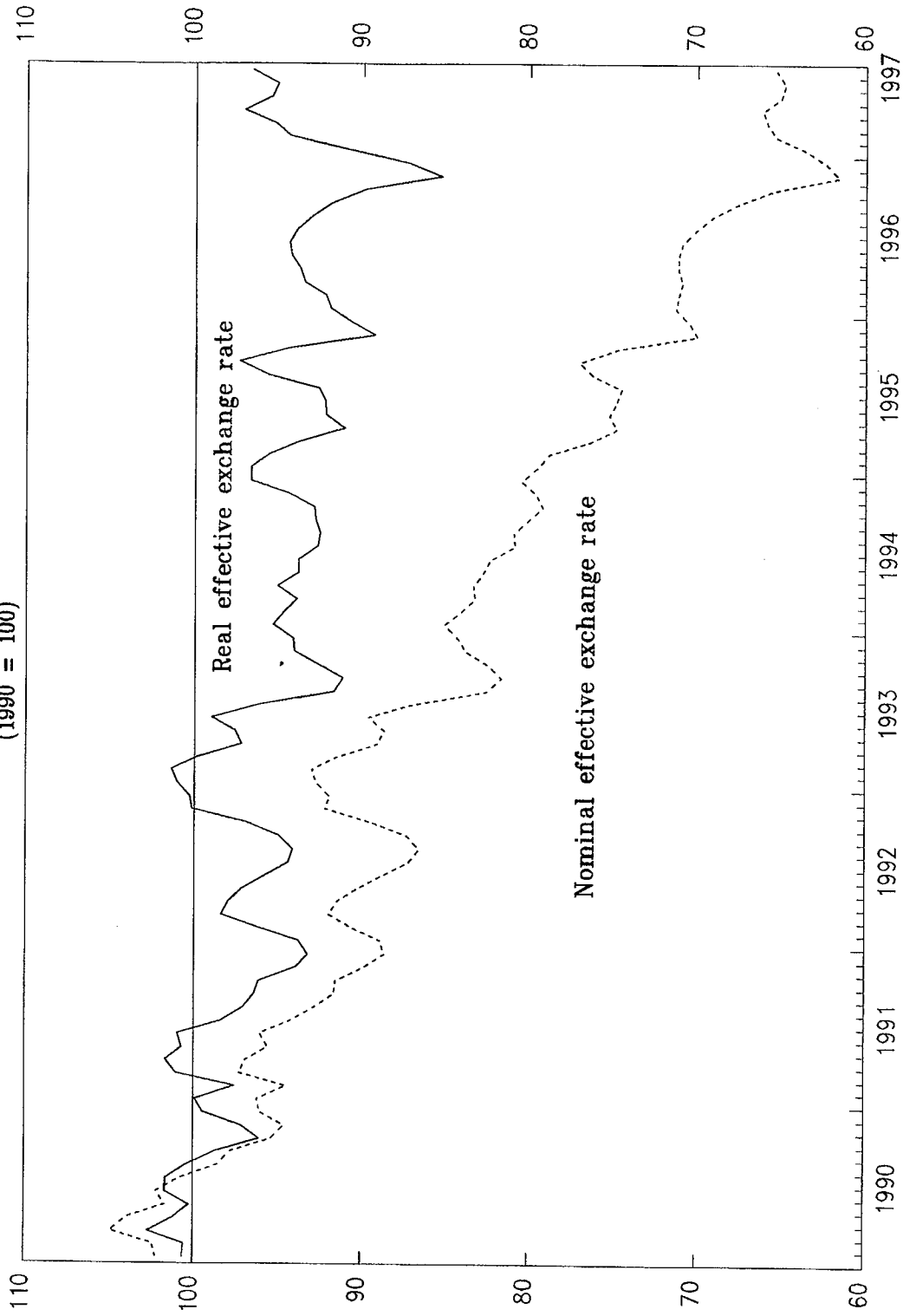
²⁶With intermediation margins limited to 0.5 percent.

CHART 8
PAKISTAN
GROSS RESERVES AND MARKET EXCHANGE RATES, 1995-97



Sources: Data provided by Pakistan authorities.

CHART 9
PAKISTAN
EXCHANGE RATE DEVELOPMENTS, 1990-97
(1990 = 100)



Source: International Monetary Fund, Information Notice System.

1997, when they were raised to 5 percent. Fees on FCDs denominated in other currencies have been revised more frequently over the same period, to harmonize expected profit margins across all currency deposits. Maximum interest rates on FCDs are also fixed by the SBP at various rates, depending on the currency and the maturity. In 1996/97, these rates were about 120 basis points above U.S. treasury bills with similar maturities.

Capital account restrictions

101. Most of Pakistan's remaining restrictions on capital movements pertain to outward transactions. Residents (including firms) are not permitted to invest abroad unless through the purchase of foreign exchange bearer certificates (FEBCs).²⁷ Permissions are subject to the conditions that all proceeds should be repatriated to Pakistan through normal banking channels. Regarding inflows, foreign-owned companies can borrow any amount abroad but they need to obtain prior government and SBP's approval of the issuance of the debt instruments abroad. A number of minor additional liberalization measures regarding capital inflows have been implemented since 1994/95 (see list in Appendix II).

²⁷FEBCs are one year government papers, denominated in foreign currency, mostly in U.S. dollars, for which there is a secondary market.

Pakistan: Basic Data, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(Annual percentage changes, unless otherwise specified)					
National income and prices					
Real GDP (at factor cost)	2.3	4.5	5.2	4.6	3.1
GDP deflator (at factor cost)	8.9	12.6	13.6	10.9	11.3
Consumer prices (period average)	9.8	11.3	13.0	10.8	11.8
External sector					
Exports, f.o.b.	0.3	-0.6	19.6	7.2	-5.3
Imports, f.o.b.	11.7	-13.6	18.6	16.7	-5.0
Private transfers (net)	-21.4	2.7	0.3	-0.3	23.4
Terms of trade	-1.4	6.6	-3.6	-1.7	-5.8
Money and credit					
Money and quasi-money	17.9	18.0	17.2	13.8	10.8
Domestic assets (net) 1/	24.6	12.4	13.4	18.5	14.4
<i>Of which</i> : government sector	14.9	4.7	5.5	6.6	7.5
non-government sectors	12.0	6.6	9.9	8.3	6.1
(In percent of GDP, unless otherwise specified)					
Budgetary operations					
Total revenue	17.9	17.2	17.0	17.0	15.3
<i>Of which</i> : tax revenue	13.3	13.3	13.8	14.1	12.9
Total expenditure	26.0	23.2	22.6	23.8	21.5
<i>Of which</i> : current expenditure	20.4	18.6	18.3	19.5	18.1
Budget deficit (-)	-8.2	-6.0	-5.6	-6.9	-6.1
Budgetary financing					
External financing (including grants)	1.9	1.6	1.5	1.2	0.9
Bank budgetary support	4.7	1.8	1.9	2.4	2.7
Other domestic financing	1.6	2.6	2.2	3.2	2.5
Savings and investment					
Gross domestic investment	20.7	19.4	18.4	18.6	18.2
Gross domestic savings	12.0	14.3	13.4	11.1	10.6
Gross national savings	13.6	15.8	14.5	11.8	11.8
External sector					
Current account balance (excluding official transfers)	-7.1	-3.6	-3.9	-6.8	-6.4
Overall balance	-1.1	3.0	0.4	-0.7	-1.6
External debt	45.5	48.2	44.5	42.5	43.8
Debt service ratio, including use of Fund credit 2/	22.0	22.6	22.0	24.7	27.9
(In millions of U.S. dollars, unless otherwise specified)					
Current account deficit (excluding official transfers)	-3687.4	-1904.0	-2413.0	-4409.0	-4092.0
Overall balance	-644	1583	247	-450	-1024
Gross official reserves (in weeks of c.i.f. imports) 3/	2.2	12.6	12.7	8.2	5.2

Sources: Data are provided by the government of Pakistan; and Fund staff estimates.

1/ In percent of the initial stock of domestic liquidity.

2/ In percent of exports of goods and services and receipts of private transfers.

3/ Excluding gold.

**PAKISTAN: CHANGES IN REGULATIONS CONCERNING EXTERNAL
CURRENT AND CAPITAL TRANSACTIONS, 1994/95–1996/97**

1994–95

- The Government of Pakistan accepted the obligations of Article VIII, Section 2, 3 and 4 of the IMF Articles of Agreements with effect from July 1, 1994. With the acceptance of this obligation, the Pakistan rupee was made convertible on current international transactions.
- General permission was given to the companies listed on Stock Exchanges in Pakistan, to and manufacturing concerns which are either unlisted Public Limited or Private Limited Companies, for issue and export of bonus shares to their nonresident shareholders, subject to the fulfillment of certain conditions.
- In order to bring depth to the short-term forward cover market, it was decided to permit persons maintaining foreign currency account with Authorized Dealers in Pakistan to sell forward the balances held in their accounts to the importers.
- Permission was given to the registered importers to effect imports up to US\$10,000 (or equivalent in other currencies) without opening of letters of credit. The importers were also permitted to make advance payments against such imports.
- In addition to the foreign currency loans which the private sector entrepreneurs could contract for industrial undertakings, individuals/firms/companies residents in Pakistan, including foreign-controlled companies and their branches operating in Pakistan, were permitted to obtain loans from abroad in foreign currencies on a repatriable basis for any purpose, at interest rate not exceeding 1.5 percent over LIBOR, and for tenure of not less than 5 years, provided that no exchange risk coverage be available to such loans and no bank guarantee for securing bank loans be provided from Pakistan.
- Residents of Pakistan, including firms and companies, were allowed to make investment in companies (whether incorporated or not)/joint ventures abroad on repatriable basis through Foreign Exchange Bearer Certificates.
- The condition of extension of the validity of letter of credit within its validity has been waived insofar as extensions within initial 12/24 months are concerned, and these can now be extended for a further period of 24/36 months in case of items other than machinery/millwork and “machinery and mill-work”, on payment of revalidation fee of 0.25 percent for each six monthly period on the unutilized

balance of the L/C, provided the request for extension is received within the initial period of 12/24 months or the extended validity period.

1995-96

- Exporters having firm contracts with overseas buyers or holding letters of credit received from abroad were permitted to obtain, directly or through an Authorized Dealer, short-term loans, for a maximum tenure of 180 days, in foreign currencies, to the extent of the value of such contracts/letters of credit, provided the exporters bear the exchange risk. The Authorized Dealers and borrowers are free to negotiate the interest rates and exporters are free to obtain a consolidated loan against all contracts/letters of credit covering shipments during a calendar month. The repayment of loans, along with interest after deduction of necessary tax, will be made out of export proceeds. In case of nonrealization of export proceeds on/before maturity of the loan, repayment of loan/payment of interest would be made through FEBCs or from a foreign currency account.
- Diplomatic Bonded Warehouses were allowed to open foreign currency accounts to receive only the sale proceeds in respect of sales from the Diplomatic Bonded Warehouses.
- Authorized Dealers were allowed to book forward cover against usance import bills at any time before their maturity date; the maturity of the forward cover should not extend beyond the maturity date of the relative bills.
- The requirement for Authorized Dealers to obtain SBP prior approval for effecting remittances in respect of imports where the documents were not received through them, but were received directly by the importers, was waived.
- The power generation companies, energy-related infrastructure companies, and the companies established to set up software technology for developing computer-software packages/programmes, would be treated at par with manufacturing concerns for the purpose of issue/transfer and export of shares.
- Authorized Dealers were allowed to issue foreign currency travelers cheques/foreign currency notes by debit to convertible rupee accounts of the Diplomatic Missions, Diplomats, United Nations Organizations, and International Organizations maintained with banks in Pakistan.
- Authorized Dealers were allowed to open special foreign currency accounts/offshore foreign currency accounts, to be maintained during the construction and operation of the projects in respect of private power projects in Pakistan, as per the Implementation Agreements entered into between the Private Power and Infrastructure Board, the Government of Pakistan and the companies.

- Authorized Dealers were permitted to provide forward cover to the Investment Banks, Leasing Companies, and Modaraba Companies holding Restricted Authorized Dealers' Licenses issued by State Bank of Pakistan in respect of the funds mobilized by them from abroad against issuance of Certificates of Investment.
- Pakistani residents would be issued, subject to entitlement, Private Travel Exchange Quota (PTEQ) up to US\$100 in the shape of foreign currency notes, and the balance in the form of Traveller Cheques/TTs/MTs/DDs etc., for all types of travel.

1996-97

- Usance imports on the basis of letters of credit/contracts envisaging prices quoted on spot basis and payment of interest separately, at a rate not exceeding the relevant LIBOR + 1.5 percent, have been permitted. The payment of interest will be subject to deduction of Pakistan taxes, if leviable. For cases falling in this category, the overseas suppliers will draw separate Bills of Exchange for the spot price of the goods shipped and for the interest amount.

Table 18. Pakistan: Sectoral Origin of Gross Domestic Product, 1992/93–1996/97

(At current prices)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of rupees)					
Agriculture	297,814	357,924	437,034	504,535	569,945
Crops	167,722	202,947	249,991	291,706	311,195
Livestock	117,792	141,683	173,047	198,381	243,377
Fishing and forestry	12,300	13,294	13,996	14,448	15,373
Industry	303,110	351,697	414,025	480,095	551,095
Manufacturing	207,273	246,860	288,906	330,128	378,647
Large-scale	142,006	171,582	200,799	225,226	256,164
Small-scale	65,267	75,278	88,107	104,902	122,483
Mining and quarrying	7,403	8,664	9,007	11,272	12,856
Construction	49,807	55,246	60,985	70,769	82,726
Electricity, and gas distribution	38,627	40,927	55,127	67,926	76,866
Services	599,205	702,903	837,067	972,588	1,124,864
Commerce	195,301	229,301	275,290	320,424	369,596
Transport storage and communications	127,508	149,264	170,857	186,712	221,398
Banking and insurance	35,428	47,024	56,105	67,487	72,849
Ownership of dwellings	53,652	62,011	72,164	83,067	95,122
Public admin. and defense	94,560	105,298	130,701	159,164	183,139
Other services	92,756	110,005	131,950	155,734	182,760
GDP (at factor cost)	1,200,129	1,412,524	1,688,126	1,957,218	2,245,904
Indirect taxes less subsidies	141,500	160,239	193,945	214,038	257,347
GDP (at market prices)	1,341,629	1,572,763	1,882,071	2,171,256	2,503,251
(In percent of GDP at factor cost)					
Agriculture	24.8	25.3	25.9	25.8	25.4
Industry	25.3	24.9	24.5	24.5	24.5
Manufacturing	17.3	17.5	17.1	16.9	16.9
Mining and quarrying	0.6	0.6	0.5	0.6	0.6
Construction	4.2	3.9	3.6	3.6	3.7
Electricity and gas distribution	3.2	2.9	3.3	3.5	3.4
Services	49.9	49.8	49.6	49.7	50.1
<i>Of which:</i> Commerce	16.3	16.2	16.3	16.4	16.5
Transport storage and communications	10.6	10.6	10.1	9.5	9.9
Banking and insurance	3.0	3.3	3.3	3.4	3.2
Ownership of dwellings	4.5	4.4	4.3	4.2	4.2
Public admin. and defense	7.9	7.5	7.7	8.1	8.2
Other services	7.7	7.8	7.8	8.0	8.1

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

Table 19. Pakistan: Area, Production, and Yield of Major Crops, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Wheat					
Production (thousand metric tons)	16,157	15,213	17,002	16,907	16,350
Area (thousand hectares)	8,300	8,034	8,170	8,377	8,068
Yield (kilograms per hectares)	1,947	1,894	2,081	2,018	2,027
Rice					
Production (thousand metric tons)	3,116	3,995	3,447	3,966	4,305
Area (thousand hectares)	2,097	2,187	2,125	2,162	2,251
Yield (kilograms per hectares)	1,579	1,827	1,622	1,834	1,912
Cotton (Lint)					
Production (thousand bales)	9,054	8,041	8,697	10,595	9,374
Area (thousand hectares)	2,836	2,805	2,653	2,997	3,149
Yield (kilograms per hectares)	543	488	558	601	506
Sugarcane					
Production (thousand metric tons)	38,059	44,427	47,168	45,230	41,998
Area (thousand hectares)	885	963	1,009	963	965
Yield (kilograms per hectares)	43,005	46,134	46,747	46,968	43,521
	13,994	13,989	13,957	14,499	14,433
Percent growth in output					
Wheat	3.0	-5.8	11.8	-0.6	-3.3
Rice	-3.9	28.2	-13.7	15.1	8.5
Cotton (Lint)	-29.4	-11.2	8.2	21.8	-11.5
Sugarcane	-2.1	16.7	6.2	-4.1	-7.1

Source: Ministry of Food, Agriculture, and Livestock.

Table 20. Pakistan: Disbursements of Mandatory Agricultural Credit, 1995/96–1996/97

(In millions of Pakistan rupees)

	1995/96		Prel. 1996/97	
	Target	Actual	Target	Actual
Total disbursements	32,426	19,102	26,041	15,712
ADB ^{1/}	17,760	10,254	11,750	8,640
FBC ^{2/}	3,810	3,803	3,435	3,369
Commercial banks	10,856	5,045	10,856	3,703
Memorandum item:				
Lending rate (in percent)	14.0	14.0	14.0	14.0

Source: State Bank of Pakistan.

^{1/} Agricultural Development Bank of Pakistan.^{2/} Federal Bank for Cooperatives.

Table 21. Pakistan: Gross Fixed Capital Formation by Economic Sector, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
	(In millions of Pakistan rupees)				
Private sector	134,768	150,369	163,219	193,781	224,127
Agriculture	16,631	18,436	22,485	21,776	21,717
Mining and quarrying	371	468	1,513	2,112	2,656
Large-scale manufacturing	53,350	58,508	38,898	46,718	47,506
Small-scale manufacturing	6,709	8,393	9,823	11,957	15,523
Construction	6,800	8,225	9,455	10,697	11,901
Transport and communications	11,246	8,577	8,007	13,259	16,185
Banking, insurance, and other financial institutions	536	818	3,079	4,009	4,683
Ownership of dwellings	27,372	30,470	34,024	38,730	44,865
Wholesale and retail trade and other services	11,752	16,475	35,935	44,523	59,091
Public sector	121,876	130,508	155,089	175,432	192,597
Public sector enterprises	73,405	79,650	96,556	112,612	130,282
Agriculture	3,892	5,964	6,998	9,516	9,784
Mining and quarrying	3,008	4,519	7,052	6,897	8,069
Manufacturing	3,374	2,948	2,457	3,840	5,587
Construction	3,142	3,930	3,751	5,058	6,042
Electricity and gas	33,076	37,412	49,510	51,490	54,680
Transport and communications	23,662	20,655	22,753	31,809	41,094
Railway	2,188	2,236	3,234	3,368	2,771
Post office, telegraph and telephone	13,223	9,238	10,521	14,999	16,011
Others	8,251	9,181	8,998	13,442	22,312
Wholesale and retail trade	63	115	96	173	154
Financial institutions	1,239	1,247	1,700	1,608	2,616
Services	1,949	2,860	2,239	2,221	2,256
General government	48,471	50,858	58,533	62,820	62,315
Federal	14,459	15,790	19,586	20,118	21,471
Provincial	26,961	27,675	31,195	34,522	32,819
Local bodies	7,051	7,393	7,752	8,180	8,025
	(Annual percentage changes)				
Private sector	13.5	11.6	8.5	18.7	15.7
<i>Of which</i>					
Agriculture	12.1	10.9	22.0	-3.2	-0.3
Large-scale manufacturing	7.6	9.7	-33.5	20.1	1.7
Small-scale manufacturing	16.1	25.1	17.0	21.7	29.8
Construction	57.9	21.0	15.0	13.1	11.3
Transport and communications	12.4	-23.7	-6.6	65.6	22.1
Ownership of dwellings	15.2	11.3	11.7	13.8	15.8
Public sector	14.5	7.1	18.8	13.1	9.8
Public sector enterprises	15.6	8.5	21.2	16.6	15.7
<i>Of which:</i>					
Electricity and gas	7.1	13.1	32.3	4.0	6.2
Transport and communications	49.8	-12.7	10.2	39.8	29.2
General government	12.8	2.2	44.6	4.1	-17.7

Source: Federal Bureau of Statistics.

Table 22. Pakistan: Selected Commodity Prices, 1992/93-1996/97

(In Pakistan rupees per 100 kilograms)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Wheat					
Government procurement prices 1/	325	400	400	433	600
Issue price to mills 2/	355	438	438	485	650
Free market retail price (Multan)	347	386	468	454	571
Rice					
Producer prices 3/					
Basmati	438	463	525	555	638
Irri-6 (Fair/Average)	213	225	258	280	322
Irri-6 (Superior)	238	250	286	310	357
Free market wholesale price					
Basmati (Rawalpindi)	1,194	1,221	1,358	1,580	2,097
Irri-6 (Hyderabad)	486	513	585	676	779
Cotton					
Phutti (seed cotton), floor price 4/					
NIAB-78,86 & CIM 109, etc.	750	788	1,000	1,000	1,250
Desi	688	725	850	850	1,100
Sarmast, Qalandri etc.	775	813	1,058	1,058	1,350
Sugar					
Cane purchase price 5/					
Sind	44	46	52	54	61
Punjab	44	45	51	54	60
N.W.F.P.	44	45	51	54	60
Free market average retail price	1,219	1,291	1,374	1,676	2,114
Edible oil					
Vegetable ghee retail price (Dalda)	2,408	2,909	3,899	3,938	4,217
Fertilizer					
Government retail price					
Diammonia phosphate (DAP)	528	538	758	958	1,100
SOP	390	390	390	662	1,064

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

1/ Usually announced in September/October.

2/ Usually announced in March/April.

3/ A government-decreed floor price.

4/ Phutti yields about one third lint cotton and two thirds cotton seed by weight. Floor prices are established by the government but there is no government procurement of phutti.

5/ Minimum procurement prices.

Table 23. Pakistan: Increases in Procurement Prices of Selected
Agricultural Commodities, 1992/93–1996/97

(Annual percentage changes)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Wheat	4.8	23.1	0.0	8.1	38.7
Rice (Paddy)					
Basmati (385)	12.9	5.7	14.0	5.3	15.0
Irri-6 (F.A.Q)	9.0	5.9	14.0	9.2	15.0
Seed Cotton					
Desi	7.8	5.5	17.2	0.0	29.4
B-557, 149-F, etc.	7.1	5.0	27.0	0.0	25.0
Sarmast, MS-39 etc.	6.9	4.8	30.2	0.0	27.7
Sugarcane					
Sindh	4.4	2.8	13.7	4.8	12.6
Punjab	4.5	2.9	13.9	4.9	11.6
N.W.F.P.	4.5	2.9	13.9	4.9	11.6

Source: Ministry of Food, Agriculture, and Co-operatives.

Table 24. Pakistan: Output in Selected Industries, 1992/93–1996/97

(In thousands of metric tons; unless otherwise specified)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97 (Jul.–Mar.)
Petroleum products	7,609	7,749	7,133	7,601	5,434
Cotton manufactures					
Cotton yarn	1,219	1,310	1,370	1,465	879 1/
Cotton cloth (in millions of square meters)	325	315	322	327	200 1/
Food and tobacco					
White sugar	2,384	2,922	3,002	2,470	2,213
Beverages (in thousands of bottles)	1,584	1,364	1,716	1,568	781
Vegetable products	725	671	711	720	515
Cigarettes (in billions)	33	36	33	45	34
Chemicals					
Urea	2,306	3,104	3,000	3,257	2,438
Superphosphate	205	195	147	104	0.1
Ammonium sulphate	93	82	80	84	59.1
Soda ash	196	197	185	214	185.4
Caustic soda	81	89	93	109	89.3
Sulphuric acid	100	102	80	62	23.5
Ammonium nitrate	302	243	314	383	249.7
Nitrophosphate	297	251	285	337	272.3
Cement (in millions of metric tons)	8.6	8.2	7.9	9.6	7.1
Pig iron	1,098	1,253	1,045	1,002	910 2/
Billets	338	404	344	333	323 2/
Paperboard	27.0	25.8	23.8	20.0	17.9
Chipboard	39.5	37.9	37.0	36.8	22.2
Tractors (in thousands)	17.1	14.7	17.1	16.2	7.2
Bicycles (in thousands)	589	564	474	545	316
Motor tires (in thousands)	712	779	912	1,002	395

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

1/ Data relate to 7 months (July–January).

2/ Data relate to 10 months (July–April).

Table 25. Pakistan: Selected Textile Industry Statistics, 1992/93-1996/97

	Capacity Installed		Capacity Utilized		Consumption		Export Yarn
	Spindles	Rotors	Spindles	Rotors	Raw cotton	Yarn	
	(Number of spindles and rotors)						
	(In thousand of kilograms)						
1992/93	6,859,747	94,688	5,552,377	73,428	1,444,417	1,234,538	555,296
1993/94	8,404,545	139,924	6,443,102	88,822	1,693,687	1,498,948	578,507
1994/95	8,609,703	131,868	6,218,672	77,791	1,604,884	1,413,648	522,091
1995/96	8,726,877	142,780	6,417,170	81,425	1,702,646	1,505,244	531,469
1996/97	8,181,718	142,828	6,413,593	85,205	1,259,254	1,141,587	380,585
	(Annual percentage changes)						
1993/94	22.5	47.8	16.0	21.0	17.3	21.4	4.2
1994/95	2.4	-5.8	-3.5	-12.4	-5.2	-5.7	-9.8
1995/96	1.4	8.3	3.2	4.7	6.1	6.5	1.8
1996/97	-6.2	0.0	-0.1	4.6	-26.0	-24.2	-28.4

Source: Ministry of Industries and Investment.

Table 26. Pakistan: Domestic Retail Prices of Selected Petroleum Products,
1992/93–1996/97

(In Pakistan rupees per liter) 1/

	1992/93	1993/94	1994/95	1995/96	Prel. 2/ 1996/97
Regular petrol	11.40	13.13	13.75	14.70	17.23
High-octane petrol	13.86	14.27	16.88	18.17	20.04
Kerosene	5.20	6.00	6.25	6.82	9.44
High speed diesel	5.31	6.12	6.50	7.17	9.66
Light diesel	4.20	4.84	5.00	5.55	7.79
Fuel oil	2.21	2.67	2.67	3.39	5.91

Source: Ministry of Petroleum and Natural Resources.

1/ Annual averages.

2/ As of July 1997.

Table 27. Pakistan: Natural Gas Prices, 1992/93–1996/97

(In Pakistan rupees per thousand cubic feet)

	8/19/93	6/9/94	12/5/94	6/14/95	5/16/96	1/1/97
Fertilizer industry	22.5	22.5	22.5	27.9	29.6	34.01
Other industries	62.8	67.8	67.8	84.1	89.1	102.46
Household						
Up to 3.55 mcf/month	35.7	36.4	37.5	40.3	42.7	49.09
From 3.55 to 7.1 mcf/month	39.2	42.5	44.0	47.9	50.8	58.38
From 7.1 to 10.65 mcf/mont	46.5	50.2	52.7	65.4	69.5	79.7
Above 10.65 mcf/month	55.8	60.3	63.3	78.5	83.2	95.63
Commercial	70.6	76.3	76.3	94.6	100.2	115.28
Memorandum item:						
Weighted price index 1/	50.8	54.1	58.4	71.9	76.2	87.6

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

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

Table 28. Pakistan: Accounts of the
Water and Power Development Authority, 1992/93-1996/97 1/

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Operating revenues	44,736	50,863	63,712	83,590	98,650
Sale of electricity	27,189	27,087	29,524	31,910	32,819
Additional surcharge	0.0	5,356	13,683	30,529	39,651
Fuel surcharge	12,262	12,786	13,748	14,430	15,807
Hydel surcharge	3,392	4,227	4,657	5,016	6,000
Other operating revenues	672	473	906	787	2,109
Other income	1,221	934	1,194	918	2,264
Operating expenses	39,539	44,896	53,800	65,800	93,650
Cost of fuel	11,771	16,237	18,144	24,157	19,845
Purchase of power	445	302	179	634	36,813
Capacity payments	0.0	0.0	0.0	0.0	20,436
Energy payments	445	302	179	634	16,377
Operating, maintenance, administrative expenses	12,710	14,372	17,625	20,332	18,386
Hydel profit to provinces	3,800	3,860	4,600	6,321	6,000
Amortization of exchange fluctuations	2,708	1,024	1,943	1,141	330
Interest	8,105	9,101	11,309	13,215	12,276
Current balance	5,197	5,967	9,912	17,790	5,000
Capital expenditure	22,573	25,591	24,120	31,064	24,907
Overall balance	-17,376	-19,624	-14,208	-13,274	-19,907
Memorandum items: (In millions of Kwh)					
Total generation	40,791	42,396	46,126	48,859	50,685
Imports-private Power	...	...	...	442	11,408
Hydro generation	...	...	...	23,206	23,092
Thermal generation	...	...	...	25,211	16,185
Sales	31,272	32,131	35,032	36,925	39,069
Losses as percent of generation	23.3	24.2	24.1	24.4	22.9
Average tariff					
In rupees per kwh	1.39	1.55	1.79	2.24	2.47
In U.S. cents per Kwh	5.4	5.2	5.8	6.7	6.3
Average cost (in rupees/kwh)	1.26	1.40	1.54	1.78	2.40
Of which: input costs	0.39	0.52	0.52	0.67	1.45
operational costs	0.41	0.45	0.50	0.55	0.47
Average cost of power purchased from IPPs					
in rupees per kwh	...	...	...	1.43	3.23
in U.S. cents per Kwh	...	...	...	4.3	8.3
Annual percentage change					
Average tariff	4.9	11.7	14.8	25.5	10.2
Average cost	17.3	10.5	9.9	16.0	34.5

Sources: WAPDA annual reports; for 1996/97 preliminary estimates were provided by the company.

1/ These accounts excludes the activities of the water wing. For these activities, there are no revenues and all expenditures are covered by the federal budget.

Table 29. Pakistan: Accounts of the Karachi Electricity Supply Corporation, 1992/93-1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Revenue	9,920	11,797	12,691	16,339	16,385
Sale of energy	9,735	11,578	12,383	15,988	16,073
Other income	185	219	308	351	312
Current expenditure	9,766	11,621	12,502	16,808	22,754
Fuel and oil consumed	4,469	5,482	5,344	7,393	10,830
Electricity purchased	686	836	1,390	1,704	3,599
Operation and maintenance expenses	1,447	1,953	2,380	3,075	3,140
Generation	254	318	359	423	473
Transmission and distribution	721	909	1,190	1,455	1,578
Public light	38	38	48	62	68
Consumers services and billing	244	275	325	401	469
Administrative and general expenditure	190	413	458	734	552
Depreciation	1,479	1,486	1,668	1,643	1,999
Additional depreciation	409	477	0	1,201	752
Financial charges and other	1,275	1,387	1,720	1,793	2,433
Current balance	155	176	189	-469	-6,369
Capital expenditure	2,152	3,813	7,457	10,261	7,480
Overall balance	-1,998	-3,637	-7,269	-10,730	-13,849
Memorandum items:					
Production (in GWH)					
Units generated	7,889	8,097	7,299	8,067	7,434
Power purchased	763	876	1,462	1,329	1,853
Total system losses	2,773	2,886	3,129	3,375	3,521
Unit sold	5,880	6,087	5,632	6,021	5,766
Losses in percent of generation and purchase	32.0	32.2	35.7	35.9	37.9
Average tariff (in rupees/kwh)	1.66	1.90	2.20	2.66	2.79
Average tariff (in cents/kwh)	6.4	6.3	7.1	7.9	7.2
Average cost (in rupees/kwh)	1.66	1.91	2.22	2.79	3.95
Of which : fuel and electricity	0.88	1.04	1.20	1.51	2.50
operational	0.25	0.32	0.42	0.51	0.54
Annual percentage changes					
Average tariff	...	14.5	15.8	20.9	4.9
Of which : fuel and electricity	...	18.2	15.4	25.8	65.6
operational	...	28.0	31.3	21.4	5.9

Sources: KESC annual reports; for 1996/97 preliminary estimates were provided by the company.

Table 30. Pakistan: Accounts of the Oil and Gas Development Corporation,
1992/93-1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Revenues	5,451	5,727	6,589	10,818	13,659
Net sales	4,892	5,267	6,258	10,300	13,409
Other operating revenues	163	73	71	44	50
Other income	396	387	260	474	200
Current expenditure	3,349	4,187	4,728	7,028	8,425
Operating expenditure	638	853	1,394	3,112	3,215
Transportation charges	225	201	207	209	169
Amortization	421	563	570	622	785
Exploration expenditure written off	1,078	1,153	890	1,440	1,238
General and administration expenses	330	722	889	465	556
Financial charges	439	521	566	968	1,721
Workers profit participation Fund	123	60	104	161	341
Provision for current taxation	95	114	108	52	400
Current balance	2,102	1,540	1,861	3,790	5,234
Capital expenditure	1,730	4,472	5,554	3,710	13,342
Overall balance	372	-2,932	-3,693	80	-8,108
Financing	-372	2,932	3,693	-80	8,108
Memorandum items:					
Oil sales					
Sales (in million rupees)	4,097.1	4,127.5	4,216.6	4,503.3	6,559.0
Volume (in thousands of barrels)	10,426	10,611	9,676	9,592	7,989
Unit price (in rupee/barrel)	393	389	436	469	821
Costs (in million rupees)	2,774.3	3,257.3	3,384.9	3,343.4	3,591.4
Unit cost (in rupee/barrel)	266.1	307.0	349.8	348.6	449.5
Gas sales					
Sales (in million rupees)	709.2	1,033.7	1,538.4	4,893.6	8,097.0
Volume (in 000s MCF)	33,640.8	39,861.0	51,828.0	108,294.0	137,252.0
Unit price (rupee/MCF)	21.1	25.9	29.7	45.2	59.0
Unit price (in US\$/MCF)			1.0	1.3	1.5
Costs (in million rupees) 2/	480.2	815.8	1,234.9	3,633.1	4,433.6
Unit cost (in rupee/MCF)	14.3	20.5	23.8	33.5	32.3
Total oil and gas sales (in million rupees)	4,806.3	5,161.2	5,755.0	9,396.9	14,656.0

Sources: OGDC annual reports; for 1996/97 preliminary estimates were provided by the company.

Table 31. Pakistan: Accounts of the Pakistan Telecommunication Corporation,
1992/93-1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Revenue	24,723	27,577	34,756	39,466	43,932
Telephone/telex/telegraph	24,145	26,365	33,060	37,779	42,632
Other income	451	1,183	1,631	1,687	1,300
Interest income	127	29	65		
Current expenditure	10,575	11,553	17,921	26,737	29,066
Operating costs	9,997	11,218	15,810	22,765	23,628
of which: salaries and pensions	2,367	3,019	3,825	4,933	6,289
Interest expenses	578	335	2,111	3,972	5,438
Current balance	14,148	16,024	16,835	12,729	14,866
Capital expenditure	23,128	20,459	15,517	14,950	16,000
Overall balance	-8,980	-4,435	1,318	-2,221	-1,134
Financing	8,980	4,435	-1,318	2,221	1,134
Federal government	4,647	4,074	-1,050	949	45
Gross lending	4,647	4,074	2,498	949	1,003
Amortization	0	0	3,548	0	958
Other	4,333	361	-268	1,272	1,089

Sources: PTC and PTCL annual reports; for 1996/97 preliminary estimates were provided by the company.

Table 32. Pakistan: Accounts of the Sui Southern Gas Company Limited,
1992/93-1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Revenue	8,931	9,776	10,249	14,003	16,437
Gas sales	8,438	9,195	9,558	13,042	15,218
Recovery from SNGPL	142	240	289	353	339
Other income 1/	351	341	403	608	880
Expenditure	8,578	9,284	9,659	13,466	15,584
Cost of gas sold	3,363	3,842	4,550	7,953	9,711
Purification/transmission/distribution costs	1,244	1,514	1,902	2,168	2,304
Financial and other charges	377	351	780	993	1,385
Depreciation	524	642	904	1,171	1,411
Development surcharge	2,815	2,606	1,242	621	434
Contribution of workers' profit fund	30	41	44	55	60
Corporate tax/bonus share tax	225	288	239	504	281
Current balance	353	492	590	538	852
Capital expenditure	1,858	3,934	3,999	4,299	1,968
Overall balance	-1,505	-3,442	-3,409	-3,761	-1,116
Memorandum items:					
Gas sales (in millions of rupees)	8,438	9,195	9,558	13,042	15,218
Gas sales (in thousands of MMCF)	164.9	159.4	151.4	172.4	176.6
Unit sale price (in rupees per MCF)	51.2	57.7	63.1	75.7	86.2
Unit sale price (in US\$/MCF)	2.0	1.9	2.1	2.3	2.2
Average cost (in rupees per MCF)	33.4	39.8	53.7	71.3	83.9
Of which: average cost of gas	20.4	24.1	30.1	46.1	55.0
average operational cost	13.0	15.7	23.7	25.1	28.9
Average rate of return on assets	0.7	1.5	1.2	0.8	-0.2
Prescribed price (in rupees per MCF) 2/	34.1	41.3	54.9	72.1	83.7
Gas Development surcharge 3/	2,815	2,606	1,242	621	434
Annual percentage changes					
Unit sales price	...	12.7	9.4	19.8	13.9
Unit prescribed price	...	21.2	32.9	31.2	16.2
of which: Unit cost of gas	...	18.2	24.7	53.5	19.2
Unit operational costs	...	20.9	50.6	6.1	14.9
Number of employees	4851	4961	5277	5605	5587

Source: SSGN annual reports; for 1996/97 preliminary estimates were provided by the company.

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

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

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

Table 33. Pakistan: Accounts of the Sui Northern Gas Pipelines Limited,
1992/93-1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Revenue	7,836	9,778	11,036	14,754	19,483
Gas sales	7,667	9,450	10,541	14,181	18,826
Rental and service income	73	89	96	138	185
Surcharge and interest on arrears of gas sale	0	53	170	188	225
Other income 1/	97	187	228	248	247
Expenditure	7,491	9,344	10,595	14,340	19,050
Cost of gas sold	3,390	4,158	5,267	9,069	12,499
Operating cost	889	1,133	1,338	1,778	2,154
Financial and other charges	601	829	1,170	1,631	2,445
Depreciation	629	884	1,118	1,407	1,774
Development surcharge	1,786	2,181	1,473	103	
Corporate tax/bonus share tax	196	158	230	351	178
Current balance	345	434	440	415	433
Capital expenditure	3,326	4,360	3,969	3,894	3,458
Overall balance	-2,981	-3,926	-3,528	-3,480	-3,025
Memorandum items:					
Gas sales (in millions of rupees)	7,667	9,450	10,541	14,181	17,384
Gas sales (in thousands of MMCF)	177.1	185.2	190.4	208.9	234.0
Unit sale price (in rupees per MCF)	43.3	51.0	55.4	67.9	74.3
Unit sale price (in US\$ per MCF)			1.8	2.0	1.9
Average cost (in rupees per MCF)	31.1	37.8	46.7	66.5	80.6
of which: average cost of gas	19.1	22.5	27.7	43.4	53.4
average operational cost	12.0	15.4	19.0	23.1	27.2
Average rate of return on assets	2.1	1.4	0.9	0.9	-0.2
Prescribed price (in rupees per MCF) 2/	33.2	39.2	47.6	67.4	80.5
Gas development surcharge 3/	1,786	2,181	1,473	103	-1,442
Annual percentage changes					
Unit sales price	...	17.9	8.5	22.6	9.4
Unit prescribed price	...	18.2	21.4	41.5	19.4
of which: Unit cost of gas	...	17.3	23.2	56.9	23.0
Unit operational costs	...	28.5	23.9	21.1	18.1
Number of employees	4,272	4,503	5,897	7,270	8,276

Sources: SNGPL annual reports; for 1996/97 preliminary estimates were provided by the company.

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

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

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

Table 34. Pakistan: Accounts of the Pakistan Railways, 1992/93-1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Revenue	8,956	10,087	11,674	10,645	12,596
Sales of goods and services	8,675	9,176	9,705	8,131	9,746
Passengers	2,783	2,823	3,104	3,602	4,418
Goods	3,765	3,795	3,444	3,568	4,057
Other 1/	2,128	2,558	3,157	961	1,271
Transfers from the budget 2/	281	912	1,969	2,514	2,850
Current expenditure	10,076	11,085	12,804	14,979	14,807
Ordinary working expenditure	8,378	9,215	10,575	12,619	12,116
Interest charges	614	787	1,146	1,276	2,180
Appropriation to funds	1,083	1,083	1,083	1,083	511
Current balance	-1,120	-998	-1,130	-4,334	-2,211
Capital expenditure	2,161	2,104	2,871	4,020	3,583
Overall balance	-3,280	-3,102	-4,001	-8,354	-5,793
Memorandum items:					
Passenger Traffic					
Number of passengers (in millions)	59.0	61.7	66.5	73.7	75.8
Number of kilometers travelled (in millions)	17,082	16,385	17,555	18,905	20,476
Average kilometer per passenger	289.5	265.6	264.0	256.5	270.1
Average rate per passenger per kilometer (in rupees)	0.16	0.17	0.18	0.19	0.22
Freight Traffic					
Number of tons (in thousands)	7,769.0	8,036.0	7,356.0	6,854.0	7,059.6
Number of kilometers travelled (in millions)	6,180.0	5,939.0	5,661.0	5,077.0	5,229.3
Average kilometers per ton	795.5	739.0	769.6	740.7	740.7
Average rate per ton per kilometer (in rupees)	0.61	0.64	0.61	0.70	0.78
Number of employees	...	...	...	...	111,492

Source: Pakistan Railways year book; for 1996/97 preliminary estimates were provided by the company.

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

2/ Transfers from the budget to cover operational shortfalls.

Table 35. Pakistan: Budgetary Financing, 1992/93–1996/97

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Total financing	109,531	93,696	106,127	148,794	153,389
External	25,392	25,220	28,898	27,046	21,407
Disbursements	53,925	68,747	86,036	96,338	119,238
Project aid	28,591	31,145	43,267	40,970	44,132
BOP/budget support	5,819	7,789	4,060	685	468
Food aid	7,991	6,767	7,537	12,851	20,046
Commercial loans	7,958	21,642	29,917	43,372	56,456
Foreign exchange bearer certificates	2,508	807	1,676	-1,537	-1,919
U.S. dollar bearer certificates	-651	-282	-784	-513	-73
Foreign currency bearer certificates	1,709	879	364	510	129
Repayments	28,533	43,527	57,138	69,292	97,831
Long-term loans	21,436	28,217	33,871	37,893	...
Commercial loans	7,097	15,310	23,267	31,399	...
Domestic	82,539	66,476	66,129	109,748	130,521
Bank	63,626	27,834	36,158	52,273	68,709
Federal	58,350	36,972	40,970	47,862	76,346
Provincial	5,276	-9,138	-4,812	4,411	-7,637
Non-bank	18,913	38,642	29,971	57,475	61,812
Recovery of loans from others	5,657	6,139	8,652	10,742	4,842
Permanent debt	17,131	27,421	16,318	21,261	5,404
Prize bonds	4,907	4,646	5,435	6,306	9,547
FIBs	12,224	23,143	15,470	14,897	-542
Treasury bills	0.0	-368	-4,587	58	-3,601
Public account	7,236	25,838	35,506	43,618	59,420
Government investment loans	-9,519	-5,233	-10,092	-17,138	-7,768
Repayment of bonds etc.	-1,830	0.0	-276	-432	-722
Provincial nonbank	238	286	267	468	637
Privatization proceeds	1,600	2,000	11,100	12,000	1,460

Source: Ministry of Finance and Economic Affairs.

Table 36. Pakistan: Domestic Debt, 1992/93–1996/97 1/

(In millions of Pakistan rupees)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Bank debt	308,492	352,841	398,979	447,259	514,653
Ad hoc treasury bills	61,417	61,436	61,456	61,478	61,500
Short-term federal bonds	151,022	190,916	221,646	288,631	364,745
SBP	115,500	117,500	175,592	245,283	279,600
On tap	13	13	13	13	13
Banks	35,509	73,403	46,041	43,335	85,132
Federal Investment Bonds	96,053	100,489	115,877	97,150	88,407
Nonbank debt	291,976	342,008	390,791	455,000	518,296
Medium- and long-term	134,597	147,507	156,345	177,842	186,124
Market loans	20,691	20,691	19,872	19,557	19,557
Government bonds (SLIC and PSE)	15,998	15,983	16,735	16,850	16,128
Prize bonds	34,613	39,259	44,694	51,000	60,547
Bearer National Fund bonds	22,331	22,325	22,112	21,680	21,680
Federal Investment bonds	40,963	49,248	52,931	68,754	68,212
Special National Fund bonds	1	1	1	1	1
Short-term Federal bonds	3,380	5,285	11,131	11,189	7,588
National savings schemes	153,999	189,216	223,315	265,969	324,583
Defence savings certificates	52,995	64,365	85,019	105,163	136,286
Khas deposit certificates/accounts	2,489	1,787	1,377	1,047	830
National deposit certificates/accounts	3,633	2,998	2,193	1,087	157
Savings account	5,209	15,787	15,640	20,312	14,681
Mahana Amadani account	1,052	1,262	1,467	1,672	1,820
Postal life insurance	4,568	7,087	6,769	7,200	7,700
Special savings certificates/accounts	77,822	85,147	95,736	109,492	126,713
Regular income scheme	1,120	5,364	9,387	14,119	30,394
General Provident Fund	5,111	5,419	5,727	5,877	6,002
Total domestic debt	600,468	694,849	789,770	902,259	1,032,948

Source: Ministry of Finance and Economic Affairs.

1/ End of period stocks.

Table 37. Pakistan: Federal Government Fiscal Operations, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
	(In millions of Pakistan rupees)				
Total revenue	242,622	274,059	320,765	370,510	384,163
Tax revenue	171,478	200,428	247,501	293,915	307,687
Income and profit taxes	35,018	41,466	59,064	75,681	80,019
Wealth and capital taxes	1,744	1,985	2,521	2,471	4,544
Federal excise duty	35,169	34,519	43,691	51,104	55,297
Sales tax	23,610	30,379	43,571	49,869	55,662
Imports	11,165	14,304	23,265	28,099	35,889
Domestic	12,445	16,075	20,306	21,770	19,773
Surcharges	12,212	26,483	20,152	24,879	24,817
Gas (net)	6,549	9,284	8,220	9,752	3,182
Petroleum	5,663	17,200	12,490	15,127	21,635
Customs duties	63,226	65,061	77,652	88,908	86,094
Foreign travel tax	500	535	850	1,003	1,254
Nontax revenue	71,143	73,630	73,264	76,595	76,476
Interest receipts from non government	15,726	19,857	18,137	17,977	21,268
Interest receipts from provinces	18,006	20,087	21,869	22,745	24,182
Dividend	2,227	1,923	1,922	2,595	4,335
SBP profit	10,790	5,728	15,000	14,377	10,200
Sales proceeds and royalty	2,255	3,024	4,149	5,256	6,915
Transfers from PTC	4,148	4,100	4,100	0.0	0.0
Other civil administration	14,735	16,389	2,531	2,688	3,575
Other federal miscellaneous	3,256	2,522	5,555	10,958	6,001
Total expenditure	346,639	376,607	431,436	514,424	544,552
Current expenditure	278,057	307,460	356,940	434,204	478,427
Transfers to provincial tax pool	65,088	80,104	97,727	121,310	131,556
Interest payments	75,534	86,165	94,186	128,024	145,559
Domestic	60,871	70,144	73,023	102,344	115,788
Foreign	14,663	16,021	21,163	25,680	29,771
Defense	87,461	91,776	104,512	119,658	127,441
General administration and services	31,140	34,991	40,015	42,908	45,372
Grants to provinces, enterprises etc.,	9,236	6,989	11,700	10,491	9,912
Subsidies	5,911	3,978	4,762	7,982	6,088
Other/unallocable	3,687	3,458	4,038	3,830	6,385
Unidentified					6,114
Development expenditure and net lending	68,582	69,147	74,497	80,221	66,125
Federal budget	54,200	50,041	54,183	65,497	59,650
Net lending	14,382	19,106	20,314	14,724	6,475
Contributions to provincial programs	16,515	21,502	23,161	18,084	11,455
Recovery of loans from provinces	-2,133	-2,396	-2,847	-3,360	-4,980
Overall balance	-104,017	-102,549	-110,672	-143,914	-160,389
Financing	104,017	102,549	110,672	143,914	160,389
External	25,392	25,220	28,898	27,046	21,407
Domestic	77,025	75,329	70,674	104,868	137,521
Bank	58,350	36,972	40,970	47,862	76,346
Non-bank	18,675	38,357	29,704	57,006	61,175
Privatization proceeds	1,600	2,000	11,100	12,000	1,460

Table 37. Pakistan: Federal Government Fiscal Operations, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
	(In percent of GDP)				
Total revenue	18.1	17.4	17.0	17.1	15.3
Tax revenue	12.8	12.7	13.2	13.5	12.3
Income and profit taxes	2.6	2.6	3.1	3.5	3.2
Wealth and capital taxes	0.1	0.1	0.1	0.1	0.2
Federal excise duty	2.6	2.2	2.3	2.4	2.2
Sales tax	1.8	1.9	2.3	2.3	2.2
Imports	0.8	0.9	1.2	1.3	1.4
Domestic	0.9	1.0	1.1	1.0	0.8
Surcharges	0.9	1.7	1.1	1.1	1.0
Gas (net)	0.5	0.6	0.4	0.4	0.1
Petroleum	0.4	1.1	0.7	0.7	0.9
Customs duties	4.7	4.1	4.1	4.1	3.4
Foreign travel tax	0.0	0.0	0.0	0.0	0.1
Nontax revenue	5.3	4.7	3.9	3.5	3.1
Interest receipts from nongovernment	1.2	1.3	1.0	0.8	0.8
Interest receipts from provinces	1.3	1.3	1.2	1.0	1.0
Dividend	0.2	0.1	0.1	0.1	0.2
SBP profit	0.8	0.4	0.8	0.7	0.4
Sales proceeds and royalty	0.2	0.2	0.2	0.2	0.3
Transfers from PTC	0.3	0.3	0.2	0.2	0.0
Other civil administration	1.1	1.0	0.1	0.1	0.1
Other federal miscellaneous	0.2	0.2	0.3	0.3	0.2
Total expenditure	25.8	23.9	22.9	23.7	21.8
Current expenditure	20.7	19.5	19.0	20.0	19.1
Transfers to provincial tax pool	4.9	5.1	5.2	5.6	5.3
Interest payments	5.6	5.5	5.0	5.9	5.8
Domestic	4.5	4.5	3.9	4.7	4.6
Foreign	1.1	1.0	1.1	1.2	1.2
Defense	6.5	5.8	5.6	5.5	5.1
General administration and services	2.3	2.2	2.1	2.0	1.8
Grants to provinces, enterprises, etc.	0.7	0.4	0.6	0.3	0.4
Subsidies	0.4	0.3	0.3	0.4	0.2
Other/unallocable	0.3	0.2	0.2	0.3	0.3
Unidentified	0.0	0.0	0.0	0.0	0.2
Development expenditure and net lending	5.1	4.4	4.0	3.7	2.6
Federal budget	4.0	3.2	2.9	3.0	2.4
Net lending	1.1	1.2	1.1	0.7	0.3
Contributions to provincial programs	1.2	1.4	1.2	0.8	0.5
Recovery of loans from provinces	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance	-7.8	-6.5	-5.9	-6.6	-6.4
Financing	7.8	6.5	5.9	6.6	6.4
External	1.9	1.6	1.5	1.2	0.9
Domestic	5.7	4.8	3.8	4.8	5.5
Bank	4.3	2.4	2.2	2.2	3.0
Non-bank	1.4	2.4	1.6	2.6	2.4
Privatization proceeds	0.1	0.1	0.6	0.6	0.1

Source: Ministry of Finance and Economic Affairs.

Table 38. Pakistan: Provincial Government Operations, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
(In millions of Pakistan rupees)					
Total revenue	97,938	119,816	142,017	159,170	163,848
Provincial share in federal revenue	65,088	80,104	97,727	121,310	131,556
Provincial taxes	6,915	8,233	12,076	11,665	14,279
Property taxes	811	923	1,273	1,504	3,060
<i>Of which: agricultural tax</i>	...	...	...	...	1,485
Excise duties	446	543	947	815	877
Stamp duties	2,613	2,877	3,423	4,213	4,497
Motor vehicles tax	1,306	1,246	1,603	1,668	1,934
Other	1,739	2,644	4,830	3,465	3,912
Provincial nontax revenue	8,001	8,781	9,144	9,129	9,441
Interest	175	295	319	398	417
Miscellaneous	7,826	8,486	8,825	8,731	9,025
Net lending for development	14,382	19,106	20,314	14,724	6,475
Federal loans and contributions	16,515	21,502	23,161	18,084	11,455
Repayments	-2,133	-2,396	-2,847	-3,360	-4,980
Federal grant for current expenditure	3,552	3,592	2,756	2,342	2,098
Total expenditure	103,452	110,963	137,472	164,049	156,848
Current expenditure	82,179	89,461	109,311	135,313	131,348
<i>Of which: Interest payment to Federal government</i>	18,006	20,087	21,869	22,745	24,182
Development	21,273	21,502	28,161	28,736	25,500
Overall balance	-5,515	8,853	4,545	-4,879	7,000
Financing	5,514	-8,852	-4,545	4,879	-7,000
External	0	0	0	0	0
Domestic	5,514	-8,852	-4,545	4,879	-7,000
Bank	5,276	-9,138	-4,812	4,411	-7,637
Nonbank	238	286	267	468	637
(In percent of GDP)					
Total revenue	7.3	7.6	7.5	7.3	6.5
Provincial share in federal revenue	4.9	5.1	5.2	5.6	5.3
Provincial taxes	0.5	0.5	0.6	0.5	0.6
Provincial nontax	0.6	0.6	0.5	0.4	0.4
Federal net lending for development	1.1	1.2	1.1	0.7	0.3
Federal grants for current expenditure	0.3	0.2	0.1	0.1	0.1
Total expenditure	7.7	7.1	7.3	7.6	6.3
Current expenditure	6.1	5.7	5.8	6.2	5.2
Development	1.6	1.4	1.5	1.3	1.0
Budget deficit	-0.4	0.6	0.2	-0.2	0.3

Source: Ministry of Finance and Economic Affairs.

Table 39. Pakistan: Budgetary Expenditure, Social Action Program, and Public Sector Development Program, 1992/93–1997/98

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97	Budget 1997/98
(In millions of Pakistan rupees)						
Total expenditure	349,063	364,681	426,242	517,352	537,089	609,301
Current expenditure	273,590	293,138	343,899	423,120	451,939	519,196
Federal	209,417	223,764	256,457	310,552	344,773	391,933
<i>Of which</i> : SAP	955	1,152	1,683	1,757	2,315	2,401
Provincial	64,173	69,374	87,442	112,569	107,166	127,263
<i>Of which</i> : SAP	15,253	18,139	22,898	28,589	32,021	38,247
Development expenditure	75,473	71,543	82,344	94,233	85,150	90,106
Federal	54,200	50,041	54,183	65,497	59,650	64,106
Core development program 1/	22,510	27,550	32,070	38,086	36,950	39,971
<i>Of which</i> : SAP	858	1,165	1,616	2,283	4,182	3,993
Non-core development program	31,690	22,491	22,113	27,411	22,700	24,135
<i>Of which</i> : SAP	1,038	874	545	342	913	1,380
Provincial	21,273	21,502	28,161	28,736	25,500	26,000
<i>Of which</i> : SAP	6,159	7,349	11,087	10,720	12,996	15,614
Total SAP	24,263	28,679	37,829	43,691	52,427	61,635
Current	16,208	19,291	24,581	30,346	34,336	40,648
Development	8,055	9,388	13,248	13,345	18,091	20,987
Public sector development program	112,908	120,886	117,189	136,017	118,785	122,625
<i>Of which</i> : Core development pro	36,388	52,417	45,797	60,840	49,393	52,192
Budgetary PSDP	75,473	71,543	82,344	94,233	85,150	90,106
Core	22,510	27,550	32,070	38,086	36,950	39,971
Noncore	52,963	43,993	50,274	56,147	48,200	50,135
Extrabudgetary PSDP	37,435	49,343	34,845	41,784	33,635	32,519
Core	13,878	24,867	13,727	22,754	12,443	12,221
Noncore	23,557	24,476	21,118	19,030	21,192	20,298
(In percent of GDP)						
Total SAP	1.8	1.8	2.0	2.0	2.1	2.1
Core development program 1/	2.7	3.3	2.4	2.8	2.0	1.8

1/ For 1997/98, agreement on the Core Development Programs (CDP) has not yet been finalized. The 1997/98 CDP figures refer to the PSDP allocations for projects and programs included in the 1996/97 CDP.

Table 40. Pakistan: Monetary Survey, 1992/93–1996/97

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

	1992/93	1993/94 1/	1994/95	1995/96	Prel. 1996/97
Net foreign assets	-49,339	-15,930	11,027	-27,971	-61,409
Net domestic assets	645,467	719,330	813,706	966,606	1,101,745
Net claims on the government	347,916	375,879	414,575	468,872	539,437
Budgetary support	325,521	348,363	384,521	434,018	502,720
Federal government	317,773	356,259	397,229	442,315	518,661
Provincial governments	7,748	-7,896	-12,708	-8,297	-15,941
Commodity operations	30,204	36,786	41,519	47,377	52,103
Zakat and privatization funds	-7,809	-9,270	-11,465	-12,523	-15,386
Credit to the nongovernment sector	352,954	392,379	462,357	531,064	587,887
Credit to the private sector and public enterp	338,360	379,075	445,402	510,943	570,361
Credit to the autonomous bodies	14,594	13,304	16,955	20,121	17,526
Privatization account	0.0	0.0	-14,998	-8,734	-4,913
Gross inflows 2/	0.0	0.0	29,128	34,864	38,333
Gross withdrawals 3/	0.0	0.0	14,130	26,130	33,420
Other items (net)	-55,403	-48,929	-48,228	-24,596	-20,666
Domestic liquidity	596,128	703,400	824,733	938,635	1,040,336
Currency	166,864	184,708	215,579	234,110	248,277
Rupee deposits	367,990	426,557	504,081	558,567	569,177
Demand deposits	160,216	173,449	206,910	213,869	180,874
Time and savings deposits	207,774	253,108	297,171	344,698	388,303
Foreign currency deposits	61,274	92,135	105,073	145,958	222,882
Memorandum item:					
National Savings Schemes	151,962	215,979	255,749	303,892	371,427
Deposits in nonbank financial institutions	23,308	54,632	65,591	80,301	87,960
M3 4/	771,398	974,011	1,146,073	1,322,828	1,499,723

Source: State Bank of Pakistan.

1/ Adjusted to include two new provincial banks that were scheduled in September 1994.

2/ Reflects receipts of PRs 29,128 million from the sale of PTC vouchers in September 1994, PRs 5,736 million from the sale of Kot Addu power plant in June 1996, and an additional PRs 3,469 million from the sale of Kot Addu received in July and November 1996.

3/ Includes PRs 14 billion and PRs 12 billion use of privatization proceeds by the budget in 1994/95 and 1995/96, respectively. In 1996/97, it includes withdrawal of PRs 5,736 million transferred to WAPDA and PRs 1,500 million used to retire debt vis-a-vis the SBP.

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

Table 41. Pakistan: Accounts of the State Bank of Pakistan,
1992/93–1996/97

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

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Net foreign assets	-29,034	15,793	41,801	21,570	-9,750
Net domestic assets	242,394	227,605	241,051	288,511	353,334
Net claims on government	154,366	127,741	148,597	187,707	228,091
Budgetary support	162,134	137,008	160,059	200,227	243,474
Central government	153,354	137,416	164,320	195,186	245,209
Provincial governments	8,780	-408	-4,261	5,041	-1,735
Zakat fund	-7,661	-8,979	-10,462	-10,779	-13,670
Privatization fund	-107	-288	-1,000	-1,741	-1,713
Claims on nongovernment sectors	33,395	36,182	40,213	42,750	41,308
Private sector	33,042	35,939	40,088	42,667	41,225
Public sector enterprises	353	243	125	83	83
Claims on scheduled banks 1/	64,978	66,426	71,504	66,043	88,766
Privatization account	--	--	-14,998	-8,734	-4,913
Gross inflows 2/	--	--	29,128	34,864	38,333
Gross withdrawals 3/	--	--	14,130	26,130	33,420
Other items (net)	-10,345	-2,744	-4,265	745	82
Reserve money	213,360	243,398	282,852	310,081	343,584
Bank reserves	30,746	39,225	45,855	49,852	74,109
<i>Of which</i> : excess reserves	...	7,144	3,388	4,468	7,435
Private sector deposits	4,449	5,506	5,055	6,791	5,560
Currency	178,165	198,667	231,942	253,438	263,915
Outside scheduled banks	166,864	184,708	215,579	234,110	248,277
Held by scheduled banks	11,301	13,959	16,363	19,328	15,638

Source: State Bank of Pakistan.

1/ Adjusted to include two new provincial banks that were scheduled in September 1994.

2/ Reflects receipts of PRs 29,128 million from the sale of PTC vouchers in September 1994, PRs 5,736 million from the sale of Kot Addu power plant in June 1996, and an additional PRs 3,469 million from the sale of Kot Addu received in July and November 1996.

3/ Includes PRs 14 billion and PRs 12 billion use of privatization proceeds by the budget in 1994/95 and 1995/96, respectively. In 1996/97, it includes withdrawal of PRs 5,736 million transferred to WAPDA and PRs 1,500 million used to retire debt to the SBP.

Table 42. Pakistan: Accounts of the Scheduled Banks, 1992/93-1996/97 1/

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

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Net foreign assets	-20,305	-31,724	-30,774	-49,541	-51,659
Net domestic assets	445,120	544,909	634,873	747,275	838,158
Net claims on government	193,550	248,138	265,978	281,165	311,346
Budgetary support	163,387	211,355	224,462	233,791	259,246
Central government	164,419	218,843	232,909	247,129	273,452
Provincial governments	-1,032	-7,488	-8,447	-13,338	-14,206
Commodity operations	30,204	36,786	41,519	47,377	52,103
Advances to central government	20,488	27,244	31,110	36,499	40,035
Advances to provincial governments	9,716	9,542	10,409	10,878	12,068
PTC deposits	-41	-3	-3	-3	-3
Claims on non-government sectors	319,559	356,197	422,144	488,314	546,579
Private sector (including CEC)	276,553	316,423	376,006	436,034	494,931
Public sector enterprises	28,412	26,470	29,183	32,159	34,122
Autonomous bodies	14,594	13,304	16,955	20,121	17,526
Net claims on SBP	-22,931	-13,242	-9,286	3,137	981
Liabilities to the SBP	-64,978	-66,426	-71,504	-66,043	-88,766
Required/excess reserves	30,746	39,225	45,855	49,852	74,109
Cash	11,301	13,959	16,363	19,328	15,638
Other items (net)	-45,058	-46,184	-43,963	-25,341	-20,748
Liabilities to private sector	424,815	513,186	604,099	697,734	786,499
Demand deposits	155,767	167,943	201,855	207,078	175,314
Time deposits	207,774	253,108	297,171	344,698	388,303
Residents' foreign currency accounts (In millions of U.S. dollars)	61,274 2,250	92,135 3,002	105,073 3,384	145,958 4,147	222,882 5,495

Source: State Bank of Pakistan

1/ Adjusted to include two new provincial banks that were scheduled in September 1994.

Table 43. Pakistan: Government Budgetary Support, 1992/93–1996/97

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

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Central government	317,773	356,259	397,229	442,315	518,661
Scheduled banks	164,419	218,843	232,909	247,129	273,452
Treasury bills	35,660	83,443	90,059	137,110	166,715
Government securities	142,873	149,521	168,872	144,877	135,037
Government deposits	14,114	14,121	26,022	34,858	28,300
State bank	153,354	137,416	164,320	195,186	245,209
Treasury bills	117,189	107,294	131,422	151,308	200,232
Other claims	52,966	52,063	51,798	59,832	60,160
Government securities	5,853	4,885	4,584	12,584	12,956
Adhoc treasury bills	61,417	61,436	61,457	61,478	61,500
Ways and means advances	300	300	300	300	300
Treasury currency	3,214	3,261	3,276	3,288	3,222
Adjustment on account of IMF	-17,818	-17,819	-17,819	-17,818	-17,818
On account of quota	9,991	12,422	15,029	16,159	18,695
Revaluation of IMF rupee holding	-27,809	-30,241	-32,848	-33,977	-36,513
Government deposits	16,801	21,941	18,900	15,954	15,183
Provincial governments	9,812	-7,896	-12,708	-8,297	-15,941
Scheduled banks	1,032	-7,488	-8,447	-13,338	-14,206
Government securities	3,727	3,345	3,340	3,339	2,392
Advances to Punjab Government for Cooperatives	2,000	2,000	2,000	2,000	2,000
Government deposits	4,695	12,833	13,787	18,677	18,598
State bank	8,780	-408	-4,261	5,041	-1,735
Government securities	22	22	22	22	894
Debtor balances (excluding Zakat Fund)	11,582	3,726	2,852	7,464	7,252
Ways and means advances	96	27	0.0	0.0	0.0
Government deposits (excluding Zakat Fund)	2,920	4,183	7,135	2,445	9,881
Total budgetary support	327,585	348,363	384,521	434,018	502,720

Source: State Bank of Pakistan.

Table 44. Pakistan: Major Interest Rates, 1994/95-1996/97

	Treasury-Bill Rate 1/	SBP Discount Rate 2/	Call Money Rate 3/	Lending Rate 4/	Lending Rate 5/	Deposit Rate 6/
1994/95						
July	11.2	15.0	12.4	16.1	13.5	9.0
August	11.8	15.0	5.7	16.3	13.5	9.0
September	11.7	15.0	6.9	16.4	13.5	9.0
October	10.9	15.0	6.0	16.7	13.5	9.0
November	11.1	15.0	10.7	16.5	13.5	9.0
December	11.5	15.0	10.7	16.6	13.5	9.0
January	11.6	15.0	14.7	16.4	13.7	9.0
February	11.7	15.5	11.7	16.2	13.7	9.0
March	12.5	15.5	9.0	16.4	13.7	9.0
April	12.6	15.5	13.5	16.6	13.7	9.0
May	12.8	15.5	11.0	16.8	13.7	9.0
June	12.8	15.5	11.7	16.2	13.7	9.0
1995/96						
July	12.8	15.5	9.6	16.8	13.9	9.4
August	12.7	15.5	11.3	16.7	13.9	9.4
September	12.7	15.5	11.8	17.0	13.9	9.4
October	12.7	16.5	11.5	17.3	13.9	9.4
November	12.7	16.5	8.1	17.3	13.9	9.4
December	12.8	17.0	14.4	17.1	13.9	9.4
January	12.8	17.0	13.8	17.3	14.4	9.4
February	12.8	17.0	11.9	16.9	14.4	9.4
March	13.0	17.0	12.7	17.5	14.4	9.4
April	13.0	17.0	14.3	17.2	14.4	9.4
May	12.9	17.0	5.5	16.6	14.4	9.4
June	13.1	17.0	9.0	16.4	14.4	9.4
1996/97						
July	13.0	17.0	9.5	17.0	14.3	9.6
August	13.1	17.0	9.5	16.9	14.3	9.6
September	13.4	17.0	9.5	17.2	14.3	9.6
October	14.0	20.0	13.6	17.4	14.3	9.6
November	15.2	20.0	9.6	17.7	14.3	9.6
December	17.1	20.0	17.8	17.3	14.3	9.6
January	16.8	20.0	18.4	17.1	...	...
February	17.0	20.0	16.3	17.2	...	...
March	16.9	20.0	11.6	17.2	...	...
April	17.3	20.0	15.9	17.1	...	...
May	17.4	20.0	11.4	16.9	...	...
June	16.1	19.0	12.5	...	...	...
1992/93	12.4	14.6	9.8	...	13.3	8.6
1993/94	12.4	16.2	9.2	...	13.6	9.3
1994/95	11.8	15.2	10.3	16.4	13.6	9.0
1995/96	12.8	16.5	11.2	17.0	14.1	9.4
1996/97	15.6	19.2	13.0	17.2	14.3	9.6

Source: State Bank of Pakistan.

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

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

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

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

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

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

Table 45a. Pakistan: Market Share of Banks, 1992/93–1996/97

(In percent) 1/

	1992/93	1993/94	1995/96	1996/97	Percentage change during 1993/94–1996/97
Deposit market share 2/					
Nationalized commercial banks	58.3	53.6	49.6	45.6	-21.9
Habib Bank Limited	25.0	21.9	19.7	18.3	-26.8
National Bank of Pakistan	20.4	19.3	20.9	18.3	-10.2
United Bank Limited	12.7	12.2	8.8	8.7	-31.7
First Women Bank	0.2	0.2	0.3	0.3	24.2
Partially privatized banks	18.1	18.2	19.6	18.0	-0.9
Muslim Commercial Bank	11.4	11.8	12.9	11.9	4.1
Allied Bank Limited	6.7	6.4	6.7	6.1	-9.3
Specialized banks	1.4	1.4	1.5	1.5	6.7
Domestic private banks	5.6	8.1	10.5	12.7	127.5
Branches of foreign banks	16.6	18.7	18.7	22.3	34.4
Loan market share 3/					
Nationalized commercial banks	49.4	46.9	41.8	39.0	-21.0
Habib Bank Limited	23.2	20.5	17.7	16.8	-27.7
National Bank of Pakistan	15.4	15.8	14.9	14.0	-9.1
United Bank Limited	10.7	10.5	9.1	8.1	-24.0
First Women Bank	0.1	0.1	0.1	0.1	38.9
Partially privatized banks	12.6	12.8	14.0	14.4	14.7
Muslim Commercial Bank	8.3	4.3	9.2	5.2	-37.6
Allied Bank Limited	4.3	8.5	4.9	9.3	114.7
Specialized banks	20.2	18.1	17.0	15.6	-22.7
Domestic private banks	4.0	7.4	10.4	12.2	204.6
Branches of foreign banks	13.8	14.8	16.8	18.7	35.6

Source: State Bank of Pakistan.

1/ Based on end-of-period data. Data for 1994/95 is not available.

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

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

Table 45b. Pakistan: Market Share of Banks in Foreign Currency Deposits 1/

(In percent)

	Nonresident FCDs	Resident FCDs	Total FCDs
Nationalized commercial banks	26.9	18.3	21.2
Habib Bank Limited	13.0	7.6	9.4
National Bank of Pakistan	12.4	8.2	9.6
United Bank Limited	1.4	2.5	2.1
First Women Bank	0.0	0.0	0.0
Partially privatized banks	0.5	11.2	7.6
Muslim Commercial Bank	0.4	8.1	5.5
Allied Bank Limited	0.1	3.1	2.1
Specialized banks	0.0	0.1	0.0
Domestic private banks	5.8	24.9	18.5
Branches of foreign banks	66.9	45.5	52.7

Source: State Bank of Pakistan.

1/ As of March 1997.

Table 46. Pakistan: Commercial Banks Deposits and Loan Rates
of Return under the PLS System 1/, 1992/93–1996/97

(In percent per annum)

	1992/93	1993/94	1994/95	1995/96	Dec. 1996
Rates of return on deposits 2/					
Overall	8.55	9.27	9.00	9.36	9.59
Call deposits	5.38	6.23	6.34	6.53	6.56
Savings accounts	7.49	8.04	7.59	7.79	7.95
Term deposits					
Less than six months	7.38	8.58	8.35	8.86	9.19
Six months to less than 1 year	9.92	10.72	10.36	10.69	10.94
One year to less than two years	10.72	11.24	11.19	11.22	11.57
Two years to less than three years	11.25	11.78	11.65	11.84	11.80
Three years to less than four years	12.18	12.79	12.61	12.88	13.00
Four years to less than five years	13.13	13.84	13.28	13.66	13.75
Five years and over	14.40	15.00	15.01	15.11	15.40
Rates of returns on loans					
Export financing	8.00	12.00 5/	13.00 6/	13.00 6/	13.00 6/
Trade related modes of financing 3/	10–20	10–19 5/	13-no max 6/	14-no max 7/	14-no max 7/
Investment type modes of financing 3/ 4/	10.00	10–19 5/	13-no max 6/	14-no max 7/	14-no max 7/

Source: State Bank of Pakistan.

1/ Profit and loss sharing system.

2/ Annual averages.

3/ Excluding export financing and financing for sales of locally manufactured machinery.

4/ Minimum allowable rates.

5/ Effective November 13, 1994.

6/ Effective March 26, 1995.

7/ Effective October 29, 1995.

Table 47. Pakistan: Sectoral Distribution of Scheduled Bank
Credit to the Private Sector and Public Enterprises, 1992/93-1996/97 1/

	1992/93	1993/94	1994/95	1995/96	1996/97
(In millions of Pakistan rupees)					
Total credit	311,356	356,621	409,330	452,026	506,745
Agriculture, forestry, hunting, fishing	54,877	53,602	59,267	55,216	59,814
Mining and quarrying	4,459	4,023	4,529	6,091	6,089
Manufacturing	115,538	130,387	160,331	186,783	203,086
Construction	6,185	7,788	8,102	7,190	9,603
Electricity, gas, water, sanitary services	3,712	7,125	8,855	11,295	9,314
Commerce	54,484	61,049	64,318	68,139	74,793
Transport, storage, communication	13,028	14,592	16,713	17,673	20,547
Services	2,450	3,849	4,537	5,296	4,825
Personal	32,485	43,288	49,323	60,490	74,050
Others	24,138	30,918	33,355	33,853	44,624
(Growth rates, in percent)					
Total credit	...	12.4	18.2	15.5	10.7
Of which:					
Agriculture, forestry, hunting, fishing	17.6	-2.3	10.6	-6.8	8.3
Manufacturing	37.1	12.9	23.0	16.5	8.7
Construction	2	25.9	4.0	-11.3	33.6
Commerce	17.5	12.0	5.4	5.9	9.8
Services	1.2	165.4	17.9	16.7	-8.9
Personal	10.4	33.3	13.9	22.6	22.4
(In percent of total)					
Total credit	17.6	15.0	14.5	12.2	11.8
Agriculture, forestry, hunting, fishing	17.6	15.0	14.5	12.2	11.8
Mining and quarrying	1.4	1.1	1.1	1.3	1.2
Manufacturing	37.1	36.6	39.2	41.3	40.1
Construction	2	2.2	2.0	1.6	1.9
Electricity, gas, water, sanitary services	1.2	2.0	2.2	2.5	1.8
Commerce	17.5	17.1	15.7	15.1	14.8
Transport, storage, communication	4.2	4.1	4.1	3.9	4.1
Services	0.8	1.1	1.1	1.2	1.0
Personal	10.4	12.1	12.0	13.4	14.6
Others	7.8	8.7	8.1	7.5	8.8

Source: State Bank of Pakistan

1/ End-of-period stocks. The data for 1996/97 refer to end-December 1996.

Table 48. Pakistan: Foreign Currency Deposits, 1992/93-1996/97

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

	1992/93	1993/94	1994/95	1995/97	Prel. 1996/97
Residents' deposits	2,250	3,002	3,384	4,147	5,495
Nonresidents' deposits	2,227	2,933	3,192	4,158	4,352
With domestic banks	2,050	2,476	2,524	3,050	2,667
Institutional deposits	864	1,059	1,199	1,592	1,533
Individual accounts	1,186	1,417	1,325	1,458	1,134
With domestic NBFIs	177	457	668	1,108	1,685
Total foreign currency deposits	4,477	5,935	6,576	8,305	9,847
Maturity structure					
Demand deposits	2,115	2,687	2,723	3,413	3,748
Current	158	153	160	217	203
Call	43	103	49	68	120
Savings	1,914	2,431	2,514	3,127	3,425
Time deposits	2,362	3,248	3,853	4,892	6,099
1 month	92	173	99	266	407
3 months	992	1,342	1,409	1,720	1,773
6 months	314	882	1,039	1,160	1,347
1 year	781	678	1,001	1,396	1,419
Above 1 year	183	173	305	351	1,153
In percent of total					
Demand deposits	47.2	45.3	41.4	41.1	38.1
Time deposits	52.8	54.7	58.6	58.9	61.9
<i>Of which: 6 months and less</i>	31.2	40.4	38.7	37.9	35.8
Memorandum items:					
Share of FCDs in total deposits (percent)	24.2	28.3	26.7	31.2	36.8
Share of resident FCDs in M2 deposits (percent)	14.3	17.8	17.2	20.7	28.1
Share of resident FCDs in M2 (percent)	10.3	13.1	12.7	15.6	21.4

Source: State Bank of Pakistan

Table 49. Pakistan: Direction of Trade, 1992/93–1996/97

(In percent)

	1992/93	1993/94	1994/95	1995/96	July–March 1996/97
Exports	100.0	100.0	100.0	100.0	100.0
European Community	29.3	31.1	29.8	28.2	30.9
United Kingdom	7.1	7.8	7.1	6.4	7.3
Other	22.2	23.3	22.7	21.8	23.6
United States	13.9	14.4	16.2	15.5	17.5
Japan	6.8	8.0	6.7	6.3	6.0
Hong Kong	6.6	7.3	6.6	9.1	9.5
Singapore	2.0	1.4	1.3	1.1	0.9
Baltic and CIS countries 1/	0.1	0.4	0.2	0.2	0.3
China	0.6	0.8	1.1	1.7	1.2
Oil-producing trading partners 2/	6.8	4.7	5.1	5.9	4.1
Other	33.9	31.9	33.0	32.0	29.6
Imports	100.0	100.0	100.0	100.0	100.0
European Community	24.4	23.4	23.3	20.2	19.4
United Kingdom	5.2	4.9	5.1	4.4	5.1
Other	19.2	18.5	18.2	15.8	14.3
United States	9.4	10.6	9.4	9.0	12.4
Japan	15.9	11.8	9.6	10.7	9.4
Hong Kong	0.5	0.5	0.4	0.4	0.4
Singapore	1.6	2.0	1.8	1.8	1.6
Baltic and CIS countries 1/	0.0	0.9	1.4	1.1	0.8
China	4.2	5.2	4.4	4.6	4.4
Oil-producing trading partners 2/	11.6	13.6	13.5	15.0	17.1
Other	32.4	32.0	36.2	37.2	34.5

Source: Federal Bureau of Statistics.

1/ Excludes informal trade with Central Asian Republics.

2/ Indonesia, Islamic Republic of Iran, Kuwait, and Saudi Arabia.

Table 50. Pakistan: Value, Volume, and Unit Value of
Major Merchandise Exports, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Rice					
Value	317	242	454	504	460
Volume (thousand metric tons)	1,032	985	1,853	1,601	1,717
Unit value (US\$ per metric ton)	307	246	280	315	268
Basmati					
Value	199	126	184	295	155 1/
Volume	462	306	452	716	350 1/
Unit value	431	412	407	411	443 1/
Other varieties					
Value	118	116	271	209	190 1/
Volume	570	679	1,400	884	1,042 1/
Unit value	207	171	193	236	182 1/
Raw cotton					
Value	271	80	62	507	30
Volume (thousand metric tons)	263	75	31	311	21
Unit value (US\$ per kilogram)	1.0	1.1	2.0	1.6	1.5
Cotton yarn					
Value	1,121	1,259	1,529	1,540	1,397
Volume (thousand metric tons)	555	579	522	536	502
Unit value (US\$ per kilogram)	2.0	2.2	2.9	2.9	2.8
Cotton cloth					
Value	863	821	1,081	1,276	1,217
Volume (million square meters)	1,128	1,047	1,161	1,323	1,215
Unit value (US\$ per square meter)	0.8	0.78	0.9	1.0	1.0
Woolen carpets and rugs					
Value	173	151	195	205	133 1/
Volume (thousand square meters)	3,283	3,166	2,986	3,276	2,296 1/
Unit value (US\$ per square meter)	52.7	47.7	65.3	62.6	57.9 1/
Leather					
Value	232	224	272	259	175
Volume (thousand metric tons)	15.8	16.2	18.1	16.4	10.4
Unit value (US\$ per square meter)	14.7	13.8	15.1	15.8	16.8
Fish and fish preparations					
Value	182	155	154	141	148
Volume (thousand metric tons)	86.7	68.9	62.7	65.7	80.0
Unit value (US\$ per kilogram)	2.1	2.25	2.5	2.1	1.9
Memorandum item:					
Major exports as percent of total exports	46.0	43.1	46.1	50.9	44.7 1/

Source: Ministry of Finance and Economic Affairs.

1/ July 1996–March 1997.

Table 51. Pakistan: Merchandise Trade by Economic Category, 1992/93–1996/97

	1992/93	1993/94	1994/95	1995/96	July–March 1996/97
(In millions of U.S. dollars)					
Exports, c.i.f. 1/	6,819	6,773	8,137	8,707	6,130
Primary commodities	1,007	698	911	1,414	682
Semi-manufactured goods	1,406	1,607	2,029	1,885	1,277
Manufactured goods	4,406	4,468	5,197	5,408	4,171
Imports, c.i.f.	9,963	9,329	10,394	11,805	8,750
Consumer goods	1,389	1,263	1,406	1,606	1,345
Raw materials for consumer goods	3,825	3,984	4,807	5,361	3,787
Raw materials for capital goods	551	567	543	669	412
Capital goods	4,198	3,515	3,638	4,169	3,206
(In percent of total)					
Exports, c.i.f. 1/					
Primary commodities	14.8	10.3	11.2	16.2	11.1
Semi-manufactured goods	20.6	23.7	24.9	21.6	20.8
Manufactured goods	64.6	65.9	63.9	62.1	68.0
Imports, c.i.f.					
Consumer goods	13.9	13.5	13.5	13.6	15.4
Raw materials for consumer goods	38.5	42.7	46.2	45.4	43.3
Raw materials for capital goods	5.5	6.1	5.2	5.7	4.7
Capital goods	42.1	37.7	35.0	35.3	36.6

Source: Ministry of Planning and Development.

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

Table 52. Pakistan: Trade Indices, 1992/93–1996/97

(Annual percentage changes, base indices = 1991/92)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Export volume index	2.5	-4.3	11.2	4.2	-0.8
<i>Of which</i>					
Raw cotton	-42.4	-71.5	-58.7	904.4	-93.4
Rice	-31.7	-4.7	88.2	-13.6	7.3
Cotton manufactures	7.1	-0.9	10.1	4.3	3.4
Other traditional exports	9.0	10.4	-5.1	-14.3	3.6
Export price index 1/	-2.1	3.0	6.1	2.9	-4.5
<i>Of which</i>					
Raw cotton	-9.4	2.8	87.6	-18.3	-10.6
Rice	12.0	-19.9	-0.4	28.5	-14.9
Cotton manufactures	-3.9	2.4	11.3	3.2	-4.3
Other traditional exports	-1.1	-1.4	7.3	3.9	-2.5
Import volume index	13.0	-9.9	7.6	11.3	-6.3
<i>Of which</i>					
Petroleum and petroleum products	14.0	6.0	4.7	12.2	-4.3
Wheat	42.1	-33.7	40.1	-24.8	62.6
Fertilizers	17.7	6.8	-60.5	146.5	14.8
Edible oils	27.2	-15.2	23.7	-18.1	-22.0
Private sector imports	24.7	-16.9	3.9	29.0	-6.3
Import price index 1/	-0.7	-4.0	10.0	4.6	1.4
<i>Of which</i>					
Petroleum and petroleum products	0.5	-13.3	13.4	4.1	16.2
Wheat	9.3	-23.0	27.9	69.4	-17.5
Fertilizers	-18.3	0.1	21.5	9.6	-2.3
Edible oils	13.9	-1.4	65.0	4.7	-23.9
Private sector imports	-1.1	-1.4	3.1	3.9	0.0
Terms of trade	-1.5	7.3	-3.6	-1.7	-5.8

Source: Fund staff estimates.

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

Table 53. Pakistan: Services, Income, and Current Transfers, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Services	-1,250	-757	-858	-1,494	-1,646
Receipts	1,557	1,624	1,869	1,665	1,617
Transportation	838	825	823	815	805
Travel	103	108	103	103	102
Other	616	691	943	747	710
Payments	-2,807	-2,381	-2,727	-3,159	-3,263
Transportation	-1,539	-1,451	-1,575	-1,700	-1,773
Travel	-761	-390	-606	-606	-644
Other	-507	-540	-546	-853	-846
Income	-1,498	-1,597	-1,729	-1,943	-2,174
Receipts	71	96	154	171	154
Interest on reserves	48	66	142	137	82
Other	23	30	12	34	72
Payments	-1,569	-1,693	-1,883	-2,114	-2,328
Interest	-1,159	-1,270	-1,466	-1,624	-1,754
Other	-410	-423	-417	-490	-574
Current transfers					
Private transfers (net)	2,327	2,390	2,397	2,391	2,951
Receipts	2,348	2,413	2,421	2,421	2,983
Workers' remittances	1,562	1,446	1,866	1,461	1,409
Other	786	967	555	960	1,574
Payments	-21	-23	-24	-30	-32
Official transfers (net)	361	314	312	214	255
Receipts	380	324	320	235	271
Project and nonproject aid	348	299	295	182	204
Project aid	265	278	250	152	200
Food aid	0	0	0	0	0
Other commodity aid	26	2	15	5	2
Refugee assistance	57	19	30	25	2
Other	32	25	25	53	67
IMF subsidy	0	0	0	5	0
Taxes & subsidies	3	3	1	21	9
Others	25	22	24	27	58
Payments	19	10	8	21	16

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

Table 54. Pakistan: Home Remittances from Pakistani Nationals
Abroad, 1992/93–1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	July–March 1996/97
Total	1,563	1,445	1,866	1,461	992
Middle East	1,097	1,072	1,440	1,055	724
United Kingdom	114	101	110	110	71
United States	158	122	141	142	104
Other	194	150	175	154	93

Source: State Bank of Pakistan.

Table 55. Pakistan: Medium- and Long-Term Capital Flows, 1992/93–1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Total medium and long-term capital	2,049	2,353	2,912	2,754	2,466
Public and publicly guaranteed	815	915	1,068	1,071	1,119
Project and nonproject aid	846	793	658	808	561
Disbursements	2,145	2,250	2,267	2,493	2,304
Project loans 1/	1,631	1,683	1,745	2,055	1,780
Food loans	308	251	258	410	514
Program loans	206	316	264	28	10
Amortization	1,299	1,457	1,609	1,685	1,743
Commercial banks and IDB 2/	-42	132	284	256	68
Commercial banks	-54	141	309	218	40
Disbursements	0.0	170	380	473	565
Amortization	54	29	71	255	525
IDB 2/	12	-9	-25	38	28
Disbursements	74	42	26	60	70
Amortization	62	51	51	22	42
Eurobonds and Foreign Exchange					
Bearer Certificates	66	32	161	16	458
Credits	66	32	161	16	458
Debits	0.0	0.0	0.0	0.0	0.0
Other	-55	-42	-35	-9	32
Credits	265	0.0	0.0	124	59
Debits	320	42	35	133	27
Private sector	1,234	1,438	1,844	1,683	1,347
Private sector, nonbank	1,233	1,441	1,843	1,688	1,340
Direct investment	310	360	440	1,106	703
Inflows	310	362	442	1,106	713
Outflows	0.0	2	2	0.0	10
Portfolio investment	137	289	1,090	202	268
Inflows	137	289	1,090	205	268
Outflows	0.0	0.0	0.0	3	0.0
Private unguaranteed	503	366	258	388	245
Inflows	660	633	596	755	598
Outflows	157	267	338	367	353
Other nonbank	283	426	55	-8	124
Inflows	283	426	55	25	139
Outflows	0.0	0.0	0.0	33	15
Deposit money banks	1	-3	1	-5	7
Inflows	1	0.0	1	0.0	11
Outflows	0.0	3	0.0	5	4

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

1/ Including nonfood commodity aid.

2/ Islamic Development Bank.

Table 56. Pakistan: Selected External Aid Indicators, 1992/93–1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Commitments	1,897	2,581	3,025	2681	2155
By category					
Project aid	1,204	1,822	2,714	2,219	1,684
Commodity aid	693	759	311	462	471
Nonfood	238	430	32	67	3
Food	455	329	279	395	468
By maturity					
Loans	1,668	2,339	2,695	2,477	2,003
1–5 years	414	329	270	427	459
5–10 years	58	78	90	173	44
10–15 years	36	112	249	177	133
Over 15 years	1,160	1,820	2,086	1,700	1,367
Grants	229	242	330	204	152
Memorandum items:					
Average interest rate on disbursed debt outstanding 1/	3.9	3.6	3.6	3.8	3.6

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

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

Table 57. Pakistan: Short-Term Capital Flows, 1992/93–1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Total short-term capital	662	861	-384	1,255	32
Public sector	739	214	-471	135	26
Commercial banks and IDB 1/	315	290	-8	54	-158
Credits	974	1,465	1,350	1,053	1,090
Debits	659	1,175	1,358	999	1,248
Commercial banks	225	310	18	61	-229
Credits	797	1,354	1,275	963	985
Debits	572	1,044	1,257	902	1,214
IDB 1/	90	-20	-26	-7	71
Credits	177	111	75	90	105
Debits	87	131	101	97	34
FEBCs and DBCs 2/	67	18	29	-64	-48
Credits	67	18	29	-64	-48
Debits	0.0	0.0	0.0	0.0	0.0
Other	357	-94	-492	145	232
Credits	405	6	16	253	245
Debits	48	100	508	108	13
Private sector	-77	647	87	1,120	6
Private nonbank	-393	308	178	400	438
Credits	185	339	267	591	564
Debits	578	31	89	191	126
Deposit money banks	316	339	-91	720	-432
Foreign currency deposits	61	413	61	526	-383
Credits	61	413	61	526	0.0
Debits	0.0	0.0	0.0	0.0	383
Other (export bills)	255	-74	-152	194	-49
Credits	261	87	13	196	186
Debits	6	161	165	2	235

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

1/ Islamic Development Bank.

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

Table 58. Pakistan: Gross Official Reserves, 1992/93-1996/97

(In millions of U.S. dollars)

	Gold 1/	SDRs	Foreign Exchange	Total
1992/93				
September	102	1	1,050	1,153
December	97	0	841	938
March	98	1	807	906
June	100	5	457	562
1993/94				
September	101	9	205	315
December	101	1	1,177	1,279
March	101	1	1,922	2,024
June	101	2	2,300	2,403
1994/95				
September	101	1	3,119	3,221
December	101	0	2,899	3,000
March	101	1	2,639	2,740
June	101	4	2,741	2,846
1995/96				
September	108	2	1,518	1,628
December	107	15	1,774	1,896
March	105	83	1,709	1,897
June	104	2	2,044	2,150
1996/97				
September	104	2	975	1,081
December	103	13	820	936
March	100	2	903	1,005
June 2/	100	1	1,062	1,163

Source: State Bank of Pakistan.

1/ Valued at SDR 35 per fine ounce.

2/ Position as of June 7.

Table 59. Pakistan: Public and Publicly Guaranteed Debt to Official Creditors, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93			1993/94			1994/95			1995/96			1996/97 1/		
	Dis-	Undis-	Total	Dis-	Undis-	Total	Dis-	Undis-	Total	Dis-	Undis-	Total	Dis-	Undis-	Total
	bursed	bursed		bursed	bursed		bursed	bursed		bursed	bursed		bursed	bursed	
Consortium	17,616	8,359	25,975	18,829	8,365	27,194	20,696	9,043	29,739	20,823	7,201	28,024	21,161	7,238	28,399
Bilateral	9,091	2,350	11,441	9,394	2,930	12,324	10,666	3,275	13,941	10,016	2,479	12,495	9,945	2,875	12,820
Belgium	76	0	76	74	13	87	77	16	93	63	22	84	58	22	80
Canada	504	8	512	442	8	450	433	0	433	390	0	390	370	0	370
France	558	467	1,025	730	407	1,137	1,110	383	1,493	1,032	361	1,393	1,004	372	1,376
Germany	1,412	183	1,595	1,519	336	1,855	1,730	271	2,001	1,586	249	1,836	1,547	373	1,920
Italy	254	75	329	242	35	277	270	23	293	260	6	267	254	5	259
Japan	3,084	1,308	4,392	3,387	1,815	5,202	4,087	2,415	6,502	3,645	1,679	5,324	3,738	1,835	5,573
Netherlands	185	18	203	182	11	193	190	3	193	152	0	152	139	0	139
Norway	7	42	49	9	55	64	27	4	31	27	6	32	25	7	32
Sweden	66	18	84	73	17	90	74	17	91	71	27	98	60	26	86
United Kingdom	15	80	95	11	84	95	12	34	46	11	34	45	11	34	45
United States	2,930	151	3,081	2,725	149	2,874	2,657	108	2,765	2,779	95	2,874	2,739	201	2,940
Multilateral	8,525	6,009	14,534	9,435	5,435	14,870	10,030	5,768	15,798	10,807	4,722	15,529	11,216	4,363	15,579
Asian Dev. Bank	3,197	3,116	6,313	3,760	2,688	6,448	4,001	2,633	6,634	4,327	1,737	6,063	4,409	1,785	6,194
IBRD	2,558	1,306	3,864	2,663	1,079	3,742	2,822	1,356	4,178	2,902	1,420	4,322	3,020	1,135	4,155
IDA	2,626	1,487	4,113	2,864	1,572	4,436	3,032	1,602	4,634	3,419	1,311	4,730	3,617	1,188	4,805
IFC	42	0	42	38	0	38	36	0	36	32	0	32	30	0	30
IFAD	102	100	202	110	96	206	120	102	222	114	137	251	126	138	264
Nordic Invest. Bank				18	27	45	18	27	45	13	39	52	14	38	52
European Invest. Bank				0	48	48	0	48	48	0	79	79	0	79	79
Non-Consortium	1,356	684	2,040	1,493	649	2,142	1,421	765	2,185	1,453	561	2,014	1,547	296	1,843
OPEC Countries	478	83	561	499	150	649	479	78	557	448	110	558	409	104	513
Abu Dhabi	88	0	88	81	0	81	73	0	73	68	0	68	59	0	59
Iran, Islamic Rep. of	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Kuwait	98	19	117	90	36	126	84	25	109	88	53	141	83	52	135
Libya	31	0	31	28	0	28	28	0	28	28	0	28	28	0	28
Malaysia	0	0	0	47	53	100	44	0	44	22	0	22	0	0	0
Qatar	6	0	6	6	0	6	6	0	6	6	0	6	5	0	5
Saudi Arabia	255	64	319	247	61	308	244	53	297	237	57	294	234	52	286
Other countries	878	601	1,479	930	386	1,316	941	687	1,628	1,005	451	1,456	1,138	192	1,330
Australia	75	66	141	35	0	35	26	0	26	50	0	50	82	5	87
Austria	24	4	28	28	1	29	31	0	31	28	0	28	25	0	25
Bulgaria	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
China	305	171	476	397	50	447	464	207	671	477	56	533	437	43	480
Czechoslovakia	21	11	32	19	11	30	16	10	26	13	10	24	10	10	20
Denmark	14	0	14	28	0	28	30	0	30	26	0	26	25	0	25
Finland	18	0	18	13	0	13	12	0	12	10	0	10	8	0	8
Romania	66	0	66	48	0	48	46	0	46	34	0	34	34	0	34
Korea	17	22	39	28	10	38	29	9	38	25	9	34	21	9	30
Spain	0	0	0	0	0	0	0	0	0	8	39	47	38	8	46
Switzerland	45	19	64	54	14	68	64	11	76	80	30	109	85	21	106
Russia	293	308	601	280	300	580	129	296	424	102	230	331	210	47	257
OPEC Fund	43	47	90	38	45	83	43	43	85	43	35	78	52	14	66
Islamic Development Bank	29	88	117	26	68	94	52	110	162	109	42	152	111	34	145
All official creditors	19,044	9,178	28,222	20,322	9,014	29,336	22,117	9,808	31,924	22,275	7,762	30,038	22,708	7,534	30,242

Source: Ministry of Finance and Economic Affairs.

1/ Position as of end-March 1997.

Table 60. Pakistan: Foreign Interest Payments, 1992/93–1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Prel. 1996/97
Total interest payments	1,159	1,270	1,466	1,624	1,754
Interest on medium- and long-term public and publicly guaranteed debt	809	834	905	975	970
Project and nonproject aid	755	774	820	856	837
Commercial banks and IDB 1/ Foreign Currency Bearer Certificates	7	12	28	41	41
IMF charges	3	7	6	30	42
IMF charges	44	41	50	48	50
Interest on public sector short-term debt	66	65	67	77	88
Commercial banks and IDB 1/ FEBCs and DBCs 2/	28	32	38	51	39
FEBCs and DBCs 2/	38	33	29	26	49
Interest on the foreign-currency deposit liabilities of the banking system	201	243	363	433	552
State Bank of Pakistan	25	28	24	18	36
Scheduled banks	176	215	339	415	516
Interest on unguaranteed private debt	83	128	132	139	144

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

1/ Islamic Development Bank.

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

Table 61. Pakistan: Exchange Rates and Relative Consumer Prices, 1992/93–1996/97

	Exchange Rate 1/		Exchange rate 1/ 3/	Indices (1990 = 100)		
	Level	Change 2/		Relative consumer prices	Nominal effective exchange rate 4/	Real effective exchange rate 4/
1992/93						
First quarter	25.1	-0.1	86.4	108.7	87	94.6
Second quarter	25.4	-1.2	85.5	108.7	91.2	99.2
Third quarter	26.2	-3.2	82.8	109.2	93.4	100.9
Fourth quarter	26.9	-2.5	80.9	110.1	89.1	98.1
1993/94						
First quarter	29.3	-9.2	74.1	111.2	83.8	93.2
Second quarter	30.0	-2.5	72.3	112.3	83.5	93.8
Third quarter	30.4	-1.1	71.5	112.7	84.1	94.9
Fourth quarter	30.6	-0.8	70.9	114	82.8	94.5
1994/95						
First quarter	30.6		70.9	115.1	80.7	92.9
Second quarter	30.7	-0.3	70.7	118.9	79.8	94.9
Third quarter	30.9	-0.6	70.3	122	78.3	95.6
Fourth quarter	30.9	-0.1	70.2	122.8	74.9	92.1
1995/96						
First quarter	31.3	-1.2	69.4	125.6	75.9	95.4
Second quarter	33.5	-6.7	64.9	127.5	71.7	91.5
Third quarter	34.4	-2.5	63.2	130.1	71.1	92.6
Fourth quarter	34.8	-1.2	62.4	132.4	71.1	94.2
1996/97						
First quarter	35.8	-2.7	60.7	134.7	68.9	92.9
Second quarter	39.4	-9.3	55.1	138.5	63.1	87.5
Third quarter	40.1	-1.8	54.1	143.9	64.9	93.5
Fourth quarter	40.3	-0.4	53.9	146.7	65.3	95.6

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

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

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

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

4/ Increase indicates appreciation of the rupee.

Table 62. Pakistan: Karachi Stock Exchange Quotations With Respect to Foreign Exchange Bearer Certificates, 1992-97 1/

(In percent of face value)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1992	108.0	108.0	108.8	108.8	108.75	107.5	107.2	106.1	106.0	106.2	107.8	107.8
1993	107.8	109.3	109.0	107.3	106.3	107.10	107.1	110.5	108.0	107.0	107.0	107.0
1994	104.8	104.8	104.8	103.8	103.8	103.8	103.8	103.8	103.8	103.8	102.5	103.9
1995	103.2	103.2	102.8	102.7	103.3	104.3	105.0	104.1	103.8	105.5	105.0	104.8
1996	104.8	106.3	106.3	106.8	108.0	107.6	108.0	108.8	108.8	107.3	106.0	104.8
1997	104.6	102.8	102.9	102.8	104.5	102.6	0.0	0.0	0.0	0.0	0.0	0.0

Source: Karachi Stock Exchange.

1/ End of period.

