INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/332

PAKISTAN

December 2025

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Second Review Under the Extended Arrangement Under the Extended Fund Facility, First Review Under the Resilience and Sustainability Facility, Request for a Waiver of Nonobservance of a Performance Criterion, and Modification of Performance criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 8, 2025, following discussions that ended on October 8, 2025, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 20, 2025.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

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IMF Executive Board Completes Second Review of the Extended Arrangement under the Extended Fund Facility and First Review of the Arrangement under the Resilience and Sustainability Facility with Pakistan

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the second review of the Extended Arrangement under the Extended Fund Facility (EFF), allowing the authorities to draw the equivalent of about US$1 billion, and the first review of the arrangement under the Resilience and Sustainability Facility (RSF), allowing the authorities to draw the equivalent of about US$200 million. The authorities' strong program implementation, despite the recent devastating floods, has maintained stability and improved financing and external conditions.
- Policy priorities remain centered on maintaining macroeconomic stability and advancing reforms to strengthen public finances, enhance competition, raise productivity and competitiveness, bolster the social safety net and human capital, reform SOEs, and improve public service provision and energy sector viability.
- The recent floods highlight the urgency of moving swiftly on climate-related reforms to build resilience to the frequent natural disasters that Pakistan faces. The authorities are making progress on such reforms, supported by the RSF.

Washington, DC – **December 8, 2025:** Today, the Executive Board of the International Monetary Fund (IMF) completed the second review of Pakistan's economic reform program supported by the EFF and the first review of Pakistan's program supported by the RSF. This decision allows for an immediate disbursement of around US$1 billion (SDR 760 million) under the EFF and around US$200 million (SDR 154 million) under the RSF, bringing total disbursements under the two arrangements to about $3.3 billion (SDR 2,434 billion).

Pakistan's 37-month EFF was approved on September 25, 2024, and aims to build resilience and enable sustainable growth. Key priorities include (i) entrenching macroeconomic stability through consistent implementation of sound macro policies, including rebuilding international reserve buffers and broadening the tax base; (ii) advancing reforms to strengthen competition and raise productivity and competitiveness; and (iii) reforming SOEs and improving public service provision, developing human and physical capital, and restoring energy sector viability.

Pakistan's policy efforts under the EFF have delivered significant progress in stabilizing the economy and rebuilding confidence amid a challenging global environment and recent severe floods. Fiscal performance has been strong, with a primary surplus of 1.3 percent of GDP achieved in FY25, in line with targets. Inflation has increased, reflecting the impact of the floods on food prices, but this is expected to be temporary. Gross reserves stood at $14.5 billion at end-FY25, up from $9.4 billion a year earlier, and are projected to continue to be rebuilt in FY26 and over the medium term.

The 28-month RSF was approved on May 9, 2025, and is supporting the authorities' efforts to reduce vulnerabilities to natural disasters and to build economic and climate resilience. The authorities' program: (i) prioritizes building resilience to natural disasters and strengthening public investment processes at all levels of government; (ii) making scarce water resource usage more efficient, including through better pricing; (iii) strengthening federal-provincial coordination of natural disaster response; (iv) improving the information architecture for, and disclosure of, climate-related risks by banks and corporates; and (v) supporting Pakistan's efforts to meet its mitigation commitments and reduce related macro-critical risks.

Following the Executive Board discussion, Mr. Nigel Clarke, Deputy Managing Director and Acting Chair, made the following statement:

"Pakistan's reform implementation under the EFF arrangement has helped preserve macroeconomic stability in the face of several recent shocks. Real GDP growth has accelerated, inflation expectations have remained anchored, and fiscal and external imbalances have continued to moderate. In the face of an uncertain global environment, Pakistan needs to maintain prudent policies to further entrench macroeconomic stability, while accelerating reforms necessary to achieve stronger, private sector-led, and sustainable medium-term growth.

"The authorities' commitment to the FY2026 primary balance target while accommodating urgent relief needs in response to the recent severe floods is a strong signal of their commitment to build fiscal policy credibility. In parallel, advancing reforms to raise revenues via tax policy simplification and base broadening is key to achieving fiscal sustainability and building the fiscal space necessary to boost climate resilience, social protection, human capital development, and public investment.

"An appropriately tight monetary policy stance has been pivotal in reducing inflation and should be maintained to ensure inflation remains anchored within the SBP's target range. Further improvements in central bank communication will support effective monetary policy implementation. The SBP should continue efforts to deepen the interbank foreign exchange market, while allowing exchange rate flexibility to absorb shocks. Decisive financial regulation enforcement is necessary to maintain a sound and adequately capitalized financial sector. At the same time, promoting capital market development will help expand the public and private sectors' financing options.

"Accelerating reforms in the energy sector is critical to safeguarding its viability and improving Pakistan's competitiveness. Timely implementation of power tariff adjustments has helped reduce the stock and flow of circular debt. Subsequent efforts need to focus on sustainably reducing electricity production and distribution costs and addressing inefficiencies in the power and gas sectors.

"Efforts to advance structural reforms should continue to unlock growth potential and attract high-impact private investment. To this end, the publication of the Governance and Corruption Diagnostic report is a welcome step in accelerating governance reforms. Additional efforts should focus on SOE governance reforms and privatization, enhancing the business environment, and improving economic data and statistics.

"Reducing Pakistan's vulnerability to extreme weather events, which has been underscored by the recent floods, will enhance macroeconomic and fiscal sustainability. The RSF arrangement is supporting efforts to strengthen natural disaster response and financing coordination, improve the use of scarce water resources, raise climate considerations in project selection and budgeting, and improve the information on climate-related risks in financing decisions."

Table 1. Pakistan: Selected Economic Indicators, FY2024–FY2026 1/

Population: 240.5 million (2024/25)

Per capita GDP: US$1,676.7 (2024/25)

Quota: SDR 2,031 million

Poverty rate: 21.9 percent (national line; FY2019)

Main exports: Textiles (US$17.3 billion, 2024/25)

Key export markets: European Union, United States, UAE

	FY2024	FY2025 Est.	FY2026 Proj.
Output and prices (% change)			
Real GDP at factor cost	2.6	3.0	3.2
Employment (%)			
Unemployment rate	8.3	8.0	7.5
Prices (%)			
Consumer prices, period average	23.4	4.5	6.3
Consumer prices, end of period	12.6	3.2	8.9
General government finances (% GDP)			
Revenue and grants	12.7	15.9	16.3
Expenditure	19.5	21.2	20.2
Budget balance, including grants	-6.8	-5.4	-4.0
Budget balance, excluding grants	-6.9	-5.4	-4.0
Primary balance, excluding grants	0.9	2.4	2.5
Underlying primary balance (excluding grants) 2/	0.9	1.3	1.6
Total general government debt excl. IMF obligations	68.1	70.6	69.6
External general government debt	22.8	22.5	22.5
Domestic general government debt	45.4	48.1	47.1
General government debt incl. IMF obligations	70.4	72.9	72.4
General government and government guaranteed debt incl. IMF	74.4	76.6	76.0
Monetary and credit (% change, unless otherwise indicated)			
Broad money	16.0	13.7	14.6
Private credit	6.0	12.0	15.0
Six-month treasury bill rate (%) 3/	21.5	…	…
Balance of Payments (% GDP, unless otherwise indicated)			
Current account balance	-0.6	0.5	-0.6
Foreign direct investment	0.6	0.6	0.5

Gross reserves (millions of U.S. dollars) 4/	9,390	14,506	17,837
Months of next year's imports of goods and services	1.6	2.3	2.7
Total external debt	31.8	30.5	30.9
Exchange rate (% change)			
Real effective exchange rate	15.4	…	…

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

1/ Fiscal year ends June 30.

2/ Excludes one-off transactions, including asset sales. In FY25 it excludes the projected windfall from exceptionally high SBP dividends.

3/ Period average.

4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

INTERNATIONAL MONETARY FUND

PAKISTAN

November 20, 2025

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Recent Developments. Continued strong policy implementation has helped Pakistan weather several shocks this year. Growth was stronger than anticipated in FY25, but the recent floods moderately dampen the outlook for FY26. Financial conditions and external balances have remained favorable, with Pakistan posting its first current account surplus in 14 years in FY25 and reserve rebuilding continuing. Headline inflation has been contained despite some flood-related food price increases.

Program Performance. The 37-month Extended Arrangement under the Extended Fund Facility (EFF), approved on September 25, 2024, is on track. Six of seven QPCs and four of eight ITs were met at end-June 2025. Most continuous and other SBs were met. Completion of the second EFF review would make available SDR 760 million (about US$1 billion), bringing total disbursements under the EFF to SDR 2,280 million. The 29-month Resilience and Sustainability Facility (RSF), approved on May 9, 2025, is also on track. Both RMs due at the first RSF review have been met. Completion of the first RSF review would make available SDR 153.8 million (about US$200 million).

EFF and RSF Policies. The recent floods underscore the urgency of maintaining timely program implementation to continue to build resilience and support sustainable growth. The FY26 primary surplus target remains achievable while accommodating flood-related spending needs. The fiscal effort will be supported by continued progress on fiscal reforms to boost revenue mobilization, reduce debt, and create fiscal space for needed social, health, and education spending. Monetary policy has helped contain inflationary pressures and should remain appropriately tight and data-dependent to keep inflation within the SBP's target range, while allowing exchange rate flexibility to

absorb shocks and support continued rebuilding of reserves. Timely energy tariff adjustments have helped improve the energy sector and should continue along with broader structural reforms to reduce high costs and strengthen sectoral viability. Further steps on structural reforms – including on SOE governance and the trade and investment environment – aim to support sustainable and inclusive growth. Continued implementation of policies under the RSF will help boost Pakistan's resilience to climate shocks via improved disaster risk and water management and reforms that will help to prioritize adaptation-friendly projects.

Approved By
Thanos Arvanitis (MCD) and Guillaume Chabert (SPR)

Policy discussions were held in Islamabad and Karachi during September 23–October 8. The staff team comprised Iva Petrova (head); Tom Best, Jan Möller, Jason Weiss (all MCD); Chuku Chuku (SPR); Emre Balibek (MCM); Julieth Pico Mejía and Sergejs Saksonovs (both FAD); Jonathan Pampolina (LEG); Mahir Binici (Resident Representative); and Zafar Hayat and Saihan Mohammad (both Islamabad office). Rhea Gupta (MCD) provided research assistance and Afraa Mohamed (MCD) assisted with document preparation.

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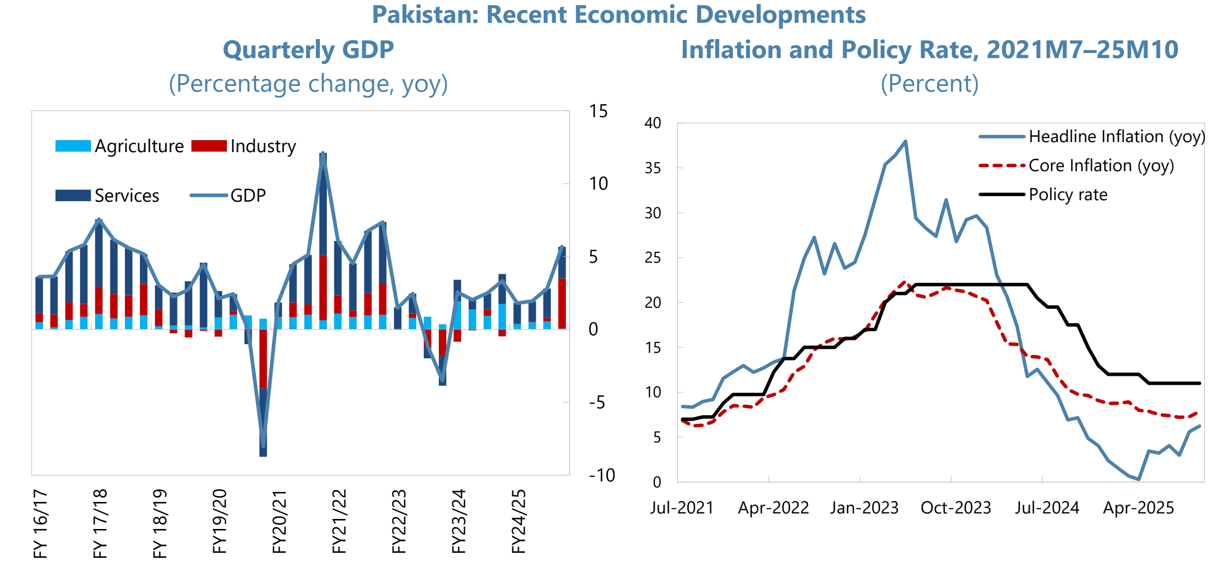
APPENDICES

RECENT DEVELOPMENTS

1. Growth has accelerated, alongside continued improvements in the financial and external sectors:

- ***Economic activity and inflation.*** GDP growth of 3.0 percent in FY25 exceeded the first review projections, with FY25H2 growth momentum driven by stronger industrial activity. While recent floods in northern and central Pakistan have caused significant damage to crops and infrastructure (¶3), high frequency indicators—strong business confidence and rising industrial production—point to further momentum in economic activity in FY26Q1. Following the floods, inflation increased to 6.2 percent (yoy) in October, driven mostly by higher wheat and perishable food prices, but core inflation, at 7.8 percent, has remained moderate.

Pakistan: Recent Economic Developments



Sources: PBS; IMF staff calculations.

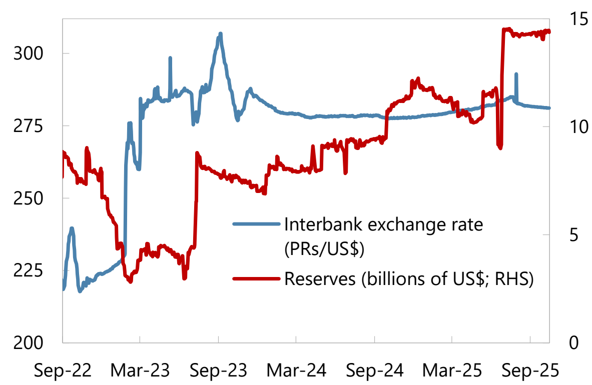
- ***External conditions and the FX market.*** The current account recorded a surplus of US$2.1 billion in FY25 (0.5 percent of GDP), Pakistan's first surplus in 14 years, driven by a sustained rebound in remittances, alongside stronger-than-expected net trade in services, and import demand compression amid fiscal consolidation. Gross reserves exceeded program targets, reaching US$14.5 billion at end-June 2025 (54.3 percent of the ARA metric), supported by programmed inflows and opportunistic SBP FX purchases. Sovereign spreads have declined to around 420 basis points on the back of rating upgrades from S&P and Moody's (to B- and Caa1, respectively). The rupee has remained broadly stable against the US dollar and the premium between open market and interbank rates remains very small. Overall, the FY24 external position was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex II).

- ***Monetary policy.*** The Monetary Policy Committee (MPC) held the policy rate at 11 percent in its last four meetings, noting the expected phase-out of favorable base effects for food and energy inflation, the lagged pass-through from earlier rate cuts, and elevated uncertainty, including the recent floods' impact. Despite relatively high real rates, private sector credit has picked up (13.7 percent (yoy) in September), particularly credit to the manufacturing sector and for car financing, albeit from a very low base.

Pakistan: External Sector Developments

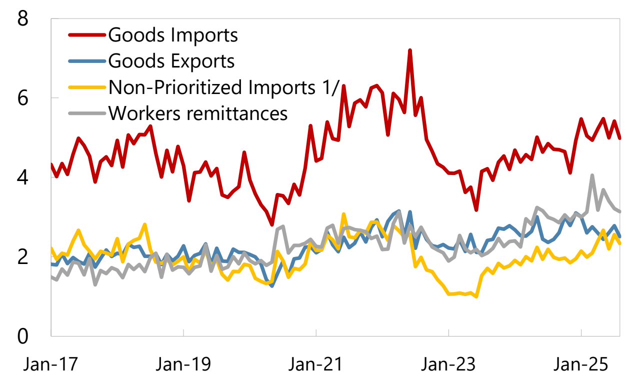
Exchange Rate, 2022M9–25M9

(PRs/US$ on LHS, US$ billions on RHS)



Goods Trade and Remittances 2016M1–25M8

(US$ billions)



1/ Based on priority items specified in SBP EPD Circular 20/2022 (subsequently rescinded in June 2023)

Sources: SBP; IMF staff calculations.

- ***Fiscal developments.*** The FY25 primary surplus target has been met. FBR revenues increased by 26 percent (yoy) to 10.3 percent of GDP, a historically high level, although overall tax revenue fell short of target (by 0.3 percent of GDP), largely reflecting delays in the resolution of court cases over disputed taxes (0.4 percent of GDP) and lower than expected inflation (Annex III). Lower-than-budgeted federal subsidies and grants (0.2 percent of GDP) helped offset the impact of the revenue shortfall.

- ***Energy sector.*** Power sector circular debt (CD) flow continued to overperform targets in March and June, supported by lower international hydrocarbon prices, improved recoveries, lower technical losses, and falling

Text Table 1. Pakistan: General Government Fiscal Operations, FY25

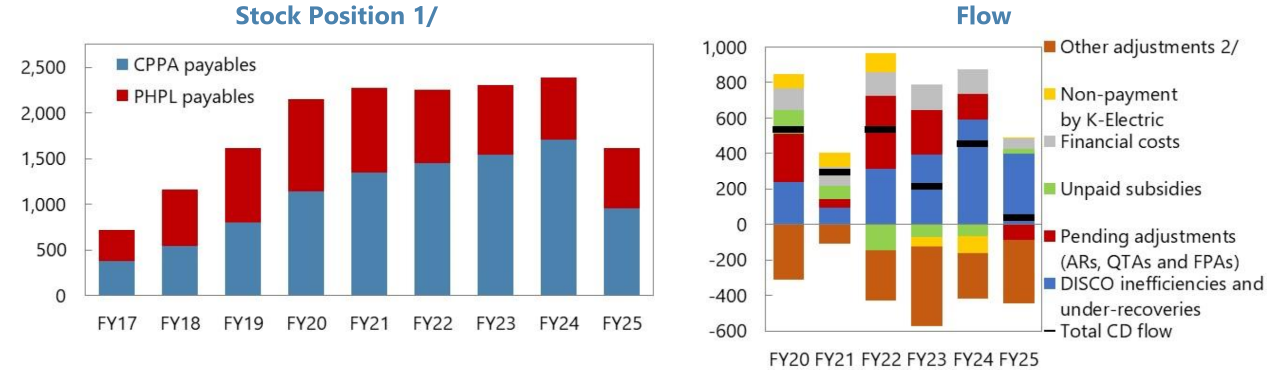
	PRs billion			*Percent GDP*		
	Program	Outturn	Diff.	Program	Outturn	Diff.
Revenue	**18,353**	**17,997**	**-356**	**15.9**	**15.8**	**-0.1**
Tax Revenue	14,545	14,015	-530	12.6	12.3	-0.3
o/w						
FBR	12,332	11,744	-588	10.7	10.3	-0.4
Provincial	984	979	-5	0.9	0.9	0.0
Non-tax Revenue	3,808	3,982	174	3.3	3.5	0.2
o/w SBP Dividend	2,500	2,620	120	2.2	2.3	0.1
Grants	**49**	**49**	**0**	**0.0**	**0.0**	**0.0**
Expenditure /1	**24,888**	**24,166**	**-722**	**21.6**	**21.2**	**-0.3**
Current	21,811	21,529	-282	18.9	18.9	0.0
Interest	8,930	8,887	-43	7.7	7.8	0.1
Other Federal	7,224	6,808	-416	6.3	6.0	-0.3
Provincial	5,657	5,833	176	4.9	5.1	0.2
Development and net lending	2,938	2,966	28	2.5	2.6	0.1
Overall balance (incl. grants)	**-6,486**	**-6,119**	**367**	**-5.6**	**-5.4**	**0.2**
Primary balance (excl. grants)	**2,395**	**2,719**	**324**	**2.1**	**2.4**	**0.3**
Underlying primary balance /2	**1,137**	**1,461**	**324**	**1.0**	**1.3**	**0.3**
Memo: Nominal GDP	115,446	113,748				

/1 Includes statistical discrepancy reflecting changes in balances of autonomous entities.

/2 Excludes the windfall component of SBP revenue.

interest rates.[1] This provided power subsidy savings, which helped reduce the power sector CD stock by PRs 779 billion, to PRs 1,614 billion (1.4 percent of GDP) at end-June. The authorities' actions to incentivize the transition of captive power producers (CPP) to the electricity grid appear to have boosted industrial power consumption growth to 35 percent (yoy) over April-August 2025, which offset broader weaknesses in electricity demand. In the gas sector, overall tariffs remained in line with costs. This helped to reduce principal gas CD (by PRs 86 billion), although an increase in estimated late payment surcharges (LPS) to gas suppliers raised overall gas CD by PRs 227 billion to PRs 3,183 billion (3.0 percent of GDP).[2]

Pakistan: Circular Debt in the Power Sector, FY17– 25
(Billions of Pakistani rupees)



Sources: Pakistani authorities; IMF staff calculations.

1/ Only the part held by the Power Holding Private Limited (PHPL) is publicly guaranteed (PRs 660 billion as of June 2025), not that of the Central Power Purchasing Agency (CPPA). Changes in the stock reflect the CD flow and gradual clearance of payment arrears.

2/ Includes, among others, change in input costs (fuel, exchange rate, and interest rates), generation mix, prior-year recoveries.

PROGRAM PERFORMANCE

2. Program implementation remains broadly in line with commitments (MEFP Tables 1–2):

- ***Performance Criteria (PCs)***. The authorities met six of the seven quantitative PCs for end-June 2025: the floors on (i) the net international reserves of the SBP; and (ii) the number of new tax returns; and the ceilings on (iii) the net domestic assets of the SBP; (iv) the SBP's stock of net foreign currency swaps/forward position; (v) the general government primary budget deficit; and (vi) the amount of government guarantees. The end-June 2025 QPC floor on total BISP spending was narrowly missed, by PRs 463 million (0.1 percent, 0.0004 percent of GDP) due to savings on administrative costs, while spending on core support programs was higher than expected.

[1] Improved recovery rates were, in turn, driven in part by improved DISCO management and enforcement practices, as well as better payment capacity: Falling tariffs in FY25 and continued collection of overdue FY24 bills during FY25 meant larger collections relative to payments due for FY25 bills.

[2] The increase in LPS was also driven by a change in methodology. An audit is underway to reconcile LPS figures sector-wide.

A waiver of nonobservance on the QPC is requested on the basis of the nonobservance being minor and temporary.

- ***Indicative targets (ITs)*.** Four ITs were met at end-June 2025, including the floors on (i) the weighted average time-to-maturity of the local currency domestic debt securities stock; (ii) the consolidated net tax revenues collected by provincial revenue authorities; and (iii) income tax revenues collected by the FBR from retailers; and (iv) the ceiling on power sector payment arrears. However, end-June 2025 ITs were missed for the floors on (i) general government budgetary health and education spending; and (ii) net tax revenues collected by the FBR; and for the ceilings on (iii) the aggregate provincial primary budget deficit; and (iv) the net accumulation of tax refund arrears.
- ***Structural benchmarks (SBs)*.** Eight of 13 SBs were met, including those on approval of the FY26 budget in line with program targets, the implementation of the new agricultural income tax, and the amendment of the Civil Servants Act to enhance public officials' asset declarations. Two continuous SBs, on not seeking ex-ante parliamentary approval for any non-budgeted expenditures and the maximum average premium between the interbank and open market rates, were also met. The SB on publication of the Governance and Corruption Diagnostic (GCD) was not met but has been completed as a Prior Action. The related SB on publication of the action plan based on the GCD's recommendations was, in turn, not met; it is proposed to be reset for end-December 2025. The SB on the preparation of a plan to phase out SEZs was missed but subsequently implemented in October 2025. The SB on amendment of the laws on remaining statutory SOEs was not met, partly due to delays in the legislative process, and is proposed to be reset for end-August 2026. The continuous SB on avoidance of tax exemptions was missed due to exemptions applied to sugar imports; this has been addressed via the authorities' commitment to deregulate the sugar sector **(new end-June 2026 SB**, **¶22, LOI ¶3, MEFP ¶38.b)**. The end-June SB on the introduction of an excise duty on fertilizer and pesticides was missed, as the authorities sought to prevent excessive burden on the agricultural sector in the context of implementation of several ongoing reforms in the sector—and the recent floods have added to the challenges— but will be implemented as a contingency measure in the event of a revenue shortfall (LOI ¶3).
- ***Reform measures (RMs).*** Both RMs due under the first RSF review – related to the adoption, with the FY26 finance bill, of a (i) carbon levy and (ii) the introduction of an electric vehicle subsidy and internal combustion engine vehicle tax – were met.

OUTLOOK AND RISKS

3. The updated macroeconomic projections reflect the impact of the monsoon floods, which is expected to weigh on GDP growth and the current account (Box 1, Tables 1–7):

Text Table 2. Pakistan: Selected Economic Indicators, FYs 23–30 1/

	2023/24	2024/25	2025/26		2026/27	2027/28	2028/29	2029/30
	Est.	Est.	Prog.	Proj.	Proj.			
Real GDP growth (%)	2.6	3.0	3.6	3.2	4.1	4.5	4.5	4.5
Consumer prices (period average, % change)	23.4	4.5	7.7	6.3	7.0	6.5	6.5	6.5
Gen. gov. overall balance (incl. grants, % of GDP)	-6.8	-5.4	-5.1	-4.0	-3.8	-3.2	-3.0	-2.8
Gen gov. primary balance (underlying, excl. grants, % of GDP) 2/	0.9	1.3	1.6	1.6	2.0	2.0	2.0	2.0
Gen. gov. debt (incl. IMF obligations, % of GDP)	70.4	72.9	71.9	72.4	69.9	66.8	63.6	60.7
Current account balance (% of GDP)	-0.6	0.5	-0.4	-0.6	-0.4	-0.8	-1.0	-1.0
Gross official reserves (billions of US$)	9.4	14.5	17.7	17.8	23.3	25.4	28.1	31.3
Gross official reserves (months of next year's G&S imports)	1.6	2.3	2.8	2.7	3.2	3.3	3.4	3.5
Gross official reserves (% of IMF ARA metric) 3/	35.9	54.3	63.1	64.9	78.9	84.3	90.0	99.8

Sources: Pakistani authorities; IMF staff estimates and projections.
1/ The fiscal year (FY) runs from July 1 through June 30.
2/ Excludes one-off transactions, incl. asset sales (Tables 4a and b), and windfall SBP profits.
3/ With flexible exchange rate.

- ***GDP and Inflation.*** Despite being weighed down by the floods, growth is projected to increase slightly to 3.2 percent in FY26, driven by industrial and services activity and supported by steady reform implementation and progressively improving financial conditions and confidence. Inflation is expected to increase temporarily, peaking at around 8-10 percent due to higher food prices and adverse base effects before a durable return to target in FY27.

- ***Balance of Payments.*** The current account is projected to revert to a small deficit in FY26. Besides the anticipated negative impact of the floods, imports are also expected to rise following tariff cuts under the new National Tariff Policy (NTP). Remittances are projected to remain resilient, and to a large extent offset the increase in the trade deficit. Over the medium term, the current account is projected to remain in a modest deficit at or below 1 percent of GDP. Access to external commercial financing is expected to gradually improve, including through a modest Panda bond issuance in FY26 and expected market re-entry in FY27.

- ***Fiscal stance and public debt.*** While accommodating the emergency relief associated with the floods (Box 1), the primary balance target of 1.6 percent of GDP is projected to be within reach, implying a broadly neutral fiscal stance in FY26. Over the medium-term, sustained primary surpluses of around 2 percent will continue to support the gradual decline of public debt to around 60 percent of GDP by FY30. Gross financing needs will remain elevated, although gradually declining, supported by progress on lengthening domestic maturities (¶10, MEFP ¶20). While interest costs will continue to absorb a sizeable part of budgetary resources, the interest bill is projected to fall below 5 percent of GDP over the medium-term.

Box 1. Impact of the 2025 Monsoon Floods

During August—September 2025, northern and central Pakistan were affected by severe floods, following heavier than usual monsoon rains. Almost 7 million people are estimated to have been impacted nationwide, including over 1,000 fatalities and 4 million displaced/rescued, with the most severe impact in Punjab and KP. The authorities' initial estimate of damages is around PRs 800 billion (about 0.6 percent of GDP), mostly due to damages to housing, infrastructure, cropland, and livestock. So far, these are substantially lower than the damage of the 2022 floods, though the final cost may be revised as a more comprehensive damage assessment is completed.

Flood Impacts in 2022 and 2025

	2022 Monsoon Floods	2025 Floods (As of Sep 30)
People Affected	33 million	6.9 million
Lives Lost	Over 1,700	1,037
People Displaced	Nearly 8 million	Over 4 million
Houses damaged	2.05 million	0.23 million
Crops Inundated	4.4 million acres	2.2 million acres
Livestock Deaths	0.8 million	0.02 million

Sources: 2022 Post-Disaster Needs Assessment, Ministry of Planning, National Disaster Management Agency

Based on the initial damage assessment, the economic impact of the floods is expected to be moderate:

- ***GDP Growth*** is expected to be around ½ percentage point lower in FY26, mostly reflecting damage to key Kharif crops and direct spillovers to industrial and services activity.
- ***Inflation*** is expected to increase by around ½ percentage point on average in FY26 relative to a scenario with no flood impact—but still lower than projected under the program—with recent increases in the price of flour and perishable food items projected to partially subside.
- ***Fiscal Revenues*** are expected to decline by around PRs 110 billion due to the weaker outlook for activity.
- ***The current account*** is expected to deteriorate by around US$1 billion due to the floods, reflecting the impact on agricultural exports, import needs to cover supply gaps from flood-damaged crops, and expected higher remittance flows in the post-flood period.

The authorities' policy response is expected to focus on a mix of immediate relief and broader reconstruction efforts. While reconstruction will take time, as immediate relief, the authorities are planning to provide a fixed amount of compensation for damaged houses, livestock, or acres of land. The total expenditure cost of the response is estimated to be around PR400 billion (0.3 percent of GDP), which would be covered by a combination of the federal budget's contingency reserve and redirecting already-budgeted provincial funds. Over two-thirds of the total amount would be related to spending in Punjab, the largest and hardest-hit province, with the remainder related to KP and Sindh.

4. Downside risks remain high (Annex I):

- The recent floods are a reminder of Pakistan's high exposure to natural disasters and substantial climate risks. If agricultural damage exceeds initial estimates or spillovers to industry and services are larger, the outlook for activity, revenue, inflation, and the external sector could deteriorate. Similarly, larger than anticipated costs for flood recovery and reconstruction could put pressure on government expenditures.

- Beyond the floods, key risks include escalating geopolitical tensions, increases in commodity prices, tightening in global financial conditions (including higher long-term interest rates), weakening of remittances or international aid, escalating trade measures in other trading partners, or rising social discontent, which could adversely affect the outlook. Also, and despite the strong policy implementation to date, policy slippage remains a risk in the context of elevated public debt and gross financing needs, with pressures to ease policies and provide fiscal and other concessions.

EFF POLICY DISCUSSIONS

A. Fiscal Policy

5. The FY26 budget, approved by the National Assembly in late June, targets an underlying primary surplus of 1.6 percent of GDP (end-June 2025 SB). It builds on measures legislated in FY25 (whose yields are expected to materialize in FY26) and includes additional policy changes to enhance tax collection and fairness. In particular, the FY26 budget focused on broadening the tax net by removing GST and income tax exemptions and aligning withholding taxes across all taxpayers (Text Table 3, MEFP ¶7). Wage and pension adjustments were contained, hiring was limited to critical positions, and power subsidies were restrained, allowing an increase in funding for the Benazir Income Support Program (BISP) (see ¶12).

Text Table 3. Pakistan: Yields from Tax Policy and Revenue Administration Measures
(percent GDP)

Legislated in FY25	**0.24**
Higher tax rates on individuals and AOPs, and surcharge on income above PRs 10M	0.12
Reducing GST exemptions and removing DISCO subsidies	0.03
PDL increase (legislated in March 2025)	0.09
New Tax Measures Introduced in FY26	**0.16**
Withholding & Income Taxes	0.07
Higher WHT on deposits, dividends, and services; new WHT to curb coupon washing; tax on high pensions, net of income and supertax relief	
Sector-Specific & Indirect Taxes and Withdrawal of Exemptions	0.09
E-commerce platform witholding, GST on ICE vehicles and solar panels, higher tax on services by non-residents, exemption removal	
Gains from Revenue Administration	**0.31**
of which	
Enforecement through audit and monitoring	0.11
Better tax dispute resolution	0.08
Total	**0.71**

6. While the FY26 underlying primary balance target remains appropriate, spending is reprioritized to support the authorities' emergency relief efforts. FY26 tax revenues are now expected to be lower due to (i) lower projected FBR and provincial revenues reflecting the adverse growth impact of the floods and a downward revision of nominal GDP; and (ii) lower revenue from the CPP levy due to a large portion of CPPs transitioning to the grid. In response, the authorities are reprioritizing spending, using the budget's contingency reserves and curtailing non-essential current spending, particularly at the provincial level, to make room for emergency relief. With these efforts, the authorities expect that they will be able to achieve the primary deficit target.

7. Contingency measures provide an important safeguard against fiscal risks. If revenue were to fall short of expectations by end-December 2025, the authorities plan to adopt additional measures to safeguard the fiscal targets, including increasing excises on fertilizers and pesticides by 5 percentage points, introducing excises on high-value sugary items, and broadening the sales tax base by moving select items to the standard rate. They are also prepared to reduce or postpone spending[3] in response to lower revenues as a result of the NTP (MEFP ¶8).

8. The authorities remain committed to advancing their fiscal revenue mobilization efforts. A year after the start of the EFF-supported program, efforts of the FBR and provinces have raised general government tax revenues above 12 percent of GDP. Maintaining further progress in line with the authorities' plans to raise the tax-to-GDP ratio to 15 percent would help to not only support debt reduction but also expand investment in human and capital development and propel growth (Annex III).[4] To ensure achieving their revenue targets, the authorities are committed to:

- ***Continuing to strengthen FBR's tax collection.*** The FBR has deployed a variety of tools to increase revenue collection: increasing the number of audits; improving the collection of sales and withholding taxes via greater use of POS terminals and digital invoicing; conducting extensive outreach campaigns to encourage tax filing; and deploying various tools to physically monitor production of taxable items (MEFP ¶10). To better prioritize such interventions and more effectively focus resources, the FBR, with IMF CD support, will develop a comprehensive roadmap with an expedited timeline for implementing its compliance improvement efforts. Based on the roadmap, the FBR will complete all actions necessary to fully implement at least three priority areas **(new end-March 2026 SB)**.

- ***Reforming tax policy.*** The complexity of the current tax code presents significant compliance challenges for taxpayers and is an obstacle to broadening the tax base. The authorities have created a Tax Policy Office, which will now be responsible for all tax policy functions, including developing and publishing a medium-term tax reform strategy to reduce reliance on ad-hoc revenue measures **(new end-December 2026 SB)**. The strategy should ensure revenue-neutral tax policy reforms with sustained growth in tax revenues over the medium term.

- ***Raising provincial governments' revenue capacity.*** Provinces have begun implementing new agricultural income tax (AIT) regimes, including measures to strengthen compliance, address underreporting, and improve communication **(end-June 2025 SB)**. However, significant obstacles to realizing the full potential of AIT remain, notably fully operationalizing information sharing between the FBR and provincial tax authorities. The provinces have also ensured that all services, except for a limited list of exemptions, are subject to GST (MEFP ¶13).

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[3] As in the past, contingent and development spending are most likely to be affected.

[4] Cross-country evidence suggests that countries that increase sustainably their tax-to-GDP to 15 percent have a significantly higher GDP per capita growth compared to countries whose tax ratio stalls around 10 percent. See Baer et. al. (2025), "Building Tax Capacity for Growth and Development: Evidence-Based Analysis for Mobilizing Domestic Revenue".

9. The authorities are also taking steps to advance PFM reforms. Content enhancements of regular fiscal reports and budget circulars will improve budget preparation and transparency. The recently constituted 11th National Finance Commission also provides an opportunity to review and strengthen the federal and provincial fiscal frameworks and accountability. Furthermore, key reforms to improve public spending efficiency and value for money are ongoing:

- ***Public investment management.*** The authorities' detailed project selection methodology (scorecard) is a significant step toward improving public investment quality. Further steps to enhance and implement the scorecard include developing more robust climate-related scores (MEFP ¶16, 43) and training staff to ensure proper assessment of the return of capital spending projects. Although the scorecard will help strengthen project appraisal and selection, the dual budgeting framework—with separate processes for planning development spending and current expenditure—continues to hamper a unified assessment of fiscal priorities. The authorities should improve coordination between the two processes and ensure appropriate classification of expenditure so that current expenditure does not compete with strategic investment projects.

- ***Public procurement.*** Transparency in public procurement will be supported by continued expansion of the digitalized system (e-PADS) to federal and provincial agencies (including publication of beneficial ownership information) (MEFP ¶17). The authorities will also eliminate preferences for state-owned enterprises in awarding procurement contracts to promote competition. An external audit of the e-PADS system will be completed by the Auditor General and submitted to the President by end-March 2026.

- ***Cash Management.*** Significant idle balances outside the Treasury Single Account (TSA) lead to inefficient use of government funds and undermine budget transparency. To this end, the authorities have committed to conduct a sectorization study to define the general government perimeter and require general government institutions to comply with TSA rules (MEFP ¶19).

10. The authorities continue to improve liability management to mitigate debt vulnerabilities. Consistency in implementing the recently published 2026-28 Debt Management Strategy is critical for further extending maturities and reducing high exposure to short-term interest rates in the medium term. With investor base diversification a key priority, the authorities will conduct a comprehensive study of the bottlenecks for local currency bond market development and publish an action plan to address identified areas of improvement **(new end-September 2026 SB)**. The market-based intragovernmental borrowing arrangement helps utilize provinces' idle cash balances. Going forward, increasing transparency around this process will improve price discovery in domestic borrowing auctions (MEFP ¶20). The authorities' initiative to review the retail debt program by assessing operational costs and exploring opportunities to leverage digital technologies is a positive step toward enhancing efficiency and strengthening financial market development (MEFP ¶21).

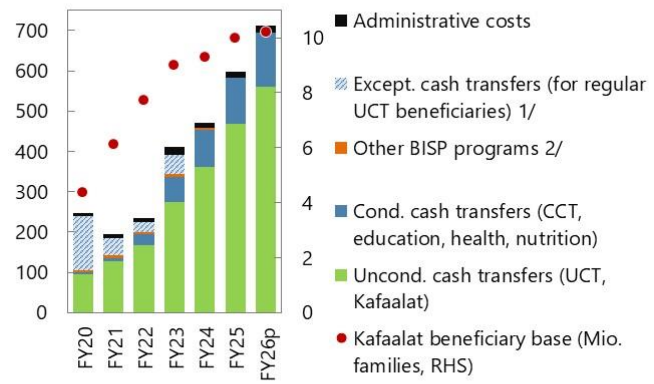
B. Poverty Reduction and Social Protection

11. Efforts continue to reduce poverty, build resilience (particularly in the context of the recent floods), and promote inclusive growth through social protection and human capital development. After falling by more than a third over 2001-18, Pakistan's poverty headcount rate increased in the face of recent shocks, to 25.3 percent as of FY24. The authorities are making efforts to support the more vulnerable through improvements in the social safety net while also building resilience through efforts to enhance human capital quality to create higher-productivity jobs.[5] These improvements should include closer monitoring of the coverage and effectiveness of social protection measures.

12. To this end, the BISP budget has been strengthened, and benefits maintain recipients' spending power. Given the nature of the missed end-June 2025 QPC target, a proposed modification aims to focus the QPC only on social spending programs, excluding administrative costs (Technical Memorandum of Understanding ¶21). FY26 Q1 spending was comfortably ahead of the end-September IT. The FY26 BISP budget includes a 20 percent increase in spending on UCT and conditional cash transfer (CCT) programs, which will allow the UCT Kafaalat benefit to be increased from PRs 13,500 to PRs 14,500 **(SB end-January 2026)** to adjust for inflation. It is expected that, within this envelope, Kafaalat coverage can be increased by at least 200,000 families to 10.2 million by end-FY26. Upon the availability of a new household survey (HIES), expected in 2026, Kafaalat generosity, which remains low by international standards, should be further gradually increased toward 15 percent of the bottom income quintile's consumption basket (while continuing to adjust for inflation).

Pakistan: Composition of BISP Spending, FY20-26

(Billions of Pakistani rupees)



Sources: BISP; IMF staff calculations.
1/ Provide exceptional support, such as for the floods in FY23 or the Covid-19 pandemic in FYs20–22.
2/ Includes regular BISP programs for undergraduate scholarships, digital skill development, and complementary initiatives.

13. The full execution of CCT budget is particularly important. BISP's two core CCT programs, focused on school enrollment and nutrition, are necessary components to Pakistan's efforts to maintain wellbeing and boost human capital and the authorities should seek to expand coverage as possible. It is also important that BISP and provincial authorities continue to coordinate

[5] Pakistan's health and education outcomes are among the worst of lower middle-income countries (CR 24/310, Figures 4 and 5), while social protection generosity remains low relative to peers.

on their respective CCT programs to avoid overlap in service, maintain a common user base based on the National Socioeconomic Registry (NSER), and maintain common eligibility standards.

14. Health and education spending is increasing, and efforts continue to further enhance execution, planning, and quality. Aggregate spending on health and education increased from 2.2 to 2.5 percent of GDP in FY25, with the federal government, Punjab, and Balochistan meeting budget targets. Sindh and Khyber-Pakhtunkhwa missed their targets by large (16 percent) and smaller (3 percent) margins, respectively. This resulted in a narrowly missed end-June 2025 IT (0.9 percent, 0.02 percent of GDP). The execution shortfalls in Sindh were driven in part by bottlenecks at the allocation stage and are expected to improve in FY26 as the authorities plan to improve resource availability of service delivery units. Most provinces have budgeted substantial increases for FY26, which would bring general government health and education spending up by another 0.3 percent of GDP to 2.8 percent.

C. Monetary, Exchange Rate, and Financial Sector Policies

15. Monetary policy needs to remain appropriately tight and data dependent to durably anchor inflation inside the SBP's target range. The SBP has prudently managed inflation risks amid elevated uncertainties, even as headline inflation dipped temporarily to low single digits, preventing costly policy reversals, and communicated well its policy decisions. To this end, it has kept the policy stance positive in real terms on a forward-looking basis. Going forward, the SBP should continue to carefully monitor the recent floods' impact on inflation and the external position and stand ready to act decisively to maintain well-anchored expectations. In this regard, the SBP should further strengthen its communication and analytical underpinnings of the monetary policy framework, including the MPC's reaction function, and provide a clearer assessment of the policy stance to anchor longer-run expectations in the face of high uncertainty.

16. Continuing to build reserve buffers through FX purchases and deepening the FX market remains critical to supporting confidence. The authorities' FX policy in the last two years has been instrumental in strengthening the reserve position from the very low levels of 2023, but reserve cover still remains low. As remittances provide significant FX inflows, the authorities plan to strengthen efforts to enhance the attractiveness of formal channels over the hawala market without recourse to fiscal incentives. To this end, the SBP's plan to conduct a comprehensive assessment of remittance costs **(new end-May 2026 SB)** is a welcome intermediate step to improve cross-border payments. At the same time, further efforts are needed to deepen the FX market to support external sustainability, including through greater reliance on interbank trading and exchange rate flexibility. In this regard, in early August, the SBP revised FX exposure limits for banks to bring them closer to international practice. The authorities should also unwind the January 2022 shortening of the period for repatriation of export proceeds (assessed as an outflow CFM under the IMF Institutional View on the Liberalization and Management of Capital Flows) once macroeconomic and balance of payments stability is restored.

17. Firm enforcement of the regulatory framework is essential to safeguard financial stability and maintain public trust in the banking system. The merger of one small, undercapitalized bank with another healthy bank has been finalized; efforts are being made to finalize the recapitalization of the second undercapitalized small bank. The SBP is committed to ensuring that any bank remaining undercapitalized as of March 2025 either meets the regulatory capital requirements through a completed recapitalization plan of its own or is placed under resolution, with a clear resolution plan to be implemented by the SBP **(Prior Action)**. The authorities also plan to take decisive action to review the business models of and address capital erosion in the microfinance bank sector, which is highly exposed to the agricultural sector, and thus to the impacts of recurrent floods (MEFP ¶28).

18. Clarity on the structure and ground rules of the financial system post-2027 will ensure financial stability and allow market participants to adjust. The authorities' financial sector strategy **(end-June 2026 SB)** is aimed at clarifying in detail any legal, regulatory, and strategic implications for monetary policy, public debt and financial management, bank and NBFI supervision, and financial market oversight of the transition to a "riba" (interest) free economy as mandated by the constitution. This will align expectations and allow sufficient time for its orderly implementation. More broadly, a comprehensive strategic approach is needed to promote capital market development, address the sovereign-bank nexus, and enhance financing options for the private sector. In July 2025, Pakistan adopted the Virtual Assets Ordinance, which, pending parliamentary approval, regulates digital assets and establishes a new regulatory authority. Integrating virtual assets into Pakistan's financial system should involve a structured approach, balancing innovation with robust regulatory safeguards to ensure investor protection, financial transparency, and compliance with international standards.

19. Enhanced AML/CFT effectiveness will help to ensure financial system integrity. The authorities are updating their national assessment of money laundering and terrorist financing risks, for publication by end-March 2026. They are also prioritizing improving risk-based AML supervision (including over real estate agents and dealers of precious stones and metals) and making the central beneficial ownership register digitally accessible under the SECP by end-January 2026. Further efforts are needed to assess the macroeconomic impact of trade-based money laundering and implement key mitigation measures.

D. Energy Sector Policy

20. Timely tariff adjustments have improved power sector finances – a necessary step toward improving efficiency, lower costs, and reducing the need for fiscal support – but further progress is required on structural reforms to restore the sector's viability and sustainably reduce costs.

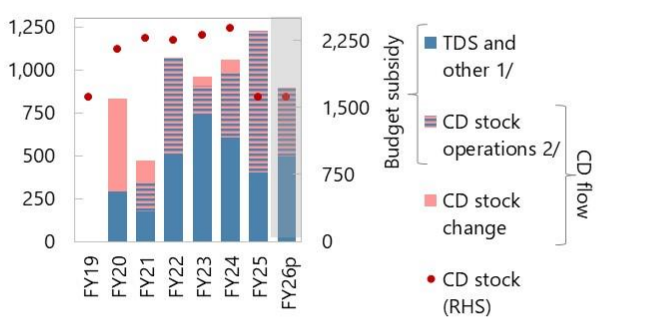
- ***Reducing CD flow.*** The end-March and end-June 2026 CD flow ITs (PRs 400 billion each) have been set recognizing the strong FY25 performance (¶1) and assuming further underlying improvements on both recoveries and technical losses relative to FY25. This effort will be supported by regular notification of quarterly tariff adjustments and monthly fuel cost adjustments. CD pressures are expected to be eased somewhat in FY26 on the back of continued expected strong industrial demand from the CPP transition; an additional boost to demand due to the authorities' planned incremental pricing plan for industrial and agriculture users; and lower interest payments following the conclusion of the authorities' CD stock operation (MEFP ¶33). Stock clearance subsidies of PRs 400 billion would keep net CD accumulation to zero in FY26. The authorities also plan to shift the annual rebasing period from June to January, when demand is lower, beginning in 2026, to smooth the impact of tariff increases on consumer bills. As with past rebasings, this one is planned to be timely, ensure cost recovery, and maintain the progressive tariff structure to protect the most vulnerable consumers.

- ***Advancing power sector reforms.*** Supporting these efforts with structural reforms will help restore the power sector viability beyond the near-term (MEFP ¶34). Private sector participation in DISCOs will help accelerate recent management and enforcement improvements, which are key to stemming CD flow. The authorities plan to complete the bidding process for the first round of privatization for three DISCOs, expected early in 2026, and move forward on the rest. To support this, they have committed to completing the preconditions for the privatization of two DISCOs (HESCO and SEPCO) **(new end-December 2026 SB)**. The authorities also plan to advance the privatization of public generation companies, finalize the transmission network restructuring, and launch the wholesale electricity market.

Pakistan: Power Sector

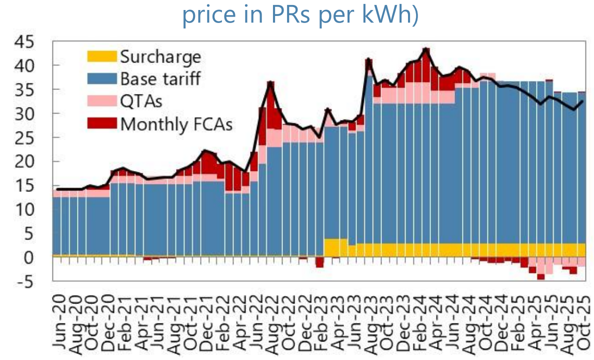
Total Fiscal Cost, FYs19– 26

(Billions of Pakistani rupees)



Power Prices, June 2020–October 2025

(Notified weighted-average, post-subsidies, pre-tax price in PRs per kWh)



Sources: Pakistani authorities; IMF staff calculations.
1/ Inter-DISCO tariff differential subsidy and special subsidy packages.
2/ Repayment of CPPA arrears to IPPs and GPPs and amortization of PHPL debt.

21. Gas sector priorities include continued tariff adjustment, CD monitoring, and coordination on Pakistan's RLNG surplus.

- The authorities plan to continue with timely semiannual gas tariff adjustments in line with cost recovery to continue to stem the large gas CD stock, while maintaining tariff progressivity to protect the most vulnerable consumers. This has become more challenging with the CPP transition, as the burden of cross-subsidizing more vulnerable domestic consumers has fallen on the remaining industrial consumers. Addressing this issue is also hampered by the cost of long-term RLNG contracts amid falling demand, including from power sector consumers, and requires a coordinated effort of relevant stakeholders across the government on a solution to the existing RLNG surplus.

- The authorities have made significant progress in developing a reliable dataset to take stock of and track gas CD. Further steps to initiate quarterly reporting and develop a CD Management Plan will increase transparency and enable more focused planning for reducing the gas CD stock.

E. Other Structural Policies

22. Efforts are ongoing to strengthen governance and anti-corruption institutions, SOE management, and private sector development for generating sustainable growth and improving living standards and social outcomes:

- ***Improving governance*** **(MEFP ¶39).** The authorities have published on the Ministry of Finance's website the Governance and Corruption Diagnostic (GCD) report in November 2025 **(Prior Action)**. Owing to the need for wide stakeholder consultations and a delay in publishing the report, additional time will be needed to develop and publish the corresponding action plan **(end-October 2025 SB, proposed to be reset to end-December 2025)**.

- ***Strengthening the effectiveness of anti-corruption institutions*** **(MEFP ¶39).** Following the amendments to the asset declaration framework **(end-June 2025 SB)**, the authorities are proceeding with preparations to implement the provisions to publish, on a government website, the asset declarations of high-level federal civil servants **(new end-December 2026 SB)**. In addition, they plan to further expand the obligation to cover high-level provincial civil servants and allow banks to have full access to their asset declarations. Based on an institutional-level risk assessment, the National Accountability Bureau will lead and coordinate the development of action plans to mitigate vulnerabilities in the ten agencies identified as having the highest risks **(new end-October 2026 SB)**. The authorities published the full UNCAC review report on the website of the Ministry of Law and Justice in July 2025.[6] Finally, to enhance capacities to mitigate corruption vulnerabilities at the provincial level, the provincial anti-corruption establishments should be empowered to receive financial intelligence and continue to receive capacity development support in financial investigations of corruption offenses within their jurisdiction.

- ***Bringing all SOEs into line with the SOE governance framework.*** Amendments to most of the nine statutory SOE laws are expected to be submitted to the National Assembly before end-2025, although likely delays in the legislative process mean that more time will be required **(proposed resetting of end-June 2025 SB for end-August 2026)**. The authorities are, in parallel, moving forward on amending the Sovereign Wealth Fund law to clarify its mandate, ensure transparent and competitive procedures for divestment and procurement as well fiscal

[6] Available here: https://molaw.gov.pk/SiteImage/Downloads/Pakistan%20Country%20Report_final.pdf.

safeguards, and subject SWF-owned SOEs to the SOE Law **(end-March 2026 SB)**. Operationalization of the SWF appropriately remains on hold until amendments along these lines are adopted.

- ***Implementing the SOE governance framework across all SOEs.*** Further progress has been made in implementing the SOE governance framework – critical to limiting losses, improving services, and reducing the state's footprint – for the approximately 80 commercial SOEs to which the legal framework already applies. Most notably, the central monitoring unit (CMU) is now fully staffed and regularly producing detailed reports; its electronic database is nearing operationalization. Less progress has been made on SOE reporting and transparency: The authorities plan to fully engage with development partners to carry out the training necessary for all SOEs to adopt business plans, statements of corporate intent, and IFRS-compliant financial statements this year. A key part of this process will be the identification, costing, and contracting of public service obligations (PSOs) and the phasing in of PSOs with the FY27 budget process **(new end-June 2026 SB)**. Greater progress is also required to ensure that all commercial SOE Boards are majority independent.

- ***Advancing the privatization agenda.*** The October 2025 cabinet approval of the bid offer for First Women Bank Limited, a small public bank, is a positive first step in the authorities' efforts to move forward on the privatization agenda. However, greater progress needs to be made in successfully divesting additional, larger assets, most notably Pakistan International Airlines – preparations for a second round of bidding have been underway for over a year – and the first batch of DISCOs, which will also be a key component of the energy reform agenda (¶20, MEFP ¶34).

- ***Improving the business environment*.** The new National Tariff Policy 2025–2030 is a key step to unlocking Pakistan's competitiveness and growth potential, but supporting policies will be crucial to strengthen the investment climate and promote a level playing field (Annex IV). Building on the comprehensive plan to fully phase out all current SEZ and EPZ incentives by 2035 **(end-June 2025 SB)**, accelerated efforts are warranted to advance amendments to the SEZ Act. This would require preparing and publishing a concept note defining the rationale, scope, KPIs, and expected outcomes of the legislative amendments, and the framework for the shift from profit- to cost-based incentives **(new end-June 2026 SB)**. Advancing the broader regulatory modernization agenda through the Asaan Karobar Bill will help streamline business regulations and licensing procedures, reducing entry costs for firms. Coordination with provincial governments would be essential to ensure that reforms have national coverage. Furthermore, legislative amendments to the Companies Act will be submitted to parliament to strengthen corporate governance and transparency for both listed and unlisted companies **(new end-June 2026 SB)**. These reforms will help modernize the corporate business environment and better align the legal framework with international standards.

- ***Interventions in commodity markets*** **(MEFP ¶38).** Long-overdue reforms in the wheat and sugar markets should remove distortions and provide clarity of the market framework to encourage private sector investment and innovation along the agriculture value chain. Strong governance arrangements for the strategic wheat reserves should ensure non-distortive procurement and ringfence their use from politically motivated price interventions, with releases guided by the declaration of an emergency by the federal or provincial governments. The new national policy on sugar **(new end-June 2026 SB)** will be a crucial test for the authorities' resolve to overcome reform resistance. To avoid piecemeal efforts that risk entrenching anti-competitive behavior, key reform elements should include the removal of restrictions and licensing requirements at the growing and processing stage, the liberalization of trade, and the cessation of formal and informal price controls at all stages along the value chain.

- ***Strengthening the macroeconomic statistics*.** Following the identification of discrepancies in the source data used for merchandise imports as reported by the PBS (which is not expected to significantly impact the BOP statistics published by the SBP), a comprehensive analysis is needed of the impact on earlier published statistics and of procedures for data collection and aggregation (MEFP ¶42). Broader efforts to improve the macroeconomic statistics are continuing, including the publication in July of the Agricultural Census (the first in 15 years), the upcoming release of results from the Labor Force Survey and Household Integrated Economic Survey, and ongoing work to implement the Government Financial Statistics roadmap and begin data collection for a new PPI index and three further major surveys in FY26.

RSF ARRANGEMENT: BOOSTING CLIMATE RESILIENCE

23. The recent severe floods underscore Pakistan's large exposure to weather events (¶1, 3, Box 1). The macroeconomic impact, while less extreme than in 2022, highlights the urgent need for the authorities to continue their efforts to build greater resilience to climate shocks, in line with their National Adaptation Plan.

24. The authorities are making good progress toward climate resilience-enhancing reforms under the RSF. Most notably:

- **RMs9 and 10** were completed with the adoption of the FY26 finance bill, which introduced (1) a carbon levy that added fuel oil to Pakistan's Petroleum Development Levy (PDL), raised the PDL by PRs 2.5/liter, and legislated a further increase of PRs 2.5/liter in FY27; and (2) a set of budget-neutral reforms, including PRs9 billion electric vehicle (EV) subsidy, focused on 2- and 3-wheel vehicles, and an accompanying tax on internal combustion engine vehicles of 1-3 percent (depending on vehicle and engine size).[7] Taken together, these two RMs will reduce CO2 emissions, incentivize the uptake of EVs, and reduce balance of payments risks by shifting away from imported fuels and petroleum products.

- **RM7** (SBP issuance of climate-related guidelines for commercial banks) and **RM8** (SECP issuance of climate-related guidelines for listed companies) appear to be on track ahead of their end-December 2025 deadlines. The latter guidelines are being developed in line with the recently

[7] https://fbr.gov.pk/Budget2025-26/FinanceBill/Finance-Bill-2025.pdf

finalized (with World Bank support) green taxonomy. Their implementation is expected to help facilitate private sector climate adaptation infrastructure investment and to enhance financial sector resilience to climate shocks.

- Longer-gestation reforms are also advancing, most notably replacing the existing electricity subsidy structure with a targeted framework for low-income consumers **(RM12)**. Progress has been made, with World Bank support, in matching electricity consumers with BISP databases to properly target consumers that will receive cash transfers. The establishment and rollout of a communications strategy to adequately inform the general public about the change is a critical parallel component of this process that should start immediately.

PROGRAM MODALITIES

25. Updates to EFF-related conditionality are proposed to guide program implementation in the coming year (MEFP Tables 1-2):

- **Modifications to end-December 2025 targets.** The QPC on the ceiling on the general government primary budget deficit is proposed to be increased to align the primary balance target in nominal terms with updated macroeconomic projections and the quarterly profile of FY26 budget implementation. The QPC on the floor on BISP cash transfers is proposed to be increased in line with revised BISP spending projections. The QPC on the floor on the number of new tax returns is proposed to be decreased in line with the seasonality observed in FY25.

- **New quantitative targets.** New QPCs for end-June 2026 and ITs for end-March 2026 are proposed consistent with EFF objectives, including those supporting revenue mobilization and fiscal adjustment, containing inflationary pressures, and bolstering FX reserves.

- **Structural conditionality.** Test dates for two SBs that have been missed due to implementation delays are proposed to be reset. New SBs are proposed to support progress on FBR and tax policy reform, governance and anti-corruption, capital market development, power sector efficiency, SOE governance framework implementation, commodity market liberalization, and improvements to the regulatory and investment environment.

26. Financing. The program is fully financed, with firm commitments for the next 12 months and good prospects for the remainder of the Fund-supported program (Text Table 4). Further progress has been made in securing financing committed ahead of the EFF request, including from the Saudi Development Fund and China EXIM. Major IFIs now expect to provide more financing in FY26 than previously anticipated, which will help absorb flood impacts on the BOP, while the outlook for new commercial financing has also improved. Key bilateral partners remain committed to rolling over existing short-term liabilities in the remaining program period. The authorities have also engaged in initial discussions on several new commercial financing facilities, which could potentially be pursued if external financing needs were to increase further.

Text Table 4. Pakistan: Program Financing 1/ (Millions of U.S. Dollars)

	2024/25	2025/26	2026/27	2027/28	Total (FY25-28)
	Est.	Proj.			
A. Financing gap (without RSF) 1/	3,503	4,103	2,961	1,046	11,613
Underlying BoP Gap 2/	-1,674	1,215	-1,949	-625	-3,032
Gross international reserves (+= accumulation, without RSF)	5,177	2,888	4,909	1,671	14,645
B. IMF EFF	2,051	2,083	2,089	1,046	7,269
C. Other program financing (A-B)	**1,452**	**2,020**	**872**	**0**	**4,344**
Commercial loan (w/ ADB partial guarantee)	1,000				1,000
Saudi Arabia Oil Financing	200	1,000			1,200
Additional IsdB Trade Financing	252	148			400
Additional Financing 3/	0	872	872		1,744
D. RSF Disbursement	0	422	528	424	1,374
Additional change in GIR (+ = accumulation)	0	422	528	424	1,374
Memorandum items					
IFI Budget Support	1,224	500	500	1,000	3,224
WB	0	0	0	0	0
ADB	1,224	500	500	1,000	3,224
External Bond Issuance 4/	0	250	1,000	1,500	2,750
(Net) Commercial Bank borrowing 5/	678	215	614	1,378	2,884

1/ Excluding Financing needs associated with rollovers of short-term bilateral financing, and expected commercial bank rollovers
2/ Change in reserves absent IMF and other program financing
3/ Additional program financing, including from China and IFIs
4/ Including through prospective "Panda" bond in FY26
5/ Including through IsDB Trade Facility

27. Enterprise risks. Strong ownership, as demonstrated through continued program performance and ongoing reforms, serves as a key mitigant to business risks, notwithstanding residual risks to program implementation as well as heightened global risks (¶4). After peaking in May, tensions with India have waned, also reducing related concerns about business risks (e.g., a prolonged military conflict compromising fiscal, external, and reform goals) and reputational risks (e.g., perceived misuse of Fund disbursements).

28. Safeguards. The 2023 Safeguards Assessment found a broadly sound safeguards framework. The SBP has made steady progress in implementing recommendations from that assessment, including by filling one deputy governor vacancy at end-October. The remaining recommendations relate to the timely filling of Board and deputy governor vacancies and amending the SBP Act at the next opportune time, to clarify the prohibition on quasi-fiscal and developmental activities.

29. Capacity to repay. Pakistan's capacity to repay the Fund remains broadly unchanged from the time of Board approval and the first EFF review and critically depends on policy implementation and timely external financing. Fund exposure is projected to peak at SDR 9,467 million in September 2027 (466 percent of quota; about 51 percent of projected gross reserves). Outstanding debt to the Fund as a share of GIR exceeds the 75th percentile of comparator countries. All three flow indicators—debt service as a share of government revenue, exports, and reserves—are also above the 75th percentile (Figure 4). Risks to consistent policy implementation include resistance to adoption of reforms, underperformance of tax revenue, high gross financing needs, low gross reserves, and the SBP's sizeable net FX derivative position, coupled with sociopolitical tensions, which could erode repayment capacity and debt sustainability. Uncertainty about global geoeconomic and financial conditions in major trading partners adds to these risks. Adequate and timely execution of the firm and credible financing assurances from official creditors remains essential to mitigate these risks.

STAFF APPRAISAL

30. Strong program implementation in the face of shocks has preserved economic stability. In the context of an uncertain external environment, the EFF- and RSF-supported programs have helped the authorities weather several shocks this year, including the recent severe floods. Progress on strengthening Pakistan's economic and institutional framework continues, despite a number of missed ITs and SBs. However, these gains remain fragile and need to be locked in via sustained reform efforts to strengthen public finances, continue rebuilding external buffers, improve public service provision, reduce the state's footprint, and set the stage for sustainable, inclusive, private sector-led growth.

31. The authorities' commendable commitment to the FY26 primary balance target while managing flood relief strengthens fiscal policy credibility and sustainability. Successful implementation of the FY26 budget will require careful expenditure control and prioritization, close coordination with the provinces, and prompt activation of contingency measures if downside risks to revenues materialize. At the same time, compliance improvement efforts should focus on broadening the tax net, gradually opening space for tax policy simplification in the medium term. Scaling up social assistance, prioritizing productive public investment, and enhancing public financial management will be important to optimize the use of scarce public resources.

32. Appropriately calibrated monetary policy has bolstered central bank credibility. Monetary policy should remain appropriately tight and data-dependent to ensure that inflation remains anchored within the SBP's target range. Food inflation in the wake of the floods and still-elevated core inflation should be monitored closely, and the SBP should stand ready to act resolutely to ensure that expectations remain anchored. Work to improve central bank communication is critical to implementing monetary policy effectively in a shock-prone world.

33. The SBP should continue efforts to deepen the interbank FX market, while allowing exchange rate flexibility to act as the main shock absorber in the face of significant uncertainty. A deep FX market will also enable the SBP to continue building reserve buffers in a sustained and non-distortive manner. The growing importance of remittances to support the current account requires accelerated work to remove structural impediments to cross-border payments, including to reduce the need for fiscal incentives.

34. Maintaining a sound and adequately capitalized financial sector will support intermediation and development, while minimizing risks. Consistent and decisive action to enforce the regulatory framework is essential to safeguard financial stability, alongside reforms to strengthen the microfinance banks sector. Efforts also need to focus on providing timely and clear guidance on the post-2027 financial system structure and regulatory framework, actively promoting capital market development, reducing the sovereign-bank nexus, diversifying the investor base for domestic debt, and expanding financing options for the private sector.

35. Boosting social protection and human capital programs is critical to making long-term growth inclusive and sustainable. The authorities' commitment to continuing to maintain UCT benefit spending power is welcome; an additional increase in generosity should be sought at the time of the next HIES to bring benefits closer to those of Pakistan's peers. The strong increase in health and education spending over FY25-26 is also welcome, but its effectiveness hinges on efforts to improve budget execution and spending quality.

36. Reform progress in the energy sector needs to continue to restore its long-term viability. Continued power and gas tariff adjustments in line with costs have largely prevented further CD accumulation; maintaining tariff progressivity remains critical to protect vulnerable consumers. Efforts now need to focus on improving DISCO collections and losses, cost-reducing structural reforms, including DISCO and GENCO private sector participation, advancing the wholesale electricity market, and addressing the gas sector's RLNG surplus and CD stock.

37. Stronger effort to advance structural reforms are critical to generate sustainable and inclusive growth. The authorities need to complete reforms to ensure sound governance across SOEs, including the SWF, and implement the SOE framework for all commercial SOEs, in particular by identifying, costing, and funding public service obligations. The envisaged legislative amendments to the SEZ Act and the review of the Companies Act could significantly enhance the business climate and governance standards. Sustained momentum on these reforms and close coordination with provincial governments will ensure consistency across jurisdictions and safeguard against the re-emergence of distortionary incentives. Enhancing effectiveness of the anti-corruption frameworks will support efforts to mitigate risks from undue influence in policymaking and implementation and promote the business and investment climate. Efforts also need to continue to ensure timely and reliable economic data and statistics, including by promptly assessing and addressing data deficiencies, and disclosing data revisions.

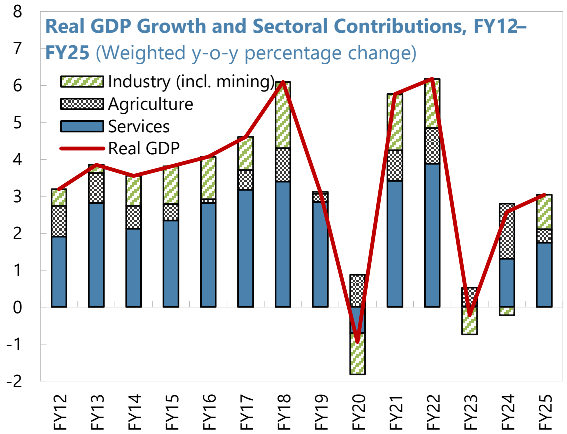
38. The recent floods underscore the urgent need to build resilience to climate shocks, which the RSF is supporting. Completion of the first two RMs under the RSF and progress toward the next two are welcome and will be important steps in addressing Pakistan's climate-related macroeconomic vulnerabilities. Focus needs to be maintained, in parallel, on longer-gestation RMs that will help to bolster Pakistan's disaster response capacity and water system resilience; to boost climate considerations in the course of budgeting and project selection; and to increase energy efficiency and rationalize power subsidies.

39. Risks remain significant amidst recent floods and elevated global uncertainty. Uncertainty as to the full impact of recent monsoon floods could weigh more severely on activity and inflation or generate larger fiscal and external pressures. Global risks remain elevated, including from escalation of geopolitical tensions, tightening of global financial conditions, new trade measures in key partner countries, or weakening remittance or international aid inflows. Domestic pressures to ease policies and delay reforms persist, which would risk undermining the progress achieved under the program.

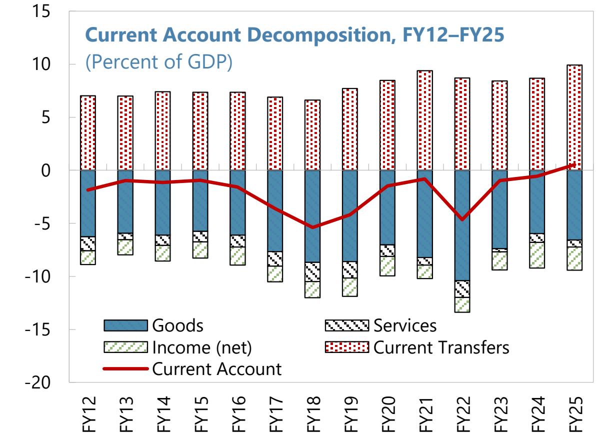
40. On the basis of the authorities' program implementation and policy commitments, staff supports their request for completion of the second review under the EFF and for completion of the first review under the RSF arrangement. Staff also support the authorities' request for a waiver of nonobservance of a performance criterion, and the request for modification of performance criteria under the EFF.

Figure 1. Pakistan: Selected Economic Indicators

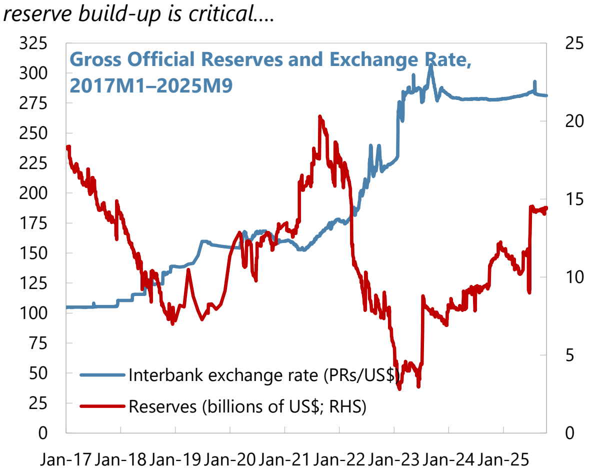
Growth continued to rebound in FY25, supported by stronger industrial activity…



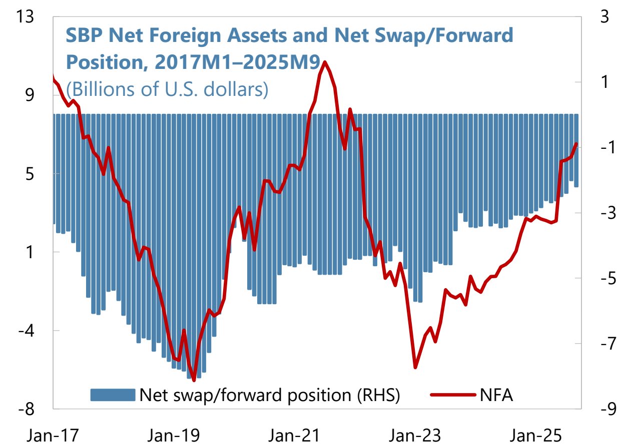
…with surging remittances supporting a move into Pakistan's first current account surplus in 14 years.



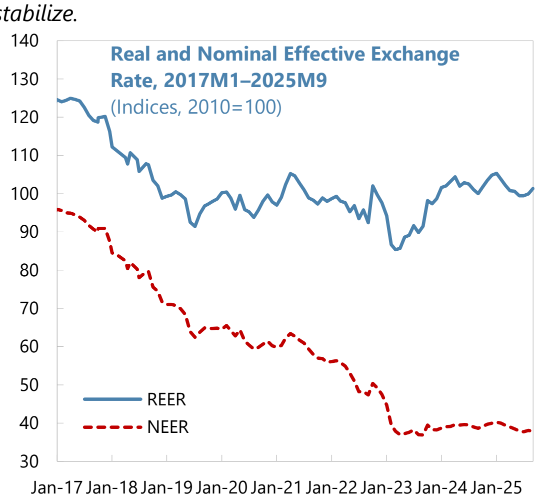
Reserves have risen from their lows in early 2023, but further reserve build-up is critical….



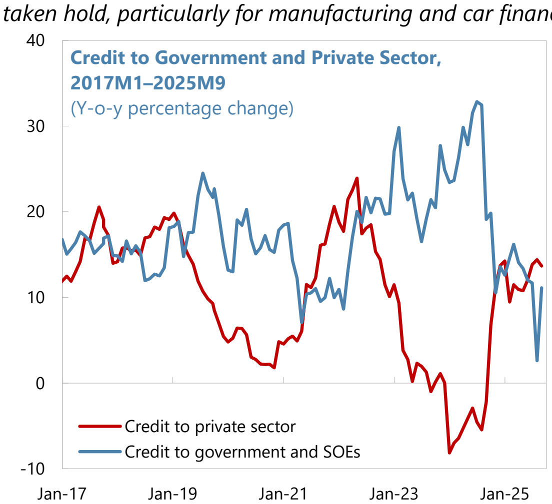
…and the SBP's derivative position should continue to narrow.



Stronger external conditions have helped the exchange rate stabilize.



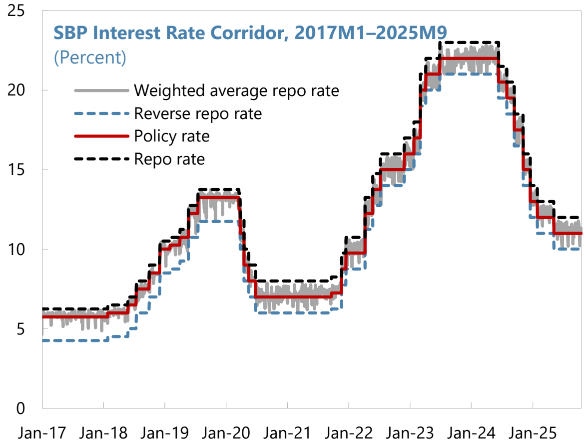
The broad-based increase in credit to the private sector has taken hold, particularly for manufacturing and car financing.



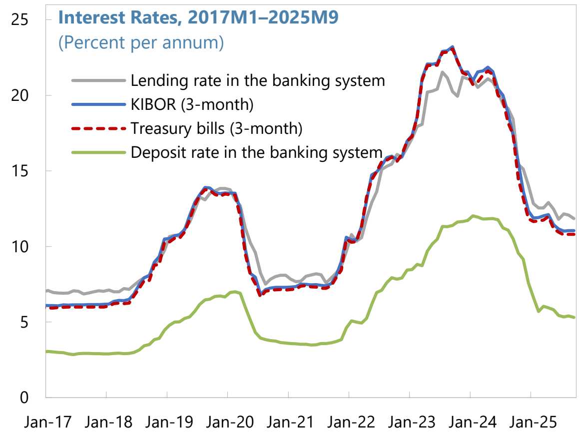
Sources: Pakistani authorities; IMF World Economic Outlook Database; IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators

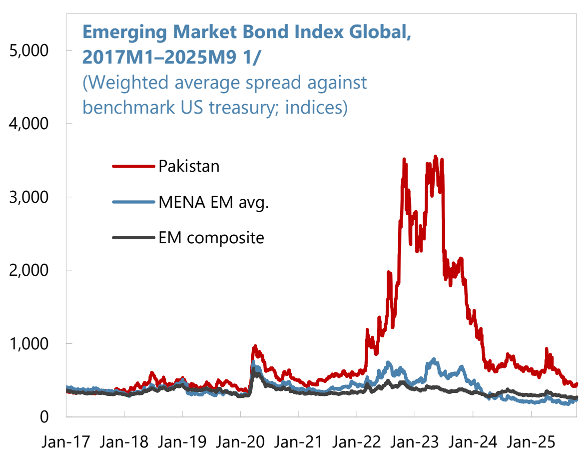
After a long period of cuts the SBP has kept its policy rate on hold at its last four meetings…



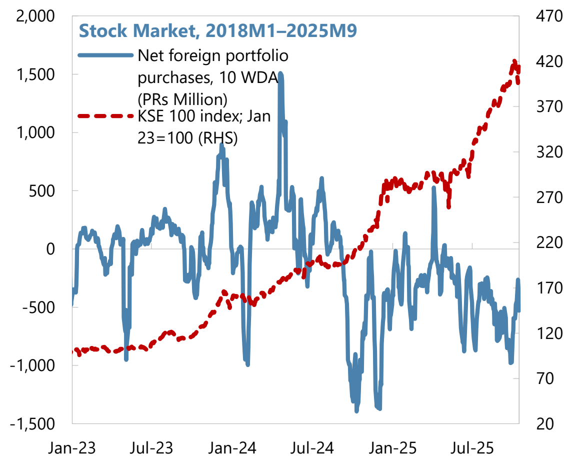
…and market rates have, in turn, broadly stabilized.



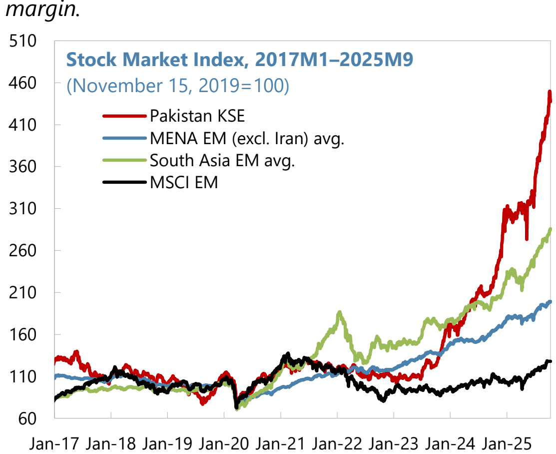
Pakistan' bond spreads declined further following ratings upgrades from S&P and Moody's.



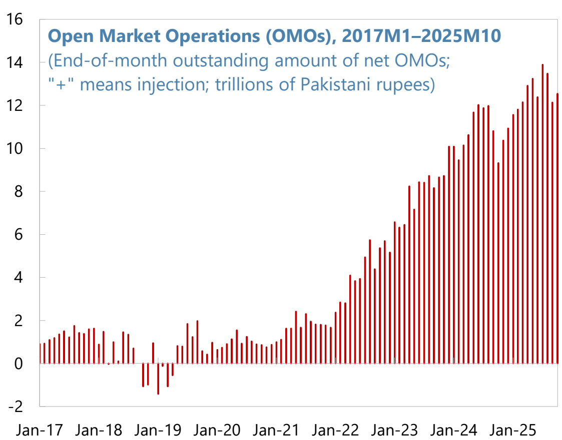
The stock market boom paused amid the floods…



… although the KSE continues to outperform peers by a wide margin.



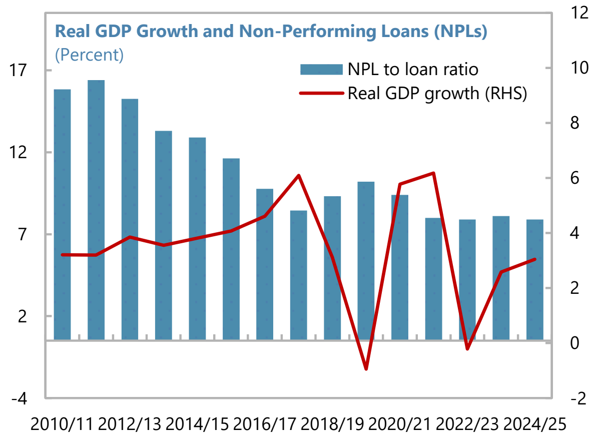
Liquidity injections via OMOs are continuing.



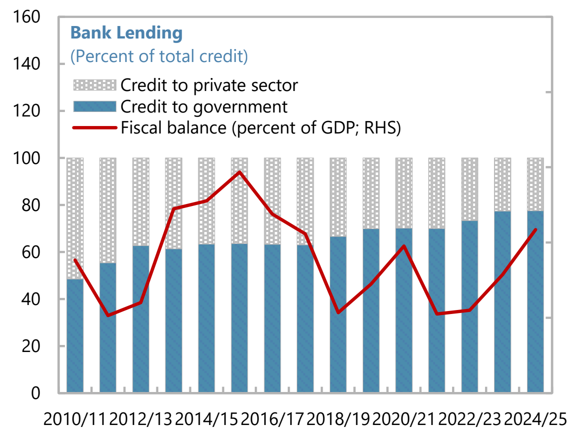
1/ MENA EM average excludes Lebanon.
Source: Pakistani authorities; Bloomberg; IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators

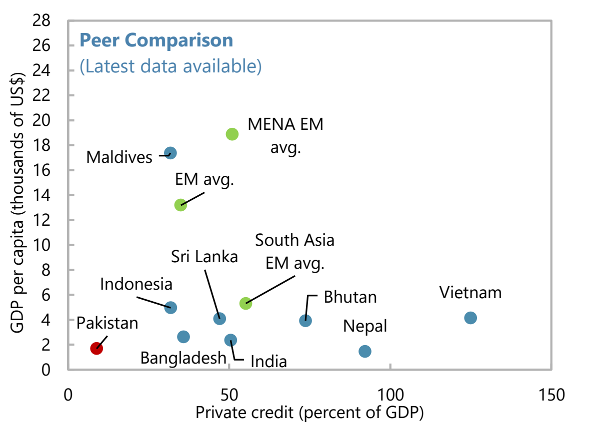
NPLs fell modestly in FY25 in the context of the continued economic rebound.



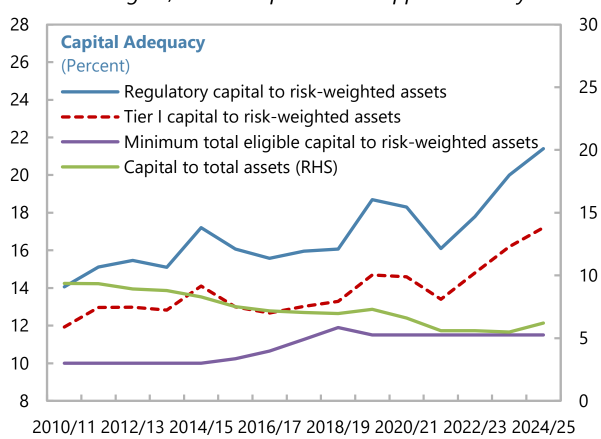
The banking system remains oriented toward providing credit to the government…



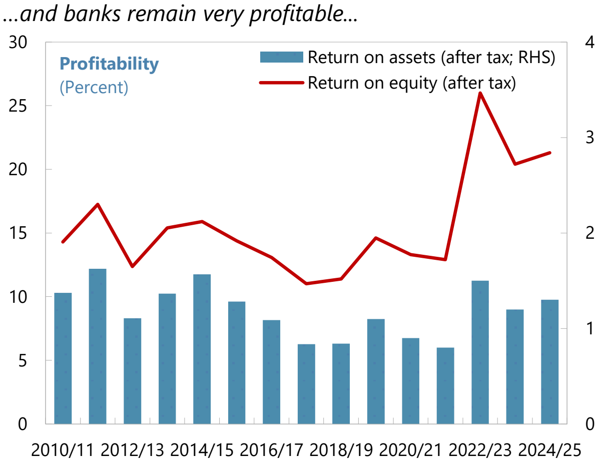
…leaving Pakistan behind its peers in terms of private credit relative to the size of its economy.



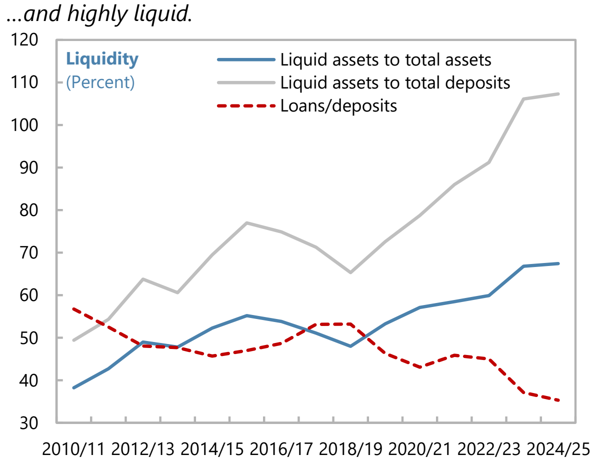
In part due to investments in government securities with zero risk weights, banks' capital ratios appear healthy…



…and banks remain very profitable…

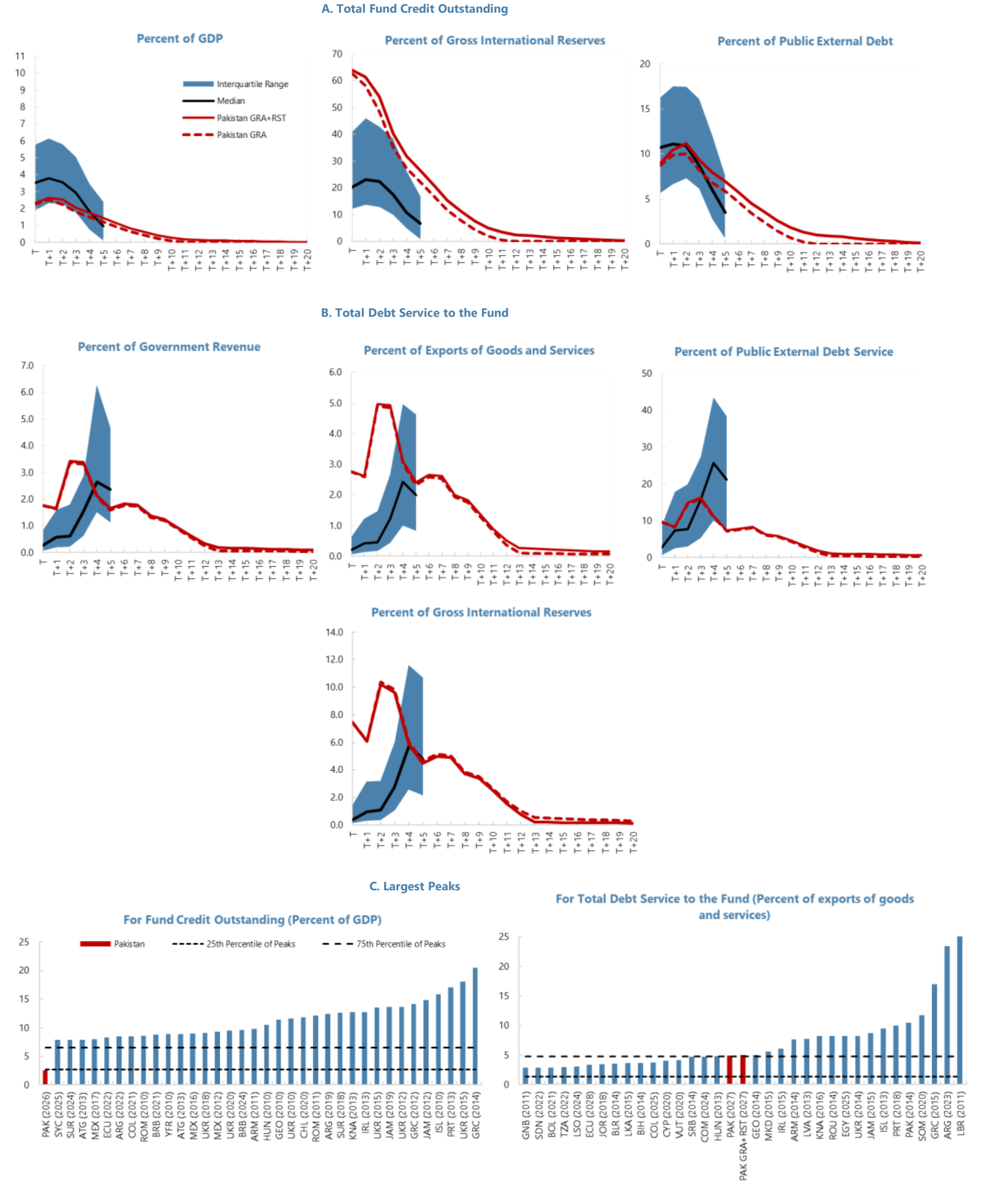


…and highly liquid.



Source: Pakistani authorities; Bloomberg; IMF staff calculations.

Figure 4. Pakistan: Capacity to Repay Indicators Compared to GRA-Only Borrowing Countries, All Programs



Sources: IMF Finance Department, World Economic Outlook.

Notes: 1/ T = date of GRA arrangement approval.

2/ Red lines/bars indicate the CtR indicator for the arrangement of interest.

3/ The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and February 23, 2024.

4/ Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.

5/ Comparator series is for GRA arrangements only and runs up to T+5.

6/ Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.

7/ All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.

The peak value for LBR (2011) is 81.7% and is not fully visible in the chart.

Table 1. Pakistan: Selected Economic Indicators, 2020/21–2025/26 1/

Population: 240.5 million (2024/25) | Main exports: Textiles (US$17.3 billion, 2024/25)
Per capita GDP: US$1,676.7 (2024/25) | Unemployment: 6.2 percent (2021/22)
Poverty rate: 21.9 percent (at national line; 2018/19)

	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26	
					Prog.	Est.	Prog.	Proj.
Output and prices	(Annual percentage change)							
Real GDP at factor cost	5.8	6.2	-0.2	2.6	**2.6**	3.0	**3.6**	3.2
GDP deflator at factor cost	10.4	14.1	26.0	22.1	**5.1**	4.2	**7.7**	6.3
Consumer prices (period average)	8.9	12.2	29.2	23.4	**5.1**	4.5	**7.7**	6.3
Consumer prices (end of period)	9.6	21.3	29.4	12.6	**6.5**	3.2	**6.6**	8.9
Pakistani rupees per U.S. dollar (period average)	1.2	11.0	39.8	13.9	**...**	...	**...**	...
Pakistani rupees per U.S. dollar (end of period)	-6.3	30.0	39.6	-2.6	**...**	...	**...**	...
Saving and investment	(Percent of GDP)							
Gross saving	13.7	10.9	13.0	12.6	**13.5**	14.8	**13.9**	14.2
Government	-3.9	-5.4	-5.5	-4.9	**-3.1**	-2.8	**-2.6**	-1.6
Nongovernment (including public sector enterprises)	17.6	16.3	18.5	17.5	**16.6**	17.6	**16.6**	15.8
Gross capital formation 2/	14.5	15.6	14.0	13.2	**13.5**	14.3	**14.3**	14.8
Government	2.2	2.4	2.3	1.9	**2.5**	2.6	**2.4**	2.4
Nongovernment (including public sector enterprises)	12.4	13.1	11.7	11.2	**11.1**	11.7	**11.9**	12.4
Public finances								
Revenue and grants	12.4	12.1	11.5	12.7	**15.9**	15.9	**15.2**	16.3
Expenditure (including statistical discrepancy)	18.5	20.0	19.3	19.5	**21.6**	21.2	**20.3**	20.2
Budget balance (including grants)	-6.0	-7.8	-7.8	-6.8	**-5.6**	-5.4	**-5.1**	-4.0
Budget balance (excluding grants)	-6.1	-7.9	-7.8	-6.9	**-5.7**	-5.4	**-5.1**	-4.0
Primary balance (excluding grants)	-1.2	-3.1	-1.0	0.9	**2.1**	2.4	**1.6**	2.5
Underlying primary balance (excluding grants) 3/	-0.5	-2.3	-0.7	0.9	**1.0**	1.3	**1.6**	1.6
Total general government debt excl. IMF obligations	72.7	75.2	76.1	68.1	**71.2**	70.6	**69.2**	69.6
External general government debt	24.4	27.4	28.7	22.8	**24.0**	22.5	**22.2**	22.5
Domestic general government debt	48.3	47.8	47.4	45.4	**47.3**	48.1	**47.0**	47.1
General government debt incl. IMF obligations	74.7	77.3	78.5	70.4	**73.6**	72.9	**71.9**	72.4
External general government debt	26.5	29.5	31.1	25.0	**26.4**	24.8	**24.9**	25.3
Domestic general government debt	48.3	47.8	47.4	45.4	**47.3**	48.1	**47.0**	47.1
General government and government guaranteed debt (incl. IMF; % GDP)	79.4	82.3	83.5	74.4	**77.6**	76.6	**75.6**	76.0
Monetary sector	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)							
Net foreign assets	5.4	-6.0	-6.0	2.1	**2.8**	5.3	**1.7**	1.7
Net domestic assets	10.6	19.2	21.6	13.8	**8.2**	8.4	**12.9**	12.9
Credit to the private sector	3.3	6.3	0.2	1.6	**2.8**	3.0	**4.4**	3.7
Net claims on the government	8.4	14.2	13.9	23.8	**1.9**	11.3	**11.0**	5.3
Broad money (percent change)	16.0	13.1	15.6	16.0	**11.0**	13.7	**14.6**	14.6
Reserve money (percent change)	12.8	7.6	22.5	2.3	**11.5**	11.7	**10.0**	11.5
Private credit (percent change)	10.7	21.6	0.6	6.0	**11.0**	12.0	**17.5**	15.0
Six-month treasury bill rate (period average, in percent)	7.3	11.0	18.3	21.5	**...**	...	**...**	...
External sector	(Annual percentage change, unless otherwise indicated)							
Merchandise exports, U.S. dollars	13.8	26.7	-14.2	11.1	**1.1**	4.3	**5.4**	1.5
Merchandise imports, U.S. dollars	24.4	31.8	-26.3	0.9	**8.6**	11.2	**3.4**	8.5
Current account balance (in percent of GDP)	-0.8	-4.7	-1.0	-0.6	**-0.1**	0.5	**-0.4**	-0.6
Financial account (billions of U.S. dollars)	8.3	10.2	-1.6	6.2	**4.3**	2.4	**3.3**	3.5
	(Percent of exports of goods and services, unless otherwise indicated)							
External public and publicly guaranteed debt	301.5	245.4	259.0	245.4	**251.4**	246.3	**244.8**	248.2
Debt service	34.1	37.5	57.9	42.2	**40.4**	38.0	**43.1**	40.3
Gross reserves (in millions of U.S. dollars) 4/	17,297	9,821	4,455	9,390	**13,921**	14,506	**17,682**	17,845
In months of next year's imports of goods and services	2.5	1.9	0.8	1.6	**2.3**	2.3	**2.8**	2.7
Memorandum items:								
Underlying fiscal balance (excl. grants; % GDP) 3/	-5.5	-7.1	-7.6	-6.9	**-6.7**	-6.5	**-6.7**	-4.9
Net general government debt (incl. IMF; % GDP)	67.2	70.0	72.4	64.5	**67.5**	66.5	**66.4**	66.6
Real effective exchange rate (annual average, percentage change)	2.0	-1.1	-5.7	6.5	**...**	...	**...**	...
Real effective exchange rate (end of period percentage change)	7.2	-5.7	-8.0	15.4	**...**	...	**...**	...
Terms of trade (percentage change)	2.5	-1.2	-1.4	-4.2	**-5.3**	-10.5	**0.3**	2.7
Real per capita GDP (percentage change)	3.7	4.1	-2.1	0.6	**0.7**	1.1	**1.6**	1.3
GDP at market prices (in billions of Pakistani rupees)	55,836	66,658	83,651	105,190	**115,446**	113,748	**129,517**	126,011
Per capita GDP (in U.S. dollars)	1,550.2	1,635.3	1,440.1	1,559.8	**...**	...	**...**	...
Population (millions)	222.6	227.0	231.5	236.0	**240.5**	240.5	**245.2**	245.1
GDP at market prices (in billions of U.S. dollars)	348.5	374.9	336.6	371.6	**...**	...	**...**	...

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

1/ Fiscal year ends June 30.

2/ Including changes in inventories.

3/ Excludes one-off transactions, including asset sales. In FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 and FY26 it excludes the windfall from exceptionally high SBP dividends.

4/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2020/21–2029/30 1/

	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
					Prog.	Est.	Prog.	Proj.		Proj.		
	(Annual percentage change, unless otherwise indicated)											
Output and prices												
Real GDP at factor cost	5.8	6.2	-0.2	2.6	**2.6**	3.0	**3.6**	3.2	4.1	4.5	4.5	4.5
Net exports (percent contribution to real GDP at factor cost)	-2.2	-1.8	0.2	-1.5	**-1.5**	-0.5	**-0.9**	-1.9	-0.2	-1.1	-0.7	-0.9
GDP deflator at factor cost	10.4	14.1	26.0	22.1	**5.1**	4.2	**7.7**	6.3	7.0	6.5	6.5	6.5
Consumer prices (period average)	8.9	12.2	29.2	23.4	**5.1**	4.5	**7.7**	6.3	7.0	6.5	6.5	6.5
	(Percent of GDP)											
Saving and investment balance	-0.8	-4.7	-1.0	-0.6	**-0.1**	0.5	**-0.4**	-0.6	-0.4	-0.8	-1.0	-1.0
Government	-6.0	-7.8	-7.8	-6.8	**-5.6**	-5.4	**-5.1**	-4.0	-3.8	-3.2	-3.0	-2.8
Nongovernment (including public sector enterprises)	5.2	3.2	6.8	6.2	**5.5**	5.9	**4.7**	3.4	3.4	2.4	2.1	1.8
Gross national saving	13.7	10.9	13.0	12.6	**13.5**	14.8	**13.9**	14.2	14.7	14.8	15.1	15.3
Government	-3.9	-5.4	-5.5	-4.9	**-3.1**	-2.8	**-2.6**	-1.6	-1.4	-0.8	-0.6	-0.3
Nongovernment (including public sector enterprises)	17.6	16.3	18.5	17.5	**16.6**	17.6	**16.6**	15.8	16.1	15.6	15.6	15.7
Gross capital formation	14.5	15.6	14.0	13.2	**13.5**	14.3	**14.3**	14.8	15.1	15.6	16.1	16.4
Government	2.2	2.4	2.3	1.9	**2.5**	2.6	**2.4**	2.4	2.4	2.5	2.5	2.5
Nongovernment (including public sector enterprises)	12.4	13.1	11.7	11.2	**11.1**	11.7	**11.9**	12.4	12.7	13.2	13.6	13.9
	(Billions of U.S. dollars, unless otherwise indicated)											
Balance of payments												
Current account balance	-2.8	-17.5	-3.3	-2.1	**-0.2**	2.1	**-1.5**	-2.4	-1.9	-3.9	-4.9	-5.6
Current account balance (in percent of GDP)	-0.8	-4.7	-1.0	-0.6	**-0.1**	0.5	**-0.4**	-0.6	-0.4	-0.8	-1.0	-1.0
Net capital flows 2/	7.9	10.1	-2.1	5.7	**4.3**	2.5	**3.4**	3.8	5.9	6.8	9.3	9.9
Of which: foreign direct investment 3/	1.6	1.7	0.7	2.1	**2.1**	2.4	**2.1**	2.1	2.1	2.3	2.5	2.7
Gross reserves	17.3	9.8	4.5	9.4	**13.9**	14.5	**17.7**	17.8	23.3	25.4	28.1	31.3
In months of imports 4/	2.5	1.9	0.8	1.6	**2.3**	2.3	**2.8**	2.7	3.2	3.3	3.4	3.5
External debt (in percent of GDP)	35.1	32.2	35.0	32.4	**30.3**	30.0	**30.8**	29.5	29.4	28.1	27.0	26.0
Terms of trade (annual percentage change)	2.5	-1.2	-1.4	-4.2	**-5.3**	-10.5	**0.3**	2.7	1.5	-0.5	-0.4	-0.6
Real effective exchange rate (annual average, percentage change)	2.0	-1.1	-5.7	6.5	**…**	…	**…**	…	…	…	…	…
Real effective exchange rate (end of period, percentage change)	7.2	-5.7	-8.0	15.4	**…**	…	**…**	…	…	…	…	…
	(Percent of GDP)											
Public finances												
Revenue and grants	12.4	12.1	11.5	12.7	**15.9**	15.9	**15.2**	16.3	15.7	15.9	15.9	15.9
Of which: tax revenue	10.3	10.4	10.1	10.6	**12.6**	12.3	**13.2**	13.3	13.7	13.9	13.9	13.9
Expenditure (including statistical discrepancy)	18.5	20.0	19.3	19.5	**21.6**	21.2	**20.3**	20.2	19.5	19.1	18.9	18.7
Of which: current	16.3	17.3	17.3	17.7	**18.9**	18.9	**17.8**	17.8	17.1	16.6	16.4	16.1
Of which: development	2.2	2.4	2.3	1.9	**2.5**	2.6	**2.4**	2.4	2.4	2.5	2.5	2.5
Primary balance (including grants)	-1.1	-3.0	-0.9	1.0	**2.1**	2.4	**1.6**	2.6	2.0	2.0	2.0	2.1
Primary balance (excluding grants)	-1.2	-3.1	-1.0	0.9	**2.1**	2.4	**1.6**	2.5	2.0	2.0	2.0	2.0
Underlying primary balance (excluding grants) 5/	-0.5	-2.3	-0.7	0.9	**1.0**	1.3	**1.6**	1.6	2.0	2.0	2.0	2.0
Budget balance (including grants)	-6.0	-7.8	-7.8	-6.8	**-5.6**	-5.4	**-5.1**	-4.0	-3.8	-3.2	-3.0	-2.8
Budget balance (excluding grants)	-6.1	-7.9	-7.8	-6.9	**-5.7**	-5.4	**-5.1**	-4.0	-3.9	-3.2	-3.1	-2.8
Underlying fiscal balance (excl. grants) 5/	-5.5	-7.1	-7.6	-6.9	**-6.7**	-6.5	**-5.1**	-4.9	-3.9	-3.2	-3.1	-2.8
General government and government guaranteed debt (incl. IMF)	79.4	82.3	83.5	74.4	**77.6**	76.6	**75.6**	76.0	73.3	70.0	66.6	63.5
General government debt (incl. IMF)	74.7	77.3	78.5	70.4	**73.6**	72.9	**71.9**	72.4	69.9	66.8	63.6	60.7
Net general government debt (incl. IMF)	67.2	70.0	72.4	64.5	**67.5**	66.5	**66.4**	66.6	64.8	62.2	59.4	56.9
Memorandum item:												
Nominal GDP (market prices, billions of Pakistani rupees)	55,836	66,658	83,651	105,190	**115,446**	113,748	**129,517**	126,011	140,664	156,471	174,105	193,630

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

1/ Fiscal year ends June 30.

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

3/ Including privatization.

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

5/ Excludes one-off transactions, including asset sales. In FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 and FY26 it excludes the windfall from exceptionally high SBP dividends.

Table 3a. Pakistan: Balance of Payments, 2020/21–2029/30
(In millions of U.S. dollars, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
					Prog.	Est.	Prog.	Proj.	Proj.			
Current account	-2,820	-17,481	-3,275	-2,072	-229	2,113	-1,493	-2,365	-1,921	-3,866	-4,879	-5,576
Balance on goods	-28,634	-39,050	-24,819	-22,177	-26,330	-26,786	-26,618	-31,337	-30,403	-32,867	-34,361	-36,717
Exports, f.o.b.	25,639	32,493	27,876	30,980	31,305	32,302	32,981	32,776	36,459	40,034	42,955	46,092
Imports, f.o.b.	54,273	71,543	52,695	53,157	57,634	59,088	59,599	64,113	66,862	72,901	77,316	82,810
Services (net)	-2,516	-5,840	-1,042	-3,110	-3,716	-2,622	-4,090	-3,866	-4,407	-4,805	-5,461	-6,046
Services: credit	5,945	7,102	7,596	7,691	7,944	8,383	8,481	8,743	9,314	9,917	10,540	11,194
Of which: Coalition Support Fund	0	0	0	0	0	0	0	0	0	0	0	0
Services: debit	8,461	12,942	8,638	10,801	11,660	11,005	12,571	12,608	13,721	14,722	16,002	17,240
Income (net)	-4,400	-5,248	-5,765	-8,986	-8,440	-8,902	-8,802	-8,602	-8,862	-9,159	-9,411	-9,649
Income: credit	508	652	652	909	912	1,020	800	832	799	684	636	638
Income: debit	4,908	5,900	6,417	9,895	9,352	9,922	9,603	9,434	9,661	9,843	10,046	10,287
Of which: interest payments	2,594	3,375	4,933	5,828	5,484	5,508	5,694	5,428	5,320	5,442	5,477	5,529
Of which: income on direct investment	2,565	2,717	1,708	3,724	3,855	4,312	3,908	4,006	4,341	4,401	4,570	4,757
Balance on goods, services, and income	-35,550	-50,138	-31,626	-34,273	-38,486	-38,310	-39,510	-43,805	-43,672	-46,831	-49,233	-52,412
Current transfers (net)	32,730	32,657	28,351	32,201	38,257	40,423	38,017	41,440	41,751	42,964	44,354	46,837
Current transfers: credit, *of which:*	33,027	32,949	28,665	32,668	38,793	41,013	38,422	41,836	42,147	43,360	44,750	47,232
Official	281	376	380	449	513	582	503	549	549	549	549	549
Workers' remittances	29,450	31,279	27,333	30,251	36,201	38,300	35,761	39,010	39,196	40,113	41,162	43,191
Other private transfers	3,296	1,294	952	1,968	2,080	2,131	2,158	2,277	2,402	2,698	3,038	3,492
Current transfers: debit	297	292	314	467	536	590	406	396	396	396	396	396
Capital account	224	205	375	202	141	200	110	269	137	118	112	95
Capital transfers: credit	224	205	375	202	141	200	110	269	137	118	112	95
Of which: official capital grants	204	190	144	172	140	192	110	269	137	118	112	95
Capital transfers: debit	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	8,268	10,207	-1,643	6,152	4,272	2,402	3,271	3,490	5,777	6,644	9,206	9,757
Direct investment abroad	-171	-234	-957	-220	-53	-63	-153	-216	-216	-216	-216	-216
Direct investment in Pakistan	1,819	1,936	1,627	2,346	2,166	2,461	2,263	2,275	2,336	2,517	2,709	2,930
Portfolio investment (net)	2,774	-55	-1,012	-376	-583	-637	-1,288	-1,038	1,512	2,212	3,462	4,012
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	-1,345	-2,613	964	381	371	-72	-240	-240	-80	320	320	320
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	-15	-914	883	-10	-3	-42	0	0	0	0	0	0
Banks	-608	-382	-283	28	800	443	0	0	80	320	320	320
Other sectors	-722	-1,317	364	363	-426	-473	-240	-240	-160	0	0	0
Other investment liabilities	5,191	11,173	-2,265	4,021	2,371	713	1,289	2,709	2,225	1,811	2,931	2,711
Monetary authorities	-1,468	-1	0	999	0	0	0	0	0	0	0	0
General government, *of which:*	5,238	5,064	-3,251	2,357	3,274	3,226	933	2,440	1,606	792	898	158
Disbursements	9,308	10,203	8,725	6,044	9,938	9,518	8,478	9,049	9,995	10,826	9,301	8,706
Amortization	5,855	8,343	11,660	5,935	6,937	6,737	7,544	6,610	8,389	10,034	8,403	8,548
Banks	499	846	1,241	715	-5	-1,460	350	350	450	500	500	500
Other sectors	922	2,491	-255	-50	-898	-1,053	6	-81	169	519	1,533	2,053
Other prospective program financing					0	0	1,400	0	0	0	0	0
Net errors and omissions	-619	-303	-850	-631	-116	-40	0	0	0	0	0	0
Overall balance	5,053	-7,371	-5,384	3,654	4,049	4,650	1,888	1,394	3,993	2,896	4,440	4,276
Financing	-5,053	7,371	5,384	-3,654	-4,049	-4,650	-1,888	-1,394	-3,993	-2,896	-4,440	-4,276
Change in reserve assets (- denotes accumulation)	-4,473	7,333	5,185	-5,016	-4,568	-5,177	-3,760	-3,317	-5,457	-2,118	-2,655	-3,258
Net use of Fund credit and loans	-580	38	199	1,362	519	527	1,872	1,923	1,464	-778	-1,785	-1,017
o/w RSF					0	0	410	422	528	424	0	0
Memorandum items:												
Current account (in percent of GDP)	-0.8	-4.7	-1.0	-0.6	-0.1	0.5	-0.4	-0.6	-0.4	-0.8	-1.0	-1.0
Current account (in percent of GDP; excluding fuel imports)	2.0	0.3	4.6	3.5	3.4	4.2	2.6	2.5	2.5	2.0	1.8	1.7
Exports f.o.b. (growth rate, in percent)	13.8	26.7	-14.2	11.1	1.1	4.3	5.4	1.5	11.2	9.8	7.3	7.3
Exports volume (growth rate, in percent)	2.7	4.5	-11.8	17.5	13.5	18.7	6.4	2.4	8.9	9.7	6.9	6.9
Exports (in percent of GDP)	9.1	10.6	10.5	10.4	9.6	10.0	10.1	9.8	10.3	10.5	10.5	10.6
Remittance (growth rate, in percent)	27.3	6.2	-12.6	10.7	19.7	26.6	-1.2	1.9	0.5	2.3	2.6	4.9
Remittances (in percent of GDP)	8.5	8.3	8.1	8.1	8.9	9.4	8.7	9.2	8.8	8.4	8.1	8.0
Imports f.o.b. (growth rate, in percent)	24.4	31.8	-26.3	0.9	8.6	11.2	3.4	8.5	4.3	9.0	6.1	7.1
Imports volume (growth rate, in percent)	20.6	10.8	-27.4	5.4	11.6	14.6	6.4	10.5	3.8	8.4	5.2	6.0
Imports (in percent of GDP)	18.0	22.5	18.2	17.2	17.0	17.2	17.5	18.0	18.1	18.4	18.4	18.4
Oil imports (in million US$, cif)	9,747	18,743	18,882	15,162	13,941	15,004	12,289	13,004	13,096	13,542	14,110	14,689
Terms of trade (growth rate, in percent)	2.5	-1.2	-1.4	-4.2	-5.3	-10.5	0.3	2.7	1.5	-0.5	-0.4	-0.6
Foreign Direct Investment (in percent of GDP)	0.5	0.5	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
External debt (in millions of U.S. dollars)	122,292	120,534	117,766	120,253	123,338	122,240	126,731	125,612	130,704	133,627	137,271	141,004
o/w external public debt	93,806	96,073	90,974	94,395	98,175	99,717	101,005	102,528	106,476	106,524	107,128	108,725
Gross external financing needs (in millions of U.S. dollars) 1/	22,206	33,736	23,859	21,738	16,399	13,655	19,316	19,398	19,123	29,914	23,188	22,446
End-period gross official reserves (millions of U.S. dollars) 2/	17,297	9,821	4,455	9,390	13,921	14,506	17,682	17,845	23,302	25,420	28,075	31,333
(In months of next year's imports of goods and services)	2.5	1.9	0.8	1.6	2.3	2.3	2.8	2.7	3.2	3.3	3.4	3.5
(In percent of ARA metric)	67.1	36.0	17.9	35.9	51.5	54.3	63.1	64.9	78.9	84.3	90.0	99.8
Gross official reserves - without RSF (millions of U.S. dollars) 2/					13,921	14,506	17,271	17,424	22,352	24,047	26,701	29,959
GDP (in millions of U.S. dollars)	348,481	374,850	336,555	371,576	...	407,116	...	...	...	...	...	...

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

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

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

Table 3b. Pakistan: External Gross Financing Requirements and Sources, 2022/23–2029/30

(In millions of U.S. dollars, unless otherwise indicated)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
			Prog.	Est.	Prog.	Proj.	Proj.			
Gross External Financing Requirements (A)	**23,859**	**21,738**	**16,399**	**13,655**	**19,316**	**19,398**	**19,123**	**29,914**	**23,188**	**22,446**
(In percent of GDP)	7.1	5.9	4.0	3.4	4.7	4.6	4.3	6.3	4.6	4.1
Current account deficit	3,275	2,072	229	-2,113	1,493	2,365	1,921	3,866	4,879	5,576
(In percent of GDP)	1.0	0.6	0.1	-0.5	0.4	0.6	0.4	0.8	1.0	1.0
Amortization	19,617	18,023	14,653	14,244	17,257	16,451	16,049	23,801	16,524	15,853
Public Sector	14,971	13,506	9,937	9,737	12,344	11,410	11,389	19,105	12,403	11,548
Short-term Borrowing	1,327	162	350	250	1,840	1,551	3,100	3,400	2,200	2,210
Long-term Borrowing (non-IMF)	12,333	12,344	9,587	9,487	8,705	8,058	8,289	14,205	9,203	9,338
Bonds	1,311	1,000	0	0	1,800	1,800	0	1,500	1,000	0
Private Sector 1/	4,646	4,517	4,716	4,507	4,913	5,041	4,659	4,696	4,121	4,305
Short-term Borrowing	2,983	2,612	2,816	2,816	2,640	2,720	2,388	2,575	2,734	2,918
Long-term Borrowing	1,663	1,905	1,900	1,691	2,273	2,321	2,271	2,121	1,387	1,387
IMF Repurchases	967	1,643	1,516	1,524	566	582	1,154	2,247	1,785	1,017
Available Financing (B)	**17,327**	**23,668**	**18,895**	**16,720**	**19,239**	**20,221**	**21,962**	**30,563**	**25,842**	**25,704**
Foreign Direct Investment (net) 2/	670	2,126	2,113	2,398	2,110	2,059	2,120	2,301	2,493	2,714
Disbursement	17,132	21,971	16,757	14,162	17,018	17,893	19,705	28,144	23,237	22,896
From private creditors	8,046	7,118	7,927	5,533	8,141	8,643	10,435	15,041	15,736	16,404
Disbursement to Private Sector 3/	5,840	5,936	3,277	795	5,541	5,593	5,710	8,247	8,686	9,190
Disbursement to Public Sector 4/	2,206	1,182	4,650	4,738	2,600	3,050	4,725	6,794	7,050	7,214
From official creditors (non-IMF)	9,086	14,853	8,830	8,629	8,878	9,249	9,270	13,103	7,501	6,492
o/w Project Loans	1,894	2,373	3,255	2,866	3,528	3,749	3,970	3,932	3,541	2,502
o/w China	128	82	118	97	49	24	49	47	47	47
o/w Program Loans	2,341	1,264	1,100	1,226	250	500	500	1,000	350	350
o/w Short-term debt (incl. rollovers)	4,077	2,966	4,743	4,245	5,970	6,070	6,055	5,035	5,180	5,390
o/w Public Sector	1,465	995	1,840	1,552	3,000	3,100	3,400	2,200	2,210	2,240
o/w Private Sector	2,612	1,971	2,904	2,693	2,970	2,970	2,655	2,835	2,970	3,150
Other Net Capital Inflows (net) 5/	-475	-429	25	160	110	269	137	118	112	95
IMF SDR allocation	0	0	0	0	0	0	0	0	0	0
Underlying BOP Gap (C=A-B)	**6,532**	**-1,930**	**-2,496**	**-3,065**	**78**	**-823**	**-2,839**	**-649**	**-2,655**	**-3,258**
Borrowing from IMF (EFF) (D)	**1,166**	**3,005**	**2,036**	**2,051**	**2,028**	**2,083**	**2,089**	**1,046**	**0**	**0**
Other prospective financing (E)			**0**	**0**	**1,400**	**0**	**0**	**0**	**0**	**0**
Reserves without RSF (decrease = +) (E=C-D-E)	**5,366**	**-4,935**	**-4,532**	**-5,116**	**-3,350**	**-2,906**	**-4,928**	**-1,694**	**-2,655**	**-3,258**
RSF Financing (F)			**0**	**0**	**410**	**422**	**528**	**424**	**0**	**0**
Reserves with RSF (decrease = +) (G = E + F)			**-4,532**	**-5,116**	**-3,760**	**-3,328**	**-5,457**	**-2,118**	**-2,655**	**-3,258**
Memorandum items:										
Gross official reserves (stock, in US$ billions)	4.5	9.4	13.9	14.5	17.7	17.8	23.3	25.4	28.1	31.3
(In months of prospective imports)	0.8	1.6	2.3	2.3	2.8	2.7	3.2	3.3	3.4	3.5
(In percent of IMF ARA metric)	17.9	35.9	51.5	54.3	63.1	64.9	78.9	84.3	90.0	99.8
Gross official reserves without RSF (stock, in US$ billions)		9.4	13.9	14.5	17.3	17.4	22.4	24.0	26.7	30.0
Net FX derivative position (in US$ billions)	4.5	-3.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5

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

1/ Includes banks and non-bank private sector.

2/ Includes privatization receipts.

3/ Includes equity and debt portfolio inflows, and borrowing by banks and other sectors.

4/ Includes syndicated loans and Euro bonds.

5/ Includes capital account, financial derivatives, errors and omissions.

Table 4a. Pakistan: General Government Budget, 2020/21–2029/30

(In billions of Pakistani rupees)

	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
					Prog.	Est.	Prog.	Proj.		Proj.		
Revenue and grants	6,933	8,076	9,648	13,321	18,402	18,046	19,663	20,499	22,080	24,870	27,671	30,783
Revenue	6,903	8,035	9,614	13,269	18,353	17,997	19,619	20,410	22,027	24,822	27,623	30,727
Tax revenue	5,755	6,943	8,428	11,159	14,545	14,015	17,035	16,730	19,222	21,702	24,151	26,866
Federal	5,247	6,331	7,787	10,385	13,561	13,037	15,815	15,540	17,454	19,195	21,361	23,763
FBR revenue	4,764	6,142	7,169	9,311	12,332	11,744	14,307	13,979	15,712	17,292	19,244	21,409
Direct taxes	1,732	2,280	3,235	4,531	5,542	5,792	6,470	6,967	7,777	8,651	9,626	10,706
Federal excise duty	277	321	365	577	1,037	767	1,153	880	983	1,023	1,138	1,266
Sales tax/VAT	1,990	2,532	2,608	3,099	4,273	3,901	4,943	4,580	5,168	5,681	6,323	7,036
Customs duties	765	1,009	962	1,104	1,479	1,285	1,741	1,552	1,785	1,937	2,157	2,402
Petroleum surcharge	424	128	580	1,019	1,117	1,220	1,311	1,468	1,638	1,787	1,989	2,212
Gas surcharge and other	39	42	27	52	110	69	195	79	88	98	110	122
GIDC	19	19	11	3	2	1	2	2	3	3	3	4
Provincial	508	612	640	774	984	979	1,220	1,190	1,768	2,507	2,790	3,102
Nontax revenue	1,147	1,092	1,186	2,110	3,808	3,982	2,584	3,681	2,805	3,120	3,472	3,861
Federal	997	964	1,022	1,887	3,501	3,668	2,324	3,421	2,515	2,797	3,113	3,462
Provincial	150	128	164	223	307	314	260	260	290	323	359	400
Grants	31	41	35	52	49	49	44	89	53	49	49	56
Expenditure (including statistical discrepancy)	10,306	13,301	16,137	20,476	24,888	24,166	26,250	25,480	27,467	29,906	32,933	36,163
Current expenditure	9,111	11,535	14,474	18,653	21,811	21,529	22,991	22,412	24,002	25,922	28,500	31,233
Federal	6,292	8,369	10,676	14,052	16,154	15,696	16,497	15,830	16,796	17,544	19,178	20,865
Interest	2,750	3,197	5,722	8,160	8,930	8,887	8,685	8,225	8,251	8,214	8,796	9,380
Domestic	2,524	2,829	4,936	7,164	7,928	7,997	7,503	7,131	7,094	6,967	7,456	7,935
Foreign	226	354	714	882	926	815	1,119	1,036	1,089	1,171	1,273	1,387
IMF budget support	0	14	72	114	76	75	64	58	68	76	67	58
Other	3,542	5,172	4,954	5,892	7,224	6,808	7,811	7,605	8,545	9,330	10,382	11,485
Defense	1,316	1,412	1,586	1,859	2,152	2,194	2,414	2,575	2,874	3,197	3,558	3,957
Other	2,226	3,760	3,369	4,033	5,072	4,614	5,397	5,030	5,671	6,133	6,824	7,528
Of which : subsidies	425	1,530	1,080	1,149	1,418	1,298	1,367	1,043	1,007	946	1,052	1,170
Of which : grants	855	1,142	988	1,292	1,664	1,514	1,619	1,898	1,962	2,182	2,428	2,700
Of which : contingency reserve	0	0	0	0	160	0	389	63	440	490	545	545
Provincial	2,819	3,167	3,798	4,601	5,657	5,833	6,494	6,582	7,206	8,378	9,322	10,367
Development expenditure and net lending	1,288	1,650	1,953	1,996	2,938	2,966	3,259	3,068	3,465	3,984	4,433	4,930
Public Sector Development Program	1,211	1,610	1,893	2,027	2,853	2,983	3,164	2,972	3,358	3,865	4,300	4,783
Federal	441	397	652	635	983	786	1,065	873	885	984	1,095	1,218
Provincial	770	1,212	1,241	1,392	1,870	2,198	2,099	2,099	2,473	2,881	3,206	3,565
Net lending	77	40	60	-30	85	-18	96	96	107	119	133	148
Statistical discrepancy ("+" = additional expenditure)	-93	116	-290	-173	139	-329	0	0	0	0	0	0
Overall Balance (excluding grants)	-3,404	-5,266	-6,523	-7,207	-6,534	-6,168	-6,632	-5,069	-5,439	-5,084	-5,311	-5,436
Overall Balance (including grants)	-3,373	-5,225	-6,488	-7,155	-6,485	-6,119	-6,588	-4,981	-5,387	-5,035	-5,262	-5,380
Financing	3,373	5,225	6,488	7,155	6,485	6,119	6,588	4,981	5,387	5,035	5,262	5,380
External	1,418	677	-1,133	-321	642	985	325	294	804	171	497	563
Of which: privatization receipts	0	0	0	0	0	0	0	0	0	0	0	0
Of which: IMF	80	187	191	-197	-256	-253	32	31	-21	-90	-240	-207
Domestic	1,955	4,548	7,621	7,476	5,843	5,134	6,262	4,686	4,582	4,865	4,765	4,817
Bank	1,746	3,184	5,335	5,233	4,090	3,594	4,374	3,271	3,214	3,432	3,408	3,434
Nonbank	209	1,364	2,286	2,243	1,753	1,540	1,888	1,415	1,369	1,432	1,358	1,383
Memorandum items:												
Underlying fiscal balance (excl. grants) 1/	-3,051	-4,737	-6,343	-7,207	-7,792	-7,426	-6,632	-6,174	-5,439	-5,084	-5,311	-5,436
Primary balance (excluding grants)	-654	-2,070	-801	953	2,396	2,719	2,054	3,156	2,812	3,130	3,486	3,944
Underlying primary balance (excluding grants) 1/	-301	-1,541	-621	953	1,138	1,461	2,054	2,051	2,812	3,130	3,486	3,944
Primary balance (including grants)	-623	-2,028	-766	1,005	2,444	2,768	2,098	3,244	2,864	3,178	3,534	4,000
Primary expenditure	7,557	10,105	10,415	12,316	15,958	15,278	17,565	17,255	19,216	21,692	24,137	26,783
Total security spending	1,316	1,412	1,586	1,859	2,152	2,194	2,414	2,575	2,874	3,197	3,558	3,957
General government debt incl. IMF obligations	41,737	51,538	65,673	74,007	85,018	82,917	93,140	91,223	98,352	104,538	110,729	117,441
Domestic debt	26,959	31,858	39,655	47,724	54,567	54,687	60,861	59,404	63,966	68,740	73,266	77,876
External debt	14,779	19,680	26,018	26,283	30,451	28,229	32,280	31,819	34,386	35,798	37,463	39,565
General government and government guaranteed debt (incl. IMF)	44,355	54,883	69,828	78,210	89,600	87,177	97,923	95,769	103,111	109,530	115,982	122,987
Net general government debt (incl. IMF)	37,540	46,658	60,571	67,866	77,877	75,669	85,999	83,976	91,105	97,291	103,482	110,194
Nominal GDP (market prices)	55,836	66,658	83,651	105,190	115,446	113,748	129,517	126,011	140,664	156,471	174,105	193,630

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

1/ Excludes one-off transactions, including asset sales. In FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance. In FY25 and FY26 it excludes the windfall from exceptionally high SBP dividends.

Table 4b. Pakistan: General Government Budget, 2020/21–2029/30
(In percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
					Prog.	Est.	Prog.	Proj.	Proj.			
Revenue and grants	12.4	12.1	11.5	12.7	15.9	15.9	15.2	16.3	15.7	15.9	15.9	15.9
Revenue	12.4	12.1	11.5	12.6	15.9	15.8	15.1	16.2	15.7	15.9	15.9	15.9
Tax revenue	10.3	10.4	10.1	10.6	12.6	12.3	13.2	13.3	13.7	13.9	13.9	13.9
Federal	9.4	9.5	9.3	9.9	11.7	11.5	12.2	12.3	12.4	12.3	12.3	12.3
FBR revenue	8.5	9.2	8.6	8.9	10.7	10.3	11.0	11.1	11.2	11.1	11.1	11.1
Direct taxes	3.1	3.4	3.9	4.3	4.8	5.1	5.0	5.5	5.5	5.5	5.5	5.5
Federal excise duty	0.5	0.5	0.4	0.5	0.9	0.7	0.9	0.7	0.7	0.7	0.7	0.7
Sales tax	3.6	3.8	3.1	2.9	3.7	3.4	3.8	3.6	3.7	3.6	3.6	3.6
Customs duties	1.4	1.5	1.2	1.0	1.3	1.1	1.3	1.2	1.3	1.2	1.2	1.2
Petroleum surcharge	0.8	0.2	0.7	1.0	1.0	1.1	1.0	1.2	1.2	1.1	1.1	1.1
Gas surcharge and other	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
GIDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.9	0.9	0.8	0.7	0.9	0.9	0.9	0.9	1.3	1.6	1.6	1.6
Nontax revenue	2.1	1.6	1.4	2.0	3.3	3.5	2.0	2.9	2.0	2.0	2.0	2.0
Federal	1.8	1.4	1.2	1.8	3.0	3.2	1.8	2.7	1.8	1.8	1.8	1.8
Provincial	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Expenditure (including statistical discrepancy)	18.5	20.0	19.3	19.5	21.6	21.2	20.3	20.2	19.5	19.1	18.9	18.7
Current expenditure	16.3	17.3	17.3	17.7	18.9	18.9	17.8	17.8	17.1	16.6	16.4	16.1
Federal	11.3	12.6	12.8	13.4	14.0	13.8	12.7	12.6	11.9	11.2	11.0	10.8
Interest	4.9	4.8	6.8	7.8	7.7	7.8	6.7	6.5	5.9	5.2	5.1	4.8
Domestic	4.5	4.2	5.9	6.8	6.9	7.0	5.8	5.7	5.0	4.5	4.3	4.1
Foreign	0.4	0.5	0.9	0.8	0.8	0.7	0.9	0.8	0.8	0.7	0.7	0.7
IMF budget support	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	6.3	7.8	5.9	5.6	6.3	6.0	6.0	6.0	6.1	6.0	6.0	5.9
Defense	2.4	2.1	1.9	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Other	4.0	5.6	4.0	3.8	4.4	4.1	4.2	4.0	4.0	3.9	3.9	3.9
Of which : subsidies	0.8	2.3	1.3	1.1	1.2	1.1	1.1	0.8	0.7	0.6	0.6	0.6
Of which : grants	1.5	1.7	1.2	1.2	1.4	1.3	1.2	1.5	1.4	1.4	1.4	1.4
Of which : contingency reserve	0.0	0.0	0.0	0.0	0.1	0.0	0.3	0.0	0.3	0.3	0.3	0.3
Provincial	5.0	4.8	4.5	4.4	4.9	5.1	5.0	5.2	5.1	5.4	5.4	5.4
Development expenditure and net lending	2.3	2.5	2.3	1.9	2.5	2.6	2.5	2.4	2.5	2.5	2.5	2.5
Public Sector Development Program	2.2	2.4	2.3	1.9	2.5	2.6	2.4	2.4	2.4	2.5	2.5	2.5
Federal	0.8	0.6	0.8	0.6	0.9	0.7	0.8	0.7	0.6	0.6	0.6	0.6
Provincial	1.4	1.8	1.5	1.3	1.6	1.9	1.6	1.7	1.8	1.8	1.8	1.8
Net lending	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional expenditure)	-0.2	0.2	-0.3	-0.2	0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (excluding grants)	-6.1	-7.9	-7.8	-6.9	-5.7	-5.4	-5.1	-4.0	-3.9	-3.2	-3.1	-2.8
Overall Balance (including grants)	-6.0	-7.8	-7.8	-6.8	-5.6	-5.4	-5.1	-4.0	-3.8	-3.2	-3.0	-2.8
Financing	6.0	7.8	7.8	6.8	5.6	5.4	5.1	4.0	3.8	3.2	3.0	2.8
External	2.5	1.0	-1.4	-0.3	0.6	0.9	0.3	0.2	0.6	0.1	0.3	0.3
Of which: privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.1	0.3	0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0	-0.1	-0.1	-0.1
Domestic	3.5	6.8	9.1	7.1	5.1	4.5	4.8	3.7	3.3	3.1	2.7	2.5
Bank	3.1	4.8	6.4	5.0	3.5	3.2	3.4	2.6	2.3	2.2	2.0	1.8
Nonbank	0.4	2.0	2.7	2.1	1.5	1.4	1.5	1.1	1.0	0.9	0.8	0.7
Memorandum items:												
Underlying fiscal balance (excl. grants) 1/	-5.5	-7.1	-7.6	-6.9	-6.7	-6.5	-5.1	-4.9	-3.9	-3.2	-3.1	-2.8
Primary balance (excluding grants)	-1.2	-3.1	-1.0	0.9	2.1	2.4	1.6	2.5	2.0	2.0	2.0	2.0
Underlying primary balance (excluding grants) 1/	-0.5	-2.3	-0.7	0.9	1.0	1.3	1.6	1.6	2.0	2.0	2.0	2.0
Primary balance (including grants)	-1.1	-3.0	-0.9	1.0	2.1	2.4	1.6	2.6	2.0	2.0	2.0	2.1
Primary expenditure	13.5	15.2	12.5	11.7	13.8	13.4	13.6	13.7	13.7	13.9	13.9	13.8
Total security spending	2.4	2.1	1.9	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0
General government debt incl. IMF obligations	74.7	77.3	78.5	70.4	73.6	72.9	71.9	72.4	69.9	66.8	63.6	60.7
Domestic debt	48.3	47.8	47.4	45.4	47.3	48.1	47.0	47.1	45.5	43.9	42.1	40.2
External debt	26.5	29.5	31.1	25.0	26.4	24.8	24.9	25.3	24.4	22.9	21.5	20.4
General government and government guaranteed debt (incl. IMF)	79.4	82.3	83.5	74.4	77.6	76.6	75.6	76.0	73.3	70.0	66.6	63.5
Net general government debt (incl. IMF)	67.2	70.0	72.4	64.5	67.5	66.5	66.4	66.6	64.8	62.2	59.4	56.9
Nominal GDP (market prices, billions of Pakistani rupees)	55,836	66,658	83,651	105,190	115,446	113,748	129,517	126,011	140,664	156,471	174,105	193,630

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

1/ Excludes one-off transactions, including asset sales. In FY21 it excludes PHPL debt clearance, IPPs related arrears clearance, and COVID-19 spending; in FY22 it excludes IPPs related arrears clearance.
In FY25 and FY26 it excludes the windfall from exceptionally high SBP dividends.

Table 5. Pakistan: Monetary Survey, 2020/21–2025/26

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 Q1 Act.	2025/26 Q2 Proj.	2025/26 Q3 Proj.	2025/26 Q4 Proj.
	(Billions of Pakistani rupees, unless otherwise indicated)								
Monetary survey									
Net foreign assets (NFA)	1,232	-195	-1,797	-1,138	747	889	910	1,284	1,434
Net domestic assets (NDA)	22,431	26,963	32,740	37,020	40,045	39,286	40,937	42,950	45,315
Net claims on government, *of which:*	16,255	19,612	23,341	30,717	34,755	32,653	35,364	36,291	36,902
Budget support, *of which:*	15,237	18,320	21,853	29,076	33,646	31,454	34,864	35,991	36,652
Banks	9,973	13,293	16,922	24,811	30,107	29,230	32,890	34,267	35,179
Commodity operations	904	1,134	1,486	1,378	1,067	1,059	500	300	250
Credit to nongovernment	8,648	10,214	10,765	11,174	12,169	12,162	12,922	13,348	13,789
Private sector	6,923	8,420	8,473	8,983	10,065	10,075	10,793	11,177	11,574
Public sector enterprises	1,725	1,794	2,291	2,191	2,104	2,087	2,129	2,171	2,215
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	-2,432	-2,823	-1,325	-4,831	-6,838	-5,489	-7,308	-6,649	-5,336
Broad money	23,662	26,768	30,943	35,882	40,793	40,174	41,847	44,233	46,749
Currency outside scheduled banks	6,910	7,572	9,149	9,153	10,634	10,499	10,937	11,560	12,218
Rupee deposits	15,748	17,993	20,193	25,124	28,396	27,885	28,995	30,729	32,558
Foreign currency deposits	1,004	1,203	1,601	1,605	1,762	1,790	1,916	1,944	1,973
State Bank of Pakistan (SBP)									
NFA	1,503	209	-881	-71	1,455	1,693	1,714	2,088	2,238
NDA	7,117	9,066	12,238	11,684	11,515	11,340	11,601	11,912	12,224
Net claims on government	5,311	5,115	5,224	4,504	3,811	2,602	2,352	2,102	1,852
Of which: budget support	5,265	5,028	4,931	4,265	3,540	2,224	1,974	1,724	1,474
Claims on nongovernment	98	112	119	116	116	117	117	117	117
Claims on scheduled banks	1,265	1,603	1,542	1,410	1,253	1,345	1,345	1,345	1,345
Privatization account	-41	-41	-41	-41	-41	-41	-41	-41	-41
Other items, net	484	2,277	5,394	5,695	6,376	7,316	7,827	8,388	8,950
Reserve money, *of which:*	8,620	9,275	11,357	11,613	12,971	13,033	13,316	14,001	14,462
Banks' reserves	1,307	1,229	1,634	1,842	1,635	1,872	1,685	1,714	1,504
Currency	7,288	8,002	9,674	9,708	11,279	11,107	11,631	12,286	12,958
	(Annual percentage change, unless otherwise indicated)								
Broad money	16.0	13.1	15.6	16.0	13.7	12.9	17.5	18.0	14.6
NFA, banking system (in percent of broad money) 1/	5.4	-6.0	-6.0	2.1	5.3	5.3	3.9	3.4	1.7
NDA, banking system (in percent of broad money) 1/	10.6	19.2	21.6	13.8	8.4	7.6	13.6	14.6	12.9
Budgetary support (in percent of broad money) 1/	8.7	13.0	13.2	23.3	12.7	11.9	21.9	14.8	7.4
Budgetary support	13.2	20.2	19.3	33.1	15.7	15.6	28.7	18.3	8.9
Private credit	10.7	21.6	0.6	6.0	12.0	13.7	-1.5	14.6	15.0
Currency	12.5	9.6	20.8	0.0	16.2	19.1	20.0	12.7	14.9
Reserve money	12.8	7.6	22.5	2.3	11.7	16.7	15.0	10.5	11.5
Memorandum items:									
Velocity	2.5	2.7	3.0	3.2	3.0	3.0	3.0	2.9	2.9
Money multiplier	2.7	2.9	2.7	3.1	0.0	0.0	0.0	0.0	0.0
Currency to broad money ratio (percent)	29.2	28.3	29.6	25.5	26.1	26.1	26.1	26.1	26.1
Currency to deposit ratio (percent)	41.2	39.4	42.0	34.2	35.3	35.4	35.4	35.4	35.4
Foreign currency to deposit ratio (percent)	6.0	6.3	7.3	6.0	5.8	6.0	6.2	6.0	5.7
Reserves to deposit ratio (percent)	7.8	6.4	7.5	6.9	5.4	6.3	5.4	5.2	4.4
Budget bank financing (change from the beginning of the fiscal year; in PRs billions), *of which:*	1,776	3,083	3,532	7,223	4,570	-2,193	1,218	2,345	3,006
By commercial banks	2,958	3,320	3,629	7,889	5,296	-877	2,783	4,161	5,072
By SBP 2/	-1,182	-237	-97	-666	-726	-1,316	-1,566	-1,816	-2,066
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	6.2	-7.6	-5.6	4.1	5.4	0.9	0.6	1.7	2.1
NFA of commercial banks (millions of U.S. dollars)	-1,616	-2,565	-4,471	-3,729	-2,500	-2,857	-2,671	-2,631	-2,592
NDA of commercial banks (billions of Pakistani rupees)	15,314	17,897	20,502	25,336	28,530	27,946	29,336	31,037	33,091

Sources: Pakistani authorities; and IMF staff estimates and projections.
1/ Denominator is the stock of broad (reserve) money at the end of the previous year.
2/ Includes use of government deposits.
3/ Includes valuation adjustments.

Table 6. Pakistan: Financial Indicators for the Banking System, 2013–24

	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.	2019 Dec.	2020 Dec.	2021 Dec.	2022 Dec.	2023 Dec.	2024 Dec.
Capital adequacy												
Regulatory capital to risk-weighted assets 1/	14.9	17.1	17.3	16.2	15.8	16.2	17.0	18.6	16.7	17.0	19.7	20.6
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	13.2	14.0	14.8	13.5	14.2	16.0	16.4
Capital to total assets	9.0	10.0	8.4	7.8	7.1	7.1	7.2	7.2	6.3	5.9	5.9	6.3
Asset composition and quality												
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	8.4	8.0	8.6	9.2	7.9	7.3	7.6	6.3
Provisions to NPLs	78.4	79.8	84.9	85.0	87.2	83.8	81.4	88.3	91.2	89.5	92.7	103.9
Net NPLs to total eligible capital	14.7	10.1	7.7	7.3	5.8	7.8	8.9	5.3	4.0	4.6	2.7	-1.2
Earnings and profitability												
Return on assets (after tax)	1.1	1.5	1.5	1.3	0.9	0.8	0.8	1.0	1.0	1.0	1.6	1.3
Return on equity (after tax)	12.4	16.1	15.6	14.4	11.5	10.7	11.3	13.8	14.1	16.9	27.1	21.5
Net interest income to gross income	70.4	71.3	70.4	71.2	72.7	75.4	79.3	79.7	77.9	79.8	82.9	77.7
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	57.1	60.2	57.6	50.0	53.5	48.4	41.2	43.3
Liquidity												
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	48.7	49.7	54.8	55.4	56.6	63.5	60.3
Liquid assets to total deposits	61.3	64.5	73.3	72.1	76.1	67.2	68.4	74.3	76.7	86.4	101.1	101.9
Loans/Deposits	49.5	48.2	46.4	46.6	50.1	55.8	51.7	44.8	46.6	50.4	41.8	49.7

Source: State Bank of Pakistan.

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

Table 7. Pakistan: Indicators of Fund Credit, 2023–47

(In millions of SDR, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047
													Projections 1/												
Existing and prospective Fund credit (SDR million)																									
Disbursements	894	2,116	1,674	1,828	2,059	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GRA (2023 SBA, 2025 EFF)	894	2,116	1,520	1,520	1,520	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RSF 2/	0	0	154	308	539	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	5,660	6,512	7,417	8,766	9,466	7,946	6,977	6,201	5,202	4,103	3,217	2,330	1,633	1,167	919	819	719	619	519	419	319	219	119	42	0
GRA	5,660	6,512	7,263	8,304	8,466	6,946	5,977	5,201	4,202	3,103	2,217	1,330	633	190	0	0	0	0	0	0	0	0	0	0	0
RSF	0	0	154	461	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	977	919	819	719	619	519	419	319	219	119	42	0
Obligations	1,382	1,754	1,117	873	1,814	1,942	1,313	1,083	1,278	1,341	1,097	1,067	849	598	366	212	208	205	201	197	194	190	186	160	123
Principal (repayments/repurchases)	956	1,264	769	479	1,358	1,520	969	776	1,000	1,098	887	887	697	466	248	100	100	100	100	100	100	100	100	77	42
GRA	956	1,264	769	479	1,358	1,520	969	776	1,000	1,098	887	887	697	443	190	0	0	0	0	0	0	0	0	0	0
RSF	0	0	0	0	0	0	0	0	0	0	0	0	0	23	58	100	100	100	100	100	100	100	100	77	42
Charges and interest	426	490	348	394	456	422	344	307	278	243	210	181	153	131	118	112	108	105	101	97	94	90	86	83	80
O/w GRA basic charges	266	306	239	254	279	259	216	191	162	127	94	64	36	15	3	0	0	0	0	0	0	0	0	0	0
O/w GRA surcharges	60	70	13	42	63	47	11	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
O/w Level-based surcharges	40	47	9	31	46	34	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
O/w Time-based surcharges	20	23	3	11	17	13	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fund obligations (repurchases and charges) in percent of:																									
Quota	68.1	86.4	55.0	43.0	89.3	95.6	64.7	53.3	62.9	66.0	54.0	52.6	41.8	29.4	18.0	10.4	10.3	10.1	9.9	9.7	9.5	9.4	9.2	7.9	6.0
GDP	0.4	0.5	0.3	0.2	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	5.1	5.7	3.6	2.6	5.0	4.9	3.1	2.4	2.7	2.6	2.0	1.8	1.4	0.9	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Gross international reserves	22.4	19.6	9.6	6.1	10.4	9.8	6.0	4.6	5.1	5.0	3.8	3.5	2.6	1.7	1.0	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Government revenue	4.7	4.9	2.3	1.7	3.4	3.4	2.1	1.6	1.8	1.8	1.4	1.2	0.9	0.6	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
External debt service, public	13.2	17.9	12.5	8.4	14.9	16.3	11.3	7.4	7.9	8.3	6.4	5.8	4.5	3.2	1.9	1.1	1.0	1.0	0.9	0.9	0.8	0.7	0.7	0.5	0.4
Fund credit outstanding in percent of:																									
Quota	278.7	320.6	365.2	431.6	466.1	391.3	343.5	305.3	256.1	202.0	158.4	114.7	80.4	57.5	45.3	40.3	35.4	30.5	25.6	20.6	15.7	10.8	5.9	2.1	0.0
GDP	2.1	2.2	2.3	2.6	2.5	2.0	1.7	1.4	1.1	0.8	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	20.8	21.2	23.8	26.4	26.0	20.2	16.5	13.8	10.8	8.0	5.9	4.0	2.6	1.7	1.3	1.1	0.9	0.7	0.6	0.4	0.3	0.2	0.1	0.0	0.0
Gross international reserves	91.8	72.9	64.0	61.4	54.1	40.1	31.9	26.5	20.8	15.4	11.3	7.6	5.0	3.3	2.5	2.1	1.7	1.4	1.1	0.8	0.6	0.4	0.2	0.1	0.0
Government revenue	19.4	18.2	15.1	16.6	17.8	13.8	11.3	9.4	7.4	5.5	4.0	2.7	1.8	1.2	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
External debt, public	7.6	8.5	8.9	10.5	11.2	9.3	8.0	7.0	5.8	4.5	3.5	2.6	1.8	1.3	1.0	0.9	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0
Memorandum items:																									
Quota (millions of SDRs)	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031
Gross official reserves (millions of U.S. dollars)	8,220	11,720	15,198	18,726	22,969	25,985	28,725	30,699	32,810	35,066	37,476	40,053	42,807	45,749	48,895	52,256	55,849	59,689	63,792	68,178	72,865	77,875	83,228	88,950	95,066
Net International reserves (millions of U.S. dollars)	-12,648	-10,171	-7,879	-6,122	-2,797	2,213	6,224	8,199	10,310	12,565	14,976	17,552	20,306	23,249	26,394	29,756	33,348	37,188	41,292	45,677	50,365	55,374	60,728	66,450	72,565
Exports of goods and services (millions of US dollars)	36,215	40,219	40,929	43,631	47,848	51,711	55,379	58,962	63,016	67,348	71,978	76,927	82,215	87,868	93,908	100,365	107,265	114,639	122,521	130,944	139,946	149,568	159,850	170,840	182,585
Total external cebt, public (millions of U.S. dollars)	98,923	100,631	108,841	110,029	111,069	111,715	114,828	116,581	117,176	118,601	119,183	118,888	118,692	118,842	119,505	120,415	121,559	126,271	134,952	144,230	154,146	164,744	176,070	188,175	201,112
Total external debt, public (percent of CY GDP)	27.9	25.8	26.2	25.3	24.2	22.7	21.9	20.8	19.5	18.5	17.4	16.2	15.2	14.2	13.4	12.6	11.9	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
External debt service, public (millions of U.S. dollars)	13,953	12,872	11,739	13,665	15,993	15,618	15,203	19,260	21,223	21,085	22,603	24,042	24,560	24,856	25,055	25,563	26,130	26,428	28,245	30,187	32,263	34,481	36,851	39,385	42,092

Source: IMF staff projections.

1/ Using the GRA rate of charge of 3.329 as of November 6, 2025.

2/ Using the RST rate of interest of 3.679 as of November 6, 2025

Table 8a. Pakistan: Schedule of Reviews and Purchases Under the EFF

Availability Date	EFF Purchase		Conditions
	Millions of SDRs	Percent of Quota	
September 25, 2024	760	37.4	Approval of arrangement
March 15, 2025	760	37.4	First review and end-December 2024 performance/ continuous criteria
September 15, 2025	760	37.4	Second review and end-June 2025 performance/ continuous criteria
March 15, 2026	760	37.4	Third review and end-December 2025 performance/ continuous criteria
September 15, 2026	760	37.4	Fourth review and end-June 2026 performance/ continuous criteria
March 15, 2027	760	37.4	Fifth review and end-December 2026 performance/ continuous criteria
September 15, 2027	760	37.4	Sixth review and end-June 2027 performance/ continuous criteria
Total	5,320	261.9	

Source: IMF staff estimates.

Table 8b. Pakistan: Schedule of Reviews and Disbursements Under the RSF

Availability Date	RSF Disbursement		Conditions
	Millions of SDRs	Percent of Quota	
May 2, 2025	0.0	0.0	Approval of arrangement
September 15, 2025	76.9	3.8	Implementation of RM9
	76.9	3.8	Implementation of RM10
March 15, 2026	76.9	3.8	Implementation of RM7
	76.9	3.8	Implementation of RM8
September 15, 2026	76.9	3.8	Implementation of RM1
	76.9	3.8	Implementation of RM6
March 15, 2027	76.9	3.8	Implementation of RM5
	76.9	3.8	Implementation of RM11
	76.9	3.8	Implementation of RM12
September 15, 2027	76.9	3.8	Implementation of RM2
	76.9	3.8	Implementation of RM3
	76.9	3.8	Implementation of RM4
	77.2	3.8	Implementation of RM13
Total	1,000	49.2	

Source: IMF staff estimates.

Table 9. Pakistan: Decomposition of Public Debt and Debt Service by Creditor, 2024/25–2026/27 1/

	Debt Stock (end of period)			Debt Service					
	Jun-25			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)* 2	*(In US$ million)*			*(Percent GDP)*		
Total	**307,467**	**100.0**	**76.7**	**86,290**	**88,983**	**69,210**	**21.2**	**20.9**	**15.6**
External	**106,965**	**34.8**	**26.7**	**14,094**	**14,821**	**10,345**	**3.5**	**3.5**	**2.3**
Multilateral creditors[3]	52,301	17.0	13.0	5,537	5,408	5,519	1.4	1.3	1.2
IMF	9,268	3.0	2.3						
World Bank	22,006	7.2	5.5						
ADB/AfDB/IADB	16,869	5.5	4.2						
Other Multilaterals	4,158	1.4	1.0						
o/w: IsDB	1,608	0.5	0.4						
AIIB	1,798	0.6	0.4						
Bilateral Creditors	38,836	12.6	9.7	3,349	2,768	2,439	0.8	0.7	0.5
Paris Club	6,005	2.0	1.5	1,014	684	671	0.2	0.2	0.2
o/w: Japan	3,024	1.0	0.8						
France	1,072	0.3	0.3						
Non-Paris Club*	32,832	10.7	8.2	2,334	2,084	1,768	0.6	0.5	0.4
o/w: China**	23,499	7.6	5.9						
Saudi Arabia**	5,492	1.8	1.4						
Bonds***	7,065	2.3	1.8	500	2,281	382	0.1	0.5	0.1
Commercial creditors	7,533	2.5	1.9	3,144	2,860	1,832	0.8	0.7	0.4
o/w: Chinese commercial banks	5,684	1.8	1.4						
Other	1,849	0.6	0.5						
Other international creditors	1,230	0.4	0.3	1,564	1,504	173	0.4	0.4	0.0
o/w: NPC/NBP/BOC deposits/PBC****	1,230	0.4	0.3						
Domestic	**200,503**	**65.2**	**50.0**	**72,196**	**74,163**	**58,866**	**17.7**	**17.4**	**13.2**
T-Bills	30,867	10.0	7.7	39,542	34,721	32,557	9.7	8.2	7.3
Held by: central bank	365	0.1	0.1						
local banks	20,683	6.7	5.2						
local non-banks	9,818	3.2	2.4						
Bonds*****	145,783	47.4	36.4	30,704	38,552	24,380	7.5	9.1	5.5
Held by: central bank	17,525	5.7	4.4						
local banks	109,006	35.5	27.2						
local non-banks	19,252	6.3	4.8						
Loans/Other	23,853	7.8	6.0	1,950	890	1,928	0.5	0.2	0.4
Held by: central bank******	1,674	0.5	0.4						
local banks*******	1,341	0.4	0.3						
National Savings Scheme	12,082	3.9	3.0						
Memo items:									
Collateralized debt[4]	0.0	0.0	0.0						
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: Public guarantees	15,030	4.9	3.7						
o/w: Other explicit contingent liabilities[5]	n.a.	n.a.	n.a.						
Central bank deposit liabilities	3,700	1.2	0.9						
Central bank bilateral swap liabilities	4,222	1.4	1.0						
Nominal GDP[2]	407,116								

1/ As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage includes guaranteed debt and debt for commodity operations by provincial governments. Debt service is reported based on the outstanding stock at end-June 2025.
2/ Nominal GDP reported and used for shares of debt-to-GDP is for FY25 (FY: July 1 to June 30).
3/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
5/ Work is ongoing to improve the risk monitoring framework of Public Private Partnerships (PPP), including at the provincial level, supported by development partners.
* Includes central bank deposit liabilities from UAE and Kuwait of $3.7bn in total.
** Includes for China the State Adminstratation of Foreign Exchange (SAFE) deposits of US$4 billion and central bank bilateral swap liabilities of US$4.2 billion, and for Saudi Arabia deposits of US$5 billion.
*** Includes local currency bonds (T-Bills and PIBs) held by non-residents.
**** Pakistan Banao Certificates (PBC) and Naya Pakistan Certificates (NPC) are issued by Government of Pakistan for overseas Pakistanis.
***** Includes Government Ijara Sukuk.
****** Represents on-lending of the SDR allocation from SBP to the federal government.
******* Includes foreign currency loans from local branches of international banks, and loans for commodity operations by provincial governments.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
GLOBAL				
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	**Short Term**	High • Financial volatility raises risk aversion, causing financing pressures and capital outflow pressures. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply/trade disruptions drag on economic growth.	• Implement strong policies and strengthen institutions as a foundation of resilient and sustainable growth. • Scale up targeted social assistance. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	**Short to Medium Term**	High • Weaker confidence and supply/trade disruptions drag on economic growth. • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Higher risk aversion, and higher risk premia leading to financing pressures and capital outflows.	• Implement strong policies and strengthen institutions as a foundation of resilient and sustainable growth. • Allow exchange rate flexibility to support competitiveness. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.

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

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
GLOBAL				
Commodity price volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	**High**	**Short Term**	**High** • Higher energy prices could worsen the energy sector's already weak financial position, especially if cost increases are not passed through to prices, leading to buildup of more arrears and pressure for greater subsidies. • Higher headline inflation. • Tighter global financial conditions and capital outflow pressures. • Spending pressures and/or lower growth, weakening the fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Allow energy price increases to be passed through to end-users. • Press ahead with reforms of the energy sector to address efficiency and costs. • Scale up targeted social assistance. • Maintain financial stability to weather external shocks. • Resist pressures to weaken fiscal discipline. • Build fiscal and external buffers. • Allow exchange rate flexibility to absorb external shocks and facilitate adjustment.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility.	**High**	**Short Term**	**Medium** • Worsening sentiment and lower demand for Pakistan's assets resulting in increased funding costs or reduced capital inflows. • Stock market deteriorates. • Reduced interest in privatization portfolio.	• Allow exchange rate flexibility to cushion shocks. • Build fiscal and external buffers. • Maintain an appropriate medium-term debt strategy. • Maintain financial stability to weather external shocks, tighten supervision to monitor banking risks.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.				
Fiscal Vulnerabilities and Higher Long-Term Interest Rates. Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	**High**	**Short to Medium Term**	**High** • Worsening sentiment and lower demand for Pakistan's assets resulting in increased funding costs or reduced capital inflows. • Higher debt service and worse prospects for market access. • Weakening global demand decreases commodity prices.	• Implement strong policies and strengthen institutions as a foundation of resilient and sustainable growth. • Build fiscal and external buffers. • Maintain financial stability to weather external shocks. • Maintain an appropriate medium-term debt strategy. • Allow exchange rate flexibility to absorb shocks and facilitate adjustment.
Decline in International Aid. A further sharp	**High**	**Short to Medium Term**	**Medium** • Spending pressures and/or	• Implement strong policies and strengthen

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
reduction in international financial assistance, including development aid and humanitarian support, could severely affect low-income and fragile countries. Such an additional aid withdrawal would strain public finances, worsen current accounts, increase debt vulnerabilities, and lead to a further deterioration in living conditions and food security.			lower revenues, weaken the underlying fiscal position. • Lower capital/current inflows leading to external and public financing pressures.	institutions as a foundation of strong and sustainable growth. • Allow exchange rate flexibility to absorb shocks and facilitate adjustment. • Build fiscal and external buffers.
Rising Social Discontent. High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken countries' capacity to address domestic and external shocks.	Medium	**Short to Medium Term**	High • Spending pressures and/or lower growth, weaken the underlying fiscal position. • Weaker confidence and supply disruptions drag on economic growth.	• Scale up targeted social assistance. • Resist pressures to weaken fiscal discipline and preserve fiscal and debt sustainability. • Build fiscal and external buffers.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	**Medium to Long Term**	Medium • Weaker confidence and supply disruptions drag on economic growth. • Fiscal pressures are associated with recovery spending and reconstruction needs. • Higher risk aversion, and higher risk premia leading to financing pressures and capital outflows. • Trade disruptions leading to higher	• Implement strong policies and strengthen institutions as a foundation of resilient and sustainable growth. • Allow exchange rate flexibility to absorb shocks and facilitate adjustment. • Maintain financial stability. • Advance policies and reforms aiming at climate risk mitigation, adaptation, and transition to a low-carbon economy.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
			commodity price levels and volatility, heightening external imbalances. • Disorderly migration.	• Build fiscal and external buffers.
New Trade Agreements. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Low	**Short to Medium Term**	**High** • Stronger outlook for economic growth and exports. • Improved confidence and lower risk aversion ease financing pressures.	• Advance structural reform agenda to boost productivity and take advantage of trade opportunities. • Allow exchange rate flexibility to support competitiveness and facilitate adjustment. • Build fiscal and external buffers.
COUNTRY-SPECIFIC				
Slippages in policy implementation. Pressures on the government could rise to provide incentives/exemptions to key groups. Political resistance or hesitation to delivering on structural reforms, as well as weak institutional capacity and powerful vested interests, could undermine effective implementation of program policies, lessen the prospects for durable adjustment and sustainable and inclusive growth, and undermine the narrow path to debt sustainability.	High	**Short to Medium Term**	**High** • Weaker fiscal discipline could compromise the quality and durability of fiscal adjustment; expose debt sustainability risks. • Deviating from exchange rate flexibility, putting pressure on reserves and/or leading to FX shortages, and undermining competitiveness. • Unfinished structural reform agenda would reduce medium-term growth prospects, preserve over-reliance on the public sector and large informal	• Implement strong policies and strengthen institutions (including anti-corruption agencies) as a foundation of strong and sustainable growth. • Resist pressures to weaken fiscal discipline and preserve fiscal sustainability. • Allow exchange rate flexibility to absorb shocks and facilitate adjustment. • Build external buffers. • Foster more inclusive growth through scaling up targeted social assistance. • Improve external competitiveness

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
			economy and leave unaddressed contingent liabilities. • Subdued economic growth.	and advance reforms to enhance the private sector business environment.
Bottom line assessment: The balance of risks is tilted to the downside.				

Annex II. External Sector Assessment

Overall Assessment: *Pakistan's external position in FY24 was broadly in line with the level implied by medium-term fundamentals and desirable policies. In FY2025, the current account strengthened further, recording its first surplus in 14 years (0.5 percent of GDP), driven, among other factors, by a strong rebound in remittances. Looking ahead, the current account is projected to return to a modest deficit over the medium term, reflecting expected normalization of import demand, moderation in remittance inflows, and the impact of the new tariff policy.*

Potential Policy Responses: *Allowing the exchange rate to adjust more freely—alongside steadfast implementation of fiscal targets under the EFF, and implementation of structural reforms in trade and competitiveness—will be critical to buffer potential external shocks and ensure that the external position remains broadly in line with fundamentals and desirable policy in a durable way.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Pakistan's Net International Investment Position (NIIP) at –US$129 billion in 2024 was somewhat lower than in 2023 (–US$125 billion). In relative terms, the NIIP improved modestly from –37 percent of GDP in 2023 to –35 percent in 2024, reflecting valuation effects from higher inflation, exchange rate movements, and real growth. Other investment liabilities rose from US$113 billion to US$117 billion, due to higher external borrowing by the government, banks, and other sectors. FDI liabilities also increased by approximately US$4 billion, while portfolio liabilities remained modest and stable. On the asset side, official reserve assets rose by approximately US$6 billion between 2023 and 2024, supported by Fund financing and policy adjustments under the SBA/EFF. Other external assets, including outward FDI and portfolio holdings, remain small.

Assessment. Pakistan's large negative NIIP highlights external vulnerabilities and calls for stronger, sustained CA surpluses to avoid further deterioration. While reserve buffers have strengthened, the continued increase in debt liabilities underscores Pakistan's reliance on short- and medium-term external borrowing, which heightens rollover risks. Going forward, allowing greater exchange rate flexibility, combined with sustained fiscal adjustment and structural reforms that increase non-debt-creating inflows—particularly FDI—will be critical to durably improving the NIIP.

2024	NIIP:	Gross Assets:	Debt Assets:	Gross Liab.:	Debt Liab.:
(% GDP)	-35	7.2	-	41	-

Current Account

Background. Pakistan's current account deficit narrowed from a pre-pandemic high of -4.2 percent of GDP in 2019 to -0.8 percent in 2021, before widening sharply to -4.7 percent in 2022. In 2023, administrative import controls and FX tightness drove significant compression, reducing the deficit to –1.0 percent. The adjustment continued in 2024, with the deficit narrowing to –0.56 percent and culminating in a small surplus of 0.5 percent in FY2025. The improvement was a result of import demand compression amid fiscal consolidation and the exchange rate correction in early 2023, a gradual recovery in exports, and, more importantly, a strong rebound in remittances. Looking ahead, the current account is projected to return to a modest deficit over the medium term due to the expected normalization of import demand, moderation in remittance inflows, and the impact of the new tariff policy.

Assessment. The EBA model results suggest that Pakistan's external position in 2024 was broadly in line with levels implied by medium-term fundamentals and desirable policies. The cyclically adjusted CA balance was –0.6 percent of GDP, close to the estimated norm of –0.5 percent of GDP, resulting in a small CA gap of –0.2 percent of GDP. Policy gaps accounted for –0.8 percent of GDP, with fiscal policy weakening the external position and indicating a continued need for fiscal consolidation.

Annex II. Table 1. Pakistan: Model Estimates for 2024 1/

(In percent of GDP)

	CA model	REER model	ES model
CA-Actual	**-0.5**		
Cyclical contributions (from model) (-)	0.2		
Additional temporary/statistical factors (-)			
Adjusted CA	**-0.6**		
CA Norm (from model) 2/	**-0.5**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-0.5**		
CA Gap	**-0.2**	**2.2**	**1.9**
o/w Relative policy gap	-0.8		
Elasticity	0.2		
REER Gap (in percent)	**1.0**	**-10.9**	**-12.8**

1/Based on the EBA methodology
2/Cyclically adjusted, including multilateral consistency adjustments

Real Exchange Rate

Background. The REER in 2024 was on average 12 percent higher than in 2023, due to a weakening U.S. dollar and other major currencies. Viewed over a longer horizon, the current level is broadly comparable to its historical range and does not signal a notable departure from past competitiveness conditions. The CA-based REER gap primarily reflects recent improvements in Pakistan's current account, driven by strong remittance inflows and import compression. Although part of the recent narrowing reflects improved external financing conditions, a persistently appreciated REER could undermine external competitiveness and weigh on the current account outlook.

Assessment. The EBA CA model suggests a REER gap of about 1 percent in 2024 (applying an elasticity of 0.15), underscoring the need to maintain greater exchange rate flexibility to support competitiveness and ensure that the external position remains in line with fundamentals and desirable policies.

Capital and Financial Accounts: Flows and Policy Measures

Background. Pakistan's financial account shifted from a net outflow of US$1.6 billion in 2023 (0.4 percent of GDP) to a net inflow of US$6.2 billion in 2024 (1.6 percent of GDP). This turnaround was primarily driven by higher disbursements of public sector borrowing, a modest recovery in FDI inflows, and an increase in reserve assets. Assessment. The reliance on debt-creating inflows highlights the importance of policies aimed at attracting more stable, equity-like financing, particularly FDI. Strengthening the business climate, ensuring consistent and predictable policy implementation, and reducing trade-related barriers will be critical to attract durable investment (FDI) and reduce vulnerabilities in the external financing mix.

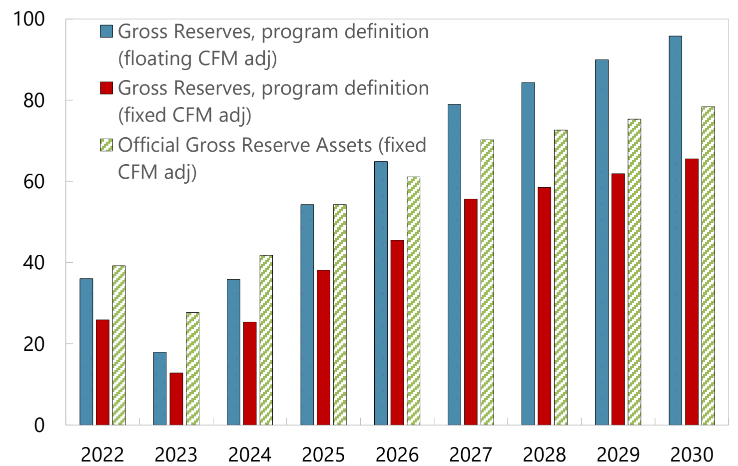
FX Intervention and Reserves Level

Background. Pakistan's GIR increased significantly over the past two years from US$4.5 billion in 2023 (less than one month of imports and 1.3 percent of GDP) to US$9.4 billion in FY2024 (about 1.5 months of imports). By the end of FY2025, reserves reached US$14.5 billion, covering approximately 2.3 months of imports (3.6 percent of GDP). The rapid buildup in reserves was supported by SBP's FX purchases and program-related disbursements. Additionally, the SBP has gradually reduced its negative net forward position with banks, taking advantage of favorable FX market conditions.

Assessment. Despite this improvement, at 54.3 percent of the IMF's ARA metric, the GIR is far short of the recommended adequacy threshold of 100–150 percent. The GIR is projected to reach 79 percent of the ARA metric by end-FY27. Achieving 100 percent coverage of the ARA metric over the medium term will require reserves to reach approximately US$31.2 billion, alongside policies that promote greater exchange rate flexibility. In the event that exchange rate flexibility is constrained, further reserve accumulation would be required to achieve 100 percent coverage over the medium term.

Annex II. Figure 1. Pakistan: Reserve Adequacy of Flexible and Managed FX Regime

(Percent of ARA metric)



Source: Pakistani authorities; IMF staff calculations.

Annex III. Understanding FBR's Tax Revenue Collection in FY25

1. **FBR's tax revenue collection increased by PRs 2,433 billion (26 percent) in FY25.** This increase can be decomposed into the effects of macroeconomic developments and a residual capturing tax policy and revenue administration measures. The analysis assumes a unitary elasticity of tax revenues with respect to macroeconomic variables driving the tax bases (nominal GDP, GDP growth, inflation and import growth — see Annex III Table 1). The residual should be interpreted with caution, as it reflects a combination of factors, including compliance and enforcement measures, timing effects, and the impact of policy measures.

- Macroeconomic drivers contributed to an increase in tax revenues of only PRs 757 billion in FY25. Administrative and tax policy measures contributed the bulk of the revenue increase (PRs 1,678 billion).
- Direct taxes, including personal income tax and advance taxes, were the largest contributor to this growth, with administrative and policy measures yielding around PRs 891 billion.

Annex III. Table 1. Pakistan: Selected Macroeconomic Assumptions

(Budget vs. Realization)

	Budget	Outturn
Annual percentage change, unless otherwise indicated		
Real GDP at factor cost	3.2	3.0
Consumer prices (period average)	12.3	4.5
Imports value	17.9	8.1
GDP (nominal, billions of PRs)	125,103	113,748

2. **Nonetheless, tax revenue collection in FY25 fell short by PRs 1,224 billion relative to budget projections and by PRs 524 billion relative to the first review target.**

- About PRs 850 billion of the shortfall relative to budget reflects faster than expected inflation deceleration and lower than expected GDP growth in FY25 (Annex III Figure 1). The inflation deceleration at end-FY25 led to a revenue shortfall of PRs 157 billion relative to the first review target (included within the total shortfall).
- The remaining portion—about PRs 380 billion—appears broadly linked to administrative and enforcement challenges that remained unaddressed throughout FY25. Notably, despite recent reforms to strengthen the tax dispute resolution framework, prolonged settlement of tax court cases delayed the recovery of significant revenue amounts.

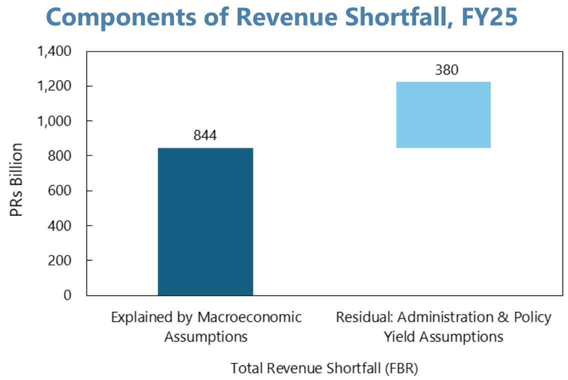
3. **Sales and trade taxes account for the largest revenue shortfalls relative to the budget.**

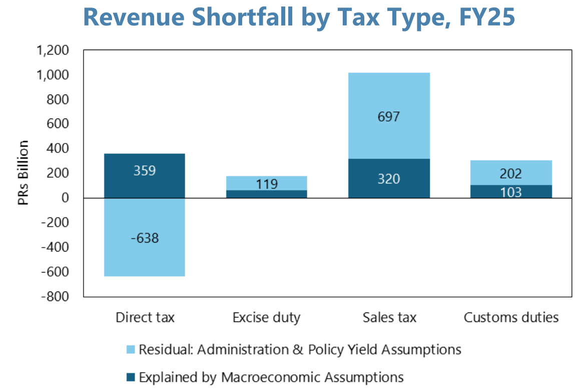
- Sales and trade taxes are most sensitive to macroeconomic conditions but continue to show large unexplained shortfalls even after adjusting for these effects (Annex III Figure 1). This may reflect overestimation of yields from new policy measures, especially where assumptions on taxpayer behavior or implementation capacity proved too optimistic.

- Direct taxes showed a negative residual, suggesting that administrative efforts—improved compliance and continued enforcement—helped boost collections beyond expectations and significantly mitigated the overall tax revenue shortfall.

Annex III. Figure 1. Pakistan: FBR's Revenue Shortfall, FY25

(Billions of Pakistani rupees)





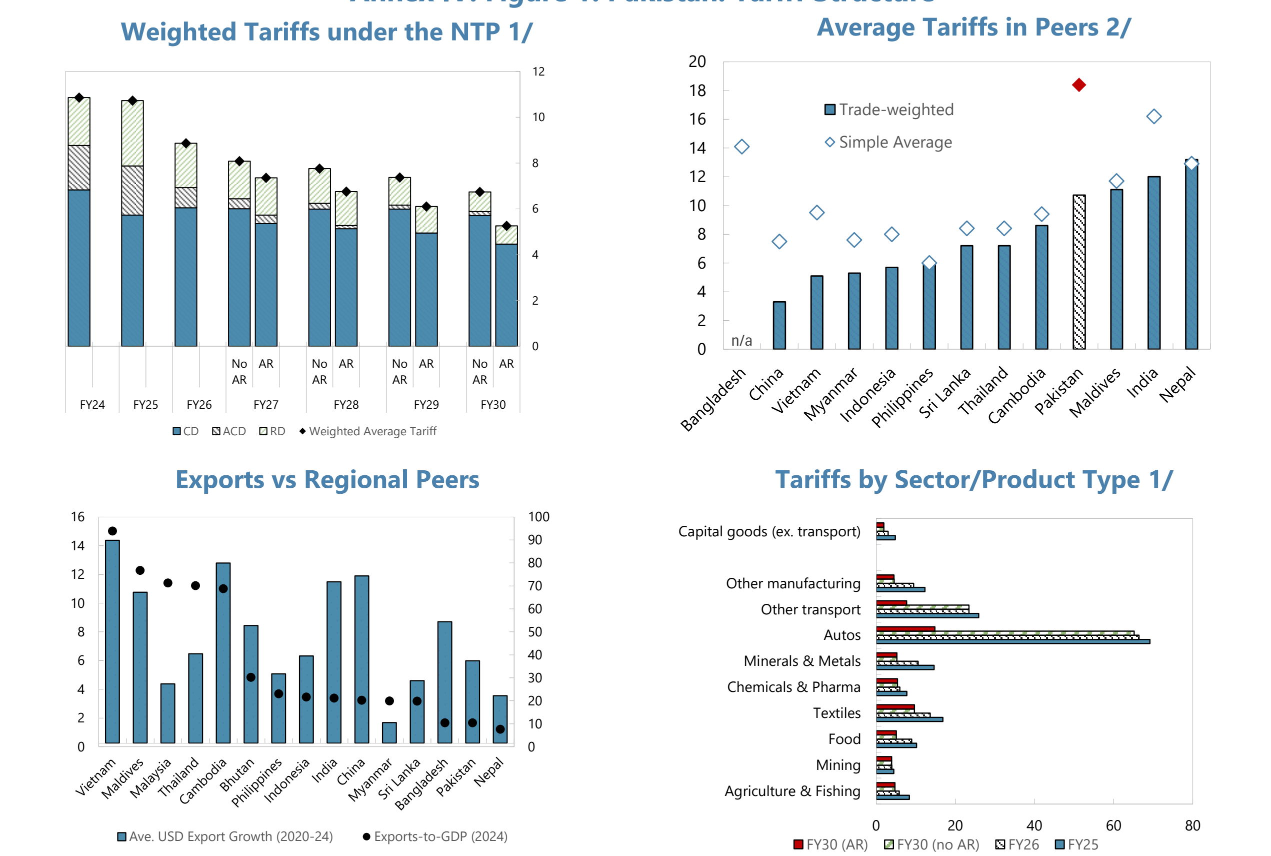
Sources: Pakistani authorities; IMF staff calculations.

Annex IV. The Macroeconomic Impact of Trade Reform[1]

Background

1. Pakistan's trade policies have been highly protectionary, with high average tariffs and a complex tariff structure (Text Figure 1). While headline customs duties (CDs) were reduced slightly over the past decade, this has been more than offset by sharp increases in additional customs duties (ACDs) and regulatory duties (RDs) (WB, 2025), and these para-tariffs now contribute substantially to the tariff burden (Annex IV Figure 1). After accounting for ACDs and RDs, Pakistan's FY25 tariffs were among the highest in the region, which has contributed to domestic resource misallocation and anemic exports. Tariffs are highest on autos (with peaks at over 150 percent), agriculture, and food. Pakistan's customs structure is also complex and inefficient, with a system of tariff exemptions which disproportionately benefits a few sectors and large firms (WB 2020).

Annex IV. Figure 1. Pakistan: Tariff Structure



1/ "No AR" bars assume auto tariffs maintained at FY26 levels, "AR" bars assume auto tariffs aligned with those for other sectors.
2/ Pakistan estimate corresponds to FY25, including CDs, ACDs and RDs; other countries report WTO estimates for 2024.
Sources: Pakistani authorities; World Economic Outlook Database; World Trade Organization; and IMF staff calculations.

[1] Prepared by Tom Best (MCD), Lorenzo Rotunno (SPR), Azar Sultanov and Frank Zhang (RES)

2. The National Tariff Policy (NTP) 2025-30 sets out an ambitious path for tariff reform, including large duty reductions and addressing exemptions. The new NTP, approved in July 2026, envisages significant changes to the tariff structure, including: (i) reducing the number of CD slabs from 5 to 4 and cutting rates, with the maximum CD slab to be reduced to 15 percent by FY30; (ii) eliminating all ACDs and RDs over three and five-year periods, respectively; and (iii) phasing out all special duties under the 5th Schedule by FY30. While final tariffs for the auto sector will be determined separately by a new auto sector policy (to be finalized by July 2026), the NTP envisages that those duties will be adjusted based on the same principles and objectives, including substantial CD reductions, elimination of all ACDs and RDs, and reviewing the regime of special customs duties applied to auto sector inputs.

3. Full implementation of the NTP would cut average tariffs to about half their FY25 level (Text Figure 1). Duty adjustments introduced in the FY26 budget have already reduced trade-weighted[2] average tariffs by almost 2pp, from 10.7 percent to 8.9 percent. Full NTP implementation would reduce trade-weighted tariffs even further, to between 6.7 percent (in a scenario with no further cuts to auto tariffs) and 5.3 percent (if auto tariffs are fully aligned with other sectors) by FY30. The largest potential tariff cuts would apply to the auto sector, while capital goods (excluding transport equipment) would also benefit from particularly large reductions.

4. This annex presents estimates of the macroeconomic impact of the new NTP from two complementary modelling approaches. The first approach, based on a quantitative trade model, provides long-run estimates of the aggregate trade and efficiency impact of the NTP reforms through reallocation of resources across sectors. The second approach, applying a modified version of the DIGNAR model, allows an assessment of the dynamic impacts of the NTP over the short and medium-term, including implications for growth, investment, the real exchange rate and public debt.

Long-term and Sectoral Impacts of the NTP

5. We apply a quantitative trade model to assess long-term trade and welfare implications of the NTP reforms. We assess three tariff policy scenarios, using the model by Rotunno and Ruta (2025):[3] (i) all tariffs are maintained at their (reduced) FY26 levels; (ii) full implementation of the medium-term tariff reductions envisaged in the NTP, except for auto sector tariffs (which are kept at FY26 levels); and (iii) the NTP principles are also extended to the auto sector, aligning maximum tariffs with the highest CD slab (15 percent).

6. Output and exports would increase under all three scenarios, with the largest gains under full NTP implementation. Aggregate GDP would increase (by 0.2 percent) under the FY26

[2] Historical and projected trade-weighted tariffs are based on PBS import data for FY24.

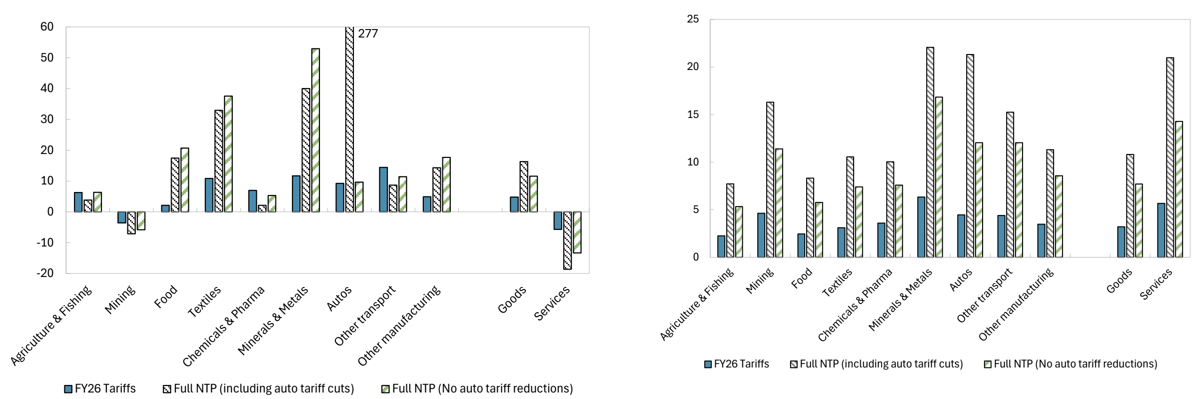
[3] See Rotunno and Ruta (2025) based on Caliendo and Parro (2015). Firms produce output using a single factor of production and traded intermediate inputs, under constant returns to scale and perfect competition. The model is calibrated using OECD inter-country input-output data from 73 countries and 24 goods sectors, plus a services aggregate. Tariffs distort consumption and production decisions by creating a wedge between domestic and international prices, shifting specialization patterns away from countries' comparative advantages. Lower tariffs reduce this distortion, supporting a more efficient resource allocation, and higher trade and welfare.

scenario, but much more significantly (by 0.7 percent) under the full NTP reform scenario (including auto tariffs). Implications for trade would be even larger, with nominal goods exports growing by 3 percent under the FY26 tariffs, and by 11 percent with full NTP implementation, while imports would also grow strongly (Annex IV Figure 2). However, gains would be more limited in the absence of auto tariff reductions, with real output only increasing by 0.4 percent, and exports by 10 percent. At the sector level, domestic production in the NTP reform scenarios would be reallocated towards textiles and mining, and away from the auto sector. Tariff revenues would decline, by 13 percent under the FY26 scenario, and by 37 percent with the full NTP reform, though these results do not account for offsets from reducing tariff exemptions, or from the higher base for other (domestic) taxes.

Annex IV. Figure 2. Pakistan: QTM Simulations of the National Tariff Reform

(Percentage changes)

Imports by Sector | **Exports by Sector**



Sources: IMF Staff Estimates

Dynamic Impacts of the new NTP

7. To analyze short and medium-term impacts of the NTP, we apply a modified version of the Dynamic Investment Growth and Natural Resources (DIGNAR) model (Melina, Yang and Zanna, 2016). DIGNAR is a dynamic open economy general equilibrium model with public capital in the production technology, in which public investment is subject to inefficiencies and absorption capacity constraints. The standard DIGNAR model features traded, non-traded and natural resource sectors, and allows assessment of the impact of reforms on output, private investment, consumption, trade and fiscal outcomes. Further details of the model's calibration to Pakistan are discussed in IMF (2024).

8. Three main modifications to the standard DIGNAR model are introduced to allow for an evaluation of the National Tariff policy. First, import tariffs are incorporated in the model as a wedge added to the price of imported goods. Second, revenues from tariffs are included in government revenue, modelled as a function of collection efficiency (including due to tariff exemptions), the price of imported goods (linked to the real exchange rate), import volumes, and the average tariff rate. Finally, export demand is endogenized as a function of Pakistan's exports prices and the real exchange rate.

9. In this framework, import tariffs generate revenues but distort the price of foreign and investment goods. Lower tariffs reduce the relative price of imported goods with respect to home-produced goods and reduce the composite price of both consumption and investment goods. This causes a shift in demand from home-produced to imported goods, which is partially offset by the lower price of investment. In the presence of constraints on the availability of external financing, increased import demand generates depreciation pressure on the real exchange rate, which in turn encourages exports of home-produced tradeable goods, boosting tradeable goods sector output, wages and employment. Net implications for government revenue depend on the interaction of lower tariff rates with import volumes, and on spillovers to collection of domestic taxes.

10. To model the new NTP two main policy scenarios are calibrated:

- **NTP with debt financing**: Pakistan's trade-weighted tariff rate is gradually reduced, in line with the five-year path implied by the NTP (including reduced auto tariffs), to reach 5.3 percent by FY30. Any resulting fiscal deficit / surplus is assumed to be covered by debt financing.

- **NTP with improved tax collection efficiency (TCE)**: NTP tariff reductions are complemented by improvements in tax collection efficiency, consistent with the ongoing efforts to improve revenue administration under the EFF program. Specifically, VAT and labor income tax collection efficiency are assumed to gradually double over five years (from 23 to 46 percent, and from 16 to 32 percent respectively), to align with the comparator group average by FY30.[4]

11. Simulations show the potential for the NTP to boost output, trade and investment (Text Figure 3):

- Under the debt financed NTP, real GDP increases cumulatively by around 0.7 percent, while trade openness increases markedly, with both exports and imports rising around by 2½ percent of GDP. However, this is contingent on a real exchange rate depreciation, which supports a reallocation of investment towards the tradeable sector. Increased import volumes and GDP do not fully compensate lower tariff rates, resulting in a net decline in government revenues that puts public debt-to-GDP on an upward trajectory, which would stretch Pakistan's very limited fiscal space.

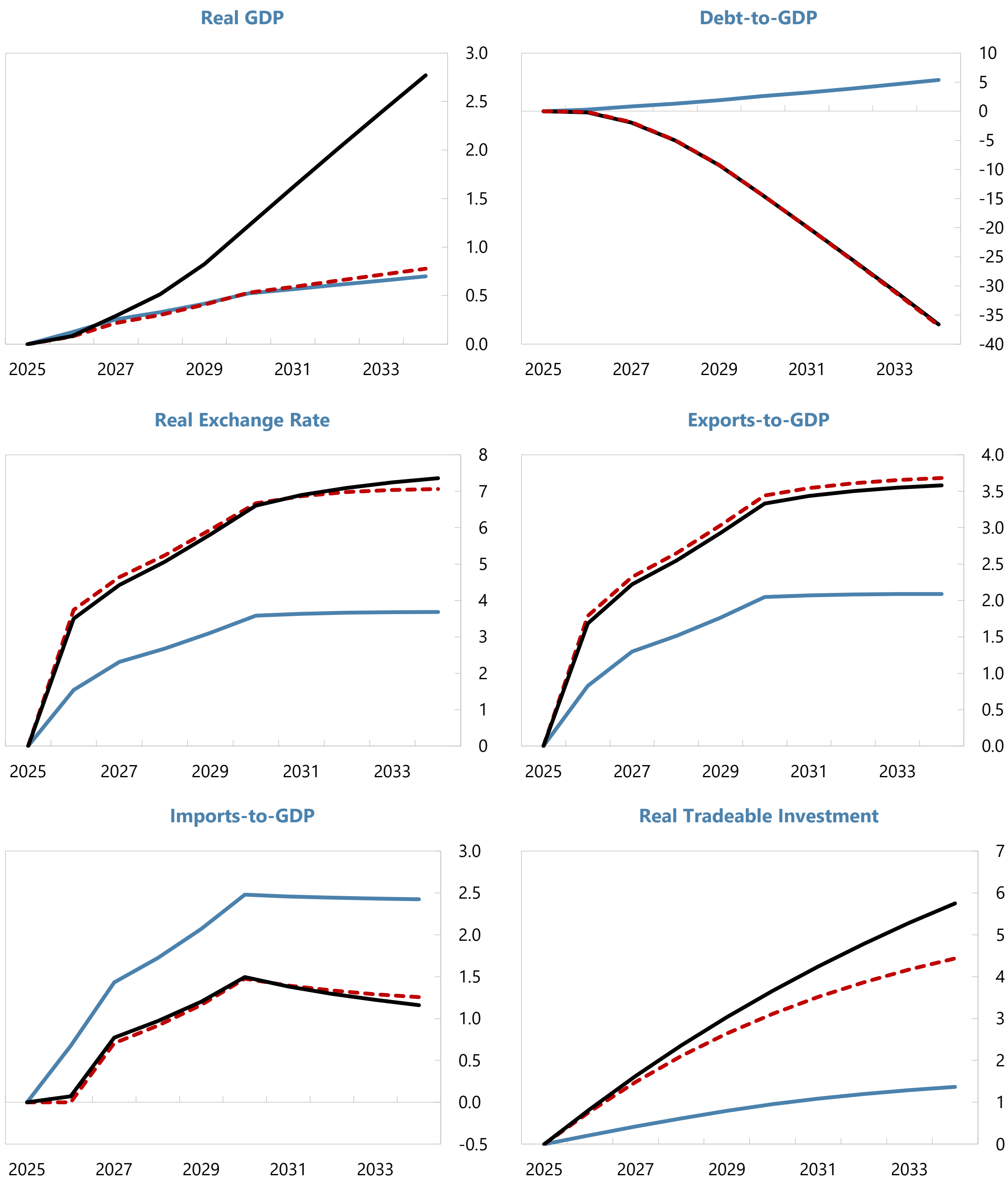
- In the scenario with improved tax efficiency, overall output dynamics are similar, with a slightly larger cumulative boost to GDP (0.8 Percent) by 2034. However, higher revenues from improved collection outweigh lower tariff revenues, putting public debt on a firm downward trajectory and generating additional fiscal space that could be used to meet critical spending needs and reduce vulnerabilities. The tighter fiscal stance (and offsetting lower nominal interest rates) leads to a

[4] Improvements in tariff collection efficiency are not explicitly modelled but would also be expected based on the planned reforms to exemptions under the NTP.

larger real exchange rate depreciation that provides additional support to investment in the tradeable sector, contributing to even stronger exports and an improved trade balance.

Annex IV. Figure 3. Pakistan: DIGNAR Simulations

(Deviations from Initial Steady State)



Sources: IMF Staff Estimates

12. Benefits would compound if the NTP is combined with broader structural reforms. For example, output and investment would increase further in a scenario with improved public investment efficiency[5]. Combining the NTP with structural reforms to labor and product markets could support even larger output boosts (IMF, 2024b) and facilitate the necessary rebalancing toward the tradeable sector by removing barriers to resource reallocation.

Conclusion

13. Simulations from a quantitative trade model and a dynamic general equilibrium illustrate the gains from implementation of the NTP. Under both models, full NTP implementation would increase GDP by ½-¾ percent and substantially boost exports. The two models capture complementary mechanisms by which tariff reductions boost activity, but benefits could be even larger if additional effects (such as firm selection) operate.

14. Supporting policies are essential to realize the full benefits of the NTP. As the DIGNAR simulations illustrate, exchange rate flexibility is particularly critical, as real exchange rate adjustments will be needed to avoid generating balance of payments pressures and to support the rebalancing of domestic production towards the tradeable sector. With fiscal space limited, efforts to improve revenue administration (including by reducing tariff exemptions) and broaden the tax base need to continue, including to create space to absorb potential tariff revenue losses and avoid increasing public debt. Broader structural reforms, including liberalizing labor and product markets, could compound the gains and facilitate the desired reallocation of resources towards more productive and export-oriented sectors.

[5] Modelled as a 10-percent increase in public investment efficiency, to 72 percent, by FY30, following IMF (2024b).

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Appendix I. Letter of Intent

Ms. Kristalina Georgieva — Islamabad, November 20, 2025
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Ms. Georgieva:

1. Our economic program, supported by the Extended Arrangement under the Extended Fund Facility (EFF), is bearing fruit and entrenching long-sought macroeconomic stability. Economic activity is growing, inflation is contained, and external buffers are strengthening. However, sadly, severe floods recently have upended many lives and livelihoods across the country. Thankfully, with coordination of efforts at the federal and provincial levels, we are managing the fallout, including with the built-in flexibility of our policies, keeping confidence intact. The floods also show the criticality of our climate-related policies, supported under the Resilience and Sustainability Facility.

2. Our strong performance under the EFF has continued and we met all but one end-June 2025 Quantitative Performance Criteria (QPCs), notably surpassing the floor on net international reserves by a wide margin and meeting the primary balance target for the general government. We missed the QPC on BISP spending by a very small margin due to savings on administrative costs. We also met three end-June 2025 Indicative Targets (IT) but shortfalls in the other ITs highlighted areas for improvements in tax administration and provincial spending on health and education. To address these issues, we are improving the implementation capacity of the FBR and the provinces.

3. Considerable progress was also achieved with our structural reform agenda as we met eight structural benchmarks (SBs) on time and implemented one SB with delay. We continue making progress on amending SOE-dedicated laws and expect to complete the process by August 2026, for which we request resetting the SB. We missed the SB on the introduction of Federal Excise Duty (FED) on fertilizer and pesticides to prevent an excessive burden on the agricultural sector at a time of several ongoing reforms in the sector, as well as the recent floods. That said, we are committed to implementing it as a contingency measure in case of a revenue shortfall. To forestall a shortage of sugar, partly related to low yields in the previous season, we expedited emergency imports via an SOE and exempted these imports from taxes and duties, thereby missing the continuous SB on the avoidance of tax exemptions, but have committed to deregulate the sugar sector. The publication of the Governance and Corruption Diagnostics (GCD) report was delayed due to the need for thorough consultations with government agencies, and has been completed as a prior action. Therefore, we request resetting the SB on the preparation of an action plan for its implementation to end-December 2025. Also as a prior action for this review, for any undercapitalized bank as of March 2025 that fails to become capital compliant to SBP's satisfaction, we will exercise our authority under the Banking Companies Ordinance to issue a written order placing the bank under resolution and

begin implementing a resolution plan to restructure, wind up, or merge the bank with a healthy institution. Finally, good progress was made on the RSF Reform Measures (RMs) as we introduced a carbon levy (RM9) and a revenue-neutral EV subsidy scheme (RM10), all part of the FY26 Finance Act.

4. We remain firmly committed to continuing with sound and prudent macroeconomic policies and structural and institutional reforms to place Pakistan on a path toward long-term sustainable and inclusive growth, providing the crucial foundation to withstand shocks and address their fallout comprehensively and effectively, as we currently do in the context of the floods. In the months ahead, we will continue with (i) the prudent execution of the FY26 budget, and introducing new tax policy measures, if needed to offset revenue shortfalls; (ii) appropriate monetary policy to ensure that inflation stays durably within the target range and a flexible exchange rate to buffer shocks; (iii) regular tariff adjustments and cost-reducing reforms in the energy sector; and (iv) reforms to reduce the footprint of the state, remove market distortions and excessive regulatory burdens, and strengthen governance.

5. Reflecting our progress in advancing the program goals against the backdrop of a challenging environment, we request approval by the IMF Executive Board for (i) a waiver of nonobservance for the missed end-June QPC on BISP spending; (ii) a modification of three end-December QPCs, specifically the ceiling on the general government primary budget deficit; the floor on the number of new tax returns to account for seasonality in line with the agreed FY26 primary surplus; and the floor on targeted cash transfer spending (BISP) to reflect a revised spending execution path and narrower definition of BISP spending; (iii) the completion of the second review under the Extended Arrangement and the related purchase in the amount of SDR 760 million; and (iv) the completion of the first review under the Resilience and Sustainability Facility and the disbursement linked to implementation of RM9 and RM10 (SDR 153.8 million in total), to be provided as budget support to create fiscal space to address our economic vulnerabilities and increase economic resilience, including by adapting our economy to withstand the impact of climate change. We have also made good progress in realizing the financing commitments of our main official and bilateral partners.

6. The policies set forth in the attached Memorandum of Economic and Financial Policies will guide the successful implementation of our program. All provinces agree that they will not introduce any policy or action which could be considered to undermine or run against any of the commitments or policies outlined in this letter or the attached MEFP. We will monitor economic developments and performance and will stand ready to take additional measures that may become necessary to achieve our program objectives. We will consult with the IMF before modifying the measures contained in the MEFP or before adopting new measures that deviate from the goals of the program, in accordance with the Fund’s policies on such consultations. All provinces agree to consult with the IMF through the federal Ministry of Finance before modifying or adopting any measures that could affect or undercut the program specified here or which deviates from the goals of the program. We will supply the IMF with timely and accurate data as needed for program monitoring. The understandings between us and the IMF regarding performance criteria and

structural measures described in this letter are further specified in the attached Technical Memorandum of Understanding. We consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/s/	/s/
Muhammad Aurangzeb	Jameel Ahmad
Minister of Finance and Revenue	Governor of the State Bank of Pakistan

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

Attachment I. Memorandum of Economic and Financial Policies

This memorandum supplements our memorandum of April 24, 2025, provides information on recent developments, documents our achievements, and discusses further policy steps and reforms needed to meet our IMF-supported program objectives.

A. Recent Economic Developments and Outlook

1. The economy continued to recover in FY25. GDP growth accelerated to 4.2 percent (yoy) in H2, driven by stronger industrial and services activity, and headline inflation remained low. The current account recorded a surplus of 0.5 percent of GDP—the first in 14 years—driven by a sustained rebound in remittances, a gradual recovery in exports, and moderated import demand. Thanks to the realization of projected inflows and continued foreign exchange (FX) purchases by the State Bank of Pakistan (SBP), gross reserves increased to US$14.5 billion at end-June and remained broadly stable thereafter.

2. During August-September, heavier than usual monsoon rains caused severe floodings in parts of Pakistan. An estimated 7 million people were impacted, and more than 1,000 lives were lost. While damages to housing, infrastructure and livestock were significant, the overall impact appears to be manageable, in part thanks to improvements in disaster management and investment in resilient infrastructure. That said, damages in the agricultural sector have led to higher food prices in some categories, with headline inflation reaching 5.6 percent in September 2025.

3. Reflecting recent developments, the impact of the floods, the agreed policy stance, and ongoing reforms, we see the following baseline macroeconomic scenario:

- ***Real GDP growth*** is now expected in the range of 3¼-3½ percent in FY26. The recent floods have weighed on the outlook, particularly for the agriculture sector given damage to major Kharif crops. Over the medium-term, the implementation of economic policies geared to entrenching macroeconomic stability, boosting external competitiveness, and improving the private sector business environment are expected to support a gradual growth pickup to 4½ percent, bolstered by increased investment and exports.

- ***Headline CPI inflation*** is expected to remain within the SBP's 5–7 percent target range in the coming months, before temporarily rising above the target toward the end of FY26 due to adverse food and energy price base effects. Core inflation is expected to remain contained, with appropriately tight monetary policy supporting a durable return of headline CPI inflation to the target range early in FY27.

- ***The current account*** is projected to return to a modest deficit over the medium term, reflecting the expected normalization of import demand, a moderation in remittance inflows, and the impact of the new tariff policy.

4. Risks to the baseline have eased somewhat but remain high. Recurring natural disasters pose significant risks to domestic and external stability. In the context of the recent floods, we aim to mitigate these risks through the use of fiscal buffers to provide humanitarian and recovery assistance, exchange rate flexibility to address current account pressures, and vigilant monetary policy to ensure anchoring of inflation expectations. The global environment remains highly uncertain. An escalation of regional tensions could adversely impact external stability via higher commodity prices, lower growth, and diminished risk appetite of foreign investors. At the same time, enhanced cooperation with key bilateral partners provides upside risk to foreign investment flows and external support. We remain committed to consistent implementation of policy and structural reforms to avoid the risk of policy delays, which could jeopardize the nascent economic recovery and the path to debt and external sustainability, and could adversely impact the external financing outlook, including from bilateral partners.

B. Economic Program

Fiscal Policy

5. We met our FY25 general government fiscal target. The FY25 general government underlying primary surplus reached PRs 1.5 trillion (1.3 percent of GDP, 0.3 percent of GDP above the target). While we missed the Federal Board of Revenue (FBR) target of PRs 12.3 trillion, FBR's net tax revenues collection reached PRs 11.7 trillion, increasing 26 percent (yoy). We attribute the shortfall largely to delays in court resolution of tax cases, lower than expected inflation, and postponement of imports in anticipation of tariff reductions in FY26. Although not all provinces delivered on our internally agreed surplus targets, the federal budget was executed prudently, with sizeable savings on subsidies and grants while meeting targets on power sector payment arrears.

6. The recent severe floods call for providing support to the affected population. As a preliminary measure, we have waived August electricity bills for all affected households and deferred payments for non-residential consumers for three months. A reallocation of funds within the Ministry of Energy should accommodate these costs (PRs 17 billion), but, if power subsidy savings prove insufficient, the contingency reserve will be utilized. Furthermore, we are currently assessing the flood damage and, in coordination with the affected provinces, are working on a well-targeted and costed support package. We see scope to accommodate all fiscal costs and revenue losses associated with the floods within the general government—federal and provincial—budget envelope of FY26 by cutting or delaying non-priority spending and utilizing the contingency reserve. These costs will be accommodated by the federal and provincial budgets.

7. In this context, our FY26 underlying primary surplus target of 1.6 percent of GDP remains achievable. We are committed to implementing the FY26 budget **(end-June 2025 SB)**, which is anchored on continued efforts to mobilize revenue through new tax policy measures and efforts to improve compliance (see ¶10). We have introduced GST on solar panels, raised withholding tax rates on income from bank deposits, dividends, and mutual funds, and removed tax exemptions for venture capital funds and cinema operations. We have also increased withholding tax rates on services to better reflect final tax liabilities under the income tax regime and reduce under-taxation. Power subsidies will be contained at PRs 893 billion, 0.7 percent of GDP, reflecting the reduction in the target on CD accumulation. We will safeguard BISP and health and education spending (see ¶22-23).

8. **We will promptly offset revenue shortfalls that put our program targets at risk.** We continue monitoring key revenue streams, including income and sales taxes, and the Federal Excise Duty (FED), the expansion of the taxpayer base, and the implementation of new revenue measures legislated for FY26.

a. We estimate a shortfall from the underperformance of the CPP levy of PRs 104 billion, which will be covered by a reduction in power subsidies, made possible through lower CD accumulation (relative to FY26 budget assumptions, ¶33).

b. Should FBR's revenues continue to fall short of expectations in the second quarter of FY26, and if other tax revenues are insufficient to bridge the gap, we will—in consultation with IMF staff—increase FED on fertilizers and pesticides by 5 percentage points, introduce FED on high-value sugary items, and move items from the 8th GST schedule to the general GST regime.

c. If by the end of the second quarter of FY26, there is a revenue shortfall due to the implementation of the National Tariff Policy (¶40.a), we will postpone an equivalent amount of expenditure until the last quarter of FY26.

9. **Steadfast implementation of fiscal institutional reforms remains critical to achieve our fiscal consolidation objectives.** Our primary focus continues to be on strengthening revenue mobilization, enhancing the burden-sharing between the federal and provincial governments, and further improving public financial management.

Strengthening Revenue Mobilization

10. **FBR is committed to strengthening tax compliance with targeted efforts:**

a. ***Ex-post enforcement through audits.*** We are applying our compliance risk management system for corporate taxpayers and are training staff to apply it for non-corporate taxpayers. The system has identified around 840 priority cases. We have deployed more than 250 auditors as of October 1, 2025, to bolster enforcement and reduce tax evasion.

b. ***Improving the collection of sales and withholding taxes.*** We are steadily expanding the number of POS terminal connections and the application of digital invoicing. POS terminals currently cover 38 percent of the largest registered retailers and we aim to cover all largest retailers (around 40,000) in two years. We also aim to include around three quarters of volume of invoices from taxpayers with annual sales over PRs 500 million into a digital invoicing system by end-FY26.

c. ***Encouraging tax filing.*** We have expanded our media, notification, and mass nudging strategies targeting non-filers who purchased property and filers with significant income and/or new assets. The number of tax returns filed increased to over 7 million in FY25 compared to 5.2 million in FY24. We will focus our enforcement efforts on taxpayers declaring no tax liability, while at the same time declaring significant assets.

d. ***Production monitoring.*** We are adopting a sector-specific approach to production monitoring in priority sectors (cement and sugar). Remote monitoring is complemented by physical inspections.

11. To ensure sustainable revenue administration gains, the FBR will develop a comprehensive roadmap for implementing its compliance improvement efforts. Our enforcement efforts will focus on utilizing FBR's newly expanded data sources and risk management tools. With FAD CD support, the roadmap should be finalized by end-December 2025 and will include at least: (i) prioritization of key reform areas; (ii) staffing requirements and roles; (iii) specific timelines and milestones; (iv) revenue impact estimates; and (v) key performance indicators (KPIs) to monitor progress and outcomes (e.g. the number of audits, number of transactions covered by digital invoicing, etc.). Based on the roadmap, FBR will complete all actions necessary to fully implement at least three priority areas agreed with IMF staff, including any required subordinate legislation, staff hiring and allocation, and initial KPI reporting **(new end-March 2026 SB)**.

12. We will continue strengthening the tax policy design with the help of our newly created Tax Policy Office (TPO). With the appointment of senior management, the TPO became operational in October 2025 and will henceforth be responsible for all tax policy functions, including developing and publishing a medium-term tax reform strategy to reduce reliance on ad-hoc revenue measures **(new end-December 2026 SB)**. The strategy will aim to significantly simplify the tax code, whose complexity presents compliance challenges for taxpayers and undermines competitiveness.

Enhancing Fiscal Burden-Sharing with Provincial Governments

13. We will continue enhancing our collaboration with the provincial authorities, which have made important contributions to domestic revenue mobilization. Provinces have developed comprehensive implementation plans for their new agricultural income tax (AIT) regimes, including measures to strengthen compliance, address underreporting, and improve communication **(end-June 2025 SB)**. We have ensured that all services are subject to GST except for a limited "negative list" and are working toward harmonizing coding across provinces. Any changes in the "negative list" and harmonization of coding will be decided at the National Tax Council (NTC). Completing these reforms requires timely exchange of data, including AIT reported in income tax declarations submitted to the FBR and information related to GST credits claims. We will strive to complete relevant legal procedures and operationalize information sharing with the provinces by May 2026 after achieving an agreement at the NTC.

14. We will advance the devolution of expenditure to the provinces, as agreed under the National Fiscal Pact. The committee on federal government rightsizing is working with the provinces to this effect. Furthermore, the recently constituted National Finance Commission provides an opportunity to review and strengthen the federal and provincial fiscal frameworks and accountability.

Enhancing Public Financial Management

15. We continue to improve the budget preparation process. To strengthen fiscal discipline and enhance budget credibility, we will provide additional information in the quarterly fiscal operation reports, comparing actual outcomes with projections. Additionally, we aim to provide a more detailed analysis of the key drivers behind spending deviations in the mid-year and year-end budget execution reports, enabling us to refine future projections more effectively. We will align the timeline of macroeconomic projections with the budget circular to ensure that the latter contains the latest data.

16. To better focus our PSDP on long-term capital spending, we continue improving project selection criteria and streamlining the project pipeline. With careful reprioritization, we have streamlined the PSDP pipeline by PRs 2.5 trillion (around 25 percent of the total). We will cap new project allocations to 10 percent of the total in FY27 budget. We are improving our scorecard-based system for project selection to: (i) reduce the number of overlapping criteria; (ii) introduce negative marking for projects with negative externalities; and (iii) increase the weight on climate-related criteria.

17. We will ensure transparency in all public procurement at the federal and provincial levels through the electronic Pakistan Acquisition and Disposal System (e-PADS). The Pakistan Public Procurement Regulatory Authority (PPRA) are expanding the e-PADS to federal agencies and provincial governments and will ensure publication of beneficial ownership information of awarded contracts. To level the playing field, the Federal Government will amend the relevant provisions of the PPRA Rules to eliminate preferences for state-owned enterprises in awarding without competition of public procurement contracts, subject to reasonable and limited exceptions provided in the regulatory framework. The Auditor General of Pakistan is currently undertaking the external audit of the e-PADS and the final report is expected to be completed and submitted to the President by end-March 2026.

18. We are improving the risk monitoring framework of Public Private Partnerships (PPP), including those at the provincial level. We will subject PPP-funded projects to the same rigorous selection criteria applied to projects funded through other sources. The Risk Management Unit (RMU) in the Ministry of Finance, in coordination with other stakeholders, and with support from the ADB, is in the process of establishing a risk monitoring framework for quantifying contingent liabilities related to PPPs and will be publishing estimates by end-December 2025.

19. We will improve cash management by consolidating cash holdings of government institutions. To improve our practices for managing of cash flows and balances, we plan to conduct a sectorization study to clearly define the institutions that should be classified as part of the government. Based on that classification, we will require those institutions that are part of the federal government to comply with the Treasury Single Account rules.

Debt Management

20. We are committed to addressing debt vulnerabilities arising from elevated gross financing needs and a significant sovereign-bank nexus. Our updated debt management strategy for FY26–28 aims to rebalance the domestic debt portfolio toward longer-term, fixed-rate instruments. To increase transparency and enhance accountability in debt management decisions, we will publish semi-annual reports providing updates on the outlook and the strategy's implementation. Provinces have begun submitting non-competitive bids in auctions, utilizing their cash surpluses. We will formalize the arrangements for their participation, including disclosure of expected bids and auction outcomes. In line with our fiscal commitments, we have used SBP dividend windfalls to retire domestic debt, including PRs 1,133 billion of PIBs held by the SBP. For the outstanding debt held by the SBP (PRs 3.8 trillion, due 2029), we have agreed with the SBP to retire early around PRs 1 trillion per fiscal year (FYs26-29) to mitigate financing risk, reflecting the additional market financing in our annual borrowing plan.

21. Further developing the domestic government securities market and widening the investor base are a priority. By end-September 2026, we will conduct a comprehensive study to assess key pillars of the government securities market and develop a strategic action plan to address identified bottlenecks **(new end-September 2026 SB)**. In September 2025 we completed a preliminary assessment of the Central Directorate for National Savings (CDNS) and are currently undertaking additional analysis, including the assessment of operational costs, to develop reform options for CDNS operations and organizational arrangements. Based on this work, by end-March 2026 we will finalize an action plan to ensure that CDNS operations are consistent with our debt management objectives and overall financial market development strategy, while leveraging digital technologies.

Poverty Reduction and Social Protection

22. We are working to improve the generosity, coverage, and capacity of Benazir Income Support (BISP) programs amid necessary fiscal consolidation. Spending under the BISP program was slightly below target in FY25 due to savings on administrative costs of cash transfers.

a. ***Unconditional cash transfers (UCT)*.** Our FY26 budget allowed space for an increase in quarterly UCT Kafaalat program benefits, from PRs 13,500 to PRs 14,500 beginning in January 2026, to adjust for anticipated annual inflation in 2025 **(end-January 2026 SB)**. We also aim to expand the total number of enrolled families, within the existing budget envelope, from 10 million to 10.2 million in FY26.

b. ***Conditional cash transfers (CCT)*.** Our efforts to enroll Kafaalat families into the two CCT programs have raised education CCT enrollment up by 300,000 this year to 10.7 million, while nutrition CCT enrollment is at 2 million. We will continue working closely with the World Bank and provinces to avoid overlap between BISP and provincial CCT programs.

c. ***BISP administration***. We are also improving our payment mechanism, with WB advice, to increase interoperability via biometric verification systems and shifting toward payments through e-wallets, with both targeted to be in place by end-June 2026.

23. We are scaling up non-BISP health and education spending at the federal and provincial levels. Total health and education spending increased significantly (0.3 percent of GDP) in FY25. We target an increase of similar magnitude in FY26, to reach 2.8 percent of GDP (PRs 3,470 billion). To ensure full achievement of this target we are working with development partners to assess and improve provincial execution capacity and quality of spending.

Monetary, Exchange Rate, and Financial Sector Policies

24. We will maintain an appropriately tight monetary policy stance, guided by incoming data related to the impact of the floods and the evolving broader economic recovery. Recent data is consistent with the floods acting as a temporary supply shock—significant to the crop sector but less impactful to the rest of the economy—motivating slight downward revisions to growth and upward revisions to inflation and the current account deficit. In this context, the current monetary policy stance remains appropriate to keep inflation within the SBP's target range of 5-7 percent over the medium-term. However, if price pressures were to broaden beyond food items and impede the projected decline in core inflation, or if inflation expectations were to exceed the range, a tighter policy stance would be prudent, also to keep in check possible pressures on the external accounts.

25. We continue improving the policy framework, strengthening communication, and implementing adequate safeguards for monetary policy operations. To help inform our policy discussion, we have started publishing: (i) a revised consumer inflation expectations survey; and (ii) a dedicated semi-annual Monetary Policy Report, reporting the main considerations in recent Monetary Policy Committee (MPC) meetings and explaining important theoretical underpinnings related to monetary policy formulation and communication. Further, we plan to review, by end-June 2026, how MPC statements and minutes could more clearly convey the committee's assessment of the current and desired policy stance as well as characterize the monetary policy reaction function in light of the committee's risk assessment. Following the recommendation from the 2023 Safeguards Assessment, our new collateral framework and counterparty eligibility policy for monetary operations is in force as of July 2, 2025 **(end-September 2025 SB)**, and we have established internal procedures for the Banking Supervision Department to furnish the relevant information to the Domestic Markets & Monetary Management Department to compile the 'watch list' at quarterly frequency.

26. A flexible exchange rate, underpinned by an active foreign exchange market, is critical to buffer shocks and rebuild reserves. As we navigate the uncertainties around the flood impact, the economy and our external accounts are on a strong footing to face the shock. Against this backdrop, exchange rate movements have remained modest. However, if pressures were to arise the exchange rate will adjust to match supply and demand, and banks will continue to transact in the interbank market freely. A well-functioning interbank market is also key to continue rebuilding our reserve buffers. In this regard, our efforts to improve communication and transparency, by publishing semi-annual reserve targets and FX interventions, have been instrumental to help market participants gauge overall FX demand. The revision of Foreign Exchange Exposure Limits (FEEL) as of August has enabled greater flexibility of banks to handle FX flows while maintaining prudent risk management.

27. To help mobilize remittances sustainably without fiscal support, we will remove costly payment system impediments. Attracting remittances is critical to Pakistan's external stability. Removing structural bottlenecks that raise the cost of cross-border payments will materially reduce the need for government support to incentivize remittances. To this end, we will complete and publish a comprehensive assessment of such impediments and costs and an action plan to address them alongside substantially reducing the fiscal support for remittance incentives **(new end-May 2026 SB)**. While the incentive schemes remain operational, the MoF and the SBP will develop a mechanism to ensure that claims during any given fiscal year do not exceed the budgetary allocation.

28. Financial sector stability is a key pillar of our program. We are committed to closely monitoring the financial sector and taking decisive actions to preserve public trust and ensure the sector's resilience.

a. Addressing undercapitalized financial institutions.

i. *Banking sector*. We will ensure that all banks are capital compliant by addressing those that are currently undercapitalized. To this end, provided that any undercapitalized bank as of March 2025 fails to become capital compliant to SBP's satisfaction, we will exercise our authority under the Banking Companies Ordinance to issue a written order placing the bank under resolution and start implementing a resolution plan to restructure, wind up, or merge the bank with a healthy institution **(Prior Action)**. Going forward, we will take prompt supervisory action to address banks that may become undercapitalized.

ii. *Microfinance sector.* We continue to monitor vulnerabilities in the microfinance banking sector, where the capital base has further eroded and 5 of 11 banks remain undercapitalized. We are working with owners and potential investors to resolve capital shortfalls. Deposit insurance will not be extended to this sector until supervisory concerns are fully addressed and preconditions met. Discussions with development partners are underway to design schemes supporting the sector's long-term sustainability.

b. Upgrading the crisis management framework. We are strengthening the bank resolution and crisis management frameworks to align with international best practices. Following amendments to the legislation in October 2024, the newly established Financial Institutions Resolution Department, within the SBP, will oversee the resolution of distressed entities. We are developing tools to implement the new framework with WB technical support.

c. ***Reduction of Non-Performing Loans (NPLs) of the banking sector.*** In line with our July 2024 guidelines to address high levels of NPLs, all banks have submitted comprehensive plans for dealing with the existing stock of their NPLs. Going forward, we will closely monitor the implementation of these plans.

d. ***Effective implementation of AML/CFT.*** We continue to strengthen the effectiveness of our system to combat money laundering and terrorist financing, including with the upcoming update on the national risk assessment to be shared with relevant stakeholders by end-March 2026. Efforts are continuing to enhance the effectiveness of AML/CFT supervision of designated non-financial businesses and professions, including real estate agents and dealers in precious stones and metals. The Securities and Exchange Commission of Pakistan established a centralized beneficial ownership registry in July 2025 and will become digitally accessible to financial institutions and law enforcement agencies through its online filing portal by end-January 2026. To prevent risks from trade-based money laundering (TBML), the SBP rolled out a standalone supervisory framework on TBML in July and also issued in August a revised regulatory framework on TBML. The National AML/CFT authority, SBP, and Financial Monitoring Unit are coordinating strategies (including with FBR) to assess TBML's macroeconomic impact as well as implement critical mitigation measures.

29. Amid our efforts to foster financial sector development and innovation, we will ensure that the institutional and regulatory environment is robust and clear to all stakeholders. Recognizing that clarity on the financial sector reform objectives is critical to build trust in institutions and policies, the Ministry of Finance is leading a government effort to prepare a plan outlining the government's post-2027 financial sector strategy, including clear expectations for financial institutions from 2028 onwards **(end-June 2026 SB)**. We have established a high-level inter-agency committee to oversee the development of the plan.

30. We aim to foster a more efficient allocation of credit, including by limiting the role of the public sector in the financial system. The SBP, consistent with its mandate, is refraining from involvement, or influence in, decisions allocating credit, including via sectoral disbursement targets, and all Export Finance Scheme (EFS) refinancing via SBP will cease by end-June 2027. In addition, the SBP has discontinued all other refinancing schemes as of July 1, 2025. Meanwhile, recent changes to Exim Bank's main refinancing scheme (E-EFS) aim to support non-traditional exports and new markets beyond traditional beneficiaries of the schemes, thereby reducing market distortion. Going forward, we will closely monitor the effectiveness of refinancing schemes in supporting export growth and make adjustments as needed, also in light of competing urgent spending needs. To ensure that Development Finance Institutions (DFIs) better support private sector investment, the SBP has developed reform options for the sector to be considered by the government in consultation with stakeholders. Finally, SBP has transferred its stake in one financial institution to the government, thus limiting conflicts of interest. Work continues to transfer the stake in another financial institution.

31. Expanding the financial sector, deepening financial penetration, and promoting digitalization are essential to better channel capital to the private sector. The SBP's 2023–28

Strategy prioritizes inclusive and sustainable financial access, leveraging digital innovation, while the National Financial Inclusion Strategy (2024–28) aims to increase adult bank account ownership and reduce the gender gap. The financial sector will support efforts towards digitalization and documentation of the economy. In this regard, the SBP and federal and provincial governments are progressing with the digitalization of government payments and public records. Further, we have completed the rollout of the instant payment system RAAST and aim to (i) advance further integration of payment systems with other countries to reduce costs to consumers; and (ii) modernize the Real Time Gross Settlement (RTGS) system and integrate it with the Central Securities Depository (CDS). We are also committed to implementing the five-year strategic plan of the Securities and Exchange Commission of Pakistan (SECP) to develop the insurance sector whose penetration rate remains below 1 percent.

Energy Sector Policies

32. Restoring energy sector viability is essential to macroeconomic stability and fiscal sustainability. It requires (1) preventing circular debt (CD) flow via timely tariff increases that recover costs and maintain a progressive tariff structure, supported, in the case of power, by targeted and limited subsidies; and (2) implementing cost-reducing structural reforms to improve sectoral efficiencies, lower tariffs, and ensure sector sustainability. To this end, we have initiated work on an integrated energy plan to support the entire energy policy framework across sectors and stakeholders, recognizing the interlinkages between various sectors across the energy sector value chain.

33. We commit to reducing power CD flow and achieving net zero power CD flow in FY26. The FY26 CD Management Plan (CDMP), to be adopted by the cabinet by end-November, will continue to maintain a progressive tariff structure at cost recovery level. We plan to move the annual rebasing period from July to January, beginning in January 2026, to smooth the impact of tariff increase on consumers. To further support grid viability, we have also:

a. ***Implemented an operation to reduce the existing CD stock*****:** Budgeted FY25 subsidies, savings from overperforming DISCOs, and LPI waivers of PRs 259 billion reduced the CD stock by PRs 779 billion to PRs 1,614 billion (1.4 percent of GDP) over the course of FY25. A commercial bank loan facility of PRs 1,225 billion, to be finalized by end-January 2026, will convert PRs 660 billion PHL and other debt to lower-interest CPPA bank debt. In parallel, we will pursue waivers on interest for remaining IPPs of PRs 128 billion. Taken together, this will ease CD accumulation pressures by reducing interest charges on payments to IPPs.

b. ***Facilitated the ongoing captive power plant (CPP) transition*** (¶35), which is boosting grid demand, allowing for lower electricity bills and easing CD pressures.

c. ***Cabinet has approved a three-year incremental pricing package for industrial and agricultural users*** to boost grid demand, with a lower tariff of PRs 22.98/kWh for consumption above a baseline threshold. The scheme will not allow differentiated treatment to specific industries or sectors. A review of the incremental price and scheme will automatically be triggered to incorporate any additional marginal cost if growth of incremental consumption of the industrial and agriculture sectors in aggregate exceeds 25 percent above the baseline in a given month. Semi-annual reviews of the scheme will ensure continued cost revenue alignment. Any losses due to the scheme's failure of revenues to keep up with tariffs will be borne fully by higher tariffs on industry and agriculture. Only positive FCAs will be applicable to incremental consumption. The scheme will expire three years from its inception date, with no possibility of rollover, and will be terminated immediately if it requires upward tariff adjustment in two consecutive reviews.

These improvements will reduce grid pressures, CD flow, and tariffs. Therefore, recognizing the already-improved operational overperformance in FY25 and early FY26, CD flow targets for FY26 have been set lower, and will reduce CD flow to zero by FY31 (the end of the loan operation).

34. We are continuing to move forward with fundamental cost-reducing power sector reforms. Our power agenda includes:

a. ***Improving distribution.*** DISCO privatization will improve performance, efficiency, and governance and address power sector CD drivers, thus mitigating the need for higher tariffs. We anticipate finalizing the privatization of IESCO, GEPCO, and FESCO in early 2026. We are advancing the private sector participation processes for HESCO and SEPCO, for which preconditions will be finalized, in line with World Bank recommendations, by end-December 2026 **(new end-December 2026 SB)**, as well as for PESCO and HAZECO by end-December 2026.

b. ***Improving the transmission system.*** Our reform of the National Transmission and Dispatch Company (NTDC), which will allow for more efficient power transmission and boost sector efficiency and viability, is near completion. The Independent System and Market Operator (ISMO) is fully operational and has a Board of Directors in place. The Energy Infrastructure and Development Management Company (EIDMC), for which an independent board has been appointed and business plans and operational methodologies are being developed, will be operational by end-January 2026. The National Grid Company (NGC) has been established and its further alignment with its revised role will be effective by end-December 2025.

c. ***Privatizing inefficient generation companies (GENCOs).*** Most conditions precedents for the privatization of Nandipur and Guddu operational power plants have been completed. We will work on completion of remaining CPs before hiring of a financial advisor in January 2026.

d. ***Completing the transition to a competitive electricity market.*** With the operationalization of ISMO, trading will now be enabled under the Competitive Trading and Bilateral Contract Market (CTBCM). This will lower wholesale market prices by allowing bulk power consumers to purchase electricity from DISCOs or a competitive supplier of their choice. NEPRA has approved the necessary rules and regulations and a market code. The NEPRA-determined wheeling charge will be set such that 800 MW will be allowed in the market until 2031, in line with IGCEP capacity planning, to ensure sufficient capacity remains on the grid. We expect the first wheeling auction to take place in January 2026 under a new auction framework that ensures transparent competitive allocation for wheeling capacity.

e. ***Accelerating the move to renewable energy and rationalizing capacity relative to demand.*** The submitted 2025-35 Integrated System Plan (combining capacity and transmission planning, formerly the IGCEP and TSEP) aims to remove a substantial amount of capacity (7,000 MW) from the previous committed capacity portfolio. This would reduce surplus capacity that we expect would translate to significant savings, and lower electricity tariffs (equivalent to an estimated PRs 4.96 per unit) and save US$17 billion over 10 years. The plan would also mandate a significant increase in clean energy as a share of Pakistan's total energy mix over the period. The plan will be published by end-December 2025.

f. ***Enhancing the Power Planning and Monitoring Company (PPMC).*** We have restructured the PPMC as a technical arm of the Power Division. It is supporting policy, regulatory, and tariff affairs, sector reforms, privatization, CD management, and integrated power and energy planning. We will further strengthen the human resource and financial sustainability of PPMC to continue to support the power sector and the energy sector more broadly.

35. Our gas sector strategy hinges on continued timely tariff adjustment, improving CD data and monitoring, and completing the CPP transition.

a. We will continue to notify semiannual gas tariff adjustments as determined by OGRA **(SB February 15, 2026)** while preserving tariff structure progressivity, protecting vulnerable household consumers, and fully reflecting the cost of imported RLNG diverted to domestic sector. We will also continue working to address RLNG surplus issues in the gas sector, including through the integrated energy planning framework as it becomes operational.

b. The semiannual captive power levy (CPL) adjustment occurred on time in August 2025, and the premium will continue increasing by 5 percentage points every six months until the premium reaches 20 percent in August 2026. Any levy proceeds transferred to the electricity grid on a monthly basis would aim to reduce prices evenly across the electricity tariff structure.

c. With a view toward replicating the approach in the power sector, we have compiled detailed and verified gas CD stock statistics, including a comprehensive dashboard featuring sub-components and drivers of CD. We have initiated a quarterly gas CD flow reporting system (also benefitting from improved data management and projection capacity) and are devising a gas CDMP. To that end, we have initiated quarterly provision of gas CD data to the Fund and other development partners by end-December 2025. Salient elements of the CDMP, which we will publish by end-March 2026, will include regular adjustments of end-user gas prices as per established formulas (and in line with the OGRA Amendments Ordinance effective since March 2022) and tangible cost-reducing reforms (including measures to reduce unaccounted for gas (UFG) losses, including through improvements in infrastructure, rehabilitation of networks, and theft controls).

Structural Policies

36. Other structural reforms focus on reducing inefficiencies, boosting productivity, and supporting private sector development.

37. Following through on our SOE reform agenda is key to scaling back the state's footprint and improving services. We remain committed to filling remaining gaps in our SOE governance framework and, in parallel, implementing the framework to improve the sector's viability, reduce fiscal liabilities and the role of the state in commercial enterprises, and improve services for Pakistanis. This will include:

a. Ensuring coverage of all SOEs under the SOE governance framework. We have made progress on amending SOE-dedicated laws for the remaining 9 statutory SOEs, to fully align them with the provisions of the SOE Act **(end-June 2025 SB, reset for end-August 2026)**. We will submit legislation on at least six of the nine remaining SOEs to parliament by end-December 2025.

b. Adopting appropriate governance mechanisms and safeguards for the Sovereign Wealth Fund (SWF) and its SOEs. We remain in consultation with Fund staff on amendments to the 2023 SWF Law to bring it into line with international standards for public asset management and SOE holding companies **(end-March 2026 SB)**.

c. Adhering to the SOE governance framework. To achieve compliance with the 2023 SOE Act and SOE Policy, the federal rightsizing committee will complete a review of the purpose and rationale of various SOEs by end-March 2026. We will conduct training for SOEs, following the finalization of relevant manual and guidelines for SOEs, to ensure that another 40 SOEs adopt effective business plans, publish statements of corporate intent, and adopt and publish externally audited, IFRS-compliant financial statements and annual reports by end-December 2025. As part of this process, SOEs will identify and cost public service obligations (PSOs), in line with the new PSO framework, and the seven commercial SOEs with the largest PSO claims will contract agreements with the government, with these PSOs explicitly incorporated into the FY27 budget **(new end-June 2026 SB)**. We will ensure that all commercial SOE Boards are majority independent, per section 12(2) of the SOE Act. We are working to identify suitable directors for the remaining 19 SOEs that currently do not have majority-independent boards and will complete the process by end-December 2025. The detailed plan for the comprehensive restructuring of the selected SOE will be published by end-December 2025.

d. Fully operationalizing the CMU. To ensure effective SOE monitoring, we will (i) operationalize the electronic database required for the CMU to fully meet its reporting requirements under the SOE Act. It is currently in its beta testing phase and will be fully operational by end-December 2025; (ii) continue to publish the aggregate and mid-year interim SOE reports on a regular basis.

e. ***Advancing the privatization agenda.*** We have initiated the privatization process for 15 SOEs in our 2024-29 privatization program—including DISCOs and GENCOs—and have also begun liquidation processes for three SOEs and will begin another by end-December 2025, subject to cabinet approval. We are at an advanced stage on the privatization of PIA, with investors currently carrying out their buy side due diligence, and we expect completion of PIA privatization by end-December 2025. We have opted for a joint venture structure with multiple exit options for the privatization of the Roosevelt Hotel and are now finalizing the hiring of a replacement Financial Advisor for the transaction. We are also now in the final stages of the privatization process for First Women Bank and anticipate its completion in Q4 CY2025.

38. We are scaling back government intervention in commodity markets to enable a productive, diversified, and internationally competitive agricultural sector that satisfies Pakistan's food security needs. We are completing our review, due by end-December 2025, of the relevant legislation underpinning government interventions in commodity markets and will finalize a report with comprehensive recommendations to advance competition policies and continue dismantling trade barriers so as to prevent abuse of market power and uncompetitive behavior. Specifically, we are pursuing the following steps in the wheat and sugar sectors:

a. ***Wheat.*** Building on the phase-out of federal and provincial price-setting and the discontinuation of public procurement operations, we are developing a National Wheat Policy to modernize the broader market framework while safeguarding food security. An interim policy will be finalized by end-November 2025 to set clear expectations for the wheat sowing season. Federal and provincial governments, through mutual consultation, will prepare the long-term wheat policy by end-May 2026 to remove structural impediments to market development and price discovery.

b. ***Sugar.*** A substantially lower-than-normal yield as well as a drop in sucrose content during the 2024/25 crop season resulted in a projected supply shortfall for FY26Q2, necessitating the emergency import of 300,000 metric tons of sugar via the public sector. To obviate the need for such government intervention in the future, a high-level committee is developing recommendations towards full liberalization of the sugar market, and will propose a draft national policy in consultation with the provinces by end-March 2026. The national policy containing key recommendations on licensing, price controls, import/export permissions, and zoning, and indicating clear timelines for implementation, will be agreed by federal and provincial governments and adopted by the federal cabinet by end-June 2026 **(new end-June 2026 SB)**. The guiding principles shall be:

i. *Growing and processing*: Removing (i) regulations which restrict growing of sugarcane to particular zones; (ii) government restrictions on the use and sale of sugarcane; and (iii) the licensing requirement for new sugar mills.

ii. *Trade*: Reducing import duties and liberalizing exports.

iii. *Price controls*: Removing price controls and refraining from and preventing any formal or informal arrangements with or by industry groups to influence or determine ex-mill prices.

39. We will strengthen our institutional capacities to fight corruption to support inclusive growth and provide a level playing field for businesses and investments.

a. ***Governance and Corruption Diagnostic (GCD)*****.** We completed the GCD with IMF capacity development support. We have published the full GCD report **(Prior Action)** and will develop and publish an action plan to implement its priority recommendations including timelines, milestones and monitoring mechanisms **(end-October 2025 SB, reset to end-December 2025)**.

b. ***UNCAC Review Report.*** In line with our commitment to transparency and accountability, we published the full UNCAC Review Report in July in the website of the Ministry of Law and Justice. Upon discussion with the Federal Cabinet, the Ministry of Law and Justice will communicate to the UNODC Secretariat that the report has already been published.

c. ***Corruption Risk Assessment*****.** Pursuant to the Federal Cabinet's approval and upon tasking by the Ministry of Law and Justice, the National Accountability Bureau as the lead agency and in coordination with departments and stakeholders (including independent governance experts and civil society organizations) will: (i) conduct an institutional-level risk assessment based on pre-established and public criteria; and (ii) develop an action plan to be submitted to the Federal Cabinet for publication with recommendations for measures to mitigate corruption vulnerabilities in the top ten departments of the Government identified with highest corruption risks **(new end-October 2026 SB)**.

d. ***Provincial Anti-Corruption Establishments (PACEs)*****.** We will engage with providers to enhance capacities of PACEs to conduct financial investigations in relation to corruption at the provincial level. In line with the AML Act and the National Fiscal Pact, the relevant federal notification process initiated by the Financial Monitoring Unit will be issued by end-December 2026 designating the PACEs to investigate money laundering related to corruption offenses within their jurisdiction, and to request and receive financial intelligence from the FMU as an investigating agency.

e. ***Asset Declaration of High-Level Public Officials.*** Following the recent amendment of the Civil Servants Act of 1973 for digitized filing and publication of the asset declarations of high-level federal civil servants **(end-June 2025 SB)**, the Establishment Division and FBR will issue corresponding regulations by end-December 2025 to: (i) centralize digital submission and collection of such asset declarations (including information on domestic and foreign assets beneficially owned by high-level federal civil servants or a member of their family), (ii) publish information subject to sufficient safeguards over data protection and privacy of personal information, and (iii) establish procedures for risk-based verification. In accordance with the amendments and after publication of the relevant regulations, we will make publicly accessible in a government website the asset declarations of high-level federal civil servants

(new end-December 2026 SB). We will also amend the regulatory framework to expand the requirement for digitization and publication to any high-level person (BPS17-22 or equivalent) serving in a civil capacity in the federal and provincial governments.

f. ***Banks' Access to Asset Declarations for AML/CFT Purposes*****.** The SBP, FBR and FMU continue to support banks' access to asset declarations of high-level federal public officials (BPS17-22). By end-December 2025, the FBR will issue a notification to expand banks' access to cover asset declarations of high-level (BPS17-22) public servants, which will include any officer of the federal or provincial governments or autonomous bodies, corporations and companies owned by such governments.

40. We continue to reduce barriers to international trade, including through the new National Tariff and Auto Policies:

a. ***Implementing the new National Tariff Policy (NTP)*****.** The 2025-30 NTP took effect on July 1, 2025, following the incorporation of the first year's tariff adjustments into the FY26 Finance Act. The policy outlines significant tariff reductions and a simplified custom regime, including (i) the consolidation of customs duties into four slabs (0, 5,10 and 15 percent); and (ii) a phased reduction of custom duty (CD) rates to a maximum of 15 percent (for the highest category) by FY30. The policy also sets out a phased reduction of all Additional Customs Duties (ACDs), Regulatory Duties (RDs), and special duties from the Fifth Schedule, with full elimination by FY29, FY30 and FY30, respectively. Collectively, these measures under the NTP are consistent with the agreed reductions in the weighted average tariff (Table 3).

b. ***Liberalizing auto sector imports*****.** The new auto sector policy (to be implemented from July 1, 2026) will progressively eliminate all ACDs and RDs, and substantially reduce CD rates by FY30. When added to the NTP duty reductions, this will be consistent with the agreed reduction in the weighted average tariff (Table 3). We have also removed all quantitative restrictions on the commercial importation of used motor vehicles less than five years old by amending the Import Policy Order via SRO 1895(I)/2025 on September 30, 2025. We have also submitted legislation to parliament for a new regime of environmental and safety standards **(end-July 2025 SB)**, which will apply equally to domestically produced and imported vehicles. Commercial imports of used vehicles are initially subject to an additional regulatory duty of 40 percent, which will be reduced by 10 percentage points per year, to reach zero by 2030. With commercial importation now legalized, we will streamline and revise the personal baggage, gift, and transfer of residence schemes for used vehicle imports, to avoid misuse of these schemes and tighten eligibility criteria.

c. ***Addressing non-tariff barriers (NTBs)*****.** Our ongoing stock-take of the existing Export Policy Order and Import Policy Order is on track for completion, and has identified 2,662 NTBs for review. Based on this exercise, we are preparing by end-December 2025 an action plan to eliminate and simplify a substantial share of the existing NTBs.

41. As part of our ongoing efforts to improve efficiency and provide a level playing field for investment, the government will refrain from providing any new fiscal incentives, such as tax breaks or subsidies (including on bank credit).

a. ***Special Economic Zones (SEZs), Export Processing Zones (EPZs) and other zones/parks*.** We have prepared and will publish an initial study assessing the fiscal costs and effectiveness of incentives for all existing Special Economic Zones (SEZs) and Export Processing Zones (EPZs). Based on the findings of the study, we have developed a comprehensive plan to fully phase out all current SEZ and EPZ incentives by 2035 **(end-June 2025 SB)**:

i. For SEZs, building on this action plan, we will prepare and publish **(new end-June 2026 SB)** a concept note defining the scope, objectives, and expected outcomes of legislative amendments to the SEZ Act, including the rationale for reform, proposed KPIs, and the shift from profit to cost-based incentives.

ii. For EPZs, the plan will phase out all domestic sales from EPZs to ensure that they operate strictly as bonded re-export zones, thereby preventing possible customs duties and GST leakages, and will eliminate any additional tax incentives identified in the fiscal impact analysis, subject to pre-existing international contractual obligations, as of end-September 2025.

A report on fiscal costs and effectiveness of Special Technology Zones (STZs) and other industrial parks and zones, and a comprehensive plan to phase out their incentives by 2035 is under preparation **(end-December 2025 SB)**.

b. ***Eliminating Preferential Treatment of Local Production*.** We remain committed to phasing out all additional duties currently charged for "localized" items/inputs in the auto sector, to removing the regime of special duties applied to imports used for the auto sector, including through the 5th Schedule to the Customs Act and SRO 655(I)/2006, and to extending the principal of removing preferential treatment of local production to other industries. These commitments will be implemented gradually from July 2026 to June 2030.

c. ***Regulatory Reforms to enhance the Business Climate*.** We have advanced our regulatory reform agenda through the Asaan Karobar Bill, which is expected to be enacted by late 2025. The bill provides the legal framework for establishing a Pakistan Business Portal and Regulatory Registry, which would consolidate and streamline licensing and registration procedures. We will establish a technical unit within 90 days and conduct a comprehensive review of existing regulations by June 2026 after enactment, and implement reform actions through a series of omnibus packages over a two-year horizon. We will coordinate with provincial governments to align business regulations. Khyber Pakhtunkhwa has already enacted a complementary law, and similar efforts are progressing in other provinces. In parallel, the Securities and Exchange Commission of Pakistan (SECP) would prepare and submit to parliament amendments to the Companies Act **(new end-June 2026 SB)** to improve corporate governance and transparency for both listed and unlisted companies.

42. We continue to advance our efforts to improve the timeliness, quality and coverage of macroeconomic data. The three major surveys planned for FY25 have progressed well: the PBS published results of the Agricultural Census in August 2025, and will publish final reports (posted to the National Summary Data Page) on the Labor Force Survey and Household Integrated Economic Survey by end-December 2025. Preparation of the initiation survey for the new PPI index is well underway, and collection of monthly price data is expected to commence before end-December 2025. Data collection for the three major FY26 surveys is scheduled to begin from January 2026: the Census of Manufacturing Industries, the survey of Small and Household Manufacturing Industries, and the Family Budget Survey. Consistent with the Government Finance Statistics (GFS) roadmap, the GFS central unit is meeting regularly to collect and classify fiscal operations data. The GFS mappings developed so far have been introduced into the SAP system, which will allow reports based on GFSM 2014 to be generated once ongoing system upgrades are completed. Finally, following the identification of a discrepancy in the source data used for the import statistics as published by the PBS for FY18-25, we will assess the quality of the import data and procedures for data collection, and will prepare a full set of revised statistics and explanations for public dissemination, after approval of the appropriate technical committee.

Building Climate Resilience

43. Building climate change resilience remains an existential priority for Pakistan, one of the world's most climate-vulnerable countries. This was evidenced during the catastrophic 2022 floods and, more recently, during the severe floods earlier this year. Policies supported by the Resilience and Stability Facility (RSF), in line with our National Adaptation Plan and commitments under our Nationally Determined Contributions, are helping to build resilience. The RSF is focusing on (i) mainstreaming climate issues into budget and investment planning; (ii) improving water system resilience and disaster response financing coordination; (iii) enhancing the enabling environment for green investments by strengthening Pakistan's climate information architecture; (iv) promoting green mobility and transport decarbonization; and (v) aligning energy sector reforms with our national climate change commitments.

44. Both RMs due under the first RSF review have been implemented. The FY26 Finance Act provided for a new carbon levy **(RM9)**, specifically a PRs 2.5/liter increase in FY26 and a scheduled additional PRs 2.5/liter increase in FY27, as well as the addition of fuel oil to the Petroleum Development Levy (PDL). The Law also established a PRs 9 billion EV subsidy, focused on 2- and 3-wheelers, and a tax on internal combustion engine (ICE) vehicles of 1 to 3 percent **(RM10)**. The modalities of the EV subsidy and ICE tax will be reviewed at each budget cycle to ensure EV uptake incentives are in line with our medium-term EV adoption plan. These reforms, along with a future planned reform to promote EV charging station infrastructure **(RM11)**, will help to promote green mobility and transport decarbonization in Pakistan.

45. Progress toward future RMs is ongoing.

a. As part of our efforts to strengthen our climate information architecture and management of climate-related financial risk – and thus help to facilitate private sector climate finance – we will soon issue climate-related risk disclosure guidelines for financial institutions and listed companies **(RMs 7, 8, end-December 2025)**.

b. We are improving Pakistan's water system resilience: the digital e-Abiana irrigation service charge system is being rolled out in Khyber Pakhtunkhwa and is on track for the same in Sindh and Balochistan **(RM4, end-August 2027)**. We also plan to establish irrigation water tariff adjustment mechanisms consistent with operations and maintenance cost recovery in Punjab and Sindh **(RM5, end-February 2027)**.

c. We are also moving swiftly toward establishing a framework for coordinating federal and provincial disaster risk financing needs in the context of the National Disaster Risk Financing Strategy **(RM6, end-August 2026)**. We will share an initial draft of the framework with Fund staff by end-March 2026.

d. We are proceeding with our planned electricity subsidy reform **(RM12, end-January 2027)**. This will replace the budgeted tariff differential subsidy and cross-subsidy system with a targeted budgeted subsidy framework for low-income consumers via BISP. We are working with the World Bank to enable the linking of electricity consumers with the NSER database, which we will have completed by end-December 2025. We will then carry out analysis to define eligibility criteria by end-July 2026. In parallel, following completion of identification work at end-December 2025, we will launch a national communications campaign to build awareness of the subsidy reform among consumers. We are also pursuing the same in the gas sector, and have initiated work to link gas consumer data with the NSER database. We are also moving ahead on implementing minimum energy performance standards across a variety of consumer appliances **(RM13, end-June 2027)**. The PPRA is on track to adopt new regulations mandating MEPS-compliant procurement and we will have a tracking system in place for monitoring purposes by end-December 2025.

Financing and Program Monitoring under the EFF and RSF

46. We have secured adequate financing from our international partners to support our economic reform program and continue rebuilding our external buffers. Further progress has been made in securing financing committed ahead of the program approval, including from the Saudi Development Fund, and China EXIM. With this and other financing commitments from bilateral and multilateral partners our program is fully financed for the next 12 months. As committed at the outset of the EFF, our bilateral partners will also continue rolling over short-term claims (including loans, swaps and deposits) for the duration of the program.

47. Implementation of policies under the program will be monitored through semiannual reviews, with semiannual performance criteria and continuous performance criteria, as set out in our MEFPs dated September 11, 2024, and April 24, 2025, along with this MEFP. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, continuous performance criteria, indicative targets, and structural benchmarks under the program. Completion of the third review scheduled for March 2026 will require observance of the quantitative performance criteria for end-December 2025, as set out in Table 1, along with continuous PCs and ITs. The prior actions and structural benchmarks are set out in Table 2. Standing commitments are listed in Table 3. Progress in the implementation of policies under the RSF will be monitored through RMs, which are detailed in Table 4, and semiannual reviews are to occur concurrently with EFF reviews.

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

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

	FY2024/25															
	end-Sep 2024				end-Dec 2024				end-Mar 2025				end-Jun 2025			
	Prog. (IT) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (PC) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (IT) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (PC) CR 25/109	Adjusted Prog.	Actual	Status
I. Quantitative Performance Criteria																
Floor on net international reserves of the SBP (millions of U.S. dollars)	-12,150	-12,709	-11,316	Met	-12,050	-12,793	-9,716	Met	-10,200	-12,200	-10,078	Met	-7,450	-7,359	-6,834	Met
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,044	15,200	14,387	Met	15,211	15,418	14,283	Met	15,179	15,736	15,475	Met	15,024	14,999	14,873	Met
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-3,250	...	-3,050	Met	-3,000	...	-2,990	Met	-2,750	...	-2,616	Met	-2,500	...	-2,496	Met
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-198	-2,724	-3,202	Met	-2,877	-2,946	-3,604	Met	-2,707	-2,766	-3,469	Met	-2,397	-2,545	-2,719	Met
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	5,100	...	4,470	Met	5,200	...	4,419	Met	5,400	...	4,535	Met	5,600	...	4,388	Met
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	101	...	102	Met	235	...	236	Met	415	...	416	Met	599	...	598	Not Met
Cumulative floor on the number of new tax returns (thousands) 4/	75	...	621	Met	225	...	941	Met	300	...	1,423	Met	850	...	986	Met
II. Continuous Performance Criteria																
Zero new flow of SBP's credit to general government	0	...	0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
III. Indicative Targets																
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	2.8	...	2.66	Not met	2.8	...	3.32	Met	3.0	...	3.62	Met	3.0	...	3.85	Met
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	685	...	535	Not met	1,405	...	1,172	Not met	2,150	...	1,899	Not met	2,863	...	2,837	Not Met
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-342	...	-384	Met	-750	...	-824	Met	-1,028	...	-1,053	Met	-1,217	...	-921	Not met
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,652	...	2,564	Not met	6,009	...	5,625	Not met	9,168	...	8,450	Not met	12,332	...	11,743	Not met
Floor on the consolidated net tax revenues collected by provincial revenue authorities (cumulative, billions of Pakistani rupees)	184	...	213	Met	376	...	443	Met	606	...	684	Met	918	...	979	Met
Floor on net tax revenues collected by the FBR from retailers under the *Tajir Dost* scheme (cumulative, billions of Pakistani rupees) 5/	10	...	0.003	Not met	23.4	...	0.004	Not met	36.7	...	...	...	...	...	...	...
Floor on income tax revenues collected by the FBR from retailers (cumulative, billions of Pakistani rupees) 5/	...	...	...	...	...	...	...	...	...	...	...	...	531	...	588	Met
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	32	...	-40	Met	43	...	-9	Met	56	...	41	Met	-24	...	-7	Not met
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	255	...	77	Met	461	...	11	Met	554	...	154	Met	337	...	44	Met

Sources: Pakistani authorities; Fund staff estimates.

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

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

3/ Including guarantees for commodity operations by SOEs.

4/ Modified at the time of the First Review to narrow the definition of new tax returns.

5/ Indicative Target on tax revenues from retailers under the *Tajir Dost* scheme discontinued at the time of the First Review, and substituted by new target on income tax revenue from retailers.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets 1/ (continued)
(Billions of Pakistani rupees, at program exchange rates, unless otherwise indicated)

	FY2025/26				
	end-Sep 2025	end-Dec 2025		end-Mar 2026	end-Jun 2026
	Prog. (IT) CR 25/109	Prog. (PC) CR 25/109	Proposed (PC)	IT Proposed	PC Proposed
I. Quantitative Performance Criteria					
Floor on net international reserves of the SBP (millions of U.S. dollars)	-7,000	-6,500	-6,500	-5,600	-4,800
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	14,971	15,146	15,146	15,560	15,798
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-2,250	-2,000	-2,000	-1,750	-1,500
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-460	-2,095	-3,194	-3,418	-3,156
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	5,700	5,800	5,800	5,800	5,800
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	103	262	321	512	694
Cumulative floor on the number of new tax returns (thousands) 4/	450	900	500	750	1,000
II. Continuous Performance Criteria					
Zero new flow of SBP's credit to general government	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	0	0	0	0
III. Indicative Targets					
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	3.4	3.4	3.4	4.0	4.0
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	600	1,200	1,200	2,170	3,470
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-432	-851	-752	-1,217	-1,464
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	3,023	6,695	6,490	9,917	13,979
Floor on the consolidated net tax revenues collected by provincial revenue authorities (cumulative, billions of Pakistani rupees)	246	504	488	785	1,190
Floor on net tax revenues collected by the FBR from retailers under the *Tajir Dost* scheme (cumulative, billions of Pakistani rupees) 5/	…	…	…	…	…
Floor on income tax revenues collected by the FBR from retailers (cumulative, billions of Pakistani rupees) 5/	133	295	366	517	707
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	34	43	45	42	51
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	200	300	300	400	400

Sources: Pakistani authorities; Fund staff estimates.
1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.
2/ Cumulative from the start of each fiscal year. "-" means surplus.
3/ Including guarantees for commodity operations by SOEs.
4/ Modified at the time of the First Review to narrow the definition of new tax returns.
5/ Indicative Target on tax revenues from retailers under the *Tajir Dost* scheme discontinued at the time of the First Review, and substituted by new target on income tax revenue from retailers.

Table 2. Pakistan: Structural Conditionality

Actions				
Prior Actions		**Rationale**		**Status**
Monetary and Financial				
1	For any bank identified to be undercapitalized as of March 2025, the SBP will develop a resolution plan to either reconstruct, wind up, or amalgamate such bank with another healthy institution (except a bridge bank) in order to achieve its Resolution objectives (Sections 42B, 42C and 42E of the Banking Companies Ordinance (1962)). Provided that any such undercapitalized banks fails to implement its own capital restoration plan to the satisfaction of the SBP, including but not limited to failure to restore full compliance with capital requirements by end-October 2025, the State Bank will either: (i) issue an order in writing to place the bank under resolution (section 42D(1), Banking Companies Ordinance), and begin executing the resolution plan; or (ii) verify that the bank has subsequently returned to full compliance with capital	Enforce regulatory standards, maintain public trust in the banking system.		
Governance				
2	Publish the full Governance and Corruption Diagnostic Assessment report.	Publicly identify critical governance vulnerabilities.		Met.
Structural Benchmarks		**Rationale**	**Date**	**Status**
Fiscal				
1	Do not grant tax amnesties, and do not issue any new preferential tax treatment (including exemptions, zero rating, tax credits, accelerated depreciation allowances, or special rates).	Protect tax revenue.	Continuous	Not met.
2	Seek ex-ante parliamentary approval for any expenditures that are non-budgeted or that exceed the budgetary appropriation.	Improved parliamentary oversight of budget execution.	Continuous	Met.
3	Approve a National Fiscal Pact devolving some spending functions to the provinces.	Address the mismatch of federal and provincial revenues and expenditures.	end-September 2024	Met.
4	Share with the IMF staff a report detailing actions to reduce the federal government's footprint.	Reduce the footprint of the state.	end-September 2024	Met.
5	Each province amends their Agriculture Income Tax legislation and regime to fully align it with the federal personal income tax regime for small farmers and the federal corporate income tax regime for commercial agriculture, so that taxation can commence from January 1, 2025.	Protect tax revenue.	end-October 2024	Not met. Implemented with delay in February 2025.
6	Fully implement compliance risk management measures in Large Taxpayer Units in large markets in Islamabad, Karachi, and Lahore Regional Offices.	Improve tax compliance.	end-December 2024	Met.
7	Develop and publish on the Ministry of Planning website: (i) the criteria for project selection, including a scorecard, detailing the weight assigned to each criterion and the methodology for calculating the score; and (ii) the annual limit on the total size of new projects entering the PSDP portfolio.	Better public investment management.	end-January 2025	Met.
8	Introduce a 5 percent FED on fertilizer and pesticide.	Protect tax revenue.	end-June 2025	Not Met.
9	Parliamentary approval of a FY26 budget in line with IMF staff agreement to meet program targets.	Ensure achievement of fiscal objectives.	end-June 2025	Met.
10	Implement the new AIT laws through a comprehensive plan, including the establishment of an operational platform for processing returns, taxpayer identification and registration, a communication campaign, and a compliance improvement plan.	Protect tax revenue.	end-June 2025	Met.
Governance				
11	Amend the Civil Servants Act to ensure that asset declarations of high-level public officials (includling assets beneficially owned by them and a member of their family) are digitally filed and publicly accessible (with sufficient protection over private information) through the FBR, with a robust framework for risk-based verification by a single authority.	Enhance effectiveness of anti-corruption framework.	end-June 2025	Met.
12	Publish the full Governance and Corruption Diagnostic Assessment report.	Publicly identify critical governance vulnerabilities.	end-August 2025	Not met. To be implemented as a prior action.
13	Publish governance action plan based on the recommendations of the Governance Diagnostic Assessment.	Publicly identify reform measures to address critical governance vulnerabilities.	end-October 2025	Not met. Reset to end-December 2025.
Social				
14	Annual Inflation adjustment of the unconditional cash transfer (Kafaalat).	Maintain purchasing power in real terms.	end-January 2025	Met.
15	Annual inflation adjustment of the unconditional cash transfer (Kafaalat) program.	Maintain UCT real purchasing power.	end-January 2026	In progress.
Monetary and Financial				
16	Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.	Maintain FX market functioning.	Continuous	Met.
17	Parliamentary approval of amendments to the bank resolution and deposit insurance legislation, in a manner that preserves the integrity of the draft legal amendments.	Strengthen crisis management toolkit.	end-October 2024	Met.
18	Place undercapitalized private banks under resolution unless (i) these banks are fully recapitalized by end-October 2024; or (ii) a legally binding agreement is in place by end-October 2024 towards a merger with other banks or with a new sponsor that would achieve full recapitalization by April 2025.	Enforce regulatory standards.	end-November 2024	Not met.
19	In consultation with Fund staff, revise regulations and underlying methodologies on risk mitigating measures, including enhanced collateral policy and by requiring counterparties to be financially sound.	Improve safeguards in monetary policy operations.	end-December 2024	Met.
20	Implement revised regulations on risk mitigating measures.	Improve safeguards in monetary policy operations.	end-September 2025	Met.
21	Prepare and publish a plan outlining the government's post-2027 financial sector strategy, outlining the institutional and regulatory environment from 2028 onwards.	Safeguard financial stability.	end-June 2026	In progress.
Energy Sector				
22	Complete all policy actions needed to prepare two DISCOs for privatization and concession transactions.	Improve DISCO management and efficiency.	end-January 2025	Met.
23	Eliminate captive power usage in the gas sector.	Push captive gas users on to the electricity grid and channel gas to the most efficient generators.	end-January 2025	Not met.
24	Public notification by the government of the December 2024 semiannual gas tariff adjustment determination.	Maintain tariffs at cost recovery levels.	February 15, 2025	Met.
25	Notifications of the annual electricity tariff rebasing and gas tariff adjustment.	Maintain energy tariffs at cost recovery levels.	July 1, 2025	Met.
26	Notification of the semi-annual gas tariff adjustment.	Maintain energy tariffs at cost recovery levels.	February 15, 2026	In progress.
27	Adopt legislation to make captive power levy ordinance permanent.	Promote uptake of electricity grid usage and incentivize more efficient use of energy sources.	end-May 2025	Met.
28	Adopt legislation to remove the cap on the debt service surcharge.	Ensure adequate financing is available for CD conversion operation.	end-June 2025	Met.

Table 2. Pakistan: Structural Conditionality (continued)

Actions	Rationale	Date	Status
Structural Benchmarks			
State-Owned Enterprises			
29 Amend the SWF Act and other legislation, in consultation with Fund staff and in line with MEFP ¶25.b, to adopt appropriate governance mechanisms and safeguards following international standards and good practices to (i) ensure that SOEs under the ownership of the SWF revert to the SOE Act's governance structures, (ii) that the SWF itself comes under governance mechanisms and safeguards in line with its principal nature as a holding company, and appropriate fiscal safeguards are in place for the SWF's operations.	Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023 and strenghten SWF governance and accountability.	end-March 2026	In progress.
30 Amend the laws for 10 additional statutory SOEs, in consultation with Fund staff and in line with MEFP ¶25.a., to bring them in line with the SOE Act.	Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023.	end-June 2025	Not met. Reset to end-August 2026.
Trade, Investment Policy, and Deregulation			
31 Prepare a plan based on the assessment conducted to fully phase out all current Special Economic Zone (including Export Processing Zone) incentives by 2035.	Improve efficiency and provide a level playing field for investment.	end-June 2025	Not met. Implemented with delay in October 2025.
32 Prepare a plan based on the assessment conducted to fully phase out all incentives in relation to Special Technology Zones and other industrial parks and zones by 2035.	Improve efficiency and provide a level playing field for investment.	end-December 2025	In progress.
33 Submit to parliament all required legislation for lifting all quantitative restrictions on the commercial importation of used motor vehicles (initially only for vehicles less than five years old, subject to meeting minimum environmental and safety standards).	Liberalize trade and increase vehicle affordability.	end-July 2025	Met.
New Structural Benchmarks			
Fiscal			
1 Finalize a roadmap by end-December 2025 that includes at least: (i) prioritization of key reform areas; (ii) staffing requirements and roles; (iii) specific timelines and milestones; (iv) revenue impact estimates; and (v) key performance indicators (KPIs) to monitor progress and outcomes (e.g. the number of audits, number of transactions covered by digital invoicing, etc.). Based on the roadmap, complete all actions necessary to fully implement at least three priority areas agreed with IMF staff, including any required subordinate legislation, staff hiring and allocation, and initial KPI reporting	Enhance the effectiveness of the FBR.	end-March 2026	
2 Develop and publish a comprehensive medium-term (3 to 5 years) tax reform strategy that includes at least: (i) a sequenced roadmap of tax policy, administration, and legal reforms; (ii) clear governance arrangements; and (iii) a resource plan for implementation.	Strenghten the predictability and sustainability of tax revenue.	end-December 2026	
Governance			
3 Publish in a government website the asset declarations of high-level federal civil sevant in line with the June 2025 legislative amendments.	Enhance transparency and accountability.	end-December 2026	
4 Publish an action plan to mitigate corruption vulnerabilities in identified departments based on an institutional-level risk assessment.	Identify and mitigate severe corruption vulnerabilities.	end-October 2026	
Monetary and Financial			
5 Complete a comprehensive assessment of remittance costs and structural impediments to cross-border payments, complemented by an action plan.	Boost FX inflows sustainably.	end-May 2026	
6 Conduct a comprehensive study of the bottlenecks for local currency bond market development and publish a strategic action plan to address areas of improvement.	Develop financial markets and diversify the investor base.	end-September 2026	
Energy Sector			
7 Finalize preconditions for the private sector participation processes for HESCO and SEPCO.	Improve DISCO management and efficiency.	end-December 2026	
State-Owned Enterprises			
8 The government will sign public service obligations (PSO) agreements with each of the 7 largest PSOs before submission to Palriament of the FY27 budget, in line with updated manuals and guidelines in accordance with the SOE Act and Policy.	Improve transparency and costing of public obligations.	end-June 2026	
Trade, Investment Policy, and Deregulation			
9 Federal and provincial governments will agree and the federal cabinet will adopt a national policy for sugar market liberalization containing key recommendations on licensing, price controls, import/export permissions, and zoning, and clear timelines for implementation.	Liberalize commodity markets.	end-June 2026	
10 Prepare and submit to parliament legislative amendments to the Companies Act, 2017 to strengthen compliance for unlisted firms, modernize corporate governance structures, and align corporate regulations with international best practices.	Reduce regulatory uncertainty, enhance transparancy, and support capital market development.	end-June 2026	
11 Prepare and publish a concept note defining the scope, objectives, and expected outcomes of legislative amendments to the SEZ Act, including the rationale for reform, proposed KPIs, and the shift from profit to cost-based incentives.	Improve efficiency and provide a level playing field for investment.	end-June 2026	

Table 3. Pakistan: Standing Commitments

Commitments		Thematic Area	EFF Review	MEFP ¶
Fiscal				
1	Use any windfall from SBP dividends exceeding 1 percent of GDP to reduce borrowing and retire debt.	Public Financial Management	1st	5.c
2	Refrain from introducing any fuel subsidy or cross-subsidy scheme.	Expenditure Policy	1st	6
3	Refrain from offering any new fiscal incentive or guaranteed returns (in any currency) to firms or any investment project.	Public Financial Management	1st	7.i
Social				
4	Implement annual inflation adjustments for UCT benefits to ensure that the most vulnerable households' purchasing power remains, at a minimum, constant in real terms.	BISP	1st	8
5	Implement readjustment of UCT benefits upon the release of any new household surveys to continue transfers equivalent to 15 percent of the bottom quintile's consumption once this threshold is reached.	BISP	1st	8
6	Keep the NSER live, keep BISP enrolment open; administer the regular re-declartion of BISP beneficiaries' status on the intended three-year cycle.	BISP	1st	9
Monetary, FX, and Financial				
7	Refrain from involvement in credit allocation decisions, sectoral lending targets.	Monetary Policy Transmission	1st	13
8	Refrain from outright secondary-market purchases or maturity extensions on government securities held by SBP.	Safeguards	1st	13
9	Do not introduce new SBP refinancing schemes during transition or thereafter.	Monetary Policy Transmission	1st	14
10	Maintain flexible exchange-rate regime with unrestricted interbank price discovery.	Foreign Exchange Market	1st	15.a
11	Limit SBP's net FX sales to at most balancing net purchases each quarter; consult IMF if gross sales exceed US$200 million in any rolling 30-day period.	Foreign Exchange Market	1st	15.b
12	Continue to publish SBP's monthly FX interventions with a three month lag, and to announce (semiannually) our six month-ahead gross reserve target and FX debt service of the government over the corresponding period.	Foreign Exchange Market	1st	15.c
13	Refrain from extending deposit insurance system to MFBs unless capital shortfalls addressed and other preconditions met.	Financial sector	1st	16.c
Energy				
14	All provinces agree not to grant new electricity or gas subsidies.	Power/Electricity Subsidies	1st	20.a
15	Refrain from netting out cross-arrears (unless they are independently audited); using "non-cash" settlements (e.g., payables against the reimbursement of on lent loans to DISCOs); and issuing government guarantees except where there is a need to substitute an existing government guarantee on maturity.	Power/Arrears	1st	20.d(viii)
16	Refrain from signing additional external RLNG contracts given current surplus.	Gas	1st	21.b
17	Provide OGRA advice within 40 days of tariff determination to enable automatic notification under 2022 amendment.	Gas	1st	21.d
Structural				
18	Carry out the execution of the SWF Act and any other action aimed at preparing the SWF for its operation only after all required reforms are complete and the amendments as agreed with the IMF become law.	SOEs	1st	23.b
19	Refrain from federal/provincial support pricing & procurement operations for wheat.	Deregulation	1st	24
20	Implement duty reductions under the new NTP to reduce the weighted average applied tariff from 10.6 percent in FY25 to 7.4 percent by FY30. Duty reductions for the auto sector, when added to those under the NTP, will bring the weighted average tariff to below 6 percent by FY30.	Trade Policy	1st	26
21	Refrain from introducing any new Regulatory Duties on imports.	Trade Policy	1st	26
22	Ensure that the SIFC does not propose, nor that the government provide, regulatory, spending, or tax-based incentives of any sort, or any guaranteed returns, or take any other action that could distort the investment landscape. Ensure that all investment made under the SIFC results from the standard Public Investment Management framework.	Investment Policy	1st	27
23	Refrain from: (i) creating new SEZs (or other zones); (ii) providing new fiscal or other incentives incentives related to zones; and (iii) renewing any existing incentives.	Investment Policy	1st	28.a

Table 4. Pakistan: RSF Reform Measures

Reform Area	Reform Measure	Timing	Expected Outcome	IMF CD Input	Development Partner Inputs	Prospective BoP Risk Reduction
Mainstreaming climate issues into budget and investment planning.	**RM1.** Increase the climate change (adaptation and mitigation) weighting in the Public Investment Procedures and Parameters methodology to at least 30 percent for infrastructure projects, develop explicit protocols for scoring projects against criteria, and publish the selection process and distribution of scores for new projects entering the PSDP.	end-August 2026 (4th EFF Review)	Comprehsive system for identifying climate-relevant spending across federal and provincial government, detailed budgeting in line with National Climate Change Policy, ongoing system for monitoring execution against planned climate spending.	FAD advising.	FAD to consult with the World Bank on the climate finance element of the selection process	Improved fiscal and external sustainability via more efficient/lower expenditure on and import demand for climate-related climate infrastructure and disaster relief.
	RM2. Revise PSDP call circular such that, for all new major infrastructure projects (greater than PRs 7.5 bn), only projects that have undertaken climate vulnerability, adaptation, and mitigation screening will be included in the budget; and publish a consolidated report summarizing the screening assessments for these projects.	end-August 2027 (6th EFF Review)	Enforcement of requirements for project selection; enhanced climate-sensitivity of PSDP over time.	FAD advising.	Supplemental support from the ADB, along with new budget preparation TA from the World Bank.	
	RM3. Expand the federal climate budget-tagging framework to include expenditure on grants and subsidies and extend budget-tagging to expenditure by the provinces. Publish an annual climate budget statement and quarterly execution reports, tracking climate expenditure across each category and explaining any deviations from targets.	end-August 2027 (6th EFF Review)	Enforcement of climate screening requirements in practice. Stronger evidence base on climate mitigation impacts and adaptation aspects of public investment projects. Enhanced scrutiny of project preparation and appraisal.	FAD advising.	European Commission developing new PFM TA support. FCDO coordinating provincial green budget integration.	
Improving water system resilience and diaster response financing.	**RM4.** Adoption and implementation of the e-Abiana irrigation service charge collection system by the irrigation authorities of Sindh, Khyber-Pakhtunkhwa, and Balochistan.	end-August 2027 (6th EFF Review)	Increased water revenue collections among the three provinces. Improve the effectiveness of water pricing.		World Bank to provide techncial support.	Improved fiscal and external sustainability via more efficient/lower expenditure on water system maintenance and disaster relief in the event of a climate shock.
	RM5. Introduce an irrigation water tariff adjustment mechanism in Punjab and Sindh with the aim to recover the operational and maintenance costs of irrigation infrastructure.	end-February 2027 (5th EFF Review)	Incentivize more efficient use of water resources in a supply-constrained environment.		World Bank to provide techncial support.	
	RM6. In the context of the National Disaster Risk Financing Strategy, adopt an implementation framework that encompasses federal and provincial disaster risk financing needs as part of the national risk layering approach and establishes a coordination mechanism for disaster risk financing across the federal and provincial authorities**.**	end-August 2026 (4th EFF Review)	Improve the coordination of DRF across the federal and provincial governments, consolidate pronvincial DRF needs in the national DRF strategy to ensure adequate resources and access to innovative instruments.	FAD advising, TA as needed.		
Strenghten the climate information architecture and management of claimte-related financial risk	**RM7.** SBP issuance and adoption of guidelines for the implementation of climate related financial risk management by supervised commercial banks in line with the 2022 BCBS principles for the effective management and supervision.	end-December 2025 (3rd EFF Review)	Incorporation of climate related financial risk considerations into risk management of banks and bank supervision.			Enhanced financial sector resilience via lower financial sector losses in the context of climate shocks. Enhanced climate adaptation infrastructure and external financing through improved climate investment facilitation.
	RM8. Ministry of Finance to adopt by way of decree a green finance taxonomy adapted to Pakistan's updated NDC. Based on the adopted taxonomy, the SECP will issue disclosure guidelines to enable listed companies to disclose climate-related risk and opportunities information, including taxonomy-aligned data.	end-December 2025 (3rd EFF Review)	Fuller incorporation of climate considerations into Pakistan's financial and private sector architecture.	MCM to advise as needed.	World Bank working with the authorities on developing a green taxonomy.	
Promoting green mobility and transport decarbonization	**RM9.** Adopt a supplementary carbon levy via the PDL on gasoline and diesel of Rs 5 per liter, phased in over two years; and add fuel oil to the PDL, with the base and supplementary rate applicable.	end-June 2025 (2nd EFF Review) **(MET)**	Significant reduction of CO_2 emission. Incentivize the uptake of EVs, contributing to the authorities' goal of 30% penetration of new passenger EV sales and 50% for electric 2-3 wheelers by 2030. Reduce balance of payments stability risks by shifting away from imported fuels/petroleum products.	FAD advising, including via CPAT modeling.		Improved external sustainability via lower fossil fuel import demand.
	RM10. Adopt, as part of the FY26 budget law, a revenue-neutral scheme including a subsidy for EVs and a supplementary tax on internal combustion engine vehicles, in line with the New Energy Vehicle Policy 2025-2030 and Fund recommendations.	end-June 2025 (2nd EFF Review) **(MET)**	Significant reduction of CO_2 emission. Incentivize the uptake of EVs in a progressive fashion,contributing to the authorities' goal of 30% penetration of new passenger EV sales and 50% for electric 2-3 wheelers by 2030. Reduce balance of payments stability risks by shifting away from imported fuels/petroleum products.	FAD providing modeling and advice on subsidy and tax modalities and magnitude.		
	RM11. Adopt a PPP-viability gap funding framework that provides one-off subsidies to incentivize private sector investment in EV charging stations; ensure an open bidding process and include clear criteria to evaluate the eligibility of projects for gap funding; and implement the first bid window, in line with Fund recommendations.	end-February 2027	Significant reduction of CO_2 emission. Create efficient incentives for the uptake and use of EVs, contributing to the authorities' goal of 30% penetration of new passenger EV sales and 50% for electric 2-3 wheelers by 2030. Reduce balance of payments stability risks by shifting away from imported fuels/petroleum products.	FAD providing modeling and advice on the framework.		
Aligning energy sector reforms with national mitigation commitments.	**RM12.** Budgeted electricity tariff differential subsidy and cross-subsidy system replaced with targeted subsidy framework for low-income consumers, with BISP disbursements through new system by end-January 2027.	end-January 2027 (5th EFF Review)	Better-targeted and more progressive subsidies leads to reduced incentive to overconsume electricity among higher-income consumers; reduced pressure from industry to deliver lower tariffs that do not align tariffs with cost and lead to wasted power; and reduced incentive for theft among lower-income consumers and thus lower energy losses.		World Bank to provide support, including analysis and advice to the authorities on consumer identification and verification, subsidy design, and implementation.	Improved external sustainability via lower fossil fuel import demand and increased productivity.
	RM13. PPRA adoption of new regulation by end-December 2025 mandating certain new electric appliances (fans, LEDs, refrigerators, air conditioners, and motors) procured at the federal and provincial level are MEPS-compliant; and achievement of new appliances entering the market for sale as MEPS-compliant (40 percent fans; 30 percent LEDs; 35 percent refrigerators; 30 percent air conditioners; 25 percent motors) by end-June 2027.	end-June 2027 (6th EFF Review)	By end-June 2027, new appliances (fans, LEDs, refrigerators, air conditioners, and motors) entering the market carry labels or comply with MEPS.		World Bank to provide support, including work with the authorities on the development of a tracking methodology for the uptake of MEPS-compliant appliances.	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understanding between the Pakistani authorities and the IMF staff regarding: (i) the ***definitions*** of quantitative performance criteria (and their adjustment mechanisms), indicative targets, and—if needed—prior actions and structural benchmarks in Section A below; and (ii) the respective ***reporting requirements*** used to monitor developments—for the economic program under the Extended Fund Facility (EFF)—as described in the authorities' latest Letter of Intent (LOI) dated November 20, 2025, and the attached Memorandum of Economic and Financial Policies (MEFP, notably its Tables 1 and 2) in Section B below. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in program design and accounting classifications introduced during the program period.

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

Currency	Rate	Currency	Rate
EUR	0.935016	THB	36.800095
JPY	160.909469	MYR	4.717496
CNY	7.266408	SGD	1.357050
GBP	0.790920	INR	83.448119
AUD	1.507727	SAR	3.751497
CAD	1.371050	SDR	0.760260

1/ As of June 28, 2024.

2. For purposes of monitoring under the program, all assets and liabilities as well as debt contracted, denominated in Special Drawing Rights (SDRs) or in currencies other than the U.S. dollar, are converted into U.S. dollars at the program exchange rates. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at 278.3412 rupee per one U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Text Table 1.

Definition of Performance Criteria and Indicative Targets

A. Overview

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

- ***Performance Criteria.***
  - *Floor on the net international reserves (NIR) of the State Bank of Pakistan (SBP)* (millions of U.S. dollars);
  - *Ceiling on the net domestic assets (NDA) of the SBP* (stock, billions of Pakistani rupees);
  - *Ceiling on SBP's stock of net foreign currency swap/forward position* (millions of U.S. dollars);
  - *Ceiling on the general government primary budget deficit excluding grants* (cumulative flows, billions of Pakistani rupees);
  - *Ceiling on the amount of government guarantees* (stock, billions of Pakistani rupees);
  - *Floor on targeted cash transfers spending (BISP)* (cumulative, billions of Pakistani rupees); and
  - *Floor on the number of new tax returns* (cumulative, thousands).

- ***Continuous Performance Criteria.***
  - *No new flow of SBP's credit to general government*;
  - *Zero ceiling on the accumulation of external public payment arrears by the general government*; and
  - *Other* (see ¶25).
- ***Indicative Targets.***
  - *Floor on general government budgetary health and education spending* (cumulative, billions of Pakistani rupees);
  - *Floor on net tax revenues collected by the Federal Board of Revenue (FBR)* (cumulative, billions of Pakistani rupees);
  - *Ceiling on net accumulation of tax refund arrears* (flow, billions of Pakistani rupees);
  - *Ceiling on power sector payment arrears* (flow, billions of Pakistani rupees);
  - *Floor on the weighted average time-to-maturity of the domestic debt securities stock in local currency, including T-bills, PIBs, and Sukuks* (years);
  - *Ceiling on the aggregate provincial governments' primary* budget (cumulative, billions of Pakistani rupees);
  - *Floor on the consolidated net tax revenues collected by provincial revenue authorities* (cumulative, billions of Pakistani rupees); and
  - *Floor on the income tax revenue collected by the FBR from retailers* (cumulative, billions of Pakistani rupees).

B. Performance Criteria

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

Definition

4. The general government is defined as the central (federal) government and local (provincial) governments, excluding state-owned enterprises. The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities, that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2014. The authorities will inform IMF staff on the creation of any such entities without delay.

5. Net international reserves (stock) of the SBP are defined as the U.S. dollar value of the difference between usable gross international reserve assets and reserve-related liabilities, evaluated at program exchange rates.

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

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

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

8. Aggregate net position in the foreign exchange derivatives is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP and general government vis-à-vis the domestic currency (including the forward leg of currency swaps).

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

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

Adjustment Mechanism

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

a. ***cash inflows usable for the financing of the government budget from multilateral and bilateral creditors, commercial borrowing, and bond issuance*** relative to the projected inflows (Table 1). Cumulative cash inflows usable for the financing of the government budget are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to the Asian Development Bank (ADB), Islamic Development Bank, and

World Bank), official bilateral creditors (including, but not limited to bilateral oil facilities, China, Saudi Arabia, UAE, DFID-UK, and USAID), external bond placements and other commercial borrowings that are usable for the financing of the central government budget (including foreign currency financing extended by local branches of foreign banks), plus proceeds from sales of state-owned assets to official bilateral partners, sovereign wealth funds. Downward adjustment of the floor on NIR will be limited to a maximum of US$2,000 million for both the December 2025 and June 2026 test dates.

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

Definition

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

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

Adjustment mechanism

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

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

As in the case for NIR, the upward adjustment of the ceiling on NDA will be limited to the same maximum adjustor limit set for NIR evaluated at the program exchange rate.

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

15. The **stock of net foreign currency swap/forward positions** is defined as the aggregate net positions in forwards and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). It will be evaluated at the program exchange rate.

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

Definition

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

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

a. ***net external budget financing***, excluding valuation changes, with foreign currency disbursements/payments converted into PRs at the actual exchange rates applied to each transaction;

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

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

d. ***total external grants to the federal and provincial governments***, which are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants. External grants in foreign currencies are converted into PRs at the actual exchange rates applied to each transaction.

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

a. ***external budget loans*** to the general government, including those on-lent to financial institutions and companies (public or private) and external emergency relief lending. It comprises those with: (i) medium- and long-term maturity from official multilateral sources (including IMF budget support), official bilateral sources, and private sector sources (e.g., bonds and non-residents' purchases of PIBs, Naya Pakistan Certificates, and Banao Certificates); and (ii) short-term maturity, net of foreign portfolio investment excluding non-residents' purchases of Naya Pakistan Certificates and Banao Certificates but including non-residents' purchases of domestic T-bills; and

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

Adjustment mechanism

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

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

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

c. downward by any excess in the flow of ***power sector payment arrears*** above the indicative program target;

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

e. downward (upward) by any excess (shortfall) in the flow of ***SBP profit transfer*** relative to their respective projections (Text Table 1).

Text Table 1. Pakistan: Projections for SBP profit transfer
(Cumulative flows from start of fiscal year; billions of Pakistani Rupees)

end-Sep 2025	end-Dec 2025	end-Mar 2026	end-Jun 2026
0	2,428	2,428	2,428

B.5. Ceiling on the Amount of Government Guarantees

20. **The ceiling on the amount of government guarantees** applies to the stock of publicly guaranteed debt for which guarantees have been issued by the central government. It includes both domestic government guarantees, including guarantees to SOEs for commodity operations, and external government guarantees. External government guarantees will be converted into Pakistani rupees at the program exchange rate. If any entity incurs interest arrears on borrowings backed by the guarantee, for purposes of the QPC such guarantee shall be evaluated as the higher of the value of the guarantee issued or the total amount owed. This ceiling excludes guarantees issued by the Ministry of Finance for the SBP borrowing from the IMF.

B.6. Floor on Targeted Cash Transfers Spending (BISP)

21. The floor on **targeted cash transfers spending (BISP)** applies to the cumulative targeted cash transfers on social spending by the Benazir Income Support Program (BISP), i.e., all spending on unconditional cash transfer and conditional cash transfer BISP programs.

B.7. Floor on the Number of New Tax Returns

22. The floor on **the number of new tax returns** will be measured as the additional non-nil-tax returns beyond the existing stock of non-nil-tax filers. Non-nil-tax filer returns are defined as filers presenting a tax return with a liability greater than zero. The stock of non-nil-tax filers is 3,531,767 as of end-June 2025, and the floor on the number of new tax returns will be counted from the starting point of 3,531,767.

C. Continuous Performance Criteria

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

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

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

24. **External payment arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (federal and provincial government, and SBP), and state-owned enterprises to nonresidents arising in respect of public sector loans, debt contracted or guaranteed (including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date). The definition of debt, for the purposes of the EFF, is set out in ¶8 of 2020 Guidelines on Public Debt Conditionality in Fund Arrangements. The ceiling on the accumulation of external payment arrears is set at zero. The performance criterion applies on a continuous basis throughout the program period.

C.3. Other Continuous Performance Criteria

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

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

b. introduce or modify ***multiple currency practices (MCPs)***;

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

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

D. Indicative Targets

D.1. Floor on the Weighted Average Time-To-Maturity of the Domestic Debt Securities Stock

26. The weighted average time-to-maturity (ATM) of the local currency domestic debt securities stock is calculated based on the exact remaining time to maturity (in years) of each instrument in the portfolio (T-bills, PIBs, Sukuks). The remaining time to maturity of each instrument as of the relevant test date will be weighted by (i) the realized value at issuance for short-term instruments (original maturities of one year or less), including T-bills and short-term Sukuks; and (ii) the face value for longer-term instruments (original maturities greater than one year), including PIBs and longer-term Sukuks.

D.2. Floor on General Government Budgetary Health and Education Spending

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

D.3. Ceiling on the Aggregate Provincial Primary Budget Deficit

28. The aggregate provincial primary budget deficit is monitored quarterly as the aggregate overall budget deficit of the four provincial governments (Punjab, Sindh, Khyber Pakhtunkhaw, Balochistan), minus the aggregate interest bill of the four provincial budgets.

29. The aggregate provincial overall budget deficit is measured as the cash deficit from below the line.

D.4. Floor on Net Tax Revenues Collected by the Federal Board of Revenue (FBR)

30. Net tax revenues collected by the FBR are defined as the sum of revenues collected from: (i) general sales tax (GST) on goods (including GST on services collected in Islamabad Capital

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

D.5. Floor on the Consolidated Net Tax Revenues Collected by Provinces

31. **Net tax revenues collected by the provinces** are defined as the sum of revenues collected from: (i) general sales tax (GST) on services (excluding GST on services collected in Islamabad Capital Territory); (ii) stamp duties; (iii) property tax; (iv) agriculture income tax; (v) registration fees; and (vi) unclassified revenues minus the tax refunds. Net revenue collection is defined, for each test date, as the cumulative sum of net revenues collected since the beginning of the respective fiscal year. The floor on the collection of net revenues by the provinces is measured quarterly based on cumulative end-of-quarter data.

D.6. Ceiling on Net Accumulation of Tax Refund Arrears

32. The ceiling on the **net accumulation of tax refund arrears** applies to the cumulative flow of tax refund arrears. The stock of tax refund arrears is defined as the amount of tax refund claims supported by requisite documentation that have not been settled (through a cash refund, netting out against obligations of taxpayers, payment with a government bond/promissory note or an official decision to reject the claim) within a specified time period after the tax refund claim has been submitted to the FBR. The stock of income tax refund arrears is PRs 234.8 billion as of end-June 2025, and the net accumulation of income tax refund arrears will be counted from the starting point of PRs 234.8 billion; the stock of sales tax arrears at end-June 2025 is PRs 155.5 billion, and the net accumulation of sales tax refund arrears will be counted from the starting point of PRs 155.5 billion.

D.7. Floor on the Income Tax Revenue collected by the FBR from Retailers

33. The floor on the **income tax revenue from retailers** is defined as the sum of revenues from: (i) income tax return filings; (ii) withholding income taxes; and (iii) advance income taxes, paid by (i) retailers; (ii) wholesalers; and (iii) traders. Income tax revenue is defined, for each test date, as the cumulative sum of revenues collected since the beginning of the respective fiscal year.

D.8. Ceiling on Power Sector Payment Arrears

34. **Power sector payment arrears** are defined as power sector payables in arrears that arise from: (i) line losses and non-recoveries that are not recognized by NEPRA; (ii) non-recoveries from supply to Azad Jammu and Kashmir (AJ&K), other federal and provincial governments including FATA, private consumers, and Baluchistan Tube Wells; (iii) accrued markup from the servicing of PHPL; (iv) late payment surcharges; (v) delays in subsidy payments; (v) delays in tariff determinations resulting in pending generation cost; (vi) non-payments by K-Electric; and (vii) other adjustments (including prior year recoveries, spillovers etc.).

Program Reporting Requirements

35. To effectively monitor the program performance, the authorities will provide all the needed data to the IMF in line with Article VIII, Section 5 of the IMF Articles of Agreement as deemed necessary. Performance under the program is monitored from data supplied to the IMF by the SBP, Ministry of Finance, FBR, Pakistan Bureau of Statistics, Ministry of Energy (Power and Petroleum Division), and other agencies as outlined in Table 2 below. Irrespective of the requirements outlined in Table 2, the authorities will report on an ongoing/continuous basis any non-observance of continuous PCs. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1. Pakistan: Projected External Disbursements
(Millions of U.S. dollars)

	FY2026			
	Jul-Sep 2025	**Oct-Dec 2025**	**Jan-Mar 2026**	**Apr-Jun 2026**
	Est.	Proj.	Proj.	Proj.
Multilateral and bilateral disbursements	2,667	4,531	3,315	5,606
of which: in cash 1/	2,397	4,193	3,019	5,217
of which: Commodity loans (including Saudi and IDB facilities)	800	490	386	924
of which: project support 2/	725	848	758	979
of which: sales of state-owned assets	0	0	0	0
International bond issuance 3/	0	250	0	0
Commercial borrowing 4/	0	300	700	1,200
Other	0	0	0	0
Gross inflows	2,667	5,081	4,015	6,806
of which: in cash	2,397	4,743	3,719	6,417
memo: New loans/deposits at SBP 5/	0	0	0	0

1/ Assumes that 65 percent of project loans and 50 percent of project grants are received in cash.
2/ Excluding WB Policy-for-Results Lending.
3/ Includes Naya Pakistan Certificates (NPC). NPC flows are recorded on a net basis.
4/ Includes foreign currency denominated loans from local branches of foreign banks.
5/ Not included in multilateral and bilateral disbursments for the purposes of the adjustor.
Note: Cumulative excess/shortfall of flows cumulates from July 1, 2025 onwards.

Table 2. Pakistan: Monitoring and Reporting Requirements				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	International reserves	Inflows/outflows into/out of Naya Pakistan Certificates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within five working day
	Foreign exchange market	SBP foreign exchange operations, and intervention (volume), distinguishing within spot transactions the outright purchase/sale and purchase/sale related to forward contract	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	SBP operations against the domestic currency in swap/forwards (including all legs of transactions): for each day, the initial outstanding FX swap/forward position, summary of transactions during the day, the end-of-day position	Daily	Within one day
	Foreign exchange market	Interbank market transactions in the spot market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), weighted average price transacted (untrimmed), simple average price transacted (simple mean, untrimmed), standard deviation of values transacted (untrimmed), and standard deviation of prices transacted (untrimmed).	Daily	Within one day

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	Foreign exchange market	Interbank market transactions in the forward market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$ (simple mean, untrimmed), standard deviation of values transacted (untrimmed), average maturity (simple mean, untrimmed), standard deviation of maturity (untrimmed).	Daily	Within one day
	Foreign exchange market	Aggregate customer transactions of commercial banks, with breakdown into gross sales and purchases.	Weekly	Third working day of the following week
	Foreign exchange market	Stock of dividend/profit payments pending execution which have cleared any necessary regulatory processes.	Monthly	Within one week
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Daily	Within one day
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates, disaggregated between new operations and outstanding stock	Monthly	Within 25 working days of the end of each month
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
State Bank of Pakistan (SBP)	Banking indicators	Core Financial Stability Indicators (FSIs), including but not limited to capital adequacy; asset composition and quality; profitability; liquidity; open FX positions – in aggregate and bank-by-bank (without names)	Quarterly	Within 45 days of the following quarter
	Banking indicators	Liquidity data and deferred/restructured loans	Weekly	Within 5 days of the end of each week
	Banking data	Banks' net open foreign exchange positions split between total foreign assets and foreign exchange liabilities: in aggregate for the system and bank by bank (without names, but with consistent identifiers across datasets)	Monthly	Within five days of the end of each month
	Banking data	Holdings of government securities – in aggregate and bank-by-bank (without names, but with consistent identifiers across datasets)	Monthly	Within 7 days of the end of each month
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	SBP refinance schemes	Outstanding position under SBP refinance schemes (by program)	Monthly	Within 25 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter
	External financing	List of all disbursements and amortization payments for external budget financing and external grants (above US$3 million or equivalent), including date of the transaction, foreign currency amount, exchange rate applied, rupee amount credited, creditor (or donor agency).	Quarterly	Within 25 days of the end of each quarter

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Ministry of Finance (MOF)	Domestic financing	Gross disbursements and amortization of Naya Pakistan Certificates by residents (in PRs) and non-residents (in PRs and US$).	Quarterly	Within 25 days of the end of each quarter
	Domestic debt	Domestic debt composition	Monthly	Within 25 days of the end of each month
	Domestic debt	T-Bill, PIB, and Sukuk Bid sheet from domestic debt auctions, including auctions via PSX.	Daily	Within 1 day of each T-Bill and PIB auction
	Federal government	Federal and provincial governments fiscal operations (including fiscal outcomes broken down by province)	Monthly	Within 30 days of the end of each month
	Federal government	Government guarantees - issued and executed (reported separately). Name of entity receiving the guarantee and the value of the guarantee. Interest arrears on guaranteed loans, if any.	Quarterly	Within 15 days of the end of each quarter
	Consolidated general government	Federal and provincial governments (including fiscal outcomes broken down by province)	Quarterly	Within 45 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Annual	Within 180 days of the end of each year
	Federal government	Fiscal financing sources: Detailed quarterly financing plan for the coming 12 months including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.	Monthly	One month in advance
	General government	Total general government budgetary spending on health and education broken down into spending by the federal and provincial governments	Monthly	Within 15 days of the end of each month
	Federal government	Stock of government borrowing from the SBP	Quarterly	Within the first five days of each quarter.
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
Federal Board of Revenue (FBR)	Revenue collection Tax credits	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions.	Monthly	Within seven days of the end of each month
	Tax arrears	By category	Monthly	Within seven days of each month
		By type of tax	Monthly	Within seven days of the end of each month
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	Monthly	Within seven days of the end of each month

Table 2. Pakistan: Monitoring and Reporting Requirements (continued)

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Federal Board of Revenue (FBR)	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Monthly	Within seven days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Monthly	Within seven days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large taxpayer units (LTUs)	Monthly	Within seven days of the end of each month
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Monthly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	New taxpayers	Total number of notifications delivered; Number of taxpayers newly registers (voluntary and notified); Number and value if tax returns filed by newly taxpayers (voluntary and notified); Total value of revenue collected (voluntary and notified)	Monthly	Within seven days of the end of each month
	New taxpayers (retailers)	Number of registered retailers; Number and value of tax returns filed by newly registered taxpayers; Total value of revenue collected	Monthly	Within seven days of the end of each month
	Track and trace system	Number of facilities with track and traces; machines installed (cigarettes, fertilizer, sugar, cement); Total value of revenue collected per facility	Monthly	Within seven days of the end of each month
Ministry of Water and Power		CD flow report (detailing key components of CD flow); DISCO collections, broken down by DISCO; DISCO losses, broken down by DISCO; Electricity consumption by major consumer group (domestic and industrial, with domestic separated by slab); Revenues by major consumer group (domestic and industrial, with domestic separated by slab); Number of consumers by major consumer group (domestic and industrial, with domestic separated by slab); Tariffs by major consumer group (domestic and industrial, with domestic separated by slab) Anti-theft yields; Arrears to IPPs (broken down by each IPP)	Monthly	Within 25 days from the end of the month.

Table 2. Pakistan: Monitoring and Reporting Requirements (concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing**
Ministry of Petroleum and Natural Resources		Detailed CD flow (receivables) data by entity and receiver, per file; Gas tariffs, broken down by consumer category, with domestic consumers further broken down by slab; Gas volume sales, broken down by consumer category, with domestic consumers further broken down by slab; Gas revenues, broken down by consumer category, with domestic consumers further broken down by slab; UFG losses per entity	Monthly	Within 30 days from the end of the month
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by all BISP programs.	Monthly	Within 30 days from the end of the month
Ministry of Finance	Financial statements	Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	Quarterly	Within 30 days from the end of the quarter
Pakistan Public Procurement Authority	Public Procurement	Number and amounts of public procurement through the e-PADS system (planned, in-progress, and completed) at the Federal and Provincial levels (including petty purchase, request for quotation, open competitive bidding, and other alternate methods of procurement)	Quarterly	Within 30 days from the end of the quarter

INTERNATIONAL MONETARY FUND

PAKISTAN

December 2, 2025

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, FIRST REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

Approved By
Thanos Arvanitis and Guillaume Chabert

Prepared by the Middle East and Central Asia Department

This supplement provides an update on the status of the outstanding prior action (PA), and program performance since the issuance of the report on November 20. These recent developments do not alter the thrust of the staff appraisal.

1. **The authorities met the outstanding PA on ensuring that any undercapitalized bank as of end-March 2025 either returns to full compliance with capital requirements or else is put under resolution**. One private sector bank had been identified as undercapitalized as of end-March and has since implemented a multi-step recapitalization plan. Based on information provided by the bank and their external auditors, the SBP has concluded that as of November 28, 2025, the bank is compliant with the applicable capital requirements.

2. **All but one end-September Indicative Targets (ITs) for which data is available have been met (see Table 1)**. The authorities met the ITs on (i) the floor on the net international reserves of the SBP; (ii) the ceiling on the net domestic assets of the SBP; (iii) the ceiling on the SBP's stock of net foreign currency swaps/forward position; (iv) the floor on targeted cash transfer spending (BISP); (v) the ceiling on the aggregate provincial primary budget deficit; (vi) the floor on the consolidated net tax revenues collected by provincial revenue authorities; (vii) the ceiling on net accumulation of tax refund arrears; and (viii) the ceiling on power sector payments arrears. The IT on the floor on net tax revenues collected by the FBR was not met in part due to an extension of the filing deadline in response to the floods. The authorities also met the continuous ITs on the zero new flow of SBP's credit to the general government and the zero ceiling on accumulation of external public payments arrears of the general government. Updated outturns for the IT on the ceiling on the aggregate provincial primary budget deficit for March 2025 and June 2025 do not alter staff's assessment.

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

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

	FY2024/25															
	end-Sep 2024				end-Dec 2024				end-Mar 2025				end-Jun 2025			
	Prog. (IT) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (PC) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (IT) CR 24/310	Adjusted Prog.	Actual	Status	Prog. (PC) CR 25/109	Adjusted Prog.	Actual	
I. Quantitative Performance Criteria																
Floor on net international reserves of the SBP (millions of U.S. dollars)	-12,150	-12,709	-11,316	Met	-12,050	-12,793	-9,716	Met	-10,200	-12,200	-10,078	Met	-7,450	-7,359	-6,834	Met
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,044	15,200	14,387	Met	15,211	15,418	14,283	Met	15,179	15,736	15,475	Met	15,024	14,999	14,873	Met
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-3,250	...	-3,050	Met	-3,000	...	-2,990	Met	-2,750	...	-2,616	Met	-2,500	...	-2,496	Met
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-198	-2,724	-3,202	Met	-2,877	-2,946	-3,604	Met	-2,707	-2,766	-3,469	Met	-2,397	-2,545	-2,719	Met
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	5,100	...	4,470	Met	5,200	...	4,419	Met	5,400	...	4,535	Met	5,600	...	4,388	Met
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	101	...	102	Met	235	...	236	Met	415	...	416	Met	599	...	598	Not Met
Cumulative floor on the number of new tax returns (thousands) 4/	75	...	621	Met	225	...	941	Met	300	...	1,423	Met	850	...	986	Met
II. Continuous Performance Criteria																
Zero new flow of SBP's credit to general government	0	...	0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	Met	0	...	0	Met	0	...	0	Met	0	...	0	Met
III. Indicative Targets																
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	2.8	...	2.66	Not met	2.8	...	3.32	Met	3.0	...	3.62	Met	3.0	...	3.85	Met
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	685	...	535	Not met	1,405	...	1,172	Not met	2,150	...	1,899	Not met	2,863	...	2,837	Not Met
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-342	...	-384	Met	-750	...	-824	Met	-1,028	...	-1,126	Met	-1,217	...	-1,017	Not met
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,652	...	2,564	Not met	6,009	...	5,625	Not met	9,168	...	8,450	Not met	12,332	...	11,743	Not met
Floor on the consolidated net tax revenues collected by provincial revenue authorities (cumulative, billions of Pakistani rupees)	184	...	213	Met	376	...	443	Met	606	...	684	Met	918	...	979	Met
Floor on net tax revenues collected by the FBR from retailers under the *Tajir Dost* scheme (cumulative, billions of Pakistani rupees) 5/	10	...	0.003	Not met	23.4	...	0.004	Not met	36.7	...	...	...	...	...	...	...
Floor on income tax revenues collected by the FBR from retailers (cumulative, billions of Pakistani rupees) 5/	...	...	...	...	...	...	...	...	...	...	...	...	531	...	588	Met
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	32	...	-40	Met	43	...	-9	Met	56	...	41	Met	-24	...	-7	Not met
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	255	...	77	Met	461	...	11	Met	554	...	154	Met	337	...	44	Met

Sources: Pakistani authorities; Fund staff estimates.

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

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

3/ Including guarantees for commodity operations by SOEs.

4/ Modified at the time of the First Review to narrow the definition of new tax returns.

5/ Indicative Target on tax revenues from retailers under the *Tajir Dost* scheme discontinued at the time of the First Review, and substituted by new target on income tax revenue from retailers.

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

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

	FY2025/26							
	end-Sep 2025				end-Dec 2025		end-Mar 2026	end-Jun 2026
	Prog. (IT) CR 25/109	Adjusted Prog.	Actual	Status	Prog. (PC) CR 25/109	Proposed (PC)	IT Proposed	PC Proposed
I. Quantitative Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	-7,000	-7,523	-6,674	Met	-6,500	-6,500	-5,600	-4,800
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	14,971	15,116	14,890	Met	15,146	15,146	15,560	15,798
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-2,250	...	-2,198	Met	-2,000	-2,000	-1,750	-1,500
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-460	n.a.	-3,497	n.a.	-2,095	-3,194	-3,418	-3,156
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	5,700	...	n.a.	n.a.	5,800	5,800	5,800	5,800
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	103	...	144	Met	262	321	512	694
Cumulative floor on the number of new tax returns (thousands) 4/	450	...	n.a.	n.a.	900	500	750	1,000
II. Continuous Performance Criteria								
Zero new flow of SBP's credit to general government	0	...	0	Met	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	...	0	Met	0	0	0	0
III. Indicative Targets								
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	3.4	...	n.a.	n.a.	3.4	3.4	4.0	4.0
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)	600	...	n.a.	n.a.	1,200	1,200	2,170	3,470
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-432	...	-805	Met	-851	-752	-1,217	-1,464
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	3,023	...	2,884	Not Met	6,695	6,490	9,917	13,979
Floor on the consolidated net tax revenues collected by provincial revenue authorities (cumulative, billions of Pakistani rupees)	246	...	269	Met	504	488	785	1,190
Floor on net tax revenues collected by the FBR from retailers under the *Tajir Dost* scheme (cumulative, billions of Pakistani rupees) 5/	...	...	...	...	...	...	...	...
Floor on income tax revenues collected by the FBR from retailers (cumulative, billions of Pakistani rupees) 5/	133	...	n.a.	n.a.	295	366	517	707
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	34	...	-62	Met	43	45	42	51
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	200	...	79	Met	300	300	400	400

Sources: Pakistani authorities; Fund staff estimates.
1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.
2/ Cumulative from the start of each fiscal year. "-" means surplus.
3/ Including guarantees for commodity operations by SOEs.
4/ Modified at the time of the First Review to narrow the definition of new tax returns.
5/ Indicative Target on tax revenues from retailers under the *Tajir Dost* scheme discontinued at the time of the First Review, and substituted by new target on income tax revenue from retailers.

Statement by Mr. Bahador Bijani and Mr. Saif Ullah Dogar (OEDMD) on Pakistan
December 8, 2025

On behalf of the Pakistani authorities, we extend our sincere appreciation to the IMF mission team led by Ms. Petrova, for their continued constructive engagement and support in advancing Pakistan's economic reform agenda. The authorities reaffirm their commitment to the objectives of the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) and acknowledge the effective partnership with IMF Management and the Executive Board for Pakistan's economic revival. The authorities further extend deep appreciation to bilateral and multilateral partners—particularly the People's Republic of China, the Kingdom of Saudi Arabia, and the United Arab Emirates—for their unreserved confidence and external financing support.

I. PROGRAM PERFORMANCE

The program remains firmly on track, with macroeconomic stabilization consolidating. Targets in key areas—such as Net International Reserves and Primary Balance for FY25—exceeding expectations. The authorities have transparently acknowledged shortfalls in specific areas and taken decisive remedial actions, underscoring their unwavering commitment to program integrity and reform credibility.

All RSF measures and most EFF benchmarks for the period under review have been met, with minor deviations swiftly addressed, including a missed spending criterion offset by administrative savings. Structural reforms continue at pace, demonstrated by budget, agricultural tax, and asset declaration amendments, alongside climate initiatives like the carbon levy and electric vehicle (EV) subsidy. Robust fiscal management and sustained reforms have bolstered macro stability, supported by strong bilateral and multilateral cooperation.

Some structural benchmarks faced delays due to legislative procedures and broad stakeholder consultations. For instance, the Governance and Corruption Diagnostic (GCD) report was prioritized as a prior action, and the temporary suspension of excise duties on fertilizers and pesticides provided targeted support to farmers. These actions reflect a pragmatic, inclusive approach, and responsible governance, ensuring lasting reform momentum under challenging conditions.

II. MACROECONOMIC PERFORMANCE AND OUTLOOK

Pakistan's macroeconomic environment has shown resilience amid multiple external shocks, including severe monsoon flooding and global supply-chain disruptions.

Effective reform execution—anchored by fiscal discipline, tight monetary policy, and comprehensive structural reforms, all bolstered by strong international cooperation—has anchored stability. In FY25, real GDP growth surpassed forecasts due to industrial expansion and improved business confidence. Inflation remained contained despite temporary food prices spike from flood damage. The external sector strengthened significantly as **Pakistan recorded its first current account surplus in 14 years, and reserves rose above program benchmarks to US$14.5 billion by June 2025 (2.3 months of import cover).** Sovereign risk premiums fell, credit ratings improved, and the rupee remained stable.

Looking ahead, further growth uptick is projected for FY26, driven by industry, services, and ongoing reforms. Inflation may temporarily edge up but is expected to return to target levels, even if the current account shifts to a modest deficit. Fiscal discipline will be upheld with contingency measures ready to ensure meeting targets; our authorities are prepared to adjust revenue and spending priorities as needed. Sustained primary surpluses are set to gradually reduce the public debt to GDP ratio to about 60 percent by FY30. Downside risks are significant, including natural disasters, global market volatility, commodity price shocks, and geopolitical tensions. While acknowledging these risks, the authorities reaffirm their commitment to implementing sound macro-fiscal policies and structural reforms, as well as maintaining close coordination with development partners to consolidate gains and foster sustainable and inclusive growth.

III. FISCAL POLICY AND DEBT MANAGEMENT

The authorities remain committed to fiscal prudence and enhanced revenue mobilization to rebuild buffers. The FY26 budget advances prior reforms by expanding the tax base and promoting fairness through the removal of GST and income tax exemptions, alignment of withholding taxes, and restrained wage and pension adjustments. Despite aggregate FY25 tax revenue falling 0.3 percent of GDP short of target—due mainly to unresolved judicial tax cases, subdued import and inflation dynamics, and slower growth—the revenue-to-GDP ratio rose from 12.6 percent to 15.8 percent within a year, with federal taxes accounting for a 1.7 percentage point increase. The authorities offset part of this shortfall with prudent subsidy reductions. Power subsidies have been curtailed, enabling increased support for social protection programs like Benazir Income Support Program (BISP).

Improving tax revenue reflects success in broadening the revenue base amid systemic and legal challenges. The authorities are leveraging intensified audits, digital invoicing, and targeted outreach—supported by IMF technical assistance—to develop and implement a comprehensive compliance roadmap by March 2026, driving robust revenue mobilization and resolving persistent bottlenecks. Temporary tax exemptions for sugar imports, with strict quality controls, were a targeted response to supply shortages and must not be perceived as a retreat from tax reform or deregulation commitments. The Tax Policy Office is steering medium-term reforms, and provincial revenue capacity is being fortified through new agricultural income tax regimes and harmonized GST on services, supported by improved data sharing and compliance initiatives.

Budget preparation and execution are also being improved to boost transparency and efficiency. Key reforms include adopting advanced fiscal reporting standards, setting rigorous project selection criteria, and streamlining public investment pipelines to ensure effective resource allocation and stronger oversight. Transparency in public spending is further enhanced through expanded digital procurement and independent external audits, strengthening fiscal integrity. Debt management reforms are reducing public sector vulnerabilities by extending debt maturities, broadening the investor base, and utilizing digital tools for greater efficiency. Provinces are now engaged in domestic debt auctions, with market-based borrowing practices being formalized to reflect best public finance standards.

Social protection remains a top priority in the authorities' agenda. Efforts to alleviate poverty and bolster social resilience are being intensively expanded. The end-June QPC for BISP spending was missed by 0.1 percent due to lower administrative costs. The BISP has received a substantial budget increase, enabling higher benefit levels and broader outreach to vulnerable groups. Conditional cash transfer schemes are being scaled up to advance education and nutrition outcomes, while enhanced coordination with provincial authorities aims to eliminate program redundancies and maximize the impact of social protection initiatives.

The authorities have enhanced public investment in social sector. It is important to highlight that the missed program target for health and education spending—albeit marginally, by less than 01 percent (0.02 percent of the GDP), is attributable to administrative bottlenecks and limited absorption capacity at the provincial level, rather than a lack of fiscal commitment. The authorities have further increased expenditure for health and education for FY26, signaling sustained momentum toward mitigating execution gaps and amplifying the efficacy of social investments. To achieve these objectives, the authorities are instituting targeted interventions in partnership with development agencies, optimize resource allocation and enhance operational efficiency at service delivery nodes, particularly in underperforming regions.

In the gas sector, priorities include ongoing tariff adjustments and tighter circular debt oversight, with improved RLNG surplus coordination and quarterly reporting enhancing transparency. Current efforts focus on reducing circular debt stock in the gas sector through prompt tariff rationalization and targeted structural reforms, aimed at capturing efficiency gains from rising industrial demand and implementation of costminimization strategies. This marks a strategic shift from previous flow-containment approaches towards addressing systemic financial distortions. Foundational reforms are underway, including Improved coordination on RLNG surplus management, the deployment of advanced data infrastructure for debt monitoring and the development of an integrated management framework to address the structural drivers of debt proliferation. Additionally, in collaboration with the KPMG, the authorities are preparing a comprehensive report on sector issues, which will be submitted to the Cabinet Committee on Energy and once approved, shared with staff.

In the power sector, debt restructuring of 1,225 billion rupees improved liquidity for social allocations and resolved longstanding financial obligations without extra costs for end users. The strategy now focuses on reducing circular debt through structural reforms, moving beyond previous flow containment methods to address underlying financial distortions.

IV. MONETARY, EXCHANGE RATE, AND FINANCIAL SECTOR POLICIES

Monetary policy has remained appropriately tight and data-dependent, anchoring inflation expectations. The policy rate was held at 11 percent, with credit to private sector picking up, especially in manufacturing and car financing. The State Bank of Pakistan's (SBP) prudent stance has helped contain inflation within its target range, despite floodrelated supply shocks.

The SBP is closely monitoring flood impacts and stands ready to act decisively. The monetary policy framework, including analysis and communication, are being strengthened, with enhanced transparency and publication of policy reports.

Efforts to build reserve buffers and deepen the FX market continue. The SBP is removing payment system impediments to mobilize remittances and improve cross-border payments. Regulatory frameworks are being enforced to safeguard financial stability, with decisive action on undercapitalized banks and microfinance institutions. Financial sector reforms are advancing, including capital market development and AML/CFT effectiveness.

The SBP strives to maintain a robust regulatory posture in mitigating risks associated with undercapitalized banking institutions. Leveraging its statutory authority, the SBP has operationalized a multi-pronged strategy. It has overseen the consolidation of weaker banks with solvent counterparts and is actively facilitating the recapitalization of remaining entities with deficient capital buffers. The regulatory framework now mandates that any bank failing to achieve capital adequacy by the stipulated deadline must either present a credible recapitalization plan or face formal resolution proceedings, which may entail restructuring, liquidation, or merger under SBP supervision. This approach is reinforced by enhanced clear timelines, supervisory scrutiny, and decisive remedial actions particularly in the microfinance segment, where capital erosion is exacerbated by sectoral vulnerabilities. SBP's interventions are aligned with international standards for crisis management and bank resolution, ensuring systemic stability and preserving depositor confidence.

V. STRUCTURAL REFORM

The authorities reiterated their determination to advance structural reforms aimed at unlocking Pakistan's growth potential. Governance and anti-corruption institutions are being strengthened. The publication of the GCD report and amendments to asset declaration frameworks are advancing transparency. SOE governance reforms are being implemented, with progress on board independence, business planning, and public service obligation costing. Additionally, business environment reforms are accelerating. The National Tariff Policy and regulatory modernization agenda are unlocking competitiveness and growth potential. Legislative amendments to the Special Economic Zone (SEZ) and Companies Acts will further enhance governance standards. Commodity market reforms are removing distortions and promoting innovation. Efforts to improve macroeconomic statistics are ongoing, with major surveys and fiscal operations reporting being enhanced.

Pakistan's privatization agenda is strategically focused on divesting SOEs to enhance operational efficiency and fiscal discipline. The authorities have advanced the privatization pipeline for assets including Pakistan International Airlines, First Women Bank, and multiple power sector entities—specifically DISCOs and GENCOs—through transparent bidding and rigorous restructuring protocols. By accelerating the liquidation of non-viable SOEs and implementing governance reforms aligned with international standards, the government aims to mitigate fiscal risks, catalyze private sector investment, and foster competitive market dynamics. Energy sector's viability is being reinforced through prompt tariff rationalization and structural reforms. Circular debt flow targets in the power sector have been achieved, with further efficiency gains anticipated from increased industrial demand and implementation of cost-minimization strategies. Progress continues on the privatization of Distribution Companies (DISCOs) and Generation Companies (GENCOs), the reconfiguration of transmission networks, and the operational rollout of the wholesale electricity market.

Ongoing efforts are also focused on enhancing the quality, coverage, and timeliness of macroeconomic statistics. Major statistical surveys are being upgraded, and fiscal operations reporting is being improved to ensure more accurate and comprehensive data. These initiatives aim to bolster the reliability of macroeconomic indicators and support evidence-based policy making.

VI. CLIMATE RESILIENCE AND RSF ARRANGEMENT

Building climate resilience is an existential priority. Climate-induced disruptions are reshaping Pakistan's economy, as seen in the 2025 monsoon floods, which affected nearly 7 million people, caused over 1,000 deaths, and resulted in losses of PRs 800 billion (0.6 percent of GDP). RSF-supported reforms are mainstreaming climate issues into budget and investment planning, improving water system resilience, and promoting green mobility and energy sector decarbonization. The FY26 Finance Act introduced a carbon levy and EV subsidy **(RM9 and RM10, met),** with further reforms underway to enhance disaster response and energy efficiency, which signal a strategic pivot toward emissions abatement and energy diversification to fortify adaptive capacity and attenuate the macro-financial repercussions of recurrent climate shocks.

CONCLUSION

Pakistan faces the dual challenge of advancing an ambitious reform agenda while simultaneously responding to urgent natural disasters and pressing social needs. Despite these difficulties, the authorities remain steadfast in their commitment to addressing longstanding issues, upholding program integrity, and maintaining the credibility of ongoing reforms. They have ensured that performance shortfalls are neither obscured nor downplayed. Instead, these challenges are methodically and transparently reported and subjected to rigorous analysis. In response, credible and actionable remediation strategies have been developed and implemented to address the identified gaps. This rigorous and transparent approach to managing performance deviations provides a solid foundation for Pakistan's pursuit of sustainable, inclusive, and climate-resilient growth.