



PAKISTAN

March 2018

FIRST POST-PROGRAM MONITORING DISCUSSIONS— PRESS RELEASE; STAFF REPORT; STATEMENT BY STAFF; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the First Post-Program Monitoring Discussions, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 5, 2018 consideration of the staff report that concluded the First Post-Program Monitoring Discussions with Pakistan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 5, 2018, following discussions that ended on December 14, 2017, 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 February 16, 2018.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

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IMF Executive Board Concludes First Post-Program Monitoring Discussions with Pakistan

On March 5, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the first Post-Program Monitoring Discussions¹ with Pakistan.

Pakistan's near-term outlook for economic growth is broadly favorable. Real GDP is expected to grow by 5.6 percent in FY 2017/18, supported by improved power supply, investment related to the China-Pakistan Economic Corridor (CPEC), strong consumption growth, and ongoing recovery in agriculture. Inflation has remained contained.

However, continued erosion of macroeconomic resilience could put this outlook at risk. Following significant fiscal slippages last year, the fiscal deficit is expected at 5.5 percent of GDP this year, with risks towards a higher deficit ahead of upcoming general elections. Surging imports have led to a widening current account deficit and a significant decline in international reserves despite higher external financing. The FY 2017/18 current account deficit could reach 4.8 percent of GDP, with gross international reserves further declining in a context of limited exchange rate flexibility. Against the background of rising external and fiscal financing needs and declining reserves, risks to Pakistan's medium-term capacity to repay the Fund have increased since completion of the Extended Fund Facility (EFF) arrangement in September 2016.²

Executive Board Assessment

Directors took note of Pakistan's favorable growth momentum, but noted with concern the weakening of the macroeconomic situation, including a widening of external and fiscal imbalances, a decline in foreign exchange reserves, and increased risks to Pakistan's economic and financial outlook and its medium-term debt sustainability. In this context, they

¹ The central objective of Post-Program Monitoring (PPM) is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PPM, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

² On September 4, 2013, the Executive Board approved a 3-year arrangement under the EFF for Pakistan in an amount equivalent to SDR 4.393 billion.

urged a determined effort by the authorities to refocus near-term policies to preserve macroeconomic stability.

Directors welcomed the authorities' move to allow some exchange rate adjustment last December, but stressed the importance of greater exchange rate flexibility on a more permanent basis to preserve external buffers and improve competitiveness. They also encouraged the authorities to phase out administrative measures aimed at supporting the balance of payments as soon as conditions allow to minimize potential economic distortions.

Directors noted that the external sector pressures are in part linked to the fiscal deterioration during the last fiscal year and an accommodative monetary policy stance, as well as the high imports related to the China-Pakistan Economic Corridor projects. They called on the authorities to strengthen fiscal discipline through additional revenue measures and efforts to contain current expenditure while protecting pro-poor spending. Complementing the recent increase in the policy interest rate with further monetary tightening would be important to address inflationary risks and help reverse external imbalances. Directors also emphasized the need for prudent debt management and caution in phasing in new external liabilities, and the urgency of tackling rising fiscal risks stemming from continued losses in public sector enterprises.

Directors underscored the importance of accelerating structural reforms to reinforce macroeconomic stability, raise competitiveness, and promote higher and more inclusive growth. They highlighted the need to strengthen the fiscal federalism, monetary and financial policy frameworks; further enhance the AML/CFT regime; improve the business climate; continue to strengthen governance; achieve cost-recovery in the energy sector; and expand social safety nets to protect the most vulnerable.

Table 1. Pakistan: Selected Economic Indicators, 2014/15–2017/18 1/

Population: 207.8 million (2016/17; provisional)

Per capita GDP: US\$1,463 (2016/17)

Poverty rate: 29.5 percent (2012/13)

Main exports: Textiles (\$12.8 billion, 2015/16)

Unemployment: 5.9 percent (2014/15)

	2014/15	2015/16	2016/17	2017/18
	(Annual percentage change)			
Output and prices				
Real GDP at factor cost	4.1	4.5	5.3	5.6
GDP deflator at factor cost	4.3	0.6	3.5	5.0
Consumer prices (period average)	4.5	2.9	4.1	5.0
Consumer prices (end of period)	3.2	3.2	3.9	5.4
Pakistani rupees per U.S. dollar (period average)	-1.5	2.9	0.4	...
	(In percent of GDP)			
Saving and investment				
Gross saving	14.7	13.8	11.7	12.2
Government	-1.6	-0.7	-0.7	-0.3
Nongovernment (including public sector enterprises)	16.3	14.5	12.4	12.5
Gross capital formation 2/	15.7	15.6	15.8	17.0
Government	3.7	3.7	5.0	5.0
Nongovernment (including public sector enterprises)	12.0	11.8	10.8	12.0
Public finances				
Revenue and grants	14.5	15.5	15.7	15.8
Expenditure (including statistical discrepancy)	19.1	19.2	21.1	21.2
Budget balance (including grants)	-5.3	-4.4	-5.7	-5.3
Budget balance (excluding grants)	-5.4	-4.6	-5.8	-5.5
Primary balance	-0.5	-0.1	-1.4	-1.3
General government debt incl. IMF obligations	63.3	67.6	67.2	67.2
External general government debt	18.9	20.8	20.6	22.2
Domestic general government debt	44.4	46.8	46.6	45.0
	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)			
Monetary sector				
Net foreign assets	2.2	1.7	-3.2	-2.9
Net domestic assets	11.0	11.9	16.9	17.1
Broad money (percent change)	13.2	13.7	13.7	14.2
Reserve money (percent change)	9.9	26.5	22.5	18.6
Private credit (percent change)	5.9	11.1	16.6	16.5
Six-month treasury bill rate (period average, in percent)	8.8	6.3	5.9	...
External sector				
Merchandise exports, U.S. dollars (percentage change)	-3.9	-8.8	-0.2	10.0
Merchandise imports, U.S. dollars (percentage change)	-1.0	0.0	17.5	10.2
Current account balance (in percent of GDP)	-1.0	-1.7	-4.1	-4.8
	(In percent of exports of goods and services, unless otherwise indicated)			
External public and publicly guaranteed debt	159.8	193.3	210.1	220.7
Debt service	20.7	22.2	30.2	26.2
Gross reserves (in millions of U.S. dollars) 3/	13,534	18,143	16,141	12,099
In months of next year's imports of goods and services	3.2	3.7	3.0	2.2
Memorandum items:				
Underlying fiscal balance (excl. grants; percent of GDP) 4/	...	...	-6.3	-5.9
General government and government guaranteed debt (incl. IMF; % GDP)	65.7	70.0	69.7	69.7
Net general government debt (incl. IMF; % GDP)	58.2	61.2	61.6	62.4
Real effective exchange rate (annual average, percentage change)	10.9	4.6	3.6	...
Terms of trade (percentage change)	7.0	10.6	0.2	-4.9
Real per capita GDP (percentage change)	2.0	2.5	3.3	3.6
GDP at market prices (in billions of Pakistani rupees)	27,443	29,103	31,862	35,381
GDP at market prices (in billions of U.S. dollars)	270.6	278.9	304.0	...

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

1/ Fiscal year ends June 30.

2/ Including changes in inventories

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

4/ Excludes one-off transactions, including asset sales



PAKISTAN

FIRST POST-PROGRAM MONITORING DISCUSSIONS

February 16, 2018

EXECUTIVE SUMMARY

Economic growth has continued to strengthen. Improved energy supply, investment related to the China-Pakistan Economic Corridor, strong credit growth, and continued investor and consumer confidence, have been underpinning growth, which could reach 5.6 percent this fiscal year within a favorable inflation environment.

Yet, macroeconomic stability gains achieved during the 2013–16 EFF have been eroding, putting this outlook at risk. The current account deficit has been quickly widening, reflecting strong domestic demand amid an overvalued exchange rate, fiscal slippages, and an accommodative monetary policy stance. As a result, foreign exchange reserves have been declining, reaching 2.3 months of imports as of mid-February 2018, despite significant external borrowing. Net international reserves have declined from \$7.5 billion at the end of the EFF to negative \$0.7 billion in mid-February 2018. As a result of fiscal slippages in FY 2016/17, debt-related vulnerabilities have increased.

Risks to Pakistan’s medium-term capacity to repay the Fund could increase on current policies. An elevated current account deficit and increased external obligations are expected to double external financing needs in the medium term, taking a further toll on foreign exchange reserves. Risks to this outlook are largely on the downside, given a difficult political setting and the possibility of further widening external and fiscal deficits in the coming months.

Policy efforts need to focus on arresting the widening imbalances, preserving macroeconomic stability, and supporting private-sector-led inclusive growth. The authorities’ recent moves to tighten monetary policy and to allow some exchange rate adjustment are welcome and need to be complemented with continued exchange rate flexibility to safeguard external buffers. Going forward, further monetary tightening, stronger fiscal discipline, and decisive efforts to contain losses in public enterprises would help address external imbalances and fiscal risks. Careful phasing in of new external liabilities, resuming medium-term fiscal consolidation, and accelerating other growth-supporting structural reforms will be critical to reinforce macroeconomic stability and promote higher and more inclusive growth.

Approved By
**Juha Kähkönen and
 Johannes Wiegand**

Discussions took place in Islamabad during December 5–14, 2017. Staff representatives comprised H. Finger (head), T. Daban Sanchez, M. Kryshko (all MCD), H. Chai (FAD), E. Hitaj (SPR), T. Mirzoev (Resident Representative), and A. Tasneem and H. Zaidi (Resident Representative Office, Islamabad). The mission issued a press release on December 14, 2017. Mmes. T. Sydorenko and M. Orihuela-Quintanilla assisted in the preparation of the report.

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BACKGROUND

1. **The first Post-Program Monitoring (PPM) discussions took place in a challenging economic and political context.** PPM was initiated at the conclusion of Pakistan's Extended Fund Facility (EFF)-supported program in September 2016. While the EFF had helped to support macroeconomic stability and address structural challenges, the policy agenda remained incomplete, requiring continued efforts to reinforce macroeconomic stability and advance growth-supporting structural reforms. Since completion of the EFF, macroeconomic stability gains have been eroding—as already highlighted during the 2017 Article IV consultation—and this trend has continued in recent months.¹ While a new economic team has taken charge following the disqualification of the former Prime Minister by the Supreme Court last summer, economic policy making faces an increasingly polarized political setting ahead of general elections planned for the summer of 2018. These developments have not slowed Pakistan's growth momentum.

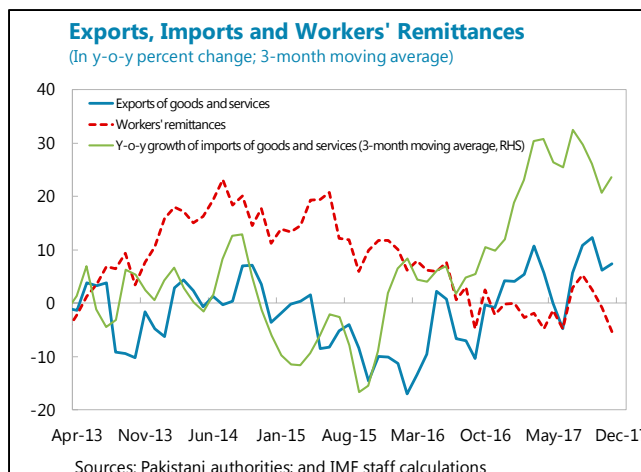
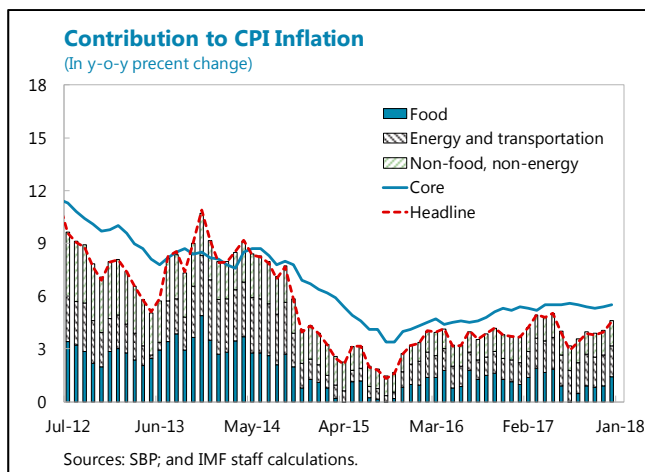
RECENT DEVELOPMENTS

2. **Pakistan's economy has continued to grow at a solid pace since completion of the EFF.** In FY 2016/17, real GDP growth accelerated to 5.3 percent, driven by recovery in agriculture, continued expansion of construction, services, and large-scale manufacturing, and supported by fiscal loosening, strong credit growth, and improved energy supply. Strengthening investment has been linked in part to the China-Pakistan Economic Corridor (CPEC).² The continued expansions in large-scale manufacturing (7.2 percent y-o-y in July-November 2017) and local cement dispatches (17.4 percent y-o-y in July-December 2017), along with ongoing recovery in agriculture, are indicative of continued growth momentum in the current fiscal year. Headline inflation continued to be contained despite inching up to 4.6 percent (y-o-y) in December 2017, while core inflation remained flat at 5.5 percent.

3. **External imbalances have widened.** The current account deficit has increased by more than 2 percent of GDP (to 4 percent of GDP) in FY 2016/17, and further widened in the first half of FY 2017/18, albeit at a decelerating pace. The main driver has been a surge in imports, reflecting strong domestic demand amid persistent real exchange rate overvaluation (estimated at 10–20 percent during the 2017 Article IV discussions in April 2017), the implementation of import-intensive CPEC investment projects, and rising oil prices. Import growth has begun to moderate in the first half of FY 2017/18 but remains strong (19 percent y-o-y). By contrast, exports have begun to rebound after three years of persistent decline, helped by recovery of cotton prices, strengthening trading partner growth, and duty drawbacks offered under the government's export support package introduced last year. Remittances have stabilized following last year's decline.

¹ [IMF Country Report No. 17/212](#).

² CPEC is a large (potentially \$55 billion over the next decade) energy and infrastructure investment package. For an overview and macroeconomic assessment, see: [IMF Country Report No. 17/213](#), Chapter 4.



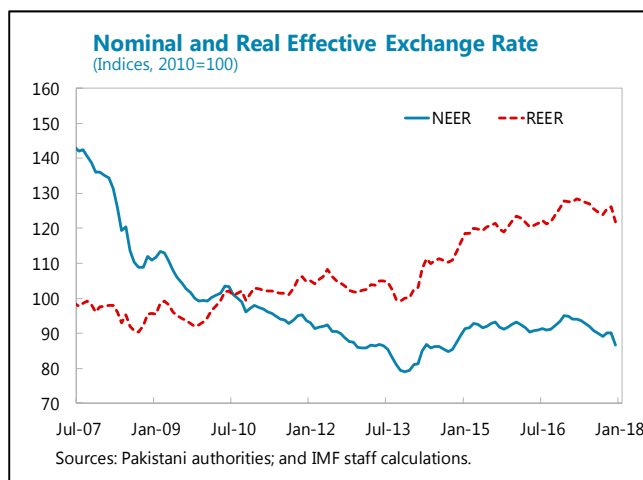
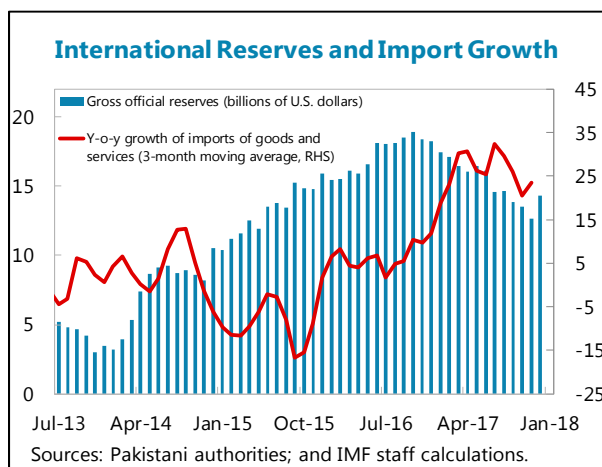
4. Against the background of limited exchange rate flexibility, international reserves have significantly declined, eroding confidence. Maintaining a largely stable nominal exchange

rate amid mounting external pressures has led to losses of international reserves. Despite significant external borrowing by the government, including several syndicated bank loans and an international sukuk and Eurobond issuance of \$2.5 billion, gross reserves of the State Bank of Pakistan (SBP) declined from \$18.5 billion at the end of the EFF to \$12.8 billion in mid-February 2018—equivalent to 2.3 months of prospective imports, or 50 percent the IMF’s reserve adequacy (ARA-EM) metric. Alongside, the SBP’s net short derivative position has doubled to \$5.4 billion, bringing net international reserves (NIR) down from \$7.5 billion to an estimated negative \$0.7 billion over the same period. Following strong growth until May 2017, the stock market has corrected by nearly 20 percent, while external bond spreads have remained relatively close to emerging market averages (Figure 2).

International Reserves (Millions of U.S. dollars)	Sep-16	14-Feb-18
Net International Reserves 1/	7,476	-724
Gross Reserves	18,489	12,772
Foreign Exchange Liabilities	-11,013	-13,496
IMF liabilities	-6,132	-6,371
Chinese Currency SWAPs 2/	-1,501	-1,030
Liabilities to other CBs 2/	-700	-700
Forward/SWAPs Position 2/	-2,680	-5,395

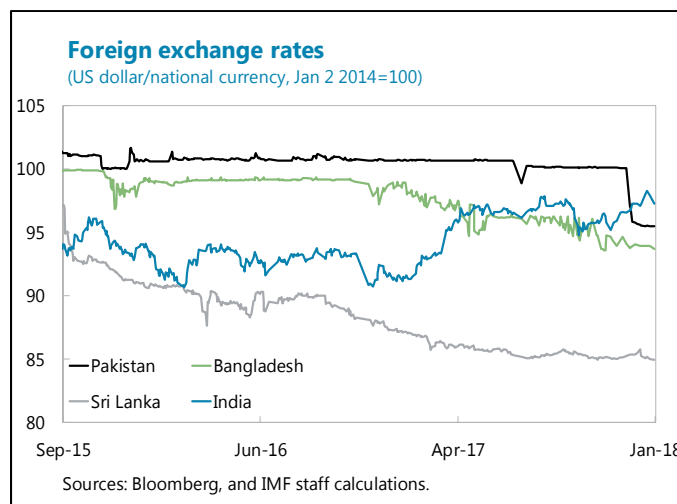
1/ February 2018 NIR is estimated based on actual gross reserves and latest available figures for foreign exchange liabilities.

2/ The February 2018 column refers to end-December 2017 estimates.



5. The authorities have adopted administrative measures and allowed some exchange rate adjustment to mitigate these trends, albeit with limited effect.

In addition to maintaining cash margin requirements on payments for consumer imports,³ they have significantly raised regulatory duties on many imported intermediate, consumer, and luxury goods to contain import growth. The export support package has been extended with easier qualification criteria. Furthermore, in December 2017, the authorities allowed a 5 percent depreciation of the rupee/dollar exchange rate. Nonetheless, reserve losses have continued, pointing to limited effectiveness of these measures to date.



6. External sector pressures are linked in part to fiscal loosening, which has supported domestic demand and import growth.

The overall fiscal deficit (excluding grants) widened to 5.8 percent of GDP in FY 2016/17, about 2 percent of GDP more than initially budgeted and 1.3 percent of GDP higher than projected at the time of the Article IV consultation. The slippage relative to the latter stemmed from overshooting of provincial development expenditure (0.7 percent of GDP), federal development and non-interest current expenditure (0.4 and 0.3 percent of GDP, respectively), and a tax revenue shortfall of 0.3 percent of GDP, partially offset by higher non-tax revenue (0.4 percent of GDP). Staff estimates the underlying deficit to have been about 0.5 percent of GDP higher (6.3 percent of GDP), after accounting for one-off asset sales.⁴ The fiscal deficit reached 1.2 percent of GDP in Q1 FY 2017/18 (compared to 1.3 percent of GDP in Q1 FY 2016/17), helped by strong growth of revenue collection by the Federal Board of Revenue (FBR) of over 20 percent y-o-y.

7. Fiscal risks also stem from continued loss-making in public sector enterprises (PSEs).

Privatization and restructuring of key loss-making PSEs have been largely on hold. Meanwhile, financial losses by the state-owned airline and steel mill have continued to accrue, while the accumulation of new payment arrears of power distribution companies (so-called “circular debt”)—which was brought to near zero at end-FY 2015/16—has resumed, reaching PRs 193 billion (0.5 percent of GDP) since July 2016, with an accumulated stock of such arrears of PRs 514 billion (1.5 percent of GDP) by end-December 2017. The combined accumulated losses by these PSEs now exceed PRs 1.2 trillion (4 percent of GDP), which could eventually lead to sizable demand for

³ The cash margin requirements on import payments constitute an exchange restriction and multiple currency practice subject to IMF jurisdiction under Article VIII, 2(a) and 3. The retention of these exchange measures was temporarily approved for one year by the Executive Board during the June 2017 Article IV consultation.

⁴ These include the sale of a government-owned printing press to the SBP, selling a public enterprise to a government-owned development fund, and appropriation of funds from dormant public saving scheme accounts as nontax revenue.

budgetary resources. In addition, inter-agency arrears in the gas sector, although still low, have been rising, reflecting limitations in the current cross-subsidization arrangement between the two publicly-owned gas companies and delays in updating gas tariffs.

8. **Monetary policy has been accommodative, supporting strong domestic demand and contributing to external vulnerabilities.** The real policy rate has remained below its historical average, and private credit growth remained high at 15.1 percent y-o-y in January 2018, driven by manufacturing, construction, transport, trade, and personal loans. Broad money growth remained broadly stable at 11.8 percent y-o-y in January 2018, while reserve money growth slowed to 14.7 percent (from 26.5 percent in FY 2015/16) as strong domestic government borrowing from the SBP (up by about PRs 1.2 trillion) and increasing liquidity injections through open market operations helped offset the large decline in SBP's net foreign assets. In January 2018, the SBP tightened the policy rate by 25 bps to 6 percent to stem domestic demand pressures and the expected increase in inflation.

9. **The banking system has been resilient despite moderating profitability.** The system-wide capital adequacy (15.4 percent in September 2017) remained well above the regulatory minimum of 10.65 percent, although two small banks remain undercapitalized. Reflecting lower interest rates and smaller margins, profitability has been declining but remains adequate. The nonperforming loan (NPL) ratio declined to 9.2 percent by September 2017 (from 11.3 percent a year ago) reflecting strong credit growth, although NPLs in the SME sector and agriculture remain high. The sanctioning of the largest bank by the U.S. regulator exposed weaknesses in the enforcement of AML/CFT regulations.⁵ A Supreme Court decision (currently on appeal) regarding another large bank's pension liabilities could affect the bank's capitalization.

MACROECONOMIC OUTLOOK

10. **Near-term growth is expected to remain strong, provided that macroeconomic stability risks are contained.** Continued implementation of CPEC, operationalization of new power generation capacity, sustained recovery of agriculture, and strong consumption growth are set to continue in FY 2017/18, with real GDP growth likely accelerating to 5.6 percent. In staff's baseline projection, growth is expected to moderate to about 5 percent in the medium term, reflecting declining energy sector investments, moderating confidence, and continued structural reform challenges, although there are significant downside risks if external and fiscal imbalances are not swiftly addressed. Absent major changes in the exchange rate, headline inflation is expected to remain in mid-single digits both in 2017/18 and in the medium term.

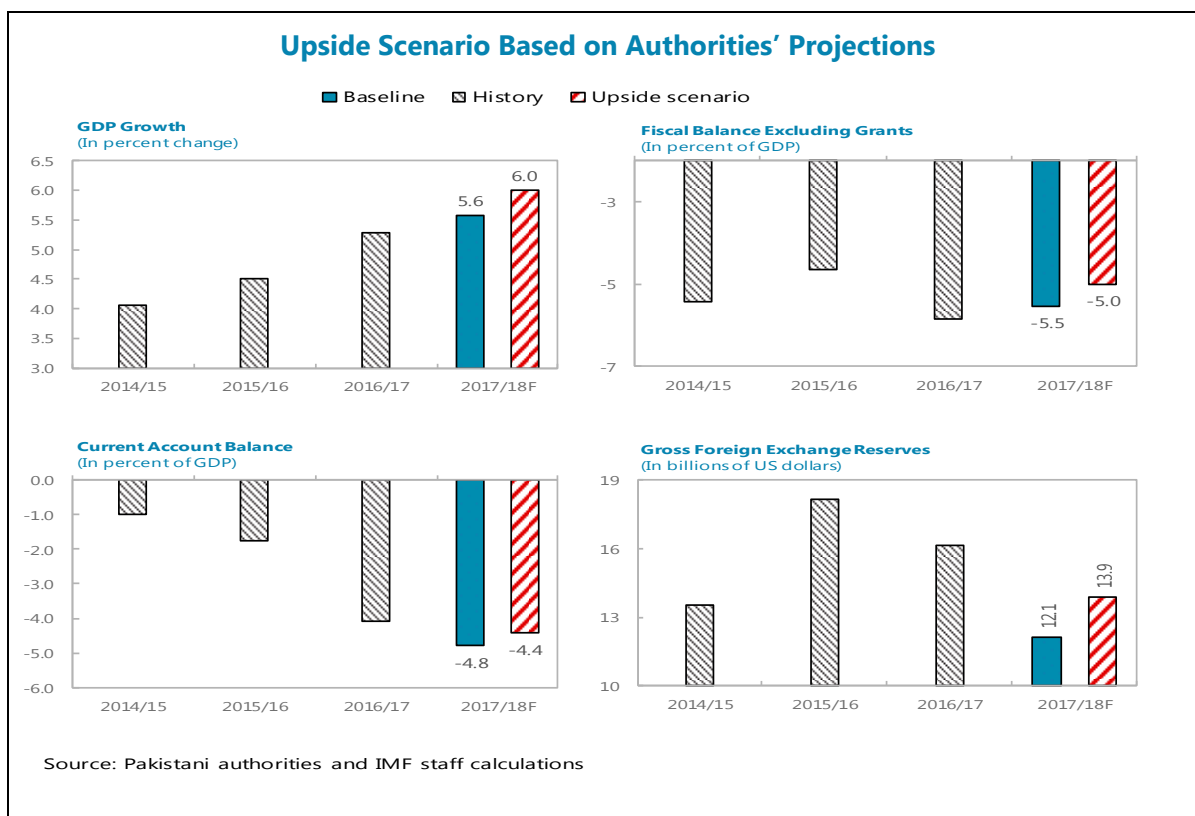
⁵ In August 2017, the New York Department of Financial Services (NYDFS) revoked the license of the bank's New York branch and imposed a fine of \$630 million (reduced to \$225 in a settlement) for failure to comply with AML/CFT regulations and the Bank Secrecy Act in a case dating back to 2006.

11. **External sector imbalances are expected to rise further.** Despite continued recovery of exports and some moderation of import growth, the current account deficit is expected to widen to US\$15.7 billion (4.8 percent of GDP) this year. In the medium term, the current account deficit is expected to remain elevated at about 3.8 percent of GDP, owing to continued real exchange rate misalignment and slow recovery of remittances. On current policies, and based on the authorities' ambitious external financing plans, gross international reserves are expected to further weaken to US\$12.1 billion (2.2 months of imports) this year, with risks skewed to the downside. Reserves are expected to continue declining in the medium term (Table 2).

12. **The fiscal deficit will likely remain elevated.** On current policies, staff projects the budget deficit (excluding grants) to reach 5.5 percent of GDP this year (5.9 percent of GDP underlying deficit excluding one-off operations). Stronger tax revenue (12.9 percent of GDP, up from 12.5 percent last year)—owing to robust import growth, higher oil prices, the recent exchange rate depreciation, and imposition of regulatory duties—and lower interest expenditure are expected to provide a moderating effect on the deficit. In addition, the authorities' decision to restrain the budgeted surge in development spending and to closely coordinate with the provinces to maintain fiscal discipline will be helpful. That said, the pre-election period could pose significant risks to maintaining fiscal discipline. Over the medium term, quasi-fiscal losses and arrears by PSEs are expected to persist and the fiscal deficit will likely remain elevated, at around 5.8 percent of GDP, as growing interest expenditure and PSE's subsidy requirements would be counterbalanced by improvements in revenue collection.

The Authorities' Views

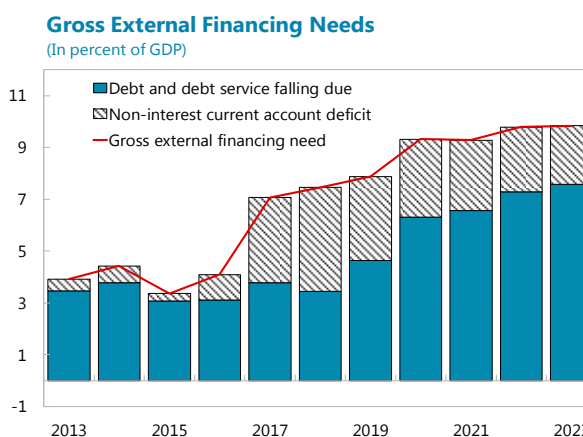
13. **The authorities expect higher growth and lower imbalances in the period ahead.** The authorities thought that staff's baseline scenario does not adequately reflect their recent policy measures aimed at fiscal consolidation and improving the external account, including through containing development spending, exchange rate adjustment, and measures to curtail imports and promote exports in the short term. The authorities believe that these will generate a significant fiscal impact and restore sustainability of the balance of payments in the medium term. Under an upside scenario based on the authorities' projections, faster revenue growth, supported by ongoing efforts to broaden the tax net, and a higher fiscal surplus at the provincial level would contain the general government budget deficit (excluding grants) to 5 percent of GDP in FY 2017/18. In addition, a stronger impact of the recent exchange rate depreciation and other policy measures on the trade balance could help contain the current account deficit to 4.4 percent of GDP in FY 2017/18. With this, gross reserves could stabilize at about US\$13.9 billion this year and recover to 2½–3 months of imports in the medium term. Macroeconomic stabilization gains and the ongoing cyclical momentum would lift real GDP growth to 6 percent this year and 6.5 percent in FY 2018/19, supported by higher investor confidence. The authorities also emphasized their resolve to take additional policy measures to address the current macroeconomic vulnerabilities as needed.



CAPACITY TO REPAY THE FUND

In staff's assessment, risks to Pakistan's medium-term capacity to repay have increased significantly since the completion of the EFF, due to mounting external and fiscal financing needs and declining reserves.

14. **External financing needs are expected to continue to mount in the medium term.** The elevated current account deficit and rising external debt service, in part driven by CPEC-related outflows (loan repayments and profit repatriation), are expected to lead to higher external financing needs, which are expected to rise from US\$21.5 billion (7.1 percent of GDP) in FY 2016/17 to around US\$45 billion by FY 2022/23 (9.9 percent of GDP).



15. **Fiscal risks will likely remain heightened.** Risks to public debt sustainability have increased since the completion of the EFF (Annex I). Public and publicly-guaranteed debt is expected to remain

elevated, marginally declining from 70 percent of GDP in FY 2016/17 to 68 percent of GDP by FY 2022/23. Alongside, gross fiscal financing needs will likely exceed 30 percent of GDP from 2018/19 onward, in part reflecting increased debt service obligations.

16. Mobilizing affordable external financing could become more challenging in the period ahead. The authorities' success with contracting external borrowing (over \$10 billion in FY 2016/17 and more than \$6 billion so far in FY 2017/18; Table 8) has been instrumental in softening the impact of the rising external imbalances on foreign exchange reserves. While the level of external debt (27.4 percent of GDP in FY 2016/17) has remained moderate, continued mobilization of external financing at favorable rates could become more challenging in the period ahead, against the background of rising international interest rates and increasing financing needs.

17. These trends could take a further toll on reserves and weaken Pakistan's capacity to repay the Fund. At present, gross reserves amount to about twice Pakistan's outstanding Fund repurchases (SDR 4.4 billion). Repayments to the Fund are scheduled to start at SDR 243 million (including GRA charges and surcharges) in 2018 and peak at SDR 820 million in 2021 with a gradually declining schedule until 2026. While these obligations do not exceed 6 percent of total external debt service in any year, their share in gross reserves is expected to rise significantly in the medium term, reaching close to 15 percent in 2022.

Indicators of Fund Credit, 2015–23 (In millions of SDR unless specified)									
	2015	2016	2017	Projections					
				2018	2019	2020	2021	2022	2023
(Projected Level of Credit Outstanding based on Existing Drawings)									
Total	3,600.0	4,393.0	4,393.0	4,243.0	3,823.0	3,163.0	2,400.8	1,698.7	966.5
<i>Of which:</i>									
ECF, SBA, and ENDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility	3,600.0	4,393.0	4,393.0	4,243.0	3,823.0	3,163.0	2,400.8	1,698.7	966.5
In percent of end-period gross official reserves	37.4	33.5	37.7	48.5	50.7	45.9	39.7	33.6	18.9
As a share of external debt	7.8	8.3	7.3	6.3	5.1	3.8	2.7	1.8	0.9
(Projected Debt Service to the Fund based on Existing Drawings)									
Total	338.1	51.1	75.0	243.0	505.1	730.7	820.2	747.1	764.0
<i>Of which:</i>									
Principal	303.0	0.0	0.0	150.0	420.0	660.0	762.2	702.2	732.2
Interest and charges	35.1	51.1	75.0	93.0	85.1	70.7	58.0	44.9	31.8
SBA and ENDA Principal	303.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility Principal	0.0	0.0	0.0	150.0	420.0	660.0	762.2	702.2	732.2
In percent of end-period gross official reserves	3.5	0.4	0.6	2.8	6.7	10.6	13.6	14.8	14.9
As a share of total external debt service	7.7	1.2	1.3	4.3	5.5	5.4	5.9	5.1	5.4
Memorandum items									
Quota (millions of SDRs)	1,034	2,031	2,031	2,031	2,031	2,031	2,031	2,031	2,031
Gross official reserves (millions of U.S. dollars)	13,534	18,143	16,141	12,099	10,432	9,539	8,360	6,989	7,075
Total External Debt (millions of U.S. dollars)	65,082	73,063	82,981	93,277	103,385	114,124	123,720	133,070	144,952
Total External Debt Service (millions of U.S. dollars)	6,205	6,096	8,292	7,739	12,737	18,583	19,163	20,354	19,728

Source: IMF staff projections.

18. **Risks to Pakistan’s economic outlook and capacity to repay are largely on the downside** (Box 1). Demands for higher spending in the pre-election period could raise the fiscal deficit, including at the provincial level. A more gradual deceleration of imports (for example, due to higher oil prices) and slower recovery of exports and remittances could further widen the external deficit. Tightening global financial conditions and changing investor sentiment could complicate mobilization of external financing, particularly if external and fiscal imbalances are not proactively addressed, eroding confidence, private investment, and economic growth. A deterioration in security conditions could also negatively affect investment. Lower growth in key trading partners or further appreciation of the real effective exchange rate could accentuate these trends. Furthermore, continued scaling up of CPEC investments could accelerate the buildup of related external payment obligations. In staff’s downside scenario, based on partial materialization of these risks, Pakistan’s capacity to repay could deteriorate at a faster pace, with faster depletion of foreign exchange reserves and significant implications for economic growth (Box 2).

The Authorities’ Views

19. **The authorities offered a more optimistic assessment of the capacity to repay.** They thought that, with the recent depreciation, equilibrium has been restored in the foreign exchange market, helping to address any medium-term financing gaps. Based on the authorities’ projections of a stronger economic response to their policy measures, they expected continued positive investor confidence and access to external financing, with gradually improving reserve coverage over the medium term.

POLICY DISCUSSIONS

Discussions focused on near-term policies to arrest the widening imbalances and preserve macroeconomic stability, as well as medium-term reforms to ensure sustainability and promote higher and more inclusive growth. Near-term stabilization policies should include phasing out currency interventions to facilitate external adjustment, safeguard reserves, and buttress competitiveness, supported by tighter fiscal and monetary policies to ease import demand and contain inflationary pressures, while supporting public debt sustainability. Reforms to support inclusive growth should focus on strengthening the business climate and policy frameworks, restructuring and/or privatizing loss-making public enterprises, completing the energy sector reform, and strengthening social safety nets.

A. Focusing Short-term Policies on External Adjustment

20. **Staff welcomed the SBP’s move to allow adjustment of the exchange rate, and emphasized the importance of continued exchange rate flexibility going forward.** While the depreciation allowed in December was a step in the right direction, further steps to phase out foreign exchange interventions and allowing greater exchange rate flexibility on a more permanent basis will be critical to contain the external pressures and improve competitiveness.

Box 1. Pakistan: Risk Assessment Matrix¹

Risk	Medium Term Likelihood	Expected Impact Upon Realization	Policies to Mitigate Risk
Additional slippages in policy implementation	Medium Fiscal pressures on the government could rise during the pre-election period. Mounting external challenges could be compounded by an unsupportive monetary and fiscal policy mix leading to speculative pressures, faster capital outflows and potential loss of confidence.	High -Eroded confidence; -Erosion of macroeconomic stability gains; -Discouraged investment; -Weakened growth prospects.	-Continue to allow for exchange rate flexibility. -Focus the policy mix firmly on stabilization policies. -Continue outreach to build wide consensus on national economic policy agenda;
Security conditions	Medium Regional tensions and possible retaliation against ongoing domestic security operations could increase security concerns.	Medium to High -Eroded confidence; -Discouraged investment; -Increased military spending/fiscal burden. -Disrupted economic activity.	-Instill confidence through a strong medium-term economic program; -Maintain engagement with donors; -Maintain fiscal and external buffers.
Retreat from cross-border integration	Medium A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy and regulatory collaboration, with negative consequences for trade, capital and labor flows, sentiment, and growth.	Low to Medium -Impaired exports; -Reduced remittances; -Weakened FDI prospects; -Dampened growth; - More difficult and costly external financing.	-Sustain build-up of fiscal and external buffers; -Continue to allow for exchange rate flexibility to support competitiveness; -Maintain adequate medium-term debt strategy; -Ensure strong financial regulation and supervision.
Structurally weak growth in key advanced economies	High Low productivity growth (U.S., euro area and Japan), high debt, and failure to fully address crisis legacies by undertaking structural reforms amidst persistently low inflation (euro area and Japan) could undermine medium-term growth.	Medium -Impaired exports; -Reduced remittances; -Weakened FDI prospects; -Dampened growth.	-Sustain build-up of fiscal and external buffers; -Continue to allow for exchange rate flexibility to support competitiveness; -Improve business climate and enhance governance and anti-corruption measures.
Significant slowdown in China	Low/Medium A too fast de-risking of the financial system and improper sequencing of actions could adversely affect near-term growth in China (low likelihood). Over the medium term, unsustainable stimulus could reduce fiscal space and further increase financial imbalances. A sharp adjustment would weaken domestic demand, with adverse international spillovers, including a pullback in capital flows to EMs (medium likelihood).	Medium -Impaired exports; -Reduced remittances; -Weakened FDI prospects; -Dampened growth; - More difficult and costly external financing.	-Sustain build-up of fiscal and external buffers; - Continue to allow for exchange rate flexibility to support competitiveness; - Improve business climate; -Maintain adequate medium-term debt strategy; -Ensure strong financial regulation and supervision.
Tighter global financial conditions	High An abrupt change in global risk appetite could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.	Medium -More difficult and costly external financing; -Deterioration of the stock market; -Possible difficulties with privatization.	-Sustain build-up of external buffers; -Continue to allow for exchange rate flexibility to support competitiveness; -Maintain adequate medium-term debt strategy; -Ensure strong financial regulation and supervision.

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 of risks listed 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 percent and 30 percent, and "high" a probability between 30 percent and 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.

Box 2. Potential Implications of Lower Capital Inflows

While staff's baseline scenario is premised on Pakistan's continued ability to attract significant capital inflows, there could be considerable implications for economic growth and international reserves should less capital flows be forthcoming. In a downside scenario, assuming capital flows were to decline from last year's level instead of increasing as projected in the baseline scenario, the correspondingly larger pressure on reserves could affect confidence, consumption, and investment. In such a scenario, economic growth could decline to about 3 percent in FY2018/19. Lower domestic demand would reduce import growth and the current account deficit, mitigating the effect on reserves, which would still be significantly below the baseline scenario.

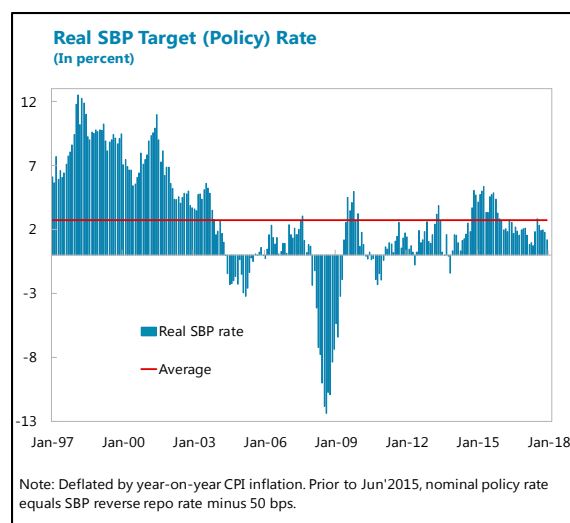
Potential Implications of Lower Capital Inflows

	2016/17	2017/18	2018/19
	Est.	Proj.	Proj.
Current Account (percent of GDP)			
Baseline	-4.1	-4.8	-4.4
Lower capital flows	-4.1	-4.7	-3.6
Financial Account (millions of U.S. dollars)			
Baseline	9,987	11,604	13,321
Lower capital flows	9,987	8,396	7,996
International Reserves (millions of U.S. dollars)			
Baseline	16,141	12,099	10,432
Lower capital flows	16,141	9,370	5,077
Real GDP Growth (percent)			
Baseline	5.3	5.6	4.7
Lower capital flows	5.3	5.0	3.0

21. **At the same time, staff cautioned against the use of administrative measures to reduce the external imbalances.** Regulatory duties on imports, cash margin requirements, and the export support package are unlikely to facilitate a sufficient external adjustment in the absence of continued exchange rate flexibility. These measures may also adversely impact competitiveness in the medium term with distortions and increased dependency on regulatory protection and fiscal incentives. Staff recommended to remove the regulatory duties and cash margin requirements as soon as conditions allow.

22. **Staff recommended monetary policy tightening to support macroeconomic stability.**

Despite the recent interest rate hike, the monetary policy stance has been largely accommodative, with the real policy interest rate below its historical average, contributing to strong credit and domestic demand growth. Staff recommended further tightening of the monetary policy stance to slow domestic demand and import growth, strengthen demand for rupee financial assets, and mitigate the potential pass-through from the exchange rate adjustment to inflation. Staff advised to unwind the increased government borrowing from the SBP, which would support monetary tightening. Going forward, greater exchange rate flexibility will need to be accompanied by further adjustment of the policy stance as well as strengthening of the interest rate-based monetary policy framework with appropriate intermediate and operational monetary policy targets, and a clear limit to FX interventions.



23. **Strengthened fiscal discipline will be important to reduce debt-related vulnerabilities and rein in the current account deficit.** Despite the pre-election period, staff recommended complementing the positive revenue performance with an early introduction of additional measures to contain this year's budget deficit to 5 percent of GDP (5.4 percent underlying deficit excluding one-off operations) to partly undo last year's overruns, support efforts to contain import pressures, and strengthen debt sustainability. This could be achieved with further elimination of tax concessions and exemptions (0.3 percent of GDP), raising of petroleum taxes, withholding taxes and excises (0.1 percent of GDP), and containing current expenditure (0.1 percent of GDP).

24. **Staff urged decisive short-term actions to contain quasi-fiscal losses in PSEs.** Staff welcomed the authorities' intention to notify revised electricity tariffs, which would help contain the buildup of power sector arrears, and urged faster implementation of other components of the circular debt reduction plan (including continued efforts toward improving distribution companies' losses and collections). Staff also recommended to consider additional electricity surcharges to facilitate cost recovery until the underlying structural issues are tackled. Staff emphasized the urgency to arrest losses by Pakistan International Airlines (PIA) and Pakistan Steel Mill (PSM).

The Authorities' Views

25. **The authorities broadly agreed with staff's recommendations to contain external pressures but were more optimistic about the impact of recent policy measures.** The authorities agreed with the need for continued exchange rate flexibility but considered the recent depreciation as likely sufficient to restore equilibrium in the foreign exchange market. They agreed with the potentially negative side effects of administrative measures but were more optimistic in their

assessment of these measures' ability to contain the trade balance in the short term. They emphasized their intention to use these measures on a temporary basis until external pressures subside.

26. The authorities viewed the current fiscal and monetary policy stances as adequate.

They agreed with the need to contain the fiscal deficit to 5 percent of GDP. They expected this target to be attainable on current policies, while indicating a willingness to take additional policy measures should the need arise. Regarding monetary policy, they stressed that the independent monetary policy committee would continue to review economic fundamentals and make policy adjustments as needed based on its own judgment.

27. The authorities broadly agreed with the policy priorities for ailing public enterprises.

They agreed with the need to strengthen electricity distribution companies' financial performance and to notify updated electricity tariffs. They were hopeful that a new plan to restructure and seek private participation in PIA would help improve its financial performance. They are also actively considering options to privatize PSM.

B. Strengthening Macroeconomic Stability in the Medium Term

28. Careful phasing in of new external liabilities and strengthening of external buffers will be important to complement short-term efforts to strengthen external sustainability.

Considering the significant increase in external financing needs in the coming years, staff recommended caution when considering the assumption of new external liabilities now that the most urgent energy supply shortfalls have been addressed. In parallel, saving foreign exchange proceeds from additional external borrowing will be important to improve resilience and ensure medium-term sustainability.

29. Medium-term fiscal consolidation is needed to ensure public debt sustainability. On current trends, both the fiscal deficit and net public debt are expected to exceed the limits set in the Fiscal Responsibility and Debt Limitation Act (FRDLA) throughout the medium term, underscoring the need for lasting consolidation efforts.⁶ Consistent with the recommendations of the 2017 Article IV Consultation, staff emphasized the importance of persistent revenue mobilization efforts as the main driver of fiscal consolidation. In this context, continued strengthening of the tax administration will be important, including by improving the FBR's access to third-party information, enhancing tax audits, building a centralized electronic fiscal cadaster, reducing the stock of outstanding tax refund claims, and strengthening the culture of tax compliance. Alongside, improving the composition of spending—including by containing the wage bill growth and further

⁶ The FRDL Act amended in 2016 imposes a limit on the federal government budget deficit (excluding foreign grants) of 4 percent of GDP for FY 2017/18–FY 2019/20, and 3.5 percent of GDP thereafter, and a limit of 60 percent of GDP on the general government debt until FY 2017/18, and adopts a 15-year transition path toward 50 percent of GDP. The FY 2017/18 Budget Act changed the definition of debt subject to the mandated limits from gross to net debt.

rationalizing and strengthening the targeting of electricity subsidies—is needed to create additional fiscal space for growth-supporting public investments and social expenditure.

30. **Improving efficiency, flexibility, and responsiveness of the national fiscal federalism framework will be critical to contain medium-term fiscal risks.** Staff reiterated the need for strengthening the current framework with better alignment of revenue and expenditure responsibilities, as well as improved coordination and resource-sharing mechanisms.⁷

31. **Eliminating quasi-fiscal losses in PSEs on a permanent basis would create significant fiscal space in the medium term.** Staff urged the authorities to complete the unfinished agenda of restructuring and/or privatizing the loss-making PSEs. While recognizing the difficulties of making substantive progress in this area during the remaining term of the current government, staff recommended to continue advancing the necessary preparatory work to enable swift progress once substantive reforms become feasible. Alongside, efforts to reduce technical and distribution losses in the power and gas sectors, including by stricter enforcement of the "Gas Theft and Recovery Act," are needed to contain arrears. In this context, staff welcomed the authorities' plans to revisit the current cross-subsidization arrangements and notify higher tariffs in the gas sector to ensure adequate cost recovery.

32. **Continued strengthening of the monetary policy framework will help enhance macroeconomic stability.** Staff welcomed the SBP's plans to transition to an inflation targeting framework by 2020. To this end, staff urged further enhancing autonomy of the SBP and phasing out government borrowing from the SBP to avoid fiscal dominance and support an effective interest rate-based monetary policy framework. A draft legislative action plan to strengthen SBP independence has been prepared and staff urged the authorities to swiftly implement it. Staff also recommended to address the remaining recommendations of the 2013 Safeguards Assessment in the areas of SBP's institutional autonomy, governance, limiting credit to government, and personal autonomy of board members.

33. **Lasting improvements in competitiveness will require a significant enhancement of the business environment.** Stepped-up efforts are needed to promote diversification of the export sector and private sector job creation to absorb the growing youth population. Priority areas include improving the provision of administrative services at various levels of government, and easing procedures for starting a business, obtaining construction permits, registering property, and paying taxes. In addition, strengthening the legal framework and capacity of the judiciary in the areas of contract enforcements and corporate restructuring/bankruptcy, as well as effective anti-corruption enforcement will be needed to strengthen the business climate. In this context, staff welcomed the recent passage of the Corporate Rehabilitation Act, which will facilitate faster resolution of non-performing loans in the banking sector with a strengthened bankruptcy framework.

⁷ See [IMF Country Report No. 17/213](#), Chapter 3.

34. **Staff recommended further financial sector reforms and efforts to strengthen the sector's resilience.** The two small banks, which persistently operate below the minimum capital adequacy requirement, need to be brought to regulatory compliance.⁸ Following up on the Article IV discussions, staff reiterated the need to operationalize the Deposit Protection Corporation and welcomed progress with enhancing the regulatory framework, including the implementation of Basel III liquidity standards. Staff also recommended further strengthening contingency planning, and exploring options for modernizing the bank resolution framework. The recent stock market correction and exchange rate depreciation will likely have a very limited impact on banks, given their low exposure to the stock market, low dollarization, and strict open position limits. Deceleration of private credit growth in the wake of policy tightening could raise NPLs, requiring vigilance and effective implementation of the supervisory framework. Staff also urged continued strengthening of the AML/CFT framework and its consistent implementation, including the effectiveness of measures to mitigate significant risks of terrorist financing. The SBP has already increased its inspection cycles in this area, and is contemplating focused and more frequent offsite supervisory interactions and monitoring. In addition, SBP has urged banks to rationalize their overseas operations and meticulously comply with the AML/CFT requirements of respective jurisdictions.

35. **Stronger mechanisms for protecting the most vulnerable will be critical to support inclusive growth.** The Benazir Income Support Program (BISP), which was expanded significantly during the EFF, has made substantial progress with improving its delivery mechanisms and minimizing fraud, including with the use of biometric identification technology, and establishing of graduation schemes for long-term beneficiaries. Staff emphasized the importance of shielding the BISP budget from fiscal consolidation and urged its continued expansion to increase coverage and ensure timely indexation of stipends. Staff advised to continue raising budgetary outlays for social protection over the medium term to levels at or above those of Pakistan's South Asian peers.

The Authorities' Views

36. **The authorities broadly agreed with these priorities.** They stressed their efforts to increase the scrutiny of the terms of new foreign-financed projects and their decision to minimize the role of imported fuel in energy sector projects. They underscored that achieving higher exports will be important for sustainable growth and external sector resilience. They concurred with the need for further fiscal consolidation through the medium term, in part driven by raising more revenue through broadening of tax bases. In that context, they also agreed with the need for improving the fiscal federalism framework, while noting the constitutional constraints and the need for extensive consultations with the provinces, which may limit the range of politically feasible reforms. The authorities also stressed the importance of further business climate reforms and advancing with restructuring and seeking private sector participation in public sector enterprises, including in the energy sector. Regarding increases in BISP outlays, the authorities noted ongoing work to establish graduation programs for BISP beneficiaries and a donor-funded endowment fund.

⁸ One (publicly-owned) noncompliant bank is in the privatization process and the pre-qualification stage of bidders has been completed. The second (privately-owned) bank is in the process of merging with another public bank.

STAFF APPRAISAL

37. **Despite solid growth, Pakistan's macroeconomic stability gains achieved during the EFF have been eroding amid widening external and fiscal imbalances.** While real GDP growth has continued to accelerate, external and fiscal imbalances have significantly widened in the context of strong domestic demand growth, limited exchange rate flexibility, accommodative monetary policy, fiscal slippages, and limited progress with key structural reforms. As a result, foreign exchange reserves have been declining, despite significant public sector external borrowing in recent months.

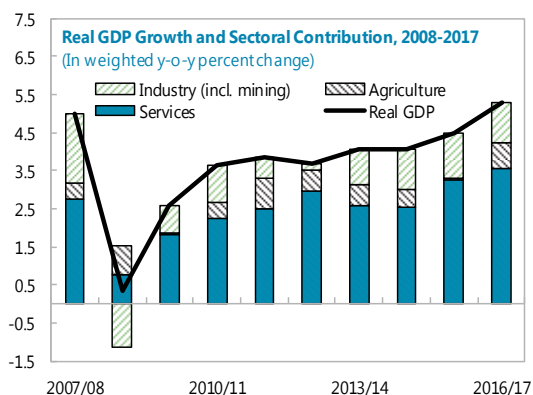
38. **Alongside, risks to Pakistan's medium-term capacity to repay the Fund have increased.** An elevated current account deficit and increased external obligations are expected to double the external financing needs in the next three to five years, which could take a further toll on foreign exchange reserves. As a result, scheduled repayments to the Fund as a share of gross reserves could rise to nearly 15 percent by 2022. Risks to this outlook are largely on the downside, given the difficult political setting and a possible further widening of the external and fiscal deficits in the coming months.

39. **A significant refocusing of near-term policies is needed to arrest the widening imbalances and preserve macroeconomic stability.** Swiftly addressing the fiscal and external imbalances will be important to mitigate the substantial downside risks. The authorities' recent moves to tighten monetary policy and to allow some exchange rate adjustment are welcome and should be complemented with further steps to phase out foreign exchange interventions to preserve external buffers and improve competitiveness, while allowing for greater exchange rate flexibility on a more permanent basis. Administrative measures to support the balance of payments should be phased out as soon as conditions allow. Alongside, further monetary tightening, stronger fiscal discipline, and decisive efforts to contain losses in public enterprises would help reverse external imbalances and reduce fiscal risks.

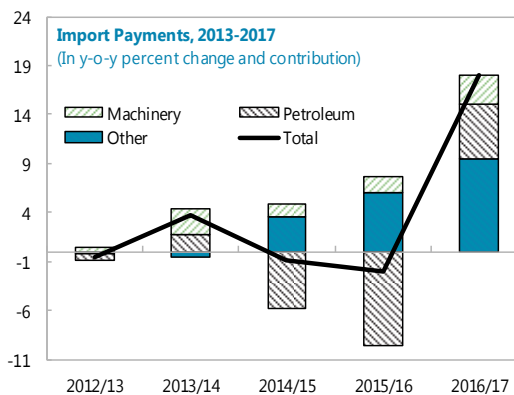
40. **Accelerating growth-supporting structural reforms will be critical to reinforce macroeconomic stability and promote higher and more inclusive growth.** In this context, careful phasing in of new external liabilities and resuming medium-term fiscal consolidation will help ensure fiscal and external sector sustainability. Other priority areas include: strengthening the monetary and financial sector policy frameworks; achieving lasting improvements in competitiveness by enhancing the business climate, eliminating losses by public enterprises, and ensuring cost-recovery in the energy sector; and strengthening and expanding the social safety nets to protect the most vulnerable.

Figure 1. Pakistan: Selected Economic Indicators, 2008–18

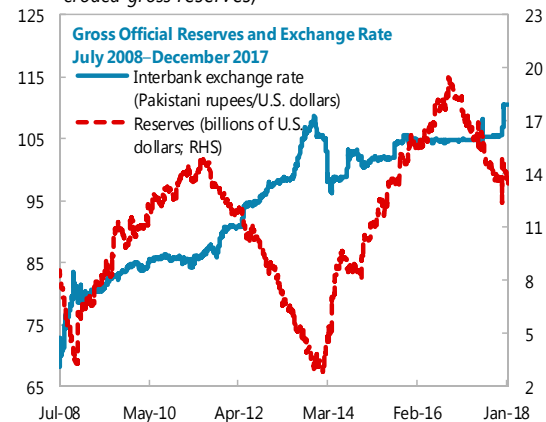
Growth has continued to strengthen, supported by recovery in agriculture and strong services,



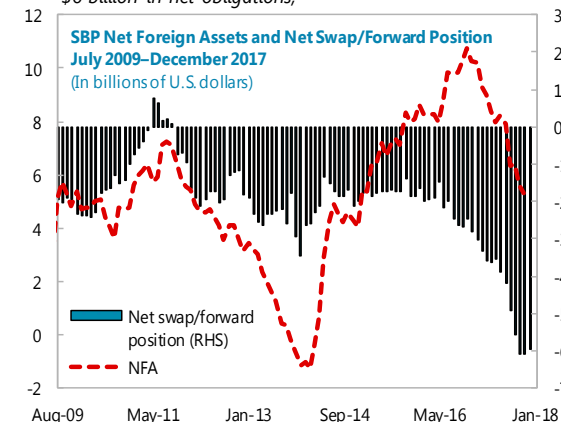
but has been increasingly import-dependent.



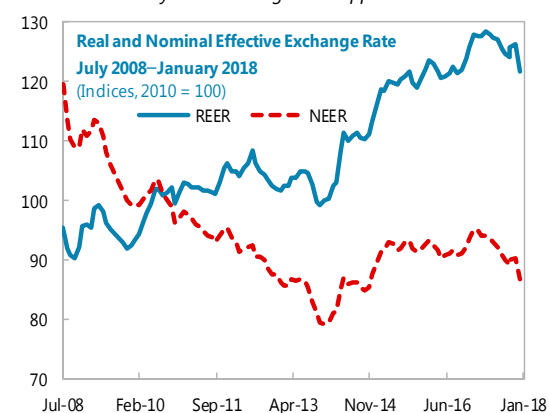
Interventions to defend the exchange rate have eroded gross reserves,



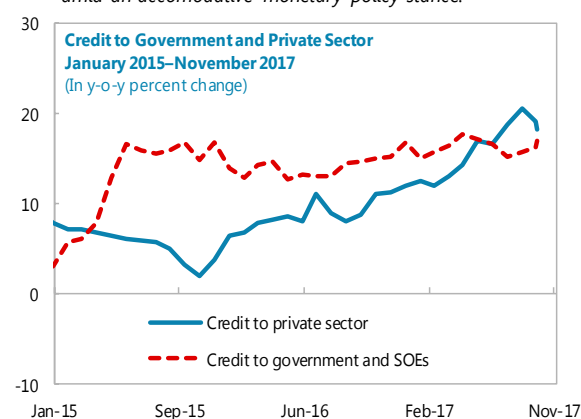
and have pushed SBP's derivative position to almost \$6 billion in net obligations,



while trade competitiveness has remained weak, burdened by real exchange rate appreciation.



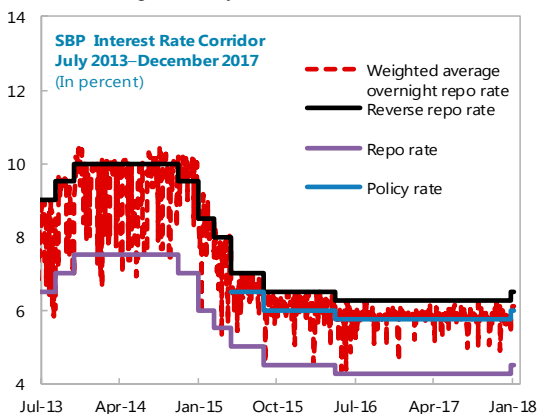
Private credit growth has continued to strengthen amid an accommodative monetary policy stance.



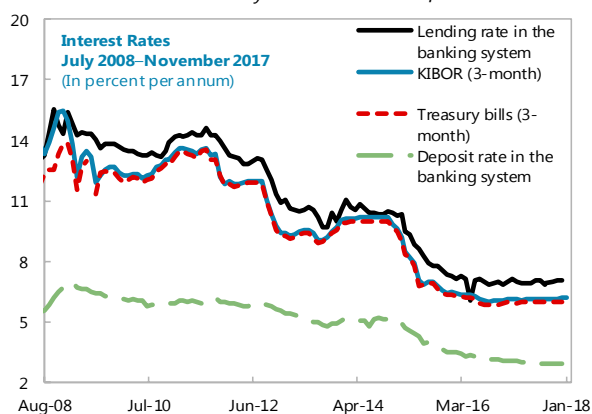
Sources: Pakistani authorities; IMF World Economic Outlook Database; and IMF staff calculations.

Figure 2. Pakistan Selected Financial Indicators, 2008–18

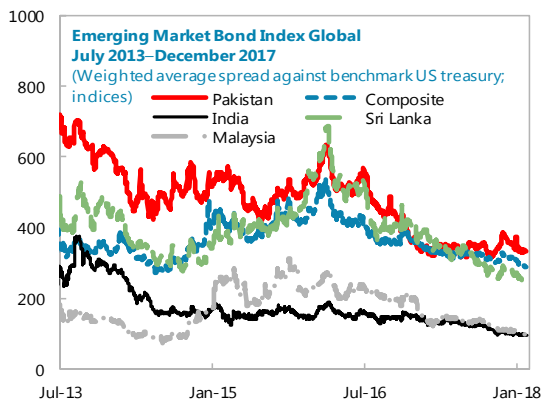
The SBP's interest rate corridor has been functioning smoothly,



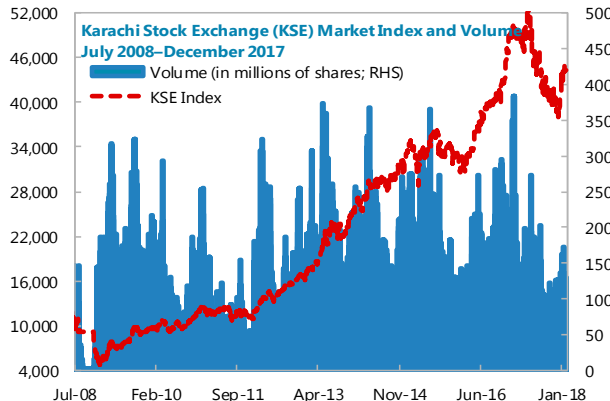
and interest rates have been declining, reflecting an accommodative monetary stance and low inflation.



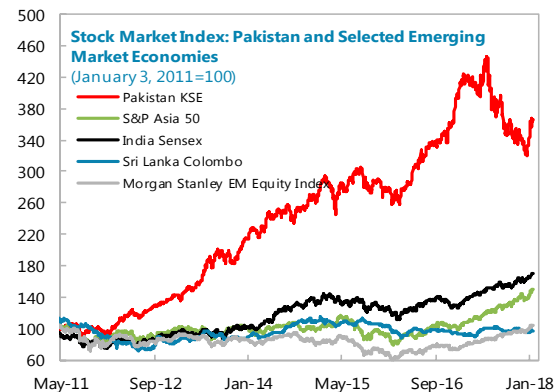
Pakistan bond spreads have remained tight.



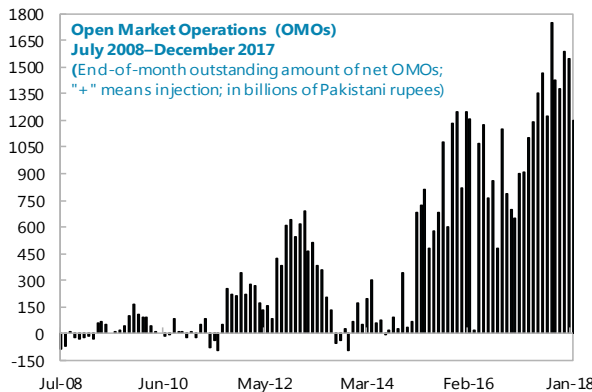
However, the stock market has entered a correction phase, partly reflecting political uncertainty and policy slippages,



while peer EM stock markets have continued to expand.



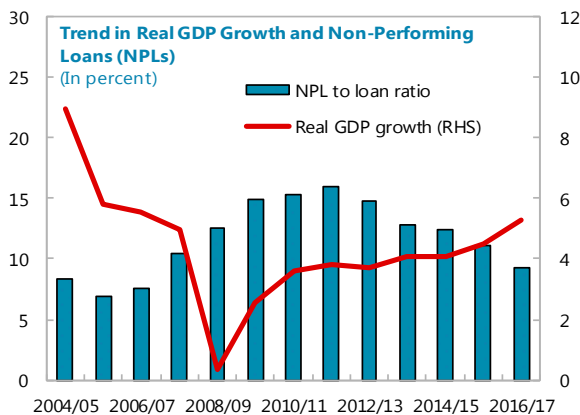
Liquidity injections via OMOs increased, as the BOP position tightened and foreign liquidity began drying up.



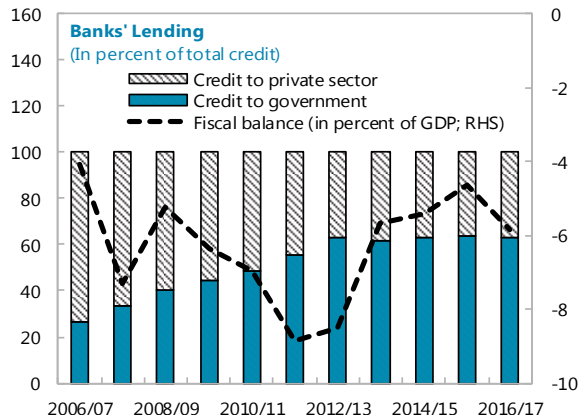
Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

Figure 3. Pakistan: Selected Banking and Financial Indicators

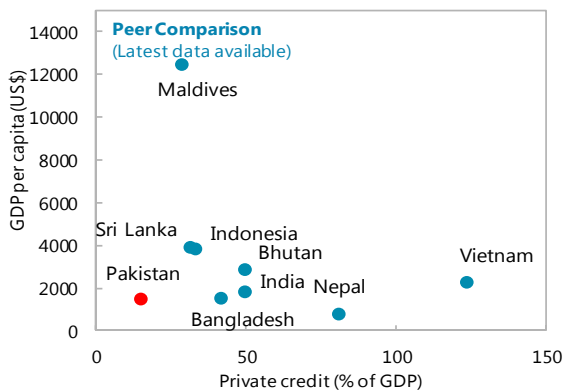
As growth has picked up, the NPL ratio has declined.



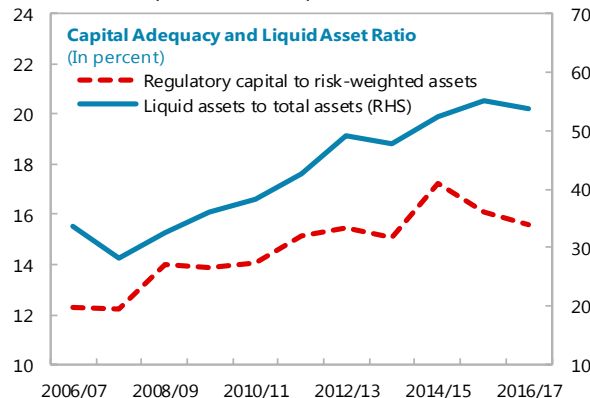
Despite a pick-up in private credit, bank lending remains dominated by government,



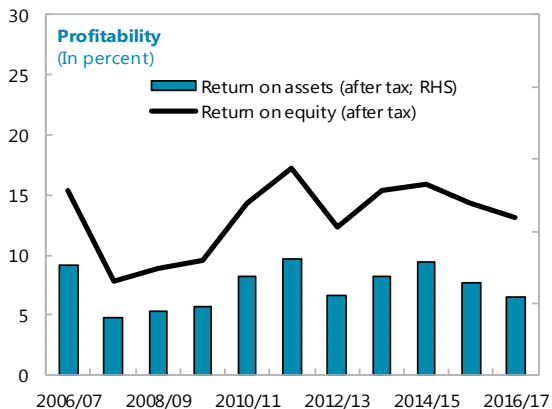
leaving Pakistan behind peers in terms of private credit relative to the size of economy.



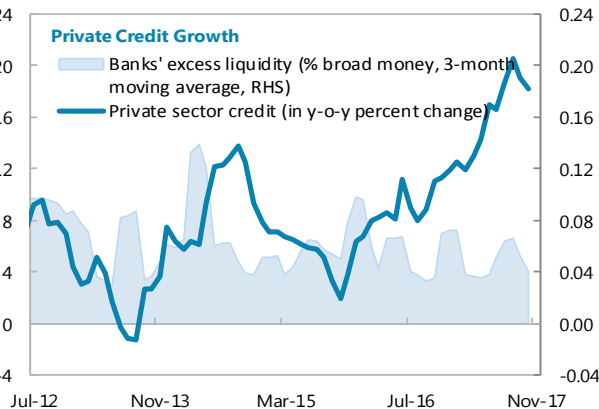
Nonetheless, the banking system remains well capitalized and liquid,



while profitability has been gradually declining,



despite significant expansion of credit to the private sector.



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

Table 1. Pakistan: Selected Economic Indicators, 2014/15–2017/18 1/

Population: 207.8 million (2016/17; provisional)
 Per capita GDP: US\$1,463 (2016/17)
 Poverty rate: 29.5 percent (2012/13)
 Main exports: Textiles (\$12.8 billion, 2015/16)
 Unemployment: 5.9 percent (2014/15)

	2014/15	2015/16	2016/17 Est.	2017/18 Proj.
(Annual percentage change)				
Output and prices				
Real GDP at factor cost	4.1	4.5	5.3	5.6
GDP deflator at factor cost	4.3	0.6	3.5	5.0
Consumer prices (period average)	4.5	2.9	4.1	5.0
Consumer prices (end of period)	3.2	3.2	3.9	5.4
Pakistani rupees per U.S. dollar (period average)	-1.5	2.9	0.4	...
(In percent of GDP)				
Saving and investment				
Gross saving	14.7	13.8	11.7	12.2
Government	-1.6	-0.7	-0.7	-0.3
Nongovernment (including public sector enterprises)	16.3	14.5	12.4	12.5
Gross capital formation 2/	15.7	15.6	15.8	17.0
Government	3.7	3.7	5.0	5.0
Nongovernment (including public sector enterprises)	12.0	11.8	10.8	12.0
Public finances				
Revenue and grants	14.5	15.5	15.7	15.8
Expenditure (including statistical discrepancy)	19.1	19.2	21.1	21.2
Budget balance (including grants)	-5.3	-4.4	-5.7	-5.3
Budget balance (excluding grants)	-5.4	-4.6	-5.8	-5.5
Primary balance	-0.5	-0.1	-1.4	-1.3
General government debt incl. IMF obligations	63.3	67.6	67.2	67.2
External general government debt	18.9	20.8	20.6	22.2
Domestic general government debt	44.4	46.8	46.6	45.0
(Annual changes in percent of initial stock of broad money, unless otherwise indicated)				
Monetary sector				
Net foreign assets	2.2	1.7	-3.2	-2.9
Net domestic assets	11.0	11.9	16.9	17.1
Broad money (percent change)	13.2	13.7	13.7	14.2
Reserve money (percent change)	9.9	26.5	22.5	18.6
Private credit (percent change)	5.9	11.1	16.6	16.5
Six-month treasury bill rate (period average, in percent)	8.8	6.3	5.9	...
External sector				
Merchandise exports, U.S. dollars (percentage change)	-3.9	-8.8	-0.2	10.0
Merchandise imports, U.S. dollars (percentage change)	-1.0	0.0	17.5	10.2
Current account balance (in percent of GDP)	-1.0	-1.7	-4.1	-4.8
(In percent of exports of goods and services, unless otherwise indicated)				
External public and publicly guaranteed debt				
Debt service	159.8	193.3	210.1	220.7
Gross reserves (in millions of U.S. dollars) 3/	13,534	18,143	16,141	12,099
In months of next year's imports of goods and services	3.2	3.7	3.0	2.2
Memorandum items:				
Underlying fiscal balance (excl. grants; percent of GDP) 4/	...	...	-6.3	-5.9
General government and government guaranteed debt (incl. IMF; % GDP)	65.7	70.0	69.7	69.7
Net general government debt (incl. IMF; % GDP)	58.2	61.2	61.6	62.4
Real effective exchange rate (annual average, percentage change)	10.9	4.6	3.6	...
Terms of trade (percentage change)	7.0	10.6	0.2	-4.9
Real per capita GDP (percentage change)	2.0	2.5	3.3	3.6
GDP at market prices (in billions of Pakistani rupees)	27,443	29,103	31,862	35,381
GDP at market prices (in billions of U.S. dollars)	270.6	278.9	304.0	...

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

1/ Fiscal year ends June 30.

2/ Including changes in inventories.

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

4/ Excludes one-off transactions, including asset sales.

Table 2. Pakistan: Medium-Term Macroeconomic Framework, 2014/15–2022/23

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				Projections					
				(Annual percentage change)					
Output and prices									
Real GDP at factor cost	4.1	4.5	5.3	5.6	4.7	4.9	5.0	5.0	5.0
Consumer prices (period average)	4.5	2.9	4.1	5.0	5.2	5.0	5.0	5.0	5.0
				(In percent of GDP)					
Saving and investment balance	-1.0	-1.7	-4.1	-4.8	-4.4	-4.2	-4.1	-4.0	-3.8
Government	-5.3	-4.4	-5.7	-5.3	-5.7	-5.7	-5.7	-5.7	-5.7
Non-government (including public sector enterprises)	4.3	2.7	1.6	0.5	1.3	1.5	1.6	1.8	1.9
Gross national saving	14.7	13.8	11.7	12.2	12.2	12.4	12.7	13.0	13.2
Government	-1.6	-0.7	-0.7	-0.3	-0.7	-0.7	-0.7	-0.8	-0.8
Non-government (including public sector enterprises)	16.3	14.5	12.4	12.5	12.9	13.2	13.5	13.8	13.9
Gross capital formation	15.7	15.6	15.8	17.0	16.5	16.7	16.8	17.0	17.0
Government	3.7	3.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Non-government (including public sector enterprises)	12.0	11.8	10.8	12.0	11.5	11.7	11.8	12.0	12.0
				(In billions of U.S. dollars, unless otherwise indicated)					
Balance of payments									
Current account balance	-2.7	-4.9	-12.4	-15.7	-14.9	-15.4	-15.8	-16.7	-17.4
Current account balance (in percent of GDP)	-1.0	-1.7	-4.1	-4.8	-4.4	-4.2	-4.1	-4.0	-3.8
Net capital flows 1/	5.4	7.5	10.5	12.0	13.7	15.3	15.8	16.5	18.7
Of which: foreign direct investment 2/	0.9	2.3	2.6	3.2	3.8	4.7	5.1	5.5	5.2
Gross official reserves	13.5	18.1	16.1	12.1	10.4	9.5	8.3	7.0	7.1
In months of imports 3/	3.2	3.7	3.0	2.2	1.8	1.5	1.3	1.0	1.0
External debt (in percent of GDP)	24.1	26.2	27.3	28.5	30.2	31.5	31.9	31.7	31.7
Terms of trade (annual percentage change)	7.0	10.6	0.2	-4.9	-0.2	-0.7	-0.9	-0.9	-0.9
Real effective exchange rate (annual percentage change)	10.9	4.6	3.6	...	...	...	...	...	...
				(In percent of GDP)					
Public finances									
Revenue and grants	14.5	15.5	15.7	15.8	15.8	15.8	15.8	16.0	16.0
Of which: tax revenue	11.0	12.6	12.5	12.9	12.9	13.0	13.1	13.2	13.2
Expenditure, of which:	19.8	19.9	21.3	21.2	21.5	21.5	21.6	21.7	21.7
Current	16.6	16.9	16.7	16.2	16.5	16.6	16.6	16.8	16.8
Development and net lending	3.8	3.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Primary balance (including grants)	-0.5	-0.1	-1.4	-1.3	-1.4	-1.4	-1.3	-1.1	-1.1
Primary balance (excluding grants)	-0.7	-0.3	-1.6	-1.5	-1.6	-1.5	-1.4	-1.2	-1.1
Overall fiscal balance (including grants)	-5.3	-4.4	-5.7	-5.3	-5.7	-5.7	-5.7	-5.7	-5.7
Overall fiscal balance (excluding grants)	-5.4	-4.6	-5.8	-5.5	-5.8	-5.8	-5.8	-5.8	-5.8
Underlying fiscal balance (excl. grants; percent of GDP) 4/	...	...	-6.3	-5.9	-5.8	-5.8	-5.8	-5.8	-5.8
General government and government guaranteed debt (incl. IMF)	65.7	70.0	69.7	69.7	69.9	69.8	69.4	68.6	68.0
General government debt incl. IMF obligations	63.3	67.6	67.2	67.2	67.4	67.3	66.9	66.2	65.5
Net general government debt (incl. IMF)	58.2	61.2	61.6	62.4	63.3	63.7	63.8	63.4	63.2

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

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

2/ Including privatization.

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

4/ Excludes one-off transactions, including asset sales.

Table 3. Pakistan: Balance of Payments, 2014/15–2022/23
(In millions of U.S. dollars, unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
							Projections		
Current account	-2,709	-4,867	-12,439	-15,695	-14,897	-15,361	-15,793	-16,708	-17,443
Balance on goods	-17,284	-19,390	-26,642	-29,424	-29,434	-29,217	-29,224	-29,239	-29,284
Exports, f.o.b.	24,083	21,965	21,931	24,128	26,922	29,462	32,470	35,471	38,509
Imports, f.o.b.	41,367	41,355	48,573	53,551	56,356	58,679	61,694	64,710	67,793
Services (net)	-2,884	-3,312	-4,199	-4,684	-4,488	-4,597	-4,814	-5,155	-5,502
Services: credit	5,854	5,438	5,500	5,394	6,369	7,545	8,843	10,332	12,009
Of which: Coalition Support Fund	1,452	937	720	0	0	0	0	0	0
Services: debit	8,738	8,750	9,699	10,078	10,856	12,143	13,657	15,487	17,511
Income (net)	-4,581	-5,334	-5,057	-5,479	-6,891	-8,056	-9,293	-10,741	-11,916
Income: credit	679	637	696	524	522	598	641	669	974
Income: debit	5,260	5,971	5,753	6,003	7,413	8,654	9,935	11,410	12,890
Of which: interest payments	1,931	2,150	2,444	2,516	3,815	4,453	5,293	6,233	7,083
Of which: income on direct investment	3,327	3,807	3,318	3,306	3,598	4,202	4,641	5,178	5,807
Balance on goods, services, and income	-24,749	-28,036	-35,898	-39,587	-40,813	-41,871	-43,331	-45,135	-46,702
Current transfers (net)	22,040	23,169	23,459	23,892	25,916	26,510	27,538	28,427	29,259
Current transfers: credit, of which:	22,304	23,297	23,660	24,064	26,075	26,669	27,697	28,586	29,418
Official	340	614	537	497	443	130	33	0	0
Workers' remittances	18,721	19,917	19,351	19,639	21,081	22,241	23,257	24,106	24,883
Other private transfers	3,243	2,766	3,772	3,928	4,552	4,297	4,408	4,480	4,535
Current transfers: debit	264	128	201	173	159	159	159	159	159
Capital account	375	273	339	471	406	260	112	52	54
Capital transfers: credit	375	279	339	471	406	260	112	52	54
Of which: official capital grants	364	266	331	574	406	260	112	52	54
Capital transfers: debit	0	6	0	0	0	0	0	0	0
Financial account	4,996	6,790	9,987	11,604	13,321	15,086	15,661	16,460	18,674
Direct investment abroad	-73	-19	-101	-34	-40	-41	-42	-42	-42
Direct investment in Pakistan	923	2,305	2,731	3,261	3,867	4,697	5,146	5,579	5,286
Portfolio investment (net), of which:	1,884	-429	-224	3,164	1,660	2,098	3,080	2,180	680
Financial derivatives (net)	0	0	0	0	0	0	0	0	0
Other investment assets	89	-96	-1,253	-640	-1,085	-1,018	-913	-652	-716
Monetary authorities	0	0	0	0	0	0	0	0	0
General government	-35	-45	-69	31	0	0	0	0	0
Banks	-68	127	-330	-262	-640	-520	-360	-40	-40
Other sectors	192	-178	-854	-409	-445	-498	-553	-612	-676
Other investment liabilities	2,173	5,029	8,834	5,852	8,920	9,350	8,390	9,395	13,466
Monetary authorities	563	5	-4	4	0	0	0	0	0
General government, of which:	1,400	3,445	4,906	3,239	2,656	947	-1,080	-160	4,854
Disbursements	4,243	6,159	9,280	7,889	9,363	12,090	9,798	8,989	12,008
Amortization	2,841	2,714	4,374	4,650	6,708	11,143	10,879	9,149	7,154
Banks	479	406	1,632	955	3,129	4,664	6,011	6,056	5,671
Other sectors	-269	1,173	2,300	1,654	3,135	3,738	3,459	3,498	2,940
Net errors and omissions	-16	456	178	-106	0	0	0	0	0
Reserves and related items	-2,646	-2,652	1,946	3,726	1,170	15	20	196	-1,285
Reserve assets	-4,595	-4,559	1,914	3,916	1,667	893	1,178	1,371	1,871
Use of Fund credit and loans	1,949	1,907	32	-190	-498	-879	-1,158	-1,174	-1,200
Memorandum items:									
Current account (in percent of GDP)	-1.0	-1.7	-4.1	-4.8	-4.4	-4.2	-4.1	-4.0	-3.8
Current account (in percent of GDP, excluding fuel imports)	3.5	1.0	-1.1	-0.3	0.3	0.5	0.8	0.9	1.0
Exports f.o.b. (growth rate, in percent)	-3.9	-8.8	-0.2	10.0	11.6	9.4	10.2	9.2	8.6
Imports f.o.b. (growth rate, in percent)	-1.0	0.0	17.5	10.2	5.2	4.1	5.1	4.9	4.8
Oil imports (in million US\$, cif)	12,167	7,668	9,145	14,659	16,075	17,036	18,775	20,401	22,186
Terms of trade (growth rate, in percent)	7.0	10.6	0.2	-4.9	-0.2	-0.7	-0.9	-0.9	-0.9
External debt (in millions of U.S. dollars)	65,082	73,063	82,981	93,277	103,385	114,124	123,720	133,070	144,952
o/w external public debt	51,935	59,021	63,752	71,376	75,660	78,437	79,003	79,239	82,943
Gross external financing needs (in millions of U.S. dollars) 1/	9,089	11,424	21,486	24,464	26,993	33,774	36,015	41,152	45,048
End-period gross official reserves (millions of U.S. dollars) 2/	13,534	18,143	16,141	12,099	10,432	9,539	8,260	6,989	7,075
(In months of next year's imports of goods and services)	3.2	3.7	3.0	2.2	1.8	1.5	1.3	1.0	1.0
GDP (in millions of U.S. dollars)	270,556	278,913	303,993	...	...	...	...	...	...

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 4a. Pakistan: General Government Budget, 2014/15–2017/18
(In billions of Pakistani rupees)

	2014/15	2015/16	2016/17	2017/18 Proj.
Revenue and grants	3,984	4,512	4,995	5,601
Revenue	3,937	4,447	4,937	5,528
Tax revenue	3,024	3,660	3,969	4,578
Federal	2,818	3,377	3,647	4,221
FBR revenue	2,594	3,112	3,361	3,958
Direct taxes	1,029	1,192	1,343	1,582
Federal excise duty	170	191	199	234
Sales tax/VAT	1,089	1,324	1,323	1,563
Customs duties	306	406	496	579
Petroleum surcharge	131	149	167	160
Gas surcharge and other	35	36	78	47
GIDC	57	80	42	55
Provincial	206	283	322	357
Nontax revenue	913	786	967	950
Federal	838	693	888	844
Provincial	76	93	79	106
Grants	47	66	58	73
Expenditure	5,426	5,796	6,801	7,484
Current expenditure	4,556	4,907	5,314	5,735
Federal	3,169	3,357	3,588	3,792
Interest	1,304	1,263	1,348	1,431
Domestic	1,208	1,151	1,220	1,263
Foreign	96	113	128	168
Other	1,866	2,093	2,239	2,360
Defense	698	758	888	875
Other	1,168	1,336	1,351	1,485
Of which: subsidies	265	218	159	144
Of which: grants 1/	401	563	462	595
Provincial	1,387	1,550	1,726	1,943
Development expenditure and net lending	1,047	1,102	1,565	1,749
Public Sector Development Program	1,013	1,089	1,578	1,761
Federal	489	496	726	800
Provincial	524	592	852	961
Net lending	34	13	-13	-12
Statistical discrepancy ("+" = additional expenditure)	-178	-212	-78	0
Overall Balance (excluding grants)	-1,489	-1,349	-1,864	-1,956
Overall Balance (including grants)	-1,442	-1,284	-1,805	-1,883
Financing	1,442	1,284	1,805	1,883
External	166	331	542	749
Of which: privatization receipts	2	0	0	26
Of which: IMF	0	0	0	0
Domestic	1,276	953	1,264	1,134
Bank	910	780	885	794
Nonbank	366	173	379	340
Memorandum items:				
Underlying fiscal balance (excl. grants) 2/	...	...	-2,023	-2,091
Provincial balance	87	206	-16	57
Primary balance (excluding grants)	-185	-86	-515	-525
Primary balance (including grants)	-138	-21	-457	-452
Total security spending	698	758	888	875
Energy sector circular debt clearance	0	16	19	4
General government debt incl. IMF obligations	17,378	19,665	21,403	23,771
Domestic debt	12,188	13,619	14,849	15,907
External debt	5,190	6,046	6,554	7,864
General government and government guaranteed debt (incl. IMF)	18,022	20,386	22,193	24,648
Net general government debt (incl. IMF)	15,984	17,811	19,630	22,074
Nominal GDP (market prices)	27,443	29,103	31,862	35,381

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

1/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development

2/ Excludes one-off transactions, including asset sales.

Table 4b. Pakistan: General Government Budget, 2014/15–2017/18
(In percent of GDP, unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18 Proj.
Revenue and grants	14.5	15.5	15.7	15.8
Revenue	14.3	15.3	15.5	15.6
Tax revenue	11.0	12.6	12.5	12.9
Federal	10.3	11.6	11.4	11.9
FBR revenue	9.5	10.7	10.5	11.2
Direct taxes	3.8	4.1	4.2	4.5
Federal excise duty	0.6	0.7	0.6	0.7
Sales tax	4.0	4.5	4.2	4.4
Customs duties	1.1	1.4	1.6	1.6
Petroleum surcharge / Carbon tax	0.5	0.5	0.5	0.5
Gas surcharge and other	0.1	0.1	0.2	0.1
GIDC	0.2	0.3	0.1	0.2
Provincial	0.8	1.0	1.0	1.0
Nontax revenue	3.3	2.7	3.0	2.7
Federal	3.1	2.4	2.8	2.4
Provincial	0.3	0.3	0.2	0.3
Grants	0.2	0.2	0.2	0.2
Expenditure	19.8	19.9	21.3	21.2
Current expenditure	16.6	16.9	16.7	16.2
Federal	11.5	11.5	11.3	10.7
Interest	4.8	4.3	4.2	4.0
Domestic	4.4	4.0	3.8	3.6
Foreign	0.3	0.4	0.4	0.5
Other	6.8	7.2	7.0	6.7
Defense	2.5	2.6	2.8	2.5
Other	4.3	4.6	4.2	4.2
Of which: subsidies	1.0	0.7	0.5	0.4
Of which: grants 1/	1.5	1.9	1.5	1.7
Provincial	5.1	5.3	5.4	5.5
Development expenditure and net lending	3.8	3.8	4.9	4.9
Public Sector Development Program	3.7	3.7	5.0	5.0
Federal	1.8	1.7	2.3	2.3
Provincial	1.9	2.0	2.7	2.7
Net lending	0.1	0.0	0.0	0.0
Statistical discrepancy ("+" = additional expenditure)	-0.6	-0.7	-0.2	0.0
Overall Balance (excluding grants)	-5.4	-4.6	-5.8	-5.5
Overall Balance (including grants)	-5.3	-4.4	-5.7	-5.3
Financing	5.3	4.4	5.7	5.3
External	0.6	1.1	1.7	2.1
Of which: privatization receipts	0.0	0.0	0.0	0.1
Of which: IMF	0.0	0.0	0.0	0.0
Domestic	4.6	3.3	4.0	3.2
Bank	3.3	2.7	2.8	2.2
Nonbank	1.3	0.6	1.2	1.0
Memorandum items:				
Underlying fiscal balance (excl. grants; percent of GDP) 2/	...	...	-6.3	-5.9
Provincial balance	0.3	0.7	0.0	0.2
Primary balance (excluding grants)	-0.7	-0.3	-1.6	-1.5
Primary balance (including grants)	-0.5	-0.1	-1.4	-1.3
Total security spending	2.5	2.6	2.8	2.5
Energy sector circular debt clearance	0.0	0.1	0.1	0.0
General government debt incl. IMF obligations	63.3	67.6	67.2	67.2
Domestic debt	44.4	46.8	46.6	45.0
External debt	18.9	20.8	20.6	22.2
General government and government guaranteed debt (incl. IMF)	65.7	70.0	69.7	69.7
Net general government debt (incl. IMF)	58.2	61.2	61.6	62.4
Nominal GDP (market prices, billions of Pakistani rupees)	27,443	29,103	31,862	35,381

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

1/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development expenditure as reported in the original FY2015/16 budget.

2/ Excludes one-off transactions, including asset sales.

Table 5. Pakistan: Monetary Survey, 2014/15–2017/18

	2014/15	2015/16	2016/17 Est.	2017/18 Proj.
(In billions of Pakistani rupees, unless otherwise indicated)				
Monetary survey				
Net foreign assets (NFA)	813	1,008	602	184
Net domestic assets (NDA)	10,469	11,817	13,979	16,474
Net claims on government, <i>of which</i> :	6,958	7,820	8,956	9,750
Budget support, <i>of which</i> :	6,330	7,117	8,163	9,063
Banks	4,443	5,705	5,863	6,063
Commodity operations	564	637	687	687
Credit to nongovernment	4,456	5,013	6,011	6,975
Private sector 1/	4,021	4,469	5,213	6,073
Public sector enterprises	435	544	799	903
Privatization account	-41	-41	-41	-41
Other items, net	-904	-974	-947	-211
Broad money	11,282	12,825	14,581	16,658
Currency outside scheduled banks	2,555	3,334	3,911	4,472
Rupee deposits	8,130	8,904	10,014	11,437
Foreign currency deposits	598	587	655	749
State Bank of Pakistan (SBP)				
NFA	722	1,033	829	411
NDA	2,420	2,941	4,039	5,362
Net claims on government	1,919	1,430	2,337	3,129
<i>Of which</i> : budget support	1,887	1,412	2,300	3,000
Claims on nongovernment	-6	-5	-9	-11
Claims on scheduled banks	401	407	500	408
Privatization account	-41	-41	-41	-41
Other items, net	146	1,148	1,251	1,877
Reserve money, <i>of which</i> :	3,142	3,974	4,868	5,773
Banks' reserves	413	392	669	764
Currency	2,715	3,563	4,176	5,009
(Annual percentage change, unless otherwise indicated)				
Broad money	13.2	13.7	13.7	14.2
NFA, banking system (in percent of broad money) 2/	2.2	1.7	-3.2	-2.9
NDA, banking system (in percent of broad money) 2/	11.0	11.9	16.9	17.1
Budgetary support (in percent of broad money) 2/	8.9	7.0	8.2	6.2
Budgetary support	16.3	12.4	14.7	11.0
Private credit 1/	5.9	11.1	16.6	16.5
Currency	17.3	30.5	17.3	14.3
Reserve money	9.9	26.5	22.5	18.6
<i>Memorandum items:</i>				
Velocity	2.6	2.4	2.3	2.1
Money multiplier	3.6	3.2	3.0	2.9
Currency to broad money ratio (percent)	22.6	26.0	26.8	26.8
Currency to deposit ratio (percent)	29.3	35.1	36.7	36.7
Foreign currency to deposit ratio (percent)	6.8	6.2	6.1	6.1
Reserves to deposit ratio (percent)	4.7	4.1	6.3	6.3
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), <i>of which</i> :				
By commercial banks	888	787	1,046	900
By SBP	1,323	1,262	158	200
By SBP	-434	-475	888	700
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	2.2	2.8	-2.0	-4.2
NFA of commercial banks (millions of U.S. dollars)	887	-243	-2,163	-2,023
NDA of commercial banks (billions of Pakistani rupees)	8,050	8,877	9,940	11,111
Sources: Pakistani authorities; and IMF staff estimates and projections.				
1/ Items pertaining to Islamic Financing previously reported under "Other assets" have been reclassified as "Credit to private sector" beginning March 2016.				
2/ Denominator is the stock of broad (reserve) money at the end of the previous year.				
3/ Includes valuation adjustments.				

Table 6. Pakistan: Financial Soundness Indicators for the Banking System
(December 2013–September 2017)

	Dec. 2013	Dec. 2014	Dec. 1/ 2015	Dec. 1/ 2016	Mar. 1/ 2017	Jun. 1/ 2017	Sep. 1/ 2017
Capital adequacy							
Regulatory capital to risk-weighted assets	14.9	17.1	17.3	16.2	15.9	15.6	15.4
Tier I capital to risk-weighted assets	12.6	14.3	14.4	13.0	12.9	12.7	12.7
Capital to total assets	9.0	10.0	8.4	7.8	7.6	7.2	7.1
Asset composition and quality							
Nonperforming loans (NPLs) to gross loans	13.3	12.3	11.4	10.1	9.9	9.3	9.2
Provisions to NPLs	78.4	79.8	84.9	85.0	85.4	83.7	85.3
NPLs net of provisions to capital	14.7	10.1	7.7	7.3	7.1	8.0	7.2
Earnings and profitability							
Return on assets (after tax)	1.1	1.5	1.5	1.3	1.2	1.1	0.9
Return on equity (after tax)	12.4	16.1	15.6	14.4	14.2	13.1	10.9
Net interest income to gross income	70.4	71.3	70.4	71.2	70.9	70.7	71.9
Noninterest expenses to gross income	57.2	53.3	47.8	53.1	55.5	55.8	56.5
Liquidity							
Liquid assets to total assets	48.6	49.2	53.8	53.7	54.0	53.8	54.5
Liquid assets to total deposits	61.3	64.5	73.3	72.1	73.9	74.9	76.0
Loans/Deposits	49.5	48.2	46.4	46.6	47.5	48.7	48.3

Source: State Bank of Pakistan.

1/ As required by Basel requirements, the authorities used regulatory capital instead of balance sheet capital to calculate FSI figures.

Table 7. Pakistan: Selected Vulnerability Indicators, 2012/13–2021/22

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
					Est.	Projections				
Key economic and market indicators										
Real GDP growth (factor cost, in percent)	3.7	4.1	4.1	4.5	5.3	5.6	4.7	4.9	5.0	5.0
CPI inflation (period average, in percent)	7.4	8.6	4.5	2.9	4.1	5.0	5.2	5.0	5.0	5.0
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	703	501	444	559	317	...	...	...	...	...
Exchange rate PRs/US\$ (end of period)	98.7	98.6	101.8	104.7	104.9	...	...	...	...	...
External sector										
Current account balance (percent of GDP)	-1.1	-1.3	-1.0	-1.7	-4.1	-4.8	-4.4	-4.2	-4.1	-4.0
Net FDI inflows (percent of GDP)	0.5	0.6	0.3	0.8	0.9	1.0	1.1	1.3	1.3	1.3
Exports (percentage change of U.S. dollar value; GNFS)	6.0	-3.6	-1.5	-8.5	0.1	7.6	12.8	11.2	11.6	10.9
Gross international reserves (GIR) in billions of U.S. dollars	6.0	9.1	13.5	18.1	16.1	12.1	10.4	9.5	8.3	7.0
GIR in percent of ST debt at remaining maturity (RM) 1/	75.4	105.7	189.9	222.1	160.9	94.4	57.5	39.9	37.2	37.8
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 1/	45.6	61.9	104.1	131.7	99.1	62.1	41.5	30.5	27.4	25.8
Total gross external debt (ED) in percent of GDP, of which:	26.3	26.8	24.1	26.2	27.3	28.5	30.2	31.5	31.9	31.7
ST external debt (original maturity, in percent of total ED)	2.1	4.1	5.1	6.3	6.7	4.3	6.1	7.3	9.2	12.0
ED of domestic private sector (in percent of total ED)	10.4	13.5	15.6	15.8	24.8	28.3	32.7	38.5	44.5	49.0
ED to foreign official sector (in percent of total ED)	89.6	86.5	84.4	84.2	75.2	71.7	67.3	61.5	55.5	51.0
Total gross external debt in percent of exports	193.2	215.2	217.4	266.6	302.5	316.0	310.6	308.4	299.5	290.5
Gross external financing requirement (in billions of U.S. dollars) 2/	9.1	10.8	9.1	11.4	21.5	24.5	27.0	33.8	36.0	41.2
Public sector 3/										
Overall balance (including grants)	-8.4	-4.9	-5.3	-4.4	-5.7	-5.3	-5.7	-5.7	-5.7	-5.7
Primary balance (including grants)	-3.9	-0.3	-0.5	-0.1	-1.4	-1.3	-1.4	-1.4	-1.3	-1.1
Debt-stabilizing primary balance 4/	-1.3	-2.8	-0.1	1.0	-1.8	-1.4	-1.0	-1.2	-1.5	-1.6
Gross PS financing requirement 5/	31.4	28.9	31.4	28.5	29.3	30.0	31.3	33.1	32.1	32.5
General government and government guaranteed debt (incl. IMF)	66.7	65.7	65.7	70.0	69.7	69.7	69.9	69.8	69.4	68.6
General government debt incl. IMF obligations	63.9	63.5	63.3	67.6	67.2	67.2	67.4	67.3	66.9	66.2
Net general government debt (incl. IMF) 6/	60.1	58.0	58.2	61.2	61.6	62.4	63.3	63.7	63.8	63.4
Financial sector 7/										
Capital adequacy ratio (in percent)	15.5	15.1	17.2	16.1	15.6	...	...	...	...	...
Nonperforming loans (NPLs) in percent of total loans	14.8	12.8	12.4	11.1	9.3	...	...	...	...	...
Provisions in percent of NPLs	73.2	79.5	80.8	82.4	83.7	...	...	...	...	...
Return on assets (after tax, in percent)	1.1	1.4	1.6	1.3	1.1	...	...	...	...	...
Return on equity (after tax, in percent)	12.4	15.4	15.9	14.4	13.1	...	...	...	...	...
FX deposits held by residents (in percent of total deposits)	7.4	7.7	6.8	6.2	6.1	...	...	...	...	...
Government debt held by FS (percent of total FS assets)	64.3	60.5	61.7	61.0	61.4	...	...	...	...	...
Credit to private sector (percent change)	-0.2	12.1	5.9	11.1	16.6	...	...	...	...	...
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	231.2	244.4	270.6	278.9	304.0	...	...	...	...	...

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

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

2/ Current account deficit plus amortization of external debt.

3/ Public sector covers general (consolidated) government.

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

5/ Overall balance plus debt amortization.

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

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

Table 8. Pakistan: Gross Financing Requirements and Sources, 2014/15–2017/18
(In millions of U.S. dollars; unless otherwise specified)

	2014/15	2015/16	2016/17	Proj. 2017/18
Gross external financing requirements	9,089	11,424	21,486	24,464
Current account deficit (if surplus = -) 1/	2,709	4,867	12,439	15,695
Of which: Interest payments (if net receipts = -)	1,931	2,150	2,444	2,516
Of which: CSF	1,452	937	720	0
Amortization of medium- and long-term debt	3,692	3,212	4,455	3,202
To external private creditors	771	1,130	1,404	383
By domestic private sector	691	605	669	331
By domestic public sector	80	525	735	52
To external official creditors	2,921	2,082	3,051	2,819
IMF	662	102	70	190
To other official creditors	2,259	1,980	2,981	2,629
Maturing short-term debt	2,688	3,345	4,592	5,567
Available financing	6,478	12,067	19,234	20,738
Net FDI (including privatization receipts)	850	2,286	2,630	3,228
Medium- and long-term borrowing	5,477	7,089	11,731	11,531
From external private creditors	2,389	2,591	3,614	5,387
Borrowing by domestic private sector	1,389	2,091	2,614	1,387
Borrowing by domestic public sector	1,000	500	1,000	4,000
From external official creditors (non-IMF, currently identified)	3,088	4,498	8,117	6,144
WB	1,210	1,697	970	652
ADB	523	1,260	1,721	824
China	551	1,181	2,901	2,075
Other	804	360	2,525	2,593
Roll-over of short-term debt	1,312	3,365	4,115	5,482
By domestic private sector	157	1,704	2,952	3,736
By domestic public sector	1,155	1,661	1,163	1,746
Other net capital inflows 2/	1,485	1,979	758	498
Reserve Assets (decrease = +)	-2,646	-2,652	1,946	3,726
Remaining financing need	2,611	2,009	306	0
Exceptional Financing (IMF loans)	2,611	2,009	102	0
Memorandum items				
Gross financing needs in percent of GDP	3.4	4.1	7.1	7.5
Gross official reserves in US\$ billions	13.5	18.1	16.1	12.1
In months of imports	3.2	3.7	3.0	2.2
Total gross external debt in percent of GDP	24.1	26.2	27.3	28.5
Sources: State Bank of Pakistan, and Fund staff estimates and projections.				
1/ Excludes program related budgetary grants				
2/ Includes capital account, net portfolio investment, net bank financing, and net other flows.				

Annex I. Public and External Debt Sustainability

While improvements in the debt profile have been made in recent years, risks to Pakistan's debt sustainability have increased since the Article IV Consultation in June 2017. Public and publicly guaranteed debt remained at close to 70 percent of GDP in 2016/17 and is expected to slightly decline over the medium term. The elevated debt level (compared to other emerging markets) reflects recent fiscal imbalances under relatively benign real sector assumptions. The baseline debt path also exceeds limits on public debt levels set in the revised Fiscal Responsibility and Debt Limitation Act (FRDLA). Gross financing needs are expected to remain high throughout the projection period. To improve public debt sustainability and build sufficient fiscal buffers, sustained fiscal consolidation is needed. In the meantime, external debt remains sustainable but is subject to risks, as external borrowing is projected to increase and international reserves are expected to continue declining on current policies.

1. **Pakistan's public and publicly guaranteed debt reached 69.7 percent of GDP by the end of FY 2016/17, close to the level of the previous fiscal year (70 percent of GDP), while public debt excluding guarantees was about 67 percent of GDP.** Debt levels are higher than envisaged in the DSA during the 2017 Article IV consultation, largely reflecting the significantly higher fiscal deficit (by 1.3 percent of GDP relative to the Article IV projections), due to revenue underperformance and a sizable increase in provincial development spending. Net public debt also increased to around 62 percent of GDP. And 30 percent of total public debt is foreign currency-denominated.
2. **Public and publicly guaranteed debt is projected to remain close to 70 percent of GDP by 2023 under the baseline.** Public debt excluding guarantees is projected to stay around 66–67 percent of GDP. In the absence of strong consolidation measures, the fiscal deficit excluding grants is expected to remain at close to 6 percent of GDP through the medium term, resulting in elevated debt levels. Adverse shocks, notably to economic growth and the primary balance, could lead to public debt ratios well above 70 percent. Contingent liabilities from restructuring of loss-making PSEs represent additional fiscal risks. Gross financing needs are projected to reach above 30 percent of GDP (compared to 29 percent in FY 2016/17), largely accounted for by domestic loan amortization. While improvements in the debt profile have been made in recent years, resulting in moderate shares of short-term and foreign exchange-denominated debt that sit between the lower and upper early warning thresholds, high gross financing needs may pose potential rollover risk.
3. **Fiscal consolidation needs to be strengthened to improve debt dynamics, build sufficient fiscal buffers, and gradually achieve legally mandated debt targets.** The high levels of public debt and gross financing needs present significant fiscal risks and need to be addressed in a timely fashion through fiscal tightening to improve debt sustainability. Strong consolidation efforts are also critical to preserve the credibility of the fiscal responsibility framework: in the absence of significant policy effort, the projected public debt trajectory sits higher than that stipulated in the revised FRDL Act with a limit of 60 percent of GDP on net general government debt until FY 2017/18 and a gradual transition toward 50 percent of GDP over a 15-year period.

4. **The external DSA shows that the projected path for external debt is sustainable but subject to increasing risks.** Gross external debt as a percentage of GDP—having been on a declining trend until 2015—is expected to increase and peak at about 32 percent of GDP in 2021. Bound and stress tests suggest that the external debt-to-GDP ratio would be affected by adverse shocks. While sensitive mostly to current account and exchange rate shocks, the external debt ratio would exceed 45 percent only under the real depreciation shock scenario. External risks are also highlighted by the projected decline in foreign exchange reserves and rising gross external financing needs, which are expected to increase to about 9.9 percent of GDP in 2023 (from 7.1 percent in FY 2016/17).

Pakistan Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

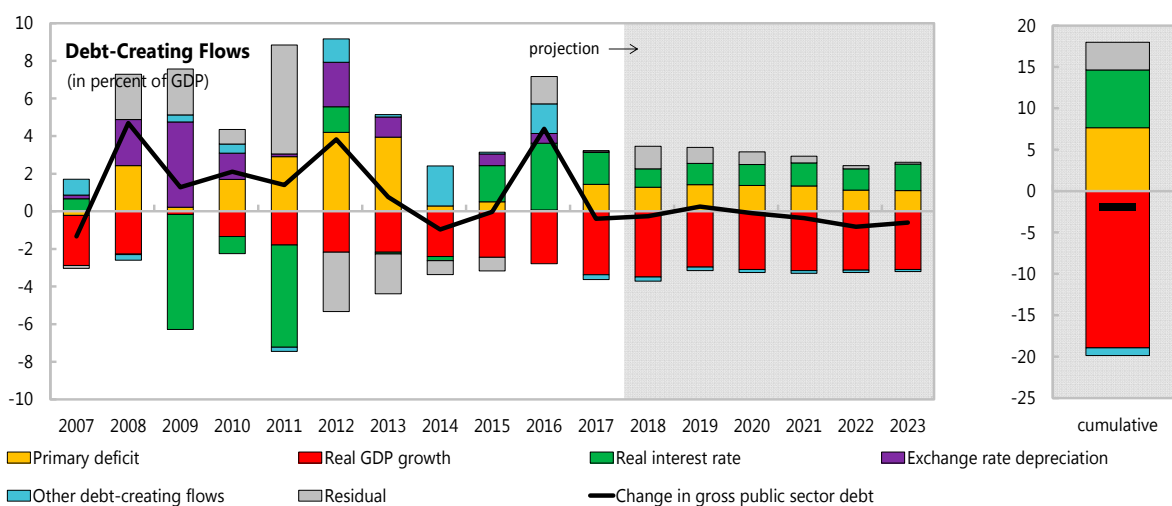
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of January 26, 2018		
	2007-2015 ^{2/}	2016	2017	2018	2019	2020	2021	2022	2023			
Nominal gross public debt	61.7	70.0	69.7	69.6	69.9	69.8	69.4	68.6	68.0	Sovereign Spreads		
Of which: guarantees	1.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	EMBIG (bp) ^{3/} 310		
Public gross financing needs	26	28.5	29.3	30.0	31.3	33.1	32.1	32.5	31.6	5Y CDS (bp) 309		
Real GDP growth (in percent)	3.6	4.5	5.3	5.6	4.7	4.9	5.0	5.0	5.0	Ratings		
Inflation (GDP deflator, in percent)	10.5	1.5	4.0	5.2	5.2	5.2	5.0	5.3	5.1	Moody's Foreign B3 n.a.		
Nominal GDP growth (in percent)	14.5	6.0	9.5	11.0	10.1	10.3	10.3	10.6	10.3	S&Ps B n.a.		
Effective interest rate (in percent) ^{4/}	8.6	7.3	6.9	7.0	7.2	7.2	7.2	7.4	7.6	Fitch B n.a.		

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023		
Change in gross public sector debt	1.3	4.4	-0.4	-0.3	0.2	-0.1	-0.4	-0.8	-0.6	-1.9	
Identified debt-creating flows	0.8	2.9	-0.5	-1.4	-0.6	-0.8	-0.7	-1.0	-0.7	-5.2	
Primary deficit	1.8	0.1	1.4	1.3	1.4	1.4	1.3	1.1	1.1	7.7	
Primary (noninterest) revenue and grants	14.0	15.5	15.7	15.8	15.8	15.8	15.8	16.0	16.0	95.2	
Primary (noninterest) expenditure	15.8	15.6	17.1	17.1	17.2	17.2	17.2	17.1	17.1	102.8	
Automatic debt dynamics ^{5/}	-1.5	1.3	-1.6	-2.5	-1.8	-2.0	-1.9	-2.0	-1.7	-11.9	
Interest rate/growth differential ^{6/}	-2.9	0.8	-1.7	-2.5	-1.8	-2.0	-1.9	-2.0	-1.7	-11.9	
Of which: real interest rate	-1.0	3.5	1.7	1.0	1.1	1.1	1.2	1.1	1.4	7.0	
Of which: real GDP growth	-1.9	-2.8	-3.4	-3.5	-3.0	-3.1	-3.2	-3.1	-3.1	-18.9	
Exchange rate depreciation ^{7/}	1.4	0.5	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	0.5	1.6	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.9	
Residual, including asset changes ^{8/}	0.5	1.5	0.1	1.2	0.9	0.7	0.4	0.2	0.1	3.3	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

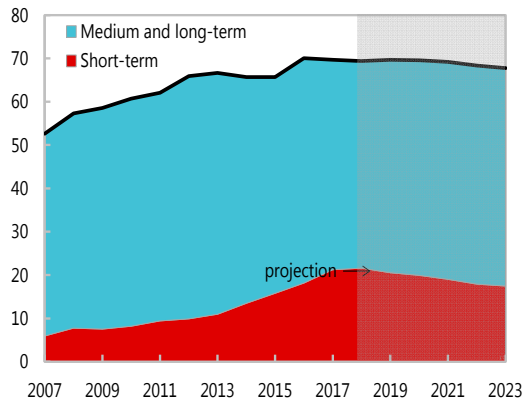
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Pakistan Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

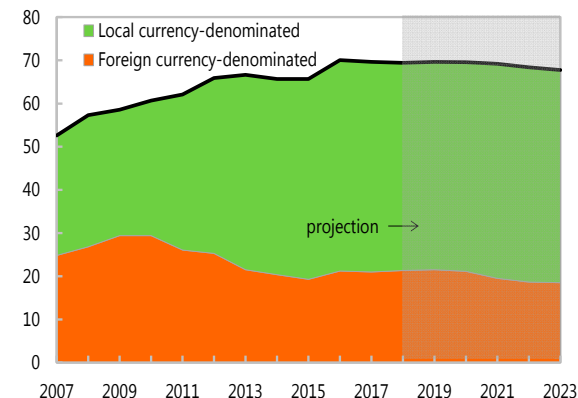
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

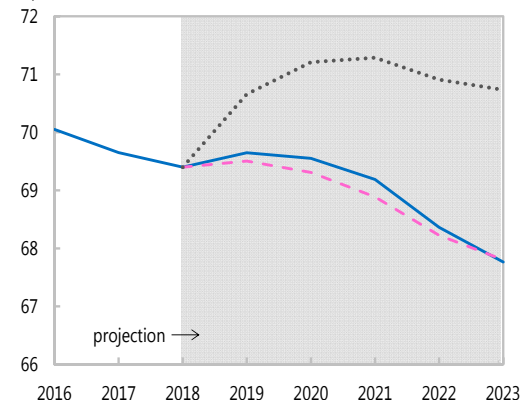
— Baseline

..... Historical

- - - Constant Primary Balance

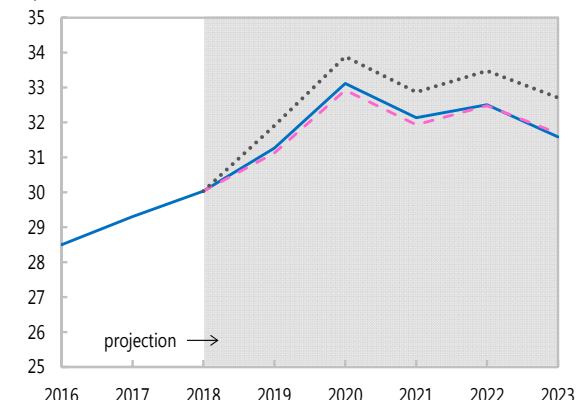
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

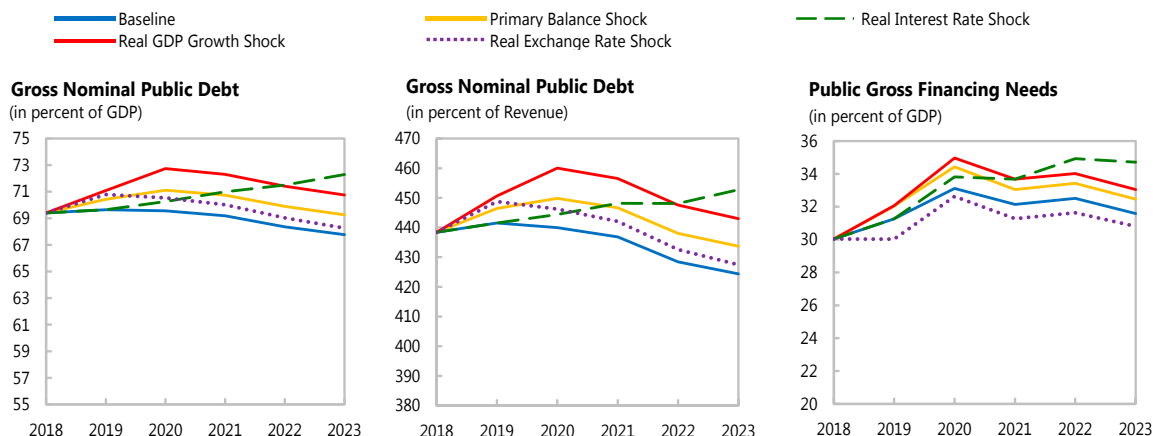
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	5.6	4.7	4.9	5.0	5.0	5.0
Inflation	5.2	5.2	5.2	5.0	5.3	5.1
Primary Balance	-1.3	-1.4	-1.4	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.2	7.2	7.2	7.4	7.6
Constant Primary Balance Scenario						
Real GDP growth	5.6	4.7	4.9	5.0	5.0	5.0
Inflation	5.2	5.2	5.2	5.0	5.3	5.1
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	7.0	7.2	7.2	7.2	7.4	7.6

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	5.6	3.7	3.7	3.7	3.7	3.7
Inflation	5.2	5.2	5.2	5.0	5.3	5.1
Primary Balance	-1.3	-1.8	-1.8	-1.8	-1.8	-1.8
Effective interest rate	7.0	7.2	6.4	5.9	5.8	5.9

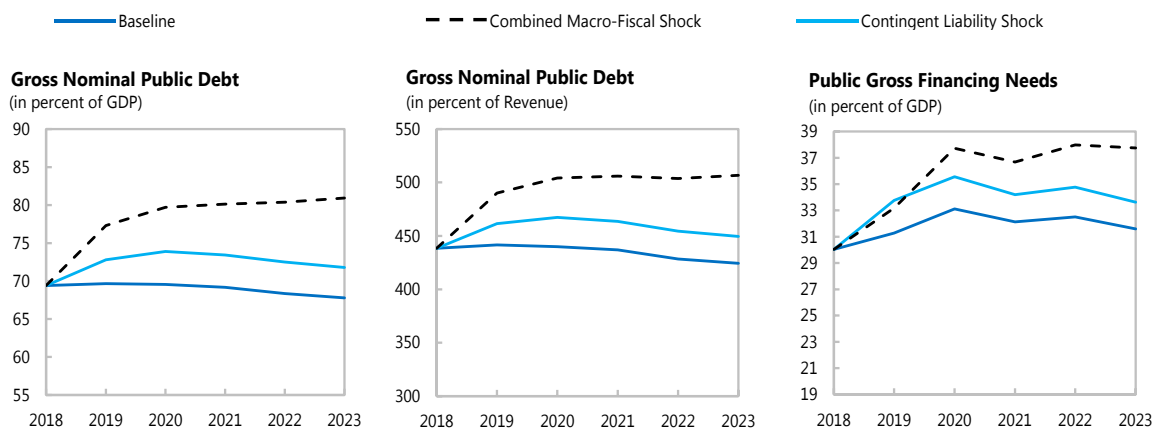
Source: IMF staff.

Pakistan Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions (in percent)

	2018	2019	2020	2021	2022	2023
Primary Balance Shock						
Real GDP growth	5.6	4.7	4.9	5.0	5.0	5.0
Inflation	5.2	5.2	5.2	5.0	5.3	5.1
Primary balance	-1.3	-2.2	-2.2	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.2	7.2	7.3	7.4	7.6
Real Interest Rate Shock						
Real GDP growth	5.6	4.7	4.9	5.0	5.0	5.0
Inflation	5.2	5.2	5.2	5.0	5.3	5.1
Primary balance	-1.3	-1.4	-1.4	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.2	8.3	9.0	9.6	9.9
Combined Shock						
Real GDP growth	5.6	3.3	3.5	5.0	5.0	5.0
Inflation	5.2	4.8	4.8	5.0	5.3	5.1
Primary balance	-1.3	-2.2	-2.2	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.4	7.9	9.0	9.6	9.9
Real GDP Growth Shock						
Real GDP growth	5.6	3.3	3.5	5.0	5.0	5.0
Inflation	5.2	4.8	4.8	5.0	5.3	5.1
Primary balance	-1.3	-1.7	-2.0	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.2	7.2	7.2	7.4	7.6
Real Exchange Rate Shock						
Real GDP growth	5.6	4.7	4.9	5.0	5.0	5.0
Inflation	5.2	12.0	5.2	5.0	5.3	5.1
Primary balance	-1.3	-1.4	-1.4	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.4	6.8	6.9	7.1	7.3
Contingent Liability Shock						
Real GDP growth	5.6	3.3	3.5	5.0	5.0	5.0
Inflation	5.2	4.8	4.8	5.0	5.3	5.1
Primary balance	-1.3	-3.1	-1.4	-1.3	-1.1	-1.1
Effective interest rate	7.0	7.8	7.3	7.2	7.4	7.6

Source: IMF staff.

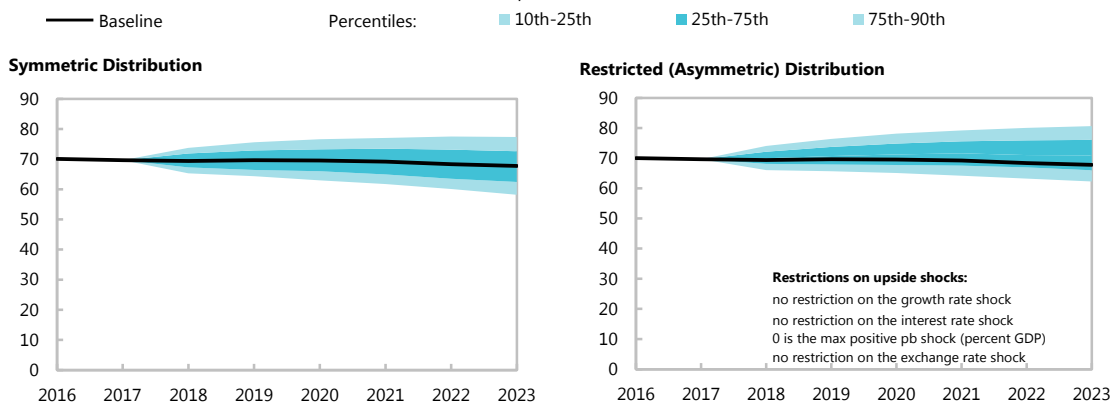
Pakistan Public DSA Risk Assessment

Heat Map

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

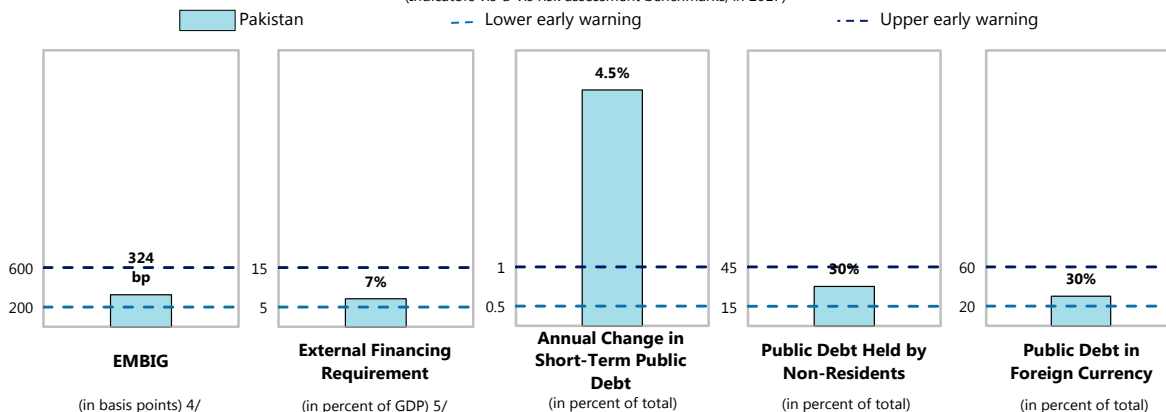
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

4/ EMBIG, an average over the last 3 months, 28-Oct-17 through 26-Jan-18.

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

Pakistan Public DSA – Realism of Baseline Assumptions

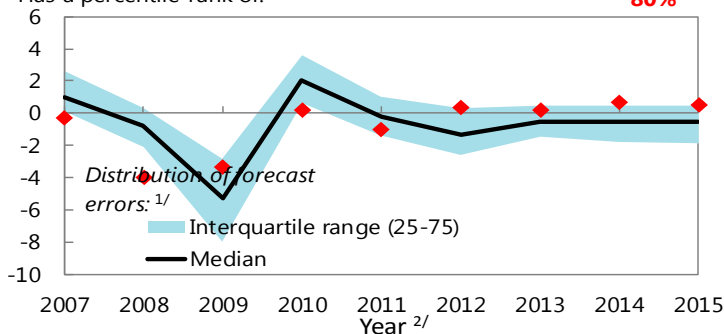
Forecast Track Record, versus all countries

Real GDP Growth

(in percent, actual-projection)

Pakistan median forecast error, 2007-2015: **0.20**

Has a percentile rank of: **80%**

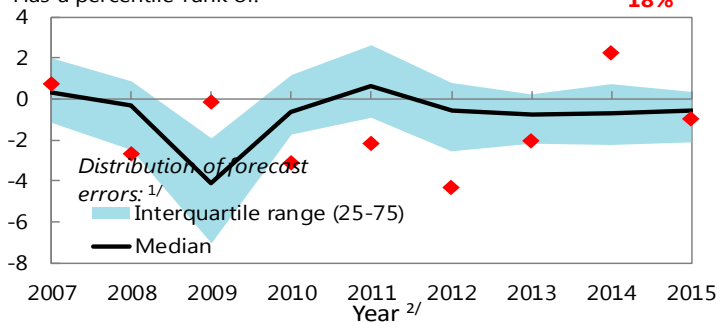


Primary Balance

(in percent of GDP, actual-projection)

Pakistan median forecast error, 2007-2015: **-2.04**

Has a percentile rank of: **18%**

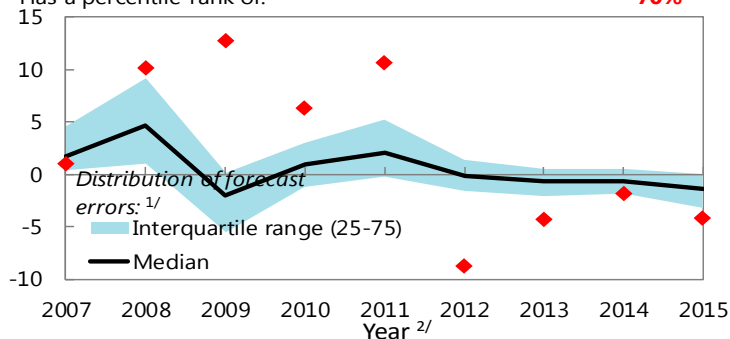


Inflation (Deflator)

(in percent, actual-projection)

Pakistan median forecast error, 2007-2015: **1.06**

Has a percentile rank of: **70%**

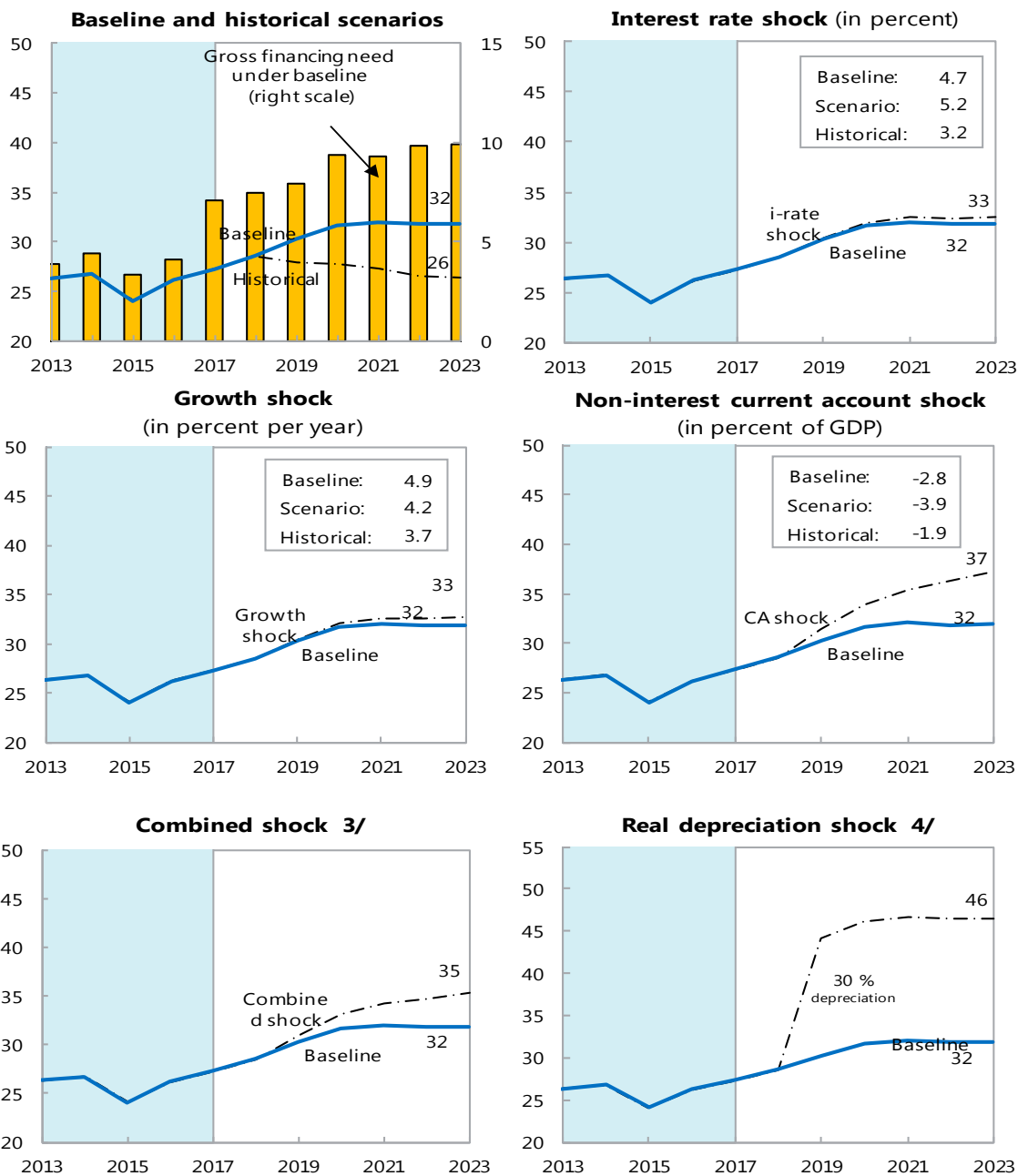


Source : IMF Staff.

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

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

Pakistan: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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

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

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

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

4/ One-time real depreciation of 30 percent occurs in 2018.

Pakistan: External Debt Sustainability Framework, 2013–23

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -2.2
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Baseline: External debt	26.3	26.8	24.1	26.2	27.3	28.5	30.3	31.6	32.0	31.9	31.9	
Change in external debt	-2.8	0.4	-2.7	2.1	1.1	1.2	1.7	1.4	0.4	-0.2	0.0	
Identified external debt-creating flows (4+8+9)	-0.2	-0.6	-1.8	0.4	1.2	2.4	1.9	1.6	1.3	1.2	1.2	
Current account deficit, excluding interest payments	0.5	0.6	0.3	1.0	3.3	4.0	3.2	3.0	2.7	2.5	2.3	
Deficit in balance of goods and services	7.3	7.9	7.5	8.1	10.1	10.4	9.9	9.4	8.8	8.2	7.7	
Exports	13.6	12.4	11.1	9.8	9.0	9.0	9.7	10.3	10.7	11.0	11.1	
Imports	20.9	20.3	18.5	18.0	19.2	19.5	19.7	19.6	19.5	19.2	18.8	
Net non-debt creating capital inflows (negative)	-0.5	-0.7	-0.3	-0.8	-0.9	-1.0	-1.1	-1.3	-1.3	-1.3	-1.2	
Automatic debt dynamics 1/	-0.1	-0.6	-1.8	0.3	-1.2	-0.6	-0.2	-0.2	-0.1	0.0	0.1	
Contribution from nominal interest rate	0.6	0.6	0.7	0.8	0.8	0.8	1.1	1.2	1.4	1.5	1.6	
Contribution from real GDP growth	-1.0	-1.0	-1.0	-1.1	-1.3	-1.4	-1.3	-1.4	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	0.3	-0.2	-1.5	0.5	-0.8	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-2.7	1.1	-0.9	1.7	-0.1	-1.2	-0.2	-0.2	-0.9	-1.4	-1.2	
External debt-to-exports ratio (in percent)	193.2	215.2	217.4	266.6	302.5	316.0	310.6	308.4	299.5	290.5	286.9	
Gross external financing need (in billions of US dollars) 4	9.1	10.8	9.1	11.4	21.5	24.5	27.0	33.8	36.0	41.2	45.0	
in percent of GDP	3.9	4.4	3.4	4.1	7.1	10-Year	10-Year	7.5	7.9	9.4	9.3	9.9
Scenario with key variables at their historical averages 5/						28.5	28.0	27.8	27.2	26.6	26.3	-2.1
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation					
Real GDP growth (in percent)	3.7	4.1	4.1	4.5	5.3	3.7	1.4	5.6	4.7	4.9	5.0	5.0
GDP deflator in US dollars (change in percent)	-1.2	0.9	6.0	-2.2	3.1	3.4	6.4	1.8	-0.2	0.7	2.0	3.0
Nominal external interest rate (in percent)	2.2	2.5	3.0	3.3	3.3	3.2	1.0	3.0	4.1	4.3	4.6	5.0
Growth of exports (US dollar terms, in percent)	6.0	-3.6	-1.5	-8.5	0.1	2.9	10.0	7.6	12.8	11.2	11.6	10.9
Growth of imports (US dollar terms, in percent)	-0.5	2.5	0.9	0.0	16.3	5.7	12.0	9.2	5.6	5.4	6.4	6.4
Current account balance, excluding interest payments	-0.5	-0.6	-0.3	-1.0	-3.3	-1.9	2.3	-4.0	-3.2	-3.0	-2.7	-2.5
Net non-debt creating capital inflows	0.5	0.7	0.3	0.8	0.9	1.1	0.9	1.0	1.1	1.3	1.3	1.2

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

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

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

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

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

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

Statement by the Staff Representative on Pakistan
Executive Board Meeting
March 5, 2018

This statement contains information that has become available since the staff report was circulated to the Executive Board. This information does not alter the thrust of the staff appraisal.

1. **Recent fiscal developments broadly confirm staff's projections.** On February 21, 2018, the authorities released data on general government fiscal operations for the second quarter of FY 2017/18 (October–December 2017).¹ The fiscal deficit (excluding grants) for the first half of the fiscal year was 2.3 percent of GDP (compared to 2.5 percent of GDP in the first half of FY 2016/17), broadly in line with staff's projection for the full year. Tax revenue grew by 16 percent y-o-y. Non-interest current expenditure grew by 12 percent y-o-y, unchanged as percent of GDP from the previous year. Development spending increased markedly (25 percent y-o-y).

2. **Recently released external sector data for January 2018 also broadly confirm staff's projections while highlighting risks.** In the first seven months of FY 2017/18 (July 2017 through January 2018), the current account deficit reached 2.8 percent of annual GDP. Exports increased by 11 percent y-o-y over this period, and remittances began to recover (3.7 percent y-o-y). However, imports grew by 18.8 percent y-o-y, highlighting risks for a higher current account deficit in FY 2017/18 should import growth not decelerate more in the remaining months of the fiscal year.

¹ Pakistan's fiscal year runs from July to June.

**Statement by Jafar Mojarrad, Executive Director for Pakistan, and Abdelali Jbili,
Senior Advisor to Executive Director
March 5, 2018**

On behalf of our Pakistani authorities, we thank staff for the candid discussions and valuable policy advice. The discussions were appropriately focused on preserving the macroeconomic stability gains achieved under the 2013-16 EFF-supported program and enhancing the sustainability of the ongoing strong growth momentum, while mitigating potential medium-term risks that might affect Pakistan's capacity to repay the Fund.

The authorities' medium-term strategy continues to aim at fostering high inclusive growth to improve the living conditions of the population, while containing macroeconomic imbalances. While they broadly agree with staff policy recommendations going forward, their assessment of Pakistan's medium-term growth prospects and risks are more favorable than those of the staff, based on the expected effects of recent policy actions in several areas, and their determination to take stronger actions as needed to deal with unforeseen adverse developments.

Recent Economic Developments and Outlook

As foreseen during the 2017 Article IV Consultation, the economy has continued to deliver robust, broad-based, and balanced growth reaching 5.3 percent in 2016/17, driven by recovery in agriculture, large-scale manufacturing expansion, and continued strong growth in construction and services. Investment related to the China-Pakistan Economic Corridor (CPEC) has been a major contributor to growth performance, but other factors were also at play, including structural reforms that have improved energy supply and enhanced private sector confidence, and supportive macroeconomic policies. Headline inflation in the context of accommodative monetary policy remained contained at 3.9 percent at end 2016/17. The stronger growth momentum has put pressure on the external sector. The high import content of the CPEC investment projects and rising oil prices have had a significant impact on the balance of payments, with concomitant decline in gross international reserves. That said, the authorities allowed the rupee/dollar exchange rate to depreciate by 5 percent in December 2017, raised regulatory duties on certain imports on a temporary basis, and also started tightening of monetary policy. This policy mix, together with the ongoing rebound of exports, should help contain the deterioration in the external balance. Pakistan has successfully tapped international financial markets last December at favorable market conditions to meet its financing needs, and its bond spreads remain close to the average of emerging markets.

The authorities expect real GDP growth to accelerate to 6 percent in 2017/18 and 6 ½ percent in 2018/19, supported by continued favorable conditions, namely a combination of confidence-enhancing reforms and high investment spending under the

CPEC. The authorities are confident that prudent fiscal and monetary policies and adequate exchange rate flexibility will help strengthen external sustainability.

Fiscal Policy

The authorities concur with the need to contain the fiscal deficit to 5 percent of GDP, which they consider achievable under current policies. Sustained improvements in tax collection, supported by broadening of the tax base, have already strengthened revenue performance. These together with efforts to rationalize development spending and adequate fiscal surplus at the provincial level will help achieve the authorities' fiscal objectives. The fiscal deficit has been contained to 2.2 percent of GDP in H1FY2018 as compared to 2.5 percent in the same period last year.

The authorities are of the view that the debt-to-GDP ratio could be brought down over the near-to medium term to the limits set in the Fiscal Responsibility and Debt Limitation Act. They concur with staff advice to make further gains in fiscal consolidation through enhanced revenue mobilization, improvement in the fiscal federal framework, restructuring and/or privatization of loss-making public sector enterprises (PSEs), and improved cost recovery in the gas sector.

As highlighted during the 2017 Article IV consultation, the authorities remain committed to expanding the coverage and benefits under the Benazir Income Support Program (BISP). Building on the progress achieved so far in improving the delivery mechanisms and minimizing fraud, efforts are underway to establish a donor-financed endowment fund and graduation schemes for the program's long-term beneficiaries.

Monetary and Exchange Rate Policies

Although monetary policy has been accommodative, the authorities have been attentive to developments in domestic demand and inflation, which prompted them to raise the policy rate by 25 bps in January 2018. They also allowed the exchange rate to depreciate to stem reserve losses, as indicated above, and temporarily raised regulatory duties on imported intermediate, consumer, and luxury goods while maintaining cash margin requirements on imports of consumer goods. The authorities agree with staff on the potentially negative side effects of the latter measures, and intend to phase them out when external pressures subside. Going forward, they will continue with their efforts to strengthen the autonomy of the SBP, with a draft legislation to this effect being placed before parliament. Moreover, the recently established independent monetary policy committee is now fully empowered to take policy decisions based on its review of economic developments and fundamentals.

Financial Sector

The banking system is sound, with capital adequacy ratios well above the regulatory minimum, except for two small banks which are being considered for privatization or merger with larger banks. With adequate profitability and declining NPLs, the banking system remains resilient and has appropriately supported economic activity. The regulatory framework is being strengthened as progress is made toward completing the phased implementation of Basel III norms by 2019. The authorities remain committed to continue strengthening the AML/CFT regulations and enforcement in line with international standards, as illustrated by recent intensification of inspections and close monitoring of banks' compliance with AML/CFT requirements, including in overseas operations.

Structural Reforms

Implementation of structural reforms in wide-ranging areas, as detailed in the 2017 Article IV consultation report, will continue to put emphasis on improvement in business climate, restructuring of PSEs and opening them to private sector participation, and consolidation of the energy sector reform. As part of the broader effort to strengthen the legal framework, the Corporate Rehabilitation Act, which will strengthen the bankruptcy framework and facilitate the resolution of NPLs in the banking system, was passed recently.

Capacity to Repay the Fund

The authorities are aware of the challenges posed by the growing need to mobilize external resources to finance large scale investment projects and support growth. They agree that, although the debt-to-GDP ratio is projected to decline from close to 70 percent of GDP in 2016/17 to 68 percent in 2022/23, it needs to be brought further down through appropriate fiscal and monetary policies while improving the debt profile. They believe that risks to Pakistan's capacity to repay the Fund are low and will likely remain so in the medium-term. The external DSA points to a sustainable medium-term path with the external debt of 27 percent of GDP in 2016/17 projected to rise and peak at 32 percent in 2022/23, a still moderate level. Since the share of Fund credit outstanding in external debt is low (7 percent in 2017 and declining thereafter), the debt service to the Fund, which is projected to peak at less than 6 percent of the total in 2021, is not a source of concern.

The authorities appreciate their engagement with the Fund and attach high value to its policy advice and technical assistance. They look forward to continuing close cooperation in support of their medium-term reform strategy.