1964 CONSULTATIONS ON BALANCE-OF-PAYMENTS RESTRICTIONS WITH
PAKISTAN

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with Pakistan on 6 November 1964

1. The Government of Pakistan has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Industrial output continued its rapid rise and a significant increase in agricultural production was obtained in 1963/64. During the first four years of the Second Plan national income is estimated to have increased by about 22 per cent as against the goal for the full five-year period of 24 per cent. Prospects for the last year of the Plan are considered good. The outline for the Third Five-Year Plan calls for a further increase in real national income by 1970 of at least 30 per cent.

3. The monetary measures introduced in the summer of 1963 have not resulted in any reduction in the credit expansion. Credit to the private sector has continued its rapid rise and the public sector which had become a net borrower in 1962/63 greatly increased resort to the banking system in 1963/64. The increase in money supply during 1963/64 amounted to over 17 per cent, only slightly less in relative terms than in 1962/63. The Fund, while noting that domestic prices appear to have remained relatively stable so far, agrees with the monetary authorities that there is need to proceed cautiously in the future and hopes that in particular the reliance of the public sector on the banking system will be reduced.

4. The balance of payments in 1963/64 reflects in part the impact of the rapid monetary expansion occurring in the last two years. There was a loss of reserves in spite of a good performance in exports during the year. However, part of the reserve loss was attributable to temporary factors, mainly consisting of pre-financing of imports to be paid for with foreign aid.
5. The Fund welcomes the recent liberalization in the trade and payments system of Pakistan, including further steps to simplify and liberalize restrictive administrative practices relating to imports. Pakistan continues to rely on multiple currency practices originating in the Export Bonus Scheme. The Fund welcomes the reduction in the number of multiple rates on the export side and does not object on a temporary basis to the existing multiple currency practices, but urges that early steps be taken to eliminate the remaining such practices. The Fund urges Pakistan to reconsider the need for its bilateral payments arrangements.

6. In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Pakistan.