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March 27, 2015

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Pakistan: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

March 12, 2015

Letter of Intent

March 12, 2015
Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC, 20431

Dear Ms. Lagarde.

The Pakistani authorities reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF). Performance for the sixth review was satisfactory. We have met all the performance criteria and continue to move forward with our ambitious structural reform agenda. While further effort is needed in some areas, we are committed to the actions described in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP). There are signs of improvement in economic conditions and balance of payments pressures have been contained, reflecting improved macroeconomic policies as well as sharply lower oil prices. Although challenges remain, we believe that as structural reforms take hold, bottlenecks will ease, growth will accelerate, and vulnerabilities will recede. We are committed to firm policy implementation and to strengthening fiscal, monetary, and financial sector buffers to safeguard against risks.

Our performance on the quantitative targets and the structural reform agenda for the sixth review has been as follows (MEFP Tables 1 and 2):

Quantitative performance criteria and indicative targets. All end-December 2014 quantitative performance criteria (PCs) were observed, as well as the indicative target on transfers under the Benazir Income Support program (BISP). Although the indicative target on tax revenue was missed, we have taken action to address this shortcoming and are on track to meet the end-March 2015 indicative target.

Structural Benchmarks (SBs). The end-December 2014 SB on amendments to the relevant tax laws and submission of the Anti-Money Laundering Act was met, as were the end-February SBs on enhancing internal operations and risk management of the State Bank of Pakistan (SBP) and improving monetary policy operations. The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. As detailed in the MEFP, we propose four new structural benchmarks against which to measure progress under the program (MEFP, Table 2). The TMU explains how the program targets are measured.

In the attached MEFP, we set out our plans to further advance on the objectives of our macroeconomic program. In view of our performance under the program supported by the IMF, the Government of Pakistan and the SBP request modification to the end-March PCs on NIR and NDA, reflecting higher reserves accumulation by the SBP, and completion of the sixth review under the Extended Arrangement and modification of performance criteria as specified in the attached MEFP.

We believe that the policies set forth in this letter and in the letters of August 19, 2013, December 11, 2013, March 6, 2014, June 19, 2014, and December 2, 2014 are adequate to achieve the objectives of our economic program, but we stand ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF with the necessary information for program monitoring. We authorize the IMF to publish this Letter of Intent and its attachments, and the related staff report.

/s/	/s/
Ishaq Dar	Ashraf Wathra
Minister of Finance	Governor of the State Bank of Pakistan
Pakistan	Pakistan

Attachment I. Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. **Economic activity is steadily improving**. For program purposes, we expect that GDP growth will reach about 4.3 percent in FY 2014/15, compared to 4.1 percent in FY2013/14, though the government retains its goal of achieving growth of 5.1 percent. Risks to growth are broadly balanced, with downside risks from possible negative international and domestic shocks roughly offset by upside prospects from further oil price declines. Headline inflation eased further in January 2015 to a 3.9 percent annual rate. We now expect it to reach around 5½ percent by the end of this fiscal year (6 percent annual average), helped by a favorable global commodity price outlook and continued prudent monetary and fiscal policies.

2. **The external current account deficit was lower than projected over the past quarter**. This improvement largely reflects lower imports—in particular, oil imports—and robust workers' remittances. The capital and financial account has also displayed a strong performance in FY2014/15, largely helped by the US$1 billion Sukuk placement, but also by significant bilateral and multilateral inflows. Gross reserves reached US$10.5 billion in December 2014, up from US$8.9 billion at end-September 2014. The rupee has appreciated slightly against the dollar over the same period, but remains some 2.6 percent down so far this fiscal year. For the remainder of FY2014/15, we expect the current account to show a substantial improvement, driven by a lower import bill, despite weak export performance. External financing will continue to be supported by significant program disbursements and the government privatization program. This financing, together with the oil windfall will allow us to accelerate the improvement in reserve coverage, which is now expected to reach 3½ months of imports by end FY2014/15.

3. **The fiscal deficit in the first half of FY2014/15 was in line with the program target**. Fiscal consolidation—a critical objective of the government's economic program—remains on track, bringing the budget deficit (excluding grants) from 8.3 percent of GDP in FY2012/13 to 5.5 percent in FY2013/14 and toward the program target of 4.8 percent of GDP in FY2014/15. Revenue collection at the federal level, however, was below the indicative target, partly due to continued legal challenges against the Gas Infrastructure Development Cess (GIDC) as well as lower tax receipts from the fall in oil prices. To achieve the deficit target, we have restrained expenditures.

Economic Policies

A. Monetary and Exchange Rate Policies

Monetary and exchange rate policy remains focused on building external buffers, maintaining price stability, and improving the effectiveness of monetary policy tools.

4. **Monetary aggregates grew in line with program objectives**. The State Bank of Pakistan (SBP) continued to accumulate foreign reserves, which helped the stock of Net Foreign Assets (NFA) to recover to well above pre-program levels and has led to a welcome change in the composition of reserve money toward foreign reserves. The growth rate of broad money declined to 10.9 percent y-o-y in December 2014. Helped by a contraction in Net Domestic Assets (NDA), reserve money grew by only 5.1 percent in the previous two quarters, the lowest rate in the past decade. Private sector credit continued its healthy expansion (10.2 percent so far in FY2014/15) driven mainly by businesses, and in particular manufacturing.

5. **All end-December monetary program targets were met and the SBP is on track to meet the end-March targets**. We met the end-December NIR target by over US$800 million, due in part to more aggressive spot market purchases, which more than compensated for a shortfall in privatization revenues. The ceiling on SBP's net short position of swap/forward contracts was also met. We over-performed on the end-December NDA target by PRs 281 billion, as we took actions to bring government borrowing from the SBP down to program targets (¶23), mopped-up excess liquidity, and sterilized foreign exchange inflows.

6. **The sharp decline in oil prices has created an opportunity to accelerate our accumulation of foreign exchange reserves to build buffers and reduce external vulnerabilities**. We recognize that these developments can be effectively used to strengthen our external accounts position on a sustainable basis by accelerating reserves build-up under a market-based exchange rate. At the same time, we recognize that our trade competitiveness needs to be strengthened, due in part to movements in international financial markets. Consequently, we have agreed to increase the NIR target for end-March and set subsequent PCs accordingly.

7. **Headline and core inflation remain on a declining path helped by the recent drop in oil prices and a prudent monetary policy stance, and we have revised our forecast sharply down for the remainder of FY2014/15**. In light of these developments, we cut the policy interest rate by 100 bps in January 2015, which we believe is consistent with keeping inflation sustainably below 5½ percent. Going forward, we believe that a cautious approach to monetary policy to anchor inflation expectations is the key element to preserve our achievements. In particular, we will adhere to program NDA targets, improve the functioning of the interest rate corridor (¶8), and maintain the policy rate in a forward-looking fashion to maintain real interest rates in line with a prudent and stable inflation path. The SBP will pursue inflation goals for monetary policy and improve communications with the public about its framework.

8. **We will continue to improve monetary and exchange rate operations**. To enhance the effectiveness of monetary policy, better manage liquidity in the interbank market, and conduct open market operations, the SBP is preparing to improve its interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor. To this end, the SBP has announced its time-bound plan in February 2015 and will make the improved interest rate corridor operational by end-September 2015 (new structural benchmark). To better internalize foreign exchange demand and make it more predictable and transparent to market participants, over time we will move gradually toward implementing best international practices with the help of IMF technical assistance.

9. **Enhanced central bank independence is key for an improved monetary policy framework**. We have submitted amendments to the SBP Act to the National Assembly (NA), but the legislation is still in the relevant parliamentary committee. The amendments will strengthen the autonomy of the SBP, including full operational independence in the pursuit of price stability as the SBP's primary objective. Among other things, the amendments will establish an independent decision-making monetary policy committee to design and implement monetary policy and prohibit any form of new direct lending from the SBP to the government. We are committed to working with the IMF to ensure that the final version of the law incorporates the recommendations of the IMF safeguards assessment mission and comments provided by Fund staff. To achieve this, we intend to submit a revised draft law—incorporating IMF staff comments—to the NA by mid-March 2015(prior action). Enactment of the legislation is now expected for end-June 2015.

10. **We are taking steps to enhance SBP operations**. While awaiting enactment of the amendments to the SBP law, we have introduced additional nonlegislative measures to improve internal operations of the SBP (structural benchmark). Specifically: (i) the Investment Committee of the SBP Board has begun regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) we have provided confirmation that in line with standard IMF safeguard procedures, the Internal Audit Department has begun to conduct reviews of the program monetary data reported to the IMF for end-December 2014, and will continue to do so within two months after each test date, for accuracy and compliance with the TMU and share the findings with IMF staff.

B. Fiscal Policy

11. **We are determined to keep fiscal consolidation on track and lay the foundations for sustainable and inclusive growth**. We remain committed to reducing the budget deficit (excluding grants) to 4.8 percent of GDP in FY2014/15 and to around 3½ percent of GDP by the end of the three-year program, putting the debt-to-GDP ratio on a firmly declining path. This will require further fiscal consolidation of about 1 percent of GDP in FY2015/16, with the remainder in FY2016/17. The bulk of this adjustment will come from increasing revenues by broadening the tax base and closing loopholes, while creating fiscal space to finance increases in public infrastructure investment, security and defense, education, healthcare, and targeted social assistance to improve living standards across the country and to protect the most vulnerable segments of society.

12. **We will prepare and submit to the parliament a draft FY2015/16 budget with a deficit target of no more than 4 percent of GDP (excluding grants)**. The adjustment will come from revenue enhancements and further rationalization of untargeted subsidies. Revenue mobilization will come mainly through further elimination of tax concessions and exemptions and broadening the tax base, with some contribution from improved tax administration. These measures should help us avoid the need for further increases in general GST and incomes tax rates. On the expenditure side, we will continue implementing our strategy to remove subsidies, along with steps to address the circular debt problem in the energy sector (¶29-31) and to streamline public administration, including wage and salary costs.

13. **The plunge in oil prices has created an opportunity to further reduce distortions in the energy market while allowing for some fall in consumer tariffs**. We reduced energy subsidies from 2.3 percent of GDP in FY2011/12 to 1.3 percent in FY2013/14, and have already taken steps to bring them to 0.7 percent of GDP this fiscal year. Most recently, we implemented a PRs 0.60/kWh surcharge in January 2015 to cover costs in the electricity sector. In February, we took additional steps by applying a new FY2014/15 tariff which takes into consideration a more comprehensive view of production and distribution costs and begins to reverse the accumulation of circular debt by closing the gap between electricity tariffs and the cost-recovery level (¶30).

14. **Efforts to broaden the revenue base by eliminating tax concessions, exemptions and loopholes are bearing fruit**. The tax-to-GDP ratio increased from 9.7 percent of GDP in FY2012/13 to 10½ percent in FY2013/14, and tax collection at the federal level registered a nominal increase of 14.8 percent in the first half of FY2014/15, despite the legal challenges to the GIDC and the bonus shares taxes. The elimination of Statutory Regulatory Orders (SROs) and additional tax base-broadening measures in the FY2014/15 budget have yielded better-than-expected results in most areas in the first half of the year. As part of our strategy for comprehensive tax reform, the Federal Board of Revenue (FBR) has granted no new tax concessions or exemptions through SROs, which narrow the tax base, complicate tax administration, and weaken tax compliance. To permanently prohibit the issuance of SROs to grant tax concessions or exemptions, we are preparing the necessary draft legislation by end-March 2015 at the latest (structural benchmark) and we expect parliamentary approval of the legislation on or before end-December 2015. Looking forward, our plan for eliminating all designated SROs granting tax concessions and exemptions remains on track, with an expected yield of 1-1½ percent of GDP over the period of three years. We will update and improve the content of the Tax Expenditure Annex to be submitted with the FY2015/16 budget documents, so as to reflect and make transparent the impact of this plan. These steps will help turn the GST into a full-fledged integrated modern indirect system of taxation with few exemptions, along with an integrated income tax, by FY2016/17.

15. **However, despite gains from tax base broadening, revenue performance has been less than expected**. This mainly reflects two factors. First, court challenges to tax measures continue to hamper our revenue efforts. Legal challenges to the GIDC have not yet been resolved, limiting collections. Of an expected annual yield of 0.5 percent of GDP (plus another 0.1 percent of GDP in GST on gas), the GIDC has produced only about one-tenth of that so far this fiscal year. In addition,

a court challenge has blocked a 10 percent tax on the value of bonus shares, which was estimated to bring in 0.1 percent of GDP. Second, the drop in crude oil prices has produced a shortfall in GST revenue from petroleum products, which fell by 19 percent in the second quarter of FY2014/15. As a result, we missed the second-quarter indicative target on revenue collection at the federal level by PRs 22 billion (or about 0.08 percent of GDP), and in the absence of corrective measures this would grow in the coming months.

16. **We have taken steps to address the revenue shortfall**. To achieve the deficit target, we have restrained expenditures and introduced additional revenue measures at the federal level, including by: (i) raising the General Sales Tax (GST) rate on petroleum products (excluding furnace oil) from 17 to 27 percent in two stages; (ii) levying regulatory duties on steel products; (iii) introducing a regulatory duty on mobile phones; (iv) levying a regulatory duty on furnace oil; (v) increasing the withholding tax on nonfiler contracts, services, and commercial importers; (vi) levying a regulatory duty on luxury items; (vii) levying regulatory duty on metal scrap; and (viii) reduce electricity subsidies by 0.1 percent of GDP. Together, these steps are expected to raise 0.35 percent of GDP (prior action).

17. **We are committed to tackling the backlog on GST refund claims**. We have managed to lower the number of outstanding refund claims by some 5 percent and have increased monthly refund payments by 15 percent in the first half of FY2014/15. Although the stock of GST refund claims increased in July-November largely due to old claims being logged into the system, in December we reversed the upward trend and will continue to lower the stock in the coming months. Our new IT system for processing GST refund claims (computerized risk-based evaluation of sales tax or CREST) is helping to identify invoice discrepancies at different stages and to put an effective check on many fake invoices and inadmissible refund claims. The CREST verification system has allowed us to reject false claims worth about PRs 10 billion in the first half of FY2014/15. To deal with the refund backlog, the FBR is carrying out an exercise to process deferred claims by end-March 2015. The FBR will prepare a plan to address the issue of unpaid GST refund claims by end-June 2015. Looking forward, to process new GST refund claims in a timely manner, the FBR will adopt an automated system of pre-verification instead of the current system of post-verification by end-June 2015.

18. **We are continuing our efforts to improve tax compliance and enforcement**. We have built a monitoring system to track progress and set quarterly objectives on tax policy and administration initiatives (as described in the TMU). We issued 154,922 first notices by end-2014, over the target of 150,000, to bring more potential taxpayers into the revenue base. We have also initiated a GST collection scheme for over 25,000 large retailers and over 1.3 million small retailers as new potential GST payers. To enhance our tax compliance efforts, we will continue to improve the FBR's IT infrastructure and expand its access to taxpayer information from multiple sources including financial and real estate transactions, motor vehicle procurement, and international travel. We have announced the merger of the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people by end-September 2015 (new structural benchmark). We will focus our enforcement efforts on nonfilers who have the potential to contribute at least the average

tax paid by currently registered taxpayers and especially high wealth individuals, including elected representatives, key public figures, sports persons, and performing artists. The FBR's Directorate General of Intelligence and Investigation (DGII) is working on the high net worth individuals identified through field surveys and information gathered from financial and property records. For those who are already in the tax net, this information is passed on to the relevant tax office for corroboration with the wealth statement filed by the cessee. For those who are outside the tax net, the DGII pursues their cases. We will also streamline the online filing scheme (which will facilitate registration and filing of personal income tax returns by simplifying the tax return form) and expand the coverage of tax audits to 7.5 percent of filed tax returns.

19. **We have made significant progress in implementing tax administration reforms, which will gradually deliver further improvements in revenue collection**. The FBR is moving forward with a strategy to address structural flaws in the taxation system, improve tax administration, and induce behavioral change among taxpayers. In particular:

a. We are in the process of awarding the contract for electronic volume tracking of production to improve GST collection. Working with the PPRA (the public procurement authority), we aim to award this contract to by end-March 2015.

b. After launching the risk-based e-registration system for the GST in October 2014, we are in the process of integrating our IT systems to better manage new registrations and subsequent processes.

c. We have revised valuation rulings in customs duties to mitigate wrong declarations and underinvoicing. Using data on international prices, we are now able to identify most of the risk-prone transactions. At the same time, we are developing a national valuation database, which will allow us to further improve the accuracy of customs duty assessment. Moreover, we have started the electronic data interchange (EDI) connectivity to streamline trade with Afghanistan and we are in discussions with China to develop a similar EDI connectivity.

d. We have already appointed an IT member to the FBR and constituted a project team to lead the development of an integrated end-to-end automated system for the GST and income tax.

20. **Provincial governments remain crucial in the fiscal reform process, especially by improving revenue collection at the provincial level**. With a series of constitutional amendments, Pakistan has adopted a more decentralized federal system of government. The most recent National Finance Commission (NFC) award granted 57.5 percent of most revenues to the provinces, along with devolution of spending responsibilities and sales taxation authority in services in addition to the existing taxation authority in agriculture and property. Looking forward to the new round of NFC negotiations, the federal government will seek an agreement to balance devolution of revenue and expenditure responsibilities in a way that is consistent with the objective of macroeconomic stability. In preparation for these negotiations, we are receiving technical assistance from our international

partners to reflect best practices by undertaking studies with the goal of achieving sustainable federal-provincial fiscal relations.

21. **We continue our support to the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP)**. To protect the vulnerable segments of society from inflation, and the impact of fiscal adjustment, we have increased the stipends paid to women account holders in the poorest families from PRs 3,600 to PRs 4,500 per quarter since July 2014. We now expect to expand the coverage of the program to 5.0 million by end-June 2015 (0.3 million lower than previously anticipated). As of end-December 2014, we have reached 4.8 million beneficiaries and have achieved the indicative targets for transfer payments for both end-September and end-December 2014. We will sign new banking contracts by June 2015 to phase in more effective payment cards. To ensure timely payments to beneficiaries during the transition, we have extended the contracts with the commercial banks that are currently making e-payments on behalf of the BISP until December 2015. In partnership with the provincial governments, we have also made significant progress in the rollout of the education-conditional cash transfers. As of end-January 2015, we have expanded the program from five pilot districts to 32 districts in all provinces. We are also in the process of resolving administrative and decision-making issues so as to ensure its smooth functioning.

C. Fiscal Financing

22. **We are committed to taking measures to contain budget financing from the SBP within the program ceiling**. We over-performed on the end-December ceiling on government borrowing from the SBP by PRs 86 billion. We achieved this by: (i) successfully attracting US$1 billion through an international Sukuk issue in late-November; (ii) issuing ample T bills and Pakistan Investment Bonds (about PRs 363 billion); and (iii) the outright selling of SBP holdings of government securities on the secondary market (PRs 90 billion), which compensated for deferment of the sale of a stake in Oil and Gas Development Company Limited (OGDCL).

23. **Enhancing the quality and effectiveness of public debt management continues to be a priority**. In September 2015, we expect to publish the updated Medium Term Debt Strategy (MTDS) covering the period FY2014/15–FY2018/19. Efforts continue to diversify financing from both domestic and external sources. We have already lengthened the maturity profile of domestic debt and improved the balance between domestic and external debt by placing sovereign bonds for US$2 billion and issuing Sukuk securities for US$1 billion in international debt markets. We will continue to strengthen the Debt Policy Coordination Office (DPCO), by revamping its structure, increasing staffing capacity, and identifying procedures to bring our debt management up to best international practices. Specifically: (i) we will continue to provide Fund staff with a detailed quarterly financing plan for the coming 12 months and publish our rolling quarterly issuance program for domestic public securities every month (including local Sukuk issue); (ii) we are taking steps to strengthen risk management and strategy functions by reorganizing the DPCO as a middle office responsible for updating the MTDS and monitoring its implementation. We will identify the infrastructure needs of the credit risk management unit of the DPCO by end-March 2015, market

risk management functions by end-December 2015, and operational risk management functions by end-December 2016; (iii) based on the September 2014 skills-gap analysis, we will be hiring additional staff and/or training staff with the help of international partners; and (iv) we will take steps to strengthen front office management of debt issuance both in domestic and external markets by arranging a formal linkage with the DPCO, executing the borrowing auctions with the SBP as the agent, and strengthening the primary dealership system. We will also draft the required rules under the Fiscal Responsibility and Debt Limitation Act 2005 by end-September 2015. Finally, we have also requested technical assistance from the Fund to strengthen our local sukuk operations. These actions should lead to savings in, and more effective decision-making for, government borrowing.

D. Financial Sector

24. **The banking sector of Pakistan remains sound, with robust earnings and high solvency ratios**. The pre-tax profit of the system surged by 49 percent (y-o-y) through December, mainly attributed to increased net interest income, lower provision charges, and higher noninterest income. As of end-December 2014, asset quality has slightly improved with a decline in the nonperforming loan (NPL) ratio to 12.3 percent, and the net NPLs to net loans ratio falling to 2.7 percent. The capital adequacy ratio (CAR) increased noticeably to 17.1 percent due to accumulation of profits and fresh equity injection by some banks (including previously CAR noncompliant banks). To further improve the market discipline and enhance the assessment of the soundness of the financial sector, the SBP has evaluated and identified the "encouraged" set of FSIs. The SBP is expected to engage with the IMF for dissemination of some additional FSIs for transparency purposes by mid-2015.

25. **The SBP is making progress in bolstering banks below the minimum capital requirement.** The number of CAR noncompliant banks has fallen from three to two due to capital injections. The combined CAR shortfall for the two noncompliant private banks has decreased by PRs 3.3 billion over the quarter to PRs 7.96 billion (less than 0.03 percent of GDP) as of end-December 2014. The risk to the banking system seems to be negligible, as they encompass only 1.39 percent of banking system assets. Of the two remaining banks, one increased its CAR to 9.41 percent via an injection of advance share deposit money in December 2014. The bank is expected to complete a rights issue by March 2015, which will enable it to become CAR-compliant. The Federal Government, at the request of the SBP, has placed the second bank under a moratorium for a period of six months, effective November 14, 2014. A scheme for reconstruction or amalgamation is under consideration. Four banks have expressed interest in acquiring the bank and are currently conducting due diligence.

26. **We remain dedicated to protecting financial stability by reinforcing the regulatory and supervisory framework**. Most importantly:

a. The draft Securities Bill is being finalized after incorporating proposed amendments from the IMF. It is now expected that the Parliament will enact the Bill by January 2016 (modified structural benchmark).

b. The revised Securities and Exchange Commission of Pakistan (SECP) Act to enhance the regulatory power of the SECP will be discussed with the IMF and will be considered by the Council of Common Interest (CCI) before being submitted to Parliament for enactment by April 2016.

c. The Futures Trading Bill is being finalized and will be placed before Parliament by end-June 2015.

d. A working group of the SBP-SECP joint task force is finalizing the guidelines on an early warning system for the effective monitoring of financial conglomerates. These guidelines once finalized and integrated into the existing framework, will facilitate supervision of financial conglomerates. The Technical Assistance on consolidated supervision from the IMF has started. The two sides are coordinating for early completion of the TA that will assist the SBP in establishing a framework for consolidated supervision of banking groups.

27. **Consultation with major stakeholders on a deposit insurance scheme and a bankruptcy law is underway**. The draft Deposit Protection Fund (DPF) Act will be finalized and submitted to parliament by end-March 2015, after completion of the ongoing review with the IMF. We now expect enactment of the law by end-September 2015 (modified structural benchmark). In the meantime, the SBP will undertake preparatory work to establish the corporate infrastructure of the DPF and will request IMF technical assistance to help in this process. The DPF will become operational by January 2016. The draft Corporate Restructuring Companies (CRC) Act will be finalized by end-February 2015. It will be of pivotal importance in cleaning up banks' balance sheets and allowing them to focus on their core areas of operation. After reviewing the company rehabilitation law of different jurisdictions, the SECP has also prepared a concept note for developing the Corporate Rehabilitation Act, which will be shared with stakeholders by end-June 2015.

28. **We are on track to include tax crimes in the Schedule of Offenses of the 2010 Anti-Money Laundering Act (AMLA)** that will enable the use of anti-money laundering (AML) tools to combat tax evasion. The FBR has identified a list of serious tax offenses to be included as predicate offences to Money Laundering that do not necessitate amending the tax laws, and we have submitted the draft amendments to AMLA before the parliament to include serious tax crimes in the Schedule of Offenses, meeting the end-December structural benchmark. Going forward, we are committed to adopting the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU) in line with international standards by end-September 2015 (new structural benchmark).

Energy Sector Reforms

29. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We are implementing our time-bound strategy to tackle price distortions, insufficient collections, costly and poorly targeted subsidies, governance and regulatory deficiencies, and low efficiency in energy supply and distribution with the support of our international partners.

30. **Price Adjustments**.

a. **Previous adjustments**. The National Electric Power Regulatory Authority (NEPRA) finalized the determination of tariffs for FY2013/14 in June, but last-minute difficulties derailed the implementation of the new tariffs by July 1, 2014 as had been agreed at the time of the Third review. To remedy this problem, we levied a surcharge of PRs 0.30/kWh effective from October 1, 2014 and PRs 0.60/kWh effective from January 1, 2015, taking advantage of lower world oil prices to do so while allowing consumer prices to fall.

b. **New adjustments**. Going forward, we are taking advantage of lower world oil prices to bring additional costs into the tariff base set by NEPRA to strengthen cost recovery in the sector while allowing consumer prices to continue to fall. To that end, NEPRA will determine the FY2014/15 tariffs by February 2015. We will also ensure that technical loss diagnostic studies for all DISCOs will be finalized by June 2015 so that more realistic loss rates can be considered by NEPRA in its FY2015/16 tariff determination

c. **Subsidies**. We are committed to gradually reducing the effect that untargeted subsidies have on our budget while continuing to protect the most vulnerable consumers. To that end, we will notify the FY2014/15 tariffs by end-March 2015 consistent with our objective of reducing electricity subsidies further to 0.3 percent of GDP for FY2015/16 and of addressing the circular debt.

31. **Arrears (Circular Debt)**. The technical and financial audit of the system which was finalized in early-May 2014 identified the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited, PHCL). We have developed a monitoring mechanism to track the stock and flow of payables (as defined in the TMU). There are two main components of this circular debt:

a. The payables in the power sector, which climbed to PRs 298 billion at end-December 2014, of which around PRs 80 billion constitute current payables. The remainder comprises: (i) a residual leftover from payables clearance of June and July 2013; (ii) A disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) nonrecovery and penalties levied on past nonpayment (as defined in the TMU); and (iv) transmission and distribution losses that are not recognized by the regulator.

b. The stock of past arrears included at the PHCL in the syndicated term credit finance (STCF) facility increased to PRs 335 billion by end-January 2015. We have levied a surcharge (as defined in the TMU) to service the interest on the facility.

32. **Building on this audit, we are moving forward with the roadmap to limit the accumulation of payables arrears and to gradually reduce the stock**. This plan includes steps to improve collections, reduce operating costs and losses, and to reduce price distortions in tariff structure.

a. We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses fell by 0.3 percentage points in the first quarter of FY2014/15; however, they rebounded in the second quarter (to 18.9 percent). On the collections side, revenue from private consumers and agriculture improved, but collections from public sector went down due to payments delays particularly from one of the provincial government. To address increased losses in some DISCOs, the chief executives of the poorly performing ones have been replaced and we are working with the provincial government to address its payment problem. We will work on improving the average performance of the sector further in FY2014/15.

b. Taking advantage of the room created due to falling oil prices. We issued policy guidelines for incorporating the out of system costs and actual system technical losses into the FY2014/15 tariff. This has resulted in arresting a major portion of the build-up of the circular debt and improved cash-flow of the system.

33. **Monitoring and enforcement**. To tackle losses, raise payment compliance, and improve energy efficiency and service delivery, we have already signed performance contracts with the boards of all nine DISCOs. We have begun monitoring the performance indicators specified in the contracts and in cases of failure to comply we will invoke remedial measures for management and Boards as specified in the Companies' Ordinance. The amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 have been promulgated through Presidential ordinance. Currently, the Bill stands at the Senate Committee after the clearance of the National Assembly. We expect it to be enacted by end-March, 2015. In parallel, we drafted the new Electricity Act to modernize governance of the sector and have circulated it to provinces for comments. The draft Act will be finalized and submitted to the CCI by end-February 2015. We will work with the Ministry of Law on creating an effective system for handling cases related to electricity theft that can be effective by June 2015.

34. **Demand Side Management**. To improve resource allocation and energy efficiency, we will use pricing (¶30) and other market-based instruments. In this regard, we have completed the consultative process with stakeholders on the draft Pakistan Energy Efficiency and Conservation Act. In August 2014, the CCI approved the bill and it is now in the National Assembly. We expect it to be enacted in early 2016. The act will include equipment performance standards, and would cover key electrical and gas equipment and appliances which are not yet covered. In parallel, we are also preparing the necessary implementing regulations.

35. **Supply Side Management**. We continue to prioritize the use of gas and coal rather than fuel oil in electricity generation and remain committed to a transition to market-based allocation of natural gas in the medium-term. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to reduce technical losses. In addition, we have signed performance contracts with two state-owned generation companies which are run on furnace oil to reduce their losses. We continue with the development of hydropower projects, with the recent approval of a World Bank loan to begin construction of the Dasu project, and held a USAID-funded information conference on the Daimer-Bhasha project in October 2014. We will promote policies for private investment for power generation through both the entry of new players as well as expanding existing capacity of those IPPs systematically adhering to energy mix targets and least-cost generation plans. The expansions are expected to add an additional 2,000 MW in generation capacity in 2015 and 2016.

36. **Governance, Regulatory, and Transparency Improvements**. Improving energy sector governance and transparency, and strengthening the regulatory framework are critical for delivering improved service and for attracting needed private sector investment. To begin addressing administrative and technical constraints, we have appointed a new Chairman and Board member with financial skills to NEPRA. NEPRA has begun preparations for a multi-year tariff framework. To facilitate the transition, we established three-year investment plans for all DISCOs and submitted the plans to NEPRA. The first phase of the determination and notification of multi-year tariffs will begin for the first three DISCOs by end-September 2015, with the remaining ones done annually on a rolling basis. We have set-up the Central Power Purchasing Agency Guarantee (CPPAG) by separating it from the National Transmission and Despatch Company (NTDC) and have amended the Articles of Association. To make CPPAG operational, we issued the standard operating procedures for payments and settlements and key CPPAG staff will be in place by end-February 2015. We will finalize all agency agreements by April 2015, and are committed to ensuring that CPPAG can settle the first round of payments by June 2015.

37. **Energy public sector enterprise (PSE) reform**. We have already transferred governance of DISCOs, three GENCOs, and the NTDC to new boards of directors and management. We are committed to building the institutional capacity of the Water and Power Development Authority (WAPDA), and we have begun to strengthen WAPDA's financial capacity by allowing the tariff to incorporate capital investment plans. We are also committed to ensuring timely payments by CPPAG for all power purchased from WAPDA Hydel. We have included several DISCOs in our privatization plans with the goal of privatizing them in two–three years (¶41). We are also committed to introducing competitive pricing and direct contracting between power producers and wholesale customers in the power sector.

Oil and Gas Sector

- **Supply**. To help tackle gas shortages, we are on track to receive the first Liquefied Natural Gas (LNG) imports by April 2015. We are committed to a full pass-through of the cost of imported LNG to the end-user purchase price (including Compressed Natural Gas) as it comes online and we are currently working out the contractual agreements with all relevant parties. We have issued new exploration and production concessions for domestic gas resources and continue to limit further expansion of the gas distribution networks for domestic consumption.

- **Pricing**. In December 2013 we drew up a gas price rationalization plan to encourage new investment, promote efficiency in gas use, assure that there will continue to be no fiscal cost from the gas sector, and eliminate distortions from the existing gas price structure. We remain committed to the plan and will step up action on it in the future:

  - Under the Petroleum Exploration and Production Policy 2012 (2012 Policy), we are incentivizing producers to enhance production from existing fields as well as to initiate new exploratory efforts, with price increases ranging from 2.8–3 U.S. dollars per MMBTU to 6–10 U.S. dollars per MMBTU. To this end, we are ensuring that existing concessions can be submitted for conversion to the 2012 Policy starting at the end of February 2015 with support from international partners. We have also awarded 45 concession agreements for the exploration of new blocks in FY2013/14 and are expecting to award an additional 10–15 exploration concessions by the end-June 2015.

  - The recent difficulties and oil-indexed decline in gas prices delayed the first gas price notification of FY2014/15 (due in July). The loss in cost recovery incurred by gas companies due to the delay will be fully recuperated in the new tariff which we will notify and implement by July 2015. We will also make any necessary adjustments to notified prices as needed when imported gas comes online, so that the cost of this gas will be fully reflected in the base tariff on a semiannual basis.

  - To better allocate gas consum ption, we have adjusted the weighted average consumer prices at end-December 2013 through the application of the GIDC on industry and captive power plants. The GIDC was further adjusted with the FY 2014/15 budget to generate 0.55 percent of GDP in revenues. However, due to pending court cases, the recovery of the GIDC has been suspended despite the Presidential Ordinance which was issued following the previous Supreme Court decision. We are actively pursuing the ongoing litigation for an early decision to ensure full recovery of the GIDC. However, we have taken measures to recover part of the GIDC proceeds focusing on areas where large collecting agents have already collected the GIDC in their price (prior action).

- We are also evaluating the downstream gas business with the objective of reducing inefficiencies in the transmission and distribution segments. In this respect, we will hire consultants by end-June 2015 to conduct the study on the restructuring, unbundling, and eventual privatization of the two gas utility companies. This study will formulate recommendations based on international best practices to segregate the gas network into one transmission and multiple distribution companies, with independent profit and cost centers to ensure maximum efficiency. A mechanism will also be developed for determining separate transmission and distribution tariffs.

➢ **Governance**. We are committed to supporting the governance of the oil and gas market and to keeping the public informed about our strategy for the sector. To that end:

- We have established performance monitoring units in the Ministry of Water and Power and Ministry of Petroleum and Natural Resources which report progress quarterly to the Economic Coordination Council (ECC). We are committed to updating the public on reform progress and are therefore posting quarterly monitoring reports on the websites of the concerned ministries. To support the efforts of the regulator, we are committed to filling the vacancies on the Board of the Oil and Gas Regulatory Authority (OGRA) by end-March 2015 to ensure a decision making quorum on the Board.

- We have been enhancing the capacity of the Ministry of Petroleum and Natural Resources to fully implement the 2012 Policy, streamline approval processes, and complete the conversion to the 2012 Policy for those Petroleum Concession holders who wish to do so. We will further encourage bilateral contracting between producers and consumers and have improved rules for third party access to the gas transmission system.

- We are also pursuing companies to reduce losses by benchmarking international standards, through investment measures, managerial and administrative improvements, and through building the capacity of the gas distribution companies. The current level of unaccounted for gas losses (UFG) is on average 11.4 percent due to commercial and technical losses. The gas companies will submit loss reduction plans to the Ministry of Petroleum and Natural Resources by end-April 2015 and are working with the World Bank on the Natural Gas Efficiency Project (NGEP) for which activities are expected to start in mid-2015.

- Finally, in January 2014, the President promulgated the Gas (Theft Control and Recovery) Ordinance 2014, which was sent to Parliament. The Senate has approved the Ordinance and it is now under consideration by the National Assembly. We expect enactment by end-March 2015.

Improving the Business Climate, Liberalizing Trade, and Reforming Public Enterprises

We are working to improve the business climate, the trade regime, and Public Sector Enterprises (PSEs) to increase foreign and domestic private investment and boost economic growth.

38. **Business Climate**. Private investment and growth are hampered by impediments in the legal framework for creditors' rights and contract enforcement, barriers to new business start-ups, complex legal, taxation and border trade requirements, and impaired access to finance. In consultation with international partners, we finalized a time-bound detailed implementation plan in October 2014 that identified legislative and administrative actions, institutional roles and responsibilities, and resource requirements of the reform program. Our focus is on six indicators—construction permits, paying taxes, enforcing contracts, starting businesses, trading across borders, and getting credit. In parallel, we are building consensus and ownership for business climate reforms by provincial authorities with a special focus on property registration and contract enforcement.

- ***New Firms***. The SECP, FBR, and Employees' Old Age Benefits Institution (EOBI) have joined to launch a virtual One-Stop-Shop (OSS) for business registration in December 2014 and are expected to set up a physical OSS in Lahore in March 2015. By streamlining overlapping procedures and establishing database sharing and a common portal for registering businesses, the OSS will facilitate new firm creation.

- ***Contract enforcement***. We completed in March 2014 a study to identify necessary changes to the bankruptcy regime that would support the rehabilitation of weak but viable companies. Based on the findings of the study, we are reforming the bankruptcy framework through introducing two far reaching legislative measures: (i) the Corporate Rehabilitation Act, which will provide mechanism for reorganizing and rehabilitation of distressed companies; and (ii) the Corporate Restructuring Companies Act, which envisages setting up private Corporate Restructuring Companies to take over assets of bankrupt companies (¶27). In addition, we have established Alternative Dispute Resolution (ADR) Mechanisms in Karachi and Lahore. This ADR mechanism will be extended to Islamabad and Rawalpindi by end-June 2015 and we are beginning work to expand to other provincial capitals, (i.e., Peshawar and Quetta).

- ***Paying Taxes***. With the help of our international partners, we are conducting a review to reduce the number of existing processes and forms for sales and income tax by end-March 2015 (structural benchmark). Subsequently, we will work on an integrated end-to-end IT solution (IRIS) to serve all streamlined business taxpayer-related processes (registration, declaration, audit, recovery, refunds, and appeals).

39. ***Access to credit***. Access to finance for poor, women, and marginalized segments of society including micro, small and rural enterprises remains very limited owing to both demand and supply-side constraints. The SBP, with the help of World Bank experts, has developed a comprehensive National Financial Inclusion Strategy (NFIS) to implement financial sector reforms to meet their

financing needs. We are preparing the draft strategy document, which will identify policy reforms and interventions to enhance market information, infrastructure, and financial capability of consumers. It has been shared with all stakeholders for their input and buy-in. The multi-stakeholder National Financial Inclusion Council chaired by the Minister of Finance will launch the NFIS by end-April 2015. As a critical component of the NFIS to improve the credit information system to help banks extend credit to broader sections of society, the Credit Bureau Act was submitted to parliament in February 2014 and we expect it to be enacted by November 2015 to ensure that credit information sharing will protect the privacy rights of individuals (new structural benchmark).

40. ***Trade Policy***. *Tr*ade policy reforms will increase consumer welfare and stimulate growth as a result of increased competition. Simplifying tariff rates, phasing out SROs (¶11) that establish special rates and/or nontariff trade barriers in some 4,000 product areas, and improving trade relations should deliver the much needed competitive environment.

- ***Tariff simplification***. We are finalizing the design of the new system to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 1 and 25 percent rates with fewer exceptions.[1] For FY2014/15, we consolidated from seven tariff slabs to six. All items at 30 percent have been moved to a new maximum rate of 25 percent rate. The phase-in of the revised tariff rates and phase-out of trade SROs began in July 2014 (¶11). We are on track to further reduce tariff slabs to five and the next round of trade-related SRO elimination with the FY2015/16 budget cycle. Implementation of the new tariff structure would be completed by July 2017.

- ***Improved trade relations***. We are implementing a strategy to take full advantage of trade preferences available from the European Union who have extended the Generalized System of Preferences plus benefits from January 1, 2014 on a broad range of Pakistan’s exports. We remain committed to promoting trade with regional countries, especially under various regional trade arrangements.

41. **Public Sector Enterprises (PSEs)**. We are working to reform or privatize PSEs, focusing on limiting poor performance and improving public sector resource allocation. The Cabinet Committee on Privatization initially approved a list of 31 PSEs for action and subsequently added another 7 PSEs to the list. We have developed a plan to sequence the capital market and pre-privatization restructuring for these firms. The privatization program is aimed at offering and/or marketing one or two transactions in each quarter during the upcoming year.

[1] In addition, we maintain our current Free and Preferential Trade Agreements with some countries.

- ***Capital Market Transactions Roadmap***. We have identified eleven companies, (listed in the TMU), in the oil and gas, banking and insurance, and power sectors for block sales and primary or secondary public offerings. We successfully sold minority stakes in United Bank Limited (UBL) and Pakistan Petroleum Limited (PPL) in June 2014. While the share offer for OGDCL planned for November was postponed due to unfavorable market conditions, we sold a minority stake in Allied Bank Limited (ABL) in December 2014. We hired financial advisors for Habib Bank Limited (HBL), in December 2014 to sell market minority stakes by end-March 2015.

- ***Strategic Private Sector Participation***. We have identified 24 companies (listed in the TMU) for strategic partnerships, which will act as a catalyst in unlocking their potential through their managerial and investment participation, and can also increase the value of Government's residual shareholding. We will make efforts to balance the objectives of sale proceeds while adequately addressing labor market issues and social implications.

    - **DISCOs**. We appointed financial advisors for share sales of Faisalabad Electric Supply Company (FESCO) in July 2014 and plan to complete the transaction by end-July 2015. For Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), we have hired financial advisors in January 2015 for expected completion of transactions by end-December 2015. We have advertised for financial advisors for Hyderabad, Peshawar, and Quetta Electric Supply Companies (HESCO, PESCO, and QESCO) and will hire them by end-March 2015, with a view towards private participation in early 2016.

    - **Other companies**. We will finalize the sale of Heavy Electric Complex (HEC) by March 2015. We plan to finalize the offer for National Power Construction Co. (NPCC) by end-May 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) and expect to complete the transaction by end-October 2015. We have hired a financial advisor for Convention Center in January 2015 for a transaction by August 2015. Plans are being developed for the remaining companies on the list.

- ***Restructuring***. We have developed restructuring plans for Pakistan Steel Mills (PSM) and Pakistan Railways (PR), and our financial advisors are finalizing a plan for Pakistan International Airlines (PIA). Specifically,

    - **Pakistan International Airlines**. We have appointed financial advisors in July 2014 (structural benchmark) to seek potential options for restructuring and strategic private sector participation in the core airline business by end-December 2015 (structural benchmark). The diligence process will be completed by end-March 2015. Plans for private participation will be developed thereafter.

- **Pakistan Steel Mills**. We have appointed a professional board and a new chief executive officer and approved a comprehensive restructuring plan to prepare for potential strategic private sector participation in the company. Operational efficiency has begun to improve and capacity utilization has already climbed from 18 to 40 percent. In January 2015, we advertised for appointment of financial advisors, however, it was disqualified during the evaluation process. We have re-advertised on February 15, 2015 and expect to complete the appointment of financial advisors by end March 2015 so that the due diligence process can be initiated.

- **Pakistan Railways**. Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, we have improved revenue in FY 2013/14 by 32 percent through rationalization of tariffs and expenditures and improved occupancy rates. We further increased revenues by over 30 percent in the first half of FY 2014/15. In April 2014, we finalized a needs analysis and developed a comprehensive restructuring plan, which includes improvements in business processes and the institutional framework, financial stability, and service delivery. In the short-term we are focusing on improvements in freight transportation through creation of a freight company, and adding more locomotives and wagons, which is projected to double revenues from freight operations before the end of the current fiscal year. Appointment of the Railway Board will be completed by end-February 2015.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets FY2013/14–FY2015/16 1/

(In billions of rupees, at program exchange rates, unless otherwise specified)

	FY2012/13	FY2013/14	FY2014/15							FY2015/16	
	end-June	end-June	end-September	end-December			end-March		end-June	end-September	end-December
							Current	Revised	proposed		
	Actual		Fourth and Fifth Review	Sixth Review			Program			Projection	
		Actual	Actual	Target	Adjusted target	Actual					
Performance Criteria											
Floor on net international reserves of the SBP (millions of U.S. dollars)	-2,437	2,678	2,630	3,500	2,683	3,500	4,500	5,000	6,750	8,000	8,500
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,402	2,355	2,316	2,436	2,505	2,224	2,365	2,340	2,270	2,210	2,150
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	2,012	1,402	337	722	730	672	1,087	1,087	1,387	354	665
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	2,255	1,725	1,675	1,775	1,775	1,760	1,775	1,775	1,700	1,550	1,550
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	2,168	2,328	2,289	2,000	2,000	1,914	1,905	1,905	1,865	1,800	1,750
Continuous Performance Criterion											
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets											
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	54	66	21	36	36	44	69	69	95	22	45
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,936	2,266	539	1,195	1,195	1,174	1,883	1,846	2,691	625	1,416

Sources: Pakistani authorities; and Fund staff estimates.

1/ All items as defined in the TMU. Fiscal year runs from July 1 to June 30.
2/ Excluding grants, FY2012/13 overall budget deficit is a stock.
3/ FY 2012/13, total stock of government debt as of June 30, 2013.

Table 2. Pakistan: Program Modalities and Structural Benchmarks

Item	Measure	Time Frame (by End of Period) Current	Rescheduled	Status	Macroeconomic rationale
Prior Actions					
1	Revise the draft SBP law in the NA committee incorporating the recommendations of the IMF safeguards assessment mission and comments provided by Fund staff and submit the revised draft to the full assembly	mid-March 2015			
2	Raise the GST rate on petroleum products from 17 to 27 percent, introduce additional fiscal measures, including 0.1 percent of GDP reduction in electricity subsidies, with total yield of 0.35 percent of GDP to assure compliance with the year-end fiscal targets.	Five days before the board date			
3	Take measures to recover part of the GIDC proceeds focusing on areas where large collecting agents have already collected the GIDC in their price, with yield of 0.1 percent of GDP.	Five days before the board date			
Structural Benchmarks					
Fiscal sector					
1	Increase the issuance of first notices (u/s 114) to 75,000 and follow up with a second notice (u/s 122c) to 75 percent of those who did not respond satisfactorily to their first notice within 60 days by end-March, 2014. Issue a provisional tax assessment to 75 percent of those who did not respond satisfactorily within 60 days to the second notice by end-March, 2014.	end-March 2014		Met	Broaden the tax base and improve tax compliance.
2	Eliminate exemptions and concessions granted through SROs for an amount consistent with the fiscal deficit reduction objective in the FY2014/15 budget.	end-June-2014		Met	Reduce distortions and improve revenue collection.
3	Approve an administrative order to consolidate the responsibilities of public debt management in the debt management office.	end-September 2014		Not met, but the order fell short of unifying fragmented debt management functions.	Strengthen the organizational framework for effective public debt management.
4	Enact amendments to the relevant tax laws (as defined in the TMU) and submit amendments to the Anti-Money Laundering Act (AMLA) to Parliament.	end-December 2014		Met	Use antimoney laudering tools to combat tax evasion, and faclitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
5	Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.	end-March 2015			Reduce distortions and improve revenue collection.
6	Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.	end-March 2015			Strengthen the organizational framework and improve public debt management.
Monetary sector					
7	Improve the internal operations of the SBP by: (i) reestablishing an advisory monetary policy committee to advise the Board on its policy decisions; (ii) establishing a Board committee to centralize and oversee risk management activities across the bank; and (iii) begin publishing summaries of the monetary policy proceedings of the Board meetings and monetary policy committee deliberations.	end-August 2014		Met	Independent of the legislation, improve the operational autonomy of the SBP and enhance risk management.
8	Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.	end-February 2015		Met	Improve SBPs liquidity management.
9	Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF procedures, the Internal Audit Department conducts reviews of the program monetary data reported to the IMF, within two months after each quarter, for accuracy and compliance with the TMU.	end-February 2015		Met	Improve monetary policy framework through enhanced central bank independence.
10	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective, while strengthening its governance and internal control framework, in line with Fund staff advice.	end-June 2015			Prerequisite for an independent monetary policy framework.
Financial sector					
11	Enact the Securities Bill, in line with Fund staff advice.	end-June 2015	end-January 2016		Enhance the resilience of the financial sector.
12	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-June 2015	end-September 2015		Enhance the resilience of the financial sector.
Structural Policies					
13	Initiate revenue based load shedding in six remaining electricity distribution companies .	end-January 2014		Met	Boost sustainable and inclusive growth, by removing bottlenecks, encourage long-term, sustainable increases in electricity supply; improve the efficiency of the economy through privatization and use its proceeds to hel ease fiscal and balance of payments pressures.
14	Hire three financial advisors for three PSEs in the capital market transactions list and three financial advisors for the three PSEs in the strategic private sector enterprises list for privatization in the TMU.	end-March 2014		Met at end-July, 2014	
15	Conduct a diagnostic study of the regulatory framework of the power sector and prepare an interim report.	end-April 2014		Met	
16	Offer the minority shares in United Bank Limited and Pakistan Petroleum Limited to domestic and international investors.	end-June 2014		Met	
17	Fill the vacancies in the NEPRA Board.	end-July 2014		Met at end-November, 2014	
18	Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.	end-March 2015			
19	Privatize 26 percent of PIA's shares to strategic investors.	end-December 2015			
New Structural Benchmarks					
1	Make the improved interest rate corridor of the SBP operational	end-September 2015			Improve SBPs liquidity management.
2	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people	end-September 2015			Broaden the tax base and improve tax compliance.
3	Enact the Credit Bureau Act	end-November 2015			Extend credit to broader sections of society
4	Adopt the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU).	end-September 2015			Use antimoney laudering tools to combat tax evasion, and faclitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.

Attachment II. Technical Memorandum of Understanding (TMU)

March 12, 2015

This memorandum sets out the understanding between the Pakistani authorities and the IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements used to monitor developments, for the program under the Extended Arrangement. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available. The definitions used in this TMU will be adjusted to reflect any changes in accounting classifications introduced during the program period. For the purposes of monitoring under the program, all assets and liabilities as well as debt contracted, denominated in SDRs or in currencies other than the U.S. dollar, will be converted into U.S. dollars at the program exchange rates. Net external budget financing and external cash grants will be converted into Pakistani rupees at the program exchange rate. The program exchange rate of the Pakistani rupee to the U.S. dollar is set at 99.66 rupee per one U.S. dollar. The corresponding cross exchange rates for other foreign currencies are provided in Table 1.

A. Quantitative Targets

The program sets performance criteria and indicative targets for defined test dates (Table 1 in the LOI). The program sets the following performance criteria:

Performance criteria

- Floor on the net international reserves (NIR) of the State Bank of Pakistan (SBP) (millions of U.S. dollars);
- Ceiling on the net domestic assets (NDA) of the SBP (stock, billions of Pakistani rupees);
- Ceiling on the general government budget deficit excluding grants (cumulative flows, billions of rupees);
- Ceiling on net government budgetary borrowing from the SBP (including provincial governments) (stock, billions of rupees);
- Ceiling on SBP's stock of net foreign currency swap/forward contracts (millions of U.S. dollars);

Continuous performance criteria

- Ceiling on the accumulation of external payment arrears by the general government;

Indicative targets

- Floor on targeted cash transfers spending (BISP) (cumulative, billions of Pakistani rupees)
- Floor on net tax revenues collected by the Federal Bureau of Revenue (FBR) (cumulative, billions of Pakistani rupees)

B. Definitions of Monitoring Variables

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

2. **Net revenue of the FBR** is defined as the sum of revenues collected from (i) general sales tax (GST) on goods; (ii) customs duties, customs registration fees and levies; (iii) excise duties on imported products; (iv) excise duties on domestic products; (v) levies (toll) on oil derivatives; (vi) other proceeds and fees; (vii) sales tax; and (viii) unclassified revenues minus the tax refunds. Net revenue collection will be defined, for each test date, as the cumulative sum of net revenues collected since the beginning of the current year. The floor on the collection of gross revenues by the FBR will be measured quarterly on the basis of cumulative end-of-quarter data.

3. **Net international reserves** (stock) of the SBP are defined as the dollar value of the difference between usable gross international reserve assets and reserve-related liabilities, evaluated at the program exchange rates. On June 30, 2014, the NIR of Pakistan amounted to US$2,678 million.

4. **Usable gross international reserves** of the SBP are those readily available claims on nonresidents denominated in foreign convertible currencies and controlled by the monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes. Gross official reserves include (i) holding of foreign currencies, (ii) holdings of SDRs, (iii) the reserve position in the IMF, and (iv) holdings of fixed and variable income instruments. Excluded from usable reserves, inter alia, unless there is also a reserve-related liability associated with it, are: (i) claims on residents; (ii) assets in nonconvertible currencies; (iii) precious metals (iv) illiquid assets; (v) assets that are pledged or collateralized.

5. **Reserve-related liabilities** of the SBP include all foreign exchange liabilities to residents or nonresidents, including (i) foreign currency liabilities with remaining maturity of one year or less, (ii) any foreign exchange liabilities arising from derivatives (such as futures, forwards, swaps, and options) on a net outstanding basis—defined as the long position minus the short position, (iii) outstanding IMF credits to Pakistan, (iv) foreign exchange deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks, international organizations, and

foreign nonbank financial institutions, as well as domestic financial institutions. General government foreign exchange liabilities at the SBP will not be included in reserve-related liabilities.

6. **Aggregate net position in the foreign exchange derivatives** is defined as the aggregate net positions in forward and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). The SBP's aggregate position was –US$2.3 billion at end-June 2013.

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

8. **Net domestic assets** of the SBP are defined as RM minus NIR, minus other assets not included in gross official international reserves, minus commercial bank required and excess reserves at the SBP in foreign currency, plus medium and long-term liabilities (i.e., liabilities with a maturity of one year or more) of the SBP, plus other foreign liabilities not included in official reserve liabilities, minus the balance of outstanding Fund purchases credited to the government account at the SBP. NDA is composed of net SBP credit to the general government plus outstanding credit to domestic banks by the SBP (including overdrafts) minus liabilities not included in RM and other items net.

9. **Net government budgetary borrowing from the SBP (including provincial governments)** is defined as SBP claims on the government minus government deposits with the SBP. SBP claims on the government include government securities, treasury bills, treasury currency, and debtor balances. SBP claims on the government exclude accrued profits on government securities. Government deposits with the SBP exclude the Zakat Fund (Table 4).

10. **Net purchase of foreign exchange** is defined as outright purchase of foreign exchange minus outright sale of foreign exchange in the foreign exchange spot market as net addition to the stock of NIR of the SBP by using foreign exchange market intervention.

11. **External public debt arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (government, SBP, and state-owned enterprises) to nonresidents arising in respect of public sector loans, debt contracted or guaranteed, including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date. The definition of debt, for the purposes of the EFF, is set out in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230–(79/140), last amended by Executive Board Decision No. 14416–(09/91), adopted August 31, 2009).The ceiling on external payment arrears is set at zero.

12. **The overall budget deficit (excluding grants)** will be monitored quarterly under the cash balance of the general government balance, excluding grants, including the operations of local (provincial) governments financed from local funds. It will be measured below the line and will include:

- **Net external financing**, excluding valuation gains and losses.
- **Change in net domestic credit from the banking system**, excluding valuation gains and losses from deposits denominated in foreign currency.
- **Change in the net domestic nonbank financing**, excluding valuation gains and losses. These include (i) domestic privatization receipts transferred from the privatization accounts to the budget, (ii) the stock of issued government securities held outside the general government and the banking system, net of valuation changes, (iii) net deposits and reserves received by the government (public accounts deposits), (iv) any other government borrowing from domestic nonbank sources net of repayments, minus (v) government deposits with nonbank financial institutions.
- **Total external grants to the federal and provincial governments**. These are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants.

13. **Net external program financing** is defined to include external privatization receipts; budget support grants; budget support loans from multilateral (other than the IMF, but including World Bank and Asian Development Bank (ADB) budget support and program loans), official bilateral budget support loans, and private sector sources (e.g., bonds); rescheduled government debt service and change in stock of external debt service arrears net of government debt amortization due on foreign loans, the latter including any accelerated amortization including related to debt swaps or debt cancellation recorded as capital grants. It also includes foreign loans on lent to financial institutions and companies (public or private) and emergency relief lending. Program financing excludes all external financing counted as reserve liabilities of the SBP (defined above). Amounts projected for net external program financing and external grants are provided in Table 3.

14. **Net external budget financing** is defined as net external program financing minus privatization receipts, minus budget support grants, plus all other external loans for the financing of public projects or other federal or provincial budget expenditures, plus transfers of external privatization receipts from the privatization account to the budget.

15. **Structural benchmark on hiring of six transaction advisors for end-March 2014 is defined as follows**: Three transaction advisors to undertake the sale of minority shares for three PSEs from the list of capital market transactions with at least one offering in the domestic and one offering in international markets. From the list of strategic private sector participation one transaction advisor for electricity distribution company and one generation company, and finally one transaction advisor to undertake the restructuring of Pakistan International Airlines Corp (PIAC) and will seek for a strategic investor.

16. **The "relevant tax laws" in the structural benchmark on "submission of amendments to the relevant tax laws and submission of amendments to the Anti-Money Laundering (AML) Act for end-December 2014" is defined as follows**: Income Tax Ordinance, 2001; the Federal Excise Act, 2005; the Sales Tax Act, 1990; the Customs Act, 1969; and any other relevant law.

17. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶30)

(i) The increase in the weighted average tariffs by 4 percent on electricity consumers' electricity consumption is defined as follows

Weighted Average Notified Tariff for electricity consumers =

(Changes in the Industrial Users Tariff Rate for each category x DISCOs' estimated sales to Industrial Users for each category

+ Change in the Residential Users Tariff Rate for each category above 200kWh x DISCOs' estimated sales to Residential Users for each category

+ Change in the Commercial Users Tariff Rate for each category x DISCOs' estimated sales to Commercial Users for each category

+ Change in the Single Point Supply for further distribution Tariff Rate for each category x DISCOs' estimated sales to Point Supply for further distribution Users for each category)

+ Change in the AJ&K users' Tariff Rate for each category x DISCO's estimated sales to AJ&K Users for each category)

+ Change in the Other users' Tariff Rate for each category x DISCOs' estimated sales to Other Users for each category)/ DISCO's total sales to Industrial, Residential Users consuming more than 200kWh, Commercial, Single Point Supply, Other Users and AJ&K Users

= 4 percent

(ii) Current notified electricity tariffs for users at 0-50 kWh will be retained.

(iii) On January 1, 2015 an additional surcharge of PRs 0.6/kWh has been levied to increase weighted average tariffs by 4 percent as defined in (i). The current average NEPRA determined tariff is PRs 13.81/kWh. The current effective notified tariff is PRs 12.42/kWh. The difference between the determined and effective notified tariff represents the average Tariff Differential Subsidy (TDS). Going forward, the effective notified tariff will be further adjusted taking advantage of the negative Fuel Price Adjustments (FPA) expected in the coming months as defined in the following Table as required.

(PRs/kWh)	November 2014	December 2014	January 2015	February 2015	March 2015
Estimated change in FPA[1]	-0.61	-0.63	-0.69	-0.36	
Actual change in FPA	-2.97	-3.20			
Notified tariff	11.82	11.82	12.42		

1/ Energy mix is calibrated from 2013/14. Subject to variation due to different fuel mix during FY14/15.

(iv) Syndicated Term Credit Finance (STCF) Surcharge "Debt Servicing Surcharge" (¶31) of PRs 0.43/kWh is currently included in the current effective notified electricity tariff (excluding lifeline consumers, 0–50kWh) to service the interest payments on debt incurred by Power Sector Holding Company Limited (PHCL). The PRs 0.43/kWh surcharge is composed of PRs 0.30/KWh applied since October 1, 2014 and additional PRs 0.13/kWh (out of the total surcharge of PRs 0.60 applied since January 1, 2015). The STCF Surcharge is defined as follows:

STFC Surcharge = Total Annual Interest Paid on STCF balance/Estimated volume of electricity sales in FY 2014/15.

	Q1	Q2	Q3	Q4	FY 2014/15
STFC Debt Service (PRs millions)	8,960	6,945	10,195	6,420	32,520

STFC Surcharge = PRs 32,520(millions)/68000(GW) = PRs 0.48/kWh

- The balance = PRs 0.48/kWh – PRs 0.43/kWh = PRs 0.06/kWh.
- Calculations based on projected collections with FY2013-14 base case losses (18.6 percent) and collection rate (89.1 percent)
- The STCF Surcharge will be adjusted upward or downward depending on the timing of tariff notification, and due to new loans taken under PHCL to ensure that the annual STCF Debt Service (see Table above) will be fully financed within the fiscal year. Any deficit amount will be borne by the government. Any excess amount will be held by PHCL and utilized for payment of principal part of the debt service.

18. **Monitoring mechanism to track stock and flow of payables** (¶31)

Overdue payables (over 45 days) stand at **PRs 218 billion** as of end-December 2014. The projected evolution of overdue payables, excluding measures for FY2014-15 and its components are given in the following Table:

FY2014–15 (PRs Billions)	**2014/15Q2** (Actual)	**2014/15Q3**	**2014/15Q4**	**2015/16Q1**	**2015/16Q2**
Stock of Overdue Payables (end of period)	218	250	297	387	413
Build-up of payables during the quarter					
Excess T&D Losses	-	5	20	36	(2)
Under collection	16	18	18	44	13
Penalties	7	8	9	11	14

C. Adjustors

19. **The floor on NIR will be adjusted upward** (downward) by the cumulative excess (shortfall) of cash inflows from multilateral and bilateral creditors, Coalition Support Fund (CSF), and bond issuance relative to projected inflows (Table 2). Cumulative cash inflows are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to DFID, UK, USAID), and external bond placements that are usable for the financing of the central government budget. The adjustor is modified for the end-June 2014 calculation of the fourth review to exclude the proceeds of the US$2 billion Eurobond transaction. This modification does not apply to subsequent reviews.

20. **The ceiling on NDA will be adjusted downward** (upward) by the cumulative amount of any excess (shortfall) of budget support loans or budget support grants compared to the program amounts (Table 3) and Euro bond issuance or project grants compared to projected inflows (Table 2). Budget support grants to the public sector are defined as grants received by the government (including provincial governments) for direct budget support from external donors and not related to the projected financing. Budget support loans to the public sector are defined as disbursements of loans from bilateral and multilateral donors for budget support (including provincial governments).

21. **The ceiling on the consolidated overall budget deficit** (excluding grants) for FY2013/14 and FY2014/15 will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 15.0 billion at end-September, PRs 25.0 billion at end-December, PRs 42.0 billion at end-March, and PRs 50 billion at end-June. The ceiling for FY2013/14 and FY2014/15 will be adjusted downward for any shortfall in federal PSDP spending below PRs 25 billion at-end September, PRs 80 billion at end-December, PRs 243 billion at end-March and PRs 410 at end-June. The ceiling will be adjusted downward for any shortfall in the targeted cash transfers (BISP). The ceiling will be adjusted upward for over performance in the BISP up to PRs 12 billion from their indicative targets.

D. Public Sector Enterprises

List of Companies for **Capital Market Transactions**

- Oil and Gas Development Co. Ltd (OGDCL)
- Pakistan Petroleum Ltd (PPL)
- Mari Petroleum Ltd.
- Government Holding Private Ltd (GHPL)
- Pak Arab Refinery Ltd (PARCO)
- Habib Bank Limited (HBL)
- United Bank Limited(UBL)
- Allied Bank Limited (ABL)
- National Bank Limited (NBP
- State Life Insurance Corp. (SLIC)
- Kot Addu Power Company Ltd. (KAPCO)

List of Companies for **Strategic Private Sector Participation**

- National Insurance Co. Ltd. (NICL)
- National Investment Trust Ltd. (NITL)
- Small & Medium Enterprise (SME) Bank
- Pakistan Reinsurance Co Ltd. (PRCL)
- Heavy Electrical Complex (HEC)
- Islamabad Electric Supply Co. Ltd (IESCO)
- Faisalabad Electric Supply Co. Ltd (FESCO)
- Lahore Electric Supply Co. Ltd (LESCO)
- Gujranwala Electric Power Co. Ltd (GEPCO)
- Mutan Electric Power Co. Ltd (MEPCO)
- Hyderabad Electric Supply Co. Ltd (HESCO)
- Sukkur Electric Power Co. Ltd (SEPCO)
- Peshawar Electric Supply Co. Ltd (PESCO)
- Quetta Electric Supply Co. Ltd (QESCO)
- Lakhra Power Generation Company
- Jamshoro Power Generation Co. Ltd (JPCL)
- Northern Power Generation Co. Ltd (NPGCL)—Thermal Power Station—Muzaffargarh)
- National Power Construction Co. (NPCC)

- Pakistan Steel Mills Corp (PSMC)
- Pakistan Engineering Co Ltd (PECO)
- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA InvestmentLtd—Roosevelt Hotel NY & Scribe Hotel, Paris

List of Companies for **Restructuring followed by Privatization**

- Pakistan State Oil Co Ltd (PSO)
- Sui Southern Gas Co Ltd (SSGC)
- Sui Northern Gas Pipelines Ltd (SNGPL)

E. Program Reporting Requirements

22. **Performance under the program** will be monitored from data supplied to the IMF by the SBP, Ministry of Finance and Ministry of Water Power as outlined in the table below. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within 5 working day
	Foreign exchange market	SBP foreign exchange operations, and intervention,(volume)	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Monthly	Third working day of the following month
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations,	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates,;	Monthly	Within 25 days of the end of each month.
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions;	Quarterly	Within 45 days of the following quarter
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month
	External financing	Foreign assistance received and projections for the coming four quarters. Please	Quarterly	Within 15 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.		
	Federal government	State budget	Monthly	Within 30 days of the end of each month
	Consolidated general government	Federal and provincial governments	Quarterly	Within 45 days of the end of each quarter
	Consolidated general government	Federal and provincial governments	Annual	Within 180 days of the end of each year
	Federal government	Fiscal financing sources: Detailed quarterly financing plan for the coming 12 months including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.	Monthly	One month in advance
	Federal government	Stock of government borrowing from the SBP	Quarterly	Within the first 5 days of each quarter.
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
Federal Board of Revenue (FBR)	Revenue collection Tax credits	Total revenue collected separately by the tax administration and customs administration, including revenue by individual tax, and social contributions.	Monthly	Within 7 days of the end of each month
	Tax arrears	By category	Monthly	Within seven days of each month
		By type of tax	Monthly	Within 7 days of the end of each month
	GST refund claims in arrears	For the 30 largest debtors	Monthly	Within 7 days of the end of each month
	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within 7 days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Quarterly	Within 7 days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large tax payer units (LTUs)	Quarterly	Within 7 days of the end of each month

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving non-duty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, Rs. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance DISCOs Consolidated Income Statement Net Electrical Output & Power Purchase Price by Source, GWh Generation, Demand and Shortfall for FY10 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type	Quarterly	Within 30 days
	Domestic expenditure arrears	Energy arrears	Quarterly	Within 45 days of the end of each month for government arrears
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification
Ministry of Petroleum and Natural Resources		Gas supply Gas prices	Quarterly on monthly frequency	Within 30 days from the end of the quarter
OGRA		UFG losses	Quarterly	Within 30 days from the end of the quarter
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by conditional and unconditional transfers.	Quarterly	Within 30 days from the end of the quarter

Table 1. Exchange Rates of the SBP

(as of June 28, 2013 in U.S. dollars per currency)

Currency	Rupee per Currency	Dollars per Currency
EUR	130.18	1.31
JPY	1.01	0.01
CNY	16.24	0.16
GBP	151.80	1.52
AUD	92.11	0.92
CAD	95.04	0.95
THB	3.21	0.03
MYR	31.54	0.32
SGD	78.77	0.79
INR	1.68	0.02

Table 2. Projected Disbursements to Pakistan

(In millions of U.S. dollars)

	Jun-14	Sep-14	Dec-14		Mar-15	Jun-15	Sep-15	Dec-15
			Projection	Actual	Projection			
Multilateral and bilateral disbursement	2,885	1,270	1,358	964	2,006	2,562	1,468	1,805
of which: in cash 2/	2,608	407	879	543	1,400	1,850	1,060	1,304
International debt issuance	2,000	0	1,500	1,000	0	0	0	1,000
Coalition Support Fund	375	735	240	0	717	360	240	225
Other 1/	831	0	20	0	20	450	300	250
Gross Inflows	6,091	2,005	3,118	1,964	2,743	3,372	2,008	3,280
of which: in cash	5,814	1,142	2,639	1,543	2,137	2,660	1,600	2,779
Debt service	943	989	963	1,128	1,157	1,515	1,210	1,316
Memorandum items								
Gross International Reserves	9,096	8,943	10,953	10,514	13,004	15,275	16,214	17,948
Program Net International Reserves	1,800	3,000	3,500	3,500	5,000	6,750	8,000	8,500

1/ Includes privatization and 3G licenses.

2/ Numbers need to be confirmed with the MoF.

Table 3. External Inflows to the General Government
(In millions of U. S. dollars)

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Non Tax revenue	322	353	1206	735	0	717	360	540	225
Of which: Coalition Support Fund	322	353	375	735	0	717	360	240	225
3G Licences	0	0	831	0	0	0	0	300	0
Grants	99	1537	152	89	132	99	39	68	208
External interest payments	202	155	215	174	306	187	437	224	466
Net external debt financing	50	-115	3501	846	2257	2475	1500	315	1601
Disbursements	645	760	4713	846	2257	3445	2578	1301	2451
of which budgetary support	309	285	2042	24	26	622	1269	59	702
Amortization	594	875	1212	0	0	970	1078	986	850
Privatizations	0	0	5	0	0	20	450	0	250
Memorandum item									
Program financing	408	1822	2199	113	158	741	1758	127	1160

Table 4. Government Sector (Budgetary Support)

(End-of-period stocks/PRs. Millions)

Item	June 30, 2013	June 30, 2014	Prov. December 31, 2014
Central Government	**5,561,994**	**6,059,496**	**6,385,462**
Scheduled Banks	**3,320,870**	**3,491,821**	**4,128,722**
Government Securities	1,117,115	2,413,134	2,912,752
Treasury Bills	2,611,512	1,550,476	1,730,271
Government Deposits	-407,757	-471,789	-514,301
State Bank	**2,241,124**	**2,567,674**	**2,256,740**
Government Securities	3,127	2,786	2,786
Accrued Profit on MRTBs	44,959	82,070	74,194
Treasury Bills	2,275,183	2,852,274	2,521,206
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,520,697
Treasury Currency	8,653	8,654	7,988
Debtor Balances (Excl. Zakat Fund)			
Government Deposits	-96,260	-383,571	-354,896
(Excl. Zakat and Privatization Fund)			
Payment to HBL on a/c of HC&EB	-287	-287	-287
Adjustment for use of Privatization Proceeds			
for Debt Retirement	5,749	5,749	5,749
Provincial Governments	**-315,607**	**-510,138**	**-619,805**
Scheduled Banks	**-287,393**	**-352,258**	**-351,609**
Advances to Punjab Gc Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-352,633
State Bank	**-28,214**	**-157,880**	**-268,196**
Debtor Balances (Excl. Zakat Fund)	13,715	802	1,976
Government Deposits (Excl.Zakat Fund)	-41,930	-158,682	-270,172
Net Govt. Budgetary Borrowings			
from the Banking system	**5,246,387**	**5,549,357**	**5,765,657**
Through SBP	2,212,910	2,409,794	1,988,544
Through Scheduled Banks	3,033,477	3,139,563	3,777,113
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	**44,959**	**82,070**	**74,194**
Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-6,438**	**-6,999**
Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**1,525,175**	**1,679,252**
Net Govt. Borrowings (Cash basis)			
From Banking System	**5,124,762**	**5,448,424**	**5,647,443**
From SBP	2,167,951	2,327,724	1,914,350
From Scheduled Banks	2,956,811	3,120,700	3,733,094