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June 26, 2015

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

June 12, 2015

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Intentions
Documents](#)

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The following item is a Letter of Intent of the government of Pakistan, which describes the policies that Pakistan intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Pakistan, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Letter of Intent

June 12, 2015

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

Dear Ms. Lagarde,

Mid-way through our three-year economic reform program, by the grace of Allah, we have achieved important economic and financial progress. Risks present at the beginning of the program have greatly receded as we have begun to forcefully reduce our budget deficit and rebuild our foreign exchange buffers. Alongside, we have managed to reduce untargeted energy subsidies while significantly expanding coverage under the Benazir Income Support Program (BISP) to protect the most vulnerable segments of society.

Going forward, we remain on course to achieve the remaining objectives of the program. In this context, we will focus on reinforcing and building on the macroeconomic stability gains, and on advancing deeper structural reforms to achieve higher, sustainable, and inclusive economic growth. A major goal in this regard is to significantly widen the tax net to generate the necessary resources for higher infrastructure and social spending while continuing to strengthen public finances. In addition, we will address the circular debt issue in the energy system, further build foreign exchange reserve buffers to strengthen resilience in the face of external shocks, reinvigorate our plans for privatization and restructuring of public enterprises, and create suitable conditions for higher investment and exports by improving competitiveness and the business climate. The actions described in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP) are consistent with this strategy.

Meanwhile, our performance on the seventh review has been satisfactory:

Quantitative performance criteria and indicative targets (Table 1). All end-March 2015 quantitative performance criteria (PCs) were achieved, as well as the indicative target on transfers under the BISP. The indicative target on federal tax revenue was missed with a small margin, reflecting legal challenges to some of our tax measures and the negative impact of lower global commodity prices. We have taken action to improve revenue and remain on track to meet the end-June 2015 fiscal deficit target.

Structural benchmarks (SBs) (Table 2). The end-March 2015 SBs to draft legislation to remove the authority to grant new administrative tax exemptions, on reorganization of the debt office, and on the review to simplify tax payment processes were met. The program will continue to be monitored

through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. As detailed in the attached MEFP, we propose a new indicative target on the accumulation of power sector payment arrears and three new structural benchmarks against which to measure progress under the program (MEFP, Tables 1 and 2). The attached Technical Memorandum of Understanding (TMU) explains how the program targets are measured.

In the attached MEFP, we set out our plans to further advance the objectives of our stabilization and inclusive growth program. In view of our strong performance under the program, we propose modification to the end-June PC on the net international reserves (NIR) target as specified in the attached MEFP, reflecting higher reserves accumulation by the State Bank of Pakistan (SBP), and completion of the seventh review under the Extended Arrangement.

We reaffirm our commitment to our economic reform program supported by the International Monetary Fund (IMF). 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, December 2, 2014, and March 12, 2015 are adequate to achieve the objectives of the program, and 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/

Senator Mohammad Ishaq Dar
Minister of Finance
Pakistan

/s/

Ashraf Mahmood Wathra
Governor of the State Bank of Pakistan
Pakistan

Attachment I. Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

- Economic activity has remained robust.** We expect, for program purposes, that real GDP growth will reach about 4.1 percent in FY 2014/15 and accelerate to about 4.5 percent next year. However the government retains its goal of achieving growth of 4.2 percent this fiscal year and 5.5 percent next year. Risks are broadly balanced, with improvements in the supply of gas and electricity along with the recent decline in oil prices supporting growth, while the recent deceleration of private credit growth and continued export weakness constitute downside risks. Headline consumer price inflation has continued to fall, to 2.1 percent y-o-y in April, mainly driven by lower food and energy prices. We expect inflation to increase to around 4¾ percent on average in FY2015/16, due to a likely bottoming out of commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.
- The external current account turned to a surplus over the past quarter.** This improvement largely reflects the reduced oil import bill and robust growth in workers' remittances, while exports remained flat, partly driven by lower cotton prices. Gross international reserves reached US\$11.6 billion by end-March 2015, covering about three months of imports, up from US\$10.5 billion at end-December 2014. The rupee has depreciated by 3 percent against the U.S. dollar in the first nine month of FY2014/15, but has appreciated by 8 percent in real effective terms over the same period. Going forward, we expect the current account to return to a deficit, driven by continued weak export performance. External financing will continue to be supported by significant program disbursements. This financing, together with savings from lower oil prices, will allow us to further improve our foreign reserve coverage, which is now expected to exceed four months of imports by end FY2015/16.
- Monetary aggregates remained in line with program objectives.** Reserve money grew by 9.6 percent y-o-y in March 2015, as the increase in Net Foreign Assets (NFA) was adequately sterilized. The growth rate of broad money slightly increased from 10.9 percent y-o-y in December 2014 to 12.3 percent y-o-y in March 2015. Private sector credit expansion continued, albeit slower than expected (6.5 percent y-o-y in March 2015), driven mainly by large businesses and construction.
- All end-March monetary program targets were met and the SBP is on track to meet the end-June targets.** We met the end-March NIR target with a margin of over US\$700 million, due in part to strong spot market purchases in an environment of favorable international oil prices and stable macroeconomic conditions. The ceiling on SBP's net short position of swap/forward contracts was also met. We over-performed the end-March Net Domestic Assets (NDA) target by PRs 93 billion, as we further reduced net government borrowing from the SBP—well below program targets (₹23)—and sterilized foreign exchange inflows.

5. **The fiscal deficit in the first nine months of FY2014/15 was better than the program target.** Fiscal consolidation—a critical objective of our economic program—remains on track, bringing the budget deficit (excluding grants) from 8.3 percent of GDP in FY2012/13 to 5.5 percent of GDP in FY2013/14 and toward the program target of 4.9 percent of GDP in FY2014/15. The indicative target on tax revenue collection at the federal level, however, was missed by a small margin. Although we have introduced a series of revenue-enhancing measures, continued legal challenges against the Gas Infrastructure Development Cess (GIDC), the fall in oil prices, and reduced inflation lowered tax receipts more than anticipated.

Economic Policies

A. Monetary and Exchange Rate Policies

Monetary and exchange rate policies remain focused on further boosting external buffers, maintaining price stability, and improving the effectiveness of monetary policy tools.

6. **We will continue to build foreign exchange reserve buffers to reduce external vulnerabilities.** Lower international oil prices have presented an opportunity to strengthen our external position on a sustainable basis by accelerating the build-up of reserves under a market-based exchange rate. At the same time, our trade competitiveness needs to be strengthened, due in part to pronounced movements in global foreign exchange markets. In order to further strengthen our international reserves position, we propose to increase the NIR target for end-June and to set subsequent performance criteria (PCs) accordingly.

7. **We remain strongly committed to prudent monetary policy to preserve our recent achievements and anchor low inflation expectations.** In light of declining headline and core inflation, we lowered the policy rate by 150 bps in this quarter, which we believe is consistent with price stability. Looking ahead, we will continue to set the policy rate in a forward-looking fashion to maintain positive real interest rates, in line with a prudent and stable inflation path.

8. **We will continue to improve monetary operations.** To enhance the effectiveness of monetary policy, better manage liquidity in the interbank market, and conduct open market operations, the SBP has started implementing its plan to improve the interest rate corridor in end-May (structural benchmark (SB) by end-September), which sets the policy rate between the floor and ceiling rates of the corridor.

9. **Enhanced central bank independence is key for an improved monetary policy framework.** We submitted revised amendments to the SBP Act to the National Assembly in mid-March, where the legislation is still in the relevant parliamentary committee. The amendments will strengthen the autonomy of the SBP. Among other things, the amendments will establish an independent decision-making monetary policy committee to design and implement monetary policy. We are committed to enact the legislation by end-September 2015 (revised SB). Subsequently, we will work with the IMF on ways to further strengthen SBP independence, by addressing the remaining recommendations of the IMF safeguards assessment during the

remainder of the program. We also continue to take additional steps to enhance internal SBP operations. With the assistance of an external consultant, the SBP is embarking on an exercise to prepare its strategic plan for the period 2016–20. This exercise will review the organizational set-up of the SBP, relative to international best practices, with a view to achieve the objectives of increased efficiency, better inter-departmental coordination, removal of overlapping functions, and undertaking new initiatives to improve the overall working of the Bank.

B. Fiscal Policy

10. **Fiscal performance is on track to meet the 2014/15 deficit target of 4.9 percent of GDP** (5 percent of GDP with the adjustor for additional social spending). In light of the minor revenue shortfall in the third quarter, we have taken new measures in May 2015 (in addition to those implemented in March), to support revenue collection. In particular, we have (i) introduced a regulatory duty of 2½ percent on high-speed diesel, (ii) placed a regulatory duty of 2 percent on crude oil, motor spirit oil and furnace oil, and (iii) increased the General Sales Tax (GST) rate on high-speed diesel from 32 to 34 percent and on motor spirit oil from 18 to 20 percent. While the impact of these measures will be limited for the remainder of this fiscal year, they will nonetheless help us meet the June deficit target and, in addition, will have a significant full-year effect in FY2015/16, supporting our efforts to further raise the tax revenue-to-GDP ratio.

11. **We are determined to continue on a path of fiscal consolidation, reduce public debt, and lay the foundations for more sustained and inclusive growth.** To cement macroeconomic stability and place the debt-to-GDP ratio on a firmly declining path, we remain committed to reducing the budget deficit (excluding grants) from 4.9 percent of GDP in FY2014/15 to 3½ percent by the end of the program. This will create the much-desired 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. **To this end, we are targeting a budget deficit of up to 4.3 percent of GDP (excluding grants) in FY 2015/16**, including an adjustor of 0.3 percent of GDP for critical one-off spending. Our objective is to achieve further fiscal consolidation by enhancing tax revenue performance (by about 1 percent of GDP) and rationalizing subsidies (to 0.4 percent of GDP including close to 0.1 percent of GDP for clearing a part of the arrears in the energy sector). Revenue mobilization efforts include (i) further elimination of tax concessions and exemptions amounting to 0.3 percent of GDP and (ii) new revenue measures amounting to 0.7 percent of GDP, including improved collection under the GIDC (or a similar tax in case of continuing legal challenges). Measures include a higher excise on tobacco products, raising tax rates for income and capital gains on high-income and nonfiler taxpayers, rationalizing the customs duty and GST rates for a range of goods including food, mobile phones, petroleum products, pharmaceuticals and steel, and abolishing zero-rated GST status of brand dairy products, among others. Both houses of parliament have ratified the GIDC Gas Bill 2015 that is consistent with achieving our budgeted GIDC revenue (PRs 145 billion in FY2015/16). On the expenditure side, we will continue implementing our strategy to reduce

subsidies along with steps to contain the circular debt problem in the energy sector, and to streamline public administration, including wage and salary costs. Due to extraordinary circumstances, we will incur one-off spending of up to PRs 100 billion (program adjustor) on security enhancements related to fighting terrorism and resettlement of internally displaced persons, as specified in the TMU. This spending is consistent with achieving the targeted fiscal adjustment in FY2015/16. Accordingly, we have submitted the FY 2015/16 budget to the parliament, which is consistent with these policies and the program budget deficit target including an adjustor of 0.3 percent of GDP for the abovementioned additional spending (prior action).

13. **We will intensify our efforts to further reduce distortions in the energy market.** Energy subsidies at the outset of our program in FY 2013/14 were slated to reach 2 percent of GDP on unchanged policies. We reduced these subsidies to 1.3 percent of GDP that year, and are bringing them to 0.8 percent of GDP this fiscal year and 0.4 percent of GDP next year (I31).

14. **To further mitigate risks to the program, several contingent measures have been identified and will be implemented in case the expected fiscal adjustment falls short of objectives.** If tax revenues fall below the level envisaged in the program, we will implement additional revenue measures, including to bring forward plans to eliminate Statutory Regulatory Orders (SROs) slated for FY2016/17. On the expenditure side, we will again reduce expenditure allocations in the first nine months of the year compared to the budget to create a reserve against any shortfall. These measures could yield savings amounting to 0.5 percent of GDP. To protect against a potential negative outcome of legal challenges to electricity surcharges, our strategy would be to take mitigating measures including tariff adjustments, and, if required, suitable amendments to the National Electric Power Regulatory Authority (NEPRA) Act that are in line with international best practices and preserve NEPRA's independence. In any case, we stand ready to take compensatory measures as needed, including adjustment on the revenue side, to reach our fiscal target.

15. **We continue to implement our strategy to broaden the revenue base by eliminating tax concessions and exemptions.** The tax-to-GDP ratio increased from 9.7 percent of GDP in FY2012/13 to 10.4 percent in FY2013/14, and it is now projected to reach 11.2 percent in FY2014/15, despite the oil price decline, falling inflation, and the legal challenges to the GIDC and the bonus shares taxes. The elimination of SROs and additional tax base-broadening measures in the FY2014/15 budget have indeed yielded better-than-expected results in most areas in the first nine months 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. Furthermore, in March 2015, we have prepared the necessary draft legislation to permanently prohibit the issuance of SROs to grant tax concessions or exemptions (SB). We already issued this legislation by means of a presidential ordinance in May and have presented it (as specified in the TMU), as part of the Finance Bill 2015/16, for parliamentary approval (prior action). With this, any new exemptions would normally have to be granted by means of legislation. In particular, the FBR will no longer have the authority to grant any such exemptions, and the government retains only the limited authority to

grant temporary exemptions at the level of the Economic Coordination Committee (ECC) of the cabinet for a number of specified exceptional circumstances.

16. We are committed to rationalizing the GST regime and tackling the backlog on GST refund claims at a faster pace. We will continue our efforts to broaden the coverage of GST and withdraw exemptions. As we update and improve the content of the Tax Expenditure Annex (to be submitted with the FY2015/16 budget documents) to better reflect the impact of our policies, we will continue rationalizing the GST regime. We have managed to lower the number of outstanding GST refund claims by over 50 percent and have increased refund payments by 25 percent in the first nine months of FY2014/15. As a result, the stock of unpaid GST refund claims declined to PRs 96.8 billion as of end-March 2015, from the peak of PRs 113.2 billion in November 2014. 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 fraudulent invoices and inadmissible refund claims. The FBR is also preparing a comprehensive plan to address the issue of unpaid GST refund claims by end-June 2015, including the introduction of an automated system of pre-verification instead of the current system of post-verification. We are also seeking assistance from the Fund to develop an alternative dispute resolution (ADR) mechanism that will facilitate faster decisions on tax disputes.

17. Improving tax compliance and enforcement will be critical to achieve fiscal sustainability. We have built a monitoring system to track progress and set quarterly objectives on tax policy and administration initiatives. We issued 180,295 first notices by end-March 2015, over the target of 175,000, to bring more potential taxpayers into the revenue base. In response, 54,791 persons filed tax returns as of end-March. 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 are merging the National Tax number (NTN) system covering 3.6 million individuals with the Computerized National Identity Card (CNIC) database that covers about 150 million people by end-September 2015 (SB). 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 wealth 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 assessee. For those who are outside the tax net, the DGII pursues their cases. In this context, the FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges (new end-September 2015 SB). Within this policy, the FBR will retain elements of random selection to ensure taxpayer compliance. This policy will help us develop a modern compliance risk management system. 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.

18. We have also made significant progress in implementing other tax administration reforms, which will gradually deliver further improvements in revenue collection.

In consultation with the World Bank, we have completed a functional review of the FBR and we are 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 Public Procurement Regulatory Authority (PPRA), after verifying experience and turnover of bidders, we aim to enter the second stage of bidding and award this contract by end-June 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 assessments. Moreover, we have started the electronic data interchange (EDI) connectivity to streamline trade with Afghanistan and we are entering a new round of negotiations with China to develop a similar EDI connectivity by January 2016.
- d. We constituted a project team to lead the development of an integrated end-to-end automated IT system for the GST and income tax.

19. 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. To assure achievement of our fiscal targets in FY2015/16, and following last year's agreement under the Council of Common Interest (CCI), the provincial finance secretaries have agreed in writing to increase provincial budget surpluses consistent with the program (prior action). In 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.

20. 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 quarterly stipends

paid to women account holders in the poorest families from PRs 3,000 (in June 2013) to PRs 4,500 since July 2014. As of end-March 2015, we have reached 4.9 million beneficiaries and have achieved the indicative target for transfer payments for end-March 2015. We will sign new banking contracts by end-December 2015 to phase in more effective payment cards. We will finalize the transition plan in consultation with the World Bank by end-August 2015. 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-March 2015, we are disbursing in 5 out of 32 districts in all provinces and expect to cover 30 districts by end-June 2015. We have reconstituted the Board with the appointment of the Chairman and resolved administrative and decision-making issues for its smooth functioning. In FY 2015/16 we will expand the number of beneficiaries to 5.3 million. If additional donor support can be secured, we will also further increase the stipends (as elaborated in the TMU).

C. Fiscal Financing

21. **We will continue to keep budget financing from the SBP within program targets.** We reduced government borrowing from the SBP by PRs 261 billion to PRs 1,653 billion in end-March 2015, significantly below our target ceiling. Going forward, we expect to gradually revert closer to the target ceiling as we continue to seek implementing a well-balanced financing mix in line with the program.
22. **Enhancing the quality and effectiveness of public debt management continues to be a priority.** Efforts continue to diversify financing from both domestic and external sources, lengthen the maturity profile of domestic debt and improve the balance between domestic and external debt. Also, we will continue to strengthen the Debt Policy Coordination Office (DPCO), to become functional and undertake the analytical functions typical of a Middle Office. Specifically, to achieve savings in, and more effective decision-making for, government borrowing, we will:
 - a. 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;
 - b. Update the Medium Term Debt Management Strategy (MTDS) covering the period FY2014/15–FY2018/19. We will prepare a draft by end-November 2015 and publish it by end-January 2016; and
 - c. Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS by end-October 2015 (new SB).

D. Financial Sector

23. **The banking sector remains sound, with high earnings and solvency ratios.** The pre-tax profit of the system surged by 58 percent (y-o-y) through March, mainly attributed to increased net interest income from investments in government securities and higher noninterest income, despite higher provision charges. The capital adequacy ratio (CAR) increased to 17.4 percent. As of end-March 2015, asset quality has slightly deteriorated with an increase in the nonperforming loan (NPL) ratio to 12.8 percent, and the net NPLs to net loans ratio rising to 2.8 percent. To further improve the market discipline and enhance the assessment of the soundness of the financial sector, the SBP is developing, with the help of the IMF, a set of encouraged financial soundness indicators (FSIs) which will be published upon validation by the IMF.

24. **The SBP is making progress in bolstering banks that are below the regulatory capital adequacy requirement.** Only one bank (out of 36 banks) remains CAR-noncompliant. The size of this bank is about 0.85 percent of banking system assets (or 0.4 percent of GDP). The system's CAR shortfall has decreased by PRs 5 billion to PRs 0.5 billion.¹ The bank's CAR is at 9.36 percent (against the 10 percent requirement) and it is expected to complete a rights issue by June 2015, which will enable it to become CAR-compliant, and we will continue to engage with the bank to ensure that it will stay CAR-compliant thereafter. The resolution of a previously CAR-noncompliant bank has been completed on May 7 by amalgamation into a private bank. Four small banks, while remaining CAR-compliant, are still below the minimum capital requirement (MCR), which we raised in 2013. We have devised a time-bound plan to bring these banks into regulatory compliance.

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

- a. The Securities Bill has been enacted.
- 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 CCI before being submitted to Parliament for enactment by April 2016.
- c. The Futures Trading Bill is being finalized with the support of the World Bank and will be placed before Parliament by end-September 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. We are receiving Technical Assistance on consolidated

¹ These numbers are based on end-March 2015 data, adjusted for the amalgamation of the bank that was under moratorium.

supervision from the IMF that will assist the SBP in establishing a framework for consolidated supervision of banking groups.

- e. To improve the recovery of NPLs and enhance credit growth, the SBP, in consultation with banks, has developed amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, and forwarded them to the Ministry of Finance for enactment. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April 2015. This law will be pivotal for facilitating timely resolution of NPLs and allowing banks to focus on their core areas of operation. The SECP has also prepared a concept note for developing the Corporate Rehabilitation Act, which will be shared with stakeholders by end-June 2015 (¶137).
- f. The SBP continues to improve its contingency planning framework with support by IMF TA. Among other things, this work will encompass a review of the legal framework, identification of gaps, an assessment of the consolidated supervision framework and domestic systematic important banks (D-SIBs). The SBP had already conducted an initial assessment of identification of the D-SIBs and will work on developing the monitoring mechanism.

26. **Instituting a modern deposit insurance scheme will strengthen the resilience of the banking system.** The draft Deposit Protection Fund (DPF) Act will be finalized in consultation with the IMF, under contingency planning TA, to be in line with best international practices, and is expected to be enacted by end-December 2015 (revised SB). In the meantime, the SBP will undertake preparatory work to establish the corporate infrastructure of the DPF and has requested IMF technical assistance to help in this process. The DPF will become operational by January 2016.

27. **We continue strengthening the anti money laundering and combating of financing of terrorism (AML/CFT) framework.** We are on track to including tax crimes in the Schedule of Offenses of the Anti-Money Laundering Act (AMLA). We have submitted the draft amendments to the AMLA to parliament that will enable the use of AML tools to combat tax evasion. We are committed to adopting these amendments by end-September 2015 (structural benchmark). Subsequently, we will amend applicable regulations in line with international standards. The Financial Monitoring Unit's analytical capability is being enhanced by establishing a data center and use of the goAML² analytical tool in cooperation with DfID and UNODC. In addition, we will continue to work with the Asia/Pacific Group (APG) of the Financial Action Task Force (FATF) to strengthening our framework for combating the financing of terrorism, including by effectively implementing the relevant United Nations Security Council Resolutions.

² The goAML application is a UNODC strategic response to financial crime including money laundering and terrorist financing.

E. Energy Sector Reforms

28. **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. We are reducing electricity subsidies to 0.3 percent of GDP in FY 2015/16 with the recent tariff notification. We also began addressing both the flow and stock of payable arrears in the power sector including by allocating budgetary resources, levying surcharges, gradual improvement in company performances and recoveries, and initiating the process of privatizing power sector companies.

29. **Price Adjustments.**

- a. The National Electric Power Regulatory Authority (NEPRA) finalized the determination of tariffs for FY2013/14 in June 2014, 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. However, legal challenges that came in effect in February stayed the implementation of all surcharges (as defined in the TMU). We are pursuing the court cases. We have (i) notified the new tariff, as determined by NEPRA for FY2014/15 to be effective from June 10, 2015; and (ii) implemented surcharges in line with the program targets, consistent with the budgetary allocation of 0.3 percent of GDP in electricity subsidies and the power sector payables reduction plan, as defined in the TMU (prior action). In addition, we are committed to protect the level of revenue in the electricity sector by adjusting tariffs as needed in case of a negative outcome of legal challenges to electricity surcharges. We will also make any necessary amendments to the NEPRA Act/rules to insure the permanency of these measures.
- b. We have taken 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 falling. To that end, NEPRA determined the FY2014/15 tariffs at end-April 2015. We are also ensuring that technical loss diagnostic studies for all DISCOs will be finalized by June 2015 so that better estimates of loss rates can be considered by NEPRA in its FY2015/16 tariff determination.
- c. We are committed to gradually reducing the effect that untargeted subsidies have on our budget while continuing to protect the most vulnerable consumers.

30. **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). We set targets for the reduction of the flow of such arrears, supported by a new indicative target starting in June 2015 (Table 1). There are two main components of this circular debt:

- a. The payables in the power sector stand at PRs 280 billion at end-March 2015. In addition to current payables, it comprises: (i) a residual 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); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerges from the court stay order on surcharges; and (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads
- b. The stock of past arrears including the PHCL in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-March 2015.

31. **Building on this audit, we adopted a plan for reducing the accumulation of payables arrears and to gradually eliminate the stock.** This plan includes steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure. With this, the accumulation of payables will be reduced from an estimated PRs 175 billion in FY 2014/15 to PRs 113 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY2018/19 (Table 1).

- a. We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in the first nine months of FY2014/15 declined by one percentage point to 17.6 percent. Collections remained at 88.5 percent. To address increased losses in some DISCOs, the chief executives of the poorly performing ones have been replaced, and we are working with provincial governments to address their payment problems. We will work on improving the average performance of the sector further in FY2015/16.
- b. Taking advantage of the room created due to falling oil prices, late payment surcharges and higher system losses were incorporated into the FY2014/15 determined tariffs. This is expected to arrest a portion of the build-up of the circular debt and improve the cash-flow of the system.
- c. We have allocated about 0.1 percent of GDP of budgetary resources to clear part of the stock of arrears that accrued in AJK, FATA and Baluchistan Tube Wells. We will continue to work with these governments to prevent further accumulation of arrears.
- d. We are moving the stock of PHCL debt into DISCOs' balance sheets where privatization will take place. This will help to reduce the stock of PHCL debt and will ease the servicing of this debt. We are working through the judicial process to implement the surcharge that we levied (as defined in the TMU) to service the facility.

32. **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 we have already invoked remedial measures for the management of three distribution companies who failed to comply, 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 which lapsed in August 2014. Currently, the Bill stands at the Senate Committee after the clearance of the National Assembly. We expect it to be enacted by end-September, 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 shared with a broader set of stakeholders before finalizing and submitting it to the CCI by end-September 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 end-2015.

33. **Demand Side Management.** To improve resource allocation and energy efficiency, we will use pricing (T29) and other market-based instruments. We will invest in Advanced Metering Infrastructure (AMI) initially in LESCO and IESCO to reduce commercial losses, increase recoveries and better manage revenue-based load shedding. 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.

34. **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 start of construction of the Dasu project. 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.

35. **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 is moving forward with preparations for a multi-year tariff framework. To facilitate the transition, DISCOs prepared three-year investment plans and submitted the plans to NEPRA. In the first phase, we will determine and notify multi-year tariffs for FESCO,

IESCO, and LESCO by end-November 2015 (new SB), with the remaining ones done annually on a rolling basis. We have set up the Central Power Purchasing Agency Guarantee (CPPA(G)) and have amended its Articles of Association. We have separated it from the National Transmission and Despatch Company (NTDC). NTDC's license has been modified so that it can no longer purchase or sell electricity. The Market Operator Registration, Standards and Procedure Rules 2015 were issued in late May 2015 and the Commercial Code was approved by NEPRA in early June 2015. Key CPPA(G) staff are being put in place. Further, NTDC and CPPA(G) signed Administrative Agreements to make CPPAG function.

36. **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 three of them in the next fiscal year (141). 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

37. **Supply.** To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports by end-March 2015. We are committed to a full pass-through of the cost of imported LNG to the end-user purchase price (including to Compressed Natural Gas) and we finalized the contractual agreements with all relevant parties. We will finalize the independent power producers' letters of credit by end-June 2015. 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

38. **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 are stepping up action to implement it:

- 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 are in the process of conversion to the 2012 Policy with support from international partners. So far, two thirds of the total has been converted with the remaining eligible ones to be completed by end-June 2015. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy and are expecting toward additional 10–15 exploration concessions by end-December 2015.

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY2014/15 (due in July and January) will be fully recuperated in the new tariff which we will notify and implement by July 1, 2015. We will also make any necessary adjustments to notified prices to reflect imported gas prices, so that the cost of this gas will be fully reflected in the LNG tariff on a monthly basis.
- To better allocate gas consumption, we 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 have addressed issues related to the GIDC to realize the budgeted revenues (as described in ¶12). However, we have taken measures to recover PRs 74 billion, of which PRs 43 billion from the fertilizer sector and will continue to focus on areas where large collecting agents have already collected the GIDC in their prices.
- 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.

39. **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 (MPNR) which report progress quarterly to the 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. The first monitoring report was approved by the ECC in April 2015 and we have already disclosed the report on the Ministry MPNR's website. To support the efforts of the regulator, we advertised the vacant positions on the Board of the Oil and Gas Regulatory Authority (OGRA). We have finalized the selection of the Member Finance for approval, but were not able to select the Member Oil and will re-advertise the position with revised criteria.

- We have been enhancing the capacity of the MPNR 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 12.2 percent due to commercial and technical losses. The gas companies submitted loss reduction plans to the MPNR in May 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-June 2015.

F. 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.

40. **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 limited 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 we set up a physical OSS in Lahore in April 2015. We will set up another physical OSS in Islamabad by September 2015. By streamlining overlapping procedures and establishing database sharing and a common portal for registering businesses, the OSS has begun facilitating new firm creation. We have so far reduced two procedures and two days and plan to save an additional eight days of the procedures.

- **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 a mechanism for the reorganization and rehabilitation of distressed companies; and (ii) the CRC Act, which envisages setting up private Corporate Restructuring Companies to take over assets of bankrupt companies (¶25). The CRC Act has been placed before the Parliament in April 2015. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism will be extended to Islamabad and Rawalpindi by end-September 2015 and we began work to expand to other provincial capitals (i.e., Peshawar and Quetta). We intend to initiate consultation for exploring possibilities of establishing commercial courts in order to expedite resolution of commercial disputes and contract enforcement.
- **Paying Taxes.** We have completed a review to reduce the number of existing processes and forms for sales and income tax by end-March 2015 (SB). We have identified 30 income and sales tax processes that required streamlining. Based on this review, we have started undertaking measures to streamline and simplify procedures and processes and we are developing 9 IT-based modules to eliminate redundant manual steps. Subsequently, we will work on an integrated end-to-end IT solution (IRIS) to serve all streamlined business taxpayer-related processes (registration, declaration, payments, audit, recovery, refunds, and appeals). We will continue to streamline and fine-tune the system based on the feedback we received from the taxpayers and in accordance with international best practices.

41. **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 prepared the draft strategy document, which identifies policy reforms and interventions to enhance market information, infrastructure, and financial capability of consumers. The multi-stakeholder National Financial Inclusion Council chaired by the Minister of Finance has launched the NFIS in May 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 passed by the National Assembly in March 2015 and we expect it to be enacted by November 2015 to ensure that credit information sharing will protect the privacy rights of individuals (structural benchmark).

42. **Trade Policy.** Trade 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 implementing a 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.³ 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. The phase-in of the revised tariff rates and phase-out of trade SROs began in July 2014. The FY2015/16 budget reduces tariff slabs to five and further eliminates the trade-related SROs. Implementation of the new tariff structure that will reduce the slabs from five to four will 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.

43. **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 8 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.

- **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, Allied Bank Limited (ABL) in December 2014, and Habib Bank Limited (HBL) in April 2015. We will finalize the sale of shares of Mari Petroleum Limited by end-September 2015, Pak Arab Refinery Limited (PARCO) by end-December 2015, and State Life Insurance Company by end-June 2016. We are working towards updating the roadmap for the remaining four companies in the list.
- **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.

³ In addition, we maintain our current Free and Preferential Trade Agreements with some countries.

- **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-March 2016. 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-June 2016. In April 2015 we hired financial advisors for Gujranwala Electric Power Company (GEPCO) for expected completion of the transaction by end-September 2016. We have advertised for financial advisors for Hyderabad, Peshawar, Quetta, Sukkur, and Multan Electric Supply Companies (HESCO, PESCO, QESCO, SEPCO, and MEPCO) and will hire them by end-May 2015, with a view towards private participation by late 2016.
 - **Other companies.** We have finalized the sale of Heavy Electric Complex (HEC) by May 2015. We plan to finalize the offer for National Power Construction Co. (NPCC) by end-June 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and expect to complete the transaction by end-December 2015. We have appointed financial advisors for Jamshoro Power Generation Company Limited (JPCL) in April 2015 with expected completion of the transaction by end-April 2016. In May 2015, we have finalized] the hiring of financial advisors for Lakhra Power Generation Company Limited (LPGCL), and Central Power Generation Company Limited (CPGCL), with expected sale to be completed by end-December 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 (SB) to seek potential options for restructuring and strategic private sector participation in the core airline business by end-December 2015 (SB). The diligence process will be completed by end-June 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 hired financial advisors in April 2015, expect the completion of the due diligence process by end-August 2015, and finalize the transaction by end-December 2015.

- **Pakistan Railways.** Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, we improved revenue in FY 2013/14 by 32 percent through rationalization of tariffs and expenditures and improved occupancy rates. We further increased revenue by over 50 percent in the first nine months of FY 2014/15. Since April 2014, we are moving forward with our comprehensive restructuring plan, which includes improvements in business processes and the institutional framework, financial stability, and service delivery. Appointment of the Railway Board was completed in February 2015. In the short-term we are focusing on improvements in freight transportation through creation of a freight company, and adding more locomotives and wagons. In the first nine months of FY2014/15, we have added 15 new locomotives for both passenger and freight service, and doubled revenues from freight operations.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets FY2014/15–FY2015/16 1/
(In billions of rupees, at program exchange rates, unless otherwise specified)

	FY2014/15				FY2015/16									
	end-December		end-March		end-June		end-September		end-December		end-March		end-June	
					Sixth Review		Program				Projection			
	Target		adjusted target		Actual		Target		Revised					
Performance Criteria														
Floor on net international reserves of the SBP (millions of U.S. dollars)	3,500	5,000	3,547	4,290	6,750	7,300	8,300	9,000	9,300	9,700				
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,224	2,340	2,472	2,379	2,270	2,270	2,210	2,240	2,350	2,350				
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	673	1,087	1,087	1,049	1,387	1,387	306	625	1,012	1,292				
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,760	1,775	1,775	1,765	1,700	1,700	1,700	1,650	1,650	1,650				
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/,	1,914	1,905	1,905	1,653	1,865	1,865	1,800	1,800	1,800	1,800				
Continuous Performance Criterion														
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0	0	0				
Indicative Targets														
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	44	69	69	69	95	95	21	45	72	102				
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,174	1,846	1,846	1,777	2,691	2,691	640	1,390	2,105	3,104				
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)						42	36	27	22	29				

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)		Status	Macroeconomic rationale
		Original	Rescheduled		
Prior Actions					
1	Submit the FY2015/16 budget to the parliament, consistent with policies outlined in the MEFP and the program budget deficit target of 4.3 percent of GDP, including an adjuster of 0.3 percent of GDP (up to PRs 100 billion) for additional spending as defined in the TMU.				
2	Issue a presidential ordinance to limit the authority to grant tax concessions or exemptions, as specified in the TMU, and present it for parliamentary approval as part of the Finance Bill FY2015/16.				
3	Reach agreement in writing with the provincial finance secretaries to increase provincial budget surpluses consistent with the program.				
4	Notify the new electricity tariff, as determined by NEPRA for FY2014/15, to be effective from June 10, 2015; and implement surcharges or similar measures in line with the program targets, consistent with the budgetary allocation of 0.3 percent of GDP in electricity subsidies and the power sector payables reduction plan, as defined in the TMU.				
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 laundering tools to combat tax evasion, and facilitate 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		Met	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		Met	Strengthen the organizational framework and improve public debt management.
7	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.

Table 2. Pakistan: Program Modalities and Structural Benchmarks (concluded)

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		Original	Rescheduled		
Monetary sector					
8	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.
9	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.
10	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.
11	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective.	end-June 2015	end-September 2015		Prerequisite for an independent monetary policy framework.
12	Make the improved interest rate corridor of the SBP operational	end-September 2015			Improve SBPs liquidity management.
Financial sector					
13	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
14	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-September 2015	end-December 2015		Enhance the resilience of the financial sector.
15	Enact the Credit Bureau Act	end-November 2015			Extend credit to broader sections of society.
16	Adopt the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU) and the definition of politically exposed persons in line with international standards.	end-September 2015			Use antimoney laundering tools to combat tax evasion, and facilitate detection of potential cases of abuse of the investment incentive scheme to launder criminal proceeds.
Structural Policies					
17	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	Boost sustainable and inclusive growth, by removing bottlenecks, encourage long-term, sustainable
18	Conduct a diagnostic study of the regulatory framework of the power sector and prepare an interim report.	end-April 2014		Met	increases in electricity supply;
19	Offer the minority shares in United Bank Limited and Pakistan Petroleum Limited to domestic and international investors.	end-June 2014		Met	improve the efficiency of the economy through privatization
20	Fill the vacancies in the NEPRA Board.	end-July 2014		Met at end-November, 2014	and use its proceeds to hel ease fiscal and balance of payments pressures.
21	Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.	end-March 2015		Met	
22	Privatize 26 percent of PIA's shares to strategic investors.	end-December 2015			
23	Initiate revenue based load shedding in six remaining electricity distribution companies.	end-January 2014		Met	
New Structural Benchmarks					
1	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015			Improve tax compliance and enforcement.
2	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015			Improve public debt management.
3	Determine and notify multi-year tariffs for FESCO, IESCO, and LESCO, as defined in the TMU.	end-November 2015			Facilitates privatization of the DISCOs and reduction of energy arrears.

Attachment II. Technical Memorandum of Understanding (TMU)

June 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)
- Ceiling on power sector payables (flow, 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. **Quarterly debt management risk reports** by the Debt Policy Coordination Office (DPCO) is defined as reports covering exposure indicators to financial risk (redemption profile of local and foreign currency debt, average life, share of domestic debt falling due in the next 12 months, average time to re-fixing, share of local and foreign currency debt re-fixing its interest rate over the next 12 months, composition of debt stock by currency and share of short term foreign currency debt over net international reserves).
16. **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.
17. **The draft legislation presented to parliament to limit the authority to grant tax concessions or exemptions** is consistent with the presidential ordinance No. IX of 2015 and specifies exceptional circumstances under which the Economic Coordination Committee of the cabinet retains the authority to grant temporary exemptions as follows: whenever exceptional circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, and protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in duties, development of backward areas, and implementation of bilateral and multilateral agreements.
18. **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.
19. **Power sector payables** arise from (i) non recoveries from supply to AJ&K, other federal and provincial governments including FATA, private consumers, and Baluchistan Tube Wells, (ii) accrued markup from the servicing of PHCL, (iii) line losses that are not recognized by NEPRA, (iv) GST NonRefund, (v) late payment surcharges, and (vi) the delay in determinations.

20. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶29). The current notified weighted average electricity tariff is PRs 11.52/kWh for all classes of consumers. The FY 2014/15 electricity bill will be notified effective from June 10, 2015, and include the following tariffs and surcharges: (i) weighted average tariff of PRs 9.92/kWh, (ii) a rationalization surcharge of PRs 1.86/kWh, (iii) debt servicing surcharge (DSS) of PRs 0.43/kWh, and (iv) Neelum-Jhelum Surcharge of PRs 0.1/kWh. The current notified electricity tariffs for users at 0-50 kWh/month of PRs 2/kWh will be retained.

(i) The weighted average tariffs on electricity consumers' electricity consumption is defined as follows

Weighted Average Notified Tariff for electricity consumers =

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

+ Residential Users Tariff Rate for each category x DISCOs' estimated sales to Residential Users for each category

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

+ 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)

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

+Agriculture Tube-wells Tariff Rate for each category x DISCO's estimated sales to Agriculture Tube-wells Users for each category

+ 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, AJ&K Users, and Agriculture Tube-wells)

= PRs 9.92 kWh

(ii) Rationalization surcharge PRs 1.86/kWh to reflect sector operation costs not recovered through the tariff. It consists of the following: (i) line losses not recognized by NEPRA; (ii) noncollections not recognized by NEPRA; (iii) financing costs due to delays in tariff determination; (iv) zero-out subsidy in non-residential consumers; and (v) cost of equalizing tariffs across DISCOs.

(iii) Debt servicing surcharge (DSS) to cover the servicing the Syndicated Term Credit Financing (₹31 and table below) of PRs 0.43/kWh which is defined as follows:

DSS FY2015/16 = Total Annual Interest Paid on STCF balance/Estimated volume of electricity sales in FY 2015/16 (excluding lifeline and FATA domestic consumers assumes collections at the actual rate of 92 percent and base case losses of 18 percent).

$$= \text{PRs } 29.3(\text{billions})/68(\text{TWh}) = \text{PRs } 0.43/\text{kWh}.$$

STFC Debt Service (PRs billions)	Q1	Q2	Q3	Q4	Total
FY2014/15	9.0	6.9	9.4	7.0	32.2
FY2015/16	8.8	5.5	9.8	5.2	29.3

(iv) Neelum-Jhelum Surcharge to contribute to the financing needs for the Neelum-Jhelum Hydropower Project. It will be levied at a rate of PRs 0.10/kWh on all classes of consumer except the lifeline consumption of 0-50 kWh/month.

21. **The stay order on FY 2013/14 surcharges (MEFP 129).** The court stay order increased the payment arrears by around PRs 32 billion for the February—June 2015 period (see Table below). All surcharges are defined as Neelum Jehlum, equalization, and debt servicing surcharge—accrued mark up.

Surcharges	Financial Impact* (PRs billion)
Neelum-Jhelum @ PRs 0.1/KWh	3
Equalization@ PRs 0.13/KWh	4
Above Equalization@ PRs 0.47/KWh	13
Debt servicing surcharge (STFC) @ PRs 0.43/KWh	12
Total	32

*Calculations at sales of 28,000GWh for Feb-June 2015

22. **Monitoring mechanism to track stock and flow of payables (₹31).** The stock of payment arrears include the payables of PRs 280 billion, and the stock of PHCL of PRs 335 billion as of end-March 2015. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) for FY2014/15 and FY2015/16 and its components are given in the following Table:

(In Billion of Rupees)	2014/15	2015/16				2014/15	2015/16
	Q4	Q1	Q2	Q3	Q4	Total	Total
Nonrecoveries	16	20	15	12	17	105	64
Accrued Markup	8	-	-	-	-	12	-
Excess line Losses	8	12	9	7	10	16	37
GST Non Refund	5	-	-	-	-	19	-
Late Payment Surcharge	4	1	1	1	-	14	3
Delayed Determinations	2	2	2	2	2	9	9
Total (flow)	42	36	27	22	29	176	113
Total (stock)	322	358	385	407	436		

C. Adjustors

23. **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.

24. **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).

25. **The ceiling on the consolidated overall budget deficit** (excluding grants) for FY2014/15 will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 15 billion at end-September, PRs 25 billion at end-December, PRs 42 billion at end-March, and PRs 50 billion at end-June. The ceiling for FY2014/15 will be adjusted downward for any shortfall in federal development 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 for FY2015/16 will be adjusted downward for any shortfall in federal development spending (excluding one-off spending included in the below adjustor for security enhancements related to fighting terrorism and resettlement of internally displaced persons) below PRs 35 billion at end-September, PRs 90 billion at end-December, PRs 250 billion at end-March and PRs 510 at end-June. The ceiling will be

adjusted downward for any shortfall in the targeted cash transfers (BISP) and it will be adjusted upward for over performance in the BISP up to PRs 12 billion in FY2014/15 and PRs 6 billion in FY2015/16 from their indicative targets. In FY2015/16, the ceiling will be adjusted upward for one-off spending of up to PRs 100 billion in total on security enhancements related to fighting terrorism (budget code: ID 8262, demand no. 114, Development Expenditure of Finance Division) and resettlement of internally displaced persons (budget code: ID 8261, demand no. 114, Development Expenditure of Finance Division).

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

- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA Investment Ltd—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

26. **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 <i>nostro</i> 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	Mar-16	June-16	
				Projection	Actual	Sixth review	Projection				
Multilateral and bilateral disbursement	2,943	1,270	1,098	2,006	950	2,562	2,855	990	1,670	1,605	1,992
<i>of which: in cash 2/</i>	2,608	407	543	1,400	764	1,850	2,384	548	1,246	1,141	1,453
International debt issuance	2,000	0	1,000	0	0	0	0	0	500	0	500
Coalition Support Fund	375	735	0	717	717	360	360	240	225	225	225
Other 1/	831	0	0	20	0	450	784	0	0	300	0
Gross Inflows	6,149	2,005	2,098	1,667	1,667	3,372	3,999	1,230	2,395	2,130	2,717
<i>of which: in cash</i>	5,814	1,142	1,543	2,137	1,481	2,660	3,528	788	1,971	1,666	2,178
Debt service	943	989	1,110	1,157	1,078	1,515	1,555	1,046	878	2,184	1,336
<i>Memorandum items</i>											
<i>Gross International Reserves</i>	9,096	8,943	10,514	11,615	15,275	14,115	14,296	15,646	15,436	17,018	
<i>Program Net International Reserves</i>	1,800	3,000	3,500	5,000	6,750	7,300	8,300	9,000	9,300	9,700	

1/ Includes privatization and 3G licenses.

2/ Numbers need to be confirmed with the MoF.

3/ As of February 9.

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	Mar-16	Jun-16
Non Tax revenue	322	353	1206	735	0	717	360	240	225	525	225
Of which: Coalition Support Fund	322	353	375	735	0	717	360	240	225	225	225
3G Licences	0	0	831	0	0	0	0	0	0	300	0
Grants	100	1538	151	147	346	147	325	220	297	229	267
External interest payments	202	155	215	174	289	156	356	208	328	182	356
Net external debt financing	50	-115	3501	273	1209	-56	1497	30	1346	-86	1232
Disbursements	645	760	4713	871	1845	851	2550	791	1893	1395	2245
<i>of which budgetary support</i>	309	285	2042	23	23	520	1549	49	786	559	755
Amortization	594	875	1212	598	636	907	1053	761	547	1482	1012
Privatizations	0	0	5	0	0	0	784	0	0	0	0
Memorandum item											
<i>Program financing</i>	409	1823	2198	170	369	667	2658	269	1082	788	1022

Table 4. Government Sector (Budgetary Support)
(End-of-period stocks/PRs. Millions)

Item	June 30, 2013	June 30, 2014	Prov.
			March 31, 2015
Central Government	5,561,994	6,059,496	6,714,169
Scheduled Banks	3,320,870	3,491,821	4,689,181
Government Securities	1,117,115	2,413,134	3,088,871
Treasury Bills	2,611,512	1,550,476	2,112,681
Government Deposits	-407,757	-471,789	-512,371
State Bank	2,241,124	2,567,674	2,024,988
Government Securities	3,127	2,786	2,786
Accrued Profit on MRTBs	44,959	82,070	42,506
Treasury Bills	2,275,183	2,852,274	2,247,601
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,247,092
Treasury Currency	8,653	8,654	7,988
Debtor Balances (Excl. Zakat Fund)			
Government Deposits	-96,260	-383,571	-281,356
(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	-701,583
Scheduled Banks	-287,393	-352,258	-372,438
Advances to Punjab Gc Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-373,462
State Bank	-28,214	-157,880	-329,145
Debtor Balances (Excl. Zakat Fund)	13,715	802	1,480
Government Deposits (Excl. Zakat Fund)	-41,930	-158,682	-330,625
Net Govt. Budgetary Borrowings from the Banking system	5,246,387	5,549,357	6,012,586
Through SBP	2,212,910	2,409,794	1,695,843
Through Scheduled Banks	3,033,477	3,139,563	4,316,743
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	44,959	82,070	42,506
Scheduled banks' deposits of Privatization Commission	-5,433	-6,438	-7,276
Outstanding amount of MTBs (Primary market; discounted value)	2,529,412	1,525,175	2,053,119
Net Govt. Borrowings (Cash basis)			
From Banking System	5,124,762	5,448,424	5,917,793
From SBP	2,167,951	2,327,724	1,653,336
From Scheduled Banks	2,956,811	3,120,700	4,264,456