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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

September 15, 2015

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

Dear Ms. Lagarde,

Reaching the eighth review under our three-year economic reform program, we continue to make significant progress with our economic policies. Risks present at the beginning of the program have greatly receded as we have reduced our budget deficit and rebuilt our foreign exchange buffers. Alongside, we have rationalized untargeted energy subsidies, while significantly expanding coverage under the Benazir Income Support Program (BISP) to protect the most vulnerable segments of society.

Looking ahead, we remain strongly committed to achieving the remaining objectives of the program. In this context, we focus on reinforcing and building on our recent macroeconomic stability gains, and on advancing further structural reforms to achieve higher, sustainable, and inclusive economic growth. A major goal in this regard is to continue to widen the tax net to generate the necessary resources for higher infrastructure and social spending while strengthening public finances. In addition, we are addressing the circular debt issue in the power sector, continuing to build foreign exchange reserves buffers to strengthen resilience in the face of external shocks, reinvigorating our plans for privatization and restructuring of public enterprises, and creating 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, despite some slippages, our performance on the eighth review has been broadly satisfactory:

Quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2). End-June 2015 quantitative performance criteria (PCs) on the SBP's net international reserves, net domestic assets (NDA), and foreign currency swap/forward position were met. However, the PCs on the fiscal deficit and government borrowing from the SBP were missed, as were the indicative targets on tax revenue and power sector payment arrears. The indicative target on social spending under the Benazir Income Support Program (BISP) was missed by a very small margin due to savings in administrative costs even though the target for number of beneficiaries was achieved. We have taken action to ensure that fiscal performance (including revenue) and government borrowing from the SBP are on track to meet the remaining quarterly targets under the program, as outlined in the

attached MEFP. We request waivers of nonobservance for the missed performance criteria based on our corrective actions. The structural benchmark on making the improved interest rate corridor of the SBP operational was met in advance of the targeted date of end-September.

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 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. We propose to modify the end-September PC on NDA in line with our revised monetary projections and set new PCs for December 2015 as specified in the attached MEFP, and completion of the eighth 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, March 12, 2015, and June 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

1. **Economic activity has remained robust.** We expect, for program purposes, that real GDP growth will reach about 4.5 percent in FY 2015/16. However the government retains its goal of achieving growth of 5.5 percent this fiscal year. Risks are broadly balanced. Lower oil prices, planned improvements in the supply of gas and electricity, and investment related to the China Pakistan Economic Corridor (CPEC) are supporting growth, while the recent deceleration of private credit growth and export weakness constitute downside risks. Headline consumer price inflation fell to historic lows at 1.7 percent y-o-y in August, 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.
2. **International reserves strengthened, helped by an improved current account in FY 2014/15, despite a decline in exports.** The decline in exports was driven by lower commodity prices, weakening external demand, ongoing energy shortages, security and business climate challenges, and significant appreciation of the real effective exchange rate. However, as this decline in exports was more than offset by low oil prices and strong growth of remittances, the current account deficit narrowed to 0.8 percent of GDP. With this, gross international reserves reached US\$13.5 billion by end-June 2015; covering more than three months of imports, up from US\$11.6 billion at end-March 2015. Looking ahead, we expect further improvement in our foreign reserve coverage to about four months of imports by end-FY2015/16.
3. **Fiscal performance in FY2014/15 fell short of the program targets.** The PC on the general government budget deficit excluding grants was missed by PRs 102 billion (0.37 percent of GDP). This deviation was due largely to higher year-end spending by some provinces. Even though the indicative target on federal tax revenue was missed, the federal government contained spending to meet its share of the general government deficit target, despite unforeseen expenditures of PRs 53 billion on account of Zarb-e-Azb military operations, hosting of Temporarily Displaced People (TDPs) and for relief and rehabilitation works in flood affected areas. On the revenue front, despite the legal challenges to some revenue measures, the fall in international commodity prices, and lower inflation, the tax-to-GDP ratio increased by 0.5 percentage point to 11 percent in FY2014/15. We missed the end-June indicative target on targeted cash transfers through the Benazir Income Support Program (BISP) by a small margin explained by savings in the administrative costs, although we met our goal to expand the BISP coverage to 5 million beneficiaries.
4. **Despite an increase in money growth, private sector credit growth decelerated.** We met the end-June NIR target with a margin of over US\$440 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 met the end-June NDA target by PRs 19 billion, despite the fact that net government borrowing from the SBP was above the program target by PRs 28 billion. As a result of these developments, reserve money grew by 9.9 percent y-o-y in June 2015, and broad money grew by 13.2 percent y-o-y in June 2015. Nonetheless, private sector credit expansion slowed down to 5.6 percent y-o-y in June amid falling inflation, while government borrowing from the banking system increased by 16 percent y-o-y.

Economic Policies

A. Monetary and Exchange Rate Policies

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

5. **We are continuing to build foreign exchange reserve buffers to reduce external vulnerabilities.** We are doing so by taking full advantage of the oil price windfall, while recognizing the need to strengthen our trade competitiveness, which has eroded in part due to pronounced movements in global foreign exchange markets. We request modification of the end-September performance criteria (PC) on NDA of the SBP, and propose to set subsequent PCs accordingly (Table 1).
6. **Our monetary policy stance is consistent with current economic conditions.** With declining core and headline inflation, we lowered the reverse repo rate by cumulative 350 bps since November 2014. We will continue to set the policy rate in a forward-looking fashion to keep the real interest rate positive and to anchor low inflation expectations.
7. **The improved interest rate corridor will enhance our monetary policy framework.** The new corridor, put in place in May 2015 (significantly ahead of the end-September 2015 SB) provides stronger guidance for short-term market interest rates and improves liquidity management in the interbank market. Concurrently, we established a new policy rate, which now stands at 6 percent, with the ceiling of the interest rate corridor at 6.5 percent and the floor at 4.5 percent. The transition has been smooth so far, supported by more frequent open market operations. The revised framework has also increased interbank market activity and reduced banks' use of the SBP's standing facilities.
8. **Further strengthening the SBP's independence is key for an improved monetary policy framework.** We submitted revised amendments to the SBP Act to the relevant parliamentary committee of the National Assembly in mid-March. 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. These amendments were approved by the National Assembly in August and we expect to enact them by end-September 2015

(SB), following approval in the Senate. In addition, we are working with IMF staff to address the remaining recommendations of the 2013 Safeguards Assessment by June 2016.

9. **In parallel, we are taking additional steps to enhance internal SBP operations.** The SBP has prepared a strategic plan for the period 2016–20, reviewing the organizational set-up of the SBP relative to international best practices, with a view to increasing efficiency, improving inter-departmental coordination, removing overlapping functions, and undertaking new initiatives to improve the overall working of the Bank. We published this plan on August 14, 2015.

B. Fiscal Policy

10. **While the budget deficit target was missed in FY2014/15, we are determined to continue on a path of gradual fiscal consolidation.** To place the debt-to-GDP ratio on a firmly declining trajectory, cement macroeconomic stability, and set the stage for sustainable and inclusive growth, we remain committed to lowering the budget deficit to 3½ percent by the end of the program in FY 2016/17, mainly through revenue mobilization across all layers of government. This will create the much-desired fiscal space for priority spending on infrastructure, education, healthcare, and targeted social assistance to improve living standards across the country and to protect the most vulnerable segments of society.

11. **We stand ready to take additional revenue measures to attain our budget deficit target of 4.3 percent of GDP (excluding grants) in FY2015/16** (including an adjustor of 0.3 percent of GDP for critical one-off spending). While we feel confident that we can meet the FY2015/16 fiscal deficit and revenue targets on current policies, we are mindful of the potential challenges to our fiscal targets, for example, from the renewed fall in international commodity prices and lower domestic inflation. To mitigate these risks, we would take additional revenue measures, including to bring forward plans to eliminate SROs slated for 2016–17.

12. **We will continue to manage budgetary spending prudently.** We will reduce power subsidies (including amounts for arrears clearance) to 0.4 percent of GDP in FY2015/16, from 0.8 percent in FY2014/15. We will reallocate current spending to accommodate for additional agricultural support. To protect against a potential negative outcome of legal challenges to electricity surcharges, we will take mitigating measures (₹131). 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. To this end, total provincial spending will be maintained at 6.5 percent of GDP in FY2015/16, with total provincial own tax and nontax revenues standing at 1.1 percent of GDP. We will intensify our interaction with provincial authorities at a higher level to arrive at a mechanism to strengthen the provinces' fiscal commitment for FY 2015/16. We will also hold monthly meetings among the federal and provincial Finance Secretaries to review fiscal performance and coordinate spending priorities to correct any slippages in a timely manner, and will update IMF staff on the outcome. We will again reduce expenditure allocations in the first nine months of the year compared to the budget to create a reserve against any deviation.

13. **We are renewing our efforts to strengthen tax revenue mobilization with a growth-friendly reform agenda.** Over the past two years, we have carried out an ambitious program of tax reforms: (i) eliminating decades old distortive and discriminatory tax exemptions and concessions amounting to PRs 224 billion; (ii) introducing the concept of differential taxation to reward compliance and penalize noncompliance; (iii) reengineering and automating business processes and procedures in tax administration; and (iv) initiating far-reaching tariff liberalization and putting in place measures to bring about behavior change among taxpayers. In addition, the Federal Board of Revenue (FBR) did not grant any new tax concessions and exemptions and the government did not issue concessional Statutory Regulatory Orders (SROs), except under exceptional circumstances. Furthermore, parliament approved the legislation permanently removing the government's authority to grant tax concessions or exemptions. Such concessions and exemptions are now in the purview of parliament, except in a number of specified exceptional circumstances, in which the Economic Coordination Committee (ECC) of the cabinet can grant them on a temporary basis. Nevertheless, while we have steadily raised the tax-to-GDP ratio, it still remains low and we continue to see great scope to increase tax revenue by broadening the tax base, strengthening tax administration, and shifting the tax composition from indirect to direct taxes in an efficient and equitable way. Our objective is to raise the tax-to-GDP ratio to 14.5 percent by FY2019/20. To this end, we will further streamline tax concessions and exemptions, except for goods with social priority, well-targeted export incentives, and those related to bilateral trade agreements and international conventions. As part of the FY2016/17 budget, we will continue to simplify the GST regime and move toward a single standard rate and limited exceptions and exemptions, and to improve the taxation of capital gains, including on real estate investments.

14. **We are committed to modernizing the GST regime and dealing with the backlog on GST refund claims at a faster pace.** We will continue making efforts to optimize the GST on goods and services in close coordination with provincial revenue authorities before the FY2016/17 budget is presented to parliament. We managed to lower the number of outstanding GST refund claims by over 75 percent by the end of FY2014/15. Furthermore, we increased the GST refund payments by 35 percent over the previous year, while the collection of domestic GST registered only a 6.2 percent increase. As a result, the stock of unpaid GST refund claims declined from the peak of PRs 113.2 billion in November 2014 to below PRs 95 billion at end-June 2015. The FBR will formulate and implement a comprehensive plan to resolve unpaid GST refund claims, including the introduction of an automated system of pre-verification in addition to the current system of post-verification. In the meantime, the FBR will fast-track processing and payment of GST refund claims. Our aim is to bring the stock of GST refund claims to a level consistent with no more than a three-month flow of claims (estimated at PRs 20 billion).

15. **Recent efforts to enhance tax administration have yielded gains, but the gap between potential and actual tax collections remains.** We met our target to issue 200,000 first notices by end-June 2015, to bring more potential taxpayers into the revenue base. This helped increase the number of taxpayers filing for income tax return from 722,000 on July 1, 2013 to 912,000 as of August 4, 2015. We have also started a new initiative in FY2014/15 to bring retail trade into the tax net. Under this initiative, retail trade is bifurcated into two tiers. Small retailers (Tier 2) are being

charged GST as part of their monthly electricity bills at varying rates according to the amount of electricity consumption. Large retailers (Tier 1) are being registered under the GST law. Out of 15,000 large retailers identified, we already registered 6,000 retail outlets in FY2014/15.

16. We will accelerate tax administration reforms to improve compliance and enforcement, which are critical to realize our revenue potential. We will continue to strengthen the culture of taxation by aggressively pursuing tax evaders, avoiding tax amnesty schemes, and adopting a program of comprehensive reform of the tax institutions. We will further improve our enforcement efforts on nonfilers who have the potential to contribute at least the average tax paid by currently registered taxpayers and especially large corporations and high wealth individuals.

- We will continue to improve the FBR's information technology infrastructure and expand its access to taxpayer information. We are integrating the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database (SB, end-September 2015). All financial and property transactions by individuals require CNIC numbers, which will help the FBR in its tax broadening efforts.
- Our tax audit initiatives have shown great success. With the number of audits increasing from 3,000 in FY2010/11 to 62,335 in FY2012/13, additional tax assessments surged from PRs 1 billion to PRs 50 billion over the same period. The FBR is in the process of adopting a new audit policy that will move towards risk-based auditing to identify those taxpayers who are most likely to be noncompliant (SB, end-September 2015). While retaining elements of random selection to ensure taxpayer compliance, the FBR is developing a modern compliance risk management system with quantitative performance indicators (such as the number of risk-based audits and the quality of audits as measured by the amount of detected tax evasion).
- The income tax law has been amended to provide the FBR with full access to bank accounts and transactions, with a view to minimize the risk of tax avoidance and evasion. A series of legal challenges, however, has delayed operationalization of this provision. While we are actively pursuing a legal resolution, the FBR is strengthening its intelligence capacity to gather financial information, particularly on high wealth individuals, from multiple sources including real estate transactions, motor vehicle procurement, survey of palatial houses, and international travel
- By end-January 2016, we will prepare and submit to the National Assembly draft legislation against "benami" transactions, in which assets are held by or transferred to a person, but have been provided for, or paid by, another person (new SB).
- We will require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments (prior action). In addition, the FBR will start monitoring the penalties imposed by its field officers.

- We will streamline the online filing scheme (which will facilitate registration and filing of PIT returns by simplifying the tax return form) and maintain the coverage of tax audits at 7.5 percent of filed tax returns.
- We will establish a tax policy research and analysis unit under the Revenue Division to improve our analytical capacity for fiscal policymaking.

17. **We place emphasis on taking measures to improve governance and reduce the likelihood of corruption in tax administration.** We have established an integrity management unit in the FBR and collected asset declarations of all FBR employees. We will further strengthen the integrity management unit by identifying potential processes within the FBR that could strengthen its anti-corruption structures, including in the Directorate General of Internal Audit, by end-November 2015. We will simplify tax laws and procedures and work with provinces to consolidate collection of provincial taxes and fees to make it easier for taxpayers to meet their obligations and at the same time eliminate opportunities for corruption by limiting the discretion of tax officials. We will also expand the IRIS (an end-to-end integrated IT system) to all business areas throughout the FBR's network of offices to further reduce discretion in tax administration. In addition, following the ratification of the whistleblower law for tax crimes, we will establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration, the aggregate results of which we will publish on a quarterly basis, starting in January 2016.

18. **Strengthening the Fiscal Responsibility and Debt Limitation (FRDL) Act will provide better policy guidance and anchor debt sustainability.** Pakistan adopted the FRDL Act in 2005, setting out the principles of sound management of public finances. Having worked with the law for the last 10 years, it is time to evaluate its efficacy in meeting its basic objectives, and also to ensure that it is in line with the emerging international best practices. Accordingly, we will seek the Fund's advice on options to strengthen the FRDL Act in terms of operational and procedural aspects, such as an appropriate fiscal policy anchor, medium-term orientation of the budget process, and policy coordination across all layers of government. In this context, we will also work to improve the policies and procedures for government guarantees and risk management, even though the size of government guarantees (about 2.3 percent of GDP in FY2014/15) is not significant. The exercise will enable us to follow international best practices to systematically account for the fiscal costs and contingent liabilities associated with the broader public sector operations including SOEs, public-private partnerships (PPPs), and special purpose vehicles (SPVs). To this end, we will seek technical assistance from the Fund to develop a PPP framework at the federal level.

19. **We aim to better balance devolution of revenue and expenditure responsibilities between the federal government and provinces.** With recent constitutional amendments, Pakistan has a highly decentralized system of government. The seventh NFC award grants 57.5 percent of most revenues to the provinces, along with devolution of spending responsibilities and administration of the GST on services in addition to the existing taxation authority in agriculture and property. In the new round of NFC negotiations, we will seek an agreement to balance devolution of revenue and expenditure responsibilities in a way that allows for macroeconomic stability. The Federal Government will encourage provinces to improve provincial revenue collection

to generate additional resources for priority spending in areas such as health and education. To this end, the Federal Government will encourage provinces to modernize agriculture taxation and to develop a strategy to identify mis-declarations in this area, and to establish a centralized electronic cadastre to better record transactions and assess real estate tax for each property based on periodically updated market valuation.

20. **We will ensure that the budget preparation process takes into account the impact of fiscal policy on gender equality.** The ultimate objective of our economic program is to unlock Pakistan's growth potential and achieve inclusive growth that benefits every section of society. In this context, gender equality is a key factor contributing to rapid and broad-based economic growth. While improving gender equality in education and raising labor force participation among women require a wide range of policy initiatives, we will enhance the budget preparation process to better incorporate gender equality. To this end, we will reinvigorate the work on gender-disaggregated analysis in consultation with the UNDP and prepare a plan for gender-responsive budgeting to be implemented across all layers of government in FY2016/17.

21. **We continue our support to the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP).** As of end-June 2015, we have reached 5 million beneficiaries. While we have slightly missed the indicative target for transfer payments, this is attributable to savings on administrative expenses. 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). In order to improve the service delivery to the beneficiaries and to reduce cost, we have already signed amendments in the contracts executed with the commercial banks working with BISP. Consultation with our development partners to assess the need and benefits of going into new contracts is going on. Decision in this regard is expected to be reached by September 2015 and if need is felt for hiring new banks, transition plan would be finalized by October, 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 rolled out education-conditional cash transfers. As of end-June 2015, we are disbursing in 32 districts.

C. Fiscal Financing

22. **We are committed to improve fiscal cash management.** We missed the end-June target on government borrowing from the SBP by PRs 28 billion, mainly due to a delay in the arrival of some planned foreign inflows and higher end-year spending by provincial governments. This points to the need to improve our cash management system. In the meantime we have taken remedial actions to bring government borrowing within program targets and as an intermediate step, brought net borrowing from the SBP to below PRs 1830 billion at end-August (prior action).

23. **We will strengthen the institutional framework for debt management.** In light of the recently increased reliance on domestic bank financing, we intend to increasingly diversify our sources of financing, including by measured use of external financing. More broadly, with interest payments still accounting for about 36 percent of total federal expenditure in FY 2014/15 (4.8 percent of GDP), we realize the need to reduce rollover risks, fully assess off-budget fiscal risks, diversify financing from both domestic and external sources, lengthen the maturity profile of domestic debt, and improve the balance between domestic and external debt. To this end, we will improve the effectiveness of the Debt Policy Coordination Office (DPCO) and its integration in the Ministry of Finance's core functions. We will build up its staffing capacity for the swift implementation of an optimal borrowing strategy. We have already taken steps to synchronize the rate setting between domestic retail and wholesale debt markets. Specifically, to achieve savings in, and more effective decision-making for, government borrowing, we will:

- Continue to provide Fund staff with a detailed quarterly financing plan for the coming 12 months and publish our rolling quarterly issuance program for domestic public securities;
- Update the Medium Term Debt Management Strategy (MTDS) covering the period FY2015/16–FY2018/19 (preparation of a draft by end-November 2015 and publication by end-January 2016); and
- By end-October 2015 (SB), appoint risk management staff (director and two staff) and publish 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.

D. Financial Sector

24. **The banking sector remains sound, with high earnings and strong solvency.** The pre-tax profit of the system rose 52 percent y-o-y in June, 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) remained at 17.2 percent, significantly above the 10 percent minimum requirement. As of end-June 2015, asset quality has remained stagnant with the nonperforming loans (NPLs) ratio at 12.6 percent, and the ratio of net NPLs to net loans at 2.7 percent. To further improve market discipline and enhance the assessment of the soundness of the financial sector, the SBP has finalized a set of encouraged financial soundness indicators with support from the IMF.

25. **The SBP is making progress in bolstering banks that are below regulatory capital requirements.** With a rights issue in the last CAR noncompliant bank in July 2015, the capital shortfall in all previously CAR-noncompliant banks has been addressed. Five small banks, while remaining CAR-compliant, are still below the minimum capital requirement (MCR). We are following our bank-specific, time-bound plans to bring these entities into regulatory compliance by raising equity or privatizing them by June 2016.

26. **We are protecting financial stability by reinforcing the regulatory and supervisory framework.**

- 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.
- The Futures Trading Bill is being finalized to enhance efficiency and transparency and will be placed before Parliament by end-September 2015.
- A working group of the SBP-SECP joint task force is finalizing the guidelines for an early warning system for the effective monitoring and supervision of financial conglomerates. With support of IMF technical assistance, we are developing a framework for consolidated supervision of banking groups.
- To improve the recovery of NPLs without banking court intervention 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 has been shared with stakeholders.
- 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 systemically important banks (D-SIBs). The SBP had already conducted and published an initial assessment of identification of the D-SIBs and is working on developing the monitoring mechanism.

27. **We are gradually transitioning to Basel III capital and liquidity standards.** We are phasing in the implementation of strengthened capital adequacy standards. The CAR requirement will increase to 10.25 percent by December 2015, with further gradual steps toward 12.5 percent by 2019. We are also in the process of developing a strategy for adopting Basel III liquidity rules.

28. **Instituting a modern deposit insurance scheme will strengthen the stability and resilience of the banking system.** The draft Deposit Protection Fund (DPF) Act has been finalized in line with best international practices (as specified in the TMU) and is expected to be enacted by end-February 2016 (modified SB). In the meantime, the SBP has initiated 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 March 2016.

29. **We continue strengthening the anti-money-laundering and combating of financing of terrorism (AML/CFT) framework.** Parliament is discussing draft amendments to the Anti-Money-Laundering Act (AMLA) that will include serious tax crimes in the Schedule of Offenses and enable the use of AML tools to combat tax crimes. We are committed to adopting these amendments (as defined in the TMU) by end-November 2015 (modified SB). 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 goAML¹ 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.

E. Energy Sector Reforms

30. **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, and allocating an additional 0.1 percent for arrears clearance, 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.

Power Sector

31. Price Adjustments.

- In June 2015, we notified the FY2014/15 tariff, as determined by NEPRA, and implemented surcharges in line with the program targets as defined in the TMU. We are committed to protect the level of revenue in the electricity sector by adjusting prices as needed. We will undertake all necessary measures to ensure the full recovery of costs from consumers.
- We are ensuring that technical loss diagnostic studies for all DISCOs will be finalized shortly so that better estimates of loss rates can be considered by NEPRA in its FY2015/16 tariff determination by end-October 2015.
- We are committed to gradually phasing out untargeted subsidies, while continuing to protect the most vulnerable consumers.

¹ The goAML application is a UNODC strategic response to financial crime including money laundering and terrorist financing.

32. **Arrears (Circular Debt).** We have developed a monitoring mechanism to track the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited, PHCL) (as defined in the TMU). There are two main components of the stock this circular debt:

- The payables in the power sector stand at PRs 313 billion at end-June 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; (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads (vii) PHCL loan servicing, and (viii) payables to cross border trade.
- The stock of past arrears, including the PHCL, in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-June 2015.

33. **We have 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 PRs 209 billion in FY 2014/15 (including the PHCL loan) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY2018/19 (Table 1). We have missed the end-June IT on the flow of power sector arrears, due to a temporary delay in implementation of the plan in two regions. However, the full amount of the deviation will be recovered during the current fiscal year and we remain on track to meeting upcoming quarterly targets.

- We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in FY2014/15 remained at 18.7 percent. Collections declined on average by 1 percent to 88.1 percent, primarily due to two DISCOs. More broadly, to address increased losses in some DISCOs, the chief executives and some members of senior management of poorly performing DISCOs 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.
- Taking advantage of the room created by 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.
- 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.

- 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. In the meantime, we will continue to fully service the PHCL obligations.

34. **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 nine DISCOs. We have begun monitoring the performance indicators on a monthly basis 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. We will further enforce performance through setting quarterly loss-reduction, collection, and recovery targets (as defined in the TMU) consistent with our arrears reduction plan for each DISCO by mid-October 2015 (new SB). The amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 were 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.

35. **Demand Side Management.** To improve resource allocation and energy efficiency, we will use pricing (¶31) and other market-based instruments. We will finalize the required approvals to begin Advanced Metering Infrastructure (AMI) by end-September 2015, which will be initially implemented in LESCO and IESCO to help 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.

36. **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 include around 1300 MW in 2015 and are expected to add an additional 700 MW in generation capacity in 2016. Beyond this, 8.3 GW generation capacity is envisaged through FDI under the CPEC over 2017-2021, with additional capacity

expected to come on stream in the longer term. Power purchasing agreements with investors should be agreed in a way that mitigates potential fiscal risks.

37. **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 to determine multi-year tariffs. To facilitate the transition, DISCOs prepared five-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 (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 an Administrative Agreement towards making CPPA(G) functional.

38. **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 CPPA(G) 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 (1145). We have begun the process of introducing competitive pricing and direct contracting between power producers and wholesale customers in the power sector. To that end, we introduced the necessary policies and timeline through an ECC decision.

Oil and Gas Sector

39. **Supply.** To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports at the end of 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 will finalize the contractual agreements with all relevant parties. We will also finalize the independent power producers' letters of credit by September 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.

40. **Pricing.** In December 2013 we devised 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, we have converted 92 concessions with the remaining 28 that are currently being reviewed in the Ministry of Petroleum and Natural Resources to be completed by end-September 2015, subject to determination of eligibility under the 2012 Policy. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy and are expecting to award an 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) was partially recuperated in the new tariff which was notified and implemented, as prior action, in line with the OGRA determination, on August 31, 2015. Further, the remaining losses will be recuperated in the January 2016 gas price notification. 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 tariff on a monthly basis.
 - The National Assembly passed the GIDC Act which was signed by the President on May 21, 2015. We have taken measures to recover PRs 57 billion in FY 2014/15. We will continue to focus on areas where collecting agents have already collected the GIDC in their prices, in accordance with the GIDC Act.
 - We are also evaluating the downstream gas business with the objective of reducing inefficiencies in the transmission and distribution segments. In this respect, the World Bank awarded a contract to consultants at the end of June 2015 to support our study of 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.
41. **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 appointed the Member Finance, but were not able to select the Member Oil and re-advertised the position with revised criteria.

- We will further encourage bilateral contracting between producers and consumers. OGRA is reviewing 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 (UFG) is on average around 11 percent due to commercial and technical losses. The gas companies submitted loss reduction plans to the MPNR in May 2015 and Sui Southern Gas Company is working with the World Bank on the Natural Gas Efficiency Project (NGEP).
- 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-September 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.

42. **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 (¶26). 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 begin to pilot commercial courts in Lahore 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 39 income and sales tax processes that required elimination or streamlining. Based on this review, we took measures to streamline, simplify, and automate procedures and processes and we developed 8 IT-based modules. We have launched the integrated end-to-end IT solution (IRIS) on the following 8 processes: registration, declaration, audit/assessment, rectification, penalty, default surcharge, refunds, and exemption certificates. We will continue to streamline and fine-tune the system based on the feedback we receive from the taxpayers and in accordance with international best practices.

43. **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. In June 2015, SBP issued guidelines to banks to facilitate the opening of bank accounts for the unbanked population to meet the National Financial Inclusion Strategy (NFIS) target of 50 percent adult population with bank accounts by 2020. We are devising plans to strengthen the financial literacy of these new client groups. As a critical component of the NFIS to improve the credit information system and help banks extend credit to broader sections of society, the Credit Bureau Bill has been enacted in August 2015 (end-November 2015 SB). Among other priorities, the Act will ensure that credit information sharing will protect the privacy rights of individuals.

44. **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 plan to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 2 and 20 percent rates with fewer exceptions.² The FY2015/16 budget reduced tariff slabs from six to five and further eliminates trade-related SROs. Implementation of the new tariff structure that will reduce the slabs from five to four will be completed by July 2016.
- **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.

45. **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 ten companies, (listed in the TMU), in the oil and gas, banking, and insurance 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 (as defined in the TMU) the sale of minority shares of State Life Insurance Corporation by end-March 2016, and Mari Petroleum Limited and Pak Arab Refinery Limited (PARCO) by end-June 2016. We are working towards updating the roadmap for the remaining three companies in the list.
- **Strategic Private Sector Participation.** We have identified 25 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.

² 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. We will complete the bidding process by end-June 2016 (new SB) leading to finalization of the transaction by end-September 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 the bidding process by end-June 2016 and finalization of the transactions by end-September 2016. We hired financial advisors for Gujranwala Electric Power Company (GEPCO) in April 2015; and for Hyderabad, Peshawar, Quetta, Sukkur, and Multan Electric Supply Companies (HESCO, PESCO, QESCO, SEPCO, and MEPCO) in May 2015. We expect finalization of these transactions in 2016 and 2017.
- **Other companies.** The planned sale of Heavy Electrical Complex (HEC) in May 2015 had to be cancelled as the winning bidder could not provide the funds to close the transaction. We have completed the bidding process for the sale of National Power Construction Co. (NPCC) in August 2015 and will finalize the transaction by end-September 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and expect completion of the bidding process by end-June 2016 with finalization of the transaction by end-September 2016. We have appointed financial advisors for Jamshoro Power Generation Company Limited (JPCL) in April 2015 with completion of the bidding process expected by end-September 2016 and finalization of the transaction by end-December 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 completion of the bidding process expected by end-September 2016 and finalization of the transaction by end-December 2016. In July 2015, we have hired the financial advisor for Kot Addu Power Company (KAPCO), with expected completion of the bidding process for the sale of the government's equity by end-March 2016 and finalization of the transaction by end-June 2016. 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 to seek potential options for restructuring and strategic private sector participation in the core airline business by end-March 2016. The diligence process was completed in August 2015. Detailed plans for private participation are being finalized. We will solicit expressions of interest for strategic private sector participation by end-December 2015 (modified SB).

- **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. However, due to gas supply difficulties, operational efficiency remained around 18 percent. We hired financial advisors in April 2015, completed the due diligence process in August 2015, and expect to complete the bidding process by end- December 2015, and finalize the transaction by end-March 2016.
- **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 and FY 2014/15 by 32 and 45 percent, respectively, through rationalization of tariffs and expenditures and improved occupancy rates. Since April 2014, we have been 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 FY2014/15, we have
- added 35 new locomotives for both passenger and freight service, and more than doubled revenues from freight operations.

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

	FY2014/15			FY2015/16					
	end-March	end-June		end-September		end-December	end-March		end-June
				Program			Projection		
				Seventh Review					
	Target	Adjusted Target	Actual	Target	Revised				
Performance Criteria									
Floor on net international reserves of the SBP (millions of U.S. dollars)	4,290	7,300	4,913	5,354	8,300	8,300	9,300	9,400	10,000
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,372	2,270	2,459	2,440	2,210	2,350	2,350	2,560	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,067	1,387	1,386	1,488	306	306	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,765	1,700	1,700	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/, 3/	1,653	1,865	1,865	1,893	1,800	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
Indicative Targets									
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	69	95	95	94	21	23	46	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,777	2,691	2,691	2,588	640	640	1,390	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	n/a	42	42	57	36	36	27	22	29
Sources: Pakistani authorities; and Fund staff estimates.									

Table 2. Pakistan: Program Modalities and Structural Benchmarks 2015/16

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		Original	Rescheduled		
Prior Actions					
1	Require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments.				Improve tax compliance.
2	Notify and implement the new gas tariff in line with the OGRA determination.	end-August 2015			To prevent potential fiscal costs and gradually align gas prices to international prices
3	Bring net borrowing from the SBP to below PRs 1830 billion	end-August 2015			To make sure that end-September PC is within reach.
Structural Benchmarks					
Fiscal sector					
1	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.
2	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.
3	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.
4	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.
5	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			To allow monitoring of fiscal and financial risks and the implementation of the MTDS.
Monetary sector					
6	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.
7	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.
8	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective in line with Fund Staff advice.	end-September 2015			Prerequisite for an independent monetary policy framework.
9	Make the improved interest rate corridor of the SBP operational	end-September 2015		Met	Improve SBPs liquidity management, and better functioning of the monetary policy framework.

Table 2. Pakistan: Program Modalities and Structural Benchmarks 2015/16 (concluded)

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		Original	Rescheduled		
Financial sector					
10	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
11	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-December 2015	end-February 2016		Enhance the resilience of the financial sector.
12	Enact the Credit Bureau Act	end-November 2015		Met in August, 2015	Extend credit to broader sections of society.
13	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	end-November 2015		Use anti money laundering tools to combat tax evasion, and facilitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
Structural Policies					
14	Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.	end-March 2015		Met	Simplify paying taxes to improve business climate
15	Solicit expressions of interest for strategic private sector participation for the 26 percent of PIA's shares.	end-December 2015		Modified SB	restructure a key loss-making public sector enterprise
16	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.
New Structural Benchmarks					
1	Prepare and submit to the National Assembly draft legislation against "benami" transactions.	end-January 2016			Improve tax compliance and enforcement.
2	Enforce performance through setting quarterly loss-reduction, collection, and recovery targets (as defined in the TMU) consistent with our arrears reduction plan for each DISCO.	October 15, 2015			Tackle losses, raise payment compliance, and improve energy efficiency and service delivery in the energy sector.
3	Complete the bidding process for shares of FESCO.	end-June 2016			To privatize electricity distribution companies in line with arrears reduction plan

Attachment II. Technical Memorandum of Understanding (TMU)

September 15, 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.

G. 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)

H. 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, 2015, the NIR of Pakistan amounted to US\$2,440 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 (excluding regulatory capital deposits of foreign banks with the SBP), international organizations, and foreign nonbank financial

institutions, as well as domestic financial institutions (excluding regulatory capital deposits of domestic financial institutions with the SBP).

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\$1.7 billion at end-June 2015.

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) nonrecoveries 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 and noncollections 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 ¶31). The current notified weighted average electricity tariff is PRs 11.45/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 9.91/kWh, (ii) a rationalization surcharge of PRs 1.54/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 9.91 kWh

(ii) Rationalization surcharge PRs 1.54/kWh to reflect sector operation costs not recovered through the tariff. It consists of the following: (a) line losses not recognized by NEPRA; (b) noncollections not recognized by NEPRA; (c) financing costs due to delays in tariff determination; (d) zero-out subsidy in most of the nonresidential consumers; and (e) 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 ¶31). The court stay order increased the payment arrears by around PRs 37 billion for the November 2014—June 2015 period (see Table below). All surcharges are defined as, equalization surcharges, Neelum Jehlum and debt servicing surcharge—accrued mark up.

Surcharges	Financial Impact (PRs billion)
Equalization@ PRs 0.13/KWh	5
Equalization under Universal Obligation fund@ PRs 0.47/KWh	15
Neelum-Jehlum @ PRs 0.1/KWh	4
Debt servicing surcharge (STFC) @ PRs 0.43/KWh	13
Total	37

22. **Monitoring mechanism to track stock and flow of payables** (MEFP ¶33). The stock of payment arrears include the payables of PRs 313 billion, and the stock of PHCL of PRs 335 billion as of end-June 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) ^{1/2/}	2014/15		2015/16				2014/15	2015/16
	Q4 Target	Actual	Q1	Q2	Q3	Q4	Total	Total
Nonrecoveries	16	28	16	12	10	11	104	49
Accrued Markup	8	9	-	-	-	-	23	-
Excess line Losses	8	12	11	8	7	7	50	33
GST Non Refund	5	4	-	-	-	-	14	-
Late Payment Surcharge	4	2	1	1	1	1	8	5
Delayed Determinations	2	3	3	3	3	3	11	10
Total (flow)	42	57	31	24	20	22	209	98
Stock Clearance			47	63	26	21		
Total (stock)	322	313¹	297	258	250	248		

1/ The decline in actual flow of payables for 2014/15 is due to the impact of delayed determinations based on lower oil prices.

2/ All figures have been rounded to nearest whole numbers.

23. **Structural benchmark on performance of DISCOs** (MEFP ¶134). By mid October 2015, quarterly quantitative targets will be determined by MWP and each DISCO for technical and distribution losses, and collection from current consumers.

24. **Finalization of privatization transaction** (MEFP ¶145). A transaction is ‘finalized’ on reaching financial closure, i.e., funds from the sale are remitted to government accounts.

I. Adjustors

25. **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.

26. **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).

27. **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).

J. 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)

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)
- Kot Addu Power Company Ltd. (KAPCO)
- Islamabad Electric Supply Co. Ltd (IESCO)
- Faisalabad Electric Supply Co. Ltd (FESCO)
- Lahore Electric Supply Co. Ltd (LESCO)
- Gujranwala Electric Power Co. Ltd (GEPCO)
- Mutan Electric Power Co. Ltd (MEPCO)
- Hyderabad Electric Supply Co. Ltd (HESCO)
- Sukkur Electric Power Co. Ltd (SEPCO)
- Peshawar Electric Supply Co. Ltd (PESCO)
- Quetta Electric Supply Co. Ltd (QESCO)
- Lakhra Power Generation Company
- Jamshoro Power Generation Co. Ltd (JPCL)
- Northern Power Generation Co. Ltd (NPGCL)—Thermal Power Station—Muzaffargarh)
- National Power Construction Co. (NPCC)
- Pakistan Steel Mills Corp (PSMC)
- Pakistan Engineering Co Ltd (PECO)
- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA 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)

K. Program Reporting Requirements

28. **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
	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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	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 data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month
	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 categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter
	Federal government	State budget	Monthly	Within 30 days of the end of each month

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	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
Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports;	Quarterly	Within 30 days of the end of each quarter	

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		Number of total transactions involving nonduty free recorded imports		
	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
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection from current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter
	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
		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
Ministry of Finance	Financial statements	Financial statements and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	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	
						7th Review	Projection			
Multilateral and bilateral disbursement	2,943	1,270	1,098	1,002	1,970	990	745	1,830	1,228	1,669
<i>of which: in cash</i> ^{2/}	2,608	407	543	764	1,810	548	520	1,457	829	1,226
International debt issuance	2,000	0	1,000	0	0	0	0	500	0	500
Coalition Support Fund	375	735	0	717	0	240	337	175	175	175
Other ^{1/}	0	0	0	0	764	0	0	0	0	0
Gross Inflows	5,318	2,005	2,098	1,719	2,734	1,230	1,082	2,505	1,403	2,344
<i>of which: in cash</i>	4,983	1,142	1,543	1,481	2,574	788	857	2,132	1,004	1,901
Debt service	943	989	1,110	1,842	1,422	1,046	1,262	1,095	1,913	1,387
<i>Memorandum items</i>										
Gross International Reserves	9,096	8,943	10,514	11,615	13,534	14,296	13,917	15,574	15,547	17,131
Program Net International Reserves	1,800	3,000	3,500	5,000	7,300	8,300	8,300	9,300	9,400	10,000

^{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	375	735	0	717	0	337	175	175	175
Of which: Coalition Support Fund	322	353	375	735	0	717	0	337	175	175	175
3G Licences	0	0	0	0	0	0	0	0	0	0	0
Grants	100	1538	151	147	346	148	198	109	201	133	176
External interest payments	202	155	215	174	289	166	310	274	261	259	288
Net external debt financing	50	-115	3501	273	1209	-56	1147	30	1346	-86	1232
Disbursements	645	760	4713	871	1845	851	2200	791	1893	1395	2245
<i>of which budgetary support</i>	309	285	2070	14	23	547	1086	41	1073	548	701
Amortization	594	875	1212	598	636	907	1053	761	547	1482	1012
Privatizations	0	0	5	0	0	0	764	0	0	0	0
Memorandum item											
<i>Program financing</i>	409	1823	2226	161	369	695	2048	150	1274	681	877

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

Item	June 30, 2013	June 30, 2014	Prov.
			June 30, 2015
Central Government	5,561,994	6,059,496	7,010,575
Scheduled Banks	3,320,870	3,491,821	4,905,118
Government Securities	1,117,115	2,413,134	3,295,052
Treasury Bills	2,611,512	1,550,476	2,164,055
Government Deposits	-407,757	-471,789	-553,989
State Bank	2,241,124	2,567,674	2,105,457
Government Securities	3,127	2,786	2,786
Accrued Profit on MRTBs	44,959	82,070	42,192
Treasury Bills	2,275,183	2,852,274	2,281,365
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,280,856
Treasury Currency	8,653	8,654	8,156
Debtor Balances (Excl. Zakat Fund)			
Government Deposits	-96,260	-383,571	-234,504
(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	-600,192
Scheduled Banks	-287,393	-352,258	-430,426
Advances to Punjab Gov/Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-431,450
State Bank	-28,214	-157,880	-169,766
Debtor Balances (Excl. Zakat Fund)	13,715	802	3,049
Government Deposits (Excl. Zakat Fund)	-41,930	-158,682	-172,814
Net Govt. Budgetary Borrowings			
from the Banking system	5,246,387	5,549,357	6,410,383
Through SBP	2,212,910	2,409,794	1,935,691
Through Scheduled Banks	3,033,477	3,139,563	4,474,691
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	44,959	82,070	42,192
Scheduled banks' deposits of Privatization Commission	-5,433	-6,438	-7,259
Outstanding amount of MTBs (Primary market; discounted value)	2,529,412	1,525,175	2,125,355
Net Govt. Borrowings (Cash basis)			
From Banking System	5,124,762	5,448,425	6,336,750
From SBP	2,167,951	2,327,725	1,893,499
From Scheduled Banks	2,956,811	3,120,700	4,443,250