

Table 1. Pakistan: Quantitative Performance Criteria, and Indicative Targets Under the Stand-By Arrangement, December 2000–June 2001

(Cumulative flows from July 1, 2000 unless otherwise specified)

| Performance Criteria   | Outstanding<br>Stock<br>End-June<br>2000 | Performance Criteria |       |       |                   |            |                   |
|--|--|----------------------|-------|-------|-------------------|------------|-------------------|
|  |  | End-December 2000    |       |       | 2001              |            |                   |
|  |  | Prog.                | Adj.  | Act.  | End-Mar.<br>Prog. | Mod. Prog. | End-Jun.<br>Prog. |
| (In billions of Pakistan rupees)   |  |                      |       |       |                   |            |                   |
| Net foreign assets of the SBP 1/   | -55.1                                    | -8.2                 | -12.2 | 2.1   | 8.7               |            | 41.5              |
| Net domestic assets of the SBP 2/  | 552.9                                    | -26.3                | -22.1 | -41.1 | -39.6             | 8.0        | -14.3             |
| Overall budget deficit   | 206.4                                    | 103.8                | 103.8 | 77.9  | 152.8             |            | 185.7             |
| <i>Of which</i> : net bank borrowing 3/  | 40.0                                     | 6.4                  | 21.1  | -9.4  | 19.9              |            | -14.5             |
| CBR revenue  | 346.6                                    | 189.9                | 189.9 | 182.0 | 291.6             | 279.3      | 417.3             |
| Credit to the seven major public enterprises 4/  | 44.5                                     | 6.5                  | 0.0   | -9.4  | 9.5               |            | 11.5              |
| Accumulation of budgetary arrears to WAPDA   |  | 0.0                  | 0.0   | 0.0   | 0.0               |            | 0.0               |
| (In millions of U.S. dollars)  |  |                      |       |       |                   |            |                   |
| Contracting of short-term public and publicly guaranteed external debt 5/                              | 657                                      | 800                  | ...   | 264   | 800               |            | 800               |
| Contracting of nonconcessional medium- and long-term public and publicly guaranteed external debt 5/   |  | 2,000                | ...   | 533   | 2,500             |            | 3,000             |
| <i>Of which</i> : External debt with an initial maturity of over one year and up to five years 5/      |  | 1,000                | ...   | 33    | 1,500             |            | 1,500             |
| Accumulation of external payments arrears (continuous performance criterion during the program period) |  | 0                    | ...   | 0     | 0                 |            | 0                 |
| (In billions of Pakistan rupees)   |  |                      |       |       |                   |            |                   |
| Net domestic assets of the banking system 6/   | 1,451.5                                  | 29.3                 | 44.0  | 71.7  | 49.3              | 59.8       | 88.6              |
| Federal tax revenue 7/   | 386.8                                    | 207.5                | 207.5 | 195.5 | 317.2             | 302.1      | 451.3             |
| Social and poverty-related spending 8/   | 76.3                                     | 48.5                 | 48.5  | 35.2  | 77.9              | ...        | 97.5              |
| (In millions of U.S. dollars)  |  |                      |       |       |                   |            |                   |
| Net external budget financing 9/   | 73.6                                     | 71.5                 | ...   | 43.6  | 87.0              | ...        | 122.0             |
| (In millions of U.S. dollars)  |  |                      |       |       |                   |            |                   |
| Stock of non-resident institutional foreign currency deposits with SBP forward exchange cover          | 1,072                                    | 1,007                | ...   | 1,001 | 804               | 798.0      | 790               |
| Program financing  |  | 1,690                | ...   | 1,281 | 1,997             |            | 2,550             |
| BOP support loans 10/  |  | 570                  | ...   | 192   | 567               |            | 918               |
| Debt rescheduling  |  | 1,120                | ...   | 1,089 | 1,430             |            | 1,632             |
| Stock of foreign exchange swaps of the SBP   | 756                                      | 717                  | ...   | 798   | 717               |            | 717               |
| <i>Of which</i> : short-term   | 104                                      | 65                   | ...   | 256   | 0                 |            | 0                 |
| Forward exchange contracts of the SBP  | 0  | 23                   | ...   | 27    | 23                |            | 23                |
| External financing counted as SBP liability  |  | 117                  | ...   | 75    | 220               |            | 207               |
| Net foreign assets of the SBP (level; PRs bln)   | -55.1                                    | -63.3                | ...   | -52.9 | -46.4             |            | -13.5             |
| Net domestic assets of the SBP (level; PRs bln)  | 552.9                                    | 526.6                |       | 511.8 | 513.3             | 560.8      | 538.6             |

Sources: Quarterly macroeconomic projections for 2000/01 agreed between the Pakistan authorities and the Fund staff.

<sup>1</sup> These floors will be adjusted: (a) upward by the rupee equivalent of the excess in program financing; (b) downward by the rupee equivalent of the shortfall in program financing provided that the SBP net foreign assets remain above PRs –78 billion at end-December 2000, above PRs –61.3 billion at end-March 2001, and above PRs –20 billion at end-June 2001; (c) upward by the rupee equivalent of the full amount of any privatization proceeds from abroad; and (d) upward by the rupee equivalent of the excess in nonresident institutional foreign currency deposits with SBP forward exchange cover above the end-August 2000 level (US\$1,068 million), in foreign exchange swaps of the SBP above the end-August 2000 level (US\$717 million), in outright forward sales of foreign exchange by the SBP above the end-August 2000 level (US\$23 million), and in SBP foreign exchange reserves held with foreign branches of domestic banks above the end-June 2000 level (US\$545 million). The floor for end-June 2001 will also be adjusted upward/downward for the excess/shortfall in FE25s held with the SBP above their projected end-June 2001 level of US\$530 million.

<sup>2</sup> These ceilings will be adjusted (a) downward by the rupee equivalent of the excess in program financing; (b) upward by the rupee equivalent of the shortfall in program financing provided that the net domestic assets of the SBP remain below PRs 541.3 billion at end-2000, below PRs 563.1 billion at end-March 2001, and below PRs 545 billion at end-June 2001; (c) downward by the rupee equivalent of the full amount of any privatization proceeds from abroad used by the budget; and (d) downward by the rupee equivalent of the excess in foreign currency deposits with SBP forward exchange cover above the end-August 2000 level and in foreign exchange swaps of the SBP above the end-August 2000 level, in outright forward sales of foreign exchange by the SBP above the end-August 2000 level, and in SBP foreign exchange reserves held with foreign branches of domestic banks above the end-June 2000 level. The ceiling for end-June will be adjusted downward/upward for the excess/shortfall in FE25s held with the SBP above their projected end-June 2001 level of US\$530 million (PRs 31.62 billion). These ceilings will also be adjusted downward/upward by the amount of banks' reserves freed/seized by any reduction/increase of daily CRR of 4 percent and by the amount of any reduction/increase in the deposit base with respect to the programmed levels of PRs 1,084 billion at end-March 2001 and PRs 1,143 billion at end-June 2001 that is related to changes in definition of deposits subject to CRR.

<sup>3</sup> These ceilings will be adjusted: (a) downward by the rupee equivalent of the excess in net external budget financing; (b) upward by the equivalent of any shortfall in net external budget financing provided that net bank borrowing by the government remains below PRs 21.1 billion at end-December 2000, below PRs 34.8 billion at end-March 2001, and below PRs –8 billion at end-June 2001; and (c) downward by the rupee equivalent of the amount of new privatization proceeds used by the budget.

<sup>4</sup> The seven major enterprises are Pakistan Railways, the Water and Power Development Authority, the Karachi Electricity Supply Corporation, Ltd., Sui Northern Gas Pipelines Ltd., Sui Southern Gas Company Ltd., the Pakistan Telecommunications Corporation Ltd., and the Oil and Gas Development Corporation. This ceiling will be adjusted downward if the difference between program and actual amounts of restructuring credits to KESC related to the financing of its cash shortfall is positive; the program amount is PRs 7.5 billion.

<sup>5</sup> This performance criteria applies not only to debt as defined in point No. 9 of the Guidelines on Performance criteria with respect to Foreign Debt (adopted on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. See paragraph 12 of the Annex to the attached Technical Memorandum of Understanding.

<sup>6</sup> These ceilings include the rupee counterpart of external debt service due on rescheduled government and government guaranteed debt. These indicative ceilings will be adjusted: (a) downward by the rupee equivalent of the excess in program financing; (b) upward by the rupee equivalent of the shortfall in program financing provided that the net domestic assets of the banking system remain below PRs 1,495.5 billion at end-2000, below PRs 1,515.7 billion at end-March 2001, and below PRs 1,545.8 billion at end-June 2001; (c) downward by the rupee equivalent of the full amount of any privatization proceeds from abroad; and (d) downward by the rupee equivalent of the excess in foreign currency deposits with SBP forward exchange cover above the end-August 2000 level.

<sup>7</sup> Consists of the taxes collected by the Central Board of Revenue, gas and petroleum surcharges, and the foreign travel tax.

<sup>8</sup> Consists of central and provincial government spending under the Public Sector Development Program and the Social Action Program (SAP), including outlays on agricultural income generating programs, education and training, health and nutrition, rural development (farm to market roads), manpower and employment, women development, population welfare, social welfare, environment, integrated rural and urban development, and the special areas social action program. SAP spending also includes basic education and health sector current outlays. Expenditures under the Zakat program outside the budget are excluded.

<sup>9</sup> Includes all receipts from foreign currency government debt (including net amount of special dollar bonds issued), except for Non-Plan resources; receipts (cash or in kind) from the refund from the purchase of war planes from the United States; the accumulation of arrears on foreign currency government debt (including arrears on military debt); and the rescheduling of foreign currency government debt (including military debt); less the repayment of principal on foreign currency government debt (excluding military debt).

<sup>10</sup> Include adjustment loans from the World Bank and the AsDB net of principal payments due to the World Bank, AsDB, IDB, and IFAD; bilateral grants and loans for balance of payments support; additional loans from commercial banks; and debt relief from commercial banks.

Table 2. Pakistan: Structural Performance Criteria and Benchmarks  
Under the Stand-By Arrangement

| Measures  | Timing   | Status   |
|---|--|--|
| <b>I. Structural Performance Criteria</b>   |  |  |
| Implementation of the quarterly petroleum price adjustment mechanism for all major petroleum products as described in Section VI of the Technical Memorandum of Understanding.  | December 15, 2000, March 15, 2001, and June 15, 2001.        | Implemented on December 31, 2000, and March 15, 2001.                  |
| Ban on introduction of new GST exemptions and fixed-tax schemes under the GST.  | Continuous during the program period.                        |  |
| Publication of quarterly fiscal reports that have been verified by the Accountant General Pakistan Revenue (starting with the first quarter of 2000/01; reports are to be published no later than two months after the end of the quarter).   | End-February 2001, end-May 2001, and end-August 2001.        | Report for Q1 published in November 2000, and for Q2 in February 2001. |
| GST extension to urea fertilizer and pesticides.  | By end-March 2001.   |  |
| GST extension to all other agricultural inputs.   | By September 1, 2001.  |  |
| Promulgation of a new income tax law, that puts into place a global income tax with: (a) a simpler rate structure for individuals; (b) uniform tax of all companies; (c) less emphasis on withholding and presumptive taxes; (d) fewer exemptions; and (e) replacement of investment incentives by a simple system of accelerated depreciation. | With the passage of the 2001/02 budget before end-July 2001. |  |
| Extension of income tax to all new issuance of NSS instruments on the same basis as the income tax currently applies to other financial instruments.  | With the passage of the 2001/02 budget before end-July 2001. |  |
| The extension of GST to all retailers/traders above the PRs 5 million threshold.  | With the passage of the 2001/02 budget before end-July 2001. |  |
| The reduction of the maximum customs tariff to 30 percent and the number of tariff slabs to four.   | July 1, 2001.  |  |
| The elimination of interest subsidy element of the export finance scheme.   | July 1, 2001.  |  |
| Prepare an IAS-compliant reporting format and comparable IAS financial statements for the SBP for the previous year ended June 30, 2000.  | End-June 2001.   |  |
| Reduce SBP deposits with Pakistani banks abroad to a maximum of US\$200 million and formulate plan to further reduce placements with Pakistani banks abroad.  | End-June 2001.   |  |

Table 2. Pakistan: Structural Performance Criteria and Benchmarks  
Under the Stand-By Arrangement

| Measures  | Timing  | Status                        |
|---|---|-------------------------------|
| <b>II. Structural Benchmarks</b>  |   |                               |
| Completion and publication of a special audit in line with international standards of the Central Directorate of National Savings.  | End-October 2000.   | Met.                          |
| Establishment and implementation of a formula linking interest rates on new Defense Savings Certificates to the market-determined yield of the new government bond.   | January 1, 2001.  | Met.                          |
| Enactment of the anti-dumping law that would lead to the withdrawal of the different excises applied to domestically produced and imported goods as an anti-dumping measure.  | End-December 2000.  | Met.                          |
| Preparatory steps relating to the promulgation of a new income tax law with the 2001/02 budget:   |   |                               |
| The income tax committee will submit its preliminary recommendations to the Ministry of Finance.  | End-December 2000.  | Met.                          |
| The final report and draft law will be submitted to cabinet.  | End-March 2001.   |                               |
| Establish basic reconciliation processes in all provinces. All provinces will produce quarterly reports for internal use and reporting to the MoF that are fully reconciled in terms of AG/Departmental accounts, clearance of suspense accounts, SBP and scheduled bank accounts, and provincial/federal records of intergovernmental flows. | Quarterly, starting end-March 2001 (covering data through December 2000).         |                               |
| Publication of public sector contingent liabilities as an annex to the Economic Survey.   | By end-June 2001, with the economic survey presented prior to the 2001/02 budget. |                               |
| Publications of a schedule of tax expenditures as an annex to the Economic Survey.  | By end-June 2001, with the economic survey presented prior to the 2001/02 budget. |                               |
| Initiate a review of Part A of the budget (covering costs of government services such as wages and salaries).   | By end-December 2000.   | Met.                          |
| Establish a fiscal reform unit to build up technical capacity and more effective ownership of fiscal reform programs, which would cover tax reform as well as public expenditure management reform.   | January 2001.   | Established in February 2001. |
| Commission and complete an independent review of SBP's internal audit function.   | End-June 2001.  |                               |

Table 2. Pakistan: Structural Performance Criteria and Benchmarks  
Under the Stand-By Arrangement

| Measures  | Timing           | Status |
|---|------------------|--------|
| Prepare draft revisions to the SBP Act and issue resolutions by the MFP Coordination Board: (i) to ensure that the Governor and other Central Board members can only be removed by legal cause; and (ii) to guarantee autonomy of the SBP in respect of the management of reserves. | End-August 2001. |        |
| Send report on research studies in the framework of National Accounts Project to the Fund's Statistics Department according to the following schedule:  |                  |        |
| Those related to fishing, shipping, and services.   | End-March 2001.  |        |
| Those related to livestock, mining and quarrying, and public administration and defense.  | End-June 2001.   |        |

**Table 3. Pakistan: Prior Actions**

1. In order to improve tax administration:
  - (i) Prepare and adopt a short-term tax administration action plan, with monitorable actions and targets;
  - (ii) Restore the one-time penalty on sales tax nonfilers to at least the old rate of PRs 5,000 (from the current PRs 2,500);
  - (iii) Raise the penalty interest rate for late payment of taxes to at least 2 percent per month; and
  - (iv) Make a public announcement of the above three elements as well as the government's decision that no further tax amnesties will be granted and that the sales tax will be extended to all retailers and traders above the PRs 5 million threshold by end-June 2001. (The latter measure is a structural performance criterion under the program).
2. Collect cumulative CBR revenue of PRs 243 billion by end-February 2001.
3. Increase in retail gas prices by an average of 14.4 percent.
4. Increase in electricity tariffs charged by WAPDA by at least 4.5 percent and introduction of a formula-based automatic fuel adjustment clause.
5. Increase in electricity tariffs charged by KESC by at least 9.5 percent (including the interim raise) and introduction of a formula-based automatic fuel adjustment clause.
6. Increase in net reserves of the SBP (gross reserves minus FE25 foreign currency deposits with the SBP, short-term foreign currency swaps and forwards) to at least US\$650 million.
7. Remedies under stage two safeguards assessment:
  - (i) Central Board of SBP to adopt resolutions in the areas of accounting and audit to require compliance with internationally recognized standards.
  - (ii) SBP to establish a formal process for reconciling data reported to the IMF and to adopt formal guidelines that prohibit operations that pledge or encumber reserves, place restrictions on, or otherwise impair the availability of foreign exchange reserves outside an authorized framework.

Pakistan—Central Board of Revenue (CBR) Short-term Action Plan

| Area                   | Action   | Completion Date    | Status      |
|------------------------|--|--------------------|-------------|
| A. General             | 1. Hold sales tax Collectors' conference to discuss actions to be taken with regard to sales tax audit, arrears, and non-filers.   | February 11        | Done        |
| B. Community Awareness | 1. Minister of Finance and CBR and other officials will publicize the authorities' commitment to extend sales tax to retail traders with turnover over PR 5 million effective July 1, 2001, and to grant no further tax amnesties. | March              |             |
| C. Sales Tax Audits    | 1. Set up full-time "Management Cell within the CBR comprising one chief, one cost accountant and one secretary to work in consultation with DFID consultant.  | February 1         | Done        |
|                        | 2. Set up similar "Audit Management Cell" in each Collectorate in accordance with decisions taken in February 11 Collectors' conference.   |                    |             |
|                        | 3. Prepare reassignment of sales tax auditors from tax survey project to auditing, with the objective to have at least 400 auditors assigned to audit work.  | March 1            |             |
|                        | 4. Reassign other auditors gradually from tax survey work to auditing.   |                    |             |
|                        | 5. Finalize recruitment process for new auditors.  | End-May            |             |
|                        | 6. Issue guidelines to set new audit completion standards and requirements for streamlining audit procedures.  | February 5         | Done        |
|                        | 7. Achieve an average of 2.5 audits per auditor in March, an average of 3 in April, an average of 3.5 in May, 4 in July, and 4.5 in September.   | March–September    |             |
|                        | 8. Prepare a new audit plan for March and communicate it to Collectorates.   | 11-Feb             | Done        |
|                        | 9. Achieve the following targets for completion of audits: 1,000 in March; 1,200 in April; 1,400 in May; 1,600 in July; and 1,800 each in August and September.  | March–September    |             |
|                        | 10. Ask Collectorates to strengthen supervision of auditors by strictly following management checks as per Audit Handbook; follow up with written instructions.  | February 11 and 15 | Done        |
|                        | 11. Request supervisors in Collectorates to accompany auditors in specific cases and to randomly check their performance in a certain percentage of cases.   | Ongoing            |             |
|                        | 12. Strengthen follow up by supervisors on the findings of audit visits through "Audit Management Cells" in Collectorates.   | Ongoing            |             |
|                        | 13. Prepare revised TOR for private auditors, send for comments and views on expected fees to selected private auditors, and convey funding request to MoF.  | Feb. 1–20          | Partly done |
|                        | 14. Use private auditors for specified durations and specific tasks until end-June 2001 to enhance coverage.   | March 1            |             |
|                        | 15. Compile details on additional funding requirements to improve work of auditors, and convey to Ministry of Finance.   | February 20        | Done        |
| D. Sales Tax Arrears   | 1. Increase the penalty for late payment of tax to 2 percent per month.  | March              |             |

Pakistan—Central Board of Revenue (CBR) Short-term Action Plan

| Area                    | Action   | Completion Date          | Status |
|-------------------------|--|--------------------------|--------|
|                         | 2. Raise the penalty for non-filing of sales tax returns to PR 5,000.  | March                    |        |
|                         | 3. Member Sales Tax will oversee an arrears collection/non-filer enforcement drive by tabulating a list of authentic arrears as on December 31, 2000 for monitoring as per following schedule: (i) top 10 arrears cases in each Collectorate (total of 100 cases); (ii) case-wise details of arrears above PRs 1 million principal liability; (iii) similar details for all cases above PRs 100,000 principal liability.                           | Ongoing                  |        |
|                         |  | (i) Feb. 15              | Done   |
|                         |  | (ii) Feb 15;             | Done   |
|                         |  | (iii) Feb. 20            | Done   |
|                         | 4. Compile a list of top 100 sales tax “defaulters.”   | February 11              | Done   |
|                         | 5. Establish and implement a monthly monitoring system for top 100 sales tax “defaulters,” compiling an updated position at the end of each month.   | Ongoing                  |        |
|                         | 6. Set monthly targets for arrears recovery for Collectorates.   | March 1                  |        |
|                         | 7. Set monthly targets for Collectorates on the number of cases closed/settled and revenue recovered.  | March 1                  |        |
|                         | 8. Prescribe format for Collectorates to report arrears regularly on a monthly basis, showing arrears accrual from January 1, 2000 onwards per month and providing details on cases involving principal amounts in excess of PR 1 million.   | Start March 1            |        |
|                         | 9. Ensure that sales tax Appellate Tribunals are operational and prioritize large-revenue cases by: (i) informing the Chairman Appellate Tribunals on importance of early settlement of large-revenue cases; (ii) sending monthly letters to the Chairman Appellate Tribunals with list of cases for early hearing of large-revenue cases; (iii) clearing officers for promotion to staff Appellate Tribunals; and (iv) get 6 benches operational. | (i) Feb.                 | Done   |
|                         |  | (ii) Ongoing             |        |
|                         |  | (iii) Feb.               |        |
|                         |  | (iv) as soon as possible | Done   |
| E. Sales Tax Non-filers | 1. Identify those registered taxpayers who have not filed any monthly return for the period July-December 2000.  | February 20              | Done   |
|                         | 2. Treat these habitual offenders as a separate enforcement category.  | Start March 1            |        |
|                         | 3. Pursue these habitual offenders for de-registration on settlement of any outstanding liability or compel them to comply when still in business.   | Complete by end-May      |        |
|                         | 4. Put embargo on transaction of these habitual offenders’ registration numbers in customs and other tax departments.  | February 25              | Done   |
|                         | 5. For other non-filers, Collectors will identify multiplicities/duplicities and categorize them as follows: (i) identify the top 10 percent non-filers in terms of revenue potential and have enforcement staff visit them in addition to issuing notices; and (ii) issue notices to all others.  | Ongoing                  |        |
|                         | 6. Reintroduce computer identification of non-filers.  | February 15              | Done   |
|                         | 7. Set quantitative targets for Collectorates for accelerated decline in number of non-filers.   | March 15                 |        |
| F. Income Tax Arrears   | 1. Increase the penalty for late payment of tax to 2 percent per month.  | March                    |        |
|                         | 2. Member Income Tax to oversee arrears collection/non-filer enforcement drive.  | Ongoing                  |        |
|                         | 3. Commissioners prepare lists of cases with arrears over PR 1 million.  | February 28              | Done   |
|                         | 4. Compile a list of the top 100 arrears cases (defaulters).   | February 25              | Done   |
|                         | 5. Create and implement monthly monitoring system for the top 100 defaulters; monitoring is done by Member Direct  | Started Feb. 28          | Done   |

Pakistan—Central Board of Revenue (CBR) Short-term Action Plan

| Area               | Action   | Completion Date     | Status |
|--------------------|--|---------------------|--------|
|                    | Tax, Regional Commissioners, and designated regional officials.  |                     |        |
|                    | 6. Set monthly targets on arrears collection for Regional Commissioners.   | March 1             |        |
|                    | 7. Monitoring of arrears collection is a distinct component of overall review process.   | Start March 1       |        |
|                    | 8. Identify defaulters for assessment year 2000/01 and initiate enforcement.   | February 14         | Done   |
|                    | 9. Issue instructions to Regional Commissioners to identify cases involving revenue of more than PR 1 million that are stuck in appeals process.               | March 15            |        |
|                    | 10. Chairman CBR/Member Income Tax to meet Chairman Appellate Tribunals to request early hearing and disposal of cases with revenue of more than PR 1 million. | March               |        |
|                    | 11. Chairman CBR/Member Income Tax write monthly letters to Chairman Appellate Tribunals with list of cases for early hearing due to revenue importance.       | Ongoing             |        |
|                    | 12. Get all Appellate Tribunal benches activated, in consultation with Law Ministry.   | March 15            |        |
|                    | 13. Undertake study to identify factors contributing to incidence of disputed assessments (to be done by Committee on Revision of Ir                           | March               |        |
| G. Customs Refunds | 1. Conduct investigation of current practices by Collector Exports in Karachi, Faisalabad and Sialkot.   | February 28         |        |
|                    | 2. Finalize draft refund rules and update input/output tables.   | As soon as possible |        |