INTERNATIONAL MONETARY FUND

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PAKISTAN

June 2016

ELEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND EXTENSION OF THE EXTENDED ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Eleventh Review Under the Extended Arrangement and Request for Modification of Performance Criteria and Extension of the Extended Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 27, 2016, following discussions that ended on May 11, 2016, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 10, 2016.
- A **Statement by the Executive Director** for Pakistan.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Pakistan*
Memorandum of Economic and Financial Policies by the authorities of Pakistan*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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June 27, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Eleventh Review Under the Extended Fund Facility for Pakistan

The Executive Board of the International Monetary Fund (IMF) on June 27, 2016 completed the eleventh review of Pakistan's economic performance under a three-year program supported by an Extended Fund Facility (EFF) arrangement. The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 360 million (about US$501 million), bringing total disbursements to SDR 4.32 billion (about US$6.01 billion).

On September 4, 2013, the Executive Board approved the 36-month extended arrangement under the EFF in the amount of SDR 4.393 billion (about US$6.64 billion at the time of approval of the arrangement) or 216 percent of Pakistan's current quota at the IMF. See Press Release No. 13/322).

Following the Executive Board's discussion of Pakistan, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair issued the following statement:

"The economic recovery has gradually strengthened and short-term vulnerabilities have further receded on the back of improved macroeconomic stability and progress on structural reforms. Preserving and consolidating macroeconomic stability and further advances with key structural reforms, including beyond the program's horizon, are needed to foster stronger and more inclusive growth.

"The authorities are on track to achieve their program's end-year fiscal targets, and their commitment to continue with gradual fiscal consolidation in FY2016/17 is welcome. The amendments to the Fiscal Responsibility and Debt Limitation Act will strengthen the anchor for medium-term fiscal policy, supporting fiscal sustainability and medium-term macroeconomic stability. Furthermore, the new framework for Public-Private Partnerships will foster much needed growth-supporting investments and help manage associated fiscal risks. Sustaining progress with tax administration reforms, with a view to widening the tax base, is needed to increase tax revenues and create needed fiscal space for priority infrastructure and to reinforce social expenditures.

“Foreign exchange reserves have been progressively rebuilt under the program, and the continued accumulation of international reserves will further bolster external buffers and reduce vulnerabilities. Maintaining a prudent monetary policy stance is needed to preserve the achievements in containing inflation and to support macroeconomic stability. Progress in strengthening the SBP’s autonomy is welcome, and addressing the remaining recommendations of the 2013 IMF Safeguards Assessment will be important to strengthen it further.

“Advancing financial sector reforms is important to reinforce financial sector stability and development. Important steps include moving ahead with establishing a deposit insurance scheme and strengthening the regulatory and supervisory framework. The expansion of the coverage of tax crimes under the AML framework is welcome and will contribute to improve tax compliance and governance.

“Continued progress with structural reforms is needed to raise Pakistan’s growth potential. Restructuring and privatizing loss-making public sector enterprises (PSEs) remain a priority to ensure their financial viability, reduce fiscal costs and strengthen the efficiency of the economy. In light of the delays in the privatization agenda earlier in the year, the authorities’ commitment to attract private sector participation, while putting in place measures to reduce PSEs’ financial losses, is welcome. Furthermore, efforts to complete the energy sector reform should remain a priority. The authorities’ decision to further contain the accumulation of power sector arrears in the remainder of the program is welcome, as is their focus on further strengthening the performance of power distribution companies and the updating of the power sector arrears reduction plan. Their commitment to move forward with the implementation of the new business climate reform strategy will be key to boost competitiveness and foster investment and private-sector led growth.”

INTERNATIONAL MONETARY FUND

PAKISTAN

June 10, 2016

ELEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND EXTENSION OF THE EXTENDED ARRANGEMENT

EXECUTIVE SUMMARY

Extended Arrangement under the Extended Fund Facility (EFF): A 36 month, SDR 4,393 million (216 percent of the new quota) Extended Arrangement under the EFF was approved by the Executive Board on September 4, 2013 and the tenth review was completed on March 25, 2016, for a total disbursement of SDR 3.96 billion.[1] The twelfth tranche amounting to SDR 360 million will be available upon the completion of this review.

Status of the program: The authorities met all Performance Criteria (PCs) at end-March 2016, including net international reserves and government borrowing from the State Bank of Pakistan (SBP) with significant margins. They also met the program's Indicative Targets (ITs), except for the IT on tax collection, which was missed by a very small margin. Structural Benchmarks (SBs) on strengthening the central bank's autonomy, tax administration, fiscal responsibility and public private partnership framework legislation, and anti-money laundering were met. The public sector enterprise reform SB (legislation on corporatization of a key loss-making public enterprise) was also met, although it was accompanied by constraints on future restructuring and privatization. Delays occurred in energy (notification of multi-year tariffs) and financial sector (establishment of deposit protection scheme) SBs, which are proposed to become SBs for the twelfth review.

Key issues: Discussions took place in the context of a difficult political and security situation and focused on the FY 2016/17 budget, strengthening macroeconomic resilience, and advancing key structural reforms to foster higher and more inclusive growth. The authorities are committed to prudent monetary and fiscal policies, including strengthening accumulation of foreign currency reserves and continuing gradual fiscal consolidation in FY 2016/17 while protecting the most vulnerable. They also intend to (i) follow through on delayed reforms to establish deposit insurance and notify multi-year power tariffs, (ii) strengthen the tax administration, (iii) reinforce efforts to improve the power sector and reduce related arrears, and (iv) restructure and attract private sector participation in ailing PSEs while containing their financial losses. Outreach activities included a press release and a joint press conference with the finance minister and central bank governor.

[1] Pakistan's new quota is SDR 2,031 million (previously SDR 1,033.7 million).

Approved By
Daniela Gressani and Kristina Kostial

Discussions took place in Dubai during May 2–11, 2016. Staff representatives comprised H. Finger (head), G. Albertin, M. Kryshko, A. Tudyka (all MCD), A. Shahmoradi (EUR), K. Al-Saeed (MCM), S. Cevik (FAD), M. Kim (SPR), T. Mirzoev (Resident Representative), and T. Alam (Resident Representative Office, Islamabad). R. Tutsch (LEG) participated in parts of the visit. S. Mahmood (Senior Advisor, OED) joined for the discussions. The mission issued a press release on May 12. Y. Liu and M. Orihuela-Quintanilla assisted in the preparation of the report.

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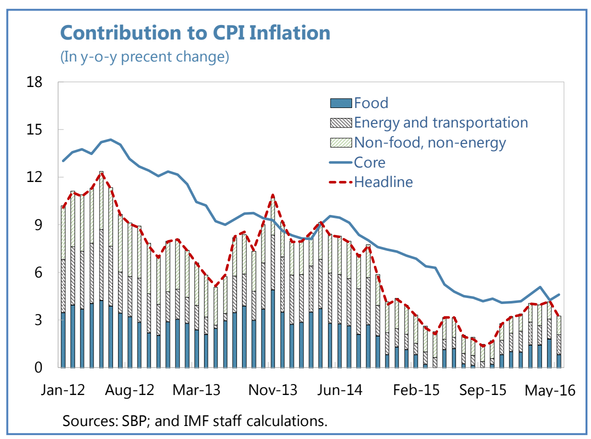
INTRODUCTION AND PROGRAM PERFORMANCE

1. **Macroeconomic stability has been strengthened and structural reforms are progressing**. Since the start of the program in September 2013, economic growth has gradually recovered, inflation was brought down to low single digits, foreign reserve buffers have been rebuilt, social safety nets have been strengthened, and the fiscal deficit has significantly declined (although public debt remains high). Tax exemptions and concessions have been reduced, while the authority to grant new ones has been greatly restricted. Measures to strengthen the effectiveness of the tax administration are under way. The State Bank of Pakistan's (SBP's) autonomy has been strengthened through instituting an independent monetary policy committee and administrative reforms, although further steps in this area are needed. In the energy sector, power blackouts and subsidies have declined, and the accumulation of arrears has dropped significantly, although the existing stock remains to be addressed. Despite recent setbacks to privatizing ailing public sector enterprises (PSEs) due to labor unrest and political opposition, the authorities continue working towards reforming PSEs and putting them on a sustainable financial path. Reforms to ease the cost of doing business have been reinvigorated with a new plan adopted in February 2016. The authorities are committed to continue with their reform efforts beyond the end of the Fund-supported program in September 2016.

2. **The economic recovery is gradually strengthening with improved macroeconomic stability**. Despite a weak cotton harvest and declining exports, real growth will likely reach 4.7 percent in FY 2015/16, supported by large-scale manufacturing and buoyant construction activity, and higher private sector credit growth.[2] Growth is expected to strengthen to 5 percent in FY 2016/17, supported in part by an expected pick-up of investment related to the China Pakistan Economic Corridor (CPEC).[3] While core inflation has remained contained (4.6 percent in May 2016), headline inflation declined (3.2 percent in May 2016). Inflation is expected to remain contained at 5.2 percent in FY 2016/17, well-anchored by prudent monetary policy.



3. **International reserves continue to rise amid a broadly stable current account deficit**. Despite declining exports and sustained real exchange rate appreciation, the current account deficit is expected to remain contained at 1.0 percent of GDP in FY 2015/16 and international reserves will likely further increase to 4.3 months of imports (76 percent of the ARA metric). Pakistan's exports fell by 9.2 percent (y-o-y) during the first three quarters of FY 2015/16, owing to lower international

[2] Pakistan's fiscal year runs from July 1–June 30.

[3] CPEC is a package of projects estimated at US$44.4 billion, including investment in infrastructure (US$10 billion) and energy (US$34.4 billion).

prices of cotton and rice, ongoing security issues, a poor business climate, and competitiveness losses related to real exchange rate appreciation (1.3 percent y-o-y in March 2016 and cumulatively 19 percent over the past two years). However, favorable oil prices and so far robust remittances from the Gulf Cooperation Council (GCC) countries continue to counterbalance the decline in exports. The recovery in oil prices along with higher CPEC-related imports will likely lead to a widening of the current account deficit to about 1.8 percent of GDP in FY 2016/17, still allowing for additional reserves accumulation to close to 4½ months of imports. Over the medium term, completed CPEC projects would contribute to promoting exports, offsetting the CPEC-related imports of industrial goods for investments.

4. **The financial system remains sound**. The banking system continues to be profitable and well-capitalized, with high earnings and solvency ratios, although nonperforming loans remain significant. Two small banks recently fell below the minimum capital adequacy ratio (CAR) requirement and one other bank is still below the absolute minimum capital requirement (MCR). The SBP is actively engaging with these banks to address their shortfalls (¶19), and legislation to introduce an appropriate resolution framework to address NPLs is under discussion in parliament (¶20).

5. **Downside risks to the outlook remain**. Further appreciation of the real effective exchange rate in the context of an appreciating U.S. dollar would continue to erode export competitiveness; lower growth in advanced and emerging market economies (including China and GCC) could weaken exports, remittances, and FDI; tighter global financial conditions could have an adverse impact on capital inflows; and a faster-than-expected rise in oil prices could worsen the external position. Furthermore, medium- to long-term risks could arise from repayment obligations and profit repatriation related to large-scale investments such as those under CPEC, underscoring the need for careful coordination and monitoring. Domestically, policy slippages, further delays in restructuring or privatizing public sector enterprises (PSEs), ongoing legal challenges to electricity surcharges and revenue measures, political uncertainty, and the still difficult security conditions could affect economic activity and undermine fiscal consolidation.

6. **Program performance has been strong with all end-March 2016 performance criteria, and most indicative targets and structural benchmarks met**:

- **Fiscal performance** was in line with the program targets at end-March 2016. The performance criterion (PC) on the general government budget deficit (excluding grants) was met. Revenue growth accelerated to 19 percent (y-o-y) in the first nine months of FY 2015/16 (compared to 12 percent during the same period in FY 2014/15), and the Federal Board of Revenue (FBR) missed the indicative target (IT) on tax collections by only PRs 3 billion (about 0.01 percent of GDP). The IT on cash transfers through the Benazir Income Support Program (BISP) was met, reflecting higher stipends and coverage expansion to 5.28 million beneficiaries. The end-March IT on the accumulation of power sector arrears was met with a significant margin, owing to favorable oil prices and the authorities' continued efforts to reduce distribution losses and strengthen payment collections.

- **Monetary performance** was strong in the third quarter of FY 2015/16. The end-March PC on net international reserves (NIR) was met by a large margin of US$407 million, supported by market financing and SBP's spot purchases of US$825 million. The SBP's net short position of swap/forward contracts remained below the program ceiling by about US$115 million. Government borrowing from the SBP remained below the end-March 2016 ceiling by about PRs 440 billion as the government continued to build financing buffers. As a result, the end-March PC on Net Domestic Assets (NDA) was also met, despite the SBP's substantial liquidity injections in the interbank market amid persistent demand for currency in circulation reflecting the withholding tax on financial transactions for nonfilers of income tax returns.

- **Progress with achieving the program's structural benchmarks (SBs) was satisfactory with seven out of nine SBs met**. Executive measures to further strengthen the SBP's autonomy were put in place (end-March 2016 SB) and the schedule of offenses of the AML Act was amended to include a number of income tax crimes as predicate offenses to money laundering (May 15, 2016 SB). Furthermore, supporting the new risk-based tax auditing policy, 90 cases of high net worth individuals were identified and income tax audits started for two-thirds of those cases, meeting the related end-March 2016 SB. Communication platforms to facilitate the reporting of corrupt practices in tax administration were established (end-April 2016 SB). Amendments to the Fiscal Responsibility and Debt Limitation (FRDL) Act were submitted to the National Assembly (end-May 2016 SB), as was a new framework law for public private partnerships (PPP) (end-April SB). Amendments to corporatize Pakistan International Airlines (PIA) were approved by parliament (May 15, 2016 SB), a necessary legal step to move ahead with the company's privatization. However, under these new amendments, the government will retain management control, requiring a shift in strategy (¶27). By contrast, the notification of multi-year tariffs for FESCO, LESCO and IESCO was delayed (missed end-April 2016) and will be completed by July 15, 2016 (modified SB). Finally, the enactment of the legislation to establish a deposit protection scheme was delayed (missed end-March 2016 SB) and will be completed by end-August 2016 (modified SB).

7. **The authorities remain committed to their Fund-supported economic policy and structural reform agenda but continue to face significant challenges**. These include increasing political polarization, social and political obstacles to privatization of public sector enterprises (PSEs), and ongoing legal challenges to tax revenue and power sector measures. The security situation has improved but remains fragile amid fallout from terrorist attacks and widening anti-terror operations.

POLICY DEVELOPMENTS

Discussions focused on sustaining fiscal consolidation by broadening the tax base and strengthening the medium-term fiscal framework, bolstering external buffers through further reserves accumulation, improving financial sector resilience, and advancing key structural reforms, including improvements in the energy sector, PSEs, and the business climate, to foster higher and more inclusive growth.

A. Fiscal Policy

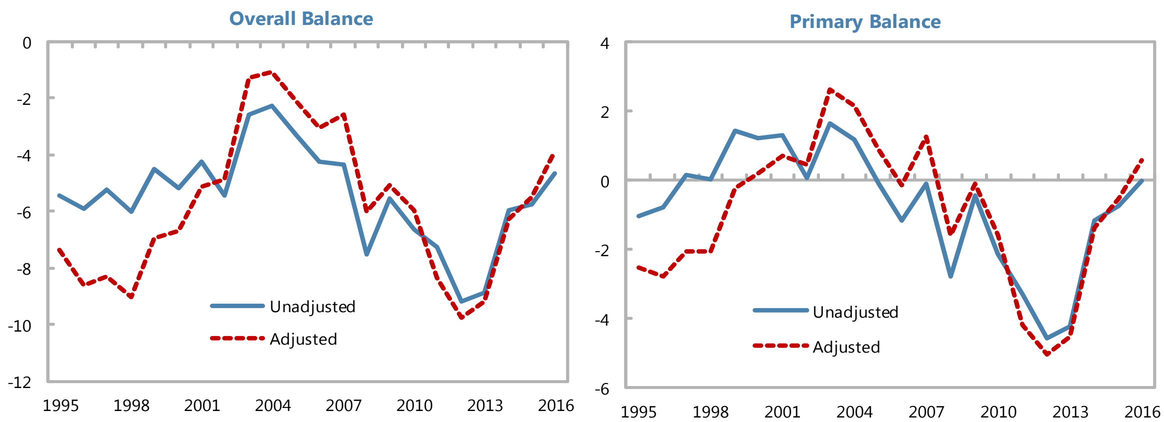
8. **Program fiscal targets for FY 2015/16 are within reach**. Building on the strong fiscal performance in the first three quarters of FY 2015/16, the authorities are on track to reduce the budget deficit (excluding foreign grants) to 4.4 percent of GDP (including an adjustor of 0.3 percent of GDP for exceptional spending on security and resettlement of internally-displaced persons).[4] Correcting for cyclical effects, this would imply that the multi-year fiscal consolidation has brought the structural primary budget balance to a surplus of 0.6 percent of potential GDP in FY 2015/16, from a deficit of 4½ percent in FY 2012/13. Staff noted an increase in the statistical discrepancy in the fiscal accounts (0.5 percent of GDP as of end-March 2016), which, if unwound, could entail pressure on the deficit in the last quarter. Moreover, underperformance in the collection of the Gas Infrastructure Development Cess (GIDC) and risks related to the planned auctioning of telecom spectrum could lead to a revenue shortfall. In light of these risks, the authorities agreed to manage spending prudently, coordinating closely with the provinces, and scaling back nonpriority expenditures as needed to ensure reaching the end-year deficit target. The authorities requested IMF technical assistance to further strengthen their fiscal accounting.

9. **Staff supports the authorities' commitment to continue gradual fiscal consolidation in FY 2016/17 with a deficit target of 3.8 percent of GDP**. To put the debt-to-GDP ratio on a firm downward trajectory and preserve medium-term fiscal sustainability, the authorities plan to reduce the budget deficit (excluding foreign grants) to 3.8 percent of GDP in FY 2016/17, reflecting a baseline deficit target of 3½ percent of GDP and extraordinary spending of 0.3 percent of GDP on security and resettlement of internally-displaced persons. On the revenue side, measures (about ½ percent of GDP) include further eliminating tax concessions and exemptions, introducing or expanding withholding taxes to strengthen income tax payment compliance, raising excises on cigarettes and cement, and adjusting the customs duty structure for certain goods. Noting that the authorities have already reduced tax expenditures from 1.9 percent of GDP in FY 2013/14 to 1.3 percent in FY 2015/16, staff cautioned against granting new concessions and exemptions and recommended a further net reduction in tax expenditures. On the spending side, measures (about 0.1 percent of GDP) focus on rationalizing noncritical current expenditures, containing energy subsidies, and managing the public sector wage bill prudently, while preserving increases in social

[4] The FY2015/16 deficit target is unchanged at PRs 1,292 billion. Revised GDP projections imply that this is equivalent to 4.4 percent of GDP (instead of 4.3 percent of GDP as previously projected).

and capital spending. The authorities have submitted the FY 2016/17 budget, consistent with these policies, to parliament (prior action).

Headline and Structural Fiscal Balances
(Excluding grants, in percent of GDP)



Sources: Ministry of Finance; Federal Board of Revenue; State Bank of Pakistan; and IMF staff calculations.

10. **Staff welcomed amendments to the FRDL Act as key to anchoring fiscal policy and supporting macroeconomic stability over the medium-term**. The authorities have submitted to parliament amendments to the FRDL Act (end-May 2016 SBs) that will support continued fiscal consolidation through the medium term, including with limits on the federal government budget deficit and the general government gross debt (consistent with medium-term projections), strong and explicit guidelines on escape clauses, enforcement procedures and correction mechanisms (Box 1 and MEFP ¶18). The authorities also continue to strengthen debt management (MEFP¶24).

11. **The new framework for public-private partnerships (PPPs) can foster much needed investments while allowing for adequate management of associated fiscal risks**. With limited fiscal space, the authorities are planning to make use of PPPs to attract private investment in infrastructure projects, which will require appropriate fiscal reporting and management of contingent liabilities. A new PPP framework law was submitted to the National Assembly (end-April 2016 SB) to ensure adequate fiscal oversight of PPP projects and management of associated fiscal risks in line with international good practices and the recommendations of IMF technical assistance.

12. **Continued progress with tax administration reforms is needed to mobilize additional fiscal revenues** (MEFP ¶¶15–17). Staff supports the authorities' aim to raise the tax-to-GDP ratio to 14½ percent by FY 2019/20. In this context, the authorities are committed to: (i) accelerating the implementation of risk-based auditing and focusing on high net worth individuals and large companies for tax compliance and enforcement; (ii) ensuring data matching between domestic taxes and customs to identify noncompliant taxpayers and minimize under-declarations; (iii) improving FBR's access to third-party information and data; (iv) continuing to take governance and anti-corruption measures at the FBR; (v) seeking parliamentary ratification of the legislation against

"benami" transactions;[5] and (vi) establishing a tax policy research and analysis unit outside the FBR. In addition, the authorities aim to modernize the General Sales Tax (GST) regime on goods and services in close coordination with the provinces.

Box 1. Strengthening the Fiscal Responsibility and Debt Limitation Act

There are opportunities for improvement in the fiscal responsibility framework as outlined in the existing FRDL Act. Pakistan's FRDL Act contains important elements of a successful rule-based medium-term budget framework (MTBF), but it could provide stronger guidance for fiscal policy and budget planning for the general government. First, there is room for improving the coverage of government and definitions of fiscal aggregates. Second, the "revenue deficit"[1] rule does not constitute an appropriate fiscal stance over the economic cycle, making fiscal policy potentially pro-cyclical and volatile. Third, the "revenue deficit" rule does not isolate the fiscal aggregates on which the government has effective control. Fourth, the exclusion of capital expenditure from the coverage of fiscal rules may distort the budgetary classification and is not consistent with the objectives of economic stabilization and debt sustainability. Fifth, the debt target of 60 percent of GDP is too high (relative to other emerging market economies and Pakistan's fiscal capacity) and does not provide operational guidance. Sixth, the limit for guarantee issuance at 2 percent of GDP per year could result in a significant accumulation of fiscal risks.

Fund TA provided in the Fall of 2015 made wide-ranging recommendations for numerical rules and institutional procedures. Staff recommended combining operational fiscal rules with long-term anchors for public debt sustainability and management of fiscal risks associated with guarantees at the general government level, a tighter long-term debt target including a transition path, tighter limits on guarantees, integration of the proposed rules into the budget process, and establishment of an independent fiscal council.

In the context of the tenth program review, the authorities agreed to adopt the following amendments to the FRDL:

- A ceiling for the federal government budget deficit of 4 percent of GDP excluding foreign grants during the period FY 2017/18–FY 2019/20, and 3½ percent of GDP thereafter;[2]
- A continuation of the limit on general government gross debt of 60 percent of GDP until FY 2017/18, and subsequently a 15-year transition path toward a debt-to-GDP ratio of 50 percent;
- Clearly defined escape clauses with unambiguous guidelines on the interpretation and determination of events such as national security and natural disasters; and
- Explicit enforcement procedures and corrective mechanisms, such as the maximum time during which the rule can be suspended and the treatment of deviations.

[1] The FRDL Act defines revenue deficit as "the difference between total current expenditure and total revenue."

[2] As long as the provinces continue to post surpluses, the general government deficit would thus be smaller.

13. **Reducing the outstanding stock of tax refund claims remains important to strengthen the FBR's credibility and improve the business climate**. The FBR has started publishing the stock of outstanding tax refund claims—including GST, income tax and customs duties—on a monthly basis to enhance transparency in tax administration. Overall tax refund claims have declined to

[5] In "benami" transactions, assets are held by (or transferred to) a person but have been provided for (or paid by) another person. Benami structures can be used to conceal one's assets and evade taxes.

0.7 percent of GDP in March 2016 (about half of this amount pertains to GST refund claims), from 0.8 percent of GDP in March 2015.[6] Staff welcomed the authorities' plan to reduce the stock of tax refund claims to a level consistent with no more than a three-month flow by end-December 2016.

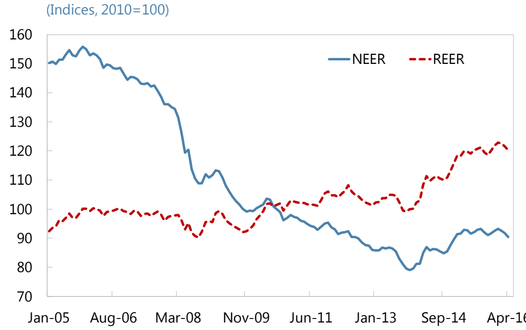
14. **Staff stressed the importance of strengthening intergovernmental fiscal policy coordination**. A Fiscal Coordination Committee, comprising the provincial and federal finance secretaries, has started operating and meets on quarterly basis to coordinate fiscal policy at the national level. Furthermore, in the context of the ongoing National Finance Commission negotiations, the authorities are seeking an agreement with provinces to balance the devolution of revenue and expenditure responsibilities in support of macroeconomic stability. An extensive national dialogue will be needed to achieve this objective. In addition, staff recommended that the federal government should encourage, and work with, the provinces to improve sub-national revenue collection by modernizing agriculture taxation, developing electronic fiscal cadasters to improve property tax collection, and improving taxpayer compliance to bring underdeveloped tax bases more effectively into the tax net.

15. **Staff commended continued progress in protecting the most vulnerable through BISP** (Box 2). The coverage of the unconditional cash transfer program for the poorest households has been extended and remains on track to reach 5.3 million beneficiaries by end-June 2016. Stipends were increased by 4½ percent during FY 2015/16 to protect beneficiaries' purchasing power and will be further increased by a similar amount next year, with financial support from development partners. The coverage of education conditional cash transfers is also expanding. Staff welcomes the authorities' ongoing work to strengthen the program's targeting mechanism.

B. Monetary and Exchange Rate Policies

16. **Further accumulation of international reserves and greater exchange rate flexibility will help bolster external buffers and reduce vulnerabilities**. The authorities are committed to continue with the SBP's spot purchases and take advantage of favorable oil prices to continue raising foreign exchange reserves. Staff supported the authorities' plan to increase the end-June 2016 NIR target by $350 million, which will contribute to further bolstering external buffers, containing appreciation pressures on the real effective exchange rate, and hence supporting competitiveness.[7]

Nominal and Real Effective Exchange Rate
(Indices, 2010=100)



Sources: Pakistani authorities; and IMF staff calculations.

[6] In nominal terms, the total stock of outstanding tax refund claims increased by PRs 3 billion to PRs 215 billion in March 2016 from PRs 212 billion in March 2015.

[7] Pakistan's *de facto* exchange rate regime is classified as "other managed arrangement."

Box 2. The Benazir Income Support Program: Key Elements and Targeting Mechanism

BISP is the main social safety net program in Pakistan. With the broader objective to provide a minimum income to the poorest and reduce poverty, its core programs are unconditional cash transfers (UCTs) to the poorest households and educational conditional cash transfers (CCTs). UCTs are provided in quarterly stipends of PRs 4700 per beneficiary, paid directly to the woman head of the household. Under the ongoing EFF-supported program, cash transfers were increased by more than 50 percent and the program coverage was broadened from 4.2 million beneficiaries at end-June 2013 to 5.28 million at end-March 2016, with the aim of reaching 5.3 million beneficiaries by end-June 2016. CCTs to BISP families with a child (5–12 years) aim at increasing primary school enrollment, attendance and completion. CCTs are disbursed to BISP beneficiaries on the basis of children's school attendance, with quarterly stipends of PRs 600 per child. CCT coverage has been gradually increased to cover about 1.1 million children at end-March 2016 (from 52,000 children in 2012), with the objective of reaching 1.3 million children by the end-June 2016.

The targeting of BISP relies on proxy means testing. The targeting mechanism, developed with the support of the World Bank, relies on a poverty scorecard applied in a door-to-door country-wide survey covering 27 million households (equivalent to almost the full population of Pakistan). The survey questionnaire relied on a wide range of questions, including composition and characteristics of the household roster, age, education, employment and disability status of household members, nature of the dwelling, and moveable and fixed assets. A cut-off to the resulting poverty score was established and 7.7 million poor households (about 29 percent of overall surveyed households) were identified as eligible for BISP cash transfers. The survey also allowed establishing the National Socio-Economic Registry, Pakistan's most comprehensive and reliable database of the poor.

Efforts to further strengthen BISP targeting and efficiency are ongoing. The authorities are pursuing the extension of the BISP coverage to include the remaining eligible households from the BISP beneficiary list. In addition, they are improving the quality of BISP services by rolling out a new biometric system to all BISP beneficiaries by September 2016 and by adopting improved banking contracts by October 2016. Furthermore, the authorities are committed to further strengthening the targeting and the efficiency of BISP by updating its beneficiary database. To this end, the scorecard methodology was updated and a new questionnaire has been developed. Moreover, a new pilot door-to door survey and, in parallel, self-registration in selected districts, are being launched. The full survey at the national level will likely be completed by December 2017.

17. **A prudent monetary policy stance is needed to preserve achievements in containing inflation and support macroeconomic stability**. The SBP's monetary policy stance has been in line with program objectives, as monetary targets have been met and inflation has remained well contained. Following the reduction in the policy rate by 25 bps to 5.75 percent in May 2016, staff cautioned that in light of an expected moderate increase in inflation and tighter global financial conditions, maintaining a prudent monetary policy by targeting clearly positive real interest rates and setting the policy rate in a forward-looking fashion will be important to preserve achievements in anchoring low inflation expectations and support stable financial conditions. The SBP should remain vigilant to any signs of inflationary pressures in the coming months, and be prepared to tighten policy if needed. The SBP's liquidity injections in the interbank market have increased reflecting banks' (in lieu of the SBP's) higher financing of the government and temporarily lower deposit growth following the introduction of the financial transactions tax. Staff noted that higher reserve accumulation and continued gradual normalization of deposit growth would reduce the required liquidity injections, and welcomed the authorities' intention to manage monetary aggregates prudently well beyond the program's horizon.

18. **Staff stressed the need to further strengthen the SBP's autonomy**. The authorities have made some progress in strengthening the SBP's autonomy, including by amending the SBP law, establishing an independent monetary policy committee, and adopting executive orders to (i) provide a financial guarantee to the SBP in case of losses not covered by SBP's general reserves and recapitalize the bank if it becomes necessary;[8] and (ii) delegate to the SBP board the power to establish profit distribution rules, thereby allowing the board discretion in building reserves (end-March 2016 SB). In support of greater transparency in monetary policy setting, the authorities have begun publishing minutes of the MPC meetings. To address the remaining recommendations of the 2013 Safeguards Assessment on legal amendments with respect to governance and autonomy of the SBP, the SBP has formed a committee which will develop a time-bound legislative action plan by end-June 2016, with the support of IMF technical assistance.

C. Financial Sector Issues

19. **While the overall banking system capitalization remains strong, efforts are under way to address undercapitalization in some small banks**. Two small banks (1.5 percent of banking assets) recently became marginally CAR–noncompliant, in part due to an increase in the CAR requirement. One bank has already received a partial capital injection and is expected to be brought into regulatory compliance by August 2016, while the other is in the process of being privatized and expected to become CAR-compliant by December 2016. One other small bank, which is below the absolute minimum capital requirement (MCR), has initiated the process of merging with another bank by December 2016. Staff stressed the need for the SBP to continue closely engaging with these banks to ensure their statutory compliance as soon as possible, and subsequently to monitor their plans for remaining CAR-compliant.

20. **Staff welcomed ongoing financial sector reforms aiming at strengthening the resilience of the banking sector**. The authorities are advancing with the establishment of a deposit protection scheme. The Deposit Protection Corporation (DPC) Act was passed by the National Assembly and is expected to be enacted, following Senate approval, by August 2016 (modified SB). In the meantime, the SBP has initiated preparatory work to establish the corporate infrastructure of the DPC, supported by IMF TA, with a view to making it operational by September 2016. Staff supports the ongoing strengthening of the regulatory and supervisory framework with the phased implementation of Basel III capital and liquidity standards, which will help banks meet the new prudential norms. Staff also welcomes the development of a framework for consolidated supervision of banking groups and the strengthening of the legal infrastructure to improve recovery and

[8] This measure is intended to support the SBP's autonomy in the event such issues should ever arise. There are currently no concerns regarding the SBP's profitability or level of capitalization.

resolution of NPLs and addressing bankruptcy, which will help in gradually addressing the stock of outstanding NPLs (MEFP ¶27).[9] In light of mixed international experience with the performance of state-owned development banks, staff stressed the importance of operating the Pakistan Development Fund (PDF) in line with best practices, including financing its projects on a commercial basis, and maintaining a strong governance structure to mitigate financial risks and avoid quasi-fiscal activities. The authorities emphasized their commitment to operate the PDF on a commercial basis with sound governance and to seek equity participation of international development partners (MEFP ¶31).

21. **Staff commended the expansion of the coverage of tax crimes as predicate offenses to money laundering and recommended the effective implementation of these measures** (MEFP ¶30). The government has amended the schedule of offenses of the AML Act to include income tax evasion by notification in the Federal Gazette (May 15, 2016 SB). This is an important step to widen the scope of tax crimes covered under the AML framework and, if properly implemented, will contribute to addressing tax evasion and corruption while improving the enforcement of revenue collection. The authorities reiterated their commitment to strengthen the effectiveness of the AML/CFT framework in line with international standards, including by implementing the newly adopted measures related to proceeds of tax crimes and the relevant United Nations Security Council Resolutions related to terrorism and terrorist financing and by bolstering the Financial Monitoring Unit's analytical capabilities.

D. Structural Issues

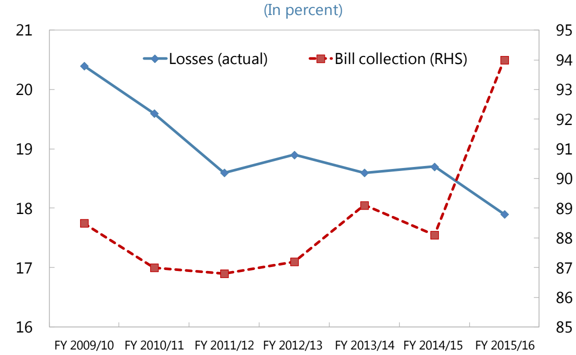
Energy Sector

22. **The authorities are committed to further move ahead with the energy sector reform**. Since the start of the program, power blackouts declined, distribution losses were reduced, payment collection rates increased, energy subsidies were reduced, electricity tariffs were increased, surcharges were introduced to allow for cost recovery, and the regulatory framework was strengthened. Efforts are underway to continue strengthening the performance and monitoring of power distribution companies (DISCOs). Although the outstanding stock of power sector arrears remains to be addressed, new arrears are accumulating at a significantly reduced pace. Despite some delays, the process for notification of the FY 2015/16 electricity tariffs and for setting up multi-year tariff frameworks for DISCOs is advancing. Due to political opposition and social tensions, the authorities revisited their plans for privatizing DISCOs and decided to move ahead with an Initial Public Offering for a minority share in FESCO, to be followed by other DISCOs (¶27).

[9] In particular, the Corporate Restructuring Companies Act was passed by the National Assembly in March 2016, expected to be enacted by end-June 2016, and the Corporate Rehabilitation Act will be submitted to parliament by end-June 2016. In addition, amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance are awaiting Senate approval, and a number of administrative measures for capacity building of banking courts have also been proposed for swift disposal of recovery cases.

23. **Improved performance of distribution companies and favorable oil prices have helped contain the accumulation of power sector arrears**. The end-March 2016 IT on the accumulation of power sector arrears was met with a large margin, owing to the positive impact of low oil prices, significant strengthening in collection rates, and further loss reduction (MEFP ¶34). Half of the DISCOs met their quarterly performance targets at end-March 2016, and the authorities are taking disciplinary actions against noncompliant DISCOs as appropriate. More generally, the authorities' are committed to strengthen DISCOs' performance by reducing distribution losses, increasing payment collections, and improving revenue-based load shedding and customer service. Staff commended the strengthening of DISCOs' monitoring by the submission of their quarterly performance reports for the review and approval of the Economic Coordination Committee (ECC) of the cabinet and making them available to the public (prior action; MEFP ¶35).

Loss Reduction and Revenue Collection
(In percent)



Sources: Pakistani authorities; and IMF staff calculations.

24. **Setting up a multi-year tariff framework for DISCOs is expected to help strengthen the regulatory framework and attract investors**. The multi-year tariffs for FESCO, IESCO and LESCO, aimed at reducing uncertainty for investors and preparing DISCOs for private sector participation, will be notified with a delay by July 15, 2016 (modified SB) due to DISCOs' review petitions to the regulator to revise benchmark distribution losses used for FY 2015/16 tariff determination. The authorities are advancing in setting a multi-year tariff framework for the remaining DISCOs, of which three have prepared multi-year tariff petitions for FY 2016/17.

25. **The authorities are updating the power sector arrears reduction plan**. The authorities' 2015 plan to limit the accumulation of new arrears and clear the outstanding stock rested in part on the planned privatization of DISCOs. Changes to the privatization strategy (¶27) have prompted the authorities to update the plan, in consultation with development partners, by July 15, 2016 (new SB; MEFP ¶34). Staff supported the authorities' proposal to further tighten the IT on arrears accumulation for end-June 2016, which is additional to the previous tightening in the context of the tenth review.

26. **The regulatory process for gas tariff determination has resumed and growing LNG imports are strengthening supply to the domestic market** (MEFP ¶¶40–42). The authorities are resuming semi-annual notification of gas tariffs, key to ensure cost recovery and strengthen the regulatory framework. They are increasing imports of Liquefied Natural Gas (LNG) to tackle domestic gas shortages, with the price of imported LNG continuing to be fully passed through to consumers. Staff welcomed the authorities' commitment to further reduce distribution losses, including by strengthening infrastructure and tackling gas theft.

Public Sector Enterprises

27. **The authorities remain committed to restructuring and attracting private sector participation in PSEs and are renewing efforts to contain PSEs' losses**. In light of legislative constraints, political opposition, and widespread strikes, the authorities have reassessed their strategy for PSEs, scaling back planned privatization transactions but continuing efforts to attract private sector participation and putting in place additional measures to contain PSEs' losses (MEFP ¶45):

- Parliament approved in April 2016 legal amendments to corporatize Pakistan International Airlines (PIA), a necessary step to enable the authorities to move ahead with seeking private sector participation (May 15, 2016 SB). However, these amendments require the government to retain a shareholding majority and management control. Options to attract private sector interest in this context are being explored, including through a road show. In parallel, the authorities are taking measures to contain PIA's losses by strengthening its governance and reducing financial and operating costs, including by improving performance through route rationalization, fleet modernization, increasing fuel efficiency, and improving services.

- The authorities will resume the privatization process for Pakistan Steel Mills (PSM) by mid-June 2016, in the event the federal government's offer of transferring PSM's ownership to the provincial government of Sindh should be declined. Staff noted the additional delay and stressed the need to swiftly conclude discussions since PSM is currently not operating and incurs financial losses. The authorities have stepped up efforts to contain PSM's losses, including by reducing contractual employees and reducing other costs.

- The authorities revisited their plans for privatizing FESCO and other DISCOs and decided to move ahead with an Initial Public Offering (IPO) for a minority share in FESCO by November 2016 to be followed by IESCO and LESCO. Staff welcomed the authorities' commitment to disinvest of Kot Addu Power Company (KAPCO), a large power generation company, and to solicit expressions of interest by July 15, 2016 (new SB in lieu of completing the bidding process for FESCO by June 2016, which is no longer feasible). Staff welcomed progress in the restructuring of Pakistan Railways, in particular the strengthening of the company's freight operations, which allowed improving revenue performance.

Business climate and trade policy

28. **Staff welcomed the authorities' focus on implementing their new business climate reform strategy and further simplifying the trade regime to foster higher and more inclusive growth**. A new country-wide business climate reform strategy was adopted in February 2016, defining specific time-bound measures at the federal and provincial levels to streamline procedures and strengthen the regulatory framework across ten priority areas (MEFP ¶43). The authorities have

started implementing short-term measures to ease the process of starting a new business, paying taxes and trading across borders, and facilitate access to credit. Furthermore, they are simplifying the import tariff structure by reducing tariff slabs from five to four by July 2016.

PROGRAM MODALITIES AND OTHER ISSUES

29. **The attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out their commitments**. The authorities propose to increase the end-June 2016 floor for NIR from US$10.7 billion to US$11.05 billion to strengthen external to buffers, and increase the end-June ceiling on NDA of the SBP from PRs 2,650 billion to PRs 2,731 billion on account of the more persistent demand for currency in circulation. The authorities also request a short extension of the EFF arrangement from September 3, 2016 through September 30, 2016 to allow sufficient time to conduct discussions for the final review.

30. **Financing, program risks, and capacity to repay the Fund**. Pakistan's financing needs are fully covered for the remainder of the program and the country's capacity to repay the Fund remains strong owing to supportive macroeconomic policies, resilient remittances inflows, and increasing foreign exchange reserves. Pakistan benefits from disbursements from multilateral and bilateral partners, which are expected to continue beyond the ongoing program, and has access to international markets, which limits short- and medium-term financing risks. The Fund's exposure to Pakistan increased with the purchase made upon completion of the tenth review, reaching the equivalent of SDR 3.96 billion (about US$5.5 billion; Table 11). The Fund's exposure is expected to increase further over the program period as new disbursements take place (Table 9). While short-term financing risks are limited, the materialization of risks to the economic outlook could erode Pakistan's capacity to repay to the Fund. Still, the debt sustainability analysis shows that external debt would remain on a downward trend over the medium term under most stress scenarios, with the peak in external financing needs under the most severe stress scenario (3.7 percent of GDP) staying well below the risk assessment benchmark of 5 percent of GDP.[10]

31. **Safeguards Assessment**. An updated safeguards assessment with respect to the current EFF was completed in December 2013 and concluded that legal amendments are needed to strengthen the central bank's autonomy and governance arrangements. The authorities have implemented the 2013 safeguards recommendations, except for legal amendments to the SBP Act, which were only partially addressed. The authorities are now taking steps to address the remaining recommendations. Proposed amendments are on prohibition of government interference, enhancement of the financial autonomy of the SBP, creation of an executive board, and personal autonomy of executive board members (¶18).

[10] IMF Country Report No. 16/1.

STAFF APPRAISAL

32. **Performance during the current review period has been strong, with macroeconomic stability consolidating, structural reforms progressing, and all PCs and most ITs and SBs met**. Building on progress since the start of the IMF-supported program in September 2013, economic growth continued to recover, inflation to be contained, foreign reserve buffers to grow, the fiscal deficit to decline, and social safety nets to strengthen. Structural reforms are progressing: the authorities continued to strengthen the SBP's autonomy, increase tax revenues, improve the tax administration, and reduce energy subsidies and the accumulation of new power sector arrears. The authorities have also begun implementing their new strategy to improve the business climate. Despite setbacks in privatization earlier in the year due to labor unrest and political opposition, the authorities remain committed to return ailing PSEs to a sound financial position, including through seeking private participation, and to complete the energy sector reform. The authorities indicated their continued resolve to advance their reform agenda, during the remainder of the Fund-supported program and beyond.

33. **Continued progress on rebuilding buffers and advancing with growth-supporting structural reform policies is important also in the context of downside risks**. Further real exchange rate appreciation in the context of an appreciating U.S. dollar would continue to erode export competitiveness. Additional risks to the balance of payments could stem from a faster-than-expected rise in oil prices, lower growth in advanced and emerging market economies (including China and GCC), tighter global financial conditions, and, in the medium-to-long run, from obligations related to large-scale investments such as CPEC. Domestically, policy slippages, ongoing legal challenges, political uncertainty, and the still difficult security conditions could affect economic activity and undermine fiscal consolidation.

34. **The authorities are on track to achieve their end-year fiscal deficit target and are committed to continue gradual fiscal consolidation in FY 2016/17**. Fiscal performance in the third quarter of FY 2015/16 was strong. The authorities are on track to reduce the overall fiscal deficit (excluding grants) to 4.4 percent of GDP in FY 2015/16, and are committed to manage expenditure prudently and scaling back nonpriority expenditures as needed. Staff supports the authorities' commitment to continue gradual fiscal consolidation in FY 2016/17 with a budget deficit target of 3.8 percent of GDP (excluding foreign grants), supported by revenue measures, while continuing to strengthen social safety nets. The amendment of the FRDL Act to anchor fiscal policy and support macroeconomic stability over the medium term and the new PPP framework law to foster investment while managing associated fiscal risks are welcome elements to further strengthen the authorities' fiscal framework.

35. **Sustained progress with tax administration reforms is needed to increase tax revenues**. Staff supports the authorities' objective to raise the tax-to-GDP ratio to 14.5 percent in the medium term, which will allow creating much needed fiscal space for infrastructure and social expenditures. Continuing to broaden the tax base by further reducing concessions and exemptions, and improving

tax compliance and collection, including at the provincial level, will be key to mobilize additional fiscal revenues. Alongside, modernizing the GST regime in terms of policy design and administration would contribute to enhance efficiency and equity.

36. **The authorities should continue to build international reserves, maintain a prudent monetary policy stance, and further strengthen the SBP's autonomy**. The authorities should continue with their efforts to swiftly build reserve buffers while allowing for greater exchange rate flexibility. This will help bolster external buffers, reduce vulnerabilities, and contain real effective exchange rate appreciation pressures. Following the recent accommodative cut in the policy rate, staff cautioned that, to preserve achievements in anchoring low-inflation expectations and support macroeconomic stability, the SBP should be prepared to tighten policy should inflationary risks intensify. The authorities have made some progress in strengthening the SBP's autonomy, including by establishing an independent monetary policy committee and putting in place a number of executive measures. Staff stressed that addressing the remaining recommendations of the 2013 Safeguards Assessment is important to strengthen the SBP's autonomy.

37. **Advancing with financial sector reforms is important to reinforce financial stability**. Establishing the deposit insurance scheme, ensuring banks' full compliance with regulatory capital requirements, and further improving the regulatory and supervisory framework are important to strengthen the resilience of the financial sector. Staff stressed the need to operate the PDF on a commercial basis to strictly limit any fiscal risks. Staff welcomed the expansion of the coverage of tax crimes as predicate offenses to money laundering, which will contribute to increasing revenue collection enforcement, improving governance, and fighting corruption. Staff stressed the need to continue enhancing the AML/CFT framework in line with international standards.

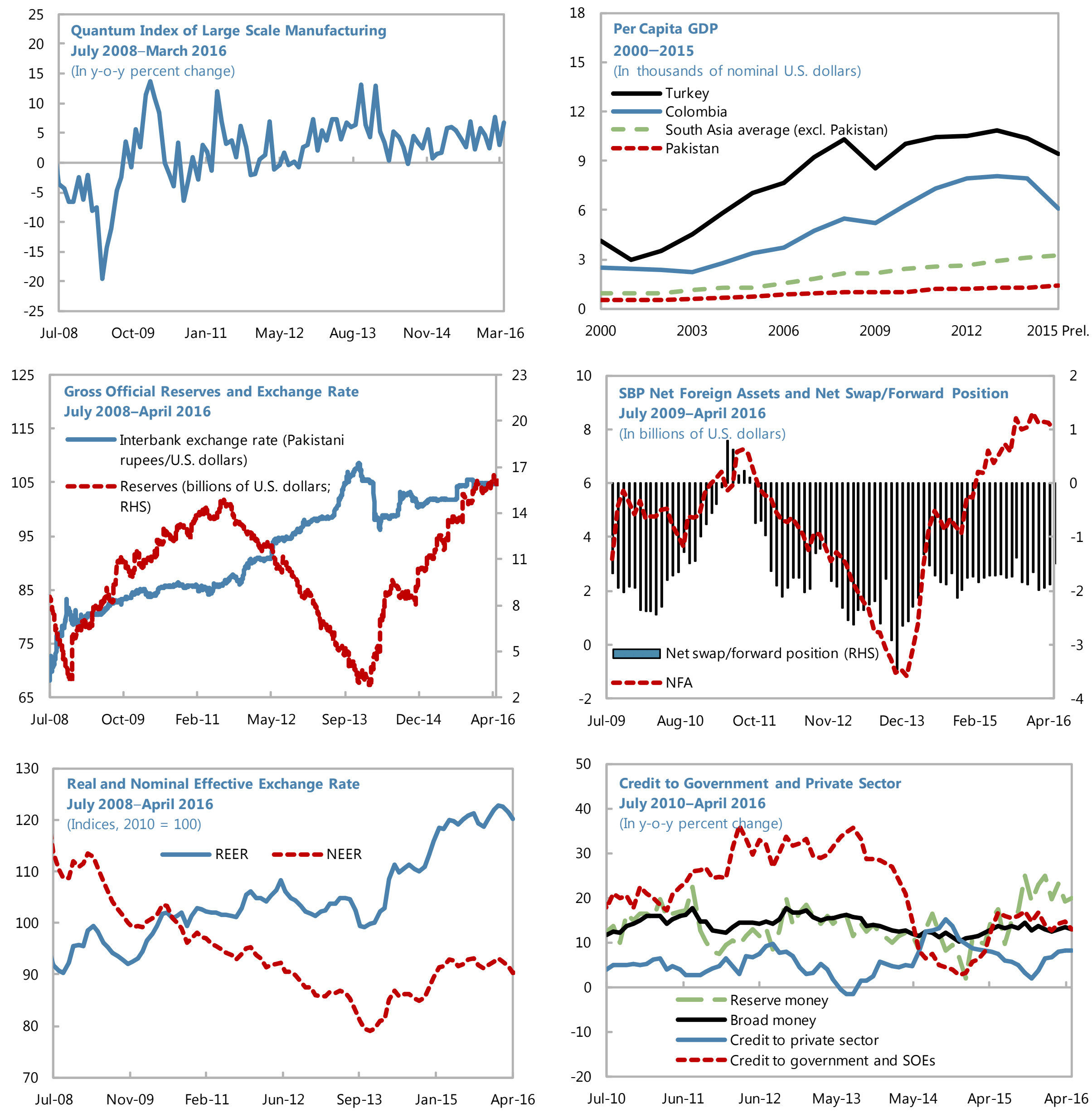
38. **Restructuring and privatizing ailing PSEs remain key to ensure their financial viability, reduce fiscal costs and strengthen the efficiency of Pakistan's economy**. Following setbacks earlier in the year to the authorities' plans to restructure and privatize PSEs and an ensuing dialogue with key stakeholders, the authorities have reassessed their strategy for PSE reform, aiming to attract in some cases more limited private sector participation and to put in place, in parallel, additional measures to reduce PSEs' financial losses. Staff welcomed the authorities' commitment to attract private investors' participation in PIA, privatize KAPCO, and conduct IPOs for DISCOs.

39. **Further strengthening DISCOs' performance and updating the power sector arrears reduction plan will be important to reduce fiscal risks**. The authorities' enhanced focus on improving the performance of DISCOs, including through oversight by the Economic Coordination Committee of the Cabinet, is welcome. In light of the scaled-back plans for divestment of the DISCOs, staff stressed the importance of updating the power sector arrears reduction plan to eliminate the flow and stock of such arrears. Staff also welcomed the authorities' decision to further tighten the end-June 2016 IT to contain the accumulation of new arrears during the remainder of the program.

40. **Swift implementation of the new business climate reform strategy is needed to foster investment and support private-sector led growth**. Staff welcomed the authorities' commitment and recent progress in implementing short-term measures to ease the process of starting new businesses, paying taxes, trading across borders, and facilitate access to credit. Continued resolve in improving the business climate will be important to catalyze higher and more inclusive growth, foster job creation, and raise living standards.

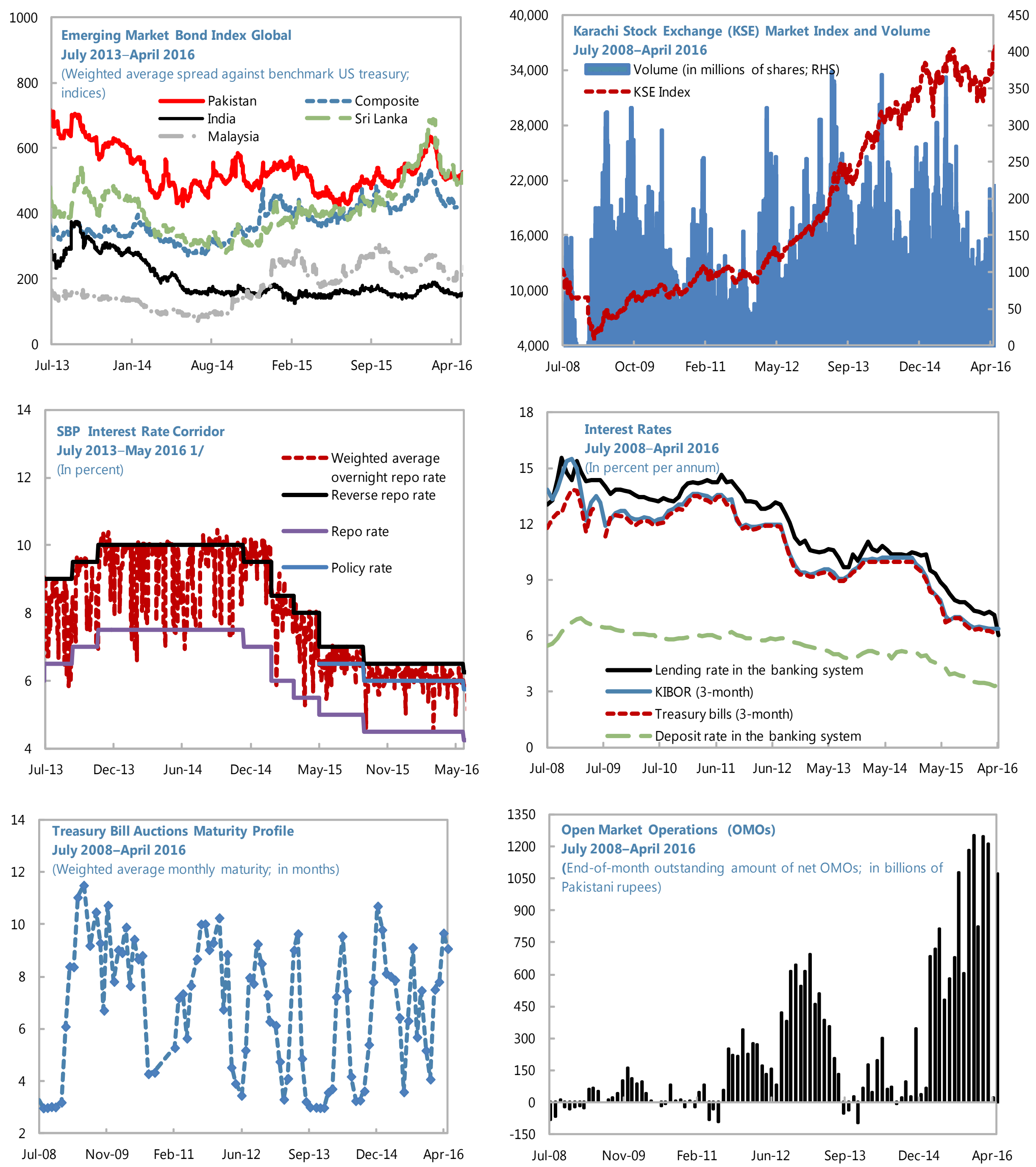
41. **On the basis of Pakistan's performance under the extended arrangement, staff supports the authorities' request for completion of the eleventh review under the arrangement and request for modification of the end-June PCs on NIR and NDA**. Staff recommends the establishment of two new structural benchmarks (Table 2) and the modification and revision of the timeline of structural benchmarks as proposed in the attached MEFP. Staff supports the request to extend the EFF arrangement from September 3, 2016 until September 30, 2016.

Figure 1. Pakistan: Selected Economic Indicators, 2008–16



Sources: Pakistani authorities; IMF World Economic Outlook Database; and IMF staff calculations.

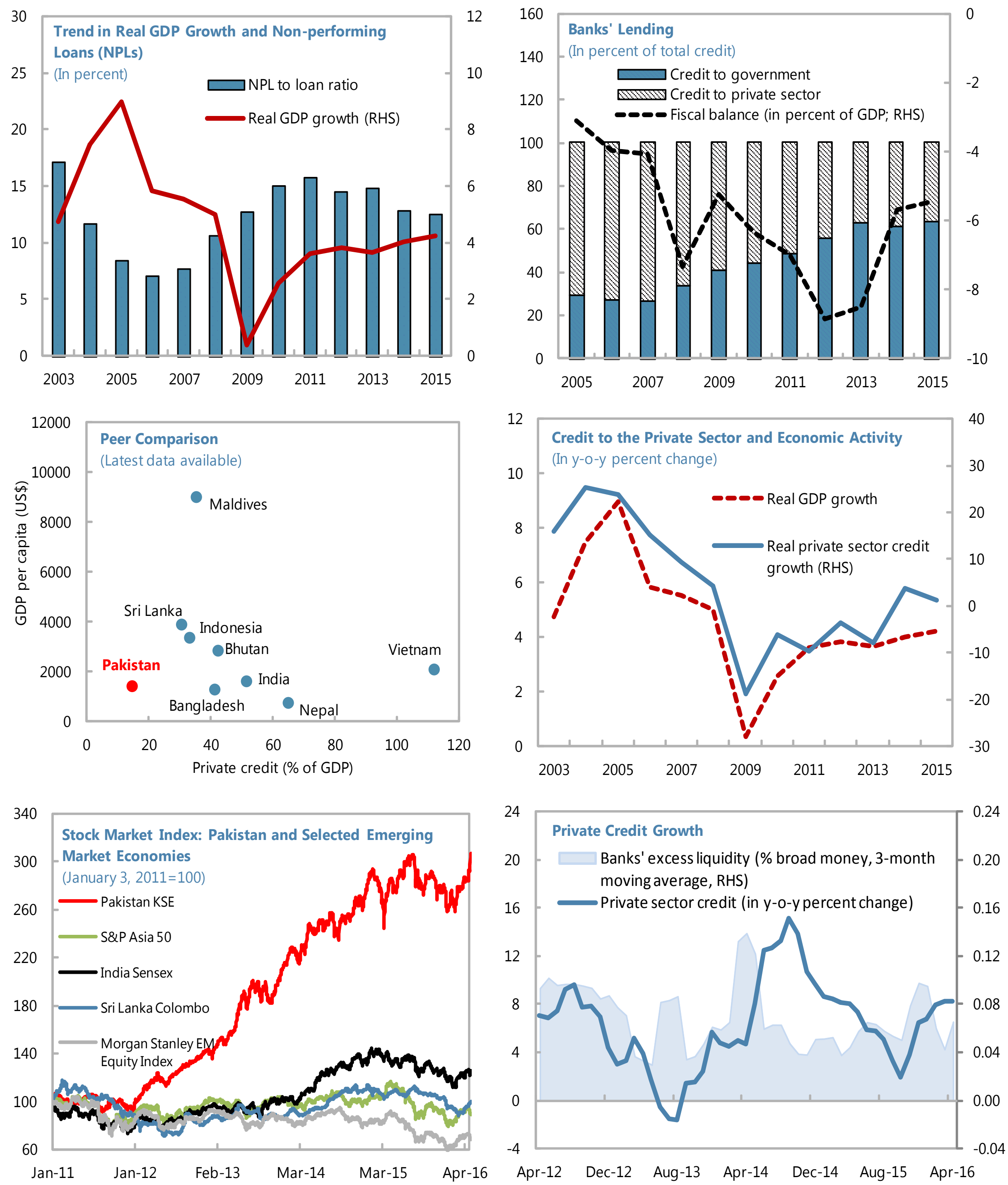
Figure 2. Pakistan: Selected Financial Indicators, 2008–16



Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

1/ Last data entry point is May 24, 2016.

Figure 3. Pakistan: Selected Banking and Financial Indicators



Sources: Pakistani authorities; Bloomberg; and IMF staff calculations.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2014/15 and FY 2015/16
(In billions of rupees, at program exchange rates, unless otherwise specified)

	FY2014/15	FY2015/16					
	end-June	end-September	end-December	end-March			end-June
				Program			
				Eleventh Review			
				Target	Adj. Target	Actual	
Performance Criteria							
Floor on net international reserves of the SBP (millions of U.S. dollars) 4/	5,354	6,955	6,882	9,300	5,765	6,172	11,050
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,661	2,633	2,660	2,832	2,791	2,731
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	329	541	1,012	1,012	1,009	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,385	1,650	2,000	2,000	1,885	2,000
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,887	1,589	1,457	1,800	1,800	1,361	1,800
Continuous Performance Criterion							
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0
Indicative Targets							
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	94	24	48	70	70	75	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	600	1,385	2,105	2,105	2,103	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	13	0	15	15	4.9	18

Sources: Pakistani authorities; and Fund staff estimates.

1/ All items as defined in the TMU. Fiscal year runs from July 1 to June 30.
2/ Excluding grants, FY2012/13 overall budget deficit is a stock.
3/ FY 2012/13, total stock of government debt as of June 30, 2013.
4/ Adjustors are presented on a cumulative basis since the beginning of the program (September, 2013).

Table 2. Pakistan: Prior Actions and Structural Benchmarks, March–September 2016

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		At time of 10th review	New / revised		
Prior Actions					
1	Submit the FY 2016/17 budget to parliament, consistent with the policies described in the MEFP and a budget deficit target of 3.8 percent of GDP.		June 8, 2016	Met	Improve government debt dynamics.
2	Submit DISCOs' quarterly performance reports for Q3 FY2015/16 for review and obtain approval of the Economic Coordination Committee of the Cabinet, and make the reports available to the public.		May 31, 2016	Met	Strengthen the performance of the power sector.
Structural Benchmarks					
Fiscal sector					
3	Identify 50 potential cases of high net worth individuals and other large taxpayers, based on established risk-based audit criteria, and initiate comprehensive income tax audits in at least half of such cases.	end-March 2016		Met	Improve tax compliance and revenue collection.
4	Establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration.	end-April 2016		Met	Improve governance in tax administration.
5	Prepare and submit draft legislation for a PPP framework to the National Assembly.	end-April 2016		Met	Strengthen the institutional framework for fiscal policy.
6	Submit amendments to the Fiscal Responsibility and Debt Limitation Act (as described in paragraph 18 of the MEFP of March 10, 2016) to the National Assembly.	end-May 2016		Met	Strengthen the framework for fiscal responsibility.
Monetary sector					
7	(i) Issue an executive order to provide a financial guarantee to the SBP in case of any losses that are not covered by the SBP's general reserves and recapitalize the bank if it becomes necessary; and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains.	end-March 2016		Met	Strengthen central bank independence
Financial sector					
8	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-March 2016	end-August 2016	Not met by March 2016	Enhance the resilience of the financial sector.
9	Amend the schedule of the AML Act, by notification in the Federal Gazette, to include offenses under the income tax law as predicate offenses to money laundering (modified SB).	May 15, 2016		Met	Use anti money laundering tools to combat tax evasion.
Structural Policies					
10	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016	July 15, 2016	Not met by April 2016	Prepare for DISCO privatization.
11	Obtain parliamentrary approval for amendments to the PIA Act.	May 15, 2016		Met	Restructure a key loss-making public sector enterprise.
New Structural Benchmarks					
12	Update the plan to further limit the accumulation of new payables and gradually eliminate the outstanding stock of payables arrears in the power sector.		July 15, 2016		Strengthen the financial perfomance of the power sector.
13	Solicit expressions of interest for the divestment of Kot Addu Power Company (KAPCO).		July 15, 2016		Strenghten private sector participation in the energy sector.

Table 3. Pakistan: Selected Economic Indicators, 2010/11–2016/17[1/]

Population: 189.9 million (2014/15)
Per capita GDP: US$1,510 (2014/15)
Poverty rate: 12.7 percent (2010/11)
Main exports: Textiles ($13.5 billion, 2014/15)
Unemployment: 5.9 percent (2014/15)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17
						Tenth Review	Proj.	Proj.
	(Annual percentage change)							
Output and prices								
Real GDP at factor cost	3.6	3.8	3.7	4.1	4.0	4.5	4.7	5.0
GDP deflator at factor cost	19.5	5.7	7.1	7.4	4.6	3.3	2.0	5.2
Consumer prices (period average)	13.7	11.0	7.4	8.6	4.5	3.3	3.0	5.2
Consumer prices (end of period)	13.3	11.3	5.9	8.2	3.2	4.5	4.0	5.3
Pakistani rupees per U.S. dollar (period average)	2.0	4.4	8.4	6.4	-1.5			
	(In percent of GDP)							
Saving and investment								
Gross saving	14.2	13.0	13.9	13.7	14.1	14.2	14.2	13.9
Government	-4.2	-5.3	-5.2	-1.4	-1.5	-0.2	-0.6	0.1
Nongovernment (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	14.4	14.8	13.7
Gross capital formation 2/	14.1	15.1	15.0	15.0	15.1	15.3	15.2	15.7
Government	2.5	3.4	3.2	3.5	3.7	3.9	3.5	3.7
Nongovernment (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.4	11.7	12.0
Public finances								
Revenue and grants	12.6	13.0	13.5	15.3	14.5	15.7	15.6	16.0
Expenditure (including statistical discrepancy)	19.6	22.0	21.9	19.9	19.2	19.8	19.5	19.5
Budget balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.1	-4.1	-3.6
Budget balance (excluding grants)	-7.0	-8.9	-8.5	-5.7	-5.4	-4.3	-4.4	-3.8
Primary balance	-2.9	-4.2	-3.9	-0.3	-0.5	0.2	0.2	0.7
Total general government debt excl. IMF obligations	54.7	59.9	62.3	63.0	62.3	63.2	62.7	60.5
External general government debt	21.8	21.8	19.6	19.3	17.8	19.5	18.9	18.9
Domestic general government debt	32.9	38.1	42.8	43.8	44.5	43.7	43.8	41.6
	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)							
Monetary sector								
Net foreign assets	4.1	-3.8	-3.4	3.7	2.1	2.0	2.4	1.6
Net domestic assets	11.8	17.9	19.3	8.8	11.1	9.5	10.1	9.4
Broad money (percent change)	15.9	14.1	15.9	12.5	13.2	11.5	12.5	11.0
Reserve money (percent change)	17.1	11.3	15.8	12.9	9.8	11.0	17.0	12.0
Private credit (percent change)	4.0	7.5	-0.6	12.5	5.9	10.5	9.0	11.0
Six-month treasury bill rate (period average, in percent)	13.3	12.3	9.8	9.7	8.8			
External sector								
Merchandise exports, U.S. dollars (percentage change)	28.9	-2.6	0.4	1.1	-3.9	-8.0	-8.8	4.1
Merchandise imports, U.S. dollars (percentage change)	14.9	12.8	-0.6	3.8	-0.9	-5.6	-4.4	9.9
Current account balance (in percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.0	-1.1	-1.0	-1.8
	(In percent of exports of goods and services, unless otherwise indicated)							
External public and publicly guaranteed debt	149.3	155.9	140.7	161.2	159.7	198.3	192.0	193.8
Debt service	13.4	16.2	21.6	23.5	21.9	26.0	24.2	28.1
Gross reserves (in millions of U.S. dollars) 3/	14,784	10,799	6,008	9,096	13,534	17,516	18,378	20,279
In months of next year's imports of goods and services	3.6	2.7	1.5	2.2	3.5	4.2	4.3	4.4
Memorandum items:								
Real effective exchange rate (annual average, percentage change)	6.1	3.0	-1.3	0.9	10.9			
Terms of trade (percentage change)	7.3	-10.0	-1.9	0.3	7.0	8.6	9.6	-4.5
Real per capita GDP (percentage change)	1.5	1.2	2.1	2.6	2.0	2.5	3.0	3.3
GDP at market prices (in billions of Pakistani rupees)	18,276	20,047	22,379	25,068	27,384	29,816	29,598	33,049
GDP at market prices (in billions of U.S. dollars)	213.6	224.4	231.1	243.4	270.0			

Sources: Pakistani authorities; World Bank; and IMF staff estimates and projections.

1/ Fiscal year ends June 30.
2/ Including changes in inventories.
3/ Excluding gold and foreign currency deposits of commercial banks held with the State Bank of Pakistan.

Table 4. Pakistan: Medium-Term Macroeconomic Framework, 2010/11–2019/20

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
						Tenth Review	Projections				
						(Annual percentage change)					
Output and prices											
Real GDP at factor cost	3.6	3.8	3.7	4.1	4.0	4.5	4.7	5.0	5.2	5.5	5.5
Consumer prices (period average)	13.7	11.0	7.4	8.6	4.5	3.3	3.0	5.2	5.0	5.0	5.0
						(In percent of GDP)					
Saving and investment balance	0.1	-2.1	-1.1	-1.3	-1.0	-1.1	-1.0	-1.8	-2.3	-2.3	-1.5
Government	-6.7	-8.6	-8.4	-4.9	-5.2	-4.1	-4.1	-3.6	-2.9	-2.7	-2.5
Non-government (including public sector enterprises)	6.8	6.6	7.3	3.6	4.2	3.0	3.1	1.8	0.6	0.4	1.0
Gross national saving	14.2	13.0	13.9	13.7	14.1	14.2	14.2	13.9	13.7	14.3	15.5
Government	-4.2	-5.3	-5.2	-1.4	-1.5	-0.2	-0.6	0.1	1.2	1.8	2.5
Non-government (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	14.4	14.8	13.7	12.5	12.4	13.0
Gross capital formation	14.1	15.1	15.0	15.0	15.1	15.3	15.2	15.7	16.0	16.6	17.0
Government	2.5	3.4	3.2	3.5	3.7	3.9	3.5	3.7	4.1	4.6	5.0
Non-government (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.4	11.7	12.0	11.9	12.0	12.0
						(In billions of U.S. dollars, unless otherwise indicated)					
Balance of payments											
Current account balance	0.2	-4.7	-2.5	-3.1	-2.6	-3.2	-2.9	-5.4	-7.5	-8.0	-5.5
Net capital flows 1/	2.3	1.4	0.5	7.0	5.3	5.3	5.8	7.3	8.6	8.6	7.4
Of which: foreign direct investment 2/	1.6	0.7	1.3	1.6	0.8	1.3	1.3	2.5	3.3	4.4	6.0
Gross official reserves	14.8	10.8	6.0	9.1	13.5	17.5	18.4	20.3	21.3	21.4	22.6
In months of imports 3/	3.6	2.7	1.5	2.2	3.5	4.2	4.3	4.4	4.3	4.1	4.1
External debt (in percent of GDP)	31.1	29.2	26.3	26.9	24.1	25.6	25.6	25.9	26.0	25.5	24.1
Terms of trade (annual percentage change)	7.3	-10.0	-1.9	0.3	7.0	8.6	9.6	-4.5	-0.2	-0.1	-0.4
Real effective exchange rate (annual percentage change	6.1	3.0	-1.3	0.9	10.9						
						(In percent of GDP)					
Public finances											
Revenue and grants	12.6	13.0	13.5	15.3	14.5	15.7	15.6	16.0	16.6	17.0	17.4
Of which: tax revenue	9.5	10.4	10.0	10.5	11.0	12.3	12.3	12.8	13.6	14.0	14.4
Expenditure, *of which:*	19.3	21.7	21.8	20.2	19.8	19.8	19.8	19.5	19.5	19.7	19.9
Current	16.5	17.9	16.8	16.4	16.6	16.0	16.5	15.8	15.4	15.2	14.9
Development and net lending	2.6	3.5	5.0	4.0	3.8	3.9	3.5	3.7	4.1	4.5	5.0
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.2	0.2	0.7	1.2	1.3	1.2
Primary balance (excluding grants)	-3.2	-4.4	-4.1	-1.1	-0.7	-0.1	0.0	0.5	1.1	1.2	1.2
Overall fiscal balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.1	-4.1	-3.6	-2.9	-2.7	-2.5
Overall fiscal balance (excluding grants)	-7.0	-8.9	-8.5	-5.7	-5.4	-4.3	-4.4	-3.8	-3.0	-2.8	-2.5
Total public debt (including obligations to the IMF)	58.9	63.3	64.3	64.2	63.9	65.0	64.3	62.1	59.3	56.8	53.9

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Difference between the overall balance and the current account balance.

2/ Including privatization.

3/ In months of next year's imports of goods and services.

Table 5. Pakistan: Balance of Payments, 2013/14–2019/20

(In millions of U.S. dollars, unless otherwise indicated)

	2013/14	2014/15	2015/16						2016/17	2017/18	2018/19	2019/20
			Q1	Q2	Q3	Q4	Tenth Review	End-Year				
									Projections			
Current account	-3,130	-2,627	-351	-1,031	-223	-1,280	-3,193	-2,885	-5,436	-7,454	-8,045	-5,514
Balance on goods	-16,701	-17,318	-4,734	-4,638	-3,900	-4,350	-16,949	-17,622	-20,640	-21,960	-22,867	-22,299
Exports, f.o.b.	25,068	24,083	5,317	5,485	5,579	5,580	22,150	21,961	22,865	24,387	26,681	29,798
Imports, f.o.b.	41,769	41,401	10,051	10,123	9,479	9,930	39,099	39,583	43,506	46,347	49,547	52,098
Services (net)	-2,551	-2,842	-146	-787	-624	-867	-2,923	-2,424	-2,252	-3,195	-3,500	-4,094
Services: credit	5,322	5,876	1,690	1,122	1,056	1,132	4,955	5,000	5,580	5,411	5,910	6,358
Of which: Coalition Support Fund	1,050	1,452	713	0	0	224	1,063	937	900	0	0	0
Services: debit	7,873	8,718	1,836	1,909	1,680	1,999	7,878	7,424	7,832	8,606	9,410	10,452
Income (net)	-3,943	-4,565	-990	-1,455	-969	-1,600	-5,193	-5,014	-4,972	-5,397	-6,323	-6,987
Income: credit	541	681	118	168	129	189	744	604	639	646	668	1,079
Income: debit	4,484	5,246	1,108	1,623	1,098	1,789	5,937	5,618	5,610	6,044	6,991	8,067
Of which: interest payments	1,552	1,936	355	667	443	660	2,199	2,125	1,983	2,287	2,558	2,858
Of which: income on direct investment	2,932	3,308	752	951	652	1,128	3,732	3,483	3,627	3,757	4,433	5,209
Balance on goods, services, and income	-23,195	-24,725	-5,870	-6,880	-5,493	-6,817	-25,066	-25,059	-27,864	-30,553	-32,690	-33,381
Current transfers (net)	20,065	22,098	5,518	5,849	5,270	5,537	21,873	22,174	22,428	23,099	24,644	27,867
Current transfers: credit, *of which:*	20,222	22,337	5,557	5,876	5,306	5,566	21,995	22,305	22,587	23,258	24,803	28,026
Official	380	349	76	216	62	186	515	540	340	12	12	12
Workers' remittances	15,837	18,720	4,967	4,720	4,690	4,809	19,289	19,186	19,611	20,468	21,805	24,639
Other private transfers	4,005	3,268	514	940	554	571	2,191	2,579	2,636	2,777	2,986	3,375
Current transfers: debit	157	239	39	27	36	29	122	131	159	159	159	159
Capital account	1,857	378	108	91	70	157	443	426	453	297	250	213
Capital transfers: credit	1,857	378	108	97	70	157	450	432	453	297	250	213
Of which: official capital grants	352	367	106	94	69	157	445	426	453	297	250	213
Capital transfers: debit	0	0	0	6	0	0	7	6	0	0	0	0
Financial account	5,553	5,004	1,300	1,771	-273	2,890	5,202	5,687	6,824	8,339	8,319	7,223
Direct investment abroad	-128	-72	-5	-1	-10	-22	-51	-38	-47	-50	-50	-51
Direct investment in Pakistan	1,700	852	248	421	289	427	1,361	1,385	2,586	3,335	4,410	6,032
Of which: privatization receipts	310	764	0	0	0	0	0	0	0	0	0	0
Portfolio investment (net), *of which:*	2,760	1,903	380	-174	-610	450	-10	46	249	367	252	-1,167
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	211	102	353	-375	312	-71	-246	219	-120	100	138	146
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	5	-31	-2	2	-41	0	2	-41	0	0	0	0
Banks	8	-63	235	-250	458	17	-97	460	70	70	70	70
Other sectors	198	196	120	-127	-105	-88	-151	-200	-190	30	68	76
Other investment liabilities	1,010	2,219	324	1,900	-254	2,106	4,148	4,076	4,156	4,587	3,571	2,262
Monetary authorities	146	563	3	0	0	0	3	3	0	0	0	0
General government, *of which:*	1,610	893	262	1,318	579	2,078	3,490	4,237	3,791	4,377	3,455	2,021
Disbursements	4,349	3,704	1,176	2,135	1,142	3,177	7,440	7,630	8,733	8,908	7,610	6,434
Amortization	2,734	2,809	914	817	563	1,099	3,950	3,393	4,943	4,531	4,156	4,413
Banks	-293	480	265	461	-877	183	1,061	32	65	79	96	116
Other sectors	-453	283	-206	121	44	-155	-406	-196	301	131	20	125
Net errors and omissions	-422	-119	187	-616	113	0	-340	-315	0	0	0	0
Reserves and related items	-3,858	-2,636	-1,244	-214	313	-1,767	-2,113	-2,912	-1,841	-1,181	-524	-1,921
Reserve assets	-3,285	-4,230	-1,689	-703	-179	-2,259	-4,023	-4,830	-1,901	-1,055	-105	-1,210
Use of Fund credit and loans	-573	1,594	445	489	492	492	1,910	1,918	60	-126	-419	-711
Memorandum items:												
Current account (in percent of GDP)	-1.3	-1.0					-1.1	-1.0	-1.8	-2.3	-2.3	-1.5
Current account (in percent of GDP; excluding fuel imports)	4.8	3.5					1.7	1.9	1.4	0.9	1.1	2.2
Exports f.o.b. (growth rate, in percent)	1.1	-3.9					-8.0	-8.8	4.1	6.7	9.4	11.7
Imports f.o.b. (growth rate, in percent)	3.8	-0.9					-5.6	-4.4	9.9	6.5	6.9	5.1
Oil imports (in million US$, cif)	14,774	12,167					7,902	8,150	9,634	10,239	11,940	13,672
Terms of trade (growth rate, in percent)	0.3	7.0					8.6	9.6	-4.5	-0.2	0	0
External debt (in millions of U.S. dollars)	65,365	65,103					71,915	71,870	77,387	83,559	87,816	89,264
o/w external public debt	51,998	51,935						56,210	59,686	63,660	66,235	65,518
Gross external financing needs (in millions of U.S. dollars) 1/	8,713	7,262					8,044	7,297	11,432	13,019	15,471	14,356
End-period gross official reserves (millions of U.S. dollars) 2/	9,096	13,534	15,247	15,886	16,119	18,378	17,516	18,378	20,279	21,334	21,439	22,650
(In months of next year's imports of goods and services)	2.2	3.5	3.8	3.9	3.9	4.3	4.2	4.3	4.4	4.3	4.1	4.1
GDP (in millions of U.S. dollars)	243,383	269,971										

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

2/ Excluding foreign currency deposits held with the State Bank of Pakistan (cash reserve requirements) and gold.

Table 6a. Pakistan: General Government Budget, 2008/09–2016/17

(In billions of Pakistani rupees)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17
								Tenth Review	Projection	Projection
Revenue and grants	1,878	2,130	2,306	2,611	3,011	3,837	3,984	4,694	4,625	5,274
Revenue	1,851	2,079	2,261	2,567	2,982	3,631	3,937	4,623	4,556	5,210
Tax revenue	1,331	1,500	1,738	2,076	2,231	2,640	3,024	3,655	3,643	4,244
Federal	1,285	1,445	1,673	1,969	2,081	2,450	2,818	3,389	3,377	3,934
FBR revenue	1,157	1,329	1,558	1,881	1,936	2,272	2,594	3,104	3,104	3,621
Direct taxes	440	529	602	732	736	884	1,029	1,288	1,284	1,554
Federal excise duty	116	121	137	122	119	145	170	183	183	212
Sales tax/VAT	452	517	633	809	841	1,002	1,089	1,257	1,262	1,442
Customs duties	148	162	185	218	240	241	306	376	375	413
Petroleum surcharge	112	89	83	60	110	104	131	135	135	150
Gas surcharge and other	16	28	32	27	35	43	35	34	38	43
GIDC	0.0	0.0	0.0	0.0	0.0	32	57	116	100	120
Provincial	46	55	65	107	151	190	206	266	265	310
Nontax revenue	520	579	523	491	751	990	913	968	913	966
Federal	436	511	461	443	680	941	838	873	823	876
Provincial	84	68	62	48	71	49	76	95	90	90
Grants	27	50	46	45	29	206	47	71	69	64
Expenditure	2,544	3,024	3,536	4,341	4,885	5,058	5,426	5,915	5,848	6,460
Current expenditure	2,093	2,481	3,012	3,579	3,757	4,123	4,556	4,761	4,882	5,229
Federal	1,547	1,853	2,227	2,611	2,647	2,950	3,169	3,250	3,402	3,609
Interest	638	642	698	889	991	1,148	1,304	1,277	1,289	1,420
Domestic	559	578	630	821	920	1,073	1,208	1,162	1,170	1,309
Foreign	79	64	68	68	71	75	96	114	119	112
Other	909	1,211	1,529	1,722	1,656	1,802	1,866	1,974	2,113	2,189
Defense	330	375	450	507	541	623	698	781	781	860
Other	579	836	1,078	1,215	1,116	1,179	1,168	1,193	1,332	1,329
Of which: subsidies 1/	244	227	493	556	368	336	265	170	165	154
Of which: grants 2/	136	359	259	291	305	372	401	476	616	581
Provincial	546	627	786	968	1,110	1,173	1,387	1,510	1,480	1,620
Development expenditure and net lending	417	571	477	696	1,112	997	1,047	1,155	1,040	1,231
Public Sector Development Program	398	518	465	675	721	878	1,013	1,155	1,040	1,236
Federal	196	260	216	299	348	435	489	620	510	636
Provincial	202	258	249	376	373	443	524	535	530	600
Net lending	20	53	12	21	391	119	34	0	0	-5
Statistical discrepancy ("+" = additional expenditure)	34	-28	46	67	16	-62	-178	0	-74	0
Overall Balance (excluding grants)	-693	-944	-1,276	-1,775	-1,903	-1,427	-1,489	-1,292	-1,292	-1,250
Overall Balance (including grants)	-666	-894	-1,230	-1,730	-1,873	-1,221	-1,442	-1,221	-1,223	-1,187
Financing	666	894	1,230	1,730	1873	1,221	1,442	1,221	1,223	1,187
External	86	158	144	60	38	351	166	421	493	419
Of which: privatization receipts	1	0	0	0	0	1	2	0	0	0
Of which: IMF	0	0	0	0	0	0	0	0	0	0
Domestic	580	736	1,086	1,670	1836	870	1,276	800	730	768
Bank	353	305	614	1,140	1457	322	910	560	511	538
Nonbank	227	431	471	529	378	548	366	240	219	230
Memorandum items:										
Primary balance (excluding grants)	-56	-302	-577	-886	-912	-279	-185	-15	-3	170
Primary balance (including grants)	-28	-252	-532	-841	-882	-73	-138	55	66	234
Total security spending	330	375	450	507	541	623	698	781	781	860
Energy sector circular debt clearance	0	0	0	391	322	0	0	25	25	20
Total government debt	7,313	8,331	10,005	12,008	13,948	15,802	17,070	18,846	18,562	19,992
Domestic debt	3,860	4,654	6,017	7,638	9,571	10,974	12,199	13,027	12,956	13,752
External debt	3,453	3,677	3,988	4,370	4,376	4,828	4,871	5,819	5,606	6,240
Total government debt including guarantees		8,934	10,584	12,540	14,573	16,362	17,706	…		
Total government debt including IMF obligations	7,731	9,020	10,773	12,699	14,380	16,100	17,488	19,378	19,043	20,508
Nominal GDP (market prices)	13,200	14,867	18,276	20,047	22,379	25,068	27,384	29,816	29,598	33,049

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Includes Rs 391 billion in FY2011/12 for the payment of energy and food subsidies delivered in previous years.

2/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development expenditure as reported in the original FY2015/16 budget.

Table 6b. Pakistan: General Government Budget, 2009/10–2016/17

(In percent of GDP, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17
							Tenth Review	Projection	Projection
Revenue and grants	14.3	12.6	13.0	13.5	15.3	14.5	15.7	15.6	16.0
Revenue	14.0	12.4	12.8	13.3	14.5	14.4	15.5	15.4	15.8
Tax revenue	10.1	9.5	10.4	10.0	10.5	11.0	12.3	12.3	12.8
Federal	9.7	9.2	9.8	9.3	9.8	10.3	11.4	11.4	11.9
FBR revenue	8.9	8.5	9.4	8.7	9.1	9.5	10.4	10.5	11.0
Direct taxes	3.6	3.3	3.7	3.3	3.5	3.8	4.3	4.3	4.7
Federal excise duty	0.8	0.8	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Sales tax	3.5	3.5	4.0	3.8	4.0	4.0	4.2	4.3	4.4
Customs duties	1.1	1.0	1.1	1.1	1.0	1.1	1.3	1.3	1.2
Petroleum surcharge / Carbon tax	0.6	0.5	0.3	0.5	0.4	0.5	0.5	0.5	0.5
Gas surcharge and other	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
GIDC	...	...	...	...	0.1	0.2	0.4	0.3	0.4
Provincial	0.4	0.4	0.5	0.7	0.8	0.8	0.9	0.9	0.9
Nontax revenue	3.9	2.9	2.4	3.4	3.9	3.3	3.2	3.1	2.9
Federal	3.4	2.5	2.2	3.0	3.8	3.1	2.9	2.8	2.7
Provincial	0.5	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Grants	0.3	0.2	0.2	0.1	0.8	0.2	0.2	0.2	0.2
Expenditure	20.3	19.3	21.7	21.8	20.2	19.8	19.8	19.8	19.5
Current expenditure	16.7	16.5	17.9	16.8	16.4	16.6	16.0	16.5	15.8
Federal	12.5	12.2	13.0	11.8	11.8	11.6	10.9	11.5	10.9
Interest	4.3	3.8	4.4	4.4	4.6	4.8	4.3	4.4	4.3
Domestic	3.9	3.4	4.1	4.1	4.3	4.4	3.9	4.0	4.0
Foreign	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.3
Other	8.1	8.4	8.6	7.4	7.2	6.8	6.6	7.1	6.6
Defense	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.6	2.6
Other	5.6	5.9	6.1	5.0	4.7	4.3	4.0	4.5	4.0
Of which: subsidies 1/	1.5	2.7	2.8	1.6	1.3	1.0	0.6	0.6	0.5
Of which: grants 2/	2.4	1.4	1.5	1.4	1.5	1.5	1.6	2.1	1.8
Provincial	4.2	4.3	4.8	5.0	4.7	5.1	5.1	5.0	4.9
Development expenditure and net lending	3.8	2.6	3.5	5.0	4.0	3.8	3.9	3.5	3.7
Public Sector Development Program	3.5	2.5	3.4	3.2	3.5	3.7	3.9	3.5	3.7
Federal	1.7	1.2	1.5	1.6	1.7	1.8	2.1	1.7	1.9
Provincial	1.7	1.4	1.9	1.7	1.8	1.9	1.8	1.8	1.8
Net lending	0.4	0.1	0.1	1.7	0.5	0.1	0.0	0.0	0.0
Statistical discrepancy ("+" = additional expenditure)	-0.2	0.3	0.3	0.1	-0.2	-0.6	0.0	-0.2	0.0
Overall Balance (excluding grants)	-6.4	-7.0	-8.9	-8.5	-5.7	-5.4	-4.3	-4.4	-3.8
Overall Balance (including grants)	-6.0	-6.7	-8.6	-8.4	-4.9	-5.3	-4.1	-4.1	-3.6
Financing	6.0	6.7	8.6	8.4	4.9	5.3	4.1	4.1	3.6
External	1.1	0.8	0.3	0.2	1.4	0.6	1.4	1.7	1.3
Of which: privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	4.9	5.9	8.3	8.2	3.5	4.7	2.7	2.5	2.3
Bank	2.1	3.4	5.7	6.5	1.3	3.3	1.9	1.7	1.6
Nonbank	2.9	2.6	2.6	1.7	2.2	1.3	0.8	0.7	0.7
Memorandum items:									
Primary balance (excluding grants)	-2.0	-3.2	-4.4	-4.1	-1.1	-0.7	-0.1	0.0	0.5
Primary balance (including grants)	-1.7	-2.9	-4.2	-3.9	-0.3	-0.5	0.2	0.2	0.7
Total security spending	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.6	2.6
Energy sector circular debt clearance	0.0	0.0	2.0	1.4	0.0	0.0	0.1	0.1	0.1
Total government debt	56.0	54.7	59.9	62.3	63.0	62.3	63.2	62.7	60.5
Domestic debt	31.3	32.9	38.1	42.8	43.8	44.5	43.7	43.8	41.6
External debt	24.7	21.8	21.8	19.6	19.3	17.8	19.5	18.9	18.9
Total government debt including guarantees	60.1	57.9	62.6	65.1	65.3	64.7	...	...	...
Total government debt including IMF	60.7	58.9	63.3	64.3	64.2	63.9	65.0	64.3	62.1
Nominal GDP (market prices, billions of Pakistani rupees)	14,867	18,276	20,047	22,379	25,068	27,384	29,816	29,598	33,049

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Includes 1.8 percent of GDP in FY2011/12 for the payment of energy and food subsidies delivered in previous years.

2/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development expenditure as reported in the original FY2015/16 budget.

Table 6c. Pakistan: General Government Budget, 2013/14–2015/16

(In billions of Pakistani rupees)

	2013/14	2014/15	2015/16					
			Q1	Q2	Q3	Q4	End-Year	
						Projections	Tenth Review	Projection
Revenue and grants	3,837	3,984	944	1,074	989	1,618	4,694	4,625
Revenue	3,631	3,937	937	1,043	982	1,594	4,623	4,556
Tax revenue	2,640	3,024	724	916	842	1,162	3,655	3,643
Federal	2,450	2,818	664	852	778	1,083	3,389	3,377
FBR revenue	2,272	2,594	600	785	718	1,001	3,104	3,104
Direct taxes	884	1,029	240	301	269	474	1,288	1,284
Federal excise duty	145	170	27	46	43	66	183	183
Sales tax/VAT	1,002	1,089	253	338	307	364	1,257	1,262
Customs duties	241	306	80	100	98	97	376	375
Petroleum surcharge	104	131	31	36	36	31	135	135
Gas surcharge and other	39	26	8	8	9	9	30	34
GIDC	32	57	24	22	14	40	116	100
Provincial	190	206	59	63	64	79	266	265
Nontax revenue	990	913	213	127	140	432	968	913
Federal	941	838	199	111	127	387	873	823
Provincial	49	76	15	16	14	45	95	90
Grants	206	47	7	31	7	24	71	69
Expenditure	5,058	5,426	1,266	1,254	1,451	1,877	5,915	5,848
Current expenditure	4,123	4,556	1,109	1,044	1,330	1,399	4,761	4,882
Federal	2,950	3,169	792	693	960	957	3,250	3,402
Interest	1,148	1,304	416	217	447	210	1,277	1,289
Domestic	1,073	1,208	397	181	425	167	1,162	1,170
Foreign	75	96	19	36	22	43	114	119
Other	1,802	1,866	376	477	513	748	2,012	2,012
Defense	623	698	141	153	175	313	781	781
Other	1,179	1,168	235	324	339	435	1,232	1,232
Of which: subsidies 1/	336	265	40	42	41	41	170	165
Of which: grants 2/	372	401	99	141	140	236	476	616
Provincial	1,173	1,387	317	351	370	442	1,510	1,480
Development expenditure and net lending	997	1,047	146	231	258	405	1,132	1,132
Public Sector Development Program	878	1,013	147	231	245	417	1,136	1,136
Federal	435	489	72	84	95	259	620	510
Provincial	443	524	75	147	150	158	535	530
Net lending	119	34	-1	-1	13	-11	0	0
Statistical discrepancy ("+" = additional expenditure)	-62	-178	12	-20	-138	72	0	-74
Overall Balance (excluding grants)	-1,427	-1,489	-329	-212	-469	-283	-1,292	-1,292
Overall Balance (including grants)	-1,221	-1,442	-322	-181	-461	-259	-1,221	-1,223
Financing	1,221	1,442	322	181	461	259	1,221	1,223
External	351	166	48	142	2	285	421	493
Of which: IMF	0	0	0	0	0	0	0	0
Domestic	870	1,276	274	39	459	-26	800	730
Bank	322	910	144	39	355	-27	560	511
Nonbank	548	366	130	0	105	2	240	219
Memorandum items:								
Primary balance (excluding grants)	-279	-185	87	5	-22	-73	-15	-3
Primary balance (including grants)	-73	-138	94	36	-14	-49	55	66
Total security spending	623	698	141	153	175	313	781	781
Energy sector circular debt clearance	0	0					25	25
Total government debt	15,802	17,070					18,846	18,562
Domestic debt	10,974	12,199					13,027	12,956
External debt	4,828	4,871					5,819	5,606
Total government debt including IMF obligations	16,100	17,488					19,378	19,043
Nominal GDP (market prices)	25,068	27,384					29,816	29,598

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Includes Rs 391 billion in FY2011/12 for the payment of energy and food subsidies delivered in previous years.

2/ Additional spending on security and internally-displaced people is recorded under transfers ("grants") instead of development expenditure as reported in the original FY2015/16 budget.

Table 7. Pakistan: Monetary Survey, 2013/14–2016/17

	2013/14	2014/15	2015/16				2016/17			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Projections			
	(In billions of Pakistani rupees, unless otherwise indicated)									
Monetary survey										
Net foreign assets (NFA)	601	813	930	963	897	1,088	1,128	1,125	1,207	1,294
Net domestic assets (NDA)	9,367	10,469	10,473	10,799	11,063	11,605	11,643	11,988	12,074	12,800
Net claims on government, *of which:* 1/	6,027	6,958	7,117	7,108	7,394	7,323	7,427	7,563	7,688	7,861
Budget support, *of which:*	5,448	6,330	6,476	6,513	6,868	6,841	6,944	7,080	7,205	7,378
Banks	3,121	4,443	4,887	5,056	5,507	5,040	5,145	5,281	5,405	5,579
Commodity operations	492	564	570	523	464	482	483	483	483	483
Credit to nongovernment	4,153	4,456	4,447	4,752	4,792	4,830	4,833	5,204	5,248	5,312
Private sector 4/	3,798	4,021	3,995	4,317	4,345	4,383	4,387	4,757	4,801	4,865
Public sector enterprises	355	435	452	435	447	447	447	447	447	447
Privatization account	-3	-41	-3	-41	-41	-41	-41	-41	-41	-41
Other items, net	-809	-904	-1,088	-1,021	-1,082	-507	-577	-739	-822	-333
Broad money	9,968	11,282	11,403	11,762	11,960	12,693	12,771	13,113	13,280	14,094
Currency outside scheduled banks	2,178	2,555	2,970	2,880	3,013	3,084	3,269	3,409	3,453	3,453
Rupee deposits	7,191	8,130	7,840	8,277	8,354	9,011	8,903	9,108	9,230	10,044
Foreign currency deposits	599	598	593	605	593	597	598	596	597	597
State Bank of Pakistan (SBP)										
NFA	490	722	879	902	864	1,055	1,095	1,092	1,174	1,261
NDA	2,372	2,420	2,606	2,574	2,712	2,621	2,909	2,870	2,868	2,857
Net claims on government	2,395	1,919	1,612	1,481	1,384	1,700	1,700	1,700	1,700	1,700
Of which: budget support	2,328	1,887	1,589	1,457	1,361	1,800	1,800	1,800	1,800	1,800
Claims on nongovernment	-5	-6	-6	-6	-5	-5	-5	-5	-5	-5
Claims on scheduled banks	500	401	387	422	423	410	418	417	415	417
Privatization account	-3	-41	-3	-41	-41	-41	-41	-41	-41	-41
Other items, net	-515	146	617	718	951	556	838	799	799	787
Reserve money, *of which:*	2,861	3,142	3,486	3,476	3,576	3,676	4,005	3,963	4,042	4,119
Banks' reserves	531	413	335	419	383	412	448	444	453	461
Currency	2,317	2,715	3,135	3,043	3,177	3,265	3,556	3,519	3,589	3,658
	(Annual percentage change, unless otherwise indicated)									
Broad money	12.5	13.2	14.5	13.0	13.5	12.5	12.0	11.5	11.0	11.0
NFA, banking system (in percent of broad money) 2/	3.7	2.1	3.6	3.0	1.5	2.4	1.7	1.4	2.6	1.6
NDA, banking system (in percent of broad money) 2/	8.8	11.1	10.9	10.0	12.0	10.1	10.3	10.1	8.4	9.4
Budgetary support (in percent of broad money) 2/	3.7	8.8	8.9	8.3	9.0	4.5	4.1	4.8	2.8	4.2
Budgetary support	6.3	16.2	15.9	15.3	16.1	8.1	7.2	8.7	4.9	7.9
Private credit 4/	12.5	5.9	3.3	6.4	8.3	9.0	9.8	10.2	10.5	11.0
Currency	12.4	17.3	31.3	25.1	24.9	20.7	10.1	18.4	14.6	12.0
Reserve money	12.9	9.8	24.9	25.0	19.2	17.0	14.9	14.0	13.0	12.0
Memorandum items:										
Velocity	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Money multiplier	3.5	3.6	3.3	3.4	3.3	3.5	3.2	3.3	3.3	3.4
Currency to broad money ratio (percent)	21.8	22.6	26.0	24.5	25.2	24.3	25.6	26.0	26.0	24.5
Currency to deposit ratio (percent)	28.0	29.3	35.2	32.4	33.7	32.1	34.4	35.1	35.1	32.5
Foreign currency to deposit ratio (percent)	7.7	6.8	7.0	6.8	6.6	6.2	6.3	6.1	6.1	5.6
Reserves to deposit ratio (percent)	6.8	4.7	4.0	4.7	4.3	4.3	4.7	4.6	4.6	4.3
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	324	882	146	183	538	511	615	751	875	1,048
By commercial banks	164	1,323	444	612	1,064	597	702	838	962	1,135
By SBP	160	-441	-298	-429	-526	-86	-87	-87	-87	-87
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	3.6	2.1	1.3	1.5	1.0	2.7	0.2	0.2	0.8	1.4
NFA of commercial banks (millions of U.S. dollars)	1,130	887	489	584	307	302	297	297	293	289
NDA of commercial banks (billions of Pakistani rupees)	6,995	8,050	7,867	8,224	8,351	8,984	8,734	9,118	9,206	9,942

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Difference between monetary and fiscal tables on banking sector claims on government and bank financing in 2011/12 reflects Rs391 billion in electricty payments.

2/ Denominator is the stock of broad (reserve) money at the end of the previous year.

3/ Includes valuation adjustments.

4/ Items pertaining to Islamic Financing previously reported under "Other assets" have been reclassified as "Credit to private sector" beginning March 2016.

Table 8. Pakistan: Financial Soundness Indicators for the Banking System

(September 2013–March 2016)

	Dec. 2013	Mar. 2014	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015	Jun. 2/ 2015	Sep. 2/ 2015	Dec. 2/ 2015	Mar. 2/ 2016
Capital adequacy 1/										
Regulatory capital to risk-weighted assets	15.1	14.8	15.1	15.5	17.1	17.4	17.2	18.2	17.3	16.3
Tier I capital to risk-weighted assets	12.8	12.5	12.5	13.6	14.3	14.2	14.1	15.0	14.4	13.2
Capital to total assets	8.9	8.9	8.8	9.0	10.0	10.0	8.3	8.5	8.4	7.9
Asset composition and quality										
Nonperforming loans (NPLs) to gross loans	13.0	13.4	12.8	13.0	12.3	12.8	12.4	12.5	11.4	11.7
Provisions to NPLs	78.4	77.8	79.5	77.6	79.8	80.2	80.8	81.8	84.9	83.6
NPLs net of provisions to capital	13.0	14.0	12.5	13.6	10.1	9.8	10.9	10.0	7.7	8.9
Earnings and profitability										
Return on assets (after tax)	1.1	1.3	1.4	1.4	1.5	1.7	1.6	1.5	1.5	1.5
Return on equity (after tax)	12.4	14.1	15.4	15.9	16.1	17.0	15.9	15.7	15.6	16.3
Net interest income to gross income	70.3	69.9	70.5	71.4	71.3	68.4	67.5	69.1	70.4	70.0
Noninterest expenses to gross income	57.4	56.8	54.6	54.8	53.3	47.0	46.1	46.9	47.8	50.6
Liquidity										
Liquid assets to total assets	47.3	48.3	47.8	54.8	49.2	51.9	52.3	53.7	53.8	55.9
Liquid assets to total deposits	60.0	63.7	60.6	61.4	64.5	70.4	69.5	74.8	73.3	77.3
Loans/Deposits	48.6	49.2	47.7	48.2	48.2	46.9	45.7	46.7	46.6	46.3

Source: State Bank of Pakistan.

1/ As of December 2013, CAR indicators are reported under Basel III.

2/ As required by Basel requirements, the authorities used regulatory capital instead of balance sheet capital to calculate FSI figures.

Table 9. Pakistan: Indicators of Fund Credit, 2013–20

(In millions of SDR unless otherwise specified)

				Projections				
	2013	2014	2015	2016	2017	2018	2019	2020
	(Projected Level of Credit Outstanding based on Existing Drawings and Prospective Drawings)							
Total	2,296.8	2,463.0	3,600.0	4,393.0	4,393.0	4,243.0	3,823.0	3,163.0
Of which:								
ECF, SBA, and ENDA	1,576.8	303.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility	720.0	2,160.0	3,600.0	4,393.0	4,393.0	4,243.0	3,823.0	3,163.0
In percent of end-period gross official reserves	58.8	38.0	37.1	33.5	30.3	27.8	25.0	19.6
As a share of external debt	5.8	5.3	7.7	8.6	7.9	7.1	6.1	5.0
	(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/							
Total			338.1	51.2	58.1	206.9	470.1	699.1
Of which:								
Principal	2,313.5	1,273.8	303.0	0.0	0.0	150.0	420.0	660.0
Interest and charges	45.3	31.6	35.1	51.2	58.1	56.9	50.1	39.1
SBA and ENDA Principal	..	..	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility Principal	..	..	0.0	0.0	0.0	150.0	420.0	660.0
In percent of end-period gross official reserves	..	..	3.5	0.4	0.4	1.4	3.1	4.3
As a share of total external debt service	..	..	0.7	0.1	0.1	0.3	0.7	1.1
Memorandum items								
Quota (millions of SDRs)	1,033.7	1,033.7	1,033.7	2,031.0	2,031.0	2,031.0	2,031.0	2,031.0
Gross official reserves (millions of U.S. dollars)	6,008	9,096	13,534	18,378	20,279	21,334	21,439	22,650
Total External Debt (millions of U.S. dollars)	60,899	65,365	65,103	71,870	77,387	83,559	87,816	89,264
Total External Debt Service (millions of U.S. dollars)	6,797	7,135	6,571	6,537	7,979	7,851	9,983	11,700

Source: IMF staff projections.

Table 10. Pakistan: Selected Vulnerability Indicators, 2010/11–2019/20

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
								Projections		
Key economic and market indicators										
Real GDP growth (factor cost, in percent)	3.6	3.8	3.7	4.1	4.0	4.7	5.0	5.2	5.5	5.5
CPI inflation (period average, in percent) 1/	13.7	11.0	7.4	8.6	4.5	3.0	5.2	5.0	5.0	5.0
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	857	1,136	703	501	...	...	...	...	...	...
Exchange rate PRs/US$ (end of period)	85.8	94.3	98.7	98.6	...	...	...	...	...	...
External sector										
Current account balance (percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.0	-1.0	-1.8	-2.3	-2.3	-1.5
Net FDI inflows (percent of GDP)	0.7	0.3	0.5	0.6	0.3	0.5	0.8	1.0	1.3	1.6
Exports (percentage change of U.S. dollar value; GNFS)	25.0	-4.5	6.0	-3.6	-1.4	-10.0	5.5	4.8	9.4	10.9
Gross international reserves (GIR) in billions of U.S. dollars	14.8	10.8	6.0	9.1	13.5	18.4	20.3	21.3	21.4	22.6
GIR in percent of ST debt at remaining maturity (RM) 2/	306.6	209.5	75.4	117.3	181.1	241.0	192.7	216.4	193.3	176.1
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 2/	160.9	109.9	45.6	65.8	101.4	139.9	128.4	137.4	125.2	117.2
Total gross external debt (ED) in percent of GDP, *of which:*	31.1	29.2	26.3	26.9	24.1	25.6	25.9	26.0	25.5	24.1
ST external debt (original maturity, in percent of total ED)	1.9	2.5	2.1	4.1	5.1	4.2	4.0	4.6	6.0	8.0
ED of domestic private sector (in percent of total ED)	10.8	10.8	10.4	13.4	15.7	15.6	15.6	15.6	15.5	14.2
ED to foreign official sector (in percent of total ED)	89.2	89.2	89.6	86.6	84.3	84.4	84.4	84.4	84.5	85.8
Total gross external debt in percent of exports	213.2	220.2	193.2	215.1	217.3	266.6	272.1	280.4	269.5	246.9
Gross external financing requirement (in billions of U.S. dollars) 3/	2.3	6.7	5.3	6.5	6.2	7.2	11.4	12.9	15.1	13.6
Public sector 4/										
Overall balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.1	-3.6	-2.9	-2.7	-2.5
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.2	0.7	1.2	1.3	1.2
Debt-stabilizing primary balance 5/	-7.7	1.4	-1.3	-2.6	-0.2	0.6	-1.7	-1.5	-1.1	0.0
Gross PS financing requirement 6/	27.0	33.0	36.8	35.7	31.9	30.8	28.9	27.0	25.7	24.7
Public sector gross debt 7/	54.7	59.9	62.3	63.0	62.3	62.7	60.5	57.9	55.5	53.0
Public sector net debt 8/	51.7	55.9	58.6	57.6	57.2	57.9	56.1	53.9	51.8	49.6
Financial sector 9/										
Capital adequacy ratio (in percent)	15.1	15.4	15.5	15.1	17.2	...	...	...	...	...
Nonperforming loans (NPLs) in percent of total loans	15.7	14.5	14.8	12.8	12.4	...	...	...	...	...
Provisions in percent of NPLs	69.3	71.8	73.2	79.5	80.8	...	...	...	...	...
Return on assets (after tax, in percent)	1.5	1.4	1.1	1.4	1.6	...	...	...	...	...
Return on equity (after tax, in percent)	15.1	14.9	12.4	15.4	16.0	...	...	...	...	...
FX deposits held by residents (in percent of total deposits)	7.2	7.4	7.4	7.7	6.8	...	...	...	...	...
Government debt held by FS (percent of total FS assets)	44.6	55.2	64.3	60.5	61.7	...	...	...	...	...
Credit to private sector (percent change)	4.0	7.5	-0.6	12.5	5.9	...	...	...	...	...
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	213.6	224.4	231.1	243.4	270.0					

Sources: Pakistani authorities; and IMF staff estimates and projections.

1/ Inflation after 2009/10 based on new CPI weights, recalculated in September 2011.

2/ Debt at remaining maturity is defined as maturing short-, medium-, and long-term external official debt.

3/ Current account deficit plus amortization of external debt.

4/ Public sector covers general (consolidated) government.

5/ Based on the end of period debt stock in year t-1, and the baseline assumptions for the relevant variables (i.e., growth, interest rates, inflation, exchange rates) in year t.

6/ Overall balance plus debt amortization.

7/ Excludes obligations to the IMF except budget financing, military debt, commercial loans, and short-term debt.

8/ Net debt is defined as gross debt minus government deposits with the banking system.

9/ Financial sector includes all commercial and specialized banks; for government debt also includes nonbanks, but excludes State Bank of Pakistan.

Table 11. Pakistan: Schedule of Reviews and Purchases

Date 1/	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota 2/	
September 4, 2013	360	18	Approval of arrangement
December 2, 2013	360	18	First review and end-September 2013 performance/continuous criteria
March 2, 2014	360	18	Second review and end-December 2013 performance /continuous criteria
June 2, 2014	360	18	Third review and end-March 2014 performance /continuous criteria
December 2, 2014	720	35	Fourth and Fifth reviews and end-June and end-September 2014 performance /continuous criteria
March 2, 2015	360	18	Sixth review and end-December 2014 performance /continuous criteria
June 2, 2015	360	18	Seventh review and end-March 2015 performance /continuous criteria
September 2, 2015	360	18	Eighth review and end-June 2015 performance /continuous criteria
December 2, 2015	360	18	Ninth review and end-September 2015 performance/continuous criteria
March 2, 2016	360	18	Tenth review and end-December 2015 performance /continuous criteria
June 2, 2016	360	18	Eleventh review and end-March 2016 performance /continuous criteria
August 1, 2016	73	4	Twelfth review and end-June 2016 performance /continuous criteria
Total	4393	216	

Source: IMF staff estimates.

1/ Date in which resources become available.

2/ Based on Pakistan's new quota of SDR 2,031 million.

Appendix I. Letter of Intent

June 9, 2016

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

Dear Ms. Lagarde,

Moving close to completion of our three-year economic reform program, we have continued to make significant progress in strengthening macroeconomic stability. Risks present at the beginning of the program have greatly receded as we have reduced fiscal imbalances, strengthened external buffers, and contained inflation. Alongside, we have improved our monetary policy framework and central bank autonomy, strengthened the resilience of the financial sector, reduced tax concessions and exemptions, strengthened our tax administration, rationalized untargeted energy subsidies, and significantly strengthened our social safety nets to protect the most vulnerable segments of society. Despite delays in our privatization agenda, we have also set in motion structural reforms that will help limit fiscal risks and put in place preconditions for higher and more inclusive growth.

We remain strongly committed to achieving the program's objectives. In this context, we focus on reinforcing and building on our macroeconomic stability gains under the program, and on advancing further in our structural reform agenda. 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 strengthening the performance of the power sector. We are committed to overcome the recent obstacles and advance with privatization and restructuring of public enterprises. The decline in exports and the need to promote private investment call for accelerating competitiveness and business climate reforms. Based on our achievements, our reform agenda will continue through the end of the EFF-supported program and beyond. The actions described in the attached Memorandum of Economic and Financial Policies (MEFP) are consistent with this strategy.

Our performance on the eleventh review has been satisfactory:

Quantitative performance criteria and indicative targets (Table 1). All end-March 2016 quantitative performance criteria (PCs) have been met, in some cases with significant margins. We also met the indicative targets on accumulation of power sector arrears and social spending under the Benazir Income Support Program (BISP), and came very close to meeting the indicative target on tax revenue.

Structural benchmarks (Table 2). We have met seven structural benchmarks in the areas of the tax administration, fiscal responsibility and public private partnership framework legislation, SBP autonomy, anti-money laundering, and public enterprise reform. However, notification of electricity tariffs has been delayed until July 2016, awaiting the regulator's consideration of review petitions, while deposit insurance legislation has already been passed by the National Assembly and is scheduled for the Senate's consideration by August 2016.

The program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. As detailed in the MEFP, we propose modification of end-June 2016 PCs, along with 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. We also request extension of the EFF arrangement from September 3, 2016 through September 30, 2016 to allow sufficient time to conduct final review discussions.

Based on our satisfactory program performance and corrective actions, we propose completion of the eleventh 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, June 12, 2015, September 15, 2015, December 3, 2015, and March 10, 2016 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 remains robust despite damage to the cotton crop**. While a weak cotton harvest earlier in the year and the decline in exports are weighing on economic activity, real GDP growth is supported by higher growth in large-scale manufacturing, rising investment, including related to the China Pakistan Economic Corridor (CPEC), buoyant construction activity, a swift recovery in private sector credit growth, and improvements in the supply of gas and electricity. With these developments, real GDP growth is provisionally estimated at 4.7 percent in FY 2015/16. We expect, for program purposes, that real GDP growth will further increase to 5 percent in FY 2016/17. However, the government retains its goal of achieving growth of 5.7 percent in FY 2016/17. Nonetheless, there are challenges going forward, as the international environment is becoming less favorable. While core inflation has remained contained at 4.6 percent in May 2016, headline consumer price inflation declined to 3.2 percent. Average inflation during July-May FY 2015/16 was 2.8 percent. While further monthly increases are likely in the near-term, we expect inflation to stay contained at around 5.2 percent on average in FY 2016/17, well-anchored by continued prudent monetary and fiscal policies.

2. **Foreign exchange reserves continued to strengthen**. Gross international reserves increased to US$16.1 billion by end-March 2016, covering close to four months of prospective imports. Exports declined (by 9.1 percent y-o-y in the first three quarters of FY 2015/16), reflecting lower commodity prices, security and business climate challenges, and the continued appreciation of the real effective exchange rate (1.3 percent y-o-y in March 2016). However, low oil prices and the continued flow of remittances helped maintain the current account balance in the first three quarters of FY 2015/16 at about US$1.6 billion (0.6 percent of GDP, about 59 percent of the current account deficit in the same period last fiscal year). Looking ahead, based on continued favorable trends, we expect further improvement in our foreign reserves to $18.4 billion (4.3 months of prospective imports) by end-June 2016.

3. **Fiscal performance in the first nine months of FY 2015/16 was strong and broadly in line with the program targets**. With improved tax revenue performance and keeping expenditures under control across all layers of the government, we met our performance criterion (PC) on the general government budget deficit excluding grants, including the adjustor for one-off spending on security and internally-displaced persons. Tax revenue growth accelerated to 19 percent y-o-y in the first nine months of FY 2015/16 from 12 percent in the same period of FY 2014/15. Against the indicative target (IT) of PRs 2105 billion, Federal Board of Revenue (FBR) tax collections in the first three quarters of FY 2015/16 stood at PRs 2103 billion, very close to the program IT for end-March 2016. We met the IT on targeted cash transfers through the Benazir Income Support Program (BISP) and expanded the BISP coverage to 5.28 million beneficiaries by end-March 2016. Moreover, regarding the accumulation of power sector arrears, we over-performed with a considerable margin on the end-March 2016 IT, which we had tightened during the tenth review.

4. **Monetary policy remained prudent, while private sector credit further accelerated**. Continued favorable international oil prices and increased spot purchases in the market helped us meet the end-March 2016 net international reserves (NIR) target with a margin of about US$407 million. We also remained within the ceiling of the SBP's net short position of swap/forward contracts. In addition, despite continued persistent demand for currency in circulation, mainly due to the increased withholding tax on financial transactions for nonfilers of income tax returns, we managed to contain the stock of net domestic assets (NDA) to PRs 40 billion below the program target in March 2016, helped also by containing net government borrowing from the SBP to well below the program's PC. Overall, in the third quarter of FY 2015/16, reserve money growth declined to 19.2 percent y-o-y, still exceeding program projections, while broad money expanded by 13.5 percent y-o-y, also somewhat faster than expected. Private sector credit growth rose to 8.3 percent y-o-y, driven by increasing credit for fixed investments and working capital.

Economic Policies

A. Monetary and Exchange Rate Policies

Monetary and exchange rate policies will remain focused on further boosting external reserves and maintaining price stability, and we are continuing with our efforts to further strengthen the SBP's autonomy.

5. **We will continue to strengthen our foreign exchange reserves and mitigate external vulnerabilities**. While nonoil imports show signs of growth, the outlook for international oil prices remains favorable and we continue to take full advantage of the oil windfall to build external buffers. In the meantime, we are committed to improving our trade competitiveness, which has eroded despite a 3 percent nominal depreciation versus the U.S. dollar during July 2015-April 2016.

6. **We will preserve our achievements in containing inflation and continue to maintain a prudent monetary policy stance**. In May 2016, we cut the policy rate by 25 bps to 5.75 percent. In an environment of more challenging international financial conditions and an expected moderate increase in inflation, we will remain vigilant to any signs of additional inflationary pressures in coming months, maintain positive real interest rates consistent with the program's monetary targets, and accordingly set the policy rate in a forward-looking fashion. In view of greater liquidity injections in the interbank market related to higher commercial bank financing of the fiscal deficit and slower deposit growth, the SBP will continue to manage liquidity in line with the program's monetary targets. Our efforts to build reserves and manage monetary aggregates prudently will continue well beyond the program's horizon. The improved interest rate corridor continues to work smoothly and has helped improve the SBP's credibility among market participants. The government will continue to support this framework with sustained fiscal discipline.

7. **Efforts to further strengthen the SBP's autonomy are underway**. In this regard, meetings of the newly established independent Monetary Policy Committee (MPC) have been held since January 2016. In addition, to support transparency in monetary policy setting, we are publishing the minutes of the MPC meetings (with adequate lags). We are also considering the remaining

recommendations identified in the 2013 Safeguards Assessment. In particular, in February 2016 we formed a committee to design, by end-June 2016, a time-bound legislative action plan for incorporating critical recommendations. We are designing this action plan, supported by IMF TA. In the interim, in March 2016, the government (i) issued an executive order to provide financial guarantee to the SBP in case of any losses that are not covered by SBP's general reserves and recapitalize the bank if it becomes necessary; and (ii) delegated to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains (SB).

8. **Over the medium term, we are working toward implementing an inflation targeting framework**. To this end, we are further strengthening the SBP's analytical capabilities in support of a flexible inflation targeting framework, continuing to strengthen the interest rate corridor, improving transparency, and disseminating information about inflation expectations and forecasts.

Fiscal Policy

9. **Fiscal performance is on track to meet the FY 2015/16 deficit target of 4.4 percent of GDP, including an adjustor of 0.3 percent of GDP for one-off security spending**.[1] Tax revenue collection at the federal level was nearly in line with the IT for the first nine months of FY 2015/16, and we are confident that tax revenue performance is on track toward achieving the year-end target. Against the backdrop of slower growth in nontax revenue, partly related to the collection of Gas Infrastructure Development Cess (GIDC), we will manage budgetary spending very prudently and reduce noncritical current and capital expenditures as necessary to achieve our year-end deficit target. We will also continue to improve the availability of reliable fiscal data, and, to this end, will seek technical assistance from the IMF as needed.

10. **We are committed to continue with fiscal consolidation in FY 2016/17 and over the medium term**. We have already achieved significant fiscal adjustment since the beginning of the program. To place the debt-to-GDP ratio on a firm downward trajectory, build fiscal buffers against adverse shocks, safeguard macroeconomic stability, and set the stage for sustainable and inclusive growth, we are determined to further reduce the fiscal deficit. To this end, we aim to achieve a general government deficit target for FY 2016/17 of 3.8 percent of GDP (excluding foreign grants), including exceptional expenditures on security and hosting and rehabilitation of temporary displaced persons of 0.3 percent of GDP. Our objective is to achieve further fiscal consolidation by

[1] The FY2015/16 deficit target is unchanged at PRs 1,292 billion. Revised GDP projections imply that this is equivalent to 4.4 percent of GDP (instead of 4.3 percent of GDP as previously projected).

enhancing revenue performance (by about 0.5 percent of GDP) and rationalizing expenditures (by about 0.1 percent of GDP). Revenue mobilization efforts will include further elimination of tax concessions and exemptions amounting to 0.25 percent of GDP and new revenue measures amounting to 0.25 percent of GDP. These measures include introducing or expanding withholding taxes to strengthen income tax payment compliance, raising excises on cigarettes and cement, and adjusting the custom duty structure for certain goods. On the spending side, we will continue to contain subsidies and rationalize current expenditures across all layers of the general government while preserving increases in critical social and capital expenditures. Accordingly, we have submitted the FY 2016/17 budget to parliament, which is consistent with these policies and a budget deficit target of 3.8 percent of projected GDP (prior action).

11. **Over the past three years, we have carried out an ambitious agenda of tax policy and administration reforms**. This has included: (i) eliminating decades old distortive and discriminatory tax exemptions and concessions; (ii) introducing the concept of differential taxation of filers and nonfilers 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 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 last year approved legislation permanently restricting 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. Accordingly, we have already reduced tax expenditures from 1.9 percent of GDP in FY 2013/14 to 1.3 percent of GDP in FY 2015/16, we are eliminating additional tax concessions and exemptions in FY 2016/17, and we will use any new concessions sparingly and for exceptional purposes.

12. **We will continue to support growth-friendly tax revenue mobilization in FY 2016/17 and over the medium term**. Although we have steadily raised the tax-to-GDP ratio to over 12 percent, it still remains low compared to comparator developing countries and we aim to raise the tax-to-GDP ratio to 14.5 percent by FY 2019/20. To this end, we will further streamline tax concessions and exemptions, broaden the tax base, strengthen tax administration, and shift the tax composition from indirect to direct taxes in an efficient and equitable way. In this context, we also ensure consistency of the voluntary tax compliance scheme for traders with a level playing field for all taxpayers. In line with the international experience, the scheme is not applicable in cases where evidence of tax evasion or misdeclaration is available, we will not turn the scheme into a tax amnesty, and we will make sure that it does not discriminate against law-abiding taxpayers by offering preferential treatments for previously unregistered taxpayers. We will also maintain the withholding tax on financial transactions of nonfilers of income tax returns and higher withholding tax rates for nonfilers in general as an instrument to encourage taxpayer registration.

13. **We will protect the integrity of the General Sales Tax (GST) regime and improve its policy design and administration**. After careful consideration of various reform proposals, we have decided to modernize the GST on goods and services in close coordination with provincial revenue authorities. Our objective is to address the bottlenecks and distortions in policy design and administration of the GST system. To this end, we will simplify the GST regime by adopting a single standard rate and introducing a number of base-broadening measures and changes to certain key design issues (such as increasing the GST registration threshold, eliminating zero rating and exemptions of intermediate goods, and limiting exemptions to a short list of essential unprocessed food products).

14. **We remain committed to reducing the stock of tax refund claims**. To enhance transparency in tax administration, the FBR has started publishing the stock of outstanding tax refund claims on a monthly basis, including GST, income tax and customs duties. This broader definition of tax refund claims has declined to 0.7 percent of GDP in March 2016, from 0.8 percent of GDP in March 2015. Within this amount, outstanding GST refund claims stood at PRs 109.5 billion in March 2016, up from PRs 96.4 billion at the end of 2015, but down from the peak of PRs 113.2 billion in November 2014. We will bring the stock of tax refund claims to a level consistent with no more than a three-month flow of claims by end-December 2016.

15. **Despite a large gap between potential and actual tax collections, recent efforts to enhance tax administration have yielded gains**. We met our target to issue 275,365 first notices by end-March 2016, to bring more potential taxpayers into the revenue base. This helped increase the number of taxpayers filing for income tax return from 748,474 at end-April 2013 (for tax year 2011) to 1,040,897 (for tax year 2014) as of end-April 2016. We also continue to require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments and started implementing risk-based auditing with a comprehensive monitoring system based on quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators.

16. **Continued tax administration reforms will be important to further improve tax compliance and collection**.

- In March 2016, the FBR identified 90 potential cases of high net worth individuals and other large taxpayers, based on established risk-based audit criteria, and initiated comprehensive income tax audits in 68 of these cases (SB).
- We are continuing to focus on high net worth individuals and large companies, which present a significant tax risk because of well-demonstrated capacity to structure their activities using complex instruments and artificial arrangements to minimize their tax exposure.
- We are continuing to pursue court cases to overcome challenges to the provision of law that provided FBR access to data and other third-party information.

- In FY 2016/17, we will ensure that customs data is linked to our IT systems for domestic taxes to identify noncompliant taxpayers and minimize under-declarations.
- We are seeking approval by the National Assembly for the legislation against "benami" transactions by end-August 2016.[2]
- Finally, in coordination with the World Bank, we will establish a tax policy research and analysis unit outside the FBR by end-September 2016 to improve our analytical capacity for fiscal policymaking.

17. **Strengthening governance and reducing corruption in tax administration is a key priority that underpins our revenue mobilization strategy**. We have established an integrity management unit in the FBR and collected asset declarations of all FBR employees, and further strengthened the integrity management unit by identifying potential processes within the FBR that could reinforce its anti-corruption structures, including in the Directorate General of Internal Audit (DGIA). To this end, we are using the DGIA reports regarding tax fraud for identification of complicit tax officials and are developing key performance indicators, a code of conduct, transparent criteria for integrity management, and ethics training. In addition, the FBR has started regularly publishing aggregate information on tax crime prosecutions (i.e., cases, convictions, custodial sentences, reparation orders and court fines) and monitoring the penalties imposed by its field officers. Following the recent ratification of the whistleblower law for tax crimes, in April 2016 we established communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration (SB). After gaining initial experience with these new platforms, we will begin publishing aggregate results of their usage and subsequent investigation. We will also continue working towards simplifying tax laws and procedures and better coordinate 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.

18. **We will strengthen the Fiscal Responsibility and Debt Limitation (FRDL) Act to provide better policy guidance and anchor debt sustainability**. To place the debt-to-GDP ratio on a firm downward trajectory and bolster macroeconomic stability beyond the program horizon, we will amend the fiscal responsibility framework and adopt numerical fiscal rules that will impose limits on the federal government budget deficit and the general government gross debt. In particular, we have submitted the following amendments to the FRDL Act to parliament (end-May 2016 SB):

- A limit on the federal government budget deficit of 4 percent of GDP excluding foreign grants for FY 2017/18–FY 2019/20, and 3½ percent of GDP thereafter;
- A limit of 60 percent of GDP on public debt (as defined in the existing FRDL Act) until FY 2017/18, and, subsequently a 15-year transition path toward 50 percent of GDP;

[2] In "benami" transactions, assets are held by (or transferred to) a person but have been provided for (or paid by) another person. Benami structures can be used to conceal one's assets and evade taxes.

- Define clearly escape clauses for events such as national security and natural disasters;
- Explicit enforcement procedures and corrective mechanisms.

19. **We will advance fiscal policy coordination between the federal and provincial governments to provide strategic guidance and oversight**. In the context of the current round of National Finance Commission (NFC) negotiations, we will seek an agreement to balance devolution of revenue and expenditure responsibilities in a way that allows for internalizing the objectives of macroeconomic stability and fiscal sustainability across all layers of the general government. Our objective is twofold. First, we are encouraging provincial governments to enhance their own revenue mobilization by bringing underdeveloped tax bases such as agriculture, services, and property, more effectively into the tax net and improve taxpayer compliance with a particular focus on identifying misdeclarations in agricultural income. Second, given the extent of devolution in revenue and expenditure assignments, we are strengthening policy coordination between federal and provincial governments. To this end, we have submitted a proposal to the Council of Common Interest (CCI) for establishment of a Fiscal Coordination Committee, comprising all provincial and federal finance secretaries. In anticipation of the CCI approval, the Committee has already started functioning. It will continue to meet on quarterly basis to coordinate fiscal policy at the national level.

20. **We are putting in place a public-private partnership (PPP) framework**. As part of our medium-term development strategy to improve access to and quality of infrastructure, we will make greater use of PPPs in public procurement. The PPP framework will help limit and better manage fiscal risks associated with PPPs and promote greater participation of the private sector. We have submitted to the National Assembly draft legislation (end-April 2016 SB), which is in line with international best practice and key recommendations of the recent IMF technical assistance. Accordingly, the PPP law will put in place a robust legal and institutional framework with strong central oversight to (i) ensure that PPPs are used only when they offer value for money and adhere to the principle of budget affordability, (ii) systematically include PPPs in the budget process and medium-term planning exercise, (iii) give the Ministry of Finance an explicit role as gatekeeper of public finances in all stages of PPP projects, and (iv) have appropriate fiscal risk management. We will also launch a national register of all PPP projects and publish summaries of all PPP contracts as well as the contract themselves, excluding confidential or protected information, to ensure transparency for the commitments made by the federal and provincial governments.

21. **We will ensure that the general government budget 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. To that effect, 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 fiscal policymaking to better incorporate gender equality by conducting gender-disaggregated analysis and adopting gender-responsive budgeting. We have already carried out a gender-responsive analysis of the FY 2015/16 budget with the assistance of our development partners, which has informed our FY 2016/17 budget. To foster

gender equality throughout the country, we have also shared the findings of this analysis and policy proposals with the provincial governments and are encouraging them to use those findings in formulating their respective budgets.

22. **We are committed to continue to support the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP)**. As of end-March 2016, we have met the indicative target for cash transfer payments under BISP, expanded the coverage of the program to reach 5.28 million beneficiaries, and we are on track to reach 5.3 million beneficiaries by end-June 2016 (TMU ¶26). In addition, we increased the quarterly stipends by 4.5 percent for FY 2015/16 to safeguard beneficiaries' purchasing power and we will further increase quarterly stipends by 4.2 percent (PRs 200 per quarter) in FY 2016/17, through additional financing mobilized from development partners. In order to improve service delivery and reduce costs, we have signed amendments in the contracts executed with the commercial banks working with BISP and we have extended the existing contracts for continuity of payments to BISP beneficiaries. Meanwhile, to achieve the beneficiary centric payment model, we are revisiting the existing model, in collaboration with the SBP, and we will initiate the procurement process to identify the partner banks for the new contracts by July 2016 and put in place the new contracts by October 2016. In partnership with the provincial governments, we have rolled out education-conditional cash transfers (CCT). As of end-March 2016, we are disbursing in 32 districts to over more than 1.1 million children and we are on track to expand the CCT coverage to 1.3 million children by end-June 2016, and, subject to further support by our development partners, will extend its rollout in additional districts in FY 2016/17. Furthermore, we are strengthening the targeting of the BISP program by updating the beneficiaries database (National Socio Economic Registry). The first phase of this update is likely to be completed by end-2016.

B. Fiscal Financing

23. **We continue to improve fiscal financing and cash management**. The stock of government borrowing from the SBP reduced by PRs 526 billion since June 2015, well below the end-March 2016 program target, helped by issuing Pakistan Investment Bonds (PIB), short-term foreign currency borrowing, and Sukuk issuance. To continue creating space for private sector credit growth, we are advancing with our fiscal consolidation efforts, maintaining focus on securing adequate foreign financing, and improving our cash management system.

24. **We continue to strengthen the institutional framework for debt management**. In early March, we have published an updated Medium Term Debt Management Strategy (MTDS) covering the period FY 2015/16–FY 2018/19. We are focusing on reducing rollover risks, balancing financing from domestic and external sources, and lengthening the maturity profile of domestic public debt to reduce borrowing cost, while continuing to watch contingent liabilities. To further strengthen debt management, we will continue to improve the effectiveness of the Debt Policy Coordination Office (DPCO) and its integration in the Ministry of Finance's core functions. In partnership with our development partners, we will continue to enhance our staffing capacity in support of the implementation of an optimal borrowing strategy. Rates setting between domestic retail and

wholesale debt markets continues to be synchronized to remove pricing distortions. To achieve savings in, and more effective decision-making for, government borrowing, we will continue to prepare, and 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.

C. Financial Sector

25. **The banking sector remains sound, with high earnings and solvency ratios**. The pre-tax profit of the system increased by 2 percent y-o-y in March 2016, mainly attributed to increased net interest income from investments in government securities and lower provision charges. The capital adequacy ratio (CAR) adjusted downwards to 16.3 percent in March 2016, due to continuing growth in private sector advances and accounting adjustments in the capital of one bank. Nonetheless, the CAR remains significantly above the 10.25 percent minimum requirement.[3] As of end-March 2016, asset quality slightly declined, with the gross nonperforming loans (NPLs) ratio at 11.7 percent and the net NPL ratio at 2.1 percent.

26. **The SBP continues to focus on bolstering banks that are below regulatory capital requirements**. Only two banks (out of 35 banks) are currently CAR–noncompliant.[4] One of these banks is in the privatization process and expected to become CAR-compliant by end-December 2016, while the second bank has injected part of the capital to meet the shortfall and is expected to become CAR-compliant by August 2016. One other small bank that is below the minimum capital requirement (MCR) has initiated the process for merging with another bank by end-2016. We are closely engaged with these banks to ensure their statutory compliance as soon as possible.

27. **We remain committed to protecting financial stability by reinforcing the regulatory and supervisory framework**.

- The Futures Trading Bill and Securities Bill have been enacted.
- The revised Securities and Exchange Commission of Pakistan (SECP) Act to enhance the regulatory power of the SECP has been submitted to Parliament for enactment by June 2016.
- A working group of the SBP-SECP joint task force continues to work on surveillance and assessment of banking groups and financial conglomerates for their effective monitoring and supervision. With support of IMF TA, 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, amendments to the foreclosure clauses in the Financial Institutions (Recovery of

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[3] As per Basel III instructions, a capital conservation buffer of 0.25 percent (common equity) became applicable in December 2015.

[4] The size of these two banks is about 1.5 percent of the banking system assets (or 0.8 percent of GDP), and the CAR shortfall has increased to PRs 1.4 billion.

Finances) Ordinance, have been approved in the National Assembly and await approval of the Senate, expected by June 2016.

- Alongside, the draft Corporate Restructuring Companies (CRC) Act has been passed by the National Assembly in March 2015, and is expected to be enacted, following Senate approval, by June 2016. These legal reforms will be pivotal for facilitating timely resolution of NPLs.
- The SECP, in coordination with other stakeholders, is finalizing the draft Corporate Rehabilitation Act, to be submitted to parliament by end-June 2016.
- The SBP continues to work on developing its contingency planning framework. 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). In line with its strategic plan for 2016-20, the SBP has developed an assessment framework for D-SIBs and is now in the process for potential designation of the D-SIBs and designing relevant regulatory measures by end-June 2017.

28. **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 has increased to 10.25 percent by December 2015, with further gradual steps toward 12.5 percent by 2019. The initial version of the Basel III liquidity coverage ratio (LCR) rules is being deliberated for adoption by end-December 2016.

29. **Instituting a modern deposit insurance scheme will strengthen the stability and resilience of the banking system**. The Deposit Protection Corporation (DPC) Act has been passed by the National Assembly and is now in the Senate for approval and subsequent enactment by end-August 2016 (modified SB). In the meantime, the SBP has initiated preparatory work to establish the corporate infrastructure of the DPC, supported by IMF TA. The DPC will become operational in September 2016.

30. **We will continue strengthening the anti-money laundering and combating the financing of terrorism (AML/CFT) framework**. Last year, we amended the AML Act to subject the proceeds of some tax crimes to AML legislation. On May 14, we amended the schedule of the AML Act, through notification in the official Gazette, to include certain offenses under the Income Tax Ordinance as predicate offenses to money laundering (SB). We will continue strengthening the effectiveness of the AML/CFT framework in line with international standards, by bolstering the Financial Monitoring Unit's analytical capability and strengthening the effective implementation of the relevant United Nations Security Council Resolutions.

31. **We are planning to use the Pakistan Development Fund to support investments in infrastructure and foster medium-term growth**. We created the Pakistan Development Fund, a state-owned development financial institution, during FY 2013/14 and we are in the process of mobilizing the participation of international development partners. The Pakistan Development Fund will operate on a commercial basis with a strong governance structure and is expected to start its operation during FY 2016/17 to finance the implementation of large infrastructure projects, including in the energy and transport sectors.

D. Energy Sector Reforms

32. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We significantly advanced in the implementation of 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 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.

Power Sector

33. **Price Adjustments**.

- In June 2015, we notified the FY 2014/15 tariff, as determined by NEPRA, and implemented surcharges in line with the program targets (as defined in the TMU ¶20). We are committed to protect the level of revenue in the electricity sector by adjusting prices as needed. NEPRA has moved forward in the determination of multi-year tariffs for FESCO, IESCO and LESCO, which had submitted five-year investment plans. The multi-year tariff for FESCO was determined by NEPRA in December 2015. Multi-year tariffs for IESCO and LESCO (January 2016 SB) were determined in February and March 2016, respectively, following delays in the finalization of the investment plan by the financial advisor. The tariff determination for the remaining DISCOs was completed in April 2016 and will continue to be done annually on a rolling basis. Subsequent to the tariff determinations, DISCOs filed review petitions in an effort to achieve revised losses and collection targets. Following the review process by NEPRA, we will notify the tariffs for FESCO, IESCO and LESCO with a delay by July 15, 2016 (modified SB). We will notify the annual tariffs for the remaining DISCOs at the same time. We are committed to move ahead with setting up multi-year tariffs for the remaining DISCOs, and three DISCOs have already prepared their multi-year tariff petitions for FY 2016/17. We will continue to undertake all necessary measures to ensure the full recovery of costs from consumers.
- We have finalized independent technical loss diagnostic studies for all DISCOs, which have provided better estimates and bases of loss rates by NEPRA. In light of these results, discussions are ongoing with NEPRA in order to revisit the regulatory benchmarking for losses to be considered in the FY 2015/16 tariff determination.

- We are committed to continue phasing out untargeted subsidies, while continuing to protect the most vulnerable consumers. 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. In order to meet our target, we have expedited and notified the quarterly determination for K-Electric for the pending four quarters. We are committed to continue reducing electricity subsidies to 0.3 percent of GDP in FY 2016/17.

34. **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 TMU ¶19). There are two main components of the stock of this circular debt:

- The payables in the power sector in the third quarter of FY 2015/16 increased to PRs 331.5 billion. In addition to current payables, they comprise: (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 emerged 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 held in PHCL in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-March 2016.

- We are in the process of updating our plan for reducing the accumulation of payables arrears and to gradually eliminate the outstanding stock. The plan adopted in late 2015 included steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure. With this, the accumulation of payables would be reduced from PRs 209 billion in FY 2014/15 (including the PHCL) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY 2018/19. While some elements of the plan have not been fully addressed i.e., implementation in two regions and GST refunds, we have significantly over-performed the end-March 2016 IT on the flow of accumulation of power sector arrears, helped by the impact of lower oil prices, further loss reduction by better monitoring and management of DISCOs performance, and better mobilization of receivables, including of some arrears at the provincial level. In light of developments since adoption of the plan, including delays in the privatization of DISCOs, we will, by June 15, 2016, prepare an initial update of our plan to further limit the accumulation of new payables and gradually eliminate the outstanding stock of payable arrears, on the basis of available information and in consultation with stakeholders. We will finalize this updated plan by July 15, 2016 (new SB).

- In the interim, we are planning to contain in the short-term the accumulation of new arrears by seeking a revised regulatory benchmarking for tariff determination in relation to recoveries and losses, and resolve to stop the build-up of arrears on account of differences between the NEPRA-determined Azad Jammu and Kashmir (AJK) tariff and the tariff agreed with AJK under the Mangla raising agreement. We propose to further tighten our end-June IT for accumulation of new arrears in the power sector (TMU ¶21, table). During the previous review, we had already reduced the end-June IT and also introduced an adjustor on the general government fiscal deficit that tightens this target in case of overruns (TMU ¶26). In the context of our renewed efforts, we will continue to strengthen our ongoing efforts to improve DISCOs' performance—including by further reducing losses and improving collection rates.

- We will continue to reduce losses and improve collections through capital expenditures to strengthen infrastructure and revenue-based load management. Overall losses in the third quarter declined from 18 to 17.9 percent, reflecting our efforts of better monitoring and management of DISCOs performance.[5] Collections in the same period improved from 93.4 percent to 94 percent, reflecting our efforts to recover arrears, resolve litigations with consumers, provision of incentives to collectors, and a better load management across consumers in rural and urban areas, and industries. We are continuing to engage with provincial governments to address their payment problems. We are working to further improve the performance of the sector in the last quarter of FY 2015/16 and in FY 2016/17.

35. **Monitoring and enforcement**. To further reduce losses, raise payment compliance, and improve energy efficiency and service delivery, we signed performance contracts with the boards of nine DISCOs in October 2014, which were subsequently extended through a memorandum of understanding (MoU), duly ratified by the respective boards of directors, and we are monitoring the performance indicators on a monthly basis. We set quarterly loss-reduction, collection, and recovery targets (TMU ¶22) consistent with our arrears reduction plan for each DISCO in September 2015. Targets have been met by half of the DISCOs at end-March 2016 and we will continue to advise DISCOs that failed to reach their targets to provide remedial measures, including taking disciplinary actions against the management and field staff. We are committed to continue improving DISCOs' performance, including by continuing to strengthen revenue-based load shedding, reducing losses and increasing collections, improving customer service and increasing billing accuracy by adopting technological solutions, such as mobile meter reading. Furthermore, we have established quarterly targets for FY 2016/17 and strengthened the monitoring mechanism. We will regularly submit DISCOs' quarterly performance reports for the review and approval of the Economic Coordination Committee (ECC) of the cabinet and make them available to the public, starting with the DISCOs' performance reports for Q3 FY 2015/16, which were approved and published in May 2016 (prior action). The amendments to Penal Code 1860 and the Code of

[5] 12-month rolling sums, April 2015–March 2016 compared to January-December 2015.

Criminal Procedures 1898 were enacted in January 2016 and we have created an effective system for handling cases related to electricity theft in June 2016. In parallel, we drafted the new Electricity Act to modernize governance of the sector and shared it with a broad set of stakeholders. The draft was submitted to the CCI secretariat in October 2015 and we are conducting a consultative process aimed at building consensus with the provinces, aiming at finalizing the draft for submission to the Parliament by mid-July 2016.

36. **Demand Side Management**. To improve resource allocation and energy efficiency, we are using pricing (¶32) and other market-based instruments. We will finalize the required approvals to begin Advanced Metering Infrastructure (AMI) by June 2016, which will be initially implemented in LESCO and IESCO to help reduce commercial losses, increase recoveries, and better manage revenue-based load shedding. We conducted a consultative process with stakeholders on the draft Pakistan Energy Efficiency and Conservation Act, which was approved by the National Assembly at end-March 2016 to be enacted by June 2016. The Act includes equipment performance standards, and covers key electrical and gas equipment and appliances. In parallel, we are also preparing the necessary implementing regulations.

37. **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. By providing adequate liquidity and therefore fuel inventories to generation plants, we were able to prioritize generation at more efficient plants, while maintaining better recovery from consumers and control over losses. In addition, the better load management policy helped us attain zero load-shedding for industrial consumers and ensured predictable and reduced load-shedding for urban and rural consumers. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to further reduce technical losses. In addition, we have signed performance contracts with three state-owned generation companies, which are run on furnace oil and gas 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 included 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.

38. **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 appointed in 2015 a new Chairman and Board member with financial skills to NEPRA. We have set up the Central Power Purchasing Agency Guarantee (CPPA(G)), which has become operational. We have separated it from the National Transmission and Dispatch 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. In line with our plans to liberalize the market, we have introduced the policy for net metering in October 2015 that will allow the electricity producing consumer to sell electricity to the system.

39. **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. In light of recent labor tensions and a strategic reassessment, we have revised our plans for strategic private sector participation in DISCOs, and we decided to move ahead initially with Initial Public Offerings for sales of minority shareholding, starting with FESCO, and, as we had planned in our strategy, we intend to utilize the related proceeds to reduce the stock of outstanding circular debt in the power sector (¶46). 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

40. **Supply**. To help tackle gas shortages, we commissioned the first Liquefied Natural Gas (LNG) terminal in March 2015 and started receiving LNG imports. We have already doubled the import of LNG from an initial 200 MMCFD to 400 MMCFD at present. Furthermore in order to increase gas supply to the domestic market, we are pursuing the construction of three additional LNG terminals to be completed by end-2017, which would allow increasing our import capacity to 2 BCFD. We determined and notified the LNG prices in October 2015 followed by a re-determination in March 2016 to address concerns with regard to cost components. We are fully passing through the cost of imported LNG to the end-user purchase price. We approved a long-term import contract for LNG supply in December 2015 and we are exploring other avenues of LNG imports from the international market. The subsequent key commercial agreements have been completed in February 2016, with the Independent Power Producer letters of credit to be finalized by end-June 2016. 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.

41. **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 2.8–3.0 U.S. dollars per MMBTU to a maximum of 6–10 U.S. dollars per MMBTU, to be subsequently adjusted to reflect the movements of international oil prices. 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 94 licenses and leases and the remaining 30 are currently being reviewed to assess eligibility for conversion under the 2012 Policy. We are in the process of improving the Petroleum Rules to streamline the regulatory process dealing with operations of concessions, which will also facilitate the finalization of the review process for the conversion of the remaining licenses and leases. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy.

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY 2014/15 (due in July and January) was partially recuperated in the new tariff which was notified and implemented, in line with the OGRA determination, in August 2015. Given the decline in international oil prices and consequent revenue requirements, we have maintained the current gas tariff in line with the OGRA determination for FY 2014/15 until the next round of determination in July 2016. We are committed to resume our practice of regular semiannual notifications and we have started the required regulatory process of tariff determination to be completed in June 2016, which will be followed by gas price notification in July 2016 to allow recovering the revenue requirements of gas utility companies. We will continue to make necessary adjustments to notified prices of imported gas, so that the cost of this gas will be fully reflected in the tariff on a monthly basis.

- Following enactment of the GIDC Act in May 2015, we have already recovered PRs 57 billion in FY 2014/15 and GIDC collection, including arrears recovery, reached PRs 60 billion in the first three quarters of FY 2015/16. In addition to the ongoing GIDC collection, we will continue to focus on recovering GIDC from collecting agents that had collected the GIDC in their prices before May 2015.

42. **Governance**. We are committed to improving 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 the Ministry of Petroleum and Natural Resources (MPNR), which provide quarterly progress reports 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. So far, we have published four reports on the website after ECC’s approval. To support the efforts of the regulator, we advertised the vacant positions on the Board of the OGRA. We have appointed the Member Finance, who enabled the formation of a legal quorum for decision making. We are in the process of selecting the Member Oil for whom the position has been advertised and the review process is ongoing. The process for hiring the new Chairman has also been completed in May 2016.

- We will further encourage bilateral contracting between producers and consumers and one new gas distribution and marketing license was awarded in February 2016. OGRA is reviewing rules for third party access to the gas transmission system. MPNR has secured consultant services to conduct the process and the recommendations will be finalized by September 2016.

- 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 gas companies submitted loss reduction plans to the MPNR in May 2015. The current level of Unaccounted for Gas (UFG) declined to 11.6 percent in the third quarter of FY 2015/16 from 12.2 percent, reflecting the companies' efforts to reduce commercial and technical losses through technical and administrative measures.[6]

- We have passed legislation allowing strengthening the pursuing of gas theft offenses. Following a small delay, the Gas (Theft Control and Recovery) Act was enacted in March 2016, and its implementation is expected to result in curbing gas theft.

- We aim to transition to a fully competitive and deregulated gas sector with private sector participation. 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 is supporting our study of the market design and restructuring, unbundling, and eventual privatization of the two gas utility companies, which is expected to be finalized by September 2016 and will formulate recommendations based on international best practices. A mechanism will also be developed for determining separate transmission and distribution tariffs.

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

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

43. **Business Climate**. We remain committed to improving the business climate as a necessary condition to foster private investment and growth, which are still hampered by barriers to new business start-ups, impediments in the legal framework for creditors' rights and contract enforcement, complex legal, taxation and border trade requirements, and limited access to finance. In addition to several key measures we had already implemented, we finalized in February 2016 a new country-wide reform strategy, including at the provincial level, with specific time-bound measures to strengthen the business climate and foster private investments. Our reform strategy to strengthen the business climate aims at streamlining procedures and strengthening the regulatory framework, focusing on ten areas—starting businesses, construction permits, paying taxes, enforcing contracts, property registration, getting credit, trading across borders, getting electricity, protecting minority investors, and resolving insolvencies. In particular, our priorities are in the short-term to

[6] 12-month rolling sums, April 2015–March 2016 compared to January–December 2015.

implement measures, which would allow easing the process of starting a new business, paying taxes and trading across borders, and facilitate getting credit, and, to this purpose, we are engaging in a close dialogue with all stakeholders. In addition, land management systems are being digitized and made more transparent by the provinces to improve the process of registering property.

- ***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 physical OSSs in Lahore in April 2015 and in Islamabad in September 2015. By streamlining overlapping procedures and establishing database sharing and a common portal for registering businesses, the OSSs have 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. Furthermore, in the context of the implementation of our new strategy to improve the business climate, we will improve the accessibility to the online registration system, make registration through the e-services mandatory and rationalize the fee structure to reduce the costs to open a new business by end-June 2016.

- ***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 (¶27). The Corporate Rehabilitation Act is being finalized and is expected to be introduced to parliament by end-June 2016. The CRC Act has been passed by the National Assembly and is being considered by the Senate. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism has been extended to Islamabad and Rawalpindi in September 2015. In the context of our new strategy, we are planning to expand ADRs to Peshawar and Quetta. In addition, we have begun to pilot commercial courts in Lahore to expedite resolution of commercial disputes and contract enforcement. In the context of our new strategy, we are conducting a best practice review of the current legal framework in order to put in place an efficient contract enforcement regime to be finalized by end-September 2016. We have initiated a dialogue with key stakeholders on the process of establishing commercial courts in Karachi and Lahore. In addition, to make contract enforcement more effective we are automating case management systems at high courts and subsequently to district courts for a speedier disposal of cases.

- ***Paying Taxes***. We have completed a review to reduce the number of existing processes and forms for sales and income tax in March 2015. 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. So far, we moved all internal operations to IRIS and are conducting public awareness campaigns to use the system. We have introduced in January 2016 a simplified procedure to facilitate tax filing for small and medium retailers which allows increasing tax compliance. We have also over-hauled the FBR website, with user guides available in two languages, and registered taxpayers' import and export data has been linked with the NTN and introduced a risk-based Sales Tax Registration Reform to reduce the processing time for no-risk and low-risk cases while providing time limits for processing cases, including for high risk ones. In the context of our new strategy, we will also enhance tax portal capacity, including fixing problems of frequent formula errors, and ensure that new e-filing for IRIS is made available by end-June 2016.

- ***Access to credit***. *A*ccess 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 this regard, improvements have been recorded and the Access to Finance Survey 2015 points to access to formal financial services increasing from 12 percent of adult population in 2008 to 23 percent in 2015. Particularly, access to bank accounts by women has expanded considerably, from 4 percent to 11 percent. In June 2015, the SBP issued guidelines to banks to facilitate the opening of Asaan ("Simple Small") Accounts for the unbanked population to meet the National Financial Inclusion Strategy (NFIS) target of 50 percent adult population with bank accounts by 2020. Since the launch of the initiative, Commercial Banks and Microfinance Banks have opened more than 750,000 accounts as of end-March 2016 and continue to run public awareness and media campaigns on the benefits of this initiative. We have devised plans to strengthen the financial literacy of these new client groups, including by conducting outreach. 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 Bureaus Bill has been enacted in August 2015. In addition, the Financial Institutions (Secured Transaction) Act to allow for the use of movable property as collateral and the Amendments to the 2015 Credit Bureau Act to retract the requirement for SBP to verify all credit information reports have been approved by the National Assembly, in March and May 2016, respectively, to be enacted by December 2016. The SBP has issued the Credit Bureaus Regulations and licensing criteria in April 2016 and the existing private Credit Bureaus will have to apply for SBP licensing by mid-October 2016 to comply with the provisions of the Act. In addition, the SBP has established a Financial Inclusion Department to carry out functions related to NFIS and facilitates its coordination, implementation and monitoring of targets.

- ***Trading across borders***. We have a put in place a Web Based One Customs (WeBOC) system to facilitate faster processing of trade documents and management of exports and imports proceeds, connecting customs, SBP, exporters, importers, and all banks. An electronic export form (EFE) module of the WeBOC was rolled out by customs in October 2015, while the electronic import form (EIF) module is expected to be rolled out by July 2016. Furthermore, we will expect to make the Real Time Electronic Data Exchange with China operational by July 2016, which will facilitate trade between the two countries and the electronic exchange of information required for correct assessment of goods declarations.

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 (¶12) 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.[7] We reduced tariff slabs from six to five during FY 2015/16 and further eliminated trade-related SROs. Furthermore, the FY 2016/17 budget introduces the last phase of the new tariff structure that will reduce the slabs from five to four by July 2016. In this regard, we have conducted an extensive consultation process with stakeholders.

- ***Improved trade relations***. We will continue 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 under various regional trade arrangements, in order to foster our exports.

45. **Public Sector Enterprises (PSEs)**. Large and growing accumulated losses in PSEs underscore the urgency of restructuring and privatizing 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 are in the process of adding more companies to our list and we aim at updating the list by July 2016. We have developed a plan to sequence the capital market and pre-privatization restructuring for these firms. Despite significant delays in our privatization

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

program, we remain committed to advance our reform agenda in order to reduce fiscal risks and improve performance, efficiency and quality of services. In the interim, we are placing added emphasis on strengthening the performance and efficiency of public enterprises.

- ***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. Despite a slight delay, we have hired a financial advisor for State Life Insurance Corporation (SLIC) in January 2016 and we issued in April 2016 a presidential ordinance for its corporatization aimed at improving its market value. The SLIC bill was subsequently approved by the National Assembly in May 2016. We will conduct the Initial Public Offering of SLIC by end-March 2017. We will offer the first option for the government's shares in Mari Petroleum Company Limited (MPCL) to the parties who have been MPCL's other shareholders since incorporation, aiming at finalizing this process by end-August 2016.

- ***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.

  - **DISCOs**. We had appointed financial advisors for share sales of Faisalabad Electric Supply (FESCO), Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), and we have completed the due diligence process for all three DISCOs. However, in light of recent labor and strategic concerns, we have engaged with key stakeholders and reassessed our strategy for DISCOs' strategic private sector participation. We now plan to conduct an Initial Public Offering in the capital markets for FESCO by November 2016 to be followed by IESCO and LESCO. As we had planned in our strategy, we intend to utilize the related proceeds to reduce the stock of outstanding circular debt in the power sector. In the meantime, we will strengthen our efforts to improve DISCOs' performance and reduce the system financial losses. 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 are also in the process of revisiting our strategy for power generation companies (GENCOs), including the possibility of conducting a Public Offering.

- **Other companies**. We have resolved the legal challenge to the cancelled sale of Heavy Electrical Complex (HEC) in May 2015 that arose owing to the winning bidder's inability to provide the funds to close the transaction. Subsequently, the HEC transaction has been reinitiated, and the advertisement for EOIs for financial advisor services has been published in May 2016. We have completed the sale of National Power Construction Co. (NPCC) in September 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and for Jamshoro Power Generation Company Limited (JPCL) in April 2015. In May 2015, we finalized the hiring of financial advisors for Lakhra Power Generation Company Limited (LPGCL), and Central Power Generation Company Limited (CPGCL). In July 2015, we have hired the financial advisor for Kot Addu Power Company (KAPCO). The due diligence process is ongoing and we will issue the expression of interest for bidders by July 15, 2016 (new SB) in order to finalize the transaction by March 2017. In addition, we have hired a financial advisor for SME Bank Limited in January 2016, the due diligence process is ongoing with the objective of issuing the expressions of interests by August 2016 and finalizing the transaction by end-December 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, more recently, for Pakistan International Airlines (PIA). Specifically,

- **Pakistan International Airlines (PIA)**. Legal constraints and labor reactions have led to a reassessment of plans to sell a strategic share in PIA. We have appointed financial advisors in July 2014 to seek potential options for restructuring and strategic private sector participation in the core airline business. However, the due diligence process, completed in August 2015, showed that resolution of legal challenges was needed before moving forward. Also in view of the disruption caused by labor reactions and strikes, we missed the end-December 2015 SB for solicitation of expressions of interest (EOIs) for strategic private sector participation in PIA. We engaged in building consensus with key stakeholders and, in April 2016, we obtained in a joint session of the Parliament approval for amendments to the PIA Act to transform PIA from a statutory body to a corporatized entity (SB). While under the amendments of the PIA Act, the government will maintain management control of PIA, we are exploring options to attract private sector participation. In parallel, we will continue to work closely with PIA management to ensure that ongoing financial losses are contained. In particular, our key measures to containing losses will focus on: (i) strengthening PIA governance, including separating the role of CEO from Chairman of the Board and strengthening the monitoring role of the Board; (ii) increasing performance by route rationalization and fleet modernization and expansion; (iii) reducing financial and operational costs through improving fuel efficiency, better seat management and use of IT systems; and (iv) providing better services to gain the customers' confidence.

- **Pakistan Steel Mills**. We hired financial advisors in April 2015 and completed the due diligence process in August 2015. However, the privatization process was put on hold by the government's decision in October 2015 to offer the provincial government of Sindh, which hosts PSM, to acquire the company. In absence of a positive outcome of the discussions with the provincial government by June 10, 2016, we will resume the process of attracting strategic private sector participation in the company. In the interim, we are working with PSM management to ensure that ongoing financial losses remain contained, including by continuing to reduce contractual employees and continuing to minimize other expenses.

- **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, expenditure controls, and improved occupancy rates. Revenues further increased by 13.5 percent in the first three quarters of FY 2015/16, (PRs 26.4 billion from PRs 23.2 billion in FY 2014/15), mostly reflecting the 31 percent revenue increase owing to improved freight operations (PRs 7.8 billion from PRs 6 billion in FY 2014/15). In particular, during the first nine months of FY 2015/16, we added 36 new locomotives for freight service and we remain focused to continue to improve freight transportation and adding more locomotives and wagons. 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 and we are strengthening the company's financial accounting practices to gradually achieve international best practices (IFRS), including moving from a cash to accrual basis accounting, and focusing on improving the transparency and efficiency of the procurement process.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2014/15 and FY 2015/16
(In billions of rupees, at program exchange rates, unless otherwise specified)

	FY2014/15	FY2015/16					
	end-June	end-September	end-December	end-March			end-June
				Program			
				Eleventh Review			
				Target	Adj. Target	Actual	
Performance Criteria							
Floor on net international reserves of the SBP (millions of U.S. dollars) 4/	5,354	6,955	6,882	9,300	5,765	6,172	11,050
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,661	2,633	2,660	2,832	2,791	2,731
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	329	541	1,012	1,012	1,009	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,385	1,650	2,000	2,000	1,885	2,000
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,887	1,589	1,457	1,800	1,800	1,361	1,800
Continuous Performance Criterion							
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0
Indicative Targets							
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	94	24	48	70	70	75	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	600	1,385	2,105	2,105	2,103	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	13	0	15	15	4.9	18

Sources: Pakistani authorities; and Fund staff estimates.

1/ All items as defined in the TMU. Fiscal year runs from July 1 to June 30.
2/ Excluding grants, FY2012/13 overall budget deficit is a stock.
3/ FY 2012/13, total stock of government debt as of June 30, 2013.
4/ Adjustors are presented on a cumulative basis since the beginning of the program (September, 2013).

Table 2. Pakistan: Prior Actions and Structural Benchmarks, March–September 2016

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		At time of 10th review	New / revised		
Prior Actions					
1	Submit the FY 2016/17 budget to parliament, consistent with the policies described in the MEFP and a budget deficit target of 3.8 percent of GDP.		June 8, 2016	Met	Improve government debt dynamics.
2	Submit DISCOs' quarterly performance reports for Q3 FY2015/16 for review and obtain approval of the Economic Coordination Committee of the Cabinet, and make the reports available to the public.		May 31, 2016	Met	Strengthen the performance of the power sector.
Structural Benchmarks					
Fiscal sector					
3	Identify 50 potential cases of high net worth individuals and other large taxpayers, based on established risk-based audit criteria, and initiate comprehensive income tax audits in at least half of such cases.	end-March 2016		Met	Improve tax compliance and revenue collection.
4	Establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration.	end-April 2016		Met	Improve governance in tax administration.
5	Prepare and submit draft legislation for a PPP framework to the National Assembly.	end-April 2016		Met	Strengthen the institutional framework for fiscal policy.
6	Submit amendments to the Fiscal Responsibility and Debt Limitation Act (as described in paragraph 18 of the MEFP of March 10, 2016) to the National Assembly.	end-May 2016		Met	Strengthen the framework for fiscal responsibility.
Monetary sector					
7	(i) Issue an executive order to provide a financial guarantee to the SBP in case of any losses that are not covered by the SBP's general reserves and recapitalize the bank if it becomes necessary; and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains.	end-March 2016		Met	Strengthen central bank independence
Financial sector					
8	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-March 2016	end-August 2016	Not met by March 2016	Enhance the resilience of the financial sector.
9	Amend the schedule of the AML Act, by notification in the Federal Gazette, to include offenses under the income tax law as predicate offenses to money laundering (modified SB).	May 15, 2016		Met	Use anti money laundering tools to combat tax evasion.
Structural Policies					
10	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016	July 15, 2016	Not met by April 2016	Prepare for DISCO privatization.
11	Obtain parliamentrary approval for amendments to the PIA Act.	May 15, 2016		Met	Restructure a key loss-making public sector enterprise.
New Structural Benchmarks					
12	Update the plan to further limit the accumulation of new payables and gradually eliminate the outstanding stock of payables arrears in the power sector.		July 15, 2016		Strengthen the financial perfomance of the power sector.
13	Solicit expressions of interest for the divestment of Kot Addu Power Company (KAPCO).		July 15, 2016		Strenghten private sector participation in the energy sector.

Attachment II. Technical Memorandum of Understanding

June 9, 2016

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

A. Quantitative Targets

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

Performance criteria

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

Continuous performance criteria

- Ceiling on the accumulation of external payment arrears by the general government;
- Indicative targets
- Floor on targeted cash transfers spending (BISP) (cumulative, billions of Pakistani rupees)
- Floor on net tax revenues collected by the Federal Bureau of Revenue (FBR) (cumulative, billions of Pakistani rupees)
- Ceiling on power sector payables (flow, billions of Pakistani rupees)

B. Definitions of Monitoring Variables

2. **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.

3. **Net revenue of the FBR** is defined as the sum of revenues collected from (i) general sales tax (GST) on goods, including GST on services collected in Islamabad Capital Territory; (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.

4. **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. At end-March 2016, the NIR of Pakistan amounted to US$6,172 million.

5. **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.

6. **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).

7. **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). At end-March 2016, the SBP's aggregate position was US$1,885 million.

8. **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.

9. **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.

10. **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).

11. **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.

12. **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.

13. **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.

14. **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.

15. **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.

16. **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).

17. **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.

18. **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.

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 tariff determinations.

20. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶33). The current notified weighted average electricity tariff is PRs 11.45/kWh for all classes of consumers and includes 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. The FY 2015/16 electricity tariff will be notified by July 15, 2016.

(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

STFC Debt Service (PRs billions)	Q1	Q2	Q3	Q4	Total
FY 2014/15	9.0	6.9	9.4	7.0	32.2
FY 2015/16	8.8	5.5	9.8	5.2	29.3
FY 2016/17	6.6	5.9	5.7	4.2	22.4

(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 (¶33 and table below) of PRs 0.43/kWh which is defined as follows:

DSS FY 2015/16 = 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).

= PRs 29.3(billions)/68(TWh) = PRs 0.43/kWh.

(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 ¶33). 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. The Supreme Court in its interim ruling (June 2015) allowed recovery of surcharges (current and arrears). The payment arrears from surcharges noncollection are being recovered in 12 monthly installments in consumer bills from August 2015.

Surcharges	Financial Impact (PRs billion)	Arrears recovered (PRs billion)
Equalization@ PRs 0.13/KWh	5	0.8
Equalization under Universal Obligation fund@ PRs 0.47/KWh	15	2.1
Neelum-Jehlum @ PRs 0.1/KWh	4	0.9
Debt servicing surcharge (STFC) @ PRs 0.43/KWh	13	2.2
Total	**37**	**6.0**

22. **Monitoring mechanism to track stock and flow of payables** (MEFP ¶34). The stock of payment arrears include the payables of PRs 331.5 billion, and the stock of PHCL of PRs 335 billion as of end-March 2016. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) for FY 2014/15 and FY 2015/16 and its components are given in the following table:

(In Billion PRs)	**2015/16**						**2015/16**	**2014/15**	**2015/16**
	Q1		Q2		Q3		Q4		
	Target	Actual	Target	Actual	Target	Actual	Target	Total	Total
Non-recoveries	16	37	12	-6	16	3	18.8	104	53
Accrued Markup	-	-	-	-	-		-	23	-
Excess Line Losses	11	22	8	-8	0.4	-2.7	3.5	50	14.8
GST Non Refund	-	-	-	-	-		-	14	-
Late Payment Surcharge							1		1
Delay Determinations	3	-	3	-	-		-	11	-
Flow (under arrears plan)	**31**	**59**	**24**	**-13**	**17**	**0.3**	**23.2**	**209**	**69.3**
Operational deficit/surplus of the system		10		15.5		36	3.2		
Impact of oil prices		-56		-20	-2	-29	-8.4		
Others 2/		-4		18		12			
Stock clearance	-47	-4	63	-	-	-14	-		
Total flow		13		0.5	15	5	18	48	36
Total (Stock)	**297**	**326**	**287**	**326.6**	**341**	**331.4**	**349.4**	**313**	**349.4**

1/ Projections for Q4 for FY 2015/16 update projections included in the arrears plan.

2/ Includes STFC arrears due to court stay, LNG payment arrears due to delay in tariff determination and other costs not recovered.

23. **Structural benchmark on performance of DISCOs** (MEFP ¶35). In October 2015, quarterly quantitative targets have been determined by MWP and each DISCO for technical and distribution losses, and collection from current consumers. The performances of DISCOs against targets in Q3 are given in table below.

Target Bill Collection (In percent)	Q1	Q2		Q3		Q4	FY 2015/16
	Actual	Target	Actual	Target	Actual	Target	Target
LESCO	95.4	107.4	108.7	111.3	112.1	76.4	96.2
GEPCO	95.7	103.2	107.5	110.0	111.3	80.8	95.7
FESCO	95.9	107.1	113.6	105.5	105.9	88.4	98.5
IESCO	79.4	98.3	103.7	89.1	90.1	86.9	87.6
MEPCO	92.0	105.7	113.3	112.4	106.8	88.6	98.1
PESCO	81.7	90.9	94.9	96.6	87.7	81.5	87.1
TESCO	8.8	8.7	12.3	9.1	11.3	414.9	75.4
HESCO	52.8	81.7	90.7	93.9	90.9	72.8	72.6
SEPCO	42.0	51.3	64.7	77.6	70.6	64.7	56.2
QESCO	105.1	22.9	74.3	27.0	83.3	49.5	57.5
TOTAL DISCOs	**86.9**	**95.6**	**101.5**	**98.5**	**97.3**	**83.1**	**90.2**

Losses target (In percent)	Q1	Q2		Q3		Q4	FY 2015/16
	Actual	Target	Actual	Target	Actual	Target	Target
LESCO	15.2	9.1	9.0	9.1	9.8	18.4	14.1
GEPCO	14.3	3.1	2.4	7.1	7.0	14.0	10.7
FESCO	11.9	5.3	2.4	6.7	5.8	15.4	10.9
IESCO	9.6	1.5	1.8	3.1	5.2	18.3	9.4
MEPCO	21.5	10.0	9.4	10.0	9.8	19.5	16.7
PESCO	41.7	26.2	27.2	26.1	27.8	35.2	34.0
TESCO	21.1	17.8	17.5	14.1	16.6	28.3	20.6
HESCO	29.2	18.7	20.4	23.2	22.7	30.3	26.5
SEPCO	42.6	30.6	30.8	30.5	30.6	41.8	38.1
QESCO	24.9	19.4	21.8	23.5	22.9	27.0	23.9
TOTAL DISCOs	**21.1**	**12.4**	**11.9**	**13.2**	**13.4**	**22.2**	**18.0**

24. **Finalization of privatization transaction** (MEFP ¶45). A transaction is 'finalized' on reaching financial closure, i.e., funds from the sale are remitted to government accounts.

C. 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), external bond placements and other commercial borrowing 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, and for the end-December 2015, end-March 2016, and end-June 2016 calculations to exclude external long-term market financing that is expected to happen as US$500 million in Q2, and US$850 million in Q3 of FY 2015/16. 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 FY 2014/15 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 FY 2014/15 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 billion at end-June. The ceiling for FY 2015/16 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 450 billion 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 FY 2014/15 and PRs 6 billion in FY 2015/16 from their indicative targets. In FY 2015/16, 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). In March and June 2016, the ceiling will be adjusted downward for any excess (cumulatively, starting from January 1, 2016) in the flow of power sector payment arrears above the respective indicative program targets.

D. Public Sector Enterprises

List of Companies for **Capital Market Transactions**

- Oil and Gas Development Co. Ltd (OGDCL)
- Pakistan Petroleum Ltd (PPL)
- Mari Petroleum Company Ltd.
- Government Holding Private Ltd (GHPL)
- 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)
- SME Bank Limited
- 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)
- Multan 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, Ltd. (LPGCL)
- 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)

E. Program Reporting Requirements

28. **Performance under the program** will be monitored from data supplied to the IMF by the SBP, the Ministry of Finance, the Federal Board of Revenue, and the 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 *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	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
	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	Monthly	One month in advance

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		including projections for domestic public securities (issuance and maturities), external financing, SBP profits, short-term borrowing, other financing schemes, and borrowing from the SBP.		
	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
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	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; Number of total transactions involving nonduty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, Rs. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total	Quarterly	Within 30 days

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		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 FY 10 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type		
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection form current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter
	Domestic expenditure arrears	Energy arrears (stock) Flow of arrears by source	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 Gas sales by consumers	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 (cash flow, income statement, and balance sheet) 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
	Actual							10th review	Actual	Projectior
Multilateral and bilateral disbursement	2,943	1,270	1,098	1,002	1,970	1,243	2,339	1,853	1,870	3,520
of which: in cash 1/	2,608	407	543	764	1,810	617	1,299	1,188	860	2,525
International debt issuance 2/	2,000	0	1,000	0	0	500	400	850	508	500
Coalition Support Fund	375	735	0	717	0	713	0	175	0	224
Other 3/	0	0	0	0	764	0	0	0	0	0
Gross Inflows	5,318	2,005	2,098	1,719	2,734	2,456	2,739	2,878	2,378	4,244
of which: in cash	4,983	1,143	1,543	1,481	2,574	1,830	1,699	2,213	1,368	3,249
Debt service	943	989	1,110	1,842	1,422	1,106	1,156	1,431	790	1,476
Memorandum items										
Gross International Reserves	9,096	8,943	10,514	11,615	13,534	15,247	15,886	15,607	16,119	18,378
Program Net International Reserves	1,800	3,000	3,500	5,000	7,300	8,300	9,300	9,300	9,300	11,050

1/ Numbers need to be confirmed with the MoF.

2/ Issuance of the Eurobond, originally scheduled for Q2 FY2016, materialized in Q1. For the purpose of calculating the adjustor, it is still treated as if expected to be issued in Q2.

3/ Includes privatization and 3G licenses.

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	713	0	0	224
Of which: Coalition Support Fund	322	353	375	735	0	717	0	713	0	0	224
3G Licences	0	0	0	0	0	0	0	0	0	0	0
Grants	100	1,538	151	147	346	148	51	153	228	189	343
External interest payments	202	155	215	174	289	166	311	192	339	227	377
Net external debt financing	50	-115	3,001	273	1,209	-56	422	679	1,297	13	2,578
Disbursements	645	760	4,213	871	1,845	851	1,484	1,590	2,114	1,677	3,677
of which budgetary support	309	285	2,070	14	23	547	528	153	1,120	147	1,019
Amortization	594	875	1,212	598	636	907	1,063	912	817	1,664	1,099
Privatizations	0	0	5	0	0	0	764	0	0	0	0
Memorandum item											
Program financing	409	1,823	2,226	161	369	695	1,343	307	1,348	335	1,362

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

Item	June 30, 2013	June 30, 2014	June 30, 2015	Prov. Apr 30, 2016
Central Government	**5,561,994**	**6,059,496**	**7,003,751**	**7,701,531**
Scheduled Banks	**3,320,870**	**3,491,821**	**4,905,118**	**5,590,339**
Government Securities	1,117,115	2,413,134	3,295,052	4,201,872
Treasury Bills	2,611,512	1,550,476	2,164,055	2,089,981
Government Deposits	-407,757	-471,789	-553,989	-701,514
State Bank	**2,241,124**	**2,567,674**	**2,098,634**	**2,111,192**
Government Securities	3,127	2,786	2,786	2,784
Accrued Profit on MRTBs	44,959	82,070	42,192	37,551
Treasury Bills	2,275,183	2,852,274	2,281,365	2,254,416
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,280,856	2,253,900
Treasury Currency	8,653	8,654	8,156	8,581
Debtor Balances (Excl. Zakat Fund)				
Government Deposits	-96,260	-383,571	-235,865	-192,141
(Excl. Zakat and Privatization Fund)				
Payment to HBL on a/c of HC&EB	-287	-287	0	0
Adjustment for use of Privatization Proceeds				
for Debt Retirement	5,749	5,749	0	0
Provincial Governments	**-315,607**	**-510,138**	**-600,192**	**-794,007**
Scheduled Banks	**-287,393**	**-352,258**	**-430,426**	**-473,675**
Advances to Punjab Go\ Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-431,450	-474,699
State Bank	**-28,214**	**-157,880**	**-169,766**	**-320,332**
Debtor Balances (Excl. Zakat Fund)	13,715	802	3,049	1,968
Government Deposits (Excl.Zakat Fund)	-41,930	-158,682	-172,814	-322,300
Net Govt. Budgetary Borrowings				
from the Banking system	**5,246,387**	**5,549,357**	**6,403,559**	**6,907,524**
Through SBP	2,212,910	2,409,794	1,928,868	1,790,860
Through Scheduled Banks	3,033,477	3,139,563	4,474,691	5,116,664
Memorandum Items				
Accrued Profit on SBP holding of MRTBs	**44,959**	**82,070**	**42,192**	**37,551**
Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-6,438**	**-7,259**	**-10,201**
Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**1,525,175**	**2,125,355**	**2,047,678**
Net Govt. Borrowings (Cash basis)				
From Banking System	**5,124,762**	**5,448,425**	**6,329,926**	**6,837,870**
From SBP	2,167,951	2,327,725	1,886,676	1,753,309
From Scheduled Banks	2,956,811	3,120,700	4,443,250	5,084,561

Statement by Jafar Mojarrad, Executive Director for Pakistan,
Mohammed Daïri, Alternate Executive Director, and Shahid Mahmood,
Senior Advisor to Executive Director
June 27, 2016

On behalf of our Pakistani authorities, we would like to thank staff for the high quality of engagement during discussions on the Eleventh Review under the EFF-supported program, as well as for a well-written and balanced report. The authorities broadly agree with staff assessment and policy advice.

Program Performance

Program implementation has remained strong in challenging circumstances, reflecting the authorities' strong resolve to consolidate macroeconomic stability on a sustained basis. All end-March 2016 performance criteria (PCs) were met, some with significant margins; all but one indicative targets (ITs) were met, except for the IT on tax collection, which was missed by a very small margin (less than 0.01 percent of GDP); and seven out of nine structural benchmarks (SBs) were implemented. The two missed SBs on notification of multi-year tariffs for three power distribution companies and enactment of the Deposit Protection Corporation (DPC) Act (passed by the National Assembly and awaiting final parliamentary approval) are proposed as modified SBs for the next and last review.

Recent Economic Developments and Outlook

As the program nears completion, economic recovery is gaining momentum, and macroeconomic stability is strengthening, with low inflation, steady buildup of external buffers, and continued fiscal consolidation. Despite weak cotton harvest and lower exports, growth in FY 2015/16 is provisionally estimated at 4.7 percent (highest in eight years), driven by large scale manufacturing, investment, and construction, as well as recovery in credit growth and improved supply of electricity and gas. The authorities expect growth to accelerate to 5.7 percent in FY 2016/17, although they have retained a lower level of 5 percent for program purposes. The 12-month inflation declined to 3.2 percent in May 2016 and is expected to remain contained at 5.2 percent in FY 2016/17, well anchored by prudent monetary policy. The current account deficit has remained low and stable at about 1 percent of GDP in recent years, and external reserves increased to the equivalent of 4.3 months of imports from 3.5 months at end-FY 2014/15 and 2.2 months the previous year. Equity market performance has been strong in the last three years, with the PSX-100 index increasing by over 80 percent and market capitalization by 37 percent, reflecting improved investor confidence. This has led recently to reclassification of Pakistan stock market into the MSCI Emerging Markets Index.

Fiscal Policy

Fiscal consolidation with improved revenue collection and rationalization of expenditures to create space for pro-growth spending has remained central to the program. Sustained efforts have brought the structural primary balance to a 0.6 percent of GDP surplus in FY 2015/16 from 4 ½ deficit in 2012/13. Tax-to-GDP ratio has improved in the last three years by 2.3 percentage points of GDP, reflecting the impact of important tax policy and administration measures. This revenue mobilization effort has accelerated more recently, with tax revenues increasing by 19.9 percent in the first eleven months of FY 2015/16 compared to 14.9 percent in FY 2014/15. The authorities are targeting a further reduction of the fiscal deficit to 3.8 percent of GDP under the FY 2016/17 budget. To achieve this target, additional measures have been taken, including further elimination of tax exemptions and concessions, differential taxation of filers and non-filers to reward compliance and penalize noncompliance, and raising some excises and adjusting some custom duty rates.

The authorities remain mindful that more efforts are required to realize the full revenue potential, and are targeting further increase in revenue of 2.2 percentage points of GDP by FY 2019/20. To this end, they are committed to: accelerate risk-based income tax audits of the identified high net worth individuals; improve data sharing between tax and customs administrations as well as FBR access to other third party information to identify noncompliant taxpayers while further enhancing the revenue agency's governance; seek adoption of the legislation against *benami* transactions; and with World Bank assistance, establish a tax policy research and analysis unit outside FBR to improve capacity for policy making.

The authorities have continued to rationalize current expenditures, mainly by containing wages and cutting energy subsidies and public sector enterprise losses, while protecting social and capital spending. Moreover, in order to help address infrastructure deficits under limited fiscal space and promote greater private sector participation, they have established a PPP framework with Fund TA, with utmost attention given to limiting and better managing associated fiscal risks, including through adequate monitoring and transparency. A new committee is being tasked with strengthening fiscal coordination between the federal and provincial governments. This committee will ensure achievement of consolidated fiscal targets to preserve macroeconomic stability and fiscal sustainability.

The authorities continue to improve targeting and efficiency of the Benazir Income Support Program (BISP) while expanding its coverage. The number of beneficiaries of the unconditional cash transfers has increased by 30 percent over the past three years. Moreover, stipends were increased by 50 percent over the same period to protect their purchasing power. Also, by end-June 2016, more than 1.3 million children of BISP families are now receiving educational conditional cash transfers.

Fiscal Rules and Debt Management

The authorities continue to strengthen debt management, including by improving functionality of the Debt Policy Coordination Office and publishing of the Medium-Term Debt Strategy for the period FY 2015/16 to FY 2018/19. Moreover, to further strengthen the rule-based fiscal policy and budget planning and to anchor debt sustainability, they have amended the Fiscal Responsibility and Debt Limitation (FRDL) Act 2005 as indicated in Box 1 of the staff report to: i) cap the federal budget deficit at 4 percent of GDP (excluding foreign grants) for the next three fiscal years and 3.5 percent thereafter; ii) maintain the 60 percent debt-to-GDP ratio limit for FY 2017/18 and reduce it gradually to 50 percent over a 15-year transition period; iii) define strong and clear escape clauses; and, iv) establish explicit enforcement procedures and corrective mechanisms for treatment of deviations, which would ensure greater budgetary discipline.

Monetary and Exchange Rate Policies

Monetary and exchange rate policies remained focused on maintaining price stability and building external buffers. Prudent monetary policy has helped achieve the program's monetary targets and maintain low inflation. Following the 25 bps reduction of the policy rate in May 2016, the authorities will remain vigilant to any signs of inflationary pressures, and are resolved to maintaining positive real interest rates in line with the monetary targets and setting the policy rate in a forward-looking fashion; they also stand ready to tighten the monetary policy if needed. Significant reduction in the stock of government borrowing from the State Bank of Pakistan (SBP) has contributed to improved liquidity management, while greater recourse to foreign financing has increased space for private sector credit. Continued flexible exchange rate policy and ambitious reserve accumulation will help strengthen buffers while contributing to containing appreciation pressures and supporting competitiveness, and in this regard the authorities have raised the target for net international reserves for end-June 2016.

Significant progress has been made in strengthening the autonomy of the SBP, including by amending the SBP law. The newly established independent Monetary Policy Committee (MPC) is now holding its meetings regularly, and its minutes are being published. The authorities have also adopted executive orders to provide financial guarantee to SBP in case of losses not covered by its general reserves and to recapitalize the bank if necessary, and have delegated powers to the Board to establish profit distribution rules, thus allowing it discretion in building reserves. In order to further strengthen its autonomy and governance, the SBP has formed a committee to develop a time-bound legislative action plan with Fund TA. The Committee is currently finalizing its recommendations to complete the task by end-June as committed. SBP's analytical capabilities are also being enhanced in support of a move to flexible inflation targeting framework in the medium-term, along with improving transparency by disseminating information about inflation expectations and forecasts.

Financial Sector

The banking sector is well capitalized and profitable with high solvency ratios. While the capital adequacy ratio (CAR) declined marginally to 16.3 percent in March 2016, mainly due to growth in the private sector credit and accounting adjustment in the capital of one bank, it remains well above the Basel III requirements. NPLs increased slightly but remain well provisioned. The SBP is monitoring the two CAR noncompliant banks which account for a small part of banking assets and are due to meet the statutory requirements in August and December 2016 respectively. Another small bank which is below minimum capital requirement (MCR) is in the process of merging with another bank by December 2016 to be in compliance with the requirement. The authorities continue to strengthen financial sector regulation and supervision, as indicated in ¶27 of the MEFP, including in the areas of securities market and oversight, risk-based supervision; bank foreclosure, corporate restructuring, contingency planning, and oversight of systemically important banks. They are gradually transitioning towards Basel III capital and liquidity standards and plan to adopt the initial version of the liquidity coverage ratio (LCR) rules by end-December 2016. A modern deposit insurance scheme under the Deposit Protection Corporation (DPC) Act should strengthen the stability and resilience of the banking system. The SBP has started work for the establishment of corporate infrastructure for the DPC to make it operational by September 2016, before the final review of the program. The authorities have amended the schedule of offenses under the AML/CFT Act to include certain offenses under the Income Tax Ordinance as predicate offenses to money laundering. This significantly strengthens the legal framework for fighting tax evasion.

Structural Reforms

The authorities continue to implement the ambitious reform agenda under the program. Energy sector reforms have strengthened the regulatory framework, reduced distribution losses, improved collection rates and reduced power outages and energy subsidies. Electricity tariffs were increased and, to allow cost recovery, surcharges have been introduced. These reforms, along with low oil prices have brought about significant reduction in accumulation of energy sector arrears, with the focus turning now to eliminating the stock of arrears. The multi-year tariff framework for three power distribution companies (DISCOs) has been determined and frameworks for other DISCOS are under preparation.

Restructuring and privatization of public sector enterprises remains high on the reform agenda. The power sector arrears reduction plan was predicated on privatization of the distribution companies. Political and social tensions have caused the authorities to revisit the privatization plans. Initial Public Offering of three of these companies (FESCO, IESCO and LESCO) is now planned. They have also initiated the divesture of a large power generation company (KAPCO). After temporary deviation from the planned privatization of Pakistan International Airlines (PIA), options to attract private sector interest in the revised plan are being explored, while at the same time measures are being taken to contain PIA's losses by strengthening its governance and reducing financial and operating costs. Pakistan Railways restructuring is progressing, with improvement in revenues by 32 and 45 percent respectively in the past two years, following rationalization of tariffs, tight expenditure controls, improved occupancy rates, and revival of freight operations, and the momentum is maintained during FY 2015/16. Discussions with the provincial government are still ongoing for the privatization of Pakistan Steel Mills. In the meantime, the authorities are focusing on containing the company's losses.

Business Climate

To improve the business climate, remove constraints to private sector development, and enhance competitiveness, a comprehensive and country-wide reform is being undertaken. In addition to several key measures that have been taken in cooperation with development partners, the authorities have finalized time-bound measures to streamline procedures in ten key areas (MEFP ¶43). They have started implementing the short term measures in line with the objectives of the strategy. Moreover, ongoing efforts to reduce outstanding tax refund claims should contribute to improving the business environment. The government will work toward improved women access to education and their participation in the labor market, along with adequate integration of gender equality in the budget process, which should help unlock Pakistan's growth potential.

Conclusion

The authorities are comforted by the significant achievements under the EFF-supported program under challenging circumstances. They see this outcome as a reflection of their strong ownership and commitment to program objectives, but also as a result of close cooperation with their domestic and foreign partners, including the IMF. However, they see no room for complacency and are firmly committed to preserve these gains and stay the course of adjustment and reform well beyond this program's timeframe. They look forward to completion of the Eleventh Review and Board approval of their request for modification of performance criteria and extension of the Extended Arrangement. They are grateful to the Executive Board and management for their guidance and support.