INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/162

PAKISTAN

June 2015

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

In the context of the Seventh Review Under the Extended Arrangement and Modification of Performance Criteria, 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 26, 2015, following discussions that ended on May 11, 2015, 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 12, 2015.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Pakistan.

The documents listed below 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 26, 2015

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IMF Executive Board Completes Seventh Review under the EFF for Pakistan

The Executive Board of the International Monetary Fund (IMF) on June 26, 2015 completed the seventh review of Pakistan's economic performance under a three-year program supported by an Extended Fund Facility (EFF) arrangement. The Board's decision enables the immediate disbursement of an amount equivalent to SDR 360 million (about US$506.4 million), bringing total disbursements under the arrangement to SDR 2.88 billion (about US$ 4.05 billion).

On September 4, 2013, the Executive Board approved the three-year extended arrangement under the EFF in the amount of SDR 4.393 billion (about US$6.18 billion, or 425 percent of Pakistan's quota at the IMF). (See Press release No. 13/322).

Following the Executive Board discussion on Pakistan, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, said:

"Progress toward macroeconomic stabilization is encouraging, thanks to strong performance under the program and despite significant legal, political, and security challenges. Macroeconomic imbalances are being gradually addressed. Building on these gains, continued efforts are needed to make the economic reform more sustainable and boost inclusive growth.

"The planned fiscal adjustment in the context of the FY2015/16 budget is appropriate. The authorities' plans to broaden the tax base, including eliminating tax exemptions and concessions, are welcome, though significant scope remains for increasing tax compliance and enforcement. The authorities are implementing plans to reduce costly and inefficient electricity subsidies, and steps are being taken to contain arrears in the electricity sector, while boosting support for the most vulnerable. Legal challenges might still pose risks to the authorities' efforts, and their commitment to contingency measures is encouraging. Building on recent success in diversifying budgetary financing and reducing the reliance on central bank financing, continued strengthening of public debt management remains a priority.

"Foreign exchange reserves have continued to increase and monetary policy has remained appropriate under current macroeconomic conditions. Following the planned amendments to the central bank law that will already address some important shortcomings to central bank independence, further efforts will be needed to bolster the SBP's governance structure and autonomy. Building on the recently started implementation of the improved interest rate corridor, efforts to strengthen central bank operations should continue, including through strengthened risk management and internal operations.

"The financial sector remains stable and progress in bank capitalization is welcome. A number of legislative reforms to strengthen financial stability and inclusion are underway. Efforts to combat financing terrorism, anti-money laundering, and tax offenses should continue.

"Structural reforms are progressing, although more needs to be done, and the risk of legal challenges remains. While regulatory reform continues, the power sector remains a key bottleneck for growth and a drain on public finances. The authorities' adoption of a comprehensive medium-term plan to deal with the accumulation of arrears in the electricity sector is welcome in this respect. Continued efforts are needed in the areas of privatization of public sector enterprises, trade policy, and business climate reforms."

INTERNATIONAL MONETARY FUND

PAKISTAN

June 12, 2015

SEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Extended Arrangement under the Extended Fund Facility (EFF): A 36 month, SDR 4,393 million (425 percent of quota) Extended Arrangement under the EFF was approved by the Executive Board on September 4, 2013 and the sixth review was completed on March 27, 2015, for a total disbursement of SDR 2,520 million. The seventh tranche amounting to SDR 360 million will be available upon the completion of this review.

Status of the program: All end-March 2015 quantitative Performance Criteria (PCs) were achieved, as well as the indicative target (IT) on cash transfers under the Benazir Income Support program. The Indicative Target on federal tax revenue was missed by a small margin, reflecting legal challenges to some of the tax measures and the negative impact of lower global commodity prices. The authorities have taken action to improve revenue and remain on track to meet the end-June 2015 fiscal deficit target. The end-March 2015 Structural Benchmarks (SBs) to (i) draft legislation to remove the authority to grant new administrative tax exemptions, (ii) reorganize the debt management office, and (iii) review to simplify tax payment processes were all met. Going forward, the authorities propose: an adjustment to the end-June PC on net international reserves (NIR) to reflect higher reserves accumulation by the State Bank of Pakistan (SBP); end-September PCs; a new IT on accumulation of arrears in the power sector; and three new SBs in the areas of tax administration, debt management, and the power sector.

Key issues: Discussions focused on: (i) end-March 2015 fiscal performance and the outlook for the remainder of the fiscal year; (ii) the draft FY2015/16 budget and measures to bring the fiscal deficit to 4.3 percent of GDP, including an adjustor of 0.3 percent of GDP for one-off priority spending on security enhancements related to fighting terrorism and resettlement of internally displaced persons; (iii) addressing arrears in the power sector; (iv) saving the windfall from falling oil prices to strengthen external buffers; (v) progress on safeguarding financial stability; and (vi) structural reforms in the energy sector, privatization, central bank independence, anti-money laundering framework, public debt management, trade, and business climate to unlock Pakistan's long-term growth potential. Outreach activities included a joint press conference with the finance minister, TV and print media interviews, donor meetings, and roundtables with students and the donor community in Islamabad.

Approved By
Mark Flanagan and Daniela Gressani

Discussions took place in Dubai during May 1–10, 2015. Staff representatives comprised H. Finger (head), F. Salman A. Shahmoradi, A. Tudyka (all MCD), K. Al-Saeed (MCM), S. Cevik (FAD), T. Mirzoev (Resident Representative), and Ms. H. Zaidi (Resident Representative Office, Islamabad). J. Mojarrad (ED), Ms. D. Gressani (MCD), S. Mahmood (Senior Advisor, OED), and Ms. W. Amr (COM) joined for part of the mission. Following the discussions in Dubai, Mr. Finger and Ms. Amr traveled to Islamabad for final discussions and outreach. The mission issued a press release in Islamabad on May 11, 2015. C. Tovar (SPR) contributed form Washington, D.C. Mmes. M. Orihuela-Quintanilla and Y. Liu assisted in the preparation of the report.

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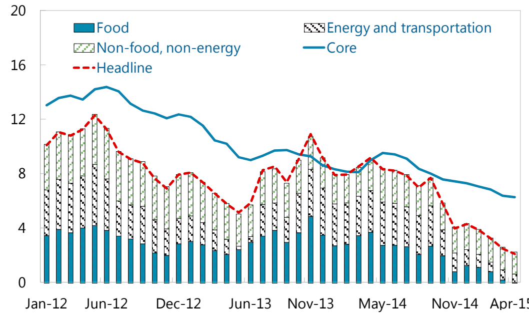
INTRODUCTION

1. **Economic conditions remain favorable**. Real GDP is projected to expand by about 4.1 percent in this fiscal year, 0.2 percent lower than previously forecast. Growth is supported by strength in services and construction, while softening in manufacturing and private credit growth are limiting factors.[1] The current account turned positive in Q3 FY2014/15, helped by the decline in international oil prices and strong growth in remittances (15 percent y-o-y). However, exports have declined due to lower global commodity prices, ongoing shortages in electricity supply, and real exchange rate appreciation (by 8 percent in the first nine months of this fiscal year). Headline consumer price inflation stayed near multi-year lows (3.2 percent y-o-y in May 2015, driven largely by lower commodity prices, with core inflation gradually easing to around 5 percent.

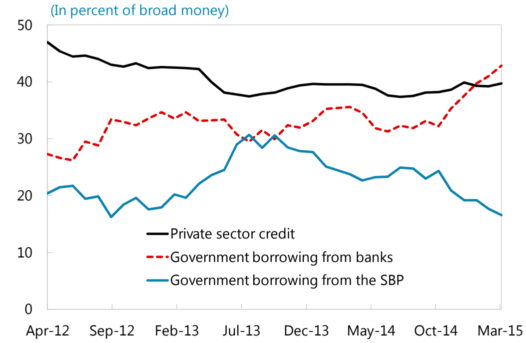
Contribution to CPI, January 2012–April 2015
(In y-o-y precent change)



Source: State Bank of Pakistan and Fund staff estimates.

2. **Banking system indicators remain sound with robust earnings and high solvency ratios**. Despite a slight deterioration in banks' asset quality, banking system profitability and the capital adequacy ratio (CAR) have increased in Q3, 2014/15.[2] While government debt has increasingly shifted from the SBP to commercial banks, private sector credit growth decelerated to 6.4 percent y-o-y in April. Liquidity in the banking system has remained adequate.

Borrowing from the Banking System
(In percent of broad money)



Sources: Pakistani authorities; and IMF staff calculations.

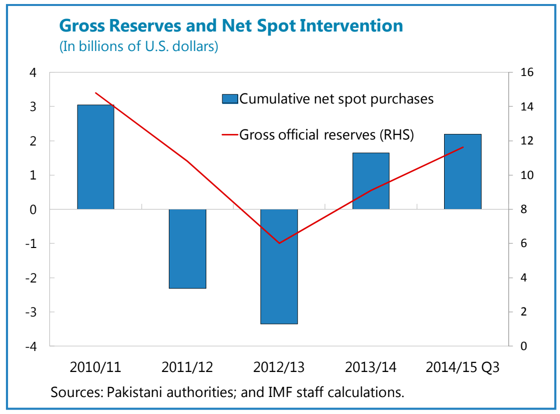
3. **Program performance has been strong**.

- **Budget deficit, tax revenues and social cash transfers**. The budget deficit (excluding grants) in the first nine months of FY2014/15 was better than envisaged (by PRs 34 billion), in part due to restraining development expenditure. Tax revenues at the federal level, however, fell short of the third-quarter IT by PRs 69 billion, due to legal challenges to some revenue measures, lower tax collections related to the fall in oil prices, and lower inflation. The end-March 2015 IT on cash transfers under the Benazir Income Support Program (BISP) was met.

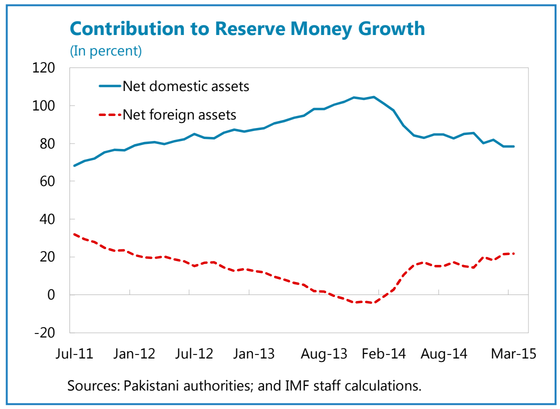
[1] Pakistan's financial year runs from July 1–June 30.

[2] The increase in the CAR has been helped, in part, by higher earnings.

- **Net international reserves and net swaps/forward position**. The end-March NIR target was comfortably met (by over US$700 million), as the lower oil bill, robust remittances, and improving macroeconomic conditions allowed for SBP spot purchases of US$750 million over the quarter. The SBP's net short position of swap/forward contracts also narrowed by US$10 million below the program target.



- **SBP Net Domestic Assets (NDA) and government borrowing**. The SBP overperformed the NDA target by PRs 93 billion. A significant increase in the government's issuance of T-bills led to a decline in government borrowing from the SBP to well below the program ceiling (by PRs 252 billion). Going forward, the authorities indicated that they would stay closer to the program ceiling on government borrowing from the SBP in order to implement a well-balanced financing mix in line with program objectives.



- **Structural benchmarks**:

  - **Statutory Regulatory Orders (SROs)** (MEFP ¶15). The end-March SB to draft legislation that would permanently prohibit the issuing of SROs that grant tax exemptions and loopholes was met.

  - **Tax administration** (MEFP ¶40). The authorities completed a review to reduce the number of existing processes and forms for sales and income tax by end-March (SB).

  - **Debt management**. The authorities met the end-March SB on reorganizing the Debt Policy Coordination Office (DPCO) as a middle office responsible for updating the medium-term debt strategy (MTDS) and monitoring its implementation, coordinating credit risk management functions.

4. **The authorities remain committed to their economic reform program but continue to face significant challenges**. The security situation remains fragile amid ongoing anti-terrorist operations and fallout from terrorist attacks. The authorities continue to face political obstacles in implementing some structural reforms. Legal challenges to privatization and revenue measures have also been constraining progress.

MACROECONOMIC OUTLOOK AND RISKS

5. **The macroeconomic outlook is favorable, with low inflation and robust growth, and broadly balanced risks**.

- **Growth** is expected to increase to 4.5 percent next year (0.2 percent lower than previous projections), supported by lower oil prices, a projected reduction in electricity outages, and an improving business climate. Real GDP is expected to rise further over the medium-term with expected improvements in the energy sector and the investment climate.

- **Inflation** is expected to rebound to about 4.7 percent next year, due to the likely bottoming out of commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.

- **The current account deficit** is expected to remain stable at around ½ percent of GDP in the next fiscal year. The benefits of lower oil prices and strong remittances could be partly offset by continued weak export performance in light of real exchange rate appreciation and low export commodity prices.

- **Foreign exchange reserves** reached US$11.6 billion in end-March—covering nearly three months of imports and 55 percent of the Assessing Reserve Adequacy (ARA) metric[3]—and are expected to exceed US$14 billion (65 percent of the ARA metric) by end-June 2015 (65 percent of the ARA metric), supported by the oil windfall, SBP interventions, multilateral and bilateral disbursements, and privatization proceeds. Reserve coverage is now expected to reach about 78 percent of the ARA metric by end of FY2015/16.

6. **Crisis risks have eased compared to previous reviews, as stabilization policies begin to reduce macroeconomic imbalances.** Key domestic risks include slippages in policy implementation, particularly in the structural and legislative fronts, and the still challenging political and security conditions, which could affect economic activity and undermine fiscal consolidation. Conversely, an improvement in the security situation could boost investment and growth. External vulnerabilities include a protracted period of slower growth in key advanced and emerging market economies, which could weaken exports and hurt remittances. A persistent U.S. dollar appreciation

[3] The IMF's ARA reserve adequacy metric encompasses a broad set of risks including a drop in external demand or terms of trade shock, capital flow drains due to external liabilities stocks (e.g., short-term debt or medium- or long-term equity of debt liabilities), and/or capital flight risk.

with limited exchange rate flexibility could further erode export competitiveness. Increased volatility in oil prices could affect efforts to reform energy subsidies.

POLICY DEVELOPMENTS

Discussions focused on fiscal performance this year and fiscal targets for FY2015/16, plans for addressing arrears and improving performance in the ailing power sector, saving the windfall from falling oil prices to strengthen external buffers, progress on safeguarding financial stability, and structural reforms.

A. Fiscal Policy

7. **The FY2014/15 deficit target remains within reach**. The authorities overperformed on the end-March 2015 deficit target, in part by holding back budgeted development spending. Facing a small revenue shortfall in the third quarter, the authorities have further raised taxes and duties on petroleum products to support revenue collection (MEFP ¶10). While the impact will be limited for the remainder of this fiscal year (around PRs 6.5 billion), these measures will nonetheless help in achieving the FY2014/15 deficit target of 4.9 percent of GDP (5 percent of GDP including the adjustor for additional targeted cash transfers through the BISP). These measures are also expected to have a greater full-year effect (about 0.1 percent of GDP) in FY2015/16.

8. **The authorities plan to continue on a path of adequate fiscal consolidation to reduce public debt and lay the foundations for sustained and inclusive growth**. The authorities are committed to reducing the budget deficit (excluding grants) to 3½ percent by the end of the program, while putting in place measures, including reforms to broaden the tax base, to create fiscal space for priority spending on infrastructure, security and defense, education, healthcare, and targeted social assistance.

9. **Within this strategy, the FY2015/16 budget targets a deficit of 4 percent of GDP excluding grants (up to 4.3 percent of GDP including an adjustor for one-off priority spending)**. The pace of fiscal adjustment is set to increase from an estimated 0.5 percent of GDP in FY2014/15 to at least 0.7 percent of GDP in FY2015/16, which is appropriate in the context of the expected increase in economic growth. Consolidation is based on further raising tax revenue by about 1 percent of GDP (to 12.2 percent of GDP) and rationalizing energy subsidies by 0.4 percent of GDP, while an expected drop in SBP profits will lead to a decline in nontax revenues by 0.6 percent of GDP. The authorities submitted the budget, consistent with these goals, to parliament (prior action).

Revenue Measures in FY2015/16

	PRs billion	Percent of GDP
Customs duty	42	0.1
GST and excise	54	0.2
Income tax	142	0.5
GIDC	70	0.2
Total	308	1.0
Elimination of tax concessions and exemptions	98	0.3

Sources: FBR; Ministry of Finance; and IMF staff calculations.

- **Revenue mobilization efforts** include (i) further elimination of tax concessions and exemptions amounting to 0.3 percent of GDP, and (ii) new revenue measures amounting to 0.7 percent of GDP, including improved collection under the Gas Infrastructure Development Cess (GIDC). Measures include a higher excise on tobacco products, raising tax rates for income and capital gains on high-income and nonfiler taxpayers, rationalizing the customs duty and GST rates for a range of goods including food, mobile phones, petroleum products, pharmaceuticals and steel, and abolishing zero-rated GST status of brand dairy products, among others. The authorities have addressed legal challenges to GIDC collection through the ratification of the GIDC Act that is consistent with achieving the budgeted GIDC revenue (PRs 145 billion or 0.5 percent of GDP in FY2015/16).[4]

- **On the expenditure side**, in addition to reducing subsidies, the government is taking steps to contain the circular debt problem in the energy sector and to streamline public administration, including wage and salary costs. These steps will allow for growth in spending on the public sector development program and for a further increase in social spending through the BISP (below). In addition, due to extraordinary circumstances, the authorities will incur one-off spending of up to PRs 100 billion (program adjustor) on security enhancements related to fighting terrorism and resettlement of internally displaced persons (TMU ¶25).

10. **The authorities have identified contingent measures in case the expected fiscal adjustment falls short of objectives**:

- One key risk relates to a recent court judgment, unfavorable to the authorities, on energy surcharges, which could see surcharges canceled and refunded. The Supreme Court suspended the judgment and is expected to decide on this issue in due course. In case of a potential negative outcome, the authorities are committed to taking mitigating measures including tariff adjustments, and, if required, suitable amendments to the National Electric Power Regulatory Authority (NEPRA) Act that are in line with international best practices and preserve NEPRA's independence.

- More broadly, if tax revenue falls below the level envisaged in the program, the authorities will implement additional revenue measures, including to bring forward plans to eliminate tax concessions and exemptions slated for FY2016/17. On the expenditure side, the government plans to reduce expenditure allocations in the first nine months of the year compared to the budget to create a buffer against any revenue shortfall. These measures could yield savings amounting to 0.5 percent of GDP.

[4] Due to legal challenges, the authorities are expected to collect about PRs 75 billion in GIDC revenue in FY 2014/15 (including collection of amounts now in the accounts of some private companies), against the originally budgeted PRs 145 billion.

11. **The authorities significantly restricted the legal authority for administrative tax exemptions**. The authorization for the Federal Board of Revenue (FBR) to grant exemptions has been permanently removed. New exemptions will now have to be granted by means of legislation, except for the limited authority of the Economic Coordination Committee (ECC) of the cabinet to grant temporary exemptions for a number of specified exceptional circumstances (TMU ¶17). Legislation to that end has been put in place through a temporary presidential ordinance, and has subsequently been submitted to parliament for approval (prior action).

12. **The authorities are tackling the backlog on GST refund claims**. The number of outstanding GST refund claims was lowered by over 50 percent and refund payments were increased by 25 percent since June 2014. As a result, the stock of unpaid GST refund claims declined to PRs 97 billion as of end-March 2015, from the peak of PRs 113 billion in November 2014. To clear the refund backlog and process new GST refund claims on a timely manner, the FBR is preparing a plan to address the issue of unpaid GST refund claims by end-June 2015 (MEFP ¶16).

13. **Improving tax compliance and enforcement remains critical to achieve fiscal sustainability**. The authorities have built a monitoring system to track progress and set quarterly objectives on tax policy and administration initiatives. While more than 180,000 first notices were issued as of end-March 2015 (above the target of 175,000) to bring new taxpayers into the revenue base, only close to 55,000 persons filed tax returns in response. To enhance tax compliance efforts, the FBR is improving its Information Technology infrastructure and expanding its access to taxpayer information from multiple sources including financial and property transactions, motor vehicle procurement, and international travel. The plan to merge the National Tax number (NTN) system (covering 3.6 million individuals) with the Computerized National Identity Card (CNIC) database (covering 150 million people) is on track to be completed by end-September 2015 (SB). To enhance the efficiency and progressivity of Pakistan's tax regime, the FBR will focus enforcement efforts on nonfilers who have the potential to contribute at least the average tax paid by currently registered taxpayers and especially high wealth businesses and individuals, including elected representatives and major public figures. The FBR will also adopt a new audit policy that will move toward nondiscriminatory risk-based auditing, mitigating the risk of legal challenges against effective tax enforcement by end-September 2015 (new SB; MEFP ¶17).

14. **Provincial governments remain crucial in the fiscal reform process.** To ensure fiscal adjustment as planned in FY2015/16, and following last year's agreement under the Council of Common Interest (CCI), the provincial finance secretaries have agreed in writing to increase provincial budget surpluses consistent with the program (prior action). In the recently started round of National Finance Commission (NFC) negotiations, the federal government will seek an agreement to better balance devolution of revenue and expenditure responsibilities in a way that is consistent with the objective of macroeconomic stability. Among other recommendations, staff have encouraged the modernization of agricultural and property taxation at the provincial level, within the existing constitutional framework.

15. **The authorities will expand targeted income support to the poor through the BISP**. As of end-March 2015, the BISP program reached 4.9 million beneficiary households and met the

indicative target for cash transfers. For next year, the authorities plan to expand the number of beneficiary households to 5.3 million. In addition, they agreed to protect the real purchasing power of cash transfers with additional support from development partners (TMU ¶23). In partnership with the provincial governments, the authorities are also making significant progress in the rollout of the education-conditional cash transfers, which are expected to cover 30 districts by end-June 2015.

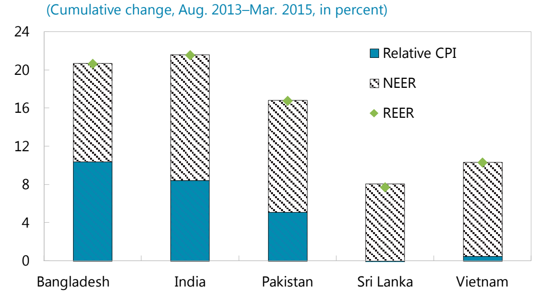
16. **Enhancing the quality and effectiveness of public debt management remains a priority**. The stock of public debt is declining from 63 percent of GDP (65.3 percent including government guarantees) in FY2013/14 to 62 percent this year and is expected to remain at that level next year. Efforts continue to diversify financing from domestic and external sources and further lengthen the maturity profile. The DPCO, following its reorganization as a middle office, is planning to publish an updated MTDS by end-January 2016. It will also appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, to allow monitoring of fiscal and financial risks and the implementation of the MTDS by end-October 2015 (new SB). These actions should lead to savings in, and more effective decision-making for, government borrowing.

B. Monetary and Exchange Rate Policies

17. **The authorities continue to accumulate reserves and reduce external vulnerabilities**. Taking advantage of the continued low international oil prices, the authorities have agreed to increase NIR targets for forthcoming reviews. The end-June PC is proposed to be raised by US$550 million and the end-September PC is proposed to be set US$1 billion above the revised June target. The SBP has significantly stepped up its spot market purchases of foreign exchange, which have netted some US$2.9 billion so far in this fiscal year as of end-May 2015. These efforts will increase the reserve coverage to well above three months of imports by end-June2015 (a year earlier than envisaged at the onset of the program), bolstering resilience against future external shocks. Nonetheless, staff and the authorities agreed that further accumulation of reserves will be strongly desirable as the balance of payments position remains vulnerable and reserves are still significantly below adequacy norms. Staff noted that further accumulation could also help arrest the recent upward trend in the REER, which was inconsistent with fundamentals, although staff also agreed with the authorities that a range of other issues would need to be addressed to more fundamentally address competitiveness issues (including electricity shortages, security issues and the business environment).

18. **A continued prudent monetary policy stance remains important to preserve price stability and anchor low inflation expectations**. Headline inflation has fallen significantly, while core inflation has also eased (¶1). With subdued inflation expectations, the real interest rate has continued to rise. In light of these developments, the SBP cut its policy interest rate by 150 bps in Q3 FY2014/15 to 7 percent, which should be

Nominal and Real Effective Exchange Rate and Relative Inflation
(Cumulative change, Aug. 2013–Mar. 2015, in percent)



Sources: Pakistani authorities; IMF World Economic Outlook (WEO); and IMF staff calculations.

consistent with keeping average inflation below 5 percent in the coming months.[5] The SBP has also started implementing the improved interest corridor in late May (on track for meeting the related end-September SB) by (i) introducing a new SBP target rate for the overnight interbank rate within the corridor, and (ii) tightening the corridor from 250 to 200 bps. Looking ahead, the SBP will set the policy rate in a forward-looking fashion to maintain positive real interest rates to promote savings and capital flows, in line with further reserves accumulation, and to maintain a stable inflation path.

19. **Enhanced central bank independence is important for an improved monetary policy framework**. The authorities submitted revised amendments to the SBP Act to the National Assembly in March 2015, aiming to strengthen the SBP's autonomy. While not addressing all of staff's recommendations, the amendments will, among other things, establish an independent decision-making monetary policy committee to design and implement monetary policy, which constitutes significant improvement. The authorities will enact the legislation by end-September 2015 (revised SB). Staff and the authorities agreed to revisit the remaining shortcomings indentified in the 2013 safeguards assessment report in upcoming program reviews. Key opportunities for further improvement include strengthening the SBP's governance structure, the personal autonomy of its Board members (including appointment and dismissal procedures), and its financial autonomy. In the meantime, to enhance its internal operations, the SBP is preparing a strategic plan to bring its organizational set-up in line with international best practices, increase operational efficiency, improve inter-departmental coordination, and eliminate over-lapping functions.

C. Financial Sector Policies

20. **Progress with bank capitalization is satisfactory**. Following the amalgamation of one capital adequacy ratio (CAR) noncompliant bank into a private bank in May 2015, only one remaining bank still has a small CAR shortfall, which is expected to be CAR-compliant through a rights issue by June 2015 (MEFP ¶24).[6] Staff stressed the need for the supervisor to continue engaging with that bank to monitor its plans for remaining CAR-compliant thereafter. Four small banks,[7] while remaining CAR-compliant, are still below the minimum absolute capital requirement, and the SBP has devised a time-bound plan to bring them into regulatory compliance. More broadly, in part to help address the still significant share of nonperforming loans in the banking system (12.8 percent in March 2015), the authorities are taking action by improving foreclosure and corporate restructuring legislation (MEFP ¶25).

21. **Staff supports the ongoing reforms to strengthen financial stability**. The authorities are finalizing the draft Deposit Protection Fund (DPF) Act in line with the core principles of the International Association of Deposit Insurers, for enactment by end-December 2015 (modified SB).They are undertaking preparatory work to establish the corporate infrastructure of the DPF,

[5] The SBP cut the policy rate by 50 bps in March and subsequently reduced it by 100 bps in May.

[6] The size of this bank is about 0.85 percent of banking system assets (or 0.4 percent of GDP).

[7] These banks represent about 0.5 percent of banking sector assets (0.26 percent of GDP).

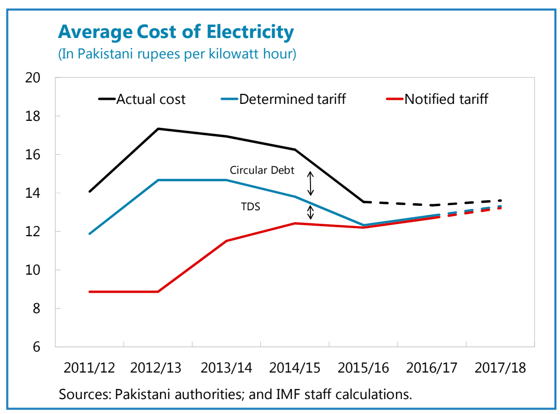
which is expected to become operational by January 2016 (MEFP ¶26). The authorities have enacted the recently approved Securities Bill, modernizing the framework for security exchanges, central depositories, and clearing houses. They also plan to put in place a Futures Trading Bill, and to strengthen the regulatory powers of the Securities and Exchange Commission of Pakistan (SECP), including by amending the SECP Act (MEFP ¶25). These steps constitute significant improvements toward strengthening systems in support of financial stability.

22. **The authorities continue strengthening the anti money laundering and combating the financing of terrorism (AML/CFT) framework**. Amendments to the AML Act that will enable to use of AML tools to combat tax crimes were submitted to parliament in December 2014, and SBP regulations have been upgraded to include the definition of politically exposed persons (PEPs) in line with international standards. Staff and the authorities agreed that there is a need to continue bolstering the effectiveness of the framework to mitigate ML/FT risks, including the proceeds of corruption and tax crimes, and the financing of terrorism. In particular, the authorities intend to adopt the amendments to the AMLA by end September 2015 (SB) and continue bringing the regulatory framework in line with international standards. They are also strengthening the analytical capability of the Financial Monitoring Unit, and are continuing to bolster CFT measures, including by effectively implementing relevant United Nations Security Council Resolutions.

D. Structural Issues

Energy

23. **Despite significant efforts over the first half of the EFF, the power sector remains a key bottleneck for growth and a drain on public resources**. Power outages of nearly six hours per day on average remain unacceptably high. The system still does not operate at cost recovery levels, leading to underutilization of existing capacity and the build-up of arrears (so-called circular debt). Despite the large drop in oil prices, budgetary subsidies also remain significant.



24. **Performance of distribution companies (DISCOs) has been mixed**. So far in this fiscal year, collections remained at around 89 percent, while technical losses were reduced to 17.6 percent (from 18.5 percent last year), despite increased electricity supply. To strengthen the management of DISCOs, the authorities replaced some chief executives of poorly performing companies (MEFP ¶13).

25. **The authorities continue with their plans to bring electricity tariffs toward cost recovery levels** (MEFP ¶28–36). NEPRA determined FY2014/15 electricity tariffs in April and subsequently the government implemented the new tariffs including surcharges (prior action). In case of a negative outcome concerning legal challenges to electricity surcharges, the authorities are committed to protect the level of revenue in the electricity sector by adjusting tariffs accordingly

and to make any necessary changes to the NEPRA Act to facilitate this. The tariff adjustment is expected to reduce the electricity subsidies to 0.3 percent of GDP in FY2015/16 from around 0.8 percent in the current year and will lower power sector arrears by 0.1 percent of GDP.

26. **The authorities adopted a comprehensive medium-term plan to deal with the accumulation of arrears in the electricity sector**. As of March 2015, the stock of arrears in the power sector stood at around 2 percent of GDP and continues to hamper the functioning of the system.[8] The plan (Box 1) involves improvements in collections and reductions in operating costs and losses, inclusion of additional efficiency costs in the tariff determination, surcharges to service part of the stock of overdue obligations, privatization of power generation and distribution companies, and limited budgetary allocations to address part of the arrears. The plan is supported by a new quarterly IT (starting in June 2015) on the build-up of arrears and is expected to eliminate both the stock and flow of new circular debt over time.

27. **Power sector regulatory reform is progressing**. Preparations for a multi-year tariff framework are on track. Determinations of multi-year electricity tariffs for three distribution companies will be finalized by November 2015 (new structural benchmark). These determinations will reduce tariff uncertainty for companies in the privatization list.

28. **Progress in the gas sector has been satisfactory** (MEFP ¶37–39). Construction of a Liquefied Natural Gas (LNG) terminal has been completed, and LNG imports started in April 2015. The authorities are fully passing through of the cost of imported LNG to the end-user purchase price. New gas prices will implemented in July 2015.[9] Two thirds of the conversion of existing domestic gas concessions to higher producer prices (under the 2012 Policy) has been finalized with the remaining eligible ones to be completed by end-June 2015. The authorities are also planning to award contracts for an additional 10–15 exploration fields by end-December to help tackle gas shortages.

Public Sector Enterprises

29. **The authorities are continuing their privatization program** (MEFP ¶43). The government finalized the sale of 41.5 percent of Habib Bank Limited (HBL) in April 2015, and completed the sale of Heavy Electrical Complex in May 2015, raising around US$1 billion in revenues. In staff's view, while part of the privatization plan, the former transaction also helped pre-empt potential governance concerns as the HBL shares were owned by the SBP, which supervises Pakistan's banks. During FY2014/15, the privatization program has raised about US$1.7 billion, broadly in line with expectations. In line with the energy arrears reduction plan (Box 1), the authorities are stepping up the agenda of privatization of power companies (see table below).

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[8] There were significant fuel shortages in Pakistan in January. These appear to have been caused by low inventories in Pakistan State Oil which was unable to cope with higher consumer demand due to lower prices and to the diversion of natural gas supplies away from vehicles toward household heating during the winter months. These difficulties have since been resolved.

[9] Gas price notifications are normally done on a bi-annual basis in January and July of every year. Due to political protests, they have been postponed since 2014.

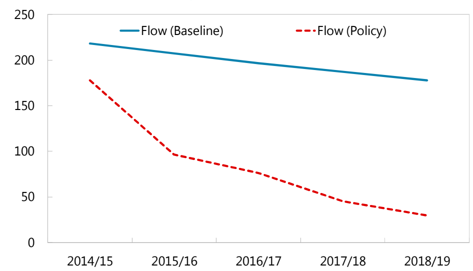
Box 1. Arrears Reduction Plan in the Power Sector

The stock of power sector payables reached PRs 615 billion at end-March 2015. Payables comprise the circular debt (PRs 280 billion payable toward power sector entities) and the stock of arrears covered by the Power Sector Holding Company Limited (PHCL) (PRs 335 billion).

The build-up of arrears is due to (i) significant non-recoveries related to government and private consumers, (ii) accrued interest on PHCL debt, (iii) line losses that are not recognized in the tariff, (iv) delays in the refund of excess GST collected by the FBR, (v) late payment surcharges, and (vi) delays in tariff determinations.

The authorities plan to reduce the accumulation of payables. The plan includes steps to improve collections and reduce operating costs and losses. According to the plan, the accumulation of payables will be reduced from an estimated PRs 175 billion in FY2014/15 to PRs 113 billion in FY2015/16, with a view toward further halving new arrears accumulation by FY2018/19. Key elements of the plans comprise:

Flow of Payment Arrears 1/
(In billions of Pakistani rupees)



Sources: Pakistani authorities; and IMF staff calculations.
1/ The stock will be reduced with privatization proceeds and budgetary transfers.

- Capital expenditures and revenue-based load management will reduce losses and improve collections (MEFP ¶3). Overall losses are expected to decline by 0.5 percent and collections are expected to improve by 2 percent per year.
- Taking advantage of the room created by low oil prices, late payment surcharges and higher system losses were incorporated into the FY2014/15 determined tariffs. This is expected to arrest a portion of the build-up of the circular debt and improve the cash-flow of the system.
- The government will continue to work with some regional and local governments to prevent further accumulation of arrears.

In addition, the stock of arrears is expected to be significantly reduced over the next three years, supported by privatization and limited budgetary support.

- The stock of PHCL debt will be transferred back to distribution companies (DISCOs), which will be privatized. This will help to reduce the stock and ease the servicing of PHCL debt. In the meantime, a surcharge will be levied to service the PHCL debt.
- The authorities have allocated about 0.1 percent of GDP of budgetary resources to clear part of the stock of arrears that accrued with respect to some regional and local governments.

There are significant downside risks to the plan. In particular, delays in the privatization program and court challenges to the surcharges would set back the program and increase the flow of payables. On the upside, the government can step up its efforts to further reduce transmission and distribution losses and increase collections.

Timeline of the Privatization of PSEs			
	PSEs	**Transaction**	**Timeline**
1	National Power Construction Corp. (NPCC)	88 percent sell-out of strategic asset	End-June 2015
2	Mari Petroleum Ltd	Sale of 18.39 percent of GoP shares	End-September 2015
3	Pak Arab Refinery Ltd (PARCO)	Sale of 10-15 percent company shares	End December 2015
4	Northern Power Generation Company Limited (NPGCL)	Strategic & Asset Sale	End-December 2015
5	Pakistan Steel Mills (PSM)	Strategic & Asset Sale	End-December 2015
6	Kot Addu Power Company (KAPCO)	Sale of 40.25 percent of GoP shares	End-December 2015
7	Pakistan International Airlines (PIA)	Sale of 26 percent of GoP shares	End December 2015
8	Faisalbad Electric Supply Company (FESCO)	Strategic & Asset Sale	End-March 2016
9	Jamshoro Power Generation Company Limited (JPCL)	Strategic & Asset Sale	End-April 2016
10	State Life Insurance Corp (SLIC)	Strategic & Asset Sale	End-June 2016
11	Islamabad Electric Supply Company (IESCO)	Strategic & Asset Sale	End-June 2016
12	Lahore Electric Supply Company (LESCO)	Strategic & Asset Sale	End-June 2016

30. **The authorities are moving forward with the restructuring of key loss-making firms** (MEFP ¶43). The due diligence process for Pakistan International Airlines (PIA) is expected to be completed by end-June 2015. Plans for private participation will be developed thereafter and a potential offering to a strategic investor is scheduled for end-December 2015 (SB). In line with the restructuring plan, operational efficiency at Pakistan Steel Mills has begun to improve and capacity utilization was increased to 40 percent from 18 percent in the last three months. The company is expected to be privatized by end-2015. Pakistan Railways continues to focus on improving its freight operations and has doubled revenues from freight operations in the first nine months of FY2014/15.

China-Pakistan Economic Corridor

31. **The China-Pakistan Economic Corridor (CPEC) could help boost Pakistan's long term development prospects**.[10] Under CPEC, part of China's efforts to expand trade and transport linkages across central and south Asia, about US$44 billion could be invested in transport infrastructure and energy-related projects—including roads, railways, pipelines, and power plants—in Pakistan over the next 15 years. While the modalities, terms, and timelines of the various investments under CPEC are yet to be determined, CPEC has the potential to improve Pakistan's business environment by reducing infrastructural bottlenecks, and thus to stimulate domestic and foreign investment over the longer run. Sound practices in public debt management and in the evaluation, prioritization, and implementation of public investment projects will be important to ensure that maximum benefit accrues.

[10] The CPEC will connect Western China (Kashgar) with the Pakistani port of Gwadar in Baluchistan.

Business Climate and Trade Policy

32. **Investment climate and trade policy reforms are under way** (MEFP ¶40–42). The review of the filing process for sales and income tax has been completed (end-March 2015 SB). The review identified 30 processes that will be streamlined. The authorities are also developing 9 IT-based modules to eliminate redundant manual steps. Some have already been implemented, while others will be launched between July and December 2015. A National Financial Inclusion Strategy (NFIS) has been launched in May 2015 to improve access to finance in general with emphasis on the poor, women, and marginalized segments of the society. The strategy focuses on reforms to enhance market information and infrastructure, along with financial capabilities of consumers. A critical component of the NFIS is to improve credit information: the Credit Bureau Act was passed by the National Assembly in March 2015 and is expected to be enacted by November 2015 (SB). The FY2015/16 budget reduces import tariff slabs from six to five.

PROGRAM MODALITIES AND OTHER ISSUES

33. **The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program, set out their commitments, and propose the modification of end-June 2015 NIR target and establishment of end-September 2015 PCs and indicative targets**. The end-June PC for NIR is proposed for modification to ensure higher reserves accumulation, and a new indicative target on the accumulation of arrears in the power sector and three new structural benchmarks are proposed. Preliminary information suggests that the authorities have completed all prior actions.

34. **Financing, program risks, and capacity to repay the Fund**. Pakistan's program financing needs are fully covered for the next 12 months and Pakistan has the capacity to repay the Fund. Disbursements from multilateral and bilateral partners are materializing, and the privatization program continues to make progress. Moreover, Pakistan has access to international markets which reduces financing risks going forward. The reserves situation has continued to improve to cover about 3 months of imports, but coverage remains below adequacy norms such as the ARA metric. The Fund's exposure to Pakistan increased with the disbursement made upon approval of the sixth review, reaching SDR 2.7 billion (about US$3.8 billion, 6 percent of total external debt by end-March 2015. The Fund's exposure is expected to increase further over the next 12 months as new EFF program disbursements are made (Table 11). The materialization of risks to the economic outlook could erode Pakistan's capacity to repay to the Fund, particularly in a context where Fund exposure is expected to increase further.

STAFF APPRAISAL

35. **Macroeconomic stabilization is well under way and the threat of a crisis has significantly receded**. Real GDP is expected to grow by more than 4 percent this fiscal year and next. Headline inflation has continued to decline, and a prudent monetary policy stance should be maintained to keep inflation expectations well-anchored. The authorities have made significant progress addressing fiscal and balance of payments imbalances. Foreign exchange reserves are recovering fast, helped by decisive foreign exchange purchases in the context of tailwinds from lower oil prices. Fiscal consolidation is on track, the government has reduced borrowing from the SBP, and efforts continue to diversify financing sources and lengthen debt maturities. The authorities should be commended for attaining all performance criteria and structural benchmarks under the program for the seventh review, despite significant political and security challenges.

36. **Significant further progress is within reach**. Adequate further fiscal consolidation is planned, and structural reform efforts are continuing. The fiscal deficit will further decline to 4.3 percent of GDP in FY2015/16. Tax revenues are slated to increase by an additional 1 percent of GDP and energy subsidies will be further reduced, while continuing to protect the poor through lifeline tariffs. Public investment spending will grow in line with projected nominal GDP growth, and social protection through the BISP will be further expanded. A new comprehensive strategy has been adopted to fix the still ailing power sector. Other important structural reforms are underway in tax administration, central bank operations, the trade regime, and the transformation and privatization of public sector enterprises (PSEs).

37. **However, much remains to be done to achieve a sustainable economic transformation**. Pakistan still lags behind other emerging market countries in key macroeconomic and business climate indicators. Economic growth remains below the 5–7 percent per year rate needed to absorb new entrants into the labor market and achieve improvements in living standards for wide segments of society. Public debt is still high and the tax-to-GDP ratio remains among the lowest in the world. Significant reforms are needed to boost private investment, broaden the tax base, improve tax administration, ease growth bottlenecks, and enhance the economy's productivity and competitiveness. Private investment, including FDI and exports are still much below desired outcomes. Electricity outages continue to be an important restraining factor for competitiveness and growth. In addition, the appreciation of the rupee in real effective terms has been eroding Pakistan competitiveness.

38. **Reform priorities for the remainder of the program include reinforcing the gains in economic stabilization and addressing long-standing barriers to sustainable, strong, and inclusive growth**. Low international oil prices have created an opportunity for Pakistan to address energy sector problems and boost reserves buffers. Despite some negative tax implications, the positive shock to energy prices can also be used to accelerate the reduction in electricity subsides and to tackle the persistent problem of payments arrears in the sector. The authorities' decision to accelerate the accumulation of foreign exchange reserves is welcome, and continuing on this track,

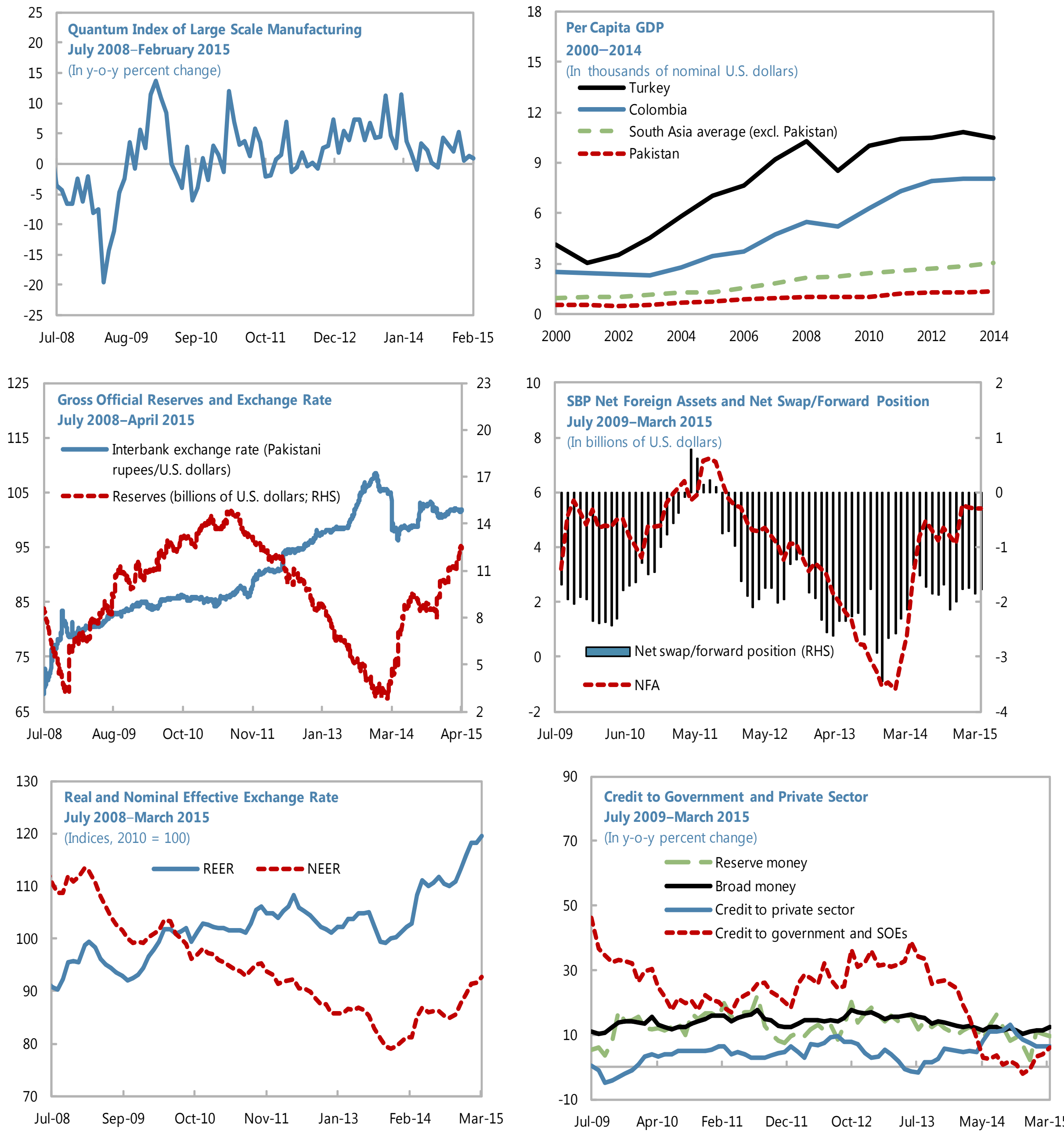
supported by appropriately calibrated monetary policy, will be important to further strengthen Pakistan's financial resilience.

39. **The authorities' new plan to fix the power sector is welcome**. Further reducing untargeted subsidies that disproportionately benefit wealthy segments of society will free resources for priority spending. Forcefully addressing arrears in the power sector will unlock existing idle generation capacity and reduce the potential drain on public resources. Sustained implementation efforts will be needed to achieve a successful outcome. With ongoing legal challenges to power surcharges posing potential risks to the budget and efforts to fix the power sector, the authorities' contingency plans are welcome as they mitigate these risks.

40. **Maintaining the momentum of other structural reforms will also be critical**. Sustained multi-year efforts are needed to strengthen the tax administration and improve revenue collection. Strong systems for the evaluation, prioritization, and implementation of public investment projects will be important, including in the context of CPEC. Passage of the proposed legal amendments to strengthen the SBP's independence will already address some important shortcomings, but further changes will be needed to bolster the SBP's governance structure and autonomy. Privatization should continue, building on recent successes, and the authorities' commitment to improve or privatize ailing PSEs is particularly important. Continued efforts to reform the gas sector are welcome, with emphasis on price rationalization and improvements in domestic production. The government is also stepping up its efforts with business climate reforms, including through simplifying business registration and tax payment processes, and strengthening contract enforcement and access to credit.

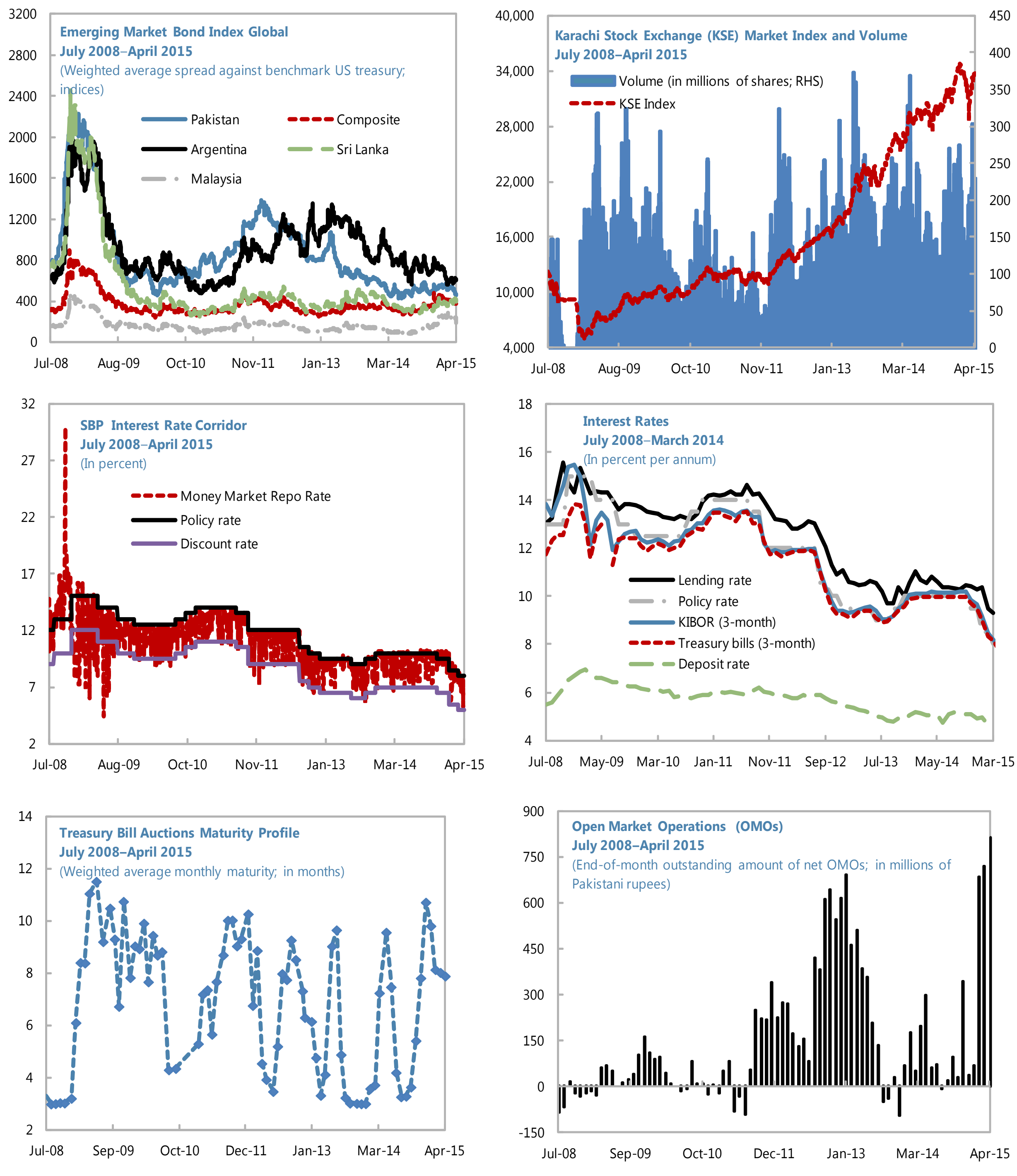
41. **On the basis of Pakistan's performance under the extended arrangement, staff supports the authorities' request for modifications of the end-June NIR PC, and completion of the seventh review under the arrangement**. Staff also recommends the establishment of the end-September 2015 PCs, establishment of a new IT on accumulation of arrears in the power sector; setting of three new structural benchmarks, and the revised timeline of structural benchmarks as proposed in the attached MEFP.

Figure 1. Pakistan: Selected Economic Indicators, 2008–15



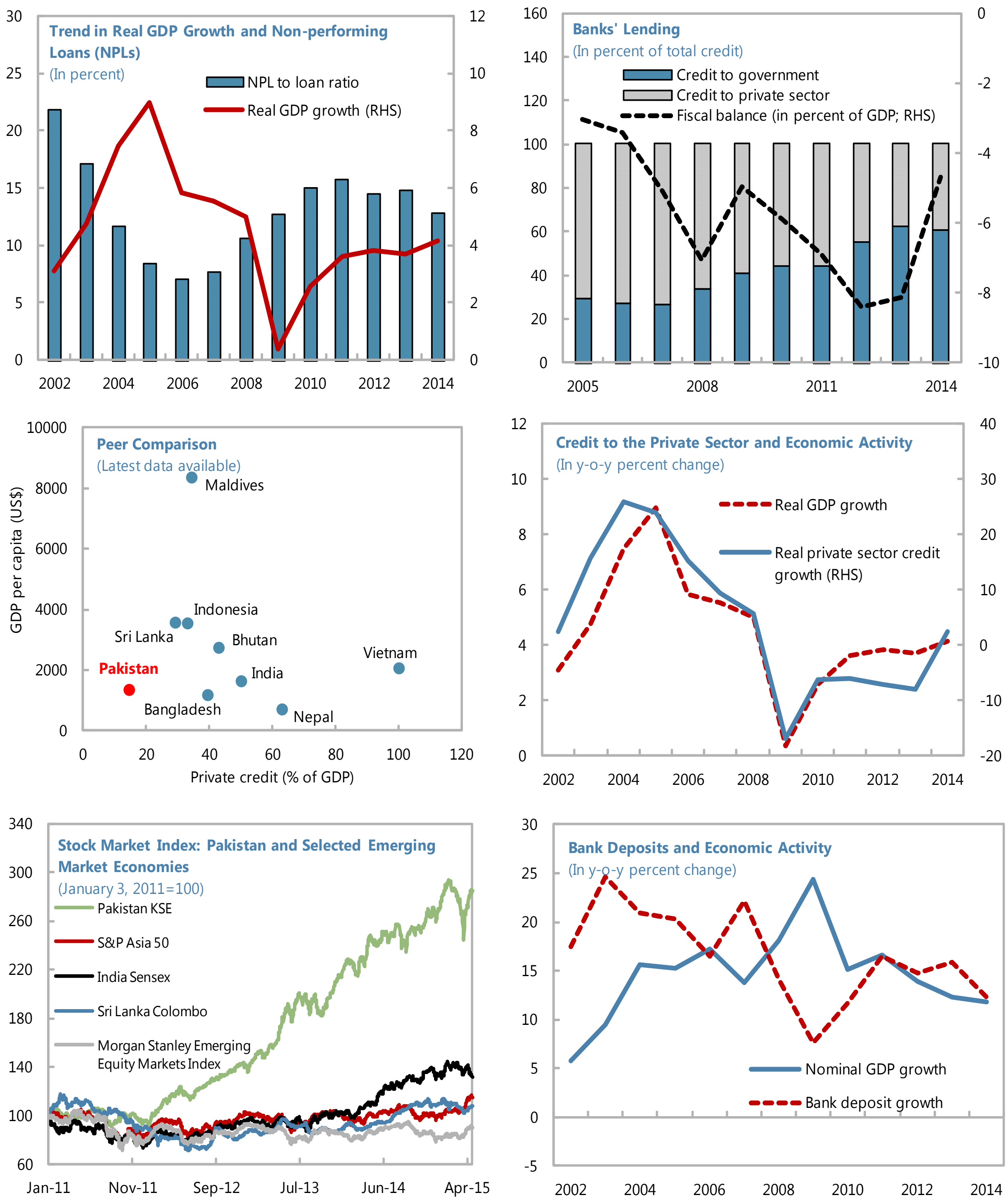
Sources: Pakistani authorities; IMF World Economic Outlook; and IMF staff calculations.

Figure 2. Pakistan: Selected Financial Indicators, 2008–15



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

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 FY2014/15–FY2015/16 1/

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

	FY2014/15						FY2015/16			
	end-December	end-March			end-June		end-Septembe	end-December	end-March	end-June
					Sixth Review	Program			Projection	
		Target	Adjusted target	Actual	Target	Revised				
Performance Criteria										
Floor on net international reserves of the SBP (millions of U.S. dollars)	3,500	5,000	3,547	4,290	6,750	7,300	8,300	9,000	9,300	9,700
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,224	2,340	2,472	2,379	2,270	2,270	2,210	2,240	2,350	2,350
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	673	1,087	1,087	1,049	1,387	1,387	306	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,760	1,775	1,775	1,765	1,700	1,700	1,700	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/,	1,914	1,905	1,905	1,653	1,865	1,865	1,800	1,800	1,800	1,800
Continuous Performance Criterion										
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0	0	0
Indicative Targets										
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	44	69	69	69	95	95	21	45	72	102
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,174	1,846	1,846	1,777	2,691	2,691	640	1,390	2105	3104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)						42	36	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

Table 2. Pakistan: Program Modalities and Structural Benchmarks

Item	Measure	Time Frame (by End of Period) Original	Time Frame (by End of Period) Rescheduled	Status	Macroeconomic rationale
Prior Actions					
1	Submit the FY2015/16 budget to the parliament, consistent with policies outlined in the MEFP and the program budget deficit target of 4.3 percent of GDP, including an adjuster of 0.3 percent of GDP (up to PRs 100 billion) for additional spending as defined in the TMU.				
2	Issue a presidential ordinance to limit the authority to grant tax concessions or exemptions, as specified in the TMU, and present it for parliamentary approval as part of the Finance Bill FY2015/16.				
3	Reach agreement in writing with the provincial finance secretaries to increase provincial budget surpluses consistent with the program.				
4	Notify the new electricity tariff, as determined by NEPRA for FY2014/15, to be effective from June 10, 2015; and implement surcharges or similar measures in line with the program targets, consistent with the budgetary allocation of 0.3 percent of GDP in electricity subsides and the power sector payables reduction plan, as defined in the TMU.				
Structural Benchmarks					
Fiscal sector					
1	Increase the issuance of first notices (u/s 114) to 75,000 and follow up with a second notice (u/s 122c) to 75 percent of those who did not respond satisfactorily to their first notice within 60 days by end-March, 2014. Issue a provisional tax assessment to 75 percent of those who did not respond satisfactorily within 60 days to the second notice by end-March, 2014.	end-March 2014		Met	Broaden the tax base and improve tax compliance.
2	Eliminate exemptions and concessions granted through SROs for an amount consistent with the fiscal deficit reduction objective in the FY2014/15 budget.	end-June-2014		Met	Reduce distortions and improve revenue collection.
3	Approve an administrative order to consolidate the responsibilities of public debt management in the debt management office.	end-September 2014		Not met, but the order fell short of unifying fragmented debt management functions.	Strengthen the organizational framework for effective public debt management.
4	Enact amendments to the relevant tax laws (as defined in the TMU) and submit amendments to the Anti-Money Laundering Act (AMLA) to Parliament.	end-December 2014		Met	Use antimoney laudering tools to combat tax evasion, and faclitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
5	Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.	end-March 2015		Met	Reduce distortions and improve revenue collection.
6	Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.	end-March 2015		Met	Strengthen the organizational framework and improve public debt management.
7	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people	end-September 2015			Broaden the tax base and improve tax compliance.

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

Item	Measure	Time Frame (by End of Period) Original	Rescheduled	Status	Macroeconomic rationale
Monetary sector					
8	Improve the internal operations of the SBP by: (i) reestablishing an advisory monetary policy committee to advise the Board on its policy decisions; (ii) establishing a Board committee to centralize and oversee risk management activities across the bank; and (iii) begin publishing summaries of the monetary policy proceedings of the Board meetings and monetary policy committee deliberations.	end-August 2014		Met	Independent of the legislation, improve the operational autonomy of the SBP and enhance risk management.
9	Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.	end-February 2015		Met	Improve SBPs liquidity management.
10	Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF procedures, the Internal Audit Department conducts reviews of the program monetary data reported to the IMF, within two months after each quarter, for accuracy and compliance with the TMU.	end-February 2015		Met	Improve monetary policy framework through enhanced central bank independence.
11	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective.	end-June 2015	end-September 2015		Prerequisite for an independent monetary policy framework.
12	Make the improved interest rate corridor of the SBP operational	end-September 2015			Improve SBPs liquidity management.
Financial sector					
13	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
14	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-September 2015	end-December 2015		Enhance the resilience of the financial sector.
15	Enact the Credit Bureau Act	end-November 2015			Extend credit to broader sections of society.
16	Adopt the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU) and the definition of politically exposed persons in line with international standards.	end-September 2015			Use antimoney laudering tools to combat tax evasion, and faclitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
Structural Policies					
17	Hire three financial advisors for three PSEs in the capital market transactions list and three financial advisors for the three PSEs in the strategic private sector enterprises list for privatization in the TMU.	end-March 2014		Met at end-July, 2014	Boost sustainable and inclusive growth, by removing bottlenecks, encourage long-term, sustainable increases in electrictity supply; improve the efficiency of the economy through privatization and use its proceeds to hel ease fiscal and balance of payments pressures.
18	Conduct a diagnostic study of the regulatory framework of the power sector and prepare an interim report.	end-April 2014		Met	
19	Offer the minority shares in United Bank Limited and Pakistan Petroleum Limited to domestic and international investors.	end-June 2014		Met	
20	Fill the vacancies in the NEPRA Board.	end-July 2014		Met at end-November, 2014	
21	Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.	end-March 2015		Met	
22	Privatize 26 percent of PIA's shares to strategic investors.	end-December 2015			
23	Initiate revenue based load shedding in six remaining electricity distribution companies.	end-January 2014		Met	
New Structural Benchmarks					
1	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015			Improve tax compliance and enforcement.
2	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015			Improve public debt management.
3	Determine and notify multi-year tariffs for FESCO, IESCO, and LESCO, as defined in the TMU.	end-November 2015			Facilitates privatization of the DISCOs and reduction of energy arrears.

Table 3. Pakistan: Selected Economic Indicators, 2010/11–2015/16 1/

Population: 186.3 million (2013/14)
Per capita GDP: US$1,343 (2013/14)
Poverty rate: 12.4 percent (2010/11)
Main exports: Textiles ($13.6 billion, 2013/14)
Unemployment: 6.0 percent (2013/14)

	2010/11	2011/12	2012/13	2013/14	2014/15		2015/16
					Sixth Review	Projections	
	(Annual percentage change)						
Output and prices							
Real GDP at factor cost	3.6	3.8	3.7	4.1	4.3	4.1	4.5
GDP deflator at factor cost	19.5	5.7	7.6	7.0	6.0	4.4	4.7
Consumer prices (period average) 2/	13.7	11.0	7.4	8.6	6.0	4.4	4.7
Consumer prices (end of period) 2/	13.3	11.3	5.9	8.2	5.5	2.0	6.0
Pakistani rupees per U.S. dollar (period average)	2.2	4.1	8.5	5.8			
	(In percent of GDP)						
Saving and investment							
Gross saving	14.2	13.0	13.5	12.7	13.8	13.3	15.2
Government	-4.2	-5.1	-5.0	-1.3	-1.5	-1.4	-0.1
Nongovernment (including public sector enterprises)	18.4	18.1	18.5	14.0	15.2	14.7	15.3
Gross capital formation 3/	14.1	15.1	14.6	14.0	15.0	13.9	15.6
Government	2.5	3.3	3.1	3.4	3.2	3.4	3.8
Nongovernment (including public sector enterprises)	11.6	11.7	11.5	10.6	11.8	10.5	11.8
Public finances							
Revenue and grants	12.6	13.2	13.3	15.1	14.8	15.3	15.7
Expenditure (including statistical discrepancy)	19.8	21.9	21.5	19.5	19.4	20.0	19.6
Budget balance (including grants)	-6.9	-8.4	-8.1	-4.7	-4.6	-4.8	-3.9
Budget balance (excluding grants)	-7.1	-8.8	-8.3	-5.5	-4.9	-5.0	-4.3
Primary balance	-3.1	-4.0	-3.7	-0.2	0.0	-0.2	0.3
Total general government debt 4/	55.3	60.5	62.3	63.0	61.8	62.0	61.9
External general government debt	22.4	22.4	20.0	19.6	18.8	18.2	18.1
Domestic general government debt	32.9	38.1	42.3	43.4	42.9	43.8	43.8
	(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	4.9	3.6	0.9
Net domestic assets	11.8	17.9	19.3	8.8	7.3	8.4	9.6
Broad money (percent change)	15.9	14.1	15.9	12.5	12.2	12.0	10.5
Reserve money (percent change)	17.1	11.3	15.8	12.9	11.5	8.5	6.3
Private credit (percent change)	4.0	7.5	-0.6	11.0	12.0	7.1	8.9
Six-month treasury bill rate (period average, in percent)	13.3	12.3	10.1	11.9			
External sector							
Merchandise exports, U.S. dollars (percentage change)	28.9	-2.6	0.4	1.1	-0.4	-2.6	0.4
Merchandise imports, U.S. dollars (percentage change)	14.9	12.8	-0.6	3.8	3.2	-2.3	-1.4
Current account balance (in percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.2	-0.5	-0.4
	(In percent of exports of goods and services, unless otherwise indicated)						
External public and publicly guaranteed debt	153.4	160.3	144.6	166.6	163.6	160.6	165.6
Debt service	12.0	16.2	21.6	23.5	23.0	22.8	23.7
Gross reserves (in millions of U.S. dollars) 5/	14,784	10,799	6,008	9,096	15,439	14,115	17,018
In months of next year's imports of goods and services	3.6	2.7	1.5	2.2	3.6	3.4	4.0
Memorandum items:							
Real effective exchange rate (annual average, percentage change)	4.2	3.8	1.7	-1.4		2.3	-3.5
Terms of trade (percentage change)	7.2	-10.5	-0.7	-0.7	3.7	0.7	5.4
Real per capita GDP (percentage change)	1.5	1.7	1.6	2.1	2.3	2.1	2.5
GDP at market prices (in billions of Pakistani rupees)	18,276	20,047	22,489	25,402	28,084	27,614	30,215
GDP at market prices (in billions of U.S. dollars)	213.6	225.1	232.8	250.1			

Sources: Pakistani authorities; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ Inflation after 2009/10 based on new CPI weights, recalculated in September 2011.
3/ Including changes in inventories. Investment data recorded by the Pakistan Bureau of Statistics are said to underreport true activity.
4/ Excludes obligations to the IMF except budget financing, military debt, commercial loans, and short-term debt.
5/ 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 Sixth Review	2014/15 Projections	2015/16	2016/17	2017/18	2018/19	2019/20
							Projections				
	(Annual percentage change)										
Output and prices											
Real GDP at factor cost	3.6	3.8	3.7	4.1	4.3	4.1	4.5	4.5	5.2	5.2	5.2
Consumer prices (period average)	13.7	11.0	7.4	8.6	6.0	4.4	4.7	5.5	5.0	5.0	5.0
	(In percent of GDP)										
Saving and investment balance	0.1	-2.1	-1.1	-1.3	-1.2	-0.5	-0.4	-0.4	-0.4	-0.6	-0.6
Government	-6.7	-8.4	-8.1	-4.7	-4.6	-4.8	-3.9	-3.2	-2.7	-2.6	-2.4
Non-government (including public sector enterprises)	6.8	6.3	7.1	3.4	3.5	4.2	3.6	2.8	2.3	2.0	1.9
Gross national saving	14.2	13.0	13.5	12.7	13.8	13.3	15.2	15.9	17.1	18.2	18.1
Government	-4.2	-5.1	-5.0	-1.3	-1.5	-1.4	-0.1	0.5	1.3	1.9	2.3
Non-government (including public sector enterprises)	18.4	18.1	18.5	14.0	15.2	14.7	15.3	15.4	15.8	16.3	15.8
Gross capital formation	14.1	15.1	14.6	14.0	15.0	13.9	15.6	16.3	17.5	18.8	18.7
Government	2.5	3.3	3.1	3.4	3.2	3.4	3.8	3.7	4.0	4.5	4.7
Non-government (including public sector enterprises)	11.6	11.7	11.5	10.6	11.8	10.5	11.8	12.6	13.5	14.3	13.9
	(In billions of U.S. dollars, unless otherwise indicated)										
Balance of payments											
Current account balance	0.2	-4.7	-2.5	-3.1	-3.3	-1.5	-1.1	-1.2	-1.2	-1.9	-2.0
Net capital flows 1/	2.3	1.4	0.5	7.0	8.1	4.9	2.0	3.4	4.2	3.0	2.2
Of which: foreign direct investment 2/	1.6	0.7	1.3	1.5	1.6	1.5	0.7	0.6	0.8	1.0	1.3
Gross official reserves	14.8	10.8	6.0	9.1	15.4	14.1	17.0	19.2	22.1	22.8	22.8
In months of imports 3/	3.6	2.7	1.5	2.2	3.6	3.4	4.0	4.2	4.5	4.5	4.2
External debt (in percent of GDP)	31.1	29.1	26.2	26.1	24.6	23.4	23.8	23.7	22.9	21.5	19.9
	(In percent of GDP)										
Public finances											
Revenue and grants	12.6	13.2	13.3	15.1	14.8	15.3	15.7	16.6	17.3	18.0	18.0
Of which: tax revenue	9.5	10.4	9.9	10.4	11.1	11.2	12.2	13.1	13.9	14.6	14.7
Expenditure, *of which:*	19.5	21.6	21.4	19.8	19.4	20.0	19.6	19.8	20.0	20.5	20.4
Current	16.5	17.9	16.6	16.2	16.2	16.6	15.8	16.1	16.0	16.1	15.7
Development and net lending	2.6	3.4	4.7	3.8	3.2	3.4	3.8	3.7	4.0	4.4	4.7
Primary balance 4/	-3.1	-4.0	-3.7	-0.2	0.0	-0.2	0.3	1.3	1.7	1.7	1.5
Overall fiscal balance (including grants)	-6.9	-8.4	-8.1	-4.7	-4.6	-4.8	-3.9	-3.2	-2.7	-2.6	-2.4
Overall fiscal balance (excluding grants)	-7.1	-8.8	-8.3	-5.5	-4.7	-5.0	-4.3	-3.5	-3.0	-2.8	-2.5
Total public debt (including obligations to the IMF)	59.5	64.0	64.3	64.2	63.3	63.4	64.0	62.6	60.2	58.5	56.7

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.
4/ Including grants.
5/ Excluding grants and earthquake-related expenditures.

Table 5. Balance of Payments, 2011/12–2019/20

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

	2011/12	2012/13	2013/14	2014/15						2015/16			2016/17	2017/18	2018/19	2019/20
				End-Year	End-Year	Q1	Q2	Q3	Q4	Q1	Q2	End-Year				
				Sixth Review	Projections	Actual		Estimate	Projections				Projections			
Current account	-4,658	-2,496	-3,130	-3,289	-1,455	-1,647	-770	961	1	-343	-569	-1,052	-1,244	-1,226	-1,906	-2,031
Balance on goods	-15,765	-15,431	-16,701	-18,101	-16,398	-6,038	-3,825	-2,951	-3,584	-4,044	-4,190	-15,722	-16,268	-17,514	-18,618	-18,314
Exports, f.o.b.	24,696	24,795	25,068	24,957	24,408	5,960	6,226	5,934	6,288	5,726	6,026	24,494	25,556	26,913	28,634	30,519
Imports, f.o.b.	40,461	40,226	41,769	43,058	40,806	11,998	10,051	8,885	9,872	9,770	10,216	40,216	41,824	44,427	47,252	48,833
Services (net)	-3,192	-1,472	-2,551	-2,185	-1,935	-489	-779	-52	-615	-741	-687	-2,986	-3,605	-3,513	-3,889	-4,642
Services: credit	5,035	6,733	5,322	6,273	6,200	1,709	1,157	1,783	1,551	1,421	1,520	5,907	5,887	6,687	7,245	7,641
Of which: Coalition Support Fund	0	1,806	1,050	1,812	1,812	735	0	717	360	240	225	915	225	0	0	0
Services: debit	8,227	8,205	7,873	8,458	8,135	2,198	1,936	1,835	2,166	2,162	2,207	8,894	9,492	10,200	11,134	12,283
Income (net)	-3,245	-3,685	-3,943	-4,646	-4,505	-812	-1,480	-829	-1,384	-1,030	-1,390	-4,872	-5,215	-5,587	-6,219	-6,704
Income: credit	826	488	541	562	543	100	167	181	95	67	76	298	511	683	653	1,066
Income: debit	4,071	4,173	4,484	5,208	5,048	912	1,647	1,010	1,479	1,097	1,467	5,170	5,726	6,270	6,872	7,769
Of which: interest payments	1,589	1,452	1,552	1,987	1,827	346	579	406	496	395	595	1,935	2,031	2,240	2,420	2,498
Of which: income on direct investment	2,177	2,714	2,932	3,221	3,221	566	1,067	604	984	701	871	3,235	3,695	4,030	4,452	5,271
Balance on goods, services, and income	-22,202	-20,588	-23,195	-24,932	-22,838	-7,339	-6,084	-3,832	-5,583	-5,815	-6,268	-23,580	-25,089	-26,613	-28,726	-29,660
Current transfers (net)	17,544	18,092	20,065	21,643	21,383	5,692	5,314	4,793	5,584	5,472	5,698	22,529	23,844	25,386	26,820	27,628
Current transfers: credit, *of which:*	17,686	18,183	20,222	21,845	21,598	5,745	5,386	4,843	5,624	5,512	5,738	22,688	24,003	25,545	26,979	27,787
Official	658	412	380	359	445	89	142	66	148	94	174	504	461	451	503	80
Workers' remittances	13,186	13,922	15,837	17,254	17,917	4,695	4,287	4,346	4,589	4,625	4,666	18,653	19,795	21,100	22,262	23,298
Other private transfers	3,842	3,849	4,005	4,231	3,236	961	957	431	887	793	898	3,531	3,747	3,994	4,214	4,410
Current transfers: debit	142	91	157	202	215	53	72	50	40	40	40	159	159	159	159	159
Capital account	183	264	1,857	615	530	60	209	84	177	126	122	508	487	472	267	85
Capital transfers: credit	186	266	1,857	615	530	60	209	84	177	126	122	508	487	472	267	85
Of which: official capital grants	180	250	352	608	520	58	204	81	177	126	122	508	508	472	267	85
Capital transfers: debit	3	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	1,280	549	5,522	7,255	4,125	1,216	1,271	-373	2,011	-49	1,296	1,498	2,890	3,729	2,743	2,082
Direct investment abroad	-77	-198	-128	-222	-79	-18	-32	-5	-24	-20	-20	-77	-76	-76	-76	-76
Direct investment in Pakistan	821	1,456	1,669	1,620	1,622	153	371	187	911	97	124	785	659	836	1,072	1,403
Of which: privatization receipts	0	0	831	470	784	0	0	0	784	0	0	0	0	0	0	0
Portfolio investment (net), *of which:*	-144	26	2,760	1,213	1,175	182	1,005	-72	60	0	400	-78	-730	529	294	-284
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	9	-314	211	-160	-79	442	-200	-191	-130	7	0	-193	370	540	1,041	1,188
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General government	3	-2	5	-3	-26	1	-2	-25	0	0	0	0	0	0	0	0
Banks	-91	-126	8	-358	-208	218	-116	-130	-180	-3	-50	-353	200	200	200	200
Other sectors	97	-186	198	201	155	223	-82	-36	50	10	50	160	170	340	841	988
Other investment liabilities	671	-421	1,010	4,804	1,485	457	127	-292	1,193	-134	792	1,060	2,667	1,900	412	-149
Monetary authorities	-105	710	146	-1	11	0	-1	12	0	0	0	0	0	0	0	0
General government, *of which:*	998	248	1,610	2,300	1,480	346	-31	-148	1,313	-274	600	1,205	2,321	1,707	198	-462
Disbursements	2,633	2,530	4,349	5,986	4,871	1,161	790	370	2,550	791	1,393	5,324	5,720	5,290	3,942	3,420
Amortization	1,577	2,282	2,734	3,685	3,392	815	821	518	1,238	1,065	794	4,119	3,400	3,583	3,744	3,882
Banks	220	-1,117	-293	479	399	173	198	18	10	50	45	152	135	131	130	130
Other sectors	-442	-262	-453	2,026	-404	-62	-39	-174	-129	91	147	-296	211	63	84	183
Net errors and omissions	-80	-309	-391	193	202	36	110	56	0	0	0	0	0	0	0	0
Reserves and related items	3,275	1,992	-3,858	-4,774	-3,402	335	-820	-728	-2,189	266	-850	-955	-2,133	-2,974	-1,103	-135
Reserve assets	4,430	4,530	-3,285	-6,390	-4,995	62	-1,527	-1,030	-2,500	-181	-1,350	-2,903	-2,205	-2,856	-770	65
Use of Fund credit and loans	-1,155	-2,538	-573	1,616	1,593	273	707	302	311	447	500	1,948	71	-118	-333	-201
Memorandum items:																
Current account (in percent of GDP)	-2.1	-1.1	-1.3	-1.2	-0.5							-0.4	-0.4	-0.4	-0.6	-0.6
Current account (in percent of GDP; excluding fuel imports)	4.3	5.0	4.7	3.0	3.7							3.1	3.2	3.2	3.0	3.0
Exports f.o.b. (growth rate, in percent)	-2.6	0.4	1.1	-0.4	-2.6							0.4	4.3	5.3	6.4	6.6
Imports f.o.b. (growth rate, in percent)	12.8	-0.6	3.8	3.2	-2.3							-1.4	4.0	6.2	6.4	3.3
Oil imports (in million US$, cif)	14,368	14,066	14,774	11,561	11,614							9,829	10,739	11,600	12,255	12,935
Terms of trade (growth rate, in percent)	-10.5	-0.7	-0.7	3.7	0.7							5.4	-1.8	-0.4	0	-1
External debt (in millions of U.S. dollars)	65,478	60,899	65,365	67,939	64,157							67,805	70,763	73,288	73,444	72,629
Gross external financing needs (in millions of U.S. dollars) 1/	7,016	4,920	8,713	8,477	6,597							6,312	5,695	5,579	8,360	8,953
End-period gross official reserves (millions of U.S. dollars) 2/	10,799	6,008	9,096	15,439	14,115	8,943	10,514	11,615	14,115	14,296	15,646	17,018	19,223	22,079	22,849	22,794
(In months of next year's imports of goods and services)	2.7	1.5	2.2	3.6	3.4	2.3	2.7	2.9	3.4	3.5	3.7	4.0	4.2	4.5	4.5	4.2
GDP (in millions of U.S. dollars)	225,060	232,757	250,136													

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, 2008/09–2015/16

(In billions of Pakistani rupees)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15		2015/16
							Sixth Review	Projections	
Revenue and grants	1,878	2,130	2,306	2,642	2,988	3,836	4,152	4,213	4,740
Revenue	1,851	2,079	2,261	2,567	2,949	3,631	4,073	4,139	4,637
Tax revenue	1,331	1,500	1,738	2,076	2,231	2,640	3,129	3,084	3,674
Federal	1,285	1,445	1,673	1,969	2,081	2,450	2,903	2,858	3,420
FBR revenue	1,157	1,329	1,558	1,881	1,936	2,272	2,691	2,607	3,106
Direct taxes	440	529	602	732	736	884	1,136	1,110	1,349
Federal excise duty	116	121	137	122	119	145	159	159	206
Sales tax/VAT	452	517	633	809	841	1,002	1,123	1,082	1,251
Customs duties	148	161	185	218	240	241	273	255	300
Petroleum surcharge	112	89	83	60	110	104	123	126	135
Gas surcharge and other	16	28	32	27	35	43	47	51	34
GIDC 1/	n.a.	n.a.	n.a.	n.a.	0.0	32	41	74	n.a.
Provincial	46	55	65	107	151	190	226	226	254
Nontax revenue	520	579	523	491	717	990	944	1,055	963
Federal	436	512	461	443	646	941	884	995	883
Provincial	84	68	62	48	71	49	60	60	80
Grants	27	51	46	75	39	206	79	74	102
Expenditure	2,531	3,008	3,566	4,326	4,816	5,027	5,458	5,526	5,930
Current expenditure	2,093	2,482	3,012	3,579	3,742	4,123	4,552	4,582	4,771
Federal	1,547	1,855	2,227	2,611	2,647	2,950	3,231	3,261	3,296
Interest	638	642	698	889	991	1,148	1,298	1,248	1,282
Domestic	559	578	630	821	920	1,073	1,184	1,174	1,167
Foreign	79	64	68	68	71	75	114	75	115
Other	909	1,213	1,529	1,722	1,656	1,802	1,933	2,013	2,013
Defense	330	375	450	507	541	623	710	709	782
Other	579	838	1,078	1,215	1,116	1,179	1,223	1,304	1,232
Of which: subsidies 2/	244	227	493	556	305	336	234	257	169
Of which: grants	136	361	259	291	368	372	472	519	506
Provincial	546	627	786	968	1,095	1,173	1,321	1,321	1,475
Development expenditure and net lending	404	558	469	681	1,058	966	905	944	1,159
Public Sector Development Program	398	519	462	669	695	865	897	927	1,163
Federal	196	260	216	293	324	435	467	467	663
Provincial	202	258	246	375	372	431	430	460	500
Net lending	7	39	7	12	363	101	8	17	-4
Statistical discrepancy ("+" = additional expenditure) 3/	34	-32	46	67	16	-62	0	0	0
Overall Balance (excluding grants)	-680	-929	-1,306	-1,760	-1,867	-1,396	-1,384	-1,387	-1,292
Overall Balance (including grants)	-653	-878	-1,260	-1,685	-1,828	-1,190	-1,305	-1,313	-1,190
Financing	653	878	1,260	1,685	1828	1,190	1,305	1,313	1,190
External	75	138	62	53	24	320	334	218	128
Of which: privatization receipts	1	0	0	0	0	1	2	2	0
Of which: IMF	0	0	0	0	0	0	0	0	0
Domestic	579	740	1,198	1,631	1804	870	971	1,095	1,062
Bank	351	304	727	1,102	1317	322	404	454	499
Nonbank	227	436	471	529	487	548	567	641	563
Memorandum items:									
Primary balance (excluding grants)	-43	-287	-608	-871	-876	-249	-87	-138	-10
Primary balance (including grants)	-16	-236	-562	-796	-837	-43	-7	-65	92
Total security spending	330	375	450	507	541	623	710	709	782
Total government debt	7,387	8,448	10,112	12,130	14,021	16,015	17,351	17,126	18,699
Domestic debt	3,860	4,654	6,014	7,638	9,521	11,024	12,061	12,106	13,233
External debt 4/	3,527	3,794	4,098	4,492	4,500	4,991	5,290	5,020	5,466
Total government debt including guarantees 4/	n.a.	9,051	10,691	12,663	14,647	16,575	n.a.	17,726	n.a.
Total government debt including IMF obligations	7,805	9,138	10,879	12,822	14,454	16,313	17,786	17,513	19,328
Nominal GDP (market prices)	13,200	14,867	18,276	20,047	22,489	25,402	28,084	27,614	30,215

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

1/ For historical series, GIDC is part of non-tax revenue

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

3/ The statistical discrepancy is believed to arise mainly from double-counting of spending at the provincial level.

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

Table 6b. Pakistan: General Government Budget, 2009/10–2015/16

(In percent of GDP, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15 Sixth Review	2014/15 Projections	2015/16 Projections
Revenue and grants	14.3	12.6	13.2	13.3	15.1	14.8	15.3	15.7
Revenue	14.0	12.4	12.8	13.1	14.3	14.5	15.0	15.3
Tax revenue	10.1	9.5	10.4	9.9	10.4	11.1	11.2	12.2
Federal	9.7	9.2	9.8	9.3	9.6	10.3	10.4	11.3
FBR revenue	8.9	8.5	9.4	8.6	8.9	9.6	9.4	10.3
Direct taxes	3.6	3.3	3.7	3.3	3.5	4.0	4.0	4.5
Federal excise duty	0.8	0.8	0.6	0.5	0.6	0.6	0.6	0.7
Sales tax	3.5	3.5	4.0	3.7	3.9	4.0	3.9	4.1
Customs duties	1.1	1.0	1.1	1.1	0.9	1.0	0.9	1.0
Petroleum surcharge / Carbon tax	0.6	0.5	0.3	0.5	0.4	0.4	0.5	0.4
Gas surcharge and other	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.1
GIDC 1/	…	…	…	…	0.1	0.1	0.3	n.a.
Provincial	0.4	0.4	0.5	0.7	0.7	0.8	0.8	0.8
Nontax revenue	3.9	2.9	2.4	3.2	3.9	3.4	3.8	3.2
Federal	3.4	2.5	2.2	2.9	3.7	3.1	3.6	2.9
Provincial	0.5	0.3	0.2	0.3	0.2	0.2	0.2	0.3
Grants	0.3	0.2	0.4	0.2	0.8	0.3	0.3	0.3
Expenditure	20.2	19.5	21.6	21.4	19.8	19.4	20.0	19.6
Current expenditure	16.7	16.5	17.9	16.6	16.2	16.2	16.6	15.8
Federal	12.5	12.2	13.0	11.8	11.6	11.5	11.8	10.9
Interest	4.3	3.8	4.4	4.4	4.5	4.6	4.5	4.2
Domestic	3.9	3.4	4.1	4.1	4.2	4.2	4.2	3.9
Foreign	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.4
Other	8.2	8.4	8.6	7.4	7.1	6.9	7.3	6.7
Defense	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.6
Other	5.6	5.9	6.1	5.0	4.6	4.4	4.7	4.1
Of which: subsidies 2/	1.5	2.7	2.8	1.4	1.3	0.8	0.9	0.6
Of which: grants	2.4	1.4	1.5	1.6	1.5	1.7	1.9	1.7
Provincial	4.2	4.3	4.8	4.9	4.6	4.7	4.8	4.9
Development expenditure and net lending	3.8	2.6	3.4	4.7	3.8	3.2	3.4	3.8
Public Sector Development Program	3.5	2.5	3.3	3.1	3.4	3.2	3.4	3.8
Federal	1.8	1.2	1.5	1.4	1.7	1.7	1.7	2.2
Provincial	1.7	1.3	1.9	1.7	1.7	1.5	1.7	1.7
Net lending	0.3	0.0	0.1	1.6	0.4	0.0	0.1	0.0
Statistical discrepancy ("+" = additional expenditure) 3/	-0.2	0.3	0.3	0.1	-0.2	0.0	0.0	0.0
Overall Balance (excluding grants)	-6.2	-7.1	-8.8	-8.3	-5.5	-4.9	-5.0	-4.3
Overall Balance (including grants)	-5.9	-6.9	-8.4	-8.1	-4.7	-4.6	-4.8	-3.9
Financing	5.9	6.9	8.4	8.1	4.7	4.6	4.8	3.9
External	0.9	0.3	0.3	0.1	1.3	1.2	0.8	0.4
Of which: privatization receipts	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
Domestic	5.0	6.6	8.1	8.0	3.4	3.5	4.0	3.5
Bank	2.0	4.0	5.5	5.9	1.3	1.4	1.6	1.7
Nonbank	2.9	2.6	2.6	2.2	2.2	2.0	2.3	1.9
Memorandum items:								
Primary balance (excluding grants)	-1.9	-3.3	-4.3	-3.9	-1.0	-0.3	-0.5	0.0
Primary balance (including grants)	-1.6	-3.1	-4.0	-3.7	-0.2	0.0	-0.2	0.3
Total security spending	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.6
Total government debt 4/	56.2	55.3	60.5	62.3	63.0	61.8	62.0	61.9
Domestic debt	31.0	32.9	38.1	42.3	43.4	42.9	43.8	43.8
External debt 4/	25.2	22.4	22.4	20.0	19.6	18.8	18.2	18.1
Total government debt including guarantees 4/	60.9	58.5	63.2	65.1	65.3	n.a.	64.2	n.a.
Total government debt including IMF	60.8	59.5	64.0	64.3	64.2	63.3	63.4	64.0
Nominal GDP (market prices, billions of Pakistani rupees)	14,867	18,276	20,047	22,489	25,402	28,084	27,614	30,215

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

1/ For historical series, GIDC is part of non-tax revenue

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

3/ The statistical discrepancy is believed to arise mainly from double-counting of spending at the provincial level.

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

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

(In billions of Pakistani rupees)

	2013/14	2014/15						2015/16	
		End-Year	End-Year	Q1	Q2	Q3	Q4	Q1	Q2
		Sixth Review	Projections	Actual		Estimates	Projections	Projections	
Revenue and grants	3,836	4,152	4,213	837	924	966	1,486	995	1,123
Revenue	3,631	4,073	4,139	835	894	955	1,455	966	1,101
Tax revenue	2,640	3,129	3,084	628	735	702	1,019	766	893
Federal	2,450	2,903	2,858	583	685	652	938	713	826
FBR revenue	2,272	2,691	2,607	539	635	603	830	639	750
Direct taxes	884	1,136	1,110	190	269	243	408	243	324
Federal excise duty	145	159	159	25	40	40	54	46	52
Sales tax/VAT	1,002	1,123	1,082	259	255	247	322	275	300
Customs duties	241	273	255	65	71	74	46	75	75
Petroleum surcharge	104	123	126	28	32	33	33	34	34
Gas surcharge and other	39	40	39	8	6	8	17	6	7
GIDC 1/	32	41	74	7	8	3	55	33	33
Provincial	190	226	226	45	50	50	80	52	67
Nontax revenue	990	944	1,055	207	159	252	437	201	208
Federal	941	884	995	195	147	240	413	185	190
Provincial	49	60	60	12	12	12	24	15	18
Grants	206	79	74	2	30	12	31	29	22
Expenditure	5,027	5,458	5,526	1,178	1,224	1,331	1,793	1,258	1,411
Current expenditure	4,123	4,552	4,582	1,074	969	1,238	1,302	1,116	1,193
Federal	2,950	3,231	3,261	796	643	898	924	817	826
Interest	1,148	1,298	1,248	395	178	402	273	343	330
Domestic	1,073	1,184	1,174	376	149	386	263	318	298
Foreign	75	114	75	19	30	16	10	25	32
Other	1,802	1,933	2,013	401	465	496	651	474	497
Defense	623	710	709	165	165	156	223	170	195
Other	1,179	1,223	1,304	236	300	340	428	305	301
Of which: subsidies 2/	336	234	257	58	67	70	63	54	41
Of which: grants	372	472	519	75	124	118	202	111	121
Provincial	1,173	1,321	1,321	278	325	340	378	299	367
Development expenditure and net lending	966	905	944	98	181	235	430	142	218
Public Sector Development Program	865	897	927	93	176	230	427	143	219
Federal	435	467	467	40	86	82	259	73	119
Provincial	431	430	460	53	91	148	169	70	100
Net lending	101	8	17	5	5	5	3	-1	-1
Statistical discrepancy ("+" = additional expenditure) 3/	-62	0	0	6	75	-142	61	0	0
Overall Balance (excluding grants)	-1,396	-1,384	-1,387	-343	-330	-376	-338	-292	-310
Overall Balance (including grants)	-1,190	-1,305	-1,313	-341	-301	-365	-307	-263	-288
Financing	1,190	1,305	1,313	341	301	365	307	263	288
External	320	334	218	-31	146	-36	139	120	-83
Of which: IMF	0	0	0	0	0	0	0	0	0
Domestic	870	971	1,095	371	154	401	168	143	371
Bank	322	404	454	161	69	270	-47	118	123
Nonbank	548	567	641	210	86	130	214	25	248
Memorandum items:									
Primary balance (excluding grants)	-249	-87	-138	52	-152	26	-64	51	19
Primary balance (including grants)	-43	-7	-65	54	-122	37	-34	80	41
Total security spending	623	710	709	165	165	156	223	170	195
Total government debt	16,015	17,351	17,126						
Domestic debt	11,024	12,061	12,106						
External debt 4/	4,991	5,290	5,020						
Total government debt including IMF obligations	16,313	17,786	17,513						
Nominal GDP (market prices)	25,402	28,084	27,614						

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

1/ For historical series, GIDC is part of non-tax revenue

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

3/ The statistical discrepancy is believed to arise mainly from double-counting of spending at the provincial level.

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

Table 7. Pakistan: Monetary Survey, 2013/14–2015/16

	2013/14	2014/15				2015/16			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Actual			Projections	Projections			
	(In billions of Pakistani rupees, unless otherwise indicated)								
Monetary survey									
Net foreign assets (NFA)	601	570	649	735	959	930	1,021	944	1,062
Net domestic assets (NDA)	9,367	9,392	9,762	9,801	10,205	10,187	10,567	10,751	11,275
Net claims on government, *of which: 1/*	5,710	5,713	5,677	5,774	6,377	6,471	6,595	6,744	6,852
Budget support, *of which:*	5,448	5,588	5,647	5,918	5,871	5,990	6,113	6,263	6,370
Banks	3,121	3,300	3,733	4,264	4,006	4,190	4,333	4,483	4,590
Commodity operations	492	469	467	437	505	482	482	482	482
Credit to nongovernment	4,102	4,149	4,377	4,360	4,448	4,560	4,769	4,750	4,832
Private sector	3,747	3,794	3,969	3,952	4,014	4,102	4,311	4,291	4,373
Public sector enterprises	355	355	407	408	433	458	458	458	458
Privatization account	-3	-3	-3	-3	-3	-3	-3	-3	-3
Other items, net	-442	-467	-288	-331	-616	-842	-794	-740	-406
Broad money	9,968	9,962	10,411	10,536	11,164	11,118	11,587	11,695	12,336
Currency outside scheduled banks	2,178	2,262	2,302	2,411	2,499	2,504	2,604	2,639	2,774
Rupee deposits	7,191	7,082	7,490	7,522	8,026	7,978	8,320	8,386	8,856
Foreign currency deposits	599	618	619	603	639	636	663	669	706
State Bank of Pakistan (SBP)									
NFA	490	482	555	651	874	846	936	859	977
NDA	2,372	2,310	2,226	2,350	2,231	2,160	2,034	2,329	2,325
Net claims on government	2,236	2,115	1,701	1,350	1,719	1,591	1,562	1,561	1,582
Of which: budget support	2,328	2,289	1,914	1,653	1,865	1,800	1,780	1,780	1,780
Claims on nongovernment	-5	-6	-6	-6	-6	-6	-6	-6	-6
Claims on scheduled banks	500	505	561	499	645	666	564	881	923
Privatization account	-3	-3	-3	-3	-3	-3	-3	-3	-3
Other items, net	-356	-302	-27	510	-125	-88	-84	-104	-172
Reserve money, *of which:*	2,861	2,791	2,781	3,000	3,105	3,005	2,970	3,189	3,301
Banks' reserves	531	380	329	431	459	456	476	480	507
Currency	2,317	2,397	2,440	2,557	2,646	2,549	2,494	2,709	2,795
	(Annual percentage change, unless otherwise indicated)								
Broad money	12.5	12.2	10.9	12.3	12.0	11.6	11.3	11.0	10.5
NFA, banking system (in percent of broad money) 2/	3.7	5.3	6.3	6.1	3.6	3.6	3.6	2.0	0.9
NDA, banking system (in percent of broad money) 2/	8.8	6.9	4.6	6.2	8.4	8.0	7.7	9.0	9.6
Budgetary support (in percent of broad money) 2/	3.7	3.0	0.4	3.8	4.2	4.0	4.5	3.3	4.5
Budgetary support	6.3	5.0	0.7	6.4	7.8	7.2	8.2	5.8	8.5
Private credit	11.0	13.0	7.4	6.5	7.1	8.1	8.6	8.6	8.9
Currency	12.4	14.0	10.3	13.9	14.8	10.7	13.2	9.5	11.0
Reserve money	12.9	8.2	2.1	9.6	8.5	7.7	6.8	6.3	6.3
Memorandum items:									
Velocity	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Money multiplier	3.5	3.6	3.7	3.5	3.6	3.7	3.9	3.7	3.7
Currency to broad money ratio (percent)	21.8	22.7	22.1	22.9	22.4	22.5	22.5	22.6	22.5
Currency to deposit ratio (percent)	28.0	29.4	28.4	29.7	28.8	29.1	29.0	29.1	29.0
Foreign currency to deposit ratio (percent)	7.7	8.0	7.6	7.4	7.4	7.4	7.4	7.4	7.4
Reserves to deposit ratio (percent)	6.8	4.9	4.1	5.3	5.3	5.3	5.3	5.3	5.3
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	324	140	199	469	423	118	242	391	499
By commercial banks	164	179	612	1,144	886	183	327	476	584
By SBP	160	-39	-413	-674	-463	-65	-85	-85	-85
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	3.6	-0.3	0.5	1.4	3.6	-0.7	0.3	-0.6	0.4
NFA of commercial banks (millions of U.S. dollars)	1,130	861	928	833	831	793	800	789	782
NDA of commercial banks (billions of Pakistani rupees)	6,995	7,082	7,536	7,451	7,974	8,027	8,533	8,421	8,950

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.

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

(December 2012–March 2015)

	Dec. 2012	Mar. 2013	Jun. 2013	Sep. 2013	Dec. 2013	Mar. 2014	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015
Capital adequacy 1/										
Regulatory capital to risk-weighted assets	15.4	15.1	15.5	15.5	15.1	14.8	15.1	15.5	17.1	17.4
Tier I capital to risk-weighted assets	12.8	12.7	13.0	13.2	12.8	12.5	12.5	13.6	14.3	14.1
Capital to total assets	9.0	8.9	8.9	9.3	8.9	8.9	8.8	9.0	10.0	10.0
Asset composition and quality										
Nonperforming loans (NPLs) to gross loans	14.5	14.7	14.8	14.3	13.0	13.4	12.8	13.0	12.3	12.8
Provisions to NPLs	71.8	71.9	73.2	76.5	78.4	77.8	79.5	77.6	79.8	80.2
NPLs net of provisions to capital	19.4	19.9	18.3	15.7	13.0	14.0	12.5	13.6	10.1	9.8
Earnings and profitability										
Return on assets (after tax)	1.4	1.2	1.1	1.1	1.1	1.3	1.4	1.4	1.5	1.7
Return on equity (after tax)	14.9	13.9	12.4	12.3	12.4	14.1	15.4	15.9	16.1	17.0
Net interest income to gross income	71.1	71.7	70.0	70.3	70.3	69.9	70.5	71.4	71.3	68.4
Noninterest expenses to gross income	53.9	57.5	56.4	56.8	57.4	56.8	54.6	54.8	53.3	47.0
Liquidity										
Liquid assets to total assets	47.4	47.4	49.0	46.7	47.3	48.3	47.8	54.8	49.2	51.9
Liquid assets to total deposits	63.3	63.8	63.7	59.2	60.0	63.7	60.6	61.4	64.5	70.4
Loans/Deposits	51.5	51.6	48.1	48.7	48.6	49.2	47.7	48.2	48.2	46.9

Source: State Bank of Pakistan.

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

Table 9. Pakistan: Indicators of Fund Credit, 2013–20
(In millions of SDR, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019	2020
			Projections					
	(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	4,213.0	3,673.0	2,976.9
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	4,213.0	3,673.0	2,976.9
In percent of end-period gross official reserves	101.8	33.0	32.5	34.7	31.4	26.6	23.2	18.5
As a share of external debt	5.8	5.3	7.9	9.2	8.8	8.2	7.1	5.8
	(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/							
Total			95.8	63.5	72.2	223.0	494.5	715.2
Of which:								
Principal	-2,313.5	-1,273.8	74.3	0.0	0.0	150.0	420.0	660.0
Interest and charges	41.6	24.4	21.5	63.5	72.2	73.0	74.5	55.2
SBA and ENDA Principal	..	..	74.3	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	..	..	0.9	0.5	0.5	1.4	3.1	4.5
As a share of total external debt service	..	..	0.2	0.1	0.1	0.4	1.0	1.4
Memorandum items								
Quota (millions of SDRs)	1,033.70	1,033.70	1,033.70	...	...	...	...	...
Gross official reserves (millions of U.S. dollars)	3,478	10,514	15,646	18,031	19,943	22,570	22,514	22,849
Total External Debt (millions of U.S. dollars)	60,899	65,365	64,157	67,805	70,763	73,288	73,444	72,629
Total External Debt Service (millions of U.S. dollars)	6,797	7,135	6,969	7,195	6,483	6,592	8,873	9,420

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	4.1	4.5	4.5	5.2	5.2	5.2
CPI inflation (period average, in percent) 1/	13.7	11.0	7.4	8.6	4.4	4.7	5.5	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	-0.5	-0.4	-0.4	-0.4	-0.6	-0.6
Net FDI inflows (percent of GDP)	0.7	0.3	0.5	0.6	0.6	0.2	0.2	0.2	0.3	0.4
Exports (percentage change of U.S. dollar value; GNFS)	25.0	-4.5	6.0	-3.6	0.7	-0.7	3.4	6.9	6.8	6.4
Gross international reserves (GIR) in billions of U.S. dollars	14.8	10.8	6.0	9.1	14.1	17.0	19.2	22.1	22.8	22.8
GIR in percent of ST debt at remaining maturity (RM) 2/	332.8	273.7	111.1	157.6	202.6	203.6	271.4	558.2	555.1	535.8
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 2/	167.8	125.4	56.5	76.7	106.7	114.5	138.2	196.2	193.0	182.2
Total gross external debt (ED) in percent of GDP, *of which:*	31.1	29.1	26.2	26.1	23.4	23.8	23.7	22.9	21.5	19.9
ST external debt (original maturity, in percent of total ED)	1.0	0.6	0.0	1.1	0.5	0.8	0.8	0.9	1.1	1.3
ED of domestic private sector (in percent of total ED)	10.8	10.8	10.4	13.4	15.9	16.5	16.6	17.2	17.6	17.6
ED to foreign official sector (in percent of total ED)	89.2	89.2	89.6	86.6	84.1	83.5	83.4	82.8	82.4	82.4
Total gross external debt in percent of exports	213.2	220.2	193.2	215.1	209.6	223.0	225.1	218.1	204.7	190.3
Gross external financing requirement (in billions of U.S. dollars) 3/	1.9	6.7	5.3	6.5	5.6	6.2	5.7	5.5	8.0	8.8
Public sector 4/										
Overall balance (including grants)	-6.9	-8.4	-8.1	-4.7	-4.8	-3.9	-3.2	-2.7	-2.6	-2.4
Primary balance (including grants)	-3.1	-4.0	-3.7	-0.2	-0.2	0.3	1.3	1.7	1.7	1.5
Debt-stabilizing primary balance 5/	-7.8	1.4	-1.6	-3.1	0.0	-0.2	-0.7	-1.1	-0.7	0.0
Gross PS financing requirement 6/	26.9	32.5	35.9	34.6	30.5	29.3	28.3	27.1	26.2	25.7
Public sector gross debt 7/	55.3	60.5	62.3	63.0	62.0	61.9	60.6	58.4	56.8	55.2
Public sector net debt 8/	52.0	57.2	59.2	59.8	58.8	58.7	57.5	55.4	53.9	52.4
Financial sector 9/										
Capital adequacy ratio (in percent)	15.1	15.4	15.5	15.1	...	...	...	...	...	...
Nonperforming loans (NPLs) in percent of total loans	15.7	14.5	14.8	12.8	...	...	...	...	...	...
Provisions in percent of NPLs	69.3	71.8	73.2	79.5	...	...	...	...	...	...
Return on assets (after tax, in percent)	1.5	1.4	1.1	1.4	...	...	...	...	...	...
Return on equity (after tax, in percent)	15.1	14.9	12.4	15.4	...	...	...	...	...	...
FX deposits held by residents (in percent of total deposits)	7.2	7.4	7.4	7.7	...	...	...	...	...	...
Government debt held by FS (percent of total FS assets)	44.6	54.9	63.6	57.3	...	...	...	...	...	...
Credit to private sector (percent change)	4.0	7.5	-0.6	11.0	...	...	...	...	...	...
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	213.6	225.1	232.8	250.1						

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 Millions of SDRs	Amount of Purchase Percent of Quota	Conditions
September 4, 2013	360	35	Approval of arrangement
December 2, 2013	360	35	First review and end-September 2013 performance/continuous criteria
March 2, 2014	360	35	Second review and end-December 2013 performance /continuous criteria
June 2, 2014	360	35	Third review and end-March 2014 performance /continuous criteria
December 2, 2014	720	70	Fourth and Fifth reviews and end-September 2014 performance /continuous criteria
March 2, 2015	360	35	Sixth review and end-December 2014 performance /continuous criteria
June 2, 2015	360	35	Seventh review and end-March 2015 performance /continuous criteria
September 2, 2015	360	35	Eighth review and end-June 2015 performance /continuous criteria
December 2, 2015	360	35	Ninth review and end-September 2015 performance/continuous criteria
March 2, 2016	360	35	Tenth review and end-December 2015 performance /continuous criteria
June 2, 2016	360	35	Eleventh review and end-March 2016 performance /continuous criteria
August 1, 2016	73	7	Twelfth review and end-June 2016 performance /continuous criteria
Total	4393	425	

Source: IMF staff estimates.

1/ Date in which resources become available.

Appendix I. Letter of Intent

June 12, 2015

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

Dear Ms. Lagarde,

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

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

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

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

Structural benchmarks (SBs) (Table 2). The end-March 2015 SBs to draft legislation to remove the authority to grant new administrative tax exemptions, on reorganization of the debt office, and on the review to simplify tax payment processes were met. The program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. As detailed in the attached MEFP, we propose a new indicative target on the accumulation of power sector payment arrears and three new structural benchmarks against which to measure progress under the program (MEFP, Tables 1 and 2). The attached Technical Memorandum of Understanding (TMU) explains how the program targets are measured.

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

We reaffirm our commitment to our economic reform program supported by the International Monetary Fund (IMF). We believe that the policies set forth in this letter and in the letters of August 19, 2013, December 11, 2013, March 6, 2014, June 19, 2014, December 2, 2014, and March 12, 2015 are adequate to achieve the objectives of the program, and we stand ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF with the necessary information for program monitoring. We authorize the IMF to publish this Letter of Intent and its attachments, and the related staff report.

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

Attachment I. Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. **Economic activity has remained robust**. We expect, for program purposes, that real GDP growth will reach about 4.1 percent in FY 2014/15 and accelerate to about 4.5 percent next year. However the government retains its goal of achieving growth of 4.2 percent this fiscal year and 5.5 percent next year. Risks are broadly balanced, with improvements in the supply of gas and electricity along with the recent decline in oil prices supporting growth, while the recent deceleration of private credit growth and continued export weakness constitute downside risks. Headline consumer price inflation has continued to fall, to 2.1 percent y-o-y in April, mainly driven by lower food and energy prices. We expect inflation to increase to around 4¾ percent on average in FY2015/16, due to a likely bottoming out of commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.

2. **The external current account turned to a surplus over the past quarter**. This improvement largely reflects the reduced oil import bill and robust growth in workers' remittances, while exports remained flat, partly driven by lower cotton prices. Gross international reserves reached US$11.6 billion by end-March 2015, covering about three months of imports, up from US$10.5 billion at end-December 2014. The rupee has depreciated by 3 percent against the U.S. dollar in the first nine month of FY2014/15, but has appreciated by 8 percent in real effective terms over the same period. Going forward, we expect the current account to return to a deficit, driven by continued weak export performance. External financing will continue to be supported by significant program disbursements. This financing, together with savings from lower oil prices, will allow us to further improve our foreign reserve coverage, which is now expected to exceed four months of imports by end FY2015/16.

3. **Monetary aggregates remained in line with program objectives**. Reserve money grew by 9.6 percent y-o-y in March 2015, as the increase in Net Foreign Assets (NFA) was adequately sterilized. The growth rate of broad money slightly increased from 10.9 percent y-o-y in December 2014 to 12.3 percent y-o-y in March 2015. Private sector credit expansion continued, albeit slower than expected (6.5 percent y-o-y in March 2015), driven mainly by large businesses and construction.

4. **All end-March monetary program targets were met and the SBP is on track to meet the end-June targets**. We met the end-March NIR target with a margin of over US$700 million, due in part to strong spot market purchases in an environment of favorable international oil prices and stable macroeconomic conditions. The ceiling on SBP's net short position of swap/forward contracts was also met. We over-performed the end-March Net Domestic Assets (NDA) target by PRs 93 billion, as we further reduced net government borrowing from the SBP—well below program targets (¶23)—and sterilized foreign exchange inflows.

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

Economic Policies

A. Monetary and Exchange Rate Policies

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

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

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

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

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

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

B. Fiscal Policy

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

11. **We are determined to continue on a path of fiscal consolidation, reduce public debt, and lay the foundations for more sustained and inclusive growth**. To cement macroeconomic stability and place the debt-to-GDP ratio on a firmly declining path, we remain committed to reducing the budget deficit (excluding grants) from 4.9 percent of GDP in FY2014/15 to 3½ percent by the end of the program. This will create the much-desired fiscal space to finance increases in public infrastructure investment, security and defense, education, healthcare, and targeted social assistance to improve living standards across the country and to protect the most vulnerable segments of society.

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

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

13. **We will intensify our efforts to further reduce distortions in the energy market**. Energy subsidies at the outset of our program in FY 2013/14 were slated to reach 2 percent of GDP on unchanged policies. We reduced these subsidies to 1.3 percent of GDP that year, and are bringing them to 0.8 percent of GDP this fiscal year and 0.4 percent of GDP next year (¶31).

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

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

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

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

17. **Improving tax compliance and enforcement will be critical to achieve fiscal sustainability**. We have built a monitoring system to track progress and set quarterly objectives on tax policy and administration initiatives. We issued 180,295 first notices by end-March 2015, over the target of 175,000, to bring more potential taxpayers into the revenue base. In response, 54,791 persons filed tax returns as of end-March. We have also initiated a GST collection scheme for over 25,000 large retailers and over 1.3 million small retailers as new potential GST payers. To enhance our tax compliance efforts, we will continue to improve the FBR's IT infrastructure and expand its access to taxpayer information from multiple sources including financial and real estate transactions, motor vehicle procurement, and international travel. We are merging the National Tax number (NTN) system covering 3.6 million individuals with the Computerized National Identity Card (CNIC) database that covers about 150 million people by end-September 2015 (SB). We will focus our enforcement efforts on nonfilers who have the potential to contribute at least the average tax paid by currently registered taxpayers and especially high wealth individuals, including elected representatives, key public figures, sports persons, and performing artists. The FBR's Directorate General of Intelligence and Investigation (DGII) is working on the high wealth individuals identified through field surveys and information gathered from financial and property records. For those who are already in the tax net, this information is passed on to the relevant tax office for corroboration with the wealth statement filed by the assesse. For those who are outside the tax net, the DGII pursues their cases. In this context, the FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges (new end-September 2015 SB). Within this policy, the FBR will retain elements of random selection to ensure taxpayer compliance. This policy will help us develop a modern compliance risk management system. We will also streamline

the online filing scheme (which will facilitate registration and filing of personal income tax returns by simplifying the tax return form) and expand the coverage of tax audits to 7.5 percent of filed tax returns.

18. **We have also made significant progress in implementing other tax administration reforms, which will gradually deliver further improvements in revenue collection**. In consultation with the World Bank, we have completed a functional review of the FBR and we are moving forward with a strategy to address structural flaws in the taxation system, improve tax administration, and induce behavioral change among taxpayers. In particular:

a. We are in the process of awarding the contract for electronic volume tracking of production to improve GST collection. Working with the Public Procurement Regulatory Authority (PPRA), after verifying experience and turnover of bidders, we aim to enter the second stage of bidding and award this contract by end-June 2015.

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

c. We have revised valuation rulings in customs duties to mitigate wrong declarations and underinvoicing. Using data on international prices, we are now able to identify most of the risk-prone transactions. At the same time, we are developing a national valuation database, which will allow us to further improve the accuracy of customs duty assessments. Moreover, we have started the electronic data interchange (EDI) connectivity to streamline trade with Afghanistan and we are entering a new round of negotiations with China to develop a similar EDI connectivity by January 2016.

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

19. **Provincial governments remain crucial in the fiscal reform process, especially by improving revenue collection at the provincial level**. With a series of constitutional amendments, Pakistan has adopted a more decentralized federal system of government. The most recent National Finance Commission (NFC) award granted 57.5 percent of most revenues to the provinces, along with devolution of spending responsibilities and sales taxation authority in services in addition to the existing taxation authority in agriculture and property. To assure achievement of our fiscal targets in FY2015/16, and following last year's agreement under the Council of Common Interest (CCI), the provincial finance secretaries have agreed in writing to increase provincial budget surpluses consistent with the program (prior action). In the new round of NFC negotiations, the federal government will seek an agreement to balance devolution of revenue and expenditure responsibilities in a way that is consistent with the objective of macroeconomic stability.

20. **We continue our support to the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP)**. To protect the vulnerable segments of society from inflation and the impact of fiscal adjustment, we have increased the quarterly stipends

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

C. Fiscal Financing

21. **We will continue to keep budget financing from the SBP within program targets**. We reduced government borrowing from the SBP by PRs 261 billion to PRs 1,653 billion in end-March 2015, significantly below our target ceiling. Going forward, we expect to gradually revert closer to the target ceiling as we continue to seek implementing a well-balanced financing mix in line with the program.

22. **Enhancing the quality and effectiveness of public debt management continues to be a priority**. Efforts continue to diversify financing from both domestic and external sources, lengthen the maturity profile of domestic debt and improve the balance between domestic and external debt. Also, we will continue to strengthen the Debt Policy Coordination Office (DPCO), to become functional and undertake the analytical functions typical of a Middle Office. Specifically, to achieve savings in, and more effective decision-making for, government borrowing, we will:

a. Continue to provide Fund staff with a detailed quarterly financing plan for the coming 12 months and publish our rolling quarterly issuance program for domestic public securities every month;

b. Update the Medium Term Debt Management Strategy (MTDS) covering the period FY2014/15–FY2018/19. We will prepare a draft by end-November 2015 and publish it by end-January 2016; and

c. Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS by end-October 2015 (new SB).

D. Financial Sector

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

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

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

a. The Securities Bill has been enacted.

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

c. The Futures Trading Bill is being finalized with the support of the World Bank and will be placed before Parliament by end-September 2015.

d. A working group of the SBP-SECP joint task force is finalizing the guidelines on an early warning system for the effective monitoring of financial conglomerates. These guidelines once finalized and integrated into the existing framework, will facilitate supervision of financial conglomerates. We are receiving Technical Assistance on consolidated

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

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

e. To improve the recovery of NPLs and enhance credit growth, the SBP, in consultation with banks, has developed amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, and forwarded them to the Ministry of Finance for enactment. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April2015. This law will be pivotal for facilitating timely resolution of NPLs and allowing banks to focus on their core areas of operation. The SECP has also prepared a concept note for developing the Corporate Rehabilitation Act, which will be shared with stakeholders by end-June 2015 (¶37).

f. The SBP continues to improve its contingency planning framework with support by IMF TA. Among other things, this work will encompass a review of the legal framework, identification of gaps, an assessment of the consolidated supervision framework and domestic systematic important banks (D-SIBs). The SBP had already conducted an initial assessment of identification of the D-SIBs and will work on developing the monitoring mechanism.

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

27. **We continue strengthening the anti money laundering and combating of financing of terrorism (AML/CFT) framework**. We are on track to including tax crimes in the Schedule of Offenses of the Anti-Money Laundering Act (AMLA). We have submitted the draft amendments to the AMLA to parliament that will enable the use of AML tools to combat tax evasion. We are committed to adopting these amendments by end-September 2015 (structural benchmark). Subsequently, we will amend applicable regulations in line with international standards. The Financial Monitoring Unit's analytical capability is being enhanced by establishing a data center and use of the goAML[2] analytical tool in cooperation with DfID and UNODC. In addition, we will continue to work with the Asia/Pacific Group (APG) of the Financial Action Task Force (FATF) to strengthening our framework for combating the financing of terrorism, including by effectively implementing the relevant United Nations Security Council Resolutions.

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

E. Energy Sector Reforms

28. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We are implementing our time-bound strategy to tackle price distortions, insufficient collections, costly and poorly targeted subsidies, governance and regulatory deficiencies, and low efficiency in energy supply and distribution with the support of our international partners. We are reducing electricity subsidies to 0.3 percent of GDP in FY 2015/16 with the recent tariff notification. We also began addressing both the flow and stock of payable arrears in the power sector including by allocating budgetary resources, levying surcharges, gradual improvement in company performances and recoveries, and initiating the process of privatizing power sector companies.

29. **Price Adjustments**.

a. The National Electric Power Regulatory Authority (NEPRA) finalized the determination of tariffs for FY2013/14 in June 2014, but last-minute difficulties derailed the implementation of the new tariffs by July 1, 2014 as had been agreed at the time of the Third review. To remedy this problem, we levied a surcharge of PRs 0.30/kWh effective from October 1, 2014 and PRs 0.60/kWh effective from January 1, 2015, taking advantage of lower world oil prices to do so while allowing consumer prices to fall. However, legal challenges that came in effect in February stayed the implementation of all surcharges (as defined in the TMU). We are pursuing the court cases. We have (i) notified the new tariff, as determined by NEPRA for FY2014/15 to be effective from June 10, 2015; and (ii) implemented surcharges in line with the program targets, consistent with the budgetary allocation of 0.3 percent of GDP in electricity subsides and the power sector payables reduction plan, as defined in the TMU (prior action). In addition, we are committed to protect the level of revenue in the electricity sector by adjusting tariffs as needed in case of a negative outcome of legal challenges to electricity surcharges. We will also make any necessary amendments to the NEPRA Act/rules to insure the permanency of these measures.

b. We have taken advantage of lower world oil prices to bring additional costs into the tariff base set by NEPRA to strengthen cost recovery in the sector while allowing consumer prices to continue falling. To that end, NEPRA determined the FY2014/15 tariffs at end-April 2015. We are also ensuring that technical loss diagnostic studies for all DISCOs will be finalized by June 2015 so that better estimates of loss rates can be considered by NEPRA in its FY2015/16 tariff determination.

c. We are committed to gradually reducing the effect that untargeted subsidies have on our budget while continuing to protect the most vulnerable consumers.

30. **Arrears (Circular Debt)**. The technical and financial audit of the system which was finalized in early May 2014 identified the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited, PHCL). We have developed a monitoring

mechanism to track the stock and flow of payables (as defined in the TMU). We set targets for the reduction of the flow of such arrears, supported by a new indicative target starting in June 2015 (Table 1). There are two main components of this circular debt:

a. The payables in the power sector stand at PRs 280 billion at end-March 2015 In addition to current payables, it comprises: (i) a residual from payables clearance of June and July 2013; (ii) a disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) nonrecovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerges from the court stay order on surcharges; and (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads

b. The stock of past arrears including the PHCL in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-March 2015.

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

a. We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in the first nine months of FY2014/15 declined by one percentage point to 17.6 percent. Collections remained at 88.5 percent. To address increased losses in some DISCOs, the chief executives of the poorly performing ones have been replaced, and we are working with provincial governments to address their payment problems. We will work on improving the average performance of the sector further in FY2015/16.

b. Taking advantage of the room created due to falling oil prices, late payment surcharges and higher system losses were incorporated into the FY2014/15 determined tariffs. This is expected to arrest a portion of the build-up of the circular debt and improve the cash-flow of the system.

c. We have allocated about 0.1 percent of GDP of budgetary resources to clear part of the stock of arrears that accrued in AJK, FATA and Baluchistan Tube Wells. We will continue to work with these governments to prevent further accumulation of arrears.

d. We are moving the stock of PHCL debt into DISCOs' balance sheets where privatization will take place. This will help to reduce the stock of PHCL debt and will ease the servicing of this debt. We are working through the judicial process to implement the surcharge that we levied (as defined in the TMU) to service the facility.

32. **Monitoring and enforcement**. To tackle losses, raise payment compliance, and improve energy efficiency and service delivery, we have already signed performance contracts with the boards of all nine DISCOs. We have begun monitoring the performance indicators specified in the contracts and we have already invoked remedial measures for the management of three distribution companies who failed to comply, as specified in the Companies' Ordinance. The amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 have been promulgated through Presidential Ordinance which lapsed in August 2014. Currently, the Bill stands at the Senate Committee after the clearance of the National Assembly. We expect it to be enacted by end-September, 2015. In parallel, we drafted the new Electricity Act to modernize governance of the sector and have circulated it to provinces for comments. The draft Act will be shared with a broader set of stakeholders before finalizing and submitting it to the CCI by end-September 2015. We will work with the Ministry of Law on creating an effective system for handling cases related to electricity theft that can be effective by end-2015.

33. **Demand Side Management**. To improve resource allocation and energy efficiency, we will use pricing (¶29) and other market-based instruments. We will invest in Advanced Metering Infrastructure (AMI) initially in LESCO and IESCO to reduce commercial losses, increase recoveries and better manage revenue-based load shedding. We have completed the consultative process with stakeholders on the draft Pakistan Energy Efficiency and Conservation Act. In August 2014, the CCI approved the bill and it is now in the National Assembly. We expect it to be enacted in early 2016. The Act will include equipment performance standards, and would cover key electrical and gas equipment and appliances which are not yet covered. In parallel, we are also preparing the necessary implementing regulations.

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

35. **Governance, Regulatory, and Transparency Improvements**. Improving energy sector governance and transparency, and strengthening the regulatory framework are critical for delivering improved service and for attracting needed private sector investment. To begin addressing administrative and technical constraints, we have appointed a new Chairman and Board member with financial skills to NEPRA. NEPRA is moving forward with preparations for a multi-year tariff framework. To facilitate the transition, DISCOs prepared three-year investment plans and submitted the plans to NEPRA. In the first phase, we will determine and notify multi-year tariffs for FESCO,

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

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

Oil and Gas Sector

37. **Supply**. To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports by end-March 2015. We are committed to a full pass-through of the cost of imported LNG to the end-user purchase price (including to Compressed Natural Gas) and we finalized the contractual agreements with all relevant parties. We will finalize the independent power producers' letters of credit by end-June 2015. We have issued new exploration and production concessions for domestic gas resources and continue to limit further expansion of the gas distribution networks for domestic consumption

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

- Under the Petroleum Exploration and Production Policy 2012 (2012 Policy), we are incentivizing producers to enhance production from existing fields as well as to initiate new exploratory efforts, with price increases ranging from 2.8–3 U.S. dollars per MMBTU to 6–10 U.S. dollars per MMBTU. To this end, we are ensuring that existing concessions are in the process of conversion to the 2012 Policy with support from international partners. So far, two thirds of the total has been converted with the remaining eligible ones to be completed by end-June 2015. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy and are expecting toward additional 10–15 exploration concessions by end-December 2015.

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY2014/15 (due in July and January) will be fully recuperated in the new tariff which we will notify and implement by July 1, 2015. We will also make any necessary adjustments to notified prices to reflect imported gas prices, so that the cost of this gas will be fully reflected in the LNG tariff on a monthly basis.

- To better allocate gas consumption, we adjusted the weighted average consumer prices at end-December 2013 through the application of the GIDC on industry and captive power plants. The GIDC was further adjusted with the FY 2014/15 budget to generate 0.55 percent of GDP in revenues. However, due to pending court cases, the recovery of the GIDC has been suspended despite the Presidential Ordinance which was issued following the previous Supreme Court decision. We have addressed issues related to the GIDC to realize the budgeted revenues (as described in ¶12). However, we have taken measures to recover PRs 74 billion, of which PRs 43 billion from the fertilizer sector and will continue to focus on areas where large collecting agents have already collected the GIDC in their prices.

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

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

- We have established performance monitoring units in the Ministry of Water and Power and Ministry of Petroleum and Natural Resources (MPNR) which report progress quarterly to the ECC. We are committed to updating the public on reform progress and are therefore posting quarterly monitoring reports on the websites of the concerned ministries. The first monitoring report was approved by the ECC in April 2015 and we have already disclosed the report on the Ministry MPNR's website. To support the efforts of the regulator, we advertised the vacant positions on the Board of the Oil and Gas Regulatory Authority (OGRA). We have finalized the selection of the Member Finance for approval, but were not able to select the Member Oil and will re-advertise the position with revised criteria.

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

- We are also pursuing companies to reduce losses by benchmarking international standards, through investment measures, managerial and administrative improvements, and through building the capacity of the gas distribution companies. The current level of Unaccounted For Gas losses (UFG) is on average 12.2 percent due to commercial and technical losses. The gas companies submitted loss reduction plans to the MPNR in May 2015 and are working with the World Bank on the Natural Gas Efficiency Project (NGEP) for which activities are expected to start in mid-2015.

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

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

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

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

- ***New Firms***. The SECP, FBR, and Employees' Old Age Benefits Institution (EOBI) have joined to launch a virtual One-Stop-Shop (OSS) for business registration in December 2014 and we set up a physical OSS in Lahore in April 2015. We will set up another physical OSS in Islamabad by September 2015. By streamlining overlapping procedures and establishing database sharing and a common portal for registering businesses, the OSS has begun facilitating new firm creation. We have so far reduced two procedures and two days and plan to save an additional eight days of the procedures.

- ***Contract enforcement***. We completed in March 2014 a study to identify necessary changes to the bankruptcy regime that would support the rehabilitation of weak but viable companies. Based on the findings of the study, we are reforming the bankruptcy framework through introducing two far-reaching legislative measures: (i) the Corporate Rehabilitation Act, which will provide a mechanism for the reorganization and rehabilitation of distressed companies; and (ii) the CRC Act, which envisages setting up private Corporate Restructuring Companies to take over assets of bankrupt companies (¶25). The CRC Act has been placed before the Parliament in April 2015. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism will be extended to Islamabad and Rawalpindi by end-September 2015 and we began work to expand to other provincial capitals (i.e., Peshawar and Quetta). We intend to initiate consultation for exploring possibilities of establishing commercial courts in order to expedite resolution of commercial disputes and contract enforcement.

- ***Paying Taxes***. We have completed a review to reduce the number of existing processes and forms for sales and income tax by end-March 2015 (SB). We have identified 30 income and sales tax processes that required streamlining. Based on this review, we have started undertaking measures to streamline and simplify procedures and processes and we are developing 9 IT-based modules to eliminate redundant manual steps. Subsequently, we will work on an integrated end-to-end IT solution (IRIS) to serve all streamlined business taxpayer-related processes (registration, declaration, payments, audit, recovery, refunds, and appeals). We will continue to streamline and fine-tune the system based on the feedback we received from the taxpayers and in accordance with international best practices.

41. .***Access to credit***. Access to finance for poor, women, and marginalized segments of society including micro, small and rural enterprises remains very limited owing to both demand and supply-side constraints. The SBP, with the help of World Bank experts, has developed a comprehensive National Financial Inclusion Strategy (NFIS) to implement financial sector reforms to meet their financing needs. We prepared the draft strategy document, which identifies policy reforms and interventions to enhance market information, infrastructure, and financial capability of consumers. The multi-stakeholder National Financial Inclusion Council chaired by the Minister of Finance has launched the NFIS in May 2015. As a critical component of the NFIS to improve the credit information system to help banks extend credit to broader sections of society, the Credit Bureau Act was passed by the National Assembly in March 2015 and we expect it to be enacted by November 2015 to ensure that credit information sharing will protect the privacy rights of individuals (structural benchmark).

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

- ***Tariff simplification***. We are implementing a new system to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 1 and 25 percent rates with fewer exceptions.[3] For FY2014/15, we consolidated from seven tariff slabs to six. All items at 30 percent have been moved to a new maximum rate of 25 percent. The phase-in of the revised tariff rates and phase-out of trade SROs began in July 2014. The FY2015/16 budget reduces tariff slabs to five and further eliminates the trade-related SROs. Implementation of the new tariff structure that will reduce the slabs from five to four will be completed by July 2017.

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

43. **Public Sector Enterprises (PSEs)**. We are working to reform or privatize PSEs, focusing on limiting poor performance and improving public sector resource allocation. The Cabinet Committee on Privatization initially approved a list of 31 PSEs for action and subsequently added another 8 PSEs to the list. We have developed a plan to sequence the capital market and pre-privatization restructuring for these firms. The privatization program is aimed at offering and/or marketing one or two transactions in each quarter during the upcoming year.

- ***Capital Market Transactions Roadmap***. We have identified eleven companies, (listed in the TMU), in the oil and gas, banking and insurance, and power sectors for block sales and primary or secondary public offerings. We successfully sold minority stakes in United Bank Limited (UBL) and Pakistan Petroleum Limited (PPL) in June 2014, Allied Bank Limited (ABL) in December 2014, and Habib Bank Limited (HBL) in April 2015. We will finalize the sale of shares of Mari Petroleum Limited by end-September 2015, Pak Arab Refinery Limited (PARCO) by end-December 2015, and State Life Insurance Company by end-June 2016. We are working towards updating the roadmap for the remaining four companies in the list.

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

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

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

- **Other companies**. We have finalized the sale of Heavy Electric Complex (HEC) by May 2015. We plan to finalize the offer for National Power Construction Co. (NPCC) by end-June 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and expect to complete the transaction by end-December 2015. We have appointed financial advisors for Jamshoro Power Generation Company Limited (JPCL) in April 2015 with expected completion of the transaction by end-April 2016. In May 2015, we have finalized] the hiring of financial advisors for Lakhra Power Generation Company Limited (LPGCL), and Central Power Generation Company Limited (CPGCL), with expected sale to be completed by end-December 2015. Plans are being developed for the remaining companies on the list.

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

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

- **Pakistan Steel Mills.** We have appointed a professional board and a new chief executive officer and approved a comprehensive restructuring plan to prepare for potential strategic private sector participation in the company. Operational efficiency has begun to improve and capacity utilization has already climbed from 18 to 40 percent. In January 2015, we advertised for appointment of financial advisors, however, it was disqualified during the evaluation process. We hired financial advisors in April 2015, expect the completion of the due diligence process by end-August 2015, and finalize the transaction by end-December 2015.

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

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets FY2014/15–FY2015/16 1/

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

	FY2014/15						FY2015/16			
	end-December	end-March			end-June		end-September	end-December	end-March	end-June
					Sixth Review		Program		Projection	
		Target	Adjusted target	Actual	Target	Revised				
Performance Criteria										
Floor on net international reserves of the SBP (millions of U.S. dollars)	3,500	5,000	3,547	4,290	6,750	7,300	8,300	9,000	9,300	9,700
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,224	2,340	2,472	2,379	2,270	2,270	2,210	2,240	2,350	2,350
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	673	1,087	1,087	1,049	1,387	1,387	306	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,760	1,775	1,775	1,765	1,700	1,700	1,700	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/,	1,914	1,905	1,905	1,653	1,865	1,865	1,800	1,800	1,800	1,800
Continuous Performance Criterion										
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0	0	0
Indicative Targets										
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	44	69	69	69	95	95	21	45	72	102
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,174	1,846	1,846	1,777	2,691	2,691	640	1,390	2105	3104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)						42	36	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

Table 2. Pakistan: Program Modalities and Structural Benchmarks

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		Original	Rescheduled		
Prior Actions					
1	Submit the FY2015/16 budget to the parliament, consistent with policies outlined in the MEFP and the program budget deficit target of 4.3 percent of GDP, including an adjuster of 0.3 percent of GDP (up to PRs 100 billion) for additional spending as defined in the TMU.				
2	Issue a presidential ordinance to limit the authority to grant tax concessions or exemptions, as specified in the TMU, and present it for parliamentary approval as part of the Finance Bill FY2015/16.				
3	Reach agreement in writing with the provincial finance secretaries to increase provincial budget surpluses consistent with the program.				
4	Notify the new electricity tariff, as determined by NEPRA for FY2014/15, to be effective from June 10, 2015; and implement surcharges or similar measures in line with the program targets, consistent with the budgetary allocation of 0.3 percent of GDP in electricity subsides and the power sector payables reduction plan, as defined in the TMU.				
Structural Benchmarks					
Fiscal sector					
1	Increase the issuance of first notices (u/s 114) to 75,000 and follow up with a second notice (u/s 122c) to 75 percent of those who did not respond satisfactorily to their first notice within 60 days by end-March, 2014. Issue a provisional tax assessment to 75 percent of those who did not respond satisfactorily within 60 days to the second notice by end-March, 2014.	end-March 2014		Met	Broaden the tax base and improve tax compliance.
2	Eliminate exemptions and concessions granted through SROs for an amount consistent with the fiscal deficit reduction objective in the FY2014/15 budget.	end-June-2014		Met	Reduce distortions and improve revenue collection.
3	Approve an administrative order to consolidate the responsibilities of public debt management in the debt management office.	end-September 2014		Not met, but the order fell short of unifying fragmented debt management functions.	Strengthen the organizational framework for effective public debt management.
4	Enact amendments to the relevant tax laws (as defined in the TMU) and submit amendments to the Anti-Money Laundering Act (AMLA) to Parliament.	end-December 2014		Met	Use antimoney laudering tools to combat tax evasion, and faclitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
5	Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.	end-March 2015		Met	Reduce distortions and improve revenue collection.
6	Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.	end-March 2015		Met	Strengthen the organizational framework and improve public debt management.
7	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people	end-September 2015			Broaden the tax base and improve tax compliance.

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

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		Original	Rescheduled		
Monetary sector					
8	Improve the internal operations of the SBP by: (i) reestablishing an advisory monetary policy committee to advise the Board on its policy decisions; (ii) establishing a Board committee to centralize and oversee risk management activities across the bank; and (iii) begin publishing summaries of the monetary policy proceedings of the Board meetings and monetary policy committee deliberations.	end-August 2014		Met	Independent of the legislation, improve the operational autonomy of the SBP and enhance risk management.
9	Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.	end-February 2015		Met	Improve SBPs liquidity management.
10	Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF procedures, the Internal Audit Department conducts reviews of the program monetary data reported to the IMF, within two months after each quarter, for accuracy and compliance with the TMU.	end-February 2015		Met	Improve monetary policy framework through enhanced central bank independence.
11	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective.	end-June 2015	end-September 2015		Prerequisite for an independent monetary policy framework.
12	Make the improved interest rate corridor of the SBP operational	end-September 2015			Improve SBPs liquidity management.
Financial sector					
13	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
14	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-September 2015	end-December 2015		Enhance the resilience of the financial sector.
15	Enact the Credit Bureau Act	end-November 2015			Extend credit to broader sections of society.
16	Adopt the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU) and the definition of politically exposed persons in line with international standards.	end-September 2015			Use antimoney laudering tools to combat tax evasion, and faclitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
Structural Policies					
17	Hire three financial advisors for three PSEs in the capital market transactions list and three financial advisors for the three PSEs in the strategic private sector enterprises list for privatization in the TMU.	end-March 2014		Met at end-July, 2014	Boost sustainable and inclusive growth, by removing bottlenecks, encourage long-term, sustainable increases in electrictity supply; improve the efficiency of the economy through privatization and use its proceeds to hel ease fiscal and balance of payments pressures.
18	Conduct a diagnostic study of the regulatory framework of the power sector and prepare an interim report.	end-April 2014		Met	
19	Offer the minority shares in United Bank Limited and Pakistan Petroleum Limited to domestic and international investors.	end-June 2014		Met	
20	Fill the vacancies in the NEPRA Board.	end-July 2014		Met at end-November, 2014	
21	Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.	end-March 2015		Met	
22	Privatize 26 percent of PIA's shares to strategic investors.	end-December 2015			
23	Initiate revenue based load shedding in six remaining electricity distribution companies.	end-January 2014		Met	
New Structural Benchmarks					
1	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015			Improve tax compliance and enforcement.
2	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015			Improve public debt management.
3	Determine and notify multi-year tariffs for FESCO, IESCO, and LESCO, as defined in the TMU.	end-November 2015			Facilitates privatization of the DISCOs and reduction of energy arrears.

Attachment II. Technical Memorandum of Understanding (TMU)

June 12, 2015

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

A. Quantitative Targets

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

Performance criteria

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

Continuous performance criteria

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

Indicative targets

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

B. Definitions of Monitoring Variables

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

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

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

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

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

(iii) outstanding IMF credits to Pakistan, (iv) foreign exchange deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks, international organizations, and foreign nonbank financial institutions, as well as domestic financial institutions. General government foreign exchange liabilities at the SBP will not be included in reserve-related liabilities.

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

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

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

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

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

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

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

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

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

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

15. **Quarterly debt management risk reports** by the Debt Policy Coordination Office (DPCO) is defined as reports covering exposure indicators to financial risk (redemption profile of local and foreign currency debt, average life, share of domestic debt falling due in the next 12 months, average time to re-fixing, share of local and foreign currency debt re-fixing its interest rate over the next 12 months, composition of debt stock by currency and share of short term foreign currency debt over net international reserves).

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

17. **The draft legislation presented to parliament to limit the authority to grant tax concessions or exemptions** is consistent with the presidential ordinance No. IX of 2015 and specifies exceptional circumstances under which the Economic Coordination Committee of the cabinet retains the authority to grant temporary exemptions as follows: whenever exceptional circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, and protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in duties, development of backward areas, and implementation of bilateral and multilateral agreements.

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

19. **Power sector payables** arise from (i) non recoveries from supply to AJ&K, other federal and provincial governments including FATA, private consumers, and Baluchistan Tube Wells, (ii) accrued markup from the servicing of PHCL, (iii) line losses that are not recognized by NEPRA, (iv) GST NonRefund, (v) late payment surcharges, and (vi) the delay in determinations.

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

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

Weighted Average Notified Tariff for electricity consumers =

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

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

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

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

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

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

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

= PRs 9.92 kWh

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

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

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

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

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

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

21. **The stay order on FY 2013/14 surcharges (MEFP ¶29)**. The court stay order increased the payment arrears by around PRs 32 billion for the February—June 2015 period (see Table below). All surcharges are defined as Neelum Jehlum, equalization, and debt servicing surcharge—accrued mark up.

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

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

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

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

C. Adjustors

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

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

25. **The ceiling on the consolidated overall budget deficit** (excluding grants) for FY2014/15 will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 15 billion at end-September, PRs 25 billion at end-December, PRs 42 billion at end-March, and PRs 50 billion at end-June. The ceiling for FY2014/15 will be adjusted downward for any shortfall in federal development spending below PRs 25 billion at end-September, PRs 80 billion at end-December, PRs 243 billion at end-March and PRs 410 at end-June. The ceiling for FY2015/16 will be adjusted downward for any shortfall in federal development spending (excluding one-off spending included in the below adjustor for security enhancements related to fighting terrorism and resettlement of internally displaced persons) below PRs 35 billion at end-September, PRs 90 billion at end-December, PRs 250 billion at end-March and PRs 510 at end-June. The ceiling will be

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

D. Public Sector Enterprises

List of Companies for **Capital Market Transactions**

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

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

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

- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA InvestmentLtd—Roosevelt Hotel NY & Scribe Hotel, Paris

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

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

E. Program Reporting Requirements

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

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

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

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

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

Table 1. Exchange Rates of the SBP

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

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

Table 2. Projected Disbursements to Pakistan

(In millions of U.S. dollars)

	Jun-14	Sep-14	Dec-14	Mar-15		Jun-15		Sep-15	Dec-15	Mar-16	June-16
				Projection	Actual	Sixth review	Projection				
Multilateral and bilateral disbursement	2,943	1,270	1,098	2006	950	2,562	2,855	990	1,670	1,605	1,992
of which: in cash 2/	2,608	407	543	1400	764	1,850	2,384	548	1,246	1,141	1,453
International debt issuance	2,000	0	1,000	0	0	0	0	0	500	0	500
Coalition Support Fund	375	735	0	717	717	360	360	240	225	225	225
Other 1/	831	0	0	20	0	450	784	0	0	300	0
Gross Inflows	6,149	2,005	2,098	1,667	1,667	3,372	3,999	1,230	2,395	2,130	2,717
of which: in cash	5,814	1,142	1,543	2,137	1,481	2,660	3,528	788	1,971	1,666	2,178
Debt service	943	989	1,110	1157	1,078	1,515	1,555	1,046	878	2,184	1,336
Memorandum items											
Gross International Reserves	9,096	8,943	10,514		11,615	15,275	14,115	14,296	15,646	15,436	17,018
Program Net International Reserves	1,800	3,000	3,500		5,000	6,750	7,300	8,300	9,000	9,300	9,700

1/ Includes privatization and 3G licenses.

2/ Numbers need to be confirmed with the MoF.

3/ As of February 9.

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

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Non Tax revenue	322	353	1206	735	0	717	360	240	225	525	225
Of which: Coalition Support Fund	322	353	375	735	0	717	360	240	225	225	225
3G Licences	0	0	831	0	0	0	0	0	0	300	0
Grants	100	1538	151	147	346	147	325	220	297	229	267
External interest payments	202	155	215	174	289	156	356	208	328	182	356
Net external debt financing	50	-115	3501	273	1209	-56	1497	30	1346	-86	1232
Disbursements	645	760	4713	871	1845	851	2550	791	1893	1395	2245
of which budgetary support	309	285	2042	23	23	520	1549	49	786	559	755
Amortization	594	875	1212	598	636	907	1053	761	547	1482	1012
Privatizations	0	0	5	0	0	0	784	0	0	0	0
Memorandum item											
Program financing	409	1823	2198	170	369	667	2658	269	1082	788	1022

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

Item	June 30, 2013	June 30, 2014	Prov. March 31, 2015
Central Government	**5,561,994**	**6,059,496**	**6,714,169**
Scheduled Banks	**3,320,870**	**3,491,821**	**4,689,181**
Government Securities	1,117,115	2,413,134	3,088,871
Treasury Bills	2,611,512	1,550,476	2,112,681
Government Deposits	-407,757	-471,789	-512,371
State Bank	**2,241,124**	**2,567,674**	**2,024,988**
Government Securities	3,127	2,786	2,786
Accrued Profit on MRTBs	44,959	82,070	42,506
Treasury Bills	2,275,183	2,852,274	2,247,601
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,247,092
Treasury Currency	8,653	8,654	7,988
Debtor Balances (Excl. Zakat Fund)			
Government Deposits	-96,260	-383,571	-281,356
(Excl. Zakat and Privatization Fund)			
Payment to HBL on a/c of HC&EB	-287	-287	-287
Adjustment for use of Privatization Proceeds			
for Debt Retirement	5,749	5,749	5,749
Provincial Governments	**-315,607**	**-510,138**	**-701,583**
Scheduled Banks	**-287,393**	**-352,258**	**-372,438**
Advances to Punjab Gc Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-373,462
State Bank	**-28,214**	**-157,880**	**-329,145**
Debtor Balances (Excl. Zakat Fund)	13,715	802	1,480
Government Deposits (Excl.Zakat Fund)	-41,930	-158,682	-330,625
Net Govt. Budgetary Borrowings			
from the Banking system	**5,246,387**	**5,549,357**	**6,012,586**
Through SBP	2,212,910	2,409,794	1,695,843
Through Scheduled Banks	3,033,477	3,139,563	4,316,743
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	**44,959**	**82,070**	**42,506**
Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-6,438**	**-7,276**
Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**1,525,175**	**2,053,119**
Net Govt. Borrowings (Cash basis)			
From Banking System	**5,124,762**	**5,448,424**	**5,917,793**
From SBP	2,167,951	2,327,724	1,653,336
From Scheduled Banks	2,956,811	3,120,700	4,264,456

INTERNATIONAL MONETARY FUND

PAKISTAN

June 23, 2015

SEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

Approved By
Daniela Gressani and Mark Flanagan

Prepared By
Middle East and Central Asia Department

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on June 15, 2015**. The additional information does not change the thrust of the staff appraisal.

2. **The authorities have taken steps to meet the prior actions for this review.** They met three prior actions. One prior action was not met but the implemented policy achieves the objective of the prior action as deviations of the implemented policy from the agreed prior action are very minor.

- **The FY2015/16 budget**. The authorities submitted the FY2015/16 budget to the parliament, consistent with policies outlined in the MEFP and the program budget deficit target of 4.3 percent of GDP, including an adjuster of 0.3 percent of GDP (up to PRs 100 billion) for additional spending.
- **Tax exemptions**. The authorities issued a presidential ordinance to limit the authority to grant tax concessions or exemptions, and presented it for parliamentary approval as part of the Finance Bill FY2015/16.
- **Provincial budget**. The provincial finance secretaries reached an agreement to increase provincial budget surpluses consistent with the program.
- **Electricity tariffs and surcharges**. The authorities notified the new electricity tariff, as determined by NEPRA for FY2014/15, and implemented surcharges in line with program targets, effective from June 10, 2015. While both tariffs and surcharges are slightly lower than specified in the TMU, the resulting annual shortfall of about 0.01 percent of GDP (relative to the targeted budgetary allocation of 0.3 percent of GDP in electricity subsidies) is not material for electricity subsidies or the power sector payables reduction plan. In staff's view, the authorities' actions achieve the objective of the prior action and are sufficient to support staff's recommendation for the completion of the review.

3. **Gross official reserves stand at US$12.2 billion as of June 22, 2015**. The SBP has continued to purchase foreign exchange in the spot market, with purchases so far in the quarter totaling over US$950 million, placing the SBP on track to meet the end-June Net International Reserves target.

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

Our Pakistani authorities are thankful to the staff for their hard work during the Seventh Review and appreciate their constructive engagement and policy advice. They also greatly value the continued support of management and the Executive Board.

Strong program implementation despite security, political, and legal challenges, has enabled the achievement of important economic and financial progress. All end-March 2015 quantitative performance criteria, structural benchmarks and the indicative target on transfers under the Benazir Income Support Program (BISP) were met. The indicative target on federal tax revenue was missed by a small margin, reflecting legal challenges to some of the tax measures, lower inflation, and negative impact of the decline in global commodity prices. Measures have been taken to stay on track to meet the end-June 2015 fiscal deficit target. The authorities have shown resolve in carrying forward the economic reform program, particularly in the energy sector, taxation, public debt management, and business climate. Monetary and exchange rate policies remain focused on containing inflation and boosting foreign exchange reserve buffers, increasing reserve coverage to well above three months of imports at end-June 2015, a milestone that will be achieved one year ahead of the program target.

Recent Economic Developments and Outlook

At the mid-point of the EFF program, the macroeconomic outlook has significantly improved. Compared with what they were at the program outset, the fiscal deficit declined from 8.3 percent of GDP in FY 2012/13 to 5.0 percent in FY 2014/15 (including the adjustor for additional social spending); headline inflation year-on-year declined from 7.4 percent in September 2013 to 3.2 percent in May 2015 reflecting prudent macroeconomic policies helped by the decline in oil and other commodity prices; the current account deficit improved from 1.1 percent of GDP in FY 2012/13 to 0.5 percent in FY 2014/15; and SBP gross international reserves increased from US$ 4.7 billion in September 2013 to US$ 12.3 billion in June 2015. Despite the floods and security challenges, growth performance remains relatively strong at 4.24 percent in FY 2014/15, very close to the revised target of 4.3 percent. The authorities expect growth to accelerate in FY 2015/16. While they conservatively project growth of 4.5 percent in the context of the program, they aim to achieve 5.5 percent for that year. Low oil prices and strong growth in remittances (16 percent up to May 2015) have eased pressure on the external current account, which moved to a surplus of 0.3 percent of GDP during the third quarter of FY 2014/15.

Fiscal Policy

Fiscal consolidation remains on course toward reducing the budget deficit to 3 ½ percent of GDP at the end of the program. Revenue collection faced headwinds in FY 2014/15 both from lower tax receipts after the drop in oil prices and legal challenges to the Gas Infrastructure Development Cess (GIDC) and the bonus shares taxes. In addition to the measures introduced in March 2015 (see EBS/15/20), the authorities have raised taxes and duties on petroleum products to offset the small shortfall in revenue at end-March and help meet the deficit target (MEFP ¶10). As staff indicates, this target is now within reach.

In keeping with this consolidation strategy, the authorities are targeting a deficit of 4 percent (excluding grants and the adjuster for additional one-off spending) in FY 2015/16, a further fiscal effort equivalent to at least 0.7 percent of GDP, which is predicated on major additional inroads in reducing key fiscal vulnerabilities by strengthening revenue collection and reducing energy subsidies. The authorities have also identified a number of contingency measures should fiscal adjustment fall short of objectives.

To meet the FY 2015/16 fiscal target, the authorities have taken a number of revenue and expenditure measures. As planned at the start of the program, the Federal Board of Revenue (FBR) unfolded the second of three installments for the elimination of tax concessions and exemptions which would raise additional revenue amounting to 0.3 percent of GDP next year, and a total projected increase in revenue of 1-1½ percent over the program period. Moreover, while the FBR granted no new tax concessions or exemptions through Statutory Regulatory Orders (SROs) in FY 2014/15, it will no longer have the authority to issue SROs, and at the same time the government authority in this regard will be significantly limited. In addition, new tax measures have been introduced under the FY 2015/16 budget, which would raise revenue by 0.7 percent of GDP (MEFP ¶12). Further progress is also being made in strengthening tax administration and broadening the tax base (MEFP ¶17), while rationalizing the GST regime and accelerating GST refunds to reduce distortions and improve compliance. Important legal hurdles to implementation of the GIDC have been addressed through enactment of the GIDC Act from parliament. Taken together, these measures are expected to increase the tax-to-GDP ratio from 10.4 percent in FY 2013/14 to 11.2 percent in FY 2014/15 and 12.2 percent next year.

Reduction of energy subsidies remains an important pillar of the program. The energy subsidy, which amounted to 2 percent of the GDP at the start of the program, was brought down to 1.3 percent in the first year. Taking advantage of the drop in oil prices, our authorities further reduced the subsidy to 0.8 percent of GDP in FY 2014/15 and are targeting another reduction to 0.3 percent in FY 2015/16, plus 0.1 percent of GDP for arrears clearance (MEFP ¶29), through additional measures, including surcharges to the electricity tariff. The new notified average tariff along with the levy of surcharges has effectively managed to achieve the targeted budget allocation of 0.3 percent of GDP in electricity subsidies for FY 2015/16. In addition, the authorities are now working on an arrears reduction plan to contain the circular debt problem in the energy sector. The plan lays down steps to improve collection and reduce operating costs. This, along with the envisaged privatization of the energy public enterprises, will go a long way in improving the performance of this sector.

The authorities continue to work on the expansion of the social safety net by increasing the number of beneficiary households under the BISP from 4.8 million at the start of the program to 5.0 million in FY 2014/15, with further expansion to 5.3 million planned for FY 2015/16. Significant progress has also been made in the rollout of the education-conditional cash transfers program, expanding it from the first five pilot districts to 30 districts in all provinces.

Progress has been made in strengthening debt management, with efforts to diversify financing from domestic and external sources, lengthen the maturity of domestic debt, improve the balance between domestic and external debt, and reduce the cost of borrowing. This, together with the planned fiscal consolidation, will help sustain the downward trend in the ratio of public debt to GDP. To deepen this reform, work on an updated Medium-Term Debt Strategy has begun and will be published by end-January 2016. Moreover, the authorities have continued to strengthen the Debt Policy Coordination Office by enhancing its human resource capacity and revamping its structure (MEFP ¶22).

Monetary and Exchange Rate Policies

All monetary targets under the program for end-March were met, reflecting prudent fiscal and monetary policies. The authorities again over-performed on the NIR and NDA targets. Taking advantage of lower international oil prices and higher remittances, the SBP has continued to build foreign exchange reserves, which are now expected to cover more than three months of imports and to reach the equivalent of 65 percent of the Fund's ARA metric by end-June 2015. In this regard, the authorities have agreed to increase reserve targets for end-June 2015, as indicated in the report. Headline and core inflation have remained on a declining path, paving the way for policy rate cuts of 50 bps in March 2015 and 100 bps in May 2015. The SBP has begun implementing the improved interest rate corridor ahead of the implementation timeline of end-September 2015, in order to maintain interest rates in line with a stable inflation path.

Financial Sector

Pakistan's banking sector remains healthy and profitable and the banks' capital adequacy ratio further increased to 17.4 percent in March 2015. At present, only one bank has a small CAR shortfall (9.4 percent against the requirement of 10 percent), and it is expected to complete a rights issue in June 2015 to ensure compliance. The banks' asset quality has declined slightly, with NPL ratio amounting to 12.8 percent in March 2015 compared with 12.3 percent in December 2014. However, the ratio of NPLs net of provisions to capital declined further to 9.8 percent as of end-March 2015, after reaching peaks of 15.7 percent in September 2013 and 14 percent in March 2014. The authorities are taking steps to address the NPL problem, including by improving foreclosures and corporate restructuring regulations (MEFP ¶25).

Enhancing central bank independence remains a key priority. The authorities submitted revised amendments of the SBP Act to the Assembly in March 2015, which include establishing an independent decision-making monetary policy committee. This legislation is likely to be enacted by end-September 2015. In the meantime, the SBP is taking steps to enhance its internal operations, as highlighted in MEFP ¶9. Since the sixth review, the Securities Bill has been enacted and the authorities are working closely with the IMF on the remaining administrative and legislative reforms in this area.

The authorities are committed to further strengthening the AML/CFT framework. AML tools will be used to combat tax evasion in accordance with international standards, and the necessary amendments to the relevant legislation will be brought to Parliament by end-September 2015. The capabilities of the Financial Monitoring Unit will be enhanced. Ongoing work with the regional group of the FATF will help strengthen the authorities' framework for combating terrorism financing.

Structural Reforms

Public sector enterprises reform, including restructuring and privatization, remains a crucial element of the program. Since the start of the program, the authorities have successfully divested shares in Pakistan Petroleum Limited, Allied Bank Limited, Habib Bank Limited and the United Bank Limited. Privatization has also been initiated in the energy sector, in parallel with efforts to improve performance of distribution and generation companies, reduce energy subsidies, eliminate circular debt arrears, and improve energy supply. The strategic and asset sale of Northern Power Generation Company Limited (NPGCL) is likely to take place in December 2015. Moreover, financial advisors are being engaged for strategic and asset sale of three distribution and three generation companies and the first sale is likely to take place by April 2016. Similarly, processes have been initiated for the solicitation of EoIs for sale of 26 percent shares of Pakistan International Airlines to a strategic investor, as part of its privatization, and for restructuring of Pakistan Steel Mills and sale to a strategic investor. The authorities are currently conducting due diligence for engaging the financial advisors for these two transactions.

To improve the business climate, the authorities are engaged with the provincial governments to remove impediments to setting up businesses, including the opening of online one-stop shop to facilitate business registration and tax filing. Work is also underway to improve access to finance for the poor and women.

Conclusion

The authorities have continued to demonstrate strong resolve in undertaking difficult reforms. With vulnerabilities having receded at the half-way mark, the authorities remain cognizant that steadfast adherence to program objectives is critical. It is in this context that they have proposed modification of the PC on NIR for end-June, following the improved reserves position, and request completion of this Review. They plan to consolidate their achievements in cooperation with the Fund and development partners.