INTERNATIONAL MONETARY FUND

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PAKISTAN

October 2015

EIGHTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Eighth Review Under the Extended Arrangement and Request for Waivers of Nonobservance 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 September 28, 2015 following discussions that ended on August 7, 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 September 16, 2015.
- A **Statement by the Executive Director** for Pakistan.

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

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

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

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FOR IMMEDIATE RELEASE
September 29, 2015

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IMF Executive Board Completes Eighth Review under the EFF for Pakistan

The Executive Board of the International Monetary Fund (IMF) on September 28, 2015 completed the eighth review of Pakistan's economic performance under a 36-month program supported by an Extended Fund Facility (EFF) arrangement. The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 360 million (about US$504.8 million), bringing total disbursements to SDR 3.24 billion (about US$4.54 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 U$S6.64 billion at the time of approval of the arrangement, or 425 percent of Pakistan's quota at the IMF). (See Press Release No. 13/322).

In completing the review, the Executive Board also approved the authorities' request for waivers of non-observance of the end-June 2015 performance criteria on the ceiling on overall budget deficit and the ceiling on net government budget borrowing from the State Bank of Pakistan (SBP), as well as modification to adjust the end-September 2015 performance criterion on net domestic assets of the SBP target.

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

"Economic activity is picking up pace and vulnerabilities are gradually receding. Continued prudent policies and reform efforts are necessary to lock in the gains so far in macroeconomic stability and reinforce the foundation for sustained high growth.

"The authorities' commitment to strengthening Pakistan's fiscal position is welcome. Further steps to increase revenue mobilization, including by broadening the tax base and strengthening tax administration, remain key to generating resources for priority spending and greater social protection. Strengthening coordination with the provinces will also help safeguard fiscal discipline.

“Foreign exchange reserves have continued to increase, benefitting from windfalls from lower import prices. Additional efforts are needed to further strengthen external buffers. The central bank’s new interest rate corridor represents a major step to improve the monetary policy framework which would further benefit from greater central bank autonomy. In this regard, an early adoption of pending legislation would bolster governance and the credibility of monetary policy. Beyond this, further progress is also needed to address the remaining recommendations of the 2013 Safeguards Assessment report.

“Progress with bank capitalization and efforts to facilitate foreclosures and corporate restructuring are bolstering financial stability. Further strengthening Pakistan’s regime against money laundering and the financing of terrorism remains an important policy priority for the authorities.

“The momentum of structural reform must be maintained to achieve high and durable growth over the medium term. In particular, reforms should aim at securing a reliable supply of electricity and gas, and reducing fiscal risks posed by these sectors. An accelerated pace of privatization and restructuring of public enterprises as well as regulatory reform will also go a long way toward improving the business climate and supporting private sector-led activity.”

INTERNATIONAL MONETARY FUND

PAKISTAN

September 16, 2015

EIGHTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR WAIVERS OF NONOBSERVANCE 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 seventh review was completed on June 26, 2015, for a total disbursement of SDR 2,880 million. The eighth tranche amounting to SDR 360 million will be available upon the completion of this review.

Status of the program: Two end-June 2015 quantitative Performance Criteria (PCs) and three indicative targets (ITs) were missed, but deviations were either minor or temporary, corrective actions have been taken as needed, and the authorities remain on track to meet the end-September 2015 program targets. Specifically, while the program's monetary PCs were met, the PCs on the fiscal deficit and government borrowing from the central bank were missed (linked to higher-than-programmed spending by some provinces along with a shortfall in federal revenue), and the IT on federal tax revenues was missed (reflecting legal challenges to some of the tax measures and the negative impact of lower global commodity prices). In both cases, the authorities are taking corrective measures. The IT on social cash transfers was missed by a small margin, but the targeted number of beneficiary households was achieved, making the deviation minor. The IT on power sector arrears was also missed, but this is expected to be temporary, reflecting a delay in the implementation of some elements of the arrears reduction plan. The end-September structural benchmark (SB) on improving the central bank's interest corridor and the end-November SB to enact the Credit Bureau Bill were met ahead of time.

Key issues: Discussions focused on: (i) end-June 2015 fiscal performance and the outlook for the fiscal year 2015/16; (ii) addressing arrears in the power sector; (iii) saving the windfall from falling oil prices to strengthen external buffers; (iv) progress on safeguarding financial stability; and (v) 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 press release and a joint press conference with the finance minister and central bank governor.

Approved By
Mark Flanagan and Daniela Gressani

Discussions took place in Dubai during July 29–August 7, 2015. Staff representatives comprised H. Finger (head), F. Salman A. Shahmoradi, A. Tudyka (all MCD), K. Al-Saeed (MCM), S. Cevik (FAD), R. Tchaidze (SPR), T. Mirzoev (Resident Representative), and Ms. H. Zaidi and T. Alam (Resident Representative Office, Islamabad). S. Mahmood (Senior Advisor, OED) joined the mission. The mission issued a press release in Dubai on August 7, 2015. Mmes. Y. Liu and M. Orihuela-Quintanilla assisted in the preparation of the report.

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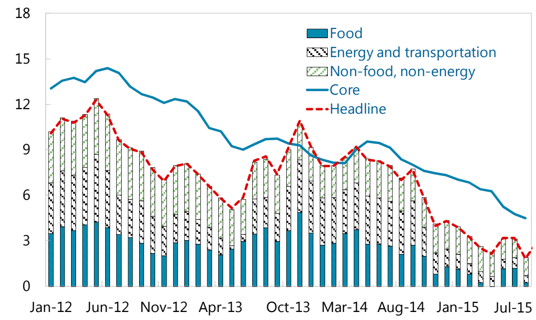
INTRODUCTION

1. **Economic activity is gradually strengthening**. Real GDP is projected to expand by about 4.5 percent in this fiscal year, supported by planned improvements in the supply of gas and electricity, and investment related to the China Pakistan Economic Corridor (CPEC).[1] The recent deceleration of private credit growth and continued export weakness are limiting factors. Exports have been declining due to lower global commodity prices, weakening external demand, ongoing power shortages, security and business climate challenges, and real exchange rate appreciation (by around 10 percent in FY 2014/15). The external current account nonetheless improved and reserves strengthened, helped by the decline in international oil prices and strong growth in remittances. Headline consumer price inflation declined to multi-year lows (1.7 percent y-o-y in August 2015), mainly driven by lower food and energy prices, but is expected to increase in coming months due to a likely bottoming out of commodity prices.

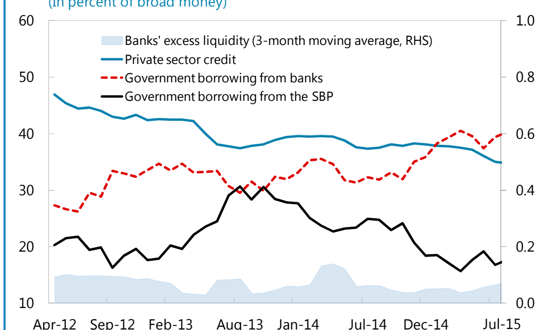
Contribution to CPI Inflation
(In y-o-y precent change)



Sources: State Bank of Pakistan; and IMF staff calculations.

2. **Banking system indicators remain sound**. Strong growth in banking system profitability continued and the capital adequacy ratio (CAR) increased to 17.2 percent 2014/15 (from 15 percent last fiscal year). With a successful rights issue in one previously CAR-noncompliant bank, all banks now comply with capital adequacy norms. While government debt has increasingly shifted from the SBP to commercial banks, private sector credit growth further decelerated to 5.6 percent y-o-y in June. 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 mixed, as two end-June Performace Criteria (PCs) and three Indicative Targets (ITs) were missed**.

- **Budget deficit, tax revenues, power sector payment arrears and social cash transfers**. The budget deficit (excluding grants) in FY2014/15 fell short of the end-June PC by nearly 0.4 percent of GDP, linked to higher-than-programmed spending by some provinces along

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

with a shortfall in federal tax and nontax revenue. Federal tax revenues fell short of the end-June IT by PRs 103 billion (or about 0.4 percent of GDP), due to legal challenges to some revenue measures, lower tax collections related to the fall in oil prices, and lower inflation. The end-June 2015 IT on cash transfers under the Benazir Income Support Program (BISP) was missed by a small margin due to savings in administrative costs, while the intended increase in the number of recipients was achieved. The IT on the accumulation of power sector arrears was missed in light of delays in implementing relevant elements of the agreed arrears reduction plan. Most of these elements have been implemented in the meantime and the September target remains achievable (¶23).

- **Net international reserves and net swaps/forward position**. The end-June NIR PC was comfortably met (by US$441 million), as the lower oil bill, robust remittances, and improving confidence allowed the SBP to continue with spot purchases of US$950 million over the quarter. The SBP's net short position of swap/forward contracts narrowed in line with the program target.

- **Net Domestic Assets (NDA) and government borrowing from the SBP**. The PC on government borrowing from the SBP was missed by PRs28 billion, mainly due to the missed fiscal deficit target, delays in disbursements of some foreign inflows, and issues in cash management. Despite this overrun, the SBP marginally over-performed on the NDA PC (by PRs 19 billion). The authorities are taking remedial actions to bring government borrowing within program targets during the quarter and, as an intermediate step, reduced net borrowing from the SBP to below PRs 1830 billion at end-August (prior action).[2]

- **Structural benchmarks**:

  - **Interest rate corridor** (MEFP ¶7). The end-September SB to operationalize the improved interest rate corridor of the SBP was met well ahead of the deadline. This reform is helping to enhance the functioning of the monetary policy framework, enable the SBP to manage banking system liquidity more efficiently, and improve interbank money market activity.

  - **Credit Bureau Act** (MEFP ¶42). The end-November 2015 SB to enact the Credit Bureau Bill was met ahead of the deadline. This reform will improve the credit information system and help banks extend credit to broader sections of society while ensuring that credit information sharing will protect the privacy rights of individuals.

[2] Net government borrowing from the SBP was recorded at PRs 1747 billion at end-August 2015.

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 reforms. Ongoing legal challenges, including in the power sector, also remain a risk factor.

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 this year (from about 4.2 percent in FY 2014/15), supported by ongoing strength in services and construction, lower oil prices, expected improvements in the supply of gas and electricity, investment related to the China Pakistan Economic Corridor (CPEC), and an improving investment climate.

- **Inflation** is expected to rebound to about 4.7 percent this year (on average), 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 further narrow to around ½ percent of GDP in the current fiscal year. The benefits of lower oil prices and strong remittances could be partly offset by weak export performance.

- **Foreign exchange reserves** reached US$13.5 billion at end-June—covering more than three months of imports and 63 percent of the Assessing Reserve Adequacy (ARA) metric[3]—and are expected to reach US$14 billion by end-September 2015, supported by the continued oil windfall, SBP interventions, and multilateral and bilateral disbursements. Reserve coverage is now expected to reach about 78 percent of the ARA metric by end of FY2015/16.

- **Risks remain broadly balanced, though downside risks have increased**. Key domestic downside risks include slippages in policy implementation, ongoing legal challenges to power surcharges, and the still challenging political and security conditions, which could affect economic activity and undermine fiscal consolidation. External vulnerabilities include a protracted period of slower growth in key advanced and emerging market economies (including possibly a sharp slowdown in China), which could weaken exports and hurt remittances (including from GCC countries). A persistent U.S. dollar appreciation, for

[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.

example in the context of recent global exchange rate movements, with limited variation in the rupee's exchange rate, could further erode export competitiveness. Increased volatility in oil prices could affect efforts to reform energy subsidies. Conversely, fast implementation of CPEC projects (Box 1) and an improvement in the security situation could boost investment and growth, and removal of international trade and financial sanctions against Iran could have a positive medium-term impact on energy supply to Pakistan.

Box 1. Macro-Financial Implications of the China–Pakistan Economic Corridor (CPEC)

The China-Pakistan Economic Corridor (CPEC) will initially connect Western China (Kashgar) with the south of Pakistan (the port of Gwadar) through a series of infrastructure and energy projects. The initial prioritized pipeline of investments under CPEC envisages an overall investment of US$45 billion in energy (US$33.8 billion) and transport infrastructure (US$10.6 billion). The CPEC, as it develops, would cover the period until 2030 and will be reviewed as it progresses for investments beyond 2030. All transport infrastructure projects are expected to be completed by 2017–18. Priority projects in the energy sector, which will create Independent Power Producers (IPPs), are scheduled to add about 10 GW of capacity by 2017–18 (by 2020 for hydro projects) while a further set of actively promoted projects is planned to add another 6.5 GW of capacity in due course.

Financing modalities for energy and infrastructure projects differ. Transport infrastructure projects will exclusively be financed by government-to-government longer-term loans on concessional terms. They will be executed within the overall envelope of the public sector development program. Energy-related projects will be FDI, financed by commercial loans from Chinese financial institutions to Chinese investors, who, in collaboration with Pakistani partners, will undertake construction of all projects. The government of Pakistan will guarantee IPPs' energy sales through Power Purchase Agreements (PPAs) at pre-determined tariffs by NEPRA. Final implementation of all projects will be contracted to Chinese suppliers who will import the necessary machinery as well as part of the manpower and raw materials.

CPEC has the potential to raise productivity and growth as long as the projects are well-managed and potential risks are mitigated. Any demand-driven economic expansion as a result of project implementation is expected to be limited as increased investment may initially be offset by a significant increase in imports as Chinese contractors are expected to import a large share of the required machinery and raw materials. However, supply-side effects facilitated by higher power generation capacity (including through FDI) and better infrastructure, will be beneficial for economic growth in the medium term. To reap the full benefits, risks will need to be well-managed. This requires sound practices in the evaluation, prioritization, and implementation of public investment projects, along with strong procurement and public financial management systems. PPAs need to be agreed in a way that mitigates potential fiscal risks, and to prioritize infrastructure project execution such that they remain within an overall fiscal envelope aimed at gradual debt reduction.

POLICY DEVELOPMENTS

Discussions focused on fiscal performance, progress with addressing arrears and improving performance in the power sector, saving the windfall from falling oil prices and strong remittances to strengthen external buffers, progress on strengthening financial stability, and structural reforms.

A. Fiscal Policy

6. **Fiscal performance in FY2014/15 fell short of the program targets**. The PC on the general government budget deficit (excluding grants) was missed by PRs 102 billion (close to 0.4 percent of GDP), leaving the annual overall deficit at 5.4 percent of GDP, down from 5.7 percent of GDP in FY2013/14.[4] This deviation was due largely to higher year-end spending by some provinces and a shortfall in federal tax- and nontax revenue. Although the IT on federal tax revenue was missed by PRs 103 billion (or about 0.4 percent of GDP), the tax-to-GDP ratio increased by 0.5 percentage point to 11 percent as result of tax policy and administration measures, and the federal government reined in spending to meet its share of the general government deficit target in FY2014/15.

7. **The FY2015/16 revenue and deficit targets remain attainable though downside risks have increased**. The authorities continue to target a deficit of 4.3 percent of GDP (including an adjustor of 0.3 percent of GDP for critical one-off spending) in FY2015/16. Risks to this target are linked to the possibility of renewed spending overruns by provincial governments, the effects of the continued fall in international commodity prices and lower domestic inflation on customs duties and taxes, additional support for farmers, base effects stemming from deviations from the program targets in FY 2014/15,[5] and minor changes in some revenue measures introduced during the parliamentary budget process. Staff estimated a gap of 0.2 percent of GDP on account of the latter three factors and assessed that other risks could lead to a potential deviation of up to 0.3 percent of GDP.

8. **The authorities remain committed to the program targets and have identified measures to take as needed**. They will reallocate current spending to accommodate for additional support for farmers. Apart from that, they noted that in their present assessment they would be able to reach the targets without other new measures, but if necessary, would bring forward plans to eliminate tax concessions and exemptions slated for FY2016/17 (including on income tax and GST).

[4] The authorities revised historical data on expenditures financed by external loans, which resulted in an increase of the budget deficit of about 0.1 percent of GDP in FY2013/14 and 0.1 percent in FY2014/15. All quarterly fiscal deficit targets from past reviews under the EFF continue to be met after this revision.

[5] Much of the revenue shortfall with respect to the end-June IT had been anticipated at the time of the seventh review and revenue projections for FY2015/16 were based on conservative assumptions.

In addition, as usual, the authorities will reduce expenditure allocations in the first nine months of the year compared to the budget to create a reserve against any deviation. Regarding the provinces' performance, the provincial finance secretaries agreed in the context of the FY2015/16 budget discussions to increase provincial budget surpluses consistent with the program in FY2015/16. To this end, total provincial spending will be maintained at 6.5 percent of GDP and total provincial tax and nontax revenues are projected at 1.1 percent of GDP. The federal authorities will now intensify interaction with provincial authorities at a higher level to strengthen the provinces' fiscal commitment for FY2015/16. They will hold monthly meetings among the federal and provincial Finance Secretaries to review fiscal performance and coordinate spending priorities to correct any slippages in a timely manner, and will update IMF staff on the outcome.

9. **The authorities will deal with the backlog on GST refund claims at a faster pace and modernize the GST regime**. The authorities lowered the number of outstanding GST refund claims by over 75 percent as of end-June 2015, reducing the stock of unpaid GST refund claims to PRs 88.7 billion, from its peak of PRs 113.2 billion in November 2014. The FBR will formulate and implement a plan to resolve unpaid GST refund claims. By fast-tracking processing and payment of GST refund claims, it aims to bring the stock of GST refund claims to a level consistent with no more than a three-month flow of claims (estimated at about PRs 20 billion). The authorities are also continuing to make efforts to optimize the GST on goods and services in close coordination with provincial revenue authorities.

10. **While the gap between potential and actual tax collections remains large, recent efforts to enhance tax administration have yielded gains**. The authorities met the target of issuing 200,000 first notices to file income tax returns by end-June 2015, to bring more potential taxpayers into the revenue base. Together with tax policy measures providing stronger incentives to file taxes, this helped increase the number of personal income tax filers by 190,000 since mid-2013. The FBR is also continuing its efforts to increase coverage of the retail sector in GST collection (MEFP ¶15), and has increased the number of tax audits and resulting tax assessments (MEFP ¶16). Passage of legislation that strictly limits the authorization of administrative tax exemptions and concessions to be temporary and only applicable in a number of exceptional circumstances was an important step. That said, the authorities realize the significant potential for further gains. The number of personal income tax filers (912,000 out of 3.6 million registered taxpayers), corporate income tax filers (25,000 out of 60,000 companies registered with the Securities and Exchange Commission of Pakistan) and retailers registered for GST (178,000 out of about 1.4 million retailers) remains still well below the potential, informality remains very high, and the tax-to-GDP ratio, at 11 percent, remains much below that of most emerging market and developing countries.

11. **The government will accelerate tax administration reforms to improve compliance and enforcement, which are critical to realize the revenue potential** (MEFP ¶16). As prior action, the government has issued a policy directive requiring all government suppliers to be on the current list of active taxpayers to conduct business with government departments. With close compliance

monitoring of the directive, this will strengthen potential suppliers' incentives to file taxes. Following the integration of the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database (SB, end-September 2015), all financial and property transactions by individuals require CNIC numbers, which will help with tax broadening efforts. The FBR is in the process of adopting a risk-based audit policy (while retaining elements of random selection to ensure taxpayer compliance) to identify those taxpayers who are most likely to be noncompliant (SB, end-September 2015). By end-January 2016, the government will prepare and submit to the National Assembly draft legislation against "benami" transactions, which are commonly used to evade taxes (proposed new SB).[6] Other measures include the development of a taxpayer compliance risk management system and stepped-up efforts to access taxpayer financial information from multiple sources. The authorities are also pursuing a stepped-up agenda to reduce the likelihood of corruption in tax administration, including through strengthening the integrity management unit (MEFP ¶17).

12. **The authorities will continue to expand targeted income support to the poor through the BISP**. The BISP program reached its goal of supporting five million beneficiary households by end-June 2015. While having missed slightly the indicative target for transfer payments, the authorities report that this is attributable to savings in administrative expenses. For the current fiscal year, the authorities plan to expand the number of beneficiary households to 5.3 million (out of 5.7 million target for the medium-term). 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 rolled out education-conditional cash transfers covering 32 districts at end-June 2015.

13. **Staff emphasized that devolution of revenue and expenditure responsibilities should be better balanced between the federal government and provinces**. The seventh National Finance Commission (NFC) award grants 57.5 percent of most revenues to the provinces, along with devolution of spending responsibilities and administration of the GST in services in addition to the existing taxation authority in agriculture and property. 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 supports macroeconomic stability. The authorities will also encourage provinces to improve provincial revenue collection to generate additional resources for priority spending in areas such as health and education (MEFP ¶19).

14. **Strengthening fiscal rules and the management of fiscal risks will provide better policy guidance and anchor debt sustainability**. While the existing Fiscal Responsibility and Debt Limitation (FRDL) Act requires a balanced current budget (revenue minus current spending) and

[6] In "benami" transactions, assets are held by or transferred to a person, but have been provided for, or paid by, another person.

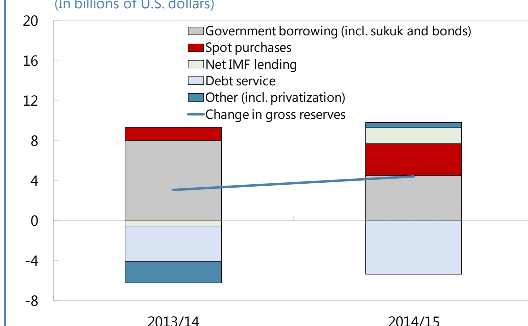
a debt-to-GDP ratio of below 60 percent, these numerical targets have not provided effective guidance for fiscal policy. Staff agreed to support the authorities' efforts to strengthen relevant legislation in terms of operational and procedural aspects, such as an appropriate fiscal rule for countercyclical policy, medium-term orientation of the budget process, and policy coordination across all layers of government. Similarly, to ensure sound practices in the evaluation, prioritization, and implementation of public investment projects, the government is seeking technical assistance from the Fund to develop a public-private partnership (PPP) framework at the federal level.

15. **The authorities are strengthening debt management and aim to diversify the sources of financing**. Efforts continue in building funding buffers, assessing off-budget fiscal risks, diversifying financing from both domestic and external sources, lengthening the maturity profile of domestic debt, and improving the balance between domestic and external debt. The authorities are working towards improving the effectiveness of the Debt Policy Coordination Office (DPCO) and its integration in the Ministry of Finance's core functions, while building up its staffing capacity for the swift implementation of an optimal borrowing strategy. The authorities are on track to 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 medium-term debt strategy (MTDS) by end-October 2015 (SB), and to publish an updated MTDS by end-January 2016.

B. Monetary and Exchange Rate Policies

16. **Staff welcomes the SBP's efforts to further boost international reserves and lock in the oil windfall**. The SBP has significantly stepped up its spot purchases of foreign exchange, which have netted some US$3.9 billion in FY2014/15, helped by cheaper energy imports. These efforts, along with drawing on the SBP's currency swap line with China by $500 million in the last quarter, have increased the reserve coverage to above three months of imports by end-June 2015 (a year earlier than envisaged at the outset of the program), bolstering resilience against future external shocks. The efforts have continued into the first quarter of FY2015/16, and the end-September NIR target is within reach. While the recent turbulence in international financial markets could somewhat affect near-term capital inflows, staff and the authorities agreed that further accumulation of reserves is desirable as the balance of payments position remains vulnerable and reserves are still significantly below adequacy norms (¶5). Staff noted that further accumulation could also help arrest the recent trend of REER appreciation, which is inconsistent with fundamentals, although staff agreed with the authorities that a range of other issues, including electricity shortages, security issues and the business environment, also need to be addressed to strengthen competitiveness.

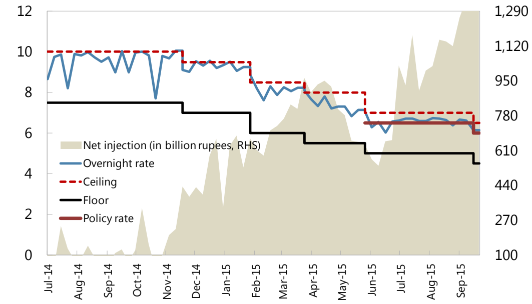
Reserve Accumulation
(In billions of U.S. dollars)



Sources: Pakistani authorities; and IMF staff calculations.

17. **The authorities began implementing the new interest rate corridor**. As a major step to improve the operation of the monetary policy framework, the SBP put in place the new corridor in May 2015, significantly ahead of the end-September 2015 deadline (SB). The ceiling of the new interest rate corridor—the reverse repo rate—stands at 6.5 percent; the floor—the repo rate—is set at 4.5 percent; and the new policy rate, as target for short-term money-market rates within the corridor, stands at 6 percent.[7] The new corridor is expected to provide stronger guidance for short-term market interest rates, improve liquidity management in the interbank market, increase interbank market activity, and reduce banks use of the SBP's standing facilities. The SBP has managed to navigate a smooth transition, which has been supported by more frequent open market operations.

The Interbank Interest Corridor
(In percent, unless otherwise indicated)



Sources: Pakistani authorities; and IMF staff calculations.

18. **Staff and the authorities agreed that the current monetary policy stance is consistent with current economic conditions**. As core inflation (4.4 percent y-o-y in August 2015) is significantly above headline inflation and the latter is expected to rebound moderately in the coming months, monetary policy needs to remain prudent. Staff argued that to preserve recent achievements in stabilizing prices, anchor inflation expectation, and help improve the external balance, the real interest rate should be maintained at clearly positive levels to keep the expansion of monetary aggregates in line with program targets. In this context, staff supported a moderate increase in the end-September NDA target to allow for adequate reserve money and private sector credit growth, consistent with projected inflation.

19. **Further strengthening the SBP's independence is key for an improved monetary policy framework**. The authorities submitted revised amendments to the SBP Act to the National Assembly in mid-March. The amendments will strengthen the autonomy of the SBP. Among other things, the amendments will establish an independent decision-making monetary policy committee to design and implement monetary policy. These amendments were approved by the National Assembly in August 2015 and are expected to be enacted by end-September 2015 (SB), following approval in the Senate. In addition, staff and the authorities agreed to devise a plan that would address by June 2016 the remaining recommendations of the 2013 Safeguards Assessment report. These recommendations cover provisions for the SBP's independence from government, improvements in the SBP's governance structure and the personal autonomy of its board members, and enhancements in the SBP's financial autonomy. In parallel, in August 2015, the SBP published its strategic plan for 2016-20 that includes additional steps to strengthen the effectiveness of monetary policy (including steps to move toward inflation targeting, strengthen research capabilities, and increase transparency), the financial stability regime, the banking system, financial inclusion, the payments system, and the SBP's organizational efficiency and effectiveness.

[7] The SBP noted that an asymmetric corridor might initially be better aligned with the monetary program targets.

C. Financial Sector Policies

20. **Progress is under way to strengthen banks that are below regulatory capital requirements**. Following the recapitalization through a rights issue in the remaining capital adequacy ratio (CAR) noncompliant bank in July 2015, all banks have become CAR-compliant (MEFP ¶25). Five small banks, while remaining CAR-compliant, are still below the minimum requirement for paid-up capital (MCR). The SBP has devised a plan to bring them into regulatory compliance, by raising equity by end-2015 or privatizing affected public banks by June 2016.[8] Staff stressed the need for the supervisor to continue to engage with the MCR-non compliant banks for early compliance with statutory requirements. To help tackle the high level of nonperforming loans in the banking system (12.4 percent in June 2015), the authorities are improving mortgage foreclosure and corporate restructuring legislation, with the aim to improve recovery while preserving appropriate safeguards for borrowers (MEFP ¶26).

21. **Staff supports the ongoing reforms to strengthen financial stability**. To put in place a modern deposit insurance mechanism in support of financial stability and resilience, the SBP has finalized the draft Deposit Protection Fund (DPF) Act, which is on track for enactment by end-February 2016 (modified SB), two months later than previously envisaged due to prolonged TA on this issue and a significant legislative pipeline within parliament. They are undertaking preparatory work to establish the corporate infrastructure of the DPF, which is expected to become operational by March 2016 (MEFP ¶28). The SBP is also strengthening, supported by IMF technical assistance, the framework for supervision of financial conglomerates and its contingency planning framework for systematically important banks, and is pursuing a legislative agenda to put in place a Futures Trading Bill and strengthen the regulatory powers of the Securities and Exchange Commission of Pakistan (SECP) (MEFP ¶26). The SBP is also moving forward with phased implementation of Basel III capital and liquidity standards (MEFP ¶27).

22. **The authorities continue working to improve the anti-money laundering and combating the financing of terrorism (AML/CFT) legal framework** (MEFP ¶28). Draft amendments to the AML Act that will include serious tax crimes in the Schedule of Offenses and enable the use of AML tools to combat tax crimes are discussed in the National Assembly, with enactment now expected by end-November 2015, two months later than previously planned (modified SB) amid a significant legislative pipeline. Going forward, staff and the authorities agreed that, once the amendments are adopted, there is a need to upgrade the regulatory framework to mitigate ML/FT risks, including with regards to the proceeds of corruption and tax crimes. Staff encouraged the authorities to ensure the Financial Monitoring Unit's access to asset declarations of public officials, and to provide guidelines to banks on the manner of reporting suspicious transactions related to tax evasion. The authorities should also continue strengthening their CFT framework, including by implementing relevant United Nations Security Council Resolutions (UNSCRs) to effectively freeze terrorist assets.

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[8] These banks represent about 1.4 percent of banking sector assets (0.7 percent of GDP).

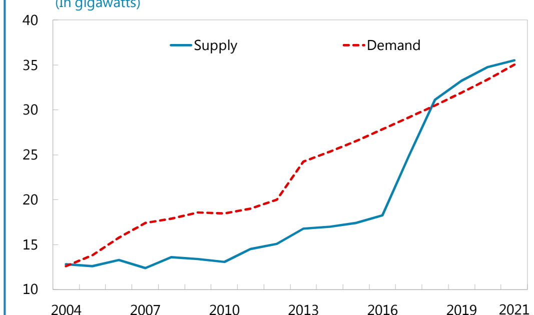
D. Structural Issues

Energy

23. **Swift implementation of the plan to reduce the accumulation of arrears remains important to improve the functioning of the power sector** (MEFP ¶31–38). The authorities are implementing the agreed power surcharges, including to service the debt in the power holding company (335 billion at end-June 2015), and are allocating 0.1 percent of GDP from FY 2015/16 budget to reduce part of the circular debt. They missed the end-June 2015 indicative target on the flow of power sector arrears by PRs 15 billion (0.05 percent of GDP), due to a temporary delay in implementation of some elements of the plan (nonrecoveries from two local governments and excess line losses). However, the government recovered projected collections from these two areas and the September target remains achievable. Staff stressed that power sector distribution companies' (DISCOs) business plans (including reducing losses and strengthening collections) should be aligned with the arrears reduction plan (including the reduction of excess line losses).[9] In this regard, staff welcomed the authorities' proposal of a new SB to set quarterly loss-reduction, collection, and recovery targets for each DISCO by mid-October 2015 (MEFP ¶34).

24. **Mitigating risks to the budget and power sector arrears reduction plan remains important in light of legal challenges to electricity surcharges** (MEFP ¶31). Staff, jointly with the World Bank and ADB, pointed to the need for alternative plans to protect the level of revenue in the electricity sector in case of a negative outcome of legal challenges to electricity surcharges.[10] The authorities stressed their commitment to protect the level of revenue in the electricity sector by adjusting tariffs as needed, and to undertake all necessary measures to ensure the full recovery of costs from consumers. The authorities are on track to finalize the preparations for a multi-year tariff framework by end-November 2015 (SB) that will also help privatization of distribution companies (MEFP ¶37).

Power Sector Generation and Demand
(In gigawatts)



Sources: Pakistani authorities; and IMF staff calculations.

25. **Progress continues with introducing additional supply to the electricity sector** (MEPF ¶36). Planned improvements and additions through CPEC are expected to add around 16GW of generating capacity in the next four years and close the supply/demand gap (see chart). The expected enactment of the amendments to the Penal and Criminal Codes (MEPF ¶34) will also help enforcement and monitoring.

[9] Technical and distribution losses in FY2014/15 remained flat and collections edged down by 1 percent.

[10] The Supreme Court's decision on this issue is still pending.

26. **The authorities increased the weighted average gas prices by around 14 percent in August 2015** (prior action, MEFP ¶39–40). The price notification recuperates part of the losses in the sector incurred from delayed notification and eliminates the potential future fiscal impact.[11] Staff urged the authorities to continue with pricing reforms for better allocation of gas and prevent potential fiscal costs. Liquefied Natural Gas (LNG) imports reached 200 mmcfd and the authorities are fully passing through of the cost of imported LNG to the end-user purchase price. More than 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-September 2015. The authorities are also planning to award contracts for an additional 10–15 exploration fields by end-December 2015 to increase supply.

Public Sector Enterprises

27. **Privatization and restructuring programs continue despite some setbacks** (MEFP ¶45). Privatization and restructuring efforts are geared towards preventing potential fiscal risks from public companies including power sector firms (to help reduce power sector arrears). The planned sale of Heavy Electrical Complex (HEC) in May 2015 had to be cancelled as the winning bidder could not provide the funds to close the transaction. Subsequently, National Power Construction Co. (NPCC) bidding was finalized in August raising US$25 million in revenues (the transaction is expected to be completed in September 2015). In line with the energy arrears reduction plan, the authorities are moving forward with the privatization of power companies (see table below for expected completion dates) and propose a benchmark on completing the bidding process for Faisalabad Electricity Supply Company by end-June 2016 (new SB).

Timeline of Completed and Projected Privatization of PSEs

	PSEs	Transaction	Timeline
1	United Bank Limited (UBL)	Sale of 19.6 percent of company shares	June 2014
2	Pakistan Petroleum Limited (PPL)	Sale of 5 percent of company shares	June 2014
3	Allied Bank Limited (ABL)	Sale of 10 percent of GoP shares	December 2014
4	Habib Bank Limited (HBL)	Sale of 42 percent of GoP shares	April 2015
5	National Power Construction Corp. (NPCC)	88 percent sell-out of strategic asset	End-September 2015
6	Pakistan Steel Mills (PSM)	Strategic & Asset Sale	End-March 2016
7	State Life Insurance Corp (SILC)	Sale of 10-15 percent company shares	End-March 2016
8	Kot Addu Power Company (KAPCO)	Sale of 40.25 percent of GoP shares	End-June 2016
9	Pakistan International Airlines (PIA)	Sale of 26 percent of GoP shares	End-June 2016
10	Mari Petroleum Ltd	Sale of 18.39 percent of GoP shares	End-June 2016
11	Pak Arab Refinery Ltd (PARCO)	Sale of 10-15 percent company shares	End-June 2016
12	Faisalbad Electric Supply Company (FESCO)	Strategic & Asset Sale	End-September 2016
13	Northern Power Generation Company Limited (NPGCL)	Strategic & Asset Sale	End-September 2016
14	Islamabad Electric Supply Company (IESCO)	Strategic & Asset Sale	end-September 2016
15	Lahore Electric Supply Company (LESCO)	Strategic & Asset Sale	end-September 2016
16	Jamshoro Power Generation Company Limited (JPGCL)	Strategic & Asset Sale	End-December 2016

[11] The notification was due in 2014.

28. **Staff urged authorities to accelerate efforts to restructure or privatize key loss-making firms to mitigate fiscal risks and improve governance**. The due diligence process for Pakistan International Airlines (PIA) was completed in August 2015 with a two-month delay (MEFP ¶45). Plans for private participation will be developed thereafter and expressions of interest for strategic investors will be solicited before end-December 2015 (modified SB).[12] The operational efficiency of Pakistan Steel Mills deteriorated and capacity utilization declined. However, the due diligence was completed in August 2015 and the company is expected to be privatized by end-March 2016. Pakistan Railways, on the other hand, continues to focus on improving its freight operations and has more than doubled revenues from these operations in FY2014/15.

Business Climate and Trade Policy

29. **Investment climate and trade policy reforms are under way** (MEFP ¶42–44). Based on the review of the filing process for sales and income tax, the authorities identified 39 processes that required elimination and streamlining. They have developed 8 IT-based modules and launched integrated end-to-end IT solution. Efforts also continue to simplify business registration. A National Financial Inclusion Strategy (NFIS) has been launched in May 2015 to improve access to finance 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 was enacted in August 2015 (end-November SB). The FY2015/16 budget reduced import tariff slabs from six to five and further eliminated trade-related Statutory Regulatory Orders (SROs).

PROGRAM MODALITIES AND OTHER ISSUES

30. **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-September 2015 NDA target and establishment of end-December 2015 PCs and indicative targets**. On the basis of corrective actions and satisfactory prospects for meeting the end-September targets, waivers are requested for the nonobservance of the end-June 2015 PCs on the fiscal deficit (discussion of corrective actions and prospects for meeting the September targets in ¶8) and government borrowing from the SBP (discussion of corrective action in ¶3). The authorities have completed all prior actions. The end-September PC for NDA is proposed for modification to ensure adequate reserve money growth. Three new SBs are proposed and three SBs are to be modified (Table 2).

[12] This further delays the privatization of PIA by about three months.

31. **Financing, program risks, and capacity to repay the Fund**. Pakistan's program financing needs (estimated at US$6.2 billion or 2.2 percent of GDP) are fully covered for the current fiscal year (the remainder of the program). Disbursements from multilateral and bilateral partners (including about US$2 billion from the World Bank and the ADB) are expected to help cover financing needs. Moreover, Pakistan has access to international markets, which reduces financing risks going forward. The reserves situation has continued to improve to cover more than three 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 seventh review, reaching SDR 2.9 billion (about US$4.1 billion and 6.2 percent of total external debt) by end-June 2015. Pakistan has the capacity to repay the Fund, but the materialization of risks to the economic outlook could erode it, particularly in the context of the Fund's exposure increasing further with new EFF program disbursements (Table 11).

STAFF APPRAISAL

32. **Economic activity is improving and vulnerabilities are gradually receding**. Real GDP growth is expected to increase to around 4.5 percent this fiscal year. Headline inflation is below 2 percent, and a prudent monetary policy stance should help ensure that inflation expectations remain well-anchored. Despite some slippages in meeting program targets, the authorities have made significant progress over the program period in addressing fiscal imbalances and building international reserve buffers, which, supported by tailwinds from lower oil prices, now exceed three months of imports. Social protection through BISP has further expanded, and untargeted electricity subsidies have been reduced.

33. **Further progress will be needed to achieve a sustainable economic transformation**. Economic growth remains below the 5–7 percent range that will be needed to absorb new entrants into the labor market and achieve improvements in living standards for wide segments of society. Public debt remains high, the tax-to-GDP ratio is—despite recent progress—still among the lowest in the world, private investment is still well below desired outcomes, and exports have declined from an already low base. Power outages and the business climate continue to restrain competitiveness and growth. In addition, the appreciation of the real effective exchange rate has been eroding competitiveness, leaving the external balance vulnerable. Strong reform implementation will be needed to reinforce the recent gains in economic stabilization and sustainably raise growth.

34. **The authorities should be prepared to take measures as necessary to keep the fiscal program on track**. While the shortfall in end-fiscal year performance has delayed the authorities' adjustment efforts, their continued commitment to the FY2015/16 fiscal targets is welcome. To this end, it will be important to strengthen tax revenue mobilization, contain current expenditures as needed, and strengthen the coordination mechanism with the provinces. In the event that projections at the time of the ninth review show a fiscal gap, planned tax base broadening measures should be pulled forward and implemented promptly.

35. **More generally, a concerted effort is needed to raise the revenue ratio**. The authorities' actions to significantly restrict the legal authority for granting administrative tax exemptions are highly welcomed. It will be important to continue and deepen efforts in revenue administration reforms to improve compliance and enforcement in order to broaden the tax net rather than increasing the tax burden on the existing narrow tax base. Advancing the agenda on better governance and reducing the likelihood of corruption in tax administration are also crucial to attain these objectives.

36. **Enhancing fiscal policy frameworks will help fiscal consolidation efforts**. Strengthening the FRDL will provide room for countercyclical fiscal policy and anchor debt sustainability. Improving transparency, management of fiscal risks associated with off-budget operations, and debt management will help strengthen resilience. Going forward, devolution of revenue and expenditure responsibilities should be better balanced between the federal government and provinces. Moreover, efforts should continue to increase social protection through the BISP.

37. **Efforts must continue to build reserves and strengthen SBP independence**. Continued and ambitious accumulation of international reserves in the context of the fallen oil bill remains strongly desirable: international financial markets have been volatile, the balance of payments position remains vulnerable, and reserves are still significantly below adequacy norms. The implementation of the new interest rate corridor is a major step to improve the operation of the monetary policy framework. The amendments to the SBP Act, once enacted, will be important to strengthen the autonomy of the SBP. Looking ahead, further progress will be needed to address remaining recommendations of the 2013 Safeguards Assessment report by June 2016.

38. **Progress with bank capitalization is welcome, as are plans for continued reforms to strengthen financial stability**. Having brought all banks into compliance with capital adequacy standards, the continuation of efforts to bring a number of small banks into compliance with statutory requirements is a priority. The authorities' actions to improve foreclosure and corporate restructuring legislation should help address nonperforming loans in the banking system. Efforts should continue to move forward with the Deposit Protection Fund, Futures Trading Bill, and Securities Act, which will constitute significant improvements toward strengthening financial stability. To bolster the effectiveness of the AML/CFT framework and mitigate risks, including the proceeds of corruption and tax crimes and the financing of terrorism, the authorities remain committed to enact the draft amendments to the AML Act, despite recent delays. Similarly, ongoing efforts to strengthen the CFT framework should continue, including implementation of relevant UNSCRs.

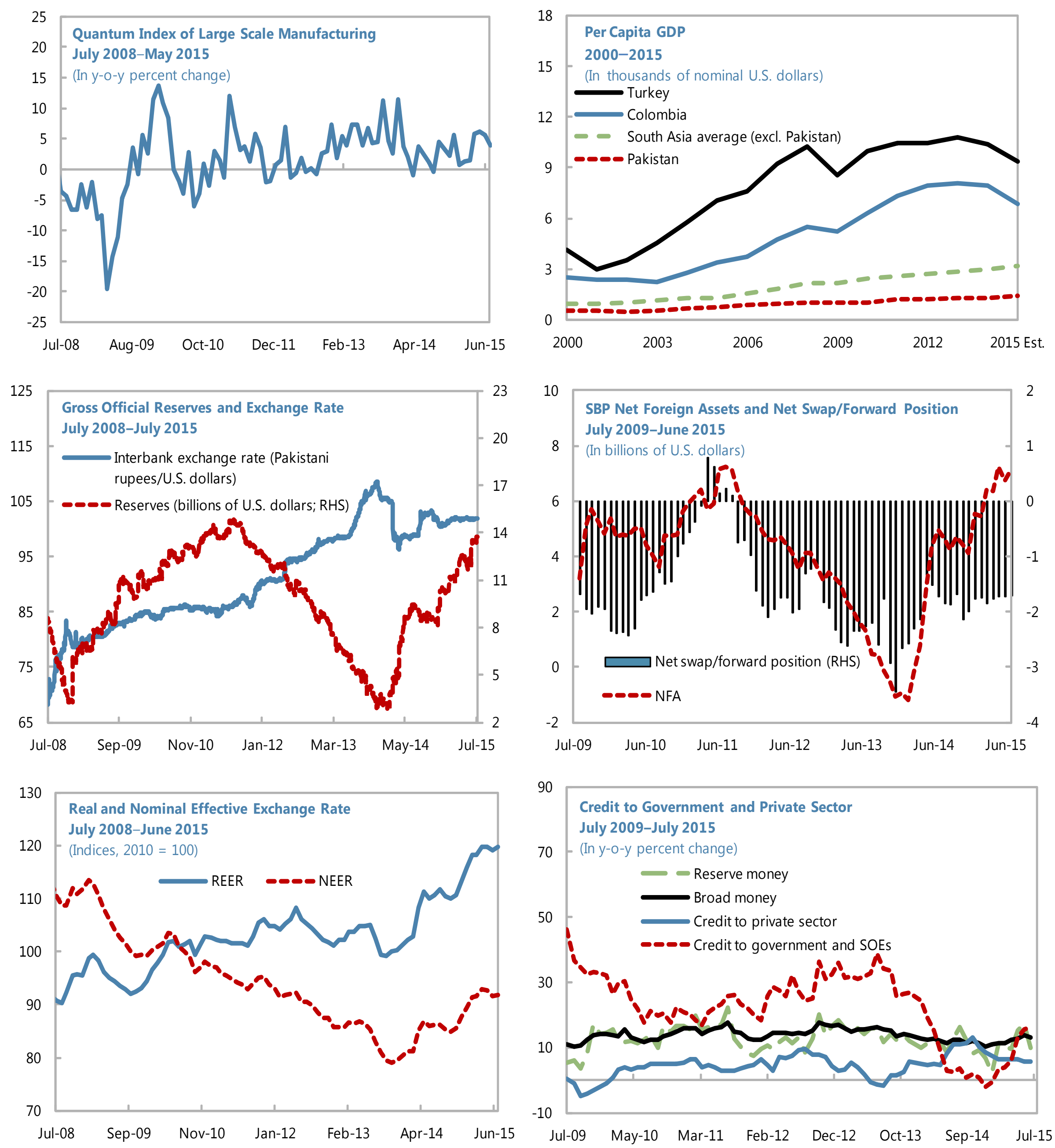
39. **Power sector reforms should be swiftly implemented**. Securing reliable and continuous supply of electricity, improving the system's efficiency, and moving the sector to cost recovery will be critical for growth and continued fiscal consolidation. In this context, the authorities' resolve to step up efforts in the implementation of the power sector arrears reduction plan is welcomed. Swift implementation will unlock existing idle generation capacity and reduce the potential drain from

such arrears on public resources. Ongoing legal challenges to electricity surcharges pose potential risks to the budget and efforts to fix the power sector. The authorities' contingency plans, including their commitment to raise tariffs as needed in case of a negative outcome to legal challenges to surcharges, are welcome as they mitigate these risks.

40. **Significant further progress is within reach if momentum with structural reforms continues**. Following delays in the planned privatization of public sector enterprises, follow-through on revised privatization plans, and commitment to restructure key loss-making enterprises will be essential. Continued efforts to reform the gas sector are welcome, with emphasis on price rationalization and improvements in domestic production. Business climate reforms are advancing, and future efforts should focus on legislative and administrative changes that expedite business climate improvements.

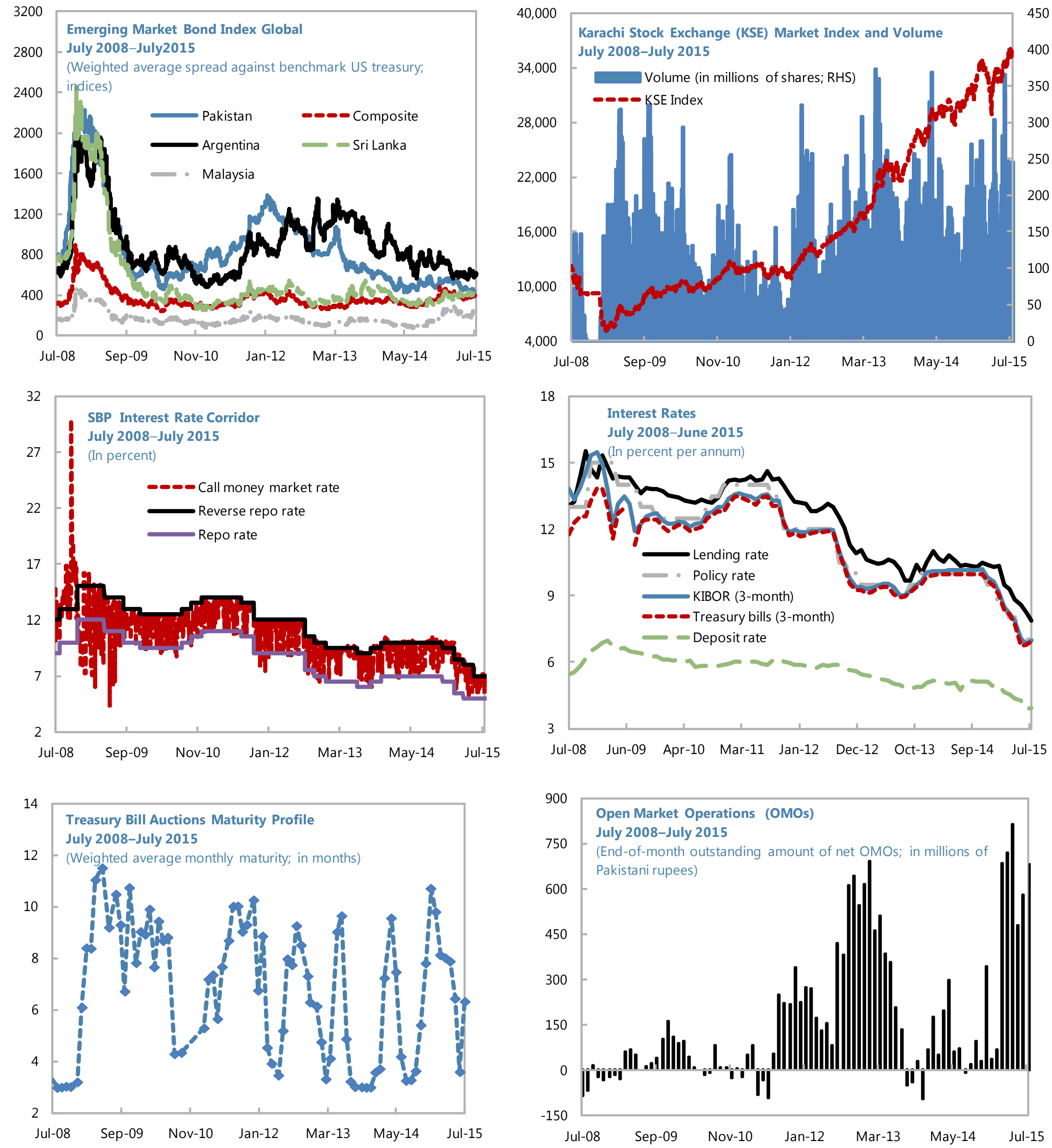
41. **On the basis of Pakistan's performance under the extended arrangement and the corrective actions outlined above, staff supports the authorities' request for completion of the eighth review under the arrangement and for waivers for the nonobservance of the end-June PCs on the budget deficit and government borrowing from the SBP, and modification of the end-September 2015 PC on NDA**. Staff also recommends the establishment of end-December 2015 PCs; setting of three new structural benchmarks; and the revision to the timeline of structural benchmarks as proposed in the attached MEFP.

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



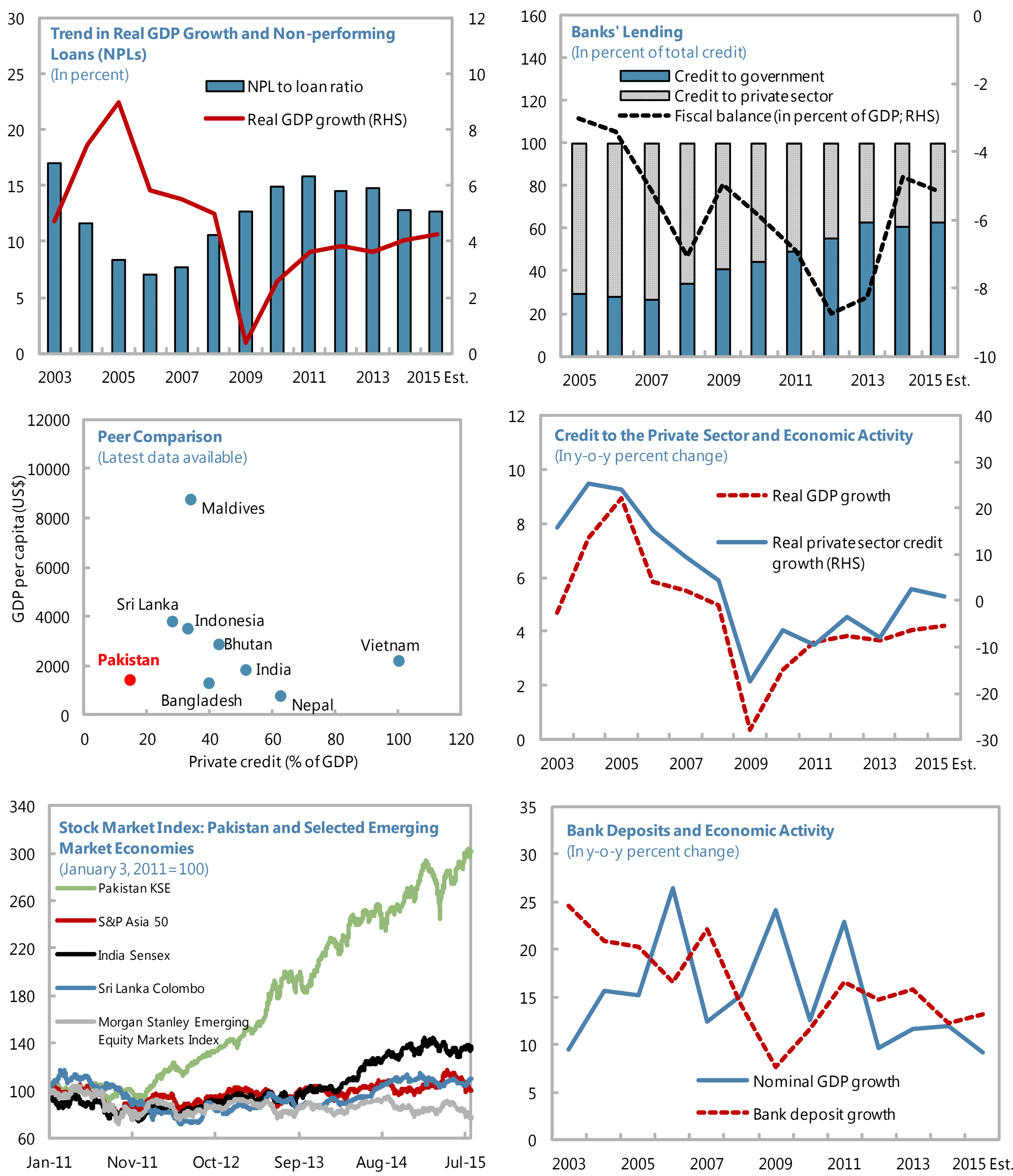
Sources: Pakistani authorities; IMF World Economic Outlook; and IMF staff calculations.

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 for FY2014/15 and FY2015/16 1/

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

	FY2014/15				FY2015/16				
	end-March	end-June			end-September		end-December	end-March	end-June
					Program			Projection	
					Seventh Review				
		Target	Adjusted Target	Actual	Target	Revised			
Performance Criteria									
Floor on net international reserves of the SBP (millions of U.S. dollars)	4,290	7,300	4,913	5,354	8,300	8,300	9,300	9,400	10,000
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,372	2,270	2,459	2,440	2,210	2,350	2,350	2,560	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,067	1,387	1,386	1,488	306	306	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,765	1,700	1,700	1,700	1,700	1,700	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,653	1,865	1,865	1,893	1,800	1,800	1,800	1,800	1,800
Continuous Performance Criterion									
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0	0
Indicative Targets									
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	69	95	95	94	21	23	46	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,777	2,691	2,691	2,588	640	640	1,390	2105	3104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	n/a	42	42	57	36	36	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		Original	Rescheduled		
Prior Actions					
1	Require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments.				Improve tax compliance.
2	Notify and implement the new gas tariff in line with the OGRA determination.	end-August 2015			To prevent potential fiscal costs and gradually align gas prices to international prices
3	Bring net borrowing from the SBP to below PRs 1830 billion	end-August 2015			To make sure that end-September PC is within reach.
Structural Benchmarks					
Fiscal sector					
1	Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.	end-March 2015		Met	Reduce distortions and improve revenue collection.
2	Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.	end-March 2015		Met	Strengthen the organizational framework and improve public debt management.
3	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people	end-September 2015			Broaden the tax base and improve tax compliance.
4	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015			Improve tax compliance and enforcement.
5	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015			To allow monitoring of fiscal and financial risks and the implementation of the MTDS.
Monetary sector					
6	Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.	end-February 2015		Met	Improve SBPs liquidity management.
7	Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF procedures, the Internal Audit Department conducts reviews of the program monetary data reported to the IMF, within two months after each quarter, for accuracy and compliance with the TMU.	end-February 2015		Met	Improve monetary policy framework through enhanced central bank independence.
8	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective in line with Fund Staff advice.	end-September 2015			Prerequisite for an independent monetary policy framework.
9	Make the improved interest rate corridor of the SBP operational	end-September 2015		Met	Improve SBPs liquidity management, and better functioning of the monetary policy framework.

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

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

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

Population: 189.9 million (2014/15)
Per capita GDP: US$1,510 (2014/15)
Poverty rate: 12.7 percent (2010/11)
Main exports: Textiles ($13.6 billion, 2013/14)
Unemployment: 6.0 percent (2013/14)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	
						Seventh Review	Proj.
	(Annual percentage change)						
Output and prices							
Real GDP at factor cost	3.6	3.8	3.7	4.0	4.2	4.5	4.5
GDP deflator at factor cost	19.5	5.7	7.1	6.9	3.6	4.7	4.7
Consumer prices (period average) 2/	13.7	11.0	7.4	8.6	4.5	4.7	4.7
Consumer prices (end of period) 2/	13.3	11.3	5.9	8.2	3.2	6.0	6.0
Pakistani rupees per U.S. dollar (period average) 6/	2.2	4.1	8.5	6.3	-1.4		
	(In percent of GDP)						
Saving and investment							
Gross saving	14.2	13.0	13.9	13.7	14.3	15.2	14.8
Government	-4.2	-5.3	-5.2	-1.4	-1.6	-0.1	-0.4
Nongovernment (including public sector enterprises)	18.4	18.3	19.0	15.1	15.8	15.3	15.2
Gross capital formation 3/	14.1	15.1	15.0	15.0	15.1	15.6	15.3
Government	2.5	3.4	3.2	3.5	3.7	3.8	3.8
Nongovernment (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.8	11.5
Public finances							
Revenue and grants	12.6	13.0	13.5	15.3	14.6	15.7	15.4
Expenditure (including statistical discrepancy)	19.6	22.0	21.9	19.9	19.2	19.6	19.6
Budget balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-3.9	-4.2
Budget balance (excluding grants)	-7.0	-8.9	-8.5	-5.7	-5.4	-4.3	-4.3
Primary balance	-2.9	-4.2	-3.9	-0.3	-0.5	0.3	0.1
Total general government debt 4/	55.3	60.5	62.9	63.7	63.2	61.9	62.4
External general government debt	22.4	22.4	20.1	19.9	18.4	18.1	18.0
Domestic general government debt	32.9	38.1	42.8	43.8	44.8	43.8	44.4
	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)						
Monetary sector							
Net foreign assets	4.1	-3.8	-3.4	3.7	2.2	0.9	1.6
Net domestic assets	11.8	17.9	19.3	8.8	11.0	9.6	10.8
Broad money (percent change)	15.9	14.1	15.9	12.5	13.2	10.5	12.4
Reserve money (percent change)	17.1	11.3	15.8	12.9	9.9	6.3	10.0
Private credit (percent change)	4.0	7.5	-0.6	11.0	5.6	8.9	9.8
Six-month treasury bill rate (period average, in percent)	13.3	12.3	9.8	9.7	8.8		
External sector							
Merchandise exports, U.S. dollars (percentage change)	28.9	-2.6	0.4	1.1	-3.7	0.4	0.7
Merchandise imports, U.S. dollars (percentage change)	14.9	12.8	-0.6	3.8	-1.2	-1.4	-0.2
Current account balance (in percent of GDP)	0.1	-2.1	-1.1	-1.3	-0.8	-0.4	-0.5
	(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	164.6	165.6	168.2
Debt service	12.0	16.2	21.6	23.5	21.8	23.7	22.5
Gross reserves (in millions of U.S. dollars) 5/	14,784	10,799	6,008	9,096	13,534	17,018	17,131
In months of next year's imports of goods and services	3.6	2.7	1.5	2.2	3.3	4.0	4.0
Memorandum items:							
Real effective exchange rate (annual average, percentage change) 6/	6.1	2.7	-0.9	0.8	10.4	-3.5	-3.3
Terms of trade (percentage change)	7.3	-10.5	-2.0	0.5	4.7	5.4	3.8
Real per capita GDP (percentage change)	1.5	1.7	1.6	2.0	2.2	2.5	2.5
GDP at market prices (in billions of Pakistani rupees)	18,276	20,047	22,379	25,068	27,384	30,215	30,170
GDP at market prices (in billions of U.S. dollars)	213.6	225.1	231.6	246.8	271.0		

Sources: Pakistani authorities; World Bank; 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.
6/ 2014/15 figure is as of May 2015.

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

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
						Seventh review	Projections				
					(Annual percentage change)						
Output and prices											
Real GDP at factor cost	3.6	3.8	3.7	4.0	4.2	4.5	4.5	4.5	5.2	5.2	5.2
Consumer prices (period average)	13.7	11.0	7.4	8.6	4.5	4.7	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	-0.8	-0.4	-0.5	-0.5	-0.7	-0.9	-0.9
Government	-6.7	-8.8	-8.3	-4.9	-5.3	-3.9	-4.2	-3.3	-2.9	-2.7	-2.4
Non-government (including public sector enterprises)	6.8	6.7	7.2	3.6	4.4	3.6	3.7	2.8	2.2	1.8	1.5
Gross national saving	14.2	13.0	13.9	13.7	14.3	15.2	14.8	15.0	15.3	15.6	16.1
Government	-4.2	-5.4	-5.2	-1.4	-1.6	-0.1	-0.4	0.1	0.7	1.2	1.8
Non-government (including public sector enterprises)	18.4	18.4	19.1	15.1	15.8	15.3	15.2	14.9	14.6	14.4	14.4
Gross capital formation	14.1	15.1	15.0	15.0	15.1	15.6	15.3	15.6	16.0	16.5	17.0
Government	2.5	3.3	3.1	3.5	3.7	3.8	3.8	3.4	3.6	4.0	4.2
Non-government (including public sector enterprises)	11.6	11.7	11.9	11.5	11.4	11.8	11.5	12.1	12.4	12.5	12.8
					(In billions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Current account balance	0.2	-4.7	-2.5	-3.1	-2.3	-1.1	-1.5	-1.5	-2.2	-3.2	-3.2
Net capital flows 1/	2.3	1.4	0.5	7.0	4.9	2.0	3.2	3.8	2.5	1.6	3.1
Of which: foreign direct investment 2/	1.6	0.7	1.3	1.5	0.6	0.7	0.8	1.0	1.2	1.5	1.9
Gross official reserves	14.8	10.8	6.0	9.1	13.5	17.0	17.1	19.5	19.6	17.7	17.4
In months of imports 3/	3.6	2.7	1.5	2.2	3.3	4.0	4.0	4.3	4.1	3.5	3.2
External debt (in percent of GDP)	31.1	29.1	26.3	26.5	24.0	23.8	23.9	23.7	23.1	22.1	21.2
					(In percent of GDP)						
Public finances											
Revenue and grants	12.6	12.8	13.2	15.3	14.6	15.7	15.4	16.3	16.7	17.4	17.7
Of which: tax revenue	9.5	10.4	10.0	10.5	11.0	12.2	12.1	12.9	13.5	14.2	14.5
Expenditure, *of which:*	19.5	21.6	21.5	20.2	19.8	19.6	19.6	19.6	19.6	20.1	20.1
Current	16.5	17.9	16.7	16.4	16.6	15.8	15.9	16.2	16.0	16.2	15.9
Development and net lending	2.6	3.4	4.7	4.0	3.8	3.8	3.8	3.4	3.6	3.9	4.1
Primary balance 4/	-3.1	-4.3	-3.9	-0.3	-0.5	0.3	0.1	1.2	1.5	1.7	1.6
Overall fiscal balance (including grants)	-6.9	-8.8	-8.3	-4.9	-5.3	-3.9	-4.2	-3.3	-2.9	-2.7	-2.4
Overall fiscal balance (excluding grants)	-7.1	-8.8	-8.3	-5.7	-5.4	-4.3	-4.3	-3.5	-3.0	-2.8	-2.4
Total public debt (including obligations to the IMF)	59.5	64.0	64.8	64.9	64.7	64.0	64.4	62.8	61.2	60.4	59.2

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. Pakistan: Balance of Payments, 2013/14–2019/20
(In millions of U.S. dollars, unless otherwise indicated)

	2013/14	2014/15	2015/16						2016/17	2017/18	2018/19	2019/20
			Q1	Q2	Q3	Q4	Seventh Review	End-Year				
									Projections			
Current account	-3,130	-2,280	-390	-574	-286	-239	-1,052	-1,488	-1,535	-2,236	-3,199	-3,244
Balance on goods	-16,701	-17,119	-4,323	-4,397	-4,126	-4,032	-15,722	-16,879	-16,925	-18,330	-19,540	-19,336
Exports, f.o.b.	25,068	24,131	5,680	6,064	6,169	6,387	24,494	24,300	25,101	26,245	27,835	29,550
Imports, f.o.b.	41,769	41,250	10,004	10,461	10,295	10,419	40,216	41,179	42,026	44,575	47,375	48,886
Services (net)	-2,551	-2,437	-636	-735	-817	-827	-2,986	-3,014	-4,176	-4,735	-5,366	-6,178
Services: credit	5,322	5,746	1,434	1,378	1,295	1,392	5,907	5,498	4,971	5,036	5,302	5,599
Of which: Coalition Support Fund	1,050	1,452	337	175	175	175	915	862	175	0	0	0
Services: debit	7,873	8,183	2,069	2,112	2,111	2,219	8,894	8,512	9,146	9,772	10,667	11,777
Income (net)	-3,943	-4,480	-1,091	-1,323	-1,090	-1,355	-4,872	-4,859	-5,101	-5,436	-6,084	-6,649
Income: credit	541	649	87	100	90	113	298	390	642	852	830	1,247
Income: debit	4,484	5,129	1,178	1,423	1,180	1,468	5,170	5,249	5,743	6,288	6,914	7,896
Of which: interest payments	1,552	1,931	480	554	453	538	1,935	2,026	2,045	2,255	2,457	2,620
Of which: income on direct investment	2,932	3,196	699	868	727	930	3,235	3,223	3,698	4,034	4,457	5,276
Balance on goods, services, and income	-23,195	-24,036	-6,050	-6,455			-23,580	-24,752	-26,202	-28,501	-30,990	-32,163
Current transfers (net)	20,065	21,756	5,661	5,881	5,747	5,975	22,529	23,264	24,667	26,265	27,791	28,919
Current transfers: credit, *of which:*	20,222	21,983	5,700	5,921	5,787	6,015	22,688	23,423	24,826	26,424	27,950	29,078
Official	380	481	71	151	76	114	504	411	381	371	453	299
Workers' remittances	15,837	18,454	4,897	4,941	4,831	5,081	18,653	19,750	20,980	22,359	23,598	24,700
Other private transfers	4,005	3,048	732	829	880	820	3,531	3,262	3,465	3,693	3,898	4,080
Current transfers: debit	157	227	40	40	40	40	159	159	159	159	159	159
Capital account	1,857	371	39	51	57	61	508	208	488	105	400	400
Capital transfers: credit	1,857	371	39	51	57	61	508	208	488	105	400	400
Of which: official capital grants	352	358	39	51	57	61	508	208	208	105	400	400
Capital transfers: debit	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	5,522	4,526	291	1,684	-295	1,264	1,498	2,944	3,308	2,431	1,195	2,673
Direct investment abroad	-128	-67	0	0	0	0	-77	0	0	0	0	0
Direct investment in Pakistan	1,669	709	167	212	189	261	785	829	1,017	1,200	1,510	1,942
Of which: privatization receipts	310	764	0	0	0	0	0	0	0	0	0	0
Portfolio investment (net), *of which:*	2,760	1,902	53	546	-457	543	-78	685	451	23	-1,158	-1,493
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	211	1	9	-99	-74	-47	-193	-211	147	540	1,600	1,400
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	5	-36	0	0	0	0	0	0	0	0	0	0
Banks	8	-25	-6	-62	-49	-30	-353	-148	200	200	800	800
Other sectors	198	62	16	-36	-25	-17	160	-63	-53	340	800	600
Other investment liabilities	1,010	1,981	62	1,025	47	507	1,060	1,640	1,693	669	-757	823
Monetary authorities	146	563	0	0	0	0	0	0	0	0	0	0
General government, *of which:*	1,610	1,298	-129	1,097	22	384	1,205	1,375	1,612	20	-1,873	-1,697
Disbursements	4,349	4,102	636	1,629	1,096	1,494	5,324	4,854	4,759	3,338	1,438	1,712
Amortization	2,734	2,804	765	531	1,074	1,109	4,119	3,479	3,147	3,318	3,312	3,409
Banks	-293	426	108	90	63	74	152	335	298	400	950	2,000
Other sectors	-453	-306	83	-163	-39	48	-296	-70	-217	249	166	521
Net errors and omissions	-391	19	0	0	0	0	0	0	0	0	0	0
Reserves and related items	-3,858	-2,636	60	-1,161	524	-1,086	-955	-1,663	-2,261	-301	1,604	171
Reserve assets	-3,285	-4,230	-383	-1,657	27	-1,584	-2,903	-3,597	-2,332	-183	1,935	369
Use of Fund credit and loans	-573	1,594	443	496	496	497	1,948	1,933	71	-118	-330	-199
Memorandum items:												
Current account (in percent of GDP)	-1.3	-0.8					-0.4	-0.5	-0.5	-0.7	-0.9	-0.9
Current account (in percent of GDP; excluding fuel imports)	4.7	3.6					3.1	2.8	2.9	2.7	2.4	2.4
Exports f.o.b. (growth rate, in percent)	1.1	-3.7					0.4	0.7	3.3	4.6	6.1	6.2
Imports f.o.b. (growth rate, in percent)	3.8	-1.2					-1.4	-0.2	2.1	6.1	6.3	3.2
Oil imports (in million US$, cif)	14,774	12,145					9,829	9,328	10,104	10,896	11,511	12,168
Terms of trade (growth rate, in percent)	0.5	4.7					5.4	3.8	-0.4	-0.5	0	0
External debt (in millions of U.S. dollars)	65,365	65,070					67,805	67,992	71,129	74,572	76,338	78,464
Gross external financing needs (in millions of U.S. dollars) 1/	8,713	6,867					6,312	6,176	5,722	6,058	8,975	9,567
End-period gross official reserves (millions of U.S. dollars) 2/	9,096	13,534	13,917	15,574	n.a.	n.a.	17,018	17,131	19,462	19,645	17,711	17,351
(In months of next year's imports of goods and services)	2.2	3.3	3.3	3.7	n.a.	n.a.	4.0	4.0	4.3	4.1	3.5	3.2
GDP (in millions of U.S. dollars)	246,849	270,961										

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	
								Seventh Review	Projection
Revenue and grants	1,878	2,130	2,306	2,611	3,011	3,836	3,984	4,740	4,652
Revenue	1,851	2,079	2,261	2,567	2,982	3,631	3,937	4,637	4,623
Tax revenue	1,331	1,500	1,738	2,076	2,231	2,640	3,024	3,674	3,664
Federal	1,285	1,445	1,673	1,969	2,081	2,450	2,818	3,420	3,416
FBR revenue	1,157	1,329	1,558	1,881	1,936	2,272	2,594	3,106	3,104
Direct taxes	440	529	602	732	736	884	1,029	1,349	1,332
Federal excise duty	116	121	137	122	119	145	170	206	206
Sales tax/VAT	452	517	633	809	841	1,002	1,089	1,251	1,250
Customs duties	148	162	185	218	240	241	306	300	315
Petroleum surcharge	112	89	83	60	110	104	131	135	135
Gas surcharge and other	16	28	32	27	35	43	35	34	32
GIDC 1/	n.a.	n.a.	n.a.	n.a.	n.a.	32	57	n.a.	n.a.
Provincial	46	55	65	107	151	190	206	254	247
Nontax revenue	520	579	523	491	751	990	914	963	959
Federal	436	511	461	443	680	941	838	883	883
Provincial	84	68	62	48	71	49	76	80	76
Grants	27	50	46	45	29	206	47	102	29
Expenditure	2,544	3,024	3,536	4,341	4,885	5,058	5,426	5,930	5,916
Current expenditure	2,093	2,481	3,012	3,579	3,757	4,123	4,556	4,771	4,784
Federal	1,547	1,853	2,227	2,611	2,647	2,950	3,169	3,296	3,309
Interest	638	642	698	889	991	1,148	1,304	1,282	1,297
Domestic	559	578	630	821	920	1,073	1,208	1,167	1,182
Foreign	79	64	68	68	71	75	96	115	115
Other	909	1,211	1,529	1,722	1,656	1,802	1,866	2,013	2,012
Defense	330	375	450	507	541	623	698	782	780
Other	579	836	1,078	1,215	1,116	1,179	1,168	1,232	1,231
Of which: subsidies 2/	244	227	493	556	368	336	265	169	169
Of which: grants	136	359	259	291	305	372	401	506	506
Provincial	546	627	786	968	1,110	1,173	1,387	1,475	1,475
Development expenditure and net lending	417	571	477	696	1,112	997	1,047	1,159	1,132
Public Sector Development Program	398	518	465	675	721	878	1,013	1,163	1,136
Federal	196	260	216	299	348	435	489	663	636
Provincial	202	258	249	376	373	443	524	500	500
Net lending	20	53	12	21	391	119	34	-4	-4
Statistical discrepancy ("+" = additional expenditure)	34	-28	46	67	16	-62	-178	0	0
Overall Balance (excluding grants)	-693	-944	-1,276	-1,775	-1,903	-1,427	-1,488	-1,292	-1,293
Overall Balance (including grants)	-666	-894	-1,230	-1,730	-1,873	-1,221	-1,441	-1,190	-1,264
Financing	666	894	1,230	1,730	1873	1,221	1,441	1,190	1,264
External	86	158	144	60	38	351	166	128	146
Of which: privatization receipts	1	0	0	0	0	1	2	0	0
Of which: IMF	0	0	0	0	0	0	0	0	0
Domestic	580	736	1,086	1,670	1836	870	1,275	1,062	1,118
Bank	353	305	614	1,140	1457	322	909	499	783
Nonbank	227	431	471	529	378	548	366	563	336
Memorandum items:									
Primary balance (excluding grants)	-56	-302	-577	-886	-912	-279	-185	-10	4
Primary balance (including grants)	-28	-252	-532	-841	-882	-74	-138	92	33
Total security spending	330	375	450	507	541	623	698	782	780
Total government debt	7,387	8,448	10,112	12,130	14,071	15,965	17,305	18,699	18,833
Domestic debt	3,860	4,654	6,014	7,638	9,571	10,974	12,260	13,233	13,405
External debt 3/	3,527	3,794	4,098	4,492	4,500	4,991	5,044	5,466	5,429
Total government debt including guarantees 3/	n.a.	9,051	10,691	12,663	14,697	16,525	17,904	n.a.	n.a.
Total government debt including IMF obligations	7,805	9,138	10,879	12,822	14,504	16,263	17,725	19,328	19,421
Nominal GDP (market prices)	13,200	14,867	18,276	20,047	22,379	25,068	27,384	30,215	30,170

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/ 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	2015/16	
							Seventh Review	Projection
Revenue and grants	14.3	12.6	13.0	13.5	15.3	14.6	15.7	15.4
Revenue	14.0	12.4	12.8	13.3	14.5	14.4	15.3	15.3
Tax revenue	10.1	9.5	10.4	10.0	10.5	11.0	12.2	12.1
Federal	9.7	9.2	9.8	9.3	9.8	10.3	11.3	11.3
FBR revenue	8.9	8.5	9.4	8.7	9.1	9.5	10.3	10.3
Direct taxes	3.6	3.3	3.7	3.3	3.5	3.8	4.5	4.4
Federal excise duty	0.8	0.8	0.6	0.5	0.6	0.6	0.7	0.7
Sales tax	3.5	3.5	4.0	3.8	4.0	4.0	4.1	4.1
Customs duties	1.1	1.0	1.1	1.1	1.0	1.1	1.0	1.0
Petroleum surcharge / Carbon tax	0.6	0.5	0.3	0.5	0.4	0.5	0.4	0.4
Gas surcharge and other	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1
GIDC 1/	…	…	…	…	0.1	0.2	n.a.	n.a.
Provincial	0.4	0.4	0.5	0.7	0.8	0.8	0.8	0.8
Nontax revenue	3.9	2.9	2.4	3.4	3.9	3.3	3.2	3.2
Federal	3.4	2.5	2.2	3.0	3.8	3.1	2.9	2.9
Provincial	0.5	0.3	0.2	0.3	0.2	0.3	0.3	0.3
Grants	0.3	0.2	0.2	0.1	0.8	0.2	0.3	0.1
Expenditure	20.3	19.3	21.7	21.8	20.2	19.8	19.6	19.6
Current expenditure	16.7	16.5	17.9	16.8	16.4	16.6	15.8	15.9
Federal	12.5	12.2	13.0	11.8	11.8	11.6	10.9	11.0
Interest	4.3	3.8	4.4	4.4	4.6	4.8	4.2	4.3
Domestic	3.9	3.4	4.1	4.1	4.3	4.4	3.9	3.9
Foreign	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Other	8.1	8.4	8.6	7.4	7.2	6.8	6.7	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	4.7	4.3	4.1	4.1
Of which: subsidies 2/	1.5	2.7	2.8	1.6	1.3	1.0	0.6	0.6
Of which: grants	2.4	1.4	1.5	1.4	1.5	1.5	1.7	1.7
Provincial	4.2	4.3	4.8	5.0	4.7	5.1	4.9	4.9
Development expenditure and net lending	3.8	2.6	3.5	5.0	4.0	3.8	3.8	3.8
Public Sector Development Program	3.5	2.5	3.4	3.2	3.5	3.7	3.8	3.8
Federal	1.7	1.2	1.5	1.6	1.7	1.8	2.2	2.1
Provincial	1.7	1.4	1.9	1.7	1.8	1.9	1.7	1.7
Net lending	0.4	0.1	0.1	1.7	0.5	0.1	0.0	0.0
Statistical discrepancy ("+" = additional expenditure)	-0.2	0.3	0.3	0.1	-0.2	-0.6	0.0	0.0
Overall Balance (excluding grants)	-6.4	-7.0	-8.9	-8.5	-5.7	-5.4	-4.3	-4.3
Overall Balance (including grants)	-6.0	-6.7	-8.6	-8.4	-4.9	-5.3	-3.9	-4.2
Financing	6.0	6.7	8.6	8.4	4.9	5.3	3.9	4.2
External	1.1	0.8	0.3	0.2	1.4	0.6	0.4	0.5
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	4.9	5.9	8.3	8.2	3.5	4.7	3.5	3.7
Bank	2.1	3.4	5.7	6.5	1.3	3.3	1.7	2.6
Nonbank	2.9	2.6	2.6	1.7	2.2	1.3	1.9	1.1
Memorandum items:								
Primary balance (excluding grants)	-2.0	-3.2	-4.4	-4.1	-1.1	-0.7	0.0	0.0
Primary balance (including grants)	-1.7	-2.9	-4.2	-3.9	-0.3	-0.5	0.3	0.1
Total security spending	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.6
Total government debt 3/	56.8	55.3	60.5	62.9	63.7	63.2	61.9	62.4
Domestic debt	31.3	32.9	38.1	42.8	43.8	44.8	43.8	44.4
External debt 3/	25.5	22.4	22.4	20.1	19.9	18.4	18.1	18.0
Total government debt including guarantees 3/	60.9	58.5	63.2	65.7	65.9	65.4	n.a.	n.a.
Total government debt including IMF	61.5	59.5	64.0	64.8	64.9	64.7	64.0	64.4
Nominal GDP (market prices, billions of Pakistani rupees)	14,867	18,276	20,047	22,379	25,068	27,384	30,215	30,170

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/ 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					
			Q1	Q2	Q3	Q4	End-Year	End-Year
			Projections				Seventh Review	Projection
Revenue and grants	3,836	3,984	969	1,111	1,116	1,456	4,740	4,652
Revenue	3,631	3,937	965	1,097	1,110	1,450	4,637	4,623
Tax revenue	2,640	3,024	765	891	851	1,157	3,674	3,664
Federal	2,450	2,818	714	825	793	1,084	3,420	3,416
FBR revenue	2,272	2,594	640	750	716	998	3,106	3,104
Direct taxes	884	1,029	240	320	300	473	1,349	1,332
Federal excise duty	145	170	46	52	50	59	206	206
Sales tax/VAT	1,002	1,089	275	300	288	388	1,251	1,250
Customs duties	241	306	79	79	79	79	300	315
Petroleum surcharge	104	131	34	34	34	34	135	135
Gas surcharge and other	39	26	6	7	7	9	34	28
GIDC 1/	32	57	33	33	36	42	n.a.	n.a.
Provincial	190	206	51	66	58	73	254	247
Nontax revenue	990	914	200	207	259	294	963	959
Federal	941	838	185	190	238	269	883	883
Provincial	49	76	14	17	21	24	80	76
Grants	206	47	4	13	5	6	102	29
Expenditure	5,058	5,426	1,259	1,410	1,496	1,751	5,930	5,916
Current expenditure	4,123	4,556	1,120	1,196	1,219	1,249	4,771	4,784
Federal	2,950	3,169	821	830	848	811	3,296	3,309
Interest	1,148	1,304	347	333	348	269	1,282	1,297
Domestic	1,073	1,208	322	302	325	234	1,167	1,182
Foreign	75	96	25	32	23	35	115	115
Other	1,802	1,866	474	496	500	542	2,013	2,012
Defense	623	698	169	195	195	221	782	780
Other	1,179	1,168	305	301	305	321	1,232	1,232
Of which: subsidies 2/	336	265	54	40	39	35	169	169
Of which: grants	372	401	111	121	126	147	506	506
Provincial	1,173	1,387	299	367	371	438	1,475	1,475
Development expenditure and net lending	997	1,047	139	213	278	502	1,159	1,132
Public Sector Development Program	878	1,013	140	214	279	503	1,163	1,136
Federal	435	489	70	114	149	303	663	636
Provincial	443	524	70	100	130	200	500	500
Net lending	119	34	-1	-1	-1	-1	-4	-4
Statistical discrepancy ("+" = additional expenditure)	-62	-178	0	0	0	0	0	0
Overall Balance (excluding grants)	-1,427	-1,488	-294	-312	-386	-300	-1,292	-1,293
Overall Balance (including grants)	-1,221	-1,441	-290	-299	-381	-295	-1,190	-1,264
Financing	1,221	1,441	290	299	381	295	1,190	1,264
External	351	166	-14	174	-108	98	128	146
Of which: IMF	0	0	0	0	0	0	0	0
Domestic	870	1,275	304	125	488	196	1,062	1,118
Bank	322	909	186	193	235	169	499	783
Nonbank	548	366	118	-69	254	27	563	336
Memorandum items:								
Primary balance (excluding grants)	-279	-185	52	21	-38	-32	-10	4
Primary balance (including grants)	-74	-138	57	35	-33	-26	92	33
Total security spending	623	698	169	195	195	221	782	780
Total government debt	15,965	17,305	n.a.	n.a.	n.a.	n.a.	18,699	18,833
Domestic debt	10,974	12,260	n.a.	n.a.	n.a.	n.a.	13,233	13,405
External debt 3/	4,991	5,044	n.a.	n.a.	n.a.	n.a.	5,466	5,429
Total government debt including IMF obligations	16,263	17,725	n.a.	n.a.	n.a.	n.a.	19,328	19,421
Nominal GDP (market prices)	25,068	27,384	n.a.	n.a.	n.a.	n.a.	30,215	30,170

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

Table 7. Pakistan: Monetary Survey, 20013/14–2015/16

	2013/14	2014/15				2015/16			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Actual				Projections			
	(In billions of Pakistani rupees, unless otherwise indicated)								
Monetary survey									
Net foreign assets (NFA)	601	570	649	735	819	813	936	879	997
Net domestic assets (NDA)	9,367	9,392	9,762	9,801	10,464	10,365	10,745	10,953	11,686
Net claims on government, *of which: 1/*	6,027	6,124	6,215	6,434	6,960	7,004	7,198	7,433	7,602
Budget support, *of which:*	5,448	5,588	5,647	5,918	6,337	6,522	6,716	6,951	7,120
Banks	3,121	3,300	3,733	4,264	4,443	4,722	4,916	5,151	5,320
Commodity operations	492	469	467	437	564	482	482	482	482
Credit to nongovernment	4,102	4,149	4,377	4,360	4,390	4,500	4,719	4,725	4,743
Private sector	3,747	3,794	3,969	3,952	3,956	4,099	4,318	4,324	4,342
Public sector enterprises	355	355	407	408	435	401	401	401	401
Privatization account	-3	-3	-3	-3	-3	-3	-3	-3	-3
Other items, net	-759	-877	-827	-990	-883	-1,137	-1,169	-1,202	-656
Broad money	9,968	9,962	10,411	10,536	11,284	11,177	11,681	11,832	12,683
Currency outside scheduled banks	2,178	2,262	2,302	2,411	2,555	2,524	2,635	2,682	2,868
Rupee deposits	7,191	7,082	7,490	7,522	8,131	8,061	8,427	8,523	9,143
Foreign currency deposits	599	618	619	603	598	592	619	627	672
State Bank of Pakistan (SBP)									
NFA	490	482	555	651	729	723	845	789	907
NDA	2,372	2,310	2,226	2,350	2,414	2,292	2,178	2,490	2,551
Net claims on government	2,395	2,321	1,971	1,680	1,920	1,610	1,650	1,700	1,700
Of which: budget support	2,328	2,289	1,914	1,653	1,893	1,800	1,800	1,800	1,800
Claims on nongovernment	-5	-6	-6	-6	-6	-6	-6	-6	-6
Claims on scheduled banks	500	505	561	499	404	450	450	480	510
Privatization account	-3	-3	-3	-3	-3	-3	-3	-3	-3
Other items, net	-515	-508	-297	179	99	241	87	319	350
Reserve money, *of which:*	2,861	2,791	2,781	3,000	3,143	3,015	3,023	3,279	3,458
Banks' reserves	531	380	329	431	413	410	428	433	465
Currency	2,317	2,397	2,440	2,557	2,715	2,605	2,595	2,846	2,993
	(Annual percentage change, unless otherwise indicated)								
Broad money	12.5	12.2	10.9	12.3	13.2	12.2	12.2	12.3	12.4
NFA, banking system (in percent of broad money) 2/	3.739	5.3	6.3	6.1	2.2	2.4	2.8	1.4	1.6
NDA, banking system (in percent of broad money) 2/	8.8	6.9	4.6	6.2	11.0	9.8	9.4	10.9	10.8
Budgetary support (in percent of broad money) 2/	3.7	3.0	0.4	3.8	8.9	9.4	10.3	9.8	6.9
Budgetary support	6.3	5.0	0.7	6.4	16.3	16.7	18.9	17.5	12.4
Private credit	11.0	13.0	7.4	6.5	5.6	8.0	8.8	9.4	9.8
Currency	12.4	14.0	10.3	13.9	17.3	11.6	14.5	11.2	12.3
Reserve money	12.9	8.2	2.1	9.6	9.9	8.0	8.7	9.3	10.0
Memorandum items:									
Velocity	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.5
Money multiplier	3.5	3.6	3.7	3.5	3.6	3.7	3.9	3.6	3.7
Currency to broad money ratio (percent)	21.8	22.7	22.1	22.9	22.6	22.6	22.6	22.7	22.6
Currency to deposit ratio (percent)	28.0	29.4	28.4	29.7	29.3	29.2	29.1	29.3	29.2
Foreign currency to deposit ratio (percent)	7.7	8.0	7.6	7.4	6.8	6.8	6.8	6.9	6.8
Reserves to deposit ratio (percent)	6.8	4.9	4.1	5.3	4.7	4.7	4.7	4.7	4.7
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	324	140	199	469	888	186	379	614	783
By commercial banks	164	179	612	1,144	1,323	279	472	707	876
By SBP	160	-39	-413	-674	-434	-93	-93	-93	-93
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	3.6	-0.3	0.5	1.4	2.2	-0.4	0.8	0.2	1.2
NFA of commercial banks (millions of U.S. dollars)	1,130	861	928	833	887	846	854	842	834
NDA of commercial banks (billions of Pakistani rupees)	6,995	7,082	7,536	7,451	8,050	8,072	8,567	8,463	9,135

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–June 2015)

	Dec. 2012	Mar. 2013	Jun. 2013	Sep. 2013	Dec. 2013	Mar. 2014	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015	Jun. 2/ 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	17.2
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	14.2	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	8.3
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	12.4
Provisions to NPLs	71.8	71.9	73.2	76.5	78.4	77.8	79.5	77.6	79.8	80.2	80.8
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	10.9
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	1.6
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	16.0
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	67.5
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	46.1
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	52.3
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	69.5
Loans/Deposits	51.5	51.6	48.1	48.7	48.6	49.2	47.7	48.2	48.2	46.9	45.7

Source: State Bank of Pakistan.

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

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

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

			Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
	(Projected Level of Credit Outstanding based on Existing Drawings and Prospective Drawings)							
Total	2,296.8	2,463.0	3,600.0	4,393.0	4,393.0	4,243.0	3,823.0	3,163.0
Of which:								
ECF, SBA, and ENDA	1,576.8	303.0	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility	720.0	2,160.0	3,600.0	4,393.0	4,393.0	4,243.0	3,823.0	3,163.0
In percent of end-period gross official reserves	101.5	32.9	32.5	34.4	33.5	31.8	29.2	25.3
As a share of external debt	5.8	5.3	7.8	9.1	8.7	8.1	7.1	5.7
	(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/							
Total			49.1	63.5	72.2	222.2	494.5	715.4
Of which:								
Principal	-2,313.5	-1,273.8	37.1	0.0	0.0	150.0	420.0	660.0
Interest and charges	41.6	24.4	11.9	63.5	72.2	72.2	74.5	55.4
SBA and ENDA Principal	..	..	37.1	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	..	..	0.4	0.5	0.6	1.7	3.8	5.7
As a share of total external debt service	..	..	0.1	0.1	0.1	0.4	0.9	1.3
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	15,574	18,064	18,563	18,901	18,527	17,711
Total External Debt (millions of U.S. dollars)	60,899	65,365	65,070	67,992	71,129	74,572	76,338	78,464
Total External Debt Service (millions of U.S. dollars)	6,797	7,135	6,518	6,713	6,232	6,077	8,233	8,943

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	4.0	4.2	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	4.5	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	-0.8	-0.5	-0.5	-0.7	-0.9	-0.9
Net FDI inflows (percent of GDP)	0.7	0.3	0.5	0.6	0.2	0.3	0.3	0.4	0.4	0.5
Exports (percentage change of U.S. dollar value; GNFS)	25.0	-4.5	6.0	-3.6	-1.7	-0.3	0.9	4.0	5.9	6.1
Gross international reserves (GIR) in billions of U.S. dollars	14.8	10.8	6.0	9.1	13.5	17.1	19.5	19.6	17.7	17.4
GIR in percent of ST debt at remaining maturity (RM) 2/	332.8	273.7	111.1	169.4	207.0	242.3	295.8	565.6	530.8	508.9
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 2/	167.8	125.4	56.5	79.4	109.4	129.0	148.4	187.3	164.2	152.4
Total gross external debt (ED) in percent of GDP, *of which:*	31.1	29.1	26.3	26.5	24.0	23.9	23.7	23.1	22.1	21.2
ST external debt (original maturity, in percent of total ED)	1.0	0.6	0.0	1.1	0.6	0.7	0.5	0.9	1.5	2.1
ED of domestic private sector (in percent of total ED)	10.8	10.8	10.4	13.4	15.8	16.8	17.3	18.5	19.9	22.3
ED to foreign official sector (in percent of total ED)	89.2	89.2	89.6	86.6	84.2	83.2	82.7	81.5	80.1	77.7
Total gross external debt in percent of exports	213.2	220.2	193.2	215.1	217.8	228.2	236.5	238.4	230.4	223.2
Gross external financing requirement (in billions of U.S. dollars) 3/	1.9	6.7	5.3	6.5	5.9	6.1	5.7	5.9	8.6	9.4
Public sector 4/										
Overall balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-3.3	-2.9	-2.7	-2.4
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.1	1.2	1.5	1.7	1.6
Debt-stabilizing primary balance 5/	-7.8	1.4	-1.4	-2.7	-0.1	-0.8	-1.0	-1.3	-0.9	0.0
Gross PS financing requirement 6/	26.8	32.8	36.3	35.1	31.2	30.0	28.7	27.6	27.1	26.9
Public sector gross debt 7/	55.3	60.5	62.9	63.7	63.2	62.4	60.9	59.4	58.9	57.7
Public sector net debt 8/	52.3	56.5	59.1	58.2	58.1	57.7	56.6	55.5	55.2	54.4
Financial sector 9/										
Capital adequacy ratio (in percent)	15.1	15.4	15.5	15.1	17.2	…	…	…	…	…
Nonperforming loans (NPLs) in percent of total loans	15.7	14.5	14.8	12.8	12.4	…	…	…	…	…
Provisions in percent of NPLs	69.3	71.8	73.2	79.5	80.8	…	…	…	…	…
Return on assets (after tax, in percent)	1.5	1.4	1.1	1.4	1.6	…	…	…	…	…
Return on equity (after tax, in percent)	15.1	14.9	12.4	15.4	16.0	…	…	…	…	…
FX deposits held by residents (in percent of total deposits)	7.2	7.4	7.4	7.7	6.8	…	…	…	…	…
Government debt held by FS (percent of total FS assets)	44.6	55.2	64.3	60.5	61.7	…	…	…	…	…
Credit to private sector (percent change)	4.0	7.5	-0.6	11.0	5.6	…	…	…	…	…
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	213.6	225.1	231.6	246.8	271.0	285.0	300.5	322.2	344.9	369.4

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

1/ Inflation after 2009/10 based on new CPI weights, recalculated in September 2011.
2/ Debt at remaining maturity is defined as maturing short-, medium-, and long-term external official debt.
3/ Current account deficit plus amortization of external debt.
4/ Public sector covers general (consolidated) government.
5/ Based on the end of period debt stock in year t-1, and the baseline assumptions for the relevant variables (i.e., growth, interest rates, inflation, exchange rates) in year t.
6/ Overall balance plus debt amortization.
7/ Excludes obligations to the IMF except budget financing, military debt, commercial loans, and short-term debt.
8/ Net debt is defined as gross debt minus government deposits with the banking system.
9/ Financial sector includes all commercial and specialized banks; for government debt also includes nonbanks, but excludes State Bank of Pakistan.

Table 11. Pakistan: Schedule of Reviews and Purchases

Date 1/	Amount of Purchase		Conditions
	Millions of SDRs	Percent of Quota	
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
September 2, 2014	0	0	Fourth review and end-June 2014 performance /continuous criteria
December 2, 2014	720	70	Fourth and Fifth reviews and end-June 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

September 15, 2015

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

Dear Ms. Lagarde,

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

Looking ahead, we remain strongly committed to achieving the remaining objectives of the program. In this context, we focus on reinforcing and building on our recent macroeconomic stability gains, and on advancing further structural reforms to achieve higher, sustainable, and inclusive economic growth. A major goal in this regard is to continue to widen the tax net to generate the necessary resources for higher infrastructure and social spending while strengthening public finances. In addition, we are addressing the circular debt issue in the power sector, continuing to build foreign exchange reserves buffers to strengthen resilience in the face of external shocks, reinvigorating our plans for privatization and restructuring of public enterprises, and creating suitable conditions for higher investment and exports by improving competitiveness and the business climate. The actions described in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP) are consistent with this strategy.

Meanwhile, despite some slippages, our performance on the eighth review has been broadly satisfactory:

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

The program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. As detailed in the attached MEFP, we propose new structural benchmarks against which to measure progress under the program (MEFP, Tables 1 and 2). The attached Technical Memorandum of Understanding (TMU) explains how the program targets are measured.

In the attached MEFP, we set out our plans to further advance the objectives of our stabilization and inclusive growth program. We propose to modify the end-September PC on NDA in line with our revised monetary projections and set new PCs for December 2015 as specified in the attached MEFP, and completion of the eighth review under the Extended Arrangement.

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

/s/	/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 4.5 percent in FY 2015/16. However the government retains its goal of achieving growth of 5.5 percent this fiscal year. Risks are broadly balanced. Lower oil prices, planned improvements in the supply of gas and electricity, and investment related to the China Pakistan Economic Corridor (CPEC) are supporting growth, while the recent deceleration of private credit growth and export weakness constitute downside risks. Headline consumer price inflation fell to historic lows at 1.7 percent y-o-y in August, mainly driven by lower food and energy prices. We expect inflation to increase to around 4¾ percent on average in FY2015/16, due to a likely bottoming out of commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.

2. **International reserves strengthened, helped by an improved current account in FY 2014/15, despite a decline in exports**. The decline in exports was driven by lower commodity prices, weakening external demand, ongoing energy shortages, security and business climate challenges, and significant appreciation of the real effective exchange rate. However, as this decline in exports was more than offset by low oil prices and strong growth of remittances, the current account deficit narrowed to 0.8 percent of GDP. With this, gross international reserves reached US$13.5 billion by end-June 2015; covering more than three months of imports, up from US$11.6 billion at end-March 2015. Looking ahead, we expect further improvement in our foreign reserve coverage to about four months of imports by end-FY2015/16.

3. **Fiscal performance in FY2014/15 fell short of the program targets**. The PC on the general government budget deficit excluding grants was missed by PRs 102 billion (0.37 percent of GDP). This deviation was due largely to higher year-end spending by some provinces. Even though the indicative target on federal tax revenue was missed, the federal government contained spending to meet its share of the general government deficit target, despite unforeseen expenditures of PRs 53 billion on account of Zarb-e-Azb military operations, hosting of Temporarily Displaced People (TDPs) and for relief and rehabilitation works in flood affected areas. On the revenue front, despite the legal challenges to some revenue measures, the fall in international commodity prices, and lower inflation, the tax-to-GDP ratio increased by 0.5 percentage point to 11 percent in FY2014/15. We missed the end-June indicative target on targeted cash transfers through the Benazir Income Support Program (BISP) by a small margin explained by savings in the administrative costs, although we met our goal to expand the BISP coverage to 5 million beneficiaries.

4. **Despite an increase in money growth, private sector credit growth decelerated**. We met the end-June NIR target with a margin of over US$440 million, due in part to strong spot market purchases in an environment of favorable international oil prices and stable macroeconomic

conditions. The ceiling on SBP's net short position of swap/forward contracts was also met. We met the end-June NDA target by PRs 19 billion, despite the fact that net government borrowing from the SBP was above the program target by PRs 28 billion. As a result of these developments, reserve money grew by 9.9 percent y-o-y in June 2015, and broad money grew by 13.2 percent y-o-y in June 2015. Nonetheless, private sector credit expansion slowed down to 5.6 percent y-o-y in June amid falling inflation, while government borrowing from the banking system increased by 16 percent y-o-y.

Economic Policies

A. Monetary and Exchange Rate Policies

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

5. **We are continuing to build foreign exchange reserve buffers to reduce external vulnerabilities**. We are doing so by taking full advantage of the oil price windfall, while recognizing the need to strengthen our trade competitiveness, which has eroded in part due to pronounced movements in global foreign exchange markets. We request modification of the end-September performance criteria (PC) on NDA of the SBP, and propose to set subsequent PCs accordingly (Table 1).

6. **Our monetary policy stance is consistent with current economic conditions**. With declining core and headline inflation, we lowered the reverse repo rate by cumulative 350 bps since November 2014. We will continue to set the policy rate in a forward-looking fashion to keep the real interest rate positive and to anchor low inflation expectations.

7. **The improved interest rate corridor will enhance our monetary policy framework**. The new corridor, put in place in May 2015 (significantly ahead of the end-September 2015 SB) provides stronger guidance for short-term market interest rates and improves liquidity management in the interbank market. Concurrently, we established a new policy rate, which now stands at 6 percent, with the ceiling of the interest rate corridor at 6.5 percent and the floor at 4.5 percent. The transition has been smooth so far, supported by more frequent open market operations. The revised framework has also increased interbank market activity and reduced banks' use of the SBP's standing facilities.

8. **Further strengthening the SBP's independence is key for an improved monetary policy framework**. We submitted revised amendments to the SBP Act to the relevant parliamentary committee of the National Assembly in mid-March. The amendments will strengthen the autonomy of the SBP. Among other things, the amendments will establish an independent decision-making monetary policy committee to design and implement monetary policy. These amendments were approved by the National Assembly in August and we expect to enact them by end-September 2015

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

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

B. Fiscal Policy

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

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

12. **We will continue to manage budgetary spending prudently**. We will reduce power subsidies (including amounts for arrears clearance) to 0.4 percent of GDP in FY2015/16, from 0.8 percent in FY2014/15. We will reallocate current spending to accommodate for additional agricultural support. To protect against a potential negative outcome of legal challenges to electricity surcharges, we will take mitigating measures (¶31). To assure achievement of our fiscal targets in FY2015/16, and following last year’s agreement under the Council of Common Interest (CCI), the provincial finance secretaries have agreed in writing to increase provincial budget surpluses consistent with the program. To this end, total provincial spending will be maintained at 6.5 percent of GDP in FY2015/16, with total provincial own tax and nontax revenues standing at 1.1 percent of GDP. We will intensify our interaction with provincial authorities at a higher level to arrive at a mechanism to strengthen the provinces’ fiscal commitment for FY 2015/16. We will also hold monthly meetings among the federal and provincial Finance Secretaries to review fiscal performance and coordinate spending priorities to correct any slippages in a timely manner, and will update IMF staff on the outcome. We will again reduce expenditure allocations in the first nine months of the year compared to the budget to create a reserve against any deviation.

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

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

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

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

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

- We will continue to improve the FBR's information technology infrastructure and expand its access to taxpayer information. We are integrating the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database (SB, end-September 2015). All financial and property transactions by individuals require CNIC numbers, which will help the FBR in its tax broadening efforts.

- Our tax audit initiatives have shown great success. With the number of audits increasing from 3,000 in FY2010/11 to 62,335 in FY2012/13, additional tax assessments surged from PRs 1 billion to PRs 50 billion over the same period. The FBR is in the process of adopting a new audit policy that will move towards risk-based auditing to identify those taxpayers who are most likely to be noncompliant (SB, end-September 2015). While retaining elements of random selection to ensure taxpayer compliance, the FBR is developing a modern compliance risk management system with quantitative performance indicators (such as the number of risk-based audits and the quality of audits as measured by the amount of detected tax evasion).

- The income tax law has been amended to provide the FBR with full access to bank accounts and transactions, with a view to minimize the risk of tax avoidance and evasion. A series of legal challenges, however, has delayed operationalization of this provision. While we are actively pursuing a legal resolution, the FBR is strengthening its intelligence capacity to gather financial information, particularly on high wealth individuals, from multiple sources including real estate transactions, motor vehicle procurement, survey of palatial houses, and international travel

- By end-January 2016, we will prepare and submit to the National Assembly draft legislation against "benami" transactions, in which assets are held by or transferred to a person, but have been provided for, or paid by, another person (new SB).

- We will require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments (prior action). In addition, the FBR will start monitoring the penalties imposed by its field officers.

- We will streamline the online filing scheme (which will facilitate registration and filing of PIT returns by simplifying the tax return form) and maintain the coverage of tax audits at 7.5 percent of filed tax returns.

- We will establish a tax policy research and analysis unit under the Revenue Division to improve our analytical capacity for fiscal policymaking.

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

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

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

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

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

21. **We continue our support to the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP)**. As of end-June 2015, we have reached 5 million beneficiaries. While we have slightly missed the indicative target for transfer payments, this is attributable to savings on administrative expenses. In FY 2015/16 we will expand the number of beneficiaries to 5.3 million. If additional donor support can be secured, we will also further increase the stipends (as elaborated in the TMU). In order to improve the service delivery to the beneficiaries and to reduce cost, we have already signed amendments in the contracts executed with the commercial banks working with BISP. Consultation with our development partners to assess the need and benefits of going into new contracts is going on. Decision in this regard is expected to be reached by September 2015 and if need is felt for hiring new banks, transition plan would be finalized by October, 2015. To ensure timely payments to beneficiaries during the transition, we have extended the contracts with the commercial banks that are currently making e-payments on behalf of the BISP until December 2015. In partnership with the provincial governments, we have rolled out education-conditional cash transfers. As of end-June 2015, we are disbursing in 32 districts.

C. Fiscal Financing

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

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

- Continue to provide Fund staff with a detailed quarterly financing plan for the coming 12 months and publish our rolling quarterly issuance program for domestic public securities;
- Update the Medium Term Debt Management Strategy (MTDS) covering the period FY2015/16–FY2018/19 (preparation of a draft by end-November 2015 and publication by end-January 2016); and
- By end-October 2015 (SB), appoint risk management staff (director and two staff) and publish quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.

D. Financial Sector

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

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

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

- The revised Securities and Exchange Commission of Pakistan (SECP) Act to enhance the regulatory power of the SECP will be discussed with the IMF and will be considered by the CCI before being submitted to Parliament for enactment by April 2016.
- The Futures Trading Bill is being finalized to enhance efficiency and transparency and will be placed before Parliament by end-September 2015.
- A working group of the SBP-SECP joint task force is finalizing the guidelines for an early warning system for the effective monitoring and supervision of financial conglomerates. With support of IMF technical assistance, we are developing a framework for consolidated supervision of banking groups.
- To improve the recovery of NPLs without banking court intervention and enhance credit growth, the SBP, in consultation with banks, has developed amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, and forwarded them to the Ministry of Finance for enactment. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April 2015. This law will be pivotal for facilitating timely resolution of NPLs and allowing banks to focus on their core areas of operation. The SECP has also prepared a concept note for developing the Corporate Rehabilitation Act, which has been shared with stakeholders.
- The SBP continues to improve its contingency planning framework with support by IMF TA. Among other things, this work will encompass a review of the legal framework, identification of gaps, an assessment of the consolidated supervision framework and domestic systemically important banks (D-SIBs). The SBP had already conducted and published an initial assessment of identification of the D-SIBs and is working on developing the monitoring mechanism.

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

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

29. **We continue strengthening the anti-money-laundering and combating of financing of terrorism (AML/CFT) framework**. Parliament is discussing draft amendments to the Anti-Money-Laundering Act (AMLA) that will include serious tax crimes in the Schedule of Offenses and enable the use of AML tools to combat tax crimes. We are committed to adopting these amendments (as defined in the TMU) by end-November 2015 (modified SB). Subsequently, we will amend applicable regulations in line with international standards. The Financial Monitoring Unit's analytical capability is being enhanced by establishing a data center and use of the goAML[1] analytical tool in cooperation with DfID and UNODC. In addition, we will continue to work with the Asia/Pacific Group (APG) of the Financial Action Task Force (FATF) to strengthening our framework for combating the financing of terrorism, including by effectively implementing the relevant United Nations Security Council Resolutions.

E. Energy Sector Reforms

30. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We are implementing our time-bound strategy to tackle price distortions, insufficient collections, costly and poorly targeted subsidies, governance and regulatory deficiencies, and low efficiency in energy supply and distribution with the support of our international partners. We are reducing electricity subsidies to 0.3 percent of GDP in FY 2015/16, and allocating an additional 0.1 percent for arrears clearance, with the recent tariff notification. We also began addressing both the flow and stock of payable arrears in the power sector including by allocating budgetary resources, levying surcharges, gradual improvement in company performances and recoveries, and initiating the process of privatizing power sector companies.

Power Sector

31. **Price Adjustments**.

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

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

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

- The payables in the power sector stand at PRs 313 billion at end-June 2015. In addition to current payables, it comprises: (i) a residual from payables clearance of June and July 2013; (ii) a disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) nonrecovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerges from the court stay order on surcharges; (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads (vii) PHCL loan servicing, and (viii) payables to cross border trade.

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

33. **We have adopted a plan for reducing the accumulation of payables arrears and to gradually eliminate the stock**. This plan includes steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure. With this, the accumulation of payables will be reduced from PRs 209 billion in FY 2014/15 (including the PHCL loan) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY2018/19 (Table 1). We have missed the end-June IT on the flow of power sector arrears, due to a temporary delay in implementation of the plan in two regions. However, the full amount of the deviation will be recovered during the current fiscal year and we remain on track to meeting upcoming quarterly targets.

- We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in FY2014/15 remained at 18.7 percent. Collections declined on average by 1 percent to 88.1 percent, primarily due to two DISCOs. More broadly, to address increased losses in some DISCOs, the chief executives and some members of senior management of poorly performing DISCOs have been replaced, and we are working with provincial governments to address their payment problems. We will work on improving the average performance of the sector further in FY2015/16.

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

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

- We are moving the stock of PHCL debt into DISCOs' balance sheets where privatization will take place. This will help to reduce the stock of PHCL debt and will ease the servicing of this debt. In the meantime, we will continue to fully service the PHCL obligations.

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

35. **Demand Side Management**. To improve resource allocation and energy efficiency, we will use pricing (¶31) and other market-based instruments. We will finalize the required approvals to begin Advanced Metering Infrastructure (AMI) by end-September 2015, which will be initially implemented in LESCO and IESCO to help reduce commercial losses, increase recoveries and better manage revenue-based load shedding. We have completed the consultative process with stakeholders on the draft Pakistan Energy Efficiency and Conservation Act. In August 2014, the CCI approved the bill and it is now in the National Assembly. We expect it to be enacted in early 2016. The Act will include equipment performance standards, and would cover key electrical and gas equipment and appliances which are not yet covered. In parallel, we are also preparing the necessary implementing regulations.

36. **Supply Side Management**. We continue to prioritize the use of gas and coal rather than fuel oil in electricity generation and remain committed to a transition to market-based allocation of natural gas in the medium-term. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to reduce technical losses. In addition, we have signed performance contracts with two state-owned generation companies which are run on furnace oil to reduce their losses. We continue with the development of hydropower projects, with the start of construction of the Dasu project. We will promote policies for private investment for power generation through both the entry of new players as well as expanding existing capacity of those IPPs systematically adhering to energy mix targets and least-cost generation plans. The expansions include around 1300 MW in 2015 and are expected to add an additional 700 MW in generation capacity in 2016. Beyond this, 8.3 GW generation capacity is envisaged through FDI under the CPEC over 2017-2021, with additional capacity

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

37. **Governance, Regulatory, and Transparency Improvements**. Improving energy sector governance and transparency, and strengthening the regulatory framework are critical for delivering improved service and for attracting needed private sector investment. To begin addressing administrative and technical constraints, we have appointed a new Chairman and Board member with financial skills to NEPRA. NEPRA is moving forward with preparations to determine multi-year tariffs. To facilitate the transition, DISCOs prepared five-year investment plans and submitted the plans to NEPRA. In the first phase, we will determine and notify multi-year tariffs for FESCO, IESCO, and LESCO by end-November 2015 (SB), with the remaining ones done annually on a rolling basis. We have set up the Central Power Purchasing Agency Guarantee (CPPA(G)) and have amended its Articles of Association. We have separated it from the National Transmission and Despatch Company (NTDC). NTDC's license has been modified so that it can no longer purchase or sell electricity. The Market Operator Registration, Standards and Procedure Rules 2015 were issued in late May 2015 and the Commercial Code was approved by NEPRA in early June 2015. Key CPPA(G) staff are being put in place. Further, NTDC and CPPA(G) signed an Administrative Agreement towards making CPPA(G) functional.

38. **Energy public sector enterprise (PSE) reform**. We have already transferred governance of DISCOs, three GENCOs, and the NTDC to new boards of directors and management. We are committed to building the institutional capacity of the Water and Power Development Authority (WAPDA), and we have begun to strengthen WAPDA's financial capacity by allowing the tariff to incorporate capital investment plans. We are also committed to ensuring timely payments by CPPA(G) for all power purchased from WAPDA Hydel. We have included several DISCOs in our privatization plans with the goal of privatizing three of them in the next fiscal year (¶45). We have begun the process of introducing competitive pricing and direct contracting between power producers and wholesale customers in the power sector. To that end, we introduced the necessary policies and timeline through an ECC decision.

Oil and Gas Sector

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

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

- Under the Petroleum Exploration and Production Policy 2012 (2012 Policy), we are incentivizing producers to enhance production from existing fields as well as to initiate new exploratory efforts, with price increases ranging from 2.8–3 U.S. dollars per MMBTU to 6–10 U.S. dollars per MMBTU. To this end, we are ensuring that existing concessions are in the process of conversion to the 2012 Policy with support from international partners. So far, we have converted 92 concessions with the remaining 28 that are currently being reviewed in the Ministry of Petroleum and Natural Resources to be completed by end-September 2015, subject to determination of eligibility under the 2012 Policy. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy and are expecting to award an additional 10–15 exploration concessions by end-December 2015.

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY2014/15 (due in July and January) was partially recuperated in the new tariff which was notified and implemented, as prior action, in line with the OGRA determination, on August 31, 2015. Further, the remaining losses will be recuperated in the January 2016 gas price notification. We will also make any necessary adjustments to notified prices to reflect imported gas prices, so that the cost of this gas will be fully reflected in the tariff on a monthly basis.

- The National Assembly passed the GIDC Act which was signed by the President on May 21, 2015. We have taken measures to recover PRs 57 billion in FY 2014/15. We will continue to focus on areas where collecting agents have already collected the GIDC in their prices, in accordance with the GIDC Act.

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

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

- We have established performance monitoring units in the Ministry of Water and Power and Ministry of Petroleum and Natural Resources (MPNR) which report progress quarterly to the ECC. We are committed to updating the public on reform progress and are therefore posting quarterly monitoring reports on the websites of the concerned ministries. The first monitoring report was approved by the ECC in April 2015 and we have already disclosed the report on the Ministry MPNR’s website. To support the efforts of the regulator, we advertised the vacant positions on the Board of the Oil and Gas Regulatory Authority

(OGRA). We have appointed the Member Finance, but were not able to select the Member Oil and re-advertised the position with revised criteria.

- We will further encourage bilateral contracting between producers and consumers. OGRA is reviewing rules for third party access to the gas transmission system.

- We are also pursuing companies to reduce losses by benchmarking international standards, through investment measures, managerial and administrative improvements, and through building the capacity of the gas distribution companies. The current level of Unaccounted For Gas (UFG) is on average around 11 percent due to commercial and technical losses. The gas companies submitted loss reduction plans to the MPNR in May 2015 and Sui Southern Gas Company is working with the World Bank on the Natural Gas Efficiency Project (NGEP).

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

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

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

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

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

- ***Contract enforcement***. We completed in March 2014 a study to identify necessary changes to the bankruptcy regime that would support the rehabilitation of weak but viable companies. Based on the findings of the study, we are reforming the bankruptcy framework through introducing two far-reaching legislative measures: (i) the Corporate Rehabilitation Act, which will provide a mechanism for the reorganization and rehabilitation of distressed companies; and (ii) the CRC Act, which envisages setting up private Corporate Restructuring Companies to take over assets of bankrupt companies (¶26). The CRC Act has been placed before the Parliament in April 2015. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism will be extended to Islamabad and Rawalpindi by end-September 2015 and we began work to expand to other provincial capitals (i.e., Peshawar and Quetta). We begin to pilot commercial courts in Lahore to expedite resolution of commercial disputes and contract enforcement.

- ***Paying Taxes***. We have completed a review to reduce the number of existing processes and forms for sales and income tax by end-March 2015 (SB). We have identified 39 income and sales tax processes that required elimination or streamlining. Based on this review, we took measures to streamline, simplify, and automate procedures and processes and we developed 8 IT-based modules. We have launched the integrated end-to-end IT solution (IRIS) on the following 8 processes: registration, declaration, audit/assessment, rectification, penalty, default surcharge, refunds, and exemption certificates. We will continue to streamline and fine-tune the system based on the feedback we receive from the taxpayers and in accordance with international best practices.

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

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

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

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

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

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

- ***Strategic Private Sector Participation***. We have identified 25 companies (listed in the TMU) for strategic partnerships, which will act as a catalyst in unlocking their potential through their managerial and investment participation, and can also increase the value of Government's residual shareholding. We will make efforts to balance the objectives of sale proceeds while adequately addressing labor market issues and social implications.

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

- **DISCOs**. We appointed financial advisors for share sales of Faisalabad Electric Supply Company (FESCO) in July 2014. We will complete the bidding process by end-June 2016 (new SB) leading to finalization of the transaction by end-September 2016. For Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), we have hired financial advisors in January 2015 for expected completion of the bidding process by end- June 2016 and finalization of the transactions by end-September 2016. We hired financial advisors for Gujranwala Electric Power Company (GEPCO) in April 2015; and for Hyderabad, Peshawar, Quetta, Sukkur, and Multan Electric Supply Companies (HESCO, PESCO, QESCO, SEPCO, and MEPCO) in May 2015. We expect finalization of these transactions in 2016 and 2017.

- **Other companies**. The planned sale of Heavy Electrical Complex (HEC) in May 2015 had to be cancelled as the winning bidder could not provide the funds to close the transaction. We have completed the bidding process for the sale of National Power Construction Co. (NPCC) in August 2015 and will finalize the transaction by end-September2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and expect completion of the bidding process by end- June 2016 with finalization of the transaction by end-September 2016. We have appointed financial advisors for Jamshoro Power Generation Company Limited (JPCL) in April 2015 with completion of the bidding process expected by end-September 2016 and finalization of the transaction by end-December 2016. In May 2015, we have finalized the hiring of financial advisors for Lakhra Power Generation Company Limited (LPGCL), and Central Power Generation Company Limited (CPGCL), with completion of the bidding process expected by end-September 2016 and finalization of the transaction by end-December 2016. In July 2015, we have hired the financial advisor for Kot Addu Power Company (KAPCO), with expected completion of the bidding process for the sale of the government's equity by end-March 2016 and finalization of the transaction by end-June 2016. Plans are being developed for the remaining companies on the list.

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

  - **Pakistan International Airlines**. We have appointed financial advisors in July 2014 to seek potential options for restructuring and strategic private sector participation in the core airline business by end-March 2016. The diligence process was completed in August 2015. Detailed plans for private participation are being finalized. We will solicit expressions of interest for strategic private sector participation by end-December 2015 (modified SB).

- **Pakistan Steel Mills**. We have appointed a professional board and a new chief executive officer and approved a comprehensive restructuring plan to prepare for potential strategic private sector participation in the company. However, due to gas supply difficulties, operational efficiency remained around 18 percent. We hired financial advisors in April 2015, completed the due diligence process in August 2015, and expect to complete the bidding process by end- December 2015, and finalize the transaction by end-March 2016.

- **Pakistan Railways**. Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, we improved revenue in FY 2013/14 and FY 2014/15 by 32 and 45 percent, respectively, through rationalization of tariffs and expenditures and improved occupancy rates. Since April 2014, we have been moving forward with our comprehensive restructuring plan, which includes improvements in business processes and the institutional framework, financial stability, and service delivery. Appointment of the Railway Board was completed in February 2015. In the short-term, we are focusing on improvements in freight transportation through creation of a freight company, and adding more locomotives and wagons. In FY2014/15, we have added 35 new locomotives for both passenger and freight service, and more than doubled revenues from freight operations.

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

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

	FY2014/15				FY2015/16				
	end-March	end-June			end-September		end-December	end-March	end-June
					Program			Projection	
					Seventh Review				
		Target	Adjusted Target	Actual	Target	Revised			
Performance Criteria									
Floor on net international reserves of the SBP (millions of U.S. dollars)	4,290	7,300	4,913	5,354	8,300	8,300	9,300	9,400	10,000
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,372	2,270	2,459	2,440	2,210	2,350	2,350	2,560	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,067	1,387	1,386	1,488	306	306	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,765	1,700	1,700	1,700	1,700	1,700	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,653	1,865	1,865	1,893	1,800	1,800	1,800	1,800	1,800
Continuous Performance Criterion									
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0	0
Indicative Targets									
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	69	95	95	94	21	23	46	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	1,777	2,691	2,691	2,588	640	640	1,390	2105	3104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	n/a	42	42	57	36	36	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

Item	Measure	Time Frame (by End of Period) Original	Rescheduled	Status	Macroeconomic rationale
Prior Actions					
1	Require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments.				Improve tax compliance.
2	Notify and implement the new gas tariff in line with the OGRA determination.	end-August 2015			To prevent potential fiscal costs and gradually align gas prices to international prices
3	Bring net borrowing from the SBP to below PRs 1830 billion	end-August 2015			To make sure that end-September PC is within reach.
Structural Benchmarks					
Fiscal sector					
1	Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.	end-March 2015		Met	Reduce distortions and improve revenue collection.
2	Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.	end-March 2015		Met	Strengthen the organizational framework and improve public debt management.
3	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people	end-September 2015			Broaden the tax base and improve tax compliance.
4	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015			Improve tax compliance and enforcement.
5	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015			To allow monitoring of fiscal and financial risks and the implementation of the MTDS.
Monetary sector					
6	Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.	end-February 2015		Met	Improve SBPs liquidity management.
7	Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF procedures, the Internal Audit Department conducts reviews of the program monetary data reported to the IMF, within two months after each quarter, for accuracy and compliance with the TMU.	end-February 2015		Met	Improve monetary policy framework through enhanced central bank independence.
8	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective in line with Fund Staff advice.	end-September 2015			Prerequisite for an independent monetary policy framework.
9	Make the improved interest rate corridor of the SBP operational	end-September 2015		Met	Improve SBPs liquidity management, and better functioning of the monetary policy framework.

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

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

Attachment II. Technical Memorandum of Understanding (TMU)

September 15, 2015

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

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, 2015, the NIR of Pakistan amounted to US$2,440 million.

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

5. **Reserve-related liabilities** of the SBP include all foreign exchange liabilities to residents or nonresidents, including (i) foreign currency liabilities with remaining maturity of one year or less, (ii) any foreign exchange liabilities arising from derivatives (such as futures, forwards, swaps, and options) on a net outstanding basis—defined as the long position minus the short position, (iii) outstanding IMF credits to Pakistan, (iv) foreign exchange deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks (excluding regulatory capital deposits of foreign banks with the SBP), international organizations, and foreign nonbank financial

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

6. **Aggregate net position in the foreign exchange derivatives** is defined as the aggregate net positions in forward and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). The SBP's aggregate position was –US$1.7 billion at end-June 2015.

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

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

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

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

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

12. **The overall budget deficit (excluding grants)** will be monitored quarterly under the cash balance of the general government balance, excluding grants, including the operations of local

(provincial) governments financed from local funds. It will be measured below the line and will include:

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

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

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

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

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

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

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

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

20. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶31). The current notified weighted average electricity tariff is PRs 11.45/kWh for all classes of consumers. The FY 2014/15 electricity bill will be notified effective from June 10, 2015, and include the following tariffs and surcharges: (i) weighted average tariff of PRs 9.91/kWh, (ii) a rationalization surcharge of PRs 1.54/kWh, (iii) debt servicing surcharge (DSS) of PRs 0.43/kWh, and (iv) Neelum-Jhelum Surcharge of PRs 0.1/kWh. The current notified electricity tariffs for users at 0-50 kWh/month of PRs 2/kWh will be retained.

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

Weighted Average Notified Tariff for electricity consumers =

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

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

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

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

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

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

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

= PRs 9.91 kWh

(ii) Rationalization surcharge PRs 1.54/kWh to reflect sector operation costs not recovered through the tariff. It consists of the following: (a) line losses not recognized by NEPRA; (b) noncollections not recognized by NEPRA; (c) financing costs due to delays in tariff determination; (d) zero-out subsidy in most of the nonresidential consumers; and (e) cost of equalizing tariffs across DISCOs.

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

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

= 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 ¶31). The court stay order increased the payment arrears by around PRs 37 billion for the November 2014—June 2015 period (see Table below). All surcharges are defined as, equalization surcharges, Neelum Jehlum and debt servicing surcharge—accrued mark up.

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

22. **Monitoring mechanism to track stock and flow of payables** (MEFP ¶33). The stock of payment arrears include the payables of PRs 313 billion, and the stock of PHCL of PRs 335 billion as of end-June 2015. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) for FY2014/15 and FY2015/16 and its components are given in the following Table:

(In Billion of Rupees)1/2/	2014/15		2015/16				2014/15	2015/16
	Q4 Target	Q4 Actual	Q1	Q2	Q3	Q4	Total	Total
Nonrecoveries	16	28	16	12	10	11	104	49
Accrued Markup	8	9	-	-	-	-	23	-
Excess line Losses	8	12	11	8	7	7	50	33
GST Non Refund	5	4	-	-	-	-	14	-
Late Payment Surcharge	4	2	1	1	1	1	8	5
Delayed Determinations	2	3	3	3	3	3	11	10
Total (flow)	42	57	31	24	20	22	209	98
Stock Clearance			47	63	26	21		
Total (stock)	322	313[1]	297	258	250	248		

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

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

23. **Structural benchmark on performance of DISCOs** (MEFP ¶34). By mid October 2015, quarterly quantitative targets will be determined by MWP and each DISCO for technical and distribution losses, and collection from current consumers.

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

C. Adjustors

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

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

27. **The ceiling on the consolidated overall budget deficit** (excluding grants) for FY2014/15 will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 15 billion at end-September, PRs 25 billion at end-December, PRs 42 billion at end-March, and PRs 50 billion at end-June. The ceiling for FY2014/15 will be adjusted downward for any shortfall in federal development spending below PRs 25 billion at end-September, PRs 80 billion at end-December, PRs 243 billion at end-March and PRs 410 at end-June. The ceiling for FY2015/16 will be adjusted downward for any shortfall in federal development spending (excluding one-off spending included in the below adjustor for security enhancements related to fighting terrorism and resettlement of internally displaced persons) below PRs 35 billion at end-September, PRs 90 billion at end-December, PRs 250 billion at end-March and PRs 510 at end-June. The ceiling will be adjusted downward for any shortfall in the targeted cash transfers (BISP) and it will be adjusted upward for over performance in the BISP up to PRS 12 billion in FY2014/15 and PRs 6 billion in FY2015/16 from their indicative targets. In FY2015/16, the ceiling will be adjusted upward for one-off spending of up to PRs 100 billion in total on security enhancements related to fighting terrorism (budget code: ID 8262, demand no. 114, Development Expenditure of Finance Division) and

resettlement of internally displaced persons (budget code: ID 8261, demand no. 114, Development Expenditure of Finance Division).

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)

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

- National Insurance Co. Ltd. (NICL)
- National Investment Trust Ltd. (NITL)
- Small & Medium Enterprise (SME) Bank
- Pakistan Reinsurance Co Ltd. (PRCL)
- Heavy Electrical Complex (HEC)
- Kot Addu Power Company Ltd. (KAPCO)
- Islamabad Electric Supply Co. Ltd (IESCO)
- Faisalabad Electric Supply Co. Ltd (FESCO)
- Lahore Electric Supply Co. Ltd (LESCO)
- Gujranwala Electric Power Co. Ltd (GEPCO)
- Mutan Electric Power Co. Ltd (MEPCO)
- Hyderabad Electric Supply Co. Ltd (HESCO)
- Sukkur Electric Power Co. Ltd (SEPCO)
- Peshawar Electric Supply Co. Ltd (PESCO)
- Quetta Electric Supply Co. Ltd (QESCO)
- Lakhra Power Generation Company
- Jamshoro Power Generation Co. Ltd (JPCL)
- Northern Power Generation Co. Ltd (NPGCL)—Thermal Power Station—Muzaffargarh)
- National Power Construction Co. (NPCC)
- Pakistan Steel Mills Corp (PSMC)
- Pakistan Engineering Co Ltd (PECO)
- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA Investment Ltd—Roosevelt Hotel NY & Scribe Hotel, Paris

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

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

E. Program Reporting Requirements

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

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations,	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates,;	Monthly	Within 25 days of the end of each month.
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions;	Quarterly	Within 45 days of the following quarter
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter
	Federal government	State budget	Monthly	Within 30 days of the end of each month

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

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

Table 1. Exchange Rates of the SBP

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

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

Table 2. Projected Disbursements to Pakistan

(In millions of U.S. dollars)

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15		Dec-15	Mar-16	June-16
						7th Review	Projection			
Multilateral and bilateral disbursement	2,943	1,270	1,098	1,002	1,970	990	745	1,830	1,228	1,669
of which: in cash 2/	2,608	407	543	764	1,810	548	520	1,457	829	1,226
International debt issuance	2,000	0	1,000	0	0	0	0	500	0	500
Coalition Support Fund	375	735	0	717	0	240	337	175	175	175
Other 1/	0	0	0	0	764	0	0	0	0	0
Gross Inflows	5,318	2,005	2,098	1,719	2,734	1,230	1,082	2,505	1,403	2,344
of which: in cash	4,983	1,142	1,543	1,481	2,574	788	857	2,132	1,004	1,901
Debt service	943	989	1,110	1,842	1,422	1,046	1,262	1,095	1,913	1,387
Memorandum items										
Gross International Reserves	9,096	8,943	10,514	11,615	13,534	14,296	13,917	15,574	15,547	17,131
Program Net International Reserves	1,800	3,000	3,500	5,000	7,300	8,300	8,300	9,300	9,400	10,000

1/ Includes privatization and 3G licenses.

2/ Numbers need to be confirmed with the MoF.

3/ As of February 9.

Table 3. External Inflows to the General Government

(In millions of U. S. dollars)

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Non Tax revenue	322	353	375	735	0	717	0	337	175	175	175
Of which: Coalition Support Fund	322	353	375	735	0	717	0	337	175	175	175
3G Licences	0	0	0	0	0	0	0	0	0	0	0
Grants	100	1538	151	147	346	148	198	109	201	133	176
External interest payments	202	155	215	174	289	166	310	274	261	259	288
Net external debt financing	50	-115	3501	273	1209	-56	1147	30	1346	-86	1232
Disbursements	645	760	4713	871	1845	851	2200	791	1893	1395	2245
of which budgetary support	309	285	2070	14	23	547	1086	41	1073	548	701
Amortization	594	875	1212	598	636	907	1053	761	547	1482	1012
Privatizations	0	0	5	0	0	0	764	0	0	0	0
Memorandum item											
Program financing	409	1823	2226	161	369	695	2048	150	1274	681	877

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

Item	June 30, 2013	June 30, 2014	Prov. June 30, 2015
Central Government	**5,561,994**	**6,059,496**	**7,010,575**
Scheduled Banks	**3,320,870**	**3,491,821**	**4,905,118**
Government Securities	1,117,115	2,413,134	3,295,052
Treasury Bills	2,611,512	1,550,476	2,164,055
Government Deposits	-407,757	-471,789	-553,989
State Bank	**2,241,124**	**2,567,674**	**2,105,457**
Government Securities	3,127	2,786	2,786
Accrued Profit on MRTBs	44,959	82,070	42,192
Treasury Bills	2,275,183	2,852,274	2,281,365
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,280,856
Treasury Currency	8,653	8,654	8,156
Debtor Balances (Excl. Zakat Fund)			
Government Deposits	-96,260	-383,571	-234,504
(Excl. Zakat and Privatization Fund)			
Payment to HBL on a/c of HC&EB	-287	-287	-287
Adjustment for use of Privatization Proceeds			
for Debt Retirement	5,749	5,749	5,749
Provincial Governments	**-315,607**	**-510,138**	**-600,192**
Scheduled Banks	**-287,393**	**-352,258**	**-430,426**
Advances to Punjab Gov Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-431,450
State Bank	**-28,214**	**-157,880**	**-169,766**
Debtor Balances (Excl. Zakat Fund)	13,715	802	3,049
Government Deposits (Excl.Zakat Fund)	-41,930	-158,682	-172,814
Net Govt. Budgetary Borrowings			
from the Banking system	**5,246,387**	**5,549,357**	**6,410,383**
Through SBP	2,212,910	2,409,794	1,935,691
Through Scheduled Banks	3,033,477	3,139,563	4,474,691
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	**44,959**	**82,070**	**42,192**
Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-6,438**	**-7,259**
Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**1,525,175**	**2,125,355**
Net Govt. Borrowings (Cash basis)			
From Banking System	**5,124,762**	**5,448,425**	**6,336,750**
From SBP	2,167,951	2,327,725	1,893,499
From Scheduled Banks	2,956,811	3,120,700	4,443,250

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

Our Pakistani authorities thank staff for their hard work and the constructive interactions since the inception of the EFF-supported program. They also greatly appreciate the guidance and support of the Executive Board and management. They broadly agree with staff assessment and policy recommendations.

Program performance

Program implementation has been strong overall. Although two end-June performance criteria and three indicative targets were missed, the deviations were mainly temporary in nature with minimal impact on the overall performance. The PC on net international reserves was met with a wide margin and the PC on NDA with a narrower margin, while the ceiling on foreign currency swaps/forward position was observed. The PC on fiscal deficit was exceeded by the equivalent of 0.4 percent of GDP and the PC on government borrowing from the central bank by 0.1 percent of GDP, due to expenditure overruns by some provinces. The authorities have taken corrective measures (¶ 12 MEFP) by instituting a mechanism in consultation with the provinces to pre-empt similar slippages. Moreover, agreement was reached with provincial governments to increase their fiscal surpluses. The shortfall in revenue leading to nonobservance of the indicative target was due to lower commodity prices and inflation and was offset by cuts in nonpriority spending leaving the Federal government balance as planned. Moreover, to strengthen revenue, the authorities increased the GST on petroleum products in August 2015 and stand ready to take additional measures, as needed, to protect the revenue target, including to bring forward plans to eliminate tax concessions and exemptions slated for FY2016/17. The nonobservance of the indicative floor on Benazir Income Support Program (BISP) spending was technical in nature since it resulted from efficiency gains, whereas the number of beneficiaries target was achieved. The missed indicative target on flow of power sector arrears by PRs 15 billion (0.05 percent of GDP) was due to a temporary delay in the implementation of some elements of the plan that have since been addressed, and the authorities are on course to achieve the end-September target. Structural reform implementation was better than programmed: the two structural benchmarks were implemented well ahead of schedule: the operationalization of the improved interest rate corridor of the central bank in May instead of end-September 2015, and passage of the Credit Bureau Act by parliament in August instead of end-November 2015.

Recent economic developments and outlook

Notwithstanding a number of constraints, including a difficult security situation, legal challenges to tax measures and power sector reforms, lower commodity prices and lower inflation affecting tax revenue, and weak external demand, the macroeconomic situation and the economy's resilience have improved, and the authorities have shown grit and resolve in holding on to the program parameters. Growth continued to accelerate, reaching 4.2 percent in FY2014/15 and, reflecting prudent macroeconomic policies and the drop in oil prices, inflation was reduced by more than one half to low single digit level, the current account deficit declined to less than 1 percent of GDP, reserve coverage increased from 2.2 to 3.3 months of imports, and after increasing over the past several years, public debt to GDP has started to decline. These are significant achievements that the authorities are determined to build upon through continued stabilization and reform efforts to further reduce vulnerabilities and put the economy on a path of higher and more inclusive growth and faster job creation.

The outlook is improving, with growth expected to increase further to 4.5 percent in FY2015/16 and to strengthen thereafter, buoyed by improvement in energy supply, investment in the China-Pakistan Economic Corridor and improved business climate. Inflation could increase temporarily once global commodity prices stabilize but is expected to remain under control through continuing prudent monetary policy. The current account and reserve position should improve further, supported by continuous strong growth of remittances.

Fiscal Policy

Despite the smaller-than-programmed consolidation achieved in FY2014/15, the authorities remain committed to reducing the fiscal deficit to 3.5 percent of GDP by the end of the program in FY2016/17. The deficit was brought down to 5.4 percent of GDP in FY2014/15, compared to 8.3 percent in FY2012/13, reflecting the impact of tax policy and administrative measures and tighter expenditure control, notwithstanding the provincial spending overrun, and urgent security and flood-relief spending, and is projected to decline further to 4.3 percent of GDP in FY2015/16. At the same time, the stock of GST refund claims is being reduced with the objective of bringing it down to an acceptable level.

The authorities continue to expand coverage of the BISP to protect the most vulnerable segments of society. After reaching its goal of 5 million in FY2014/15, the number of beneficiaries is expected to increase to 5.3 million this year. BISP is planning to update its National Socio Economic Registry. The database collected in 2010-11 was based on a poverty scorecard survey. The update would ensure that BISP's annual disbursements of about $ 1 billion are targeted to the most deserving families.

The authorities agree on the need to strengthen tax revenue performance further to reach 14.5 percent of GDP in FY2019/20 from its current level of 11 percent. They have taken important steps to enhance tax collection at the federal level in the last two years, including elimination of tax exemptions of PRs 224 billion and withdrawing FBR’s power to issue Statutory Regulatory Orders (SROs) to grant tax exemption, allowing it only in exceptional, specified circumstances with the approval of the Economic Coordination Committee (ECC) of the cabinet. They are stepping up efforts to improve tax administration to enhance coverage. They have succeeded through administrative and tax policy measures at strengthening incentives for tax filing and significantly increasing the number of personal income tax filers and expanding coverage of the retail sector in GST collection. New measures *inter alia* include: integrating the National Tax Number (NTN) with Computerized National Identity Card (CNIC) (SB); and adoption of a new audit policy in a move towards risk-based audit to identify noncompliant taxpayers (SB). In its drive to improve transparency of property transactions, the authorities are also bringing an important piece of legislation against *benami* transactions (new SB). Ongoing and planned measures to enhance governance and fight corruption in tax administration will help improve compliance and increase revenue. The authorities will continue to explore potential avenues to strengthen tax revenue, in close cooperation with the Fund.

The authorities are also engaging with the Fund to review and strengthen the Fiscal Responsibility and Debt Limitation Act legislated in 2005, including on selection of a fiscal policy anchor, medium-term budgeting, and policy coordination across all layers of government, in line with international best practices. This exercise will also look at financial management of SOEs, government guarantees and risk management, public private partnerships (PPPs) and special purpose vehicles (SPVs). The authorities have sought technical assistance from the Fund to develop a PPP framework at the federal level. The institutional framework for debt management will be improved with the objective of diversifying sources of financing, reducing costs and risks, and optimizing borrowing strategies. The authorities are on track to appoint risk management staff and begin publishing quarterly debt management risk reports by end-October 2015 (SB) and to publish an updated MTDS by end-January 2016. In consultation with the UNDP and other organizations, the authorities also plan to introduce gender-responsive budgeting in FY2016/17.

Monetary and Exchange Rate Policies

Monetary and exchange rate policies have remained geared towards maintaining price stability and building foreign exchange reserves. The SBP will continue to build foreign exchange reserves, with the objective of strengthening buffers against shocks. Reserves are now equivalent to 63 percent of Fund's ARA metric and are on course to reach 78 percent by end of FY2015/16. The SBP will also continue to set the policy rate in a forward-looking fashion to maintain positive real interest rates and anchor inflation expectations.

Monetary policy effectiveness will be strengthened by the new interest rate corridor, which has improved liquidity management and transmission of the policy stance to market interest rates. Amendments to the SBP Act to strengthen the autonomy of the central bank and effectiveness of monetary policy were passed by the National Assembly in August 2015 and are likely to be enacted after approval by the Senate by end-September 2015 (SB). Simultaneously, in August 2015 the SBP has published its strategic plan for 2016-20 meant to further strengthen the monetary policy framework, the financial stability regime, the banking system, and SBP's organizational efficiency.

Financial Sector developments and policies

The banking sector remains sound with high earnings and strong solvency, with the Capital Adequacy Ratio (CAR) rising to 17.2 percent in FY2014/15 against 15 percent last fiscal year and a statutory requirement of 10 percent. All banks are now CAR-compliant after the last noncompliant bank met the condition of recapitalization through rights issue in July 2015. A plan has been devised to bring the five small banks which do not meet the minimum requirement for paid-up capital into regulatory compliance. The authorities are phasing in implementation of strengthened capital adequacy by transitioning to Basel III standards. The Non-Performing Loans (NPLs) ratio improved marginally in June 2015 to 12.4 percent from 12.8 percent in March 2015 and provisioning has increased. To improve NPL recovery, amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finance) Ordinance 2001 are under enactment by the parliament.

To preserve financial stability, the authorities are strengthening the regulatory and supervisory framework in line with international standards. After parliamentary approval of the Securities Act in February 2015 and Credit Bureau Act in August 2015, the authorities are now focusing on the passage of the Deposit Protection Fund bill, the Futures Trading bill, the Corporate Restructuring Companies (CRC) Bill and amendments to the Securities and Exchange Commission of Pakistan (SECP) Act to strengthen and deepen the financial system and improve investor protection. Continued efforts are also being made to strengthen the AML/CFT framework.

Structural Reforms

To bring greater efficiency and improved service delivery to a variety of public sector enterprises, a rigorous reform, restructuring and privatization plan was embarked upon under this program. While there have been delays and some setbacks, the authorities have remained steadfast in their commitment to carry forward their agenda. They have so far divested shares in three banks and a petroleum company through capital market transactions, and have completed the strategic sale of a power construction company. Strategic and asset sale of three power distribution and three power generation companies and the Pakistan Steel Mills will reach fruition in 2016 as will also private sector participation in Pakistan International Airlines (PIA), and shares sale of the State Life Insurance Corp. (SLIC) and two petroleum companies. To bring about the much needed improvement to the power sector, the authorities in association with development partners have developed an elaborate plan for reduction of accumulation of arrears and buildup of circular debt by improving collection and reducing operating costs, losses and price distortions in the tariff structure. To help this effort the authorities agreed to a new structural benchmark on enforcing performance through loss reduction, collection and recovery targets consistent with the arrears reduction plan for each distribution company. They also agreed to another new structural benchmark on completing the bidding process of one of the distribution companies (FESCO) by end-June 2016. Through concerted efforts the authorities have brought down the electricity subsidies to 0.8 percent of GDP in FY2014/15 and plan a further reduction to 0.3 percent of GDP in FY2015/16 while allocating an additional 0.1 percent of GDP for arrears clearance. They are working to bridge the demand/supply gap and taking necessary measures to achieve full cost recovery from consumers while continuing with rationalization of untargeted energy subsidies. The authorities have also increased the weighted gas prices by around 14 percent in August 2015, recuperating losses of the gas sector.

To improve the business climate the authorities have identified 39 processes in the sales and income tax filing that required elimination or streamlining. They have also launched a National Financial Inclusion Strategy (NFIS) in May 2015 to improve access to finance to the poor, women and marginalized segments of the society. The recently legislated Credit Bureau Act will facilitate credit information so critical to achieving the objectives of NFIS.

Conclusion

Despite the challenges they are facing, the authorities reaffirm commitment to maintaining a strong momentum in implementing the economic reform program. They are cognizant that though good progress has been made since its inception, more needs to be done to consolidate recent gains in macroeconomic stability and put the economy on a strong and sustainable growth path. In this regard the authorities value the support of the Fund and the development partners. They reiterate their commitment to taking corrective measures, as needed to achieve the program objectives. They request waivers of nonobservance of missed PCs and completion of this Review.