INTERNATIONAL MONETARY FUND

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PAKISTAN

January 2016

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION, NINTH REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAKISTAN

In the context of the Staff Report for the 2015 Article IV Consultation, Ninth Review Under the Extended Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Request for Modification of a Performance Criterion, 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 and summarizing the views of the Executive Board as expressed during its December 18, 2015 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 18, 2015, following discussions that ended on November 5, 2015, with the officials of Pakistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 4, 2015.
- An **Informational Annex** prepared by the IMF staff.
- 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*
Selected Issues
*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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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 16/05
FOR IMMEDIATE RELEASE
January 12, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with Pakistan

On December 18, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Pakistan.[1]

Starting from a difficult position in 2013, Pakistan has made substantial progress in reducing near-term economic vulnerabilities. Economic growth gradually increased from 3.7 percent in fiscal year (FY) 2012/13 to 4.2 percent in FY2014/15. During the same period, efforts to reduce power subsidies and raise tax revenue have lowered the budget deficit from 8.4 to 5.4 percent of GDP, although part of this adjustment reflected clearance of quasi-fiscal liabilities in the energy sector in 2013. Monetary and financial sector policies have remained prudent in recent years, and the banking system remains sound. Inflation has declined significantly, helped in part by low international commodity prices.

The external position has recently strengthened although medium-term vulnerabilities remain. Helped by low oil prices and strong remittances, the external current account deficit narrowed to one percent of GDP in FY2014/15 and foreign exchange reserves of the SBP have been rebuilt from 1.5 months of imports in FY2012/13 to 3.8 months of imports in September 2015. However, foreign direct investment (FDI) fell by a half in FY2014/15, albeit with some recovery since, and exports have declined. The economy’s competitiveness has been hampered by security issues, a business climate that lags regional peers and a real effective exchange rate appreciation of 17 percent over the past two years.

Long-standing structural impediments and a difficult security setting remain key obstacles to growth and investment. Pervasive tax evasion combined with still prevalent tax exemptions and loss-making state-owned enterprises constrain the fiscal space for public investment and social spending. The resulting reliance on domestic financing risks to reduce access to credit and investment by the private sector. Despite recent improvements, the energy sector still accumulates payment arrears and is unable to meet growing demand. Several growth-supporting structural reforms are in various stages of preparation or implementation,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

including in the energy sector, privatization/ restructuring of public enterprises, tax administration, as well as monetary and financial sector policies.

Pakistan's macroeconomic outlook is favorable, contingent on sustained implementation of key reforms, amid downside risks emanating from a more challenging external environment. In the medium term, growth is expected to reach about 5.5 percent, and inflation is expected to gradually rebound to the SBP's target of mid-single digits.

Executive Board Assessment[2]

Directors welcomed Pakistan's continued improvement in economic activity and the fiscal and external positions, on the back of low oil prices and strong remittances. They commended the authorities for significantly reducing near-term vulnerabilities in recent years. Directors noted nevertheless that longstanding structural weaknesses and security concerns continue to hold back growth prospects. They emphasized the need to boost potential growth and enhance the economy's resilience and competitiveness. Achieving these objectives will require sustained fiscal consolidation, swift execution of the economic reform program, and a further build-up of international reserves.

Directors stressed the importance of further reducing public debt to more sustainable levels, while preserving room for higher spending on critical infrastructure, educational, and social programs. They welcomed the additional measures taken to close the revenue shortfall and encouraged comprehensive, front-loaded reforms to mobilize revenue, including by base-broadening, streamlining concessions and exemptions, improving tax compliance, and enhancing coordination with provincial tax authorities. At the same time, Directors saw a need to continue strengthening frameworks for public debt and financial management, further reducing energy subsidies, and restructuring or privatizing loss-making public enterprises.

Directors agreed that monetary policy should remain prudent and focused on price stability. They supported targeting positive real interest rates and keeping inflation expectations well anchored. Directors commended the authorities for progress in improving the monetary policy framework, notably the establishment of an independent monetary policy committee. They encouraged further steps to enhance monetary policy transmission and prepare for a shift toward inf lation targeting over the medium term, as circumstances permit. Directors encouraged the authorities to implement the remaining recommendations of the 2013 safeguards assessment, aimed at enhancing central bank independence and reducing fiscal dominance.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors observed that the banking sector remains sound and profitable, and good progress has been made with bank capitalization. They supported ongoing efforts to bolster regulatory and supervisory frameworks, set up a deposit insurance scheme, and improve access to finance. Directors also stressed the need to continue strengthening the framework against money laundering and the financing of terrorism, including by widening the coverage of tax crimes.

Directors underlined the importance of advancing critical structural reforms to restore competitiveness and foster medium-term, inclusive growth. They called for continued effort in the areas of energy sector reform, privatization, the business climate, and trade integration. Greater exchange rate flexibility would help absorb exogenous shocks and complement a comprehensive strategy for improving export performance. Directors also encouraged initiatives to promote gender equality and expand targeted social protection.

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 ($13.5 billion, 2014/15)
Unemployment: 6.0 percent (2013/14)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	
						Eighth 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	3.7
Consumer prices (period average) 2/	13.7	11.0	7.4	8.6	4.5	4.7	3.7
Consumer prices (end of period) 2/	13.3	11.3	5.9	8.2	3.2	6.0	4.5
Pakistani rupees per U.S. dollar (period average)	2.0	4.4	8.4	6.4	-1.5		
	(In percent of GDP)						
Saving and investment							
Gross saving	14.2	13.0	13.9	13.7	14.1	14.8	14.4
Government	-4.2	-5.3	-5.2	-1.4	-1.6	-0.4	-0.5
Nongovernment (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	15.2	14.8
Gross capital formation 3/	14.1	15.1	15.0	15.0	15.1	15.3	15.3
Government	2.5	3.4	3.2	3.5	3.7	3.8	3.7
Nongovernment (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.5	11.6
Public finances							
Revenue and grants	12.6	13.0	13.5	15.3	14.5	15.4	15.5
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	-4.2	-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	0.1	0.1
Total general government debt 4/	55.3	60.5	62.9	63.7	63.2	62.4	63.2
External general government debt	22.4	22.4	20.1	19.9	18.5	18.0	19.0
Domestic general government debt	32.9	38.1	42.8	43.8	44.8	44.4	44.2
	(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	1.6	1.9
Net domestic assets	11.8	17.9	19.3	8.8	11.0	10.8	10.1
Broad money (percent change)	15.9	14.1	15.9	12.5	13.2	12.4	12.0
Reserve money (percent change)	17.1	11.3	15.8	12.9	9.9	10.0	13.9
Private credit (percent change)	4.0	7.5	-0.6	11.0	5.6	9.8	10.7
Six-month treasury bill rate (period average, in percent)	13.3	12.3	9.8	9.7	8.8		
External sector							
Merchandise exports, U.S. dollars (percentage change)	28.9	-2.6	0.4	1.1	-3.9	0.7	-4.0
Merchandise imports, U.S. dollars (percentage change)	14.9	12.8	-0.6	3.8	-0.9	-0.2	-1.9
Current account balance (in percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.0	-0.5	-0.9
	(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	164.5	168.2	188.7
Debt service	13.4	16.2	21.6	23.5	21.9	22.5	24.9
Gross reserves (in millions of U.S. dollars) 5/	14,784	10,799	6,008	9,096	13,534	17,131	17,666
In months of next year's imports of goods and services	3.6	2.7	1.5	2.2	3.4	4.0	4.3
Memorandum items:							
Real effective exchange rate (annual average, percentage change)	6.1	3.0	-1.3	0.9	10.9		
Terms of trade (percentage change)	7.3	-10.0	-1.9	0.3	5.1	3.8	14.5
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	30,170	29,907
GDP at market prices (in billions of U.S. dollars)	213.6	224.4	231.1	243.4	267.5		

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.

Press Release No. 15/578
FOR IMMEDIATE RELEASE
December 18, 2015

International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) on December 18, 2015 completed the ninth 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$498.1 million), bringing total disbursements to SDR 3.6 billion (about US$ 4.98 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-September 2015 performance criteria on the ceiling on overall budget deficit and the ceiling on net domestic assets of the State Bank of Pakistan (SBP), as well as modification of the end-December 2015 performance criterion on net domestic assets of the SBP.

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

"Economic growth remains robust and near-term vulnerabilities have receded. The Pakistani authorities have taken corrective measures to foster the achievement of program objectives. Prudent macroeconomic policies and sustained implementation of the reform agenda are important to reinforce gains in economic stability and generate a strong and sustainable growth.

"The authorities' commitment to further strengthening the fiscal position and lowering public debt is welcome. The focus is appropriately placed on revenue mobilization, including broadening the tax base and improving tax collection and compliance, with a view to creating fiscal space for pro-growth spending and greater social protection. Efforts are underway to strengthen coordination with the provinces and improve public financial management to reduce fiscal risks.

"Low oil prices present a unique opportunity to strengthen external stability. Further accumulation of foreign exchange reserves would help enhance the economy's resilience. The establishment of an independent monetary policy committee is a major welcome step. Sustained efforts are needed to further improve the monetary policy framework, reduce fiscal dominance, and strengthen central bank independence.

"The authorities remain committed to safeguarding financial stability. Priorities include reinforcing the supervisory framework, boosting bank capitalization, and improving access to finance. Preparatory work has progressed well for the introduction of credit bureaus and a deposit insurance scheme. It will be important to continue to strengthen corporate restructuring, insolvency, and collateral frameworks, as well as Pakistan's regime against money laundering and the financing of terrorism.

"The momentum of structural reforms must be maintained to achieve higher, sustainable, and more inclusive growth. Critical priorities include reducing arrears and increasing supply in the energy sector, restructuring and privatizing loss-making public enterprises, improving the business climate and competitiveness, further strengthening social protection, and increasing female labor force participation."

INTERNATIONAL MONETARY FUND

PAKISTAN

December 4, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION, NINTH REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Economic context: Emerging from a near-crisis in 2013, the authorities have substantially reduced near-term vulnerabilities. Helped by supportive policies, low oil prices and strong remittances, the budget deficit and inflation have declined while foreign exchange buffers have strengthened considerably. The near-term economic outlook is broadly favorable although structural bottlenecks still impede higher potential growth.

An ambitious policy agenda: The main challenges are to reinforce the recent gains in economic stability and generate a strong and sustainable growth momentum by accelerating structural reforms. Key priorities include continued reserve accumulation and fiscal consolidation, widening the tax net to enable higher infrastructure investment and social assistance, fixing the energy sector, restructuring or privatizing loss-making public enterprises, improving the business climate for higher and more inclusive growth, and continuing the policy agenda to foster financial sector development and stability.

Program implementation has been mixed: Most end-September 2015 Performance Criteria (PCs) and indicative targets were met. However, the PCs on net domestic assets (NDA) of the State Bank of Pakistan (SBP) and the general government deficit were missed, as was the indicative target on federal tax revenue. The authorities have put in place additional revenue measures to stay on course with respect to the fiscal targets. The end-December PC for NDA is proposed for modification to ensure adequate reserve money growth, and corrective measures have been taken to meet the revised target. Most structural benchmarks (SBs) for this review were met. The SB on the Anti-Money Laundering (AML) Act amendments is proposed to be modified and the missed end-November SB on multi-year power tariffs is proposed to be replaced by two new SBs to facilitate completion within the timeline of privatization. In addition, five new SBs in the areas of tax administration, AML, energy sector and business climate reforms are proposed.

A purchase under the extended arrangement for Pakistan, in an amount equivalent to SDR 360 million, will be available upon completion of this review.

Approved By
Luis Cubeddu and Daniela Gressani

Discussions took place in Dubai and Islamabad during October 26–November 5, 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 (Resident Representative Office, Islamabad). S. Mahmood (Senior Advisor, OED), Mmes. G. Albertin and D. Gressani (MCD) and Mr. Chady El-Khoury (LEG) joined for part of the mission. Following discussions in Dubai, Mr. Finger and Ms. Gressani traveled to Islamabad for final discussions and outreach with media, members of Parliament, business community, and civil society. The mission issued a press release in Islamabad on November 5. Mmes. Y. Liu, M. Orihuela-Quintanilla, and N. Cayo assisted in the preparation of the report.

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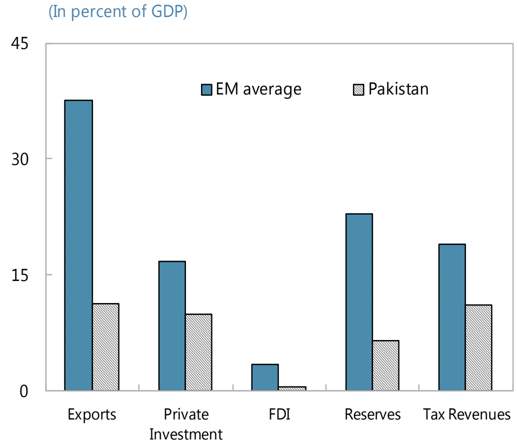
ECONOMIC CONTEXT

1. **Emerging from near-crisis conditions in 2013, substantial progress has been made in addressing economic vulnerabilities**. Efforts to reduce power subsidies and raise tax revenue have lowered the budget deficit from 8.4 percent of GDP in FY2012/13 to 5.4 percent of GDP in FY2014/15, although part of this adjustment reflects clearance of quasi-fiscal liabilities in the energy sector in 2012/13. Helped by low oil prices and strong remittances, foreign exchange reserves of the SBP have been rebuilt from 1.5 months of imports in FY2012/13 to 3.8 months of imports in September 2015.

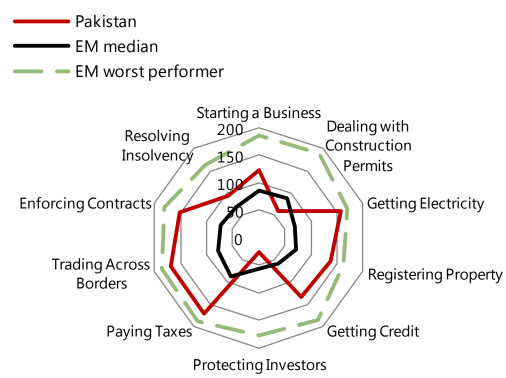
2. **Nonetheless, long-standing structural impediments and a difficult security setting remain key obstacles to growth**. Pervasive tax evasion combined with still wide-ranging tax exemptions and loss-making state-owned enterprises constrain the fiscal space for public investment and social spending. The resulting reliance on domestic financing—more than 60 percent of banking credit as of end-FY2014/15—constrains access to credit and investment by the private sector. The cash-strapped energy sector has been accumulating payment arrears (also called "circular debt") and is unable to meet growing demand, resulting in power outages still averaging 6–8 hours a day. The economy's competitiveness is further hampered by a business climate that lags regional peers and, despite relative stability of the rupee vis-à-vis the U.S. dollar, a real effective exchange rate appreciation of 17 percent over the past two years. Foreign direct investment has also been held back by a difficult security situation.

Pakistan Relative to Emerging Market Economies
(In percent of GDP)



Sources: Pakistani authorities; IMF WEO Database; and IMF staff calculations.

Doing Business Ranking 2016 1/
(Out of 189 countries)



Sources: World Bank Doing Business 2016.
1/ Pakistan ranks 138 out of 189 countries for overall eas of doing business.

3. **Pakistan's main policy priorities are to reinforce gains in economic stability and generate a strong and sustainable growth momentum**. Helped by strengthened macroeconomic stability and improved terms of trade, economic growth already gradually increased from 3.7 percent in 2012/13 to 4.2 percent in FY2014/15. Nonetheless, with population growth estimated at over 1.9 percent, GDP per capita posted only a moderate increase relative to regional peers and other emerging economies (Figure 1, top right panel). Substantial acceleration of growth will be needed to absorb a growing number of entrants into the labor market and raise living standards. The authorities' policies have been generally in line with staff's policy recommendations (Box 1). Several growth-supporting structural reforms are in various stages of preparation or implementation, including in the energy sector, privatization/restructuring of public enterprises, tax administration, as well as monetary and financial sector policies. Completing this agenda will be critical for Pakistan to strengthen its external position (Box 2) and achieve its broader economic objectives.

Box 1. Authorities' Policies Have Been Generally Consistent with Policy Recommendations in the Previous Article IV Consultation

Fiscal policy has achieved a substantial consolidation and needs to solidify these gains. The budget deficit (excluding grants) declined by 3.1 percentage points of GDP from 8.5 percent in FY2012/13 to 5.4 percent in FY2014/15, on account of notable progress with reducing energy subsidies, improving the amount and targeting of social assistance, and increasing tax revenues, especially by eliminating tax concessions and exemptions. The underlying fiscal adjustment after accounting for clearance of circular debt in the energy sector (1.4 percent of GDP in FY2012/13) was 1.7 percentage points of GDP over the same period. In the meantime, despite a sustained improvement over the past three years, tax revenue is still very low (at 11 percent of GDP) and widening of the tax net remains a challenge. Little progress has been made in reforming the fiscal federalism system.

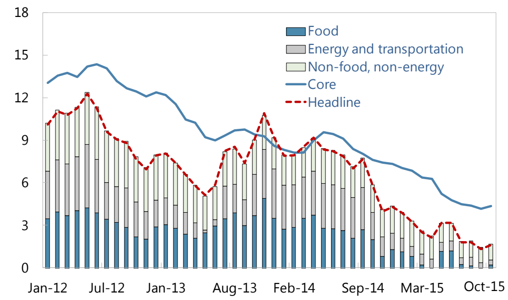
Monetary policy has improved and foreign exchange reserves have been rebuilt, and some progress has been made in enhancing central bank independence, though further progress is needed. Monetary policy has remained prudent in recent years and, helped by low oil prices and strong remittances, reserve buffers strengthened to 3.8 months of imports in September 2015. The improved interest corridor promises to strengthen the effectiveness of monetary policy. However, progress with enhancing central bank independence and strengthening the anti-money laundering (AML) framework has been partial. While several important aspects of central bank independence still need to be addressed, the recently passed amendments to the SBP law, including the legal formation of an independent monetary policy committee, were a major step forward. Legal amendments strengthening the AML framework have been passed, and further progress is needed to allow for appropriate coverage of tax crimes under the AML framework.

Structural reforms advanced but remain incomplete in critical areas. Achievements were made in removing tax exemptions and concessions, launching an ambitious privatization agenda, and improving the functioning of the power sector and reducing power outages. At the same time, quasi-fiscal losses in the power sector, which have accumulated to a stock of about 2 percent of GDP, and in large public enterprises continue, calling for accelerated implementation of the privatization/restructuring agenda for loss-making public enterprises and completing the energy sector reform. In addition, there is a need to review efforts to strengthen the business climate.

RECENT ECONOMIC DEVELOPMENTS

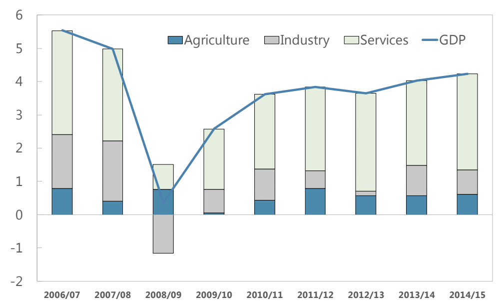
4. **Economic activity appears robust amid mixed signals**. Growth has been underpinned by expansion of large-scale manufacturing (3.9 percent y-o-y in the first quarter), construction, and the services sector. Alongside, consumer confidence continued to improve. However, exports declined by 9 percent y-o-y (in US$ terms) in Q1 FY2015/16, owing to falling cotton prices and real exchange rate appreciation, and growth of remittances eased to 4 percent y-o-y in Q1 FY2015/16 (from 18 percent in FY2014/15). Foreign direct investment (FDI) fell by a half in FY2014/15, albeit with some recovery in Q1 FY2015/16. Despite several interest rate cuts (400 bps since November 2014, see Figure 2), real private sector credit growth remained subdued at 2.2 percent y-o-y in July-September 2015. Headline inflation picked up to 2.7 percent y-o-y in November 2015 but remained near multi-year lows, driven by lower food and energy prices. Core inflation has also declined to 4.1 percent in November, still significantly above headline inflation. Officially reported unemployment has remained stable at around 6 percent over the past five years, although a large share of the economy is informal.

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



Sources: SBP; and IMF staff calculations.

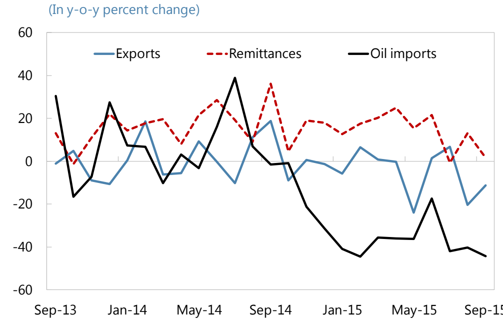
Sectoral Contribution to Growth
(In y-o-y percent change)



Sources: Pakistani authorities; and IMF staff calculations.

5. **The external position has further strengthened**. Despite weak export performance, the current account deficit narrowed to 1 percent of GDP in FY 2014/15 and is on track for a further gradual decline this year, helped by lower oil prices and increased grant assistance from the Coalition Support Fund (CSF). Owing to SBP purchases to save the oil windfall, foreign exchange reserves reached US$15.2 billion at end-September, covering almost four months of imports. Nevertheless, export competitiveness has suffered from structural factors such as security concerns, power outages, and an unfavorable business climate, as well as from significant real exchange rate appreciation over the past two years (Box 2).

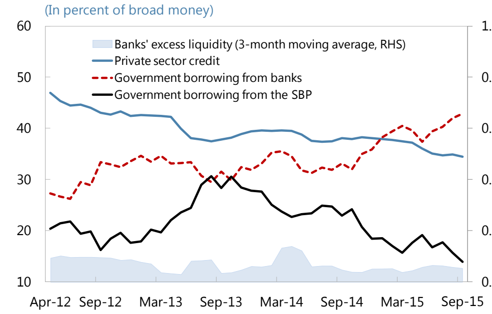
Growth Rates
(In y-o-y percent change)



Sources: SBP; and IMF staff calculations.

6. **Banking system soundness indicators remain adequate**. Banking system profitability increased, albeit on the back of higher government borrowing which exceeds credit to the private sector. Alongside, the capital adequacy ratio (CAR) increased to 18.2 percent in Q1, 2015/16 (from 15.5 percent last fiscal year). Liquidity in the banking system has remained adequate.

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



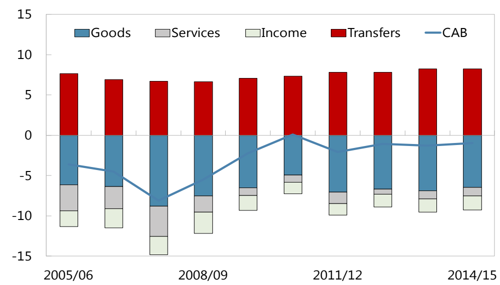
Sources: Pakistani authorities; and IMF staff calculations.

Box 2. Pakistan: External Sector Assessment

The **current account deficit** has come down from the peak of 8 percent of GDP in FY2008 to 1 percent of GDP in FY2014/15. While the deficit is relatively small, its structure—a large trade deficit (7½ percent of GDP) financed by remittances (7 percent of GDP in FY2015) and other transfers—highlights the importance of strengthening Pakistan's export competitiveness. Indeed, market shares for Pakistan's exports have been either stagnant or declining.

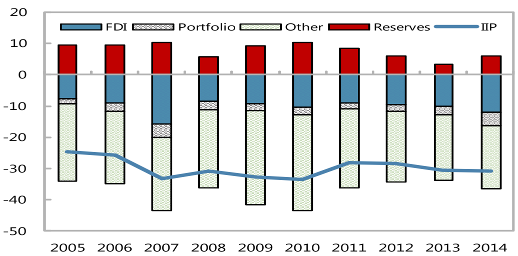
The structure of the **financial account** shows reliance on debt issuance rather than on FDI flows, which have significantly declined over the last decade. The net International Investment Position (IIP) has marginally declined in the last years.

Current Account Balance
(In percent of GDP)

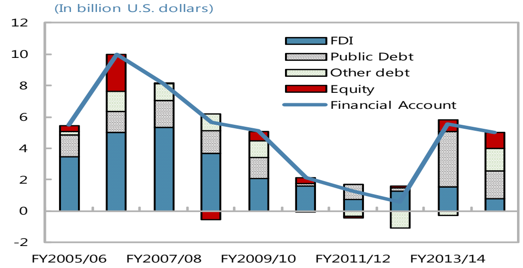


Sources: SBP; and IMF staff calculations.

International Investment Position
(In percent of GDP)



Financial Account Balance
(In billion U.S. dollars)

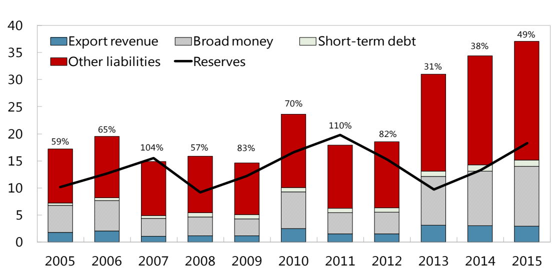


Sources: SBP; and IMF staff calculations.

Following appreciation of the REER by 17 percent over the past two years, estimates from standard methodologies for **exchange rate assessment,** while subject to significant uncertainty, point to overvaluation of varying degrees. The Fund-wide EBA exercise suggests a modest overvaluation (just below 5 percent), finding the current account close to its norm of -0.7 percent of GDP, with a policy gap of 1.2 percent of GDP driven by more expansionary than optimal fiscal policy and still less than desirable reserve accumulation. By contrast, the REER-based EBA-lite method, explicitly accounting for factors such as remittances and aid flows, suggests a much larger overvaluation of up to 20 percent.[1] See the accompanying Selected Issues Paper: "Improving Pakistan's Competitiveness and Business Climate."

Gross reserves have remained below the adequacy level as suggested by the ARA metric. At US$15.2 billion as of end-September, they cover 3.8 months of prospective imports, or 67 percent of the ARA metric. While gross reserves are broadly in line with projections at the outset of the program, SBP spot foreign exchange purchases in FY2013/14 and FY2014/15 have exceeded the significant windfall from commodity prices and remittances.[2] Continued accumulation of reserves is needed to further strengthen buffers while also supporting competitiveness.

Decomposition of the Fund's Reserve Adequacy Metric (ARA) 1/
(In billions of U.S. dollars and percent of the metric)



Sources: Pakistani authorities; and IMF staff calculations.

1/ The IMF composite metric is a weighted sum of exports, short-term debt at remaining maturity, other external liabilities, and broad money. Bars display the dollar equivalent of each of the component of the ARA metric. Numbers above the bars show reserves as percent of the ARA metric.

Current Account Windfall
(FY2013/14–FY2014/15, in billion U.S. dollars)

Total Windfall	4.1
Remittances	5.4
Oil Imports	1.5
Textile Exports	-2.8
Memo: Net Spot Purchases	5.5

Sources: Pakistani authorities; and IMF staff calculations.

[1] Regressions used for the current account-based EBA-lite method do not produce a good fit in the case of Pakistan. Adjusting the regression parameters to improve the fit produces an estimate of overvaluation of 10 percent driven by fiscal policy.
[2] The windfall is calculated relative to remittance flows and commodity prices projected at the start of the program in September 2013.

MACROECONOMIC OUTLOOK AND RISKS

7. **Pakistan's macroeconomic outlook is favorable, contingent on sustained fiscal consolidation and implementation of structural reforms** ("reform" scenario, Box 3).

- **Growth** is expected to increase to 4.5 percent this fiscal year and gradually reach about 5.5 percent in the medium term supported by ongoing strength in services and construction, second-round effects of the marked decline in oil prices, expected improvements in the supply of gas and electricity, investment related to the China Pakistan Economic Corridor (CPEC),[1] gradual strengthening of domestic demand, and an improving investment climate and security situation.

- **Inflation** is expected to rebound to an average rate of about 3.7 percent this year due to bottoming out of the effects of low commodity and food prices. In the medium term, inflation is likely to hover around 5 percent, anchored by prudent monetary and fiscal policies.

- **The current account deficit** is expected to remain at close to 1 percent of GDP in FY2015/16 as the benefits of lower oil prices will continue to be offset by weak export performance and a more moderate growth in remittances owing to a weakening outlook for non-oil growth in the Gulf Cooperation Council (GCC) countries, the main source of remittance flows. Foreign exchange reserves are on track to reach US$16 billion by end-December 2015 and close to US$ 18 billion (about 70 percent of the ARA metric) by end of FY2015/16.

8. **Near-term risks to this outlook have slightly tilted to the downside** (see Risk Assessment Matrix). External vulnerabilities include a protracted period of slower growth in key advanced and emerging market economies (including in China and the GCC), hurting exports and remittances. Continued appreciation of the U.S. dollar combined with limited variation in the rupee's exchange rate could further erode export competitiveness. Exports, and consequently growth, will be adversely affected further if Pakistan falls behind its competitors in securing favorable treatment in major markets.[2] Ongoing legal challenges to electricity surcharges, and the still challenging political and security conditions could affect economic activity and undermine fiscal consolidation efforts. Conversely, fast implementation of CPEC projects 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 impact on energy supply to Pakistan.

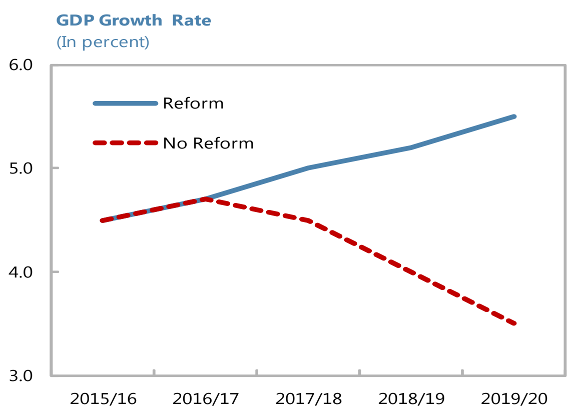
[1] For a macroeconomic assessment of CPEC, see Box 1 in EBS/15/106.

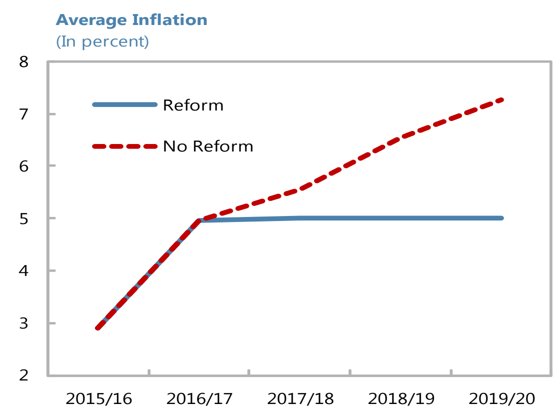
[2] For example, Pakistan is not a participant in the forthcoming Trans-Pacific Partnership, while some of its competitors in textiles and clothing are.

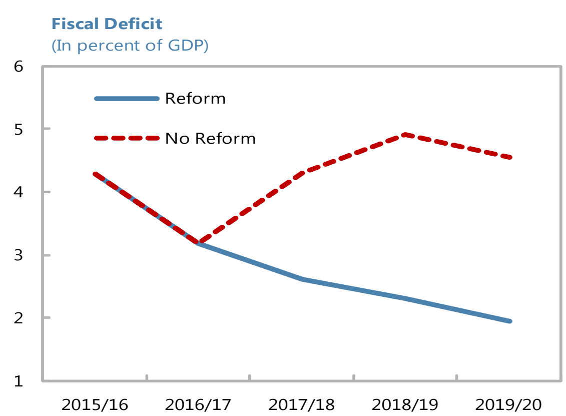
9. **A key medium-term risk could lie in slower reform implementation** ("no reform" scenario, Box 3). Slowdown or suspension of fiscal consolidation and key energy and other structural reforms could reverse recent stability gains and affect total factor productivity and potential growth. Deterioration of the power sector's and other SOEs' financial performance would lead to higher budgetary transfers to compensate for companies' losses. Together with lower tax revenue, this would reduce the fiscal space for public investment and raise the deficit, potentially crowding out private investment and fueling inflation. A reversal of stability gains together with slippages in energy sector and other structural reforms would imply that economic confidence and the business climate could deteriorate quickly, with increased instability and resumed power outages in the industry. As a result, medium-term growth could slow to about 3.5 percent (the estimated long-term growth in the absence of significant structural reforms to lift productivity and investment), with increased domestic and external vulnerabilities.

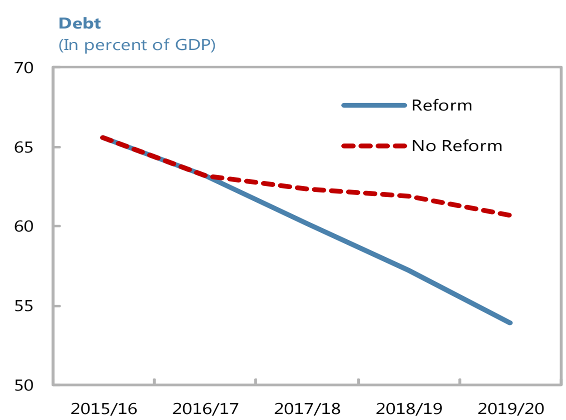
10. **The authorities broadly shared staff's assessment of the economic outlook and risks**. While concurring with the overall risk assessment, the authorities noted that Pakistan is now better prepared to withstand external shocks with improved policy instruments and the significant fiscal and current account adjustment that took place over the past several years. The authorities also emphasized the importance of maintaining the political momentum to implement reforms beyond the program period, and requested continued technical assistance, notably with tax reforms.

Box 3. Pakistan: Medium-Term Macroeconomic Scenarios









Sources: Pakistani authorities; and IMF staff calculations.

Pakistan: Risk Assessment Matrix[1]

Risk Downside ↓ / Upside ↑	Medium Term Likelihood	Expected Impact Upon Realization	Policies to Mitigate Risk
↓ **Tighter or more volatile global financial conditions.**	**High** Changes in assessment of growth prospects across the world and the Fed policy rate path may lead to sharp adjustment in asset prices. Improving U.S. economic prospects versus the rest of the world may lead to a further dollar surge. Poor market liquidity may amplify the effect on volatility.	**Medium** -More difficult and costly external financing; -Deterioration of the KSE stock market; -Possible difficulties with privatization.	-Sustain build-up of external buffers; -Allow for exchange rate flexibility to support competitiveness; -Maintain adequate medium-term debt strategy; -Ensure strong financial regulation and supervision.
↓ **Structurally weak growth in key advanced and emerging economies (incl. GCC countries).**	**High** Failure to fully address the euro area crisis legacies, maturing of the cycle in the EMs and insufficient progress with reforms may lead to low medium-term growth and accumulation of financial imbalances in these countries.	**Medium** -Impaired exports; -Reduced remittances; -Weakened FDI prospects; -Dampened growth.	-Sustain build-up of fiscal and external buffers; -Allow for exchange rate flexibility to support competitiveness; -Improve business climate.
↓ **Security conditions**	**Medium to High** Continued insurgency at the Afghanistan border, possible retaliation against ongoing security operations, and domestic sectarian violence may increase security concerns.	**Medium** -Eroded confidence; -Discouraged investment; -Increased military spending; -Increased fiscal burden. -Disrupted economic activity.	-Instill confidence through a strong medium-term program; -Maintain engagement with donors; -Maintain fiscal and external buffers.
↓ **Slippages in policy implementation and judicial challenges**	**Medium** Disagreements on policy priorities, lack of a majority in the senate, implementation capacity constraints, and court rulings may lead to failures to sustain fiscal consolidation, to reduce external vulnerabilities, and to implement structural reforms.	**Medium to High** -Eroded confidence; -Discouraged investment; -Weakened growth prospects.	-Continue outreach to strengthen ownership of the program; -Strive to prevent further competitiveness losses.
↓ **Sharp China slowdown in 2015–16.**	**Low** Growth in China may fall significantly, possibly due to a severe housing downturn or a shock in the shadow banking sector.	**Medium** -Impaired exports; -Reduced remittances; -Weakened FDI prospects, including in the context of CPEC; -Dampened growth	-Sustain build-up of fiscal and external buffers; - Allow for exchange rate flexibility to support competitiveness; - Improve business climate.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 percent and 30 percent, and "high" a probability between 30 percent and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

ECONOMIC REFORM AGENDA

Discussions focused on the macroeconomic policy mix, utilizing the benefits of low oil prices and strong remittances to strengthen external buffers, progress with improving performance and addressing arrears in the power sector, efforts to further strengthen financial stability, and structural reforms.

A. Consolidating Macroeconomic Stability and Resilience

11. **Low oil prices present a unique opportunity to solidify external stability**. The SBP has continued with spot purchases of foreign exchange, netting US$750 million in Q1 FY2015/16 to further raise the reserve coverage and bolster resilience against external shocks. While the expected tightening of global financial conditions and possible turbulence in international financial markets can 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. Staff noted that further accumulation could also help arrest the recent trend of REER appreciation, which has been eroding competitiveness, although staff agreed with the authorities that a range of other issues (such as electricity shortages, security issues and the business environment) are adversely affecting it as well.

12. **A cautious monetary policy stance is warranted in the period ahead**. The SBP has pursued an accommodative monetary policy stance in the wake of declining inflation. Staff and the authorities agreed that, as global financial conditions remain uncertain and inflation is expected to rebound in the coming months, monetary policy needs to remain prudent and target clearly positive real interest rates to preserve achievements in anchoring low inflation expectations and meet the program's monetary targets. Smooth functioning of the newly improved interest rate corridor should continue to improve the SBP's credibility among market participants, and the government should continue supporting this credibility by continuing fiscal discipline and further improving cash management.

13. **Staff supported the authorities' medium-term plans to gradually move toward inflation targeting**. With various pre-conditions being put in place—strengthening of the interest rate corridor, advancement of fiscal consolidation, establishment of an independent monetary policy committee (MPC), development of technical forecasting capacity, and strengthening of the SBP's communication strategy—the SBP is planning to gradually move toward flexible (or soft) inflation targeting over the medium term. Staff supported these plans and urged strengthening the monetary policy transmission mechanism, including by further reducing fiscal dominance, while pointing out that increased exchange rate flexibility under inflation targeting underscores the need to increase reserve buffers to more adequate levels. In addition, staff welcomed the authorities' commitment to further strengthen central bank independence, by addressing the remaining recommendations of the 2013 Safeguards Assessment during the current fiscal year (MEFP ¶7).

14. **Staff and the authorities agreed on the need to firmly reduce public debt through fiscal consolidation**. Pakistan's public debt-to-GDP ratio remains vulnerable to shocks due to still significant reliance on short-term debt instruments and, consequently, high gross financing needs (Annex I). Further fiscal consolidation in the period ahead consistent with a budget deficit (excluding grants) of 3½ percent of GDP in FY2016/17 and 2½ percent over the medium term, will help keep debt on a firmly declining trajectory. The authorities agreed with the need for fiscal consolidation while noting a preference for a somewhat more gradual path to address the country's development needs. In their view, removing constraints to private sector investment and FDI will take time, and activity will need to be stimulated by the public sector in the interim, albeit with increased private sector participation, e.g. through public-private partnerships (PPPs).

15. **There was agreement that fiscal consolidation needs to be based on a concerted effort toward raising the tax-to-GDP ratio to 14.5 percent over the medium term**. Pakistan needs substantial fiscal space for growth-enhancing priority spending on infrastructure, education, healthcare, and targeted social assistance. But the current level of tax collection is too low to provide this space, and mobilizing additional revenue with focus on widening the tax net will be critical to address the country's pressing development and social needs. Despite increasing by one percent of GDP since FY2012/13 to 11 percent of GDP in FY2014/15, tax revenue remains well below the level observed in comparator developing countries and Pakistan's estimated potential of over 22 percent of GDP (see accompanying Selected Issues Paper: "Unlocking Pakistan's Revenue Potential").

16. **In this context, a comprehensive and frontloaded tax reform agenda is needed**. Federal and provincial policy adjustments and institutional changes are needed to expand tax bases, reduce concessions and exemptions, address fragmented tax administration, and improve tax compliance across all sectors of the economy. The authorities agreed with the need to pursue such an agenda while noting the substantial progress already achieved in tax administration reforms and reducing tax expenditure. There was broad agreement on key elements of the reform agenda:

- ***Continued removal of concessions and exemptions***, most importantly from the General Sales Tax (GST) and customs duties. Staff welcomed the authorities' success in reducing the cost of tax concessions and exemptions from 1.9 percent of GDP in 2013/14 to 1.5 percent in 2014/15 and strictly limiting the authorization of administrative tax concessions and exemptions through Statutory Regulatory Orders (SROs) to be temporary and only applicable in a number of exceptional circumstances. It was agreed that continued removal of SROs will be needed to widen the tax base and increase evenhandedness and fairness of the tax system.

- ***Broadening the base and improving compliance***. To increase the number of active taxpayers, the authorities have introduced a variety of measures that are yielding some results (MEFP ¶14). With this, the number of personal income tax (PIT) filers has increased by more than 200,000 over the last two years. Nevertheless, at around 970,000 as of end-November, the number of active PIT filers is still significantly below the estimated 5.7 million potential taxpayers and the number of corporate income tax (CIT) filers is less than one percent of all commercial and industrial electricity users. Staff encouraged swift implementation of the newly adopted risk-based audit policy to identify noncompliance, and further measures to assess compliance risks, improve access to taxypayers' financial information, and pursuing a stepped-up agenda to improve governance in tax administration (MEFP ¶15-16). Staff welcomed the authorities' work on legislation against "benami" transactions (SB), which will help reduce tax evasion.[3] Adopting amendments to the AML Act to include serious tax crimes and implementing measures targeting the laundering of proceeds of tax crimes will also allow better detection and deterrence of tax evasion (MEFP ¶29). Compliance can also be encouraged by swift handling of tax refunds: the authorities plan to continue reducing the backlog of GST refund claims to a level consistent with a three-month flow (or about PRs 20 billion) from PRs 87 billion in September 2015 (MEFP ¶13). Supported by IMF technical assistance (TA), they are exploring further options for modernization of GST and other taxes.

- ***Improving taxation and collection at the provincial level***. The seventh National Finance Commission (NFC) award grants 57.5 percent of most revenues to the provinces. And although some expenditure responsibilities have been devolved as well, the existing fiscal federalism system remains unbalanced and tax revenue collection under provincial authority—GST on services as well as agriculture and property taxes—is very low. Going forward, it will be important for the government to seek a better balance in the demarkation of revenue and expenditure responsibilities and encourage improvement in provincial revenue collection (MEFP ¶18). Staff also urged the authorities to reduce fragmentation in tax administration and improve cooperation with provincial tax authorities.

17. **Strengthening of debt and public finance management is needed to further reduce fiscal risks**. A debt management strategy based on building funding buffers, assessing off-budget fiscal risks, diversifying financing from both domestic and external sources, and lengthening the maturity profile of domestic debt will help mitigate these risks. In this context, staff welcomed the authorities' plans to continue enhancing the capacity and effectiveness of the Debt Policy Coordination Office and to update the medium-term debt strategy by January 2016 (MEFP ¶23). Meanwhile, proposals to further strengthen the existing fiscal responsibility framework, improve intergovernmental policy corrdination, and develop a PPP framework at the federal level are being developed with support from IMF TA. Their implementation will help provide a more effective guidance for fiscal policy and ensure sound practices in the evaluation, prioritization, and implementation of public investment projects (MEFP ¶19).

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

B. Promoting Higher and More Inclusive Growth

Policies to Increase Competitiveness

18. **Decisive policy action can ease growth-limiting bottlenecks**. Staff argued that, with swift improvements in supporting policies, medium term growth could reach 6½ percent (Box 4). Staff and the authorities agreed that policy priorities include broadening the tax base and further reducing energy subsidies to free resources for higher public investment, strengthening the power sector, improving the business climate, and restructuring or privatization of loss-making public enterprises. Alongside, improving access to finance and further reducing public borrowing will be critical to raise private investment.

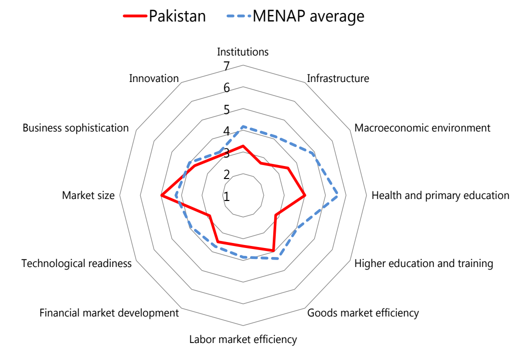
19. **Within this agenda, staff emphasized the importance of improving export performance**. Pakistan lags behind most of its regional peers in terms of growth and level of exports. The country's exports are highly concentrated, with textile and clothing accounting for about a half of total exports of goods. Moreover, Pakistan's world market shares, both for these products and across the full spectrum of exported goods, have been either stagnant or declining in recent years (see accompanying Selected Issues Paper: "Improving Pakistan's Competitiveness and Business Climate"). In staff's view, this is reflective of both structural impediments to business productivity and security issues. Moreover, the marked appreciation of the real effective exchange rate over the last two years points to the need for continued structural reforms and supportive monetary, fiscal, and financial sector policies to maintain a competitive real effective exchange rate, supporting exports and import-competing industries.

20. **The authorities agreed with many components of staff's analysis**. They agreed with the importance of raising business productivity and investment to stimulate exports and growth, while also pointing to security-related constraints during the past decade which have affected outcomes. They pointed to plans to work with the World Bank to develop a new reform agenda with specific time-bound measures to strengthen the business climate (new end-February 2016 SB, MEFP ¶42). They also highlighted their existing agenda to promote financial inclusion, develop alternative dispute resolution mechanisms, simplify property registration, and develop the regulatory framework for credit bureaus. The authorities were skeptical that public borrowing might crowd out private sector credit amid adequate liquidity in the banking sector and low nominal loan demand for working capital amid falling commodity prices. Pointing to the inherent imprecision of estimates of exchange rate alignment, they held the view that the nominal exchange rate, being market-determined, is in line with fundamentals.

Box 4. Raising Medium-Term Growth

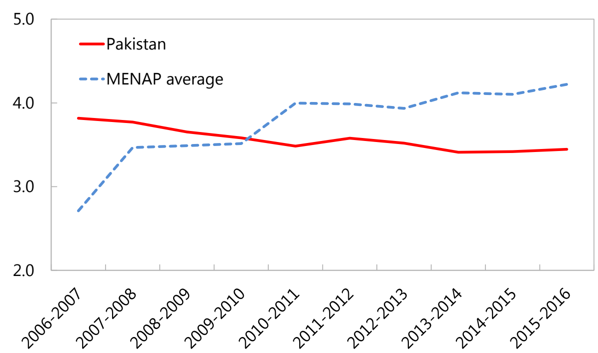
Improving competitiveness can significantly raise potential GDP growth. Pakistan currently ranks 138 out of 189 economies in the World Bank's Doing Business Report 2016 and 126 out of 140 countries in the World Economic Forum's Global Competitiveness Report (GCR) 2015–16. The latter indicates that Pakistan ranks below the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) comparator group in every subcategory but market size and its score gradually deteriorated over the past 10 years. The results of Mitra and others (2015) suggest that an improvement in the overall Global Competitiveness Index (GCI) score is significantly correlated with economic growth through its positive effect on productivity.[1] Staff estimates suggest that regulatory reforms leading to improved business climate sufficient to reach average MENAP levels of the GCI and the FDI technology transfer index, and increasing the shares of trade and public investment to GDP by one percentage point each, could raise Pakistan's medium-term potential growth rate to 6.5 percent in 2017–21. See accompanying Selected Issues paper: "Improving Pakistan's Competitiveness and Business Climate."

Competitiveness Index, 2015-2016
(1-7 (best))



Source: WEF Competitiveness Database.

Global Competitiveness Index
(1-7 (best))



Sources: WEF Competitiveness Database; and IMF staff calculations.

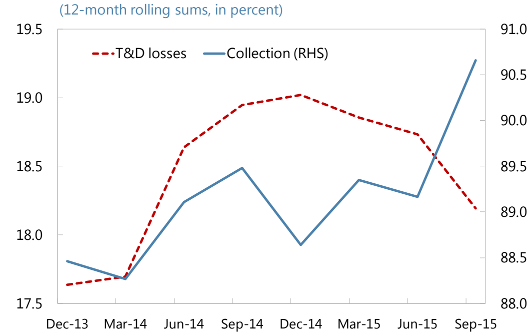
[1] Mitra, P. and others, 2015 (forthcoming), "Avoiding the New Mediocre: Policies to Strengthen Potential Growth in the Middle East and Central Asia," Staff Discussion Note (Washington: International Monetary Fund).

21. **The energy sector has begun to show improvement and completing this reform will significantly enhance business productivity**. Staff noted the progress achieved with reducing untargeted energy subsidies from 2.3 percent of GDP in FY2011/12 to the planned 0.4 percent of GDP in FY2015/16, along with improved collections and loss reduction. Staff also welcomed that the end-September indicative ceiling on accumulation of power sector arrears was met, quarterly loss reduction targets have been set for distribution companies (DISCOs) (October 2015 SB), and progress is under way with setting multi-year tariffs, albeit with some delay owing to late finalization of DISCO's multi-year investment plans (missed end-November 2015 SB) (MEFP ¶37). Staff emphasized the importance of implementing other aspects of the energy sector reform (Box 5), including the privatization of DISCOs, overcoming legal challenges to electricity surcharges, and completing the gas sector pricing reforms (MEFP ¶40). The authorities reiterated their commitment to the energy sector reform and were optimistic about eliminating the power deficit in the medium

term through significant capacity increases and implementation of the power sector arrears reduction plan.

22. **Notwithstanding a number of setbacks, the authorities remain committed to their privatization and restructuring program**. This agenda is critical to improve resource allocation in the economy and contain fiscal risks from loss-making public enterprises (including power sector arrears). A Presidential Ordinance has amended the Pakistan International Airlines (PIA) Act, paving way for soliciting expressions of interest by end-December 2015 (SB). Privatization of Pakistan Steel Mills (PSM) has been put on hold as the company was offered to a provincial government. Should this offer be declined, the authorities are optimistic that the privatization process can be completed by end-September 2016. A number of other delays have led to bunching of a large number of planned transactions in the next nine months, and staff felt that the overall agenda appears quite ambitious despite the progress under way in most cases. The authorities expressed a strong preference for swiftly advancing in this key reform area in light of the potential benefits for growth and containing fiscal risks (MEFP ¶45).

Collections and T&D Losses in Electricity Bills
(12-month rolling sums, in percent)



Source: Pakistani authorities.

Improving access to finance and financial sector stability

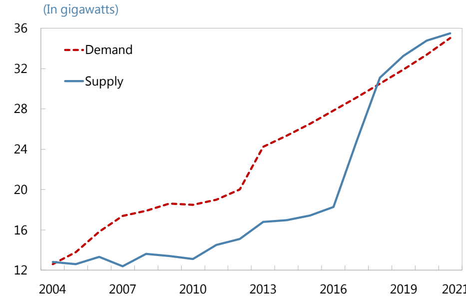
23. **Improving access to finance, notably to the small and medium enterprise (SME) sector, will be important to boost medium-term growth**. Access to finance for Pakistan's 3.3 million SMEs (about 90 percent of enterprises) is extremely limited, with only 7 percent of SMEs receiving bank lending. Given the potential of the SME sector to generate growth and jobs, staff welcomed the authorities' plans to continue implementing policy reforms to improve SMEs' access to finance (Box 6).

24. **Strengthening financial sector resiliency and stability by reinforcing the regulatory and supervisory frameworks remains a priority**. Bolstering regulatory and supervisory frameworks, strengthening corporate insolvency and bankruptcy regimes, instituting the deposit insurance scheme, and enhancing consolidated supervision are essential to safeguard the financial system. Also, improving the regulator's contingency planning framework, including for domestically important banks (D-SIBs), would strengthen financial resiliency. The authorities are evaluating policy options to enhance supervision for D-SIBs (MEFP ¶26).

Box 5. Reforming the Power Sector is Critical to Raising Potential Growth

The power deficit has been a major constraint on growth in the past decade. Utilizing less than 70 percent of its installed capacity, Pakistan's cash-strapped power sector has been unable to meet the growing demand for electricity resulting in widespread outages affecting both businesses and households.

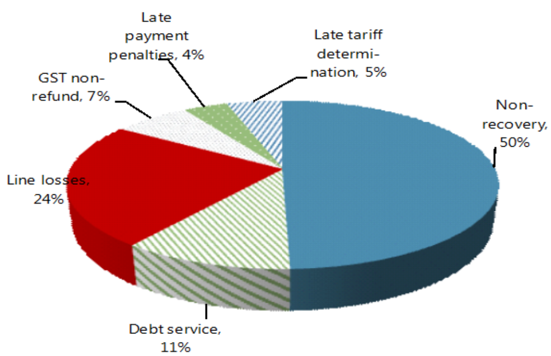
Power Sector Generation and Demand
(In gigawatts)



Source: Pakistani authorities; and IMF staff calculations.

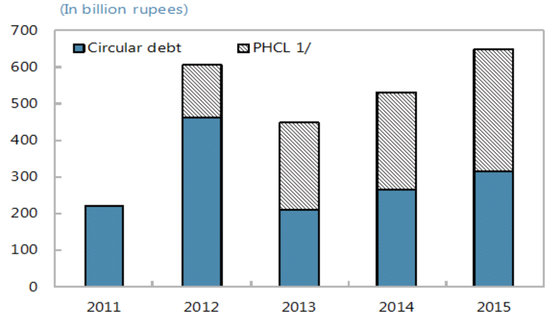
At the heart of the problem has been the power sector's chronic inability to cover costs. A combination of an unfavorable fuel mix, unsupportive policies, high line losses not fully covered by tariffs, and poor governance produced persistent payment arrears by the distribution companies (DISCOs). Over the years, these arrears, also known as circular debt, gradually stripped the sector of working capital, constraining investment and capacity utilization. As a quasi-fiscal liability, circular debt has also increased fiscal risks. Since 2013, the authorities cleared a large part of circular debt from the budget and moved another PRs 335 billion to the books of the specially-created Power Holding Company Ltd. (PHCL). This helped relieve pressures in the system, but DISCOs' continued loss-making led to re-accumulation of arrears which, together with PHCL, amounted to about 2 percent of GDP in 2014/15.

Composition of Power Sector Arrears in FY2014/15



Sources: Pakistani authorities; and IMF staff calculations.

Quasi-fiscal Liabilities in the Energy Sector
(In billion rupees)



Sources: Pakistani authorities; and IMF staff calculations.

1/ Power Holding Company Ltd. is a special purpose vehicle created to transfer part of circular debt outside of DISCOs' balance sheets and financed by borrowing from commercial banks.

The power sector is gradually improving amid the authorities' efforts to eliminate the power deficit. Improved load management has reduced power outages from 8–11 hours to near zero in industry and 6–8 hours for households. Capacity utilization improved to 80 percent owing to improved fuel mix and management of generation. The flow of circular debt has begun to decline with improved recoveries and lower line losses. Various planned investments, including in the context of CPEC, envisage raising the sector's installed capacity by GW 9 in the next five years. Alongside, the authorities have begun to implement a plan to reduce the flow of circular debt envisaging, among other things, improving efficiency in DISCOs, taking advantage of low oil prices to bridge the gap between costs and tariffs while minimizing the impact on final consumers, efforts to improve the fuel mix, resolving non-payment by provinces and special areas, strengthening of the regulatory environment, and introduction of multi-year tariffs to incentivize investment. At the same time, privatization of DISCOs will help pay off part of the circular debt.

International experience points to the importance of a sustained reform effort. Continued improvement of governance of the DISCOs and other aspects of the reform will be important to reap potential gains. For example, starting from a similar position as Pakistan, Turkey moved fast to reform its energy sector, achieving a remarkable turnaround in closing the energy gap and improving services between 2006 and 2014. Similar reforms in the Philippines reduced system losses by 30 percent between 2007 and 2013, and decisive reforms in Chile doubled annual generation capacity between 1990 and 1998.

	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	September 2015
6	Pakistan Steel Mills (PSM)	Strategic & Asset Sale	End-September 2016
7	State Life Insurance Corp (SLIC)	Sale of 10-15 percent company shares	End-June 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	Faisalabad Electric Supply Company (FESCO)	Strategic & Asset Sale	End-September 2016
12	Northern Power Generation Company Limited (NPGCL)	Strategic & Asset Sale	End-December 2016
13	Islamabad Electric Supply Company (IESCO)	Strategic & Asset Sale	End-June 2016
14	Lahore Electric Supply Company (LESCO)	Strategic & Asset Sale	End-June 2016
15	Jamshoro Power Generation Company Limited (JPGCL)	Strategic & Asset Sale	End-December 2016

25. **Progress is under way to strengthen banks that are below regulatory capital requirements**. A rights issue for the only remaining CAR-non-compliant bank has been completed and, after the due diligence of the investor is completed (expected by end-December 2015), application of the full amount of the rights issue would enable it to become CAR-compliant (MEFP ¶25).[4] Time-bound plans are under way to bring three other small banks into compliance with the minimum requirement for paid-up capital (MCR) by raising equity or privatizing affected public banks.[5] Staff stressed the need for the supervisor to continue to engage with noncompliant banks for early compliance with statutory requirements, and, subsequently, for continued engagement to ensure that banks remain in compliance. Nonperforming loans in the banking system have gradually reduced but remain high at 12.5 percent in September 2015 amid complex legal procedures, difficulties in enforcing collateral, and limited creditor rights. The authorities have introduced legal amendments to parliament that would strengthen collateral enforcement. They are also improving mortgage foreclosure and corporate restructuring legislation, with the aim to improve recovery while preserving appropriate safeguards for borrowers (MEFP ¶26).

[4] The size of this bank is about 0.9 percent of the banking system assets (or 0.4 percent of GDP), and the CAR shortfall has decreased to PRs 0.3 billion.

[5] These MCR non-compliant banks represent about 0.5 percent of banking sector assets (0.23 percent of GDP).

Box 6. Improving Access to Finance for SMEs

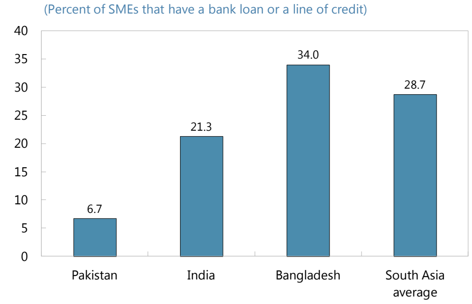
The SME sector has the potential to become an engine for jobs and growth. Pakistan's SMEs represent about 30 percent of GDP, account for 25 percent of exported manufactured goods, and employ about 80 percent of the non-agricultural labor force. However, bank lending to SMEs is only about 1.2 percent of GDP, and SMEs' access to finance is very low, also in comparison with regional peers, constraining opportunities for growth.

Supply side factors constraining access to finance: Banks' propensity to lend to the private sector, particularly SMEs, remains low because of high NPLs (32 percent among SME loans in September, 2015) and loan losses, lack of credit information and adequate creditor rights, and limited competition among banks (banks tend to orient activities toward profitable and low-risk government lending). The absence of an effective, secured lending chain with ease of registration, and transfer and liquidation of collateral, especially for movable collateral, is an obstacle to increasing SMEs' access to finance. As result of these constraints, SMEs are charged high collateral (130–140 percent of the total loan amount) and banks apply more stringent risk-management tenets on SMEs. In addition, most banks do not have the required expertise, instruments, or capacity to gauge the feasibility of granting access to finance to SMEs, and banks face high administrative costs to process loan applications, which may reduce the marginal profit on already small facilities.

Demand side factors constraining access to finance: In an environment of insufficient access to finance and market-based development solutions, the obstacles that SMEs face include the lack of financial literacy and capacity skills, high rates of interest, high collateral requirements, and cumbersome documentation processes. Banks are only the third preferred source of borrowing for SMEs, after nongovernmental organization MFIs and family/friends networks, mainly due to high direct and indirect borrowing costs and complexity of loan products.

Policy options: Bolstering the financial sector's development is vital to broadening access to finance, and to that end, the authorities adopted a National Financial Inclusion Strategy in May 2015. It will be important to continue developing the underlying legal and regulatory framework (bankruptcy and foreclosure proceedings) and to implement a viable secured lending chain to strengthen creditor rights. Improving the financial infrastructure, including the credit information system, collateral and insolvency regimes, and accounting and auditing standards would enhance the operation of financial intermediaries by reducing information asymmetries and legal uncertainty. The recent enactment of the Credit Bureaus Bill was an important step toward improving the credit information system and supporting financial institutions to extend credit to a broader base of SMEs. Public sector support could include efforts to sponsor technical assistance programs with lines of credit to encourage banks and non-bank financial institutions to increase SME lending. Also, the Prime Minister's Youth Business Loans scheme—with a mark-up subsidy and partial guarantee facility for the extension of SME loans up to PRs 2 million—could be revisited to enhance its effectiveness.

Access to Finance for SMEs, 2014
(Percent of SMEs that have a bank loan or a line of credit)



Source: World Bank Enterprise Survey.

26. **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 (SB), and has begun the preparatory work to make the DPF 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 systemically important banks. The authorities are 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).

27. **Improving the anti-money laundering and combating the financing of terrorism (AML/CFT) legal framework remains a priority for financial stability, detecting proceeds of corruption, and tax compliance** (MEFP ¶29). The government submitted draft amendments to the AML Act to the Senate that would include serious tax crimes in the Schedule of Offenses and enable the use of AML tools to combat tax crimes. The Senate amended the draft legislation to significantly limit the scope of tax crimes in the Schedule of Offenses and the National Assembly adopted it without further changes. While not covering many important tax crimes, including related to personal and corporate income taxes, these amendments are nonetheless a first step toward widening the application of AML tools to proceeds of tax crimes. To further increase the scope, the authorities plan to introduce to parliament by January 2016 amendments to the AML Act to cover additional important tax crimes (new SB), for parliamentary passage and enactment by May 2016 (modified SB). 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; bolster the Financial Monitoring Unit's analytical capability; and strengthen the effective implementation of relevant United Nations Security Council Resolutions (UNSCRs) to freeze terrorist assets.

Protecting the Vulnerable and Promoting Inclusiveness

28. **Staff supports the authorities' work in expanding the targeted income support to the vulnerable groups through the Benazir Income Support Program (BISP)**. The BISP program increased coverage to reach 5.14 million beneficiaries at end-September 2015, and is on track to expand the number of beneficiaries to 5.3 million by the end of current fiscal year. The authorities are in the process of securing support from development partners to protect the real purchasing power of cash transfers. Furthermore, in partnership with the provincial governments, they rolled out education-conditional cash transfers covering over 70 thousand children (48 percent are girls) in 32 districts at end-September 2015.

29. **Staff recommended policies to promote gender equality and female labor force participation to help improve productivity**. International evidence points to significant potential gains from greater female labor force participation. Policies to promote gender equality include facilitation of access to credit, strengthening legal and property rights, securing quotas for women in senior/managerial positions, improving work/life balance with paternity leave, childcare and flexible

work arrangements, enhancing transfers under the BISP program, as well as improvements in rural infrastructure (see accompanying Selected Issues Paper: "Macroeconomic Gains from Gender Equity in Pakistan"). The authorities agreed with gender equality as an important policy priority and emphasized a number of recent measures, including in the financial inclusion strategy, enhancement of BISP, and their efforts toward improving gender-responsive budgeting (MEFP ¶20).

PROGRAM ISSUES AND MODALITIES

30. **Program performance has been broadly satisfactory, although several quantitative conditions have been missed**:

- *Performance criteria*. The end-September PCs on reserve accumulation, the SBP's net swap/forward position, and government borrowing from the SBP were met with significant margins (Table 1). However, the PCs on the net domestic assets (NDA) of the SBP and the general government budget deficit were missed by PRs 172 billion (4.9 percent of reserve money) and PRs 23 billion (close to 0.1 percent of GDP), respectively.

- *Indicative targets*. The end-September 2015 indicative targets on cash transfers under BISP and the accumulation of power sector arrears were met. However, the IT on federal tax revenue was missed by PRs 40 billion (0.15 percent of GDP).

31. **Fiscal underperformance in Q1 FY 2015/16 owed to a number of factors**. They include the shortfall in federal tax revenues owing to lower international commodity prices and domestic disinflation, underperformance in the collection of Gas Infrastructure Development Cess (GIDC), and the temporarily reduced withholding tax rate on banking transactions.

32. **The authorities have agreed to implement corrective measures to attain the FY2015/16 revenue and deficit targets**. On the spending front, the authorities have cut current and capital expenditures by 0.1 percent of GDP and are absorbing additional budgetary spending related to the new agricultural support package (amounting to 0.1 percent of GDP) within the recurrent spending envelope. Similarly, additional budgetary spending as result of the reclassification of some "nonplan loans" (amounting to 0.1 percent of GDP) will be made through re-allocation of existing capital expenditure plans, including at the provincial level. On the revenue front, the authorities have introduced additional tax measures (amounting to 0.15 percent of GDP) by raising the excise duty on cigarettes and imposing regulatory duties and additional customs duties on a variety of products. The authorities have also started the consultative process to eliminate tax concessions and exemptions amounting to 0.3 percent of GDP on an annualized basis and are committed to implementing this measure by February 2016 (or as part of the FY 2016/17 budget if the end-December revenue target is met).

33. **Corrective measures are under way in light of the missed NDA target**. A combination of factors led to higher-than-programmed NDA in Q1 FY2015/16: an unusual seasonal demand for currency in circulation in connection with two Eid festivals, a higher volume of cash transactions in light of financial disintermediation related to the new financial transactions tax for non-filers, and injections in the interbank market to align money market rates close to the recently lowered policy rate. A revised path for NDA consistent with projected inflation was agreed, and, consequently, the end-December PC for NDA is proposed for modification to ensure adequate reserve money growth. The authorities agreed on a prior action for end-November NDA to ensure that they are on track for the revised end-December target. Based on preliminary information provided by the authorities at the time of issuing this report, this prior action has been met.

34. **Most structural benchmarks have been met, and some modifications and new benchmarks are proposed**. Most SBs were met, including the merger of NTN and CNIC databases, adoption of a risk-based audit policy by the FBR, improving the Debt Policy Coordination Office's staffing capacity and publishing quarterly debt management risk reports, operationalization of the SBP's improved interest rate corridor, enactment of the Credit Bureaus Act, and setting quarterly performance targets for DISCOs. Enactment of amendments to the SBP law was completed as a prior action in November (missed end-September SB). The SB on enactment of the AML Act amendments including serious tax crimes is proposed to be modified for completion by May 2016. In light of the missed end-November SB on determination and notification of multi-year tariffs in three DISCOs, two new SBs are proposed for January and April 2016, respectively (Table 1 and MEFP, ¶38). This reflects the authorities' plan to determine the tariffs first to facilitate the privatization process, while notification would follow together with tariffs for all DISCOs according to an established timeline. Five other new SBs in the areas of tax administration, AML, and energy sector and business climate reforms are proposed (Table 2 and MEFP).

35. **Financing, program risks, and capacity to repay the Fund**. Pakistan's program financing needs (estimated at US$7.2 billion or 3.2 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$2.6 billion from the World Bank and the ADB) are expected to cover most of the financing needs. Pakistan has access to international markets, which reduces financing risks going forward. The reserves situation has continued to improve to cover almost four months of imports, but further accumulation is needed to meet adequacy norms measured by the Fund's ARA metric. The Fund's exposure to Pakistan increased with the disbursement made upon approval of the eighth review, reaching SDR 3.24 billion (about US$4.5 billion and 7.0 percent of total external debt) by end-September 2015. Pakistan's capacity to repay the Fund has been strengthened by supportive policies, improved foreign exchange buffers on the back of strong remittances and low oil prices, and a lower budget deficit. However, the materialization of risks to the economic outlook could erode these gains, particularly in the context of the Fund's exposure increasing further with new EFF program disbursements (Table 11).

STAFF APPRAISAL

36. **Economic activity is improving and near-term vulnerabilities have been substantially reduced**. Real GDP growth is expected to further increase to around 4.5 percent this fiscal year and inflation is expected to rise to an average rate of 3.7 percent. Since 2013, the authorities' IMF-supported program has made significant progress with reducing near-term vulnerabilities by reducing the budget deficit, rebuilding foreign exchange reserves, strengthening the monetary policy framework, and beginning to roll out a number of important structural reforms. Social protection under BISP continues to expand and energy sector reforms have begun to reduce power outages across the country. Despite several missed targets, program implementation has remained adequate and, with continued reform implementation, growth is expected to accelerate to 5.5 percent in the medium term.

37. **The main medium-term challenge is to make the economy more resilient and competitive to generate a strong and sustainable growth momentum**. Low oil prices provide a unique opportunity to continue strengthening foreign exchange reserves as a buffer against future shocks. Further fiscal consolidation is needed to improve debt sustainability, reduce fiscal dominance, and crowd in private investment. Sustained efforts with widening the tax net, completing the energy sector reform, restructuring and privatization of loss-making public enterprises, improving the business climate and competitiveness, and fostering financial sector stability and development, are needed to generate higher and more inclusive growth.

38. **Continued efforts are needed to keep the fiscal program on track**. The additional measures adopted by the authorities to close the revenue shortfall and stay on track to meet end-FY 2015/16 fiscal targets are welcome signs of ongoing commitment. Further fiscal consolidation should target a budget deficit (excluding grants) of 3½ percent of GDP next year and 2½ percent over the medium term to keep debt on a firmly declining trajectory and limit the borrowing requirement from the domestic banking system.

39. **A sustained effort to widen the tax net should drive the fiscal consolidation**. Despite recent progress, at 11 percent of GDP, tax revenue remains much too low to allow for sustained increases in infrastructure investment and social spending, which are needed to underpin Pakistan's development. The authorities' commitment to raise this ratio to 14.5 percent in the medium term is thus highly pertinent. To improve fairness of the tax system and mitigate economic distortions, this goal should be achieved mainly by widening the tax net. Specific priorities include continued removal of GST and customs duty concessions and exemptions, improving taxpayer compliance, and encouraging better tax collection at the provincial level by rebalancing of the existing fiscal federalism system and reducing fragmentation in tax administration. Alongside, upgrading of the debt and public finance management frameworks should continue to further reduce fiscal risks.

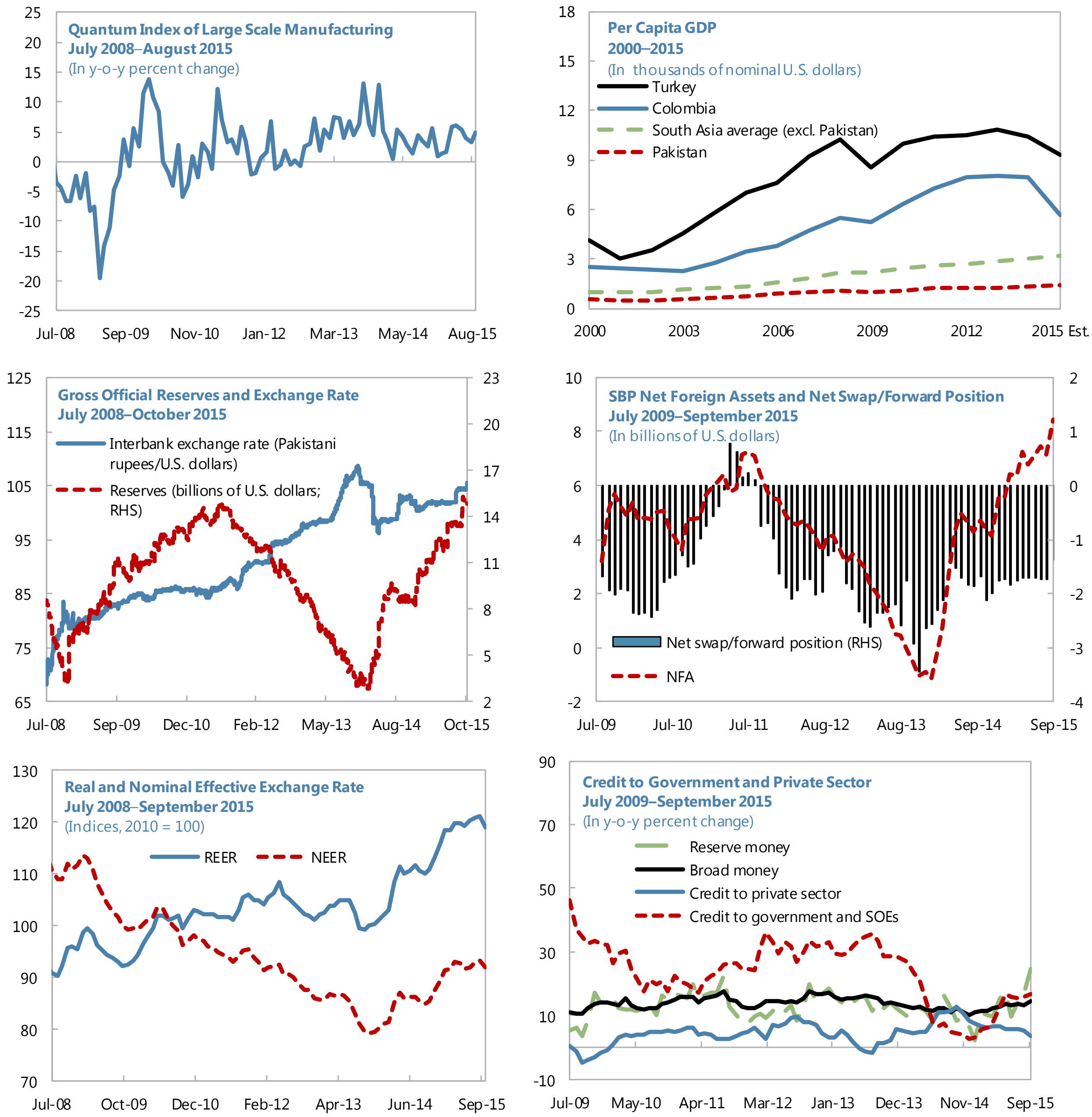
40. **The authorities should continue strengthening the monetary policy framework while maintaining a cautious monetary policy stance in the short term**. The authorities' corrective action in restricting NDA growth puts monetary policy on track to achieve upcoming program targets, in line with projections for moderate inflation. Monetary policy should continue to target clearly positive real interest rates and keep inflation expectations well anchored amid increased global financial market volatility. The establishment of an independent MPC is welcome, and the SBP should continue to put in place pre-conditions for gradual transition for flexible inflation targeting in the medium term. In this context, reducing fiscal dominance and further strengthening central bank independence by addressing the remaining recommendations of the 2013 Safeguards Assessment will be critical.

41. **Continued reform progress is needed to strengthen financial stability and increase access to finance**. Progress with strengthening banks that are below regulatory capital requirements is welcome. Further bolstering regulatory and supervisory frameworks, instituting the deposit insurance scheme, improving contingency planning, and enhancing consolidated supervision are needed to safeguard financial sector stability. With only 7 percent of SMEs receiving bank lending, it is important to remove structural impediments to access to credit by putting in place efficient credit information and dispute resolution systems and strengthened frameworks for collateral, insolvency, and corporate restructuring. These efforts should be complemented by continued enhancement of the AML/CFT framework. The recently passed amendments to the AML Act constitute a first step toward widening the application of AML tools to proceeds of tax crimes. However, many important tax crimes, including related to income taxes, are still not covered under the AML legislation. Increasing the scope of tax crimes covered under the AML Act remains a priority that should be addressed without delay in order to improve the efficiency of AML framework and the ability to fight tax evasion. Efforts should also continue to improve systems to freeze terrorists' assets.

42. **Advancing structural reforms is critical to improve competitiveness and boost potential growth in the medium term**. Priorities include mobilizing revenue and further reducing energy subsidies to free resources for higher public investment, persistent progress with the energy sector reform, improving the business climate and competitiveness, and restructuring or privatizing loss-making public enterprises. Building on the progress under way in these areas, swift reform implementation in the period ahead could significantly raise Pakistan's medium-term growth, helping to create jobs for new labor market entrants and raising living standards. Alongside, continued policies to promote gender equality and strengthen targeted social protection will be important to support higher and more inclusive growth.

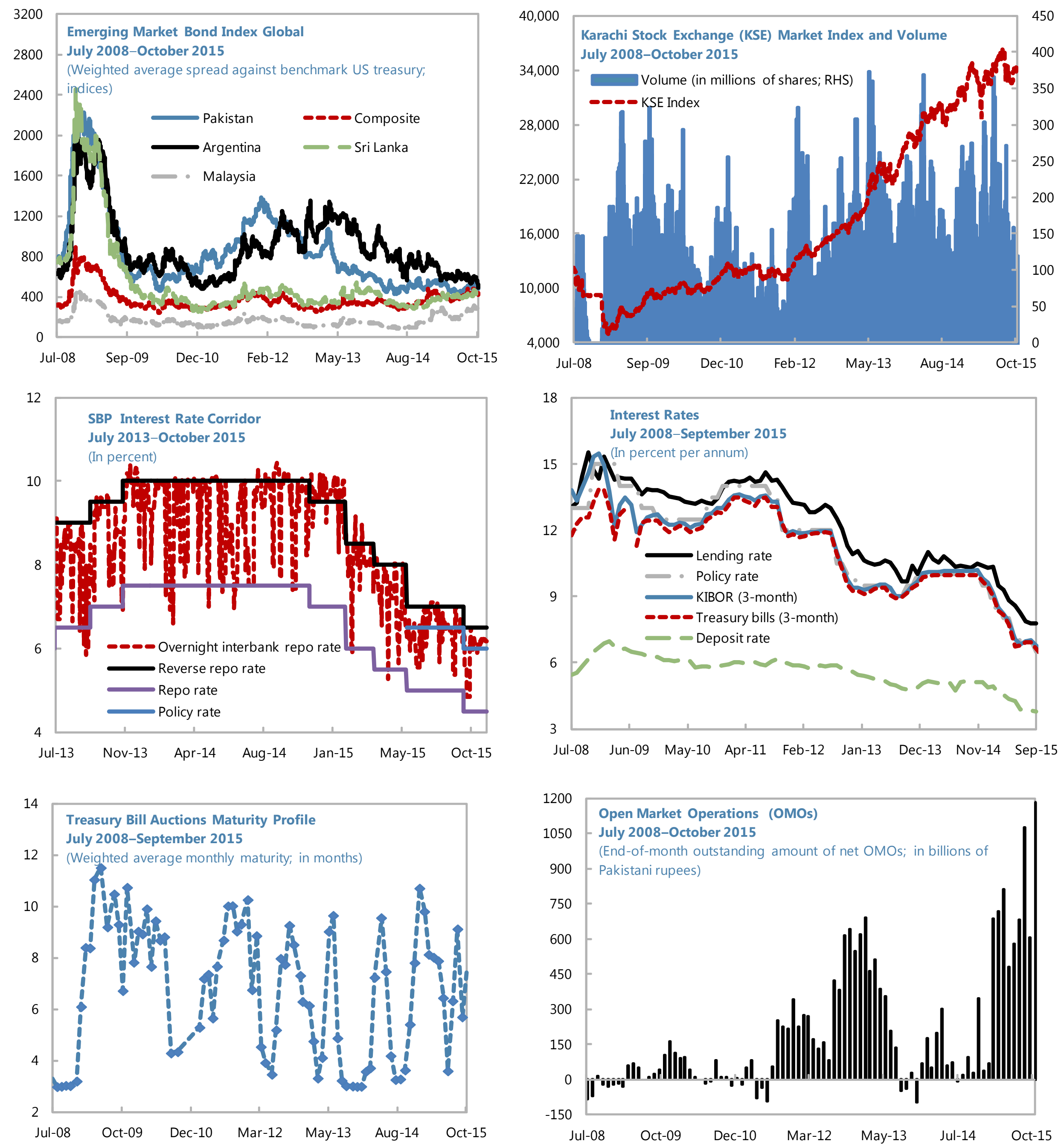
43. **On the basis of Pakistan's performance under the extended arrangement and the corrective actions outlined above, staff supports the authorities' request for completion of the ninth review under the arrangement and for waivers for the nonobservance of the end-September PCs on the budget deficit and NDA of the SBP, and modification of the end-December 2015 PC on NDA**. Staff also recommends the establishment of end-March 2015 PCs; setting of seven new structural benchmarks; and the revision to the timeline of structural benchmarks as proposed in the attached MEFP. It is recommended that the next Article IV consultation take place on the 24-month cycle in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96) (9/28/2010)).

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



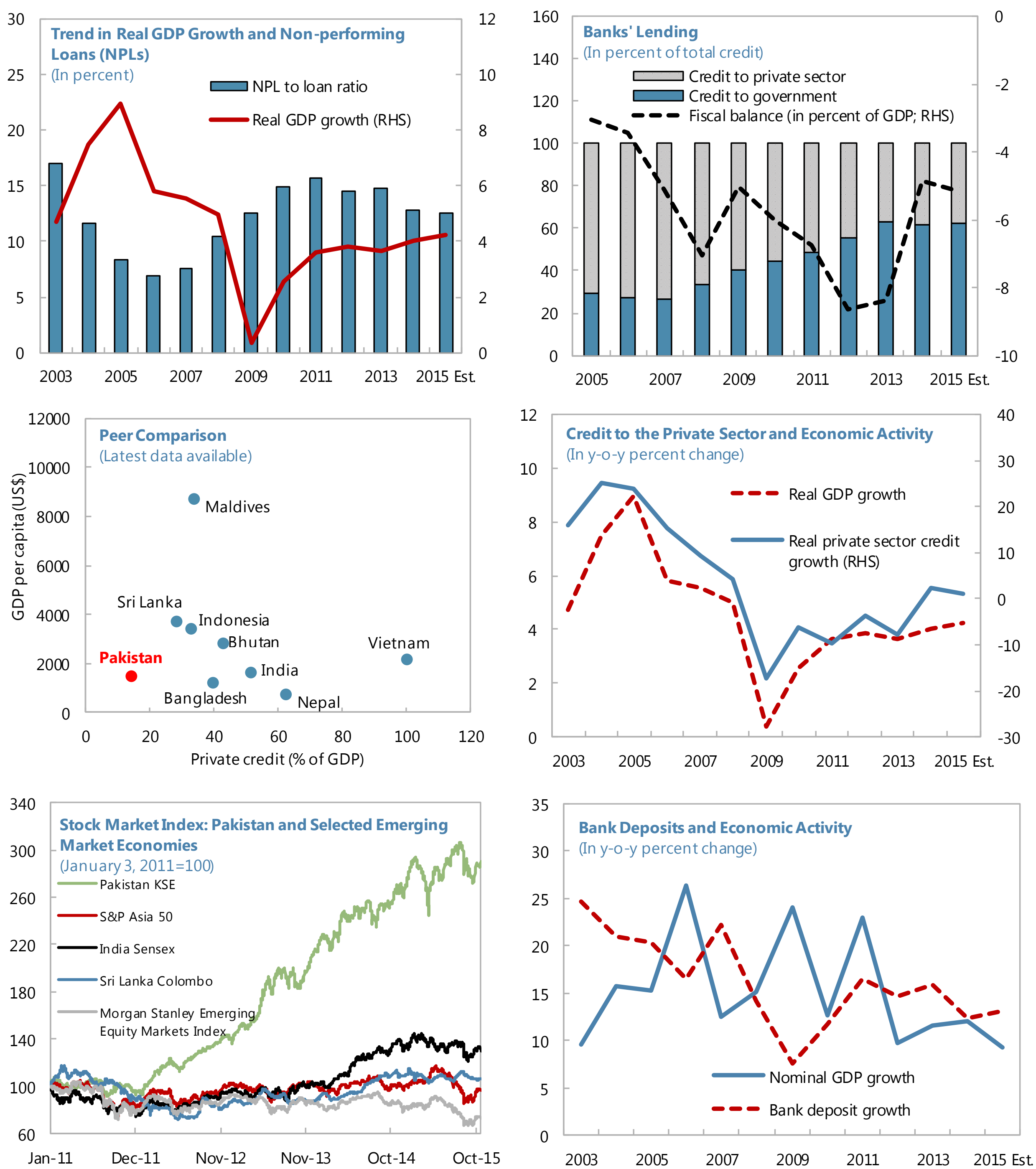
Sources: Pakistani authorities; IMF World Economic Outlook; and IMF staff calculations.

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 FY 2014/15 and FY 2015/16[1/]

	FY2014/15	FY2015/16						
	end-June	end-September			end-December		end-March	end-June
					Program			Projection
					Ninth Review			
		Target	Adj. Target	Actual	Target	Revised		
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	5,354	8,300	6,885	6,955	9,300	9,300	9,300	10,000
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,350	2,480	2,661	2,350	2,580	2,660	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	306	306	329	625	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,700	1,700	1,385	1,650	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,893	1,800	1,800	1,589	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
Indicative Targets								
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	94	23	23	24	46	46	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	640	640	600	1,390	1,390	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	36	36	13	27	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

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

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		8th review	Rescheduled		
Prior Actions					
1	Bring the stock of NDA to or below PRs 2,652 billion by end-November 2015.			Met	Conduct prudent monetary policy
2	Enact amendments to the SBP law by end-November 2015.			Met	Strengthen SBP independence
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		Met	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		Met	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		Met	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		Not met, implemented in November 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
		8th review	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-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) in line with international standards.	end-November 2015	end-May 2016	Not Met by 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			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		Not met	Facilitates privatization of the DISCOs and reduction of energy arrears.
17	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		Met	Tackle losses, raise payment compliance, and improve energy efficiency and service delivery in the energy sector.
18	Complete the bidding process for shares of FESCO.	end-June 2016			To privatize electricity distribution companies in line with arrears reduction plan
New Structural Benchmarks					
1	Put in place a comprehensive monitoring system for tax audits, with quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators.	end-December 2015			Strengthen tax collection
2	Enact amendments to Penal Code 1860 and the Code of Criminal Procedures 1898.	end-January 2016			Strengthen governance in the power sector
3	Determine Multi-year tariffs for IESCO and LESCO.	end-January 2016			Prepare for DISCO privatization
4	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016			Prepare for DISCO privatization
5	Enact the Gas (Theft Control and Recovery) Ordinance 2014.	end-February 2016			Strengthen governance in the gas sector
6	Develop a new time-bound plan with specific measures to significantly improve the business climate.	end-February 2016			Strengthen the business climate
7	Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU	end-January 2016			Use anti-money laundering tools to combat tax evasion.

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 ($13.5 billion, 2014/15)
Unemployment: 6.0 percent (2013/14)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	
						Eighth 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	3.7
Consumer prices (period average) 2/	13.7	11.0	7.4	8.6	4.5	4.7	3.7
Consumer prices (end of period) 2/	13.3	11.3	5.9	8.2	3.2	6.0	4.5
Pakistani rupees per U.S. dollar (period average)	2.0	4.4	8.4	6.4	-1.5		
			(In percent of GDP)				
Saving and investment							
Gross saving	14.2	13.0	13.9	13.7	14.1	14.8	14.4
Government	-4.2	-5.3	-5.2	-1.4	-1.6	-0.4	-0.5
Nongovernment (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	15.2	14.8
Gross capital formation 3/	14.1	15.1	15.0	15.0	15.1	15.3	15.3
Government	2.5	3.4	3.2	3.5	3.7	3.8	3.7
Nongovernment (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.5	11.6
Public finances							
Revenue and grants	12.6	13.0	13.5	15.3	14.5	15.4	15.5
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	-4.2	-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	0.1	0.1
Total general government debt 4/	55.3	60.5	62.9	63.7	63.2	62.4	63.2
External general government debt	22.4	22.4	20.1	19.9	18.5	18.0	19.0
Domestic general government debt	32.9	38.1	42.8	43.8	44.8	44.4	44.2
	(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	1.6	1.9
Net domestic assets	11.8	17.9	19.3	8.8	11.0	10.8	10.1
Broad money (percent change)	15.9	14.1	15.9	12.5	13.2	12.4	12.0
Reserve money (percent change)	17.1	11.3	15.8	12.9	9.9	10.0	13.9
Private credit (percent change)	4.0	7.5	-0.6	11.0	5.6	9.8	10.7
Six-month treasury bill rate (period average, in percent)	13.3	12.3	9.8	9.7	8.8		
External sector							
Merchandise exports, U.S. dollars (percentage change)	28.9	-2.6	0.4	1.1	-3.9	0.7	-4.0
Merchandise imports, U.S. dollars (percentage change)	14.9	12.8	-0.6	3.8	-0.9	-0.2	-1.9
Current account balance (in percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.0	-0.5	-0.9
	(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	164.5	168.2	188.7
Debt service	13.4	16.2	21.6	23.5	21.9	22.5	24.9
Gross reserves (in millions of U.S. dollars) 5/	14,784	10,799	6,008	9,096	13,534	17,131	17,666
In months of next year's imports of goods and services	3.6	2.7	1.5	2.2	3.4	4.0	4.3
Memorandum items:							
Real effective exchange rate (annual average, percentage change)	6.1	3.0	-1.3	0.9	10.9		
Terms of trade (percentage change)	7.3	-10.0	-1.9	0.3	5.1	3.8	14.5
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	30,170	29,907
GDP at market prices (in billions of U.S. dollars)	213.6	224.4	231.1	243.4	267.5		

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.

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
						Eighth 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	4.7	5.0	5.2	5.5
Consumer prices (period average)	13.7	11.0	7.4	8.6	4.5	4.7	3.7	5.0	5.0	5.0	5.0
					(In percent of GDP)						
Saving and investment balance	0.1	-2.1	-1.1	-1.3	-1.0	-0.5	-0.9	-0.8	-1.0	-1.0	-1.1
Government	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-4.2	-3.2	-2.9	-2.8	-2.5
Non-government (including public sector enterprises)	6.8	6.6	7.3	3.6	4.3	3.7	3.3	2.4	1.9	1.8	1.4
Gross national saving	14.2	13.0	13.9	13.7	14.1	14.8	14.4	14.7	15.0	15.6	16.0
Government	-4.2	-5.3	-5.2	-1.4	-1.6	-0.4	-0.5	0.4	0.8	1.4	2.2
Non-government (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	15.2	14.8	14.3	14.2	14.2	13.9
Gross capital formation	14.1	15.1	15.0	15.0	15.1	15.3	15.3	15.5	16.0	16.6	17.1
Government	2.5	3.4	3.2	3.5	3.7	3.8	3.7	3.6	3.7	4.2	4.6
Non-government (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.5	11.6	11.9	12.3	12.4	12.5
					(In billions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Current account balance	0.2	-4.7	-2.5	-3.1	-2.6	-1.5	-2.6	-2.4	-3.1	-3.2	-3.8
Net capital flows 1/	2.3	1.4	0.5	7.0	5.3	3.2	4.8	4.2	4.7	4.9	5.8
Of which: foreign direct investment 2/	1.6	0.7	1.3	1.6	0.8	0.8	0.9	1.4	2.5	3.1	3.9
Gross official reserves	14.8	10.8	6.0	9.1	13.5	17.1	17.7	19.5	21.1	22.3	23.6
In months of imports 3/	3.6	2.7	1.5	2.2	3.4	4.0	4.3	4.4	4.4	4.4	4.4
External debt (in percent of GDP)	31.1	29.2	26.3	26.9	24.4	23.9	25.4	25.1	24.1	22.5	20.9
Terms of trade (annual percentage change)	7.3	-10.0	-1.9	0.3	5.1	3.8	14.5	-7.9	-0.2	-0.2	-0.4
Real effective exchange rate (annual percentage change)	6.1	3.0	-1.3	0.9	10.9						
					(In percent of GDP)						
Public finances											
Revenue and grants	12.6	13.0	13.5	15.3	14.5	15.4	15.5	16.4	16.6	17.2	17.6
Of which: tax revenue	9.5	10.4	10.0	10.5	11.0	12.1	12.2	13.0	13.4	14.0	14.5
Expenditure, *of which:*	19.3	21.7	21.8	20.2	19.8	19.6	19.6	19.6	19.5	20.0	20.1
Current	16.5	17.9	16.8	16.4	16.6	15.9	15.9	16.0	15.8	15.8	15.5
Development and net lending	2.6	3.5	5.0	4.0	3.8	3.8	3.7	3.6	3.7	4.2	4.6
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.1	0.1	1.3	1.5	1.5	1.4
Primary balance (excluding grants)	-3.2	-4.4	-4.1	-1.1	-0.7	0.0	0.0	1.1	1.4	1.4	1.4
Overall fiscal balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-4.2	-3.2	-2.9	-2.8	-2.5
Overall fiscal balance (excluding grants)	-7.0	-8.9	-8.5	-5.7	-5.4	-4.3	-4.3	-3.5	-3.0	-2.8	-2.5
Total public debt (including obligations to the IMF)	59.5	64.0	64.8	64.9	64.8	64.4	65.0	63.2	60.7	58.2	55.2

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.

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	Eighth Review	End-Year	Projections			
Current account	-3,130	-2,627	-109	-1,039	-536	-940	-1,488	-2,624	-2,396	-3,055	-3,248	-3,846
Balance on goods	-16,701	-17,318	-4,552	-4,476	-4,098	-4,371	-16,879	-17,497	-17,842	-19,434	-20,487	-21,637
Exports, f.o.b.	25,068	24,083	5,421	5,671	5,891	6,130	24,300	23,113	24,280	26,006	28,240	30,552
Imports, f.o.b.	41,769	41,401	9,973	10,148	9,989	10,500	41,179	40,610	42,122	45,439	48,727	52,189
Services (net)	-2,551	-2,842	-125	-600	-603	-658	-3,014	-1,987	-2,286	-2,300	-2,597	-3,051
Services: credit	5,322	5,876	1,582	1,232	1,138	1,228	5,498	5,181	4,694	5,244	5,706	6,069
Of which: Coalition Support Fund	1,050	1,452	713	175	175	175	862	1,238	175	0	0	0
Services: debit	7,873	8,718	1,707	1,832	1,741	1,886	8,512	7,167	6,980	7,544	8,303	9,120
Income (net)	-3,943	-4,565	-1,010	-1,493	-1,214	-1,497	-4,859	-5,214	-5,488	-5,914	-6,610	-7,159
Income: credit	541	681	131	231	209	262	390	832	706	871	836	1,252
Income: debit	4,484	5,246	1,141	1,724	1,422	1,758	5,249	6,046	6,194	6,785	7,446	8,411
Of which: interest payments	1,552	1,936	382	711	574	674	2,026	2,342	2,424	2,674	2,904	3,034
Of which: income on direct investment	2,932	3,308	757	1,013	848	1,084	3,223	3,702	3,769	4,111	4,542	5,377
Balance on goods, services, and income	-23,195	-24,725	-5,687	-6,570	-5,915	-6,525	-24,752	-24,698	-25,616	-27,648	-29,695	-31,847
Current transfers (net)	20,065	22,098	5,578	5,531	5,379	5,586	23,264	22,074	23,220	24,592	26,447	28,000
Current transfers: credit, *of which:*	20,222	22,337	5,596	5,553	5,402	5,609	23,423	22,160	23,379	24,751	26,606	28,159
Official	380	349	76	140	65	65	411	346	360	462	468	179
Workers' remittances	15,837	18,720	4,967	4,859	4,751	4,996	19,750	19,573	20,655	21,795	23,453	25,107
Other private transfers	4,005	3,268	553	554	586	547	3,262	2,240	2,364	2,495	2,685	2,874
Current transfers: debit	157	239	18	23	23	23	159	86	159	159	159	159
Capital account	1,857	378	106	76	88	106	208	376	722	12	12	12
Capital transfers: credit	1,857	378	106	76	88	106	208	376	722	12	12	12
Of which: official capital grants	352	367	101	76	88	106	208	371	722	12	12	12
Capital transfers: debit	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	5,553	5,004	1,129	1,342	-168	2,005	2,944	4,308	3,498	4,688	4,908	5,833
Direct investment abroad	-128	-72	-5	-22	-22	-22	0	-72	-81	-82	-82	-82
Direct investment in Pakistan	1,700	852	216	249	222	305	829	993	1,501	2,560	3,139	3,975
Of which: privatization receipts	831	764	0	0	0	0	0	0	0	0	0	0
Portfolio investment (net), *of which:*	2,760	1,903	372	-100	-600	600	685	272	190	709	-144	-418
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	211	102	385	-228	-94	-47	-211	16	342	580	1,560	1,560
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	5	-31	3	0	0	0	0	3	0	0	0	0
Banks	8	-63	210	-105	-113	-11	-148	-19	300	300	560	560
Other sectors	198	196	172	-123	19	-36	-63	32	42	280	1,000	1,000
Other investment liabilities	1,010	2,219	161	1,443	326	1,169	1,640	3,099	1,545	921	435	799
Monetary authorities	146	563	3	0	0	0	0	3	0	0	0	0
General government, *of which:*	1,610	893	300	1,108	283	1,045	1,375	2,736	918	19	-410	-197
Disbursements	4,349	3,704	825	1,949	1,428	2,154	4,854	6,356	5,632	4,223	3,258	3,497
Amortization	2,734	2,809	859	841	1,145	1,109	3,479	3,954	4,713	4,203	3,667	3,694
Banks	-293	480	265	290	110	183	335	848	600	600	600	600
Other sectors	-453	283	-391	45	-68	-58	-70	-472	27	301	244	396
Net errors and omissions	-422	-119	111	0	0	0	0	111	0	0	0	0
Reserves and related items	-3,858	-2,636	-1,237	-378	617	-1,172	-1,663	-2,170	-1,824	-1,645	-1,672	-1,999
Reserve assets	-3,285	-4,230	-1,682	-872	122	-1,668	-3,597	-4,100	-1,884	-1,516	-1,244	-1,270
Use of Fund credit and loans	-573	1,594	445	494	495	496	1,933	1,930	61	-129	-428	-729
Memorandum items:												
Current account (in percent of GDP)	-1.3	-1.0					-0.5	-0.9	-0.8	-0.8	-0.8	-0.7
Current account (in percent of GDP; excluding fuel imports)	4.8	3.6					2.8	2.7	2.2	2.3	2.2	2.2
Exports f.o.b. (growth rate, in percent)	1.1	-3.9					0.7	-4.0	2.8	6.4	7.3	7.3
Imports f.o.b. (growth rate, in percent)	3.8	-0.9					-0.2	-1.9	2.0	6.2	6.0	3.8
Oil imports (in million US$, cif)	14,774	12,155					9,328	10,304	8,859	9,554	10,085	10,684
Terms of trade (growth rate, in percent)	0.3	5.1					3.8	14.5	-7.9	-0.2	0	0
External debt (in millions of U.S. dollars)	65,365	65,147					67,992	70,192	72,050	73,224	72,756	72,128
Gross external financing needs (in millions of U.S. dollars) 1/	8,713	7,262					6,176	7,340	7,876	7,180	9,844	9,243
End-period gross official reserves (millions of U.S. dollars) 2/	9,096	13,534	15,247	16,119			17,131	17,666	19,550	21,066	22,310	23,580
(In months of next year's imports of goods and services)	2.2	3.4	3.8	4.0			4.0	4.3	4.4	4.4	4.4	4.4
GDP (in millions of U.S. dollars)	243,383	267,485										

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	
								Eighth Review	Projection
Revenue and grants	1,878	2,130	2,306	2,611	3,011	3,837	3,984	4,652	4,623
Revenue	1,851	2,079	2,261	2,567	2,982	3,631	3,937	4,623	4,583
Tax revenue	1,331	1,500	1,738	2,076	2,231	2,640	3,024	3,664	3,634
Federal	1,285	1,445	1,673	1,969	2,081	2,450	2,818	3,416	3,389
FBR revenue	1,157	1,329	1,558	1,881	1,936	2,272	2,594	3,104	3,104
Direct taxes	440	529	602	732	736	884	1,029	1,332	1,289
Federal excise duty	116	121	137	122	119	145	170	206	182
Sales tax/VAT	452	517	633	809	841	1,002	1,089	1,250	1,272
Customs duties	148	162	185	218	240	241	306	315	361
Petroleum surcharge	112	89	83	60	110	104	131	135	135
Gas surcharge and other	16	28	32	27	35	43	35	32	34
GIDC 1/	0.0	0.0	0.0	0.0	0.0	32	57	…	116
Provincial	46	55	65	107	151	190	206	247	245
Nontax revenue	520	579	523	491	751	990	913	959	949
Federal	436	511	461	443	680	941	838	883	873
Provincial	84	68	62	48	71	49	76	76	76
Grants	27	50	46	45	29	206	47	29	40
Expenditure	2,544	3,024	3,536	4,341	4,885	5,058	5,426	5,916	5,875
Current expenditure	2,093	2,481	3,012	3,579	3,757	4,123	4,556	4,784	4,764
Federal	1,547	1,853	2,227	2,611	2,647	2,950	3,169	3,309	3,289
Interest	638	642	698	889	991	1,148	1,304	1,297	1,286
Domestic	559	578	630	821	920	1,073	1,208	1,182	1,174
Foreign	79	64	68	68	71	75	96	115	111
Other	909	1,211	1,529	1,722	1,656	1,802	1,866	2,012	2,004
Defense	330	375	450	507	541	623	698	780	781
Other	579	836	1,078	1,215	1,116	1,179	1,168	1,231	1,222
Of which: subsidies 2/	244	227	493	556	368	336	265	169	175
Of which: grants	136	359	259	291	305	372	401	506	501
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	1,132	1,111
Public Sector Development Program	398	518	465	675	721	878	1,013	1,136	1,111
Federal	196	260	216	299	348	435	489	636	611
Provincial	202	258	249	376	373	443	524	500	500
Net lending	20	53	12	21	391	119	34	-4	0
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	-1,489	-1,293	-1,292
Overall Balance (including grants)	-666	-894	-1,230	-1,730	-1,873	-1,221	-1,442	-1,264	-1,252
Financing	666	894	1,230	1,730	1873	1,221	1,442	1,264	1,252
External	86	158	144	60	38	351	166	146	308
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	1,276	1,118	945
Bank	353	305	614	1,140	1457	322	910	783	661
Nonbank	227	431	471	529	378	548	366	336	283
Memorandum items:									
Primary balance (excluding grants)	-56	-302	-577	-886	-912	-279	-185	4	-6
Primary balance (including grants)	-28	-252	-532	-841	-882	-73	-138	33	33
Total security spending	330	375	450	507	541	623	698	780	781
Energy sector circular debt clearance	0	0	0	391	322	0	0	25	25
Total government debt	7,387	8,448	10,114	12,130	14,071	15,965	17,314	18,833	18,911
Domestic debt	3,860	4,654	6,017	7,638	9,571	10,974	12,260	13,405	13,231
External debt 3/	3,527	3,794	4,098	4,492	4,500	4,991	5,053	5,429	5,680
Total government debt including guarantees 3/	n.a.	9,051	10,693	12,662	14,697	16,525	17,950	…	…
Total government debt including IMF obligations	7,805	9,138	10,882	12,822	14,504	16,263	17,734	19,421	19,451
Nominal GDP (market prices)	13,200	14,867	18,276	20,047	22,379	25,068	27,384	30,170	29,907

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	
							Eighth Review	Projection
Revenue and grants	14.3	12.6	13.0	13.5	15.3	14.5	15.4	15.5
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	12.1	12.2
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	10.4
Direct taxes	3.6	3.3	3.7	3.3	3.5	3.8	4.4	4.3
Federal excise duty	0.8	0.8	0.6	0.5	0.6	0.6	0.7	0.6
Sales tax	3.5	3.5	4.0	3.8	4.0	4.0	4.1	4.3
Customs duties	1.1	1.0	1.1	1.1	1.0	1.1	1.0	1.2
Petroleum surcharge / Carbon tax	0.6	0.5	0.3	0.5	0.4	0.5	0.4	0.5
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	...	0.4
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	0.1	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	15.9	15.9
Federal	12.5	12.2	13.0	11.8	11.8	11.6	11.0	11.0
Interest	4.3	3.8	4.4	4.4	4.6	4.8	4.3	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	3.7
Public Sector Development Program	3.5	2.5	3.4	3.2	3.5	3.7	3.8	3.7
Federal	1.7	1.2	1.5	1.6	1.7	1.8	2.1	2.0
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	-4.2	-4.2
Financing	6.0	6.7	8.6	8.4	4.9	5.3	4.2	4.2
External	1.1	0.8	0.3	0.2	1.4	0.6	0.5	1.0
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	3.7	3.2
Bank	2.1	3.4	5.7	6.5	1.3	3.3	2.6	2.2
Nonbank	2.9	2.6	2.6	1.7	2.2	1.3	1.1	0.9
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	0.1	0.1
Total security spending	2.5	2.5	2.5	2.4	2.5	2.5	2.6	2.6
Energy sector circular debt clearance	0.0	0.0	2.0	1.4	0.0	0.0	0.1	0.1
Total government debt 3/	56.8	55.3	60.5	62.9	63.7	63.2	62.4	63.2
Domestic debt	31.3	32.9	38.1	42.8	43.8	44.8	44.4	44.2
External debt 3/	25.5	22.4	22.4	20.1	19.9	18.5	18.0	19.0
Total government debt including guarantees 3/	60.9	58.5	63.2	65.7	65.9	65.5	n.a.	n.a.
Total government debt including IMF	61.5	59.5	64.0	64.8	64.9	64.8	64.4	65.0
Nominal GDP (market prices, billions of Pakistani rupees)	14,867	18,276	20,047	22,379	25,068	27,384	30,170	29,907

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			Eighth Review	Projection
Revenue and grants	3,837	3,984	944	1,143	1,108	1,428	4,652	4,623
Revenue	3,631	3,937	937	1,128	1,100	1,418	4,623	4,583
Tax revenue	2,640	3,024	724	924	844	1,143	3,664	3,634
Federal	2,450	2,818	664	859	786	1,080	3,416	3,389
FBR revenue	2,272	2,594	600	790	716	998	3,104	3,104
Direct taxes	884	1,029	240	327	290	432	1,332	1,289
Federal excise duty	145	170	27	46	43	66	206	182
Sales tax/VAT	1,002	1,089	253	323	293	403	1,250	1,272
Customs duties	241	306	80	94	90	97	315	361
Petroleum surcharge	104	131	31	34	34	36	135	135
Gas surcharge and other	39	26	8	7	7	8	32	30
GIDC 1/	32	57	24	27	29	36	…	116
Provincial	190	206	59	65	58	63	247	245
Nontax revenue	990	913	213	204	256	275	959	949
Federal	941	838	199	188	236	251	883	873
Provincial	49	76	15	17	21	24	76	76
Grants	206	47	7	15	8	10	29	40
Expenditure	5,058	5,426	1,266	1,423	1,488	1,697	5,916	5,875
Current expenditure	4,123	4,556	1,109	1,214	1,215	1,227	4,784	4,764
Federal	2,950	3,169	792	847	844	807	3,309	3,289
Interest	1,148	1,304	416	337	345	188	1,297	1,286
Domestic	1,073	1,208	397	305	323	149	1,182	1,174
Foreign	75	96	19	31	22	38	115	111
Other	1,802	1,866	376	510	499	619	2,012	2,012
Defense	623	698	146	204	195	236	780	781
Other	1,179	1,168	230	306	303	383	1,231	1,232
Of which: subsidies 2/	336	265	40	44	40	51	169	175
Of which: grants	372	401	79	120	125	176	506	501
Provincial	1,173	1,387	317	367	371	421	1,475	1,475
Development expenditure and net lending	997	1,047	146	210	273	482	1,132	1,132
Public Sector Development Program	878	1,013	147	210	273	481	1,136	1,136
Federal	435	489	72	110	143	286	636	611
Provincial	443	524	75	100	130	195	500	500
Net lending	119	34	-1	0	0	1	-4	0
Statistical discrepancy ("+" = additional expenditure)	-62	-178	12	0	0	-12	0	0
Overall Balance (excluding grants)	-1,427	-1,489	-329	-295	-388	-280	-1,293	-1,292
Overall Balance (including grants)	-1,221	-1,442	-322	-280	-380	-270	-1,264	-1,252
Financing	1,221	1,442	322	280	380	270	1,264	1,252
External	351	166	48	122	-79	173	146	308
Of which: IMF	0	0	0	0	0	0	0	0
Domestic	870	1,276	274	158	459	97	1,118	945
Bank	322	910	140	163	198	159	783	661
Nonbank	548	366	134	-5	261	-62	336	283
Memorandum items:								
Primary balance (excluding grants)	-279	-185	87	41	-42	-92	4	-6
Primary balance (including grants)	-73	-138	94	56	-35	-82	33	33
Total security spending	623	698	146	204	195	236	780	781
Energy sector circular debt clearance	0	0					25	25
Total government debt	15,965	17,314					18,833	18,911
Domestic debt	10,974	12,260					13,405	13,231
External debt 3/	4,991	5,053					5,429	5,680
Total government debt including IMF obligations	16,263	17,734					19,421	19,553
Nominal GDP (market prices)	25,068	27,384					30,170	29,907

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	813	930	970	904	1,031
Net domestic assets (NDA)	9,367	9,392	9,762	9,801	10,469	10,473	10,750	10,950	11,607
Net claims on government, *of which:* 1/	6,027	6,124	6,215	6,434	6,958	7,117	7,121	7,320	7,479
Budget support, *of which:*	5,448	5,588	5,647	5,918	6,330	6,476	6,639	6,838	6,997
Banks	3,121	3,300	3,733	4,264	4,443	4,887	4,839	5,038	5,197
Commodity operations	492	469	467	437	564	570	482	482	482
Credit to nongovernment	4,102	4,149	4,377	4,360	4,390	4,382	4,700	4,766	4,830
Private sector	3,747	3,794	3,969	3,952	3,956	3,930	4,248	4,314	4,378
Public sector enterprises	355	355	407	408	435	452	452	452	452
Privatization account	-3	-3	-3	-3	-41	-3	-3	-3	-3
Other items, net	-759	-877	-827	-990	-839	-1,022	-1,069	-1,133	-700
Broad money	9,968	9,962	10,411	10,536	11,282	11,403	11,720	11,854	12,638
Currency outside scheduled banks	2,178	2,262	2,302	2,411	2,555	2,970	2,745	2,815	3,029
Rupee deposits	7,191	7,082	7,490	7,522	8,130	7,840	8,365	8,422	8,951
Foreign currency deposits	599	618	619	603	598	593	610	617	657
State Bank of Pakistan (SBP)									
NFA	490	482	555	651	722	879	919	853	980
NDA	2,372	2,310	2,226	2,350	2,420	2,606	2,550	2,600	2,600
Net claims on government	2,395	2,321	1,971	1,680	1,919	1,612	1,650	1,700	1,700
Of which: budget support	2,328	2,289	1,914	1,653	1,887	1,589	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	401	387	450	480	510
Privatization account	-3	-3	-3	-3	-41	-3	-3	-3	-3
Other items, net	-515	-508	-297	179	146	617	459	429	399
Reserve money, *of which:*	2,861	2,791	2,781	3,000	3,142	3,486	3,469	3,453	3,580
Banks' reserves	531	380	329	431	413	335	357	359	382
Currency	2,317	2,397	2,440	2,557	2,715	3,135	3,112	3,094	3,198
	(Annual percentage change, unless otherwise indicated)								
Broad money	12.5	12.2	10.9	12.3	13.2	14.5	12.6	12.5	12.0
NFA, banking system (in percent of broad money) 2/	3.739	5.3	6.3	6.1	2.1	3.6	3.1	1.6	1.9
NDA, banking system (in percent of broad money) 2/	8.8	6.9	4.6	6.2	11.1	10.9	9.5	10.9	10.1
Budgetary support (in percent of broad money) 2/	3.7	3.0	0.4	3.8	8.8	8.9	9.5	8.7	5.9
Budgetary support	6.3	5.0	0.7	6.4	16.2	15.9	17.6	15.5	10.5
Private credit	11.0	13.0	7.4	6.5	5.6	3.6	7.0	9.2	10.7
Currency	12.4	14.0	10.3	13.9	17.3	31.3	19.3	16.8	18.6
Reserve money	12.9	8.2	2.1	9.6	9.8	24.9	24.7	15.1	13.9
Memorandum items:									
Velocity	2.7	2.7	2.6	2.6	2.6	2.7	2.7	2.7	2.5
Money multiplier	3.5	3.6	3.7	3.5	3.6	3.3	3.4	3.4	3.5
Currency to broad money ratio (percent)	21.8	22.7	22.1	22.9	22.6	26.0	23.4	23.8	24.0
Currency to deposit ratio (percent)	28.0	29.4	28.4	29.7	29.3	35.2	30.6	31.1	31.5
Foreign currency to deposit ratio (percent)	7.7	8.0	7.6	7.4	6.8	7.0	6.8	6.8	6.8
Reserves to deposit ratio (percent)	6.8	4.9	4.1	5.3	4.7	4.0	4.0	4.0	4.0
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	324	140	199	469	882	146	310	508	667
By commercial banks	164	179	612	1,144	1,323	444	396	595	754
By SBP	160	-39	-413	-674	-441	-298	-87	-87	-87
NFA of SBP (change from beginning of the year; in billions of U.S. dollars) 3/	3.6	-0.3	0.5	1.4	2.1	1.1	1.6	0.9	2.0
NFA of commercial banks (millions of U.S. dollars)	1,130	861	928	833	887	478	482	475	471
NDA of commercial banks (billions of Pakistani rupees)	6,995	7,082	7,536	7,451	8,050	7,867	8,200	8,350	9,007

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 electricity 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–September 2015)

	Dec. 2012	Mar. 2013	Jun. 2013	Sep. 2013	Dec. 2013	Mar. 2014	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015	Jun. 2/ 2015	Sep. 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	18.2
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	15.0
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	8.5
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	12.5
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	81.8
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	10
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	1.5
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	15.9	15.7
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	69.1
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	46.9
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	53.8
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	74.8
Loans/Deposits	51.5	51.6	48.1	48.7	48.6	49.2	47.7	48.2	48.2	46.9	45.7	46.7

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	31.4	34.6	32.1	30.7	27.3	22.6
As a share of external debt	5.8	5.3	7.8	8.9	8.7	8.2	7.5	6.2
	(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/							
Total			1.8	63.1	72.2	222.1	494.5	715.5
Of which:								
Principal	-2,313.5	-1,273.8	0.0	0.0	0.0	150.0	420.0	660.0
Interest and charges	41.6	24.4	1.8	63.1	72.2	72.1	74.5	55.5
SBA and ENDA Principal	..	..	0.0	0.0	0.0	0.0	0.0	0.0
Extended Fund Facility Principal	..	..	0.0	0.0	0.0	150.0	420.0	660.0
In percent of end-period gross official reserves	..	..	0.0	0.5	0.5	1.6	3.5	5.1
As a share of total external debt service	..	..	0.0	0.1	0.1	0.4	1.0	1.4
Memorandum items								
Quota (millions of SDRs)	1,033.70	1,033.70	1,033.70	...	...	...	...	...
Gross official reserves (millions of U.S. dollars)	3,478	10,514	16,119	18,027	19,426	19,629	19,842	19,837
Total External Debt (millions of U.S. dollars)	60,899	65,365	65,147	70,192	72,050	73,224	72,756	72,128
Total External Debt Service (millions of U.S. dollars)	6,797	7,135	6,571	7,058	8,040	7,483	9,970	9,710

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	4.7	5.0	5.2	5.5
CPI inflation (period average, in percent) 1/	13.7	11.0	7.4	8.6	4.5	3.7	5.0	5.0	5.0	5.0
Emerging market bond index (EMBI) secondary market spread (basis points, end of period)	857	1,136	703	501	...	...	...	...	...	...
Exchange rate PRs/US$ (end of period)	85.8	94.3	98.7	98.6	...	...	...	...	...	...
External sector										
Current account balance (percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.0	-0.9	-0.8	-1.0	-1.0	-1.1
Net FDI inflows (percent of GDP)	0.7	0.3	0.5	0.6	0.3	0.3	0.5	0.8	0.9	1.1
Exports (percentage change of U.S. dollar value; GNFS)	25.0	-4.5	6.0	-3.6	-1.4	-5.6	2.4	7.9	8.6	7.9
Gross international reserves (GIR) in billions of U.S. dollars	14.8	10.8	6.0	9.1	13.5	17.7	19.5	21.1	22.3	23.6
GIR in percent of ST debt at remaining maturity (RM) 2/	332.8	273.7	111.1	169.3	199.4	232.0	203.8	251.7	302.0	317.6
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 2/	167.8	125.4	56.5	79.4	107.3	129.1	122.5	138.7	152.6	155.2
Total gross external debt (ED) in percent of GDP, *of which:*	31.1	29.2	26.3	26.9	24.4	25.4	25.1	24.1	22.5	20.9
ST external debt (original maturity, in percent of total ED)	1.0	0.6	0.0	1.1	0.8	1.5	0.6	-0.1	-0.1	0.0
ED of domestic private sector (in percent of total ED)	10.8	10.8	10.4	13.4	15.6	16.4	16.9	18.1	18.5	18.8
ED to foreign official sector (in percent of total ED)	89.2	89.2	89.6	86.6	84.4	83.6	83.1	81.9	81.5	81.2
Total gross external debt in percent of exports	213.2	220.2	193.2	215.1	217.5	251.4	255.5	242.4	223.3	206.7
Gross external financing requirement (in billions of U.S. dollars) 3/	2.3	6.7	5.3	6.5	6.2	7.2	8.0	7.7	9.9	9.8
Public sector 4/										
Overall balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-3.2	-2.9	-2.8	-2.5
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.1	1.3	1.5	1.5	1.4
Debt-stabilizing primary balance 5/	-7.8	1.4	-1.4	-2.7	-0.1	-0.3	-0.8	-1.1	-1.0	0.0
Gross PS financing requirement 6/	26.8	32.8	36.3	35.2	31.2	30.3	28.8	27.6	26.6	25.6
Public sector gross debt 7/	55.3	60.5	62.9	63.7	63.2	63.6	62.1	59.9	57.7	55.0
Public sector net debt 8/	52.3	56.5	59.1	58.2	58.1	58.8	57.7	55.8	53.9	51.6
Financial sector 9/										
Capital adequacy ratio (in percent)	15.1	15.4	15.5	15.1	17.2	...	...	...	...	...
Nonperforming loans (NPLs) in percent of total loans	15.7	14.5	14.8	12.8	12.4	...	...	...	...	...
Provisions in percent of NPLs	69.3	71.8	73.2	79.5	80.8	...	...	...	...	...
Return on assets (after tax, in percent)	1.5	1.4	1.1	1.4	1.6	...	...	...	...	...
Return on equity (after tax, in percent)	15.1	14.9	12.4	15.4	16.0	...	...	...	...	...
FX deposits held by residents (in percent of total deposits)	7.2	7.4	7.4	7.7	6.8	...	...	...	...	...
Government debt held by FS (percent of total FS assets)	44.6	55.2	64.3	60.5	61.7	...	...	...	...	...
Credit to private sector (percent change)	4.0	7.5	-0.6	11.0	5.6	...	...	...	...	...
Memorandum item:										
Nominal GDP (in billions of U.S. dollars)	213.6	224.4	231.1	243.4	267.5					

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

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

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

3/ Current account deficit plus amortization of external debt.

4/ Public sector covers general (consolidated) government.

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

6/ Overall balance plus debt amortization.

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

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

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

Table 11. Pakistan: Schedule of Reviews and Purchases

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

Source: IMF staff estimates.

1/ Date in which resources become available.

Annex I. Public and External Debt Sustainability Analysis (DSA)

Pakistan's public debt is projected to decline from 64.9 percent of GDP in 2015 to 55.2 percent by 2021. This downward path, however, is conditional on continued fiscal consolidation and structural reforms over the medium term. High gross financing needs and reliance on short-term borrowing keep public debt dynamics vulnerable to shocks, and this fragility, while ameliorated by a captive domestic investor base and the Fund-supported program, will likely remain in the foreseeable future. Pakistan's debt dynamics are particularly vulnerable to economic growth, primary balance slippage and interest rate shocks because of the significant reliance on short-term debt, highlighting the need for sustained fiscal consolidation and an increase in the average debt maturity.

1. **Pakistan's public debt dynamics have improved over the past few years but remain vulnerable to shocks**. Prior to the current Fund-supported economic stabilization program, Pakistan's debt-to-GDP ratio was on an upward trend as a result of large fiscal deficits, although debt dynamics benefited from low effective real interest rates provided by central bank financing. However, significant fiscal consolidation—lowering the budget deficit from 8.9 percent of GDP in FY2011/12 to 5.4 percent in FY2014/15—has helped reverse this adverse trend. The coverage used for public debt includes federal and provincial governments, but does not include state-owned enterprises (SOEs). Consequently, government guarantees and circular debt among energy SOEs represent contingent liabilities amounting to 2.3 percent and 0.8 percent of GDP, respectively.

2. **Domestic funding remains reliant on short-term instruments, but active debt management has improved the maturity profile.** The share of short-term domestic debt (less than one year) remains close to 50 percent, albeit declining significantly from 64 percent in 2013, as the authorities have extended the yield curve and made improvements in debt management. Although domestic funding remains reliant on short-term debt and various national saving schemes, these instruments have a relatively captive investor base. On the external debt front, the authorities have issued more marketable securities as part of their diversification strategy, but bonds and bank private creditors still account for only about 3 percent of the total.

3. **The macroeconomic and fiscal assumptions underpinning the DSA are based on the medium-term baseline scenario**. The program assumptions on growth and inflation are realistic and remain in line with the incoming data. Real GDP growth is projected to improve over the medium-term above the levels observed in recent years, as the economy moves beyond the impact of the global crisis and the severe floods. On the other hand, while benefiting from the fall in international commodity prices, Pakistan continues to face significant security concerns as a downside risk. The envisaged primary balance is larger and more persistent relative to Pakistan's previous track record, which increases vulnerability to fiscal policy slippages and exogenous growth shocks over the medium term.

4. **Public debt is projected to decline to 55.2 percent of GDP by 2021, but high gross financing needs are a source of significant fragility**. Fiscal consolidation under the program is the key driver of improvements in debt dynamics. Fiscal adjustment not only improves the debt ratio under the baseline scenario, but the declining trend is quite resilient to standard size shocks envisaged in the DSA. The fan charts show that debt would stabilize even under significant shocks, and it is only when one restricts the distribution of positive shocks to the primary balance that the public debt-to-GDP ratio trends up under strong shocks. However, gross financing needs are high and are sensitive to shocks. While the consolidation will ameliorate this risk, a more significant improvement in the debt profile will require longer term fiscal consolidation efforts. These gross financing needs indicators reflect the relatively large share of national savings schemes which, given their diversified base, might have a smaller rollover risk.

5. **The external DSA shows that the projected path for external debt is sustainable**. Gross external debt as a percentage of GDP has been on a declining trend—reaching 24.4 percent in 2015—and is expected to see a continued modest decline over the medium term. This is consistent with relatively stable gross financing needs, which are expected to peak at 2.6 percent of GDP. Bound and stress tests suggest that the external debt-to-GDP ratio is resilient to adverse shocks. While sensitive to growth and exchange rate shocks, the external debt ratio would not exceed 37 percent of GDP under any scenario.

Figure 1. Pakistan: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

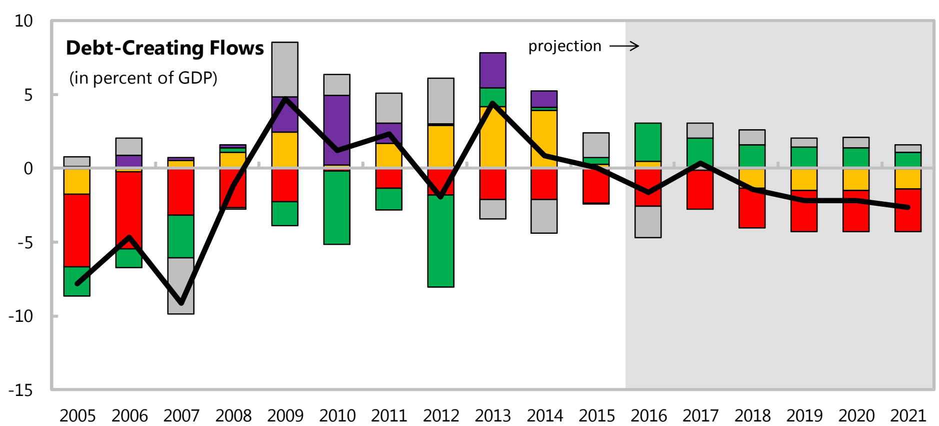
(In percent of GDP unless otherwise indicated)

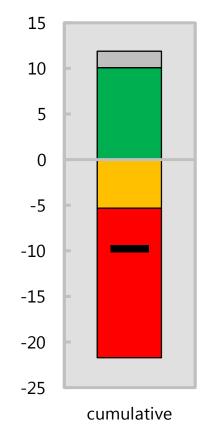
Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of October 05, 2015		
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	60.1	64.8	64.9	63.2	63.6	62.2	60.0	57.8	55.2	EMBIG (bp) 3/		529
Public gross financing needs	12.1	35.1	28.7	32.4	28.8	28.0	27.6	26.5	25.4	5Y CDS (bp)		484
Real GDP growth (in percent)	4.8	3.7	4.0	4.2	4.5	4.7	5.0	5.2	5.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	11.3	7.1	6.9	3.6	3.7	5.0	5.0	5.0	5.0	Moody's	B3	n.a.
Nominal GDP growth (in percent)	17.1	11.6	12.0	9.2	9.2	10.2	10.5	10.7	11.0	S&Ps	B-	n.a.
Effective interest rate (in percent) [4/]	7.7	7.7	7.9	8.0	7.4	8.0	7.8	7.8	7.4	Fitch	B	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing
Change in gross public sector debt	-1.3	0.8	0.1	-1.6	0.3	-1.4	-2.2	-2.2	-2.6	-9.7	primary
Identified debt-creating flows	-2.1	3.1	-1.6	0.5	-0.7	-2.4	-2.8	-2.9	-3.2	-11.5	balance [9/]
Primary deficit	1.2	3.9	0.3	0.5	-0.1	-1.3	-1.5	-1.5	-1.4	-5.2	-1.8
Primary (noninterest) revenue and grant	13.9	13.5	15.3	14.5	15.5	16.4	16.6	17.2	17.6	97.8	
Primary (noninterest) expenditure	15.2	17.4	15.6	15.1	15.4	15.0	15.1	15.8	16.3	92.6	
Automatic debt dynamics [5/]	-3.3	-0.8	-1.9	0.0	-0.5	-1.1	-1.4	-1.4	-1.8	-6.2	
Interest rate/growth differential [6/]	-4.7	-1.9	-1.9	0.0	-0.5	-1.1	-1.4	-1.4	-1.8	-6.2	
Of which: real interest rate	-2.1	0.2	0.4	2.6	2.1	1.6	1.5	1.4	1.1	10.2	
Of which: real GDP growth	-2.6	-2.1	-2.3	-2.5	-2.6	-2.7	-2.8	-2.8	-2.9	-16.4	
Exchange rate depreciation [7/]	1.4	1.1	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization/deposit drawdown (nega	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.8	-2.3	1.7	-2.2	1.0	1.0	0.6	0.7	0.5	1.8	





Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

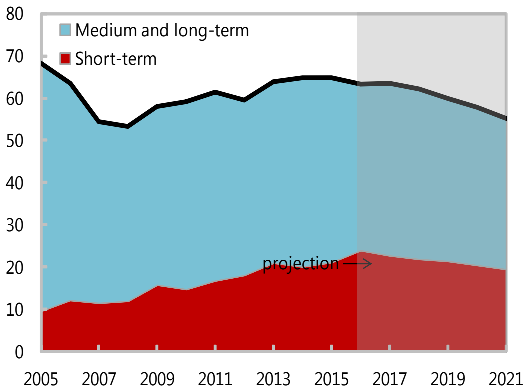
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Pakistan: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

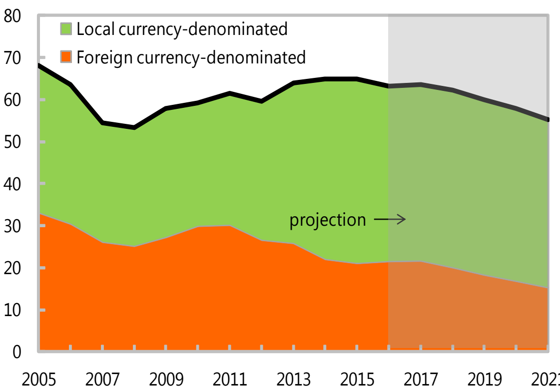
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

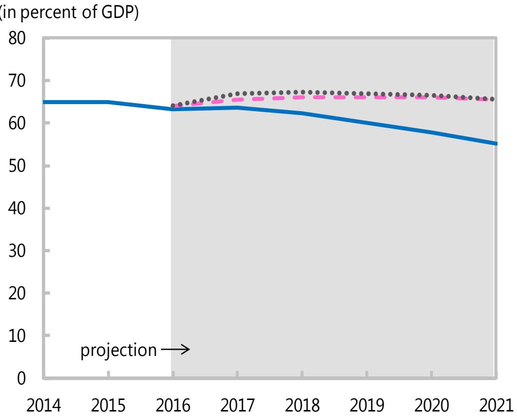


Alternative Scenarios

Baseline Historical Constant Primary Balance

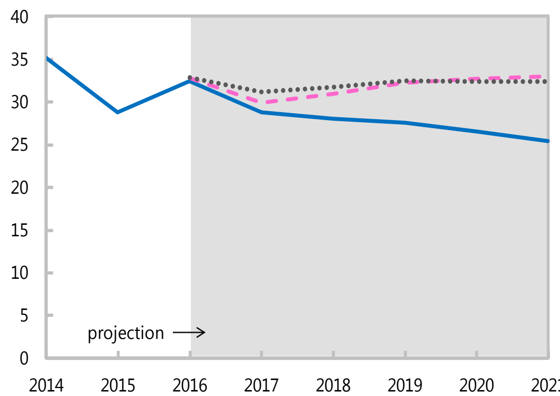
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

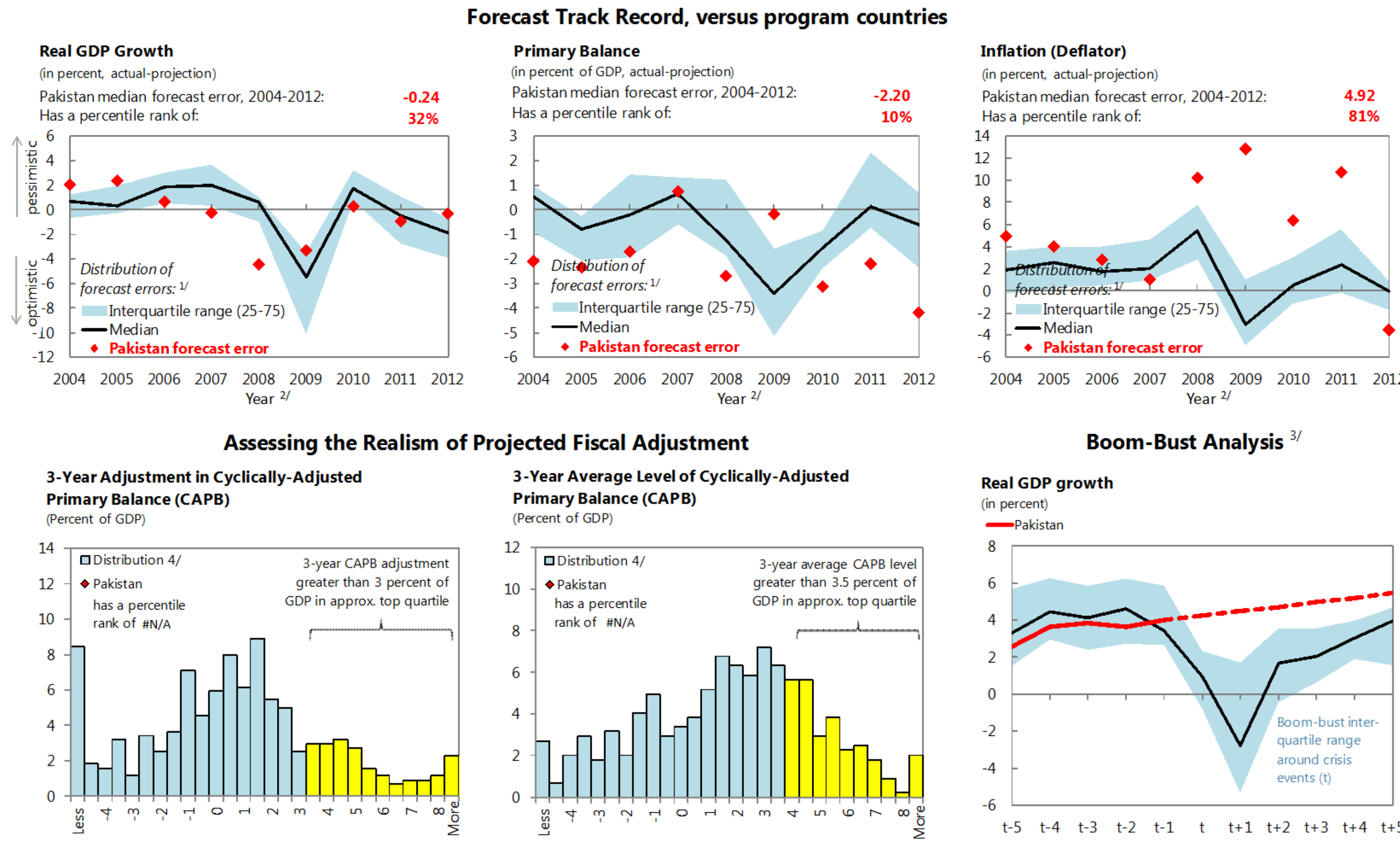
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	4.2	4.5	4.7	5.0	5.2	5.5
Inflation	3.6	3.7	5.0	5.0	5.0	5.0
Primary Balance	-0.5	0.1	1.3	1.5	1.5	1.4
Effective interest rate	8.0	7.4	8.0	7.8	7.8	7.4
Constant Primary Balance Scenario						
Real GDP growth	4.2	4.5	4.7	5.0	5.2	5.5
Inflation	3.6	3.7	5.0	5.0	5.0	5.0
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	8.0	7.4	8.0	8.0	8.0	7.7

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	4.2	4.3	4.3	4.3	4.3	4.3
Inflation	3.6	3.7	5.0	5.0	5.0	5.0
Primary Balance	-0.5	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	8.0	7.4	5.4	4.8	4.4	4.0

Source: IMF staff.

Figure 3. Pakistan: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

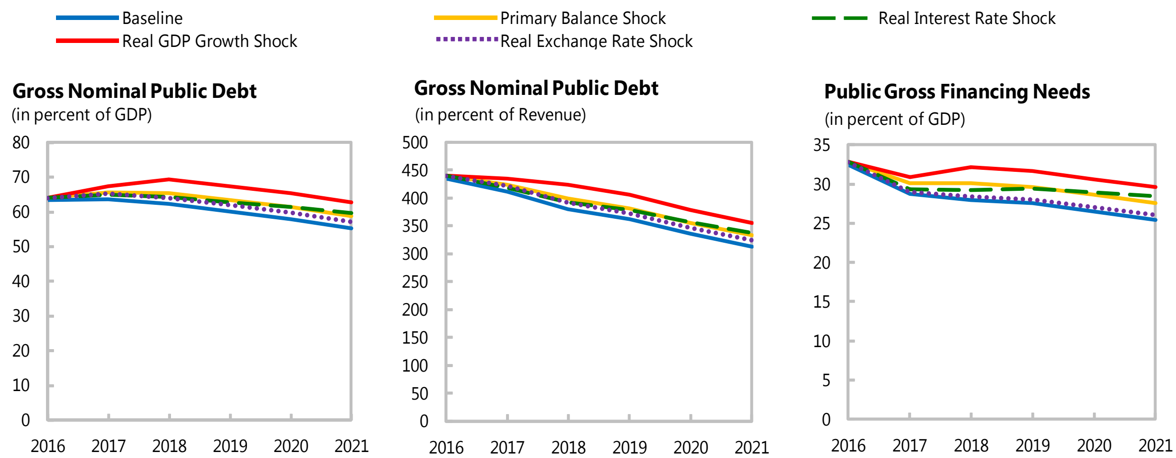
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Pakistan has had a cumulative increase in private sector credit of 588 percent of GDP, 2011-2014. For Pakistan, t corresponds to 2015; for the distribution, t corresponds to the first year of the crisis.

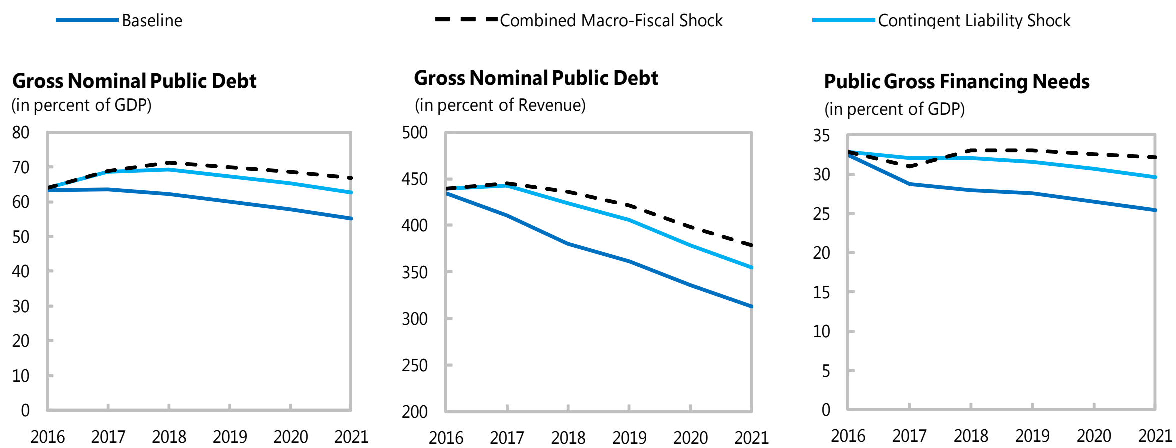
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Pakistan: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	4.2	4.5	4.7	5.0	5.2	5.5
Inflation	3.6	3.7	5.0	5.0	5.0	5.0
Primary balance	-0.5	-0.7	0.5	1.5	1.5	1.4
Effective interest rate	8.0	7.4	8.1	8.0	7.9	7.5
Real Interest Rate Shock						
Real GDP growth	4.2	4.5	4.7	5.0	5.2	5.5
Inflation	3.6	3.7	5.0	5.0	5.0	5.0
Primary balance	-0.5	0.1	1.3	1.5	1.5	1.4
Effective interest rate	8.0	7.4	8.9	9.0	9.1	8.8
Combined Shock						
Real GDP growth	4.2	2.2	2.4	5.0	5.2	5.5
Inflation	3.6	3.1	4.4	5.0	5.0	5.0
Primary balance	-0.5	-0.7	0.1	1.5	1.5	1.4
Effective interest rate	8.0	7.5	8.8	9.0	9.1	8.8

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	4.2	2.2	2.4	5.0	5.2	5.5
Inflation	3.6	3.1	4.4	5.0	5.0	5.0
Primary balance	-0.5	-0.6	0.1	1.5	1.5	1.4
Effective interest rate	8.0	7.4	8.0	8.1	8.0	7.5
Real Exchange Rate Shock						
Real GDP growth	4.2	4.5	4.7	5.0	5.2	5.5
Inflation	3.6	5.4	5.0	5.0	5.0	5.0
Primary balance	-0.5	0.1	1.3	1.5	1.5	1.4
Effective interest rate	8.0	7.5	7.8	7.7	7.7	7.3
Contingent Liability Shock						
Real GDP growth	4.2	2.2	2.4	5.0	5.2	5.5
Inflation	3.6	3.1	4.4	5.0	5.0	5.0
Primary balance	-0.5	-1.4	1.3	1.5	1.5	1.4
Effective interest rate	8.0	8.0	8.2	8.0	7.9	7.5

Source: IMF staff.

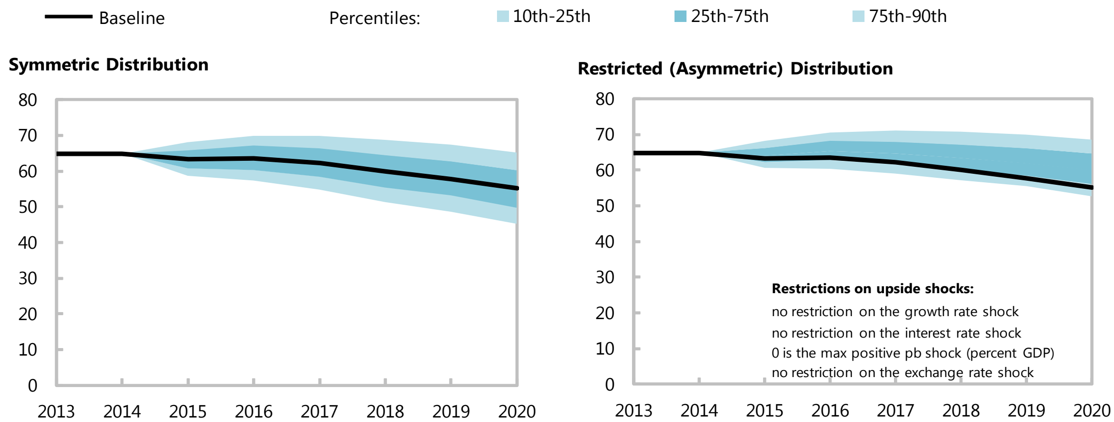
Figure 5. Pakistan: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

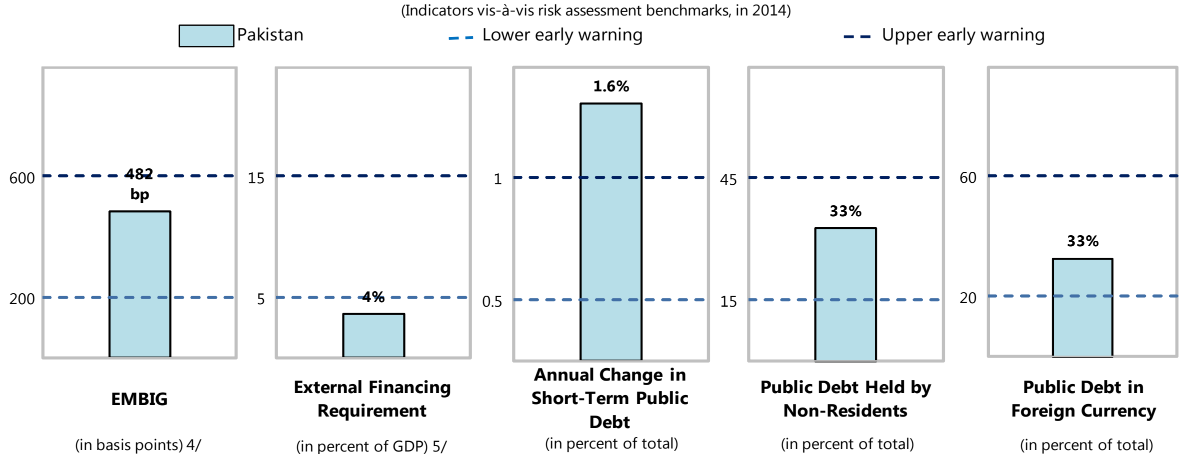
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

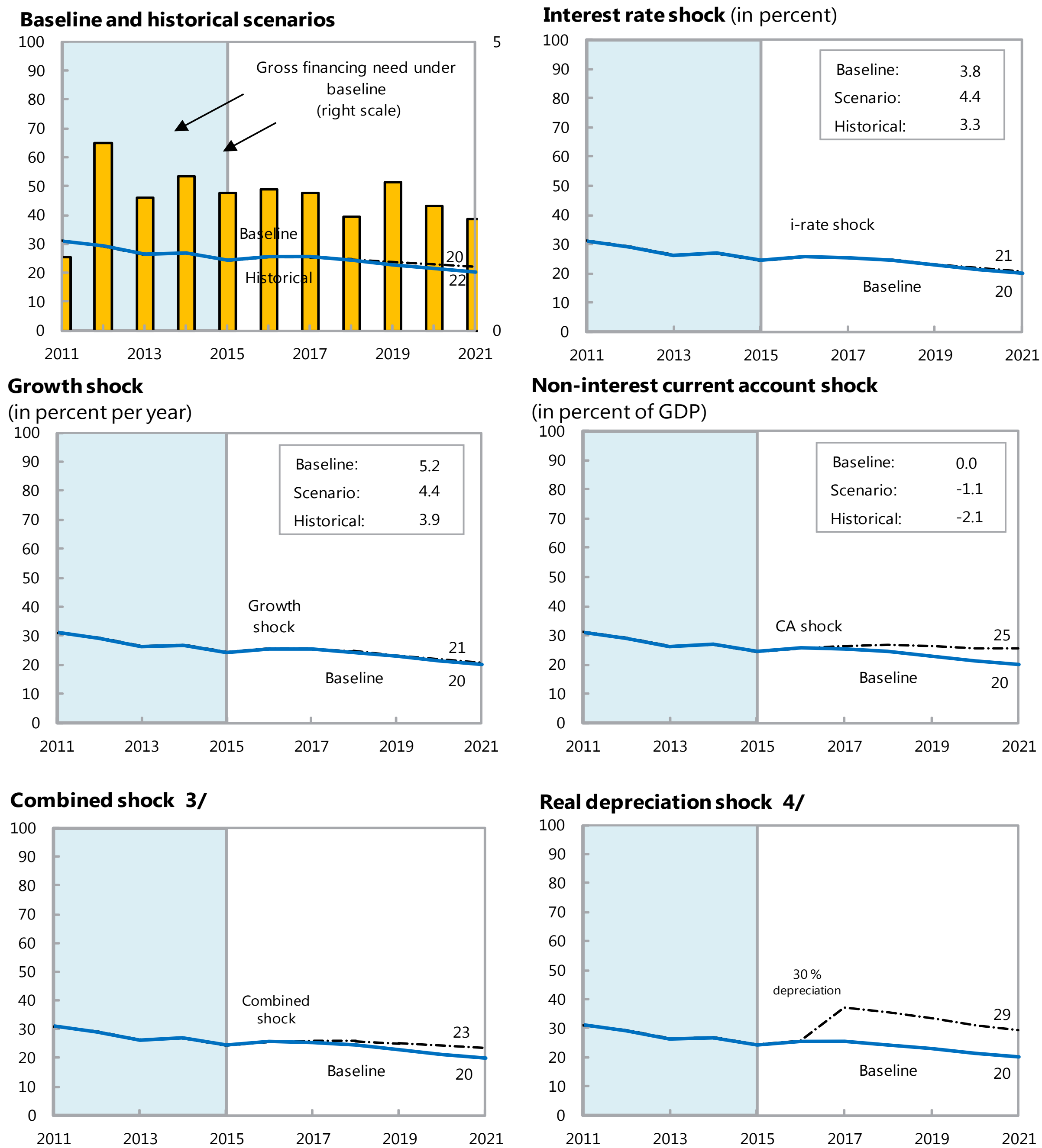
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 07-Jul-15 through 05-Oct-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 6. Pakistan: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2016.

Table 1. Pakistan: External Debt Sustainability Framework, 2011–21

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	31.1	29.2	26.3	26.9	24.4			**25.6**	**25.4**	**24.4**	**22.9**	**21.3**	**20.1**	**-1.4**
Change in external debt	-3.7	-1.9	-2.8	0.5	-2.5			1.2	-0.2	-1.0	-1.5	-1.6	-1.3	
Identified external debt-creating flows (4+8+9)	-7.2	0.3	-0.2	-0.8	-1.8			-0.5	-0.8	-1.0	-1.0	-1.2	-0.9	
Current account deficit, excluding interest payments	-0.8	1.4	0.5	0.6	0.3			0.1	-0.1	-0.1	0.0	-0.1	0.1	
Deficit in balance of goods and services	5.8	8.4	7.3	7.9	7.5			7.0	6.9	6.8	6.7	6.3	6.3	
Exports	14.6	13.3	13.6	12.5	11.2			10.2	9.8	9.8	9.9	9.9	9.8	
Imports	20.4	21.7	21.0	20.4	18.7			17.2	16.6	16.6	16.6	16.2	16.1	
Net non-debt creating capital inflows (negative)	-0.9	-0.3	-0.6	-0.9	-0.6			-0.4	-0.5	-0.5	-0.7	-0.8	-0.8	
Automatic debt dynamics 1/	-5.5	-0.8	-0.1	-0.5	-1.4			-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	
Contribution from nominal interest rate	0.7	0.7	0.6	0.6	0.7			0.8	0.8	0.9	0.9	0.9	0.9	
Contribution from real GDP growth	-1.0	-1.1	-1.0	-1.0	-1.0			-1.1	-1.1	-1.2	-1.2	-1.2	-1.1	
Contribution from price and exchange rate changes 2/	-5.1	-0.4	0.3	-0.1	-1.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.5	-2.2	-2.6	1.3	-0.7			1.7	0.7	-0.1	-0.5	-0.3	-0.3	
External debt-to-exports ratio (in percent)	213.2	220.2	193.2	215.1	217.5			251.4	260.6	248.6	231.5	215.8	205.3	
Gross external financing need (in billions of US dollars) 4/	2.7	7.3	5.3	6.5	6.4			6.8	6.9	6.1	8.5	7.7	7.4	
in percent of GDP	1.3	3.2	2.3	2.7	2.4	10-Year	10-Year	2.5	2.4	2.0	2.6	2.2	1.9	
Scenario with key variables at their historical averages 5/								**25.6**	**25.3**	**24.6**	**23.6**	**22.8**	**22.1**	**-2.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.6	3.8	3.7	4.0	4.2	3.9	1.6	4.5	4.7	5.0	5.2	5.5	5.5	
GDP deflator in US dollars (change in percent)	17.2	1.2	-1.2	0.5	4.3	4.6	6.3	-0.5	0.0	1.5	1.4	1.6	2.2	
Nominal external interest rate (in percent)	2.3	2.4	2.2	2.5	3.0	3.3	1.0	3.6	3.4	3.6	3.8	4.0	4.3	
Growth of exports (US dollar terms, in percent)	25.0	-4.5	6.0	-3.6	-1.4	5.7	9.5	-5.6	0.4	7.2	7.5	7.1	6.7	
Growth of imports (US dollar terms, in percent)	14.3	11.7	-0.5	2.5	1.0	7.7	13.7	-4.7	1.3	6.4	6.5	4.9	7.2	
Current account balance, excluding interest payments	0.8	-1.4	-0.5	-0.6	-0.3	-2.1	2.3	-0.1	0.1	0.1	0.0	0.1	-0.1	
Net non-debt creating capital inflows	0.9	0.3	0.6	0.9	0.6	1.8	1.4	0.4	0.5	0.5	0.7	0.8	0.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix I. Letter of Intent

December 3, 2015

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

Dear Ms. Lagarde,

Reaching the ninth 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 bolster resilience in the face of external shocks, advancing in the implementation of 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 Economic and Financial Policies (MEFP) are consistent with this strategy.

While our performance on the ninth review has been broadly satisfactory, we have encountered some difficulties:

Quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2). End-September 2015 quantitative performance criteria (PCs) on the SBP's net international reserves, government borrowing from the SBP, and foreign currency swap/forward position were met, and so were the indicative targets on accumulation of power sector arrears and social spending under the Benazir Income Support Program (BISP). However, the PCs on net domestic assets (NDA) and the fiscal deficit were missed, as was the indicative target on tax revenue. We are taking corrective action 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 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-December PC on NDA in line with our revised monetary projections and set new PCs for March 2016 as specified in the attached MEFP, and completion of the ninth review under the Extended Arrangement. We reaffirm our commitment to our economic reform program supported by the International Monetary Fund (IMF). We believe that the policies set forth in this letter and in the letters of August 19, 2013, December 11, 2013, March 6, 2014, June 19, 2014, December 2, 2014, March 12, 2015, June 12, 2015, and September 15, 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 remains robust amid mixed signs**. 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. 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. Moreover, growth in large-scale manufacturing in the first quarter (3.9 percent, compared to 2.6 percent last year) is encouraging. Nonetheless, there are challenges going forward, as private credit growth has further declined and weakness in both exports and imports are weighing on growth prospects. Headline consumer price inflation registered at 2.7 percent y-o-y in November, mainly driven by lower food and energy prices. We expect inflation to increase to around 3.7 percent on average in FY2015/16, due to a likely bottoming out of the effects of low commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.

2. **International reserves strengthened, helped by an improved current account**. Gross international reserves reached US$15.2 billion by end-September 2015, up from US$13.5 billion at end-June 2015 and covering close to four months of prospective imports. Exports have continued to decline reflecting lower commodity prices, weakening external demand, ongoing energy shortages, security and business climate challenges, and the significant appreciation of the real effective exchange rate (10 percent year-on-year in August 2015). However, low oil prices and strong remittances helped improve the current account deficit in the first quarter to US$109 million (compared to the average deficit of US$657 million in FY2014/15). Looking ahead, we expect further improvement in our foreign reserve coverage to more than four months of imports by end-FY2015/16.

3. **The fiscal outturn in the first quarter of FY2015/16 fell short of the program targets**. The PC on the general government budget deficit excluding grants was missed by PRs 23 billion (0.07 percent of GDP), including the adjustor for one-off spending on security and internally-displaced persons. This deviation was due largely to the shortfall in federal tax revenues by PRs 40 billion (missed end-September IT). Nonetheless, we maintained strict spending discipline amid higher-than-expected interest payments of PRs 75 billion. We met the IT on targeted cash transfers through the Benazir Income Support Program (BISP) and expanded the BISP coverage to 5.14 million beneficiaries last quarter. Likewise, the end-September IT on accumulation of power sector arrears was met.

4. **Despite lowering government borrowing from the SBP, private sector credit growth continued to decelerate**. Favorable international oil prices, stable macroeconomic conditions, and steady spot purchases in the market helped us meet the end-September NIR target with a margin of US$70 million. We also comfortably met the target on the SBP's net short position of swap/forward

contracts. However, we missed the end-September NDA target by PRs 181 billion largely due to (i) an unusual seasonal demand for currency in circulation in Q1 FY2015/16 as a result of the two Eid festivals, (ii) a higher volume of cash transactions in light of financial disintermediation related to the new financial transactions tax for non-filers, and (iii) injection in the interbank market to align money market rates close to the recently lowered policy rate. These developments led to a sharp increase in reserve money by 24.9 percent y-o-y in September 2015, and broad money expansion of 14.5 percent y-o-y. Nevertheless, private sector credit expansion continued to slow down to 3.6 percent y-o-y in September 2015, amid lower commodity prices, which have reduced the requirements for working capital and trade finance, and lower interest rates. However, credit for fixed investment grew by 21 percent year-on-year in September 2015. We have taken corrective actions to bring the stock of NDA to below PRs 2,652 billion by end-November 2015, subject to program adjustors (prior action).

Economic Policies

A. Monetary and Exchange Rate Policies

Monetary and exchange rate policies will remain focused on further boosting external reserves, maintaining price stability, and strengthening SBP independence.

5. **We are committed to further strengthening our foreign exchange reserves and alleviate external vulnerabilities.** As the outlook for international oil prices remains favorable, we continue to take full advantage of the oil windfall and build external buffers. In the meantime, we are committed to improving our trade competitiveness, which has eroded in recent months. In this regard, the rupee has depreciated by 3 ½ percent during July-October 2015.

6. **We are committed to maintaining a prudent monetary policy stance.** The SBP lowered the policy rate (along with the repo and the reverse repo rates) by 50 bps in September 2015. We expect a continuation of uncertain global financial conditions and higher inflation in coming months. To anchor low inflation expectations and meet the program's monetary targets, the SBP will maintain positive real interest rates and continue to set the policy rate in a forward-looking fashion. We believe that the newly improved interest rate corridor continues to work smoothly and improves the SBP's credibility among market participants. The government will continue to support this framework with sustained fiscal discipline.

7. **Efforts to further strengthen the SBP's independence are underway**. Amendments to the SBP law that include creation of an independent decision-making monetary policy committee have been approved by the Senate with a change regarding the committee's composition, hence re-approved by the National Assembly and enacted in November 2015 (prior action). In addition, we are working with IMF staff to address the remaining recommendations of the 2013 Safeguards Assessment during the remainder of the program period.

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

B. Fiscal Policy

9. **While the budget deficit target was missed in the first quarter of FY2015/16, we remain committed to sustained fiscal consolidation**. To place the debt-to-GDP ratio on a firm downward trajectory, bolster macroeconomic stability, and set the stage for sustainable and inclusive growth, we remain determined to lowering the budget deficit excluding grants to 4.3 of GDP in the current fiscal year and to 3½ percent by the end of the program in FY2016/17, mainly through revenue mobilization and expenditure rationalization 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 and to protect the most vulnerable segments of our society.

10. **We will take additional measures to attain the budget deficit target of 4.3 percent of GDP, including an adjustor of 0.3 percent of GDP for critical one-off spending.** Lower international commodity prices and domestic inflation, underperformance in the collection of Gas Infrastructure Development Cess (GIDC), and the temporarily reduced withholding tax rate on banking transactions have constrained revenue collection, contributing to a shortfall of PRs 40 billion in the first quarter of FY2015/16. Although we have raised the General Sales Tax (GST) rates on petroleum products in recent months, this could still lead to a full-year revenue gap. To bridge the projected fiscal gap and meet the IT on federal tax revenue, we took additional revenue measures amounting to PRs 40 billion by imposing regulatory duties and additional customs duties on a variety of products besides raising the excise duty on cigarettes. Furthermore, the process on consultation on SRO removal (phase III), yielding 0.3 percent of GDP on a full-year basis, shall be initiated in December 2015, to be concluded by end-January 2016. We will enact this measure by end-February 2016. If the end-December revenue target is met, this measure will be introduced as part of the FY2016/17 Finance Bill. In addition, on the expenditure side, we will reduce recurrent and capital spending by PRs 15 billion each, unless stronger federal revenue performance warrants otherwise.

11. **Over the past two years, we have carried out an ambitious program of tax reforms.** This has included: (i) eliminating decades old distortive and discriminatory tax exemptions and concessions amounting to PRs 224 billion; (ii) introducing the concept of differential taxation of filers and non-filers 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 restricting the government's authority to grant tax concessions or exemptions. Such concessions and exemptions are now in the purview of parliament, except in a number of specified exceptional circumstances, in which the Economic Coordination Committee (ECC) of the cabinet can grant them on a temporary basis.

12. **We are renewing our efforts to strengthen tax revenue mobilization with a growth-friendly reform agenda.** 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.

13. **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 amount of outstanding GST refund claims from the peak of PRs 113.2 billion in November 2014 to PRs 86.5 billion by end-September 2015. With the introduction of an automated system of pre-verification in addition to post-verification, the FBR has accelerated 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).

14. **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 225,000 first notices by end-September 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 (for tax year 2012) to 967,544 (for tax-year 2014) as of end-November 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 about 6,500 retail outlets by end-September 2015.

15. **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 non-filers 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 have integrated the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database (SB, end-September 2015). This allows us to improve taxpayer compliance and broaden tax bases as we record all financial and property transactions by individuals with CNIC numbers.

- Our tax audit initiatives have shown great success. With the number of audits increasing from 3,000 in FY2010/11 to 74,492 in FY2012/13, additional tax assessments surged from PRs 1 billion to PRs 50 billion over the same period. The FBR has adopted a new risk-based auditing policy to identify those taxpayers who are most likely to be noncompliant (SB, end-September 2015). The FBR will put in place a comprehensive monitoring system with quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators (new SB, end-December 2015).

- 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 (SB).

- We now require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments. In addition, the FBR has started 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.

16. **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-December 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 April 2016.

17. **We will continue to manage budgetary spending prudently and strive to achieve the contribution of provinces to fiscal consolidation**. To this end, additional budgetary spending as result of the reclassification of some non-plan loans (0.1 percent of GDP) will be made through re-allocation of existing capital expenditure plans, including at the provincial level. The additional budgetary spending related to the new agricultural spending package (0.1 percent of GDP) will be absorbed within recurrent spending. As agreed, we are working towards reducing energy subsidies (including amounts for arrears clearance) to 0.4 percent of GDP in FY2015/16, from 0.8 percent in FY2014/15. To protect against a potential negative outcome of legal challenges to electricity surcharges, we will take mitigating measures as necessary (¶32). To assure achievement of our fiscal targets in FY2015/16 and beyond, 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 are intensifying our interaction with provincial authorities at a higher level to arrive at a mechanism to strengthen the provinces' fiscal commitment for FY2015/16. We are also holding quarterly meetings among the federal and provincial Finance Secretaries to review fiscal performance and coordinate spending priorities to correct any slippages in a timely manner. We will again prepare contingency measures as needed and reduce expenditure allocations in the first nine months of the year compared to the budget to create a fiscal buffer against any deviation away from the program target.

18. **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 by modernizing agriculture taxation and improving taxpayer compliance with a particular focus on identifying mis-declarations in this area. In January 2016, we will start working closely with provincial governments to establish a centralized electronic fiscal cadastre to better record transactions and assess real estate tax for each property based on periodically updated market valuation.

19. **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

more than a decade, 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 have sought 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 are also working 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) remains manageable. 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 have asked technical assistance from the Fund to develop a PPP framework at the federal level.

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 are reinvigorating the work on gender-disaggregated analysis and preparing a plan for gender-responsive budgeting. We will carry out a gender-responsive analysis of the FY2015/16 budget with the assistance of our development partners by end-February 2016, which will become a baseline for the FY2016/17 budget. To foster gender equality throughout the country, we will share the findings of this analysis and policy proposals with the provincial governments and will encourage them to use those findings in formulating their respective budgets.

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-September 2015, we have reached 5.14 million beneficiaries and met the indicative target for transfer payments. In FY 2015/16 we are on track to 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. We have extended the existing contracts with commercial banks for continuity of benefit transfers to BISP beneficiaries. To achieve the beneficiary centric payment model, in collaboration with the State Bank of Pakistan, we are revisiting the existing model and accordingly will enter into new contracts with the partner banks. Decision in this regard is expected to be reached by November 2015 and if needed, a transition plan would be finalized by end-November 2015. In partnership with the provincial governments, we have rolled out education-conditional cash transfers (CCT). As of end-September 2015, we are disbursing in 32 districts. Currently, more than 700 thousand children are beneficiaries of the CCT. We will expand the total number of children benefitting from the program to 1 million by end-March 2016.

C. Fiscal Financing

22. **We are committed to further improve fiscal financing and cash management**. The stock of government borrowing from the SBP reduced by PRs 304 billion, well below the end-September program target, helped by issuing T-bills, additional Coalition Support Fund (CSF) inflows, bond issuance, borrowing from commercial banks and short-term foreign borrowing. To provide more space for private sector credit growth, we will continue with our fiscal consolidation efforts, maintain focus on securing adequate foreign financing, and improve our cash management system. We will further improve our cash management coordination with provinces in light of forthcoming recommendations by the IMF TA mission on the FRDL Act (¶20).

23. **We will strengthen the institutional framework for debt management**. We are focusing on reducing rollover risks, balancing financing from domestic and external sources, and lengthening the maturity profile of domestic public debt, while continuing to watch contingent liabilities. To further improve debt management, we will improve the effectiveness of the Debt Policy Coordination Office (DPCO) and its integration in the Ministry of Finance's core functions. We have enhanced its staffing capacity for the 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 an initial draft by end-November 2015 and publication by end-January 2016); and
- We met the end-October 2015 SB to 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 solvency ratios**. The pre-tax profit of the system increased by 43 percent y-o-y in September 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) improved to 18.2 percent, significantly above the 10 percent minimum requirement. As of end-September 2015, asset quality has remained unchanged with the nonperforming loan (NPL) ratio at 12.5 percent and net NPL ratio at 2.5 percent.

25. **The SBP is making progress in bolstering banks that are below the regulatory capital adequacy requirement**. Only one bank (out of 35 banks) remains CAR and MCR-noncompliant.[1] A rights issue to correct for the shortfall has been completed and, after the due diligence of the investor is completed (expected by end-December 2015), application of the full amount of the rights issue would enable it to become CAR-compliant. We will continue to engage with the bank to ensure it will stay CAR-compliant thereafter. Additionally, three small banks, while remaining CAR-compliant, are still below the minimum capital requirement (MCR). We are on track to implement our devised time-bound plan to bring these banks into regulatory compliance by end-June 2016.

26. **We remain committed to 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 and will be placed before Parliament by end-December 2015.

- A working group of the SBP-SECP joint task force continues to work on surveillance and assessment of banking groups and financial conglomerates for their effective monitoring and supervision. With support of IMF TA, we are developing a framework for consolidated supervision of banking groups.

- To improve the recovery of NPLs without banking court intervention and enhance credit growth, amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, has been placed in Parliament for enactment. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April 2015. These legal reforms 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 an initial assessment of identification of the D-SIBs and will work on developing the monitoring mechanism.

[1] The size of this bank is about 0.9 percent of the banking system assets (or 0.4 percent of GDP), and the CAR shortfall has decreased to PRs 0.3 billion. The bank's CAR is at 9.63 percent (against 10 percent requirement).

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 working toward adopting Basel III liquidity rules by end-December 2016.

28. **Instituting a modern deposit insurance scheme will strengthen the stability and resilience of the banking system**. The Deposit Protection Fund (DPF) Act has been finalized in line with best international practices (as specified in the TMU), has been introduced in parliament in November, 2015 and is expected to be enacted by end-February 2016 (SB). In the meantime, the SBP has initiated a preparatory work to establish the corporate infrastructure of the DPF and has requested IMF TA to help in this process. The DPF will become operational by March 2016.

29. **We continue strengthening the anti-money laundering and combating the financing of terrorism (AML/CFT) framework**. We made progress toward meeting the end-November benchmark on strengthening AML legislation. The Government submitted to the Senate the amendments to the AML Act to include serious tax crimes in the Schedule of Offenses and enable the use of the AML tools to combat tax crimes. Following amendments to the draft legislation by the Senate that significantly limit the scope of tax crimes in the Schedule of Offenses, the National Assembly adopted it without further changes. While the scope of tax crimes in the Schedule of Offenses is limited, these amendments are nonetheless an important achievement as they open the scope for using AML tools for the proceeds of tax crimes. To increase the scope, we will introduce new amendments to parliament to cover additional important tax crimes, as defined in the TMU, by January 2016 (new SB), for enactment by end-May 2016 (modified SB). We will continue strengthening the effectiveness of the AML/CFT framework in line with international standards. We will also continue to bolster the Financial Monitoring Unit's analytical capability and strengthen the effective implementation of 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. 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 ¶20). 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-April 2016.

- We are committed to gradually phasing out untargeted subsidies, while continuing to protect the most vulnerable consumers.

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 TMU ¶22). There are two main components of the stock this circular debt:

- The payables in the power sector increased by PRs 13 billion in the first quarter of FY 2015/16 and currently stand at PRs 326 billion at end-September 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) non-recovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerged from the court stay order on surcharges; (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads (vii) PHCL loan servicing, and (viii) payables to cross border trade.

- The stock of past arrears, including the PHCL, in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-September 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) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY2018/19 (Table 1). While some elements of the plan have not been fully addressed i.e. implementation in two regions and GST refunds, yet we have met the end-September IT on the flow of power sector arrears, helped by lower international oil prices. 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 at the last 12-months declined from 19.0 to 18.2[2] percent. Collections in the same period improved from 88.6 to 90.7 percent, primarily due to better load management across consumers in rural and urban areas, and industries. 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.

- FY2014/15 determined tariffs utilized the room created by falling oil prices and late payment surcharges, and incorporated better reflection of system losses. This is expected to arrest a portion of the build-up of the circular debt and improve the cash-flow of the system. The continued decline in fuel prices will also mitigate the build-up of arrears due to prior year adjustments.

- 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 further reduce 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 i.e. LESCO, HESCO, and SEPCO. We have already set quarterly loss-reduction, collection, and recovery targets (as defined in the TMU ¶23) consistent with our arrears reduction plan for each DISCO in September (mid-October 2015 SB). The amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 were promulgated through Presidential Ordinance which lapsed in August 2014. The Bill, after approval by the National Assembly, was transmitted to the Senate, which has referred it to the relevant standing committee where its approval is awaited. We expect it to be enacted by end-January 2016 (new SB). 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-March 2016. In parallel, we drafted the new Electricity Act to modernize governance of the sector. We have shared the draft Act with a broader set of stakeholders and submitted to the CCI secretariat in October 2015 to build consensus with the provinces by end-March 2016.

[2] 12-month rolling sums.

35. **Demand Side Management**. To improve resource allocation and energy efficiency, we are using pricing (¶32) and other market-based instruments. We have finalized the required approvals to begin Advanced Metering Infrastructure (AMI) before the end of October 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. By providing adequate liquidity and therefore fuel inventories to generation plants, we were able to prioritize generation at more efficient plants, while maintaining better recovery from consumers and control over losses. This helped us to save significant costs (PRs 47 billion) and increase power generation by 3 percent. In addition, the better load management policy helped us attain zero load-shedding for industrial consumers and ensured predictable and reduced load-shedding for urban and rural consumers. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to further reduce technical losses. In addition, we have signed performance contracts with three state-owned generation companies which are run on furnace oil 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. The petition for FESCO was submitted in August, and submission of IESCO and LESCO petitions were completed in October. We expect to complete the missed end-November 2015 SB by determining multi-year tariffs for FESCO by end-December 2015, and for IESCO and LESCO by end-January 2016 (new SB), with the remaining ones done annually on a rolling basis. The multi-year tariffs for FESCO, IESCO and LESCO will be notified by end-April 2016 (new SB). 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 Dispatch Company (NTDC). NTDC's license has been modified so that it can no longer purchase or sell electricity. The Market Operator Registration, Standards and Procedure Rules 2015 were issued in late May 2015 and the Commercial Code was approved by NEPRA in early June 2015. Key CPPA(G) staff are being put in place. CPPA(G) is now functional. In line with our plans to liberalize the market, we have introduced the policy for net metering in October 2015 that will allow the electricity producing consumer to sell electricity to the system.

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

Oil and Gas Sector

39. **Supply**. To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports at the end of March 2015. We have determined and notified the LNG prices on October 7, 2015. We are fully passing-through 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 by end-November 2015. MW&P and MoPNR have recently finalized the RLNG payment mechanism. We will also finalize with the independent power producers' letters of credit by November 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 94 concessions with the remaining 26 that are currently being reviewed in the Ministry of Petroleum and Natural Resources for 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 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, in line with the OGRA determination, in August, 2015.The remaining revenue shortfall 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.

- Following enactment of the GIDC Act in May 2015, we have already recovered PRs 57 billion in FY 2014/15 and PRs 25 billion in the first quarter of FY2015/16. In addition to the ongoing GIDC collection, we will continue to focus on recovering GIDC from collecting agents that had collected the GIDC in their prices before May 2015.

- 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 two monitoring reports were approved by the ECC in April 2015, and October 2015 and we have already disclosed these reports 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) was on average 10.3 percent in the first quarter of FY2015/16 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 was sent for consideration by the National Assembly, however, the National Assembly did not approve the Ordinance during the required 90 days, and hence it was returned to the Senate. The government has put forward a motion to refer the law to an upcoming joint session of parliament, for expected enactment before end-February 2016 (new SB).

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. By end-February 2016 (new SB), we are also developing a new plan to overhaul our efforts to significantly improve the ease of doing business.

- ***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 have 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 (¶27). 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 has been extended to Islamabad and Rawalpindi in September 2015. We began work to expand to other provincial capitals (i.e., Peshawar and Quetta). We have begun 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. So far, we moved all internal operations to IRIS and conducting public awareness campaigns to use the system.

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, the 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. Commercial banks have developed quarterly and yearly plans to open Asaan ("Simple Small") Accounts and are running public awareness and media campaigns on the benefits of this initiative. 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 Bureaus Bill has been enacted in August 2015 (end-November 2015 SB). The SBP will finalize the development of the regulatory and operational framework by end-February 2016. The existing private Credit Bureaus have to apply for SBP licensing by mid-October 2016 in order to comply with the provisions of the Act. 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 (¶12) that establish special rates and/or nontariff trade barriers in some 4,000 product areas, and improving trade relations should deliver the much-needed competitive environment.

- ***Tariff simplification***. We are implementing a plan to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 2 and 20 percent rates with fewer exceptions.[3] 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 has experienced some delays as a result of which the number of transactions planned for the next twelve months has increased. While recognizing potential implementation challenges, we are nevertheless determined to implement this ambitious agenda.

- ***Capital Market Transactions Roadmap***. We have identified ten companies, (listed in the TMU), in the oil and gas, banking, and insurance sectors for block sales and primary or secondary public offerings. We successfully sold minority stakes in United Bank Limited (UBL) and Pakistan Petroleum Limited (PPL) in June 2014, Allied Bank Limited (ABL) in December 2014, and Habib Bank Limited (HBL) in April 2015. Despite a slight delay, we expect to hire a financial advisor for State Life Insurance by end-December 2015. We are also in the process of hiring a financial advisor for Mari Petroleum Limited, and plan to finalize (as defined in the TMU) the sale of these companies' minority shares by end-June 2016. On the other hand, Pak Arab Refinery Limited (PARCO) will likely be removed from the list of PSEs to be privatized to consider alternative options. We are working towards updating the roadmap for the remaining three companies in the list.

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

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

  - **DISCOs**. We 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 (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. Notwithstanding a delay with determination of the multi-year tariffs for these companies, we expect to approve the transaction structure for these companies in December 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**. We are in the process of resolving the legal challenge to the cancelled sale of Heavy Electrical Complex (HEC) in May 2015 owing to the winning bidder's inability to provide the funds to close the transaction. We have completed the sale of National Power Construction Co. (NPCC) in September 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and expect completion of the bidding process by end-September 2016 with finalization of the transaction by end-December 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) and, despite a delayed start, initiated the due diligence process with expected completion of the bidding process for the sale of the government's equity by end-June 2016 and finalization of the transaction by end-September 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 (PIA)**. We have appointed financial advisors in July 2014 to seek potential options for restructuring and strategic private sector participation in the core airline business. However, the due diligence process, completed in August 2015, showed that resolution of legal challenges is needed before moving forward. For this purpose, the government has amended the PIA Act through a Presidential Ordinance while initiating in parallel the process of seeking parliamentary approval. This will pave way for soliciting expressions of interest (EOIs) for strategic private sector participation by end-December 2015 (SB).

    - **Pakistan Steel Mills**. We have approved a comprehensive restructuring plan to prepare for potential strategic private sector participation in the company. However, due to gas supply difficulties, operational efficiency remains well below the breakeven threshold. We hired financial advisors in April 2015 and completed the due diligence process in August 2015. However, the privatization process has been put on hold by the government's decision in October 2015 to offer the provincial government hosting the PSM to acquire the company. We hope to receive the final response to the offer from the provincial government by end-December 2015. Should the provincial government decline the government's offer, the privatization process will resume with approval of the PSM transaction structure in January 2016 with the view to complete the bidding process by end-June 2016, and finalize the transaction by end-September 2016.

    - **Pakistan Railways**. Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, through rationalization of tariffs and expenditures and improved occupancy rates, we improved revenue in FY 2013/14 and FY 2014/15 by 32 and 45 percent, respectively. The trend continued with an increase of around 20 percent in the first quarter of FY 2015/16. 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 FY 2014/15 and FY 2015/16[1/]

	FY2014/15	FY2015/16						
	end-June	end-September			end-December		end-March	end-June
					Program			Projection
					Ninth Review			
		Target	Adj. Target	Actual	Target	Revised		
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	5,354	8,300	6,885	6,955	9,300	9,300	9,300	10,000
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,350	2,480	2,661	2,350	2,580	2,660	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	306	306	329	625	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,700	1,700	1,385	1,650	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,893	1,800	1,800	1,589	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
Indicative Targets								
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	94	23	23	24	46	46	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	640	640	600	1,390	1,390	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	36	36	13	27	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

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

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		8th review	Rescheduled		
Prior Actions					
1	Bring the stock of NDA to or below PRs 2,652 billion by end-November 2015.			Met	Conduct prudent monetary policy
2	Enact amendments to the SBP law by end-November 2015.			Met	Strengthen SBP independence
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		Met	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		Met	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		Met	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		Not met, implemented in November 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
		8th review	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-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) in line with international standards.	end-November 2015	end-May 2016	Not Met by 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			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		Not met	Facilitates privatization of the DISCOs and reduction of energy arrears.
17	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		Met	Tackle losses, raise payment compliance, and improve energy efficiency and service delivery in the energy sector.
18	Complete the bidding process for shares of FESCO.	end-June 2016			To privatize electricity distribution companies in line with arrears reduction plan
New Structural Benchmarks					
1	Put in place a comprehensive monitoring system for tax audits, with quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators.	end-December 2015			Strengthen tax collection
2	Enact amendments to Penal Code 1860 and the Code of Criminal Procedures 1898.	end-January 2016			Strengthen governance in the power sector
3	Determine Multi-year tariffs for IESCO and LESCO.	end-January 2016			Prepare for DISCO privatization
4	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016			Prepare for DISCO privatization
5	Enact the Gas (Theft Control and Recovery) Ordinance 2014.	end-February 2016			Strengthen governance in the gas sector
6	Develop a new time-bound plan with specific measures to significantly improve the business climate.	end-February 2016			Strengthen the business climate
7	Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU	end-January 2016			Use anti-money laundering tools to combat tax evasion.

Attachment II. Technical Memorandum of Understanding (TMU)

December 3, 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$5,354 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 "Adopt the amendments to the Anti-Money Laundering (AML) Act that will include serious tax crimes from the relevant tax laws in line with international standards" for end-May 2016 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 tariff determinations.

20. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶32). 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 (¶32 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 ¶32). 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 ¶34). The stock of payment arrears include the payables of PRs 326 billion, and the stock of PHCL of PRs 335 billion as of end-September 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/	2015/16 Q1 Target	Actual	2015/16 Q2	Q3	Q4	2014/15 Total	2015/16 Total
Nonrecoveries	16	37	12	10	11	104	70
Accrued Markup	-		-	-	-	23	-
Excess line Losses	11	22	8	7	7	50	44
GST Non Refund	-		-	-	-	14	-
Late Payment Surcharge	1		1	1	1	8	4
Delayed Determinations	3		3	3	3	11	8
Total (flow)	32	59	24	20	22	209	126
Stock Clearance	47	4	63	26	21		
Total (stock)	297	326[1]	287	281	282	313	

1/ The actual flow of payables for Q1 2015/16 was PRs 13 billion 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 ¶35). In October 2015, quarterly quantitative targets have been determined by MWP and each DISCO for technical and distribution losses, and collection from current consumers (table below).

Target Bill Collection (In percent)	Q1	Q2	Q3	Q4	FY2015/16
LESCO	95.42	107.38	111.34	76.43	96.20
GEPCO	95.68	103.16	110.02	80.81	95.69
FESCO	95.92	107.08	105.52	88.42	98.47
IESCO	79.37	98.33	89.10	86.91	87.55
MEPCO	91.98	105.65	112.38	88.58	98.13
PESCO	81.73	90.91	96.58	81.48	87.12
TESCO	8.75	8.74	9.07	414.85	75.38
HESCO	52.84	81.66	93.86	72.79	72.55
SEPCO	41.96	51.35	77.62	64.66	56.19
QESCO	105.12	22.90	26.96	49.48	57.49
TOTAL DISCOs	**86.94**	**95.58**	**98.47**	**83.08**	**90.16**

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

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

C. Adjustors

25. **The floor on NIR will be adjusted upward** (downward) by the cumulative excess (shortfall) of cash inflows from multilateral and bilateral creditors, Coalition Support Fund (CSF), and bond issuance relative to projected inflows (Table 2). Cumulative cash inflows are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to DFID, UK, USAID), external bond placements and other commercial borrowing that are usable for the financing of the central government budget. The adjustor is modified for the end-June 2014 calculation of the fourth review to exclude the proceeds of the US$2 billion Eurobond transaction and for the end-December 2015 and end-March 2016 calculations to exclude US$500 million of external long-term market financing that is expected to happen in each Q2 and Q3 of FY2015/16. This modification does not apply to subsequent reviews.

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

27. **The ceiling on the consolidated overall budget deficit** (excluding grants) for 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 450 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)
- Multan Electric Power Co. Ltd (MEPCO)
- Hyderabad Electric Supply Co. Ltd (HESCO)
- Sukkur Electric Power Co. Ltd (SEPCO)
- Peshawar Electric Supply Co. Ltd (PESCO)
- Quetta Electric Supply Co. Ltd (QESCO)
- Lakhra Power Generation Company, Ltd. (LPGCL)
- Jamshoro Power Generation Co. Ltd (JPCL)
- Northern Power Generation Co. Ltd (NPGCL)—Thermal Power Station—Muzaffargarh
- National Power Construction Co. (NPCC)
- Pakistan Steel Mills Corp (PSMC)
- Pakistan Engineering Co Ltd (PECO)
- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA Investment Ltd—Roosevelt Hotel NY & Scribe Hotel, Paris

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

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

E. Program Reporting Requirements

28. **Performance under the program** will be monitored from data supplied to the IMF by the SBP, 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	Quarterly	Within 15 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		program/project, and the amounts received/expected in cash.		
	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

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, Rs. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total 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 (stock) Flow of arrears by source	Quarterly	Within 45 days of the end of each month for government arrears
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification
Ministry of Petroleum and Natural Resources		Gas supply Gas prices Gas sales by consumers	Quarterly on monthly frequency	Within 30 days from the end of the quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		UFG losses	Quarterly	Within 30 days from the end of the quarter
BISP	Targeted cash transfers	Coverage (number of beneficiaries paid) and payment by conditional and unconditional transfers.	Quarterly	Within 30 days from the end of the quarter
Ministry of Finance	Financial statements	Financial statements (cash flow, income statement, and balance sheet) and operational indicators for Pakistan Railways, Pakistan Steel Mills and Pakistan International Airline	Quarterly	Within 30 days from the end of the quarter

Table 1. Exchange Rates of the SBP

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

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

Table 2. Projected Disbursements to Pakistan
(In millions of U.S. dollars)

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15		Mar-16	June-16
			Actual				8th Review	Projection		
Multilateral and bilateral disbursement	2,943	1,270	1,098	1,002	1,970	1,222	1,830	2,165	1,581	2,325
of which: in cash 1/	2,608	407	543	764	1,810	617	1,457	1,800	969	1,763
International debt issuance 2/	2,000	0	1,000	0	0	500	500	1,000	500	500
Coalition Support Fund	375	735	0	717	0	713	175	175	175	175
Other 3/	0	0	0	0	764	0	0	0	0	0
Gross Inflows	5,318	2,005	2,098	1,719	2,734	2,434	2,505	3,340	2,256	3,000
of which: in cash	4,983	1,143	1,543	1,481	2,574	1,830	2,132	2,975	1,644	2,438
Debt service	943	989	1,110	1,842	1,422	1,032	1,095	1,223	1,913	1,387
Memorandum items										
Gross International Reserves	9,096	8,943	10,514	11,615	13,534	15,247	15,574	16,119	15,998	17,666
Program Net International Reserves	1,800	3,000	3,500	5,000	7,300	8,300	9,300	9,300	9,300	10,000

1/ Numbers need to be confirmed with the MoF.
2/ Issuance of the Eurobond, originally scheduled for Q2 FY2016, materialized in Q1. For the purpose of calculating the adjustor, it is still treated as if expected to be issued in Q2. The adjustor is modified for the Q2 and Q3 FY2016 in line with ¶25 of the TMU.
3/ Includes privatization and 3G licenses.

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

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Non Tax revenue	322	353	375	735	0	717	0	713	175	175	175
Of which: Coalition Support Fund	322	353	375	735	0	717	0	713	175	175	175
3G Licences	0	0	0	0	0	0	0	0	0	0	0
Grants	100	1,538	151	147	346	148	179	161	216	153	171
External interest payments	202	155	215	174	289	166	311	173	245	266	276
Net external debt financing	50	-115	3,501	273	1,209	-56	922	801	1,108	-217	1,545
Disbursements	645	760	4,713	871	1,845	851	1,984	1,566	1,949	1,428	2,654
of which budgetary support	309	285	2,070	14	23	547	1,121	80	1,087	569	1,239
Amortization	594	875	1,212	598	636	907	1,063	765	841	1,645	1,109
Privatizations	0	0	5	0	0	0	764	0	0	0	0
Memorandum item											
Program financing	409	1,823	2,226	161	369	695	2,064	241	1,303	722	1,410

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

INTERNATIONAL MONETARY FUND

December 4, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION, NINTH REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2015)

Membership Status:

Joined: 07/11/1950; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	1,033.70	100.00
Fund Holdings of Currency	4,273.58	413.43
Reserve Tranche Position	0.12	0.01

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	988.56	100.00
Holdings	494.94	50.07

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
Extended Arrangements	3,240.00	313.44

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	09/04/2013	09/03/2016	4,393.00	3,240.00
Stand-by	11/24/2008	09/30/2011	7,235.90	2,868.64
ECF	12/06/2001	12/05/2004	1,033.70	861.42

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs)

			Forthcoming		
	2015	2016	2017	2018	2019
Principal				150.00	420.00
Charges/Interest	8.31	37.08	37.04	35.92	31.61
Total	8.31	37.08	37.04	185.92	451.61

Current Status of Safeguards Assessment

An update safeguards assessment with respect to the current EFF was completed on December 16, 2013. The assessment concluded that legal amendments are needed to strengthen the central bank's autonomy and the effectiveness of governance arrangements. Further, some data reporting issues, in particular the definitions and the composition of the program Net International Reserves, required clarification to safeguard against inadvertent misreporting. Accountability mechanisms, including the external audit were broadly effective, although the role and function of the audit committee could be enhanced in certain areas. The authorities have implemented some recommendations, but the latest amendments to the SBP Act only partially addressed the assessment's recommendations on the central bank's autonomy. Previous assessments were completed in February 2001, March 2009, and March 2010.

Exchange Rate Arrangement

On May 19, 1999, the dual exchange system was unified, with all international transactions conducted at the interbank market exchange rate (FIBR). The de facto exchange rate arrangement is classified as "other managed". De Jure exchange rate arrangement is managed floating with no predetermined path. The SBP does not make any explicit or implicit commitment with respect to an exchange rate target or path. The SBP intervenes in the foreign exchange market, but does not publish information regarding its interventions. Pakistan has accepted the obligations of Article VIII, sections 2, 3, and 4. Pakistan is maintaining an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Last Article IV Consultation

The last Article IV consultation (Country Report 13/110) was discussed by the Executive Board on September 4, 2013.

FSAP Participation and ROSCs

FSAP. The last FSAP was conducted in September 2008, however, the report was not published. The previous FSAP was conducted in February and April 2004. The report has been published and is available on the web through the following link:
http://www.imf.org/external/pubs/ft/scr/2004/cr04215.pdf

Monetary and Financial Policy Transparency and Data Dissemination. Data Module, Reassessment of Monetary Statistics and Detailed Assessment Using Quality Assessment Framework were completed in November 2006. The report has been published and is available on the web through the following link: http://www.imf.org/external/pubs/ft/scr/2007/cr0774.pdf. The previous data dissemination monetary and financial policy transparency ROSCs were conducted in December 2004 and July 2004, respectively.

Fiscal Transparency. The last updated report of the fiscal module on Observance of Standards and Codes for Pakistan was prepared in April 2008. The report has been published and is available on the web through the following link: http://www.imf.org/external/pubs/ft/scr/2008/cr08129.pdf. The original fiscal ROSC was conducted in November 2000 with a subsequent update in December 2004.

Resident Representative

A new resident representative, Mr. Tokhir Mirzoev, has started the assignment in Islamabad in March 2015.

Recent Technical Assistance

FAD

January 2002: Fiscal data management, quality, and transparency.

January 2003: Tax administration.

February/March 2003: Customs administration.

April 2004: Fiscal reporting.

April 2007: Public financial management.

July and November 2009: Valued Added Tax law.

July 2010: Review of Budgeting Accounting and Reporting System.

November 2015: Public financial management.

December 2015: Tax policy.

MCM

November/December 2004: Public debt reform and capacity building program (joint with World Bank).

March/April 2005: Development of the Insurance Sector.

December 2006: Monetary policy framework.

April 2007: Monetary policy framework, the SBP's balance sheet, and the Banking Services Corporation.

April 2011: Capital markets development issues.

May 2012: Credit Registry.

May 2013: Stress Testing the Banking System.

December 2013: MTDS.

November 2014: Consolidated Supervision.

STA

February 2002: External sector statistics/SDDS subscription.

April/May 2005: National accounts and consumer price statistics.

May 2007: Statistics on the international investment position.

October 2009: Multisector statistics (remote technical assistance).

March 2011: Price statistics.

February 2012: Price statistics.

May 2014: National Accounts.

October 2014: Quarterly National Accounts.

August 2015: Consumer Price Index.

December 2015: Quarterly National Accounts/Consumer Price Statistics.

LEG

July 2008: Deposit Protection Fund.

July 2008: Central Bank Law.

August 2008: Banking Law.

RELATIONS WITH THE WORLD BANK

(As of November 16, 2015)

1. Pakistan is among the largest recipients of World Bank financial assistance. The World Bank Group program in Pakistan consists of an integrated package of financial support, including IBRD lending, concessional IDA credits, Trust Funds and Grants administered by the Bank on behalf of other development partners, Multi-Donor Trust Fund (MDTF) for Khyber Pakhtunkhwa (KP), Federally Administered Tribal Areas (FATA) and Balochistan, The Accelerated Growth and Reform (TAGR) from DFID, IFC investments, and MIGA guarantees, along with complementary analytical and advisory services. The Pakistan Portfolio (IDA, IBRD and MDTF) as of June 30, 2015, has 38 active projects.

2. The Country Partnership Strategy (CPS) outlines the Bank's strategic approach to helping Pakistan achieve its development goals over a five year period. The Bank Group's Board of Directors endorsed a Country Partnership Strategy for Pakistan on May 1 2014, covering fiscal years 2015 through 2019. The WBG's Pakistan Country Partnership Strategy is anchored in the Government's framework of 4Es: Energy, Economy, Extremism and Education; and the initial priorities of the incoming Vision 2025. Enough flexibility has also been built into the Strategy to allow for quick reallocation of resources in case of unforeseen needs or emergencies.

3. The four strategic pillars or result areas and cross-cutting theme of the Country Partnership Strategy are:

- Transforming the energy sector. Policy reforms and large investments in the power sector aim to reduce load shedding, expand low-cost generation and supply, improve governance and cut losses;

- Supporting private sector development. WBG's support is aimed at strengthening the business environment, improving competitiveness and productivity of farms and businesses, and making cities growth friendly to support productive and quality jobs;

- Reaching out to the underserved, neglected, and poor. The strategy has a special focus on targeted support for poorer districts and vulnerable groups e.g. women and youth; micro, small and medium enterprises particularly in fragile and crises-affected provinces / regions; and support for enhancing resilience and adaptation to the impact of climate change;

- Accelerating improvements in public service delivery. WBG would support efforts for increasing revenues both at the federal and provincial levels to fund public services and setting more ambitious targets to create greater impact in critical areas especially education and health; and

- Leveraging regional markets. As part of the four result areas, this cross-cutting theme focuses on energy and trade, aimed at an integrated electricity market in South Asia with power transmission links to Central Asia and India; and other opportunities to capture the potential of cross-border trade between Pakistan and its neighboring countries. Sustained economic cooperation can help contribute to growth as well as overall stability in the region.

4. IFC is supporting development of Pakistan's private sector through an integrated investment and advisory program. Its strategy is a direct response to the challenges facing the private sector in the country, including energy shortages, infrastructure constraints and lack of access to finance, which limit the growth of micro, small and medium enterprises (MSMEs). IFC has been focusing on mobilizing investments in infrastructure, energy (including renewable power), expanding access to finance to MSMEs, and helping create jobs. IFC's advisory services are particularly active in enhancing access to finance for MSMEs, the capacity building of small businesses, improving corporate governance, creating a better business environment, and promoting clean energy.

5. Pakistan is also a focus country for MIGA, where it has already provided guarantees in hydropower and microfinance. Going forward, MIGA's strategy seeks to support investments into IDA countries, South-South investments, complex infrastructure projects, and investments into conflict-affected areas.

6. Over the last few years, WBG has closely coordinated its development policy financing support with the IMF Program in Pakistan. Recently completed series of operations on *Fiscally Sustainable and Inclusive Growth* and *Power Sector Reforms*, supported critical structural reforms in revenue mobilization, SOEs, private sector development and energy sector reforms to complement the ongoing IMF program. Follow-on World Bank budget support is also planned.

7. IBRD/IDA financial operations since FY2006 are summarized below:

Pakistan: World Bank Group Financial Operations

US$ million		FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Commitments	IBRD	315	100	174	0	0	261	500	0	0	0
	IDA	1183	885	371	1610	300	1292	1290	744	1634	1351
Disbursements	IBRD	149	154	56	91	86	35	92	85	121	35
	IDA	1063	1035	267	848	698	772	565	450	1533	1129
Repayments	IBRD	297	273	295	273	225	172	157	162	166	156
	IDA	117	170	143	181	165	169	190	182	297	247

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of November 30, 2015)

Pakistan is a major recipient of financial support from the Asian Development Bank (ADB). Since 1968, the ADB has provided more than $25 billion in assistance through the concessional Asian Development Fund window and the Ordinary Capital Resources window.

The ADB's Board of Directors endorsed the Country Partnership Strategy (CPS) covering the years 2015-2019 in August 2015. In line with ADB's Midterm Review of Strategy 2020, ADB will support the government's objective of higher, inclusive, and sustained growth to create productive employment opportunities and reduce poverty. The thrust of ADB's strategy in Pakistan will be to improve connectivity, productivity, and access to markets and public services, focusing on infrastructure development and institutional reforms. The broad thrust of this strategy is similar to those in the previous CPS, reflecting the long-standing development constraints, the governments' priorities to relieve them, and ADB's accumulated experience. This CPS places greater emphasis on (i) partnerships and cofinancing, particularly from commercial sources; (ii) disaster risk management; and (iii) a more systematic approach to knowledge solutions.

The main areas of ADB operations in Pakistan include: (i) energy, focusing on sector reforms, energy efficiency, power generation, transmission, distribution, and renewable energy development; (ii) transport and logistics; (iii) irrigation and water resource management; (iv) urban services; (v) public sector management including reforms in key sectors of ADB's operations, development of public-private partnerships, public sector enterprise reforms and social protection; and (vi) finance, focusing on long-term sources of infrastructure finance and financial inclusion.

ADB's program consists of a mix of policy-based lending, multi-tranche financing facilities, stand-alone projects, technical assistance (TA) loans, TA grants, project design facilities, knowledge products and services, and policy dialogue. The policy-based lending targets specific areas of priority reforms, within a programmatic framework in collaboration with development partners, supplemented with TA for the design and implementation of these reforms. Multi-tranche financing facilities contain significant components for analytical and capacity development assistance. TA grants will finance these for stand-alone investment projects.

Pakistan's active public sector portfolio amounts to $4.68 billion as of 30 September 2015. It comprises 32 loans for 25 investment projects and 22 TA projects of $23.85 million. The figures exclude ADB's policy-based support, which is currently focused on energy sector reforms. The support for energy sector reform program consists of five annual sub-programs, with the first sub-program (DPC-I) of $400 million approved and disbursed in 2014. The second sub-program, also of (DPC-II) $400 million, has been signed on November 2015 and disbursement was made on end-November. The energy sector comprises about 48 percent of ADB's active public sector portfolio, followed by transport (12 percent); irrigation and water resource management (15 percent); a multi-sector post-flood reconstruction project (15 percent); social protection (8.2 percent), and urban services (2.8 percent).

ADB's private sector operations in Pakistan began in 1983 and complement its public sector support. As of August 2015, cumulative private sector approvals amounted to $1.15 billion. As of 30 June 2015, total outstanding balance of projects amounted to $584.1 million. Private sector operations are focused on infrastructure and finance. The infrastructure support comprises renewable energy development (hydro and wind), development of natural resources (e.g., thermal power capacity based on captive domestic gas fields), reform support (financing of a privatized distribution electric supply company) and energy security. Under the financial sector window, ADB provides guarantees, equity investment, and trade finance. ADB's Trade Finance Program in Pakistan has worked with ten banks on 2,996 trade transactions of over $9.4 billion, 53 percent of which was co-financed by the private sector.

STATISTICAL ISSUES

(As of November 18, 2015)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance.
National Accounts: In 2013, the Federal Bureau of Statistics (FBS) completed rebasing and revising of the national accounts statistics from fiscal year 1999/2000 to 2005/06 to bring them in line with the concepts and definitions of the 2008 System of National Accounts (2008 SNA). The coverage of transport, storage and communication sector has been expanded, methodology better captures the measurement of value-added at basic prices (instead of factor cost), uses double deflation for some industries, and applies Financial Intermediation Services Indirectly Measured (FISIM). The current national accounts series goes back only to 2005/06 and the FBS was working to produce backward linking of series to 1999–2000. FBS has also begun developing quarterly national accounts (QNA). With respect to labor market statistics, the FBS has now compiled and started releasing quarterly employment/ unemployment data, the first release being in February 2011 and included five years of historical data and is investigating the feasibility of disseminating data on wages/salaries. **Price statistics**: The FBS produces three price indices: the CPI, the wholesale price index (WPI), and the sensitive price indicator (SPI). The CPI and WPI are compiled on a monthly basis. The SPI is compiled on a weekly basis and consists of 53 essential commodities. The concepts and definitions of the CPI attempt to follow international guidelines. There is a need to replace the WPI with a producer price index (PPI). FBS introduced the Classification of Individual Consumption by Purpose (COICOP) with the August 2011 index, along with updated weights and expanded item and geographic coverage. TA is being provided to further improve the CPI methodology and to update the weights again.
Government finance statistics: The concepts and definitions used in compiling government finance statistics are broadly based on the GFSM 1986, except that privatization proceeds are included below the line. The scope of central government data is further limited because it does not cover the activity of extra budgetary funds. Classification and sectorization in source data follow GFSM 1986 standards to a limited extent. The classification of expenditure deviates from GFSM 1986 methodology because the economic and functional classifications are mixed in reporting, in particular, with defense and government administration expenditures not clearly identified according to economic classification. The basis of recording GFS is on, or close to, a cash basis. Transactions are recorded on a gross basis. Corrective transactions are not necessarily made in the original period, as required by GFSM 1986. The authorities have indicated their intent to adopt the methodology of GFSM 2001 over the medium term, and in line with the Board decision (No 14656 of October 2010) to strengthen fiscal analysis, they have compiled with staff assistance a fiscal table in the GFSM 2001 presentation. However, further improvements in government finance statistics are needed and the authorities are making progress toward that objective in the context of the Project

for the Improvement of Financial Reporting and Auditing (PIFRA). Budgetary central government operations data are regularly reported for publication in the GFS Yearbook, and use the GFSM 2001 framework. However, no data are reported on transactions in nonfinancial and financial assets and liabilities. The authorities do not report higher frequency data for inclusion in the IFS.
Monetary statistics: The monetary statistics are broadly in line with the *Monetary and Financial Statistics Manual (MFSM)* and the *MFS Compilation Guide*. The SBP has reported the Standardized Report Forms for central bank (1SR), other depository corporations (2SR), and monetary aggregates (5SR) to the Fund publication in the *IFS*. The SBP authorities and the Statistics Department are working to expand the coverage for including the other financial corporations (OFCs) in the monetary survey. Pakistan reports all core Financial Soundness Indicators (FSIs) for the deposit takers (DT) sector and 16 out 28 FSIs of the encouraged set for DT, non-financial corporations and real estate prices. These FSIs (including the sectoral balance for DTs) are disseminated in the IMF's FSI website.
Balance of payments: Starting from September 2013 SBP reports regularly quarterly balance of payments (BoP) statistics in line with the Balance of Payments Manual sixth edition (BPM6). SBP is regularly reporting the Currency Composition of Official Foreign Exchange Reserves (COFER), and is participating to the Coordinated Direct Investment (CDIS) and the Coordinated Portfolio Investment (CPIS) surveys. SBP should consider reporting external debt data to the joint World Bank/IMF Quarterly External Debt Statistics Database (QEDS) and revising the reserves data template posted on the SBP website to bring it in line with international guidelines, **International investment position**: In October 2015 SBP started transmitting to the IMF BPM6 based annual and quarterly international investment position (IIP) data. Some issues of consistency between BoP and IIP remain to be addressed.

II. Data Standards and Quality	
General Data Dissemination System (GDDS) participant since 2003.	The Report on the Observance of Standards and Codes (ROSC)—Data Module, a Response by the Authorities, and a Detailed Assessment Using the Data Quality Assessment Framework (DQAF) were published on the IMF website in December 2004. A ROSC reassessment focusing on monetary statistics was conducted in November 2006 and published on the IMF website in February 2007. An update to the ROSC on fiscal transparency was published on the IMF website in April 2008.

Pakistan: Table of Common Indicators Required for Surveillance

As of November 2015

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items: Data Quality – Methodological Soundness[7]	Memo Items: Data Quality Accuracy and Reliability[8]
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	November 2015	Oct. 2015	M	M	M		
Reserve/Base Money	November 2015	Oct. 2015	M	M	M	O, O, O, LO	O, O, O, O, LO
Broad Money	November 2015	Oct. 2015	M	M	M		
Central Bank Balance Sheet	November 2015	Oct. 2015	M	M	M		
Consolidated Balance Sheet of the Banking System	November 2015	Oct. 2015	M	M	M		
Interest Rate[2]	November 2015	Oct, 2015	M	M	M		
Consumer Price Index	November 2015	November	M	M	M	O, LO, LO, O	O, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Sep.2015	Oct, 2015	Q	Q	Q	LO, LO, LNO, LO	O, O, LO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Sep.2015	Sep. 2015	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep. 2015	Sep. 2015	Q	Q	Q		
External Current Account Balance	Sep.2015	Oct, 2015	M	M	M	LO, LO, LO, O	O, O, O, O, LNO
Exports and Imports of Goods and Services	Sep.2015	Oct, 2015	M	M	M		
GDP/GNP	2014/15	July, 2015	A	A	A	LO, LNO, LO, LO	LNO, LNO, O, LNO, O
Gross External Debt	Jun.2015	Jul.2015	M	M	M		
International Investment Position [6]	Mar.2015	Aug. 2015	A/Q	A/Q	A/Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing. Only Federal Board of Revenue's outcome is received on monthly basis

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); or Not Available (NA).

[8] Reflects the assessment provided in the data ROSC published in December 2004 and its update published in February 2007, and based on the findings of the missions that took place during December 1–16, 2003 for the dataset corresponding to the variable in each row, and during November 1–15, 2006 for monetary statistics, respectively. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[9] Same as Footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Jafar Mojarrad, Executive Director for Pakistan and Shahid Mahmood, Senior Advisor to Executive Director December 18, 2015

Our Pakistani authorities thank staff for their hard work and constructive discussions during the Ninth Review under the Extended Arrangement and the Article IV Consultation, and broadly concur with their assessment and policy recommendations.

Program Implementation

The economy has continued to perform well under the EFF-supported program, which is now in its third and final year of implementation, with important gains achieved despite strong headwinds. End-September 2015 performance criteria (PCs) on net international reserves, government borrowing from the SBP, and foreign currency swap/forward position were met, as were the indicative targets on social spending under the Benazir Income Support Program (BISP) and on accumulation of power sector arrears. Two end-September PCs and one indicative target were, however, missed, and the authorities have taken corrective measures to stay the course to achieve the FY 2015/16 targets. The PC on net domestic assets (NDA) was missed for a combination of reasons, including among others, unusual demand for currency in circulation on the occasion of two Eid festivals, higher volume of cash transactions following introduction of the new financial transactions tax for non-filers, and currency injection in the interbank market to align money market rates with the lowered policy rate, which led to sharp expansion in reserve and broad money. The corrective measures taken by the authorities have brought NDA within the agreed bounds for November 2015 as a prior action, and will ensure that the revised target for end-December is met. Due to less-than-expected revenue collection, both the indicative target on tax revenue and the PC on the general government deficit, excluding grants, were missed by a small margin for the first quarter. The authorities are taking corrective measures to ensure that FY 2015/16 revenue and deficit targets are met. They are requesting waivers for nonobservance of performance criteria and modification of a performance criterion, as well as completion of the ninth review.

Most structural benchmarks (SB) have been met, including in particular enactment of the amendments to the SBP Act (prior action), enactment of the Credit Bureau Act, and setting quarterly targets for power distribution companies (DISCOs). Modifications of existing SBs and new ones are proposed, as detailed in the report.

Recent Economic Developments and Outlook

The economic reforms initiated by the authorities at the start of the program have begun to pay off, despite political, legal, and security challenges: near-term vulnerabilities have receded, and the macroeconomic situation continues to improve. The economy has been resilient, with growth projected to pick up from 4.2 percent in FY 2014/15 to 4.5 percent or more in FY 2015/16, on the back of continued expansion in large scale manufacturing, construction and the service sector. While inflation remains low, the recent downward trend shows signs of bottoming out as headline inflation rebounded from 1.6 percent to 2.7 percent, and is likely to average 3.7 percent for FY 2015/16. The budget deficit has been reduced from 8.5 percent of GDP in FY 2012/13 to 5.4 percent of GDP in FY 2014/15 and continues on a downward trajectory to reach 4.3 percent of GDP in FY 2015/16 as planned. The external current account deficit which declined to 1 percent of GDP in FY 2014/15 is projected to broadly stabilize at this level, with lower oil imports and higher workers' remittances offsetting weaker export performance. While power shortages and security challenges continued to adversely impact FDI inflows, spot purchases by the SBP helped boost gross reserves to US$ 15.7 billion or the equivalent of over 4 months of imports on December 14, 2015.

Fiscal Policy

Our authorities remain firmly committed to fiscal consolidation, including raising the tax-to-GDP ratio to 14.5 percent in the medium-term from its current level of 11 percent, and reducing the fiscal deficit to 3½ percent of GDP in FY 2016/17. This will help put the debt-to-GDP ratio on a firm declining path. To offset the revenue shortfall, they took tax measures equivalent to 0.15 percent of GDP, and stand ready to advance to FY 2015/16 the elimination of tax concessions and exemptions planned for FY 2016/17, if needed to achieve program fiscal targets. To remove distortions in the tax structure, the authorities have so far eliminated concessions and exemptions equivalent to 0.9 percent of GDP in two phases, in FY 2014/15 and FY 2015/16, and plan to continue to complete their program in this area in FY 2016/17 by another 0.3 percent of GDP. These efforts have resulted so far in average growth in FBR collections by 15.3 percent between FY 2012/13 and FY 2014/15. In the first 5 months of the current fiscal year, revenues have grown by 16.8 percent y-o-y.

Cognizant that lasting improvement in the tax-to-GDP ratio still requires greater efforts, the authorities are taking a number of reform measures, including broadening the tax base, carrying out risk-based audits, introducing differential taxation of filers and non-filers to reward compliance and penalize noncompliance, expanding the database by integrating the National Tax Number (NTN) with the Computerized National Identity Card (CNIC), legislating on benami transactions to improve transparency of property transactions, and reengineering and automating business processes and procedures in tax administration. A TA mission has recently discussed with the authorities the possibility of single-stage GST and other tax policy options. Moreover, efforts are under way to weed out corruption, including the strengthening of the Integrity Management Unit, ratification of whistle blower law for tax crimes and, beginning April 2016, public reporting of corrupt practices in tax administration. Fiscal consolidation and improved debt management remain central to keeping the debt-to-GDP ratio on a firm downward trajectory. Debt dynamics have improved in the past few years, with reduced refinancing risk of the domestic debt through improvement in the maturity profile and lower exposure to interest rate risk. The Debt Policy Coordination Office (DPCO), which has been further strengthened by the appointment of risk management staff, has updated the Medium-Term Debt Strategy for the period FY 2015/16- FY 2018/19, which will be published by end-January 2016. A TA mission on the strengthening of the Fiscal

Responsibility and Debt Limitation Act (FRDLA) has recently been conducted. The mission also discussed with the authorities ways to promote intergovernmental policy coordination and develop the Public Private Partnership (PPP) framework.

Monetary and Exchange Rate Policies

Monetary and exchange rate policies remain focused on price stability and boosting foreign exchange reserves. Maintaining an accommodative monetary policy, the SBP lowered the policy rate by 50 bps in September 2015. To anchor low inflation expectations and meet the program monetary targets, the SBP will continue to set the policy rate in a forward-looking fashion to maintain positive real interest rates, in line with the improved interest rate corridor. SBP is also enhancing its analytical capacities to move towards inflation targeting in the medium term. Amendments to SBP Act were enacted by the parliament to strengthen its independence and give legal force to the independent decision-making MPC.

While noting the appreciation of the real effective exchange rate over the past two years, the authorities maintain that the rupee has been stable vis-à-vis the US dollar, and that the exchange rate is market-determined. They also believe that export competitiveness may have been hampered more by structural factors, such as energy shortages, and security issues, than by the exchange rate.

Financial Sector

The banking sector remains sound, profitable, and highly solvent, with capital adequacy ratio (CAR) rising to 18.2 percent in Q1 of FY 2015/16 against the statutory requirement of 10 percent. NPLs remain stable over the same period at 12.5 percent and are well-provisioned. Out of 35 banks, only one remains CAR and MCR (minimum capital requirement) non-compliant, but due to close SBP monitoring, the bank is likely to meet the statutory requirement by end-December 2015. The SBP is also following up with three other smaller banks to comply with the MCR within the time-bound plan by June 2016.

The authorities remain committed to preserving financial stability and are working on a number of laws and regulations to reinforce the regulatory and supervisory framework (¶ 26 and 28, MEFP). Parliament enacted the AML/CFT law after amendments by the Senate. To increase the scope of the law, the authorities will introduce new amendments by January 2016. They are also working on enhancing the analytical capabilities of the Financial Monitoring Unit to strengthen effective implementation of the relevant UNSC Resolutions.

Structural Reforms

The authorities have made structural reforms a cornerstone of their ambitious economic reform agenda, which is designed to unleash growth potential and foster macroeconomic stability. The main focus is on the energy sector, restructuring and privatization of public enterprises, tax administration, and monetary and financial sectors. While a large number of administrative measures are being taken in these endeavors, many reforms which require legislative backup are at various stages of completion despite challenges. The authorities have completed four capital market privatization transactions and one sale of strategic asset since the start of the program (Table on page 18 of the Staff Report). The next 10 privatization operations, which are more difficult, as they require complex restructuring or legislative approvals, remain a priority for the authorities. Six of these privatization operations are in the power sector where crucial reforms have started taking roots and are reflected in reduced outages, declining line losses, and stepped up bill collection leading to reduction in accumulation of arrears and better handling of the circular debt. Rationalization and better targeting are expected to bring down power sector subsidies from 1.4 percent of GDP in FY 2012/13 to 0.3 percent of GDP in FY 2015/16 as planned. To keep the momentum and consolidate gains, the authorities are also following an ambitious but realistic investment plan in the power sector to stay ahead of the demand curve with medium- and long-term needs in focus.

The authorities are aware of the importance of improving the business climate to foster competitiveness and attract foreign and domestic private investment. In addition to the key reforms underway to strengthen the performance of the energy sector, enhance the delivery of public services, including transportation, improve access to financing for SMEs, and foster good governance, the authorities are developing a time-bound plan to tackle other bottlenecks, in cooperation with the World Bank, and will share it with Fund staff by end-February 2016 (SB).

Selected Issues

My authorities thank staff for well-researched presentations on the topics covered in the Selected Issues paper. While they agree with the diagnosis and the analytical work in the Chapter on ***Unlocking Pakistan's revenue potential***, they feel that though the paper does convey the fact that the authorities recognize the shortcomings in this area, it does not fully convey that tax concessions and exemptions are being phased out in consultation with the Fund.

On the ***Macroeconomic gains from raising female labor force participation in Pakistan*****,** the authorities recognize the importance of this issue as well as its cultural underpinnings. As the paper notes, the setting of quotas for women in the parliament has led to higher representation, exceeding the world average. In the local bodies, their representation has been raised to one-third. Women have also been assigned minimum quota of 10 percent at all levels of intake in government jobs, including mid-to-senior level managerial positions.

The BISP is another important initiative to mainstream women from the marginalized sections of the society. Beneficiary households are selected through a rigorous procedure applying a poverty scorecard methodology for a quarterly stipend issued to the woman of the house. At present 5.14 million households are recipient of this stipend. This number is expected to increase to 5.3 million by the end of FY 2015/16. Connected with this program is an education-conditional cash transfer program for students. Of the present beneficiaries, 48 percent are girls. Authorities are also reintroducing gender-disaggregated budget analysis and preparing a plan for gender-responsive budgeting.

Conclusion

Our Pakistani authorities feel that reaching this point in the program has been challenging, but rewarding in light of the achieved macroeconomic stability from a state of near-crisis, and the large repertoire of reforms that have yet to bear fruit, including those planned for the coming months. Still, they are mindful that much more needs to be done to entrench macroeconomic stability and put the economy on a path of stronger and more inclusive growth. They are grateful for the guidance and support of management and the Executive Board.