INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/94

PAKISTAN

March 2016

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 25, 2016, following discussions that ended on February 4, 2016, with the officials of Pakistan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on March 10, 2016.
- A **Statement by the Executive Director** for Pakistan.

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

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

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

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FOR IMMEDIATE RELEASE
March 25, 2016

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

The Executive Board of the International Monetary Fund (IMF) on March 25, 2016 completed the tenth review of Pakistan's economic performance under a three-year program supported by an Extended Fund Facility (EFF) arrangement. In completing the review, the Executive Board also approved the authorities' request for modification of the end-March 2016 performance criterion on the State Bank of Pakistan's stock of net foreign currency swaps/forward position. The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 360 million (about US$502.6 million), bringing total disbursements to SDR 3.96 billion (US$5.53 billion).

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

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

"Economic activity has continued to gradually gain strength, and short-term vulnerabilities have receded. Building on these gains, further progress, including in the area of structural reforms, is needed to generate strong and inclusive growth and make the economy more resilient and competitive.

"The authorities' continued commitment to reach the program's fiscal targets is welcome. Further widening the tax net and ensuring the fairness of the tax system, together with prudent management of budgetary spending and close coordination with the provinces, remain important to consolidate the gains in addressing Pakistan's fiscal vulnerabilities while generating the necessary resources for higher priority spending in areas such as infrastructure, health, and education.

“The monetary policy stance remains appropriate. Falling oil prices have helped efforts to bolster foreign reserves. While the establishment of an independent monetary policy committee has been an important step in advancing central bank autonomy, addressing remaining recommendations of the 2013 Safeguards Assessment will be key to strengthen it further.

“Reinforcing financial sector resilience remains pertinent and efforts to enhance capital buffers of banks are encouraging. The recent amendments to the AML Act constitute a first step to widen the application of AML tools to the proceeds of tax crimes. Further efforts to strengthen the AML/CFT framework are welcome and will help strengthen financial stability and tax compliance.

“Amid recent setbacks to the agenda to restructure or privatize loss-making public sector enterprises, continued resolve to complete the planned reforms remains important to address fiscal risks and strengthen economic efficiency. The authorities’ focus on containing losses in affected companies is also welcome in this regard. Further improving the business climate, transparency, and governance should help generate high and more inclusive growth.”

INTERNATIONAL MONETARY FUND

PAKISTAN

March 10, 2016

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

EXECUTIVE SUMMARY

Extended Arrangement under the Extended Fund Facility (EFF): A 36 month, SDR 4,393 million (216 percent of quota) Extended Arrangement under the EFF was approved by the Executive Board on September 4, 2013 and the ninth review was completed on December 18, 2015, for a total disbursement of SDR 3.6 billion.[1] The eleventh tranche amounting to SDR 360 million will be available upon the completion of this review.

Status of the program: The authorities met all Performance Criteria (PCs) for this quarter, including the fiscal deficit and net international reserves with significant margins. They also met the Indicative Targets (ITs), except the IT on tax collection, which was missed by a nominal margin. Progress on structural reform was mixed. While a number of Structural Benchmarks (SBs) on strengthening the tax administration, the financial sector, and the business climate were met, there have been a number of setbacks, including to the authorities' plans to restructure or privatize ailing public sector enterprises (PSEs).

Key issues: Discussions took place in the context of a still difficult political and security situation and focused on reinforcing economic stability and advancing structural reforms. The authorities are committed to prudent monetary and fiscal policies, including by continued strengthening of foreign currency reserves and further fiscal consolidation driven by broadening the tax base. They also intend to (i) put in place a PPP framework, (ii) amend fiscal responsibility legislation, (iii) introduce new measures in tax administration, (iv) strengthen central bank autonomy, including by taking some administrative measures, and (v) focus on containing losses in PSEs that are affected by delays in the restructuring/privatization plans. Outreach activities included a press release and a joint press conference with the finance minister and central bank governor.

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[1] Pakistan's new quota is SDR 2,031 million (previously SDR 1,033).

Approved By
Taline Koranchelian and Daniela Gressani

Discussions took place in Dubai during January 26–February 4, 2016. Staff representatives comprised H. Finger (head), G. Albertin, A. Shahmoradi, A. Tudyka (all MCD), K. Al-Saeed (MCM), S. Cevik (FAD), M. Kim (SPR), T. Mirzoev (Resident Representative), and Ms. H. Zaidi (Resident Representative Office, Islamabad). S. Mahmood (Senior Advisor, OED) joined for the discussions. The mission issued a press release on February 4. Mmes. Y. Liu and M. Orihuela-Quintanilla assisted in the preparation of the report.

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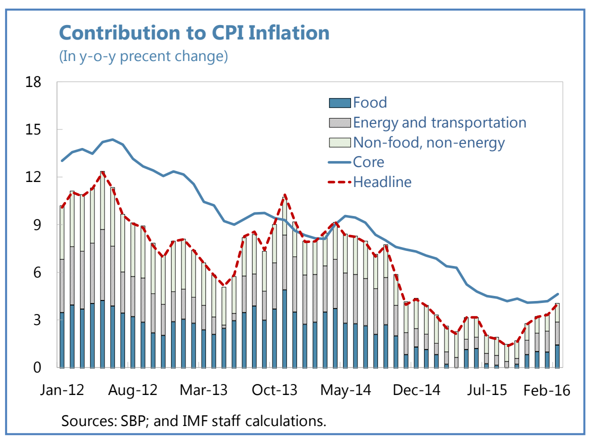
APPENDIX

INTRODUCTION AND PROGRAM PERFORMANCE

1. **Amid setbacks to structural reform, the authorities have made substantial progress in restoring economic stability**. During the course of their program, economic growth has gradually recovered and, helped by favorable global conditions including lower oil prices, the authorities have managed to bring inflation down to low single digits, bolster foreign reserves to four months of imports, and reduce power subsidies. They have also raised tax revenues and lowered the projected budget deficit to 4.3 percent of GDP. Existing tax exemptions and concessions are being rolled back, and the authorization to grant new ones has been greatly restricted. Social protection has improved through wider coverage and increased stipends. The rate of accumulation of power sector arrears has been greatly reduced, although the existing stock remains to be addressed and blackouts, while declining, have persisted. Central bank autonomy has already been strengthened through instituting an independent monetary policy committee and administrative reform at the SBP, and further steps in this area are planned. Other structural reforms have been launched and are at various stages of implementation. These will also help strengthen the economy and put in place pre-conditions for higher growth and more job creation. That said, the authorities are facing setbacks in their reform agenda, particularly in the area of restructuring or privatizing ailing public sector enterprises (PSEs), where their plans have been met with labor unrest and political opposition. Nonetheless, the authorities remain committed to their reform agenda, which they intend to continue pursuing beyond the end of their Fund-supported program in September 2016.

2. **Economic activity continues to strengthen gradually**. While a very weak cotton harvest and the continued decline in exports are weighing on economic activity, real GDP growth is expected to reach about 4.5 percent in FY 2015/16, supported by large-scale manufacturing, investment related to the China Pakistan Economic Corridor (CPEC), buoyant construction activity, a recovery in private sector credit growth, and gradual improvements in the supply of gas and electricity.[2, 3] Headline inflation has continued to gradually rebound (to 4.0 percent y-o-y in February 2016), as the favorable effect of past declines in international oil prices has continued to wane, and is expected to further increase to about 4.5 percent by June 2016, while remaining well-anchored by prudent monetary and fiscal policies.

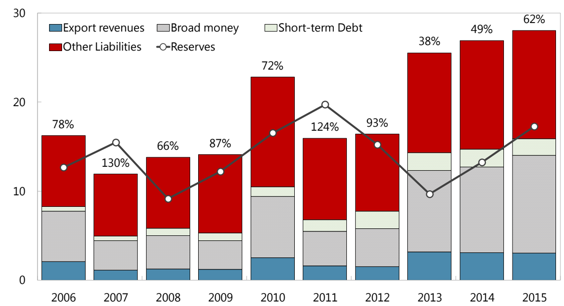


[2] Pakistan's fiscal year runs from July 1–June 30.

[3] For a macroeconomic assessment of CPEC, see Box 1 in Country Report 15/278.

3. **International reserve buffers are increasing amid a broadly stable current account deficit**. The current account deficit is expected to remain at about 1 percent of GDP this fiscal year as the lower oil import bill is partly offset by falling exports (8 percent, y-o-y), reflecting lower cotton prices, security concerns, continued (though declining) power outages, the still unfavorable business climate, and significant real exchange rate appreciation over the past two years (17 percent). Growth in non-oil imports, in part linked to the weak cotton harvest, and a more moderate growth in remittances are also weighing on the current account. Gross international reserves have been steadily increasing and stood at $15.9 billion in December 2015, covering four months of imports or 62 percent of the ARA metric.[4] Further progress remains warranted and is expected, with reserves projected to reach US$17.5 billion by end-FY 2015/16 (75 percent of the IMF's ARA metric).

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



Sources: Pakistani authorities; and IMF staff calculations.

1/ The IMF composite mertic is a weigted sum of exports, short-term debt at remaining maturity, other external liabilities, and broad money. Bars display the dollar equivalent of the ARA metric by each of its components. Reserves levels are considered to be adequate when they range between 100 and 150 percent of the ARA metric.

4. **Financial indicators remain sound**. The banking system has remained profitable and well-capitalized. Nonperforming loans (NPLs), while still elevated, decreased to 11.4 percent in December 2015. Private sector credit growth has recovered to 8.6 percent in December 2015. Despite this overall favorable picture, two banks have fallen below the minimum Capital Adequacy Requirement (CAR) and two other banks are still below the minimum capital requirement (MCR), and the authorities are addressing these shortfalls.

5. **There are a number of risks to this outlook**. Further appreciation of the U.S. dollar, in combination with limited variation of the rupee's exchange rate, could further erode export competitiveness.[5] A protracted period of slower growth in key advanced and emerging market economies (including China and the Gulf Cooperation Council) could affect exports, remittances, and FDI, and a more difficult international financial market environment could have an adverse impact on capital flows. Domestically, slippages in policy implementation, delays in the agenda to restructure or privatize PSEs, ongoing legal challenges to electricity surcharges and revenue measures, and the still difficult political and security conditions could affect economic activity and undermine fiscal consolidation efforts. Conversely, fast implementation of CPEC projects and further improvements in the security situation could boost investment and growth, and the removal of international sanctions against Iran has brought new opportunities for strengthening medium-term energy supply to Pakistan.

[4] This compares with an ARA metric of 38 percent at the onset of the program in 2013.

[5] As part of the external sector assessment for the recent Article IV consultation, a number of models were used to assess Pakistan's real effective exchange rate. Model estimates are imprecise and show significant variation, thus being only indicative. They point to overvaluation of the real effective exchange rate of between 5 and 20 percent (Country Report 16/1).

6. **Despite some setbacks to structural reforms, program performance has remained satisfactory**:

- **Fiscal performance** in the first half of FY 2015/16 was in line with the program targets, with overperformance in some important areas. The performance criterion (PC) on the general government budget deficit (excluding grants) was met with a comfortable margin of PRs 84 billion (about 0.3 percent of GDP) as the authorities kept expenditures under control. Revenue growth accelerated from 11.6 percent year-on-year in the first quarter of FY 2015/16 to 23.8 percent in the second quarter and made up most of the first quarter's shortfall. With this, tax collections by the Federal Board of Revenue (FBR) missed the program indicative target (IT) for end-December 2015 only by a nominal margin (about PRs 5 billion or 0.02 percent of GDP). The authorities met the IT on targeted cash transfers through the Benazir Income Support Program (BISP) and expanded the program's coverage to 5.21 million beneficiaries by end-December 2015. The end-December 2015 IT on accumulation of power sector arrears was met with significant margin, as there was no new net accumulation of arrears last quarter, helped by lower oil prices, improvements in collections, and containment of losses.

- **Monetary performance** was strong in Q2 FY 2015/16. The end-December PC on net international reserves (NIR) was met by a comfortable margin of US$273 million, helped by multilateral disbursements and market financing, together with SBP spot purchases of US$600 million. The SBP's net short position of swap/forward contracts also remained at the program ceiling (US$1.65 billion). During the second quarter, the government continued to shift its budget financing away from the SBP, by attracting US$400 million in Sukuk issuance, and increasing the use of long-term bonds. As a result, government borrowing from the SBP remained well below the end-December 2015 ceiling (by about PRs 343 billion). Helped by this development, the stock of net domestic assets (NDA) remained PRs 137 billion below the program target in December 2015.

- **Progress with achieving the program's structural benchmarks (SBs) has faced some difficulties**. Supporting the new risk-based tax auditing policy, the FBR put in place a comprehensive audit monitoring system with quantitative performance criteria and qualitative audit indicators (end-December 2015 SB). The end-January 2016 SB to prepare and submit to the National Assembly draft legislation against "benami" transactions was also met.[6] Similarly, the SBs to enact the Securities Bill and amendments to the penal code and the code of criminal procedures were met, as was the SB to develop specific measures to improve the business climate. However, after the Senate repealed the Presidential Ordinance

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

corporatizing PIA, seeking expressions of interest for a minority stake in PIA has not been possible (missed December 2015 SB), and in a climate of political opposition and widespread labor unrest, plans for restructuring/privatization of ailing PSEs have been set back, with implications also for planned energy sector reforms (¶24, 26). Multi-year tariffs for two distribution companies, IESCO and LESCO, were determined in February and March 2016, respectively, missing the end-January 2016 SB by a few weeks. Following a small delay (missed end-February 2016 SB), enactment of the Gas (Theft Control and Recovery) Ordinance is a prior action for this review. Regarding the expansion of tax crimes to be covered under AML legislation, the authorities represented that this can be done without further legal amendments (missed end-January SB), and will be implemented by mid-May 2016 (modified SB; ¶22).

7. **The authorities remain committed to the Fund-supported program but continue to face significant challenges**. These include political obstacles in implementing key structural reforms, notably in the area of PSE restructuring/privatization. Labor unrest, legal challenges to energy reforms and tax measures, and the government's lack of majority in the Senate are constraining progress. The security situation has improved but remains fragile with amid fallout from terrorist attacks and ongoing anti-terrorist operations.

POLICY DEVELOPMENTS

Discussions focused on fiscal performance, saving the windfall from low oil prices to further strengthen external buffers, progress with strengthening the energy and financial sectors, and structural reforms, including in restructuring or privatizing ailing PSEs and strengthening the business climate.

A. Fiscal Policy

8. **Staff welcomed the ongoing commitment to maintain fiscal consolidation in FY 2015/16 and over the medium term**. At about 65 percent of GDP, public debt has remained high. To put the debt-to-GDP ratio on a firm downward trajectory, build fiscal buffers against adverse shocks, safeguard macroeconomic stability, and set the stage for sustainable and inclusive growth, the authorities are determined to lower the budget deficit (excluding grants) to 4.3 percent of GDP in the current fiscal year and to 3½ percent in FY 2016/17, mainly through revenue mobilization and expenditure rationalization across all layers of the general government.

9. **The budget deficit target in the current fiscal year remains attainable, against emerging downside risks**. Tax collection significantly strengthened in the second quarter and is slated to further benefit from the full-year effect of recent revenue measures, including increases in petroleum taxes and the introduction of regulatory duties and excises on a variety of products. Nonetheless, the further decline in international commodity prices and underperformance in the

collection of Gas Infrastructure Development Cess (GIDC) constitute downside risks.[7] To keep fiscal performance on track, the authorities plan to continue managing budgetary spending prudently and ensuring the agreed contribution of provinces to fiscal consolidation.

10. **Continued tax administration reforms are important for further improving tax compliance and supporting revenue mobilization**. With the objective of raising the tax-to-GDP ratio to 14.5 percent by FY 2019/20, the authorities plan to (i) further streamline tax concessions and exemptions, (ii) modernize the GST on goods and services in close coordination with provincial revenue authorities, (iii) start publishing the stock of outstanding tax refund claims and step up the processing of GST refunds (MEFP ¶14), (iv) accelerate the implementation of risk-based auditing, including the initiation of income tax audits for high net worth individuals (new end-March 2016 SB; MEFP ¶16), (v) ensure data matching between domestic taxes and customs to identify noncompliant taxpayers and minimize under-declarations, (vi) continue to work with the provinces to build a centralized fiscal cadastre to introduce market value-based real estate tax, (vii) continue to take governance and anti-corruption measures at the FBR, including by establishing communications platforms to facilitate public reporting of corrupt practices in tax administration (new end-April 2016 SB; MEFP ¶17), (viii) seek parliamentary ratification of the legislation against "benami" transactions, and (ix) establish a tax policy research and analysis unit.

11. **The government will ensure that the "voluntary tax compliance scheme" for traders does not alter the level playing field for all taxpayers**. The authorities introduced a four-year special schedule of simplified income tax assessment of traders aimed at inducing them to enter the tax net. The authorities will not apply the scheme in cases where evidence of tax evasion or mis-declaration is available and make sure that the scheme does not discriminate against law-abiding taxpayers or create expectations for future tax amnesty schemes, as, in the international experience, such schemes often do not yield significant gains in widening the tax base.

12. **Planned amendments to the Fiscal Responsibility and Debt Limitation (FRDL) Act will provide additional policy guidance and anchor debt sustainability**. Pakistan's fiscal responsibility framework has a number of important elements, but the current set of fiscal rules has not been able to effectively guide policymaking and deliver debt reduction as planned. Accordingly, in line with the recommendations of recent Fund TA, staff called for a comprehensive overhaul of the FRDL Act to introduce more effective fiscal policy rules at the general government level. As some of the recommendations may require a constitutional amendment, however, the authorities opted for more limited modifications of the Act by submitting to the National Assembly by end-May 2016 (new SB) amendments to the FRDL to adopt:

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[7] The fiscal impact of lower international oil prices is negative (unless tax rates on petroleum products are adjusted to compensate for the revenue shortfall), as Pakistan relies significantly on petroleum-related tax revenues and budgetary energy subsidies do not change during the year with oil price fluctuations.

- A limit on the federal government budget deficit of 4 percent of GDP excluding foreign grants during the period FY 2017/18–FY 2019/20, and 3½ percent of GDP thereafter;

- A continuation of the limit on public debt (as defined in the existing FRDL Act) of 60 percent of GDP until FY 2017/18, and subsequently a 15-year transition path toward a debt-to-GDP ratio of 50 percent;

- Clearly defined escape clauses with an unambiguous guidelines on the interpretation and determination of events such as national security and natural disasters; and

- Explicit enforcement procedures and corrective mechanisms, such as the maximum time during which the rule can be suspended and the treatment of deviations.

13. **The authorities continue to strengthen policy coordination between federal and provincial governments**. In the current round of National Finance Commission (NFC) negotiations, the authorities will seek an agreement with provinces 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. The authorities will seek to establish a Fiscal Coordination Committee comprising all provincial and federal finance secretaries to meet on quarterly basis with the responsibility of coordinating fiscal policy at the national level.

14. **Introducing a national framework for public-private partnerships (PPPs) will help manage fiscal risks**. The authorities are planning to make greater use of PPPs for infrastructure projects, which will require appropriate fiscal reporting and management of contingent liabilities. In line with international good practices and the recommendations of the recent Fund TA, the authorities plan to put in place a robust legal and institutional framework for PPPs and submit draft legislation to the National Assembly by end-April 2016 (new SB) to ensure that PPPs are used only when they offer value for money and that they are systematically included in the overall budget process and medium-term planning exercise, with a gatekeeper role for the Ministry of Finance.

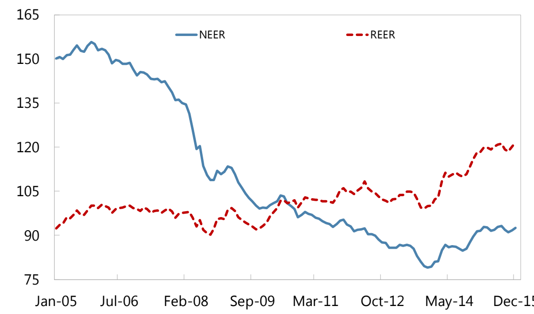
15. **Staff welcomes further progress in expanding the coverage and the size of targeted cash transfers to support the poor and most vulnerable through the BISP**. The coverage of the BISP program continues to expand in order to progressively include indentified poor households. It reached 5.21 million beneficiaries in December 2015 and is on track to reach 5.3 million beneficiaries by end-June 2016. Quarterly stipends were increased from PRs 4,500 to PRs 4,700 in order to protect beneficiaries' purchasing power, with the additional amount met by donor support. The coverage of education conditional cash transfers (CCT) was increased to more than 1 million children at end-December 2015, and the authorities are on track to expand the CCT coverage to 1.3 million children by end-June 2016. The authorities are planning to further strengthen the targeting and the efficiency of the BISP by updating the BISP beneficiary identification database on the basis of a new survey to be launched by June 2016.

16. **Enhancing the quality and effectiveness of public debt management remains a priority**. Efforts continue to diversify financing from domestic and external sources and further lengthen the maturity profile. The DPCO, following its reorganization as a middle office, published an updated MTDS in early March 2016. Implementation of the MTDS should lead to savings in, and more effective decision-making for, government borrowing.

B. Monetary and Exchange Rate Policies

17. **Staff welcomed the authorities' continued commitment to strengthen external buffers and further mitigate external vulnerabilities**. The authorities plan to further bolster foreign exchange reserves, including by continuing with the SBP's spot purchases and taking advantage of the oil windfall. Staff noted that further accumulation could also help arrest further appreciation of the real effective exchange rate, which has been affecting competitiveness.[8]

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



Sources: Pakistani authorities; and IMF staff calculations.

18. **The authorities are committed to maintaining a prudent monetary policy stance**. The SBP's monetary policy stance has been adequate and in line with the program's objectives. Anchoring low inflation expectations and protecting achievements in supporting stable financial conditions require continued vigilance and prudent monetary policy. The SBP intends to maintain positive real interest rates, consistent with the program's monetary targets, and to continue setting the policy rate in a forward-looking fashion. The SBP continues to monitor the impact from the withholding tax on financial transactions on liquidity conditions, while remaining committed to the program's NDA targets. More broadly, continuation of fiscal discipline will remain important in supporting the SBP and further improving its credibility among market participants.

19. **Staff supports further strengthening the SBP's autonomy**. In line with the newly-adopted amendments to the SBP law, the authorities established an independent monetary policy committee (MPC), which held its first meeting in January. In support of further transparency in monetary policy setting, the authorities intend to publish the minutes of the MPC meetings (with adequate lags). The authorities intend to table further amendments to the SBP law that would address additional recommendations of the 2013 Safeguards Assessment, including in the areas of governance, financial autonomy of the SBP, and personal autonomy of its board members. To this end, they formed a committee to design, by end-June 2016, a time-bound legislative action plan for incorporating critical recommendations (MEFP ¶7). In the interim, they plan to put in place executive measures to further strengthen central bank autonomy. In particular, by end-March, 2016, the government will (i) issue an executive order to provide a financial guarantee to the SBP in case of any losses that are not covered by SBP's general reserves and recapitalize the bank should it

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

become necessary;[9] and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains (new SB).

C. Financial Sector Issues

20. **While two banks have become marginally undercapitalized, progress with strengthening bank capitalization is under way**. After the only previously remaining bank with a CAR shortfall was brought into regulatory compliance, two other small banks now have a marginal CAR shortfall.[10] These banks are expected to become CAR-compliant through, respectively, privatization and capital injection (MEFP ¶26). Staff stressed the need for the SBP to continue engaging with these banks and monitor their plans for remaining CAR-compliant thereafter. Two other small banks, while remaining CAR-compliant, are still below the minimum capital requirement, and the SBP is monitoring time-bound plans to bring them into regulatory compliance by June 2016 and December 2016, respectively.[11]

21. **Staff supports ongoing reforms to strengthen the financial sector**. The Deposit Protection Corporation (DPC) Act, in line with the core principles of the International Association of Deposit Insurers, is expected to be enacted by end-March 2016 (modified SB). Supported by IMF TA, the authorities are undertaking preparatory work to establish the corporate infrastructure of the DPC, which is expected to become operational by June 2016 (MEFP ¶29). Phased implementation of Basel III capital and liquidity standards is under way (MEFP ¶28). The authorities are also developing a framework for consolidated supervision of banking groups and strengthening the legal infrastructure for improved recovery of non-performing loans (MEFP ¶27). The Securities Bill (end-January 2016 SB) was already enacted in May 2015.

22. **Improving the anti-money laundering and combating the financing of terrorism (AML/CFT) framework remains key for financial stability and tax compliance** (MEFP ¶30). Parliament recently amended the AML Act to subject the proceeds of some tax crimes to AML legislation. The authorities plan to further expand the coverage of tax crimes under the AML Act, including income tax-related crimes. As authorization for the government to amend the schedule of tax crimes is already granted under the existing AML Act, the authorities do not plan to make further legal amendments (missed end-January SB) but rather to amend the schedule of the AML Act, by notification in the Federal Gazette, to include offenses under the income tax law as predicate offenses to money laundering (modified SB for May 15, 2016). In addition, they will continue

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

[10] The size of these two banks is about 1.4 percent of banking system assets (or 0.7 percent of GDP).

[11] These banks represent about 0.29 percent of banking sector assets (0.15 percent of GDP).

strengthening the effectiveness of the AML/CFT framework in line with international standards by bolstering the Financial Monitoring Unit's analytical capability and strengthening the effective implementation of relevant United Nations Security Council Resolutions to freeze the assets of terrorist individuals and organizations.

D. Structural Issues

Energy Sector

23. **The authorities overperformed in reducing the accumulation of arrears in the power sector in Q2 FY 2015/16**. The end-December 2015 IT on the accumulation of power sector arrears was met with a large margin, helped by lower oil prices, significant strengthening in collection rates, and some further loss reduction (MEFP ¶34). As a result, no new arrears were accumulated and the stock of arrears remained at PRs 326 billion. At end-December 2015, most distribution companies (DISCOs) had met their quarterly targets for collection and loss-reduction. In addition, the authorities enacted the amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 in January 2016 (SB), allowing to further strengthen governance in the power sector. Although there have been delays, the authorities are progressing with the multi-year tariff setting process for DISCOs, aimed at reducing uncertainty for investors and preparing for privatization (MEFP ¶38). The multi-year tariff for FESCO was determined in December 2015, and multi-year tariffs for IESCO and LESCO were determined with a small delay in February and March, 2016, respectively (end-January 2016 SB) reflecting delays in the submission of the petitions for tariff determination to the regulator due the finalization of DISCOs' investment plans. The authorities remain committed to notify the multi-year tariffs for all three companies by end-April 2016.

24. **Staff stressed the need to update the power sector arrears reduction plan in light of the delays in the planned privatization of DISCOs**. Recent social tensions and labor unrest have set back plans to privatize the DISCOs (¶26 and MEFP ¶45). As existing plans for the reduction of the stock of power sector arrears rest on these privatizations, staff underlined the need to review these plans and, if necessary, indentify an alternative strategy to reduce the existing stock of arrears. In the meantime, as a mitigating measure, the authorities proposed to tighten the indicative targets for arrears accumulation for end-March 2016 and end-June 2016 to further contain the build-up of the stock of arrears during the remainder of the program, and to tighten the fiscal deficit target by the amount of any overruns on arrears accumulation (through a new program adjustor).

25. **Regular gas tariff determination is important to ensure cost recovery and strengthen the regulatory framework**. Staff welcomed the authorities' commitment to resume semi-annual notification of gas tariffs in the next round and reset the tariff in July 2016, in order to ensure cost recovery and avoid the build-up of losses for gas companies due to delayed notification. A long-term liquefied Natural gas (LNG) import contract was finalized in December 2015, which would allow for larger LNG imports to meet domestic demand. The price of imported LNG continues to be fully passed through to consumers. More than two thirds of the conversion of existing domestic gas concessions to higher producer prices under the 2012 Policy was completed and the remaining ones

are being reviewed. Following a small delay, the Gas (Theft Control and Recovery) ordinance 2014 is expected to be enacted shortly by Parliament (missed end-February 2016 SB, and prior action) and will help improve governance in the gas sector.

Public Sector Enterprises

26. **Amid setbacks to the authorities' restructuring/privatization program, stepped-up efforts to improve PSEs' performance are needed** (MEFP ¶45). Parliamentary opposition and widespread strikes have significantly delayed the process of seeking strategic private sector participation in PIA. Following the Senate's repeal of the Presidential Ordinance corporatizing PIA, seeking expressions of interest for a minority stake in PIA has not been possible (missed December 2015 SB). The authorities remain committed to the process and are moving ahead with seeking parliamentary approval by mid-May 2016 (new SB) for legislation to corporatize PIA. In this environment, plans to privatize the DISCOs have also been set back, and the authorities will not be able to complete the bidding process for FESCO by June 2016 (SB). Staff also noted the significant delays in the planned sale of Pakistan Steel Mills (PSM). The authorities intend to expedite the ongoing discussions with the provincial government to which they offered the transfer of the company. Should the provincial government decline, the authorities intend to resume the privatization process and approve PSM's transaction structure by mid-May 2016. In view of the various delays in their restructuring/privatization plans, the authorities will step up efforts to contain financial losses of affected PSEs, including by strengthening their management, governance and operations, in order to reduce fiscal risks. Staff welcomed the progress in the restructuring of Pakistan Railways, including advancements in strengthening the company's freight operations and revenue performance.

Business climate and trade policy

27. **Staff welcomes the new country-wide strategy to improve the business climate recently developed by the authorities**. Pakistan's ranking in the World Bank Doing Business has declined from 136 in 2015 to 138 in 2016 (out of 189 countries). Important obstacles include barriers to creating new businesses, lengthy procedures for paying taxes, weaknesses in contract enforcement, limited access to credit, and the high costs of cross-border trade. Improving the business climate is urgently needed to foster private investment and support higher and more inclusive growth in Pakistan. In February, the authorities finalized a new country-wide reform strategy, supported by the World Bank, to strengthen the business climate (SB; MEFP ¶43). This new strategy defines specific time-bound measures to improve the business climate, including at the provincial level. As key aspects, it will focus on further easing procedures to start a new business and paying taxes, facilitating access to credit, and improving the regulatory framework. In parallel, a consultative process with key stakeholders has been started to simplify the import tariff structure by further reducing slabs from five to four by end-July 2016 (MEFP ¶44).

PROGRAM MODALITIES AND OTHER ISSUES

28. **The attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out their commitments**. The authorities propose establishment of end-June 2016 PCs. They also propose to modify the ceiling on the SBP's stock of net foreign currency swaps/forward position: the end-March ceiling is proposed to be raised from US$1.65 billion to US$2 billion. This increase would enable the SBP to better utilize commercial banks' foreign exchange deposits and manage domestic currency liquidity.

29. **Financing, program risks, and capacity to repay the Fund**. Pakistan's program financing needs are fully covered for the remainder of the program (end-June 2016), largely through disbursements of loans and grants from multilateral and bilateral creditors. The country's capacity to repay the Fund remains strong owing to supportive macroeconomic policy adjustments, firm (although slowing) remittance inflows, and growing foreign exchange reserves. Pakistan has access to international markets, which also helps reduce financing risks. The Fund's exposure to Pakistan increased with the purchase made upon completion of the ninth review, reaching the equivalent SDR 3.6 billion (Table 9). The Fund's exposure is expected to increase further over the next quarter as new disbursements take place (Table 11). While the short-term financing risk is limited given Pakistan's reserve buffer, the materialization of risks to the economic outlook, including potential spillovers from a more difficult international economic and financial environment, could erode Pakistan's capacity to repay to the Fund, particularly as the Fund exposure continues to increase.

30. **Safeguards Assessment**. An update safeguards assessment with respect to the current EFF was completed in December 2013. The assessment concluded that legal amendments are needed to strengthen the central bank's autonomy and governance arrangements. Accountability mechanisms, including the external audit were broadly effective, although the role and function of the audit committee could be enhanced. The authorities have implemented all safeguards recommendations, except legal amendments with respect to prohibition of government interference, enhancement of the financial autonomy of the SBP, creation of an executive board, and personal autonomy of executive board members (¶19).

STAFF APPRAISAL

31. **Economic stabilization is taking hold but the structural reform agenda has faced a number of setbacks**. Since 2013, the authorities' IMF-supported program has made significant progress in strengthening macroeconomic stability by reducing the budget deficit and, also helped by lower oil prices, rebuilding foreign exchange reserves. The authorities have also strengthened the monetary policy framework and began to roll out a number of important structural reforms. Social protection under BISP continues to expand and energy sector reforms have slowed down the accumulation of power sector arrears and reduced power outages across the country. The various setbacks to the privatization agenda are unfortunate, and the authorities' stronger focus on

containing PSE losses in the interim is appropriate. Despite some missed or delayed SBs, program implementation has remained satisfactory.

32. **Further progress will be needed to make the economy more resilient and competitive to generate strong and inclusive growth**. Real GDP growth is expected to increase to about 4.5 percent this fiscal year, the highest rate in eight years—but still well below the growth rates needed to create enough jobs to absorb new entrants into the labor market and achieve improvements in living standards for wide segments of society. Low international oil prices provide a unique opportunity to continue strengthening foreign exchange reserves, but the decline in other commodity prices poses challenges, as it hurts already subdued commodity-based exports. Further fiscal consolidation is needed to improve debt sustainability and reinforce macroeconomic stability as precondition for more sustainable and higher private sector-led growth. Important priorities include further widening the tax net, completing the energy sector reform, restructuring or privatizing loss-making public enterprises, improving the business climate and competitiveness, and fostering financial sector stability and development. Completing this agenda will extend well beyond the current EFF-supported program.

33. **Continued efforts to widen the tax net should drive the planned fiscal consolidation**. Fiscal performance in the second quarter was strong, and end-year targets are within reach. Amid downside risks to revenue collection, the authorities' focus on managing budgetary spending prudently, in close coordination with the provinces, is welcome. Likewise, the authorities' targeted fiscal deficit for FY 2016/17 of 3½ percent of GDP remains adequate. The authorities' commitment to raise the tax-to-GDP ratio to 14.5 percent in the medium term remains highly pertinent given that, despite progress under the program, revenue remains much too low to allow for sustained increases in infrastructure investment and social spending. To improve fairness of the tax system and mitigate economic distortions, additional revenue should be raised mainly by widening the tax net while avoiding tax amnesty schemes. 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 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. The planned PPP framework and amendments to the fiscal responsibility legislation, along with the authorities' continued strong focus on tax administration reform, are highly welcomed.

34. **The authorities should continue maintaining a prudent monetary policy and further strengthen central bank autonomy**. The authorities should continue with their efforts to swiftly build reserve buffers while allowing for exchange rate flexibility. This will strengthen financial resilience while countering further appreciation of the real effective exchange rate, which has been affecting competitiveness. The monetary policy stance has been appropriate and the authorities should continue to target clearly positive real interest rates while remaining vigilant for any signs of additional inflationary pressures amid increased global financial market volatility. The establishment of an independent MPC has been a major step in advancing central bank autonomy. Further strengthening the SBP's autonomy by addressing remaining critical recommendations of the 2013

Safeguards Assessment through legislative changes will be important, and interim steps, including administrative measures to strengthen the SBP's autonomy, are welcome.

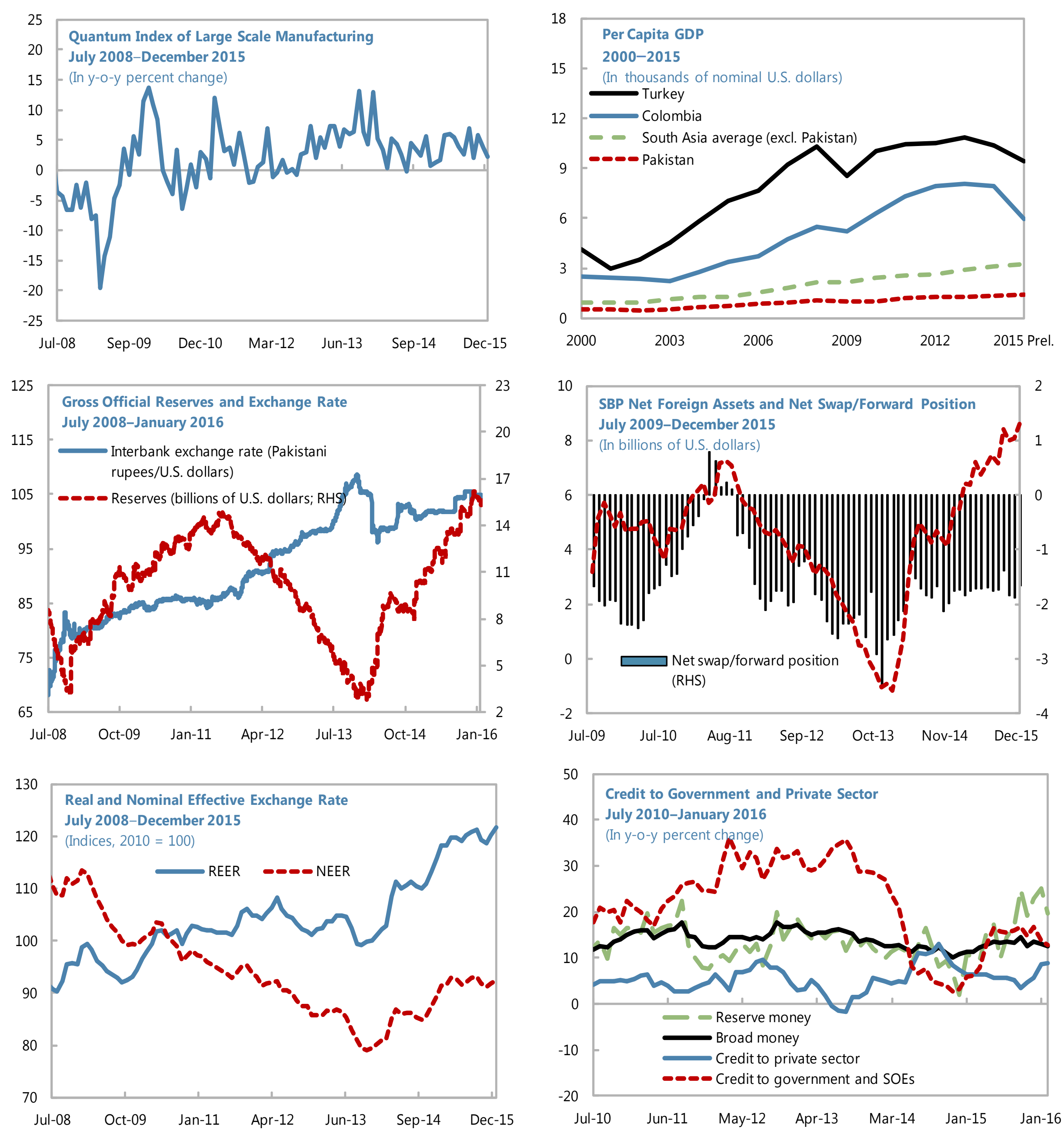
35. **Continued reform progress is needed to reinforce financial sector resilience**. Progress with strengthening banks that are below regulatory capital requirements is encouraging, and continued resolve is needed to bring all banks into regulatory compliance. Further bolstering regulatory and supervisory frameworks, instituting the deposit insurance scheme, improving contingency planning, and enhancing consolidated supervision are needed to reinforce financial sector stability. 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. Further increasing the scope of tax crimes covered under the AML Act remains a priority to improve the efficiency of AML framework and the ability to fight tax evasion. Similarly, ongoing efforts to strengthen the CFT framework should continue, including strengthening the implementation of relevant United Nations Security Council Resolutions.

36. **Loss-making PSEs continue to pose fiscal risks and impair the efficiency of Pakistan's economy**. Despite the various setbacks to the authorities' agenda, restructuring or privatizing ailing PSEs remains a priority and requires strong resolve to build consensus and put these companies on a stable and sustainable path. In view of the delays in the planned privatization of DISCOs, the arrears reduction plan in the power sector should be reviewed to identify alternative strategies as needed. Staff welcomes the authorities' decision to tighten the indicative targets for arrears accumulation to further contain the build-up of arrears during the remainder of the program. Similarly, the authorities' additional focus to contain losses in PIA and PSM is appropriate.

37. **Advancing with business climate reforms is critical to improve competitiveness and boost potential growth**. The completion of a new strategy to improve the business climate has been a welcome first step. Moving ahead with its swift implementation will be important to generate the preconditions for high and more inclusive private sector-led growth, support job creation, and raise living standards.

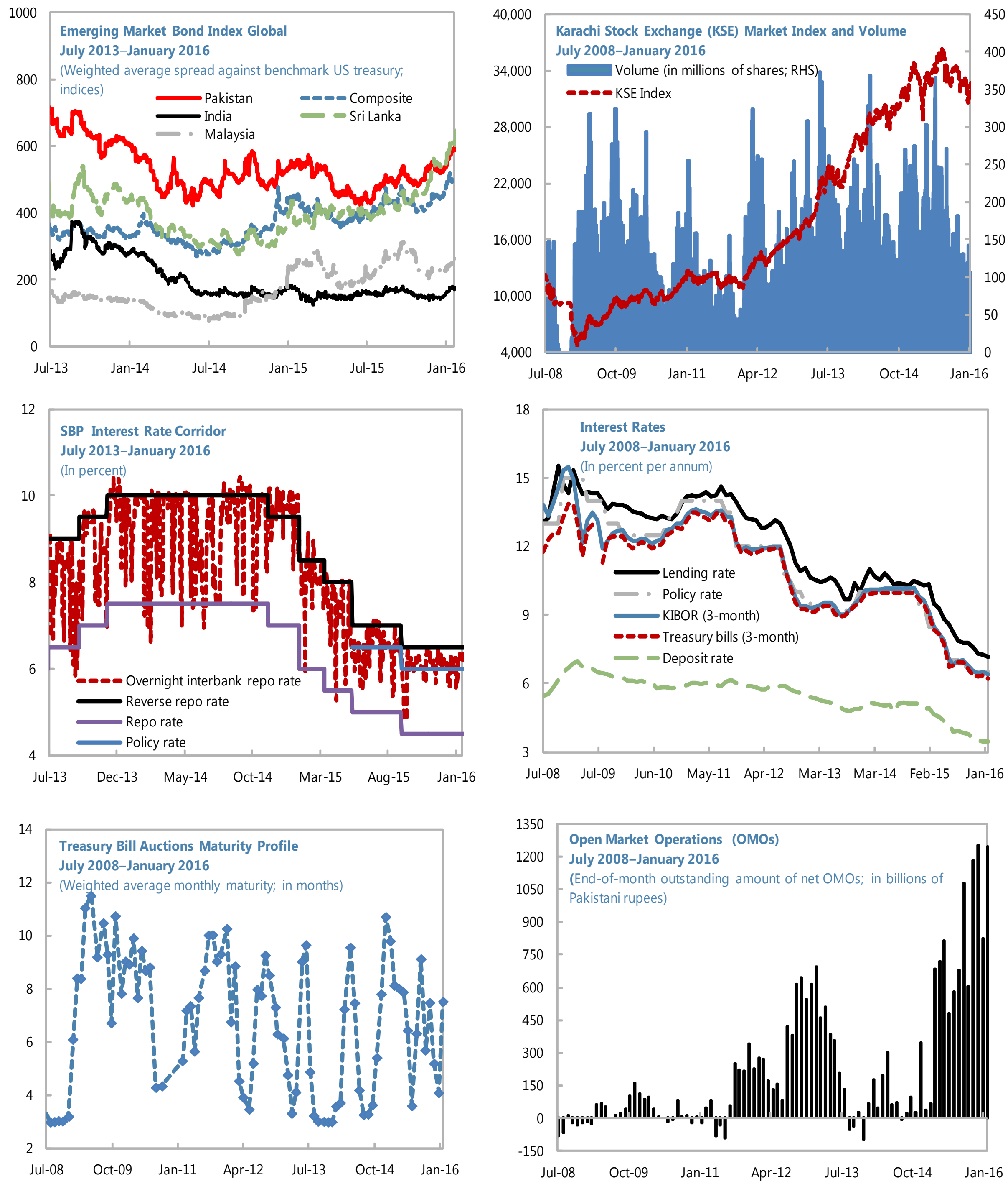
38. **On the basis of Pakistan's performance under the extended arrangement, staff supports the authorities' request for completion of the tenth review under the arrangement** and request for modification of the end-March PC on SBP's stock of net foreign currency swap/forward position. Staff also recommends the establishment of end-June 2016 PCs; setting of six new structural benchmarks (Table 2); and the modification and revision of the timeline of structural benchmarks as proposed in the attached MEFP.

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



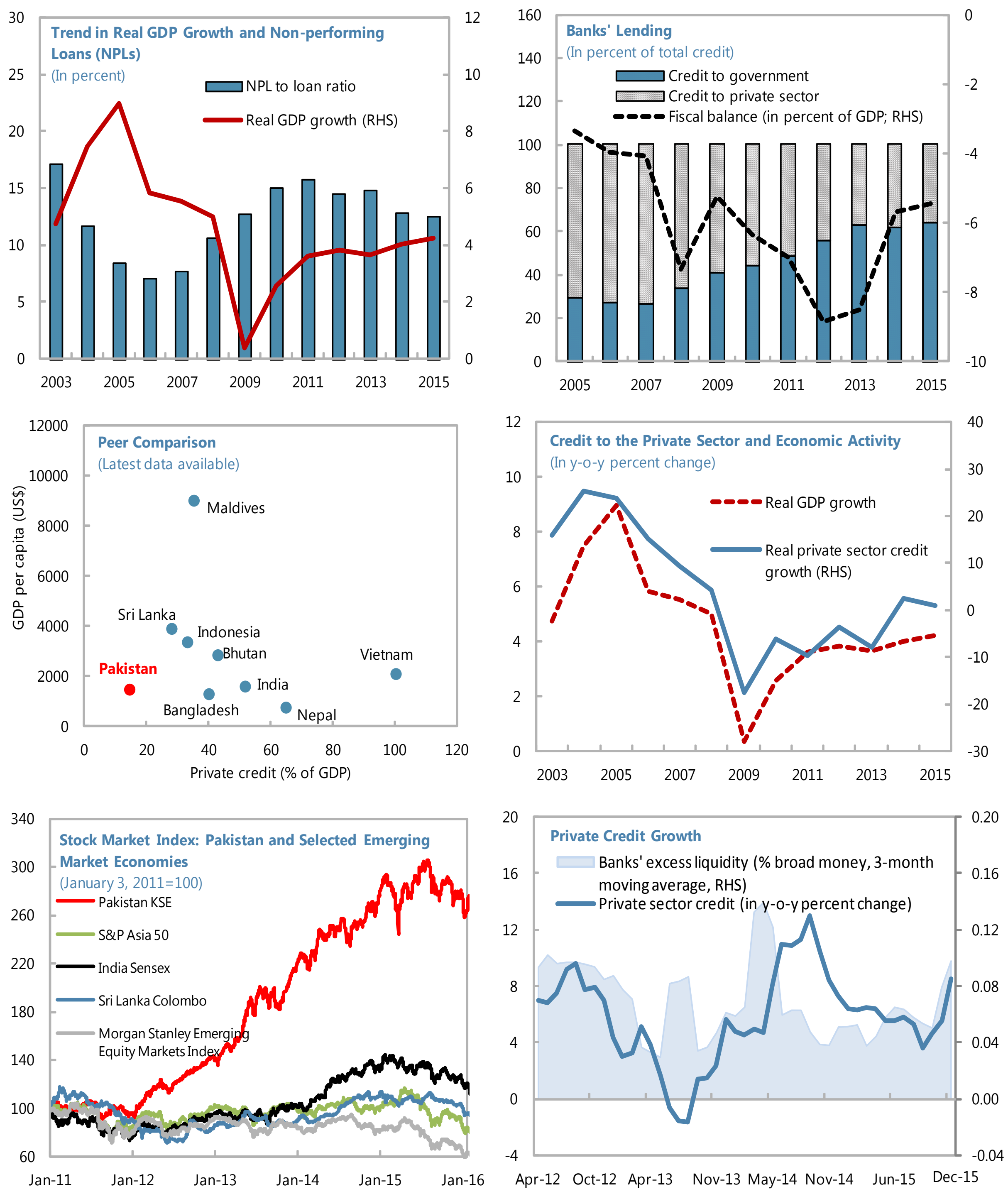
Sources: Pakistani authorities; IMF World Economic Outlook; and IMF staff calculations.

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



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/]

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

	FY2014/15	FY2015/16						
	end-June	end-September	end-December			end-March		end-June
						Program		
						Tenth Review		
			Target	Adj. Target	Actual	Target	Revised	
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	5,354	6,955	9,300	6,609	6,882	9,300	9,300	10,700
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,661	2,580	2,770	2,633	2,660	2,660	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	329	625	625	541	1,012	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,385	1,650	1,650	1,650	1,650	2,000	2,000
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,887	1,589	1,800	1,800	1,457	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	24	46	46	48	70	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	600	1,390	1,390	1,385	2,105	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	13	27	27	0	22	15	23

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, FY 2015–16

Item	Measure	Time Frame (by End of Period) 9th review	Time Frame (by End of Period) Revised/10th review	Status	Macroeconomic rationale
Prior Actions					
1	Enact the Gas (Theft Control and Recovery) Ordinance 2014.				Strengthen governance in the gas sector
Structural Benchmarks					
Fiscal sector					
1	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.
2	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.
3	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.
4	Prepare and submit to the National Assembly draft legislation against "benami" transactions.	end-January 2016		Met	Improve tax compliance and enforcement.
5	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		Met	Strengthen tax collection
Monetary sector					
6	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.
7	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.
Financial sector					
8	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
9	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-February 2016	end-March 2016		Enhance the resilience of the financial sector.
10	Enact the Credit Bureau Act.	end-November 2015		Met in August, 2015	Extend credit to broader sections of society.
11	Amend the schedule of the AML Act, by notification in the Federal Gazette, to include offenses under the income tax law as predicate offenses to money laundering (modified SB).	end-May 2016	May 15, 2016		Use anti money laundering tools to combat tax evasion.
12	Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU.	end-January 2016		Not met 1/	Use anti-money laundering tools to combat tax evasion.

Table 2. Pakistan: Program Modalities and Structural Benchmarks, FY 2015–16 (concluded)

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		9th review	Revised/10th review		
Structural Policies					
13	Solicit expressions of interest for strategic private sector participation for the 26 percent of PIA's shares.	end-December 2015		Not met	Restructure a key loss-making public sector enterprise
14	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.
15	Determine Multi-year tariffs for IESCO and LESCO.	end-January 2016		Not met, implemented in March 2016.	Prepare for DISCO privatization
16	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016			Prepare for DISCO privatization
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
19	Enact amendments to Penal Code 1860 and the Code of Criminal Procedures 1898.	end-January 2016		Met	Strengthen governance in the power sector
20	Enact the Gas (Theft Control and Recovery) Ordinance 2014.	end-February 2016		Not met, (prior action for this review)	Strengthen governance in the gas sector
21	Develop a new time-bound plan with specific measures to significantly improve the business climate.	end-February 2016		Met	Strengthen the business climate
New Structural Benchmarks					
1	(i) Issue an executive order to provide financial guarantee to the SBP in case of any losses that are not covered by SBP's general reserves and recapitalize the bank if it becomes necessary; and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains.		end-March 2016		Strengthen central bank independence
2	Identify 50 potential cases of high net worth individuals and other large taxpayers, based on established risk-based audits criteria, and initiate comprehensive income tax audit at least half of such cases		end-March 2016		Improve tax compliance and revenue collection.
3	Establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration.		end-April 2016		Improve governance in tax administration.
4	Submit amendments to the Fiscal Responsibility and Debt Limitation Act (as described in paragraph 18 of the MEFP) to the National Assembly.		end-May 2016		Strengthen the framework for fiscal responsibility.
5	Prepare and submit draft legislation for a PPP framework to the National Assembly.		end-April 2016		Strengthen the institutional framework for fiscal policy.
6	Obtain parliamentrary approval for amendments to the PIA Act.		May 15, 2016		Restructure a key loss-making public sector enterprise

1/ Parliamentary authorization for amending the schedule of tax crimes is already granted in existing AML Act.

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	
						Ninth 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	3.7	3.3
Consumer prices (period average)	13.7	11.0	7.4	8.6	4.5	3.7	3.3
Consumer prices (end of period)	13.3	11.3	5.9	8.2	3.2	4.5	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	14.4	14.2
Government	-4.2	-5.3	-5.2	-1.4	-1.6	-0.5	-0.2
Nongovernment (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	14.8	14.4
Gross capital formation 2/	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	3.7	3.9
Nongovernment (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.6	11.4
Public finances							
Revenue and grants	12.6	13.0	13.5	15.3	14.5	15.5	15.7
Expenditure (including statistical discrepancy)	19.6	22.0	21.9	19.9	19.2	19.6	19.8
Budget balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-4.1
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	0.2
Total general government debt	55.3	60.5	62.9	63.7	62.9	63.2	63.2
External general government debt	22.4	22.4	20.1	19.9	18.3	19.0	19.5
Domestic general government debt	32.9	38.1	42.8	43.8	44.5	44.2	43.7
	(Annual changes in percent of initial stock of broad money, unless otherwise indicated)						
Monetary sector							
Net foreign assets	4.1	-3.8	-3.4	3.7	2.1	1.9	2.0
Net domestic assets	11.8	17.9	19.3	8.8	11.1	10.1	9.5
Broad money (percent change)	15.9	14.1	15.9	12.5	13.2	12.0	11.5
Reserve money (percent change)	17.1	11.3	15.8	12.9	9.8	13.9	11.0
Private credit (percent change)	4.0	7.5	-0.6	11.0	5.6	10.7	10.5
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	-4.0	-8.0
Merchandise imports, U.S. dollars (percentage change)	14.9	12.8	-0.6	3.8	-0.9	-1.9	-5.6
Current account balance (in percent of GDP)	0.1	-2.1	-1.1	-1.3	-1.0	-0.9	-1.1
	(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	188.7	198.3
Debt service	13.4	16.2	21.6	23.5	21.9	24.9	26.0
Gross reserves (in millions of U.S. dollars) 3/	14,784	10,799	6,008	9,096	13,534	17,666	17,516
In months of next year's imports of goods and services	3.6	2.7	1.5	2.2	3.5	4.3	4.2
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	-10.1	-1.9	0.3	5.1	14.5	8.6
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	29,907	29,816
GDP at market prices (in billions of U.S. dollars)	213.6	224.4	231.1	243.4	270.0		

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

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

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

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19	2019/20
						Ninth 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	3.7	3.3	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	-0.9	-1.1	-1.6	-1.6	-1.7	-1.6
Government	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-4.1	-3.3	-2.9	-2.8	-2.5
Non-government (including public sector enterprises)	6.8	6.6	7.3	3.6	4.3	3.3	3.0	1.7	1.3	1.1	0.9
Gross national saving	14.2	13.0	13.9	13.7	14.1	14.4	14.2	14.1	14.4	14.9	15.4
Government	-4.2	-5.3	-5.2	-1.4	-1.6	-0.5	-0.2	0.4	1.1	1.4	2.1
Non-government (including public sector enterprises)	18.4	18.3	19.0	15.1	15.7	14.8	14.4	13.7	13.3	13.5	13.3
Gross capital formation	14.1	15.1	15.0	15.0	15.1	15.3	15.3	15.7	16.0	16.6	17.0
Government	2.5	3.4	3.2	3.5	3.7	3.7	3.9	3.7	4.0	4.2	4.6
Non-government (including public sector enterprises)	11.6	11.7	11.7	11.5	11.4	11.6	11.4	12.0	12.0	12.4	12.4
					(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	-2.6	-3.2	-4.8	-5.0	-5.7	-5.6
Net capital flows 1/	2.3	1.4	0.5	7.0	5.3	4.8	5.3	6.8	7.1	6.4	7.9
Of which: foreign direct investment 2/	1.6	0.7	1.3	1.6	0.8	0.9	1.3	3.5	4.3	5.3	7.0
Gross official reserves	14.8	10.8	6.0	9.1	13.5	17.7	17.5	19.6	21.5	21.9	23.4
In months of imports 3/	3.6	2.7	1.5	2.2	3.5	4.3	4.2	4.5	4.6	4.4	4.4
External debt (in percent of GDP)	31.1	29.2	26.3	26.9	24.1	25.4	25.6	25.6	24.7	23.1	21.3
Terms of trade (annual percentage change)	7.3	-10.1	-1.9	0.3	5.1	14.5	8.6	-2.4	-1.7	-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	15.5	15.7	16.3	16.7	17.2	17.7
Of which: tax revenue	9.5	10.4	10.0	10.5	11.0	12.2	12.3	12.8	13.4	13.9	14.5
Expenditure, *of which:*	19.3	21.7	21.8	20.2	19.8	19.6	19.8	19.6	19.7	20.0	20.2
Current	16.5	17.9	16.8	16.4	16.6	15.9	16.0	15.9	15.7	15.8	15.6
Development and net lending	2.6	3.5	5.0	4.0	3.8	3.7	3.9	3.7	4.0	4.2	4.6
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.1	0.2	1.2	1.4	1.4	1.3
Primary balance (excluding grants)	-3.2	-4.4	-4.1	-1.1	-0.7	0.0	-0.1	1.0	1.4	1.4	1.3
Overall fiscal balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.2	-4.1	-3.3	-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	64.4	65.0	65.0	63.6	61.3	59.0	56.1

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	Ninth Review	End-Year				
								Projections				
Current account	-3,130	-2,627	-351	-1,074	-871	-896	-2,624	-3,193	-4,769	-5,019	-5,652	-5,638
Balance on goods	-16,701	-17,318	-4,734	-4,574	-3,862	-3,779	-17,497	-16,949	-19,103	-20,161	-21,241	-21,373
Exports, f.o.b.	25,068	24,083	5,317	5,496	5,570	5,766	23,113	22,150	22,526	23,771	25,484	27,360
Imports, f.o.b.	41,769	41,401	10,051	10,070	9,432	9,546	40,610	39,099	41,629	43,932	46,725	48,734
Services (net)	-2,551	-2,842	-146	-803	-974	-1,001	-1,987	-2,923	-3,335	-3,546	-3,949	-4,665
Services: credit	5,322	5,876	1,690	1,090	1,049	1,125	5,181	4,955	4,592	5,101	5,519	5,848
Of which: Coalition Support Fund	1,050	1,452	713	0	175	175	1,238	1,063	175	0	0	0
Services: debit	7,873	8,718	1,836	1,893	2,023	2,126	7,167	7,878	7,927	8,647	9,468	10,513
Income (net)	-3,943	-4,565	-990	-1,455	-1,228	-1,521	-5,214	-5,193	-5,457	-5,963	-6,686	-7,227
Income: credit	541	681	118	162	206	258	832	744	528	647	630	1,085
Income: debit	4,484	5,246	1,108	1,617	1,434	1,779	6,046	5,937	5,986	6,609	7,316	8,312
Of which: interest payments	1,552	1,936	355	665	542	638	2,342	2,199	2,196	2,476	2,748	2,905
Of which: income on direct investment	2,932	3,308	752	947	892	1,141	3,702	3,732	3,789	4,133	4,567	5,408
Balance on goods, services, and income	-23,195	-24,725	-5,870	-6,832	-6,064	-6,300	-24,698	-25,066	-27,895	-29,669	-31,876	-33,265
Current transfers (net)	20,065	22,098	5,518	5,758	5,193	5,405	22,074	21,873	23,126	24,651	26,224	27,628
Current transfers: credit, *of which:*	20,222	22,337	5,557	5,782	5,223	5,433	22,160	21,995	23,285	24,810	26,383	27,787
Official	380	349	76	211	114	114	346	515	381	371	423	179
Workers' remittances	15,837	18,720	4,967	4,769	4,656	4,897	19,573	19,289	20,568	21,946	23,312	24,792
Other private transfers	4,005	3,268	514	802	452	422	2,240	2,191	2,336	2,493	2,648	2,816
Current transfers: debit	157	239	39	24	30	29	86	122	159	159	159	159
Capital account	1,857	378	108	88	103	144	376	443	624	255	138	64
Capital transfers: credit	1,857	378	108	95	103	144	376	450	624	255	138	64
Of which: official capital grants	352	367	106	92	103	144	371	445	624	255	138	64
Capital transfers: debit	0	0	0	7	0	0	0	7	0	0	0	0
Financial account	5,553	5,004	1,300	1,727	2	2,172	4,308	5,202	6,128	6,860	6,255	7,791
Direct investment abroad	-128	-72	-5	-1	-22	-22	-72	-51	-62	-65	-65	-65
Direct investment in Pakistan	1,700	852	248	376	311	427	993	1,361	3,522	4,321	5,405	7,025
Of which: privatization receipts	310	764	0	0	0	0	0	0	0	0	0	0
Portfolio investment (net), *of which:*	2,760	1,903	380	-154	-600	364	272	-10	440	858	157	-17
Financial derivatives (net)	0	0	0	0	0	0	0	0	0	0	0	0
Other investment assets	211	102	353	-404	-121	-74	16	-246	159	640	1,100	900
Monetary authorities	0	0	0	0	0	0	0	0	0	0	0	0
General government	5	-31	-2	4	0	0	3	2	0	0	0	0
Banks	8	-63	235	-258	-88	14	-19	-97	300	300	300	300
Other sectors	198	196	120	-150	-33	-88	32	-151	-141	340	800	600
Other investment liabilities	1,010	2,219	324	1,911	435	1,478	3,099	4,148	2,069	1,106	-342	-52
Monetary authorities	146	563	3	0	0	0	3	3	0	0	0	0
General government, *of which:*	1,610	893	262	1,321	471	1,436	2,736	3,490	1,358	565	-782	-871
Disbursements	4,349	3,704	1,176	2,133	1,635	2,495	6,356	7,440	6,301	5,283	3,548	3,677
Amortization	2,734	2,809	914	812	1,164	1,060	3,954	3,950	4,943	4,717	4,330	4,548
Banks	-293	480	265	503	110	183	848	1,061	600	600	600	600
Other sectors	-453	283	-206	87	-147	-141	-472	-406	111	-60	-160	220
Net errors and omissions	-422	-119	187	-527	0	0	111	-340	0	0	0	0
Reserves and related items	-3,858	-2,636	-1,244	-214	766	-1,421	-2,170	-2,113	-1,983	-2,097	-741	-2,217
Reserve assets	-3,285	-4,230	-1,689	-703	278	-1,909	-4,100	-4,023	-2,043	-1,971	-324	-1,508
Use of Fund credit and loans	-573	1,594	445	489	488	489	1,930	1,910	60	-126	-417	-709
Memorandum items:												
Current account (in percent of GDP)	-1.3	-1.0					-0.9	-1.1	-1.6	-1.6	-1.7	-1.6
Current account (in percent of GDP; excluding fuel imports)	4.8	3.5					2.7	1.7	1.4	1.4	1.3	1.4
Exports f.o.b. (growth rate, in percent)	1.1	-3.9					-4.0	-8.0	1.7	5.5	7.2	7.4
Imports f.o.b. (growth rate, in percent)	3.8	-0.9					-1.9	-5.6	6.5	5.5	6.4	4.3
Oil imports (in million US$, cif)	14,774	12,155					10,304	7,902	8,782	9,527	10,099	10,697
Terms of trade (growth rate, in percent)	0.3	5.1					14.5	8.6	-2.4	-1.7	0	0
External debt (in millions of U.S. dollars)	65,365	65,147					70,192	71,915	75,572	77,965	77,885	77,329
Gross external financing needs (in millions of U.S. dollars) 1/	8,713	7,262					7,340	8,044	10,701	10,350	13,323	13,034
End-period gross official reserves (millions of U.S. dollars) 2/	9,096	13,534	15,247	15,886	...	...	17,666	17,516	19,559	21,530	21,854	23,362
(In months of next year's imports of goods and services)	2.2	3.5	3.9	4.0	...	...	4.3	4.2	4.5	4.6	4.4	4.4
GDP (in millions of U.S. dollars)	243,383	269,971	...	...	...	...						

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

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

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

Table 6a. Pakistan: General Government Budget, 2008/09–2015/16
(In billions of Pakistani rupees)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	
								Ninth Review	Projection
Revenue and grants	1,878	2,130	2,306	2,611	3,011	3,837	3,984	4,623	4,694
Revenue	1,851	2,079	2,261	2,567	2,982	3,631	3,937	4,583	4,623
Tax revenue	1,331	1,500	1,738	2,076	2,231	2,640	3,024	3,634	3,655
Federal	1,285	1,445	1,673	1,969	2,081	2,450	2,818	3,389	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	1,289	1,288
Federal excise duty	116	121	137	122	119	145	170	182	183
Sales tax/VAT	452	517	633	809	841	1,002	1,089	1,272	1,257
Customs duties	148	162	185	218	240	241	306	361	376
Petroleum surcharge	112	89	83	60	110	104	131	135	135
Gas surcharge and other	16	28	32	27	35	43	35	34	34
GIDC	0.0	0.0	0.0	0.0	0.0	32	57	116	116
Provincial	46	55	65	107	151	190	206	245	266
Nontax revenue	520	579	523	491	751	990	913	949	968
Federal	436	511	461	443	680	941	838	873	873
Provincial	84	68	62	48	71	49	76	76	95
Grants	27	50	46	45	29	206	47	40	71
Expenditure	2,544	3,024	3,536	4,341	4,885	5,058	5,426	5,875	5,915
Current expenditure	2,093	2,481	3,012	3,579	3,757	4,123	4,556	4,764	4,761
Federal	1,547	1,853	2,227	2,611	2,647	2,950	3,169	3,289	3,250
Interest	638	642	698	889	991	1,148	1,304	1,286	1,277
Domestic	559	578	630	821	920	1,073	1,208	1,174	1,162
Foreign	79	64	68	68	71	75	96	111	114
Other	909	1,211	1,529	1,722	1,656	1,802	1,866	2,004	1,974
Defense	330	375	450	507	541	623	698	781	781
Other	579	836	1,078	1,215	1,116	1,179	1,168	1,222	1,193
Of which: subsidies 1/	244	227	493	556	368	336	265	175	170
Of which: grants	136	359	259	291	305	372	401	501	476
Provincial	546	627	786	968	1,110	1,173	1,387	1,475	1,510
Development expenditure and net lending	417	571	477	696	1,112	997	1,047	1,111	1,155
Public Sector Development Program	398	518	465	675	721	878	1,013	1,111	1,155
Federal	196	260	216	299	348	435	489	611	620
Provincial	202	258	249	376	373	443	524	500	535
Net lending	20	53	12	21	391	119	34	0	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	-1,292	-1,292
Overall Balance (including grants)	-666	-894	-1,230	-1,730	-1,873	-1,221	-1,442	-1,252	-1,221
Financing	666	894	1,230	1,730	1873	1,221	1,442	1,252	1,221
External	86	158	144	60	38	351	166	308	421
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	945	800
Bank	353	305	614	1,140	1457	322	910	661	560
Nonbank	227	431	471	529	378	548	366	283	240
Memorandum items:									
Primary balance (excluding grants)	-56	-302	-577	-886	-912	-279	-185	-6	-15
Primary balance (including grants)	-28	-252	-532	-841	-882	-73	-138	33	55
Total security spending	330	375	450	507	541	623	698	781	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	17,217	18,911	18,846
Domestic debt	3,860	4,654	6,017	7,638	9,571	10,974	12,199	13,231	13,027
External debt	3,527	3,794	4,098	4,492	4,500	4,991	5,018	5,680	5,819
Total government debt including guarantees	...	9,051	10,693	12,662	14,697	16,525	17,853	...	...
Total government debt including IMF obligations	7,805	9,138	10,882	12,822	14,504	16,263	17,635	19,451	19,378
Nominal GDP (market prices)	13,200	14,867	18,276	20,047	22,379	25,068	27,384	29,907	29,816

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

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

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	
							Ninth Review	Projection
Revenue and grants	14.3	12.6	13.0	13.5	15.3	14.5	15.5	15.7
Revenue	14.0	12.4	12.8	13.3	14.5	14.4	15.3	15.5
Tax revenue	10.1	9.5	10.4	10.0	10.5	11.0	12.2	12.3
Federal	9.7	9.2	9.8	9.3	9.8	10.3	11.3	11.4
FBR revenue	8.9	8.5	9.4	8.7	9.1	9.5	10.4	10.4
Direct taxes	3.6	3.3	3.7	3.3	3.5	3.8	4.3	4.3
Federal excise duty	0.8	0.8	0.6	0.5	0.6	0.6	0.6	0.6
Sales tax	3.5	3.5	4.0	3.8	4.0	4.0	4.3	4.2
Customs duties	1.1	1.0	1.1	1.1	1.0	1.1	1.2	1.3
Petroleum surcharge / Carbon tax	0.6	0.5	0.3	0.5	0.4	0.5	0.5	0.5
Gas surcharge and other	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1
GIDC	…	…	…	…	0.1	0.2	0.4	0.4
Provincial	0.4	0.4	0.5	0.7	0.8	0.8	0.8	0.9
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	0.2
Expenditure	20.3	19.3	21.7	21.8	20.2	19.8	19.6	19.8
Current expenditure	16.7	16.5	17.9	16.8	16.4	16.6	15.9	16.0
Federal	12.5	12.2	13.0	11.8	11.8	11.6	11.0	10.9
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	6.6
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	4.0
Of which: subsidies 1/	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	1.6
Provincial	4.2	4.3	4.8	5.0	4.7	5.1	4.9	5.1
Development expenditure and net lending	3.8	2.6	3.5	5.0	4.0	3.8	3.7	3.9
Public Sector Development Program	3.5	2.5	3.4	3.2	3.5	3.7	3.7	3.9
Federal	1.7	1.2	1.5	1.6	1.7	1.8	2.0	2.1
Provincial	1.7	1.4	1.9	1.7	1.8	1.9	1.7	1.8
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	-4.1
Financing	6.0	6.7	8.6	8.4	4.9	5.3	4.2	4.1
External	1.1	0.8	0.3	0.2	1.4	0.6	1.0	1.4
Of which: privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	4.9	5.9	8.3	8.2	3.5	4.7	3.2	2.7
Bank	2.1	3.4	5.7	6.5	1.3	3.3	2.2	1.9
Nonbank	2.9	2.6	2.6	1.7	2.2	1.3	0.9	0.8
Memorandum items:								
Primary balance (excluding grants)	-2.0	-3.2	-4.4	-4.1	-1.1	-0.7	0.0	-0.1
Primary balance (including grants)	-1.7	-2.9	-4.2	-3.9	-0.3	-0.5	0.1	0.2
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	56.8	55.3	60.5	62.9	63.7	62.9	63.2	63.2
Domestic debt	31.3	32.9	38.1	42.8	43.8	44.5	44.2	43.7
External debt	25.5	22.4	22.4	20.1	19.9	18.3	19.0	19.5
Total government debt including guarantees	60.9	58.5	63.2	65.7	65.9	65.2	…	…
Total government debt including IMF	61.5	59.5	64.0	64.8	64.9	64.4	65.0	65.0
Nominal GDP (market prices, billions of Pakistani rupees)	14,867	18,276	20,047	22,379	25,068	27,384	29,907	29,816

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

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

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		Ninth Review	Projection
Revenue and grants	3,837	3,984	944	1,074	1,114	1,562	4,623	4,694
Revenue	3,631	3,937	937	1,043	1,100	1,543	4,583	4,623
Tax revenue	2,640	3,024	724	916	853	1,163	3,634	3,655
Federal	2,450	2,818	664	852	792	1,081	3,389	3,389
FBR revenue	2,272	2,594	600	785	721	998	3,104	3,104
Direct taxes	884	1,029	240	301	295	452	1,289	1,288
Federal excise duty	145	170	27	46	44	65	182	183
Sales tax/VAT	1,002	1,089	253	338	288	378	1,272	1,257
Customs duties	241	306	80	100	94	102	361	376
Petroleum surcharge	104	131	31	36	34	33	135	135
Gas surcharge and other	39	26	8	8	7	7	30	30
GIDC	32	57	24	22	29	41	116	116
Provincial	190	206	59	63	62	83	245	266
Nontax revenue	990	913	213	127	247	380	949	968
Federal	941	838	199	111	223	341	873	873
Provincial	49	76	15	16	25	39	76	95
Grants	206	47	7	31	14	19	40	71
Expenditure	5,058	5,426	1,266	1,254	1,572	1,823	5,875	5,915
Current expenditure	4,123	4,556	1,109	1,044	1,264	1,344	4,764	4,761
Federal	2,950	3,169	792	693	879	887	3,289	3,250
Interest	1,148	1,304	416	217	371	273	1,286	1,277
Domestic	1,073	1,208	397	181	343	242	1,174	1,162
Foreign	75	96	19	36	29	31	111	114
Other	1,802	1,866	376	476	507	614	2,012	2,012
Defense	623	698	146	158	203	275	781	781
Other	1,179	1,168	230	319	304	339	1,232	1,232
Of which: subsidies 1/	336	265	40	42	42	45	175	170
Of which: grants	372	401	79	126	121	149	501	476
Provincial	1,173	1,387	317	351	385	458	1,475	1,510
Development expenditure and net lending	997	1,047	146	231	308	471	1,132	1,132
Public Sector Development Program	878	1,013	147	231	308	469	1,136	1,136
Federal	435	489	72	84	162	302	611	620
Provincial	443	524	75	147	146	167	500	535
Net lending	119	34	-1	-1	0	2	0	0
Statistical discrepancy ("+" = additional expenditure)	-62	-178	12	-20	0	8	0	0
Overall Balance (excluding grants)	-1,427	-1,489	-329	-212	-471	-280	-1,292	-1,292
Overall Balance (including grants)	-1,221	-1,442	-322	-180	-457	-261	-1,252	-1,221
Financing	1,221	1,442	322	180	457	261	1,252	1,221
External	351	166	48	120	-58	215	308	421
Of which: IMF	0	0	0	0	0	0	0	0
Domestic	870	1,276	274	61	516	46	945	800
Bank	322	910	140	64	168	188	661	560
Nonbank	548	366	134	-3	347	-142	283	240
Memorandum items:								
Primary balance (excluding grants)	-279	-185	87	5	-100	-7	-6	-15
Primary balance (including grants)	-73	-138	94	36	-86	12	33	55
Total security spending	623	698	146	158	203	275	781	781
Energy sector circular debt clearance	0	0	...	...	...	...	25	25
Total government debt	15,965	17,217	...	...	...	...	18,911	18,846
Domestic debt	10,974	12,199	...	...	...	...	13,231	13,027
External debt	4,991	5,018	...	...	...	...	5,680	5,819
Total government debt including IMF obligations	16,263	17,635	...	...	...	...	19,553	19,378
Nominal GDP (market prices)	25,068	27,384	...	...	...	...	29,907	29,816

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

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

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

	2013/14	2014/15				2015/16			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Projections	
	(In billions of Pakistani rupees, unless otherwise indicated)								
Monetary survey									
Net foreign assets (NFA)	601	570	649	735	813	930	963	880	1,034
Net domestic assets (NDA)	9,367	9,392	9,762	9,801	10,469	10,473	10,799	10,974	11,545
Net claims on government, *of which: 1/*	6,027	6,124	6,215	6,434	6,958	7,117	7,108	7,163	7,352
Budget support, *of which:*	5,448	5,588	5,647	5,918	6,330	6,476	6,513	6,681	6,870
Banks	3,121	3,300	3,733	4,264	4,443	4,887	5,056	4,881	5,070
Commodity operations	492	469	467	437	564	570	523	482	482
Credit to nongovernment	4,102	4,149	4,377	4,360	4,390	4,382	4,744	4,763	4,806
Private sector	3,747	3,794	3,969	3,952	3,956	3,930	4,308	4,327	4,371
Public sector enterprises	355	355	407	408	435	452	435	435	435
Privatization account	-3	-3	-3	-3	-41	-3	-41	-41	-41
Other items, net	-759	-877	-827	-990	-839	-1,022	-1,013	-912	-572
Broad money	9,968	9,962	10,411	10,536	11,282	11,403	11,762	11,854	12,580
Currency outside scheduled banks	2,178	2,262	2,302	2,411	2,555	2,970	2,880	2,847	3,057
Rupee deposits	7,191	7,082	7,490	7,522	8,130	7,840	8,277	8,397	8,876
Foreign currency deposits	599	618	619	603	598	593	605	610	647
State Bank of Pakistan (SBP)									
NFA	490	482	555	651	722	879	902	819	973
NDA	2,372	2,310	2,226	2,350	2,420	2,606	2,574	2,560	2,515
Net claims on government	2,395	2,321	1,971	1,680	1,919	1,612	1,481	1,700	1,700
Of which: budget support	2,328	2,289	1,914	1,653	1,887	1,589	1,457	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	422	480	510
Privatization account	-3	-3	-3	-3	-41	-3	-41	-41	-41
Other items, net	-515	-508	-297	179	146	617	718	427	351
Reserve money, *of which:*	2,861	2,791	2,781	3,000	3,142	3,486	3,476	3,379	3,488
Banks' reserves	531	380	329	431	413	335	419	425	449
Currency	2,317	2,397	2,440	2,557	2,715	3,135	3,043	2,955	3,039
	(Annual percentage change, unless otherwise indicated)								
Broad money	12.5	12.2	10.9	12.3	13.2	14.5	13.0	12.5	11.5
NFA, banking system (in percent of broad money) 2/	3.739	5.3	6.3	6.1	2.1	3.6	3.0	1.4	2.0
NDA, banking system (in percent of broad money) 2/	8.8	6.9	4.6	6.2	11.1	10.9	10.0	11.1	9.5
Budgetary support (in percent of broad money) 2/	3.7	3.0	0.4	3.8	8.8	8.9	8.3	7.2	4.8
Budgetary support	6.3	5.0	0.7	6.4	16.2	15.9	15.3	12.9	8.5
Private credit	11.0	13.0	7.4	6.5	5.6	3.6	8.5	9.5	10.5
Currency	12.4	14.0	10.3	13.9	17.3	31.3	25.1	18.1	19.6
Reserve money	12.9	8.2	2.1	9.6	9.8	24.9	25.0	12.6	11.0
Memorandum items:									
Velocity	2.7	2.7	2.6	2.6	2.6	2.6	2.5	2.5	2.5
Money multiplier	3.5	3.6	3.7	3.5	3.6	3.3	3.4	3.5	3.6
Currency to broad money ratio (percent)	21.8	22.7	22.1	22.9	22.6	26.0	24.5	24.0	24.3
Currency to deposit ratio (percent)	28.0	29.4	28.4	29.7	29.3	35.2	32.4	31.6	32.1
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	4.7	4.7	4.7
Budget bank financing (change from the beginning of the fiscal year; in Rs billions), *of which:*	324	140	199	469	882	146	183	351	540
By commercial banks	164	179	612	1,144	1,323	444	612	438	626
By SBP	160	-39	-413	-674	-441	-298	-429	-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	1.3	1.3	0.5	1.9
NFA of commercial banks (millions of U.S. dollars)	1,130	861	928	833	887	489	572	566	565
NDA of commercial banks (billions of Pakistani rupees)	6,995	7,082	7,536	7,451	8,050	7,867	8,224	8,413	9,031

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

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

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

3/ Includes valuation adjustments.

Table 8. Pakistan: Financial Soundness Indicators for the Banking System
(September 2013–December 2015)

	Sep. 2013	Dec. 2013	Mar. 2014	Jun. 2014	Sep. 2014	Dec. 2014	Mar. 2015	Jun. 2/ 2015	Sep. 2/ 2015	Dec. 2/ 2015
Capital adequacy 1/										
Regulatory capital to risk-weighted assets	15.5	15.1	14.8	15.1	15.5	17.1	17.4	17.2	18.2	17.3
Tier I capital to risk-weighted assets	13.2	12.8	12.5	12.5	13.6	14.3	14.2	14.1	15.0	14.4
Capital to total assets	9.3	8.9	8.9	8.8	9.0	10.0	10.0	8.3	8.5	8.4
Asset composition and quality										
Nonperforming loans (NPLs) to gross loans	14.3	13.0	13.4	12.8	13.0	12.3	12.8	12.4	12.5	11.4
Provisions to NPLs	76.5	78.4	77.8	79.5	77.6	79.8	80.2	80.8	81.8	84.9
NPLs net of provisions to capital	15.7	13.0	14.0	12.5	13.6	10.1	9.8	10.9	10.0	7.7
Earnings and profitability										
Return on assets (after tax)	1.1	1.1	1.3	1.4	1.4	1.5	1.7	1.6	1.5	1.5
Return on equity (after tax)	12.3	12.4	14.1	15.4	15.9	16.1	17.0	15.9	15.7	15.6
Net interest income to gross income	70.3	70.3	69.9	70.5	71.4	71.3	68.4	67.5	69.1	70.4
Noninterest expenses to gross income	56.8	57.4	56.8	54.6	54.8	53.3	47.0	46.1	46.9	47.8
Liquidity										
Liquid assets to total assets	46.7	47.3	48.3	47.8	54.8	49.2	51.9	52.3	53.7	53.8
Liquid assets to total deposits	59.2	60.0	63.7	60.6	61.4	64.5	70.4	69.5	74.8	73.3
Loans/Deposits	48.7	48.6	49.2	47.7	48.2	48.2	46.9	45.7	46.7	46.4

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	1,611.3	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	34.2	30.8	27.9	24.8	20.1
As a share of external debt	5.8	5.3	7.7	8.5	8.1	7.6	6.8	5.7
			(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/					
Total			-267.9	52.7	58.6	64.8	71.3	72.1
Of which:								
Principal	-2,399.6	-1,308.2	-303.0	0.0	0.0	7.4	20.7	32.5
Interest and charges	45.3	31.6	35.1	52.7	58.6	57.4	50.6	39.6
SBA and ENDA Principal	..	..	0.0	0.0	0.0	150.0	420.0	660.0
Extended Fund Facility Principal	..	..	0.0	0.0	0.0	150.0	420.0	660.0
In percent of end-period gross official reserves	..	..	-2.3	0.4	0.4	0.4	0.5	0.5
As a share of total external debt service	..	..	-0.6	0.1	0.1	0.1	0.1	0.1
Memorandum items								
Quota (millions of SDRs)	1,033.70	1,033.70	1,033.70	...	...	...	...	...
Gross official reserves (millions of U.S. dollars)	3,478	10,514	15,886	17,876	19,844	21,209	21,449	21,854
Total External Debt (millions of U.S. dollars)	60,899	65,365	65,147	71,915	75,572	77,965	77,885	77,329
Total External Debt Service (millions of U.S. dollars)	6,797	7,135	6,571	7,051	8,129	7,807	10,420	10,301

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	3.3	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	-1.1	-1.6	-1.6	-1.7	-1.6
Net FDI inflows (percent of GDP)	0.7	0.3	0.5	0.6	0.3	0.5	1.2	1.3	1.6	1.9
Exports (percentage change of U.S. dollar value; GNFS)	25.0	-4.5	6.0	-3.6	-1.4	-9.5	0.0	6.5	7.4	7.1
Gross international reserves (GIR) in billions of U.S. dollars	14.8	10.8	6.0	9.1	13.5	17.5	19.6	21.5	21.9	23.4
GIR in percent of ST debt at remaining maturity (RM) 2/	332.8	273.7	111.1	169.3	236.1	214.6	197.2	222.3	246.2	255.9
GIR in percent of ST debt at RM and banks' foreign exchange (FX) deposits 2/	167.8	125.4	56.5	79.4	116.7	123.9	120.9	131.4	136.7	139.3
Total gross external debt (ED) in percent of GDP, *of which:*	31.1	29.2	26.3	26.9	24.1	25.6	25.6	24.7	23.1	21.3
ST external debt (original maturity, in percent of total ED)	1.0	0.6	0.0	1.1	0.8	4.2	4.0	3.5	4.0	4.5
ED of domestic private sector (in percent of total ED)	10.8	10.8	10.4	13.4	15.6	16.9	17.7	18.9	19.6	20.3
ED to foreign official sector (in percent of total ED)	89.2	89.2	89.6	86.6	84.4	83.1	82.3	81.1	80.4	79.7
Total gross external debt in percent of exports	213.2	220.2	193.2	215.1	217.5	265.3	278.7	270.0	251.2	232.9
Gross external financing requirement (in billions of U.S. dollars) 3/	2.3	6.7	5.3	6.5	6.2	8.0	10.7	10.2	12.9	12.3
Public sector 4/										
Overall balance (including grants)	-6.7	-8.6	-8.4	-4.9	-5.3	-4.1	-3.3	-2.9	-2.8	-2.5
Primary balance (including grants)	-2.9	-4.2	-3.9	-0.3	-0.5	0.2	1.2	1.4	1.4	1.3
Debt-stabilizing primary balance 5/	-7.8	1.4	-1.4	-2.7	-0.2	0.1	-0.7	-1.2	-0.9	0.0
Gross PS financing requirement 6/	26.8	32.8	36.3	35.2	31.2	29.7	29.0	27.8	27.0	26.1
Public sector gross debt 7/	55.3	60.5	62.9	63.7	62.9	63.2	61.9	59.7	57.6	55.0
Public sector net debt 8/	52.3	56.5	59.1	58.2	57.8	58.4	57.5	55.6	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	270.0					

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

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

Table 11. Pakistan: Schedule of Reviews and Purchases

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

Source: IMF staff estimates.

1/ Date in which resources become available.

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

Appendix I. Letter of Intent

March 10, 2016

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

Dear Ms. Lagarde,

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

Looking ahead, we remain strongly committed to achieving the program's objectives. In this context, we focus on reinforcing and building on our recent macroeconomic stability gains, and on advancing further in our structural reform agenda. A major goal in this regard is to continue to widen the tax net to generate the necessary resources for higher infrastructure and social spending while strengthening public finances. In addition, we are strengthening the performance of the power sector. We are committed to overcome the recent obstacles and advance with privatization and restructuring of public enterprises. The decline in exports and the need to promote private investment call for accelerating competitiveness and business climate reforms. The actions described in the attached Memorandum of Economic and Financial Policies (MEFP) are consistent with this strategy.

Our performance on the tenth review has been satisfactory:

Quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2). All end-December 2015 quantitative performance criteria (PCs) have been met, in some cases with significant margins. We also met the indicative targets on accumulation of power sector arrears and social spending under the Benazir Income Support Program (BISP), and missed the indicative target on tax revenue only by a nominal margin. We have met five structural benchmarks in the areas of the tax administration, the financial and energy sectors, and the business climate. Unfortunately, we missed three structural benchmarks in the areas of the energy sector and privatization. The structural benchmark on anti money laundering was not met, as further legal amendments are no longer needed to achieve the reform's objectives. We are putting in place corrective actions that will allow us to advance with our agenda in these areas.

The program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. As detailed in the MEFP, we propose establishment of end-June 2016 PCs and the modification of the end-March PC on the SBP's stock of net foreign currency swap/forward position, along with new structural benchmarks against which to measure progress under the program (MEFP, Tables 1 and 2). The attached Technical Memorandum of Understanding (TMU) explains how the program targets are measured.

Based on our satisfactory program performance and corrective actions, we propose completion of the tenth review under the Extended Arrangement. We reaffirm our commitment to our economic reform program supported by the International Monetary Fund (IMF). We believe that the policies set forth in this letter and in the letters of August 19, 2013, December 11, 2013, March 6, 2014, June 19, 2014, December 2, 2014, March 12, 2015, June 12, 2015, September 15, 2015, and December 3, 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 despite damage to the cotton crop**. While a weak cotton harvest and the decline in exports are weighing on economic activity, real GDP growth is supported by higher growth in large-scale manufacturing, investment related to the China Pakistan Economic Corridor (CPEC), buoyant construction activity, a swift recovery in private sector credit growth, and improvements in the supply of gas and electricity. With these developments, 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. Nonetheless, there are challenges going forward, as the international environment is becoming less favorable. Headline consumer price inflation continued to rise to 4.0 percent y-o-y in February, as the favorable effect of past declines in international oil prices continued to wane. While further monthly increases are likely in the near-term, we expect inflation to stay contained at around 3.3 percent on average in FY 2015/16, well-anchored by continued prudent monetary and fiscal policies.

2. **International exchange reserves continued to strengthen, helped by an improved current account**. Gross international reserves reached US$15.9 billion by end-December 2015, up from US$15.2 billion at end-September 2015 and covering close to four months of prospective imports. Exports declined (by 11 percent y-o-y in the first half of FY 2015/16), reflecting lower commodity prices, ongoing (though declining) energy shortages, security and business climate challenges, the weak cotton harvest, and the continued appreciation of the real effective exchange rate (6 percent year-on-year in November 2015). However, low oil prices and the continued flow of remittances helped maintain the current account balance in the first half of FY 2015/16 at about US$1.3 billion (0.5 percent of GDP, about half of the current account deficit in the same period last year). Looking ahead, we expect further improvement in our foreign reserve coverage to more than four months of imports by end-June 2016.

3. **Fiscal performance in the first half of FY 2015/16 was strong**. With improved revenue performance and keeping expenditures under control, we met our performance criterion (PC) on the general government budget deficit excluding grants with a comfortable margin of PRs 84 billion (about 0.3 percent of GDP), including the adjustor for one-off spending on security and internally-displaced persons. Revenue growth accelerated from 11.6 percent y-o-y in the first quarter of FY 2015/16 to 23.8 percent in the second quarter, and tax collections by the Federal Board of Revenue (FBR) recouped most of the revenue shortfall of PRs 40 billion of the first quarter (to the extent of PRs 35 billion). However, compared to the program indicative target (IT) of PRs 1,390 billion for end-December 2015, actual collections showed a small shortfall of about PRs 5 billion. We met the IT on targeted cash transfers through the Benazir Income Support Program (BISP) and expanded the BISP coverage to 5.21 million beneficiaries by end-December 2015. Moreover, the end-December 2015 IT on accumulation of power sector arrears was met with a considerable margin.

4. **In the context of prudent monetary policy, private sector credit growth began to accelerate**. Continued favorable international oil prices and steady spot purchases in the market helped us meet the end-December net international reserves (NIR) target with a margin of about US$270 million. We also remained within the ceiling of the SBP's net short position of swap/forward contracts. In addition, as demand for currency in circulation began to normalize following its spike in the first quarter, we managed to contain the stock of net domestic assets (NDA) to PRs 137 billion below the program target in December 2015. Overall, monetary aggregates expanded in line with program projections in the second quarter of FY 2015/16. Specifically, broad money expanded by about 13 percent y-o-y, slightly above program projections, and private sector credit growth rose to 8.6 percent y-o-y, driven by increasing credit for fixed investments and working capital.

Economic Policies

A. Monetary and Exchange Rate Policies

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

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

6. **We are committed to maintaining a prudent monetary policy stance**. Amid more challenging international financial conditions, and to protect our achievements so far in creating stable financial conditions for market participants, we remain vigilant of any signs of additional inflationary pressures in coming months. To anchor low inflation expectations, the State Bank of Pakistan (SBP) will continue to maintain positive real interest rates, consistent with the program's monetary targets, and will set the policy rate in a forward-looking fashion. The improved interest rate corridor continues to work smoothly and has helped improve the SBP's credibility among market participants. The government will continue to support this framework with sustained fiscal discipline.

7. **Efforts to further strengthen the SBP's autonomy are underway**. In this regard, the first meeting of the newly established independent Monetary Policy Committee (MPC) was held in late January. In addition, to support transparency in monetary policy setting, we will publish the minutes of the MPC meetings (with adequate lags). We are also committed to addressing the remaining shortcomings identified in the 2013 Safeguards Assessment. In particular, in February, 2016, we formed a committee to engage with the IMF and design, by end-June 2016, a time-bound legislative action plan for incorporating critical recommendations. In the interim, by end-March, 2016, the government will (i) issue an executive order to provide financial guarantee to the SBP in case of any losses that are not covered by SBP's general reserves and recapitalize the bank if it becomes

necessary; and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains (new SB).

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

B. Fiscal Policy

9. **We are determined to maintain fiscal consolidation in FY 2015/16 and over the medium term**. To keep the debt-to-GDP ratio on a firm downward trajectory, build fiscal buffers against adverse shocks, safeguard macroeconomic stability, and set the stage for sustainable and inclusive growth, we are determined to lower the budget deficit excluding grants to 4.3 percent of GDP in the current fiscal year and to 3½ percent by the end of the program in FY 2016/17, mainly through revenue mobilization and expenditure rationalization across all layers of the general government. This will strengthen public finances, entrench fiscal stability, generate buffers to address losses of public sector enterprises, and create the much-needed 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 attain our budget deficit target of 4.3 percent of GDP, including an adjustor of 0.3 percent of GDP for critical one-off spending in FY 2015/16**. While tax collection recorded a marginal shortfall relative to the program target for the first half of FY 2015/16, we are confident that revenue performance will benefit from the full-year effect of several measures that we have already taken, including increases in petroleum taxes, and introducing regulatory duties and excises on a variety of products. However, we realize that a further decline in international commodity prices, and underperformance in the collection of Gas Infrastructure Development Cess (GIDC) create additional downside risks. We will therefore manage budgetary spending prudently and ensure the contribution of provinces to fiscal consolidation as planned.

- Budgetary spending as result of the reclassification of some nonplan loans (0.1 percent of GDP) and the new agricultural spending package (0.1 percent of GDP) will be absorbed within the existing expenditure envelope, including at the provincial level.

- Despite larger disbursements in the first half of the year, we remain committed to reducing energy subsidies (including amounts for arrears clearance) to 0.4 percent of GDP in FY 2015/16, from 0.8 percent in FY 2014/15. We will also take mitigating measures as necessary (¶32) to protect against a potential negative outcome of legal challenges to electricity surcharges.

- Total provincial spending will be maintained at 6.9 percent of GDP in FY 2015/16, with total provincial own tax and nontax revenues standing at 1.2 percent of GDP, and we will take steps to strengthen the provinces' fiscal commitment in FY 2015/16 and beyond. We will continue to hold 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 from the program target.

11. **We have been carrying out an ambitious agenda of tax policy and administration 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 nonfilers to reward compliance and penalize noncompliance; (iii) reengineering and automating business processes and procedures in tax administration; and (iv) initiating far-reaching tariff liberalization and putting in place measures to bring about behavior change among taxpayers. In addition, the FBR did not grant any new tax concessions and exemptions and the government did not issue concessional Statutory Regulatory Orders (SROs), except under exceptional circumstances. Furthermore, parliament 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 will continue to support growth-friendly tax revenue mobilization**. 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 FY 2019/20. 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.

13. **We will ensure consistency of the voluntary tax compliance scheme for traders with a level playing field for all taxpayers**. The voluntary tax compliance scheme has introduced a four-year special schedule of simplified income tax assessment of traders aimed at inducing them to enter the tax net. In line with the international experience, the scheme shall not be applicable in cases where evidence of tax evasion or misdeclaration is available, we will not turn the scheme into a tax amnesty, and we will make sure that it does not discriminate against law-abiding taxpayers by offering preferential treatments for previously unregistered taxpayers.

14. **We will protect the integrity of the General Sales Tax (GST) regime and improve its policy design and administration**. After careful consideration of various reform proposals, we have decided to modernize the GST on goods and services in close coordination with provincial revenue authorities before the FY 2016/17 budget is presented to parliament. Our objective is to address the bottlenecks and distortions in policy design and administration of the GST system. To this end, we will simplify the GST regime by adopting a single standard rate and introducing a number of base-broadening measures and changes to certain key design issues (such as increasing the GST

registration threshold, eliminating zero rating and exemptions of intermediate goods, and limiting exemptions to a short list of essential unprocessed food products). In the meantime, at PRs 96.4 billion by end-December 2015, the amount of outstanding GST refund claims remained below the peak of PRs 113.2 billion in November 2014. 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), which will unblock businesses' working capital. In this context, to enhance transparency tax administration, the FBR will start publishing the stock of outstanding tax refund claims on a monthly basis, including the GST, income tax and customs duties, by end-March 2016.

15. **Despite a continued large gap between potential and actual tax collections, recent efforts to enhance tax administration have yielded gains**. We met our target to issue 250,000 first notices by end-December 2015, to bring more potential taxpayers into the revenue base. This helped increase the number of taxpayers filing for income tax return from 748,474 at end-December 2013 (for tax year 2012) to 1,022,471 (for tax-year 2014) as of end-December 2015. We have also started a new initiative in FY 2014/15 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 presumptive 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-December 2015.

16. **We will accelerate tax administration reforms to improve compliance and enforcement, which are critical to realize our revenue potential**. We will continue to strengthen the culture of taxation by aggressively pursuing tax evaders, avoiding tax amnesty schemes, and adopting a program of comprehensive reform of the tax institutions. We will further improve our enforcement efforts on 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 have integrated the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database. This allows us to improve taxpayer compliance and broaden tax bases as we record all financial and property transactions by individuals with CNIC numbers. As we continue to improve the FBR's information technology infrastructure and expand its access to taxpayer information, we have prepared and submitted to parliament the 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, end-January 2016). We envisage enactment of this law by end-June 2016.

- We are improving our auditing practices. For tax year 2011, only 12,609 cases were selected for audit, out of which tax collection was around PRs 1 billion. The number of cases selected increased to 75,871 for tax year 2015. In the preceding financial year, tax demand created out of audits was PRs 50 billion, out of which PRs 8 billion was collected during the year. The FBR has adopted a new risk-based auditing policy to identify those taxpayers who are most likely to be noncompliant, and, in December 2015, 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 (SB, end-December 2015).

- The FBR will focus on high net worth individuals and large companies, which present a significant tax risk because of well-demonstrated capacity to structure their activities using complex instruments and artificial arrangements to minimize their tax exposure. To this end, the FBR will identify 50 potential cases of high net worth individuals and other large taxpayers, based on established risk-based audits criteria, and initiate comprehensive income tax audits in least half of such cases by end-March 2016 (new SB).

- 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.

- We now require all government suppliers to be on the current list of active income and GST taxpayers to conduct business with government departments. The FBR will ensure data matching between domestic taxes and customs to identify noncompliant taxpayers and minimize under-declarations.

- We have started 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.

- The FBR 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.

- In addition, as part of our communication strategy aimed to enhance transparency, we will start regularly publishing aggregate information on tax crime prosecutions (i.e., cases, convictions, custodial sentences, reparation orders and court fines) by end-March 2016.

- We will establish a tax policy research and analysis unit under the Revenue Division by end-June 2016, to improve our analytical capacity for fiscal policymaking.

17. **We are improving governance and reducing corruption in tax administration**. We have established an integrity management unit in the FBR and collected asset declarations of all FBR employees, and further strengthened the integrity management unit by identifying potential processes within the FBR that could reinforce its anti-corruption structures, including in the Directorate General of Internal Audit (DGIA). Next steps in this agenda include using the DGIA reports regarding tax fraud for identification of complicit tax officials and developing key performance indicators, a code of conduct, transparent criteria for integrity management, and ethics training. In addition, the FBR has started monitoring the penalties imposed by its field officers. We will continue working towards simplifying tax laws and procedures and better coordinate with

provinces to consolidate collection of provincial taxes and fees to make it easier for taxpayers to meet their obligations and at the same time eliminate opportunities for corruption by limiting the discretion of tax officials. We will also expand the IRIS (an end-to-end integrated IT system) to all business areas throughout the FBR's network of offices to further reduce discretion in tax administration. Following the recent ratification of the whistleblower law for tax crimes, by end-April 2016 we will establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration (new SB). After gaining initial experience with these new platforms, we will begin publishing aggregate results of their usage and subsequent investigation.

18. **We will strengthen the Fiscal Responsibility and Debt Limitation (FRDL) Act to 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 opportune to take stock of its efficacy. Accordingly, we will submit the following amendments to the FRDL Act to the National Assembly, as new SB by end-May 2016:

- A limit on the federal government budget deficit of 4 percent of GDP excluding foreign grants for FY 2017/18–FY 2019/20, and 3½ percent of GDP thereafter;
- A limit of 60 percent of GDP on public debt (as defined in the existing FRDL Act) until FY 2017/18, and, subsequently a 15-year transition path toward 50 percent of GDP;
- Define clearly escape clauses for events such as national security and natural disasters; and
- Explicit enforcement procedures and corrective mechanisms.

19. **We will broaden fiscal policy coordination between the federal and provincial governments to provide strategic guidance and oversight**. In the new round of National Finance Commission (NFC) negotiations, we will seek an agreement to balance devolution of revenue and expenditure responsibilities in a way that allows for macroeconomic stability. The federal government is encouraging 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. The extent of devolution in revenue and expenditure assignments requires deepened intergovernmental fiscal policy coordination. To this end, we will submit a proposal seeking approval of the Council of Common Interest for establishment of a Fiscal Coordination Committee comprising all provincial and federal finance secretaries to meet on quarterly basis with the responsibility of coordinating fiscal policy at the national level.

20. **We will introduce a national framework for public-private partnerships (PPPs) to promote infrastructure investment within a well-structured fiscal arrangement**. As part of our medium-term development strategy, we will make greater use of PPPs in public procurement for infrastructure projects. In line with international best practices for PPP, we will develop draft legislation for a robust legal and institutional framework and share it with IMF staff by end-March 2016. We will accordingly prepare and submit the draft PPP legislation to the National Assembly by end-April 2016 (new SB).

21. **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 have reinvigorated the work on gender-disaggregated analysis and preparing a plan for gender-responsive budgeting. We carried out a gender-responsive analysis of the FY 2015/16 budget with the assistance of our development partners, which was completed in February 2016, forming a baseline for the FY 2016/17 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.

22. **We continue to support the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP)**. As of end-December 2015, we have reached 5.21 million beneficiaries and met the indicative target for cash transfer payments under BISP. We are on track to expand the number of BISP beneficiaries to 5.3 million by end-June 2016. As additional financing from development partners has been mobilized, we have increased the quarterly stipends by 4.5 percent to safeguard their purchasing power (TMU ¶26). 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 and we have extended the existing contracts for continuity of payments to BISP beneficiaries. Meanwhile, to achieve the beneficiary centric payment model, we are revisiting the existing model, in collaboration with the SBP, and are in the process of finalizing new contracts with the partner banks by July 2016. In partnership with the provincial governments, we have rolled out education-conditional cash transfers (CCT). As of end-December 2015, we are disbursing in 32 districts to over more than 1 million children. We are on track to expand the CCT coverage to 1.3 million children by end-June 2016, and, subject to further support by our development partners, will extend its rollout in additional districts in FY 2016/17.

C. Fiscal Financing

23. **We continue to improve fiscal financing and cash management**. The stock of government borrowing from the SBP reduced by PRs 429 billion since June, well below the end-December 2015 program target, helped by issuing Pakistan Investment Bonds (PIB), short-term foreign borrowing from commercial banks, and Sukuk issuance. To continue creating space for private sector credit growth, we are advancing with our fiscal consolidation efforts, maintaining focus on securing adequate foreign financing, and improving our cash management system.

24. **We continue to strengthen the institutional framework for debt management**. 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 strengthen 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 in support of the implementation of an optimal borrowing strategy. We have already taken steps to synchronize the rate setting between domestic retail and wholesale debt markets. In early March, we have also published an updated Medium Term Debt Management Strategy (MTDS) covering the period FY 2015/16–FY 2018/19. To achieve savings in, and more effective decision-making for, government borrowing, we will continue to prepare, and provide Fund staff with, a detailed quarterly financing plan for the coming 12 months, and publish our rolling quarterly issuance program for domestic public securities.

D. Financial Sector

25. **The banking sector remains sound, with high earnings and solvency ratios**. The pre-tax profit of the system increased by 33 percent y-o-y in December, 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) declined to 17.3 percent in December 2015, reflecting healthy growth in private sector advances, which improved banks' utilization of capital, and the enhancement of risk weights on unrated borrowers. The CAR remains significantly above the 10.25 percent minimum requirement.[1] As of end-December 2015, asset quality has improved with the nonperforming loan (NPL) ratio at 11.4 percent and net NPL ratio at 1.9 percent.

26. **The SBP continues to focus on bolstering banks that are below regulatory capital requirements**. The only previously remaining CAR-noncompliant bank completed its rights issue, bringing it into regulatory compliance. Two different banks (out of 35 banks) have recently become CAR–noncompliant.[2] One bank, in the privatization process, is expected to become CAR-compliant

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

[2] The size of these two banks is about 1.4 percent of the banking system assets (or 0.7 percent of GDP), and the CAR shortfall has decreased to PRs 0.3 billion.

by December 2016, while the second bank has committed to inject capital to meet the minor shortfall by March 2016. Additionally, two other small banks, while remaining CAR-compliant, are still below the minimum capital requirement (MCR). We are implementing our devised time-bound plans to bring these banks into regulatory compliance, with the process for one bank expected to be completed by June 2016 and for the other bank by end-December 2016.

27. **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 has been placed before Parliament for approval, expected by end-September 2016.

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

- To improve the recovery of NPLs without banking court intervention and enhance credit growth, amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, has been placed in Parliament for enactment, expected by June 2016. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April 2015, with expected approval by March 2016. 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 work on developing its contingency planning framework. Among other things, this work will encompass a review of the legal framework, identification of gaps, an assessment of the consolidated supervision framework and domestic systemically important banks (D-SIBs). The SBP had already conducted an initial assessment of identification of the D-SIBs and will work on developing the monitoring mechanism.

28. **We are gradually transitioning to Basel III capital and liquidity standards**. We are phasing in the implementation of strengthened capital adequacy standards. The CAR requirement has increased to 10.25 percent by December 2015, with further gradual steps toward 12.5 percent by 2019. We are also working toward adopting Basel III liquidity rules by end-December 2016.

29. **Instituting a modern deposit insurance scheme will strengthen the stability and resilience of the banking system**. Part of the contingency planning TA, the Deposit Protection Corporation (DPC) Act has been finalized in line with best international practices, was introduced in

parliament in November 2015 and will be enacted by end-March 2016 (modified SB). In the meantime, the SBP has initiated a preparatory work to establish the corporate infrastructure of the DPC, supported by IMF TA. The DPC will become operational in June 2016.

30. **We will continue strengthening the anti-money laundering and combating the financing of terrorism (AML/CFT) framework**. We amended the AML Act to subject the proceeds of some tax crimes to AML legislation. We will add additional offenses as predicate offenses under the AML Act. In this regard, we will amend the schedule of the AML Act by May 15, 2016, through notification in the official Gazette, to include certain offenses under the Income Tax Ordinance as predicate offenses to money laundering (modified SB). We will continue strengthening the effectiveness of the AML/CFT framework in line with international standards, by bolstering the Financial Monitoring Unit's analytical capability and strengthening the effective implementation of the relevant United Nations Security Council Resolutions.

E. Energy Sector Reforms

31. **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. In view of the gap between the notified and determined tariff for K-Electric, we will expedite quarterly notification of the K-Electric tariff in order to meet our target. 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

32. **Price Adjustments**.

- In June 2015, we notified the FY 2014/15 tariff, as determined by NEPRA, and implemented surcharges in line with the program targets (as defined in the TMU ¶19). 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 in the process of finalizing independent technical loss diagnostic studies for all DISCOs. This will provide better estimates of loss rates and will be considered by NEPRA in its FY 2016/17 tariff determination.

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

33. **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 ¶21). There are two main components of the stock of this circular debt:

- The payables in the power sector remained stable in the second quarter of FY 2015/16 at PRs 326 billion. In addition to current payables, it comprises: (i) a residual from payables clearance of June and July 2013; (ii) a disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) nonrecovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that 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-December 2015.

34. **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 FY 2018/19 (Table 1). While some elements of the plan have not been fully addressed i.e., implementation in two regions and GST refunds, we have met the end-December IT on the flow of power sector arrears helped by lower international oil prices, better mobilization of receivables, and some further loss reduction. We remain on track to meeting upcoming quarterly targets under the program.

- We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in the second quarter declined from 18.2 to 18 percent.[3] Collections in the same period improved from 90.7 to 93.1 percent, reflecting our efforts to recover arrears, resolve litigations with consumers, provision of incentives to collectors, and a better load management across consumers in rural and urban areas, and industries. 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 are working to further improve the performance of the sector in the remainder of FY 2015/16.

[3] 12-month rolling sums, January–December 2015 compared to October 2014–September 2015.

- Taking advantage of the room created by falling oil prices, late payment surcharges and better reflection of system losses were incorporated into the FY 2014/15 determined tariffs. This is expected to arrest a portion of the build-up of the circular debt and improve the cash-flow of the system. The 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. For three DISCOs (FESCO, IESCO, and LESCO), the process has started. 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.

35. **Monitoring and enforcement**. To further reduce losses, raise payment compliance, and improve energy efficiency and service delivery, we signed performance contracts with the boards of nine DISCOs in October 2014, which were subsequently extended through a memorandum of understanding (MoU), duly ratified by the respective boards of directors, and we are monitoring the performance indicators on a monthly basis. We set quarterly loss-reduction, collection, and recovery targets (TMU ¶22) consistent with our arrears reduction plan for each DISCO in September 2015 (mid-October 2015 SB). Targets have been met by most DISCOs at end-December 2015 and we have requested DISCOs that failed to reach their targets to provide remedial measures. The amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 were enacted in January 2016 (end-January SB). We are working 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 and shared it with a broad set of stakeholders. The draft was submitted to the CCI secretariat in October 2015 aiming at building consensus with the provinces by end-March 2016.

36. **Demand Side Management**. To improve resource allocation and energy efficiency, we are using pricing (¶32) and other market-based instruments. We will finalize the required approvals to begin Advanced Metering Infrastructure (AMI) by June, 2016, which will be initially implemented in LESCO and IESCO to help reduce commercial losses, increase recoveries and better manage revenue-based load shedding. We conducted a consultative process with stakeholders on the draft Pakistan Energy Efficiency and Conservation Act. In August 2014, the CCI approved the bill and it is at the Standing Committee of the National Assembly, expected to be approved by the National Assembly in March 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.

37. **Supply Side Management**. We continue to prioritize the use of gas and coal rather than fuel oil in electricity generation and remain committed to a transition to market-based allocation of natural gas in the medium-term. By providing adequate liquidity and therefore fuel inventories to generation plants, we were able to prioritize generation at more efficient plants, while maintaining better recovery from consumers and control over losses. In addition, the better load management policy helped us attain zero load-shedding for industrial consumers and ensured predictable and reduced load-shedding for urban and rural consumers. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to further reduce technical losses. In addition, we have signed performance contracts with three state-owned generation companies which are run on furnace oil 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.

38. **Governance, Regulatory, and Transparency Improvements**. Improving energy sector governance and transparency, and strengthening the regulatory framework are critical for delivering improved service and for attracting needed private sector investment. To begin addressing administrative and technical constraints, we have appointed a new Chairman and Board member with financial skills to NEPRA. NEPRA has moved forward in the determination of multi-year tariffs for FESCO, IESCO and LESCO, which had submitted five-year investment plans. The multi-year tariff for FESCO was determined by NEPRA in December 2015. Multi-year tariffs for IESCO and LESCO (January 2016 SB) were determined in February and March 2016, respectively, following delays in the finalization of the investment plan by the financial advisor. The tariff determination for the remaining DISCOs will be done annually on a rolling basis. The multi-year tariffs for FESCO, IESCO and LESCO will be notified by end-April 2016 (SB). We have set up the Central Power Purchasing Agency Guarantee (CPPA(G)), which has become operational. We have separated it from the National Transmission and Dispatch Company (NTDC). NTDC's license has been modified so that it can no longer purchase or sell electricity. The Market Operator Registration, Standards and Procedure Rules 2015 were issued in late May 2015 and the Commercial Code was approved by NEPRA in early June 2015. In line with our plans to liberalize the market, we have introduced the policy for net metering in October 2015 that will allow the electricity producing consumer to sell electricity to the system.

39. **Energy public sector enterprise (PSE) reform**. We have already transferred governance of DISCOs, three GENCOs, and the NTDC to new boards of directors and management. We are committed to building the institutional capacity of the Water and Power Development Authority (WAPDA), and we have begun to strengthen WAPDA's financial capacity by allowing the tariff to incorporate capital investment plans. We are also committed to ensuring timely payments by

CPPA(G) for all power purchased from WAPDA Hydel. We included several DISCOs in our privatization plans and are now the process of revisiting our timeline (¶46). In light of delays in the privatization process, we will strengthen our ongoing efforts to improve DISCOs' performance—including by further reducing losses and improving collection rates—in order to ensure that the flow of new arrears (circular debt) remains within the bounds of the revised indicative targets for March and June, 2016. Toward this end, we are introducing a new adjustor on the general government fiscal deficit that tightens this target in case of overruns (see TMU ¶26). We have begun the process of introducing competitive pricing and direct contracting between power producers and wholesale customers in the power sector. To that end, we introduced the necessary policies and timeline through an ECC decision.

Oil and Gas Sector

40. **Supply**. To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports at the end of March 2015. We 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 retailers). We approved a long-term import contract for LNG supply in December 2015. The subsequent key commercial agreements, including the Independent Power Producer letters of credit have been completed in February 2016. We have issued new exploration and production concessions for domestic gas resources and continue to limit further expansion of the gas distribution networks for domestic consumption.

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

- Under the Petroleum Exploration and Production Policy 2012 (2012 Policy), we are incentivizing producers to enhance production from existing fields as well as to initiate new exploratory efforts, with price increases ranging from 2.8–3 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 and the remaining 26 are currently being reviewed to assess eligibility for conversion under the 2012 Policy. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy.

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY 2014/15 (due in July and January) was partially recuperated in the new tariff which was notified and implemented, in line with the OGRA determination, in August, 2015. Given the decline in international oil prices and consequent revenue requirements, we have maintained the current gas tariff in line with the OGRA determination for FY 2014/15 until the next round of determination in July 2016, when we will resume our practice of regular semiannual notifications. This allows recovering the revenue requirements of the overall system. 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 46 billion in the first half of FY 2015/16. In addition to the ongoing GIDC collection, we will continue to focus on recovering GIDC from collecting agents that had collected the GIDC in their prices before May 2015.

- We are also evaluating the downstream gas business with the objective of reducing inefficiencies in the transmission and distribution segments. In this respect, the World Bank is supporting our study of the market design and restructuring, unbundling, and eventual privatization of the two gas utility companies. The study is expected to be finalized by September 2016. It will formulate recommendations based on international best practices to transition to a fully competitive, deregulated, and largely privatized gas sector. A mechanism will also be developed for determining separate transmission and distribution tariffs.

42. **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. So far, we have published three reports on the website after ECC's approval. To support the efforts of the regulator, we advertised the vacant positions on the Board of the OGRA. We have appointed the Member Finance, who enabled the formation of a legal quorum for decision making. We are in the process of selecting the Member Oil for whom the position has been advertised.

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

- 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 12.2 percent in the second quarter of FY 2015/16 due to commercial and technical losses.[4] The gas companies submitted loss reduction plans to the MPNR in May 2015.

[4] 12-month rolling sums, January–December 2015 compared to October 2014–September 2015.

- Finally, in January 2014, the President promulgated the Gas (Theft Control and Recovery) Ordinance 2014, and the bill was subsequently sent to Parliament. Following a small delay (missed end-February 2016 SB), the Gas (Theft Control and Recovery) Act is expected to be enacted shortly by Parliament (prior action).

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.

43. **Business Climate**. We remain committed to improving the business climate as a necessary condition to foster private investment and growth, which are still hampered by barriers to new business start-ups, impediments in the legal framework for creditors' rights and contract enforcement, complex legal, taxation and border trade requirements, and limited access to finance. In consultation with international partners, we finalized a detailed reform implementation plan at the federal level in October 2014, and we have implemented key measures. In addition, in order to overhaul our efforts to improve the business climate, we have finalized in February 2016 (SB) a new country-wide reform strategy, including at the provincial level, with specific time-bound measures to improve the business climate. Our reform strategy to strengthen the business climate aims at streamlining procedures and strengthening the regulatory framework, focusing on nine areas—starting businesses, construction permits, paying taxes, enforcing contracts, property registration, getting credit, trading across borders, getting electricity and resolving insolvencies. In the meantime, we have already put in place a Web Based One Customs (WeBOC) system to facilitate faster processing of trade documents, connecting all banks to cover E-form related exports proceeds. In addition, land management systems are being digitized and made more transparent by the provinces to improve the process of registering property".

- ***New Firms***. The SECP, FBR, and Employees' Old Age Benefits Institution (EOBI) have joined to launch a virtual One-Stop-Shop (OSS) for business registration in December 2014 and we set up physical OSS in Lahore in April 2015 and in Islamabad in September 2015. By streamlining overlapping procedures and establishing database sharing and a common portal for registering businesses, the 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 Corporate Rehabilitation Act is being finalized and is expected to be introduced to parliament by end-March 2016. On the other hand, the CRC Act has been introduced in the National Assembly and is being considered by the Standing Committee. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism has been extended to Islamabad and Rawalpindi in September 2015. In the context of our new strategy, we are planning to expand ADRs to Peshawar and Quetta. In addition, we have begun to pilot commercial courts in Lahore to expedite resolution of commercial disputes and contract enforcement.

- ***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. 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. We have introduced in January 2016 a simplified procedure to facilitate tax filing for small and medium retailers which will allow increasing tax compliance. We have also over-hauled the FBR website, with user guides available in two languages, and registered tax payers' import and export data has been linked with the NTN.

- ***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 this regard, improvements have been recorded and the Access to Finance Survey 2015 points to access to formal financial services increasing from 12 percent of adult population in 2008 to 23 percent in 2015. Particularly, access to bank accounts by women has expanded considerably, from 4 percent to 11 percent. In June 2015, the SBP issued guidelines to banks to facilitate the opening of 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 started opening Asaan ("Simple Small") Accounts and continue to run public awareness and media campaigns on the benefits of this initiative. We have devised plans to strengthen the financial literacy of these new client groups, including by conducting outreach. As a critical component of the NFIS to improve the credit information system and help banks extend credit to broader sections of society, the Credit Bureaus Bill, has been enacted in August 2015 (end-November 2015 SB). The SBP has finalized the regulatory and operational framework in March 2016 and the existing private Credit Bureaus will have to apply for SBP licensing by mid-October 2016 to comply with the provisions of the Act. In addition, the SBP will be strengthening the NFIS secretariat with the support of the World Bank technical assistance to facilitate the implementation of the NFIS.

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.[5] The FY 2015/16 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. In this regard, we have initiated an extensive consultation process with stakeholders.

- ***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 under various regional trade arrangements, in order to foster our exports.

45. **Public Sector Enterprises (PSEs)**. Large and growing accumulated losses in PSEs underscore the urgency of restructuring and privatizing PSEs. We are working to reform or privatize PSEs, focusing on limiting poor performance and improving public sector resource allocation. The Cabinet Committee on Privatization initially approved a list of 31 PSEs for action and subsequently added another 8 PSEs to the list. We are in the process of adding more companies to our list. We have developed a plan to sequence the capital market and pre-privatization restructuring for these firms. Despite significant delays in our privatization program, we remain committed to advance our reform agenda in order to reduce fiscal risks and improve performance, efficiency and quality of services. In light of the recent delays in our restructuring/privatization program, we are placing added emphasis on strengthening the performance and efficiency of public enterprises in the interim.

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

- ***Capital Market Transactions Roadmap***. We have identified ten companies, (listed in the TMU), in the oil and gas, banking, and insurance sectors for block sales and primary or secondary public offerings. We successfully sold minority stakes in United Bank Limited (UBL) and Pakistan Petroleum Limited (PPL) in June 2014, Allied Bank Limited (ABL) in December 2014, and Habib Bank Limited (HBL) in April 2015. Despite a slight delay, we have hired a financial advisor for State Life Insurance in January 2016, with the objective of finalizing the transaction by end-June 2016. 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 this company's minority shares by end-June 2016. On the other hand, Pak Arab Refinery Limited (PARCO) has been removed from the list of PSEs to be privatized to consider alternative options.

- ***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. In light of the reassessment of our strategy, the end-June 2016 SB to complete the bidding process is likely to be missed. For Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), we have hired financial advisors. However, the transactions are likely to be delayed. We hired financial advisors for Gujranwala Electric Power Company (GEPCO) in April 2015; and for Hyderabad, Peshawar, Quetta, Sukkur, and Multan Electric Supply Companies (HESCO, PESCO, QESCO, SEPCO, and MEPCO) in May 2015. We are in the process of revisiting our strategy for DISCOs and we will continue to engage with key stakeholders to build consensus. In the meantime, we will strengthen our efforts to improve DISCOs' performance and reduce the system financial losses.

  - **Other companies**. We have resolved the legal challenge to the cancelled sale of Heavy Electrical Complex (HEC) in May 2015 that arose owing to the winning bidder's inability to provide the funds to close the transaction. We have completed the sale of National Power Construction Co. (NPCC) in September 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and for Jamshoro Power Generation Company Limited (JPCL) in April 2015. In May 2015, we finalized the hiring of financial advisors for Lakhra Power Generation Company Limited (LPGCL), and Central Power Generation Company Limited (CPGCL). In July 2015, we have hired the financial advisor for Kot Addu Power Company (KAPCO) and initiated the due diligence process. In addition, we have hired a financial advisor for Small & Medium Enterprise (SME) Bank in January 2016, with the objective of finalizing the transaction by end-December 2016. Plans are being developed for the remaining companies on the list.

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

  - **Pakistan International Airlines (PIA)**. Legal constraints, labor reactions, and ongoing strikes have significantly delayed the process of selling a strategic share in PIA. We have appointed financial advisors in July 2014 to seek potential options for restructuring and strategic private sector participation in the core airline business. However, the due diligence process, completed in August 2015, showed that resolution of legal challenges is needed before moving forward. For this purpose, the government initially amended the PIA Act through a Presidential Ordinance while initiating in parallel the process of seeking parliamentary approval. In view of the disruption caused by labor reactions and strikes, we missed the end-December 2015 SB for solicitation of expressions of interest (EOIs) for strategic private sector participation in PIA. However, we remain committed to move ahead with seeking strategic private sector participation in PIA by building consensus with stakeholders and obtaining parliamentary approval for amendments to the PIA Act by May 15, 2016 (new SB). Meanwhile, we will continue to work closely with PIA management to ensure that ongoing financial losses are contained.

  - **Pakistan Steel Mills**. 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 of Sindh, which hosts PSM, to acquire the company. Discussions with the provincial government are continuing. Should the provincial government decline the government's offer, the privatization process will resume with approval of the transaction structure by May 15, 2016, with finalization of the transaction by December 2016. In the interim, we are working with PSM management to ensure that ongoing financial losses remain contained.

  - **Pakistan Railways**. Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, we improved revenue in FY 2013/14 and FY 2014/15 by 32 and 45 percent, respectively, through rationalization of tariffs, expenditure controls, and improved occupancy rates. Revenues further increased by 18 percent in the first half of FY 2015/16

(PRs 17.6 billion from PRs 14.9 billion in FY 2014/15). 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. We remain focused on improving freight transportation through creation of a freight company, and adding more locomotives and wagons. In FY 2014/15, we added 37 new locomotives for both passenger and freight service, and more than doubled revenues from freight operations. Furthermore, we have added 36 locomotives for freight during the first half of FY 2015/16, including through rehabilitation of existing locomotives.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY 2014/15 and FY 2015/16[1/]

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

	FY2014/15	FY2015/16						
	end-June	end-September	end-December			end-March		end-June
						Program		
						Tenth Review		
			Target	Adj. Target	Actual	Target	Revised	
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	5,354	6,955	9,300	6,609	6,882	9,300	9,300	10,700
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,661	2,580	2,770	2,633	2,660	2,660	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	329	625	625	541	1,012	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,385	1,650	1,650	1,650	1,650	2,000	2,000
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,887	1,589	1,800	1,800	1,457	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	24	46	46	48	70	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	600	1,390	1,390	1,385	2,105	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	13	27	27	0	22	15	23

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, FY 2015–16

Item	Measure	Time Frame (by End of Period) 9th review	Time Frame (by End of Period) Revised/10th review	Status	Macroeconomic rationale
Prior Actions					
1	Enact the Gas (Theft Control and Recovery) Ordinance 2014.				Strengthen governance in the gas sector
Structural Benchmarks					
Fiscal sector					
1	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.
2	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.
3	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.
4	Prepare and submit to the National Assembly draft legislation against "benami" transactions.	end-January 2016		Met	Improve tax compliance and enforcement.
5	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		Met	Strengthen tax collection
Monetary sector					
6	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.
7	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.
Financial sector					
8	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
9	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-February 2016	end-March 2016		Enhance the resilience of the financial sector.
10	Enact the Credit Bureau Act.	end-November 2015		Met in August, 2015	Extend credit to broader sections of society.
11	Amend the schedule of the AML Act, by notification in the Federal Gazette, to include offenses under the income tax law as predicate offenses to money laundering (modified SB).	end-May 2016	May 15, 2016		Use anti money laundering tools to combat tax evasion.
12	Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU.	end-January 2016		Not met 1/	Use anti-money laundering tools to combat tax evasion.

Table 2. Pakistan: Program Modalities and Structural Benchmarks, FY 2015–16 (concluded)

Item	Measure	Time Frame (by End of Period) 9th review	Revised/10th review	Status	Macroeconomic rationale
Structural Policies					
13	Solicit expressions of interest for strategic private sector participation for the 26 percent of PIA's shares.	end-December 2015		Not met	Restructure a key loss-making public sector enterprise
14	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.
15	Determine Multi-year tariffs for IESCO and LESCO.	end-January 2016		Not met, implemented in March 2016.	Prepare for DISCO privatization
16	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016			Prepare for DISCO privatization
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
19	Enact amendments to Penal Code 1860 and the Code of Criminal Procedures 1898.	end-January 2016		Met	Strengthen governance in the power sector
20	Enact the Gas (Theft Control and Recovery) Ordinance 2014.	end-February 2016		Not met, (prior action for this review)	Strengthen governance in the gas sector
21	Develop a new time-bound plan with specific measures to significantly improve the business climate.	end-February 2016		Met	Strengthen the business climate
New Structural Benchmarks					
1	(i) Issue an executive order to provide financial guarantee to the SBP in case of any losses that are not covered by SBP's general reserves and recapitalize the bank if it becomes necessary; and (ii) delegate to the SBP board the power to establish profit distribution rules, allowing the board discretion in building reserves and prohibit distribution of unrealized gains.		end-March 2016		Strengthen central bank independence
2	Identify 50 potential cases of high net worth individuals and other large taxpayers, based on established risk-based audits criteria, and initiate comprehensive income tax audit at least half of such cases		end-March 2016		Improve tax compliance and revenue collection.
3	Establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration.		end-April 2016		Improve governance in tax administration.
4	Submit amendments to the Fiscal Responsibility and Debt Limitation Act (as described in paragraph 18 of the MEFP) to the National Assembly.		end-May 2016		Strengthen the framework for fiscal responsibility.
5	Prepare and submit draft legislation for a PPP framework to the National Assembly.		end-April 2016		Strengthen the institutional framework for fiscal policy.
6	Obtain parliamentrary approval for amendments to the PIA Act.		May 15, 2016		Restructure a key loss-making public sector enterprise

1/ Parliamentary authorization for amending the schedule of tax crimes is already granted in existing AML Act.

Attachment II. Technical Memorandum of Understanding

March 10, 2016

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

A. Quantitative Targets

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

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.

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

2. **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.

3. **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.

4. **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).

5. **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.

6. **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.

7. **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.

8. **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).

9. **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.

10. **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.

11. **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.

12. **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.

13. **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.

14. **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).

15. **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.

16. **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.

17. **The "important tax crimes" in the structural benchmark "Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU" for end-January 2016 pertain to the** Income Tax Ordinance, 2001.

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

19. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶33). The current notified weighted average electricity tariff is PRs 11.45/kWh for all classes of consumers. 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) non-collections 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 FY 2015/16 = Total Annual Interest Paid on STCF balance/Estimated volume of electricity sales in FY 2015/16 (excluding lifeline and FATA domestic consumers assumes collections at the actual rate of 92 percent and base case losses of 18 percent).

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

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

(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.

20. **The stay order on FY 2013/14 surcharges** (MEFP ¶33). The court stay order increased the payment arrears by around PRs 37 billion for the November 2014–June 2015 period (see Table below). All surcharges are defined as, equalization surcharges, Neelum Jehlum and debt servicing surcharge—accrued mark up. The Supreme Court in its interim ruling (June 2015) allowed recovery of surcharges (current and arrears). The payment arrears from surcharges non-collection are being recovered in 12 monthly installments in consumer bills from August 2015.

Surcharges	Financial Impact (PRs billion)	Arrears recovered (PRs billion)
Equalization@ PRs 0.13/KWh	5	0.5
Equalization under Universal Obligation fund@ PRs 0.47/KWh	15	1.3
Neelum-Jehlum @ PRs 0.1/KWh	4	0.6
Debt servicing surcharge (STFC) @ PRs 0.43/KWh	13	1.5
Total	**37**	**3.9**

21. **Monitoring mechanism to track stock and flow of payables** (MEFP ¶35). The stock of payment arrears include the payables of PRs 326 billion, and the stock of PHCL of PRs 335 billion as of end-December 2015. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) for FY 2014/15 and FY 2015/16 and its components are given in the following Table:

(In Billion PRs)1/	2015/16				2015/16		2014/15	2015/16
	Q1		Q2		Q3	Q4		
	Target	Actual	Target	Actual			Total	Total
Non-recoveries	16	37	12	(6)	16	18	104	52
Accrued Markup	-	-	-	-	-	-	23	-
Excess Line Losses	11	22	8	(8)	0.4	4.8	50	28
GST Non Refund	-	-	-	-	-	-	14	-
Late Payment Surcharge	1	-	1	-	0.8	1.3	8	2
Delay Determinations	3	-	3	-	-	-	11	5
Flow (under arrears plan)	**31**	**59**	**24**	**(13)**	**17**	**24**	**209**	**88**
Operational deficit/surplus of the system		10		15				
Impact of oil prices		(56)		(20)	(2)	(2)		
Others 3/		(4)		18				
Stock clearance	47	4	63	-	-	-		
Total flow		13		0	15	23		51
Total (Stock)	**297**	**326**	**287**	**326**	**341**	**364**	**282**	**364**

1/ All figures have been rounded to nearest whole numbers.
2/Projections for Q3 and Q4 for FY 2015/16 update projections included in the arrears plan.
3/ Includes STFC arrears due to court stay, LNG payment arrears due to delay in tariff determination and other costs not recovered.

22. **Structural benchmark on performance of DISCOs** (MEFP ¶36). In October 2015, quarterly quantitative targets have been determined by MWP and each DISCO for technical and distribution losses, and collection from current consumers. The performances of DISCOs against targets in Q2 are given in table below.

23. **Finalization of privatization transaction** (MEFP ¶46). A transaction is 'finalized' on reaching financial closure, i.e., funds from the sale are remitted to government accounts.

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

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

C. Adjustors

24. **The floor on NIR will be adjusted upward** (downward) by the cumulative excess (shortfall) of cash inflows from multilateral and bilateral creditors, Coalition Support Fund (CSF), and bond issuance relative to projected inflows (Table 2). Cumulative cash inflows are defined as external disbursements (including grants) from official multilateral creditors (including, but not limited to Asian Development Bank, Islamic Development Bank, and World Bank), official bilateral creditors (including, but not limited to DFID, UK, USAID), external bond placements and other commercial borrowing that are usable for the financing of the central government budget. The adjustor is modified for the end-June 2014 calculation of the fourth review to exclude the proceeds of the US$2 billion Eurobond transaction, and for the end-December 2015, end-March 2016, and end-June 2016 calculations to exclude external long-term market financing that is expected to happen as US$500 million in Q2 and US$850 million in Q3 of FY 2015/16. This modification does not apply to subsequent reviews.

25. **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).

26. **The ceiling on the consolidated overall budget deficit** (excluding grants) for FY 2014/15 will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 15 billion at end-September, PRs 25 billion at end-December, PRs 42 billion at end-March, and PRs 50 billion at end-June. The ceiling for FY 2014/15 will be adjusted downward for any shortfall in federal development spending below PRs 25 billion at end-September, PRs 80 billion at end-December, PRs 243 billion at end-March and PRs 410 billion at end-June. The ceiling for FY 2015/16 will be adjusted downward for any shortfall in federal development spending (excluding one-off spending included in the below adjustor for security enhancements related to fighting terrorism and resettlement of internally displaced persons) below PRs 35 billion at end-September, PRs 90 billion at end-December, PRs 250 billion at end-March and PRs 450 billion at end-June. The ceiling will be adjusted downward for any shortfall in the targeted cash transfers (BISP) and it will be adjusted upward for over performance in the BISP up to PRS 12 billion in FY 2014/15 and PRs 6 billion in FY 2015/16 from their indicative targets. In FY 2015/16, the ceiling will be adjusted upward for one-off spending of up to PRs 100 billion in total on security enhancements related to fighting terrorism (budget code: ID 8262, demand no. 114, Development Expenditure of Finance Division) and resettlement of internally displaced persons (budget code: ID 8261, demand No. 114, Development Expenditure of Finance Division). In March and June 2016, the ceiling will be adjusted downward for any excess (cumulatively, starting from January 1, 2016) in the flow of power sector payment arrears above the respective indicative program targets.

D. Public Sector Enterprises

List of Companies for **Capital Market Transactions**

- Oil and Gas Development Co. Ltd (OGDCL)
- Pakistan Petroleum Ltd (PPL)
- Mari Petroleum 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

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within 5 working day
	Foreign exchange market	SBP foreign exchange operations, and intervention,(volume)	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Monthly	Third working day of the following month
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by	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
	All tax refund claims in arrears	Itemized by tax category (GST, income, customs duties, etc.)	Monthly	Within 7 days of the end of each month
	Automated GST refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within 7 days of the end of each month
		Number of refunds that were processed automatically (share of total refunds); total value of automated and automatic refunds and offsets; average waiting time (days) to receive refund	Quarterly	Within 7 days of the end of each month
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large tax payer units (LTUs)	Quarterly	Within 7 days of the end of each month

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						9th Review	Actual	Projection	
Multilateral and bilateral disbursement	2,943	1,270	1,098	1,002	1,970	1,097	2,165	2,311	1,853	2,754
of which: in cash 1/	2,608	407	543	764	1,810	617	1,800	1,299	1,188	2,014
International debt issuance 2/	2,000	0	1,000	0	0	500	1,000	400	850	500
Coalition Support Fund	375	735	0	717	0	713	175	0	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	2,309	3,340	2,711	2,878	3,429
of which: in cash	4,983	1,143	1,543	1,481	2,574	1,830	2,975	1,699	2,213	2,689
Debt service	943	989	1,110	1,842	1,422	1,106	1,223	1,153	1,431	1,343
Memorandum items										
Gross International Reserves	9,096	8,943	10,514	11,615	13,534	15,247	16,119	15,886	15,607	17,516
Program Net International Reserves	1,800	3,000	3,500	5,000	7,300	8,300	9,300	9,300	9,300	10,700

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

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

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Non Tax revenue	322	353	375	735	0	717	0	713	0	175	175
Of which: Coalition Support Fund	322	353	375	735	0	717	0	713	0	175	175
3G Licences	0	0	0	0	0	0	0	0	0	0	0
Grants	100	1,538	151	147	346	148	51	153	226	217	258
External interest payments	202	155	215	174	289	166	311	192	341	266	283
Net external debt financing	50	-115	3,001	273	1,209	-56	422	532	1,269	-29	1,936
Disbursements	645	760	4,213	871	1,845	851	1,484	1,443	2,086	1,635	2,995
of which budgetary support	309	285	2,070	14	23	547	528	153	1,120	177	968
Amortization	594	875	1,212	598	636	907	1,063	912	817	1,664	1,060
Privatizations	0	0	5	0	0	0	764	0	0	0	0
Memorandum item											
Program financing	409	1,823	2,226	161	369	695	1,343	307	1,346	394	1,226

Table 4. Government Sector (Budgetary Support)

(End-of-period stocks/PRs millions)

Item	June 30, 2013	June 30, 2014	June 30, 2015	Prov. Dec 31, 2015
Central Government	**5,561,994**	**6,059,496**	**7,003,751**	**7,404,987**
Scheduled Banks	**3,320,870**	**3,491,821**	**4,905,118**	**5,548,359**
Government Securities	1,117,115	2,413,134	3,295,052	3,631,997
Treasury Bills	2,611,512	1,550,476	2,164,055	2,538,322
Government Deposits	-407,757	-471,789	-553,989	-621,959
State Bank	**2,241,124**	**2,567,674**	**2,098,634**	**1,856,628**
Government Securities	3,127	2,786	2,786	2,784
Accrued Profit on MRTBs	44,959	82,070	42,192	35,372
Treasury Bills	2,275,183	2,852,274	2,281,365	2,161,631
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,280,856	2,161,100
Treasury Currency	8,653	8,654	8,156	8,181
Debtor Balances (Excl. Zakat Fund)				
Government Deposits	-96,260	-383,571	-235,865	-351,340
(Excl. Zakat and Privatization Fund)				
Payment to HBL on a/c of HC&EB	-287	-287	0	0
Adjustment for use of Privatization Proceeds				
for Debt Retirement	5,749	5,749	0	0
Provincial Governments	**-315,607**	**-510,138**	**-600,192**	**-807,222**
Scheduled Banks	**-287,393**	**-352,258**	**-430,426**	**-443,443**
Advances to Punjab Gov Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-431,450	-444,467
State Bank	**-28,214**	**-157,880**	**-169,766**	**-363,779**
Debtor Balances (Excl. Zakat Fund)	13,715	802	3,049	1,749
Government Deposits (Excl.Zakat Fund)	-41,930	-158,682	-172,814	-365,528
Net Govt. Budgetary Borrowings				
from the Banking system	**5,246,387**	**5,549,357**	**6,403,559**	**6,597,765**
Through SBP	2,212,910	2,409,794	1,928,868	1,492,849
Through Scheduled Banks	3,033,477	3,139,563	4,474,691	5,104,916
Memorandum Items				
Accrued Profit on SBP holding of MRTBs	**44,959**	**82,070**	**42,192**	**35,372**
Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-6,438**	**-7,259**	**-10,980**
Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**1,525,175**	**2,125,355**	**2,478,158**
Net Govt. Borrowings (Cash basis)				
From Banking System	**5,124,762**	**5,448,425**	**6,329,926**	**6,513,210**
From SBP	2,167,951	2,327,725	1,886,676	1,457,477
From Scheduled Banks	2,956,811	3,120,700	4,443,250	5,055,733

Statement by Jafar Mojarrad, Executive Director for Pakistan and Shahid Mahmood, Senior Advisor to Executive Director March 25, 2016

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

Program Performance

Program performance has significantly strengthened in 2015, reflecting the authorities' strong commitment to the program, despite significant challenges from a less favorable international environment and unfavorable cotton crop. All end-December performance criteria (PCs) were met, in some instances with significant margins, as were two indicative targets (ITs) on social spending under the Benazir Income Support Program (BISP) and on accumulation of power sector arrears. The third IT on tax revenue was narrowly missed but only after recouping PKR 35 billion out of the shortfall of PKR 40 billion recorded at end-September 2015, thus putting the revenue collection on a strong path to meeting the end-fiscal year target.

Significant progress has been made in structural reform implementation. Five Structural Benchmarks (SB) were met, including adoption of comprehensive monitoring system for tax audits, submission of draft legislation against *benami* transactions to the National Assembly, amendments to the Penal Code 1860 and the Code of Criminal Procedures 1898, a new time-bound plan with specific measures to significantly improve the business climate, and determination of multi-year tariffs by the power distribution companies IESCO and LESCO, albeit with a short delay. Amendments to AML Act (SB) were no longer required as the law allows inclusion of tax crimes in the schedule of the AML Act without legislative action. As a modified SB, the authorities will now amend the schedule of the AML Act through notification in the official gazette to include offenses under the income tax law as predicate offenses under money laundering. However, the end-December SB on soliciting expressions of interest for strategic private sector stake in Pakistan International Airlines (PIA) was not met because of legal constraints, political resistance, and labor opposition. The authorities reiterate their strong commitment to completing this reform and are seeking Parliament approval of Amendments to the PIA Act by mid-May 2016 (new SB). The missed end-February SB on enactment of the Gas Ordinance has been implemented as a prior action for this review. The authorities have also agreed to five new SBs to monitor implementation of the structural agenda under the program.

Recent Economic Developments and Outlook

Strengthened program implementation has significantly improved macroeconomic stability, providing an environment more conducive to growth and improving the economy's prospects. Economic activity has remained resilient, despite challenges, buoyed by uptick in the large-scale manufacturing, growing construction activity, recovery in private sector credit growth, and increased FDI inflows, reflecting positive effects of reduced outages as energy sector reforms start bearing fruit, despite a temporary setback to the power sector privatization process. Real GDP growth is projected to rise from 4.2 percent in FY 2014/15 to 4.5 percent this fiscal year (the highest in eight years), and after falling to historically low level of 1.3 percent in September 2015, y-o-y inflation has gradually increased to 4 percent in February 2016, while remaining well-anchored by prudent monetary policy. On the back of continued low oil prices and steady inflow of remittances, and notwithstanding the adverse impact of a decline in other export commodity prices, current account deficit is projected to close at around one percent of GDP in FY 2015/16. Gross international reserves have strengthened further to reach US$ 15.9 billion by end-December 2015, covering over four months of prospective imports.

The outlook continues to improve, as growth should strengthen as a result of enhanced investor confidence from improved macroeconomic conditions and business climate, further easing in the energy supply situation, investments in the China-Pakistan Economic Corridor, and prospects of strengthened economic ties with neighboring Iran after lifting of sanctions.

Fiscal Policy and Debt Management

Fiscal consolidation has been at the heart of the program. The authorities have made significant progress in strengthening revenue mobilization and containing expenditures, bringing the fiscal deficit (excluding grants) down from 8.5 percent of GDP in FY 2012/13 to 5.4 percent in FY 2014/15. They aim at reducing the fiscal deficit to 4.3 percent of GDP in FY 2015/16, with a further reduction to 3 ½ percent in FY 2016/17, putting public debt on a firmly declining path.

Revenue collection has improved during the program period, and the tax-to-GDP ratio is projected to exceed 12 percent in FY 2015/16 from 10 percent at the start of this program. After increasing by 15.8 percent on average for the period FY 2012/13 to FY 2014/15, FBR collection strengthened further in the first eight months of this fiscal year, growing by 18.3 percent, reflecting the impact of the measures that the authorities have taken since the start of the program. The authorities are cognizant that despite this marked improvement, much more needs to be done, and are targeting a tax-to-GDP ratio of 14.5 percent of GDP by FY 2019/20. To achieve this goal, in addition to the full year effect of recent revenue measures and to enhance tax compliance, a comprehensive monitoring system for tax audits has been instituted, with quantitative performance criteria of number of risk-based audits as well as qualitative audit indicators (SB). By improving audit practices, not only have the number of cases selected for audit increased six-fold between 2011 and 2015, but the resulting claims from the FBR and actual collections have increased even more. The authorities are also improving coordination and information exchange between revenue agencies. Some of the other important measures include among others: i) removing distortions and discriminatory tax exemptions (MEFP, ¶11), ii) submitting draft legislation to the parliament against *benami* transactions (SB), and iii) improving governance in tax administration (¶17). Moreover, in implementing the voluntary tax compliance scheme for traders, the authorities will ensure that it does not create moral hazard or discriminate against law-abiding taxpayers.

Budget spending has remained prudent, and the authorities are committed to meeting the deficit target for the fiscal year, including some nonplan loans and agriculture expenditure which were not part of the budget. They have continued to reduce energy subsidies and improve their targeting, and are on course to bringing them down to 0.4 percent of GDP in FY 2015/16 (including 0.1 percent of GDP for arrears clearance) from 1.4 percent in FY 2012/13. They are strengthening fiscal policy coordination between federal and provincial governments to rebalance the devolution of revenues and expenditures. The authorities will prepare contingency measures to protect against any potential deviation from the fiscal deficit target. To provide a coherent institutional framework in line with best international practices for engaging the private sector in public infrastructure projects and create greater fiscal space for pro-growth spending, the authorities are preparing a Public-Private Partnership law to be submitted to the National Assembly by end-April 2016 (SB).

To improve debt sustainability, the authorities are focusing on reducing rollover risks, lengthening the maturity profile, and creating an appropriate balance between domestic and external financing. They have also continued to strengthen the institutional framework for debt management, including enhancing staffing of the Debt Policy Coordination Office. The Medium-Term Debt Strategy for the period FY 2015/16 to FY 2018/19 was also published in March 2016. To further strengthen debt sustainability, the authorities, with Fund TA support, are amending the 2005 law on Fiscal Responsibility and Debt Limitation (new SB) to ensure sound management of public finances and reduce debt-to-GDP ratio gradually from 63.2 percent of GDP in FY 2015/16 to 60 percent in 2017/18 and to 50 percent over a 15-year transitional period.

The authorities are strengthening the social safety net. They have enhanced the coverage and stipend of the BISP to improve the conditions of the marginalized segments of society. The authorities are also expanding the conditional cash transfer program for students to 1.3 million beneficiaries and are including more districts under the program.

Monetary and Exchange Rate Policies

Monetary and exchange rate policies remain geared towards building external buffers and maintaining price stability. Consistent with the program goals, the authorities have maintained a prudent monetary policy stance setting the policy rate in a forward-looking fashion to anchor low inflation expectations. Benefitting from continued low international oil prices, the authorities are building external reserves, including through market purchases.

In line with the objective of increasing SBP's autonomy and ensuring transparency in monetary policy, the recently-established Monetary Policy Committee held its first meeting in January 2016, after approval of the amendments to the SBP law by the parliament in November 2015. To further strengthen SBP's autonomy and to give effect to the remaining recommendations of the 2013 Safeguards Assessment, a time-bound legislative action plan is being prepared. In the meanwhile, the authorities, through an executive order will: i) provide financial guarantee for losses that are not covered by SBP's general reserves, and authorize recapitalization of the bank if required and, ii) delegate power to the SBP Board to establish profit distribution rules, allowing it discretion in building reserves, and prohibit distribution of unrealized gains (SB). Further work is ongoing to strengthen SBP's analytical capabilities in the transition to inflation targeting in the medium-term, including by strengthening the interest rate corridor and disseminating information about inflation expectations and forecast.

Financial Sector

The banking sector remains well capitalized and profitable. Although the Capital Adequacy Ratio (CAR) declined marginally to 17.3 percent in the quarter ending December 2015, reflecting strong growth in private sector credit, it remained much higher than the minimum requirement of 10.25 percent under Basel III. The asset quality of the banking sector improved, with NPL ratio declining to 11.3 percent and improved provisioning. Moreover, the SBP continues to monitor compliance with regulations: two banks which recently became CAR noncompliant will soon meet the statutory ratio, one of which by end-December 2016 after privatization, while the other will have to meet the minor shortfall through capital injection by March 2016. Another two banks which are CAR compliant but remain below the minimum capital requirement (MCR) will be made MCR-compliant by June and December 2016, respectively.

Extensive reform efforts are underway to reinforce regulatory and supervisory framework to protect financial stability. These include: i) revision of Securities Exchange Commission of Pakistan (SECP) Act to enhance its regulatory role; ii) establishment of a framework for consolidated supervision of banking groups and financial conglomerates by SBP-SECP; iii) amendments to foreclosure clauses in the Financial Institutions Ordinance 2001 to improve recovery of NPLs without intervention of banking courts, along with preparation of draft Corporate Restructuring Companies Act to facilitate timely resolution of NPLs, and preparation of a concept note for development of a Corporate Rehabilitation Act; and iv) progress toward developing a contingency planning framework for SBP and identification and monitoring of domestic systemically important banks. Moreover, to strengthen the stability and resilience of the banking system, a modern deposit insurance scheme is being instituted, and a Deposit Protection Corporation Act is expected to be enacted by end-March 2016, with the Corporation to be operational by June 2016. Progress is also made in transition to Basel III capital and liquidity standards. The authorities will continue strengthening effectiveness of the AML/CFT frameworks in line with international standards.

Structural Reforms

Structural reforms are a key element of this program and are designed to improve efficiency and service delivery in the public sector enterprises (PSEs) and reduce fiscal burden and risks through restructuring and privatization, reforming the energy sector to strengthen its performance and eliminate shortages, and enhance competitiveness and the business climate to achieve higher and more inclusive growth.

The authorities are firmly committed to the privatization program. The government has divested shares in three banks and a petroleum company, and has completed strategic sale of a construction company. Despite the temporary setback in strategic private sector stake in PIA as explained above, the authorities are firmly committed to completing this reform and are seeking parliament approval of the Amendment to the PIA Act by mid-May 2016. Unfortunately, the social tensions that hindered the private sector stake in PIA will likely delay the bidding process for shares of the power distribution company FESCO. The authorities are determined to seek broad consensus with stakeholders in order to put the privatization program back on track.

Continued progress is being made in Public Sector Enterprise (PSE) reform. The power sector companies are being required to commit to stringent reform measures so as to prevent further losses, reduce arrear accumulation, and to eliminate shortages and bring necessary improvements in service delivery. It is in this vein that the monitoring of arrears is being strengthened, and following over performance in reducing arrears accumulation at end-December, the indicative target for end-March and end-June has been tightened at the authorities’ request. Moreover, energy sources are being diversified away from fuel oil, the tariff setting system is being improved, collection is strengthened, and governance of power companies is being enhanced, including as a result of the amendments to Penal Code 1860 and the Code of Criminal Procedures. Progress is also made in strengthening the financial position of the gas companies, including through semi-annual notification of gas tariffs and by improving governance, revenue collection, and gas supply conditions. In this regard, following a short delay, the Gas Ordinance 2014 Act, which should reduce theft and improve cost recovery and governance in the sector, has been enacted.

To improve the business climate, a comprehensive and country-wide reform is being undertaken, in cooperation with development partners, to remove constraints to private sector development and enhance competitiveness. In this regard, procedures for starting businesses, enforcement of creditor rights, and tax payment and trade have been streamlined, with further steps planned in these areas, including simplification of the tariff structure by July 2016, and reduction in outstanding GST refund claims. Access to finance has been improved, including for women, SMEs, and marginalized segments of society, and the authorities are committed to continue enhancing financial inclusion. The authorities are cognizant of improving gender equality in education and raise female participation in the labor force. They conducted a gender-responsive analysis in FY 2015/16 and plan to incorporate gender equality in the budget-making process from FY 2016/17 with the ultimate objective of unlocking growth potential and achieving more inclusive growth.

Conclusion

The authorities' overarching objective is to strengthen the economy's performance further to reduce unemployment and improve the standards of living of the population. They also attach high priority to reducing inequality and addressing the needs of the most vulnerable segments of society through enhanced and broadened safety nets. They remain committed to maintaining sound policy implementation and strengthening the reform momentum to achieve their objectives under the program and over the medium-term. They request completion of the tenth review and modification of performance criteria, as stated in their MEFP. They are grateful for the guidance and support from management and the Board throughout this EFF-supported program.