

Table 1. Pakistan: Quantitative Performance Criteria, and Indicative Targets Under the Stand-By Arrangement, December 2000–June 2001

(Cumulative flows from July 1, 2000 unless otherwise specified)

	Outstanding Stock End-June 2000	Performance Criteria							
		End-December 2000			End-Mar.			End-Jun.	
		Prog.	Adj.	Act.	Mod. Prog.	Adj.	Act.	Prog.	
Performance Criteria									
(In billions of Pakistan rupees)									
Net foreign assets of the SBP 1/	-55.1	-8.2	-12.2	2.1	8.7	-4.1	-2.1	41.5	
Net domestic assets of the SBP 2/	552.9	-26.3	-22.1	-41.1	8.0	8.2	-8.1	-14.3	
Overall budget deficit	206.4	103.8	103.8	77.9	152.8	152.8	144.5	185.7	
<i>Of which</i> : net bank borrowing 3/	40.0	6.4	21.1	-9.4	19.9	34.8	13.0	-14.5	
CBR revenue	346.6	189.9	189.9	182.0	279.3	279.3	276.7	417.3	
Credit to the seven major public enterprises 4/	44.5	6.5	0.0	-9.4	9.5	2.0	-14.2	11.5	
Accumulation of budgetary arrears to WAPDA		0.0	0.0	-3.7	0.0	0.0	-3.4	0.0	
(In millions of U.S. dollars)									
Contracting of short-term public and publicly guaranteed external debt 5/	657	800	...	264	800	...	474	800	
Contracting of nonconcessional medium- and long-term public and publicly guaranteed external debt 5/		2,000	...	533	2,500	...	688	3,000	
<i>Of which</i> : External debt with an initial maturity of over one year and up to five years 5/		1,000	...	33	1,500	...	33	1,500	
Accumulation of external payments arrears (continuous performance criterion during the program period)		0	...	0	0	...	0	0	
Indicative Targets									
(In billions of Pakistan rupees)									
Net domestic assets of the banking system 6/	1,451.5	29.3	44.0	71.7	59.8	74.7	46.3	88.6	
Federal tax revenue 7/	386.8	207.5	207.5	195.5	317.2	317.2	300.6	451.3	
Social and poverty-related spending 8/	76.3	48.5	48.5	35.2	77.9	77.9	73.1	97.5	
Memorandum items:									
Net external budget financing 9/	73.6	71.5	...	43.6	87.0	...	61.7	122.0	
Net foreign assets of the SBP (level; PRs bln)	-55.1	-63.3	...	-52.9	-46.4	...	-57.2	-13.5	
Net domestic assets of the SBP (level; PRs bln)	552.9	526.6	...	511.8	560.8	...	544.8	538.6	
(In millions of U.S. dollars)									
Stock of non-resident institutional foreign currency deposits with SBP forward exchange cover	1,072	1,007	...	1,001	798.0	...	811.0	790	
Program financing		1,690	...	1,301	1,997	...	1,693	2,550	
BOP support loans 10/		570	...	212	567	...	316	918	
Debt rescheduling		1,120	...	1,089	1,430	...	1,377	1,632	
Stock of foreign exchange swaps of the SBP	756	717	...	798	717	...	753	717	
<i>Of which</i> : short-term	104	65	...	256	0	...	0	0	
Forward exchange contracts of the SBP	0	23	...	27	23	...	10	23	
External financing counted as SBP liability		117	...	79	220	...	107	207	

Sources: Quarterly macroeconomic projections for 2000/01 agreed between the Pakistan authorities and the Fund staff.

1/ These floors will be adjusted: (a) upward by the rupee equivalent of the excess in program financing; (b) downward by the rupee equivalent of the shortfall in program financing provided that the SBP net foreign assets remain above PRs –78 billion at end-December 2000, above PRs –61.3 billion at end-March 2001, and above PRs –20 billion at end-June 2001; (c) upward by the rupee equivalent of the full amount of any privatization proceeds from abroad; and (d) upward by the rupee equivalent of the excess in nonresident institutional foreign currency deposits with SBP forward exchange cover above the end-August 2000 level (US\$1,068 million), in foreign exchange swaps of the SBP above the end-August 2000 level (US\$717 million), in outright forward sales of foreign exchange by the SBP above the end-August 2000 level (US\$23 million), and in SBP foreign exchange reserves held with foreign branches of domestic banks above the end-June 2000 level (US\$545 million). The floor for end-June 2001 will also be adjusted upward/downward for the excess/shortfall in FE25s held with the SBP above their projected end-June 2001 level of US\$530 million.

2/ These ceilings will be adjusted (a) downward by the rupee equivalent of the excess in program financing; (b) upward by the rupee equivalent of the shortfall in program financing provided that the net domestic assets of the SBP remain below PRs 541.3 billion at end-2000, below PRs 563.1 billion at end-March 2001, and below PRs 545 billion at end-June 2001; (c) downward by the rupee equivalent of the full amount of any privatization proceeds from abroad used by the budget; and (d) downward by the rupee equivalent of the excess in foreign currency deposits with SBP forward exchange cover above the end-August 2000 level and in foreign exchange swaps of the SBP above the end-August 2000 level, in outright forward sales of foreign exchange by the SBP above the end-August 2000 level, and in SBP foreign exchange reserves held with foreign branches of domestic banks above the end-June 2000 level. The ceiling for end-June will be adjusted downward/upward for the excess/shortfall in FE25s held with the SBP above their projected end-June 2001 level of US\$530 million (PRs 31.62 billion). These ceilings will also be adjusted downward/upward by the amount of banks' reserves freed/seized by any reduction/increase of daily CRR of 4 percent and by the amount of any reduction/increase in the deposit base with respect to the programmed levels of PRs 1,084 billion at end-March 2001 and PRs 1,143 billion at end-June 2001 that is related to changes in definition of deposits subject to CRR.

3/ These ceilings will be adjusted: (a) downward by the rupee equivalent of the excess in net external budget financing; (b) upward by the equivalent of any shortfall in net external budget financing provided that net bank borrowing by the government remains below PRs 21.1 billion at end-December 2000, below PRs 34.8 billion at end-March 2001, and below PRs –8 billion at end-June 2001; and (c) downward by the rupee equivalent of the amount of new privatization proceeds used by the budget.

4/ The seven major enterprises are Pakistan Railways, the Water and Power Development Authority, the Karachi Electricity Supply Corporation, Ltd., Sui Northern Gas Pipelines Ltd., Sui Southern Gas Company Ltd., the Pakistan Telecommunications Corporation Ltd., and the Oil and Gas Development Corporation. This ceiling will be adjusted downward if the difference between program and actual amounts of restructuring credits to KESC related to the financing of its cash shortfall is positive; the program amount is PRs 7.5 billion.

5/ This performance criteria applies not only to debt as defined in point No. 9 of the Guidelines on Performance criteria with respect to Foreign Debt (adopted on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. See paragraph 12 of the Annex to the attached Technical Memorandum of Understanding.

6/ These ceilings include the rupee counterpart of external debt service due on rescheduled government and government guaranteed debt. These indicative ceilings will be adjusted: (a) downward by the rupee equivalent of the excess in program financing; (b) upward by the rupee equivalent of the shortfall in program financing provided that the net domestic assets of the banking system remain below PRs 1,495.5 billion at end-2000, below PRs 1,515.7 billion at end-March 2001, and below PRs 1,545.8 billion at end-June 2001; (c) downward by the rupee equivalent of the full amount of any privatization proceeds from abroad; and (d) downward by the rupee equivalent of the excess in foreign currency deposits with SBP forward exchange cover above the end-August 2000 level.

7/ Consists of the taxes collected by the Central Board of Revenue, gas and petroleum surcharges, and the foreign travel tax.

8/ Consists of central and provincial government spending under the Public Sector Development Program and the Social Action Program (SAP), including outlays on agricultural income generating programs, education and training, health and nutrition, rural development (farm to market roads), manpower and employment, women development, population welfare, social welfare, environment, integrated rural and urban development, and the special areas social action program. SAP spending also includes basic education and health sector current outlays. Expenditures under the Zakat program outside the budget are excluded.

9/ Includes all receipts from foreign currency government debt (including net amount of special dollar bonds issued), except for Non-Plan resources; receipts (cash or in kind) from the refund from the purchase of war planes from the United States; the accumulation of arrears on foreign currency government debt (including arrears on military debt); and the rescheduling of foreign currency government debt (including military debt); less the repayment of principal on foreign currency government debt (excluding military debt).

10/ Include adjustment loans from the World Bank and the AsDB net of principal payments due to the World Bank, AsDB, IDB, and IFAD; bilateral grants and loans for balance of payments support; additional loans from commercial banks; and debt relief from commercial banks.

Table 2. Pakistan: Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement

Measures	Timing	Status
I. Structural Performance Criteria		
Implementation of the quarterly petroleum price adjustment mechanism for all major petroleum products as described in Section VI of the Technical Memorandum of Understanding as amended in the Supplementary TMU.	December 15, 2000, March 15, 2001, June 15, 2001.	Implemented on December 31, 2000 March 15, 2001, June 15, 2001.
Ban on introduction of new GST exemptions and fixed-tax schemes under the GST.	Continuous during the program period.	Met through March 2001.
Publication of quarterly fiscal reports that have been verified by the Accountant General Pakistan Revenue (starting with the first quarter of 2000/01; reports are to be published no later than two months after the end of the quarter).	End-February 2001, end-May 2001, and end-August 2001.	Met in May 2001 .
GST extension to urea fertilizer and pesticides.	By end-March 2001.	Met.
GST extension to all other agricultural inputs.	By September 1, 2001.	
Promulgation of a new income tax law, that puts into place a global income tax with: (a) a simpler rate structure for individuals; (b) uniform tax of all companies; (c) less emphasis on withholding and presumptive taxes; (d) fewer exemptions; and (e) replacement of investment incentives by a simple system of accelerated depreciation.	With the passage of the 2001/02 budget before end-July 2001.	
Extension of income tax to all new issuance of NSS instruments on the same basis as the income tax currently applies to other financial instruments.	With the passage of the 2001/02 budget before end-July 2001.	
The extension of GST to all retailers/traders above the PRs 5 million threshold.	With the passage of the 2001/02 budget before end-July 2001.	
The reduction of the maximum customs tariff to 30 percent and the number of tariff slabs to four.	July 1, 2001.	
The elimination of interest subsidy element of the export finance scheme.	July 1, 2001.	
Prepare an IAS-compliant reporting format and comparable IAS financial statements for the SBP for the previous year ended June 30, 2000.	End-June 2001.	
Reduce SBP deposits with Pakistani banks abroad to a maximum of US\$200 million and formulate plan to further reduce placements with Pakistani banks abroad.	End-June 2001.	

Table 2. Pakistan: Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement

Measures	Timing	Status
II. Structural Benchmarks		
Completion and publication of a special audit in line with international standards of the Central Directorate of National Savings.	End-October 2000.	Met.
Establishment and implementation of a formula linking interest rates on new Defense Savings Certificates to the market-determined yield of the new government bond.	January 1, 2001.	Met.
Enactment of the anti-dumping law that would lead to the withdrawal of the different excises applied to domestically produced and imported goods as an anti-dumping measure.	End-December 2000.	Met.
Preparatory steps relating to the promulgation of a new income tax law with the 2001/02 budget:		
The income tax committee will submit its preliminary recommendations to the Ministry of Finance.	End-December 2000.	Met.
The final report and draft law will be submitted to cabinet.	End-March 2001.	Pending.
Establish basic reconciliation processes in all provinces. All provinces will produce quarterly reports for internal use and reporting to the MoF that are fully reconciled in terms of AG/Departmental accounts, clearance of suspense accounts, SBP and scheduled bank accounts, and provincial/federal records of intergovernmental flows.	Quarterly, starting end-March 2001 (covering data through December 2000).	Pending.
Publication of public sector contingent liabilities as an annex to the Economic Survey.	By end-June 2001, with the economic survey presented prior to the 2001/02 budget.	Met.
Publications of a schedule of tax expenditures as an annex to the Economic Survey.	By end-June 2001, with the economic survey presented prior to the 2001/02 budget.	Met.
Initiate a review of Part A of the budget (covering costs of government services such as wages and salaries).	By end-December 2000.	Met.
Establish a fiscal reform unit to build up technical capacity and more effective ownership of fiscal reform programs, which would cover tax reform as well as public expenditure management reform.	January 2001.	Established in February 2001.
Commission and complete an independent review of SBP's internal audit function.	End-June 2001.	

Table 2. Pakistan: Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement

Measures	Timing	Status
Prepare draft revisions to the SBP Act and issue resolutions by the MFP Coordination Board: (i) to ensure that the Governor and other Central Board members can only be removed by legal cause; and (ii) to guarantee autonomy of the SBP in respect of the management of reserves.	End-August 2001.	
Send report on research studies in the framework of National Accounts Project to the Fund's Statistics Department according to the following schedule:		
- Those related to fishing, shipping, and services.	End-March 2001.	Report provided in April 2001.
- Those related to livestock, mining and quarrying, and public administration and defense.	End-June 2001.	
Assess in context of FSAP exercise weaknesses in financial sector and formulate comprehensive strategy to develop a financial sector that is viable and contributes to higher investment and growth; ensure implementation of best international practices to combat money laundering.	Mid-September 2001.	
Full implementation of agricultural income taxes on the basis of provincial implementing regulations to become effective in each province by end-June 2001.	End-June 2001	
Cabinet approval of a right-and downsizing plan restructuring all federal ministries; and corresponding plans to be adopted by the provinces. On this basis, recruitment to be limited with a view to achieve a 2 percent decline in the government payroll per year through 2003/04. Similar plans to be adopted at the provincial levels.	End-July 2001.	
Deregulation of diesel prices.	Mid-September 2001	

Table 3. Pakistan: Prior Actions

1. Increase in net reserves of the SBP (gross reserves minus FE-25 foreign currency deposits with the SBP, short-term foreign currency swaps and forwards), and excluding any disbursements under the World Bank SAC to at least US\$990 million by June 15, 2001 (and US\$1,340 million if the SAC is disbursed by that time).
2. Announcement of budget for 2001/02 consistent with the agreed financial program (Table 4). The budget document will include a report on public contingent liabilities and the schedule of tax expenditure. Concomitant with the budget, the following will be announced to become effective July 1, 2001: elimination of some GST exemptions; elimination of any discrimination in excise rates between imported and domestically produced goods; and elimination of nine minor excise taxes and rationalization of the excise on cigarettes.
3. The budget announcement will also include the following steps towards income tax reform to become effective end-July 2001: removal of the tax exempt status for new NSS instruments; abolition of 5 minor withholding taxes; a new schedule for the personal income tax with five rates (7.5, 12.5, 20, 25 and 35 percent); a first step towards unifying corporate income tax rates (to 50 percent for banks; 45 percent for private companies; and 35 percent for publicly traded companies); abolition of all surcharges; and the abolition of income tax exemptions for income from FEBCs, TFCs, and donations for National Debt retirement and the National Self Reliance Fund.
4. Liberalization of the ban on wheat imports (and replacement by tariff) and liberalization of wheat exports.

Table 4. Pakistan: Consolidated Government Budget, 1999/2000–2001/02

	1999/2000	2000/01				2001/02	
	Year	Jul.–Mar.		Year		Year	Jul.–Sep.
	Rev. Act.	Orig. Prog.	Prel. Act.	Rev. Prog.	Proj.	Budget	Proj.
(In billions of Pakistani rupees)							
Revenue and grants	528.4	427.6	421.6	615.1	605.3	693.8	140.9
Revenue	524.4	391.0	386.2	570.4	557.9	643.3	128.6
Tax revenue	406.8	333.3	314.7	471.4	461.5	524.1	105.4
Federal	388.4	317.2	300.6	451.3	441.3	499.9	100.4
CBR Revenue	348.1	291.6	276.7 1/	417.3	406.5	458.2	92.1
Direct tax	109.8	89.5	86.9	133.9	133.9	147.2	25.8
Federal excise duty	56.9	34.4	35.2	52.5	52.2	53.2	12.7
Sales tax	117.6	121.3	108.3	166.2	155.9	185.1	35.7
Customs duties	63.8	46.3	46.3	64.6	64.6	72.6	18.0
Petroleum surcharge	25.4	13.5	14.5	18.0	18.0	25.0	5.0
Gas surcharge	13.5	10.3	8.7	13.6	15.0	15.0	3.0
Other	1.4	1.9	0.7	2.5	1.7	1.7	0.2
Provincial	18.4	16.0	14.1	20.1	20.2	24.2	5.0
Nontax revenue	117.6	57.7	71.5	99.0	96.5	119.2	23.2
Federal	97.5	47.2	61.0	85.6	82.5	103.8	19.4
Provincial	20.1	10.5	10.5	13.4	14.0	15.4	3.8
Grants	4.0	36.6	35.4	44.7	47.4	50.5	12.3
Unidentified rev. measures	0.0		0			0.0	
Expenditure	728.7	543.8	530.7	756.1	741.2	829.8	184.5
Current expenditure	640.2	469.4	472.9	659.4	649.5	699.5	156.6
Federal	484.9	339.0	368.9	488.5	488.5	524.5	119.2
Interest payments	243.3	170.6	166.6	237.0	235.0	258.5	63.5
Domestic	198.4	129.9	128.5	185.0	185.0	197.4	45.9
Foreign	44.9	40.7	38.1	52.0	50.0	61.1	17.6
Defense 2/	150.8	105.2	111.4	157.5	157.5	162.8	32.8
Running of the civil government	47.9	35.4	32.4	52.1	52.0	57.4	9.3
Subsidies	20.4	6.0	8.3	14.0	12.2	14.5	2.9
Grants	11.8	19.7	18.1	26.6	31.5	19.3	3.7
Other	9.9	2.1	0.1	1.3	0.3	12.0	7.0
<i>Of which</i> : bank restructuring						9.7	7.0
Unidentified	0.8	0.0	32.1	0.0	0.0	0.0	0.0
Provincial	155.3	130.4	104.0	171.0	161.0	175.1	37.4
Development expenditure and net lending	88.5	74.4	57.8	96.7	91.7	130.3	27.9
Public Sector Development Program	100.7	79.9	62.6	110.9	98.8	130.0	27.9
Federal 3/	64.4	49.5	48.4	68.2	66.4	100.0	19.0
Provincial	36.3	30.4	14.2	42.7	32.4	30.0	8.9
Net lending	-12.2	-5.5	-4.8	-14.3	-7.1	0.3	0.1
Budget balance (excluding grants)	-204.3	-152.8	-144.5	-185.7	-183.2	-186.5	-55.9
Budget balance (including grants)	-200.3	-116.2	-109.1	-141.0	-135.9	-136.0	-43.6
Financing	200.3	116.2	109.1	141.0	135.9	136.0	43.6
External	70.2	50.4	26.3	77.3	72.3	62.7	30.2
Domestic	130.1	65.8	82.8	63.7	63.6	34.4	13.4
Bank	40.0	19.9	13.0	-14.5	-14.5	-26.8	8.1
Nonbank	90.2	45.9	69.8	78.1	78.1	61.2	5.3
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	38.8	0.0
Memorandum items:							
Primary balance	38.9	17.7	22.1	51.4	51.8	72.0	7.6
Social and poverty-related expenditure	76.3	78.4	73.1	97.5	97.5	117.0	23.4

Sources: Ministry of Finance; and staff estimates and projections.

1/ Under the revised program, the performance criterion on CBR revenue for the first three quarters of 2000/01 was PRs 279.3 billion (EBS/01/39).

2/ Military pensions are included in defense expenditure.

3/ In 2001/02, includes PRs 10 billion and PRs 3 billion of spending related to drought and fiscal devolution.