International Monetary Fund

Pakistan and the IMF

Press Release:
IMF Completes Second Review Under Stand-By Arrangement for Pakistan and Increases Financial Support to US$11.3 billion
August 7, 2009

Country's Policy Intentions Documents

Pakistan: Letter of Intent, Supplementary Memorandum on Economic and Financial Policies, and the Technical Memorandum of Understanding

July 27, 2009

PAKISTAN: LETTER OF INTENT

July 27, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The Pakistani authorities held discussions with Fund staff for the second review under the Stand-By Arrangement (SBA). Based on these discussions, we have updated our economic program for 2009/10, as reflected in the attached Second Supplementary Memorandum of Economic and Financial Policies (SSMEFP). In support of our policies, the government requests that the Executive Board of the Fund consider an augmentation of the SBA in an amount of SDR 2,067.4 billion (200 percent of Pakistan's quota), complete the second review, and approve the third purchase under the SBA of SDR 766.7 million.

Our economic stabilization program has surmounted obstacles, but we face difficult challenges. The contracting world economy and higher oil prices are affecting Pakistan's domestic economy, trade, and external financing. The program's objectives have been modified in light of the slowdown in economic activity and our authorities believe that the policies set out in the attached SSMEFP are adequate to achieve these objectives. However, our authorities stand ready to take any additional measures deemed appropriate for this purpose, and will consult with the Fund on the adoption of these measures in accordance with Fund policies on such consultations. Our authorities will provide the Fund with the information it may request to monitor progress in implementing its economic and financial policies.

We request waivers of nonobservance for the two end-June 2009 structural performance criteria on submission to parliament of legislative amendments to (i) enhance the effectiveness of the State Bank of Pakistan in banking supervision; and to (ii) harmonize the income tax and sales tax laws and reduce exemptions for both taxes. We plan to submit the amendments to Banking Companies Ordinance to enhance SBP's enforcement powers in banking supervision by end-August, 2009, and the amendments to harmonize income and sales tax laws by end-September 2009. Both actions will be structural benchmarks for the third SBA review. Tax exemptions will be reduced with the introduction of VAT, which is scheduled to become effective on July 1, 2010.

We also request a waiver of nonobservance for the end-June quantitative performance criterion on the fiscal deficit. Although final data for the last quarter of 2008/09 are not yet available, preliminary information indicates that we missed the end-June 2009 quantitative performance criterion on the fiscal deficit by 0.9 percent of GDP, on account of security-related expenditures and unexpected borrowing by provinces.

In order to accommodate the delay in the completion of the second review we request an extension of the present SBA through end-2010 and the rephasing of purchases with an additional test date for end-September 2010.

We consent to the publication of this letter, the attached SSMEFP, the revised Technical Memorandum of Understanding, and the related staff report.

Sincerely yours,

/s/
Shaukat Tarin
Advisor to the Prime Minister on Finance,
Revenue, Economic Affairs and Statistics

/s/
Syed Salim Raza
Governor
State Bank of Pakistan

Attachments

Second Supplementary Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

PAKISTAN: SECOND SUPPLEMENTARY MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2009/10

July 29, 2009

I. INTRODUCTION

1. ***This memorandum supplements our Memorandum on Economic and Financial Policies (MEFP) for 2008/09–09/10 of November 20, 2008 and the first supplementary memorandum of March 16, 2009***. It describes policy implementation to date and lays out additional policies agreed in the context of the second review under the Stand-By Arrangement (SBA).

II. RECENT ECONOMIC DEVELOPMENTS

2. ***Our stabilization program has surmounted major security and external difficulties in recent months***. Headline inflation declined from 25 percent in October 2008 to 13.1 percent in June 2009, the rupee has remained stable at around Rs. 80 per U.S. dollar, gross foreign exchange reserves reached $9.1 billion as of June 30, 2009, and the market's demand for Treasury bills has remained strong. All quantitative performance criteria through end-March 2009 were observed (Table 1). Preliminary data for end-June 2009 indicate that the quantitative performance criteria for the net foreign and domestic assets of the State Bank of Pakistan (SBP) and net government borrowing from the SBP were met, while the budget deficit target was exceeded by about 0.9 percent of GDP, on account of lower-than-programmed tax revenues and higher provincial expenditure, as well as security- and IDP-related spending. Implementation of structural reforms suffered from delays during April–June 2009, but we are determined to press ahead with these reforms in the next few months.

3. ***The ongoing global economic crisis, negative security developments, and continued electricity shortages are slowing Pakistan's growth***. The real GDP of Pakistan's main trading partners is projected to contract by almost 3 percent on average in 2009, depressing the demand for Pakistan's manufacturing exports. Private capital inflows have declined, and there are significant downside risks for workers' remittances. Overall economic activity has weakened, despite growth in agriculture, and real GDP growth in 2008/09 is now estimated at 2 percent. Due to upward pressure on food prices, headline inflation has declined more slowly than expected. Nevertheless, it declined to 13.1 percent year-on-year in June 2009.

4. ***Pressures on the budget had intensified***. Declining imports and slowing domestic demand have resulted in lower-than-envisaged tax revenue, while expenditures have increased with larger security- and internally displaced persons (IDP)-related outlays and an unexpected surge in provincial spending. In particular, Federal Board of Revenue (FBR) revenues in 2008/09 fell short of the projection prepared at the time of the first review by 1.2 percentage points of GDP. This shortfall, however, has been offset in part by receipts from the Petroleum Development Levy (PDL), higher-than-expected nontax revenues, and

expenditure restraint, especially with respect to development spending. However, owing to the need to step up security-related spending, it was not possible to offset fully the shortfall in revenue and the deficit target was exceeded. Disbursements of multilateral program financing have been lower than projected.

5. ***Increased market confidence and declining inflation provided an opportunity for the SBP to ease somewhat the monetary policy stance***. On April 21, 2009, the SBP policy interest rate was lowered by 100 basis points, to 14 percent.

6. ***The donor conference that took place in Tokyo in April was successful***. Pakistan received $5.7 billion in new pledges over three years, which exceeded expectations. Most of the additional resources will be available for project financing—especially for social spending and IDP support—and a small portion for balance-of-payments assistance. Support group meetings are ongoing, and the details of donors' assistance are likely to be finalized by end-September 2009. This will provide an indication of the nature and timing of disbursements.

III. Policies for 2009/10

7. ***We believe that maintaining macroeconomic stability is essential for sustainable growth and the development of Pakistan's economy***. We see the following main policy challenges for 2009/10: consolidating macroeconomic stability; mitigating the effects of the global economic crisis, in particular on exports and manufacturing; implementing tax policy and administration reforms; and managing the impact on the budget of security outlays.

8. ***We remain committed to implementing our stabilization and reform policies***. The donor support pledged at the Tokyo conference provides scope for additional social expenditures and growth-oriented development spending. We will work with donors to ensure that the temporary fiscal easing envisaged for 2009/10 is supported by timely disbursements of foreign assistance and remains consistent with macroeconomic stabilization. We are mindful that the additional external support is temporary and will seek to ensure that it is used effectively and does not undermine our objective of significantly strengthening the fiscal position over the medium term. Accordingly, we remain committed to the strong tax reform efforts envisaged in the original program.

9. ***We are requesting an augmentation of access under the Fund SBA to meet the larger-than-expected balance of payments needs and address the increased risks stemming from the global financial crisis***. The augmentation will be used mostly to strengthen the SBP's international reserves and improve its ability to manage downside risks to the external position. About 45 percent of the higher access will be used for budget financing if disbursements of foreign assistance fall short of projected amounts.

10. ***The program for 2009/10 is built around the following revised economic parameters***: real GDP growth of 3 percent; consumer price inflation (year-on-year) of 9 percent at year's end; and a current account deficit of 4¾ percent of GDP.

A. Fiscal Policy

11. ***With the economy slowing and increased availability of external financing, some relaxation of the fiscal stance in 2009/10 is feasible and desirable***. The additional donor support creates an opportunity for containing the slowdown in economic growth while allowing for a perceptible increase in social, infrastructure, and security expenditures, including support for IDPs. To avoid increasing medium-term risks, we consider the Tokyo package as a bridge until tax reforms (notably, the introduction of the VAT in 2010/11) bear their full fruit. Assuming about 1.1 percent of GDP in additional disbursements from the Tokyo pledges in 2009/10, the deficit target will be raised to 4.6 percent of GDP, compared to the original program target of 3.4 percent of GDP.

12. ***The budget deficit of 4.9 percent of GDP approved by Parliament is consistent with the program deficit target of 4.6 percent of GDP***. The budget deficit target (excluding grants) would only be increased above 4.6 percent of GDP if additional IDP-related grants become available and are disbursed through the budget.[1] If IDP-related grants are not forthcoming, the fiscal space for higher IDP-related spending will be created through additional revenue measures and or by cutting non-IDP development spending and other nonessential outlays.

13. ***To ensure fiscal discipline and the achievement of the deficit target of the general government, borrowing by the provinces will be strictly limited to the agreed level of Ways and Means advances***. Most notably, the provinces will not be allowed to exceed the overdraft from the SBP beyond their agreed Ways and Means limits. The federal government, in consultation with provincial governments, will introduce, effective August 1, 2009, a binding Ways and Means ceiling of six weeks of the provincial wage bill. Moreover, agreements will be entered into by end-September 2009 between the provinces, the Ministry of Finance, and the SBP on a schedule of reduction of the overdraft stock.

14. ***An increase in the tax revenue-to-GDP ratio of 3½ percentage points over five years remains a key pillar of our medium-term fiscal strategy***. This revenue effort, to be achieved through ambitious tax policy and administration reforms, will be essential to reduce macroeconomic vulnerability and scale-up infrastructure, security, and social spending in a sustainable manner. The temporary nature of the additional resources pledged in Tokyo renders perseverance in our revenue efforts even more important.

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[1] The existing adjustor in the program accommodates additional budgetary grant-financed spending on IDPs. There are no limits on IDP grant-financed outlays by NGOs or the UN.

15. ***The budget approved by Parliament includes the following tax policy measures that are expected to yield an increase in the tax revenue-to-GDP ratio of 0.4 percentage points in 2009/10***:

- Introduction of a specific federal petroleum levy along with automatic pass-through to retail prices of changes in world oil prices;
- Introduction of a federal excise tax in VAT mode on selected services (e.g., banking services, insurance);
- Enhancement of the capital value tax (a transaction tax) on real estate transactions;
- Increase in the rate for the withholding tax on imports from 2 percent to 3 percent for imports used by industry and to 4 percent for other imports.
- Increase in the excise tax on cigarettes.
- Changes in the computation of the formula for the advance tax payable by the corporate sector.

16. ***The main pillar of our medium-term fiscal strategy is the introduction of a broad-based VAT on July 1, 2010, covering all goods and services***. This takes account of the recommendations made at the Lahore Tax Policy Conference in December 2008. A project team was established and a project leader appointed on July 2, 2009. To ensure active and comprehensive stakeholder participation, we will begin the process of consultation on the VAT with a seminar in September, with the participation at the highest level of members of the federal and provincial governments, and supported by the IMF, the World Bank, and the Asian Development Bank (ADB). This seminar will present proposals and options for the introduction and implementation of the VAT. A detailed time-bound action plan for the introduction of the VAT will be prepared by end-September 2009. We will submit the VAT law to Parliament by end-December 2009 (structural benchmark). We are receiving Fund assistance on policy aspects for introducing the VAT.

17. ***Our tax policy reforms will be complemented with reinvigorated efforts in the area of tax administration***. We have reached understandings with World Bank staff on the organization of a functionally structured tax administration which will integrate the responsibilities for domestic taxes, including the sales, income, and excise taxes, in one occupational group within the FBR. This functional organization is designed both to increase the effectiveness of tax administration and facilitate the introduction of the VAT. The following specific actions have already been taken or will be adopted in the coming months:

- To ensure swift implementation of this reform, the FBR Chairman issued an Executive Order on June 30, 2009, to put in place the new FBR management structure. We will complete the functional reorganization of tax administration by end-September, 2009. To this end, by September 15, 2009, the government will approve regulations (structural benchmark) to (i) form new occupational groups within the FBR; and (ii) revise the structures of Regional Taxpayer Offices (RTOs) and Large Taxpayer Units (LTUs). Also, all relevant laws and rules will be amended.

- We will submit to Parliament by end-September 2009 legislative amendments to harmonize the sales tax, income tax, and the federal excise tax laws with a view to facilitate the work of the functionally structured tax administration (structural benchmark). This harmonization will also include the elimination of the option for retailers with a turnover over Rs. 10 million to choose the presumptive tax regime. These measures will be taken prior to the Fund's Board consideration of the third review.
- On July 18, 2009, the FBR adopted its action plan on tax administration reform for the period July-December 2009. As part of this plan, we will reinforce our efforts to:
  - Strengthen and speed up tax audits. To that effect, we will audit 15 percent of the LTU taxpayers and 2 percent of existing medium-size business taxpayers by end-December 2009;
  - Reduce the number of unregistered taxpayers, stop filers, and under-reporting. In this context, by end-September 2009, we expect to reduce sales tax and corporate tax nonfilers (registered taxpayers who do not file returns on time) to less than 1 percent in the case of existing LTU taxpayers, and to less than 7 percent for nonfilers that are medium-size business taxpayers.
  - Introduce a 1 percent withholding mechanism on sales taxes administered by the FBR on purchases made by large taxpayers.
- To prepare for the introduction of a broad-based VAT in July 2010, we will ensure that the new expedited sales tax refund system is operational in all LTUs and RTOs by end-December 2009, and ready for full implementation by July 1, 2010, as part of the new VAT system.
- We plan to staff fully the Revenue Division of the Ministry of Finance and complete the shift of tax policy functions from the FBR to this division by end-December 2009.

18. ***Strengthening the social safety net remains a key program objective.*** The roll-out of the poverty scorecard system for the selection of beneficiary families under the Benazir Income Support Program (BISP) in 16 pilot districts may take somewhat longer than expected, given the difficulties in building administrative capacity. Nevertheless, we expect the roll-out of the scorecard to all 130 districts to be completed between December 2009 and June 2010. Using the original selection method of beneficiary families, 1.75 million families have been approved at end-June 2009, compared to an original target of 3 million. Hence, BISP disbursements in 2008/09 were lower than budgeted. However, delays in BISP disbursements in 2008/09 are not expected to impact disbursements in 2009/10 as beneficiary families identified during 2009/10 will receive benefits for the entire fiscal year, independent of the timing of approval of eligibility during 2009/10.

19. ***We will continue to strengthen our expenditure controls***. This will be achieved by implementing the medium-term budget framework at the federal level and strengthening, as well as extending the operations of the Project for Improving Financial Reporting and Auditing (PIFRA) to monthly federal and provincial fiscal reporting. A review of PIFRA to improve the coverage and quality of fiscal reporting will be undertaken and IMF technical assistance will be requested in this regard. These measures will help us to manage the disbursements of Tokyo pledges and to better control expenditures after this additional source of financing disappears. The transition to a Treasury Single Account (Federal Consolidated Fund) will be completed gradually. The government has already introduced a key element of a Treasury Single Account, requiring that all disbursements pass through a zero balance assignment account. We have also reduced the stock of outstanding balances with commercial banks. Following a World Bank technical assistance mission in July 2009, the remaining balances with commercial banks will be surveyed, reduced, and transferred to the Federal Consolidated Fund by end-June 2010, while ensuring the reduction does not affect banking sector liquidity negatively.

20. ***We have reached understandings with World Bank and ADB staffs on a plan for eliminating electricity tariff differential subsidies by August 2010***. To that effect, average electricity tariffs will be increased in stages to ensure that they reach cost recovery in August 2010. The additional need for tariff differential subsidy of Rs. 55 billion in 2009/10 will be absorbed by the budget. Moreover, the National Electric Power Regulatory Authority (NEPRA) Act will be amended by July 31, 2009 (prior action) and implemented immediately to ensure: (i) monthly determination by NEPRA of the fuel/power purchase price adjustments in line with international fuel prices and automatic implementation upon determination (the first adjustment in August 2009 will be made relative to prices prevailing in July 2009); and (ii) quarterly determination of overall electricity tariffs by NEPRA and notification of the adjusted tariffs within 15 days by the government beginning in August 2010 (during 2009/10 NEPRA will perform the quarterly determinations, but tariffs will be notified according to the agreed tariff adjustment schedule). Any review requests of tariffs will be completed within 15 days (should this not be the case, the results of the review will be taken into account in the subsequent determination). Moreover, to address the issue of circular debt, the government has decided to assume debt (Rs. 277 billion, the equivalent of 1.9 percent of GDP) that was contracted by electricity companies over the last few years on account of insufficient tariff increases and unpaid subsidies. All debt from 2008/09 and earlier years, slated to be assumed by the budget, will be audited by an internationally-renowned auditing firm by end-September 2009.

21. ***We recognize that the implementation of the 2009/10 budget will be challenging and have prepared measures to ensure the achievement of the deficit target***. External and domestic risks are significant and could result in lower revenue and/or higher expenditures. In addition, there is a need to accommodate tariff differential subsidies in the amount of Rs. 55 billion, higher-than-budgeted interest payments for electricity sector debt assumed by the budget (Rs. 10 billion), and lower-than-budgeted petroleum levy revenues

(Rs. 10 billion). Accordingly, we have decided to reduce nonpriority development spending with a view to achieving the agreed deficit target. Should further expenditure cuts become necessary to compensate for lower-than-currently-projected revenues or higher-than-currently-projected expenditures, social safety net spending and other priority spending for IDPs, infrastructure, and the social sectors will not be subject to cuts.

22. ***To ensure an orderly budget execution, a portion of the Fund resources to be disbursed during July 2009-April 2010 could be used to finance the budget***. To avoid delays in priority outlays owing to the timing of disbursement of donor support pledged in Tokyo a part of Fund resources ($1.4 billion or 0.8 percent of GDP) to be disbursed during July 2009–April 2010 could be used to finance the budget. However, Fund resources would not be used to cover delays or shortfalls in disbursements from multilateral donors. If there are delays in disbursements of nonmultilateral foreign assistance in excess of the amounts covered by Fund resources, the budget deficit target will be adjusted as described in ¶25 of the revised Technical Memorandum of Understanding (TMU).

23. ***We plan to review the limits on the issuance of guarantees, which has increased in recent years***. We have also started to publish, on a monthly basis, on the website of the Ministry of Finance the total outstanding stock of government guarantees, in line with the Fiscal Responsibility and Debt Limitation Act.

B. Monetary and Exchange Rate Policy

24. ***The SBP's primary monetary policy objective is to reduce inflation while continuing to strengthen the international reserve position***. The SBP's liquidity management will also seek to ensure the smooth functioning of the domestic market, with the government issuing T-bills and other market-based instruments to avoid SBP financing of the budget. While subsidiary to its primary objective, the SBP will also calibrate the monetary policy stance to balance concerns about the slowdown in economic activity with the need to lower inflation. As the fiscal position is still under pressure, the timing of external disbursements is highly uncertain, and there is a need to combat inflationary pressures stemming from higher oil and electricity prices and increased public sector wages, any further reduction in the SBP policy rate will await a significant and sustained decline in core inflation.

25. ***The SBP will further improve its monetary operations framework by introducing an explicit corridor for the overnight money market rate by mid-August, 2009, market conditions permitting***. This will enhance market signaling, strengthen the effectiveness of liquidity management, and reduce volatility in short-term market interest rates. It is expected that this change in the operational framework will also improve the transmission of monetary policy signals and strengthen their role in supporting price stability. The introduction of the corridor should not constrain the SBP's ability to respond to external and fiscal shocks. However, it will likely require increasing the frequency of reviews of the SBP's policy rate

and enhancing coordination between the SBP and the government to improve the projections of financial flows and enhance communication of such information to the SBP in order to strengthen its liquidity forecasting framework.

26. ***The SBP will continue to pursue a flexible exchange rate policy to strengthen the external position and competitiveness***. In this context, interventions in the foreign exchange market will be largely aimed at achieving the program's net foreign asset targets. The SBP has already notified the market that it will cease to provide foreign exchange for imports of diesel and other refined products effective August 1, 2009. Market conditions permitting, the SBP will accelerate its plan to phase-out of the provision of foreign exchange for oil imports by end-December 2009.

27. ***The SBP issued a circular on June 12, 2009, which eliminates the exchange restrictions*** related to the imposition of the cash margin requirements on letters of credit, including those introduced since the inception of the IMF program.

28. ***The SBP will rationalize its refinancing schemes and eliminate the subsidies resulting from below market interest rates***. The interest rate for the Export Financing Scheme (EFS) and the Long-Term Financing Facility (LTFF) will be increased in steps to the level of the weighted average yield on six-month T-bills and yields of the same tenor for Pakistan Investment Bonds (PIBs), respectively. The process of increasing these interest rates will begin in September 2009; by end-September 2010 they will reach levels 2 percentage points below the weighted average yield on six-month T-bills and PIBs of the same tenor for the EFS and LTFF, respectively; and by end-September 2011 they will equal the weighted average yield on six-month T-bills for the EFS and yields of the same tenor for PIBs for the LTFF.

C. Financial Sector and Safeguards Issues

29. ***The financial sector remains sound, but pressures are increasing owing to the slowdown in economic growth.*** The financial sector continues to exhibit resilience, and we are committed to continue monitoring it closely. The credit exposure of banks to vulnerable sectors of economy, like textiles, poses the main risk for the financial sector. The SBP has responded with several measures to ease pressure on banks while maintaining high standards for a sound banking system. Gross nonperforming loans (NPLs) increased from 9.1 percent of total loans in December 2008 to 11.5 percent in March 2009, with net NPLs to net loans rising from 2.5 percent to 3.9 percent over the same period. The SBP is encouraging banks to resolve the issue of growing NPLs through early recognition of problem loans and engagement with their borrowers for rescheduling or restructuring, when warranted. The capital position of the banking system remains strong, with a risk-weighted capital adequacy ratio of around 12.9 percent. Given the recent increases in NPLs, the SBP has strengthened the coverage of credit risk during its onsite examinations, continues to monitor closely NPLs

in all banks, and has asked those banks with high NPLs to adopt appropriate corrective measures.

30. ***Updated stress tests indicated that the banking system remains generally resilient***. Against this positive background, stress tests revealed increased vulnerability to default from large exposures and an increase in maturity mismatches between bank assets and liabilities in the 0–3 months and over one-year categories (liquidity risk), which in both cases have gone beyond the 10 percent limit. This is being addressed by weekly monitoring of the liquidity profile of individual banks. In the last couple of months, liquidity profile in terms of the assets to deposits ratio and the quantum of liquid assets has improved substantially. The analysis of operational risk also shows an increased incidence of fraud. SBP has encouraged banks to improve the quality of their fraud control systems, and most of the large and mid-size banks have either implemented or are in the process of implementing sophisticated core banking systems.

31. ***Amendments to the Banking Companies Ordinance have been prepared to enhance the effectiveness of SBP enforcement in the area of banking supervision***. These amendments have been reviewed and approved by the SBP Board, have been submitted to the government, and will be presented to parliament by end-August, 2009. The new Problem Bank Management and Contingency Plan has been adopted by the SBP, and a Federal Government guaranteed scheme for providing liquidity to small banks is in place.

32. ***The SBP recently reduced the quantum of gradual increments in minimum capital requirements for banks***. However, enhancements in capital adequacy requirements (CARs) were maintained. The minimum amount of capital to be required for banking institutions at end-2013 was reduced from Rs. 23 billion to Rs. 10 billion (to be achieved progressively, starting with Rs. 6 billion by end-2009), but the minimum CAR has been increased to 10 percent, with this level to be achieved by 31st December 2009. The decision to reduce the minimum amount of capital was made to avoid undue concentration in the sector and foster increased competition.

33. ***A new draft SBP law to enhance the SBP's operational independence has been reviewed by the SBP Board***. The draft SBP law includes the creation of an independent Monetary Policy Committee composed of members with strong professional credentials. The draft SBP law has recently been submitted to the inter-agency committee dealing with this issue. The government will present the respective legislative proposals to parliament as amendments to the SBP law by end-September 2009.

34. ***A new bankruptcy law will shortly be presented to the government***. The new law will help with the rehabilitation of weak but viable corporate entities and the expeditious liquidation of other insolvent companies to address the issue of rising nonperforming bank loans. The new law will be submitted to parliament by end-August 2009.

35. ***The National Investment Trust's State Enterprise Fund (NITSEF) has performed well***. As of June 30, the NITSEF had invested in the stock market Rs. 10.3 billion of its resources, which total to Rs. 20 billion. The NITSEF has benefited both from a careful timing of purchases and the performance of the Karachi Stock Exchange. The NITSEF has a website where it states its investment strategy and discloses its financial statements, as well as the quantity and average acquisition price of security purchases at the end of each quarter.

36. ***In line with Fund policies related to the augmentation of resources, an updated safeguards assessment of the SBP will be conducted***. This assessment will focus on developments since the recent assessment; in particular, actions taken in respect of the recommendations made to enhance the SBP's independence, further improve internal controls, and establish a Board Committee to centralize risk management activities.

IV. Program Risks and Monitoring

37. ***The program remains subject to considerable risks***. The economic situation in Pakistan's trading partners could deteriorate further and result in lower demand for exports, workers' remittances, and private capital flows. In addition, delays in mobilizing disbursements of donor support would limit the scope for a countercyclical fiscal policy and add to the pressures on the budget. Also, adverse security developments could act as a drag on confidence in the economy and the recovery of domestic and external demand could take longer than anticipated, undermining the revenue targets. Moreover, as economic activity weakens, the risks to the financial sector may increase.

38. ***The program will remain subject to quarterly program reviews and quarterly performance criteria for 2009/10, as specified in Table 1***. The attached TMU updates definitions for the adjustors related to external financing and, effective July 1, 2009 replaces the TMU dated November 20, 2008.

39. **The following measure will be a prior action for Board consideration of the staff report for the second review**: A presidential ordinance will be issued to amend the NEPRA Act to provide for (i) monthly determination by NEPRA of the fuel/power purchase price adjustments in line with international fuel prices and automatic implementation upon determination; (ii) quarterly determination of overall electricity tariffs by NEPRA to reflect all other cost components; and (iii) automatic notification of new tariffs within 15 days from NEPRA determination starting in August 2010.

40. ***We propose to convert the two missed end-June structural performance criteria into structural benchmarks***. In line with the Fund's new review-based conditionality, we propose to convert the structural performance criterion on amendments to the banking legislation into a structural benchmark for end-August 2009, and the structural performance criterion on legislative amendments to harmonize administration of the income tax and GST laws into a structural benchmark for end-September 2009.

V. Program Financing

41. ***Additional financing, including through higher access under the SBA, is needed to further strengthen the international reserves position in order to reduce the risks to the program***. Further, the augmentation of access under the SBA will help manage the risks stemming from the global financial crisis. As noted, while the program remains financed for 2008/09–2009/10, the pledges made in Tokyo provide some room for countercyclical fiscal policy, including through social safety expenditures, development spending, and outlays to enhance security. It is crucial that the assistance pledged in Tokyo be disbursed promptly to address these needs.

Table 1. Pakistan: Quantitative Targets, December 2008–June 2010

	Outst. Stock end-Sept. 2008	end-Mar. 2009	end-Jun. 2009 2/	Prog. 3/ end-Sept. 2009	Prog. 3/ end-Dec. 2009	Indicative end-Mar. 2010	Indicative end-Jun. 2010
Floor on net foreign assets of the SBP* (stock, in millions of U.S. dollars)	3,953	671	2,782	3,200	3,250	3,100	3,250
Adjusted target	...	446	N/A				
Actual	...	3,132	3,982				
Ceiling on net domestic assets of the SBP* (stock, in billions of Pakistani rupees)	1,250	1,412	1,314	1,300	1,340	1,365	1,410
Adjusted target	...	1,416	N/A				
Actual	...	1,201	1,183				
Ceiling on net government borrowing from SBP* (stock, in billions of Pakistani rupees)	1,227	1,274	1,181	1,130	1,130	1,130	1,130
Adjusted target	...	1,274	N/A				
Actual	...	1,071	1,130				
Ceiling on overall budget deficit* (cumulative flow, in billions of Pakistani rupees)	142	405	562	194	384	573	721
Adjusted target	...	405	N/A				
Actual	...	405	683				
Ceiling on outstanding stock of short-term public and publicly guaranteed external debt* (in millions of U.S. dollars)	515	1,500	1,500	1,500	1,500	1,500	1,500
Actual	...	728	652				
Cumulative ceiling on contracting of nonconcessional medium- and long-term public and publicly guaranteed external debt* (in millions of U.S. dollars) 1/	9,500	9,500	9,500	9,500	9,500	9,500	9,500
Actual	...	1,299	1,649				
Accumulation of external payments arrears (continuous performance criterion during the program period)* (in millions of U.S. dollars)	0	0	0	0	0	0	0
Actual	...	0	0				
Continuous ceiling on SBP's foreign currency swaps and forward sales* (in millions of U.S. dollars)	1,900	2,750	2,750	2,500	2,500	2,500	2,500
Actual	...	1,835	1,690				
Memorandum items:							
Net external program financing (cumulative, in millions of U.S. dollars)	-166	296	616	95	-517	-1,067	274
Of which: Use of IMF resources by the budget (cumulative, in millions of U.S. dollars)	...	...	...	715	1,072	1,430	0
Tokyo pledges, excl. multilateral disbursements (cumulative, in millions of U.S. dollars)	...	...	...	342	1,177	1,962	2,220
Tokyo-related disbursements from multilateral sources	...	...	...	0	0	100	270
External project grants (in millions of U.S. dollars)	24	111	154	320	650	908	991
Budgetary grants for IDPs	...	...	...	110	183	202	220
Foreign Exchange cash reserve requirement (CRR, incl. special CRR) deposits in SBP (in millions of U.S. dollars)	832	745	728	750	770	790	800
Weekly cash reserve requirement ratios (in percentage points)							
Rupee deposits (less than one year maturity)	9	5	5	5	5	5	5
Rupee deposits (more than one year maturity)	0	0	0	0	0	0	0
Foreign currency deposits CRR	5	5	5	5	5	5	5
Foreign currency deposits special CRR	15	15	15	15	15	15	15
Increase in SDR allocation (stock in millions of U.S. dollars)	...	...	...	0	1,240	1,240	1,240

Notes:
* denotes performance citeria.

1/Excludes IMF
2/ All end-June 2009 figures shown as "Actual" are reported on a preliminary basis.
3/ In addition to the quantitative performance criteria for end-September and end-December, the relevant purchases will also be subject to the completion of reviews: third review to be completed no earlier than November 29, 2009, and fourth review to be completed no earlier than February 27, 2010.

Table 2. Pakistan: Structural Conditionality, December 2008–December 2009

	Target date	Status
Prior Action		
Amendment of the NEPRA Act, by a presidential decree, to provide for: (i) monthly determination by NEPRA of the fuel/power purchase adjustments in line with international fuel prices and automatic implementation upon determination; (ii) quarterly determination of overall electricity tariffs by NEPRA to reflect all cost components; and (iii) automatic notification of new tariffs within 15 days from NEPRA determination starting in August 2010.	end-July 2009	
Structural Benchmarks		
A contingency plan for handling problem private banks will be finalized.	end-December 2008	Met
A full description of required reforms in the area of tax administration, including an action plan for harmonizing the GST and income tax administration will be finalized.	end-December 2008	Met
In close collaboration with the World Bank, the government will finalize the schedule for further electricity tariff adjustments during 2008/09, with a view to eliminating tariff differential subsidies by end-June 2009.	end-December 2008	Met 1/
The SBP's provision of foreign exchange for furnace oil will be eliminated.	February 1, 2009	Met
In close collaboration with the World Bank, the government will develop a strategy and a time-bound action plan for the adoption of specific measures to strengthen the social safety net and improve targeting to the poor.	end-March, 2009	Met
The government will prepare a plan for eliminating the inter-corporate circular debt.	end-March, 2009	Met with a delay
The transition to a single treasury account will be completed.	end-June 2009	Underway 2/
Amendments to the banking legislation will be submitted to Parliament to enhance the effectiveness of SBP enforcement powers in the area of banking supervision.	end-August 2009 3/	
1. Government approval of regulations to (i) form new occupational groups within the FBR; and (ii) revise the structures of Regional Taxpayer Offices and Large Taxpayer Units. 2. Amendment of all relevant laws and rules.	September 15, 2009	
The government will submit draft legislative amendments to parliament to harmonize the income tax and GST laws, including for tax administration purposes.	end-September 2009 4/	
Submission of the VAT law to Parliament	end-December 2009	

1/ The original plan was superseded by a plan that was agreed upon on July 15, 2009.

2/ In October 2008, the authorities introduced a system preventing accumulation of unspent balances in accounts outside the Federal Consolidated Fund and made the use of assignment accounts by ministries under the Account No.1 fully operational for budget expenditures. However, a significant number of accounts at commercial banks with unspent balances remains.

3/ Formerly a structural performance criterion with target date at end-June 2009 (missed). Proposed to be converted into a structural benchmark.

4/ Formerly a structural performance criterion with target date at end-June 2009 (missed). Proposed to be converted into a structural benchmark. The original structural performance criterion also targeted a reduction in exemptions. This component is not included in the proposed benchmark.

Pakistan: Technical Memorandum of Understanding (TMU) on the Program Supported Under the Stand-By Arrangement

July 29, 2009

1. With effect from July 1, 2009, this Technical Memorandum of Understanding (TMU) describes the monitoring arrangements under the SBA-supported program. Throughout, unless otherwise stated, "government" is meant to comprise the federal and provincial governments.

I. Definitions of Monitoring Variables

Valuation of foreign exchange denominated assets, liabilities, and foreign exchange flows

2. For the purposes of program 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 exchange rates prevailing at test dates, as posted by the State Bank of Pakistan (SBP) on its web site. Net external budget financing and external cash grants will be converted into Pakistani rupees at the exchange rates prevailing at the day of the transaction, as posted by the SBP on its web site, unless otherwise indicated.

3. **Reserve money** (RM) is defined as the sum of: currency outside scheduled banks (deposit money banks); scheduled banks' domestic cash in vaults; scheduled banks' required and excess rupee; 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.

4. **Net foreign assets (NFA) of the SBP** are defined as the difference between its foreign assets and foreign liabilities. Foreign assets of the SBP consist of gold, foreign exchange, balances held outside Pakistan, foreign securities, foreign bills purchased and discounted, the reserve position with the IMF, and SDR holdings. The definition of foreign assets of the SBP will be consistent with the IMF Data Template on International Reserves and Foreign Currency Liquidity. Gold will be valued at $20.27 per troy ounce per fine troy ounce. Foreign liabilities of the SBP include outstanding IMF credits (excluding net IMF financing to the budget as defined in paragraph 10 below), deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks, international organizations, and foreign nonbank financial institutions (NBFI).

5. **Net domestic assets (NDA) of the SBP** are defined as the difference between the RM and the NFA of the SBP.

6. **Net borrowing from the banking system by the government** is defined as the difference between the banking system's claims, on a cash basis, on the federal, provincial, and local governments and the deposits of the federal, provincial, and local governments with the banking system, including district government funds balances. For the purposes of this memorandum, claims on government exclude: credit for commodity operations; government deposits exclude outstanding balances in the Zakat Fund; and balances in the various privatization accounts kept by the government in the banking system. The stock of bonds which were issued to banks in substitution of outstanding nonperforming loans to certain public entities, and which are being fully serviced by the government, are included in banking system claims on government. Table 1 summarizes the calculations of **net borrowing from the banking system by the government.**

7. **Net borrowing from the SBP by the government** is defined as SBP claims on the government minus government deposits with the SBP. SBP claims on the government include government securities, treasury bills, ways and means advances, 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 and Privatization accounts (Table 1).

8. The definition of the **overall budget deficit (excluding grants)** under the program will be the consolidated budget deficit, excluding grants, and including the operations of district governments financed from local funds. It will be measured by the sum of (a) total net financing to the federal, provincial, and local governments; and (b) total external grants to the federal and provincial governments. The former is defined as the sum of (i) net external budget financing (see ¶11); (ii) net borrowing from the banking system (as defined above); and (iii) net domestic nonbank financing (see ¶12). The total external grants 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.

9. **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 structural adjustment 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 onlent 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 2.

10. **Net IMF financing to the budget** is defined as the difference between Fund disbursements credited to the budget and repayments from the budget through the Ministry of Finance's dedicated account for Fund financing at the SBP.

11. **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, plus **net IMF financing to the budget**. Amounts projected for net external budget financing are provided in Table 2.

12. **Net domestic nonbank financing of the budget** is defined as follows: domestic privatization receipts transferred from the privatization accounts to the budget, plus the change during each reporting period, in the stock of (i) permanent debt, which consists of nonbank holdings of prize bonds, all federal bonds, and securities; plus (ii) floating debt held by nonbanks; plus (iii) unfunded debt, which consists of National Savings Scheme (NSS) debt, Postal Life Insurance, and the General Provident Fund (GPF); plus (iv) net deposits and reserves received by the government (public accounts deposits); plus (v) any other government borrowing from domestic nonbank sources net of repayments; minus (vi) government deposits with NBFIs. Nonbank holdings of permanent and floating debt is defined as total debt outstanding, as reported by the SBP, minus holdings of banks as per the monetary survey. Total T-bill and other relevant government debt are valued at discount value and exclude accrued interest.

External debt

13. The performance criterion on contracting or guaranteeing of medium-term and long-term nonconcessional external debt by the government or the SBP applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (adopted by the IMF Executive Board on August 24, 2000), but also to

commitments contracted or guaranteed for which value has not been received.[1] Excluded from this performance criterion are (i) foreign currency deposit liabilities of the SBP; and (ii) the outstanding stock of debt of Foreign Exchange Bearer Certificates (FEBCs), Deposit Bearer Certificates (DBCs), and Foreign Currency Bearer Certificates (FCBCs). The performance criterion setting a limit on the outstanding stock of short-term external debt refers to debt (as defined in Footnote 1) with original maturity of up to and including one year. Medium- and long-term external debt comprises debt with initial maturity of over one year.

14. **Nonconcessional borrowing** is defined as borrowing with a grant element of less than 35 percent.[2] The discount rates used to calculate the grant element will be the six-month and ten-year Commercial Interest Reference Rates (CIRRs) averages, as computed by the Strategy and Policy Review Department of the IMF. Six-month CIRRs are updated mid-February and mid-August (covering the six-month period preceding the date of update) and the ten-year CIRRs averages are updated mid-December (covering a period of 10 years preceding the date of the update). Six-month CIRRs averages are to be used for loans whose maturity is less than 15 years, while ten-year CIRRs averages are to be used for loans whose maturity is equal or more than 15 years.

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[1] The definition of debt set forth in No. 9 of the guidelines reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt."

[2] Following the methodology set out in "Limits on External Debt or Borrowing in Fund Arrangements—Proposed Change in Implementation of the Revised Guidelines," April 8, 1996.

15. **External payment arrears** are defined as unpaid debt service by the government beyond the due date under the contract and any grace period.

16. **Tokyo-related disbursements** refers to disbursements of donor support (loans and grants) pledged at the donor conference held in Tokyo on April 17, 2009.

II. ADJUSTORS

Adjustors related to net external program financing

17. For paragraphs 18–23, the net external program financing excludes any budget grants related to Internally Displaced Persons (IDPs), program portion of Tokyo-related disbursements, and Fund financing to the budget. They are projected as follows:

July 2009–September 2009: $95 million

July 2009–December 2009: -$517 million

July 2009–March 2010: -$1,067 million

July 2009–June 2010: $274 million

18. If the actual cumulative net external program financing in U.S. dollar terms is higher than its projected value by more than $500 million, **the excess net external program financing in U.S. dollar terms** is defined as follows: actual external program financing in U.S. dollar terms minus projected net external program financing in U.S. dollar terms minus $500 million. The excess net external program financing in U.S. dollar terms multiplied by a fixed accounting exchange rate of Rs. 83 per $1 represents **the excess net external program financing in rupee terms**.

19. The ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to Rs. 73.5 billion at end-September 2009, Rs. 73.5 billion at end-December 2009, Rs. 73.5 billion at end-March 2010, and Rs. 73.5 billion at end-June 2010.

20. The cumulative excess net external program financing in U.S. dollar terms may exceed the cumulative maximum limits specified in paragraph 17 for end-September 2009, end-December 2009, end-March 2010, and end-June 2010, when converted into U.S. dollar terms at a fixed accounting exchange rate of Rs. 83 per $1. In such a case, the cumulative excesses in net external program financing in U.S. dollar terms minus the maximum cumulative amounts specified for end-September 2009, end-December 2009, end-March 2010, and end-June 2010 converted into U.S. dollar terms at a fixed accounting exchange rate of Rs. 83 per $1 are defined as **"surplus net external program financing in U.S. dollar terms."** The latter amount multiplied by a fixed accounting exchange rate of Rs. 83 per $1 constitutes "**surplus net external program financing in rupee terms**."

21. The floors on the **NFA of the SBP** will be adjusted upward by the cumulative **surplus net external program financing in U.S. dollar terms** as defined above.

22. The ceilings on the **NDA of the SBP and net borrowing from the SBP by the government** will be adjusted downward by the cumulative **surplus net external program financing in rupee terms** as defined above.

23. If the actual cumulative net external program financing in U.S. dollar terms is lower than its projected value, **the shortfall in net external program financing in U.S. dollar terms** is defined as the difference between its projected and actual values in U.S. dollar terms. In such a case:

a. The floor on **the NFA of the SBP** is adjusted downward by the cumulative shortfall in net external program financing in U.S. dollar terms.

b. The ceiling on **the NDA of the SBP** is adjusted upward by the cumulative shortfall in net external program financing in U.S. dollar terms converted into rupees at a fixed accounting exchange rate of Rs. 83 per $1.

c. The ceiling on **net borrowing from the SBP by the government** is not subject to adjustment.

Adjustors related to Tokyo related disbursements (excluding multilateral sources)

24. Tokyo related disbursements (excluding multilateral sources) are projected as follows:

July 2009–September 2009: $342 million

July 2009–December 2009: $1,177 million

July 2009–March 2010: $1,962 million

July 2009–June 2010: $2,220 million

25. If the actual cumulative gross Tokyo related disbursements (excluding multilateral sources) is lower than the projected amount by more than $1.421 billion, the difference between its projected and actual values in dollar terms is defined as **the short fall in Tokyo related disbursements (excluding multilateral sources)**. The shortfall in Tokyo related disbursements (excluding multilateral sources) in U.S. dollar terms multiplied by a fixed accounting exchange rate of Rs. 83 per $1 represents **the shortfall in Tokyo related disbursements (excluding multilateral sources) in rupee terms**. In such a case:

a. The ceiling on the **consolidated overall budget deficit (excluding grants)** is adjusted downward up to Rs. 29.49 billion at end-September 2009, Rs. 58.97 billion at end-December 2009, Rs. 58.97 billion at end-March 2010, and Rs. 58.97 billion at end-June 2010 (equivalent to $0.71 billion valued at Rs. 83 per $1) for shortfall in Tokyo related disbursements (excluding multilateral sources) in rupee terms in excess of Rs. 117.94 billion.

b. The floor on the **NFA of the SBP** is adjusted downward by the amount equivalent to the cumulative shortfall in Tokyo related disbursements (excluding multilateral sources) in U.S. dollar terms.

c. The ceiling on the **NDA of the SBP** is adjusted upward by the amount equivalent to the cumulative shortfall in Tokyo related disbursements (excluding multilateral sources).

Adjustors related to Tokyo related disbursements from multilateral sources

26. Tokyo related disbursements from multilateral sources are projected as follows:

July 2009–September 2009: $0 million

July 2009–December 2009: $0 million

July 2009–March 2010: $100 million

July 2009–June 2010: $270 million

27. If the actual cumulative gross Tokyo related disbursements from multilateral sources is lower than the projected amount, the difference between its projected and actual values in dollar terms is defined as **the short fall in Tokyo related disbursements from multilateral sources**. The shortfall in related disbursements Tokyo related disbursements from multilateral sources in U.S. dollar terms multiplied by a fixed accounting exchange rate of Rs. 83 per $1 represents **the shortfall in Tokyo related disbursements from multilateral sources in rupee terms**. In such a case:

a. The ceiling on the **consolidated overall budget deficit (excluding grants)** is adjusted downward by the shortfall in Tokyo related disbursements from multilateral sources in rupee terms.

b. The floor on the **NFA of the SBP** is adjusted downward by the amount equivalent to the cumulative shortfall in Tokyo related disbursements from multilateral sources.

c. The ceiling on the **NDA of the SBP** is adjusted upward by the amount equivalent to the cumulative shortfall in Tokyo related disbursements from multilateral sources.

d. The ceiling on **net borrowing from the SBP by the government** will not be adjusted.

Adjustor related to net IMF financing to the budget

28. Net IMF financing to the budget is projected as follows:

July 2009–September 2009: $715 million

July 2009–December 2009: $1,072 million

July 2009–March 2010: $1,430 million

July 2009–June 2010: $0 million

29. If actual net Fund financing to the budget in U.S. dollar terms is different from the projected amount, **the difference in net Fund financing to the budget in U.S. dollar terms** is defined as the difference in actual net Fund financing converted into U.S. dollar by the actual SDR/U.S. dollar exchange rates and the projected amount. In such a case,

a. The floor on the **NFA of the SBP** will be adjusted by the difference in Fund financing to the budget in U.S. dollar terms (upward if the difference is positive, downward if the difference is negative).

b. The ceiling on the **NDA of the SBP** will be adjusted by subtracting the difference in Fund financing to the budget in U.S. dollar terms converted into rupees at a fixed accounting exchange rate of Rs. 83 per $1 (downward if the difference is positive, upward if the difference is negative).

Adjustor related to SDR allocations

30. If actual SDR allocation in U.S. dollar terms is different than projected amount (Table 2), **the difference in SDR allocations in U.S. dollar terms** is defined as the difference in actual disbursements converted into U.S. dollar by the actual SDR/dollar exchange rates and the projected disbursement in U.S. dollar terms. In such a case,

a. The floor on the **NFA of the SBP** will be adjusted by the difference in SDR allocations in U.S. dollar terms (upward if the difference is positive, downward if the difference is negative).

b. The ceiling on the **NDA of the SBP** will be adjusted by subtracting the difference in SDR allocations in U.S. dollar terms converted into rupees at a fixed accounting exchange rate of Rs. 83 per $1 (downward if the difference is positive, upward if the difference is negative).

Adjustor related to project grants and budget grants related to IDP

31. If the amount of project grants or budget grants related to IDP is higher or lower than assumed under the program (see Table 2), the ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted upward or downward for the cumulative excess or shortfall in project grants or in budget grants related to IDPs respectively. Where applicable, this adjustor will not be applied in addition to any adjustment to the **consolidated overall budget deficit (excluding grants)** that is made under paragraphs 19 and 23.

Adjustor related to changes in regulations on required reserves

32. The ceilings on the **NDA of the SBP** will also be adjusted downward/upward by the amount of (i) banks' Pakistani rupee reserves freed/seized by any reduction/increase of the daily CRR relative to the baseline assumption; and (ii) any reduction/increase in the reservable deposit base that is related to definitional changes, as per the following formula: $\Delta NDA = \Delta rB_0 + r_0\Delta B + \Delta r\Delta B$, where r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the level of the reservable deposits in the initial definition; Δr is the change in the reserve requirement ratio; and ΔB denotes the change in the reservable deposits as a result of definitional changes. In case of significant liquidity and other financial sector pressures, the SBP will engage in consultations with the IMF staff in order to reach understanding on appropriate monetary policy response.

Adjustor related to the SBP's net position under foreign exchange forwards and swaps

33. An adjustor to the NFA target of the SBP will be implemented to reflect changes in the SBP's net position under foreign exchange forwards and swaps. Specifically, the NFA target of the SBP will be adjusted upward/downward by the amount of the increase/decrease in the net SBP's position under foreign exchange forwards and swaps. The maximum SBP's net exposure under foreign exchange forwards and swaps is capped at $2.75 billion as of end-September 2009, end-December 2009, end-March 2010, and end-June 2010. The SBP's net exposure under foreign exchange forwards and swaps was $1.69 billion at end-June 2009.

Adjustor related to foreign currency deposits of resident banks with the SBP

34. An adjustor to the NFA target of the SBP will be implemented to reflect changes in foreign currency deposits of resident banks. Specifically, the NFA target of the SBP will be adjusted upward/downward by the amount of increase/decrease in foreign currency deposits of resident banks with the SBP. The stock of foreign currency deposits with resident banks was $832 million at end-June 2009.

III. Program Reporting Requirements

35. The following information, including any revisions to historical data, will be provided to the Middle East and Central Asia Department of the IMF through the office of the Resident Representative of the IMF in Pakistan, within the timeframe indicated:

- Monthly provisional statements on federal tax and nontax revenue, within one month.
- Deposits into and withdrawals from the privatization accounts for each quarter, within one month. Withdrawals will be reported with the following breakdown (i) those which constitute budgetary use of privatization proceeds; (ii) those which constitute costs of privatization; and (iii) other (with explanation of the purpose of other withdrawals), as well as with the breakdown between domestic and external privatization receipts.
- Quarterly statements on budgetary capital receipts and disbursements, including repayments of bonds, recovery of loans from provinces and "others," within two months.
- Monthly (unreconciled) provisional data on federal expenditure and net lending (with separate data on disbursements and repayments), within one month.
- Quarterly statement on consolidated budgetary expenditure, with federal data approved by the Accountant General Pakistan Revenue (AGPR), within two months.
- Quarterly numbers on expenditure on social programs.
- Quarterly data on the stock of domestic government debt, broken down by instrument, within one month (Table 3).
- Quarterly data on WAPDA receivables within one month.
- Monthly data on Outstanding Audited Price Differential Claims.
- Monthly data on external budget financing, including (i) loan-by-loan program disbursements in U.S. dollar terms and rupee terms converted at exchange rates prevailing at the time of each transaction; (ii) cumulative amortization in U.S. dollar terms and rupee terms converted at exchange rates prevailing at the time of each transaction; and (iii) cumulative project loan disbursements in U.S. dollar terms and in rupees converted at exchange rates prevailing at the time of each transaction. Tokyo and IDP related disbursement should be indicated separately.
- Monthly data on Banks' Budgetary Support (Table 1) within one month.

- The following monthly monetary data on a last-Saturday basis within two weeks:

  (i) monetary survey;
  (ii) accounts of the SBP;
  (iii) consolidated accounts of the scheduled banks;
  (iv) banks' lending to the government;
  (v) detailed table on net foreign assets (both for the SBP and scheduled banks); and
  (vi) detailed table of scheduled banks' reserves with the SBP.

- The same tables as in the preceding item, but on an end-month and end-quarter basis (last business day), both at current and program exchange rates, within one month.

- The SBP Table on outstanding stock of foreign currency deposits, amended to include the classification of new FCA according to the residency of the holder.

- Daily data on exchange rates (interbank, retail market, and Telegraphic Transfers for SBP purchases in the retail market), SBP's sales and purchases in the foreign exchange markets, swaps and forward outright sales, within two business days.

- Monthly data on the outstanding stock of the SBP's forward foreign currency operations, including swaps and outright forward sales and purchases, within two weeks. The terms of any new transactions (including rollover/renewal of existing ones) will also be provided.

- Monthly data on the SBP's foreign exchange reserves, with details on the currencies, instruments, and institutions in which the reserves are held, within one month.

- Monthly data on SBP direct or bridge loans to nationalized banks in the context of the restructuring and privatization operation, within four weeks.

- Monthly data on any other quasi-fiscal operations undertaken by the SBP, on behalf of the government.

- Monthly data on SBP holding of discounted export finance credit under the export finance scheme, within one month.

- Monthly data on outstanding credit to agriculture under the Agriculture Mandatory Credit Targets, within one month.

- The following data on external debt, within one month:

  (i) Quarterly stock of public- and publicly-guaranteed external debt (including deferred payments arrangements), by maturity (initial maturities of up to and including one year, and over one year), by creditor and by debtor (central government and publicly guaranteed);

(ii) Quarterly contracting or guaranteeing of nonconcessional medium- and long-term government debt; and

(iii) Information on any rescheduling on public- and publicly-guaranteed debt reached with creditors.

- Quarterly data on external payments arrears on public and publicly guaranteed debt with details as in (i) of the preceding item within one month.

- Copies of new or revised ordinances/circulars regarding changes in tax policy, tax administration, foreign exchange market regulations, and banking regulations no later than three days after official issuance, or notification that ordinances have been posted on the Federal Board or Revenue (FBR) and SBP websites.

- Copies of official notification of changes in gas and electricity tariffs and any surcharges (automatic or structural) and in ex-refinery petroleum product prices as well as of gas and petroleum surcharges/levies.

- Monthly data on the import parity prices as well as central depot prices of the six major oil products, within one month.

- Quarterly data on KESC and WAPDA loans and debt outstanding, within one month.

- Upon the adoption of the plan for the elimination of inter-corporate circular debt, monthly reports on inter-corporate circular debt will be reported within one month.

- Information on new liabilities incurred or guaranteed by the government in settling the circular-debt, including government guarantees of Term Financing Certificates (TFCs) issued by Pakistan Electric Power Company (PEPCO). The information will include the size of the government exposure, the duration of the guarantee or claim, and any other provisions relevant for the government's exposure.

- Information on the transactions between the Ministry of Finance and the SBP with regard to the use of Fund resources for budget purposes on monthly basis.

Table 1. Pakistan: Budgetary Support 1/

(In million of rupees)

			30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09	30-May-09
A.	**Central Government**		**1,577,064**	**1,693,872**	**1,816,104**	**1,829,279**	**1,901,105**
1.	**Scheduled Banks**		**509,710**	**397,816**	**504,189**	**649,648**	**683,468**
	a)	Government Securities	173,171	176,905	172,547	199,441	214,048
	b)	Treasury Bills	559,825	476,236	560,584	666,477	710,532
	c)	Government Deposits	-223,286	-255,324	-228,942	-216,269	-241,112
2.	**State Bank**		**1,067,354**	**1,296,056**	**1,311,916**	**1,179,630**	**1,217,637**
	a)	Government Securities	3,167	3,168	3,168	3,148	3,148
	b)	Accrued Profit on MRTBs	18,200	33,855	34,500	44,031	41,117
	c)	Treasury Bills	1,053,122	1,256,910	1,312,622	1,227,858	1,209,858
		MTFBs purchased for replenishment of cash balances	1,036,610	1,241,198	1,296,910	1,212,149	1,200,349
	d)	Adhoc Treasury Bills		0			0
	e)	Ways and Means Advances		0			0
	f)	Treasury Currency	8,152	8,150	8,153	8,153	8,153
	g)	Debtor Balances (Excl. Zakat Fund)	0	0	0	0	0
	h)	Government Deposits	-20,748	-11,490	-51,990	-109,023	-50,102
		(Excl. Zakat and Privatization Fund)					0
	i)	Special Account-Debt Repayment	0	0			0
	i)	Payment to HBL on a/c of HC&EB	-287	-287	-287	-287	-287
	j)	Adjustment for use of Privatization Proceeds for Debt Retirement	5,749	5,749	**5,749**	**5,749**	**5,749**
B.	**Provincial Governments**		**-212,460**	**-208,026**	**-241,207**	**-259,040**	**-226,115**
1.	**Scheduled Banks (a+b-c)**		**-178,821**	**-172,430**	**-185,836**	**-194,616**	**-201,157**
	a)	Government Securities	76	76	37	0	0
	b)	Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024	1,024
	c)	Government Deposits	-179,921	-173,530	-186,897	-195,640	-202,181
2.	**State Bank**		**-33,639**	**-35,596**	**-55,371**	**-64,424**	**-24,958**
	a)	Debtor Balances (Excl. Zakat Fund)	18,719	14,837	15,588	16,366	29,844
	b)	Ways and Means Advances	0	0			0
	c)	Government Deposits (Excl.Zakat Fund)	-52,357	-50,433	-70,958	-80,790	-54,803
C	**Net Govt. Budgetary Borrowings from the Banking system**		**1,364,604**	**1,485,846**	**1,574,898**	**1,570,239**	**1,674,990**
D		**Through SBP**	**1,033,715**	**1,260,460**	**1,256,545**	**1,115,206**	**1,192,679**
		Through Scheduled Banks	**330,888**	**225,386**	**318,353**	**455,033**	**482,311**
	Memorandum Items						
	1	Accrued Profit on SBP holding of MRTBs	18,200	33,855	34,500	44,031	41,117
	2	Scheduled banks ' deposits of Privatization Commission	-1,815	-2,487	-1,097	-2,372	-2,377
	3	Outstanding amount of MTBs (Primary market; discounted value)	536,977	451,756	525,438	639,450	688,793
	Net Govt. Borrowings (Cash basis)						
		From Banking System, of which	**1,325,371**	**1,429,999**	**1,506,349**	**1,501,553**	**1,614,511**
		From SBP	**1,015,516**	**1,226,605**	**1,222,045**	**1,071,175**	**1,151,561**
		From Scheduled Banks	**309,855**	**203,394**	**284,304**	**430,378**	**462,949**

Source: State Bank of Pakistan.

1/ Provisional data.

Table 2. Pakistan: External Financing For Budget for 2008/09 and 2009/10
(in millions of US dollars)

	2008/09					2009/10				
	Jul.-Sep. Act.	Oct.-Dec. Act.	Jan.-Mar. Act.	Apr.-Jun. Proj.	Total Proj.	Jul.-Sep. Proj.	Oct.-Dec. Proj.	Jan.-Mar. Proj.	Apr.-Jun. Proj.	Total Proj.
Project Aid	248	331	279	316	1,174	673	885	946	938	3,442
Grants, of which	23	21	61	36	141	252	222	223	43	740
Tokyo pledge						142	200	200	20	562
IDP grants						110	73	18	18	220
Earth Quake grants	1	2	3	7	13	6	8	10	15	39
World Bank, of which	61	56	42	60	218	45	45	45	395	530
Tokyo pledge						0	0	0	150	150
Earthquake	7	21	0	0	29	0	0	0	0	0
ADB, of which	111	85	53	115	364	70	75	83	110	338
Tokyo pledge						0	0	0	20	20
Earthquake	7	9	5	11	32	0	0	0	0	0
Other bilateral project loan, of which	52	44	68	96	260	300	535	585	375	1,795
Tokyo pledge						200	435	485	238	1,358
Other Earthquake Loans	0	0	0	2	2	0	0	0	0	0
Commodity Aid (Import of S.Arabia Urea)	0	123	52	0	175	0	0	0	0	0
Program Loans	494	811	677	812	2,794	400	300	445	1,600	2,745
World Bank	0	0	485	221	706	300	0	0	300	600
ADB	494	100	96	542	1,232	0	0	145	1,100	1,245
Tokyo pledge, of which	0	0	0	0		0	200	200	0	400
World Bank						0	0	0	0	0
ADB						0	0	100	0	100
IDB	0	561	77	18	656	100	100	100	200	500
Short-term commercial	0	150	19	31	200	0	0	0	0	0
Budgetary Grants	40	30	56	0	126	25	38	62	0	125
Privatization	0	0	0	0	0	0	133	133	0	266
GDRs	0	0	0	0	0	0	0	0	0	0
Securitization/China	0	0	500	0	500	0	0	0	0	0
IDP grants						110	73	18	18	0
Budget financing from the Fund						715	357	357	-1,430	0
Amortization	700	802	810	492	2,804	330	883	990	259	2,462
Medium and Long-term	538	258	760	398	1,954	280	237	890	259	1,666
Euro bonds	22	0	500	0	522	22	0	600	0	622
IDB>1 year	200	0	0	0	200	0	0	0	0	0
Other	316	258	260	398	1,232	258	237	290	259	1,044
Short-term	162	544	50	94	850	50	646	100	0	796
IDB	162	428	0	94	684	0	530	100	0	630
Commercial	0	116	50	0	166	50	116	0	0	166
Memorandum items:										
(cumulative from the beginning of fiscal year)										
Net budget financing	82	452	1,153	1,789		1,593	2,497	3,469	4,336	
Net program financing for the budget (excl. Tokyo related disbursements, IDP grants, Fund financing to the budget)	-166	-127	296	616		95	-517	-1,067	274	
Tokyo-related disbursements (excl. multilateral sources)	0	0	0	0		342	1,177	1,962	2,220	
Tokyo-related disbursements from multilateral sources	0	0	0	0		0	0	100	270	
Total budget grants for IDP	0	0	0	0		110	183	202	220	
Project grants	24	47	111	154		258	488	721	779	
SDR allocation						0	1,267	1,267	1,267	

Sources: Pakistani authorities; and Fund staff projections.

Table 3. Pakistan: Total Outstanding Domestic Debt

(In billion of rupees)

	Jun-08	May-09 1/
A. Permanent Debt	**608**	**676**
Market Loans	3	3
Federal Government Bonds	9	9
Income Tax Bonds	0	0
Government Bonds (L.R.-1977)	0	0
Special Government Bonds For SLIC (Capitalization)	1	1
GOP Ijara Sukuk 3 years	0	28
Government Bonds (issued to HBL for settlement of CBR Refund)	0	0
Bearer National Fund Bonds(BNFB)	0	0
BNFB Roll Over-II	0	0
Special National Fund Bonds	0	0
Federal Investment Bonds(Auction)	1	1
Federal Investment Bonds (TAP)	0	0
Pakistan Investment Bonds (PIBs)	412	441
Prize Bonds	183	193
B. Floating Debt	**1,637**	**1,955**
Treasury Bills(3 Months)	0	0
Market Treasury Bills(auction)	537	745
MTBs for Replenishment 2/	1,100	1,209
C. Unfunded Debt	**1,020**	**1,254**
Defense Savings Certificates	285	260
National Deposit Certificates	0	0
Khas Deposit Certificates	0	0
Special Savings Certificates (Reg)	160	283
Special Savings Certificates (Bearer)	0	0
Regular Income Certificates	51	88
Premium Saving Certificates	0	0
Bahbood Savings Certificates	229	302
Khas Deposit Accounts	0	0
National Deposit Accounts	0	0
Savings Accounts	28	15
Special Savings Accounts	67	86
Mahana Amdani Accounts	2	2
Pensioners' Benefit Accounts	88	108
Postal Life Insurance	67	67
GP Fund	43	41
D. Total(A+B+C)	**3,266**	**3,884**

Source: State Bank of Pakistan.

1/ Provisional data.

2/ Inclusive of outright sale of MTBs to commercial banks.