International Monetary Fund

Pakistan and the IMF

Press Release:
IMF Completes Third Review Under Stand-By Arrangement for Pakistan,Approves US$ 1.2 Billion Disbursement
December 23, 2009

Country's Policy Intentions Documents

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

December 11, 2009

The following item is a Letter of Intent of the government of Pakistan, which describes the policies that Pakistan intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Pakistan, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

LETTER OF INTENT

December 11, 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 third 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 Third Supplementary Memorandum of Economic and Financial Policies (SMEFP). In support of our policies, the government requests that the Executive Board of the Fund complete the third review, and approve the fourth purchase under the SBA of SDR 766.7 million.

Our stabilization program has advanced, notwithstanding challenging circumstances. Military campaigns in Swat and South Waziristan are adding to budget outlays for security, and depressed global economic activity and higher oil prices have affected Pakistan's domestic economy, trade, and external financing. We believe that the policies set out in the attached SMEFP are adequate to further consolidate macroeconomic stability and advance our ambitious reform agenda. 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. We will provide the Fund with the information it may request to monitor progress in implementing its economic and financial policies.

We request a waiver of nonobservance for the end-September 2009 quantitative performance criterion on the fiscal deficit. The original deficit target was missed by about 0.2 percent of GDP, but the target was adjusted downward for the shortfall in external grants, which increased the overrun to 0.3 percent of GDP. The fiscal overrun was due to a delay in receipt of a large service payment, an extension of the period for advance income tax payments to October 15, 2009, an advance salary payment to federal and provincial employees in September due to the Eid holiday, and higher security spending. We also request: (i) a modification of the end-December 2009 performance criterion on the fiscal deficit to increase it by Rs. 15 billion (0.1 percent of GDP) to allow space for urgent military spending and avoid undue cuts in other priority spending; (ii) a modification of the end-December 2009 performance criterion on the net foreign assets and net domestic assets of the State Bank of Pakistan to reflect revised projections; and (iii) establishment of performance criteria for end-March 2010 and end-June 2010.

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

Sincerely yours,

//s//	//s//
Shaukat Tarin	Syed Salim Raza
Minister of Finance, Revenue,	Governor
Economic Affairs and Statistics	State Bank of Pakistan

Attachments:

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

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

December 11, 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 and second supplements thereto dated March 16 and July 29, 2009, respectively. It describes policy implementation to date and lays out additional policies agreed in the context of the third review under the Stand-By Arrangement (SBA).

II. RECENT ECONOMIC DEVELOPMENTS

2. ***Our stabilization program has advanced, notwithstanding challenging circumstances***. Military campaigns in Swat and South Waziristan are adding to budget outlays for security. The South Warizistan campaign was not anticipated at the time of the budget formulation. Headline inflation declined from 25 percent in October 2008 to 8.9 percent in October 2009, the rupee has remained stable at around Rs. 83–84 per U.S. dollar in recent months, gross foreign exchange reserves reached $10.1 billion as of end-November, 2009, and market demand for Treasury bills has remained stable. All quantitative performance criteria for end-September 2009 were observed (Table 1), except for the budget deficit target, which was exceeded by 0.3 percent of annual GDP. The original deficit target was missed by about 0.2 percent of GDP, but the target was adjusted downward for the shortfall in external grants, which increased the overrun to 0.3 percent of GDP. The structural reforms are proceeding and we are pressing ahead and remain fully committed to implementing our reform agenda, although there have been delays in implementation.

3. ***Despite electricity shortages, external factors, and security concerns, there are signs of revival in economic activity***. The deterioration in domestic security conditions, electricity shortages, and weak external demand for Pakistan exports have depressed output. However, recently there have been signs of a revival in economic activity, with a pick-up in output in a few sectors and increased economic confidence. Financial markets also point to an improvement. The stock market index has risen, in part driven by private capital inflows in recent months, the sovereign credit rating has been raised, and the spreads on Pakistan sovereign bonds have declined.

4. ***The slippage in fiscal performance in the first quarter of 2009/10 was due mostly to temporary factors***. Four principal factors (totaling 0.8 percent of GDP) accounted for this slippage, and we acted to offset most of their impact on the budget. These factors were: (i) a delay in a large service payment; (ii) an extension of the period for advance income tax payments to October 15, 2009; (iii) an advanced salary payment to federal and provincial employees in September due to the Eid holiday; and (iv) higher security spending. We were able to limit the fiscal slippage to 0.3 percent of GDP through expenditure control.

5. ***Monetary policy has continued to focus on price stability***. After reducing the discount rate by 100 bps percent to 13 percent in August, the SBP cut rates by 50 bps on November 25. This modest cut took into account fiscal uncertainties as well as expected inflationary pressures from higher energy and food prices. On August 17, the SBP successfully introduced an interest rate corridor to enhance monetary management and signaling of its policy stance.

6. ***External support—crucial for ensuring success of stabilization efforts—is lagging***. The 2009/10 budget was prepared keeping in mind external inflows pledged by donors at Tokyo in April 2009. Although donors have made firm commitments, it is vital that these pledges materialize in a timely manner during the current fiscal year.

III. Policies for the Remainder of 2009/10

7. ***We will continue our efforts to consolidate macroeconomic stability, reduce poverty, and lay the basis for high and sustained growth***. A principal challenge for this year will be to consolidate macroeconomic stability in the context of an increasingly difficult security situation. We will also continue to provide social safety nets for the poor. At the same time, we will press ahead with the implementation of tax reform, including a broad-based VAT.

8. ***Our program for the remainder of 2009/10 is based on the following projections***. Real GDP is expected to grow by 3 percent and while there are external and domestic risks, we believe this growth is attainable. The projection for consumer price inflation through end-June 2010 is 11 percent (year-on-year), and the external current account deficit is expected to decline to 4.2 percent of GDP. The current account position is stronger than forecasted earlier, despite somewhat higher import costs for oil, due to a significant improvement in the expected flow of remittances owing to the Pakistan Remittance Initiative.

9. ***Early disbursement of the donor support pledged in Tokyo is needed to keep our stabilization program on track***. This donor support will protect budgeted social and growth-oriented development spending, and help finance support for internally displaced persons (IDPs). Although little support has been received since July, firm commitments have been received and timely disbursements will be needed in order to protect key social and development spending. We will continue to work with donors to facilitate prompt disbursement of Tokyo and other pledges.

A. Fiscal Policy

10. ***The fiscal deficit target for 2009/10 remains unchanged at 4.9 percent of GDP (excluding grants)***. The government is resolved to stay the course with its stabilization program. Mounting fiscal pressures due to the electricity sector and higher security outlays will be offset:

- As noted, the budget overrun in the first quarter of the fiscal year will be reversed, mostly in the second quarter. Higher income tax collections in October are encouraging. The date of the service payment is still under discussion but the advance payment of salaries in September has already been compensated by lower payments in October.

- We intend to achieve the 2009/10 target for Federal Board of Revenue (FBR) collections of Rs. 1,396 billion. A higher international oil price as well as the planned increase in electricity tariffs should boost customs and sales tax revenue, offsetting weaker excise and direct tax receipts. In addition, in the third quarter of 2009/10, we will increase the rate of the existing special excise duty, and—if needed—reduce the capital value tax exemptions.

- Electricity tariff differential subsidies for the year will be contained at Rs. 55 billion. We will take measures to make up for the delay in implementing the monthly fuel price adjustments, and a possible shortage of gas (see below) through the quarterly tariff adjustment in mid-December.

- Although there are risks to the fiscal targets, promised grant financing will accommodate the additional security spending in South Waziristan, as well as IDPs. This should greatly limit the need to cut development spending. To this effect, we are seeking from donors 0.3 percent of GDP in grants to help cover expenditures on IDPs. Should the grants for this purpose fall short of this amount, the deficit (excluding grants) would be reduced correspondingly; however, the expenditures on IDPs as well as on the social safety net and education will be protected in the budget.

11. ***Financial controls on borrowing by provinces have been strengthened***. Borrowing by provinces is limited to Ways and Means advances equivalent to six weeks of provincial wages and salaries totaling Rs. 47 billion. Agreements on these limits have been signed by the SBP and the provinces and are being enforced rigorously. Agreements have also been reached between the SBP and Punjab and Baluchistan to convert their outstanding overdrafts of Rs. 50.9 billion and Rs. 8.8 billion, respectively, into four-year loans with interest equal to the 6-month T-bill rate, to be repaid in monthly installments. The government provided a guarantee to the SBP for these loans on November 23, 2009. For the other two provinces, no long-term loans were needed. Further, there are regular monthly meetings between the Federal Ministry of Finance and Provincial Finance Departments to monitor the provinces' financial positions and ensure that they are consistent with the fiscal targets.

12. ***We are making progress on the introduction of a broad-based VAT by July 1, 2010 to meet the government's medium-term revenue needs***. It is estimated that the additional revenue generated could reach 3 percent of GDP per annum over the medium term. Much of this will be generated by removing domestic zero rating and reducing exemptions to expand the tax base. We have started consulting stakeholders on the VAT with a seminar in September, with the participation of members of the federal and provincial governments, and supported by the IMF and the World Bank. This was followed by a drafting workshop on VAT legislation in early November. We have adopted a time-bound action plan for the introduction of the VAT. The draft law will

be finalized in early December and submitted to parliament by end-December 2009 (structural benchmark). We also plan to submit legislation to harmonize the existing tax laws with the VAT law by end-April, 2010. We will prepare the needed regulations for the full implementation of the VAT by July 1, 2010. Full implementation of the VAT by July 1, 2010 is a key objective and a structural benchmark. We expect continuation of IMF and World Bank assistance on policy aspects for introducing the VAT.

13. ***Reforming tax administration has been subjected to legal challenges, but we remain committed to our objective of implementing a modern and integrated tax administration***. A key objective, the establishment of a functionally structured tax administration within the FBR—that integrates responsibilities for domestic taxes, including the sales, income, and excise taxes, in one occupational group—has been achieved. A functionally structured system will increase the effectiveness of tax administration and facilitate VAT introduction. The following actions to improve tax administration have been taken or will be adopted:

- On September 12, the government, under the existing Civil Servants Act 1973, has established an Inland Revenue Service as a new occupational group within the FBR (structural benchmark).

- An ordinance to harmonize the income tax and the existing GST law was issued on October 28. This ordinance will be amended given the new VAT law and renewed as needed, and submitted to parliament by end-April 2010.

- To institute the organizational changes to implement the new inland revenue tax administration a notification to revise the structures of Regional Taxpayer Offices (RTOs) and Large Taxpayer Units (LTUs) (structural benchmark) was issued on November 11.

- The option for retailers with a turnover over Rs. 10 million to choose the presumptive tax regime will be eliminated in the new VAT law.

- ***The FBR has been implementing its action plan on tax*** administration reform. We are focusing on the following:

    - To improve sales tax and corporate income tax compliance ***we will reduce the number of under-reporting taxpayers and nonfilers***. We have identified 13,000 under-reporting taxpayers and about one million taxpayers (about 40 percent of the taxpayers with tax identification number) who do not file tax returns. Our efforts will focus on under-reporting taxpayers. A letter will be sent to these under-reporting taxpayers by end-December 2009 to invite them to file tax returns and settle their prospective unpaid taxes. Letters to identified non-filers at the rate of 100,000 per month will begin by January 1, 2010. This will be preceded by a publicity campaign starting in November. In cases where this voluntary approach is not successful, we will institute legal claims procedures for noncompliant and nonfiling taxpayers.

- ***Tax audit and enforcement plans have been formulated and approved by the FBR Board***. We have identified 850 companies (15 percent of large taxpayers) for audit by either the FBR or external auditors. We plan to complete most of these audits by end-March. Importantly, in the future, we plan to conduct the audits on a regular basis. To that effect, we will strengthen the auditing capacity of the FBR.

- ***We are committed to strengthening the system of tax refunds***. The government has approved a strengthened and improved electronic payment and refund system. We have held technical meetings with banks to establish an electronic filing, payment and refund system and have set up a technical committee to finalize all procedures. The expedited sales tax refund system is being piloted in Islamabad, Karachi and Lahore. We expect the pilots to be completed and evaluated by end-December, 2009. We will then rollout this system nationwide, and an expedited sales tax refund system—to ensure direct input of refund requests and prompt processing and confirmation of refunds—will be operational in all RTOs and LTUs by end-March, 2010 (structural benchmark) and ready for the introduction of the VAT.

14. We recently introduced subsidies for companies that borrow under the SBP's Export Financing Scheme and Long-Term Financing Facility. This change has been made to improve transparency by moving quasi-fiscal subsidies (previously provided by the SBP) to the budget outlays. The impact of these subsidies on budget expenditures are expected to be offset by higher profit transfers from the SBP.

15. ***We remain committed to strengthening the social safety net***. We have completed the pilot phase of the new strengthened targeting mechanism (scorecard) for the Benazir Income Support Program (BISP), and are starting the preparations of the nationwide rollout of the new targeting mechanism. The nationwide rollout has been delayed by unforeseen issues as well as administrative capacity constraints. We expect this nationwide rollout to be completed by end 2010, after which all recipients of BISP benefits will be selected using the scorecard system. Meanwhile, we are using the existing targeting mechanism. To offset its weaknesses while the scorecard targeting system is rolled out, we will establish local offices at the Tehsil level, provide mechanisms for grievances and complaints, and develop and test alternative payment methods. Further, in September 2009, we introduced the Wasilla-ul-Haq credit program as one of the potential graduation strategies for BISP recipients to exit poverty. We plan to revisit the design of this program and ensure that BISP has the appropriate institutional capacity for the nationwide rollout of the poverty scorecard before any decision is taken on the expansion of graduation programs.

16. We will continue to improve our budget expenditure management framework. To this end, we plan to invigorate and deepen reforms under the Pakistan Improvement of Financial Reporting and Auditing Project (PIFRA) that will strengthen budget data reporting and set the stage for commitment control. The first step will be an independent review of PIFRA with Fund technical assistance to be completed by end-June 2010 (structural benchmark). The review will aim at improving reporting, laying the basis for commitment control, and assess in which institution PIFRA will be located. In addition, we plan to further strengthen the medium-term budget framework that was introduced with the 2009/10 budget. The 2010/11 budget framework will link current and development spending under the MTBF. It will improve expenditure planning and predictability of resource availability and the effectiveness of the public sector development program by increasing the predictability and quality of expenditure.

17. ***The transition to a Treasury Single Account (Federal Consolidated Fund) will be completed gradually***. The government requires—for entities under the assignment account framework—that all disbursements pass through a zero-balance assignment account, and has taken measures to ensure that leakage of cash into commercial bank accounts does not occur. With World Bank technical assistance, a survey of the remaining balances with commercial banks of the largest spending agencies of the federal government was initiated in November 2009 to verify their compliance with the policy on the use of assignment accounts. Based on the results of this survey, the funds remaining in commercial banks of these entities will be transferred to the Federal Consolidated Fund by end-June 2010, while ensuring that this transfer does not affect banking sector liquidity negatively. Further, all provincial governments will complete the transition of their accounts to the assignment account mechanism by end-June, 2010 (structural benchmark).

18. ***We are implementing the plan developed with World Bank and Asian Development Bank staffs to eliminate electricity tariff differential subsidies by August 2010***. The first adjustment of electricity tariffs was partly implemented on October 1, 2009, and the remainder of this increase will be implemented in December. Tariffs will be adjusted further in stages to ensure that they reach cost recovery in August 2010, and we will ensure that the tariff differential subsidy is limited to Rs. 55 billion in 2009/10. The implementation of the automatic monthly surcharge for changes in fuel prices and power purchase costs was delayed from end-August and implemented on October 30. Electricity tariffs will be adjusted monthly (by middle of each month) to reflect the changes in fuel prices and power purchase costs. The first quarterly determination of overall electricity tariffs by NEPRA was completed on December 10 and will be notified by December 20, 2009, and we will continue with regular quarterly determinations and notifications in the future. The ordinance amending the NEPRA Act issued in July, which provides for the monthly surcharge and quarterly determination of overall electricity tariffs, has been renewed to ensure the amendments under the NEPRA Act remain in force.

19. ***Progress is being made to resolve the issue of circular debt in the electricity sector***. The Holding Company under the Ministry of Water and Power has been established and a Board of Directors has been appointed. The Holding Company issued Rs. 85 billion of Term Finance Certificates (TFCs) on September 30, with government guarantee. TFCs are now traded at the stock exchange. The transfer of the bulk of the remaining stock of circular debt of Rs. 216 billion is expected to take place by end-March, 2010; the government has serviced this debt since July 1, 2009. An international

firm has audited the debt from 2008/09 and earlier years, which is slated to be assumed by the Holding Company. Further, to encourage an improved financial performance in this sector, we have instituted regular monthly meetings with stakeholders to ensure subsidy needs remain at or below targeted levels.

20. ***We are also monitoring closely the issuance of government guarantees***. We have published the flow of new guarantees issued on a monthly basis on the Ministry of Finance website, and will supplement, by end-March 2010, this information with the total outstanding stock of government guarantees that will be published monthly.

21. ***We are preparing a debt management strategy***. This medium-term strategy will improve coordination of fiscal and monetary policies, support capital market development, mobilize savings, and seek to develop nonbank financing. The strategy will set criteria to determine the currency composition, interest rate basis (fixed or floating) and maturity structure of public and publicly guaranteed (domestic and foreign) debt. It will also set out mechanisms to strengthen coordination between the Ministry of Finance, the SBP, and the Central Directorate for National Saving in the near term, as well as medium-term initiatives to streamline the institutional arrangements for debt management operations.

B. Monetary and Exchange Rate Policies

22. ***The SBP's primary monetary policy objective is to reduce inflation while continuing to strengthen the international reserve position***. Decisions to adjust the SBP policy rate will take into account the recent improvement in inflation while remaining cognizant of supply-side price shocks and fiscal uncertainties. The SBP's liquidity management will also seek to ensure the smooth functioning of the domestic market.

23. ***The introduction of the SBP's new monetary policy framework—a corridor of 300 basis points for the over-night money-market repo rate—was smooth***. The objective of the new framework is to reduce the volatility of short-term interest rates and improve the transmission of monetary policy signals. Thus far, there has been limited volatility in the weighted average overnight repo rate. To enhance the functioning of the corridor, the SBP may consider measures related to reserve requirements and the associated maintenance period. In addition, the SBP and the government will continue to enhance their coordination and communication to strengthen the liquidity-forecasting framework.

24. ***The SBP will continue to pursue a flexible exchange rate policy to strengthen the external position and maintain competitiveness***. In this context, interventions in the foreign exchange market will be largely aimed at achieving the program's NFA targets. The SBP has phased out the provision of foreign exchange for oil imports and notified the market that it will cease to provide foreign exchange for imports of crude oil effective December 14, 2009.

25. ***The SBP will rationalize its refinancing schemes and eliminate the subsidies resulting from below-market interest rates***. As a first step, the interest rate for the Export Financing Scheme (EFS) and the Long-Term Financing Facility (LTFF) has been

increased on November 1 to 8 percent and 9.2–10.25 percent (depending on tenor), respectively. Further steps will be taken to bring the rate to the level of the benchmarks of weighted average yield on six-month T-bills and yields of the same tenor for Pakistani Investment Bonds, respectively. We will continue with gradual increases to reach levels two percentage points below the benchmarks by end-September 2010, and rates will equal their benchmarks by end-September 2011.

C. Financial Sector

26. ***We remain committed to ensuring financial stability and will continue to monitor financial sector soundness closely***. Financial sector soundness indicators through end-September have deteriorated slightly compared to end-March and end-June. Gross nonperforming loans (NPLs) increased by nearly 6 percent in the first quarter of 2009/10, and the gross NPL-to-loans ratio rose to 12.4 percent. Nevertheless, generally banks remained well-capitalized and profitable, although bank profitability was lower than in the same period of 2008/09. A few banks with capital deficiencies have either capital injection plans already in place or are in active dialogue with the central bank to decide on the strategy to meet capital adequacy targets (end-December 2009). A continued shift of bank assets from lending to the private sector credit to investment in government paper and lending to public sector enterprises improved the average risk-adjusted capital adequacy ratio (CAR) of the banking sector.

27. ***The SBP introduced regulatory changes to facilitate restructuring of NPLs by commercial banks and development financial institutions***. Regulatory provisions have been amended to allow banks to increase the benefit of forced sale value of collateral from 30 percent to 40 percent for calculating provisioning requirements. Moreover, additional interim instructions have been introduced on classification/provisioning requirements with a view to facilitating the rescheduling or restructuring of NPLs. At the same time, the SBP took adequate measures to limit moral hazard from possible ever-greening of NPLs. These include monthly reporting on the rescheduled NPLs and limiting the benefit from a change in provisions only to increase general reserves and not for payment of cash or dividends to shareholders. The SBP also encouraged the banks to coordinate their actions for the recovery proceedings against defaulting groups/companies that have substantial exposure from a number of banks.

28. ***Amendments to the Banking Companies Ordinance have been submitted to Parliament on October 2, 2009 (structural benchmark)***. These amendments will enhance the effectiveness of SBP enforcement in the area of banking supervision. The amendments were approved on November 3, 2009 by the parliament's standing committee on Finance and Revenue and submitted for plenary discussion and approval.

29. ***Amendments to the SBP law to enhance the SBP's operational independence*** will be submitted to Parliament by December 20, 2009. Ahead of adoption of the new law, the SBP has already announced the composition of the nine-member Monetary Policy Committee of the SBP Board, which has started its work in November 2009.

30. ***Consultations on the new bankruptcy law (Corporate Rehabilitation Act) have reached a final stage***. The new law will help both the corporate and financial sectors by strengthening the legal basis for rehabilitation of viable but struggling corporate borrowers and speeding up the process of liquidation of unviable entities. Submission of the draft law to parliament has been delayed in order to allay concerns raised by financial institutions regarding creditor protection. The revised law was submitted to the Minister of Finance on November 16, 2009 and submission to parliament is expected by end-March, 2010.

IV. PROGRAM RISKS AND MONITORING

31. ***The risks to the program remain***. Delays in mobilizing disbursements of donor support would limit the scope for higher expenditure and add to pressures on the budget and domestic financing. Other risks include deterioration in the outlook for Pakistan's trading partners, which could result in lower demand for exports, and smaller private capital flows, which to some extent is being mitigated by the well-structured Pakistan Remittance Initiative. Also, adverse security developments add to budget pressures. Moreover, if economic activity weakens, the risks to the financial sector may increase.

32. ***The program will remain subject to quarterly program reviews and quarterly performance criteria for 2009/10, as specified in (***Table 1). We request that the end-December 2009 performance criterion on the fiscal deficit be revised to allow space for urgent security spending and avoid undue cuts in other priority spending and the end-December performance criteria on the net foreign assets and net domestic assets of the SBP be revised to reflect updated projections. Quarterly performance criteria will be set for end-March 2010 and end-June 2010. The attached Technical Memorandum of Understanding (TMU) replaces the TMU of July 29, 2009.

33. ***The following measures will be prior actions for Board consideration of the staff report for the third review***: (i) initiate taxpayer audits among the 850 companies identified for audit by either the FBR or external auditors and (ii) government approval of an electronic payment and tax refund system.

34. ***We propose to introduce the following new structural benchmarks***:
(i) implement expedited sales tax refund system—to ensure direct input of refund requests and prompt processing and confirmation of refunds—in all RTOs and LTUs by end-March, 2010; (ii) introduction of the VAT by July 1, 2010; and (iii) complete an independent review of PIFRA (by end-June 2010) to improve reporting, lay the basis for commitment control, and assess in which institution PIFRA will be located.

V. PROGRAM FINANCING

35. ***The program remains fully financed but disbursement of the assistance pledged in Tokyo is crucial***.

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

	Outst. Stock end-Sept. 2008	end-Mar. 2009	end-Jun. 2009	end-Sept. 2009	Prog. 2/ end-Dec. 2009	Prog. 2/ end-Mar. 2010	Prog. 2/ 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	5,100	5,700	4,900
Adjusted target	...	446	2,428	4,382			
Actual	...	3,132	3,982	5,706			
Ceiling on net domestic assets of the SBP* (stock, in billions of Pakistani rupees)	1,250	1,412	1,314	1,300	1,270	1,220	1,320
Adjusted target	...	1,416	1,316	1,233			
Actual	...	1,201	1,183	1,141			
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	1,181	1,130			
Actual	...	1,071	1,130	1,047			
Ceiling on overall budget deficit* (cumulative flow, in billions of Pakistani rupees)	142	405	562	194	400	604	740
Adjusted target	...	405	562	173			
Actual	...	405	680	224			
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	589			
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	1,724			
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	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	2,035			
Memorandum items: (cumulative, in millions of U.S. dollars, unless otherwise indicated)							
Net external program financing excluding any budget grants related to Internally Displaced Persons (IDPs), program portion of Tokyo-related disbursements, and Fund financing to the budget 3/	-166	296	737	95	-928	-1,082	-171
Actual				-64			
Use of IMF resources by the budget 3/	...	...	...	715	1,072	1,430	0
Actual	...	...	...	745			
External project grants	24	111	176	320	169	530	992
Actual	...	...	...	29			
External project grants, excl. IDP grants and Tokyo related grants 3/	...	...	...	172	49	70	90
Actual	...	...	...	27			
Total IDP grants (project and budget) 3/	...	...	...	220	110	310	542
Actual	...	...	...	0			
Tokyo-related disbursements, excl. multilateral sources 3/	...	...	...	342	1,177	1,962	2,220
Actual	...	...	...	0			
Tokyo-related disbursements from multilateral sources 3/	...	...	...	0	0	100	270
Actual	...	...	...	0			
Foreign Exchange cash reserve requirement (CRR, incl. special CRR) deposits in SBP (stock in millions of U.S. dollars)	832	745	728	779	800	805	810
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)	...	...	...	1,281	1,281	1,281	1,281

Note:
* denotes performance criteria.

1/ Excludes IMF.
2/ In addition to the quantitative performance criteria for end-December, end-March, and end-June the relevant purchases will also be subject to the completion of reviews with the third review to be completed no earlier than November 29, 2009, the fourth review to be completed no earlier than February 27, 2010, and the fifth review to be completed no earlier than May 30, 2010.
3/ To be used in assessing respective adjustors for program targets.

Table 2. Pakistan: Structural Conditionality, December 2008–July 2010

	Target date	Status
Prior Actions		
Initiate taxpayer audits among the 850 companies identified for audit by either the FBR or external auditors.		
Government approval of an electronic payment and tax refund system.		Met
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 treasury single account will be completed.	end-June 2010	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	Met with a delay
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	(i) Met; (ii) Met with a delay
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	Met with a delay 3/
Submission of the VAT law to Parliament.	end-December 2009	
An expedited sales tax refund system will be implemented in all Regional Taxpayer Offices and Large Taxpayer Units to ensure direct input of refund requests and prompt processing and confirmation of refunds.	end-March 2010	
An independent review of the Pakistan Improvement of Financial Reporting and Auditing Project (PIFRA), to improve reporting, lay the basis for commitment controll, and assess in which institution PIFRA should be located.	end-June 2010	
A full implementation of the VAT.	July 1, 2010	

1/ The original plan was superseded by a plan that was agreed upon on July 15, 2009 that envisages elimination of tariff differential subsidies by August 2010.
2/ In October 2008, the authorities took steps to prevent 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.
MoF has collected information about balances held by federal government entities in commercial bank accounts.
The target date has beenrevised from end June-2009.
3/ An ordinance was issued on October 28. It will need to be augmented and legislated at a later stage to be made consistent with the new VAT law that is being prepared.

PAKISTAN: TECHNICAL MEMORANDUM OF UNDERSTANDING ON THE PROGRAM SUPPORTED UNDER THE STAND-BY ARRANGEMENT

December 11, 2009

1. With effect from October 1, 2009, this Technical Memorandum of Understanding 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

2. **Valuation of foreign exchange denominated assets, liabilities, and foreign exchange flows**. 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[1]

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

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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."

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. 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.

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–December 2009: -$928 million

July 2009–March 2010: -$1,082 million

July 2009–June 2010: -$171 million

[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.

18. If the actual cumulative net external program financing in U.S. dollar terms is higher than projected 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-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 projected amounts specified in paragraph 17 for 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-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–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) are lower than the projected amount, the difference between their projected and actual values in U.S. dollar terms is defined as **the shortfall in Tokyo-related disbursements (excluding multilateral sources) in U.S. dollar terms**. 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) in rupee terms.

Adjustors related to Tokyo-related disbursements from multilateral sources

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

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 are lower than the projected amount, the difference between their projected and actual values

in U.S. dollar terms is defined as **the shortfall in Tokyo-related disbursements from multilateral sources in U.S. dollar terms**. 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 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 from multilateral sources in rupee terms.

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–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 external project grants excluding IDP grants and Tokyo-related grants

31. If the amount of **external project grants** excluding IDP grants and Tokyo-related grants, 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 these grants. 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, 25a, and 27a.

Adjustor related to total IDP grants (project and budget)

32. If the total amount of **IDP grants (including project and budget grants)**, 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 these grants. Any shortfall in the period July – December 2009 will not be applied to the ceiling for this period. 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, 25a, and 27a.

Adjustor related to changes in regulations on required reserves

33. 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: $\Delta NDA = \Delta r B_0 + r_0 \Delta B + \Delta r \Delta B$, 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

34. 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 SBP's net exposure under foreign exchange forwards and swaps was $2.035 billion at end-September 2009. The maximum SBP's net exposure under foreign exchange forwards and swaps is capped at $2.5 billion for end-December 2009, end-March 2010, and end-June 2010.

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

35. 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 of resident banks with the SBP was $779 million at end-September 2009.

III. PROGRAM REPORTING REQUIREMENTS

36. 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

(In million Rupees)

	30-Jun-09	30-Sep-09	31-Oct-09
A. Central Government	**1,849,101**	**1,867,809**	**1,924,524**
Scheduled Banks	**737,490**	**861,515**	**854,686**
Government Securities	214,164	225,290	223,538
Treasury Bills	756,955	890,690	889,222
Government Deposits	-233,630	-254,465	-258,074
State Bank	**1,111,612**	**1,006,294**	**1,069,838**
Government Securities	3,144	3,144	3,144
Accrued Profit on MRTBs	35,131	33,126	31,306
Treasury Bills	1,107,858	1,010,757	1,025,957
MTFBs purchased for replenishment of cash balances	1,098,349	1,001,248	1,016,448
Adhoc Treasury Bills	0	0	0
Ways and Means Advances	0	0	0
Treasury Currency	8,153	8,153	8,153
Debtor Balances (Excl. Zakat Fund)	0	0	0
Government Deposits	-48,137	-54,348	-4,185
(Excl. Zakat and Privatization Fund)	0	0	0
Special Account-Debt Repayment	0	0	0
Payment to HBL on a/c of HC&EB	-287	-287	-287
Adjustment for use of Privatization Proceeds for Debt Retirement	5,749	5,749	5,749
B. Provincial Governments	**-168,079**	**-148,711**	**-174,317**
Scheduled Banks (a+b-c)	**-221,114**	**-222,448**	**-225,519**
Government Securities	0	0	0
Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-222,138	-223,472	-226,544
State Bank	**53,035**	**73,737**	**51,203**
Debtor Balances (Excl. Zakat Fund)	75,381	101,091	92,010
Ways and Means Advances	0	0	0
Government Deposits (Excl.Zakat Fund)	-22,346	-27,354	-40,807
Net Govt. Budgetary Borrowings from the Banking system	**1,681,022**	**1,719,098**	**1750207.59**
Through SBP	**1,164,647**	**1,080,031**	**1,121,041**
Through Scheduled Banks	**516,375**	**639,068**	**629,167**
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	35,131	33,126	31,306
Scheduled banks ' deposits of Privitization Commission	-1,580	-2,380	-1,963
Outstanding amount of MTBs (Primary market; discounted value)	739,475	871,341	872,808
Net Govt. Borrowings (Cash basis)			
From Banking System	1,629,991	1,669,004	1,704,451
From SBP	1,129,516	1,046,905	1,089,735
From Scheduled Banks	500,475	622,098	614,716

Source: State Bank of Pakistan

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

	Act. Jul.-Sep.	Act. Oct.-Dec.	Act. Jan.-Mar.	Act. Apr.-Jun.	Act. Total	Act. Jul.-Sep.	Proj. Oct.-Dec.	Proj. Jan.-Mar.	Proj. Apr.-Jun.	Proj. Total
			2008/09					2009/10		
Project Aid	248	331	268	319	1,165	231	266	1,236	999	2,732
Grants, of which	23	21	50	2	96	27	22	285	265	599
Regular						27	22	21	20	90
Tokyo pledge	0	0	0	0	0	0	0	130	195	325
IDP grants	0	0	0	0	0	0	0	134	50	184
Earth Quake grants	1	2	3	74	80	2	8	10	15	35
World Bank, of which	61	56	42	72	230	86	45	45	210	386
Regular						86	45	45	210	386
Tokyo pledge	0	0	0	0	0	0	0	0	0	0
Earthquake	7	21	0	20	49	0	0	0	0	0
ADB, of which	111	85	53	75	324	74	73	76	77	300
Regular						74	73	76	77	300
Tokyo pledge	0	0	0	0	0	0	0	0	0	0
Earthquake	7	9	5	6	27	0	0	0	0	0
Other bilateral project loan, of which	52	44	68	43	207	42	118	720	432	1,312
Regular						42	118	120	156	436
Tokyo pledge	0	0	0	0	0	0	0	600	276	876
Other Earthquake Loans	0	0	0	54	54	0	0	0	0	0
Commodity Aid	0	123	52	0	175	0	0	100	0	100
Program Loans	494	811	677	815	2,797	414	36	600	1,100	2,150
World Bank	0	0	485	224	709	264	36	0	300	600
ADB	494	100	96	492	1,182	150	0	400	600	1,150
Tokyo pledge, of which	0	0	0	51	51	0	0	0	0	0
World Bank	0	0	0	0	0	0	0	0	0	0
ADB	0	0	0	51	51	0	0	0	0	0
IDB	0	561	77	18	656	0	0	200	200	400
Short-term commercial	0	150	19	31	200	0	0	0	0	0
Budgetary Grants	40	30	56	5	131	0	38	62	0	100
Privatization	0	0	0	0	0	0	0	133	133	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 budget grants	0	0	0	10	10	0	0	0	0	0
Saudi Arabia (Tokyo pledge)	...	...	...	...	...	0	0	200	0	200
Other grants	...	...	...	...	...	0	0	0	0	0
Budget financing from the Fund	...	...	...	...	...	745	354	354	-733	719
Amortization	700	802	810	379	2,691	478	938	949	322	2,687
Medium and Long-term	538	258	760	277	1,833	395	279	944	322	1,940
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	277	1,111	373	279	344	322	1,318
Short-term	162	544	50	102	858	83	659	5	0	747
IDB	162	428	0	102	692	83	543	5	0	631
Commercial	0	116	50	0	166	0	116	0	0	116
Memorandum items:										
(cumulative from the beginning of fiscal year)										
Net budget financing	82	452	1,142	1,903		912	668	2,303	3,480	3,480
Net program financing for the budget (excl. Tokyo related disbursements, IDP grants, Fund financing to the budget) 1/	-166	-127	296	737		-64	-928	-1,082	-171	-171
Tokyo-related disbursements (excl. multilateral sources) 1/	0	0	0	0		342	1,177	1,962	2,220	2,220
Tokyo-related disbursements from multilateral sources 1/	0	0	0	0		0	0	100	270	270
Total project grants						29	169	530	992	992
External project grants, excl. IDP grants and Tokyo related grants 1/	24	47	100	176		27	49	70	90	90
Total grants for IDP (budget and project) 1/	0	0	0	0		0	110	310	542	542
Increase in SDR allocation						1,281	1,281	1,281	1,281	1,281

Sources: Pakistani authorities; and Fund staff projections.

1/ To be used in assessing respective adjustors for program targets, rather than the projected amount above in the table.

Table 3. Pakistan: Total Outstanding Domestic Debt

(In billion Rupees)

	Jun-08	Jun-09	Sep-09
A. Permanent Debt	**608.0**	**678.0**	**717.1**
Market Loans	3.0	2.9	2.9
Federal Government Bonds	9.0	7.2	7.2
Income Tax Bonds	0.0	0.0	0.0
Government Bonds (L.R.-1977)	0.0	0.1	0.1
Special Government Bonds For SLIC (Capitalization)	1.0	0.6	0.6
GOP Ijara Sukuk 3 years	0.0	27.8	42.2
Government Bonds (issued to HBL for settlement of CBR Refund)	0.0	0.0	0.0
Bearer National Fund Bonds(BNFB)	0.0	0.0	0.0
BNFB Roll Over-II	0.0	0.0	0.0
Special National Fund Bonds	0.0	0.0	0.0
Federal Investment Bonds (Auction)	1.0	1.0	0.0
Federal Investment Bonds (TAP)	0.0	0.0	0.0
Pakistan Investment Bonds (PIBs)	412.0	441.0	456.7
Prize Bonds	183.0	197.4	207.4
B. Floating Debt	**1,637.0**	**1,904.0**	**1,970.4**
Treasury Bills (3 Months)	0.0	0.0	0.0
Market Treasury Bills (auction)	537.0	796.1	959.6
MTBs for Replenishment*	1,100.0	1,107.9	1,010.8
C. Unfunded Debt	**1,020.0**	**1,270.5**	**1,322.5**
Defense Savings Certificates	285.0	257.2	233.2
National Deposit Certificates	0.0	0.0	0.0
Khas Deposit Certificates	0.0	0.3	0.3
Special Savings Certificates (Reg)	160.0	288.8	318.7
Special Savings Certificates (Bearer)	0.0	0.3	0.3
Regular Income Certificates	51.0	91.1	102.7
Premium Saving Certificates	0.0	0.0	0.0
Bahbood Savings Certificates	229.0	307.5	320.7
Khas Deposit Accounts	0.0	0.3	0.3
National Deposit Accounts	0.0	0.0	0.0
Savings Accounts	28.0	16.8	15.6
Special Savings Accounts	67.0	88.6	108.4
Mahana Amdani Accounts	2.0	2.4	2.3
Pensioners' Benefit Accounts	88.0	109.9	113.9
Postal Life Insurance	67.0	67.1	67.1
GP Fund	43.0	40.1	39.1
D. Total(A+B+C)	**3,266.0**	**3,852.6**	**4,010.0**

Note: * Inclusive of outright sale of MTBs to commercial banks.

Source: State Bank of Pakistan (Statistics & DWH Department).