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Press Release:
IMF Executive Board Completes Ninth Review Under the Extended Fund Facility for Pakistan
December 18, 2015

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

December 3, 2015

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 3, 2015

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

Dear Ms. Lagarde,

Reaching the ninth review under our three-year economic reform program, we continue to make significant progress with our economic policies. Risks present at the beginning of the program have greatly receded as we have reduced our budget deficit and rebuilt our foreign exchange buffers. Alongside, we have rationalized untargeted energy subsidies, while significantly expanding coverage under the Benazir Income Support Program (BISP) to protect the most vulnerable segments of society.

Looking ahead, we remain strongly committed to achieving the remaining objectives of the program. In this context, we focus on reinforcing and building on our recent macroeconomic stability gains, and on advancing further structural reforms to achieve higher, sustainable, and inclusive economic growth. A major goal in this regard is to continue to widen the tax net to generate the necessary resources for higher infrastructure and social spending while strengthening public finances. In addition, we are addressing the circular debt issue in the power sector, continuing to build foreign exchange reserves buffers to bolster resilience in the face of external shocks, advancing in the implementation of our plans for privatization and restructuring of public enterprises, and creating suitable conditions for higher investment and exports by improving competitiveness and the business climate. The actions described in the attached Memorandum of Economic and Financial Policies (MEFP) are consistent with this strategy.

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

Quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2). End-September 2015 quantitative performance criteria (PCs) on the SBP's net international reserves, government borrowing from the SBP, and foreign currency swap/forward position were met, and so were the indicative targets on accumulation of power sector arrears and social spending under the Benazir Income Support Program (BISP). However, the PCs on net domestic assets (NDA) and the fiscal deficit were missed, as was the indicative target on tax revenue. We are taking corrective action to meet the remaining quarterly targets under the program, as outlined in the attached MEFP. We request waivers of nonobservance for the missed performance criteria based on our corrective actions.

The program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. As detailed in the attached MEFP, we propose new structural benchmarks against which to measure progress under the program (MEFP, Tables 1 and 2). The attached Technical Memorandum of Understanding (TMU) explains how the program targets are measured.

In the attached MEFP, we set out our plans to further advance the objectives of our stabilization and inclusive growth program. We propose to modify the end-December PC on NDA in line with our revised monetary projections and set new PCs for March 2016 as specified in the attached MEFP, and completion of the ninth review under the Extended Arrangement. We reaffirm our commitment to our economic reform program supported by the International Monetary Fund (IMF). We believe that the policies set forth in this letter and in the letters of August 19, 2013, December 11, 2013, March 6, 2014, June 19, 2014, December 2, 2014, March 12, 2015, June 12, 2015, and September 15, 2015 are adequate to achieve the objectives of the program, and we stand ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF with the necessary information for program monitoring. We authorize the IMF to publish this Letter of Intent and its attachments, and the related staff report.

/s/	/s/
Senator Mohammad Ishaq Dar	Ashraf Mahmood Wathra
Minister of Finance	Governor of the State Bank of Pakistan
Pakistan	Pakistan

Attachment I. Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. **Economic activity remains robust amid mixed signs**. We expect, for program purposes, that real GDP growth will reach about 4.5 percent in FY 2015/16. However the government retains its goal of achieving growth of 5.5 percent this fiscal year. Lower oil prices, planned improvements in the supply of gas and electricity, and investment related to the China Pakistan Economic Corridor (CPEC) are supporting growth. Moreover, growth in large-scale manufacturing in the first quarter (3.9 percent, compared to 2.6 percent last year) is encouraging. Nonetheless, there are challenges going forward, as private credit growth has further declined and weakness in both exports and imports are weighing on growth prospects. Headline consumer price inflation registered at 2.7 percent y-o-y in November, mainly driven by lower food and energy prices. We expect inflation to increase to around 3.7 percent on average in FY2015/16, due to a likely bottoming out of the effects of low commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.

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

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

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

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

Economic Policies

A. Monetary and Exchange Rate Policies

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

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

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

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

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

B. Fiscal Policy

9. **While the budget deficit target was missed in the first quarter of FY2015/16, we remain committed to sustained fiscal consolidation**. To place the debt-to-GDP ratio on a firm downward trajectory, bolster macroeconomic stability, and set the stage for sustainable and inclusive growth, we remain determined to lowering the budget deficit excluding grants to 4.3 of GDP in the current fiscal year and to 3½ percent by the end of the program in FY2016/17, mainly through revenue mobilization and expenditure rationalization across all layers of government. This will create the much-desired fiscal space for priority spending on infrastructure, education, healthcare, and targeted social assistance to improve living standards and to protect the most vulnerable segments of our society.

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

11. **Over the past two years, we have carried out an ambitious program of tax reforms.** This has included: (i) eliminating decades old distortive and discriminatory tax exemptions and concessions amounting to PRs 224 billion; (ii) introducing the concept of differential taxation of filers and non-filers to reward compliance and penalize noncompliance; (iii) reengineering and automating business processes and procedures in tax administration; and (iv) initiating far-reaching tariff liberalization and putting in place measures to bring about behavior change among taxpayers. In addition, the Federal Board of Revenue (FBR) did not grant any new tax concessions and exemptions and the government did not issue concessional Statutory Regulatory Orders (SROs),

except under exceptional circumstances. Furthermore, parliament approved the legislation permanently restricting the government's authority to grant tax concessions or exemptions. Such concessions and exemptions are now in the purview of parliament, except in a number of specified exceptional circumstances, in which the Economic Coordination Committee (ECC) of the cabinet can grant them on a temporary basis.

12. **We are renewing our efforts to strengthen tax revenue mobilization with a growth-friendly reform agenda.** While we have steadily raised the tax-to-GDP ratio, it still remains low and we continue to see great scope to increase tax revenue by broadening the tax base, strengthening tax administration, and shifting the tax composition from indirect to direct taxes in an efficient and equitable way. Our objective is to raise the tax-to-GDP ratio to 14.5 percent by FY2019/20. To this end, we will further streamline tax concessions and exemptions, except for goods with social priority, well-targeted export incentives, and those related to bilateral trade agreements and international conventions. As part of the FY2016/17 budget, we will continue to simplify the GST regime and move toward a single standard rate and limited exceptions and exemptions, and to improve the taxation of capital gains, including on real estate investments.

13. **We are committed to modernizing the GST regime and dealing with the backlog on GST refund claims at a faster pace**. We will continue making efforts to optimize the GST on goods and services in close coordination with provincial revenue authorities before the FY2016/17 budget is presented to parliament. We managed to lower the amount of outstanding GST refund claims from the peak of PRs 113.2 billion in November 2014 to PRs 86.5 billion by end-September 2015. With the introduction of an automated system of pre-verification in addition to post-verification, the FBR has accelerated processing and payment of GST refund claims. Our aim is to bring the stock of GST refund claims to a level consistent with no more than a three-month flow of claims (estimated at PRs 20 billion).

14. **Recent efforts to enhance tax administration have yielded gains, but the gap between potential and actual tax collections remains**. We met our target to issue 225,000 first notices by end-September 2015, to bring more potential taxpayers into the revenue base. This helped increase the number of taxpayers filing for income tax return from 722,000 on July 1, 2013 (for tax year 2012) to 967,544 (for tax-year 2014) as of end-November 2015. We have also started a new initiative in FY2014/15 to bring retail trade into the tax net. Under this initiative, retail trade is bifurcated into two tiers. Small retailers (Tier 2) are being charged GST as part of their monthly electricity bills at varying rates according to the amount of electricity consumption. Large retailers (Tier 1) are being registered under the GST law. Out of 15,000 large retailers identified, we already registered about 6,500 retail outlets by end-September 2015.

15. **We will accelerate tax administration reforms to improve compliance and enforcement, which are critical to realize our revenue potential**. We will continue to strengthen the culture of taxation by aggressively pursuing tax evaders, avoiding tax amnesty schemes, and adopting a program of comprehensive reform of the tax institutions. We will further improve our enforcement efforts on non-filers who have the potential to contribute at least the average tax paid by currently registered taxpayers and especially large corporations and high wealth individuals:

- We will continue to improve the FBR's information technology infrastructure and expand its access to taxpayer information. We have integrated the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database (SB, end-September 2015). This allows us to improve taxpayer compliance and broaden tax bases as we record all financial and property transactions by individuals with CNIC numbers.

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

- The income tax law has been amended to provide the FBR with full access to bank accounts and transactions, with a view to minimize the risk of tax avoidance and evasion. A series of legal challenges, however, has delayed operationalization of this provision. While we are actively pursuing a legal resolution, the FBR is strengthening its intelligence capacity to gather financial information, particularly on high wealth individuals, from multiple sources including real estate transactions, motor vehicle procurement, survey of palatial houses, and international travel.

- By end-January 2016, we will prepare and submit to the National Assembly draft legislation against "benami" transactions, in which assets are held by or transferred to a person, but have been provided for, or paid by, another person (SB).

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

- We will streamline the online filing scheme (which will facilitate registration and filing of PIT returns by simplifying the tax return form) and maintain the coverage of tax audits at 7.5 percent of filed tax returns.

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

16. **We place emphasis on taking measures to improve governance and reduce the likelihood of corruption in tax administration**. We have established an integrity management unit in the FBR and collected asset declarations of all FBR employees. We will further strengthen the integrity management unit by identifying potential processes within the FBR that could strengthen its anti-corruption structures, including in the Directorate General of Internal Audit, by end-December 2015. We will simplify tax laws and procedures and work with provinces to consolidate collection of provincial taxes and fees to make it easier for taxpayers to meet their obligations and

at the same time eliminate opportunities for corruption by limiting the discretion of tax officials. We will also expand the IRIS (an end-to-end integrated IT system) to all business areas throughout the FBR's network of offices to further reduce discretion in tax administration. In addition, following the ratification of the whistleblower law for tax crimes, we will establish communication platforms (phone hotline and website) to facilitate public reporting of corrupt practices in tax administration, the aggregate results of which we will publish on a quarterly basis, starting in April 2016.

17. **We will continue to manage budgetary spending prudently and strive to achieve the contribution of provinces to fiscal consolidation**. To this end, additional budgetary spending as result of the reclassification of some non-plan loans (0.1 percent of GDP) will be made through re-allocation of existing capital expenditure plans, including at the provincial level. The additional budgetary spending related to the new agricultural spending package (0.1 percent of GDP) will be absorbed within recurrent spending. As agreed, we are working towards reducing energy subsidies (including amounts for arrears clearance) to 0.4 percent of GDP in FY2015/16, from 0.8 percent in FY2014/15. To protect against a potential negative outcome of legal challenges to electricity surcharges, we will take mitigating measures as necessary (¶32). To assure achievement of our fiscal targets in FY2015/16 and beyond, the provincial finance secretaries have agreed in writing to increase provincial budget surpluses consistent with the program. To this end, total provincial spending will be maintained at 6.5 percent of GDP in FY2015/16, with total provincial own tax and nontax revenues standing at 1.1 percent of GDP. We are intensifying our interaction with provincial authorities at a higher level to arrive at a mechanism to strengthen the provinces' fiscal commitment for FY2015/16. We are also holding quarterly meetings among the federal and provincial Finance Secretaries to review fiscal performance and coordinate spending priorities to correct any slippages in a timely manner. We will again prepare contingency measures as needed and reduce expenditure allocations in the first nine months of the year compared to the budget to create a fiscal buffer against any deviation away from the program target.

18. **We aim to better balance devolution of revenue and expenditure responsibilities between the federal government and provinces**. With recent constitutional amendments, Pakistan has a highly decentralized system of government. The seventh NFC award grants 57.5 percent of most revenues to the provinces, along with devolution of spending responsibilities and administration of the GST on services in addition to the existing taxation authority in agriculture and property. In the new round of NFC negotiations, we will seek an agreement to balance devolution of revenue and expenditure responsibilities in a way that allows for macroeconomic stability. The Federal government will encourage provinces to improve provincial revenue collection by modernizing agriculture taxation and improving taxpayer compliance with a particular focus on identifying mis-declarations in this area. In January 2016, we will start working closely with provincial governments to establish a centralized electronic fiscal cadastre to better record transactions and assess real estate tax for each property based on periodically updated market valuation.

19. **Strengthening the Fiscal Responsibility and Debt Limitation (FRDL) Act will provide better policy guidance and anchor debt sustainability**. Pakistan adopted the FRDL Act in 2005, setting out the principles of sound management of public finances. Having worked with the law for

more than a decade, it is time to evaluate its efficacy in meeting its basic objectives, and also to ensure that it is in line with the emerging international best practices. Accordingly, we have sought the Fund's advice on options to strengthen the FRDL Act in terms of operational and procedural aspects, such as an appropriate fiscal policy anchor, medium-term orientation of the budget process, and policy coordination across all layers of government. In this context, we are also working to improve the policies and procedures for government guarantees and risk management, even though the size of government guarantees (about 2.3 percent of GDP in FY2014/15) remains manageable. The exercise will enable us to follow international best practices to systematically account for the fiscal costs and contingent liabilities associated with the broader public sector operations including SOEs, public-private partnerships (PPPs), and special purpose vehicles (SPVs). To this end, we have asked technical assistance from the Fund to develop a PPP framework at the federal level.

20. **We will ensure that the budget preparation process takes into account the impact of fiscal policy on gender equality**. The ultimate objective of our economic program is to unlock Pakistan's growth potential and achieve inclusive growth that benefits every section of society. In this context, gender equality is a key factor contributing to rapid and broad-based economic growth. While improving gender equality in education and raising labor force participation among women require a wide range of policy initiatives, we will enhance the budget preparation process to better incorporate gender equality. To this end, we are reinvigorating the work on gender-disaggregated analysis and preparing a plan for gender-responsive budgeting. We will carry out a gender-responsive analysis of the FY2015/16 budget with the assistance of our development partners by end-February 2016, which will become a baseline for the FY2016/17 budget. To foster gender equality throughout the country, we will share the findings of this analysis and policy proposals with the provincial governments and will encourage them to use those findings in formulating their respective budgets.

21. **We continue our support to the poor and most vulnerable segments of the population through the Benazir Income Support Program (BISP)**. As of end-September 2015, we have reached 5.14 million beneficiaries and met the indicative target for transfer payments. In FY 2015/16 we are on track to expand the number of beneficiaries to 5.3 million. If additional donor support can be secured, we will also further increase the stipends (as elaborated in the TMU). In order to improve the service delivery to the beneficiaries and to reduce cost, we have already signed amendments in the contracts executed with the commercial banks working with BISP. We have extended the existing contracts with commercial banks for continuity of benefit transfers to BISP beneficiaries. To achieve the beneficiary centric payment model, in collaboration with the State Bank of Pakistan, we are revisiting the existing model and accordingly will enter into new contracts with the partner banks. Decision in this regard is expected to be reached by November 2015 and if needed, a transition plan would be finalized by end-November 2015. In partnership with the provincial governments, we have rolled out education-conditional cash transfers (CCT). As of end-September 2015, we are disbursing in 32 districts. Currently, more than 700 thousand children are beneficiaries of the CCT. We will expand the total number of children benefitting from the program to 1 million by end-March 2016.

C. Fiscal Financing

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

23. **We will strengthen the institutional framework for debt management**. We are focusing on reducing rollover risks, balancing financing from domestic and external sources, and lengthening the maturity profile of domestic public debt, while continuing to watch contingent liabilities. To further improve debt management, we will improve the effectiveness of the Debt Policy Coordination Office (DPCO) and its integration in the Ministry of Finance's core functions. We have enhanced its staffing capacity for the implementation of an optimal borrowing strategy. We have already taken steps to synchronize the rate setting between domestic retail and wholesale debt markets. Specifically, to achieve savings in, and more effective decision-making for, government borrowing, we will:

- Continue to provide Fund staff with a detailed quarterly financing plan for the coming 12 months and publish our rolling quarterly issuance program for domestic public securities;

- Update the Medium Term Debt Management Strategy (MTDS) covering the period FY2015/16–FY2018/19 (preparation of an initial draft by end-November 2015 and publication by end-January 2016); and

- We met the end-October 2015 SB to appoint risk management staff (director and two staff) and publish quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.

D. Financial Sector

24. **The banking sector remains sound, with high earnings and solvency ratios**. The pre-tax profit of the system increased by 43 percent y-o-y in September mainly attributed to increased net interest income from investments in government securities and higher noninterest income, despite higher provision charges. The capital adequacy ratio (CAR) improved to 18.2 percent, significantly above the 10 percent minimum requirement. As of end-September 2015, asset quality has remained unchanged with the nonperforming loan (NPL) ratio at 12.5 percent and net NPL ratio at 2.5 percent.

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

26. **We remain committed to protecting financial stability by reinforcing the regulatory and supervisory framework**.

- The revised Securities and Exchange Commission of Pakistan (SECP) Act to enhance the regulatory power of the SECP will be discussed with the IMF and will be considered by the CCI before being submitted to Parliament for enactment by April 2016.

- The Futures Trading Bill is being finalized and will be placed before Parliament by end-December 2015.

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

- To improve the recovery of NPLs without banking court intervention and enhance credit growth, amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, has been placed in Parliament for enactment. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April 2015. These legal reforms will be pivotal for facilitating timely resolution of NPLs and allowing banks to focus on their core areas of operation. The SECP has also prepared a concept note for developing the Corporate Rehabilitation Act, which has been shared with stakeholders.

- The SBP continues to improve its contingency planning framework with support by IMF TA. Among other things, this work will encompass a review of the legal framework, identification of gaps, an assessment of the consolidated supervision framework and domestic systemically important banks (D-SIBs). The SBP had already conducted an initial assessment of identification of the D-SIBs and will work on developing the monitoring mechanism.

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

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

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

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

E. Energy Sector Reforms

30. **The National Energy Policy identified priority steps to anchor the reform agenda for the next three–five years**. We are implementing our time-bound strategy to tackle price distortions, insufficient collections, costly and poorly targeted subsidies, governance and regulatory deficiencies, and low efficiency in energy supply and distribution with the support of our international partners. We are reducing electricity subsidies to 0.3 percent of GDP in FY 2015/16, and allocating an additional 0.1 percent for arrears clearance. We also began addressing both the flow and stock of payable arrears in the power sector including by allocating budgetary resources, levying surcharges, gradual improvement in company performances and recoveries, and initiating the process of privatizing power sector companies.

Power Sector

31. **Price Adjustments**.

- In June 2015, we notified the FY2014/15 tariff, as determined by NEPRA, and implemented surcharges in line with the program targets (as defined in the TMU ¶20). We are committed to protect the level of revenue in the electricity sector by adjusting prices as needed. We will undertake all necessary measures to ensure the full recovery of costs from consumers.

- We are ensuring that technical loss diagnostic studies for all DISCOs will be finalized shortly so that better estimates of loss rates can be considered by NEPRA in its FY2015/16 tariff determination by end-April 2016.

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

32. **Arrears (Circular Debt)**. We have developed a monitoring mechanism to track the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited, PHCL) (as defined in TMU ¶22). There are two main components of the stock this circular debt:

- The payables in the power sector increased by PRs 13 billion in the first quarter of FY 2015/16 and currently stand at PRs 326 billion at end-September 2015. In addition to current payables, it comprises: (i) a residual from payables clearance of June and July 2013; (ii) a disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) non-recovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerged from the court stay order on surcharges; (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads (vii) PHCL loan servicing, and (viii) payables to cross border trade.

- The stock of past arrears, including the PHCL, in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-September 2015.

33. **We have adopted a plan for reducing the accumulation of payables arrears and to gradually eliminate the stock**. This plan includes steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure. With this, the accumulation of payables will be reduced from PRs 209 billion in FY 2014/15 (including the PHCL) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY2018/19 (Table 1). While some elements of the plan have not been fully addressed i.e. implementation in two regions and GST refunds, yet we have met the end-September IT on the flow of power sector arrears, helped by lower international oil prices. We remain on track to meeting upcoming quarterly targets.

- We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in at the last 12-months declined from 19.0 to 18.2[2] percent. Collections in the same period improved from 88.6 to 90.7 percent, primarily due to better load management across consumers in rural and urban areas, and industries. More broadly, to address increased losses in some DISCOs, the chief executives and some members of senior management of poorly performing DISCOs have been replaced, and we are working with provincial governments to address their payment problems. We will work on improving the average performance of the sector further in FY2015/16.

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

- We have allocated about 0.1 percent of GDP of budgetary resources to clear part of the stock of arrears that accrued in AJK, FATA and Baluchistan Tube Wells. We will continue to work with these governments to prevent further accumulation of arrears.

- We are moving the stock of PHCL debt into DISCOs' balance sheets where privatization will take place. This will help to reduce the stock of PHCL debt and will ease the servicing of this debt. In the meantime, we will continue to fully service the PHCL obligations.

34. **Monitoring and enforcement**. To further reduce losses, raise payment compliance, and improve energy efficiency and service delivery, we have already signed performance contracts with the boards of nine DISCOs. We have begun monitoring the performance indicators on a monthly basis specified in the contracts and we have already invoked remedial measures for the management of three distribution companies who failed to comply, as specified in the Companies' Ordinance i.e. LESCO, HESCO, and SEPCO. We have already set quarterly loss-reduction, collection, and recovery targets (as defined in the TMU ¶23) consistent with our arrears reduction plan for each DISCO in September (mid-October 2015 SB). The amendments to Penal Code 1860 and the Code of Criminal Procedures 1898 were promulgated through Presidential Ordinance which lapsed in August 2014. The Bill, after approval by the National Assembly, was transmitted to the Senate, which has referred it to the relevant standing committee where its approval is awaited. We expect it to be enacted by end-January 2016 (new SB). We will work with the Ministry of Law on creating an effective system for handling cases related to electricity theft that can be effective by end-March 2016. In parallel, we drafted the new Electricity Act to modernize governance of the sector. We have shared the draft Act with a broader set of stakeholders and submitted to the CCI secretariat in October 2015 to build consensus with the provinces by end-March 2016.

[2] 12-month rolling sums.

35. **Demand Side Management**. To improve resource allocation and energy efficiency, we are using pricing (¶32) and other market-based instruments. We have finalized the required approvals to begin Advanced Metering Infrastructure (AMI) before the end of October 2015, which will be initially implemented in LESCO and IESCO to help reduce commercial losses, increase recoveries and better manage revenue-based load shedding. We have completed the consultative process with stakeholders on the draft Pakistan Energy Efficiency and Conservation Act. In August 2014, the CCI approved the bill and it is now in the National Assembly. We expect it to be enacted in early 2016. The Act will include equipment performance standards, and would cover key electrical and gas equipment and appliances which are not yet covered. In parallel, we are also preparing the necessary implementing regulations.

36. **Supply Side Management**. We continue to prioritize the use of gas and coal rather than fuel oil in electricity generation and remain committed to a transition to market-based allocation of natural gas in the medium-term. By providing adequate liquidity and therefore fuel inventories to generation plants, we were able to prioritize generation at more efficient plants, while maintaining better recovery from consumers and control over losses. This helped us to save significant costs (PRs 47 billion) and increase power generation by 3 percent. In addition, the better load management policy helped us attain zero load-shedding for industrial consumers and ensured predictable and reduced load-shedding for urban and rural consumers. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to further reduce technical losses. In addition, we have signed performance contracts with three state-owned generation companies which are run on furnace oil to reduce their losses. We continue with the development of hydropower projects, with the start of construction of the Dasu project. We will promote policies for private investment for power generation through both the entry of new players as well as expanding existing capacity of those IPPs systematically adhering to energy mix targets and least-cost generation plans. The expansions include around 1300 MW in 2015 and are expected to add an additional 700 MW in generation capacity in 2016. Beyond this, 8.3 GW generation capacity is envisaged through FDI under the CPEC over 2017-2021, with additional capacity expected to come on stream in the longer term. Power purchasing agreements with investors should be agreed in a way that mitigates potential fiscal risks.

37. **Governance, Regulatory, and Transparency Improvements**. Improving energy sector governance and transparency, and strengthening the regulatory framework are critical for delivering improved service and for attracting needed private sector investment. To begin addressing administrative and technical constraints, we have appointed a new Chairman and Board member with financial skills to NEPRA. NEPRA is moving forward with preparations to determine multi-year tariffs. To facilitate the transition, DISCOs prepared five-year investment plans and submitted the plans to NEPRA. The petition for FESCO was submitted in August, and submission of IESCO and LESCO petitions were completed in October. We expect to complete the missed end-November 2015 SB by determining multi-year tariffs for FESCO by end-December 2015, and for IESCO and LESCO by end-January 2016 (new SB), with the remaining ones done annually on a rolling basis. The multi-year tariffs for FESCO, IESCO and LESCO will be notified by end-April 2016 (new SB). We have set up the Central Power Purchasing Agency Guarantee (CPPA(G)) and have amended its Articles

of Association. We have separated it from the National Transmission and Dispatch Company (NTDC). NTDC's license has been modified so that it can no longer purchase or sell electricity. The Market Operator Registration, Standards and Procedure Rules 2015 were issued in late May 2015 and the Commercial Code was approved by NEPRA in early June 2015. Key CPPA(G) staff are being put in place. CPPA(G) is now functional. In line with our plans to liberalize the market, we have introduced the policy for net metering in October 2015 that will allow the electricity producing consumer to sell electricity to the system.

38. **Energy public sector enterprise (PSE) reform**. We have already transferred governance of DISCOs, three GENCOs, and the NTDC to new boards of directors and management. We are committed to building the institutional capacity of the Water and Power Development Authority (WAPDA), and we have begun to strengthen WAPDA's financial capacity by allowing the tariff to incorporate capital investment plans. We are also committed to ensuring timely payments by CPPA(G) for all power purchased from WAPDA Hydel. We have included several DISCOs in our privatization plans with the goal of privatizing three of them in the next fiscal year (¶46). We have begun the process of introducing competitive pricing and direct contracting between power producers and wholesale customers in the power sector. To that end, we introduced the necessary policies and timeline through an ECC decision.

Oil and Gas Sector

39. **Supply**. To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports at the end of March 2015. We have determined and notified the LNG prices on October 7, 2015. We are fully passing-through the cost of imported LNG to the end-user purchase price (including to Compressed Natural Gas) and we will finalize the contractual agreements with all relevant parties by end-November 2015. MW&P and MoPNR have recently finalized the RLNG payment mechanism. We will also finalize with the independent power producers' letters of credit by November 2015. We have issued new exploration and production concessions for domestic gas resources and continue to limit further expansion of the gas distribution networks for domestic consumption.

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

- Under the Petroleum Exploration and Production Policy 2012 (2012 Policy), we are incentivizing producers to enhance production from existing fields as well as to initiate new exploratory efforts, with price increases ranging from 2.8–3 U.S. dollars per MMBTU to 6–10 U.S. dollars per MMBTU. To this end, we are ensuring that existing concessions are in the process of conversion to the 2012 Policy with support from international partners. So far, we have converted 94 concessions with the remaining 26 that are currently being reviewed in the Ministry of Petroleum and Natural Resources for determination of eligibility under the 2012 Policy. We have also awarded 46 concession agreements for the exploration of new blocks under the 2012 Policy and are expecting to award additional 10–15 exploration concessions by end-December 2015.

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY2014/15 (due in July and January) was partially recuperated in the new tariff which was notified and implemented, in line with the OGRA determination, in August, 2015.The remaining revenue shortfall will be recuperated in the January 2016 gas price notification. We will also make any necessary adjustments to notified prices to reflect imported gas prices, so that the cost of this gas will be fully reflected in the tariff on a monthly basis.

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

- We are also evaluating the downstream gas business with the objective of reducing inefficiencies in the transmission and distribution segments. In this respect, the World Bank awarded a contract to consultants at the end of June 2015 to support our study of the restructuring, unbundling, and eventual privatization of the two gas utility companies. This study will formulate recommendations based on international best practices to segregate the gas network into one transmission and multiple distribution companies, with independent profit and cost centers to ensure maximum efficiency. A mechanism will also be developed for determining separate transmission and distribution tariffs.

41. **Governance**. We are committed to supporting the governance of the oil and gas market and to keeping the public informed about our strategy for the sector. To that end:

- We have established performance monitoring units in the Ministry of Water and Power and Ministry of Petroleum and Natural Resources (MPNR) which report progress quarterly to the ECC. We are committed to updating the public on reform progress and are therefore posting quarterly monitoring reports on the websites of the concerned ministries. The first two monitoring reports were approved by the ECC in April 2015, and October 2015 and we have already disclosed these reports on the Ministry MPNR's website. To support the efforts of the regulator, we advertised the vacant positions on the Board of the Oil and Gas Regulatory Authority (OGRA). We have appointed the Member Finance, but were not able to select the Member Oil and re-advertised the position with revised criteria.

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

- We are also pursuing companies to reduce losses by benchmarking international standards, through investment measures, managerial and administrative improvements, and through building the capacity of the gas distribution companies. The current level of Unaccounted For Gas (UFG) was on average 10.3 percent in the first quarter of FY2015/16 due to commercial and technical losses. The gas companies submitted loss reduction plans to the MPNR in May 2015 and Sui Southern Gas Company is working with the World Bank on the Natural Gas Efficiency Project (NGEP).

- Finally, in January 2014, the President promulgated the Gas (Theft Control and Recovery) Ordinance 2014, which was sent to Parliament. The Senate has approved the Ordinance and it was sent for consideration by the National Assembly, however, the National Assembly did not approve the Ordinance during the required 90 days, and hence it was returned to the Senate. The government has put forward a motion to refer the law to an upcoming joint session of parliament, for expected enactment before end-February 2016 (new SB).

F. Improving the Business Climate, Liberalizing Trade, and Reforming Public Enterprises

We are working to improve the business climate, the trade regime, and Public Sector Enterprises (PSEs) to increase foreign and domestic private investment and boost economic growth.

42. ***Business Climate***. Private investment and growth are hampered by impediments in the legal framework for creditors' rights and contract enforcement, barriers to new business start-ups, complex legal, taxation and border trade requirements, and limited access to finance. In consultation with international partners, we finalized a time-bound detailed implementation plan in October 2014 that identified legislative and administrative actions, institutional roles and responsibilities, and resource requirements of the reform program. Our focus is on six indicators—construction permits, paying taxes, enforcing contracts, starting businesses, trading across borders, and getting credit. In parallel, we are building consensus and ownership for business climate reforms by provincial authorities with a special focus on property registration and contract enforcement. By end-February 2016 (new SB), we are also developing a new plan to overhaul our efforts to significantly improve the ease of doing business.

- ➢ ***New Firms***. The SECP, FBR, and Employees' Old Age Benefits Institution (EOBI) have joined to launch a virtual One-Stop-Shop (OSS) for business registration in December 2014 and we set up a physical OSS in Lahore in April 2015. We have set up another physical OSS in Islamabad by September 2015. By streamlining overlapping procedures and establishing database sharing and a common portal for registering businesses, the OSS has begun facilitating new firm creation. We have so far reduced two procedures and two days and plan to save an additional eight days of the procedures.

- ***Contract enforcement***. We completed in March 2014 a study to identify necessary changes to the bankruptcy regime that would support the rehabilitation of weak but viable companies. Based on the findings of the study, we are reforming the bankruptcy framework through introducing two far-reaching legislative measures: (i) the Corporate Rehabilitation Act, which will provide a mechanism for the reorganization and rehabilitation of distressed companies; and (ii) the CRC Act, which envisages setting up private Corporate Restructuring Companies to take over assets of bankrupt companies (¶27). The CRC Act has been placed before the Parliament in April 2015. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism has been extended to Islamabad and Rawalpindi in September 2015. We began work to expand to other provincial capitals (i.e., Peshawar and Quetta). We have begun to pilot commercial courts in Lahore to expedite resolution of commercial disputes and contract enforcement.

- ***Paying Taxes***. We have completed a review to reduce the number of existing processes and forms for sales and income tax by end-March 2015 (SB). We have identified 39 income and sales tax processes that required elimination or streamlining. Based on this review, we took measures to streamline, simplify, and automate procedures and processes and we developed 8 IT-based modules. We have launched the integrated end-to-end IT solution (IRIS) on the following 8 processes: registration, declaration, audit/assessment, rectification, penalty, default surcharge, refunds, and exemption certificates. We will continue to streamline and fine-tune the system based on the feedback we receive from the taxpayers and in accordance with international best practices. So far, we moved all internal operations to IRIS and conducting public awareness campaigns to use the system.

43. ***Access to credit***. Access to finance for poor, women, and marginalized segments of society including micro, small and rural enterprises remains very limited owing to both demand and supply-side constraints. In June 2015, the SBP issued guidelines to banks to facilitate the opening of bank accounts for the unbanked population to meet the National Financial Inclusion Strategy (NFIS) target of 50 percent adult population with bank accounts by 2020. Commercial banks have developed quarterly and yearly plans to open Asaan ("Simple Small") Accounts and are running public awareness and media campaigns on the benefits of this initiative. We are devising plans to strengthen the financial literacy of these new client groups. As a critical component of the NFIS to improve the credit information system and help banks extend credit to broader sections of society, the Credit Bureaus Bill has been enacted in August 2015 (end-November 2015 SB). The SBP will finalize the development of the regulatory and operational framework by end-February 2016. The existing private Credit Bureaus have to apply for SBP licensing by mid-October 2016 in order to comply with the provisions of the Act. Among other priorities, the Act will ensure that credit information sharing will protect the privacy rights of individuals.

44. ***Trade Policy***. Trade policy reforms will increase consumer welfare and stimulate growth as a result of increased competition. Simplifying tariff rates, phasing out SROs (¶12) that establish special rates and/or nontariff trade barriers in some 4,000 product areas, and improving trade relations should deliver the much-needed competitive environment.

- ***Tariff simplification***. We are implementing a plan to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 2 and 20 percent rates with fewer exceptions.[3] The FY2015/16 budget reduced tariff slabs from six to five and further eliminates trade-related SROs. Implementation of the new tariff structure that will reduce the slabs from five to four will be completed by July 2016.

- ***Improved trade relations***. We are implementing a strategy to take full advantage of trade preferences available from the European Union who have extended the Generalized System of Preferences plus benefits from January 1, 2014 on a broad range of Pakistan's exports. We remain committed to promoting trade with regional countries, especially under various regional trade arrangements.

45. **Public Sector Enterprises (PSEs)**. We are working to reform or privatize PSEs, focusing on limiting poor performance and improving public sector resource allocation. The Cabinet Committee on Privatization initially approved a list of 31 PSEs for action and subsequently added another 8 PSEs to the list. We have developed a plan to sequence the capital market and pre-privatization restructuring for these firms. The privatization program has experienced some delays as a result of which the number of transactions planned for the next twelve months has increased. While recognizing potential implementation challenges, we are nevertheless determined to implement this ambitious agenda.

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

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

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

  - **DISCOs**. We appointed financial advisors for share sales of Faisalabad Electric Supply Company (FESCO) in July 2014. We will complete the bidding process by end-June 2016 (SB) leading to finalization of the transaction by end- September 2016. For Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), we have hired financial advisors. Notwithstanding a delay with determination of the multi-year tariffs for these companies, we expect to approve the transaction structure for these companies in December 2015 for expected completion of the bidding process by end- June 2016 and finalization of the transactions by end-September 2016. We hired financial advisors for Gujranwala Electric Power Company (GEPCO) in April 2015; and for Hyderabad, Peshawar, Quetta, Sukkur, and Multan Electric Supply Companies (HESCO, PESCO, QESCO, SEPCO, and MEPCO) in May 2015. We expect finalization of these transactions in 2016 and 2017.

  - **Other companies**. We are in the process of resolving the legal challenge to the cancelled sale of Heavy Electrical Complex (HEC) in May 2015 owing to the winning bidder's inability to provide the funds to close the transaction. We have completed the sale of National Power Construction Co. (NPCC) in September 2015. We appointed financial advisors for Northern Power Generation Company Limited (NPGCL) in July 2014 and expect completion of the bidding process by end-September 2016 with finalization of the transaction by end-December 2016. We have appointed financial advisors for Jamshoro Power Generation Company Limited (JPCL) in April 2015 with completion of the bidding process expected by end-September 2016 and finalization of the transaction by end-December 2016. In May 2015, we have finalized the hiring of financial advisors for Lakhra Power Generation Company Limited (LPGCL), and Central Power Generation Company Limited (CPGCL), with completion of the bidding process expected by end-September 2016 and finalization of the transaction by end-December 2016. In July 2015, we have hired the financial advisor for Kot Addu Power Company (KAPCO) and, despite a delayed start, initiated the due diligence process with expected completion of the bidding process for the sale of the government's equity by end-June 2016 and finalization of the transaction by end-September 2016. Plans are being developed for the remaining companies on the list.

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

  - **Pakistan International Airlines (PIA)**. We have appointed financial advisors in July 2014 to seek potential options for restructuring and strategic private sector participation in the core airline business. However, the due diligence process, completed in August 2015, showed that resolution of legal challenges is needed before moving forward. For this purpose, the government has amended the PIA Act through a Presidential Ordinance while initiating in parallel the process of seeking parliamentary approval. This will pave way for soliciting expressions of interest (EOIs) for strategic private sector participation by end-December 2015 (SB).

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

  - **Pakistan Railways**. Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, through rationalization of tariffs and expenditures and improved occupancy rates, we improved revenue in FY 2013/14 and FY 2014/15 by 32 and 45 percent, respectively. The trend continued with an increase of around 20 percent in the first quarter of FY 2015/16. Since April 2014, we have been moving forward with our comprehensive restructuring plan, which includes improvements in business processes and the institutional framework, financial stability, and service delivery. Appointment of the Railway Board was completed in February 2015. In the short-term, we are focusing on improvements in freight transportation through creation of a freight company, and adding more locomotives and wagons. In FY2014/15, we have added 35 new locomotives for both passenger and freight service, and more than doubled revenues from freight operations.

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

	FY2014/15	FY2015/16						
	end-June	end-September			end-December		end-March	end-June
					Program			Projection
					Ninth Review			
		Target	Adj. Target	Actual	Target	Revised		
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	5,354	8,300	6,885	6,955	9,300	9,300	9,300	10,000
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,350	2,480	2,661	2,350	2,580	2,660	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	306	306	329	625	625	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,700	1,700	1,385	1,650	1,650	1,650	1,650
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,893	1,800	1,800	1,589	1,800	1,800	1,800	1,800
Continuous Performance Criterion								
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0
Indicative Targets								
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	94	23	23	24	46	46	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	640	640	600	1,390	1,390	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	36	36	13	27	27	22	29

Sources: Pakistani authorities; and Fund staff estimates.

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

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

Item	Measure	Time Frame (by End of Period)		Status	Macroeconomic rationale
		8th review	Rescheduled		
Prior Actions					
1	Bring the stock of NDA to or below PRs 2,652 billion by end-November 2015.			Met	Conduct prudent monetary policy
2	Enact amendments to the SBP law by end-November 2015.			Met	Strengthen SBP independence
Structural Benchmarks					
Fiscal sector					
1	Draft legislation that will permanently prohibit the practice of issuing SROs that grants exemptions and loopholes.	end-March 2015		Met	Reduce distortions and improve revenue collection.
2	Reorganize the Debt Policy Coordination Office as a middle office responsible for updating the MTDS and monitoring its implementation, coordinating the credit risk management functions.	end-March 2015		Met	Strengthen the organizational framework and improve public debt management.
3	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people	end-September 2015		Met	Broaden the tax base and improve tax compliance.
4	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015		Met	Improve tax compliance and enforcement.
5	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015		Met	To allow monitoring of fiscal and financial risks and the implementation of the MTDS.
Monetary sector					
6	Announce a time-bound plan to improve the SBP's interest rate corridor by setting the policy rate between the floor and ceiling rates of the corridor.	end-February 2015		Met	Improve SBPs liquidity management.
7	Improve the internal operations of the SBP by the following measures: (i) the Investment Committee of the SBP Board will begin regular (at least four times per year) oversight and approval of the reserves management strategy and risk practices; and (ii) the authorities will provide confirmation that in line with standard IMF procedures, the Internal Audit Department conducts reviews of the program monetary data reported to the IMF, within two months after each quarter, for accuracy and compliance with the TMU.	end-February 2015		Met	Improve monetary policy framework through enhanced central bank independence.
8	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective in line with Fund Staff advice.	end-September 2015		Not met, implemented in November 2015.	Prerequisite for an independent monetary policy framework.
9	Make the improved interest rate corridor of the SBP operational	end-September 2015		Met	Improve SBPs liquidity management, and better functioning of the monetary policy framework.

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

Item	Measure	Time Frame (by End of Period) 8th review	Rescheduled	Status	Macroeconomic rationale
Financial sector					
10	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
11	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-February 2016			Enhance the resilience of the financial sector.
12	Enact the Credit Bureau Act	end-November 2015		Met in August, 2015	Extend credit to broader sections of society.
13	Adopt the amendments to the AMLA that will include the serious tax crimes from the relevant tax laws (as defined in the TMU) in line with international standards.	end-November 2015	end-May 2016	Not Met by end-November 2015	Use anti money laundering tools to combat tax evasion, and facilitate detection of potential cases of abuse of the investment incentive scheme to lauder criminal proceeds.
Structural Policies					
14	Conduct a review to reduce the number of existing processes and forms for paying sales and income taxes.	end-March 2015		Met	Simplify paying taxes to improve business climate
15	Solicit expressions of interest for strategic private sector participation for the 26 percent of PIA's shares.	end-December 2015			restructure a key loss-making public sector enterprise
16	Determine and notify multi-year tariffs for FESCO, IESCO, and LESCO, as defined in the TMU.	end-November 2015		Not met	Facilitates privatization of the DISCOs and reduction of energy arrears.
17	Enforce performance through setting quarterly loss-reduction, collection, and recovery targets (as defined in the TMU) consistent with our arrears reduction plan for each DISCO.	October 15, 2015		Met	Tackle losses, raise payment compliance, and improve energy efficiency and service delivery in the energy sector.
18	Complete the bidding process for shares of FESCO.	end-June 2016			To privatize electricity distribution companies in line with arrears reduction plan
New Structural Benchmarks					
1	Put in place a comprehensive monitoring system for tax audits, with quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators.	end-December 2015			Strengthen tax collection
2	Enact amendments to Penal Code 1860 and the Code of Criminal Procedures 1898.	end-January 2016			Strengthen governance in the power sector
3	Determine Multi-year tariffs for IESCO and LESCO.	end-January 2016			Prepare for DISCO privatization
4	Notify multi-year tariffs for FESCO, IESCO and LESCO.	end-April 2016			Prepare for DISCO privatization
5	Enact the Gas (Theft Control and Recovery) Ordinance 2014.	end-February 2016			Strengthen governance in the gas sector
6	Develop a new time-bound plan with specific measures to significantly improve the business climate.	end-February 2016			Strengthen the business climate
7	Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU	end-January 2016			Use anti-money laundering tools to combat tax evasion.

Attachment II. Technical Memorandum of Understanding (TMU)

December 3, 2015

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

A. Quantitative Targets

The program sets performance criteria and indicative targets for defined test dates (Table 1 in the LOI). The program sets the following performance criteria:

Performance criteria

- Floor on the net international reserves (NIR) of the State Bank of Pakistan (SBP) (millions of U.S. dollars);
- Ceiling on the net domestic assets (NDA) of the SBP (stock, billions of Pakistani rupees);
- Ceiling on the general government budget deficit excluding grants (cumulative flows, billions of rupees);
- Ceiling on net government budgetary borrowing from the SBP (including provincial governments) (stock, billions of rupees);
- Ceiling on SBP's stock of net foreign currency swap/forward contracts (millions of U.S. dollars);

Continuous performance criteria

- Ceiling on the accumulation of external payment arrears by the general government;

Indicative targets

- Floor on targeted cash transfers spending (BISP) (cumulative, billions of Pakistani rupees)
- Floor on net tax revenues collected by the Federal Bureau of Revenue (FBR) (cumulative, billions of Pakistani rupees)

- Ceiling on power sector payables (flow, billions of Pakistani rupees)

B. Definitions of Monitoring Variables

1. **The general government** is defined as the central (federal) government and local (provincial) governments, excluding state-owned enterprises. The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001. The authorities will inform IMF staff on the creation of any such entities without delay.

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

3. **Net international reserves** (stock) of the SBP are defined as the dollar value of the difference between usable gross international reserve assets and reserve-related liabilities, evaluated at the program exchange rates. On June 30, 2015, the NIR of Pakistan amounted to US$5,354 million.

4. **Usable gross international reserves** of the SBP are those readily available claims on nonresidents denominated in foreign convertible currencies and controlled by the monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes. Gross official reserves include (i) holding of foreign currencies, (ii) holdings of SDRs, (iii) the reserve position in the IMF, and (iv) holdings of fixed and variable income instruments. Excluded from usable reserves, inter alia, unless there is also a reserve-related liability associated with it, are: (i) claims on residents; (ii) assets in nonconvertible currencies; (iii) precious metals (iv) illiquid assets; (v) assets that are pledged or collateralized.

5. **Reserve-related liabilities** of the SBP include all foreign exchange liabilities to residents or nonresidents, including (i) foreign currency liabilities with remaining maturity of one year or less, (ii) any foreign exchange liabilities arising from derivatives (such as futures, forwards, swaps, and options) on a net outstanding basis—defined as the long position minus the short position, (iii) outstanding IMF credits to Pakistan, (iv) foreign exchange deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks (excluding regulatory capital deposits of foreign banks with the SBP), international organizations, and foreign nonbank financial institutions, as well as domestic financial institutions (excluding regulatory capital deposits of domestic financial institutions with the SBP).

6. **Aggregate net position in the foreign exchange derivatives** is defined as the aggregate net positions in forward and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). The SBP's aggregate position was –US$1.7 billion at end-June 2015.

7. **Reserve money** (RM) is defined as the sum of: currency outside schedule banks (deposit) money banks); schedule banks' domestic cash in vaults; schedule banks' required and excess rupee and foreign exchange deposits with the SBP; and deposits of the rest of the economy with the SBP, excluding those held by the federal and provincial governments and the SBP staff retirement accounts.

8. **Net domestic assets** of the SBP are defined as RM minus NIR, minus other assets not included in gross official international reserves, minus commercial bank required and excess reserves at the SBP in foreign currency, plus medium and long-term liabilities (i.e., liabilities with a maturity of one year or more) of the SBP, plus other foreign liabilities not included in official reserve liabilities, minus the balance of outstanding Fund purchases credited to the government account at the SBP. NDA is composed of net SBP credit to the general government plus outstanding credit to domestic banks by the SBP (including overdrafts) minus liabilities not included in RM and other items net.

9. **Net government budgetary borrowing from the SBP (including provincial governments)** is defined as SBP claims on the government minus government deposits with the SBP. SBP claims on the government include government securities, treasury bills, treasury currency, and debtor balances. SBP claims on the government exclude accrued profits on government securities. Government deposits with the SBP exclude the Zakat Fund (Table 4).

10. **Net purchase of foreign exchange** is defined as outright purchase of foreign exchange minus outright sale of foreign exchange in the foreign exchange spot market as net addition to the stock of NIR of the SBP by using foreign exchange market intervention.

11. **External public debt arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (government, SBP, and state-owned enterprises) to nonresidents arising in respect of public sector loans, debt contracted or guaranteed, including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date. The definition of debt, for the purposes of the EFF, is set out in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230–(79/140), last amended by Executive Board Decision No. 14416–(09/91), adopted August 31, 2009).The ceiling on external payment arrears is set at zero.

12. **The overall budget deficit (excluding grants)** will be monitored quarterly under the cash balance of the general government balance, excluding grants, including the operations of local (provincial) governments financed from local funds. It will be measured below the line and will include:

- **Net external financing**, excluding valuation gains and losses.
- **Change in net domestic credit from the banking system**, excluding valuation gains and losses from deposits denominated in foreign currency.
- **Change in the net domestic nonbank financing**, excluding valuation gains and losses. These include (i) domestic privatization receipts transferred from the privatization accounts to the budget, (ii) the stock of issued government securities held outside the general government and the banking system, net of valuation changes, (iii) net deposits and reserves received by the government (public accounts deposits), (iv) any other government borrowing from domestic nonbank sources net of repayments, minus (v) government deposits with nonbank financial institutions.
- **Total external grants to the federal and provincial governments**. These are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants.

13. **Net external program financing** is defined to include external privatization receipts; budget support grants; budget support loans from multilateral (other than the IMF, but including World Bank and Asian Development Bank (ADB) budget support and program loans), official bilateral budget support loans, and private sector sources (e.g., bonds); rescheduled government debt service and change in stock of external debt service arrears net of government debt amortization due on foreign loans, the latter including any accelerated amortization including related to debt swaps or debt cancellation recorded as capital grants. It also includes foreign loans on lent to financial institutions and companies (public or private) and emergency relief lending. Program financing excludes all external financing counted as reserve liabilities of the SBP (defined above). Amounts projected for net external program financing and external grants are provided in Table 3.

14. **Net external budget financing** is defined as net external program financing minus privatization receipts, minus budget support grants, plus all other external loans for the financing of public projects or other federal or provincial budget expenditures, plus transfers of external privatization receipts from the privatization account to the budget.

15. **Quarterly debt management risk reports** by the Debt Policy Coordination Office (DPCO) is defined as reports covering exposure indicators to financial risk (redemption profile of local and foreign currency debt, average life, share of domestic debt falling due in the next 12 months, average time to re-fixing, share of local and foreign currency debt re-fixing its interest rate over the next 12 months, composition of debt stock by currency and share of short term foreign currency debt over net international reserves).

16. **Structural benchmark on hiring of six transaction advisors for end-March 2014 is defined as follows**: Three transaction advisors to undertake the sale of minority shares for three PSEs from the list of capital market transactions with at least one offering in the domestic and one offering in international markets. From the list of strategic private sector participation one transaction advisor for electricity distribution company and one generation company, and finally one transaction advisor to undertake the restructuring of Pakistan International Airlines Corp (PIAC) and will seek for a strategic investor.

17. **The draft legislation presented to parliament to limit the authority to grant tax concessions or exemptions** is consistent with the presidential ordinance No. IX of 2015 and specifies exceptional circumstances under which the Economic Coordination Committee of the cabinet retains the authority to grant temporary exemptions as follows: whenever exceptional circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations, and protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in duties, development of backward areas, and implementation of bilateral and multilateral agreements.

18. **The "relevant tax laws" in the structural benchmark "Adopt the amendments to the Anti-Money Laundering (AML) Act that will include serious tax crimes from the relevant tax laws in line with international standards" for end-May 2016 is defined as follows**: Income Tax Ordinance, 2001; the Federal Excise Act, 2005; the Sales Tax Act, 1990; the Customs Act, 1969; and any other relevant law.

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

20. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶32). The current notified weighted average electricity tariff is PRs 11.45/kWh for all classes of consumers. The FY 2014/15 electricity bill will be notified effective from June 10, 2015, and include the following tariffs and surcharges: (i) weighted average tariff of PRs 9.91/kWh, (ii) a rationalization surcharge of PRs 1.54/kWh, (iii) debt servicing surcharge (DSS) of PRs 0.43/kWh, and (iv) Neelum-Jhelum Surcharge of PRs 0.1/kWh. The current notified electricity tariffs for users at 0-50 kWh/month of PRs 2/kWh will be retained.

(i) The weighted average tariffs on electricity consumers' electricity consumption is defined as follows

Weighted Average Notified Tariff for electricity consumers =

(Industrial Users Tariff Rate for each category x DISCOs' estimated sales to Industrial Users for each category

+ Residential Users Tariff Rate for each category x DISCOs' estimated sales to Residential Users for each category

+ Commercial Users Tariff Rate for each category x DISCOs' estimated sales to Commercial Users for each category

+ Single Point Supply for further distribution Tariff Rate for each category x DISCOs' estimated sales to Point Supply for further distribution Users for each category)

+ AJ&K users' Tariff Rate for each category x DISCO's estimated sales to AJ&K Users for each category

+Agriculture Tube-wells Tariff Rate for each category x DISCO's estimated sales to Agriculture Tube-wells Users for each category

+ Other users' Tariff Rate for each category x DISCOs' estimated sales to Other Users for each category)/ DISCO's total sales to Industrial, Residential Users consuming more than 200kWh, Commercial, Single Point Supply, Other Users, AJ&K Users, and Agriculture Tube-wells)

= PRs 9.91 kWh

(ii) Rationalization surcharge PRs 1.54/kWh to reflect sector operation costs not recovered through the tariff. It consists of the following: (a) line losses not recognized by NEPRA; (b) noncollections not recognized by NEPRA; (c) financing costs due to delays in tariff determination; (d) zero-out subsidy in most of the nonresidential consumers; and (e) cost of equalizing tariffs across DISCOs.

(iii) Debt servicing surcharge (DSS) to cover the servicing the Syndicated Term Credit Financing (¶32 and table below) of PRs 0.43/kWh which is defined as follows:

DSS FY2015/16 = Total Annual Interest Paid on STCF balance/Estimated volume of electricity sales in FY 2015/16 (excluding lifeline and FATA domestic consumers assumes collections at the actual rate of 92 percent and base case losses of 18 percent).

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

STFC Debt Service (PRs billions)	Q1	Q2	Q3	Q4	Total
FY2014/15	9.0	6.9	9.4	7.0	32.2
FY2015/16	8.8	5.5	9.8	5.2	29.3

(iv) Neelum-Jhelum Surcharge to contribute to the financing needs for the Neelum-Jhelum Hydropower Project. It will be levied at a rate of PRs 0.10/kWh on all classes of consumer except the lifeline consumption of 0-50 kWh/month.

21. **The stay order on FY 2013/14 surcharges** (MEFP ¶32). The court stay order increased the payment arrears by around PRs 37 billion for the November 2014—June 2015 period (see Table below). All surcharges are defined as, equalization surcharges, Neelum Jehlum and debt servicing surcharge—accrued mark up.

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

22. **Monitoring mechanism to track stock and flow of payables** (MEFP ¶34). The stock of payment arrears include the payables of PRs 326 billion, and the stock of PHCL of PRs 335 billion as of end-September 2015. The projected evolution of the stock and the flow of payables, including measures (policy and surcharges) for FY2014/15 and FY2015/16 and its components are given in the following Table:

(In Billion of Rupees)1/2/	2015/16 Q1		2015/16			2014/15	2015/16
	Target	Actual	Q2	Q3	Q4	Total	Total
Nonrecoveries	16	37	12	10	11	104	70
Accrued Markup	-		-	-	-	23	-
Excess line Losses	11	22	8	7	7	50	44
GST Non Refund	-		-	-	-	14	-
Late Payment Surcharge	1		1	1	1	8	4
Delayed Determinations	3		3	3	3	11	8
Total (flow)	32	59	24	20	22	209	126
Stock Clearance	47	4	63	26	21		
Total (stock)	297	326[1]	287	281	282	313	

1/ The actual flow of payables for Q1 2015/16 was PRs 13 billion due to the impact of delayed determinations based on lower oil prices.

2/ All figures have been rounded to nearest whole numbers.

23. **Structural benchmark on performance of DISCOs** (MEFP ¶35). In October 2015, quarterly quantitative targets have been determined by MWP and each DISCO for technical and distribution losses, and collection from current consumers (table below).

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

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

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

C. Adjustors

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

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

27. **The ceiling on the consolidated overall budget deficit** (excluding grants) for FY2014/15 will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 15 billion at end-September, PRs 25 billion at end-December, PRs 42 billion at end-March, and PRs 50 billion at end-June. The ceiling for FY2014/15 will be adjusted downward for any shortfall in federal development spending below PRs 25 billion at end-September, PRs 80 billion at end-December, PRs 243 billion at end-March and PRs 410 at end-June. The ceiling for FY2015/16 will be adjusted downward for any shortfall in federal development spending (excluding one-off spending included in the below adjustor for security enhancements related to fighting terrorism and resettlement of internally displaced persons) below PRs 35 billion at end-September, PRs 90 billion at end-December, PRs 250 billion at end-March and PRs 450 at end-June. The ceiling will be adjusted downward for any shortfall in the targeted cash transfers (BISP) and it will be adjusted upward for over performance in the BISP up to PRS 12 billion in FY2014/15 and PRs 6 billion in FY2015/16 from their indicative targets. In FY2015/16, the ceiling will be adjusted upward for one-off spending of up to PRs 100 billion in total on security enhancements related to fighting terrorism (budget code: ID 8262, demand no. 114, Development Expenditure of Finance Division) and resettlement of internally displaced persons (budget code: ID 8261, demand no. 114, Development Expenditure of Finance Division).

D. Public Sector Enterprises

List of Companies for **Capital Market Transactions**

- Oil and Gas Development Co. Ltd (OGDCL)
- Pakistan Petroleum Ltd (PPL)
- Mari Petroleum Ltd.
- Government Holding Private Ltd (GHPL)
- Pak Arab Refinery Ltd (PARCO)
- Habib Bank Limited (HBL)
- United Bank Limited(UBL)
- Allied Bank Limited (ABL)
- National Bank Limited (NBP
- State Life Insurance Corp. (SLIC)

List of Companies for **Strategic Private Sector Participation**

- National Insurance Co. Ltd. (NICL)
- National Investment Trust Ltd. (NITL)
- Small & Medium Enterprise (SME) Bank
- Pakistan Reinsurance Co Ltd. (PRCL)
- Heavy Electrical Complex (HEC)
- Kot Addu Power Company Ltd. (KAPCO)
- Islamabad Electric Supply Co. Ltd (IESCO)
- Faisalabad Electric Supply Co. Ltd (FESCO)
- Lahore Electric Supply Co. Ltd (LESCO)
- Gujranwala Electric Power Co. Ltd (GEPCO)
- Multan Electric Power Co. Ltd (MEPCO)
- Hyderabad Electric Supply Co. Ltd (HESCO)
- Sukkur Electric Power Co. Ltd (SEPCO)
- Peshawar Electric Supply Co. Ltd (PESCO)
- Quetta Electric Supply Co. Ltd (QESCO)
- Lakhra Power Generation Company, Ltd. (LPGCL)
- Jamshoro Power Generation Co. Ltd (JPCL)
- Northern Power Generation Co. Ltd (NPGCL)—Thermal Power Station—Muzaffargarh
- National Power Construction Co. (NPCC)
- Pakistan Steel Mills Corp (PSMC)
- Pakistan Engineering Co Ltd (PECO)
- Pakistan International Airlines Corp (PIAC)
- Pakistan National Shipping Corp (PNSC)
- Convention Centre, Islamabad.
- PIA Investment Ltd—Roosevelt Hotel NY & Scribe Hotel, Paris

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

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

E. Program Reporting Requirements

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within the first 30 days of each month.
	International reserves	By (i) program exchange rates; and (ii) at actual official exchange rates.	Daily	The following working day
	Foreign exchange market	Market exchange rates (buying and selling); weighted average customer exchange rate; monthly trade volume, and high and low exchange rate of the interbank, the KERB market.	Daily/ Monthly	Within one day/ monthly within 5 working day
	Foreign exchange market	SBP foreign exchange operations, and intervention,(volume)	Daily	Within one day
	Foreign exchange market	SBP operation against the domestic currency in swap/forwards by (volumes)	Daily	Within one day
	Foreign exchange market	Breakdown of short, long, counterparts, of the swap/forward contracts	Monthly	Third working day of the following month
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets, and counterparties.	Monthly	Third working day of the following month
	Net International Reserves	Net International reserves at program exchange rates as defined in TMU, including a breakdown by currency and specification of *nostro* balances with foreign branches of National Bank of Pakistan.	Quarterly	Seventh working day after quarter end
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by	Quarterly	Within 15 days of the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		program/project, and the amounts received/expected in cash.		
	Interbank money market	Daily interbank repo volume and interest rate of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations,	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, in local currency	Bi-weekly	With a lag of 15 days
	T-bill and coupon bond financing, SBP securities	Auction data: date, original and remaining maturities, issuance volume, allocation, average yield and coupon yield (if available)	Fortnightly	Last working day of the fortnight
	Banking data	Sectoral distribution of loans and deposits; loans and deposits by local and foreign currency; deposit and lending rates,;	Monthly	Within 25 days of the end of each month.
	Banking data	Loan maturities	Quarterly	Within 45 days of the following quarter
	Banking data	Regularity capital deposit requirement deposits of foreign and domestic schedule banks with the SBP (account numbers 33052 and 330506)	Monthly	Within 15 days of the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions;	Quarterly	Within 45 days of the following quarter
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within 60 days
	Transfers	Workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	The SBP survey, ODCs and DCs published in IFS.	Monthly	Within 45 days of the end of each month
	Balance of payments	Detailed export and import data Detailed balance of payments data	Monthly	Within 28 days of the end of each month
	Privatization receipts	Balance on the PC Fund account; gross inflows into and outflows from the PC Fund account during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each quarter
Ministry of Finance (MOF)	External debt	Disbursements and stock of outstanding short-term and contracting or guaranteeing and outstanding stock of medium-and long-term external debt of the government, the SBP, and state-owned companies; any stock of arrears on external debt service and outstanding stock of government guarantees and external arrears.	Monthly	Within 25 days of the following month
	External financing	Foreign assistance received and projections for the coming four quarters. Please categorize all grants and loans by program/project, and the amounts received/expected in cash and in kind.	Quarterly	Within 15 days of the end of each quarter

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Import data	Total value of recorded imports Total value of duty-paid recorded imports; Number of total transactions involving recorded imports; Number of total transactions involving nonduty free recorded imports	Quarterly	Within 30 days of the end of each quarter
	Audits	Percentage of selected companies and identified revenue from audits	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
Ministry of Water and Power		Key Power Sector Statistics (Please see the attached template) Cumulative Monthly Subsidy Position (Rs. Billion) PEPCO Month End Payables and Receivables Positions And Aging Schedule, Rs. Billion Receivables Positions - Total and DISCO-wise Break-up CPPA/PEPCO Month-wise Consolidated Cash Flow AT&C Statistics Monthly TDS Claims by DISCOs and Total Inter Corporate Circular Debt Sheet Prepared by Ministry of Finance DISCOs Consolidated Income Statement Net Electrical Output & Power Purchase Price by Source, GWh Generation, Demand and Shortfall for FY10 to date Net Electrical Output (MkWh) Plant and Fuel-wise Detail Working Capital Loans For each loan type	Quarterly	Within 30 days
	Quantitative target on performance of DISCOs	Quarterly quantitative targets for each DISCO for technical and distribution losses, collection form current consumers and recoveries of arrears.	Quarterly	Within 30 days from the end of the quarter
	Domestic expenditure arrears	Energy arrears (stock) Flow of arrears by source	Quarterly	Within 45 days of the end of each month for government arrears
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification
Ministry of Petroleum and Natural Resources		Gas supply Gas prices Gas sales by consumers	Quarterly on monthly frequency	Within 30 days from the end of the quarter

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

Table 1. Exchange Rates of the SBP

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

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

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

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

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

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

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

Table 4. Government Sector (Budgetary Support)
(End-of-period stocks/PRs. Millions)

Item	June 30, 2013	June 30, 2014	Prov. June 30, 2015
Central Government	**5,561,994**	**6,059,496**	**7,010,575**
Scheduled Banks	**3,320,870**	**3,491,821**	**4,905,118**
Government Securities	1,117,115	2,413,134	3,295,052
Treasury Bills	2,611,512	1,550,476	2,164,055
Government Deposits	-407,757	-471,789	-553,989
State Bank	**2,241,124**	**2,567,674**	**2,105,457**
Government Securities	3,127	2,786	2,786
Accrued Profit on MRTBs	44,959	82,070	42,192
Treasury Bills	2,275,183	2,852,274	2,281,365
of which: MTBs created for replenishment of cash balances	2,274,675	2,851,765	2,280,856
Treasury Currency	8,653	8,654	8,156
Debtor Balances (Excl. Zakat Fund)			
Government Deposits	-96,260	-383,571	-234,504
(Excl. Zakat and Privatization Fund)			
Payment to HBL on a/c of HC&EB	-287	-287	-287
Adjustment for use of Privatization Proceeds			
for Debt Retirement	5,749	5,749	5,749
Provincial Governments	**-315,607**	**-510,138**	**-600,192**
Scheduled Banks	**-287,393**	**-352,258**	**-430,426**
Advances to Punjab Gov Advances to Punjab Government for Cooperatives	1,024	1,024	1,024
Government Deposits	-288,417	-353,282	-431,450
State Bank	**-28,214**	**-157,880**	**-169,766**
Debtor Balances (Excl. Zakat Fund)	13,715	802	3,049
Government Deposits (Excl.Zakat Fund)	-41,930	-158,682	-172,814
Net Govt. Budgetary Borrowings			
from the Banking system	**5,246,387**	**5,549,357**	**6,410,383**
Through SBP	2,212,910	2,409,794	1,935,691
Through Scheduled Banks	3,033,477	3,139,563	4,474,691
Memorandum Items			
Accrued Profit on SBP holding of MRTBs	**44,959**	**82,070**	**42,192**
Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-6,438**	**-7,259**
Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**1,525,175**	**2,125,355**
Net Govt. Borrowings (Cash basis)			
From Banking System	**5,124,762**	**5,448,425**	**6,336,750**
From SBP	2,167,951	2,327,725	1,893,499
From Scheduled Banks	2,956,811	3,120,700	4,443,250