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Press Release:
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March 25, 2016

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

March 10, 2016

Letter of Intent

March 10, 2016

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

Dear Ms. Lagarde,

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

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

Our performance on the tenth review has been satisfactory:

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

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

Based on our satisfactory program performance and corrective actions, we propose completion of the tenth review under the Extended Arrangement. We reaffirm our commitment to our economic reform program supported by the International Monetary Fund (IMF). We believe that the policies set forth in this letter and in the letters of August 19, 2013, December 11, 2013, March 6, 2014, June 19, 2014, December 2, 2014, March 12, 2015, June 12, 2015, September 15, 2015, and December 3, 2015 are adequate to achieve the objectives of the program, and we stand ready to take additional measures as appropriate to ensure achievement of its objectives. As is standard under all IMF arrangements, we will consult with the IMF before modifying measures contained in this Letter or adopting new measures that would deviate from the goals of the program, and will provide the IMF with the necessary information for program monitoring. We authorize the IMF to publish this Letter of Intent and its attachments, and the related staff report.

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

Attachment I. Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. **Economic activity remains robust despite damage to the cotton crop**. While a weak cotton harvest and the decline in exports are weighing on economic activity, real GDP growth is supported by higher growth in large-scale manufacturing, investment related to the China Pakistan Economic Corridor (CPEC), buoyant construction activity, a swift recovery in private sector credit growth, and improvements in the supply of gas and electricity. With these developments, we expect, for program purposes, that real GDP growth will reach about 4.5 percent in FY 2015/16. However the government retains its goal of achieving growth of 5.5 percent this fiscal year. Nonetheless, there are challenges going forward, as the international environment is becoming less favorable. Headline consumer price inflation continued to rise to 4.0 percent y-o-y in February, as the favorable effect of past declines in international oil prices continued to wane. While further monthly increases are likely in the near-term, we expect inflation to stay contained at around 3.3 percent on average in FY 2015/16, well-anchored by continued prudent monetary and fiscal policies.

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

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

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

Economic Policies

A. Monetary and Exchange Rate Policies

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

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

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

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

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

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

B. Fiscal Policy

9. **We are determined to maintain fiscal consolidation in FY 2015/16 and over the medium term**. To keep the debt-to-GDP ratio on a firm downward trajectory, build fiscal buffers against adverse shocks, safeguard macroeconomic stability, and set the stage for sustainable and inclusive growth, we are determined to lower the budget deficit excluding grants to 4.3 percent of GDP in the current fiscal year and to 3½ percent by the end of the program in FY 2016/17, mainly through revenue mobilization and expenditure rationalization across all layers of the general government. This will strengthen public finances, entrench fiscal stability, generate buffers to address losses of public sector enterprises, and create the much-needed fiscal space for priority spending on infrastructure, education, healthcare, and targeted social assistance to improve living standards and to protect the most vulnerable segments of our society.

10. **We will attain our budget deficit target of 4.3 percent of GDP, including an adjustor of 0.3 percent of GDP for critical one-off spending in FY 2015/16**. While tax collection recorded a marginal shortfall relative to the program target for the first half of FY 2015/16, we are confident that revenue performance will benefit from the full-year effect of several measures that we have already taken, including increases in petroleum taxes, and introducing regulatory duties and excises on a variety of products. However, we realize that a further decline in international commodity prices, and underperformance in the collection of Gas Infrastructure Development Cess (GIDC) create additional downside risks. We will therefore manage budgetary spending prudently and ensure the contribution of provinces to fiscal consolidation as planned.

- Budgetary spending as result of the reclassification of some nonplan loans (0.1 percent of GDP) and the new agricultural spending package (0.1 percent of GDP) will be absorbed within the existing expenditure envelope, including at the provincial level.
- Despite larger disbursements in the first half of the year, we remain committed to reducing energy subsidies (including amounts for arrears clearance) to 0.4 percent of GDP in FY 2015/16, from 0.8 percent in FY 2014/15. We will also take mitigating measures as necessary (¶32) to protect against a potential negative outcome of legal challenges to electricity surcharges.
- Total provincial spending will be maintained at 6.9 percent of GDP in FY 2015/16, with total provincial own tax and nontax revenues standing at 1.2 percent of GDP, and we will take steps to strengthen the provinces' fiscal commitment in FY 2015/16 and beyond. We will

continue to hold quarterly meetings among the federal and provincial Finance Secretaries to review fiscal performance and coordinate spending priorities to correct any slippages in a timely manner.

- We will again prepare contingency measures as needed and reduce expenditure allocations in the first nine months of the year compared to the budget to create a fiscal buffer against any deviation from the program target.

11. **We have been carrying out an ambitious agenda of tax policy and administration reforms**. This has included: (i) eliminating decades old distortive and discriminatory tax exemptions and concessions amounting to PRs 224 billion; (ii) introducing the concept of differential taxation of filers and nonfilers to reward compliance and penalize noncompliance; (iii) reengineering and automating business processes and procedures in tax administration; and (iv) initiating far-reaching tariff liberalization and putting in place measures to bring about behavior change among taxpayers. In addition, the FBR did not grant any new tax concessions and exemptions and the government did not issue concessional Statutory Regulatory Orders (SROs), except under exceptional circumstances. Furthermore, parliament approved the legislation permanently restricting the government's authority to grant tax concessions or exemptions. Such concessions and exemptions are now in the purview of parliament, except in a number of specified exceptional circumstances, in which the Economic Coordination Committee (ECC) of the cabinet can grant them on a temporary basis.

12. **We will continue to support growth-friendly tax revenue mobilization**. While we have steadily raised the tax-to-GDP ratio, it still remains low and we continue to see great scope to increase tax revenue by broadening the tax base, strengthening tax administration, and shifting the tax composition from indirect to direct taxes in an efficient and equitable way. Our objective is to raise the tax-to-GDP ratio to 14.5 percent by FY 2019/20. To this end, we will further streamline tax concessions and exemptions, except for goods with social priority, well-targeted export incentives, and those related to bilateral trade agreements and international conventions.

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

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

registration threshold, eliminating zero rating and exemptions of intermediate goods, and limiting exemptions to a short list of essential unprocessed food products). In the meantime, at PRs 96.4 billion by end-December 2015, the amount of outstanding GST refund claims remained below the peak of PRs 113.2 billion in November 2014. Our aim is to bring the stock of GST refund claims to a level consistent with no more than a three-month flow of claims (estimated at PRs 20 billion), which will unblock businesses' working capital. In this context, to enhance transparency tax administration, the FBR will start publishing the stock of outstanding tax refund claims on a monthly basis, including the GST, income tax and customs duties, by end-March 2016.

15. **Despite a continued large gap between potential and actual tax collections, recent efforts to enhance tax administration have yielded gains**. We met our target to issue 250,000 first notices by end-December 2015, to bring more potential taxpayers into the revenue base. This helped increase the number of taxpayers filing for income tax return from 748,474 at end-December 2013 (for tax year 2012) to 1,022,471 (for tax-year 2014) as of end-December 2015. We have also started a new initiative in FY 2014/15 to bring retail trade into the tax net. Under this initiative, retail trade is bifurcated into two tiers. Small retailers (Tier 2) are being charged presumptive GST as part of their monthly electricity bills at varying rates according to the amount of electricity consumption. Large retailers (Tier 1) are being registered under the GST law. Out of 15,000 large retailers identified, we already registered about 6,500 retail outlets by end-December 2015.

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

- We have integrated the National Tax Number (NTN) system with the Computerized National Identity Card (CNIC) database. This allows us to improve taxpayer compliance and broaden tax bases as we record all financial and property transactions by individuals with CNIC numbers. As we continue to improve the FBR's information technology infrastructure and expand its access to taxpayer information, we have prepared and submitted to parliament the draft legislation against "benami" transactions, in which assets are held by or transferred to a person, but have been provided for, or paid by, another person (SB, end-January 2016). We envisage enactment of this law by end-June 2016.

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

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

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

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

- We have started working closely with provincial governments to establish a centralized electronic fiscal cadastre to better record transactions and assess real estate tax for each property based on periodically updated market valuation.

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

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

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

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

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

18. **We will strengthen the Fiscal Responsibility and Debt Limitation (FRDL) Act to provide better policy guidance and anchor debt sustainability**. Pakistan adopted the FRDL Act in 2005, setting out the principles of sound management of public finances. Having worked with the law for more than a decade, it is opportune to take stock of its efficacy. Accordingly, we will submit the following amendments to the FRDL Act to the National Assembly, as new SB by end-May 2016:

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

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

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

21. **We will ensure that the budget preparation process takes into account the impact of fiscal policy on gender equality**. The ultimate objective of our economic program is to unlock Pakistan's growth potential and achieve inclusive growth that benefits every section of society. In this context, gender equality is a key factor contributing to rapid and broad-based economic growth. While improving gender equality in education and raising labor force participation among women require a wide range of policy initiatives, we will enhance the budget preparation process to better incorporate gender equality. To this end, we have reinvigorated the work on gender-disaggregated analysis and preparing a plan for gender-responsive budgeting. We carried out a gender-responsive analysis of the FY 2015/16 budget with the assistance of our development partners, which was completed in February 2016, forming a baseline for the FY 2016/17 budget. To foster gender equality throughout the country, we will share the findings of this analysis and policy proposals with the provincial governments and will encourage them to use those findings in formulating their respective budgets.

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

C. Fiscal Financing

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

24. **We continue to strengthen the institutional framework for debt management**. We are focusing on reducing rollover risks, balancing financing from domestic and external sources, and lengthening the maturity profile of domestic public debt, while continuing to watch contingent liabilities. To further strengthen debt management, we will improve the effectiveness of the Debt Policy Coordination Office (DPCO) and its integration in the Ministry of Finance's core functions. We have enhanced its staffing capacity in support of the implementation of an optimal borrowing strategy. We have already taken steps to synchronize the rate setting between domestic retail and wholesale debt markets. In early March, we have also published an updated Medium Term Debt Management Strategy (MTDS) covering the period FY 2015/16–FY 2018/19. To achieve savings in, and more effective decision-making for, government borrowing, we will continue to prepare, and provide Fund staff with, a detailed quarterly financing plan for the coming 12 months, and publish our rolling quarterly issuance program for domestic public securities.

D. Financial Sector

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

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

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

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

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

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

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

- The Futures Trading Bill has been placed before Parliament for approval, expected by end-September 2016.

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

- To improve the recovery of NPLs without banking court intervention and enhance credit growth, amendments to the foreclosure clauses in the Financial Institutions (Recovery of Finances) Ordinance, 2001, has been placed in Parliament for enactment, expected by June 2016. Alongside, the draft Corporate Restructuring Companies (CRC) Act has been submitted to Parliament in April 2015, with expected approval by March 2016. These legal reforms will be pivotal for facilitating timely resolution of NPLs and allowing banks to focus on their core areas of operation. The SECP has also prepared a concept note for developing the Corporate Rehabilitation Act, which has been shared with stakeholders.

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

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

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

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

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

E. Energy Sector Reforms

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

Power Sector

32. **Price Adjustments**.

- In June 2015, we notified the FY 2014/15 tariff, as determined by NEPRA, and implemented surcharges in line with the program targets (as defined in the TMU ¶19). We are committed to protect the level of revenue in the electricity sector by adjusting prices as needed. We will undertake all necessary measures to ensure the full recovery of costs from consumers.

- We are in the process of finalizing independent technical loss diagnostic studies for all DISCOs. This will provide better estimates of loss rates and will be considered by NEPRA in its FY 2016/17 tariff determination.

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

33. **Arrears (Circular Debt)**. We have developed a monitoring mechanism to track the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited, PHCL) (as defined in TMU ¶21). There are two main components of the stock of this circular debt:

- The payables in the power sector remained stable in the second quarter of FY 2015/16 at PRs 326 billion. In addition to current payables, it comprises: (i) a residual from payables clearance of June and July 2013; (ii) a disputed amount with the Independent Power Producers (IPPs); (iii) Distribution Companies (DISCOs) nonrecovery and penalties levied on past nonpayment (as defined in the TMU); (iv) transmission and distribution losses that are not recognized by the regulator; (v) the debt that emerged from the court stay order on surcharges; (vi) unpaid amounts of verified subsidy claims of DISCOs under various heads (vii) PHCL loan servicing, and (viii) payables to cross border trade.
- The stock of past arrears, including the PHCL, in the syndicated term credit finance (STCF) facility remained at PRs 335 billion at end-December 2015.

34. **We have adopted a plan for reducing the accumulation of payables arrears and to gradually eliminate the stock**. This plan includes steps to improve collections and reduce operating costs, losses, and price distortions in the tariff structure. With this, the accumulation of payables will be reduced from PRs 209 billion in FY 2014/15 (including the PHCL) to under PRs 100 billion in FY 2015/16, with a view towards further halving new arrears accumulation by FY 2018/19 (Table 1). While some elements of the plan have not been fully addressed i.e., implementation in two regions and GST refunds, we have met the end-December IT on the flow of power sector arrears helped by lower international oil prices, better mobilization of receivables, and some further loss reduction. We remain on track to meeting upcoming quarterly targets under the program.

- We will continue to reduce losses and improve collections through capital expenditures and revenue-based load management. Overall losses in the second quarter declined from 18.2 to 18 percent.[3] Collections in the same period improved from 90.7 to 93.1 percent, reflecting our efforts to recover arrears, resolve litigations with consumers, provision of incentives to collectors, and a better load management across consumers in rural and urban areas, and industries. To address increased losses in some DISCOs, the chief executives and some members of senior management of poorly performing DISCOs have been replaced, and we are working with provincial governments to address their payment problems. We are working to further improve the performance of the sector in the remainder of FY 2015/16.

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

- Taking advantage of the room created by falling oil prices, late payment surcharges and better reflection of system losses were incorporated into the FY 2014/15 determined tariffs. This is expected to arrest a portion of the build-up of the circular debt and improve the cash-flow of the system. The continued decline in fuel prices will also mitigate the build-up of arrears due to prior year adjustments.

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

- We are moving the stock of PHCL debt into DISCOs' balance sheets where privatization will take place. For three DISCOs (FESCO, IESCO, and LESCO), the process has started. This will help to reduce the stock of PHCL debt and will ease the servicing of this debt. In the meantime, we will continue to fully service the PHCL obligations.

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

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

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

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

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

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

Oil and Gas Sector

40. **Supply**. To help tackle gas shortages, we received the first Liquefied Natural Gas (LNG) imports at the end of March 2015. We determined and notified the LNG prices on October 7, 2015. We are fully passing through the cost of imported LNG to the end-user purchase price (including to Compressed Natural Gas retailers). We approved a long-term import contract for LNG supply in December 2015. The subsequent key commercial agreements, including the Independent Power Producer letters of credit have been completed in February 2016. We have issued new exploration and production concessions for domestic gas resources and continue to limit further expansion of the gas distribution networks for domestic consumption.

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

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

- The loss in cost recovery incurred by gas companies due to the delayed price notifications of FY 2014/15 (due in July and January) was partially recuperated in the new tariff which was notified and implemented, in line with the OGRA determination, in August, 2015. Given the decline in international oil prices and consequent revenue requirements, we have maintained the current gas tariff in line with the OGRA determination for FY 2014/15 until the next round of determination in July 2016, when we will resume our practice of regular semiannual notifications. This allows recovering the revenue requirements of the overall system. We will also make any necessary adjustments to notified prices to reflect imported gas prices, so that the cost of this gas will be fully reflected in the tariff on a monthly basis.

- Following enactment of the GIDC Act in May 2015, we have already recovered PRs 57 billion in FY 2014/15 and PRs 46 billion in the first half of FY 2015/16. In addition to the ongoing GIDC collection, we will continue to focus on recovering GIDC from collecting agents that had collected the GIDC in their prices before May 2015.

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

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

- We have established performance monitoring units in the Ministry of Water and Power and Ministry of Petroleum and Natural Resources (MPNR) which report progress quarterly to the ECC. We are committed to updating the public on reform progress and are therefore posting quarterly monitoring reports on the websites of the concerned ministries. So far, we have published three reports on the website after ECC's approval. To support the efforts of the regulator, we advertised the vacant positions on the Board of the OGRA. We have appointed the Member Finance, who enabled the formation of a legal quorum for decision making. We are in the process of selecting the Member Oil for whom the position has been advertised.

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

- We are also pursuing companies to reduce losses by benchmarking international standards, through investment measures, managerial and administrative improvements, and through building the capacity of the gas distribution companies. The current level of Unaccounted for Gas (UFG) was on average 12.2 percent in the second quarter of FY 2015/16 due to commercial and technical losses.[4] The gas companies submitted loss reduction plans to the MPNR in May 2015.

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

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

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

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

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

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

- ***Contract enforcement***. We completed in March 2014 a study to identify necessary changes to the bankruptcy regime that would support the rehabilitation of weak but viable companies. Based on the findings of the study, we are reforming the bankruptcy framework through introducing two far-reaching legislative measures: (i) the Corporate Rehabilitation Act, which will provide a mechanism for the reorganization and rehabilitation of distressed companies; and (ii) the CRC Act, which envisages setting up private Corporate Restructuring Companies to take over assets of bankrupt companies

(¶27). The Corporate Rehabilitation Act is being finalized and is expected to be introduced to parliament by end-March 2016. On the other hand, the CRC Act has been introduced in the National Assembly and is being considered by the Standing Committee. In addition, we have established Alternative Dispute Resolution (ADR) mechanisms in Karachi and Lahore. The ADR mechanism has been extended to Islamabad and Rawalpindi in September 2015. In the context of our new strategy, we are planning to expand ADRs to Peshawar and Quetta. In addition, we have begun to pilot commercial courts in Lahore to expedite resolution of commercial disputes and contract enforcement.

- ***Paying Taxes***. We have completed a review to reduce the number of existing processes and forms for sales and income tax by end-March 2015. We have identified 39 income and sales tax processes that required elimination or streamlining. Based on this review, we took measures to streamline, simplify, and automate procedures and processes and we developed 8 IT-based modules. We have launched the integrated end-to-end IT solution (IRIS) on the following 8 processes: registration, declaration, audit/assessment, rectification, penalty, default surcharge, refunds, and exemption certificates. We will continue to streamline and fine-tune the system based on the feedback we receive from the taxpayers and in accordance with international best practices. So far, we moved all internal operations to IRIS and conducting public awareness campaigns to use the system. We have introduced in January 2016 a simplified procedure to facilitate tax filing for small and medium retailers which will allow increasing tax compliance. We have also over-hauled the FBR website, with user guides available in two languages, and registered tax payers' import and export data has been linked with the NTN.

- ***Access to credit***. Access to finance for poor, women, and marginalized segments of society including micro, small and rural enterprises remains very limited owing to both demand and supply-side constraints. In this regard, improvements have been recorded and the Access to Finance Survey 2015 points to access to formal financial services increasing from 12 percent of adult population in 2008 to 23 percent in 2015. Particularly, access to bank accounts by women has expanded considerably, from 4 percent to 11 percent. In June 2015, the SBP issued guidelines to banks to facilitate the opening of bank accounts for the unbanked population to meet the National Financial Inclusion Strategy (NFIS) target of 50 percent adult population with bank accounts by 2020. Commercial banks have started opening Asaan ("Simple Small") Accounts and continue to run public awareness and media campaigns on the benefits of this initiative. We have devised plans to strengthen the financial literacy of these new client groups, including by conducting outreach. As a critical component of the NFIS to improve the credit information system and help banks extend credit to broader sections of society, the Credit Bureaus Bill, has been enacted in August 2015 (end-November 2015 SB). The SBP has finalized the regulatory and operational framework in March 2016 and the existing private Credit Bureaus will have to apply for SBP licensing by mid-October 2016 to comply with the provisions of the Act. In addition, the SBP will be strengthening the NFIS secretariat with the support of the World Bank technical assistance to facilitate the implementation of the NFIS.

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

- ***Tariff simplification***. We are implementing a plan to simplify the tariff structure to move over three years to a simple, transparent framework, with four slabs between 2 and 20 percent rates with fewer exceptions.[5] The FY 2015/16 budget reduced tariff slabs from six to five and further eliminates trade-related SROs. Implementation of the new tariff structure that will reduce the slabs from five to four will be completed by July 2016. In this regard, we have initiated an extensive consultation process with stakeholders.

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

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

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

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

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

  - **DISCOs**. We appointed financial advisors for share sales of Faisalabad Electric Supply Company (FESCO) in July 2014. In light of the reassessment of our strategy, the end-June 2016 SB to complete the bidding process is likely to be missed. For Islamabad Electric Supply Company (IESCO) and Lahore Electric Supply Company (LESCO), we have hired financial advisors. However, the transactions are likely to be delayed. We hired financial advisors for Gujranwala Electric Power Company (GEPCO) in April 2015; and for Hyderabad, Peshawar, Quetta, Sukkur, and Multan Electric Supply Companies (HESCO, PESCO, QESCO, SEPCO, and MEPCO) in May 2015. We are in the process of revisiting our strategy for DISCOs and we will continue to engage with key stakeholders to build consensus. In the meantime, we will strengthen our efforts to improve DISCOs' performance and reduce the system financial losses.

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

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

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

  - **Pakistan Steel Mills**. We hired financial advisors in April 2015 and completed the due diligence process in August 2015. However, the privatization process has been put on hold by the government's decision in October 2015 to offer the provincial government of Sindh, which hosts PSM, to acquire the company. Discussions with the provincial government are continuing. Should the provincial government decline the government's offer, the privatization process will resume with approval of the transaction structure by May 15, 2016, with finalization of the transaction by December 2016. In the interim, we are working with PSM management to ensure that ongoing financial losses remain contained.

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

(PRs 17.6 billion from PRs 14.9 billion in FY 2014/15). Since April 2014, we have been moving forward with our comprehensive restructuring plan, which includes improvements in business processes and the institutional framework, financial stability, and service delivery. Appointment of the Railway Board was completed in February 2015. We remain focused on improving freight transportation through creation of a freight company, and adding more locomotives and wagons. In FY 2014/15, we added 37 new locomotives for both passenger and freight service, and more than doubled revenues from freight operations. Furthermore, we have added 36 locomotives for freight during the first half of FY 2015/16, including through rehabilitation of existing locomotives.

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

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

	FY2014/15	FY2015/16						
	end-June	end-September	end-December			end-March		end-June
						Program		
						Tenth Review		
			Target	Adj. Target	Actual	Target	Revised	
Performance Criteria								
Floor on net international reserves of the SBP (millions of U.S. dollars)	5,354	6,955	9,300	6,609	6,882	9,300	9,300	10,700
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,440	2,661	2,580	2,770	2,633	2,660	2,660	2,650
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 2/	1,489	329	625	625	541	1,012	1,012	1,292
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of U.S. dollars)	1,700	1,385	1,650	1,650	1,650	1,650	2,000	2,000
Ceiling on net government budgetary borrowing from the SBP (stock, billions of Pakistani rupees) 1/, 3/	1,887	1,589	1,800	1,800	1,457	1,800	1,800	1,800
Continuous Performance Criterion								
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0	0
Indicative Targets								
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	94	24	46	46	48	70	70	95
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	2,588	600	1,390	1,390	1,385	2,105	2,105	3,104
Ceiling on power sector payment arrears (flow, billions of Pakistani rupees)	57	13	27	27	0	22	15	23

Sources: Pakistani authorities; and Fund staff estimates.

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

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

Item	Measure	Time Frame (by End of Period) 9th review	Time Frame (by End of Period) Revised/10th review	Status	Macroeconomic rationale
Prior Actions					
1	Enact the Gas (Theft Control and Recovery) Ordinance 2014.				Strengthen governance in the gas sector
Structural Benchmarks					
Fiscal sector					
1	Merge the NTN system covering 3.6 million individuals with the CNIC database that covers about 150 million people.	end-September 2015		Met	Broaden the tax base and improve tax compliance.
2	The FBR will adopt a new audit policy that will move towards risk-based auditing while mitigating the risk of legal challenges.	end-September 2015		Met	Improve tax compliance and enforcement.
3	Appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, as defined in the TMU, to allow monitoring of fiscal and financial risks and the implementation of the MTDS.	end-October 2015		Met	To allow monitoring of fiscal and financial risks and the implementation of the MTDS.
4	Prepare and submit to the National Assembly draft legislation against "benami" transactions.	end-January 2016		Met	Improve tax compliance and enforcement.
5	Put in place a comprehensive monitoring system for tax audits, with quantitative performance criteria, such as the number of risk-based audits, as well as qualitative audit indicators.	end-December 2015		Met	Strengthen tax collection
Monetary sector					
6	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective in line with Fund Staff advice.	end-September 2015		Not met, implemented in November 2015.	Prerequisite for an independent monetary policy framework.
7	Make the improved interest rate corridor of the SBP operational.	end-September 2015		Met	Improve SBPs liquidity management, and better functioning of the monetary policy framework.
Financial sector					
8	Enact the Securities Bill, in line with Fund staff advice.	end-January 2016		Met in May, 2015	Enhance the resilience of the financial sector.
9	Enact the Deposit Protection Fund Act, in line with Fund staff advice.	end-February 2016	end-March 2016		Enhance the resilience of the financial sector.
10	Enact the Credit Bureau Act.	end-November 2015		Met in August, 2015	Extend credit to broader sections of society.
11	Amend the schedule of the AML Act, by notification in the Federal Gazette, to include offenses under the income tax law as predicate offenses to money laundering (modified SB).	end-May 2016	May 15, 2016		Use anti money laundering tools to combat tax evasion.
12	Introduce new amendments to the AML Act to parliament to cover important tax crimes, as defined in the TMU.	end-January 2016		Not met 1/	Use anti-money laundering tools to combat tax evasion.

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

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

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

Attachment II. Technical Memorandum of Understanding

March 10, 2016

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

A. Quantitative Targets

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

Performance criteria

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

Continuous performance criteria

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

Indicative targets

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

B. Definitions of Monitoring Variables

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

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

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

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

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

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

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

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

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

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

10. **External public debt arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (government, SBP, and state-owned enterprises) to nonresidents arising in respect of public sector loans, debt contracted or guaranteed, including unpaid penalties or interest charges associated with these obligations that are beyond 30 days after the due date. The definition of debt, for the purposes of the EFF, is set out in

Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230–(79/140), last amended by Executive Board Decision No. 14416–(09/91), adopted August 31, 2009).The ceiling on external payment arrears is set at zero.

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

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

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

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

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

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

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

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

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

19. **Electricity Tariff Pricing Formulas and Definitions** (MEFP ¶33). The current notified weighted average electricity tariff is PRs 11.45/kWh for all classes of consumers. The FY 2014/15 electricity bill will be notified effective from June 10, 2015, and include the following tariffs and surcharges: (i) weighted average tariff of PRs 9.91/kWh, (ii) a rationalization surcharge of PRs 1.54/kWh, (iii) debt servicing surcharge (DSS) of PRs 0.43/kWh, and (iv) Neelum-Jhelum Surcharge of PRs 0.1/kWh. The current notified electricity tariffs for users at 0–50 kWh/month of PRs 2/kWh will be retained.

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

Weighted Average Notified Tariff for electricity consumers =

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

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

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

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

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

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

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

= PRs 9.91 kWh

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Adjustors

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

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

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

D. Public Sector Enterprises

List of Companies for **Capital Market Transactions**

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

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

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

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

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

E. Program Reporting Requirements

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

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

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

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

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

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

Table 1. Exchange Rates of the SBP

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

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

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

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15		Mar-16	June-16
	Actual						9th Review	Actual	Projection	
Multilateral and bilateral disbursement	2,943	1,270	1,098	1,002	1,970	1,097	2,165	2,311	1,853	2,754
of which: in cash 1/	2,608	407	543	764	1,810	617	1,800	1,299	1,188	2,014
International debt issuance 2/	2,000	0	1,000	0	0	500	1,000	400	850	500
Coalition Support Fund	375	735	0	717	0	713	175	0	175	175
Other 3/	0	0	0	0	764	0	0	0	0	0
Gross Inflows	5,318	2,005	2,098	1,719	2,734	2,309	3,340	2,711	2,878	3,429
of which: in cash	4,983	1,143	1,543	1,481	2,574	1,830	2,975	1,699	2,213	2,689
Debt service	943	989	1,110	1,842	1,422	1,106	1,223	1,153	1,431	1,343
Memorandum items										
Gross International Reserves	9,096	8,943	10,514	11,615	13,534	15,247	16,119	15,886	15,607	17,516
Program Net International Reserves	1,800	3,000	3,500	5,000	7,300	8,300	9,300	9,300	9,300	10,700

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

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

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

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

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