

## Attachment II. Technical Memorandum of Understanding

1. 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. Gold is valued at 35 SDR (US\$52.5) per fine troy ounce. The cross-rates for other foreign currencies are provided in Table 1.

### A. Quantitative Targets

2. 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 US dollars);
- Ceiling on the net domestic assets (NDA) of the SBP (stock, billions of Pakistani rupees);
- Ceiling on the overall budget deficit excluding grants (cumulative flows, billions of rupees);
- Ceiling on net borrowing from the SBP by the government (including provincial governments, stock, billions of rupees);
- Ceiling on SBP's stock of net foreign currency swap/forward contracts (millions of US 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)

### B. Definitions of Monitoring Variables

3. **The 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 July 1, 2013, the NIR of Pakistan amounted to US\$-2,437 million (in equivalent).

**4. Usable gross international reserves** of the SBP are those external assets that are readily available to 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. Excluded from usable reserves, inter alia, are: (i) claims on residents; (ii) assets in nonconvertible currencies; (iii) illiquid assets; (iv) assets that are pledged, collateralized, or otherwise encumbered, unless there is also a reserve-related liability associated with it.

**5. Reserve-related liabilities** of the SBP include outstanding IMF credits to Pakistan, foreign exchange deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks, international organizations, and foreign nonbank financial institutions, as well as domestic financial institutions. Foreign liabilities also include commitments to sell foreign exchange by the SBP arising from derivatives (such as futures, forwards, swaps, and options).

**6. Aggregate net position in the foreign exchange derivatives** is defined as the aggregate net positions in forward and futures in foreign currencies of the SBP vis-à-vis the domestic currency (including the forward leg of currency swaps). The SBP's aggregate position was US\$[-2.2] billion at end-June 2013.

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

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

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

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

**11. External public debt arrears** are defined as all unpaid debt-service obligations (i.e., payments of principal and interest) of the general government (government, SBP, and state-

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

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

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

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

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

**15. Electricity Tariff Pricing Formulas and Definitions** (¶27 of the Letter of Intent)

(i) The increase in the weighted average tariffs by 50 percent on industrial, commercial, bulk and AJ&K consumers' electricity consumption is defined as follows

Weighted Average Notified Tariff for industrial, commercial, bulk and AJ&K consumers =

(Changes in the Industrial Users Tariff Rate for each category x DISCO's estimated sales to Industrial Users for each category

+ Change in the Commercial Users Tariff Rate for each category x DISCO's estimated sales to Commercial Users for each category

+ Change in the Bulk users' Tariff Rate for each category x DISCO's estimated sales to Bulk Users for each category)

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

/ DISCO's total sales to Industrial, Commercial, Bulk, and AJ&K Users

= 50 percent

(ii) Elimination and reduction of the subsidy on second group of consumers by October 1, 2013 through increasing the weighted average notified tariffs by 30 percent.

- Second group of consumers is defined as the following users; (i) those with consumption levels above 200kWh, (ii) Salinity Control & Reclamation Programme (SCARP), (iii) Agricultural tube wells consumers and (iv) Other customers (public lighting, housing schemes, railways, HVTL).

Weighted Average Notified Tariff for second group of consumers =

- (Change in the Tariff Rate of users whose consumption levels are above 200kWh x Revenue from users whose consumption levels are above 300kWh

- + Change in the Tariff Rate of users in SCARP x DISCO's estimated sales to users in SCARP

- + Change in the Tariff Rate of users in Agricultural tube wells x DISCO's estimated sales to users in Agricultural tube wells

- + Change in the Tariff Rate of Other users x DISCO's estimated sales to Other customers)

- / DISCO's total estimated sales to users whose consumption levels are above 200kWh, SCARP, Agricultural tube wells and other consumers.
- = 30 percent

### C. Adjustors

**16.** The floor on NIR will be adjusted upward (downward) by the cumulative excess (shortfall) of multilateral and bilateral creditors, Coalition Support Fund (CSF), and bond issuance relative to projected inflows (Table 2). Gross cumulative inflows are defined as external disbursements (including grants) from official multilateral creditors (World Bank, Asian Development Bank, Islamic Development Bank), official bilateral creditors (UK-DFID, USAID), and external bond placements that are usable for the financing of the central government budget.

**17.** 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).

**18.** The ceiling on the consolidated overall budget deficit (excluding grants) will be adjusted upward for the cumulative excess in net external program financing in rupee terms for up to PRs 25.0 billion at end-December 2013, PRs 42.0 billion at end-March 2014, and 50 billion at end-June 2014. The ceiling will be adjusted downward for any shortfall in federal PSDP spending below PRs 25 billion in September-2013, PRs 80 billion in December 2013, PRs 243 billion in March 2014 and PRs. 410 in June 2014; and for any shortfall in the targeted cash transfers (BISP) from their indicative target.

### D. Program Reporting Requirements

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Monday 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 by chart of accounts at actual official exchange rates	Monthly	Within the first three days of the following 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; daily trade volume, and weighted average exchange rate of the interbank, the KERB market.	Daily	Within one day
	Foreign exchange market	SBP foreign exchange operations, and intervention,(exchange rate, volume)	Daily	Within one day
	Foreign exchange market	(SBP operation against the domestic currency in swap/forwards by agreed exchange rate, maturity, volume).	Daily	Within one day
	Foreign exchange market	Outstanding swap/forward positions by maturity buckets.	Monthly	Third working day of the following month
	Interbank money market	Daily interbank repo volume and interest rate and number of trades	Daily	Within one day
	SBP operations	Repo (reverse repo) operations, open market operations, standing facility, Lombard credits, deposit facility.	Weekly	First Monday of the following week
	Bank liquidity	Excess reserves, by currency	Monthly	Third working day of the following month
	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)	Weekly	Last working day of the week
	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
	Banking data	Sectoral distribution of loans and deposits; dollarization of loans and deposits; loan maturities; deposit and lending rates, by maturity;	Monthly	Within 25 days of the end of each month

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions;	Quarterly	Within first week of the following quarter
	Banking sector stress tests	Results of stress tests on exchange rate, liquidity, and credit risk	Quarterly	Within first week of the following quarter
	CPI	Index of core inflation	Monthly	Within 21 days of the end of each month
	Transfers	Noncommercial transfers of individual, including workers' remittances.	Monthly	Within 25 days of the following month
	Other monetary data	IFS format	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
Ministry of Finance (MOF)	Revenue collection FBR	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
	Domestic expenditure arrears	All unpaid claims outstanding at the end of the month which includes wages, social contributions (including for pensions), family allowances, and amortization and domestic interest payments	Monthly	Within 45 days of the end of each month for government arrears
	Privatization receipts	Balance on the SPA; gross inflows into and outflows from the SPA during the month, specifying the nature of each transaction	Quarterly	Within seven days of the end of each month
	Consolidated federal government	State budget	Monthly	Within 30 days of the end of each month
	Consolidated general government	Federal and provincial governments, including further sub-national levels	Quarterly	Within 60 days of the end of each quarter
	Consolidated general government	Federal and provincial governments, including further sub-national levels	Annual	Within 180 days of the end of each year
	Budget execution	All cash receipts, cash expenditures, including domestic and external debt-service payments, external and domestic borrowing operations, and inflow of grants to the central government; expenditure data will be provided according to both economic and functional classifications.	Monthly	Within one month following the end of each quarter.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
Pakistan Bureau of Statistics (PBS)	SPI, CPI, WPI	Detailed monthly price indices	Monthly	Within five days of the following month
Federal Bureau of Statistics (FBR)	Tax arrears	By category	Quarterly	Within five days of the end of each month
		By type of tax	Quarterly	Within 30 days of the end of each quarter (monthly data provided on a quarterly basis)
	Tax credits	For or the 30 largest debtors and for all major companies in the energy, water, and irrigation sectors	Quarterly	Within 30 days of the end of each quarter
	VAT refund claims in arrears	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Monthly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
		Detailed data on VAT refunds in arrears which include all outstanding VAT refunds that have not been accepted (and refunded), or offset (in full or in part), or rejected (in full or in part) after the 90 day statutory processing period. Number of refund applications processed per month.	Quarterly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large tax inspectorate	Monthly	Within 45 days after the end of each month
	Import data	<ol style="list-style-type: none"> <li>1. Total value of recorded imports, breaking out raw diamond imports;</li> <li>2. Total value of non-duty free recorded imports;</li> <li>3. Number of total transactions involving recorded imports;</li> <li>4. Number of total transactions involving non-duty free recorded imports</li> <li>6. Value of non-duty free recorded imports where customs value was assessed using transaction prices;</li> <li>7. Number of transactions involving recorded imports where customs value was assessed using transaction prices;</li> <li>8. Number of transactions involving non duty free recorded imports where customs value was assessed using transaction prices</li> </ol>	Quarterly	Within 30 days of the end of each quarter



Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Automated VAT refunds	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	Monthly	Within 45 days of the end of each month (monthly data provided on a quarterly basis)
	Risk-based selection approach	Percentage of selected companies chosen on the basis of risk-based approach, identified revenue from risk-based 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	Monthly	Within 30 days
		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
		Determined and Notified Tariff's for each User and User Group (Please see template)	Annual	Within 30 days of determination and notification

**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 US dollars)

	Sep-13	Dec-13	Mar-14	Jun-14
Gross Inflows	939	1,388	2,371	2,943
Multilateral and bilateral disbursement	639	822	1,471	1,509
<i>of which: project grants</i>	77	80	94	98
Bond issuance	0	0	0	0
Coalition Support Fund	300	300	300	300
Other 1/	0	266	600	1,134
Debt service	820	1,013	583	809
<i>Memorandum items</i>				
Gross International Reserves	5,640	5,328	7,198	9,566
Net International Reserves	-2,499	-2,090	-141	2,532

1/ includes privatization and 3G licenses.

**Table 3. External Inflows to the General Government**

(In millions of U.S. dollars)

	Sep-13	Dec-13	Mar-14	Jun-14
Non Tax Revenue	300	300	900	900
Coalition Support Fund	300	300	300	300
3G Licenses	0	0	600	600
Grants	67	150	183	183
External interest payments	209	311	211	291
Net external debt financing	-115	-110	722	1109
Disbursements	495	592	1093	1628
<i>of which budgetary support</i>	0	0	75	575
Amortization	611	702	372	519
Privatizations	0	266	0	534
<b>Memorandum item</b>				
Program financing	67	416	308	842

**Table 4. Government Sector (Budgetary Support)**

(End-of-period stocks/Rs.in Millions)

Item	30-Jun-12	Prov. 30- June-13
<b>A. Central Government</b>	<b>4,064,537</b>	<b>5,561,908</b>
<b>Schedule Bank</b>	<b>2,360,271</b>	<b>3,320,870</b>
Government Securities	829,485	1,117,115
Treasury Bills	1,928,287	2,611,512
Government Deposits	-397,501	-407,757
<b>State Bank</b>	<b>1,704,266</b>	<b>2,241,037</b>
Government Securities	3,131	3,111
Accrued Profit on MRTBs	43,935	44,888
Treasury Bills	1,759,696	2,275,184
of which: MTBs created replenishments of cash balances	1,759,187	2,274,675
Treasury Currency	8,653	8,653
Debtor Balances (Excl. Zakat Fund)		
Government Deposits (Excl. Zakat and Privatization Fund)	-116,611	-96,260
Payment to HBL on a/c of HC&EB	-287	-287
Adjustment for use of Privatization Proceeds for Debt Retirement	5,749	5,749
<b>B. Provincial Governments</b>	<b>-264,620</b>	<b>-315,607</b>
<b>Scheduled Banks</b>	<b>-266,362</b>	<b>-287,393</b>
Advances to Punjab Government for Cooperatives	1,024	1,024
Government Deposits	-267,386	-288,417
<b>State Bank</b>	<b>1,742</b>	<b>-28,214</b>
Debtor Balances (Excl. Zakat Fund)	26,737	13,715
Government Deposits (Excl. Zakat Fund)	-24,996	-41,930
<b>C. Net Govt. Budgetary Borrowings from the Banking system</b>	<b>3,799,917</b>	<b>5,246,300</b>
<b>D. Through SBP</b>	<b>1,706,008</b>	<b>2,212,823</b>
<b>Through Scheduled Banks</b>	<b>2,093,909</b>	<b>3,033,477</b>
<b>Memorandum Items</b>		
<b>Accrued Profit on SBP holding of MRTBs</b>	<b>43,935</b>	<b>44,888</b>
<b>Scheduled banks' deposits of Privatization Commission</b>	<b>-4,287</b>	<b>-5,433</b>

<b>Outstanding amount of MTBs (Primary market; discounted value)</b>	<b>1,835,265</b>	<b>2,529,41 2</b>
<b>Net Govt. Borrowings (Cash basis)</b>		
<b>From Banking System</b>	<b>3,667,246</b>	<b>5,124,74 6</b>
<b>From SBP</b>	<b>1,662,073</b>	<b>2,167,93 5</b>
<b>From Scheduled Banks</b>	<b>2,005,173</b>	<b>2,956,81 1</b>