Appendix I. Letter of Intent

December 5, 2013
Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC, 20431

Dear. Ms. Lagarde.

The Pakistani authorities reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF). Performance for the first review was strong. We have met all but one of the performance criteria for the first program review and have made significant progress on our ambitious structural reform agenda. While, further effort is needed in some areas, we are committed to the additional actions described in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP). Economic conditions remain difficult, with continued balance of payments pressures evident, but growth prospects are somewhat better than previous program projections and the fiscal outturn has been solid. We believe that as structural reforms take hold, bottlenecks will be removed, growth will accelerate, and vulnerabilities will recede. We are committed to firm policy implementation and maintenance of fiscal, monetary, and financial sector buffers to safeguard against risks.

Our performance on the quantitative targets and the structural reform agenda for the first review has been strong (MEFP Tables 1 and 2).

- *Quantitative performance criteria and indicative targets*. All end-September 2013, quantitative performance criteria were observed with the exception of the Net International Reserves (NIR) target. The indicative target on transfers under the Benazir Income Support program (BISP) was not met. Corrective actions to address the shortcomings on the NIR and BISP targets are outlined in the attached MEFP.

- *Structural Benchmark*. We produced a privatization strategy for 31 public sector enterprises (PSEs) in compliance with the end-September structural benchmark.

In the attached MEFP, we set out our plans to further advance towards meeting the objectives of our macroeconomic program. In view of our strong performance under the program supported by the IMF, the Government of Pakistan and the State Bank of Pakistan (SBP) request a waiver on the missed performance criterion and completion of the first review under the Extended Arrangement.

The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and TMU. Completion of the second and third reviews, scheduled for March 2, 2014 and June

2, 2014 will require observance of the quantitative performance criteria for end-December 2013 and end-March 2014, respectively, and continuous performance criterion as specified in Table 1. We propose modification of the end-December 2013 performance criteria on NIR and net foreign currency swaps/forwards position to reflect revised balance of payments assessments and technical changes in reserves accounting. We also propose establishment of the end-March 2014 PCs as set out in the attached MEFP. The adjustor for NIR will also be modified to better reflect aid disbursements and payments received. A change in the definition of the reserves-related liabilities (as described in the Technical Memorandum of Understanding, TMU) clarifies the treatment of derivatives in NIR accounting.

As detailed in the MEFP, we propose four new structural benchmarks against which to measure progress under the program (MEFP, Table 2). The TMU explains how the program targets are measured.

We believe that the policies set forth in the letter of August 19, 2013, and in this letter are adequate to achieve the objectives of our economic program, but 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, in accordance with the Fund's policies on such consultations, 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 reports.

/s/	/s/
Ishaq Dar	Yaseen Anwar
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. **GDP growth prospects have improved slightly, but remain moderate**. Large scale manufacturing growth was 6½ percent in July–August 2013, as efforts to reduce load-shedding in the electricity sector seem to be bearing fruit. Agricultural output, in contrast, has been less than expected. We now expect growth to reach about 2¾ percent for FY 2013/14 as a whole. Risks to growth remain on the downside. With foreign exchange reserves remaining low, external vulnerabilities—such as oil price shocks, capital flight, or declines in economic activity elsewhere—continue to be a concern. Annual headline inflation has accelerated significantly from 5.9 in June to 9.1 percent in October, mainly driven by energy price adjustments and food price increases. Inflation is expected to remain close to 10 percent, although some impact of the base effect of recent spikes in the rate will ease.

2. **The balance of payments situation was worse than anticipated during the first quarter of FY 2013/14**. The current account was somewhat weaker. Exports were lower than forecast and disbursements under the Coalition Support Fund did not arrive until the second quarter, but higher remittances offset much of this shortfall. In contrast, the capital and financial account was significantly worse than expected, with lower-than-expected foreign direct investment and a large shortfall in the category of "other financial assets and liabilities," with both lower inflows and higher outflows than expected. The exchange rate depreciated by 6½ percent against the dollar. The exchange rate came under particular market pressure in late September (down around 9 percent) before easing in early October. Gross reserves fell by more than expected, declining from US$6 billion at end-June to US$4.7 billion by end-September, as weak financial inflows and heavy debt repayments outweighed the first program disbursement.

Economic Policies

A. Fiscal Policy

3. **Fiscal consolidation remains a crucial objective of the government's economic program**. Fiscal consolidation of around 4–4½ percent of GDP over the three year program will lower the deficit to around 3½ percent of GDP and place the debt-to-GDP ratio on a firmly declining path. Moreover, a more efficient and equitable tax system will foster competition, while providing the needed resources to finance infrastructure and support the poor through targeted assistance. The negative impact of fiscal consolidation on economic activity will be ameliorated by structural reforms to boost growth and by increases in targeted assistance programs to protect the most vulnerable.

4. **Fiscal performance was strong in the first quarter of FY 2013/14, with a smaller deficit than envisaged under the program**. Tax revenues were somewhat stronger than expected, while the very strong performance on nontax revenue reflects some one-off factors including the second

stage of the settlement of circular debt—which entailed the recovery of interest (rather than principal as previously anticipated). The pace of spending has been slower than programmed, particularly on capital spending, but it is expected to recover in the coming quarters.

5. **For FY 2013/14 as a whole, the government is on track to deliver on the adjustment of some 2 percent of GDP**. The initial consolidation effort relied mainly on the revenue side given the chronically low tax revenue-to-GDP ratio. To strengthen tax revenues, in addition to the measures approved in the 2013 Finance bill, the authorities will increase the Gas Infrastructure Development Cess (GIDC) by end-December to raise revenue by 0.4 percent of GDP on an annualized basis. This charge will also foster a more efficient allocation of gas to its highest value economic uses.

6. **On the expenditure side, the government is implementing a plan to phase out electricity subsidies over the life of the program**. The federal government has approved at the highest level with support of the provinces, a National Energy Policy entailing periodic increases in the average tariff, aiming at eliminating the tariff differential subsidy for all consumers except the most vulnerable over the next three years. The first adjustments to commercial, industrial, bulk, and large consumers (¶29) reduced subsidies by ¾ percent of GDP on an annualized basis. However, for the first year we will maintain the subsidies for consumers between 0–200 kWh consumption. For the second and third years, we will further reduce subsidies by roughly 0.4 percent of GDP per year to reach a maximum of 0.3 percent of GDP thereafter. As part of our initial adjustment package, we have also undertaken across the board reductions of 30 percent from budget allocations in ministries' nonwage current expenditures—amounting to about 0.15 percent of GDP. We have also scaled back the budgeted increase in capital spending, and will delay some remaining capital spending until revenues from the GIDC materialize.

7. **Tax administration reforms will gradually deliver further improvements in revenue collections**. An initiative to incorporate 300 thousand new taxpayers into the income tax net was launched in July. More than 30 thousand initial notices (u/s 114 of the Income Tax Ordinance 2001) have been issued—based on large potential fiscal liabilities and location to ensure the initiative is nationwide and more will follow. We have started issuing second notices (u/s/122c of the law) which will be followed by a provisional assessment, collection procedures, and penal and prosecution proceedings. By end-March (new structural benchmark), the Federal Board of Revenue (FBR) will issue 75,000 first notices (u/s 114) and will follow up with a second notice (u/s 122c) to at least 75 percent of those who did not respond satisfactorily to their first notice within 60 days. The FBR will also issue a provisional tax assessment to 75 percent of those who did not respond satisfactorily within 60 days to the second notice. We are also making progress in preparing initiatives to enhance revenue administration for sales tax, excises, and customs, which we will finalize and finish launching by end-December 2013 (structural benchmark). These efforts will be further assisted by increasing the number of tax audits to 4.2 percent of declarations (from 2.2 percent), which is already underway. We will also continue to seek technical assistance on tax administration from our international partners. Finally, the 2010 Anti-Money Laundering Act (AMLA) will be amended to

include tax crimes in the Schedule of Offences to enable the use of AML tools to combat tax fraud by end-June 2014.

8. **To ameliorate risks to the program, several contingent measures have been identified and will be implemented in case the expected fiscal adjustment falls short of objectives**. These measures include reduced expenditure allocations in the first nine months of the year compared to the budget to create a reserve against any shortfall, and use of reserves built into the capital expenditure budget if needed. These could yield savings amounting to 0.5 percent of GDP. Revenue from the Gas Infrastructure Development Cess (GIDC) has not yet entered the government coffers due to legal challenges, although it is being levied. We expect this legal issue will be resolved by end-December 2013, but stand ready to take compensatory measures, including on the revenue side, to assure compliance with our fiscal target.

9. **We remain committed to our plan to broaden the tax net through the elimination of most tax exemptions and loopholes granted through Statutory Regulatory Orders (SROs)**. Since the start of the program, we have issued a few SROs to address some implementation issues of already budgeted measures and address some legal concerns. The budgetary implications of these SROs are negligible and we are covering the cost through administrative measures. We have issued no new SROs granting so-called "special exemptions," compared to some 43 in the previous fiscal year. We reaffirm our commitment to refrain from issuing any new tax concessions or exemptions (including customs tariffs) through SROs, and will approve legislation by end-December 2015 to permanently prohibit the practice. We are on track to finalize by end-December 2013 a comprehensive plan analyzing all existing SROs granting tax exemptions or concessions and containing a calendar to eliminate the vast majority of them and convert the remainder into regular legislation. The ultimate objective of this plan would be to achieve an increase in revenues of some 1–1½ percent of GDP, with all designated SROs eliminated in no more than three years. By end-June 2014, we will issue the necessary orders to eliminate the first batch of SROs – which will be identified in our plan – consistent with our overall fiscal goals (new structural benchmark). We will also quantify the remaining tax expenditures and publish a detailed list in the budget in future years. These steps will facilitate gradually moving the General Sales Tax (GST) to a full-fledged integrated modern indirect tax system with few exemptions along with an integrated income tax by 2016/17.

10. **Beyond the current fiscal year, further revenue and expenditure measures will be implemented to achieve a sustainable deficit of around 3½ percent of GDP by 2016/17**. This will require further fiscal consolidation of about 1½ percent of GDP per year in the coming two fiscal years. Roughly half of the adjustment could come from the revenue side, mainly through further widening of the tax base (particularly from the elimination of SROs), with some contribution from improved tax administration. With improved collections and a broader tax base, we hope to avoid the need for further increases in GST or income tax rates while achieving our overall deficit targets. On the expenditure side, further reductions in untargeted subsidies will be undertaken in 2014/15 and 2015/16, along with steps to streamline wage and salary costs via civil service reforms.

11. **We are deepening our support to the poor and most vulnerable segments of the society through the Benazir Income Support Program (BISP) and other initiatives**. Due to

technical difficulties, particularly due to changes in the method of transfer to electronic means, the payments did not reach all beneficiaries during first quarter. We have now resolved this issue and are committed to move to a mechanism to automatically release funds by mid-quarter to allow time for BISP to deliver payments on time. In line with projections, we have reached the coverage level of 4.9 million beneficiaries. However, we could only disburse to around 83 percent of the beneficiaries due to the transition to electronic transfer mechanisms. We will step up our outreach and mobilization campaigns to reduce the gap between enrolled and paid beneficiaries in the coming months. In line with our commitments, we project an increase in coverage of 10 percent while increasing the number of beneficiaries receiving their payments by around 20 percent before the end of the fiscal year.[1] Furthermore, we will provide conditional cash transfers to primary education, supporting children attending school in 20 districts in FY 2013/14. We will continue to protect the real purchasing power of the beneficiaries, further expand the coverage of the program as savings from tariff adjustments and fiscal space is realized, and continues to phase-out nontargeted subsidies.

12. **Provincial governments will play an important role in the fiscal reform process. Under successive constitutional amendments (most recently the 18th), Pakistan has moved decisively to a more decentralized federal system of government**. The most recent National Finance Commission (NFC) award granted 57.5 percent of most revenues to the provinces, along with a substantial devolution of spending responsibilities and taxation authority in agriculture, property and services, which left the federal government with a severe imbalance between its remaining expenditure responsibilities and its revenue. Since under the NFC award, the bulk of the additional revenue generated by the program will be distributed to the provinces, an agreement has been reached at the level of the Council of Common Interest to assure that it is used for deficit reduction or saved. In addition, the government has tightened the balanced-budget requirement on provinces, and provided incentives for them to maintain surpluses. In July 2014, negotiations will begin on a new NFC award. The government will seek a new agreement that will ensure that the terms of fiscal decentralization finds a balance between devolution of revenue and expenditure responsibilities and is consistent with the imperatives of macroeconomic stability.

B. Monetary and Exchange Rate Policies

13. Monetary aggregates continued to expand and inflation increased in the first quarter of FY 2013/14. Government borrowing from the SBP continued to drive reserve money growth in the period before the start of the IMF program. Net claims on the government increased by 47 percent y-o-y in FY 2013/14 Q1, resulting in about 45 percent growth in net domestic assets while net foreign assets of the SBP turned negative. As a result, reserve money increased by 14¼ percent (y-o-y), 1.6 percent lower than the previous quarter, and the broad money increased by 15½ percent. Private sector credit expanded by only 1.5 percent y-o-y.

[1] Also through retroactive payments.

14. Performance under the end-September monetary targets was mixed. The PC on NDA was met, as was the ceiling on the net swap/forward position. However, the target on Net International Reserves (NIR) underperformed by US$304 million.[2] As noted above (¶6), the capital and financial account was significantly worse than anticipated. Although the program adjustor on official disbursements covered some of the gap, private flows were also weaker. The SBP also stepped in the end of the quarter to ease depreciation pressure on Rupee with small net sales in the foreign exchange market whereas the program had anticipated net purchases.

15. **Monetary and exchange rate policies will focus on rebuilding critically low foreign exchange reserves and on maintaining price stability**. To contain accelerating inflation rates, the SBP began to tighten monetary policy with a 50 basis point increase in the policy rate in September. Going forward, the SBP is committed to taking additional policy actions as and when needed to assure achievement of its reserve accumulation and price stability. The exchange rate will remain flexible and will reflect market conditions. Calibrated interventions in the foreign exchange market will be aimed at meeting the program's reserve targets and ensuring smooth functioning of the market. The policy interest rate will also be adjusted as needed to ensure positive real interest rates and an attractive interest differential to encourage capital inflows. We will continue to keep our net swap/forward position at end-June 2013 level and will gradually reduce it over time, with the lengthening of maturities. The SBP lending to the government will remain within agreed targets and limit open market liquidity injections to the economy to those consistent with the program.

16. **Enhanced central bank independence will improve monetary policymaking**. Amendments to the SBP law, incorporating the recommendations of the recent IMF safeguards assessment, will be enacted to strengthen the autonomy of the SBP, including full operational independence in its pursuit of price stability as its primary objective, complemented with enhanced governance structure including strong internal controls, by end-March 2014 (structural benchmark). Among other things, the amendments will establish an independent, decision-making monetary policy committee to design and implement monetary policy and prohibit any form of new direct lending from the SBP to the government. The SBP will establish a Board committee to centralize and oversee risk management activities across the bank by end-January 2014. The SBP will approve a plan to fully implement International Financial Reporting Requirement System (IFRS7), including reporting financial reserves by currency and maturity by end-March 2014.

C. Financial Sector

17. **The banking system continues to show good indicators of financial soundness, with high liquidity, capitalization, and comfortable profitability**. The profitability of the banking sector has remained intact, despite the floor on the saving deposit interest rate, high nonperforming

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[2] The adjustor for NIR will also be modified to better reflect aid disbursements and payments received. A change in the definition of the reserves-related liabilities (as described in the Technical Memorandum of Understanding, TMU) clarifies the treatment of derivatives in NIR accounting.

loans (NPLs), and a declining advances-to-deposits ratio. This is supported by banks' large holdings of government securities, reaching 37 percent of banking system total assets. As of end-June 2013, the capital adequacy requirement (CAR) improved slightly to 15.5 percent, mainly attributable to deceleration in credit risk. Nonetheless, the asset quality of the banking system marginally deteriorated, with NPLs standing around 14.8 percent, but provisioning is high for the system as a whole (at 70 percent).[3] To further enhance the assessment of financial health and soundness of the financial sector, the SBP intends to compile and publish the "encouraged" sets of the Financial Soundness Indicators.

18. **The SBP has made progress to ensure compliance of all banks that fall below minimum capital adequacy**. The CAR shortfall of four noncompliant banks (one state-owned and three private), comprising 6.6 percent of banking assets that fall below the CAR, may not pose large risks but needs to be addressed. The SBP has a keen supervisory vigilance on these banks and it is actively engaged with each bank in preparing a detailed plan by end-December 2013 (structural benchmark) for achieving full compliance by end-December 2014. One bank completed issuance of noncumulative perpetual preferred stock of PRs 2.1 billion in September 2013. The remaining immediate capital needs for the CAR noncompliant banks is negligible (PRs 15.9 billion, less than 0.1 percent of GDP), but could rise if the economic environment deteriorates significantly. The SBP will also prepare a detailed plan for recapitalization, consolidation or merger of banks that fall below the minimum capital requirement (MCR) but not CAR. Two banks have recently received PRs 3.2 and 0.6 billion, respectively, through subscription of right issuance. The SBP is revisiting the statutory MCR to take into account the context of the local environment in which banks operate and cross-country experience.

19. **We have advanced consultations on a deposit insurance scheme and the new bankruptcy law (Corporate Rehabilitation Act)**. The SBP, Ministry of Finance, and the Securities and Exchange Commission of Pakistan (SECP) have been jointly working on the development of modalities for the Deposit Protection Fund (DPF). The draft act for the DPF is being finalized and is expected to be approved by the Parliament by end-September 2014 (structural benchmark). The scheme would begin operations by end-December 2015. We will seek Technical Assistance from the IMF to advice on the modalities and operations of the DPF in the context of a contingency planning framework. For the Corporate Rehabilitation Act (CRA), a committee is being formed comprising SECP, SBP, Ministry of Law and Justice, Pakistan Banks Association, Pakistan Business Council, and Federation of Pakistan Chamber of Commerce and Industry. The committee will hold roundtables in Karachi and Lahore during November 2013 to seek feedback on the draft CRA, which it is expected to be finalized by end-September 2014 and submitted to the Parliament for expected approval by end-December, 2015.

20. **We will continue to develop the government domestic debt market**. To broaden the investor base and have a liquid government securities market, we have taken several initiatives,

[3] Net NPLs to net loan ratio is 4.4 percent.

including: introducing an Electronic Bond Trading platform to bring efficiency in secondary market trading, enhancing rules governing primary dealers to develop government securities markets, creating awareness about government securities among the retail investors, and setting up an online auction system for government securities in the primary market. Going forward, we are exploring introducing additional Shariah complaint instruments, diaspora bonds, and indexed bonds. The SECP, along with SBP, is in the process of developing the operational framework for trading and settlement of government securities' transactions through an additional platform, the Bond Automated Trading System at stock exchanges.

21. **We are committed to strengthening public debt management**. At present, the debt management function is fragmented across different agencies with weak coordination, resulting in underdevelopment of domestic debt capital market and exposure to financial risks. Therefore, we aim to centralize the debt management function by vesting the operational authority and decision making with the Debt Policy Coordination Office. Since 2003, the composition of domestic debt has undergone a transformation from a high dominance of unfunded debt to an increasing dependence on short term floating debt, entailing high rollover and refinancing risk. As a result, to achieve a desired composition of the government debt portfolio with regard to the cost-risk tradeoff, we have initiated the technical work to develop a Medium Term Debt Strategy (MTDS) in consultation with the IMF and the World Bank.

22. **We remain committed to safeguarding financial stability by strengthening the regulatory and supervisory frameworks**. We are addressing several initiatives, including:

- Drafting the Securities Bill, which will be submitted to the Parliament by end-March 2014 and enacted by end-December 2014 (structural benchmark);

- Enhancing the regulatory power of the SECP through a revised SECP (Regulation and Enforcement) Bill, which will be submitted to the Parliament by end-March 2014;

- Developing a comprehensive framework for the future markets, where a draft Futures Trading Bill will be placed before the Parliament for expected approval by end-December 2014;

- Revisiting the regulatory framework of the SBP and SECP to effectively supervise financial conglomerates, where we will develop, in consultation with the IMF and the World Bank, a legal framework for consolidated supervision by end-December 2015 based on international good practices.

D. Structural Reforms

23. We maintain our ambitious agenda to boost long-term growth by comprehensively tackling the problems of the energy sector, improving the investment climate, liberalizing and simplifying the international trade regime, and reforming and/or privatizing public sector enterprises in key economic areas.

Energy Sector Reforms

24. **The recently approved National Energy Policy identified priority steps to anchor the reform agenda for the next 3–5 years**. We are implementing the 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.

25. **Price Adjustments**. We have already taken the first two steps identified in the three-year plan for phasing out the Tariff Differential Subsidies (TDS) to bring tariffs to cost recovery level. However, due to higher courts' injunctions, part of the August increase was rolled back, which we partially compensated in October tariffs adjustment. These two adjustments will still deliver the agreed ¾ percent of GDP annualized reduction in subsidies. We will modify our strategy going forward as needed to stay within the medium-term target for subsidy rationalization. We have already incorporated the costs of servicing the syndicated term credit finance facility into the tariff petition and it is expected to be reflected in the notified base tariff for FY 2013/14.

26. **Arrears**. The arrears clearance scheme that we implemented resulted in an additional 1700 MW of electricity supply to the system and reduced load shedding by around three hours per day on average. We have already advertised and are expecting bids to hire professional audit firms to conduct technical and financial audits of the system to identify the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited). The hiring process will be completed by end-November 2013 (structural benchmark). Based on the findings of the audit, which will be prepared by end-April, we will design a roadmap to prevent the accumulation and recurrence of payables arrears.

27. **Monitoring and Enforcement**. To tackle losses, raise payment compliance, and improve energy efficiency and service delivery in the distribution companies (DISCOs), we have already signed three performance contracts; the remaining six companies will be finalized by end-February 2014. We will also sign power purchase agreements with public sector generation companies by end-March 2014. In cases of failure to comply with the performance contracts, we will invoke remedial measures for management and the Boards as specified in the Companies' Ordinance. The CCI has already cleared the amendments to Penal Code 1860 and the Code of Criminal Procedures 1898. The government will enact the pending amendments by ordinance by end-December 2013 (structural benchmark), with ratification by the parliament expected later. In parallel, we are drafting a new Electricity Act to modernize governance of the sector. The act will establish investigation systems and a fast track judicial mechanism to improve enforcement. In order to minimize losses from low payment rates, three state-owned DISCOs have already begun implementing revenue based load shedding (as is already done in Karachi). The transition for the remaining DISCOs will be finalized by end-January 2014 (new structural benchmark). To enhance transparency, web-based reporting of dispatching and merit order of all power plants was introduced. We will integrate the payment records to stakeholders on the web portal by end-January 2014. The reporting portal also allow us to monitor electricity draws to reduce overdraws and improve information flows. We have mostly completed the metering at the incoming and outgoing 11kV feeders that is allowing us to better manage the load and control unscheduled load shedding. To minimize losses in fuel delivery

to generation companies (GENCOs), we will lease the fuel storage and delivery facilities to Pakistan State Oil (PSO) by end-December 2013.

28. **Demand Side Management**. To encourage energy conservation, we will use pricing ¶25 and other market based instruments to improve resource allocation and energy efficiency. In this regard, we have begun the consultative process with the stakeholders on the draft Pakistan Energy Efficiency and Conservation Act. We will place the revised draft before the CCI for approval by end-March 2014. The act will include equipment performance standards, and would cover key electrical and gas equipment and appliances which are not yet covered.

29. **Supply Side Management**. We will continue to prioritize the use of gas and coal rather than fuel oil in electricity generation. In the short-run, we will continue to increase the allocation of natural gas to the power sector and are committed to move to market-based allocations in the medium term. We will encourage the conversion of fuel oil-based GENCOs and Independent Power Producers (IPPs) to coal-based plants via a policy directive, which has already been forwarded to the Economic Coordination Council for approval by end-December 2013. To further improve supply, we will continue to rehabilitate generation plants, while upgrading electricity transmission and distribution facilities to reduce technical losses. We have finalized regular efficiency testing of fuel based GENCOs, which are expected to generate savings by next fiscal year. The current round of three rehabilitations will be completed by end-March 2014, which are expected to recover 500 MW of capacity and increase efficiency by 1–2 percent. Moreover, to enhance clean energy supply, we will continue with the development of hydropower projects—the cheapest source of supply. 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 are expected to generate additional 2000 MW by 2016.

30. **Governance, Regulatory, and Transparency Improvements**. We continue to place high priority on improving energy sector governance and transparency. We have already advertised entry and middle management positions to enhance the administrative capacity of the regulatory body, the National Electric Power Regulatory Authority (NEPRA). For FY 2013/14, NEPRA will reduce the base tariff determination period from 8–10 months to less than 5 months and is committed to streamline the process to three months by the next determination cycle. NEPRA will issue the FY 2013/14 determined tariff by end-November 2013 and the government will notify new determined tariffs within 15 days. Over time, determination and notification of tariffs will be consolidated within NEPRA. With mostly favorable court decisions on the timely adjustment of fuel prices, NEPRA has already notified the September 2013 Fuel Price Adjustment (FPA). We have now reduced the application of fuel price adjustments (FPAs) dictated by NEPRA from seven months to its normal monthly schedule. We are moving towards setting-up the Central Power Purchasing Agency (CPPA) operational by separating it from the National Transmission and Despatch Company (NTDC), hiring key staff, issuing CPPA rules and guidelines, and taking over the payment and settlement system by end-December 2013 (structural benchmark). Finally, we will finalize the dissolution of PEPCO by end-December 2013 and will devolve its remaining functions.

31. **Energy public sector enterprise (PSE) reform**. The institutional capacity of all energy sector PSEs needs to be strengthened to allow them to operate independently from the Government as efficient commercial entities. We will transfer governance of DISCOs and the NTDC to new boards of directors and management by end-2013. We are committed to building the institutional capacity of the Water and Power Development Authority (WAPDA) through corporatization and commercialization, and will strengthen WAPDA's financial capacity by allowing the tariff to incorporate capital investment plans and ensure timely payments by NTDC/CPPA for all power purchased from WAPDA. In the medium term, we are committed to introduce competitive pricing and direct contracting between power producers and wholesale customers in the power sector.

32. **Oil and Gas Sector**. The current level of gas supply is barely one half of unconstrained demand due to low prices and insufficient investment. To help tackle the gas shortages, we have started efforts to import Liquefied Natural Gas (LNG). We will finalize the evaluation and award an import contract by end-December 2013, with a view toward receiving the first LNG imports by late 2014. Moreover, we will accelerate the development of domestic natural gas and limit further expansion of the gas distribution networks for domestic consumption. We are on target to increase supply by some 7 percent by end-December 2013 through new investment in existing fields. We are committed to maintaining the priority ranking of the power sector to second (after households) and continue to divert the excess supply of gas to the most efficient power plants. Last year we announced the new Petroleum Exploration and Production Policy 2012 to offer higher gas prices for enhanced production from existing and new fields and recently finalized the amendments to further improve producer incentives. We will enhance the capacity of Ministry of Petroleum and Natural Resources to fully implement the 2012 Policy, streamline approval processes, and complete the conversion to the 2012 Policy for those Petroleum Concession holders who wish to do so. We will further encourage bilateral contracting between producers and consumers and improve rules for third party access to the gas transmission system. As new production comes on line, the cost of this gas will be fully reflected in the base tariff on a semiannual basis, beginning with the next adjustment in January 2014. We will gradually rationalize gas prices to encourage new investment, promote efficiency in gas use, and assure that there will continue to be no fiscal cost from the gas sector. We are on track to produce a rationalization plan and implement the first phase through the GIDC by end-December 2013 (structural benchmark). The current level of unaccounted for gas losses (UFG) is on average 11 percent due to commercial and technical losses. We have directed companies to reduce losses benchmarking international standards through investment measures, managerial and administrative improvements, and through building the capacity of the gas distribution companies. We are also using legal frameworks to tackle the losses due to theft. Finally, we affirm our commitment to enhance the capacity of Oil and Gas Regulatory Authority (OGRA).

Improving the business climate, liberalizing trade, and reforming public enterprises

33. We are working to improve the business climate, the trade regime, and PSEs to increase foreign and domestic private investment and boost economic growth.

34. **Business Climate**. Impediments in the legal framework for creditors' rights and contract enforcement, barriers to new business start-ups, complicated legal and taxation requirements, and impaired access to finance hamper the business climate and investment.

- *Contract enforcement*. While the draft Corporate Rehabilitation Act is prepared ¶19, we will initiate a study to identify the needs of corporations to speed up rehabilitation of weak but viable companies, and will expedite the liquidation of the insolvent entities thereafter. In addition, we have begun expanding the use of Alternative Dispute Resolution (ADR) Mechanisms beyond Karachi. Currently, ADR is now open to all business in Lahore.

- *Start-ups*. The Board of Investment, in coordination with SECP, FBR, Ministry of Finance and other stakeholders (including provinces) have developed a draft plan to simplify procedures and costs for setting up businesses and paying taxes in Pakistan. We will finalize an action plan by end-December, 2013.

- *Access to credit*. Accessing credit for small and medium enterprises (SME) remains very limited owing to both demand—and supply-side constraints. We will build on the State Bank of Pakistan's Financial Inclusion Program to address industry bottlenecks and barriers in access of micro and small enterprises to financial services. This will include regulatory reforms, strengthening credit enhancement mechanisms, improving market information and infrastructure, product innovation, improved delivery mechanisms, financial literacy, and consumer protection.

35. **Trade Policy**. Trade policy reforms would increase consumer welfare and stimulate growth via increased competition. Simplifying tariff rates, eliminating the statutory regulatory orders (SROs) 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 working on simplifying the tariff structure to move to a simple, transparent framework, with 4 slabs between 0 and 25 percent rates with few exceptions. Design of the new system would be completed by end-December 2013; with phase-in of the revised tariff rates and phase-out of trade SROs beginning by end-June 2014 (see also ¶9). Implementation of the new tariff structure would be completed by end-June 2017.

- *Improved trade relations*. We have developed and implementing a strategy to take full advantage of trade preferences available from the EU where we have autonomous trade preferences in 75 items. The EU is moving forward with our request for receiving GSP plus benefits (0 percent duty) from January 1, 2014 on exports. We remain committed to promoting trade with regional countries, especially under various regional trade arrangements.

36. **Public Sector Enterprises**. We are working towards reforming or privatizing public sector enterprises (PSEs), focusing on limiting poor performance and improving public sector resource allocation. The Cabinet Committee on Privatization (CCOP) approved a list of 31 PSEs for action, and we have developed a plan to sequence the capital market and pre-privatization restructuring for these firms.

- *Capital Market Transactions Roadmap*. We have identified eleven companies, which are listed in the TMU, in the oil and gas, banking and insurance, and power sectors for block sales, and primary or secondary public offerings. We have hired one financial advisor and will hire two more by end-March 2014 (new structural benchmark) to offer minority shares in three companies in domestic or international markets by end-June 2014 subject to investor interest and global market conditions. Furthermore, we will hire financial advisors for at least two other companies by end-June 2014 to market minority shares within 6 months thereafter.

- *Strategic Private Sector Participation.* Strategic partnerships will act as a catalyst in unlocking the potential of PSEs through their managerial and investment participation. They can also increase the value of Government's residual shareholding. We have identified seventeen companies, which are listed in the TMU. For profitable PSEs, we will make efforts to balance the objectives of sale proceeds while adequately addressing labor market issues and social implications. We hired financial advisor for National Power Construction Co. (NPCC) and will finalize the sale by end-June 2014. We will also hire financial advisors for one electricity distribution company and one power generation company, and will hire financial advisors for the sale of PIA Investment Limited's nonstrategic assets in New York and Paris by end-March 2014 (new structural benchmark). We will initiate Islamabad convention center's sale after finalizing PIA Investment Limited.

- *Restructuring.* In parallel we will continue our restructuring plans and hire professional chief executives and board members for those enterprises with a corporate structure in line with the corporate governance rules. We are developing medium-term action plans to restructure Pakistan International Airlines (PIA), Pakistan Steel Mill (PSM) and Pakistan Railways (PR). Specifically,

    - <u>Pakistan International Airlines</u>. We will hire financial advisors by end-March 2014 to seek potential strategic private sector participation in the company. We plan to privatize 26 percent of PIA's shares to strategic investors by end-December 2014 (structural benchmark). In the meantime, PIA will continue leasing more efficient airplanes and rationalizing routes.

    - <u>Pakistan Steel Mills</u>. We have appointed a professional board and will hire financial advisors by end-March 2014 to prepare a comprehensive restructuring plan and seek for potential strategic private sector participation in the company.

    - <u>Pakistan Railways</u>. Aging and shortage of equipment, overstaffing, and large debts continue to weigh on railway operations. Nevertheless, we have improved revenue in the first quarter through rationalization of tariffs and expenditures and improved occupancy rates. We are in the process of reviving the railway Board. By end-March 2014 we will develop a comprehensive restructuring plan, which will include improvements in business processes and institutional framework, financial stability, and service delivery.

Table 1. Pakistan: Quantitative Performance Criteria and Indicative Targets for FY2013/14 and FY2014/15 1/
(In billions of rupees, at program exchange rates, unless otherwise specified)

	FY2012/13	FY2013/14					FY2014/15
	end-June	end-September		end-December	end-March	end-June	end-September
	Act.	Program	Actual	Program	Program	Projections	Projection
Performance Criteria							
Floor on net international reserves of the SBP (millions of US dollars) 2/	-2,437	-2,850	-3,154	-4,130	-2,750	1,895	3810
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	2,402	2,877	2,595	2,901	2,627	2,225	2196
Ceiling on overall budget deficit (cumulative, excluding grants, billions of Pakistani rupees) 3/	2,012	419	297	882	1,209	1,464	512
Ceiling on SBP's stock of net foreign currency swaps/forward position (millions of US dollars) 4/	2,255	2,255	1,775	2,255	2,255	2,000	1775
Ceiling on net government borrowing from the SBP (including provincial governments, stock, billions of Pakistani rupees) 1, 5/	2,168	2,690	2,521	2,560	2,390	2,240	2100
Continuous Performance Criterion							
Accumulation of external public payment arrears by the general government (continuous)	0	0	0	0	0	0	0
Indicative Targets							
Cumulative floor on Targeted Cash Transfers Spending (BISP) (billions of Pakistani rupees)	54	19	14	32	50	73	25

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/ The end September 2013 target of -2499 has been adjusted downward by 351 million USD to reflect a shortfall in multilateral/bilateral disbursements to Pakistan. End-December 2013 target is modified from -2,090 millions of US dollars.
3/ Excluding grants, FY2012/13 overall budget deficit is a stock.
4/ End-December 2013 target is modified from 2,005 millions of US dollars.
5/ FY 2012/13, total stock of government debt as of June 30, 2013.

Table 2. Pakistan Structural Benchmarks Under Extended Fund Facility

Item	Measure	Time Frame (by End of Period)	Comment
Structural Benchmarks			
Fiscal Sector			
1.	Develop and launching initiative to enhance revenue administration for sales tax, excise and customs similar to that prepared for income tax.	end-December,2013	
2	Announce a rationalization plan for gas prices which will involve a levy to generate 0.4 percent of GDP fiscal savings.	end-December,2013	
Monetary Sector			
3.	Enact the amendments to the SBP law to give SBP autonomy in its pursuit of price stability as its primary objective, while strengthening its governance and internal control framework in line with Fund staff advice.	End-March, 2014	
Financial Sector			
4.	Prepare detailed plans to achieve compliance of all banks that fall below minimum capital adequacy, including specific actions end dates and contingency arrangements. Also detail a plan for recapitalization, consolidation or liquidation of banks that fall below minimum capital requirement but not CAR.	end-December,2013	
5.	Enact the Deposit Protection Fund Act, in line with Fund staff advice	end-September, 2014	
6.	Enact the Securities Bill, in line with Fund staff advice	end-December,2014	
Structural Policies			
7.	Develop and approves PSE reform strategy for thirty firms among the 65 PSEs approved for privatization by the Council of Common Interest (CCI)	end-September, 2013	Met
8.	Hire a professional audit firm to conduct a technical and financial audit of the system to identify the stock and flow of payables at all levels of the energy sector (including Power Sector Holding Company Limited).	end-November, 2013	
9.	Make Central Power Purchasing Agency (CPPA) operational by separating it from the National Transmission and Despatch Company (NTDC), hire key staff, issue CPPA rules and guidelines and initiate the payment and settlement system.	end-December, 2013	
10.	Enact amendments to the Pakistan Penal Code 1860 and the Code of Criminal Procedures 1898.	end-December,2013	
11.	Privatize 26 percent of PIA’s share to strategic investors	end-December,2014	
New Structural Benchmarks			

12.	Increase the issuance of first notices (u/s114) to 75,000 and follow up with a second notice (u/s 122c) to 75 percent of those who did not respond satisfactory to their first notice within 60 days be end-March, 2014. Issue a provisional tax assessment to 75 percent of those who did not respond satisfactory within 60 days to the second notice by end-March, 2014.	end-March, 2014	
13.	Issue SROs to eliminate exemptions and concessions granted through SROs for an amount consistent with the fiscal deficit reduction objective for FY 2014-15.	end-June,2014	
14.	Hire three financial advisors for three PSEs in the capital market transactions list and three financial advisors for the three PSEs in the strategic private sector enterprises list for privatization in the TMU.	End-March, 2014	
15.	Initiate revenue based load shedding in six remaining electricity distribution companies.	end-January, 2014	

Attachment II. Technical Memorandum of Understanding (TMU)

December 5, 2013

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 cross-rates for other foreign currencies are provided in Table 1.

A. Quantitative Targets

37. 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 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 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)

B. Definitions of Monitoring Variables

38. **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 October 31, 2013, the NIR of Pakistan amounted to US$ -4551 million.

39. **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.

40. **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, international organizations, and foreign nonbank financial institutions, as well as domestic financial institutions. General government foreign exchange liabilities at the SBP will not be included in reserve-related liabilities

41. **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$–2.3 billion at end-June 2013.

42. **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.

43. **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.

44. **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).

45. **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.

46. **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.

47. **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.

48. **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.

49. **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.

50. **Electricity Tariff Pricing Formulas and Definitions** (¶25 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

51. **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 sale of nonstrategic assets of PIA Investment Limited in New York or Paris.

Adjustors

52. 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 World Bank, Asian Development Bank, Islamic Development Bank), official bilateral creditors (including, but not limited to UK-DFID, USAID), and external bond placements that are usable for the financing of the central government budget.

53. 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).

54. 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 PRs 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.

C. 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)
- Kot Addu Power Company Ltd. (KAPCO)

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)
- Islamabad Electric Supply Co. Ltd (IESCO)
- Faisalabad Electric Supply Co. Ltd (FESCO)
- Hyderabad Electric Supply Co. Ltd (HESCO)
- Jamshoro Power Generation Co. Ltd (JPCL)
- Northern Power Generation Co. Ltd - 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)

D. Program Reporting Requirements

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
State Bank of Pakistan (SBP)	SBP balance sheet	Summary	Weekly	First Thursday of the following week
	SBP balance sheet	Summary at program exchange rates; and by official exchange rates	Monthly	Within 15 days of the end of each month
	Monetary survey	Summary banking system balance sheet for the central bank at both program exchange rates and by chart of accounts at actual official exchange rates; the consolidated balance sheet of commercial banks at actual official exchange rates	Monthly	Within three weeks of the end 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 program/project, and the amounts received/expected in cash.	Quarterly	Within 15 days of the end of each quarter
	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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
				following quarter
	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	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
	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
	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
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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
	Tax arrears	By category	Quarterly	Within five days of each quarter
		By type of tax	Quarterly	Within 30 days of the end of each quarter (monthly data provided on a quarterly basis)
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
	VAT refund claims in arrears	For the 30 largest debtors	Quarterly	Within 30 days of the end of each quarter
	Automated VAT refunds	Detailed data, by type of tax, of outstanding tax credits for all types of tax revenues	Quarterly	Within 45 days of the end of each quarter
		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 45 days of the end of each quarter
	Large taxpayers	Data on the number of taxpayers and amount of taxes managed by the large tax payer units (LTUs)	Quarterly	Within 45 days after the end of each quarter
	Import data	1. Total value of recorded imports 2. Total value of duty-paid recorded imports; 3. Number of total transactions involving recorded imports; 4. 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	Quarterly	Within 30 days

Reporting Agency	Type of Data	Description of Data	Frequency	Timing
		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		
	Domestic expenditure arrears	Energy arrears	Monthly	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	Quarterly on monthly frequency	Within 30 days from the end of the quarter
OGRA		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

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	Sep-14
Gross Inflows	588	1,746	2,898	5,759	1,413
Multilateral and bilateral disbursement	588	1,424	2,059	2,520	841
of which: in cash 2/	387	1,267	1,685	2,156	627
Bond issuance	0	0	0	500	0
Coalition Support Fund	0	322	439	439	322
Other 1/	0	0	400	2,300	250
Debt service	746	966	1,098	1,344	675
Memorandum items					
Gross International Reserves	4,691	3,634	5,434	9,897	11,022
Net International Reserves	-2,974	-4,058	-2,177	2,590	3,687
Proprosed Net International Reserves target		-4,130	-2,750	1,895	3,810

1/ includes privatization and 3G licenses.

2/ numbers need to be confirmed with the MoF.

Table 3. External Inflows to the General Government

(In millions of U.S. dollars)

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Non Tax revenue	0	322	839	1239	322
Coalition Support Fund	0	322	439	439	322
3G Licences	0	0	400	800	0
Grants	72	152	168	152	171
External interest payments	150	261	220	323	225
Net external debt financing	-93	479	892	1724	252
Disbursements	501	1170	1767	2720	696
of which budgetary support	0	0	500	1250	125
Amortization	594	691	875	996	444
Privatizations	0	0	0	1500	250
Memorandum item					
Program financing	72	152	668	2902	546

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

Item		30-Jun-13	Prov. 30-Sep-13
A.	**Central Government**	**5,561,908**	**5,855,004**
	Scheduled Banks	**3,320,870**	**3,148,356**
	a) Government Securities	1,117,115	1,086,692
	b) Treasury Bills	2,611,512	2,423,644
	c) Government Deposits	-407,757	-361,979
	State Bank	**2,241,037**	**2,706,648**
	a) Government Securities	3,111	3,127
	b) Accrued Profit on MRTBs	44,888	71,281
	c) Treasury Bills	2,275,184	3,024,883
	of which: MTBs created for replenishment of cash balances	2,274,675	3,024,375
	d) Treasury Currency	8,653	8,653
	e) Debtor Balances (Excl. Zakat Fund)		
	f) Government Deposits (Excl. Zakat and Privatization Fund)	-96,260	-406,759
	g) Payment to HBL on a/c of HC&EB	-287	-287
	h) Adjustment for use of Privatization Proceeds for Debt Retirement	5,749	5,749
B.	**Provincial Governments**	**-315,607**	**-408,613**
	Scheduled Banks	**-287,393**	**-294,026**
	a) Advances to Punjab Government for Cooperatives	1,024	1,024
	b) Government Deposits	-288,417	-295,050
	State Bank	**-28,214**	**-114,587**
	a) Debtor Balances (Excl. Zakat Fund)	13,715	1,449
	b) Government Deposits (Excl.Zakat Fund)	-41,930	-116,036
C.	**Net Govt. Budgetary Borrowings from the Banking system**	**5,246,300**	**5,446,392**
D.	**Through SBP**	**2,212,823**	**2,592,062**
	Through Scheduled Banks	**3,033,477**	**2,854,330**
	Memorandum Items		
	Accrued Profit on SBP holding of MRTBs	**44,888**	**71,281**
	Scheduled banks ' deposits of Privitization Commission	**-5,433**	**-5,722**
	Outstanding amount of MTBs (Primary market; discounted value)	**2,529,412**	**2,365,592**
Net Govt. Borrowings (Cash basis)			
	From Banking System	**5,124,746**	**5,322,781**
From SBP		**2,167,935**	**2,520,780**
From Scheduled Banks		**2,956,811**	**2,802,000**