Pakistan and the IMF

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May 14, 2010

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

May 3, 2010

LETTER OF INTENT

May 3, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

We recently held discussions with Fund staff on the fourth review under the Stand-By Arrangement (SBA). Based on these discussions, we have updated our economic program for 2009/10, as reflected in the attached Fourth Supplementary Memorandum of Economic and Financial Policies (SMEFP). In support of our policies, the Government of Pakistan requests that the Executive Board of the Fund complete the fourth review and approve the fifth purchase under the SBA in an amount equivalent to SDR 766.7 million.

We have made further progress under our stabilization program, notwithstanding challenging circumstances. An economic recovery is underway, and our external position has improved further. We have corrected nearly all of the fiscal slippage from the first quarter of 2009/10 in the second quarter when all quantitative performance criteria for end-December 2009 were observed, except for the budget deficit target, which was exceeded by 0.02 percent of GDP, and made progress in preparing for the introduction of the value added tax on July 1, 2010. However, our fiscal policy continues to be challenged by high security outlays and shortfalls in external financing, and we consider it necessary to adjust our fiscal program for the remainder of 2009/10. We believe that the policies set out in the attached SMEFP are adequate to achieve the objective of the program through further consolidation of macroeconomic stability and advance our ambitious reform agenda. However, we stand ready to take any additional measures deemed appropriate for this purpose, and will consult with the Fund on the adoption of these measures in accordance with Fund policies on such consultations. We will also provide the Fund with the information it may request to monitor progress in implementing economic and financial policies.

We request waivers of nonobservance for the end-March quantitative performance criteria on the overall budget deficit (excluding grants) and net government borrowing from the State Bank of Pakistan (SBP). Although final data for this quarter are not yet available, preliminary information indicates that we missed the adjusted end-March quantitative performance criterion on the fiscal deficit by 0.4 percent of GDP, on account of lower revenue and security-related expenditures and shortfalls in disbursements of IDP grants and Tokyo-related multilateral assistance. We also missed the end-March quantitative performance criterion on net government borrowing from the SBP by 0.2 percent of GDP due to a delay in the disbursement of external financing to the budget. We plan to strengthen government liquidity management and reduce recourse to the central bank overdraft to ensure we meet end-quarter targets for net borrowing from the SBP.

We also request rephasing of access under the arrangement. To this effect, we propose that the last three purchases be consolidated into two and that these (sixth and seventh) purchases increased to SDR 1,150.05 million and SDR 1,149.815 million, respectively.

We request that August 15, 2010 be the availability date for the sixth purchase, conditional on the completion of the fifth program review and observance of end-June 2010 performance criteria, and November 15, 2010 be the availability date for the seventh purchase, conditional on the completion of the sixth and final review and observance of end-September 2010 performance criteria, which would be set at the time of the fifth review.

Furthermore, we request: (i) a modification of the end-June 2010 performance criteria for the budget deficit to increase the cumulative end-quarter ceilings by Rs 22 billion (0.15 percent of GDP) in order to allow space for urgent security outlays and avoid undue cuts in other priority spending; and (ii) a modification of the end-June 2010 performance criterion (raising the floor) for the net foreign assets of the SBP by $300 million, taking into account our strengthened external position.

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

Sincerely yours,

/s/
Abdul Hafeez Shaikh
Advisor to the Prime Minister on Finance,
Revenue, Economic Affairs and Statistics

/s/
Syed Salim Raza
Governor
State Bank of Pakistan

Attachments:
- Fourth Supplementary Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

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

May 3, 2010

I. INTRODUCTION

1. This memorandum supplements our Memorandum on Economic and Financial Policies (MEFP) for 2008/09–09/10 of November 20, 2008 and the first, second, and third supplements thereto dated March 16, July 29, and December 11, 2009, respectively. It describes policy implementation to date and lays out additional policies agreed in the context of the fourth review under the Stand-By Arrangement (SBA).

II. RECENT ECONOMIC DEVELOPMENTS

2. ***Despite significant internal security challenges, our stabilization program is on track, but risks to the fiscal outlook are rising***. Headline inflation declined from 25 percent in October 2008 to 8.9 percent in October 2009, but increased to 12.9 percent in March 2010. The rupee has remained stable at around Rs 84–85 per U.S. dollar in recent months, gross foreign exchange reserves reached $11 billion in late March, 2010, and market demand for treasury bills has remained healthy. All quantitative performance criteria for end-December 2009 were observed (Table 1), except for the budget deficit target, which was exceeded by 0.02 percent of GDP. Structural reforms are progressing despite extremely challenging circumstances relating mainly to a deterioration of the internal security situation and an intensification of the military campaigns in the north-west. We have submitted VAT legislation to the parliament and provincial assemblies. Further, we have submitted to parliament the amendments to the State Bank of Pakistan (SBP) Act; tax administration reforms are continuing; the amendments to the Banking Companies Ordinance have been approved by the National Assembly; and Anti-Money Laundering legislation was approved on March 26. Electricity reform has proceeded, albeit slower than planned. We continue to face challenges to our stabilization program due to a widening of the military operations, revenue shortfalls and delays in disbursements of pledged donor support, which has complicated fiscal management, while inflation has picked up.

3. ***There are some signs that growth is starting to recover***. Large-scale manufacturing output has started to increase after a protracted decline, and the improvement in the global economy has improved the outlook for manufacturing exports. Agriculture performance is mixed, with lower rice and sugarcane output, offset by a stable outlook for wheat and higher cotton output. Private sector credit growth has picked up somewhat as businesses rebuild their working capital. Financial markets remain positive. The stock market index has risen in recent months and the spreads on Pakistan sovereign bonds have stabilized. However, the growth outlook is subject to risks: most prominently the domestic security situation and reliability of electricity supply, as well as the pace of global economic recovery.

4. ***Fiscal performance was affected by weak economic activity, security challenges, and shortfalls of external support***. The overall fiscal performance in the first half of 2009/10 was satisfactory albeit with lower revenue collection leading to constrained expenditures. The tax revenue collection targets were missed by about 0.2 percent of GDP in the first half of 2009/10. Also, nontax revenue was about 0.2 percent of GDP lower than projected. Expenditure controls helped limit the budget deficit. However, revenue shortfalls increased in the third quarter, while the security-related spending pressures limited the scope for expenditure cuts. As a result, the end-March budget deficit target was missed by about 0.2 percent of GDP. Shortfalls of external support increased that margin (via adjustors) to an estimated 0.4 percent of GDP.

5. ***Monetary policy has tried to balance price stability with the need to support a nascent recovery***. The discount rate was cut by 50 bps to 12.5 percent in November, but in January, the SBP kept it unchanged in view of sticky core inflation, the uncertain fiscal outlook, with greater domestic financing needs to compensate for external financing shortfalls, and expected inflationary pressures from higher energy and food price. In March, the SBP also kept the discount rate unchanged, trying to strike a difficult balance between the imperatives of reducing inflation, ensuring financial stability, and supporting economic recovery.

6. ***Fiscal challenges have prompted us to develop compensatory measures***. The measures, which include both expenditure and revenue measures, will help safeguard the macroeconomic stability and reduce inflation. These measures provide the needed fiscal space for higher security spending and to protect social spending, including for internally displaced persons (IDPs), while safeguarding macroeconomic stability. It remains critical that donor support pledged during the donors conference in Tokyo in April 2009 is disbursed in a timely manner.

III. Policies for the Remainder of 2009/10

7. ***The macro-economic backdrop for our program remains largely unchanged***. Real GDP is projected to increase by 3 percent, with somewhat stronger manufacturing output balancing a mixed outlook for the agriculture sector. Electricity tariff adjustments and higher food prices will push annual consumer price inflation up, but inflation is expected to decline and we project year-on-year headline inflation in June will be 12 percent. The current account deficit is expected to improve further to 3¾ percent of GDP supported by lower imports, despite higher oil prices, lower interest and profit outflows, and strong remittance inflows, but the robustness of the balance of payments position will be heavily influenced by donor disbursements.

8. ***Fiscal risks are a threat to macroeconomic stability***. The risks stem mainly from possible shortfalls in revenue collection and donor support pledged in Tokyo in April 2009, as well as expenditure pressure largely security-related. We have identified contingency measures of 0.3 percent of GDP that could address these risks. The measures comprise non-priority development expenditure cuts. As noted, we are determined to safeguard pro-poor spending and spending for IDPs.

A. Fiscal Policy

9. ***The fiscal deficit target for 2009/10 will be adjusted to 5.1 percent of GDP***. The deficit will be financed by higher than projected privatization inflows, which will more than compensate for the shortfalls in IDP grants and foreign financing.

10. ***There are risks that revenue (both tax and non-tax) may be lower than expected***. The government plans to implement the following measures to head-off these risks, and stands ready to take additional measures as required:

- ***Revenue measures****:* The 2009/10 target for Federal Board of Revenue (FBR) collections has been revised down somewhat to Rs 1,380 billion, which takes into account, in part, the shortfall in the first three quarters of the year. Tax collection is being monitored closely and an increase in collections is expected in the fourth quarter reflecting both greater collection efforts and collection of two advance installments in the fourth quarter. Further, additional inflows from the U.S. Coalition Support Fund are expected in the fourth quarter.

- ***Expenditure measures****:* Given the pressing need for higher security spending, we have found offsetting savings. To offset the impacts of revenue and external financing shortfalls we will cut non-priority current and development spending. We believe we have adequate provisions for security and IDP outlays and, if needed, we will meet any additional fiscal shocks through additional restraint of non-priority spending.

11. ***We have taken necessary steps towards the introduction of a broad-based VAT by July 1, 2010***. A Federal VAT act was submitted to the Ministry of Law and Parliamentary Affairs on 31st December 2009, after approval of the Prime Minister. The draft Federal VAT Act was submitted to the National Assembly on February 25 for discussion, was submitted to the Senate on March 1, and was discussed by the Standing Committee of the Senate on March 17–18, which has completed its consideration of the bill and passed it on to the National Assembly. Provincial VAT Acts, consistent with each other and the Federal Act, have been prepared, discussed with provincial governments, and submitted to provincial assemblies in late-March, after preliminary parliamentary discussions on the federal component. The integrity and consistency of the VAT Acts will be ensured and they will be implemented as an integrated national VAT to avoid the problem of cascading and tax competition. To this end, the Prime Minister has set up a Committee chaired by the Minister of State for Finance and Revenue comprising the Federal Finance Secretary and all provincial Chief Secretaries to resolve issues related to the operation of provincial VAT. The review of the VAT law, including zero-rating and exemptions, is expected to be completed by the finance and revenue committees of the parliament by mid-May 2010. Initial estimates have been prepared on the assessment of the revenue impact of VAT and we will refine them further in the coming weeks. The VAT Acts will be supported by an adequate risk-based audit mechanism and be free of exemptions and domestic zero-ratings except those that are indicated by international best practice. The Federal and Provincial VAT Acts are expected to pass by May 31, 2010. As a preparatory step toward full implementation of the VAT by July 1, 2010, VAT

regulations are being prepared and will be issued two to three weeks after enactment of the Federal VAT Act. A review of business processes, recordkeeping, and design of forms will be an integral component of the VAT regulations. We will also submit legislation to harmonize the existing tax laws with the VAT act in early June, 2010. We are receiving assistance from the IMF and World Bank to introduce the VAT.

12. ***The following actions to improve tax administration and its governance will be taken***:

- ***We are redoubling our efforts to reduce the number of non-filers and under-reporting taxpayers***. Around 200,000 letters were sent to non-filers and under-reporters in addition to text messages and a media campaign, which resulted in 121,000 taxpayers filing before the extended deadline of January 25, 2010. Taxpayers who have not filed are receiving statutory notices and the department will enforce the filing of returns by non-filers, who receive income from property rents and have commercial electricity connections. If they still do not comply, the FBR will conduct a provisional assessment based on the information available and tax accordingly.

- ***Major efforts are being made to collect tax arrears***. We are focusing on resolution of stuck up revenues especially in the oil and insurance sectors. In addition, we are making efforts to recover withholding taxes in the banking and insurance sectors, which have not been deposited through reconciliation of accounts.

- ***Tax audits are moving ahead***. We have identified over 900 companies and associations of persons for audit. 468 of these audits have been outsourced to the Institute of Chartered Accountants Pakistan, which has been provided an auditing framework by FBR. We expect the majority of these audits will be completed by June 2010. The remaining audits will be conducted by FBR and (most of these) will be completed by May 2010.

- ***We are making progress in strengthening the system of tax refunds***. Software has been developed and has been successfully pilot tested in the Large Taxpayer Unit of Islamabad. It has been agreed with banks that the refund system would be launched in conjunction with the introduction of a VAT in 2010/11. To this effect, on March 29, the FBR issued a notification allowing the expeditious processing and payment of refunds to manufacturing exporters registered at the Lahore Regional Taxpayers Office (RTO) from tax period April, 2010 and to all manufacturing exporters registered at other RTOs and LTUs from tax period July, 2010. As part of the preparatory effort for the refund system, we have already put in place system development and related procedures. This was done based on the recommendations for changes in the sales tax refund rules and risk criteria made by the committee that was set up for this purpose. After the introduction of suitable changes to mitigate any remaining risk factors, the system will be ready for deployment by end-June, 2010.

13. ***We are continuing the roll out of the Benazir Income Support Program (BISP)***. We have completed the pilot for introducing the new targeting mechanism, using a poverty-scorecard, carried out in 15 districts and covering 2.1 million people. Based on the results of the pilot, the cut-off score (used to determine eligibility) for the poverty-scorecard has been fixed in January 2010. Further, we have started the process to exclude those beneficiaries, who are above the cut-off score, from receiving benefits under the new targeting mechanism in the 15 districts covered by the pilot. Poverty-scorecard data collection in Baluchistan is being started on a priority basis. A comprehensive plan for nationwide rollout of the poverty-scorecard based targeting has been prepared with the help of the World Bank; the process of contracting firms has begun and is expected to be completed by end-May 2010. The poverty-scorecard system expected to be rolled out nationwide by end-March 2011. The delays in the rollout of the poverty-scorecard system will slow delivery of BISP assistance and we now project BISP disbursements of Rs 50 billion in 2009/10.

14. ***We are making progress towards eliminating electricity tariff differential subsidies***. Electricity tariffs were adjusted in December to make up for the shortfall in the October 1 increase, which was below the 6 percent agreed with the World Bank and the Asian Development Bank. Subsequently, an additional 12 percent tariff increase was implemented on January 1, 2010, as scheduled. Tariffs will be increased by 6 percent to take effect from April 1 in accordance with earlier plans. We have also corrected the measures applied by NEPRA to fully recover the power purchase costs through the monthly adjustments; and put in place a program of recovering the unrecovered power purchase costs from the first nine months of this fiscal year over a 15-month period beginning April 2010. We expect to complete discussions with the World Bank and the Asian Development Bank staffs and agree before end-June 2010 on a framework for the power sector that would ensure no tariff differential subsidies. This will require restoring gas supplied to the power sector by a minimum of an additional 183 million cubic feet per day (mmcfd) for at least nine months. In addition, we have also initiated measures, which we plan to put in place prior to the next review, to improve governance and financial discipline in the power sector and once and for all eliminate the circular debt induced by the power sector's financial performance. Following the April 20–22 Energy Summit, the government has announced measures to increase use of conservation, augment gas supplies to the power sector to improve the supply capacity and make it more cost efficient, and improve governance.

15. ***We are taking steps to clear the remaining stock of circular debt in the electricity sector***. The transfer of the bulk of the remaining stock of debt of electricity companies (Rs 216 billion) is expected to take place in May, 2010. The audit of this pre-2009/10 debt has been finalized. The government will continue to pay interest on this debt. More recently, the office of the Federal Adjustor has been re-established to clear payment arrears of government agencies and departments more efficiently by making at-source deductions from the budget.

16. ***We will address the quasi-fiscal problems with commodity operations***. The stock of outstanding wheat commodity credits was reduced by Rs 42 billion between January 31 and March 31, 2010, ahead of the 2010 procurement season, to avoid crowding out the private sector. Losses for government procurement agencies will be covered from the budget and not left to accumulate on the agencies' books. For the 2010 procurement season, we will remain within our announced procurement target of 6.5 million tones.

17. ***Meeting our fiscal program's objectives hinges importantly on prudent fiscal behavior at the provincial level***. To that effect, we have taken steps to ensure that borrowing by provinces is limited and consistent with the fiscal targets of the general government. Monthly meetings between the federal and provincial Finance Secretaries have been instituted. We are continuing to monitor closely provincial borrowing and ensuring they stay within their established Ways and Means limits of six weeks of wages and salaries.

18. ***Pakistan's fiscal transparency is being enhanced***. In 2009, the Ministry of Finance began to publish on its web site the amount of newly issued government guarantees, and in March 2010, we started publishing also information about the total stock of outstanding government guarantees.

19. ***A medium-term budget framework is now in place***. This framework aims at ensuring fiscal prudence and consolidation and to lay the basis for sustainable growth. It will support better expenditure planning and predictability of resource availability. We have prepared and obtained approval of the Cabinet of a medium-term budget strategy paper (BSP-1) for 2010/11–2012/13 that sets the fiscal framework and budget priorities for this period, and sets indicative budget ceilings for the major expenditure categories. It also takes account of the new revenue-sharing arrangements between the federal and provincial governments agreed by the National Finance Commission (NFC) in December 2009. The NFC agreed that provinces would receive a larger share of tax revenue in 2010/11–2014/15 and a concomitant increased responsibility for government functions. The Constitutional Reforms Committee has analyzed functions that will be transferred to provinces and has presented its report and recommendations, which have been enacted as constitutional amendments in April 2010.

20. ***We remain committed to the transition to a Treasury Single Account by end-June 2010***. We initiated the survey of deposits. We are collecting information on commercial bank deposits of federal entities, and will have all non-own source, nonsecurity related cash balances transferred to the Federal Consolidated Fund by end-June 2010 and associated accounts closed. We will ensure these transfers do not affect the liquidity of the banking system. We will ensure that a minimum interest rate is received on all federal government deposits.

21. ***The government has initiated the restructuring of large public sector enterprises*** (PSEs). As a first step, a Cabinet Committee on Restructuring (CCOR) has been constituted under the Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics. In its first meeting, held on February 8, 2010 the CCOR approved

an overall framework for restructuring of eight major PSEs.[1] The framework entails formation of independent and professionally qualified board of directors for each PSE, and the hiring of professional CEOs from the private sector. The new management of each PSE will be tasked to produce a viable restructuring plan, which will be vetted and approved by CCOR. The appointment of new boards and hiring CEOs was initiated in March.

B. Monetary and Exchange Rate Policies

22. ***Monetary policy will continue to focus primarily on price stability, while building international reserves***. Lower inflation will support the nascent revival in economic activity and pave the way for lower interest rates. Inflation has been more persistent than expected, due to higher administered prices and higher inflationary expectations taking hold. The SBP will continue to monitor inflation carefully, and if inflationary pressures persist, it will tighten monetary policy as needed.

23. ***The new liquidity management framework has reduced the volatility in the overnight money market repo rate***. The interest rate corridor framework has improved the anchoring of short-term rates with reduced volatility in the weighted average overnight repo rate, which averaged around 12 percent year since July 2009. To enhance the functioning of the interest rate corridor framework, the SBP may consider measures related to reserve requirements and associated maintenance period as appropriate. The SBP and the Finance Division will continue to enhance coordination and communication on budgetary flows to strengthen further liquidity forecasting.

24. ***We will continue to pursue a flexible exchange rate policy to safeguard the external position and competitiveness***. Interventions in foreign exchange market will continue to be aimed at achieving program NFA targets. The SBP phased out provisions of foreign exchange for crude oil imports in December 2009, and the transition has been effected smoothly with the market functioning appropriately. The balance of payments position has strengthened sufficiently and expected to improve further.

C. Financial Sector and Safeguards Issues

25. ***We continue to work toward strengthening the soundness of the financial sector***. Preliminary data indicate that Financial Soundness Indicators through end-December deteriorated a little, but the system remains well capitalized. Although nonperforming loans (NPLs) continued to increase in the quarter ended December 2009, their rate of increase slowed compared to previous quarters. Further, credit increased in this quarter and as a result NPL-to-loans ratio at end-December improved to 12.2 percent. However, capital ratios weakened slightly: the risk-weighted capital-to-assets ratio declined from 14.3 to 14.1 percent and the (un-weighted) capital-to-assets ratio dropped

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[1] They are Pakistan International Airlines, Pakistan Electric Power Company, Pakistan Railways, Pakistan Steel Mills, National Highway Authority, Pakistan Agricultural Storage and Services Corporation, Trading Corporation of Pakistan, and Utility Stores Corporation.

from 10.5 to 10.1 percent. The restructuring of NPLs needs to be expedited to bring their level down. Eight banks did not comply with the higher end-2009 minimum capital requirement, however, these are expected to be brought into compliance soon either through capital injections or mergers. Exposure to Dubai appears to be very limited and any losses from the Dubai World restructuring can be covered from capital.

26. ***The National Assembly has passed amendments to the Banking Companies Ordinance that strengthens the SBP's enforcement powers to deal with problem banks***. The National Assembly has approved the amendments and Senate approval is expected in early May. The amendments empower the SBP to appoint administrators and allow it to restructure problem banks in a variety of ways either through administrators or by itself. They also empower the SBP to cancel or write down capital of the insolvent banks, prohibit banks from paying dividends or accepting fresh deposits, and compel any undesirable major shareholders to transfer their shares to fit and proper persons. The amendments would enhance the legal basis for the SBP to deal with problem banks.

27. ***Amendments to the SBP law to enhance the SBP's operational independence have been submitted to Parliament on March 17***. They are scheduled to be considered by the National Assembly's Committee on Finance and Revenue in the next weeks. Among other things, these amendments will curtail recourse by the budget to SBP credit.

28. ***Consistent with the Basel Committee's (Basel 3) reform program, the SBP would consider the proposed modifications for the banking sector by strengthening the regulatory capital framework***. The SBP will conduct, in the near future, an impact assessment of the proposals recently advanced by the Basel Committee. A preliminary analysis suggests that the proposed changes will not have a significant impact on the financial stability indicators in Pakistan. This reflects strong capital adequacy ratios, banks' capital being largely composed of Tier 1 capital, a large share of liquid assets (government securities) in banks' portfolio, and banks limited off-balance sheet exposures.

29. ***An update to the March 2009 safeguards assessment was completed in February 2010 in relation to the augmentation of access under the current SBA***. The updated assessment addressed several safeguards measures including the enactment of the amendments to the SBP Act and the confirmation of foreign reserves. As noted, the government has presented amendments of the SBP Act to parliament. Regarding confirmation of foreign reserves, the assessment recommended stronger oversight by the Audit Committee over the external audit procedures related to the independent confirmation of reserve balances for the 2010 audit. The SBP agreed that external auditors may directly confirm the foreign exchange balances from counterparties.

IV. Program Monitoring and Financing

30. ***The program will remain subject to quarterly program reviews and quarterly performance criteria for 2009/10, as specified in Table 1. Quarterly performance***

criteria for end-June have been revised. Attached is an addendum to the Technical Memorandum of Understanding (TMU) of December 11, 2009.

31. ***The following measures will be prior actions for Board consideration of the fourth review****:* Submission of Federal VAT Acts to parliament and consistent Provincial VAT Acts to provincial assemblies.

32. ***The introduction of the VAT (structural benchmark for July 1, 2010) and reaching understandings on the 2010/11 budget will the key issues for the fifth review.***

33. ***The program remains fully financed but disbursement of external assistance is crucial****.*

Table 1. Pakistan: Quantitative Performance Criteria, June 2009–June 2010

	Outst. Stock end-Sept. 2008	end-Jun. 2009	end-Sept. 2009	end-Dec. 2009	2/ 3/ end-Mar. 2010	Prog. 2/ end-Jun. 2010
Floor on net foreign assets of the SBP* (stock, in millions of U.S. dollars)	3,953	2,782	3,200	5,100	5,700	5,200
Adjusted target 4/	...	2,428	4,406	4,816	3,830	
Actual	...	3,982	5,706	5,360	4,752	
Ceiling on net domestic assets of the SBP* (stock, in billions of Pakistani rupees)	1,250	1,314	1,300	1,270	1,220	1,320
Adjusted target	...	1,316	1,231	1,321	1,412	
Actual	...	1,183	1,141	1,209	1,231	
Ceiling on net government borrowing from SBP* (stock, in billions of Pakistani rupees)	1,227	1,181	1,130	1,130	1,130	1,130
Adjusted target	...	1,181	1,130	1,130	1,130	
Actual	...	1,130	1,047	1,066	1,160	
Ceiling on overall budget deficit* (cumulative flow, in billions of Pakistani rupees)	142	562	194	400	604	762
Adjusted target 4/	...	562	172	399	576	
Actual	...	680	225	402	636	
Ceiling on outstanding stock of short-term public and publicly guaranteed external debt* (in millions of U.S. dollars)	515	1,500	1,500	1,500	1,500	1,500
Actual	...	652	589	372	631	
Cumulative ceiling on contracting of nonconcessional medium- and long-term public and publicly guaranteed external debt* (in millions of U.S. dollars) 1/	9,500	9,500	9,500	9,500	9,500	9,500
Actual	...	1,649	1,724	2,128	2,418	
Accumulation of external payments arrears (continuous performance criterion during the program period)* (in millions of U.S. dollars)	0	0	0	0	0	0
Actual	...	0	0	0	0	
Continuous ceiling on SBP's foreign currency swaps and forward sales* (in millions of U.S. dollars)	1,900	2,750	2,500	2,500	2,500	2,500
Actual	...	1,690	2,035	2,355	2,440	
Memorandum items: (cumulative, in millions of U.S. dollars, unless otherwise indicated)						
Net external program financing excluding any budget grants related to Internally Displaced Persons (IDPs), program portion of Tokyo-related disbursements, and Fund financing to the budget 4/	-166	737	95	-928	-1,082	152
Actual 5/			-40	-846	-1,664	
Use of IMF resources by the budget 4/	...	...	715	1,072	1,430	0
Actual	...	...	745	1,117	1,117	
External project grants	24	176	320	169	530	767
Actual 5/	...	...	21	92	220	
External project grants, excl. IDP grants and Tokyo related grants 3/	...	...	172	49	70	177
Actual 5/	...	...	21	41	84	
Total IDP grants (project and budget) 4/	...	...	220	110	310	52
Actual	...	...	0	52	52	
Tokyo-related disbursements, excl. multilateral sources 4/	...	...	342	1,177	1,962	2,220
Actual	...	...	0	520	642	
Tokyo-related disbursements from multilateral sources 4/	...	...	0	0	100	150
Actual	...	...	0	0	0	
Foreign Exchange cash reserve requirement (CRR, incl. special CRR) deposits in SBP (stock in millions of U.S. dollars)	832	728	779	808	845	875
Weekly cash reserve requirement ratios (in percentage points)						
Rupee deposits (less than one year maturity)	9	5	5	5	5	5
Rupee deposits (more than one year maturity)	0	0	0	0	0	0
Foreign currency deposits CRR	5	5	5	5	5	5
Foreign currency deposits special CRR	15	15	15	15	15	15
Increase in SDR allocation (stock in millions of U.S. dollars)	...	...	1,281	1,283	1,283	...

Note:
* denotes performance criteria.

1/ Excludes IMF.
2/ In addition to the quantitative performance criteria for end-December, end-March, and end-June the relevant purchases will also be subject to the completion of reviews with the fourth review to be completed no earlier than February 27, 2010, and the fifth review to be completed no earlier than May 30, 2010.
3/ All end-March 2010 figures showns as "Actual" and as "Adjusted target" are reported on a preliminary basis.
4/ To be used in assessing respective adjustors for program targets.
5/ Data for end-September has been revised. This does not change the assessment of quantitative performance criteria.

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

	Target date	Status
Prior Actions		
Submission of Federal VAT act to parliament and consistent Provincial VAT acts to provincial assemblies.		Met
Structural Benchmarks		
A contingency plan for handling problem private banks will be finalized.	end-December 2008	Met
A full description of required reforms in the area of tax administration, including an action plan for harmonizing the GST and income tax administration will be finalized.	end-December 2008	Met
In close collaboration with the World Bank, the government will finalize the schedule for further electricity tariff adjustments during 2008/09, with a view to eliminating tariff differential subsidies by end-June 2009.	end-December 2008	Met 1/
The SBP's provision of foreign exchange for furnace oil will be eliminated.	February 1, 2009	Met
In close collaboration with the World Bank, the government will develop a strategy and a time-bound action plan for the adoption of specific measures to strengthen the social safety net and improve targeting to the poor.	end-March, 2009	Met
The government will prepare a plan for eliminating the inter-corporate circular debt.	end-March, 2009	Met with a delay
The transition to a treasury single account will be completed.	end-June 2010	Underway 2/
Amendments to the banking legislation will be submitted to Parliament to enhance the effectiveness of SBP enforcement powers in the area of banking supervision.	end-August 2009	Met with a delay
1. Government approval of regulations to (i) form new occupational groups within the FBR; and (ii) revise the structures of Regional Taxpayer Offices and Large Taxpayer Units. 2. Amendment of all relevant laws and rules.	September 15, 2009	(i) Met; (ii) Met with a delay
The government will submit draft legislative amendments to parliament to harmonize the income tax and GST laws, including for tax administration purposes.	end-September 2009	Met with a delay 3/
Submission of the VAT law to Parliament.	end-December 2009	Met with a delay 4/
An expedited sales tax refund system will be implemented in all Regional Taxpayer Offices and Large Taxpayer Units to ensure direct input of refund requests and prompt processing and confirmation of refunds.	end-March 2010	Underway 5/
An independent review of the Pakistan Improvement of Financial Reporting and Auditing Project (PIFRA), to improve reporting, lay the basis for commitment control, and assess in which institution PIFRA should be located.	end-June 2010	
A full implementation of the VAT.	July 1, 2010	

1/ The original plan was superseded by a plan that was agreed upon on July 15, 2009 that envisages elimination of tariff differential subsidies by August 2010.
2/ In October 2008, the authorities took steps to prevent accumulation of unspent balances in accounts outside the Federal Consolidated Fund and made the use of assignment accounts by ministries under the Account No.1 fully operational for budget expenditures. MoF has collected information about balances held by federal government entities in commercial bank accounts. The target date has been revised from end June-2009.
3/ An ordinance was issued on October 28. It will need to be augmented and legislated at a later stage to be made consistent with the new VAT law that is being prepared.
4/ The federal part of the VAT law package was submitted to the parliament on February 25, 2010. The provincial laws were submitted to provincial assemblies by March 27.
5/ On March 29, the FBR issued a notification allowing the expeditious processing and payment of refunds to manufacturing exporters registered at the Lahore Regional Taxpayers Office from tax period April, 2010 and to all manufacturing exporters registered at other RTOs and LTUs from tax period July, 2010.

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

May 3, 2010

1. This Technical Memorandum of Understanding (TMU) describes the monitoring arrangements under the SBA-supported program. It replaces from April 1, 2010 onwards the TMU dated December 11, 2009. Throughout, unless otherwise stated, "government" is meant to comprise the federal and provincial governments.

I. DEFINITIONS OF MONITORING VARIABLES

2. **Valuation of foreign exchange denominated assets, liabilities, and foreign exchange flows**. For the purposes of program monitoring under the program, all assets and liabilities as well as debt contracted, denominated in SDRs or in currencies other than the U.S. dollar, will be converted into U.S. dollars at the exchange rates prevailing at test dates, as posted by the State Bank of Pakistan (SBP) on its web site. Net external budget financing and external cash grants will be converted into Pakistani rupees at the exchange rates prevailing at the day of the transaction, as posted by the SBP on its web site, unless otherwise indicated.

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

4. **Net foreign assets (NFA) of the SBP** are defined as the difference between its foreign assets and foreign liabilities. Foreign assets of the SBP consist of gold, foreign exchange, balances held outside Pakistan, foreign securities, foreign bills purchased and discounted, the reserve position with the IMF, and SDR holdings. The definition of foreign assets of the SBP will be consistent with the IMF Data Template on International Reserves and Foreign Currency Liquidity. Gold will be valued at $20.27 per fine troy ounce. Foreign liabilities of the SBP include outstanding IMF credits (excluding net IMF financing to the budget as defined in paragraph 10 below), deposits with the SBP of foreign governments, foreign central banks, foreign deposit money banks, international organizations, and foreign nonbank financial institutions (NBFI).

5. **Net domestic assets (NDA) of the SBP** are defined as the difference between the RM and the NFA of the SBP.

6. **Net borrowing from the banking system by the government** is defined as the difference between the banking system's claims, on a cash basis, on the federal, provincial, and local governments and the deposits of the federal, provincial, and local governments with the banking system, including district government funds balances. For the purposes of this memorandum, claims on government exclude: credit for commodity

operations; government deposits exclude outstanding balances in the Zakat Fund; and balances in the various privatization accounts kept by the government in the banking system. The stock of bonds which were issued to banks in substitution of outstanding nonperforming loans to certain public entities, and which are being fully serviced by the government, are included in banking system claims on government. Table 1 summarizes the calculations of **net borrowing from the banking system by the government.**

7. **Net borrowing from the SBP by the government** is defined as SBP claims on the government minus government deposits with the SBP. SBP claims on the government include government securities, treasury bills, ways and means advances, treasury currency, and debtor balances. SBP claims on the government exclude accrued profits on government securities. Government deposits with the SBP exclude the Zakat Fund and Privatization accounts (Table 1).

8. The definition of the **overall budget deficit (excluding grants)** under the program will be the consolidated budget deficit, excluding grants, and including the operations of district governments financed from local funds. It will be measured by the sum of (a) total net financing to the federal, provincial, and local governments; and (b) total external grants to the federal and provincial governments. The former is defined as the sum of (i) net external budget financing (see ¶11); (ii) net borrowing from the banking system (as defined above); and (iii) net domestic nonbank financing (see ¶12). The total external grants are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants.

9. **Net external program financing** is defined to include external privatization receipts; budget support grants; budget support loans from multilateral (other than the IMF, but including World Bank and Asian Development Bank (ADB) budget support and structural adjustment loans), official bilateral budget support loans, and private sector sources (e.g., bonds); rescheduled government debt service and change in stock of external debt service arrears net of government debt amortization due on foreign loans, the latter including any accelerated amortization including related to debt swaps or debt cancellation recorded as capital grants. It also includes foreign loans onlent to financial institutions and companies (public or private) and emergency relief lending. Program financing excludes all external financing counted as reserve liabilities of the SBP (defined above). Amounts projected for net external program financing and external grants are provided in Table 2.

10. **Net IMF financing to the budget** is defined as the difference between Fund disbursements credited to the budget and repayments from the budget through the Ministry of Finance's dedicated account for Fund financing at the SBP.

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

plus **net IMF financing to the budget**. Amounts projected for net external budget financing are provided in Table 2.

12. **Net domestic nonbank financing of the budget** is defined as follows: domestic privatization receipts transferred from the privatization accounts to the budget, plus the change during each reporting period, in the stock of (i) permanent debt, which consists of nonbank holdings of prize bonds, all federal bonds, and securities; plus (ii) floating debt held by nonbanks; plus (iii) unfunded debt, which consists of National Savings Scheme (NSS) debt, Postal Life Insurance, and the General Provident Fund (GPF); plus (iv) net deposits and reserves received by the government (public accounts deposits); plus (v) any other government borrowing from domestic nonbank sources net of repayments; minus (vi) government deposits with NBFIs. Nonbank holdings of permanent and floating debt is defined as total debt outstanding, as reported by the SBP, minus holdings of banks as per the monetary survey. Total T-bill and other relevant government debt are valued at discount value and exclude accrued interest.

External debt[1]

13. The performance criterion on contracting or guaranteeing of medium-term and long-term nonconcessional external debt by the government or the SBP applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (adopted by the IMF Executive Board on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are (i) foreign currency deposit liabilities of the SBP; and (ii) the outstanding stock of debt of Foreign Exchange Bearer Certificates (FEBCs), Deposit Bearer Certificates (DBCs), and Foreign Currency Bearer Certificates (FCBCs). The performance criterion setting a limit on the outstanding stock of short-term external

[1] The definition of debt set forth in No. 9 of the guidelines reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt."

debt refers to debt (as defined in Footnote 1) with original maturity of up to and including one year. Medium- and long-term external debt comprises debt with initial maturity of over one year.

14. **Nonconcessional borrowing** is defined as borrowing with a grant element of less than 35 percent.[2] The discount rates used to calculate the grant element will be the six-month and ten-year Commercial Interest Reference Rates (CIRRs) averages, as computed by the Strategy and Policy Review Department of the IMF. Six-month CIRRs are updated mid-February and mid-August (covering the six-month period preceding the date of update) and the ten-year CIRRs averages are updated mid-December (covering a period of 10 years preceding the date of the update). Six-month CIRRs averages are to be used for loans whose maturity is less than 15 years, while ten-year CIRRs averages are to be used for loans whose maturity is equal or more than 15 years.

15. **External payment arrears** are defined as unpaid debt service by the government beyond the due date under the contract and any grace period.

16. **Tokyo-related disbursements** refers to disbursements of donor support (loans and grants) pledged at the donor conference held in Tokyo on April 17, 2009.

II. ADJUSTORS

Adjustors related to net external program financing

17. For paragraphs 18–21, the **net external program financing** excludes any budget grants related to Internally Displaced Persons (IDPs), the program portion of Tokyo-related disbursements, and Fund financing to the budget. They are projected as follows:

July 2009–June 2010: $152 million

18. If the actual cumulative net external program financing in U.S. dollar terms is higher (lower) than projected, the difference between the actual cumulative net external financing and the projected amounts is defined as **the excess (shortfall) in net external program financing in U.S. dollar terms**. The excess (shortfall) in net external program financing in U.S. dollar terms multiplied by a fixed accounting exchange rate of Rs 83 per $1 represents **the excess (or shortfall) in net external program financing in rupee terms**.

19. The ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted downward by the shortfall in net external program financing in rupee terms by up to Rs 73.5 billion.

20. The floors on the **NFA of the SBP** will be adjusted upward (downward) by the excess (shortfall) in net external program financing in U.S. dollar terms as defined above.

[2] Following the methodology set out in "Limits on External Debt or Borrowing in Fund Arrangements—Proposed Change in Implementation of the Revised Guidelines," April 8, 1996.

21. The ceilings on the **NDA of the SBP** will be adjusted downward (upward) by the excess (shortfall) in net external program financing in rupee terms as defined above.

22. The ceiling on **net borrowing from the SBP by the government** will be adjusted downward by the excess in net external program financing in rupee terms as defined above.

Adjustors related to Tokyo-related disbursements (excluding multilateral sources)

23. Tokyo-related disbursements (excluding multilateral sources) are projected as follows:

July 2009–June 2010: $2,220 million

24. If the actual cumulative gross Tokyo-related disbursements (excluding multilateral sources) are lower than the projected amount, the difference between their projected and actual values in U.S. dollar terms is defined as **the shortfall in Tokyo-related disbursements (excluding multilateral sources) in U.S. dollar terms**. The shortfall in Tokyo-related disbursements (excluding multilateral sources) in U.S. dollar terms multiplied by a fixed accounting exchange rate of Rs 83 per $1 represents **the shortfall in Tokyo-related disbursements (excluding multilateral sources) in rupee terms**. In such a case:

a. The ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted downward by up Rs 58.97 billion (equivalent to $0.71 billion valued at Rs 83 per $1) for the shortfall in Tokyo-related disbursements (excluding multilateral sources) in rupee terms in excess of Rs 117.94 billion.

b. The floor on the **NFA of the SBP** will be adjusted downward by the amount equivalent to the shortfall in Tokyo-related disbursements (excluding multilateral sources) in U.S. dollar terms.

c. The ceiling on the **NDA of the SBP** will be adjusted upward by the amount equivalent to the shortfall in Tokyo-related disbursements (excluding multilateral sources) in rupee terms.

Adjustors related to Tokyo-related disbursements from multilateral sources

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

July 2009–June 2010: $150 million

26. If the actual cumulative gross Tokyo-related disbursements from multilateral sources are lower than the projected amount, the difference between their projected and actual values in U.S. dollar terms is defined as **the shortfall in Tokyo-related disbursements from multilateral sources in U.S. dollar terms**. The shortfall in related disbursements Tokyo-related disbursements from multilateral sources in U.S. dollar terms

multiplied by a fixed accounting exchange rate of Rs 83 per $1 represents **the shortfall in Tokyo-related disbursements from multilateral sources in rupee terms**. In such a case:

a. The ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted downward by the shortfall in Tokyo-related disbursements from multilateral sources in rupee terms.

b. The floor on the **NFA of the SBP** will be adjusted downward by the amount equivalent to the shortfall in Tokyo-related disbursements from multilateral sources in U.S. dollar terms.

c. The ceiling on the **NDA of the SBP** will be adjusted upward by the amount equivalent to the shortfall in Tokyo-related disbursements from multilateral sources in rupee terms.

Adjustors related to net IMF financing to the budget

27. Net IMF financing to the budget is projected as follows:

July 2009–June 2010: $0 million

28. If actual net Fund financing to the budget in U.S. dollar terms is different from the projected amount, **the difference in net Fund financing to the budget in U.S. dollar terms** is defined as the difference in actual net Fund financing converted into U.S. dollar by the actual SDR/U.S. dollar exchange rates and the projected amount. In such a case,

a. The floor on the **NFA of the SBP** will be adjusted by the difference in Fund financing to the budget in U.S. dollar terms (upward if the difference is positive, downward if the difference is negative).

b. The ceiling on the **NDA of the SBP** will be adjusted by subtracting the difference in Fund financing to the budget in U.S. dollar terms converted into rupees at a fixed accounting exchange rate of Rs 83 per $1 (downward if the difference is positive, upward if the difference is negative).

Adjustor related to external project grants excluding IDP grants and Tokyo-related grants

29. If the amount of **external project grants** excluding IDP grants and Tokyo-related grants is lower than assumed under the program (see Table 2), the ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted downward for the cumulative shortfall in these grants. This adjustor will not be applied in addition to any adjustment on account of external project grants to the **consolidated overall budget deficit (excluding grants)** that is made under paragraphs 19, 24a, and 26a.

Adjustor related to total IDP grants (project and budget)

30. If the total amount of **IDP grants (including project and budget grants)** is lower than assumed under the program (see Table 2), the ceiling on the **consolidated overall budget deficit (excluding grants)** will be adjusted downward for the cumulative shortfall in these grants. This adjustor will not be applied in addition to any adjustment on account of IDP grants to the **consolidated overall budget deficit (excluding grants)** that is made under paragraphs 19, 24a, and 26a.

Adjustor related to changes in regulations on required reserves

31. The ceilings on the **NDA of the SBP** will also be adjusted downward/upward by the amount of (i) banks' Pakistani rupee reserves freed/seized by any reduction/increase of the daily CRR relative to the baseline assumption; and (ii) any reduction/increase in the reservable deposit base that is related to definitional changes, as per the following formula: $\Delta NDA = \Delta r B_0 + r_0 \Delta B + \Delta r \Delta B$, where r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the level of the reservable deposits in the initial definition; Δr is the change in the reserve requirement ratio; and ΔB denotes the change in the reservable deposits as a result of definitional changes. In case of significant liquidity and other financial sector pressures, the SBP will engage in consultations with the IMF staff in order to reach an understanding on the appropriate monetary policy response.

Adjustor related to the SBP's net position under foreign exchange forwards and swaps

32. An adjustor to the NFA target of the SBP will be implemented to reflect changes in the SBP's net position under foreign exchange forwards and swaps. Specifically, the NFA target of the SBP will be adjusted upward/downward by the amount of the increase/decrease in the net SBP's position under foreign exchange forwards and swaps. The SBP's net exposure under foreign exchange forwards and swaps was $2.355 billion at end-December 2009. The maximum SBP's net exposure under foreign exchange forwards and swaps is capped at $2.5 billion for end-June 2010.

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

33. An adjustor to the NFA target of the SBP will be implemented to reflect changes in foreign currency deposits of resident banks. Specifically, the NFA target of the SBP will be adjusted upward/downward by the difference between the stock of foreign currency deposits of resident banks with the SBP and projections (see SMEFP, Table 1: quantitative criteria). The stock of foreign currency deposits of resident banks with the SBP was $808 million at end-December 2009.

III. PROGRAM REPORTING REQUIREMENTS

34. The following information, including any revisions to historical data, will be provided to the Middle East and Central Asia Department of the IMF through the office of the Resident Representative of the IMF in Pakistan, within the timeframe indicated:

- Monthly provisional statements on federal tax and nontax revenue, within one month.

- Deposits into and withdrawals from the privatization accounts for each quarter, within one month. Withdrawals will be reported with the following breakdown (i) those which constitute budgetary use of privatization proceeds; (ii) those which constitute costs of privatization; and (iii) other (with explanation of the purpose of other withdrawals), as well as with the breakdown between domestic and external privatization receipts.

- Quarterly statements on budgetary capital receipts and disbursements, including repayments of bonds, recovery of loans from provinces and "others," within two months.

- Monthly (unreconciled) provisional data on federal expenditure and net lending (with separate data on disbursements and repayments), within one month.

- Quarterly statement on consolidated budgetary expenditure, with federal data approved by the Accountant General Pakistan Revenue (AGPR), within two months.

- Quarterly numbers on expenditure on social programs.

- Quarterly data on the stock of domestic government debt, broken down by instrument, within one month (Table 3).

- Quarterly data on WAPDA receivables within one month.

- Monthly data on Outstanding Audited Price Differential Claims.

- Monthly data on external budget financing, including (i) loan-by-loan program disbursements in U.S. dollar terms and rupee terms converted at exchange rates prevailing at the time of each transaction; (ii) cumulative amortization in U.S. dollar terms and rupee terms converted at exchange rates prevailing at the time of each transaction; and (iii) cumulative project loan disbursements in U.S. dollar terms and in rupees converted at exchange rates prevailing at the time of each transaction. Tokyo and IDP related disbursement should be indicated separately.

- Monthly data on Banks' Budgetary Support (Table 1) within one month.

- The following monthly monetary data on a last-Saturday basis within two weeks:

  (i) monetary survey;
  (ii) accounts of the SBP;
  (iii) consolidated accounts of the scheduled banks;
  (iv) banks' lending to the government;
  (v) detailed table on net foreign assets (both for the SBP and scheduled banks); and
  (vi) detailed table of scheduled banks' reserves with the SBP.

- The same tables as in the preceding item, but on an end-month and end-quarter basis (last business day), both at current and program exchange rates, within one month.

- The SBP Table on outstanding stock of foreign currency deposits, amended to include the classification of new FCA according to the residency of the holder.

- Daily data on exchange rates (interbank, retail market, and Telegraphic Transfers for SBP purchases in the retail market), SBP's sales and purchases in the foreign exchange markets, swaps and forward outright sales, within two business days.

- Monthly data on the outstanding stock of the SBP's forward foreign currency operations, including swaps and outright forward sales and purchases, within two weeks. The terms of any new transactions (including rollover/renewal of existing ones) will also be provided.

- Monthly data on the SBP's foreign exchange reserves, with details on the currencies, instruments, and institutions in which the reserves are held, within one month.

- Monthly data on SBP direct or bridge loans to nationalized banks in the context of the restructuring and privatization operation, within four weeks.

- Monthly data on any other quasi-fiscal operations undertaken by the SBP, on behalf of the government.

- Monthly data on SBP holding of discounted export finance credit under the export finance scheme, within one month.

- Monthly data on outstanding credit to agriculture under the Agriculture Mandatory Credit Targets, within one month.

- The following data on external debt, within one month:

  (i) Quarterly stock of public- and publicly-guaranteed external debt (including deferred payments arrangements), by maturity (initial maturities of up to and including one year, and over one year), by creditor and by debtor (central government and publicly guaranteed);

  (ii) Quarterly contracting or guaranteeing of nonconcessional medium- and long-term government debt; and

  (iii) Information on any rescheduling on public- and publicly-guaranteed debt reached with creditors.

- Quarterly data on external payments arrears on public and publicly guaranteed debt with details as in (i) of the preceding item within one month.

- Copies of new or revised ordinances/circulars regarding changes in tax policy, tax administration, foreign exchange market regulations, and banking regulations no later than three days after official issuance, or notification that ordinances have been posted on the Federal Board or Revenue (FBR) and SBP websites.

- Copies of official notification of changes in gas and electricity tariffs and any surcharges (automatic or structural) and in ex-refinery petroleum product prices as well as of gas and petroleum surcharges/levies.

- Monthly data on the import parity prices as well as central depot prices of the six major oil products, within one month.

- Quarterly data on KESC and WAPDA loans and debt outstanding, within one month.

- Upon the adoption of the plan for the elimination of inter-corporate circular debt, monthly reports on inter-corporate circular debt will be reported within one month.

- Information on new liabilities incurred or guaranteed by the government in settling the circular-debt, including government guarantees of Term Financing Certificates (TFCs) issued by Pakistan Electric Power Company (PEPCO). The information will include the size of the government exposure, the duration of the guarantee or claim, and any other provisions relevant for the government's exposure.

- Information on the transactions between the Ministry of Finance and the SBP with regard to the use of Fund resources for budget purposes on monthly basis.

Table 1. Pakistan Budgetary Support

(In million Rupees)

	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10
A. Central Government	**1,849,101**	**1,867,809**	**1,984,554**	**2,112,513**
Scheduled Banks	**737,490**	**861,515**	936,705	957,606
Government Securities	214,164	225,290	234,149	243,041
Treasury Bills	756,955	890,690	982,955	1,018,764
Government Deposits	-233,630	-254,465	-280,400	-304,199
State Bank	**1,111,612**	**1,006,294**	**1,047,850**	**1,154,906**
Government Securities	3,144	3,144	3,144	3,144
Accrued Profit on MRTBs	35,131	33,126	36,348	34,187
Treasury Bills	1,107,858	1,010,757	1,147,657	1,174,669
MTFBs purchased for replenishment of cash balances	1,098,349	1,001,248	1,138,148	1,165,160
Adhoc Treasury Bills	0	0	0	0
Ways and Means Advances	0	0	0	0
Treasury Currency	8,153	8,153	8,153	8,153
Debtor Balances (Excl. Zakat Fund)	0	0	0	0
Government Deposits	-48,137	-54,348	-152,915	-70,710
(Excl. Zakat and Privatization Fund)	0	0	0	0
Special Account-Debt Repayment	0	0		0
Payment to HBL on a/c of HC&EB	-287	-287	-287	-287
Adjustment for use of Privatization Proceeds for Debt Retirement	5,749	5,749	5,749	5,749
B. Provincial Governments	**-168,079**	**-148,711**	**-172,729**	**-192,503**
Scheduled Banks (a+b-c)	**-221,114**	**-222,448**	**-226,892**	**-231,297**
Government Securities	0	0		0
Advances to Punjab Government for Cooperatives	1,024	1,024	1,024	1,024
Government Deposits	-222,138	-223,472	-227,916	-232,321
State Bank	**53,035**	**73,737**	54,163	38,794
Debtor Balances (Excl. Zakat Fund)	75,381	101,091	92,233	73,126
Ways and Means Advances	0	0	0	0
Government Deposits (Excl.Zakat Fund)	-22,346	-27,354	-38,070	-34,332
Net Govt. Budgetary Borrowings from the Banking system	**1,681,022**	**1,719,098**	**1,811,825**	**1,920,010**
Through SBP	**1,164,647**	**1,080,031**	**1,102,013**	**1,193,701**
Through Scheduled Banks	**516,375**	**639,068**	**709,812**	**726,309**
Memorandum Items				
Accrued Profit on SBP holding of MRTBs	35,131	33,126	36,348	34,187
Scheduled banks ' deposits of Privitization Commission	-1,580	-2,380	-2,057	-1,996
Outstanding amount of MTBs (Primary market; discounted value)	739,475	871,341	942,567	971,767
Net Goverment Borrowings (Cash basis)				
From Banking System	1,629,991	1,669,004	1,737,145	1,840,822
From SBP	1,129,516	1,046,905	1,065,664	1,159,514
From Scheduled Banks	500,475	622,098	671,481	681,308

Source: State Bank of Pakistan

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

	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Total	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Total
	2008/09					2009/10				
Project Aid	248	331	268	319	1,165	222	313	824	1,198	2,557
Grants, of which	23	21	50	2	96	19	64	330	293	705
Regular						19	12	37	47	115
Tokyo pledge	0	0	0	0	0	0	0	293	246	539
IDP grants	0	0	0	0	0	0	52	0	0	52
Earth Quake grants	1	2	3	74	80	2	7	23	29	62
World Bank, of which	61	56	42	72	230	86	92	70	321	569
Regular						86	92	70	271	519
Tokyo pledge	0	0	0	0	0	0	0	0	50	50
Earthquake	7	21	0	20	49	0	0	0	0	0
ADB, of which	111	85	53	75	324	76	102	52	100	331
Regular						76	102	52	100	331
Tokyo pledge	0	0	0	0	0	0	0	0	0	0
Earthquake	7	9	5	6	27	0	0	0	0	0
Other bilateral project loan, of which	52	44	68	43	207	39	48	248	456	790
Regular						39	48	234	245	565
Tokyo pledge	0	0	0	0	0	0	0	14	211	225
Other Earthquake Loans	0	0	0	54	54	0	0	0	0	0
Commodity Aid	0	123	52	0	175	0	0	100	0	100
Program Loans	494	811	677	815	2,797	416	320	379	1,682	2,797
World Bank	0	0	485	224	709	265	0	54	300	619
ADB	494	100	96	492	1,182	152	0	0	1,070	1,222
Tokyo pledge, of which	0	0	0	51	51	0	320	37	200	557
World Bank	0	0	0	0	0	0	0	0	0	0
ADB	0	0	0	51	51	0	0	0	100	100
IDB (excl. Tokyo pledges)	0	561	77	18	656	0	0	288	112	400
Short-term commercial	0	150	19	31	200	0	0	0	0	0
Budgetary Grants	40	30	56	5	131	0	60	52	5	117
Privatization	0	0	0	0	0	0	0	0	800	800
GDRs	0	0	0	0	0	0	0	0	0	0
Securitization/China	0	0	500	0	500	0	0	0	0	0
IDP budget grants	0	0	0	10	10	0	0	0	0	0
Saudi Arabia (Tokyo pledge)	...	...	...	...	...	0	200	0	0	200
Other grants	...	...	...	...	...	0	0	0	0	0
Budget financing from the Fund	...	...	...	...	...	745	372	0	-418	699
Amortization	700	802	810	379	2,691	456	867	1,050	633	3,006
Medium and Long-term	538	258	760	277	1,833	373	168	1,027	284	1,852
Euro bonds	22	0	500	0	522	22	0	600	0	622
IDB>1 year	200	0	0	0	200	0	0	0	0	0
Other	316	258	260	277	1,111	351	168	427	284	1,230
Short-term	162	544	50	102	858	83	698	23	349	1,153
IDB	162	428	0	102	692	83	582	5	317	987
Commercial	0	116	50	0	166	0	116	18	32	166
Memorandum items:										
(cumulative from the beginning of fiscal year)										
Net budget financing	82	452	1,142	1,903		927	1,326	1,531	4,165	4,165
Net program financing for the budget (excl. Tokyo related disbursements, IDP grants, Fund financing to the budget)	-166	-127	296	737		-40	-846	-1,502	152	152
Tokyo-related disbursements (excl. multilateral sources) 1/	0	0	0	0		342	1,177	1,962	2,220	2,220
Tokyo-related disbursements from multilateral sources	0	0	0	0		0	0	0	150	150
Total project grants (cumulative)						21	92	446	767	767
External project grants, excl. IDP grants and Tokyo related grants	24	47	100	176		21	41	101	177	177
Total grants for IDP (budget and project)	0	0	0	0		0	52	52	52	52

Sources: Pakistani authorities; and Fund staff projections.

1/ To be used in assessing respective adjustors for program targets.

Table 3. Pakistan: Total Outstanding Domestic Debt

(In billion Rupees)

	Jun-08	Jun-09	Mar-10
A. Permanent Debt	**608.0**	**678.0**	**771.2**
Market Loans	3.0	2.9	2.9
Federal Government Bonds	9.0	7.2	7.1
Income Tax Bonds	0.0	0.0	0.0
Government Bonds (L.R.-1977)	0.0	0.1	0.1
Special Government Bonds For SLIC (Capitalization)	1.0	0.6	0.6
GOP Ijara Sukuk 3 years	0.0	27.8	42.2
Government Bonds (issued to HBL for settlement of CBR Refund)	0.0	0.0	0.0
Bearer National Fund Bonds (BNFB)	0.0	0.0	0.0
BNFB Roll Over-II	0.0	0.0	0.0
Special National Fund Bonds	0.0	0.0	0.0
Federal Investment Bonds (Auction)	1.0	1.0	0.0
Federal Investment Bonds (TAP)	0.0	0.0	0.0
Pakistan Investment Bonds (PIBs)	412.0	441.0	493.4
Prize Bonds	183.0	197.4	224.8
B. Floating Debt	**1,637.0**	**1,904.0**	**2,299.8**
Treasury Bills (3 Months)	0.0	0.0	0.0
Market Treasury Bills (auction)	537.0	796.1	1,106.7
MTBs for Replenishment 1/	1,100.0	1,107.9	1,193.1
C. Unfunded Debt	**1,020.0**	**1,270.5**	**1,411.7**
Defense Savings Certificates	285.0	257.2	222.2
National Deposit Certificates	0.0	0.0	0.0
Khas Deposit Certificates	0.0	0.3	0.3
Special Savings Certificates (Registered)	160.0	288.8	340.8
Special Savings Certificates (Bearer)	0.0	0.3	0.3
Regular Income Certificates	51.0	91.1	125.0
Premium Saving Certificates	0.0	0.0	0.0
Bahbood Savings Certificates	229.0	307.5	352.6
Khas Deposit Accounts	0.0	0.3	0.3
National Deposit Accounts	0.0	0.0	0.0
Savings Accounts	28.0	16.8	15.6
Special Savings Accounts	67.0	88.6	118.4
Mahana Amdani Accounts	2.0	2.4	2.2
Pensioners' Benefit Accounts	88.0	109.9	124.0
National Savings Bonds	0.0	0.0	3.7
Postal Life Insurance	67.0	67.1	67.1
GP Fund	43.0	40.1	39.2
D. Total(A+B+C)	**3,266.0**	**3,852.6**	**4,482.6**

1/ Inclusive of outright sale of MTBs to commercial banks.
Source: State Bank of Pakistan.