The President of the Islamic Republic of Pakistan

for and on behalf of

the Islamic Republic of Pakistan

U.S.$500,000,000 8.250 per cent Notes due 2025

Issue price of Notes: 100.00 per cent

The U.S.$500,000,000 8.250 per cent Notes due 2025 (the **Notes**) are issued by The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Issuer**) and are direct, unconditional and unsecured obligations. Interest on the Notes will be payable semi-annually in arrear on 30 March and 30 September in each year commencing on 30 March 2016. Interest on the Notes will accrue from and including 30 September 2015 and will be at a rate of 8.250 per cent per annum. The Notes will mature on 30 September 2025 (the **Maturity Date**). Payments on the Notes will be made in U.S. dollars without deduction for or on account of taxes of the Islamic Republic of Pakistan to the extent described under "*Terms and Conditions of the Notes – Taxation*".

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's Euro MTF market (the **Euro MTF Market**). The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC. This offering circular (the **Offering Circular**) constitutes a prospectus for the purposes of the Luxembourg law dated 10 July 2005 on prospectuses for securities, as amended.

Prospective investors should be aware that none of the statistical information in this Offering Circular has been independently verified. An investment in the Notes involves certain risks. For a discussion of these risks see *"Risk Factors"* beginning on page 6 of this Offering Circular.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended (the *Securities Act*) and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers (*QIBs*) (as defined in Rule 144A (*Rule 144A*) under the Securities Act) in reliance on, and in compliance with, Rule 144A (the *Restricted Notes*); and (b) outside the United States in reliance on Regulation S (*Regulation S*) under the Securities Act (the *Unrestricted Notes*). Each purchaser of the Notes will be deemed to have made the representations described in "*Plan of Distribution*" and "*Transfer Restrictions*" and is hereby notified that the offer and sale of Notes to it, if in the United States, is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "*Plan of Distribution*" and "*Transfer Restrictions*".

The Notes will be offered and sold in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Unrestricted Notes will initially be represented by interests in a global unrestricted certificate in registered form (the **Unrestricted Global Certificate**), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on the Closing Date. Beneficial interests in the Unrestricted Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The Restricted Notes will initially be represented by a global restricted certificate in registered form (the **Restricted Global Certificate** and, together with the Unrestricted Global Certificate, the **Global Certificates**), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**) on 30 September 2015 or such later date as may be agreed (the **Closing Date**) by the Issuer and the Managers (as defined under "*Plan of Distribution*"). Beneficial interests in the Restricted Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Clearing and Settlement Arrangements*". Individual definitive note certificates in registered form (**Individual Certificates**) will only be available in certain limited circumstances as described herein. **It is expected that delivery of the Global Certificates will be made in immediately available funds on the Closing Date (i.e. the fifth Business Day following the date of pricing of the Notes (such settlement cycle being herein referred to as T+5)).**

Managers

Citi **Deutsche Bank** **Standard Chartered Bank**

The date of this Offering Circular is 30 September 2015.

The Issuer accepts responsibility for the information contained in this Offering Circular. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading.

No person is or has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the offering of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or any of the Managers. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. Neither this Offering Circular nor any other information supplied in connection with the issue of the Notes constitutes an offer of, or an invitation by, or on behalf of, the Issuer or any of the Managers to subscribe for, or purchase, any of the Notes in any jurisdiction in which such offer or invitation is unlawful. Neither this Offering Circular nor any other information supplied in connection with the issue of the Notes constitutes an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Managers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes or their distribution. None of the Managers accepts any liability in relation to the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Notes.

Neither this Offering Circular nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

For a description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see *"Plan of Distribution"* below.

The Notes are not being offered or sold and may not be offered, sold or transferred directly or indirectly in Pakistan, to residents in Pakistan or to, or for the account or benefit of, such persons.

The Islamic Republic of Pakistan is a foreign sovereign state. Consequently it may be difficult for investors to realise judgments of courts in England or their own jurisdiction against Pakistan in the courts of Pakistan. See *"Enforcement of Foreign Judgments in Pakistan" and "Risk Factors – Enforcement of foreign judgements in Pakistan".*

The issue of the Notes by The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan is in accordance with Article 173(3) of the Constitution of the Islamic Republic of Pakistan which states "All contracts made in the exercise of the executive authority of the Federation or of a Province shall be expressed to be made in the name of the President or, as the case may be, the Governor of the Province".

In connection with the issue and distribution of the Notes, the Managers (or any person acting on their behalf) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Managers (or persons acting on behalf of the Managers) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the U.S., nor have the foregoing authorities reviewed or passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence.

This Offering Circular is being distributed in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of certain Notes issued by the Issuer. Its use for any other purpose in the United States is not authorised. It may not be distributed in the United States or any of its contents disclosed to anyone in the United States other than the prospective investors to whom it is originally submitted.

Each purchaser or holder of interests in the Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements as set out in *"Plan of Distribution*" and "*Transfer Restrictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL INFORMATION

Certain amounts included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Unless otherwise specified or the context requires, references to **dollars**, **U.S. dollars** and **U.S.$** are to United States dollars and references to **Rupees** and **Rs**. are to the lawful currency of the Islamic Republic of Pakistan. Historic amounts translated into Rupees or U.S. dollars have been translated at historic rates of exchange. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into U.S. dollars at that or any other rate. The spot mid-rate between the Rupee and the U.S.$ on 11 September 2015 as quoted by the State Bank of Pakistan (**SBP**) was Rupees 104.4365 to U.S.$1.00. References to **billions** are to thousands of millions. References to **SDR** are to the Special Drawing Right, a unit of account having the meaning ascribed to it from time to time by the Rules and Regulations of the International Monetary Fund (**IMF**). References to any individual period as **2014-15** and so on are references to a fiscal year commencing on 1 July in one year and ending on 30 June in the subsequent year.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a foreign sovereign nation, and a substantial portion of the assets of the Issuer are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process, within the United States and/or the United Kingdom, upon the Issuer or to enforce against it, in the United States courts or courts located in the United Kingdom, judgments obtained in United States courts or courts located in the United Kingdom, respectively, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

ENFORCEMENT OF FOREIGN JUDGMENTS IN PAKISTAN

In Pakistan, statutory recognition is given to foreign judgments under section 13 of the Pakistan Code of Civil Procedure 1908 (the **Code**). This provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (i) where it has not been pronounced by a court of competent jurisdiction, (ii) where it has not been given on the merits of the case, (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of Pakistan in cases where such law is applicable, (iv) where the proceedings in which the judgment was obtained were opposed to natural justice, (v) where it has been obtained by fraud, or (vi) where it sustains a claim founded on a breach of any law in force in Pakistan.

Section 44A of the Code provides that where a foreign judgment has been rendered by a court in any country or territory outside Pakistan which the Government has, by notification, declared to be a reciprocating territory, it may be enforced in Pakistan as if the judgment has been rendered by the relevant court in Pakistan. The High Court of Justice in England is a court in a reciprocating territory for the purposes of section 44A and, accordingly, a money judgment of that court would, subject to the exceptions contained in section 13 of the Code, be enforceable as if the judgment were the judgment of a district court in Pakistan. Accordingly, upon obtaining a foreign judgment, three possible courses are open to the holder:

(a) obtaining execution of the judgment by proceedings under section 44A, where these provisions are applicable, as they are in the case of a judgment of the High Court of Justice in England, for which the limitation period for initiating proceedings in Pakistan is three years from the date of the English judgment;

(b) filing a suit in Pakistan on the basis of the foreign judgment treating it as the cause of action, for which the limitation period is six years from the date of the foreign judgment; and

(c) filing a suit in Pakistan on the original cause of action, for which the limitation period is three years from when the cause of action arises.

In the case of proceedings described in paragraph (c) above, where the Pakistani court will have the power to assess the damages, it is possible that a Pakistani court will not award damages on the same basis as a foreign court, especially if it viewed the award of such damages as being contrary to Pakistani public policy.

Section 82 of the Code requires a decree against the Government to specify a period within which it is to be satisfied. If it remains unsatisfied at the expiry of such period, the Court issuing such decree is required to issue a report for the Orders of the Provincial Government within which such Court is situated. Execution proceedings can only be initiated against the Government three months after the date of such report.

PRESENTATION OF STATISTICAL AND OTHER INFORMATION

References to **Pakistan** are to the Islamic Republic of Pakistan and references to the **Government** are to the Government of Pakistan. References to the **Economic Survey 2014-15** herein are to the Economic Survey 2014-15 published on 4 June 2015 by the Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad. The **Economic Survey**, which is published each year a day before the presentation of the Federal Budget and presents a view on the national economy based on provisional data for the first three quarters of the fiscal year, is followed by the publication of its **Statistical Supplement**, in which the full year data series are provisionally provided. It should be noted that certain historic data set out herein may be subject to minor amendments as a result of more accurate and updated information becoming available. References to the **Labour Force Survey 2013-14** herein are to the labour force survey published in May 2015 by the Government of Pakistan, Statistics Division, Pakistan Bureau of Statistics, Islamabad. The Labour Force Survey 2013-14 presents information on labour force characteristics that have been collected from a representative sample of 40,747 households to produce gender disaggregated national and provincial level estimates with an urban/rural breakdown.

Prospective investors in the Notes should be aware that none of the statistics in this Offering Circular have been independently verified.

A portion of Pakistan's economy is comprised of an informal, or shadow, economy. The informal economy is not recorded and is only partially taxed, resulting in not only lack of revenue for the Government but also ineffective regulation, unreliability of statistical information (including the understatement of GDP and the contributions to GDP of various sectors) and inability to monitor a large portion of the economy. Although the Government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurances that such reforms will adequately address the issues and bring the informal economy into the formal sector.

Although a range of governmental ministries produce statistics on Pakistan and its economy in accordance with international standards, there may be inconsistencies in the compilation of data and methodologies. The statistical information in this Offering Circular has been derived from a number of different identified sources and is based on the latest official information currently available from the stated source. Several statistics are provisional and are noted as such where presented. The development of statistical information relating to Pakistan is, however, an ongoing process, and revised figures and estimates are produced on a continuous basis. All statistical information provided in this Offering Circular may differ from that produced by other sources for a variety of reasons, including the use of different assumptions, methodology, definitions and cut-off times.

Prospective investors in the Notes should be aware that figures relating to Pakistan's economy and many other aggregate figures cited in this Offering Circular are subject to revision. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Offering Circular, data is presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Pakistan produces data in accordance with the IMF's General Data Dissemination System, although the IMF standard may not always be consistently applied.

Pakistan has also provided information on certain matters pertaining to documentation that belongs to independent third parties. In some of these circumstances, Pakistan has relied on reported information in presenting such matters but is unable to independently verify such information.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Circular, including those under *"Summary – The Islamic Republic of Pakistan"*, *"The Islamic Republic of Pakistan"* and *"Overview of Pakistan's Economy"*, are forward-looking. These statements are not historic facts, but are based on the Government's current plans, estimates, assumptions and projections. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. Future events may differ materially from those expressed or implied by such forward-looking statements. Therefore, prospective investors should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and the Issuer undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks. The Issuer cautions prospective investors that many factors could affect the future performance of the Pakistani economy. These factors include, but are not limited to:

External factors, such as:

- interest rates in financial markets outside Pakistan;
- the impact of changes in the credit rating of Pakistan;
- the impact of changes in the international prices of commodities;
- economic conditions in Pakistan's major export markets;
- the impact of possible future regional instability; and
- the decisions of international financial institutions and donor countries regarding the amount and terms of their financial assistance to Pakistan, as well as

Internal factors, such as:

- general economic, political, social, legal and/or business conditions in Pakistan;
- present and future exchange rates of the Pakistani currency;
- foreign currency reserves;
- natural disasters;
- the impact of possible future social unrest or the security situation;
- the level of domestic debt;
- domestic inflation;
- the ability of Pakistan to implement important economic reforms including its privatisation programme;
- the levels of foreign direct and portfolio investment; and
- the levels of Pakistani domestic interest rates.

EXCHANGE RATE INFORMATION

Pakistan has had a market-based unitary exchange rate system since May 1999. Under this unitary exchange rate system, the floating inter-bank rate applies to all foreign exchange receipts and payments both in the public and private sectors. See *"Balance of Payments and Foreign Trade – Exchange Rates"*.

The following table sets forth the average and period end exchange rates for the periods presented, expressed in Rupees per U.S. dollar, not adjusted for inflation, as published by the SBP. The Federal Reserve Bank of New York does not report a noon buying rate for Rupees.

Period	Average During Period Indicated	Period End
2008-09..	78.65	81.46
2009-10..	83.89	85.51
2010-11..	85.56	85.97
2011-12..	89.27	94.55
2012-13..	96.85	99.66
2013-14..	102.88	98.80
2014-15..	101.46	101.78
June 2015	101.82	101.78
July 2015	101.78	101.79
August 2015...	102.54	104.19
September 2015(1)................................	104.36	104.50

(1) As of 29 September 2015.

Source: State Bank of Pakistan

Currency conversions contained in this Offering Circular should not be construed as representations that Rupees have been, could have been, or could be converted into U.S. dollars at the indicated or any other exchange rate.

Contents

The Offering

Issuer	The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan.
Notes being issued	8.250 per cent Notes due 2025 in the aggregate principal amount of U.S.$500,000,000.
Issue Price of Notes	100.00 per cent of the aggregate principal amount of the Notes.
Issue Date	30 September 2015.
Maturity and Redemption	The Notes will mature on 30 September 2025 and will be redeemed at par on that date. The Notes are not redeemable prior to maturity.
Interest	The Notes will bear interest from and including 30 September 2015 to but excluding 30 September 2025 at the rate of 8.250 per cent per annum, payable semi-annually in arrear on 30 March and 30 September in each year commencing on 30 March 2016.
Status	The Notes will be direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) will rank *pari passu,* without any preference among themselves, with all other present and future unsecured and unsubordinated External Indebtedness (as defined in Condition 10.2) of the Issuer. The due and punctual payment of the Notes and the performance of the obligations of the Issuer with respect thereto are backed by the full faith and credit of the Issuer.
Negative Pledge and Cross Default	So long as any of the Notes of a series remains outstanding, the Issuer has undertaken that it will not secure any of its present or future Public External Indebtedness (as defined in Condition 4) without, at the same time or prior thereto, securing the Notes of such series equally and rateably therewith, except in certain limited circumstances as set out in Condition 4. Condition 10 provides that Noteholders who hold not less than 25 per cent in aggregate principal amount of the Notes of a series then outstanding may declare the Notes of such series to be immediately due and payable at their principal amount if, *inter alia,* the Issuer is in default in relation to any External Indebtedness or guarantee thereof in excess of U.S.$25,000,000, the Issuer declares a moratorium in respect of its External Indebtedness or the Issuer ceases to be a member of the IMF or ceases to be eligible to use the general resources of the IMF; all as more particularly described in Condition 10. A declaration of acceleration may be rescinded in certain circumstances by the adoption of an Extraordinary Resolution in accordance with the procedures in Condition 13 or of a written resolution of holders of not less than two-thirds in aggregate principal amount of the Notes of that series then outstanding.

Withholding tax	All payments by the Issuer under the Notes are to be made without withholding or deduction for or on account of Taxes (as defined in Condition 8), unless the withholding or deduction for taxes is required by law. In such circumstances, the Issuer will, save in certain circumstances provided in Condition 8, be required to pay additional amounts so that Noteholders will receive the full amount which otherwise would have been due and payable under the Notes; all as more particularly described in Condition 8.
Noteholder meetings	Provisions for convening meetings of the Noteholders to consider matters relating to their interests as such are set out in Conditions 13 to 15.
Listing	Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market.
Form and Denomination	The Notes will be issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Unrestricted Notes will be represented by an Unrestricted Global Certificate and the Restricted Notes will be represented by a Restricted Global Certificate, in each case without coupons. The Global Certificates will be exchangeable for Individual Certificates in the limited circumstances specified in the Global Certificates.
Initial Delivery of Notes	On or before the Closing Date, the Unrestricted Global Certificates will be deposited with Citibank Europe plc as common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg and the Restricted Global Certificates will be deposited with Citigroup Global Markets Deutschland AG, as custodian for, and registered in the name of a nominee of, DTC.
Rating	Upon issue, the Notes are expected to be assigned a rating of 'B3' by Moody's Investor Service Inc. (**Moody's**) and a rating of 'B' by Fitch (Hong Kong) Limited (**Fitch**). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Transfer Restrictions	The Notes have not been registered under the Securities Act, and are subject to certain restrictions on transfers. See "*Transfer Restrictions*" and "*Plan of Distribution*".
Use of proceeds	The net proceeds from the sale of the Notes will be used for the Government's general budgetary purposes including, but not limited to, the refinancing, repurchase or retirement of indebtedness.
Managers	Citigroup Global Markets Limited; Deutsche Bank AG, London Branch; and Standard Chartered Bank.
Fiscal Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Deutschland AG.

Further Issues	The Issuer may from time to time, without notice to or the consent of the registered holders of the Notes, issue additional securities that will form a single series with the Notes of the applicable series, provided that either (i) such additional securities do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such securities are subject to the U.S. federal income tax laws), a greater amount of original issue discount than the Notes of the applicable series as of the date of issuance of such additional securities; or (ii) such additional securities are issued in a "qualified reopening" for U.S. federal income tax purposes. These additional securities will have the same terms as to status, redemption or otherwise as the Notes of the applicable series and will rank equally with the Notes of the applicable series in all respects, except for the payment of interest accruing prior to the issue date of these additional securities or except for the first payment of interest following the issue date of these additional securities.
Governing Law	Each of the Agency Agreement (as defined in the Conditions) and the Notes, and any non-contractual obligations arising out of or in connection with either of the Agency Agreement or the Notes, are governed by, and will be construed in accordance with, English law, except for the authorisation and execution of the Notes and the authorisation and execution of the Agency Agreement which will be governed by the laws of Pakistan.

SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Offering Circular and related documents referred to herein. It does not contain all the information investors may consider important in making their investment decision. Therefore, investors should read this entire Offering Circular carefully, including, in particular, the section entitled "Risk Factors".

References herein to a ***Condition*** *are to the numbered condition corresponding thereto set out in the Terms and Conditions of the Notes.*

The Islamic Republic of Pakistan

General

Pakistan is a federal republic located in south-central Asia between India, China, Afghanistan, Iran and the Arabian Sea. Its population was approximately 189.9 million in 2014-15 and over 96 per cent of the population is Muslim. The capital of Pakistan is Islamabad. The national language is Urdu and English is the official language.

Pakistan has a federal parliamentary system with the President as the Head of State. The current Government was elected on 11 May 2013 following a democratic transition of government. The Pakistan Muslim League (Nawaz) (**PML-N**) formed the current Government and Mr. Mamnoon Hussain is currently President and Constitutional Head of the State and the Government is headed by the Prime Minister, Mr Mian Muhammad Nawaz Sharif.

Pakistan's economy is the twenty-sixth largest in the world in terms of purchasing power parity and the forty-second largest in terms of GDP, according to best estimates from publicly available sources. Pakistan is a rapidly developing country and is one of the "Next Eleven" countries that have the potential to become significant world economies in the next 25 years. Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, Karachi and major urban centres in the Punjab. It ranks as the fifteenth largest trader of goods in the world and the world's sixth largest trader of services, according to best estimates from publicly available sources. It has three principal sectors: services (58.8 per cent of GDP 2014-15), industrial (20.3 per cent of GDP 2014-15) and agriculture (20.9 per cent of GDP 2014-15). Major industries include textiles, chemicals, food processing, iron, steel, automobiles, fertilizer, cement, dairy and sports goods.

Under its current Government, elected in May 2013, Pakistan is currently undergoing a significant process of fiscal consolidation, improvement of macroeconomic fundamentals and economic liberalisation which includes tax reforms, energy sector reforms, privatisation of state-owned enterprises (**SOEs**) and is aimed at attracting foreign investment and decreasing the budget deficit. Foreign exchange reserves have been bolstered by improved financial inflows and a moderate current account deficit underpinned by steady worker remittances and relatively low imports. See "*- Structural Economic Reforms*" below.

The Extended Fund Facility Programme with the IMF instituted in September 2013 effectively institutionalises the Government's economic reforms agenda. Pakistan has successfully completed seven quarterly Reviews under the Programme.

Pakistan's currency is the Rupee and its fiscal year is 1 July to 30 June.

Despite one of the most serious economic crises in Pakistan's recent history, a measure of macroeconomic stability has been achieved in recent years. Nominal gross domestic product (**GDP**) was approximately Rupees 27,384 billion (approximately U.S.$270.3 billion) in 2014-15 and GDP growth was 4.24 per cent in 2014-15, 4.03 per cent in 2013-14 and 3.65 per cent in 2012-13. The increased growth in GDP in 2014-15 reflects growth in the services, agriculture and industrial sectors. In 2014-15, the services sector grew at 4.95 per cent (4.37

per cent in 2013-14), the agriculture sector grew 2.88 per cent (2.69 per cent in 2013-14) and the industrial sector grew at 3.62 per cent (4.45 per cent in 2013-14).

The following table sets out major economic indicators for the past five years:

	2010-11	2011-12	2012-13	2013-14[(1)]	2014-15[(2)]
GDP at current market price (*Rupees million*)...........................	18,276,440	20,046,500	22,378,996	25,068,059	27,383,722
GNI at current market price (*Rupees million*)...........................	19,096,665	21,082,207	23,540,602	26,496,982	29,061,408
Population (*million*)	175.3	178.9	182.5	186.2	189.9
Per capita income at factor cost (*Rupees*)......................................	105,347	114,008	124,135	136,059	144,834
Per capita income (*U.S.$*)............	1,274	1,321	1,333	1,384	1,512
Exports (*U.S.$ million*) (fob)..........	25,356	24,718	24,795	25,078	24,147
Imports (*U.S.$ million*)(fob)...........	35,872	40,370	40,157	41,668	41,135
Balance of trade (*U.S.$ million*)	(10,516)	(15,652)	(15,355)	(16,590)	(16,988)
Workers' remittances (*U.S.$ million*)...	11,201	13,186	13,922	15,837	18,454
Current account balance (*U.S.$ million*)...	214	(4,658)	(2,496)	(3,130)	(2,221)
Current account balance (*as % of GDP*)	0.1	(2.1)	(1.1)	(1.3)	(0.8)
Overall fiscal deficit (*as % of GDP*)	6.5[(3)]	6.8[(4)]	8.2	5.5	5.3
GDP growth at factor cost (*%*)	3.62	3.84	3.65	4.03	4.24
Average Inflation (*%*)	13.7	11.0	7.4	8.6	4.5
Total investment at market price (*as % of GDP*)	14.1	15.1	15.0	15.0	15.1
Real GDP at factor cost (*Rupees million*)...........................	9,120,336	9,470,255	9,816,212	10,211,456	10,644,336
Private consumption expenditure at current prices (*Rupees million*)...........................	14,831,293	16,527,831	18,085,275	20,219,316	21,688,176
National savings (*as % of GDP*)....	14.2	13.0	13.9	13.7	14.5

(1) Revised and approved by the National Assembly in June 2015
(2) Provisional pending National Assembly approval in May 2016 of Pakistan's economic data for 2014-15.
(3) Includes payment of arrears of electricity subsidies.
(4) Excludes a one-off payment of Rupees 391 billion on account of debt consolidation.

Source: Ministry of Finance, except for 'Exports' and 'Imports' for which the source is the State Bank of Pakistan

Economy

Under its current Government, elected in May 2013, Pakistan is currently undergoing a significant process of economic liberalisation which includes privatisation of SOEs and is aimed at attracting foreign investment and decreasing the budget deficit. Pakistan's economy has historically suffered from decades of internal political disputes, a fast growing population and mixed levels of foreign investment. Its foreign exchange reserves are bolstered by steady worker remittances, offset by a moderate current account deficit – driven by a widening trade gap as import growth outstrips export expansion – which also affects its GDP.

The Government's existing three-year finance programme with the IMF effectively institutionalises the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan is subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 26 June 2015, the executive board of the IMF completed the seventh review of Pakistan's economic performance. This culminated in the approval of the immediate disbursement of an amount equivalent to SDR 360 million (approximately U.S.$506.4 million), bringing total disbursements under the arrangement to SDR 2.88 billion (approximately U.S.$4.356 billion). The executive board of the IMF has recently conducted discussions for its eighth review of Pakistan's economic performance. The IMF Staff Report is due to be published in October 2015.

The Government's broad economic programme has been supplemented by a series of wide-ranging structural reform measures, which are needed to enhance economic incentives and improve resource allocation, as well as to remove impediments to private sector development. The Government believes that Pakistan's economic problems are structural in nature and the objectives of sustaining high growth, low inflation and external payment viability cannot be achieved without removing certain structural barriers. The Government's major structural economic reforms include tax reform, privatisation, trade reform to facilitate further privatisation, reform of the Pakistan Water and Power Development Authority (**WAPDA**) and financial sector reform. See "– *Structural Economic Reforms*" below.

Economic Policy Objectives

Achieve Macroeconomic Stability. The Government's economic policy objectives seek to achieve macroeconomic stability and foster sustainable and more equitable growth by means of structural improvements in the productive sectors of Pakistan's economy, involving a broad range of policy actions across sectors.

Following the election of the Government in May 2013 and its implementation of its long-term development programme, known as Vision 2025, significant initial gains in restoring macroeconomic stability have been made. Principal economic developments since the Government was elected include the following:

- *Fiscal Deficit.* The fiscal deficit for 2014-15 represented 5.3 per cent of GDP, compared to 5.5 per cent of GDP in 2013-14. The Government's fiscal deficit target for 2015-16 is 4.3 per cent of GDP, based on its policy of improving revenue collections, tax reform measures, phasing out electricity subsidies, and other measures described below. As of 30 June 2015, the Government has eliminated and closed tax exemptions and loopholes worth Rupees 104 billion created through Statutory Regulation Orders (**SROs**) implemented by Pakistan's former government.

- *GDP Growth.* Real GDP growth was 4.24 per cent for 2014-15 (4.03 per cent in 2013-14) and is forecast at 5.5 per cent for 2015-16.

- *Inflation.* The Government's target for inflation in 2014-15 was 8.0 per cent and actual inflation was 4.53 per cent (8.62 per cent in 2013-14). The inflation target for 2015-16 is 6.0 per cent. Weak global commodity prices, principally oil, and better food supply in Pakistan along with prudent fiscal and monetary management helped in bringing inflation down in 2014-15. The slow rate of inflation is expected to continue into 2015-16. From July to August 2015, inflation was 1.7 per cent compared to 7.4 per cent in the same period in 2014-15.

- *Balance of Payments.* The Government has taken measures to increase foreign exchange inflows through accessing the global capital markets, the implementation of structural reforms and prudent fiscal policies. As a result, Pakistan's balance of payments situation has improved significantly since the Government took office in 2013. Foreign exchange reserves (inclusive of reserves held by local banks) increased to

U.S.$18.7 billion at the end of 2014-15, compared to U.S.$14.2 billion at the end of 2013-14, supported by low global oil prices, SBP interventions, multilateral and bilateral disbursements, and privatisation proceeds.

- *Debt.* Pakistan's external debt was approximately 24.1 per cent of GDP at 30 June 2015 and (subject to significant exchange rate depreciation, a decline in remittances and/or a rise in oil prices) is predicted by the Government to remain at this level for the medium term. Pakistan has successfully extended its debt maturity profile over recent years.

Revival of Economic Growth. The Pakistan economy experienced low GDP growth rates from 2008-09 to 2012-13, principally due to short supplies of energy, poor law and order and the 2010 and 2011 floods. The global economic crisis of 2008 also negatively impacted growth in Pakistan's economy. Real GDP growth averaged 2.8 per cent during this period and began to revive in 2013-14 when GDP growth averaged 4.03 per cent, reaching 4.24 per cent growth in 2014-15. Pakistan's GDP growth environment continues to be affected domestically by the intensification of the Fight against Extremism and the generally volatile security situation, as well as infrastructure constraints. GDP growth is also affected by increasing oil price rises.

The Government has taken measures to improve the GDP growth trajectory, primarily by implementing financial inclusion initiatives including, in the agricultural sector, to provide producers with crop and livestock insurance and better access to credit. See "*Principal Sectors of the Economy – Financial Services*" and "*Principal Sectors of the Economy – Financial Sector Regulation*".

The Government also implemented structural reforms aimed at reinvigorating the economy, increased growth, the maintenance of price stability, job opportunities for youth, the development of infrastructure projects and increased exports and tax collection, as well as reducing both the fiscal and current account deficits. See "− *Structural Economic Reforms*".

Poverty Reduction. The Fiscal Responsibility and Debt Limitation Act 2005 provides that expenditures on social and poverty related spending should be not less than 4.5 per cent of GDP in any year. During 2014-15, Rupees 2,172 billion, or 7.9 per cent of GDP, was spent under the Poverty Reduction Strategy Paper (**PRSP II**) aiding Pakistan's economic growth generally, particularly through stimulating growth in the manufacturing sector, thus creating additional employment opportunities, improving income distribution and harnessing Pakistan's economic competitiveness through economic liberalisation, deregulation and transparent privatisation. PRSP II is funded directly from the Government of Pakistan's budget.

The Government's social safety net programme includes an income support programme (known as **BISP**) which was launched in July 2008 with the objective of cushioning the negative effects of slow economic growth, the fuel, food price and financial crisis and the effect of inflation on the poor, particularly women, through the provision of a cash grant of Rupees 1,500 (approximately U.S.$15) per month to eligible families. Currently BISP is helping around five million poor households across Pakistan through monthly cash grants, stipends for school enrolments, vocational training and a range of complementary initiatives.

The Government is also working on various microfinance initiatives, in collaboration with the SBP and multilateral institutions, to generate employment and combat poverty. Under the *Waseela-e-Haq* initiative (described under "*Overview of Pakistan's Economy – Economic Policy Objectives – Poverty Reduction*"), to date Rupees 2.2 billion has been disbursed to 13,445 beneficiaries. Under other BISP initiatives, 58,528 individuals from BISP beneficiary families have been provided vocational and technical training, over 4.1 million families have received three years of life and health insurance for income earners and approximately 700,000 children have been able to attend school as their families have received extra income support.

The Government is currently undertaking a number of additional initiatives to support Pakistan's youth, including a youth business loan scheme, a skills development programme, a youth training programme, a microfinance scheme, an educational fee reimbursement fund for post-graduate students from less developed areas, as well as the provision of laptops to students in higher education.

Improved Governance. The Government gives a high priority to improving national governance. While initial actions focused on accountability, especially with respect to loan and tax defaulters, the Government has implemented a series of reform measures the key elements of which include devolution and decentralisation of state power to the local level, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

RISK FACTORS

An investment in the Notes involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives the following factors, in addition to the matters set forth elsewhere in this offering circular, prior to investing in the Notes. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay any amounts on or in connection with any Note for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Note are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the Issuer or which the Issuer currently deem immaterial, that may impact on any investment in the Notes.

Prospective investors should also read the detailed information set out elsewhere in this offering circular and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this offering circular shall have the same meanings in this section.

Investment considerations relating to the Issuer

Risk factors relating to the Government

Delayed economic reforms may have a negative effect on the performance of Pakistan's economy

Although the Government is pursuing an agenda of substantial reform following a period of slow growth, inflationary pressure and increasing public debt, there remain macroeconomic challenges to achieving sustained growth including: further fiscal consolidation, structural reforms, infrastructure deficit, enhancing tax revenues, reducing public debt levels, strengthening the balance of payments and reserves (by increasing exports and FDI, both of which remain lower than the Government has targeted), inflation, improving the social safety net, privatisation of SOEs, and shortfalls in energy. For further information see – *"Risk Factors - The Government's plans for growth are dependent on its ability to increase the capacity of the energy sector"* below.

Although the Government has undertaken initiatives to increase the number of tax payers through the issue of additional notices to potential tax payers, to reduce tax concessions and tax exemptions, to strengthen Pakistan's tax administration, and to implement penal measures applicable to non-filers, Pakistan's tax-to-GDP ratio remains low compared to other emerging markets and tax collection targets may not be met, which may impact budgeted revenue receipts. In addition, efforts to increase the number of corporate taxpayers have continued but have met with a degree of resistance (such as recent protests against the financial withholding tax) and there can be no assurance such efforts will be successful. For further information see "*Public Finance and Taxation – Revenue and Expenditure – Tax Collection*".

To strengthen reserves, the SBP has undertaken action to boost reserves through purchases in the foreign exchange market. These measures are being complemented by Government initiatives to increase foreign exchange inflows through borrowing on global markets, increasing the number of privatisations and accelerating disbursement of existing official loans and grants. See "*Balance of Payments and Foreign Trade*" and "*Public Debt*".

The Government is committed to its privatisation policy, and has prepared an action plan for 31 key SOEs in the power, oil and gas, banking, insurance, infrastructure, telecoms, real estate and industrial sectors. The five-year privatisation plan will primarily use a combination of domestic and international capital market transactions or strategic sales for the divestment of SOEs to raise substantial revenues. Certain privatisations have been delayed in 2014 and 2015 due to market conditions, low oil prices and legal obstacles, including the Government's divestment of its stake in Pakistan International Airlines which is now expected to take place by mid-2016. The Government nevertheless finalised the sale of 41.5 per cent of Habib Bank Limited in April 2015 raising around U.S.$0.8 billion in revenues. During 2013-2015, the privatisation programme has raised approximately U.S.$1.1 billion (foreign currency component). Failure to achieve the targeted privatisations due to negative conditions in the international and domestic markets could have a material impact on Pakistan's budget performance and put further pressure on the budget deficit. See "*Overview of Pakistan's Economy – Structural Economic Reforms"* for further information.

The Government may not meet certain quantitative criteria set by the IMF from time to time and, although it has done so in the past, the IMF may not waive any breaches of the quantitative criteria it sets as a condition to further draw-downs under the Extended Fund Facility. See "*Public Debt – Relationship with Multilateral and Bilateral Creditors – IMF*".

The Government's plans for growth are dependent on its ability to increase the capacity of the energy sector

The shortage of reliable electricity supply remains an impediment to Pakistan's economic growth and development. The Government launched its National Power Policy in 2013 to address the energy shortfall and to promote sustainable increases in the energy supply. Several initiatives have been implemented, including the restriction of consumer subsidies, the clearance of Rupees 280 billion of payment arrears as at the end of March 2015, improving prosecution of electricity theft and the increase of tariffs to reflect actual fuel prices. Supply side expansion is expected to add an additional 2,000 MW in generation capacity in 2015 and 2016. See "*Overview of Pakistan's Economy – Energy in Pakistan*".

Hostilities, insurgencies, terrorist attacks, civil unrest and other acts of violence could negatively affect Pakistan's economy

After the events of 9/11, Pakistan assumed the role of a frontline state in the global Fight against Extremism. The onset of war in Afghanistan affected Pakistan's normal trading activities, as the cost of trading increased substantially because of higher insurance costs. Consequently, economic growth slowed, demand for imports reduced, with a consequential decline in tax collection, and inflows of foreign investment fell. Pakistan's economy has remained under pressure as a result of the Fight against Extremism which has cost more than 58,816 lives, has caused the erosion of the investment climate and has reduced economic activity in many parts of Pakistan. In June 2014, armed militants attacked Jinnah International Airport in Karachi, killing 36 people and injuring at least 18 people. In December 2014, seven gunmen affiliated with the *Tehreek-i-Taliban* conducted a terrorist attack on the Army Public School in the northwestern Pakistani city of Peshawar killing 145 people, including 132 schoolchildren.

In June 2014, Pakistan armed forces started an operation by the name of *Zarb-e-Azab* (*meaning Sharp and Cutting Strike*) against the terrorists. The operation is currently ongoing, in its final phase, and the rate of terrorist activity has declined. As of June 2015, approximately 2,763 militants have been killed and thousands have fled to Afghanistan. Pakistan armed forces successfully destroyed the command centres of the terrorists in this operation. Although there has been a significant reduction in the number of terrorist attacks in Pakistan, extremism remains a threat both regionally and in Pakistan.

Kashmir remains an on-going source of tension between India and Pakistan. For further information see "*The Islamic Republic of Pakistan – Fight against Extremism*" and "*The Islamic Republic of Pakistan – International Relations – Relations with Select Countries – Relations with India*".

In addition to the direct negative impact of violent activity on the economy, terrorist incidents and general terrorist activities could create an increased perception that investments in Pakistan involve a high degree of risk and could have a negative impact on the economy.

Political instability, any change in Government and/or significant changes in Government policy may negatively affect economic conditions in Pakistan

Pakistan has experienced periods of political instability in the past, including the significant influence of the military in political affairs. Pakistan's current democratic government was peacefully elected in May 2013, succeeding a previously elected democratic government. Pakistan has, periodically, had military governments for an aggregate of 33 of its 68 years of independence and other elected governments were unable to complete their terms. Political instability could negatively affect the performance of the Pakistani economy and could have a material negative effect on the Issuer's ability to service and repay the Notes.

Natural calamities could have a negative impact on the Pakistani economy

Pakistan has experienced natural calamities such as floods, earthquakes, landslides, droughts and severe heat waves in recent years, including severe flooding along the Indus River in 2010 and 2011. The flood resulted from unusually heavy monsoon rains in various areas of Pakistan. The floods directly affected about 20 million people. The affected regions suffered extensive damage to economic assets and infrastructure, and millions of people were displaced, resulting in an interruption to social service delivery, commerce and communications. In addition, there was extensive flooding in 2014 which reduced the output of Pakistan's agricultural sector. Floods in 2015 resulted in the deaths of around 170 people whilst nearly 5,800 homes were damaged in around 2,500 villages, and some 920,000 people displaced, according to the National Disaster Management Authority. The occurrence of natural disasters or severe climatic conditions, such as earthquakes or prolonged spells of abnormal rainfall or drought, could have a negative impact on Pakistan's economy.

Failure to adequately address actual and perceived risks of corruption may negatively affect Pakistan's economy and ability to attract foreign direct investment

Although Pakistan has implemented and is pursuing major initiatives to prevent and fight corruption and money laundering, Pakistan is ranked 126 out of 175 in Transparency International's 2014 Corruption Perceptions Index, an improvement on its ranking in previous years - 127 out of 177 in 2013 and 139 out of 174 in 2012.

Pakistan has implemented various measures to prevent and fight corruption and money laundering since 1999. In particular, Pakistan created the National Accountability Bureau (**NAB**) in 2000 which is mandated to combat corruption and money laundering (using its powers of investigation and prosecution) and in 2007 the Financial Monitoring Unit (**FMU**) was established to coordinate the detection and investigation of financial crime with the other law enforcement agencies tasked with investigating money laundering. In addition, new legislation has been adopted to enhance the prosecuting powers of law enforcement agencies, including the Anti-Money Laundering Act 2010 to combat the financing of extremism and criminalise money laundering. There have been a number of high-profile prosecutions and convictions for corruption. See "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Anti-Corruption and Anti-Money Laundering*".

Failure to address these issues in a timely manner, corruption in the public sector and any future allegations of or perceived risk of corruption in Pakistan could have a negative effect on the economy and may have a negative effect on Pakistan's ability to attract foreign investment.

Enforcement of legal rights

The Pakistani legal system is a common law system which requires modernisation and law reform, particularly in civil and commercial fields. In circumstances where no precedents of the Pakistan courts are available, decided cases of other common law jurisdictions, primarily India and England and Wales, are generally recognised as persuasive authority in the Pakistan courts. Many of the judicial remedies for enforcement and protection of legal rights typically found in more developed jurisdictions may not be available in Pakistan unless adopted in future by the superior courts of Pakistan in reliance on such foreign precedents.

Even after a judgment has been finally pronounced, execution of the relevant decree may give rise to additional litigation and objections to such execution.

Emerging markets such as Pakistan are subject to greater risks than more developed markets, and financial turmoil in the global markets could disrupt the economy

Emerging markets, such as Pakistan, are subject to increased political, economic and legal risks. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate, and are familiar with, the significance of the risks involved in investing in emerging markets. Investors should also note that emerging markets such as Pakistan are subject to rapid change and that the information set forth in this Offering Circular may become outdated relatively quickly. See "*Presentation of Financial, Statistical and Other Information – Considerations on accuracy and consistency of statistical information*". Moreover, financial turmoil in any emerging market country tends to negatively affect prices in the financial markets of all emerging market countries as investors move their money to more stable, developed markets. Thus, even if Pakistan's economy is stable, financial turmoil in the global financial markets could negatively affect the economy and the Issuer's ability to service and repay the Notes although Pakistan has never defaulted on its sovereign financial obligations.

The Issuer's credit rating could be downgraded, impacting its access to foreign debt

Moody's current rating of the Government is B3 (stable), Moody's revised its outlook on the Government from Caa1 to B3 on 11 June 2015. Fitch's long-term rating of the Government is B (stable). However, despite improving macroeconomic indicators, including benefits from falling global oil prices, the level of foreign exchange reserves and fiscal consolidation efforts, any downgrade of the Government's bonds would likely affect the Government's ability to raise foreign debt, which could negatively affect the Pakistani economy.

Shariat Law position on the payment of interest

Presently, there are no laws or regulations or binding judgments of any superior court in Pakistan which expressly bar a lender's right to receive interest, including interest on late payments, from a borrower under a debt obligation such as the Notes. The following constitutional and legal provisions and the interpretation thereof by the superior courts of Pakistan could, however, negatively affect such right:

(a) ***The Constitution***: Under the Constitution of Pakistan 1973 (the **Constitution**), Islam is the state religion and Article 38(f) of the Constitution provides that Pakistan, as one of its "*Principles of Policy*", shall eliminate *riba* as early as possible. The Constitution also requires all existing laws to be brought into conformity with the Injunctions of Islam and provides that no law can be enacted that is repugnant to the Injunctions of Islam (Article 227). However, the Constitution, while requiring the elimination of *riba*, does not define the term. The meaning of this term also cannot be found in any legislative enactment. As a result, there is some controversy over the exact meaning of the Islamic term *riba*. Some consider it as being analogous to interest while others equate it with usury.

    By the Revival of the Constitution Order 1985 a new Article 2A was incorporated in the Constitution whereby the principles and provisions set out in the Objectives Resolution (the **Resolution**) were made a substantive part of the Constitution. The Resolution was passed by Pakistan's first Constituent Assembly and sets out basic principles to guide the framing of a constitution. Certain references in the Resolution gave rise to an argument that the Injunctions of Islam provided a touchstone for testing the repugnancy of all laws and that by virtue of Article 2A of the Constitution, the Resolution now has a supra-constitutional position above the Constitution itself. Since 1985, the point has been discussed and considered by the superior courts of Pakistan on a number of occasions leading to a number of conflicting decisions. The position that Article 2A has no effect on other constitutional provisions can now be regarded as settled on the basis of a Supreme Court judgment. The Supreme Court has also held in another judgment that Article 2A is not available for declaring void sub-constitutional laws, on the basis of repugnancy to the Injunctions of Islam. Therefore, unless these Supreme Court judgments are reversed or unless legislative action is taken to similar effect, Article 2A of the Constitution does not provide any basis for rendering void an obligation for the payment of interest. In a judgment delivered on 16 December 2009 by a bench comprising all 17 judges of the Supreme Court, Article 2A was mentioned in passing along with various other substantive provisions of the Constitution on the touchstone of which the statute in question was held to be unconstitutional. Since there was no real discussion in that judgment about Article 2A, nor were the earlier judgements on the topic overruled, the status of Article 2A likely remains unchanged.

(b) ***The Enforcement of Shari'ah Act 1991*** (the **Shariat Act**): The Shariat Act provides that the Injunctions of Islam as laid down in the *Holy Quran* (the Holy Book of Muslims) and *Sunnah* (traditions of the Holy Prophet) shall be the supreme law of Pakistan. Pursuant to the Shariat Act, the Government has appointed a commission with terms of reference including, *inter alia*, the following:

- to recommend measures and steps, including suitable alternatives, by which the economic system enunciated by Islam could be established in Pakistan;

- to undertake the examination of any fiscal law or any banking or insurance law or practice and procedure to determine whether these are repugnant to the *Shari'ah* (the code of law derived from the *Holy Quran*) and to make recommendations to bring such laws, practices and procedures into conformity with the *Shari'ah*; and

- to oversee the process of elimination of *riba* from every sphere of economic activity in the shortest possible time and also to recommend such measures to the Government as would ensure the total elimination of *riba* from the economy.

Until such time as an alternative system is introduced, the Shariat Act protects financial obligations incurred and contracts made, *inter alia*, involving a foreign lender. However, such protection can be removed by an act of parliament or if the courts hold that such protection is unlawful because it is repugnant to the supreme law of the land, namely the Injunctions of Islam as laid down in the *Holy Quran* and *Sunnah*, as declared by the Shariat Act itself.

(c) ***The Federal Shariat Court***: The Federal Shariat Court is a constitutionally established body which has jurisdiction to determine whether any law or any provision of any law, including any custom or usage having the force of law, in Pakistan violates the principles of Islam, the official State religion.

In November 1991, the Federal Shariat Court ruled that a number of statutory provisions in Pakistan violated Islamic principles relating to *riba* and held them to be void on that basis and instructed the Government to conform these provisions to Islamic principles.

The ruling of the Federal Shariat Court was appealed to the Shariat Appellate Bench of the Supreme Court of Pakistan (the **Appellate Bench**). The Appellate Bench dismissed the appeal and upheld the decision of the Federal Shariat Court (the **Appellate Bench Judgment**). Against this Appellate Bench Judgment a Review Petition was filed, which was allowed by the Order dated 24 June 2002 (the **Review Order**). Pursuant to the Review Order, a differently constituted Appellate Bench set aside the judgment of the Federal Shariat Court and the Appellate Bench Judgment and remanded the case to the Federal Shariat Court for *de novo* determination of this issue after taking into consideration various aspects noted therein. The Federal Shariat Court began its *de novo* determination with a hearing on 21 October 2013 and the case is on-going at this time.

To summarise the position in Pakistan regarding the payment of interest:

- presently, the law in Pakistan does not prohibit the payment of interest pursuant to a contract to borrow money such as the Notes;

- an obligation to pay interest may be held to be unenforceable by the ordinary civil courts if:

    - the Supreme Court reverses itself on its findings in respect of Article 2A of the Constitution (subsection (a) above); or

    - the protection to financial obligations incurred and contracts made *inter alia* involving a foreign lender is removed (subsection (b) above); or

    - the Federal Shariat Court *de novo* determines the issue afresh but holds to the same effect as previously decided and the Shariat Appellate Bench of the Supreme Court substantially upholds the judgment of the Federal Shariat Court (subsection (c) above);

    - any decision of a civil court declaring interest unenforceable will only operate between the parties to it;

    - any such decision will not form a binding precedent until upheld by the provincial High Court to which such civil court is subordinate or the decision is delivered by such High Court itself, in which case the High Court's decision will be binding only on all civil courts subordinate to it;

    - a single judge of a High Court is not bound by the decision of another single judge of the same High Court but is bound by a division bench (a bench of two judges) decision of that High Court. One division bench is not bound by the decision of another division bench but all judges of that High Court are bound by the full bench decisions (a bench of three or more judges) of that High Court. In the event that a single judge finds that he cannot agree with a previous decision of another single judge, then the matter must be referred to the Chief Justice of that High Court for the constitution of a larger bench to settle the issue (subject to the outcome of any appeal to the Supreme Court). A similar procedure applies where one division bench is in disagreement with another division bench;

    - the decision of one High Court will not bind any other High Courts but will have persuasive value for High Courts and subordinate courts in other provinces and the Islamabad Capital Territory;

    - any such decision will operate as a precedent binding on all courts in Pakistan only if the Supreme Court of Pakistan upholds such a decision and to the extent that it decides a question of law or is based upon or enunciates a principle of law; and

    - any decision of any court in Pakistan (including the Appellate Bench or the Federal Shariat Court) in relation to the unenforceability of an obligation to pay interest will have no effect whatsoever on any obligation to pay the original sum borrowed or advanced.

The Government is, as a matter of policy, committed to eliminate *riba* and to promote Islamic banking in Pakistan, while keeping in view its linkages with the global economy and existing commitments to local and foreign investors. Despite the fact that the Supreme Court remanded the "*riba case"* to the Federal Shariat Court (see subsection (c) above), the Government took various measures in line with the guidelines and directions of the Supreme Court, including the introduction by the SBP of Islamic banking in Pakistan, in parallel with conventional banking. See "*Overview of Pakistan's Economy – Financial Sector – Banking and Financial Institutions*".

Risk factors relating to the Notes

The terms of the Notes may be modified or waived without the consent of all the Noteholders

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. Such provisions are commonly referred to as "collective action clauses". These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, the Notes could be capable of aggregation with any such future debt securities, meaning that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of debt securities, including the Notes.

Any modification or actions relating to any Reserved Matter (as defined in the Conditions), including in respect of payments and other important terms, may be made (a) to the Notes with the consent of the holders of 75 per cent of the aggregate principal amount of the outstanding Notes, and (b) to multiple series of debt securities which may be issued by the Issuer (including the Notes) with the consent of both (i) the holders of at least two thirds of the aggregate principal amount of all outstanding debt securities being aggregated and (ii) the holders of at least 50 per cent in aggregate principal amount of the outstanding debt securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's debt securities (including the Notes) with the consent of 75 per cent of the aggregate principal amount of the outstanding debt securities of all affected series, without requiring a particular percentage of the holders of any individual affected debt securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer may, as the option of the Issuer, be made in respect of certain series of the Issuer's debt securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is therefore a risk that the Conditions may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of debt securities and, as such, the majority of Noteholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation.

The Conditions also contain a provision permitting the Notes and the Conditions to be amended without the consent of the Noteholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

Any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

The Notes may be subject to restrictions on transfer which may adversely affect the value of the Notes.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the U.S. and the Issuer has not undertaken to effect any exchange offer for the Notes in the future. The Notes may not be offered in the U.S. except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes and the Agency Agreement will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exemptions, under the Securities Act. Furthermore, the Issuer has not registered the Notes under any other country's securities laws. Investors must ensure that their offers and sales of the Notes within the U.S. and other countries comply with applicable securities laws. See "*Transfer Restrictions*".

There is currently no secondary market for the Notes and there may be limited liquidity for Noteholders.

There is no assurance that a secondary market for the Notes will develop or, if it does develop, that it will provide the Noteholders with liquidity of investment or that it will continue for the life of the Notes. Accordingly, a Noteholder may not be able to find a buyer to buy its Notes readily or at prices that will enable the Noteholder to realise a desired yield or a yield comparable to similar investments that have a developed secondary market. The market value of the Notes may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Notes. Accordingly, the purchase of the Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Notes and the financial and other risks associated with an investment in the Notes. An investor in the Notes must be prepared to hold the Notes for any period of time up until their maturity.

The ratings on the Notes may be changed at any time and may adversely affect the market value of the Notes.

The Notes are expected to be rated "B" by Fitch and "B3" by Moody's. A credit rating may not reflect all risks. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

As Pakistan is not a Sanctions Target, OFAC regulations do not prohibit U.S. persons from investing in, or otherwise engaging in business, with Pakistan. However, to the extent that Pakistan invests in, or otherwise engages in business with, Sanctions Targets, directly or indirectly, U.S. persons investing in Pakistan may incur the risk of indirect contact with Sanctions Targets. Non U.S. persons from jurisdictions with similar sanctions may similarly incur the risk of indirect contact with Sanctions Targets. See "*Balance of payments and Foreign Trade – Foreign Trade – Export and Imports – Imports*".

The Notes may not be a suitable investment for all investors.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this offering circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency of payment is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Law governing the terms of the Notes may change.

Statements in this Offering Circular concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact: (i) the ability of the Issuer to service the Notes; and (ii) the market value of the Notes.

Noteholders will be reliant on procedures of DTC, Euroclear and/or Clearstream, Luxembourg to exercise certain rights under the Notes.

The Notes will be represented on issue by one or more Rule 144A Global Certificates that will be deposited with a custodian for DTC and one or more Regulation S Global Certificates that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificates, investors will not be entitled to receive Notes in definitive form. DTC, Euroclear and Clearstream, Luxembourg, will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by the Global Certificates, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in a Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Noteholders may be adversely affected by certain exchange rate risks and exchange controls.

The Issuer will make payments to Noteholders in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls (as some have done in the past) that could adversely affect an applicable exchange rate. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the amounts payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes. As a result, the payments received by investors may be adversely affected.

Government and monetary authorities may impose (as some have in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes and as a result, the payments received by investors may be adversely affected.

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Amending Directive**) amending and broadening the scope of the requirements described above. The Amending Directive requires EU Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, EU Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Investors who hold less than U.S.$200,000 in principal amount of the Notes may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued

As the denomination of the Notes is U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, it is possible that such Notes may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than U.S.$200,000 in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of U.S.$200,000 such that his holding amounts to at least U.S.$200,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than U.S.$200,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of U.S.$200,000 such that his holding amounts to an integral multiple of U.S.$200,000.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

Enforcement of foreign judgments in Pakistan

In Pakistan, statutory recognition is given to foreign judgments under section 13 of the Pakistan Code of Civil Procedure 1908 (the **Code**). This provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except (i) where it has not been pronounced by a court of competent jurisdiction; (ii) where it has not been given on the merits of the case; (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of Pakistan in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where it has been obtained by fraud; or (vi) where it sustains a claim founded on a breach of any law in force in Pakistan.

Section 44A of the Code provides that where a foreign judgment has been rendered by a court in any country or territory outside Pakistan which the Government has, by notification, declared to be a reciprocating territory, it may be enforced in Pakistan as if the judgment has been rendered by the relevant court in Pakistan. The High Court of Justice in England is a court in a reciprocating territory for the purposes of section 44A and, accordingly, a money judgment of that court would, subject to the exceptions contained in section 13 of the Code, be enforceable as if the judgment were the judgment of a district court in Pakistan. Accordingly, upon obtaining a foreign judgment, three possible courses are open to the holder:

(a) obtaining execution of the judgment by proceedings under section 44A, where these provisions are applicable, as they are in the case of a judgment of the High Court of Justice in England, for which the limitation period for initiating proceedings in Pakistan is three years from the date of the English judgment;

(b) filing a suit in Pakistan on the basis of the foreign judgment treating it as the cause of action, for which the limitation period is six years from the date of the foreign judgment; and

(c) filing a suit in Pakistan on the original cause of action, for which the limitation period is three years from when the cause of action arises.

In the case of proceedings described in paragraph (c) above, where the Pakistan court will have the power to assess the damages, it is possible that a Pakistani court will not award damages on the same basis as a foreign court, especially if it viewed the award of such damages as being contrary to Pakistani public policy.

Section 82 of the Code requires a decree against the Government to specify a period within which it is to be satisfied. If it remains unsatisfied at the expiry of such period, the Court issuing such decree is required to issue a report for the Orders of the Provincial Government within which such Court is situated. Execution proceedings can only be initiated against the Government three months after the date of such report.

USE OF PROCEEDS

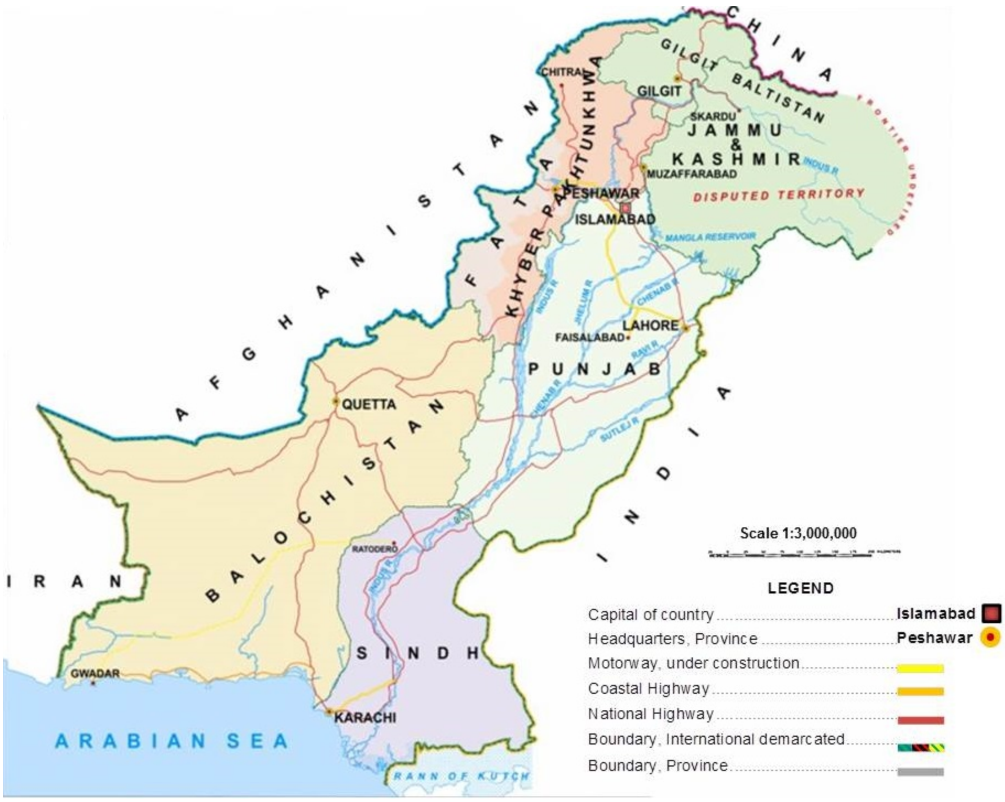
The net proceeds of the issue of the Notes, expected to amount to approximately U.S.$499,000,000, will be used for the Government's general budgetary purposes including, but not limited to, the refinancing, of domestic indebtedness.

Location and Geography

Pakistan is a federal republic located in south-central Asia between India, China, Afghanistan, Iran and the Arabian Sea. Pakistan consists of (i) four provinces (the Punjab, Sindh, the Khyber Pakhtunkhwa (**KPK**) and Balochistan); (ii) the Islamabad Capital Territory; (iii) the Federally Administered Tribal Areas; and (iv) other territories. Pakistan's land area is approximately 796,095 square kilometres, more than twice the size of California.

The capital of Pakistan is Islamabad, which is a federal territory (the **Islamabad Capital Territory**). Karachi is the main financial, commercial and industrial centre of Pakistan. Karachi is linked by air, rail and road networks to all major cities of Pakistan, and is also home to two of Pakistan's main seaports, the Port of Karachi and Port Qasim. Port Gwadar, the third of Pakistan's main seaports, is located in Balochistan. The provincial capitals are Karachi (Sindh), Lahore (Punjab), Peshawar (KPK) and Quetta (Balochistan).

The northern region of Pakistan is famous for its high mountain ranges and glaciers, such as the Himalayas and the Karakoram. KPK comprises both hilly areas and fertile valleys. Most of Punjab and Sindh is a plain formed by the Indus River and its tributaries. The Indus Valley is known for its extensive network of canals and rich agricultural land. Balochistan, in the southwest, is mainly an arid plateau rich in mineral deposits.



Population, Religion and Language

The total population of Pakistan was estimated at 189.9 million in 2014-15. Over 96 per cent of the population of Pakistan is Muslim. The national language is Urdu and the official language is English. Urdu is the most widely spoken and understood language throughout Pakistan. The main regional languages are Punjabi, Sindhi, Pashto and Balochi.

The total labour force of Pakistan was 60.09 million in 2013-14, of which 56.52 million were employed and 3.58 million (or 6.0 per cent) were unemployed. The proportion of the population living in rural areas has declined from approximately 82 per cent in 1951 (shortly after independence in 1947) to approximately 61 per cent in 2015.

In 2014-15 approximately 33 per cent of the population of Pakistan was in the age range of 0 to 14 years, 60 per cent was in the age range of 15 to 65 years and 7 per cent were over 65 years. The population of Pakistan has increased by 12.9 per cent from 168.2 million to 189.9 million between 2009-10 and 2014-15. The Government projects that by 2030 the population will increase to 242 million. This demographic transition provides an opportunity for raising economic growth and increasing prosperity, subject to Pakistan's ability to mobilise sufficient capital and use it efficiently with the rising share of working age population.

Government and Politics

Pakistan is currently the world's fifth largest democracy and the world's second largest Muslim democracy after Indonesia. It gained independence in August 1947 upon the partition of British-ruled India and originally comprised two predominately Muslim regions, West Pakistan and East Pakistan, separated by over 800 miles (1,280 kilometres) of Indian territory.

The territory of the former princely state of Jammu and Kashmir remains disputed territory between India and Pakistan. At the time of partition in 1947, the reigning Hindu Maharaja was reluctant to accede to either India or Pakistan and later sought military assistance from India to maintain power in Kashmir. The Maharaja announced accession to India in October 1947 and allowed Indian troops into the state. The then government of Pakistan did not accept the accession on the basis that it was contrary to the underlying principles of the partition of the subcontinent. The matter was placed before the United Nations (**U.N.**) Security Council that resolved that the final disposition of the State of Jammu and Kashmir would be made in accordance with the will of the people expressed through a free and impartial plebiscite conducted under the auspices of the U.N. To this day, the U.N. Security Council resolutions have not been implemented and Jammu and Kashmir remains a disputed territory between India and Pakistan.

Current Pakistan Government. A general election to appoint members of the National Assembly, as well as the four provincial assemblies of Punjab, Sindh, Balochistan and KPK, was held on 11 May 2013. The PML-N, led by Mian Muhammad Nawaz Sharif, emerged as the single largest party and formed the current Government of Pakistan. Mian Muhammad Nawaz Sharif was elected prime minister by the National Assembly for the third time, taking oath on 7 June 2013, and Mamnoon Hussain assumed the presidential office on 9 September 2013.

The elections of 11 May 2013 provided the first democratic transition in Pakistan's history compared to the decade following the death of General Zia in 1988, during which neither of the democratically elected governments of Benazir Bhutto or Nawaz Sharif were allowed to complete their terms. See "*Form of Government – Legislature*" below.

The Government was elected in 2013 on a programme of:

- conducting local body elections;
- economic reform, including significant GDP and industrial growth, increased investment, increased tax collection, budget deficit reduction, increased foreign exchange reserves and increased home-building for low-income families;
- energy sector reform, including the generation of additional electricity through coal-fired power plants, investment in power plants and infrastructure and a reduction in transmission and distribution losses;
- agricultural and food security reform, including the acceleration of agricultural growth, the implementation of a national food security strategy and increased spending on non-pension social security as a percentage of GDP;

- educational reform, including increased expenditure as a percentage of GDP, increased school enrolment, increased literacy levels, increased science and computer laboratories in schools, the creation of district education authorities and the creation of an educational endowment fund for low income families;

- health reform, including increased expenditure as a percentage of GDP, the introduction of a comprehensive national medical insurance service, increased vaccinations, decreased child mortality rates, increased district hospitals with diagnostic facilities and specialists, provisions of mobile health units in remote areas and the creation of district health authorities;

- IT reform, including the promotion of Pakistan's software industry to generate increased annual exports;

- employment reforms, including an increase in the minimum wage and increased employment possibilities in both public and private sectors focused on IT and small and medium-sized enterprises; and

- overseas Pakistani reforms, focused on increasing annual remittances.

The 18th and 19th Amendments to the Constitution. On 19 April 2010, the 18th Amendment to the Constitution of Pakistan was enacted. The 18th Amendment reversed some of the changes brought about by former President Musharraf in that it (i) declared the Legal Framework Order 2002 (the **LFO**), issued by him in 2002 (which had revived the majority of the Constitution held in abeyance since his military coup in October 1999) to have been made without lawful authority; and (ii) repealed the 17th Amendment to the Constitution made in 2003 (primarily to limit the time former President Musharraf could hold office as both President and Chief of Army Staff and to validate all laws made and actions taken between his coup in October 1999 and December 2003).

Other major changes brought about by the 18th Amendment were:

- a declaration that the abrogation, subversion, suspension or holding in abeyance of the Constitution, or the attempt to do so, would constitute the crime of high treason, and was no longer capable of validation by any court;

- the insertion of a number of fundamental rights, including the right to a fair trial, freedom of information and education;

- the restriction of the power of the president to dissolve the National Assembly at his discretion;

- the broad transfer of powers from the president to the prime minister;

- the broad devolution of rights and powers from the Federation to the Provinces. The increased importance given to the Provinces is demonstrated by the NFC Award. See "*Public Finance and Taxation – Revenue and Expenditure – Allocation of Revenue Between the Federal Government and Provinces*";

- the establishment of a high court for the Islamabad Capital Territory;

- the insertion of a new sub-article (3) to Article 172 of the Constitution of Pakistan, which provides that mineral oil and natural gas within the Provinces or the territorial waters adjacent thereto shall vest jointly and equally in that Province and the Federal Government. As a consequence, all future petroleum concessions within a Province are now required to be granted jointly by the Federal Government and by the Provincial Governments. To date no law has been enacted in order to effect the provisions of this constitutional amendment; and

- the establishment of a judicial commission and parliamentary committee for the appointment of judges to the superior courts of Pakistan.

The 20th Amendment to the Constitution. In 2012, through the 20th Amendment to the Constitution, provisions for the appointment of an impartial chief election commissioner, an independent election commission of Pakistan and a neutral interim government tasked with overseeing general elections were constitutionally implemented.

The 21st Amendment to the Constitution. In January 2015, the 21st Amendment to the Constitution was enacted. The effect of the 21st Amendment is to provide the military courts with power under the Constitution for the trial of any offences relating to terrorism. The 21st Amendment to the Constitution will remain in force for two years.

Form of Government. Pakistan has a federal parliamentary system. The federal system consists of an executive, a legislative and a judicial branch.

- ***Executive***. Mr. Mamnoon Hussain is currently President and constitutional head of state of the Islamic Republic of Pakistan. The Government is headed by the Prime Minister, Mian Muhammad Nawaz Sharif, who is the Chief Executive of the Federation, assisted by his cabinet ministers who head various ministries, and by his advisors. Other offices and bodies having important roles in the federal structure include the Attorney General, the Auditor General, the Federal Land Commission, the Federal Public Service Commission, the Election Commission of Pakistan, the *Wafaqi Mohtasib* (ombudsman) and the various regulatory authorities including the Securities and Exchange Commission of Pakistan (**SECP**), the Public Procurement Regulatory Authority, the Pakistan Electronic Media Regulatory Authority, the Oil and Gas Regulatory Authority and the National Electric Power Regulatory Authority (**NEPRA**).

The following table sets out the members of the current federal cabinet as of 3 August 2015 in addition to the current Prime Minister, Mian Muhammad Nawaz Sharif. All are members of PML-N:

FEDERAL MINISTERS

Name	Portfolio
Engr. Khurram Dastgir Khan	Commerce
Mr. Rana Tanveer Hussain	Defence Production Additionally: Science and Technology
Mr. Muhammad Ishaq Dar	Finance, Revenue, Economic Affairs, Statistics and Privatisation
Mr. Akram Khan Durrani	Housing and Works
Mr. Ghulam Murtaza Khan Jatoi	Industries and Production
Mr. Pervaiz Rashid	Information, Broadcasting and National Heritage Additionally: Law, Justice and Human Rights
Mr. Chaudhry Nisar Ali Khan	Interior and Narcotics Control
Mr. Riaz Hussain Pirzada	Inter-Provincial Coordination
Mr. Muhammad Barjees Tahir	Kashmir Affairs and Gilgit-Baltistan
Mr. Sikandar Hayat Khan Bosan	National Food Security and Research
Mr. Pir Syed Sadaruddin Shah Rashidi	Overseas Pakistanis and Human Resource Development

FEDERAL MINISTERS

Mr. Shahid Khaqan Abbasi	Petroleum and Natural Resources
Mr. Ahsan Iqbal	Planning, Development and Reform
Mr. Kamran Michael	Ports and Shipping
Mr. Khawaja Saad Rafique	Railways
Mr. Sardar Muhammad Yousaf	Religious Affairs and Inter-faith Harmony
Lt. General (Retd.) Abdul Qadir Baloch	States and Frontier Regions
Mr. Khawaja Muhammad Asif	Water and Power Additionally: Defence

MINISTERS OF STATE

Name	Portfolio
Mr. Abdul Hakeem Baloch	Communications
Mr. Usman Ibrahim	Capital Administration and Development Division
Mr. Muhammad Baligh Ur Rehman	Federal Education and Professional Training Additionally: Interior and Narcotics Control
Mrs. Anusha Rahman Ahmad Khan	Information Technology and Telecommunication
Mrs. Saira Afzal Tarar	National Health Services, Regulations and Coordination
Sheikh Aftab Ahmed	Parliamentary Affairs
Mr. Jam Kamal Khan	Petroleum and Natural Resources
Pir Muhammad Amin Ul Hasnat Shah	Religious Affairs and Inter-faith Harmony
Mr. Abid Sher Ali	Water and Power

ADVISERS TO THE PRIME MINISTER

Name	Portfolio
Mr. Sartaj Aziz	Adviser to the Prime Minister on National Security with the additional responsibility of Foreign Affairs
Engr. Ameer Muqam	Adviser to the Prime Minister
Mr. Jam Mashooq Ali	Adviser to the Prime Minister for Political Affairs

SPECIAL ASSISTANTS TO THE PRIME MINISTER

Name	Portfolio
Mr. Tariq Fatemi	Special Assistant to the Prime Minister on Foreign Affairs with the status of Minister of State
Dr. Musadik Malik	Special Assistant/ Official Spokesperson to the Prime Minister with the status of Minister of State.
Mr. Khawaja Zaheer Ahmed	Special Assistant to the Prime Minister with the status of Minister of State

FEDERAL MINISTERS

Mr. Imtiaz Ahmed Shaikh	Special Assistant to the Prime Minister with the status of Minister of State
Mr. Miftah Ismail	Special Assistant to the Prime Minister / Chairman, Board of Investment with the status of Minister of State
Capt. Shujaat Azim	Special Assistant to the Prime Minister on Aviation (on honorary basis)
Mr. Irfan Siddiqui	Special Assistant to the Prime Minister on National Affairs with the status of Federal Minister
Barrister Zafarullah Khan	Special Assistant to the Prime Minister for Economic Affair Division with the status of Minister of State
Mr. Ashtar Ausaf Ali	Special Assistant to the Prime Minister for Law with the status of Minister of State
Mr. Haroon Khan	Special Assistant to the Prime Minister for Revenue with the status of Minster of State
Dr.Syed Asif Saeed Kirmani	Special Assistant to the Prime Minister for Political Affairs with the status of Minister of State

- ***Legislature***. Pakistan has a bicameral Parliament comprising a National Assembly and a Senate. The National Assembly is elected for a term of five years, most recently in May 2013. Of the 342 seats in the National Assembly, 272 are directly elected according to popular vote, 60 are reserved for women and ten are reserved for non-Muslim minorities. The 70 reserved seats are allocated on the basis of proportional representation to parties that win more than 5 per cent of the directly elected seats.

  The Senate presently consists of 104 members of whom 14 are elected by members of each Provincial Assembly; eight are elected from the Federally Administered Tribal Areas; two on general seats; and one woman and one technocrat (including an *aalim*, a religious scholar) are elected from the federal capital; four women are elected by the members of each Provincial Assembly; and, four *ulema* (religious scholars) are elected by the members of each Provincial Assembly. From the last senate election, an additional four non-Muslims, one from each Province, were elected by the members of each Provincial Assembly, taking the total number to 104.

  The term of the Senate's members is six years. However, one-half of its members retire after every three years. A casual vacancy in the Senate - caused by resignation, death, incapacitation, disqualification or removal of a member - is filled through election by the respective electoral college and the member so elected holds office for the un-expired term of the member whose vacancy he has filled.

- ***Judiciary***. The Supreme Court of Pakistan hears appeals from the provincial high courts, the federal and provincial service tribunals, as well as the Islamabad High Court which has been recently established. The Supreme Court also has original jurisdiction and advisory jurisdiction in certain matters. Each Province has a separate court system. The provincial court systems consist of a provincial high court, civil and district courts to hear civil cases and magistrate courts and sessions courts to hear criminal cases. The provincial high courts hear both federal and provincial cases.

  The Federal Shariat Court, created in 1980 by constitutional amendment, has the jurisdiction to examine any law or provision of law and to decide whether it is repugnant to the principles of Islam. Decisions of the Federal Shariat Court may be appealed to the Supreme Court (Shariat Appellate Bench) and do not take effect until appeals to the Supreme Court have been exhausted.

Special courts and tribunals have been established to deal with matters under certain statutes. Appeals from the final decisions of these courts are generally heard first by the high courts and then, subject to leave to appeal, by the Supreme Court. These special courts include the banking and labour courts and income tax and customs tribunals.

International Relations

Pakistan's foreign policy priorities include safeguarding the country's security, economic revival and sustained development, regional and local stability and making Pakistan's strategic location an asset through trade, transport and energy connectivity with China, Central Asia and West Asia.

***International Organisations**.* Pakistan is a member of the U.N., the Organisation of the Islamic Conference (the **OIC**), the Non-Aligned Movement, the Commonwealth of Nations, the World Trade Organisation (**WTO**), the Shanghai Cooperation Organisation (**SCO**), as well as the IMF, the World Bank, the Asian Infrastructure Investment Bank (**AIIB**), the Asian Development Bank (**ADB**) and the Islamic Development Bank (**IDB**).

Regionally, Pakistan is a member of the Economic Cooperation Organisation, an organisation that promotes economic and trade ties between Iran, Pakistan, Turkey and the Central Asian Republics. Pakistan is also a founding member of the South Asian Association for Regional Cooperation, which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka, with China and Japan participating as observers. Pakistan ratified the South Asian Free Trade Area Agreement (**SAFTA**) in February 2006, which was applied with retrospective effect on 1 January 2006. The first tariff reductions under SAFTA were implemented on 1 July 2006.

Pakistan is also seeking to upgrade its relationship with the Association of South East Asian Nations (**ASEAN**) to a full dialogue partnership. Pakistan is a member of ASEAN Regional Forum, the security-related arm of ASEAN. Pakistan is also a member of the Developing-8 (**D8**), comprising Bangladesh, Egypt, Iran, Indonesia, Malaysia, Nigeria, Pakistan and Turkey. The D8 countries signed a preferential trade agreement on 14 May 2006.

Pakistan is a founding member of the Asia Cooperation Dialogue and became a member of the Asia Europe meeting in September 2006.

Pakistan is also a member of the South Asian Association of Regional Co-operation (**SAARC**) and will host the 19th summit of SAARC in Islamabad in 2016.

Given Pakistan's growing prominent role in the region, the Shanghai Cooperation Organisation, comprised of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, extended observer status to Pakistan in July 2005.

As a founding member, Pakistan plays an active role in coalitions of developing countries like the Group of 77 and China (**G-77**) and G-24 in articulating and promoting the collective economic interests of developing countries and enhancing their joint negotiating capacity on major economic issues in the U.N.

Pakistan believes it is compliant with all applicable U.N. sanctions. See "– *Relations with Select Countries – Iran*" below and "*Energy in Pakistan – Iran-Pakistan Gas Pipeline Project*" and "*Balance of Payments and Foreign Trade – Exports and Imports*".

Peace Keeping. Pakistan's strong commitment to peacekeeping is rooted in its foreign policy and belief that every nation should contribute to the maintenance of international peace and security. Pakistan has maintained high levels of participation in the U.N. peacekeeping, becoming one of the largest troop- contributing country with around 8,000 Pakistani troops deployed around the world in seven U.N. peacekeeping operations.

Relations with Select Countries. The following describes Pakistan's relationship with its key allies and trading partners:

- ***Relations with the United States.*** There has been a progressive transformation of Pakistan's relations with the U.S. over the past decade. The bilateral relationship has improved substantially through a process of deepening and broadening of ties. The U.S. has shown interest in supporting Pakistan's economic development, educational reforms, and measures to increase trade and investment links. Both countries are also working together to expand energy sector cooperation. The U.S. has provided substantial economic and military assistance to Pakistan over the past decade.

  The U.S. is one of Pakistan's largest trade partners, accounting for nearly 15.5 per cent of Pakistan's total exports in 2014-15. The U.S. is also one of the major foreign investors in Pakistan. In the first 11 months of 2014-15, U.S. investment in Pakistan amounted to U.S.$228 million. A trade and investment framework agreement (**TIFA**) was signed between Pakistan and the U.S. in June 2003. The council constituted thereunder has met seven times since its inception, last meeting on 13 May 2014. Under TIFA, Pakistan is seeking increased access to the U.S. market. The governments of both the U.S. and Pakistan have developed a five-year Joint Action Plan, as agreed during the meeting of the Prime Minister with the U.S. President in October 2013 establishing cooperation in the field of trade, agriculture, investment and the services sector. Negotiations on a bilateral investment treaty (**BIT**) began in 2004 and recommenced in November 2013. Negotiations have since stalled due to reservations on both sides. The eighth Pakistan-U.S. TIFA council meeting is proposed to be held in Islamabad in 2015 and the Finance Minister has proposed that the Working Group on Economy and Finance meet on 24 September 2015 in New York.

  In December 2009, U.S. President Barack Obama announced a renewed Pakistan-U.S. partnership, which adopted a new USAID Country Assistance Strategy for Pakistan for the five year period 2010 to 2015. The goals of the strategy are to deepen the existing relationship with both the Government and people of Pakistan by aligning U.S. assistance more closely with Pakistan's development and investment priorities, to strengthen the Government's ability to effectively provide services to its citizens and end the appeal of extremist elements. Under this strategy, the Pakistan and U.S. governments are working together to develop a number of projects in the areas of economic growth, energy, agriculture, education and health to assist Pakistan in meeting its immediate and long-term development goals. To date, U.S. assistance to Pakistan in the energy sector has added over 1300 megawatts of power to Pakistan's national grid. In conjunction with the World Bank, USAID is also supporting the Dasu Hydropower Project (**DHP**). The U.S. recently voted in favour of the World Bank's funding for DHP and, separately, has made a commitment of U.S.$230.5 million in civilian assistance for energy, out of which U.S.$20 million is earmarked for a due diligence study into the Diamer-Bhasha Dam hydropower project.

  The U.S. has also leant its support to international energy projects involving Pakistan such as the Turkmenistan-Afghanistan–Pakistan–India pipeline project and CASA 1000, a project to transmit 1000 MW of surplus electricity from Tajikistan to Pakistan with power transit through Afghanistan. In 2013, the U.S. announced that it would commit U.S.$15 million in financing for CASA1000.

  In March 2010, delegations led by Pakistan's then foreign minister and then U.S. Secretary of State met in Washington, D.C, to launch the Pakistan-U.S. Strategic Dialogue (the **Strategic Dialogue**), involving working groups that meet at regular intervals to provide input at the ministerial level. The talks focused on Pakistan's socio-economic and political development, including agriculture, communications and public diplomacy, defence and security, economic development and finance, energy and water and social issues. Strategic Dialogue talks did not take place in 2011-12 but were resumed when U.S. Secretary of State John Kerry visited Pakistan in August 2013. Since then, relations between Pakistan and the U.S. have continued to improve. In his meeting with Prime Minister Nawaz Sharif in New York on 26 September 2014, U.S. Vice President Joe Biden affirmed U.S. support for a democratic Pakistan and its growth and prosperity. Both the leaders also affirmed the common interests that the two countries share.

A subsequent meeting of the revived Strategic Dialogue took place in Islamabad on 12-13 January 2015. The U.S. delegation was led by Secretary of State, John Kerry. Salient outcomes of the meeting included US commitment to continue the economic assistance to Pakistan despite the termination of Kerry-Lugar aid package, reimbursement of coalition support fund to Pakistan in some form and the establishment of a new working group on education, science and technology.

In December 2010, the Pakistan and U.S. military concluded their four-month long cooperation in a flood relief programme as Pakistan shifted its focus from emergency humanitarian aid to a more sustained recovery and reconstruction following the 2010 floods. During the course of the relief operations, the U.S. contributed more than U.S.$500 million in monetary aid, delivered more than 12,000 metric tons (**Mt**) of relief supplies and rescued more than 40,000 people in the affected areas.

During Prime Minister Nawaz Sharif's official visit to Washington, D.C. in September 2013, he held substantive talks with President Obama, Vice President Joe Biden and a number of senior U.S. Administration officials. A bilateral science and technology cooperation agreement was also renewed on that occasion.

A ministerial review of the Strategic Dialogue between Pakistan and the U.S. was held on 27 January 2014. Four of the five working groups of the Strategic Dialogue subsequently met to discuss (i) energy, (ii) security, strategic stability and non proliferation, (iii) defense, and (iv) the economy and finance.

Upcoming engagements with the U.S. include the Prime Minister's visit to Washington at the invitation of the President Obama, scheduled for October 2015.

Relations between the two countries improved over the course of 2015 as Pakistan sponsored peace talks with the Afghan Taliban. The U.S. is due to pay a total $1.1 billion to Pakistan in 2015 for their support in the fight against the Taliban. Whilst the majority of this money has been disbursed, a proportion remains contingent on sufficient action against the Haqqani network, a Pakistan-based group affiliated with the Taliban.

- ***Relations with China.*** Pakistan continues to enjoy close and stable relations with China. The two countries share a common interest in preserving the balance and stability of the region. The political and economic fundamentals of Pakistan-China relations remain sound, with bilateral trade exceeding U.S.$16 billion in 2014-15, and are reflected in frequent high-level exchanges between the two governments. Economic cooperation between the countries includes Chinese investments and financial assistance in port, railway, mining, coal and nuclear power projects, with a focus on the Xinjiang province bordering Pakistan. In the period 2013-14, the countries have progressed the K-2/K-3 nuclear power project which is scheduled to complete in 2022 and have signed three loan agreements for an aggregate of U.S.$6.478 billion.

The China-Pakistan Free Trade Agreement (**CPFTA**) was signed on 24 November 2006 and implemented from 1 July 2007. The CPFTA covers trade in goods and investment. A free trade agreement relating to trade in services was signed on 21 February 2009 and came into effect on 10 October 2009.

In July 2013, during Prime Minister Mian Muhammad Nawaz Sharif's first official visit to China, the countries signed a memorandum of understanding on the China-Pakistan Economic Corridor (**CPEC**). The CPEC programme has two main components. Firstly, it aims to progress the development of Gwadar Port (a warm-water, deep-sea port on the Arabian Sea at Gwadar, in the Pakistan province of Balochistan) and related infrastructure (see "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Transportation – Ports and Shipping*"). The second component envisages developing special economic zones along the route, including power projects. The first-phase projects will receive U.S.$45.69 billion in concessionary and commercial loans, for which financial facilitation to the Chinese companies is being arranged by the Silk Road Fund, a state owned investment fund of the Chinese government. The eventual aim of CPEC is to enhance trade, investment, regional integration and connectivity between Pakistan and China by building further rail, road, gas, oil pipelines and fibre optic links. In November 2014, China and Pakistan reached inter-governmental agreement on a package of significant investments, loans and grants for infrastructure development and energy projects in Pakistan and enhanced economic cooperation between the two countries over the medium term.

China has steadily increased its investment in Pakistan. In 2014, China's direct investment in Pakistan was more than U.S.$2.1 billion bringing the cumulative total to approximately U.S.$15 billion.

Chinese President Xi Jinping and President Mamnoon Hussain met in September 2015 and announced further cooperation between their countries on CPEC and in tackling the Uighur militant group, the East Turkestan Islamic Movement.

- ***Relations with India.*** Since independence from British colonial rule in 1947, Pakistan and India have gone to war three times, most recently in 1971. Relations with India remain tense over the disputed area of Jammu and Kashmir. The U.N. Security Council passed resolutions calling for a U.N. supervised plebiscite in Jammu and Kashmir which have not yet been implemented. See *"The Islamic Republic of Pakistan – Government and Politics"*.

  Tensions resurfaced following the attacks in Mumbai in November 2008. However, it was acknowledged by India that the attacks were not sponsored by Pakistan and confidence building measures have been taken by both countries since then. This includes a series of high-level meetings in early 2011 that led to the announcement of a series of measures to develop bilateral trade in a variety of sectors and the announcement of a proposed easing of restrictions on the issuance of visas by both countries. See "*Overview of Pakistan's Economy – Structural Reforms — Trade Reforms*" below. Despite these improvements, a range of issues covering border disputes in Jammu and Kashmir, Siachen and Sir Creek, as well as water disputes, remain between India and Pakistan. Pakistan has stated that it is committed to resolving outstanding issues with India in a peaceful manner. In September 2013, Prime Minister Mian Muhammad Nawaz Sharif promised to take action against *Lashkar-e-Taiba* (the South Asian terrorist organisation mainly operating from Pakistan) in relation to the Mumbai attacks, and in January 2014 Pakistan's anti-terrorism court began hearing the trial of seven men charged with involvement in the attacks. One of the accused, Zaki-ur-Rehman Lakhvi, *Lashkar-e-Taiba*'s alleged military chief, was released on bail in April 2015. The trial is ongoing.

  Since 2004, Pakistan and India have engaged in bilateral discussions. These discussions were interrupted between 2008 and 2010, and again in 2013 and currently remain on hold. From 2011-2013, the dialogue produced positive results, including a roadmap for trade normalisation and signing of a visa agreement to ease travel restrictions.

  Pakistan-India bilateral trade rose from U.S.$2.1 billion in 2012-13 to U.S.$2.4 billion in 2013-14. During 2014-15 (July-May), bilateral trade between the two countries was U.S.$1.9 billion.

  The commerce ministers of Pakistan and India held a meeting on 18 January 2014 in New Delhi, India and reached an understanding to normalize trade relations and provide non-discriminatory market access (**NDMA**) on reciprocal basis. NDMA status entails treating imports from a particular country equally with imports from other trading partners in terms of market access and imposition of taxes and customs tariffs. NDMA status would require the elimination of the Pakistan negative list and a reduction in the India SAFTA sensitive list. This dialogue is currently on hold and Pakistan has not yet given NDMA status to India.

  Pakistan's relationship with India recently worsened following the cancellation of a meeting between Indian and Pakistani national security advisers in New Delhi amid a dispute about whether the agenda should include the topic of the disputed Kashmir region. The cancellation of this meeting was followed by fighting on the border between India and Pakistan, resulting in civilian deaths.

- ***Relations with the United Kingdom (the U.K.).*** Since gaining independence from British colonial rule in 1947, Pakistan has developed a close relationship with the U.K. which has been strengthened by the substantial trading relationship between the countries, the U.K. being Pakistan's second largest trading partner and its largest investment partner in the EU, as well as hosting a Pakistani community of approximately one million in the United Kingdom.

  The U.K. Department for International Development (**DFID**) initiated a new Operational Plan 2011-2015 which envisages assistance of GBP 1.4 billion over four years, which is expected to make Pakistan the largest recipient of the U.K.'s development assistance around the world.

  U.K. Prime Minister David Cameron was the first head of government to visit Pakistan following the May 2013 elections and, during their meetings, Prime Minister Mian Muhammad Nawaz Sharif spoke of the value of the Pakistan-U.K. relationship and their shared commitment to enhancing trade. During this visit, a new roadmap on security was concluded and existing roadmaps on culture and education, and on trade and investment, were revised and concluded. This was followed by several visits by senior U.K. government officials, including Foreign Secretary William Hague in July 2013, Home Secretary Theresa May in September 2013 and Senior Minister of State Baroness Sayeeda Warsi in October 2013. Pakistan's Prime Minister Mian Muhammad Nawaz Sharif visited London from 29 April to 2 May 2014. Prime Minister Mian Muhammad Nawaz Sharif attended an energy roundtable conference, organised by the British Government, in London in November 2014.

  Pakistan and the U.K. signed a "Declaration on Pakistan-U.K. Enhanced Strategic Dialogue" (**ESD**) on 5 April 2011 which includes annual summit level meetings at Prime Minister level and bi-annual meetings at Foreign Minister level. The second bilateral meeting was held in London on 13 March 2014. The ESD focuses on five areas of cooperation: (i) trade and business relations, (ii) financial, macro-economic stabilization and development cooperation, (iii) education and health (iv) consultations on defence and security, and (v) cultural cooperation.

  There are over 100 U.K.-based companies operating in Pakistan with foreign direct investment (**FDI**) of over U.S.$2.7 billion over the last decade, focusing on the financial services, oil and gas, power, pharmaceutical and publishing sectors. The U.K. was also instrumental in getting support for Pakistan's inclusion in the Generalised System of Preferences Plus (**GSP+**) scheme, which became effective as of 1 January 2014 and is expected to significantly boost Pakistan's exports to the EU. On 17 December 2013, the second U.K.-Pakistan Trade and Investment Conference was held in London to raise awareness of business opportunities in Pakistan. The annual conference is one of the incentives that the U.K. government committed to in the Pakistan-U.K. Trade and Investment Plan. See "*Overview of Pakistan's Economy – Relationship with Multilateral and Bilateral Creditors – United Kingdom*".

- ***Relations with Afghanistan.*** Pakistan is implementing development projects in Afghanistan in the areas of health, education, infrastructure and house-building, and has provided a general assistance package of U.S.$500 million. Many of these projects have been successfully completed, while others are underway. Pakistan continues to host more than 1.6 million registered, and more than one million unregistered, Afghan refugees and has recently extended their stay in Pakistan through 31 December 2015. Pakistan and Afghanistan are also major trading partners with trade between the countries totalling U.S.$2.1 billion in 2014-15 (July-May). Both countries continue to develop bilateral economic cooperation and are working together on a number of regional projects relating to roads, rail, energy and connectivity.

Both sides have agreed to expand the trade volume to U.S.$5 billion by 2016. The joint economic commission, in its last meeting in Kabul in February 2014, decided to take forward the process of diversifying and deepening bilateral economic cooperation.

The two countries are also working on a range of bilateral and regional projects related to road, rail, energy and connectivity. In the regional context, the two countries are working to promote energy projects, including a gas pipeline.

Prime Minister Mian Muhammad Nawaz Sharif has had four summit meetings with former Afghan President Hamid Karzai since assuming office in June 2013, principally to discuss security issues and matters relating to the Afghan peace process and in September 2015, current Afghan President Ashraf Ghani visited Islamabad to continue peace discussions. Afghanistan, Pakistan and Turkey agreed to strengthen dialogue and interaction at the military and intelligence levels, while working to deepen cooperation in diverse fields.

Exercising effective control over the Federally Administered Tribal Areas and other parts of the border with Afghanistan presents significant challenges for the Government due to a combination of difficult terrain, the remoteness of the region and strong tribal loyalties among the local population. In order to control cross-border movement of persons believed to pose a threat to health and security, the Government maintains approximately 4,186 posts and deploys 158,000 troops along the Pakistan-Afghanistan border. Pakistan's decision to implement selective fencing, border monitoring and control systems is also intended to stop cross-border infiltration.

- ***Relations with Iran.*** Pakistan and Iran enjoy cordial relations grounded in a common religion, history, culture and geography. The Government remains committed to furthering economic relations with Iran by intensifying trade links. The two countries have a preferential trade agreement. Trade between the two countries has declined sharply due to lack of effective and compliant banking channels in light of international sanctions against Iran. Bilateral trade between Pakistan and Iran was U.S.$265.3 million in 2013-14 and was U.S.$240 million in 2014-15 (July-May), or 0.3 per cent of Pakistan's total trade. Pakistan's exports to Iran have also declined to U.S.$25 million, while imports from Iran were U.S.$215 million in 2014-15 (July-May), consistent with imports from Iran in 2013-14. Pakistan's major exports to Iran primarily consist of agricultural, textiles and pharmaceutical products. Pakistan also imports electricity from Iran which is supplied to Makran division. Although trade levels between Pakistan and Iran are far below their potential due to international sanctions, efforts are being made to expand the trade volumes when the international sanctions are lifted. The U.K., China, France, Russia, the U.S. and Germany (known as the "P5+1") have targeted November 2015 for lifting sanctions on Iran. Sanctions relief measures were passed through the U.S. Congress in September 2015. The current Iran-Pakistan gas pipeline project represents an important bilateral initiative, particularly given Pakistan's energy needs for a sustainable economic environment. Pakistan has not yet commenced construction on its section of the pipeline due to international sanctions against Iran. Subject to international sanctions compliance, Pakistan is committed to the project and remains engaged with Iran in respect of its development. See "*Overview of Pakistan's Economy – Energy in Pakistan – Iran-Pakistan Gas Pipeline Project*".

- ***Relations with Turkey.*** Pakistan and Turkey enjoy cordial relations and the Government seeks to develop the economic relationship further. The Government concluded a Pakistan-Turkey Preferential Trade Agreement in the first quarter of 2014 which is expected to significantly increase trade in the short to medium-term. Turkey invests significantly in Pakistani energy, infrastructure and urban development projects.

  Prime Minister Mian Muhammad Nawaz Sharif has twice visited Turkey in 2013 and 2014 while the Turkish Prime Minister also visited Pakistan in 2013. Both sides are in negotiations to reach a preferential trade agreement. Bilateral trade between the two countries was U.S.$722 million in 2013. Turkish companies have been involved in construction of motorways and the Lahore metro bus project. The Rawalpindi – Islamabad Metro bus project is also being undertaken with Turkish collaboration.

- ***Relations with Saudi Arabia*.** Pakistan and Saudi Arabia enjoy special relations, grounded in common faith and history. There are regular exchanges at senior government levels, most recently a visit by HRH Prince Salman bin Abdulaziz Al Saud, Crown Prince and Deputy Prime Minister and Defence Minister in February 2014. The Crown Prince chose Pakistan as the first destination in his Asian tour. During discussions, both countries agreed to expand and improve investment in trade, energy, infrastructure development and agriculture for mutual benefit.

  Saudi Arabia has provided financial support to Pakistan on numerous occasions, particularly during times of economic crisis in Pakistan. Following the imposition of economic sanctions on Pakistan in the aftermath of nuclear tests in 1998, Saudi Arabia supplied 149 million barrels of oil under special arrangements up until 2003. Saudi Arabia also gave significant amounts of development grants as well as U.S.$250 million for power projects and fertilizer imports.

  Saudi Arabia is home to over 1.5 million Pakistani expatriates, providing approximately U.S.$5.6 billion of foreign workers' remittances in 2014-15.

  Pakistan also maintains long-standing close military ties with Saudi Arabia, providing extensive support and training for its armed forces. Over 1,100 Pakistan defence personnel serve in Saudi Arabia and a large number of Saudi personnel benefit from training in Pakistan. The two countries have a Military Cooperation Agreement, signed in July 2005, and an agreement regarding the provision of military training services.

Nuclear Programme

On 11 May and 13 May 1998, India carried out nuclear weapons tests. In response, Pakistan carried out nuclear tests on 28 May and 29 May 1998. Since the nuclear tests of 1998, Pakistan has held regular dialogues with the U.S. and other countries on regional security and non-proliferation issues. During these dialogues, Pakistan has presented a number of proposals to promote nuclear restraint and responsibility, including a strategic restraint regime in South Asia. Pakistan has maintained a nuclear deterrent and its strategic nuclear assets are under stringent domestic organisational, administrative and command and control structures.

The National Command Authority of Pakistan, established under the National Command Authority Act 2010, and chaired by the prime minister of Pakistan, exercises command and control over research, development, production and use of nuclear assets.

Pakistan Nuclear Regulatory Authority, an autonomous regulatory body, regulates the safety and security of civilian nuclear materials and facilities. It works closely with the International Atomic Energy Agency (the **IAEA**) and benefits from its recommendations and guidance.

Other measures Pakistan has undertaken to secure, control and protect its nuclear assets include:

- issuing a national control list relating to nuclear and biological weapons and their delivery, including export controls maintained by the Nuclear Suppliers Group (a multinational body focused on reducing nuclear proliferation), Australia Group (an informal group of countries, including the EU, aimed at controlling exports of goods that contribute to the spread of chemical and biological weapons), and Missile Technology Control Regime (a partnership between 34 countries aimed at preventing the proliferation of missiles and other aerial technology capable of carrying heavy payloads);

- joining the Convention on the Physical Protection of Nuclear Material;

- following the guidelines of the IAEA Code of Conduct on the safety and security of radioactive sources;

- participating in the IAEA Illicit Trafficking Database;
- signing a memorandum of understanding with the U.S. on the Container Security Initiative, according to which all Pakistani cargo bound for the U.S. must be scanned prior to departure;
- establishing the National Export Control Authority for further implementation of export control policy;
- being a party to the Convention on Nuclear Safety, as well as the two international Conventions on Early Notification and Assistance; and
- developing a strong radiation emergency response mechanism, Pakistan is institutionalising a nuclear emergency management system, to handle different types of nuclear and radiological related emergencies, and establishing a nuclear and radiological emergency support center to handle nuclear-related emergencies.

In accordance with its energy security plan, the Government plans to generate 8,800 MW from nuclear power by 2030.

Fight against Extremism

Pakistan's economy is negatively affected by the Fight against Extremism, which has a significant negative effect on Pakistan's domestic security situation, particularly over the past 14 years. Since 2006, the Fight against Extremism in Pakistan has cost Pakistan more than 58,816 lives, including 5,000 security personnel, the destruction of infrastructure and has caused internal dislocation of millions of people from parts of north-western Pakistan, erosion of the investment climate, reduced production, growing unemployment and has slowed down economic activity in many parts of Pakistan.

After the events of 9/11, Pakistan assumed the role of a frontline state in the global Fight against Extremism. The onset disrupted Pakistan's normal trading activities, as the cost of trading increased substantially because of higher insurance costs. Consequently, economic growth slowed, demand for imports reduced, with a consequential decline in tax collection and inflows of foreign investment fell.

The events that transpired after 9/11 in Afghanistan worsened the security environment in Pakistan, resulting in certain travel bans for visitors to Pakistan from other countries. This diminished Pakistan's exports, reduced the inflows of foreign investment, affected the pace of Pakistan's privatisation programme, slowed overall economic activity, reduced import demand, reduced tax collection and has resulted in additional security spending.

The Fight against Extremism has also resulted in the destruction of physical infrastructure (military and civil), the dislocation of thousands of people and the associated rise in expenditure to support them. While the Government's increased anti-extremism activities have been successful in reducing incidents of terrorism, it has also resulted in significant human and financial losses.

The Government entered into negotiations with a team nominated by *Tehreek-e-Taliban* (also known as the Pakistani Taliban, or TTP) in February 2014 to establish a framework for peace talks. Both delegations agreed that each side would not act in any way which may damage the process as the dialogue continues. After the failure of negotiations with nominees of the Tehreek-e-Taliban Pakistan, the Government launched an operation to clear the hide-outs of terrorists in North Waziristan and elsewhere in June 2014. The operation has been a success and is currently ongoing, in its final phase, and the rate of terrorist activity has declined. As of June 2015, approximately 2,763 militants have been killed and thousands fled to Afghanistan.

In addition to terrorist attacks by groups seeking to overthrow the government in Islamabad and to replace it with a religious government, Pakistan also faces attacks from insurgents who want greater autonomy in Balochistan, Sindh and the Federally Administered Tribal Areas.

Localised terrorist attacks in which militants destroy railway links, gas pipelines and power pylons and launch attacks on Government buildings and army bases in the Khyber Pakhtunkhwa province and the southwest province of Balochistan are common. There have also been high profile attacks such as the attack on a naval base in Karachi in 2011 and the attack on the district court in Islamabad on 3 March 2014. In June 2014, armed militants attacked Jinnah International Airport in Karachi, killing 36 people and injuring at least 18 people. More recently suicide attacks at the Wagah border led to the killing of more than 60 civilians. In December 2014, seven gunmen affiliated with the *Tehreek-i-Taliban* conducted a terrorist attack on the Army Public School in the northwestern Pakistani city of Peshawar killing 145 people, including 132 schoolchildren. In January 2015, Sunni militants linked to the Pakistani Taliban killed at least 61 people and seriously injured 50 in a bombing at a Shiite mosque in the Shikarpur District of Sindh. In May 2015, attacks by gunmen on buses in Karachi and Mastung resulted in the deaths of 69 people. The withdrawal of the U.S. troops from Afghanistan may result in increased capacity for terrorist groups operating in Pakistan, resulting in greater instability, and Pakistan continues to advocate a phased withdrawal.

In the wake of the terrorist attack on the Army Public School in Peshawar the Government formulated a National Action Plan (**NAP**) with the backing of all political parties and other stakeholders to combat extremism in all its forms. The NAP aims to curtail terrorist financing; coordinate intelligence sharing between the federal and provincial governments of Pakistan, as well as between Pakistan's military police and other security agencies; and create dedicated counter-terrorism forces. It involves Government regulation and reform of the madrasas to bring them within mainstream education as well as an anti-money laundering campaign to restrict terrorist funding by the SBP and Federal Investigation Authority. In addition, the Government has stepped up electronic and social media monitoring to ensure that information which may be of use to terrorists is not made publicly available. The implementation of the NAP has resulted in a marked improvement in the security situation in Pakistan.

There have been historic issues between India and Pakistan related to extremist activity. In September 2013, Prime Minister Mian Muhammad Nawaz Sharif promised to take action against *Lashkar-e-Taiba* (the South Asian terrorist organisation mainly operating from Pakistan) in relation to the Mumbai attacks of November 2008, and in January 2014 Pakistan's anti-terrorism court began hearing the trial of seven men charged with involvement in the attacks. The trial is ongoing.

It is estimated that the total cost to Pakistan of the Fight against Extremism has been approximately U.S.$107 billion for the period from 2001 to 2015, with costs having decreased sharply since 2010-11 as a result of the improving security situation. Estimated annual losses for the past five years are as follows:

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
			(Rupees billion)		
Estimated losses…………………………	2,037.33	1,052.77	964.24	681.68	457.93

National Security Reform. In recent years there has been significant development of counter-terrorism laws in Pakistan, including:

- the National Counter Terrorism Authority Act 2013 which established the National Counter Terrorism Authority (**NACTA**) as Pakistan's anti-terrorism institution, mandated with developing a national counter-terrorism plan, coordinating the 33 institutions involved in internal security, and liaising with international counter-terrorism agencies;

- the Investigations for Fair Trials Act 2013 which introduced new evidence rules, permitting the surveillance of emails, phone calls and SMSs of suspects under a warrant of the High Court;

- the First and Second Amendments to the Anti-Terrorism Act 2013 which expanded the definition of terrorism to include intimidating the business community and created new anti-terrorism courts in Karachi;

- the First and Second Amendments to the Anti-Terrorism Act 2014 whereby the Government may publish lists of organisations or individuals who are suspected to be concerned in terrorism, owned or controlled, directly or indirectly by a terrorist organisation or acting on behalf of a terrorist group. Where an organisation or individual is concerned with terrorist activities, the amendments set out the various measures that may be taken against them by the Government;

- the Protection of Pakistan Ordinance 2013 and the Protection of Pakistan Ordinance (Amendment) 2014 which increased the powers of the security forces in relation to suspected terrorists, permitting arrest and search of property without a warrant; and

- as part of the implementation of NAP, the 21st amendment to the Constitution and amendment to the Army Act of 1952, both passed by Parliament in January 2015, allow military tribunals to try civilians accused of belonging to "a terrorist group or organisation using the name of religion or a sect" carrying out acts of violence and terrorism.

In addition to legislative changes, in February 2014 the Government announced its National Internal Security Policy 2014-2018 (**NISP**) which sets out its four-year plan to improve the security situation in Pakistan. Under the supervision of NACTA, the NISP provides for: (i) dialogue with anti-state groups to resolve disputes; (ii) the isolation of terrorists from their social and financial support systems; and (iii) improving the resources available to the security forces to effectively prevent terrorist attacks. Various measures have been proposed to implement the NISP including the creation of a federal rapid response force, improved border controls with Afghanistan, integration of civilian and military surveillance information and the inclusion of mosques and madrasas into the educational system.

As a result of the implementation of the NISP, Pakistan has experienced a significant reduction in the number of suicide bombings and deaths resulting therefrom during 2015.

OVERVIEW OF PAKISTAN'S ECONOMY

Pakistan's economy is the twenty-sixth largest in the world in terms of purchasing power parity and the forty-second largest in terms of GDP, according to best estimates from publicly available sources. Pakistan is a rapidly developing country and is one of the "Next Eleven" countries that have the potential to become significant world economies in the next 25 years.

Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, Karachi and major urban centres in the Punjab. It ranks as the fifteenth largest trader of goods in the world and the world's sixth largest trader of services, according to best estimates from publicly available sources. Major industries include textiles, chemicals, food processing, iron, steel, automobiles, fertilizer, cement, dairy and sports goods.

Under its current Government, elected in May 2013, Pakistan is currently undergoing a significant process of fiscal consolidation, improvement of macroeconomic fundamentals and economic liberalisation which includes tax reforms, energy sector reforms, privatisation of SOEs and is aimed at attracting foreign investment and decreasing the budget deficit. Foreign exchange reserves have been bolstered by improved financial inflows and a moderate current account deficit underpinned by steady worker remittances and relatively low imports. See "-*Structural Economic Reforms*" below.

The Extended Fund Facility Programme with the IMF instituted in September 2013 effectively institutionalises the Government's economic reforms agenda. Pakistan has successfully completed seven quarterly Reviews under the Programme.

Pakistan's currency is the Rupee and its fiscal year is 1 July to 30 June. Pakistan's economy has three principal sectors: services (58.8 per cent of GDP 2014-15), industrial (20.3 per cent of GDP 2014-15) and agriculture (20.9 per cent of GDP 2014-15).

Pakistan's principal export destinations are the U.S., China, the United Arab Emirates, Afghanistan, Germany, France and the United Kingdom. In 2014-15, Pakistan's exports were U.S.$23.9 billion, principally in the form of textiles, rice, leather, chemicals, carpets, steel, foodstuffs, fertilizer, cement, sugar, animals, electrical equipment, petroleum and sports goods. Pakistan's principal imports are from China, Saudi Arabia, the United Arab Emirates and Kuwait. In 2014-15, Pakistan's imports were U.S.$46.0 billion, principally petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper, iron, steel and tea.

Economic History

In 2001, Pakistan reached an agreement with the Paris Club of creditors (**Paris Club**) with respect to U.S.$12.7 billion of debt. The Paris Club is an informal group of financial officials from 19 of the world's biggest economies which aims to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. See "*Public Debt – Debt Restructuring – Paris Club*".

From 2001 until the global economic crisis of 2008, Pakistan enjoyed a relatively robust economic performance. However, in 2007 and early 2008, inflation began to rise and external imbalances expanded. Conditions deteriorated in mid-2008 with the sharp increase in international food and fuel prices and worsening of the domestic security situation. The fiscal deficit widened, due in large part to rising energy subsidies financed by credit from the SBP. As a result, the Rupee depreciated and foreign currency reserves fell sharply.

Despite one of the most serious economic crises in Pakistan's recent history, a degree of macroeconomic improvement has been achieved in recent years. GDP growth was 4.24 per cent in 2014-15, 4.03 per cent in 2013-14 and 3.65 per cent in 2012-13. The increased growth of GDP in 2014-15 reflects growth in all three principal economic sectors – services, agriculture and industrial. In 2014-15 the services sector grew at 4.95 per cent (4.37 per cent in 2013-14), the agriculture sector grew at 2.88 per cent (2.69 per cent in 2013-14) and the industrial sector grew at 3.62 per cent (4.45 per cent in 2013-14). See "*Energy in Pakistan*" below and "*The Islamic Republic of Pakistan – Fight Against Extremism*".

Major Economic Indicators

The following table sets out major economic indicators from 2010-11 to 2014-15:

	2010-11	2011-12	2012-13	2013-14[(1)]	2014-15[(2)]
GDP at current market price (*Rupees million*)..........................	18,276,440	20,046,500	22,378,996	25,068,059	27,383,722
GNI at current market price (*Rupees million*)..........................	19,096,665	21,082,207	23,540,602	26,496,982	29,061,408
Population (*million*)	175.3	178.9	182.5	186.2	189.9
Per capita income at factor cost (*Rupees*).....................................	105,347	114,008	124,135	136,059	144,834
Per capita income (*U.S.$*)...........	1,274	1,321	1,333	1,384	1,512
Exports (*U.S.$ million*) (fob).........	25,356	24,718	24,795	25,078	24,147
Imports (*U.S.$ million*)(fob)..........	35,872	40,370	40,157	41,668	41,135
Balance of trade (*U.S.$ million*) ...	(10,516)	(15,652)	(15,355)	(16,590)	(16,988)
Workers' remittances (*U.S.$ million*)..	11,201	13,186	13,922	15,837	18,454
Current account balance (*U.S. $ million*)......................................	214	(4,658)	(2,496)	(3,130)	(2,221)
Current account balance (*as % of GDP*)	0.1	(2.1)	(1.1)	(1.3)	(0.8)
Overall fiscal deficit (*as % of GDP*)	6.5[(3)]	6.8[(4)]	8.2	5.5	5.3
GDP growth at factor cost (*%*)	3.62	3.84	3.65	4.03	4.24
Average Inflation (*%*)	13.7	11.0	7.4	8.6	4.5
Total investment at market price (*as % of GDP*)....................	14.1	15.1	15.0	15.0	15.1
Real GDP at factor cost (*Rupees million*)..........................	9,120,336	9,470,255	9,816,212	10,211,456	10,644,336
Private consumption expenditure at current prices (*Rupees million*)..........................	14,831,293	16,527,831	18,085,275	20,219,316	21,688,176
National savings (*as % of GDP*)...	14.2	13.0	13.9	13.7	14.5

(1) Revised
(2) Provisional pending National Assembly approval in May 2016 of Pakistan's economic data for 2014-15.
(3) Includes payment of arrears of electricity subsidies.
(4) Excludes a one-off payment of Rupees 391 billion on account of debt consolidation.

Source: Ministry of Finance, except for 'Exports' and 'Imports' for which the source is the State Bank of Pakistan

Economic Policy Objectives

The current Government of Pakistan, elected in May 2013, has formulated a programme called Vision 2025 as Pakistan's long-term development plan aimed at creating a globally competitive and prosperous country. This programme aims to transform Pakistan into an industrialised and knowledge-based upper middle-income country by 2025.

The Government's economic objectives under Vision 2025 are as follows:

- to achieve macroeconomic stability;
- to revive economic growth;
- to reduce poverty;
- to improve governance;
- to develop social and human capital;
- to provide energy, water and food security; and
- to modernise transport, infrastructure and regional connectivity.

The Government's existing three-year finance programme with the IMF effectively institutionalises the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan is subject to extensive quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 26 June 2015, the executive board of the IMF completed the seventh review of Pakistan's economic performance. This culminated in the approval of the immediate disbursement of an amount equivalent to SDR 360 million (approximately U.S.$506.4 million), bringing total disbursements under the arrangement to SDR 2.88 billion (approximately U.S.$4.356 billion). The executive board of the IMF has recently conducted its eighth review of Pakistan's economic performance. The IMF Staff Report is due to be published in October 2015.

The Government's broad economic programme has been supplemented by a series of wide-ranging structural reform measures, which are needed to enhance economic incentives and improve resource allocation, as well as to remove impediments to private sector development. The Government believes that Pakistan's economic problems are structural in nature and the objectives of sustaining high growth, low inflation and external payment viability cannot be achieved without removing certain structural barriers. The Government's major structural economic reforms include tax reform, privatisation, trade reform to facilitate further privatisation, reform of the Pakistan Water and Power Development Authority (**WAPDA**) and financial sector reform. See "*– Structural Economic Reforms*" below.

Achieve Macroeconomic Stability. The Government's economic policy objectives seek to achieve macroeconomic stability and foster sustainable and more equitable growth by means of structural improvements in the productive sectors of Pakistan's economy, involving a broad range of policy actions across sectors.

Following the election of the Government in May 2013 and its implementation of its long-term development programme, known as Vision 2025, significant initial gains in restoring macroeconomic stability have been made. Principal economic developments since the Government was elected include the following:

- *Fiscal Deficit.* The fiscal deficit for 2014-15 represented 5.3 per cent of GDP, compared to 5.5 per cent of GDP in 2013-14. The Government's fiscal deficit target for 2015-16 is 4.3 per cent of GDP, based on its policy of improving revenue collections, tax reform measures, phasing out electricity subsidies, and other measures described below. As of 30 June 2015, the Government has eliminated and closed tax exemptions and loopholes worth Rupees 104 billion created through Statutory Regulation Orders (**SROs**) implemented by Pakistan's former government.

- *GDP Growth.* Real GDP growth was 4.24 per cent for 2014-15 (4.03 per cent in 2013-14) and is forecast at 5.5 per cent for 2015-16.

- *Inflation.* The Government's target for inflation in 2014-15 was 8.0 per cent and actual inflation was 4.53 per cent (8.62 per cent in 2013-14). The inflation target for 2015-16 is 6.0 per cent. Weak global commodity prices, principally oil, and better food supply in Pakistan along with prudent fiscal and monetary management helped in bringing inflation down in 2014-15. The slow rate of inflation is expected to continue into 2015-16. From July to August 2015, inflation was 1.7 per cent compared to 7.4 per cent in the same period in 2014-15.

- *Balance of Payments.* The Government has taken measures to increase foreign exchange inflows through accessing the global capital markets, the implementation of structural reforms and prudent fiscal policies. As a result, Pakistan's balance of payments situation has improved significantly since the Government took office in 2013. Foreign exchange reserves (inclusive of reserves held by local banks) increased to U.S.$18.7 billion at the end of 2014-15, compared to U.S.$14.2 billion at the end of 2013-14, supported by low global oil prices, SBP interventions, multilateral and bilateral disbursements, and privatisation proceeds.

- *Debt.* Pakistan's external debt was approximately 24.1 per cent of GDP at 30 June 2015 and (subject to significant exchange rate depreciation, a decline in remittances and/or a rise in oil prices) is predicted by the Government to remain at this level for the medium term. Pakistan has successfully extended its debt maturity profile over recent years.

Revival of Economic Growth. The Pakistan economy experienced low GDP growth rates from 2008-09 to 2012-13, principally due to short supplies of energy, poor law and order and the 2010 and 2011 floods. The global economic crisis of 2008 also negatively impacted growth in Pakistan's economy. Real GDP growth averaged 2.8 per cent during this period and began to revive in 2013-14 when GDP growth averaged 4.03 per cent, reaching 4.24 per cent growth in 2014-15. Pakistan's GDP growth environment continues to be affected domestically by the intensification of the Fight against Extremism and the generally volatile security situation, as well as infrastructure constraints. GDP growth is also affected by increasing oil price rises.

The Government has taken measures to improve the GDP growth trajectory, primarily by implementing financial inclusion initiatives including, in the agricultural sector, to provide producers with crop and livestock insurance and better access to credit. See "*Principal Sectors of the Economy – Financial Services*" and "*Principal Sectors of the Economy – Financial Sector Regulation*"

The Government also implemented structural reforms aimed at reinvigorating the economy, increased growth, the maintenance of price stability, job opportunities for youth, the development of infrastructure projects and increased exports and tax collection, as well as reducing both the fiscal and current account deficits. See "*− Structural Economic Reforms*"

Poverty Reduction. The Fiscal Responsibility and Debt Limitation Act 2005 provides that expenditures on social and poverty related spending should be not less than 4.5 per cent of GDP in any year. During 2014-15, Rupees 2,172 billion, or 7.9 per cent of GDP, was spent under the Poverty Reduction Strategy Paper (**PRSP II**) aiding Pakistan's economic growth generally, particularly through stimulating growth in the manufacturing sector, thus creating additional employment opportunities, improving income distribution and harnessing Pakistan's economic competitiveness through economic liberalisation, deregulation and transparent privatisation. PRSP II is funded directly from the Government of Pakistan's budget.

The Government's social safety net programme includes an income support programme (known as **BISP**) which was launched in July 2008 with the objective of cushioning the negative effects of slow economic growth, the fuel, food price and financial crisis and the effect of inflation on the poor, particularly women, through the provision of a cash grant of Rupees 1,500 (approximately U.S.$15) per month to eligible families. Currently BISP is helping around five million poor households across Pakistan through monthly cash grants, stipends for school enrolments, vocational training and a range of complementary initiatives.

For 2014-15, the total budget allocation for BISP was Rupees 97 billion (of which Rupees 92 billion were disbursed in that financial year), which increased from Rupees 75 billion in 2013-14. Pakistan also receives multilateral funding for BISP, which includes U.S.$203.59 million received in aggregate to 2014-15 from the U.K. Department for International Development out of a total commitment of U.S.$446 million between 2012-2020, as well as an estimated U.S.$68.29 million received from the ADB and World Bank out of total programme sizes of U.S.$430 million and U.S.$210 million, respectively, between 2008-20. In September 2013, the amount of the monthly cash grant awarded under BISP increased from Rupees 1,200 per month per family to Rupees 1,500 per month.

Additionally, to enhance self-employment, some registered beneficiaries of BISP are selected through a monthly draw under *Waseela-e-Haq* (a specific scheme within BISP) and each of them are provided with an interest-free loan worth Rupees 300,000, repayable in instalments over a period of 15 years. The Government is also working on various microfinance initiatives, in collaboration with the SBP and multilateral institutions, to generate employment and combat poverty; under the *Waseela-e-Haq* initiative to date Rupees 2.2 billion has been disbursed to 13,445 beneficiaries. Under other BISP initiatives, 58,528 individuals from BISP beneficiary families have been provided vocational and technical training, over 4.1 million families have received three years life and health insurance for income earners and approximately 700,000 children have been able to attend school as their families have received extra income support.

The Government is currently undertaking a number of additional initiatives to support Pakistan's youth and alleviate poverty, including a youth business loan scheme, a skills development programme, a youth training programme, a microfinance scheme, an educational fee reimbursement fund for post-graduate students from less developed areas, as well as the provision of laptops to students in higher education.

According to the Labour Force Survey 2013-14, employment has risen over the past two years, with much of the increase coming from self-employed women in urban areas:

Employed Labour Force

	2012-13			**2013-14**		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
		(millions)			***(millions)***	
Pakistan	56.01	43.49	12.52	56.52	43.33	13.19
Rural	39.14	28.57	10.57	39.08	27.83	11.25
Urban	16.87	14.92	1.95	17.44	15.50	1.94

Unemployed Labour Force	**2012-13**			**2013-14**		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
		(millions)			***(millions)***	
Pakistan	3.73	2.49	1.24	3.58	2.32	1.26
Rural	2.09	1.32	0.77	2.06	1.27	0.79
Urban	1.64	1.17	0.47	1.52	1.05	0.47

Employed-Distribution by Employment Status and Gender

	2012-13			2013-14		
Employment Status	**Total**	**Male**	**Female**	**Total**	**Male**	**female**
		(%)			*(%)*	
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Employers	1.30	1.60	0.10	1.10	1.40	-
Own account workers	33.60	38.90	15.00	35.40	40.50	18.60
Contributing Family Workers	26.30	16.50	60.50	24.40	15.10	55.00
Employees	38.80	43.00	24.40	39.10	43.00	26.40

Source: Labour Force Survey 2013-14

Average monthly wages have also increased in every major industry division during the last two years:

Average Monthly Wages of Employees by Major Industry Divisions

	2012-13			2013-14		
Industry Division	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**
		(Rupees)			*(Rupees)*	
Total	**12,118**	**12,804**	**7,869**	**13,155**	**14,079**	**8,228**
Agriculture, forestry, hunting and fishing	6,221	7,873	3,863	6,327	7,995	4,236
Mining and Quarrying	15,508	15,740	5,169	17,971	17,971	-
Manufacturing	11,023	11,734	4,958	11,720	12,716	4,953
Electricity, gas and water	22,600	22,711	16,628	23,060	23,251	14,486
Construction	9,614	9,610	10,455	11,008	11,031	8,563
Wholesale, retail; restaurants and hotels	8,656	8,668	7,245	9,706	9,729	9,302
Transport, storage and communication	13,792	13,733	20,152	14,950	14,972	20,517
Financing, insurance, real estate and business services	28,658	28,673	28,624	35,194	35,280	31,182
Community, social and personal services	16,642	17,902	12,189	18,932	20,758	13,508

Source: Labour Force Survey 2013-14

Improved Governance. The Government gives a high priority to improving national governance. While initial actions focused on accountability, especially with respect to loan and tax defaulters, the Government has embarked on a series of reform measures the key elements of which include devolution and decentralisation of state power to the local level, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

Structural Economic Reforms

The Government's broad economic programme Vision 2025 has been supplemented by a series of wide-ranging structural reform measures, which are needed to enhance economic incentives and improve resource allocation, as well as to remove impediments to private sector development. The Government believes that Pakistan's economic problems are structural in nature and the objectives of sustaining high growth, low inflation and external payment viability cannot be achieved without removing certain structural barriers.

The Government's major structural economic reforms include tax reform, privatisation, trade reform to facilitate further privatisation, reform of WAPDA and financial sector reform.

Tax Reform. Pakistan's Federal Board of Revenue (**FBR**) has taken various medium term policy and administrative measures to increase the tax-to-GDP ratio from 8.7 per cent (2012-13) to 15 per cent (2017-18). The tax-to-GDP ratio was 9.45 per cent for 2014-15. The aim is to develop a full tax administration strategy, to ensure the reduction of certain tax exemptions and concessions and to improve anti-money laundering rules. See *"Public Finance and Taxation – Revenue and Expenditure – Tax Collection".*

Privatisation. The principal objective of the Government's privatisation policy is to reduce the demand on government resources, raise funds for priority sectors, improve the efficiency of the economy through private sector participation in SOEs and stimulate direct investment in Pakistan. Privatisation is a high priority for the Government as part of its overall economic reforms and the scope of its privatisation programme includes public sector entities in the power, oil and gas, banking, insurance, infrastructure, telecoms, real estate and industrial sectors.

Pakistan's Privatisation Commission evaluates SOEs for privatisation, starts the bidding process and makes recommendations to the cabinet committee on privatisation (**CCOP**). Under the Privatisation Commission Ordinance of 2000 (the **Ordinance**) 90 per cent of privatisation proceeds shall be utilised for retirement of federal government debt and 10 per cent for poverty alleviation. Under the Ordinance, the privatisation process is conducted through well-defined procedures, including consultation with all stakeholders. The current privatisation program is modelled around the concept of Public-Private Partnership, wherein management of public sector enterprises (**PSEs**) is planned to be transferred to strategic investors. The program also includes divestments through strategic sales and capital markets to enhance the attractiveness and visibility of Pakistan for investment.

Pakistan has a history of privatisation transactions and from 1991 through 2013 completed 167 transactions across a broad range of sectors resulting in sale proceeds of Rupees 476 billion.

The Privatisation Commission re-launched its privatisation program in 2013 by identifying 31 entities for early privatisation, as approved by the CCOP in its meeting held in October 2013. Subsequently, the CCOP, in its meeting held in June 2014,approved 8 additional entities for early privatisation. Since April 2014, the Privatisation Commission has successfully completed four capital market transactions; an offering of the Government of Pakistan's 19.8 per cent ownership in United Bank Limited in June 2014, an offering of 5 per cent of the Government of Pakistan's ownership in Pakistan Petroleum Limited in June 2014, an offering of the Government of Pakistan's 11.5 per cent ownership in Allied Bank Limited in December 2014, and an offering of the Government of Pakistan's 41.5 per cent ownership in Habib Bank Limited in April 2015. Furthermore, the Privatisation Commission has successfully completed the bidding process and signed the Share Purchase Agreement (**SPA**) for the strategic sale of the Government of Pakistan's 88 per cent ownership in National Power Construction Corporation (Pvt.) Limited in August 2015. In total, the Privatisation Commission has raised Rupees 173 billion, including over U.S.$1.1 billion in Foreign Exchange, from these five completed transactions. The Privatisation Commission aims to pursue the following road-map through June 2016:

Entity	Approximate Government Holding (including BESOS[(1)]) (%)	Divestment Size/Mode	Market Capitalisation (*U.S.$ million*)[(2)(3)]	Target Date
Pakistan Steel Mills	100	Strategic sale	Unlisted	December 2015
KotAddu Power Company (**KAPCO**)	46	Strategic sale	829	March 2016
State Life Insurance Corporation (**SLIC**)	100	Capital market transaction	Unlisted	March 2016
Pakistan International Airlines (**PIA**)	93	Strategic private sector participation	Listed	March 2016
Faisalabad Electric Supply Company (**FESCO**)	100	Strategic private sector participation	Unlisted	June 2016
Lahore Electric Supply Company (**LESCO**)	100	Strategic private sector participation	Unlisted	June 2016
Northern Power Generation Company	100	Strategic private sector participation	Unlisted	June 2016
Islamabad Electric Supply Company (**IESCO**)................	100	Strategic private sector participation	Unlisted	June 2016
Mari Petroleum Company Limited	18	Capital market transaction	420	June 2016
Pak Arab Refinery Limited (**PARCO**)	60	Capital market transaction	Unlisted	June 2016

(1) Benazir Employee Share Option Scheme, which offers a 12 per cent share in public sector enterprises to their employees.
(2) Based on closing price of shares on the KSE on 3 September 2015.
(3) U.S.$ amount calculated based on U.S.$ / PKR exchange rate on 3 September 2015, being PKR 104.22 per U.S.$.

Source: Privatisation Commission

Trade Reforms. Pakistan has implemented deregulation in all areas including trade. The current Government embarked on an accelerated economic programme by encouraging foreign direct investment, easing restrictions on imports and liberalising foreign exchange regulations. Partly as a result of trade liberalisation, Pakistan's exports were U.S.$23.9 billion in 2014-15. The Ministry of Commerce is formulating a medium term Strategic Trade Policy Framework (**STPF**) covering the three years 2015-18. The STPF 2015-18 will include plans to enhance Pakistan's export competitiveness by way of initiatives relating to product diversification, value addition, trade facilitation and enhanced market access. An allocation of Rs 6 billion has been made to support the initiatives.

Pakistan has remained committed to the rule based, non-discriminatory multilateral trading system governed by the WTO regime. Tariffs on industrial and agriculture products have been reduced substantially and quantitative restrictions have been eliminated.

Since 2012, Pakistan has operated a "negative list regime" for trade with India. The negative list specifies items that may not be imported into the country and has been significantly reduced by the current Government. The impact of these measures is evidenced by the increase in Pakistan's exports to India (to U.S.$408 million in 2013-14 compared to U.S.$327 million in 2012-13) and the increase in Pakistan's imports from India (to U.S.$1.8 billion in

2013-14 compared to U.S.$1.7 billion in 2012-13). During the year 2014-15 (July-May), Pakistan's exports to India were U.S.$335 million, while India's exports to Pakistan were U.S.$1.5 billion.

In order to promote regional and bilateral trade, Pakistan has entered into several trading arrangements with countries of the region such as the SAFTA Agreement, the Pakistan-Sri Lanka Free Trade Agreement, the China-Pakistan Free Trade Agreement, the Comprehensive Free Trade Agreement between Pakistan and Malaysia and a Preferential Trade Agreement with Islamic Republic of Iran (subject to applicable sanctions compliance). All agreements are aimed at further facilitating an increase in exports at large, as well as in regional trade.

In December 2013, the EU Parliament voted to confirm Pakistan as one of ten countries to enter into the GSP+ scheme. Under GSP+, Pakistan will benefit from duty-free access to the EU market in respect of 90 per cent of its exports to the EU, provided that the Government implements legislation to improve human rights, labour standards, sustainable development and good governance, all of which are part of the current Government's programme. As a result of GSP+, Pakistan's exports to the EU have increased from U.S.$5.30 billion during the period January-October 2013 to U.S.$6.38 billion during the same period in 2014. The Government believes that GSP+ generated nearly one million new jobs in Pakistan in 2014, principally through increased exports of ethyl alcohol, carpets, plastics, footwear, leather, non-value-added textiles, home textiles and textile garments, all of which attracted large tariffs up until 31 December 2013 after which such tariffs were removed under GSP+ allowing for duty-free trade.

Pakistan's investment-to-GDP ratio has increased from 14.11 per cent in 2010-11 to 15.12 per cent in 2014-15.

***Reform of the Water and Power Development Authority**.* WAPDA was created in 1958 as a semi-autonomous body for the purpose of coordinating and giving a unified direction to the development of schemes in the water and power sectors. These were previously being dealt with by the respective provinces.

In 2007, WAPDA split into two distinct entities: WAPDA and the Pakistan Electric Power Company (**PEPCO**). WAPDA is responsible for water sector projects and hydroelectric power development, whereas PEPCO is responsible for thermal power generation, transmission, distribution and billing, as well as for the management of all the affairs of the nine corporatised distribution companies (**DISCOs**), four generation companies (**GENCOs**), and the national transmission dispatch company (**NTDC**). These companies each operate under an independent board of directors. The majority shareholder in all these companies is the Government, with shareholdings ranging between 93 and 95 per cent. An independent company, the Central Power Purchasing Agency Company (Guarantee) Limited has recently taken over responsibility for the settlement, administration and development of competitive power markets from the NTDC.

In 2007, the Ministry of Water and Power approved tariffs for all distribution companies replacing the unified WAPDA Tariff. In September 2010, the then government developed a power sector reform which has been endorsed by all stakeholders and international partners. Reforms to date have resulted in a reduction of subsidies for the power sector, reducing its impact on Pakistan's fiscal deficit.

Under the Government's power sector reform plan, Pakistan's power distribution companies are to be made autonomous. The boards of directors of the DISCOs and NTDC have been reconstituted as professional and autonomous boards. The legal framework of the National Electric Power Regulatory Authority is being strengthened and the governance structure of the power sector is being improved. See "*Energy in Pakistan – Power Sector Reform*".

***Financial Sector Reforms**.* The supervision and regulation of non-bank financial companies is with the Securities and Exchange Commission of Pakistan (**SECP**). The SBP supervises the banking sector. The SBP has revised banking regulations with a view to providing flexibility and enhancing prudence. The SBP's supervisory regime, which adequately complies with core principles of effective banking supervision, comprises guidelines, rules and regulations to: (i) facilitate the development and growth of primary and secondary markets; (ii) strengthen risk management and internal control systems in banks; (iii) set minimum prudential standards for financing, operations, know-your-client, anti-money laundering, counter-terrorist financing and corporate governance; (iv) strengthen the solvency regime though risk-based capital requirements in line with the Basel capital accord; (v) accelerate the recovery process of defaulted loans; (vi) strengthen the governance, disclosures and transparency in the practices of commercial banks, including a fit and proper test for the appointment of key executive officers and boards of directors; (vii) enhance payment systems and increase connectivity of ATMs through shared networks; and (viii) promote alternative delivery channels such as "branchless banking".

The banking system has shown reasonable resilience to different shocks in the aftermath of the global economic crisis and maintained its profitability and strong risk-based solvency indicators. To promote consolidation in the banking sector, the SBP increased minimum capital requirements. To strengthen the financial markets, banks have been permitted to raise funds from the capital markets in the form of rated and listed subordinated debt securities, which can be included in the bank's supplementary capital within the limits prescribed under the Basel-III rules.

The SECP introduced various structural, legal and fiscal reforms aimed at strengthening risk management, increasing transparency, improving governance of the capital market infrastructure institutions, enhancing investor protection and launching new product and market development initiatives. Recent regulations are aimed at improving protection of debenture holders' interests, enabling the registration of security interests and recognising trustees.

The stock exchanges in Pakistan were successfully corporatised and demutualised on August 27, 2012 under of the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act 2012. Demutualisation was an important reform for the Pakistan capital markets as it addressed the conflicts prevalent in the historic mutualised regime of the stock exchanges by separating ownership from trading rights and segregating the commercial and regulatory functions of the stock exchanges.

An Islamic banking department has been created in the SBP to promote Islamic banking in Pakistan. The SBP has also become a founding member of the Malaysian-based Islamic Financial Services Board which is responsible for preparing standards and guidelines for Islamic financial institutions. See "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Financial Services – Islamic Banking*".

Any delay in the implementation of the economic reforms being undertaken in Pakistan may have a negative effect on the performance of the Pakistani economy and may hinder the Government's ability to obtain external financing, including further funding from the IMF which will depend, amongst other things, on the progress of the implementation of such reforms. Although the Government intends to proceed with its economic reforms, there can be no assurance that these reforms will be fully implemented or that, if implemented, will be successful.

Gross Domestic Product

The composition of Pakistan's GDP has undergone considerable change over the last four decades as it experienced growth away from the agricultural sector in favour of the services sector. While the share of the industrial sector has remained relatively constant at almost 20.3 per cent of GDP over the last five years. The share of agriculture sector declined from its highest level of approximately 39 per cent of GDP in 1969-70 to 20.9 per cent of GDP in 2014-15 while the services sector increased from 45 per cent of GDP in 1969-70 to 58.8 per cent of GDP in 2014-15.

The following table sets out Pakistan's GDP at basic prices of 2005-06, as well as the contribution of various sectors of the economy to GDP in the period 2010-11 to 2014-15:

Sectors	2010-11	2011-12	2012-13	2013-14	2014-15[1]	2012-13/2013-14	2013-14/2014-15
						(*% change*)	
A. Services Sector ...	**5,208,136**	**5,437,145**	**5,716,248**	**5,965,957**	**6,261,314**	**4.4**	**5.0**
1. Wholesale and retail trade	1,718,014	1,746,511	1,808,124	1,880,004	1,943,499	4.0	3.4
2. Transport, storage and communication	1,198,896	1,254,126	1,304,697	1,364,255	1,421,737	4.6	4.2
3. Finance and insurance	274,674	279,171	302,392	315,032	334,513	4.2	6.2
4. Housing services (ownership of dwellings)	614,460	639,003	664,542	691,091	718,704	4.0	4.0
5. General government services...............	569,191	632,130	703,717	723,823	792,180	2.9	9.4
6. Other private services...............	832,901	886,204	932,776	991,752	1,050,681	6.3	5.9
B. Agricultural Sector	**1,977,178**	**2,048,794**	**2,103,600**	**2,160,223**	**2,222,337**	**2.7**	**2.9**
1. Crops	806,162	832,128	844,860	871,905	880,661	3.2	1.0
Important crops	485,722	523,936	524,839	566,607	568,219	8.0	0.3
Other crops	264,934	245,007	258,670	244,762	247,440	(5.4)	1.1
Cotton ginning	55,506	63,185	61,351	60,536	65,002	(1.3)	7.4
2. Livestock	1,087,406	1,130,740	1,169,712	1,201,944	1,251,443	2.8	4.1
3. Forestry...........	42,121	42,874	45,695	42,616	43,957	(6.7)	3.1
4. Fishing	41,489	43,052	43,333	43,758	46,276	1.0	5.8
C. Industrial Sector	**1,935,022**	**1,984,316**	**1,996,364**	**2,085,276**	**2,160,685**	**4.5**	**3.6**
1. Mining and quarrying	269,798	283,727	294,727	299,588	311,095	1.6	3.8
2. Manufacturing ..	1,227,091	1,252,670	1,310,522	1,369,003	1,412,453	4.5	3.2
Large scale	1,007,331	1,018,706	1,061,342	1,103,695	1,129,994	4.0	2.4
Small scale	133,556	144,713	156,691	169,676	183,654	8.3	8.4
Slaughtering....	86,204	89,251	92,489	95,632	98,805	3.4	3.3
3. Electricity generation and distribution and gas distribution	221,379	224,490	165,275	174,482	177,866	5.6	1.9

Sectors	2010-11	2011-12	2012-13	2013-14	2014-15(1)	2012-13/2013-14	2013-14/2014-15
						(% change)	
4. Construction.....	216,754	223,429	225,840	242,203	259,271	7.2	7.0
Commodity Producing Sector (B+C).........................	**3,912,200**	**4,033,110**	**4,099,964**	**4,245,499**	**4,383,022**	**3.5**	**3.2**
GDP at factor cost....................	9,120,336	9,470,255	9,816,212	10,211,456	10,644,336	4.0	4.2
Indirect taxes	504,829	533,424	519,054	559,311	663,669	7.8	18.7
Subsidies............	221,063	269,772	176,255	130,386	78,349	(26.0)	(39.9)
GDP at market price	9,404,102	9,733,907	10,159,011	10,640,381	11,229,656	4.7	5.5
Net factor income from abroad	372,728	386,559	403,132	474,319	551,366	17.7	16.2
GNI at factor cost....................	9,493,064	9,856,814	10,219,344	10,685,775	11,195,702	4.6	4.8
GNI at market price	9,776,830	10,120,466	10,562,143	11,114,700	11,781,022	5.2	6.0
Population (*million*)..............	175.3	178.9	182.5	186.1	189.9	2.0	2.0
Per capita income at factor cost (*Rupees*)............	54,152	55,094	55,987	57,392	58,965	2.5	2.7

(1) Provisional.

Source: Pakistan Bureau of Statistics

The following table sets out Pakistan's GDP at current prices, as well as the contribution of various sectors of the economy to GDP in the period 2010-11 to 2014-15:

Sectors	2010-11	2011-12	2012-13	2013-14	2014-15(1)	2012-13/2013-14	2013-14/2014-15
	(Rupees million, unless otherwise stated)					*(% change)*	
A. Services Sector ...	**9,307,836**	**10,338,770**	**11,642,671**	**12,924,402**	**14,342,563**	**11.2**	**11.0**
1. Wholesale and retail trade ..	3,568,178	4,006,835	4,369,465	4,809,945	4,874,000	10.1	1.3
2. Transport, storage and communication ..	1,923,433	1,905,704	2,311,796	2,482,573	3,200,310	7.4	28.9
3. Finance and insurance...........	536,345	570,503	522,327	600,731	626,418	15.0	4.3
4. Housing services (ownership of	886,370	984,148	1,092,773	1,229,106	1,371,454	12.5	11.6

Sectors	2010-11	2011-12	2012-13	2013-14	2014-15[1]	2012-13/ 2013-14	2013-14/2014-15
	(Rupees million, unless otherwise stated)					*(% change)*	
dwellings)							
5. General government services	1,009,433	1,244,687	1,486,115	1,660,434	1,898,070	11.7	14.3
6. Other private services	1,384,077	1,626,893	1,860,219	2,141,613	2,372,311	15.1	10.8
B. Agriculture Sector	**4,592,720**	**4,753,075**	**5,334,976**	**5,984,026**	**6,575,316**	**12.2**	**9.9**
1. Crops	2,309,517	1,966,610	2,192,553	2,625,223	2,720,514	19.7	3.6
Important crops................	1,532,889	1,236,453	1,411,388	1,770,196	1,769,591	25.4	0.0
Other crops......	552,499	586,669	639,078	697,343	769,313	9.1	10.3
Cotton ginning............	224,129	143,488	142,087	157,685	181,610	11.0	15.2
2. Livestock	2,131,579	2,610,408	2,933,384	3,138,178	3,609,094	7.0	15.0
3. Forestry...........	89,390	113,103	136,500	140,745	153,230	3.1	8.9
4. Fishing	62,234	62,954	72,538	79,880	92,478	10.1	15.8
C. Industrial Sector	**3,746,997**	**4,269,666**	**4,519,033**	**4,995,554**	**4,904,064**	**10.5**	**(1.8)**
1. Mining and quarrying	494,739	642,205	696,976	743,085	709,862	6.6	(4.5)
2. Manufacturing	2,527,651	2,809,684	3,030,650	3,332,996	3,188,805	10.0	(4.3)
Large scale.......	2,144,831	2,362,410	2,512,376	2,748,946	2,540,026	9.4	(7.6)
Small scale.......	208,611	241,951	283,107	327,024	378,265	15.5	15.7
Slaughtering.....	174,209	205,323	235,167	257,025	270,515	9.3	5.2
3. Electricity generation and distribution and gas distribution.....	406,156	439,637	368,040	429,213	456,486	16.6	6.4
4. Construction.....	318,451	378,140	423,367	490,260	548,911	15.8	12.0
Commodity Producing Sector (B+C)........................	**8,339,717**	**9,022,741**	**9,854,009**	**10,979,580**	**11,479,380**	**11.4**	**4.6**
GDP at factor cost	17,647,553	19,361,511	21,496,678	23,903,982	25,821,943	11.2	8.0
Indirect taxes.....	1,046,915	1,221,540	1,275,990	1,487,097	1,765,027	16.5	18.7
Subsidies...........	418,028	536,551	393,674	323,020	203,248	(17.9)	(37.1)

Sectors	2010-11	2011-12	2012-13	2013-14	2014-15[(1)]	2012-13/2013-14	2013-14/2014-15
	(Rupees million, unless otherwise stated)					*(% change)*	
GDP at market price	18,276,440	20,046,500	22,378,996	25,068,059	27,383,722	12.0	9.2
Net factor income from abroad	820,225	1,035,707	1,161,607	1,428,923	1,677,686	23.0	17.4
GNI at factor cost	18,467,778	20,397,218	22,658,286	25,332,905	27,499,629	11.8	8.6
GNI at market price	19,096,665	21,082,207	23,540,603	26,496,982	29,061,408	12.6	9.7
Population (*million*).............	175.3	178.9	183	186	190	1.6	2.2
Per capita income at factor cost (*Rupees*)	105,347	114,008	124,135	136,059	144,834	9.6	6.5
Per capita income at market price (*Rupees*)	108,934	117,837	128,968	142,312	153,060	10.3	7.6
Per capita income at market price (*U.S.$*)..............	1,274	1,321	1,333	1,384	1,512	3.8	9.3
GDP deflator index	193	204	219	234	243	6.9	3.6
GDP deflator (*% growth*).........	19.5	5.7	7.1	6.9	3.6	-2.8	-47.8

(1) Provisional.

Source: Pakistan Bureau of Statistics

Principal Sectors of the Economy

Services Sector

The services sector in Pakistan consists primarily of transportation, communications and financial services. The services sector has been an important contributor to Pakistan's economic growth and it contributed 58.8 per cent of GDP in 2014-15, growing by 4.95 per cent in 2014-15 compared to 56.6 per cent of GDP (and growth of 1.3 per cent) in 2008-09. The growth performance in the services sector has come from all sub-sectors.

Transportation

Pakistan's transportation system has come under pressure as the pace of economic development in Pakistan has accelerated. The Government is intensifying its efforts to develop and modernise the sector through increasing public expenditure on transportation projects. The transport system in Pakistan is comprised of roads and highways, railways, air transport services and ports and shipping services. A 24 kilometre, 24 station Rawalpindi to Islamabad metro-bus project was completed and began operation in June 2015 and currently operates 68 buses on the new route. Average daily capacity is estimated at 180,000 people. Lahore already maintains a metro bus network.

- ***Roads and Highways.*** Roads have become the most important segment of the transport sector in Pakistan, with an ever increasing reliance on road transportation. In 1947, reliance on roads constituted approximately 8 per cent of Pakistan's transportation network. In 2013, roads accounted for over 96 per cent of inland freight and 92 per cent of passenger traffic. Pakistan's current road network is now approximately 263,942 kilometres. This includes the National Highway Authority's (**NHA**) network of approximately 12,131 kilometres which, despite being only 4.6 per cent of the overall road network, carries approximately 80 per cent of Pakistan's commercial traffic.

  The NHA is responsible for the construction and maintenance of the national highways and strategic roads. The Government, through the NHA, has a number of on-going projects and programmes to develop the road network including the M8 motorway, currently under construction, in the Balochistan and Sindh provinces. Once completed, the M8 motorway will have four lanes and a total length of 892 kilometres and will terminate on the coastal highway just east of the port city of Gwadar. See "– *Ports and Shipping*".

  The 2010 floods caused severe damage to road infrastructure by destroying approximately 10 per cent of the network (25,000 kilometres) causing a loss of U.S.$1.2 billion. Many sections of roads in the Punjab, Sindh, Balochistan and KPK provinces were destroyed by the floods resulting in an urgent need for reconstruction. The reconstruction requirements of the road sector have been estimated at U.S.$2.07 billion. Pursuant to a Public Sector Development Programme (**PSDP**) for the NHA in 2012-13, 45 major road reconstruction projects were undertaken across all four provinces. The costs of these projects were borne approximately equally by the Government and foreign aid. As at 1 August 2015, there are 11 ongoing development projects across all four provinces under the PSDP.

- ***Railways.*** Rail was the primary mode of transportation in Pakistan until the 1970s. However, because of the diversion of resources towards the expansion of the road network, the performance and condition of Pakistan Railways declined and its share of inland traffic has reduced significantly. Pakistan Railway is currently enduring its worst crisis since its formation.

  The Government is taking a number of initiatives to improve performance of Pakistan Railways. The aim is to increase Pakistan Railways' share in the overall transport sector of Pakistan from 4.0 per cent to 20.0 per cent. Initiatives include steps to revive the Railways Board, rationalisation of tariffs, renovation of old and procurement of new locomotives, improvement of the HSD oil reserve and a framework agreement entered into on 20 April 2015 between the National Railway Administration of the Government of the Peoples Republic of China and the Ministry of Railways on a joint feasibility study for upgrading ML-I and the establishment of the Havelian Dry Port of Pakistan Railways. The operation of freight trains from Karachi to up-country has been expanded over the last two years and the number of freight train journeys has been increased 1,504 per cent from 182 in 2012-13 to 2,920 in 2014-15. As a result of these initiatives, Pakistan Railways gross earnings have increased from Rupees 18,071 million in 2012-13, to Rupees 22,800 million in 2013-14, to 31,972 million in 2014-15.

- ***Civil Aviation.*** In 2014, Pakistan International Airlines (**PIA**) embarked upon a programme of modernisation focused on replacing its fleet. Fuel efficient aircraft have been acquired during 2014-15 on a wet and dry lease basis. Nine aircraft were retired from operation due to inefficiencies and, as a result, the average age of the fleet decreased from 17 to 14 years.

  Also in 2014, PIA entered into an agreement with General Electric (**GE**) to overhaul and carry out maintenance of the PIA Boeing Aircraft engines and to provide finance for advanced, fuel-efficient engines and to enable PIA to lease additional aircraft. The finance for this programme amounts to U.S.$55.0 million and is provided by both GE and the Islamic Corporation for the Insurance of the Investment and Export Credit.

Measures taken by management have had a positive impact on passenger revenues. The combined effect of an increase in seats (72.0 per cent) and in yield resulted in an almost 8.8 per cent increase in passenger revenue. Measures taken by the management included, among other things, fleet modernisation, route rationalisation and steps toward cost cutting. Operations on loss making routes were discontinued and frequencies were increased on profitable routes. Revenues from the charter business flourished with an increase of almost 50.0 per cent. Despite increasing costs, PIA was able to register a significant decline in its overall annual losses in 2014 by more than Rupees 12.0 billion or by 38.0 per cent compared with 2013. Total annual losses declined to Rupees 32.0 billion in 2014, as compared to Rupees 44.3 billion in 2013.

PIA recorded an operating profit in the first quarter of 2015 of Rupees 2.83 billion as a result of declining fuel costs and the introduction of new aircraft.

- ***Ports and Shipping****.* Pakistan's total seaborne trade of exports during 2014-15 was 18.422 million Mt, with total cargo amounting to 73.858 million Mt and ship calling reflecting an increase of 19 per cent from 2013-14.

  Karachi Port and Port Mohammed Bin Qasim, both located in Karachi, are the two major ports in Pakistan. Karachi Port handles most dry and liquid cargo. It handled 41.4 million Mt of cargo in 2013-14 and 43.42 million Mt of cargo in 2014-15. Port Qasim, located 50 kilometres south-east of Karachi, is Pakistan's deepest sea port and was built in 1973 for overflow traffic from Karachi Port and to handle raw material imports for Pakistan Steel Mills. It has grown into a fully functional port offering facilities for general and bulk cargo and specialised terminals for oil and liquid chemicals and container handling. It caters for approximately 40 per cent of the shipping requirements of Pakistan. Port Qasim handled a volume of 25.8 million Mt in 2013-14 and 30.0 million Mt of cargo in 2014-15, experiencing significant growth.

  Gwadar is located at the entrance to the Straits of Hormuz, a strategically important region of the world. The Gwadar port project is aimed at attracting transit trade for resource-rich central Asian republics, Afghanistan and western China, as well as the trans-shipment trade of the region. The first phase, comprising three multipurpose berths able to accommodate 70,000 DWT ships, was completed in 2007. The channel and berthing areas were initially dredged to 12.5 metres and were later deepened to 14.5 metres to enable access to larger ships. A concession agreement was initially signed in February 2007 with PSA Gwadar Pte Ltd. The concession agreement was novated in May 2013 to the China Overseas Ports Holding Company and in April 2015 Pakistan officially handed over operational rights of Gwadar port to that company for the next forty years. The Gwadar Port Authority, under the Ministry of Ports and Shipping, is ultimately responsible for operation and maintenance of the port, while Gwadar Development Authority, established under the Provincial Act of the Balochistan Assembly in 2003, is responsible for building the city infrastructure and implementing the Gwadar Master Plan which includes an airport, a commercial centre, a fishermen's centre, residential development, a gas and oil storage plant and industrial storage. The total dry bulk cargo handled at the port since opening in 2006 through June 2015 was over 6.279 million Mt. See also "*Energy in Pakistan – LNG*" below for a description of the LNG terminal and related 700 kilometres Gwadar to Nawabshah pipeline currently under construction.

  By November 2015, a number of major projects are expected to have commenced in Gwadar with Chinese assistance, including Gwadar Port West Bay Expressway, Gwadar Port Free Zone, a 60-acre Sino-Pakistani products display centre, Gwadar International Airport and an LNG terminal and pipeline (See "*The Islamic Republic of Pakistan – International Relations – Relations with Select Countries – Relations with China*").

  In addition, Gwadar Port Authority is currently carrying projects with local funding in relation to the development and construction of bank branches, stevedores offices, agency offices, custom clearing agents, containers freight stations, container repair/testing yard, cold storage, cargo storage sheds, marine repair workshop, seamen centre, rest house, canteen, utility stores and upgrades to the Gwadar Port Authority housing complex.

The National Highway Authority has expedited two road construction projects (the **N-85 and M-8**) so as to improve Gwadar port's connectivity. The northern portion of the M-8 is to be completed by December 2015 to connect the port with the north-south corridor through Khuzdar-Rathodero. The remaining portions of the N-85 and southern portion of M8 are to be completed by December 2016. This new road infrastructure will reduce distances between the regions of Pakistan and other countries which currently make use of the port.

Between 2008 and 31 July 2015, the port has handled 26 wheat shipments (963,609 Mt), 149 urea shipments (5,315,525 Mt) and 20 containers of fish have been exported.

Communications

- ***Postal Services.*** Pakistan's post office is a government entity which provides postal facilities through a network of over 12,000 post offices across the country. Several steps have been taken to modernise the system including the introduction of express postal services, the introduction of an electronic money transfer service and the development of the internal postal system.

- ***Telecommunications.*** The telecommunications sector contributes significantly to Pakistan's economy. The Government has granted high priority to developing Pakistan's telecommunications sector to facilitate sustainable growth in all sections of the economy. Pakistan successfully deregulated its telecommunications sector in 2003-04, leading to increased competition in the fixed line and mobile cellular segments of the telecommunications sector and resulting in the expansion of telecommunication infrastructure, low tariffs, high revenues, increased tax contributions and employment opportunities. The telecommunications sector experienced positive growth during 2014-15. The total mobile connections of five mobile operators were 114.7 million as at 30 June 2015. Teledensity was approximately 62.9 per cent (based on connections) as at 30 June 2015, a decline of 21.3 per cent during 2014-15. At the same time, increased competition among cellular operators resulted in lower tariffs for consumers. In 2014-15 Mobilink had 29.15 per cent of the market, Telenor 27.47 per cent, Ufone 15.53 per cent, CMPak 19.28 per cent and Warid 8.57 per cent.

  Other segments of the telecommunications sector include fixed local loop, wireless local loop and long distance international. Fixed local loop has experienced a gradual decline in subscription levels over recent years, whereas the wireless local loop remains an important part of Pakistan's telecommunications sector as it provides a feasible solution for rural telephony due to the relatively low cost of deployment and maintenance. As at 30 June 2015, Pakistan had 0.798 million wireless local loop subscribers compared to 2.2 million as at 30 June 2008.

The following table shows the level of investment in the telecom sector for the periods stated:

	2011-12	2012-13	2013-14	July to December 2014
Cellular	211.8	570.4	1,789.7	356.28
Long distance international services	16.2	1.9	1.8	4.63
Local loop	5.0	16.1	14.2	1.93
Wireless local loop................	7.3	11.9	10.0	4.45
Total.....................................	**240.3**	**600.3**	**1,815.6**	**367.29**

Source: Economic Survey 2014-15

Broadband subscriber percentage growth in Pakistan has been significant. Subscriptions have increased from minimal levels in 2005 to 16.39 million by 30 June 2015, with a penetration rate of 8.94 per cent.

The Government has liberalised investment policies allowing foreign investors in the telecommunications sector to own all the shares in a company and repatriate all of the profit. Such policies have attracted significant FDI. During 2014-15, the telecommunications sector attracted over U.S.$121 million of FDI (net of outflows), almost 57.92 per cent of the total FDI received by Pakistan that period. The Government recently auctioned spectrum for Next Generation Mobile Services including 3G and 4G. The auction concluded in May 2014 with a total value of U.S.$1.11 billion. As of May 2015, Rs994 million of the auction proceeds have been paid to the Government, contributing significantly to FDI, with the balance due in equal annual instalments in the next five years.

Foreign investors in the telecommunications sector in Pakistan are allowed to wholly-own such companies and to repatriate all of the profit they generate.

In April 2014, Pakistan Telecommunication Authority (**PTA**) auctioned spectrum for 3G and 4G services. The auction concluded with a total value of U.S.$1.11 billion raised. During 2013-14, FDI inflows in telecom sector were U.S.$904.6 million mainly on account of acquiring 3G and 4G spectrum and deployment of advanced telecommunication networks by cellular mobile operators. This increased FDI inflow trend is expected to continue as cellular mobile operators expand their 3G and 4G networks.

Financial Services

The financial sector in Pakistan consists of commercial banks, development finance institutions (**DFIs**), microfinance banks (**MFBs**), exchange companies, non-banking finance companies (such as leasing companies, investment banks, discount houses, housing finance companies, venture capital companies, asset management companies, and mutual funds), *modarabas* (which are comparable to mutual funds but are organised to comply with Islamic law), stock exchanges, brokerage firms and insurance companies. The SBP, which is the central bank of Pakistan, supervises banks, development finance institutions and microfinance banks, while the SECP monitors the remaining financial institutions.

- At present, the banking industry in Pakistan consists of 35 commercial banks, eight development finance institutions and nine nation-wide and one district-wide microfinance banks. The commercial banks comprise five public sector banks, 16 private sector banks, five Islamic commercial banks, five foreign banks (operating through branches) and four specialised banks.

- ***State Bank of Pakistan.*** The SBP was established in 1948. The SBP regulates the monetary and credit systems, determines and implements monetary policy and supervises the banking sector to support the stability of financial institutions. The SBP regulates circulation of the national currency and influences money supply through changes in base interest rate(s). The SBP also uses open market operations, standing facilities, changes in cash reserve and statutory liquidity requirements to influence availability of liquidity and broad money in the economy. Open market operations and standing facilities are implemented through repurchase agreements against government securities. In order to enhance the effectiveness of monetary policy and to better manage the liquidity in the interbank market, SBP improved the structure of its Interest Rate Corridor (**IRC**) framework The main feature of this improved framework was introduction of a new target policy rate for the money market overnight repo rate as the main policy rate. The main objective of adopting an improved IRC by SBP was to stabilize short-tenor interest rates around the target rate for the smooth transmission of monetary policy.

  Under the State Bank of Pakistan Act 1956 (the **SBP Act**), the SBP is an autonomous entity supervised by its central board of directors (the **Central Board**) which consists of the governor (who is also the chairman of the Central Board), the Government secretary of finance and eight other directors, including at least one from each province, who is an eminent professional from the field of economics, finance, banking or accountancy and is appointed by the Government. Proposals have been made to amend the SBP Act to give the SBP more independence by establishing independent decision-making committees to design and monitor the implementation of monetary policy and strengthening the personal autonomy of Central Board members.

The Central Board currently has the power to regulate the monetary and exchange policy and the credit system of Pakistan. The governor of the SBP, on behalf of the Central Board, has the authority to conduct the business and affairs of the SBP. The governor is appointed for a term of three years, which is extendable for another three-year term.

The Foreign Exchange Regulation Act 1947 regulates certain payments, dealings in foreign exchange and securities, including the restrictions on payments of foreign exchange and transfers of shares from Pakistan to non-residents, and the import and export of currency and bullion. The SBP has been vested with regulatory control over foreign exchange.

The SBP is authorised to regulate and supervise banks and DFIs. In 1997, amendments were made to the banking laws granting autonomy to the SBP in relation to regulation of the banking sector. It is the responsibility of the SBP to systematically monitor the performance of every banking company to ensure compliance with banking laws, rules and regulations. In cases in which the management of a bank fails to discharge its responsibility in accordance with the applicable statutory criteria or the banking rules and regulations, or fails to protect the interests of the depositors or advances loans and finance without due regard to the best interests of the bank, the SBP is empowered to take the necessary remedial steps as may be required in accordance with the law, including reporting violations of the banking company's management to the Government every quarter or more frequently if required, along with recommendations for remedial action. The SBP can, among other things, exercise the following powers: (i) prohibit the bank from giving loans, advances and credits; (ii) prohibit the bank from accepting deposits; (iii) cancel the bank's banking licence; (iv) remove the chairman, directors, chief executive or other managerial persons from office; (v) direct the prosecution of directors, the chief executive or other officers; (vi) caution or prohibit the bank against entering into any particular transaction; (vii) require the bank to make changes in management; (viii) wind-up the bank through judicial means; (ix) apply to the Government for an order of moratorium and a plan of reconstruction or amalgamation; or (x) impose penalties. The SBP's regulatory powers extend to the fitness and propriety of sponsors/major shareholders of banks on continuous basis.

The SBP is empowered to determine statutory liquidity and cash reserve requirements for scheduled banks, DFIs and MFBs. Presently the cash reserve requirement for banks is at 5 per cent of the demand liabilities (including time liabilities of less than one-year tenor), subject to a daily minimum of 3 per cent. For DFIs it is 1 per cent of their demand liabilities, and for MFBs it is 5 per cent of total demand deposits. In addition, the SBP requires that banks maintain a statutory liquidity requirement of 19 per cent of their demand liabilities (including time liabilities of less than one year-tenor). Similarly, DFIs and MFBs are required to maintain a statutory liquidity requirement of 15 per cent and 10 per cent, respectively, of their specified liabilities. The SBP has established capital adequacy requirements for banks based on the Basel-III capital rules. All the banks are required to maintain a capital adequacy ratio (**CAR**) of 10 per cent. However, as prescribed by Basel-III rules, an additional capital conservation buffer of 2.5 per cent (in the form of common equity tier-1 capital) will be transitioned in by 31 December 2019. The tier 1 capital requirement has also been raised from 5.0 per cent to 6.5 per cent with effect from 31 December 2013 in line with Basel-III instructions. Furthermore, banks are also required to hold minimum paid-up capital (net of losses) of Rupees 10 billion effective from 31 December 2013.

- ***Commercial Banking Sector.*** The overall performance of the banking sector, which dominates the financial sector of Pakistan, has remained strong through Pakistan's macroeconomic challenges and structural issues, including with respect to profitability, high liquidity and capitalisation. The banking sector grew at an annual average growth rate of 13.9 per cent over the last six years (2009-2015). Its asset base was Rupees 13.2 trillion as at 30 June 2015, profits before tax for half year ending 30 June 2015 were Rupees 171 billion and solvency of the system remained strong, with CAR at 17.4 per cent as of March 2015 and CAR at 18.17 per cent as of June 2015. The level of non-performing loans has decreased substantially over the last four fiscal years from Rupees 185 billion in 2010-11 to Rupees 122 billion in 2014-15. The banking sector of Pakistan has attracted international banks and international investors in recent years. The Government estimates that over 50 per cent of shareholdings in commercial banks are owned by foreign investors, banks and financial institutions. The commercial banking sector comprises both locally incorporated Pakistani banks and branch operations of foreign commercial banks. There are also government-owned specialised banks which provide finance to agriculture, industry and co-operatives. Joint ventures between the Government of Pakistan and governments of other countries, working as DFIs, provide financial assistance to promote investment in industry, agriculture and trade. Foreign financial institutions/entities/strategic investors, either directly or in collaboration with local partners or sponsors, can conduct business in Pakistan as a locally incorporated company, in general, with a maximum foreign ownership of 49 per cent. Foreign banks also are allowed to conduct banking business in the form of a wholly-owned locally incorporated subsidiary or as a branch of such foreign bank if: (i) the foreign bank has a global tier-1 paid-up capital of U.S.$5 billion or more; or (ii) the foreign bank is from a country which belongs to regional groups or associations of which Pakistan is a member. In recent years, certain foreign banks with a local branch in Pakistan have acquired local banks and set-up wholly-owned local subsidiaries.

- ***Microfinance***. The Government has sought to promote financial inclusion though a financial literacy programme which, having been piloted in 2012, is currently being implemented on a national level. MFBs serve 3.32 million active borrowers as of March 2015 and the sector has achieved 29.3 per cent growth in its aggregate loan portfolio which grew by Rupees 16.7 billion to Rupees 73.75 billion during the 12 month period ending March 2015.

- ***Non-bank Finance Companies.*** Other entities within Pakistan's financial sector include investment banks, a state-owned life insurance company (the State Life Insurance Corporation), private life insurance companies, private general insurance companies, housing finance companies, leasing companies, asset management companies, and *modarabas.*

- ***Islamic Banking***. Since 2002, the SBP has actively promoted Islamic banking in parallel with conventional banking by:

  - allowing the opening of fully-fledged Islamic commercial banks in the private sector;

  - allowing existing banks to establish Islamic banking subsidiaries; and

  - allowing existing banks to open separate branches for Islamic banking.

  In recognition of the need for a separate department for the regulation and promotion of the Islamic banking sector, the Islamic Banking Department was established in the SBP in 2003. The SBP has adopted various initiatives to promote and develop the Islamic banking industry in Pakistan including:

  - the adoption or adaption of Accounting and Auditing Organisation for Islamic Financial Institutions Shari'ah standards;

  - strengthening of Shari'ah Compliance through the issuance of a Shari'ah Governance Framework;

- issuing criteria for the conversion of conventional banking branches into Islamic banking branches;

- issuing two five-year strategic plans for the Islamic banking industry; the first was issued in 2007 and second was issued in 2014;

- facilitating Islamic bank liquidity management by providing for sukuk trading on a deferred payment basis (Bai-Muajjal) or on a ready payment basis through open market operations based on a multiple price competitive bidding auction process;

- introducing domestic and international Government of Pakistan sukuk-al-ijara to provide investment avenues to Islamic banking institutions and develop the Islamic money market;

- establishing of Centres of Excellence in Islamic Finance Education;

- working with the Islamic Financial Services Board on various supervisory and regulatory aspects; and

- actively participating in development of guidance notes for stress - testing of Islamic financial institutions and liquidity risk management.

In addition, earlier this year the Government enacted Sukuk Regulations laying down certain conditions to be met before the issuance of a sukuk, *inter alia* that the issuer's rating shall not be lower than triple B minus, the issuer has arranged appropriate security and setting out other eligibility criteria for the issuance. Before issuance of any Sukuk, the issuer shall appoint an investment agent and a Sharia advisor who shall ensure that the sukuk is structured in accordance with Shari'ah principles.

As a result of these initiatives, Islamic banking in Pakistan has grown significantly since its launch in 2002. The total assets of Islamic banks in Pakistan were Rupees 1,495 billion at 30 June 2015, compared to Rupees 1,089 billion at 30 June 2014, representing growth of 37.3 per cent. The deposits of Islamic banks were Rupees 1,281 billion at 30 June 2015, constituting 12.8 per cent of total bank deposits. Islamic finance in Pakistan has maintained high levels of growth since 2002, indicating the increasing level of acceptance of Islamic banking as a viable alternative to conventional banking. The industry also increased its share of assets to 11.3 per cent of total banking assets by the end of June 2015. The number of Islamic banking institutions also increased to 22 by June 2015. Five are fully fledged Islamic banks and 17 are conventional banks which have standalone Islamic banking branches. The Government expects this to increase; one bank has been granted approval for the establishing of an Islamic banking subsidiary.

In February 2014, the SBP published a detailed five-year plan to further promote Islamic finance through a number of legislative changes, product incentives, tax amendments and instructions to market participants. The five-year plan aims to increase the branch network of Islamic banks to 2,000 (currently approximately 1,300) and increase the market share of Islamic banking in Pakistan to 15 per cent of total bank deposits (from its current 10.6 per cent) by 2018. The SBP intends to require Islamic banks to increase financing to Pakistan's agricultural sector and to small enterprises by 2015 by allocating at least 5 per cent of deposits or 10.0 per cent of financing, whichever is higher, to these two sectors, respectively.

- ***Government Bond Market.*** The SBP has recently implemented measures for the development of the Government bond market including:

  - an Electronic Bond Trading platform (EBND-Bloomberg) introduced with the objective of increasing efficiency in secondary market trading of government securities and providing a central platform where investors can easily access marketable securities, including market treasury bills, Pakistan investment bonds (**PIBs**) and Government of

Pakistan Ijara sukuk. This system also provides international investors an opportunity to access the Pakistan's financial markets;

- rules governing the primary dealer system were introduced to enhance its role and obligations towards the development of the government's securities market;

- the process of investing in government securities was streamlined through changes to investor's portfolio of securities (**IPS**) accounts so that it is mandatory for each primary dealer to offer IPS accounts to those customers maintaining Pakistan Rupee accounts with them;

- since February 2013, the auction of market treasury bills and PIBs has been conducted online via Bloomberg's auction system. This automated the primary auction process so as to reduce operational risk and to align Pakistan with other countries conducting similar auction processes; and

- the SBP now permits trading of government securities on stock exchanges in addition to the existing OTC markets (Bloomberg, Reuters and money market brokers).

Corporate Bonds. Banks are permitted to enter the domestic capital market as issuers of term finance certificates (**TFCs**) and can raise funds from the capital markets in the form of rated and listed subordinated debt instruments, which can also be included in the banks' supplementary capital. To be eligible for inclusion in supplementary capital, the instrument must be fully paid-up, unsecured, subordinated as to payment of principal and profit to all other indebtedness of the bank and not redeemable before maturity without prior approval by the SBP. The market for these long-term instruments provides an additional opportunity to match long-term assets, such as mortgages and project finance.

Earlier this year the Government enacted Book Building Regulations setting out mechanisms to facilitate initial public offerings, including the role and responsibilities of the main parties as well as the procedure for bidding.

Pakistan's Stock Exchanges

There are three stock exchanges in Pakistan: the Karachi Stock Exchange (**KSE**), the Lahore Stock Exchange (**LSE**) and the Islamabad Stock Exchange (**ISE**). The KSE opened in 1949, the LSE opened in 1970 and the ISE opened in 1993. These stock exchanges are registered under the Securities and Exchange Ordinance 1969. Virtually all of the companies listed on the LSE and the ISE are also listed on the KSE. Following a consultation led by the SECP in August 2015, KSE, LSE and ISE signed a memorandum of understanding for their integration into one single trading platform under the proposed name of "Pakistan Stock Exchange".

The following table sets out the profile of the stock exchanges for the periods stated:

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Karachi Stock Exchange					
(i) Total listed companies.................	639	591	569	557	560
(ii) New companies listed.................	1	3	4	5	9
(iii) Funds mobilised (*Rupees billion*)	31.0	115.1	29.5	47.6	79.6
(iv) Total turnover of shares (*Rupees billion*)...	28.0	38.1	54.3	56.6	57.2
Lahore Stock Exchange					
(i) Total listed companies.................	496	459	440	432	433

	2010-11	2011-12	2012-13	2013-14	2014-15
(ii) New companies listed.................	9	2	2	4	5
(iii) Funds mobilised (*Rupees billion*)	18.1	13.3	7.7	40.4	31.7
(iv) Total turnover of shares (*Rupees billion*)...	1.1	0.9	1.0	0.7	0.339
Islamabad Stock Exchange					
(i) Total listed companies.................	236	218	210	210	273
(ii) New companies listed.................	-	-	1	1	8
(iii) Funds mobilised (*Rupees billion*)	17.8	12.8	8.1	8.1	10.386
(iv) Total turnover of shares (*Rupees billion*)...	0.04	0.03	0.03	0.03	0.026

Source: Securities and Exchange Commission of Pakistan

Both debt and equity securities are traded on the KSE. Corporate debt securities are issued through TFCs, which normally carry a five-year maturity. Trading of Pakistan Government debt securities on the KSE commenced in February 2014.

The name of the National Commodity Exchange Limited was changed to Pakistan Mercantile Exchange Limited (**PMEX**) in March 2011. PMEX was set up as Pakistan's first technology-driven, demutualised and on-line commodity futures exchange. The PMEX product portfolio is continuously renewed to cater for the hedging and investing needs of various investor groups. PMEX currently offers a variety of contracts in agriculture, metals and financial futures which include the commodities of gold, silver, rice, wheat, cotton, sugar, palm oil, crude oil, red chilli and the Karachi Inter Bank Offer Rate (**KIBOR**).

Three indices are used to measure the performance of the KSE: the Karachi Stock Exchange-100 Index (the **KSE Index**), the KSE-30 Index (the **KSE-30**), and the KSE All Share Index produced by the KSE, and the SBP Index of Share Prices (the **General Index**), produced by the SBP. The KSE Index, the most widely accepted stock index in Pakistan, is published daily, whereas the General Index is published on a weekly basis. The General Index is an all-share index, while the KSE Index is based on 100 representative securities. The KSE Index uses a base date of 1 November 1991, when it was set at 1,000 and is a market capitalisation-weighted, broad-based, total-return index. The KSE-30 is a free float index based on the proportion of shares readily available for trading to the total shares issued, excluding locked-in shares.

The following table shows the movements in the KSE Index since 2008, together with its level as of December 31 in each year from 2010 to 2014 and 30 June 2015.

KSE Index

	2011	2012	2013	2014	2015*
High....................	12,681.94	16,943.19	25,579.33	29,938.66	34,826.51
Low.....................	10,842.26	10,909.12	16,107.89	25,261.14	27,774.43
Year end.............	11,347.66	16,905.33	25,261.14	29,652.53	34,398.86

*Source: Reuters, Karachi Stock Exchange * June 30*

Securities Market Reforms

The SECP was established under the Securities and Exchange Commission of Pakistan Act 1997 and became operational on 1 January 1999. The SECP regulates the capital markets, corporate sector, non-bank financial companies sector and the insurance sector.

The SECP has been actively pursuing a capital market reform programme to develop a modern and efficient system. The SECP has introduced several reforms to strengthen risk management at the stock exchanges, increase transparency, improve governance, enhance investor protection and improve market efficiency, including:

- the regulation of the securities market. The Securities Act 2015 came into force which incorporates global standards of securities regulation and investor protection;

- measures to combine Pakistan's various stock exchanges. Following a consultation led by SECP in August 2015, KSE, LSE and ISE signed a memorandum of understanding for their integration into one single trading platform under the proposed name of "Pakistan Stock Exchange". Further, efforts are being made for divestment of 60 per cent shares of the stock exchanges to strategic investors, general public and local financial institutions;

- the introduction of a small and medium enterprises board (**SME**) at KSE and ISE to facilitate the listing of companies with small capital requirements while ensuring appropriate safeguards for investors;

- the launch of a fully automated web based announcement interface, allowing listed companies to share their sensitive and material information with investors;

- introducing the Code of Corporate Governance (March 2002). The Code of Corporate Governance is incorporated in the listing regulations of Pakistan's stock exchanges. It is based on internationally recognised principles and emphasises openness and transparency in the reporting of corporate affairs. The code was revised in 2012 to raise standards of governance and improve compliance by listed companies;

- the establishment of the Pakistan Institute of Corporate Governance in 2005 to strengthen corporate governance standards;

- the successful corporatisation and demutualisation of the stock exchanges. The demutualisation addressed the conflicts that existed previously by segregating the ownership and trading rights and enhanced governance and transparency through segregation of commercial and regulatory functions of the stock exchanges;

- the introduction of a Bonds Automated Trading System in line with international standards to provide transparent and efficient price discovery through an automated trading platform for debt market securities at the stock exchanges;

- the launch of trading of government debt instruments at the stock exchanges in coordination with the Federal Government and the SBP. The trading of Treasury-bills at the Karachi Stock Exchange commenced on 18 February 2014;

- the introduction of an Automation of Securities Settlement Project at the Central Depository Company of Pakistan, under which book-entry securities are automatically transferred from the respective seller's account to the buyer's account, instead of being routed through the broker's main account;

- the development of regulations for the issue of commercial paper by companies with a high credit rating and for the issue of Sukuk;

- the introduction of a code of conduct for credit rating agencies in January 2014;

- the continued development of the Islamic capital market (**ICM**), though the Islamic Finance Department (**IFD**) which is currently working on *Shari'ah* compliance regulations for the ICM. IFD is also in the process of standardising Islamic financial product documentation and introducing Shari'ah and Islamic Accounting Standards issued by the AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions). Domestic listed Sukuk continues with a Rupees 22 billion issuance by K Electric Limited (formerly the Karachi Electric Supply Company) in May 2015, following a Rupees 10 billion issuance by the same company in 2013-14;

- the introduction of a comprehensive regulatory framework to regulate the activities of underwriters in line with international standards with the implementation of the Underwriters Rules 2015; and

- in May 2015, the Securities Act 2015 was enacted which protects investors, regulates the securities market and gives the SECP powers for investors' protection.

Financial Sector Regulation

Pakistan over the years has taken measures to enhance the banking sector including:

- strengthening the supervision of the banking system and promote consolidation of financial institutions;

- ensuring that the supervisory framework for banks sufficiently complies with the international best practices and Basel core principles of banking supervision. The framework is continuously improved through issuance and updates of guidelines and standards on corporate governance, risk management, consumer protection and financial inclusion, as well as improving the supervision of banks and cooperation with other regulators on the supervision of financial conglomerates;

- strengthening capital requirements of financial institutions and aligning the requirements with the Basel standards (including implementation of Basel-III standard with effect from 31 December 2013);

- promulgation of an anti-money laundering law granting several government agencies the authority to investigate and prosecute incidents of money laundering or terrorist financing;

- increasing growth in Islamic commercial banks, Islamic banking subsidiaries by conventional commercial bank(s) and standalone Islamic banking branches of existing commercial banks;

- developing a regulatory framework for the establishment of MFIs and the provision of credit to small and medium-sized enterprises;

- the SBP has partnered with the U.K. Department for International Development to launch a "financial inclusion program" to tackle financial exclusion among the poor and marginalised groups through a variety of supply side funds and facilities;

- launched a nationwide financial literacy programme to tackle the lack of financial literacy in Pakistan, which has historically been a major constraint on advancing the financial sector;

- allowing banks to enter the domestic capital markets as issuers of TFCs;

- creating special provisions for refinancing by banks at concessional rates; and

- requiring banks to link their corporate lending products with KIBOR.

Financial derivatives transactions may only be undertaken by banks which have been specifically authorised by the SBP to act either as an authorised derivative dealer (**ADD**) or as a non-market maker financial institution (**NMI**) in accordance with the Financial Derivatives Business Regulations 2004 issued by the SBP. The primary distinction between ADDs and NMIs is that NMIs must cover their positions on a back-to-back basis from an ADD, whereas ADDs are allowed to take market risk on their books. At present, the regulations permit the following derivative transactions: foreign currency options, forward rate agreements and interest rate swaps. Any financial institution conducting unauthorised derivative transactions as an NMI or ADD is liable for punitive actions under the Banking Companies Ordinance 1962, including the cancellation of its licence.

Anti-Corruption and Anti-Money Laundering

Pakistan ranks high on the published lists of countries with high levels of corruption. The Government has taken measures to reduce corruption in the public and private sectors, including the enactment of the Anti-Money Laundering Act 2010, the establishment of a financial monitoring unit (**FMU**) to monitor suspicious financial transactions and to investigate financial crime, preventive measures in the domestic financial sector and participation in regional and global efforts against money laundering. The Anti-Money Laundering Act 2010 created a new crime of money-laundering which is punishable with imprisonment of up to ten years, a fine of up to Rupees 1 million and a further potential fine of Rupees 10 million and forfeiture of any property involved in the money laundering activities. It imposes an obligation on financial institutions to report suspicious transactions to FMU so as to ensure that money-laundering and terrorist financing is deterred and punished.

The NAB was established under the National Accountability Ordinance 1999 (**NAO**) and is mandated to combat corruption and money laundering, using its powers of investigation and prosecution. The NAO prohibits and prescribes penalties for corrupt practices, grants powers to the law enforcement agencies and established the Accountability Courts to hear specific corruption cases. The launch of the National Anti-Corruption Strategy in 2002 broadened NAB's role to include anti-corruption awareness and prevention alongside its enforcement role. Partly due to its high levels of autonomy, NAB has had significant success in the prosecution of corruption. In the half-year ending 30 June 2015, its conviction rate was 41.79 per cent compared to 63.5 per cent in 2014 and 52.9 per cent in 2013. To improve its standards, NAB has recently increased the number of investigators and is developing closer relationships with its international counterparts. To date, the NAB has proposed approximately 400 new measures to combat corruption and money laundering, as well as measures relating to electoral reform.

As a further step to reduce corruption, the Pakistan ratified the United Nations Convention against Corruption in August 2007.

Despite the progress and various reform efforts, Pakistan continues to take steps to address corruption. See "*Risk Factors – Failure to adequately address actual and perceived risks of corruption may adversely affect Pakistan's economy and ability to attract foreign direct investment*".

Pakistan has taken various anti-money laundering and counter-terrorist financing measures. Statutory measures include:

- amendments to the Anti Terrorism Act 1997 to bring Pakistan's terrorist financing regime fully in line with the standards of the Financial Action Task Force (an intergovernmental body developing policies to combat money laundering and terrorist financing); and

- the Anti-Money Laundering Act of 2010 provides for the crime of money laundering which is punishable with imprisonment and fines, as well as the forfeiture of relevant property. The Act also obligates financial institutions to report suspicious transactions to the FMU which analyses such cases and refers them to law enforcement agencies.

Pakistan has also taken preventive measures, such as:

- SBP measures to prevent the use of banking channels for money laundering and terrorist financing. The anti-money laundering and counter-terrorist financing regulations issued by the SBP cover all important aspects of preventive measures required by international standards, including customer due diligence of bank customers, correspondent banking for cross-border transactions, wire transfer requirements for sending and receiving funds, reporting of suspicious transactions under anti-money laundering law, record-keeping of banking transactions for ten years, and other requirements on internal controls, policies, compliance, audit and training. The instructions of SBP are enforced through a systematic process of on-site inspections and off-site surveillance;

- anti-money laundering and counter-terrorist financing regulations were further strengthened in 2012 by the requirement to ensure record retention for ten years instead of five years, review risk assessment of new products and services, require extended categories of identity documents, enhance controls on online transfers, expand due diligence requirements on close associates or family members of politically exposed persons, define responsibilities of institutions in wire transfers/correspondent banking and link customers' profiles with automated transaction monitoring systems. The regulations require due diligence at the time of hiring employees and require banks to provide adequate training to employees. Stringent requirements for the accounts of non-governmental organisations, non-profit organisations and charities have also been introduced; and

- the SBP has issued comprehensive guidelines on taking a risk based approach and requires banks to improve their systems in line with best standards and practices as propounded by the Financial Action Task Force Recommendations and Basel Core Principles. The guidelines advise banks to apply a risk based approach in their relationships and transactions taking into account factors like customer type, products, delivery channels and location. The concept of customers risk profiling based on scenario-based ranking of customers has been developed along with the implementation of red alerts to trigger scrutiny of accounts and transactions.

Non-bank financial institutions in Pakistan, as regulated by the SECP, are subject to similar anti-money laundering and counter-terrorist financing requirements. The Asia Pacific Group on Money Laundering (**APG**) conducted a mutual evaluation of Pakistan in 2009 to assess the overall efficacy of its legal, law enforcement and financial regulatory regime to counter money laundering and terrorist financing. The evaluation report was adopted after extensive deliberations at the annual meeting of the APG in July 2009. The SBP and SECP actively contributed during and after the evaluation. All the stakeholders, including the SBP and SECP, have taken necessary measures in their respective areas in response to the APG mutual evaluation. The SBP and SECP have also been implementing relevant U.N. Security Council resolutions in Pakistan.

Agricultural Sector

Agriculture continues to play a central role in Pakistan's economy. It accounts for over 20.9 per cent of GDP in 2014-15, and is a source of livelihood of 43.5 per cent of the rural population. The agricultural sector also contributes to the development of other sectors as a supplier of raw materials to industry (particularly cotton which constituted 1.5 per cent of GDP in 2014-15 and 7.1 per cent in agriculture value addition), as well as providing a market for industrial products. The agricultural sector is the main source of Pakistan's foreign exchange earnings.

Over the past three years, agriculture has grown at rates varying between 2.7 per cent per annum and 2.9 per cent per annum of contribution to GDP (at basic prices 2005-06). Growth in 2014-15 was 2.9 per cent (2.7 per cent in 2013-14). The increase was mainly due to positive growth in cotton and rice production though this was offset by decreases in sugar cane, maize and wheat production and other minor crops due to extreme weather conditions. Crops witnessed a growth of 1.0 per cent, livestock 4.1 per cent, forestry 3.2 per cent and fishing 5.8 per cent. The Government estimates that the agriculture sector will grow by 3.9 per cent in 2015-16 on the basis of expected contributions of important crops (3.2 per cent growth), other crops (4.5 per cent growth), cotton ginning (5.0 per cent growth), livestock (4.1 per cent growth), fishing (3.0 per cent growth) and forestry (4.0 per cent growth). The fluctuation in overall agriculture has been largely dependent on contribution from crops, which include both "important crops" (wheat, maize, rice, sugar and cotton) and other crops.

The trend in agriculture growth rate (at basic prices 2005-06) from 2010-11 to 2014-15 and the Government targets for 2015-16 are set out below:

	2010-11	2011-12	2012-13	2013-14	2014-15(1)	2015-16(2)
Agriculture	2.0	3.6	2.7	2.7	2.9	3.9
Crops.............................	1.0	3.2	1.5	3.2	1.0	(3)
Important crops	1.5	7.9	0.2	8.0	0.3	3.2
Other crops	2.3	(7.5)	5.6	(5.4)	1.1	4.5
Cotton ginning	(8.5)	13.8	(2.9)	(1.3)	7.4	5.0
Livestock	3.4	4.0	3.5	2.8	4.1	4.1
Fishery	(15.2)	3.8	0.7	1.0	5.8	3.0
Forestry	4.8	1.8	6.6	(6.7)	3.2	4.0

(1) Provisional pending National Assembly approval in 2016 of Pakistan's economic data for 2014-15.
(2) Government target.

Source: Ministry of Finance

Livestock is the single largest contributor to the overall agricultural sector, representing 56.3 per cent in 2014-15 and recording growth of 4.12 per cent. Population growth, increased per capita income and export revenue is contributing to demand for livestock and livestock products. The Government has increased public sector investment and has initiated development projects for strengthening livestock services for improved disease diagnosis and control, milk and meat production, breed improvement, animal husbandry and management procedures in Pakistan.

There are two principal crop seasons in Pakistan, namely the "*Kharif*" - which begins with sowing in April-June and ends with harvesting in October-December - and the "*Rabi*", which begins in October-December and ends in April-May. Rice, sugarcane, cotton, maize, mung, mash, bajra and pulses are "*Kharif*" crops, while wheat, gram, lentil (*masoor*), tobacco, rapeseed, barley and mustard are "*Rabi*" crops.

Unfavourable weather conditions can negatively affect growth rates year-on-year and result in a decrease in planted hectorage. In 2014, there was extensive flooding which reduced the output of Pakistan's agricultural sector. Cotton, as a non-food cash crop, is the main cash crop and contributes significantly to Pakistan's foreign exchange earnings. Pakistan's economy depends heavily on the cotton crop, which significantly contributes raw materials to Pakistan's textile industry, such as cotton lint as an export item. Rice and sugar are a major source of foreign exchange earnings. Rice and wheat constitute an essential part of the diet of the Pakistani population and both have experienced positive growth in recent years.

Important crops accounted for 25.6 per cent of the agricultural sector in 2014-15 and recorded growth of 0.28 per cent in 2014-15 (7.96 per cent in 2013-14). The following table sets out information regarding the production volumes of Pakistan's important crops for the periods indicated:

	2010-11	2011-12	2012-13	2013-14	2014-15(1)	2013-14(1)	2014-15

	(thousand tons, unless otherwise stated)					(% change)	
Cotton (thousand bales)......................	11,460	13,595	13,031	12,769	13,983	(2.0)	9.5
Sugarcane	55,309	58,397	63,750	66,467	62,652	4.3	(5.7)
Rice	4,823	6,160	5,536	6,798	7,005	22.8	3.0
Maize......................	3,707	4,338	4,220	4,527	4,695	17.2	(5.0)
Wheat.....................	25,214	23,473	24,211	25,286	25,478	7.3	(1.9)

(1) Provisional.

Source: Pakistan Bureau of Statistics

Food security concerns in Pakistan are focused on wheat and wheat flour availability. The Ministry of National Food Security and Research of Pakistan formulated a food and nutrition security policy at both federal and provincial levels which it launched in 2013-14 and which aims to secure water supply and to grow agricultural exports.

The Government is also ensuring the timely availability of financial resources to farmers for purchasing farm equipment in time to sow, and has substantially increased the amount of institutional credit for agriculture since assuming office in May 2013.

Industrial Sector

Pakistan's industrial sector accounted for 20.30 per cent of GDP in 2014-15. It is a major source of tax revenue for the Government and contributes significantly to the provision of jobs in the labour force. It has four main sub-components: (i) mining and quarrying, (ii) manufacturing, (iii) electricity generation and distribution and (iv) gas distribution and construction.

The industrial sector generally has been adversely affected by the energy crisis in Pakistan. See "*Energy in Pakistan"* below. Although large-scale manufacturing (**LSM**) (which accounted for approximately 10.6 per cent of the GDP and 52.3 per cent of the industrial sector in 2014-15) has in recent years been significantly affected by the energy crisis, during 2014-15 it experienced growth of 2.4 per cent against the 4.0 per cent in 2013-14. LSM performance remained low in 2014-15 as compared to 2013-14, due to the inability of gas companies to provide gas to fertilizer plants, delays to sugar crushing in Sindh and lower sugarcane production in Punjab caused by floods and farmers switching to other crops. However, LSM performance is expected to improve in 2015-16 and beyond. During 2014-15 there were recorded increases in imports in textiles, construction materials and electric machinery. Additional growth in exports is expected to follow from the GSP+ programme. See "– *Structural Economic Reforms – Trade Reforms*".

The following table sets out the growth of several major LSM groups for the periods indicated:

Sector	Share of LSM Sector Output 2014-15	2012-13	2013-14	2014-15
	(%)		*(% growth)*	
Textile	31.32	1.60	1.32	0.53
Food, beverages and tobacco	21.66	9.37	7.32	(1.09)
Coke and petroleum products	8.20	16.18	6.22	8.50
Pharmaceuticals	5.70	10.0	(0.16)	7.53
Chemicals	5.51	(0.37)	6.86	8.39
Automobiles	5.69	(12.46)	(2.56)	23.56
Iron and steel products	2.92	8.68	5.58	35.40
Fertilizers	2.45	(4.02)	16.50	4.56
Electronics	1.36	(4.51)	9.55	5.59
Leather products	1.62	1.54	11.44	6.96
Paper and board	4.70	16.37	10.99	(9.86)
Engineering products	1.44	(14.73)	(12.52)	(18.28)
Rubber products	1.53	11.79	11.47	1.52
Non-metallic mineral products	5.67	5.18	0.80	2.13
Wood products	0.22	(8.40)	(27.57)	(73.96)

Source: Pakistan Bureau of Statistics

The textiles sub-sector occupies a pivotal position in Pakistan's economy, accounting for 8 per cent of GDP with significant potential for growth. It has the most intensive backward and forward linkages within the wider economic chain compared to any other sector, linking agriculture through industry to exports. Textiles contributed nearly one fourth of the industrial sector's value-added output, employing 40 per cent of industrial sector's work force, using 40 per cent of bank credit given to the industrial sector and accounting for nearly 54 per cent of Pakistan's exports. In addition, this sector provides a livelihood to more than ten million farming families.

According to the International Cotton Advisory Committee, Pakistan is the fourth largest producer of cotton and fourth largest consumer of cotton in the world. In addition, Pakistan is the world's second largest cotton yarn exporter and third largest cotton cloth manufacturer and exporter. However, Pakistan is fifteenth in terms of international trade, as some of the advantage of Pakistan's raw materials is lost in low value added semi-manufactured exports.

Unlike some other textiles and clothing producing countries, Pakistan is unique as it has a self-reliant production chain. From cotton growing to ginning, weaving, processing and finishing, and from fabrics to home textiles and apparel, all have links in the textiles and clothing value chain which have been developed by Pakistan's own industry.

Pakistan approved a new five-year textile policy for the period 2014-19 for various short-to-long-term initiatives aimed at sustainability of textile value chain.

Recently, the European Union accorded GSP+ status to Pakistan. The scheme is for ten years and, under the terms of this scheme, Pakistan's entire non-value-add textile value chain will attract zero custom duty in the EU market. The Government expects GSP+ status will incrementally increase exports from Pakistan to EU countries by approximately U.S.$700 to 1,200 million in the textile sector. Value added textile exports to EU countries increased by 26.0 per cent in the period January through August 2014 compared to the same period in the prior fiscal year. See "– *Structural Economic Reforms – Trade Reforms*".

Positive growth has been recorded in the textile related sector of LSM of approximately 0.53 per cent in 2014-15, as compared to 1.32 per cent in 2013-14. In addition, imports of textile machinery and exports of textile products have increased.

The following table sets out details of the export of textiles by Pakistan for the years stated:

	2010	2011	2012	2013	2014
			(U.S.$ billion)		
World textile	250.7	294.0	286.0	306.0	314.1
World clothing	351.5	412.0	423.0	460.0	483.3
Total	**602.2**	**706.0**	**709.0**	**766.0**	**797.4**
Pakistan textile	7.8	9.1	8.7	9.3	9.1
Pakistan clothing	3.9	4.6	4.2	4.5	5.0
Total	**11.8**	**13.7**	**12.9**	**13.8**	**14.1**
% of World trade....................	2.0	1.9	1.8	1.8	1.8

Source: WTO (*calendar year*)

In 2014-15, textile exports from Pakistan were approximately U.S.$14 billion.

Energy in Pakistan

Pakistan has been facing a significant energy shortage in recent years as the demand for energy exceeds available supplies, including as a result of circular debt to private energy providers reducing power generated by independent power providers (see "– *Circular Debt*").

Natural gas has a dominant role in Pakistan's primary energy mix, contributing approximately 48 per cent of Pakistan's primary energy supplies. The difference between natural gas demand and supply is approximately two billion cubic feet per day, resulting in curtailed gas supplies to various economic sectors. The Ministry of Petroleum and Natural Resources is seeking to enhance indigenous gas production to mitigate the shortfall as well as through imported gas by pipelines and imports of liquefied natural gas and liquefied petroleum gas.

Further, Pakistan's energy demands have exceeded what can be provided from domestically produced oil and natural gas, resulting in a requirement to import increasingly expensive oil and an increased cost of power generation. Power shortages have had a consequent adverse effect on the Pakistani economy. It is estimated that the cost of the energy shortfall to the economy is 2.5 per cent of GDP (U.S.$5.6 billion a year), loss of employment (400,000 jobs) and Rupees 1,321 billion (2012-13 to 2014-15) paid out as a tariff differential subsidy, of which Rupees 342.0 billion was invested in public sector entities to reduce circular debt during 2013-14. There will be growing energy demand in the coming years with increasing urbanisation (at an annual average growth rate of 3.1 per cent), rural electrification and increasing industrialisation.

In order to improve energy supplies, the Government is aggressively pursuing policies of:

- increasing domestic energy supplies including by attracting foreign investment;

- adding further public sector power generation plants;
- completing existing hydro-electric power projects;
- upgrading existing power generation plants;
- commissioning coal-fired power generation plants and converting oil based plants to coal to reduce costs of generation;
- diversifying imports to include natural gas from a number of countries (primarily Qatar), coal (primarily from Indonesia and Australia) and electricity (principally from the central Asia republics, Iran and India);
- reducing power transmission losses through the implementation of technical and administrative measures to enhance operational efficiency;
- encouraging efficiencies through fuel substitution by conversion to cheaper fuels like coal and by promoting renewable energy through solar, wind, biomass and bagasse;
- rationalisation of the tariff differential subsidies to affluent classes, retargeting subsidies for the poorest and bringing tariffs to cost recovery level;
- installing plants on hydro-electric sources;
- controlling theft of power; and
- reducing the time taken for determination of tariff for a fiscal year.

The following table sets forth Pakistan's installed capacity, dependable capacity and peak supply of energy for the years stated:

	2011	2012	2013	2014	2015
			(MW)		
Installed capacity	20,681	21,021	20,415	21,350	22,672
Dependable capacity[(1)]............	18,611	18,987	18,393	19,335	19,500
Peak supply	13,100	14,500	15,062	16,170	16,500

(1) Dependable capacity refers to Pakistan's energy system's ability to carry power for the time-intervals and periods required. Dependable capacity is determined on the basis of capability, operating power and the portion of the load to be supplied, less normal energy station loads.

Source: Ministry of Water and Power

The Government launched its National Power Policy in 2013 to address the energy shortfall and to promote sustainable increases in the energy supply. Several initiatives have been implemented, including the restriction of consumer subsidies, the clearance of Rupees 480 billion of payment arrears, improving prosecution of electricity theft and the increase of tariffs to reflect actual electricity prices, which has added 1,752 MW to the system since May 2013. The Government continues to develop power projects to increase the power generation capacity and diversify the power generation mix. See "– *Power Sector Reform*" below.

***Circular Debt*.** Circular debt refers to the debt owed by the Government to power sector companies. There are several factors which contribute to the build-up of circular debt, including: (i) the difference between the costs of generating and providing electricity and the revenue generated by the bills to consumers; (ii) the shortfall in the collection of billed amounts; (iii) higher losses than allowed by NEPRA in tariff; (iv) delay in tariff determination by NEPRA; and (v) other costs incurred but not allowed under the NEPRA tariff. This revenue shortfall cascades through the entire energy supply chain – from electricity generators to fuel suppliers, refiners and producers – resulting in a shortage of fuel supply to the power generating companies, a reduction in power generated by independent power producers and an increase in load shedding.

Circular debt was estimated to be Rupees 313 billion as of 31 June 2015. In recent years it has significantly constrained the availability of electricity and slowed Pakistan's economic growth. The Government took aggressive measures to reduce circular debt on assuming office in 2013 and these efforts (including reductions in transmission and distribution losses and increased collection of revenue) continue. To date, the Government has reduced the stock and build-up of circular debt significantly. Payments are being made by the Government monthly in line with its framework for managing the build-up of circular debt. The Government has added 1,752 MW of electricity to the national grid, easing load shedding considerably in Pakistan, but the overall efficiency of the energy system requires medium term investment and reform measures, both of which are ongoing.

Power Sector reform. The Government is fully committed to resolve the energy crisis in Pakistan. Since the elections in May 2013, the Government has begun to take measures in the power sector. Payables of power sector entities to both the independent power producers and public sector power entities amounting to Rupees 480 billion as at 31 May 2013 have been fully cleared. The Government has rationalised tariffs, reducing the gap from Rupees 5.84 per unit to Rupees 0.88 per unit, thereby bringing financial sustainability to the sector. In addition to the problem of circular debt, the Government is also working towards easing the burden on the national exchequer caused by the subsidy to power consumers by moving towards better cost recovery.

The National Power Policy 2013 sets out the Government's plan to overcome the present energy crisis and meet the future power needs of the country. The aim is to provide affordable energy throughout the country by creating an efficient generation, transmission and distribution system by: (i) eliminating load shedding by 2017; (ii) decreasing the cost of generation from 12c/unit to less than 10c/unit by 2017; (iii) decreasing transmission losses from 25 per cent to less than 16 per cent by 2017; (iv) improving payment collection to greater than 95 per cent by 2017; and (v) decreasing the current supply-demand gap from 4500-5000 MW to zero by 2017.

The National Power Policy plan involves the movement of power generation from high cost sources to cheaper locally-sourced resources (including hydro-electric, coal and renewable energy sources) by 2018, the alignment and improvement of governance amongst the ministries involved in the energy sector and the implementation of legislation to deter pilferages in the system and encourage efficiency and conservation.

Failure to adequately address the significant deficiencies in Pakistan's power generation, transmission and distribution infrastructure could negatively impact GDP growth, economic development and the Issuer's ability to meet its obligations under the Notes, although Pakistan has never defaulted on its sovereign financial obligations.

Power Projects. The Government aims to achieve a less oil-dependent power generation mix by developing other energy resources, particularly hydro-electric, nuclear and coal. In 2014, the Executive Committee of the National Economic Council approved four development projects (K-II Nuclear Project, K-III Nuclear Project, Nandipur and Neelum-Jhelum hydro-electric project) having a combined generation capacity of 3,594 MW and adding to the national grid. The Government is committed to arrange financing for these projects and monitor their development regularly in order to complete them according to schedule.

The following table sets out the details of the recently approved power projects and other projects that have financial arrangements in place:

Project	Net Capacity (MW)	Source	Estimated Cost (U.S.$ million)	Scheduled Completion
K-II and K-III Nuclear Projects....................	2,200	Nuclear	4,000	2021
Neelum-Jhelum Hydro Electric Project........	969	Hydro-electric	2,570	2016
Tarbela IV extension..................................	1,410	Hydro-electric	700	2017
Tarbela V extension...................................	1,250	Hydro-electric	Under estimation	2018
Uch II...	404	Gas	Private investment	Completed
Khyal Khawar	126	Hydro-electric	125	Completed
Dasu (Phase I)...	2,160	Hydro-electric	8,500	2017
Jamshoro (two power plants).....................	1,320	Coal	1,700	2018
DuberKhawar...	130	Hydro-electric	153	Completed
Jabban hydro power	22	Hydro-electric	33	2016
KurramTangi Dam	96	Hydro-electric	95	2016
Diamer Bhasha Dam	4,500	Hydro-electric	13,800	2023
Total..	**15,012**			

Source: Ministry of Finance

Ensuring gas prioritisation to the power sector is expected to deliver savings in the cost of production and will utilise existing capacity more cost effectively. To improve supply from publically owned plants, regular efficiency testing of GENCOs was initiated by the Government in September 2013. Rehabilitation of GENCOs by the end of 2014 added 500 MW to the capacity with 1 to 2 per cent improvement in efficiency.

Energy Supply and Consumption. The following table sets out the primary energy supply and per capita availability for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15[(2)]
Energy supply					
MTOE.......................................	64.52	64.73	64.59	66.85	67.92
Change (%)	2.27	0.32	(0.21)	3.50	1.60
Per capita					
Availability (*TOE*[(1)])...................	0.36	0.36	0.35	0.36	0.35
Change (%)	1.20	(1.68)	(2.07)	1.49	0.37

(1) Tons of oil equivalent.
(2) Estimated.

Source: Hydrocarbon Development Institute of Pakistan

The total primary commercial energy supply in 2014-15 was 67.92 MTOE. Oil comprised 34.9 per cent of energy supply during 2014-15, while gas comprised 46.4 per cent, liquid petroleum gas (**LPG**) 0.4 per cent, coal 5.4 per cent and electricity (hydel, nuclear and imported) comprised 13.4 per cent. During 2014-15, supply of coal increased by 31.86 per cent and supply of gas decreased by 1 per cent compared to 2013-14, whereas the supply of oil and electricity increased by 9.3 per cent and 7.1 per cent, respectively, compared to 2013-14. Over the last 3 fiscal years, supplies of coal increased by 22.57 per cent while gas supplies increased by 0.7 per cent.

Consumption of natural gas declined during 2014-15 by 0.9 per cent compared to 2013-14, while consumption of petroleum products decreased by 2.35 per cent over the same period. Energy supplies decreased by 9.26 per cent in 2014-15 compared to 2013-14.

5,000 MW of electricity has been added to the system since 2008-09. Through independent power projects, a further approximate 1,400 MW was added in 2014-15 whilst an expected approximate 14,000 MW will be added by December 2020. Transmission and distribution losses were 17.1 per cent in 2012-13 and remained constant at 18.7 per cent in 2013-14 and 2014-15. Consistent efforts are being made to improve the liquidity of the energy sector to resolve the circular debt issue.

Crude Oil. Recoverable reserves of crude oil in Pakistan at the end of 2014-15 were estimated at 377.94 million barrels. During 2014-15, average crude oil production per day increased to 94,493 barrels per day compared to 86,533 barrels per day in 2013-14, an increase of 9.20 per cent.

In 2014-15, 58,618.68 barrels per day (62.0 per cent) were produced in the northern region and 35,874.61 barrels per day (38.0 per cent) were produced in the southern region, compared to 54,152 barrels per day (62.6 per cent) and 32,381 (37.4 per cent) barrels per day in the northern and southern region, respectively, in 2013-14. For the period 2014-15, year-on-year production of crude oil in the northern region increased by 8.25 per cent, whereas production in the southern region increased by 10.79 per cent.

The following table, in barrels of oil per day, sets out details by company of production of crude oil for the periods stated:

Region	2011-12	2012-13	2013-14	2014-15	2013-14/ 2015-16
		(Barrels of oil per day)			*(% change)*
Northern Region	**40,632.04**	**45,102.63**	**54,152.01**	**58,618.68**	**8.25**
Dewan	188.14	167.51	135.73	107.25	(20.98)
OGDCL................................	21,914.35	24,470.67	27,461.48	28,105.10	2.34
OPII	869.74	632.76	616.28	553.49	(10.19)
POL	2,710.13	2,153.06	1,943.45	1701.8	(12.43)
PPL	6,292.98	6,400.58	6,191.91	6199.46	0.12
MOL	7,330.47	10,603.79	17,293.40	20,012.62	15.72
PCL	282.12	674.26	509.76	1938.97	280.37
Southern Region...............	**26,508.13**	**31,174.00**	**32,381.49**	**35,874.61**	**10.79**
OGDCL................................	16,369.45	16,930.02	15,507.24	14,088.68	-9.15
BP (Pakistan)......................	6,977.04	11,621.39	13,464.17	17,804.08	32.23
PPL	365.28	166.70	227.94	244.56	7.29

Region	2011-12	2012-13	2013-14	2014-15	2013-14/ 2015-16
		(Barrels of oil per day)			*(% change)*
BHP	2,228.62	1,954.44	1,392.94	836.11	-39.98
OMV	45.70	39.71	45.57	71.85	57.67
ENI	332.60	319.67	352.79	361.28	2.41
MGCL	70.16	102.06	131.86	161.51	22.49
Petronas	65.27	40.01	1,258.98	2306.54	83.21
Total	**67,140.16**	**76,276.64**	**86,533.50**	**94,493.30**	**9.20**

Source: Ministry of Petroleum and Natural Resources

Natural Gas. In 2014-15, recoverable natural gas reserves (2P) have been estimated at 20.18 trillion cubic feet. Average production of natural gas during 2014-15 was almost 4,016 million cubic feet per day (**MMcfd**) compared to 4,092 MMcfd during 2013-14 a decrease of 1.86 per cent. Natural gas is used in general industry to prepare consumer items, to produce cement and to generate electricity. In the form of Compressed Natural Gas (**CNG**), it is used in the transport sector and most importantly to manufacture fertilizer for the agricultural sector.

In 2014-15, gas was supplied to approximately 316,940 new consumers and approximately 210 new towns and villages were connected to the gas network.

Currently 31 private and public sector companies are engaged in oil and natural gas exploration and production activities. The following table sets out details by company of production of natural gas for the periods stated:

Company	2011-12	2012-13	2013-14	2014-15	2013-14/2014-15
			(Million cubic feet per day)	*(% change)*	
BHP	442.35	404.73	286.49	177.14	(38.17)
ENI	481.73	499.17	489.35	433.99	(11.31)
Dewan	26.47	23.18	18.31	15.04	(17.86)
MGCL	562.67	579.06	593.01	616.70	3.99
OGDCL	1,055.90	1,089.40	1,171.45	1,168.42	(0.26)
OMV	389.13	319.00	309.53	281.20	(9.15)
OPII.	17.07	13.43	9.4	7.49	(20.32)
POL	19.44	14.79	14.68	12.08	(17.71)
PPL	770.40	707.69	647.8	637.63	(1.57)
Hycarbex	7.33	10.31	11.13	3.56	(68.01)
Tullow	-	-	-	18.75	(4.04)
PEL	24.26	21.50	19.54	334.99	62.76

Company	2011-12	2012-13	2013-14	2014-15	2013-14/2014-15
			(Million cubic feet per day)	(% change)	
BP (Pakistan)......................	136.95	160.53	205.82	34.19	91.54
Petronas............................	12.59	9.23	17.85	264.87	(7.78)
MOL	313.15	273.55	287.23	9.74	(4.60)
POGC................................			10.21	4,015.78	(1.86)
Total..................................	**4,259.44**	**4,125.59**	**4,091.8**	**177.14**	**(38.17)**

Source: Ministry of Petroleum and Natural Resources

Iran-Pakistan Gas Pipeline Project. Since 2002, Pakistan, Iran and India have been actively discussing the construction of a natural gas pipeline that would bring natural gas from Iranian natural gas fields through an on-land route to Pakistan and India. The project would be undertaken on a segmented basis, with each country undertaking to develop their infrastructure independently, but in a coordinated manner. The total length of the pipeline is expected to be 1,931 kilometres, of which 1,150 kilometres is to be located inside Iran and 781 kilometres inside Pakistan. Iran has been progressing implementation of the pipeline and has laid 900 kilometres of pipeline to date. Pakistan had not yet commenced construction on its section of the pipeline due to international sanctions against Iran. The project has been split into two phases with 700 kilometres of pipeline in Pakistan to be built from an LNG terminal at Gwadar to Nawabshah with the capacity to handle 500 MMCFD per day of gas and 80 kilometres of pipeline between Gwadar and the Iranian border, which is expected to be completed once international sanctions against Iran are lifted. It is anticipated by the Government that if sanctions are lifted, both phases of the project will be completed by December 2017.

LNG. The Government has initiated extensive efforts to establish LNG terminals in Pakistan and an LNG terminal was completed earlier this year with the capacity to handle 600 million MMCFD. The first delivery of LNG was received by Pakistan in the second quarter of 2015 and imports of LNG are set to increase. The imported LNG will be used to offset more expensive imported oil, resulting in savings to the national exchequer. An agreement in principle has been reached with Qatar and an LNG sale and purchase agreement between the two countries is expected to be signed in the short-term.

Additional LNG terminals are being planned including the LNG terminal to be constructed at Gwadar. See – *"Iran-Pakistan Gas Pipeline Project"*.

LPG. LPG contributes approximately 0.4 per cent of Pakistan's total energy supplies. The Government intends to increase the use of LPG to reduce deforestation in areas where the supply of natural gas is not technically viable. As a result of the Government's policies, LPG supplies have gradually increased. The cornerstone of the Government's LPG policy is to ensure availability of LPG at a competitive price for the end consumer. LPG marketing companies imported approximately 145,634 Mt of LPG during 2014-15 compared to 71,093 Mt during 2013-14 and 66,408 Mt during 2012-13.

In an effort to reduce Pakistan's dependency on other fuels as well as to help mitigate climate change and global warming, the use of CNG in vehicles is encouraged by the Government. Due to the price difference between CNG and petrol, many consumers have converted their petrol vehicles to CNG and in 2014-15, more than 2.5 million vehicles in Pakistan were using CNG. There are approximately 3,300 CNG stations operating in Pakistan.

***Coal*.** Pakistan has coal resources estimated at over 186 billion Mt, including 175 billion Mt identified at the Thar coalfields in Sindh province. Pakistan's coal generally ranks from lignite to sub-bituminous. To cater for domestic demand almost 4.5 million tons of coal a year is imported. During 2014-15, 8.27 million tons of coal were supplied to various sectors of the economy compared to 6.56 million tons during 2013-14, an increase of 26.07 per cent. The Government is developing the Thar coalfield so as to increase the use of coal and reduce Pakistan's dependency on imported fuels.

Shale Oil and Gas. The U.S. Energy Information Administration estimates Pakistan has technically recoverable shale gas reserves of 105 trillion cubic feet (**Tcf**) and shale oil reserves of 9.1 billion barrels. Exploration, development and production of oil shale and gas shale reserves is extremely challenging. The Government is currently developing an Interim Shale Gas/Oil Framework which would provide special incentives to technically and financially sound companies interested in undertaking shale pilot projects in Pakistan.

Tight Gas. Pakistan is estimated to have 40 - 50 Tcf of tight gas reserves of which only 30 per cent potential is recoverable. The presence of tight gas has been established in reservoirs of different ages and in most of the sedimentary basins of Pakistan. The middle and lower Indus basins are considered to be most prolific for the exploration and production of tight gas. The first tight gas discovery in Pakistan was in 2009 and is currently under production by Polish Oil & Gas Company. Mari Petroleum Company Limited is also producing tight gas from the Dungan formation in the Zarghun South block. Other companies have also made significant progress towards exploration of Pakistan's tight gas reserves. Pakistan has put in place various price and tax incentives to encourage investment in the exploration and production of tight gas.

Investment Opportunities in Pakistan Hydrocarbons. Pakistan has large potential hydrocarbon resources, most of which are still untapped. Pakistan has a large sedimentary area of 827,268 square kilometres in which only 941 exploratory and 1,260 appraisal/development wells have been drilled to date, with an average well drilling density of 2.66 wells per 1000 square kilometres. These wells have resulted in 323 discoveries, giving a success ratio of 1:2.89. The Ministry of Petroleum and Natural Resources is actively encouraging international investment to accelerate exploration activities to maximise indigenous production of oil and gas. The Government provides significant price and other attractive incentives under its Petroleum Exploration and Production Policy.

The Indus offshore is the second largest submarine fan system in the world and analogous to the prolific oil and gas producing Niger, Mahakam and Nile deltas. The offshore Pakistan area has experienced limited exploration, with only 17 wells drilled in the last 60 years. It provides an opportunity for discoveries which can be realised through employing state of the art seismic and drilling techniques. A number of multinational companies, including ENI, BHP Billiton, OMV, MOL, United Energy Pakistan Limited, are currently working in Pakistan.

Oil and Gas Development Company (**OGDCL**) and PPL are the two public sector companies engaged in the exploration of oil and gas in Pakistan. OGDCL and PPL hold 62 and 28 exploration licences respectively. These companies are willing to enter into joint venture projects with international exploration and production companies in exploration of hydrocarbons in Pakistan.

The Government has recently delineated 46 oil exploration blocks which are to be auctioned during 2015, with an additional 15 to follow in 2016.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Pakistan's balance of payments has witnessed significant challenges since 2009-10, but has improved recently despite weak export performances and low FDI. Initially, Pakistan's external current account deficit increased significantly due to higher international commodity prices, particularly of oil. The current account balance has improved over the period 2011-12 through to 2014-15 as the deficit declined to 0.8 per cent of GDP. Despite this improvement, the overall balance of payments position of Pakistan did not improve significantly due to deterioration in its capital and financial accounts. In addition, there have been substantial repayments of IMF loans since 2011. The worsening balance of payments, together with the IMF loan repayments, resulted in a deterioration of Pakistan's foreign exchange reserves and led to exchange rate volatility.

In 2014-15, Pakistan's external current account deficit was U.S.$2.2 billion, considerably lower than the deficit of U.S.$3.1 billion in 2013-14, principally due to lower oil imports. Pakistan received CSF inflows of U.S.$1.5 billion during 2014-15, compared to U.S.$1.1 billion in 2013-14. Pakistan's capital and financial accounts had a surplus of U.S.$2.2 billion in 2014-15.

The Government is committed to addressing Pakistan's balance of payments position. Considerable foreign exchange inflows were received during 2014-15 and more are expected in 2015-16. These include additional inflows from bilateral and multilateral sources. See "*Public Debt*".

The payment of approximately U.S.$1.2 billion to the IMF during the second quarter of 2013-14 represented the peak of Pakistan's IMF loan repayment schedule. The net financing received from the IMF during 2014-15 was U.S.$1.3 million, despite the receipt of U.S.$1.7 billion under the new IMF programme. As scheduled repayments to the IMF declined throughout 2014-15, net financing from the IMF is expected to increase. As a result, the Government expects a gradual increase in Pakistan's foreign exchange reserves, which were U.S.$18.7 billion as at the end of 2014-15. See "*Foreign Reserves*".

The Government has specifically focused on two aspects of balance of payments reform. First, increasing the net private direct and portfolio investment, which was 1.0 per cent of GDP at the end of 2013-14; and, increasing the export-to-GDP ratio (8.8 per cent at the end of 2014-15), which has been declining for over a decade. Government efforts are underway to improve product and market diversification to reverse this trend and reduce the trade deficit.

The following table sets out information in relation to Pakistan's balance of payments for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15(1)
			(U.S.$ million)		
Trade balance.............................	(10,516)	(15,765)	(15,431)	(16,701)	(17,072)
Export	25,356	24,696	24,795	25,068	24,142
Imports............................	35,872	40,461	40,226	41,769	41,214
Services balance (net).................	(1,940)	(3,192)	(1,472)	(2,551)	(2,432)
Receipts..........................	5,768	5,035	6,733	5,322	5745
Payments.........................	7,708	8,227	8,205	7,873	8,177
Of which:					

	2010-11	2011-12	2012-13	2013-14	2014-15[(1)]
Transport....................	4,072	3,510	3,291	3,870	3,748
Travel..........................	972	1,367	1,233	1,073	1,365
Income account balance (net)......	(3,017)	(3,245)	(3,685)	3,943	(4,479)
Current transfers (net)..................	15,687	17,544	18,092	20,065	21,762
Of which workers' remittances	11,201	13,186	13,922	15,837	18,454
Current account	214	(4,658)	(2,496)	(3,130)	(2,221)
Capital account............................	161	183	264	1,857	371
Financial account.........................	2,101	1,280	549	5,553	4,492
Direct investment (net)	1,591	744	1,258	1,572	642
Portfolio investment (net)..	338	(144)	26	2,760	7,895
Other investment assets...	(920)	9	(314)	211	(11)
Other investment liabilities	1,092	671	(421)	1,010	1,966
Net errors and omissions	16	(80)	(309)	(422)	(6)
Reserves and related items	(2,492)	3,275	1,992	(3,858)	(2,636)

(1) Provisional.

Source: State Bank of Pakistan

The following table sets out the components of balance of payments (as per cent of GDP) for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15
			(% of GDP)		
Exports	11.9	11.9	10.7	10.3	8.8
Imports	16.8	19.5	17.4	17.2	17.0
Trade deficit..........................	(4.9)	(7.6)	(6.7)	(6.9)	(8.2)
Worker's remittances	5.2	6.4	6.0	6.5	6.8
Current account balance........	0.1	(2.2)	(1.1)	(1.3)	(0.8)

Source: State Bank of Pakistan

Foreign Trade

Since its formation in 1947, Pakistan has been committed to multilateral trade, Pakistan is a founding member of the General Agreement on Tariffs and Trade (**GATT**) and the WTO and actively participates in multilateral trade negotiations. The Government is following a policy of export-led growth and has liberalised its trade and investment regime in recent years.

The review of Pakistan's trade policy conducted by the WTO in March 2015 noted favourably Pakistan's economic performance, improvements in customs procedures, considerable reduction in overall tariff protection, and strengthened intellectual property rights over the past two years.

With respect to its trade regime, Pakistan has lowered its tariffs both on agricultural and non-agricultural goods. Pakistan has been supportive of the latest Agreement on Trade Facilitation which was concluded in December 2013.

Pakistan is a member of the Trade Preferential System of the OIC and the Asia Cooperation Dialogue and is a Sectoral Dialogue Partner of ASEAN.

Exports and Imports

Exports. Merchandise exports decreased to U.S.$23.9 billion in 2014-15 (decrease of 4 per cent) compared to U.S.$25.1 billion in 2013-14. The decline in exports was broadly based across most groups (textile and non-textile) with the textile and food groups contributing 1.5 per cent and 1.9 per cent, respectively, to overall exports during this period.

The following table sets out details of the composition of Pakistan's exports for the periods stated:(1)

	2010-11	2011-12	2012-13	2013-14	2014-15	% Change 2012-13/ 2013-14	Absolute Change 2013-14/ 2014-15 (*U.S.$ million*)	% Share
					(*U.S.$ million*)			
Food group	4,509.2	4,249.8	4,762.0	4,632.9	4,559.6	(1.58)	(73)	19
Textile manufacture	13,788.1	12,336.0	13,047.6	13,738.7	13,476.0	(1.91)	(263)	56
Petroleum group	1,352.5	903.1	27.9	721.4	585.6	(18.82)	(136)	2
Other manufactures	4,041.8	4,863.7	5,123.3	4,638.2	3,838.3	(17.24)	(800)	16
All other items	1,118.8	1,271.8	1,499.7	1,378.2	1,425.8	3.46	48	6
Total..........................	**24,810.4**	**23,624.4**	**24,460.5**	**25,109.6**	**23,885.4**	**(4.88)**	**(1,224)**	**100**

(1) Total exports in this table are calculated by the Pakistan Bureau of Statistics using customs data that differs from total exports in the Major Economic Indicators table included elsewhere in this offering circular. The total exports in the Major Economic Indicators table is calculated by the State Bank of Pakistan on a cash payment and receipt basis, and used by the State Bank of Pakistan to calculate Pakistan's balance of payments position.

Source: Pakistan Bureau of Statistics

The following table sets out details of the principal destinations of Pakistan's exports for the periods stated:

Country	2010-11	2011-12	2012-13	2013-14	2014-15
			(U.S.$ billion)		
U.S.	3.96	3.53	3.53	3.71	3.70
China	1.63	2.18	3.58	2.42	2.17
United Arab Emirates...........	1.80	2.29	2.16	1.75	1.01
Afghanistan..........................	2.33	2.25	2.10	1.87	1.96
United Kingdom	1.21	1.18	1.32	1.57	1.58
Germany..............................	1.27	1.06	1.02	1.15	1.17

Country	2010-11	2011-12	2012-13	2013-14	2014-15
			(U.S.$ billion)		
France	0.39	0.33	0.35	0.41	0.37
Bangladesh	1.01	0.63	0.71	0.70	0.70
Italy	0.79	0.58	0.56	0.74	0.67
Spain	0.57	0.49	0.55	0.70	0.81

Source: Pakistan Bureau of Statistics

Imports. Merchandise imports increased slightly to U.S.$46.0 billion in 2014-15 compared to U.S.$45.1 billion in 2013-14, offset by decreases in imports during 2014-15 in the textile group (a decrease of 5 per cent), and in the petroleum group (a decrease of 21 per cent). However, there was an increase of 7 per cent in the telecom sector from U.S.$1.3billion in 2013-14 to U.S.$1.4 billion and machinery sector increased by 15 per cent (from U.S.$6.4 billion to U.S.$7.4 billion) in 2014-15.

Pakistan imports significant amounts of crude oil from the United Arab Emirates (2.5 million Mt in 2014-15 (July-May)) and Saudi Arabia (2.4 million Mt in 2014-15 (July-May)). In 2013-14 it imported a small amount of crude oil from Thailand and a nominal amount from Iran, but none during 2014-15 or subsequent thereto.

The following table sets out details of the composition of Pakistan's imports for the periods stated:(1)

	2010-11	2011-12	2012-13(2)	2013-14(2)	2014-15(2)	% Change 2014-15/ 2013-14	Absolute Change 2014-15/ 2013-14 (*U.S.$ million*)	% Share
			(U.S.$ million)					
Food group	5,086.4	5,035.2	4,187.8	4,182.6	5,027.6	20	845	11
Machinery group	5,275.0	5,635.6	5,705.3	6,441.0	7,419.7	15	979	16
Transport	2,245.9	2,228.9	2,436.8	2,178.1	2,694.4	24	516	6
Petroleum group	12,082.6	15,252.6	14,972.9	14,838.9	11,695.2	(21)	(3,144)	25
Textile group	2,883.1	2,398.2	2,611.6	2,708.1	2,560.7	(5)	(147)	6
Chemical group	6,178.8	7,143.4	6,416.3	6,705.8	7,448.3	11	742	16
Metal group	2,573.8	2,824.3	3,337.5	3,102.1	3,705.9	19	604	8
Miscellaneous	944.7	934.8	840.5	907.9	1,063.1	17	155	2
Other items	3,148.4	3,458.9	4,441.6	4,047.9	4,365.1	8	317	9
Total	**40,413.7**	**44,911.9**	**44,950.3**	**45,112.4**	**45,980.0**	**2**	**868**	**100**

(1) Total imports in this table are calculated by the Pakistan Bureau of Statistics using customs data that differs from total imports in the Major Economic Indicators table included elsewhere in this offering circular. The total imports data in the Major Economic Indicators table is calculated by the State Bank of Pakistan on a cash payment and receipt basis, and used by the State Bank of Pakistan to calculate Pakistan's balance of payments position.
(2) July through May.

Source: Pakistan Bureau of Statistics

The following table sets out details of the principal countries from which Pakistan imports for the periods stated:

Country	2010-11	2011-12	2012-13	2013-14	2014-15
			(U.S.$ billion)		
United Arab Emirates......	5.43	7.68	7.96	7.36	6.61
China.............................	5.79	6.72	5.97	7.71	9.80
Kuwait............................	3.33	4.00	3.67	3.37	2.17
Saudi Arabia..................	4.55	5.03	3.14	4.46	3.25
Malaysia	2.46	2.44	1.92	1.70	0.87
Japan	1.66	1.92	1.89	1.78	1.45
India	1.74	1.51	1.70	2.05	1.54
U.S.	1.81	1.48	1.49	1.75	1.52
Germany........................	0.94	1.12	1.18	1.22	0.76
Indonesia.......................	0.80	1.16	1.22	1.58	1.98

Source: Pakistan Bureau of Statistics

The Office of Foreign Assets Control of the U.S. Department of Treasury (**OFAC**) administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, certain countries, including Iran, and specially designated nationals (together **Sanction Targets**). Pakistan trades primarily food and metal products with Iran which are exempt from trade sanctions, and in 2014-15 this trade totalled approximately U.S.$240 million, less than 0.3 per cent of Pakistan's total imports and exports in 2014-15 (July-May), a position that is consistent with Pakistan sanctions-exempt trading in 2013-14. Pakistan has historically imported crude oil from Iran; however, as a result of the increasing sanctions environment, Pakistan ceased crude oil imports during 2013-14. As Pakistan is not a Sanction Target, OFAC regulations do not prohibit U.S. persons from investing in, or otherwise engaging in business with, Pakistan. However, to the extent that Pakistan invests in, or otherwise engages in business with, Sanction Targets directly or indirectly, U.S. persons investing in Pakistan may incur the risk of indirect contact with Sanction Targets. Non-U.S. persons from jurisdictions with similar sanctions may similarly incur the risk of indirect contacts with Sanction Targets.

Workers' Remittances

The SBP, the Ministry of Overseas Pakistanis and the Ministry of Finance launched a joint initiative - called the Pakistan Remittance Initiative (**PRI**) – in 2009 with the aim of (i) facilitating and supporting the efficient flow of remittances and (ii) providing investment opportunities in Pakistan for overseas Pakistanis. To date, the establishment of PRI has contributed positively to the flow of workers' remittances to Pakistan, which have grown by 64.8 per cent from 2010-11 to 2014-15. Geographically, Saudi Arabia, the United Arab Emirates, the U.S. and the U.K. are the principal sources of workers' remittances.

Workers' remittances increased to U.S$18.5 billion during 2014-15 compared to U.S.$15.8 billion in 2013-14. The Government expects workers' remittances to exceed U.S.$19 billion by the end of 2015-16.

The trend of increased workers' remittances is summarised in the table below:

	2010-11	2011-12	2012-13	2013-14	2014-15[(1)]
			(U.S.$ billion)		
Total	**11.2**	**13.2**	**13.9**	**15.8**	**18.5**
U.S.	2.1	2.3	2.2	2.5	2.6
Saudi Arabia	2.7	3.7	4.1	4.7	5.6
UAE	2.6	2.8	2.8	3.1	4.2
Other Gulf Cooperation Council Countries	1.3	1.5	1.6	1.9	2.2
U.K.	1.2	1.5	1.9	2.2	2.3
EU	0.4	0.4	0.4	0.4	0.4
Other Countries	1.0	1.0	1.0	1.1	1.2

(1) Provisional.

Source: State Bank of Pakistan

Foreign Direct Investment

Pakistan has a liberal foreign investment regime which generally allows for 100 per cent foreign ownership of companies and for full repatriation of capital, capital gains, dividends and profit in most sectors of the economy. Foreign private investment was recorded at U.S.$1.6 billion in 2014-15 compared to U.S.$2.3 billion in 2013-14. In particular, the oil and gas sector attracted U.S.$248.1 million of FDI in 2014-15), followed by the power sector (U.S.$127.0 million in 2014-15), the telecommunications sector (U.S.$120.8 million in 2014-15) and the financial services sector (U.S.$112.4 million in 2014-15).

The following table summarises the net inflow of foreign investment in Pakistan for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15
			(U.S.$ million)		
Foreign private investment	**1,999.3**	**760.6**	**1,576.0**	**2321.4**	**1,786.1**
Direct investment	1,634.7	820.6	1,456.5	1,698.6	851.2
Inflow	2,269.6	2,099.1	2,665.3	2,847.4	2,677.9
Outflow	634.8	1,278.4	1,208.9	1,148.8	1,826.7
Portfolio Investment	364.6	(60.0)	119.6	622.8	934.9
Equity securities	364.6	(60.0)	119.6	743.2	934.9
Debt securities	-	-	-	(112.2)	-
Convertible bonds of Pakistan	-	-	-	-	-
International bonds of PMCL	-	-	-	(112.2)	-
Foreign public investment	**(20.1)**	**(52.8)**	**4.6**	**2,115.2**	**927.1**
Portfolio investment	(20.1)	(52.8)	4.6	2,115.2	927.1

Equity securities..					-
Debt securities[1]	(20.1)	(52.8)	4.6	2,115.2	927.1
Total...	**1,979.2**	**707.8**	**1,580.6**	**4,436.6**	**2,713.1**

(1) Net sale or purchase of special U.S. dollar denominated bonds, Eurobonds, Foreign Exchange Bearer Notes, Dollar Bearer Notes, Treasury Bills and Pakistan Investment Bonds.

Source: State Bank of Pakistan

Foreign Reserves

The following table sets out the total liquid foreign exchange reserves and gold reserves as at 30 June for the years stated:

	2011	2012	2013	2014[(1)]	2015
			(U.S.$ million)		
Liquid Foreign Exchange Reserves......	18,243.8	15,288.6	11,019.6	14,141.1	18,705.7
Gold reserves	3,117	3,311	2,469	2,726	2,428

(1) Provisional.

Source: State Bank of Pakistan

Total foreign exchange reserves were U.S.$18.7 billion as at the end of 2014-15.

Inflation, Money and Monetary Policy

Inflation

Consumer Price Index (**CPI**) inflation witnessed high volatility and remained in double digits during the period 2008-09 to 2011-12 but has decreased in the period since. It reached a record high level of 25.3 per cent in August 2008, largely due to the significant rise in international commodity prices. Although inflation decelerated following the stability in international commodity prices in early 2009, devastating floods in 2010 severely disrupted the supply chain resulting in significant inflationary pressures. In 2014-15, average CPI inflation eased significantly to 4.53 per cent from 8.62 per cent in 2013-14, reflecting the positive impact of the Government's monetary policy, fall in global commodity prices particularly that of crude oil, the absence of power tariff adjustments and exchange rate stability.

The declining trend in inflation appears set to continue in 2015-16 as well. The average CPI inflation during July-August 2015 was 1.76 per cent, with year on year inflation at 1.72 per cent in the period to August 2015. Both food and non-food groups in the CPI basket contributed towards this easing.

The present Government has taken various measures to bring inflation down since coming to office in May 2013. Such measures include prudent expenditure management and regular reviews of prices through regular meetings of the Economic Coordination Committee (**ECC**). The National Price Monitoring Committee (**NPMC**) also reviews prices and suggests price stabilising measures to the ECC. Moreover, the SBP has tightened its monetary policy. As a consequence, CPI inflation has started to come down since November 2013, reaching year-on-year CPI inflation of 1.7 per cent in August 2015. During 2014-15, CPI inflation averaged 4.53 per cent. The Government believes that the risk of demand-driven inflation is moderate as it will take some time before the pick-up in economic growth increases aggregate demand.

The following table sets out headline core inflation for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15
Indices					
General	146.45	162.57	174.53	189.58	198.16
Food	164.10	182.20	195.18	212.74	220.20
Non-food	135.87	150.80	162.16	175.69	184.95
Core(1)	131.16	145.03	158.96	171.82	183.45
July % Change					
General	13.7	11.0	7.4	8.6	4.5
Food	18.0	11.0	7.1	9.0	3.5
Non-food	10.7	11.0	7.5	8.3	5.3
Core(1)	9.4	10.6	9.6	8.3	6.5

(1) Core inflation is defined as overall inflation adjusted for food and energy. The base year is 2007-08.

Source: State Bank of Pakistan

Money and Monetary Policy

During 2014-15, monetary expansion increased to 13.2 per cent from 12.5 per cent in 2013-14. The main contribution in M2 growth came from net domestic assets of the banking system, which comprised 11.0 per ent of bank assets in 2014-15 and 8.8 per cent in 2013-14. The Government's net budgetary borrowing from the banking system was Rupees 865 billion in 2014-15. The flow of credit to private sector during 2014-15 was Rupees 209 billion; lower than the credit expansion in 2013-14 of Rupees 371 billion. Growth contribution of net foreign assets of the banking system in M2 has slipped to 2.2 per cent of bank assets in 2014-15 from 3.7 per cent in 2013-14.

In its monetary policy decision of July 2015 SBP kept the target (policy) rate unchanged at 6.5 per cent. The pause in monetary easing in July 2015 was mainly due to developments that suggested a slight deviation in the disinflationary trend of 2014-15 going in to 2015-16. These included a lagged impact of monetary easing in 2014-15, expected higher monetary expansion in 2015-16, bottoming out of inflationary expectations, and the base effect of historically low inflation during the second half of 2014-15. During 2014-15, SBP decreased the base rate in November 2014, January 2015, March 2015 and May 2015 in view of a continued improvement in Pakistan's balance of payments, as well as in the inflation outlook for 2014-15. SBP also introduced a new target policy rate which was set at 6.0 per cent, 50 basis points below the ceiling rate. The purpose of introducing the target rate was to ensure that the overnight rate remains below the ceiling rate close to the target rate.

Money supply grew by 13.9 per cent on average during 2012-13 to 2014-15 on account of growth in the Government's fiscal needs. Government borrowing from the banking system increased by 18.6 per cent during this period while credit to the private sector remained suppressed, despite a lowering of the base rate. Average growth in credit to private sector recorded an increase of 5.4 per cent during this period. The Government's higher dependence on the banking system to finance its budget deficit was primarily due to a lower realisation of budgeted external financing with low growth in revenue generation.

The following table provides an overview of components of monetary assets as at 30 June for the periods stated.

	2010-11	2011-12	2012-13	2013-14	2014-15(1)
					(Stock, Rupees billion)
1. Currency issued......................	1,608.6	1,785.8	2,050.2	2,317.9	2,715.6
2. Currency held by SBP............	2.4	2	1.1	0.5	0.5
3. Currency in title of Scheduled Banks........................	104.9	110.1	110.9	139.5	160.3
4. Currency circulation (1-2-3).....	1,501.3	1,673.7	1,938.2	2,177.9	2,554.7
5. Other deposits with SBP	10.1	8.9	10.5	13.1	15.2
6. Scheduled banks' total deposits(2)	5,183.6	5,959.2	6,909.1	7,777.0	8,713.6
7. Resident foreign currency deposits (**RFCD**).........................	374.9	440.1	515	599.4	597.8
8. Monetary assets (4+5+6)	6,695.0	7,641.8	8,857.8	9,968.0	11,283.6
9. Growth rate (%)	15.9	14.1	15.9	12.5	13.2
1. Currency/money ratio.............	22.4	21.9	21.9	21.8	22.6
2. Demand deposits/money ratio	61.6	61.7	63.1	65.3	65.6
3. Time deposits/money ratio	10.2	10.6	9.1	6.7	6.4
4. Other deposits/money ratio	0.2	0.1	0.1	0.1	0.1
5. RFCD/money ratio	5.6	5.8	5.8	6.0	5.3
6. Income velocity(3)	2.9	2.8	2.8	2.7	2.6

(1) Provisional.
(2) Excluding inter-bank deposits and deposits of federal and provincial governments, foreign constituents and international organisations.
(3) Calculated as GDP at the quarterly average of monetary assets.

Source: State Bank of Pakistan

Exchange Rates

Pakistan moved from a managed floating exchange rate policy to a composite exchange rate system in July 1998. The composite exchange rate was then replaced with a market based unitary exchange rate system in May 1999. Under the unitary exchange rate system, the floating inter-bank rate applies to all foreign exchange receipts and payments both in public and private sectors.

All foreign exchange requirements for all approved purposes, including imports, services and debt repayment are met by the authorised dealers that form the inter-bank market. The authorised dealers are not required to approach the SBP for release of foreign exchange for any purpose, nor are they required to surrender it to the SBP. While each authorised dealer is free to fix its own buying and selling rates, the spread between the spot buying and selling rate should not exceed Rupees 0.2 per U.S. dollar. The SBP does not provide forward cover to the authorised dealers. However, authorised dealers may provide forward cover for exports, imports and other permitted transactions for any duration, in accordance with the conditions prevailing in the market.

The exchange rate for Rupees against other currencies is determined through cross rates based on the movement of the U.S. dollar against these currencies in the foreign exchange markets. Nominal exchange rates remained relatively stable and the Rupee depreciated by 2.9 per cent against the U.S. dollar during 2014-15 as compared to 0.9 per cent appreciation in 2013-14 and 5.1 per cent depreciation in 2012-13.

The following table sets out the average exchange rates between the Rupee and the currencies of Pakistan's principal trading partners:

Country	Currency	2010-11	2011-12	2012-13	2013-14	2014-15
Australia	Dollar	92.0799	92.0799	99.3942	94.4355	27.6230
Bangladesh.........	Taka............	1.1323	1.1323	1.2122	1.3243	1.3066
Canada..............	Dollar	89.0287	89.0287	96.3918	96.1451	86.6255
China.................	Yuan	14.0448	14.0448	15.5241	16.7648	16.3958
Hong Kong	Dollar	11.4821	11.4821	12.4874	13.2656	13.0855
India	Rupee	1.7877	1.7877	1.7669	1.6748	1.6349
Iran	Rial..............	-	-	-	-	-
Japan	Yen	1.1363	1.1363	1.1101	1.0179	0.8865
Kuwait................	Dinar	322.3159	322.3159	342.4492	363.7315	345.8825
Malaysia	Ringgit.........	28.9503	28.9503	31.4404	31.6969	29.3870
Nepal.................	Rupee	-	-	-	-	-
Norway	Krone	15.5831	15.5831	16.8206	17.0599	14.2622
Singapore	Dollar	70.9062	70.9062	78.1706	81.6418	77.3758
Sri Lanka	Rupee	0.7626	0.7626	0.7533	0.7852	0.7695
Sweden	Krona	13.28	13.28	14.6973	15.7563	77.3758
Switzerland.........	Franc...........	99.7999	99.7999	102.9119	113.8408	107.5754
S.Arabia.............	Riyal............	23.8027	23.8027	25.8262	27.4309	27.0455
Thailand.............	Baht	-	-	-	3.2066	3.1041
UAE...................	Dirham	24.3038	24.3038	26.3692	28.0088	27.6230
U.K.	Pound	141.4009	141.4009	151.775	167.4607	159.5815
U.S.	Dollar	89.267	89.267	96.8536	102.8765	101.4598
EMU	Euro	119.594	119.594	125.3828	139.6286	121.6891
IMF	SDR[(1)]	133.34	133.34	138.94	147.23	157.84

(1) Special Drawing Rights (**SDR**) or supplementary foreign exchange reserve assets defined and maintained by the IMF. SDRs are not a currency, instead they represent a claim to a currency held by IMF member countries for which they may be exchanged (i.e. euros, Japanese Yen, Pounds Sterling or U.S. dollars).
(2) Up to 1 September 2015.
Note: the Exchange Rates are Mid Points of Interbank Buying and Selling.

Source: State Bank of Pakistan

PUBLIC FINANCE AND TAXATION

Background

Pakistan's fiscal year begins on 1 July and ends on the following 30 June. Each year, a detailed annual plan setting forth planned current and development expenditures, projected revenues, plans for financing projected budget deficits and projections for macro-economic indicators is developed and published in June. The planning process is undertaken by the Planning Commission (principally involved in formulating plans for developmental expenditures) and the Budget Wing of the Ministry for Finance and Economic Affairs (responsible for determining projections for current expenditure and Government revenues). These groups co-ordinate revenue and expenditure plans and formulate the annual plan.

Budgetary process

The Constitution governs Pakistan's budgetary process. The executive branch prepares the national budget and presents it to Parliament. Parliament has the opportunity to review the budget but does not have the power to amend that part of the budget which relates to expenditure described by the Constitution as expenditure charged to the Federal Consolidated Fund. Parliamentary rules allow for three types of motions with respect to a proposed demand for grant: (i) a disapproval of policy cut, which allows for a member to present his disapproval to a specified policy and advocate an alternative policy; (ii) an economy cut, which allows for the reduction in a budgetary item or the omission or reduction of a budgetary item; and (iii) a token cut, which allows for the reduction by Rupees 100 in light of a specific grievance. Thereafter, the Prime Minister authenticates a schedule of authorised expenditures. No expenditure is deemed authorised unless it is presented before the National Assembly.

2015-16 Budget*.* The Pakistan 2015-16 budget, as published by the Finance Division of the Government of Pakistan on 5 June 2015, has the following main features:

- the total outlay of budget 2015-16 is Rupees 4,451.3 billion. This size is 3.5 per cent higher than the size of budget estimates 2014-15;
- the resource availability during 2015-16 has been estimated at Rupees 4,168.3 billion against Rupees 4,073.8 billion in the budget estimates of 2014-15;
- the net revenue receipts for 2015-16 have been estimated at Rupees 2,463.4 billion indicating an increase of 10.7 per cent over the budget estimates of 2014-15;
- the provincial share in federal taxes is estimated at Rupees 1,849.4 billion during 2015-16, which is 7.5 per cent higher than the budget estimates for 2014-15;
- the net capital receipts for 2015-16 have been estimated at Rupees 606.3 billion against the budget estimates of Rupees 690.7 billion in 2014-15 i.e. a decline of 12.2 per cent;
- the external receipts in 2015-16 are estimated at Rupees 751.5 billion. This shows an increase of 12.1 per cent over the budget estimates for 2014-15;
- the overall expenditure during 2015-16 has been estimated at Rupees 4,451.3 billion, out of which the current expenditure is Rupees 3,482.2 billion and development expenditure is Rupees 969 billion;
- the share of current and development expenditure respectively in total budgetary outlay for 2015-16 is 78.2 per cent and 21.8 per cent;
- the expenditure on General Public Services is estimated at Rupees 2,446.6 billion which is 70.3 per cent of the current expenditure;

- the other development expenditure outside Public Sector Development Programme (**PSDP**) for 2015-16 has been estimated at Rupees 164.4 billion;

- the size of PSDP for 2015-16 is Rupees 1,513.7 billion. Out of this, Rupees 813.7 billion has been allocated to provinces. Federal PSDP has been estimated at Rupees 700 billion, out of which Rupees 252.6 billion to Federal Ministries / Divisions, Rupees 271.9 billion to Corporations, Rupees 20 billion to Pak Millennium Development Goals and Community Development Programme (**MDGs**), Rupees 28.5 billion to Special Federal Development Programme, Rupees 7 billion to Earthquake Reconstruction and Rehabilitation Authority (**ERRA**), Rupees 100 billion for Special Development Programme for Temporarily Displaced Persons (**TDPs**) and Security Enhancement and Rupees 20 billion for Prime Minister's Youth Programme; and

- to meet expenditure, bank borrowing has been estimated for 2015-16 at Rupees 282.9 billion, which is significantly lower than revised estimates of 2014-15.

The main features of the 2015-16 budget are set out in the table below**:**

RECEIPTS		**EXPENDITURE**	
	(*Rupees billion*)		
(a) Tax revenue[1]	3,418	**A. Current**	3,166
(b) Non-tax revenue	895	Interest payment	1,280
Gross revenue receipts	4,313	Pension	231
Less provincial share	1,849	Defence affairs and services	781
		Grants and transfers	410
I. Net revenue receipts (a-b)	2,463	Subsidies	138
II. Net capital receipts (non bank)	649	Running of civil government	326
III. External receipts (net)	346	Provision for pay and pension	0
IV. Estimated provincial surplus	297		
V. Bank borrowing	283	**B. Development**	923
VI. Privatisation proceeds	50	Federal PSDP	700
		Net lending	58
		Other development expenditure	164
Total Resources (I to V)	**4,089**	**Total Expenditure (A+B)**	**4,089**

(1) Out of which the Federal Board of Revenue tax collection has been estimated at Rupees 3,104 billion.

Source: Ministry of Finance

The comparative position of 2014-15 (budget and revised) and 2015-16 (budget) is set out below:

	Budget 2014-15	Revised 2014-15	Budget 2015-16
		(*Rupees million*)	
(i) Resources (a + b + c)	4,073,839	3,832,739	4,168,338
a. Internal resources	3,205,229	3,122,278	3,366,827
Revenue receipts (Net)	2,225,322	2,377,763	2,463,351
Capital receipts (Net)	690,618	602,954	606,303
Estimated provincial surplus	289,289	141,561	297,173
b. External resources	670,610	692,687	751,511
c. Privatisation proceeds	198,000	17,774	50,000
(ii) Expenditure (a + b)	4,301,743	4,235,111	4,451,277
a. Current expenditure on Revenue Account	3,463,245	3,480,790	3,482,239
Current expenditure on Revenue Account	3,463,245	3,480,790	3,482,239
b. Total Development Expenditure	838,497	754,321	969,038
Federal PSDP	525,000	542,000	700,000
Other development expenditure	161,813	132,292	164,400
Development loans and grants to provinces	151,688	80,029	104,639
Bank Borrowing	227,906	402,373	282,940

Source: Ministry of Finance

Fiscal position of Pakistan

The following table summarises the consolidated federal and provincial governments' revenues and expenditures for 2014-15:

	2012-13	2013-14	2014-15	% change 2013-14/ 2014-15	Budget Estimate 2015-16
		(*Rupees billion*)		(%)	(*Rupees billion*)
A. Total revenue	**2,982.4**	**3,637.3**	**3,931**	**8.1**	**4,635**
(a) Tax revenue	2,199.2	2,564.5	3,018	17.7	3,672
Federal	2,048.5	2,374.5	2,812	18.4	3,418
of which FBR revenue	1,936.1	2,266.3	2,588	14.2	3,104
Provincial tax revenue	150.7	190.0	206	8.3	254

	2012-13	2013-14	2014-15	% change 2013-14/ 2014-15	Budget Estimate 2015-16
	(*Rupees billion*)			(%)	(*Rupees billion*)
(b) Non-tax revenue	783.2	1,072.8	913	(14.9)	963
B. Total expenditure	**4,816.3**	**5,026.0**	**5,388**	**7.2**	**5,963**
(a) Current expenditure	3,660.4	4,004.6	4,425	10.5	4,593
Federal	2,565.2	2,831.2	3,038	7.3	3,128
Interest	991.0	1,147.8	1,304	13.6	1,280
Defence	540.6	623.1	698	12.0	781
Provincial	1,095.2	1,173.3	1,387	18.2	1,465
(b) Development expenditure and net lending	1,139.9	1,236.5	1,141	(7.8)	1,370
PSDP	695.1	865.5	988	14.1	1,210
Other Development	82.0	270.5	125	(53.6)	164
Net lending	362.8	100.6	27	(72.8)	(4)
(c) Unidentified expenditure	16.0	(215.0)	(178)	(17.4)	0
C. Overall fiscal deficit	**(1,833.9)**	**(1,388.7)**	**(1,457)**	**4.9**	**(1,328)**
As % of GDP	8.2	5.5	5.3	(2.7)	4.3
Financing of fiscal deficit	1,833.9	1,388.7	1,457	4.9	1,328
(i) External sources	(1.7)	511.7	181	(64.6)	346
(ii) Domestic sources	1,835.5	877.0	1,276	45.5	982
- Bank	1,457.5	323.7	892	175.6	283
- Non-bank	378.0	553.3	366	(33.8)	649
- Privatisation Proceeds	0	0	17	0	50
GDP at market price	22,489	25,402.0	27,384	7.8	30,672

Source: Ministry of Finance

Revenue and Expenditure

Revenue. During the period between 2009-10 and 2014-15 Pakistan's economy faced numerous challenges, including the energy crisis, persistent inflationary pressures, unprecedented floods, a low tax-to-GDP ratio, a high fiscal deficit, large amounts of public debt, high interest payments, high growth in subsidies on account of circular debt and a resource drain through PSEs. Consequently, the expenditure overrun surpassed the revenue increase, thereby creating pressure on the fiscal deficit. Amid mounting pressures on public spending, the Government has implemented corrective measures to rationalise expenditure and to broaden the tax base. The fiscal deficit was 5.3 per cent of GDP in 2014-15 compared to 5.5 per cent of GDP in 2013-14.

Tax Collection. Pakistan has very low tax revenues, which constrains its ability to meet the spending needs arising from the social security system, security challenges and infrastructure required for development of economic growth. To meet the 2015-16 fiscal target, the authorities have taken a number of revenue and expenditure measures as described below.

- The Federal Board of Revenue (**FBR**) unfolded the second of three instalments for the elimination of tax concessions and exemptions which would raise additional revenue amounting to 0.5 per cent of GDP in 2015-16 and a total projected increase in revenue of 1-1.5 per cent over the programme period.

- The FBR granted no new tax concessions or exemptions through SROs in 2014-15 and will no longer have the authority to issue SROs in the future. General government authority in this regard will be significantly limited. The Government is rationalising previously granted SROs. Withdrawn SRO related exemptions have raised, and are expected to, raise, the following revenues:

	2014-15	**2015-16**
Revenues	**(*Rupees million*)**	
1. Customs.................................	31,500	45,400
2. Sales Tax and Federal Excise Duty................................	36,700	22,000
3. Income Tax............................	36,000	42,000
4. Total.......................................	104,200	109,400

- New tax measures have been introduced under the 2015-16 budget, which would raise revenue by 0.7 per cent of GDP. These measures include higher excise on tobacco products, raising income and capital gains tax rates on high-income taxpayers and imposing a higher, “differential rate” on taxpayers who fail to file returns and rationalising custom duty and general sales tax rates for a range of goods.

- Further progress is also being made in strengthening tax administration and broadening the tax base, while rationalising the GST regime and accelerating GST refunds to reduce distortions and improve compliance.

- Important legal hurdles to implementation of the gas infrastructure development cess have been addressed through enactment of the Gas Infrastructure Development Cess Act 2015 from parliament.

- The FBR issued in 200,411 additional tax notices by the end of 2014-15, exceeding its target of 200,000, in order to capture an additional 300,000 new taxpayers by 2015-16.

Taken together, these measures are expected to increase the tax-to-GDP ratio to 12.2 per cent next year in 2015-16.

The FBR tax collection target for 2014-15 was set at Rupees 2,605 billion, and assumed higher economic growth and the tax administration reforms set forth above. The FBR’s revenue collection in 2014-15 was Rupees 2,590 billion, constituting 15 per cent growth compared to the Rupees 2,255 billion collected during 2013-14.

The gross collection of direct taxes grew by 16.5 per cent in 2014-15 compared to 2013-14. Major revenue sources for direct taxes are income tax, capital value tax and withholding tax, voluntary payments and collection on demand. During 2014-15, gross collection of indirect taxes grew by 13.4 per cent compared to 2013-14 and accounted for 59 per cent of the FBR’s total tax revenues.

Allocation of Revenue between the Federal Government and Provinces. The Constitution governs the relationship between the Government and the Provinces with respect to the distribution of a divisible pool of taxes. According to the Constitution, at intervals not exceeding five years, the President forms a National Finance Commission (**NFC**) consisting of the Minister of Finance of the Federal Government, the Minister of Finance of each of the Provincial Governments and such other persons as may be appointed by the President after consultation with the Governors of the Provinces. The NFC then recommends to the President the distribution to be made between the Federation and the Provinces with respect to the divisible pool of taxes consisting of income tax, sales tax, export duties on cotton, excise duties and any other tax that may be specified by the President. The President then, in accordance with the recommendation of the NFC, specifies the share of the taxes to be allocated to the Federation and Provinces. The recommendations of the NFC, together with an explanatory memorandum of action taken thereon, are required to be sent to both Houses and to Provincial Assemblies. Under the Constitution, the President has the power to amend or modify the distribution of revenues prior to making the aforementioned order. The Award delivered by the NFC in December 2009 and signed by the then President of Pakistan in March 2010 was the first such Award by a democratically elected Government in 19 years. The 18th Constitutional Amendment has inserted new provisions in the Constitution stipulating that the share of the Provinces in each NFC Award shall not be less than the share given to the Provinces in the previous Award, and that the Federal and the Provincial Finance Ministers shall monitor the implementation of the Award biannually and lay their reports before both Houses of Parliament and the Provincial Assemblies.

From 1997 to 2006, the share of the Government in the divisible pool of taxes was fixed at 62.5 per cent while the share of the Provincial Governments was fixed at 37.5 per cent. From 2006-07, the share of the Provincial Governments in the divisible pool rose annually to 41.5 per cent, 42.5 per cent, 43.75 per cent, 45.0 per cent and to 46.25 per cent thereafter.

The NFC Award has historically been based on the single criteria of population. In December 2009, the seventh NFC Award adopted, by consensus, a set of multiple criteria for determining horizontal distribution of resources comprising population (82.0 per cent), poverty and backwardness (10.3 per cent), revenue collection/ generation (5.0 per cent) and inverse population density (2.7 per cent). Under the seventh NFC Award, the share of the Provinces increased from 45 per cent in 2011-12 to 56 per cent in 2012-13, and further increased to 57.5 per cent in the remaining period of the seventh NFC award. The share of the Government in the net proceeds of the divisible pool was 44 per cent for 2012-13 but reduced to 42.5 per cent for 2013-14 onwards. According to the current seventh NFC Award, transfers to provinces increased to Rupees 1,413 billion in 2013-14 compared to the transfer of Rupees 1,077 billion in 2012-13 and the transfer of Rupees 710.6 billion in 2011-12. Transfers to provinces are estimated to increase to Rupee 1,720 billion in 2014-15 reflecting a 21.7 per cent increase compared to 2013-14.

Expenditure. Total expenditure (**TE**) was Rupees 5,387.8 billion, or 19.7 per cent of GDP, in 2014-15 compared to Rupees 5,026.0 billion, or 19.8 per cent of GDP, in 2013-14. The increase in TE was principally due to a significant increase in current expenditure, including the cost of running the civil administration (an increase of 10.3 per cent in 2014-15 compared to 2013-14), mainly due to the impact of higher salaries and allowances for federal Government employees and increased development expenditure.

Current expenditure (**CE**) during 2014-15 exceeded the level of CE during 2013-14 as well as budgeted CE. Increased CE was primarily due to higher than projected spending on defence and security, together with continued government subsidies for energy, food and cash transfers. To address increased current expenditure and ease deficit pressures, the Government restricted development spending to below target levels during 2014-15. Consequently, CE remained at 16.2 per cent of GDP in 2014-15 compared to 15.8 per cent in 2013-14. In order to meet the fiscal target for 2015-16, development spending is expected to remain at 4.5 per cent of GDP.

The following table sets forth fiscal indicators as a per cent of GDP for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15
Real GDP growth	3.6	3.8	3.7	4.0	4.2
Overall fiscal deficit	6.5	6.8	8.2	5.5	5.3
Expenditure					
Total	18.9	19.6	21.5	20.0	19.7
Current	15.9	15.6	16.4	16.0	16.2
Development and net lending	2.8	3.7	5.1	4.9	4.2
Revenue					
Total	12.3	12.8	13.3	14.5	14.4
Tax	9.3	10.2	9.8	10.2	11.0
Non-tax	3.0	2.6	3.5	4.3	3.3

Source: Ministry of Finance

PUBLIC DEBT

Public debt is a measure of governmental indebtedness. It represents the portion of Pakistan's total debt that has a direct charge on government revenues. Pakistan's public debt has two main components, namely domestic debt (which has been incurred principally to finance fiscal deficits) and external debt (which has been raised primarily to finance development expenditure).

Due to the large fiscal deficit that built up over recent years and the unavailability of sufficient external funding, the composition of Pakistan's public debt is weighted in favour of domestic debt, principally in the form of short-term instruments, creating high roll-over and refinancing risk. As at 30 June 2015, domestic debt was approximately Rupees 12,199 billion 44.5 per cent of GDP) and external debt was approximately U.S.$50.8 billion. Given the relatively short maturity structure of domestic borrowing, comprised of Rupees 4,613.1 billion 37.8 per cent of total domestic debt, having a maturity less than one year and Rupees 2,569 billion of domestic debt 21 per cent of total domestic debt) in the national savings scheme with maturities of up to ten years but with a put option exercisable at any time, the Government has begun to refinance this debt through the monthly issuance of long-term debt of three to 20 years under its domestic bond programme. In 2014-15, the Government issued Rupees 416 billion with a maturity of three years, Rupees 259 billion with a maturity of five years, Rupees 150 billion with a maturity of ten years and Rupees 0.5 billion with a maturity of 20 years. However, there can be no assurance that the Government will be able to continue to refinance its debt in this way or at all. This may adversely impact the Government's ability to repay existing debt which could limit the Government's ability to implement its economic and structural reforms. In addition, any increase in interest rates has an adverse fiscal effect and any depreciation of the Rupee has an adverse effect on Pakistan's public debt and the servicing thereof. For this reason, Government policy is to maintain exchange rate stability as well as to lengthen the maturity profile of Pakistan's domestic debt and generate general economic growth in order to reduce the impact of growing public indebtedness.

Total public debt (**TPD**) as of end June 2015 was Rupees 17,374 billion, representing an increase of Rupees 1,378 billion, or 8.6 per cent, against TPD as of end June 2014, principally due to an increase in domestic debt used to finance the fiscal deficit. The external debt component in U.S. dollars decreased by 1.2 per cent the Government take measures to reduce total public debt and maintain it within prudent limits. One of the Fiscal Responsibility and Debt Limitation Act's (the **FRDL Act**) requirements is that TPD be below 60 per cent of GDP in any given year. TPD was 63.4 per cent of GDP on 30 June 2015, which was over the FRDL Act's threshold; although lower than the 63.8 per cent of GDP as at 30 June 2014 principally due to the fiscal deficit being lower than in the previous fiscal year. The IMF loans are only applied towards Pakistan's balance of payments and are reflected in its foreign currency reserves. Breach of the FRDL Act's TPD-to-GDP ratio requirement does not result in the Government being legally prevented from further borrowing or any other legal sanctions on the Government or its lenders. Instead, the FRDL Act requires that the Government account to Parliament for any breach in the threshold set in the FRDL Act.

During 2014-15, public debt servicing was Rupees 1304 billion against the budgeted estimate of Rupees 1325.2 billion and consumed approximately 33 per cent of government revenues. The following table sets for the composition of Pakistan's TPD as at 30 June for the periods stated:

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
	(*Rupees billion*)				
Domestic debt.............................	6,016.7	7,638.1	9,521.9	10,920.0	12,198.5
External debt...............................	4,750.2	5,057.2	4,771.0	5,076.5	5,175.5
Total public debt	**10,766.9**	**12,695.3**	**14,292.9**	**15,996.5**	**17,373.9**
	(*% of GDP*)				
Domestic debt	32.9	38.1	42.5	43.6	44.5
External debt	26.0	25.2	21.3	20.3	18.9

Total public debt	**58.9**	**63.3**	**63.9**	**63.8**	**63.4**
	(% of revenues)				
Domestic debt	267.1	297.6	319.3	300.2	310.3
External debt	210.9	197.0	160.0	139.6	131.7
Total public debt	**477.9**	**494.7**	**479.2**	**439.8**	**442.0**
	(% of total debt)				
Domestic debt	55.9	60.2	66.6	68.3	70.2
External debt	44.1	39.8	33.4	31.7	29.8
Foreign currency debt (*U.S.$ billion*)	55.3	53.5	47.9	51.4	50.8
Exchange rate (*Rupees/U.S.$ at end of period*)	86.0	94.5	99.7	98.8	101.8
GDP (*Rupees billion*)	18,276	20,047	22,379	25,068	27,384
Total revenue (*Rupees billion*)	**2,253**	**2,567**	**2,982**	**3,637**	**3,931**

Source: State Bank of Pakistan and Ministry of Finance

Domestic Debt

Domestic debt is broadly classified as permanent (medium and long-term), floating (short-term) and unfunded debt (made up of the various investments available through Pakistan's National Savings Scheme). Domestic debt represents a charge on Pakistan's budget and is serviced through government revenues and government borrowings.

Pakistan's domestic debt increased by Rupees 1,278 billion to Rupees 12,198.5 billion, or 44.5 per cent of GDP, at 30 June 2015, compared with 43.6 per cent at 30 June 2014. In 2014-15, Government long term domestic borrowing increased, which reduced its exposure to refinancing and interest rate risk. Accordingly, the volume of floating debt (short term treasury bills) increased to Rupees 4,613.1 billion, or 26.6 per cent of TPD, in 2014-15 compared with Rupees 4,611 billion or 28.8 per cent of TPD in 2013-14. The following table provides a summary of outstanding domestic debt as at 30 June for the periods stated:

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
	(Rupees billion)				
Permanent debt(2)	1,124.4	1,695.9	2,174.7	4,000.7	5,016.0
Floating debt(3)	3,235.4	4,143.1	5,196.2	4,610.9	4,613.1
Unfunded debt(4)	1,655.8	1,798.0	2,146.5	2,303.8	2,569.4
Total	**6,015.5**	**7,637.0**	**9,517.4**	**10,915.4**	**12,198.5**
	(% of GDP)				
Permanent debt(2)	6.2	8.5	9.8	16.0	18.3

Floating debt(3)	17.7	20.7	23.2	18.4	16.8
Unfunded debt(4)	9.2	9.2	9.8	9.5	9.4
Total	**33.1**	**38.4**	**42.8**	**43.8**	**44.5**
	(*% of Total Domestic Debt*)				
Permanent debt(2)	18.6	22.1	22.8	36.5	41.1
Floating debt(3)	53.4	53.9	54.3	42.0	37.8
Unfunded debt(4)	28.0	24.0	22.9	21.6	21.1
GDP at market price (*Rupees billion*)	**18,276**	**20,047**	**22,379**	**25,068**	**27,384**

(1) Permanent debt consists principally of medium-to-long term instruments, including Pakistan Investment Bonds (PIBs), Government Ijara Sukuk bonds and Prize Bonds. PIBs are non-callable instruments with fixed and semi-annual coupon payments and have maturities of three, five, ten and 20 years. Government Ijara Sukuk are medium term Shari'ah compliant bonds currently issued with three year maturities. Permanent debt constituted 41.1 per cent of Pakistan's total domestic debt in 2014-15 against 36.5 per cent in 2013-14.
(2) Floating debt consists of short term domestic instruments such as treasury bills and SBP borrowing through the purchase of market related treasury bills. Treasury bills are zero coupon or discounted instruments issued with maturities of three months 10.1 per cent of current treasury bills), six months 36.2 per cent of treasury bills) and 12 months 53.7 per cent of treasury bills) as at 30 June 2015. The Government borrows from Pakistan's domestic banks through auctions of treasury bills. Such auctions are arranged by the SBP twice a month. Floating debt constituted 37.8 per cent of Pakistan's total domestic debt as of end June 2015 as against 42.0 per cent of end June 2014.
(3) Unfunded debt is made up of various instruments available under the National Savings Scheme (**NSS**). A number of different schemes are offered under NSS with maturities ranging from three to ten years. This debt is unfunded because investors benefit from put-options at any time over the life of the instruments they hold.
Source: Ministry of Finance

Over the last five years, the composition of domestic debt has moved from a high percentage of unfunded and floating debt to an increased dependence on permanent debt. In 2014-15, unfunded debt comprised 21.1 per cent of domestic debt (floating debt 37.8 per cent; permanent debt 41.1 per cent). The average maturity of domestic debt during 2013-14 improved to 2.3 years compared with 1.8 years during 2012-13. Domestic debt having maturity of less than a year has reduced from 52 per cent in 2013-14 to 45 per cent in 2014-15. Whilst the current low interest rate environment enables the Government, at present, to roll over floating rate debt at low rates, the redemption profile on its floating domestic debt is front-loaded and, accordingly, increases in interest rates may adversely affect such debt and the servicing of it. This exposes Pakistan to refinancing risk and for this reason the Government is taking measures to further rebalance Pakistan's domestic debt profile by developing a long-term debt capital market.

The following table provides a summary of outstanding domestic debt service requirements for the periods indicated:

		2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Domestic outstanding debt	**(*Rupees billion*)**	6,053.3	7,688.1	9,572.0	10,986.8	12,198.5
Interest payments		629.7	821.1	920.4	1,072.8	1,208.105
Tax revenue	**(*Domestic interest payment in % of*)**	37.1	40.0	41.8	41.8	40.03
Total revenue		28.0	32.0	30.9	29.5	30.7
Total expenditure		18.3	20.9	19.1	21.3	22.4

Current expenditure	21.7	26.3	25.1	26.8	27.3
GDP	3.4	4.1	4.1	4.3	4.4

Source: Ministry of Finance

External Debt

Pakistan's External Debt and Liabilities (**EDL**) represent a charge on Pakistan's revenues as well as a charge on its balance of payments. EDL include all foreign currency debt contracted by the public and private sector, as well as foreign exchange liabilities of the SBP. EDL is serviced from foreign exchange earnings, drawdowns from reserves and additional borrowings. As at 30 June 2015, EDL was dominated by Public and Publically Guaranteed (**PPG**) debt, comprising 73.4 per cent of all EDL. This debt was principally obtained from multilateral and bilateral counterparties. Debt obligations of the private sector in 2014-15 were limited and constituted only 4.6 per cent of EDL. Borrowing from the IMF contributed 6.3 per cent in EDL in 2014-15, compared with 4.6 per cent as end June 2014 owing to significant repayment during 2014-15.

External loans are contracted by Pakistan in various currencies and disbursements are effectively converted into Rupees. As the Rupee is not an internationally traded currency, other currencies are bought and sold by buying and selling U.S. dollars. Accordingly, Pakistan is exposed to currency exchange risk between the U.S. dollar and the foreign currencies of the various external loans, as well as between the U.S. dollar and the Rupee. The Rupee depreciated against the U.S. dollar on average by 3.6 per cent per annum for 2010-11 to 2014-15, resulting in an increase in Pakistan's external debt in local currency. Pakistan's loss on foreign currency debt is mitigated by the concessional terms associated with its external loans – such as low servicing costs and extended maturities – such that the cost of adverse currency movements and existing external debt rates is still lower than the cost of domestic debt. Accordingly, the Government's policy is to borrow through these channels. The principal exchange rate risk for Pakistan is from loans denominated in U.S. dollars, Japanese Yen and Euro. Pakistan does not hedge its foreign currency denominated external debt. The following table summarises Pakistan's external debt as at 30 June for the periods stated:

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
	(*U.S.$ billion*)				
1. Public and publicly guaranteed (**PPG**) debt	46.5	46.4	44.4	49.0	47.8
(a) Medium and long term (>l year)	45.7	45.6	43.5	47.8	46.3
(b) Short term (<1 year)	0.6	0.5	0.0	0.7	0.5
2. Private Sector Debt	4.4	3.6	3.1	2.9	3.0
3. Public sector non-guaranteed enterprises (**PSEs' debt**)	1.3	1.3	1.2	1.7	1.4
4. IMF	8.9	7.3	4.4	3.0	4.1
5. Banks	1.1	1.8	1.6	2.0	2.3
6. Debt liabilities to direct investors	1.6	2.7	3.1	3.4	2.7

	2010-11	2011-12	2012-13	2013-14	2014-15
- intercompany debt					
Total external debt (1 through 6)	**63.8**	**63.1**	**57.8**	**62.1**	**61.4**
7. Foreign exchange liabilities	2.6	2.4	3.1	3.3	3.7
Total external debt and liabilities (1 through 7)	**66.4**	**65.5**	**60.9**	**65.4**	**65.1**
(of which) public debt	55.3	53.5	47.9	51.4	50.8
Official liquid reserves	14.8	10.9	6.0	9.1	13.5
	(% of GDP)				
Total external debt (1 through 6)	**29.8**	**28.1**	**25.0**	**25.5**	**22.8**
1. Public and publicly guaranteed (**PPG**) debt	21.7	20.6	19.2	20.1	17.7
(a) Medium and long term (>l year)	21.7	20.6	19.2	21.1	17.7
b) Short Term (<1 year)	0.3	0.2	0.0	0.3	0.2
2. Private sector debt (>1 year)	2.0	1.6	1.4	1.3	1.1
3. Public sector enterprises (PSEs' debt)	0.6	0.6	0.5	0.7	0.5
4. IMF	4.2	3.3	1.9	1.2	1.5
5. Banks	0.5	0.8	0.7	0.8	0.9
6. Debt liabilities to direct investors – intercompany debt	0.8	1.2	1.3	1.4	1.0
7. Foreign exchange liabilities	1.2	1.1	1.3	1.3	1.4
Total external debt and liabilities (1 through 7)	**31.0**	**29.2**	**26.3**	**26.8**	**24.1**
Official liquid reserves	6.9	4.8	2.6	3.7	5.0

Notes:

	2010-11	2011-12	2012-13	2013-14	2014-15
GDP (*Rupees billion*)	18,276	20,047	22,379	25,068	27,384
Exchange Rate (*Rupees/U.S.$, period average*)	85.5	89.2	96.7	102.9	101.5
Exchange Rate (*Rupees/U.S.$, end of June*)	86.0	94.5	99.7	98.8	101.8
GDP (*U.S.$ billion*)	214	225	231	244	270

Source: State Bank of Pakistan, except for the line item '(of which) public debt' which is provided by the Ministry of Finance

The servicing of EDL recorded a significant decrease of 6.1 per cent during 2014-15, primarily due to a decrease in principal repayments of approximately U.S.$1,226 million of IMF loans. Total EDL servicing was U.S.$8,166 million in 2014-15. U.S.$4,244 million was applied to the repayment of maturing EDL stock while interest payments accounted for U.S.$1,173 million and U.S.$2,749 million was rolled-over. Significant repayments under IMF loans will continue through 2015-16. See "– *Relationship of Multilateral and Bilateral Creditors*".

The following table sets forth scheduled or projected repayments of EDL for the periods stated:

Counterparty	2014-15[(1)]	2015-16[(1)]	2016-17[(1)]	2017-18[(1)]	2018-22[(1)]
			(*U.S.$ million*)		
Bilateral					
Principal	457.2	1,025.4	690.9	934.1	6,430.5
Interest	363.4	376.2	384.7	364.7	1,375.9
Sub-total	820.6	1,401.6	1,075.6	1,298.8	7,806.4
Multilateral					
Principal	1,167.7	1,253.4	1,441.6	1,351.5	7,053.6
Interest	214.9	336.3	314.5	287.8	1,120.5
Sub-total	1,382.6	1,589.7	1,756.1	1639.3	8,174.1
IMF[(3)]					
Principal	564.7	52.3	-	84.4	2,404.9
Interest	7.0	42.5	42.8	42.8	128.3
Sub-total	571.7	94.8	42.8	127.2	2,533.2
Bonds					
Principal	-	500.0	750.0	-	2,000.0
Interest	301.4	357.5	300.8	249.2	712.8
Sub-total	301.4	857.5	1,050.8	249.2	2,712.8
Total	**3,076.2**	**3,901.1**	**3,882.5**	**3,187.4**	**18,693.4**

(1) Projected.
(2) Only 2018-19.
(3) Figures of the IMF are based against the budgetary support

Source: Ministry of Finance

Public and Publicly Guaranteed (PPG) Debt. PPG debt consists of all loans and bonds contracted by the Government. These include medium and long-term obligations from multilateral and bilateral creditors, Pakistani sovereign bonds, commercial debt and short-term debt. PPG also includes loan and bonds on which the Government acts as guarantor. Guarantees are usually provided to improve the financial viability of projects and activities undertaken by government entities with significant social and economic benefit to Pakistan, allowing public sector companies to borrow at lower cost or on more favourable terms. The guarantee is a contingent liability of the Government and may arise when events wholly outside the control of the Government occur. Such guarantees are not added to the overall debt of Pakistan. As of as end June 2015, the Government had entered into guarantees totalling Rupees 635.9 billion, 83.0 per cent of which were denominated in Rupees. In addition, it entered into counter-guarantees in commodity financing operations of Rupees 485 billion as of 30 March 2015.

EDL was U.S.$65.1 billion as at 30 June 2015, out of which public external debt amounted to U.S.$50.8 billion. The IMF approved a three year Extended Fund Facility programme for Pakistan on 4 September 2013 for SDR 4.4 billion (U.S.$6.6 billion). During 2014-15, Pakistan's external debt recorded a translational gain of U.S.$4.6 billion due to cross-currency movement against U.S. dollar.

Pakistan has issued bonds in the international capital markets. There are six international bonds outstanding: (i) U.S.$500 million 7.1 per cent due 31 March 2016, (ii) U.S.$750 million 6.9 per cent due 1 June 2017, (iii) U.S.$1,000 million having coupon of 7.3 per cent due in April 2019, (iv) U.S.$1,000 million Sukuk 6.8 per cent due November 2019, (v) U.S.$1,000 million 8.3 per cent due April 2024 and (vi) U.S.$300 million 7.9 per cent due 31 March 2036.

Public Debt Management.

The Government has policies in place to help improve macroeconomic stability which will help to meet its repayment obligations on external debt, stabilising the exchange rate and reducing the rollover and refinancing risk associated with domestic debt. Additional reliance may be placed on concessional financing from multilateral and bilateral sources. The Government has adopted a medium-term-debt management strategy to reduce the costs of borrowing and debt servicing in view of the need of reliance on short-term domestic lending that has arisen from the lack of available external inflows. In addition to the macro-economic reforms the Government has initiated, which the IMF has supported under the terms of the Extended Fund Facility, Government policy is also to make greater use of the international debt capital markets to raise debt, to increase maturity profiles in Pakistan's domestic wholesale market, to increase distribution channels for government debt instruments to retail investors and to maintain adequate inflows from multilateral and bilateral sources.

Debt Restructuring

Paris Club. In 2001, Pakistan approached the Paris Club to seek debt relief and a rescheduling of its external bilateral debt. Pursuant to this, U.S.$12.7 billion (principal plus accumulated arrears) was restructured so as to provide repayment over 38 years, with a 15 year grace period, at an interest rate at least as favourable as the concessional rates applicable to the original loan. Commercial loans were also agreed to be repaid over 23 years, with a five year grace period, at appropriate market rates. Bilateral rescheduling agreements were signed with all Paris Club and non-Paris Club creditors. Debt servicing of all loans, including rescheduled loans, is being maintained by the Government.

Relationship with Multilateral and Bilateral Creditors

Pakistan receives economic assistance from multilateral and bilateral creditors. In 2014-15, 63.5 per cent of its PPG external debt obligations were with multilateral creditors, while 26.7 per cent were with bilateral creditors and 9.8 per cent were with respect to its outstanding international bonds.

Pakistan received assistance from the following multilateral creditors:

IMF. Since 1988, Pakistan has entered into various lending arrangements with the IMF such as Stand-by Arrangements (**SBA**), a Poverty Reduction and Growth Facility (**PRGF**), an Extended Fund Facility (defined below) and a Contingency and Compensatory Financing Facility. SBA are designed to provide short-term financial assistance, while Extended Fund Facilities give medium-term assistance to members with balance of payments problems resulting from structural economic changes, as is the case with Pakistan. Contingency and Compensatory Financing Facilities compensate for shortfalls in earnings and help maintain adjustment programmes resulting from severe external economic problems.

On 6 December 2001, the IMF approved a PRGF for Pakistan worth SDR1.034 billion (approximately U.S.$1.322 billion). The PRGF was a three year concessional loan in support of poverty reduction. PRGF-supported programmes were included in a related Poverty Reduction Strategy Paper that was required by the IMF and provided the basis for assistance under the facility. PRGF loans carry a fixed annual interest rate of 0.5 per cent and are repayable over ten years, with a 66-month grace period on principal payments. Pakistan has undergone all IMF reviews under the PRGF and met all quantitative performance criteria. Of the approved amount of U.S.$1.322 billion, U.S.$1.186 billion has been drawn down. Pakistan voluntarily decided not to draw the last tranche of U.S.$136 million.

Pakistan entered into SBA with the IMF for SDR 5.169 billion (U.S.$7.6 billion) in November 2008. The amount was subsequently increased to SDR 7.236 billion (U.S.$11.327 billion). Initially, the entire amount was to be disbursed in seven quarterly reviews. But after the fourth quarterly review, the IMF approved re-phasing of the three remaining disbursements into two, while keeping the total access under the arrangement unchanged. The IMF has disbursed U.S.$7,425.5 million under SBA since 24 November 2008. The IMF also disbursed U.S.$452.5 million under on Emergency Natural Disaster Assistance framework to help Pakistan manage the impact of the 2010 floods and to protect the most vulnerable. The IMF remains committed to ongoing dialogue with Pakistan and discussions continue to complete the programme.

A 36 month SDR 4,393 million (U.S.$6.64 billion) extended arrangement under the Extended Fund Facility (the **Extended Fund Facility**) was approved by the IMF on 4 September 2013. To date, Pakistan has received U.S$ 4.3 billion in seven tranches under the Extended Fund Facility. This also included the combined tranche made in early December 2014. The IMF has performed eight quarterly reviews of the Pakistan economy since the Government came to office in May 2013. Pakistan has successfully met most of the required quarterly performance criteria set under the respective IMF reviews. The performance regarding structural benchmarks and reforms implementation is also satisfying. Staff level agreement on the eighth review was recently concluded successfully and an eighth tranche of approximately U.S.$500 million is expected to be released by the end of September 2015.

World Bank. The World Bank provides financing to Pakistan for budgetary support, project loans and credits and trust funds, covering rural development, infrastructure, social development, power, trade and transport, finance and governance. The International Bank of Reconstruction and Development (**IBRD**), has extended loans worth U.S.$761.8 million, of which U.S.$521.0 million is to be disbursed over the next four years. The loans carry interest of 6-month LIBOR plus up to 1.00 per cent per annum and have an average maturity of 20 years, including grace periods (during which only interest is paid). As at 30 June 2015, U.S.$1.2 billion was outstanding to the IBRD. The International Development Association (**IDA**) has extended loans worth U.S.$4.2 billion, of which U.S.$1.8 billion has been disbursed. The balance of U.S.$2.4 billion is to be disbursed over the next four years. The loans carry interest of 1.25 per cent per annum and have an average maturity of 25 years, including grace periods of 5 years. As at 30 June 2015, U.S.$12.5 billion was outstanding to the IDA. In addition, the Government has signed budgetary support with the IBRD for a loan of U.S.$600 million for a power sector reform programme, and another U.S.$400 million loan for a growth, investment and competitiveness programme. The Government and the IDA are currently in negotiations for additional financing of development projects.

Asian Development Bank. ADB is currently providing loans through the Asian Development Fund (**ADF**) and Ordinary Capital Resources (**OCR**). Loans totalling U.S.$1,350.8 million are currently in place through ADF, of which U.S.$536.5 million has been disbursed. The balance of U.S.$814.3 million is to be disbursed over the next four years. The loans carry interest of 2 per cent per annum and have a 25 year maturity (with a five year grace period). ADB is also providing Pakistan with loans through OCR U.S.$3.7 billion, of which U.S.$2.5 billion is available for disbursement. The loans carry interest at a rate of 6-month LIBOR plus 0.4 basis points and have a 25 year maturity (with a five year grace period). These loans include U.S.$900 million (U.S.$870 million OCR and U.S.$30 million ADF) for the Jamshoro Power Generation Project which is expected to be disbursed over the next two years. In addition, in April 2014 the ADB approved a U.S.$400 million loan for the Government's power sector reform programme which was signed on the 28 April 2014 and fully disbursed during June 2014. As at 30 June 2015, U.S.$9.45 billion of debt was outstanding to the ADB. The Government and ADB are currently in negotiations for additional financing to support the medium term reform agenda the Government has agreed with the IMF.

Islamic Development Bank. Total debt outstanding to IDB comprises U.S.$849 million in medium term and long term financing, and U.S.$983 million in short term financing. IDB has a three year partnership strategy with Pakistan with the provision of up to U.S.$3 billion regarding the member country partnership strategy for Pakistan. Out of this U.S.$3 billion, U.S.$2.92 billion has been utilised.

Pakistan has also received bilateral economic assistance from 47 different countries. The most economically material of these arrangements are as follows:

- ***China***. At present, Pakistan has ten loan agreements with China for public sector projects totalling U.S.$9.4 billion, out of which an amount of U.S.$2.7 billion has been disbursed as at June 2015, with the remainder to be disbursed over the next five years. The loans carry aggregate interest rates of 3.2 per cent per annum, with repayment over 15-20 years, including 5-8 years of grace period. Negotiations are underway for a number of other loans of around U.S.$333 million. Pakistan and China are also considering the implementation of a large number of projects in energy and infrastructure. Since 2006, China has provided grants of U.S.$687 million. Of this, U.S.$414 million has been utilised on various projects and relief items.

- ***European Union***. Since 1976, the European Union (**EU**) has provided assistance primarily for poverty alleviation and social sector development. The EU committed €50 million each year from 2007 to 2010, with that commitment being increased to €75 million for each year from 2011 to 2013 and €93.2 million each year from 2014 to 2020, a total of €653 million from 2014-20. The EU has provided U.S.$187 million of assistance in respect of the 2010 floods. In November 2013, the European Investment Bank extended a €100 million loan to the Government to help fund the construction of the Keyal Khwar Hydropower project. The loan is for 20 years, including a five year grace period.

- ***France***. France is currently providing loans to Pakistan of €279 million, of which U.S.$75 million has been disbursed. As of 30 June 2015, U.S.$1.67 billion of debt was outstanding to France.

- ***Japan.*** Japan has been a bilateral development partner of Pakistan for over 60 years. Currently there are active loans totalling U.S.$1.3 billion, under which U.S.$327 million has been disbursed. These loans carry interest rates of between 0.10-1.40 per cent with repayment schedules of between 20-40 years, including 5-10 year grace periods. Japan has provided U.S.$50 million in loans for energy sector reform programmes, which was fully disbursed by 30 June 2015. Japan is also considering extending a loan of approximately U.S.$50 million for energy sector reform programmes and this is expected to be disbursed before June 2016.

- ***Saudi Arabia***. Loans totalling U.S.$575 million are currently in place with Saudi Arabia. The loans are provided at an interest rate of 2 per cent per annum, with a repayment period of 20 years, including five years of grace. Total debt outstanding to Saudi Arabia was U.S.$289 million as of 30 June 2015.

- ***United Arab Emirates***. Pakistan has received significant amounts of assistance from the UAE since 1974. Funds have been used for, among other things, balance of payments support, drought assistance and other infrastructure projects. At the 2009 Tokyo Donor Conference, the UAE pledged U.S.$300 million in grants for road and health programmes. The Abu Dhabi Development Fund has committed U.S.$100million for the co-financing of the Neelum-Jhelum Hydropower Project.

- ***United Kingdom***. For the period 2002 to 2013, the U.K. has extended approximately £640 million for development assistance as non-repayable grants. Under a new Operational Plan 2011-15, the U.K. has increased its support for Pakistan to £981.9 million of which £700.7 million has been disbursed, making Pakistan the largest recipient of the U.K.'s development assistance in the world. As of 30 June 2015, U.S.$260 million of debt was outstanding to the U.K.

- ***United States.*** On September 2010, the U.S. Government and Pakistan signed the Pakistan Enhanced Partnership Agreement (**PEPA**) under which the U.S. Government committed to provide Pakistan with U.S.$7.5 billion (U.S.$1.5 billion each year) between 2010 and 2014 in the form of non-repayable grants. Sectors which benefit from the assistance include energy security, food security, social development and affected areas. As of 30 June 2015, U.S.$1.4 billion of debt was outstanding to the U.S.

Other sources of bilateral financing include Kuwait (active loans U.S.$142 million), Italy (active loans U.S.$132 million) and Korea (active loans U.S.$449 million).

A number of Pakistan's foreign partners provide grant assistance (with no repayment obligations) for poverty alleviation, social sector development, post disaster relief and reconstruction, rural development and human resource development. The European Union, Oman, Canada and Norway have provided such grant assistance.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The U.S.$500,000,000 8.250 per cent Notes due 2025 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan (the **Issuer**) are issued subject to and with the benefit of a fiscal agency agreement dated 30 September 2015 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the **Registrar**), Citibank, N.A., London Branch as fiscal agent (the **Fiscal Agent**) and as paying agent (together with the Fiscal Agent, the **Paying Agent**) (together with the Fiscal Agent, the Registrar and any other paying agent, the **Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available during normal business hours by the holders of the Notes (the **Noteholders**) at the specified office of the Paying Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agent and the Agents shall include any successor appointed under the Agency Agreement.

*Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) will initially hold Notes represented by the Unrestricted Global Certificate on behalf of their participants through their respective depositaries. Transfers within The Depositary Trust Company (**DTC**), Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Notes through DTC and investors who hold or will hold Notes through Euroclear and Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg, subject to certain restrictions. The owners shown in the records of Euroclear, Clearstream, Luxembourg, and DTC of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them.*

1 Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Note). A note certificate (each a **Certificate**) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Noteholder** and (in relation to a Note) **holder** means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see "Clearing and Settlement Arrangements".

2 Transfers of Notes and Issue of Certificates

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions".

2.2 Delivery of new Certificates

Notes represented by Certificates issued in exchange for interests in the Restricted Global Certificate shall be **Restricted Notes**. Notes represented by Certificates issued in exchange for the Unrestricted Global Certificate shall be **Unrestricted Notes**. Each new Certificate to be issued upon transfer or exchange of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see "The Global Certificates – Registration of Title" and "The Global Certificates – Exchange for Certificates"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. The issue of Certificates upon transfer of Notes is subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of Restricted Notes, compliance with the relevant Securities Act legend (see "Plan of Distribution").

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected, without charge by or on behalf of the Issuer or any Agent, upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

3 Status

The Notes are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu,* without any preference among themselves, with all other present and future unsecured and unsubordinated External Indebtedness (as defined in Condition 10.2) of the Issuer. The due and punctual payment of the Notes and the performance of the obligations of the Issuer with respect thereto are backed by the full faith and credit of the Issuer.

4 Negative Pledge

4.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not, save for the exceptions set out below in Condition 4.3, create, incur, assume or permit to subsist any Security upon the whole or any part of its assets or revenues to secure (i) any of its Public External Indebtedness; (ii) any of its Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness of any other person, without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

4.2 Interpretation

In these Conditions:

(a) **Guarantee** means any obligation of a person to pay the Indebtedness of another person including without limitation:

- (i) an obligation to pay or purchase such Indebtedness;
- (ii) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) an indemnity against the consequences of a default in the payment of such Indebtedness; or
- (iv) any other agreement to be responsible for such Indebtedness;

(b) **Indebtedness** means any obligation (whether present or future) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing, whether on an Islamic basis or otherwise);

(c) **person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

(d) **Public External Indebtedness** means any Indebtedness which (i) is payable, or at the option of the relevant creditor may be payable, in any currency other than Pakistani Rupees; and (ii) is in the form of, or is represented by, bonds, notes or other securities with a stated maturity of more than one year from the date of issue which may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market; and

(e) **Security** means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance or preferential arrangement which has the practical effect of constituting a security interest (which, for the avoidance of doubt, does not include

Islamic sale and leaseback (*Sukuk alijara*) financing) whether in effect on the date of the Agency Agreement or thereafter.

4.3 Exceptions

The following exceptions apply to the Issuer's obligations under paragraph 4.1 of this Condition:

(a) any Security upon property to secure Public External Indebtedness of the Issuer incurred for the purpose of financing the acquisition of such property and any renewal and extension of such Security which is limited to the original property covered thereby and which (in either case) secures any renewal or extension of the original secured financing;

(b) any Security existing on property at the time of its acquisition to secure Public External Indebtedness of the Issuer and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;

(c) any Security arising by operation of law (or pursuant to any agreement establishing a Security equivalent to one which would otherwise exist under relevant local law) in connection with Public External Indebtedness; and

(d) any Security securing Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; provided that (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues.

The State Bank of Pakistan holds International Monetary Assets (as defined in Condition 10.2), including gold and foreign exchange. Because the State Bank of Pakistan is a juridical entity separate from the Issuer, the Issuer believes that the Notes' negative pledge covenant does not apply to the International Monetary Assets held by the State Bank of Pakistan. The State Bank of Pakistan could therefore incur Public External Indebtedness secured by International Monetary Assets without securing amounts payable under the Notes equally and rateably.

5 Interest

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 30 September 2015 to but excluding the Maturity Date (as defined in Condition 7.1) at the rate of 8.250 per cent per annum, payable semi-annually in arrear on 30 March and 30 September in each year (each an **Interest Payment Date**). The first payment (representing six months' interest) shall be made on 30 March 2016.

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period other than for a six month period, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6 Payments

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by a cheque in U.S. dollars drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the **record date**) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Noteholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder's **registered address** means its address appearing on the register of Noteholders at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business in London, New York City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that there will at all times be:

(a) a Fiscal Agent, a Registrar, a Paying Agent and a Transfer Agent;

(b) so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, and the rules of that exchange so require, a Paying Agent and a Transfer Agent in Luxembourg; and

(c) a Paying Agent in a Member State of the European Union (if any) that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 Redemption and Purchase

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 30 September 2025 (the **Maturity Date**).

7.2 Purchases

The Issuer may at any time purchase Notes in the open market or otherwise at any price.

7.3 Cancellations

All Notes so purchased shall be cancelled and may not be held, reissued or resold.

8 Taxation

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction, other than the mere holding of the Note; or

(b) presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note for payment on the last day of such period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day (as defined in Condition 6); or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

8.2 Interpretation

In these Conditions:

(a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12; and

(b) **Relevant Jurisdiction** means the Islamic Republic of Pakistan (**Pakistan**) or any political subdivision or any authority thereof or therein having power to tax in respect of payments made by it of principal and interest on the Notes.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9 Prescription

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8.

10 Events of Default

10.1 Events of Default

If any of the following events (**Events of Default**) shall have occurred and be continuing:

(a)

(i) the Issuer fails to pay any principal on any of the Notes when due and payable; or

(ii) the Issuer fails to pay any interest on any of the Notes or any amount due under Condition 8 when due and payable and such failure continues for a period of 10 days; or

(b) the Issuer does not perform or comply with any one or more of its other obligations in the Notes, which default is incapable of remedy or is not remedied within 30 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c)

(i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any External Indebtedness of the Issuer; or

(ii) any default in the payment of principal of, or premium or prepayment charge (if any) or interest on, any External Indebtedness of the Issuer shall occur when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, applicable thereto; or

(iii) any default in the payment when due and called upon (after the expiry of any applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person,

provided that the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent; or

(d) a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer; or

(e) the Issuer shall cease to be a member of the International Monetary Fund (**IMF**) or shall cease to be eligible to use the general resources of the IMF; or

(f)

(i) the validity of the Notes shall be contested by the Issuer; or

(ii) the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(iii) it shall be or become unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, including, without limitation, the payment of interest on the Notes, as a result of any change in law or regulation in Pakistan or any ruling of any court in Pakistan whose decision is final and unappealable or for any reason such obligations cease to be in full force and effect; or

(g) any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to make or perform its obligations under the Notes, or for the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect, or shall be modified in a manner which adversely affects any rights or claims of any of the Noteholders; or

(h) the Issuer or the State Bank of Pakistan shall not at all times exercise full ownership, power and control over any of their respective International Monetary Assets as they exist from time to time unless, prior to the occurrence of such an event, a public sector entity that has substantially all of the powers and assets of the State Bank of Pakistan (including, without limitation, all of its International Monetary Assets) and performs the functions of the central bank shall assume and acquire such assets, powers and functions,

then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

10.2 If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

10.3 Interpretation

As used herein:

External Indebtedness means Indebtedness expressed or denominated or payable or which, at the option of the relevant creditor, may be payable in a currency other than Pakistani Rupees; and

International Monetary Assets means all (i) gold; (ii) Special Drawing Rights; (iii) Reserve Positions in the Fund; and (iv) Foreign Exchange, and the terms **Special Drawing Rights**, **Reserve Positions in the Fund** and **Foreign Exchange** have, as to the types of assets included, the meanings given to them in the IMF's publication entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the rules of that exchange so require, the Issuer will also publish notices to the holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or in a daily newspaper of international circulation including Luxembourg (which is expected to be the *Financial Times*) or arrange to make such notices available on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Any notice shall be deemed to have been given on the first day to occur of (i) the day after being so mailed; or (ii) the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 Meetings of Noteholders; Written Resolutions

13.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions

(a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(b) The Issuer or the Fiscal Agent, on behalf of and under instruction of the Issuer, will convene a meeting of Noteholders if the holders of at least 10 per cent in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 13.9 (*Notes controlled by the Issuer*)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(c) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(d) The notice convening any meeting will specify, *inter alia*;

(i) the date, time and location of the meeting;

(ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(iii) the record date for the meeting, which shall be no more than five Business Days, as defined in Condition 6, before the date of the meeting;

(iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(vi) whether Condition 13.2 (*Modification of this Series of Notes only*), or Condition 13.3 (*Multiple Series Aggregation – Single limb voting*), or Condition 13.4 (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(vii) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(viii) such information that is required to be provided by the Issuer in accordance with Condition 13.6 (*Information*);

(ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 13.7 (*Claims Valuation*); and

(x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(e) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 13.1(d) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(f) A **record date** in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(g) An **Extraordinary Resolution** means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(h) **A Written Resolution** means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(i) Any reference to **debt securities** means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(j) **Debt Securities Capable of Aggregation** means those debt securities which include or incorporate by reference this Condition 13 (*Meetings of Noteholders; Written Resolutions*) and Condition 14 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

13.2 Modification of this Series of Notes only

(a) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(b) A **Single Series Extraordinary Resolution** means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:

   (i) in the case of a Reserved Matter, at least 75 per cent of the aggregate principal amount of the outstanding Notes; or

   (ii) in the case of a matter other than a Reserved Matter, more than 50 per cent of the aggregate principal amount of the outstanding Notes.

(c) A **Single Series Written Resolution** means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

   (i) in the case of a Reserved Matter, at least 75 per cent of the aggregate principal amount of the outstanding Notes; or

   (ii) in the case of a matter other than a Reserved Matter more than 50 per cent of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(d) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

13.3 Multiple Series Aggregation – Single limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(b) A **Multiple Series Single Limb Extraordinary Resolution** means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(c) A **Multiple Series Single Limb Written Resolution** means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(e) The **Uniformly Applicable** condition will be satisfied if:

(i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(f) It is understood that a proposal under Condition 13.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal: the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(g) Any modification or action proposed under Condition 13.3(a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.4 Multiple Series Aggregation – Two limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(b) A **Multiple Series Two Limb Extraordinary Resolution** means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:

(i) at least 66 ⅔ per cent of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(c) A **Multiple Series Two Limb Written Resolution** means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(i) at least 66 ⅔ per cent of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(e) Any modification or action proposed under paragraph 13.4(a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.5 Reserved Matters

In these Conditions, **Reserved Matter** means any proposal:

(a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(d) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;

(e) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;

(f) to change the definition of “Uniformly Applicable”;

(g) to change the definition of “outstanding” or to modify the provisions of Condition 13.9 (*Notes controlled by the Issuer*);

(h) to change the legal ranking of the Notes;

(i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, as set out in Condition 10 (*Events of Default*);

(j) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer’s waiver of immunity, in respect of actions or proceedings brought by any Noteholder, as set out in Condition 17 (*Governing Law and Submission to Jurisdiction*);

(k) to impose any condition on or otherwise change the Issuer’s obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(l) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;

(m) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

   (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

   (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

13.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 13.2 (*Modification of this Series of Notes only*), Condition 13.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 13.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 14 (*Aggregation Agent; Aggregation Procedures*) and provide the Fiscal Agent with the following information:

(a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 13.1(d)(vii) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*).

13.7 Claims Valuation

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 13.3 (*Multiple Series Aggregation – Single limb voting*) and Condition 13.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

13.8 Manifest error, etc.

The Notes, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

13.9 Notes controlled by the Issuer

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 13 (*Meetings of Noteholders; Written Resolutions*) and (iii) Condition 10 (*Events of Default*), any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(a) **public sector instrumentality** means the State Bank of Pakistan or any department, ministry or agency of the government of the Issuer or any corporation, trust, financial institution or other entity owned or controlled by the government of the Issuer or any of the foregoing; and

(b) **control** means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 14.4 (*Aggregation Agent; Aggregation Procedures – Certificate*) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

13.10 Publication

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 14.7 (*Aggregation Agent; Aggregation Procedures – Manner of Publication*).

13.11 Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

14 Aggregation Agent; Aggregation Procedures

14.1 Appointment

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

14.2 Extraordinary Resolutions

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

14.3 Written Resolutions

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

14.4 Certificate

For the purposes of Condition 14.2 (*Aggregation Agent; Aggregation Procedures – Extraordinary Resolutions*) and Condition 14.3 (*Aggregation Agent; Aggregation Procedures – Written Resolutions*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 13.2 (*Meetings of Noteholders; Written Resolutions – Modification of this Series of Notes only*), Condition 13.3 (*Meetings of Noteholders; Written Resolutions – Multiple Series Aggregation – Single limb voting*) or Condition 13.4 (*Meetings of Noteholders; Written Resolutions – Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 13.9 (*Meetings of Noteholders; Written Resolutions – Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

14.5 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 14 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

14.6 Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 14 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

14.7 Manner of publication

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10 (*Events of Default*), Condition 13 (*Meetings of Noteholders; Written Resolutions*), this Condition 14 (*Aggregation Agent; Aggregation Procedures*) and Condition 15 (*Noteholders' Committee*):

(a) through the systems of Clearstream Banking, *société anonyme*, Euroclear Bank S.A./N.V. and DTC and/or any other international or domestic clearing system(s) through which the Notes are for the time being cleared;

(b) in such other places and in such other manner as may be required by applicable law or regulation; and

(c) in such other places and in such other manner as may be customary.

15 Noteholders' Committee

15.1 Appointment

(a) Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:

    (i) an Event of Default under Condition 10 (*Events of Default*);

    (ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 10 (*Events of Default*) become an Event of Default;

(iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or

(iv) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

(b) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 15.1(a) (*Noteholders' Committee – Appointment*), and a certificate delivered pursuant to Condition 15.4 (*Noteholders' Committee – Certification*), the Issuer shall give notice of the appointment of such a committee to:

(i) all Noteholders in accordance with Condition 12 (*Notices*); and

(ii) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

15.2 Powers

Such committee in its discretion may, among other things:

(a) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;

(b) adopt such rules as it considers appropriate regarding its proceedings;

(c) enter into discussions with the Issuer and/or other creditors of the Issuer; and

(d) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 15.2 (*Noteholders' Committee – Powers*), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

15.3 Engagement with the committee and provision of information

(a) The Issuer shall:

(i) subject to Condition 15.3(b), engage with the committee in good faith;

(ii) provide the committee with information equivalent to that required under Condition 13.6 (*Meetings of Noteholders; Written Resolutions – Information*) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and

(iii) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.

(b) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 15 (*Noteholders' Committee*) and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

15.4 Certification

Upon the appointment of a committee, the person or persons constituting such a committee (the **Members**) will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

(a) that the committee has been appointed;

(b) the identity of the Members; and

(c) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 15.4 (*Noteholders' Committee – Certification*) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 15.3(b) (*Noteholders' Committee – Engagement with the committee and provision of information*).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

16 Further Issues

The Issuer may, from time to time without the consent of the Noteholders, create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes, provided that either (i) such additional notes do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to the U.S. federal income tax laws), a greater amount of original issue discount than the Notes as of the date of issuance of such additional notes; or (ii) such additional securities are issued in a "qualified reopening" for U.S. federal income tax purposes.

17 Governing Law and Submission to Jurisdiction

17.1 Governing Law

The Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with either of the Agency Agreement or the Notes, are governed by, and will be construed in accordance with, English law.

17.2 Jurisdiction

The Issuer irrevocably submits to the jurisdiction of the courts of England sitting in London, England and the courts of Pakistan (the **Specified Courts**) over any suit, action or proceeding against it or its properties, assets or revenues with respect to the Notes (a **Related Proceeding**). The Issuer hereby waives any objection to Related Proceedings in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceedings have been brought in an inconvenient forum. The Issuer hereby agrees that a final non-appealable judgment obtained in any such Related Proceeding (a **Related Judgment**) shall be conclusive and binding upon it and may be enforced in any Specified Court or in any other courts to the jurisdiction of which the Issuer is or may be subject (the **Other Courts**), by a suit upon such judgment or appropriate enforcement proceedings in Pakistan.

17.3 Appointment of Process Agent

The Issuer irrevocably appoints the High Commission for Pakistan in London presently located at 34-36 Lowndes Square, London SW1X 9JN to receive, for it and on its behalf, service of process in respect of any Related Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent. Nothing in these Conditions shall affect the right to serve Related Proceedings in any other manner permitted by law.

17.4 Waiver of Immunity

To the extent that the Issuer or any of its revenues, assets or properties are entitled, in any jurisdiction in which any Specified Court is located, in which any Related Proceeding may at any time be brought against it or any of its revenues, assets or properties, or in any jurisdiction in which any Specified Court or Other Court is located in which any suit, action or proceeding may at any time be brought solely for the purpose of enforcing or executing any Related Judgment, to any immunity from suit, from the jurisdiction of any such court, from set-off, from attachment prior to judgment, from attachment in aid of execution of a judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Issuer hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction (and hereby consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any Related Proceeding or Related Judgment) provided that such agreement and waiver, insofar as it relates to any jurisdictions other than a jurisdiction in which any Specified Court is located, is given solely for the purposes of enabling a Noteholder to enforce or execute a Related Judgment. The waiver of immunities given above constitutes only a limited and specific waiver for the purposes of the Notes and under no circumstances shall it be interpreted as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes. The Issuer does not hereby waive such immunity in respect of property which is (i) used by a diplomatic or consular mission of the Issuer (except as may be necessary to effect service of process); (ii) property of a military character and under the control of a military authority or defence agency; or (iii) located in Pakistan and dedicated to a public or governmental use (as distinct from patrimonial property or property dedicated to a commercial use).

18 Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 6 below.

1 Form of the Notes

The Notes sold in reliance on Regulation S (**Regulation S**) under the United States Securities Act of 1933 (the **Securities Act**) will be represented on issue by an unrestricted global certificate (the **Unrestricted Global Certificate**), which will be deposited with, and registered in the name of a nominee for the common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in an Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in an Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Plan of Distribution*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A under the Securities Act (**Rule 144A**) (the **Restricted Global Certificates**) will be represented on issue by one or more Restricted Global Certificates, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificate may only be held through DTC or its participants at any time. Beneficial interests in a Restricted Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in such Restricted Global Certificate. See "*Plan of Distribution*".

The Unrestricted Global Certificate and the Restricted Global Certificates are referred to herein as the **Global Certificates**. Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Plan of Distribution*".

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless (i) the transfer is to a person that is a QIB; (ii) such transfer is made in reliance on Rule 144A; and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in a Restricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate will, upon transfer, cease to be an interest in such Unrestricted Global Certificate and become an interest in a Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in a Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in each Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in an Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other duty payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of Notes.

2 Account Holders

For so long as any of the Notes are represented by one or more Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression **Noteholders** and references to **holding of Notes** and to **holder of Notes** shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the nominee for the relevant clearing system (the **Relevant Nominee**) in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

3 Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the relevant Global Certificate.

4 Payments

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Unrestricted Global Certificates held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes held through DTC will receive, to the extent received by the Fiscal Agent, all distributions of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be entered in the register of Noteholders by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

5 Notices

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 12.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through DTC, Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent, DTC, Euroclear and Clearstream, Luxembourg may approve for this purpose.

So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the rules of that exchange so require, the Issuer will also publish notices to the holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or in a daily newspaper of international circulation including Luxembourg (which is expected to be the *Financial Times*) or arrange to make such notices available on the website of the Luxembourg Stock Exchange at http://www.bourse.lu.

6 Registration of Title

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal, or interest in respect of the Notes.

7 Exchange for Certificates

7.1 Exchange

Each Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for restricted individual certificates (**Restricted Individual Certificates**) and each Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for unrestricted individual certificates (**Unrestricted Individual Certificates**) (together with the Restricted Individual Certificates, the **Individual Certificates**) upon the occurrence of an Exchange Event.

For these purposes an **Exchange Event** means that:

(a) circumstances described in Condition 10 have occurred;

(b) in the case of an Unrestricted Global Certificate only, if it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact permanently cease business; or

(c) in the case of a Restricted Global Certificate only, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Certificate or DTC ceases to be a “clearing agency” as defined under the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**) or is at any time no longer eligible to act as such and no qualified successor clearing system has been identified within 90 days of receipt of such notice from DTC.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Individual Certificates in or substantially in the form set out in the Agency Agreement.

7.2 Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Individual Certificates (but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange). A person having an interest in a Global Certificate must provide the Registrar with, in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Plan of Distribution*".

7.3 Legends and transfers

The holder of a Certificate may transfer the Notes represented thereby in whole or in part in the applicable denomination by surrendering it at the specified office of any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "*Plan of Distribution*", or upon specific request for removal of the legend on a Certificate, the Issuer will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Restricted Individual Certificates will bear the same legend as the legend for the Restricted Global Certificate(s) set out under "*Plan of Distribution*".

The Restricted Individual Certificates may not at any time be held by or on behalf of persons in the United States that are not QIBs. Before any Unrestricted Individual Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Restricted Individual Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB; and (ii) such transfer is made in reliance on Rule 144A. Unrestricted Individual Certificates will bear the same legend as the legend for the Unrestricted Global Certificate set out under "*Plan of Distribution*". Before any Restricted Individual Certificates may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an Unrestricted Individual Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in accordance with Regulation S.

TAXATION

The following summary of certain United States, European Union and Pakistani tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Offering Circular. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and/or have retrospective effect, and could affect the tax consequences for holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of acquiring, holding and disposing of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Offering Circular, and of any actual changes in applicable tax laws after such date.

United States Taxation

General

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below) of Notes. Holders of Notes that are not U.S. Holders should consult their tax advisors with respect to the U.S. federal income tax consequences to them of acquiring, owning and disposing of Notes.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their specific circumstances or to holders that are subject to special treatment under the U.S. federal income tax laws, including, without limitation: insurance companies, tax-exempt organisations, banks, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities, individual retirement accounts or other tax-deferred accounts, U.S. expatriates, persons holding Notes through a partnership or other pass-through entity, controlled foreign corporations, passive foreign investment companies, dealers or traders in securities, persons subject to the alternative minimum tax or persons that mark their securities to market, that purchase or dispose of Notes as part of a wash sale, that will hold a Note as part of a synthetic security or other integrated financial transaction or as part of a position in a straddle or as part of a conversion, constructive sale or integrated transaction for U.S. federal income tax purposes or U.S. Holders whose functional currency is not the U.S. dollar or who hold Notes through a foreign entity or foreign account.

This summary also does not discuss any aspect of state, local or non-U.S. law, or U.S. federal estate and gift tax law as applicable to U.S. Holders. In addition, this summary is limited to U.S. Holders of Notes that acquire Notes for cash as part of the initial offering (which, for greater certainty, does not include any additional notes that may be issued at a future date) at the initial issue price (i.e., the first price at which a substantial amount of Notes are sold to the public for cash). Moreover, this summary is limited to U.S. Holders that purchase and hold Notes as "capital assets" (generally, property held for investment). Prospective purchasers should consult their own tax advisors with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, selling and retirement of Notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, U.S. Treasury regulations promulgated thereunder, administrative pronouncements, and judicial decisions currently in effect. These authorities are subject to change and differing interpretation, perhaps with retroactive effect, so as to result in U.S. federal income tax consequences different from those set out below. No ruling has been or will be sought from the U.S. Internal Revenue Service (**IRS**), and no opinion has been or will be rendered, with respect to the matters discussed below. There can be no assurance that the IRS will not take, or that a court would not sustain, a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position will not be sustained.

It is expected (and this summary assumes) that the Notes will not be issued with more than a *de minimis* amount of original issue discount for U.S. federal income tax purposes. If the Notes were issued with more than a *de minimis* amount of original issue discount, a U.S. Holder would be required to include the original issue discount in income for U.S. federal income tax purposes as it accrues before the receipt of cash payments attributable to that income. U.S. Holders should consult their tax advisors regarding the U.S. federal income tax consequences of owning the Notes if they are issued with more than a de minimis amount of original issue discount.

For purposes of this summary, a **U.S. Holder** is a beneficial owner of Notes that, for U.S. federal income tax purposes, is:

- a citizen or resident alien individual of the United States;
- a corporation created or organised in or under the laws of the United States or any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) if a United States court is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all substantial decisions of the trust; or (ii) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a domestic trust.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding the Notes is urged to consult its own tax advisor regarding the U.S. federal income tax consequences of investing in the Notes.

Tax treatment of U.S. Holders

Interest

The gross amount of interest paid or payable on a Note will be includible in a U.S. Holder's gross income (without reduction for any Pakistani withholding taxes) as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Any Pakistani withholding taxes paid generally will be treated as foreign income taxes eligible for credit against a U.S. Holder's U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such U.S. Holder, for deduction in computing the U.S. Holder's taxable income. Interest on the Notes will be treated as foreign-source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes will (with certain exceptions) generally constitute "passive category income" or, in certain cases, "general category income". The rules relating to foreign tax credits are extremely complex. U.S. Holders are urged to consult their own tax advisors with regard to the availability of a foreign tax credit and the application of the foreign tax credit rules to their own tax situation.

Sale, exchange, redemption or retirement of a Note

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder will generally recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, redemption or retirement (except to the extent any amount realised is attributable to accrued but unpaid interest, which, if not previously taxed, will be taxable as such) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to the U.S. Holder. Any gain or loss recognised upon a sale, exchange, redemption or retirement of a Note by a U.S. Holder generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such disposition, the U.S. Holder's holding period for the Note is more than one year. Long-term capital gains of individuals and other noncorporate taxpayers are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognised upon a sale, exchange, redemption or retirement of a Note by a U.S. Holder generally will be treated as U.S.-source income or loss for U.S. federal income tax purposes.

Medicare tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8 per cent Medicare tax on the lesser of (i) the U.S. Holder's "net investment income" for the relevant taxable year; and (ii) the excess of the U.S. Holder's modified gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). A U.S. Holder's "net investment income" will generally include its interest income and its net gains from the disposition of the Notes, unless such interest payments or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders are urged to consult their own tax advisors regarding the applicability of the Medicare tax to their income and gains in respect of an investment in the Notes.

U.S. backup withholding and information reporting

Payments of interest, principal or proceeds from the sale, exchange, redemption or retirement of a Note may be subject to information reporting. Backup withholding currently at a rate of 28 per cent may also apply to these payments if a recipient that is a U.S. Holder fails to furnish to the paying agent with respect to the Notes (or other withholding agent) an IRS Form W-9 containing such U.S. Holder's taxpayer identification number or otherwise to establish an exemption from backup withholding. Penalties also may be imposed on a recipient that fails to supply a valid IRS Form W-9 or other evidence of exemption from backup withholding. Backup withholding is not an additional tax. Any amounts deducted and withheld under the backup withholding rules may be allowed as a credit against the recipient's U.S. federal income tax liability, if any. If backup withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders that hold specified foreign financial assets (including stock and securities of a foreign issuer) are required to report their holdings, along with other information, on their tax returns, with certain exceptions. U.S. Holders should consult their own tax advisors to determine the scope of these disclosure responsibilities.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Amending Directive**) amending and broadening the scope of the requirements described above. The Amending Directive requires EU Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, EU Member States will not be required to apply the new requirements of the Amending Directive.

The proposed financial transactions tax (*FTT*)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Pakistani Taxation

General

This summary of the principal Pakistani tax consequences of holding the Notes is only included as guidance and does not constitute tax advice. Prospective investors should consult their own advisers with regard to their potential tax liabilities resulting from an investment in the Notes.

In addition, this summary only addresses the tax consequences to non-residents holding the Notes as capital assets, and does not address the tax consequences which may be relevant to other classes of non-resident holders.

The summary is based on present Pakistani tax laws and practices.

Tax on interest payments

Clause 75 of the Second Schedule to the Income Tax Ordinance (2001) exempts from income tax any income of an agency of a foreign Government, a foreign national (company, firm or association of persons), or any other non-resident person approved by the federal Government for the purposes of this clause, from profit on moneys borrowed under a loan agreement or in respect of a foreign currency instrument approved by the federal Government.

The Notes have been approved on 25 March 2014 by the Finance Division of the Federal Government for purposes of Clause 75 of the Second Schedule of the Income Tax Ordinance.

Withholding tax

Payments by the Issuer of interest and principal under the Notes shall not be subject to any withholding or deduction for any taxes under the laws of Pakistan.

Stamp Duty

The Issuer has undertaken to bear the liability for stamp duty in respect of the Notes, *inter alia,* in Pakistan. Under the Stamp Act 1899, where the Issuer assumes liability for stamp duty, the instrument to which such assumption relates is exempt from duty.

CLEARING AND SETTLEMENT ARRANGEMENTS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the **Clearing Systems***) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Book-Entry Ownership*" and "*Settlement and Transfer of Notes*" below.

Investors may hold their interests in a Global Certificate directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**) through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in a Restricted Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the **Rules**), DTC makes book-entry transfers of Restricted Notes represented by a Restricted Global Certificate among Direct Participants on whose behalf it acts with respect to Restricted Notes and receives and transmits distributions of principal and interest on Restricted Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of Restricted Notes have accounts with respect to the Restricted Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold Restricted Notes through Direct Participants or Indirect Participants will not possess Restricted Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Restricted Notes.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of a Restricted Global Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*The Global Certificates – Exchange for Certificates*", DTC will cause its custodian to surrender a Restricted Global Certificate for exchange for Individual Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of a Global Certificate registered in the name of, or in the name of a nominee for, DTC will be made to the order of such nominee as the registered holder of such Note.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

Each Unrestricted Global Certificate evidencing Unrestricted Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

Each Restricted Global Certificate evidencing the Restricted Notes will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the **Custodian**) for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Certificate in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a Clearing System are exchanged for Individual Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Restricted Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the relevant Restricted Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Certificate; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Unrestricted Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a Restricted Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery, free of payment instructions, by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (i) transmit appropriate instructions to the custodian of the relevant Restricted Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Unrestricted Global Certificate; and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Restricted Global Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Notes will be made against payment therefor on the Issue Date, which will be the fifth business day following the date of pricing (such settlement cycle being referred to as **T+5**). Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (**T+3**), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the Issue Date should consult their own advisers.

PLAN OF DISTRIBUTION

Each of the managers named in the table below (the **Managers**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 29 September 2015 severally, and not jointly, agreed to subscribe or procure subscribers for the principal amount of Notes set out opposite its name in the table below at the issue price of 100.00 per cent of the principal amount of the Notes, less a combined management and underwriting commission, subject to the provisions of the Subscription Agreement.

Manager	**Underwriting Commitment**
	U.S.$
Citigroup Global Markets Limited	166,667,000
Deutsche Bank AG, London Branch	166,667,000
Standard Chartered Bank	166,666,000
Total	500,000,000

The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the net subscription money in respect of the Notes to the Issuer.

Managers Transacting with the Issuer

All or some of the Managers and their affiliates have and/or may in the future engage in investment banking, commercial banking and other financial advisory and commercial dealings with the Issuer and its agencies and in relation to securities issued by the Issuer and its agencies. They have or may (i) engage in investment banking, trading or hedging activities, including in activities that may include prime brokerage business, financing transactions or entry into derivative transactions; (ii) act as underwriters in connection with offerings of securities issued by the Issuer and its agencies; or (iii) act as financial advisers to the Issuer and its agencies. In the context of these transactions, certain of them have or may hold securities issued by the Issuer and its agencies. Where applicable, they have or will receive customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its agencies. The Managers or their affiliates may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States under the Securities Act in offshore transactions in reliance on, and in compliance with, Regulation S and (b) in the United States to a limited number of QIBs as defined in Rule 144A under the Securities Act in connection with resales by the Managers, in reliance on, and in compliance with, Rule 144A.

In addition, until 40 days after the later of the commencement of the offering and the Closing Date, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each Manager has represented and agreed that except as permitted by the Subscription Agreement and set forth in *"Transfer Restrictions"* it has offered and sold, and will offer and sell, the Notes within the United States as part of their distribution at any time, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither such Manager nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and such Manager, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S.

Each purchaser of a Note, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Managers the matters set forth under "*Transfer Restrictions*".

United Kingdom

Each Manager has represented and agreed in the Subscription Agreement that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Note in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Pakistan

Each Manager has represented and agreed in the Subscription Agreement that the Notes or interests therein will not be offered, sold or transferred directly or indirectly in Pakistan, to residents of Pakistan, or to, or for the account or benefit of, such persons. The SBP has confirmed that non-resident Pakistani citizens are free to purchase the Notes and to transfer the Notes to other non-resident persons, subject, in each case, to the condition that the purchase price is paid in convertible foreign currency outside Pakistan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed in the Subscription Agreement that the Notes have not been and will not be publicly offered, sold or promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed in the Subscription Agreement that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(1) an "Exempt Offer" in accordance with the Markets Rules (version 6/01-15) (MKT) module of the Dubai Financial Services Authority (the **DFSA**); and

(2) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module of the DFSA Rulebook.

Hong Kong

Each Manager has represented and agreed in the Subscription Agreement that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **CO**) or which do not constitute an offer to the public within the meaning of the CO; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Manager has acknowledged in the Subscription Agreement that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person pursuant to Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(1) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law; or

(4) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

General

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Notes.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold (1) in the United States only to persons reasonably believed to be "qualified institutional buyers", which are referred to as QIBs, as defined in Rule 144A under the Securities Act in compliance with Rule 144A and (2) to persons outside the United States (**foreign purchasers**) in offshore transactions pursuant to Regulation S under the Securities Act.

By its purchase of Notes, each purchaser of Notes will be deemed to:

(1) represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a foreign purchaser that is outside the United States;

(2) acknowledge that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States except as set forth below;

(3) if it is a person other than a foreign purchaser outside the United States agree that if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144 under the Securities Act after the original issuance of the Notes, it will do so only (i) to the Issuer; (ii) to a QIB in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 903 or 904 of Regulation S under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) but only upon delivery to the Issuer of an opinion of counsel in form and scope satisfactory to the Issuer; or (v) pursuant to an effective registration statement under the Securities Act. Subject to the procedures set forth in the Agency Agreement, prior to any proposed transfer of the Notes (other than pursuant to an effective registration statement) within the time period referred to in Rule 144 under the Securities Act after the original issuance of the Notes, the holder thereof must check the appropriate box set forth on the reverse of its Notes relating to the manner of such transfer and submit the Notes to the Fiscal Agent;

(4) agree that it will deliver to each person to whom it transfers Notes notice of any restriction on transfer of such Notes;

(5) understand and agree that Restricted Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Certificates and that Unrestricted Notes offered outside the United States in offshore transactions pursuant to Regulation S will be represented by one or more Unrestricted Global Certificates;

(6) understand that unless registered under the Securities Act, the Notes (other than those issued to foreign purchasers) will bear a legend to the following effect, unless otherwise agreed by the Issuer and the holder thereof:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED (THE *SECURITIES ACT*), OR ANY SECURITIES LAW OF ANY STATE OR ANY JURISDICTION OF THE UNITED STATES OF AMERICA. THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE IS ISSUED, ACKNOWLEDGES AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(I) TO THE ISSUER, (2) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN

ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (4) IN A TRANSACTION THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT BUT ONLY UPON DELIVERY TO THE ISSUER OF AN OPINION OF COUNSEL IN FORM AND SCOPE SATISFACTORY TO THE ISSUER; AND (B) IN EACH CASE IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES.

(7) acknowledge that the Issuer and the Managers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agree that if any of the acknowledgments, representations or warranties deemed to have been made by it, by its purchase of Notes, are no longer accurate, it shall promptly notify the Issuer and the Managers; and

(8) if it is acquiring Notes as a fiduciary or agent for one or more investor accounts, represent that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

VALIDITY OF NOTES

The validity of the Notes will be passed upon for the Issuer by Norton Rose Fulbright LLP, English and United States counsel to the Issuer, and by the Joint Secretary to the Ministry of Law, Justice and Human Rights of the Government of Pakistan, and for the Managers by Allen & Overy LLP, English and United States counsel to the Managers, and by Kabraji & Talibuddin. As to all matters of Pakistani law, Norton Rose Fulbright LLP may rely on the opinion of the Joint Secretary to the Ministry of Law, Justice and Human Rights of the Government of Pakistan, and Allen & Overy LLP may rely upon the opinion of Kabraji & Talibuddin. As to all matters of English law, the Joint Secretary to the Ministry of Law, Justice and Human Rights of the Government of Pakistan may rely upon the opinion of Norton Rose Fulbright LLP, and Kabraji & Talibuddin may rely upon the opinion of Allen & Overy LLP.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations under the laws of the Islamic Republic of Pakistan in connection with the issue and performance of the Notes. The issue of the Notes was approved on 11 September 2015 by the Prime Minister of the Islamic Republic of Pakistan, pursuant to Rule 16(2) of the Rules of Business of the Government of Pakistan 1973 (as amended). The Notes have been approved on 10 September 2015 by the Finance Division of the Federal Government for purposes of Clause 75 of the Second Schedule of the Income Tax Ordinance.

Listing

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. The Luxembourg listing agent is Banque Internationale à Luxembourg, *société anonyme*.

So long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, the Issuer will maintain a paying agent and a transfer agent in Luxembourg.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Unrestricted Notes and the Common Code, ISIN and CUSIP number for the Restricted Notes are as follows:

Notes

	Restricted Notes	Unrestricted Notes
CUSIP...	695847 AR4	-
ISIN...	US695847AR45	XS1299811486
Common Code....................................	130094368	129981148

Litigation

The Issuer is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Issuer is aware, is any such litigation or arbitration pending or threatened. The Government is subject to ordinary course litigation and arbitration which it defends vigorously.

Economic Survey

Copies of the Economic Survey 2014-15 and all future Economic Surveys and Statistical Supplements may be obtained at the specified office of the Paying Agent and the Listing Agent during normal business hours, so long as any of the Notes are listed on the Luxembourg Stock Exchange. The aforementioned Economic Survey 2014-15 contains certain summary information regarding the annual budget of the Government.

Documents

Physical copies of the Offering Circular and the Agency Agreement containing the forms of the Note Certificates will be available, at the specified offices of the Paying Agent during normal business hours, so long as any of the Notes are outstanding. A copy of the Offering Circular, the Agency Agreement and the Constitution of Pakistan will be available at the specified office of the Paying Agent and the Listing Agent during normal business hours so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market.

Once the Notes have been admitted to listing on the Official List of the Luxembourg Stock Exchange, and admitted to trading on the Euro MTF Market, the Offering Circular will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

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