The President of the Islamic Republic of Pakistan

for and on behalf of

the Islamic Republic of Pakistan

U.S.$1,500,000,000 6.875 per cent. Notes due 2027

Issue price of Notes: 100 per cent.

The U.S.$1,500,000,000 6.875 per cent. Notes due 2027 (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 5 June and 5 December in each year commencing on 5 June 2018. Interest on the Notes will accrue from and including 5 December 2017 and will be at a rate of 6.875 per cent. per annum. The Notes will mature on 5 December 2027 (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*".

The Notes are expected to be assigned a rating of 'B3' by Moody's Investors Service, Inc. (**Moody's**) and a rating of 'B' by Standard & Poor's Rating Services (**Standard & Poor's**). Moody's and Standard & Poor's are not established in the European Union and have not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings have been endorsed by Moody's Investors Service Ltd. and Standard & Poor's Credit Market Services Europe Limited, respectively, in accordance with the CRA Regulation. Moody's Investors Services Ltd. and Standard & Poor's Credit Market Services Europe Limited are established in the European Union and registered under the CRA Regulation. As such Moody's Investors Service Ltd. and Standard & Poor's Credit Market Services Europe Limited are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. The European Securities and Markets Authority has indicated that ratings issued in the USA which have been endorsed by Moody's Investors Service Ltd. and Standard & Poor's Credit Market Services Europe Limited may be used in the EU by the relevant market participants. A rating is not a recommendation to buy, sell or hold the Notes (or beneficial interests therein, does not address the likelihood or timing of payment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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 United States Securities Act of 1933, as amended (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 transactions not subject to, the registration requirements of 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 SA/NV (**Euroclear**) and Clearstream Banking S.A.(**Clearstream, Luxembourg**) on the Issue 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 5 December 2017 or such later date as may be agreed (the **Issue Date**) by the Issuer and the Joint Lead 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 "*Clearance and Settlement*". 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 Issue Date (i.e. the fourth Business Day following the date of pricing of the Notes (such settlement cycle being herein referred to as T+4)).**

Joint Lead Managers

Citigroup | **Deutsche Bank** | **ICBC** | **Standard Chartered Bank**

The date of this Offering Circular is 4 December 2017.

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 Joint Lead Managers, the Agents (each as defined herein) or any other person. Neither the delivery of this Offering Circular nor any sale of any Notes shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of the Issuer since the date hereof.

To the fullest extent permitted by law, none of the Joint Lead Managers nor the Agents accepts any responsibility for the contents of this Offering Circular or for any statements made or purported to be made by the Joint Lead Managers or the Agents or on its behalf in connection with the Issuer or the offering of the Notes. The Joint Lead Managers and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of the Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Joint Lead Managers or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Joint Lead Managers, or the Agents which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, Pakistan, Hong Kong, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre) and Dubai International Financial Centre.

The Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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. None of the Joint Lead Managers or the Agents undertakes to review the Issuer's financial condition or affairs during the life of the arrangements contemplated by this Offering Circular or to advise any investor or potential investor in the Notes of any information relating to the Issuer coming to its attention.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER, AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS, AND RELATED MATTERS CONCERNING THE PURCHASE OF THE NOTES.

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.

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE JOINT LEAD MANAGER(S) NAMED AS STABILISATION MANAGER(S) (OR PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) 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, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION 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 CEASE 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 BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) 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 U.S. REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE THE FOREGOING AUTHORITIES APPROVED THIS OFFERING CIRCULAR OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

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 RESIDENTS OF THE ISLAMIC REPUBLIC OF PAKISTAN

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 THE ISLAMIC REPUBLIC OF PAKISTAN IN THE COURTS OF PAKISTAN. SEE "*ENFORCEMENT OF FOREIGN JUDGMENTS IN PAKISTAN*" AND "*RISK FACTORS – ENFORCEMENT OF FOREIGN JUDGEMENTS IN PAKISTAN*".

THE ENTRY INTO OF THE APPLICABLE BOND DOCUMENTS BY THE GOVERNMENT OF PAKISTAN IS IN ACCORDANCE WITH ARTICLE 173(3) OF THE CONSTITUTION OF THE ISLAMIC REPUBLIC OF PAKISTAN, 1973 (AS AMENDED FROM TIME TO TIME) WHICH STATES INTER ALIA THAT "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".

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 30 November 2017 as quoted by the State Bank of Pakistan (**SBP**) was Rupees 105.48 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 **2016-17** 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 2016-17** herein are to the Economic Survey 2016-17 published on 25 May 2017 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 2014-15** herein are to the labour force survey published in November 2015 by the Government of Pakistan, Statistics Division, Pakistan Bureau of Statistics, Islamabad. The Labour Force Survey 2014-15 presents information on labour force characteristics that have been collected from a representative sample of 42,292 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
2009-10………………………...........	83.92	85.51
2010-11………………………...........	85.57	85.97
2011-12………………………...........	89.40	94.55
2012-13………………………...........	96.85	99.66
2013-14………………………...........	102.88	98.80
2014- 15……………………………	101.02	101.73
2015-16……………………………..	104.24	104.65
2016-17……………………………..	104.70	104.79
July 2017…………………………	105.43	105.32
Aug 2017………………..................	105.31	105.26
Sept 2017………………..................	105.32	105.33
Oct 2017………………..................	105.34	105.34
Nov 2017[(1)]……………...................	-	105.48

(1) As of 30 November 2017

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

Summary of the Offering

Issuer	The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan.
Notes being issued	6.875 per cent. Notes due 2027 in the aggregate principal amount of U.S.$1,500,000,000.
Issue Price of Notes	100 per cent. of the aggregate principal amount of the Notes.
Issue Date	5 December 2017.
Maturity and Redemption	The Notes will mature on 5 December 2027 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 5 December 2017 to but excluding 5 December 2027 at the rate of 6.875 per cent. per annum, payable semi-annually in arrear on 5 June and 5 December in each year commencing on 5 June 2018.
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 10.3) 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.
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 14.
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 Issue 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 Investors Service, Inc. (**Moody's**) and a rating of 'B' by Standard & Poor's Rating Services (**Standard & Poor's**). 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.
Joint Lead Managers	Citigroup Global Markets Limited; Deutsche Bank AG, London Branch; ICBC International Securities Limited; 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. Pakistan's current population estimate for 2016-17 is 197.26 million according to the Pakistan Bureau of Statistics, although, according to provisional summary results of 6th Population and Housing Census – 2017, Pakistan's population is approximately 207.8 million in 2017. Over 96 per cent of the population is Muslim. The capital of Pakistan is Islamabad. The national language is Urdu, which is also 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. The Government is headed by the Prime Minister, Mr Shahid Khaqan Abbasi.

According to World Bank's World Development Indicators database, in 2016, Pakistan's economy was the twenty-fourth largest in the world in terms of purchasing power parity and the fortieth largest in terms of nominal GDP. Pakistan is a rapidly developing country and is one of the "Next Eleven" countries that have the potential to become significant world economies as reported in the 2005 paper by Goldman Sachs. In PwC's February 2015 report "The World in 2050: Will the shift in global & economic power continue?", Pakistan is projected to become the 15th largest economy by 2050.

Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, Karachi and major urban centres in the Punjab. Major industries include textiles, chemicals, food processing, iron, steel, automobiles, fertilisers, cement, dairy and sports goods.

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

Recent Macroeconomic and Fiscal Performance

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

	2012-13	2013-14	2014-15	2015-16[(1)]	2016-17[(2)]
GDP at current market price (*Rupees million*).............................	22,385,657	25,168,805	27,443,022	29,102,630	31,862,167
GNI at current market price (*Rupees million*).............................	23,547,264	26,597,032	29,117,833	30,886,748	33,634,411
Per capita income at factor costmarket prices (*Rupees*)	129,005	142,849	153,357	159,572	170,508

	2012-13	2013-14	2014-15	2015-16[(1)]	2016-17[(2)]
Per capita income (*U.S.$*)...............	1,334	1,389	1,514	1,531	1,629
Exports (*U.S.$ million*) (fob)............	24,802	25,078	24,090	21,972	21,938
Imports (*U.S.$ million*)(fob).............	40,157	41,668	41,357	41,255	48,506
Balance of trade (*U.S.$ million*)	(15,355)	(16,590)	(17,267)	(19,283)	(26,568)
Workers' remittances (*U.S.$ million*)..	13,922	15,838	18,720	19,917	19,304
Current account balance (*U.S.$ million*)..	(2,496)	(3,130)	(2,795)	(4,867)	(12,439)
Current account balance (*as % of GDP*)	(1.1)	(1.3)	(1.0)	(1.7)	(4.1)
Overall fiscal deficit (*as % of GDP*)	8.2	5.5	5.3	4.6	5.8
GDP growth at factor cost basic prices (%)	3.68	4.05	4.06	4.51	5.28
Average Inflation (%)......................	7.4	8.6	4.5	2.9	4.2
Total investment at market price (*as % of GDP*)	15.0	14.6	15.7	15.6	15.8
Real GDP at factor cost basic prices (*Rupees million*)	9,819,055	10,217,056	10,631,649	11,110,663	11,696,961
Private consumption expenditure at current prices (*Rupees million*)....	18,091,829	20,391,214	21,890,279	23,285,749	26,075,280
National savings (*as % of GDP*)......	13.9	13.4	14.7	14.3	13.1

(1) Revised

(2) Provisional pending National Assembly approval in May 2018 of Pakistan's economic data for 2016-17, except where otherwise indicated.

Source: Ministry of Finance, except for "Exports", "Imports", "Balance of trade", "Workers' remittances" and "Current account balance" for which the source is the State Bank of Pakistan.

Under its current Government, elected in May 2013, Pakistan's fiscal and economic performance has significantly improved following a series of macroeconomic reforms that were supported by the Government's three year (2014 to 2016) SDR 4.39 billion (approximately U.S.$6.15 billion) Extended Fund Facility (EFF) programme with the IMF to be repaid by 2026.

The Government's broad economic programme has been supplemented by a series of wide-ranging structural reform measures, which are designed 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, trade reform, privatisation and restructuring of State-Owned Enterprises (**SOEs**) and financial sector reform. See "*Overview of Pakistan's Economy – Structural Economic Reforms*". Pakistan has continued working with the IMF following the completion of the EFF programme in 2016, with the most recent Article IV consultation report released by the IMF in July 2017. The next scheduled meetings with the IMF are expected in December 2017.

The improvement in macroeconomic performance has been further supported by an improvement in the overall security situation, which has helped support growth. The Government has also sought to improve 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 through local body elections, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

The following sets forth a summary of key recent developments:

Acceleration in Economic Growth. The Pakistani economy experienced low GDP growth rates from 2008-09 to 2012-13, principally due to shortages in supplies of energy, difficult security environment and the 2010 and 2011 floods. However, growth has significantly improved in recent years. Real GDP growth averaged 2.8 per cent from 2008-09 to 2012-13 and began to revive in 2013-14 and 2014-15 when GDP growth increased to 4.05 per cent and 4.06 per cent, respectively, increasing to 4.51 per cent growth in 2015-2016 and reaching 5.28 per cent in 2016-17. The higher growth in GDP in 2016-17 reflects an improvement in the security situation in the country, a positive impact of stepped-up China Pakistan Economic Corridor (CPEC) investments, a strong rebound in the agricultural sector and improved availability of energy and credit from the banking sector. Pakistan's outlook for economic growth remains favourable, with a forecast of real GDP growth at 6.0 per cent in 2017-18. The Government implemented various structural reforms aimed at reinvigorating the economy, along with maintaining price stability, creating job opportunities for youth, the development of infrastructure projects and increased exports and tax collection, as well as seeking to reduce both the fiscal and current account deficits. See "*Overview of Pakistan's Economy – Structural Economic Reforms*". The Government has taken measures to improve the GDP growth in the industrial and agricultural sectors, 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 "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Financial Services*" and "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Financial Sector Regulation*".

Relatively Low Inflation. Although Pakistan remains vulnerable to movements in international commodity prices (particularly oil), overall inflation rates have decreased from 11 per cent in 2011-12 to 4.16 per cent in 2016-17 (2.86 per cent in 2015-16), which was below the Government's target of 6.0 per cent for 2016-17. The inflation target for 2017-18 remains at 6.0 per cent, and the Government currently expects that inflation will remain below the target. The uptick in inflation in 2016-2017 as compared to 2015-16 was due to a global revival of international commodity and oil prices, along with a rise in domestic demand due to an increase in economic activities. See "*Balance of Payments and Foreign Trade – Inflation, Money and Monetary Policy*".

Developments Related to Fiscal Deficit. Despite recent increases, Pakistan's fiscal deficit decreased relative to levels prior to the start of the IMF programme in 2014, shrinking from 8.2 per cent of GDP in 2012-13 to 5.8 per cent of GDP in 2016-17. Fiscal deficit in 2016-17 was higher than fiscal deficit in both 2015-16 (4.6 per cent) and 2014-15 (5.3 per cent). It was also higher than the 2016-17 budget deficit target of 4.2 per cent of GDP, principally due to lower than budgeted provincial surpluses (by 0.9 per cent of GDP), lower revenue (by 0.5 per cent of GDP) and higher expenditure on project financings (by 0.4 per cent of GDP). The Government's fiscal deficit target for 2017-18 is 4.1 per cent of GDP, based on its policy of improving revenue collections, tax reform measures, rationalising electricity subsidies and other measures described below. As at 30 June 2017, the Government has eliminated tax exemptions and loopholes worth Rupees 350 billion in total that had been created through Statutory Regulation Orders (**SROs**) implemented by Pakistan's former government. See "*Public Finance and Taxation*".

Recent Decrease in Foreign Exchange Reserves and Increase in Current Account Deficit. 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. However, after several years of increases, foreign exchange reserves have fallen since 31 October 2016 in the context of increase in current account deficit caused by sharp increase in import of machinery, raw materials and fuels at a time when the economy is in an expansionary mode. Although the Government expects that the increase in the current account deficit is temporary in nature, it has increased Pakistan's exposure to external conditions. See "*Balance of Payments and Foreign Trade*".

Developments Related to Public Debt. Pakistan's gross total public debt as at the end of June 2017 was Rupees 21,406.8 billion (67.2 per cent of GDP) as compared to Rupees 19,678.1 billion at the end of June 2016 (67.6 per cent of GDP). As at 30 June 2017, domestic public debt was Rupees 14,854.7 billion (46.6 per cent of GDP), while external public debt was U.S.$62.5 billion (20.6 per cent of GDP). The Government is taking measures to further reduce the total public debt-to-GDP ratio. See "*Public Debt*".

Improvement in Security Situation. As a result of the implementation of Pakistan's National Internal Security Policy 2014-2018 and its National Action Plan and successful Zarb-e-Azab and Radd-ul-Fasad operations of the armed forces, commenced in June 2014 and February 2017, respectively, there has been a significant reduction in the number of terrorist incidents reported in the country. According to the most recent information from National Counter Terrorism Authority, the number of terrorist incidents decreased from 1,816 in 2014 to 1,139 in 2015, 785 in 2016 and 489 in 2017 (for the 1 January to 9 September period). This improvement in security situation helped to improve the investment climate, boosted economic activity in many parts of Pakistan and is expected to increase the country's attractiveness to foreign investors. See "*The Islamic Republic of Pakistan – Fight Against Extremism*".

Investments in CPEC Projects. The China-Pakistan Economic Corridor (CPEC) programme, which was launched in April 2015 during Chinese President Xi Jinping visit to Pakistan, has significantly supported the development of Pakistan's economy through two main components: (i) the development of special economic zones along the corridor, including a number of energy and transportation projects and (ii) 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. The power generation projects are expected to add over 13,500MW of net capacity to Pakistan's power generation capacity at an estimated cost of U.S.$25.2 billion, with several fast-tracked projects expected to be completed by the end of 2018 and with a number of additional projects to be developed in 2019 and 2020. Other CPEC energy projects include the development of two coal mines and the construction of electricity transmission lines from Matiari to Lahore. CPEC transportation projects include the upgrades and widening of two sections of motorways, with the combined length of over 500km, the expansion and reconstruction of the Karachi to Peshawar railway line at an estimated cost of U.S.$8.2 billion is expected to be commenced in 2018 and the construction of Havelian dry port at Havelian railway station. The Gwadar Port project component of CPEC is aimed at attracting transit trade for resource-rich Central Asian republics, Afghanistan and western China, as well as the development of the trans-shipment trade in the region. Total estimated cost of the nine principal Gwadar Port projects amounts to U.S.$1.15 billion. The total U.S.$46 billion in investment and concessional loans committed to the "early harvest" phase of CPEC provided a strong support for faster economic growth in Pakistan, particularly for the construction industry. See "*Overview of Pakistan's Economy – China-Pakistan Economic Corridor (CPEC)*".

Increases in Electricity Generation Capacity. The shortage of reliable electricity supply was in the past a significant 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. In 2017, electricity generation capacity in Pakistan has been significantly increased as a number of new power plants commenced operations, including LNG-fired power plants at Bhikki, Balloki and Haveli Bahadur Shah, Sahiwal coal power plant (a CPEC project) and two units of Chashma nuclear power plant. These additions have significantly eased the electricity shortfall situation. As the Government has given priority to industrial sector, the latter has benefitted from uninterrupted power supply, supporting its strong growth over the past two fiscal years. The Government expects that Pakistan would have surplus electricity from November 2017 with the commencement of power generation from new LNG-based power plants and decrease in demand due to winter. Other recent successes in the power sector include the reduction in the subsidy for power sector from 2.3 per cent of GDP in 2011-2012 to 0.7 per cent of GDP in 2015-16 while protecting the vulnerable consumer segments of the country, the reduction in line losses from 18.7 per cent in 2014-15 to 17.6 per cent in 2016-17) and increased collections from end consumers (from 89.2 per cent in 2014-15 to 92.4 per cent in 2016-17). See "*Overview of Pakistan's Economy – Energy in Pakistan*".

Sound Banking System. The overall performance of the banking sector in Pakistan has remained strong over the last few years despite macroeconomic challenges and structural issues. The banking sector has achieved a high level of profitability, with profits before tax of Rupees 314 billion in 2016 and Rupees 150 billion in the first half of 2017. The capital adequacy ratio stood, on average, at 15.6 per cent as at 30 June 2017, well above the State Bank of Pakistan requirement of 10.65 per cent and the Basel requirement of 8.625 per cent. The level of net non-performing loans has decreased substantially from Rupees 186.0 billion as at 30 June 2011 to Rupees 100 billion as at 30 June 2017 as a result of a slowdown in defaults, recovery and adequate provisioning. Bank private sector business credit growth has continued to gradually increase (from Rupees 3,222,178 million at the end of September 2016 to Rupees 3,941,390 million at the end of September 2017, an increase of 22.3 per cent on a year-on-year basis), which has helped to increase the rate of economic growth in Pakistan. Furthermore, the SBP is in the final stages of instituting a deposit insurance system in the country, the operation of which is expected to further strengthen the banking sector. See "*Overview of Pakistan's Economy – Financial Services*".

Strong Performance of the Agricultural Sector. Agriculture continues to play a central role in Pakistan's economy. It accounted for 19.5 per cent of GDP in 2016-17, and is a source of livelihood of over 40 per cent of its rural population. The agricultural sector also contributes to the development of other sectors of the economy as a supplier of raw materials to industry (particularly cotton), as well as providing a market for industrial products. In 2016-17, the agricultural sector achieved growth of 3.46 per cent as compared to 0.27 per cent growth in 2015-16, making a significant contribution to the increase in economic growth between the two years. The growth of the agricultural sector was a result of better harvesting of major crops and greater availability of water, agricultural credit and fertilisers. See "*Overview of Pakistan's Economy – Agricultural Sector*".

Improvements in Tax Collection. The Government's tax policy and administration reforms helped to achieve progress in tax revenue mobilisation. In 2016-17, tax revenue increased by 8.4 per cent as compared to 2015-16, which, in turn, saw a 21.3 per cent increase in tax revenue as compared to 2014-2015. Tax revenue collection has increased by a further 20 per cent during the first quarter of 2017-18.These rapid increases in tax revenue resulted in a tax-to-GDP ratio of 12.5 per cent in 2016-17 as compared to 11.0 per cent in 2014-15. Pakistan's tax-to-GDP ratio remains relatively low by international comparison, and mobilising additional tax revenue through a set of measures discussed in "*Public Finance and Taxation – Revenue and Expenditure – Tax Collection*" can help to support fiscal consolidation and to generate resources to support priority infrastructure and social spending. A tax-to-GDP ratio of 13.7 per cent is targeted for 2017-18.

Overall, Pakistan remains on a high growth trajectory with stable macroeconomic indicators and significant progress made in addressing infrastructure bottlenecks. Domestic demand remains robust based, in large part, on increasing per capita incomes. International perception of Pakistan's economy continues to improve recognising the significance of the Government's structural reforms agenda that remains in place after the completion of the three year Extended Fund Facility programme with the IMF in 2016. Pakistan's ranking in the World Economic Forum's "Global Competitiveness Report 2017-18" improved by seven notches as compared to the previous year's report, with improvements under the pillars of “institutions”, “business sophistication”, “innovation” and “infrastructure”. Pakistan’s political stability also improved as a result of the successful democratic transition following the May 2013 elections, which has also contributed to an improvement in the overall security situation in the country.

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 Notes 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.

Risk factors relating to the Government

Failure to maintain economic reforms may have a negative effect on the performance of Pakistan's economy. Although the Government is pursuing an agenda of substantial reform in response to historic slow growth, inflationary pressure and increasing public debt and has already achieved significant targets set in relation to macroeconomic performance, there remain macroeconomic challenges to achieving sustained growth including: further fiscal consolidation, structural reforms, improving infrastructure, enhancing tax revenues, reducing public debt levels, strengthening the balance of payments and reserves (by increasing exports and foreign direct investment, both of which remain lower than the Government has targeted), maintaining low inflation, improving the social safety net, privatisation of SOEs and reducing shortfalls in energy through the China Pakistan Economic Corridor (**CPEC**) (as further described under "*-Overview of Paskistan's Economy – China-Pakistan Economic Corridor (CPEC)*") and other projects. For further information see – *"Risk Factors – Risk factors relating to the Government – The Government's plans for growth are dependent on its ability to continue to increase the capacity of the energy sector"* below.

In addition, following successful completion of the IMF Extended Fund Facility programme, a key challenge will be to consolidate and reinforce the gains without a formal programme in the face of either global economic shocks or domestic pressure.

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 relatively 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 to be challenging 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 date, a number of privatisations have not been completed due to various internal and external factors. A failure to achieve the targeted privatisations due to negative conditions in the international and/or domestic markets could have a material impact on Pakistan's budget performance and put further pressure on the budget deficit. The Government has prepared an action plan for privatisation of 39 key SOEs in the power, oil and gas, banking, insurance, infrastructure, telecommunications, real estate and industrial sectors. The five-year privatisation plan is expected to primarily use a combination of domestic and international capital market transactions or strategic sales for the divestment of SOEs to raise substantial revenues. Although the Government has stated that it is committed to its privatisation policy, certain privatisations, including the Government's divestment of its stake in Pakistan International Airlines, were delayed in 2014, 2015, 2016 and 2017 due to market conditions, low oil prices and legal obstacles. Pakistan International Airlines was corporatised in 2016 in order to improve governance. The Government has nevertheless successfully completed four capital market transactions since April 2014; 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 Government successfully completed the strategic sale of its 88 per cent ownership in National Power Construction Corporation (Pvt.) Limited in September 2015. In total, the Privatisation Commission has raised Rupees 170.87 billion, including over U.S.$1.128 billion in foreign exchange, from these completed transactions. See "*Overview of Pakistan's Economy – Structural Economic Reforms"* for further information.

Declining foreign exchange reserves may negatively affect Pakistan's ability to manage the value of the Rupee, maintain liquidity, meet its external obligations and control inflation. To strengthen reserves, the SBP has imposed a temporary cash margin requirement on the import of non-essential consumer items to remain in place until no later than February 2018. This measure is being complemented by Government initiatives to increase net foreign exchange inflows through new regulatory duties on non-essential import items, an export package of Rupees 180 billion, measures to increase remittances and further borrowing on global markets and accelerating disbursement of existing official loans and grants. However, the level of foreign exchange reserves still remains relatively low and includes a proportion of grants and loans. Amid rising current account deficit and broadly stable exchange rate, foreign exchange reserves have declined in 2016-17, but going forward the Government expects them to be maintained at comfortable levels to safeguard against external shocks. See "*Balance of Payments and Foreign Trade – Foreign Reserves*".

The current account deficit may negatively affect Pakistan's ability to meet its external obligations. During 2016-17, the current account deficit widened to 4.1 per cent of GDP, reflecting increasing imports (by 17.6 per cent, year-on-year) due to investments related to CPEC, strong demand for petroleum products along with recovering oil prices and sluggish remittances (which declined by 3.1 per cent year-on-year), driven by slower growth in the Gulf Cooperation Council countries. After declining for two consecutive years, exports in 2016-17 remained broadly unchanged decreasing by only 0.2 per cent (year-on-year). The exchange rate continued to remain stable against the U.S. dollar, supported by the State Bank of Pakistan's foreign exchange interventions. Pakistan's liquid foreign exchange reserves (excluding gold) declined to U.S.$20.1 billion as at 13 October 2017 (over three months of imports of goods and services) from U.S.$23.1 billion in June 2016 (four months of imports). The Rupee – U.S. dollar exchange rate remained stable in 2016-17, but the Rupee depreciated against U.S. dollar by 0.5 per cent in the first four months of 2017-18. In addition, the State Bank of Pakistan's derivative position reached U.S.$3.6 billion in net obligations (up from U.S.$2 billion in June 2016), which could put additional pressure on reserves.

Political instability, any change in Government and/or significant changes in Government policies 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 70 years of independence and other elected governments were unable to complete their terms. The leak of documents created by Panamanian law firm and corporate service provider Mossack Fonseca in April 2016 connected a number of prominent Pakistani individuals to that firm. In July 2017, Pakistan's Supreme Court disqualified the then Prime Minister Mian Muhammad Nawaz Sharif. Shahid Khaqan Abbasi was elected Prime Minister on 1 August 2017 and the former Prime Minister's wife, Kulsoom Nawaz, has succeeded him in taking his national assembly seat following a by-election in September 2017. Mian Mohammed Nawaz Sharif remains president of the Pakistan Muslim League (N), the largest party in the governing coalition. The Pakistan National Accountability Court indicted the former Prime Minister on 8 November 2017 on corruption charges in relation to the matters which resulted in his disqualification. The National Accountability Court is also currently hearing the Supreme Court directed corruption case against Finance Minister Ishaq Dar, who was indicted in September 2017 for possessing assets beyond his means. The Finance Minister is currently in the U.K. on medical leave and has consequently not attended the hearing. A warrant has been issued for the Finance Minister's arrest in Pakistan as a result of his non-attendance and a medical certificate has since been delivered to the National Accountability Court. The case remains pending. Separately, Imran Khan, leader of the opposition party Pakistan *Tehreek-e-Insaf* is also under Supreme Court investigation in relation to allegations that he failed to declare sources of income.

Political instability could negatively affect the Government's ability to continue to pursue economic reforms, decrease international investor confidence and thereby 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. See also "*Risk Factors – Risks relating to the Government - Failure to adequately address actual and perceived risks of corruption may negatively affect Pakistan's economy and ability to attract foreign direct investment*".

Hostilities, 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 over 62,500 lives, has caused the erosion of the investment climate and has reduced economic activity in many parts of Pakistan. In 2014, 2015 and 2016, Pakistan faced several terrorist attacks including on the Army Public School in Peshawar, a public park in Lahore, a hospital in Quetta and on the shrine of Lal Shahbaz Qalandar in Sehwan, each of which resulted in loss of life. On 23 June 2017, 96 people were killed and over 200 injured in twin bombings in Parachinar in Kurram Agency of the Federally Administered Tribal Areas, a suicide bombing in Quetta targeting policemen and the targeted killing of four policemen in Karachi. For further information see "*The Islamic Republic of Pakistan – Fight Against Extremism*".

In June 2014, Pakistan armed forces started an operation by the name of *Zarb-e-Azab* (*meaning Sharp and Cutting Strike*) against the terrorists. Pakistan armed forces successfully destroyed the command centres of the terrorists in this operation. Although a significant reduction in the number of terrorist attacks in Pakistan followed the operation, in February 2017, the terrorist group *Jamaat-ul-Ahrar* launched several suicide attacks across Pakistan including in Lahore, Ghalanai in the Mohmand Agency of the Federally Administered Tribal Areas, Peshawar and Tangi in the Charsadda District of Khyber-Pakhtunkhwa. In response to these and other related terrorist attacks, in February 2017, the Pakistan armed forces launched an operation by the name of *Radd-ul-Fasaad* (*meaning Elimination of Discord*) aimed at eliminating the threat of terrorism and consolidating gains of previous operations. *Radd-ul-Fasaad* also aims at ensuring security of the borders. Despite the operations successes, extremism remains a threat both regionally and in Pakistan. As a result of successful military operations against terrorists, there has been a significant decline in the number of terrorist attacks in Pakistan.

Kashmir remains an on-going source of tension between India and Pakistan. For further information see "*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.

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 116 out of 176 in Transparency International's 2016

Corruption Perceptions Index. This represents an improvement on its ranking of 117 in 2015 and a significant improvement on its ranking of 126 out of 176 in 2014.

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 that 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 detect and report financial information relating to criminal activity to the relevant law enforcement agencies tasked with investigating and prosecuting 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 enacted to combat the financing of extremism and criminalise money laundering and providing for the forfeiture of property derived from the same. There have been a number of high-profile prosecutions and convictions for corruption, including high ranking political personalities who are facing legal charges for holding assets overseas through illegal means. See *"Risk Factors – Risk factors relating to the Government – Political instability, any change in Government and/or significant changes in Government policy may negatively affect economic conditions in Pakistan"* and "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Services Sector – Anti-Corruption and Anti-Money Laundering*".

Despite such initiatives to fight corruption, corruption remains a material challenge in Pakistan and further progress is required. Failure to address these issues in a timely manner, continued 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.

The Government's plans for growth are dependent on its ability to continue to increase the capacity of the energy sector. The shortage of reliable electricity supply has been 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 480 billion of payment arrears by the end of 2016-17, improving prosecution of electricity theft, the increase of tariffs to reflect actual fuel prices and significant increases in electricity generation capacity. While there has been significant progress in energy sector reforms, the recent resumption of circular debt accumulation points to the need for continued reform efforts. See "*Overview of Pakistan's Economy – Energy in Pakistan*".

Exports, remittances, foreign direct investment and growth are dependent on regional and global growth rates and cross-border integration. Pakistan's exports have decreased each year for the past three years and imports have increased over the same period such that the balance of trade deficit has grown from U.S.$16,590 million in 2013-14 to U.S.$26,568 million in 2016-17. Structurally weak growth in key advanced and emerging economies, including those of the Gulf Cooperation Council, and a significant slowdown in China's growth could further impair Pakistan's exports, reduce its workers' remittances, weaken its prospects for further foreign direct investment and dampen growth. Globally, a fraying consensus about the benefits of globalisation could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labour flows, sentiment and growth.

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 and extensive flooding in 2014 and 2015. Such developments can have a particularly negative impact on Pakistan's economy given its significant dependence on the agricultural sector and infrastructure constraints. The floods resulted from unusually heavy monsoon rains in various areas of Pakistan and 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 services delivery, commerce and communications. Floods in 2015 resulted in the deaths of around 238 people whilst nearly 10,700 homes were damaged in 411 villages, and some 1,572,191 people displaced, according to the National Disaster Management Authority. The 2015 floods also significantly affected Pakistan's agricultural sector (particularly the cotton industry) that had been predicted to grow by 3.9 per cent. in 2015-16 but, principally as a result of floods and a pest attack, grew by only 0.27 per cent. 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. Moreover, efforts to mitigate extreme climatic conditions, such as floods, would require very significant funding, which could have a negative impact on Pakistan's fiscal situation.

Enforcement of legal rights. The Pakistani legal system is a common law system that requires modernisation and law reform, particularly in civil and commercial law. 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. Significant changes in global macroeconomic conditions such as global monetary policies (notably in the U.S. and EU), global commodity prices and economic conditions in major international markets including China, can impact capital and financing flows and have a significant impact. 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 Government'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. Standard & Poor's current rating of the Government is B (stable) and this was reaffirmed in October 2017. 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.

Effects of the Volcker Rule on the Issuer. The Issuer is relying on an exclusion or exemption under the Investment Company Act other than the exclusions contained in Section 3(c)(1) and Section 3(c)(7). The Issuer was structured so as not to constitute a "covered fund" for purposes of the regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended (commonly known as the Volcker Rule). The Volcker Rule generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with such funds. Under the Volcker Rule, unless otherwise jointly determined by specified federal regulators, a "covered fund" does not include an issuer that satisfies all of the elements of the exemption from registration under the Investment Company Act provided by Section 3(c)(5)(C) of the Investment Company Act. The Volcker Rule became effective on

1 April 2014, but was subject to a conformance period for certain funds which concluded on 21 July 2015. The general effects of the Volcker Rule remain uncertain. Any prospective investor in the Notes, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisers regarding such matters and other effects of the Volcker Rule.

Shari'ah 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. In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors. 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 Standard & Poor's 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.

Indirect exposure to sanctions targets. 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. In particular, as described in "*-Energy in Pakistan - LNG*", the Government has entered into an arrangement involving Russian counterparties listed on the on the Sectoral Sanctions Identifications List maintained by OFAC for the laying of a LNG pipeline. 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.

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 (excluding any commission payable to the Joint Lead Managers), expected to amount to approximately U.S.$1,499,500,000, will be used for the Government's general budgetary purposes.

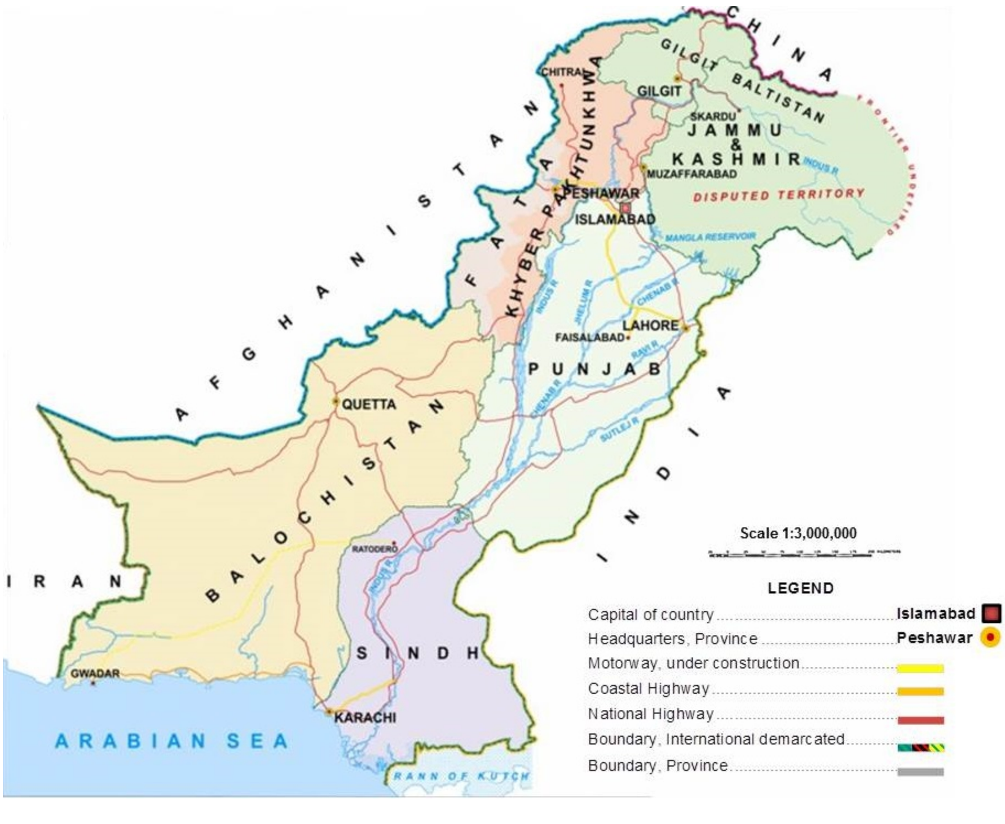
THE ISLAMIC REPUBLIC OF PAKISTAN

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 (**KP**) 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 (**KP**) and Quetta (**Balochistan**).

The northern region of Pakistan is famous for its high mountain ranges and glaciers, such as the Himalayas and the Karakoram. KP 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

Pakistan's current population estimate for 2016-17 is 197.26 million according to the Pakistan Bureau of Statistics, although, according to provisional summary results of the 6th Population and Housing Census 2017, Pakistan's population is approximately 207.8 million in 2017. Over 96 per cent of the population of Pakistan is Muslim. The national language is Urdu, which is also the official language is Urdu. 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 61.04 million in 2014-15, the most recent year in respect of which statistics are available, of which 57.42 million were employed and 3.62 million (or 5.9 per cent) were unemployed. Pakistan benefits from a demographic dividend, with 61.4 per cent of population falling in the working age group of 15 to 59. 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 59.5 per cent in 2017.

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 elect members of the National Assembly, as well as the four provincial assemblies of Punjab, Sindh, Balochistan and KP, was held on 11 May 2013. The PML-N, led by Mian Muhammad Nawaz Sharif, emerged as the single largest party and formed the Government. 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. Shahid Khaqan Abbasi replaced Mian Muhammad Nawaz Sharif as Prime Minister with effect from 1 August 2017 following the latter's disqualification by the Supreme Court.

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 Mian Muhammad Nawaz Sharif completed their terms. See "*The Islamic Republic of Pakistan – 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 18^{th} and 19^{th} 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. On 28 February 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 and 23rd Amendment to the Constitution. On 7 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 was enacted for a period of two years and was originally due to expire on 7 January 2017 but was extended for a further two years to 6 January 2019 by the 23rd Amendment to the Constitution passed on 30 March 2017.

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, Shahid Khaqan Abbasi, 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 federal cabinet in addition to the current Prime Minister, Shahid Khaqan Abbasi.

FEDERAL MINISTERS

Name	Portfolio
Mr. Mushahid Ullah Khan	Climate Change
Mr. Muhammad Pervaiz Malik	Commerce and Textile
Hafiz Abdul Kareem	Communications
Engr. Khurram Dastgir Khan	Defence
Rana Tanveer Hussain	Defence Production
Muhammad Baligh Ur Rehman	Federal Education and Professional Training
Mr. Muhammad Ishaq Dar	Finance, Revenue and Economic Affairs
Khawaja Muhammad Asif	Foreign Affairs
Mr. Akram Khan Durrani	Housing and Works
Mr. Mumtaz Ahmed Tarar	Human Rights

Mr. Ahsan Iqbal	i) Interior
	ii) Planning, Development and Reform
Mr. Ghulam Murtaza Khan Jatoi	Industries and Production
Mr. Riaz Hussain Pirzada	Inter-Provincial Coordination
Mr. Muhammad Barjees Tahir	Kashmir Affairs and Gilgit Baltistan
Lt. Gen. (Retd.) Salahuddin Tirmizi	Narcotics Control
Mr. Sikandar Hayat Khan Bosan	National Food Security and Research
Mrs. Saira Afzal Tarar	National Health Services, Regulations and Coordination
Pir Syed Sadaruddin Shah Rashidi	Overseas Pakistanis and Human Resource Development
Mir Hasil Khan Bizenjo	Maritime Affairs
Molana Ameer Zaman	Postal Services
Sardar Awais Ahmed Khan Leghari	Power
Mr. Daniyal Aziz	Privatisation
Khawaja Saad Rafique	Railways
Sardar Muhammad Yousaf	Religious Affairs and Inter-faith Harmony
Lt. Gen. (Retd.) Abdul Qadir Baloch	States and Frontier Regions
Mr. Kamran Mechael	Statistics
Syed Javed Ali Shah	Water Resources
Sheikh Aftab Ahmed	Parliamentary Affairs

MINISTERS OF STATE

Name	Portfolio
Mr. Mohsin Shah Nawaz Ranjha	Parliamentary Affairs
Tariq Fazal Chudhary	Capital Administration and Development
Haji Muhammad Akram Ansari	Commerce and Textile
Mr. Muhammad Junaid Anwaar Chaudhary	Communications
Mr. Usman Ibrahim	Human Rights
Sardar Muhammad Arshad Khan Laghari	Industries and Production
Ms. Marriyum Aurangzeb	Information and Broadcasting
Mrs. Anusha Rahman Ahmad Khan	Information Technology and Telecommunications
Dr. Darshan	Inter-Provincial Coordination
Mr. Muhammad Tallal Chaudry	Interior
Syed Ayaz Ali Shah Sheerazi	National Food Security and Research

Mr. Abdul Rehman Khan Kanju	Overseas Pakistanis and Human Resource Development
Jam Kamal Khan	Petroleum
Ch. Jaffar Iqbal	Maritime Affairs
Mr. Abid Sher Ali	Power
Pir Muhammad Amin Ul Hasnat Shah	Religious Affairs and Inter-faith Harmony
Mir Dostain Khan Domki	Science and Technology
Mr. Ghalib Khan	States and Frontier Regions

ADVISERS TO THE PRIME MINISTER

Name	Portfolio
Sardar Mehtab Ahmed Khan	Adviser on Aviation with the Status of Federal Minister
Jam Mashooq Ali	Adviser on IRSA Affairs with the status of Federal Minister
Mr. Irfan Siddiqui	Adviser on National History and Literary Heritage Division with the Status of Federal Minister
Eng. Amir Muqam	Adviser on Political Affairs with the Status of Federal Minister

SPECIAL ASSISTANTS TO THE PRIME MINISTER

Name	Portfolio
Mr. Miftah Ismail	Special Assistant to the Prime Minister on Economic Affairs with the status of Minister of State
Kh. Zaheer Ahmed	Special Assistant to the Prime Minister on Institutional Reforms with the status of Minister of State
Mr. Zafarullah Khan, Barrister-at-Law	Special Assistant to the Prime Minister on Law with the status of Minister of State
Dr. Musadik Malik	Special Assistant to the Prime Minister on Media Affairs with the status of Minister of State
Dr. Syed Asif Saeed Kirmani	Special Assistant to the Prime Minister on Political Affairs with the status of Minister of State
Mr. Haroon Khan	Special Assistant to the Prime Minister on Revenue with the status of Minister of State
Mr. Nasir Iqbal Bosal	Special Assistant to the Prime Minister on National Food Security and Research with the status of Minister of State
Mr. Ali J. Siddiqui	Special Assistant to the Prime Minister 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 vacancy in the Senate – that is 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 was re-established in 2015. 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 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 promoting Pakistan as a dynamic, progressive, moderate and democratic Islamic country; safeguarding the country's security and geo-strategic interests, including Kashmir; commercial and economic cooperation; safeguarding the interests of Pakistani diaspora; ensuring optimal utilisation of national resources for regional and international cooperation; 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. (and its funds and programmes, including UNDP, UNFPA, UNICEF, and UNEP), the IMF, the World Bank, World Intellectual Property Organisation (**WIPO**), World Health Organisation (**WHO**), International Labour Organisation (**ILO**), International Telecommunication Union (**ITU**), Universal Postal Union (**UPU**), International Maritime Organisation (**IMO**), International Civil Aviation Organisation (**ICAO**) and UN related agencies such as the World Trade Organisation (**WTO**), and the International Atomic Energy Agency (**IAEA**). Pakistan also is a member of the Organisation of the Islamic Cooperation (**OIC**), the Non-Aligned Movement, the Commonwealth, 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 (**SAARC**), which includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka, with China and Japan participating as observers. Pakistan was due to host the 19th summit of SAARC in Islamabad in November 2016, however, this was postponed and then later cancelled. 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 hosted the Central Asia Regional Economic Cooperation Ministerial Conference in Islamabad in October 2016 followed by an ECO Summit in Islamabad on 1 March 2017.

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. The 9th D8 Summit was held in Istanbul on 20 October 2017 during which Pakistan handed over its chairmanship of the organisation to Turkey. The 9th summit adopted an Action Plan aimed at strengthening economic cooperation between its members.

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 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.

Given Pakistan's growing prominent role in the region, the Shanghai Cooperation Organisation (**SCO**), comprised of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, extended observer status to Pakistan in July 2005. Pakistan's application for full membership with the Organization was granted on 9 June 2017 at the SCO's session in Astana, Kazakhstan.

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 countries with 6,269 Pakistani troops (in September 2017), military experts and police deployed around the world in nine U.N. peacekeeping missions.

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

- ***Relations with the United States (U.S.).*** Pakistan's relations with the U.S. constitute an important element of its foreign policy. This relationship, spanning almost seven decades, is robust and wide ranging. Despite occasional challenges in their bilateral ties due to concerns regarding geopolitical and security issues, Pakistan and the U.S. have generally managed to maintain a pragmatic and working relationship with each other.

  The Pakistan-U.S. Strategic Dialogue mechanism was established in 2006. Six sessions of the Strategic Dialogue have been held so far. The 6th Ministerial Review of the Pakistan-U.S. Strategic Dialogue, co-chaired by the then Adviser to the Prime Minister on Foreign Affairs Sartaj Aziz and the then Secretary of State John Kerry, was held in the State Department in Washington D.C, on 29 February 2016. Since then, the dialogue remains dormant. In October 2017 Pakistan's Foreign Minister Khawaja

Muhammad Asif and U.S. Secretary of State Rex Tillerson met to discuss mutual relations and their countries' strategy in relation to Afghanistan.

The U.S. is Pakistan's second largest export market, after the EU, accounting for 16.8 per cent. of total exports, primarily textiles and apparel in 2016-17. In 2016-17, the total trade between Pakistan and the U.S. amounted to U.S.$5.785 billion. Pakistan enjoyed a trade surplus with the U.S. during this period. Pakistan's exports amounted to U.S.$3.68 billion while the imports from the U.S. stood at U.S.$2.1 billion.

The U.S. is a major foreign investor in Pakistan. However, foreign direct investment from the U.S. has been decreasing in recent years (See "*Balance of payments and foreign trade –Foreign Direct Investment*"). U.S. foreign direct investment is primarily focused on the food and beverages, chemicals, financial business, oil and gas exploration, cement, construction, communication and electronic sectors of Pakistan.

Energy is another key area of cooperation between Pakistan and the U.S. A document titled "U.S. and Pakistan Energy Cooperation Strategy: Priorities Through 2020 for the U.S.-Pakistan Clean Energy Partnership" was agreed at the Pakistan-U.S. Energy Working Group meeting held in Washington on 30 March 2016. The document reaffirms commitment of both countries to advance the goals of the US-Pakistan Clean Energy Partnership.

Cooperation between Pakistan and the U.S. in the field of education, science and technology is an important element in shifting the current security-centric focus of this relationship to a multidimensional partnership between the two countries. Following the 5th Ministerial review of the Pakistan-US Strategic Dialogue in 2015, a new Working Group on Education, Science and Technology was established on Pakistan's initiative.

Subsequently, the Pakistan-U.S. Knowledge Corridor was formally launched during the then Prime Minister's visit to the U.S. in October 2015. The Knowledge Corridor aims at creating an opportunity for 10,000 scholars to complete their PhD programmes through different universities in the U.S. over the next 10 years. In addition, the proposal envisages the development of 15 new science and technology universities in Pakistan modelled on selected universities in the United States. Under a memorandum of understanding signed on February 2016 between the Higher Education Commission of Pakistan and the U.S. Education Foundation in Pakistan, Pakistan will fund up to 125 additional Pakistani PhD scholars in the United States under the Fulbright Program.

On 11 February 2016, the U.S. government proposed U.S.$860 million in aid for Pakistan during the 2016-17 fiscal year, including U.S.$255 million for military hardware in addition to counterinsurgency funds. In August 2017, the U.S. administration notified Congress that it was putting this U.S.$255 million into an escrow account that Pakistan can only access if it does more to crack down on internal terror networks. In the same month, the U.S. administration under Donald Trump accused Pakistan of sheltering terrorists that the United States is fighting. However, in the same speech, President Trump recognized the contribution and sacrifices of the Pakistani people in fighting the two countries' common enemies.

In October 2017, U.S. Defence Secretary James Mattis stated that CPEC projects in Pakistani controlled Kashmir were in "disputed" territory. In response, Pakistan's Interior Minister Ahsan Iqbal urged the U.S. not to approach CPEC from India's perspective.

U.S. Secretary of State Rex Tillerson visited Islamabad on 24 October 2017 and held talks with Prime Minister Shahid Khaqan Abbassi. During the meeting, the two sides agreed to build upon the understandings reached in the dialogue process and to continue the pace and scope of high level engagements in future.

- ***Relations with China.*** Pakistan continues to enjoy close and stable relations with China, with increasingly strong economic relations in recent years. 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.$12.196 billion in 2015-16, 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.

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. The two countries have been negotiating the second phase of the CPFTA since 2011 and seven meetings have been held for this purpose.

In July 2013, during the then Prime Minister Mian Muhammad Nawaz Sharif's first official visit to China, the countries signed a memorandum of understanding on the CPEC. The aim of CPEC is to enhance trade, investment, regional integration and connectivity between Pakistan and China by investing in infrastructure and has already resulted in significant progress (see "*Overview of Pakistan's Economy* - *China-Pakistan Economic Corridor (CPEC)*").

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.$16 billion. In total, China has pledged to spend U.S.$57 billion on infrastructure projects in Pakistan as part of its "Belt and Road" initiative.

President Xi Jinping visited Pakistan in April 2015. During his visit, over fifty Agreements and memoranda of understanding relating to key development projects in infrastructure, energy and communication sectors under CPEC were signed.

Chinese President Xi Jinping and President Mamnoon Hussain met in September 2015 and announced further political, economic and security cooperation between their countries in particular in relation to CPEC and in tackling the Uighur militant group, the East Turkestan Islamic Movement. Former Prime Minister Mian Muhammad Nawaz Sharif, led a high level delegation of four Chief Ministers and several Federal Ministers participated in the "Belt and Road Forum for International Cooperation" in May 2017 in Beijing. Chinese President Xi Jinping and the then Prime Minister Mian Muhammad Nawaz Sharif also subsequently met in Astana in June 2017.

- ***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 internationally recognised disputed area of Jammu and Kashmir. The U.N. Security Council has passed several 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*". Consistent with the Prime Minister's vision of a peaceful and friendly neighbourhood, Pakistan is pursuing a policy of good relations with all countries in the region, including India. Pakistan wants diplomatic resolution of all outstanding issues with India, including the Jammu and Kashmir dispute. However, the situation remains challenging, despite periodic improvements, and the Jammu and Kashmir dispute remains an on-going source of tension and occasional violent conflict between the two countries.

The Foreign Secretaries of India and Pakistan agreed to resume bilateral engagement during the Indian External Affairs Minister's visit to Islamabad in December 2015 for the "Heart of Asia Conference" but the planned bilateral dialogue did not take place.

The two Foreign Secretaries' meeting scheduled for mid-January 2016 was unilaterally postponed by India due to a terrorist attack on the Indian Pathankot Air Force Station that occurred at the beginning of that month. Pakistan condemned the Pathankot attack, extended its condolences and has been cooperating with the Indian side to investigate the attack.

Pakistan conveyed its concerns to the Indian Government and the international community in 2016 over what it views as the involvement of Indian intelligence agencies in subversive and terrorist activities within Pakistan. Pakistan's law enforcement agencies apprehended Mr. Kulbhushan Yadav on 3 March 2016 on charges of involvement in various subversive activities to destabilise law and order in Balochistan and Karachi. Mr. Kulbhushan Yadav has since been convicted by a military court of operating illegally in Balochistan and has been sentenced to death. The Indian Government has initiated proceedings in the International Court of Justice at the Hague in relation to their claim that Pakistan denied consular access to Mr. Kulbhushan Yadav. Pakistan has invited the wife of Mr. Kulbhushan Yadav to meet him in jail on humanitarian grounds.

Pakistan has strongly and publically condemned the use of force by Indian armed forces in Indian occupied Jammu and Kashmir which, since July 2016, has resulted in over 200 civilian deaths and 20,000 injuries. More than 150 people, including children, have become permanently blind due to the indiscriminate use of pellet guns by the Indian forces.

- ***Relations with the United Kingdom (the U.K.).*** 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 third largest investment partner in the EU, as well as hosting a Pakistani diaspora of approximately 1.4 million. The volume of trade between the two countries was U.S.$2.4 billion in 2016.

The U.K. Department for International Development (**DFID**) initiated an Operational Plan 2011-2015, pursuant to which assistance of almost GBP1.4 billion was disbursed over four years, making Pakistan the largest recipient country of the U.K. development assistance. An agreement has been reached in principle between the two countries on a new development programme for Pakistan.

Former U.K. Prime Minister David Cameron was the first head of government to visit Pakistan following the May 2013 elections. During the visit, the two sides reiterated their shared commitment to enhancing trade. During this visit, a new roadmap on security was also concluded and existing roadmaps on culture and education, and on trade and investment, were revised and concluded.

Former Prime Minister Mian Muhammad Nawaz Sharif visited London on 22-25 September 2015 and met the then U.K. Prime Minister David Cameron. The two leaders again discussed ways to further strengthen cooperation in various areas of mutual interest.

The then Prime Minister Mian Muhammad Nawaz Sharif also met the British Prime Minister Theresa May in New York at the UN General Assembly session in New York in September 2016.

The Third Ministerial Review of the Pakistan-U.K. Enhanced Strategic Dialogue was carried out by the then Adviser to the Prime Minister on Foreign Affairs, Mr. Sartaj Aziz, and the then British Foreign Secretary Philip Hammond in London on 18-20 April 2016, during which the two sides reviewed progress in the areas of trade, development, culture and security. The two sides agreed on three new roadmaps on Trade and Investment, Culture and Education and Security as well as to establish Pakistan-U.K. Business Council and Cultural Forum and to set up British Business Centres in Lahore and Islamabad to facilitate business links between the two sides. The next Ministerial-level review of the Enhanced Strategic Dialogue is scheduled to be held in 2018.

With over 100 British companies operating in Pakistan, the U.K. is the third largest source of investment in Pakistan within the EU and sixth largest in the world. Investments from the U.K. were U.S.$2.92 billion in aggregate over the last ten years with key sectors for investment being financial services, oil and gas exploration, petroleum refining, electricity generation, pharmaceutical, publishing, industrial chemicals and cement. Net foreign direct investment from the U.K. amounted to U.S.$68.9 million in 2016-17.

- ***Relations with Afghanistan.*** Relations with Afghanistan have improved since the new Government took office in Afghanistan in September 2014. The then Prime Minister Mian Muhammad Nawaz Sharif visited Kabul on 12 May 2015 for meetings with the Afghan President. The Pakistani Adviser to the Prime Minister on National Security and Foreign Affairs visited Kabul on 4 September 2015 to participate in Sixth Regional Economic Cooperation Conference on Afghanistan. President Ashraf Ghani visited Islamabad on 9 December 2015 to jointly inaugurate the Fifth Ministerial Conference of Heart of Asia. During side meetings at the Heart of Asia Conference, the parties held discussions in relation to the establishment of a Quadrilateral Coordination Group (**QCG**) comprising Afghanistan, Pakistan, China and the U.S. for the resumption of peace talks. The QCG has held one meeting in 2017 and a total of six meetings to date.

  During his visit to Kabul in November 2013, the then Prime Minister announced increased Pakistan's bilateral assistance from U.S.$385 million to U.S.$500 million for reconstruction and rehabilitation in Afghanistan with a focus on health, education, infrastructure, training and capacity-building. Pakistan is also providing 3,000 fully-funded scholarships to Afghan students. Pakistan has pledged U.S.$2 million for the Afghan students to pursue business management degrees at the Lahore University of Management Sciences. 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 TAPI, CASA 1000.

  At present, there are 1.5 million Afghan refugees and around one million undocumented Afghans in Pakistan. The permission to stay in Pakistan expired for registered refugees on 30 June 2016, but this has now been extended to 31 December 2017. Pakistan has requested that the Afghan Government provide passports or travel documents to undocumented Afghans by 15 November 2016 for their return to Afghanistan. Former Prime Minister Mian Muhammad Nawaz Sharif stated whilst in office that Afghan refugees will not be repatriated forcibly and they should return to Afghanistan of their own volition. The Government has set out a plan of action for expediting the repatriation of refugees and has requested that the Afghan government creates incentives for refugees to return including by setting up temporary settlements for returnees. Pakistan has offered to deliver wheat through World Food Programme to such settlements in Afghanistan for a three year period.

  The porous border between the two countries remains a major challenge in controlling immigration and a frontier in the fight against extremism (discussed below), particularly given Pakistan’s significant efforts in this area. From 1 June 2016 the Government has been documenting the entry and exit of Afghan nationals at the border crossing at Torkham to manage the border more effectively and to minimise the risk of unsavoury elements crossing the border. Presently, more than 200,000 Pakistani troops are deployed along the border.

  In a meeting between the Pakistani Adviser to the Prime Minister on National Security and Foreign Affairs and the Afghan Foreign Minister at the SCO Summit in Tashkent on 23 June 2016, the two sides established a mechanism for consultations to be co-chaired by the Adviser and Foreign Minister with the participation of national security advisers. It is hoped that this mechanism for consultation will provide for more effective coordination on issues relating to bilateral relations and cooperation, including security, movement of people and vehicles between the two countries. It was agreed that the mechanism will have a joint technical working group headed by the two countries' respective Director Generals of Military Operations. The first meeting of the group was held on 26 July 2016 to discuss border management related issues.

- ***Relations with Iran.*** Pakistan and Iran enjoy close and cordial relations based on historic ties, shared faith and culture, as well as trade. The two countries are also founding members, together with Turkey, of the Economic Cooperation Organization, founded to improve development and promote trade and investment opportunities between its Central Asian members. The Government is committed to strengthening economic ties with Iran, in particular by growing the trade volume between the two countries. During a visit of the Prime Minister to Iran in 2014, he agreed with President Rouhani to target a trade volume of U.S.$5 billion over the five years to 2019. After the imposition of financial sanctions on Iran, bilateral trade declined considerably, from over U.S.$1 billion in 2009-10 to U.S.$30 million in 2016-17. Major exports to Iran include rice, meat, paper and paper board, chemicals, textiles, fruits and vegetables, while major import items from Iran include iron ore and hides and skins.

  After the IAEA confirmed that Iran had met the relevant requirements under the Joint Comprehensive Plan of Action agreed with Iran in July 2015, all nuclear sanctions were lifted by the UN, the EU and the United States on 16 January 2016. This removed a major impediment to trade between Iran and Pakistan, including the current lack of credible banking channels. A letter of intent to establish banking channels was signed between the State Bank of Pakistan and the Central Bank of Iran during President Rouhani's visit to Pakistan in March 2016. Subsequently, in April 2017, the two central banks signed a banking and payments arrangement which is intended to establish banking channels in the future. One reason for a lack of progress in this regard is the ambiguity regarding the extent to which sanctions have in fact been lifted.

  The Iran-Pakistan Gas Pipeline project, which had been stalled since sanctions were implemented. See below – "*Iran-Pakistan Gas Pipeline Project*".

  Currently, only one electricity project is successfully running between the two countries under which Pakistan is importing 74 MW per day from Iran (70 MW for the town of Mand and 2 MW each for the towns of Taftan and Mashkhail in the Makran Division in Balochistan, Pakistan). In February 2015, it was agreed that starting from January 2016, an additional 30 MW of electricity would be provided on the Jakigur-Mand line after improvements to the current infrastructure.

- ***Relations with Turkey.*** Pakistan and Turkey enjoy close relations. The Government accords special attention to strengthening economic ties with Turkey. In March 2016, the framework agreement for a comprehensive bilateral free trade agreement (**FTA**) was signed. It is expected that the FTA will be concluded shortly and Prime Minister Shahid Khaqan Abbasi and Turkish President Recep Tayyip Erdogan met on the sidelines of the 72nd U.N. General Assembly Session in New York where they agreed to work together to achieve this. In 2016-17, bilateral trade was U.S.$554 million with Pakistani exports of U.S.$249 million and imports of U.S.$305 million. Pakistan's main exports to Turkey are cotton, cotton-yarn, textiles, leather, beverages, plastic products, carpets, knitted and non-knitted goods and miscellaneous products. Pakistan's main imports include boilers, electrical machinery, dairy products and edible preparations. The early conclusion and implementation of the FTA would significantly contribute towards enhancing bilateral trade.

  Pakistan has intensified efforts to attract Turkish investment in priority areas such as energy, food, infrastructure and communications. Various Turkish companies participated in a Pakistan Investment Conference organised by the Board of Investment in November 2015 in Islamabad. Leading private sector Turkish companies that have invested in Pakistan include Koç Group, Gama Holding, Nurol Group, IC Holding, LIMAK Holding, STFA, TAV Airports Holding, Albayrak Group, Zorlu Energi, ATA Holding and Ciner Group. These companies have appreciated the business friendly policies adopted by the Government. Koç Group acquired Pakistan's leading home appliance brand, Dawlance, for U.S.$258 million in 2016.

Turkish investment and support has also been obtained for the Islamabad- Rawalpindi Metro bus project and various solid waste management and wind turbine projects.

- ***Relations with Saudi Arabia and other GCC members.*** Pakistan has strong bilateral relations with various GCC countries spanning trade, investment, financial support and military cooperation. The United Arab Emirates is one of the largest trading partners of Pakistan. Pakistan and Saudi Arabia enjoy special relations, grounded in common faith and history. There are regular exchanges at senior government levels.

On 23 August 2017, Prime Minister Mr. Shahid Khaqan Abbasi paid his maiden official visit to Saudi Arabia, during the course of which he held a meeting with HRH Prince Mohammad bin Salman, Crown Prince of Saudi Arabia. During the meeting, the two leaders discussed mutual interests and agreed to further strengthen the bilateral cooperation.

On 10 January 2016, HRH Prince Mohammad bin Salman, the then Deputy Crown Prince and Minister of Defence visited Pakistan and met with the then Prime Minister and Chief of Army Staff. He also visited Pakistan on 28 August 2016 as the first destination in his Asian tour. During discussions, both countries agreed to further enhance the bilateral ties between them and to strengthen their cooperation in diverse fields.

There are structured institutional mechanisms agreed between the countries to review and upgrade bilateral cooperation. For instance, the 10th Session of joint ministerial commission was held in Riyadh on 15-16 April 2014. The 11th Session is scheduled to be held from 28-30 November 2017 in Islamabad.

Political consultations were held between the two countries on 7 January 2016, on the occasion of Saudi Foreign Minister Dr Adel Al Jubeir's visit to Pakistan. He met with the Prime Minister, Chief of Army Staff and the then Advisor to Prime Minister on Foreign Affairs, Mr. Sartaj Aziz.

Saudi Arabia has provided crucial financial support to Pakistan on numerous occasions, particularly during times of economic crises in Pakistan. Pakistan, in turn, has provided Saudi Arabia with defence and security support. Defence cooperation between Pakistan and Saudi Arabia is robust. The two sides regularly hold meetings of a joint military cooperation committee and a military cooperation committee.

Saudi Arabia is home to approximately 2.6 million Pakistani expatriates, the largest number of Pakistani expatriates in the world. Saudi-based Pakistanis are a substantial source of the foreign remittances, accounting for U.S.$5.47 billion, being 28 per cent of the total received by Pakistan, in 2016-17. 20 per cent of Saudi-based Pakistanis are highly skilled, or skilled while the remaining 80 per cent comprise semi-skilled and unskilled manpower. Together, they comprise 16 per cent of the total foreign labour force working in Saudi Arabia.

Relations with Russia. Pakistan attaches great importance to its relations with the Russian Federation. Pakistan seeks a long-term and broad-based partnership with Russia, especially in the areas of trade, energy, defence, security, space, peaceful use of nuclear energy, culture and education. A strong partnership between Pakistan and Russia would contribute towards promoting peace, stability and intergovernmental cooperation in the South, Central and West Asian region. Russia is also keen to expand its relations with Pakistan since it considers that close cooperation between Pakistan and Russia would not only be beneficial for the two countries but would also help in building stability and prosperity in the region. Russia provided consistent support to Pakistan for its membership of the Shanghai Cooperation Organisation.

Pakistan's relations with Russia are on an upward trajectory. Both countries have been able to develop mutual understanding on important political and security issues, paving the way for increased cooperation in diverse areas. One of the most important areas of cooperation is the energy sector. Both countries agree that there is considerable scope for cooperation in this area since Pakistan has a very large-scale programme to address its energy requirements and Russian companies are keen to participate in it. Russia is investing in Pakistan and the two countries concluded an agreement in 2015 in relation to the financing and construction of a north-south LNG-import pipeline from Karachi to Lahore (see "*-Energy in Pakistan -LNG*" below). An inter-Governmental agreement on the supply of LNG from Russia to Pakistan was signed on 13 October 2017.

Pakistan and Russia's defence cooperation continues to strengthen. The two countries signed a defence cooperation agreement in 2014 and have since held joint military exercises: "Friendship 2016" in Pakistan in September 2016 and "Friendship 2017" in Russia in 2017. These exercises are a manifestation of the parties' mutual desire to broaden their defence ties.

Nuclear Programme

On 11 and 13 May 1998, India carried out nuclear weapons tests. In response, Pakistan carried out nuclear tests on 28 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. Pakistan has also established 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 plant by 2030.

Fight Against Extremism

Pakistan's economy is negatively affected by the fight against extremism, which has had a significant negative effect on Pakistan's domestic security situation, particularly over the past 15 years. Since 2003, the fight against extremism in Pakistan has cost Pakistan over 62,500 lives, including those of security personnel, caused damage to 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 damage to physical infrastructure, 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 in its final phase and the rate of terrorist activity has declined.

In addition to terrorist attacks, Pakistan also faces attacks from insurgents who want greater autonomy in Balochistan.

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 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. In May 2015, gunmen attacked buses in Karachi and Mastung. In March 2016, many people lost lives in a suicide attack on a public park in

Lahore. In February 2017, the crowded Sufi shrine of Lal Shahbaz Qalander in Sindh was attacked. Back to back explosions in the Turi Bazaar area of Parachinar in June 2017 caused substantial loss of life. 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 by the SBP and Federal Investigation Authority to restrict terrorist funding. 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, the then Prime Minister Mian Muhammad Nawaz Sharif promised to take action against *Lashkar-e-Taiba* (the South Asian terrorist organisation) 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 alleged leader of the attacks, Zaki-ur-Rehman Lakhavi, won an appeal against his detention in December 2014 and was released from jail on bail on 10 April 2015. Another suspect, Sufayan Zafar, was released on bail in July 2017 as a result of lack of evidence against him. Six suspects remain in custody. The case against them is currently suspended as India has yet to decide whether to send 24 witnesses to Pakistan to record their statements. In addition, in September 2016, Zaki-ur Rehman Lakhvi and the six suspects held in custody challenged the legality of a Pakistani judicial commission that travelled to India in 2013 to probe the 2008 attack. This challenge could cause further delay to proceedings.

It is estimated that the total cost to Pakistan of the fight against extremism during the last 16 years amounted to U.S.$123.13 billion, equivalent to Rupees 10,373.93 billion. Annual costs have decreased sharply from Rupees 2,037.33 billion in 2010-11 as a result of the improving security situation over the last four years. Estimated annual losses for the past five years are as follows:

	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17***
			(Rupees billion)		
Estimated losses………………………….	964.24	791.52	936.30	675.76	407.21

* Estimate based on July - March data.

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, which allowed the Government to publish lists of organisations or individuals who are suspected to be involved 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 involved in terrorist activities, the amendments set out the various measures that may be taken against them by the Government; 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**) that 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 NISP, NAP and the operations of *Zarb-e-Azab* and *Radd-ul-Fasad*, there has been a significant reduction in the number of terrorist incidents reported in the country, as the following table from the National Counter Terrorism Agency of Pakistan demonstrates:

TERRORIST INCIDENTS

Year	**No. of incidents**
2013	1,571
2014	1,816
2015	1,139
2016	785
2017[(1)]	489

[(1)] Year to 9 September 2017.

The National Counter Terrorism Agency figures indicate that the total number of terrorist attacks in Pakistan decreased by 27 per cent in 2016 year-on-year and the total number of deaths decreased by 12 per cent over the same period. Similarly, the Global Terrorism Index, 2017 acknowledges Pakistan's record decrease in terrorist activities in 2016, with fewer attacks and 12 per cent fewer deaths reported than in the previous year.

The significant reduction in terrorist incidents demonstrates the success of Pakistan's armed forces in the fight against extremism. The improvement in the security situation is having a healthy impact on GDP growth as a result of increased investment in the productive sectors of the economy.

OVERVIEW OF PAKISTAN'S ECONOMY

According to World Bank's World Development Indicators database, in 2016, Pakistan's economy was the twenty-fourth largest in the world in terms of purchasing power parity and the fortieth largest in terms of nominal GDP. Pakistan is a rapidly developing country and is one of the "Next Eleven" countries that have the potential to become significant world economies as reported in the 2005 paper by Goldman Sachs. In PwC's February 2015 report "The World in 2050: Will the shift in global & economic power continue?", Pakistan is projected to become the 15^{th} largest economy by 2050.

Pakistan's economy is semi-industrialised, with centres of growth along the Indus River, in Karachi and in major urban centres in the Punjab. Major industries include textiles, chemicals, food processing, iron, steel, automobiles, fertilisers, cement, dairy and sports goods.

Under its current Government, elected in May 2013, Pakistan commenced a process of fiscal consolidation and economic liberalisation, which includes tax reforms, energy sector reforms and the privatisation of SOEs. Pakistan aims to attract increased levels of foreign investment and decrease the budget deficit.

The Government's 2014 to 2016 finance programme with the IMF provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. This entitled Pakistan to the release of the residual SDR 73 million (U.S.$102.1 million) as agreed by an IMF executive board meeting held at the end of September 2016. With the release of the last tranche, total disbursements under the arrangement amounted to SDR 4.39 billion (approximately U.S.$6.15 billion) to be repaid by 2026. Pakistan has continued working with the IMF following the completion of the programme, with the most recent Article IV consultation report released in July 2017. The next scheduled meetings with the IMF are expected in December 2017.

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

Pakistan's economy has three principal sectors: services (59.6 per cent of GDP in 2016-17), industrial (20.9 per cent of GDP in 2016-17) and agricultural (19.5 per cent of GDP in 2016-17).

Pakistan's principal export destinations are the United States, China, the United Kingdom, the United Arab Emirates, Afghanistan, Germany and Spain. In 2016-17, Pakistan's exports were U.S.$21.9 billion, principally in the form of textiles, rice, leather, chemicals, carpets, steel, foodstuffs, fertilisers, sugar, animals, electrical equipment, petroleum and sports goods. Pakistan's principal imports are from China, Saudi Arabia, the United Arab Emirates and Kuwait. In 2016-17, Pakistan's imports were U.S.$48.5 billion, principally in the form of petroleum, petroleum products, machinery, plastics, raw cotton, 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 that 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 decreased sharply.

A measure of macroeconomic improvement has been achieved in recent years. GDP growth was 5.28 per cent in 2016-17, 4.51 per cent in 2015-16, 4.06 per cent in 2014-15, 4.05 per cent in 2013-14 and 3.68 per cent in 2012-13. The increased growth of GDP in 2016-17 reflects a general improvement in the economic activities of the country. In 2016-17, the services sector grew at 5.98 per cent (5.55 per cent in 2015-16), the agricultural sector grew at 3.46 per cent (0.27 per cent in 2015-16) and the industrial sector grew at 5.02 per cent (5.80 per cent in 2015-16).

This growth has been achieved in an environment of lower inflation and with a significantly lower fiscal deficit, with inflation decreasing from 11 per cent in 2011-12 to 4.16 per cent in 2016-17 and the fiscal deficit shrinking from 8.2 per cent in 2012-13 to 5.8 per cent in 2016-17.

Major Economic Indicators

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

	2012-13	**2013-14**	**2014-15**	**2015-16[(1)]**	**2016-17[(2)]**
GDP at current market price (*Rupees million*)..............................	22,385,657	25,168,805	27,443,022	29,102,630	31,862,167
GNI at current market price (*Rupees million*)..............................	23,547,264	26,597,032	29,117,833	30,886,748	33,634,411
Per capita income at factor cost market prices (*Rupees*)..................	129,005	142,849	153,357	159,572	170,508
Per capita income (*U.S.$*)...............	1,334	1,389	1,514	1,531	1,629
Exports (*U.S.$ million*) (fob)............	24,802	25,078	24,090	21,972	21,938
Imports (*U.S.$ million*)(fob).............	40,157	41,668	41,357	41,255	48,506
Balance of trade (*U.S.$ million*)	(15,355)	(16,590)	(17,267)	(19,283)	(26,568)
Workers' remittances (*U.S.$ million*)..	13,922	15,838	18,720	19,917	19,304
Current account balance (*U.S.$ million*)..	(2,496)	(3,130)	(2,795)	(4,867)	(12,439)
Current account balance (*as % of GDP*)	(1.1)	(1.3)	(1.0)	(1.7)	(4.1)
Overall fiscal deficit (*as % of GDP*)	8.2	5.5	5.3	4.6	5.8
GDP growth at factor cost basic prices (%)	3.68	4.05	4.06	4.51	5.28
Average Inflation (%)	7.4	8.6	4.5	2.9	4.2
Total investment at market price (*as % of GDP*)	15.0	14.6	15.7	15.6	15.8
Real GDP at factor cost basic prices (*Rupees million*)	9,819,055	10,217,056	10,631,649	11,110,663	11,696,961

	2012-13	2013-14	2014-15	2015-16[1]	2016-17[2]
Private consumption expenditure at current prices (*Rupees million*)....	18,091,829	20,391,214	21,890,279	23,285,749	26,075,280
National savings (*as % of GDP*)......	13.9	13.4	14.7	14.3	13.1

(1) Revised
(2) Provisional pending National Assembly approval in May 2018 of Pakistan's economic data for 2016-17, except where otherwise indicated.

Source: Ministry of Finance, except for "Exports", "Imports", "Balance of trade", "Workers' remittances" and "Current account balance" for which the source is the State Bank of Pakistan.

Economic Policy Objectives

The current Government, 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 2014 to 2016 finance programme with the IMF provided an institutional framework for the Government's economic policy objectives. Pursuant to its financing arrangements with the IMF, Pakistan was subject to quarterly economic review by the IMF officials for consideration by the executive board of the IMF. On 4 August 2016, IMF staff completed the twelfth and final review of Pakistan's economic performance. Total disbursements to Pakistan under the IMF programme were SDR 4.39 billion (approximately U.S.$6.15 billion) to be repaid by 2026. Pakistan has continued working with the IMF following the completion of the programme, with the most recent Article IV consultation report released in July 2017. The next scheduled meetings with the IMF are expected in December 2017.

The Government's broad economic programme has been supplemented by a series of wide-ranging structural reform measures, which are designed 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, trade reform and privatisation and restructuring of SOEs, including 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:

- ***GDP Growth.*** Real GDP growth was 5.28 per cent for 2016-17 (4.51 per cent in 2015-16), and is forecast at 6.00 per cent for 2017-18. This has been driven by a general increase in economic activity across the industrial and service sectors, as well as a strong rebound in the agricultural sector following modest growth in 2015-16 due to extreme weather conditions and pests.

- ***Inflation.*** The Government's target for inflation in 2016-17 was 6.0 per cent and actual inflation was 4.2 per cent (2.86 per cent in 2015-16). The inflation target for 2017-18 remains at 6.0 per cent, and the Government expects that it will remain below the target. The uptick in inflation is due to a global revival of international commodity and oil prices, along with a rise in domestic demand due to an increase in economic activities.

- ***Fiscal Deficit.*** The fiscal deficit for 2016-17 was 5.8 per cent of GDP, an increase on 4.6 per cent in 2015-16 and 5.3 per cent of GDP in 2014-15. The Government's fiscal deficit target for 2017-18 is 4.1 per cent of GDP, based on its policy of improving revenue collections, tax reform measures, rationalising electricity subsidies and other measures described below. The fiscal deficit for the first quarter of 2017-18 maintained at 0.1 per cent lower than the same period in 2016-17. As at 30 June 2017, the Government has eliminated tax exemptions and loopholes worth Rupees 350 billion in total that had been created through Statutory Regulation Orders (**SROs**) implemented by Pakistan's former government.

- ***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. However, after several years of increases, foreign exchange reserves have fallen since 31 October 2016 in the context of increase in current account deficit caused by sharp increase in import of machinery, raw materials and fuels at a time when the economy is in an expansionary mode.

- ***Debt.*** Pakistan's external debt was approximately 20.6 per cent of GDP at the end of June 2017 and is predicted by the Government to remain on a downward trend 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 shortages in supply 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. However, growth has improved in recent years. Real GDP growth averaged 2.8 per cent from 2008-09 to 2012-13 and began to revive in 2013-14 and 2014-15 when GDP growth increased to 4.05 per cent and 4.06 per cent, respectively, increasing further to 4.51 per cent growth in 2015-2016 and reaching 5.28 per cent in 2016-17.

The Government implemented various structural reforms aimed at reinvigorating the economy, along with maintaining price stability, creating job opportunities for youth, the development of infrastructure projects and increased exports and tax collection, as well as seeking to reduce both the fiscal and current account deficits. See "*Overview of Pakistan's Economy − Structural Economic Reforms*".

The Government has taken measures to improve the GDP growth in the industrial and agricultural sectors, 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 "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Financial Services*" and "*Overview of Pakistan's Economy – Principal Sectors of the Economy – Financial Sector Regulation*".

Despite these improvements, Pakistan's growth has been constrained by efforts to combat extremism in the country.

Poverty Reduction. During 2016-17, Rupees 3,027.7 billion, 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. This is an increase in social sector spending from Rupees 1,913 billion during 2012-13.

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, rising fuel and food prices, the financial crisis and the effect of inflation on the poor, particularly women, through provision of a quarterly cash grant to eligible families. The quarterly cash grant has been gradually enhanced by the Government from Rupees 3,000 per beneficiary in 2013-14 to Rupees 4,834 per beneficiary in 2016-17. BISP is the largest single cash transfer programme in Pakistan's history and the number of beneficiaries has increased from 1.7 million in 2009 to approximately 5.42 million at the end of March 2017. BISP's annual disbursement increased from Rupees 16 billion in 2009 to Rupees 115 billion in 2016-17. As at the end of June 2017, BISP transferred Rupees 538 billion in cash transfers since its inception. In addition, the Government supports primary school enrolment and provides quarterly cash grants of Rupees 750 per child. From 2008 and until the end of June 2017, a total of Rupees 4.96 billion in cash grants was disbursed against an enrolment of 1.7 million children into primary schools.

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 former *Waseela-e-Haq* initiative, Rupees 2.2 billion had been disbursed to 13,445 beneficiaries from 2008 to 2013. Under other BISP initiatives, 58,528 individuals from BISP beneficiary families have been provided vocational and technical training and over 4.1 million families have received three years of life and health insurance for income earners. The *Waseela-e-Haq* initiative was discontinued as at December 2013.

BISP is now collaborating with other social and productive organisations on microfinance and skills training. Under these initiatives more than 181,088 beneficiaries and their family members were provided with microfinance interest free loans and around 17,107 beneficiaries or their family members were given skills training. Home made products of BISP beneficiaries have raised Rupees 1,500,000 in revenue through online sales, directly benefitting the poor families.

In 2016-17, the total budget allocation for BISP was Rupees 115 billion, a significant increase from Rupees 93 billion in 2014-15. Pakistan also receives multilateral funding for BISP, which includes U.S.$37 million received in 2016-17 from the UK Department for International Development out of a total commitment of U.S.$480 million between 2012-2020, as well as an estimated U.S.$174 million received from the Asian Development Bank. The World Bank's disbursements stand at approximately U.S.$200 million.

In order to account for the negative impact of inflation on the monthly cash grant awarded under BISP, there has been a gradual increase in payments since July 2013 from Rupees 1,000 to Rupees 1,611 per month per beneficiary.

DFID has given its second highest overall performance rating of “A” to BISP in its Annual Review Report of 2016. Additional financing by other development partners also indicates confidence in BISP as the country’s largest social safety net programme.

According to the Labour Force Survey 2014-15, employment has risen over the past two years, with much of the increase coming from self-employed women in urban areas:

Employed Labour Force

	2013-14			2014-15		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
		(millions)			*(millions)*	
Pakistan	56.52	43.33	13.19	57.42	44.07	13.35
Rural	39.08	27.83	11.25	39.85	28.42	11.43
Urban	17.44	15.50	1.94	17.57	15.65	1.92

Unemployed Labour Force

	2013-14			2014-15		
	Total	**Male**	**Female**	**Total**	**Male**	**Female**
		(millions)			*(millions)*	
Pakistan	3.58	2.32	1.26	3.62	2.31	1.31
Rural	2.06	1.27	0.79	2.10	1.28	0.82
Urban	1.52	1.05	0.47	1.52	1.03	0.49

Employed-Distribution by Employment Status and Gender

	2013-14			2014-15		
Employment Status	**Total**	**Male**	**Female**	**Total**	**Male**	**female**
		(%)			*(%)*	
Total	**100.00**	**76.67**	**23.33**	**100.00**	**76.76**	**23.24**
Employers	1.06	1.06	0.01	1.36	1.34	0.02
Self Employed	35.39	31.05	4.34	36.13	31.37	4.75
Contributing Family Workers	24.41	11.59	12.82	23.78	11.11	12.67
Employees	39.14	32.97	6.16	38.73	32.94	5.79

Source: Labour Force Survey 2014-15

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

	2013-14			2014-15		
Industry Division	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**
		(Rupees)			*(Rupees)*	
Total	**13,155**	**14,079**	**8,228**	**14,971**	**15,884**	**9,760**
Agriculture, forestry, hunting and fisheries	6,327	7,995	4,236	7,804	9,041	6,345
Mining and Quarrying	17,971	17,971	-	14,968	15,064	8,000
Manufacturing	11,720	12,716	4,953	13,478	14,465	5,435
Electricity, gas and water	23,060	23,251	14,486	25,379	25,626	15,703
Construction	11,008	11,031	8,563	12,032	12,040	10,705
Wholesale, retail; restaurants and hotels	9,706	9,729	9,302	10,711	10,710	10,740
Transport, storage and communication	14,950	14,972	20,517	16,220	16,158	24,900
Financing, insurance, real estate and business services	35,194	35,280	31,182	36,659	36,805	33,985
Community, social and personal services	18,932	20,758	13,508	21,443	23,746	14,493

Source: Labour Force Survey 2014-15

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 through local body elections, downsizing/rightsizing of government offices, judicial and police reform and the introduction of transparency in economic decision-making processes.

China-Pakistan Economic Corridor (CPEC)

The 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. 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. Second, the development of special economic zones along the corridor, including power and transport projects.

The first-phase projects are expected to receive U.S.$46 billion, approximately 20 per cent of Pakistan's annual GDP, in concessionary and commercial loans. Financing for the Chinese companies involved is being arranged by Chinese financial institutions including the Silk Road Fund, a state-owned investment fund of the Chinese government. Of the U.S.$46 billion total, U.S.$34 billion is to be private investment and U.S.$12 billion is to be provided in the form of concessional loans by the Chinese government with a tenor of 20 years and a five year initial grace period. The Chinese government is also providing a U.S.$230 million grant for a new airport in Gwadar.

An agreement in relation to the first phase was signed between Pakistan and China in April 2015. The total U.S.$46 billion in investment and concessional loans committed to the "early harvest" phase of CPEC provided a strong support for faster economic growth in Pakistan, particularly for the construction industry. Electricity from CPEC energy projects will primarily be generated by coal power plants, though wind projects are included under CPEC, as is the construction of one of the world's largest solar energy plants.

The Government expects CPEC projects to generate approximately 400,000 new jobs.

Details of the CPEC projects, a number of which have since commenced, are as follows:

Energy.

- the development of two coal mines in the Tharparkar District of Sindh province, which are to have a combined output of 13.3 metric tons per annum once in full commercial operation, which is expected to be in 2018-19. A total of U.S.$2,770 million is expected to be invested in this project;

- the construction of electricity transmission lines from Matiari to Lahore, which are expected to be completed in 2018-19 at a cost of U.S.$1,500 million; and

- the following power projects:

Power Project	Net Capacity	Source	Estimated Cost	Scheduled Completion / Status
	(MW)		*(U.S.$ million)*	
Port Qasim Coal Power Project	2x660	Coal	1,912	2018
Sahiwal Coal Power Project	2x660	Coal	1,912	Completed
HUBCO Coal Power Project	2x660	Coal	1,912	2020
Gwadar Coal Project	300	Coal	600	LOI Signed
Engro Thar Coal Power & Mine Project & Coal Mine Extraction	2x330	Coal	2,000 + 1,470	2019
SSRL Coal Power & Coal Mine Extraction	2x660	Coal	2,000 + 1,300	2020
Oracle Thar Coal Power Project & Mining	2x660	Coal	1,300	2022
Matiari-Lahore HVDC Transmission Line		HVDC + 660 kV	1,500	2019
Suki Kinari Hydropower Project	870	Hydro-electric	1,707	2022
Karot Hydropower Project	720	Hydro-electric	1,698	2021
Quaid-e-Azam Solar Power Park	1,000	Solar	1,302	2020
Hydro China Dawood Power Ltd.	50	Wind	125	Completed
UEP Wind Power Pvt. Ltd.	100	Wind	250	Completed
Sachal Energy Development (Pvt.) Ltd	50	Wind	134	Completed
Rahimyar Khan imported Fuel power Plant	1,320	Coal	1,600	Feasibility Stage
Three Gorges Wind Farms (2x50MW)	100	Wind	150	2018
Kohala Hydro Power Project	1,124	Hydro-electric	2,364	2023
	13,554			

Ministry of Finance

Transport.

- the upgrade and widening of the 120km Thakot - Havelian section of the Karakoram Highway, to be funded by a Government loan of U.S.$1,366 million, commenced in September 2016 and due to be completed in 2020;
- the upgrade and widening of the 392km Multan - Sukkur section of the Karachi - Peshawar Motorway, to be funded by a Government loan of U.S.$2,980 million, commenced in August 2016;
- the expansion and reconstruction of the Karachi – Peshawar railway line at a cost of U.S.$8,172 million; and
- the construction of Havelian dry port at Havelian railway station at a cost of U.S.$65 million.

Gwadar port. The Gwadar port project component of CPEC 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 of the Gwadar port project, whilst involving Chinese investment, pre-dates CPEC. The project comprised three multipurpose berths able to accommodate 70,000 DWT ships and 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, shortly after the CPEC programme was announced, 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.

Since opening in 2006 and until 30 October 2017, the port has handled 6,453,343 Mt of dry bulk cargo, wheat and urea shipments of 6,450,398 million Mt and 1,140 Mt of fish.

A number of major projects are to be commenced in Gwadar with Chinese assistance, including:

Project	**Estimated Cost (U.S.$ million)**	**Status**
Gwadar East Bay Expressway....................	140	Commenced November 2017; Anticipated completion 2020
New Gwadar International Airport...............	230	To be commenced December 2017; Anticipated completion 2020
Water supply project..................................	130	Draft Framework Agreement shared with Chinese side and likely to be signed soon
Gwadar 300MW Power project..................	360	Project at proposal stage
Technical and Vocational Institute..............	10	To be commenced January 2018
Pak China Friendship Hospital...................	100	Feasibility study completed to add 100 beds to the existing 50

Project	Estimated Cost (U.S.$ million)	Status
		(subsequent extension to 300 beds anticipated)
Establishment of Gwadar Free Zone..........	32	1st phase completion date is December 2017
Port breakwaters..	123	Completion 2022
Dredging of Berthing Areas & channels	27	Project at Proposal Stage
Total..	**1,152**	

Ministry of Finance

Communications. China and the Government have successfully piloted a project for digital terrestrial multiband broadcast in Gwadar, the TV standard for mobile and fixed terminals used in China. In addition, work has started on a U.S.$44 million cross-border fibre optic project between Khunjerab and Rawalpindi which commenced in October 2015 and is due to complete by December 2017.

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 designed 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 aimed at increasing the tax-to-GDP ratio from 9.8 per cent (2012-13) to 13.7 per cent (2017-18). The 2016-17 tax-to-GDP ratio increased to 12.5 per cent in 2016-17 from 11 per cent in 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 demands 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, particularly in the energy sector, 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, telecommunications, 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 programme 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 programme 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 programme in 2013 by identifying 31 entities for early privatisation, as approved by the CCOP in its meeting held in October 2013. Subsequently, the CCOP, extended the list to include a total of 42 entities. 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 Government successfully completed the strategic sale of its 88 per cent ownership in National Power Construction Corporation (Pvt.) Limited in September 2015. In total, the Privatisation Commission has raised Rupees 170.87 billion, including over U.S.$1.128 billion in foreign currency, from these completed transactions.

The Privatisation Commission in consultation with Aviation Division of the Government has also agreed to a restructuring proposal of Pakistan International Airlines (**PIA**), for identification of core and non-core business segments with a detailed plan of implementation for restructuring. The Government intends to maintain a majority of shares and management control of PIA. See "*Risk Factors -Risk factors relating to the Government -Failure to maintain economic reforms may have a negative effect on the performance of Pakistan's economy*" above for more information on the delays to the privatisation programme.

The status of privatisation transactions to be undertaken by Privatisation Commission during 2017-18 is as follows:

- **Divestment of 18.39 per cent residual shares of Mari Petroleum Company Limited (MPCL) through Stock Exchange(s).** On 26 August 2017, the Privatisation Commission issued an advertisement for the appointment of financial advisors for the divestment of up to 18.39 per cent of shares in MPCL to domestic and international investors through the Pakistan Stock Exchange. The Privatisation Commission is currently finalising this appointment.

- **Strategic Sale of 93.88 per cent shares of SME Bank Limited.** Pre-qualification of interested parties for the acquisition of the Government's 93.88 per cent shareholding of SME Bank Ltd is being finalised.

- **Strategic Sale of Pakistan Steel Mills.** The transaction structure has been approved by the Privatisation Commission Board. A liability settlement plan in consultation with NBP, SSGC, PSMC and Ministry of Industries and Production is being finalised.

The Government was initially considering an initial public offering of Faisalabad Electric Supply Company (**FESCO**) and Islamabad Electric Supply Company (**IESCO**), which are currently wholly-owned by the Government. However, it has been determined that divestment by way of a strategic sale of these companies would be more likely to achieve a successful sale.

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, however, decreased in the last three years to U.S.$21.938 billion in 2016-17 as compared to U.S.$25.078 billion in 2013-14. The Ministry of Commerce has formulated a medium term Strategic Trade Policy Framework (**STPF**) covering the three years 2015-18. The STPF 2015-18 includes 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 for 2015-16. The Federal Budget of Pakistan has also allocated Rupees 6 billion for 2016-17. In addition, the Government has introduced a Rupees 180 billion export incentive package whereby exporters in certain sectors are refunded a proportion of local taxes and duties on their export proceeds.

Pakistan has remained committed to the rule based, non-discriminatory multilateral trading system governed by the WTO regime. Tariffs on industrial and agricultural 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 substantial volume of both Pakistan's exports to India (U.S.$408.47 million in 2016-17, U.S.$400.03 million in 2015-16, U.S.$414.92 million in 2014-15 and U.S.$423.03 million in 2013-14) and Pakistan's imports from India (U.S.$1,688.27 million in 2016-17, U.S.$1,808.89 million in 2015-16, U.S.$1,423.90 million in 2014-15 and U.S.$1,757.17 million in 2013-14).

In order to promote regional and bilateral trade, Pakistan has entered into several trading arrangements with countries of the region such as SAFTA, 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, Indonesia and Mauritius. All agreements are aimed at further facilitating an increase in exports at large, as well as with regional countries. In addition, the Government has fast tracked the on-going Free Trade Agreement negotiations with Turkey and Thailand. The early conclusion of these Free Trade Agreement negotiations would boost bilateral relations with both of these economies and will provide gateway of access to the EU and ASEAN.

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 60 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 4.54 billion euro in 2013 to 6.28 billion euro in 2016. The Government believes that GSP+ generated nearly one million new jobs in Pakistan since 2013, 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 14.12 per cent in 2010-11 to 15.78 per cent in 2016/17.

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 took over responsibility for the settlement, administration and development of competitive power markets from the NTDC in 2016.

In 2007, the Ministry of Water and Power approved tariffs for all distribution companies replacing the unified WAPDA Tariff. In September 2010, the former government developed a power sector reform programme, 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 "*Overview of Pakistan's Economy – 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, as central bank and bank regulator, 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-customer, 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 financial crisis and maintained its profitability and strong risk-based solvency indicators.

Presently, the SBP is pursuing a Strategic Plan 2016-2020 for financial sector reforms to promote and strengthen the financial stability, efficiency, fairness and access to finance. The SBP has increased minimum capital requirements to strengthen the banking sector, promote consolidation and to comply with recent Basel-III recommendations of Basel Committee on Banking Supervision. 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.

Since the global financial crisis, and in common with many other central banks and financial regulatory authorities in other jurisdictions, financial stability has been, and continues to be, the SBP's key objective for the purpose of ensuring a robust and sound financial system that can withstand shocks without disrupting financial intermediation and general financial services. As a step towards achieving this key objective and with a view to institutionalising the financial stability function, the SBP has created a dedicated Financial Stability Department and, in collaboration with SECP, has established a "Council of Regulators" which regularly monitors any system-wide vulnerabilities that could result from various adverse macroeconomic developments. In addition, the SBP is in the final stages of instituting the a deposit insurance system in the country.

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. 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 for some years, it has shown an uplift in 2016-17 due to better energy supply conditions. It amounted to 20.9 per cent of GDP in 2016-17. The share of the agricultural sector declined from its highest level of approximately 39 per cent of GDP in 1969-70 to 19.53 per cent of GDP in 2016/17; the share of the services sector increased from 45 per cent of GDP in 1969-70 to 59.59 per cent of GDP in 2016-17.

The following table sets out Pakistan's GDP at constant basic prices of 2005-06, as well as the contribution of various sectors of the economy to GDP in the period 2012-13 to 2016-17.

Sectors	2012-13	2013-14	2014-15(1)	2015-16(2)	2016-17(3)	2015-16/2014-15	2016-17/2015-16
Rupees millions, unless otherwise stated)						**(*% change*)**	
A. Services Sector ...	**5,716,248**	**5,971,163**	**6,231,579**	**6,577,139**	**6,970,204**	**5.5**	**6.0**
1. Wholesale and retail trade	1,808,124	1,894,410	1,943,612	2,026,307	2,164,404	4.3	6.8
2. Transport, storage and communication	1,304,697	1,355,570	1,424,255	1,492,876	1,551,714	4.8	3.9
3. Finance and insurance.............	302,392	315,428	335,448	355,969	394,319	6.1	10.8
4. Housing services (ownership of dwellings)	664,542	691,093	718,674	747,347	777,160	4.0	4.0
5. General government services	703,717	723,823	758,746	832,505	890,047	9.7	6.9
6. Other private services	932,776	990,839	1,050,844	1,122,135	1,192,560	6.8	6.3
B. Agricultural Sector	**2,103,600**	**2,156,117**	**2,202,043**	**2,208,087**	**2,284,561**	**0.3**	**3.5**

Sectors	2012-13	2013-14	2014-15(1)	2015-16(2)	2016-17(3)	2015-16/2014-15	2016-17/2015-16
Rupees millions, unless otherwise stated)						*(% change)*	
1. Crops................	844,860	867,133	868,494	825,348	850,273	(5.0)	3.0
Important crops	524,839	562,707	553,568	523,312	544,877	(5.5)	4.1
Other crops.......	258,670	243,890	250,006	251,477	252,013	0.6	0.2
Cotton ginning ..	61,351	60,536	64,920	50,559	53,383	(22.1)	5.6
2. Livestock	1,169,712	1,198,671	1,246,512	1,288,368	1,332,576	3.4	3.4
3. Forestry	45,695	46,555	40,761	46,592	53,344	14.3	14.5
4. Fisheries...........	43,333	43,758	46,276	47,779	48,368	3.2	1.2
C. Industrial Sector	**1,999,207**	**2,089,776**	**2,198,027**	**2,325,437**	**2,442,196**	**5.8**	**5.0**
1. Mining and quarrying	294,727	298,856	313,707	335,241	339,747	6.9	1.3
2. Manufacturing...	1,313,365	1,387,556	1,441,461	1,494,169	1,572,948	3.7	5.3
Large scale	1,064,185	1,122,266	1,159,052	1,193,143	1,251,976	2.9	4.9
Small scale......	156,691	169,677	183,607	198,654	214,907	8.2	8.2
Slaughtering	92,489	95,613	98,802	102,372	106,065	3.6	3.6
3. Electricity generation and distribution and gas distribution	165,275	164,054	186,174	201,873	208,732	8.4	3.4
4. Construction	225,840	239,310	256,685	294,154	320,769	14.6	9.0
Commodity Producing Sector (B+C).........................	**4,102,807**	**4,245,893**	**4,400,070**	**4,533,524**	**4,726,757**	**3.0**	**4.3**
GDP at factor cost	9,819,055	10,217,056	10,631,649	11,110,663	11,696,961	4.5	5.3
Indirect taxes.......	519,054	556,679	616,350	724,998	804,381	17.6	10.9
Subsidies	176,255	136,844	107,861	85,976	84,424	(20.3)	(1.8)
GDP at basic prices	10,161,854	10,636,891	11,140,138	11,749,685	12,416,918	5.5	5.7
Net factor income from abroad.................	403,132	474,006	548,903	656,287	664,110	19.6	1.2
GNI at basic prices	10,222,187	10,691,062	11,180552	11,766,950	12,361,071	5.24	5.05
GNI at market price	10,564,986	11,110,897	11,689,041	12,405,972	13,081,028	6.1	5.4

Sectors	2012-13	2013-14	2014-15(1)	2015-16(2)	2016-17(3)	2015-16/2014-15	2016-17/2015-16
Rupees millions, unless otherwise stated)						***(% change)***	
Population (*million*)	182.5	186.2	189.9	193.6	197.3	1.9	1.9
Per capita income at market prices…….............	57,881	59,675	61,563	64,094	66,314	4.1	3.5

(1) Final

(2) Revised

(3) Provisional.

Source: Pakistan Bureau of Statistics

The following table sets out Pakistan's GDP at current basic prices, as well as the contribution of various sectors of the economy to GDP in the period from 2012-13 to 2016-17:

Sectors	2012-13	2013-14	2014-15	2015-16(1)	2016-17(2)	2015-16/ 2014-15	2016-17/ 2015-16
Rupees millions, unless otherwise stated)						***(% change)***	
A. Services Sector ...	**11,642,671**	**13,012,586**	**14,314,423**	**15,359,035**	**16,825,930**	**7.3**	**9.6**
1. Wholesale and retail trade	4,369,465	4,924,462	5,045,262	5,098,414	5,584,199	**1.1**	9.5
2. Transport, storage and communication	2,311,796	2,474,818	3,107,785	3,542,855	3,797,272	14.0	7.2
3. Finance and insurance.............	522,327	584,074	595,961	541,811	584,933	(9.1)	8.0
4. Housing services (ownership of dwellings)	1,092,749	1,229,110	1,371,443	1,506,395	1,667,470	9.8.	10.7
5. General government services	1,486,115	1,660,434	1,818,477	2,050,560	2,282,509	12.8	11.3
6. Other private services	1,860,219	2,139,688	2,375,495	2,619,000	2,909,547	10.3	11.1
B. Agricultural Sector	**5,334,976**	**5,976,217**	**6,536,122**	**6,759,207**	**7,369,927**	**3.4**	**9.0**
1. Crops...............	2,192,554	2,612,933	2,690,102	2,629,622	2,869,301	(2.2)	9.1
Important crops	1,411,388	1,760,329	1,735,888	1,725,488	1,847,983	(0.6)	7.1

Sectors	2012-13	2013-14	2014-15	2015-16(1)	2016-17(2)	2015-16/ 2014-15	2016-17/ 2015-16
Rupees millions, unless otherwise stated)						***(% change)***	
Other crops.......	639,078	695,138	769,867	741,451	837,106	(3.7)	12.9
Cotton ginning ..	142,087	157,467	184,347	162,683	184,212	(11.8)	13.2
2. Livestock	2,933,384	3,129,682	3,612,244	3,846,655	4,160,657	6.5	8.2
3. Forestry	136,500	153,722	142,902	170,706	201,207	19.5	17.9
4. Fisheries...........	72,538	79,880	90,873	112,223	138,761	23.5	23.6
C. Industrial Sector	**4,525,694**	**5,040,094**	**5,239,146**	**5,311,049**	**5,700,107**	**1.4**	**7.3**
1. Mining and quarrying	696,976	741,022	707,236	656,705	653,507	(7.1)	(0.5)
2. Manufacturing...	3,037,311	3,408,468	3,510,536	3,511,574	3,803,632	0.0	8.3
Large scale	2,519,037	2,824,463	2,853,222	2,800,177	3,014,547	(1.9)	7.7
Small scale......	283,107	327,030	373,595	406,653	456,671	8.8	12.3
Slaughtering	235,167	256,975	283,719	304,744	332,413	7.4	9.1
3. Electricity generation and distribution and gas distribution	368,040	406,192	480,515	536,846	560,140	11.7	4.3
4. Construction	423,367	484,412	540,859	605,924	682,828	12.0	12.7
Commodity Producing Sector (B+C).........................	**9,860,670**	**11,016,311**	**11,775,268**	**12,070,256**	**13,070,034**	**2.5**	**8.3**
GDP at basic prices	21,503,341	24,028,897	26,089,690	27,429,292	29,895,963	5.1	9.0
Taxes	1,275,990	1,480,099	1,633,881	1,901,743	2,194,270	16.4	15.4
Subsidies	393,674	340,191	280,549	228,405	228,066	(18.6)	(0.1)
GDP at market price....................	22,385,657	25,168,805	27,443,022	29,102,630	31,862,167	6.0	9.5
Net factor income from abroad................	1,161,607	1,428,227	1,674,811	1,784,118	1,772,244	6.5	(0.7)
GNI at basic prices	22,664,948	25,457,124	27,764,501	29,213,410	31,668,207	5.22	8.40
GNI at market price....................	23,547,264	26,597,032	29,117,833	30,886,748	33,634,411	6.1	8.9
Population (*million*)	182.5	186.2	189.9	193.6	197.3	1.9	1.9

Sectors	2012-13	2013-14	2014-15	2015-16(1)	2016-17(2)	2015-16/ 2014-15	2016-17/ 2015-16
Rupees millions, unless otherwise stated)						***(% change)***	
Per capita income at basic prices	124,171	136,727	146,229	150,927	160,540	3.2	6.4
Per capita income at market price	129,005	142,849	153,357	159,572	170,508	4.1	6.9
Per capita income at market price (U.S.$)	1,334	1,389	1,514	1,531	1,629	1.1	6.4
GDP deflator Index	219.0	235.2	245.4	246.9	255.6	0.6	3.5
GDP deflator (% growth)	7.1	7.4	4.3	0.6	3.5	-	-

(1) Revised

(2) Provisional.

Source: Pakistan Bureau of Statistics (except per capita income at basic prices which are SBP figures).

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 59.59 per cent of GDP in 2016-17, growing by 5.98 per cent in 2016-17 compared to 59.2 per cent of GDP (and growth of 5.55 per cent) in 2015-16. 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. Another metro-bus project was inaugurated on January 24, 2017 from Bahuddin Zakaria University (BZU) to Chowk Kumaharan ("Multan Metrobus System"). This metro-bus system currently operates 35 buses on an 18.5 kilometre, 21 stations route.

  The Government is providing Rupees 24.604 billion for construction of a similar system in Karachi. The project envisages a 28 kilometre metro-bus system connecting KESC Power House, Surjani Town to Guru Mandir onwards to the central business district of Karachi. The first 21.7 kilometre section from Surjani town to Municipal Park M.A Jinnah road is expected to be completed by December 2017.

Another metro-bus project started in 2016-17 is a 25.6 kilometre system from Peshawar Moor to New Islamabad International Airport, which is estimated to cost Rupees 16.427 billion.

- ***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 approximately 264.401 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 new projects and programmes to develop the road network including the M8 motorway, the Turbat section and Khuzdar to Ratodero section of which have recently been completed in Balochistan and Sindh provinces. The M8 motorway has 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*". National Highway N-85, (Hoshab - Nag - Punjgur - Surab, 487 kilometres) has also recently been completed. With the completion of these projects, connectivity of upper country with the Coastal Highway leading to port city of Gwadar has been accomplished. 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 KP provinces were destroyed by the floods resulting in an urgent need for reconstruction. The reconstruction requirements of the road sector were estimated at U.S.$2.07 billion. Pursuant to a Public-Sector Development Programme (**PSDP**) for the NHA in 2013-14, 22 major road reconstruction projects were completed across all four provinces.

  New and improved road links are a key component of CPEC and, in particular, the connection from Gwadar Port in Southern Pakistan to China's North Western region of Xianjiang. The distance from Kashgar to Gwadar Port is 2,815 kilometres, which is substantially less than the over 4,000 kilometre distance from Kashgar to the Chinese coast and so represents a substantial time-saving for cargo shipments to Kashgar via Gwadar. The new CPEC road links will also provide access to Afghanistan through Torkham and Chaman and will open up new under-developed areas of Pakistan and integrate the existing ones along the Gwadar-Karachi-Lahore - Khunjerab corridor.

  The Peshawar – Karachi Motorway project was undertaken by the Government in 2013-14, pursuant to which the Islamabad – Lahore Motorway section was overlaid and rehabilitated at a cost of Rupees 46.0 billion.

  Numerous projects are currently under way, including:

  - the 184 kilometre Faisalabad – Khanewal Motorway, at an estimated cost of U.S.$5 billion, which is expected to be completed in June 2018; the Khanewal – Multan section of this motorway was completed in 2016-17 at a cost of U.S.$110 million;

  - the Lahore – Abdul Hakeem Motorway at an estimated cost of Rupees 150 billon;

  - the 392 kilometre Multan – Sukkur Motorway project with six lanes at an estimated cost of U.S.$2.96 billion;

- the Burhan – Hassanabdal – Havellian Expressway is close to completion at an estimated cost of U.S.$2.5 billion; and

- the 120 kilometre Havellian – Manshera – Thakot Expressway as part of CPEC at an estimated cost of U.S.$1.37 billion.

In total, there are 85 development projects being carried out in 2017-18 across all four provinces under the PSDP. NHA's existing portfolio consists of 72 on-going projects and 13 new projects at an estimated cost of Rupees 2,333,207 million. An amount of Rupees 319,720 million has been allocated to the NHA in the 2017-18 budget.

The NHA is seeking to use public private partnership (**PPP**) for the purposes of future development, off-budget financing, efficiency, investment, sustainability and revenue generation. The NHA has so far successfully attracted private sector investment in respect of five projects worth a total of Rupees 150 billion, which is more than the average annual total foreign direct investment in Pakistan. The expected earnings from these PPP projects are over Rupees 391 billion in total.

- ***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.

  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 per cent to 20 per cent. Initiatives include steps to revive the Railways Board, rationalisation of tariffs, renovation of old locomotives and procurement of approximately 350 new locomotives over the past four years and improvement of the high-speed diesel oil reserve. Pakistan Railways has involved the private sector in the management and operation of terminal facilities including the Prem Nagar dry port in Lahore, which is the first successful joint venture between Pakistan Railways and two private parties. Another initiative is the upgrade of the mainline between Karachi and Peshawar (**Mainline 1**). A framework agreement has been entered into between the National Railway Administration of the government of the Peoples Republic of China and the Ministry of Railways in relation to the upgrade of this line and the establishment of the Havelian Dry Port of Pakistan Railways. The financing of the Mainline 1 will be provided by Chinese banks. The operation of freight trains from Karachi to up-country was expanded in 2015-16 and 2016-17 and the number of freight train journeys has been increased by 13.3 per cent from 2,920 in 2014-15 to 3,309 in 2016-17. As a result of these initiatives, Pakistan Railways' gross earnings increased from Rupees 22,800 million in 2013-14, to Rupees 31,925 million in 2014-15, Rupees 36,582 million in 2015-16 and Rupees 40,083 million in 2016-17. This has been achieved whilst efficiency savings in staffing have reduced Pakistan Railways' headcount from approximately 95,000 as at 30 June 2013 to 70,000 as at 30 June 2017.

- ***Civil Aviation.*** In 2014, Pakistan International Airlines (**PIA**) embarked upon a programme of modernisation focused on replacing its fleet. 16 fuel efficient aircraft were acquired during 2014-15 on a wet and dry lease basis and a further two were delivered in 2015-16. Two additional, newly-built Airbus A320s are due to be delivered shortly. In 2015-16, nine aircraft were retired from operation due to inefficiencies and, as a result, the average age of the fleet decreased from 14 to 10 years.

  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 financing 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.

Due to increase in fleet size, the volume of passengers carried increased by 4.5 per cent in 2015 to 4.393 million and by 24.8 per cent in 2016 to 5.487 million. However, due to Pakistan's liberal open skies policy and tough competition resulting in price wars, PIA's revenues dropped by 8.3 per cent during 2015 and by 1.6 per cent during 2016.

PIA is pursuing a business plan over the next five years that is designed to increase revenues and curtail losses.

- ***Ports and Shipping***. 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 43.42 million Mt of cargo in 2014-15, 50.05 million Mt of cargo in 2015-16 and 39.02 million Mt of cargo in the July to March of 2016-17 period representing an increase on the 36.52 million Mt of cargo handled in the same period of the preceding year. Port Qasim, located 50 kilometres south-east of Karachi, is Pakistan's deepest sea port. It 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 accounts for approximately 40 per cent of the shipping requirements of Pakistan. Port Qasim handled a volume of 30.01 million Mt of cargo in 2014-15 and 33.32 million Mt of cargo in 2015-16. In the period from July to March 2016-17, Port Qasim's handled volume increased on the equivalent period of the preceding year from 23.79 million MT to 26.68 million Mt of cargo.

  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 development of 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. The deep water approach channel was completed in 2017. 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. See "*Overview of Pakistan's Economy - China Pakistan Economic Corridor (CPEC) - Gwadar port*" above for details on each of the projects currently proposed.

  A number of major projects are to be commenced in Gwadar with Chinese assistance, including Gwadar East Bay Expressway, Gwadar Free Zone and Gwadar International Airport. See "*Overview of Pakistan's Economy - China-Pakistan Economic Corridor (CPEC)*".

  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, offices for 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**) to improve Gwadar port's connectivity. The northern portion of the M-8 was completed in February 2016 to connect the port with the north-south corridor through Khuzdar-Rathodero. The remaining portions of the N-85 were completed in December

2016 and the M-8 Gwadar to Horshab portion was completed in July 2017. This new road infrastructure reduces distances for journeys between various regions of Pakistan and other countries that currently make use of the port.

Since opening in 2006 and until 30 October 2017, the port has handled 6,453,343 Mt of dry bulk cargo, wheat and urea shipments of 6,450,398 million Mt and 1,140 Mt of fish.

Communications

- ***Postal Services.*** Pakistan's post office is a government entity that provides postal facilities through a network of 11,496 (as at 1 November 2017) 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 2016-17. The total mobile connections of four mobile operators were 140.7 million as at 30 September 2017. Teledensity was approximately 71.75 per cent (based on connections) as at the end of September 2017. At the same time, increased competition among cellular operators resulted in lower tariffs for consumers. As at September 30, 2017, cellular operators respective market shares were Mobilink 37.38 per cent, Telenor 28.94 per cent, Ufone 13.14 per cent and CMPak 20.54 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 2017, Pakistan had 0.39 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 telecommunications sector for the periods stated:

	2013-14	**2014-2015**	**2015-16**	**Jul-Dec 2016(1)**
		(U.S.$ million)		
Cellular............................	1,789.7	977.6	659.4	262.0
Long distance international services	1.8	12.2	6.3	2.3
Local loop........................	14.2	3.9	54.0	23.3
Wireless local loop...........	10.0	7.2	0.0	0.0
Total	**1,815.6**	**1,001.0**	**719.7**	**287.6**

(1) Estimated figures.

Source: Economic Survey 2016-17

Broadband subscriber percentage growth in Pakistan has been significant. Subscriptions have increased from minimal levels in 2005 to 42.36 million by the end of March 2017.

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 foreign direct investment. During the period from July 2016 to March 2017, the telecommunications sector attracted over U.S.$55 million of foreign direct investment (net of outflows). The Government auctioned spectrum for Next Generation Mobile Services including 3G and 4G in 2014. The auction was completed in May 2014 with total proceeds of U.S.$1.11 billion. As at 1 September 2016, U.S.$1.06 billion of the auction proceeds have been paid to the Government, contributing significantly to foreign direct investment, with the balance due in three equal annual instalments over the next three years. The instalments are to be paid with interest of LIBOR + 3.5 per cent per annum on the outstanding balance. The Pakistan Telecommunication Authority was authorised in March 2017 to undertake an auction of further spectrum and the base price has been set at U.S.$295 million.

Financial Services

The financial sector in Pakistan comprises 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 stock exchanges, commodity exchange, brokerage firms, depository companies, clearing and settlement companies, credit rating companies, share registrars, insurance companies and Takaful. The SBP, which is the central bank of Pakistan, supervises banks, DFIs, MFBs and exchange companies, while the SECP monitors the remaining financial institutions.

At present, the banking industry in Pakistan consists of 34 commercial banks, eight DFIs and nine nation-wide and two province-wide MFBs. The commercial banks comprise five public sector banks, 15 private sector banks, five Islamic commercial banks, five foreign banks (operating through branches) and four specialised banks.

Bank private sector business credit has grown over the past couple of years as set out in the table below:

	2015-16	**2016-2017**
	(% change)	
Manufacturing .... ………………………………	12.4	20.1
Agriculture....................... ………………………………	(0.1)	4.3
Electricity, gas and water supply……..…………………..	14.9	19.7
Construction..................... ………………………………..	47.9	42.1
Commerce and Trade .... ………………………………..	12.0	16.1
Personal.......................... ………………………………..	13.1	16.4

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 strengthened the structure of its Interest Rate Corridor (**IRC**) framework. The main feature of this improved framework was the 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 stabilise 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. The SBP Act was amended by Parliament in November 2015 to strengthen SBP independence. A statutory monetary policy committee (**MPC**) has been constituted, which consists of the governor, three external economic experts, three executives of the SBP and three of its board members. The MPC formulates, supports and decides on the SBP's stance on monetary policy. In addition, the SBP has plans to implement a flexible inflation targeting framework (**FIT**) under its Strategic Plan 2016-2020. Significant progress has been made on the technical aspects of implementing the FIT framework.

The Central Board currently has the power to regulate the monetary and exchange rate 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. International investors in Pakistan enjoy the freedom of repatriation of profit and principal.

SBP systematically monitors 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 or enters into other financing transactions without due consideration of 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 providing 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 managers 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; (x) cancel the bank's share capital to the extent it is not represented by its assets and issue new shares; and (xi) 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 banks, DFIs and MFBs. Presently, the cash reserve requirement for banks is set at 5 per cent of the demand liabilities (including term deposits with a tenor of less than one-year) on average over the previous fortnight, subject to a daily minimum of 3 per cent. For DFIs it is 1 per cent of their term and demand liabilities, and for MFBs it is 5 per cent of total demand deposits and term deposits with tenor of less than one year. In addition, the banks are required to maintain a statutory liquidity requirement of 19 per cent for conventional banks and 14 per cent for Islamic banks and Islamic bank branches of their demand liabilities (including term deposits with a tenor of less than one year). 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 risk-based capital adequacy ratio (**CAR**) of 10.65 per cent (against the Basel requirement of 8.625 per cent) that will gradually increase to 12.5 per cent by the end of 2019 with the gradual build-up of additional capital conservation buffer of 2.5 per cent (in the form of common equity tier-1 capital as prescribed by Basel III rules. 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 at all times a minimum paid-up capital (net of losses) of Rupees 10 billion.

Commercial Banking Sector. The overall performance of the banking sector, which dominates the financial sector of Pakistan, has remained strong over the last few years despite macroeconomic challenges and structural issues. As such, the banking sector has achieved a high level of profitability, improved liquidity and a strong solvency position. The banking sector grew at an annual average growth rate of 14.8 per cent over the five year period from 2011 to 2016. Its asset base stood at Rupees 17.5 trillion as at 30 June 2017. The banking sector posted profits before tax of Rupees 314 billion during 2016 and of Rupees 150 billion for the first half of 2017. The capital adequacy ratio stood, on average, at 15.6 per cent as at 30 June 2017, well above the local benchmark of 10.65 per cent. and the Basel requirement of 8.625 per cent. The level of net non-performing loans has decreased substantially over the last five fiscal years from Rupees 186.0 billion as at 30 June 2011 to Rupees 100 billion as at 30 June 2017 as a result of a slowdown in defaults, recovery and adequate provisioning.

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 institutions and strategic investors, either directly or in collaboration with local partners or sponsors, can conduct banking 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 branch operations in Pakistan have incorporated locally and also acquired other banks operating in Pakistan.

Pakistan’s banks are funded 77.9 per cent from customer deposits and other accounts, 17.4 per cent from interbank borrowing, 1.2 per cent from bills payable, 2.8 per cent from other liabilities, 0.3 per cent from deferred tax liabilities and 0.3 per cent from sub-ordinated loans.

Microfinance. The Government and the SBP aim to promote financial inclusion through a nationwide financial literacy programme. The programme focuses on disseminating education on basic financial concepts, products and services to masses; focusing on budgeting, savings, investments, banking products and services, debt management and consumer rights and responsibilities. As at June 2017, the microfinance sector collectively (MFBs and non-banks microfinance institutions) served 5.2 million active borrowers. This sector has achieved 47.3 per cent growth in its aggregate loan portfolio, which grew by Rupees 43.91 billion to Rupees 136.9 billion during the 12 month period ended 31 December 2016.

Non-bank Financial Institutions. Other entities within Pakistan's financial sector include non-banking finance companies (such as housing finance companies, leasing companies, investment finance companies, asset management companies, investment advisors and REIT management companies), a state-owned life insurance company (the State Life Insurance Corporation), private life insurance companies, private general insurance companies and *modarabas.*

The SECP regulates non-bank finance companies and regulatory framework is transparent, robust and based on the best international practices. The asset size of non-banking finance companies has increased at a steady pace over the past few years. As at 30 June 2017, it stood at Rupees 1,190 billion as compared to Rupees 925 billion as at 30 June 2016, representing an overall increase of 29 per cent. Total assets of non-bank finance companies by sector as at 30 June 2017 are as follows:

Sector	Number of entities	Total assets (Rupees million)	As percentage of total assets
Mutual funds/plans	228	710,034	59.68%
AMCs / IAs	22	40,925	3.44%
Discretionary /non- discretionary portfolios	-	141,123	11.86%
Real estate investment trust (REIT scheme)	1	42,276	3.55%
Investment banks and micro finance institutions	30	142,203	11.95%
Leasing companies	8	43,324	3.64%
Modarabas	25	44,082	3.71%
Pension funds	19	25,770	2.17%
Total	**282**	**1,189,737**	**100%**

In 2016-17, out of the 25 operational modarabas, 21 declared a cash dividend.

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

- allowing the opening of full-fledged Islamic commercial banks in the private sector;
- allowing existing conventional banks to establish Islamic banking subsidiaries; and
- allowing existing conventional 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 and a high level Steering Committee for promotion of Islamic banking was set up in December 2013 comprised of renowned Shari'ah scholars, senior government officials, industry experts and business leaders. The Steering Committee submitted its recommendations after completion of its tenure of two years and subsequently an

Implementation Committee was formed in 2015 to execute the recommendations of the Steering Committee. The SBP's Strategic Plan 2016-2020 includes increasing financial inclusion by providing an enabling environment for, and by promoting, Islamic banking and it forms an integral part of National Financial Inclusion Strategy to serve those who prefer Islamic products or who are voluntarily excluded or underserved due to their religious beliefs. The SBP has adopted various initiatives to promote and develop the Islamic banking industry in Pakistan including:

- issuing licensing requirements, regulations for Islamic banking windows, criteria for conversion of conventional banking branches into Islamic banking branches and guidelines on Shari'ah compliance for Islamic banking institutions;

- strengthening of Shari'ah compliance through the issuance of a Shari'ah Governance Framework, in effect from July 2015;

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

- revising the initial minimum capital requirement for establishing an Islamic banking subsidiary from Rupees 10 billion to Rupees 6 billion;

- issuing two five-year strategic plans for the Islamic banking industry; the first was issued in 2007 and the 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 regulations for domestic and international Government of Pakistan sukuk-al-ijara to provide investment avenues to Islamic banking institutions and develop the Islamic money market;

- establishing three Centres of Excellence in Islamic Finance Education;

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

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

- promoting the launch of an All Share Islamic Index and the establishment of an Islamic Finance Department at the SECP.

In addition, the Government has provided tax neutrality to Islamic financial institutions and their customers under the Finance Act 2017.

The Islamic banking industry in Pakistan has grown significantly since its launch in 2002. The asset base of the industry stood at Rupees 2,035 billion as at 30 June 2017, compared to Rupees 1,745 billion as at 30 June 2016, representing growth of 16.6 per cent. Islamic banking deposits grew by 17.8 per cent to Rupees 1,720 billion as at 30 June 2017, compared to Rupees 1,461 billion as at 30 June 2016. The industry's asset base accounted for 11.6 per cent of the overall banking system in the country as at 30 June 2017, while in terms of deposits its share in the country's banking system was 13.7 per cent as at the same date. As at June 2017, 21 Islamic banking institutions; five full-fledged Islamic banks (including one Islamic banking subsidiary of a conventional bank) and 16 conventional banks with standalone Islamic banking branches) were operating in the country with a network of 2,320 branches.

In recognition of the efforts of the SBP in developing Islamic finance on a sound and sustainable basis, the SBP has been voted the Best Central Bank for Promoting Islamic Finance in an international poll conducted by Islamic Finance News, an arm of Redmoney Group Malaysia.

Government Bond Market. The SBP has 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 with an additional platform to access the Pakistan's financial markets;

- rules governing the primary dealer system have been revised to enhance the role and obligations of primary dealers;

- 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 the Pakistan Stock Exchange in addition to the existing OTC markets (Bloomberg, Reuters and money market brokers).

- In April 2014, the SBP started issuing ISIN numbers for all outstanding Government Securities; including Market Treasury Bills, Pakistan Investment Bonds, Government Ijara Sukuks and treasury bills issued through Outright Open Market Operations Sales. The SBP, with the consultation and consent of the Government, introduced Fixed Rental Rate Government Ijara Sukuk in order to facilitate Shari'ah compliant liquidity management.

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.

In 2016, 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. Whilst these regulations have since been repealed, they have been retained in substance as part of Public Offering Regulations 2017.

Pakistan's Stock Exchanges

Until January 2016, there were 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. Virtually all of the companies listed on the LSE and the ISE were 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 name "Pakistan Stock Exchange". The Pakistan Stock Exchange (**PSX**) was established on 11 January 2016.

The following table sets out the profile of the three separate stock exchanges that existed in Pakistan prior to January 2016 for the periods stated:

	2010-11	2011-12	2012-13	2013-14	2014-15
Karachi Stock Exchange					
(i) Total listed companies	639	590	569	557	560
(ii) New companies listed	1	4	4	5	9
(iii) Funds mobilised (*Rupees billion*)	34.1	115.1	29.3	50.6	79.6
(iv) Total turnover of shares (*Rupees billion*)	28.0	38.0	54.3	56.6	57.2
Lahore Stock Exchange					
(i) Total listed companies	496	459	441	432	433
(ii) New companies listed	9	10	4	12	14
(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	0.9	0.71	0.33
Islamabad Stock Exchange					
(i) Total listed companies	264	255	250	270	273
(ii) New companies listed	5	8	7	29	17
(iii) Funds mobilised (*Rupees billion*)	17.8	12.8	8.1	8.1	10.4
(iv) Total turnover of shares (*Rupees billion*)	0.04	0.03	0.03	0.05	0.03

Source: Pakistan Stock Exchange

For comparison with the PSX, the following table sets out the aggregate total figures of the three stock exchanges prior to their integration in the PSX and PSX figures thereafter:

	31 December				18 October 2017
	2013	**2014**	**2015**	**2016**	
Total listed companies	560	557	554	558	562
Total listed capital (*Rupees billion*)	1,129	1,168	1,270	1,291	1,268
Total market capitalisation (*Rupees billion*)	6,056	7,380	6,928	9,628	8,408
PSX100 / KSE-100 Index	25261	32131	32812	47807	40733
New companies in calendar year	3	6	8	4	6*
Listed capital of new companies (*Rupees billion*)	4.5	27.0	29.9	5.5	12.1
Average daily turnover of shares (*Rupees millions*)	238.6	218.7	258.8	293.0	273.5

Source: Pakistan Stock Exchange

*Year to date.

Both debt and equity securities are traded on the PSX. Corporate debt securities are issued through TFCs, which normally carry a five-year maturity.

Trading of Government of Pakistan debt securities on the PSX (then the KSE) commenced in February 2014. Trading volumes and liquidity of Government debt securities has been limited, in part because there are only 11 SBP appointed primary dealers and these dealers trade almost exclusively with banks. The PSX is looking into allowing mutual funds and other financial institutions to act as new class of intermediaries so as to develop a retail debt segment at PSX.

The PSX is also looking into employing a debt market professional for the development and trading of specialised debt instruments though a bond automated trading system (**BATS**) in order to bring depth and liquidity to Government debt securities market of the PSX.

In addition to Government debt securities, a total of 90 corporate debt securities were outstanding and listed on the PSX as at 18 October 2017 with an outstanding principal amount of Rupees 707.32 billion as follows:

	Type of Security	No. of Issues	Amount outstanding (*Rupees billion*)
	Listed Term Finance Certificates	14	21.10
	Privately Placed Term Finance Certificates including traded on OTC	38	126.34
	Sukuk	37	559.34
	Participation Term Certificates	1	0.54
	Total	**90**	**707.32**

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, platinum, silver, copper, rice, wheat, crude oil, red chilli, energy, natural gas, FX pairs and International Equity Indices and the Karachi Inter Bank Offer Rate (**KIBOR**).

Three indices are used to measure the performance of the PSX: the Pakistan Stock Exchange-100 Index (formerly the KSE100 Index) (the **PSX100 Index**), the PSX-30 Index (the **PSX-30**), and the SBP Index of Share Prices (the **General Index**), produced by the SBP. The PSX100 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 PSX100 Index is based on 100 representative securities. The PSX100 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 PSX-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 PSX100 Index since 2013, together with its level as at 31 December in each year from 2013 to 2016 and as at 24 October 2017.

KSE100 Index

	2013	2014	2015	2016[(R)]	2017[(1)]
High	25,579.33	32,148.78	36,228.88	47,806.97	52,876.50
Low	16,107.89	25,478.93	28,927.04	30,564.50	39,846.80
Year end	25,261.14	32,131.28	32,816.31	47,806.97	41,291.68

Source: Reuters, Pakistan Stock Exchange; and Economic Survey 2016-17

(R) Revised

(1) As at 24 October 2017

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". In compliance with the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act, 2012, 40 per cent of shares in the PSX were divested to anchor investors comprising leading Chinese exchanges and Pakistani financial institutions in the first quarter of 2017. A further 20 per cent of shares in the PSX were offered to the general public under the Demutualisation Act and the exchange was successfully self-listed on 29 June 2017;

- in line with international standards and to minimise counterparty risk, the National Clearing Company of Pakistan Limited (**NCCPL**) commenced operations as a central counterparty whereby it becomes counterparty to every transaction which it accepts for guaranteed settlement. The reform entailed transfer of risk management to NCCPL and establishment of a consolidated settlement guarantee fund;

- the introduction of necessary changes in laws and regulations to provide for greater flexibility for use of leverage products such as margin financing and enhanced disclosure and monitoring requirements for investor protection and to mitigate against the misuse of investors' securities;

- the introduction of a new risk based know-your-client and customer due diligence regime differentiating customers based on their risk profiles;

- the introduction of minimum free float requirements for listed companies to improve liquidity and ensure efficient price discovery. For this purpose, free float methodology for accurately determining the amount of shares of listed companies freely available for trading to public has been revised and a free float verification system has been developed through the Central Depository Company (**CDC**) whereby free float reports are being generated directly for PSX and NCCPL;

- the introduction of new and improved regulatory framework including licensing regime and code of conduct for capital market infrastructure institutions (PSX, CDC and NCCPL), intermediaries and service providers (brokers, advisers, central know-your-client agency and bond pricing agency);

- a centralised customer compensation fund has been established under the securities law and strengthened to ensure that an adequate safety net is available to investors trading through brokers that have defaulted;

- in order to bolster the debt market, an independent bond pricing agency is in the process of being established under the Bond Pricing Agency Rules, 2017. The agency will be required to provide fair prices of bonds to the market on a regular basis, thus facilitating accurate valuation of debt instruments;

- 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 regulations for credit rating agencies in 2016;

- the continued development of the Islamic capital market through the Islamic Finance Department of the SECP (**IFD**), which is currently developing a Shari'ah Governance Framework covering Shari'ah Advisory services, Shari'ah Compliance, Internal and External Shari'ah Audit and a Shari'ah screening process for Shari'ah compliant companies and securities. IFD is also standardising the constitutive documents and introducing more Shari'a, Accounting, Auditing and Governance Standards issued by the AAOIFI (**Accounting and Auditing Organisation for Islamic Financial**

Institutions) for harmonisation of the diverse Islamic financial services under the mandate of SECP. The Companies Act 2017 made express provision for Shari'ah complaint companies and securities. In 2016, a special tax rebate of 2 per cent was introduced for Shari'ah compliant listed manufacturing companies and tax neutrality for Sukuk vis-a-vis conventional securitisation was introduced under the Finance Act 2016. Domestic listed sukuk continue to be issued with Rupees 10.5 billion sukuk by Fatima Fertilisers Ltd in December 2016 and Rupees 10 billion by K Electric Limited (formerly the Karachi Electric Supply Company) in 2013-14 followed by a Rupees 22 billion issuance by the same company in May 2015;

- 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, (since incorporated in the Public Offering (Regulated Securities Activities Licensing) Regulations, 2017);

- in March 2016, the Futures Market Act 2016 was enacted for regulation of futures markets and matters connected and incidental thereto; and

- in May 2017, the Government enacted the Companies Act, 2017 (which has replaced Companies Ordinance, 1984) to reform company law to facilitate corporatisation and encourage and regulate the use of technology and electronic means in business.

Financial Sector Regulation. Pakistan over the years has taken measures to enhance the banking sector including:

- strengthening supervision of the banking system, including measures to set up a deposit insurance system and a council of regulators so as to augment the overall financial stability framework in the country;

- 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 for financial institutions, aligning the requirements with the Basel standards (including implementation of Basel-III standard with effect from 31 December 2013) and promoting consolidation within the banking sector;

- promulgation of an anti-money laundering law granting several government agencies the authority to investigate and prosecute incidents of money laundering or terrorist financing and strengthening the anti-money laundering and counter-terrorist financing regulatory regime for banks;

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

- developing a regulatory framework with the Pakistan Telecommunication Authority for the development of branchless banking in Pakistan;

- implementing a broad national financial inclusion strategy launched in May 2015 to address the challenges underlying the current low level of financial inclusion. The strategy aims to enhance formal financial access to 50 per cent of the adult population by 2020;

- implementing a number of government and donor funded programmes to enhance provision of financial services to the unbanked segments of the population. The SBP has partnered with the U.K. Department for International Development to launch a "financial inclusion programme" to tackle financial exclusion among the poor and marginalised groups through a variety of supply side funds and credit enhancement facilities;

- implementing 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. The programme focuses on disseminating information on basic financial concepts, products and services to masses; focusing on budgeting, savings, investments, banking products and services, debt management and consumer rights and responsibilities;

- revising the SBP's Branch Licensing Policy to facilitate the provision of financial services in rural and under-served areas;

- 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.

The SBP supervises the financial derivatives market and issued the Financial Derivative Business Regulations (**FDBR**) in 2004 that contain the regulatory framework for over the counter financial derivatives. Under the FDBR, only those financial institutions that 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**) are allowed to offer foreign currency options, forward rate agreements and interest rate swaps to their customers for hedging the underlying exposure. If any ADD wishes to offer any other derivative transaction, which is not expressly permitted by the FDBR, to their customer, prior permission of SBP is required. Any other bank, which is not an ADD or NMI, wishing to execute a derivative transaction must seek a prior approval from the SBP.

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 receive, analyse and disseminate to the investigatory and supervisory authorities information concerning suspected proceeds of crime and alleged money laundering offences or transactions related to terrorism. The FMU also participates in regional and global efforts against money laundering. The Anti-Money Laundering Act 2010 created a new crime of money laundering that is punishable with imprisonment of up to ten years, a fine of up to Rupees 1 million (or Rupees 5 million where a company and every director, officer or employee of the company is found guilty of a money laundering offence) and forfeiture of any property involved in the money laundering or property of equivalent value.

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 first quarter of 2017, its conviction rate was 63 per cent against 73 per cent in 2016. NAB Chairman Qamar Zaman Chaudhary attributes this success in the prosecution of corruption to NAB's proactive National Anti-Corruption Strategy. NAB recently saw an increase in the number of investigators and is developing closer relationships with its international counterparts. NAB's total headcount stood at 2,377 as at 1 November 2017, including 627 investigators. Its budget in 2016-17 was Rupees 2,439 million, compared with Rupees 2,896 million in 2015-16 and Rupees 2,209 million in 2014-15. 293 investigations were authorised by NAB in 2017 (year to 1 November 2017), 567 in 2016 and 604 in 2015.

This represents a substantial increase on the 226 authorised in 2014 and 124 authorised in 2013. To date, 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, 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 – Risk factors relating to the Government - 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 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 and regulators.

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. Consequently, Pakistan was removed from the U.S.'s Financial Action Task Force's "Grey List" in February 2015.

Agricultural Sector

Agriculture continues to play a central role in Pakistan's economy. It accounted for 19.5 per cent of GDP in 2016-17, and is a source of livelihood of 42.3 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) as well as providing a market for industrial products.

The agricultural sector achieved growth of 3.46 per cent in 2016-17 against the target of 3.5 per cent and last year's growth of 0.27 per cent. The growth of the agricultural sector was a result of better harvesting of major crops and greater availability of water, agricultural credit and fertilisers. The increase in the production volumes of crops amounted to 3.02 per cent in 2016-17 as compared to the decrease of 4.97 per cent during 2015-16. The following table sets out information on trends in agriculture growth rates from 2012-13 to 2016-17:

	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**(1)
Agriculture......................	2.68	2.50	2.13	0.27	3.46
Crops	1.53	2.64	0.16	(4.97)	3.02
Important crops	0.17	7.22	(1.62)	(5.47)	4.12
Other crops.................	5.58	(5.71)	2.51	0.59	0.21
Cotton ginning	(2.90)	(1.33)	7.24	(22.12)	5.59
Livestock........................	3.45	2.48	3.99	3.36	3.43
Fisheries	0.65	0.98	5.75	3.25	1.23
Forestry..........................	6.58	1.88	(12.45)	14.31	14.49

(1) Provisional

Source: Ministry of Finance

Livestock is the single largest contributor to the overall agricultural sector, representing 58.33 per cent in 2016-17 and recording a growth rate of 3.43 per cent as compared to a growth rate of 3.63 per cent in 2015-16. Population growth, increased per capita income and export revenue are 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.

The crops sub-sector includes important crops, other crops and cotton ginning. Important crops and cotton ginning grew by 4.12 per cent and 5.59 per cent, respectively, in 2016-17 as compared with contraction in 2015-16 of 5.47 per cent and 22.12 per cent, respectively. Other crops grew by 0.21 per cent in 2016-17 as compared with growth of 0.59 per cent in 2015-16.

The production volume of important crops, which have a 23.85 per cent share in the agricultural sector, increased due to an expansion in cotton production (increase of 7.59 per cent), rice production (increase of 0.71 per cent), maize production (increase of 16.30 per cent) and sugarcane production (increase of 12.41 per cent) during 2016-17 as compared to 2015-16. Wheat production increased by 0.46 per cent in 2016-17 as compared to an increase of 2.18 in 2015-16.

The production volume of other crops, which accounted for an 11.03 per cent share in the agricultural sector increased by 0.21 per cent during 2016-17 as compared to an increase of 0.59 per cent during 2015-16. The production of gram and bajra has increased by 25.5 per cent and 1.7 per cent, respectively, in 2016-17 as compared to 2015-16. However, the production of barley, jowar, rapeseed and tobacco decreased during 2016-17 by 9.8 per cent. 7.5 per cent. 3.2 per cent and 2.6 per cent, respectively, compared to 2015-2016.

Important crops accounted for 23.85 per cent of the agricultural sector in 2016-17 as compared to 23.70 per cent in 2015-16. The following table sets out information regarding the production volumes of Pakistan's important crops for the periods indicated:

	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17(1)**	**2015-16**	**2016-17(1)**
	(thousand tons, unless otherwise stated)					**(*% change*)**	
Cotton (thousand bales)	13,031	12,769	13,960	9,917	10,671	(29.0)	7.6
Sugarcane	63,750	67,460	62,826	65,482	73,607	4.2	12.4
Rice	5,536	6,798	7,003	6,801	6,849	(2.9)	0.7
Maize	4,220	4,944	4,937	5,271	6,130	6.8	16.3
Wheat	24,211	25,979	25,086	25,633	25,750	2.2	0.5

(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 20.88 per cent of GDP in 2016-17. 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 "*Overview of Pakistan's Economy - Energy in Pakistan"* below. Although large-scale manufacturing (**LSM**) (which accounted for approximately 10.70 per cent of the GDP and 51.3 per cent of the industrial sector in 2016-17) has in recent years been significantly affected by the energy crisis, energy supply is improving. During 2016-17, it experienced growth of 4.93 per cent compared to growth of 2.94 per cent in 2015-16 and in the first quarter of 2017-18 it experienced growth of 8.4 per cent against 1.8 per cent in the same period of 2016-17. The sector had previously struggled due to the non-availability of the desired inputs for its growth. The major issue hampering growth was power shortages. When the current Government was elected, they focused on developing a road map to resolve the power crises in a fast and sustainable manner. As a result, the sector started to grow, making a contribution to overall economic growth. The LSM sector benefitted from the continued improvement in the supply of electricity and gas coupled with the expansion in credit in the private sector. The expansion of credit in the private sector remained high due to both lower cost and better market conditions.

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

Sector	Share of LSM Sector Output 2016-17	2014-15	2015-16	2016-17
	(%)		*(% growth)*	
Textiles	29.50	0.92	0.41	0.81
Food, beverages and tobacco	20.66	-1.37	0.56	11.49
Coke and petroleum products	3.80	8.50	-2.59	2.79
Pharmaceuticals	7.40	7.56	6.72	9.19
Chemicals	5.06	8.68	8.08	-2.11
Automobiles	5.48	23.52	16.11	11.22
Iron and steel products	2.87	35.40	-9.26	20.48
Fertilisers	4.13	4.56	13.86	1.66
Electronics	1.28	5.50	-1.94	17.02
Leather products	1.20	8.05	6.87	-17.02
Paper and board	6.17	-9.47	-1.55	7.18
Engineering products	0.98	-19.03	-14.79	4.00
Rubber products	1.34	3.10	7.27	-0.14
Non-metallic mineral products	10.12	2.25	9.99	4.44
Wood products	0.00	-75.26	-65.83	-93.74

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. In 2016-17, textiles contributed one fourth of the industrial sector's value-added output, employing 40 per cent of industrial sector's work force, using Rupees 860 billion of bank credit given to the industrial sector and accounting for approximately 62 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.

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 that have been developed by Pakistan's own industry.

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

In December 2013, 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 and 60 per cent of its exports to the EU will be duty-free. As a result of GSP^{+}, exports from Pakistan to EU countries increased from euro 3.36 billion during 2012-13 to euro 5.46 billion in 2016-17. See "*Overview of Pakistan's Economy – Structural Economic Reforms – Trade Reforms*".

Positive growth has been recorded in the textile-related sector of LSM of approximately 0.78 per cent in 2016-17, as compared to 0.66 per cent in 2015-16. In addition, imports of textile machinery and exports of textile products have increased. LSM growth during the first quarter of 2017-18 was 8.4 per cent compared to 1.8 per cent in the same period in 2016-17.

Pakistan is one of the world's top ten exporters of textiles according to the World Trade Organisation's World Trade Statistical Review 2017, rising from 9th to 7th in the reviews published respectively in 2016 and 2017 (in each case based on data in relation to the preceding year).

Energy in Pakistan

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

Natural gas has a dominant role in Pakistan's primary energy mix, contributing approximately 46 per cent of Pakistan's primary energy supplies in 2016-17. 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 Energy (Petroleum Division) is seeking to mitigate the shortfall through enhancing indigenous gas production 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 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 950 billion (2012-13 to 2016-17) paid out as a tariff differential subsidy, of which Rupees 342 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 (which has averaged over 4 per cent since 1951), 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, 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:

	2013	**2014**	**2015**	**2016**	**2017**
			(MW)		
Installed capacity	20,415	21,350	22,672	21,961	26,135
Dependable capacity[(1)]	18,393	19,335	19,500	20,438	21,635
Peak supply	15,062	16,170	16,500	17,500	19,600

(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, improving prosecution of electricity theft and the increase of tariffs to reflect actual electricity prices. Implementation of these reforms has resulted in a reduction in line losses (from 18.7 per cent in 2014-15 to 17.6 per cent in 2016-17) and increased collections from consumers (from 89.2 per cent in 2014-15 to 92.4 per cent in 2016-17) for distribution companies. 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 379 billion as at 30 June 2017. 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. Although the Government initially succeeded in reducing the rate of growth in circular debt that existed at the time the current Government was elected in May 2013, circular debt has continued to increase in recent months despite a capping plan being in place. The Government has added 6,640 MW of electricity to the national grid from the date of its election and until 1 November 2017 and a total of over 10,000 MW will be brought online by the end of 2018, easing load shedding considerably in Pakistan. 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 to achieve this goal. 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 Government has taken major structural reforms at policy level by merging the Power Division of the Ministry of Water & Power and the Petroleum Division of the Ministry of Petroleum & Natural Resources to form a new Ministry of Energy. This change will help streamline the gaps at the policy level allowing the Government to oversee better the energy sector and to create more synergies between the procurement of fuel supplies and power generation.

The Government also brought into operation a "Central Power Purchase Authority (Guarantee)" (**CPPA-G**) to take over financial management of electricity purchases from the National Transmission and Despatch Company (**NTDC**). The existing market for purchases and sales of electricity does not provide DISCOs with significant incentives for reducing costs and making prudent investments. The CPPA-G is intended to facilitate a transition to a competitive market for purchases and sales of electricity on a multi-buyer multi-seller model. This forms part of an overall strategy to improve efficiency in the market through competition in generation and retail and to facilitate financing of the power sector. Transmission and distribution of electricity are to remain regulated as they are natural monopolies. The Government expects that these reforms will result in lower tariffs and better service quality for end users.

Performance contracts have been signed with DISCOs to tackle losses, raise payment compliance and improve energy efficiency and service delivery.

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 2017, significant new electricity generation capacity has been brought online, including the newly developed LNG power plants at Bhikki, Balloki and Haveli Bahadur Shah, Sahiwal Coal

Power Plant as part of CPEC and two units of Chashma Nuclear Power Plant. These additions have eased the electricity shortfall situation and reduced load-shedding.

The following table sets out the details of the approved and recently completed power projects and other projects that have financial arrangements in place (see "*Overview of Pakistan's Economy - China Pakistan Economic Corridor*" for CPEC project details):

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	2018
Tarbela IV extension	1,410	Hydro-electric	700	2018
Tarbela V extension	1,250	Hydro-electric	Under estimation	-
Mangla power station upgradation	310	Hydro-electric	484	2023
Keyal Khwar Hydropower project	128	Hydro-electric	316	2021
Chashmu Nuclear Power Plant Units III & IV	680	Nuclear	1,809	Completed
Dasu (Phase I)	2,160	Hydro-electric	8,500	2023
Jamshoro Coal Power Plant	1,320	Coal	1,700	2019
Balloki	1,200	LNG	798	Completed
Haveli Bahadur Shah	1,200	LNG	854	Completed
Bhikki	1,180	LNG	770	Completed
Diamer Bhasha Dam	4,500	Hydro-electric	13,800	2024
Total	**18,507**			

Source: Ministry of Finance

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

	2011-12	2012-13	2013-14	2014-15	2015-16[1]
Energy supply					
MTOE..	64.73	64.59	66.85	70.26	73.96
Change (%)	0.32	(0.22)	3.50	5.10	5.27
Per capita					
Availability (*TOE*[2])	0.36	0.35	0.36	0.37	0.38
Change (%)	(1.68)	(2.07)	1.49	3.08	0.03

(1) Latest numbers available are for 2015-16.
(2) Tons of oil equivalent.

Source: Hydrocarbon Development Institute of Pakistan

The total primary commercial energy supply in 2015-16 was 73.96 MTOE against 70.26 MTOE in 2014-15. Oil comprised 34 per cent of energy supply during 2015-16, while gas comprised 41 per cent, liquid petroleum gas (LPG) 1.2 per cent, liquefied natural gas (LNG) 3.2 per cent, coal 6.9 per cent and electricity (hydro, nuclear and imported) comprised 13.3 per cent. During 2015-16, supply of coal increased by 2.3 per cent and supply of gas increased by 1.6 per cent compared to 2014-15, whereas the supply of oil and electricity increased by 1.2 per cent and 4.4 per cent, respectively, compared to 2014-15.

Consumption of natural gas increased during 2015-16 by 7.7 per cent compared to 2014-15, while consumption of petroleum products increased by 7.2 per cent over the same period.

Crude Oil. Recoverable reserves of crude oil in Pakistan at the end of 2016-17 were estimated at 332.17 million barrels. During 2016-17, average crude oil production per day remained 88,409 barrels per day compared to 86,481 barrels per day in 2015-16, an increase of 2.2 per cent.

In 2016-17, 63,272.89 barrels per day (71.56 per cent) were produced in the northern region and 25,136.47 barrels per day (28.93 per cent) were produced in the southern region, compared to 58,242 barrels per day (67.34 per cent) and 28,239 barrels per day (32.65 per cent) in the northern and southern region, respectively, in 2015-16. In 2016-17, year-on-year production of crude oil in the northern region increased by 8.64 per cent, whereas production in the southern region decreased by 10.99 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	2013-14	2014-15	2015-16	2016-17	2015-16/ 2016-17
		(Barrels of oil per day)			*(% change)*
Northern Region..........	54,152.01	58,618.69	58,242.22	63,272.89	8.64%
Dewan..........................	135.73	107.25	84.34	74.40	-11.78%
OGDCL	27,461.48	28,105.10	26,919.17	29,639.79	10.11%
OPL..............................	616.28	553.49	981.37	494.25	-49.64%

Region	2013-14	2014-15	2015-16	2016-17	2015-16/ 2016-17
	(Barrels of oil per day)				*(% change)*
POL..............................	1,943.45	1,701.80	1,451.56	1,561.06	7.54%
PPL..............................	6,191.91	6,199.46	6,582.87	7,427.02	12.82%
MOL.............................	17,293.40	20,012.62	20,181.05	21,760.92	7.83%
MPCL...........................	509.76	1,938.97	2,041.86	2,315.44	13.40%
Southern Region.........	32,381.49	35,874.61	28,239.17	25,136.47	-10.99%
OGDCL.........................	15,507.24	14,088.68	15,008.77	15,848.38	5.59%
UEP.............................	13,464.17	17,804.08	10,668.20	6,632.63	-37.83%
PPL..............................	227.94	244.56	231.50	717.12	209.77%
OPPL...........................	1,392.94	836.11	555.28	503.94	-9.25%
OMV.............................	45.57	71.85	111.54	90.50	-18.86%
ENI..............................	352.79	361.28	376.98	309.51	-17.90%
MPCL...........................	131.86	161.51	233.64	236.78	1.34%
OMV Maurice................	1,258.98	2,306.54	1,053.26	797.60	-24.27%
Total............................	86,533.50	94,493.30	86,481.39	88,409.36	2.23%

Source: Ministry of Energy (Petroleum Division)

Natural Gas. As at 30 June 2017, recoverable natural gas reserves (2P) have been estimated at 20.79 trillion cubic feet. Average production of natural gas during 2016-17 was 4,032 million cubic feet per day (**MMcfd**) as compared to 4,048 MMcfd during 2015-16, a decrease of 0.38 per cent. Natural gas is used to produce various consumer products and 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 fertilisers for the agricultural sector.

Gas utility companies have provided 507,063 new gas connections during fiscal year 2016-17 and there were about 8.5 million gas consumers across the country at the end of 2016-17.

As at 30 June 2017, 23 private and public-sector companies were engaged in oil and natural gas exploration and production activities. The following table sets out details of production of natural gas by company for the periods stated:

Company	2013-14	2014-15	2015-16	2016-17	2015-16/2016-17
			(Million cubic feet per day)		*(% change)*
OPPL	286.49	177.14	123.4	106.96	-13.32%
ENI	489.35	433.99	368.84	267.76	-27.40%
DEWAN.........................	18.31	15.04	12.34	10.51	-14.81%
MPCL	593.01	616.7	637.89	673.17	5.53%
OGDCL	1171.45	1168.42	1116.73	1,138.09	1.91%
OMV..............................	309.53	281.2	271.62	199.87	-26.41%
OPL..............................	9.4	7.49	13.8	6.53	-52.65%
POL..............................	14.68	12.08	11.16	9.44	-15.39%
PPL	647.8	637.63	661.36	767.50	16.05%
Hycarbex.......................	11.13	3.56			
Tullow		18.75			
PEL	19.54	334.99	21.55	27.72	28.61%
UEP	205.82	34.19	503.83	499.83	-0.79%
OMV Maurice	17.85	264.87	15.6	13.27	-14.96%
MOL	287.23	9.74	281.09	295.10	4.99%
POGC	10.21	4015.78	8.74	16.73	91.36%
Total	4091.8	8031.57	4047.95	4,032.48	-0.38%

Source: Ministry of Energy (Petroleum Division)

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 actively working on its part of the project and has laid 900 kilometres of pipeline to date. However, Pakistan has not yet commenced construction of its section of the pipeline due to international sanctions against Iran.

Turkmenistan–Afghanistan–Pakistan–India Pipeline Project (TAPI). TAPI is a 1,814 kilometre natural gas pipeline being financed by the Asian Development Bank that is expected to carry over 30 billion cubic meters of Turkmen gas through Afghanistan to consumers in Pakistan and India. Construction on the project started in Turkmenistan December 2015 and TAPI is expected to be operational by 2020. Pakistan formally launched surveying work in respect of the section to be constructed in Pakistan in 2016-17 and key construction agreements have now been entered into.

LNG. The Government has initiated extensive efforts to establish LNG terminals in Pakistan and an LNG terminal was completed in 2015 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 expected 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 was signed in February 2016.

The Russian government signed a deal with Pakistan last year for the laying of a pipeline from Karachi to Lahore to transport imported LNG. The Government had initially selected RT Global Resources, a wholly-owned subsidiary of Rostec State Corporation, a state-owned Russian entity, to carry out the project. However, Rostec State Corporation and RT Global Resources are currently listed on the Sectoral Sanctions Identifications List (**SSI List**) maintained by OFAC, which prohibits certain financing transactions by U.S. persons. Accordingly, due to sanctions on the Russian nominated entity, work on North South Gas Pipeline Project has not yet commenced. The project is expected to be carried out through a special purpose vehicle that will be wholly-owned by the Russian government (or its nominee). This special purpose vehicle will be independent, and not under the control, of Rostec State Corporation, RT Global Resources, their respective subsidiaries or any other party on the SSI List. The Government expects that this project will cost U.S.$2 billion. Pakistan will fund 15 per cent. of the construction cost by way of equity injection, while the remaining 85 per cent. will be financed by Russian sponsors yet to be determined, but expected to be export credit agencies, and on the basis of supplier credit. The Government now intends to proceed with the project based on the revised arrangements with the Russian Government having obtained a legal opinion on the matter from the Ministry of Law and Justice. An inter-Governmental agreement on the supply of LNG from Russia to Pakistan was signed on 13 October 2017.

Pakistan's Global Energy Infrastructure Limited, a private company, signed a 20-year FSRU contract with Höegh LNG for its import project in Port Qasim near Karachi. This project will be strengthened by Pakistan's Sui Northern Gas Pipeline's approval of the investment of Rupee 110.5 billion in a 1200 mmcfd pipeline from Karachi to Lahore. The pipeline is expected to be completed in October 2018.

In order to independently deal with LNG supplies and LNG terminal(s), two independent public-sector companies, Pakistan LNG Limited (**PLL**) and Pakistan LNG Terminal Limited (**PLTL**), were incorporated in 2015. In 2016, PLTL entered into an operation and services agreement with Pakistan Gas Port Consortium Limited (**PGPCL**) to establish a second LNG re-gasification terminal. This terminal is expected to be completed by the end of 2017 with a re-gasification capacity of 600 MMCFD. PLL, through a bid process, has awarded a term contract to M/s Gunvor and ENI for the supply of 100 MMCFD from each counterparty to PLL. PLL is also in the process of arranging the purchase of a further 400 MMCFD for this terminal to bring it to full capacity.

LPG. LPG contributed approximately 1.2 per cent of Pakistan's total energy supplies in 2015-16. 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 461,426 Mt of LPG during 2016-17 compared to 373,150Mt during 2015-16 and 145,634 Mt during 2014-15.

Compressed Natural Gas (CNG). 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 2016-17, approximately three million vehicles in Pakistan were using CNG. There are currently around 3,300 CNG stations operating in Pakistan.

Shale Oil and Gas. The Pakistan Directorate General of Petroleum Concessions has conducted a shale gas study with the assistance of USAID which measured the shale gas and shale oil potential of the lower and middle Indus basins and indicated the presence of a substantial shale gas and shale oil resources. These reserves, if they can be commercially extracted, have the potential to play a significant role in reducing Pakistan's energy shortages.

The study's findings are as set out below:

	Ghazij	Ranikot	Lower Goru	Sembar	Total
			(TCF)		
Free Gas					
In place	186	14	1,664	1,914	3,778
Technically recoverable	9	1	79	99	188
Risked recoverable	1	0.07	41	52	95
Absorbed Gas					
In place	57	8	3,702	2,614	6,381
			(BSTB)		
Shale Oil					
In place	450	154	910	809	2,323
Technically recoverable	11	4	22	21	58
Risked recoverable	1	0.2	6.5	6	14

Tight Gas. Pakistan is estimated to have 40 - 50 Tcf of tight gas reserves, of which only 30 per cent are considered to be 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 suitable 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 984 exploratory and 1,301 appraisal/development wells have been drilled to date, with an average well drilling density of 2.77 wells per 1,000 square kilometres. These wells have resulted in 342 discoveries, giving a success ratio of 1:2.88 as at 1 July 2016. The Ministry of Energy (Petroleum Division) 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 and 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 held 65 and 26 exploration licences, respectively, as at 30 June 2017. These companies are willing to enter into joint venture projects with international exploration and production companies in exploration of hydrocarbons 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, 6.5 million tons of coal were imported in 2016-17 and a further 3.5 million tons was produced locally. During 2016-17, 10 million tons of coal were supplied to various sectors of the economy compared to 8.38 million tons during 2015-16, an increase of 19.33 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.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Pakistan's balance of payments witnessed a significant improvement under the IMF Extended Fund Facility programme completed in 2016 despite weak export performances and low foreign direct investment. Pakistan has doubled its investment spending from Rupees 348 billion in 2012-13 to Rupees 800 billion in 2016-17. The current account deficit decreased from 1.3 per cent of GDP in 2013-14 to 1.0 per cent of GDP in 2014-15. Financial inflows into the country also remained strong, pushing the country's liquid foreign exchange reserves to U.S.$23.1 billion by end June 2016.

However, with the pick-up in real economic activity, the current account deficit has also increased over the last two years. In 2015-16, the current account balance deficit was U.S.$4.9 billion, which further increased to U.S.$12.4 billion in 2016-17, primarily due to a higher trade deficit and a small reduction in workers' remittances. In particular, strong growth in imports of capital goods (power and construction machinery), petroleum products and CPEC-related imports pushed the current account deficit to 4.1 per cent of GDP in 2016-17. This higher current account deficit put pressure on foreign exchange reserves, which decreased in 2016-2017. As at 13 October 2017, the country's total liquid foreign exchange reserves stood at U.S.$20.05 billion. In order to reduce the trade deficit, the Government announced an incentive package to facilitate exports in January 2017. These new incentives, together with better energy supplies, a significant improvement in security conditions, improved investor sentiment and growing external demand have contributed to a notable improvement in exports in recent months. Pakistan's exports receipts increased by 12.4 per cent during the first quarter of 2017-18 as compared to the same quarter of 2016-17. Imports decreased month-on-month over the quarter. In addition, foreign direct investment grew 57 per cent in the first quarter of 2017-18 as against the same period in 2016-17, while workers' remittances also returned to growth.

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

						Jul-Sep	
	2012-13	**2013-14**	**2014-15**	**2015-16[(R)]**	**2016-17**	**2016-17**	**2017-18**
				(U.S.$ million)			
Trade balance........	(15,355)	(16,590)	(17,267)	(19,283)	(26,568)	(5,265)	(7,220)
Export	24,802	25,078	24,090	21,972	21,938	5,052	5,676
Imports	40,157	41,668	41,357	41,255	48,506	10,317	12,896
Services balance (net)	(1,564)	(2,650)	(2,970)	(3,406)	(4,291)	(1,157)	(1,225)
Receipts	6,724	5,345	5,878	5,459	5,520	1,204	1,271
Payments	8,288	7,995	8,848	8,865	9,811	2,361	2,496
Of which:							
Transport .	3,297	3,874	4,160	3,286	3,872	906	1,048
Travel.......	1,233	1,073	1,518	1,839	1,995	589	610
Primary Income (net)	(3,669)	(3,955)	(4,599)	(5,347)	(5,039)	(992)	(983)

	2012-13	2013-14	2014-15	2015-16(R)	2016-17	Jul-Sep 2016-17	Jul-Sep 2017-18
Secondary Income (net)...........	18,092	20,065	22,041	23,169	23,459	5,777	5,871
Of which workers' remittances...	13,922	15,837	18,721	19,917	19,351	4,740	4,791
Current account balance	(2,496)	(3,130)	(2,795)	(4,867)	(12,439)	(1,637)	(3,557)
Capital account (net)	264	1,857	375	273	339	82	91
Financial account (net)	(549)	(5,553)	(5,074)	(6,790)	(9,976)	(1,932)	(1,058)
Direct investment (net)	(1,258)	(1,572)	(915)	(2,286)	(2,630)	(421)	(654)
Portfolio investment (net).....	(26)	(2,762)	(1,886)	429	235	(175)	100
Other investment assets	314	(211)	(71)	96	1,253	(124)	(352)
Other investment liabilities	(421)	1,010	2,200	5,029	8,834	1,212	152
Net errors and omissions..............	(309)	(422)	(8)	456	178	(100)	262
Reserves and related items	(1,992)	3,858	2,646	2,652	(1,946)	277	(2,146)

(R) Revised

Source: State Bank of Pakistan (data prepared on the basis of the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual)

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

	2012-13	2013-14	2014-15	2015-16	2016-17
			(% of GDP)		
Exports.............................	10.7	10.3	8.9	7.9	7.2
Imports.............................	17.3	17.0	15.3	14.8	15.9
Trade balance..................	(6.6)	(6.8)	(6.4)	(6.9)	(8.7)
Worker's remittances	6.0	6.5	6.9	7.1	6.4
Current account balance...	(1.1)	(1.3)	(1.0)	(1.7)	(4.1)

Source: State Bank of Pakistan

In response to the deterioration in Pakistan's balance of payments position, the SBP and the Government have taken the following measures:

- In February 2017, SBP imposed a 100 per cent cash margin requirement on the import of non-essential consumer products to contain trade deficit at a manageable level without adversely affecting import of machinery, raw materials and other items used in domestic production.

- The Government has left unchanged custom duties on a large number of non-essential items in the 2017-18 budget. In addition, the Government has recently imposed import duties on 731 non-essential items to promote the use of domestic products and to reduce the trade deficit.

- To facilitate exports, the Government has ensured uninterrupted energy supplies to export industries, especially textiles. Moreover, the Government has also announced an incentive package to increase exports. Exporters are also expected to benefit from a reduction in the costs of generating electricity by some power suppliers due to their switch to LNG-based power generation.

- The Government is also aiming at increasing foreign exchange inflows through borrowing on global markets and accelerating disbursement of approved official loans and grants.

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 totalled U.S.$21.94 billion in 2016-17, broadly unchanged from U.S.$21.97 billion in 2015-16. Exports have picked up in recent months and have increased by U.S.$624 million (12.4 per cent) during the July to September 2017 period as compared to the same period last year. The increase has been observed across all major commodity and product groups.

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

	2013-14	2014-15	2015-16	2016-17(P)	Jul-Sep (Q1) 2016-17	Jul-Sep (Q1) 2017-18	% Change 2016-17/ 2015-16	Absolute Change 2016-17/ 2015-16 (U.S.$ million)	% Share 2016-17	% Change Q1 2017-18 over Q1 2016-17
	(U.S.$ million)									
Food group	4,241	4,402	3,722	3,612	635	738	(3.0)	(110.5)	16.5	16.2
Textile manufacture .	13,659	13,540	12,756	12,454	3,263	3,064	(2.4)	(302.8)	56.8	6.5
Petroleum group	949	921	450	411	132	104	(8.7)	(39.5)	1.9	27.6
Other manufactures .	4,479	4,410	3,805	3,655	1,023	891	(3.9)	(149.9)	16.7	14.8
All other items	1,751	816	1,239	1807	520	359	45.8	569.0	8.2	45.0
Total........................	**25,078**	**24,090**	**21,972**	**21,938**	**5,676**	**5,052**	**(0.15)**	**(34.0)**	**100**	**12.4**

(1) Total exports in this table are based on data compiled by State Bank of Pakistan that differs from exports data compiled by the Pakistan Bureau of Statistics using customs records.
(P) Provisional
Source: State Bank of Pakistan

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

Country	2012-13	2013-14	2014-15	2015-16	2016-17(P)	Jul-Sep (Q1) 2016-17	Jul-Sep (Q1) 2017-18
				(U.S.$ billion)			
U.S..................................	3.89	3.95	3.96	3.72	3.68	0.90	094
China	2.70	2.69	2.32	1.91	1.62	0.32	0.35
United Arab Emirates.......	1.94	1.71	1.30	1.08	1.06	0.23	0.26
Afghanistan	1.06	1.24	1.70	1.23	1.13	0.23	0.32
United Kingdom	1.37	1.60	1.64	1.63	1.62	0.40	0.42
Germany	1.02	1.17	1.22	1.22	1.24	0.31	0.34
France.............................	0.45	0.53	0.50	0.43	0.42	0.10	0.11
Bangladesh	0.68	0.72	0.69	0.69	0.62	0.16	0.15
Italy	0.56	0.67	0.73	0.64	0.67	0.16	0.18
Spain...............................	0.54	0.64	0.79	0.79	0.80	0.19	0.21

(P) Provisional
Source: State Bank of Pakistan

Imports. Merchandise imports increased to U.S.$48.506 billion in 2016-17 compared to U.S.$41.255 billion in 2015-16, driven in particular by increases in imports during 2016-17 in the textile group (an increase of 25.8 per cent) and in the machinery group (an increase of

11.5 per cent). Imports during the first quarter of 2017-18 are showing a deceleration from June, 2017 on a monthly basis.

Pakistan imports significant amounts of crude oil from the United Arab Emirates (1,486.12 million Mt in 2016-17) and Saudi Arabia (1,060.97 million Mt in 2016-17). In 2013-14 it imported a small amount of crude oil from Thailand and a nominal amount from Iran, but no oil was imported from these countries in later years. Total crude oil imports in 2016-17 amounted to U.S.$2,547.10 million.

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

	2012-13	2013-14(R)	2014-15(R)	2015-16 (R)	2016-17(P)	Jul-Sep (Q1) 2016-17	Jul-Sep (Q1) 2017-18	% Change 2016-17/ 2015-16	Absolute Change 2016-17 / 2015-16 (U.S.$ million)	% Share 2016-17	% Change Q1 2017-18 / Q1 2016-17
			(U.S.$ million)								
Food group	3,914	4,147	4,624	4,600	5,419	1,174	1,475	17.8	819	11.2	25.6
Machinery group	4,014	5,053	5,693	7,097	7,910	1,705	2,204	11.5	813	16.3	29.3
Transport	1,707	1,660	1,962	1,861	2,643	544	797	42.0	782	5.4	46.4
Petroleum group	14,066	14,774	12,344	8,360	10,607	2,349	2,945	26.9	2,247	21.9	25.4
Textile group	2,563	2,292	2,410	3,155	3,968	680	764	25.8	813	8.2	12.4
Chemical group	6,323	6,862	6,699	6,715	7,123	1,678	1,950	6.1	408	14.7	16.2
Metal group	2,442	2,700	3,247	3,663	3,786	753	1,165	3.4	123	7.8	54.6
Miscellaneous	880	904	944	999	1,196	258	317	19.7	197	2.5	23.1
Other items	4,250	3,277	3,434	4,805	5,854	1,176	1,279	21.8	1049	12.1	8.7
Total	**40,157**	**41,668**	**41,357**	**41.255**	**48,506**	**10,317**	**12,896**	**17.6**	**7,251**	**100**	**25.0**

(1) Total imports in this table are based on import payments through banking channel, which may be different from the imports compiled by the Pakistan Bureau of Statistics on the basis of custom's recording. 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.

(R) Revised

(P) Provisional

Source: State Bank of Pakistan

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

Country	2012-13	2013-14	2014-15	2015-16	2016-17	Q1 2016-17	Q1 2017-18
	(*U.S.$ billion)*						
United Arab Emirates	6.4	7.3	7.4	6.1	7.7	1.61	2.19
China	4.73	5.98	7.0	8.8	10.6	2.04	2.87
Kuwait	3.4	3.1	2.2	1.2	1.1	0.25	0.21
Saudi Arabia	4.0	4.3	3.3	2.1	2.4	0.51	0.60
Malaysia	1.8	1.3	0.8	0.8	0.9	0.22	0.22
Japan	1.43	1.4	1.4	1.4	1.7	0.39	0.47
India	1.68	1.76	1.4	1.8	1.7	0.28	0.31
U.S.	1.0	1.1	1.2	1.5	2.1	0.46	0.43
Germany	0.97	1.0	0.9	1.0	1.1	0.22	0.29
Indonesia	0.7	0.89	1.1	1.22	1.0	0.26	0.31

(P) Provisional

Source: State Bank of Pakistan

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 exports to Iran food, medical instruments and other items that are exempt from trade sanctions. The volume of Pakistan's trade with Iran has also come down from U.S.$1,169 million in 2009-10 to U.S.$30 million in 2016-17, or less than 0.43 per cent of Pakistan's total trade. Pakistan has historically imported crude oil from Iran. However, as a result of the increasing sanctions, Pakistan reduced crude oil imports from Iran and then stopped them completely after 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. Geographically, Saudi Arabia, the United Arab Emirates, the U.S. and the U.K. are the principal sources of workers' remittances.

To date, the establishment of PRI has contributed positively to the flow of workers' remittances to Pakistan, which have grown by 72.3 per cent from 2010-11 to 2016-17. Following an extended period of healthy growth in the recent past, workers' remittances recorded a small reduction of 3.1 per cent in 2016-17 to U.S.$19.3 billion from U.S.$19.9 billion in 2015-16. However, the remittances flows slightly improved during the first quarter of 2017-18, increasing by 1.0 per cent as compared to the first quarter of 2016-17 to U.S.$4.8

billion. Remittances have shown growth of 2.3 per cent during the first four months of 2017-18.

Information on total workers' remittances and in workers' remittances from certain countries and regions is summarised in the table below:

						Jul-Sep	
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2016-17**	**2017-18**
				(U.S.$ billion)			
Total	**13.9**	**15.8**	**18.7**	**19.9**	**19.3**	**4.7**	**4.8**
USA	2.2	2.5	2.7	2.5	2.4	0.6	0.6
U.K.	1.9	2.2	2.4	2.6	2.3	0.5	0.6
Saudi Arabia	4.1	4.7	5.6	6.0	5.5	1.3	1.2
U.A.E.	2.8	3.1	4.2	4.4	4.3	1.1	1.1
Other GCC Country	1.6	1.9	2.2	2.4	2.3	0.6	0.6
EU Countries	0.4	0.4	0.4	0.4	0.5	0.1	0.2
All Other Countries	1.0	1.1	1.2	1.6	2.0	0.5	0.5

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. According to the Overseas Investors Chamber of Commerce and Industry's (**OICCI**) latest biannual "Business Confidence Survey" business sentiment in Pakistan is 21 per cent positive in November 2017 as compared to 13 per cent positive in May 2017. OICCI attributed this increase to improvement in global perception and business environment as well as an expected rise in capital investment over the next six months.

Foreign private investment amounted to U.S.$2.2 billion in 2016-17 as compared to U.S.$2.0 billion in 2015-16. Foreign direct private investment increased significantly in 2016-17 to U.S.$2.7 billion as compared to U.S.$2.3 billion in 2015-16. The foreign direct investment continued to improve as it registered growth of 77 per cent during the first four months of 2017-18 as compared to 2016-17, largely driven by energy, communications and financial services.

In 2016-17, more than 44 per cent of direct investment inflows were from China, with the balance coming principally from the Netherlands, U.K. and Turkey. Major recipient sectors of foreign direct investment in 2016-17 included power, food, construction and financial businesses. The telecommunications and tourism sectors industry, on the other hand, witnessed net foreign direct investment outflows in the same period. Insofar as foreign portfolio investment is concerned, the reclassification of the Pakistani stock market in the Emerging Markets (EM) Index by the Morgan Stanley Capital International (MSCI) in June 2016 (effective from June 2017) is expected to provide encouragement to investor sentiment, which is expected to have a positive impact on inflows.

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

	2012-13	2013-14	2014-15	2015-16	2016-17R	Jul-Sep 2016-17	Jul-Sep 2017-18
	(U.S.$ million)						
Foreign private investment	1,576.0	2,321.4	1,905.2	1,985.6	2218.0	450.9	583.7
Direct investment	1,456.5	1,698.6	987.9	2,305.3	2730.7	423.4	661.9
Inflow	2,665.3	2,847.4	2,797.0	3,165.2	3434.9	523.7	772.4
Outflow	1,208.9	1,148.8	1,809.1	859.9	704.2	100.3	110.4
Portfolio Investment	119.6	622.8	917.3	(319.7)	(512.8)	27.5	(78.2)
Equity securities	119.6	735.1	917.3	(319.7)	(512.8)	27.5	(78.2)
Debt securities	-	(112.2)		-	-		
Convertible bonds of Pakistan	-	-	-	-	-		
International bonds of PMCL	-	(112.2)		-	-		
Foreign public investment	4.6	2,115.2	927.1	(8.8)	262.1	90.8	(49.6)
Portfolio investment	4.6	2,115.2	927.1	(8.8)	262.1	90.8	(49.6)
Equity securities	-	-	-	-	-		
Debt securities(1)	4.6	2,115.2	927.1	(8.8)	262.1	90.8	(49.6)
Total	1,508.6	4,436.6	2,832.3	1,976.8	2480.0	541.7	534.1

(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

Since the second half of 2013-14, Pakistan's liquid foreign exchange reserves started improving from a low of U.S.$8.0 billion and peaked at U.S.$24.0 billion in October 2016. However, overall balance of payment deficits in the subsequent period led to a decline in Pakistan's liquid foreign exchange reserves. As at 13 October 2017, the country's foreign exchange reserves were U.S.$20.1 billion, which would finance more than three months of imports of goods and services.

The following table sets out the total liquid foreign exchange reserves (excluding gold), as well as the gold reserves, as at 30 June for the years stated:

	2013	2014	2015	2016	2017
	(U.S.$ million)				
Liquid Foreign Exchange Reserves	11,019.6	14,141.1	18,699.2	23,098.6	21,401.6

Gold reserves	2,469	2,726	2,428	2,739	2,578

Source: State Bank of Pakistan

Total foreign exchange reserves (excluding gold) were U.S.$21.4 billion as at the end of 2016-17.

Inflation, Money and Monetary Policy

Inflation. Consumer Price Index (CPI) inflation witnessed high volatility and remained in double digits during the period from 2008-09 to 2011-12, but decreased in the subsequent years. 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 decrease in international commodity prices in early 2009, devastating floods in 2010 severely disrupted the supply chain resulting in significant inflationary pressures. In 2014-15 and 2015-16, average CPI inflation eased significantly to 4.53 per cent and 2.86 per cent, respectively, from 8.62 per cent in 2013-14, reflecting the positive impact of monetary policy, fall in global commodity prices, particularly that of crude oil, and exchange rate stability.

However, owing to a limited recovery in global commodity prices and growing domestic demand, CPI inflation increased to 4.16 per cent in 2016-17. With soft global commodity price outlook, CPI inflation is expected to remain well below annual target of 6.0 per cent for 2017-18 as well. This is evident from deceleration in average inflation to 3.4 per cent in the first quarter of 2017-18 from 3.9 per cent in the same period last year.

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. The SBP also targets lower inflation through prudent monetary management.

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

	2012-13	2013-14	2014-15	2015-16	2016-17	Q1-2017-18
Indices						
General	174.53	189.58	198.16	203.83	212.29	216.93
Food	195.18	212.74	220.20	224.78	233.37	236.09
Non-food	162.16	175.69	184.95	191.25	199.65	205.44
Core(1)	158.62	172.19	183.45	191.10	200.98	207.53
Annual Inflation						
General	7.4	8.6	4.5	2.9	4.2	3.4
Food	7.1	9.0	3.5	2.1	3.8	1.2
Non-food	7.5	8.3	5.3	3.4	4.4	5.0
Core(1)	9.6	8.3	6.5	4.2	5.2	5.5

(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: The monetary aggregates (M2) increased by 13.7 per cent in 2016-17, which is the same as the increase in 2015-16. The main contribution to M2 growth came from an increase in net domestic assets of the banking system, which grew by Rupees 2,161 billion in 2016-17 compared to growth of Rupees 1,348 billion in 2015-16. The Government's net budgetary borrowing from the banking system was Rupees 1,087 billion in 2016-17, and the flow of credit to private sector was Rupees 748 billion in 2016-17. Due to deficit in the balance of payments, the net foreign assets of the banking system decreased by Rupees 405 billion in 2016-17 as compared to an increase of Rupees 195 billion in 2015-16.

During 2015-16, the SBP reduced its policy rate twice by 50bps and 25bps bringing it to its current 45 year-low of 5.75 per cent. The first rate cut, announced in September 2015, was based on SBP projections of lower than target inflation and prevailing high real interest rates. Given low inflation and stable macroeconomic conditions, the SBP reduced the policy rate by 50bps to encourage private sector investments. The second rate cut of 25bps came after the pause of eight months in May 2016. Since then, SBP has kept its policy rate unchanged as inflation continued to remain low, and economic activity recorded a gradual improvement.

The following table provides an overview of components of monetary assets as at 30 June for the periods stated and as at 30 September 2017.

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	30 Sep 2017
			(Stock, Rupees billion)				
1. Currency issued	1,785.8	2,050.2	2,317.9	2,715.6	3,563.7	4,176.8	4004.6
2. Currency held by SBP	2.0	1.1	0.5	0.5	0.6	1.0	0.1
3. Currency in tills of Scheduled Banks	110.1	110.9	139.5	160.3	229.3	264.6	212.1
4. Currency circulation (1-2-3)	1,673.7	1,938.2	2,177.9	2,554.7	3,333.8	3,911.2	3,801.5
5. Other deposits with SBP	8.9	9.1	11.7	13.7	18.8	22.7	22.9
6. Scheduled banks' total deposits(2)	5,959.1	6,909.1	7,777.0	8,713.6	9,472.3	10,647.2	10,668.1
7. Resident foreign currency deposits (RFCD)	440.1	515.0	599.4	597.8	587.3	650.2	678.7
8. Monetary assets (4+5+6)	7,641.8	8,856.4	9,966.6	11,282.1	12,824.9	14,581.1	14,492.5
9. Growth rate (%)	14.1	15.9	12.5	13.2	13.7	13.7	12.7
1. Currency/money ratio	21.9	21.9	21.9	22.6	26.0	26.8	26.2
2. Demand deposits/money ratio	61.7	63.1	65.3	65.6	63.9	64.4	64.9
3. Time deposits/money ratio	10.6	9.1	6.7	6.4	5.4	4.2	4.0
4. Other deposits/money ratio	0.1	0.1	0.1	0.1	0.1	0.2	0.5
5. RFCD/money ratio	5.8	5.8	6.0	5.3	4.6	4.5	4.7
6. Income velocity(3)	2.8	2.7	2.7	2.6	2.5	2.3	2.4

(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.

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 Rupee - U.S. dollar exchange rates have remained relatively stable over the past couple of years. After witnessing a depreciation of around 2.9 per cent, the Rupee - U.S. dollar rate remained stable at around the Rupees 104.7 per U.S.$ level throughout 2016-17. During the first four months of 2017-18, the exchange rate has witnessed a depreciation of 0.6 per cent and closed at Rupees 105.44 per U.S.$ on 25 October 2017.

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

Country	Currency	2012-13	2013-14	2014-15	2015-16	2016-17
Australia	Dollar	99.3942	94.4355	84.6839	76.0249	79.0809
Bangladesh	Taka	1.2122	1.3243	1.3066	1.3347	1.3171
Canada	Dollar	96.3918	96.1451	86.6255	78.7672	78.9813
China	Yuan	15.5241	16.7648	16.3958	16.1967	15.3812
Hong Kong	Dollar	12.4874	13.2656	13.0855	13.4517	13.4970
India	Rupee	1.7669	1.6748	1.6349	1.5731	1.5775
Iran	Rial	-	-	-	-	-
Japan	Yen	1.1101	1.0179	0.8865	0.8981	0.9610
Kuwait	Dinar	342.4492	363.7315	345.8825	345.3067	344.9283
Malaysia	Ringgit	31.4404	31.6969	29.3870	25.2657	24.4449
Nepal	Rupee	-	-	-	-	-
Norway	Krone	16.8206	17.0599	14.2622	12.4177	12.4579
Singapore	Dollar	78.1706	81.6418	77.3758	75.1182	75.2259
Sri Lanka	Rupee	0.7533	0.7852	0.7695	0.7343	0.7018
Sweden	Krona	14.6973	15.7563	13.1024	12.4197	11.8763
Switzerland	Franc	102.9119	113.8408	107.5754	106.5144	105.6945
S.Arabia	Riyal	25.8262	27.4309	27.0455	27.8271	27.9436

Country	Currency	2012-13	2013-14	2014-15	2015-16	2016-17
Thailand	Baht	3.1887	3.2066	3.1041	2.9393	3.0023
UAE	Dirham	26.3692	28.0088	27.6230	28.4165	28.534
U.K.	Pound	151.775	167.4607	159.5815	154.7033	132.8218
U.S.	Dollar	96.7272	102.8591	101.2947	104.2351	104.6971
EMU	Euro	125.3828	139.6286	121.6891	115.8746	114.1654
IMF	SDR(1)	138.94	147.23	157.84	-	-

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).

(1) 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 expenditure) 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 expenditure. No expenditure is deemed authorised unless it is presented before the National Assembly.

2017-18 Budget. The Pakistan 2017-18 budget, as published by the Finance Division of the Government of Pakistan on 30 May 2016, has the following main features:

- the total outlay of budget 2017-18 is Rupees 5,103.8 billion. This amount is 4.3 per cent higher than the amount of budget estimates for 2016-17;

- the resource availability during 2017-18 has been estimated at Rupees 4,681.2 billion against Rupees 4,442 billion in the budget estimates for 2016-17;

- the net revenue receipts for 2017-18 have been estimated at Rupees 2,926 billion indicating an increase of 5.3 per cent over the budget estimates for 2016-17;

- the provincial share in federal taxes is estimated at Rupees 2,384.2 billion during 2017-18, which is 11.6 per cent higher than the budget estimates for 2016-17;

- the net capital receipts for 2017-18 have been estimated at Rupees 552.5 billion against the budget estimates of Rupees 453.6 billion in 2016-17, i.e. an increase of 21.8 per cent;

- the external receipts in 2017-18 are estimated at Rupees 837.8 billion. This shows an increase of 2.2 per cent over the budget estimates for 2016-17;

- the overall expenditure during 2017-18 has been estimated at Rupees 5,103.8 billion, out of which the current expenditure is Rupees 3,763.7 billion and development expenditure is Rupees1,340.1 billion;

- the share of current and development expenditure in total budgetary outlay for 2017-18 is 73.7 per cent and 26.3 per cent, respectively;

- the expenditure on General Public Services is estimated at Rupees 2,553.6 billion, which is 67.8 per cent of the current expenditure;

- the other development expenditure outside Public Sector Development Programme (**PSDP**) for 2017-18 has been estimated at Rupees 152.2 billion;

- the size of PSDP for 2017-18 is Rupees 2,113 billion. Out of this amount, Rupees 1,112 billion has been allocated to provinces. Federal PSDP has been estimated at Rupees 1,001 billion, out of which Rupees 377.9 billion has been allocated to Federal Ministries / Divisions, Rupees 380.6 billion has been allocated to Corporations, Rupees 30 billion to Pakistan's Millennium Development Goals and Community Development Programme (**MDG**), Rupees 40 billion to Special Federal Development Programme, Rupees 125 billion for Energy for All, Rupees 12.58 billion for Clean Drinking Water for All, Rupees 7.5 billion to Earthquake Reconstruction and Rehabilitation Authority (**ERRA**), Rupees 5 billion for CPEC projects, Rupees 45 billion for Temporarily Displaced Persons (**TDPs**), Rupees 45 billion for Security Enhancement, Rupees 25 billion for Gas Infrastructure Development (**GID**) and Security Enhancement and Rupees 20 billion for Prime Minister's Youth Programme; and

- to meet expenditure, bank borrowing has been estimated for 2017-18 at Rupees 390.1 billion, which is significantly lower than revised estimates of 2016-17.

The main features of the 2017-18 budget are set out in the table below**:**

RECEIPTS		**EXPENDITURE**	
(*Rupees million*)			
(a) Tax revenue[1]	4,330.5		
FBR Taxes	4,013.0	**A. Current ....**	**3,477.1**
Other Taxes	317.5		
(b) Non-tax revenue	979.9	Interest payment	1,363.0
Gross revenue receipts................................	5,310.3	Pensions	248
Less provincial share	2,384.2	Defence affairs and services	920.2
		Grants and transfers..............................	430.2
I. Net revenue receipts (a-b)	2,926.1	Subsidies	138.8
II. Net capital receipts (non bank).................	528	Running of civil government	376.8
III. External receipts (net).............................	511.4		
IV. Estimated provincial surplus	347.3		
V. Bank borrowing	390.1	**B. Development ....**	1,275.8
VI. Privatisation proceeds	50	Federal PSDP	1,001.0
		Net lending..	122.6
		Other development expenditure	152.2
Total Resources (I to V).............................	**4,752.9**	**Total Expenditure (A+B)......................**	**4,752.9**

(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 2016-17 (budget and revised) and 2017-18 (budget) is set out below:

	Budget 2016-17	Revised 2016-17	Budget 2017-18
		(*Rupees million*)	
(i) Resources (a + b + c)	4,441,965	4,099,829	4,713,686
a. Internal resources..	3,572,354	3,085,768	3,825,863
Revenue receipts (Net)	2,779,695	2,616,007	2,926,074
Capital receipts (Net).................................	453,638	180,171	552,520
Estimated provincial surplus......................	339,022	289,589	347,269
b. External resources	819,610	996,287	837,824
c. Privatisation proceeds....................................	50,000	17,774	50,000
(ii) Expenditure (a + b)	4,894,879	4,841,196	5,103,780
a. Current expenditure on Revenue Account....	3,843,986	3,904,753	3,763,709
Current expenditure on Revenue Account...	3,843,986	3,904,753	3,763,709
b. Total Development Expenditure	1,050,893	936,443	1,304,072
Federal PSDP...	800,000	715,085	1,001,000
Other development expenditure	156,584	127,554	152,200
Development loans and grants to provinces..	94,309	93,805	186,871
Bank Borrowing..	452,915	741,367	390,094

Source: Ministry of Finance

Fiscal position of Pakistan

The following table summarises the consolidated federal and provincial governments' revenues and expenditures for 2014-15 and 2015-16 as well as budget estimates for 2017-18:

	2014-15	2015-16	2016-17	% change 2015-16/ 2016-17	Budget Estimates 2017- 18
	(*Rupees million*)			(%)	(*Rupees million*)
A. Total revenue	**3,931.0**	**4,447.0**	**4,936.7**	**11.0**	**6167.2**
(a) Tax revenue.........................	3017.6	3,660.4	3,969.2	8.4	4912.5
Federal	2,811.8	3,377.1	3,647.5	8.0	4330.5
of which FBR revenue	2,588.0	3,112.0	3,361.0	8.0	4,013.0

	2014-15	2015-16	2016-17	% change 2015-16/ 2016-17	Budget Estimates 2017- 18
	(*Rupees million*)			(%)	(*Rupees million*)
Provincial tax revenue	205.8	283.3	321.8	13.6	582.0
(b) Non-tax revenue	913.4	786.6	967.5	23.0	1,254.7
B. Total expenditure	**5,387.8**	**5,796.3**	**6,800.5**	**17.3**	**7,646.8**
(a) Current expenditure.............	4,424.7	4,694.3	5,197.9	10.7	5,393.9
Federal	3,037.6	3,144.3	3,472.2	10.4	3,451.1
Interest	1,303.8	1,263.4	1,348.4	6.7	1,363.0
Defence	697.8	757.6	888.1	17.2	920.166
Provincial..........................	1387.2	1,550.0	1,725.7	11.3	1,942.8
(b) Development expenditure and net lending	1,140.6	1,314.1	1,680.7	27.9	2,252.8
PSDP...............................	987.8	1,185.8	1,577.8	33.1	1.001
Other Development	125.0	115.7	115.7	0.1	152.2
Net lending	27.4	12.6	-12.8	-201.5	-12.3
(c) Unidentified expenditure	(177.6)	(212.1)	-78.0	-63.2	-
C. Overall fiscal deficit	**1,456.7**	**1.349.3**	**1,863.8**	**38.1**	**1,479.6**
As % of GDP............................	5.3	4.6	5.8	28.3	4.1
Financing of fiscal deficit...........	1,456.7	1.349.3	1,863.8	38.1	1,479.6
(i) External sources	181.0	370.5	541.4	46.1	511.4
(ii) Domestic sources...............	1,275.7	978.9	1,322.4	35.1	968.1
- Bank	892.1	787.0	1,045.8	32.9	390.1
- Non-bank.........................	366.1	191.8	276.6	44.2	528.0
- Privatisation Proceeds....	17.5	-	-	-	50.0
GDP at market price	**27,443**	**29,102**	**31,862**	**17.6**	**35,919**

Source: Ministry of Finance

Revenue and Expenditure

Revenue. During the period between 2010-11 and 2016-17, 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 4.6 per cent of GDP in 2015-16 compared to 5.8 per cent of GDP in 2016-17. This year-on-year increase is principally due to substantial overspending by the provincial governments and below-target tax revenues.

Tax Collection. Despite substantial progress in recent years, Pakistan has low tax revenues, which constrains its ability to meet the spending needs arising from the social security system, security challenges and infrastructure required to support economic growth. To meet the 2017-18 fiscal target, the authorities have taken a number of revenue and expenditure measures as described below.

- The FBR no longer has the authority to issue SROs except with the approval of the ECC and the Minister-in-charge. General government authority in this regard will be significantly limited. The Government is rationalising previously granted SROs. In the last three years, SROs and other exemptions amounting to Rupees 290 billion have been withdrawn.

- New tax measures have been introduced under the 2017-18 budget, which are expected to raise revenue by 0.3 per cent of GDP.

- 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.

- The FBR issued 547,008 tax notices in 2016-17.

Taken together, these measures resulted in a tax-to-GDP ratio of 12.5 per cent in 2016-17 compared to 12.6 per cent in 2015-16 and 11.0 per cent in 2014-15. A tax-to-GDP ratio of 13.7 per cent. is targeted for 2017-18.

The FBR tax collection target for 2017-18 is set at Rupees 4,013 billion and assumes higher economic growth and the implementation of tax administration reforms. The FBR's revenue collection in 2016-17 amounted to Rupees 3,361 billion, an increase of 8.2 per cent, as compared to Rupees 3,112 billion collected during 2015-16.

The net collection of direct taxes grew by 10.4 per cent in 2016-17 year-on-year. Major revenue sources for direct taxes are income tax, including withholding tax, voluntary payments and collection on demand. During 2016-17, net collection of indirect taxes grew by 6.8 per cent compared to 2015-16 and accounted for 60.1 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 federal 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 of Parliament 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 federal 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 (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 2009-10 to 56 per cent in 2010-11, and further increased to 57.5 per cent from 2011-12 onwards. The share of the federal government in the net proceeds of the divisible pool was 44 per cent for 2010-11, but decreased to 42.5 per cent for 2011-12 onwards. According to the current seventh NFC Award, transfers to provinces increased to Rupees 1,379 billion in 2013-14 compared to the transfer of Rupees 1,303 billion in 2012-13 and the transfer of Rupees 1,043 billion in 2011-12. During 2015-16, an amount of Rupees 1,746 billion was transferred to the provinces. Transfers to the provinces are projected to increase to Rupees 2,044 billion in 2016-17, constituting a 15 per cent increase on 2015-16 transfers.

The following table sets out divisible pool transfers:

2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (BE)**
(*Rupees billion*)							
837.865	958.976	1,118.959	1,264.259	1,429.549	1,760.342	1,834.010	2,268.999

(BE) – best estimate.

Expenditure. The increase in total expenditure was principally due to a significant increase in current expenditure, including the cost of running the civil administration, mainly due to the impact of higher salaries and allowances for federal government employees and increased development expenditure.

Current expenditure (**CE**) during 2016-17 is projected to exceed the level of CE during 2015-16.

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

	2012-13	2013-14	2014-15	2015-16	2016-17
Real GDP growth......................	3.7	4.1	4.1	4.5	5.3
Overall fiscal deficit...................	8.2	5.5	5.3	4.6	5.8
Expenditure					
Total	21.5	20.0	19.6	19.9	21.3
Current	16.4	15.9	16.1	16.1	16.3
Development and net lending	5.1	4.9	4.1	4.5	5.3
Revenue					
Total	13.3	14.5	14.3	15.3	15.5
Tax	9.8	10.2	11.0	12.6	12.5
Non-tax.....................................	3.5	4.3	3.3	2.7	3.0

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 as well as debt owed to the IMF. 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).

The composition of Pakistan's public debt has been weighted in favour of domestic debt over the past few years. As at 30 June 2017, domestic debt was approximately Rupees 14,854.7 billion (46.6 per cent of GDP) and external debt was approximately U.S.$62.5 billion. Given the relatively short maturity structure of domestic borrowing, comprised Rupees 6,556.6 billion of domestic debt (44.1 per cent of total domestic debt) having a maturity of less than one year and Rupees 2,630.6 billion of domestic debt (17.7 per cent of total domestic debt) in the national savings schemes 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 2016-17, the Government issued Rupees 522.8 billion with a maturity of three years, Rupees 239.1 billion with a maturity of five years and Rupees 132.1 billion with a maturity of ten years. Furthermore, the Government successfully conducted an auction of government ijara sukuk which raised Rupees 71 billion.. In 2015-16, the Government issued debt instruments in the amount of Rupees 484.8 billion with a maturity of three years, debt instruments in the amount of Rupees 407.6 billion with a maturity of five years, and debt instruments in the amount of Rupees 71.2 billion with a maturity of ten years. Further, the Government successfully conducted three auctions of government ijara sukuk and mobilised Rupees 314 billion. The Government has reduced the refinancing and interest rate risks of its debt portfolio. However, to refinance its debt in this way may be challenging depending upon future macroeconomic conditions. Any increase in interest rates may have an adverse fiscal effect and any depreciation of the Rupee may have 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 help to generate even higher economic growth in order to reduce the impact of growing public indebtedness.

Total public debt (**TPD**) as at the end of June 2016 was Rupees 19,678.1 billion, growing to Rupees 21,406.8 billion as at the end of June 2017, an increase of 8.8 per cent, while net public debt stood at Rupees 19,633.5 billion as at the end of June 2017. A number of factors contributed to the increase including borrowing from the IMF, dual revaluation loss on account of depreciation of U.S. dollar against other international currencies as well as depreciation of the Rupee against the U.S. dollar. The IMF loans are only applied towards Pakistan's balance of payments and are reflected in its foreign currency reserves. External public debt in U.S. dollars increased by 8.3 per cent during 2016-17 due to net external inflows and revaluation loss.

The Government is taking measures to reduce TPD and maintain debt levels within prudent limits. To place the debt-to-GDP ratio on a firm downward trajectory and bolster macroeconomic stability, the Government has made amendments to the Fiscal Responsibility and Debt Limitation Act 2005 (the **FRDL Act**) by defining the ceiling for the federal Government budget deficit at 4 per cent of GDP (excluding foreign grants) during the period from 2017-18 to 2019-20 and 3.5 per cent of GDP thereafter. The total public debt is projected to be reduced to 60 per cent of estimated GDP by the end of 2017-18 and thereafter a 15-year transition has been set towards a debt-to-GDP ratio of 50 per cent. As at 30 June 2017, TPD was 67.2 per cent of GDP.

During 2016-17, public debt servicing was Rupees 1,893 billion as compared to the budgeted estimate of Rupees 1,945 billion and consumed approximately 38 per cent of government revenues. The following table sets for the composition of Pakistan's TPD as at 30 June for the periods stated:

	2012-13	2013-14	2014-15	2015-16[(1)]	2016-17[(2)]
	(*Rupees billion*)				
Domestic debt..........................	9,521.9	10,920.0	12,198.9	13,626.9	14,854.7
Net domestic debt*	8,686.2	9,551.3	10,804.8	11,773.5	13,081.4
External debt	4,796.5	5,071.5	5,181.8	6,051.1	6,552.1
Total public debt	**14,318.4**	**15,991.5**	**17,380.7**	**19,678.1**	**21,406.8**
Net public debt*	**13,482.7**	**14,622.8**	**15,986.6**	**17,824.6**	**19,633.5**
	(*% of GDP*)				
Domestic debt	42.5	43.4	44.5	46.8	46.6
Net Domestic debt*	38.8	37.9	39.4	40.5	41.1
External debt	21.4	20.1	18.9	20.8	20.6
Total public debt	**64.0**	**63.5**	**63.3**	**67.6**	**67.2**
Net public debt*	60.2	58.1	58.3	61.2	61.6
	(*% of revenues*)				
Domestic debt	319.3	300.2	310.3	306.4	299.3
External debt	160.8	139.4	131.8	136.1	132.0
Total public debt	**480.1**	**439.7**	**442.1**	**442.5**	**431.3**
	(*% of total debt*)				
Domestic debt	66.5	68.3	70.2	69.2	69.4
External debt	33.5	31.7	29.8	30.8	30.6
Foreign currency debt (*U.S.$ billion*)	48.1	51.3	50.9	57.7	62.5
Exchange rate (*Rupees/U.S.$ at end of period*)	99.7	98.8	101.8	104.8	104.9
GDP (*Rupees billion*)	22,386	25,169	27,443	29,103	31,862
Total revenue (*Rupees billion*)	**2,982**	**3,637**	**3.931**	**4,447**	**4,964**

*Excluding impact of increase in credit balances of the government with SBP/Commercial Banks

(1) Revised and approved by the National Assembly in June 2017

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2016-17.

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 (mainly 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 1,227.8 billion to Rupees 14,854 billion, or 46.6 per cent of GDP, as at 30 June 2017, compared with the 1,428.4 increase in the previous year. Further, the volume of floating debt (short term treasury bills) increased to Rupees 6,556.6 billion, or 31 per cent of TPD, in 2016-17 compared with Rupees 5,001.8 billion, or 25.4 per cent of TPD, in 2015-16. The following table provides a summary of outstanding domestic debt as at the end (30 June) of the periods stated:

	2012-13	**2013-14**	**2014-15**	**2015-16[(1)]**	**2016-17[(2)]**
	(*Rupees billion*)				
Permanent debt[(3)]	2,179.2	4,005.3	5,016.0	5,944.2	5,532.9
Floating debt[(4)]	5,196.2	4,610,9	4,612.6	5,001.8	6,556.6
Unfunded debt[(5)]	2,146.5	2,303.8	2,570.3	2,680.9	2,765.3
Total	**9,521.9**	**10,920.0**	**12,198.9**	**13,626.9**	**14,854.7**
	(*% of GDP*)				
Permanent debt[(3)]	9.7	15.9	18.3	20.4	17.4
Floating debt[(4)]	23.2	18.3	16.8	17.2	20.6
Unfunded debt[(5)]	9.6	9.2	9.4	9.2	8.7
Total	**42.5**	**43.4**	**44.5**	**46.8**	**46.6**
	(*% of Total Domestic Debt*)				
Permanent debt[(3)]	22.9	36.7	41.1	43.6	37.2
Floating debt[(4)]	54.6	42.2	37.8	36.7	44.1
Unfunded debt[(5)]	22.5	21.1	21.1	19.7	18.6
GDP at market price (*Rupees billion*)	**22,385.7**	**25,168.8**	**27,443.0**	**29,102.6**	**31,862.2**

(1) Revised and approved by the National Assembly in June 2017.

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2016-17.

(3) 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 37.2 per cent of Pakistan's total domestic debt in 2016-17 against 43.6 per cent in 2015-16.

(4) Floating debt consists mainly 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 (33.0 per cent of current treasury bills), six months (45.0 per cent of treasury bills) and 12 months (22.0 per cent of treasury bills) as at 30 June 2017. 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 44.1 per cent of Pakistan's total domestic debt as at the of end of June 2017 as against 36.7 per cent as at the end of June 2015-16.

(5) Unfunded debt is mainly 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 experienced changes. In 2016-17, unfunded debt comprised 18.6 per cent of domestic debt (floating debt 44.1 per cent; permanent debt 37.2 per cent). The average maturity of domestic debt at the end of December 2016 improved to 2.1 years compared with 1.8 years at the end of December 2012. Domestic debt having maturity of less than a year decreased from 64.2 per cent at the end of December 2012 to 52.7 per cent at the end of December 2016. Whilst the current low interest rate environment enables the Government 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:

		2012-13	**2013-14**	**2014-15**	**2015-16[(1)]**	**2016-17[(2)]**
Domestic outstanding debt (Rupees billion)		9,521.9	10,920.0	12,198.9	13,626.9	14,748.1
Interest payments (Rupees billion)		920.4	1,072.8	1,208.1	1,150.8	1,220.3
Domestic interest payment as % of	Tax revenue	41.8	41.8	40.0	31.4	30.7
	Total revenue	30.9	29.5	30.7	25.9	24.6
	Total expenditure	19.1	21.3	22.4	19.9	17.9
	Current expenditure	25.1	26.8	27.3	24.5	23.5
	GDP	4.1	4.3	4.4	4.0	3.8

(1) Revised and approved by the National Assembly in June 2017.

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2016-17

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 2017, EDL was dominated by public and publically guaranteed (PPG) debt, comprising 69 per cent of total EDL. This debt was principally obtained from multilateral and bilateral counterparties. Debt obligations of the private sector in 2016-17 were limited and constituted **around** 8 per cent of total EDL. Borrowings from the IMF comprised 7 per cent of total EDL.

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 4.1 per cent per annum for 2011-12 to

2016-17, resulting in an increase in Pakistan's external debt in local currency. Pakistan's loss on foreign currency debt is mitigated by the favourable 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. The Government has recently hedged its short to medium term external public debt payments denominated in euro and Japanese Yen to lock the revaluation gain on these currencies. Pakistan's external debt is derived from four key sources, with 55 per cent coming from multilateral loans, 29 per cent from bilateral loans, 8 per cent from bonds and 8 per cent from commercial loans. The following table summarises Pakistan's external debt as at the end (30 June) of the periods stated:

	2012-13	**2013-14**	**2014-15**	**2015-16**[(1)]	**2016-17**[(2)]
	(*U.S.$ billion*)				
1. Public and publicly guaranteed (**PPG**) debt	44.4	49.0	47.8	53.0	57.6
(a) Medium and long term (>l year)	44.1	48.2	46.8	51.3	56.8
(b) Short term (<1 year)	0.3	0.7	1.0	1.7	0.9
2. Private Sector Debt	3.1	3.1	3.0	4.1	6.4
3. Public sector non-guaranteed enterprises (**PSEs' debt**)	1.3	1.5	1.5	1.5	1.5
4. IMF	4.4	3.0	4.1	6.0	6.1
5. Banks	1.6	2.0	2.3	2.7	4.5
6. Debt liabilities to direct investors - intercompany debt	3.1	3.4	2.7	3.0	3.2
Total external debt (1 through 6)	**57.8**	**62.0**	**61.5**	**70.3**	**79.4**
7. Foreign exchange liabilities	3.1	3.3	3.7	3.6	3.6
Total external debt and liabilities (1 through 7)	**60.9**	**65.3**	**65.2**	**73.9**	**83.0**
(of which) public debt	48.4	51.9	51.4	57.8	62.7
Official liquid reserves	6.0	9.2	13.5	18.2	16.2
	(*% of GDP*)				
Total external debt (1 through 6)	**25.0**	**25.3**	**22.7**	**25.2**	**26.1**
1. Public and publicly guaranteed (**PPG**) debt	19.2	20.0	17.6	19.0	18.9

	2012-13	2013-14	2014-15	2015-16[(1)]	2016-17[(2)]
(a) Medium and long term (>l year)	19.0	19.7	17.3	18.4	18.7
b) Short Term (<1 year)	0.1	0.3	0.4	0.6	0.3
2. Private sector debt (>1 year)	1.3	1.3	1.1	1.5	2.1
3. Public sector enterprises (PSEs' debt)	0.6	0.6	0.6	0.5	0.5
4. IMF	1.9	1.2	1.5	2.2	2.0
5. Banks	0.7	0.8	0.8	1.0	1.5
6. Debt liabilities to direct investors – intercompany debt	1.3	1.4	1.0	1.1	1.1
7. Foreign exchange liabilities	1.3	1.3	1.4	1.3	1.2
Total external debt and liabilities (1 through 7)	**26.3**	**26.7**	**24.1**	**26.5**	**27.3**
Official liquid reserves	2.6	3.8	5.0	6.5	5.3
Notes:					
GDP (*Rupees billion*)	22,385.7	25,168.8	27,443.0	29,102.6	31,862.2
Exchange Rate (*Rupees/U.S.$, period average*)	96.7	102.9	101.3	104.2	104.7
Exchange Rate (*Rupees/U.S.$, end of June*)	99.7	98.8	101.8	104.8	104.9
GDP (*U.S.$ billion*)	231	245	271	279	304

(1) Revised and approved by the National Assembly in June 2017

(2) Provisional pending National Assembly approval of Pakistan's economic data for 2016-17.

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

The following table sets forth information on public external debt servicing for the periods stated:

	2012-13	2013-14	2014-15	2015-16	2016-17
			(*U.S.$ million*)		
Principal and interest	5,595.0	5,994.6	4,475.0	4,340.0	6,440.0

Source: Ministry of Finance

Total expenditure on EDL servicing amounted to U.S.$12,313 million in 2016-17. U.S.$6,537 million was applied to the repayment of maturing EDL stock, while interest payments accounted for U.S.$1,620 million and U.S.$4,157 million was rolled-over.

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

Counterparty	2017-18	2018-19	2019-20	2020-21	2021-22
			(*U.S.$ million*)		
Paris Club					
Principal	627.07	674.35	719.71	762.68	810.96
Interest	239.25	222.22	206.47	188.45	169.39
Sub-total	866.31	896.57	926.17	951.13	980.36
Non-Paris Club					
Principal	779.80	379.05	442.97	433.27	549.33
Interest	150.23	133.20	122.13	109.56	96.32
Sub-total	930.03	512.25	565.10	542.83	645.65
Total	**1,796.34**	**1,408.81**	**1,491.28**	**1,493.96**	**1,626.01**

Source: Economic Affairs Division

A significant portion of the IMF loans have already been repaid, however, any further reductions will be offset by an increase in debt servicing over the medium-term arising from:

- the repayment of rescheduled Paris Club debt under Official Development Assistance (**ODA**) starting from 2016-17;
- the repayment of the Extended Fund Facility to the IMF beginning in 2017-18;
- the 5 year eurobond issued in April 2014 (U.S.$1 billion) maturing in 2018-19;
- the 5-year sukuk issued in November 2014 (U.S.$1 billion) maturing in 2019-20;
- the 5-year sukuk issued in October 2016 (U.S.$1 billion) maturing in 2021-22;
- the eurobond and sukuk issuances announced in November 2017.

Public and Publicly Guaranteed **(*PPG*)** ***Debt***. PPG debt consists of all loans obtained and bonds issued 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 at 31 March 2017, the Government had entered into guarantees totalling Rupees 663 billion, 85 per cent of which were denominated in Rupees. In addition, it entered into counter-guarantees in commodity financing operations of Rupees 555 billion as at 31 March 2017.

EDL was U.S.$83.0 billion as at 30 June 2017, out of which public external debt amounted to U.S.$62.5 billion. The IMF approved a three year Extended Fund Facility programme for Pakistan on 4 September 2013 for SDR 4.39 billion (U.S.$6.15 billion). During 2016-17, Pakistan incurred a loss on its external debt in the amount of U.S.$1.3 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 8.250 per cent due September 2025, (ii) U.S.$1,000 million 7.250 per cent due in April 2019, (iii) U.S.$1,000 million Sukuk 6.750 per cent due December 2019, (iv) U.S.$1,000 million 8.3 per cent due April 2024; (v) U.S.$300 million 7.9 per cent due March 2036 and (vi) U.S.$1,000 million Sukuk 6.750 per cent due October 2021.

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 financing with favourable terms 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 borrowing due to the lack of sufficient external inflows. In addition to the macro-economic reforms the Government has initiated, Government policy is 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 the resulting agreement, 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 as follows:

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 in the amount of U.S.$1.305 billion, of which U.S.$514 million has been disbursed. The remaining amounts are to be disbursed over the next five years. The loans carry interest of 6-month LIBOR plus 1.65 per cent per annum and have an average maturity of up to 30 years. As at 30 June 2017, U.S.$1.296 billion was outstanding on loans provided by the IBRD. The International Development Association (**IDA**) has extended loans worth U.S.$3.679 billion, of which U.S.$1.541 billion has been disbursed. The balance of U.S.$2.3 billion is to be disbursed over the next five years. The loans carry interest of 1.25 per cent annum and have an average maturity of 25 years, including grace periods of five years and service charges of 0.75 per cent per annum. As at 30 June 2017, U.S.$13.840 billion was outstanding on loans provided by the IDA. In addition, the Government has signed a budgetary support agreement with IDA for a credit of U.S.$301.6 million for a growth, investment and competitiveness programme during 2016-17. The Government, IDA and IBRD are currently in negotiations for financing of development projects.

Asian Development Bank (ADB). Most of ADB's loans come from its market-based ordinary capital resource lending, offered on near-market terms of six month LIBOR plus 50 basis points. ADB applies 0.15 per cent commitment charges on undisbursed balance. ADB also provides concessional loans at a rate of 2 per cent per annum without any commitment charges. The maximum repayment duration is 25 years including a five year grace period.

Furthermore, ADB provides technical assistance grants for capacity building, research studies and project preparation. ADB also mobilises co-financing from other bilateral and multilateral development partners.

At present, ADB's average annual allocation is U.S.$2 billion per annum. However, ADB has now committed to increase this annual allocation from U.S.$2 billion to U.S.$2.5 billion from 2018. As at 30 September 2017, ADB's loans under approved/active projects amounted to US$6.207 billion, of which US$2.050 billion has been disbursed. As at 30 June 2017, US$11.088 billion of debt was outstanding to ADB.

Furthermore, ADB is providing U.S.$343 million by way of grants, of which U.S.$114 million has been disbursed. The undisbursed amounts are expected to be disbursed over the next four to five years depending on the implementation period and progress of the projects.

Islamic Development Bank (IDB). Total debt outstanding on loans provided by IDB comprised U.S.$989 million in medium and long-term financing and U.S.$832 million in short term financing as at 30 June 2017. IDB has a three years partnership strategy with Pakistan with the provision of up to U.S.$3 billion allocated under the country partnership strategy for Pakistan. The amount allocated for 2012-2015 was utilised and IDB is considering allocations for the next phase.

Asia Infrastructure Investment Bank (AIIB). Asian Infrastructure Investment Bank (**AIIB**) is a multilateral international bank established for finance support to developing countries for infrastructure development in order to promote regional connectivity in the Asia-Pacific region.

Pakistan formally joined the AIIB as one of its founding members after the signing of Instruments of Ratification on 3 December 2015. The Bank started its formal operations on 25 December 2015 after entry into force of its Articles of Agreement.

AIIB has provided finance for its first project, the Pakistan M-4 Motorway Shorkot-Khanewal section, in respect of which U.S.$100 million has been made available. A second project in Pakistan, the Tarbella-V extension project, is being considered by AIIB and U.S.$300 million has been approved for this project. As at 30 June 2017, U.S.$26 million of debt was outstanding to AIIB.

Pakistan has also received bilateral economic assistance from 32 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.$9.2 billion, of which an amount of U.S.$4.06 billion has been disbursed with the remainder to be disbursed over the next five years with repayment over 15-20 years, including five to seven years of grace period. Pakistan and China are also considering the implementation of a large number of projects of mutual interest for both CPEC and non CPEC projects. Since 2008, China has provided grants of around U.S.$684 million. Of this amount, U.S.$278 million has been utilised on various projects and relief items. As at 30 June 2017, U.S.$6 billion of debt was outstanding to China.

- ***European Union***. The European Union has a large development assistance programme in Pakistan. The basis of our relationship is the Memorandum of Understanding signed in 1991 between the Commission of the European Communities and Pakistan. The total amount of development assistance provided by the EU to date is euro 1.751 billion, including bilateral and humanitarian assistance. The EU provides grant assistance for rural development, natural resources management, education and human resources development. Some other areas of Pakistan-EU development cooperation are trade, economic cooperation, democracy, human rights, counter terrorism, security and humanitarian assistance. The Memorandum of Understanding of the Multi-year Indicative Programme (MIP) 2014-2020 for Pakistan amounting to euro 653 million was signed on 15 December 2015 in the areas of rural development, education, good governance, human rights and rule of law and support measures for preparation and implementation of actions.

- ***France***. France is currently providing loans to Pakistan totalling U.S.$440 million, of which U.S.$183 million has been disbursed. As at 30 June 2017, U.S.$1.713 billion of debt was outstanding to France.

- ***Japan*.** Japan provides support to Pakistan through its Official Development Assistance programme (**ODA**). ODA loans are extended mostly for basic economic and social infrastructure projects. Currently, there are seven active loans amounting to U.S.$882 million in the areas of power, roads / infrastructure and irrigation, of which U.S.$557 million has been disbursed. These loans carry interest rates of 0.1 per cent.-0.4 per cent. with repayment schedules of 30 years including 10 years grace periods. Japan has provided U.S.$50 million soft loan for Energy Sector Reforms Programme during 2014-15, which was fully disbursed by 30 June 2015. The government of Japan further contributed approximately U.S.$43 million during 2015-16 for Energy Sector Reforms Programme, which was fully disbursed on 26 February 2016. As at 30 June 2017, U.S.$5,945 million debt was outstanding to Japan.

- ***Saudi Arabia.*** Loans totalling U.S.$405 million and grants of U.S.$227 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 a five-year grace period. Total debt outstanding to Saudi Arabia was U.S.$109 million as at 30 June 2017.

- ***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***. Pakistan has a significant bilateral relationship with the U.K. underpinned by the shared heritage, closely aligned strategic outlook and interests. Pakistan and the U.K. entered into a long-term development assistance relationship in 2006 by signing a 10-year Development Partnership Arrangement (**DPA**). DPA reaffirmed the partnership between the two sides and laid down a joint vision to: reduce poverty and achieve Pakistan's MDGs, strengthen financial management and accountability, respect international human rights obligations and improve coordination between donors. Pakistan's MDGs, set out in 2000, are to: (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) reduce child mortality; (v) improve mental health; (vi) combat HIV/AIDS, malaria and other disease, (vii) ensure environmental sustainability; and (viii) develop a global partnership for development. The Economic Affairs Division and DFID have started discussions on the new DPA which is expected to be signed during the current year.

  U.K. aid for Pakistan in 2016-17 totalled £609 million including £445 million from DFID, £96 million from multilateral sources, £36 million from the Centrally Managed Programme and £24 million from the British Council and others. The total aid for Pakistan in 2017-18 is £668.81 million, of which DFID's commitment is £400.24 million.

  As at 30 June 2017, U.S.$6 million of debt was outstanding to the United Kingdom.

- ***United States.*** In 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 benefited from the assistance included energy security, food security, social development and affected areas. The duration of PEPA has been extended up to 30 September 2020. As at 30 June 2017, U.S.$1,313 million of debt was outstanding to the United States.

- ***Turkey***. Pakistan – Turkey economic relations are institutionalised through a joint ministerial committee established in 1975. In November 2011, a bilateral currency swap arrangement for U.S.$1 billion was signed between State Bank of Pakistan and the Central Bank of the Republic of Turkey to finance bilateral trade. The two countries entered into a Preferential Trade Agreement in 2014 and the negotiations to upgrade it to a Free Trade Agreement are underway. Seven rounds of negotiations have been held, most recently in Islamabad on 9 July 2017.

During the then Prime Minister's visit Turkey on 16-18 September 2013, Pakistan signed a memorandum of understanding with Exim Bank Turkey for a credit line of U.S.$300 million over a period of three years. To utilise the amount, a list of 10 projects proposals in the field of energy, infrastructure, information technology and railways was forwarded to the Turkish side. Two energy sector projects from this list have been shortlisted for finance subject to the terms being finalised.

The Turkish Government has also committed U.S.$20 million grant for rehabilitation of temporarily displaced persons as well as those affected by the 2014 floods.

Other sources of bilateral financing include Kuwait (active loans of U.S.$161 million), Italy (active loan of U.S.$46.55 million) and South Korea (active loans of U.S.$214 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 text in italics) will be endorsed on the Certificates issued in respect of the Notes:

The U.S.$1,500,000,000 6.875 per cent. Notes due 2027 (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 5 December 2017 (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 SA/NV (**Euroclear**) and Clearstream Banking S.A. (**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 "Clearance and Settlement".

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 10.3) 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 10.3), 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 5 December 2017 to but excluding the Maturity Date (as defined in Condition 7.1) at the rate of 6.875 per cent. per annum, payable semi-annually in arrear on 5 June and 5 December in each year (each an **Interest Payment Date**). The first payment (representing six months' interest) shall be made on 5 June 2018.

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. 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

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 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).

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 in the Agency Agreement. 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 Fiscal Agent, a Registrar, a Paying Agent and a Transfer Agent. 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 5 December 2027 (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 (where presentation is required) by or on behalf of a Noteholder who is liable for such 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 (where presentation is required) by or on behalf of a Noteholder more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant Noteholder 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).

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 Condition13.4(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 16 (*Governing Law and 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*):

(a) through the systems of Clearstream Banking S.A., Euroclear Bank SA/NV 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 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.

16 Governing Law and Jurisdiction

16.1 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 shall be construed in accordance with, English law.

16.2 Jurisdiction

The Issuer irrevocably submits for the benefit of the Noteholders to the exclusive 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 (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Related Proceeding**). The Issuer 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.

16.3 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.

16.4 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 irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction (and 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 a Related Judgment. The waiver of immunities referred to herein constitutes only a limited and specific waiver for the purposes of these Conditions and under no circumstances shall it be interpreted as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to these Conditions. The Issuer has not waived 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).

17 Contracts (Rights of Third Parties) Act 1999

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 liable for 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.

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**). However, Estonia has since stated that it will not participate.

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.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. 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 10 November 2017 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.

Stamp Duty on any transfer of the Notes

Under the Stamp Act 1899, any transfer of the Notes outside Pakistan would not give rise to liability to pay stamp duty in Pakistan provided that the Notes so transferred or any instrument of transfer related thereto are not executed or brought into Pakistan.

CLEARANCE AND SETTLEMENT

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 fourth business day following the date of pricing (such settlement cycle being referred to as **T+4**). 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 joint lead managers named in the table below (the **Joint Lead Managers**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 4 December 2017 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 per cent. of the principal amount of the Notes, less a combined management and underwriting commission, subject to the provisions of the Subscription Agreement.

	Underwriting Commitment
Joint Lead Manager	**Notes**
	U.S.$
Citigroup Global Markets Limited	375,000,000
Deutsche Bank AG, London Branch	375,000,000
ICBC International Securities Limited	375,000,000
Standard Chartered Bank	375,000,000
Total	1,500,000,000

The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead 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. The Subscription Agreement also provides that the obligations of the Joint Lead Managers to subscribe for the Notes is subject to certain conditions precedent, including (among other things) receipt of legal opinions from counsel.

Joint Lead Managers Transacting with the Issuer

All or some of the Joint Lead 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 Joint Lead 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 Joint Lead Managers or their affiliates may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead 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 Joint Lead 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.

In connection with the offering of the Notes, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up such Notes in the offering (which may potentially be up to 50 per cent. of the aggregate principal amount of the Notes) and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Notes being offered should be read as including any offering of such Notes to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

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 Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead Managers the matters set forth under "*Transfer Restrictions*".

United Kingdom

Each Joint Lead 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 Joint Lead 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 Joint Lead Manager has represented and agreed in the Subscription Agreement that the Notes have not been and will not be offered, sold or publicly 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 Joint Lead 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 (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 2.3.3 of the DFSA Conduct of Business Module of the DFSA Rulebook.

Hong Kong

Each Joint Lead 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 "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (ii) 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 **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; 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 Joint Lead 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 Joint Lead 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 Joint Lead 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.

Any Joint Lead Manager who is not registered as a broker-dealer with the United States Securities and Exchange Commission (the **SEC**) will not engage in any transaction related to the Notes in the United States except as permitted by the Exchange Act. ICBC International Securities Limited is not a broker-dealer registered with the SEC and therefore may not make sales of any securities in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that ICBC International Securities Limited intends to effect any sales of the Notes in the United States, it will do so only through one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

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 Joint Lead 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 Joint Lead 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.

LEGAL MATTERS

The validity of the Notes will be passed upon (i) for the Issuer, by Norton Rose Fulbright LLP counsel to the Issuer as to English and U.S. federal law, and by the Joint Secretary to the Ministry of Law and Justice of the Government of Pakistan (ii) for the Joint Lead Managers by Allen & Overy LLP counsel to the Joint Lead Managers as to English and U.S. federal law and Kabraji & Talibuddin counsel to the Joint Lead Managers as to Pakistani law. 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 and Justice 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 and Justice 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 2 November 2017 by the Cabinet of Pakistan, pursuant to Rule 16(1)(d) of the Rules of Business of the Government of Pakistan 1973 (as amended). The Notes have been approved on 10 November 2017 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*.

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..	740840AC7	-
ISIN..	US740840AC76	XS1729875598
Common Code....................................	173110383	172987559

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 Issuer is subject to ordinary course litigation and arbitration which it defends vigorously.

Economic Survey

Copies of the Economic Survey 2016-17 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 2016-17 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 Notes 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).

THE ISSUER
The President of the Islamic Republic of Pakistan
for and on behalf of the Islamic Republic of Pakistan
Block Q
Pak Secretariat
Ministry of Finance
Islamabad
Pakistan

FISCAL AGENT, PAYING AGENT, AND TRANSFER AGENT
Citibank N.A., London Branch
Citigroup Centre
25 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR
Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt am Main
Germany

LEGAL ADVISERS

To the Issuer

as to Pakistani law	*as to English law and United States law*
The Ministry of Law and Justice of the Government of Pakistan Government of Pakistan Islamabad Pakistan	**Norton Rose Fulbright LLP** 3 More London Riverside London, SE1 2AQ United Kingdom

To the Joint Lead Managers

as to Pakistani law	*as to English law and United States law*	
Kabraji & Talibuddin 406-407, 4th Floor The Plaza at Do Talwar Block 9, Clifton Karachi-75600 Pakistan	**Allen & Overy LLP** 11th Floor, Burj Daman Building, Happiness Street Dubai International Financial Centre PO Box 506678 Dubai United Arab Emirates	**Allen & Overy LLP** One Bishops Square London E1 6AD United Kingdom

LISTING AGENT
Banque Internationale à Luxembourg, société anonyme
69 route d'Esch
L-2953 Luxembourg