BUSINESS
RECORDER
Friday, 7th April, 2017

Five export-oriented sectors:

FBR rolls back all ST refund payment orders

SOHAIL SARFRAZ

The Federal Board of Revenue (FBR) Thursday rolled back all sales tax refund payment orders (RPOs) issued to the five export oriented sectors ie textile, leather, carpets, surgical and sports goods from tax period July 1, 2016 onwards. Sources told *Business Recorder* here on Thursday that the sales tax refunds of the five export-oriented sectors have not been blocked/stopped. The electronic system has generated these RPOs to the textile, leather, carpets, surgical and sports goods which would be verified based on parameters communicated to the field formations.

When the sales tax zero-rating was revised for five export oriented sectors in last budget, the textile sector had committed that the amount of refunds would be reduced due to zero-rating and they would not claim refunds on packing material. Contrary to this, the volume of sales tax refunds has not been reduced in the five export oriented sectors. At the same time, some units are claiming sales tax refunds on packing material, which is also not admissible. After zero-rating regime notified in last budget, the amount of refunds in five export oriented sectors was required to be reduced. The FBR had extended zero rate facility to entire supply chain of the export sectors up till, retail stage, but the refunds have not been reduced. This has not happened and now the Board would verify the authenticity of each RPO issued to the units (after July 1, 2016) operating under the five export oriented sectors. The RPOs would be reprocessed and verified under the new exercise to be carried out by the field formations, sources said.

Sources said that the FBR has also issued instructions to the field formations to rollback all sales tax refund payment orders (RPOs) issued to the five export oriented sectors ie textile, leather, carpets, surgical and sports goods.

The FBR has asked the field formations to complete the exercise by April 30, 2017, sources added. Under SRO No 491, the FBR had issued revised sales tax zero-rating regime for five export oriented sectors ie textile, leather, carpets, surgical and sports goods from July 1, 2016 under which 5 per cent sales tax is chargeable on supplies of locally made finished article of textile and leather including finished fabrics to retailers or any other category of persons.

The FBR had revamped reduced sales tax rate regime for five export oriented sectors in accordance with the commitment made in finance bill by the finance minister. The main feature of the scheme is extending zero rate facility to entire supply chain of the export sectors up till, retail stage to eliminate accrual of sales tax refund at maximum extent. Under the new regime it was attempted to ensure levy of sales tax at the rate of reduced rate of 5% only at retail stage or supplies to end consumers. Attempt is also made to ensure collection of standard rate of sales tax ie 17% from persons outside five sectors.

The significant feature of the scheme under SRO No 491(I)/2016 was zero-rating facility is extended on imports to both manufacturer and commercial importers for import and supplies of industrial raw material (128) listed in table-1. Earlier there was different treatment of tax on these two categories, which was causing problems to genuine commercial importers.

Zero-rating facility was extended on local supplies of industrial raw material (128) listed in table-1 (excluding finished fabric). The facility is available to both registered and unregistered person operative within five sectors. Zero-rating facility on import and supplies of industrial raw material (128) listed in table-1 is also extended to registered manufacturers who manufacture goods listed at table-I or table-II, the sources explained.

Zero-rating facility was also extended on processing of goods owned by other person. Zero-rating facility on supplies of finished fabric is restricted to the extent of registered manufacturer only. Supplies to other categories are chargeable to sales tax at 5%.

Reduced rate of sales tax at the rate of 5% is chargeable on supplies of locally made finished article of textile and leather including finished fabrics to retailers or any other category of persons, an expert said. Standard rate of sales tax, 17%, remains intact on import of finished textile and leather article along with value addition sales tax @ 2%. The subsequent supplies of these goods are also chargeable at the rate of 17%. Provision for zero rate on purchase and supply of furnace oil, diesel and coal to the registered manufacturer is also provided subject to issuance of general order by the board.

BUSINESS
RECORDER
Friday, 7th April, 2017

Panama case verdict:

Eager anticipation hurting economy: Sindh governor

ZULFIQAR AHMAD & AAMIR SAEED

Amid criticism on former Army Chief General Raheel Sharif, Sindh Governor Muhammad Zubair on Thursday said that anticipation over Panamagate verdict has had an adverse impact on the country's economy. "It's not just the stock market; even foreign investors have put their investment plans on hold due to the impending verdict," the governor said while speaking on the sidelines of the "Leaders in Islamabad" business summit.

Zubair said that sooner the verdict is announced, the better it would be for the country, adding that "the longer we wait, the poorer it will be for our economy." To a question, he said that General Raheel (Retd) was a normal person as well as a normal military general, adding, "Let's be fair with him - let's not make him larger than life. That will only create more problems for him."

About General Raheel's possible appointment as head of Saudi-led Islamic Military Alliance, he said that it is the prerogative of the former general to join the alliance as its head. "His [Sharif's] job as chief of the Saudi-led alliance is also being seen as something extraordinary. It should be his prerogative as a normal person," he added. The governor, who also comes from a military background, said that there was nothing wrong with the agriculture land, which he was given after his retirement.

Zubair went on to say that "100 per cent of the credit for Karachi's operation goes to Prime Minister Nawaz Sharif." He recalled that all stakeholders had been there for years but no one played one's role for restoring peace in Karachi, adding it was Prime Minister Nawaz Sharif who initiated Karachi operation after coming into power in 2013. "There are so many other people but again this is the difference between Nawaz Sharif and other stakeholders," he maintained.

The governor said he believed that "until the tougher political compromises were made by the premier, peace seemed unattainable." He also cited the government's crackdown on Muttahida Qaumi Movement (MQM) founder as an example of its tough stance on crime in Karachi. "[Interior Minister] Chaudhry Nisar approved issuance of a red warrant against the MQM founder. He initiated the Imran Farooq murder trial in Pakistan. In addition, one of Nisar's main propositions to the UK authorities has been asking them to cooperate with Pakistan on cases against Altaf Hussain," he added.

"The MQM founder is now part of history, as far as Pakistan is concerned," replied the governor to a question. "Farooq Sattar, Mustafa Kamal have all distanced themselves from the MQM founder. That is a major change," he noted. He continued, "The only two examples we have of successful operations are the recent Karachi operation and the nationwide Zarb-e-Azb." He said that PML-N would keep working on bringing peace to Karachi "until criminality has been totally uprooted from the city."

BUSINESS
RECORDER
Friday, 7th April, 2017

Preserve economic stability gains, IMF tells government

RECORDER REPORT

The International Monetary Fund has urged Pakistan to strengthen its export and manufacturing industries and to fix its electricity supply or face putting hard-won economic gains at risk. The IMF said recent reforms, including cutting costly subsidies, privatising some loss-making state companies and building up foreign reserves, had strengthened Pakistan''s economy and set it on a path to higher growth.

Pakistan''s economic position has improved sharply since it came close to default in 2013, but the IMF warned "a number of challenges in the fiscal, external, and energy sectors could affect hard-won stability gains in the period ahead". Boosted by a $6.7 billion bailout package, it has completed an IMF reform programme and set in motion $57 billion worth of infrastructure projects connected to the Beijing-funded China-Pakistan Economic Corridor (CPEC) project.

But the IMF said in a statement after a meeting with Pakistan government officials in Dubai, that "slower-than-expected growth of large-scale manufacturing and stagnant exports are weighing on growth prospects". Despite some recent improvements, chronic power shortages, still leave major Pakistani cities without electricity for hours every day.

The country has also struggled to cut its yawning trade deficit. The IMF is currently forecasting 5 percent economic growth for the year to June 2017 but says this could improve to 6 percent in the medium term with CPEC-related investments, improved energy supplies and continued reforms. The IMF said the government would have to take steps to make up for lower-than-expected revenues in the first half of the year and cut the budget deficit further next year. Pakistan, the IMF noted, would also need to achieve greater exchange rate flexibility and improve the business climate. It would also have to boost productivity in the export sector to fill a widening trade deficit and absorb capital outflows.

BUSINESS
RECORDER
Friday, 7th April, 2017

Senate body approves Limited Liability Partnership Bill, 2017

ZAHEER ABBASI

The Senate Standing Committee on Finance on Thursday approved the Limited Liability Partnership (LLP) Bill, 2017. The committee which met here under the chairmanship of Senator Saleem Mandviwalla was informed that the proposed law provides a new form of business structure, which would fill the gaps between business firms such as sole proprietorships/partnerships, the liability of whose partners is unlimited, and the companies governed under the Companies Ordinance, 1984, whose members enjoy the benefits of limited liability.

The LLP provides an alternative form of business organisation, which has the flexibility of a general partnership and would avail all the advantages of a limited liability company. The promulgation of the LLP will provide much needed support to the economy of Pakistan and create business opportunities by roping in young entrepreneurs and professionals, the meeting was further informed.

There are 13 parts of the legislation passed by the committee and first part deals with the short title, commencement and definitions, followed by part two that provides the nature of limited liability partnership and declares it a separate legal personality distinct from its partners and others. The meeting also considered "The Cost and Management Amendment Bill, 2017", and asked the secretary finance to view the ICMAP"s concerns and report to the committee on clause-4 of the bill. The meeting reviewed the proposed Corporate Rehabilitation Law and decided to defer it till the next meeting.

When Senator Fateh Muhammad Hassani proposed that age limit for retirement should be increased to 63 years from 60 years, Secretary Finance Tariq Bajwa said that one argument is in support of tenure posts of a few secretaries in India, while other argument is that giving tenure posts or extension in age limit would be injustice to the youth.

Later, the Securities & Exchange Commission of Pakistan (SECP) chairman, Zafar Hijazi, told media persons after the committee"s meeting that approval of the Limited Liability Partnership (LLP) Bill, 2017 is a milestone as it would facilitate those who cannot set up their businesses due to capital constraints and want to work in partnership.

He said that small businesses would benefit from the legislation. The SECP chief said he wants to purge the stock market of bad elements by June 2017 and work in this direction is in progress. "We have forwarded the names of the brokers, who were found involved in prohibited practice of in-house financing, to the Interior Ministry for placing them on the Exit Control List (ECL)," he added.

BUSINESS
RECORDER
Friday, 7th April, 2017

ADB projects 5.2 percent GDP growth

TAHIR AMIN

Asian Development Bank (ADB) has projected GDP growth for Pakistan at 5.2 percent in fiscal year 2017, a rate that has been downgraded by Finance Minister Ishaq Dar to five percent, and 5.5 percent in 2018 against six percent projected in the budget, but maintained that regulation remains burdensome, requiring more reform to provide an enabling environment that facilitates business and fosters investment.

In its latest Asian Development Outlook (ADO) 2017, ADB forecasts higher growth, with inflation and current account deficit edging up on higher oil prices and substantial imports for a major investment project. Continued economic reform is essential to reach a high growth trajectory.

A third consecutive year of falling exports reflects weak global demand and low international commodity prices but also domestic structural issues such as power outages, scant investment in modernization, and currency appreciation in real effective terms, all of which hamper competitiveness. Exports continued to decline, but by only 1.3 percent, which was much smaller than the 11.7% plunge in the same period of fiscal year 2016.

The current account deficit is projected to widen to equal 2.1% of GDP in fiscal year 2017. The deficit increased to $4.7 billion in the first seven months of fiscal year 2017, almost double the $2.5 billion deficit in the same period of fiscal year 2016. Services and income account deficits worsened as receipts under the Coalition Support Fund were delayed.

ADB states that domestic security has improved significantly in recent years, but consolidating these gains will take continued efforts. Reform to boost exports by diversifying products and markets and by adopting more flexible exchange rate policies are needed to maintain external stability. Further, structural reform to the energy sector and state-owned enterprises are required to fully realise investments' productive potential.

The report states that GDP growth is expected to edge up to 5.2 percent in fiscal year 2017 and 5.5 percent in fiscal year 2018, underpinned by higher growth in the major industrial economies. This outlook is supported by better security, macroeconomic stability, and improved economic fundamentals resulting from the continued implementation of government reform under three-year International Monetary Fund programme completed in September 2016, as well as ongoing and planned infrastructure and other investments under an economic corridor project - CPEC.

Moreover, the Pakistan Stock Exchange scored the highest price increase in Asia in 2016. Pakistan's re-entry into the MSCI Emerging Market Index, scheduled for May 2017 after a nine-year hiatus, further underlines investor confidence in the economy. In this connection, a consortium of three PRC stock exchanges invested $85 million in December 2016 to acquire 40% of strategic shares in the Pakistan Stock Exchange.

Higher growth in fiscal year 2018 reflects accelerated infrastructure investment through CPEC, which is steadily lifting consumer and investor confidence and thereby further catalysing economic activity. ADB report further states that the government can lend policy support by maintaining macroeconomic stability and addressing structural issues that continue to inhibit exports despite the easing of regulatory constraints on doing business. With national elections scheduled for 2018, the budget to be announced in June 2017 will likely prioritise measures to foster economic expansion.

The forecast for growth in fiscal year 2017 envisages revived agriculture as recovery in cotton and sugarcane off set a forecast decline in the rice crop. The revival is underpinned by special credit facilities, subsidised fertiliser, and improved global commodity prices.

Favourable weather, including timely rains in January 2017, augurs a strong winter wheat crop. Prevailing low interest rates, improved electricity supply, and government budgetary incentives announced in June 2016 should boost large-scale manufacturing.

BUSINESS

RECORDER

Friday, 7th April, 2017

The government announced in January 2017 a support package worth $17 billion for exports of textiles, clothing, and related raw materials. It is expected to revitalize the textile industry, which suffered from a weak cotton crop and frail global demand last year. Stronger growth in industry and agriculture will catalyse activity in the service sector.

According to the report average consumer inflation is expected to accelerate to 4.0% in fiscal year 2017 on a rebound in oil prices, higher domestic demand, and expanded government borrowing from the central bank. Headline inflation averaged 3.8% in the first seven months of fiscal year 2017, up from 2.3% in the same period last year, with increases for food and other goods. Core inflation, which excludes food and energy, followed the trend and rose by 1.1 percentage points to 5.0%.

The government passed the global oil price increases on to domestic consumers by raising domestic oil prices three times from December 2016 to February 2017, after having kept them low for several months, ADO maintained. A continued recovery in oil prices will likely accelerate inflation, which is projected to reach 4.8% in fiscal year 2018. The central bank will need to be vigilant and readjust its accommodative monetary policy if inflationary pressures intensify.

The general government budget deficit is projected to shrink to the equivalent of 3.8% of GDP in fiscal year 2017. This assumes total revenue equalling 15.8% of GDP, based on Federal Board of Revenue tax collection at 10.8% of GDP, and continued expenditure rationalization.

The Bank further states that to achieve the lower deficit, additional measures may be needed in the remaining months of fiscal year 2017 to bridge a revenue shortfall in the first half of the year, though higher imports and the pass-through of higher oil prices to consumers may be sufficient to boost indirect tax revenue. A shortfall in non-tax revenue poses an additional challenge, but it should be mitigated somewhat by expected inflows under the Coalition Support Fund and, if accomplished, the budgeted sale of the 3G spectrum.

Targeted expenditures in fiscal year 2017 equal to 19.6% of GDP. Expenditures in the first half were, at 8.3% of GDP, about the same as last year because the government was able to contain current expenditure by curtailing domestic interest payments and spending on other categories including subsidies.

Consolidated federal and provincial development spending was also low in this period at 1.5% of GDP, less than a third of the fiscal year 2017 full year target of 4.7%. Any provincial overspending in the full year, especially infrastructure development that looks ahead to the election, may challenge a key budgetary assumption that the provinces will record a cash surplus of Rs 339 billion, equal to 1.0% of GDP.

According to the ADO, the workers' remittances that critically offset the large trade deficit fell for the first time in 10 years, by 1.9% to $10.9 billion, because of declining expenditures and income in oil-dependent Gulf economies. The trade deficit widened in the first seven months of fiscal year 2017 by 21.1% to $13 billion as imports accelerated by 9.2%, driven by an 18% increase in investment goods and a 12% rise in oil import payments as prices recovered. Investment goods accounted for 40% of the increase in imports, and oil nearly 30%.

The nominal exchange rate was stable at Rs 104.7 to the US dollar in the first seven months of fiscal year 2017, but the Pakistan rupee continued to appreciate in real effective terms, undermining export competitiveness. The current account balance will likely deteriorate further in fiscal year 2018 to 2.5% of GDP with somewhat higher global oil prices and accelerating infrastructure investments connected with CPEC.

Revived oil prices are likely to improve the prospects for remittances in the medium term as Gulf countries may relax their efforts to consolidate their finances. A significant increase in the current account deficit could pose a risk to official exchange reserves, which peaked at $18.9 billion in October 2016 and then slid by $1.3 billion by February 2017, maintained in the ADB report.

The increased inflows in the financial account from multilateral and bilateral disbursements, along with non-debt inflows in the first 7 months of fiscal year 2017 are providing a cushion for the widening current account

deficit. Portfolio investment jumped by more than fourfold to $670 million and foreign direct investment increased to $1.2 billion with investments into dairy, consumer electronics, electric power, and oil and gas.

However, amortization payments on long-term government debt also increased markedly. Expected disbursements from multilateral development partners in the remaining months of the fiscal year will be needed to reverse contraction in the official reserves as of February 2017.

The report further states that economic corridor project CPEC, announced in April 2015 as a $46 billion project, but subsequently increased to $55 billion, it provides for major investments in energy and transport infrastructure. The project will significantly address Pakistan's infrastructure deficit caused by annual spending on infrastructure at only 2%-3% of GDP in the past four decades.

The government has identified "early harvest" infrastructure projects that will be completed in the next few years. Of these, $21 billion will be on energy projects. These will be financed by foreign direct investment from the PRC supported by borrowing from banks there.

Independent electricity-generating firms will be offered guaranteed tariffs for their sales to distribution companies that will ensure at least 17% return on equity. About $10 billion in investments in transport infrastructure will be financed by a combination of concessional and commercial loans from the Government of the PRC.

The ADO maintained that for Pakistan, CPEC is expected to be a major opportunity to boost growth and development. CPEC is expected to provide many benefits, especially eliminating the power shortages that have held down economic growth in recent years. It will improve connectivity to domestic and international markets and so benefit Pakistan's lagging regions.

BUSINESS
RECORDER
Friday, 7th April, 2017

LSM figures clouded by doubts

MUSHTAQ GHUMMAN

Large Scale Manufacturing (LSM) growth, a contributor to the Gross Domestic Product growth rate of the Country, is collected from different Associations or Chambers who reportedly are not providing accurate figures, a perception shared by officials and independent economists. According to Pakistan Bureau of Statistics (PBS), the overall output of LSM increased by 3.48 percent for July-January-2016-17 compared to the same period of 2015-16.

The data provided by Oil Marketing Advisory Committee (OCAC) shows a 0.29 percent growth in petroleum products during July-January 2016-17 of which growth in jet fuel oil has been recorded at 3.83 percent, kerosene oil 13.27 percent, motor spirit (petrol) 8.66 percent, high diesel oil 1.67 percent, diesel oil n.o.s 44.51 percent, furnace oil 0.29 percent, lubricating oil 2.49 percent, jute batching oil 5.68 percent, solvent naptha 18.78 percent and LPG 10.49 percent.

The data collected by the Ministry of Industries and Production from different Associations indicates a growth of 22.25 percent in sugar. During July-January 2016-17, sugar production recorded 2.893 million tons against 2.3664 million tons in the comparable period the year before. Growth in cigarettes witnessed a growth of 37.65 percent, cotton yarn by 0.47 percent and cotton cloth by 0.30 percent. The growth of 28.67 was witnessed in Jute goods of which the share of Hessian was 32.46 percent, sacking 38.18 percent and others 1.91 percent.

Paper and board has achieved 6.6 percent growth and chip board was 100 percent. Soda ash 3.55 percent, caustic soda 4.45 percent, nitro fertilisers 1.67 percent, phosphate fertilisers 2.63 percent, glass plates and sheets 13.03 percent, cement 7.99 percent, steel products (PSM nill), coke PSM 100 percent, pig iron 100 percent, billets/ ingots 29.65 percent, H/C. R. sheets/ strips/ coils/ plates etc 8.46 percent, tractors 79.42 percent, trucks, 54.93 percent, buses 26.19 percent, Jeeps and cars 1.9 percent, L.C.Vs'' 43.13 percent and motor cycles 20.09 percent. Ministry of Industries and Production''s data shows 3.78 percent growth and total growth has been calculated at 3.48 percent.

Names of other items along with growth are as follows : Vegetable Ghee 3.10 percent, cooking oil, 0.76 percent, tea blended 6.30 percent, wheat & grain milling 4.06 percent, starch and its products, 9.27 percent, soft drinks 18.58 percent, juices, syrups& squashes 8.96 percent, liquors zero percent, woolen & carpet yarn 18.91 percent, woolen and worsted cloth 5.23, knitting wool 4.95 percent, woolen blankets 42.74 percent, upper leather, 2.92 percent, sole leather 38.46 percent, footwear 25.44 percent, plywood 4.45 percent, tablets 4.49 percent, liquids/ syrups 8.89 percent, capsules 4.43 percent, injections 13.72 percent, ointments 14.11 percents, galenicals (tincture)7.69 percent, toilet soaps 0.54 percent, soaps and detergents 15.02 percent, paints & varnishes (S) 6.21 percent, paints & varnishes (L) 7.54 percent, , hydrochloric acid 3.11 percent, chlorine 2.56 percent, synthetic fibres 14.60 percent, polishes& creams 1 percent, matches 18.42 percent, cycle tyres 0.32 percent, cycle tubes, 8.05 percent, motor tyres,0.38 percent, motor tubes 0.44 percent, metal drums 7.73 percent, heavy machinery and equipment 7.37 percent, safety razer blades 10.83 percent, diesel engines, 13.84 percent, chaff cutters 18.37 percent, sugarcane machines 41.67 percent, wheat thrashers34. 25 percent, power looms 12.55 percent, bobbins & shuttles 14.7 percent, sewing machines 12.56 percent , refrigerators, 22.6 percent, air conditioners 17.82 percent, electric bulbs 16.37 percent, electric fans 27.94 percent, electric motors 9.57 percent , electric meters 15.7 percent, switch gears 8.24 percent, electric transformers 2.91 percent, T.V sets 3.17 percent, storage batteries 11.95 percent, bicycles 0.73 percent.

BUSINESS
RECORDER
Friday, 7th April, 2017

THE RUPEE: Little change

RECORDER REPORT

The rupee shrugged off its overnight gains against the dollar on Thursday in the process of trading, dealers said. The rupee moved with little change in relation to the dollar for buying and selling at Rs 104.86 and Rs 104.88 respectively, they said.

INTERBANK MARKET RATES: OPEN MARKET RATES: The rupee reversed back its appreciation versus the dollar, sliding by five paisas in terms of the dollar for buying and selling at Rs 106.10 and Rs 106.30 respectively, they said. The domestic currency recovered

Open Bid	Rs. 106.10
Open Offer	Rs. 106.30

Interbank Closing Rates: Interbank Closing Rates for Dollar on Thursday.

Bid Rate	Rs. 104.86
Offer Rate	Rs. 104.88

RUPEE IN LAHORE: The Pak rupee appreciated against the American dollar in the local currency market on Thursday.

According to currency dealers, the US dollar

20 paisas versus the euro for buying and selling at Rs 112.80 and Rs 114.30 respectively, they said.

In the fourth Asian trade, the dollar slipped against a basket of currencies, weighed down by caution over the impending US-China summit and geopolitical concerns. The dollar index versus a basket of six major currencies was down 0.1 percent at 100.480. It had risen to a three-week high of 100.850 overnight on an upbeat ADP report on US private sector employment.

commenced trading on a negative note and remained under selling pressure. At the close, it registered reduction and ended at Rs 106.10 and Rs 106.35 on buying and selling sides as compared to the overnight closing rates of Rs 106.20 and Rs 106.40 respectively, they added.

On the contrary, the local currency remained under pressure for another day versus the pound sterling.

Pound's buying and selling rates went up from Wednesday's closing rates of Rs 131.40 and Rs 132.00 to

But the currency tumbled from the three-week high despite hawkish-sounding minutes from the latest Federal Reserve meeting, which showed most policymakers think the Fed should begin trimming its $4.5 trillion balance sheet later this year. The dollar was trading against the Indian rupee at Rs 65.00, the greenback was at 4.4340 in terms of the Malaysian ringgit and the US currency was at 6.8982 in relation to the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Thursday: 79.71-79.72 (previous 79.70-79.70).

Rs 131.50 and Rs 132.30respectively, they said.

RUPEE IN ISLAMABAD AND RAWALPINDI: The rupee remained firm against the dollar at the open currency markets of Islamabad and Rawalpindi here on Thursday.

The dollar opened at Rs 106.50 (buying) and Rs 107 (selling). It closed at the same rate. Pound Sterling opened at Rs 130 (buying) and Rs 131.50 (selling). It closed at the same rate.

BUSINESS
RECORDER
Friday, 7th April, 2017

Global transit system:

Customs set to implement UN TIR Convention

RECORDER REPORT

Pakistan Customs is finalising arrangements to implement the United Nation TIR Convention enabling the country to become part of an international customs transit system, it is learnt. Under the new system, Pakistani export containers/vehicles will move through over 60 countries via transit routes without extensive border checks at international borders. The convention will boost Pakistan's exports and trucking industry.

Sources told *Business Recorder* here on Thursday that Pakistan Customs has upgraded its computerised system 'WeBOC' for clearance of transit cargo under TIR Convention which would allow transit of goods into Pakistan under TIR carnet through Karachi Port, Gwadar, Taftan, Chaman, Sust and Torkham (TIR customs stations for handling transit trade under the TIR Convention).

Pakistan is going to become part of an international customs transit system under a multilateral treaty ie TIR Convention, enabling Pakistani containers/vehicles to move through over 60 countries via transit routes without extensive border checks at international borders. Sources said Pakistan Customs has upgraded its computerised system WeBOC for clearance of transit cargo under TIR Convention 1975. The new system has been developed in consultation with International Road Transport Union (IRU). Pakistan had acceded to TIR Convention in July 2015 and since them various activities for its practical roll out have been under way in Federal Board of Revenue (FBR) and other related departments.

The IRU was formed by UNECE in 1948 and is now globally responsible for managing the transit trade under TIR Convention 1975. The IRU has lauded the efforts of WeBOC team of Pakistan Customs for making computerised system according to the international standards, linking WeBOC system with TIR - EPD system and RTS - TIR system of IRU. The system will enable TIR holder to file advance declaration through electronic pre-declaration facility.

It is learnt that FBR is in the process of issuance of TIR rules after which goods under TIR carnet shall be allowed transit in Pakistan. The FBR has already notified Karachi Port, Gwadar, Taftan, Chaman, Sust and Torkham as TIR customs stations for handling transit trade under the TIR Convention.

Experts said that the convention will provide a legal framework for traffic in transit of goods across borders among the contracting parties without involving payment of customs duties and taxes. Joining the TIR would facilitate trade with Economic Co-operation Organisation (ECO) countries and China through land routes. The customs' control measures taken in the country of departure would be accepted by all countries of transit and destination. The implementation of the TIR system is also expected to further enhance and ensure viability of capital intensive projects at the ports of Karachi and Gwadar.

Before this convention, Pakistan had difficulties in conducting trade through land routes with the Central Asian States, Turkey and Europe as there was no mechanism that could provide protection from customs duties and taxes in transit countries.

The Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention) is a multilateral treaty to simplify and harmonise the administrative formalities of international road transport. TIR stands for transports internationaux routiers or international road transports.

The TIR Convention establishes an international customs transit system with maximum facility to move goods in sealed vehicles or containers; from a customs office of departure in one country to a customs office of destination in another country; without requiring extensive and time-consuming border checks at intermediate borders and while, at the same time, providing customs authorities with the required security and guarantees.

The TIR system not only covers customs transit by road but a combination is possible with other modes of transport (eg rail, inland waterway, and even maritime transport), as long as at least one part of the total transport is made by road. In light of the expected increase in world trade, further enlargement of its geographical scope and the forthcoming introduction of an electronic TIR system (so-called "eTIR-system"), it is expected that the TIR system will continue to remain the only truly global customs transit system.

BUSINESS
RECORDER
Friday, 7th April, 2017

Cabinet may grant approval to revision in US cargo MoU

NUZHAT NAZAR

The Federal Cabinet is likely to grant approval to a revision in the existing Memorandum of Understanding (MoU) between Pakistan and the US to ensure speedy transit of US cargo to and from Afghanistan through Pakistan. Sources told *Business Recorder* here on Thursday that the amendments in the existing MoU between the two countries would establish necessary measures and procedures to organise the transit of US Cargo through the territory of Pakistan, using Ground Lines of Communication (GLOCs) to and from Afghanistan.

US cargo covers non-lethal items including US Department of Defence provided humanitarian items including food, medicines, equipment, and materials designated for free of charge distribution among population of Afghanistan, US department of Defence provided daily activity support items, including those designated for US military, civilians, and other personnel embedded with US forces or for US assistance to Afghan security forces and military equipment, vehicles and other military property including those designated for US military civilians and other personnel embedded with US forces for US assistance to Afghan security forces or for transport out of Afghanistan.

Ministry of Defence had signed an MoU with USA for a period of three years which expired on 31 December 2015. On the request of US and in consultation with domestic stakeholders, the Prime Minister extended the validity of the MoU for another year till 31 December 2016.

Since the terms and conditions of the MoU were being revised and could not be finalised in time, the MoU was further extended up to 31 March 2017 with the approval of the Cabinet. However, presently important aspects such as duration of the proposed MoU and payment of services rendered are still being negotiated and are yet to be finalised; therefore, its finalisation may take some time.

However, both sides have agreed to further extend the duration of the existing MoU for a further period of two months, upto 31 May, 2017 for which cabinet approval is solicited. The Minister for Defence has seen and authorised submission of the summary to the federal cabinet. The consultations or any changes in the existing TORs shall, however, continue with a view to finalising them at the earliest. The amended TORs shall then become part of MoU as and when agreement is reached by both sides conclusively.

Sources said that a meeting of Central Co-ordinating Authorities (CCAs) Pak & US was held in Ministry of Defence chaired by Rear Admiral Faisal Rasul Lodhi Additional Secretary-III, Ministry of Defence. The meeting after a detailed discussion on the subject agreed that validity of the existing MoU on GLOCs may be extended for another period of tentatively one month ie upto 30th April, 2017, subject to the progress made in finalising the new MoU on GLOCs; based on the which Pakistan's MoD can process the extension for up to two months ie till 31 May 2017 as required.

It was decided that validity period of the new proposed MoU will be one year; the requirement for which will be reviewed after six months by the CCA-PAK US. The rep of FBR/DG Transit Trade pointed out that there is a need to revisit the financial mechanism being followed, keeping in view the past experience of abandoned cargo and non-payment of Port Charges etc. It was decided that FBR would review the subject, after due consultation with Directorate of Transit Trade and port authorities. With regard to pending port and Terminal charges etc, the representative of KPT was advised to resubmit his case for further evaluation by CCA-Pak. US also agreed that the subject section may be reassessed by the Pakistani agencies and a proposed draft may be shared with them at the earliest for evaluation.

In the backdrop of the past experience in which the Nato containers lying at the port have been virtually disowned by both the US and the Nato authorities, the Pakistani side queried about the status of Nato when it comes to the new GLOCs MoU including the aspect of responsibility for their cargo. The US is in the lead role in Afghanistan however the US side did not pledge the ownership of Nato cargo but committed to responding as early as possible after consulting the concerned Nato officials.

BUSINESS
RECORDER
Friday, 7th April, 2017

Forex reserves fall by $245 million

RECORDER REPORT

The country's total liquid foreign exchange reserves declined by $245 million to $21.550 billion during the week ended March 31, 2017. During the week, forex reserves held by the State Bank of Pakistan (SBP) decreased by $264 million to $16.466 billion. The decrease has been mainly attributed to external debt servicing and other official payments. The net foreign exchange reserves held by commercial banks, however increased by $19 million to $5.084 billion during the week.

BUSINESS

RECORDER

Friday, 7th April, 2017

CPEC projects:

International companies participating under market rules: China

RECORDER REPORT

A spokesperson for Chinese Ministry of Foreign Affairs on Thursday said that international companies are participating in the projects, being completed under China-Pakistan Economic Corridor (CPEC) framework based on market rules. "CPEC is a co-operation framework between China and Pakistan and it is open and transparent and is based upon principles of extensive joint consultations and shared benefits," Spokesperson Hua Chunying said here at a regular briefing.

She expressed the confidence that the CPEC initiative would not only benefit the peoples of two countries but also promote regional connectivity. "I believe this project not only serves interests of the two countries but also connectivity within this region," she added.

Responding to a question regarding Indian application for the Nuclear Supply Group (NSG) membership, she reiterated China's stance that the NSG members should work out a solution applicable to all-non-NPT states, and on that basis, to deliberate on specific non-NPT states' joining.

In response to question about Dalai Lama's current visit to disputed areas on China-India border, she said that China has lodged representations with Indian side, both in Beijing and New Delhi. "We have lodged representations to the Indian Ambassador in Beijing and concerned officials of the Indian External Affairs Ministry in New Delhi," she added. To a follow up question, the spokesperson said, China's position on Dala Lama's visit to disputed territory is clear and consistent, adding, the invitation to Dalai Lama has caused damage to the Chinese interests and Sino-India relations.

Hua Chunying said the Indian move has fuelled tensions between the two nations adding, "We oppose this visit and arrangements of providing a platform for Dalai group to carry out anti-China activities." When her attention was drawn over the situation in Korean peninsula, she explained the Chinese position on North Korea nuclear issue. She said due to complex nature of the issue, all the relevant parties must take a holistic approach to resolve the issue and achieve lasting peace and security. She also asked the relevant parities to join hands with China in its efforts to achieve a peaceful and lasting solution to the issue.

BUSINESS
RECORDER
Friday, 7th April, 2017

Gang involved in fake and flying invoices busted

RECORDER REPORT

The Directorate General of Intelligence and Investigation Inland Revenue (IR) has busted an organized gang involved in business of fake and flying invoices to commit tax frauds and claim illegal input tax adjustments, reflecting existence of blacklisted buyers in market to evade sales tax.

Sources told *Business Recorder* here on Thursday that detection of three major cases of fake and flying invoices by the agency has confirmed that the phenomenon of fake and flying invoices has resurfaced to claim illegal input tax adjustments on the invoices of tax fraudsters. Directorate General of Intelligence and Investigation IR has intensified its efforts to control this phenomenon of fake and flying invoices. The ongoing exercise headed by its director general I&I IR would help in controlling the quantum of inadmissible input tax adjustments across the country.

Details of the cases revealed that Director General I&I-IR, Khawaja Tanveer Ahmed has launched a countrywide campaign against tax fraudsters. On the basis of credible information, the Directorate of I&I-IR, Peshawar initiated sales tax audit and inquiry in cases of M/s ADN Traders, Peshawar, M/s KD Trading, Peshawar & M/s SG Asia Traders, Peshawar under sections 25 and 38 of the Sales Tax Act, 1990. The initial findings of the proceedings reveal that registered persons are, prima facie, involved in tax fraud as defined in section 2(37) of the Sales Tax Act, 1990. The taxpayers are commercial importers of consumer goods like battery, bulbs, cloth buttons, glass beads, padlock, school bags, etc, but declaring their sales to registered persons including the industrial units. All of them have claimed huge purchases and declared low sales. Most of the sales invoices are split into less than Rs 50,000 value to avoid compliance of section 73 of the Sales Tax Act, 1990. The style of conducting fraud by all three units is the same and they all do not exist on the registered business premises. The suspicion of fraud strengthened by the fact that some buyers of different cities are already blacklisted. Further scrutiny revealed that their business capitals are also not commensurate with the volume of declared closing stocks.

The nature of goods imported by the registered persons are unrelated to the business of buyers and conclusion can be safely deduced that buyers are claiming illegal input tax on the basis of flying invoices. On the recommendations of I&I-IR Peshawar, the chief commissioner-IR, RTO Peshawar, has suspended sales tax registration of the taxpayers during March 2017 under section 21(2) of the Sales Tax Act, 1990 read with Rule 12 of Sales Tax Rules, 2006 till completion of pending audit and inquiry. Moreover, the Peshawar Directorate has pointed out buyers of flying invoices, located in jurisdictions of different tax offices, who have, prima facie, claimed unlawful input tax adjustments on the invoices of tax fraudsters. Apparently, these are big cases of sales tax evasion.

BUSINESS
RECORDER
Friday, 7th April, 2017

Port congestion charges termed ‘unjustified’

RECORDER REPORT

The chairman of the Pakistan Yarn Merchant Association (PYMA), Danish Hanif, has said that port congestion charges are against the ground realities and totally unjustified, due to which imports are facing huge financial burden and demanded there charges withdrawal. He urged the federal minister for ports and shipping Mir Hasil Khan Biazenjo to take immediate action over the imposition of port congestion charges by shipping lines from imports before their cargo is released.

He said that many shipping lines have started collecting the exorbitant amount of $300 per 40ft container and $150 per 20ft containers in the name of port congestion charges.

Container terminals at Karachi Port faced congestion for a brief period of time in the past, he said, and the matter has been resolved. Therefore there is no congestion at Karachi Port now, he added. He said that two major shipping lines, APL and MEGA shipping groups, are not ready to withdraw port congestion charges although presently there is no congestion at the terminals.

BUSINESS RECORDER
Friday, 7th April, 2017

Selected buying on steady cotton market

DR ZAFAR HASSAN

Traders said in Karachi on Thursday that only selected buying of cotton from the current crop (August 2016/July 2017) is being conducted as prices remain in the steady to tight range. Remaining unsold stocks with the ginners from the current crop are roughly being estimated at about 300,000 bales (155 Kgs).

New cotton crop (August 2017/July 2018) sowing started in Sindh a few weeks ago and sowing is now increasing in such southern Sindh regions as Badin and Thatta. However, sowing in Sindh is being carried on at moderate level due to shortage of water. However, water supply in Sindh is increasing gradually.

In the Punjab, earlier restriction on sowing imposed by the government has been vacated and growers can now start planting. Hot weather has set in which will help in sowing but adequate water supply will be needed for full pace of sowing. According to the seed cotton (Kapas/Phutti) arrivals report issued by the Pakistan Cotton Ginners Association (PCGA) for the current season (2016/2017) upto the 1st of April 2017, nearly 10,725,737 bales arrived into the ginning factories from which the domestic mills picked up 10,168,824 bales. Exporters lifted 202,356 bales and an unsold quantity of 354,557 bales is still lying with the ginners.

The price of ready cotton from both Sindh and Punjab was said to have ranged from Rs 6500 to Rs 7000 per maund in a fairly steady market. Reports from Faisalabad indicated that the price of fine counts of yarns had hitherto been good but they have also lost some ground, while prices of medium counts of yarn have remained low.

Regarding the new crop cotton (2017/2018), projections are not very encouraging. In fact, one observer indicated that it could range from eleven to twelve million bales only (155 Kgs). Members of the Karachi Cotton Brokers' Forum and Members of the Brokers Advisory Committee met at the end of last month and strongly urged the government to allow reopening of the cotton futures trading under the Karachi Cotton Association (KCA). The meeting was chaired by Naseem Usman who said that opening of the cotton futures will be very beneficial to all the sectors of the cotton trade including the growers, Ginners, Cotton Merchants, Exporters and the Textile Millers and will also bring price stability in the cotton market.

On the global economic and financial front, several equity markets around the world are showing large increases in their values following better performance in several economies around the world. Though many economic observers and analysts still remain cautious and careful in believing if this positive turnaround will continue into the future, but the gains appearing in the global economy remain impressive. It is now almost a decade after the Great Recession that such a plausible and positive turnaround appears in the global economy. Such a positive signal which the global economy is displaying may hopefully push the global economy further upwards.

It may be recalled that a palpably improving economy - and hopefully it is so - is progressing against several odds which include dramatic changes in the global political, social, and economic sectors not seen since the end of World War Two. It may seem premature to believe that a positive and lasting improvement is occurring in the global economy, but some credible signs and signals are appearing on the horizon.

Sophia Yan, the Beijing Correspondent of CNBC reported recently that "the bulls are back in China pushing up the stocks for the first quarter of the year on the back of stronger economic data and better than expected corporate earnings".

It has been reported that "Citibank projects that equities are expected to surge five percent by the end of the year as any lingering concerns of any impending economic collapse have diminished in China". According to Larry Hu, this past quarter was a great one for Chinese stocks.

It has also been reported that jobless claims in America have gone down sizeably last week. Fewer applicants for jobs in America clearly indicate that regular job creation has improved the economy in United States. Furthermore, the Eurozone unemployment benefit is reported to be the lowest since 2009. Such a fall in unemployment benefit amounts to an eight year low level in February, 2017. These examples show that credible improvement in the global economy is afoot despite wars in the Middle East, a new administration in the United States, Brexit and now possibly Frexit, and the immigration problem.

BUSINESS
RECORDER
Friday, 7th April, 2017

Prices firm despite less buying interest

RECORDER REPORT

Prices were firm on the cotton market on Thursday despite less buying interest owing to several factors, dealers said. The official spot rate was unchanged at Rs 6750, they said. In ready session, only 1000 bales of cotton changed hands between Rs 6875-7000, they said. Market sources said that dullness was witnessed as a result of less buying interest among mills and spinners.

Cotton analyst, Naseem Usman said that genuine buyers were conspicuous by their absence. He also said that a kind of uncertainty persisted on the cotton market ahead of Panamagate case verdict. According to reports, declining exports of textile goods and liquidity crunch being forced spinners to keep on the sidelines during the session.

Reuters adds: ICE cotton futures were little changed on Wednesday, after slipping to the lowest level in nearly 10 weeks in the previous session, as the market took a breather foollowing two days of declines The market took a day off after three days of volatility and there was some mill buying, said Rogers Varner, president of Varner Brokerage in Cleveland, Mississippi.

The contract rose about 1.5 percent on Friday before sliding nearly 2.5 percent on Monday and about 0.8 percent on Tuesday. The May cotton contract on ICE Futures US settled up 0.02 cent, or 0.03 percent, at 74.87 cents per lb. It traded within a range of 74.65 and 75.19 cents a lb. The following deals reported: 600 bales of cotton from Rahim Yar Khan at Rs 7000 and 400 bales from Jalalpur at Rs 6875, they said.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2016-17 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/16" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL					
Rate For	Ex-Gin Price	Upcountry Expenses	Spot Rate Ex-Karachi	Spot Rate Ex-Karachi As on 05.04.2017	Difference Ex-Karachi in Rupees
37.324 Kgs Equivalent	6,750	135	**6,885**	**6,885**	NIL
40 Kgs	7,234	145	**7,379**	**7,379**	NIL

BUSINESS
RECORDER
Friday, 7th April, 2017

Cotton hits 10-week low

RECORDER REPORT

ICE cotton futures retreated to touch a 10-week low on Thursday, as speculators liquidated and index funds rolled positions. The May cotton contract on ICE Futures US settled down 0.48 percent at 74.51 cents per lb. The contract touched a session low at 74.48 cents, slightly farther from the near 10-week low of 74.55 cents on Tuesday.

"The market's in a slight liquidation mode," said Louis Barbera, a broker at ICAP Cotton. "We do have part of the index funds starting to roll, which puts additional pressure on May (contract). "The market's starting to key up to 74.40 area, which would be the 100-day moving average, in which time if it breaks that it would trigger another round of spec liquidation."

Weekly export sales data from the US government showed net upland sales totalled 270,000 running bales for the previous week, down 31 percent from the week before. The May cotton contract on ICE Futures US settled down 0.36 cent, or 0.48 percent, at 74.51 cents per lb. It traded within a range of 74.48 and 75.07 cents a lb. Total futures market volume rose by 2,210 to 35,262 lots. Data showed total open interest fell 6,385 to 271,090 contracts in the previous session. The dollar index was up 0.16 percent.

New York cotton

RECORDER REPORT

The fluctuations observed during the day:

	Current Session						Prior Day		
	Open	High	Low	Last	Time	Set	Chg	Vol	Set
May'17	74.84	75.17	74.48	74.51	14:20 APR 06	74.51	-0.36	16874	74.87
Jul'17	76.66	76.79	76.38	76.40	14:20 APR 06	76.40	-0.26	12803	76.66
Oct'17	-	73.74	73.74	73.74	14:20 APR 06	73.74	-0.09	-	73.83

BUSINESS
RECORDER
Friday, 7th April, 2017

Load shedding to persist beyond 2017

RECORDER REPORT

The entire federal cabinet, led by Prime Minister Nawaz Sharif, has repeatedly claimed that load shedding would be eliminated by 2018, the year of the general elections - a commitment that, if achieved, is widely believed to brighten PML-N's electoral prospects in an effective and meaningful manner. To achieve this objective, the focus of the Sharif administration has been on new generation and a number of projects are expected to be completed by 2018 or soon thereafter, including 1320MW coal-fired Port Qasim power project, 3600MW LNG-fired plants in Bhiki, Balloki and Haveli Bahadar Shah, etc, 1320MW Sahiwal coal-fired plant, 969MW Neelum-Jhelum hydropower project and 1410MW Tarbela fourth extension project.

The problem however is one of inadequate capacity of our existing transmission and distribution system - a problem that was clearly and unambiguously identified by Asian Development Bank when directed by the PPP-led coalition government to undertake an audit of rental power projects, the subsequent audit report of the Auditor General of Pakistan and more recently State of Industry report issued by Nepra. The total generation capacity is around 24000MW at present (as opposed to around 23000MW in 2011) while actual generation is considerably less due to: (i) generation companies' obsolete equipment that disallows them from operating at capacity with some operating at as low as under 30 percent; (ii) the distribution companies operate at different capacity rates with Mepco, Pesco, Hesco and Sepco suffering considerably more system constraints than other Discos due to theft/poor bill collection rate - a major component of the intractable circular debt, and (iii) transmission network had the capacity to transmit 16000MW in late 2012, as per the then Water and Power Secretary Nargis Sethi, while the Sharif administration claims that it has increased transmission capacity to 16500MW. This capacity increase indicates that the incumbent government would have been better advised to first ensure that the then existing capacity of around 22500 to 23000MW was fully utilised - an objective that required a considerable improvement in governance as well as an initial focus on the country's degraded transmission network.

That the Sharif administration chose to ignore the findings and subsequent recommendations of all these reports is extremely unfortunate. It has been reported that the Prime Minister, while inspecting progress of Bin Qasim power project more than a year ago, was informed by the Chinese Resident Engineer that while project completion was on schedule yet there was no network that would connect the project to electricity consumers. That situation remains relevant today and one can assume the massive economic cost on the treasury of a completed power project that is unable to supply to the consumers. Needless to add, non-use of any machinery does nonetheless require staff and maintenance costs.

It is disturbing that neither the relevant Water and Power Ministry nor the Planning Commission has raised its voice during the past nearly four years of the Sharif administration to emphasise to other members of the cabinet that the need to proactively tackle the serious issue of lack of transmission capacity should precede massive outlay on increasing the country's generation capacity. In addition, lack of governance reforms was recently pointed out in an internal document by the KfW - a German development bank - which was leaked to the media; and strong exception taken by Khawaja Asif, the Minister for Water and Power, who demanded and received an apology though one would hope he did read the report's findings which were based on a document released by a body under his Ministry's administrative control. To conclude, one must emphasise the fact that technical reports need to be read with a degree of interest instead of being allowed to gather dust and their conclusions must be used to guide annual sectoral injections by the government.

Friday, 7th April, 2017

Pakistan needs more reforms for high growth: ADB

AMIN AHMED

ISLAMABAD: Emphasizing that continued economic reform is essential to reach a high growth trajectory, the Asian Development Bank (ADB) has asked Pakistan to address key constraints on growth since regulation remains burdensome, requiring more reforms to provide an enabling environment that promotes business and encourages investment.

The Asian Development Outlook 2017 report released on Thursday, projects that gross domestic product (GDP) growth is expected to edge up to 5.2 per cent in FY17, and 5.5pc in FY18, underpinned by higher growth in the major industrial economies.

With national elections scheduled for 2018, the budget to be announced this June is likely to prioritise measures to foster economic expansion.

Higher growth in FY18 reflects accelerated infrastructure investment through the China-Pakistan Economic Corridor (CPEC), which is steadily lifting consumer and investor confidence and thereby further catalysing economic activity.

This outlook for Pakistan is supported by better security, macroeconomic stability, and improved economic fundamentals resulting from the continued implementation of government reforms under the three-year IMF programme, which was completed in September 2016, as well as ongoing and planned infrastructure and other investments under CPEC which links Pakistan with China.

The ADB flagship economic publication recommends that the government must continue to address key constraints on growth also to reap the potential benefits of CPEC. Domestic security has improved significantly in recent years, but consolidating these gains will take continued efforts, points out the report.

For Pakistan, CPEC is expected to be a major opportunity to boost growth and development. It is expected to provide many benefits, especially eliminating the power shortages that have held down economic growth in recent years.

Friday, 7th April, 2017

Dar approves cross-border trade reforms

MUBARAK ZEB KHAN

ISLAMABAD: Finance Minister Ishaq Dar has approved reforms in the Customs Department to facilitate cross-border trade under the Trade Facilitation Agreement (TFA).

The reforms will be carried out in six to 24 months, a source told Dawn on Thursday. Earlier, the Federal Board of Revenue (FBR) had committed to carrying out customs reforms in three to five years.

“We have sent the revised reforms commitment to the Ministry of Commerce,” the official said, adding that the authorities concerned will further discuss the reforms with stakeholders before notifying them.

The TFA was launched in 2013 as a global agenda to ease border trade. Pakistan ratified the TFA in October 2015. The agreement came into effect on February 22 after its ratification from 110 members of the WTO.

As part of the agreement, member-countries committed reforms to the WTO in A, B and C categories. All reforms that Pakistan committed in the A category have already been implemented after the ratification of the agreement. The proposed revised commitment is mostly related to the customs and will be placed under B and C categories.

On March 15, Commerce Minister Khurram Dastgir Khan announced reforms commitments after receiving the same from the FBR.

According to a source, bureaucrats were resisting reforms as the FBR was earlier reluctant to ratify the TFA. However, the agreement was ratified after the intervention of the prime minister’s secretariat, the source added. Similarly, the FBR in consultation with the Ministry of Commerce was making conservative commitments in B and C categories, which were overruled by the finance minister, the source said.

“The revised commitment for reforms will give a positive message to the local and international business community,” the source said, adding that countries lock their reforms and voluntarily commit to change by making international multilateral commitments.

The FBR has committed that in six months it will establish a help desk to provide trade-related information and ensure the segregation of customs duties, taxes, fees and charges.

Moreover, the FBR will put in place a system to accept paper or electronic copies of supporting documents required for import, export or transit formalities. Earlier, these reforms were to be carried out in five years.

The reforms that will be implemented in one year include the standardisation and upgrade of existing procedures and setting up of software for electronic payments. Earlier, the country was to put in place the electronic payment system in five years.

The period for the implementation of reforms in other areas was reduced to two years from three and five years. These are related to risk management, post-clearance audit and trade facilitation for authorised operators. The only reforms that will be carried out in five years are related to the establishment of a single window for trade.

OECD studies suggest that the implementation of the TFA will reduce trade costs by 14.5 per cent. It will help developing countries like Pakistan diversify their exports and enter new markets.

Friday, 7th April, 2017

IMF highlights risks of permanently low interest rates

AFP

A long-term shift to low interest rates in major economies would heighten challenges to global financial stability by stressing banks and other financial companies, according to an IMF paper released on Thursday.

Part of the International Monetary Fund's twice-annual review of financial stability, the report follows moves by the US Federal Reserve to lift benchmark rates in the last two quarters after a period of extraordinary accommodation following the 2008 financial crisis.

Nevertheless, rates in the US remain historically low, while other major central banks still maintain ultra-low interest rates.

Persistently low interest rates "would present a considerable challenge to financial institutions," requiring "significant" changes to business models, the paper said.

"In such an environment, yield curves would likely flatten, lowering bank earnings and presenting long-lasting challenges for life insurers and defined-benefit pension funds." Although the IMF paper did not predict a permanent shift to low rates, it said the implications of such an outcome must be considered. Low interest rates could become a feature of low growth in advanced economies with ageing populations and stagnant productivity.

The example of Japan suggests "an imminent and permanent exit from a low-interest rate environment need not be guaranteed," the paper said.

Perpetually low rates pose challenges for banks by cutting into profits that traditionally come from the gap generated by their ability to borrow money at low rates for short periods while lending for long periods at higher rates.

That condition could force smaller banks to merge with each other or larger banks that may be less stressed because of greater regional diversification.

Low interest rates would also pose difficulties to the insurance and pensions sectors, which could no longer rely on interest-rate-based returns to meet future liabilities and may be forced to raise additional capital, the paper said. They may also need to shift to different product lines as consumers live longer, demanding fewer savings products and more health insurance.

Friday, 7th April, 2017

Reserves drop by $245.4m

THE NEWSPAPER'S STAFF REPORTER

KARACHI: Pakistan's total liquid foreign exchange reserves amounted to $21.5 billion on March 31, down $245.4 million or 1.12 per cent from a week ago, the State Bank of Pakistan (SBP) said on Thursday.

The SBP's reserves decreased $264m to $16.4m. The decrease is mainly attributed to external debt servicing and other official payments.

Net foreign exchange reserves held by commercial banks amounted to $5bn on March 31, slightly up from the preceding week.

Friday, 7th April, 2017

Commodities

Listless trading on cotton market amid slack demand

THE NEWSPAPER'S STAFF REPORTER

KARACHI: Insipid conditions prevailed on the cotton market on Thursday amid uncertain outlook.

Slow cotton yarn off-take and falling textile exports impacted trading sentiments, brokers said. Moreover, easy trend noted on the major world cotton markets also worked against the sentiment as buyers avoided entering into business deals, they added.

The lifting of ban on early cotton sowing in Punjab and falling demand for cotton have disturbed ginners who are struggling to dispose of their stocks at the earliest.

The fear of extreme hot climate next month forced the Punjab government to review its earlier decision of not allowing early cotton sowing. As a result of this the cotton crop would now be available earlier than anticipated.The Karachi Cotton Association (KCA) kept its spot rates unchanged at the overnight level.

Only two deals, 600 bales from Rahimyar Khan was finalised at Rs7,000 and 400 bales from Jalalpur at Rs6,875, were finalised on the ready counter.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2015-16 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/32" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL			
Rate For	Ex-Gin Price	Upcountry Expenses	Spot Rate Ex-Karachi
37.324 Kgs Equivalent	6,750	135	6,885
40 Kgs	7,234	145	7,379

DAWN

Friday, 7th April, 2017

MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market*		Open market**	
	Buying	Selling	Buying	Selling
USA	104.45	104.65	106.10	106.30
UK	130.01	130.26	131.75	134.25
Euro	111.53	111.74	112.80	114.30
S.Arabia	27.85	27.91	28.20	28.40
UAE	28.42	28.48	28.90	29.10
Japan	0.9443	0.9461	0.9483	0.9683

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

	Bid	Offer
Three months	5.89	6.14
Six months	5.92	6.17
One year	5.96	6.46

LIBOR

Special US dollar bonds for April 5

Three months	1.15039 %
Six months	1.42294 %

THE NEWS
Friday, 7th April, 2017

SSGC plans Rs64.9bln pipeline project to transport 1.2bcfd gas

KARACHI: Sui Southern Gas Company (SSGC) has approved Rs64.9 billion worth of project to develop a 1.2 billion cubic feet/day (bcfd) capacity pipeline for the transportation of re-gasified liquefied natural gas to Lahore, it emerged on Thursday.

The SSGC's board of directors approved the 370-kilometre long and 42-inch diameter pipeline project with an expected completion in October 2018, an official document said. The government wants to import more liquefied natural gas for the upcoming terminals in the country. Keeping in view the diminishing indigenous gas resources, there is an immediate need to develop addition pipeline capacity from Karachi to Lahore.

The country's domestic production stands at four bcfd, while demand is six bcfd. Industrial units, including textile mills and compressed natural gas filling stations in Punjab, are relying on LNG owing to the gas scarcity.

Three LNG-based power plants, with cumulative production capacity of 3,600 megawatts, are also being set up in Punjab, which would need continuous gas supply. The pipeline project is subject to an approval by the regulator, Economic Coordination Committee as well as availability of letter of comfort from the ministry of petroleum and natural resources.

The document said SSGC will arrange financing as long-term loan from the federal government or through commercial borrowing backed by the sovereign guarantee by the government, including waiver of existing loan covenants from the concerned quarters.

Early this year, the government had tasked both the southern and northern gas utilities to install regasified liquefied natural gas-dedicated pipeline from Karachi to Lahore. Sui Northern Gas Pipelines has already taken up a Rs54.67 billion project and would lay pipeline within its jurisdiction.

The country's first LNG terminal started operation in March 2015 to receive and process imported LNG. Since January, Pakistan has started importing 600 million metric cubic feet/day (mmcfd) LNG under LNG services agreement between SSGC and Engro. Earlier the country was importing 400 mmcfd.

The government plans to have four floating storage re-gasification units (FSRU) terminals up and running by 2019 as the country rapidly expands its LNG import infrastructure to meet its soaring gas demand.

The petroleum ministry said the country's LNG imports would reach three billion cubic feet/day by the end of 2019. Moreover, SSGC will soon be inviting tenders on engineering, procurement and construction basis for the establishment of 30 liquefied petroleum gas air mix plants, as approved by the Economic Coordination Committee, in Balochistan and Sindh having capital outlay of Rs14 billion. This is also subject to approval by the Oil and Gas Regulatory Authority or others.

THE NEWS
Friday, 7th April, 2017

ADB forecasts fiscal deficit at 3.8 percent in FY17

KARACHI: Asian Development Bank (ADB) on Thursday bet on the government's ability to achieve the fiscal deficit target of 3.8 percent of GDP during the current fiscal year, cautioning the government of overspending spree ahead of elections.

The Manila-based lender based its budget deficit forecast on total revenue collection equaling 15.8 percent of GDP, driven by Federal Board of Revenue tax collection at 10.8 percent of GDP in 2016/17 and continued expenditure rationalisation.

"To achieve the lower deficit, additional measures may be needed in the remaining months of FY2017 to bridge a revenue shortfall in the first half of the year, though higher imports and the pass-through of higher oil prices to consumers may be sufficient to boost indirect tax revenue," ADB said in its flagship Asian Development Outlook 2017: Transcending the middle-income challenge report.

"A shortfall in nontax revenue poses an additional challenge, but it should be mitigated somewhat by expected inflows under the coalition support fund and, if accomplished, the budgeted sale of the 3G spectrum."

The Bank, however, said overspending ahead of elections (scheduled for the next year) may pose a risk to the efforts to contain expenditures and budgetary assumption that "the provinces will record a cash surplus of Rs339 billion, equal to one percent of GDP."

"Targeted expenditures in FY2017 equal 19.6 percent of GDP. Expenditures in the first half were, at 8.3 percent of GDP, about the same as last year because the government was able to contain current expenditure by curtailing domestic interest payments and spending on other categories including subsidies," it added. "Consolidated federal and provincial development spending was also low in this period at 1.5 percent of GDP, less than a third of the FY2017 full year target of 4.7 percent." ADB forecast the current account deficit at 2.1 percent of GDP in FY17, less than what was projected (2.9 percent) by the International Monetary Fund. The deficit, however, widened to $4.7 billion in the July-Jan period of 2016/17, almost double the $2.5 billion in the corresponding period a year ago.

The widening current account deficit was mainly due to falling remittances, delayed coalition support fund and increase in balance of trade gap. Exports continued to decline in the third consecutive years due to waning global demand and weak international commodity prices as well as domestic structural issues, such power outages and lack of investment in modernisation and currency appreciation in real effective terms.

"The current account balance will likely deteriorate further in FY2018 to 2.5 percent of GDP with somewhat higher global oil prices and accelerating infrastructure investments connected with CPEC (China-Pakistan Economic Corridor)," ADB said. "A significant increase in the current account deficit could pose a risk to official exchange reserves, which peaked at $18.9 billion in October 2016 and then slid by $1.3 billion by February 2017." ADB further said the country's growth is expected to edge up to 5.2 percent in FY17 and 5.5 percent in FY18. The forecast was same as the previous predictions in the last year's outlook.

Pakistan's growth forecast reflected in the country's improved security and better economic fundamentals. "The forecast for growth in FY2017 envisages revived agriculture as recovery in cotton and sugarcane offset a forecast decline in the rice crop," it added. "The revival is underpinned by special credit facilities, subsidised fertiliser and improved global commodity prices."

The outlook, which forecasts for the 45 economies in Asia and Pacific, projected the region's growth expanding by 5.7 percent in 2017 and 2018 as moderation in China is balanced by a healthy pickup in most other economies in the region. ADB outlook projected Pakistan's inflation at four percent in FY17 on rebound in oil prices, higher domestic demand and expanded domestic borrowing from the central bank.

THE NEWS
Friday, 7th April, 2017

FBR unearths multimillion rupees sales tax evasion

ISLAMABAD: The Federal Board of Revenue (FBR) has unearthed multimillion rupees of sales tax evasion by Peshawar-based traders found involved in filing fake invoices to duck their tax liabilities, it emerged on Thursday.

The details, available with The News, showed that the FBR's Directorate of Intelligence and Investigation Inland Revenue, Peshawar initiated sales tax audit and inquiry on basis of credible information of tax evasion by the companies.

The authorities, through initial findings, found that the registered persons are, prima facie, involved in tax fraud as defined in section 2(37) of the Sales Tax Act 1990. The investigation is underway to determine the actual tax losses.

They are commercial importers of consumer goods like battery, bulbs, cloth buttons, glass beads, padlock and school bags. Despite making huge purchases, they declare low sales. Most of their sale invoices are split into less than Rs50,000/invoice to avoid compliance of section 73 of the Sales Tax Act 1990. They didn't not exist at the business premises, registered with the FBR.

The suspicion of fraud was strengthened by a fact that some of their buyers from different cities had already been blacklisted. Further scrutiny revealed that their business capitals are also not commensurate with the volume of declared closing stocks.

The nature of goods, imported by the registered individuals, was unrelated to the business of buyers and undoubtedly buyers were claiming illegal input tax on the basis of flying invoices. On the recommendations of the tax department, the Chief Commissioner of Inland Revenue, Regional Tax Office Peshawar suspended sales tax registration of the taxpayers in March till completion of the pending audit and inquiry.

The Peshawar directorate found buyers of flying invoices, located in jurisdictions of different tax offices, who have, prima facie, claimed unlawful input tax adjustments on the invoices of tax fraudsters. Apparently, these are big cases of sales tax evasion.

THE NEWS
Friday, 7th April, 2017

Government must opt for labour reforms to spur growth

LAHORE: The government needs to enforce labour reforms to sustain growth in employment and inject flexibility into the jobs market, as over two million workers enter the workforce each year.

Inflexibility of the labour market in the formal sector is one of the many factors impeding growth. On the other hand, the labour markets are flexible in the ever growing non-documented sector which employs more workers despite multi-tasking and market-based salaries.

In flexible labour markets, companies train workers in multitasking to cover for absent employees and to reduce cost. They give their workers market-based salaries depending on the supply of labour.

They have the power to fire their workers without any hassle. Creditable global institutions have been asking the government to reform its labour policies on these lines. Although statistics reveal that 43 percent of the total workforce in Pakistan is absorbed by the agriculture sector, the figures are not realistic. Each year, when a youth attains the working age in a farming family they are absorbed in the already excess workforce engaged in family agriculture.

However, growing mechanisation in agriculture is increasing the number of unemployed for which Pakistan needs to accelerate industrial growth to absorb two million workers every year. But labour market flexibility is difficult both because of social and political implications. Most experts think that highly regulated labour market ensures protection of the rights of the workers.

If we look at it in our current scenario it is not so. Regular increase in minimum salary without corresponding increase in productivity has made many industries sick. They shed jobs on each increase in minimum wage to reduce cost. Inflexibility of labour markets has given an upper hand to middleman called the labour contractor.

This contractor supplies daily wagers to the manufacturers and get a lump sum from the manufacturers. The contractor distributes the wages after deducting his hefty service charges from the workers.

In the same way, labour contractors now supply all the cleaning and security staff to the factories and charge minimum wage. They deduct their commission from the employees. The factory owners save a lot as they do not have to pay old age benefit, social security, and other perks to the daily wager and contracted employees, who do not have benefit of provident fund as well.

This flexibility in the labour markets has been engineered by the employers in the face of tight regulation of the labour laws by the state. This has at least provided them the power to refuse to accept workers they do not want from the contractor.

The undocumented sector on the other is the dominant employer that accepts no rules. They pay wages according to the supply of labour in the market.

If there is a short supply of labour, the wages would be higher, and in case of oversupply, wages would be lower. In the non-documented sector, the workers try to acquire skills that are badly needed in the market and get higher salaries.

They might get slightly higher salaries in the documented sector, but mostly the hassle of going to work at a faraway place forces them to work near home in the non-documented sector.

Agriculture was a vital area for employment in the past. Global experience points to the fact that as an economy develops further, significant numbers of people go out of agriculture. Therefore, the employment growth could only come from industry and services. Agriculture still absorbs majority of the country's workforce, but all the workers are employed informally with no rights.

A fair system would be to give a free hand to the employer in hiring and firing as is practiced in developed economies. Along with flexibility to hire and fire, government should make it compulsory for all industries to continuously upgrade the skills of their workforce. At any given time, 15 percent of the workforce should be doing refreshers and skill upgrade courses and those improving efficiency should be rewarded fairly.

THE NEWS
Friday, 7th April, 2017

Cotton firm

Karachi

The Karachi Cotton Exchange witnessed slow trading on Thursday, as spot rate remained unchanged.

Spot price remained unchanged at Rs6,750/maund (37.324 kg), and Rs7,234/40 kilogram. Ex-Karachi rates also stood firm at Rs6,885/maund, and Rs7,379/40kg after addition of Rs135, and Rs145 as upcountry expenses, respectively.

One analyst said buyers remained sidelined despite having very little stock with the ginners, while ginners were eager to sell out their stocks. “Market is near to off season, as very little stocks are left,” he said.

The cotton exchange recorded only two transactions of around 1,000 bales in Rs6,875/maund to Rs7,000 /maund. Rahimyar Khan’s 600 bales were sold at Rs7,000/maund and 400 bales of Jalalpur were exchanged at Rs6,875/maund. After a couple of negative sessions, New York Cotton Market witnessed an increase on all its futures.

The Nation on Web
The Nation
Friday, 7th April, 2017

EU envoy praises economic development in Punjab

LAHORE (PR) - EU Ambassador Jean Francois Cautain on Thursday visited the Punjab Board of Investment and Trade (PBIT) and appreciated the Punjab government for the steps it had taken for sustainable development and economic progress.

Provincial Minister Tahir Khalil Sindhu and PBIT CEO Haroon Shaukat received the EU ambassador along with senior officials. Shaukat briefed the visiting envoy about the progress made by the government of Punjab in terms of development and highlighted the prospects of future increase in exports to the EU.

The EU ambassador said that public and private sectors of Pakistan would have to work together to take full advantage of the Generalised System of Preferences (GSP) Plus status granted till 2023. “Due to GSP Plus, Pakistani exports to EU have increased by 78%. That is moving towards a win-win situation for both,” he said and emphasized that the 27th convention should fully be implemented to help the citizens of Pakistan.

Sindhu said that Pakistan’s global image did not fully depict its potential. He said that a complete rebranding of the country was needed in the eyes of international investors.

The PBIT CEO stated that despite the fact that EU Commission granted GSP Plus status to Pakistan, the potential benefits of this scheme could not be fully materialised. “We look forward to finding more and more opportunities of market penetration in other countries of EU,” he said and stressed the need for exploiting the potential by exporting agro-based processed food to EU in collaboration with European companies through joint ventures and transfer of technology.

Shaukat said that Pakistan was ranked in the list of top 10 countries introducing reforms for ease of doing business. “We are focusing on three major issues: terrorism, law and order and energy infrastructure. And the situation on all three fronts is improving,” he said.

He said that PBIT was organising a mega event to attract foreign investors in Punjab. The “International Seminar on Business Opportunities in Punjab” will introduce Punjab as an investment hub and will aim to share several success stories from within Pakistan to the international community. The ambassador said that EU would help to make “International Seminar on Business Opportunities in Punjab” a successful event. The meeting ended with vote of thanks.

The Nation on Web
The Nation
Friday, 7th April, 2017

Pakistan, Germany ink Joint Declaration of Intent

Muller offers Germany's technical, research assistance for development of Pakistan's agriculture sector

Our Staff Reporter

ISLAMABAD - Pakistan and Germany on Thursday signed a Joint Declaration of Intent with the aim to further strengthen development cooperation between the two countries.

Finance Minister Ishaq Dar and German Federal Minister for Economic Cooperation & Development Dr Gerd Muller signed the Joint Declaration of Intent. The declaration reiterates the three priority areas of Pakistan-German development cooperation, ie Governance, Energy and Sustainable Economic Development, and indicates that the volume of bilateral development cooperation could reach up to €109 million for the two year period 2017-18.

Before signing the declaration, Dar and Muller discussed matters of mutual interest with particular focus on bilateral development cooperation between Pakistan and German. Dar highlighted the historic ties between Pakistan and Germany. He appreciated the cooperation and support of the German government for various development projects in Pakistan, including the recent equity participation by German development bank, KfW, in the Pakistan Microfinance Investment Company (PMIC).

Dar shared with the German minister that after having achieved macroeconomic stability in Pakistan, the government is now focused on attaining higher, sustainable and inclusive economic growth. He said that Pakistan is focused on the promotion of financial and digital inclusion in the country. In this regard, he highlighted the IT Park project in Islamabad that is being implemented with loan assistance from Korean Exim Bank.

Dar emphasized that Pakistan has a liberal investment regime and invited German companies to invest in Pakistan, particularly in the automotive and solar PV sectors. He suggested that German companies should explore the possibility of benefitting from the opportunities available in the Special Economic Zones being established in Pakistan.

The German minister acknowledged Pakistan's economic success story over the last three and a half years. He appreciated Pakistan's efforts and sacrifices for addressing the challenges of terrorism and extremism, and the promotion of global peace. He said that Germany is focused on continuing its economic and development initiatives in Pakistan. He offered Germany's technical and research assistance for development projects in Pakistan, including technical support in the agriculture sector to achieve higher yields.

The German minister invited Dar to visit Germany and meet with various German business leaders to promote the investment and business opportunities in Pakistan. At the end of the meeting, both the ministers reaffirmed the mutual commitment to further enhance and strengthen bilateral relations in existing and new areas.

The Nation on Web

The Nation

Friday, 7th April, 2017

ADB projects economic growth at 5.2pc for FY2017

Imran Ali Kundi

ISLAMABAD - The Asian Development Bank (ADB) has projected Pakistan's economic growth at 5.2 percent for the current fiscal year due to better security, macroeconomic stability and investment under the China-Pakistan Economic Corridor (CPEC) projects.

"The GDP growth is expected to edge up to 5.2% in FY2017 and 5.5% in FY2018, underpinned by higher growth in the major industrial economies," the ADB's new Asian Development Outlook (ADO) 2017 stated. Higher growth in FY2018 reflects accelerated infrastructure investment through CPEC, which is steadily lifting consumer and investor confidence and thereby further catalysing economic activity.

The Bank said that with national elections scheduled for 2018, the budget to be announced in June 2017 will likely prioritise measures to foster economic expansion. The forecast for growth in FY2017 envisages revived agriculture as recovery in cotton and sugarcane off set a forecast decline in the rice crop. The revival is underpinned by special credit facilities, subsidised fertiliser, and improved global commodity prices. Favourable weather, including timely rains in January 2017, augurs a strong winter wheat crop. Prevailing low interest rates, improved electricity supply, and government budgetary incentives announced in June 2016 should boost large-scale manufacturing.

The ADB forecasted Pakistan's inflation to accelerate to 4.0% in FY2017 on a rebound in oil prices, higher domestic demand, and expanded government borrowing from the central bank. A continued recovery in oil prices will likely accelerate inflation, which is projected to reach 4.8% in FY2018. The central bank will need to be vigilant and readjust its accommodative monetary policy if inflationary pressures intensify.

The report has noted that the government of Pakistan would have to take additional revenue generation measures to achieve budget deficit target of 3.8 percent of the GDP during FY2017. Higher imports and the pass-through of higher oil prices to consumers may be sufficient to boost indirect tax revenue. A shortfall in nontax revenue poses an additional challenge, but it should be mitigated somewhat by expected inflows under the Coalition Support Fund and, if accomplished, the budgeted sale of the 3G spectrum.

"The current account deficit is projected to widen to equal 2.1% of GDP in FY2017. The deficit increased to $4.7 billion in the first 7 months of FY2017, almost double the $2.5 billion deficit in the same period of FY2016. Services and income account deficits worsened as receipts under the Coalition Support Fund were delayed. Meanwhile, the workers' remittances that critically offset the large trade deficit fell for the first time in 10 years, by 1.9% to $10.9 billion, because of declining expenditures and income in oil-dependent Gulf economies," the ADB observed. The current account balance will likely deteriorate further in FY2018 to 2.5% of GDP with somewhat higher global oil prices and accelerating infrastructure investments connected with CPEC. A significant increase in the current account deficit could pose a risk to official exchange reserves, which peaked at $18.9 billion in October 2016 and then slid by $1.3 billion by February 2017. The increased inflows in the financial account from multilateral and bilateral disbursements, along with non-debt inflows in the first 7 months of FY2017 are providing a cushion for the widening current account deficit.

The trade deficit widened in the first 7 months of FY2017 by 21.1% to $13 billion as imports accelerated by 9.2%, driven by an 18% increase in investment goods and a 12% rise in oil import payments as prices recovered. Investment goods accounted for 40% of the increase in imports, and oil nearly 30%. Exports continued to decline, but by only 1.3%, which was much smaller than the 11.7% plunge in the same period of FY2016. A third consecutive year of falling exports reflects weak global demand and low international commodity prices but also domestic structural issues such as power outages, scant investment in modernisation, and currency appreciation in real effective terms, all of which hamper competitiveness. The nominal exchange rate was stable at Rs104.7 to the US dollar in the first 7 months of FY2017, but the rupee continued to appreciate in real effective terms, undermining export competitiveness.

Announced in April 2015 as a $46 billion project, but subsequently increased to $55 billion, the CPEC provides for major

The Nation on Web
The Nation
Friday, 7th April, 2017

investments in energy and transport infrastructure. CPEC will be financed largely by China and is expected to be completed by 2030. The project will significantly address Pakistan's infrastructure deficit caused by annual spending on infrastructure at only 2%–3% of GDP in the past 4 decades. "For Pakistan, CPEC is expected to be a major opportunity to boost growth and development. CPEC is expected to provide many benefits, especially eliminating the power shortages that have held down economic growth in recent years. It will improve connectivity to domestic and international markets and so benefit Pakistan's lagging regions. The large investment in infrastructure should boost construction and related industries, spurring job creation and growth," the latest ADO noted.

CPEC investments are likely to require significant increases in imports of equipment and services to implement the projects. In the medium-to-long term, these inflows will likely be followed by financial outflows as loans are repaid and profits repatriated to foreign investors. Higher foreign exchange earnings and exports will be needed to avoid pressure on the external account. To reap the potential benefits of CPEC and shift the economy of Pakistan to a higher growth trajectory, the government must continue to address key constraints on growth. Domestic security has improved significantly in recent years, but consolidating these gains will take continued efforts. Regulation remains burdensome, requiring more reform to provide an enabling environment that facilitates business and fosters investment. Reform to boost exports by diversifying products and markets and by adopting more flexible exchange rate policies are needed to maintain external stability. Similarly, structural reform to the energy sector and state-owned enterprises are required to fully realise investments' productive potential.