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Moody""s affirms B3 rating, risks remain

TAHIR AMIN

Moody""s Investors Service (Moody""s) has affirmed the government of Pakistan B3 rating and senior unsecured ratings, but cautioned that domestic politics, stalling of the government""s post-IMF programme reform agenda and geopolitical risk may continue to represent a significant constraint on the rating.

The report added that large fiscal deficits and a reliance on short-term debt have contributed to very high gross borrowing requirements. At about 32 percent of GDP, Pakistan""s projected gross borrowing need for 2017 is one of the highest among rated sovereigns. With nearly 31 percent of outstanding government debt in foreign currency in fiscal year 2016, Pakistan is exposed to marked changes in the cost of refinancing debt, should the local currency weaken abruptly.

In addition, debt affordability metrics, which include interest payments as a percentage of revenues and GDP, are very weak for Pakistan relative to its peer group. At around 28 percent of revenues in 2016, Pakistan spends nearly three times as much revenue on interest payments as the median of B-rated sovereigns at about 10 percent.

Foreign exchange reserve buffers have increased nearly fourfold since the onset of the IMF programme and cover more than the full amount of external debt payments; they are still low in relation to current account payments and have been declining since their recent peak around September 2016. As of April 2017, import coverage had fallen from a high of about five months in mid-2016 to below four months. This is only slightly above the IMF""s three-month minimum adequacy level.

At 67.6 percent of GDP in fiscal year 2016, the government""s debt burden is materially higher than the B-rated median of 52.6 percent. Moody""s expects the debt burden to remain broadly stable over the next two years.

The report states that Moody""s would view a stalling of the government""s post-International Monetary Fund (IMF) program reform agenda, including revenue reforms and the strengthening of monetary policy and central bank independence, to be credit negative. Any material widening of the fiscal deficit, renewed weakening of the external payments position, loss of multilateral/bilateral financial support, or significant escalation in political tensions would also weigh on Pakistan""s credit profile.

Pakistan""s medium-term growth outlook is strong, supported by the China-Pakistan Economic Corridor (CPEC) project to address critical infrastructure constraints, and the continuing effects of macro-stability-enhancing reforms started under the IMF""s Extended Fund Facility (EFF) program.

However, the government""s debt burden is high and fiscal deficits remain relatively wide, driven by a narrow revenue base that also restricts development spending. In addition, foreign exchange reserve adequacy, albeit stronger than a few years ago, would still be vulnerable to any significant increase in imports. The decision to maintain the stable outlook on Pakistan""s B3 rating reflects broadly balanced risks related to these two sets of factors.

Concurrently, Moody""s has affirmed the B3 foreign currency senior unsecured ratings for the second Pakistan International Sukuk Co Ltd and the third Pakistan international Sukuk co. ltd.

Pakistan""s Ba3 local currency bond and deposit ceilings remain unchanged. The B2 foreign currency bond ceiling and the Caa1 foreign currency deposit ceiling are also unchanged. These ceilings act as a cap on the ratings that can be assigned to the obligations of other entities domiciled in the country.

From a macroeconomic stability perspective, the IMF program succeeded in fostering fiscal deficit reduction, more rigorous inflation management and the rebuilding of foreign exchange reserves. While further progress will be challenging, as fiscal metrics remain weak and reserve adequacy is relatively fragile, our baseline assumption is that the steps that the authorities have taken in the last 3-4 years will not be reversed. Continued government commitment to reform implementation will help to reinforce fiscal and monetary discipline, preserving recent macroeconomic stability gains.

Moody""s expects that real GDP growth will rise to 6 percent over the next few years, as the economic benefits of the CPEC gradually materialize and past policy reforms continue to support economic potential. The CPEC will increase Pakistan""s competitiveness and lift potential GDP growth by relieving supply-side constraints, particularly in power and transport infrastructure, and by catalyzing private sector investment.

However, security related issues and a weak track record of public project implementation

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suggest the pace of project execution will be relatively slow. Therefore, while the CPEC will support Pakistan""s credit profile, Moody""s expects the economic impact to materialize more slowly than the government envisions, resulting in real GDP growth closer to 5.5 percent over the next two years, compared to government forecasts for 6 percent growth in fiscal year 2018, rising to 7 percent by fiscal year 2020. Despite relatively robust GDP growth, weak government revenue generation poses fiscal constraints. It limits growth potential by curbing the government""s capacity to spend on physical and social infrastructure development.

General government revenues were equivalent to only 15.5 percent of GDP in fiscal year 2016, lower than most of Pakistan""s rating peers. This reflects the government""s narrow tax base, linked to very low per-capita incomes, along with weak tax compliance and administration, despite some improvements related to IMF program reforms.

Further fiscal consolidation, after the deficit narrowed to 4.4% of GDP in fiscal year 2016 from 8.1 percent of GDP in fiscal year 2013, will be challenging. The government had set fiscal deficit targets of 3.8 percent of GDP for fiscal year 2017 and 3.5 percent for fiscal year 2018. However, despite relatively disciplined spending, revenue collection has fallen short of the target in the first half of this fiscal year. As a result, in June 2017, the government revised its fiscal year 2017 and fiscal year 2018 deficit targets to 4.2 percent and 4.1 percent of GDP, respectively.

Moody""s expects the fiscal deficit to widen to about 4.7 percent of GDP in fiscal year 2017 and 5 percent in fiscal year 2018 despite the government""s intention to advance fiscal consolidation. The government""s revenue projections for fiscal year 2018 are based on GDP growth projections that Moody""s considers to be optimistic.

Development spending - particularly related to CPEC power infrastructure investments - combined with political pressure ahead of the 2018 general election to maintain power subsidies, which are currently budgeted for about Rs 103 billion, will weigh on the public finances.

Pakistan has benefited from lower global oil prices, but the uptick in prices last year, combined with an increase in imported CPEC capital goods, widened the trade deficit. In addition, worker remittance inflows from abroad, which amount to nearly 7 percent of GDP, have declined. As a result, the current account deficit has widened and external pressures are building. Moody""s expects the current account deficit to grow to about 2.7 percent of GDP in fiscal year 2017 and 2.9 percent in fiscal year 2018 from 1.2 percent in fiscal year 2016.

In response to mounting external pressure, in March 2017, the central bank introduced a 100 percent cash margin requirement on certain imported consumer goods. On July 5, 2017, after nearly two years of stability, the Pakistani rupee depreciated by about 3 percent following foreign exchange market intervention by the central bank. The intervention responded to mounting external pressures and deterioration of export competitiveness, following persistent real effective exchange rate appreciation. The Pakistani rupee has retraced much of its recent depreciation.

Greater exchange rate flexibility would contribute to a more durable accumulation of foreign exchange reserves over time, which would help to strengthen external buffers and export competitiveness. The resulting reduction in external vulnerabilities would support Pakistan""s credit profile. However, while Moody""s believes this to be the central bank""s medium-term objective, it expects any shift in exchange rate management to be gradual, as the government will likely want to avoid abrupt currency and other price movements, in particular in advance of the 2018 general election.

Support from multilateral and bilateral lenders has bolstered Pakistan""s foreign currency reserves and progress on economic reforms, and there is potential for further strengthening in growth and policy effectiveness beyond Moody""s current expectations. The successful implementation of the CPEC project has the potential to transform the Pakistani economy by removing infrastructure bottlenecks, and stimulating both foreign and domestic investment.

However, downside risks also exist. In particular, the economic benefits of CPEC are still highly uncertain and power supply may continue to constrain growth to a greater extent than Moody""s currently envisages. Moreover, the fiscal costs related to the project and, more generally, development spending could raise Pakistan""s debt burden more rapidly and significantly than the rating agency expects. In addition, recent indications of renewed increases in external pressure could develop into greater external vulnerability.

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Reko Diq dispute:

Government files petition

WASIM IQBAL

Pakistan has filed a petition in International Center for Settlement of Investment Disputes (ICSID) for a temporary stop to proceedings on Reko Diq dispute over the mining lease in Balochistan. Pakistan has sought to disqualify an arbitrator appointed by the Australian joint venture company - Tethyan Copper Company (TCC) - in the matter arguing that he (arbitrator) can not be impartial because he relied on a unique damage valuation method as counsel in other proceedings.

Pakistan submitted its request in ICSID proceedings held on July 7, 2017, saying Arbitrator Sidley Austin LLP partner Stanimir Alexandrov can not be impartial. The proceedings on the case have been pending in ICSID since July 7, 2017. It is the second time Pakistan has filed an objection against an arbitrator appointed by TCC. Earlier, Pakistan''s objection forced a member of the tribunal to resign for being too close to Antofagasta Canada.

In September 10, 2012, Pakistan filed objections before the ICSID against the appointment of John Beechey for being judgmental and biased against Pakistan. Beechey was a former partner of a law firm, Clifford Chance LLP, which represented TCC''s parent mining company Antofagasta. Subsequently, he resigned and Stanimir A. Alexandrov was appointed arbitrator.

Two arbitrators- Leonard Hoffmann and Stanimir A. Alexandrov-have been working under the President of the tribunal, Klaus Sachs. Office of the Attorney General of Pakistan has hired legal firms GST, Washington D.C and Miami USA, Axis Law Chambers and URJ &Co Lahore.

In a statement released on Website of Barrick Gold Corporation on 21 March 2017 ICSID tribunal rejected Pakistan''s final defense against liability, and confirmed that Pakistan had violated several provisions of its bilateral investment treaty with Australia, where TCC is incorporated.

Sources said that TCC has only invested $260 million in exploration but may claim lost profits close to $5 billion. However, a legal expert argued that it would be very difficult for the tribunal to justify the grant of damages in the matter and instead it may direct the reimbursement of actual expenses incurred. Reliable sources in Ministry of Petroleum and Natural Resources said that a summary to the prime minister has been moved seeking approval to immediately start negotiations with the TCC to settle ''out of court''.

According to details, damage phase of the proceedings began on March 22 this year and 11 hearings have so far been held. It has been reported that the tribunal will consider submissions from the parties to determine the amount that Pakistan must pay TCC. A ruling on the quantum of damages is expected in 2018. The case has been pending in ICSID since January 12, 2012. In January 2013, Supreme Court of Pakistan declared the Reko Diq agreement void and in conflict with the country''s laws while disposing of identical petitions filed against the federal government''s decision to lease out gold and copper mines in Reko Diq to TCC.

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CoAS spells out CPEC benefits

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Army Chief General Qamar Javed Bajwa has said that China-Pakistan Economic Corridor (CPEC) is truly a harbinger of economic development, peace and prosperity in the region and urged all national institutions to make all-out efforts to ensure the success of CPEC. Addressing a function on CPEC Logistics in Rawalpindi on Wednesday, he said that the CPEC is also an affirmation of Pakistan''s efforts for a peaceful and prosperous region.

He said, "Unlike some other countries of South Asia, we believe in focusing on our energies for peace and inclusiveness rather than divisive competition." The Army Chief said that the CPEC will bring increasing economic integration among regional economies and reduce the development gap within various regions of Pakistan. He said that the Chinese investment in various fields including energy, infrastructure, Gwadar Port and special economic zones can lay the foundation of a fast development in Pakistan if the opportunity is optimally utilised.

Commenting on prevailing security situation in Pakistan, the Army Chief said the country is much safer that day then before as peace has been restored in the Federally Administered Tribal Areas (FATA) and its adjoining areas. He said normalcy is returning to the country''s economic hub Karachi. Similarly, the law and order has improved significantly in Balochistan and there is great focus on socio-economic development.

The Army Chief said that Pakistan is making steady but sure-footed progress to get rid of the menace of terrorism and extremism. He said that Pak-China relationship is based on the principles of peaceful co-existence, commonality of interests and shared perception on regional and global issues. He said, "We have always stood by each other through thick and thin and at every critical juncture of our history that is why we are called as ''Iron Brothers''"

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Powers and functions of DGI&IR:

LHC declares SRO 116 illegal

RECORDER REPORT

The Lahore High Court (LHC) has set aside SRO 116 of the Federal Board of Revenue (FBR) relating to the powers and functions of Directorate General Intelligence and Investigation, Inland Revenue under Sales Tax Act 1990 and declared the SRO 116 as illegal.

According to a judgement of LHC in writ petition No. 37358 of 2016, SRO 116 is hereby set aside as being ultra vires the powers of the FBR and is declared without lawful authority and is of no legal effect. The FIRs registered and the criminal prosecution set in motion in pursuance of SRO 116 are also set aside and quashed.

The LHC judgment added that the federal government is directed to frame rules with regard to the transfer and postings under the Federal Board of Revenue Act, 2007 (Act, 2007) of officers and employees of the FBR. The FBR is directed to frame rules with regard to the Directorates and their functioning. In particular, the FBR will enact rules for structuring the powers given in section 37A which is couched in a broad language and confers wide powers on officers of Inland Revenue.

The FBR and its officers are directed to comply with the judgment in Taj International until it is set aside by the Supreme Court of Pakistan, the LHC judgment added. Under SRO 116, the Federal Board of Revenue has appointed the officers of the Directorate General Intelligence and Investigation, Inland Revenue, to be the officers of Inland Revenue and exercise such powers and perform functions of officers of Inland Revenue as mentioned in Sales Tax Act.

In its judgment, LHC said that the judgment shall also decide connected constitutional petitions No. 29474 of 2015, WP No. 28698 of 2015, WP No. 16866 of 2015, WP No. 30331 of 2017 and WP No. 21988 of 2017. These petitions are woven into a unified fabric by the challenge in these petitions to SRO 116(I)/2015 issued by the Federal Board of Revenue (FBR) on 9.2.2015 (SRO 116) in exercise of the powers conferred by sections 30, 30A and 30E of the Sales Tax Act, 1990 ("the Act, 1990"). It is the case of the counsels for the petitioners that SRO 116 is out with the authority of FBR and must be struck down. As a consequence, the prayer is for the proceedings set in motion on the basis of SRO 116 to be quashed as being without lawful authority and of no legal effect.

The challenge to SRO 116 has its genesis in two separate but related arguments:

Firstly, whether the provisions of section 30 read with section 30A of the Sales Tax Act, 1990 (Act, 1990) require the setting up and formation of a Directorate General (Intelligence & Investigation) [Inland Revenue] (DG I&I)IR prior to the declaration of those officers as officers of Inland Revenue and the conferment of powers under the Act, 1990 in terms of section 30E. Secondly, whether the powers conferred on the officers of DG I&I under SRO 116 can validly be conferred as such powers are beyond the remit of the authority of officers appointed to D.G (I&I) IR?

To sum up, the Board has sufficient powers under the Act, 2007 to appoint, by posting or transfer, officers of DG (I&I) and upon such appointment these officers shall perform functions which are peculiar to that Directorate. The powers and functions shall be specified by the Board through a notification issued under Section 30E of the Act, 1990 and those powers and functions will have a close nexus with the purpose which DG (I&I) is designed to achieve. By appointment, once again, as officers of Inland Revenue (as has been done through SRO 116), the officers so appointed shall be deemed to have been transferred and thereby ceases to function as officers of DG (I&I). Appointment made under Section 30 is independent of an appointment made under Section 30A and must remain so. But the fundamental principle is that officers should be posted to the Directorates independently with separate and distinct functions. The SRO 116 fails to meet these foundational requirements and is thus held to be without lawful authority and of no legal effect.

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In WP No. 21988 of 2017, WP No. 30331 of 2017, WP No. 29474 of 2015, WP No. 28698 of 2015 and WP No. 37358 of 2016, the registration of the first information report (FIR) has also been challenged. The primary reliance of the challenge to the registration of an FIR and the initiation of criminal prosecution under the provisions of the Act, 1990 is on the basis of a judgment of a division bench of this court. In a nub, the division bench held that the registration of a criminal case was to be preceded by the determination of the tax liability as a civil liability and the amount of tax due ought to be fixed against a person so as to grant jurisdiction in the hands of the officer of Inland Revenue or any other officer authorized by law to set in motion proceedings of a criminal nature.

It has been vehemently stated at the bar, by almost all the petitioners that the department forcibly hauls up taxpayers under the threat of arrest and criminal prosecution and releases them after extraction of money (shown as the amount of tax due under section 37A). In the absence of tax assessment under section 11 of the Act and without knowing the "amount or loss of tax involved," neither compoundability is possible nor the award of sentence against the tax payer. Hence the process of hauling up taxpayers and effecting recovery of self-determined amount of sales tax by the officer of the Inland Revenue is brutally unconstitutional".

As a conclusion, we once again reiterate that civil and criminal proceedings can run independently and simultaneously or otherwise. The purpose and objective of criminalizing tax fraud and tax evasion is retribution and deterrence which is achieved through punishment or fine or both. If the law, however, goes further and criminalises recovery of tax in addition to retribution and deterrence, then tax assessment has to take place first under the provisions of the Act. In this background the term "shall be further liable" re-appearing several times in section 33 of the Act holds a chronological significance, ie, that criminal prosecution follows adjudication and assessment of tax under section 11 of the Act.

Even if the criminal prosecution under the present scheme of the Act is initiated after assessment of tax under section 11 as discussed above, the constitutionality of hurriedly invoking section 37A on the basis of material evidence requires consideration. Material evidence must be credible and definite if it is to deprive a citizen of his constitutional protection and safeguards under Articles 4 (due process), 9 (human liberty), 10A (fair trial) and 14 (human dignity). Setting in motion of the criminal prosecution cannot be left in the hands of any officer of the Inland Revenue, especially when the said officers are under an obligation to recover the tax and meet tax targets before the close of the financial year set by the FBR. The process of initiation of criminal prosecution must comply with the requirement of due process and fair trial. The material evidence collected under section 37A needs to be credible and can best pass the test of fair trial and due process if it is an outcome of an inquiry or investigation envisaged under the proviso to section 25(2) of the Act. The outcome of any such inquiry and investigation must be placed before an independent forum like the Directorate General (Intelligence and Investigation), Inland Revenue established under section 30A of the Act to first review the inquiry and investigation and the material evidence and then proceed under the law. Anything short of this process will not only lead to persecution of the tax payers, it will also make a mockery of the fundamental right of fair trial.

The LHC held that that the pre-trial steps including arrest and detention cannot be given effect to unless the tax liability of the taxpayer is determined in accordance with section 11 of the Act.

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THE RUPEE: Falling trend

RECORDER REPORT

An easier trend was seen on the money market on Wednesday as the rupee drifted lower against the dollar, dealers said. The rupee did not move sharply versus the dollar at Rs 105.30 and Rs 105.40, they said.

INTER-BANK MARKET RATES: Most Asian currencies were higher on Wednesday against the dollar, which was hit by new suggestions of Russian influence in the 2016 U.S. presidential election and amid wider caution ahead of Federal Reserve chair Janet Yellen's semi-annual congressional address.

The dollar index, which tracks the greenback against six major rivals, was 0.09 percent lower at 95.580 at 0540 GMT.

OPEN MARKET RATES: The rupee lost 20 paisas versus the dollar at Rs 106.90 and Rs 106.90, dealers said. The rupee was trading in terms of euro at Rs 121.25 and Rs 122.25, they said.

Open Bid	Rs. 106.60
Open Offer	Rs. 108.90

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

Bid Rate	Rs. 105.30
Offer Rate	Rs. 105.40

RUPEE IN LAHORE: The Pakistani rupee considerably declined against the US dollar in the local currency market on Wednesday.

According to currency dealers, the short supply phenomenon of the US dollar helped its appreciation at Rs 106.90 and Rs 107.30 on buying and selling sides, respectively, as compared to the overnight closing trend of Rs 106.00 and Rs 106.90, respectively, they added.

Furthermore, the national currency depreciated on buying side while it stayed unchanged on selling side versus the pound sterling that was bought and sold at Rs 136.30 and Rs 137.00 against Tuesday's closing rates of Rs 136.15 and Rs 137.00 respectively, 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 Wednesday.

The dollar opened at Rs 106 (buying) and Rs 106.20 (selling) against same last rate. It closed at Rs 106. (buying) and Rs 106.20 (selling) in the Second session.

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Pakistan, Iran decide to finalise agreement on trade in goods

MUSHTAQ GHUMMAN

Pakistan and Iran have decided to finalise agreement on trade in goods before next meeting of Trade Negotiation Committee (NTC) to be held in November 2017 in Tehran. This was decided at second meeting of the TNC on Pak-Iran Free Trade Agreement (PIFTA) held on 11-12 July 2017 in Islamabad.

Pakistani side was led by Bilal Khan Pasha, Joint Secretary (FT-II) whereas Mirhadi Seyedi, Deputy for Export Market Development, Iran Trade Promotion Organization led his team. Pakistani side reiterated the desire of the Government of Pakistan to conclude an FTA with Iran in line with the vision of the top leadership of the two countries as agreed vide Memorandum of Understanding (MoU) on the Pak-Iran 5-Year Strategic Trade Cooperation Plan 2016-2021, signed in March 2016.

Iranian delegation appreciated the spirit behind PIFTA and expressed the hope for early finalisation of Pakistan Iran Free Trade Area Agreement. The TNG broadly discussed composition/architecture of FTA agreement on trade in goods and agreed to have more discussions in view of the need to make certain amendments. Both sides retained their rights to add or delete and correct some articles further, with mutual consent.

The sources said in the preliminary session, Pakistan spelt out discrepancy in the bilateral trade data of the two countries. The possible reasons for the discrepancy may be on account of indirect trade via third countries, non-availability of banking channels, smuggling, unregistered trade from border areas via land route etc. Both sides emphasised the need for provision of segregated data of trade via land ports and sea ports to each other in order to be able to evaluate and understand the issue at hand. A joint sub-committee will examine the matter and report to the TNC.

According to sources both countries are willing to launch Electronic Data Interchange (EDI) to share trade related information on real time basis using standardised format. The Iranian Customs recently requested Pakistan Customs for the nomination of Focal Person to accomplish the task of implementation of EDI. The Focal Person from Pakistan Customs will be nominated shortly. The TNC appreciated the cooperation of Customs of both sides and requested to expedite the process.

Pakistani side briefed the Iranian side on the opportunities available under China Pakistan Economic Corridor (CPEC) in the context of regional connectivity and offered to consider including mechanism under PIFTA to facilitate Iranian integration with CPEC. Iran offered to host a seminar in Tehran on CPEC, in which Pakistani and Chinese experts could give presentations on CPEC to Iranian business community and government officials. Pakistan welcomed the offer and promised to work on it. The Pakistani side proposed that the FTA in Trade in Goods would liberalize substantially all trade between the two countries, covering at least 80% of tariff lines and 60% current value of respective trade, with the sensitive list not exceeding 20% of the tariff lines. The Iranian side proposed that for formation of the concession lists under FTA at the beginning stage, both sides concentrate on complementary items of the two economies.

Both sides agreed to form two sub committees at this stage of negotiations: (i) the Customs Procedures and Trade Facilitation Subcommittee and (ii) the Subcommittee on Non Tariff Barriers (TBT/SPS) and Pakistan will convey TORs and operative mechanism of these Subcommittees with Iran within one month. The subcommittees will meet regularly, as and when required. The TNC exchanged bilateral trade and tariff data, however, on account of difference in financial years of the two countries, it was decided to exchange bilateral trade data on calendar year (January-December).

Both sides also agreed that the agreement on trade in goods should be finalized before the third TNC meeting

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at expert level. The Iranian side proposed to exchange views and finalize one article of the agreement per week by communicating via electronic media. The Pakistani side agreed to the proposal. Pakistani side agreed to the inclusion of above mentioned articles in FTA on trade in goods. Pakistani side discussed the impact of Non Tariff Barriers on Pakistani exports to Iran which has eroded benefit of market access provided in PTA including on sanitary and Phyto Sanitary Measures, technical standards and Para Tariffs including Road Tax, Load Tax, bans etc. imposed by Iran.

Iranian side agreed to take up the issues with concerned authorities. Iran also pointed out that bilateral trade has been increasing over the years as per Iranian figures but not in the items covered in PTA and the reason may be related to the imposition of additional duty (Regulatory Duty) other than those agreed under the PTA by Pakistan on certain items. The Pakistani side agreed to take up the issues with concerned authorities.

Iranian side stated that they have received draft of MRA on industrial/ technical standards and forwarded to the concerned authorities for their comments. Pakistan provided Pakistan-Indonesia MRA on SPS measures to Iran as a sample format and agreed to share draft of a similar MRA with Iran within two weeks for sharing with relevant Authority in Iranian Ministry of Agriculture. Pakistani side revealed that out of 334 tariff lines on which Iran has provided tariff concessions in Pakistan Iran PTA, only 17 were utilized by Pakistan during 2016.

Pakistan requested for deepening of Margin of Preference (MoP) and broadening of the concession list under PTA and provided a tentative wish list of 153 tariff lines to Iran and requested deepening of concession on 22 items which are already in PTA but only 10-30% MoP has been given as well as inclusion of 131 more tariff lines for addition in Pakistan Iran PTA. Iranian side also provided tentative wish list to Pakistan for expansion and deepening of Pakistan Iran PTA.

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Oil stocks still excessive despite landmark deal: Opec boss

RECORDER REPORT

A historic deal between Opec and non-cartel members to slash output to boost prices has so far failed to produce the expected results with stocks remaining excessive, the group''s secretary general said on Wednesday. In an unprecedented step last year, Opec and other key non-members including Russia agreed to slash output by 1.8 million barrels a day to boost the price of oil which has plummeted over the last three years.

But despite high levels of compliance, oil remains priced stubbornly low at around $45 a barrel to the dismay of Opec. Opec Secretary General Mohammed Barkindo said there had been "high expectations" that markets would respond to the deal in 2017, but so far these had not been realised.

He said producers had "faced headwinds" in the shape of a cyclical drop in demand but also a resurgence in supplies from non-Opec producers not party to the deal, notably from the booming shale oil industry in the United States."This combination... impacted heavily on the world oil market," he told the World Petroleum Congress in Istanbul. Due to the surge in supplies from non-Opec producers, the expected decrease in global energy stocks did not proceed at a "fast enough pace", he said.

But he praised all participants in the deal, saying that the compliance - the implementation of the pledges made in the accord - was "unprecedented" and over 100 percent. Barkindo said: "It''s been a very challenging first half of the year, but we are on course going forwards and we are solid in our decisions on the implementation." He expressed optimism that more stocks would be used up - thus pushing up prices - as demand picks up in the second half of the year.

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GSP plus status:

EU conveys concerns about deteriorating labour, human rights

AAMIR SAEED

The government is working to improve human and labour rights regulations besides strengthening environmental laws to continue to reap full benefits of the Generalized System of Preferences Plus (GSP-plus) status till 2023, granted by the European Union in December 2013. Official sources informed Business Recorder on Wednesday that a European Union delegation recently conveyed its concerns about deteriorating labour and human rights in the country, particularly the revival of death penalty.

The UN Human Rights Committee also shared a list of issues with the government in response to its implementation of International Covenant on Civil and Political Rights (ICCPR) report, they admitted. The UN committee's list includes issues of death penalty, counter terrorism, enforced disappearances to target political or human rights activists, a policy of denying all pleas for clemency, the moratorium on the death penalty, establishment of military courts, counter terrorism measures etc.

The officials, however, said that Ministry of Human Rights has taken up these issues with relevant ministries and departments in the centre and provinces and sought detailed answers to all of them. Federal Minister for Human Rights Kamran Michael and Director General Human Rights has given a detailed briefing to the EU delegation on implementation of human rights conventions.

The Foreign Office has also formally briefed ambassadors of some European countries on the issue and conveyed to provinces to improve labour and human rights in their respective jurisdictions. Under the 18th constitutional amendment, subjects like labour, human rights, climate change and religious minorities have been devolved to provinces and a Treaty Implementation Cell (TIC), set up at Ministry of Commerce, has been in touch with the provinces to get updates on these issues and compile them into a report.

Pakistan has to comply with all the 27 United Nations conventions including human rights, labour and environmental laws under the GSP Plus status and Pakistan has ratified all the required UN conventions however implementation remains weak. The officials said that federal and provincial governments passed some laws in recent years to improve human and labour rights, climate change, good governance and protection of religious minorities in order to comply with the UN conventions.

According to Commerce Minister, Pakistan's exports to European countries registered a phenomenal increase of 37 percent, amounting to an increase of 1.7 billion Euros per annum during the last 31 months after getting the GSP-plus status. He recently informed the National Assembly that the GSP-plus status awarded to Pakistan will continue till January 31, 2023.

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PTEA voices concern over inordinate delay in disbursing refunds

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Pakistan Textile Exporters Association (PTEA) has expressed concern over undue delay in payment of outstanding refunds despite firm commitment of the government in budget 2017-18. Refunds have unfortunately been accumulated to over Rs 200 billion and are adversely affecting the cash flow of exporters.

Highlighting the financial problems here on Wednesday, Chairman PTEA Ajmal Farooq has said that Finance Minister Senator Ishaq Dar had announced during his budget speech that all pending sales tax refunds whom Refund Payment Orders (RPOs) have been sanctioned by April 30, 2017 shall be paid in two parts. RPOs up to the value of Rs 1 million will be paid till July 15, and the remaining will be paid till August 14, 2017. Unfortunately, on ground nothing has yet been done in this regard and textile exporters are still deprived of their basic working capital blocked in refund regime, he said. Expressing disappointment over non serious attitude, he said the government has released only Rs 3 billion for payment of Drawback of Taxes under Prime Minister's package in six months against the requirement of Rs 7.29 billion per month.

Furthermore, Rs 4 billion only are been earmarked against the Rs 180 billion PM's package in federal budget, besides holding drawbacks, sales tax and Customs rebate refund claims of Rs 200 billion, creating serious liquidity crunch for the textile industry, negatively affecting production capacity and resulting in ultimate decline in the exports. He stressed for immediate payment of all outstanding refunds for which RPO's has been issued and unprocessed refund claims be processed to improve the liquidity of the textile industry. He said that finance is imperative to run the wheels of industry but without this, no one could even think to run the industry. Government should set its priorities right and accord preferential treatment to boost the exports and generate industrial activities.

PTEA chief was of the view that due to high input cost including energy prices, Pakistani textiles are no more competitive in the international market and instead of making announcements only; the government should take practical measures to arrest the falling exports.

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Upward trend persists on cotton market

RECORDER REPORT

A kind of firmness prevailed on the cotton market on Wednesday in the process of moderate buying by mills, dealers said. The official spot rate extended overnight gains, picking up Rs 50 to Rs 6200, they said. In ready session nearly 4800 bales of cotton changed between Rs 6350 and Rs 6400, they said. In Sindh, seed cotton prices were at Rs 3200-3250, in Punjab, rates were at Rs 3000-3250, they said.

Cotton analyst, Naseem, Usman said that trading activity improved as both mills and spinners indulged in forward buying. If monsoon rains prolong for a long time, which most likely hurt standing crop, propelled mills to make cautious buying, other brokers said. Adds Reuters: ICE cotton futures edged marginally higher on Tuesday ahead of a monthly crop supply and demand report from the U.S. government.

The U.S. Department of Agriculture's World Agricultural Supply and Demand Estimates (WASDE) report is due on Wednesday. Cotton contracts for December settled up 0.38 cent, or 0.56 percent, at 67.67 cents per lb. It traded within a range of 66.72 and 67.79 cents a lb. The following deals reported: 400 bales of cotton from Hyderabad sold at Rs 6350, 1000 bales from Tando Adam at Rs 6350, 400 bales from Kotri, 800 bales from Sanghar, 1000 bales from Shahdadpur all done at Rs 6350/6375, 800 bales from Mirpurkhas at Rs 6350/6400 and 200 bales from Sinjoro at Rs 6375, they added.

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 10.07.2017**	**Difference Ex-Karachi in Rupees**
37.324 Kgs Equivalent	6,200	135	**6,335**	**6,285**	+50
40 Kgs	6,645	145	**6.790**	**7,736**	+54

BUSINESS
RECORDER
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Cotton slips after USDA raises global production

RECORDER REPORT

ICE Cotton futures edged down on Wednesday after a US government report raised the outlook for global stocks and the dollar firmed. Cotton contracts for December settled down 0.4 cent, or 0.59 percent, at 67.27 cents per lb. It traded within a range of 66.96 and 67.95 cents a lb. US 2017/18 cotton projections for production and ending stocks were lowered by 200,000 bales from the previous month. The world 2017/18 production estimate was raised by 636,000 bales and ending stocks projections were raised by 1.0 million from June, the US Department of Agriculture said.

"The negative side was in world stocks, especially due to a rise in India stocks," said Keith Brown, principal at cotton broker Keith Brown and Co in Moultrie, Georgia. Analysts and traders had expected higher cotton production due to adequate rain in major growing areas. India's production estimate was raised by one million bales to 29 million bales. "We do find the one million increase in India to be slightly excessive," said Anestis Arampatzis, risk management consultant with INTL FCStone.

Total futures market volume fell by 5,505 to 14,421 lots. Data showed total open interest gained 1,025 to 210,758 contracts in the previous session. Certificated cotton stocks deliverable as of July 11 totaled 77,766 480-lb bales, down from 101,897 in the previous session. "What's bullish for cotton right now is Chinese auctions are tapering down. That shows the quality of cotton offered is not as desirable and that could prove to be friendly for US cotton, especially during the harvest," Brown said.

New York cotton

RECORDER REPORT

The fluctuations observed during the day:

	Current Session						Prior Day		
	Open	High	Low	Last	Time	Set	Chg	Vol	Set
Oct'17	67.90	68.64	67.43	68.13	14:45 Jul 12	68.13	-0.02	57	68.15
Dec'17	67.70	67.95	66.96	67.27	14:45 Jul 12	67.27	-0.40	13987	67.67
Mar'18	67.22	67.35	66.55	66.94	14:45 Jul 12	66.94	-0.33	4335	67.27

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Ego, expertise and exports

SHABIR AHMED

Ministry of Commerce has problems; and it thinks throwing money at them is the solution. On the heels of the ill-fated Rs 180 billion PM package in January have come, in quick succession, Rs 73 million 'research allowance' for officers in MoC and Rs 50 million to hire consultants from the private sector. The 'package', was seen by many as a ruse. They have been proven right. Will the research allowance and hired expertise be more than a finger in the dyke? Will they deliver what the package couldn't - the magic wand that will reverse the free fall that our Exports show signs of perpetuating?

Accepting a weakness is always a good first step. There should never be any shame in acknowledging 'we don't have what it takes'. It is how you build on this acceptance that distinguishes prayer from policy. The need for expertise is self-evident. The challenge is getting the right kind of expertise, and then giving it 'actionable space'. The problem with finding private sector expertise in export matters is that there is precious little. Private sector typically responds to demand, of which there has not been much. By not associating the private sector professionals in export policy matters all these years we never gave them a fair chance to develop the requisite skills.

What we have outside the government is some academic work, and more recently the top business houses' rich and exclusive club that churns out report after report, euphemistically labelled 'research'. The latter has reportedly offered to the government its 'research' services on a gratis basis. The possible issues of conflict of interest and policy capture apart, whatever work it has so far produced hardly inspires confidence. It betrays a lack of basic understanding and a seriously flawed methodology.

Some of the academic work, most notably out of Pakistan Institute of Development Economics (PIDE), and more recently the Lahore School of Economics, is of high quality but by definition it is of an analytic nature: good at determining causes of policy failure and not so good at putting meat on policy bones. Rarely does one come across academic (research) work that can be fed into policy formulation; not in a universal sense but in a Pakistan specific context, factoring in the implementation constraints as well.

Paradoxically, when the donors commission a study on Pakistan's trade matters they almost invariably hire retired civil servants as the local consultants! The dearth of expertise is best illustrated by our FTA negotiations. It is not that our negotiators failed to secure our best interests - they did a pretty decent job of getting concessions without giving too much away. The real failure has been the failure to identify 'our best interests' - not knowing when the cash cow becomes a dog.

Our negotiating strategy was driven by our existing export-mix, and not how to reshape our export base; to diversify, to graduate to higher value-addition, to get a toehold into the global value chain. Had these objectives been clearly delineated, via quality research, we wouldn't have been fighting for lower rates for what we produce but what we should be producing. We should have been weary of getting concessions for products organically prone to preference erosion over time. The objective should have been to leverage FTA to diversify and add value - through export-oriented FDI.

You don't really need research to tell you the criticality of export-oriented FDI - just look at the export success stories. You need research at two levels: products for which you should be seeking concessions; and which countries to market these concessions to in order to attract FDI. More than likely, good research will not be driven by exportable surplus; it will not come up with a list of 'soft products' - basic textiles, cheap leather goods, or low end sport goods - for which we should be negotiating concessions. Instead, it will identify products in the FTA partner country that have high import duties and a sizable domestic market. Follow up research will focus on how to leverage these concessions in third countries.

In a certain basic sense, export issues and response options are well known. Bared to the bones, our issue is that market for products where we are competitive is shrinking and where the market is growing we are

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uncompetitive. We do not need experts to tell us doing more of the same - trade fairs, trade missions, trade offices abroad - is not going to help, even if they are 'state of the art'. We do not need to buy expertise to tell us the path to the holy grail of exports is through a proactive industrial policy, a competitive exchange rate, a sane tariff policy, trade facilitation that works, a compensation policy that levels the playing field......

The first order issue, then, is not expertise. It is not even our inability to act on expert advice. It is our failure to reconcile competing policy imperatives; to make the government work as a whole, not compartmentalised and decision-making dominated by one player to the virtual exclusion of all others. We know for a fact that our tariff policy is anti-export. What will Ministry of Commerce's hired guns do to set it right? Even if the idea is to correct the course over time, you first need an acceptance - that our tariff policy is hurting exports - before you get the experts in to chart the course. Ego gets in the way?

Few can dispute that our exchange rate is out of sync. The SBP acting governor decides to let the rupee find its equilibrium level. Of course, it was an erratic decision - more a case of bravado than bravery; not knowing the difference between floating and plummeting - but the reaction from the heavens above was of Panamanian proportions. Ego hurt?

If you can't allow tariff rationalisation, exchange rate realignment (slow and steady, not abrupt), legitimate refunds, a compensation regime to offset the higher costs of production or to countervail the export subsidies of competitors - for reasons of financial compulsions - at least allow us read your lips that exports is not a priority. Ego won't allow it? Exporters know where the shoe pinches. Hear them out before you throw good money after bad, or let the other show drop, even if you don't want to hear 'ego trumps expertise'

Thursday, 13th July, 2017

Outdated trucking fleet unfit for CPEC challenges

Khaleeq Kiani

Lahore: Trucks on Ring Road wait for their turn to enter the Ravi Road Vegetable and Fruit Market. Analysts believe Pakistan should implement trucking reforms to reap benefits of cross-border trade under the China-Pakistan Economic Corridor.—White Star

ISLAMABAD: Stakeholders in the China-Pakistan Economic Corridor (CPEC) on Wednesday sought the implementation of the trucking reform policy approved a decade ago, creation of a ministry for transport and uniform border management, Custom clearance and related standards.

The two-day 'CPEC-Logistics International Forum' – organised by the National Logistic Cell – carried an underlying message that the ageing fleet of vehicles used by the trucking industry was least prepared to undertake cross-border transportation envisioned under the mega-project.

Pakistani and Chinese officials and representatives from the industry discussed transport challenges and opportunities at the moot.

An academic and former economic adviser to the Musharraf administration urged the Chinese government to create an organisation on the lines of the Asian Monetary Fund (AMF). This (fund) would help countries like Pakistan in challenging balance of payments situations after CPEC implementation as the International Monetary Fund (IMF) could turn to an adversarial role, he opined.

Director General NLC Major General Mushtaq Ahmed Faisal said the Sino-Pak trade at present was heavily in favour of China.

A meaningful improvement in Islamabad's potential to reap the desired dividend form Chinese partnership would depend on Islamabad's capacity to improve bilateral trade, he said.

Participants at the forum urged implementation of a trucking reform policy and ease in Customs procedures

This could be done through reformative steps for expansion of industrial base, development of skilled human resource, trade-friendly culture, he suggested.

He said trade terminals need to be upgraded while customs procedures must be simplified to reduce dwell time and help better management of increased volume of traffic.

The trucking industry needs to upgrade and diversify its fleet to vehicles that are road worthy, compatible with international standards and adhere to axle regime.

Most of the participants were of the view that if Pakistan wanted to reap the benefits of cross-border trade under CPEC, it should implement the trucking reforms policy, provide relief in duties on the import of trucks and train drivers to improve their driving skills as well as learn the Chinese language.

Chairman Mega Movers, Nawabzada Zaheer Barakzai, who secured a Rs5.5 billion investment opportunity in the new trucking fleet for CPEC, said that due to outdated trucking system Pakistan was losing more than two per cent of its GDP, damaging its national highways, wasting agriculture products and increasing its carbon foot print.

He said the current trucking industry cannot undertake cross-border trade unless it is completely reshaped on modern lines.

Chief Executive Officer Transfreight Coy, Babar Badat said Pakistan had lost a good opportunity after the disintegration of USSR to develop its trucking industry on modern lines.

He said there were around 1,200 to 1,500 logistics companies working in Pakistan but the drivers are not trained to undertake cross border trade. He said Pakistan should ratify all the international conventions related to trucking industry and customs as connectivity was not possible without these steps.

Highlighting another issue, he said currently the logistics industry was being dealt by seven different ministries making things more complicated for the logistics companies.

He said the government should establish the transport ministry to facilitate modernisation of the trucking industry.

On the tax potential presentation, Rawalpindi Chamber of Commerce and Industries (RCCI) President Raja Amer Iqbal said CPEC would be a game-changer only if industrialisation happened in Pakistan with joint ventures between Chinese and Pakistani

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investors and local population getting jobs.

He said China should take Pakistan on board regarding CPEC projects. “We must have an agreement with China in this regard,” he added.

National University of Science and Technology Dean Dr Ashfaque Hasan Khan said people against CPEC are quoting Sri Lanka’s example and advising that infrastructure investments should not be on commercial basis.

In the long run, Pakistan could face balance of payments challenges once it starts repaying loans and may require IMF’s help but that might not come for a bailout for falling in Chinese trap.

He alleged the government of Pakistan was not handling the historic opportunity in a prudent and professional manner.

The level of their seriousness could be gauged from the fact that a Rs2 trillion development budget had been announced recently and no money is allocated for the economic zones in PSDP 2017-18 because “we are talkers not doers”, he said.

He said China should invest and develop a special economic zone at Gwadar only while the remaining SEZs inside the country are developed by the local private sector and government. He said China should not demand extraordinary concessions from Pakistan as it will have a negative impact on Pakistan.

He said Pakistan’s exports to China went up from $600 million in 2006 to $2.6 billion till 2012 but after the Free Trade Agreement the country’s exports nosedived and stood at $1.6bn.

However, imports from China continue to rise and under CPEC the imports of machinery and raw material continue to pour into the country, he noted.

The trade balance is worsening mainly because Islamabad is exporting items which have limited demand, he added.

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CCP to probe higher airfreight rates

The Newspaper's Staff Reporter

KARACHI: The Competition Commission of Pakistan (CCP) has decided to probe higher airfreight rates being charged by foreign airlines for exporting perishable commodities.

The CCP, after examining complaints from horticultural exporters, decided to look into the issue by constituting a committee.

All Pakistan Fruit and Vegetable Exporters, Importers and Merchants Association (PFVA) Patron-in-chief Waheed Ahmed along with a four-member delegation met CCP Director General Shaista Bano in Islamabad on Monday. PFVA representative Shahzad Shaikh, Air Cargo Agents Association of Pakistan (ACAAP) Chairman Mohsin Abbas Dharsi and ACAAP Convenor Shujaat Ali were also present.

The delegation discussed the issue of higher airfreight rates being charged by foreign carriers on perishable commodities, especially mango shipments to European destinations, Middle East and United States. The delegation explained the issue with all supportive documentary evidence.

Mr Ahmed said airfreight rates hovered around Rs80-90 per kg earlier in the year. But after the start of the mango season, freight rates swelled to Rs174-180 per kg.

“Eighty per cent of our mango exports out of total exports to European countries are destined for the United Kingdom,” Mr Ahmed said, adding that PIA’s share in lifting mangoes is just 20pc. Most of the time, the national carrier is unable to take the load due to its smaller aircraft and lack of space. Last year, exports to the United Kingdom by air were 10,000 tonnes while those to other European countries were 2,000 tonnes.

He said the freight rate from Mumbai to Manchester is Rs85 per kg while that from Karachi to Manchester is Rs175 per kg. The freight rate from Mumbai to London is Rs120 per kg while that from Karachi to London is Rs178 per kg.

Mr Ahmed said that apart from other serious and unjustified conditions imposed by airlines, an indemnity bond is required from exporters before the start of the mango season. Because of this document, exporters cannot submit a claim in the case of any mishandling, damage or loss of shipment.

Pakistani exporters are paying the highest airfreight rates among all mango exporters belonging to the subcontinent.

Even after paying higher rates, Pakistani exporters are not being able to compete in the international market. Export consignments are being rejected due to the negligence of airlines, leading to heavy revenue losses, Mr Ahmed said.

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Services exports rose 7.2pc in May

Mubarak Zeb Khan

ISLAMABAD: Pakistan's exports of services in May recorded a growth of 7.2 per cent year-on-year to $387 million, the Pakistan Bureaus of Statistics (PBS) reported on Wednesday.

Positive growth in services exports follows a decline in the preceding month. They increased 0.94pc to $5.08 billion in July-May, PBS data showed. The annual drop was 7.14pc to $5.46bn in 2015-16.

The services sector has emerged as the main driver of economic growth. Its share in GDP increased from 56pc in 2005-06 to 59.59pc in 2016-17. Its major sub-sectors are finance and insurance, transport and storage, wholesale and retail trade, public administration and defence.

ADVERTISEMENT

Pakistan has opened up its market to foreign service-providers, particularly in banking, insurance, telecommunications and retail areas.

Imports of services went up 1.95pc to $7.86bn in July-May. On a monthly basis, they increased 4.5pc to $828.4m in May. They fell 10.96pc to $7.87bn in 2015-16.

Services whose imports declined included transportation, travel, communications, insurance, financial, computer/information and other business services.

The trade deficit in services increased 3.85pc to $2.77bn in July-May on a year-on-year basis.

Pakistan's share in the global trade in services stood at less than 0.06pc in 2016 while its share in GDP posted a substantial increase.

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Ramazan remittances decline by 11pc

Shahid Iqbal

KARACHI: Remittances during Ramazan dropped notably year-on-year.

Latest statistics show that remittances received during June, which overlapped Ramazan, amounted to $1.84 billion against inflows of more than $2bn in the same month of the preceding fiscal year. This translates into a year-on-year decline of 11.2 per cent.

Remittances are higher than usual in Ramazan every year mostly because of Zakat and charity funds. Moreover, overseas Pakistanis tend to send home higher amounts in Ramazan for Eid.

Forex Association of Pakistan President Malik Bostan said inflows recorded in May should also be considered Ramazan related because some expatriates like to send money ahead of the holy month. Remittances were $1.86bn in May, up 3.77pc from a year ago.

However, remittances through exchange companies during the last two months of 2016-17 showed growth from last year. Inflows increased 9.7pc year-on-year to $147m in June. The annual rise in May was 15.8pc as inflows amounted to $117m.

Remittances decreased 3.08pc to $19.3bn in 2016-17. It is the first annual decline in remittances in the last 13 years. Latest data showed remittances through banks declined more than those through exchange companies.

Representatives of exchange companies said charity organisations received smaller donations this year. Overseas Pakistanis adopted a cautious investment approach, which resulted in limited inflows to property and retail sectors.

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Cotton maintains bullish outlook

The Newspaper's Staff Reporter

KARACHI: As phutti arrivals continued to be slow and restricted, and more ginning units have come into operations, cotton prices maintained an upward trend on Wednesday.

Though there is a demand for new crop by and large, the spinners are cautious about building up their stock in view of rising political uncertainty, brokers said.

According to reports coming from cotton fields, no damage or pest attack has been witnessed on plants. But as the rains are getting intensified, particularly in Punjab, one cannot say what will be the ultimate outcome of the downpour, observed cotton analyst Naseem Usman.

The high moisture content in phutti is one of the key factors causing low yield for ginners resultantly pushing up cotton prices, he added. The phutti arrivals into ginners is expected to improve by mid-August.Meanwhile, the stakeholders of cotton trade on Wednesday held a meeting with Ehsan Iqbal, secretary Ministry of Textile, over the issue of hedge trading.

The Karachi Cotton Association (KCA) for the second consecutive day raised its spot rates by Rs50 to Rs6,200 per maund (37.32kg).

Most of the deals finalised on the ready counter were quoted at higher rates.

The following deals were reported to have changed hands on ready counter: 400 bales from station Hyderabad done at Rs6,350; 1,000 bales, Tando Adam, at Rs6,350; 400 bales, Kotri, at Rs6,350 to 6,375; 800 bales, Sanghar, at Rs6,350 to Rs6,375; 1,000 bales, Shahdadpur, at Rs6,350 to Rs6,375; 800 bales, Mirpurkhas, at Rs6,350 to Rs6,400 and 200 bales, Sinjoro, at Rs6,375.

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	6,200	135	6,335
40 Kgs	6,645	145	6,790

DAWN

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MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market*		Open market**	
	Buying	Selling	Buying	Selling
USA	105.50	105.70	106.60	106.90
UK	135.59	135.85	136.30	137.30
Euro	121.09	121.32	121.25	122.25
S.Arabia	28.13	28.18	28.20	28.45
UAE	28.73	28.78	28.90	29.15
Japan	0.9304	0.9321	0.9270	0.9470

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

	Bid	Offer
Three months	5.88	6.13
Six months	5.89	6.14
One year	5.96	6.46

LIBOR

Special US dollar bonds for July 11

Three months	1.30350 %
Six months	1.46267 %

THE NEWS
Thursday, 13th July, 2017

Moody's affirms Pakistan's credit rating,but warns of political risk

KARACHI: Rating agency Moody's Investors Service affirmed Pakistan's B3 issuer and senior unsecured ratings and maintained its stable outlook on continuing economic reforms, however it said political risk represents 'a significant constraint on the rating'.

"Political event risk remains high in Pakistan, due to recurrent terrorist attacks," Moody's, one of the big financial agencies that assigns scores to governments, said in a statement late on Tuesday.

"Domestic politics and geopolitical risk also continue to represent a significant constraint on the rating." Moody's Investors Service said security related issues and a weak track record of public project implementation suggest the pace of project execution will be relatively slow.

The credit rating business concurrently affirmed the B3 foreign currency senior unsecured ratings for 'The Second Pakistan Int'l Sukuk Co. Ltd' and 'The Third Pakistan International Sukuk Co Ltd.'

The country's Ba3 local currency bond and deposit ceilings remain unchanged. The B2 foreign currency bond ceiling and the Caa1 foreign currency deposit ceiling are also unchanged. These ceilings act as a cap on the ratings that can be assigned to the obligations of other entities domiciled in the country. Moody's said increase macroeconomic stability has strengthened Pakistan's growth outlook.

"The outlook for growth has strengthened… due to reforms started during the three-year IMF (International Monetary Fund) EFF (extended fund facility) programme and following the launch of the CPEC (China-Pakistan Economic Corridor) project in 2015," it said.

Moody's said the economic benefits of CPEC are still highly uncertain and power supply may continue to constrain growth to a greater extent. It expects the economic impact to materialise more slowly than the government envisions, resulting in real GDP growth closer to 5.5 percent over the next two years, compared to government forecasts for 6 percent growth in FY2018, rising to 7 percent by FY20. The median rate of growth for B-rated sovereigns was just 2.7 percent in 2016.

Moody's also warned of rapid growth in debt burden due to the fiscal costs related to the project and development spending. "In addition, recent indications of renewed increases in external pressure could develop into greater external vulnerability," it said. At 67.6 percent of GDP in FY2016, the government's debt burden is materially higher than the B-rated median of 52.6 percent.

The country spends around 28 percent of revenues on interest payments as compared to the median of 10 percent of B-rated sovereigns. The projected gross borrowing need of 32 percent of GDP for 2017 is one of the highest among rated sovereigns, while nearly 31 percent of outstanding government debt was in foreign currency in FY16.

Moody's, however, expects the debt burden to remain broadly stable over the next two years. Moody's Investors Service expects the fiscal deficit to widen to and 5 percent in FY18 despite the government's intention to advance fiscal consolidation.

"The government's revenue projections for FY2018 are based on GDP growth projections that we consider to be optimistic," it said. "Meanwhile, development spending – particularly related to CPEC power infrastructure investments – combined with political pressure ahead of the 2018 general election to maintain power subsidies, which are currently budgeted for about Rs103 billion, will weigh on the public finances."

Moody's further said although foreign exchange reserve buffers have increased nearly fourfold since the onset of the IMF program and cover more than the full amount of external debt payments, they are still low in relation to current account payments and have been declining since their recent peak around September 2016.

Uptick in oil prices last year, combined with an increase in imported CPEC capital goods widened the trade deficit, while declining remittances (nearly 7 percent of GDP) caused current account deficit to swell.

Moody's expects the current account deficit to grow to 2.9 percent in FY18 from 1.2 percent in FY16. "Greater exchange rate flexibility would contribute to a more durable accumulation of foreign exchange reserves over time, which would help to strengthen external buffers and export competitiveness," it said.

THE NEWS
Thursday, 13th July, 2017

Govt calls for 'special' efforts to actualise regional trade potential

ISLAMABAD: Government on Wednesday called for special focus and efforts for regional integration and removal of non-tariff barriers to actualise the immense trade and investment potential present between the SAARC member states.

"SAFTA (South Asian Free Trade Area) has fallen short of expectations due to complex safeguard measures and non-tariff barriers among SAARC (South Asian Association for Regional Cooperation) member countries," Secretary for Commerce Younus Dagha said during a meeting with Suraj Vaidya, president of SAARC chamber of commerce and industry (CCI).

Dagha said establishment of SAARC CCI has provided a platform to the business communities of region for coming together and discussing the prospects of doing business together. "Although SAARC region holds immense trade and investment potential, being home to 21 percent of world's population, it still remains one of the least integrated regional blocs with intra-regional trade constituting only 5 percent of the total world trade, in comparison to 51 percent for NAFTA (North American Free Trade Agreement) and 25 percent for ASEAN (Association of Southeast Asian Nations)," he said in a statement.

Secretary commerce commended the efforts of the SAARC CCI for arranging the activities like SAARC business conclave and an exhibition on the sidelines of every SAARC summit. "These activities are good for bringing business community together and promoting regional trade."

Vaidya updated Dagha on the progress made on the permanent headquarters building project at Islamabad and expressed gratitude for releasing of funds for the building. "It will help in strengthening the capacity-building of the institution and state-of-art building of SAARC-CCI headquarters in Pakistan will help in image building of the country," he said.

Dagha said ministry of commerce would support the SAARC CCI in achieving its objectives. He hoped that SAARC CCI would continue to create business-friendly environment that helps businesses to succeed.

THE NEWS
Thursday, 13th July, 2017

FPCCI demands export rebate payment, EDB restoration

LAHORE: The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and the United Business Group (UBG) on Wednesday demanded immediate payment of export rebate, restoration of Engineering Development Board (EDB) and reduction in electricity and gas tariffs.

This was stated by FPCCI president Zubair Tufail while meeting United Business Group chairman and SAARC Chamber of Commerce and Industry vice president Iftikhar Ali Malik, a statement said on Wednesday.

He also called upon the government to provide relief to textile and leather units to keep the wheel of industries moving. He stressed the need to boost exports by giving incentives to exporters. Tufail also stressed for evolving further growth-oriented monetary policies to help strengthen the national economy on sound footings.

Malik said that Pakistan's auto market is considered among the smallest, but fastest growing in South Asia and the government following its own "Auto Policy 2016/21" should offer tax incentives to new automakers to establish manufacturing plants in the country.

In the past, the Engineering Development Board has played a significant role in the promotion of hardware engineering in the country, which was dissolved. He demanded the government to restore the board as soon as possible. The government should offer special package of power and gas tariffs for rapid industrial growth on the pattern of China.

THE NEWS
Thursday, 13th July, 2017

Cotton improves

Karachi

Normal trading was witnessed at the Karachi Cotton Exchange on Wednesday, while spot rates increased Rs50/maund.

The spot rates rose to Rs6,200/maund (37.324kg) and Rs6,645/40kg. Ex-Karachi rates also increased to Rs6,335/maund and Rs6,790/40kg after an addition of Rs135 and Rs145 as upcountry expenses, respectively.

An analyst said ginners remained successful in keeping the prices stable in the oversold market. “Around 50 ginning factories have commenced operations, while buyers are still cautious in purchasing,” he said. “After declining trend of a few weeks, market prices are going upward before the arrival of the new crop.” KCE recorded seven transactions of around 5,000 bales from Sindh at a price of Rs6,350/maund to Rs6,400/maund. Deals were noted from Hyderabad, Tando Adam, Kotri, Sanghar, Shahdadpur, Mirpurkhas and Sinjoro.

The Nation on Web
The Nation
Thursday, 13th July, 2017

FPCCI, UBG demand payment of export rebate, restoration of EDB

INP

LAHORE - The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and the United Business Group (UBG) Wednesday unanimously demanded the immediate payment of export rebate of Rs 300 billion, restoration of Engineering Development Board and slashing the ever increasing power and gas tariffs besides withdrawal of unjustified heavy slabs of taxation on industry thus increasing cost of production in addition to addressing the anomalies in budget.

The demands were made by President FPCCI Zubair Tufail who called on Chairman United Business Group and Vice President SAARC Chamber of Commerce and Industry Iftikhar Ali Malik. Criticizing the current fiscal budget, Zubair said that major chunk of industries especially textile and leather are suffering colossal financial loss and need immediate oxygen otherwise industrial sector will be collapsed. He said that nearly 200 textile and leather units are forced to shut down because of heavy taxation and absence of relief from the government.

Senior Vice President of FPCCI Aamir Ata Bajwa, Zonal Chairman FPCCI Punjab Manzoor Ul Haq Malik, President Lahore Chamber Abdul Basit were also present on the occasion.

He said that national economy of every country in the world is based on its export but unfortunately Pakistan’s export is declining with every passing day which he warned is not a good omen.

He said that in pre budget preparation meetings none of the traders leader and Federation of Pakistan Chamber was taken into confidence. He said despite commitments, no meeting has so far been convened for removal of anomalies.

Zubair Tufail stressed the urgent need for introducing pro poor, business friendly, export and growth oriented monetary policies to help strengthen the national economy on sound footings besides restoring the confidence of foreign and local investors.

Chairman United Business Group and Vice President SAARC Chamber Iftikhar Ali Malik said that UBG will never ever compromise on interests of the business community and take their genuine budget related grievances to high ups for immediate redressal. He said that auto industry and agricultural sector is not showing proper growth. He further said Pakistan’s auto market is considered among the smallest, but fastest growing in South Asia and the government following its own "Auto Policy 2016-21" should offer tax incentives to new automakers to establish manufacturing plants in the country. He said that Engineering Development Board in past played significant role for promotion of hardware engineering in the country and it was weird why the government dissolved this important department. He demanded the government to restore it as soon as possible.

He said large number of participation of trade leaders in conference from all provinces has reflected the nationwide popularity of the group. He assured that he will hold special meeting with Federal Finance Minister Senator Muhammad Ishaq Dar and newly appointed Chairman FBR Tariq Pasha for seeking immediate relief for the industry.

He said that survival of the Pakistan is directly linked with better economy followed by stable political government. He said that none of the traders in the whole country is happy with levy of irrational taxation on industry. He said that the government should offer special package of power and gas tariffs for rapid industrial growth on the pattern of China. He said as a result of high tariffs and taxation, cost of production is increasing and cannot compete in global market thus badly hampering export substantially.

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Further rupee devaluation to hit masses hard: ICST

INP

ISLAMABAD - Islamabad Chamber of Small Traders on Wednesday criticised export sector for demanding more devaluation in the exchange rate to boost exports. Rupee has been devalued recently and more reduction to benefit exporters is against the national interest, it said.

Devaluation will increase the cost of imports hurting everyone as imports are around 250 percent more than the exports, said Patron Islamabad Chamber of Small Traders Shahid Rasheed Butt. Exchange rate erosion provides little and timely relief to exporters while it increases debt, interest and make imports costly therefore it is not advisable, he added.

Shahid Rasheed Butt said that exports can be increased by reforms as demand by the export managers to devalue rupee is nothing but an attempt to hide their inefficiency.

He said that one dollar was worth Rs60 during Musharraf's regime that depreciated to Rs 105 during PPP's government but exports remain stagnant.

He said that recently-fired semi-literate export managers have never tried to tackle weaknesses in the manufacturing, energy, taxation, supply side etc. The export sector remains focused on low-value and commodity based products while export managers have always ignored structural flaws due to their interest in politics which has taken a toll on the economy, he observed.

Interests of the entire population cannot be sacrificed to provide temporary relief to some inefficient exporters through exchange rate adjustment as it will increase debt burden.

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Pakistan's debt burden high: Moody's

NNI

NEW YORK (NNI): Moody's Investors Service has affirmed the government of Pakistan's B3 issuer and senior unsecured ratings, and maintained a stable outlook. Pakistan's medium-term growth outlook is strong, supported by the China-Pakistan Economic Corridor (CPEC) project to address critical infrastructure constraints, and the continuing effects of macrostability-enhancing reforms started under the International Monetary Fund (IMF)'s Extended Fund Facility (EFF) programme in 2013-16.