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IMF talks about repayment obligations

TAHIR AMIN

Pakistan will face increasing government and CPEC-related external repayment obligations, and external financing needs are projected to increase to nearly 71/2 percent of GDP over the medium-term, highlighting the need for macroeconomic and structural policies supporting competitiveness.

International Monetary Fund (IMF) has also said macroeconomic risks have begun to reemerge in Pakistan since the end of the Extended Fund Facility (EFF) programme and long-standing challenges remain, as the pace of fiscal consolidation has slowed, public debt remains high and mobilisation of tax revenue needs to be further strengthened.

The IMF staff level report on the Article IV Consultation with Pakistan, which was released on Thursday, stated that external vulnerabilities have increased with a widening current account deficit and rising medium-term external repayment obligations linked to the China-Pakistan Economic Corridor (CPEC) and other large investment projects.

The report states that macroeconomic resilience was strengthened during the three-year EFF-supported programme completed in September 2016, growth increased, fiscal deficit reduced and foreign currency reserves recovered. Structural reforms were also set in motion, longstanding fiscal and energy sector constraints started to be tackled, and social safety nets were strengthened. On the structural front, the accumulation of arrears in the power sector has resumed, financial losses of ailing public sector enterprises continue to weigh on scarce fiscal resources and exports remain low.

Foreign exchange reserves have declined since the end of the EFF-supported programme and remain below comfortable levels. On the structural front, progress in electricity sector reforms has been mixed with a renewed build-up in circular debt; and financial losses of ailing public sector enterprises (PSEs) have continued. Private investment and exports remain low to support higher private-sector led growth and catalyse needed job creation. Unemployment is at 5.9 percent (101/2 percent among youth and 91/2 percent among women) and the informal economy is large.

Despite significant progress over the past two decades, poverty remains high at about 30 percent in 2013 (9 percent based on the 2001 poverty line), inequality slightly declined but remains sizeable, and priority social spending, although having increased significantly, needs to be further enhanced.

The report further states that international reserves have declined amid a rising current account deficit and a broadly unchanged dollar/rupee exchange rate. During the first three quarters of fiscal year 2016-17, the current account deficit widened to 2 percent of GDP, reflecting increasing imports (14 percent year-on-year) due to investments related to CPEC, recovering oil prices, and sluggish remittances (-2 percent year-on-year), driven by slower growth in the Gulf Cooperation Council (GCC) countries. After declining for two consecutive years, exports further dropped by 1 percent (year-on-year).

The exchange rate continued to remain stable against the US dollar, supported by the SBP"s foreign exchange interventions, and further appreciated in real effective terms 6 percent during this fiscal year (18 percent cumulatively over the past three years). International reserves declined to $16.1 billion at end-April 2017 (3.4 months of imports) from US $18.1 billion in June 2016 (four months of imports). In addition, the SBP"s derivative position reached $3.6 billion in net obligations (from $2 billion in June 2016), which could put additional pressure on reserves.

The Fund maintained that the economic recovery is expected to continue and strengthen over the medium-term. Buoyant activity in construction and services along with recovering agriculture are driving real GDP growth, which is estimated at 5.3 percent in fiscal year 2016-17. Strong machinery imports and fast growing iron and steel and auto sectors point to strengthening domestic demand. Growth is benefiting from rising investment related to CPEC, strengthening private sector credit growth, and reduced fiscal drag, and

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there are increasing signs of a recovery in exports. However, moderating (though still strong) growth in domestic cement dispatches and sluggish remittances are signs of caution. Headline inflation will likely be contained at 4.3 percent on average in fiscal year 2016-17. Over the medium-term, growth is expected to increase to about 6 percent on the back of CPEC and other energy sector investments, and helped by growth supporting structural reforms.

The FDI inflows and significant government external borrowing expected in the fourth quarter would allow financing the increase in the current account deficit and foreign reserves to recover to $18.5 billion (3.8 months of imports; 73 percent of the IMF"s reserve adequacy (ARA) metric), albeit with risks to the downside.

External risks to the outlook are, in staff"s view, skewed to the downside. Lower growth in advanced countries and in emerging markets (notably China and GCC) along with greater uncertainty around world trade could weaken exports, FDI and remittances, with the latter being particularly vulnerable to slower-than-expected growth in the GCC countries, where nearly two thirds of remittances to Pakistan originate.

A more pronounced recovery of oil prices or stronger than-expected growth in non-oil imports could add to balance of payments pressures. Tightening global financial conditions could adversely impact capital inflows, and continued appreciation of the real effective exchange rate would further erode export competitiveness and discourage remittances. Lower-than-expected export growth or remittances over the medium-term could increase risks associated with rising repayment obligations and profit repatriation from energy investment and other CPEC-related projects. On the upside, a renewed decline in oil prices would ease balance of payments pressures and support growth.

Pakistan"s growth outlook is favourable, with real GDP growth estimated at 5.3 percent this fiscal year and strengthening to 6 percent over the medium-term on the back of stepped-up China-Pakistan Economic Corridor (CPEC) investments, better energy availability, and growth-supporting structural reforms.

Key external risks include lower trading partner growth, tighter international financial conditions, faster rise in global oil prices and, over the medium term, failure to generate sufficient exports to meet rising external obligations from foreign-financed investments.

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Government asked to further reduce tax concessions

SOHAIL SARFRAZ

The International Monetary Fund (IMF) has asked Pakistan to further reduce tax concessions and exemptions, raise petroleum taxes, withholding taxes for non-filers, and strengthen collection of provincial taxes on services, property, and agricultural income.

The Fund staff level report on Article-IV Consultation with Pakistan stated revenue mobilisation should be the main driver underpinning medium-term fiscal consolidation. Pakistan""s tax-to-GDP ratio has remained low by international comparison, and mobilising additional tax revenues can support fiscal consolidation and generate resources to step up priority infrastructure and social spending.

Staff stressed that options include further reducing tax concessions and exemptions, raising petroleum taxes and withholding taxes, and strengthening collection of provincial taxes on services, property, and agricultural income. Strengthening tax administration by improving the FBR""s access to third-party information, enhancing tax audits, building a centralised electronic fiscal cadastre, and reducing the stock of outstanding tax refund claims will also be important. In this context, the financial transactions withholding tax for non-filers has been helping to address tax evasion, and the FBR""s new Anti-Money Laundering (AML) unit will also support efforts to combat tax evasion and recover their illicit proceeds, it said.

The report said that the budget 2017-18 envisages marked increases in tax and non-tax revenue, a large expansion in development spending, and contained growth in current spending. The authorities expected the budget revenue target to be reached on the back of strong tax administration efforts. Staff advised that significant additional tax policy and administrative measures of around 11/2 percent of GDP may be needed to achieve the FY 2017/18 revenue objective, especially if this fiscal year""s revenue turns out lower than expected by the authorities and in line with staff""s expectations. Staff highlighted that measures could include further reducing tax expenditures (estimated at 1.3 percent of GDP in FY 2016/17), gradually raising petroleum taxes, further strengthening the system of withholding taxes for non-filers, and improving provincial tax collection in agriculture, property, and services. These measures should be complemented by continued strong administrative efforts to improve tax compliance.

The report said that the transfer of a significant share of federal tax revenues to the provinces - decided in 2009 with the 7th National Finance Commission Award -was not well-aligned with the devolution of expenditure responsibilities. This resulted in an unbalanced fiscal position across different levels of government, reduced incentives to mobilise revenues, a fragmented fiscal system, and reduced overall efficiency of public expenditure.

The Staff advised both federal and provincial authorities to better align revenue and expenditure responsibilities consistent with the constitutional framework. The Staff highlighted a number of policy options including: fully implementing expenditure responsibilities by provinces or establishing burden-sharing arrangements for joint tasks; establishing a fiscal council or similar body to set broad federal and provincial fiscal targets; setting up a jointly funded contingency fund for large unexpected shocks; instituting a national tax commission or co-ordination committee to facilitate vertical and horizontal co-ordination of tax policy and administration; strengthening public finance management frameworks; and increasing incentives to mobilise provincial tax revenues. The authorities broadly agreed on the need for improvement while noting that the range of politically feasible reforms may be limited and require extensive consultations with the provinces.

It said that the FBR created a new investigative AML unit following the designation of tax crimes as predicate offenses to money laundering, and the Financial

Monitoring Unit (FMU) established an integrated data center to enhance its analysis and dissemination of financial intelligence. Ensuring the effective supervision of reporting requirements, strengthening the exchange of financial intelligence with the FMU, and enhancing the capacities of law enforcement agencies (including FBR""s new AML unit) to conduct financial investigations would support detecting and investigating proceeds of tax crimes and corruption. The Staff welcomed the finalisation of the national risk assessment and progress in addressing ML/TF risks, and recommended to continue ensuring the effective implementation of the UNSCR resolutions to counter terror-financing. The authorities indicated that, in line with the findings of the OECD 2016 report, they are also committed to ensuring entity transparency and timely exchange of information on tax matters, and to addressing remaining shortcomings, such as ensuring availability of ownership information, and limiting delays in responding to requests for information, the report added.

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Fund for stepped-up fiscal consolidation efforts

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The International Monetary Fund (IMF) has stated that fiscal consolidation efforts of Pakistan should be stepped up as budget deficit for the current fiscal year 2017-18 is subject to significant risks. The Fund staff level report on Article-IV Consultation with Pakistan stated that the IMF recommended stronger consolidation in line with the new deficit objective under the Fiscal Responsibility and Debt Limitation Act. The fiscal year 2017-18 budget is subject to significant risks.

The budget envisages marked increase in tax and non-tax revenue, a large expansion in development spending, and contained growth in current spending. The authorities expected the budget revenue target to be reached on the back of strong tax administration efforts. Staff advised that significant additional tax policy and administrative measures of around 1.5 percent of GDP may be needed to achieve the fiscal deficit 2017-18 revenue objective, especially if this fiscal year''s revenue turns out lower than expected by the authorities and in line with staff''s expectations.

Staff highlighted that measures could include further reducing tax expenditures (estimated at 1.3 percent of GDP in fiscal year 2016-17), gradually raising petroleum taxes, further strengthening the system of withholding taxes for non-filers, and improving provincial tax collection in agriculture, property and services sectors. These measures should be complemented by continued strong administrative efforts to improve tax compliance.

The Fund also argued that interest and other current spending could turn out higher than budgeted (by about half percent of GDP), particular emphasis will be needed on ensuring the quality of development spending considering the planned scaling up, and that the targeted provincial surpluses (1 percent of GDP) could be subject to risks.

Staff advised that the authorities should prepare contingency measures both on the revenue and spending sides, including a prioritisation of development spending, in case revenue should fall short of the authorities'' expectations. Staff also highlighted that a higher-than-budgeted deficit would exert additional pressures on the current account and reserves.

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Delay in PSM rehabilitation:

NA body decides to file reference

MUSHTAQ GHUMMAN

National Assembling Standing Committee on Industries and Production on Thursday decided to file a reference in National Accountability Bureau (NAB) on deliberate delay in rehabilitation of Pakistan Steel Mills for the last two years. Presided over by Asad Umar, the committee also sought details of cases of Ministry''s officials and its attached departments/organisations pending in the NAB including the company Furniture, Pakistan.

The committee also constituted a three-member sub-committee headed by Qaiser Ahmad Sheikh after serious corruption charges were hurled against the EDB officials dealing with tariff.Ch Riaz-ul-Haq and Alhaj Shah Jee Gul Afridi would be members of the committee that will probe reasons for the Prime Minister''s decision to close EDB which will submit a report within one month.

Qaiser Ahmad Sheikh, member of standing committee on Industries and Production as well as Chairman National Assembly Standing Committee on Finance, speaking on the issue of disbandment of EDB said that the organisation has not shown any performance with regard to promoting domestic engineering industry.

"Though I am against dissolution of EDB, I maintain EDB corruption reported in the media as well as that mentioned by the office of Prime Minister requires an inquiry so that responsibility may be fixed and officials involved be taken to task," Qaiser Ahmed Sheikh stated.

Qaiser Ahmad Sheikh stated that during the federal budget 2017-18 exercise EDB was found to be involved in corruption through its recommendation to raise duties on import of chemical raw materials. "Those recommendations were tailored in connivance with an Association which is merely on paper that indicates it is corruption," he added. Qaiser Sheikh further argued that officials in EDB have reportedly engaged in malpractices by making tariff rated recommendations on issues which are not relevant to engineering manufacturing industry.

Chairman Standing Committee Asad Umar inquired from the CEO as to why EDB is involved in making tariff recommendations for chemical raw materials which is not an engineering manufacturing industry.The CEO responded that when EDB receives applications to prepare recommendation on tariff rationalisation it does not limit itself to engineering industry - a response that did not satisfy Asad Umar.Qaisar Ahmed Sheikh added that during this year''s budget exercise EDB did not even call stakeholders and recommendations were made to FBR without any consultation.

"I have high stakes in chemical raw material business so I know corrupt practices by EDB officials are reasons for making recommendations on tariff increase of chemical raw materials," Qaisar Ahmed Sheikh stated. Similar views were also expressed by representatives of PAAPAM.The Association recommended that a thorough inquiry should be carried out on corruption in EDB and responsibility fixed.

MoI&Ps Additional Secretary, Capt.Ijaz Ahmad (retired) failed to satisfy the committee Chairman when he inquired what action the Ministry took against its own officials deputed to monitor Furniture Pakistan prompting the Chairman to repeat his question at least four times and finally asking outright "you don''t understand what I am asking?"

Additional Secretary MOI& informed the committee that the Ministry is not supporting disbanding EDB and is preparing a summary for the Prime Minister based on recommendations of EDB Board along with complications in case the Prime Minister''s directive is implemented.

The committee also recommended that due role to private sector should be given in decision making on AIDC which was reduced by the former CEO EDB. The representatives of auto industry and business community especially Iftikhar Ali Malik and Almas Haider also opposed dissolution of

EDB.It was proposed that EDB Board should be empowered to select CEO instead of the Ministry.

The committee expressed serious annoyance at the non-implementation of the consumer protection mechanism approved in the Auto Policy 2016-21 and recommended that after the submission of sub-committee''s report on EDB, another sub-committee may be constituted to examine the issue regarding the Auto Policy. The committee members rejected new proposals presented by EDB to protect consumers'' interest. It was stated that all brands of cars are being sold on "our money" due to strong cartelization in auto sector.

When the issue of Pakistan Steel Mills came under discussion, Chairman Standing Committee enquired as to who is calling the shots in Privatisation Commission (PC) without a Chairman or Secretary. One of the officials of PC informed the committee that since the last meeting of the committee, PC has held a number of meetings to finalise "liabilities settlement" formula which will be ready very soon.

The committee was also informed that Rs 1.4 billion per month is going down the drain since the Mills is shut down. Qaiser Ahmad Sheikh reminded the Chairman Standing Committee that almost three years ago he had made it clear that the Mills will not be revived which has proven correct. He said privatisation of PSM is the only option and on this Chairman Standing Committee who is not supporting privatisation, said whatever option the government wants to opt it should go ahead and clear the dues of the retired employees.

Chairman Standing Committee expressed surprise at the government''s inaction with respect to PSM despite the fact that the committee repeatedly recommended its rehabilitation. The acting CEO PSM Mohsin S Haqqani did not respond to any question, saying that he is just looking after daily affairs. However, Acting Principal Executive Officer (APEO), Capt. Shamsi Hasan informed the committee that PSM''s liabilities have reached Rs 200 billion. A proposal is under consideration to revive the Mills by selling its land.

According to PSM''s presentation, $ 1.292 billion investment is required to rehabilitate the Mills in three phases. However, the government is not interested in investing in the "dead" Mills.

The committee expressed its serious concern on zero practical progress towards rehabilitation plan of PSM, and unanimously recommended that Steel Mills employees'' pensions and salaries should be released at the earliest. The committee further expressed its displeasure at the disconnection of its gas for almost two years and for not taking any decision about its closure/fate. The committee also recommended filing reference in NAB on the deliberate delay regarding Steel Mills rehabilitation.

The committee also considered the report of the sub-committee of the Standing Committee on Industries & Production on Pakistan Gems & Jewelry Development Company of (PGJDC), Pakistan Stone Development Company (PASDEC) and Furniture Company of Pakistan. The committee recommended that all these three Departments ie PGJDC, PASDEC and Furniture Pakistan should be outsourced for better management and marketing.

Besides Chairman Asad Umar, Sardar Mansab Ali Dogar, MNA, Qaiser Ahmad Sheikh, MNA, Abdul Hakeem Baloch, MNA, Dr Shezra Sardar Mansab Ali Khan Kharal, MNA, Ch.Riaz-ul-Haq, MNA, Rana Muhammad Qasim Noon, MNA, Ms.Sajida Begum, MNA, Muhammad Muzammil Qureshi, MNA, Maulana Muhammad Gohar Shah, MNA and Alhaj Shah Jee Gul Afridi, MNA attended the meeting.

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SEZs: China seeks extra incentives

WASIM IQBAL

China has suggested Pakistan to give extra incentives to Chinese companies to set up industries in the Special Economic Zones (SEZs). This proposal was moved by the head of a delegation from China, Li Yuan at the concluding session of Pakistan-China Industrial Cooperation Dialogue held Thursday.

Sharing Chinese experience, Li Yuan said the country has three foreign investment Acts relating to land leasing, tax exemptions and employment policy. China has three years'' exemption for investors in the zone and subsequent half tax exemption for three years. Many countries are trying to attract Chinese industries, he added.

He suggested that the leasing period of 99 years is quite attractive; however, the tax policy needs a review. He proposed that these SEZs may follow either Chinese or Pakistani standard to attract investment. China and Pakistan have also reached an agreement that a team of experts would be constituted to determine the number of SEZs in the first phase.

Chinese delegate Li Yuan had informed during the meeting that proposed Pakistani priority SEZs are needed to be reviewed by expert group from each side to decide exact number and types of zones to be developed in the first phase. He added that "the Chinese side has already notified its experts group while Pakistan side needs to expedite composition of the expert group."

He further emphasised to devise a long-term cooperation mechanism to select priority sectors and to synergise policies for SEZs. Earlier, he said China started with four SEZs in China in the initial phase and then 14 coastal cities were developed and subsequently, 14 industrial zones were developed by China. The industrial development takes a long time and planning to consider all relevant factors.

Board of Investment Chairman Dr Miftah Ismail, while addressing the concluding session stated that Pakistan is planning to establish 46 SEZs along side the CPEC route in the long run. Nine zones have already been declared as prioritised during the 6th JCC meeting held in December, 2016. He expressed the commitment of the government of Pakistan to nominate a working group to deliberate upon how to build the zone. He expressed the views that either Chinese or Pakistani companies can build the zone or the same can be built jointly by both sides.

The chairman BoI highlighted that products manufactured in these zones can not only be exported but can also be sold in the local Pakistani market, where they are not required to pay any customs duty. The model can be primarily export-oriented. But in case of China, import substitution also has a lot of potential. The government has already given its commitment to provide all utilities and security to the investors in these zones.

He also pointed out that each zone has its special features for investors in terms of its location, raw material, skilled workforce and linkages with other parts of the country and outside the country.

Secretary Board of Investment, Azher Ali Chaudhry in his opening remarks expressed the hope that Chinese experts group must had a very successful site visit of Rashakai Special Economic Zone and bilateral meetings with the authorities concerned in Khyber Pakhtunkhwa. He also requested the Chinese side to share the composition and terms of reference of Chinese experts group to have the matchmaking with the proposed expert group from Pakistani side. He emphasised that Chinese companies have huge opportunities to relocate their businesses to these priority SEZs. Pakistani side is also expecting a feedback of Chinese experts on this visit, he added.

During the session, two presentations were made by the representatives of government of Azad Jammu and Kashmir (AJ&K) and Gilgit-Baltistan (GB). The representatives of AJ&K highlighted the potential of AJ&K in terms of water and mineral resources. Representatives of Gilgit-Baltistan underscored the strategic location, scenic beauty and hospitality of the people of GB. He highlighted the mineral potential and location advantages are a gateway for Central, East and South Asia. He also appraised that this zone is situated exactly on the CPEC route, which is ancient Silk Route.

During question & answer session, the Chinese head of delegation said that they will send a detailed visit report to the secretary CPEC with their recommendations and a proposed way forward in this regard.-PR

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Forex reserves fall by $1.7 billions in fiscal year 2017

RIZWAN BHATTI

The rising external debt payments and higher current account deficit swallowed up more than $1.7 billion from the country"s foreign exchange reserves during last fiscal year (FY17). The country"s forex reserves hit a peak of $ 24.461 in October 2016 as proceeds from $ 1 billion Sukuk were received; however, the level could not be sustained due to increasing current account gap, lower external inflows and the conclusion of the IMF programme.

According to the State Bank of Pakistan"s statistics, the country"s foreign exchange reserves fell 7 percent during the last fiscal year (FY17). The country"s total liquid forex reserves (comprising SBP and banks) stood at $ 21.37 billion as on June 30, 2017 compared to $ 23.08 billion on June 30, 2016, depicting a decrease of $ 1.72 billion in FY17.

The detailed analysis revealed that the entire downfall has been witnessed in the reserves held by the SBP, while banks" reserves posted some surge during the last fiscal year. With a decline of $ 1.985 billion, the reserves held by the SBP stood at $ 16.14 billion at the end of FY17 down from $ 18.13 billion at the end of FY16. During the period under review, the reserves held by banks registered some improvement as banks" reserves rose by $ 268 million to $ 5.23 billion at the end of FY13.

Bankers said the reserves have been depleting owing to rising current account deficit and massive repayment of external debt. Importantly, the current account deficit increased over 150 percent during the last year compared with the same period last year, resulting in a reduction in the SBP"s liquid foreign exchange reserves.

Most of foreign exchange reserves declined in the second half of FY17, as the monthly current account deficit crossed $ 1.0 billion mark in January 2017, when Pakistan repaid $ 500 million of SAFE China Deposits, five years Pakistan Sovereign Bond amounting to $750 million got matured and goods trade deficit grew by almost $ 3.0 billion YoY in the third quarter of FY17.

On the other hand, a major source of foreign exchange inflows - home remittances, posted a slight decline of 3 percent in FY17 besides expected Coalition Support Fund inflows could not be matured.

According to the SBP, despite some decline the country"s foreign exchange reserves adequacy indicators are still comfortable and there are no immediate concerns over its external position. The SBP"s present liquid foreign exchange reserves are sufficient enough to finance goods" imports of over four-months. However, going forward, it is imperative to exploit all sources of foreign exchange inflows, most importantly exports, in order to comfortably finance the rising import demand, it added.

Bankers said the country"s forex reserves are likely to further decline in future as more debt payments to the International Monetary Fund (IMF) are scheduled for this fiscal year (FY18).

At the end of FY16, Pakistan"s foreign exchange reserves stood at a historical level of $ 23.08 billion as the SBP received $1.340 billion from multilateral, bilateral and other official sources in the last week of June 2016. This amount included $ 501 million received from the IMF under EFF, $ 502 million from the World Bank and $ 307 million from the Asian Development Bank.

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THE RUPEE: firm trend

RECORDER REPORT

The rupee showed no major variations against the dollar on the money market on Thursday, marketmen said. The rupee moved in a narrow band versus the greenback for buying and selling at Rs 105.32 and Rs 105.34 respectively, they said.

INTER-BANK MARKET RATES: In the fourth Asian trade, the dollar dipped against its peers on Thursday after Federal Reserve Chair Janet Yellen did not sound as hawkish as many had anticipated, while the Canadian dollar stood near a 13-month high after its country's central bank hiked interest rates for the first time since 2010.

The US economy is healthy enough for the Fed to raise rates and begin winding down its massive bond portfolio, though low inflation may leave the central bank with diminished leeway, Yellen said at her semiannual appearance before Congress on Wednesday.

The dollar slipped as Yellen's comments sparked a significant decline in US Treasury yields.

The dollar index against a basket of major currencies was down 0.15 percent at 95.606 after retreating to as low as 95.511 the previous day, its weakest in 12 days.

The dollar was trading against the Indian rupee at Rs 64.428, the greenback was at 4.287 in terms of the Malaysian ringgit and the US currency was available at 6.779 versus the Chinese yuan.

OPEN MARKET RATES: The rupee picked up 10 paisas against the dollar for buying and selling at Rs 106.50 and 106.80 respectively, they said. The rupee was trading against the euro for buying and selling at Rs 120.80 and Rs 121.81 respectively, they said.

Open Bid	Rs. 106.50
Open Offer	Rs. 108.80

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

Bid Rate	Rs. 105.32
Offer Rate	Rs. 105.34

RUPEE IN LAHORE: The Pak rupee showed strength as it recovered its day earlier losses versus the greenback in the local currency market on Thursday.

The trading activity of the greenback resumed on a negative note following lack of buyers' interest in the market throughout the trading session. As a result, it lost its worth to Rs 106.60 and Rs 107.10 on buying and selling sides, respectively, as compared to Wednesday's closing rates of Rs 106.90 and Rs 107.30, respectively, said local currency dealers.

However, the local currency failed to sustain as it depreciated against the pound sterling. The pound's buying and selling rates went up from the overnight closing trend of Rs 136.30 and Rs 137.00 to Rs 136.60 and Rs 137.80 respectively, they added.

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 106.40 (buying) and Rs 106.50 (selling) against same last rate. It closed at Rs 106.40 (buying) and Rs 10650 (selling).

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Domestic risks could arise from polarization, security issues: IMF

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The International Monetary Fund (IMF) has stated that Pakistan''s domestic risks could arise from political polarization in the pre-election period and security issues. The Fund report on Article-IV Consultation with Pakistan uploaded by the IMF on its website noted that staff''s view, fiscal pressures could rise during the period leading up to the mid-2018 general elections, and growth-supporting reforms could slow.

While security conditions have improved over the past few years, a renewed deterioration could affect confidence, investment, and economic activity.

The report added that external financing needs are expected to pick up amid a widening current account deficit. Rising imports, stagnant remittances and weakly recovering exports are weighing on the current account deficit, which is expected to widen to 3 percent of GDP in fiscal year 2016-17. Foreign Direct Investment (FDI) inflows and significant government external borrowing expected in the fourth quarter would allow financing the increase in the current account deficit and foreign exchange reserves to recover to $18.5 billion (3.8 months of imports, 73 percent of the IMF''s reserves adequacy (ARA) metric), albeit with risks to the downside.

Over the medium-term, current account deficit is expected to peak at 3.4 percent of GDP in 2019 as China-Pakistan Economic Corridor-related imports gather steam, and could subsequently moderate as exports recover, supported by the elimination of supply-side bottlenecks and the implementation of business climate reforms. Pakistan will face increasing government and CPEC-related external repayment obligations, and external financing needs are projected to increase to nearly over seven and half (7.5) percent of GDP over the medium-term, highlighting the need for macroeconomic and structural policies supporting competitiveness.

Tightening global financial conditions could adversely impact capital inflows, and continued appreciation of the real effective exchange rate would further erode export competitiveness and discourage remittances. Lower-than-expected export growth or remittances over the medium term could increase risks associated with rising repayment obligations and profit repatriation from energy investment and other CPEC-related projects. On the upside, a renewed decline in oil prices would ease balance of payments pressures and support growth.

Gross reserves have remained below the adequacy level as suggested by the ARA metric (73 percent in December 2016) and have declined since completion of the EFF-supported programme last year. Resumption of accumulation of reserves - including through allowing downward exchange rate flexibility - is needed to further strengthen buffers while also supporting competitiveness. The financial account balance has hovered around US$5 to $5.5 billion over 2014-16, helping to finance the current account balance and to accumulate reserves.

However, the structure of the financial account shows reliance on debt issuance rather than on FDI flows, which have been on a declining trend over the last decade. The net International Investment Position (IIP) has been relatively stable, if slightly declining in the last years. The staff underscored that more prominence should be given to exchange rate flexibility, rather than administrative measures, to address external imbalances.

The authorities introduced cash margin requirements (100 percent) on nonessential consumer goods imports in February 2017 to contain the widening current account deficit. The cash margin deposits are not remunerated and constitute an exchange restriction and multiple currency practice subject to Fund jurisdiction under Article-VIII. The Staff argued that allowing for greater downward exchange rate flexibility would be preferable to administrative measures and more effective as means to strengthen Pakistan''s external position.

The authorities expressed their commitment to remove such restrictions within one year and their expectation that recent policy initiatives to support exports, including sales tax zero rating for export industries and duty drawbacks, would sufficiently improve the current account imbalance in the interim

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<u>Exemption from ‘extra tax’:</u>

FBR approached to amend budget notification on oil supplies

RECORDER REPORT

A leading petroleum company has approached Federal Board of Revenue (FBR) to amend a budget notification applicable from July 1, 2017, to allow exemption from 'extra tax' on supplies of lubricating oil made by registered oil marketing companies (OMCs) to registered distributors and onward sale by such distributors to registered manufacturers.

Sources told Business Recorder here on Thursday that the leading petroleum company had referred to a recent amendment made in sub-rule (1) of Rule 58T of the Sales Tax Special Procedure Rules, 2007 vide SRO 583(1)/2017 dated July 1, 2017. The said SRO introduced a proviso in Rule 58T(1), whereby supplies of lubricating oils made to registered oil marketing companies (OMCs) and those made by OMCs to registered manufacturers for in-house consumption have been exempted from the levy of extra tax.

In this context, the company has requested the FBR that the exemption from levy of extra tax should be extended to supplies of lubricating oils being made by registered OMCs to registered distributors. However, the amendment introduced in Rule 58T(1) vide SRO 583(1)/2017, dated July 1, 2017, only provides exemption from levy of extra tax where the supplies of lubricating oils is made by registered OMCs to registered manufacturers. This amendment is discriminatory in a sense that the exemption applies to registered OMCs, which are in fact also distributors, whereas other registered distributors that are engaged by such OMCs for further distribution of lubricating oils to registered manufacturers are deprived of exemption from extra tax.

Based on the representation made by the company, it is anticipating the requested change in law. Also, in the salient features of the Federal Budget 2017, it was mentioned that exemption from extra tax on lubricating oil would be available to all industrial consumers purchasing lubricating oil from traders, and for which the entry relating to lubricating oil was proposed to be omitted from Chapter-XIII of the Sales Tax Special Procedure Rules, 2007.

Though the entry relating to extra tax on lubricating oil remained intact, only a proviso has been introduced in Rule 58T(1), providing exemptions from extra tax on supplies of lubricating oil made to registered manufacturers by the registered OMCs. Whereas such an exemption should have also been extended to supplies made to registered distributors and its onward sale by such distributors to registered manufacturers.

The FBR should reconsider the amendment in Rule 58T(1) introduced vide SRO 583(1)/2017, dated July 1, 2017, and put up the matter before the Ministry of Finance by recommending that exemption from levy of extra tax should also be available to supplies of lubricating oil made by registered OMCs to registered distributors and onward sale by such distributors to registered manufacturers. Based on aforesaid discussion, it is requested that a further proviso to Rule 58T(1) to the Sales Tax Special Procedure Rules, 2007 be inserted as under:

"Provided further that extra tax under this rule shall also not apply on supplies of lubricating oils made to registered distributors and on sale by such distributors to registered manufacturers for in-house consumption," the proposed amendment added.

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K-Electric presents 'review motion' to Nepra's tariff

RECORDER REPORT

The first day of a two-day hearing on K-Electric's review petition in response to the Tariff announced by NEPRA for the period July 1, 2016 to June 30, 2023 was held on Thursday at a local hotel in Karachi with active participation from prominent businessmen, renowned professionals, civil society and philanthropists.

Speaking on the occasion Omar Lodhi, Partner & Head of Asia, The Abraaj Group said, "The performance based tariff structure enabled K-Electric to invest over PKR 130 billion in the power infrastructure of Karachi since 2009. KE has to-date not paid out any dividend and the profits declared in annual audited accounts have been re-invested into the business. This in turn has benefited customers through improvement in supply and quality of service. The long-term business certainty and continuity of a performance based Multi-Year Tariff structure is critical for K-Electric to further invest in improving Karachi's power infrastructure in order to support the growing energy demands of the city. However, the determined tariff 2017 does not cover the costs and ignores genuine recovery issues, leading KE into serious cash flow shortfalls, putting the sustainability of the company at risk and would result in serious implications for KE and its consumers."

Presenting KE's review petition, Aamir Ghaziani, Director Finance & Regulations at KE, stressed upon the importance of recognizing recovery loss in tariff to ensure that the tariff remains cost reflective in line with practice adopted by regulators around the world for private utilities. "KE being a vertically integrated utility, a fixed rate base tariff structure is not suitable and instead a flexible performance based tariff is most suited as it encourages the utility to invest in efficiency improvements and also ensures that consumers are not required to pay for investments in advance. Moreover, in determined tariff 2017, returns allowed to KE are lower than offered to other private sector investors who also possess government guarantees and NEPRA should ensure that a level playing field is provided to KE," he said.

Tayyab Tareen, CEO, K-Electric said, "Based on an investment of over PKR 254 billion, KE has developed a robust seven-year business plan in view of the growing power demands and to strengthen the city's power infrastructure. Moreover, addition of around 2,000 MW has been planned through IPPs, which would lead to a surplus supply scenario with adequate contingency. However, KE would be unable to execute these investments as under the determined tariff, KE's cash flows are projected to be negative."

KE has been operating on an Integrated Multi-Year Tariff (IMYT) and through its previous I-MYT, K-Electric ensured an investment well above the proposed business plan at that time. As a result of these investments, K-Electric has substantially improved services for Karachi's consumers and businesses. Amongst other initiatives, the company added 1,057 MW of generation, reduced transformer trips by 58% and reduced line losses from 36% to 22%. These improvements have enabled the company to make 61% of Karachi load-shed free (from 23% in 2009), including all industrial customers, and reduce the duration and frequency of outages by 45% and 41% respectively (from 2011).

Moreover, the utility reaches around 3.9 million lives annually with initiatives like provision of free or subsidized electricity to key major healthcare and welfare organizations besides creating various powerful platforms to engage the youth in healthy activities be it sporting events, providing them professional exposure and encouraging students' initiatives. KE's flagship community development project 'Ujala' is also progressing swiftly and aims to empower 1 million lives in 200 communities by the end of 2017.-PR

BUSINESS
RECORDER
Friday, 14th July, 2017

Neelum-Jhelum: WAPDA's white elephant

BR Research

During the past decade some serious questions have been raised regarding the capacity of the Water and Power Development Authority (WAPDA) to undertake mega hydel projects. The organisation was once the pride of the nation having built the likes of Tarbela and Mangla when projects of such scale were unheard of. However, following Zia-ul-Haq's regime the institution fell into a state of mis-governance and ineptitude which continues to this day.

One of the major failures of WAPDA has been the 968MW Neelum-Jhelum hydro power plant on which construction began in 2008. The cost estimates for the project have quadrupled since 2002. The original projection was Rs84.5 billion which was subsequently revised to Rs277.5bn in 2012 to accommodate changes in . design caused by the earthquake. The cost currently hovers around Rs500 billion with the primary component that has resulted in such massive cost escalation being the interest during construction (IDC) component.

In a recent briefing to the Public Accounts Committee (PAC) the Wapda Chairman said that the first unit of the project with a capacity to produce 240MW will start functioning in February 2018. He added that by March 31, 2018, all four units with the capacity to produce 240MW each will start power generation.

According to sources in the Planning Commission the project has been mismanaged from the start with the original financial targets and geographical surveys inaccurately conducted. Resultantly, the poor design had to be changed mid-way during construction and affected the dam and hydraulic structure as well as the tunneling process.

However, given the harsh terrain where the project is beingbuilt, there have also been natural calamities such as landslides and water flow seepages affecting tunnel construction.

In a bid to cover up its inefficiency the government imposed a 10 paisa per unit surcharge in 2007 which has since been extended in line with the massive cost escalation.

At the end of the day it is the general public which pays the cost of negligence on the part of institutions such as WAPDA

BUSINESS
RECORDER
Friday, 14th July, 2017

Cotton prices continue to rise

DR ZAFAR HASSAN

Cotton prices have continued to harden since the beginning of this week. Due to regular rains drenching several parts of the cotton belt, supply of seed cotton (Kapas/Phutti) of the new crop (August 2017/July 2018) has decreased for the time being leading to increase in seed cotton as well as lint prices.

Seed cotton prices in Sindh were reported to be prevailing between Rs 3150 and Rs 3250 per 40 Kgs and between Rs 3000 and Rs 3225 per 40 Kgs in the Punjab. Punjab seed cotton is said to contain a modicum of moisture in it. Due to tight demand position, lint asking price is now said to be Rs 6400 per maund (37.32 Kgs), which ranged between Rs 6200 and Rs 6300 per maund earlier.

Overall, the quality of new crop cotton (2017/2018) is being described to be alright. Sowing has been satisfactory for the new crop and an output between 12.5 and 13 million bales (155 Kgs) is being presently anticipated which will be about 12 percent more than the last season. As of now, about 50 ginning factories are pressing the new crop in Pakistan. Some ginning factories are ginning partially, while the others are running fully. As of now, about 70,000 bales of new crop cotton have been pressed by the ginners.

Domestic mills/spinners mostly continue to suffer losses and cannot make ends meet at a cotton cost of Rs 6400 per maund on an ex-gin basis. Demand for cotton is steady due to tight supply. However, with the advance of the season, prices of cotton may go down.

Good output of cotton is anticipated of in the U.S.A., China and India and thus the global output is expected to be satisfactory. Thus under present conditions cotton prices may mostly remain at current levels for the time being.

Stock market has suffered a sharp decline in Pakistan in recent days and equity prices have fallen sharply. A large number of textile mills are listed on the equity market whose shares have also suffered losses.

On the global economic and financial front, observers set their attention mostly on last week's G-20 conference in Hamburg in Germany to look for any clues which would shed any light on the future global economy and also on the contentions of President Donald Trump to ascertain the possible approach America would adopt in pursuing its economic goals.

In this connection, it became clearer that America would not continue to support the Paris climate change agreement and would also adopt a more isolationist policy concerning its trade with the world. In this regard, such a policy change by America brought discomfort and surprise to the free world, but gradually the economic blocks like the European Union and countries like China and Japan appeared to gradually accept the drastic change adopted by America on these issues and started to look for ways and means to live with the changed reality.

At first, the members of G-20 deemed America's withdrawal from the climate change agreement and also a new policy of isolationism leading to abandoning of free trade as a turning point which would push the world towards a new and dangerous phase. America is also weary of the increasing number of immigrants arriving in the United States, particularly more so from Russia which could increase spying activity in America.

In Europe, the immigrants from eastern and central Europe are moving to Western Europe which also created a large shortage of workers in Eastern Europe which is hurting the economies of Eastern Europe largely. Such global changes are transforming the socio-economic condition of several countries which are losing factory workers migrating to other countries.

It may also be mentioned here that the G-20 meeting held in Hamburg last week-end did not go smoothly. Very large number of protesters created havoc and rampaged all over Hamburg during the two-day meeting of the G-20 member delegates. Serious clashes were reported to have continued even after the meeting by protestors who protested against the inequality of incomes between various sections of societies. For more than two days the streets of Hamburg had turned into a battle ground by the irate protesters.

Protesters are reported to have used Molotov cocktails during the round-the-clock violence. Protests in America, Europe, Venezuela, Brazil, South Africa and elsewhere in the world are being held regularly and it remains anybody's guess where this interminable activity will lead us to.

BUSINESS
RECORDER
Friday, 14th July, 2017

Trade activity rises on higher rates

RECORDER REPORT

Trade activity improved despite higher prices on the cotton market on Thursday, dealers said. The cotton spot rate was unchanged at Rs 6200, they said. In ready session, about 4600 bales of cotton changed hands between Rs 6375 and Rs 6400, they said.

In Sindh, the rates of seed cotton were available at Rs 3150-3225, while in the Punjab, the prices of phutti were at Rs 3000-3225, they said. Market sources said that leading buyers were some active to cover to their immediate needs.

Cotton analyst, Naseem Usman said that prices may maintain stable trend due to slight fall in arrivals of seed cotton. Adds Reuters: ICE Cotton futures edged down on Wednesday after a U.S. 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.

U.S. 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 U.S. Department of Agriculture said. 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.

The following deals reported: 1600 bales of cotton from Tando Adam sold at Rs 6375/6400, 1000 bales from Sanghar were finalised at the same rates, 1000 bales from Shahdadpur, 600 bales from Mirpurkhas and 400 bales from Kotri all were done at Rs 6400, dealers 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 12.07.2017	Difference Ex-Karachi in Rupees
37.324 Kgs Equivalent	6,200	135	**6,335**	**6,335**	NIL
40 Kgs	6,645	145	**6.790**	**6.790**	NIL

BUSINESS
RECORDER
Friday, 14th July, 2017

Cotton hits lowest in over two weeks as US exports disappoint

RECORDER REPORT

ICE cotton futures hit their lowest in over two weeks on Thursday after federal data showed that 2016/2017 US exports dropped sharply to a marketing-year low. The December cotton contract on ICE Futures settled down 0.9 cent, or 1.34 percent, at 66.37 cents per lb, its lowest since June 26. It traded within a range of 66.3 and 67.59 cents a lb.

Investors "were disappointed by the exports, and then we had technicals that look kind of negative," said Peter Egli, director of risk management at British merchant Plexus Cotton. US Agriculture Department (USDA) data showed that US exporters sold 13,000 running bales of upland cotton in the week ended July 6, touching a marketing-year low for 2016/2017. That was down 93 percent from the previous week and from the prior four-week average, the USDA data showed.

For 2017/2018, exports of 195,300 bales were down 35 percent from the previous week. "Today's US Export figures were anaemic for the current crop," Anestis Arampatzis, risk management consultant with INTL FCStone said in a note. "The market's dive below 66.50 triggered some long-standing mill fixations while the trading volume remains desperately light."

Total futures market volume rose by 3,516 to 18,023 lots. Data showed total open interest gained 980 to 211,738 contracts in the previous session. Certificated cotton stocks deliverable as of July 12 totalled 72,473 480-lb bales, down from 77,766 in the previous session.

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	68.35	68.35	66.49	66.54	14:45 Jul 13	66.54	-1.59	65	68.13
Dec’17	67.22	67.59	66.30	66.37	14:45 Jul 13	66.37	-0.90	11002	67.27
Mar’18	66.89	67.20	66.10	66.16	14:45 Jul 13	66.16	-0.78	2360	66.94

BUSINESS
RECORDER
Friday, 14th July, 2017

Drop in remittances

RECORDER REPORT

According to the latest data released by the State Bank on 10th July, 2017, overseas Pakistani workers remitted dollar 19.303 billion during July 1-June 30, 2017 compared with dollar 19.917 billion received in 2015-16, depicting a decline of dollar 614 million or 3 percent. The major decline was witnessed in the inflows from the US, the UK and Saudi Arabia. Workers' remittances from the US fell 3.24 percent to dollar 2.444 billion during the last fiscal year as compared to dollar 2.525 billion in FY16 while these decreased to dollar 2.338 billion from the UK in FY17 from dollar 2.580 billion in FY16, showing a sharp decline of 9.36 percent. Remittances from Saudi Arabia also showed a significant fall of 8.35 percent, coming down from dollar 5.968 billion to dollar 5.470 billion during FY17. The more worrying aspect is that remittances have almost showed a consistent decline over the months. During June 2017, workers' remittances aggregated dollar 1.840 billion which were 1.46 percent lower than a month earlier and 11.24 percent lower than in June, 2016. The country-wise details for the month of June, 2017 showed that inflows from Saudi Arabia, the UAE, GCC countries (including Bahrain, Kuwait, Qatar and Oman) and EU countries amounted to dollar 438.1 million, dollar 414.2 million, dollar 265.4 million, dollar 252.5 million, dollar 232.9 million and dollar 56.9 million, respectively, compared with the inflows of dollar 582.8 million, dollar 434.9 million, dollar 274.1 million, dollar 309.3 million, dollar 232.3 million and dollar 50.3 million, respectively, in June, 2016. Remittances received from Norway, Switzerland, Australia, Canada, Japan and other countries also stood lower at dollar 179.98 million as against dollar 189.4 million in the corresponding month of last year.

It is of course a matter of great concern for the policymakers that home remittances, which had been increasing consistently over the last decade and provided a great support to the balance of payments of the country, had declined during FY17. The matter becomes all the more serious when there are no prospects of the reversal of this trend anytime soon. Over 60 percent of the country's total remittances originate from the Middle Eastern countries which are themselves adopting fiscal consolidation measures and laying off labourers, thus affecting adversely both the incomes and demand of workers in those countries. Remittances from Saudi Arabia have been particularly influenced by the tightening of labour market policies and discouraging hiring of foreign workers in order to increase the employment rate of their own nationals. The flow of remittances from the US, the UK and other countries may have decreased due to the tightening/strict implementation of the anti-money laundering laws and the general apprehension that questions will be asked if large amounts of monies are sent back to Pakistan. Anyhow, the declining trend in home remittances is a very risky development, especially when other components of the balance of payments are also showing deteriorating trends. The revised current account deficit for July-May, 2017 was dollar 10.6 billion or more than double the gap recorded in the first eleven months of the preceding fiscal year. It is not difficult to visualise that in a situation like this, the C/A deficit of the country would continue to widen, foreign exchange reserves of the country may decline and exchange rate of the rupee may come under further pressure. Pak rupee witnessed a 3.1 percent plunge recently but the government managed to contain the rupee's slide to 2 percent. The government may not be able to manage the drop in the rupee rate next time so successfully if the elements of the current account continue to show a deteriorating trend in future. However, it may be added that the government could only play a limited role in arresting the deteriorating trend in home remittances since most of the factors impacting the level of home remittances are exogenous in nature. The government, however, could try to persuade some of the Middle Eastern countries to retain our workers, revamp the Pakistan Remittance Initiative and equalize the inter-bank rate of the rupee with the open market rate with a view to encouraging the expatriates to send money through formal banking channels but the overall trends in remittances will be dictated by foreign forces. As such, the real panacea for the improvement in the foreign sector is the sharp improvement in exports and containment of imports. The government has announced an export incentive package and imposed a regulatory duty on certain categories of imports but these measures are not going to be enough and cannot fully compensate for the shortfall in remittances. In fact, the C/A woes could worsen despite these measures.

DAWN
Friday, 14th July, 2017

Reserves rise by $80m

The Newspaper's Staff Reporter

KARACHI: Pakistan's total liquid foreign exchange reserves amounted to $21.44 billion on July 7, up $80 million or 0.37 per cent from a week ago, the State Bank of Pakistan (SBP) said on Thursday.

Reserves of the SBP increased $54m to $16.2m, a statement by the central bank said.

Net foreign exchange reserves held by commercial banks amounted to $5.2bn on July 7, slightly up from the preceding week.

DAWN
Friday, 14th July, 2017

IMF praises Pakistan's economic resilience

APP

WASHINGTON: The International Monetary Fund on Thursday released the country report on Pakistan, praising the government for strengthening macroeconomic resilience.

The report notes that the country's outlook for economic growth is favorable with real GDP estimated at 5.3 per cent in FY 2016-17 and strengthening to 6 percent over the medium-term.

"Macroeconomic resilience was strengthened during the three-year Extended Fund Facility (EFF)-supported programme completed in September 2016: growth increased, the fiscal deficit was reduced, and foreign currency reserves recovered," the report said based on Article IV consultations.

The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation 1 with Pakistan on June 14. Meetings with Pakistani officials were held in March and April in Dubai.

According to the report, structural reforms were set in motion; long-standing fiscal and energy sector constraints started to be tackled, and social safety nets were strengthened.

However, the report said that while the successful implementation of business climate and financial inclusion reforms has continued, some renewed accumulation of arrears in the power sector has been observed.

DAWN
Friday, 14th July, 2017

LTU collection up 5pc

The Newspaper's Staff Reporter

KARACHI: The Large Taxpayers Unit (LTU) of the Federal Board of Revenue (FBR) in Karachi collected Rs1.11 trillion in 2016-17, up five per cent from the preceding year.

The central revenue collection organisation operates LTUs in Karachi, Lahore and Islamabad to deal with large taxpayers.

Collection under all categories of income tax recorded a growth of 14.4pc to Rs253.88bn. Revenue on account of additional withholding tax surged 23pc to Rs70.27bn.

Sales tax collection declined 16pc to Rs192.51bn. After the deduction of Rs1.13bn for refunds, net sales tax collection stood at Rs192.5bn for 2016-17. Sales tax refunds amounted to Rs9.14bn in 2015-16.

Official sources told Dawn that the cut in sales tax rates on petroleum, oil and lubricants along with smaller sales recorded by tobacco companies resulted in the reduced revenue collection under this head.

Collection of federal excise duty (FED) in 2016-17 declined 2pc to Rs60.29bn. Total collection of domestic taxes amounted to Rs506.69bn as income tax, sales tax and FED contributed Rs253.88bn, Rs192.51bn and Rs60.29bn, respectively.

DAWN
Friday, 14th July, 2017

Cotton prices move up

The Newspaper's Staff Reporter

KARACHI: The cotton prices moved higher on Thursday as flow of phutti failed to meet rising demand for cotton from spinners. The undertone was firm but the outlook remained uncertain due to ongoing spell of heavy rains.

Though the official spot rates were firm at overnight level, trading on the ready counter was mostly done at higher rates. There is somewhat cautious approach from spinners but many needy mills continued to book stocks to meet their demand, brokers said.

As more ginning mills have started their operation, therefore, demand for phutti (seed cotton) have increased which pushed prices higher to Rs3,250/40kg. However, due to rising phutti prices many ginning mills have halted their buying orders because this has disturbed their viability, they added.

On the other hand spinners are also not ready to pay Rs3,200 per maund for cotton which also discouraged ginners from lifting costly phutti. The market would only behave normal when phutti arrival improves by the middle of next month.

The ongoing spell of heavy rains in the Punjab particularly Multan, DG Khan and other parts of the provinces was a cause of concern for growers, ginners and spinners alike.

But short supply of phutti thereby restricting availability of cotton pushed prices at record level of Rs6,400 per maund for current season so far. However, the Karachi Cotton Association (KCA) spot rates were firm at overnight level.

The following deals were reported to have changed hands on the ready counter: 1,000 bales from Tando Adam done at Rs6,375 to Rs6,400; 1,000 bales, Sanghar, at Rs6,375 to Rs6,400; 1,000 bales, Shahdadpur, at Rs6,400; 600 bales, Mirpurkhas, at Rs6,400 and 400 bales, Kotri, done at Rs6,400.

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
Friday, 14th July, 2017

MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market* Buying	Interbank market* Selling	Open market** Buying	Open market** Selling
USA	105.40	105.60	106.50	106.80
UK	135.91	136.17	137.00	138.00
Euro	120.54	120.76	120.80	121.80
S.Arabia	28.10	28.16	28.25	28.50
UAE	28.70	28.75	28.95	29.20
Japan	0.9325	0.9343	0.9330	0.9530

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

	Bid	Offer
Three months	5.88	6.13
Six months	5.90	6.15
One year	5.95	6.45

LIBOR

Special US dollar bonds for July 12

Three months	1.30389 %
Six months	1.46044 %

THE NEWS
Friday, 14th July, 2017

Exporters demand refunds settlement

LAHORE: Pakistan Textile Exporters Association (PTEA) has expressed concern over undue delay in payment of outstanding refunds that have accumulated to over Rs200 billion, which was adversely affecting the exporters' cash flow.

In a statement, Pakistan Textile Exporters Association chairman Ajmal Farooq said despite finance minister Ishaq Dar's assurance that all pending Refund Payment Orders (RPOs) sanctioned by April 30, 2017 would be paid in two parts, nothing was done on the ground. The RPOs up to the value of Rs1 million were to be paid till July 15, and the remaining till August 14, 2017. He said the government has released only Rs3 billion to pay for Drawback of Taxes under the Prime Minister's package in six months against the requirement of Rs7.29 billion per month. PTEA chief said due to high input costs, including energy prices, Pakistani textiles were no more competitive in the international market and instead of making announcements; the government should take practical measures to arrest the falling exports.

THE NEWS
Friday, 14th July, 2017

Pak-China industrial cooperation to make history: BoI

KARACHI: Miftah Ismail, chairman Board of Investment (BoI), on Thursday said leaderships of both the neighbouring countries have taken bilateral relations to a new horizon through game-changing mega project of China-Pakistan Economic Corridor (CPEC).

"Today Chinese companies are working on a number of projects relating to energy, railways, and road infrastructure especially new special economic zones (SEZs) under the CPEC" Ismail told the concluding session of Pakistan-China Industrial Cooperation dialogue held at a local hotel.

"Pakistan is planning to establish 46 SEZs alongside the CPEC route in the long run. Nine of them were declared prioritised during the sixth meeting of Pakistan-China Joint Cooperation Committee (JCC) of CPEC held in December, 2016."

The BOI chief said either Chinese or Pakistani companies can build these zones or it can be built jointly by both sides. "Not only the products manufactured in these zones can be exported but also sold in the local Pakistani market duty free," he said.

The BOI chief stressed that this makes the zone ideal for investors as Pakistan had a big market of 200 million plus people. "The model can be primarily export oriented, but in case of China import substitution also has a lot of potential, said he.

Reiterating the government's commitment to provide all utilities and security to the investors, Ismail pointed out that each zone has its special features in terms of location, raw material, skilled work force, and access to markets within and outside the country. "China has a rich experience in developing zones and Pakistan can learn much from Chinese experience," Ismail said.

Li Yuan, a representative from the visiting Chinese delegation, told the participants that they started with four SEZs in the initial phase and then developed 14 coastal cities, and subsequently 14 industrial zones were raised in China. "Industrial development takes a long time and planning to consider all relevant factors," he added.

Yuan said the proposed Pakistani priority SEZs needed to be reviewed by expert group from both sides to decide exact number and types of zones to be developed in the first phase. "Chinese side has already notified its expert group, but Pakistani is yet to constitute its expert group," Yuan said and emphasised on devising a long term cooperation mechanism to select priority sectors and to synergise policies for SEZs.

THE NEWS
Friday, 14th July, 2017

Fiscal deficit may hit 5pc on tax reconciliation

ISLAMABAD: The country's fiscal deficit is feared to turn up 5 percent of GDP against the desired target of 4.3 percent for the last fiscal year ended June 30, 2017 once the tax revenue reconciliation exercise ends, sources said on Thursday.

Accountant General of Pakistan Revenues (AGPR), which centralises accounting and reporting of federal transactions, is currently reconciling the tax collections by the Federal Board of Revenue (FBR). FBR's tax collection amounted to Rs3,372 billion in the past fiscal year.

Sources said the budget deficit figure will be firmed up by the third week of July. AGPR is likely to finish its exercise till July 20, 2017.

The revenue shortfall may widen budget deficit by 0.5 to 1 percent to five percent for 2016/17. One top official in the FBR confirmed to The News the tax collection machinery and State Bank of Pakistan (SBP) held meeting this week to reconcile revenue collection figures, "but the AGPR's reconciliation has not yet done."

After the reconciliation with SBP, the FBR's tax collection stood at Rs3,372 billion. The apex tax authority hopes that the tally may go close to Rs3,400 billion after the AGPR's reconciliation.

The official said the tax collection grew 123 percent to Rs65 billion in the first 13 days of July as against the corresponding period a year earlier. The growth clearly indicates that FBR did not get advances in the last financial year to jack up revenue.

The government originally envisaged FBR's tax collection target at Rs3,621 billion for FY17 with an approval of the parliament, but later the revenue target was cut to Rs3,521 billion because of revenue shortfall mainly due to reduced prices of petroleum products.

Now, the revised target will not be achieved, and it would be missed with a margin of around Rs149 billion even if the reconciled amount comes at Rs3,372 billion.

Finance ministry's officials told this scribe that efforts are underway for reconciliation of all accounts related to revenues and expenditures in order to firm up the figure of budget deficit for the fiscal year of 2016-17.

There was a revenue shortfall on account of unmet non-tax revenue target for the last fiscal year. There were several factors, including non-reimbursement of coalition support fund from the US.

Government tried to bridge the gap. It sold Security Printing Corporation, which prints currency notes and coins, to SBP for Rs100 billion to increase non-tax revenue during the last fiscal year.

The country's budget deficit was standing at 3.9 percent of GDP for the first nine months (July-March) of FY17. So, it would be impossible to restrict the budget deficit at 4.3 percent for the whole financial year.

Fiscal deficit in last three months of a fiscal year hovers on an average of 1.2 to 1.6 percent of GDP, so it is not possible to achieve the desired target of 4.3 percent for FY17.

International Monetary Fund projected Pakistan's budget deficit at 4.5 percent of GDP for 2016-17. — Mehtab Haider

THE NEWS
Friday, 14th July, 2017

Political polarisation, security challenges pose risks to growth: IMF

ISLAMABAD: International Monetary Fund (IMF) on Thursday warned Pakistani authorities of economic risks stemming from political polarisation and security challenges, reiterating the importance of inclusive policies to realise growth outlook.

“Domestic risks could arise from political polarisation in the pre-election period and security issues,” the Washington-based lender said in a report that concluded the Article IV consultation with Pakistan.

The Fund said fiscal pressures could rise during the period “leading up to the mid- 2018 general elections, and growth-supporting reforms could slow.”

“While security conditions have improved over the past few years, a renewed deterioration could affect confidence, investment, and economic activity,” it added. “Domestically, risks include deterioration in security conditions and potential pressures on policy implementation ahead of the mid-2018 elections.”

Key external risks, the Fund said, include lower trading partner growth, tighter international financial conditions, faster rise in global oil prices and, over the medium term, failure to generate sufficient exports to meet rising external obligations from foreign-financed investments.

IMF, however, said Pakistan’s growth outlook is favourable with real GDP growth estimated at 5.3 percent in the fiscal year of 2016-17 and strengthening to 6 percent over the medium-term on the back of stepped-up China-Pakistan Economic Corridor (CPEC) investments, better energy availability, and growth-supporting structural reforms.

“To realise the favourable growth outlook, priorities include strengthening macroeconomic resilience and generating higher and more inclusive growth,” it said. “The FY 2017/18 budget is subject to risks and reaching the deficit target will likely require significant additional revenue measures.”

The IMF advised that gradual fiscal consolidation should continue through the medium term to address debt-related vulnerabilities.

“Prudent monetary policy and greater exchange rate flexibility will be key to preserve low inflation and re-build external buffers.”

The Fund said macroeconomic risks have begun to re-emerge since the end of the extended fund facility (EFF) programme. It said long-standing challenges remain there.

IMF said the pace of fiscal consolidation has slowed. “Public debt remains high, and mobilisation of tax revenue needs to be further strengthened.”

It said external vulnerabilities have increased with a widening current account deficit and rising medium-term external repayment obligations linked to the CPEC and other large investment projects.

“Foreign exchange reserves have declined since the end of the EFF-supported program and remain below comfortable levels,” it added.

The Fund further said private investment and exports remain low to support higher private-sector led growth and catalyse needed job creation. Unemployment is at 5.9 percent (10.5 percent among youth and 9.5 percent among women) and the informal economy is large.

“Despite significant progress over the past two decades, poverty remains high at about 30 percent in 2013 (9 percent based on the 2001 poverty line), inequality slightly declined but remains sizable, and priority social spending, although having increased significantly, needs to be further enhanced,” it advised.

The executive board said there has been progress in implementing staff’s policy recommendations from the 2015 Article IV consultation and subsequent reviews of the EFF-supported program, although recent slippages have resulted in slower fiscal consolidation and a decline in reserves.

It said Pakistani authorities broadly shared the Fund staff’s assessment. They expected growth to accelerate to 7 percent in the medium term supported by strong CPEC related investments, favourable second-round effects from better infrastructure and energy availability, and an improved security environment.

They also expected a moderately smaller medium term current account deficit, assuming a more pronounced slowdown in import growth and a stronger recovery in exports and remittances.

IMF further said structural reforms to support higher and

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more inclusive growth should focus on ensuring a financially sound and growth-supporting energy sector, restructuring and attracting private sector participation in public sector enterprises to reduce financial losses and related fiscal costs and vulnerabilities, bolstering social protection, strengthening the business climate and governance, and fostering financial deepening and inclusion.

The Fund said reforms in electricity sector led to mixed results. Circular debt was building up, while “financial losses of ailing public sector enterprises have continued.”

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Pakistan to turn electricity surplus by 2020: reports

KARACHI: Pakistan will become an electricity surplus country in the next three years as significant power doses are likely to be injected into the grid, official data showed, highlighting, however, the importance of reliable network to hold additional power supply.

National Transmission and Despatch Company (NTDC) and K-Electric Limited (KEL) data showed that the country's current electricity generation stands at 23,234 megawatts (MW), leaving a power shortfall of around 4,000MW.

Yet, given a number of power production units coming up online, generation capability is expected to reach 34,785MW by 2020, around 3,000MW more than the projected demand. New projects of around 6,000MW are expected to be available by 2020, while new projects of around 8,800MW would be added into the system over the next couple of years and more than 1,000MW would be through renewable energy projects.

As many as five power producers, including Engro Thar Power Project, Thar Hubco Power Project, Thalnova Coal Project, Oracle Thar Project and Shanghai Electric Coal Project in Thar with a cumulative installed capacity of 3,960MW would come online by 2020.

With new power plants, it is imperative for NTDC and KEL to continue strengthening the system to provide a reliable electricity supply. "NTDC is required to construct a huge transmission network for transportation of power over the next five years," National Electric Power Regulatory Authority (Nepra) said in a latest report on state of industry. "Timely completion of the proposed transmission projects requiring a cost outlay of more than Rs67 billion is critical for the evacuation of power from the priority generation power plants to eliminate the power evacuation constraints for smooth operation and a reliable system." Electricity demand is expected to grow at annual average of five percent for the next three years.

NTDC-KEL data showed that the country's electricity generation remains 15 percent short of the total demand in 2017, but the situation is expected to reverse by 2020 as the country's planned generation capacity would surpass the projected demand by 10 percent.

A Nepra official said although the installed capacity will be higher than the demand the capability of power generation plants may be lower due to de-rating on account of ageing, imprudent utility practices and seasonality factor.

Power generation plants on conventional fuels and renewable sources, being built under China-Pakistan Economic Corridor projects, are going to ease electricity supply shortages. A lot now depends on the transmission and distribution entities to strengthen their systems and make the delivery of uninterrupted power to end-consumers a reality.

Although transmission and distribution companies have prepared elaborate plans – with the exception of some projects where the federal government has taken the lead – major challenges still exist for the transmission and distribution entities to meet critical time lines.

The International Energy Agency forecasts electricity demand in Pakistan at more than 49,000MW by 2025. The government set goals under Vision 2025 to increase access to electricity from 67 percent of the population to more than 90 percent and to reduce average cost per unit by over 25 percent by improving the generation mix.

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Forex reserves rise

KARACHI Pakistan's foreign exchange reserves increased to $21.447 billion during the week ended July 7 from $21.367 billion a week ago, the central bank said on Thursday.

The foreign exchange reserves held by the State Bank of Pakistan (SBP) rose $54 million to $16.197 billion as compared to $16.143 billion during the previous week. The foreign exchange reserves of commercial banks increased to $5.250 billion as compared to $5.224 billion in the preceding week.

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Strategy devised to limit fiscal deficit in manageable limits

ISLAMABAD: The government has made comprehensive strategy to maintain fiscal deficit in manageable limits by taking many revenue generation measures and by containing non-development expenditures during the fiscal year 2017-18.

"During 2017-18, efforts will be made to maintain fiscal deficit in manageable limits with the confines of Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005," official sources said. They said the deficit would be limited by enhancing revenue mobilisation and containing non-priority and non-development expenditures.

During the current fiscal year (2017-18), better energy supplies to manufacturing sector and higher aggregate demand would necessitate higher business and private sector loans.

These activities, along with growing bank financing for China-Pakistan Economic Corridor (CPEC) related activities and accelerated development works, would lead to higher monetary expansion.

Average Consumer Price Index (CPI) inflation during 2017-18 would expectedly increase by around six percent as anticipated higher aggregate demand, greater monetary expansion and impact of rising global prices would put upward pressure on inflation.

The capital market was expected to remain vibrant during 2017-18 through various measures to be adopted by the Securities and Exchange Commission of Pakistan (SECP) under its future roadmap comprising measures for capital market development and subsidiary legislation under the Securities Act and Futures Market Act.

It should be recalled that during July-March 2016-17, fiscal deficit stood at 3.9 percent of GDP as compared to 3.5 percent during the corresponding period of last year. It has already surpassed its annual target of 3.8 percent due to low growth of total revenue as a result of a shortfall realised in tax collection and a decline in non-tax revenue.

Money supply as measured by broad money (M2) expanded by Rs936.4 billion (7.3 percent) during July 1, 2016 to May 5, 2017 as compared to its expansion of Rs716.9 billion (6.4 percent) during the corresponding period of last year. This higher monetary expansion is due to a low policy rate of 5.75 per cent adopted by the State Bank of Pakistan since May 2016.

Average CPI rose to 4.1 per cent in July-April 2016-17 from 2.8 percent in the corresponding period of last year. During 2016-17, the SECP initiated number of structural, legal and fiscal reforms in order to develop a fair and competitive capital market.

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Pakistan, Indonesia review economic ties

ISLAMABAD: Pakistan and Indonesia have expressed commitment to continue collaborating through the Joint Working Group on Counter-Terrorism and Policy Planning Dialogue.

The decision was taken during the first meeting of the Bilateral Consultative Forum between the ministries of Foreign Affairs of Pakistan and Indonesia, held in Jakarta. The Forum reviewed the whole spectrum of bilateral relations including political, defence, security, economy, and consular matters, and it was agreed to translate the existing goodwill into concrete measures, according to a message from Pakistan embassy in Jakarta.

The Pakistani delegation was led by additional secretary (Asia Pacific) Syed Zulfiqar Gardezi, whereas the Indonesian side was represented by Asia Pacific and African Affairs director general Desra Percaya.

The two sides discussed increased-high level exchanges over the coming months. To increase people-to-people contacts, the Pakistan side emphasised on facilitating travel through easing visa restrictions on Pakistani nationals. Both sides noted that the upcoming review under the preferential trade agreement (PTA) discussion provided a good opportunity between Indonesia and Pakistan to foster bilateral trade relations.

It was agreed to hold the Second Meeting of Bilateral Consultative Forum at a mutually convenient date in Pakistan during 2018. Besides reviewing the current state of bilateral relations, both sides exchanged views on regional and global issues including South Asia and the ASEAN region.

Gardezi also held a meeting with Foreign Affairs vice minister AM Fachir and separate discussions with ASEAN deputy secretary general Hirubalan VP on ways to enhance Pakistan-ASEAN engagement.

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SBP injects Rs297.9bln in market

KARACHI: The State Bank of Pakistan on Thursday injected Rs297.9 billion in the money market for one-day through its open market operation, the central bank said in a statement. The rate of return accepted is 5.80 percent/annum, it added.

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Telecom adds Rs582.95 billion as tax revenue in 3.5 years

ISLAMABAD: Pakistan's telecom sector has added around Rs582.95 billion to the national exchequer during the last three and half years, a well-placed source said on Thursday.

"The sector added Rs243.28 billion during the fiscal year 2013-14, Rs126.26 billion in 2014-15, Rs159.65 billion during 2015-16, and Rs53.76 billion in the first two quarters of 2016-17," an official at Pakistan Telecommunication Authority (PTA) told Associated Press of Pakistan (APP).

"The contributions comprised all the PTA receipts including initial and annual license fees, annual radio frequency spectrum, spectrum administrative fee, universal service fund (USF) and research & development fund contributions, numbering charges, license application fee, custom duties, withholding tax (WHT) etc."

The official added the commercial launch of 3G /4G services had opened new opportunities for revenue generation for the mobile operators. "Availability of these services has enabled development of new applications and database services and the people of Pakistan are quickly embracing new technologies and services," the official noted.

Moving forward, he disclosed that there has also been a consistent growth in information technology (IT) remittances over the last decade at a compound annual growth rate (CAGR) of around 23 percent.

"IT remittances jumped by approximately 97 percent over the last four years," he said adding hence, Pakistan's IT exports are estimated to have crossed $2.8 billion a year. He also informed the state news agency the sector's annual domestic revenue was around $500 million, whereas the total revenue stood around $3.3 billion a year.

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Cotton stable

Karachi

Normal trading continued at the Karachi Cotton Exchange on Thursday, while spot rates remained unchanged.

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

An analyst said the market remained steady, but the rates could go down within a few weeks when arrivals will increase from both Sindh and Punjab provinces.

KCE recorded five transactions of around 5,000 bales of the new crop from Sindh at a price of Rs6,375/maund to Rs6,400/maund.

Of these transactions, deals of 1,600 bales were recorded from Tando Adam, 1,000 bales each from Sanghar and Shahdadpur, while 600 bales of Mirpurkhas and 400 bales of Kotri also exchanged hands in the market.

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Macroeconomic risks re-emerging, warns IMF

Imran Ali Kundi

ISLAMABAD - The International Monetary Fund (IMF) has noted that macroeconomic risks for Pakistan have begun to re-emerge since the end of the IMF's programme last year.

"The pace of fiscal consolidation has slowed, public debt remains high, and mobilisation of tax revenue needs to be further strengthened. External vulnerabilities have increased with a widening current account deficit and rising medium-term external repayment obligations linked to the China Pakistan Economic Corridor (CPEC) and other large investment projects. Foreign exchange reserves have declined since the end of the EFF-supported programme and remain below comfortable levels," the IMF stated in its recent report on Pakistan.

On the structural front, the Fund has observed that progress in electricity sector reforms has been mixed, with a renewed build-up in circular debt; and financial losses of ailing public sector enterprises (PSEs) have continued. Private investment and exports remain low to support higher private-sector led growth and catalyse needed job creation. Unemployment is at 5.9 percent (10½ percent among youth and 9½ percent among women) and the informal economy is large. Despite significant progress over the past two decades, poverty remains high at about 30 percent in 2013 (9 percent based on the 2001 poverty line), inequality slightly declined but remains sizable, and priority social spending, although having increased significantly, needs to be further enhanced.

According to the IMF, the economic recovery is expected to continue and to strengthen over the medium term. Buoyant activity in construction and services along with recovering agriculture are driving real GDP growth, which is estimated at 5.3 percent in FY2016-17. Strong machinery imports and fast growing iron and steel and auto sectors point to strengthening domestic demand. Growth is benefitting from rising investment related to CPEC, strengthening private sector credit growth, and reduced fiscal drag, and there are increasing signs of a recovery in exports. However, moderating (though still strong) growth in domestic cement despatches and sluggish remittances are signs of caution. Headline inflation will likely be contained at 4.3 percent on average in FY2016-17.

Over the medium term, growth is expected to increase to about 6 percent on the back of CPEC and other energy sector investments, and helped by growth supporting structural reforms. Domestic risks could arise from political polarisation in the pre-election period and security issues. "In staff's view, fiscal pressures could rise during the period leading up to the mid-2018 general elections, and growth-supporting reforms could slow," the Fund noted.

The Fund expected growth to accelerate to 7pc in the medium term supported by strong CPEC related investments, favourable second-round effects from better infrastructure and energy availability, and an improved security environment. They expected a moderately smaller medium term current account deficit, assuming a more pronounced slowdown in import growth and a stronger recovery in exports and remittances. The authorities also underscored that security conditions have significantly improved, with limited downside risks to the outlook.

The IMF stressed that reversing the recent decline in reserves and allowing for greater exchange rate flexibility are needed to rebuild external buffers, which are below adequate levels, and strengthen Pakistan's competitiveness, which has been affected by real effective exchange appreciation. Based on standard models of real effective exchange rate valuation, which are subject to significant uncertainty, the Fund estimated that Pakistan's external position is moderately weaker than suggested by fundamentals and desirable policies and that the real exchange rate is moderately overvalued between 10 and 20 percent.

The IMF has also stressed that gradually reducing the stock of government borrowing from the SBP would be important to support the independence and credibility of monetary policy. The authorities indicated their commitment to reduce the stock and underscored that the surge in government financing earlier in the year was due to a one-off operation.

Accumulation of power sector arrears resumed in the first half of FY2016-17 (Rs53 billion), with the stock increasing to Rs374 billion (about 1.2 percent of GDP). This reflected a widening of the system's operational deficit

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due to delays in passing through to end-consumers higher generation tariffs and weaker bill collection by distribution companies (DISCOs), only in part compensated by the positive impact of a reduction in DISCOS' distribution losses and still low oil prices.

The IMF stressed the need to strengthen Discos' performance and adjust end-consumer tariffs to reflect higher input costs, also in view of upcoming increases in generation capacity. In this regard, staff welcomed the introduction of a daily monitoring system for Discos which will contribute to closely follow their operations. While most Discos met their end-December 2016 targets in terms of collection, about half met their targets in terms of distribution losses. Furthermore, moving ahead with the planned IPOs of Discos is key to strengthen corporate governance and mobilise proceeds to start reducing the stock of outstanding arrears.

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Plan to set up 46 SEZs along CPEC route

Our Staff Reporter

ISLAMABAD - Board of Investment (BoI) Chairman Dr Miftah Ismail on Thursday said that the government is planning to establish 46 Special Economic Zones (SEZs) alongside the China Pakistan Economic Corridor (CPEC) route in the long run.

"Nine zones have already been declared prioritised during the 6th JCC meeting held in December, 2016", he said at the concluding session of Pakistan China Industrial Cooperation dialogue. He further said that Chinese companies are working on a number of projects relating to energy, railways and road infrastructure.

He expressed the commitment of the government to nominate a working group to deliberate on how to build the zone. He expressed the views that either Pakistani or Chinese companies can build the zone or the same can be built jointly by both sides. The BoI chairman highlighted that products manufactured in these zones can not only to be exported but these can also be sold in the local Pakistani market, where they are not required to pay any customs duty. This makes the zone ideal for investors as Pakistan has a big market of 200 million plus people, he added.

Ismail pointed out that each zone has its special features for investors in terms of its location, raw material, skilled work force and linkages with other parts of the country and outside the country. China has rich experience in developing zones particularly from 1985 to 1995 and from 2009 till 2015 and Pakistan can learn much from Chinese experience.

Earlier, BoI Secretary Azher Ali Choudhry, in his opening remarks, expressed the hope that Chinese Experts Group must had a very successful site visit of Rashakai Special Economic Zone and bilateral meetings with the authorities concerned in Khyber Pakhtunkhwa. He also requested Chinese side to share the composition and Terms of Reference of Chinese Experts Group to have the matchmaking with the proposed Expert Group from Pakistan side.

He highlighted the main features of incentive package devised for the identified priority SEZs and invited Chinese side to convey their view point if any for further discussion. He emphasized that Chinese companies have huge opportunities to relocate their businesses to these priority SEZs. Li Yuan informed that four SEZs were started in China in the initial phase and then 14 Coastal Cities were developed and subsequently 14 Industrial Zones were developed by China. Industrial development takes a long time and planning to consider all relevant factors, he added. Proposed Pakistani priority SEZs are needed to be reviewed by Expert Group from each side to decide exact number and types of zones to be developed in the first phase, he added. He said that Chinese side has already notified its Experts Group while Pakistan side need to expedite composition of the Expert Group. Li also emphasized on devising of long term cooperation mechanism to select priority sectors and to synergise policies for SEZs.

During the session, two presentations were made by the representative of government of AJ&K and Gilgit-Baltistan. The representatives of AJ&K highlighted the potential of AJ&K in terms of water and mineral resources. The incentives being provided by the government of AJ&K to the foreign investors were also highlighted in the presentation. The potential of proposed Mirpur Zone in terms of its connectivity with highway, railway and airport as well as the expected industries to be parked in this zone based on local endowment was also deliberated through the presentation.

Representative of Gilgit-Baltistan underscored the strategic location, scenic beauty and hospitality of the people Gilgit-Baltistan. He highlighted the mineral potential and locational advantages being gate way for Central, East and South Asia. He also appraised the house that this zone is situated exactly on the CPEC route which is ancient Silk Route.

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PIAF for speeding up industrial gas connection process

Our Staff Reporter

LAHORE - PIAF Chairman Irfan Iqbal Sheikh has welcomed the recommendation of the National Assembly Standing Committee on Petroleum and Natural Resources for enhancement of new domestic gas connections up to one million per year, asking the authorities to also speed up process of new industrial gas connections which is must for the revival of the industry.

He said that that the committee had also recommended enhancement of domestic connections to new localities by 100 connections. The committee recommended enhancement of new gas connections in wake of huge number of pendency with the gas distribution companies. He said that the Ogra had allowed 0.5 million new domestic gas connections to the gas distribution companies per year, however, due to huge number of pendency, the companies were unable to meet the demand.

Irfan said that following the arrival of Re-gasified Liquid Natural Gas from Qatar last year, the SNGPL announced to entertain applications for new gas connections to the industrial consumers. Moreover, the SNGPL had also initiated the process of approving new gas supply connections to industrial consumers, but it was not implemented properly.

He said that hundreds of industrial consumers have applied for new industrial connections and applications must be processed without delay, Irfan added. The purpose was to avail the RLNG at the earliest to cut the production cost, which is proving a major hurdle in competing internationally, he added.