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China hosts Silk Road summit

BEIJING: China on Sunday touted its new Silk Road as "a project of the century" at a summit highlighting its growing leadership on globalisation, but a North Korean missile test competed for attention.

President Xi Jinping hosted leaders from 29 nations for the two-day summit in Beijing ending Monday after US and South Korean military officials confirmed that Pyongyang had launched a ballistic missile.

Delegations from North Korea and the United States attended the forum, though not their leaders. Few Western heads of government made the trip.

The summit is showcasing Xi's cherished One Belt, One Road initiative, a revival of the ancient Silk Road trading routes that could further expand China's growing global influence on trade and geopolitics.

"This is indeed a gathering of great minds," Xi said, addressing leaders from Russian President Vladimir Putin to Turkish counterpart Recep Tayyip Erdogan and Philippine President Rodrigo Duterte.

Xi pledged to pump an extra $124 billion in funds into the initiative, calling it "a project of the century" in a "world fraught with challenges".

The Chinese-bankrolled project seeks to link the country with Africa, Asia and Europe through an enormous network of ports, railways, roads and industrial parks.

The initiative spans some 65 countries representing 60 percent of the world population and around a third of global gross domestic product. The China Development Bank has earmarked $890 billion for some 900 projects.

The project could also serve Beijing's geopolitical ambitions as Washington retreats into "America First" policies.

While Xi did not mention North Korea during his speech, it was discussed at his bilateral meeting with Putin.

"Both parties expressed their concern over the escalation of tensions" on the Korean peninsula, Kremlin spokesman Dmitry Peskov told reporters.

The Chinese foreign ministry said in a statement it opposed such missile tests and called for restraint from all parties.

The delegates from both Koreas held a brief meeting at the summit, according to South Korea's Yonhap news agency.

"We strongly condemned North Korea's launch of the missile," said Park Byeong-Seug, who leads Seoul's delegation, according to Yonhap.

The US representative, White House adviser Matt Pottinger, was pictured near North Korea's minister of external economic relations, Kim Yong Jae, as they arrived.

But US embassy spokeswoman Mary Beth Polley told AFP that the two officials did not hold a meeting. "No small talk, nothing," she said.

North Korea relies heavily on trade with China for its economic survival, and US President Donald Trump has urged Xi to use that leverage to put pressure on Pyongyang.

The White House called on all nations to impose "far stronger sanctions" following the latest test, which came days after South Korea elected a new president.

Sunday's missile launch "is absolutely an embarrassment to Beijing but it also shouldn't be overstated", Christopher Balding, economics professor at Peking University, told AFP.

Xi focused on his initiative, boasting that it represented a "road for peace", but he cautioned that "all countries should respect each others' sovereignty... and territorial integrity".

He warned that "isolation results in backwardness".

The new financing that he promised on Sunday

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includes 100 billion yuan ($14.5 billion) for the Silk Road Fund and lending schemes worth 380 billion yuan. He also urged financial institutions to contribute 100 billion yuan.

Praising Xi's initiative, Putin warned that "protectionism is becoming the norm".

"The ideas of openness, trade freedom are rejected more and more, very often by those who were their supporters not so long ago," Putin said.

Raising concern

While Trump railed against China's trade policies during the US election, he has nurtured friendly ties with Xi and his envoy to the summit said US companies were ready to get involved in the Silk Road.

"US firms can offer the best-value goods and services required over the life of a project," Pottinger told the forum, though he warned that success would depend on transparent government procurement, among other things.

German Economy Minister Brigitte Zypries echoed calls for transparency to ensure that the calls for bids are "non-discriminatory".—AFP

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FBR mulling withdrawing fixed tax schemes

SOHAIL SARFRAZ

ISLAMABAD: Federal Board of Revenue (FBR) is reviewing all fixed tax schemes for withdrawal of fixed regimes, which failed to achieve the desired results in coming budget (2017-18).

It is learnt that the fixed tax schemes like scheme for developers and builders would be withdrawn in coming budget. The scheme under final tax regime (FTR) was traded at the cost of documentation of the economy. Large Builders and Developers groups got away without declaring their expenses and incomes. Exemptions from withholding of income taxes were availed on the plea that their income is subject to FTR, which resulted in loss of valuable revenues which were earlier collected and deposited by withholding agents.

In this regard, exercise is underway to identify all those fixed tax schemes where sectors/industries have not deposited the due amount of taxes as promised during 2016-17.

According to sources, budget makers are examining a proposal to draft a Customs Amnesty Scheme for those importers where adjudication authorities have adjudicated cases and imposed fine on the importers under Customs Act 1969. The importers have contested the cases at the level of judicial fora like customs appellate tribunal or high court etc. The FBR will work the amount involved in such cases of litigation, which has been stuck-up in courts. If the budget makers think that some concessionary rate of tax be offered to importers, then such kind of Customs Amnesty Scheme would be finalized. In case policy makers agree with the scheme, it could be announced in budget or next fiscal year.

While new incentives for agriculture and domestic industries are being finalized, the sources said that the rate of sales tax would not be changed in the coming budget (2017-18).

Sources said that some major changes in tax laws would be introduced for expanding the tax net, they added.

Tax Reform Implementation Commission (TRIC) has recommended that without filing of income tax returns none of following should be allowed: Issuance/renewal of passport; commercial/industrial electricity, gas and water connection; three phase residential electricity connection; registration / transfer of property measuring 250 square yards/ 10 marlas for houses in rating areas and above 2000 square feet in Apartments/flats (exceptions for inheritance, gift within family) and purchase/sale/transfer of car/vehicle of 1000cc or above.

In this regard, exceptions from return filing may be given for non-residents not required to file return; education/medical purposes; dependent ladies/ Widows; pensioners; persons under 21 years age, in this case tax return of sponsor required; gift within family, spouse, children and disconnection of mobile connection if bill on all connection of a person exceeds Rs.24,000/36,000 per annum and return is not filed.

TRIC has also recommended a concept of "Self Employed Tax Preparer Scheme to Increase Tax Base".

The Tax Return Preparer Scheme (TPS) proposes to train nearly 2000 graduates across the country at the AIOU centres through distance learned. The cost of training will be borne by the FBR/ Income Tax Department. Graduates who complete the training successfully will be issued a certificate & a unique identification number which will authorize them under the Income Tax Ordinance, 2001 to work as self-employed Tax Return Preparers.

TPS will receive 3% of the tax paid on the returns prepared & filed for every new assesses in the 1st year (subject to a maximum of Rs1000/), 2% in the

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second year and 1% in the third year and Rs 250 for the returns prepared & filed for the old assesses who pay tax of at least Rs 1000 or more.

The major advantages of scheme would be that it would create self-employment opportunities for about 2000 youth in First phase. It would assist FBR in increasing the tax base of small and marginal tax payers and stop filers. This scheme will align with government objectives of creating self-employment opportunities. This scheme will reach out to taxpayers in small cities/villages and it will educate people in tax and impart technical knowledge, TRIC recommendation added.

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CPEC must not be politicized: Nawaz

BEIJING: Prime Minister Muhammad Nawaz Sharif on Sunday said the China Pakistan Economic Corridor (CPEC) under the One Belt, One Road (OBOR) initiative, was open to all countries in the region and categorically said the project "must not be politicized."

"Let me make it very clear that CPEC is an economic undertaking open to all countries in the region. It has no geographical boundaries. It must not be politicized," the Prime Minister said in his address at the plenary session of High-level Dialogue on Belt and Road Forum (BRF), themed "Cooperation for Common Prosperity," being held in China's capital.

The Prime Minister called for building a peaceful, connected and caring neighbourhood by shunning mutual differences. "It is time we transcend our differences, resolve conflicts through dialogue and diplomacy, and leave a legacy of peace for future generations," he said at the BRF platform, with 29 heads of states and governments and 1,500 delegates in attendance.

The Prime Minister said peace and development go hand in hand, and nothing can pave the path for peace and security more than economic development achieved through regional collaboration.

"The OBOR signifies that geo-economics must take precedence over geo-politics, and that the centre of gravity should shift from conflict to cooperation," he said. The Prime Minister said OBOR could be regarded as a "powerful tool for overcoming terrorism and extremism." "As OBOR is unfolding across continents, it is fostering inclusion, creating tolerance, and promoting acceptance of cultural diversity," he said.

The Prime Minister said CPEC was a core project of OBOR and had rightly been called its flagship for aiming to connect the neighbourhoods of East and West Asia. He said CPEC made Pakistan both a conduit and destination for cross-regional investment and trade.

Terming 'China as Pakistan's close friend and trusted ally', Nawaz Sharif said his participation at the Forum was to celebrate the remarkable success of the seminal initiative of 'One Belt, One Road (OBOR)'. He expressed confidence that the historic event would build critical pathways in the years to come for economic and financial cooperation, business-to-business collaboration, and people-to-people contacts. He paid President Xi and the Chinese leadership his deepest tributes for their dynamic and creative leadership and said Pakistan admired China's vision and ingenuity in developing corridors across regions. Prime Minister Nawaz Sharif said OBOR connected Asia, Africa and Europe, besides covering half of the world population, half of its resources, and 65 countries. International investors from all over are pouring their resources into it, he added. He said President Xi's initiative made win-win partnerships possible for all and accelerates economic growth in developing countries; yield dividends for international investors; and tear down barriers to trade and commerce.

Even more importantly, he said OBOR would help repair and reform global economic governance as it was not merely the revival of ancient Silk Road. Rather, a conscious and humanistic endeavour to take humankind to a higher level of prosperity, peace and stability through connectivity and close contact.

"Such a broad sweep and scale of interlocking economic partnerships and investments is unprecedented in history. We stand at the cusp of a geo-economic revolution. In fact, this is the dawn of a truly new era of synergetic intercontinental cooperation," he remarked.

He believed that the most powerful impact of OBOR would be on the lives of poor and marginalised people, who would have higher incomes, better education and more health facilities. It would help in

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eradicating poverty and achieving Sustainable Development, leaving no one behind, he added.

Prime Minister Nawaz Sharif said the infrastructure, energy and industrial projects in Pakistan were moving on fast pace with many to be completed by or even before their timelines. He expressed the optimism that "Unprecedented economic, social and cultural benefits will accrue from the CPEC - not just for the people of Pakistan, but also for the people of the entire region."

He said his government had shaped an enabling environment for the CPEC to take off as it was producing new entrepreneurs, creating new jobs and businesses, and attracting international investment.

He said CPEC was a project owned and nurtured by all citizens of Pakistan and was fully compatible with government's own Vision 2025, which invests country's resources in multiple corridors of regional cooperation, including energy, industry, trade and transportation.

"In pursuance of this vision, we are also bridging the gap between economic growth and social development by focusing on poverty alleviation, education, health, and gender mainstreaming. We would tap the full potential of our youth, who constitute more than 60 per cent of our population," the prime minister said.

He told the high profile gathering that Pakistan's economy was doing very well with stable macroeconomic indicators, bright economic outlook, rising growth rate and Pakistan Stock Exchange was performing as one of the five best stock exchanges in the world. "Today, I present to you a rising, confident and secure Pakistan - a Pakistan that is now increasingly perceived as a turnaround story, and a winner. It is now an emerging economy, with even greater capacity to absorb new investments and equities," he resolved.

Nawaz Sharif emphasised that OBOR had gained wide traction as it negated the logic of polarisation and rejected the encirclement of any country. "It is about connectivity. It is about emancipation. It moves us out of silos into shared space. The fact is that now OBOR belongs to us all - those who are participating in it and those who are not as yet," he elaborated.

The prime minister urged the audience to sustain the OBOR with full vigour and robust political will. "Let OBOR become a metaphor for a new, mature, resilient and cooperative world. We all must keep alive the spirit of 'One Belt One Road,' he said.—APP

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India skips summit

NEW DELHI: India has not sent an official delegation to attend the “Belt and Road Forum” in Beijing and instead criticised China’s global initiative, warning of an “unsustainable debt burden” for countries involved.

Government officials from New Delhi did not travel, Indian officials said, although scholars from Indian think-tanks have flown to Beijing to attend some of the meetings at the forum.

Indian foreign ministry spokesman Gopal Baglay, asked whether New Delhi was participating in the summit, said India could not accept a project that compromised its sovereignty. India is incensed that one of the key Belt and Road projects passes through Kashmir and Pakistan. The nuclear-armed rivals have fought two of their three wars over the disputed region of Kashmir.

“No country can accept a project that ignores its core concerns on sovereignty and territorial integrity,” Baglay said.

He also warned of the danger of debt. One of the criticisms of the Silk Road plan is that host countries may struggle to pay back loans for huge infrastructure projects being carried out and funded by Chinese companies and banks.—Reuters

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Historic rise in trade deficit

Pakistan's trade deficit has reached an historic high of 26.55 billion dollars July-April 2016-17 – a rise of 40.12 percent when compared with the same period of last year. The performance of the two components of the trade balance deteriorated during the period under review when compared with the same period of a year before: exports declined to 16.9 billion dollars from 17.3 billion dollars – a 2.29 percent decline – while imports rose from 36.25 billion dollars to a whopping 43.47 billion dollars in the first 10 months of the current fiscal year – a 19.88 percent increase. Remittances, besides exports, a desired foreign exchange-earner for any country, dropped by 2.8 percent during the first 10 months of the current year when compared with the comparable period of a year before – from 16.04 billion dollars to 15.59 billion dollars.

Contrary to the claims of the Finance Ministry, the blame for a fall in our exports cannot be laid entirely at the doorstep of the ongoing global or a fall in consumer prices, consisting of the bulk of our exports, but on flawed economic policies that have not been revisited in spite of declining performance of these key macroeconomic indicators. Exporters lay the blame for the decline in exports on two major Finance Ministry policies notably inordinate delay in refunds that compels them to borrow which, in turn, raises their input costs relative to their foreign competitors' and an overvalued rupee that donor agencies as well as economists argue acts as a disincentive for our foreign buyers by making our products uncompetitive internationally. This is especially so given the recent depreciation of the currencies of our regional competitors, including China and India. However, the Ministry of Finance reportedly cites a couple of studies that show that an overvalued currency will have minimal negative impact on exports in the event that the country's major exports are consumer items (non-manufacturing).

A recent International Monetary Fund (IMF) study that suggests that between 1980 and 2014, a 10 percent depreciation by a country against the currency of a trading partner increased net exports by 1.5 percent of GDP with the bulk of the increase in the first year of the depreciation. Harvard professor Martin Feldman cites a paper presented by Gina Gopinath, a Harvard colleague, that many companies invoice their exports in dollars and change their dollar prices only very slowly when the exchange rate changes. As a result, a currency devaluation does little to increase the volume of their exports but does increase their profits. With existing inflation rates far below their target levels, the European Central Bank and the Bank of Japan can use currency devaluation to increase domestic inflation by increasing the prices of imports. His argument: an overvalued currency would naturally make imports more attractive, as has happened in our case, and a depreciation would check the massive rise in imports witnessed by Pakistan that dramatically increased our trade deficit.

Tadashi Nakamae, President of Nakamae International Economic Research, argues that two years ago (fall 2014) he warned that a weaker yen would increase Japan's trade deficit (nominal exports would increase but real exports would decline because Japanese companies have moved their factories abroad); simultaneously a weak yen would increase the value of imports. In this context, it is relevant to note that several Pakistani companies have relocated to Bangladesh not only in response to the declining business confidence, a recent OICCI survey indicates that business confidence has further faltered in Pakistan, but also to high input costs as well as better export terms available to firms operating in Bangladesh.

And finally, Holger Schmieding Chief Economist Berenberg points out that devaluation cannot offset genuine shifts on the terms of trade. For example,

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a plunge in commodity prices will hurt exporters of raw materials even if their currencies devalue strongly. Of course, the devaluation provides an incentive to shift resources towards other export-oriented activities. But such a shift will take time and cannot eliminate the adverse terms of trade shock. There is no doubt that commodity prices have plunged globally but at the same time, the Pakistan government would be well advised to acknowledge that our import bill has been rising, at a time when the international oil prices are declining, and rising imports are contributing much more to the widening of the trade deficit compared to a fall in our exports.

The warning signs are there for an overvalued rupee and one can only urge the Dar-led Ministry of Finance to take cognizance of ongoing research instead of focusing on a study to prove the efficacy of their policy. Donors have openly acknowledged that our foreign exchange reserves are debt enhancing and an overvalued rupee in this context would simply increase reliance on borrowing as exports decline and imports rise.

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Pursuing power sector transformation through structural reforms

Umer Bin Dawood

As anticipated, implementation of key structural reforms in local power sector was one of the core recommendations made by the International Monetary Fund (IMF) during Article IV consultations with Finance Minister Ishaq Dar recently in Dubai.

These structural reforms were aimed to improve system efficiency and remove bottlenecks from supply of power at Distribution level by encouraging private sector participation in Distribution landscape. While, the country has attracted significant private capital in the other two verticals in the value chain (Generation and Transmission), by offering adequate incentives and protection to the private investors, there have been no progress on private participation in ex-Wapda Discos. Thus, a significant quantum of power expected to be added to the national grid by 2018 will not be distributed to the end consumers due to supply bottlenecks at distribution level while inefficiencies in the system are expected to continue.

Another strong indicator suggesting Discos need to turnaround is their contribution to the circular debt, which has been affecting Pakistan's power sector and its socioeconomic landscape for years now. Apart from poor performance of ex-Wapda Discos, the Ministry of Finance has also been accused of further aggravating circular debt by delaying subsidy payment to power producers. However, overall Nepra's unrealistic assumption with respect to 100 percent bill recovery by power distribution companies and average line losses in tariff determination, has been considered a major factor behind the surge in circular debt. Therefore, continuing the reforms is crucial to achieving power sector transformation in Pakistan.

This would also entail sustained efforts to achieve the unmet targets from the 12th Review Report of Pakistan's Extended Fund Facility programme released by the IMF last year. For instance, establishing a multi-year tariff framework for ex-Wapda Discos was outlined as a key factor to prepare for their privatization and strengthen the regulatory framework. It was recommended to notify multi-year tariffs for three distribution companies (FESCO, LESCO and IESCO) by July 2016 but it could not be achieved, due to unrealistic benchmark setting for distribution losses and collection targets used in the determination of the FY 2015/16 tariff.

Notifying performance based multi-year tariffs for aforementioned ex-Wapda Discos was a necessary step to attract private sector participation, reduce uncertainty for investors and move forward with the gradual setting up of a multi-year framework for the remaining ex-Wapda Discos. Pakistani authorities in their letter sent to the IMF last year also agreed that starting with FESCO, followed by IESCO and LESCO, ex-Wapda Discos would be offered for sale in the stock market through IPOs and the proceeds from these IPOs would be utilized to reduce the stock of outstanding circular debt. However, given the high level of regulatory uncertainty around ex-Wapda Discos tariff and their poor financial performance these plans may never materialize.

Currently, the only performance-based multi-year tariff in local power utility sector is awarded to K-Electric, which became profitable for the first time in 2012 after decades of running in loss. Recently a Chinese company expressed its interest in acquiring majority stake in KE which would be the largest such transaction in Pakistan and can be considered as a prime example of the benefits of privatization. However, the very recent tariff determination issued by the regulator seems to adversely affect the progress made by the

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company while discouraging investment in enhancing the power infrastructure of Karachi.

As the government is seeking private sector participation in the power distribution landscape, it should incentivize tariff instead of making distribution business highly unattractive through unrealistic benchmark setting, extending no business risk protection and offering lower returns. This scenario doesn't support the agenda for DISCOs of attracting private capital and in fact adversely affects the overall vision to create a more efficient and private competitive market.

A stable electric power sector is critical to spurring growth in various other economic sectors in Pakistan and one of the foremost steps to strengthen its soundness is to continue the power sector reforms. The framework should encourage private capital which will generate more employment opportunities, enhance industry competitiveness and cater to the expected increase in power consumption as Pakistan becomes more developed.

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Sindh races to complete development projects

AFSHAN SUBOHI

Sindh Chief Minister Syed Murad Ali discusses different projects during a meeting with Chinese Consul General Wang Yu on May 10 in Karachi.—APP

Sindh hopes to complete one-fifth of all ongoing development projects by the turn of the current fiscal year in June.

Chief Minister Murad Ali Shah's economic team is already busy identifying and processing projects for the next year to ensure quick funding after the budget to generate political capital for the 2018 elections.

According to officials 500 development schemes will be completed out of a total of 2,773 by 31 June. Most (1,777) of 2,773 were old schemes while the rest (996) were launched in 2016-17 covering agriculture, infrastructure, education, health, transport and skills development.

Major completed projects in the current year included the creation of GIS for land administration and revenue management information system, Cadet College Gadab, upgradation of Jacobabad Institute of Medical Sciences, extension of water supply in Badin, road from Wango Mor to Thar coalfield area.

The provincial team was confident that the government will improve its performance scorecard

During the year the shortfall in targeted federal transfers did squeeze the fiscal space. The provincial economic team, therefore, saw a grim chance of surrendering surplus that could help the federal government lock the fiscal deficit around 3.8pc of the GDP in the outgoing fiscal year.

The provincial team members were confident that the province will improve its performance scorecard by ensuring uninterrupted flow of funds to near completion schemes in the year ahead. They hoped to significantly improve governance standards in the province by pursuing reforms under the watch of the World Bank and the European Union.

To this end Sindh launched its Budget Strategy Paper 2017-20, a three-year rolling plan under the EU supported public financial management programme and the World Bank sponsored public sector management reform.

The paper spells policy sets and priorities, reviews fiscal performance of the last two years and projects revenue and expenditure over the next three years. The aim is to address systematic management weaknesses that compromise the credibility of the government by adhering to demands of transparency, accounting and reporting.

According to details provided by the provincial planning department, disbursement of development funds by the first week of May 2017 amounted to Rs184 billion of Rs265bn of the Annual Development Plan (ADP) of which Rs106bn (about 60pc) have already been used. With most busy months in terms of bill clearing, the total release of funds is expected to touch 80pc level by the close of the year.

Muhammad Wasim, additional chief secretary, Sindh and chairman, Planning and Development Board, was not fully satisfied but considered the improvement to be significant under the circumstances.

Comparing the quality of governance of Sindh with Punjab he said, "More than performance it is an issue of perception. The hard work of the ruling team in Sindh has started to yield results".

He partially blamed the media for not reporting judiciously on the good work in the province. "Sometimes it is an issue of focusing more on shortfalls but at others it is plain and simple misreporting, particularly on electronic media.

"The fact is that we have raised the bar higher in fiscal year 2017. Dispersal of 80pc of the allocated development budget is no mean achievement. We have set a new record that will hopefully break next fiscal", he said, attributing the change to motivational skills of a Chief Minister determined to make up for lost time.

Wasim was particularly excited over the progress of development work in Karachi. "After a very long time Karachi is getting the attention it deserves. Next year it will again get Rs10bn for development", he said. When his attention was drawn to difficulties that people are facing while commuting and the water problem his reply was measured.

"The gains will make people forget the pain once roads and the underpass and bypass projects become functional. The province is undertaking the K4

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water project to ease the water problem. The federal government has agreed to share 50pc of the cost with the province", he disclosed mentioning a few road projects like Tariq Road that is completed.

"Murad is determined to change the fortunes of his home province. The demographic complexities pose challenges but he has succeeded in raising a small team of dedicated technology savvy officers to close efficiency gaps and curb corruption", said another senior bureaucrat discussing Sindh.

Afzal Zaidi, an official of the finance department provided an update on revenue mobilisation in Sindh over the current year. He said the Sindh Revenue Board was on track and expected to achieve its target cent per cent.

Sindh has already raised Rs110bn by end April against the projection of Rs166bn. The final figures will be shared after consolidation but Rs127bn that were to be mobilised though other sources will also be realised. The shortfall of 10pc is expected in federal transfers.

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Revenue crossroads

KHALEEQ KIANI

With slippages on non-tax revenue and lower than targeted tax collections, the fiscal deficit in the first nine months of the current financial year has crossed 3.7pc of Gross Domestic Product — a tad lower than the 3.8pc target for the whole year.

In absolute numbers, the budget deficit has amounted to Rs1.238 trillion in nine months against the full-year target of Rs1.276tr.

Going forward, the government would not be expected to impose new taxes next year. Surprisingly it has determined to reduce duties on cigarettes, perhaps for the first time in a decade, as successive increases on taxes and duties on health grounds has reportedly led to massive smuggling, resulting in Rs40 billion in revenue loss this year.

On the other side, however, the gap in tax rates between filers and non-filers is expected to widen by almost double the existing rate.

On the positive side, development spending has picked up pace. This is more apparent in sectors like power and highways where fund utilisation has already crossed 93pc and 87pc of allocations

According to the budget schedule finalised by Finance Minister Ishaq Dar in consultation with related ministries, the national accounts are being finalised today, May 15. This will be followed by a meeting of the Annual Plan Coordination Committee (APCC) on May 17 to finalise the country's development programme for the next year.

The National Economic Council (NEC) is expected to be held on May 21 to approve the development programme and next year's macroeconomic indicators so that the economic survey can be released on May 25, a day ahead of the federal budget on May 26.

Based on little higher than 5pc economic growth rate this year, next year's growth target has been set at 6pc with a focus on public sector investments in CPEC and energy to 'achieve higher, sustainable and inclusive growth'.

The fiscal deficit in nine months (July 2016 to March 2017) is even higher than 3.4pc of GDP of the same period last financial year when it finally ended at 4.6pc of GDP. If that trend is any indication, it would not be a surprise if the gap between income and expenditure widens close to 4.9pc at the end of the current fiscal year.

Alarmingly with far reaching consequences, the total revenue-to-GDP-ratio has also plummeted to 9.4pc in the first three quarters (July-March) against 9.9pc of GDP in the same period last year.

But that is not all; the tax revenue at Rs2.7tr for the period has struggled at 8pc of GDP compared to 8.3pc of GDP during the same period of last year. Similarly, non-tax revenue also stands at 1.3pc of GDP compared to 1.6pc of last year.

While direct taxes remained unchanged at 2.7pc of GDP (current year Rs892bn compared to Rs795bn of last year), taxes on goods and services and sales tax were down to 3.1pc and 2.7pc of GDP this year compared to 3.4pc and 3pc respectively in the same period last year.

That shows the hard earned gains, on the revenue front over the past four years, of removal of tax exemptions and purported reforms are on a reverse gear. This is upsetting at a time when the government is in the last leg of its budget preparations for the next year — its last and final budget unlikely to show greater fiscal discipline.

One reason was the government's inability to materialise privatisation proceeds of Rs50bn, it had targeted in budget 2016-17 due to political expediency, which has been a constant source of drain on the federal budget. Secondly, it could not find a favourable environment to generate Rs75bn targeted for the current year through the sale of another 3G licence.

On top of that, the tax authorities attribute about Rs160bn shortfall on account of incentive packages announced for the agriculture and export sectors and lower recoveries because of lower petroleum prices or tax rates and tax breaks given to Chinese investors. The full year impact could be anywhere between Rs190-200bn.

As a consequence, authorities have already scaled down the revenue target from Rs3.62tr to around Rs3.5tr — down by Rs162bn. This is despite the fact that oil related revenue items

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have mostly shown greater recoveries than targeted.

For example, the government has already netted Rs48bn as natural gas development surcharge in nine months against the full year target of just Rs35bn. Likewise; it is also slightly ahead on petroleum levy collection at Rs120bn in nine months against full-year target of Rs150bn.

The significantly lower current expenditures have not reduced fiscal deficit. Total expenditure stood at 13.1pc of GDP in the first three quarters when compared to13.3pc of GDP at the same period last year.

The current expenditure amounted to 10.8pc of GDP in the first three quarters when compared to 11.4pc of same period last year while mark-up payments were lower at 3.3pc against 3.6pc of GDP last year as defence spending remained unchanged at 1.6pc of GDP.

On the positive side, however, development expenditure has picked up pace. This is more apparent in CPEC related sectors like power and highways where utilisation of funds has already crossed 93pc and 87pc of allocations for the year in first 10 months of the year.

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Bank borrowing rises

FROM INPAPERMAGAZINE

Deposits and other accounts of all scheduled banks stood at Rs11,214.048bn after a 1.82pc increase over the preceding week's figure of Rs11,013.880bn, according to the weekly statement of position of all scheduled banks for the week ended April 28.

Compared with last year's corresponding figure of Rs9,767.624bn, the current week's figure was higher by 14.81pc.

Deposits and other accounts of all commercial banks stood at Rs11,140.125bn against preceding week's deposits of Rs10,941.545bn, showing a rise of 1.80pc. Deposits and other accounts of specialised banks stood at Rs73.922bn, higher by 2.20pc against previous week's figure of Rs72.335bn.

Total assets of all scheduled banks stood at Rs15,653.069bn, larger by 1.50pc over preceding week's figure of Rs15,422.337bn. Current week's figure is higher by 15.75pc compared to last year's corresponding figure of Rs13,522.977bn.

Total assets of all scheduled banks rose by 1.50pc over the preceding week's figure. The current week is higher by 15.75pc compared to last year

Total assets of all commercial banks stood at Rs15,403.738bn,higher by 1.52pc over previous week's figure of Rs15,173.782bn, while total assets of specialised banks at Rs249.330bn, were larger 0.31pc over the previous week's Rs248.555bn.

Chart by Rehan Ahmed

Gross advances of all scheduled banks stood at Rs5,776.687bn, higher by 1.37pc over the preceding week's figure of 5,698.574bn. Compared with last year's corresponding figure of Rs4,960.893bn, current week's figure is higher by 16.44pc.

Advances by all commercial banks increased to Rs5,608.293bn from previous week's Rs5,530.357bn indicating a rise of 1.41pc, whereas advances of specialised banks stood at Rs168.393bn against previous week's 168.217bn.

Borrowings by all scheduled banks increased in the week under review. It rose by 2.00pc to Rs2,274.211bn against previous week's Rs2,229.433bn. Compared to last year's corresponding figure of Rs1,740.211bn, current week's figure is higher by 30.68pc.

Borrowings by commercial banks in the week at Rs2,247.949bn were higher by 2.06pc against previous week's Rs2,202.449bn. Borrowings by specialised banks stood at Rs26.263bn against the previous week's Rs26.984bn.

Investments of all scheduled banks stood at Rs7794.310bn against preceding week's figure of Rs7749.343bn, showing an increase of 0.58pc. Compared to last year's corresponding figure of Rs6822.193bn, current week's figure is higher by 14.25pc.

Investments by all commercial banks stood at Rs7746.500bn, higher by 0.60pc against preceding week's figure of Rs7700.701bn, whereas investment by all specialised banks stood at Rs47.811bn against preceding week's figure of Rs48.642bn.

Cash and balances with treasury banks of all scheduled banks increased over the week and stood at Rs.938.034bn against previous week's Rs932.602bn, showing a rise of 0.58pc. Current week's figure increased by 17.05pc compared to last year's corresponding figure of Rs801.362bn.

Cash and balances of all commercial banks stood at Rs935.020bn, higher by 0.61pc over previous week's Rs929.347bn. Cash and balances of all specialised banks were lower by 7.43pc at Rs3.014bn against the preceding week's Rs3.256bn.

Notes in circulation stood at Rs3731.475bn during the week ended April 28, according to the Statement of Affairs of the State Bank of Pakistan, against Rs3766.845bn a week earlier, showing a fall of 0.94pc. Compared to last year's corresponding figure of Rs3175.888bn, current week's figure is higher by 17.50pc.

Approved foreign exchange continued to decline and in the week under review stood at Rs769.976bn, lower by 8.92pc over last week's Rs845.382bn. Compared to last year's corresponding figure of Rs937.947bn current week's figure is lower by 17.90pc.

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Reflections on an inclusive budget

DR ABDUL SABOOR

Regardless of the budget strategy, the majority of tax experts and development thinkers stress an inclusive approach for achieving pro-poor economic growth and sustainable development.

Therefore, rural areas and agriculture development cannot be ignored, particularly those projects and programmes that are focused on the welfare of small and landless farmers.

Before the budget presentation, a competitive race starts between politicians and economic experts regarding whose views will be incorporated. Political will is shaped by rich voters — who ultimately control a huge chunk of vote bank. Economics, as a science, is not very meaningful for such a will.

Some friction is visible across political parties on various budgetary initiatives. Similarly, economists and policy experts are also divided across many issues such as taxation, the investment environment, business incentives, and perks and privileges for the elite.

A budget aimed at fulfilling national pledges and international commitments is needed, the core of which should be more cognisant of economics than politics

Other stakeholders, particularly the business community, have a circle of influence for gaining tax and credit benefits while government servants impart pressure for increased salaries and allied allowances. All such odd pressures and persuasions from diverse stakeholders distort the formation of the budget in a purely economic sense.

Budget calculations are quite tricky and mind boggling. Even the best experts working in the field of fiscal economics remain in doubt because of budget statistic complexities such as a weak data base and dearth of expertise in empirical data management.

Moreover, experts working in different components of the budget are hardly aware of what is happening in allied components. This compartmental isolation in budget data analysis for a common cause does not remain holistic.

One can easily observe the inconsistency in the symmetry of budget sections and lack of cohesion across statistics. Many economic activities are not accounted for in the budget revenue and tax estimations. Under such a situation, juggling with numbers becomes more important than the real-time importance and subsequent implications of those numbers for budget-making.

A standard fiscal budget needs to be ‘qualified’ in many respects, each of which is reasonably important for ensuring its inclusive nature. Rigorous analytical work is needed to be backed by all the allocations in various sectors of the economy.

Besides academic research going on throughout the year, the best thing is to arrange a series of consultation workshops of key stakeholders. For example, all provincial and districts governments can be taken on board for understanding grass root level issues and concerns of budget beneficiaries.

Similarly, chamber bodies, business associations, media persons, independent economists and commercial attaches working in various embassies can be heard for rationalising the fiscal direction in commerce, business and trade.

Special research groups can be constituted for identifying workable narratives both of the revenue and expenditure sides. A transparent analysis of what works and what does not is required.

The budget sets the course for business, commerce and trade. After the 18th Constitutional Amendment, alignment of budgetary estimations needs to be maintained with provincial budgets. A clear cut policy appendix must be given in the federal budget regarding the share and contribution of provinces in different accounts and heads.

It is also important to make q serious effort to develop a technical budget rather than a bureaucratic budget. Gender Responsive Budgeting, once a dream, should be adopted by civil society. This can be attained by cutting taxes and government fees for women.

A budget aimed at fulfilling national pledges (Vision 2025) and international commitments (e.g. SDGs) is needed — the core of which should be more cognisant of economics than politics.

After the 18th Amendment there is a serious need for developing a

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rational mechanism for boosting provincial revenue shares, therefore budgetary preparations should be made inclusive by taking technical support from all political parties. This is important for strengthening federalism.

Political stability is actually a proxy denominator of economic stability. It has strong connections with the annual budget which is the ‘grand test’ of politicians along with state economists on how they are delivering and how they intend to deliver for the economy.

But the facts and figures are not as important as their configuration across sectors, provinces, regions, communities and gender.

— The writer is Dean, Faculty of Social Sciences, PMAS Arid Agriculture University, Rawalpindi

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Time to revisit withholding tax system

JAWAID BOKHARI

Finance Minister Mohammad Ishaq Dar chairing a meeting to review the FBR's budget preparations in Islamabad on May 9.—APP

Apart from being unfair and regressive, withholding tax is now becoming repressive.

The tax is discouraging financial transactions through banking channels and badly affecting the bank deposit base that needs to expand in order to channelise savings into domestic investment and reduce external borrowings.

It is time to revisit the withholding tax (WHT) system when the pace of investment is picking up, private sector borrowings are witnessing a surge and foreign dependence has hit an unsustainable level owing to falling workers' remittances and stagnating exports.

The current levels of domestic savings and foreign exchange earnings are insufficient to cover the widening investment gap. This explains the rationale for CPEC being sold as a game changer.

The regulator shares the banks' point of view that section 236P be 'ideally' removed. Offering alternative choices, it has proposed that the levy on vulnerable groups be withdrawn in the next budget

In its latest report, the Moody's has put Pakistan's fiscal strength at negative(-) very low which, it said, was hindering affordability and increase in the debt burden.

According to a news report, the State Bank of Pakistan (in a communication to the Federal Board of Revenue) has expressed concern that banks' deposit base has been adversely affected because of banking transactions of non-filers being subjected to four per cent WHT.

The regulator shares the banks' point of view on the WHT issue and has strongly supported their repeated representation to the tax authorities that section 236P be 'ideally' removed. It sees a negative impact of WHT on financial transactions and bank deposits in context of the situation where Pakistan has one of the lowest savings rate in the region.

And a recent news report carried by this newspaper found that many people prefer to stash cash at home rather than put the excess money in a bank.

Offering alternative choices, the central bank has proposed that the levy on vulnerable groups — widows, pensioners, retirees, farmers, students, etc — be withdrawn in the next budget. And finally if these options are not acceptable to the federal authorities, the State Bank wants that the threshold of financial transactions be raised to Rs100,000 from Rs50,000.

The regulator sees grossly unfair double taxation of the salaried group whose entire annual salary is tax-deducted by the employer and yet at the time of withdrawal/transfer from and to banks, a tax is again imposed. As per the FBR yearbook, tax collected from the salaried class through WHT amounted to Rs.92.5bn in 2015-16.

Yet another major concern of the central bank is that its National Financial Inclusion Strategy will be negatively impacted by tax deduction under section 236P on accounts maintained by farmers who are unable to claim WHT refund. Agriculture income of a person is exempt from tax under section 41 of the Income Tax Ordinance.

Though the State Bank has taken no notice of it, the gross return of National Savings Scheme is generally subjected to 10pc WHT. This adversely affects a large number of vulnerable segments of the population which prefer to invest in NSS rather than in bank term-deposit schemes.

Since the return on NSS was linked to the State Bank policy rate, on commercial banks' insistence, the NSS profits have declined to the disadvantage of the investors. It has led first to a sharp slowdown, and now, in a drop in NSS instruments.

According to latest reported data, investment inflows for first nine months of the current fiscal year stood at Rs169.2bn against Rs190.4bn in a year ago period despite a slight increase in profit rates.

It must be mentioned here that the government NSS debt is less inflationary than its borrowings from the State Bank or commercial banks.

Often WHT is adjusted by businesses as a cost and passed on to the consumers who bear the major burden of the WHT system, collected as an indirect tax. And the WHT collection accounts for 67-70pc of the total 'direct' taxes. In fact the WHT has

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redefined tax classification and is turning into a new norm of 'direct' taxes.

Finance Minister Ishaq Dar says that tax collection has gone up by 60pc over the last three years, with a 20pc average rise per annum. One may add this increase has placed a disproportionate burden on the common citizen with the rich being lightly taxed with WHT classified as direct tax.

Given the nature and widening scope of the withholding tax, the tax system is becoming more and more unfair, regressive and repressive. It tends to erode the purchasing power of common citizens, depress domestic demand for goods and services (at a time when exports are stagnating) while increasing the risk of slowing economic growth.

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TEXTILE

Fatal attraction

By Jan Khaskheli

Rilli, the traditional, multicolored bedspreads and quilts, made out of tattered rags, is considered the largest non-farm sector work in Sindh. This rural industry is reported to be among province's top sectors generating quite high volumes with an average annual target of more than Rs359 million.

The folk crafts are an integral part of life in Sindh. Rilli has a history spread over thousands of years and has come to be known as our cultural heritage.

Primarily done by women at home, this craft is a steady source of income for millions of family. In this age of globalization where women are being pushed out of work to sit idle at homes, the skilled hands of these women artisans have not only kept the art alive but made them economically productive.

Despite changes over the time and competing, alternate products, the demand of Rilli is improving day-by-day. Following high demands designs innovations are being done by artisans, who generate original ideas to attract the market. Women have distinct names of these traditional designs coming through generations like clouds, stars, moon, flowers etc. They also have design depictions of falcon, camel, duck, aero plane, toffees, leaves, glass and birds, done in intricate styles.

Razia Dahri from Moro, Noshahero Feroz district, who travels frequently to facilitate trainings on rilli product, links the market demand with emergence of a range of new products, including dresses, shirts, bed sheets, cushion covers, pillowcases, prayer mats (musallah) or floor coverings and other decorative items like wall hangings. So traditionally something that one could have seen spread out on a 'charpoy' in a Sindhi village can be seen taking a very different purpose in the cities.

Now a variety of 'rilli' items and not just bed spreads or quilts are prepared by these women with modern and traditional designs to suit the expanded market demands. The raw material remaining the same as thread and pieces of cloth, new or used, these women put their expertise to work and finish into an altogether new look to a traditional cultural product.

Razia Dahri was optimistic to promote this ancient craft, which has more potential in urban market. She travels to participate in exhibitions and usually displays her work and earns enough. She takes names of highly skilled women in the province and proposes the government institutions to encourage these crafty persons with financial support to develop their linkages to urban markets.

Commonly, all over Sindh and some parts of southern Punjab, the women recycle their old clothes' pieces to make brilliant rilli, although the style does differ across various regions.

The issue remains that there are no proper centers to teach village girls to shift hands with modern designs to attract markets. This skill can be utilized for making diversified products in home textiles as well as garments.

Reports gathered from different areas and some craft centers show that there is huge potential of this work and some of them have created new designs with appliqué work, preparing dresses, bags and other products, as per demand in the market.

Rilli is the most inspiring work among various arts and crafts produced in Sindh province like ajrak, beads work, blue pottery, Sindhi cap, carpets, clay work, crochet, date leave products, lacquer art, leather products, mazri (peesh work). These all items have different varieties, value and market attraction. But only the carpet and clay work sectors have significant number of wholesalers and retailers present in their territories in the Sindh province.

A baseline survey conducted by Aik Hunar Aik Nagar (AHAN) working under the Ministry of Industries & Production of Pakistan found that the most of the products of rural sectors in Sindh have a minimum penetration in the urban markets, except caps, date leaves, wood carving, crochet, and mazri (peesh) products. The production and sales of all other rural non-farm products are in the rural areas of the province.

The study shows that this product even though being a higher volume generating sector in the province has 10,269 cluster facilities in different districts. The annual production units are 2,363,604 with different designs and recognition for their crafts and innovation.

There rarely are any vocational institutes, focusing specifically these rural products. The

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community-based model of rural development is yet to show the achievements despite their tall claims of providing skill training of rilli-making and embroidery. In many areas, these artisan women sell their products at a meager amount of Rs300-1000. Only in some varieties the cost ranges from Rs Rs3,000—8,000, depending on the texture and quality of cloth.

Otherwise, these artisans may only make a profit of Rs100-200 for an item that has taken three to four days to produce and in some cases the production time may go up to 15 days.

The prices of different designs vary and a tag rilli is available at Rs8,000, challa rilli at Rs5,000, garya at Rs5,000, pati at Rs1,500 and Heran wadi at Rs300. A bed sheet is available at Rs5,000, the profit on which as claimed by the artisan is Rs1250. Like this, the price of embroidered rilli is Rs2,000, cut worked is Rs2,000, table covers one might get at Rs300, cushions at Rs150-300 each, pillow covers for Rs100-200 and handkerchief for a 100 rupees.

But the artisans in the field have their apprehensions about original value and the marketed value as they know that they do not get their justified profit on the products.

They are aware that the color combination and different styles add beauty and change the price tags but the shopkeepers do not recognize this difference. They say “there is a high demand of their work, but mostly shopkeepers do not pay proper rates”.

Despite skill and interest to produce innovative culturally tuned items for markets the socio economic conditions of the artisans' families are miserable. These rural artisan women are fully dependant on traders and middlemen for any orders of their products. Otherwise, women do not have access to urban market directly to get an appropriate price.

Due to lack of patronage by the government and reluctance to promote rural artisans, these non-farm products from Sindh face a decline despite having a rich cultural heritage. In absence of adequate retail and marketing system to encourage women artisans, due profits are being denied and workers feel discouraged to continue with this traditional art.

To keep this rich cultural heritage intact and more importantly continuation of a livelihood there is a dire need of skill enhancement of artisans in terms of product design, innovation and quality assurance. Apart for this, mechanisms for approaching urban market also need to be put in place for a direct access. These efforts combined with technological up-gradation, market linkages, strategizing and networking with financial institutions can boost this potential rural industry.

The women artisans say that when they calculate the time they spent for each item produced and the return on investment the resultant is not satisfactory. For this they suggest to follow the minimum wage system for the crafts persons.

Government's concerned institutions and departments must realize that proper marketing of these products will help boost this non-farm economic sector. Practical steps like placement and display of products in Foreign Offices in all countries might be a good idea.

Only a strong government interest in this sector can sustain the livelihood of thousands of women involved, some of who depend solely on this work to run their families.

Groups of craftspeople must be patronized to participate in events and exhibitions at national and international level to make them learn to promote their small businesses.

The writer is a staff member

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ENERGY

Hollow promises

By Hussain Ahmad Siddiqui

The full-scale electricity load-shedding, of 13 to 14 hours on daily basis, has made a comeback this summer with a vengeance, as early as in April. The electricity shortfall of about 6,200MW was registered on April 16, despite repeated tall claims by the government to drastically reduce load-shedding by this summer, and to end load-shedding completely by June 2018.

Apparently, Prime Minister Nawaz Sharif, having had record five successive meetings of the Cabinet Committee on Energy (CCoE) in a month, has conceded his government's failure to overcome the energy crisis. The forecast that May and June would be the hottest and dry months has really embarrassed the government, and to salvage his political career, the Prime Minister has directed the power sector to minimise the load-shedding during the upcoming month of Ramazan, and not to resort to prolonged and unannounced power outages. But, is it a realistic goal, given the conditions?

As on May 7, total demand of electricity was 20,223MW, whereas optimum power generation was 15,437MW, resulting in a shortfall of 4,786MW minimum during the day that caused 8-hours of load-shedding for urban areas and 15-hours of load-shedding in rural areas.

Currently, total gross installed power generation capacity is 24,906MW and net/effective/available capacity of about 19,900MW, but the government has never achieved power generation higher than 16,000MW at any time, due to a variety of factors. Sadly, the focus of the government remains on adding power generation capacity to the system, oblivious to the hard realities of poor governance, resurfacing of circular debt, massive line-losses, outdated transmission and distribution system, and, above all, appointments of non-professionals to head public sector organisations. All these issues needed to be addressed effectively and urgently, but were ignored.

For drastic cut in load-shedding Prime Minister Sharif was banking on completion of the various on-going mega hydropower projects ahead the envisaged schedules he had dictated to WAPDA from time to time. These include Neelum-Jhelum Hydroelectric project of 969MW, and Tarbela Fourth Extension Project of 1,410MW. Neelum-Jhelum project commenced construction in January 2008, and was scheduled originally to go into operation by October 2011, but is still incomplete. All the time there is given a new deadline for completion, whereas, meanwhile, the project cost has also gone up manifold---from initial Rs130 billion to Rs500 billion.

Interestingly, PM Nawaz Sharif had visited the site on June 19, 2013, and directed the management to speed up completion of the project by two years. The first turbo-generator unit was to be commissioned by July 2017 as per revised schedule, and all the four units by December 2017. However, without going into technical complexities and financial constraints the project suffered, he directed to achieve commissioning of the first unit by June 2015, and to complete the project by December 2015. Obviously, this did not happen as the government could not provide requisite $475 million for the project, which achieved its financial close as late as on June 22, 2016. Now, the project is further delayed, and the trial runs of the power station machinery are to commence in February 2018, whereas all the four turbines are scheduled to achieve commercial operations, progressively for each unit, during February-May 2018.

Likewise, PM Nawaz Sharif had asked WAPDA to expedite Tarbela Fourth Extension Project being constructed at a cost of $928 million. Under an accelerated plan, costing additional $51 million, he had desired to complete the project a year before the actual deadline of March 2018. Thus, the first unit of 470MW out of three units each of the same capacity was to be connected to national grid by June 2017. This was not feasible, and meant compromising on engineering principles and standards. Therefore, the target could not be achieved due to high water flows during July-October 2016 that also resulted in an accident at site last year, and other technical reasons. In the wake of slow pace of construction work, the project is not likely to be completed by the original deadline of February 2018 either, though the stage is set for Prime Minister's inauguration of the project on August 14, 2017.

The status of various thermal power projects undertaken by the

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present government is similar, and far from satisfactory. The present government had revived 425MW Nandipur thermal power project with a lot of fanfare, but it is hardly generating 80MW. The power station has been handed over to the Chinese for a period of ten years for its operation and maintenance. Currently, the combined cycle power plant is being converted on RLNG (re-gasified liquefied natural gas). Quaid-e-Azam Solar Park project of 100MW capacity at Bahawalpur is generating a meagre 12MW to 18MW as the module has net capacity factor of 18.30 percent only. Ironically, its levelised tariff is Cents14.15 per kWh, the highest compared to using any other resources for power generation. Government of Punjab had plans to develop the Park of a total capacity of 1,000MW under a phased program, but even after a lapse of over three years it could not bring a single investor, in spite of an attractive upfront tariff of Cents16.3 per unit. The 100MW solar module, constructed at an EPC cost of $169 million, is already up for privatisation, if there is any buyer.

Initial phase of the first imported RLNG based Bhikki combined cycle power project of 1,180MW cumulative capacity costing Rs77 billion was inaugurated by PM Nawaz Sharif on April 16. The project was still under tests and trials when connected to the national grid, and caused successive tripping of turbines. One turbine suffered complete closure, while the other provides inconsistent power supplies. The power plant is generating only 360MW since then, against an installed capacity of 2x385MW (717MW) of first phase in simple cycle mode, and tests and trials of the turbines continue, though both the units had passed the 168-hour reliability operations test at full load of 408MW. Turbine manufacturer however claims simple cycle rating of 397MW net baseload output of turbine.

Technical problems are attributed to the fact that the General Electric 9HA.01 gas turbine acquired for the project is based on a new technology. Though orders for these turbines are placed on GE from France and Japan, it has so far not been commercially tested anywhere in the world and has no proven efficiency levels--- a major criterion for selection of turbine, and critical to economic success of the power station. Prototype performance validation testing of the turbine was done in 2014-15, and, obviously, the Chinese EPC contractor for the project, Harbin Electric International, has no operational experience of these turbines. Intriguingly, the website of the Quaid-e-Azam Thermal Power (QATPL) does not provide any information about Bhikki power plant machinery. The project, scheduled for combined cycle commercial operations by December this year, has not yet achieved financial close.

The writer is former of the State Engineering Corporation

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INSIGHT

Feeling squeezed

By Ihtasham Ul Haque

Crunch bells have started ringing in an election year, forcing the beleaguered PML (N) government to desperately look for more external inflows to avert yet another foreign exchange crisis. The dwindling foreign reserves are speedily declining and as such are fast becoming Achilles' heel of the teetering economy that is still to be significantly stabilized.

Fears are being expressed by the independent economists that Pakistan would soon be knocking the doors of the IMF for certain emergency lending to avoid any default situation. Now when there is a pressure on reserves and macroeconomic stability is waning, planners are reportedly facing problems to finalize the new budget to be announced on May 26.

Slowing down of both exports and home remittances, coupled with increase in the import of capital goods including machinery has brought more pressure on the external account. Low level of exports and stagnating Foreign Direct Investment (FDI), coming down to less than $1 billion a year from $5.5 billion in 2007-08 is also one of the major causes of growing debt burden.

A fresh warning came last week when the Moody's Investors Services, a New York Based credit rating agency released its new report predicting that Pakistan's external debt will grow to $79 billion by the end of the current financial year, a figure higher than the initial estimates. The credit rating agency opined that Pakistan's weak fiscal strength will weigh in on its ability to afford the ever mounting debt burden.

It listed a number of challenges including high public debt, weak physical and social infrastructure, a fragile external payment position and high political risk. According to Moody, the country's external debt will increase to $79 billion out of which the public sector component is $77 billion. The forecast for the outgoing financial year is much higher than what was earlier assessed by the central bank.

The State Bank of Pakistan (SBP) had shown total external debt and liabilities at $74.2 billion by the end of December 2016 that includes $64.5 billion external debt. The increase of external debt to $79 billion simply means that the government has added $14.5 billion debt in the last four year alone.

"What I had predicted six months ago has now proved correct and vindicated my position," said renowned economist Dr Ashfaque Hasan Khan. He said he had said the country's external debt would grow as high as $79 billion at the end of 2106-17.

"My forecast now is that external debt will grow as high as $110 billion by 2020," he said adding that Moody's forecast remained B-3 stable outlook which was not encouraging. Had the economy performed well, the credit rating agency's outlook would have gone B-3 positive and not stable which shows all is not well for the country's struggling economy.

"Where are the claims of the finance minister that the economy has stabilized with reserves substantially improved and declined debt," Dr Khan asked. He regretted that IMF only ran a political programme in Pakistan and not an economic programme under its three year $6.6 billion Extended Fund Facility (EFF). "How can an institution like IMF go wrong in its forecast and I feel sorry to say that the Washington based international lending agency was only playing politics in Pakistan by wrongly giving positive reports on various occasions."

He said he had estimated current account deficit at $7 billion against $3 billion to $3.5 billion estimated by the government. "I am afraid this deficit would end up close to $8 billion by June this year," Dr Khan said, who is currently the Principal and Dean of Social Sciences in National University for Science and Technology (NUST).

"When I (had) predicted all this Mr. Dar said that Dr Ashfaque was doing disservice to the nation by painting a negative picture of the economy. And now I do owe an explanation from the finance minister to tell who is right and can he dare to challenge Moody's debt figures," he asked.

Another prominent economist and former advisor to the ministry of finance Sakib Sherani was equally worried about the country's ballooning external debt and said Moody's latest report was an eye opener.

"All independent economists had been expressing their concern over rising external debt burden and the country's ability to pay back its loans," he said regretting the present government obtained

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loans after loans that too without any solid justification.

However, he differed with Dr Ashfaque and said external debt would grow maximum $90 billion by 2022 which still spoke volumes about Pakistan's repayment capability. He termed it a "poor economic management" that has destroyed the economy.

But the criminal negligence, Sherani said, was the wrong policies of the government due to which the export sector has virtually collapsed. "How can you improve external finance without increasing your exports," he asked. Foreign exchange reserves, he pointed, out were falling and home remittances declining, "both important elements without which you cannot ensure external stability".

He said imports have increased manifold because of development projects being set up under China Pakistan Economic Corridor Project (CPEC). "Let us hope these projects will have positive effects to achieve increasing GDP growth rate in future," Sherani added.

"But my main worry is how would any government seek new funding arrangements with IMF, which if this time agrees would surely put serious political conditions that will be detrimental to national security," he said adding that he has no allusion that the next government would not have any option but to request for yet another bailout package because of fast depleting reserves.

The release of the Moody's Investors Services' report is very significant at a time when the government is already confronting grave political issues, though it felt relieved following the settlement of controversial Dawn leaks matter that had serious implications for the country's national security.

The Moody's report went on to say that the government's narrow revenue base weighs on debt affordability and the level of external public debt poses a moderate degree of credit risk. It assessed Pakistan's fiscal strength at negative "(-) Very Low", which according to it was hindering debt affordability and increasing the debt burden. Pakistan's limited tax base restricts its fiscal space, while low savings and shallow capital markets hinder stable domestic financing of sizeable budget deficits.

The government's debt burden has gradually increased during the last four years from 63.6 percent of GDP to 66.5 percent of GDP as against 60 percent restricted by the Debt Limitation Act of 2005 adopted by the parliament. At 66.5 percent of GDP, according to Moody, the debt stock is higher than the 52.6 percent median for B- rated sovereigns and remains a constraint on Pakistan's fiscal strength.

It assessed Pakistan's susceptibility to even risk as "High" driven by political risks and government liquidity risk stemming from high gross borrowing needs, due to the government's large rollover requirements. Besides this, Moody also projected higher budget deficit for the outgoing year. "We expect that the fiscal deficit will widen further to about 4.7 percent of GDP in the current fiscal and 5 percent in 20017-18," it said. This is an issue over which independent economists and television commentators have been giving their assessment by saying that fiscal deficit was increasing and that the government must address this issue. But the finance minister remained on a denial mode and it is to be seen now as to how would he respond to Moody's point of view.

Like the World Bank, IMF and the Asian Development Bank (ADB), the credit rating agency also called for undertaking structural reforms to remove the malaise from the economic and financial system.

In the context of elections, the prime minister's last week speech made at the inauguration of a metro bus track between Islamabad and a new airport in Fatehjang is inviting more and more criticism.

"There is so much corruption in the country that if we get involved in probing them all our time will be consumed in the investigations and we will not be able to deliver," he said. By saying so, the prime minister has amply suggested that he is unable to take on corrupt people and as such ignored his fundamental responsibility to expose and punish the corrupt people.

Generally it is said that the current macroeconomic situation will not be judged by CPEC that may offer 8-10 percent GDP growth rate by 2025. But the major issue is the current health of the economy that needs surgery to deliver and seeks more prudent economic path to avoid being caught in any serious macroeconomic imbalance.

Going forward without undertaking fundamental reforms, the real economic turnaround will remain a distant dream. It is time to avoid rhetoric and political gimmickry and listen to international financial institutions which though appreciate economic improvements are urging the rulers and planners to address fundamental economic

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issues including that of deficits and high debt burden. The job cannot be done through figure manipulation but only through political will and adhering to certain strict financial discipline.

The writer is a senior journalist based in Islamabad

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FOCUS

New Silk Road

By Zeeshan Haider

President Xi Jingping is now-a-days is hosting China's biggest summit of the year to showcase his ambitious concept of a new Silk route connecting Asia, Africa and Europe. Leaders of nearly two and a half dozen countries and senior delegates of many other countries are attending the Belt and Road (B&R) initiative meeting in Beijing.

Prime Minister Nawaz Sharif, leading a high-powered delegation, including four provincial chief ministers, is representing Pakistan at the forum. The B&R initiative involving billions of dollars is enthusiastically welcomed by China's friends but it has also raised eye-brows in China's regional and global rivals.

Pakistan is the foremost beneficiary of the gigantic initiative because the much talked about China Pakistan Economic Corridor is the flagship project of this major infrastructure initiative.

The western nations have remained wary of the B&R project from the day one as they suspect that it is basically aimed at expanding China's political, strategic and economic clout in the world. They have also cast doubts that whether this ambitious project linking a big part of the world through motley of roads, pipelines and railway tracks could be turned into a reality.

The western media has been running very critical commentaries on the project raising questions about the transparency in the execution of the project and has maintained that till now it is broad on ambition and short on specifics. It has also raised objections over some of the participants of the forum which according to it have very poor human rights record back in their countries.

Despite all these reservations, the western countries have tried not to miss out the opportunity to attend the summit. The United States, whose officials suspect that B&R initiative is basically one of the counter initiatives of China to its regional trade pacts, has also sent a delegation to the forum. Similarly other western countries like Britain, Germany, and Italy have also dispatched their delegates to the conference.

The biggest opposition to the Chinese initiative comes from India.

India, which faced a humiliating defeat in 1962 war with China, worries that the R&B initiative would cement Beijing's dominance all over Asia. The main Indian concern, however, over the China's infrastructure is CPEC and has repeatedly raised this issue with the Chinese authorities because the CPEC runs through Kashmir as well as in Gilgit-Baltistan, which New Delhi in its wishful think believes that would become part of India one day.

Indian foreign minister spokesman Gopal Baglay said that New Delhi supports intra-regional connectivity but the Pakistan end of the project commonly known as 'One Belt One Road' (OBOR) is a major problem for it.

"As far as OBOR is concerned,…our position is that since the so-called CPEC forms a part of OBOR, that is where our difficulty is. It passes or proposes to pass through what is sovereign Indian territory and we have made our views in this regard very, very clear to the Chinese side."

Despite this bravado, there is a realization among Indian intelligentsia and media that since India's own infrastructure is creaky and highly pathetic it is unwise to skip such a major infrastructure development project. It is apparently for this reason that India has sent a delegation, though a very low key, to the Beijing moot.

It is not just skeptical west and worried India which have sent their representatives to the Beijing meeting but several other countries which do not see eye-ball to eye-ball with China on a variety of issues are also attending the conference.

Japan, which rivals with China in developing and funding infrastructure projects in Asia, has also been represented at the forum. Even Vietnam, which has had very troubled relations with China, is represented by its president at the summit.

China, on its part, has maintained that it is a no-hold-barred initiative that could be joined by any country and rejected objections over the project as "misconceptions and outright lies".

"We have said all along the Belt and Road is an open, inclusive initiative," Chinese foreign ministry spokesman Geng Shuang said recently. Beijing has extended invitation to all

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countries without any exception to join the initiative.

China’s ambassador to India Lup Zhaohui, who has also served as his country’s envoy in Pakistan, has told an Indian audience recently that B&R initiative was good for both countries. With regard to India’s objection to CPEC, Luo said his country has no intension to intervene in disputes between Islamabad and New Delhi.

It is not just China which tried to allay Indian’s apprehensions about CPEC but Pakistan, particularly Prime Minister Nawaz Sharif, has repeatedly asked India to join the project in an effort to end poverty in the impoverished region.

The Chinese official media recently also ran commentaries to allay misconceptions about the project and took exception to western media attempt to draw an analogy between the Marshall Plan after the World War Two and OBOR.

“The Marshall Plan for post-World War II reconstruction in Europe was part of the Western attempts to contain the expansion of the Soviet Union. The Cold War mentality and bipolar structure, however, have found no resonance with the Belt and Road Initiative,” said a recent commentary ran by the Xinhua news agency. “China is by no means organising alliances to confront any other country. It aims at achieving the common development of all countries rather than seeking spheres of political influence.”

Moreover it said unlike the Marshall Plan, no political conditions have been imposed on participants in the initiative. “China has always advocated that countries should respect each other's rights to independently choose their own social system and development path.”

Pakistan is lucky to be the first to benefit from this gigantic initiative. There is almost a complete consensus in Pakistan on CPEC and it is well reflected through the composition of Pakistani delegation to the summit.

The most important thing for Pakistan is to maintain internal cohesion and political stability to ensure maximum exploitation of the benefits of this project. The primary responsibility for maintaining this cohesion rests on the government.

The government needs to keep close coordination and liaison with all stakeholders on important matters relating to CPEC and should have a robust mechanism to address the concerns of any of the stakeholders in a swift and effective manner. The Chinese initiative would turn out to be a real fate changer for Pakistan only if Pakistani leadership showed maturity to ensure stability in the country.

The writer is a senior based in Islamabad

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NJHP electricity cost to decrease to Rs9.15/unit

Reduction in mark-up rate on re-lending

Our Staff Reporter

ISLAMABAD - Reduction in mark-up rate on the re-lending for the 969 MW Neelum Jhelum Hydroelectric Power (NJHP) project is likely to reduce its electricity cost to Rs9.15 per unit, it is learnt reliably here.

Last month, Water and Power Development Authority (Wapda) has requested the federal government to reduce the mark-up on foreign borrowing as it is being re-lending at much higher rates to the NJHP project. However, the Planning Commission has asked the government that instead of reducing mark-up rate on re-lending for one project, reduce it for all the electricity projects which will help reducing the cost of the electricity and the timely completion of the projects, official sources told The Nation.

The official said that the federal government borrows money from foreign creditors at a lower mark-up, but the Economic Affairs Division (EAD) is charging 15 percent on the re-lending of these loans to different government entities. On the other hand, as compare to the government entities and Wapda, the EAD charges the provinces in much lower rate. The Wapda has therefore requested the government to bring the mark-up rates to the level of provinces.

Currently, the federal government is re-lending foreign loans to Wapda for the NJHP project at a very high mark-up of 15 percent per annum. Out of the total cost of Rs500 billion of the Neelum Jhelum, around Rs90 billion is Interest During Construction (IDC), the official said. Reduction in high mark-up will considerably reduce the generation cost of the electricity, the official said.

The reduction in interest rate on the re-lending can considerably reduce the levelised tariff of the project to around Rs9.15 from the estimated Rs13.12 per unit. The levelised cost of electricity is the net present value of the unit-cost of electricity over the lifetime of a generating asset.

The Planning Commission is of the view that instead of making money on foreign loans, the EAD should charge the original interest rates from all the electricity projects to ensure affordable electricity, the official said.

The intake Neelum-Jhelum is at Nauseri 41km east of Muzaffarabad and has installed capacity of 969MW. The project was originally estimated to cost Rs130 billion in 2007, which went up to Rs275 billion in 2012, partly because of changes in specifications arising out of geographical changes following the devastating earthquake of 2005.

Soon after assuming the charge as prime minister in 2013, Nawaz Sharif issued directives for its completion by December 2015. But later due to funds shortage, the project was delayed which has resulted in further escalation of cost to Rs404 billion and later to Rs500 billion. The deadline for the completion was rescheduled twice first to the end of 2016, then mid 2017 and now it is expected to be partially operational by early 2018. The first, second and third units of Neelum-Jhelum project would start operations by February 28, 2018, March 15, 2018 and April 15, 2018, respectively.

However, when contacted an official of the Wapda said that they have yet to finalise the final tariff for the Neelum Jhelum project and it was too early to determine the per unit cost.

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CDNS achieves Rs171b up to May 8

APP

ISLAMABAD - Central Directorate of National Savings (CDNS) has achieved Rs171 billion savings till second months of last quarter of current fiscal year, from July 1 to May 08, 2016-17.

The target for the year 2016-17 was Rs228 billion, while the Directorate managed to achieve Rs218 billion for the previous fiscal year, a CDNS official told APP here. He said the CDNS had notified upward revision in the profit rates for various saving certificates to benefit its investors especially the widow and pensioners, which had been applicable from February 1, 2017.

"The instant revision was made in the backdrop of current market scenario and in accordance with the government's policy to provide market based competitive rate of return to the investors of National Savings", he said. He said that as per the notification issued by the federal government, the new rates for Defence Savings Certificate, Special Saving Certificate and Account, Regular Income Certificate and Savings Accounts had been revised upward at an average of 7.54 percent, 6.03 percent, 6.54 percent and 3.95 percent, respectively.

The official said the profit rate of return for specialised savings schemes like Bahbood Savings Certificates and Pensioners' Benefit Account had also been revised up and fixed at 9.36 percent to provide safety net to specialised segments of the society. The CDNS had launched its modernisation plan in collaboration with National Institutional Facilitation Technologies (NIFT) for facilitating the customers, he added.