BUSINESS
RECORDER
Saturday, 15th July, 2017

Dwindling exports: Exporters present informed perspective

ZAHEER ABBASI

Worried over persistent slide in exports, a parliamentary body on finance has decided to convene a joint meeting of National Assembly''s standing committees on finance, commerce and textile to explore a plan of action for revival of exports.

A meeting of the National Assembly''s Finance Committee presided over by Qaiser Ahmed Sheikh got an in-depth briefing from textile exporters on factors behind shrinking exports to $20.4 billion from over $25 billion during the last four years. The meeting after hearing out the stakeholders and members of the committee decided to convene a joint meeting of three ministries involved in exports as well as implementation of Prime Minister''s incentive package for exports, and directed the ministries to ensure presence of the ministers in the committee meeting.

President Sialkot Chamber of Commerce and Industry (SCCI) Majid Bhutta and Chairman Bedwear Association Azhar Majeed stated that exports are below $20 billion and added that "we start exports with 25 percent disadvantage due to 12.5 percent overvalued rupee and 12.5 percent subsidy provided by other countries to their exporters." The government has released hardly Rs 1 billion out of Rs 180 billion from Prime Minister''s incentive package for exports against the local taxes, they maintained.

The chairman Bedwear Association stated, "Rs 180 billion incentive package was against local taxes that can not be exported to other countries," claiming that there are Rs 200 billion sales tax refunds of three to five years are with the tax authorities. As a result exporters have been facing serious liquidity problem. Of Rs 200 billion, he added, "Rs 160 billion have been pending with RTOs for the last three to five years."

Majeed added that many textile units have been closed in Faisalabad whose revival could increase exports by $2-3 billion and generate employment as well. Previous governor State Bank of Pakistan had agreed on restructuring of their loans, however, there was no progress in this regard during the last one year.

Committee member Asad Umar said a number of surcharges on electricity and gas as well as an overvalued rupee are some of the factors making the country''s exports expensive in the international market. He said that as long as these fundamental problems are not solved, the revival of exports would be a formidable challenge.

A joint secretary of the Commerce Ministry said that ministry is working on a proposal to de-link the condition of incremental increase in exports for payment of rebate. The Commerce Ministry is taking up the matter within the government to do away with the condition while Parliamentary Secretary Finance Rana Afzal stated there was an agreement with the exporters that a 10 percent increase in exports would provide them a rebate of 6 percent. "We will pay them rebate from the increase in exports and if exports are not increased, how the government would pay them rebate," added the parliamentary secretary.

Meanwhile, the committee directed that FBR and SBP high-ups should hold talks with the president Sialkot Chamber to resolve the problems of exporters. A representative of the State Bank of Pakistan (SBP) stated that a probe report into rupee depreciation against the dollar would be completed by July 31, 2017. Asad Umar remarked that Deputy Governor, the then acting governor SBP, was most upright, honest and thoroughly gentleman and wanted the committee to place his words about him on the record.

The committee approved the Microfinance Institutions (Amendment) Bill, 2017 and directed the SBP for proper advertisement of ongoing loan schemes, already launched by the government, for disabled persons. The committee considered the Investment Corporation of Pakistan (Repeal) Bill, 2017 and recommended that it may be passed by the National Assembly as reported by the committee.

The committee also discussed the issues regarding Pakistan steel sector and asked the FBR for solving the problem facing the sector. Member of the committee Abdul Mannan stated that the government has decided to disband the EDB due to its poor performance.

BUSINESS

RECORDER

Saturday, 15th July, 2017

Recovery of interest:

Wapda sends summary to ministry

MUSHTAQ GHUMMAN

Water and Power Development Authority (Wapda) has reportedly sent a summary to the Ministry of Water and Power for subsequent approval by the Council of Common Interests (CCI) on the recovery of interest on Rs 25 billion paid to KPK as Net Hydel Profit (NHP), sources close Member Finance (Wapda) told *Business Recorder* .

The federal government through a Memorandum of Understanding (MoU) of February 26, 2016 with Government of KPK, in a resolution of pending issues, had agreed to pay Rs 70 billion as arrears, out of which Rs 25 billion was agreed to be paid by June 2016. The CCI in its meeting on February 29, 2016 directed Wapda to take the burden of Rs 25 billion and file a tariff petition to recover arrear amount as agreed.

The Ministry of Water and Power through a letter on March 28, 2016 directed Wapda to take a loan of Rs 25 billion and file a tariff petition to recover the loan amount as well as interest cost through tariff. Accordingly, Wapda filed a tariff petition to Nepra which allowed the recovery of Rs 25 billion in installments in 12 month but did not allow recovery of interest cost advising Wapda to get approval of the CCI for this purpose.

The determination of Nepra in this regard was notified on June 24, 2016. Wapda obtained a loan of Rs 25 billion from Meezan Bank on June 21, 2016 and remitted the funds to the Government of KPK. Wapda had invoiced Rs 23.401 billion - from June 21, 2016 to May 2017 - however Central Power Purchasing Agency (CPPA-G) has not released any funds against the billed amount. Wapda from its own resources paid 6 month mark-up of Rs 722 million in December 2016. The loan amount of Rs 25 billion along with 6 monthly mark-up of Rs 722 million was due on June 21, 2017 for payment and it is unclear if CPPA paid the required amount to Wapda or not.

The sources said Nepra has not allowed the recovery of mark-up on loan amount of Rs 25 billion and has directed Wapda to seek the approval of CCI for this purpose. Wapda has already sent a summary to the Ministry of Water and Power for CCI approval which is still awaited.

The government of Khyber Pakhtunkhawa recently sought a 400 percent increase in Net Hydel Profit (NHP) from current Rs 1.10 per unit to Rs 5.38 per unit whereas Wapda has sought an increase in hydel tariff by 98 percent or Rs 3.61 per unit - from Rs 3.69 per unit to Rs 7.30 per unit for FY 2017-18 to meet financial obligations and other expenses. Nepra has not yet issued its determination on Wapda''s petition.

BUSINESS
RECORDER
Saturday, 15th July, 2017

Sales tax refunds to be cleared by next month: NA body told

SOHAIL SARFRAZ

Chairman Federal Board of Revenue (FBR) Tariq Pasha on Friday assured the National Assembly Standing Committee on Finance that the sales tax refunds of exporters would be cleared in August 2017. Responding to different queries on pending sales tax refunds, Tariq Pasha informed that the admissible refunds would be duly cleared by the next month.

About the final revenue collection figures for 2016-17, he said that the tax collection figures have yet to be finalized for the last fiscal year ie 2016-17. Till July 17, final revenue collection figures would be available with the FBR which would be provided to the committee. The FBR chairman informed the committee that the export package is also in progress and some amendments have been made in it. The funds of Rs 6 billion would also been released. The incremental condition of the rebate Drawback of Local Tax and Levies (DLTL) would also be reviewed.

In the presence of textile sector, FBR Member Inland Revenue Policy Dr Muhammad Iqbal said that since July 2017, Rs 350 million rebates have been issued to 932 exporters. Some amounts of refunds have been also been made. The committee deferred the FBR briefing on revenue collection for the last fiscal year till its next meeting.

MNA Asad Umar of Pakistan Tehreek-e-Insaf (PTI) informed the committee that on the directions of special bench of the Supreme Court overseeing the implementation of the Panama Papers case verdict, Federal Investigation Agency (FIA) registered an FIR against Chairman Securities and Exchange Commission of Pakistan (SECP) Zafar Hijazi for tampering with the official record. Despite registration of the FIR as record tampering in case of Chaudhary Sugar Mills has been proved, Hijazi is still working as SECP chairman. The SECP chairman should temporarily be removed from his office, Umer demanded. The finance committee sought legal opinion/ruling from Law Division on the issue of suspension of SECP chairman within the next 15 days.

In a written reply to the finance committee, the FBR informed that the revenue collection target fixed for fiscal year 2016-17 was Rs 3,621 billion which was revised downward to Rs 3,521 billion. The target is usually fixed keeping in view the economic indicators like GDP growth, inflation, large-scale manufacturing and imports. Furthermore, different revenue and administrative measures are also taken to reach the target assigned.

The collection figures for financial year 2016-17 have not been finalized as yet. This is due to reconciliation of revenue figures with State Bank of Pakistan and Accountant General of Pakistan (AGPR). The target of Rs 3,521 billion revenue was challenging due to the fact that relief measures of sales tax affected revenue adversely to the tune of Rs 169 billion. The relief measures were taken in POL products, fertilizers, zero-rated sectors, pesticides and Prime Minister"s Textile Package aimed at boosting economic activity in the country that will lead to enhance revenues in the medium-term.

BUSINESS
RECORDER
Saturday, 15th July, 2017

UK confirms continuation of GSP plus incentives after Brexit

MUSHTAQ GHUMMAN

United Kingdom (UK) has confirmed continuation of Generalised System of Preferences plus (GSP plus) incentives for Pakistan after Brexit. This has been conveyed by acting British High Commissioner to Pakistan Richard Crowder in a letter to Commerce Minister, Engineer Khurram Dastgir Khan.

"As the UK leaves the EU, we want to maintain and strengthen the access to UK markets for developing countries. For Pakistan, which benefits from zero tariffs on two-thirds of all products when exporting to the UK, we aim at maintaining these levels of access, and will continue to deliver improved support by helping to address constraints to trade. The UK will also explore options to expand on our trade relationships with Pakistan in the future," he added.

According to the letter, acting HC said UK's first priority was to deliver continuity in its trading arrangements on leaving the EU and to aim at maintaining current access to the UK for developing countries. He has also brought into the notice of Commerce Minister a joint statement from DFID and Department of International Trade issued on June 24, 2017 titled "Government pledges to help improve access to UK markets for world's poorest countries post-Brexit".

"Once we have left the EU we will be able to build on our track-record as a champion of trade and development, strengthening our existing support and exploring new opportunities to increase trade links. The UK is using our departure from the EU to cement Britain's standing in the world and meet our commitment to developing countries - and to Pakistan - by working to secure their existing preferential access to UK markets," he continued.

The UK currently provides preferences to around 70 developing countries through the EU, including the Generalised Scheme of Preferences (GSP), Pakistan currently benefits from an enhanced tier - GSP + a conditionality for which the UK would implement opportunities that are out of reach and may potentially fuel instability and mass migration, which could in turn have direct consequences for the UK.

Under current EU arrangements, the UK offers duty free quota free access for least developed countries on all goods which they are exporting to the UK, other than arms and ammunition. For the next tier of developing countries, largely classed as lower middle income, the EU offers a mix of reductions on tariffs. DFID's first Economic Development Strategy launched by Ms Patel earlier this year, sets out how private sector investment will help developing nations speed up their rate of economic growth, trade more and industrialise faster, and ultimately lift themselves out of poverty.

"The UK is committed to ensuring that when companies source from developing countries, they do so in a way which protects the human rights of workers and their health and safety," he further stated.

Earlier, Commerce Minister Engineer Khurram Dastgir in a letter to UK Secretary of State for International Trade had expressed the hope that bilateral political and trade relations between Pakistan and UK would continue to grow for mutual benefits of both countries. United Kingdom is one the biggest trading partners of Pakistan. During 2015, bilateral trade between the two countries amounted to $2.47 billion.

With consistent, active support of the UK, Pakistan has had duty free access in the European Union (EU) since January 2014 through "special incentive arrangement for good governance and sustainable development". "We understand that until a formal trade arrangement is reached between the UK and the EU, products of Pakistani origin shall continue to have duty free access in the UK," Khurram added.

According to him, this duty free access is of critical importance to Pakistan. Dastgir added that Pakistan's market share in UK is only one percent, quite negligible and concentrated in a very few sectors. As Pakistan has begun to emerge very recently from a dark period of violent extremism and energy shortages, it is difficult for it to compete with other developing countries which have relatively stronger economies, diversified exports and have the potential to enter into FTA with UK in near future.

"In order to increase bilateral trade, our government may now reinvigorate our efforts for developing arrangements that can yield results in short to medium term," he added.

BUSINESS
RECORDER
Saturday, 15th July, 2017

THE RUPEE: Minor fall

RECORDER REPORT
A marginal decline was observed in value of the rupee against the dollar on the currency market on Friday in the process of trading, dealers said. The rupee shed five paisas against the dollar for buying at Rs 106.37 and also dropped six paisas for selling at Rs 106.40, they said.

INTER-BANK MARKET RATES: OPEN MARKET RATES: The rupee also lost 20 paisas in relation to the dollar each for buying and selling counters at Rs 106.70 and Rs 107.00 respectively. Following the same pattern, it also shed 10 paisas against euro for buying and selling at Rs 120.90 and Rs 121.90 respectively.

In the final Asian trade, the dollar was little changed against a group of peers early on Friday, as currency investors remained cautious ahead of U.S. inflation data due later in the session, which is expected to set the greenback's near-term direction.

The US currency's recent advance, notably against the yen, has stalled towards the end of this week as Federal Reserve Chair Janet Yellen curbed some of the monetary tightening expectations that had supported the greenback.

Signs of a pickup in U.S. inflation could reinforce views that the Fed would hike interest rates again sooner rather than later, which would lift Treasury yields and the dollar.

The dollar was trading against the Indian rupee at Rs 64.460, the US currency was at 4.293 in terms of the Malaysian ringgit and the greenback was at 6.781 versus the Chinese yuan.

Open Bid	Rs. 106.70
Open Offer	Rs. 107.00

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

Bid Rate	Rs. 105.37
Offer Rate	Rs. 105.40

RUPEE IN LAHORE: The Pakistani rupee depreciated versus the foreign currencies including the American dollar and British pound on the local currency market on Friday.

According to the currency dealers, the demand and supply situation of the US dollar continued to rise amidst short supply phenomenon in the market throughout the trading session. Consequently, it ended higher at Rs 106.80 and Rs 107.20 on buying and selling sides, respectively, as compared to the overnight trend of Rs 106.60 and Rs 107.10 respectively, they added.

Versus the pound sterling, the local currency remained under pressure for another day as it followed the same suit. The pound's buying and selling rates further rose from the overnight closing trend of Rs 136.60 and Rs 137.80 137.20 and Rs 137.85 respectively, they said.

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

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).

BUSINESS
RECORDER
Saturday, 15th July, 2017

DFIs asked to focus on lending instead of investment

RIZWAN BHATTI

The State Bank of Pakistan (SBP) has urged Development Finance Institutions (DFIs) to focus on lending instead of investment in government securities. The SBP in its Financial Stability Review for the year 2016 revealed that DFIs financing activities have remained subdued when it comes to their real objective of development finance as they have been functioning more as an investment house by parking major portion of their assets in government securities.

However, the SBP said that with ample cushion on their balance sheet and better demand prospects, it is appropriate time for DFIs to focus on lending. "They may exploit long-term financing projects in line with the developments on the CPEC by joining hands in consortium type mode of financing. Nevertheless, the inherent riskiness of financing demands prudent approach, going forward," it added.

According to the SBP, in comparison with the banking sector, operating performance of DFIs was strong during CY16 as the sector posted a pretax profit of Rs 9.2 billion, up 5 percent higher over the last year. In contrast to revenue from investments in previous years, advances portfolio has provided boost to profitability of DFIs in CY16. The profitability has further been complemented by provision reversals and increase in non-markup income during the last year.

Return on Assets (RoA) has marginally dipped due to higher growth in average assets compared to rise in profits, while Return on Equity (RoE) has improved due to relatively slower growth in average equity levels. In CY16, advances (gross) increased by a notable 16.3 percent to reach Rs 868.6 billion over the last year, higher in comparison to growth of 12.8 percent in the banking sector. The main contributing factor in advances" growth during the year can be traced to a remarkable 17.9 percent growth in corporate sector lending for both working capital needs and fixed capital formation mainly in textile and electronics.

DFIs have maintained strong solvency profile over the years due to risk adverse behavior. However, this trend has reversed in CY16 as is evident from growth in credit risk weighted assets on the back of growth in advances. The overall Capital Adequacy Ratio (CAR) of the industry at 40.8 percent is well above the regulatory requirement evidencing strong solvency of the sector.

The asset base of the DFIs has expanded by 9.6 percent in CY16 to Rs 208.8 billion, mainly driven by growth in advances. Investments, as compared to advances, still holds roughly one half of the balance sheet of DFIs, however, its growth has receded in CY16. DFIs investment stood at Rs 108.9 billion at the end of CY16 compared to Rs 115.3 billion at the end of CY15. Non-Performing Loan of DFIs declined by 7 percent to Rs 13.9 billion at the end of the year.

BUSINESS

RECORDER

Saturday, 15th July, 2017

Commercial importers:

FBR seeks withdrawal of tax concessions

MUHAMMAD ALI

Federal Board of Revenue (FBR) is contemplating to withdraw tax concessions granted under SRO 1125 (I)/ 2011 to the commercial importers of finished fabric; it was learnt here. According to sources, Model Customs Collectorate of Appraisement (West) has written a letter to the Member IR (Policy) over the misuse of tax concessions granted under SRO 1125(I)/2011by commercial importers of finished fabric.

The collectorate in a letter stated that SRO 1125(I)/2011, which was issued to support five major export-oriented sectors of the country, is presently being misused by the commercial importers of finished fabric.

It further stated that the collectorate during scrutiny of clearance of finished fabric observed that commercial importers were involved in massive misuse of the zero rated facility and routinely importing and supplying finished fabric to retailers for sale to the general public which is against the rationale behind the issuance of the said SRO.

The Collectorate through letter cited that all commercial importers were only entitled to avail zero rated facility if the goods were useable as industrial inputs. However, the importers remained unable to produce either a nil sales tax return or show supplies to retailers, non-industrial or unregistered persons at zero percent sales tax when asked at the time of import to provide evidence of supply to the industrial sector, the collectorate added.

Keeping it in view, the Collectorate recommended the Member IR (Policy) to issue directives regarding the disentitlement of said tax concessions to the commercial importers in case of not meeting the required criteria.

The Collectorate also requested that board may examine the said problems highlighted by the department and issue necessary clarification regarding the extension of zero rated facility of sales tax under SRO 1125(I)/2011 to the commercial importers dealing exclusively in the import of finished fabric and its supply to the retailers.

BUSINESS RECORDER
Saturday, 15th July, 2017

KCCI proposes China model trade facilitation systems

N.H. ZUBERI

Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs) with other countries particularly with China have prevented the relevant authorities to raise taxes on imports making the imported products much cheaper in the local market. The Research and Development Cell of Karachi Chamber of Commerce and Industry (KCCI) in its report on CPEC "Is Pakistan Ready to Surf the Tide" asked how the local manufacturing companies can compete with low-cost influx of similar products when they are already facing increasing taxes, higher cost of utilities, higher transport cost, unavailability of basic requirements such as power, gas and water alongside the burden of corruption at every stage? It said that together, all these factors act as disincentives for investments and the reason we don't see manufacturing sector as well as exports-gaining pace.

It noted that situation is even more challenging for the young aspiring entrepreneurs who decide to set up manufacturing units in Pakistan. "The prerequisite is to have a viable business idea along with some technical expertise, business acumen, risk taking appetite and availability of funds," the KCCI report said, adding that once these issues are sorted out, the entrepreneurs have to find a suitable location to setup business, complete paperwork, access finance, procure machinery, hire workers, manage operations, prepare accounts, become a withholding tax agent, confront with the government departments' red tapism, corrupt bureaucracies, competition and marketing campaigns etc.

It said that the facilitations and convenience are required at every step; otherwise, the new entrant will not step in finding it too humungous task. KCCI report said the interest rates are historic low at 5.75% making it an ideal time for investing in vertical and horizontal integration. However, it is alarming that investments do not seem to pick up much pace. KCCI believes that the uncertainty in the business environment with a gloomy outlook is to blame.

There are a series of procedural inefficiencies, inordinate delays, corruption and redundancies in the entire chain from starting a business to exporting a consignment which not only discourages investments but also increases the cost of doing business manifolds. This is an era of technology and IT which allows online one-window operations to enhance operational efficiencies manifolds. It said that Pakistan cannot afford to linger on with these inefficiencies in the system and must do away with corruption and the unattractive business climate.

In a bid to raise more and more taxes amid rising levels of debt, the government has resorted to squeeze the manufacturing sector with imposition of higher taxes. KCCI report noted that since agriculture sector, which is 20% of GDP, is actually tax exempt, services sectors is also a provincial subject, many SMEs, cottage industries and individual businesses are either not strong enough or not in tax net to contribute much to the national exchequer, the larger industries which are capable of exporting, remain on the hit list to meet the rising revenue targets. The policies are changed frequently and mostly becoming harsher for the industries while provision of unabated discretionary powers is leading to harassments of businesses.

European Union (EU), being one of the most important trading partner, offers tremendous trade opportunities. Its imports from Pakistan mainly covers textile and clothing items, cotton, surgical instruments, sports goods as well as leather products. The U.K., Germany, Italy, Netherlands, Spain, Belgium and France are Pakistan's top export partners. Having substantial export volume with that region, Pakistan reached a deal on GSP Plus in December 2013 with the then EU block having 28 member countries.

Under the scheme, "0" tariffs are applicable on 20% of the goods exported by Pakistan while preferential rates are available on 70% of the goods export to the EU.

Initially, the status had been granted till 2017 however with the satisfactory implementation of relevant international conventions by

BUSINESS
RECORDER
Saturday, 15th July, 2017

Pakistan, the validity period has been extended till 2023. The status has provided support to the country's plummeting export where prior to the trade deal, Pakistan goods export amounted $5.6b in FY13 which after just one year of implementation jumped by 17% to $6.6 billion in FY14 and then further to $6.93b in FY15. Unfortunately, the scheme failed in furthering up Pakistan's exports in FY16 and declined slightly to $ 6.6b. The reason can be partially attributed to economic slowdown in EU, low international commodity prices and narrow export base. "Brexit" is the term which is interchangeably being used for referring to the "Britain Exit" from a political and economic partnership of EU after a referendum which took place on June 23, 2016.

Since UK is one of the largest export partner of Pakistan which would not be the part of EU any longer, tariff relief extended under GSP Plus scheme would be ended and therefore greatly hit the exports quantum of Pakistan. After UK's exit from the bloc, EU's share would be reduced to 24% from 31%. Moreover, post-Brexit, Pakistan would also lose its most effective advocate in the EU, which helped it in keeping the GSP plus scheme intact during the periodic reviews. The situation would neutralize if Pakistan is able to secure a similar tariff concession deal with UK enabling it to secure its market access after Brexit.

KCCI report said the flagship project worth $54b ie China-Pakistan Economic Corridor (CPEC) has been lately receiving government's top priority due to its economic viability for Pakistan's economy. CPEC would result in improved Pakistani infrastructure by laying down road and railway networks, setting up power projects, industrial economic zones and deep sea port which bodes well for exports and manufacturing.

Under China's One Belt One Road (OBOR) initiative, 3,000kms long corridor will be constructed and connected Western Chinese province Xinjiang with Pakistan's deep seaport Gwadar which would enable China to access Arabian Sea. It said that the corridor would facilitate China to import oil through shorter trade route and at low freight charges which would reduce its import bill as well as cost of doing business. Furthermore, China would be able to save days to exports goods to the Middle Eastern, African and European countries.

Moreover, Chinese government is providing subsidies as well as very conducive business environment to its exporters. China is large exporter of labour intensive goods such as footwear, textiles, clothing, furniture, plastic products and ceramics; there are bright chances that Pakistan would see huge influx of cheap Chinese goods in the local markets through CPEC which may greatly affect local industries as well as exports of Pakistan.

Not only this, Chinese government has planned to develop its Xinjiang province as a major textile city which may grab Pakistan's export markets due to their cost competitiveness, in future.

KCCI report said that Commerce Ministry had focused on facilitating trade by way of reducing cost of doing business, standardizing products, applying regulatory measures, enhancing markets' (China, EU, Iran & Afghanistan) and products' (basmati rice, horticulture, meat and meat products, jewelry) diversification, improving export competitiveness and increasing exports to $ 35 b under its Strategic Trade Policy Framework (STPF) 2015-18 by the end of FY18.

Targets were overambitious and the policy failed in suggesting practical steps for achieving them. Many policy objectives remain mere part of the document. It noted that there is no mechanism to ensure the implementation of STPF or remove the bottlenecks in the way of achieving stipulated goals. As exports are still continuously declining in the ongoing fiscal year 2017, there is an urgent need of re-introducing trade policy which is more practical and all encompassing.

Commerce Ministry identified some destinations and products having potential to boost exports quantum of the country under the STPF. These products included leather, fisheries, pharmaceutical and surgical goods while countries of Commonwealth Independent States (CIS), Latin America and Africa were indicated as potential markets.

Forwarding this strategy, countries from each of the region have been selected in this report, on the basis of the size of their GDP. These include Brazil, Russia, Mexico, Kazakhstan and Egypt. Exports' trends have been analyzed to highlight the opportunities of boosting exports to these countries.

BUSINESS

RECORDER

Saturday, 15th July, 2017

Brazil: Pakistan is exporting several items to Brazil however its share is still meagre in comparison to its regional competitors. Brazil imports several items that hold high potential for Pakistan. In this regard, seafood, pharmaceutical and leather goods can be exported to Brazil.

Russia: There is a plenty of room for Pakistan to enhance its goods export to Russia. Potential export items include fish and leather articles. Russia imports fish from regional countries such as India, China, Bangladesh and Vietnam but, Pakistan's exports in this niche is nil. Furthermore, exports of raw hides to Russia can further be improved.

Mexico: Being one of the largest importers in the world, Mexico imports all those commodities which are also produced in Pakistan. Still Pakistan's overall export to Mexico merely totaled $99 million as compared to Vietnam's $1.54 billion and India's $ 2.77b during 2015. Pakistani exporters of fish and crustaceans should make their way to Mexico in an effort to diversify into new markets. Mexican markets should also be reached for exports of pharmaceutical and leather products by Pakistani exporters.

Egypt: Among African countries, Egypt is a well-developed large economy which imports several items from the Asian continent. Among the identified potential items, Pakistan should look for boosting its exports of fish preparations as well as pharmaceuticals.

Kazakhstan: This landlocked CIS state is one of the most competitive economies of its region however; it has not been explored by Pakistani exporters. It imports knitted apparel items, rice, fruits, meat and offal from regional competitors of Pakistan. Thus local exporters should look for exporting these items to Kazakhstan for promotion of exports.

KCCI report urged that as part of exports enhancement strategy, Pakistan should not only stick to certain export destinations, but all out efforts should be made to reach the world's largest importers in every export item category to fetch greater export revenues. In this regard, import markets of China, USA and Japan should also be thoroughly explored and export linkages should be developed in other unconventional items.

It said that in the times when exports are already falling off, foreign direct investment is not sufficient and remittances are on the lower side; ensuring incessant capital inflows for stabilizing foreign exchange reserves would be an uphill task for the policy makers/economy.
Nonetheless, it has become is critical in the current FY17 to boost foreign exchange receipts through exports for medium to long term stability of the external account as oil prices have already started increasing and debt payments are also due in near future.

Exports, thus, need to be jacked up on priority for which an all-encompassing plan of action is required. Make coordinated efforts to increase the volume of exports by diversifying product mix, penetrating new markets, revising free trade agreements more favorably, ease doing business, rationalize tax system, enhance efficiencies moving towards one-window facilities and reduce manufacturing and export costs.

Trade facilitation includes all out support to exporters offering extensive marketing channels, quality control awareness, tax advisory, access to finance, documentation and paperwork facilitation, awareness on latest trends and best practices and B2B match-making which are very weak in Pakistan. We can incorporate the China model which has very comprehensive end-to-end trade facilitation systems in place.

KCCI research report urged that the businesses must be provided with uninterrupted supply of electricity, gas and water at competitive rates in addition to proper and modern infrastructure and transport facilities including telecom, rail, road, bridges, ports, logistics and warehousing support etc. Making improvements in the border, port and customs management is critical for enhancing efficiency.

The functionality of Exim bank would be a positive step for an extended period however, its launch is still pending on the part of government authorities which should not be further delayed. The services offered under Exim Bank will fulfill the needs of the exporters and help reduce the risks.

BUSINESS
RECORDER
Saturday, 15th July, 2017

Rising demand pushes rate higher on cotton market

RECORDER REPORT

Rising demand pushed the rate higher on the cotton market on Friday in the process of trading, dealers said. The spot rate was unchanged at Rs 6200, they said. In ready session nearly 4000 bales of cotton change hands at Rs 6400, dealers 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. Cotton analyst, Naseem Usman said that the mills and spinners were under pressure due to ongoing spell of heavy rains. To keep a balance between demand and supply position, mills indulged in hectic buying of cotton, other analysts said.

Experts said that present monsoon rains in Punjab particularly in cotton belt was a hovering concern among the cotton traders. Adds Reuters: ICE cotton futures hit their lowest in over two weeks on Thursday after federal data showed that 2016/2017 U.S. 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.

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. The following deals reported: 1600 bales of cotton from Tando Adam, 600 bales from Sanghar, 400 bales from Hyderabad, 200 bales from Hala, 200 bales from Jamsabad, 1000 bales from Shahdadpur, 600 bales from Mirpurkhas and 400 bales from Kotri all were finalised 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 13.07.2017	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

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	66.54	67.75	66.49	67.18	14:45 Jul 14	67.18	0.64	54	66.54
Dec'17	66.40	66.87	66.28	66.58	14:45 Jul 14	66.58	0.21	14468	66.37
Mar'18	66.16	66.51	65.94	66.11	14:45 Jul 14	66.11	-0.05	3299	66.16

BUSINESS RECORDER

Saturday, 15th July, 2017

Foreigners seek to invest in CPEC

FARHAT ALI

The China Pakistan Economic Corridor (CPEC)is moving ahead and more countries are looking at it as an opportunity for their economic and political gains. It is a shift from the earlier apprehensions that Pakistan is isolating itself from the rest of the world by moving towards China. Pakistan's missions abroad have recognized the global advantages of CPEC. It is reported that Pakistani Ambassador to the United States, Aizaz Chaudhry, has said that Pakistan is an emerging market for the international investors and this trend is recently being followed by the Corporate America. He was talking to a 16-member delegation of Pakistani IT professionals who visited the Embassy of Pakistan in Washington DC early this week. Ambassador Aizaz Chaudhry said that there is a tremendous scope for promotion of Pakistan's IT-based services and solutions in the international market, particularly in the US.

Aizaz Chaudhry said that CPEC has opened new avenues for Pakistan and is considered an emerging investment hub for a large number of investors from the world, and this trend is recently being followed by Corporate America. Ambassador, Aizaz, emphasized that Pakistan's IT firms and professionals must explore new export opportunities and forge investment links with US IT firms.

Ambassador Chaudhry said that for the foreseeable future the US would remain a global leader in technology. Pakistan attaches great importance to its relations with the US and intends to further strengthen bilateral relations in various fields, including IT. In this context, a large number of Pakistani IT professionals visit the US to serve here and also to sharpen their professional skills, he said. The 16-member delegation of IT professionals from Pakistan has been visiting Washington to participate in Microsoft's five-day global partner event "Inspire" which ended on Thursday.

In a similar development European investors, in particular Swiss investors, are beginning to look at Pakistan with interest for investment, particularly driven by the value addition offered by CPEC. In early July, a delegation of the Swiss Business Council (SBC) Pakistan visited Switzerland to invoke Swiss investment and enhance bilateral trade between the two countries in view of the opportunities offered by CPEC. In the event held by Swiss Global Enterprises (SG-E) on July 4 near Lucerne by the Swiss Asian Chamber of Commerce (SACC) and Asia Society on July 5 in Zurich the value-addition offered to investors under CPEC in terms of local and regional connectivity and accessibility to unexplored markets through state-of-the-art road and rail network, enhancement in the energy capacity of the country through an investment of $35 billion and establishment of over 30 Special Economic Zones all over the country.

All the events were remarkably well attended by the business leaders, bankers, Swiss business chambers and opinion-makers, and the importance of CPEC to Pakistan and to Swiss business was understood and recognized as a positive development for the region.

The Federal Secretariat of Economic Affairs (SECO) was also briefed on the salient features of CPEC. SG-E is the trade development authority of Switzerland, whereas, SACC and the Asia Society of Switzerland facilitate business and social and culture linkages between Switzerland and Asia. All of them have a large membership in Switzerland and Asia. Swiss Business Council works in close partnership with these organizations to develop businesses and improve the perception of Pakistan. Pakistan needs more of these global initiatives to reach out to foreign investors at their doorstep. The perception of Pakistan, in view of aggressive foreign media, is bad and needs dramatic improvement by reaching out to business leaders and opinion makers to correct this perception. It's lot of hard work. But CPEC is something we now have in hand, and this must be used to full extent to present to the world the new image of Pakistan. For Pakistan, the CPEC is a project of connectivity, an energy corridor and economic zones for all investors to make use of.

Most European countries need new markets in view of the America-First policy. And so does the UK after moving out of the EU. Pakistan being an emerging market, whose economic and political dynamics are spurred by CPEC, has a good potential to fill in these gaps and capitalize on the given situation. CPEC offers Pakistan a rare opportunity to move out of global isolation and be positioned instead as a global player, if not a leader in Southeast Asia. With its emerging political leverage in the region, a growing middle class, a free media, functional democracy and judiciary and formidable defence institutions in place, Pakistan is all set to position itself well in the region. It only needs to put its act together. All have to work hard for it. Few have recognized their responsibility and opportunities and are working on it, whereas a large majority has still to wake up and join in.

(The writer is President Overseas Investors Chamber of Commerce and Industry)

BUSINESS
RECORDER
Saturday, 15th July, 2017

Rating by Moody's

RECORDER REPORT

Moody's has affirmed Pakistan's B3 rating but cautioned that stalling of the International Monetary Fund (IMF) reform agenda, uncertainty in domestic politics that has clearly gathered momentum post-10th July, and geopolitical risks continue to provide a risk to the rating. This newspaper would however like to emphasize that Moody's ratings, like other rating agencies are, in its own words uploaded on its website, "designed exclusively for the purpose of grading obligations according to their credit quality, they should not be used alone as a basis for investment operations." And while Pakistan has never ever defaulted on its loans, not even during the country's relative isolation after the nuclear bomb blast and Musharraf's coup, yet of considerable concern is the agency's statement that "with nearly 31 percent of outstanding government debt in foreign currency in fiscal year 2016 Pakistan is exposed to marked changes in the cost of refinancing debt, should the local currency weaken abruptly... debt affordability which include interest payments as a percentage of revenues of GDP are very weak for Pakistan relative to its peer group. At around 28 percent of revenue in 2016, Pakistan spends nearly three times as much revenues on interest payments as the median B-rated sovereigns at about 10 percent... at 67.6 percent of GDP in fiscal year 2016 the government's debt is materially higher than the B-rated median of 52.6 percent."

Three elements of considerable concern need to be highlighted in this assessment. First, the incumbent Finance Minister Ishaq Dar continues to deny claims by international agencies, including the IMF as well as domestic economists, that the currency is overvalued by at least 15 to 20 percent and is one of the main reasons for plummeting exports and rising imports. This policy's usefulness is limited to supporting Dar's outlook on debt affordability. Secondly, Pakistan does not conform to the median B rated sovereigns and sustaining this rating would almost certainly be a challenge for the next government if it seeks to correct the flawed policy of an overvalued rupee, as it would certainly do if Dar is not the Finance Minister. In the event that Dar is able to keep the Finance portfolio after the next elections then the government is likely to seek another IMF loan which, given the Trump administration's lack of interest in Pakistan reflected by the fact that there appears to be no policy even after five months, may not receive as much facilitation by the Fund as the Extended Fund Facility completed last year did. And finally, the rating agency emphasizes the fact that Pakistan is performing poorly relative to our peer review countries or in other words, Dar's positive spin on the performance of the Pakistan economy, including with respect to debt management, reflects poorly if compared with other 'peer' countries.

And disturbingly for Dar who ordered a probe to be led by the newly-appointed Governor of the State Bank of Pakistan into the recent rupee depreciation, Moody's report states that: "on July 5, 2017, after nearly two years of stability, the Pakistan rupee depreciated by about 3 percent [3.1 percent] following foreign market intervention by the central bank. The intervention responded to mounting external pressures and deterioration of export competitiveness following persistent real effective exchange rate appreciation. The Pakistani rupee has retracted much of its recent depreciation." Or in other words, it is implied that the decision by the central bank was a good one.

The growth rate as per Moody's would be 6 percent over the next few years, however, the rate projected by Dar in the current year's budget documents is 6 percent for the current year which he projected would rise to 6.5 percent next year and 7 percent the year after. The basis of 6 percent growth Moody's argues is the China Pakistan Economic Corridor but added that given the "weak track record of public project implementation" the "pace of project execution will be relatively slow" which as per the agency would imply a rate of no more than 5.5 percent over the next two years. And adds that growth projections of the government are optimistic which implies revenue growth projections based on GDP growth projections are also going to be overoptimistic and cautions that a rise in development spending under the CPEC may increase Pakistan's indebtedness.

Business Recorder supports the assessment by Moody's and would hope that the Dar-led Finance Ministry takes cognizance of its evaluation and takes appropriate decisions to mitigate the flawed policies in effect for the past four years. However, this is highly unlikely because unlike favourable reports on Pakistan, which are few and far between, by international agencies as well as the foreign media that are disseminated by the Press Information Department there has been no mention of this comprehensive Moody's report by the official entities.

Saturday, 15th July, 2017

CPEC outflows to peak at $4.5bn: IMF

The Newspaper's Staff Reporter

KARACHI: In a detailed look at the China-Pakistan Economic Corridor (CPEC), the International Monetary Fund (IMF) cautions that corridor projects will generate outflows of as much as $4.5 billion by 2024, while the export benefits of the projects "will likely accrue gradually over time". Filling the gap in between could pose a policy challenge.

"These considerations warrant policymakers' attention to two priority areas in order to realise the transformational potential of Pakistan's investment programme while maintaining external stability," the IMF report says.

The first challenge is to ramp up export revenue and build foreign exchange buffers, which "will be important to cushion the period of increased BoP outflows". Ramping up exports will require "improving competitiveness and the business climate" in order to realise the potential benefits from the increased energy supplies and transport infrastructure that the corridor projects will create.

The second big challenge is bringing "full cost recovery" in power distribution. "Routing the increased generation capacity through a loss-making distribution sector could result in faster accumulation of circular debt and fiscal costs, as well as undermine long-term financial sustainability of the new energy projects," the report adds.

The report stops short of advocating a specific path for improving recoveries, but points towards greater private-sector participation in metering and recoveries while "maintaining a strong and enabling regulatory framework". The language could be aimed at the government's proposed reforms to the Nepra Act that seek to parcel out many of the powers the regulator currently enjoys to the federal and provincial governments and their departments.

The report also cautions against going too far down the road of granting incentives to certain categories of investor. It urges the government to "rationalise and limit tax incentives and exemptions [and] maintain uniformity of the tax regime with respect to all investments" and ensure that new external commitments are in line with expected balance of payments trends.

The report notes the positive impact that CPEC projects can have on Pakistan's economy. It says the direct impact of corridor projects on GDP will go from $2bn in 2017 to $4bn by 2024. By that point in time, the indirect, second-round impacts could commence, which could be "significant" but "will depend on many other supportive factors."

The report notes that the investments coming under the early-harvest scheme could close Pakistan's power deficit as 8,600MW are envisaged to be commissioned under CPEC over the next seven to nine years, out of a total capacity expansion of 24,000MW currently in the investment plan. "[T]his expansion will help eliminate Pakistan's deficit of about 6GW in 2016 to a surplus as early as end-2018."

Saturday, 15th July, 2017

Private sector credit off-take jumps by 126pc

Shahid Iqbal

KARACHI: Thanks to historically low interest rates, private-sector borrowing jumped by 126 per cent in 2016-17.

The private sector borrowed Rs633 billion in 2016-17 against 280bn in the preceding fiscal year. Its breakdown showing the borrowing for working capital and fixed investment was not available for the entire fiscal year.

The latest report by the State Bank of Pakistan (SBP) covers the period from July 1, 2016 to June 23. In a recent report, the SBP said credit to the private sector fell sharply (as a percentage of GDP) 2009 onwards relative to peer countries.

The SBP said the low interest rate and benign business environment stimulated demand for credit by the private sector.

As much as 42pc of private-sector credit off-take for the first three quarters of the last fiscal year went into fixed investment. Loans for working capital still have a bigger share in overall credit off-take because of greater availability of raw materials like cotton and sugarcane.

Large-scale manufacturing showed better growth in 2016-17, creating more space for credit inflows through banking channels. LSM growth in July-April was 5.58pc compared to 3.85pc a year ago.

The SBP recently indicated that trade-related borrowing also went up during the last fiscal year, which helped accelerate private-sector credit off-take.

It said that in the light of historically low interest rates — combined with improvements in energy supply, law and order, business sentiments and overall macroeconomic stability – there is good reason to expect further expansion in private-sector credit off-take and resultant growth.

Banks enjoyed ample liquidity due to high deposit growth during the last fiscal year. The government did not borrow from scheduled banks while it accumulated Rs1.23 trillion through the SBP. Government borrowing from commercial banks amounted to Rs352bn during the last quarter of 2016-17.

But it was significantly less than last year's borrowing of Rs1.34tr, leaving banks with lots of unutilised liquidity.

Banks had sufficient liquidity available for private-sector lending in 2016-17 because of high deposit mobilisation and low government borrowing from commercial banks. This left banks with the only option of extending credit to the private sector because the returns on Pakistan Investment Bonds also fell sharply in the last fiscal year.

Saturday, 15th July, 2017

Weekly inflation down by 0.2pc

The Newspaper's Staff Reporter

The price of tomato decreased 4.81pc during the week ending on July 13. The Sensitive Price Index recorded a decline for the second consecutive week mainly because of a fall in vegetable prices.

ISLAMABAD: Weekly inflation for the combined income group declined 0.2 per cent for the seven-day period ending on July 13 mainly because of a fall in vegetable prices.

Measured through the Sensitive Price Index (SPI), weekly inflation dropped for the second consecutive week, according to data issued by the Pakistan Bureau of Statistics on Friday. SPI monitors prices of 53 items based on a survey of 17 cities and 53 markets.

Prices of 14 items increased and those of 16 items decreased during the period under review. Prices of 23 items remained unchanged. The impact of prices on various income groups also witnessed variations. SPI declined 0.24pc for the lowest income group earning up to Rs8,000 a month. Inflation for the top income group earning Rs35,000 and above dropped 0.18pc.

On a year-on-year basis, SPI for the combined group witnessed an increase of 0.02pc.

The price of chicken rose 3.67pc, powdered milk 2.29pc, tea prepared 1.4pc, mutton 0.43pc, cooking oil tin 0.19pc, milk fresh 0.18pc, mustard oil 0.16pc, vegetable ghee tin 0.13pc, rice basmati broken 0.13pc, red chilli powder loose 0.1pc, curd 0.1pc, rice Irri-6 0.1pc and vegetable ghee loose 0.02pc.

The price of banana dropped 10.73pc, tomato 4.81pc, onion 4.09pc, egg 1.54pc, sugar 1.2pc, garlic 1.12pc, pulse mash 0.87pc, potato 0.57pc, wheat flour 0.25pc, wheat 0.23pc, pulse masoor 0.16pc, pulse moong 0.12pc, pulse gram 0.07pc and gur 0.07pc.

Saturday, 15th July, 2017

Cotton prices remain firm despite slow activity

The Newspaper's Staff Reporter

KARACHI: Trading activity on the cotton market failed to improve as phutti (seed cotton) arrival remained slow. Forecast of further rain has fueled the apprehension that the arrival may stop all together.

Barring few small lot deals, the activity remained moderate to slow but prices stood firm. There was strong demand of cotton from spinners but due to short supply, activity remained restricted, brokers said.

The world's leading cotton markets also lacked trading activity, and according to the latest US Department of Agriculture's report last week, there was an up to 93pc fall in exports. This further impacted the cotton markets adversely worldwide.

Meanwhile, agriculture departments have advised the cotton growers not to allow water to stagnate in the fields as it would harm the standing crop and also keep scouting fields for a possible pest attack.

The Federal Board of Revenue is reported to have once again imposed 1pc import duty on cotton which was withdrawn earlier this year in January to allow imports of cotton due to a short crop.

The Karachi Cotton Association kept its spot rates unchanged at overnight level.

The following deals were reported to have transpired on the ready counter: 1,000 bales from Shahdadpur done at Rs6,400; 600 bales, Sanghar, at Rs6,400; 1,600 bales, Tando Adam, at Rs6,400; 600 bales, Mirpurkhas, at Rs6,400; 400 bales, Hyderabad, at Rs6,400; 200 bales, Hala, at Rs6,400; 400 bales, Kotri, at Rs6,400 and 200 bales, Jamsabad, 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**	**6,720**

DAWN

Saturday, 15th July, 2017

MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market*		Open market**	
	Buying	Selling	Buying	Selling
USA	105.30	105.50	106.70	107.00
UK	136.37	136.63	137.50	138.50
Euro	120.09	120.32	120.90	121.90
S.Arabia	28.08	28.13	28.25	28.50
UAE	28.67	28.72	28.90	29.15
Japan	0.9282	0.9300	0.9307	0.9507

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

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

LIBOR

Special US dollar bonds for July 13

Three months	1.30361 %
Six months	1.45600 %

THE NEWS

Saturday, 15th July, 2017

IMF reiterates rupee's overvaluation stance

ISLAMABAD: International Monetary Fund (IMF) reiterated its stance that the rupee is overvalued by 10 to 20 percent in real effective terms but Pakistani officials say the current exchange rates would have no immediate consequences for the economy.

"Greater exchange rate flexibility, fiscal adjustment, and structural reforms would help narrow the gap," the IMF said in a report that concluded the Article IV consultation with Pakistan.

The officials did not agree with the estimates done by the Fund staff.

The Fund said Pakistani authorities' assessment suggested a significantly lower degree of overvaluation.

Just before the recent appointment of Tariq Bajwa as Governor State Bank of Pakistan, Pakistan's rupee had witnessed steep decline of more than Rs3.50 against dollar in one day, but then former acting governor Riaz Riazuddin preferred not to intervene into the market.

Finance Minister Ishaq Dar took notice of the situation and ordered an inquiry into the steep decline as well as moved ahead with the appointment of permanent Governor SBP.

"Now a detailed inquiry is underway and its report will be submitted soon for ascertaining the reasons behind steep fall of rupee against greenback," said an official.

The IMF, in the report, said the country's external position is moderately weaker than what was suggested by fundamentals and desirable policies.

"Estimates from standard methodologies for the assessment of the external position are subject to significant model uncertainty," it added. "The current account gap (deficit) is estimated at between 1 and 1.8 percent of GDP based on the Fund-wide EBA (external balance assessment) exercise (and) this suggests an overvaluation in the 10–18 percent range."

At the same time, the Fund said another assessment method (the real effective exchange rate-based EBA-lite), explicitly accounting for factors such as remittances and aid flows, suggested a slightly larger overvaluation of about 20 percent.

IMF said Pakistan's gross reserves have remained below the adequacy level as suggested by the assessing reserve adequacy (ARA) metric – 73 percent in December 2016 – and have declined since the completion of the extended fund facility-supported program last year.

Resumption of accumulation of reserves, including through allowing downward exchange rate flexibility, is needed to further strengthen buffers, while also supporting competitiveness, it added.

The Fund further said 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 the fiscal year of 2016/17.

Expected foreign direct investment inflows and significant government external borrowing in the fourth quarter would allow financing the increase in the current account deficit and foreign reserves to recover to $18.5 billion, equivalent to 3.8 months of imports and which is 73 percent of the IMF's ARA metric, albeit with risks to the downside.

Over the medium term, IMF said current account deficit is expected to peak at 3.4 percent of GDP in 2019 as China-Pakistan Economic Corridor-(CPEC) 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 7.5 percent of GDP over the medium term, highlighting the need for macroeconomic and structural policies supporting competitiveness," it said.

THE NEWS
Saturday, 15th July, 2017

Freshwater scarcity aggravates climate-related risks to Pak economy: ADB

KARACHI: Pakistan's capacity to store fresh water is amongst the lowest in the region, worsening the risks climate change poses to agriculture economy, Asian Development Bank (ADB) said on Friday.

ADB, in a report, said the country's dam storage as a fraction of total renewable water resources stands at 11.3 percent, a little below than India (11.7 percent), but it is much less than China's 29.2 percent. Canada's dam storage stands at 29 percent, while that of the US is 24 percent.

The Bank said the country's biggest province Punjab, which majorly contributes to the economy, is at the centre of climate-related risks as freshwater scarcity aggravates farmers' woes.

"The vulnerability of farmers in Punjab province of Pakistan to climate-related risks was aggravated by already existing constraints on available freshwater, access to income, and a fragile infrastructure," ADB said in the report titled, "A region at risk the human dimensions of climate change in Asia and the pacific."

"Their (farmers) capacity for adaption is impaired by a lack of knowledge as well as by resource scarcity." The report was prepared in collaboration with Potsdam Institute for Climate Impact Research.

ADB further said annual mean precipitation in the region, including Pakistan and Afghanistan, is projected to decline by 20 to 50 percent in the late 21st century. "Melting glaciers in the north of Pakistan, (however), result in additional river flooding."

It said precipitation patterns have become more difficult to predict as a result of extreme climate anomalies. "While precipitation in Pakistan has always experienced large-scale variability, the past few decades have shown a significant increase in both dry and wet spells, with northern Pakistan."

The Bank further said climate change could impact the variability of the monsoon and lead to changes in the intensity and timing of precipitation. "This would further aggravate the water stress already present in the region today, as farmers have to be able to plan for the monsoon onset and withdrawal in order to effectively farm their land (e.g., plowing day)."

Manila-based lender, in the statement, said climate change will also make food production in the region more difficult and production costs higher.

"Food shortages could increase the number of malnourished children in South Asia by 7 million, as import costs will likely increase in the subregion," it added. "In some countries of Southeast Asia, rice yields could decline by up to 50 percent by 2100 if no adaptation efforts are made."

ADB further said a warmer climate for the region could endanger energy supply, while energy insecurity could lead to conflicts as countries compete for limited energy supply.

"Climate change can exacerbate energy insecurity through continued reliance on unsustainable fossil fuels, reduced capacities of thermal power plants due to a scarcity of cooling water, and intermittent performance of hydropower plants as a result of uncertain water discharges, among other factors," said the Bank, which approved $3.7 billion in climate financing in 2016 and committed to further scale up its investments to $6 billion by 2020.

It said some countries in the region could experience significantly hotter climates, with temperature increases in Tajikistan, Afghanistan, Pakistan, and the northwest part of the People's Republic of China projected to reach 8 degree Celsius.

"These increases in temperature would lead to drastic changes in the region's weather system, agriculture and fisheries sectors, land and marine biodiversity, domestic and regional security, trade, urban development, migration, and health," it said. "Such a scenario may even pose an existential threat to some countries in the region and crush any hope of achieving sustainable and inclusive development."

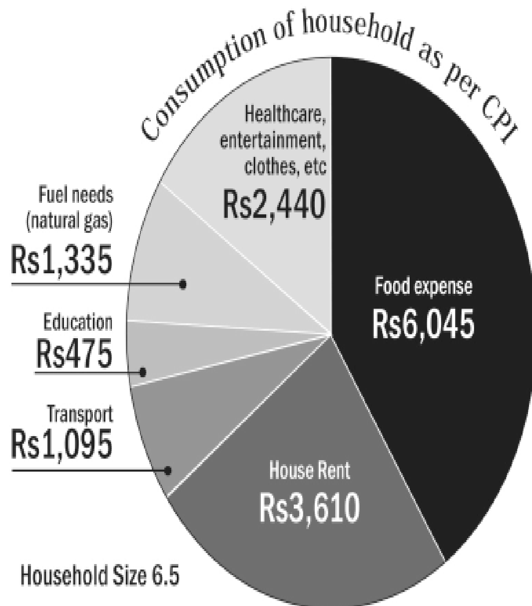
ADB called for implementation of the Paris Agreement, which vows to rapid de-carbonisation of the Asian economy through renewable energy and technology innovation efforts in urban infrastructure and transport. "The region has both the capacity and weight of influence to move towards sustainable development pathways, curb global emissions, and promote adaptation," it said.

THE NEWS

Saturday, 15th July, 2017

Minimum wage not enough to live off in Pakistan

Minimum Wage Rs15,000



Food Needs Per Month in Real terms

Rs2,979 at Rs50/kg (wheat flour)

Rs800 (poorest quality edible oil)

Rs2,250 (onions, garlic, tomato, potato)

Rs1,000 (pulses, spices, salt)

Rs1,200 (half litre milk)

LAHORE: Increase in minimum wage is announced in every budget since 2008, which means that the minimum wage has increased by Rs10,000 in last ten years. Still, even those getting minimum wage find it difficult to balance their monthly budget.

This brings into question the criteria for increasing minimum wage; as a constant increase by the same amount every year means that in percentage terms the increase is decreasing every year. When the minimum wage was Rs4,000 per month, an increase of Rs1000 meant that the minimum wage increased by 25 percent.

An increase of Rs1,000 on last years' minimum wage of Rs14,000 meant that the minimum wage in percentage term increased by around seven percent. Another important point would be that an experienced worker, who was being paid Rs4,000 in 2008 would now be paid Rs15,000 since businesses equate the increase in wage with yearly increment, not a reward on the basis on experience.

Ironically, a new recruit in private service was entitled to the same minimum salary of Rs15,000. In other words, a person who has no experience, and the one who has worked for 10 years were being paid the same wage.

Simply put, the current wage system is a disincentive to productivity. Why would a person work hard and increase productivity if at the end of the day his rewards were the same as that of a raw hand?

These things apart, let us analyse what impact the minimum wage has on the monthly budgets of the families.

We all know that in majority of the cases, the family is dependent on a single bread earner who earns a minimum wage. There were two ways of analysing the bare minimum monthly expenses of a family.

One is on the basis of the percentage expenses on various counts given in the Consumer Price Index (CPI) of the government, and the other is to calculate these expenses as per current prices. It is worth noting that in both cases, the minimum wage is not enough to cover the expenses.

The average size of a family in Pakistan is 6.5. The minimum wage bread earner has to feed them, provide them shelter, bear utility charges and take care of their education and health needs.

If we look at the percentage that the government has assigned to each necessary expense in the CPI inflation basket, it will be found that food accounts for 40.3 percent of the total expenses of a family.

THE NEWS
Saturday, 15th July, 2017

House rent consumes average 23.4 percent, transport 7.3 percent, education 3.5 percent, energy 8.7 percent, and all other expenses including apparel and textiles, entertainment, healthcare and household expenses account for the remaining 16.8 percent.

This means that the worker would have to spare Rs6,045 for food, Rs3,610 for house rent, Rs1,095 for transport, Rs475 for education, and Rs1,335 for meeting fuel and energy needs of the family. He will be left with Rs2,440 to cover the other 16.8 percent expenses relating to healthcare, apparel, entertainment, etc.

With these allocations made according to CPI inflation basket he would not be able satisfy the genuine needs of his family. Every economist agrees that the food needs are the largest monthly expense of the poor. The poorest consume 80 percent of their income on food that declines as the affluence increases.

In reality, the spending of the poor are not in line with the official statistics state. It also contradicts the other government data on nutrition.

According to government statistic, an average Pakistani consumes 110 kilogram of wheat per year or 9.166kg of flour per month. A family of 6.5 would thus consume 59.58kg wheat flour per month, which would cost Rs2,979 at Rs50/kg.

The family would require 4kg of edible oil at 20 grams per person per day. It would cost the family Rs800 per month. Assuming that the family consumes minimum quantity of vegetable like onion, ginger, garlic and one main vegetable after alternate day even then it would add a burden of Rs2,250 on the family budget at Rs75 per day.

Another Rs1,000 would be needed for pulses, spices, salt, etc; and Rs1,200 per month for half litre milk daily. Assuming that the kitchen fuel is natural gas, he will have to bear a monthly bill of Rs300. In case it is LPG, kerosene oil or coal the cost would be much higher.

The above expenses on food are barest minimum in which the family is deprived of quality foods like meat, mutton, fish or chicken meat, eggs, butter or fruits, sugar or tea. Despite this the food expenses listed above total Rs7,529 which is almost 80 percent of current minimum wage of Rs15,000.

THE NEWS
Saturday, 15th July, 2017

Cotton stable

Karachi

Normal trading continued at the Karachi Cotton Exchange on Friday, 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.

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

Of these, deals of 1,600 bales were recorded from Tando Adam, 600 bales from Sanghar, 1,000 bales from Shahdadpur, 600 bales from Mirpurkhas, 400 bales of Kotri, 400 bales of Hyderabad and 200 bales each from Hala and Jamsabad also exchanged hands.

New York cotton market recorded decrease on all its futures. October futures fell 1.59 cents to 66.54 cents/pound and December futures decreased 0.59 cents to 66.37 cents/pound.

The Nation on Web
The Nation
Saturday, 15th July, 2017

NA body for 'export emergency' to promote trade

APP

ISLAMABAD - Members of Senate Standing Committee on Finance, Revenue, Economic Affairs, Statistics and Privatisation on Friday advocated for declaring emergency for export sector in order to promote external trade.

The members during a meeting, chaired by Qaiser Ahmad Sheikh, highlighted the importance of resolving issues of export sector for the best national interest. The issues included, refund claims, double duty in clearing goods in different provinces, banking issues related to exports, limitations of Rs180 billion export package etc. The committee recommended for convening a consultative meeting of all stakeholders wherein the representatives from Ministry of Commerce, Ministry of Textile and Ministry of Finance would be called to help resolve the issue.

MNAs Asad Umar and Abdul Manan were of the view that the committee must look into the matter why the exports from the country were on declining trend and urged for taking emergency steps to promote exports sector.

On the occasion, Federal Board of Revenue (FBR) Chairman Tariq Pasha assured the committee that as announced by Finance Minister Ishaq Dar in his budget speech, the refund claims would be cleared by August 14. Meanwhile, the committee decided to take up the issue of rupee devaluation against dollars during its upcoming meeting, likely to be held in first week of August.

Raising the issue, Asad had argued that the committee must know the findings of the inquiry initiated in this matter. Meanwhile, the committee passed the Microfinance Institutions (Amendment) bill 2017 which was moved by Sajida Begum and referred to the committee on March 7, 2017. The committee deferred discussion on an Eradication of Riba bill 2015 and on The Islamabad Capital Territory Prohibition of Private Money Lending Bill 2017. The presentations of the State Bank of Pakistan (SBP) on the State of Economy for fiscal year 2016-17 and Federal Board of Revenue's (FBR) presentation revenue collection during the fiscal year 2016-17 were also postponed for next meeting.

The committee welcomed Tariq Pasha for assuming the charges as FBR chairman and expressed the hope that under his supervision the board would perform better.

The Nation on Web
The Nation
Saturday, 15th July, 2017

Commerce ministry keen to modernise trade mechanism

APP

ISLAMABAD - Ministry of Commerce is focussing on modernising the trade mechanism to facilitate international and domestic trade, and enhance export.

"We are working to search new trade avenues and markets in different regions of the world to get access to these markets for promotion of country's trade," official of the commerce ministry told APP on Friday. New trade policy mainly targeted the international and internal trade for improving supply chain, enhancing use of technology and providing competitiveness.

The government is committed in providing direction and diversification to internal trade for enhancing supply chains to enhance country's exports. He said that Free Trade Agreements (FTAs) with Turkey, Thailand and Iran were under negotiation phase and agreement would be finalised in coming months.

The official said that priority of the government would be to initiate the FTAs on same pattern with the Latin American Countries for promotion of free trade with the regional countries. The South American markets had great potential which needed to be exploited, he added. Argentina, Brazil, Colombia and Cuba have huge import potential for promoting trade from Pakistan.

He said that the Strategic Trade Policy Framework (STPF) envisaged diversification of export markets through adoption of an outreach strategy for Africa, Commonwealth of Independent States (CIS) and Latin America. The STPF 2015-18 aims to achieve annual exports to $35 billion besides improving export competitiveness and making transition from `factor-driven' economy to `efficiency-driven' and `innovation-driven' economy.

He said that in seventh round of negotiations on Free Trade Agreement (FTA) between Pakistan and Turkey, both sides had discussed the specific sectors including textile sector during the negotiation. Pakistan and Turkey's Free Trade Agreement (FTA) will be signed on August 14, for enhancing the bilateral trade between two countries. He said the country's major exports to Turkey were denim PET, ethanol, cotton yarn, fabric and rice, garments, leather, carpets, surgical instruments, sports good and chemicals.

The Nation on Web
The Nation
Saturday, 15th July, 2017

'Ministry not authorised to amend petroleum policy unilaterally'

KP govt demands withdrawal of SRO regarding alteration in policy

Fawad Yousafzai

ISLAMABAD - Provinces have asked the federal government that it has no right to renew the expired leases of the Exploration Companies without the consultation with the provincial governments.

The Ministry of Petroleum has no right to amend the matters related to petroleum policy unilaterally and should withdraw the SRO regarding the amendment in Pakistan Onshore Petroleum (E&P) Rules, 2013, demanded the Khyber Pakhtunkhwa government.

"I am directed to refer to DGPC letter No Expl-3 (3) PPL-Sui ML)/2016, Vol II dated 26-4-2017 and SRO 267(I)/2017 dated 14th March, 2017 amending the Pakistan Onshore Petroleum (E&P) Rules, 2013 (Annex-A). In fact, it is not a Rule but a matter of Petroleum Policy-2013," said a letter written by the KP government to the Ministry of Petroleum and Natural Resources.

The copy of the letter, available with The Nation, further said that under 18th Amendment Article 172 (3) read with 172(1) makes it clear that the provinces are the owners of the Mineral Oil & Gas; however of course both the federal and provincial governments need to jointly evolve course of action for which joint meeting, Anomalies Committee, Article 154, IPCC and CCI would have been a better forums instead of the federal government taking unilateral decisions adversely affecting the rights of the provinces. Furthermore, MPNR does not have any such executive powers as mentioned in the said SRO.

It is the matter related to policy and not rules, and to make amendment to the policy the government has to table the summary in CCI, the source said. The Khyber Pakhtunkhwa government sincerely requests you to withdraw the SRO 267(I)/2017 with immediate effect, the letter said.

The source said that the Sindh will be the biggest affectee of the decision as the leases are getting expired there and now under the amended SRO the federal government has the power to renew them without taking the provincial government onboard, the official said adding that it is the violation of the constitution.

As per the Petroleum Rule, for Re-grant of lease after expiry of lease term, the authority (DGPC) may renew or re-grant, as the case may be, the lease for up to a further five years, provided the lease holder agrees, at least one year prior to the expiry of the lease period, to pay,15 percent of wellhead value of petroleum produced to the federal government. If such agreement is not concluded the authority may invite bids from prequalified companies for the grant of a lease over the same, or substantially the same, area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue.

The Nation on Web
The Nation
Saturday, 15th July, 2017

Budget deficit to exceed target: IMF

Imran Ali Kundi

ISLAMABAD - International Monetary Fund (IMF) has projected that Pakistan's budget deficit would increase to Rs1.433 trillion (4.5 percent of the GDP) during last fiscal year 2016-17 as against target of Rs1.21 trillion (3.8 percent of the GDP).

"The revenue shortfall incurred earlier in the year is being mitigated by a correction in petroleum tax rates, strengthened tax administration efforts, and a recovery in non-tax revenue collection. Paired with continued public spending discipline, staff projected the overall fiscal deficit (excluding grants) at 4.5 percent of GDP, close to last year's outcome (4.6 percent of GDP) but above the budget deficit target (3.8 percent of GDP)," the Fund said in a report that concluded the Article IV consultation with Pakistan.

On the other hand, Pakistan expected the overall fiscal deficit (excluding grants) at 4.2 percent of GDP on the back of expectations of a stronger recovery in tax and non-tax revenue collection towards the end of the fiscal year. According to the IMF, budget for the ongoing fiscal year (FY2017-18) is subject to significant risks. The budget 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 1½ percent of GDP may be needed to achieve the FY2017-18 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 FY2016-17), 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.

Staff also argued that interest and other current spending could turn out higher than budgeted (by about½ percent of GDP), that 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.

The IMF also stressed that strengthening the efficiency, flexibility and responsiveness of the national fiscal federalism framework would support macroeconomic stability. 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 Fund advised both federal and provincial authorities to better align revenue and expenditure responsibilities consistent with the constitutional framework. 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 coordination committee to facilitate vertical and horizontal coordination 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.

The Nation on Web
The Nation
Saturday, 15th July, 2017

Weekly inflation falls 0.2 percent

APP

ISLAMABAD - The weekly inflation for the week ended on July 13, for the combined income groups, decreased by 0.2 percent as compared to the previous week.

According to the data released by Pakistan Bureau of Statistics (PBS) on Friday, the Sensitive Price Indicator (SPI) for the week under review in the above mentioned group was recorded at 219.45 points against 219.90 points last week. As compared to the corresponding week of last year, the SPI for the combined group in the week under review witnessed nominal increase of 0.02 percent.

The weekly SPI has been computed with base 2007, 2008=100, covering 17 urban centres and 53 essential items for all income groups. Meanwhile, the SPI for the lowest income group up to Rs8,000 decreased by 0.26 percent as it went down from 209.35 points in the previous week to 208.84 points in the week under review.

As compared to the last week, the SPI for the income groups from Rs8001 to 12,000, Rs12,001 to 18,000, Rs18,001 to 35,000 and above Rs35,000, also decreased by 0.28 percent, 0.22 percent, 0.21 percent and 0.18 percent, respectively. During the week under review, average prices of 14 items registered decrease, while 14 items increased with the remaining 22 items' prices unchanged.

The items, which registered decrease in their prices during the week under review included bananas, tomatoes, onions, eggs, sugar, garlic, mash pulse, potatoes, wheat flour, wheat, masoor pulse, moong pulse, firewood, gram pulse, gur, LPG cylinder.

The items, which registered increase in their prices during the week under review included chicken, milk (powdered), tea (prepared), mutton, soap, cooking oil, milk (fresh), mustard oil, vegetable ghee, rice (basmati), chilly, curd, rice (irri-6) and vegetable ghee.

The items with no change in their average prices during the week under review included bread, beef, salt (powdered), tea (packet), cooked beef, cooked daal, cigarettes, long cloth, shirting, lawn, georgette, gents sandal, gents chappal, ladies sandal, electricity charges, gas charges, kerosene oil, electric bulb, washing soap, match box, petrol, diesel and telephone local call.