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GSP Plus status:

Government may seek support for continuation

MUSHTAQ GHUMMAN

The government is likely to actively engage with the Members of European Parliament (MEPs) and the governments of the EU member states to seek their support for continuation of GSP plus status for Pakistan, well informed sources told *Business Recorder*. The second biennial review of the GSP plus scheme for Pakistan is currently underway and the review report would be submitted in January 2018. The European Parliament and Council have key roles in GSP plus review process.

The EU accounts for 20% of Pakistani external trade with Pakistani exports to the EU amounting to $3.4 billion, mainly textiles, medical equipment and leather products, and EU exports to Pakistan amount to $3.8 billion and consist mainly of mechanical and electrical equipment, and chemical and pharmaceutical products. "Assessment of implementation on 27 core Conventions by the EU Commission is underway which will be submitted to the EU Parliament in January 2018. GoP has to implement the Conventions, the only strategy that can work," the sources added.

However, there is fear that implementation of the National Action Plan (NAP) and its fallout on human rights can create problems, the sources continued. Pakistan, sources said, faces tough opposition from the Southern block EU countries and some of them voted against giving Pakistan the GSP Plus in the EU Parliament. An official, who is well versed with the EU''s GSP plus affairs, told this scribe that from Pakistan''s perspective, the EU member states may be divided into five broad and sometimes overlapping categories according to their approach towards Pakistan''s GSP plus status. The first category is a group of eight countries namely Romania, Poland, Spain, France, Italy, Bulgaria, Portugal and Greece who did not support the grant of GSP plus scheme for Pakistan in 2013. These countries'' feared competition from Pakistan and were therefore supporting protectionism.

Greece, in addition to their protectionist approach is increasingly linking its support for GSP plus with the issue of illegal migration from Pakistan. The demands for full implementation of EURA are, therefore, the strongest from Greece. "Although Pakistan has made huge progress in the implementation of EURA which is duly recognized by the EU, however Greece, France, Italy and Spain continue to raise concerns regarding this issue," the official said, adding that migration especially illegal migration, has become an existential threat for the EU. According to the official, Ministry of Foreign Affairs maintains that the government should engage proactively with the European External Action Service, DG Trade Office of the Commission and DG Development Cooperation (DEVCO) and strengthen its hands by providing all the required information and inputs envisaged under the GSP plus scheme.

Last year, Prime Minister Nawaz Sharif had restructured Treaty Implementation Cell (TIC) to improve compliance of 27 UN Conventions signed by Pakistan. Attorney General of Pakistan Ashtar Ausaf Ali is the Convenor of TIC, the purpose of which is to help Pakistan co-ordinate with international partners working in the areas of human and labour rights.

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THE RUPEE: Sliding trend

RECORDER REVIEW
The rupee fell against the dollar on the money market during the week, ended on July 15, 2017. The rupee dropped sharply versus the dollar for buying and selling at Rs 106.37 and Rs 106.40.

INTER-BANK MARKET RATES: OPEN MARKET RATES: The rupee also lost 50 paisas in terms of the dollar for buying and selling at Rs 106.70 and Rs 107.00. Following the same pattern, the rupee also lost sharply against the euro for buying and selling at Rs 121.30 and Rs 122.30.

The rupee managed to resist erosion against the dollar due to slight improvement in supply position, money experts said. They also said that the rupee may stay firm or move slightly in relation to the dollar, they said.

INTER-BANK MARKET: On Monday, the rupee was trading versus the dollar for buying and selling at Rs 105.05 and Rs 105.25.

On Tuesday, the rupee lost 25 paisas versus the dollar for buying at Rs 105.30 and 15 paisas for selling Rs 105.40. On Wednesday, the rupee did not move sharply versus the dollar at Rs 105.30 and Rs 105.40. On Thursday, the rupee moved in a narrow band versus the greenback for buying and selling at Rs 105.32 and Rs 105.34. On Friday, 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.

OPEN MARKET RATES: On July 10, the rupee was moving against the dollar for buying and selling within the band of Rs 106.20 and 106.40, while it was available versus the euro at Rs 120.25 and Rs 121.25, dealers said.

On July 11, the rupee lost 20 paisas versus the dollar at Rs 106.90 and Rs 106.90, dealers said. The rupee was trading in terms of euro at Rs 121.25 and Rs 122.25, they said.

On July 12, the rupee maintained overnight levels against the dollar for buying and selling at Rs 106.20 and Rs 106.40, however, it lost 15 paisas against euro for buying and selling at Rs 120.40 and Rs 121.40.

On July 13, the rupee picked up 10 paisas against the dollar for buying and selling at Rs 106.50 and 106.80, they said. The rupee was trading against the euro for buying and selling at Rs 120.80 and Rs 121.81, they said. On July 14, 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. Following the same pattern, it also shed 10 paisas against euro for buying and selling at Rs 120.90 and Rs 121.90.

On July 15, the rupee maintained overnight levels in relation to the dollar each for buying and selling counters at Rs 106.70 and Rs 107.00. It, however, lost 40 paisas against euro for buying and selling at Rs 121.30 and Rs 122.30.

OVERSEAS OUTLOOK FOR DOLLAR: In the first Asian trade, the Canadian dollar dipped against its US counterpart on Monday as oil prices fell, pulling back from a nearly 10-month high last week, while investors awaited a Bank of Canada interest rate decision on Wednesday.

The US dollar climbed against a basket of major currencies, boosted by robust jobs data on Friday, although investors were wary of adding big positions before Federal Reserve chief Janet Yellen's testimony this week. The dollar was trading against the Indian rupee at Rs 64.500, the greenback was at 4.297 in terms of the Malaysian ringgit and the US currency was available at 6.802 versus the Chinese yuan. In the second Asian trade, the dollar's advance against its major peers slowed on Tuesday as a rise in sovereign bond yields paused, with investors awaiting comments from Federal Reserve Chair Janet Yellen for fresh cues on policy direction.

The dollar was 0.1 percent higher at 114.190 yen following a rise to a two-month high of 114.300 overnight. The euro was effectively flat at $1.1394 after inching down about 0.1 percent the previous day. "The dollar is capped as the surge in German bund yields stopped overnight and in turn dragged down US Treasury yields. The recent surge in bond yields appears overdone and we are seeing a bit of a correction," said Yukio Ishizuki, senior currency strategist at Daiwa Securities. The dollar was trading against the Indian rupee at Rs 64.480, the

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greenback was at 4.296 in terms of the Malaysian ringgit and the US currency was available at 6.894 versus the Chinese yuan.

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

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

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

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

The dollar slipped as Yellen's comments sparked a significant decline in US Treasury yields. The dollar index against a basket of major currencies was down 0.15 percent at 95.606 after retreating to as low as 95.511 the previous day, its weakest in 12 days.

The dollar was trading against the Indian rupee at Rs 64.428, the greenback was at 4.287 in terms of the Malaysian ringgit and the US currency was available at 6.779 versus the Chinese yuan. 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. At the week-end, the dollar fell against a basket of major currencies on Friday, after weaker-than-forecast data on consumer prices and retail sales in June raised doubts about US economic growth and whether the Federal Reserve would raise interest rates again in 2017.

US consumer prices were unchanged in June and retail sales fell for a second straight month, pointing to tame inflation and soft domestic demand. Economists had forecast the CPI edging up 0.1 percent last month. Its drop of 0.1 percent in May and the lack of a rebound in June could trouble Fed officials who have largely viewed the recent moderation in price pressures as transitory.

"The CPI data begs the question, at what point does transitory becomes something that is more sustained, in terms of the softness," said Richard Franulovich, senior currency strategist at Westpac Banking Corp in New York. The dollar index, which tracks the greenback against six major rivals, was down 0.6 percent to 95.152 after earlier falling to 95.132, its lowest since September 2016.

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Real effective exchange rate:

IMF warns further appreciation will erode export more

TAHIR AMIN

International Monetary Fund in its recent Article IV consultations has warned that greater exchange rate flexibility is critical and further appreciation of the real effective exchange rate would further erode export competitiveness and discourage remittances further. This warning was stated eight times by the IMF and recently uploaded on its website.

The report raised the exchange rate issue at least 21 times and emphasized that Pakistan authorities must support greater exchange rate flexibility rather than relying on administrative measures-to help reduce external imbalances and bolster external buffers. In the executive summary the IMF notes that "prudent monetary policy and greater exchange rate flexibility will be the key to preserve low inflation and rebuild external buffers".

In para 4, the report notes: "International reserves have declined amid a rising current account deficit and a broadly unchanged dollar/rupee exchange rate.....the exchange rate continued to remain stable against the US dollar, supported by the State Bank of Pakistan (SBP)''s foreign exchange interventions, and further appreciated in real effective terms 6 percent during this fiscal year (18 percent cumulatively over the past three years)."

In para 7, the report states "while recognizing recent current account pressures, the authorities have not allowed for more downward exchange rate flexibility in light of sustained real exchange rate appreciation".

In para 11, the Fund states "tightening global financial conditions could adversely impact capital inflows, and continued appreciation of the real effective exchange rate would further erode export competitiveness and discourage remittances".

In Para 14, it emphasized that "reversing the recent decline in reserves and allowing for greater exchange rate flexibility are needed to rebuild external buffers, which are below adequate levels, and strengthen Pakistan''s competitiveness, which has been affected by real effective exchange appreciation. Based on standard models of real effective exchange rate valuation, which are subject to significant uncertainty, staff estimated that Pakistan''s external position is moderately weaker than suggested by fundamentals and desirable policies and that the real exchange rate is moderately overvalued (between 10 and 20 percent. The authorities'' own assessment suggested significantly lower currency overvaluation".

On page 11, Box 2, the report adds "resumption of accumulation of reserves-including through allowing downward exchange rate flexibility-is needed to further strengthen buffers while also supporting competitiveness".

In para 15, the report states that the "staff underscored that more prominence should be given to exchange rate flexibility, rather than administrative measures, to address external imbalances....allowing for greater downward exchange rate flexibility would be preferable to administrative measures and more effective as means to strengthen Pakistan''s external position".

In para 17, the Article IV Consultation report notes that "staff stressed that allowing greater exchange rate flexibility, strengthening reserve buffers, maintaining fiscal discipline, limiting government borrowing from the SBP and ensuring its full operational independence will be important pre-conditions that will need to be in place for effective inflation targeting".

In paragraph 13, the report states "maintaining a prudent monetary policy stance and allowing greater exchange rate flexibility are needed to preserve low inflation and re-build external buffers".

In para 42, the Fund states "with Pakistan''s external position being moderately weaker than suggested by fundamentals, allowing for

greater exchange rate flexibility, fiscal adjustment, and structural reforms would facilitate the building of external buffers and strengthen competitiveness".

In paragraph 43, the report notes that "moving to inflation targeting over the medium term is welcome once key preconditions are in place, including greater exchange rate flexibility, stronger reserves buffers, full operational autonomy of the SBP, and reduced fiscal imbalances".

The statement of Executive Director for Pakistan dated 14 June 2017 takes cognizance of the sustained emphasis of the report on the need to allow for greater exchange rate flexibility and he notes that "amid rising current account deficit and broadly stable exchange rate, foreign reserves have declined, but going forward, the authorities would be willing to consider greater exchange rate flexibility, as long as there is a need and appropriate conditions are in place".

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IHC issues notices to Haroon, FBR chief, RTO officials

SOHAIL SARFRAZ

Islamabad High Court (IHC) has issued notices to Special Assistant to Prime Minister on Revenue Haroon Akhtar, Chairman Federal Board of Revenue and FBR officials of Regional Tax Office Islamabad in response to a petition that challenged the order passed by the President of Pakistan to modify the directions issued by Federal Tax Ombudsman (FTO).

Sources told *Business Recorder* that the IHC has issued notices in the constitutional petition against the President of Pakistan, special assistant to prime minister, chairman FBR and tax employee of RTO Islamabad on the issue of illegal attachment of bank account and acceptance of representation filed by the FBR under section 32 of FTO Ordinance, 2000, against an order passed by the FTO.

It is learnt that the petition was moved by a former employee of an Islamabad-based IT company through Advocate Waheed Shahzad Butt, through which he challenged the acceptance of representation by the President against the order passed by the FTO Chaudhry Abdur Rauf.

The petitioner stated, "Order passed by the President on the basis of vague, incompetent and unlawful representation filed by the FBR under section 32 of the FTO Ordinance, 2000, against the order passed by FTO is patently illegal, without lawful jurisdiction and void ab initio. The available forum of the President has the mandate to diagnose, investigate, redress and rectify any injustice done to a person through maladministration of tax employees administering tax laws. Sections 12, 13 and 14 of the FTO Ordinance, 2000, give ample powers to the FTO to initiate appropriate corrective action or disciplinary/criminal proceedings against a tax employee, who in the opinion of the FTO has committed "maladministration" as defined u/s 2(3) of the FTO Ordinance. It is the prime duty of office of the President of Pakistan to dispense justice and functionaries representing office of the learned President are supposed to uphold the dignity of law and respect command and orders of the courts.

On the other hand, the process of law is being abused badly by the office of the President due to illegal acceptance of representation. The office of President is involved in sheer violation of provisions of FTO Ordinance, 2000, and Constitution of Pakistan," said the petition.

The IHC order stated, "Through the instant writ petition, the petitioner Masud Reza impugns the order dated 31.05.2017, passed by the President of Pakistan, whereby representation of respondent No 2 against the findings/ order, dated 20.02.2017, of the Federal Tax Ombudsman, was partly accepted."

The counsel for the petitioner submitted that respondent No 2 attached the petitioner''s bank accounts almost two years after the assessment order, which was not served on the petitioner; that the petitioner''s appeal against the said assessment order was accepted by the commissioner (appeals); that despite the acceptance of the petitioner''s appeal, the petitioner''s bank accounts were not detached; that in such circumstances, the petitioner was constrained to file a representation before the Federal Tax Ombudsman; that the finding/order dated 20.02.2017 was in the petitioner''s favour; that prior to this, the petitioner''s bank account were detached; that representation of respondent No 2 to the President of Pakistan was partly allowed, however, the directions given by the Federal Tax Ombudsman to respondent No 2 to comply with the order of the appellate forum were maintained.

The counsel further submitted that the act of the officials of respondent No 2 not to detach the petitioner''s bank accounts after the petitioner''s appeal was accepted, which was perverse arbitrarily, unreasonable and oppressive.

The IHC ordered to issue pre-admission notices to respondent number 2 to 4, re-list the case after the summer vacations and the exemption sought for is allowed, subject to all just and legal exceptions.

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New FBR Member faces challenge to meet collection target

RECORDER REPORT

The new Federal Board of Revenue (FBR) Member Inland Revenue (IR) Operations Khawaja Tanveer Ahmad (Inland Revenue Service/BS-21) is facing a big challenge to enforce an effective enforcement strategy at the level of field formations to meet the ambitious revenue collection target for 2017-8.

It is learnt that his rich experience of both the customs as well as Inland Revenue would enable the Board to ensure taxpayers facilitation, compliance as well as achievement of the assigned targets. Out of overall fixed target of Rs 4,013 billion for 2017-18, the FBR will collect Rs 1594.910 billion through direct taxes and Rs 2418.090 billion in shape of indirect taxes.

Khawaja Tanveer Ahmad last position was Director General, (Intelligence & Investigation) Inland Revenue, Islamabad. During his tenure as DG I&I IR the agency showed remarkable performance in framing cases against tax evaders in almost all leading sectors of the economy. One of the major initiatives taken by him is the creation of anti-money laundering cell and speedy actions against persons involved in money laundering.

He is one of those professionals who drafted different fiscal laws for the FBR from time to time. He has worked at key positions during is long span of carrier including Project Director (CARe) for development and administration of Pakistan Customs Computerized System (PaCCS), involving on line availability of web based system 24x7.

He worked as Member (HRM), Member (Accounting) FBR, Chief Commissioner (IRS) Regional Tax Office-II, Karachi, Member (Tax Reforms &Re-structuring), Federal Board of Revenue, Commissioner Inland Revenue (2009-11), Regional Tax Office-I & II, Karachi, Collector Customs, Model Customs Collectorate of PaCCS, Customs House, Karachi, Collector (Sales Tax & Federal Excise, Enforcement), Karachi, Collector (Sales Tax & Federal Excise, Enforcement & Audit), Large Taxpayers' Unit (LTU). Karachi, Chief (Policy & Tax Reforms) & (Customs Tariff) CBR, Islamabad (2001-03) and remained posted as Secretary in different taxes during his entire carrier.

He also worked as Member TP&R (Tax Policy & Reforms), Federal Board of Revenue, Islamabad and supervised US $149 million project of Tax Administration Reforms of FBR Contributed in Tax Policy formulation, FBR restructuring, FBR's negotiations with donors etc.

He worked as Secretary (Trade, Export Policy and Infrastructure Loan Project) Input Output Coefficient Organization, Custom House, Karachi (2000-2001). Established new Input Output Co-efficient Organization setup, monitored the work of Asian Development Bank (ADB) consultants, coordinated with ADB on the project-related matters - financial monitoring of the project etc.

He major achievements included Member VAT Team of Federal & Provincial VAT Acts, 2010, served as Member / Secretary VAT Implementation Team of Federal Board of Revenue, represented FBR at the International VAT Conference hosted by IMF/World Bank, Dubai, read paper on Automation in Customs at World Customs Organization annual conference Veracruz, Mexico, outstanding Performance Award by FBR as Collector MCC (PaCCS), outstanding Performance Award by Finance Minister as Assistant Collector of Customs, Karachi, outstanding Performance Award by Chairman, FBR, detection of certain major cases of smuggling of Gold, currency, narcotics and Sales Tax refund fraud and meritorious Services Award for contribution by Chairman, FBR

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The myth of PSE reforms in Pakistan

The government would like the citizens to believe that plans to reform public sector enterprises (PSE) are in full sway. The reality is entirely different.

In 2014, the government took assistance from the Asian Development Bank for PSE reforms under the project titled "Pakistan: Public Sector Enterprise Reforms Project". This project loan was approved by the ADB in December 2014.

Under that programme, the SECP had to put an IT system in place for online filing system and corporate finance database. It was also supposed to appoint an international corporate governance expert to assist SECP in setting up a unit to monitor compliance with the PSE Corporate Governance Rules (CGR) 2013. The apex regulator was also tasked to develop a results-based scorecard to assess implementation of corporate governance rules 2013, whereas it was also supposed to prepare regular (annual) reports on PSEs compliance with the CGR 2013.

Three weeks ago, BR Research inquired about the progress of these reforms steps from the SECP. Their answer: "the arrangements envisaged under the ADB project loan documents have not yet been executed by the relevant quarters. Accordingly, desired feedback for your questions may be treated as NIL." For those wondering, the 'relevant quarters' in this case is the Finance Ministry. A similar query was made to the ADB. As per ADB's 2014 PSE reform project documents, 10 PSEs were to be privatised under the porgramme. Likewise, a mitigation framework for labour related issues was to be finalised by December 2015, whereas a communications strategy was to be developed to improve transparency aimed at getting a public buy-in for reforms. The project also planned for annual consumer surveys to be designed and conducted towards the strengthening of the privatisation programme.

Replying to most of these queries in October 2015, the ADB had said the government of Pakistan had not finalised its end of the affairs. For instance, framework for labour related issues had not been finalised; nor had the government selected the sector for which the ADB were to provide blue print of competition assessments in the form of reports.

Answering similar queries about PSE reform project this time around, the ADB instead informed that the government had requested them in 2015 to provide a comprehensive policy-based loan to facilitate PSE reforms in Pakistan instead of the project loan approved in December 2014.

Accordingly, a policy-based loan was processed with two subprograms of $300 million each. The loan covers only federal government PSEs. The first subprogram was approved in June 2016 and the second subprogram was approved on 22 June 2017.

It must be noted, however, that both 2014 project-based assistance and its re-hashed version of policy-loan approved in 2016 have similarities. Like the former, the latter also contains plans to develop policies to address labour issues and a communication strategy. Both also contain outputs to improve the transparency, monitoring and corporate governance of PSEs. The new policy loan also includes an output to establish a conditionality framework for fiscal transfers to public sector enterprises, and upgrading the quality of economic regulatory institutions.

In response to BR Research's questions about progress on these outputs, many of which weren't entirely new to the new version of the PSE reform loan in 2016/2017, the ADB conveniently remained silent. Sources in the Finance Ministry and the SECP report state that progress on these fronts has been no more than a damp squib.

Meanwhile, this weekend the SECP has published the names of those PSEs that have failed to file the Statement of Compliance (SoC) with the CGR 2013 for years ending June and December, 2016.

It is disconcerting to see that the published list of non-filing 55 PSEs contains some of the biggest names that were required to file the SoCs. Some of the big and important PSEs that have not filed their SoC include the likes of National ICT R&D

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Fund, LESCO, Nandipur Thermal Power Generation Co, NTDC, Pakistan Steel Mills, and Utility Stores Corporation.

Whistle-blowers from the Finance Ministry have even more disturbing things to report. In documents available with BR Research, whistle-blowers have flagged that the filing of statement of compliance by the PSEs does not mean that those PSEs have indeed complied with the CGR 2013.

“A host of non-compliance with the provisions of the rules has been found, even though the PSEs have filed the SoCs,” one source said on the condition of anonymity. Most PSEs have not been submitting review report by the auditor, year after year. This means that there is no reason to believe that the PSEs that do not feature in the SECP’s just-released list do in fact follow the CGR 2013.

Even show cause notices sent to the non-complying PSEs, and hearings thereof, have only been sent for the filing of Statement of Compliance, rather than actual compliance. This is largely because the policy reform matrix given to SECP by the ADB itself focuses on the filing of SoC rather than actual compliance.

“For instance, some line ministries are the appointing authorities for appointing the board, but they are not following fit and proper criteria notified by the CGR 2013 rules. Other line ministries are not appointing independent directors, and in fact some PSEs have sitting MPAs/MNAs on the board, in clear contradiction of the law.” This list doesn’t only contain the proverbial white elephants but also the profitable ones such as the GHPL.

In other cases, the board is independent, but it is not empowered because it hasn’t not been given the power to appoint the CEO, the company sectary, the CFO, and internal auditor. “An analysis of the statement of compliance for the years 2014 and 2015 shows that the regulator and the management of the PSEs are too slow to implement the rules of PSEs CGR 2013,” the source said.

Since most non-compliance fell into this category, the government recently relaxed the corporate governance provision and allowed line ministries to appoint the C-level staff, a privilege that was only the boards’ in previous version of the CG rules.

The corporate governance rules 2013 were supposed to be the first step on the long road and winding road towards PSE reforms. Yet more than three years later, those first steps are still not steady. It takes more than just rules to fix the PSE; it takes strong will and great skills, ingredients that are in short supply in the current cabinet. In the face of will-skill deficits and poor progress on PSE reform thus far, the question is why is the government taking huge loans from the ADB?

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IMF assessment of power sector (i)

It is nearly the end of the present government's tenure and the slide in political capital has been accompanied with a slide in the general state of the economy over the past year. One of the major promises that got the PML-N government elected, that of putting an end to the menace of load shedding, is still far from being fulfilled.

One of the core problems at the heart of the power sector crisis is that of circular debt. The fundamental issue has been the recovery of arrears and the failure to pass on higher tariffs to end consumer by the distribution companies (DISCOs). The recently released IMF Article-IV consultation report by the IMF has stressed upon the need to contain the accumulation of arrears which is crucial for a financially viable and growth supporting power sector.

The IMF has highlighted weaker bill collection by DISCOs as well as failure to adjust end-consumer tariffs as major reasons behind the growing circular debt. It notes that the accumulation of power sector arrears resumed in the first half of FY 2016/17 with the stock increasing to Rs374 billion (about 1.2 percent of GDP).

As this column has commented earlier, oil prices came to the government's rescue otherwise matters would have been much worse. The IMF also noted that while most DISCOs met their December-end 2016 targets in terms of collection, about half met their targets in terms of distribution losses.

There are still an astounding number of politically sensitive areas as well as political establishments that do not pay for the electricity they consume. This column is of the view that although generation and transmission issues can be overcome relatively quickly, but distribution losses cannot be eliminated without genuine political will (Read: "Inevitable circular debt" published on 02 June, 2017).

The IMF also underscored the need for "planned IPOs of DISCOs to strengthen corporate governance and mobilize proceeds to start reducing the stock of outstanding arrears." This is now age-old advice that has been dispensed countless times yet the problem still persists. Without the appropriate structural reforms, a financially viable and operationally sustainable will continue to remain a distant dream on the horizon.

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SEZs – A word of caution

Pakistan has recently jumped on the Special Economic Zone (SEZ) bandwagon. Board of Investment Chairman Dr Miftah Ismail informed the Chinese side that Pakistan plans to establish a total of 46 SEZs during the last meeting of the Pak-China Joint Cooperation Committee (PCJCC) held in Beijing. Of the 46, the setting up of nine SEZs has been prioritized currently.

There are at least 4,300 SEZs in the world in over 130 countries, as per a policy research working paper by World Bank "Global Experiences with Special Economic Zones". Some SEZ become phenomenal success stories such China's Shenzhen. Dubbed "Miracle of Shenzhen," it enjoyed a growth rate of 58 percent annually from 1980 to 1984.

However, the report also highlights the many white elephants dotted around the world that have done nothing to aid economic development and growth in their respective countries

Case in point is the recent Shanghai Free Trade Zone that was established in 2013 and focused on finance. When it opened, it was hyped as a laboratory for economic reform that would help push China into a new age of prosperity. However, amid the slow reforms and confusion over policies, it has been labeled a "dud" by CNN.

To prevent a repeat of the lack of success from our export processing zones, Pakistan needs to overcome political influence, inefficient bureaucracy, and coordination failures among different stakeholders, and lack of policy implementation.

An important factor to consider is SME development. SEZs tend to benefit FDI and larger domestic investors with incentives geared towards exporters. For Pakistan's SME's development effective links have to be created between local SMEs and globally competitive firms anchored in the zones. Strong value chain linkages with local industrial clusters, governed by an autonomous regulatory authority with a unique value proposition for investors are crucial for success

In a recent interview that BR research had with Stefan Dercon, Professor of Economic Policy at the Oxford University and the Director of the Centre for Study of African Economies at Oxford University, Dercon spoke about realigning Pakistan's existing incentive structure for spurring exports and FDI. "You would want to structure incentives in such a way that they encourage sectors where the value addition ladder can be climbed more effectively. They should also aid sectors where there is a scope of productivity improvement," he said.

For SEZs to be successful, they have to be closed linked to domestic enterprises and industrial clusters such as Sialkot's surgical good industry and Faisalabad's readymade garments manufacturing industry, through supply chains or value chains. The FDI that would potentially flow in needs to be directed carefully so that spillovers gradually increase competitiveness, and hence exports.

To prevent Pakistan's SEZs from failing to deliver on the expectations, key challenges such as poor regulatory and institutional framework, lack of effective strategic planning, weak governance and implementation capacity, inadequate infrastructure, among others, need to be addressed.

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IMF's assessment

International Monetary Fund (IMF) has uploaded the 2017 Article IV consultations on its website and self-servingly maintained that macroeconomic risks have begun to re-emerge since the completion of the three-year Extended Fund Facility (EFF) programme in September 2016 and long standing challenges remain subsequent to the strengthening of economic resilience and a number of structural reforms set in motion during the EFF. This newspaper was in the forefront challenging the veracity of the quarterly reviews by the IMF mandated under the EFF that accounted for an unprecedented number of waivers and allowed for the release of subsequent tranches by the Fund's Board.

Most particularly Business Recorder maintained during the duration of the EFF programme that the government had failed to implement governance reforms in the two most poorly performing state institutions namely the Water and Power Ministry and the Federal Board of Revenue (FBR). Disturbingly, the focus of the government during the EFF remained on increasing electricity generation without first ensuring that existing capacity was fully utilized which would have been in line with the conclusions of the third party audit on rental power projects undertaken by the Asian Development Bank. This could have been achieved through eliminating the circular debt to ensure that Independent Power Producers are not constrained by liquidity issues and are able to generate at capacity, improving governance of badly managed state-run generation companies and strengthening the transmission system to enable it to transmit more than 16,500MW. With respect to FBR, the Fund remained focused on raising total revenue generation as opposed to making the tax system more equitable and fair which explains why the current tax system relies heavily on withholding taxes in the sales tax mode that are passed onto the consumers simply because they are easy to collect but their incidence is greater on the poor relative to the rich. It would have been more appropriate for the Fund to have focused on widening the tax net and raising reliance on taxes on income.

Extremely disturbingly, however, the latest Fund report argues that the budget for 2017-18 is subject to significant risks as it envisages "marked increases in tax and non-tax revenue, a large expansion in development spending, and contained growth in current spending." And suggests that, "measures could include further reducing tax expenditures (estimated at 1.3 percent of GDP in FY 2016/17), gradually raising petroleum taxes, further strengthening the system of withholding taxes for non-filers, and improving provincial tax collection in agriculture, property and services" – reducing tax expenditures is politically unfeasible especially post-Joint Investigation Team report, raising taxes on petroleum products would make our exports even more uncompetitive than at present and raising withholding taxes which are largely in the sales tax mode do not reflect widening the net.

However, the government consistently rejected the IMF's assessment and subsequent warnings on an overvalued rupee during the quarterly reviews; unfortunately though the Fund was never forceful enough to insist, through the imposition of a time bound condition, that the government ensures a more realistic real effective exchange rate (REER) – realism considered relevant to the extent that the heavy external borrowing by the Dar-led Finance Ministry, with external borrowing consisting of around 31 percent of outstanding debt in foreign currency, including the high interest rate on Eurobonds and sukuk, accounted for it no longer being economically feasible to ensure a REER. It is the failure of the Fund to use its leverage to compel the government to allow market conditions to prevail with respect to the rupee value that accounts for a steadily worsening current account deficit with exports declining and imports rendered more attractive. In this scenario, for the Fund to blithely state in its recent report that "the authorities have not allowed for more downward exchange rate flexibility in light of sustained real exchange rate appreciation" reflects poorly on the Dar-led Finance Ministry but also on the Fund.

What must be appreciated is the fact that the Pakistan

Bureau of Statistics (PBS) has acknowledged its shortcomings with respect to data compilation, given the frequent challenges to its data by independent economists, and requested technical assistance from the IMF to improve compilation of fiscal accounts. This newspaper had frequently pointed out the statistical discrepancy being very significant in national income accounting and in this context, the Article IV Consultation notes that the "concepts and definitions used in compiling government finance statistics are broadly based on the GFSM (Government Finance Statistics Manual) 1986…the authorities have indicated their intent to adopt the methodology of GFSM 2001 over the medium-term…the principal issue involving GFS is to reduce the size of the statistical discrepancy between the financial and non-financial accounts."

To conclude, the warning by the IMF Board while reviewing the Article IV Consultation report with reference to the China Pakistan Economic Corridor, the only silver lining in our growth forecast, requires consideration by the Pakistan authorities "key external risks include lower trading partner growth (reference to lower growth projected in China), tighter international financial conditions, a faster rise in international oil prices, and over the medium-term, failure to generate sufficient exports to meet rising external obligations from large-scale foreign-financed investments."

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Worries over external account compound

Mohiuddin Aazim

Pakistan's external account worries are increasing at a time when the government is in disarray after the release of the Joint Investigation Team's findings regarding the ruling Sharif family's involvement in money laundering.

In a politically charged environment, with the opposition demanding the Prime Minister's resignation in the light of the JIT findings and Mr Sharif refusing to do so, the IMF has released its article IV consultation report on the state of the economy.

The observations made by the IMF regarding external sector vulnerabilities and the inadequacy of foreign exchange reserves have only added to worries regarding the deteriorating health of the external sector.

While the situation is disquieting, the government is seemingly hopeful

The State Bank of Pakistan's forex reserves (excluding foreign exchange held by the banking system) has declined to about $16.2 billionn (as on July 7) from $18.27bn at end-December 2016.

At this level the reserves are sufficient to finance imports of only about three and a half months or 'below comfortable levels', in the IMF's view.

These reserves are inclusive of $3.6bn that the SBP obtained through derivative position. The IMF says that this $3.6bn forward position could put additional pressure on the reserve.

The IMF further states that external sector vulnerabilities have increased with a widening current account deficit and rising medium term external repayment obligations linked to the China-Pakistan Economic Corridor (CPEC).

In FY17, exports slipped 1.63pc to $20.448bn, imports shot up 18.67pc to $53.026bn and trade deficit surged 36.32pc to $32.57bn, according to the latest data released by the Pakistan Bureau of Statistics.

Remittances also went down 3pc to $19.3bn as Pakistanis living in Saudi Arabia and other Gulf countries started feeling the pinch of the economic troubles in their host countries.

After imposition of a tax (at 100 Saudi Riyal per month on each non-earning member of families of immigrants), and after cost-cutting measures introduced in the kingdom, chances are that our remittances from that country would continue to fall, analysts fear.

Economists have long been warning that relying too much on remittances can hurt as both politics and economics of Gulf countries are transforming and job markets in the UK and the US are no more as lucrative for foreigners as before.

The latest stats show a declining trend in remittances inflow from all these nations and if this trend continues, the current account deficit — that has already swollen to $10.641bn in eleven months of FY17 from just $4.586bn in the year-ago period — would widen further.

Though foreign portfolio investment in the public sector has seen a handsome inflow of $1bn in eleven months of FY17, private portfolio investment has remained negative by $410 million during this period.

And, foreign direct investment at $2.212bn, also in eleven months of FY17, is only 8.6pc higher than in a year-ago period. With political uncertainty at a new peak, analysts don't see foreign portfolio investment inflows improving.

FDI inflows can be expected to keep rising, as CPEC-related projects are progressing. But then the impact of these could be somewhat offset by outward repatriation of funds by foreign companies and individuals working in Pakistan.

Borrowing more from multilateral lending agencies is an option but the political cost of such a move is too high in the politically charged pre-election year. Besides, it will be difficult to meet the lender's conditions that might include painful reforms.

An already high foreign debt to GDP ratio does not leave enough room for big-ticket borrowing anyway.

The launch of sovereign bonds can be a risky move at a time when international investors have many more options available to them and can be lured only with a return so high so as to be unsustainable in the long run.

The cost of external debt servicing has already reached very high levels, thanks largely to excessive foreign debt accumulated by the present and previous governments.

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In three quarters of FY17, external debt servicing ate up $5.228bn — a huge amount, a little over 25pc of our total exports in FY17 and 20pc of our forex reserves.

Overall forex reserves, including even foreign exchange held by the banking system, is below $22bn against annual imports of $53bn.

However, as of end-May 2017, overall balance of payments was positive by $1.675bn.

Last week, Moody's, one of the two leading global credit rating agencies, speculated in its latest report that during the next two years Pakistan's economic growth rate would remain below official expectations due to slow materialisation of CPEC.

It kept the country's credit rating unchanged at B3 which means that investment in Pakistani bonds is highly speculative.

So, the external sector situation is worrisome.

Still, the government is seemingly hopeful and officials of the ministry of finance say they are working hard to improve the situation.

"Some serious moves are being made to boost exports and, I am sure exports will begin to rise now. This year's budget attempts to curb imports of luxurious items.

"Labour export to Kuwait has begun and we are facilitating overseas Pakistanis to send all remittances through official channels," according to one of the officials.

"We've requested our Chinese friends to fast-track injection of foreign funds into CPEC-related projects. Foreign companies, not only from China but from the US, UK, EU and Middle Eastern and Far Eastern countries, are keen on investing here."

But it is feared that growing political uncertainty may have a negative impact on foreign portfolio investors.

Some stockbrokers say that to avoid this possibility, the Chinese consortium that has got 30pc stakes in the PSX should be allowed to trade in the secondary market and raise its PSX shareholding to 51pc.

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Fixed sales tax regime revised upward

Bilal Hassan

Tax revenues have an overwhelming share in the overall federal receipts. Among these taxes — collected by the Federal Board of Revenue — the sales tax has the lion's share of 45pc.

The sales tax applies to taxable supplies of both domestic and foreign goods under the Sales Tax Act of 1990.

In Pakistan, sales tax on goods is imposed under federal legislation and is administered by the federal tax authorities, whereas sales tax on services is imposed by provincial tax authorities under the provinces' sales tax legislation.

Some retailers will have an option to pay sales tax at the rate of 2pc of their total turnover, without the facility of input tax adjustment

Nevertheless, the sales tax regime is modelled on the value added tax (VAT) system in all respects.

Though sales tax is collected in VAT mode, the size of Pakistan's informal economy is estimated to be larger than the formal economy and the use of fake and flying invoices is incredibly large.

Therefore, the federal tax authorities have adopted a fixed sales tax regime for certain sectors of the economy to prevent revenue leakage.

Under the fixed sales tax regime, either the rate of sales tax is fixed, the value of supplies is fixed, or both. This differs from the value added tax system practised internationally.

The fixed sales tax regime has been administered through the Sales Tax Special Procedures Rules since 2007. On July 1, however, the FBR issued a statutory regulatory order — SRO 583(I)/2017 — to amend those rules so assss to increase the value of supplies fixed for the imposition of sales tax.

The amended rule No. 5 provides an option to tier-1 retailers to pay sales tax at the rate of two per cent of their total turnover, without the facility of input tax adjustment.

Tier-1 retailers include those who are operating as a unit of a national or international chain of stores, operating in air-conditioned shopping malls, plazas or centres (excluding kiosks), whose electricity bill during the preceding year exceeds Rs600,000, or those wholesaler-cum-retailers who import and supply consumer goods in bulk.

Such an option has to be filed in writing to the chief commissioner of FBR's Inland Revenue wing by July 15.

Once the option is exercised, it will remain in force for the whole financial year 2017-18.

However, retailers making supplies of finished goods of the five export-oriented sectors — textiles, carpet, leather, sports and surgical products — will pay sales tax at the rates prescribed in SRO 1125(I) issued on Dec 31, 2011.

Under the amended rule No. 58H (1), the rate of sales tax has been increased to Rs10.5 from Rs9 per unit of electricity consumed for producing steel billets, ingots and mild steel products, excluding stainless steel as final discharge of sales tax liability of steel melter and steel re-roller.

Similarly, adjustable sales tax of Rs5,600 per tonne will be charged and collected on the import of re-meltable iron and steel scrap from taxpayers discharging sales tax liability.

Moreover, Rs8,400 instead of Rs5,600 per tonne will be collected from other importers under rule No. 58H (2A).

Under rule No. 58H (2B), sales tax at the rate of Rs8,400 per tonne will be charged on local supplies of re-meltable iron and steel scrap. The previous rate was Rs5,600 per tonne.

According to rule 58Ha, steel melters and steel re-rollers producing electricity using gas generators will pay monthly sales tax on the basis of the gas bill using this revised formula: sales tax payable = (hundred cubic metres x Rs2,494) less sales tax paid on gas bill.

Likewise, steel melters and re-rolling mills operating on self-generated electricity will pay monthly sales tax using this revised formula: sales tax payable = mill size (in inches) x Rs68,187.

Under rule No. 58H(4), fixed amount of sales tax to be paid at import stage by ship-breakers has been increased from Rs80,000 to Rs80,500 per tonne of supplies of re-rollable scrap and other materials obtained from ship-breakers.

The quantity of supplies will be determined at 80pc in case of oil tankers and gas carriers and at 72.5pc for other vessels of the

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total light displacement (LDT) of the ship imported for breaking. Previously, the quantity has been assessed at 70.5pc.

LDT is the weight of the ship excluding cargo, fuel, water, ballast, stores, passengers, crew, but with water in boilers to steaming level.

According to rule No. 58I, slabs of fixed sales tax amount per tonne to be mentioned by the taxpayers on the invoices have been revised upward.

Similarly, slabs for fixed value to be used for assessing sales tax on steel products has been revised (rule No. 58K).

Last but not least, an additional 2pc sales tax will not apply to supplies of lubricating oils to registered oil marketing companies and supplies made by them to registered manufacturers for in-house consumption (rule No. 58T [1]).

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The economic impact of rupee depreciation

Jawaid Bokhari

The free fall of the rupee on July 5 provided an opportunity for Finance Minister Ishaq Dar to reaffirm his vision of a stable and robust national currency in the present 'expansionary phase of the economy.'

The rupee has remained stable over the past two years as the authorities ignored the IMF's repeated advice for exchange rate adjustment.

Dar's determination to beat back speculative attacks on the widely accepted 'over-valued' rupee is further demonstrated by the appointment of former Finance Secretary Tariq Bajwa as the new central bank governor.

There are limits to the excessive use of devaluation to reduce the trade deficit

It is a departure from the current practice to appoint a banker or an economist in the central bank's top position.

Earlier he held a meeting in Islamabad with banks and State Bank officials to signal the market to observe voluntary discipline.

The finance minister described the plunge of the rupee as an 'artificial' move engineered by an individual not competent enough to take any such arbitrary decisions.

The depreciation of the rupee has multiple impacts on the economy and its cost-benefit ratio needs to be examined thoroughly before making any move via the managed float route. For this the proper forum is the Monetary and Fiscal Policies Coordination Board.

The July 5 episode shows that the exchange rate cannot be left to be set by a market afflicted by excessive speculative trading activity.

Any sharp currency devaluation would have at least two serious implications: a surge in the cost of debt servicing as well as on investment based on imported capital goods, particularly for long-term infrastructure projects.

Mr Dar blamed the free fall of the rupee for an almost Rs230 billion increase in public debt within just a few hours.

There is a difference between a weak market exchange rate and strong purchasing power parity of the rupee versus the dollar.

This difference hides a major abnormality: a weaker rupee makes imports costlier and exports cheaper, perpetuates adverse terms of trade and transfer of resources abroad, and aggravates the balance of payments position.

The market value of a national currency does not necessarily reflect the fundamentals of the economy as it is determined by day-to-day or moment-to-moment demand and supply; unless it is subjected to managed float.

For investment purposes, it is common practice to use the purchasing power parity to measure the real size of an economy; apart from using the fluctuating and varying market exchange rates to estimate a country's GDP.

The free, or managed, float has spurred market volatility since the fixed parity was abandoned.

This is because the free float has been excessively used to promote financialization of the economy while the economy's core activity of financing remains subdued.

In Pakistan, banks prefer to invest in Treasury bills and Pakistan Investment Bonds, the stock market and currency trading rather than cater to potentially more productive sectors of the economy.

The corporate sector prefers self-financing to borrowing from banks at floating rates to keep financial charges affordable.

The financialization of the economy tends to slow down economic growth. It has resulted in frequent economic crises in countries, finally peaking in a global financial crisis in 2007-08.

The financial crises have tended to reduce the clout of the IMF and central bank's worldwide but for efforts to keep financial markets afloat.

Looking at the big picture, the continuous depreciation of the rupee since the early 1970s, to boost exports, has delivered an import-oriented and not an exported led economy.

Trade and current account deficits have been a perpetual problem, managed by huge workers' remittances, ballooning foreign debt and fluctuating capital and financial inflows with worsening external sector imbalances.

For nearly half a century, since the initial years of 1970s, the global financial system has been facing organic failures despite

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massive international efforts to salvage the faltering system.

And in a fast changing global, trade and investment environment many of the existing policies have been put to a critical test. There are limits to the excessive use of devaluation to reduce the trade deficit.

The rupee depreciation does temporarily help boost exports by making goods and services cheaper for foreign buyers. To cut imports by making them expensive for domestic buyer's, the external sector has to hit the edge of a precipice.

Since the cost of imported capital goods and other industrial inputs, including raw materials, becomes expensive as a result of currency depreciation, the cost of production of exportable goods ultimately goes up and loses much of its competitiveness.

The problem is that costly imports have not encouraged enough of import substitution nor have external sector pressures convinced the country's policymakers to mobilise, increase dependency on domestic resources and reduce reliance on foreign money.

This leads to the trade and current account deficits becoming a perpetual problem with the external sector in a virtually unending crisis.

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FOCUS

Gathering storm

By Zeeshan Haider

For well over three years, finance minister Ishaq Dar has been excessively quoting IMF praise for his economic management at the public forums to assure the nation that all is going well with the economy of the country.

But the latest vibes from the international financial institutions show that all is not well and Pakistan's economy will slide back to the situation it was in, a decade ago.

The not-so-good reports about the state of the economy from the IMF came at a time when the government is grappling the political crisis generated after the release of the damning JIT report on Panamagate investigations. It has triggered a debate in the local and foreign media, asking whether Prime Minister Nawaz Sharif would be able to complete his full five-year term in office.

The prime minister has rejected the calls from his opponents to step down after the JIT report concluded that Sharif and his children have accumulated wealth beyond their known means.

However, the opposition parties have also refused to budge from their demand of asking the prime minister to step aside pending the final judgment of the Supreme Court on the report, which may determine the political career of the beleaguered leader.

The report is not only a big political blow to the prime minister, but also to his heir-apparent and political successor, Maryam Nawaz, who investigators accused of forging documents to mask the truth.

Irrespective of the outcome of the apex court decision, one could foresee more political polarisation in the country in the coming weeks and months.

Ironically, the JIT also raised serious questions about the conduct of prime minister's key aide and finance minister Ishaq Dar, during PML-N's pervious terms in office and accused him of being a conduit for laundering money for the ruling family. Though Mr Dar has rejected the allegations and vowed to defend him strongly in the court, observers say the brewing political crisis might deflect his attention from addressing economic issues plaguing the country.

At such a critical moment, the IMF released a report based on the Article IV Consultations with the Pakistani authorities, launched following the completion of the three-year $6.2 billion bailout package.

According to the IMF, the macroeconomic resilience has strengthened in Pakistan during the Extended Fund Facility, which included increase in growth, reduction in fiscal deficit, and recovery in the foreign currency reserves, thus salvaging Pakistan from a balance of payment crisis.

During this period, the structural reforms were also set in motion, measures were taken to tackle long-standing fiscal and energy sector constraints, and social safety nets were strengthened.

However, the international lender noted that policy implementation has weakened and macroeconomic vulnerabilities have begun to re-emerge which include slow-down in fiscal consolidation, widening of the current account deficit, and depletion of foreign exchange reserves.

On the structural front, the accumulation of arrears in the power sector – the circular debt – is coming to a dangerous level, financial losses of ailing public sector enterprises continue unabated while exports remain low.

Despite progress, it said, poverty and inequality are still significant.

On foreign exchange rate, the IMF seems to be supporting the State Bank of Pakistan's position that the rupee should be devalued against the US dollar to confront external sector challenges, failing which the foreign exchange reserves would come under pressure, which are already "below a comfortable level".

The IMF stuck to its long held position that Pakistan's actual exchange rate is overvalued between 10 to 20 percent and it sought "greater exchange rate flexibility, fiscal adjustment and structural reforms," to rectify this imbalance.

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

Is the government willing to pay any heed to the IMF advice?

The finance minister's strong reaction to the central bank's recent move to allow over three

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percent depreciation of the rupee shows that government is in no mood to mend its policy as it fears that it could trigger a political backlash in the wake of rise in inflation, which it cannot afford less than a year before the general elections.

Critics say independent economists have long been raising the economic challenges for the government, but the IMF conveniently ignored their calls and instead heaped undue praise in a bid to ensure successful completion of its bailout loan package.

They say if the international lender had given timely warnings to the Pakistani authorities about the challenges and ensured timely actions then the things would have been different.

Coming months are critical for the economy of the country and the authorities need to ensure that the macroeconomic gains made over the past four years are consolidated, but it can only be done in an environment of political stability.

Economy always becomes the first victim of political uncertainty in any country and there are widespread fears that political tensions are going to rise in the coming months.

Political observers, however, say despite rising political temperatures there is a general consensus among the political parties on the continuation of the democratic process in the country.

Though PTI has called for an early election, the PPP has said it wanted the present parliament to complete its tenure.

Despite hard-hitting public comments by some government ministers, their senior leaders have made it clear that they would accept the apex court's decision even if goes against them, meaning that even if the prime minister is compelled to step down, the democratic system would continue.

However, analysts say despite growing political challenges, the economic team of the government should not lose sight of its main task and concentrate its energies to stop achievements made over the past few years on the economic front go waste.

If it happens, the country has to restart from scratch as it had to do in the 2007-08.

A big responsibility now lies on the shoulders of the political leadership, particularly the government to prevent the country from plunging into the economic abyss once again.

The writer is a senior journalist based in Islamabad

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OPINION

Last decree

By Ihtasham Ul Haque

The fast paced dollarisation of the economy has started taking place because of roaring speculations being made in the wake of the revealing JIT report, while the issue is turning serious due to the "inaction" of the ministry of finance and central bank.

Currency dealers and importers are largely indulging in speculations spearheading hasty imports, which is further putting pressure on rupee. Concerned officials concede for the first time that people are frantically buying dollars and opening their foreign currency accounts expecting further devaluation of rupee. The month of June witnessed $550 million increase in foreign currency deposits which is said to be a peak seen in the past 10 years.

The more worrying issue, according to an insider, is the unrestrained government borrowing, which especially included $400 to $500 million from the foreign currency deposits of the citizens, being maintained by the commercial banks. These deposits are being used for import financing to avoid further depleting of the forex reserves.

The accumulative import financing which was $885 million in March and April went as high as $1,320 million only in the month of May registering an increase of $435 million.

This trend is being termed as "very grave" and reminds of 90s when the then PPP government used $10 billion, out of $11 billion forex reserves for import financing. But this time around, the current government is using the dollars of private foreign account holders for import financing reportedly with the connivance of the commercial banks.

Some officials of the finance ministry and State Bank of Pakistan (SBP) have raised their voices and said the Pakistani currency is being controlled artificially. "I don't know why is there speculation on dollar, which had appreciated in inter-bank and not in the open market," a former senior official of the finance ministry said.

He said speculation was being allowed by officials concerned of the ministry and SBP, which was not possible without a "motive". The abrupt 3.1 percent appreciation of dollar in the inter-bank was the main reason that prompted speculations. It had indirectly hit home remittances which declined by $500 billion in June this year. It was a 25 percent decrease as Pakistani workers reportedly diverted their hard earned money into dollar deposits or preferred to send them through hundi and hawala. Overall there has been 11 percent reduction in home remittances which was the biggest since August last year.

Now that a new chief has been appointed at the central bank, insiders maintain that he is a trusted man of the finance minister, who would hardly differ with the finance ministry on any issue. Once again the SBP would become the finance ministry's "monitoring wing" and would especially avoid preparing "balanced and independent" reports. Often the ministry bosses disapproved these reports, but couldn't do anything as the tenure of the governor is a secured position not moved instantly.

For now, the government has reverted the downward slide of rupee; it is yet to be seen if it would be able to maintain it for the next six months or beyond. The situation is getting difficult each passing day due to decrease in reserves, chiefly on the back of falling foreign inflows.

Market players, businessmen, and exporters say the rupee is overvalued and must be depreciated gradually if not swiftly. The IMF says the currency is 23 percent overvalued, while officials maintain has to be adjusted and readjusted as per preferences and economic fundamentals. It maintains that an abrupt fall of rupee is not beneficial as it increases the debt burden. The 3.1 percent depreciation has already caused an increase of Rs250 billion in debts, though some improvement had been made subsequently when government intervened in the absence of a full time SBP governor.

The political fiasco connected to the prime minister and his family has further jolted the economy, including Rs550 billion fresh losses of investors in the stock market. The extent of damage to the struggling economy will depend on how quickly the Panama issue is resolved.

There is an increasing consensus in both the official and unofficial quarters that prolonging the Panama leaks scandal for another 15 months will further damage the already poor economy.

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The KSE-100 index has already taken a plunge of 1,000 points and the faint-hearted investors are clueless about the future direction due to the indecisiveness of the government on the economic front. The trade deficit has already widened by 37 percent to $32.6 billion, while imports surged to an all-time high level of $53 billion. The current account deficit went as high as $10.6 billion and home remittances dropped by close to $800 million failing to achieve its $20 billion target set for the last financial year. The balance of payment position is now projected to further worsen and the inept officials of the ministry of finance and the central bank seem busy elsewhere.

All major economic indicators failed to perform during 2016-17 including twin deficits, revenue, imports and exports, foreign exchange reserves, home remittances, inflation, large scale manufacturing, employment, and poverty alleviation.

The political stakes of the prime minister and the ruling party are at stake, the dark clouds hovering over the economy is equally a serious issue that has to be taken into considered by all individuals and institutions.

The new analysis of Moody's Investors Services, New York-based international rating agency, has affirmed Pakistan's B3 issuer and senior unsecured ratings and maintained a stable outlook. It believes the country's medium term growth outlook is strong due to China-Pakistan Economic Corridor (CPEC), and the continuing effects of macro-stability-enhancing reforms started under the IMF's three year Extended Fund Facility (EFF) in 2013-14.

It praises CPEC by calling it "strong" but then warns that the government's debt burden is high and fiscal deficits remain relatively wide. The report also identifies that despite being stronger compared to some previous years, the foreign fund adequacy is still vulnerable to any significant increase in imports. Moody's report interestingly also mentioned domestic politics, along with geopolitical risks as "constraints on rating".

Like IMF, Moody's officials talk about six percent GDP growth with ifs and buts, and say that real growth will come when CPEC-related development projects materialise. Why can't IFIs particularly IMF and Moody's categorical state the facts about the Pakistani economy which they often concede faces serious problems? They say it in a tricky way; first giving the impression that all is well, and then narrating a different picture. That is why independent economists accuse the IFIs of hiding facts and not firmly asking the government to implement structural reforms without which the economy will never take off.

Way forward, the rulers and the planners will have to concentrate on the economy instead of protecting their own political and vested interests. The Supreme Court decision will determine the future political course of the country and it is to be seen how the economy is looked after that.

The writer is a senior journalist based in Islamabad

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‘Textile sector collapsing due to incompetent export managers’

INP

ISLAMABAD - Islamabad Chamber of Small Traders (ICST) on Sunday said textile sector is slowly collapsing and the government should take note of the plight of this sector.

ICST Patron Shahid Rasheed Butt said that weak trade diplomacy and semi-educated export managers proved to be a double whammy for the export sector which was already reeling under various problems. Failed trade diplomacy is one of the reasons behind dwindling exports which has forced the government to borrow from international lenders repeatedly to save the country from default, he added.

He said that fundamental changes should be introduced in the export sector otherwise the government will have no option to borrow to keep forex reserves within respectable limits. Textile sector is going down due to incompetent export managers who were appointed on political considerations, he added. Butt said that exports of the other countries are going well but local authorities get comfort in blaming the global recession.

He said that Rs14 billion textile sector holds 57 percent share in exports, 46 percent in manufacturing, 38 percent in labour and nine percent share in GDP which was left at the mercy of the incompetent officials who prefer to spend most of their time abroad. He said that textile sector continues to await refund claims worth billion of rupees which have compromised its ability which is a great threat to 3.5 million people linked to it.

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SNGPL facing 95pc gas losses in Karak, Hangu

APP

ISLAMABAD - Sui Northern Gas Company Limited (SNGPL) Managing Director Amjad Latif has said that the company is facing 95 percent gas losses in tehsil Lachi and districts Karak and Hangu of the Khyber Pakhtunkwa.

"The locals of all these localities have obtained illegal gas connections, mostly through direct taps and unconventional joining methods, which is not only a loss to the national exchequer in the shape of gas theft, but also in the form of gas wastage through leakages," he told APP. He said SNGPL is making all-out efforts to curb the losses in oil and gas producing areas with the help of police and Federal Investigation Agency (FIA). Whenever, the company launched a campaign for disconnection and removal of this illegal network with the assistance of law enforcement agencies, the locals sealed the plants of Oil and Gas Development Company (OGDCL) and MOL, and blocked the Indus highway, he added.

The MD said the Khyber Pakhtunkwa chief minister had categorically mentioned in his letter written to the Oil and Gas Regulatory Authority (Ogra) chairman that "the gas losses in these areas are not due to the inefficiency of SNGPL, but due to the prevailing law and order situation of those areas which can't be controlled even through administrative measures of the provincial government."

Answering a question, he said SNGPL teams had put their lives at risk to disconnect illegal gas connections of industries, mostly Plaster of Paris, which got connections from the company's network and extended to the barren terrain through plastic pipes for kilometers. Approximately, he said, the company removed 60 illegal industrial connections and lodged 52 FIRs, besides it removed 169 illegal commercial connections and registered 155 FIRs against pilferers.

Currently, the MD said, a project had been planned to provide gas in surrounding villages of Mardan Khel well and villages within five kilometres radius of Meramazi-II and Noshpa Rig No 4, besides rehabilitating damaged pipeline network in Gurguri village. He said the KP government had so far deposited only Rs114.066 million under the project, but SNGPL could not recommend the project to the Federal Cabinet's special committee for approval until the complete funds were not provided by the federal or provincial government.

However, Amjad Latif said, keeping in view the provincial government's urgency, the company had recommended execution of a part of the project for provision of gas to villages within five kilometres radius of gas-producing well Mardan Khel.

Gas connection process to industry be gear-up: PIAF

Pakistan Industrial and Traders Associations Front (PIAF) has welcomed the recommendation of National Assembly Standing Committee on Petroleum and Natural Resources for enhancement of new domestic gas connections up to one million per year, besides speeding up process of new industrial gas connections which is must for the revival of the industry.

PIAF Chairman Irfan Iqbal Sheikh, Senior Vice Chairman Tanveer Ahmed Sufi and Vice Chairman Khawaja Shahzeb Akram said here on Sunday that the committee had also recommended enhancement of domestic connections to new localities by 100 connections. The committee gave these recommendations in the wake of huge number of pendency with the gas distribution companies.

They said that Ogra (Oil and Gas Regulatory Authority) had allowed 0.5 million new domestic gas connections to the gas distribution companies per year however, due to huge number of pendency, the companies were unable to meet the demand. Irfan said that following the arrival of Re-gasified Liquid Natural Gas from Qatar last year, the SNGPL announced to entertain applications for new gas connections to the industrial consumers.

Moreover, the SNGPL had also initiated the process of approving new gas supply connections to industrial consumers, but it was not implemented properly, he maintained. PIAF office-bearers said that hundreds of industrial consumers had applied for new industrial connections and applications must be processed without delay. The purpose was to avail the RLNG at the earliest to cut the production cost, which was proving a major hurdle in competing internationally, they added.

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Monday, 17th July, 2017

Excise dept recovers Rs746m during 2016-17

APP

SARGODHA - The Excise and Taxation department Sargodha division recovered Rs746 million taxes from various heads in the division during 2016-17 which is 91 percent of their given target.

Similarly, 19000 fake number plates were demolished, 621 unregistered vehicles and 19000 vehicles were challaned for various violations. Excise and Taxation Director Mushtaq Faridi said on Sunday said that property tax system of the region had also been attached with the central computerised system through which people could see their property and tax details online.

He disclosed that Excise department Sargodha led by ETO Arshad Chehal recovered Rs424 million under various heads and achieved 89 percent target, Khushab district led by ETO Javed Iqbal Cheema recovered Rs115 million which was 91 percent of their given target. Similarly, Rs111 million were recovered by District Mianwali led by ETO Farooq Butt and achieved 91 percent target while District Bhakhar led by ETO Arshad Hameed recovered Rs96 million and achieved 100 percent target from various heads from July 2016 to June 30 2017.

The Excise director said that the department conducts general hold up on every Wednesday against all the tax defaulters. Sargodha District checked over 60,000 vehicles during last fiscal year, Khushab 35000 vehicles, Mianwali 32000 vehicles while in Bhakhar district over 40000 vehicles were checked, he added. He disclosed that attachment of property tax with central computerised system would be beneficial in recovery of tax adding that computerised challan forms would be delivered for property tax this year.

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Monday, 17th July, 2017

Micro-credit outreach witnesses 22pc growth

APP

ISLAMABAD - The micro-credit outreach domain in the country, continued to exhibit upward trend, has witnessed 22 percent growth during 2016.

The government, recognising need to protect the poor and the vulnerable, has launched several social safety net programmes and one of them was micro-finance which is considered an important player in promoting financial inclusion agenda. During the period, Gross Loan Portfolio registered a 47 percent growth while micro-savings, on the other hand, posted considerable growth under active savers by 65 percent and value of savings by 88 percent which is attributable to increase in m-wallet accounts and taping higher ticket size.

Sources at Finance Division on Sunday said that micro-insurance also remained positive whereas sum insured posted a hefty growth of 85 percent. This segment is primarily dominated by credit life and health insurance. It is pertinent to mention here that microfinance industry is primarily engaged in empowering marginalised section of society through provision of credit and making them self-sufficient.

The sector has been serving people near poverty line by not only providing credit products but also through savings, insurance and remittance services. The continued growth in the sector is primarily attributed to enabling environment, supportive policy and regulatory environment, healthy industry infrastructure that includes Microfinance Credit Information Bureau (MF-CIB), government backed credit schemes, client protection initiatives, and innovations in products and delivery channels brought in by the players.

The objective of the microfinance initiative is to provide liquidity to microfinance providers in response to tighter liquidity conditions. It is provided as a package through microfinance banks, microfinance institutions, Rural Support Programmes (RSPs), and others including Commercial Financial Institutions (CFIs) and Non-Government Organisations (NGOs).