BUSINESS
RECORDER
Monday, 20th March, 2017

Power sector:

Data paint bleak picture

MUSHTAQ GHUMMAN

ISLAMABAD: Officially released data paint a bleak picture of performance of power sector during the last three years in marked contrast to the claims of the government's top economic managers and policymakers.

According to officially released data, a collection recovery percentage at the end of second quarter of FY-2016-17 was a poor 88% against the Regulator's target of 100%; and it saw a 5% extra loss against the target set. The collection figure ending FY 2010 was 104.7%.

According to documents, Pakistan Electric Power Company's (PEPCO) receivables at the end of FY 2013 were Rs 411 billion after Rs 20 billion had been written-off against the arrears of the government of Sindh. The receivables increased by more than Rs 100 billion to Rs 513 billion at the end of FY-2014 after a write-off of 2 billion of Baluchistan province's bills. The receivables jumped to Rs 633 billion by the end of FY-2015, Rs 684 billion by the end of FY-2016 and escalated to Rs 730 billion on December 31, 2016.

The Economic Coordination Committee of the Cabinet wrote off Rs 50 billion of Sindh government dues on the recommendations of Ministry of Water and Power. If the write-offs till date are taken into considerations then the receivables reached an astronomical figure of Rs 800 billion - double the amount for the end FY 2013.

Against 4.1 million bills corrected at the end of FY-2013 as much as 4.4 million bills were corrected by the end of FY 2014, 8 million bills during FY 2015, 4.7 million bills during FY 2016 and 2.9 million bills corrected during the first two quarters of the current financial year amounting to Rs 17 billion. In contrast only 2 million bills were corrected during FY-2010.

Pepco's documents further disclose that interruptions of the system, a reflection of maintenance of the system and addition of lines, increased from just 660,000 during FY-2010 to as much as 8,50,000 during FY 2014, 9,50,000 in FY 2015, again 850,000 during FY 2016 and a high 420,000 during the first six months of the current financial year.

A comparison of damage to distribution transformers for Pepco network for the period of 2010-2017 reveals an increase in the damage rate from 10,000 transformers in FY-2010 with a loss of 1000 MVA in capacity to 17000 in FY 2016 and a 2000 MVA loss in capacity. 13500 transformers of 1500- MVA capacity were damaged in FY-2014, 16,500 transformers with 1900 MVA capacity in FY 2015 and the system has already suffered a loss of 85000 transformers of 1000 MVA capacity during the first two quarters of current fiscal.

"No improvement has taken place in the sector under the Ministry's direct management. The system did not collapse because of a strong fall in international oil prices, favorable weather and the padding up of the consumer-end tariff with various surcharges averaging Rs 3.50 per unit of electricity," said experts.

Power Ministry has refused to notify the Nepra determination for FY 2015-16 because the regulator reduced tariff by an average of Rs 2 per unit. As a first in the history of the sector, the Power Ministry required DISCOs to seek stay orders against notification of Nepra's determination in the Islamabad High Court. Furthermore, instead of notifying Nepra-etermined tariff and passing on the benefits of a fall in oil prices, the Ministry is regularly finding fault with Nepra and is also holding it responsible for various sectoral ills and inefficiencies.

BUSINESS
RECORDER
Monday, 20th March, 2017

Rs5.6bn power project approved by Dar

ZAHEER ABBASI

ISLAMABAD. Finance Minister Ishaq Dar has approved Rs 5.6 billion power sector project aimed at conversion of existing 220kV substations at Kala Shah Kaku, Ravi and Naseerabad Bund Road from air insulated to gas insulated.

On a proposal of the Ministry of Planning, Development and Reforms to a meeting of the Executive Committee of National Economic Council (ECNEC) chaired by Finance Minister Ishaq Dar gave approval to the project, which would be executed by the National Transmission and Dispatch Company (NTDC).

A copy of the summary approved in the last ECNEC meeting and available with Business Recorder states that the objective of the project is to replace the existing 220kV sub-stations at Bund Road, Kala Shah Kaku, Ravi and Nishatabad from air insulated substations (AIS) to gas insulated substations (GIS).

.

The finance minister was informed that the aging factor as well as industrial pollution surrounding these substations make the AIS weaker and led to their deterioration. Their conversion in the GIS substations will improve their efficiency as well as reliability with result in reduction of erosion and deterioration. This will also reduce their maintenance costs and frequent trappings and power flow will also increase by 684MW in the system.

The meeting was further told that the transmission system of the country is overloaded and not capable to cope with the increasing power demand. In near future considerable addition to the system would result in frequent tripping and breakdowns. Resultantly, enhancement in transmission and transformation capacity of NTDC system is required.

The power sector's strategy is to provide reliable, uninterrupted power to its consumers. Keeping in view the present overloaded system and increasing availability of additional power generation capacity in near future coupled with hefty power demand. The strategy has been adopted to strengthen and enhance the capacity of transmission system.

The equipment at AIS/ grid stations have deteriorated because of 30-40 years aging and pollutants in surrounding areas, such as air pollutants from waste water drains and chemical industries. Conversions of these from AIS to GIS will improve efficiency and reliability. This will result in reduction of erosion and deterioration of vital substation equipment, besides, cutting down maintenance costs.

In the light of CDWP compliance, the sponsors have assured that the project would be completed by June 2018

BUSINESS
RECORDER
Monday, 20th March, 2017

Making a budget: 90pc of proposals consigned to bin!

ISLAMABAD: Finance Ministry prepares the revenue estimates for a forthcoming federal budget far earlier than proposals of the business community or the Ministries are submitted for consideration and 90 per cent of these tax readjustment proposals are thrown in the bust bin.

This was stated by several members of the private sector who routinely submit pre-budget proposals for consideration. This was refuted by a Finance Ministry official who stated that the perception that the government does not give importance to the budget-related proposals is not based on facts; however he acknowledged that each and every tax/duty proposal cannot be accepted due to narrow revenue base and fiscal constraints.

One of the senior officials of FBR told Business Recorder that whatever revenue proposals come from the private or public sector, it is compiled in a file on the computer, with Customs and Inland Revenue proposals kept separate.

"The master file is already available in the computer and new proposals from the private sector/ministries are added to the main file. As the file is added each proposal is accompanied by an opinion including the reasons for opposing that specific tax proposal or supporting it along with its history," he added.

"Each Chamber and Association sends its budget proposal to FBR some of which are good. We hold meetings with them and discuss financial pros and cons of their proposals individually," he continued. The official added that some very important tax reforms, proposed by the Tax Reforms Commission (TRC), are under consideration for implementation in the budget for next fiscal year while some of them have already been implemented in the budget for 2016-17.

FBR recently held a brainstorming session for two days with Pakistan's top tax experts determining what issues tax payers are facing and what new tax revenue mechanism are required to resolve those issues.

Qaiser Ahmed Sheikh, chairman of the National Assembly Standing Committee on Finance noted that various sectors of the economy begin the process of submission of their tax proposals through finance committees of Senate and National Assembly as well as through their chambers. The Overseas Investors Chamber of Commerce and Industry (OICCI) and Pakistan Real Estate Sector Investment Forum (PREIF) have submitted tax proposals for 2017-2018 to the Finance Committee of the National Assembly, he added.

Last fiscal year, the government accommodated as many as 86 proposals of the Senate Standing Committee on Finance relating to taxes, duties as well as development schemes from power sector to social sector etc. he said, adding that out of a total of 139 recommendations suggested by the committee, some of them were implemented fully, while other were implemented partially.

A meeting of Karachi Chamber of Commerce and Industry was held on Saturday to finalize the proposals for next year's budget.

Ministry of Finance, Ministry of Planning, Development and Reforms and Federal Board of Revenue (FBR) start the budget exercise by February each year. Insiders in the Finance Ministry told Business Recorder that the government's major task is to increase tax revenue by Rs 300 billion to Rs 400 billion per annum. While subsequent governments, including the incumbent, maintain that they are focused on enhancing the tax base and bringing the rich into the tax net yet indirect taxes whose incidence on the poor is greater than on the rich continue to form the bulk of government revenue. With respect to increase in direct taxes based on the ability to pay principle around 78 percent are collected through withholding agents and are in the sales tax as opposed to income tax mode, he added.

There is a need to reform the FBR through not only improving governance but also through ending all avenues of possible

BUSINESS
RECORDER
Monday, 20th March, 2017

corruption and making the tax system more equitable. That still remains to be done, sources added.

“We don’t want to impose additional taxation on existing taxpayers but resource constraints compel us to do so,” insiders on condition of anonymity told Business Recorder.

“Sometimes we close those windows which are misused or abused like withholding tax was re-imposed on inter-corporate dividends,” sources added.

“The next budget would be an election year budget and the government is unlikely to impose new taxes on existing tax payers. It is also unlikely for the government to raise taxes on say mobile phone SIMs as that could be a political tool in the hands of the Opposition. Industrialists and commercial sectors, considered to be PML-N supporters, are also unlikely to face an increase in their tax rates. The rate applicable on filers and non filers is likely to be widened,” said an insider on condition of anonymity.

“At the end of the day the FBR can only recommend,” he added. “It’s up to the political leadership to proceed or not to proceed with our tax proposals. And finally the budget has to be passed by parliament and I don’t see why the Opposition criticizes the budget when the quality of their debate on the budget has been so poor in recent years,” he added.—MUSHTAQ GHUMMAN & ZAHEER ABBASI

BUSINESS

RECORDER

Monday, 20th March, 2017

THE RUPEE : Slight gains

RECORDER REVIEW

KARACHI: The rupee was firm against the dollar on the money market, during the week, ended on March 18, 2017.

On the back of comfortable supply of dollar, the rupee managed to move in narrow band during the week, some experts said.

They also said that if supply of dollar improves, the national currency may depict further improvement in days to come.

OPEN MARKET RATES: The rupee picked up 10 paisas versus the dollar for buying and selling at Rs 106.50 and Rs 106.70. It, however, lost 70 paisas against the euro for buying and selling at Rs 113.75 and Rs 115.25, they said.

INTER-BANK MARKET RATES: The rupee almost traded against the dollar for buying and selling at Rs 104.85 and Rs 104.86.

OPEN MARKET RATES: On March 13, the rupee, however, improved by 19 paisas in relation to the dollar for buying and selling at Rs 106.40 and Rs 106.60. It, however, shed 10 paisas in terms of the euro for buying and selling at Rs 113.10 and Rs 114.60. On March 14, the rupee was unchanged in relation to the dollar for buying and selling at Rs 106.40 and Rs 106.60. It, however, gained 10 paisas in terms of the euro for buying and selling at Rs 113.00 and Rs 114.50. On March 15, the rupee came down after losing 10 paisas in relation to the dollar for buying and selling at Rs 106.50 and Rs 106.70 however, it gained 20 paisas in terms of the euro for buying and selling at Rs 112.80 and Rs 114.30. On March 16, the rupee did not show any change in relation to the dollar for buying and selling at Rs 106.50 and Rs 106.70. It, however, lost Rs 1.10 in terms of the euro for buying and selling at Rs 113.90 and Rs 115.40.

On March 17, the rupee was also unmoved in relation to the dollar for buying and selling at Rs 106.50 and Rs 106.70. It, however, shed 10 paisas versus the euro for buying and selling at Rs 114.00 and Rs 115.50.

On Mar 18, the rupee was unchanged in relation to the dollar for buying and selling at Rs 106.50 and Rs 106.70. It, however, picked up 25 paisas versus the euro for buying and selling at Rs 113.75 and Rs 115.25.

INTER-BANK MARKET RATES: The rupee showed no major change against the dollar for buying and selling at Rs 104.85 and Rs 104.86.

OVERSEAS MARKET OUTLOOK: In the first Asian trade, the euro firmed to one-month highs against the dollar, after some European Central Bank policymakers raised the possibility of hiking interest rates before bond purchases end.

The euro was up 0.2 percent at $1.0699, after rising as high as $1.0701, its highest level since Feb. 9.

The dollar was available against the Indian rupee at Rs 66.60, the greenback was at 4.4440 in terms of the Malaysian ringgit and the US currency was at 6.9071 in relation to the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Monday. 79.52-79.52 (previous 79.50-79.50).

In the second Asian trade, the dollar inched up against a basket of currencies as US Treasury yields extended their rise ahead of an expected interest rate rise by the Federal Reserve.

The dollar was trading against the Indian rupee at Rs 66.20, the greenback was at 4.4460 in terms of the Malaysian ringgit and the US currency was at 6.9174 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Tuesday. 79.53-79.55 (previous 79.52-79.52).

In the second third trade, the dollar wobbled in a narrow range, as investors waited anxiously to see what clues the US Federal Reserve would soon reveal on its monetary policy outlook.

The dollar was trading against the Indian rupee at Rs 65.505, the greenback was 4.447 in terms of the Malaysian ringgit and the US currency was at 6.914 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Wednesday: 79.54-79.55 (previous 79.53-79.54).

In the fourth trade, the euro stood tall after Dutch election

BUSINESS
RECORDER
Monday, 20th March, 2017

exit polls pointed to a comfortable win by the prime minister over his far-right rival, while the dollar wallowed at a one-month low after the Federal Reserve sounded less hawkish than anticipated on future rate rises.

The euro climbed to a five-week high of $1.0746 on Thursday, after surging 1.2 percent overnight.

The dollar was trading against the Indian rupee at Rs 65.370, the greenback was available at 4.435 in terms of the Malaysian ringgit and the US currency was at 6.891 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Thursday. 79.56-79.57 (previous 79.54-79.55).

.

In the fourth trade, the dollar licked its wounds, wallowing at five-week lows against a currency basket and on track for weekly losses after the US Federal Reserve signalled fewer interest rate hikes than some investors had expected.

The dollar was trading against the Indian rupee at Rs 65.578, the greenback was at 4.441 in terms of the Malaysian ringgit and the US currency was at 6.902 versus the Chinese yuan.

At the week-end, the dollar fell to a five-week low, remaining under pressure for a third straight session after the Federal Reserve quashed hopes for a further currency bull run by keeping a gradual rate-hiking pace.

“At the moment, the dollar remains in correction mode, which we had fully expected,” said Fawad Razaqzada, market analyst, Forex.com in London. “But we remain fundamentally bullish on the greenback because the Fed remains the only major central bank which is actively tightening its policy.”

James Chen, head of research at Forex.com in Bedminster, New Jersey, also pointed out that the pace of Fed rate hikes and policy outlooks can change extremely quickly.

He noted that only a few weeks before Wednesday’s Fed announcement, expectations for a March hike were exceptionally low. But Fed officials made a concerted effort to warn the markets of the high likelihood of a Fed rate hike and expectations then soared to a near-certainty, Chen said

BUSINESS
RECORDER
Monday, 20th March, 2017

FBR wants to meet annual target by hook or by crook: Dr Salman

SOHAIL SARFRAZ

ISLAMABAD: Former Finance Minister Dr Salman Shah has said that the only focus of Federal Board of Revenue (FBR) is to generate maximum revenue by hook or by crook to meet the annual target of Rs 3.621 trillion for 2016-17.

Speaking as a guest on 'Paisa Bolta Hai' with Anjum Ibrahim, he said that the tax reforms which are critical for the economy, has not been implemented.

At present, the focus of FBR is to generate maximum revenue one way or another. During this exercise, the FBR is least bothered about the existing taxpayers who have been burdened whereas the tax net is not being widened to bring in new taxpayers. These are considered secondary issues and entire focus is on generating additional revenue to meet targets. The equity in the taxation system is not the priority of the present government.

During the tenure of Musharraf regime, the focus of the government was to expand the tax net and introduce reforms in the tax administration through a Tax Administration Reforms Program (TARP) aimed at training tax officials, improving their capacity, better pay structure and creation of reformed units like Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) by using new IT technology and improvement in audit, he said.

In the history of Pakistan, the introduction of tax reforms in FBR has always remained a very difficult and challenging task because different governments have totally failed in implementing reforms in FBR.

Masood Naqvi, Chairman Tax Reform Commission (TRC) said that Pakistan is the only country in the world where maximum efforts have been made to reform the tax system. After every 1-2 years, a commission or committee comprising of experts in the field actively work on the tax reforms. The problem was that a number of viable recommendations were made, but the same were not implemented as required. The whole system is responsible for not implementing the reforms as there was no focus of the FBR to implement reforms in the past. For example, in order to meet the conditions of donor agencies for a specific program, the FBR met the requirements or commitments.

Naqvi said that the real problem remained in two areas. Compliance level is very low and reliance on withholding tax agents. For example, law has clearly defined the persons liable to file returns. If all non-filers come into the documentation, the number of return filers should cross millions. On the other hand, the number of filers is around one million. Around 40 million citizens are paying taxes through different sources like mobile phone or other indirect taxation. As compared to taxpayers of 40 million, the filers are not more than one million. The substantial amount of collection of the FBR comes from withholding agents, who are collecting taxes on behalf of the government. In the result, 75 percent of the collection is through withholding taxes. In this situation, the benefit of creating distinction between the non-filers and filers has not been achieved. The non-filer pays a higher rate of withholding tax and thinks he has discharged his tax ability, got immunity and do not need to do anything.

The real objective should be to first capture the non-filers into the FBR's database and then make them filers of income tax returns. You get them into the system and ask them to file their returns. The compliance is not taking place because we are not able to enforce the provisions of the law. If the deterrent is present, non-filers would be well aware that they would be held accountable for not filing of returns, Chairman TRC said.

Tax Lawyer Waheed Shahzad Butt stated that there is lack of political will on part of government over implementation of the tax reforms in Pakistan. If a political decision is taken to collect revenue from non-filers or tax evaders, the FBR's machinery is efficient and equipped with necessary data to go after non-filers.

BUSINESS

RECORDER

Monday, 20th March, 2017

The government has to furnish a standard operating procedure (SOP) or guidelines to the FBR to take action against the non-filers for recovery of tax. With the same tax machinery the FBR has been able to collect Rs 1915 billion during July-Feb period of 2016-17.

Besides chasing revenue collection target, the government should give clear directions to the FBR to take action against non-filers without fear. The revenue collecting agency has developed a database to generate revenue from 3 to 4 million potential taxpayers. However, till now the number of tax filers has not exceeded the figure of one million. If 4milion taxpayers contribute their due share of taxes, there would be no justification to overburden the existing taxpayers.

The FBR recover taxes from registered persons, but offer amnesty schemes to tax evaders on reduced rates of taxes to avail the amnesty scheme.

To a query on attachment of bank accounts, Waheed Shahzad Butt said that there is always an order and tax demand behind the attachment of bank accounts of the taxpayers. The order may have been issued irregularly and improperly against the taxpayers. If there is no tax demand or order behind this action, it is a robbery.

Masood Naqvi responded that a process has to be followed for taking out money from the taxpayers' bank account. The liability created through the said order may not be fair tax liability, but the process is followed in this regard. Presently there is a pressure on FBR to meet the revenue collection target for 2016-17. Naturally, the whole focus of the tax machinery is to generate revenue.

Some recommendations of the Tax Reform Commission report have been implemented. Now, the Tax Reform Implementation Committee (TRIC) has expedited the process of implementing the recommendations of TRC during the last two months. There is an improvement in implementation of reform process after recent change in FBR.

About recent Supreme Court case on FBR promotion, tax lawyer Waheed Shahzad Butt said that recently a grade 21 officer of Inland Revenue Service (IRS) went to court seeking the apex court's directives to the concerned authorities to promote her to grade 22 due to seniority and on merit in accordance with the law. This shows that low rank officials have been promoted bypassing senior officials. If government wants to bypass the senior most officials, they, the should be expelled from the department. How the senior most officials could continue their job when they are not promoted after doing a lot of hard work during their carrier, he questioned.

Salman Shah said that the there is no possibility of improvement in tax system because Pakistan is an under-developed country and sophisticated tax system is imposed on taxpayers. When the sophisticated tax models of Europe and USA are applied in Pakistan, taxpayers do not have capacity to fulfill the international systems. Moreover, FBR's discretionary powers are considerably enhanced and issues are settled through corruption.

There is a need to simplify the tax system and we have to look at the different segments of the society for taxation purpose. There should be more documentary requirements for the corporate sector. However, a shopkeeper or SME cannot maintain books of accounts like corporate entities.

About the return filing, Waheed Shahzad Butt said that the department has setup the Tax Facilitation Centers (TFCs) to facilitate return filing. The only way to check corruption is to make public tax officials assets, liabilities and income/expenses under the right to information law.

BUSINESS RECORDER
Monday, 20th March, 2017

G20 trade wording considered a setback for export champion Germany

BADEN-BADEN: The failure of the world's financial leaders to agree on resisting protectionism and support free trade marks a setback in the G20 process and poses a risk for growth of export-driven economies such as host Germany, economists said on Sunday.

Acquiescing to an increasingly protectionist United States after a two-day meeting in the German town of Baden-Baden, the finance ministers and central bank governors of the 20 biggest economies dropped a pledge to keep global trade free and open.

Instead, they only made a token reference to trade in their main communique by saying the G20 would work together to strengthen the contribution of trade to their economies.

"The weak wording on trade is a defeat for the German G20 presidency," Ifo economist Gabriel Felbermayr told Reuters.

"This is particularly true in the light of the fact that Germany is one of the world's strongest export nations and relies on open markets to maintain its prosperity like hardly any other country."

Private consumption and state spending have become the main growth drivers of Europe's biggest economy, but exports still account for roughly 45 percent of its gross domestic product.

"The lack of a rejection of protectionism is a clear breach of tradition. Now everything is possible," Felbermayr said. The future would probably bring a weakening of the World Trade Organization (WTO) and a more aggressive use of protectionist policies, he added.

The Association of German Chambers of Commerce and Industry (DIHK) said the token reference to trade was a serious setback for the multilateral trade order.

"The result is a warning shot for every trading nation and this means also for the German economy," DIHK foreign trade economist Volker Treier told Reuters.

"The German economy has to adapt itself to the fact that 'America First' will also mean a loss for us. So instead of a win-win situation, there will probably be a lose-lose situation."

German Vice Chancellor Sigmar Gabriel has suggested that the European Union should refocus its economic policy toward Asia, should the Trump administration pursue protectionism.

German Finance Minister Wolfgang Schaeuble tried to play down the lack of a clear rejection of protectionism on Saturday, saying some delegations did not have a mandate to support far reaching commitments on commerce.

US President Donald Trump has already pulled out of a key trade agreement and proposed a new tax on imports, arguing that certain trade relationships need to be reworked to make them fairer for US workers.

Germany managed to rescue some of the previously common G20 language supporting free trade and open markets in a separate document adopted by policymakers in Baden-Baden.

The list of principles summarizes reform recommendations for governments to boost the resilience of their economies against future shocks, including the advice to strengthen policy frameworks to reap the benefits of open markets.

A senior G20 official said the resilience principles were probably more important than the main communique because the list would also be adopted at the G20 leaders summit in Hamburg in July while Baden-Baden was only a "snapshot of today".

"The German G20 presidency is not over yet. Now it's up to the state and government leaders at the G20 summit in Hamburg to send a clear signal," Treier said.—Reuters

BUSINESS

RECORDER

Monday, 20th March, 2017

Debt piling reserves

In continuation to 'external scorecard in red' published on August 30, 2016, latest snapshot is presented here. The idea is to reveal what is behind the high foreign exchange growth in Pakistan. It grew from $11 billion (3.3 months of imports) in June 2013 to $23.2 billion (6.9 months of imports) by December 2016. Hence, in the PMLN's rule so far, the foreign reserves increased by $12.2 billion; such a growth is unprecedented in Pakistan and Dar pegs his economic management success to this very factor.

But the growth has come with a cost. The external debt of Pakistan increased by $13.2 billion in the same time, to $74.1 billion. Although in terms of GDP, the debt declined from 26.3 percent in June 2013 to 23.2 percent in Dec 2016. Adjusting for external debt, the reserves are down by $900 million in the forty two months of Dar's sound economic (read: accounting) management.

From June 13 to June 16; the reserve pile up of $12.1 billion was exactly matched by the uptick in country's foreign debt. And the situation worsened in the last six months, as during Jul-Dec16 reserves were up by just $100 million, while the external debt grew by $1 billion.

No wonder, falling exports and saturating remittances amid non-stop pick up in imports, especially machinery, are taking the toll. The current account deficit in July-Jan jumped up to $4.7 billion (2.5% of GDP) while there is nothing much of non-debt related flows in financial and capital account, as the FDI remained low.

The government is trying to fix the slipping CAD with stop gap solutions, such as fiscal cash incentives to key exporting sectors, while imports are attempted to be curbed by enhancing cash margins on an array of products. The impact of cash incentives on exports, initiated in Jan 2017, is yet to translate into numbers and it may inch up exports. But by no means can it let exports grow with the pace of economic growth.

The worry is that Pakistan's coefficient to imports to total production is at 0.34, while in case of exports it is at 0.24. This implies that with an incremental one percent increase in production, imports would increase by 0.34 percent and exports by 0.24 percent. The ratios are based on census of manufacturing industries 2005-6. The PBS is in the process of conducting latest censes and this may alter these coefficients; but given the way imports have grown over the period of time, chances are that the ratio would have deteriorated by now.

The trade deficit has worsened since the last census of manufacturing as nominal economy grew by 2.7 times from $105 billion (FY04) to $284 billion (FY16) while the exports have less than doubled from $12.3 billion (12.7% of GDP)) to $22 billion (7.8% of GDP). Imports on the other hand, trebled from $13.6 billion (13.9% of GDP) to $40.4 billion (14.2% of GDP). The growth pattern implies that after the last manufacturing census, imports have grown higher than the pace of economy while the exports have receded.

In the process, trade deficit is primarily financed by remittances to not let the CAD go out of bound. Remittances are saturating. If the economy grows from $284 billion today to $776 billion by 2030 as projected by PwC, with worsening coefficient of production to exports and heightening coefficient to imports, the trade balance might go out of proportion.

That is the biggest concern on the external account and CPEC is just a fraction of it. There is a dire need to look for new avenues of non-debt based foreign exchange earnings in the medium to long term. But nothing from the policy front can be seen, other than the hollow target of $150 billion of exports by 2025.

The onus of any growth in foreign reserves falls on external borrowing - be it public or private. That is the story of this government tenor so far, as it takes the lion's share of incremental debt - public debt increased by $11.1 billion since June 2013 to $64.5 billion today.

Such a trend is simply not sustainable, especially when the debt is meant to finance fiscal deficit. But not all the debt is for fiscal support as some increase is in the IMF debt, for balance of payment support.

The way things are proceeding; experts won't be surprised to see external debt to cross $100 billion in a few years if the economy continues to grow around 5 percent. The point is either to not let the economy to grow at higher pace or bite the bullet of higher external obligations.

It's a tough task as high economic growth is imperative for job creation of the emerging youth while the economy is not equipped in dealing with higher growth trajectory for long, given external vulnerabilities. Could this lead to a debt trap? It is for the economists and policymakers to ponder upon.

BUSINESS
RECORDER
Monday, 20th March, 2017

LSM 6MFY17: Sluggish growth

The State Bank of Pakistan (SBP) posted the Large Scale Manufacturing (LSM) Index numbers for 6MFY17 which saw a growth of 3.9 percent compared to 3.94 in the same period last year. Taking a closer figure at the various sub sectors, the textile sector numbers are yet to show the impact of the recent textile package awarded by the government with the sector recording marginal growth.

The food, beverages and tobacco sector saw decent growth of 7 percent on the back of increased production of sugar and soft drinks. The FMCG sector has been witnessing rapid growth due to rising income levels and population growth so increased production is warranted. However, cigarette growth plunged further into the negative quadrant due to increased excise duty as well as continued illicit trade of cigarettes and lack of documentation of smaller players.

The coke and petroleum product sector saw a decrease in growth with petroleum production manufacturing going from positive growth last year into the red zone for 6MFY17.
.

Pharmaceutical witnessed only marginal change in growth and maintained over 7 percent growth similar to the previous period.

Moving onwards, chemical sector also witnessed negative growth departing from its positive growth trajectory in 6MFY16 with the production of caustic soda falling considerably in the period under review.

Automobiles witnessed a slump in growth as compared to 6MFY17 which is natural due to the Apna Rozgar Scheme of the government coming to an end and bringing down production of cars with it. However, positive growth was recorded in the tractor production which comes in the face of increased construction activity as well as moderate recovery in the agriculture sector.

Moreover, iron and steel products also witnessed decent growth which can be explained by the construction boom across the country and the implementation of a large number of CPEC projects.

However fertilizer growth has dipped possible due to increased inventory this time around as well as the fact that last year saw a big jump because gas supply was resumed to the sector.

A pleasant increase was recorded in electronics manufacturing which is indicative of rising consumerism and a growing middle-class. Refrigerators, fans, deep-freezer production all picked up while storage batteries also went up due to increase in auto manufacturing.

Alarmingly, the leather sector has gone into the red zone with sole leather and leather footwear recording high negative growth in the face of increased competition from China as well as losing their competitive advantage due to various factors such as energy issues and lack of BMR investment.

The growth this year in the LSM index could be termed as more genuine and broad-based as consumer sectors like electronics and FMCG picked up. Although the growth was marginally higher last year it could be taken as hollow, because of fertilizer being a major contributor due to gas resumption

BUSINESS
RECORDER
Monday, 20th March, 2017

Lesson must be learnt

Anjum Ibrahim

Ishaq Dar, the Federal Finance Minister, has the easiest job in the cabinet so argue his detractors: not because the economy is doing particularly well but because he has the ear of the Prime Minister (to the exclusion of all others especially those with capacity backed by qualifications and experience to analyze the state of the economy). And the Prime Minister has shown visible irritation against all those who challenge Dar's assessment of the state of the economy.

So what is the state of the actual economy? And what does Dar cite as proof positive that the economy is doing well? The source of data on which international donor agencies as well as international journals rely is the Pakistan Bureau of Statistics (PBS) which is under the administrative control of the Minister of Finance. Ironically, Dar is on record as having repeatedly accused Shaukat Aziz, Musharraf appointed Prime Minister who kept the Finance portfolio, of manipulating data referring to it as 'criminal fudging'. Dar's proof: the 2007-08 budgetary overrun was due to 138 billion rupee subsidy on petroleum products, 70 billion rupees on account of non payment to Wapda and 45 billion rupees on import of wheat with no budgetary provisions made for either of these expenditures.

So what has Dar done that raised the hackles of independent economists as soon as he took over the finance portfolio? He began his tenure by borrowing a whopping 480 billion rupees on the second last day of 2012-13 - the year he no doubt thought would be associated with the PPP led coalition government and the three months of the Caretakers. The purpose of the borrowing was to retire the circular energy debt and the method of borrowing was declared "irregular payment…without pre-audit" by the Auditor General of Pakistan, a known close associate of Ishaq Dar's in a special report. During his budget speech in June 2013 Dar stated "the revised estimate for deficit for 2012-13 is 2024 billion rupees or 8.8 percent of GDP," and 480 billion rupees, his own contribution to the deficit, is 24 percent of the total.

Secondly, and even more disturbingly the PBS, now under Dar's administrative control, decided for the first in its history to lower the growth rate not of the year before (2012-13), which may have been acceptable, but of two years before. The reason: to allow Dar to claim in the 2014-15 budget speech that the country achieved the highest growth rate since the fall of Musharraf's government due to his year-long economic management. The basis of the downgrade in the growth rate has never been shared with the public in spite of repeated requests by economists and journalists, which has simply fuelled credibility issues that remain unresolved to this day.

Independent economists have been challenging the growth figures released by PBS since Dar took over the Finance portfolio and basing their challenge on the data released by other government departments as well as some sector organizations known for credible data; again no effort has been made by the PBS to allay these concerns though the PBS continues to insist that its data is accurate; the Finance Minister's approach to criticism is to launch a harangue against those who challenge his management of the economy – media, independent economists, exporters, industrialists, farmers alike.

However, the list of Dar's detractors is no longer limited to members of the opposition or indeed members of the academia who he claims performed poorly when they held the portfolio (referring to what many believe is Dr Hafiz Pasha) and engaged in similar cover up activities through data manipulation (reference to former Economic Advisors who have come out against his policies). His detractors now include members of the federal cabinet – his own party loyalists. The Minister of Commerce has now begun to publicly state that his Ministry is not the only stakeholder in declining exports and that the Ministry of Finance, Water and Power, Petroleum and Natural Resources and Ministry of Industries and Production are equally at fault. Finance negatively impacts on exports through its support for an over valued rupee, and delays in refunds; and significantly the Ministry of Water and Power as well as Petroleum also suffer from policy decisions by the

Minister of Finance that include refusal to release funds that would allow Pakistan State Oil to import fuel as the sector remains shackled in the circular debt. Additionally, Finance's contribution to high fuel costs is evident through its continued heavy reliance on fuel as a source of easy revenue rather than through reforming the tax structure and improving governance of the Federal Board of Revenue. And as far as the Minister of Industries and Production is concerned he has repeatedly stated that he has little if any control over his Ministry and the more powerful ministers, particularly Ishaq Dar, routinely take decisions relating to his Ministry.

So how does the general public view Ishaq Dar? There have been no surveys to determine Dar's popularity however the general perception is that as he is associated with the rise in taxes particularly on fuel, electricity and mobile SIMS he is not well regarded by the general public. An anecdotal survey carried out by Business Recorder however revealed that the public felt that the responsibility for Dar's flawed policies eventually rests with the Prime Minister who should take on a more hands-on interest in policies that are backed by obviously doctored data instead of persisting in placing blind trust on his management of the economy.

Prime Minister Nawaz Sharif has shown a marked reluctance to revisit his decisions especially with respect to his appointments - be they members of his federal cabinet or heads of autonomous organizations including PIA and the cricket board. But a good policy in democracies, which distinguish it from dictatorships, is to strengthen institutions that would stand the party in good stead when in opposition. In Pakistan, two factors have militated against following this obviously sane advice: (i) Zardari led government was the only one that was allowed to complete its tenure in recent years, and so the culture of being voted out as opposed to dismissed is only one-tenure old. In addition, Nawaz Sharif, like Zardari when in government, believes that his party would win the next elections based on the mega projects he has initiated and/or completed. It is relevant to note that Zardari felt his party would win the 2013 elections based on the Benazir Income Support Programme and the large number of electables in his party. No lessons have been learned by the PML-N from PPP's defeat – lessons that must include the fact that cities, more susceptible to mega scams of the leadership (with Panama certainly regarded as a scam in the cities), voted against the PPP in 2013. Thus 37 seats from 15 Punjab cities in 2008 declined to only 3 from the same cities in 2013 for the PPP.

So what must the Prime Minister do to protect his party while in opposition? First, he must delink PBS from the Finance Ministry's administrative control. Second, he must discourage his finance minister or any other minister from engaging in ministry/department promotions and set up a transparent and effective committee that would take appointment decisions which would stop subsequent administrations from appointing on the basis of influence rather than merit. This would stand his party in good stead when in opposition. And finally, the FIA, NAB and FBR must be empowered to take action based on facts rather than on who is in power at that moment in time.

BUSINESS
RECORDER
Monday, 20th March, 2017

The problem with exports

Speaking at a press conference, the Federal Minister for Commerce Khurram Dastgir has acknowledged a decline in exports but added that growth in exports is also the responsibility of other stakeholders, including the Ministry of Finance and its associated departments, including the Federal Board of Revenue (FBR); Ministry of Water and Power, Minister of Industries and Production and Ministry of Petroleum and Natural Resources. According to him, the Sharif administration will not sign any free trade agreement (FTA) that does not safeguard the country's interests.

There can be no disagreement with his first claim. The Ministry of Finance is held responsible by not only exporters but also by independent economists for an overvalued rupee which makes Pakistani products uncompetitive in the international marketplace. Unfortunately, in defiance of basic economic theory, our Prime Minister and Finance Minister regard a strong rupee as indicative of strong macroeconomic credentials with the latter no doubt also finding an overvalued currency as a convenient tool to understate the rising external indebtedness of the country. Additionally the FBR, under the administrative control of the Ministry of Finance, also delays refunds with the objective of showing a deficit that is much lower than is in fact the case – a tendency that generates liquidity issues with exporters who are then compelled to borrow from the banking sector which, in turn, further raises their costs of production.

Ministry of Water and Power as well as Ministry of Petroleum contribute to rising fuel costs, apart from the taxes levied on fuel by the Ministry of Finance, through continued inefficiencies and failure to implement and sustain governance reforms. Recent data released by the National Transmission and Dispatch Company (NTDC) cited extremely disturbing examples of inefficiency in four generation companies (Guddu, Jamshoro, Muzzafargarh and Nandipur) that are producing at well below capacity, additional generation due to projects that began prior to the start of the third tenure of the Sharif administration and high transmission and distribution losses. There is also a focus by the government on investing in enhanced generation without a commensurate rise in transmission capacity – an objective that defies common sense. And then of course there is the serious issue of the continued circular debt that has resurfaced and accounts for over 450 billion rupees today.

The Commerce Minister, however, also stated that no FTA would be signed that does not safeguard country's interests. One would assume that this is the guiding principle for all decisions taken by any government anywhere in the world, including Pakistan; however what has been frequently challenged is the Sharif administration's capacity to take informed decisions, based on credible and not blatantly manipulated data – data that compromises its own capacity to formulate appropriate policies. An example is the decision to focus on generation when the transmission system is unable to support even existing generation capacity. However, Dastgir must surely be aware that nearly four years in the current tenure of his party no FTA has been signed yet and surely he must be held responsible for this failure.

To conclude, while one can support the Commerce Minister's contention that his Ministry's responsibility for the decline in exports is extremely limited, and that he has not yet signed any FTA with about a year left to the end of PML-N tenure because of his objective to safeguard Pakistan's interests then perhaps eliminating the commerce ministry maybe one way forward that would save costs and put the onus where it actually rests, as indicated by statements by exporters and independent economists

.

DAWN
Monday, 20th March, 2017

Challenges of a populist budget

KHALEEQ KIANI

Amid slowdown in revenue growth and higher funding requirements ahead of the elections, the PML-N government appears set to present the last budget of its five-year tenure — for the first time in its third stint.

Unlike the past four budgets, PML-N's performance would be judged at the end of the last fiscal year on the basis of the promises it has made since 2013. Foremost among them is the elimination of power outages — a promise that brought the PML-N to power and will determine its future in the elections next year.

The upcoming summer will actually test the stability of the power system because next year could turn out to be a slippery one when the PML-N will not be in control of the system.

It will be a great political challenge to meet the expectations of elected representatives and yet ensure that crucial investments remain unaffected without significantly expanding the fiscal deficit

Adversarial players under the caretaker government can question the PML-N's claims of a power sector turnaround in the middle of the elections next summer. Not to mention a sizable credibility crises caused by an unabated political campaign by Imran Khan whose own performance in KP has not fared well so far.

It will be a great political challenge indeed to meet the expectations of elected representatives through development schemes and yet ensure that crucial infrastructure investments remain unaffected without significantly expanding the fiscal deficit.

Initial indications suggest the finance ministry is unwilling to offer an envelope greater than Rs700 billion for next year's core PSDP — a miserly seven per cent raise over the current year' Rs655bn. And this would also include Rs50-80bn worth of the Prime Minister's Special Development Programme to be implemented through parliamentarians.

On the other hand, it has little room in the final year of its tenure to impose new taxes or add revenue burden particularly on the business community — the traditional vote base of the PML-N — or even the common voter for that matter. It has little control over 'on-tap' expenditures like debt servicing, defence and other current expenditures.

A U-turn on the size of the subsidies, on utilities' side, could be a dangerous route to nowhere given the fact that the government has been imposing a series of surcharges on electricity charges and blocking notifications of tariff reductions determined by the regulator, over the past few years, to show improvement in power sector financials.

This is important because the fiscal deficit in the first half of the current year has already gone beyond 2.4pc of GDP — the highest in four years — despite the government's claim of continuing with fiscal discipline after saying goodbye to the IMF. This would also be at the centre of mandatory Article-IV consultations with the IMF later this month.

This deficit in just a tad lower than the 2.6pc of GDP in 2012-13 repeatedly condemned by Finance Minister, Ishaq Dar. The said year was concluded at 8pc of deficit after paying Rs480bn for circular debt which is once again in the same region, if not higher.

As part of the budget 2016-17, the government has set a target of containing fiscal deficit below 3.8pc of GDP, but the actual deficit has moved past 2.4pc of GDP (more than 63pc of the limit). The slippage was on both accounts — revenue collection and expenditure control.

But that is not all. The story of an economic turnaround is also challenged by rising inflation, expanding current account deficit, falling exports and remittances, lower industrial output and increasing trade imbalance in the first seven-eight months of the current year.

Despite these signs, Ishaq Dar is hinting at a populist and pro-growth budget and understandably so. He has already made it clear that the "government would accord top priority to the well-being of the people in the 2017-18… budget and focus on measures for further improving ease of doing business and increasing financial inclusion with the primary aim of achieving higher, sustainable and inclusive economic growth".

Under the calendar, the meetings of the Priorities Committee would be held in the first week of April to fine tune estimates for expenditures and revenues for next year's meetings of the annual plan coordination committee and national economic council; both of which could be convened in the last week of April and first week of May respectively.

The finance minister is targeting to announce the federal budget on May 26 in the national assembly.

Given an estimated revenue shortfall of about Rs180bn so far, the finance minister has already directed the Federal Board of Revenue to not only take steps to minimise the gap this year but also take measures against tax evasion and for promotion of tax culture to strengthen revenue generation.

Another politico-fiscal challenge for the federal government would be the behaviour of the provincial governments. Repeated healthy cash surpluses offered by the provinces over the past four years have been a key source of strength for the PML-N government enabling it to conclude all these fiscal years with an acceptable fiscal deficit, albeit higher than targets set under the IMF programme.

This year, the PPP government in Sindh and Imran Khan's PTI in Khyber Pakhtunkhwa cannot be expected to contain the temptation to woo voters through politically motivated development largesse. The situation in Punjab will hardly be different where the incumbents will continue with schemes to consolidate their electoral base.

On top of that, the government may like to be little more extravagant on the issue of salary increase in the final year as it has maintained an average 10pc relief these four years.

Importantly, voters will not be misled by political announcements because they will have a full year to judge the PML-N's performance before they go to vote.

DAWN
Monday, 20th March, 2017

Fed raises rates amid signs of strengthening economy

ANA SWANSON

The Federal Reserve raised its benchmark interest rate by 25 basis points last Wednesday, launching into what is expected to be a more rapid series of increases that is intended to ward off inflation but will also raise costs for Americans who borrow money to finance mortgages, auto loans and credit card purchases.

Fed officials voted to raise the central bank's key interest rate for overnight lending by a quarter point, from a range of 0.5pc to 0.75pc to a range of 0.75pc to 1.0pc. Bank officials announced the decision last Wednesday afternoon following a two-day policy meeting in Washington.

The Fed has long planned on raising interest rates to a more normal level, after slashing them to nearly zero during the financial crisis and holding them at an ultra-low level for years to stimulate a sluggish economy. After some tentative steps, the last Wednesday hike signals a significant transition

"This is a sea change for them, to start talk about raising rates at a faster pace," said Blu Putnam, CME Group's chief economist.

The Fed's decision could also frustrate the ambitious goals of the Trump administration, including boosting growth rates to a pace not seen in years and reviving manufacturing and exports. By raising the cost of borrowing, higher interest rates tend to dampen growth. They also attract investment to the United States, which pushes up the value of the dollar and makes US exports comparatively expensive abroad.

Investors were well-prepared for the move, as Fed officials have made numerous speeches telegraphing their decision in recent weeks. Before last Wednesday's announcement, futures markets pointed to a 95pc probability of the rate hike.

By raising the cost of borrowing, higher interest rates could dampen the economy's growth — and also likely attract global investment

The Fed carried out its first rate increase since the global financial crisis in December 2015, and another in December 2016. But the uncertainty surrounding the US presidential election and persistent threats to global growth, such as a stock market crash in China last year, persuaded the Fed to otherwise hold off.

"It feels like we are at a transition to somewhat more regular increases," said Michael Feroli, chief US economist at J. P. Morgan. In the past, the Fed "just didn't get the global headroom" to be able to raise rates, he said. "I think for now the coast looks clear."

The Fed has long insisted that it will match the pace of its interest rate hikes to the progress of the economy. And in recent months, the US economy has finally showed signs of heating up. While gross domestic product, a broad measure of economic growth, remains disappointing low, the unemployment rate has fallen below the Fed's long-term projections, companies continue to add hundreds of thousands of jobs per month, and there are signs that a long-absent increase in inflation could be just around the corner.

Given these more encouraging signs, the Fed is eager to move interest rates away from what economists call the zero-lower bound — meaning interest rates hovering around zero per cent. That would give the Fed room to cut rates to stimulate the economy, in the event of economic troubles in the future.

Some argue that, by raising rates too quickly, the Fed risks choking off progress for the poorest Americans, just as they dig themselves out of the recession. But others say that, by delaying, the Fed risks inflating asset bubbles in the market or letting inflation get out of hand — something market watchers term 'falling behind the curve.'

"The Fed still has their foot on the monetary accelerator almost to the floorboard. They have to take that foot off," said Steven Rick, chief economist at CUNA Mutual Group. "We're concerned that maybe they are behind the curve."

"The economy can absorb these rate hikes, and it's past time we got on with it," said Joe Brusuelas, chief economist at RSM US.

Market watchers were also keeping a close eye during last Wednesday's meeting on the massive balance sheet that the Fed accumulated during the financial crisis. To boost lending in the economy, the Fed bought massive amounts of Treasuries, mortgage-backed securities and other assets during the financial crisis, expanding its balance sheet from less than $900bn to roughly $4.5tr today.

The Fed has tapered off purchases of these assets, but it has not yet started reducing the size of the massive balance sheet.

The Fed argued that these extraordinary measures were needed to keep the United States out of another Great Depression. But some have criticised the move as exceeding the Fed's congressional mandate, and say that it distorts the market by holding down longer-run interest rates.

The policies of the new administration are clouding the outlook for the Fed. Trump came into office with sweeping plans for the economy, including slashing corporate taxes, cutting regulations and boosting spending on infrastructure. If these policies materialise, they are likely to boost economic growth and spur inflation, potentially forcing the Fed to hike rates more quickly to keep up.

By raising the cost of borrowing, higher interest rates could dampen the economy's growth — and also likely attract global investment, which will push up the dollar and weigh on US exports.

The Washington Post Service

DAWN
Monday, 20th March, 2017

Dispute resolution is but a term

MUBARAK ZEB KHAN

The business community hoped for an early resolution of commercial disputes when the government launched the Trade Dispute Resolution Organisation in 2014.

As many as 274 complaints involving $92.42m have been filed with the TDRO since its inception, but so far a mere 12 disputes have been resolved.

The dismal performance can be traced to administrative and policy issues which have turned the TDRO into a virtually moribund body. It is now merely an attached department of the ministry of commerce.

As many as 274 complaints have been filed with the TDRO since its inception, but so far a mere 12 disputes have been resolved

Out of court modes for dispute resolutions include arbitration, mediation, negotiation and personal meetings. Mediation usually comes under the alternate dispute resolution mechanism that any party can opt for.

For dispute resolution mediation is the first choice for 50pc of the trade bodies, followed by arbitration at 41pc. Litigation is preferred by only 4pc.

On the basis of this feedback from the business community, the core function of the TDRO is arbitration and mediation, not adjudication.

An officer of the organisation listed three factors that mar its performance.

The first challenge is the early finalisation of a trade dispute resolution law. "We have drafted a trade dispute resolution law which was sent to the law division for vetting", a senior officer of the organisation said, adding they expect the law to be tabled in the National Assembly by the end of the current month so that it becomes an act of parliament.

With just four officers on its staff against the sanctioned 12 and no proper law for its functioning, the TDRO finds itself hamstrung. There has been no one to head the organisation for the last two years so that it functions on an ad hoc basis.

At best, it serves as a coordination office between the complainant (business) and respondent. The TDRO's lone office is located in Islamabad, with no regional offices in the country's business and industrial hubs — Karachi and Lahore.

According to the World Bank's Doing Business Report 2016, contract enforcement rules in Pakistan require 46 procedures which take 993.2 days and cost 23pc of the value of the claim.

Globally Pakistan stands at 151 in the ranking of 189 economies on the ease of enforcing contracts.

As per a study of the commerce ministry, constraints to business growth occur due to delays in commercial dispute settlement.

The sector-wise analysis of dispute complaints received at the TDRO show that 50 cases were related to textiles, 30 edible items, 30 rice, 25 leather, 30 metal and minerals, 23 machinery, 20 surgical goods, 21 sports goods and 10 pharmaceuticals. As many 35 cases related to other sectors.

The highest number of reported cases of disputes have been recorded for China (39), followed by US (18), Italy (17), Iran (14), Canada (13), Spain (12), Russia (12), Portugal (11), Sudan (11), Switzerland (10), Mauritius (10) and the UAE (9). The lowest number of cases of trade disputes — eight — have been recorded for Afghanistan and India.

A TDRO survey based on the feedback from trade bodies listed quality and payment issues, lack of understanding of contract and agreement, price fluctuations and non-compliance as the main reasons of commercial disputes.

Almost 72pc of the trade bodies are not satisfied with the existing mechanism for trade dispute resolution. The lukewarm response of the concerned authorities, such as trade missions abroad and TDAP, do not lead to dispute resolution.

An official of the TDRO said that a Trade Dispute Resolution Performa (TDRP) is available on its website. A complainant in Pakistan or abroad is required to fill the Performa and submit it along with all relevant documents. After receiving the complaint, the TDRO starts the process of working towards an amicable solution.

Over the years, the business community has lost its confidence on the performance of commercial courts for dispute resolution.

Official data shows that the Lahore-based office of TDAP

DAWN
Monday, 20th March, 2017

received 310 complaints against Pakistani businessmen, while 108 against foreign businessmen. Of these only 141 cases were filed in commercial courts of which 113 were disposed of. Only 12 cases were decided by commercial court in 2015, while 28 are currently in process.

The situation at commercial courts in Karachi was no better than Lahore. The Karachi-based TDAP office received 463 cases from 2008 to 2015. Of these only 44 were referred to commercial courts in which only eight were settled. The remaining 36 are currently in process.

In both Karachi and Lahore's commercial courts, according to an official report, businesses face litigation for 5-10 years getting entangled in 46 procedures. There is a backlog of one million cases in courts of which 30pc are estimated to be commercial. The report further says the judicial system suffers from heavy case-loads because of a shortage of judges.

THE NEWS
Monday, 20th March, 2017

INSIGHT

Back in crisis

By Ihtasham Ul Haque

The fragile economy is threatening sustainable and inclusive growth and is becoming a bigger challenge for the next budget due to the yawning over $20 billion trade gap, tumbling foreign exchange reserves, falling home remittances, and declining revenues.

The current political discourse is likely to get murkier in the wake of the decision on Panama leaks scandal, and tall claims of economic turnaround are losing credibility. This is making the job of the federal planners to work out fresh budgetary proposals for 2017-18 far more complicated.

The projected five percent plus gross domestic product (GDP) growth rate in 2016-17 compared to 4.7 percent of 2015-16 is fast becoming a delusion due to the poor performance of major economic indicators during the first eight months of the current fiscal year.

Marginal growth in agriculture, which remained negative during the last few years, and Large Scale manufacturing (LSM) are also two major factors causing problems. Those who are in the know of things are worried about the remaining four months of the financial year to see certain improvements in major economic indicators.

On top of that, the first Multi-dimensional Poverty Index – that measures non-income based poverty – has classified 38 percent of Pakistan's population in the multi-dimensional poor bracket. This, according to a State Bank of Pakistan (SBP) report entails multiple policies including revamping weak institutions and national ownership of Vision 2025, a baby of the planning and development minister Ahsan Iqbal.

The federal minister for finance Senator Ishaq Dar does not miss an opportunity to accuse his critics, independent economists and commentators of spreading despondency in the masses through what he calls their "ill-conceived and wrong assessment" of the economy. He alleges that these 'detractors' are deliberately showing a disturbing picture of the economy because of their own vested interests. He says those raising questions are working with a certain agenda.

An important question to ponder is how the finance minister will defend the underperforming economy, over which the central bank too is now expressing concerns and calling for taking early actions. The State Bank of Pakistan's independent and balanced quarterly, half yearly, and annual reports, are being acknowledged by people like renowned economist and former finance minister Dr Hafeez A Pasha.

The growing trade deficit (gap between imports and exports) that has jumped by 34 percent during the first eight months of the current fiscal as against 29 percent in February this year, is threatening the external sector, which is already seeing reduced home remittances and thus posing threats to the reserves position. In addition to that, the current account deficit (gap between export of goods and services) has already reached $4.7 billion in the first eight months of the current fiscal year 2016/17.

The officials of the Ministry of Finance and the central bank maintain that the trade gap was a temporary phenomenon and the situation would ease during the remaining four months by June 30 this year, an argument nobody was prepared to buy, considering the deteriorating external flows, including that of the US Coalition Support Fund (CSF).

The government says that gaps have widened between imports and exports due to machinery related imports for the China-Pakistan Economic Corridor (CPEC) related projects. The government, nonetheless, fails to convince its detractors, who maintain that the trade deficit was increasing because of allowing unnecessary imports, consistently falling exports, and the imposition of 100 percent cash margin on all non-oil imports by the central bank, which does not seem to be working to control the rising deficit.

The issue of escalating trade deficit is alarming as it is now time to witness bulky outflows connected with CPEC and other debt service obligations. The current financial year is going to be extremely difficult to manage, as the government has to make $15 billion repayments in 2016-17 that will hit the reserves position.

These $15 billion include $7 billion for financing debt servicing and $8 billion for managing the current account deficit, which has already reached $4.7 billion during July and January. Safe estimates reveal that the current account deficit will raise the external financing requirement for

THE NEWS
Monday, 20th March, 2017

the current fiscal year to over $13 billion. This situation, according to Dr Hafeez Pasha and Dr Ashfaque Hasan Khan is very frightening, forcing the government to seek additional external borrowing from traditional sources like the World Bank, Asian Development Bank (ADB) and bilateral creditors including new investment from China.

Pakistan has added $12.2 billion of external debt and liabilities in three years of the Pakistan Muslim League-Nawaz (PML-N) government, as against $14.7 billion accrued by the Pakistan Peoples' Party regime in the previous five years. As such, the speed of foreign borrowing has been somewhat higher in recent years.

Nawaz Sharif government contracted foreign exchange loans of $35 billion since coming into power, out of which $20 billion had been disbursed. Generally there is a consensus among independent economists that external debt is likely to reach over $100 billion by end-June 2020 from the present $74 billion.

Dar maintains the government will have to pay back $2 billion every year to its foreign creditors, while his critics believe the amount is bigger and the government is not telling the truth because elections are around the corner.

Total foreign exchange reserves of the SBP are $22 billion that include $4.8 billion of the commercial banks as well. And out of these $4.8 billion, the government has borrowed $3.3 billion from the commercial banks, called as "forward buying from the market" to be returned to them after three months. Here, the government is doing double accounting, which, in principle, should have been removed from the total reserves. However, this is not happening, which is what is providing an opportunity to the government's critics, who say the rulers are involved in figure fudging of the foreign exchange reserves.

For commercial banks, it is double jeopardy, as besides the reserves issue, businessmen operating outside the banking system are also costing them dearly due to reduction in the collection of withholding tax on banking transactions. Businessmen and traders are dealing in cash, and such dealings have reportedly doubled in one year. The size of the non-banking or cash transactions have increased from Rs4,800 billion to Rs2,600 billion in one year because of 0.4 percent withholding tax, up 85 percent from 2015.

Some people are facilitating small traders to keep their money in private lockers on marginal rates. A practice said to be growing with the passage of each day. The issue came to light recently after a small incident in a shop of Raja bazaar, Rawalpindi which caught fire and currency notes worth Rs80 million were destroyed. It was reported to the authorities, but nothing happened as the shopkeepers eventually decided to keep quiet and settled the issue amicably. How many such shops are operating like banks is anybody's guess, but one thing is certain that small traders are unprepared to pay 0.4 percent withholding tax to banks, which will cost them heavily if they make a number of daily transactions exceeding Rs50,000.

Multiple issues have been plaguing the economy and if measures are not taken to fix the matters, it is anybody's guess what will happen after the next election.

The country's exports have been on a continuous decline for the last many years, which speaks volume about the previous and current governments' policies. The weak or poor policies have been making the external sector further vulnerable. It is in that backdrop, fears are being expressed that the future government which comes into power as result of 2108 election will have to once again go back to the International Monitory Fund (IMF) for emergency lending. The position of the foreign exchange reserves, which once reached as high as $23 billion plus and contained mainly external borrowing including $8 billion from the IMF, is gradually decreasing and getting indefensible.

The officials of the central bank are reportedly perturbed over the declining home remittances too, as it was the home remittances that previously used to plug the trade gap to some good extent. The situation has become more worrying as the annual target of $20 billion of home remittances looks difficult to achieve due to differences in the inter-bank and open market dollar rate.

Declining exports are not helping the situation either. Unfortunately, even after the government extended Rs180 billion subsidy package to the textile, clothing, sports, surgical, leather, and carpet exporting sectors for boosting their exports, the situation did not improve.

The Pakistani export sector blames it on the overvaluation of rupee. Exporters believe the Pakistani currency is overvalued and needs to be devalued against the dollar to augment exports. Not only that, they also demand the government to release their stuck up refunds. The exporters call out the government for depriving them of their over Rs150 billion sales tax refunds. They say that if the government gives back their refunds, as has been promised time and again, they would be able to reinvest and solve the liquidity crisis which has also been hampering exports. The traders are also very critical of the Commerce Ministry and the minister for commerce Khurram Dastgir Khan, who according to them is not available to resolve their problems in terms of increasing exports. Problems and issues are countless as per the businessmen and traders.

Another factor hindering exports is the inability of the Commerce Ministry to propose reforms in the export sector in the trade related departments, including Pakistani embassies abroad. They accuse the relevant ministries of inefficiencies and lacklustre behaviour which has resulted in plunging the exports down to $20 billion, while imports have almost doubled due to the government's inaction over the issue.

Lack of value-addition and product diversification is also hampering exports. These factors are rendering Pakistani products uncompetitive against countries like India and Vietnam who are increasing their footprints in the global markets, especially in the textiles sector.

The question being asked was now is how will the government accomplish its task of achieving $35 billion annual export target by 2018 under the three year Strategic Trade Policy uncovered last year?

The speed with which the government is seeking exceptional domestic borrowing to manage its day-to-day affairs is accumulating a large debt, going forward; it has to be avoided to escape adverse macroeconomic consequences. Also Dar must share his thoughts about the economy by inviting the views of experts and economists in the economic advisory committee meeting which has not met for a long time.

The writer is a senior journalist based in Islamabad

THE NEWS
Monday, 20th March, 2017

FOCUS

Water war to water talks

By Zeehan Haider

After a lot of sabre-rattling and muscle-flexing, Narendra Modi's government is returning to the negotiating table to discuss water-sharing disputes with Pakistan.

It is quite interesting to see the Indian water officials and experts sit across the table with their Pakistani counterparts to discuss the Indus Water Treaty (IWT) which Modi, incensed over Uri attack, had threatened to scrap.

Under the 1960 water sharing accord, it is mandatory that officials and experts of both countries meet once in a year to discuss and resolve issues relating to implementation of the pact.

The meeting between the water commissioners and other officials was due in September last year, but India cancelled the talks following the attack on the Indian military camp in Uri in held Kashmir, blaming it on Pakistan-based insurgents which Islamabad vehemently denied.

The IWT meeting does not mean resumption of formal talks between the two countries. Dubbed as a composite dialogue since water-sharing talks are not part of this process, it is a welcome development, and proves that the crucial water sharing accord is still intact.

The water commissioners would meet today and tomorrow in Lahore to see progress in the implementation of the accord.

"The meeting is a positive step, as a few months ago Narendra Modi was threatening to rescind the Indus Water Treaty. At least these talks would show that the treaty is alive," Pakistan's former Indus water commissioner Jamaat Ali Shah said.

However, he tried to play down undue hopes being attached with the meeting and said, "no breakthrough" is expected.

According to Shah, the water issues between Pakistan and India are far more serious and these can't be resolved at the level of water commissioners or secretary water and power.

"It needs political intervention at the highest level and this issue should be taken seriously."

Shah said the reports leaked just before the resumption of IWT talks that India is fast tracking six hydro-power projects in held Kashmir shows the Indian mindset of wanting to create water trouble for Pakistan in future.

These projects aimed at producing 8,000 megawatt of electricity were floated many years ago, but had been put in cold storage by the Indian authorities. The swift approval of the projects by the Modi government surprised many and raised concerns that New Delhi might not rescind the IWT altogether but could create hurdles in the free flow of water to Pakistan.

Pakistan has previously disputed some of the projects and said they violate IWT.

Shah said under IWT it is mandatory on both countries to notify the other about any hydropower projects on the rivers covered by the treaty six months before the start of construction on them.

He said though the construction work on these projects may take up to ten years they would be problematic for Pakistan in future.

A few months back, India blocked Pakistan's move to resolve dispute over the two other hydro projects Kishanganga and Ratle through the World Bank's international court of arbitration, by saying that Pakistan's objections were "technical" in nature and could be resolved bilaterally or through a neutral expert.

Much of Pakistan's agriculture, particularly in its food basket – Punjab – depends on Indus River and its tributaries.

The comments by Indian officials about these projects – the largest of which is the 1,856 megawatt Sawalkote plant, have highlighted the real intensions of the Indian establishment behind the swift approval of these projects

"I say the way you look at these projects; it is not purely a hydro project. Broaden it to a strategic water management, border management problem, and then you put in money," Pradeep Kumar Pujari, a senior official in India's water and power ministry was quoted as saying by the Reuters.

Observers say Punjari's comments have shown Modi's intension of linking water sharing with the political disputes between the two countries.

After blaming Pakistan-based insurgents for the Uri attacks, Modi had threatened last year that “water and blood cannot flow together”.

Just weeks after the attack, the Indian prime minister chaired a high level meeting of his military and water ministry officials to discuss ways to use water as an instrument of pressure against Islamabad.

Pakistan at the time had warned that the rescinding water accord would be taken an “act of war” by India.

The timely warning by Islamabad stopped New Delhi from taking a drastic step, but analysts say Pakistan needs to handle the matter more seriously.

During the two days of talks in Islamabad, the water commissioners are expected to exchange their annual reports as well as flood forewarning reports.

The two sides might discuss technical aspects of some of the hydropower projects being built on the Indus River and its tributaries but no tangible decisions are expected.

Analysts say Pakistan should pursue the water issue more vigorously, particularly after India refused to accept even the World Bank’s arbitration. “After India’s refusal to accept international court of arbitration, we don’t know the fate of our case on Kishanganga and Ratle. Is it a dead case now? We don’t know,” Shah said.

The Indus Water Treaty has been considered the most successful water sharing accord in the world which has survived even wars between the two South Asia enemies.

However, things are getting serious with the installation of a Modi-led Hindu radical government in New Delhi.

Bharatiya Janata Party has scored landslide victory in the recently held elections in Uttar Pradesh – India’s most populous and politically the most important state – making Modi the most powerful prime minister of the country in the past three decades. But it is to be seen whether the shrewd politician would use his new political strength to mend ties and make peace with neighbours, particularly Pakistan or exploit these gains to make him more powerful internally by expanding his Hindu vote bank.

Regardless of what Modi does, Pakistan needs to do its homework properly to deal with any eventuality as far as the Indus Water Treaty is concerned.

“Our leaders need to take the issue seriously and holistically,” the former IWT commissioner Shah said. “Our leaders should divert some of their attention from Panama case and give some time to the water issue, which is becoming very serious,” he added.

The writer is a senior journalist based in Islamabad

The Nation on Web
The Nation
Monday, 20th March, 2017

Sindh refuses to pay Rs14b RBOD-II share to Centre

Manchar Lake flora, fauna will be wiped out if the project delayed

Fawad Yousafzai

ISLAMABAD - The federal and Sindh governments are still at odds as the province has refused to pay its share of Rs14 billion for the Right Bank Outfall Drain (RBOD-II) project.

The RBOD projects are aimed at draining the effluent water from Balochistan and Sindh in the Arabian Sea, to protect contamination of Manchar Lake.

The federal government will invite the Sindh government to resolve the issue of the RBOD's flood protection funding in the light of the Supreme Court directives, sources told The Nation here on Sunday.

"Now after the Supreme Court directives both the federal and the provincial governments have less than one month's time to resolve the issue, and soon the issue will be raised with the province, the official added.

In a meeting last month attended by secretaries finance, water and power, law and planning, the chief secretary Sindh has agreed that the province will pay its share of Rs14 billion for flood protection of the RBOD-II project.

It is feared that if the RBOD-II project is not completed on time, the flora and fauna of Manchar Lake will completely be wiped out.

The Supreme Court has already initiated suo motu proceedings regarding the growing level of contamination in Manchar Lake and the deprivation of the livelihood of the fishermen.

Beside, the timely completion of RBOD is productive for Sindh as it would save 4.32 million acres of land from water-logging and salinity.

Last week the Supreme Court, in a suo motu case concerning Manchar lake contamination due to effluents from the RBOD, has directed the federal and provincial governments "to interact on the issue of completing the RBOD project to protect Manchar Lake from contamination, warning that the court could summon the prime minister and the chief minister if the issue was not resolved."

The revised cost of the RBOD-II projects was approved by the CDWP and referred it to the ECNEC for approval.

The federal government has agreed to divert Rs3 billion to the RBOD-II during the current financial year as the project cost has gone up by more than 100 per cent to Rs61.985 billion.

The completion deadline of the RBOD-I, II and III projects was also increased for the fourth time and will be simultaneously completed by 2019.

A committee was constituted, in October 2016, under member Infrastructure Planning on RBOD projects.

The committee has further constituted a technical subcommittee to make recommendation for the early completion of the RBOD's projects.

Currently there are three projects in the implementation stage for carrying Balochistan and Sindh disposal into sea.

The first leg of the project is RBOD-III, which will carry Balochistan and Sindh effluent disposal.

The project is located in Nasirabad, Jaffarabad districts of Balochistan and Kambar, Shahdad Kot districts of Sindh.

The project was initiated in 2003 and missed several completion deadlines, however now the government has fixed 2019 a new date of completion.

The second leg is RBOD-I located in Nara desert, district Ghotki and Sukkur, Sindh, which will be used for the disposal of effluent from the Right Bank Sukkur and Guddu Barrage commands area in Sindh.

The project was initiated in 1994 and missed several completion deadlines, however now the government has fixed 2019 a new date of completion.

Similarly, RBOD-II drain will be connected to RBOD-I at Sehwan and will carry the effluent direct to sea at Gharo.

The project of 273-kilometre long RBOD-II was initiated in 2001 and the estimated cost of Rs14 billion, the project was supposed to be completed in 2006 however it was delayed.

To carry Balochistan's waste water, RBOD-II capacity was revised to 3,525 cusec from 2,271 cusec.

The Nation on Web
The Nation
Monday, 20th March, 2017

The estimated cost was also upward revised to Rs29 billion in 2005 and the completion target was extended to 2008 and then 2014.

Now once again the cost was upward revised to Rs61.985 billion and the completion target was transferred to 2019.

It is pertinent to mention here that in the 2nd revised PC-I, the Sindh government had estimated the cost to be Rs64.66 billion but the Planning Commission asked for cost rationalisation.

After necessary modification and amendments, the RBOD-II project cost was revised to Rs61.985 billion.

The RBOD-II project is located in Jamshoro and Thatta districts of Sindh and is being considered vital for rehabilitation of, Asia's largest fresh water lake, Manchar which receives contaminated water of the RBOD-I.

As per the new schedule provided by the technical subcommittee, during the next three years, Rs3,000 million are required for RBOD-I, Rs4,000 million for RBOD-III and Rs19,713 million for RBOD-II.

During current fiscal year Rs5,000 million will be spend on the RBOD-II against the PSDP allocation of Rs2,000 million.

Similarly as per schedule Rs1,800 million are required for the RBOD-I and III during the current fiscal year against the PSDP allocation of Rs2,800 million.

An additional Rs3,000 million funds will be required for RBOD-II to achieve the target of the current fiscal year.

It was therefore recommended that Rs1,000 million could be transferred to the project from RBOD-I and III, and the Ministry of Planning, Development and Reforms will arrange the remaining Rs2,000 million through re-appropriation from other projects during the current fiscal.

The sub-committee also recommended that the government of Sindh may also make timely releases of Rs14 billion required for completion of flood protection works as part of RBOD-II project to ensure that work done on the project with the federal government funding is not affected during the flood season.

The Sindh government made a commitment, however just before Executive Committee of National Economic Council (ECNEC) meeting, it has backed out from paying Rs14 billion and therefore the approval of the RBOD project was deferred.

The federal government insists that after the devolution of power to provinces, it was Sindh's responsibility to fund the flood protection part of the project.

Earlier the allocation for the flood protection was Rs3 billion, however Sindh government has increased the amount to Rs14 billion, the official said.

The Nation on Web
The Nation
Monday, 20th March, 2017

Dasu hydropower project to bring prosperity

Sharjeel Hussain

Pakistan is in grip of energy crisis and feels draught like situation. The previous governments didn't pay much heed to this problem and ultimately the problem became severe to more severe every year.

In 2013, when PML-N came to power it vowed to resolve the crisis. In power generation, hydro power projects are the cheapest source. Pakistan has this capacity up to 50,000MWs, which is far more than our total requirement.

At the time we are harnessing not even half of this capacity. Building a new mega dam adds 4 to 5 percent to Pakistan's GDP – that means one dam will increase 110 billion dollar to 115 billion dollar.

Hydro electricity is the cheapest, cleanest, and most efficient source of power known to humans. It is the only long-term solution to Pakistanis' insatiable and growing appetite for cheap electricity. The government is taking many of the right steps to develop these resources.

According to reports, the country is facing a shortage of up to 8,000MW, which leads to power cuts for hours in several parts. The government has been working hard to overcome this shortfall started many electricity generation projects. During all this time it has been keenly working for optimal utilisation of hydropower resources for generating low-cost electricity.

Dasu Hydropower Project is a manifestation of this commitment. The government recently gave two contracts of building Dasu dam to Chinese firm China Gezhouba Group Company (CGGC).

This is a herald of a new era of cheap electricity generation and availability of water for agriculture. Dasu dam is located 7 km north of Dasu town in Kohistan district of Khyber Pakhtunkhwa and 350 km north of Islamabad.

The site is 74 km downstream of proposed Diamer Basha Dam Project site. The total height of this dam is 242m. Its gross storage capacity would be 1410 million m³ while the live storage capacity would be 820 million m³.

These contracts worth Rs180 billion are for the main dam. The projects will be completed in two stages.

This first stage of the project will be completed in 2021 under the contract and would generate 2,160MW of electricity.

The second phase of the project would also be capable of generating 2,160MW but this will obviously not take such a long time given the fact that the main dam would already be available and the second stage would involve only building a power house. The World Bank is partially providing funds for the construction of stage-I of the project, while a major chunk is being arranged by Wapda from its own resources.

Once the dam is built its benefits are far reaching. The dam will not only add electricity to the national grid, but it will also change the lot of this region.

The very first benefit is of this project is that it will generate employment opportunities for the locals during the construction and operation of the dam. It will further lead to the massive infrastructure development in the area, and resultantly to the uplift of people of the area.

The availability of water will further promote agriculture. It will turn the barren land into fertile fields. Controlled rivers and canals will be possible. More and more land will come under cultivation and will be another source of uplifting the lot of people.

Implementation of clean drinking water is only possible with availability of water. With this dam it will also open ways for providing clean drinking water for the population. Industrial development is essential for economic development of the country and with availability of electricity the industry will flourish in the area. It will provide cheap electricity to the towns and villages.

By building big dams our dependence on thermal power will decrease which will ultimately save our foreign exchange. Millions of people affected by floods every year causing loss of life and property. Boiling dams prevents floods and save lives and properties of people.

We haven't built any even a single big dam in the last three decade. Building Dasu Hydropower Project is major step of this government. It is a manifestation of government's commitment to end load-shedding in Pakistan. It would help to bridge the power shortfall and would be proved a milestone especially for the advancement,

The Nation on Web
The Nation
Monday, 20th March, 2017

and prosperity of entire Kohistan district together with its peoples. The rapid completion of the project is in the best national interest.