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APTMA reschedules token protest on 13th in front of Parliament House

TAHIR AMIN

ISLAMABAD: The All Pakistan Textile Mills Association (APTMA) rescheduled its token protest from July 7 to July 13 in front of Parliament House as there was no session of the Senate and National Assembly on 7 July against anti-industry and anti-export policies of the government.

This was stated by group leader APTMA Gohar Ejaz while talking to Business Recorder. Senate and National Assembly would meet on July 10 and industry stakeholders want to register their protest with parliamentarians therefore the date has been changed, Ijaz added.

He said Prime Minister Nawaz Sharif announced incentives worth Rs180 billion on January 10, 2017 in a bid to boost country's falling exports. An increase in exports was not a condition for access to incentives in the current fiscal year 2017 however after releasing Rs 1 billion the government informed the exporters that they must increase exports first if they are to avail of the PM's package of incentives which, in turn, would be extended after one year. This, he added, has created resentment and trust deficit amongst exporters. The government should have released around Rs 40 billion by now instead of the paltry Rs 1 billion, Ejaz stated.

The government, he added, has earmarked only Rs 4 billion in the budget 2017-18 for the incentive package which is a big joke in the industry, said APTMA representative, adding the government should take practical measures to implement the package. He identified an overvalued rupee and high cost of doing business as major factors contributing to the continued slide in exports.

Ejaz urged the government to implement the PM package in letter and spirit, clear outstanding refunds and bring the energy prices to levels comparable with other regional countries.

Due to high input cost including electricity and gas Pakistan's textiles are not competitive in the international market. Electricity is available at Rs 11/kwh for the industry in Pakistan compared to Rs 7/kwh in other regional countries including Bangladesh, said Ejaz, adding that industry is burdened with Rs3.63/kWh surcharge on electricity and GIDC on gas which cannot be passed onto the international buyers.

Further, RLNG is available at Rs 1000/MMBTU in Pakistan against Rs 400 in Bangladesh. In such circumstances the industry can not compete in the international market which accounts for exports on a declining trajectory.

Exporters have submitted claims of Rs 11 billion against different incentives under the PM package; however the government has released only Rs 1 billion so far. This has resulted in creating panic among the exporters, said APTMA official, adding they are facing serious liquidity crunch and unable to further invest in product diversification.

Textile Ministry officials said the government announced four major incentives for the textile sector under the PM package including: (i) drawbacks available to garments at 7 percent, made-ups at 6 percent, processed fabrics at 5 percent and yarn and greige fabric at 4 percent; (ii) bringing custom duty and sale tax to zero rate on cotton import; (iii) zero rate sale tax on machinery import; and (iv) abolishing customs duty on man-made fiber other than polyester.

Under the drawbacks facilities, exporters submitted verified claims of Rs 4 billion, while the government released Rs 1 billion so far. A request has been sent to Finance Ministry for release of more funds to accommodate exporters' claims.

The sales tax zero-rating for

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five export sectors caused a revenue loss of Rs 39 billion during 2016-17. According to the Federal Board of Revenue's (FBR) estimates for 2017-18, the FBR will generate Rs 2.3 billion by raising sales tax on textile, leather, sports, carpet and surgical sectors and Rs 2.4 billion through commercial imports of fabrics in next fiscal year. In budget 2017-18, the government has increased the sales tax rates on domestic sales of textile, leather, carpets, sports goods and surgical goods from five to six per cent. Further, six per cent sales tax has been imposed on imports of clothes and fabrics.

Last May, industry claimed that the FBR had blocked Rs 100 billion sales tax refunds and rolled back Refund Payment Order (RPOs) claims by the textile sector filed from tax period July 1, 2016 onwards. On the other hand, FBR sources maintain that the amount of RPOs rolled back is not more than Rs 3-4 billion. The RPOs would be eventually reprocessed and verified under the new exercise being carried out by the field formations, but the textile industry termed it 'a technique to delay all sales tax refunds payments in 2016-17'.

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5-60pc RD levied on 67 items

SOHAIL SARFRAZ

ISLAMABAD: The Federal Board of Revenue (FBR) has imposed regulatory duty (RD) within the range of 5 to 60 percent on the import of 67 items from Wednesday.

The FBR has amended SRO 482(I)/2009 through SRO 504(I)/2017 issued Wednesday.

According to SRO 504(I)/2017, following are the names of items and rate of RD applicable: cigars, cheroots and cigarillos, containing tobacco have been subjected to regulatory duty (RD) 20 percent ad valorem; cigarettes containing tobacco, 20 percent ad valorem; other, 20 percent ad valorem; water pipe tobacco specified in subheading note 1 of chapter 24 of the first schedule to the Customs Act, 1969, 15 percent ad valorem; other, 15 percent ad valorem; homogenised" or "reconstituted" tobacco, 20 percent ad valorem; tobacco for chewing, 20 percent ad valorem; other, 20 percent ad valorem; tiles, cubes and similar articles, whether or not rectangular, the largest surface area of which is capable of being enclosed in a square the side of which is less than 7cm, 20 percent ad valorem; tiles, 20 percent ad valorem; wash basin, 20 percent ad valorem; bath tubs ceramic, 20 percent ad valorem; bidets ceramic, 20 percent ad valorem; cisterns ceramic, 20 percent ad valorem; sink ceramic, 20 percent ad valorem; toilet ceramic, 20 percent ad valorem; urinals ceramic, 20 percent ad valorem; water loset pans, 20 percent ad valorem; other, 20 percent ad valorem; other, 20 percent ad valorem; dinner sets, 20 percent ad valorem; dishes; 20 percent ad valorem; plates, 20 percent ad valorem; tea cups and saucers, 20 percent ad valorem; other, 20 percent ad valorem; other, 20 percent ad valorem; tableware and kitchenware, 15 percent ad valorem; other, 20 percent ad valorem; of porcelain or china, 20 percent ad valorem; other, 20 percent ad valorem; of porcelain or china, 20 percent ad valorem; other 20 percent ad valorem; new sport utility vehicles 1801cc to 3000cc (except electric hybrids), 50 percent ad valorem; old and used sport utility vehicles 1801cc to 3000cc (except electric hybrids), 60 percent ad valorem; new cars and jeeps 1801 cc to 3000cc (except electric hybrids), 50 percent ad valorem; old and used cars and jeeps 1801 cc to 3000cc (except electric hybrids), 60 percent ad valorem; new cars and jeeps above 3000 cc (except electric hybrids), 50 percent ad valorem; old and used cars and jeeps above 3000 cc (except electric hybrids), 60 percent ad valorem; new sport utility vehicles above 2000cc (except electric hybrids), 50 percent ad valorem; old and used sport utility vehicles above 2000cc (except electric hybrids), 60 percent ad valorem; new all terrain vehicles (CBU) (except electric hybrids), 50 percent ad valorem; old and used all terrain vehicles (CBU) (except electric hybrids), 60 percent ad valorem; new cars and jeeps above 2000 cc (except electric hybrids), 50 percent ad valorem; old and used cars and jeeps above 2000 cc (except electric hybrids), 60 percent ad valorem; new cars and jeeps above 2500 cc (except electric hybrids), 50 percent ad valorem; old and used cars and jeeps above 2500 cc (except electric hybrids), 60 percent ad valorem; new other (except electric hybrids), 50 percent ad valorem; old and used other (except electric hybrids), 60 percent ad valorem; pistols, single barrel , semiautomatic or otherwise, 20 percent ad valorem; pistols, multiple barrel, 20 percent ad valorem; other, 20 percent ad valorem; muzzle loading firearms, 20 percent ad valorem; pump action, 20 percent ad valorem; semiautomatic, 20 percent ad valorem; other, 20 percent ad valorem; shotguns, multiple barrel, including combination guns, 20 percent ad valorem; other, 20 percent ad valorem; single shot, 20 percent ad valorem; semiautomatic, 20 percent ad valorem; other, 20 percent ad valorem; other, 20 percent ad valorem; other arms (for example, spring, air or gas guns and pistols, truncheons), excluding those of heading 93.07, 25 percent ad valorem; cartridges, 20 percent ad valorem; other, 20 percent ad valorem; cartridges for riveting or similar tools or for captive bolt human killers and parts thereof, 25 percent ad valorem; other, RD 20 percent ad valorem and other are subjected to RD at 25 percent ad valorem.

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FDI crosses $2bn mark

RECORDER REPORT

KARACHI: The Foreign Direct Investment (FDI) has crossed two billion dollar mark, up 22 percent, during July-May of current fiscal year.

Economists said that despite several domestic challenges including energy crisis, since the beginning of this fiscal year FDI is continued to surge supported by arrival of investment for CPEC. Presently, several projected were in process under the CPEC and the most of investment inflows had also been arrived from China, they added.

The State Bank of Pakistan on Wednesday revealed that FDI had posted an increase of 22.6 percent during the 11 months of this fiscal year (FY17). Pakistan fetched FDI amounted to $2.028 billion during July-May of FY17 compared to $1.654 billion in corresponding period of last fiscal year (FY16), depicting an increase of $374 million.

Although overall inflows of FDI were lower than previous year however less outflow help to post a higher net FDI. During the period under review, FDI inflows were $2.398 billion compared to $370.4 million outflow.

Out of total investment, some 48 percent of investment has been arrived from China. Chinese share in overall investment stood at $921 million in July-May of FY17 as against $663 million corresponding period of last fiscal year.

According to the SBP, the second component of foreign investment-portfolio investment (PI) declined 8 percent to stand negative at $ 411 million in July-May of FY17.

The country's total foreign investment including FDI, portfolio investment and foreign investment public surged by 111 percent during the eleven months of this fiscal year. Pakistan has fetched $2.644 billion foreign investment during July-May of FY17 compared to $1.254 billion in same period of last fiscal year, depicting an increase of $1.39 billion.

Month on month basis, during May 2017, FDI was $294 million compared to $116 million in May 2016, showing an increase of 153 percent or $178 million.

“In the current economic scenario, when the country's forex reserves are gradually depleting followed by external debt payment, there is need to encourage foreign investment to build the foreign exchange reserves,” economists said.

Presently, goods exports and the home remittance sent by overseas Pakistanis are also on decline and in the current situation the FDI inflow is single sources for the country's foreign exchange reserves, they added.

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Data methodologies in IBs:

Inconsistencies could affect quality: IMF

TAHIR AMIN

ISLAMABAD: The State Bank of Pakistan (SBP) has an extensive database on Islamic Banks (IBs) operations, but inconsistencies in the data methodologies in IBs audited accounts could affect data quality for policy formulation, said International Monetary Fund (IMF).

IMF staff report "multi-country report ensuring financial stability in countries with Islamic banking" states that rather than forcing a transition toward a fully-fledged IB industry, policy makers should focus on putting in place an enabling environment that levels the playing field with the conventional industry, and let market forces play their role.

The report further contends that Pakistan has made considerable progress in adapting the institutional, legal and regulatory framework to the specifics of IB, but scope remains for further strengthening. Additional reforms are needed to address gaps with respect to consolidated supervision, consumer protection, the resolution framework, and the absence of liquid secondary markets.

The ongoing reforms with respect to Capital Adequacy Ratio (CAR), liquidity framework and Deposit Insurance Scheme (DIS) need to be expedited. Concentrations in bank financing, maturity mismatches and development of interbank markets warrant attention and further efforts are needed to develop deep Sukuk markets.

The IB industry has experienced rapid growth and the IBs in Pakistan have also increased the share of risk-sharing financing (Musharakah and Mudarabah). IB in Pakistan has been growing very fast since its re-launch in 2001. Though still in an evolutionary phase, Pakistan's IB industry expanded at a Compound Annual Growth Rate (CAGR) of nearly 50 percent between 2002 and 2015, and reached a market share of 11.4 percent by end 2015. Facilitative regulatory support has been propelling the growth of Pakistan's IB sector. The large Muslim population and low market penetration also suggest that there is a substantial upside potential for further growth. About 96 percent of Pakistan's population of 193 million is reported to be Muslim and the World Bank Findex data show that only 13 percent of the adult population has a bank account. The central bank has also devised a strategic plan for the IB Industry to reach 15 percent of banking system assets by end 2018.

The IBs have a healthy domestic funding base. Close to 85.3 percent of the assets are funded by customer deposits, and about 63 percent are PLS deposits accounts based on Mudarabah contracts while current accounts are mostly based on Qard. Funds due to OFIs account for a very small share. The funding is mostly in local currency, thus exchange rate risk is low.

Sukuk issuance by banks and other long term funding appear limited, thereby potentially creating maturity mismatches with financing structure. IBs in Pakistan exhibit strong financial fundamentals. For full-fledged IBs, the CAR was 14 percent at end 2015, significantly above the prescribed minimum of 10 percent but below conventional banks. The NPF ratio of 2 percent is significantly below the average for conventional banks of 12 percent. IBs are also profitable and liquid but the profit margins and liquidity levels are, however, lower than their conventional counterparts.

The SBP, however, does not yet supervise IBs on a consolidated basis, but is in the process of amending the law. The presentation of audited accounts differs considerably across banks and the different classifications make consolidation and comparative analysis challenging.

The SBP has played a major role in the issuance of government of Pakistan Ijarah Sukuk which has paved the way for effective liquidity management of IBs. In addition, despite witnessing growth over the years, the domestic Sukuk market is still confronted with issues such as lack of short term and long term Sukuk of high quality, absence of a secondary market for trading, and

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identification of assets for sovereign Sukuk.

The liquidity management framework is still to be operationalized. A number of instruments have been developed for liquidity management by the SBP and banks, including Bai Muajjal of Sukuk, interbank Mudarabah, Islamic placements, Wakala and others. A liquidity management framework has also been developed that includes development of a Shari'ah portfolio at SBP, Mudarabah-based facility for IBs at the SBP, development of an Islamic inter-bank money market, and availability of Shari'ah compliant discount window for IBs. However, this framework has not yet been operationalized.

Pakistan is in the process of developing a deposit insurance framework. The Deposit Insurance Corporation Act, presently with the Parliament for enactment provides coverage for IB depositors.

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THE RUPEE: 10 paisas gain

RECORDER REPORT

KARACHI: A rising trend was seen on the money market on Wednesday as the rupee moved up versus the dollar in the process of trading, dealers said.

INTER-BANK MARKET RATES: The rupee traded versus the dollar for buying and selling at Rs 104.89 and Rs 104.90 respectively.

In the third Asian trade, the dollar pulled back from one-month highs against a basket of currencies as tumbling oil prices pushed down US yields, while the pound wobbled after Bank of England Governor Mark Carney shot down hopes of an interest rate hike.

The dollar index against a group of major currencies was 0.05 percent lower at 97.699.

It had hit a one-month high of 97.871 on Tuesday as expectations that the US Federal Reserve, which hiked interest rates last week, would tighten policy again in 2017.

The greenback's advance, however, stalled as the dollar-supportive bounce in US Treasury yields was cut short overnight.

Following a big drop in oil prices, the 10-year Treasury note yield fell sharply on Tuesday, reversing a large portion of the gains it made after the Fed left the door open for another rate increase this year.

"Lower crude prices weaken inflationary pressures and in turn arrest the rise in US yields," said Junichi Ishikawa, senior FX strategist at IG Securities in Tokyo.

The dollar was trading against the Indian rupee at Rs 64.630, the US currency was at 4.287 in terms of the Malaysian ringgit and the greenback was at 6.830 versus the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Wednesday: 80.56-80.60 (previous 80.56-80.60).

OPEN MARKET RATES: The rupee picked up 10 paisas in relation to the dollar for buying and selling at Rs 105.80 and Rs 106.00 respectively, they said.

The rupee rose slight in terms of the euro for buying and selling at Rs 117.20 and Rs 118.20 respectively, they said.

Open Bid	Rs. 105.80
Open Offer	Rs. 106.00

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

Bid Rate	Rs. 104.89
Offer Rate	Rs. 104.90

RUPEE IN LAHORE: The Pak rupee depreciated on buying side while it stayed unchanged on selling side against the US dollar in the local currency market on Wednesday.

The trading activity of the US dollar resumed on its overnight trend of Rs 105.90 and Rs 106.15 as its buying and selling rates respectively.

At the close, it gained by 10-paisa on buying counter and ended at Rs 106.00. However, no change in its value took place on selling counter as it sustained its opening trend of Rs 106.15, said local currency dealers.

Moreover, the local currency remained strong for the second consecutive day versus the pound sterling.

The pound' buying and selling rates further slid from Tuesday's closing rates of Rs 133.00 and Rs 134.80 to Rs 132.50 and Rs 134.00 respectively, they added.

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

The dollar opened at Rs 105.95 (buying) and Rs 106.10 (selling). It closed at the same rate. Buying and selling rates of British Pound remained Rs 136.50 (buying) and Rs 138.50 (selling).

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Power generation projects:

Ministry asked to purchase machinery from reputed firms

ISLAMABAD: A Senate panel headed by Senator Nisar Muhammad on Wednesday directed Water and Power Ministry to purchase machinery and parts for generation power projects from reputed international companies instead of one specific company or country.

Also attended by Senator Ahmed Hassan and Senator Zafarullah Khan Dhandla, the convener of the panel, Senator Nisar Muhammad maintained that some of the grid stations are either closed for the last several years due to installation of substandard parts or their capacity has not been enhanced.

He further stated that those areas where recovery is up to the mark should be exempted from loadshedding but the areas where recovery is negligible electricity should be supplied as per government policy.

He further argued that the country is facing problems due to poor electricity distribution and transmission system across the country.

Senator Nisar Muhammad who hails from Malakand Division (KPK), said that since recovery in Malakand is 97 percent, prolonged loadshedding is unfair adding that transmission system of Malakand needed up-gradation.

He said recently people held protest demonstrations against loadshedding due to a faulty feeder during which one person lost his life.

Senator Nisar Muhammad maintained that strict action should be taken against those in suburbs of Peshawar and other areas of KP who are getting electricity without meters.

The meeting was informed that the government has enhanced development budget by Rs 350 billion for the fiscal year 2017-18. Peshawar Electric Supply Company (Pesco) has been allowed additional expenditure of Rs 500 million but the amount is insufficient for ongoing projects. The supply of material has stopped due to non-payment to contractors.

Pesco officials briefed the panel that in Mattani 90 percent consumers do not pay bills which is the key factor for the overloaded transformers; and that Pesco had uninstalled 58 transformers but households fixed those transformers on their own.

“Police cannot go in these areas. Pesco had also sought help from Pak Army but without success,” said Pesco officials.

People of surrounding areas of Regi from whom land was purchased for Warsak dam are under the misconception that they would be provided free electricity. Pesco had waived off 50 percent of Rs 6 billion outstanding amount but the people are not depositing installments of the remaining amount.

Senator Nisar Muhammad offered to hold Jirga of elders of 25 villages for supply of electricity legally but expressed surprised at the massive amount due against the defaulters.

The panel was further informed that grid stations of Noshehra, Chakdara and Mansehra will be completed next year. The convener of the committee stated that projects are delayed due to use of substandard material and directed Water and Power Ministry officials to expedite work on grid stations.

CEO Pesco apprised the panel that it has recruited 720 employees from grade 1 to grade 6 since 2015 after proper screening, whereas 49 junior engineers were hired in grade 17. He said Punjab got 28 posts from its quota, of which gave their joining report. He said vacant positions due to employees who leave their jobs are filled with officials of other Discos on deputation.

Senator Nisar Muhammad argued that quota is not being given to other provinces in Punjab-based Discos. He directed the officials of NTDC to submit province-wise report on recruitment from 2015 onwards.—MUSHTAQ GHUMMAN

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Canada urges Pakistan to settle Reko Diq dispute

ABDUL RASHEED AZAD

ISLAMABAD: The Canadian government has urged Pakistan to settle the dispute with Tethyan Copper Company (TCC) over the lease of Reko Diq gold and copper mines in Balochistan's Chagai district, sources told Business Recorder.

Officials of the federal and Balochistan governments' privy to the latest developments told Business Recorder that Pakistan has 29 days to submit a response in International Center for Settlement of Investment Disputes (ICSID) where TCC has claimed damages against Pakistan for refusal to lease out Reko Diq gold and copper mines as per the earlier contract.

The Canadian government has become active as Barrick Gold Corporation Canada is one of the parent companies of the TCC. ICSID is scheduled to announce its final verdict on damages claim by TCC sometime in 2018, officials said.

According to sources, the feasibility study undertaken by the TCC maintained that water would be brought from 120km which is impractical and, therefore, the company simply can not possibly claim to have sustained any losses as losses and damages are assessed on the basis of verifiable evidence.

The source further argued that it would be very difficult for the tribunal to justify the grant of damages in the matter but may direct the reimbursement of actual expenses incurred, including Foreign Direct Investment by TCC which was minimal in any case. He further contended it would be an uphill task for the claimants to justify their claim.

In January 2013, Supreme Court of Pakistan declared the Reko Diq agreement void and in conflict with the country's laws while disposing of identical petitions filed against the federal government's decision to lease out gold and copper mines in Reko Diq to TCC.

The then Chief Justice Iftikhar Muhammad Chaudhry's three-member bench ruled that the Chagai Hills Exploration Joint Venture Agreement - signed between the Balochistan government and Australian mining company BHP in 1993 - was in conflict with the laws of the country.

A press release issued by Antofagasta PLC company, TCC, states that "prior to submission of the mining lease application, TCC had completed a feasibility study showing that Reko Diq was one of the world's largest undeveloped copper and gold deposits with a potential mine life of over 50 years for an estimated initial capital investment of over $3 billion".

An insider told Business Recorder that the ICSID procedure indicates that the final verdict will not be announced before 2018, adding that the TCC's earlier plea was that the agreement be fully honoured and the license for 99 kilometres encompassing about 14 deposits be granted as per the signed contract.

TCC also moved a stay application before the ICSID and the International Chamber of Commerce (ICC) seeking complete blockade of any activity on the mineral reserves, however, both forums turned down TCC's plea after a thorough hearing of the matter.

According to top lawyers of Pakistan, as per settlement options "we cannot rule out Pakistan, under its own laws, is bound to provide compensation in case a contract is declared void. It is expected that at dates given by the Tribunal, the claimants will file their submissions and supporting material to justify their claim".

According to a senior official of the Petroleum Ministry, the government of Pakistan had urged the ICSID to dismiss the plea of the claimant on grounds of maintainability however this was rejected by the ICSID.

Saleh Muhammad Baloch, Provincial Secretary Mines and Minerals Balochistan when contacted said that the lease is canceled and now the federal and the provincial governments are contesting the case in ICISD.

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Phutti prices fall on cotton market

RECORDER REPORT

KARACHI: Phutti prices fell on the cotton market on Wednesday in the process of slow trading activity, dealers said.

The official spot rate was unchanged at Rs 6650, they said. In the ready session, few hundreds of bales of new crop from Shahdadpur, Hyderabad and Kotri changed hands between Rs 6400 and Rs 6500, they said.

In Sindh, seed cotton prices were available at Rs 3200-3250 per 40 kg and in the Punjab rates were at Rs 3100-3200 per 40 kg, they said.

Some cotton experts said that visible increase in arrivals of seed cotton pushed the prices down.

They said that mills and spinners showed little interest in fresh buying, this factor may cause fall in rates in the coming days.

On Tuesday, a shutdown strike was observed on the call of All Pakistan Textile Mills Association (APTMA) to protest against the government's policies.

Reuters adds: ICE cotton futures dropped to more than seven month lows on Tuesday as chances of bulk new crop harvest in major growing regions and a stronger dollar kept buyers at bay.

The most-active December cotton contract on ICE futures US settled down 0.07 cent, or 0.10 percent, at 68.97 cents per lb.

Prices fell to their lowest since Nov. 14 at 68.51 cents per lb and are down for the eighth straight session.

Total futures market volume fell by 4,966 to 22,099 lots. Data showed total open interest fell 6,704 to 208,350 contracts in the previous session.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2016-17 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/16" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL					
Rate For	**Ex-Gin Price**	**Upcountry Expenses**	**Spot Rate Ex-Karachi**	**Spot Rate Ex-Karachi As on 20.06.2017**	**Difference Ex-Karachi in Rupees**
37.324 Kgs Equivalent	6,650	135	**6,785**	**6,785**	NIL
40 Kgs	7,127	145	**7,272**	**7,272**	NIL

New York cotton

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The fluctuations observed during the day:

	Current Session						Prior Day		
	Open	High	Low	Last	Time	Set	Chg	Vol	Set
May'17	71.33	71.94	70.76	70.90	14:20 June 21	-	-0.45	4022	71.35
Jul'17	68.67	69.10	68.22	68.25	14:20 June 21	-	-0.79	69	69.04
Oct'17	68.97	69.67	68.13	68.17	14:20 June 21	-	-0.80	15206	68.97

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Trade policy: old wine, new bottle?

Shabir Ahmed

The news is that the Engineer wants a revamped Strategic Trade Policy Framework by year-end. The view is it will be more of the same: tall on promise couched in a jargon that will do the Professor proud. The fear is it won't resuscitate exports.

When SPTF 2015/18 was delivered, nine months late, it required no genius to pronounce it dead upon arrival. Even the authors of the document knew it to be just that: a damp squib. Despite their congratulatory ads, the trade associations knew the baby won't survive.

It won't work this time either, despite the change in Captains, because the team is the same and the pitch is the same – unless the new Commerce Secretary has learnt from his previous job how to blind side the third umpire, the Accountant.

A policy that does not have the full support of the government can be no more than a statement of intent. The Prime Minister has to do more than endorse it. He has to own it.

The first, the most crucial, building block of the trade policy has to be the government's total commitment to an export-led growth strategy. If you don't have that you will only have the APTMAs of our world publish THANK YOU ads one day and strike notices another day – even if it is a solo flight that smacks of arrogance suffering from delusions of grandeur – harking back to the glory that once never was. Any event, it doesn't behove an Association to allow its platform to be used to congratulate in expectation of personal gains, even if these are prominent pearls.

The battle-hardened business community has mastered the art of distinguishing governmental hot air from the ballast of real intent. It has learnt to recognize empty promises. Government's verbosity does not influence business plans; action plans do. It is all a matter of confidence. If business thinks government means business they will gear up for exports and do whatever it takes. 'Packages' work for the wrong ones and trade fairs for the globe-trotting officials; the real McCoy wants a clear road map, with few diversions and no u-turns.

For sure, trade liberalization is a double-edged sword. But the evidence from the exporting tigers is compelling. Indeed, no country has excelled in exports, or for that matter economic well-being, with steep tariff and non-tariff barriers – as Trump is sure to learn, if he lasts long enough.

The standard excuse is that lower tariffs hurt domestic industry. We think it will help, not hurt, our manufacturing sector. Nothing debilitates like lack of competition. Our tariff and industrial policies, and a weak Competition Commission, have contributed in no small measure to make us uncompetitive; which explains why we can't checkmate Chinese imports despite inordinate protection levels. Like it or not, the protection cocoon will remain a frail defence against growing global competition that derives its strength less from unfair trade practices than from much greater productivity levels and economies of scale.

The other excuse is that lower duties will hurt revenues. This is a bogus argument. If anything, with a slight time lag custom receipts have gone up whenever we reduced duties.

We are not advocating an abrupt slashing of duties. What we want is for the process to begin; for the government to announce that (with some exceptions) it intends to impose an X percent cut in import duties, each year over a specified period of time. To lend credence to its vision it should immediately reduce duty slabs and cap tariff peaks.

Zero-rating of exports is a right, not a favour. It should cover all products: You can't penalize your exports by having them carry the burden of taxes paid on imported inputs. If you fear misuse do something about it instead of throwing the baby out with the bath water.

Besides, we should actively encourage greater import content in our exports, as have the super achievers of the exporting world.

The other critical element of competitiveness overhaul is enhanced productivity, which is no longer seen as a function of capital and labour alone. Managerial skills,

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technology and innovation, and supportive institutional environment weigh in heavily.

If the government wishes to reward performance a better case can be made out for giving weightage to productivity gains rather than percentage growth over last year's exports which is not always an indicator of improved performance. It won't be easy – starting with a benchmarking exercise for various export products and then getting current productivity levels from the exporters – but replicable models exist, and it will give TDAP something worthwhile to do.

Our efforts to mitigate the serious concentration risks – both product and market- have failed. We hear a lot of pious pronouncements but see no evidence of any out-of-the-box thinking.

Comparative advantage is no longer perceived to be God given. Experience of countries – from Switzerland to Japan to Brazil – tells us natural resources may help but it is not mission critical. Comparative advantage is manmade. Bangladesh story is illustrative: it grows no cotton but exports more textiles than the world's fourth largest producer of cotton!

A vacuous industrial policy and the comfort-zone phenomenon explain our failure to manage product and market diversification.

If you want product diversification you need an industrial policy that rewards it. Otherwise, the comfort zone phenomenon kicks in: why should an exporter, comfortable with his existing production and marketing arrangements, bother to incur the expense of developing new products and penetrating new markets, if it doesn't have a salutary bottom line effect? Thank you, Sir, I am happy enough exporting bed linen to France, and put in my effort and money into real estate or retailing. If you want me to develop up-market household linen for the Argentinean market, make it worth my while.

The Engineer has a daunting task ahead of him. Basically, he has only three options: get an unequivocal commitment from the PM to the cause of exports, quit if he can't, or scale down the ambition level and pray.

All of us, not exactly for altruistic reasons, want the Engineer to succeed. He needs to build a constituency by getting more involved with genuine exporters. And he will do well to set up a standing advisory council (consisting of experts from the academia, retired bureaucrats with relevant experience, and exporters who can go beyond narrow self-interest) to generate ideas and oversee implementation.

And please give TDAP something to do. They shouldn't confuse wining for winning.

shabirahmed@yahoo.com

BUSINESS
RECORDER
Thursday, 22nd June, 2017

Power solutions still elusive

Power sector experts have expressed serious concerns at the resurgence of a crisis that was first evident in Pakistan in 1994, subsequent to the award of contracts to Independent Power Producers (IPPs) by the Benazir Bhutto government - at lucrative tariffs with the added financial incentive that the government would pay for capacity output or, in other words, even for idle capacity. During the third ongoing tenure of the Nawaz Sharif administration high tariffs are again making investment in the power sector extremely lucrative but, at the same time, given that official documents reveal that generation would outpace demand by the end of October this year the government would be required to pay for significant idle capacity. By March 2018, demand is projected at 19,300MW while available capacity is estimated at 27,500MW, and therefore the government would be required to pay for an additional 8,200MW that it does not purchase – the capacity demand shortfall.

Additionally, official documents also indicate that the LNG deal struck with Qatar has a clause which guarantees payment for a specific quantity of LNG imports within a stipulated period that Pakistan may not be able to utilize given the lack of LNG supply infrastructure. The reason is the failure to commission RLNG-II pipeline due to the failure to complete the 400-metre section in Jamshoro which passes through the property of Mr Shoro who has refused permission to Sui Southern Gas Company Limited to complete the project. This refusal makes it impossible to transport 1.2 billion cubic feet per day to Sui Northern Gas Pipeline Limited. These concerns were brought to the attention of the Cabinet Committee on Energy headed by the Prime Minister; however, disturbingly the meeting ended without a viable strategy to resolve these critical issues that would not only place a burden of higher tariffs on consumers but also be a drain on the public exchequer.

In this context, it is relevant to note that the Sharif administration has third time around shown a marked tendency to undertake power projects without taking account of serious bottlenecks in the system that include contracts that benefit the seller at the cost of the purchaser, which in this case is the government of Pakistan. This accounts for periodic recommendations by the Ministry of Water and Power to raise tariffs to absorb the additional costs – recommendations that were more often than not challenged by the regulator National Electric Power Regulatory Authority (Nepra). The government’s decision to bring Nepra under the control of the Water and Power Ministry through the issuance of a second notification on 6th June 2017 is thus being seen by several sector experts as a means to ensure that the Ministry’s recommendations with respect to tariffs remain unchallenged.

There is also the issue of a transmission system that is unable to transport more than 16,500MW of electricity. This implies that the Sharif administration has not sequentially developed projects that would have ensured, first and foremost, that the network has the capacity to transmit the available capacity and second that the infrastructure network has the capacity to transport RLNG to the power stations to generate electricity. Clearly, there appears to be lack of consequential thinking with respect to project selection and implementation on the part of the government which would be at the cost of the taxpayers – both in terms of budgetary allocations to meet the contractual obligations to purchase capacity power rather than actual power purchased and in terms of higher payment for electricity that would in turn negatively impact on the country’s productivity and on exports.

To conclude, there is a need for politicians to allow sector experts to undertake feasibility studies independently and not, as has been witnessed in several instances, compel the experts to provide data that would allow the government to construct mega projects with political overtones.

DAWN
Thursday, 22nd June, 2017

Foreign investment surpasses $2bn in July-May

Shahid Iqbal

KARACHI: Foreign direct investment (FDI) amounted to more than $2 billion in July-May, up 22.6 per cent from a year ago, reported the State Bank of Pakistan (SBP) on Wednesday.

In 2015-16, FDI amounted to $1.903bn. It was less than $1bn in 2014-15.

The improvement in FDI during the last couple of years was because of increased inflows from China.

FDI from China in July-May rose to $879 million. It constituted 43pc of the total FDI received over the 11-month period. A large part of Chinese FDI is coming into the power sector that still needs investments of billions of dollars to generate sufficient electricity.

Second-highest inflows were from the Netherlands that invested $465.6m in July-May, followed by France ($180m) and Turkey ($135m).

FDI amounted to $295m in May with China and Norway contributing $160.5m and $75m, respectively.

The highest investment came into the power sector. It amounted to $548m during the 11 months. The power sector is the focus of Chinese investment under the China-Pakistan Economic Corridor (CPEC). Within the power sector, FDI worth $333m was in coal-based power projects.

FDI into the construction industry was surprisingly high. It attracted $418m during the period under review. Real estate has become a highly profitable business for the last three years as property prices in big cities went up many times.

The food sector attracted the second highest inflows in July-May with FDI of $476.2m. Oil and gas exploration and electronics attracted $135.6m and $148.7m, respectively.

Despite record growth in FDI, the size of inflows was still not significant compared to foreign investment received by neighbouring countries.

Moreover, FDI has been concentrated in a few sectors. Therefore, it is likely to create jobs within a small number of industries.

Outflows through portfolio investment have increased during the 11-month period. This curtailed the overall foreign private investment to $1.616bn. Outflows via portfolio investment during this period were $411m. Despite these outflows, overall private investment increased 27pc.

Higher FDI played a vital role in the economic growth of India and China, which have been receiving foreign investment of $60-65bn annually.

DAWN
Thursday, 22nd June, 2017

Rising imports bring BoP under pressure

Mubarak Zeb Khan

ISLAMABAD: Pakistan's food, machinery and oil import bill rose nearly 32 per cent to $26.42 billion in July-May despite a decline in global prices of crude oil and grains.

The share of these products in Pakistan's total import bill in July-May was 54.4pc, which is bringing the country's balance of payments under pressure. The rising import bill of these products has not only made the country dependent on imports but also threatened its food sovereignty.

The trade deficit has been widening in tandem with the rising import bill since the start of the current fiscal year. The trade deficit has touched the record high of $30bn.

Official figures compiled by the Pakistan Bureau of Statistics (PBS) show that imports under the petroleum group increased 32.6pc year-on-year to $9.89bn in July-May. Imports of petroleum products went up 31.21pc to $6.2bn in the 11-month period. However, 11.7pc growth was recorded in the import bill of petroleum crude, which amounted to $2.33bn.

The import bill of liquefied natural gas surged 134pc while that of liquefied petroleum gas recorded growth of 35pc during the period under review.

The second biggest component in the import bill was of machinery imports, which went up 39.97pc to $10.88bn. The increase was mainly driven by power-generating machinery whose imports grew 70.9pc year-on-year to $2.839bn. It was followed by the imports of electrical machinery and appliances that rose 26.83pc to $2.11bn.

The import bill of office machinery went up 61.6pc, textile machinery 23pc, construction machinery 70pc and agriculture machinery 48pc. However, the import bill of the telecom sector witnessed a decline of 0.29pc to $1.25bn.

Imports of mobile phones witnessed the negative growth of 7.29pc but those of other apparatus went up around 8pc during the period under review.

The third biggest component in the import bill was food commodities. Their imports rose 16pc year-on-year to $5.65bn in the first 11 months of the current fiscal year.

This increase is attributed to massive imports of palm oil worth $1.74bn followed by 'other' food items amounting to $1.86bn, pulses $702 million and tea $491m. Imports of dry fruits and milk products also grew during the period under review.

Economic managers are trying to control the impact of an increase in capital goods' imports under the China-Pakistan Economic Corridor.

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Cotton price unchanged

The Newspaper's Staff Correspondent

MULTAN: The cotton market was steady on Wednesday as both spinners and ginners remained cautious amid short supply.

Cotton experts said that market was not gaining momentum due to the absence of major textile players from the market and fewer arrivals of phutti (seed cotton) in the market.

They said the situation would become clear after any major group entered the market. At present, medium and small mills are active in the market, but they are making cautious deals.

Moderate trading activity was expected in a few days as the mills that will remain open during Eidul Fitr will make deals to fill their stock for holidays, they said.

The arrival of cotton has further decreased due to rains in cotton areas. Cotton picking, which started at small level in Punjab, has been completely stopped due to rains.

On Wednesday, the price of phutti was Rs3,300 in Badin, Rs3,350 in Degree, Rs3,275 in Umerkot, Rs3,300 in Dharo and Rs3,325 in Tando Ghulam Muhammad. Major deals on the ready counter were: 200 bales from Rahim Yar Khan at Rs6,900 per maund (around 37 kilograms), 200 bales from Shahdadpur at Rs6,550, 200 bales from Mirpur Khas at Rs6,525 and 200 bales from Tando Adam at Rs6,600.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2015-16 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/32" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL			
Rate For	Ex-Gin Price	Upcountry Expenses	Spot Rate Ex-Karachi
37.324 Kgs Equivalent	6,650	135	6,785
40 Kgs	7,127	145	7,272

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MARKETS

FOREX

Exchange Rates for Currency Notes (Rs)

	Interbank market*		Open market**	
	Buying	Selling	Buying	Selling
USA	104.70	104.90	105.80	106.00
UK	132.26	132.51	133.50	134.50
Euro	116.60	116.83	117.20	118.20
S.Arabia	27.92	27.97	28.95	28.15
UAE	28.51	28.56	28.75	28.95
Japan	0.9413	0.9431	0.9402	0.9602

*forex.com.pk **ECAP

KIBOR

Karachi Interbank offered rates

	Bid	Offer
Three months	5.88	6.13
Six months	5.90	6.15
One year	5.97	6.47

LIBOR

Special US dollar bonds for June 20

Three months	1.28722 %
Six months	1.43961 %

THE NEWS
Thursday, 22nd June, 2017

FPCCI supports textile industry, opposes strike

ISLAMABAD: The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) has raised serious concerns over a strike called by textile trade bodies, terming the move as utterly counterproductive not only to the industry but also national economy, a statement said on Wednesday.

Earlier, All Pakistan Textile Mills Association (APTMA) announced to protest against the government for putting the textile sector on the back burner. The call has been answered by Pakistan Textile Exporters Association (PTEA), Pakistan Hosiery Manufacturers Association (PHMA), Pakistan Bedsheet Association (PBA), and 25 other bodies.

"The textile industry contributes around 8 percent to the GDP, makes up more than 60 percent of total exports, and employs about 40 percent of industrial labour force of Pakistan. A strike will only worsen the situation," Aamer Ata Bajwa, acting president FPCCI, said.

Expressing solidarity with the textile trade associations, he lamented the industry was already struggling to survive in the face of challenges like power/gas load-shedding and dwindling exports. "The textile sector needs government's support so that it could play a vibrant role in the economy," the FPCCI official added.

They must realise, Bajwa said, that an adverse action would only damage the industry by leading to the closure of more textile units, which means mass unemployment. "It is critical that the finance and commerce ministries consider the demands being made by Aptma and other textile associations to overcome the current crisis in the best interest of the country," Bajwa emphasised.

He also urged the government to release the sales tax refunds and implement the prime minister's export incentive package announced in January 2017. "We appeal to the government to withdraw the levy of Rs3.63 per kWh surcharge in electricity bill and reduce textile related imports from China and India to salvage the textile industry from its total collapse," the acting president of the chamber said while demanding the implementation of textile policy (2014-19).

At the end of the statement, Bajwa requested Prime Minister of Pakistan to take notice of the issue and direct the concerned authorities to provide all the stakeholders a level playing field.

THE NEWS
Thursday, 22nd June, 2017

Exports will rise with improved efficiencies, not govt concessions

LAHORE: Pakistan's economy is facing a dilemma as liberalisation has increased imports, while the protected domestic industries, after failing to improve efficiencies to compete globally are losing even the domestic markets to imports.

The policy makers have no clue how to respond. Instead of doing some in depth studies, they act on the presentations given to them by different stakeholders. Look at what happened in case of textiles after announcement of export package. They announced rebates for the entire textile value chain without realising that some of the sectors are suppliers of basic raw material to the value-added sectors.

Rebates were announced for yarn and fabric besides somewhat higher rebates for bed wear and apparel. The impact of that policy is now evident from the textile exports in the month of May. The exports of textiles declined in May by over 12 percent with value-added sectors accounting for a major chunk of the decline, whereas the reduction in exports of yarn and fabric was relatively small.

This was the result of the rebate provided to yarn and fabric that are the two basic raw materials of apparel and bed wear sectors. These sectors were incurring steep decline in exports that has slowed down appreciably.

The value-added sector on the other hand was slowly increasing exports – a process that has been halted after the export package. The reason is that their competitors are buying cheaper yarn and fabric from Pakistani producers, who pass on the rebate to fetch export orders.

However, since they do not get any rebate on local supplies they have not reduced their prices in the domestic market. The advantage provided to the apparel sector for exports has been nullified by higher input price of their basic raw materials compared with their regional competitors. The planners should have applied mind while announcing concessions for different value chains in textiles.

Increasing imports and declining exports clearly indicate that the cost of doing business is high. The factors impacting the cost need to be analysed.

Certain government policies, corruption, inefficiencies of the private sector and failure to upgrade technology are some of the factors responsible for the high cost of doing business.

Most of our industries are operating without energy audit and are wasting electricity unnecessarily to the tune of 20-30 percent. They are demanding reduction in power rates by 30 percent, but they fail to realise that they can cut their power bills by the same percentage if they improve efficiency of their power usage. The productivity of Pakistani workers is very low compared with that of a Chinese or Indian worker. Skill may be one reason, but working conditions at the production floors is a major factor that impedes productivity in various industries. They manage their production in inadequately illuminated and poorly ventilated halls. The workers get fatigued in such suffocating culture and steadily lose working efficiency.

In other countries, the efficiencies of workers increase as they gain experience, but in Pakistan the production efficiency remains stagnant. The white collar workers enjoy air conditioned rooms on the same production floor and this discrimination is resented at workers level. Private sector entrepreneurs generally tend to exploit their workers in case of monthly wages. They increase the salaries of their workers in line with the yearly minimum wage increase announced by the government that is basically meant for unskilled workers.

The exporters prove their compliance by giving the government announced minimum wage. But they do not pay for experience.

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KCCI demands immediate release of sales tax refunds

KARACHI: The Karachi Chamber of Commerce and Industry (KCCI) on Wednesday urged the government to immediately disburse sales tax refunds in order to save small exporters from severe liquidity crunch.

In a statement, Shamim Ahmed Firpo, president of the KCCI, said that the government should ensure availability of suffice liquidity to exporters, if it was really serious in dealing with the issue of dwindling exports.

“The Federal Board of Revenue (FBR) is continuously targeting the exporters by delaying billions of rupees refunds of sales tax, withholding, Customs rebates, duty drawback on taxes and levies for achieving its budgetary revenue collection targets,” he added.

“The FBR is focused only on further squeezing the existing taxpayers, while no effort is being made to bring tax evaders into the net for broadening the tax-to-GDP ratio,” he added.

He said tax refunds of Rs300 billion of textile industry alone are stuck up with the FBR, resulting in intensifying the hardships for the industry. “The government must realise the seriousness of the situation and take steps for timely clearance of all stuck up refunds with a view to provide some relief to the perturbed business community,” he added.

Referring to a recent statement by federal commerce minister Khurram Dastgir Khan in which he claimed that his ministry’s entire attention is focused on the reimbursement of tax refunds and other payments under the Prime Minister’s Rs180 billion exports package, Firpo asked that how will the government be able to settle huge refund claims with such a petty incentive package, particularly in a situation when refund claims of textile industry alone have escalated to over Rs300 billion.

“Delays in the implementation of the PM’s exports incentive package is also a matter of concern for the business and industrial community,” he added. Firpo recalled that under the prime minister’s directives, sales tax refunds of up to Rs22 billion were settled in the month of August 2016; followed by another settlement of refunds claims of Rs21 billion in the month of November 2016, but it has been seven months now since the last payments against refund claims were made, whereas such claims have been escalating every day, triggering extreme anxiety among the taxpayers.

He advised the government to devise an automated system, which must ensure release of all pending refund claims on monthly or quarterly basis, which, if done, would enable the industrialists and exporters to efficiently devise their future business expansion strategies and create an enabling environment in which they will be least bothered about the release of refund claims and would stay focused on exploring ways and means to enhance their businesses and exports.

The improved economic indicators along with the positive developments taking place due to China-Pakistan Economic Corridor (CPEC) clearly show that Pakistan is heading in the right direction and is likely to become one of the fastest growing economies of the world.

“But on the other hand, the government must act sensibly by ensuring a level-playing field to the business and industrial community so that they could be able to catch up with the pace and stay afloat in the extremely competitive business environment,” the KCCI president added.

THE NEWS
Thursday, 22nd June, 2017

FDI increases 22.6pc in 11 months

KARACHI: Foreign direct investment (FDI) into Pakistan crossed $2 billion mark in 11 months of the outgoing fiscal year due to increasing investments from China.

Pakistan attracted $2.028 billion in FDI in July-May 2016/17, up 22.6 percent from a year ago, the central bank said on Wednesday, with major inflows going into food processing, construction, electronics, and power [coal] sectors.

FDI rose to $294.7 million in May 2016 from $116.4 million in the same month of last fiscal year. The SBP's data on foreign investment showed that China remains the top investor country as most of the investments are coming from Chinese companies under the China-Pakistan Economic Corridor (CPEC) scheme.

FDI inflows from the Chinese companies rose to $878 million in July-May FY17, compared with $657.3 million in the corresponding period of last year. Moreover, improvement in investors' confidence in the country's economy owing to favourable growth outlook and encouraging business environment are also helping boost the foreign investment inflows.

The SBP's data showed that investment from Netherlands increased to $465.6 million in July-May FY17, compared with $29.3 million in the same period of last fiscal year. Investment from France stood at $180.5 million against $84.2 million a year earlier.

Turkish firms invested $134.7 million against $16.6 million during last year. The data also revealed that an investment of $476.2 million went into the food sector during July-May FY17, compared with an outflow of $53.2 million in the corresponding period of last fiscal year.

The construction sector attracted $418.2 million in FDI in 11 months against $45.3 million during last year. Net flows to the electronics businesses increased to $146.3 million from $34.5 million a year earlier. Foreign portfolio investment experienced outflow of $411.3 million from the local equity market due to sell-off by investors.

THE NEWS
Thursday, 22nd June, 2017

IMF advises policymakers to ensure level-playing field for Islamic banks

KARACHI: The International Monetary Fund (IMF) on Wednesday advised the government to provide a level-playing field to Islamic banks in order to maintain the industry's fast growth pace in a country with 96 percent Muslim populations.

"Rather than forcing a transition toward a fully-fledged IB (Islamic banking) industry, policy makers should focus on putting in place an enabling environment that levels the playing field with the conventional industry, and let market forces play their role," IMF said in a multi-country report: ensuring financial stability in countries with Islamic banking. "Since opting for the latter, the IB industry has experienced rapid growth and the IBs in Pakistan have also increased the share of risk-sharing financing (Musharakah and Mudarabah)."

The IMF said additional reforms are needed to address gaps "with respect to consolidated supervision, consumer protection, the resolution framework, and the absence of liquid secondary markets".

"Ongoing reforms with respect to capital adequacy ratio and liquidity framework need to be expedited. Concentrations in bank financing, maturity mismatches and development of interbank markets warrant attention and further efforts are needed to develop deep Sukuk markets."

The Washington-based lender said the industry is at its evolutionary stage and it expanded at compound annual growth rate of nearly 50 percent between 2002 and 2005 and reached a market share of 11.4 percent by end 2015. The central bank eyes 15 percent of banking system assets for Islamic banks by end of the next year.

Citing the World Bank's financial inclusion database Findex, it said only 13 percent adult population – more than half of the country's population – has a bank account. Around 96 percent of the country's population is Muslims, indicating a latent appetite for Islamic financial products.

"Facilitative regulatory support has been propelling the growth of Pakistan's IB sector," it added. "The large Muslim population and low market penetration also suggest that there is substantial upside potential for further growth."

The Fund, however, noted that full-fledged IBs – four domestic IBs and two subsidiaries of foreign-owned banks – are subject to the same prudential requirements as conventional banks, including the minimum capital requirement (MCR) regime, the minimum capital adequacy ratio (CAR), large exposure, loan classification, provisioning and related party lending.

The Banking Companies Ordinance 1962 governs regulation of both Islamic and conventional banks. The ordinance was amended in 2002 to authorise the carrying on banking business in conformity with the injunctions of Islam.

Conventional banks are also allowed to offer IB services through stand-alone branches/window operations, with nominal capital allocation from their existing capital based on risk-weighted assets of these branches. IBIs are allowed to offer profit and loss sharing (PLS) deposit accounts similar to unrestricted investment accounts.

Six full-fledged IBs had CAR of 14 percent by the end of 2015, significantly above the prescribed minimum of 10 percent, but below conventional banks. The non-performing financing ratio of two percent is significantly below the average for conventional banks of 12 percent. IBs are also profitable and liquid but the profit margins and liquidity levels are, however, lower than their conventional counterparts, IMF said in its report.

The Fund said customer deposits fund close to 85.3 percent of the industry's assets. Since the funding is mostly in local currency the exchange rate risk is low. It said there is a dearth of funding options like Sukuk, "thereby potentially creating maturity mismatches with financing structure."

"Despite witnessing growth over the years, the domestic Sukuk market is still confronted with issues such as lack of short term and long term Sukuk of high quality, absence of a secondary market for trading, and identification of assets for sovereign Sukuk," it added.

The Fund called for additional reforms to address gaps with respect to consolidated supervision, consumer protection, the resolution framework, and the absence of liquid secondary markets.

"Ongoing reforms with respect to CAR, liquidity framework and DIS (deposit insurance scheme) need

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to be expedited. Concentrations in bank financing, maturity mismatches and development of interbank markets warrant attention and further efforts are needed to develop deep Sukuk markets," it said. "The SBP has an extensive database on IBs operations, but inconsistencies in the data methodologies in IBs audited accounts could affect data quality for policy formulation."

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Thursday, 22nd June, 2017

Cotton firm

Karachi

No transaction was recorded at the Karachi Cotton Exchange on Wednesday, while spot rates remained unchanged.

The spot rates stood unchanged at Rs6,650/maund (37.324kg) and Rs7,127/40kg. Ex-Karachi rates also remained firm at Rs6,785/maund and Rs7,272/40kg after an addition of Rs135 and Rs145 as upcountry expenses, respectively.

An analyst said the new season has started in June, against the expectations of start in July, and around 5,000 bales have been ginned so far. Slow activity remained in the market because buyers remained on the sidelines, while the activity is likely to increase after Eid holidays. Pakistan has registered 136,877 bales for exports from 2015/16 and 2016/17 crops during the period August 1, 2016 till May 23, 2017. During this period, a total of 115,800 bales of both the crops were shipped.

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Thursday, 22nd June, 2017

KCCI demands immediate settlement of refunds claims

Our Staff Reporter

KARACHI - Karachi Chamber of Commerce and Industry (KCCI) President Shamim Ahmed Firpo has urged the government to immediately settle pending refunds claims in order to save manufacturers-cum-exporters, particularly small exporters, from suffering severe liquidity crunch.

The KCCI president said that the government must ensure availability of suffice liquidity to exporters if it was really serious in dealing with the issue of dwindling exports. He said that the Federal Board of Revenue (FBR) has been continuously targeting the exporters by delaying billions of rupees refunds of sales tax, withholding, customs rebates, duty drawback on taxes & levies for achieving its budgetary revenue collection targets.

“FBR is focused only on further squeezing the existing taxpayers, while no effort was being made to bring tax-evaders into the net for broadening tax-to-GDP ratio”, he added. He noted that tax refunds of Rs300 billion of textile industry alone were stuck up with FBR, resulting in intensifying the hardships for the industry. The government must realise the seriousness of the situation and take steps for timely clearance of all stuck up refunds with a view to provide some relief to perturbed business community, he added.

Referring to a recent statement by Commerce Minister Khurram Dastgir Khan, in which he claimed that his ministry’s entire attention was focused on the reimbursement of tax refunds and other payments under PM’s Rs180 billion exports incentive package, Firpo asked that how will the government be able to settle huge refund claims with such a petty incentive package, particularly in a situation when refund claims of textile industry alone have escalated to above Rs300 billion. Delays in implementation of PM’s exports incentive package is also a matter of concern for the business and industrial community, he added.

Firpo recalled that under the prime minister’s directives, Sales Tax refunds of up to Rs22 billion were settled in August 2016 which was followed by another settlement of refunds claims of Rs21 billion in November 2016 but it has been seven months now since the last payments against refund claims were made whereas such claims have been escalating every day, triggering extreme anxiety amongst many taxpayers.

He opined that the improved economic figures along with positive developments taking place due to China-Pakistan Economic Corridor (CPEC) clearly indicate that Pakistan was headed in the right direction and was likely to become one of the fastest growing economies of the world but on the other hand, the government must act sensibly by ensuring a level-playing field to the business and industrial community so that they could be able to catch up with the pace and stay afloat in the extremely competitive business environment.

The KCCI president hoped that the government will comes up with pro-business initiatives soon as only such initiatives can rescue Pakistan’s economy from the clutches of IMF.

The Nation on Web
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Thursday, 22nd June, 2017

Pakistan, France ink €100m agreement

Our Staff Reporter

ISLAMABAD - Pakistan and France on Wednesday signed 100 million Euros Credit Facility Agreement for the Sustainable Energy Sector Reform Programme.

Economic Affairs Division (EAD) Secretary Tariq Mahmood Pasha, France Embassy Chargé d'Affaire René Consolo, and French Agency for Development (AFD) Country Director Jacky Amprou signed the agreement. The Asian Development Bank (ADB) has also approved $300 million in co-financing of the programme.

Finance Minister Ishaq Dar congratulated the EAD and AFD on the signing of the agreement. He underscored the importance of reforms in the energy sector which will directly impact the overall economic growth of Pakistan. He expressed appreciation for AFD's continuous support for development projects in Pakistan, including in the energy sector. He said that with signing of this agreement, economic cooperation between Pakistan and France would be further strengthened.

The main objective of the programme is to revamp the energy sector to make it more affordable, reliable and sustainable, supporting the country's economic growth and alleviating the energy crisis through expeditious implementation of the National Power Policy, 2013, he added. This reform programme will help in improving the financial viability of the power sector by better managing tariff and subsidies, improving sector performance and opening up the market to private participation. The programme will also facilitate in improving the transparency as well as accountability of power sector institutions.

Govt fails to introduce

reforms in energy

sector despite heavy loan

Online: Despite getting heavy loan worth 1.10 billion US dollars from Asian Development Bank (ADB) during the past three years, the federal government has miserably failed to introduce new reforms in the energy sector. According to available document, the federal government had got loan of $400 million in 2015, 400 million in 2016 and 300 million in 2017 respectively. Heavy loan was got to implement National Power Policy 2013 to address the power crises in the country including enhancement of economic growth but remarkable reforms could not be brought in energy sector during the past three years.

The government has failed to introduce remarkable reforms in energy sector due to which the duration of power outages in rural areas of Sindh, KP, Balochistan and Punjab is 12 to 14 hours while in urban areas it is 8 to 10 hours.

Sources said that government is using this amount to fulfill the budgetary requirements so that salaries and other affairs could be continued in better way.

"The ADB's board would sanction the loan of 300 million on Thursday (today) under Public Sector Enterprises Reform Program. This amount would be spent on the capacity building, corporate governance and for accountability of government departments", document added.