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MPS: Prudent approach to challenges

ALI KHIZAR

The cat is out of the bag. It was an interesting last quarter - the growth story is becoming real while the external pressures are emerging to be even more threatening. The monetary policy decision making has to be proactive. Good news that inflation has remained in control and is likely to remain well within the target of 6 percent for FY18.

The economy has shifted gears in 4QFY17; the LSM grew at 5.7 percent (11MFY17), which is higher than the provisional 4.9 percent in FY17 based on 9MFY17 data. This implies that actual GDP growth could be higher than provisional 5.3 percent for FY17. Private sector credit shows a similar story as it picked up in the fourth quarter - by 136 percent on yearly basis in Apr-Jun, while the full year growth stood at 42 percent.

A similar story for PSEs - a growth of 225 percent in credit for FY17; but the momentum has slowed down in the last quarter. The story till 9MFY17 was that government investment was primarily fueling growth and in the previous year (FY16), the government support was pushing the economy.

Now the confidence is there and private sector is driving momentum which is broad based. It is not fair to form an opinion based on one quarter performance, but the trend is there and seems to have legs barring an external shock. The implicit model is slowly building external vulnerabilities.

The shift in gears has an implication on external vulnerabilities as current account deficit shot up in the second half of the fiscal year, especially in the last quarter. Imports are growing at alarming rate while exports have remained stagnant. In FY16, home remittances covered 103 percent of goods' trade deficit, while in FY17, the coverage has thinned to 71 percent.

Overall current account deficit crossed $12 billion or 4 percent of GDP. FDI covered a little over $2 billion, while the reserves are down by $2 billion in the year. The gap of around $8 billion is covered by debt in one form or another. That trend is not sustainable. The IMF expects gross financing needs to reach $13.6 billion in FY18, while FDI would not even cover $3 billion of it. The immediate challenge is to keep reserves at current level and the only apparent way to do so is to raise debt.

The size of the economy is growing and external foreign exchange earnings avenues such as remittances are not growing massively. Other avenues such as CSF are becoming minuscule in the game; and even that is hard to come seeing the US stance on Pakistan. Similarly $2-3 billion in FDIs is too little a cushion.

The immediate need is to slowdown the pace using policy tools by the SBP and think of fresh avenues of foreign exchange earnings in the medium term. Without it, the growth momentum will continue and external imbalance would keep growing. Pakistan may be able to fetch debt in the short to medium term (1-3 years); but eventually the reserves would fall to levels that compel policymakers to once again knock those very familiar doors of the IMF.

The smart play is to anticipate a crisis in the medium term; and start managing today. A combination of monetary and exchange rate tightening is the order of the day. That is a recipe to avert a sudden shock - the debt bubble is growing and, if it is stretched, it could have higher impact when it bursts. A 5-7 percent currency depreciation in a staged manner and some rounds of 25 bps tightening could be a prudent approach.

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”Unprecedented incentives”:

Ministries reluctant to give approval to transmission line project

MUSHTAQ GHUMMAN

Ministry of Water and Power has reportedly failed to get approval of $ 2.1 billion ±660kV (4000 MW) HVDC Mitiari-Lahore transmission line project from the ECC under China Pakistan Economic Corridor (CPEC), as some Ministries are opposing the "unprecedented" incentives extended for the project, well-informed sources told Business Recorder.

Government of Pakistan had announced the policy framework for private sector transmission line projects, 2015 to attract private sector investment for augmentation of transmission network in the country to transmit electricity from upcoming power projects to the load centres. The policy provided for standardized security package documents for transmission line projects comprising of Implementation Agreement (IA) and Transmission Services Agreement (TSA) to provide a legal and contractual framework for the financial closing, engineering, procurement, construction, commissioning, operation, maintenance and transfer on Build-Own- Operate-Transfer (BOOT) basis for a term of 25 years. Accordingly, an experienced international consultant, Thomas West Jr. of M/s Primus Energy Advisors, who had earlier drafted similar standardized security package documents, was engaged who prepared the initial drafts of TA and TSA.

Based on these drafts, PPIB prepared a standard draft IA whereas National Transmission and Despatch Company (NTDC) prepared a project specific TSA keeping in view the unique circumstances of a CPEC project where the NTDC had agreed to carry out Operation and Maintenance (O&M) services for ±660kV HVDC Mitiari-Lahore Transmission Line Project as the project sponsors - M/s China Electric Power Equipment & Technology Company Limited (CET) -due to security concerns were not willing to undertake the O&M services for the HVDC transmission project. Accordingly, the standard draft IA and project specific TSA have been finalised by PPIB and NTDC respectively. Nonetheless, certain project specific amendments in the standard IA may be required during negotiations with the project companies provided GoP obligations do not increase. Moreover, certain changes may also be required in the standard IA and project specific TSA in view of tariff determination/approval by Nepra.

O&M of transmission line has been agreed to be undertaken by NTDC through a subsidiary pursuant to O&M agreement and land is being provided by NTDC pursuant to land lease and right of way agreement. In this regard certain technical, financial and other risks are flowing there including obligations of NTDC under project specific TSA that will consequently be backstopped by the IA.

Given that the HVDC transmission project is a CPEC project, a supplemental agreement providing for a revolving account is to be opened and maintained by NTDC for the HVDC transmission project and backstopped by the Ministry of Finance for an amount not less than 22 per cent of the monthly payments; the draft whereof was approved by the ECC on February 18, 2016 and will also be executed for HVDC transmission project.

The standard IA was approved by the Board of PPIB on March 15, 2017. Meanwhile, the ECC on February 22, 2017 decided to allow exemption from withholding tax on dividends to the transmission line projects under the Transmission Line Policy 2015. Therefore, such exemption is in the standard IA.

NTDC has agreed to the rest of the proposal, however, and expressed their opinion that clause 9.5 of the TSA titled "revolving account" NTDC should be covered by back to back arrangement which CPPA-G for timely payments to NTDC on the same terms and conditions as agreed in the TSA; otherwise, GoP should sponsor the continued operation of revolving account. Without back to back arrangement with

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CPPA-G or GoP sponsorship, it is difficult for NTDC to maintain the revolving account.

Ministry of Water and Power, in its summary, has submitted the following proposals: (i) the standard IA for transmission line projects under policy framework for private sector transmission line projects, 2015 may be approved; (ii) the project specific TSA for HVDC transmission project as prepared and finalised by NTDC may be approved; (iii) Board of PPIB may be authorised to make and approve any project specific amendments required in the standard IA during negotiations and/or prior to the execution, provided GoP obligations or liabilities are not increased; and (iv) Board of PPIB and NTDC may further be authorised to make and approve any amendments in the approved standard IA and the project specific TSA respectively required to comply with Nepra''s tariff determination, directive and/or approval.

PPIB is seeking exemptions from all types of income taxes, sales tax and customs duties including goods that are locally produced and can be supplied for completion of the transmission line project. The sources further stated that PPIB has also demanded that profits and gains derived by a domestic company from transmission line project should be exempted from standard corporate income tax for a period of 10 years. The Matiari transmission line project should also be exempted from 1.25% minimum income tax and 17% alternate corporate income tax for a period of ten years. The withholding taxes on import of plant and machinery and specialised vehicles should also be exempted for 10 years. However, the most alarming clause was that even the materials that are locally available should also be exempted from customs duties.

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THE RUPEE: Mixed patterns

RECORDER REVIEW

The rupee moved both ways against the dollar on the money market during the week, ended on July 22, 2017. The rupee showed no major changes against the dollar owing to the comfortable supply of US currency, money experts said. It is most likely that if dollars' supply improves, the rupee may not fluctuate sharply in terms of the greenback.

OPEN MARKET RATES: The rupee lost 40 paisas in terms of the dollar for buying and selling at Rs 107.30 and Rs 107.40. The rupee also fell sharply versus the euro for buying and selling at Rs 124.60 and Rs 125.60.

INTER-BANK MARKET RATES: The rupee gained six paisas in relation to the dollar for buying and selling at Rs 105.33 and Rs 105.35.

OPEN MARKET RATES: On Monday, the rupee lost 10 paisas in relation to the dollar for buying and selling at Rs 106.90 and Rs 107.10. The rupee was trading against the euro for buying at Rs 121.50 and Rs 122.50.

On Tuesday, the rupee continued its decline versus the dollar, shedding more 10 paisas for buying and selling at Rs 107.00 and Rs 107.20. The rupee was trading in relation to the euro for buying and selling at Rs 122.70 and Rs 123.70. On Wednesday, the rupee, versus the dollar, depicted no change on buying counter at Rs 107.00 while it lost five paisas for selling at Rs 107.25. The rupee also picked up 30 paisas in relation to the euro for buying and selling at Rs 122.40 and Rs 123.40.

On Thursday, the rupee also shed eight paisas versus the dollar for buying and selling at Rs 107.10 and Rs 107.30 respectively, they said. The rupee did not fluctuate sharply in terms of the euro for buying and selling at Rs 122.30 and 123.30. On Friday, the rupee also did not show any change against the dollar for buying and selling at Rs 107.10 and Rs 107.30. The rupee was trading versus the euro for buying and selling at Rs 122.30 and Rs 123.30.

On Saturday, the rupee lost 20 paisas in terms of the dollar for buying and selling at Rs 107.30 and Rs 107.50. The rupee fell sharply in relation to the euro, losing Rs 2.30 for buying and selling at Rs 124.60 and Rs 125.60.

INTER-BANK MARKET RATES: On July 17, the rupee fluctuated slightly versus the dollar at Rs 105.39 and Rs 105.40. On July 18, the rupee moved slightly versus the dollar for buying and selling at Rs 105.39 and Rs 105.41. On July 19, the rupee gained 17 paisas versus the dollar for buying at Rs 105.22 and 15 paisas for selling at Rs 105.26.

On July 20, the rupee lost 10 paisas against the dollar for buying and selling at Rs 105.33 and Rs 105.35.

On July 21, the rupee held the overnight levels versus the dollar for buying and selling at Rs 105.33 and Rs 105.35.

OVERSEAS MARKET OUTLOOK FOR DOLLAR: In the first Asian trade, the dollar huddled near a 10-month trough as upbeat Chinese news and the prospect of only gradual policy tightening in the United States sent investors piling into leveraged positions in higher yielding currencies and risky assets.

The dollar was trading against the Indian rupee at Rs 64.353, the greenback was at 4.291 in terms of the Malaysian ringgit and the US currency was available at 6.769 versus the Chinese yuan. In the second Asian trade: The US dollar sank to a 10-month low against a basket of major currencies on Tuesday, hobbled by uncertainty over the pace of the Federal Reserve's policy tightening and worries that President Donald Trump will fail to deliver healthcare reforms. The dollar's index against a basket of six major currencies sank to a 10-month low of 94.75. From its 14-year peak of 103.82 touched on January 3, it has lost 8.4 percent.

Two more Republican Senators, Jerry Moran and Mike Lee, announced their opposition on Monday to a revised Republican healthcare bill, delivering a serious blow to the legislation. Friday's weak reading on US inflation and retail sales also fanned speculation that the Fed may not have justification for another rate hike by the end of this year, despite policymakers' projection for such a move. Money market instruments are now pricing in less than 50 percent chance

of a rate increase during the rest of the year.

The dollar was trading against the Indian rupee at Rs 64.345, the greenback was at 4.284 in terms of the Malaysian ringgit and the US currency was available at 6.761 versus the Chinese yuan.

In the third Asian trade, the dollar nursed losses on Wednesday after skidding to a 10-month low against a currency basket as Republican legislators' failure to pass a stalled healthcare bill raised fears for the rest of President Donald's Trump reform agenda.

Republican efforts to overhaul or repeal Obamacare collapsed in the US Senate on Tuesday, rattling financial markets and casting doubt on the chances of getting Trump's economic plans, such as tax reform and stimulus, through a divided Congress. The dollar index, which tracks the greenback against a basket of six major rivals, edged up 0.2 percent to 94.780 after falling as low as 94.476 on Tuesday, its lowest level since September 2016.

The euro inched 0.2 percent lower to $1.1534, after rising as high as $1.1583 on Tuesday, its highest since May 2016. The dollar was trading against the Indian rupee at Rs 64.320, the greenback was at 4.283 in terms of the Malaysian ringgit and the US currency was available at 6.757 versus the Chinese yuan. In the fourth Asian trade, the euro held near a 14-month high against the dollar on Thursday as investors look to hints from the European Central Bank on tapering of its stimulus, while the yen barely budged after the Bank of Japan kept monetary policy on hold.

The ECB is expected to lay the groundwork for an autumn policy shift when it meets on Thursday, emphasising improved growth while trying to temper expectations after previously setting off a mini-tantrum in financial markets. ECB President Mario Draghi opened the door to policy tweaks in a speech in Sintra, Portugal, in late June, leading to expectations that the ECB is ready to announce cuts in its asset purchasing programme.

The euro is now at $1.1515, backing off a tad from Tuesday's $1.1583, its highest level since May 2016 but still maintaining gains of 3.0 percent since Draghi's Sintra speech. The dollar was trading against the Indian rupee at Rs 64.380, the greenback was at 4.288 in terms of the Malaysian ringgit and the US currency was available at 6.765 versus the Chinese yuan.

In the final Asian trade, the dollar headed for weekly losses on Friday, wallowing at its lowest levels against the euro in nearly two years after what markets perceived as hawkish talk from European Central Bank chief Mario Draghi. But the Australian dollar skidded against the greenback after contrastingly dovish comments from a Reserve Bank of Australia official.

The dollar index, which tracks the U.S. currency against a basket of six major rivals, was flat on the day at 94.322, not far from its overnight low of 94.090, its deepest nadir since August 2016. It was down 0.9 percent for the week. The euro caught its breath and steadied at $1.1626 after climbing as high as $1.1659 on Thursday, its loftiest level since August 2015.

Draghi said that no exact date had been set for discussing any changes to the ECB's ultra-easy monetary programme but did say policymakers would revisit the topic in the autumn. The dollar was trading against the Indian rupee at Rs 64.335, the greenback was at 4.285 in terms of the Malaysian ringgit and the US currency was available at 6.765 versus the Chinese yuan. At the week-end, the US dollar hit its lowest level in more than a year against a basket of major rivals a day after the European Central Bank's chief abstained from talking down the euro, while obstacles to US President Donald Trump's policy agenda also weighed.

The dollar index touched 93.854, its lowest level since June of last year, and was last down about 0.5 percent at 93.885. The euro touched $1.1682, its highest level against the dollar in nearly two years, and was last up 0.4 percent on the day at $1.1674.

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Britain needs transitional deal with EU, to end before next election: minister

RECORDER REPORT

British trade minister Liam Fox said on Sunday that he backed a transition agreement to smooth Britain's departure from the European Union, but it would have to come to an end before the next election due in 2022. Speaking on the BBC's The Andrew Marr Show, Fox said a transition deal of two years, or slightly more or less, was necessary to make sure business can make investment decisions with certainty of Britain's future relationship with the EU.

"I want to leave the European Union at the end of March 2019. Now once we have done that, once we have fulfilled our promise to the British people, we can look to see what we are going to do in terms of making that a smooth transition," he said. He said planning for a transitional period of 24 months "whether that's 23 whether that's 25 is not a huge deal" after waiting more than 40 years to leave the European Union, but it had to be limited in scope and Britain must know its terms. "For example would we be able to negotiate our own trade agreements during that transition period? Because if we were not then we wouldn't be able to take full advantage of the freedoms available to us when we leave the European Union, so there's a discussion to be had."

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Usurping regulator independence

When it comes to promoting the independence of regulatory bodies, the PML-N certainly won't' be winning any laurels. Be it the PEMRA, NEPRA, OGRA, SECP or the SBP, autonomy is frowned upon and control has been rarely ceded.

Recently, there has been much hue and cry over the clipping of NEPRA's powers following changes to the NEPRA Act. In addition, the administrative control has been transferred from the Cabinet Division to the Ministry of Water and Power (MoWP) which clearly poses a conflict of interest.

The government remained adamant in its resolve to bring NEPRA under its directives claiming the regulator had started to regulate government institutions instead of the private sector. But that will be that natural outcome when the government is the major player in the power sector at the moment.

In its recently issued 2017 Article IV Consultation report, the IMF has also stressed the importance of a strong regulatory framework to ensure the power sector's operational and financial soundness as well as to maintain investor confidence.

The Fund notes "preserving NEPRA's independence and maintaining an appropriate tariff-setting process will be important in the context of planned amendments of the NEPRA Act. In parallel, swiftly resolving the on-going litigation with the regulator on DISCOs' benchmark distribution losses and recoveries is necessary to resume regular tariff setting.

"In addition, moving forward with establishing a multi-year tariff framework is key to strengthen the regulatory framework, attract private sector investors, and support the planned IPOs of DISCOs."

However taking away the regulator's powers when it comes to regulation of DISCOs or transmission indicates that the government does not see its role diminished in the future when it comes operating in the power sector. This is alarming to say the least because the pathetic state of the power sector is primarily on account of poor governance, something NEPRA also mentioned in its recently released State of the Industry (SOI) report 2016.

To top it all of the government has been actively pursuing changes to the NEPRA Act which will pass on the actual cost of electricity delivered to consumers including all losses and non-recoveries to settle the circular debt. Over the years the inefficiencies of the government have led to imposition of surcharges which have led to judicial intervention to protect consumer interest.

Therefore, rendering the regulator toothless will provide perfect cover for unabated negligence and poor governance to continue its run in successive government tenures.

Operational and financial soundness will take a backseat as always with the end consumer being the eventual scapegoat.

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Trade deficit: Not a failure of FTAs

News headlines are blaring about the alarming increase in trade deficit, caused as much by Pakistan's increase in imports as it has by Pakistan's decrease in exports. In such a scenario, Pakistan's efforts to increase its exports through trade agreements need further scrutiny.

Among current trade agreements, Pakistan has SAFTA, FTAs with Malaysia, China, Sri Lanka and PTAs with Iran, Indonesia and Mauritius. FTAs with Iran and Turkey are in the process of being negotiated.

Pakistan's policy makers are often under much criticism for not being able to negotiate trade agreements favourable towards Pakistan. And though that might be the case, analysis of Pakistan's top exports and imports puts the fault at the feet of domestic policies rather than international policies.

Keeping SAFTA aside, Pakistan has a trade deficit with China, Malaysia, Iran, and Indonesia. Sri Lanka's $160 million and Mauritius's modest $13 million trade balances are the only ones in Pakistan's favour among countries with which Pakistan has an operating FTA or PTA.

The increase in exports to China and Malaysia post implementation of trade agreements has been marginal in terms of exports as a percentage of total bilateral trade.

With the advancements of technology, it makes sense that Pakistan's imports of electronics and machinery from China have increased by more than 6 times since the FTA was signed. Pakistan's top export to China, then and now is cotton. Pakistan imports edible and mineral oil from Malaysia while the majority of exports consist of cereals.

In case of Indonesia and Iran, exports as a percentage of total bilateral trade has decreased post implementation of the respective PTAs.

The bulk of Pakistan's exports to Iran consist of paper and paperboard while imports from Iran are largely made of oil. The top import of palm oil from Indonesia has increased exponentially since implementation of the PTA. On the other hand, Pakistan's top export of cotton has decreased over the period, which the increases in exports of cereals and paper and paperboard have not compensated for.

The lessons of the implemented trade agreements seem clear. Even if policy makers were to overhaul Pakistan's trade agreements and replace them with ones stewed in Pakistan's favour, odds are Pakistan will still experience a significant trade deficit because of the lack of value addition in exports.

Regardless of the Pakistan Iran FTA and Pakistan Turkey FTA, which are in the process of negotiation, the lack of value addition to Pakistan's export implies that the alarming trade deficit is not likely to decrease to manageable levels in the near future.

Till implemented domestic policies support and increase manufacture and exports beyond primary products to finished goods, Pakistan's headlines will continue to lambaste Pakistan's trade deficit.

	Trade Deficit 2016	**Exports as a % of total trade pre-implementation of trade agreement**	**Exports as a % of total bilateral trade 2016**
China	$12 bn	10 %	16%
Iran	$288 mn	33%	10%
Malaysia	$793 mn	7%	14%
Indonesia	$2 bn	9%	6%

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Current account deficit challenge

RECORDER REPORT

Pakistan's current account deficit was up by 148 percent in fiscal year 2017 which must be a source of serious concern for the Dar-led Finance Ministry as it indicates that the two desired foreign exchange earning sources are not performing well - notably exports and remittances. Pakistan's exports have been steadily declining due to two major flawed domestic economic policy decisions. First, the inordinate delays in the release of refunds to exporters by the Federal Board of Revenue (FBR) which has compelled them to borrow 'excessively' to meet their liquidity needs; the associated borrowing cost has raised input costs making our export products uncompetitive compared to other countries. This policy is certainly not unique to the Sharif administration's tenure. The FBR, under the administrative control of the Ministry of Finance, has always been more focused on raising revenue to bring the budget deficit to sustainable levels to appease international donor agencies as well as domestic economists; or in other words, on an objective that is not within the terms of reference of the Board which should ideally be more focused on formulating reforms in its administration to minimize corruption/nepotism charges and to reform the tax structure to render it more equitable, fair and non-anomalous. Instead in its drive to generate ever-rising revenue the FBR has supported those taxes that are easy to collect, which explains the reason behind the massive rise in reliance on withholding taxes on consumer items/services sector - a form of sales tax whose incidence on the poor is greater than on the rich rather than on a tax on income.

Secondly, an overvalued rupee as a policy decision supported by Finance Minister Ishaq Dar has worked against exports for the past four years making our exports uncompetitive and imports more attractive. The Finance Minister has unfortunately refused to even acknowledge that the rupee is overvalued and its links to declining exports has been repeatedly dismissed by him.

External factors too have contributed to a decline in our exports. Consumer items constitute the bulk of our export items whose international market prices have been declining, which explains why the total value, as opposed to the volume, of our exports have declined. In this context, it is relevant to note that extending the GSP Plus status by the European Union to Pakistan is to be reviewed by January next year and there are a number of non-economic prevalent factors that may compromise its continuation. The death penalty by military courts, while justified from the point of view of a nation subjected to heavy loss of life and assets by frequent terror attacks for more than a decade, is nonetheless a requirement for the GSP Plus. While the government has formulated a strategy to convince the EU countries to continue the GSP Plus status yet it may be recalled that Mohammad Sarwar, former Governor of Punjab, who has since joined the Pakistan Tehreek-e-Insaf, played a pivotal role in the grant of the GSP Plus status to Pakistan. One would hope that his services are brought on board again and political differences not deemed to be the overriding concern of the government in not requesting his assistance.

Workers' remittances too have been declining in recent months - and this is a reflection of a worldwide trend sourced to the ongoing recession in countries particularly in the oil-rich Middle Eastern countries where labour is imported. To conclude, the rise in current account deficit is sourced to lower earnings from desired sources namely exports and remittances and there is a need for the government to focus on implementing policy changes that deal with this issue. Failure to do so would simply raise the country's indebtedness to even more unsustainable levels.

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Bankers fear rupee will fall again

Mohiuddin Aazim

The uneasy calm that prevailed in Pakistan's forex market prior to the July 5 massive decline in the rupee's value is still not over and a debate is raging about whether the local currency will fall again.

This debate became more intense as recently released data showed that the current account (C/A) deficit swelled to around $12.1 billion in FY17 from $4.867bn in FY16.

Most bank treasurers are almost sure the State Bank of Pakistan would not hesitate in letting the rupee fall again. For them, it is not a question of 'why' but just a question of 'when'.

"Let's see when the SBP lets the rupee find its real value," says the treasurer of a local bank.

"The rupee has been put on life support in an oxygen tent after the sharp and swift reaction of the Ministry of Finance, but fundamentals of the external account are not lending any support to the local currency.

"I believe that the SBP will now allow a gradual depreciation of the rupee. It will not keep it where it is today," he says.

Between July 6 and July 20, the rupee has regained much of the value it had lost to the dollar in the July 5 downward readjustment.

On July 20 it closed in the interbank market at Rs105.34 against the dollar, up from Rs108.24 on July 5 and slightly down from Rs104.90 on July 4, one day before it depreciated in one go.

Senior bankers say this swift recovery in the rupee's value is not due to any substantial change in the supply of dollars in the interbank market, implying that the credit for it goes to the central bank's intervention.

They, however, remain tight-lipped on whether the SBP intervened by selling dollars in the interbank market or by persuading banks to postpone or minimise their own dollar buying as much as they can.

Though the current account deficit is just too huge and should theoretically take its toll on the rupee's health, the overall balance of payments (BOP) improved in FY17 giving policy makers a solid reason to argue that things are not that bad on the external sector.

In FY17, a surplus of $1.946bn was booked in the BOP against a deficit of $2.652bn in FY16. But this happened against the backdrop of heavy external borrowing of no less than $10.1bn, according to sources in the Ministry of Finance. About 37pc, or $3.7bn, of this amount came from China alone.

Senior bankers say the BOP surplus of FY17 cannot provide a justification for keeping the rupee artificially stable now, particularly when the C/A deficit has risen past $12bn and SBP forex reserves are falling.

Forex reserves held by the SBP fell to $15.478bn as on July 14 this year from $18.271bn at end-December 2016, a sharp decline of 15pc in just six and a half months.

The ballooning current account deficit and falling reserves of the central bank have a more direct impact on the dynamics of exchange rate than a BOP surplus and that, too, obtained through external borrowing.

By the time this write-up is published, the newly appointed SBP governor, Tariq Bajwa, would have announced his first monetary policy. "If the SBP goes for monetary tightening, it would get a cushion for keeping the rupee stable for a little longer," according to a foreign bank executive.

"The rupee supply is high and it is overvalued.

Most treasurers are almost sure that the State Bank of Pakistan would not hesitate in letting the local currency fall again. For them, it is not a question of 'why' but 'when'

If the SBP cannot let it find its real worth immediately due to government pressure, it might choose to say goodbye to a stable monetary policy stance and begin to increase the policy rate. That will make sense."

Regardless of whether the SBP also considers a change in monetary policy stance, the new governor has announced his priorities and has sought banks' cooperation in implementing them.

After spending more than a week with his colleagues at the SBP and after getting policy briefs by them, Mr Bajwa met heads of banks and told them he wanted progress on agricultural and SME lending; outreach of banking in least-served geographical locations, particularly Balochistan; Islamic banking;

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cyber security; and retail payment system.

He also informed banks that he wanted to streamline and improve the export/import of foreign currency notes, foreign currency transactions at the bank branch level, and restructuring and rescheduling of non-performing loans of the textile industry.

“Whereas all the above-listed items merit priority action, accelerating implementation on them and getting the desired results needs years, not months,” says another foreign banker.

“Financial markets at this stage are looking for a reliable, serious clue from the central bank on how it looks at the current exchange rates,” he says.

Meanwhile, the SBP has increased vigilance of exchange companies and required them to make online reporting of all transactions in detail so that the exact sources of forex inflows and outflows via these companies could be checked.

This measure has been taken to avoid any speculative attack on the rupee.

The central bank is also pushing both banks and forex companies to facilitate overseas Pakistanis in sending remittances back home through official channels.

Only a dramatic rise in exports and home remittances (two major sources of non-debt creating inflows of foreign exchange) can ward off the pressure on the rupee at least for the time being, senior bankers say.

But whether such a dramatic rise can come in the short run is a million-dollar question.

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Money Market

Investments fall by 0.81pc

From Inpaper Magazine

According to the weekly statement of position of all scheduled banks for the week ended July 7, deposits and other accounts of all scheduled banks stood at Rs11,798.262 billion after a 1.52pc decrease over the preceding week's figure of Rs11,980.697bn.

Compared with last year's corresponding figure of Rs10,214.526bn, the current week's figure was higher by 15.50pc.

Deposits and other accounts of all commercial banks stood at Rs11,732.171bn against preceding week's deposits of Rs11,913.581bn, showing a fall of 1.52pc.

Borrowings by all scheduled banks declined during the last week

Deposits and other accounts of specialised banks stood at Rs66.091bn, lower by 1.53pc against previous week's figure of Rs67.116bn.

Total assets of all scheduled banks stood at Rs16,406.568bn, lower by 2.36pc over preceding week's figure of Rs16,803.027bn. Current week's figure is higher by 11.03pc compared to last year's corresponding figure of Rs14,776.154bn.

Total assets of all commercial banks stood at Rs16,151.949bn, smaller by 2.38pc over previous week's figure of Rs16,546.326bn, while total assets of specialised banks at Rs2,54.619bn, were lower 0.81pc over the previous week's Rs256.701bn.

Gross advances of all scheduled banks stood at Rs6,064.397bn, lower by 1.81pc over the preceding week's figure of 6,176.306bn.

Compared with last year's corresponding figure of Rs5,209.193bn, current week's figure is higher by 16.42pc.

Advances by all commercial banks decreased to Rs5,893.771bn from previous week's Rs6,005.819bn indicating a fall of 1.86pc, whereas advances of specialised banks stood at Rs170.626bn against previous week's 170.487bn.

Borrowings by all scheduled banks declined in the week under review. It fell by 7.67pc to Rs2,451.263bn against previous week's Rs2,654.899bn.

Compared to last year's corresponding figure of Rs2,543.957bn, current week's figure is lower by 3.64pc.

Borrowings by commercial banks in the week at Rs2,411.130bn were lower by 7.76pc against previous week's Rs2,613.989bn.

Borrowings by specialised banks stood at Rs40.133bn against the previous week's Rs40.911bn.

Investments of all scheduled banks stood at Rs8,100.049bn against preceding week's figure of Rs8,166.143bn, showing a fall of 0.81pc.

Compared to last year's corresponding figure of Rs7,582.199bn, current week's figure is higher by 6.83pc.

Investments by all commercial banks stood at Rs8,053.663bn, smaller by 0.79pc against preceding week's figure of Rs8,117.620bn, whereas investment by all specialised banks stood at Rs46.386bn against preceding week's figure of Rs48.523bn.

Cash and balances with treasury banks of all scheduled banks decreased over the week and stood at Rs.1,016.854bn against previous week's Rs1,122.866bn, showing a fall of 9.44pc.

Current week's figure increased by 6.63pc compared to last year's corresponding figure of Rs953.624bn.

Cash and balances of all commercial banks stood at Rs1,013.297bn, smaller by 9.33pc over previous week's Rs1,117.569bn.

Cash and balances of all specialised banks were lower by 13.66pc at Rs4.043bn against the preceding week's Rs3.557bn.

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INSIGHT

Sticky opinions

By Ihtasham Ul Haque

All official projections and estimates set for 2017-18 are fast getting unattainable mainly due to the political battle on Panama leaks, with International Monitory Fund (IMF) painting a depressing picture of the struggling economy for the first time.

The political battle has been ongoing for the past 15 months. The IMF has said new taxes, worth Rs425 billion, would have to be imposed and all new subsidies withdrawn to pull through the current financial year.

This is happening for the first time in the country's 70 years history that budget estimates are projected to be significantly readjusted by having new taxes in the very first month of any financial year. It is also happening for the first time that IMF-led International Financial Institutions (IFIs) and independent economists are on the same page to say that all is not well on both the internal and external fronts and that the year 2017-18 would be the toughest year in terms of meeting its goals.

The fund officials have communicated to the Dar-led economic team that the entire tax and non-tax revenue of the Federal Board of Revenue (FBR) would have to be increased from Rs4.9 trillion to Rs5.4 trillion to avoid a crisis that has essentially been exacerbated because of the case against the ruling family in the Supreme Court.

The current budget, insiders maintain, has been rendered unworkable as the government is virtually dysfunctional and implementation of the "election budget" has become a serious challenge.

Since the vulnerabilities on the external front are also increasing, the government has been told by its planners that $21 billion foreign financing was required to avoid a default situation, as the current $16 billion foreign exchange reserves of the central bank were insufficient to meet the requirements.

According to the IMF estimates, Pakistan's external financing would be close to eight percent of the GDP in the medium term to plug the financing gap in 2017-18, considering the falling foreign exchange reserves and plunging foreign direct investments (FDI). The $2.4 billion FDI inflow has mainly been from China in the wake of the China-Pakistan Economic Corridor (CPEC) projects.

The external sector is becoming a real headache due to failing exports and falling home remittances. More problems are being faced in the wake of over $21 billion trade gap and $10.1 billion current account deficit in 2017-18.

By 2018-19 this deficit is estimated to be $11.6 billion.

The question being debated in official and unofficial quarters is when Pakistan would go to the IMF for emergency assistance. The World Bank and the Asian Development Bank (ADB) have reportedly expressed their inability to offer new loan facility, unless the IMF gives a clean bill of health to the Pakistani economy and that a major effort is needed to improve both the internal and external financing sectors. So would be the attitude of global debt capital market which has been toeing the line of the World Bank and ADB.

Surprisingly the IMF, which used to ignore basic fundamentals and kept extending waiver after waiver during all the 12 reviews of $6.2 billion Extended Fund Facility (EFF) programme, was now getting tough and reportedly putting new conditions to offer any bailout package.

Fund officials are expected to demand to give preference to austerity over growth to ensure that the increasing fiscal deficit does not go beyond certain limits. The reason it is being expected has to do with how the fund ensured the government focused on strict financial discipline in the past compared to growth. Whenever Pakistan opted for the IMF programme in the past, it had to forget about growth and focus on austerity.

Now when Pakistan is once again facing a serious balance of payment problem, new avenues of external inflows are also being discussed including from China that has provided $500 million soft loan a couple of months ago.

However, there are reports that the Chinese government is reluctant to offer fresh loans other than the amount pledged for the $54 billion CPEC project, which gives credence to the views that only the IMF would be forthcoming to rescue Pakistan, and that would happen only on tough conditions.

"Our economy cannot sustain this ongoing political battle being fought in the apex court by the government and the opposition,"

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said renowned economist Dr Ashfaque Hasan Khan.

He asked who did not know that growing political uncertainty was gravely impacting the country's fragile economy which must be ended forthwith to avoid further damage. "It will take minimum three years to bring the economy back on the April 16 position as the government is at a standstill and all its functionaries are waiting for the outcome of the Panama issue," Dr Khan said.

He appealed to the Supreme Court to decide the issue quickly as the prolonged hearings on Panama scandal have brought irreparable damage to the economy. "But I do hope that dust will settle as soon as the decision on Panama comes and this uncertainty goes which is poisonous to the economy," he added.

Former minister for commerce Dr Zubair Khan said rising political instability was causing more and more problems to the economy which he alleged has thoroughly been destroyed by federal finance minister Ishaq Dar. "But I am sure the rampant corruption will be minimised to a great extent after a judgement by the Supreme Court over Panama scandal," he said, and added that the current budget provided ample opportunities to the PML-N legislators to indulge in loot and plunder to win the next election.

"Those development projects are being installed which offer kickbacks and commissions to the rulers and their party men," the former minister for commerce said. "They must go if at all you want to save your country and your economy," Dr Khan said.

With the talk of new emergency lending from the IMF, emerging reports suggest that the fund officials are concerned over the government's move to understate the budget deficit by including the same amount of Rs64 billion as non-tax revenue in the last financial year after it already booked the money as part of its earnings from Saudi Arabian gift of $1.5 billion two years ago.

The issue concerned the independent economists who had been alleging all along that the government was involved in figure fudging and that Pakistan Bureau of Statistics (PBS) was involved in it to show lower fiscal deficit. The issue now, it is said, could be raised by the IMF when Islamabad goes to the Washington-based lending agency for new funding arrangements.

Since no single item can be booked twice, IMF may take serious notice by putting a penalty on the government as it was done immediately when former dictator Pervez Musharraf took over and the then finance minister Shaukat Aziz informed that the second PML-N government was involved in figure fudging. The IMF fined Pakistan with $25 million when informed about that serious discrepancy.

The PML-N government has reportedly shown Rs64 billion as sale proceeds of the government-owned LNG-based power plants being set up in Punjab in a bid to cover-up the issue. The budget for 2017-18 talks about this understatement and overstatement without discussing the facts, which according to the independent economists, was figure fudging indulged in by the Dar-led economic team.

Senior economists say that revenues are grossly overstated and expenditure understated to arrive at illusionary or slogan-oriented budget deficit numbers. They also believe that this was happening on such a large scale for the first time in the country.

They say never before in Pakistan's history have people witnessed such large scale manipulation of statistics, especially in the areas of economic growth, revenues, expenditures and budget deficit. These manipulations were done for point scoring with a view to show good performance of the economy and meeting the IMF targets. This has largely damaged the reputation of the statistics bureau and to some extent the Federal Board of Revenue (FBR).

But many believe that the country's balance of payment problem is more serious than revenues, and more pressures could be experienced in 2017-18 because of unprecedented surge in imports, now reaching close to $45 billion compared to $21 billion of exports. The matter is worsening with the passage of every day as the government has been informed that United States would no more be disbursing any amount under the head of Coalition Support Fund (CSF) due to which current account deficit is further widening.

Lower exports and remittances coupled with decreasing inflows from IFIs and bilateral creditors are becoming a matter of grave concern for everybody.

In this backdrop, it was being said that the current budget represents the expansionary nature of the fiscal policy being pursued by the government. The balance of payment problem would be haunting with serious consequences due to easy expansionary monetary policy on the one hand and unsuitable exchange rate policy on the other hand during 2017-18.

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The falling reserves of the State Bank of Pakistan (SBP) are also becoming a serious issue despite the fact that $3.5 billion were borrowed from the commercial banks. These reserves stood at $12.2 billion as of June 2, 2017 and not $15.7 billion as reported by the central bank. Why have they borrowed from the commercial banks when their position was all ok as given to understand by both the Ministry of Finance and the central bank? Have they informed the IMF? Certainty not, as the government is no more in the IMF programme and that is why it also borrowed Rs2 trillion (Rs2,000 billion) to pull through the last financial year.

Similarly, large scale deficit financing (printing of notes) by the SBP was done in 2016-17 as soon the government went out of the IMF programme in October last year with IMF officials keeping quiet over it prompting the independent economists to say that they were partner in crime and did not raise any objection because they never wanted the government to experience serious financial difficulties. But now the situation is different as the IMF does not have any pressure from the State Department to oblige Pakistan.

Rather, the fund officials would get tough to ensure the recovery of loans in time if Pakistan decided to seek another bailout package, which according to observers, is a matter of time considering the weak position of the economy.

Also the Trump administration which has already cut Pakistan's economic and military assistance at the behest of India loving Senators and House representatives, it is expected to ask the IMF to offer new loaning facility to Pakistan on tough conditions with a view to force Islamabad to come to terms on Afghanistan which is being supported by the current BJP-led government in India.

Going forward, the implementation of the current budget will set future direction in the emerging political scenario, which has been marred by the ugly politics of survival by the major players. What kind of corrective measures the government is taking to revive the economy is anybody's guess, considering the fact it is stuck in deep political quagmire.

The writer is a senior journalist based in Islamabad

"Rising political instability is causing more and more problems to the economy which has thoroughly been destroyed...But I am sure the rampant corruption will be minimised to a great extent after a judgement by the Supreme Court over Panama scandal. Those development projects are being installed which offer kickbacks and commissions to the rulers and their party men."

Dr Zubair Khan, former commerce minister

"Our economy cannot sustain this ongoing political battle being fought in the apex court by the government and the opposition...It will take minimum three years to bring the economy back on the April 16 position as the government is at a standstill and all its functionaries are waiting for the outcome of the Panama issue."

Dr Ashfaque Hasan Khan, economist

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FOCUS

Political and economic challenges

By Zeeshan Haider

The international agency, Moody's, while retaining Pakistan's B3 rating maintained that the country's medium-term economic outlook was strong on the back of China-Pakistan Economic Corridor (CPEC) project, aimed at addressing critical infrastructure constraints and continuing macroeconomic stability-enhancing reforms initiated under the International Monitory Fund (IMF) three-year Extended Fund Facility which ended last year.

However, it drew up a long list of vulnerabilities for Pakistan's economy, particularly the burgeoning current account deficit caused by the rising imports and falling exports as well as widening fiscal deficit.

According to the agency, the foreign exchange reserves though grew up fourfold during the past four years was still low as compared to the current account payments.

The IMF had also showed similar concerns for the economy of Pakistan, when it reviewed the situation under the Article IV Consultation.

While praising the present government's efforts over the past four years to salvage the economy, it noted with concern that macroeconomic stability gains made during this period have begun to erode which posed serious risks to the economic outlook of the country.

According to it, the current account deficit has widened and was expected to be at three percent of the GDP in fiscal year 2016-17 because of the quickly rising imports and declining exports.

In all these and other reviews, the current account deficit was highlighted as one of the major concerns for the economy in the coming days.

It is in this context that the State Bank of Pakistan allowed unprecedented depreciation of over three percent in the exchange rate of local currency for the US dollar earlier this month.

The move was in line with the long-running demand of the exporters who are steadily losing their share in the international market, as well as with the IMF's position that the local currency is overvalued in the range of 10 to 20 percent.

However, the move drew a strong reaction from the finance minister who favours a strong rupee in an effort to keep inflation under control to avoid political backlash for the government at the time when it is heading towards general elections.

The government's move not only caused dismay for the country's exporters but many analysts also believed that it has also weakened the resolve of the central bank to assert its independence.

The growing apprehensions with regard to dismal performance of exports which ultimately lead to further increase in the current account deficit were fully backed up by the All Pakistan Textiles Mills Association (Aptma) recently when it reported that the country has tremendously lost its textile exports share in the global market to its competitors.

In view of these concerns, all that is is needed is a concerted effort by the government to critically look into the situation and take the requisite measures on urgent basis to stem the rot.

However, it seems that the economy and related matters are no longer in the priority list of the government, which is also evident from the meeting between Prime Minister Nawaz Sharif and the representatives of the Sialkot Chambers of Commerce and Industry last week.

Everyone had expected that the prime minister would use the opportunity to discuss the problems faced by the business community and explore ways and means to jack up the country's declining exports. A problem which has been highlighted by the international agencies, the central bank as well as the businessmen of the country, who call it a major challenge for the economy as it would ultimately pile up pressure on the foreign exchange reserves for making external payments.

According to the IMF, the future contracts and obligations of the central bank stood at 3.6 billion dollars in June as against two billion dollars a year ago, which means that the country's foreign exchange reserves would slide down to around 17.23 billion dollars as against 20.83 billion dollars reported as on July 14.

Ironically, there was no mention of these concerns and challenges in the speech of the prime minister broadcasted on television.

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The main focus of the prime minister's address to the businessmen was Panamagate scandal and the politics of agitation that the opposition adopts, particularly Imran Khan's Pakistan Tehreek-e-Insaaf.

The prime minister recounted the achievements made by his economic team but conveniently ignored the gathering storm which everyone believes is around the corner.

Though he squarely blamed the opposition for what was not achieved by his government and accused it of creating hurdles in the economic progress of the country. In fact his government should also partly share the blame.

The government's excessive obsession with politics is also partly responsible for the current state of affairs.

There has been regular mention of a steep fall in the exports by the international agencies as well as the central bank over the past several months, but unfortunately, there has been no serious effort on the part of the government to address this issue.

In January, the prime minister announced a hefty package of 180 billion rupees to boost exports, but after that there were no back-up effort to make this package a success. Resultantly, the exports did not fare well in the last fiscal year despite a series of incentives announced by the government.

Energy shortages, high cost of production, sales tax returns, overrated local currency and lack of value addition are some of the problems which are adversely affecting the exports.

The government maintains that it had addressed the energy problems to a large extent by ensuring uninterrupted power supply to industry, but industry officials say high cost of electricity has made it difficult for them to run their businesses.

Several other issues also needed proper attention from the government, but very little effort has been made by its functionaries to attend to these problems.

The government has a commerce minister, who was expected to launch serious efforts to address all these concerns, but no such endeavour was visible on his part or his ministry.

With government now completely bogged down with the Panama papers issue, one does not foresee any move by the authorities to address the consistent problems in the coming months, particularly when the finance minister himself has been embroiled heavily in the controversy.

Ironically, Pakistan Muslim League-Nawaz (PML-N) has been known as a business friendly country as its leaders themselves have been very successful businessmen. The members of this community formed the bedrock of its government's support.

However, the business community has generally complained that it was not given due attention during the current tenure of the PML-N government.

Now that all eyes are set on the decision of the Supreme Court on the Panama papers issue which will decide the fate of the prime minister as well as his finance minister, one does not expect the government would be able to concentrate on the economic challenges faced by the country, even if the court verdict was not as adverse for the government as expected by the opposition.

From now until the general election, the country would virtually be in an election mode in which the government would try to take popular and populist measures to win the support of the masses and avoid any step that create negative sentiments among the people.

The business community and exports have to wait for matters to settle down to get their concerns addressed and this period may extend to the general elections and thereafter.

The writer is a senior journalist based in Islamabad

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MARKET

Canny bet

By James Saft

With equity indexes at all-time highs, global mutual fund and ETF investors may be choosing now as the time to reverse a long-running move into bonds and out of equities.

That's either in harmony with retail investors' legendary ability to pick the top or a canny bet on global reflation.

Since the great financial crisis the broad global trend has been for mutual and exchange-traded fund investors to load up on bonds while trimming equities.

Globally, funds held in equities vehicles went from above 90 percent of the whole in 2007 to about 70 percent now.

And while that figure for U.S. funds bottomed at about 60 percent in 2010 and is now at 67 percent, equity funds have suffered net outflows for the majority of the last few years, except for a spike in inflows after the 2016 U.S. election.

This 'de-equitisation,' driven partly by battle-scarred individuals and partly by a large move into long-term debt by pension funds seeking to hedge long-term obligations, has been expensive.

Over the past five years, the S&P 500 has returned 13.4 percent per annum, against just 2.3 percent for 10-year Treasuries.

But now, what started as a mild trend in the U.S. of upping equity exposure seems to be going global, perhaps as the last bears capitulate in the face of a low-volatility march higher in equity markets.

There is also the fact that major central banks are signaling they may at last start to run down their own multi-trillion-dollar portfolios of bonds.

"We find increasing evidence that the de-equitisation process, by which the weight of equity holdings in portfolios diminishes over time and is substituted by debt, has finally come to an end," Alain Bokobza of Societe Generale wrote in a note to clients.

"The main driver for re-equitisation could be gradually rising bond yields (Make reflation great again).

Rising bond yields imply losses on existing bond portfolios (underweight bonds) and, when bond yields move higher, the risk budget of investors tends to increase (overweight equity).

"In Europe, as bond yields bottomed, the equity share of fund holdings has crept higher this year, from a low below 60 percent in mid-2016 to about 65 percent now.

Net flows to European equity funds have turned positive and assets, which decreased for about 18 months to January, have grown rapidly, indeed at a rate not seen since the bottoming of equity markets in 2009. There is no question that a return to equity fund flows over bonds would have a significant market impact.

A 10-percentage-point re-weighting into equities implies a global flow of $2.3 trillion.

That compares with a cumulative net inflow into bond funds of almost $1.8 trillion since 2007.That inflow, notably, happened alongside massive official buying of bonds by central banks seeking to engineer a reflation.

Those same central banks now seem ready to reverse course. The ECB is expected to announce its plans for tapering its bond portfolio sometime in the next several months, though it is currently committed to buying 60 billion euros a month until at least December.

The Federal Reserve too is widely expected to start to allow its $4.5 trillion stock of bonds to dwindle, perhaps by the end of the year if not sooner.

If that comes to pass it will surely change the relative attractions of stock and bonds.

Longer-term Treasuries have already become more volatile than the almost comatose S&P 500.But though central banks say they want to taper, the facts on inflation are a bit more stubborn.

U.S. inflation is heading further below the Fed's 2 percent goal, and in the euro zone core inflation remains stuck at about only 1 percent.

That does not sound like an equity-friendly reflation.

There is also the possibility that equity market volatility follows bond market volatility higher as central banks sell bonds, especially if tapering comes alongside mixed economic news, as it is very likely to do.

And while funds, especially ETFs, are widely held by institutions, it

is a lot easier to see the intuitive sense of selling bonds with rates this low than buying stocks with prices this high. In the run-up to both the dotcom bust and the great financial crisis retail investors did what they do best: buy what has just gone up in price.

A rebalancing of fund portfolios towards stocks may just happen, but it may, once again, prove a reliable sell signal.

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Public debt reaches Rs20.9tr in 3rd quarter

Salman Abduhu

LAHORE - The gross public debt of the country has reached Rs20.9 trillion, with an addition of Rs1.2 trillion in third quarter (July-March) of FY17. More than 90 percent of the rise in public debt came from domestic borrowing, while increase in external debt remained moderate on account of revaluation gains and marginally higher debt repayments during the period.

This was stated in third quarterly report of 'State of Pakistan Economy' released by the central bank.

The report said that with higher fiscal deficit and net external financing slightly lower than last year, the burden of deficit financing fell on domestic sources during Jul-Mar FY17. Yet, the pace of domestic debt accumulation decelerated during the period. It grew by 8.2 percent during Jul-Mar FY17 compared to 9.9 percent increase recorded in the last year. Almost entire increase in domestic debt during the period was contributed by short-term debt, as the government retired long-term debt. Quarterly break-up shows that there was a shift in borrowing away from SBP during the second and third quarters of FY17. In absolute terms, the government retired Rs 177.3 billion to SBP during second and third quarters FY17, after borrowing heavily from SBP in the first quarter. This retirement was made possible through: (i) drawdown in government deposits held with the SBP, and; (ii) increased borrowing from commercial banks. Banks' interest in government securities, as evident from the bidding pattern in recent auctions, was also revived in Q3-FY17. Yet, the offer-to target ratio was much higher in case of T-bill than in PIB auctions. Against a target of Rs 2.5 trillion, commercial banks offered Rs 4.3 trillion in T-bill auctions held during the third quarter. Moreover, most offers were in 3-months and 6- months T-bills (Table 4.10). The government accepted significantly higher amount in T-bill auctions compared to targets to facilitate retirement of maturing PIBs in the quarter. PIB auctions depict relatively different picture in Q3-FY17. As a whole, the government did not meet pre-auction targets as banks were bidding for higher rates. With these developments, the composition of Pakistan's domestic debt saw a shift: significant substitution of long-term debt with short-term debt. Thus with an increase of Rs 1.6 trillion in Jul-Mar FY17, the share of floating debt rose to 44.8 percent by end March FY17 from 36.7 percent as of end June 2016.

While short-term borrowings help curtail the servicing cost, these worsen the maturity profile and increase the government exposure to rollover and re-pricing risks. For instance, the debt re-fixing in one year increased to 53.6 percent in December 2016 from 47.7 in June 2015.

Net inflows in NSS during Jul-Mar FY17 were still lower than the level observed during the same period last year. At the same time, the gross inflows in these schemes proved to be more resilient to the profit rate changes during FY17, showing significant improvement in the gross inflows during the third quarter. It seems that investors re-priced their investments to get benefit of higher rates, as net inflows did not increase much.

Pakistan's public external debt & liabilities stock increased by $595.6 million during Jul-Mar FY17, reaching $ 62 billion as of end-March 2017. Despite substantial disbursements, lower accumulation in external debt reflects $1.5 billion revaluation gain during the period. At the same time, repayment of external debt also increased marginally during the period compared with the same period last year. Gross external loan disbursements stood at $4.9 billion during Jul-Mar FY17, largely in line with the full year target of $7.6 billion announced at the beginning of FY17. In addition to $1.0 billion Sukuk bond proceeds, Pakistan also received substantial inflows from external creditors, especially from ADB, foreign commercial banks, and China. NSS rates have been revised on three occasions during Jul-Mar FY17 i.e., August 1, 2016; October, 1 2016, and; February 1, 2017. It is important to note that the number of national saving schemes is exempted from any direct penalty on early encashment that encouraged investors to re-invest their original certificates.

Encouragingly, inflows from the multilateral donors continued, despite conclusion of the IMF program in the beginning of FY17.

Specifically, gross disbursement from IFIs stood at $ 1.2 billion in Jul-Mar FY17. Within the multilateral flows, disbursements from ADB increased, while inflow

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from the World Bank declined. Another important development is the substantial financing availed from the foreign commercial banks. Generally, inflows from multilateral donors (like ADB, World Bank etc) are contingent with the structural reforms under IMF program and usually dry out with the completion of program. However, as inflows remain intact, this shows that government is continuing its reforms program.

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Pakistan, Senegal agree to boost economic ties

Islamabad seeks Dakar's support to establish trade partnership with ECOWAS

INP

DAKAR - Federal Minister for Commerce Khurram Dastgir Khan led the Pakistani delegation to participate in the inaugural session of the Joint Commission between Pakistan and Senegal, which was held in Dakar (Senegal), while Alioune Sarr, Minister for Commerce, Informal Sector, Consumption, Promotion of Local Products and SMEs led the Senegalese delegation. A delegation of private businessmen from the areas of textiles, agriculture and pharmaceuticals also held B2B meetings with Senegalese businessmen on the sidelines of the session.

During the discussions, both sides underlined the importance they attach to the development of partnership in all areas of common interest, including trade, pharmaceutical industries, investment, agriculture, textiles, higher education and vocational training, information technology, air transport and tourism. To address the difficulties of trade between the two countries, the Pakistani side has sought Senegal's support to establish a trade partnership with the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU).

Both sides also agreed to sign "the Convention for the Avoidance of Double taxation and the Prevention of Fiscal Evasion" as soon as possible. With regards to technical cooperation, Pakistani side highlighted the low level of participation in capacity building programs offered by Pakistan in various disciplines under the auspices of Pakistan Technical Assistance Program (PTAP). The Senegalese side took note of this fact and expressed the desire to redirect the supply of training in line with Senegal's priority policies and programs.

Both sides also agreed to cooperate in order to facilitate and promote tourism between the two countries including presenting tourist attractions, facilitation of visa issuance as well as sharing data bank from travel and tourist agencies. Pakistani side offered restoration of historical sites in Senegal by Pakistani manpower. Senegalese side appreciated the offer and both sides agreed to exchange further details in this regard. Both sides also agreed to study ways and means for the establishment of air and sea links. In that respect, Pakistan side has proposed a Draft Air Services Agreement to the Senegalese side which agreed to respond on the proposed draft as soon as possible.

Both sides agreed to explore opportunities for cooperation between the Port of Dakar and Karachi Port (KPT) with a view to creating synergies and increasing the volume of trade between the two counties. Both sides also showed interest in exchange of experiences in maritime education and training and Technical Port Management.

Pakistan and Senegal signed the following agreements: "The Agreement on Cooperation in Combating the Illicit Trafficking of Narcotic Drugs, Psychotropic Substances and Precursor Chemicals" & "The memorandum of understanding between the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and the Union of Chambers of Commerce, Industry and Agriculture of Senegal."

Besides JMC, Commerce Minister, Khurram Dastgir Khan had a meeting with President of Senegal Macky Sall and conveyed him special message of the PM of Pakistan & also reported on successful conclusion of 1st Pak-Senegal Joint Ministerial Commission. The commerce minister also announced a gift of 1000 footballs made in Pakistan for the Senegalese football association and also announced to send special gift of premium basmati rice of Pakistan to the important dignitaries of Senegal.