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OGRA takes notice of fire

WASIM IQBAL

Islamabad: Oil & Gas Regulatory Authority (OGRA), has taken notice of the incident occurred at Ahmed Pur Sharqia, Bahawalpur, where more than 135 people were burnt alive and about 100 people have been injured. An inquiry on this tragic incident has been initiated and the concerned company has been advised to submit report immediately. As soon as the report is received, further action will be taken accordingly.

According to OGRA spokesman a oil tanker carrying product of Shell Petroleum from Kamari to Mashi Kee when the incident happened. OGRA directed Shell Petroleum to submit its initial report within 24 hour. He further said the initial finding will be share with public.

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THE RUPEE
Marginal changes

RECORDER REVIEW

KARACHI; Slight fluctuations were seen in the value of the rupee versus the dollar during the week, ended on June 24, 2017.

INTER-BANK MARKET RATES: The rupee stayed put in relation to the dollar for buying and selling buying and selling at Rs 104.87 and Rs 104.88.

OPEN MARKET RATES: The rupee almost held the present levels in relation to the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee gained 20 paisas in terms of the euro for buying and selling at Rs 118.00 and Rs 119.00.

Commenting on the steadier trend in the value of the rupee, some experts said that easy supply of dollar, supported the national currency to hold the present levels.

It is surprising to note that the rupee held it's levels versus the dollar in the absence of motivating factors, they observed. The country is facing a lot of uncertainties on the economic and political fronts, they said and adding that political instability in the country is main hurdle in the way of achieving the basic fundamental.

OPEN MARKET RATES: On Monday, the rupee held last levels in relation to the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee shed 20 paisas in terms of the euro for buying and selling at Rs 118.20 and Rs 119.25.

On Tuesday, the rupee held last levels in relation to the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee picked up 90 paisas in terms of the euro for buying and selling at Rs 117.30 and Rs 118.60.

On Wednesday, the rupee picked up 10 paisas in relation to the dollar for buying and selling at Rs 105.80 and Rs 106.00. The rupee rose slight in terms of the euro for buying and selling at Rs 117.20 and Rs 118.20.

On Thursday, the rupee also lost 10 paisas in terms of the dollar for buying and selling Rs 105.90 and Rs 106.10. The rupee also fell against the euro, losing 30 paisas for buying and selling at Rs 117.50 and Rs 118.50.

On Friday, the rupee maintained last levels in relation to the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee extended overnight slide in terms of the euro, losing 25 paisas for buying and selling at Rs 117.75 and Rs 118.75.

On June 24, the rupee sustained overnight levels in relation to the dollar for buying and selling at Rs 105.90 and Rs 106.10.

The rupee continued fall in terms of the euro, losing 25 paisas for buying and selling at Rs 118.00 and Rs 119.00.

INTER-BANK MARKET RATES: On June 19, the rupee inched up by one paisa versus the dollar for buying and selling at Rs 104.87 and Rs 104.88. On June 20, the rupee traded versus the dollar for buying and selling at Rs 104.89 and Rs 104.90. On June 21, the rupee traded versus the dollar for buying and selling at Rs 104.89 and Rs 104.90.

On June 22, the rupee gave up over night gains versus the dollar, shedding one paisa for buying and selling at Rs 104.86 and Rs 104.87.

On June 23, the rupee shed one-paisa versus the dollar for buying and selling at Rs 104.87 and Rs 104.88.

OVERSEAS OUTLOOKK FOR DOOLAR: In the first Asian trade, the dollar steadied against a basket of currencies after slipping on soft US economic data, with investors awaiting comments by a top Federal Reserve official for clues on whether recent strength can be sustained.

The dollar index against a group of major currencies was flat at 97.187. The dollar was trading against the Indian rupee at Rs 64.355, the greenback was available at 4.267 in terms of the Malaysian ringgit and the US currency was at 6.812 versus the Chinese yuan.

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

In the second Asian trade, the dollar reached a more than three-week high versus the yen, after an influential Federal Reserve official said US inflation should rise alongside wages, reinforcing expectations for the Fed to keep raising interest rates.

The dollar was lifted on Monday when New York Fed President William Dudley said that tightening in the labour market should help drive up inflation.

The dollar was trading against the Indian rupee at Rs 64.425, the greenback was at 4.282 versus the Malaysian rinttit and the US currency was at 6.823 in terms of the Chinese yuan.

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

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.

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

In the fourth Asian trade, the dollar eased versus the yen as a recent rally tied to bets on another US interest rate hike this year lost steam, while the New Zealand dollar rose after its central bank stopped short of aggressively trying to talk down the currency.

The US dollar eased 0.2 percent against the yen to 111.15, pulling away from a three-week high of 111.79 yen reached on Tuesday.

“Risk aversion arising out of ongoing decline in oil prices is one of the factors explaining the move in dollar/yen,” said Christopher Wong, senior FX strategist for Maybank in Singapore.

The dollar was little changed on Friday as traders marked time ahead of next week’s US inflation-linked indicators, while commodity currencies such as the Canadian dollar held to gains after crude oil prices bounced.

In the final Asian trade, the dollar index against a basket of major currencies was effectively flat at 97.492. The index peaked at a one-month high of 97.871 on Tuesday after the Federal Reserve hiked interest rates last week and left the door open for further monetary tightening later in the year. But it has been stuck in a tight range since, awaiting fresh catalysts.

The dollar was trading against the Indian rupee at Rs 64.523, the greenback was at 4.287 in terms of the Malaysian ringgit and the US currency was at 6.840 versus the Chinese yuan.

At the week-end, the dollar fell against a basket of major currencies, recording its biggest one-day fall in three weeks, on persistent doubts whether the Federal Reserve would raise interest rates again this year due to softening inflation data.

The dollar index, which tracks the dollar against six major peers, fell 0.35 percent at 97.248, retreating further from a one-month peak reached on Tuesday.

The euro was up 0.44 percent at $1.1198, while the greenback slipped nearly 0.1 percent against the yen, to 111.25 yen.

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Global overseas remittances

During the last few decades, a lot of countries have become quite dependent on the flow of home remittances for their balance of payments needs and raising the standards of living of ordinary people. According to a report prepared by the International Fund for Agricultural Development (IFAD), about 200 million migrants, half of whom are women, sent back dollar 445 billion to their families in Asia, Latin America and Africa in 2016. The total amount of remittances has risen by more than 50 percent in the past decade and is used to lift families out of poverty by providing financial stability, access to education, housing and healthcare. Most remittances (dollar 117 billion) came from the US, followed by Europe (dollar 115 billion) and the Gulf states (dollar 100 billion). Total migrant worker earnings are estimated to be dollar 3 trillion annually, out of which about 85 percent is used in the host countries and the amount of money migrants send home averages less than one percent of host countries' GDP. The report states further that families back home receive an average of dollar 200 a month, which makes up 60 percent of their household income. Pedro De Vasconcelos, IFAD policy advisor and author of the report said that "it is truly a global phenomenon on which people, due to lack of opportunities, have to leave their families behind to provide for them. Migration should be an option, a choice. But for 200 million people, it is a necessity."

The above statistics on global home remittances do not only quantify the magnitude of home remittances but speak about their importance and contribution in recipient countries. The aggregate flow of home remittances is not a small amount and is more than 50 percent of Pakistan's GDP. As expected, major part of home remittances flows from the US, Europe and Gulf countries. Ordinary people from all over the world are mostly interested in migrating to the developed countries due to prosperity in these regions, a higher demand for professionals and their low birth rates while Gulf states need labour for building infrastructure after the oil boom. The reliance of developing and underdeveloped countries on remittances is largely a symptom of poverty that pushes people to find economic opportunities abroad. The estimate of IFAD that home remittances constitute 60 percent of the household income in the recipient countries shows the extent of dependence of the ordinary or poorer families on home remittances. The living conditions of these families could be well imagined if this source of income dries up.

The phenomenon of home remittances is definitely highly important for Pakistan. At present, it is the major source of containing balance of payment challenge. Total flow of remittances is almost equal to the export earnings of the country and constitutes nearly 7 percent of the country's GNP. Their stoppage or even a significant reduction in a particular period could cause a devastating impact on the country's GNP and its balance of payment position. The impact on the recipient families could be far worse. Using the steady flow of remittances, poorer or ordinary families buy food, get housing, send their children to school, access healthcare, or even invest in businesses and have some savings. We don't know how these families are going to cope or react if this source of income is no more there. The governments in Pakistan have also to compromise sometimes on their foreign policy because of the heavy dependence of the country and its people on the flow of home remittances. Keeping all these factors in view, while the government somehow needs to reduce its dependence on the flow of home remittances, recipient families need to use the amount of remittances more productively in order to reduce poverty and prevent more people from migrating in the first place. At present, most of the amount of home remittances is frittered away on consumption by the families back home, which is unfortunate.

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MoF shows no appetite for criticism

Anjum Ibrahim

A trend clearly visible in the PML(N) government is to issue long rejoinders to newspaper editorials/articles that challenge its assertions with respect to the state of the economy; and these rejoinders echo Finance Minister Ishaq Dar's lead by citing data compiled by the Pakistan Bureau of Statistics (PBS), picking out favourable bits out of a handful of newspaper articles during the past four years published in foreign journals and selectively taking the favourable bits out of reports by international agencies as evidence of their claim.

In its latest rejoinder to an article titled "Dar's claims and PWC report" MoF informed the author that "international agencies assess the country on the basis of performance and futuristic views are based on their assumptions." This statement however overlooks the objectives of the staff of international agencies, be it a multilateral donor agency like the IMF or be it an international agency like Price Water House Coopers (PWC), who operate on three principles: (i) to ensure that the debtor government would be able to repay its loans extended at market rates with high administrative costs (business class air travel and stay in five star hotels of their staff members), their bread and butter; rating agencies also focus on ability to pay back loans while foreign journals, like their local counterparts, are susceptible to advertisement support. Besides, a report prepared by a foreign journal can be challenged on the basis of available data or information that has not been accessed by the international agency and this is my claim with respect to the PWC report; (ii) multilateral agencies reports are careful not to alienate the debtor government to ensure continued engagement with a member country but nonetheless staff cannot deny the ground realities and hence the harsh truth is more often than not found in footnotes or hidden in the main text. Take the case of the most recent IMF report which maintains that Pakistan's GDP growth was 'favourable' but added that "Directors called on the authorities to allow for greater exchange rate flexibility – rather than relying on administrative measures – to help reduce external imbalances and bolster external buffers." Needless to add an overvalued rupee, a policy inexplicably supported by the Finance Minister, is responsible for declining exports and making imports more attractive. Dar, and the MoF rejoinders' focus on the good bits, however, its the 'bad' bits that require a response and on that Dar is either silent or dismisses the donor agencies' criticism as not accurate; incidentally there is no 'vague' criticism on unprecedented rise in imports in my article, as noted in MoFs rejoinder as the decline in oil prices during the Dar years resulted in savings of over 5 billion dollars; and (iii) waivers are allowed, the MoF argues, only if the Fund Board is satisfied that the programme will be successfully implemented. This writer is sure that the MoF is fully cognizant of the fact that waivers are also allowed (a) for reasons of international considerations and Pakistan as a frontline state on the war on terror has received several waivers based on the US Board member's support; in this context it is relevant to note that during the PPP-led coalition government the then Information Minister Sherry Rehman acknowledged publicly that Pakistan has to seek US State Department assistance prior to getting an IMF/World Bank loan – an admission that may account for Ishaq Dar invariably going to meet officials at the US State Department when he attends the annual meetings of the World Bank/IMF; and (b) it is in the interest of the mission leader to successfully complete a loan as his promotion depends on the loans he successfully completes. In this context Harald Finger was clearly more committed to his career at the Fund than Jeffery Franks, who appeared to be more committed to the implementation of reforms in Pakistan – perhaps because he was nearing retirement.

The MoF rejoinder maintains that the PWC

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"approach is based on a robust long term economic growth model that focus on how will the global economic order change by 2050 and assumes broadly growth friendly policies." Surely even the MoF must acknowledge that pro-deficit reduction strategy has been in place for the past four years which is the antithesis of pro-growth policies. The budget for 2017-18 could be pro-growth if implemented but then 2018 is an election year.

Data manipulation has been an ongoing concern of Business Recorder as well as independent economists since Dar took over the Finance portfolio; he downgraded the growth rate from two years ago (2011-12) just so he could claim the highest growth was achieved during his first year as the Finance Minister. Economic Survey 2012-13 (prepared during the PPP led coalition government) notes total external debt for 2011 at 29.8 billion dollars, with Economic Survey 2016-17 prepared during Dar's tenure inexplicably giving the figure of 63.8 billion dollars for 2011; and 72.2 billion dollars for 2017. Additionally, data is simply not rationalized either between different sub-sectors or with the data released by other government departments and credible industry sources. Ishaq Dar committed during the post budget press briefing in 2014 that he would provide an opportunity to media and independent economists to interact meaningfully with PBS staff to ensure data integrity. That promise remains unfulfilled to this day – a source of serious concerns.

The MoF rejoinder's clarification on debt and its rise is an exercise in confusion focusing on gross and net debt (and failed to mention the redefinition of debt proposed by a PML-N Senator that allows the government to understate the debt by 2 trillion rupees). Two further clarifications on the rejoinder are in order: multilateral loans constituting 87 percent are not concessional loans but market loans (concessional loans are allocated by donor agencies on the basis of performance and are less than 600 million dollars); and secondly to maintain that loans procured from the commercial banking sector abroad would somehow remove structural bottlenecks is just so much hogwash – such bottlenecks take years to deal with while these loans with a hefty interest are due in months.

The MoF talks of the Prime Minister's various programmes for youth as a launch pad for higher jobs and mentions federal spending of Rs 1 trillion as employment generating policies – the former is a political as opposed to an economic statement and the latter must be seen in the context of 2018 being an election year. Education spending the MoF rejoinder claims has increased to 2.3 percent in 2016 compared to 2.1 percent in 2013 but education is not a federal subject anymore.

And finally, by deliberately assuming that the World Bank's and incidentally also the Fund's concerns with respect to the government abandoning the reforms under the recently completed three year programme is not justified because the government is committed to reform would be easily refuted when subsequent to the elections the country is compelled to go on another IMF programme. To claim without counter argument that "handling of the economy by following IMF prescription in curtailing the deficit at the cost of growth, heavy borrowing and data manipulation is not based on fact" is not a rejoinder or rebuttal simply an affidavit which is testimony under oath without proof and/or other witnesses.

Unfortunately, those who penned the rejoinder did not respond to this writer's last recommendation: "the Economic Advisor has the economic credentials and experience that Dar clearly lacks. As a public servant drawing a salary from the taxes we pay it is incumbent on him to present a true picture of the state of the economy and not put his personal interests, possibility of suspension or transfer, above those of the country; sadly he is vigorously defending flawed data and, as criticism against Dar's policies gathers momentum, routinely engages in writing rebuttals.

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FOCUS

Warning shots

By Zeeshan Haider

The latest current account deficit figures released by the State Bank of Pakistan are in fact an endorsement of what the International Monitory Fund (IMF) said about Pakistan's economy a few days ago.

IMF in conclusion of its Artic le IV consultation, said that despite Islamabad's positive growth outlook estimated at 5.3 percent in the current fiscal year, with expectation for it to cross six percent on the back of China-Pakistan Economic Corridor (CPEC) investments, macroeconomic gains made over four years could erode and threaten the economic outlook.

On the conclusion of the Article IV consultation with Pakistan, the international lender maintained that while Islamabad's outlook for economic growth is favourable with real GDP estimated at 5.3 percent in the current fiscal year, expected to cross six percent in the upcoming fiscal year on the back of stepped up China-Pakistan Economic Corridor (CPEC) investments, structural reforms and improving energy supplies, it warned macroeconomic stability gains made over the past four years could start eroding and could pose threat to the economic outlook.

According to the IMF, the burgeoning current account deficit should be one of the major worries for Pakistani economic managers and the State Bank data has confirmed that it is.

According to the central bank, the current account deficit for the first 11 month of the 2016-17 financial year widened to 8.9 billion dollars, registering a whopping increase of 178 percent from 3.22 billion dollars recorded in the corresponding period of the previous fiscal year.

And if the trend over the past 11 months is any guide, than the deficit could easily cross 10 billion dollar mark by the end of full fiscal year on June 30.

The other areas of concerns pointed out by the IMF are slow fiscal consolidation with budget deficit target of 4.2 percent of GDP for the outgoing year likely to be exceeded, depleting foreign exchange reserves, power sector problems like resurgence of circular debt monster and financial losses incurred by loss-making state-owned entities like PIA etc.

On fiscal consolidation, the IMF called for mobilisation of additional tax revenues by broadening of tax base and strengthening of tax administration.

The external challenges for Pakistan include rising oil prices, tighter international financial conditions and failure to increase exports to generate funds to meet external liabilities.

Pakistan's independent economists have been warning the country's economic managers of these pitfalls and concerns from day one, but these alarms were largely ignored possibly because of political expediencies.

"The (IMF) directors agree that the growth outlook remains favourable but noted that policy implementation weakened recently and macroeconomic vulnerabilities are remerging," the IMF said in a statement.

"Against this backdrop, directors called on the (Pakistani) authorities to safeguard the macroeconomic gains of recent years through continued implementation of sound policies, and to continue with structural reforms to achieve higher and more inclusive growth."

Many experts also criticise the IMF for failing to raise the alarm in time.

The current government struck 6.8 billion dollars three-year bailout package with the IMF soon after coming into power in 2013, and during the duration of this deal it constantly got virtual clean bills of chit and plaudits from the world lender.

After every quarterly review of the economy, the IMF would issue a strong endorsement of economic policies of the government full of plaudits without making even minor references to challenges and the pitfalls it could face.

Once this programme was over, the IMF has started raising alarm bells which critics say were a way to signal to the policy makers that they have to strike a deal with the fund in coming months and years to avert a balance of payment crisis.

If one looks at the evolving economic situation in the country, it appears to be sliding back to the 2007-08 position under general Pervez Musharraf when after years of macroeconomic gains, all of it eroded just in year or so.

The situation led to the Pakistan Peoples' Party (PPP) government to sign a bailout package with the IMF which fell through and then

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eventually Pakistan Muslim League-Nawaz (PML-N) government had to do it.

The million dollar question is can the government currently do something to stem this imminent rot?

Observers say it is highly unlikely because of the enormous political and security challenges faced by the country.

The government is currently fully occupied with the Panamagate court case and its machinery has virtually paralysed.

The general impression across the country and may be outside is that this decision would decide the fate of the government. In case of an adverse decision in the Panama case, political tensions would rise and the country could gear towards an early election.

The Pakistan Tehreek-e-Insaf (PTI) chief Imran Khan has hinted that he could bring his supporters to the streets once again to force the government to step down and pave the way for elections.

In a polarised political atmosphere, one could not expect the government to take any far-reaching economic decisions and its moves would largely be driven by political expediencies.

In such situations, governments prefer to take popular decisions that can win votes for them in elections.

Experts believe that the next few months are very important as Pakistan faces risk of losing its economic gains if political tensions exacerbate.

In case this happens, then it would take another period of four or five years to stabilise the economy.

Though finance minister Ishaq Dar has called on the political parties to forge a charter of economy to consolidate economic gains, the opposition parties, particularly PTI, is in no mood to enter into any dialogue with the embattled government.

Ironically, at a time when international institutions are raising alarms about the impending challenges for the economy of the country, there appears no sense of urgency among the ranks of government leaders.

The finance minister is found too busy in political matters of the governments. He accompanies prime minister in almost all political meetings as well as foreign tours which have nothing to do with the economy of the country.

The finance minister should have tried to allay the concerns raised by the IMF as well as businessmen and other stakeholders with regard to the economy of the country.

He should have unveiled his strategy about how to deal with these challenges. But it seems there are no causes of concerns for the government's economic managers in this regard.

The writer is a senior journalist based in Pakistan

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ENERGY

Dark Matter

By Hussain Ahmad Siddiqui

A power plant based on the indigenous Thar coal is going to become a reality soon. The long-awaited first power plant, an integrated mine-mouth project, is in advanced stages of implementation and construction by Engro Powergen Thar Ltd, in partnership with Sindh Engro Coal Mining Co (SECMC) and China Machinery Engineering Corporation.

The power project of an installed capacity of 660MW (2x330MW) is being developed in two phases. The first unit of 330MW capacity is scheduled for commissioning in December 2018, whereas the second unit of 330MW would achieve the commercial operations date (COD) in June 2019. However, according to the latest reports, the coal mining project has so far achieved 40 percent of physical progress, and 33 percent on the power generation project, and therefore the COD for both the units is now set at June 3, 2019. Engro Powergen had originally planned 1,320MW (4x330MW) cumulative installed capacity, but the sponsor is not likely to take further exposure after the completion of the ongoing project.

It was in 1992 that the Geological Survey of Pakistan (GSP) discovered huge subsurface deposits of Thar coal, termed as the world's seventh largest coal reserves, in Tharparkar district (Sindh). Spread over 9,600 square kilometers, the Thar coalfields have an assessed reserve of 175.5 billion tons. From 1993 to 2001, the GSP conducted comprehensive exploration, assessment, evaluation and appraisal studies of the Thar coal resources, establishing technical and commercial viability of mining the coal, which is classified as Lignite A-B containing low ash and sulphur, and its suitability for power generation. At present, the area has been divided into 13 blocks where exploitation and assessment of coal resources has been completed.

As the news spread globally, a number of foreign investors, including global key players in coal mining and power generation, from Hong Kong, China, Australia, Germany, US and England, showed interest, from time to time, in the exploitation of Thar coal resources for power generation, but without any breakthrough. The only serious and sincere effort was made by Shenhua Group Corporation of China in 2002 to establish a 600MW power plant at the mine-mouth with associated captive coalmines. The project, which was to be developed on build, operate and transfer (BOT) basis, was scheduled to generate electricity by 2009. Unfortunately, the project ran into various snags, primarily on tariff issue, even before the arranged groundbreaking ceremony in January 2005, and did not actualise.

Due to slow pace and lack of interest by the investors in exploitation of Thar coal and developing an integrated power plant, the government decided to unbundle the Thar coal project into mining and power generation, for setting up as separate and independent projects. Subsequently, the government established Thar Coal Mining Co, later renamed as Sindh Coal Mining Co, effectively in 2007, to undertake mining, handling and transportation of the Thar coal, for selling it to the potential independent power producers (IPPs). In subsequent years, the Sindh Engro Coal Mining Co (SECMC) came into existence as a public-private joint venture. Meanwhile, the government had launched a programme to build-up the necessary support infrastructure in the area with a total financial outlay of tens of billions of rupees.

This included water supply scheme, provision of electricity, road network, railways link, telecommunication, affluent disposal, housing, construction of a commercial airport, and laying of 50kV transmission line for dispersal of electricity from the prospective power stations to national grid. Most of these works have been completed while the others are in progress.

The Thar Coalfields are declared Special Economic Zones, and an attractive package of fiscal and financial incentives, concessions and protections are offered to the investors. Indeed, the SECMC has achieved a landmark in utilising the immense wealth of Thar coal resources after more than two decades of its discovery. The coal mining project at Thar Block II, of extracting total 6.5 million tons per year using open-pit mining technology, is being developed by SECMC at a cost of $1,470 million, under the China-Pakistan Economic Corridor (CPEC) programme. It has committed to supply, in the first phase of extracting 3.8 million tons coal annually, the required

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quantity of coal, to the under-construction Engro Powergen power plant.

Engro Powergen is among the four power generation projects based on Thar coal, with cumulative capacity of 5,280MW, which are currently under various stages of process and implementation under the CPEC umbrella as the “prioritised/early harvest projects”. Others are Shanghai Electric (Thar Block I), Sino Sindh Resources (Thar Block II) and Oracle Coalfields UK (Thar Block VI), each of 1,320MW (2x660MW) installed capacity. In a recent move, the Private Power and Infrastructure Board (PPIB) has given extensions in Letters of Support (LOS) to four Thar coal-based power projects, on the premise that SECMC would supply coal to these power stations on completion.

The list includes 660MW Lucky Electric Power (at Port Qasim), and Thal Nova Power (Thar Block II), Siddiqsons Energy (near Port Qasim) and HUBCO Thar Energy (Thar Block II), each of 330MW installed capacity. All these projects are scheduled to come on stream, progressively, during the period 2018-2021. The SECMC has also entered into a long term partnership with Sino Sindh Resources, the lessee of Thar Block I, to jointly supply Thar coal for the various power plants of total capacity of 6,000MW to be developed by China International Power Holding in Sindh over a period of ten years or so.

The utilisation of the indigenous coal for power generation on a large scale will assume greater significance in the projected energy scenario as it will reduce the country’s dependence on imported fuels, providing affordable electricity in long term perspective. The commercial operation of the first Thar coal based power plant will prove to be a precursor for the development of other power projects in the pipeline based on Thar coal. Unfortunately, all the Thar coal based power projects would utilise the outdated subcritical coal combustion technology, instead of the advanced supercritical or state-of-the-art ultra-supercritical technology. The government should ensure that modern coal combustion technology for power generation is employed by the project sponsors.

The writer is retired Chairman of the State Engineering Corporation

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INSIGHT

Partner in crime

By Ihtasham Ul Haque

For the first time, after the completion of its three year funding programme, the International Monetary Fund (IMF), has admitted that fiscal consolidation has slowed down and that the macroeconomic stability gains made during 2013-16 have begun to erode, which could pose risks to the economic outlook.

Why did the IMF and its executive board remain in denial mode for so long and gave waiver after waiver during their 12 reviews of the Pakistani economy? Why have they chosen this particular time to warn the government by painting such a gloomy picture of the country's economy?

All this happened recently, when the IMF Executive Board concluded its Article IV consultations with Pakistan. Allegedly, their criticism serves a dual purpose: it warns other multilateral and bilateral creditors to do their homework before offering any fresh loans to Pakistan; and secondly, it reminds the rulers that they cannot survive without looking towards the Washington-based lending agency for its support.

The timing of concluding the Article IV consultations, accompanied with the latest, and bleak assessment of the Pakistani economy, is being called very important, as the incumbent prime minister is fighting a war for his political survival in the Supreme Court of Pakistan. The assessment is like a bombshell and contradicts what the IMF has said in its previous assessments over the last three years. If all is not well on the economic front, why were they praising the economy as being on the path of greater recovery after many years?

Just in one go the IMF has made a mockery of all its previous reports and findings, in the last three years, by challenging the macroeconomic stability gains due to unprecedented $30 billion trade deficit, widening of current account deficit getting close to $9 billion, the balance of payments turning 3 percent of GDP, and declining of $3 billion foreign exchange reserves during 2016-17.

The fund officials expressed their apprehension about the country's ability to service their burgeoning external debt and the payment of profit obligations associated with the inflow of $55 billion under China-Pakistan Economic Corridor (CPEC).

A million dollar question is why would the IMF release this upsetting picture of the state of the economy at this point in time? All of a sudden the IMF sees flaws in the policy planning due to which the process of implementation of policies has weakened and that the 2017-18 budget would require additional revenue measures to improve revenue performance that had been very dismal over the years.

Those who are in the know of the things, including independent economists, maintain a fresh warning by the IMF speaks volumes about its future planning and assessment to offer any new loan facility to Pakistan.

Now, when the new Trump administration plans to put new restrictions on Pakistan for allegedly supporting terrorism, the IMF's latest assessment of the economy sufficiently tells Islamabad that more conditions, including a possible denuclearisation would be there if the country seek new foreign loans, both from the IMF and other International Financial Institutions (IFIs). This is said to be an option for IMF if the current $80 billion external debt reaches $100 billion during the next two year time.

One of the impediments that are restricting exports, according to the IMF is the current exchange rate which it believes, needed to be depreciated to Rs113.5 against dollar as it had been urging during its twelve reviews. At that time the government agreed with IMF to reset the exchange rate but did not do that to ostensibly avoid any political backlash as it would have been seen as a weakening of the economy. But then it is also said that failure to generate sufficient exports will create serious problems to meet external obligations, including those arising out of the foreign funded investment related to CPEC.

Allowing greater exchange rate flexibility has been urged all along by the IMF during the three-year $6.2 billion Extended Fund Facility (EFF) bailout package. However, the fund officials, it is said, did not exert pressure by linking their assistance to the issue due to US government that did not want any upheaval in the region.

The situation could worsen in the region if the Trump administration withdraws non NATO ally status for Pakistan and further reduces

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its assistance as is being proposed by some US senators and congressmen. Under these circumstances, early warning by the IMF simply conveys the message to the government: "do as we say or face the consequences on both the political and economic fronts."

Now when the country seems to be in election mode, the IMF suggesting the government to go for additional Rs300 billion taxes in addition to such measures announced in 2017-18 budget, perhaps cannot be accepted by the rulers.

This abundantly endorses the point of view of the independent economists and television commentators that increasing tax-to-GDP ratio to 17 percent is a far cry and that this should not be expected from the political governments which believe in managing their financial affairs by recklessly borrowing both from internal and external resources.

In that backdrop it is also said that the government is highly unlikely to accept the IMF's proposal to do away with heavy borrowing from the central bank, which went as high as over Rs1 trillion during the outgoing financial year. Since there was no oversight available due to expiry of IMF programme in October last year, the government opted for deficit financing by printing notes in addition to borrowing from commercial banks. This borrowing including $3 billion to ensure that the foreign exchange reserves remain at a certain level, enough for five weeks of import, which is fast becoming a difficult proposition considering persistent decline in exports as well as home remittances by overseas Pakistanis.

For the first time, the IMF also differed with the government about the size of the country's total debt and placed it at over Rs21 trillion and not Rs18.2 trillion. Besides, the fund officials projected that the government's external financing requirements during 2017-18 would be close to $17 billion, seeing $11 billion current account deficit and $6 billion debt repayments.

How would the government arrange this financing is another intriguing question? It may seek more external borrowing, including increased foreign direct investment (FDI), but the gap would still be to the tune of $6 billion. Many believe that the finance minister would continue to seek more and more extensive loans from the central bank and use this money to purchase dollars from the open market by ensuring that there is no serious scarcity of dollars in the open market. The objective is to get away with the upcoming election year by indulging in gimmicks and by opting for incredible local and external loans, the end result of which would only be the piling of debt which is already getting unmanageable.

Government debt has reached 66.6 percent of the GDP. It is now a fact about which even the IMF is not mincing words, and for the first time has refuted the finance minister, who told the National Assembly last week that the government debt stood at 59.3 percent of the GDP.

The Fiscal Responsibility and Debt Limitation Act of 2005 restrict this debt to GDP ratio at 60 percent. The fund officials knew that this ratio was increasing, but still they extended waiver after wavier because of which independent economists alleged that IMF was "partner in crime" and that it deliberately avoided taking notice of the serious economic issues.

Nevertheless, the IMF estimated 6 percent GDP growth rate over the medium term due to CPEC related investment compared to 5.3 percent of the outgoing financial year. Here once again the IMF is being accused of taking refuge under CPEC as it is conveniently forgetting its similar higher projection of GDP growth rate in the past without substantiating it with some argument.

How can Pakistan achieve higher GDP growth rate without opting for growth supporting structural reforms in the basic structure of the economy? There are also questions whether the government opted for policy reforms particularly in the revenue and energy sectors, and if the situation is so, why has revenue continued to show roughly Rs200 billion annual shortfall; and why the circular debt, which was removed in 2013 by making payments amounting to Rs480 billion once again surfaced to Rs400 billion.

Pakistan's GDP growth, which averaged seven percent and as such remained better than India, Bangladesh and many countries during 1960-1990, struggled to be in vicinity of three percent or less than that during the five years of the Pakistan Peoples' Party rule and about two years of the PML-N tenure. No doubt this GDP growth rate later went up to four percent and 4.5 percent and now was poised for five percent plus in 2017-18.

The yardstick to measure GDP growth rate is significantly linked to job creation and poverty alleviation besides improvements in other key sectors of the economy. Have the PPP and now PML-N government created enough jobs and removed abject poverty to ensure better growth rate? Did the planners take enough strong policy measures to manage sustained GDP growth rate?

It is generally asked that if the growth rate has improved, why it was not creating hundreds of jobs for the educated youth and skilled workers. They also asked why more than half of the country's population was still living below the poverty line, sustaining on only two dollars a day. Despite being involved in exaggerating figures, annual economic surveys have been conceding that there has not been enough job creation or poverty alleviation, but still the growth rate has been picking up, which unfortunately does not corroborateiiiiiiiwith the facts on the ground.

Who does not know that without enhancing the savings and investment rates there cannot be any better GDP growth rate and that without significantly investing in the education and health sectors the objective of real progress and development will remain a distant dream.

Just two percent allocation for education cannot contribute for having some impressive growth rate in the country. After years of restrictions, the IMF agreed to help concentrate on growth over so-called fiscal stabilisation.

Going forward, home grown policies and not World Bank/IMF prescribed polices would do the trick to ensure sustained and robust growth rate. Likewise, the process of second generation reforms will have to be completed to increase revenues and exports, thus creating enough resources to be spent on the public for their well- being. All this demands good governance, and the will to tackle economic issues upfront without compromising on principles.

Will the current government do so? Can a future government do that? The Planning Commission, which has been used and abused by government after government, needs to be reactivated to propose adequate measures through its annual assessment of the economy. The job it has been said could be accomplished by the minister for development Ahsan Iqbal, provided he is allowed by the finance minister to work independently.

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Is capitalism reinventing itself?

Jawaid Bokhari

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The dynamic of conspicuous change — or strategic direction — is noticeably reshaping the landscape of ownership of assets and businesses, and redefining the role of a wide range of economic agents in the economy.

No less then 97pc of the highest recorded 926 companies registered in the month of May with the Securities and Exchange Commission of Pakistan were private limited companies (86pc) and single member companies (11pc).

Around 885 private limited firms incorporated in just 30 days far exceeds 559 public companies listed on the Pakistan Stock Exchange which stood at 560 in May 2016.

In overall terms less than 50 companies are reported to be 'active' with good free-float of shares and about 25-30 firms come up for regular trading.

This also represents the global trend. The number of companies quoted at the American stock exchanges has slumped by 50pc since 1996 owing to consolidation, and because talented managers prefer to stay private, say experts.

On the other hand the number of newly registered public companies (unlisted) in Pakistan is so nominal that the SECP lumps them with such strange bedfellows as non-profit associations and trade bodies, or such peers as foreign companies, which put together constitute only 3pc of the numbers recorded. There are 106 companies which were registered in 'other sectors.'

In May as many 89 IT companies were incorporated; with service sector in the lead with 136, followed by trading 129 and construction firms 114

The changing investment trend is gaining momentum virtually every month. As many as 13 foreign companies were registered in May in Islamabad, Karachi and Faisalabad while foreign investment was reported in 75 new companies from as many as 17 countries around the world.

The FDI level will actually be known when companies with foreign investment or joint ventures go into operation.

While multinational companies operating in Pakistan have been investing their retained earnings, according to trade bodies, the taxation regime is eroding their business confidence.

Some multinationals have resorted to strategic disinvestment and withdrawn from the Pakistani market with parent companies trying to consolidate business at home in the wake of the global financial crisis.

While the CPEC-related Chinese investment is picking up, the overall capital inflows from traditional sources is shrinking.

Quite a sizable chunk of CPEC-investment is being made by state-owned Chinese companies while infrastructure projects are also being co-funded by the government of Pakistan.

This development has to be seen in the context of the growing role of the state in economic development: rising pace of public sector investment versus stagnant or falling share of the private sector when measured as a ratio of GDP.

In the current fiscal year private sector capital spending has dropped to 9.9pc from 10.2pc of the GDP last year. The target for FY 2017-18 is 11.2pc which may or may not be met.

Contrary to this, the public sector investment (including PSDP) has gone up to 4.3pc, up from 3.8pc of last year and is forecast to rise to 4.5pc of the GDP in the next fiscal year.

And all this is happening while adhoc-ism at the federal level is weakening public sector institutions.

As a media report goes, the government funded projects are being executed largely with no 'full-time' directors.

Instead the chiefs, deputy chiefs and heads of concerned sections of the planning commission, besides their normal duties, have been made responsible for monitoring the progress of projects.

In this scenario, one has also to look at the strategic sale of state enterprises, which has virtually remained frozen for the past decade or so, but for the disinvestment of minority shares held by the government in the already privatised state banks and other state units.

Many see major bleeding state enterprises as strategic assets or a symbol of collective ownership rather than what they actually

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are: inefficient bureaucratic capital at work.

Yet another issue is of employees' redundancy including professionals and skilled manpower that need to be provided alternate jobs.

Finally, privatisation has lost much of its gloss because of the faulty ways in which earlier state assets were sold with little productive outcome. That has strengthened the political opposition to privatisation of which PPP is at the forefront.

Pakistan signed an agreement last week with ADB for another $300m to make public sector enterprises efficient and cost effective.

But a more significant and far reaching development in the corporate sphere is the upsurge in the number of IT companies being registered with the SECP. They have acquired the third or fourth leading position in monthly incorporated numbers.

In May as many 89 IT companies were incorporated; with service sector in the lead with 136, followed by trading 129 and construction firms 114.

To quote the London Economist these IT companies (start-ups) are pioneering a new organisational form and reinventing companies "where rights and responsibilities are meticulously defined. ... Founders, staff and backers exert control directly.

"... and their performance indicators measure as to how many products they have produced rather than elaborate accounting standards...Investors usually insist that management and often employees, own large stakes to ensure that their interests are aligned to the success of the venture."

Despite its problems, "the insurgent economy is going mainstream" in developed economies like the United States.

Anecdotal evidences suggest that things are moving in a similar direction in Pakistan though the country suffers from a huge lag in application of IT technology for upgrading its economy.

However, the surge in IT companies being registered by the SECP raises hope that the process now will be much faster than in the past.

Looking at the big picture is capitalism reinventing itself?