BUSINESS
RECORDER
Sunday, 30th July, 2017

Intermediaries: SECP unveils registration rules

SOHAIL SARFRAZ

ISLAMABAD: To facilitate corporate sector in filing of documents, the Securities and Exchange Commission of Pakistan (SECP) has authorized individuals, firms, limited liability partnerships and companies to obtain registration as an intermediary for providing services.

Under SRO 705(I)/2017 issued by the SECP here on Saturday, the SECP has issued Intermediaries (Registration) Regulations, 2017.

The intermediaries (Registration) Regulations, 2017 said that the an individual or firm or a limited liability partnership or a company may apply to the Commission for registration as an intermediary for providing services in terms of section 455 of the Act.

This is subject to the condition that if the applicant in case of an individual is holding valid certificate of practice from Institute of Chartered Accountants of Pakistan (ICAP); or holding valid certificate of practice from Institute of Cost and Management Accountants of Pakistan (ICMAP); or is a practicing member of Association of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA), Certified Management Accountant (CMA) or recognized foreign accountancy organization as notified by the commission.

This is subject to the condition that if the applicant in case of an individual is holding LLB degree and duly licensed by the concerned Bar Council; or holding Masters of Business Administration with specialization in Finance, Masters of Commerce and Masters of Law with at least two years of experience in handling corporate affairs or possess any other qualification as notified by the Commission.

In case of a company or a firm or a limited liability partnership, it shall have at least one year of experience in handling corporate affairs. Provided that where at least one director of the company or partner of the firm or limited liability partnership meets the qualification and experience mentioned in clause (i) above, no prior experience shall be required for the company or firm or limited liability partnership.

The individual, partners of the firm or limited liability partnership or employees (to whom functions of intermediary are delegated) of the company who are members of any professional institute are compliant with the continuous learning requirement outlined by the relevant institute/body; has a National Tax Number or has an established office in Pakistan with adequate physical infrastructure including telephone/mobile phone facility and a valid email address.

All individuals, firms or companies already engaged by the companies, promoters of the proposed companies or foreign companies, as the case may be, for filing of documents on their behalf prior to the notification of these regulations shall obtain certificate of registration within three months of coming into force of these regulations.

After the period of three months of coming into force of these regulations only authorized intermediaries shall be eligible to provide services in terms of section 455 of the Act. Provided that an individual or firm registered as an intermediary under these regulation shall convert itself into a company or limited liability partnership within such time as notified by the Commission;

An application for registration as an intermediary shall be made to the Commission as per Annexure-I along with non-refundable fee as specified in Schedule-I and requisite documents. The Commission while considering the application for registration may require the applicant to furnish such other information or clarification as it deems appropriate.

The Commission on being satisfied that the applicant is eligible for registration may grant a certificate of registration to the applicant as per Annexure-II subject to such additional conditions as it may deem fit to impose.

BUSINESS

RECORDER

Sunday, 30th July, 2017

The certificate of registration shall be limited to the authorization for filing of documents with the Commission or the registrar concerned and shall not be regarded as conferring a license on the intermediary or as providing any recognition of any qualification of the intermediary.

The certificate of registration shall remain valid for a period of three years from the dare of registration unless it is cancelled by the Commission, based on the grounds provided under regulation 8.

The commission may refuse the registration/renewal of registration on any grounds as mentioned.

The Commission may, after providing an apportioning of haring, cancel the registration of an intermediary through an order in writing if the intermediary has provided false, incomplete or misleading documents or representation without authorization; the intermediary is found guilty of negligence, default, breach of duty or breach of trust; the intermediary fails to commence activity within twelve months of grant of certificate of registration; the intermediary fails to apply for registration as required in regulation 9 or renewal of registration within time as specified of regulation 6 or any reasonable ground as deemed appropriate by commission.

The intermediary shall be personally held responsible for the liabilities and obligations arising out of any such act leading to cancellation of registration and shall not be eligible for re-registration for a period of up to five years.

Where proceedings for cancellation of registration have been initiated, the intermediary shall not be permitted to submit any document on behalf of the company or promoters of a proposed company or foreign company, as the case may be, and they shall make alternate arrangement in this regard.

Fresh application in case of change in partners of a firm or limited liability partnership or directors of a company.- In case there is a change in the partners of the firm or limited liability partnership or directors of the company, they shall file fresh application containing information only to the extent of new partners or directors within seven days of such change as per regulation 4 subject to fulfillment of eligibility criteria specified.

Appointment or removal of authorized intermediary: The promoters of the proposed company or the company, with the approval of its Board of Directors or the foreign company with the approval of principal officer, as the case may be, shall appoint only one registered intermediary to act as an authorized intermediary for filing of documents required under the Act on its behalf. Provided that in case proceedings for cancellation of registration of authorized intermediary have been initiated by the commission, the company or the promoters of the proposed company or the foreign company, as the case may be, may appoint another registered intermediary to act as an authorized intermediary.

Provided further that the authorized intermediary shall authorize only one employee or partner or director, as the case may be, to sign documents on behalf of a company or promoters of proposed company or foreign company, as the case may be. The promoters of the proposed company or the company or the foreign company, as the case may be, shall enter into a written agreement with the authorized intermediary which shall set out in sufficient details the rights, obligations and liabilities of each party to the agreement and shall cover, at minimum aspects, the SECP added.

BUSINESS
RECORDER
Sunday, 30th July, 2017

Rs12.2/unit upfront tariff set for RFO-fired CPPs

MUSHTAQ GHUMMAN

ISLAMABAD: The National Electric Power Regulatory Authority (Nepra) has fixed upfront tariff of Rs 12.2 per unit for RFO-fired Captive Power Plants (CPPs) to be delivered to power purchaser on take and pay basis applicable till December 31, 2018.

According to determination a proposal for upfront tariff for captive power plants on RFO on take and pay basis was made public in leading national news papers on April 29, 2017. The purpose of upfront tariff fixations is aimed at short-term utilization of available generation capacity.

The proposed upfront tariff comprises of fuel cost component and fixed cost component. The fuel cost component was calculated on net LHV thermal efficiency of 38.43%, HHV calorific value of 40,486 Btu/ Kg, LHV-HHV factor of 1.05 and reference RFO price of Rs. 45,116 per ton including freight charges of Rs. 4,780 per ton. The fuel cost component was also proposed to be adjusted for variation in RFO price and variation in actual calorific value.

The upfront tariff on RFO proposed for captive power plants was Rs 11.9229 per unit which includes fuel cost component of Rs 10.3929 per unit and fixed cost Rs 1.5300 per unit.

Hearing in the matter was scheduled on 11th May 2017. The hearing was held as per schedule and was participated by Faisalabad Chamber of Commerce & Industries, K-Electric, Gadoon Textile Mills, Sitara Energy Limited, Nishat Power, PPDB, CPPA, NPCC, AQLAAL and BOI.

Nepra's team considered the proposed fuel cost component which was based on net LHV thermal efficiency of 38.43%. SEL in its intervention request submitted that the proposed efficiency is unreasonably high and is not attainable by existing SPPs and CPPs with old and used equipment. SEL further submitted that the overall RFO consumption of a well maintained plant is approximately 245 grams/kWh and above (corresponding to 36.15% efficiency). SEL also submitted that the specific fuel consumption is around 230 grams/kWh, the impact of auxiliary is 4%-5%, cost of diesel used for startup 2-3 grams, sludge/water drainage 1% of fuel consumed and power house/line losses of around 1.5 percent. None of the other interveners objected to the proposed efficiency.

The Authority has considered the submissions made by the stakeholders. The proposed thermal efficiency was based on the approved net LHV thermal efficiency of 38.43% in case of Sitara Energy Limited in the matter of approval of PAR of FESCO. The referred efficiency was approved after considering all the factors affecting thermal efficiency. The Authority has, therefore, decided to maintain the net LHV thermal efficiency of 38.43% for calculation of fuel cost component for CPPs generating electricity on RFO for sale of surplus power to the system.

Accordingly on the basis of net LHV thermal efficiency of 38.43%, HHV calorific value of 18,364 BTUs/lb., LHV-HHV factor of 1.05 and reference Ex-GST HHV price of Rs. 45,116/ton, the fuel cost component works out Rs. 10.3916/kWh and the same is being approved. The fixed cost component of Rs. 1.53/kWh was proposed for RFO based CPPs. The proposed fixed cost component was based on the fixed cost component approved in the case of Sitara Energy Limited in the matter of approval of PAR of FESCO.

According to the draft power purchase agreement between FESCO and SEL, Fixed Cost Component has been defined as "The tariff component payable per kWh delivered by the company which includes but not limited to O&M cost, tax on income of the company, insurance cost, return on investment, duties etc.: The agreed fixed cost component between FESCO and SEL was not subject to any indexation/adjustment as per the draft PPA'.

SEL in its intervention request submitted that the fixed cost component is unreasonably low. SE requested that the fixed cost component should allow financially viable capital

investments required for upgrading and maintaining existing plants of CPPs and SPPs for generating surplus energy. SEL suggested fixed cost component of Rs. 3.27/kWh after incorporating indexation factor of 214% on the Pepco approved rate of Rs. 1.53/kWh from January 1, 2009. Gadoon Textile in its intervention request submitted that the startup cost on Diesel that ranges, generally, about Rs. 1/kWh is apparently not considered in the upfront tariff proposal. None of the other stakeholders commented on the fixed cost component.

The Authority considered the comments of the stakeholders and decided to reestablish the fixed cost component. The variable and fixed O&M cost allowed to RFO based reciprocating engines of IPPs is Rs. 0.9564/kWh and Rs. 0.4079/kWh respectively. The fixed O&M cost component has been worked out on the basis of 75% plant factor. The Authority considers that similar cost should also be allowed to RFO based captive power plants. Accordingly, the Authority decided to approve Rs. 1.3643/kWh on account of fixed and variable O&M cost. For insurance and ROE components, the Authority has decided to adopt the cost allowed to gas based captive power plants which is Rs. 0.3871/kWh and Rs. 0.1067/kWh respectively. The total fixed cost component works out at Rs. 1.8581 and the same is being approved for RFO based captive power plants.

Regarding the issues raised by Gadoon Textile Mills, it is appropriate to mention that RFO has been included in the Upfront Tariff Regulations as designated fuel through amendment. Regarding the determination of tariff for CPPs, the Authority considers that any captive power plant can sell surplus power and the rate shall be determined by the Authority. Regarding the issues raised by Anwar Kamal Law Associates, power plants are utilized on the basis of demand and availability and the demand is not constant throughout 24 hours. Similarly if the plant is under outages allowance, it cannot be dispatched. If the plant is not available beyond the agreed outages period, no capacity charges shall be paid and LDs shall also be imposed by the power purchaser. The dispatch instructions to CPPs are issued by Discos in coordination with NPCC in accordance with the distribution code and grid code.

Short term utilization means the utilization of the available generation capacity with CPPs to mitigate the impact of current load shedding. The proposed efficiency has been worked out on the basis of technical analysis after considering all the factors e.g. size, degradation etc. It is to be noted that Discos shall purchase the power offered under the instant upfront tariff from CPPs under bilateral agreements and payment settlement shall be in accordance with the commercial code.

After taking into account the viewpoints of stakeholders, Nepra has fixed upfront tariff of Rs 12.2497 per unit, of which Rs 10.3916 will be reference fuel cost component and fixed cost component of Rs 1.8581 per unit.

The term of the power purchase agreement under the upfront shall be for calendar year 2017 and 2018. Any CPP/SPP can opt the upfront tariff for sale of surplus to the system.

BUSINESS
RECORDER
Sunday, 30th July, 2017

Avoidance of dual taxation:

Pakistan-Belarus protocol takes effect from June 7, 2017

RECORDER REPORT

ISLAMABAD: Pakistan has enforced from June 7, 2017 amended convention, having provisions on exchange of information, under convention on Avoidance of Double Taxation and the Prevention of Fiscal Evasion signed with Republic of Belarus.

According to the S.R.O. 709(1)/2017 issued by the Federal Board of Revenue FBR here on Saturday, whereas Pakistan and Belarus signed the Protocol to amend the existing Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on income between Pakistan and Belarus signed on July 23, 2004.

Under Article 5 of the Protocol, the Contracting States (Pakistan and Belarus shall notify each other through diplomatic channels that all the legal procedures for the entry into force of this Protocol have been completed.

Both the contracting states have completed all the legal procedures required for the entry into force this Protocol, the FBR said.

The said Protocol shall come into force from 7th June, 2017 and the provisions of the said Protocol shall apply. In Pakistan, with regard to others taxes in respect of any taxable year beginning on or after the 1st day of July next following the date upon which the Protocol enters into force. In Belarus, pertaining to the other taxes, for taxes chargeable for any tax period beginning on of after 1st January in the calendar year next following the year in which the Convention enters into force.

Under the article of Shipping and Air Transport, the profits from the operation of aircraft in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.

Profits from the operation of ships in international traffic may be taxed in the Contracting State in which the effective management of the enterprise is situated. However, such profits derived from sources within the other Contracting State may also be taxed in that other State in accordance with its domestic law, provided that the tax so charged in that other State shall be reduced by 50 per cent.

For the purposes of this Article, profits from the operation of ships or aircraft III international traffic include profits from the rental on a bareboat basis of ships or aircraft; and profits from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used for the transport of goods or merchandise; where such rental or such use, maintenance or rental, as the case may be, is incidental to the operation of ships or aircraft in international traffic.

If the place of effective management of a shipping enterprise or of an inland waterways transport enterprise is aboard a ship or boat then it shall be deemed to be situated in the Contracting State in which the harbor of the ship or boat is situated, or if there is no such home harbor, in the Contracting State of which the operator of the ship or boat is a resident.

The relevant provisions shall also apply to profits from the participation in a pool, a joint business or an international operating agency, but only to so much of the profits so derived as is attributable to the participant in proportion to its share in the joint operation."

Under Article 25 (exchange of information), the competent authorities of the Contracting States shall exchange such information as is foreseeably relevant for carrying out the provisions of this Convention or to the administration or enforcement of the domestic laws concerning taxes of every kind and description imposed on behalf of the Contracting States, insofar as the taxation thereunder is not contrary to the Convention.

Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall

be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, the determination of appeals in relation to the taxes referred, or the oversight of the above. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. Notwithstanding the foregoing, information received by a Contracting State may be used for other purposes when such information may be used for such other purposes under the laws of both States and the competent authority of the supplying State authorizes such use.

If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the specified limitations, but in no case shall such limitations be construed to permit a Contracting State to decline to supply information solely because it has no domestic interest in such information.

In no case shall the provisions be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

The Contracting States shall notify each other through diplomatic channels that all legal procedures for the entry into force of this Protocol have been completed.

The provisions of this Protocol shall apply in Pakistan with regard to others taxes in respect of any taxable year beginning on or after the 1st day of July next following the date upon which the Protocol enters into force and in Belarus, in respect of other taxes, for taxes chargeable for any tax period beginning on of after 1st January in the calendar year next following the year in which the Convention enters into force.

The provisions of the Protocol shall form an integral part of the Convention for Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on income signed on July 23, 2004.

BUSINESS
RECORDER
Sunday, 30th July, 2017

Over 165 MPs non-filers

RECORDER REPORT

ISLAMABAD: The analysis of the Tax Directory 2017 of parliamentarians revealed that over 165 parliamentarians including Members of National Assembly and Senators are non-filers of income tax returns for tax year 2016.

Tax experts referring to the Tax Directory 2017 of parliamentarians, disclosed that over and above 165 parliamentarians have not filed their returns in view the actual return filers in the tax directory. Based on tax directory filers and actual number of parliamentarians, the figure is over 165, ie, non-filers of returns for tax year 2016.

The number of filers has been compared with the actual number of MNAs/Senators and others.

BUSINESS
RECORDER
Sunday, 30th July, 2017

THE RUPEE: Dollar gains

RECORDER REPORT
KARACHI: The dollar has started showing its muscles versus the rupee on the back of Supreme Court's verdict against Nawaz Sharif, dealers said on the money market on Saturday.

OPEN MARKET RATES: The rupee lost 20 paisas against the dollar for buying at Rs 107.50 and it also dropped by 50 paisas for selling at Rs 108.00, they said.

The rupee also shed 30 paisas in relation to the euro for buying and selling at Rs 125.60 and Rs 126.60.

At the week-end, the US dollar was broadly lower as a combination of uninspiring US economic data and political uncertainty kept traders biased toward the euro and other world currencies.

The euro and other major currencies rose against the dollar after the release of US second-quarter gross domestic product estimates that largely met economists' expectations.

The euro has risen nearly 3 percent against the dollar so far this month and more than 11.5 percent this year. It is on track for its third straight weekly gain and the fourth in five weeks.

Open Bid	Rs. 107.50
Open Offer	Rs. 108.00

RUPEE IN LAHORE: The Pak rupee moved both ways versus the foreign currencies including the US dollar and British pound in the local currency market on Saturday.

According to the currency dealers, the dollar commenced trading on a mixed and continued to fluctuate amidst divergent trend in the market. Consequently, it was traded at Rs 107.30 and Rs 108.00 on buying and selling side, respectively, as compared to the overnight closing rates of Rs 107.40 and Rs 107.50 respectively, they added.

Likewise, the local currency also followed the same suit against the pound sterling. The British currency was bought and sold at Rs 139.60 and Rs 140.60 against Rs 139.80 and Rs 140.50 of Friday, they said.

RUPEE IN ISLAMABAD AND RAWALPINDI: The value of dollar was almost unchanged against the rupee at the open currency markets of Islamabad and Rawalpindi here on Saturday.

The dollar opened at Rs 107.10 (buying) and Rs 107.20 (selling) against last rate of Rs 107 (buying) and Rs 107.10 (selling). It closed at Rs 107.10 (buying) and Rs 107.20 (selling).

BUSINESS
RECORDER
Sunday, 30th July, 2017

Cotton prices firm on constant demand

RECORDER REPORT

KARACHI: Rates maintained firm posture on the cotton market on Saturday in the process of thin business activity, dealers said.

The official spot rate was unchanged at Rs 6350, they said. In the ready session around 2000 bales of cotton changed hands between Rs 6350-6700, they said.

In Sindh, seed cotton rates were at Rs 2400-3000 per 40 kg, they said. In the Punjab, phutti prices were available at Rs 3000-3400 per 40 kg, they said.

Cotton analyst, Naseem Usman said that prices managed to sustain firm levels on short supply of seed cotton from Sindh due to rains. Quality of seed cotton is good from the Punjab but number of arrivals is not enough to meet the demand from mills and spinners, other brokers said.

The reaction is mixed among traders about the Supreme Court's verdict against Nawaz Sharif, most of them were worried about the packages and concessions to textile sector promised by the previous government.

Adds Reuters: ICE cotton futures closed nearly unchanged in light trade on Friday after hitting more than five-week highs in the previous session, posting their second straight week of gains.

The December cotton contract on ICE Futures settled down 0.09 cent, or 0.13 percent, at 68.8 cents per lb. It traded within a range of 68.31 and 69.25 cents a lb.

Total futures market volume fell by 13,057 to 10,210 lots. Data showed total open interest fell 433 to 216,493 contracts in the previous session.

The following deals reported: 400 bales from Sanghar sold at Rs 6350, 200 bales from Hyderabad, 600 bales from Tando Adam, 400 bales from Shahdadpur, 100 bales from Winder all finalised at the same rate, 100 bales from Burewala and equal number from Chichawatni were sold at Rs 6700, they said.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2016-17 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/16" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL

Rate For	Ex-Gin Price	Upcountry Expenses	Spot Rate Ex-Karachi	Spot Rate Ex-Karachi As on 28.07.2017	Difference Ex-Karachi in Rupees
37.324 Kgs Equivalent	6,350	135	**6,485**	**6,485**	NIL
40 Kgs	6,805	145	**6.950**	**6.950**	NIL

BUSINESS
RECORDER
Sunday, 30th July, 2017

External sector — I

The following are excerpts from State Bank of Pakistan's Third Quarterly Report 2016-2017 titled 'The State of Pakistan's Economy'.

Overview

Pakistan's overall external balance recorded a deficit of US$ 1.6 billion in Jul-Mar FY17, against a surplus of US$ 1.1 billion in the same period last year. This was mainly caused by a large trade deficit on the back of high imports without a matching performance by exports. The imports of fuel, machinery and food items (mainly palm oil and pulses), all increased sharply due to robust domestic demand and ongoing power and infrastructure development activity.1 This dynamic pushed the current account deficit (CAD) to US$ 2.6 billion in Q3 the highest since Q2-FY09. The higher CAD was recorded despite the receipt of US$ 550 million inflow under Coalition Support Fund in the third quarter. For Jul-Mar FY17, the current account gap amounted to US$ 6.1 billion, over twice the level recorded in the same period last year (Table 5.1).

Table 5.1: Summary of Pakistan's External Sector

(million US$)

	Q3		Jul-Mar	
	FY16	FY17	FY16	FY17
Current account balance Of which	-449	-2,570	-2,351	-6,114
Trade balance	-3,933	-6,893	-13,356	-17,748
Exports	5,545	5,600	16,328	16,120
Imports	9,478	12,493	29,684	33,868
POL imports	1,614	2,771	6,398	7,769
Non-oil imports	7,864	9,722	23,286	26,100
Food	1,160	1,503	3,367	3,993
Transport	467	641	1,331	1,852
Machinery	1,532	2,024	4,602	5,275
Services balance	-746	-304	-2,033	-1,993
Coalition Support Fund	0	550	713	550
Worker remittances	4,699	4,600	14,388	14,058
Capital account balance	47	150	213	260
Financial account balance Of which	107	-1,138	-3,372	-4,805
FDI in Pakistan	446	501	1,425	1,601
FPI in Pakistan	-613	-114	-393	631
Euro bond/Sukuk	0	0	500	1,000
FX loans (net)	1,109	229	3,769	1,964
IMF	503	0	1,455	102
Overall balance*	315	1,841	-1,144	1,614

Though the SBP's reserves hit a peak of US$ 19.5 billion (in October 2016) as proceeds from US$ 1.0 billion Sukuk were received, sustaining that level was not possible in the wake of an increasing current account gap; lower external government financing; and the conclusion of the IMF program.2

Particularly, the FX reserves declined in the third quarter of FY17, as: (i) the monthly CAD crossed the US$ 1.0 billion mark in January 2017; (ii) Pakistan repaid US$ 500 million of SAFE China Deposits, also in January; and (iii) the merchandise trade deficit grew by almost US$ 3.0 billion YoY in Q3-FY17. While CSF inflows did materialize over the next two months and provided some

breathing space, SBP's liquid FX reserves declined to US$ 16.5 billion by end-March FY17, from US$ 18.3 billion at end-December 2016. These were, nonetheless, sufficient to finance over four months of the country's merchandise import bill.

That said, the country did have access to funding avenues, both public and private, which partially financed the higher current account deficit. Net official external financing inflows in Jul-Mar FY17 in the form of project, non-project and commercial loans, and sovereign bonds stood around the same level as last year (i.e. US$ 1.9 billion). This indicates that IFIs and international capital markets are comfortable with Pakistan's growth trajectory.3 In addition, foreign direct investment (FDI) inflows also increased; in a departure from last year, a majority of these flows came from countries other than China.4 Net FDI from China rose marginally over last year, with investment mostly flowing into power and infrastructure projects; the 40 percent stake sale of the Pakistan Stock Exchange to a Chinese-led consortium also netted the country's foreign investment worth around US$ 61 million in March 2017.5

However, as mentioned earlier, these inflows were not sufficient to fully offset the widening in the current account gap. The following points are worth noting in this regard:

(i) The Q3-FY17 import bill hit an all-time high, pushing the Jul-Mar FY17 imports to their record as well. This occurred as non-oil imports kept on their rising trajectory, largely reflecting: (a) progress on power generation and road infrastructure projects, as well as capacity expansions and upgradation pursued by industries like textiles and cement (which boosted machinery imports); (b) a drop in domestic production of minor crops (mainly pulses), which necessitated higher purchases from abroad; and (c) a price-driven hike in palm oil imports.

Meanwhile, the US$ 1.4 billion increase in the POL import bill in Jul-Mar FY17 (contributing 32.6 percent to the overall rise in import payments in the period) is largely driven by higher quantums.6 Despite the recovery in international oil prices, unit values of Pakistan's POL product imports are still lower as compared to last year (Figure 5.1). While the price impact for crude oil turned positive from Q3-FY17 in line with the movement in international oil prices7 yet, higher quantums still seem to be driving the increase in Pakistan's overall energy imports.

On this front, the government's decision to partially pass on the increase in global oil prices to domestic POL prices from December 2016 onwards, seems to have had a dampening effect on demand for POL products, as reflected by a slowdown in sales growth of both HSD and petrol in Q3-FY17 (Figure 5.2).8 Per litre prices of the two fuels were raised by Rs 5.8 and Rs 5.6 respectively in the third quarter, after having been kept almost unchanged during the previous two quarters.9

(ii) Pakistan's export recovery lags behind other EMs'. Like many other emerging markets (EMs), Pakistan also faced a challenging export environment over the last two years with subdued commodity prices, muted demand from key western markets, and decline in shipments to China. However, many of these external dynamics had reversed by mid-2016: international cotton prices increased during Jul-Mar FY17,10 and overall imports of key markets like the EU also rebounded.11

The confluence of these developments and the positive demand shock they generated, have contributed to a recovery in exports of multiple emerging markets (EMs) from Q2-FY17 onwards (Figure 5.3).12 However, Pakistan's export performance during this period looks weak.

One reason is that Pakistan's clothing and home textile products are fetching lower unit values in the key EU market than those of its competitors (Section 5.4). Both the product quality and competitive pricing issues seem to be at play here; exporters are also reported to be undercutting their margins by trying to out-price their competitors. For low-value added textile products, the recovery in international cotton prices over the past 12 months has translated into higher unit prices, but their export receipts are being pulled down by lower quantums. On an encouraging note, basmati rice exports recovered in Q3-FY17, mainly as a result of higher shipments to the UAE and Iran.13

(iii) The decline in remittances has been offset by lower

BUSINESS RECORDER
Sunday, 30th July, 2017

profit repatriations. The nominal YoY decline in worker remittances amounted to US$ 330 million in Jul-Mar FY17. However, the decline in remittance inflows was more than offset by a US$ 371 million YoY decline in outflows in the form of profit and dividend repatriations, particularly by foreign oil and gas firms.

To sum up, Pakistan's external account has come under pressure due to an unfavorable trade balance. While a large share of imports is geared for growth-oriented activities, sluggish exports are more worrisome. To rectify this imbalance, the private sector needs to take the lead, by demonstrating an entrepreneurial spirit and investing in physical and human capital, in order to offer more competitive products in international markets.

Moreover, the changing global economic scenario also offers enhanced trade prospects, as the IMF now projects a brighter outlook for advanced economies.14 This is particularly true for the US, where the new administration's fiscal policy proposals (a combination of hefty tax cuts and ramp up in infrastructure spending) are fuelling optimism. Besides, Europe and Japan are also expected to benefit from a recovery in global manufacturing and trade. That said, only those EMs can hope to benefit from this evolving dynamic, that have: a strong reliance on regional trade; competitive industries; and a policy regime that shows flexibility and prioritizes market efficiency at the same time.

Pakistan can capitalize on these opportunities if it pursues long-lasting structural reforms, while private businesses in the country do a fundamental rethink about the way they operate and prioritize long-term growth over short-term profits. While the country did utilize the window of opportunity provided by low oil prices and IMF support over the past few years by building up FX buffers and addressing some supply-side bottlenecks, keeping up the reform momentum will be important, going forward.

Meanwhile, rationalizing domestic POL prices with international rates (Chapter3), minimizing market distortions, and discouraging unnecessary consumer imports by utilizing the full extent of regulatory measures at the disposal of fiscal and monetary authorities, are some steps that should be taken in the short-term to create financing space for critical capital goods imports.

(To be continued)

1. The IBA-SBP Consumer Confidence Index reached its highest level of 176.5 points in March 2017, up 18.6 points from the level recorded in July 2016, which indicates increase in demand.

2. SBP had received US$ 1.5 billion under the Extended Fund Facility in Jul-Mar FY16, and only US$ 102 million (as the residual tranche) in Jul-Mar FY17.

3. In May 2017, the credit ratings agency Moody's maintained its B3 rating for Pakistan, with a "stable" outlook.

4. This was mainly due to the conclusion of two acquisition deals in the food and electronics sectors by non-Chinese firms in the second quarter, which contributed a cumulative US$ 587.7 million to net FDI inflows during Jul-Mar FY17.

5. While the total proceeds realized from the PSX stake sale amounted to around US$ 85 million, the component received from foreign investors was US$ 61.1 million (recorded as foreign investment), with the rest coming from domestic partner firms in the Chinese-led consortium.

6. Another factor has been the rise in LNG imports into the country. According to SBP data, the LNG import bill amounted to US$ 844.0 million in Jul-Mar FY17, up 129 percent on YoY basis.

7. Average Saudi Arabian Light oil prices during Q3-FY17, at US$ 52.9 per barrel, were 77.3 percent higher than they were in the same period last year (source: Bloomberg).

8. In case of petrol, it is also possible that some consumers who had shifted to the fuel from CNG after the sizable reduction in petrol prices in 2016, have now switched back to CNG, following the increase in POL prices from Q2-FY17 onwards. Though per litre petrol and per unit CNG prices technically should not be compared due to differences in the nature of the fuels, it can be used as a rough proxy for discerning shifts in consumer behaviour. In January 2016, petrol prices were Rs 6.1 higher than per unit CNG prices. This differential had turned a negative Rs 5.9 in March 2016 (i.e. per unit CNG prices

BUSINESS
RECORDER
Sunday, 30th July, 2017

were Rs 5.9 higher than petrol prices). But after declining consistently since then, this differential had again reversed to a positive Rs 1.2 by March 2017.

9. Petrol and HSD prices were unchanged during Jul-Nov FY17, before rising by Rs 2.8 and Rs 3.2 respectively in December 2016.

10. Average international cotton prices during Jul-Mar FY17 were 14.5 percent higher as compared to Jul-Mar FY16 (source: Bloomberg).

11. Overall imports of EU-28 countries rose by 3.7 percent YoY in Jul-Mar FY17, after declining by 11.6 percent in the same period last year (source: Eurostat).

12. Yet, at the same time, clouds of protectionist and anti-trade sentiments swirl overhead and threaten the sustainability of this EM export rally. In fact, these sentiments prompted the IMF to note in its World Economic Outlook April 2017 that " the post-World War II system of international economic relations is under severe strain despite the aggregate benefits it has delivered and precisely because growth and the resulting economic adjustments have too often entailed unequal rewards and costs within countries".

13. Pakistan's trade with Iran is likely to improve in the coming months, after SBP and the central bank of Iran devised a payment settlement mechanism (in Euros and Yen) for trade transactions between the two countries. In this regard, SBP issued relevant directions to Pakistani banks in May 2017, via FE Circular No. 4 of 2017.

14. According to the IMF's World Economic Outlook for April 2017, advanced economies are likely to grow by 2.0 percent in 2017, up from last year's rate of 1.7 percent. The latest 2017 growth projection is also higher (by 0.1 percent) than the Fund's projection in January 2017.

THE NEWS
Sunday, 30th July, 2017

Anomalies in tax form likely to delay returns filing in 2017

KARACHI: Tax practitioners on Saturday identified irritants in the draft of proposed tax returns form, urging Federal Board of Revenue (FBR) to ensure availability of wealth declaration form to avert any delay in return filing during the current tax year.

"The major anomaly is the non-availability of wealth declaration form," said Zeeshan Merchant, general secretary at Karachi Tax Bar Association (KTBA).

Merchant said the declaration of wealth is mandatory for filing of income tax return. "A return filer will not be able to submit his/her declaration without filing wealth statement."

Last week, FBR issued the draft of tax returns form and invited feedbacks from all the stakeholders within seven days to finalise it.

KTBA official said FBR has issued the draft of return without pointing out the amendments introduced into the last year's return form.

"It is difficult to identify the changes in the draft form," he added. "Therefore, submission of feedback within seven days is not an easy task. FBR would not be able to finalise the draft on time."

Merchant said this year again the tax body will have no option but to extend the last date for filing returns, which is August 31 for the salaried individuals and September 30 for businessmen.

FBR has redesigned the form to ensure timely filing of income tax returns by the salaried and business persons for the tax year 2017.

The board deployed its software IRIS back in 2014 to enable taxpayers to digitally file their returns. Time and again, taxpayers have been pinpointing glitches in the system, creating problems for them to comply with tax returns filing deadline. Though the board resolved the problems to facilitate taxpayers, yet the issue has not completely been resolved in a country where Internet familiarity is gradually increasing.

The apex tax authority received 1.2 million returns by June 30 for the tax year 2016, depicting a 20 percent growth year ago period.

FBR has begun an aggressive drive to encourage returns filing. It slaps additional withholding tax on non-cash banking transactions to broaden taxpayers' base. Besides, the revenue body obtained a record of 2.9 million industrial and commercial electricity connection holders, who are required to file annual returns. Likewise, one million individuals, in the salary class, have been identified as non-filers despite having taxable income.

The government, in the budget for 2015/16 fiscal year, introduced Section 236P into Income Tax Ordinance 2001 and imposed withholding tax rate of 0.6 percent on non-filers while they make non-cash banking transaction above Rs50,000 in a day. The rate was reduced to 0.3 percent on July 15, 2015, but edged up to 0.4 percent in March 2016. The tax rate is applicable till September 2017.

Tax officials said the levy forced undocumented businesses and individuals to file their income tax returns. Yet, at the same time it eroded 3.1 percent in revenue collection from withholding tax on non-cash banking transactions to Rs12.5 billion in FY2017.

Merchant said there are different withholding tax rates shown in the draft return form. "These rates are not applicable to the tax year 2017."

He said currently the draft of returns form is in readable format and so there is no possibility of tax rates calculation and cross-verification.

Merchant further said as per the income tax laws the FBR should give taxpayers at least three months to file returns since the date of uploading of the final return form. "FBR is already late in the process of issuing the return form for tax year 2017," he added.

Sunday, 30th July, 2017

‘20 business groups get 30pc of total bank loans’

Shahid Iqbal

KARACHI: A research report by the State Bank of Pakistan (SBP) said 30 per cent of banks’ exposure is to only 20 business groups.

Growth in credit depends heavily on the appetite of the corporate sector, which currently receives nearly 70pc of total bank lending, according to “Bank Credit to Private Sector: A Critical Review in the Context of Financial Sector Reforms” issued earlier this week.

The penetration of bank credit in the economy is quite low compared to regional and emerging economies. The gap is widening over time, it said.

“Over the past 25 years, however, the ratio of private credit-to-GDP has shrunk even in absolute terms,” said the report.

In focusing exclusively on the corporate sector, banks have marginalised other niche segments like small and medium enterprises (SMEs), agriculture and housing, it said, adding that the risk for the banking system has increased as reflected in its loan concentration within a few conglomerates.

SBP report says banks are not effectively channelling depositors’ savings into loans for businesses and individuals

“The overall credit growth in Pakistan has remained subdued as a number of big, cash-rich conglomerates have increasingly begun using their own resources to fund growth rather than borrowing from commercial banks,” said the report.

The overall environment for private credit growth appears to have deteriorated over time. Banks are not effectively performing their core function of channelling depositors’ savings into loans for creditworthy businesses and individuals, it said.

“The repercussions have been quite overwhelming for the economy, namely the dismal state of private investments, and financial and social exclusion of a large segment of the population.”

The report said things began to change course following the deterioration in the overall macroeconomic and investment climate 2008 onwards. Not only did the global financial crisis trigger a sense of uncertainty, but also the growing security concerns and energy shortages significantly dented domestic business prospects, it added.

Balance-of-payment constraints also have a sizeable impact on the financial system’s liquidity, it said, adding that the country’s net foreign assets-to-GDP ratio averaged only 5pc in 2006-15 compared to other countries like Thailand (42pc), Malaysia (36pc), India (18pc) and Bangladesh (8pc).

From a cross-country perspective, however, it appears that high fiscal deficits and a higher allocation of bank liquidity to budgetary lending cannot explain such a low level of private credit-to-GDP ratio for Pakistan, said the report.

More specifically, India, Sri Lanka, Egypt, Turkey and Malaysia ran a persistently high level of fiscal deficits over the past 15 years. Yet their credit growth through these years has been nothing short of enviable, it said.

More importantly, India, Egypt and Brazil even have a very high level of bank claims on government. Still their banks managed to contribute meaningfully to the private sector’s growth, it said.

While estimates put the contribution of agriculture and SMEs to Pakistan’s GDP within 30-40pc, these enterprises get only 6pc of bank credit, said the report.

“Increasing credit to the private sector is not the ultimate aim in itself. The end goal is to ensure that deserving entrepreneurs and households, which are currently excluded from access to finance, can avail credit on equitable terms,” said the report.

Sunday, 30th July, 2017

Cotton prices steady

The Newspaper's Staff Reporter

KARACHI: Cotton prices remained steady on Saturday amid rising activity thanks to improved availability of lint following higher phutti supplies from Punjab.

However, intermittent rains continued to hamper flow of phutti from the fields in Sindh, where the cotton crop matures early to meet the demand at the start of new season. “Rains not only interrupt picking operations, but higher content of moisture is also affecting cotton quality,” brokers said.

Resultantly, the Sindh variety phutti rates dropped to Rs2,400 to Rs3,000 per 40kg. Also lint prices were quoted at Rs6,300 to Rs6,350 per maund.

Against this the flow of phutti arrivals in Punjab is improving as wet spell had ended 15 days ago. This has pushed up phutti prices to Rs3,000 to Rs3,400 per 40kg and lint to Rs6,650 to Rs6,700 per maund.

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However, there were apprehensions after the dismissal of Nawaz Sharif about implementation of incentives announced for the export sector.

The world leading cotton markets offered mixed trend with China reported to have further released cotton from its stocks in domestic market. Indian cotton prices moved higher on reports of extensive damage caused by rains to the crop in Gujrat.

The KCA spot rates were steady at overnight level. The following deals were reported to have finalised on the ready counter: 400 bales, Sanghar, at Rs6,350; 200 bales, Hyderabad, at Rs6350; 600 bales, Tando Adam, at Rs6,350; 400 bales, Shahdadpur, at Rs6,350; 100 bales, Winder, at Rs6,350; 100 bales, Burewala, at Rs6,700; and 100 bales, Chichawatni, at Rs6,700.

THE FOLLOWING ARE THE KCA OFFICIAL SPOT RATES FOR 2015-16 FOR LOCAL DEALINGS IN PAK RUPEES FOR BASE GRADE 3 STAPLE LENGTH 1-1/32" MICRONAIRE VALUE BETWEEN 3.8 TO 4.9 NCL			
Rate For	**Ex-Gin Price**	**Upcountry Expenses**	**Spot Rate Ex-Karachi**
37.324 Kgs Equivalent	**6,300**	**135**	**6,435**
40 Kgs	**6,752**	**145**	**6,897**