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CPEC investments to help narrow power deficit, boost GDP: IMF

ISLAMABAD: International Monetary Fund has said that the investments under China Pakistan Economic corridor (CPEC) can help close Pakistan's power deficit, significantly improve its fuel mix, and boost GDP by adding $13 billion in 7 years.

"The planned expansion of energy sector capacity could eliminate Pakistan's 6GW generation capacity gap in 2016 as early as end-2018", IMF said in its latest report on "Pakistan: Staff report for the 2017 article IV consultation".

It said that in the process, Pakistan's excessive reliance on furnace oil would be significantly reduced and impact on GDP will likely come in three stages: construction, power generation, and-over time-I second-round effects on broader economic activity due to increased productivity, lower costs, and improved trade connectivity.

The first two stages (direct contribution) could add about $13 billion to Pakistan's GDP in the next seven years (4.7 percent of FY 2015/16 GDP). Second-round effects will likely accrue gradually and could lead to a significant contribution in the long run, depending on various other supportive factors.

The report however, proposed that realizing the transformational potential of Pakistan's investment program while maintaining external stability will require supportive policy action. Building up foreign exchange reserves will be important to cushion the period of increased BoP outflows. Strong and sustained reform efforts aimed at raising exports by improving competitiveness and the business climate will be critical to maintain long-term external sustainability.

Bringing the power distribution sector to full cost recovery will help secure the long-term sustainability of the energy projects. Furthermore, containing fiscal costs by limiting tax

exemptions, maintaining a supportive environment for all investments, and a gradual phasing of new external commitments will help maintain macroeconomic stability and strengthen growth sustainability, added the report.—NN

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China’s economy slows in second quarter

BEIJING: China’s economy lost momentum in the second quarter, a survey shows, as Beijing’s efforts to curb risky lending and investment took a toll on the Asian powerhouse.

The world’s second-largest economy expanded by 6.8 percent in the April-June period, compared with a year ago, according to the median forecast of 12 analysts polled by AFP.

That follows a better-than-expected increase of 6.9 percent in the first three months of the year.

The estimate comes ahead of the official release on Monday of China’s closely-watched GDP growth data for the second quarter.

Debt-fuelled investment in infrastructure and real estate has underpinned China’s growth for years but warnings of a potential financial crisis have spurred Beijing to clamp down.

In the latest alert, Fitch Ratings on Friday said China’s growing debt could trigger “economic and financial shocks” even as it maintained its A-plus rating on the country.

That follows Moody’s decision in May to downgrade China for the first time in almost three decades on concerns over its ballooning credit and slowing growth.

Tighter restrictions on property purchases and bank lending will continue to weigh on the economy in the months ahead, said Larry Hu, head of China economics at Macquarie Group.

“We expect GDP growth to trend down in the second half of 2017 on slowing property sales and tight liquidity,” he said.

The economy is likely to face further headwinds as consumption also comes under pressure from slowing income growth, said Fan Zhang, senior China economist at RHB Bank.

UBS chief China economist Tao Wang said “higher funding costs due to supervisory tightening” will impact fixed-asset investment — which measures spending on real estate, roads and bridges.

But a sharp slowdown in the second half is unlikely as policymakers prepare for an important Communist Party congress later this year that will likely make President Xi Jinping the most powerful leader in a generation.

“It is therefore highly probable that authorities will use the resources and policy tools at their disposal to ensure a positive economic outcome,” Citibank said.

The government has trimmed its 2017 GDP growth target to around 6.5 percent, after it expanded by 6.7 percent in 2016 — its slowest rate in more than a quarter of a century.

Despite growing concerns about China’s financial risks, Premier Li Keqiang said last month that the country could reach this year’s economic growth targets.

Last quarter’s growth momentum had continued into the current one, he said, noting that traditional economic indicators such as power generation and consumption, and new business orders had increased “significantly”.—AFP

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55 cos fail to file statement of compliance with SECP

SOHAIL SARFRAZ

ISLAMABAD: A total of 55 public sector companies have not filed their statement of compliance with the Securities and Exchange Commission of Pakistan (SECP) for the year ended on June 30, 2016 and December 2016.

According to the Compliance Summary of SOCs issued by the SECP as on July 14, 2017, 55 public sector companies have failed to file their statement of compliance for the year ended on June 30, 2016 and December 2016.

Under section 24 (compliance with the rules) of the Public Sector Companies (Corporate Governance) Rules, 2013, every public sector company shall publish and circulate a statement along with its annual report to set out the status of its compliance with these rules, and shall also file with the commission and the registrar concerned such statement along with its annual report.

Every public sector company shall ensure that the statement of compliance with the rules is reviewed and certified by external auditors, where such compliance can be objectively verified, before publication by the public sector company. Where the commission is satisfied that it is not practicable to comply with any of these rules, the commission may, for reasons to be recorded, relax the same subject to such conditions as it may deem fit to impose, it added.

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Macroeconomic indicators positive:

GDP 10-year high; forex reserves raised: Dar

ISLAMABAD: Finance Minister Ishaq Dar Saturday said the macroeconomic indicators are showing a positive trend. The GDP has grown this year by 5.3 percent which is a 10-year high. Foreign exchange reserves are at a comfortable level, tax revenues have increased by 74 percent over the last four years, credit to private sector has increased by over five times, gas availability has improved, and load-shedding for industry has been eliminated and substantially reduced for commercial and domestic sector.

Chairing a meeting of the Monetary and Fiscal Policies Coordination Board at the Ministry of Finance, Dar said that for the first time the size of the economy has surpassed $300 billion. On average, income of each Pakistani has increased by 22 percent since fiscal year 2012-13. Per capita income today stands at $1,629 as compared to $1,334 four years ago. Inflation was on average 12 percent between 2008-13. The inflation has been contained at 4.16 percent much below the target of 6 percent. Policy rate of the SBP has come down from 9.5 percent in June 2013 to the current 45-year low of 5.75 percent.

As per the party manifesto, Pakistan Muslim League-Nawaz has successfully completed its reform programme. During this period difficult key structural reforms in the country have been implemented. Completion of the programme has strengthened confidence of the international community in the government's economic agenda. The government has put the country on the path of sustainable growth which is being internationally recognized and reflected in the improved ratings by all major rating agencies including Moody's, S&P and Fitch.

Recently, researchers at the Center of International Development (CID) at the Harvard University have predicted that Pakistan's annual growth rate over the next 10 years would be nearly 6 percent. This is a one point GDP growth rate increase compared to their earlier projections whereby Pakistan GDP growth rate was set to grow at 5 percent by 2025.

The minister also remarked that sharp deterioration of PKR – US exchange rate in the interbank market led to speculation and anxiety in the foreign exchange market. However, due to prompt action by the SBP resulted in stabilization and averted the high risk of speculation.

Finance Secretary briefed the meeting on economic situation. The GDP growth of the outgoing fiscal year 2017 recorded at 5.3 percent is the highest in ten years. The impressive growth was on account of growth in services and agriculture sector. The turnaround in agriculture growth was due to government's supportive policies and high credit disbursements. The growth momentum in LSM continued, mainly supported by better energy supplies; lower commodity prices; and accommodative economic policies. The sector recorded an impressive growth of 9.7 percent in April 2017 as compared to (-2.9 percent) last year. During July-April 2017 it recorded a growth of 5.58 percent compared to 3.85 percent. The industry specific data shows that a number of sectors performed well during the period, such as Iron & Steel products 20.26 percent, Automobile grew by 11.41 percent, pharmaceuticals 9.01 percent, Food Beverages 11.60 percent, Fertilizers 0.21 percent, Rubber products 0.36 percent, Non-Metallic Mineral products 6.54 percent, Textile 0.73 percent, Electronics 15.10 percent, Engineering products 4.29 percent, and Coke & Petroleum 0.97 percent. The outlook of Large Scale Manufacturing is encouraging on account of supportive economic policies, low interest rate and higher PSDP spending. The inflation has been contained at 4.16 percent much below the target of 6 percent. The foreign exchange reserves are at comfortable level, while the Foreign Direct Investment (FDI) saw an increase of 8.6 percent during July-May FY 2017.

The meeting noted that external public debt to GDP has reduced from 21.4

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percent in FY 2013 to 20.8 percent while net domestic debt increased from 38.8 percent in FY 2013 to 40.5 percent in FY 2016. As of July-March 2017, the net public debt stood at 59.3 percent below the threshold of 60 percent as prescribed in FRDL Act.

The minister informed the meeting that the government is adhering to the Medium Term Debt Management Strategy to make public debt portfolio more sustainable. The government is focusing on extending the average time to maturity of domestic debt. The debt sustainability indicators of domestic and external debt have improved compared to FY 2013.

The meeting was informed that the current account deficit widened to $10.64 billion due to fall in exports and remittances during July-May 2017. The decline in exports is more due to exogenous factors as the decline in exports was also witnessed in other regional countries. The meeting noted that negative effects of exports are bottoming out as during the outgoing fiscal year six months have witnessed positive YOY growth with highest in June 2017 at 16 percent.

The Minister expressed the need for necessary measure to address the widening current account deficit. He said, the government has already initiated a number of measures for exports enhancement. There is no load shedding for the industrial sector. The tariffs have been slashed. He stressed to look into the competitiveness aspect and stressed upon a multi-pronged approach at federal, provincial and local level.

The Governor SBP informed the meeting that monetary expansion during FY 2017 remained aligned with the overall improvements in macroeconomic indicators with substantial contribution stemming from pick-up in private sector credit. In fact, the private sector credit flows posted their highest level since 1999. The credit to private sector recorded strong growth of 18.7 percent (Rs.633.2 billion) during July-23 June FY 2017, compared to 9.5 percent in the comparable period of FY 2016. Prudent monetary policy and lower budgetary borrowing from commercial banks have helped the private sector credit boom. Overall, there has been a broad-based increase in credit demand, especially from fixed investment, during FY 2017 with impetus coming from: textile, manufacturing, commerce & trade, electricity, gas & water supply, food and beverages, coke and refined petroleum, chemicals, cement, construction. Reserve money growth decelerated to 22.5 percent during 01 Jul-23 June FY 2017 as against a growth of 27.1 percent in corresponding period of last year. During 01 Jul-23 June FY 2017, CIC stood at Rs.576.26 billion compared with an increase of Rs.703.65 billion in the corresponding period of FY2016. Total deposits with banks have improved by 12 percent. However, the current account deficit increased to over 3 percent of GDP and policy interventions need to be taken to address this challenge. The Minister for Finance decided to establish an inter-ministerial committee comprising members from Ministry of Finance, Commerce, SBP and PIDE on tariff rationalization so that tariff policy be aligned with trade policy leading to improvement in balance of trade. The Committee will submit its recommendations within four weeks time.

The Ministry of Commerce informed the meeting that trade deficit widened to 32.3 percent compared to last year. Exports have continued to decline at a subdued rate of 1.63 percent and while imports increased by 18.7 percent. Pakistan’s exports have increased to EU countries where it is enjoying GSP plus unilateral concessions. The negative effects of the exports are bottoming out, and it is expected that exports will improve in coming months. In this regard the Minister for Finance stated that to help export proceeds, duty-drawback claims would be honored and assured that claims will be cleared along with sales tax refunds, at the earliest.

The minister thanked the members and suggested that the next meeting be called in August 2017 to review the inter-ministerial committee report on tariff rationalization.—INP

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Dissolution of EDB:

Cabinet endorses CCoE decision

MUSHTAQ GHUMMAN

ISLAMABAD: The Federal cabinet has ratified the decision of Cabinet Committee on Energy (CCoE) on dissolution of Engineering Development Board (EDB), well informed sources told Business Recorder.

The Cabinet Division, sources said, submitted the decisions of the CCoE taken on May 29 and May 30, 2017 to the federal cabinet meeting on July 13, 2017, which endorsed the CCoE decisions including dissolution of EDB.

In pursuance of rule 17(1) of the Rules of Business 1973, all the decisions taken by the ECC, CCoP and CCoE are to be ratified by the federal cabinet.

EDB, an organisation of Ministry of Industries and Production, is under severe criticism due to rampant corruption and incompetence. The incumbent acting Chief Executive Officer (CEO) EDB, Mirza Nasir Baig, who has “good” relations with Minister for Planning, Development and Reforms, Ahsan Iqbal, was seen visibly disturbed in the National Assembly Standing committee when Qaiser Ahmad Sheikh, Chairman Standing Committee on Finance and PAAPAM levelled corruption charge and demanded an inquiry to probe the charges levelled in the CCoE.

The CCoE chaired by the Prime Minister on May 29, 2017, observed that EDB was not performing any useful function, either in terms of regulation or promotion of engineering enterprises, adding that malpractices had become endemic in the Board, exploitation of business by its staff had become the norm. The Board has become a major impediment to improving the ease of doing business and creating an enabling environment for industrial expansion and economic development, it was argued.

Later on, according to the letter, Prime Minister desired that the Ministry of Industries and Production to immediately initiate a summary for the Prime Minister’s order on the modus operandi to be adopted for the expeditious implementation of the decision of the CCoE regarding dissolution of the EDB.

The sources said, the prime minister, in his capacity as Minister in-charge of the Cabinet Division, had seen and authorised submission of the summary to the cabinet.

Insiders claim that the issue of EDB did not come under discussion in the CCoE meeting on May 29, 2017 at all and the decision regarding its dissolution was incorporated in the minutes later on. However, no official confirmation of this aspect of decision was available.

Unconfirmed sources suggest the EDB officials believe there is no chance for the organization’s survival after the Prime Minister’s decision on its dissolution have started getting deputation letters from other public sector organisations. Senior officials of the EDB are also at odds with each other due to current uncertainty in the organisation and a female officer has opted to go on leave.

Minister for Industries and Production, Ghulam Murtaza Khan Jatoi, recently presided over a meeting of the EDB Board of Directors (BoD) and discussed ways and means to send a summary to the prime minister requesting him to review the decision of CCoE.

Additional Secretary Ministry of Industries and Production Capt Ijaz Ahmad (retd) informed the committee on July 13, 2017 that the ministry is preparing a summary for the prime minister, requesting him to review the decision of CCoE. However, it is unclear if the ministry is still considering sending summary to the prime minister even after the endorsement of the federal cabinet.

This correspondent made phone calls to Minister for Industries and Production, Ghulam Murtaza Khan Jatoi and Secretary Industries, Khizer Hayat Gondal for comments on their future line of action but they did not respond till the filing of this report.

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THE RUPEE: Steadier trend

RECORDER REPORT

KARACHI: The rupee resisted more decline against the dollar on the currency market on Saturday in the process of trading, dealers said.

OPEN MARKET RATES: The rupee maintained overnight levels in relation to the dollar each for buying and selling counters at Rs 106.70 and Rs 107.00 respectively. It, however, lost 40 paisas against euro for buying and selling at Rs 121.30 and Rs 122.30 respectively.

At the week-end, the dollar fell against a basket of major currencies on Friday, after weaker-than-forecast data on consumer prices and retail sales in June raised doubts about US economic growth and whether the Federal Reserve would raise interest rates again in 2017.

US consumer prices were unchanged in June and retail sales fell for a second straight month, pointing to tame inflation and soft domestic demand.

Economists had forecast the CPI edging up 0.1 percent last month. Its drop of 0.1 percent in May and the lack of a rebound in June could trouble Fed officials who have largely viewed the recent moderation in price pressures as transitory.

"The CPI data begs the question, at what point does transitory becomes something that is more sustained, in terms of the softness," said Richard Franulovich, senior currency strategist at Westpac Banking Corp in New York.

The dollar index, which tracks the greenback against six major rivals, was down 0.6 percent to 95.152 after earlier falling to 95.132, its lowest since September 2016.

US interest rates futures rose as traders pared their view the Federal Reserve would increase rates again in 2017. Malaysian ringgit and the greenback was at 6.781 versus the Chinese yuan.

Open Bid	Rs. 106.70
Open Offer	Rs. 107.00

Open market Rates: Open market Rates For Dollar on Saturday.

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

The trading activity of the US dollar resumed on its overnight trend of Rs 106.70 and Rs 107.20 as its buying and selling rates respectively.

At the close, it appreciated by 10-paisa on buying counter and ended at Rs 106.70. However, no change in its value took place on selling counter as it sustained its opening trend of Rs 107.20, said local currency dealers.

Furthermore, the local currency remained under pressure for the third consecutive day versus the pound sterling.

The pound's buying and selling rates further drifted from Friday's closing rates of Rs 137.20 and Rs 137.85 to Rs 138.30 and Rs 139.10 respectively, they added.

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

The dollar opened at Rs 106.40 (buying) and Rs 106.50 (selling) against same last rate. It closed at Rs 106.40 (buying) and Rs 10650 (selling).

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Dar tells FBR chief to ensure achievement of revenue target

RECORDER REPORT

ISLAMABAD: Finance Minister Ishaq Dar has directed new Chairman FBR Tariq Mahmood Pasha and his team to ensure achievement of the revenue collection target of Rs 4,013 billion for the fiscal year 2017-18.

He was addressing a ceremony of payment of sales tax refunds here at the FBR Headquarters on Saturday.

It was announced by the finance minister in the budget speech for the year 2017-18 that taxpayers' long outstanding demand for payment of refunds will be addressed soon and the sales tax refunds against refund payment orders (RPOs) issued up to 30th April, 2017 shall be paid in two stages. Firstly, payments against RPOs involving amount up to Rs 1 million were to be paid by 15th July, 2017; and in the second stage refund against RPOs of amount more than Rs 1 million shall be paid by 14th August, 2017.

In his opening remarks, the finance minister welcomed the new Chairman FBR Tariq Mahmood Pasha and expressed hope that the new chairman and his team will strive to overcome the challenges and make all-out efforts to achieve the target for the new financial year and simultaneously accord due priority to facilitation of taxpayers.

The finance minister stated that the government is conscious of the problems being faced by the taxpayers and is taking many steps to resolve these problems. He stated that the ceremony is part of such measures and the first part of the commitment made in the budget speech is being fulfilled through this. The payment is being paid against 6,853 RPOs issued by 30th April 2017, of amount up to Rs 1 million. The next part of commitment shall also be fulfilled by making payment against RPOs with amount more than Rs 1 million by 14th August 2017.

The finance minister informed that for the first time refund payments were made through direct electronic transfer to claimants' bank accounts through State Bank in November 2016. The payments made in the ceremony will also be transferred in the same manner to the claimants' accounts in the next two working days. This measure, he said, is aimed at enhancing transparency and facilitation and reducing contact between tax collectors and the taxpayers.

In the concluding part of the ceremony, the finance minister pressed the button of the FBR's computerised system to remit the bank advice to the State Bank for transfer of the amount involved

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Cotton prices firmer on modest business

RECORDER REPORT

KARACHI: Stable trend was witnessed on the cotton market on Saturday in the process of modest trading, dealers said.

The official spot rate sustained overnight level at Rs 6200, they said. In the ready session around 2000 bales of cotton were sold at Rs 6400, they said.

In Sindh, seed cotton rates were at Rs 3200-3250 per 40 kg, while in the Punjab, phutti prices were available at Rs 3100-3300, they said.

Market sources said that recent monsoon rains, keeping rates firm and it likely to continue in the coming days.

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They said that main leading buyers made cautious buying due to tight supply of cotton.

Cotton analyst, Naseem Usman said that one percent customs duty on import of cotton will help stabilise rate in the coming days, besides, GST plus is also an adding factor behind the firm trend in the prices.

Adds Reuters: ICE cotton futures inched up on Friday, supported by a weaker dollar and a jump in grains markets, after hitting a nearly three-week low early in the session.

Cotton contracts for December settled up 0.21 cent, or 0.32 percent, at 66.58 cents per lb, after touching 66.28 cents, its lowest since June 26.

They reduced a bullish stance in cotton by 4,592 lots to 20,821 lots in the week to July 11, the data showed. That marked the smallest net long stance in the fiber in over a year.

Total futures market volume fell by 4,568 to 14,651 lots. Data showed total open interest gained 3,021 to 214,759 contracts in the previous session.

The following deals reported: 400 bales of cotton from Mirpurkhas sold at Rs 6400, 800 bales from Tando Adam, 400 bales from Hyderabad and 200 bales from Sanghar all done at the same level, 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 06.07.2017**	**Difference Ex-Karachi in Rupees**
37.324 Kgs Equivalent	6,050	135	**6,185**	**6,185**	NIL
40 Kgs	6,484	145	**7,629**	**7,629**	NIL

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Cotton inches up on weaker dollar; grains support

NEW YORK: ICE cotton futures inched up on Friday, supported by a weaker dollar and a jump in grains markets, after hitting a nearly three-week low early in the session.

Cotton contracts for December settled up 0.21 cent, or 0.32 percent, at 66.58 cents per lb, after touching 66.28 cents, its lowest since June 26.

The dollar index was down 0.61 percent. The Thomson Reuters CoreCommodity CRB Index, which tracks 19 commodities, was up 1.11 percent.

US corn and soybean futures jumped more than 1 percent on Friday on bargain buying after steep losses during the past two sessions.

“The rise in grains side was a bit supportive, but mostly it was a sort of a nothing day (on Friday). ... The speculators don’t want to come and play big on the long side until the next WASDE report or until the weather changes,” said Louis Rose, an independent cotton trader and consultant with Risk Analytics in Memphis.

“It is getting hotter and drier across the belt at west Texas. This weekend we might get some rains and we need to see what happens. ... We might drop below 65 cents if we get large rains.”

Speculators reduced a bullish stance in cotton for the eighth straight week, US Commodity Futures Trading Commission data showed on Friday.

They reduced a bullish stance in cotton by 4,592 lots to 20,821 lots in the week to July 11, the data showed. That marked the smallest net long stance in the fibre in over a year.

Total futures market volume fell by 4,568 to 14,651 lots. Data showed total open interest gained 3,021 to 214,759 contracts in the previous session.

Certificated cotton stocks deliverable as of 13JUL17 totaled 66,825 480-lb bales, down from 72,473 in the previous session.—Reuters

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Export slide: causes and implications — II

Dr Ayub Mehar

Deteriorating law and order situation, energy crisis, holding of sales tax refunds with FBR and failure in improving the image of Pakistani products through diplomatic efforts; are mentioned as the major causes of continuous declining in exports. By mentioning these reasons, one can easily shift the responsibility of failure on to the government. This stereotype reasoning leads to nowhere. Though it can be easily concluded that law and order situation in industrial cities, particularly in Karachi has been improving significantly. Similarly, the severity of energy crisis is declining gradually as the duration of load shedding in urban areas has reduced all over the country. The situation therefore indicates that energy crises and law and order situation are not the real causes behind the export slide. Exports from Pakistan had been showing rising trends during the extreme bad days of energy crises and deterioration in law and order situation in urban Sindh. So far as blocking of sales tax refunds is concerned, this issue was more serious in the previous regimes in quantitative terms. Contrary to previous policies, the present government has granted zero-rated facility to five major exporting sectors. So this issue cannot be linked directly with the declining exports during the last three years. Grant of GSP Plus status by the European Union, sovereign rating upgrade by world leading rating agencies, improved ranking by Economic Intelligence Unit (EIU), and significant improvement in investment and economic outlook by the Wall Street Journal, the World Bank and the IMF reflect the success on economic diplomatic front during the last four years. So, these widely-held perceptions do not explain the export slide.

Trade policy review by the WTO and the Trade Enabling Report by the World Economic Forum (WEF) explain the real causes of declining exports. These comprehensive reports are released by the World Economic Forum (WEF) and World Trade Organization (WTO) after every 4 years. In last reports it was concluded that the top most reason for this deterioration is the absence of Trade Portal in Pakistan (e.g. Lack of required information to importers and exporters about Pakistani products). Weak market access, business environment and infrastructures' backwardness are the supplementary causes of this low ranking in trade enabling. It is notable that national chambers in most of the cases (or a public sector entity for trade promotion) manage and maintain trade portals for providing services to entrepreneurs in terms of match-making, marketing, and searching of the products and entrepreneurs. The global economic indicators reflect that Pakistan is included in those countries where economic dependency on exports (export-to-GDP ratio) is minimal – less than 20 percent. It is notable that according to the World Economic Forum (Geneva), Pakistan is ranked at 116 (out of 138 countries) in 'Trade Enabling Index'. WTO report (enabling trade) has clearly indicated the fundamental problems in trade policy of Pakistan which belong to physical infrastructure, working capital and lack of awareness. These reports identify the problematic areas in enabling exports from Pakistan. The identified problems do not belong to the demand management (or monetary and fiscal policies); they emphasize on the restructuring of institutions and infrastructures. (Concluded)

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Refund payments begin

The Newspaper's Staff Reporter

ISLAMABAD: Finance Minister Ishaq Dar is pressing a computer key at the Federal Board of Revenue on Saturday to remit advice to the State Bank for the transfer of sales tax refunds.

ISLAMABAD: In a ceremony presided over by Finance Minister Ishaq Dar on Saturday, the Federal Board of Revenue (FBR) released outstanding sales tax refund payments of up to Rs1 million.

The board did not disclose the total amount of refunds. But it said the payment was being made against 6,853 refund pay orders (RPOs) of up to Rs1m issued until April 30.

Later on, refunds will be paid against RPOs of more than Rs1m by August 14.

In his budget speech, Mr Dar announced that sales tax refunds against RPOs issued up to April 30 would be paid in two stages.

Speaking at the FBR, Mr Dar expressed hope that new board chairman Tariq Pasha and his team would strive to overcome the challenges and achieve the revenue target while facilitating taxpayers.

He stated that the government was was trying to solve taxpayers problems. He informed the audience that refund payments were made for the first time through direct electronic transfers to claimants’ bank accounts through the central bank in November 2016. The latest payments will also be made in the same manner in the next two working days, he added.

This will enhance transparency and reduce contact between taxpayers and tax collectors, he said.

DAWN

Sunday, 16th July, 2017

Rain of new taxes possible

The Newspaper's Staff Reporter

KARACHI: A welter of new revenue measures could become necessary this fiscal year, according to the International Monetary Fund (IMF) Article IV report released earlier in the week.

The IMF projects a shortfall equal to 1.5 per cent of GDP just to meet the revenue target set by the government. The amount is around Rs480 billion if GDP is taken to be Rs32 trillion.

“The 2017-18 budget is subject to significant risks,” the Fund says before pointing out the massive gap between its revenue projections and those of the government. It recommends additional revenue measures like “reducing tax expenditures (estimated at 1.3pc of GDP in 2016-17), gradually raising petroleum taxes, further strengthening the system of withholding taxes for non-filers, and improving provincial tax collection in agriculture, property and services.”

Budget is subject to significant risks, says IMF

The last suggestion is unlikely to materialise, or help bridge the federal government revenue collection gap. The burden is, therefore, likely to fall on those taxpayers that are already within the net, with greater resort to withholding taxes.

In administrative measures, the Fund recommends “improving the FBR’s access to third-party information, enhancing tax audits, building a centralised electronic fiscal cadastre, and reducing the stock of outstanding tax refund claims”.

Each of these measures can run into strong opposition, presenting the government with an unpleasant menu of options at a time when its strength is already sapped in fending off a powerful political storm.

On top of the gap in revenue projections, the Fund also projects expenditure overruns of around 0.5pc of GDP, equal to Rs184bn. Scant suggestions are offered about how to control this, other than a detailed pointer towards the National Finance Commission (NFC) award, which the report touches gingerly due to strong political implications.

Other than that, the report points towards “containing the wage bill growth” and power-sector subsidies as areas where expenditures can be curtailed, as well as “prioritisation of development spending”, ostensibly as a precaution to identify those projects whose funding can be cut in the event expenditures fail to stay on course.

The government’s revenue projections are already facing a challenge as 2016-17 ended with a massive revenue shortfall of 0.7pc of GDP as per Fund projections, equal to Rs 224bn. This happened despite a downward revision of the revenue target. Final figures for 2016-17 revenues and expenditures have not yet been released.

For next year, the government has already budgeted Rs53bn worth of new sales tax and federal excise duties, limiting its room to squeeze more out of these heads midcourse. Given the political circumstances, as well as the approach of an election, the government is likely to be faced with the necessity of raising revenues through fuel prices and power bills, both of which are highly inflationary.

The only other option left would be to follow in the footsteps of its predecessors and borrow massively, either from banks or the State Bank, both of which again carry damaging consequences for government priorities in other areas. The former can constrain growth at a time when taking expansion to 6pc is a big boast for the government, while the latter is again inflationary and violates laws and commitments given to foreign creditors.

Adding to the difficult balancing act that lies ahead, the report also points out that “a higher-than-budgeted deficit would exert additional pressures on the current account and reserves”. Reserves have already entered a downward glide path as annual remittances declined for the first time in over a decade this year, while the trade deficit grew by 32pc this year.

The current account deficit more than doubled in the same year. Revised figures released last week showed it had already crossed 3pc of GDP in the first 11 months of the fiscal year. Final data for the full year is yet to be released.

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Karachi labour landscape in flux

Aamir Shafaat Khan

KARACHI: The labour employed in the city's industrial hubs shows a changing ethnic trend – the arrival of new workforce from South Punjab and interior Sindh replacing Pakhtuns and Punjabis in low-paying jobs.

In Karachi, Seraiki speakers have taken over the rickshaw sector, thriving on the availability of low-cost CNG vehicles produced locally. The sector was once dominated by Pakhtuns, with the iconic blue Vespa-rickshaws offering cheap transportation.

Talking to Dawn, traders and industrialists offered differing views regarding the change in the ethnic mix of labourers and workers in Karachi.

City offers a growing role to migrant workers from Sindh and South Punjab

Chairman Site Association of Industries Asad Nisar Barkhurdaria said three years ago 90 per cent of the industrial area workforce comprised of Pakhtuns, which has dropped to only 30pc today. He surmised that this is due to outmigration.

The Site industrial area has more than 4,500 units and employees 500,000 people directly.

Skilled and unskilled Seraiki speakers and Sindhis migrating from small cities and villages are filling the vacuum left by the exit of Pakhtuns and Punjabis in almost all sectors.

The share of Seraiki and Sindhi speakers in Site hovers between 15-20pc while the remaining labour force is native to Karachi.

Chairman Pakistan Fashion Apparel Forum Jawed Bilwani said 10 years ago, majority of the labourers in dyeing and finishing sectors hailed from Punjab but this has now fallen to 13pc.

He said 34pc labourers are Pakhtuns, followed by 30pc Sindhis, 20pc Balochs and 20pc are Urdu-speakers.

In the weaving sector, Punjabis were once dominant but now their share has dwindled to 20pc. The sector employees 60pc Pakhtuns as well as 10pc each of Sindhi and Urdu-speaking population.

In the knitted garments sector, the job share of Seraikis is 45pc, followed by 35pc Sindhis. The remaining 20pc is a mix of various ethnicities.

Mr Bilwani said in the woven garments sector, women comprise 50pc of the labour force most of whom belong to Karachi's Urdu-speaking community. The share of Sindhis is 25pc while the remaining 25pc labour is of mixed ethnicities including Biharis, Burmese, Bengalis, Memon, Gujrati, Kachhi, etc.

President North Karachi Association of Trade and Industry Akhtar Ismail said in the garments sector, around 60pc of the labour belongs to Karachi while the share of Punjabis is 30pc and 10pc share is held by Sindhis.

The processing sector workforce is estimated to be 70pc Punjabis while Karachiites hold 30pc job share. In looms, 90pc labour hails from Punjab.

He said the share of Sindhis in the textile sector is gradually rising.

Chairman Pakistan Association of Parts and Accessories Manufacturers (Paapam), Mashood Ali Khan said for many years, 90pc labour (skilled and unskilled) in auto parts units in the city belonged to Karachi while 10pc are of various ethnicities.

He forecasts more employment opportunities in the auto sector as four new vehicle assemblers are set to roll out various models in the coming years.

He said Paapam is focusing on vocational training so that a new lot of youngsters would emerge rather than relying on old hands to shift from existing industries.

Chairman Association of Builders and Developers (ABAD), Mohsin Sheikhani said currently the share of labour and workers hailing from upcountry is 80pc while the share of Karachiites is 20pc, down from 30-35pc four years ago.

He said labourers from Khyber Pakhtunkhwa, interior Sindh and Punjab's Seraiki belt are continuously arriving due to a boom in Karachi's construction sector.

Mr Sheikhani said around 600,000-700,000 labourers and workers are earning their bread and butter in Karachi where many apartments, housing and infrastructure development projects are under construction.

Chairman All Karachi Tajir Itehad (AKTI), Atiq Mir said in more than 600,000 shops in the city, native Karachi residents hold 90pc of the share for more than two decades while the remaining 10 per cent are people from up country.

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Karachi is the only city where people from all over Pakistan arrive for work and enjoy cordial relations with Karachi walas, he said.

Chairman sub-committee on labour and EOBI of F B Area Association of Trade and Industry Mohammad Irfan claimed the number of Punjabi and Bengali labourers in the city has gone down drastically.

“Bengalis are moving back to Bangladesh as the textile sector there is thriving,” he added.

He said in around 2,000 units in industrial area of FB Area, the share of Seraiki speakers is 5pc, followed by 45pc share of Karachi’s diverse population. Pakhtuns occupy 50pc of the labour force in the city.

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Asia and the Pacific receive $14.9 billion AfT funds

The Newspaper's Reporter

ISLAMABAD: An Asian Development Bank report has stated that Aid for Trade (AfT) flows to Asia and the Pacific have been growing steadily, and over the past thirteen years, AfT disbursements to the region grew faster than the overall official development assistance.

The report, 'Aid for Trade in Asia and the Pacific' released this week, said that from a low base of $4.1 billion in 2002, AfT disbursements reached nearly $14.9bn in 2015 – 38.2 per cent $36.3bn in total official aid to the region in 2015, significantly higher than the global average of 29.1pc of the $112.8bn received. AfT to the region has mainly targeted the transport and storage, energy and agriculture sectors, it says.

Asia and the Pacific is one of the major recipients of AfT in services, accounting for 45.6pc of global AfT in services from 2002 to 2015. The largest beneficiaries have been Southeast, South, and Central Asian economies, while transport and energy were the largest recipients by sector.

The report suggests that AfT should further target improving infrastructure, building and enabling policy and regulatory environment to advance growth in trade in services, and promote the integration of geographically challenged economies into regional and global markets.

Developing Asia's logistics performance moderately improved from 2007 to 2016, driven largely by new and upgraded infrastructure. However, since 2012, there has been a slight reversal, with sub-regional variations.

Several measures can reduce trade costs further, and these include: promoting trade facilitation; building the trade infrastructure essential for expanding trade capacity; improving the business climate to enhance competition; lowering or streamlining non-tariff barriers; instituting regulatory reforms and harmonisation; opening up services trade; and maximising the complementarity between trade and investment.

Regardless of the level of development of the recipient economy, aid that enhances economic infrastructure and boosts productive capacity is positively correlated with services trade across Asia and the Pacific. Empirical analysis shows a statistically and economically significant impact of AfT on services trade across all sub-regions, most pronounced for South Asia and Southeast Asia.

However, many barriers remain to trade and investment in services, more so than in merchandise trade. Integrated and coherent policies - together with more trade liberalisation and regulatory reform - are critical for services trade. Not only do they promote productivity and competitiveness, but they also help form productive linkages between services sectors and the general economy.

International trade and foreign direct investment have been major drivers of growth in Asia and the Pacific. Between 2000 and 2015, trade volumes in the region trebled, from $60bn in 2000 to $193 bn in 2015, and per capita gross domestic product (GDP) grew from $8,153 to $15,828. The proportion of the population living in extreme poverty (based on the international poverty line of $1.90 or less a day at 2011 purchasing power parity) declined from 31.8pc to 9.0pc between 2002 and 2013.

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Cotton prices rule firm as rains hit supplies

The Newspaper's Staff Reporter

KARACHI: Cotton prices on Saturday remained firm on sustained demand amid short supply as heavy rains in Sindh and Punjab have hampered phutti arrivals into the ginneries. Up till now most of the phutti was coming from Sindh's cotton fields but with the new spell of rains the arrival of phutti has been badly affected and ginneries are not getting adequate supplies, brokers said.

Sindh's variety of phutti was being quoted between Rs3,150-3,250 per 40kg.

Against this, some of the Punjab ginneries have started receiving small quantities of phutti, which is being quoted between Rs3,000-3,250 per 40kg.

Cotton analyst Naseem Usman said that according to private estimates, the current cotton crop (2017-18) size would be around 10.2-10.3 million bales because around 12-14pc increase in cotton cultivation area this season.

Similarly, he said with higher production expected by most of the cotton producing countries the world cotton prices will also remain under pressure.

The KCA kept its spot rates steady.

Trading on the ready counter due to short supply remained slow. The following deals were reported to have changed hands: 400 bales, Mirpurkhas, at Rs6,400; 800 bales, Tando Adam, at Rs6,400; 400 bales, Hyderabad, at Rs6,400 and 200 bales, Sanghar, at Rs6,400.

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	6,200	135	6,335
40 Kgs	6,645	145	6,790

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Govt committed to make public debt portfolio more sustainable: Dar

ISLAMABAD: Government is committed to achieve the desired composition of public debt portfolio with an appropriate mix of financing from different sources in line with the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005, finance minister Ishaq Dar said on Saturday.

“Government is adhering to the medium-term debt management strategy to make public debt portfolio more sustainable,” Dar said in a statement.

Dar was speaking at a meeting of the monetary and fiscal policies coordination board at the finance ministry.

Medium-term debt management strategy (2015/16 to 2018/19) provides the direction in which the government intends to meet its financing requirements over the medium term and to achieve desired composition of the government public debt portfolio keeping in view cost-risk tradeoffs.

Finance minister said the government is focusing on extending the average time to maturity of domestic debt. “The debt sustainability indicators of domestic and external debt have improved compared to FY13.”

The minister said external public debt to GDP has reduced to 20.8 percent from 21.4 percent in 2012/13, while net domestic debt increased to 40.5 percent in 2015/16 from 38.8 percent in FY13.

The net public debt stood at 59.3 percent for July-March 2017, below the threshold of 60 percent as prescribed in FRDL Act.

Dar said foreign exchange reserves are at a comfortable level.

“Sharp deterioration of PKR – US exchange rate in the interbank market led to speculation and anxiety in the foreign exchange market,” he said. “However, due to prompt action by the SBP resulted in stabilisation and averted the high risk of speculation.”

Earlier this month, rupees suddenly and unexpectedly dropped in the biggest shift in nearly two years, in what analysts think is a deliberate move from the central bank to help deal with the country’s lack of foreign reserves. The current account deficit widened to $10.64 billion due to fall in exports and remittances during July-May 2017.

The rupee dropped sharply from 105 to the dollar to 108, hitting a level not seen since 2013, and the first significant move since 2015.

Minister expressed the need for necessary measure to address the widening current account deficit.

“The government has already initiated a number of measures for exports enhancement. There is no load shedding for the industrial sector. The tariffs have been slashed,” he said.

The meeting was informed that the decline in exports is more due to exogenous factors as the decline in exports was also witnessed in other regional countries.

“Negative effects of exports are bottoming out as during the (last) fiscal year’s six months have witnessed positive year-on-year growth with highest in June 2017 at 16 percent,” said the finance minister. “It is expected that exports will improve in coming months. To help export proceeds, duty-drawback claims will be cleared along with sales tax refunds at the earliest.”

Officials at commerce ministry said exports have increased to EU countries where the country is enjoying generalised scheme of preference plus unilateral concessions.

Finance minister decided to establish an inter-ministerial committee, comprising members from the ministries of finance and commerce, SBP and Pakistan Institute of Development Economics to rationalise utilities tariffs. The committee’s objective is to align electricity and gas tariff policy with trade policy leading to improvement in trade balance.

The committee will submit its recommendations within four weeks time.

The minister suggested that the next meeting may be called in August to review inter- ministerial committee report on tariff rationalisation.

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IMF stresses PSEs' restructuring to curtail financial losses

KARACHI: Annual losses of ailing public sector enterprises (PSEs) in Pakistan swelled to 3.8 percent of GDP, increasing the importance of their restructuring to ease pressure on fiscal deficit, said the International Monetary Fund (IMF).

IMF said PSEs, including Pakistan International Airlines (PIA), Pakistan Steel Mills (PSM), Pakistan Railways, and distribution companies, are incurring financial losses equivalent to 0.3 percent of GDP.

"Restructuring PSEs and attracting private sector participation are needed to improve efficiency, reduce financial losses and contain fiscal costs," the Fund said in a report after the conclusion of the Article IV consultation with Pakistan.

Staff said in the near-term, it would be important to finalise the transaction structure for PIA's minority sale and for attracting private sector participation in PSM.

It also stressed the launch of initial public offering (IPO) of power generation companies and setting of timeline for IPO of distribution companies.

The Fund said most power distribution companies met their end-December 2016 targets in terms of collection, "(yet) about half met their targets in terms of distribution losses."

It asked the government to finalise Kapco's divestment.

Government holds 40.25 percent of stake in Kot Addu Power Company (Kapco). Last year, privatization commission announced plan to divest the government's shareholding.

IMF sought progress in restructuring plan of Pakistan Railways and complete of ongoing capital market transactions.

It further said regular publishing of annual report on PSEs' financial performance is important to strengthen monitoring and transparency.

Over the medium term, the Fund said a new comprehensive strategy to eliminate PSEs' losses and ensure private sector participation will be needed.

Government expressed its commitment to pursue restructuring of PSEs and attract private sector participation to contain financial losses of state-owned entities.

It considers PSE reform and privatisation important for reducing fiscal costs and contingent liabilities and for enhancing efficiency.

The government said aggregate annual losses of public sector enterprises remain modest and have been declining, and it will continue to improve their financial situation through restructuring to enhance their attractiveness to private investors.

IMF, however, asked the government to modify its policies related to PSEs to curtail fiscal deficit.

"If policies remain unchanged, the fiscal deficit would remain substantial," it said.

The Fund said the fiscal deficit was slashed almost in half, over three years, to 4.6 percent of GDP in 2015/16 fiscal year.

It should marginally decline to 4.5 percent in 2016/17 "on the back of significantly higher revenue and continued stringent control on current expenditure, including rationalisation and better targeting of subsidies."

Government set budget deficit target at 4.2 percent of GDP for the current fiscal year, expecting strong increase in tax and non-tax revenue and vowing restricting growth of current expenditures.

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Cotton flat

Karachi

Slow trading was witnessed at the Karachi Cotton Exchange on Saturday, while spot rates remained unchanged.

The spot rates stood firm at Rs6,200/maund (37.324kg) and Rs6,645/40kg. Ex-Karachi rates also remained unchanged at Rs6,335/maund and Rs6,790/40kg after an addition of Rs135 and Rs145 as upcountry expenses, respectively.

Naseem Usman, chairman of the Karachi Cotton Brokers Association, said that an increase in the demand and slow arrivals supported the prices upwards.

Some Punjab factories have started ginning partially. “Cottonseed price remained Rs3,150 to Rs3,250/maund,” he said.

KCE recorded four transactions of around 2,000 bales of new crop at a price of Rs6,400/maund.

Of these, deals of 400 bales were recorded from Mirpurkhas, 800 bales from Tando Adam, 400 bales from Hyderabad and 200 bales trade was recorded from Sanghar.

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Govt taking steps to resolve taxpayers issues

Our Staff Reporter

ISLAMABAD - Finance Minister Ishaq Dar visited FBR on Saturday and presided over a ceremony regarding payment of sales tax refunds.

It may be mentioned that the finance minister, in the budget speech for the year 2017-18, had announced that taxpayers' longstanding demand for payment of refunds would be addressed soon and the sales tax refunds against refund payment orders (RPOs) issued up to 30th April, 2017, would be paid in two stages. Firstly, payments against RPOs involving amount up to Rs 1 million were to be paid by 15th July, 2017; and in the second stage refund against RPOs of amount more than Rs 1 million would be paid by 14th August, 2017.

In his opening remarks, the finance minister welcomed the new Chairman FBR Tariq Mahmood Pasha and expressed hope that the new FBR chairman and his team will strive to overcome the challenges and make all efforts to achieve the target for the new financial year and simultaneously accord due priority to facilitation of taxpayers.

The finance minister stated that the government was conscious of the problems being faced by the taxpayers and is taking a number of steps to resolve these problems. He stated that the ceremony was part of such measures and through this, first part of the commitment made in the budget speech is being fulfilled. The payment is being made against 6853 RPOs issued by 30th April 2017, of amount up to Rs. 1 million. The next part of commitment shall also be fulfilled by making payment against RPOs with amount more than Rs. 1 million by 14th August 2017.

The finance minister informed that for the first time refund payments were made by direct electronic transfer to claimants' bank accounts through state Bank in November 2016. The payments made in the ceremony will also be transferred in the same manner to the claimants' accounts in the next two working days. This measure, he said, is aimed at enhancing transparency and facilitation and reducing contact between tax collectors and the taxpayers.

In the concluding part of the ceremony, the finance minister pressed the button of FBR's Computerized System to remit the bank advice to the State Bank for transfer of the amount involved.

Services of outgoing SBP

governor lauded

Finance Minister Senator Mohammad Ishaq Dar Saturday lauded Ashraf Wathra, the outgoing governor of SBP), for his services for the central bank.

During a meeting with Ashraf Mahmood Wathra, who paid farewell call on Finance Minister, Dar congratulated him on the successful completion of his tenure. The minister said that Ashraf Wathra remained committed to his work throughout his tenure and contributed significantly to smooth implementation of monetary policy and regulation of the money market. He praised the outgoing governor's professionalism and commitment, according to press statement issued by the Finance Ministry here.

Wathra thanked the minister for the support extended to him in undertaking and fulfilling his official obligations. Finance Minister on the occasion also welcomed the newly appointed Governor SBP, Tariq Bajwa and wished him well for his new assignment.

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Govt to form committee to control trade deficit

Imran Ali Kundi

ISLAMABAD - The government on Saturday decided to constitute an inter-ministerial committee on tariff rationalization so that tariff policy could be aligned with trade policy leading to improvement in balance of trade.

The committee would comprise members from Ministries of Finance and Commerce, State Bank of Pakistan (SBP) and PIDE. The Committee will submit its recommendations within four weeks time. Finance Minister Ishaq Dar, while chairing a meeting of the Monetary and Fiscal Policies Coordination Board, announced to constitute a committee to control the increasing trade deficit of the country.

Pakistan's current account deficit widened to $10.64 billion due to fall in exports and remittances during July-May 2017. "The decline in exports is more due to exogenous factors as the decline in exports was also witnessed in other regional countries", the meeting was informed.

The Ministry of Commerce informed that trade deficit was registered at $32.58 billion during previous financial year as against $23.9 billion of the proceeding year, showing growth of 36.32 percent. Imports were recorded at historic level of $53.02 billion during the FY17 as against $44.69 billion of the FY16, showing an increase of 18.67 percent. However, the exports registered a decline of 1.63 percent and were recorded at $20.45 billion during previous financial year as compared to $20.79 billion of the preceding year.

Pakistan's exports have increased to EU countries where it is enjoying GSP Plus unilateral concessions. The negative effects of the exports are bottoming out, and it is expected that exports will improve in coming months. In this regard, the minister for finance stated that to help export proceeds, duty-drawback claims would be honored and assured that claims will be cleared along with sales tax refunds, at the earliest.

Finance minister expressed the need for necessary measure to address the widening current account deficit. He said that the government has already initiated a number of measures for exports enhancement. There is no loadshedding for the industrial sector. The tariffs have been slashed. He stressed to look into the competitiveness aspect and stressed upon a multi-pronged approach at federal, provincial and local level.

In his opening remarks, the minister stated that the macroeconomic indicators are showing a positive trend. GDP has grown this year by 5.3% which is a 10-year high. Foreign exchange reserves are at a comfortable level, tax revenues have increased by 73% over the last four years, credit to private sector has increased by over five times, gas availability has improved, and loadshedding for industry has been eliminated and substantially reduced for commercial and domestic sector.

For the first time the size of the economy has surpassed $300 billion. On average, income of each Pakistani has increased by 22% since fiscal year 2012-13. Per capita income today stands at $1,629 as compared to $1,334 four years ago. Inflation was on average 12% between 2008-13. The inflation has been contained at 4.16% much below the target of 6%. Policy rate of SBP has come down from 9.5% in June 2013 to the current 45 year low of 5.75%.

As per the party manifesto of PML (N), Pakistan has successfully completed its reform programme. During this period difficult key structural reforms in the country have been implemented. Completion of the programme has strengthened confidence of the international community in government's economic agenda. The government has put the country on the path of sustainable growth which is being internationally recognized and reflected in the improved ratings by all major rating agencies including Moody's, S&P and Fitch.

Recently, researchers at the Center of International Development (CID) at the Harvard University have predicted that Pakistan's annual growth rate over the next 10 years would be nearly 6 percent. This is a one point GDP growth rate increase compared to their earlier projections whereby Pakistan GDP growth rate was set to grow at 5 percent by 2025.

The minister also remarked that sharp deterioration of PKR – US exchange rate in the interbank market led to speculation and anxiety in the foreign exchange market. However, prompt action by the SBP resulted in stabilization and averted the high risk of speculation.

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Finance secretary briefed the meeting on economic situation. The GDP growth of the outgoing fiscal year 2017 was recorded at 5.3 percent, the highest in ten years. The impressive growth was on account of growth in services and agriculture sector. The turnaround in agriculture growth was due to government's supportive policies and high credit disbursements. The growth momentum in LSM continued, mainly supported by better energy supplies; lower commodity prices; and accommodative economic policies. The sector recorded an impressive growth of 9.7 percent in April 2017 as compared to (-2.9 percent) last year. During July-April 2017 it recorded a growth of 5.58 percent compared to 3.85 percent. The outlook of large scale manufacturing is encouraging on account of supportive economic policies, low interest rate and higher PSDP spending. The inflation has been contained at 4.16 percent much below the target of 6%.The foreign exchange reserves are at comfortable level, while the foreign direct investment (FDI) saw an increase of 8.6% during July-May FY 2017.

The meeting noted that external public debt to GDP has reduced from 21.4 percent in FY 2013 to 20.8 percent while net domestic debt increased from 38.8 percent in FY 2013 to 40.5 percent in FY 2016. As of July-March 2017, the net public debt stood at 59.3 percent below the threshold of 60 percent as prescribed in FRDL Act.

The minister informed that government is adhering to the Medium Term Debt Management Strategy to make public debt portfolio more sustainable. The government is focusing on extending the average time to maturity of domestic debt. The debt sustainability indicators of domestic and external debt have improved compared to FY 2013.

The Governor SBP informed that monetary expansion during FY 2017 remained aligned with the overall improvements in macroeconomic indicators with substantial contribution stemming from pick-up in private sector credit. In fact, the private sector credit flows posted their highest level since 1999. The credit to private sector recorded strong growth of 18.7 percent (Rs.633.2 billion) during July-23 June FY 2017, compared to 9.5% in the comparable period of FY 2016. Prudent monetary policy and lower budgetary borrowing from commercial banks have helped the private sector credit boom. Overall, there has been a broad-based increase in credit demand, especially from fixed investment, during FY 2017 with impetus coming from: textile, manufacturing, commerce & trade, electricity, gas & water supply, food and beverages, coke and refined petroleum, chemicals, cement, construction. Reserve money growth decelerated to 22.5 percent during 01 Jul-23 June FY 2017 as against a growth of 27.1 percent in corresponding period of last year. During 01 Jul-23 June FY 2017, CIC stood at Rs.576.26 billion compared with an increase of Rs.703.65 billion in the corresponding period of FY2016. Total deposits with banks have improved by 12%. However, the current account deficit increased to over 3% of GDP and policy interventions need to be taken to address this challenge.

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Banks deposits growth at 6-year high in June

Our Staff Reporter

LAHORE - As per the latest data published by State Bank of Pakistan (SBP), banking sector deposits are up 19 percent to Rs11.9 trillion in June 2017, which is a 6-year high. Experts attributed this to a 17 percent Broad Money (M2) growth in June 2017.

Deposit growth remained higher than expectation and could act as a catalyst in supporting profitability of the banks in times of tough Net Interest Margins (NIMs).

Advances also grew in tandem as they increased by 21 percent to Rs6.1tr. Such growth in advances was last seen in Jun 2006. This phenomenal growth is due to additional liquidity available with banks, unattractive yields prevailing on government securities and improving macros.

Despite this above average growth, advance to deposit ratio (ADR) of the sector stood at 52 percent which is still well below the levels seen in 2008 when ADR of the sector stood at 84 percent.

Investments on the other hand grew by 8 percent to Rs8.1tr as investment to deposit ratio (IDR) declined to 68 percent in Jun 2017 vs. 71 percent in May 2017.

Furthermore, breakdown of broad money numbers show that government has borrowed Rs1.4tr (Jun 30th to Jun 23rd 2017) from central bank as against net retirement of Rs382b in the same period last year. Borrowing from central bank is inflationary in nature and if it persists for long duration, it could lead to higher inflation and interest rates (positive for banks).

It also reduces the crowding out affect of private sector credit.

Experts said that banks witnessed an uptick in fresh spreads for the eleventh consecutive month in May 2017, highest streak since 2009, to clock in at 3.87 percent (up 6bps YoY).

However, weighted average banking spreads remained on its declining trend, posting a 24bps YoY decline during the same period.

Similarly, banking spreads averaged at 4.94 percent (down 22bps) during 5M2017. Lending rates on loans are down by 60bps YoY to 7.92 percent, while deposit rates have declined by only 37bps to 2.99 percent.

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Pakistan has huge potential for growth: Experts

NNI

ISLAMABAD - Professor Stefan Dercon addressed a seminar Saturday at Pakistan Institute of Development Economics (PIDE) on the economic transformation in Pakistan.

Dercon is a Professor of Economic Policy at the University of Oxford. The seminar was organized by the CPEC centre of excellence as part of their engagement initiative to build a dialogue on various aspects of economy in Pakistan.

The federal secretary Planning, Development and Reforms Ministry Shoaib Siddiqui stated that nations build their own destiny by working hard to achieve their targets. He expressed a sense of optimism in the economic prospects of Pakistan and said that the country has already begun its journey towards the path to development. He thanked PIDE for their work and stressed the need for this type of dialogue and for research so that economic corridors can translate into socioeconomic growth.

While commenting on the growth indicators of Pakistan, Dercon said that the Pakistan has a huge potential for growth. He suggested that the private sector will lead the road to development with support from the government of Pakistan. He was also impressed by the optimistic surge in the social sector of Pakistan.

Dercon has an interest in applying microeconomics and statistics to problems of development and also consults with DFID as their chief economist. During the seminar, he talked at length about the assessment of Pakistan`s economic issues and offered advice for a robust economic development for Pakistan.

While talking to the audience, Dercon stressed on the need for inclusive development in Pakistan and offered the ingredients for success for a developing economy like Pakistan. These ingredients include a vibrant private sector growth to absorb job seekers and a well-functioning social sector as a pre-requisite to development. This involves an outcome oriented industry encouraged by dialogue and discussion around economic prospects.

Dercon further said, “Sustained growth and development requires not just hard infrastructure, but also the appropriate ‘soft’ infrastructure. One precondition is peace and stability: without this, no investor will invest for the long-term. The economy would benefit tremendously from peace with neighbours – it would open up untold economic investment and trade opportunities.”

Speaking about the need for structural change in the economy, Dercon said that Pakistan has a strong potential, high quality resources and an excellent strategic location but it will only climb the product ladder by investing in soft infrastructure. While he expressed confidence in the infrastructure development in Pakistan, he suggested a parallel model of investing in the social sector to actually reap the results.

Lastly, he commented on the concept of historical context as an important element while determining the development framework. Pakistan wants to grow and replicate the South East Asian economies, but it should rather adapt to its own historical content and follow its own unique economic model to reap results.

Responding to a question, he said that peace within the region and an increased interconnectivity is indeed the road to development while the government must also focus on investing in the soft infrastructure.

Dr Shahid Rashid, the Executive Director CPEC Centre of Excellence, also commented on the subject by saying that the centre is working extensively to encourage dialogue between the government and stakeholders. He further added that input from independent analysts and internationally renowned economists is quite useful for the economy of Pakistan.

Vice Chancellor Asad Zaman concluded the event by adding a few of his own insights on the economic transformation in Pakistan. He suggested that Pakistan must also focus on character building of the citizens alongside ensuring inclusive development. He argued that ensuring growth will further lead towards an improvement in human index indicators which will pave way for holistic development in Pakistan.

The seminar was attended by Joanna Reid DFID Head Pakistan amongst other representatives from Planning Commission, Chamber of Commerce, Economic Affairs Division and Higher Education Commission amongst others.