January 2018

NEWS COVERAGE PERIOD FROM JANUARY 29TH TO FEBRUARY 4TH 2017

ECONOMY OF COUNTRY BEING BLED BY ILLEGAL AND SURREPTITIOUS THEFT OF NATIONAL WEALTH: SC

The Express Tribune, 3 February 2018

The Supreme Court has noted that the economy of Pakistan is being bled by illegal and surreptitious theft of national wealth which is stashed in foreign countries.

The three-judge bench, headed by Chief Justice of Pakistan (CJP) Mian Saqib Nisar issued a written order in suo motu case regarding the alleged illegal public money lying in foreign banks.

The order says that the same money could otherwise be utilised for the welfare of the people in projects such as education, health and public welfare. Such delinquency constitutes violation of the fundamental rights of the citizens of Pakistan and is a matter of great public importance.

The order further states that it has been common knowledge for years that a large number of Pakistani citizens, who are residents of Pakistan and are maintaining accounts in foreign countries without disclosing the same to the authorities competent under the laws of Pakistan or paying taxes on the same in accordance with law.

"Prima facie, it appears that such money is siphoned off without the payment of taxes through illegal channels and represents either ill-gotten gains or kickbacks from public contracts. Such money creates gross disproportion, inequality and disparity in the society, which warps economic activity and growth, and constitutes plunder and theft of national wealth," reads the order.

The court also noted that recently, the names of a large number of Pakistani citizens were disclosed in the Panama Papers and Paradise Papers. The chairperson of the Federal Board of Revenue (FBR) had appeared before the court and made a statement that appropriate action was being initiated against the citizens whose names had appeared in the above said papers. However, no appreciable progress appears to have been made in this regard.

Therefore, in exercise of powers under Article 184(3) of the Constitution of the Islamic Republic of Pakistan, 1973, the court directed the State Bank of Pakistan (SBP) to submit a comprehensive report before the next date of hearing. The report must highlight the steps which have been taken under the international agreements, treaties and protocols to identify the citizens who hold accounts in foreign jurisdictions, including UAE, Switzerland, Luxembourg, Spain, UK and other tax haven jurisdictions, including the British Virgin Islands and Cayman Islands

SBP, FBR, Security and Exchange Commission of Pakistan (SECP) and the Ministry of Finance shall submit report about the steps taken, in collaboration with other State institutions for

FBR has also been asked submit a report providing details of the steps taken on the basis of information available, inter alia, through Panama Papers and Paradise Papers and the action taken against citizens holding properties and banks accounts in foreign countries, says the order.

https://tribune.com.pk/story/1624709/1-economy-country-bled-illegal-surreptitious-theft-national-wealth-sc/

NEWS COVERAGE PERIOD FROM JANUARY 1ST TO JANUARY 7TH 2018
INFLATION SPIKES 4.6% IN DEC 2017, HITS 8-MONTH HIGH
The Express Tribune, 2 January 2018

For the first time in the past eight months, the inflation rate spiked 4.6%, showing the effect of government's policies including the increase in prices of petroleum products for end-consumers and levy of regulatory duty.
"The impact of government's decision to devalue the rupee against the US dollar by about 7.2% is also expected to appear after a lag of a couple of months," said State Bank of Pakistan (SBP) Governor Tariq Bajwa.
Measured by the Consumer Price Index (CPI), the inflation increased 4.57% in December 2017 against 4% a month earlier, reported the Pakistan Bureau of Statistics (PBS) on Monday.

The increase of over half a percentage point in a single month reflects the impact of the revision in government's administrative policies. The inflation rate was the highest since April 2017 when it had been recorded at 4.8%.

Prices went up both in food and non-food categories. Prices of those non-food items that had largely remained stable except for the cost of health care and education also increased after the government started enhancing petroleum product rates.

Other major reason was the imposition of regulatory duty on hundreds of tariff lines to rein in imports of "non-essential goods".

Owing to the pick-up in December's inflation rate, average inflation in the first half of current fiscal year (July-December 2017) rose 3.8%.

On a year-on-year basis, the non-food non-energy inflation, called core inflation, remained stable at 5.5% in December.

Among 89 commodity groups under the CPI, the core inflation covers price movements of 43 items. The central bank uses core inflation while formulating its monetary policy. The core inflation is a quarter percentage point lower than SBP's key policy rate.

Although in its last report on the state of economy the central bank has said that the government will meet its 6% inflation target for the current fiscal year, the target is expected to come under pressure from the levy of regulatory duty and a significant increase in petroleum prices. The rupee devaluation will also have its impact soon.
The extent of price increase due to devaluation and regulatory duty can be gauged from the Federal Board of Revenue's (FBR) estimates to collect an extra Rs75 to Rs80 billion in revenues in the next six months due to these two factors.
However, independent economists say the overall inflation rate will remain in single digit in the short term.

The PBS inflation bulletin showed that on a yearly basis, onion prices increased 130.4%, tomato prices almost 50%, government university fee 37.7%, government engineering fee around 33% and government college fee almost 25%. Prices of chicken and potatoes jumped over 21%.

In December, gas cylinders became expensive by 17%, petrol by 15%, iron bar 14.2%, diesel 12.8% and kerosene oil 13.5%.

The government is increasing petroleum product prices, citing the rise in crude oil prices in the international market. Another reason behind the high prices was 30% general sales tax on diesel that the government from January 2018 reduced to 25.5%. Still, it is significantly higher than the standard 17% tax.

Overall, the rates of non-perishable food items increased 2.3% and perishable food items saw a surge of almost 23%. The cost of health services went up almost 11% in December over the same month of previous year.

Education cost increased 12.4% mainly due to increase in the fee of universities, colleges and schools.
https://tribune.com.pk/story/1598096/2-inflation-spikes-4-6-dec-2017-hits-8-month-high/

CUT IN US SECURITY, ECONOMIC AID TO HAVE LIMITED IMPACT: ANALYSTS
Business Recorder,3, January 2018

KARACHI: Any cut in security and economic aid from the US will have limited to no damage on Pakistan's economy as quantum of such aid given to Pakistan has substantially declined over the years, analysts said.

After an anti-Pakistan tweet by the US President Donald Trump, Pak-US relationship has once again come under the spotlight, where potential cuts in economic and security aid and possible economic sanctions on Pakistan are being talked about.

"Since 2002, Pakistan has received $23 billion of security aid and $9.9 billion of economic aid from the US, totaling $33 billion during the past 16 years," Syed Atif Zafar at JS Global Capital said.

The average security aid received by Pakistan during the first 14 years of this period (i.e. 2002-2015) was around $1.56 billion/year, whereas during the last two years the same average has declined to $590 million/year.

This security aid includes the Coalition Support Fund (CSF), which has declined from $1.5 billion in 2010 to $550 million in 2016 (disbursed in March 2017).

The US recently authorized $750 million in CSF to Pakistan, of which $350 million will only be available contingent upon certification of US Secretary of Defense.

In the last two years, two successive US Defense secretaries – Ashton Carter and James Mattis, refused to give such a certification, thus preventing the administration to release the funds.

Other than CSF, Pakistan can potentially receive $133 million in 2018 under different heads of security aid.

Economic aid not contributing much either: The average economic aid received by Pakistan during this 16 years period clocks in at $619 million/year, however during 2009-2013 the same averaged at $1.1 billion/year, which is now down to $392 million/year during the past four years.

Most of this economic aid falls under the categories of (1) Economic Support and Development Fund, (2) Global Health Program and (3) Food for Peace program. The US has budgeted for Pakistan $211 million of economic aid in 2018.

While cut in aid appears to have a nominal impact on Pakistan's economy, economic sanctions are likely to be a different ball game altogether, in our view. The influence of US on Pakistan's economy has lowered over the years, however loss of (1) 'still a substantial' export market, (2) potential Foreign Direct Investments (FDIs), (3) business opportunities with US allies and (4) potential bailouts by the IMF can be significant.

Decline in share, but increase in exports and imports quantum: The share in Pakistan's overall exports of US markets has declined to 17 percent in FY17 from 22 percent during FY04-07 period; however the overall quantum of exports to the US has increased to $3.7 billion in FY17 from $2.8 billion in FY04. Similarly the share in Pakistan's overall imports from the US has declined to 4 percent in FY17 from 7 percent in FY04, though the quantum has increased to $2.2 billion in FY17 from $975 million in FY04.

Similar story with Remittances: The same as trade statistics, share of Remittances from the US has declined to 13 percent compared to 32 percent, however overall quantum has jumped to $2.5 billion in FY17 from $1.2 billion in FY04.

FDI from US down to bare minimum: Encouraging at present but concerning otherwise, the share of FDI from the US in total FDI received by Pakistan has declined to 1.0 percent compared to historical average of 25 percent. Notably, the average FDI recorded during the last two years from the US was $29 million/year vis-a-vis historical average of $450 million/year and record investment of $1.3 billion in FY08.

What else has changed? The increasing influence of China on Pakistan: A day after President Trump's tweet, China defended Pakistan saying the world community should acknowledge its all-weather ally's "outstanding contribution" to counter terrorism.

"We continue to believe CPEC will be a game-changer for Pakistan as it will result in a massive boost in trading activity with Gwadar becoming the gateway to all major sea routes", Syed Atif Zafar said.

In FY17, Pakistan received $1.2 billion of FDI from China, i.e. 44 percent of the total FDI received during the year.
In a recent survey, 59 percent of the respondents are of the view that CPEC is likely to have a positive impact on Pakistan's economy while 18 percent thought otherwise.
https://epaper.brecorder.com/2018/01/03/3-page/691571-news.html

PAKISTAN NEEDS TO BE ECONOMICALLY STRONG TO HANDLE INTERNATIONAL PRESSURE
The Express Tribune, January 3rd, 2018

The Lahore Chamber of Commerce and Industry (LCCI) has said that only an economically strong Pakistan can handle all sorts of international pressures therefore "war against economic ills" should be started instantly and a task force for economic revival, with representatives from both public and private sector, should be formed.

"Pakistan is a resource-rich country and does not need any external financial help. Unfortunately, the previous governments did not pay any heed to tap the resources," LCCI President Malik Tahir Javaid, Senior Vice President Khawaja Khawar Rashid and Vice President Zeshan Khalil said in a statement.

The LCCI office-bearers said that economic weaknesses of any country give others the opportunity to criticise and the same is happening in our case. They said that political instability, below-par foreign direct investment, high cost of doing business, politics on mega projects like Kalabagh dam and huge trade deficit have led to stagnant growth in Pakistan. The officials stressed that these issues needed to be resolved through good economic reforms.

While strongly supporting the Kalabagh dam, they said that this mega project should not be sacrificed to political wills as it has to play a major role in the economic uplift of the country.

They said that the Kalabagh dam will store 6 millions acre feet of water and will give benefit of $12 billion annually to the economy. LCCI said that most of the Public Sector Enterprises (PSEs) are strangling the national exchequer by eating up around Rs600 billion a year. Wastage of this hard-earned money of the taxpayers is sheer injustice. They said that these PSEs should be turned into profitable entities through strict reforms.

The officials were of the view that market and products diversification is the best method to boost exports. They said that Pakistani exports always remained dependent on a few items and countries, and urged the government to task Pakistani missions abroad with finding new destinations. Government should also facilitate export-oriented industries by resolving their genuine issues like delay in refunds. The officials also stressed on taking advantage of the beautiful landscapes in the country to enhance the tourism industry.

The tourism industry is one of the largest industries with direct or indirect economic contributions of over $7.5 trillion but this sector is not tapping its full potential.

Keeping in view the fast changing global scenario and challenges for Pakistan, the government's immediate economic planning and its implementation in the true sense of the word is a must for self-reliance and to avert any serious challenge to the national sovereignty.
.https://tribune.com.pk/story/1599225/2-pakistan-needs-economically-strong-handle-international-pressure/

PAKISTAN'S BUDGET DEFICIT INCREASES TO RS 826 B
The Express Tribune, January 6th, 2018.

In a clear sign of deviating from the path of fiscal discipline in an election year, the budget deficit during the first five months of the fiscal year has shot up to Rs826 billion, which is more than half of the annual target.

One of the key reasons for the increasing budget deficit from July through November was roughly Rs625-billion cost of domestic and foreign debt servicing, said officials in the Ministry of Finance.

The overall budget deficit – gap between expenditures and incomes – has widened to 2.3% of Gross Domestic Product (GDP) or Rs826 billion during the July-November period of FY18, said the officials. This was despite the fact that the four federating units showed Rs150 billion as cash surplus during the five months. Excluding provincial savings, the federal budget deficit would jump over Rs970 billion in just five months.

These figures are startling and negate the federal government's claim that it has reversed the trend of the last fiscal year when the budget deficit peaked to a historic high of Rs1.863 trillion.
The trend suggests that the annual budget deficit target of 4.1% of GDP or Rs1.480 trillion that parliament had approved in June last year has already become unrealistic in just five months. The Rs826-billion budget deficit was equal to 56% of the annual target.

The United States' decision to withhold Coalition Support Fund disbursements would also adversely affect Pakistan's fiscal operations.

During the recently concluded talks, the International Monetary Fund (IMF) had informed the finance ministry that the budget deficit would swell to 5.4% of GDP or over Rs1.9 trillion. After assuming office, the newly appointed Minister of State for Finance Rana Muhammad Afzal said that the government would try to contain the budget deficit to 5% of GDP.

But results of the first five months suggest that the annual budget deficit may even exceed last year's level of Rs1.863 trillion. During the first half of the last fiscal year, the finance ministry had booked Rs799 billion or 2.4% of GDP budget deficit.

The budget deficit and the current account deficit remain the two biggest challenges for Pakistan's economy that overshadow the government's economic performance in other areas. Because of these twin deficits, there are apprehensions that Pakistan may go back to the IMF for yet another bailout package.

Last month, the IMF stressed that Pakistan needed to undertake strong reforms to maintain external stability, ensure debt sustainability and support higher economic growth in the medium term by containing the budget deficit.

IMF's Mission Chief for Pakistan Harald Finger said that the key challenge for Pakistan's economy was managing through the political situation in the mid-term and during this time focusing on stability issues, declining reserves and containing fiscal deficit.

However, as elections approach, the government has opened the purse for spending on politically motivated development schemes.

One of the main reasons behind the Rs826-billion budget deficit was ballooning debt servicing repayments. From July through November of the current fiscal year, the domestic and foreign debt servicing increased to roughly Rs625 billion, said the officials.

The Rs625 billion debt servicing was almost half of the annual budget earmarked for this purpose. For the current fiscal year 2017-18, the federal government has earmarked Rs1.363 trillion for domestic and foreign debt servicing.

The officials said that the government's growing reliance on short-term domestic and foreign borrowings has significantly increased the debt servicing cost. The 7.2% rupee devaluation since July last year would also increase the government's cost of external debt servicing.

Banks are reluctant to invest in long-term debt instruments of the federal government, which has in return increased the cost of debt servicing on a quarterly basis.

The central government's debt and liabilities increased to Rs21.4 trillion by June last year, which were about 68% of the total national output and is considered a dangerous level.

Federal development spending in the first five months amounted to roughly Rs180 billion or about 18% of the annual budget. This is significantly lower than the limit set by the National Economic Council. The federal development spending should have been close to Rs300 billion.

A significant chunk of the federal development spending has gone to parliamentarian schemes.

https://tribune.com.pk/story/1601818/2-july-november-pakistans-budget-deficit-increases-rs826b/

February 2018

NEWS COVERAGE PERIOD FROM FEBRUARY 19TH TO FEBRUARY 25TH 2018

AMID THREAT OF US SANCTIONS, AN ECONOMIC CRISIS LOOMS

The Express Tribune, February 19th, 2018.

Ihtashamul Haque

The Trump administration is mulling over various options to slap sanctions on Pakistan that may force Islamabad to declare a financial emergency to avoid collapse of the economy.

Although Pakistan has succeeded in winning over the support of many countries including China, Russia, Saudi Arabia and some important members of the European Union, the United States continues to threaten Islamabad if it does not allegedly stop supporting terrorist outfits, especially Afghan Taliban and Haqqani network.

Some of the US senators and House of Representatives' members are pushing Trump to impose sanctions on Pakistan as it is still unprepared to accept Washington's dictates. Islamabad has been told directly and indirectly that it would have to go along with the Indo-US strategy in Afghanistan and the region to escape sanctions.

While the government appears to have given in to the pressure in a couple of areas including banning a number of religious and militant organisations including Jamaatud Dawa of Hafiz Saeed, it is not ready to concede anything that is against its vital national interest.

The Corps Commanders' conference held at GHQ Rawalpindi last week is said to have vowed not to accept any Indian military role in Afghanistan. This is in that backdrop it is feared that the US government could slap sanctions on Pakistan, though it has so far not got enough support from the larger international community.

"We are left with limited options to escape a bigger financial turmoil and I am afraid the situation would go out of hands, if the US slaps sanctions on us," warned renowned economist Dr Hafiz Pasha. "In that case, the constitution allows proclamation of financial emergency under Article 235 and this is how we may deal with US sanctions."

The former finance minister called for forging urgent political consensus to cope with any contingency that might arise from the sanctions.

Pasha said balance of payments problem was getting precarious, requiring urgent measures including non-tariff barriers that are allowed by the General Agreement on Tariffs and Trade (GATT). It was the first worldwide multilateral free trade agreement that remained effective from June 30, 1948 to January 1, 1995 and was later replaced by more robust World Trade Organization (WTO). The current economic situation, he said, was getting unsustainable with fiscal and current account deficits becoming larger than expected.

"Our imports need to be greatly restricted," he said, adding whether anybody ever anticipated that these imports could go as high as $4.5 billion just in one month.

He suggested that politicians should stop constant bickering and immediately arrive at a consensus to deal with any US sanctions. "The sooner our politicians realise, the better it would be to fix our economy that has been ruined over the years," he said. The Abbasi government does not look interested in delivering ahead of upcoming elections and perhaps it expects the new government to deal with growing economic challenges.

Now when the burgeoning external imbalances are getting unmanageable, some officials are suggesting the country should seek urgent external financing, the chances of which are not very bright due to the US and its influence over international financial institutions. While there is some improvement in tax revenues, non-tax revenues including privatisation and the Coalition Support Fund (CSF) are a problem area that needs to be improved to fund the current budget. However, that budget has been deliberately devastated by extending billions of rupees to PML-N and like-minded legislators to help them win the elections.

New development schemes are sought to be approved by the Planning Commission despite the fact that there does not exist enough fiscal space.
But those who are sitting in the Planning Commission have found an intriguing way to vent their frustration by releasing their internal assessment according to which the government has missed all major macroeconomic targets including revenue growth, industrial output, agriculture, deficit, investment, savings, exports, FDI and social indicators. The timing of the report is being termed very embarrassing for the government which plans to cash in on its so-called economic achievements including those relating to electricity and development projects.

Why fiscal deficit is growing despite having some growth in revenue? The revenue is increasing in provinces and not in the books of the federal treasury.

Fiscal deficit has increased from an average of 5.2% of GDP to 5.8% in 2016-17. Will it cross 6% or reach close to 8% as being projected by independent economists?

Generally, it is said that over-spending is required for which the Ministry of Finance is forcing planners to disburse more and more funds for development purposes. Since the balance of payments remained under severe pressure, the current account deficit grew to $12.4 billion – 4.1% of GDP – in 2016-17 from $5 billion (1.7% of GDP) in 2015-16. Will the current account deficit pose far more serious problems when the current fiscal year ends on June 30?

Who would disagree that Pakistan's balance of payments problem began to worsen immediately after the completion of IMF's three-year $6.67 billion Extended Fund Facility. IMF officials have no answer when asked why their projected $4.7 billion current account deficit for 2016-17 proved wrong and the figure surged to $12.4 billion. Economists ask how could IMF officials be so wrong in predicting the deficit?

The current account deficit primarily worsened due to extraordinary 18.8% surge in imports which included 26.7% growth in petroleum products, 24.9% in transport, 19% in machinery including 43% in electrical machinery, 62% in apparatus and 26% in power generation machinery. The important question, however, is why did the government allow these huge imports, especially those of luxury and non-essential items? Was that meant to appease the affluent class that eventually turned out to be a real issue in the burgeoning deficit?
The current economic mess, no doubt, is being experienced due to political uncertainty for which the Abbasi government should be blamed that wasted so much time in appointing a new finance minister after Ishaq Dar left for London to avoid accountability cases.
Does anyone have any idea whether the current government, caretaker government or the future elected government would take into account the dangers of fiscal and current account deficits?

Everyone knows that the looming economic crisis will have devastating effects, but then those who matter seem unmoved. Where will that take the poor nation?

The writer is the recipient of four national APNS awards and four international best journalistic awards
https://tribune.com.pk/story/1638459/2-amid-threat-us-sanctions-economic-crisis-looms/

CURRENT ACCOUNT GAP WIDENS 48PC
Dawn, February 21st, 2018

KARACHI: Pakistan's current account deficit widened by 48 per cent in the first seven months of the fiscal year, reflecting the mounting pressure of trade deficit which jumped by 24pc in the same period.

The State Bank of Pakistan (SBP) reported on Tuesday that the current account deficit during July-Jan rose to $9.156 billion compared to $6.182bn deficit noted in the same period of 2016-17.

In the month of January, the current account deficit increased to $1.617bn against $1.256bn in December. The January deficit was even higher than the monthly average deficit of $1.308bn.

The trend suggests that the overall deficit could be around $15bn by the end of 2017-18 if the current trajectory persists.

The balance on trade in goods increased by $3.3bn to $17.133bn during this period while the balance on trade in goods and services rose to $20.09bn.

In the wake of widening current account deficit, the country needs higher inflows like remittances and foreign direct investment but the inflows from both these sources are not sufficient to meet the deficit. The foreign exchange reserves of the country have been declining despite the government's borrowing of $2.5bn from the sale of bonds in the international market. The SBP reserves fell to $12.83bn last week versus $14.106bn in December 2017.

https://www.dawn.com/news/1390651

NEXT 10 YEARS CRUCIAL FOR PAKISTAN'S ECONOMY: WB
Dawn, February 22nd, 2018

Kalbe Ali

MURREE: "Next 10 years are crucial for Pakistan to set a higher growth trajectory, with challenges arising on the economic front, due to lack of political consensus," said the Country Director, World Bank, Patchamuthu Illangovan, on Wednesday.

Addressing participants of an economic conference, Illangovan pointed out that Pakistan's economy is facing short-term issues in the wake of rising external account deficit.

"The government had held back exchange rate for long, but recently allowed around five per cent adjustments in rupee-dollar parity. However, more flexibility is needed to move in the desired direction," he said.

He added that the WB would issue revised growth rate targets in its upcoming report in April.

The country director stressed that improved coordination was needed among the provinces on fiscal reforms.

Meanwhile, Saqib Sheerani, a former adviser to the Ministry of Finance, highlighted that Pakistan's ease of doing business was currently at 147, which was 128 in 2005.
"The key challenge is that the government should expand its tax base," Sheerani said, adding that it has led to undue higher profitability in the informal sector."

He said that as a result of government policies, the formal sector of Pakistan is facing undue fierce competition with foreign exporters as well as the local informal sector too.

Responding to queries about the long-term benefits of CPEC, Sheerani said that the government should aggressively negotiate transfer of technology and establishment of joint ventures with Chinese investors.

Speakers at the conference also highlighted that FBR was one of the institutes resisting economic reforms. Meanwhile, Chairman Board of Investment, Naeem Zamindar mentioned that the first meeting of the Steering Committee of Ease of Doing Business will be held on March 1.

The committee, chaired by the prime minister, aims to develop coordination among relevant government departments to facilitate 'Ease of Doing Business' in Pakistan.

https://www.dawn.com/news/1390988/next-10-years-crucial-for-pakistans-economy-wb

FEDERAL BUDGET TO TAKE RS100BN HIT
Dawn, February 25th, 2018

Khaleeq Kiani

ISLAMABAD: The federal budget is estimated to take an additional hit of Rs100 billion as political considerations take priority over economic decision making in the 100 days of the government's tenure.
Indicating that the government was entering a populist mode that could compromise the fiscal discipline maintained so far in the current year, a senior government official said, "These costs would keep growing as we get closer to the two major events — upcoming elections and the next year's budget."
The official explained that the federal cabinet's move to deny an increase to consumer-end power tariff determined by the National Electric Power Regulatory Authority (Nepra) under duress was an example of politico-economic decision making.

"On tariff rationalisation for the power sector, the cabinet rejected Nepra's recommendation for upward revision of the power tariff and decided to maintain the existing tariff," said an official statement at the end of a meeting of the federal cabinet earlier on Tuesday.

Govt is taking populist steps as it enters last 100 days of its term

The official said the federal government had utilised all forums and resources to compel the regulator to allow recovery of higher system losses from consumers through tariff. The regulator kept resisting the pressure for more than two years and when finally when it agreed to oblige with higher determined tariff, the government decided not to pass it on to the consumers to avoid political backlash ahead of the general elections.

Informed sources said the decision not to pass on higher tariff to consumers came after the opposition parties started building up a case against continuous increase in petroleum prices.

The ruling PML-N believes the combination of power tariff, oil prices and other fuel prices could add to the rising rate of inflation. This could drag public support away from the government so close to elections.

Sharing details of the tariff, the official said Nepra had determined the national average tariff for fiscal year 2014-15 at Rs12.33 per unit (Kwh) and the government notified a rate of Rs11.45 per unit. The difference of 88 paisa per unit was then picked up by the federal government as subsidy, a net amount of Rs65 billion.

The same tariff remained effective until now even though Nepra had subsequently started reducing average national tariff. However, the government did not allow its implementation.

For instance, Nepra determined tariff for the fiscal year 2015-16 at Rs.10.90 per unit but the erstwhile Ministry of Water and Power facilitated the distribution companies to challenge the tariff in the Islamabad High Court and secured a stay order. After a series of persuasions and background engagements, the regulator finally re-determined the 2015-16 tariff at Rs11.38 per unit instead of Rs10.90.

This resulted in per unit differential of 48 paisa per unit on account of one per cent increase in transmission and despatch loss in tariff from 15.23pc to 16.28pc worth Rs10bn a year. Another Rs24.339bn was allowed through write-off on debt and outstanding bills on provisional basis without the approval of the board of directors.

The proposal was to increase the total tariff by Rs1.36pc on national average basis but the government viewed its political cost to be on the higher side. The combined impact of these matters was estimated at Rs100bn when the impact of revision in hydropower profit to provinces was also taken into account, said the official.

The hit would have to be taken on the budget on top of Rs105bn subsidy allocated in budget for the current year, he added.

A spokesman for the Power Division said, “The federal cabinet approved the tariff notification determined by the Nepra by keeping the consumer end tariff at the same level and rejecting tariff increase determined by (the) Nepra.”

The “end-consumer tariff across Pakistan will remain at the same level and there will not be any increase,” he said.

An official said the power companies would try to mitigate the impact of subsidy through adjustments in power supply as indicated by the minister for power.

He said the prime minister would spend the remaining three months announcing development schemes and inaugurating various projects and try to maintain all consumer prices within current levels to win popular support in coming elections.
https://www.dawn.com/news/1391604/federal-budget-to-take-rs100bn-hit

NEWS COVERAGE PERIOD FROM FEBRUARY 12TH TO FEBRUARY 18TH 2018
PAKISTAN’S EXTERNAL DEBT, LIABILITIES TOUCH $89 BILLION
The Express Tribune, February 16th, 2018.

Amid declining foreign exchange reserves and weakening capacity to repay, Pakistan’s external debt and liabilities rose sharply to almost $89 billion at the end of December, reported the State Bank of Pakistan (SBP).

The government booked a higher amount of debt than what an independent economist predicted over two years ago. Former finance minister Dr Hafiz Pasha had predicted in December 2015 that by June

2019, Pakistan's external debt and liabilities would touch $90 billion. With six months to go, the likelihood of external debt and liabilities crossing $90 billion is extremely high.

Pakistan's total external debt and liabilities as of December 2017 stood at $88.9 billion, higher by $5.8 billion or 6.9% over six months ago. There was an increase of $13.2 billion in the amount of external debt and liabilities in just one year. In December 2016, external debt and liabilities amounted to $75.7 billion. At the time, Pakistan's gross official reserves were $18.6 billion, which have already slid to $12.8 billion.

Out of total external debt, the government's direct obligations are equal to $70.5 billion, which exclude guaranteed and public sector enterprises' debt.

The main increase came in the external debt contracted by issuing sovereign bonds and taking expensive commercial loans. In the first half, debt obligated by issuing Sukuk and Eurobonds increased by 52% to $7.3 billion.

Similarly, the debt obtained by taking commercial loans increased to $5.3 billion by December 2017 – a net addition of $503 million or 10.4% in six months. On a yearly basis, debt accumulated through commercial loans increased by 189% or $3.5 billion.
The rise in external debt comes at a time when official foreign currency reserves are plunging as well. The SBP has already lost $3.5 billion worth of reserves since the start of the fiscal year.

The alarming figures indicate the government's inability to ensure enough non-debt creating inflows to meet external account requirements. Due to huge domestic and foreign borrowings, debt servicing is now the single largest charge on the federal budget.

A sum of $3.62 billion was spent on the servicing of outstanding stock of external debt in just six months, according to the central bank. The country paid $2.7 billion in principal loans and $988 million in interest on outstanding loans.

The government could not get any foreign loan rescheduled in the first half of the fiscal year, unlike last year when it was able to roll over $1.2 billion worth of external loans.

Two weeks ago, the government had admitted before the National Assembly that Pakistan's external debt bearing capacity has deteriorated further. In its Debt Policy Statement 2017-18, which the finance ministry submitted to the lower house of parliament, the government admitted that during the last fiscal year the country's external debt increased at a faster pace than its foreign exchange earnings did.

In addition, Pakistan's external debt in percentage of foreign exchange reserves also increased to the three-year high. Similarly, the cost of external debt servicing in percentage of foreign exchange earnings significantly increased – also the highest than the last year of the Pakistan Peoples Party government.

Due to the widening current account deficit, independent economists have lately estimated the gross external financing requirements in the range of $24 billion to $26 billion for the current fiscal year. The government's conservative estimates put the figure at $18 billion.

The financing gap is estimated at roughly $6 billion for the remainder period of the current fiscal year, which would either be met through more foreign loans or drawing official foreign currency reserves.
https://tribune.com.pk/story/1636130/2-pakistans-external-debt-liabilities-touch-89-billion/

PAKISTAN BORROWS ANOTHER $500M FROM CHINESE BANK
The Express Tribune, February 17th, 2018.

Pakistan has contracted another foreign commercial loan of $500 million from the Industrial and Commercial Bank of China (ICBC), taking the Chinese financial institution's contribution to supporting a strong rupee against the US dollar to $1 billion in just three months.

The government contracted the loan on January 15 at a rate in the range of 4.5%, said sources in the finance ministry. In January, the country took total $704 million worth of new loans, taking foreign borrowings to $6.6 billion in just seven months of this fiscal year, said the sources.

The foreign loans were equal to 86% of the annual budgetary estimates that parliament had approved in June last year. This suggests that foreign loans for the second consecutive year may cross $10 billion.

China was the single largest lender that gave a total of $1.6 billion, which was equal to one-fourth of the total foreign loans Pakistan has received in the last seven months. Beijing also gave roughly $610 million for project financing during the first seven months.

In terms of source, sovereign bonds were the single largest source after Islamabad raised $2.5 billion in November, which contributed roughly 38% to total foreign loans.

It was the second loan that the ICBC has given to Pakistan to support its diminishing foreign currency reserves, which are largely used to defend a strong rupee and finance the trade deficit. The ICBC had also given $500 million in October last year.

Sources in the State Bank of Pakistan said that it was still intervening in the exchange market to keep the dollar-rupee parity at current level. In December, the central bank let the rupee depreciate by 5.2% against the US dollar. But it was still far less than the International Monetary Fund's assessment of the real value of the rupee.

With fresh foreign loans, the total foreign commercial borrowings in the first seven months of this fiscal year have increased to $1.8 billion, said the sources. The finance ministry had informed parliament in June last year that it would obtain $1 billion as commercial loans during 2017-18 that will end on June 30. However, it has already breached the limit with five months remaining.

So far, Citibank has given $267 million, Credit Suisse AG loaned $255 million, Standard Chartered Bank London $200 million and Dubai Bank $55.9 million. The share of foreign commercial banks in total loans stood at 27%.

The loans are obtained to stop the downward slide of the official foreign currency reserves that currently stand at $12.8 billion even after issuing $2.5 billion worth of sovereign bonds in November. The ministry is trying in vain to stop the reserves from slipping below the two-and-a-half-month import bill cover, which at current value of the import bill stands at $12.3 billion.

Official foreign currency reserves have depleted by $3.5 billion since July. The current account deficit during the first half of the fiscal year widened to over $7.5 billion.

The PML-N government has been accused of ruining the country's exports by keeping rupee stronger and blocking taxpayers' genuine refunds. This has kept the official non-debt creating inflows below requirements and caused a massive increase in the country's external debt.

Pakistan's total external debt and liabilities as of December 2017 stood at $88.9 billion, higher by $5.8 billion or 6.9% over six months ago. The main increase came by issuing sovereign bonds and taking expensive commercial loans. In the first half, debt obligated by issuing Sukuk and Eurobonds increased by 52% to $7.3 billion.

Similarly, the debt obtained by taking commercial loans increased to $5.3 billion excluding the impact of the fresh ICBC borrowing.

The Islamic Development Bank extended $846 million loans and the Asian Development Bank gave $481 million for projects' financing in the first seven months. The World Bank released only $289 million in the July-January period, which is equal to 28% of the official annual estimates of $1.03 billion.
https://tribune.com.pk/story/1637050/2-debt-pakistan-borrows-another-500m-chinese-bank/

March 2018

NEWS COVERAGE PERIOD FROM MARCH 19TH TO MARCH 25TH 2018

PAKISTAN'S E-COMMERCE MARKET SIZE SET TO CROSS $1B THIS YEAR

The Express Tribune, March 19th, 2018.

In a surprising but welcome development, the size of Pakistan's e-commerce sector is expected to cross the coveted $1-billion mark in fiscal year 2017-18, much earlier than previous estimates, said an industry official.

Propelled by the increase in broadband penetration as well as a rise in the number of online payment merchants, the six-month data of the central bank suggests that Pakistan will cross the threshold in FY18, two years ahead of earlier projections. Adam Dawood, head of Yayvo, the online shopping portal that is part of TCS E-COM (Pvt.), said that strong growth during the current fiscal year will push annual sales beyond $1 billion.

"If we believe that 85% of the market is based on cash on delivery (COD) payments, then the fact that we have already achieved Rs9.3 billion of prepayment sales within the first six months of FY18 puts us on a fairly easy course to hit $1 billion in e-commerce sales this year," Dawood told The Express Tribune.

When asked how the percentage for COD payments was determined, Dawood said according to market practices more than four out of five orders have been reported to be cash on delivery. Based on this assumption, Dawood says total e-commerce sales during the first two quarters have already reached Rs65.3 billion.

"Data of the last seven quarters shows that total volume of e-commerce sales has risen every quarter except for the second quarter of the current financial year. Assuming the trend stays the same we are sure to cross $1 billion in sales," Dawood said.

According to this data, prepayment sales during the previous fiscal year amounted to Rs9.8 billion. Durign the first half of the current fiscal, sales of Rs9.3 billion have been made, according to the Payment System Review published by the State Bank of Pakistan (SBP). Based on these numbers, half-yearly prepayment sales have already surpassed 95% of total prepayment sales during FY17, which lends much credence to Dawood's prediction.

He backed his assumptions with two major positive indicators that have historically pushed the sector forward. "Broadband penetration and number of online payment merchants have both witnessed a massive increase within the year. Number of subscriptions has increased from 44.5 million to 52 million subscribers while the number of merchants has gone up from 571 to 905 by January."

Higher smartphone and internet penetration coupled with increased number of online payment merchants expand both the total serviceable market of customers and the availability of online purchases. In layman terms, the e-commerce sector is witnessing both demand- and supply-led growth.

"People are realising its easier to buy tickets to their favourite movies or make their travel plans online rather than going to an agent," Dawood elaborated on the appeal of e-commerce for consumers.

"Increased reliability of online shopping along with its ease and comfort compared to traditional retail are drawing higher number of consumers.

"Banks have also started opening up their debit and credit cards to be used online as they implement 3D securitisation, making transacting online a much more seamless journey than before."

Despite encouraging growth, the size of Pakistan's e-commerce sector is still negligible compared to regional countries. According to market research portal Statista, Pakistan's e-commerce sales amounted to $622 million in 2017 compared to India's $20.05 billion and China's $1.2 trillion. In relative terms too, both India and China outpace Pakistan with e-commerce sales as a percentage of country retail sales being 1.85% and 21.19%, respectively, compared to Pakistan's 0.34%.
Dawood blames the delayed availability of mobile broadband services for the relatively small size of the e-commerce sector, rather than deficiencies on part of e-commerce firms.

"Investment in technology is crucial for our economy to continue growing in the digital age," Dawood contended. "Studies by the GSMA have shown that once 3G technologies enter a country it has a direct impact on GDP growth. Sri Lanka got 3G in 2006 with India starting in 2008, whereas Pakistan came in very late in 2014."

The widespread availability of the cash on delivery mechanism is a major blessing for the e-commerce sector, Dawood stated when asked for remedial measures required, other than investment in technology infrastructure, for increasing growth. "We have more than five online payment gateways and our logistics companies can reach practically every Pakistani and offer them products through COD," Dawood said.

The game changer, he believes, would be increased usage of digital financial services. “We only have 19.8 million debit cards and 1.3 million credit cards with 49 million bank accounts. When the number of bank accounts starts reaching the number of mobile connections in the country, we will see exponential growth in almost every industry in Pakistan,” he said.

Dawood said sectors that entail the greatest inconvenience for customers will benefit most from online transactions.

Taking the transportation sector as an example, Dawood said booking of bus tickets requires visiting bus stations or travel agents, which can now be done online. Similarly, he cited the facility of getting certificates from NADRA online instead of standing in queues outside their offices.

“Everything from getting cinema tickets to ordering a taxi is now easy, simple and convenient,” Dawood said.

While the trend remains impressive, Pakistan, slated to post its highest GDP growth rate in over a decade this year, remains under-developed when it comes to e-commerce. “The entire retail industry needs to embrace technology, and by technology I don’t mean artificial intelligence or machine learning but simple investments in systems like inventory management,” Dawood said, highlighting the systems’ ability to talk to other systems through open APIs and the resulting efficiency they bring to the retail sector.

“So many retail stores still have those yellow price stickers on products, which is inefficient compared with products that have barcodes.”

https://tribune.com.pk/story/1663707/2-pakistans-e-commerce-market-size-set-cross-1b-year/

DOLLAR SURGES TO RS115.5 AMID ‘DEVALUATION BY SBP’
Dawn, March 21st, 2018

ISLAMABAD: The Pakistani rupee weakened sharply against the dollar on Tuesday in what appeared to be currency devaluation by the State Bank of Pakistan (SBP), the second such intervention in less than four months, traders said.

The apparent devaluation comes at a time when Pakistan’s nearly $300 billion economy is showing signs of vulnerability despite surging growth rates.

The rupee plunged to about 115.5 per dollar in early trading from 110.5 at Monday’s close, the traders said.

SBP spokesman Abid Qamar told Reuters the rupee plunge was a “market-driven” event, while foreign exchange traders said the SBP’s withdrawal of support for the rupee in daily market operations sent the currency lower on Tuesday.

Central bank says the currency plunge is a ‘market-driven’ event

The SBP devalued the local currency in a similar manner by about five per cent in December last year amid balance of payment pressures due to a widening current account deficit and dwindling foreign reserves. The market had already been expecting another move for devaluation this year.
“Apparently the central bank withdrew support,” said Fawad Khan, head of research at BMA Capital.

Withdrawal of support would have the effect of devaluing the currency as the SBP is the most influential player in the thinly-traded local foreign exchange market and controls what is widely considered a managed float system.

About the rupee’s decline on Tuesday, the SBP spokesman said it was triggered by “some payment pressures which are building within the market” and added that the central bank would be “observing the market where it is moving towards”.

Vast infrastructure investments by China along with a sharp drop in militant attacks propelled Pakistan’s economic growth to above five per cent, the fastest pace in a decade. But a surge in imports, in part driven by purchases of machinery for the Chinese projects, has widened Pakistan’s current account deficit and prompted analysts to suggest the country may need an International Monetary Fund (IMF) bailout within the next 12 months.

Only this month, the IMF, which had previously provided a bailout package to Pakistan in 2013, had observed that Pakistan’s short-term outlook was “broadly favourable” but also warned that “continued erosion of macroeconomic resilience could put this outlook at risk”.

Analysts have been warning the authorities for some time that the currency remains overvalued. “We believe this is much needed as Pakistan’s external account has deteriorated as of late,” said the Topline Securities brokerage in a flash note to clients on Tuesday morning soon after the rupee weakened.

With a general election due in less than five months, analysts say the government will be reluctant to pursue many of the unpopular or politically-damaging measures such as turning to the IMF again, or loosening the currency peg that could further weaken the rupee and usher in higher inflation.

Adviser to Prime Minister on Finance Miftah Ismail had earlier claimed that the country would not need another bailout, citing that exports were on the rise with foreign reserves being well managed.
Capital Economics, a macroeconomic research consultancy, said it expected the government to keep running down its foreign reserves until after the election in order to keep the rupee pegged.
“Once the election is out of the way, however, more drastic action is likely,” Capital Economics said in a research note.

https://www.dawn.com/news/1396615

BUDGET DEFICIT TO REACH 6PC IN 2017-18: IMF
Dawn, March 21st, 2018

Khaleeq Kiani

ISLAMABAD: Pakistan's budget deficit for the current fiscal year is likely to reach around 6 per cent of GDP — almost 2pc higher than the 3.9pc budgetary limit — based on varying projections of the government and the International Monetary Fund (IMF).

The IMF had put Pakistan's fiscal deficit for 2016-17 at 6.3pc of GDP — about 0.5pc higher than the official accounts closed at 5.8pc.

"The staff estimates the underlying deficit to have been about 0.5pc of GDP higher (6.3pc) after accounting for one-off asset sales," IMF said in a detailed report on Pakistan's economy released on the weekend.

These include the sale of a government-owned printing press to the State Bank of Pakistan, selling a public enterprise (namely LNG-based power project) to a government-owned development fund, and appropriation of funds from dormant public saving schemes accounts as non-tax revenue.

The government has been claiming 5.8pc deficit for 2016-17 against the 3.8pc budgeted target.
The IMF said the fiscal deficit in the first quarter of 2017-18 has already crossed 1.2pc of GDP compared to 1.3pc of GDP in the same period last year, helped by strong growth of over 20pc in revenue collection by the Federal Board of Revenue.
Based on the first quarter performance, the IMF has estimated the fiscal deficit, excluding grants, for the current year at Rs1.956 trillion or 5.5pc of GDP against Rs1.864tr in 2016-17. This is despite the fact that the Fund has projected that the country would contain public sector development programme (PSDP) for the current year at Rs800 billion — almost 0.5pc of GDP or Rs200bn — lower than the budgeted amount of Rs1.001tr.

Adviser to the Prime Minister on Finance, Revenue and Economic Affairs Dr Miftah Ismail, on the other hand, disagreed that despite IMF projections there was any limit on utilisation of funds for development projects that could go well beyond Rs900bn.

That would mean the fiscal deficit would be around 6pc of GDP in case the IMF projections for federal development budget materialise. Also, the IMF has estimated the provincial development budget to be contained at Rs961bn against budget allocations of Rs1.112tr to create an additional space of Rs151bn.

In case the IMF estimates about the federal and provincial budgets come true, the gap only on account of development programme would be around Rs350bn — almost 1pc of GDP.

Mr Ismail has repeatedly said in recent days that he would make sure that the fiscal deficit is contained between 5-5.2pc of GDP at all costs. The IMF said that the fiscal risks also stemmed from continued loss-making in public sector enterprises as privatisation and restructuring of key loss-making entities have been largely on hold.

Meanwhile, financial losses by the state-owned airline and steel mills have continued to accrue, while the accumulation of new payment arrears of power distribution companies (so-called "circular debt") — which was brought to near zero by the end of 2015-16 — has resumed, reaching Rs193bn (0.5pc of GDP) since July 2016, with an accumulated stock of such arrears of Rs514bn (1.5pc of GDP) by end-December 2017.

The combined accumulated losses by these entities has now exceeded Rs1.2tr (4pc of GDP), which could eventually lead to a sizable demand for budgetary resources. In addition, inter-agency arrears in the gas sector, although still low, have been rising, reflecting limitations in the current cross-subsidisation arrangement between the two publicly-owned gas companies and delays in updating gas tariffs, the IMF said.
https://www.dawn.com/news/1396571

GOVERNMENT VOWS TO BRING 'TAX-FREE' BUDGET
The Express Tribune, March 23rd, 2018.

Punjab Finance Minister Dr Ayesha Ghaus Pasha said the next fiscal budget for 2018-19 would be free of new taxes. However, she added that the expansion of the existing tax net would remain on the agenda of the provincial government, besides focusing on social sector development projects.

Chairing the maiden meeting of the resource mobilisation committee for the Fiscal Year 2018-19 budget, the minister said the outlay would also focus on the development of Punjab. She added the selection of development projects would be made based on output and facilitate agriculture and export promotion.

She said the Punjab government focused on comprehensive taxation reforms for collection of tax and non-tax revenues in order to increase the indigenous resources of the province.

Dr Pasha said the government was working to introduce online tax collection procedures in order to minimise tax evasion and to increase direct interaction with taxpayers.

"An application is being developed to bring all tax collection on a single platform to facilitate the taxpayers and end the hassle of the various offices to pay the taxes," she said. "To implement the same, the Punjab government recently launched a business portal through which the registration process could be completed without visiting any government office."

The minister informed the meeting that all Punjab revenue collection agencies are achieving their targets of tax collection as a result of the reforms introduced through resource mobilisation committee recommendations. Besides, it has also been promoting a positive tax culture in Punjab, she added.

Minister for Commerce and Industry Sheikh Alauddin stressed on the need of local collection of vehicle tokens and highlighted the reduction in revenue collection on luxury vehicles.
He suggested the tax should be levied on the manufacturer's invoice, not on that of the dealer's, in order to plug leakages. The PRA and Excise and Taxation departments updated the meeting about revenue collection and presented their proposal for the next fiscal year. Besides, the representatives of other departments presented the status of their non-tax revenue collection.

The minister instructed the departments to eradicate irrelevant non-tax revenue collections and accumulate the necessary non-tax revenue to make it part of the online application.

The meeting decided to finalise the implementable revenue mobilisation proposal for the next budget in the upcoming meeting.

The meeting was co-chaired by Minister for Commerce and Industry Sheikh Alauddin and attended by MPAs Haji Ilyas Insari, Abdul Rauf Mughal, Nadia Aziz, Secretary Livestock Naseem Sadiq, Chairman PRA Raheel Ahmed Siddique, DG Excise and Taxation Akram Asharf Gondal, Additional Secretary Budget Rana Ubaid, Deputy Secretary Resources Faiqa and other officials concern of the provincial departments.
https://tribune.com.pk/story/1667081/1-government-vows-bring-tax-free-budget/

NEWS COVERAGE PERIOD FROM MARCH 12TH TO MARCH 18TH 2018
PAKISTAN'S EXTERNAL DEBT TO CLIMB TO $103B BY JUNE 2019: IMF REPORT
The Express Tribune, March 16th, 2018.

The International Monetary Fund (IMF) has assessed Pakistan's gross external financing needs at a record $27 billion for the next fiscal year, but warned that arranging the financing at favourable rates will now be a challenge due to risks to the country's debt sustainability.

In its post-programme monitoring report, the IMF also forecast that due to additional borrowings, Pakistan's external debt would jump to $103.4 billion by June 2019, up from this June's projected level of $93.3 billion.
Despite changing goalposts twice, Pakistan's public debt would remain higher than the limit prescribed in the revised Fiscal Responsibility and Debt Limitation Act, showed the IMF report.

Certain tables in the report, which the IMF withheld in the past, show the adverse implications of the PML-N government's borrowing spree over the past four and a half years. The policy of building foreign currency reserves through expensive loans and ignoring the export performance has come to haunt the policymakers.

The IMF said the elevated current account deficit and rising external debt servicing, in part driven by China-Pakistan Economic Corridor (CPEC)-related outflows, were expected to lead to higher external financing needs.

External financing would surge to $24.5 billion by June this year, the IMF said, adding the country's needs were expected to rise to around $27 billion by the end of fiscal year 2018-19 (FY19) and would go up to $45 billion by FY23.

At that time, Pakistan's external financing needs will be equal to 10% of the national output, which is a dangerous level.

"Risks to public debt sustainability have increased since the completion of the EFF (Extended Fund Facility) programme. Public and publicly-guaranteed debt is expected to remain elevated at 68% of GDP by FY23," the IMF said.

Gross fiscal financing needs will likely exceed 30% of GDP from 2018-19 onwards, in part reflecting increased debt service obligations, it added.

However, the more alarming part is the growing challenges to arranging foreign loans. It said Pakistan had so far remained successful in contracting external borrowing that softened the impact of rising external imbalances on foreign exchange reserves.

"While the level of external debt has remained moderate, continued mobilisation of external financing at favourable rates could become more challenging in the period ahead against the background of rising international interest rates and increasing financing needs," said the IMF.

It said continued scaling up of CPEC investments could accelerate the build-up of related external payment obligations, adding Pakistan's capacity to repay could deteriorate at a faster pace, with faster depletion of foreign exchange reserves having adverse effects on economic growth.
Debt levels are higher than envisaged during the 2017 Article IV consultation, largely reflecting a significantly higher fiscal deficit.

The IMF's projections show a bleak path for the next five years. Public and publicly-guaranteed debt is projected to remain close to 70% of GDP by 2023 under the baseline scenario.

"In the absence of strong consolidation measures, the fiscal deficit is expected to remain close to 6% of GDP in the medium term, resulting in elevated debt levels," it added.

Adverse shocks, notably to economic growth and the primary balance, could lead to public debt ratios rising well above 70%, said the IMF.

Contingent liabilities from restructuring of loss-making public sector enterprises represent additional fiscal risks. High gross financing needs may also pose potential rollover risks.

The IMF said high levels of public debt and gross financing needs presented significant fiscal risks and needed to be addressed in a timely fashion through fiscal tightening to improve debt sustainability.

"In the absence of significant policy effort, the projected public debt trajectory sits higher than that stipulated in the revised FRDL Act with a limit of 60% of GDP on net general government debt until FY18 and a gradual transition towards 50% of GDP over a 15-year period," said the IMF.

"While the depreciation allowed in December was a step in the right direction, further steps to phase out foreign exchange interventions and allowing greater exchange rate flexibility on a more permanent basis will be critical to contain the external pressures."

https://tribune.com.pk/story/1661195/2-imf-report-pakistans-external-debt-climb-103b-june-2019/

PAKISTAN'S ECONOMY IN NO DIRE STRAITS, SAYS ISMAIL
The Express Tribune, March 17th, 2018.
Pakistan will have no issues in arranging foreign financing to meet its emerging needs, said Adviser to Prime Minister on Finance Dr Miftah Ismail, a day after the International Monetary Fund (IMF) said the country's net international reserves, after excluding its foreign exchange liabilities, stand at negative $724 million.

In its first Post Programme Monitoring report, the IMF exposed the shallowness of the current gross official $12.1 billion reserves, which are largely maintained by double booking of reserves and taking Chinese deposits under the currency swap arrangements.

Ismail, while addressing the media on Friday, said IMF's methodology, through which it arrived at the figure, is different.

"We accept their observations on the reserves (position) as they have a different methodology but we have no issues in arranging foreign financing to meet our emerging needs," said Ismail.

The IMF said Pakistan's foreign exchange liabilities were $13.5 billion as against its gross official reserves of $12.8 billion as of February 14, leaving it with negative $724 million as reserves.

Its report stated that Pakistan's external financing would surge to $24.5 billion by June this year, adding the country's needs were expected to rise to around $27 billion by the end of fiscal year 2018-19 (FY19) and would go up to $45 billion by FY23.

Ismail admitted that Pakistan's gross official reserves included borrowing from commercial banks. "By this standard, Pakistan should also exclude total external debt from the reserves to work out net reserves," said Ismail.

As liabilities on the power sector and tax refunds' fronts cross Rs1.3 trillion, Ismail said the government did not have fiscal space to clear all these obligations before general elections – deviating from a commitment given by the former finance minister.

But the government would give Rs140 billion to the power sector within two weeks including Rs60 billion from the budget, said Ismail. He added that the government was also finalising a plan to give tax refunds.
"Alas! I had money" to clear all circular debt and tax refunds, said Ismail while responding to a question whether he would honour the commitment given by his predecessor about clearing financial obligations before the government ends its tenure.

Former finance minister Ishaq Dar had on many occasions talked about clearing all financial obligations by the outgoing federal government. He at one time proposed a Constitutional Amendment to bind an outgoing government to clear its fiscal mess. After assuming power, Dar had cleared Rs480 billion circular debt left by the PPP regime.

Ismail said the flow of circular debt was Rs514 billion and on Monday the government-owned Power Holding Private Limited (PHPL) would pay Rs80 billion. In addition, on the same day, the Ministry of Finance would release Rs30 billion as subsidy from the budget to retire circular debt. The adviser further said that in the following weeks, an additional Rs30 billion would be given from the budget, taking total injection to Rs140 billion.

For the current fiscal year, the government had budgeted power sector subsidies at Rs118 billion. It has already released Rs62 billion in the first eight months of the fiscal year. Ismail said that if needed, the government will also issue a supplementary budget to pay power sector subsidies on account of tariff differential claims.

He said that out of Rs514 billion, Independent Power Producers' dues were only Rs215 billion including Rs70 billion owed to Pakistan State Oil. He said the net dues of the IPPs were only Rs162 billion, which the government will take care of.

The adviser said that Rs434 billion, parked in PHPL, also included debt contracted during the PPP era. He said that out of Rs80 billion that the PHPL would arrange an amount of Rs24 billion would go on paying the cost of interest on loans acquired earlier from the banks to retire circular debt.

Circular debt in the power sector alone has swelled to around Rs977 billion including money parked in PHPL.

Officials in the Federal Board of Revenue (FBR) said outstanding tax refund claims are over Rs300 billion, although the government says the amount is only Rs150 billion against which it has issue Refund Payment Orders. It is not yet ready to acknowledge the un-reconciled refund claims.
Over Rs300 billion refund claims are part of the tax collection that the FBR reports on a monthly basis. In June 2013, the outstanding tax refund claims were Rs197 billion.

The adviser also downplayed the IMF report and said that Pakistan was fully aware of its external debt related obligations, and it was not as big an issue as described by the IMF. He said that external debt payments capacity weakened due to contraction in exports for three consecutive years. The trend in exports has reversed and Pakistan's external sector position would now start improving.

The adviser said that from the next fiscal year the trade deficit and the current account deficit would start to narrow down.

https://tribune.com.pk/story/1662218/2-pakistans-economy-no-dire-straits-says-ismail/

FDI GROWS 132% TO $340.8M AS CHINA DOMINATES
The Express Tribune, March 17th, 2018.

KARACHI:

Foreign investors' confidence in Pakistan seems to be on the rise, as they ignored political noise in the run-up to the general election and increased investment in various sectors of the economy.

The State Bank of Pakistan (SBP) reported on Friday that Foreign Direct Investment (FDI) has increased a whopping 132% to $340.8 million in February, compared with $146.7 million in the same month last year.

Cumulatively, in the first eight months (July 2017 to February 2018) of the current fiscal year, FDI rose 15.6% to $1.94 billion from Rs1.68 billion in the same period last year, the central bank added.

The data shows a revival of confidence in long-term projects of the country's productive sectors, ahead of the general election sometime in the third quarter (July-September) of 2018.
This is contrary to the sluggish investment scenario that prevailed in the last two months (December-January), when foreigners largely held on their investment decisions for Pakistan.

Overseas Investors Chamber of Commerce and Industry (OICC) Secretary General M Abdul Aleem said a big chunk of the foreign investment came from China, which is investing multi-billion dollars in Pakistan, under the banner of the China-Pakistan Economic Corridor (CPEC), in sectors including infrastructure (roads and railways) and power production.

Many European investors in the auto, infrastructure and LNG import terminal sectors are set to make major investment decisions for Pakistan in the near future, he said, adding some of them are waiting for their regulatory approvals to initiate the investment process in Pakistan.

Pakistan carries huge potential to grow. The investment climate would be much better in the post-election period and may total at around $3 billion this fiscal year."

In the previous fiscal year, 2017, the country received $2.73 billion in the FDI.

According to the central bank data, China remained the single largest foreign investor with a net investment of $174.4 million in February, followed by the United Kingdom with $87.4 million, Hong Kong with $32.5 million, Switzerland with $9 million and Italy with $8 million.

Construction sector attracted the single largest amount of net (invest/divest) FDI of $86 million in February, power sector received $82.9 million, food $65.2 million, transportation $34.1 million and financial businesses $19.7 million, electronics $16.3 million and oil and gas exploration attracted $15.6 million.

Other sectors, including food packaging, tobacco and cigarettes, chemical, petroleum refineries and cement attracted FDI in single digits.
Foreign investors, however, divested net $55.6 million at the Pakistan Stock Exchange (PSX) in February. In the first eight months of the current fiscal year, however, they slowed down sales at the bourse, as they divested only $93.5 million compared with $351.9 million in the same period last year.
Net foreign investment – including foreign public, private and portfolio investments – totaled at $4.29 billion in the eight-month period, up 84.5% compared with $2.33 billion in the same period last year.

https://tribune.com.pk/story/1662219/2-fdi-grows-132-340-8m-china-dominates/

NEWS COVERAGE PERIOD FROM MARCH 4TH TO MARCH 11TH 2018

JUL-JAN SERVICES TRADE POSTS $3BN DEFICIT
Business Recorder, March 4th, 2018

RIZWAN BHATTI

KARACHI: The country's services trade posted some $3 billion deficit during the first seven months of this fiscal year (FY18).

Although services exports performed well and posted 5 percent growth during this fiscal year, however, the higher services import bill offset this growth, resulting in increase in services trade deficit.

According to State Bank of Pakistan (SBP), the country's services sector deficit swelled by 9 percent during the first seven months of this fiscal year. Services trade registered a deficit of $2.957 billion during Jul-Jan of FY18 compared to $2.685 billion in the same period of FY17, showing an increase of $278 million.

Month-on-month basis, during January 2018, services trade registered a deficit of $401 million with $411 million exports and $812 million imports.

Economists said the country is expecting some inflows under the Coalition Support Fund (CSF) from the United State, with the arrival of these estimated inflows; service trade is likely to perform well in coming months.

The detailed analysis revealed that during the period under review, services exports posted an increase of 5 percent, while imports rose by 7 percent. Pakistan's services sector exports moved up by $134 million to $2.995 billion in Jul-Jan of FY18 compared to $2.860 billion in the corresponding period of last fiscal year. A healthy rebound in net software services exports, which reached $ 612 million in the period, boosted net exports of the overall telecom, computer and information group by 15 percent in the first seven months of this fiscal year. Apart from telecom and computer services, net exports of transport, travel and government services also performed relatively better as compared to last year.

Similarly, services sector imports stood at $5.952 billion in Jul-Jan of FY18 against $5.545 billion in Jul-Jan of FY17, showing an increase of $407 million.

During the period under review, the country earned $543 million on account of transportation services up from $516 million. In addition, some $217 million from travel, $40 million on account of construction, $63 million through financial services, $19 million from insurance sector and some $759 million on account of government services.
Meanwhile, transportation payments (imports) stood at $2.218 billion, travel $1.216 billion, telecommunication $281 million, financial sector $101 million, insurance $137 million, charges for use of intellectual propriety were $139 million and an amount of $329 million was paid as government services.

https://epaper.brecorder.com/2018/03/04/1-page/703002-news.html

REMITTANCES RISE TO $12.8BN
Dawn, March 10th, 2018

KARACHI: Remittances in the first eight months of this fiscal year rose to $12.8 billion, showing a year-on-year growth of 3.4 per cent.

Despite the continuous fall in remittances from Saudi Arabia, the overall remittances increased with the help of UK and United States as both registered high growth.

According to the State Bank's latest data issued on Friday, the remittances from Saudi Arabia fell by 8.7pc to $3.26bn. Saudi Arabia still provides highest remittances to Pakistan despite thousands of Pakistanis having lost their jobs in the last couple of years. From July-February FY17, remittances from Saudi Arabia fell by 6.8pc, reflecting the impact of job losses in the kingdom.

The highest increase was noted from Britain as the remittances grew by 23.2pc to reach $1.786bn during the eight months of 2017-18. The inflows from United States also witnessed a sizable growth of 12.2pc to stand at $1.7bn in the same period.

Both the counties helped Pakistan maintain a much-needed inflow to meet the increasing foreign exchange demand for the galloping current account deficit.
The country is facing a serious threat at its external front as the trade deficit has been increasing each month while the foreign investment and remittances are not enough to counter it.
The country's foreign exchange reserves have been declining each week and recently fell to a record low since FY15. The total foreign liquid reserves currently stand at $18.32bn compared to $18.7bn in FY15.

https://www.dawn.com/news/1394369

April 2018

NEWS COVERAGE PERIOD FROM APRIL 23 RD TO APRIL 29TH 2018

NA PANEL TO TAKE UP FOUR ORDINANCES ON ECONOMIC REFORMS PACKAGE TODAY

Dawn, April 23rd, 2018

ISLAMABAD: The National Assembly Standing Committee on Finance is set to take up four controversial ordinances on Monday.

The government had promulgated these ordinances last month to implement the Economic Reforms Package (ERP) envisaging a "one-time" amnesty scheme to whiten undeclared assets at home and abroad, reduction in income tax rates and barring cash transactions in non-filer accounts.

The four ordinances had been introduced in the National Assembly in the form of bills on April 11 amidst protest and walkout by the opposition members who had termed the move "ill-timed" and an "insult" to parliament.

The committee headed by Qaiser Ahmed Sheikh of the ruling Pakistan Muslim League-N (PML-N) will consider Voluntary Declaration of Domestic Assets Bill, 2018, Foreign Assets (Declaration and Repatriation) Bill, 2018, Income Tax (Amendment) Bill, 2018, and Economic Reforms (Amendment) Bill, 2018, in its meeting.

Parliamentary Leader of the Pakistan Peoples Party (PPP) Syed Naveed Qamar and one of the most vocal PPP MNAs Dr Nafisa Shah are members of the committee, besides Asad Umar of the Pakistan Tehreek-i-Insaf (PTI).

All these members during their speeches in the National Assembly had rejected the ordinances and declared that they would not let the government pass them.

The ERP had been announced by Prime Minister Shahid Khaqan Abbasi during a news conference earlier this month, stating that the focus of the new scheme was to facilitate taxpayers and expand the tax net to at least three million people from less than 1.2m in a population of 207m.

Naveed Qamar had regretted that the government had announced the amnesty scheme and reduction in the income tax just two weeks before presentation of the federal budget. He said the government

had announced cut in the income tax rates, the effect of which would be borne by the next government as it would become effective from July 1 when this government would not be in the office.

Similarly, parliamentary leader of the PTI Shah Mehmood Qureshi had said his party would oppose this amnesty scheme which had been introduced for the benefit of money launderers and tax evaders, terming it "a slap on the face of honest taxpayers".

https://www.dawn.com/news/1403295/na-panel-to-take-up-four-ordinances-on-economic-reforms-package-today

RS1.5TRN LIABILITIES TO BE PARKED OUTSIDE BUDGET
Business Recorder, 24. April 2018
Zaheer Ababsi

ISLAMABAD: Finance Ministry said on Monday that the federal government's liabilities of power sector's circular debt, outstanding refunds and rebate, PSEs' debt and circular debt of LNG (around Rs1.5 trillion) will be parked outside the budget for the next fiscal year.

An official of Finance Ministry on condition of anonymity said that these are not being charged on the budget owing to their impact on the fiscal deficit.

Earlier, during a meeting of National Assembly Standing Committee on Finance, chaired by Qaiser Ahmed Sheikh, Special Secretary Finance Noor Ahmed stated, "None of them (federal government's liabilities) will be charged in the budget."

The special secretary stated this while replying to a question of Asad Umar who had asked whether or not the Finance Ministry will recognize federal government's liabilities of Rs525 billion circular debt, Rs400 billion refund and rebate as well as Rs500 to Rs1,000 billion public sector enterprises' debt and LNG circular debt in the book. Noor Ahmed replied that they will not be charged in the budget.

He, however, stated that some arrangements are being made for settlement of Rs525 billion circular debt and Rs10 to Rs20 billion will be earmarked in the budget for the next fiscal year as arrangement cost. The Finance Ministry also agreed that there will be a serious challenge to sustain the growth of 5.8 percent in the next fiscal year with such a high budget deficit after members of the committee stated that growth was fueled by increase in government spending, saying that 5.6 percent fiscal deficit is far higher than 4.3 percent target set in the budget.

The special secretary said that there are serious challenges on the external side with current account deficit may be over 5 percent of the GDP this year. He briefed the committee about the future challenges to the economy and broad contours of the budget for the next fiscal year 2018-19. The committee also considered the voluntary declaration of Domestic Assets Bill, 2018, the Foreign Assets (Declaration and Repatriation) Bill, 2018 and the Income Tax (Amendment) Bill 2018.

https://epaper.brecorder.com/2018/04/24/1-page/712278-news.html

BUDGET OUTLAY SET TO RISE TO RS5.7TR
Dawn, April 24th, 2018

Khaleeq Kiani

ISLAMABAD: With addition of Rs180 billion in project aid and Rs100bn allocation for public-private partnership (PPP) investments, the total development programme for 2018-19 is being pitched at Rs2.043 trillion and overall federal budgetary outlay at Rs5.7tr.

Last week's Budget Strategy Paper (BSP) had pegged total outlays at Rs5.237tr.

Prime Minister Shahid Khaqan Abbasi will preside over a meeting of the National Economic Council (NEC) on Tuesday to clear an estimated development programme of Rs2.043tr including a federal Public Sector Development Programme (PSDP) of Rs1.03tr and provincial annual development plans worth Rs1.013tr. The BSP had put the PSDP at Rs800bn.

Provincial chief ministers, prime minister of Azad Kashmir, chief executive of Gilgit-Baltistan and governor Khyber Pakhtunkhwa representing federally-administered tribal areas (Fata) will also attend besides relevant federal cabinet members and secretaries.

Before the NEC huddle, Mr Abbasi will visit the Planning Commission for a separate briefing about the annual development programme, Annual Plan 2018-19 (macroeconomic framework) and 12th five-year plan (2018-23). The three items will then be taken up at the NEC for formal approval. The prime minister is also the chairman of the Planning Commission.

The teams of the Finance Ministry, Revenue Division, Planning Division and the Prime Minister Office remained engaged on Monday for finalising proposals and estimates for Federal Budget 2018-19, to be announced on April 27.

Informed sources said there could still be changes to final numbers until after the NEC meeting on Tuesday and make it a tight contest to make up for printing of budget documents before the D-day in less than 72 hours.

An official engaged in these meetings said many allocations being made in next year's budget were without any backup support, with nobody sure of where these would be delivered from. For example, he said Rs100bn being earmarked for PPP investments for project financing was just an allocation while foreign assistance for development projects was originally estimated at Rs140bn, without any formal commitment from anywhere.

The Annual Plan Coordination Committee (APCC) last week approved Rs750bn for the development budget and requested the prime minister and the NEC to increase it to Rs1.3tr.

He said the budget deficit was being estimated at 5.5pc for current year as the Federal Board of Revenue (FBR) had indicated about a Rs100bn shortfall against the target, but sources in the finance ministry believed the shortfall could be higher and may touch Rs200bn.

Another official said the government was also likely to set aside Rs30bn or so for sustainable development goals and prime minister's special programme like clean drinking water for all and energy for all given international compulsions. The APCC had not made allocations for these areas.

The NEC will also review Annual Plan 2017-18 and proposed Annual Plan 2018-19, review PSDP 2017-18 and proposed PSDP 2018-19. The meeting will also be presented progress reports Central Development Working Party (CDWP) and Executive Committee of the National Economic Council (Ecnec) from April 1, 2017 to March 31, 2018 and draft 12th Five-Year Plan (2018-23).

Officials said more than Rs600bn were being earmarked for infrastructure, power sector, transport and communications including Rs190bn for those falling in the category of China-Pakistan Economic Corridor projects.

Despite repeated statements by the government ministers saying no new development schemes would be added next year, except a few projects of strategic and undisputed importance, a total of 510 new projects worth Rs825bn are being added to the ongoing list of about 725 projects at different stages of completion. About 65pc next year's allocation is for ongoing projects.

The NEC will also approve next year's annual plan envisaging high fiscal and current account deficits – 5.3 pc and 3.8pc of GDP respectively.

Exports are estimated to go up to $27.3bn in fiscal year 2018-19 compared to $24.5bn of current year while imports are targeted to $56.5bn from $53.1bn this year, leaving a trade deficit of $29.2bn next fiscal year against $28.6bn in current year.

Inflation, though slightly picking up, is expected to remain below 6 per cent for the next year and growth rate at 6.2pc with contributions from agriculture (3.8pc), industry (7.6pc) and services (6.5pc).

Meanwhile, The National Assembly Standing Committee approved a resolution on

Monday, supported by some members of the ruling PML-N, asking the government to present a budget for only four months.

Questioning the rationale of a full-year budget by the outgoing government, Asad Umar of PTI, Rashid Godil of MQM, Dr Nafisa Shah and Syed Mustafa Mehmud of PPP said the right to implement economic policies should rest with the new government.

The resolution was passed with the support of Isphanyar M Bhandara and Qaiser Ahmed Sheikh, both belonging to the PML-N.

"Not only that the incoming government has the right to implement its policies through the budget but there could be different MNAs and financial managers of the PML-N to," the committee chairman commented.

The committee members also voted against amendments in the 'Voluntary Declaration of Domestic Assets Bill 2018 and in Foreign Assets (declaration and Repatriation) Bill 2018.'

These amendments relate to the clauses in the amnesty scheme recently launched by the government through the executive order.

As the bills were rejected by the committee, an official of FBR said that the government has the option to get these amendments approved through the finance bill.

https://www.dawn.com/news/1403548

‘GOVT TO PRESENT FULL-YEAR BUDGET,’ SAYS MINISTER
Dawn, April 25th, 2018

Kalbe Ali

ISLAMABAD: The government has decided to present a full-year budget despite calls for a short-term budget from the opposition parties, State Minister for Finance Rana Muhammad Afzal said on Tuesday.

Talking to the media after a meeting of the Senate Standing Committee on Finance, Mr Afzal said the demand for a four-month budget was unprecedented and unwarranted and described it as ‘a mere political stunt’.

“Under such circumstances it is a practice the world over that incoming governments follow the budget prepared by the outgoing government,” he said.

Mr Afzal said that the government plans to bring and approve the ‘amnesty scheme’ launched recently through the Finance Bill despite the opposition to it.

“Those opposing it have the right to express their point of view but we will bring it with the budget,” he said, adding that budget approval is not required from the Senate.

The new Senate standing committee held its first meeting under the chair of Senator Farooq Naek. It was attended by fresh members of the upper house including Senator Musadik Malik, Senator Dilawar Khan, Senator Muhammad Akram of National Party, Senator Khanzada Khan of PPP and independent Senator Aurangzeb Khan.

The amendments to four laws – Voluntary Declaration Domestic Assets Bill, 2018; Foreign Assets (Declaration and Repatriation) Bill, 2018; Income Tax Ordinance, 2001; and Protection of Economic Reforms Act, 1992 – were discussed in the meeting.

The amendments to these laws related to the amnesty scheme were been turned down by the National Assembly Standing Committee on Finance by a majority vote the other day, while massive amendments were recommended to the said laws at the Senate Standing Committee on Finance on Tuesday.

The committee witnessed a heated debate between Senator Mohsin Aziz of PTI who strongly opposed the amnesty scheme and faced standoff from Senators Musadik Malik and Ayesha Raza.

However, former chairman of the committee and deputy chairman of the upper house Senator Saleem Mandviwalla helped resolve the argument.

The committee, with a majority vote, approved several amendments in the proposed amnesty scheme.

Senator Mandviwalla had serious reservations over the amendments in Protection of Economic Reforms Act (PERA),1992 on the grounds that this law was never part of the money bill.

However, after extensive discussions, Senator Mandviwalla agreed to the point of view of the Ministry of Finance.

The amendment in PERA, 1992 prohibits depositing cash in foreign currency accounts by a non-filer.

https://www.dawn.com/news/1403759

PML-N TARGETS 6.7% GROWTH RATE IN 12TH FIVE YEAR PLAN
The Express Tribune, April 25th, 2018.

In the absence of three provinces, the National Economic Council (NEC) approved on Tuesday draft of the 12th Five Year Plan, which envisages achieving an average economic growth rate of 6.7% and bringing down public debt to below 60% of the total national output by 2023.

The 2018-2023 Five Year Plan also targets to double Pakistan's exports to $48 billion and increase the foreign direct investment to $7.6 billion. Headed by Prime Minister Shahid Khaqan Abbasi, the NEC – the constitutional body having the mandate to advise provinces and the centre on macroeconomic framework – approved the draft of 12th Five Year Plan 2018-23. By the time the NEC approved the Five Year Plan, chief ministers of Sindh, Balochistan and Khyber-Paktunkwha had staged a walkout from the meeting.

However, the NEC also approved the Annual Plan 2018-19 in presence of representatives of all the federating units. The Annual Plan was first on the agenda item and the 12th Five Year plan was the last item.

One of the main objectives of the 12th Plan is to improve the economic growth and achieve an average growth rate of 6.7%. This growth rate is targeted to be achieved by strong contribution from industry and services while the agriculture average output is estimated at only 4%.

However, in order to achieve this growth rate, the next government would have to increase the investment-to-GDP ratio to almost 20% from the current 16.4%, according to the Planning Commission.

The plan promises creating fiscal space by reducing public debt through mobilisation of resources, broadening the tax base and curtailing current expenditures.

The government has forecasted that the growth in the money supply will be 15% by 2022-23 with projected inflation of around 7% during the plan period. The tax-to-GDP ratio has been targeted to increase to only 15%. The budget deficit has been targeted to be brought down to 4% from 5.5% of GDP. The public debt-to-GDP ratio would be brought down to 60% by 2023 from the current level of 70.1% of GDP.

The total investment-to-GDP ratio is projected to grow to 19.6% from current 16.4%. Fixed investment is targeted at 18%. National savings are projected to grow to 19.3% of GDP.

However, there seems that the Plan has been prepared without much thought as the current account deficit is targeted at only 0.3% of GDP by 2022-23.

The Annual Plan envisages overall macroeconomic stability in view of encouraging agriculture performance and steady industrial growth.

The NEC approved 6.2% economic growth rate and 6% inflation targets for the next fiscal year 2018-19. The target is slightly higher than the provisional economic growth rate of 5.8% for the outgoing fiscal year.

However, the 6.2% target is optimistic, as there are apprehensions that in the next fiscal year Pakistan's economy could slow down due to problems on the external sector front. The Asian Development Bank (ADB) stated that Pakistan's economy will slow down to 5.1% in fiscal year 2018-19 while the International Monetary Fund (IMF) has projected 4.7% growth rate for the next fiscal year.

The government is aiming at 3.8% growth in the agriculture sector for the next year, which is slightly better than the rate for the outgoing fiscal year. The industrial sector is projected to grow by 7.6%, better than outgoing fiscal year's rate of 5.8%. The services sector is projected to grow by 6.5% against the outgoing year's growth rate of 6.4%. The investment-to-GDP target is approved at 17.2% for the next fiscal year, as against this year's projected rate of 16.4%. The national savings-to-GDP target is approved at 13.4% as against 12.1% in the outgoing fiscal year.

The planning ministry presented the current account deficit target at 3.8% of GDP for the next fiscal year to the NEC. But it was decided that the target will be aligned with the Budget Strategy Paper target of 4.1%. This means that next year's current account deficit in absolute terms will be $13.4 billion now.

The ADB has projected 4.5% current account deficit in the next fiscal year, suggesting that the country's external account will remain under pressure for yet another year.

The export target has been set at $27.3 billion, up $2.8 billion or 11.5% compared to the revised estimate for the outgoing fiscal year. Imports have been projected to grow to $56.5 billion, up only $3.4 billion or 6.3%.

As a result, the government expects to keep the trade deficit restricted at $29.2 billion in the new fiscal year, which will be higher by only 2%.

https://tribune.com.pk/story/1694431/2-pml-n-targets-6-7-growth-rate-12th-five-year-plan/

ECONOMIC SURVEY 2017-18: 'WE PUT PAKISTAN BACK TO WORK,' DECLARES GOVT AS FINAL SURVEY UNVEILED
Dawn, April 27th, 2018

ISLAMABAD: The words and numbers tell a good story, but the big question now is whether the voters are buying it. The Economic Survey rolled out by the government struck all the right notes, even if there were big gaps in the data coverage.

Growth of GDP, the headline number that measures the health of the economy, came in at 5.8 per cent — a 13-year high but slightly behind the 6pc target for which the government blamed the ongoing political instability.

“We have paid a heavy economic cost because of political crises that created instability in the country,” said Ahsan Iqbal, Minister for Planning and Development, who wore a stern and defiant look throughout as he presented the larger narrative before the numbers were rolled out. “Otherwise we would have achieved 6.1pc growth rate and exceeded the target”.

Flanked by three other ministers, the panel he seemed to be leading was unusual for the absence of usual government officials such as the finance secretary and FBR chairman who usually accompany the finance minister during survey presentations in previous years. The only official present was the little-known economic advisor, cutting a diminutive presence on the edge of the desk.

Mr Iqbal said the PML-N could not claim to have transformed Pakistan like China but without any doubt turned around an economy described by many as a dead five years ago. “We have put Pakistan back to work,” he declared triumphantly in the middle of his narrative building presentation. Therefore, he described the economic survey as a ” scorecard” of PML-N’s five-year performance based on its promises. “We have fulfilled all the promises we made to the country,” continued Miftah Ismail, who was delegated the job to put the numbers behind the narrative presented by Mr Iqbal.

Mr Iqbal rolled out the series of challenges inherited from the previous PPP government and claimed credit for not only crisis management but also putting the country on a long term development path with heavy investments to add about 11,000MW of electricity in five years against 15,000MW of last 66 years.

Likewise, the challenge of extremism was also defeated with military operations in the tribal regions and Karachi, and all done with domestic resources, he claimed. He conceded many challenges still remained, including reviving exports on a longer term while fast growth rates created short term (3-4 years) problems like current account deficits.

The minister also believed the activation of $29 billion worth of projects under the $46 billion CPEC portfolio as another signature achievement of the current government that addressed Pakistan’s energy problems and created a connectivity platform and would propel the country towards what he referred to as “fourth generation economic development.”

Mr Ismail said the last year’s growth rate had now been revised up to 5.4pc and the current year GDP growth of 5.79pc was supported by the 13-year highest growth in agriculture sector (3.8pc), 10-year high of 5.8pc growth in manufacturing and 11-year high 6.25per cent growth large scale manufacturing (though the accompanying survey document puts the figure at 6.1pc, mentioning the 6.24 figure for the period July to Feb only) and 6.4 per growth in services sector.

One questioner acknowledged the growth in power generation capacity, but asked about the circular debt, saying it has crossed Rs1 trillion. Both Mr Ismael and Iqbal vigorously shook their heads as the question came forward, but evaded the answer in his response.

The circular debt reduction was carried out in one mammoth swoop by the government in its opening days back in 2013, to the tune of almost Rs500bn. That exercise caused the fiscal deficit figure for the last year of the PPP government to balloon to 8.2pc of GDP. Mr Ismail happily recounted that figure, saying this was the deficit "inherited" by his government, and went on to list where his government took this crucial figure in subsequent years, eventually preparing to bring it to 5.4 or 5.5pc by the close of their tenure (the target was 4.1pc).

The adviser and the minister both conceded the current account deficit had increased significantly over the past two years but attributed it the focus on strong growth rates necessary to generate enough jobs for two million people reaching the employment age every year.

Mr Ismail said exports were now showing growth in all the nine months so far, adding it was not advisable to cut imports to ultimately translate into exports. He agreed that former finance Minister Ishaq Dar strongly believed in strong currency while he had different opinions based on needs of the exporters and hence allowed two devaluations that led to better export performance. "All the exporters were saying this is necessary" he said. "They can't all be mad."

Mr Iqbal said violent extremism had been defeated, additional energy availability was now reviving industries and the combination of peace and uninterrupted power supply was now generating demand growth, which was a very positive sign which should now be sustained.

Mr Ismail tried to play down concerns over increasing public debt while Mr Iqbal said some analysts were unfair when they highlight only $35bn gross increase in external debt without simultaneously mentioning a $17-18bn of debt repayment.

Mr Ismail then turned to report that total public debt increased to 61.4pc of GDP at present compared to 60.2pc of GDP five years ago while external debt had dropped from 21.4pc of GDP five years ago to 20.5pc at present. More importantly, he said the size of the GDP increased by almost 50pc to Rs34.4 trillion from Rs22.4tr five years ago and most of the debt was utilized for capacity additions in energy sector and infrastructure development.

Mr Ahsan Iqbal said Pakistan was now on a take off stage but this would depend on policy continuity and political stability. He said the country had lost two opportunities in the past in the 1960s and 1990 to become developed economy and the fresh opportunity if grabbed would put Pakistan among the top 25 economies by 2025.

https://www.dawn.com/news/1404138/economic-survey-2017-18-we-put-pakistan-back-to-work-declares-govt-as-final-survey-unveiled

IN FAREWELL BUDGET, GOVT SHOWERS BUSINESS WITH INCENTIVES
Dawn, April 28th, 2018

Khaleeq Kiani

ISLAMABAD: The government made history in more ways than one in its budget announcement on Friday. The sixth consecutive budget by a civilian government, delivered by a non-elected finance minister hurriedly sworn in just so he could deliver the speech may be new. But the most lasting, and most meaningful, changes brought in by the budget sat silently between the lines and the numbers.

This is the first budget announced by the PML-N that shifts gears away from development spending towards current expenditures. For the first time, the development budget has been slashed while large hikes have been given to defence and all other heads under current spending, like subsidies, running of government affairs, debt servicing.

The budget also showers incentives on business and industry in quantities never seen before, leading many to wonder where the revenues will come from to pay for all these handouts. Most of the tax cuts directly benefit what some call Finance Minister Miftah Ismail's de facto constituency — corporate, industry and banking circles.

The so-called relief measures are for civil and armed forces personnel, removal of tax on bonus shares, reduction in super tax and corporate tax for big businesses and income tax rates for the salaried class besides incentives for exports and agriculture to count a few.

On the other hand, Mr Ismail announced a considerable increase in defence expenditure and an equally big cut in development spending that has a direct bearing on the living standards of people.

One explanation for diversion of resources from development to defence was the fact that defence expenditure exceeded the target during this year by Rs80 billion (almost 9pc) while the public sector development programme (PSDP) allocations were cut by Rs251bn or 25 per cent.

The new revenue scheme behind these expenditures appears to be based on indirect mode of taxation named "other taxes". Here, a 76 per cent increase has been estimated to come from petroleum levy — Rs300bn instead of Rs170bn this year — through Rs30 per litre PL on all petroleum products across the board from existing Rs3-10 per litre presently.

On top of that, a steep 786pc increase has been proposed in the taxes on information & communication technology (ICT) to generate Rs37.55bn next year compared to Rs4.23bn this year. Likewise, the gas infrastructure development cess (GIDC) would generate Rs100bn next year compared to Rs15bn collected during the current year. The cess has been battling a court challenge, that the government presumably expects to win.

As such, the total inflows from so-called other taxes would touch Rs454bn next year compared to Rs212bn collected this year, a jump of almost 114pc.

The budget measures also indicated a signature focus of Prime Minister Shahid Khaqan Abbasi towards promotion of imported Liquefied Natural Gas through reduction in tax rates and other facilitations besides reduction in taxes and duties on utilisation of domestic and imported coal in power sector for reducing cost of production.

The FBR taxes have been estimated at Rs4.435tr next year compared to Rs4.103tr budgeted for the current year and revised to Rs3.935tr, showing a nominal 8-12pc increase when seen in the context of

almost 12.5percent automatic growth from inflation and GDP and partly affected by reduction in income tax rates.

An across the board 10pc increase was allowed as ad hoc relief in salaries to civil and armed forces employees and an equal 10pc increase in pensions besides a 50pc jump in house rent allowances for government servants. Separately, a Rs5bn has been kept in the budget for special allowances of up to Rs500,000 per month on the basis of their performance. This entire package will have an additional cost of Rs69bn.

"To a large extent we have fulfilled promises that we made with the nation in 2013. Today Pakistan is at a new stage of growth and prosperity" said Miftah Ismael, bemoaning that "we have been punished for it as well but no one can sever our relationship with the people" in an apparent reference to removal of his party supremo as the prime minister.

The total size of the federal budget (expenditure) has been estimated at Rs5.246 trillion for next year, about 10.4pc higher than Rs4.753tr budget estimates for current year. Debt servicing and defence expenditure would together eat up Rs2.7tr or 65pc out of the Rs4.18tr current expenditure for next year, leaving just Rs463bn for running of the civil government and Rs800bn for development.

A drastic increase in bank borrowing has been booked at Rs1.015tr for next year compared to Rs390bn of current year perhaps because of lower expected receipts from abroad and provincial cash surplus.

Perhaps because of ongoing judicial and political challenges to the economic reforms package announced by the prime minister early this month offering incentives for whitening of domestic and foreign assets and relaxation in income tax have been made part of the finance bill for 2018-19.

He set a growth target for next year at 6.2pc, increasing tax-to-GDP ratio of 13.8pc, net budget deficit at 4.9pc of GDP, net public debt at 63.2pc of GDP and rate of inflation below 6pc.

He also lamented that ongoing 7th NFC award had shrunk federal government's fiscal space by 10-11pc and transferred more than Rs2.5tr additional funds to provinces which could have been, otherwise, spent by the centre.

https://www.dawn.com/news/1404388

IMF BAILOUT PACKAGE WON'T BE NEEDED: MIFTAH
Dawn, April 29th, 2018

Khaleeq Kiani

ISLAMABAD: Just a day after the announcement of the budget, a $1 billion foreign loan has been received by the country, newly-minted Finance Minister Miftah Ismail announced during a post-budget press conference on Saturday.

He reiterated his commitment that there is no need for another bailout package from the International Monetary Fund (IMF).

A senior official later told Dawn that the $1bn loan was received from a Chinese bank and would be due for repayment in three years. He declined to share details quoting confidentiality clauses of the loan agreement.

The minister said the inflow suggested that Pakistan's foreign exchange reserves would be higher in June 2018 than those at present with more loans to follow. Hence, there would be no need for an IMF programme in the near future based on assumptions that lag impact of two currency devaluations on rising exports, recent duties on luxury imports and improving remittances would address gaps in current account deficit, his cabinet colleague Haroon Akhtar Khan chipped in.

The unelected minister said he would contest National Assembly elections from NA-253 Karachi that has been divided into two constituencies — NA-242 & 243 — though Prime Minister Abbasi had asked him to contest from both constituencies.

Defending the budgetary measures as "realistic", he said they were finalised after a marathon 12-hour scrutiny by Prime Minister Shahid Khaqan Abbasi while claiming that most of the estimates were very conservative including 6.2 per cent economic growth rate and about 11pc growth in taxes envisioned for next year.

He said most expenditures in the budget had been programmed "realistically" since previous budgets were marred by strong expenditure overruns. "This time we have included the overruns in the actual expenditures" including those pertaining to allocations for defence "to ensure that no supplementary grants will be necessary next year," he said.

Under the finance bill 2018-19, the government has hiked up petroleum levy to Rs30 per litre on all oil products from existing Rs10 on petrol, Rs8 on high-speed diesel, Rs6 per litre on kerosene and Rs3 per litre on light diesel oil. The increased rates are estimated in the federal budget to generate up to Rs300 billion during next fiscal year compared to actual receipts of Rs170 billion this year.

Mr Miftah said the provision did not mean that tax rates would be actually increased. In fact, he said, the government was actually collecting maximum petroleum levy on all products permissible under the law and had given flexibility to the next government to raise the levy when international prices go down to top up its revenues.

Asked as to why he believed the interim government would not allow full implementation of the tax rates when the 2018-19 finance bill comes into force on July 1, the minister said: "Nobody wants a bad name." He said the revenue projections for the next year petroleum prices were based on existing oil prices.

Adviser to the prime minister on revenue Haroon Akhtar said a committee was being set up under the chairmanship of Senator Ilyas Bilour and comprising representatives from the four provinces, Gilgit-Baltistan and Azad Jammu and Kashmir to address tax-related anomalies. He said the alternative dispute resolution (ADR) forum would be headed by a retired judge and comprising major chambers of commerce and industries and on the demands of the business community its decision would be binding on the Federal Board of Revenue unlike the previous set-up where it could only make recommendations.

Mr Akhtar said the tax system had been simplified and the salaried class would be required to submit a one-page return. At the same time, non-filers of tax returns would continue to pay extra cost in bank transactions and would not be able to purchase properties above Rs4 million.

Responding to a question on substantial power sector debt circular debt, Mr Haroon said it should be appreciated that PPP government was paying about Rs250bn per annum of power subsidy, but the circular debt built up to the level of Rs500bn. In contrast, the present government had scaled down subsidies to about Rs100bn and circular debt would be no more than an acceptable level Rs350bn when the current government would complete its term, he added.

In reply to another question, Mr Miftah said the federal government had given a number of incentives and packages for Karachi including Green Bus track and major water projects.

https://www.dawn.com/news/1404540/imf-bailout-package-wont-be-needed-miftah

NEWS COVERAGE PERIOD FROM APRIL 16TH TO APRIL 22ND 2018
PAKISTAN'S NATIONAL DEVELOPMENT PORTFOLIO FACES CUT OF RS350B
The Express Tribune, April 17th, 2018.

Pakistan's National Development portfolio for the new fiscal year faces an allocation cut of Rs350 billion or nearly 17% due to shrinking fiscal space and approval of a new armed forces development plan.

The Annual Plan Coordination Committee (APCC) recommended on Monday a Rs1.763-trillion National Development Budget for fiscal year 2018-19 to the National Economic Council, as against Rs2.113 trillion for the outgoing fiscal year.

Despite Pakistan Tehreek-e-Insaf Chairman Imran Khan's announcement not to give next year's budget, finance minister of Khyber-Pakhtunkhwa (K-P), where the political party is in power, attended the APCC meeting. The K-P government informed the centre that it would propose a Rs108-billion development budget for next year.

Out of Rs1.763 trillion, Rs291 billion will be arranged from foreign lenders to finance the country's development needs.

The federal government's proposed development budget is Rs750 billion and combined development budget of the four provinces is estimated at Rs1.013 trillion. The National Economic Council (NEC), which is headed by the prime minister, has the authority to increase the federal Public Sector Development Programme (PSDP).

The government has also abolished all the special programmes meant for the parliamentarians, as there will be new National Assembly after July.

The provincial Annual Development Plans of Rs1.013 trillion for 2018-19 is Rs99 billion or 8.9% less than the outgoing fiscal year. The proposed federal PSDP of Rs750 billion is also Rs251 billion or 25% less than the outgoing fiscal year, according to the planning ministry's documents.

"Our fight for significant increase in the proposed Rs750 billion federal PSDP is still going on with the finance ministry," said Federal Minister for Planning and Development Ahsan Iqbal, while chairing the APCC meeting. "Our needs for defence are high and we have also approved the Armed Forces Development Plan for their modernisation, therefore, the Ministry of Finance is of the view it has other pressing demands," said Iqbal.

"Whatever the pressing demands, our most pressing demand is development and we should not overlook it," said Iqbal while once again asking the finance ministry to increase the proposed federal PSDP outlay.

In this background, the APCC has recommended the NEC to enhance the size of the federal PSDP from Rs750 billion to Rs1.3 trillion, which is 73% higher than the proposed federal development budget.

"The indicated amount of Rs750 billion is not sufficient to meet the requirements of funds especially of CPEC projects, some of them awarded on Engineering Procurement Contract mode and at stage of completion," according to the planning ministry.

The planning ministry has received a total demand of Rs1.9 trillion from line ministries for ongoing and new schemes for PSDP 2018-19. Through consultative meetings with ministries, the total demand was rationalised to Rs1.5 trillion, it added.

Out of Rs1.013 trillion indicated by the provinces, Punjab's annual development budget for new fiscal year will be Rs500 billion, Sindh's Rs315 billion, K-P's Rs108 billion and Balochistan's Rs90 billion.

The federal minister also emphasised better alignment of the federal and provincial development plans. He said that the federal government does not know about the provincial development priorities.

The federal government's decision to cut the federal PSDP by 25% would have serious implications almost across the board. Overall, all the federal ministries would get Rs12 billion or 3% less, as the federal ministries budget will be Rs366 billion.

There will be a major dent on the National Highway Authority's budget, as it will get only Rs233 billion next year – Rs86.8 billion or 27% less than outgoing fiscal year. The power sector's budget will be cut by Rs28 billion or 47% to Rs33.2 billion.

However, the water sector allocations would be increased by 60% to Rs59 billion in the next fiscal year due to allocations for Diamer-Bhasha dam.

The railways ministry's development budget has been proposed to cut by 27% or Rs11.5 billion to Rs31.4 billion. The Pakistan Atomic Energy Commission's development budget has been further reduced to Rs10 billion – a reduction of 33% for the next year.

The Ministry of National Health Services Budget has been cut by 48% or Rs23.7 billion to Rs25 billion. The Higher Education Commission's budget has been slightly increased to Rs37 billion. The planning minister said that the HEC budget should be further increased to Rs45 billion for 2018-19.

For special areas like AJK, FATA and G-B, an amount of Rs61.5 billion has been proposed in the new budget, which is at outgoing year's level. The production sector's development budget has also been cut to Rs5.2 billion.

https://tribune.com.pk/story/1687190/2-pakistans-national-development-portfolio-faces-cut-rs350b/

PAKISTAN IS HEDGING BETS ON CHINA AS DOLLAR RESERVES DEPLETE
The Express Tribune, April 20th, 2018.

Pakistan is increasingly hedging its bet on Chinese creditors to save its fast-depleting foreign currency reserves, as the country seeks to meet its revised annual budget estimates of $12.8 billion in foreign economic assistance.

Pakistan has so far received $7.5 billion, less than the revised estimate, but almost as much as the original budgeted amount in loans it hoped to get during the fiscal year. However, as foreign currency reserves continued to deplete, the country has been forced to increase its loan book, and is looking towards China to fill the gap.

Disbursements of foreign loans remained at $7.53 billion from July through March of this fiscal year due to delay in release of some loans by Chinese financial institutions, said sources in the finance ministry . Pakistan had hoped to receive loans from the Bank of China and China Development Bank in March.

But the Bank of China disbursed $200 million in the first week of April and the first tranche of the total $1.5 billion from the China Development Bank is now expected before the end of this month, the sources said.

For the outgoing fiscal year 2017-18, the government had initially budgeted $8 billion worth of foreign economic assistance. However, sources said that due to higher than estimated current account deficit, the finance ministry has now revised its estimates to $12.8 billion.

The SBP on Thursday reported that the current account deficit widened to $12.02 billion during July-March period of this fiscal year.

The $7.53-billion disbursements were only 59% of the revised estimates, which has raised concerns in the Q Block about the sustainability of official foreign currency reserves. The gross official reserves held by the central bank amounted to only $11.4 billion as of April 6. The International Monetary Fund has recently said that in case of low disbursements, Pakistan's foreign currency reserves may slip to $9.4 billion by June this year.

In March alone, Pakistan received only $256.6 million. Out of the total $7.53 billion, Pakistan received $1.72 billion on account of foreign commercial loans. This included $1 billion disbursements by the Industrial and Commercial Bank of China (ICBC), $255 million by Suisse AG, $200 million by Standard Chartered Bank and $257 million by Citibank. Pakistan also floated $2.5 billion worth of Eurobonds to stabilise the reserves. Multilateral agencies also gave $2 billion, almost half of it by the Islamic Development Bank.

Sources said that the finance ministry was aiming at $5 billion in disbursements in the remainder period of the fiscal year. About $2 billion has been estimated to be received from Chinese financial institutions alone, they added. This included $1.5 billion from China Development Bank and $500 million from ICBC. However, the ICBC lending is doubtful, as the commercial bank has already taken significant exposure in Pakistan.

The government also plans to take minimum $400 million loan from China, which could go up to $750 million, the sources said.

The government has also estimated $1.2 billion more loans to be received from bilateral countries, mainly $900 million from China, the sources said.

The sources said that the government also estimated receiving $1.4 billion from multilateral creditors, although the figure appeared on the higher side. The government has estimated receiving minimum $340 million from Asian Development Bank in three months, $450 million from the IDB and $600 million from the World Bank.

In order to firm the multilateral and bilateral loans estimates for the remainder period of this fiscal year, a meeting is expected to take place this week in the Q Block.

The sources said that if some of these loans did not materialise, it could create problems to manage the external account.

During the last five years, the PML-N government has taken more than $40 billion in gross loans. These loans were taken to offset the pressure from the external account due to low exports and very high volume of imports. Its plans for next fiscal year also talk about taking another $13 billion loans.
https://tribune.com.pk/story/1690180/2-pakistan-hedging-bets-china-dollar-reserves-deplete/

NEWS COVERAGE PERIOD FROM APRIL 9TH TO APRIL 15TH 2018

ECONOMIC GROWTH HIT 12-YEAR HIGH, CLAIMS GOVT
Shahbaz Rana
The Express Tribune, April 10, 2018

The Pakistan Muslim League-Nawaz (PML-N) led federal government has claimed to have achieved 5.8% economic growth rate in its last year in power that is the highest rate in the past 12 years, as almost all sectors of the economy have shown a better performance in the outgoing fiscal year.

The government hopes that the decent economic growth rate will give political advantage to the ruling party in the upcoming general elections. However, unemployment remained high as most of the growth came from the services sector that is not job intensive.

The industrial sector’s growth also fell short of the target.

The Gross Domestic Product (GDP), the monetary value of all goods and services produced in one year, is projected to have grown at a rate of 5.79% during the fiscal year 2017-18 ending on June 30, the National Accounts Committee (NAC) announced on Monday.

In its 99th meeting, the NAC worked out the annual growth rate on the basis of seven to eight months of data due to the government's decision to advance the calendar of the budget to April 27.

Last time in 2005-06, the country had achieved the 5.8% economic growth rate. In dollar terms, the size of Pakistan's economy has projected to be grown to $312.7 billion by fiscal year 2017-18. However, the per capita income in dollar terms grew marginally by 0.6% to only $1638.2 per person.

In rupee terms, the per capita income was Rs180,204 this year – up from Rs162,230, showing a growth of 11%. The economic growth rate was slightly lower than the official target of 6% but better than the projections of international financial institutions and independent economists.

The 5.8% provisional growth figure is subject to variations once the final results are available at the end of the fiscal year. A 5.8% growth rate has shown the resilience of Pakistan's economy, also fuelled by the China-Pakistan Economic Corridor, recovery in the agriculture sector and constant healthy growth in services.
For the next fiscal year 2018-19, the outgoing government plans to set the GDP growth target at 6.5%.

In its 99th meeting, the NAC approved the provisional growth rate for the outgoing fiscal year, revised the 2016-17 growth rate to 5.37% and approved the final growth figure of 2015-16 at 4.56%, the NAC documents state.

Slightly over two-thirds of the growth – 66.4% to be precise – came from the services sector, which performed slightly better than the expectations. The government achieved services and agriculture sectors growth targets but missed the industrial sector growth target again despite heavy focus on it.

Despite a better economic performance, the growth rate is still insufficient to absorb the youth bulge and any pace of growth below 7% rate will increase unemployment. The government also failed to address serious issues like stagnant investments and savings in terms of total size of the GDP and stagnant exports.

The current account deficit target of $9 billion will be missed by a wide margin and now the government expects the $15.6 billion current account deficit by June this year.

The Adviser to Prime Minister on Finance Dr Miftah Ismail will formally announce the provisional growth rate of 5.8% on April 26, with the release of the Economic Survey of Pakistan for 2017-18.

After witnessing 2% growth in the last fiscal year, the agriculture sector this time performed better due to exceptional growth in cotton ginning and better performance of crops. The sector grew at a pace of 3.81% this year, against the government's target of 3.5%.

Production of major crops saw 3.6% growth against the target of 2%. This time the minor crops also grew by 3.33% against witnessing contraction in the last year. Cotton ginning surpassed the 6.5% target and showed 8.7% growth.
Livestock also posted 3.8% growth, which is equal to its annual target. Forestry sector showed 7.2% growth but remained below the target of 10%. There was a surprising trend. The NAC revised down last year's forestry growth figure of 14% to negative 2.3% growth rate.
Fishing sector grew by 1.63%, which almost equal to the target.

The government missed all its targets set for the industrial sector despite giving it a preferential treatment in supply of electricity. Heavy taxation and blockage of tax refunds affected the sector's performance.

Against a target of 7.3%, the output in the industrial sector stood at 5.8%. The output of large-scale manufacturing stood at 6.2%, which was below the official target while small-scale manufacturing grew to 6.1%, also below the target.

The slaughtering sector grew 3.5% and remained shy of the target. The electricity generation and distribution grew only 1.8% against a target of 12.5%, mining and quarrying sub sector grew 3% against a target of 3.5%. The construction sector grew at a pace of 9.1% but missed the target of 12.1%.

The services sector, which accounts for more than half of the economy, grew by 6.43%, slightly above the target. The wholesale and retail trade posted 7.5% growth against a target of 7.2%.

Transport, storage and communication sub sector saw 3.6% growth and fell short of the 5.1% target. Finance and insurance witnessed 6.1% growth against a target of 9.5%. The housing services saw a growth of 4% and the general government services 11.4% against the target of 7%.

https://tribune.com.pk/story/1681655/1-economic-growth-hit-12-year-high-claims-govt/

PAKISTAN NOT TO MAKE CSF PART OF BUDGET ESTIMATES
The Express Tribune, 11 April 2018

After 16 years, Pakistan has decided to exclude the Coalition Support Fund (CSF) receipts from the United States from its new fiscal year budget estimates, indicating that the relations between the two countries are unlikely to revive to the pre-Donald Trump era in the near future.

The decision to exclude the CSF estimates from the budget 2018-19 has been taken during the pre-budget meetings being held in the finance ministry, according to sources.

The CSF payments are reimbursements of the cost that Pakistan has incurred while fighting the US-led global war against terrorism.

Since 2001 when Pakistan became a frontline state in the war against terror, the country received CSF at an average of $971.5 million per annum. However, this will be the first time since then that the government will not make the CSF receipts part of the budget, as the US did not disburse any sum in the past one year.

The CSF disbursements will not be part of the non-tax revenue estimates being prepared for the financial year 2018-19, said Dr Miftah Ismail, Adviser to Prime Minister on Finance, while talking to The Express Tribune.

"Pakistan has sufficient resources to meet its defence needs and can also take care of people affected by war against terrorism", said Ismail.

He further said that the next year's budget will be presented on the realistic revenue and expenditure estimates and "the doubtful receipts like the CSF will not be part of the budget".
The de facto finance minister said the US still owed $9 billion to Pakistan that "we spent while fighting the war against terrorism".

Ismail's statement indicates departure from the past when the budgets were presented by understating the expenditures and overstating the revenues.

For the outgoing fiscal year, Pakistan had budgeted Rs141.8 billion (or $1.33 billion) from the US on account of the CSF disbursements. But so far Washington has not released any amount.

After a change of administration in Washington, many issues between Pakistan and the US remained unresolved including future assistance to Pakistan, according to people privy to the developments.
At the beginning of the year, President Donald Trump harshly criticised Pakistan on twitter, accusing it of taking billions from the US and giving "nothing but lies and deceit."

However, the CSF disbursements are not the aid, as this is the cost that the US had agreed to pay for using Pakistan's soil, its airspace and the cost of refurbishment of the military hardware used in the war.

The defence analysts and the government are unanimous in their view that the US was making Pakistan a scapegoat to cover up its own failures in Afghanistan.

Historically, the CSF disbursements remained crucial for building foreign currency reserves, lessening strains on the external accounts and narrowing down the budget deficit. The Washington's decision to withhold the CSF receipts has put extra strain on Pakistan's external account that is already under pressure due to a growing trade deficit.

By the end of March, Pakistan's official foreign reserves slipped to $11.7 billion, barely sufficient to cover next two months import bill.
The government will have to find an alternate source to fill the gap that will create due to exclusion of the CSF estimates.

Since 2001, the US has sanctioned $33.4 billion for reimbursements to Pakistan and 44 per cent of it (or $14.573 billion) were under the CSF. By excluding the $14.5 billion cost of logistics and aerial support, the approved civilian and security-related aid to Pakistan from 2002 to 2016 was only $18.8 billion, according to the statistics compiled by US authorities.

Since it could not coerce Pakistan despite cutting the CSF disbursements, the US has started creating problems for Islamabad at forums where it enjoys significant clout. It has successfully manoeuvred in the Financial Action Task Force (FATF) to place Pakistan on grey list with effect from June.

The executive director of the Asia Pacific Group (APG) on Money Laundering met Dr Miftah Ismail on Monday and discussed the issues related to the action plan that Pakistan will have to implement to come out of the grey list. The APG is part of the global coalition against the money laundering that includes FATF.

Pakistan is ready to implement “a feasible and possibly implementable” action plan, said Dr Ismail. He said Pakistan would not accept unworkable conditions, as the country’s Anti-Money Laundering and Counter Terrorism Financing regime was already in line with the global standards.

The action plan will be presented in the FATF Plenary in June for its approval, which will set a path for the country to follow to exit from the grey list.

https://tribune.com.pk/story/1682517/2-pakistan-not-make-csf-part-budget-estimates/

GOVT UNABLE TO MEET SAVING AND INVESTMENT TARGETS
The Express Tribune, April 11th, 2018.

Two key structural problems of Pakistan’s economy – low investment and saving rates – remained unaddressed during the five-year PML-N tenure, as the government again missed both these critical targets in the outgoing fiscal year, showed official statistics.

By the end of fiscal year 2017-18, private investment has been projected to fall to the lowest level in five years, despite the bonanza of the China-Pakistan Economic Corridor, according to the working of National Accounts Committee. In addition, the national savings to Gross Domestic Product (GDP) ratio also fell to a ten-year low.

Failure to achieve these two crucial targets has limited the government’s ability to spend on deteriorating infrastructure and social sectors from its own resources. This has inevitably increased government’s reliance on external and domestic sources to meet its requirements, resulting in mushroom growth in public debt in past five years.

The investment-to-GDP ratio stood at just 16.4% against a target of 17.2%, said the sources. The ratio was slightly better than last-year’s revised rate of 16.1%, they added. Under the Five-Year Plan 2013-18, the PML-N government set a target to enhance the investment-to-GDP ratio to 22.8% by 2017-18.

The government’s inability to increase investment as a percentage of the total size of the national economy remains its biggest failure on the economic front, suggesting that structural obstacles remain unaddressed despite undertaking so-called reforms under the $6.2 billion International Monetary Fund programme.
Savings slipped even below last year’s level and stood at 11.4% of GDP – far below the target of 14.6%. In the last fiscal year, savings were recorded at 12% of GDP. It was the lowest ratio in last ten years. In fiscal year 2007-08, the savings-to-GDP ratio had clocked in at 11%. Under the five-year plan, the PML-N government had targeted to increase savings to 21.3% of GDP.

Due to low savings and investment ratios, Pakistan’s current account deficit is now projected to widen to 5% of GDP – higher than last year’s level of 4.1%. The new projected current account deficit is almost double the official target of 2.6% of GDP.

These figures of investment and savings would be officially published in the Economic Survey of Pakistan 2017-18 to be unveiled on April 26.

To enhance the economy's repayment capacity, there must be sustained economic growth and an increase in exports, which is only possible if there are higher savings and investments, including public investment, according to a report by the Institute of Policy Reforms (IPR).

The IPR stated that positive effects of Chinese public and private investment on Pakistan's economy will require structural reforms and improved governance.

Pakistan has one of the lowest investment and saving rates in the region and the world, obstructing progress towards sustainable inclusive economic growth path.

Pakistan provisionally achieved 5.8% growth rate in fiscal year 2017-18, which was the highest level in the last 12 years. But it was largely consumption-led economic growth and slightly below the official target of 6%.

Fixed investment remained at only 14.8% of GDP in fiscal year 2017-18 against the target of 15.6%. It was up 0.3% from last-year's level. Public investment increased to 5% of GDP, which was better than the 4.5% target. Public investment increased ahead of next general elections.
Just 10% of bank credit went to the fixed investment during first half of the current fiscal year, according to the IPR.
However, the worrisome area is the private investment. The target of private investment was also missed by a wide margin, which stood at 9.8% of GDP as against the target of 11.2%. The results are worse than last year when private investment was estimated at 10%.

Sources said that in dollar terms the per-capita income has grown by only 0.6% to $1,638.2 – up $9 per person in the outgoing fiscal year 2016-17. Pakistan continues to be in the league of low middle-income countries. It needs to enhance the per-capita income to over $4,000 to be labeled a middle-income country.

https://tribune.com.pk/story/1682362/2-govt-unable-meet-saving-investment-targets/

ADB SEES GROWTH RISING TO 5.6PC
Dawn, April 12th, 2018

Amin Ahmed

ISLAMABAD: Pakistan's gross domestic product (GDP) growth is expected to accelerate to 5.6 per cent on strong prospects for large-scale manufacturing and crop harvests for a second year in a row.

However, this GDP growth is expected to adjust downward in 2018-19 to 5.1pc as balance of payment constraints seem to outweigh improvements to supply-side factors such as better security and energy supply, cautions the ADB's 'Asian Development Outlook 2018' released on Wednesday.

According to the outlook, the continued buoyant domestic demand including from the China-Pakistan Economic Corridor (CPEC) and other infrastructure investments, strengthened economic growth globally that will revive exports, much improved power supply, and commodity prices which are still broadly favourble despite a further double-digit increase in the oil prices.

"Pakistan's economic prospects in the coming years remain positive if budget and current account deficits are reduced and exports are rejuvenated by improving the country's competitiveness," ADB Country Director for Pakistan, Xiaohong Yang said.

"Pakistan can maintain a stronger growth trajectory through domestic and regional stability, improving overall competitiveness, revitalising public sector enterprises, as well as timely completion and effective use of infrastructure projects," she said.

ADB suggests that the government should consider reforms in greater exchange rate flexibility, enforcing industrial compliance with quality control and other standards, operationalising a national single window for trade, skills development that aligns with industry demand, and instituting legal and institutional frameworks to support new industries such as information and communication technology services.

The report warns that while the budget deficit may moderate slightly in fiscal year 2018 from a year earlier, spillover from higher investment expenditure is expected to widen the current account deficit. Securing adequate financing to contain the drawdown in foreign exchange reserves is a concern, it says.

Growth in 2017-18 is being led by large-scale manufacturing, which expanded by 6.3pc in the first seven months of FY18 from 3.6pc in the same period last year. This improvement was largely from solid expansion in cement, iron, and steel products that reflects higher demand from construction on public infrastructure projects.

Higher domestic demand was indicated by sharp expansion in consumer goods such as automobiles and electronics. Recovery in engineering, petrol products, and rubber also contributed to growth, which is expected to continue in light of a favourable demand outlook.

Provisional estimates for major winter crops suggest strong agriculture in 2018 for a second year in a row, supported by increased cultivated area, fertiliser use and credit.
However, the wheat crop is expected to be slightly below target with reduced sown area, the report says.

Food inflation was 2.2pc in the first eight months of current fiscal year, well below that in the year-earlier period, as abundant agricultural supplies held headline inflation to 3.8pc even as non-food inflation rose to 5.0pc.
https://www.dawn.com/news/1401100/adb-sees-growth-rising-to-56pc

BUDGET 2018-19
Business Recorder, 13 April 2018

ZAHEER ABBASI

ISLAMABAD: The government is likely to allocate Rs 219 billion subsidy for next fiscal year with Rs 119.400 billion earmarked for power sector, reliable sources in the Finance Ministry told Business Recorder.

Finance Ministry has reportedly proposed a ceiling for allocation of subsidies to various sectors for next fiscal (2018-19) year as follows: Rs 119.400 billion for power sector, Rs 1 billion to Utility Stores Corporation (USC) for sale of pulses at subsidized rates, Rs 3 billion subsidy to USC for sale of sugar (arrears), Rs 1.5 billion subsidy for cost differential for sale of wheat.

Finance Ministry has also proposed the allocation of Rs 500 million for re-imbursement of subsidy to PASSCO on account of paddy operation, another Rs 500 million for reimbursement to PASSCO on account of donation of wheat by the government and Rs 5 billion for wheat reserves stock.

Subsidy to PASSCO on account of wheat supplied to Gilgit Baltistan (GB) (arrears) has been proposed at Rs 8.045 billion for next fiscal year, Rs 2 billion for export of sugar, and Rs 1.5 billion for wheat/flour export. A subsidy of Rs 30 billion has been proposed for Pakistan Railways to meet losses.
Finance Ministry, sources added, has proposed a subsidy ceiling of Rs 6 billion for government equity in DISCOs through Power Holding Pakistan Limited (PHPL) for payment to DSL of STFF.
Other loans and advances by the federal government include: (i) Rs 40 million interest free loans to Water and Power Development Authority (WAPDA) for operation and maintenance of Hub and Khanpur Dam; (ii) Rs 4 billion loan to Pakistan Steel Mills (PSM), and (iii) a loan of Rs 20 million to State Engineering Corporation.

Sources in the Finance Ministry also told Business Recorder that allocation of Rs 5 billion has been proposed in budget for the next fiscal year for Gas Infrastructure Development Cess under development expenditure of Finance Division.

Finance Ministry has also proposed Rs 5 billion as subsidy to Trading Corporation of Pakistan for import of urea fertilizer, Rs 6 billion for Strategic Trade Policy initiatives, and Rs 6 billion for textile policy initiative 2009-14.

The government is also expected to allocate Rs 10 billion for Duty Drawback of Taxes Order 2016-17 and Rs 4 billion for Drawback of Local Taxes and Levies (Non-Textile Order 2017).
https://epaper.brecorder.com/2018/04/13/1-page/710319-news.html

PROTECTION OF ECONOMIC REFORMS ACT: CHANGE IN LAW TO BRING DOWN DEMAND FOR US DOLLAR
The Express Tribune 14 April 2018

Experts have welcomed an amendment to the Protection of Economic Reforms Act 1992 that will bar those who do not file tax returns from operating bank accounts in foreign currencies and making international financial transactions in such currencies.

The amendment is strongly believed to reduce the mounting pressure on the country's foreign exchange reserves, which have shrunk 27.88% to $17.64 billion as on April 6, 2018 from the historic high of $24.46 billion as on October 14, 2016, according to the State Bank of Pakistan (SBP).
The change in the law will also ease pressure on the widening current account deficit – the toughest challenge for the past two years, reduce trade deficit and slash the speculative demand for dollars and other international currencies in the open market.
The amendment, however, will not slow down the inflow of worker remittances as non-filers of tax returns can send money, which will be converted into Pakistani rupees, to their relatives back home.

On the flip side, the amendment may bring down the foreign currency reserves of commercial banks that went up 25.76%, or $1.27 billion, to $6.20 billion at the outset of April 2018 from $4.93 billion in December 2016.

The SBP has announced the amendment by including a paragraph in the Act that says "foreign currency accounts can be fed by remittances received from abroad, travellers' cheques issued outside Pakistan (whether in the name of the accountholder or in the name of any other person) and foreign exchange generated by the encashment of securities issued by the government of Pakistan.

A foreign currency account of a citizen of Pakistan resident in Pakistan can also be fed with cash foreign currency only if the accountholder is a filer as defined in the Income Tax Ordinance 2001."

"This is a positive step," said The Institute of Bankers Pakistan Chief Executive Hussain Lawai.

"The amendment will stop unnecessary outward international remittances… and prevent the conversion of black money into 'white' through the misuse of foreign exchange," he said.

He explained that non-filers of tax returns would not be able to operate foreign currency accounts after June 30, 2018. "They could neither receive international remittances nor could they send. They will be able to only withdraw the previously deposited dollars…Technically speaking, their accounts will be frozen," he said.

According to Lawai, the amendment will ultimately reduce the demand for dollars in the open currency market, which will become stable. The change would also encourage people to become tax return filers, he said.

Tax expert SM Shabbar Zaidi said the other day authorities had deliberately designed laws in the past that allowed the misuse of foreign currency inside and outside the country.
The misuse, according to Zaidi, has led to serious consequences and may drag the country into the terror financing watch list of the Financial Action Task Force (FATF) in June. Moreover, it has given birth to issues like Panama Papers leaks that led to the disqualification of former premier Nawaz Sharif.

Zaidi pointed out that earlier no authority including the SBP had the right to question individuals about the source of income parked in foreign currency accounts and the use of currency under Section 111(4) of the Income Tax Ordinance, 2001.

Foreign currency expert Naeemuddin said earlier anyone holding the Pakistani national identity card could operate a foreign currency account and receive and dispatch dollars across the world without giving any reason. "Now, only tax return filers can do this."

The then government of Prime Minister Nawaz Sharif had introduced the dubious law (through amendments in the Foreign Currency Act) in 1992-93 to give a free hand for legalising the black money.

It took the authorities about a decade to correct Pakistan's direction in the international financial system, he said.

Forex Association of Pakistan President Malik Bostan commented "the amendment is silent over the existing foreign currency accounts. The amendment deals with the opening of new foreign currency accounts."
https://tribune.com.pk/story/1685402/2-protection-economic-reforms-act-change-law-bring-demand-us-dollar/

NEWS COVERAGE PERIOD FROM APRIL 1ST TO APRIL 8TH 2018
RUPEE VALUE TO INCREASE DUE TO CPEC: AHSAN IQBAL
The Express Tribune, 1 April 2018

Federal Interior Minister Ahsan Iqbal said a new middle class market will emerge in Pakistan as the country achieves the gross domestic product (GDP) growth target of 6%.
He added that the value of the Pakistani rupee, which recently plunged over 9% against the US dollar due to a bulging current account deficit, is likely to increase due to investments in the China-Pakistan Economic Corridor (CPEC).

While addressing the 'Think and Grow' summit, he said investors from Europe, Middle East and other parts of the world would start businesses in Pakistan, which will create a positive impact of CPEC on their economy. The summit was hosted by the University of Management and Technology, Lahore in collaboration with the Pakistan Industrial Technical Assistance Centre and the Centre of Excellence CPEC.

Iqbal said that CPEC would be completed by 2030 in three phases. In the first phase of CPEC, energy and physical infrastructure would be developed by 2020, he said, adding that the roadmap for the formation of a National Internal Security Policy (NISP) is centred on goals defined in Vision 2025, which envisage sharing peace, stability and development.

Speakers at the summit called for actively engaging the Pakistani workforce in CPEC in order to provide them first-hand knowledge, experience and engineering being applied by Chinese experts. They said once the project is fully functional in 2030, foreign direct investments in key areas are likely to pour into Pakistan, resulting in greater opportunities for both countries.

Addressing the summit, UMT Chairman Dr Hasan Sohaib Murad said CPEC is a beacon of hope.

He said current business models need to be replaced with new and innovative ones in order to oversimplify the business culture and attract more locals to take the risk of investment.
https://tribune.com.pk/story/1674289/2-rupee-value-increase-due-cpec-ahsan-iqbal/

PLANNING MINISTRY SEEKS RAISE IN DEVELOPMENT BUDGET TO RS1.3TR
The Express Tribune, April 7th, 2018.

Shahbaz Rana
After different ministries placed a wish list of Rs1.9 trillion worth of development spending, the planning ministry has enhanced its demand for development budget to Rs1.3 trillion – almost double the amount the treasury is ready to give for the next financial year.

The planning ministry has sought Rs1.3 trillion for the Public Sector Development Programme (PSDP) at a time when challenges have emerged to securing financing for some China-Pakistan Economic Corridor (CPEC) projects. Prime Minister Shahid Khaqan Abbasi is expected to take up the issue of CPEC financing with the Chinese leadership during his upcoming visit to Beijing.

The federal government on Thursday vowed that it would not waive penalties in case sponsors of CPEC power projects failed to timely put in place financing arrangements.

"The Rs750 billion initial indicative development budget ceiling for fiscal year 2018-19 is not sufficient to meet needs of CPEC projects, water schemes and other strategic initiatives," said Planning Secretary Shoaib Siddiqui on Friday in an informal discussion with the media.
The finance ministry has indicated that it may increase the ceiling to Rs800 billion, but Siddiqui said anything lower than Rs1.3 trillion would hurt the ongoing development schemes. In that case, the planning ministry would also not be able to allocate funds for new projects, said the secretary.

The finance ministry was of the view that the outgoing government should not allocate funds for new development schemes and that should be left to the next government. The planning ministry, however, wanted that at least Rs200 billion should be reserved in the new budget so that the next government may finance projects of its choice.

The planning secretary said initially the planning ministry had requested the finance ministry to allocate Rs1.1 trillion. However, government ministries demanded almost Rs2 trillion for next year, he added.

Keeping that in view, "the planning ministry has now requested the finance ministry to earmark Rs1.3 trillion for the next fiscal year," he added.
The secretary emphasised that the planning ministry did realise the fiscal constraints, but in order to keep the momentum of development activities, the allocation must match with demand.
He said out of the initially indicated Rs750 billion, the net development budget was only Rs640 billion. The remaining around Rs105 billion was proposed for other programmes, mainly for temporarily displaced persons affected by military's operation against terrorists.

Responding to a question, the planning secretary said China had assured Pakistan of honouring its commitments for concessionary financing for CPEC projects. In recent years, Pakistan has become the largest recipient of Chinese concessionary financing including grants and cheap loans.

The secretary said the issues related to financing of $2-billion Karachi Circular Railway (KCR) project and Mainline (ML-I) project had to be resolved by the executing agencies.

In both cases, Siddiqui said, Pakistan had not yet decided the kind of financing it wanted to obtain from China – either it will be a sovereign guaranteed loan or central loan.

The secretary said the Ministry of Communication had prepared a summary for taking decision on the kind of loan that the Sindh government wanted to acquire from China for the KCR project.

To a question about disagreement on the cost of phase-I of the ML-I project, the secretary said it was the responsibility of the Ministry of Railways to address these issues.

In its last meeting, the Central Development Working Party (CDWP) deferred approval of the first phase of the ML-I project. Chinese consultants have estimated the cost of the first phase at $4.1 billion while Pakistan puts it at $3.4 billion.

The secretary said in order to resolve financing issues of CPEC projects, Pakistan had also activated the diplomatic channels.
Replying to a question on delay in arranging financing for Thar coal power projects of CPEC, Siddiqui said it was the responsibility of sponsors to arrange financing from China.
If they fail to timely finalise the financing arrangements, the federal government would neither waive penalties nor would it extend commissioning dates of the schemes.
https://tribune.com.pk/story/1679476/2-planning-ministry-seeks-raise-development-budget-rs1-3tr/
SOME REFLECTIONS ON PAKISTAN'S ECONOMY
Dr Inayat U Mangla And Dr Shaheen Naseer
Business Recorcer, April.8th, 2018

This is a high time in the political sphere of the country, where every week is witnessing a convoluted discourse; ranging from political and judicial activism, hectic political activities by all three major political parties, upcoming annual government budget for FY2019 in April and the national elections down the road. Related to this, it is also a more precarious situation for the management of Pakistan economy, in particular, emanating from the laborious task of reversing Pakistan's growth decline. The last week of March had been draped with a few important events besides the 'Good Friday' for scholarly discourse to gather key insights to boost long run economic growth in Pakistan.
Pertinent to this, on March 28th-29th, Lahore School of Economics held its 14th international conference on the Management of Pakistan Economy, and Business Recorder had excellent coverage for day one (see BR March 29th) for the burning/major issues facing Pakistan's economy. The key feature of this conference has always been to focus and analyze economic issues related to public policy rather than looking at purely theoretical papers by trained economists living and discussing in ivory tower environments.

Simultaneously, on March 29th-30th, the State Bank of Pakistan held its Monetary Policy Committee (MPC) meeting which occurs every two months to evaluate/deliberate on setting the key policy interest rate which was left unchanged at 6%, despite the fact that Pakistan's Rupee has depreciated by 4-5% in late March for the second time since the December 2017 depreciation.

Coming back to the events of the Lahore School of Economics Conference, the second day's papers had an even greater practicality for public economic policies. Out of four sessions, two were devoted to Determining an Industrial Strategy and Optimal Locations for Industrial Clusters and Reviving Agriculture Growth in Pakistan, and one on Innovation and Change in the Financial Services Industry – Implications for Growth.

A common thread in all sessions and papers of the conference was that economic efficiency in almost all sectors of the economy has deteriorated over the last two decades in Pakistan's economy and its ranking as measured by several indicators was among the lowest/weakest as compared to its peer economies in the South Asia region. Albeit, the most plausible empirical explanation of low performance of key sectors was low productivity, lack of use of technology, its upgradation, cost of capital issues, lack of proper/enabling regulatory environment in the economy.

A look at the composition of Pakistan's governance indicators show that Pakistan ranks in lower quartile of the countries across the world. Compared to the similar countries (Indonesia, India, Philippines, Egypt, Bangladesh, Sri Lanka) it scores unfavorably, particularly with respect to "political stability and absence of violence/terrorism.
This could lead to weak institutional set-up in Pakistan pointing out the need to improve institutional framework for improving Pakistan's financial development. The following section analyses the discussion that deals with the 'Role of Financial Services as driver of economic growth in Pakistan'.

In so doing, it sheds new light on the relationship between financial sector development and economic growth by bringing into focus a variety of emerging financial sector dimensions such as FinTech and Cryptocurrencies in the context of Pakistan Economy.

To put things in the perspective, notwithstanding the earlier dismissal of the role of finance in economic development by the neo-classical economists, the nexus between financial sector development and economic growth is now widely accepted. Plausible rationale for why well-functioning financial systems matter for growth relate to reducing information cost and allocating capital; monitoring firm behavior and exerting corporate governance; facilitating the hedging, trading, and pooling of risk; mobilizing savings for investment and reducing the transaction costs of economic exchange and activity. The key message for the economic policy makers that emerges from the understanding of finance-growth nexus is that financial development should be a crucial piece in any country's strategy for economic growth.

In a fast growing digitized world, human organizations need to keep up with the increased efficiency and productivity provided with highly advanced technologies and digital financial service, which are shaping the globe. This was the theme of a paper in Financial Services Session presented by Dr. Kumail and Bushra Naqvi, titled "Is Pakistan Ready to Embrace Fintech Innovation". The authors remarked that in most developing countries, informal financial tools dominate as the first choice of people, despite the availability of formal finance.

Therefore, even with the innovative digital financial products and the improved access to financial services they provide, only a minor fraction of population uses them. Pakistan being an emerging economy is no different from rest of the developing world where people's first choice for conducting financial transactions is "Cash". As a result, 85 percent population of the world's sixth most populated country is financially excluded and the high banking infrastructure cost acts as a barrier in the diffusion of financial services beyond a small fraction of population.

In another paper by Dr. Ayesha Afzal of Lahore School of Economics titled "Cryptocurrencies, Blockchain and Regulation" suggested that there is an increasing popularity of Cryptocurrencies which is a peer to peer electronic cash system that allows online payments to be sent from one user to another, without involving any financial institution or central repository. Cryptocurrencies have become a popular mode of payment globally because of their low cost, high speed transfer ability and a decentralized tracking network that provides secure transactions and a high degree of anonymity. The State Bank of Pakistan, however, does not recognize any digital currency and FBR and the Federal Investigation Agency (FIA) took legal action against local and internationally traded Cryptocurrencies.

To conclude, in countries with good public policy in terms of provision of soft public goods such as property rights, and rule of law, investors utilize maximum benefits since strong institutions provide

right incentives to investment. In the same vein, political institutions shape the legal system that defines the rules that govern financial markets. In a political process, different interest groups vie for gaining political power or capturing economic rents within the laws and regulations set up by the legal system.

Without an appropriate incentive structure within political institutions, rules may be designed to bestow political advantage to particular groups at the expense of the society, which generally lacks basic legal protections against government expropriation of private property. In such an environment, public investment tends to be unproductive leading to adverse growth outcomes.

At present, though, Pakistan lacks sophisticated financial products such as cryptocurrencies and Fintech related products in its financial products profile. As Pakistan moves up the financial technology ladder, it will be imperative to improve institutional quality and develop conducive environment to put in place a well-diversified and globally competitive financial sector.

https://fp.brecorder.com/2018/04/20180408358727/

May 2018

NEWS COVERAGE PERIOD FROM MAY 14TH TO MAY 20TH 2018

WITH EXPORT-LED GROWTH: EAST ASIAN ECONOMIES PROSPER, BUT PAKISTAN LAGS BEHIND

The Express Tribune, May 14th, 2018.

The export-led growth that Pakistan and several other developing countries are pursuing has two components: first, there is sustained export growth, which is based on increased competitiveness of the export sector. In the second phase, the export sector becomes a catalyst for transformation of the overall structure of production in the economy.

This is what happened in case of East Asian economies, such as South Korea, Taiwan, Singapore and Hong Kong, which successfully implemented export-led growth strategies.

In Pakistan’s case, however, even the first condition has not been satisfied, which has prevented the export sector from spearheading development efforts. It was towards the close of the 1980s that Pakistan switched over to the export-led growth from the import substitution strategy. Between 1990-91 and 2016-17, the country’s exports went up from $5.61 billion to $20.43 billion.

The average annual export growth has been a paltry 5.8%. During the 1990s, exports grew on average 5.6% a year. During the 2000s, the average annual export growth accelerated to 9.9%. Between 2010-11 and 2016-17, average export growth of 1.94% was recorded.

The sluggish export growth also cast its pall over the overall economic growth. Between 1990-91 and 2016-17, the economy grew on average 4.5%. During the 1990s, GDP grew 4.6% a year. During the 2000s, the average economic growth marginally went up to 4.7%. Between 2010-11 and 2016-17, economic growth decelerated to 4.3%, according to the Pakistan Economic Survey data.

Many other countries, which embarked on export-led growth about the same time as Pakistan did have seen both their economies and exports,grow at a much faster pace. Chinese exports went up from $62.09 billion in 1990 to $2,097 billion in 2016, registering an average annual growth of 15.32%. During the same period, the Chinese economy grew on average 9.63%. Indian exports went up from $17.96 billion in 1990 to $264.40 billion in 2016 up by 11.82% a year. During the same period, the Indian economy grew on average 6.59% (World Bank data). Thus in both these countries, high economic growth was underpinned by robust export growth.

Another measure of export growth is the export-to-GDP ratio. Pakistan's export-to-GDP ratio has come down from 15.53% in 1990 to 9.13% in 2016. As per World Bank data, during the 1990s, Pakistan's average export-to-GDP ratio was 16.4%, which fell to 14.35% during the 2000s. Since 2010, the average export-to-GDP ratio has come down to 12.16%. Pakistan's current export-to-GDP ratio of 9.13% is among the lowest in the region: Iran (22.40%), China (19.64%), India (19.17%), Sri Lanka (21.44%) and Bangladesh (16.64%).

From the perspective of export-led growth, it is important to look at two things in the main: one, does over the years, the composition of the export basket remain the same? Two, is export growth based on simple widening of production without changes in productivity of the factors of production?

Higher productivity means not only producing more output from the given resources but also producing the products, which better satisfy customer needs. The first factor is important, because the export-led growth process must include decreasing dependence on traditional exports and increasing dependence on value-added manufactures, particularly those which have a high growth potential in international market.

The second factor is important because without improvement in productivity, exports will find it difficult to successfully compete in foreign markets both in terms of price and quality. If the production function in exporting enterprises is not better than that in the enterprises producing for the domestic market, the export sector cannot serve as a catalyst for development.

Let's look at Pakistan's exports from the aforementioned perspective. According to the Pakistan Economic Survey, in 1989-90, the percentage share of primary products, semi manufactures, and manufactures in total exports was 20, 24, and 56 respectively. By the end of 2016-17, the export composition had changed as follows: primary products 15%, semi manufactures 12% and manufactures 73%.

Although the share of the manufactured goods in total export basket has considerably gone up, the export of manufactured products is heavily dominated by commodity-based manufactures. In 2016-17, the share of textiles and clothing (T&C) in total export of manufactures was 67.21%, followed by 3.94% share of the leather sector.

For several years, the T&C sector has accounted for less than 5% of the global trade. This means Pakistan is competing in a sector which has a very low share in international trade with little prospects for growth. Pakistan's T&C exports are sold mainly to the low end of the market, which makes it even more difficult to bring in higher export receipts.

Pakistan's share in global T&C exports is only 1.83%. On the other hand, the engineering sector, which accounts for nearly 60% of global trade, accounts for merely 1.17% of Pakistan's total exports. The share of engineering products in total exports of China and India is 47% and 23% respectively.

Being deficient in competitiveness, the export sector continues to look for tax exemptions and subsidies at home and duty free market access abroad. Providing subsidies or tax exemptions to export enterprises is not a bad idea.

However, such support should be made conditional. It should be provided to only those enterprises which cut costs through more efficient production and management processes, or improve quality of the output through product upgrade and innovation. In the beginning of 2017, the government introduced a Rs180-billion export package spread over 18 months. The benefits to be accrued from the package were made conditional, and rightly so, on exporters showing at least 10% increase in exports over the previous year. However, on the insistence of the exporters the conditionality was withdrawn.

As development economists point out, what matters for the success of export-led growth is not simply creation of modern enterprises but modernisation as a process and as a set of values. Replacing hand looms with the state-of-the art machinery is significant. But more significant is presence of entrepreneurship, which provides for professional management, labour training, diffusion of decision-making within the enterprise, risk taking by venturing into new areas, or at least, experimenting with product design, and a total commitment to quality.

Pakistan's export sector is markedly deficient in entrepreneurship, with the result that it is as efficient, or inefficient, and as innovative as the domestic sector is.

The level of Pakistan's overall competitiveness is borne out by the country's persistently low ranking on the Global Competitiveness Index, which is 115 out of 137 economies for 2017-18, compared with India (40), Iran (69), Sri Lanka (65), and Bangladesh (99). It is difficult for export-led growth to bear fruit in these circumstances.

https://tribune.com.pk/story/1709381/2-export-led-growth-east-asian-economies-prosper-pakistan-lags-behind/

BALOCHISTAN PRESENTS BUDGET WITH MASSIVE RS61.9BN DEFICIT

Dawn, May 15th, 2018

Saleem Shahid | Nasir Jamal

QUETTA: Adviser to the Balochistan Chief Minister on Finance Dr Ruqayya Saeed Hashmi presented on Monday the budget 2018-19 in the provincial assembly.

The budget documents show that Balochistan is facing a big hole of Rs61.9 billion in its planned development investment of Rs88.2bn for the next financial year as the pace of growth in its total income is projected to slow down to 4.9pc against 9.3pc estimated for 2017-18.

The slower increase in income and a large development investment gap notwithstanding, the province plans to create 8,035 new jobs in education, health, levies and other departments that will have a total financial impact of Rs4.1bn on the new budget.

The budget documents project the overall provincial income — federal transfers, provincial tax and non-tax receipts, foreign and domestic loans, etc — to increase by just Rs13.8bn to Rs290.2bn in 2018-19 from the current year's estimates of Rs276.4bn. This compares with an increase of Rs23.6bn in provincial income this year.

In spite of a slower growth in its income, the provincial government has decided to raise its total outlay of development and current spending by almost a quarter to Rs352.3bn from Rs328.5bn. This means the province will be left to search for additional resources and / or try to cut its current expenditure drastically to fund its development spending next fiscal year.

The funding for current budget that constitutes about three quarters of the total outlay has been hiked by 8.8pc. The provincial development programme that forms a quarter of the budget outlay has been increased by a mere 2.2pc because of resource constraint.

Almost 80pc of the provincial income will comprise federal transfers from the divisible pool (Rs224.1bn) and straight transfers (Rs9.0bn) with provincial own taxes contributing 3.5pc or Rs10.2bn and non-tax receipts 1.6pc or Rs4.9bn to it. The rest of the provincial income will be generated through foreign project loans and grants of Rs9.2bn, commercial loans of Rs6.7bn for state trading in food and a floating debt of Rs15.7bn (from the State Bank of Pakistan).

The budget details show that the growth in provincial income is affected by a slowdown in federal transfers as straight transfers (excise duty on natural gas, royalties on crude oil and natural gas, and gas development surcharge) are expected to almost halve to Rs9.0bn. Besides, the projected sharp decline in recoveries and loans to a mere Rs284.9 million from Rs5.3bn is also projected to impact on the overall provincial income.

The provincial expenditure on pay and pension, grants, and subsidies make up around three quarters of the total current expenditure Rs263.9bn or 90pc of its total income. The provincial pension bill alone has increased by an average 27pc during the last three years and is estimated to rise by 33.3pc next year. The undefined "purchase of assets" will eat up 27.7pc of the current budget with salaries and allowances of provincial employees registering a growth of 12.8pc, and debt and interest payments rising by 14.8pc.

Development and non-development allocations for the priority sectors show that Balochistan will spend 25.4pc of its revenue, including foreign loans, on education, 16.4pc on security, 8.7pc on health and 6.6pc on energy.

The budget speech of Dr Ruqayya Saeed Hashmi was more a repetition of what her predecessors had been saying for the last four years, insisting that the completion of the China-Pakistan Economic Corridor (CPEC) initiative and development of the province's natural wealth would change the fate of its people one day.
"I firmly believe that investment being made in Balochistan will contribute to the development of the province and Pakistan. We have recently passed a bill to encourage domestic and foreign private investment here in the public-private mode," she noted, adding the allocation for development investment for the present year had been revised down to Rs76bn from Rs86bn (because of resource shortfall).

She also dilated on the measures the government was taking to improve security conditions in the province to attract private investment, and develop mineral, industrial, agricultural, fisheries and other sectors in addition to enforcing a strict financial discipline to create room for development.

https://www.dawn.com/news/1407716/balochistan-presents-budget-with-massive-rs619bn-deficit

PUNJAB SKIPS UNVEILING NEW FISCAL YEAR BUDGET
The Express Tribune, 15 May 2018

Punjab Finance Minister Aisha Ghaus Pasha presented on Monday revised expenditures of Rs1,900.6 billion for outgoing fiscal year (2017-18), including a supplementary budget of Rs85.4 billion, amid strong opposition protest in the Punjab Assembly.

Prior to the budget speech, the provincial cabinet met under Punjab Chief Minister Shehbaz Sharif and granted approval to the supplementary budget.

Highlighting reasons for not presenting annual budget for the next fiscal year (2018-19), a senior official of the Punjab Finance Department said that although the Constitution did not bar the incumbent government from presenting the budget for the entire financial year, the Punjab government had decided not to do so because it would curtail the freedom of the next elected government to finance its development priorities.

Unlike other provincial governments, he said that the current government in Punjab had decided to allow full financial freedom to the next elected government.
Supplementary budget documents showed that out of a total of Rs85.4 billion, the government spent in excess of Rs21.95 billion on development projects while Rs61.56 billion were spent on non-development expenditures.

Documents also showed that the provincial government spent Rs24 billion over and above the budgeted allocations for the education sector during current fiscal year. The entire sum was funded through savings of Rs4.98 billion and Rs19.5 billion in supplementary grant.

A major chunk of excess expenditure (Rs14 billion) was spent on augmenting the non-salary component in 36 districts of the province and Rs5.5 billion on stipends awarded to female students.

The Punjab government spent another Rs19.1 billion on construction, repairs and maintenance of roads and bridges.

According to budget documents, the provincial government spent Rs17.1 billion for improving delivery of services in the health sector. Most of these funds were used for procuring medicines at district headquarters hospitals (DHQs) and salaries and allowance of the health department employees.

Documents also highlighted excess expenses of Rs7.6 billion for discharging outstanding liabilities and payment of salaries and staff benefits in the agriculture sector.

Similarly, Rs2.75 billion were spent over and above the budgeted allocation of irrigation and land reclamation for fiscal year 2017-18.

All of the funds were used for paying outstanding liabilities and salaries and benefits of the staff.

Supplementary budget documents showed excess expenditure of Rs5.6 billion in the police department, Rs2.8 billion on irrigation works, Rs1.6 billion on veterinary services, Rs1.44 billion on civil works, Rs96 million on land revenue, Rs126.4 million on provincial excise, Rs56.6 million on forestry, Rs55.2 million on the Motor Vehicle Act, Rs822.7 million on administration of justice, Rs52.5 million on jails and convicts settlement, Rs76.5 million on fisheries, Rs158.9 million on cooperatives, Rs758.8 million on industries, Rs585.4 million on communication, Rs30.9 million on civil defence and Rs189.7 million on state trading in food grain and sugar.

Most of the funds were used for paying outstanding liabilities of various provincial departments and salaries and allowances of government officials.

Highlighting reasons for not presenting annual budget for the next fiscal year (2018-19), a senior official of the Punjab Finance Department said that although the Constitution did not bar the incumbent government from presenting the budget for the entire financial year, the Punjab government had decided not to do so because it would curtail the freedom of the next elected government to finance its development priorities.

Unlike other provincial governments, he said that the current government in Punjab had decided to allow full financial freedom to the next elected government.

https://tribune.com.pk/story/1710304/1-punjab-skips-unveiling-new-fiscal-year-budget/

TO SERVICE MATURING DEBT, PAKISTAN TO BORROW RS22 TRILLION IN 2018-19

The Express Tribune, May 15th, 2018.

As the country falls deeper into payments obligation, the federal government has sought the National Assembly's approval to borrow a record Rs22 trillion in the next financial year to service its maturing public debt, an amount 44% or Rs6.7 trillion higher than the figure for the ongoing year.

Federal Finance Minister Miftah Ismail asked on Monday for the National Assembly's stamp for a record high borrowing of Rs22 trillion in a single year to repay domestic, foreign debt and the interest on these loans.

The borrowing plan underscores Pakistan's growing dependence on domestic and foreign lenders at a time when the country also faces challenges to meet its external financing requirements.

The Rs22 trillion in loans, Rs21.912 trillion to be precise, will be obtained during fiscal year 2018-19, starting from July 1. Demands of about Rs22 trillion were placed before the National Assembly under

Article 82 (I) of the Constitution as the Charged Expenditures. In case of "Charged Expenditure", the National Assembly can only debate but cannot veto the proposed spending bill.

The Rs22 trillion debt servicing-related spending bill is Rs6.7 trillion or 44.2% higher than the charged spending bill approved by the National Assembly in June last year.

Except Rs1.62 trillion that will be part of the federal budget, the rest of the amounts will not be booked in the budget and will be directly borrowed from the domestic and the foreign markets to repay and service the loans obtained in the past. The interest payments on domestic and foreign loans would consume roughly 31% or Rs1.62 trillion of the proposed budget of Rs5.247 trillion of the next fiscal year.

As against Rs13.16 trillion borrowing in the outgoing fiscal year, the finance minister sought the National Assembly's approval for Rs21.912 trillion as borrowing for repayment of domestic debt in the next fiscal year. The amount is 60.5% or nearly Rs8 trillion higher than the outgoing fiscal year. This will expose the government to exploitation by commercial banks, which have already started dictating their terms due to mounting financing needs.

The local commercial banks are not providing long-term loans in anticipation of increase in interest rates in the coming months. Due to this, the government's borrowings have largely shifted to the State Bank of Pakistan, which deteriorated its debt indicators further.

As against 55.2% share in March last year, the share of long-term public debt has shrunk to only 45.2% or Rs7.34 trillion by March this year, according to the central bank. This means that the finance ministry's debt refinancing risks have significantly increased.

The finance minister has placed another demand for Rs1.4 trillion to service domestic debt, which is 13% or Rs161 billion higher than the outgoing fiscal year.

For the next fiscal year 2018-19, the federal government has projected its budget deficit at Rs1.89 trillion, which is equivalent to 4.9% of Gross Domestic Product (GDP). The federal government will bridge this gap by borrowing Rs1.55 trillion from the domestic market and Rs342.1 billion from foreign countries.

To repay the foreign loans, the finance minister has sought whopping Rs601.8 billion in the new fiscal year, which will be obtained from foreign lenders. The requirements for foreign loans repayments are up by 210% or Rs315.8 billion within a year. This is mainly because of the government's failure to enhance exports and attract sufficient foreign direct investment.

The government has sought another Rs229.2 billion to pay interest on the foreign loans, which is higher by Rs97.3 billion or 73.7% in a single year.

In addition, Ismail has placed Rs174.2-billion demand before the National Assembly to repay the short-term foreign loans, which is higher by 338% or Rs134.5 billion. The short-term foreign loan is a new phenomenon that the PML-N government introduced after coming into power.

For the last five years, Pakistan has been on a borrowing spree and to deflect attentions from borrowings, the government has been applying innovative techniques including changing the definition of the public debt in the last budget.

By the end of PML-N's five-year term, the Public Debt-to-GDP ratio has been estimated to jump at 70.1% of GDP, which will be the highest ratio in the last 15 years. The government was legally bound to limit the debt to below 60% of GDP. When the PML-N government came into power the ratio was 64% of GDP.

https://tribune.com.pk/story/1710152/2-service-maturing-debt-pakistan-borrow-rs22-trillion-2018-19/

OUR GROWING ECONOMY IS NOT PRODUCING ENOUGH JOBS

Dawn, The Business and Finance Weekly, May 14th, 2018

Jawaid Bokhari

THE Pakistan Economic Survey 2017-18 provides no data on the latest unemployment rate in the country. The last official figure was a rate of 5.9 per cent for the fiscal year 2014-2015 when joblessness was on the decline.

The level of unemployment has been rising ever since despite the economic growth trajectory recorded in the past five years, implementation of skill development schemes, self-employment programmes and the setting up of the first ever job placement centre, designed to facilitate and provide career counselling to job-seekers for bridging the gap between employers and skilled persons.

Independent economists question the official data on unemployment suspecting that the government is understating the rate. In an article published in Business Recorder, Dr Hafiz Pasha says that the unemployment rate that emerges from the Household Integrated Survey of 2015-16 is almost 9pc.

He notes that it is significantly higher than the Pakistan Bureau of Statistics' estimate of 6pc derived from the Labour Force Survey of 2014-15. According to the latest National Human Development Report, the youth unemployment went up from 6.5pc in 2007 to 9.1pc in 2015.

Dr Pasha says the level of unemployment is especially high in urban centres, among females, and highly educated workers. For example, he says that 20pc of the youth in the labour market with post-graduate qualifications is without jobs.

According to the latest Population Census, the population in ten major cities has increased by 74.8pc since the last census was held, following significant movement of people from rural to urban areas in search of jobs and opportunities.

To control this shift in population, the government has set up a Centre for Rural Economy in the Planning Commission to promote sustainable and inclusive growth across the countryside. But the influx of job-seekers in Karachi continues unabated, especially from rural Sindh.

Policymakers are focused on economic growth that measures national income, not the living standards of the teeming millions. They need to evolve an indigenous egalitarian model for economic development that can resolve unemployment.

The problem of the unemployed or underemployed labour force has reached a critical level for various reasons. The mainstream economic activity is shedding labour in a drive to cut costs and improve productivity, helped by information and communication technology, information technology and a cheaper labour contract system.

There is a youth bulge for which enough jobs are not being created. Investments in Greenfield projects that provide more jobs than consolidation of businesses are at a low level. And Chinese workers and experts are competing with Pakistani labour in China Pakistan Economic Corridor projects.

No attention has been paid to the quality of economic growth which may or may not produce enough jobs. This requires that the issue be seen from the broader perspective of a transforming world in which job creation has turned into a global problem.

The elitist economic model needs a strong egalitarian bias to work for the common good. The traditional welfare state is withering away even in the developed economies of Europe where the concept of public welfare was deeply entrenched.

The best substitute that has so far surfaced at the international level is the concept of Sustainable Development Goals. When realised, the SDGs will largely help empowered individuals to earn their livelihood and empowered communities to resolve their problems in a fast-changing economic environment.

SDGs have to be a joint project of the state, business and active citizenry. The Parliament recently adopted a resolution supporting the SDGs and the National Assembly has set up an SDGs Centre.

Similar centres have also been set up at the federal level and in Punjab. Last year's economic survey had revealed that the process of setting up of such units in other provinces is underway. This year's survey did not report any progress.

Policymakers' commitment to SDGs is weak. Political parties are in the tight grip of power politics unaware of the social vulnerabilities it is creating. This also brings us to the domain of lack of creativity in the development of economics science.

Here, a quote from a recent article in The Economist, London would be pertinent: "Economics enjoys greater influence over policy than other social sciences. Striking new finds are published by researchers and their institutions, promoted by likeminded interest groups and politicians and amplified by social media.

"Conflicting results and corrections are often ignored. It is wise to be sceptical about a single result." Policymakers in Pakistan are still focused on economic growth that measures national income but not the living standards of the teeming millions.

They need to evolve an indigenous egalitarian model for economic development that can resolve the problem of unemployment and tackle accumulating issues in public welfare.

https://www.dawn.com/news/1407457

National Assembly passes Rs5.25 trillion budget

Syed Irfan RazaUpdated May 19, 2018

ISLAMABAD: The National Assembly on Friday approved a Rs5.247 trillion budget for the year 2018-9 as well as the Finance Bill-2018 with some amendments.

The approved amendments to the Finance Bill-2018 include a Tax Amnesty Scheme and enhancements in tax exemptions for local NGOs and welfare organisations from one year to five years.

Budget 2018-19: Standout features and key talking points

Two new acts were also approved. The first was regarding transferring offshore monetary assets to the country and the second was concerning the voluntary declaration of assets within the country. Interestingly, both acts were laid before parliament on Thursday.

The government, which could not approve the budget on May 14 due to a lack of quorum, managed to get it passed on Friday despite it being heavily contested by the opposition.

Laws on offshore monetary assets transfer and voluntary declaration also approved

A good number of members on the treasury benches helped approve the budget and the finance bill. The amendments to the finance bill were presented by Finance Minister Miftah Ismail.

Special report: An in-depth assessment of Budget 2018-19

The government has withdrawn the 10 per cent tobacco health levy, while another amendment ensures that non-filers cannot buy property worth Rs5 million and above.

According to an amendment, companies building low-cost houses for the poor will get a 50pc reduction in their income tax liabilities.

The finance minister said that a deadline of June 30 had been set for benefiting from the tax amnesty scheme after which holders of heavy bank accounts — whose sources of income are not known — would be asked to provide evidence of their revenue streams.

He informed the lower house that foreign currency reserves of the country were fast depleting, dropping from $15 billion to $7.7 billion.

However, the minister was hopeful that due to the increase in exports and good strategy implemented by the government, the situation looks likely to improve.

He also announced honorarium of five basic pays for employees of the National Assembly and other departments working in the parliament house.

Pakistan Tehreek-i-Insaf (PTI) leader Asad Omar said the government has approved a Rs276 billion supplementary budget, of which Rs258 billion was allocated to retire and service foreign debt. “Such a heavy supplementary budget indicated that the government had earlier made a faulty budget,” he added.

He said that on the one hand the country’s reserves were fast depleting and on the other prices of oil were increasing in the international market. “The Titanic is going to hit the iceberg,” he said, adding that the people of the country must brace themselves to face an acute economic crisis.

Sheikh Salahuddin of the MuttahidaQaumi Movement said the supplementary budget will burden the people.

SahibzadaTariqullah of Jamaat-i-Islami said the government should take decisions to benefit the public. He added that his party opposed the budget.

Published in Dawn, May 19th, 2018

https://www.dawn.com/news/1408603/national-assembly-passes-rs525-trillion-budget

Pakistan receives $9.2b in foreign loans, but reserves still plunge

By Shahbaz Rana

Published: May 19, 2018

Despite obtaining loans, the SBP and finance ministry have failed to restrict the decline in gross official foreign currency reserves, which stood at $10.8 billion. PHOTO: FILE

ISLAMABAD: Pakistan received $9.2 billion in new foreign loans during the first 10 months of the ongoing fiscal year, increasing cumulative borrowing by the PML-N government to over $44 billion in tenure of four years and 10 months.

Largely pulled by Chinese commercial loans and issuance of sovereign bonds, the disbursements of foreign loans touched $9.2 billion from July through April of this fiscal year, said officials in the finance ministry. In April alone, Pakistan received $1.6 billion as loans and three-fourths of it was contributed by two Chinese commercial banks, they added.

China’s share was $3.7 billion or 40.3%, indicating Pakistan’s heavy reliance on its northern neighbour. From July through April, China gave $1.5 billion as project financing and $2.2 billion in commercial loans. In April, Bank of China disbursed $200 million and the China Development Bank released $1 billion. Pakistan has already contracted a loan of $1 billion from the Industrial and Commercial Bank of China.

With the fresh borrowing of $9.2 billion, total foreign loans the PML-N government so far obtained during its third stint (July 2013 to April 2018) have now increased to a record $44.2 billion.

Most of these loans have been obtained to help boost foreign currency reserves, finance a bulging current account deficit and for budgetary support. A major chunk of $44.2 billion has been spent on non-productive areas of the economy, which has created issues for the government in managing the country's external debt.

Pakistan's external debt and liabilities have soared to a record $91.8 billion as of March-end, an increase of over 50% or nearly $31 billion in past four years and nine months, according to the State Bank of Pakistan (SBP). Out of total external debt and liabilities, the government's public debt obligations including that of foreign exchange liabilities were $76.1 billion as of end March.

In the past four years and nine months, public debt-related obligations increased by 42.5% or $22.7 billion, showed the central bank data. In June 2013, the public external debt including foreign exchange liabilities was only $53.4 billion.

The public debt-to-gross domestic product (GDP) ratio has been estimated to peak to 70.1% by the end of fiscal year 2017-18 in June. This ratio is far higher than the sustainable levels for a country like Pakistan. High debt levels are consuming over 30% of the federal government budget on account of debt servicing cost.

For the outgoing fiscal year 2017-18, the government had initially budgeted $8 billion worth of foreign economic assistance. Due to the higher-than-estimated current account deficit, the finance ministry has now revised its estimates to nearly $11 billion.

The SBP also reported that the current account deficit widened to a 10-month record of $14.03 billion during July-April. It was higher by 50% or $4.7 billion over the previous fiscal year.

Despite obtaining heavy loans, the SBP and finance ministry have failed to retain gross official foreign currency reserves, which stood at $10.8 billion. Since the start of the fiscal year, the central bank has lost one third or $5.4 billion of its total reserves.

Pakistan borrows another $500m from Chinese bank

The International Monetary Fund (IMF) has predicted that in case of low disbursements, Pakistan's foreign currency reserves may slip to $9.4 billion by June this year.

To service maturing debt, Pakistan to borrow Rs22 trillion in 2018-19

Out of $9.2 billion disbursements, about 70% or $6.4 billion were taken for non-project financing purposes. This included $2.5 billion sovereign bonds, $2.9 billion foreign commercial loans and $987 million financing by Islamic Development Bank for oil imports.

The project financing has been consistently declining in terms of its share in total foreign loans. Against Pakistan's estimates of receiving around $1 billion from the World Bank, the Washington-based lender disbursed only $426.3 million in ten months. Pakistan had also hoped of receiving $1.1 billion from the Asian Development Bank (ADB) in fiscal year 2017-18, but actual disbursements

from July through April remained at $646.2 million. The ADB disbursed $34.6 million in April for Peshawar metro bus project.

Pakistan's external debt grows at fastest pace in four years

The only major project financing was coming from China that disbursed $1.5 billion in ten months, better than Pakistan's estimates. Last month, China released $111 million for Lahore Orange Metro train project.

Bilateral economic assistance remained an important component. But now, almost the entire bilateral assistance has shifted towards China. From July through April, the bilateral assistance stood at $1.6 billion and 93.5% came from China. Only Japan gave $59.4 million followed by $22.5 million by Saudi Arabia.

Published in The Express Tribune, May 19th, 2018.

https://tribune.com.pk/story/1713635/2-pakistan-receives-9-2b-foreign-loans-reserves-still-plunge/

NEWS COVERAGE PERIOD FROM MAY 7TH TO MAY 13TH 2018
PAKISTAN NEEDS TO ALLOCATE MORE FOR DEVELOPMENT TO DRIVE UP GROWTH
The Express Tribune, May 7th, 2018.

In Pakistan, a large fiscal deficit is the norm regardless of the pace of economic growth.

Between FY04 and FY08, the economy grew, on average, at a healthy pace of 6.26% per annum. Average fiscal deficit remained at 4.22% of gross domestic product (GDP) during that period.

Between FY09 and FY13, the economy slowed down and grew, on average, 2.82% and the average fiscal deficit stood at 6.58%. Over the past five years (FY13-18), the economy has grown, on average, 4.8% while fiscal deficit has been 5.34%.

This shows that whether the growth is high, moderate or sluggish, the fiscal deficit has been more than 4%. Fiscal deficit forces the government to borrow at home and abroad, which adds to the public debt, making debt servicing the largest component in public expenditure. The reason for the high fiscal deficit lies partly in the composition of expenditure, partly in revenue collection and partly in tax exemptions and subsidies.

For FY19, against the targeted GDP growth of 6.2%, the fiscal deficit is projected at 4.9%. In Pakistan, the actual fiscal deficit surpasses the budgetary target. The deficit target for the outgoing financial year was 4.1%, however, the year is projected to close with 5.1% deficit.

This is for two reasons – public expenditure overshoots the budgetary estimates while revenue collection falls short of budgetary targets.

The FY18 budget put the total public expenditure estimate at 21.3% of GDP, however, full-year expenditure is projected to inch up to 21.5%.

Likewise, the FY18 budget put the revenue target at 17.2% of GDP, however, revenue collection at the end of the year is projected at 16%. If the past is any guide, the FY19 fiscal deficit will also overshoot the target for similar reasons.

It is customary to bifurcate public spending into autonomous expenditure and induced expenditure. The latter changes with the change in national income or output level while the former is independent of the income or output level.

In other words, the autonomous expenditure has to be incurred regardless of whether the economy is expanding fast, slowly or even shrinking. The government has little discretion in cutting back on autonomous expenditure. This explains why the cut in overall expenditure almost always entails reduction in the induced expenditure such as development spending.

The autonomous expenditure has always had the lion's share in total public spending. Take a look at the FY19 budget. Out of the total proposed outlay of Rs5.93 trillion, Rs2.22 trillion has been allocated for debt servicing, Rs1.1 trillion for defence, Rs463.37 billion for running civil administration, Rs342 billion for pensions and Rs477.92 billion for grants and transfers. All these are autonomous expenditures and their cumulative size is Rs4.60 trillion, which accounts for 77.63% of the total proposed expenditure. The government's discretion with regarding to spending is confined to the remaining 22.37%.

This explains the cut in federal government's Public Sector Development Programme (PSDP) to Rs800 billion in the FY19 budget from Rs1 trillion in the FY18 budget. The share of development expenditure (Rs1.15 trillion) in total proposed expenditure for FY19 is 19.42%.

This also includes the Rs124.70 billion allocation for the Benazir Income Support Programme (BISP), which being a cash transfer scheme should better be classified under the current expenditure.

At any rate, a developing country like Pakistan needs to allocate a higher proportion of resources to development projects to drive up the pace of economic growth. But predominantly inflexible expenditures leave little room for this.

Expenditure is one side of the budget and the other side is resources, which are classified into revenue receipts and capital receipts. The capital receipts (Rs443.09 billion for FY19) are mostly debt-creating instruments and thus add to the stock of public debt. The FY19 budget targets Rs5.66 trillion in gross revenue receipts. If Rs2.59 trillion worth of provincial share is deducted, the net revenue receipts for the federal government come in at Rs3.07 trillion.

The target set for the tax revenue, out of the gross revenue target, is Rs4.88 trillion, which represents 12.88% growth (Rs558.18 billion) over the FY18 budgetary target and 17.8% growth over the FY18 revised target.

In view of a narrow base for direct taxes, which mainly come from deduction at source from wages of the salaried class, this seems to be a very ambitious target.

A narrow tax base (1.21 million taxpayers as per FBR's Tax Directory for Tax Year 2016) together with rampant tax evasion means that even periods of relatively healthy growth are not accompanied by a corresponding increase in tax revenue.

Between FY04 and FY08 — the period of robust economic growth, the average tax-to-GDP ratio was 10.08%. Between FY09 and FY13 — the years of sluggish growth, the average tax-to-GDP ratio stood at 9.66%. Between FY14 and FY18 — the period of moderate growth, the average ratio has been 11.52%.

The constraints of the narrow tax base are also borne out by the disproportionately higher share of indirect taxes in total taxes. Out of the total Rs3.93 trillion in revised estimates for FY18, the share of direct and indirect taxes was Rs1.56 trillion (39.72%) and Rs2.37 trillion (60.28%) respectively.

For FY19, the proposed share of direct (Rs1.73 trillion) and indirect taxes (Rs2.70 trillion) in total tax revenue is 39.12% and 60.88% respectively.

Indirect taxes are both inflationary and regressive in nature. When an economy is growing, the share of direct taxes in total tax revenues should go up because of increased taxable income. But this does not happen in Pakistan.

Fiscal constraints are compounded by tax exemptions or reliefs as well as export subsidies, notably for sugar, whose major beneficiaries are powerful industrial and farming groups.

The FY19 budget keeps in place the sales tax zero-rating for five export-oriented sectors — textile, leather, carpet, sports goods and surgical instruments.

The finance minister's budget speech revealed that the government was working on a new package of export subsidies, similar to the Rs180-billion export package introduced in 2017, with a view to increasing exports.

Such packages, while having at best a small effect on bumping up export revenue, not only perpetuate a culture of lack of competitiveness, but also worsen an already skewed distribution of meagre resources.

https://tribune.com.pk/story/1703967/2-pakistan-needs-allocate-development-drive-growth/

PM SEES HIGHER GROWTH PROSPECTS
Business Recorder, 8 May 2018

ISLAMABAD: Prime Minister Shahid Khaqan Abbasi Monday said Pakistan could take its economic growth to 9 percent mark by ensuring successful accomplishment of China Pakistan Economic Corridor (CPEC) and enhancing regional connectivity through roads and sea.

Addressing the International Maritime Symposium held by Institute of Maritime Affairs, he said currently Pakistan's economic growth stood at 6 percent but it could be increased remarkably by ensuring the proper utilization of access to the sea.

The event was attended by AJK President Sardar Masood Khan, chief of the Naval Staff Admiral Zafar Mahmood Abbasi, Rector Bahria University Vice Admiral Muhammad Shafiq, National Security Adviser Lt-Gen Nasser Khan Janjua and DG Institute of Maritime Affairs Rear Admiral Mukhtar Khan.

The prime minister said though the aviation sector looked to be more glamorous, 80 percent of global trade was still carried out by sea.

He said holding of such events in today's world was critical when Pakistan was developing CPEC and China had initiated Belt and Road Initiative. He said the maritime was critical to every country and Pakistan had proved tradition in Pakistan Navy and Merchant Navy and even today, many Pakistanis were playing their role in merchant navy.

The prime minister believed that providing access to sea was critical for better regional connectivity.

He said the Indian Ocean Region was important hub of global energy flow and trade as large energy flew through this region. He said it was a great opportunity to exploit trade volume in the region.

Prime Minister Abbasi said the resolution of Afghan issue was vital to ensure the access of Central Asian States to Gwadar through Afghanistan.

He said the central Asian states were interested to be part of CPEC to benefit the Gwadar Port. He said Pakistan had currently been developing 1,700 kilometers long motorways network and other 1,200 kilometers secondary roads particularly in Balochistan.

Such projects, he said would provide synergy to Gwadar Port. Pakistan needed to work with China to ensure execution of President Xi Jinping's vision for connectivity and financial integration.

The prime minister called for hard work as the country had the great opportunity to ensure not only its own growth but also the whole region.—APP

https://epaper.brecorder.com/2018/05/08/1-page/715532-news.html

SINDH BUDGETS FOR FULL YEAR, BUT THREE-MONTH SPENDING AUTHORITY
Dawn, May 11th, 2018

KARACHI: Chief Minister Syed Murad Ali Shah on Thursday presented in the Sindh Assembly a Rs1,144.448 billion tax-free budget with Rs343.90bn development outlay for the next financial year.

He requested the house to authorise expenditure for only three months — from July 1 to Sept 30.

"Though constitutionally, we have the mandate to approve budget for the whole financial year, however, to uphold the party principles of fair play we believe that it is the rightful mandate of the incoming government to set budget priorities for themselves," he said.

Mr Shah said for the second year in a row, "we are not proposing any new taxes in the budget".

"Budget 2018-19 is a tax-free, welfare-oriented and a progressive budget. I will not be introducing a Finance Bill for 2018-19."

The chief minister said almost 75 per cent of the Sindh government's revenue receipts were dependent on federal transfers, consisting of shares from the federal divisible pool, straight transfers and grant to offset losses in lieu of abolition of OZT.

"The major chunk comes from divisible pool taxes, which is distributed to the provinces under the NFC formula," he said.

Mr Shah said during 2017-18, Rs274bn was allocated in the budget estimates for development which was revised to Rs226bn, including Rs28bn for district ADP (Annual Development Plan) schemes.

Mr Shah said total development budget outlay in 2018-19 would be Rs343.9bn.

He said the provincial development budget included Rs252bn for ADP 2018-19 out of which Rs202bn (80pc) had been allocated for 2,226 ongoing schemes, while new schemes of all departments would be accommodated under the block provision of Rs50bn, being 20pc of the development budget, earmarked separately as 'Block Allocation' for new schemes to be decided by the next government for all sectors in ADP. In addition, Rs30bn have been allocated for district ADP.

The revised estimates for total receipts of province for the current financial year are Rs.966.6bn as against budget estimates of Rs1,028.9bn.

The Sindh government, said Mr Shah, was largely dependent on federal transfers which constituted 61pc of its total revenue.

He said with the unpredictability of those fiscal transfers from the federal government to the provincial government, budget preparation became cumbersome as projections of non-development expenditure and development portfolio were largely based on such estimates.

"Resultantly, provincial development expenditure is to be adjusted to offset the effect. There is decrease of Rs28.5bn in federal transfers in revised estimates 2017-18 as communicated by the federal government," he said.

He said receipts of federal PSDP were slashed to Rs20.4bn from Rs27.3bn; while revised FPA stood at Rs27.7bn as against Rs42.7bn.

He said on the provincial revenue collection side, "we were largely able to achieve our provincial tax receipt targets".

Mr Shah claimed that the Sindh Revenue Board and Excise, Taxation and Narcotics Control Department were able to achieve their tax targets. The provincial tax and non-tax receipt is revised to Rs197bn against an estimated target of Rs199.6bn.

He informed the house that the budget had been revised from Rs1,043.2bn to Rs987.8bn. The current expenditure had been revised to Rs685.2bn from Rs666.5bn. He added that the increase was primarily because of increase in the pension of retired employees, and grants to various sectors of the economy.

The chief minister said the development expenditure had been revised at Rs282.4bn against an estimated allocation of Rs344bn.

"The current financial year recorded the highest utilisation of development funds, till yesterday, the development expenditure was recorded asRs143.3bn," he said.

Mr Shah said the total receipts for 2017-18 were estimated at Rs1028.9bn. The estimated expenditure was Rs1043.2bn.

He said for the next financial year budget estimate of receipts was Rs1124bn which was 8.5pc higher than the current fiscal year.

"Receipts from the Centre on account of revenue assignment, straight transfer and grants are estimated at Rs665.1bn. Receipts from Islamabad are 59.2pc of the total receipts of the province. Receipts of the federal PSDP are estimated at Rs15bn. Receipts on account of FPA, budgetary support loans and grants are estimated at Rs46.9bn. Receipts from province's own sources including tax and non-tax receipts are estimated at Rs243bn," he said.

The chief minister said the outlay of budget was estimated at Rs1144.2bn as against the budget estimate of Rs1043.2bn of 2017-18, reflecting an increase of 8.8pc.

"The current expenditure, including current revenue expenditure of Rs773.2bn and current capital expenditure of Rs27.1bn, stands at Rs800.3bn," he said.

He said for the next fiscal year, current expenditure constituted 69.9pc of the total provincial budget. The estimates of development expenditure for fiscal 2018-19 were pitched at Rs344bn.

https://www.dawn.com/news/1406944

PUNJAB SET TO PRESENT REVISED BUDGET ON 14TH
Dawn, May 11th, 2018

Mansoor Malik

LAHORE: The Punjab government has not received its Rs57bn share of revenue receipts yet from the federal government but it is set to present its revised budget and seek authorisation for supplementary grants in the Punjab Assembly budget session on May 14.

The Punjab finance department on Thursday closed the budget books for the current fiscal 2017-18 and sent the revised budget estimate books for printing.

The Punjab cabinet meeting has also been called for May 14 ahead of the assembly session to give go-ahead for the revised and supplementary budget.

The Punjab government has prepared its revised budget for the next six weeks (May 14 onwards) of the current financial year, ensuring that the difference between the expenditure and actual releases from the federal government should be the minimum, a source in the government said.

"The Punjab government will be managing the cash flow in the next six weeks," the official said.

The caretaker government, to be installed early next month, will now be in a position to give four-month budget for the next fiscal 2018-19. The incumbent government, it is learnt, has prepared a complete budget document for the next financial year for the benefit of the caretaker government and the next elected government.

With the closing of the budget books, it is learnt that all the Punjab government projects and programmes' funding had been closed for good for the current financial year.

Since Punjab government's major Khadim-e-Punjab Saaf Dehat programme funding was also stopped due to delay in finalising the programme budget and eventual ban slapped by the Election Commission of Pakistan (ECP), it is learnt the Punjab government had held a meeting on Tuesday to find out ways for funding the programme. The finance department, it is learnt, told the government that funding could not be released owing to certain technical reasons.

It may be mentioned that the ECP had imposed the ban on new development projects as well as fresh recruitments that might help the incumbent government politically in the next general election. However, it is learnt, the Supreme Court on Thursday relieved the ban on appointments in different cases being heard.

https://www.dawn.com/news/1406859

SINDH BUDGET 2018-19: HIGHER REVENUES WITH 'NO NEW TAXES'
Dawn, May 11th, 2018

Shahid Iqbal
KARACHI: The Sindh budget for 2018-19 was presented with higher receipts and expenditures, but a lower deficit from the outgoing fiscal year, while the chief minister boasted of "no new taxes."

Revenues are expected to increase by 13 per cent, even though the budget contains no new tax measures. The additional Rs107bn is largely coming from an expected increase in federal transfers and sales tax collected by the provincial revenue authorities, as well as a slew of miscellaneous "other taxes", such as on electricity, property and stamp duty. Revenue from agricultural income remains negligible at Rs1bn.

The budget estimates for FY19 show the government expects a revenue base of Rs923.184bn, which include Rs223.267bn provincial receipts and the rest is federal transfers. Meanwhile, its expenditures will be around Rs1,117.149bn, suggesting a wide fiscal deficit of Rs174.9bn.

The deficit has been further reduced through financing of Rs150bn which includes Rs95.4bn as net capital receipts and expenditures and Rs55bn as carryover cash balance.

This Rs150bn inflow reduced the fiscal deficit or closing balance of the provincial government as Rs24.583bn. The estimated deficit for FY18 was Rs43.6bn against the budgeted deficit of Rs18.369bn.

The government expects to receive Rs680.1bn as federal transfers for next budget of FY19 while its' estimated receipts for FY18 are about Rs619bn; significantly higher than it received last year. The province had kept Rs654bn as federal transfers for the last fiscal year.

The province expects to generate 23.4bn higher revenue for FY19. The government expects to receive provincial revenue worth Rs243bn against revised estimate of revenue of Rs196.9bn for the current fiscal ending on June 30.

The government expects to receive Rs110bn sales tax for FY19 while estimated receipt for FY18 is Rs92bn indicating that the expectation is much higher for sales tax in the next fiscal. The government could not collect budgeted sales tax of Rs100bn.

The government has planned for expenditure of Rs1,117.149bn for FY19 against the revised estimate of Rs965.9bn for FY18. The budgeted expenditure for FY18 was Rs1010.5bn indicating that the government opted for a significant increase in the total expenditure.

The government succeeded to generate indirect taxes as per the budgeted estimates with slight difference. The government's revised estimate for indirect taxes for FY18 is Rs70.9bn against the budget target of Rs72.7bn. However, the government expects to generate Rs86.7bn indirect taxes for FY19.

Under the head of indirect taxes the government expects to receive Rs4.7bn through electricity in FY19 which is 113 per cent higher than revised estimate of Rs2.2bn for FY18. The government will collect Rs12bn through stamp duty against the revised estimate of Rs9.5bn for FY18. The motor vehicle tax will yield Rs8bn in FY19 against the revised estimate of Rs6.95bn for FY18.

The government collected just Rs1bn through tax on agriculture income in FY18 while it expects to earn Rs2bn in FY19. The government succeeded to reach the target of Rs1bn for FY18.

However, the government is expected to receive Rs7.68bn through property tax in FY19 against the revised estimated of Rs4.2bn for FY18. The target for property tax in FY18 was Rs6.3bn which could not be achieved.

https://www.dawn.com/news/1406960/sindh-budget-2018-19-higher-revenues-with-no-new-taxes

NEWS COVERAGE PERIOD FROM APRIL 30TH TO MAY 6TH 2018

BUDGET DEBATE
Dawn, April 30th, 2018

AFTER the political theatre, the serious work begins. Later this week, on May 2, parliament is set to open a debate on the federal budget presented by the PML-N. In addition to choosing a caretaker prime minister, the budget debate is likely to be one of the last major contributions of the current parliament. Prime Minister Shahid Khaqan Abbasi struck the right note by inviting opposition parties to debate inside parliament the budget presented by his government and also the overall governance and economic record of the PML-N government. Sensibly, the major opposition parties, the PPP and the PTI, have decided to participate in the budget debate rather than boycott it, with their leaders vowing to expose what they allege is a budget focused on pre-election handouts rather than the severe economic challenges the country is facing. If the government and opposition approach the budget debate with seriousness of purpose rather than as a formality, perhaps some improvements can be incorporated.

Certainly, the rowdiness and unparliamentary behaviour of sections of the opposition during Finance Minister Miftah Ismail's speech should not be repeated. Parliament is for debate and appropriate verbal sparring, not fisticuffs and abuse. Misbehaving lawmakers reflect poorly on the democratic process and parliamentary leaders, including from the PML-N, should advise their colleagues to conduct themselves appropriately during the debate. Likewise, while the opposition is entitled to criticise the appointment of the unelected Mr Ismail as finance minister and the PML-N has unnecessarily stirred controversy by invoking Article 91(9) of the Constitution, the budget debate ought to reflect substantive issues rather than purely procedural matters. Perhaps the opposition can suggest a rule change for the next parliament to ensure that an elected member of parliament presents future budgets. Democratic norms should strengthen the democratic process rather than allow unnecessary deviations.

The substantive issues in the budget debate are already apparent. The PML-N government's revenue projections are based on a number of assumptions that could easily prove to be untrue. A larger percentage increase in current expenditures against development spending also needs to be examined. The pressure on the balance of payments may have abated in recent months, but the improvement will have to accelerate if crisis is to be staved off. Meanwhile, there is a potential problem in the caretaker government implementing the first weeks of the budget in the next fiscal year before handing over control to whoever wins the election scheduled for later this summer. With a majority in the National Assembly, the PML-N should have the budget and the Finance Bill approved without too much trouble. But it would set a welcome precedent if the PML-N incorporates serious suggestions from the opposition in the final budget. The democratic project would be cast in the right, beneficial light ahead of a general election that is expected to be fiercely contested.

https://www.dawn.com/news/1404778

BUDGET 2018-19: FOCUS IS MORE ON VOTERS RATHER THAN ECONOMY
The Express Tribune, April 30th, 2018.

ISLAMABAD: The budget document presented in the National Assembly is full of promises – from tax concessions to ambitious development plans.

The government has generously offered a change in tax slabs with the objective of lowering the burden on taxpayers. It is a good initiative that the middle class had demanded.

The corporate sector has also been offered real tax concessions in a stepwise manner. Corporate tax rate will be brought down to 25% by 2023. Super tax will be eliminated in the next four years.

These proposals to lower the tax rates seem fantastic, but they will push down overall revenues. However, the government hopes it will be able to collect Rs4.4 trillion in overall revenues next year.

The government has also earmarked a big chunk of money for development programmes and initiatives, a sea water desalination project in Karachi and enrolment of each and every child in school.

The proposals indicate the government is giving priority to the country's citizens. Moreover, by looking at the state of economy presented by the government it seems everything is going well, the country is moving in the right direction and its trickle-down impact will be visible soon.

However, an analysis of the indicators tells a different story. Let's start with the economic growth rate of 5.8%. This economic expansion has been achieved only due to the China-Pakistan Economic Corridor (CPEC)-related investments, but government documents miss that point.

In 2015, it was estimated that due to CPEC investments, there would be an addition of 1.5 percentage point to the national gross domestic product (GDP), which would also encourage private-sector investment in different sectors. On that basis, it was estimated that the annual GDP growth would stand above 6%.

However, Pakistan could not be able to cross the 6% target and the economy grew 5.8% in FY18, which was slightly lower than the estimate. If the contribution of CPEC-related investments was set aside, then the GDP growth would be hardly above 4%.

It clearly depicts that government policies and their execution remained weak and directionless. Though the government highlighted the growth in industrial and manufacturing sectors, it did not correspond with the export performance. Over the past five years, the export base has shrunk alarmingly.

Trade deficit has been on the rise and in the near future it could be extremely difficult to control it. The government has set the export target at $28 billion for next year, but economic indicators and industrial sectors do not support it.

The government must share the list of actions and export industries, which will transform the export performance in a year. The development budget is much more interesting.

The government has allocated almost Rs1.3 trillion with the objective of transforming the lives of people. Among the development projects was the sea water desalination scheme in Karachi, but its fate may remain uncertain.

Records show that successive governments did not invest in water conservation in order to improve efficiency and ensure judicial distribution. Pakistan is among the most inefficient water users. Water mafia has exploited the situation because of inefficiency of the government in Karachi.

The government also announced the start of a war against deficiencies in the education sector. It declared that it would initiate a programme to ensure every child was enrolled in school.

Conservative estimates suggest that there are almost 24 million children out of school and it excludes the number of pupils studying in religious seminaries.

The Pakistan Muslim League-Nawaz (PML-N) government has been ruling the country for the past five years and the largest province – Punjab – for the last 10 years. It could not bring about any significant change in the education system in that period and how could it do so in future, only time will tell.

In the meantime, the Punjab government is in the process of handing over public schools to the private sector, which will make education expensive. On the one hand, the government is expressing its inability to run the schools, but on the other hand, it insists it is going to revolutionise the education sector.

More importantly, from where the required financial and other resources will come for such a revolution as the government has kept mum on this issue. The government has also allocated a handsome amount of Rs125 billion for the Benazir Income Support Programme (BISP). It is a welcome move, but now time has come to move beyond this social welfare programme.

The government must come up with policies that can provide a sustainable source of income to the vulnerable instead of subsidies to ensure they are able to make both ends meet. There is a need to focus more on the Sustainable Development Goals (SDGs) – a more comprehensive list to transform the lives of people.

On the agriculture front, the government allocated almost Rs1.1 trillion for credit flow to the farmers. However, the figure cannot be trusted in the backdrop of previous unfulfilled promises.

The government had announced a Rs342-billion Kissan Package, but it failed to meet the objectives in the absence of a steady flow of financial resources.

In the meantime, the state could not ensure timely payment of just and fair prices for agricultural commodities. The most recent victims in this regard are sugarcane farmers.

These examples clearly show that the budget is not based on hard facts and figures. It seems that the purpose is to set high and attractive targets just to turn voters in their favour. Therefore, it is much like a 'PML-N manifesto' rather than the annual federal budget.

The writer is the Head of Centre for Future Policy and Head of Research Coordination Unit, Sustainable Development Policy Institute

https://tribune.com.pk/story/1698566/2-budget-2018-19-focus-voters-rather-economy/

OPPOSITION 'TO RESIST PASSAGE OF BUDGET'
The Express Tribune, 1 May 2018

Rejecting the proposed budget for the next financial year as unconstitutional, the opposition in the upper house of parliament has announced it will resist the outgoing Pakistan Muslim League-Nawaz (PML-N) government's sixth budget that it says may put the country's future at stake.

"We do not accept this ill-advised budget. We will protest inside and outside parliament," said the Leader of Opposition in Senate Sherry Rehman in her opening speech on the floor of the house on Monday.

"The future of Pakistan is at risk. This is a lame duck budget by a lame duck government. This is pre-poll rigging through and through. The government does not have a mandate to present the 6th budget. This is a borrowing, billionaires and barbadi [disaster] budget," she said, summing up the '3Bs' budget.

Discussing the country's economic situation, Rehman said the textile industry that contributes 57% to the country's exports has lost its global textile share by 23%. One hundred and fifty (150) mills have closed down. This is alarming considering that we are the 5th largest cotton producer in the world, said the senator.

"Our circular debt has reached a whopping Rs1 trillion. We are the 7th most stressed water nation and only Rs38 billion have been allocated for water without any details."

"We have a public debt of Rs22 trillion, which was Rs13 trillion in the Pakistan Peoples Party (PPP) government's tenure, whereas external debt is projected to soar to Rs103 billon by next year," she said.

The opposition leader said Pakistan's entire budget is based on borrowing to pay back more loans. She asked why the government does not call a financial emergency, adding that the next government will face a nightmare of repayments and no revenue stream.

"The World Bank says Pakistan needs to raise $17 billion to cover for its debt repayments and current account deficit. How will any of this be done and achieved under this paralysed economy?" she asked.

Rehman said $40 billion was borrowed in the span of four years.

"We are taking more debt to pay back debt. The principal on the Eurobond has to be retired in July 2018. There is no revenue stream to meet these targets and expenditures. As a result, more Eurobond will be raised and more loans will be taken from China," she added.

Talking about the budget she said it offers 30% tax concessions to billionaires but nothing to the poor. The government has provided no relief for the masses. Instead, the burden remains on the poor with the petroleum tax they are quietly introducing.

Quite frankly, the government has dropped a petrol bomb on the people of Pakistan. Due to this, there will be a 200% increase in petrol prices, Rehman added.

The senator asked why the government has given tax concession to imported LNG and none to Pakistani gas. "The Qatar LNG deal is already mired in controversy. To this day, we don't know what is under the black ink used to block transparency on the contract with Qatar Gas," Rehman said.

Rehman said the National Finance Commission (NFC) award has not been given in the last five years. How can they determine where the federal slew of consolidated indirect taxes like the economic fund will go without the NFC award? This budget is unconstitutional, she added.

She said she was extremely shocked that 98 lakhs per day had been allocated for the President House. "I remember that in the PPP's time, it was six lakhs per day and even that worried President Zardari, who paid for all tea expenditures from his personal account."

The senator said the opposition is working in line with the Constitution of Pakistan. This budget, she added, is unconstitutional, politically and morally wrong.

Dismissing the opposition's objections over budget, special assistant to prime minister on revenue Senator Haroon Akhter said there is no justification for financial emergency. "The economic situation is much better now, and the government is leaving double revenues than what it had inherited," he said.

https://tribune.com.pk/story/1699442/1-opposition-resist-passage-budget/

Senate body for riba-free system
Dawn, May 3rd, 2018

ISLAMABAD: The Senate Standing Committee on Finance, Revenue and Economic Affairs on Wednesday asked the government to take visible steps for expeditious resolution of legal hitches to ensure riba-free economic system in the country and spend all tobacco related tax collections on health sector.

Senators mostly made recommendations to the Federal Budget 2018-19 of general nature that fell in the provincial domain or specific recommendations on tax measures that were already part of the latest budget, suggesting lack of home work.

Majority of such recommendations were subsequently withdrawn or referred to the relevant ministries and agencies instead of making them part of the finance bill as a few seasoned parliamentarians and co-opted experts tried to sift through technicalities to move forward with generalised proposals.

The first hour of the meeting was consumed by discussions on reduction in duties and taxes on poultry feed additives, veterinary vaccines and pros and cons of the high customs and regulatory duties on import of powdered milk and fish fillet. The debate finally concluded when told that taxation on feed additives and veterinary vaccines were already abolished in the budget and no change was required for powdered milk and fish fillet.

ADVERTISEMENT

A lot of discussion also revolved around subsidised provision of gypsum to farmers to address the rising issue of water logging but then withdrawn when State Minister for Finance Rana Afzal reported the duty on gypsum had already been cut down to 3 per cent from 8pc while the question of provision of subsidy pertained to the provinces after 18th amendment.

The committee also asked the government to observe fiscal responsibility and debt limitation law while taking effective steps to reduce foreign loans. It expressed concern over the increasing debt levels whereas the law required reducing its ratio from 60pc to 50pc in 10 years.

It was also recommended that the government submit a road map to the Senate Committee on how it planned to pay off the huge foreign debt contracted – highest in last five years.

The committee was informed by former Secretary Finance Dr Waqar Masood Khan that the Supreme Court of Pakistan had given a clear verdict to end riba-based banking system in December 1999 and the same court subsequently remanded the case, referring it to the Federal Shariat Court where it is still pending almost two decades down the road.

He said the government could hardly do anything on the subject unless the court imbroglio was addressed. In the meanwhile, Rana Afzal said the government had created Islamic banking system that was growing faster than normal banking and providing an alternative to the people.

Some members, however, believed it was like setting up mosques and madressahs and at the same time also opening bars and offering alcohol. They desired that the national economy should be free from interest to make it completely halal. At this point, Committee Chairman Mr Farooq Naik had to wind up the subject through a generalised statement asking the government to take visible steps for expeditious resolution of the issue.

A host of recommendations relating to facilities to families of martyrs, incentives and wages for labourers, promotion of tourism, health, education and social security, small dams etc were withdrawn when told that most of these subjects fell in the provincial jurisdiction and were being addressed after enhanced transfer of resources from the federation under the devolution.

https://www.dawn.com/news/1405302

ADB SAYS 'NO NEED TO PANIC' OVER PAKISTAN'S ECONOMY
The Express Tribune, May 4th, 2018
Asian Development Bank's (ADB) former country director Werner Liepach said Pakistan will not need a bailout package as its economy was doing well, adding that there was no need to panic even as the current account deficit widens and foreign exchange reserves continue to fall.

Addressing a media briefing at the 51st Annual Meeting of the ADB Board of Governors in Manila, Liepach said remittances continue to remain strong and would help meet external sector challenges.

"Things are pretty much okay," said Liepach. Overseas workers' remittances touched a seven-month high at $1.77 billion in March 2018, which came on back of the second round of rupee devaluation, he added.

In its latest quarterly report, the State Bank of Pakistan also anticipated that the country would attract a maximum of $20.5 billion in remittances in fiscal year 2018.

Liepach, who is the director general ADB for Central and West Asia Regional Department, also maintained a positive outlook of Pakistan's growth. He acknowledged that the budget deficit has gone up a little but it is "quite normal in election year".

Currently, the country's budget deficit is projected to stand at 5.5% of GDP at the end of fiscal year 2018, while SBP-held foreign exchange reserves currently amount to $11.51 billion.

Additionally, Pakistan's current account deficit has continued to expand and the nine-month gap has increased to $12.03 billion. However, the ADB official remained optimistic.

"What's happened is that imports have gone up quite a lot due to increased economic activity related to the China-Pakistan Economic Corridor (CPEC), which is not a bad thing.

"What is missing is that export growth hasn't really gone as expected."

He highlighted various factors that impact the growth of exports, including the overvalued exchange rate, which has been taken care of. “The latest information that I received is that exports are starting to pick up again,” he informed.
Now, due to the early rise in imports followed by late pick-up of exports, there has to be a reaction in the foreign exchange reserves, which is of concern, but Pakistan has a way of financing its reserves and “there is no need to panic”.

He added that ADB and the World Bank are not the only ones in town as Pakistan has managed to secure a loan from China. “The country is also contemplating tapping the capital markets, because the market has been responsive lately.”

Stressing on ADB’s role, Liepach said the agency always gave policy-based loans to finance structural reforms, which in no way is a bailout.

This is the same approach that the Manila-based lending agency has adopted to transform the energy sector in the country.

The ADB wanted Pakistan to implement the Advanced Metering Infrastructure (AMI) project, which would mitigate load shedding. But the Ministry of Power and the Planning Commission were reluctant to go forward with the project. Despite efforts by ADB and the support of former finance minister Ishaq Dar, the $400-million project was put on hold. The project is still awaiting government’s approval.

“The government has not yet taken a final decision. There have been concerns about the technology and the cost. It’s a new technology so people sometimes may not appreciate the changes,” Liepach remarked.

https://tribune.com.pk/story/1701893/2-adb-says-no-need-panic-pakistans-economy/

June 2018

NEWS COVERAGE PERIOD FROM JUN 11th TO JUN 17th 2018

Foreign exchange reserves decline to a dangerous level: Umer

NAVEED BUTT

ISLAMABAD: Pakistan Tehreek-e-Insaf (PTI) leader Asad Umer has said that foreign exchange reserves have declined to a dangerous level and the caretaker government will have to formulate a comprehensive economic policy for the next government.

While responding to the press conference of caretaker Finance Minister Dr Shamshad Akhtar and Minister for Water and Energy Barrister Syed Ali Zafar, the PTI leader in a media briefing on Tuesday said that he requests the caretaker government to speak truth with the nation about the economic situation and electricity load-shedding in the country. He said bold steps will be needed to sustain current account deficit.

He said that there is a need to take bold steps for economic progress in the country. He said that the caretaker government should not wait for the next government and prepare a comprehensive policy.

He said it is right that the caretaker government has no mandate to negotiate with the International Monetary Fund (IMF).

The PTI leader said that there is a total of 4500MW shortfall of electricity in the country. He said that there was the same shortfall, i.e, 4500MW in June 2013. He said, "The caretaker government should tell the nation where we stand." There is no difference in shortfall in power despite launching and inaugurating power projects by the former Pakistan Muslim League-Nawaz (PML-N) government. He said that the previous PML-N government could not overcome the load-shedding despite tall claims.

He said that rupee has been devalued against the US dollar and the difference has reached Rs16 in six months, which is a serious situation due to payment of loans. He said that loan burden of Rs 40,000 more has been added on a citizen due to decrease in rupee value. He said that the people will have to suffer due to wrong policies of the governments. He said that current account deficit has also increased.

He said that it seems that the caretaker government is being pressurized by PML-N. He said that former Prime Minister Shahid Khaqan Abbasi is going to contest election from Islamabad. He said that the people of Islamabad would ask two questions from Abbasi, one about load-shedding and second regarding shortage of water.

http://epaper.brecorder.com/2018/06/13/13-page/722299-news.html

July 2018

NEWS COVERAGE PERIOD FROM JULY 23RD TO JULY 29TH 2018

Pakistan among 15 top deficit economies, says IMF

Anwar Iqbal July 25, 2018

WASHINGTON: Pakistan was among 15 top deficit economies of the world in 2017 when its current account deficit increased to $12.4 billion, said an International Monetary Fund (IMF) report released on Tuesday.

The United States, with a deficit of $466bn in 2017, remained the world's largest deficit economy.

India, with a deficit of $48.7bn in 2017, is fourth on the list. Pakistan is 14th while Oman is the 15th.

Britain, which had a deficit of $106.7bn, is the world's second largest deficit economy followed by Canada. Others on the list include Turkey, Australia, Argentina, Algeria, Mexico, Indonesia, Egypt, France and Lebanon.

Country's current account deficit increases to $12.4bn

Although India is way ahead of Pakistan in borrowing money, its larger economy provides it with a cushion that Pakistan does not have. Although in dollar terms India's $48.7bn deficit is much larger

than Pakistan's $12.4bn, it's only 1.9 per cent of India's GDP. Pakistan's current account deficit amounted to 4.1pc of its GDP in 2017.

In 2014, Pakistan had a current account deficit of $3.1bn, which was 1.3pc of its GDP. In 2015, the deficit decreased to $2.7bn, one per cent of its GDP. But in 2016, Pakistan current account deficit almost doubled to $4.9bn, which was 1.7pc of its GDP.

In 2017, the deficit increased exponentially to $12.4bn, which is 4.1pc of the country's GDP.

On the positive side, Germany was the largest surplus economy in 2017, followed by Japan and China. Germany had a current account surplus of $296.4bn, Japan of $196.1bn and China $164.9bn.

But both Germany ($297.5bn) and China ($202.2bn) had larger surpluses in 2016. Japan, however, increased its surplus to $196.1bn in 2017 from $188.1bn in 2016.

The IMF report, however, noted that global current account balances were broadly unchanged in 2017, with minor shifts in some regions.

Overall global balances — defined as the absolute sum of surpluses and deficits — remained at about 31.4pc of world GDP in 2017.
Last year's small changes relative to 2016 continued the trend in recent years of greater concentration of surpluses and deficits in advanced economies.
On the surplus side, China's current account balance continued its gradual decline, largely offset by a rising surplus in Japan. The factors include a depreciating yen, a further increase in current account balances of euro area debtor countries, and a resurgence of surpluses in oil-exporting countries on the back of recovering oil prices.

On the deficit side, the United States continued to be the main global borrower, accompanied by growing current account deficits in some emerging market economies, particularly Argentina, India and Turkey.

These deficits were partially offset by smaller deficits in the United Kingdom — supported by further sterling depreciation — and in some large commodity-exporting economies, thanks to strengthening commodity prices.

The report showed that the United States had become an increasingly large driver of global deficits, accounting for 43pc of all global deficits last year, up from 39pc in 2016.

Published in Dawn, July 25th, 2018
https://www.dawn.com/news/1422309/pakistan-among-15-top-deficit-economies-says-imf

China agrees to give $2b loan to Pakistan
By Shahbaz Rana

Published: July 28, 2018

ISLAMABAD: In a major development, China has agreed to immediately give a $2 billion loan to Pakistan, a move meant to arrest the sliding official foreign currency reserves and provide much-needed breathing space to the new government.

The $2 billion loan will be categorised as an “official bilateral inflow”, said sources in the Ministry of Finance and the State Bank of Pakistan (SBP). They said that over $1 billion has already been transferred to the SBP accounts this week, and would reflect in the reserves’ data to be released on August 2. The amount will push SBP-held foreign currency reserves past $10 billion.

Pakistan receives less than projected loans from World Bank

Earlier this week, the SBP reported that official foreign currency reserves had fallen to $9 billion for the period ending July 20.

SBP chief spokesperson Abid Qamar did not respond to the question of whether Pakistan had already received $1 billion of the $2 billion official bilateral inflow.

The Ministry of Finance also did not officially comment on the development. But a senior official confirmed on condition of anonymity that one friendly country has agreed to provide $2 billion as an official bilateral inflow. He said that it will be a concessional deposit.

The $2 billion loan is likely to ease pressure on official foreign currency reserves and the rupee-dollar parity. The rupee strengthened by 64 paisas against the US dollar in the inter-bank market, closing at Rs127.86 on Friday.

Consensus reached to build 2 dams with money recovered from loan defaulters: CJP

The financial assistance would also provide room to the Pakistan Tehreek-e-Insaf government-to-be in analysing the precise situation of the external sector and formalise its strategy to deal with the crisis. The deposit will also make sure Pakistan’s official foreign currency reserves are sufficient for two months of imports. The monthly bill currently ranges between $5.6 billion and $5.8 billion. Improved reserves may also strengthen Pakistan’s position at the time of talks with the International Monetary Fund (IMF) in case the government formally decides to avail the programme.

Asad Umar, the man tipped to lead the finance ministry, told The Express Tribune that the economic crisis was so severe and required measures so urgent that no option, including the IMF programme, could be ruled out.
However, the $2 billion assistance will not be enough and the country will have to put its house in order by enhancing exports and attracting sufficient foreign direct investment.

Another $1 billion loan makes its way from China

The military establishment has already declared the economy as a matter of national security. In a recent meeting of the National Security Council, apprehension was raised that any future arrangement with the IMF could undermine the China-Pakistan Economic Corridor.

In the past, the IMF expressed concerns over the sheer size of CPEC and its implications on Pakistan's external debt repayments. Pakistan currently owes $4.8 billion to the IMF that exposes it to the lender's scrutiny.

In 2014, during the Pakistan Muslim League-Nawaz (PML-N) government, Pakistan received a $1.5 billion grant from Saudi Arabia. The previous government also requested both China and Saudi Arabia to provide $2 billion each to stabilise official foreign currency reserves. While Chinese financial institutions provided commercial loans, both countries declined to extend a bailout.

Pakistan faces a mammoth task of arranging around $11 billion to fill its external financing gap in the ongoing fiscal year. The Ministry of Finance, IMF and independent economists have assessed Pakistan's gross external financing needs for 2018-19 to fall in the range of $23 billion to $28 billion. Pakistan's biggest challenge is to contain the import bill that has surged to $60.9 billion in fiscal year 2017-18.

Possible strategy in future

On the other hand, the Ministry of Finance, the Federal Board of Revenue, the SBP and the Ministry of Commerce have proposed new tax measures to curb imports after undertaking a joint exercise. Before the elections, the finance ministry moved a summary to the caretaker federal cabinet but the matter was deferred and left to the new government.

The exercise proposed to further increase the 2% customs duty to 3% on more than 6,000 imported items except petroleum products, according to the official summary. It also recommended to double the regulatory duty on mobile phones, from Rs250 per set to Rs500, and on CKD kits of mobile phones from Rs175 per kit to Rs350.

"The combined effect of these two measures will result in reduction in imports of $920 million in fiscal year 2018-19," according to the central bank's assessment.

In addition to reducing the import bill by about 1.6%, these tax measures will also generate Rs30 billion in revenue for the FBR, according to the official summary.

It is expected that the summary would be presented to the next government.
https://tribune.com.pk/story/1767965/1-china-agrees-give-2b-loan-pakistan/

Breathing space for smooth transition: China loans Pakistan $1.5 to $1.7

Mehtab Haider
July 29, 2018

ISLAMABAD: In a bid to get a breathing space for Pakistan for completion of ongoing political transition in a smooth manner, China has provided $1.5 to $1.7 billion in shape of official bilateral loan on soft terms and conditions to Islamabad out of total agreed size of $2 billion assistance.

The remaining small amount of this soft loan will be deposited into the State Bank of Pakistan (SBP) very soon, a top official confirmed to The News on Saturday.

However, economic experts believe this bilateral assistance from China cannot become alternative to the IMF program keeping in view the projected financing gap in the range of $26 to $28 billion for the current fiscal year 2018-19.

In his maiden speech after winning election, PTI chief Imran Khan dwelt upon certain issues relating to economy such as taxation and austerity to reduce expenditure but he did not mention this huge financing gap of $28 billion which is the biggest economic problem for Pakistan right now.
But one former bureaucrat who has dealt with economic ministries for his whole carrier, suggested to the incoming government led by Imran Khan that they must give one chance to existing tax amnesty scheme by extending it for one month with the hope that the new administration having no baggage might lead people to convince for benefitting from this scheme while living abroad and Pakistan might get the desired $3 to $4 billion inflows on immediate basis.

“This can be a great start for the new government”, he told this reporter on the condition of anonymity.

He said in such case Pakistan might be able to avoid the IMF program.

Imran Khan also met with Saudi Ambassador in Islamabad which also raised hopes that the Kingdom might provide few billion dollars as a sign of good gesture for the new government as Riyadh had provided $1.5 billion to the PML-N-led government in 2014 as a gift.

When contacted former finance minister and renowned economist Dr Hafiz Pasha on Saturday, he said Pakistan’s financing gap on external front was projected at $28 billion for the current fiscal year and the incoming government will have to place a comprehensive strategy to bridge this gap.

He said China had provided over $6.5 billion on different accounts to Pakistan in last fiscal year and again agreed to provide $2 billion more in this fiscal year but it could be used as “breathing space” only.

“We can meet around 40 percent financing requirement with help of China but we will have to manage remaining 60 percent from other avenues,” he added.
If the foreign currency reserves continued to fall and remain two months below import bill then the multilateral creditors such as the World Bank, ADB and others would not provide assistance for budgetary support so the IMF support will become necessary in such situation.

As The News had already broken a story regarding a proposal under consideration to increase additional customs duty by one percent on almost all items and jacking up Regulatory Duty (RD) on luxury items before July 25 elections so now the next government will have to take such tough steps in a bid to reduce the rising trade and current account deficit on immediate basis.
The imports of the country had peaked to $56 billion so there is need to discourage such mammoth number of imports.

The current account deficit stood at $18 billion for last fiscal year ended on June 30, 2018 which required to reduce mainly through increasing dollar inflows in shape of boosting exports, remittances and investment and decreasing imports.
https://www.thenews.com.pk/print/347674-breathing-space-for-smooth-transition-china-loans-pakistan-1-5-to-1-7

NEWS COVERAGE PERIOD FROM JULY 16TH TO JULY 22ND 2018
Size of Pakistan’s economy is $313.13 billion, says SBP
By Bilal Memon

Published: July 20, 2018

KARACHI: The size of Pakistan's economy stood at $313.13 billion at the end of June, 2018, according to provisional figures released on Thursday by the country's central bank, as a weaker currency took toll on gross domestic product (GDP) in dollar terms.

Pakistan's GDP stood at $304.97 billion at the end of June, 2017, and the economy registered a 13-year high GDP growth rate of 5.8% in FY18. That said, the size of the economy shrunk in dollar terms as the rupee weakened against the greenback in four separate rounds since December 2017, with a 5.8% growth rate effectively reduced to 2.7%.
ADB says 'no need to panic' over Pakistan's economy

The State Bank of Pakistan (SBP) used a period average month-to-month exchange rate to calculate the GDP, which according to calculations came to around Rs108 to the US dollar. With the rupee having weakened further, the size of the economy is likely to have shrunk even more in dollar terms. The currency is currently hovering around the Rs128-mark as depleting foreign exchange reserves and a widening current account deficit create a headache for economic managers that are at a loss to save the country from a balance of payments crisis.
The SBP has already increased the key interest rate by 175 basis points since January, taking it to 7.5% to tackle increasing inflationary pressure in the months to come.

Additionally, the 5.8% growth registered during FY18 is also not enough for a developing economy like Pakistan to absorb the number of job seekers that pile up each year. According to experts and global financial institutions, Pakistan needs at least 7% growth to create enough jobs and tame rising unemployment. However, the country is likely to face a slowdown in growth during the ongoing fiscal year as tighter policies to improve macroeconomic stability have a negative impact.

Ratings agencies, Moody's and Fitch, have already lowered their forecast for Pakistan's GDP growth, while the World Bank has also suggested that it will slow down to near 5% in FY18.
According to additional figures released by the SBP, Pakistan's current account deficit stood at $17.99 billion in FY18, translating to 5.7% of GDP and more than twice than the government's own estimates.

Published in The Express Tribune, July 20th, 2018.

https://tribune.com.pk/story/1762089/2-size-pakistans-economy-313-13-billion-says-sbp/

NEWS COVERAGE PERIOD FROM JULY 9TH TO JULY 15TH 2018
SBP says economic challenges 'growing', hikes interest rate by 100bps
Shahid Iqbal July 15, 2018
KARACHI: The State Bank of Pakistan (SBP) has increased its policy rate by 100 basis points to 7.5 per cent to fight the inflationary pressures and projected the economic growth rate at 5.5pc, down from the 6.2pc target for FY19.
Announcing the monetary policy for next two months at a press conference on Saturday, SBP Governor Tariq Bajwa explained the reasons for taking contractionary measures.

"The challenges to Pakistan's economy have further accentuated; the revised SBP estimate for fiscal deficit in FY18 is 6.8pc as opposed to 5.5pc in May," said the SBP.
On the external front though, both exports and workers' remittances are performing better but the sheer size of imports bill continues to pressurise foreign exchange reserves, he said.

He continued the real economic activity repeated its strong FY17 performance.

"However, towards the end of FY18, some challenges cast shadows on the capacity of the real sector to continue treading this high-growth path."

In the agriculture sector, the most important concern is shortage of water, which is likely to constrain agriculture production below the target in FY19. The manufacturing sector is also poised to show a mixed picture owing to a high base-effect, the ongoing monetary tightening and some sector specific issues whereas construction-allied industries are likely to perform at par, he said.

Both the headline and core inflation in June jumped to 5.2pc and 7.1pc respectively, providing enough space to the State Bank to predict that CPI inflation will be 6-7pc for FY19.

This assessment relies on: (i) higher fiscal deficit; (ii) food inflation reverting to its normal behaviour; (iii) unfavourable trend in the international oil prices; (iv) lagged pass-through of rupee depreciation; and (v) high survey-based measures of inflation expectations captured by July edition of IBA-SBP's Consumer Confidence Survey, he said.
Stock of private sector borrowing increased by Rs768 billion in FY18 which translates into a growth of 14.8pc. In FY19, private sector credit is expected to increase by almost the same amount at a growth rate of about 13pc.
The current account deficit deteriorated to $16bn during the first eleven months of FY18, up 1.4 times over the same period last year.

"Specifically, strong demand for productive imports (metal, transport, machinery and petroleum) to support higher economic activity and a sharp increase in international oil prices have pushed the current account deficit to levels not sustainable beyond the short term," the SBP commented.

In reply to a question that with the contractionary measures, the economic growth has been compromised, Bajwa said the supply of cheaper money to many specialised sectors would neutralise the impact of expensive lending.
However, he rejected the idea that expensive money could bring another kind of inflation with price hike and said the latest expensive lending would not only reduce the aggregate demand but would help to reduce the huge import bill that led to a trade deficit of over $37bn in FY18.
He said the government needs to introduce more regulatory duty on importable items that are not essentials and are produced in the country.

To another question regarding the fake accounts and illegal transactions through Summit Bank and other banks, he said the SBP is very much associated with the case through its inspection of Financial Monetary Unit which has been set up to monitor illegal transactions and fake accounts.

He said the sponsors' shares which are kept with the SBP have been blocked by the Supreme Court but it does not impact normal banking functions. Bajwa denied impression that the Summit Bank has any problem in doing business and stressed that it is meeting all the obligations.

Regarding United Bank's issues in the United States, he said the UBL has new agreement with regulators to follow their regulations as per their requirement.

The governor also informed that the country has so far received about $300-325m under the amnesty scheme announced by the former government.
Published in Dawn, July 15th, 2018
https://www.dawn.com/news/1420160/sbp-says-economic-challenges-growing-hikes-interest-rate-by-100bps

NEWS COVERAGE PERIOD FROM JULY 2ND TO JULY 8TH 2018
Fitch warns of growing risks to Pakistan's economy
Monitoring Desk Updated July 04, 2018

KARACHI: Time is running out for Pakistan's governmental authorities to address a sharply deteriorating economic situation, Fitch Ratings, one of the world's leading credit rating agencies, warned on Tuesday. At the heart of the deterioration are the plummeting foreign exchange reserves.

"Pakistan's declining foreign exchange reserves and widening current account deficit are adding to the country's external financing risks" said a sharply worded press release issued early in the day. "Further and considerable policy efforts would be required to stabilise the external position, and a new government has limited time to act after the July 25 elections, as external debt obligations will pick up more rapidly in 2019," the release continued, without elaborating what steps might be required to arrest the trend.

It pointed to "three separate step depreciations since mid-December 2017, of a cumulative 13pc against the dollar" as some of the steps taken by the monetary authorities thus far. Although these "eased some pressure on reserves and may eventually support a narrowing of the current account deficit, but their magnitude so has not been sufficient to prevent external finances deteriorating more sharply" than was expected back in January when the ratings agency last downgraded the outlook on Pakistan's B rating to 'negative'.

No change in credit rating, but growth forecast revised down and current account deficit revised up; hints at more exchange rate depreciation

"We now project the current account deficit to reach 5.3pc of GDP in the fiscal year ended June 2018 (FY18), compared with 4.7pc previously. Export performance has improved, but imports have risen on higher oil prices and strong household demand. Loose fiscal policy has added to imbalances. The fiscal deficit is likely to rise to around 6pc of GDP in FY18, compared to our January forecast of 5.0pc, and the government is becoming increasingly reliant on external borrowing — particularly from Chinese policy banks."

The situation will be a challenge for the incoming government, though not one that the agency thinks will be unmanageable. "[T]he steeper-than-expected decline in foreign reserves leaves a limited buffer in the event of problems accessing international markets or bilateral lending. China's continued willingness to provide financing through bilateral and policy-bank lending and likely inflows from the tax amnesty scheme limit near-term risks, as could market expectations of an eventual IMF agreement" the agency said.

Pakistan's cost of external borrowing has risen since its last bond flotation as yields on its Eurobond floated in November 2017 rising by more than 200 basis points since issuance. Global monetary tightening and rising geopolitical tensions could drive this cost higher still in the months ahead. "Vulnerabilities could be tested as rising debt-servicing payments start to add to external funding requirements from 2019."

A "significant policy shift" will be required after the elections "to stabilise external finances", something that the agency says is "still possible". It did not say what this policy shift might entail, but the thrust of the PML(N)'s economic policy in the last two years was to push for growth via a stable exchange rate and elevated levels of development spending by the government. Fitch said that the measures required off the next government "are likely to slow the economy."

"We expect the authorities to explore financing options after the elections" the agency said, adding an IMF programme "might become more viable."

The language suggests that the incoming government will embark on a search for more financing options through bilateral or multilateral arrangements, followed by the possibility of a bond flotation to earn some time, before settling on an IMF programme as a near inevitability.

"Economic growth has been robust over the past year, and we expect the economy to expand by 5.5pc in FY18. However, we have revised down our FY19 growth estimate to 5.0pc, from 5.5pc in the January review, to reflect the likely impact of further tightening measures to alleviate external imbalances."
Published in Dawn, July 4th, 2018
https://www.dawn.com/news/1417844/fitch-warns-of-growing-risks-to-pakistans-economy

NEWS COVERAGE PERIOD FROM JUNE 25TH TO JULY 1ST 2018
Grey list: LCCI terms FATF's decision 'a bad omen' for economy

RECORDER REPORT | JUN 29TH, 2018 | LAHORE

The Lahore Chamber of Commerce and Industry has expressed grave concern over the decision of Financial Action Task Force (FATF) to keep Pakistan in "Grey List" and termed it a bad omen for the economy. LCCI President Malik Tahir Javaid said that a couple of months ago FATF intimated to put Pakistan in Grey List. He said people sitting on the helm of affairs deserve appreciation for presenting Pakistan's case strongly. "Economy of Pakistan was expanding with good pace but the decision will put it at a halt," he said.

Inclusion of Pakistan in Grey List will tarnish the soft image of the country and cost of doing business would go up make borrowing from international donors difficult and shatter the confidence of foreign banks and investors," he said. He said stigma of a doubtful country will portray a negative image to the world and convey the impression that financial system of Pakistan is weak and effective measures are not being taken to control money laundering or financing groups that are banned.

He said the countries, already placed in Grey List, have experienced decline in foreign investment as investors hesitated to invest considering the financing to the terrorist groups. The scenario of foreign direct investment in Pakistan is already not encouraging while Pakistan's inclusion in Grey List will

further worsen the situation. Apart from this, Malik Tahir Javaid said it will be hard for Pakistan to get financial aid or loans from the international donor agencies and added that foreign banks will also lose their trust.

LCCI President lamented that Pakistan's closest friends China and Saudi Arab withdrew their objections on Pakistan's inclusion in Grey List. He said Pakistan cannot afford to remain in the Grey List because of its awful results. He said that powers behind this bad decision against Pakistan will convince other countries or economic blocks to remove Pakistan from their priority list for business. He mentioned that one of the world's biggest economic blocks "European Union" places those countries or organizations like Airlines etc in its black-list which fails to comply with its rules, regulations and standards regarding financial system, suspicious funding, environment and child labor. He cited the examples of some airlines which remained unsuccessful to meet the EU rules and regulations and thus they were banned to enter into the jurisdiction of EU member states.

https://fp.brecorder.com/2018/06/20180629385733/

August 2018

NEWS COVERAGE PERIOD FROM AUGUST 27TH TO SEPTEMBER 2TH 2018

WB TO SUPPORT GREEN BANKING IN PAKISTAN

The Newspaper's Staff Reporter August 31, 2018

ISLAMABAD: The International Finance Corporation (IFC) of the World Bank group will support 'green banking' in Pakistan as part of IFC's commitment to helping countries' transition to green, low carbon and sustainable economies.

In this regard IFC has signed an advisory agreement with the State Bank of Pakistan in Karachi on Wednesday.

IFC's advisory services team will assist the SBP and country's banking sector in improving their environmental risk management practices, and ensuring ethical lending practices.

The State Bank has already taken an initial step towards this with the issue of its green banking guidelines last October.

"Green banking is vital to reduce the vulnerability of the financial sector to environmental risks and provide financing to make economies more resource-efficient and climate resilient," said IFC's Senior Manager for Pakistan, Nadeem Siddiqui.

"Our aim is to leverage our global experience to assist Pakistan's central bank in building capacity of the banking sector in green banking practices," he said.

IFC is a global leader in green banking, providing both advisory and investment support to financial sector regulators and intermediaries in building their green banking business.
Over the last two decades, IFC has worked on more than 200 projects with 150 financial institutions in 15 countries, and provided nearly $5.7 billion in financing, including developing green banking business models and issuing green bonds.

The State Bank of Pakistan is also part of the IFC-supported Sustainable Banking Network, a global community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international best practices.

Pakistan is a priority country for IFC. Over the last three years, IFC has ramped up its investments and advisory services work in the country with current investment commitments of $1.2bn to support the development of Pakistan's private sector, especially in power and infrastructure, and boost access to finance for micro, small and medium enterprises.

Published in Dawn, August 31st, 2018\

https://www.dawn.com/news/1430071/wb-to-support-green-banking-in-pakistan

PAKISTAN NEEDS $9B FOR RUNNING DOMESTIC ECONOMY: UMAR
By Sardar Sikander Published: August 31, 2018

Asad says parliament will decide if govt should approach IMF. PTI leader Asad Umar. PHOTO: EXPRESS

ISLAMABAD: Pakistan needs $9 billion to run the country's economic affairs, Finance Minister Asad Umar told the Senate on Friday

He said Pakistan was facing an adverse economic situation because of flawed policies of previous governments.
"We are deliberating on (various) options. We will map out a plan over the next few days and we will share it with the parliament," the finance minister said.
The parliament, he said, would decide whether or not the government should approach the International Monetary Fund (IMF) for loans.

He said that a decision in this regard would be taken after taking the legislature into confidence.

As the new government grapples with economic challenges, reports have emerged that the government is set to move the IMF, seeking loans for stabilising the national economy.

"The Parliament will be kept in the loop on this matter – It will be duly consulted (in this regard)," the finance minister told members of the Senate.

The Senate's session was held under the acting Chairman, Saleem Mandviwalla.

Umar briefed the upper house of the parliament about steps the new government was taking for improving domestic economic situation in addition to complying with recommendations of the Financial Action Task Force (FATF).

Prime Minister Imran Khan would chair a meeting to discuss options to take stricter action against the Hawala-Hundi business and other forms of currency smuggling, the minister said.

"The PM chaired a meeting yesterday (on Thursday). Another meeting is scheduled (to be held) on Monday. We need to take some concrete actions before the upcoming FATF review."

The FATF review would be held in Jakarta, Indonesia, on September 11-12, Umar said.

"Complying with FATF recommendations is in our own best interest," he said.
FATF had asked Pakistan to address 27 loopholes in three major categorises.
"By addressing these deficiencies, we can get things in order … for our benefit."
Prior to the FATF review, the government will hold an internal review to evaluate the progress made in this regard, Umar said.

In this connection, the newly-formed National Executive Committee (NEC) will hold a meeting on September 8, the minister said.

The international financial task force officially moved Pakistan from its white to grey list in June this year and gave the country a 15-month deadline to take steps against terror financing. Failure to comply with FATF recommendations could result in Pakistan's placement on the 'black list', resulting in serious economic sanctions.

"But (I see) no reason for us not to address FATF concerns by the given deadline. This situation is an opportunity for us to put our house in order," the finance minister said.

However, he criticised FATF for placing Pakistan in its 'grey list' in "disregard of the prevailing conditions and ground realities".

The minister denied the FATF team's visit to Pakistan earlier this month had anything to do with Pakistan's placement on the 'grey list'.

Improving foreign remittances
Umar said that the federal government was also taking steps to improve foreign remittances.

He said that the government was planning to issue Diaspora and Sukuk bonds.
He appreciated the previous government's decision to issue Overseas Pakistanis Certificates.

"I will chair a meeting today (Friday) to discuss options to fast-track both these measures; issuance of Diaspora and Sukuk bonds, and Overseas Pakistanis Certificates."
Recently, he said, the State Bank of Pakistan had introduced a mobile phone remittance application for transferring money from abroad.
"This is an excellent facility."

A third option for improving remittances would be announced in a week, the finance minister said.
"This initiative would facilitate overseas Pakistanis."
https://tribune.com.pk/story/1792329/1-pakistan-needs-9b-running-domestic-economy-umar/

NEWS COVERAGE PERIOD FROM AUGUST 20TH TO AUGUST 26TH 2018
CURRENT ACCOUNT GAP WIDENS 16PC
Shahid Iqbal Updated August 21, 2018

KARACHI: The country's current account deficit widened by 16.4 per cent during July FY19 as compared to the corresponding period of last year.

According to the State Bank of Pakistan, current account deficit rose to $2.2 billion in July 2018-19 versus $1.932bn last year – an increase of $268 million.

The growing current account deficit presents the new government with its biggest and most immediate challenge since it is directly responsible for draining the country's foreign exchange reserves to near critical levels. In 2017-18, the country's current account deficit was $18bn, representing a loss of almost $1.2bn per month for the reserves.
This news comes after positive reports on the external account in July as remittances reported a spike and the growth of trade deficit flattened out, raising hopes that pressures on the external front might be subsiding. But those were tempered by the latest data on the current account deficit, which continues to grow despite efforts by the previous government to encourage exports and contain imports.

The import bill rose by 20pc to $5.566bn in July, from $4.644bn in the same month of previous fiscal year. Exports kept their growth steady as they increased by 10.3pc to $2.009bn, compared to $1.821bn in FY18. In fact, the exports stood at just 36pc of the imports bill.
The change in exports and imports of services during July showed modest changes as imports edged up to $903m from $890m while exports slipped to $405m from $411m last year.
The newly appointed finance minister earlier said that the government has not ruled out approaching the International Monetary Fund for a bailout package since the current account deficit and debt servicing have left few options.

He said the country needs $2bn each month to meet its obligations. The new prime minister has also promised to wean the country off its reliance on external loans as a means of balancing its external account.

According to another State Bank report issued recently, the country had to pay $7.479bn as debt servicing in FY18. It was slightly lower than the amount of $8.147bn paid in FY17 but the size of debt servicing is highly critical for the country facing an acute shortage of reserves.

However, the details showed that the amount of interest has been increasing while the principal has decreased during the past two years. The interest amount rose by 41pc in FY18 to $2.293bn from $1.625bn in FY16.

Similarly, the amount of principal fell by 20pc to $5.186bn in FY18, which is a negative sign for an economy struggling to reduce its debts.

Published in Dawn, August 21st, 2018

https://www.dawn.com/news/1428316/current-account-gap-widens-16pc

PAKISTAN TO PAY $9.3B IN EXTERNAL DEBT SERVICING
By Shahbaz Rana Published: August 21, 2018

ISLAMABAD: The caretaker government, during its brief two-and-a-half-month tenure, estimated that Pakistan's overall external debt servicing obligation would be $9.3 billion in the current fiscal year, which was slightly less than the gross official foreign currency reserves held by the State Bank of Pakistan (SBP).

The $9.3-billion external debt repayment and servicing requirement underscores the challenges the new Pakistan Tehreek-e-Insaf (PTI) government will face in arranging funds to meet the obligation.

Debt-related financing requirements have been shown in the "stabilisation and economic growth policy recommendation paper", prepared by the former interim finance minister Dr Shamshad Akhtar-led finance ministry.

The report was submitted to the caretaker prime minister with a request to pass it on to the new government.

The report showed that Pakistan would require $9.3 billion to meet its debt-related obligations in fiscal year 2018-19, including repayments to the International Monetary Fund (IMF). It put interest payment on external debt at $1 billion in the first half of the fiscal year.

The $9.3-billion debt-related requirements are slightly lower than $10.2 billion worth of foreign currency reserves held by the central bank.

Current account deficit

It seems that the PTI government will have no option but to retire the external debt by contracting new debt, at least in its first year in power.

However, the caretaker government projected the overall gross financing requirements (external debt servicing and current account deficit) at $25-26 billion, which appeared to be on the downward side. It estimated the current account deficit in the range of $15-16 billion.

The current account deficit in July widened to $2.2 billion, higher by 14% over the same month of last year, the SBP reported on Monday. If corrective measures are not taken, the deficit will jump above $25 billion at the current pace. In its report, the caretaker government projected $4 billion in current account deficit in the first quarter and another $3.2 billion in the second quarter of the current fiscal year.

These projections suggest that the finance ministry did not reflect a true picture of the external sector, which often results in unnecessary pressure on the foreign currency reserves.

External sector challenges

Finance Minister Asad Umar on Monday assumed his responsibilities and held the first formal meeting with ministry officials. He is said to have conveyed the finance secretary his reservations about the quality of human resources in the ministry, said sources.

In addition to finding a solution to the mounting external sector challenges, the finance minister will have to build a credible and competent team.

The interim setup's report primarily presents two scenarios to deal with the external sector situation. Its first scenario shows harsh policy measures like 8% depreciation of the rupee, 2% increase in the policy interest rate and fiscal adjustment of 1.6% of gross domestic product (GDP) to avoid IMF bailout.

Almost the entire adjustment has been recommended to be made by cutting the development budget from Rs850 billion to Rs350 billion only.

The report also indicated possible size of the IMF programme which it noted would depend on Pakistan's quota, which could be raised up to 500% or $14 billion.

Pakistan has already got $6.5 billion and it can receive only the remaining $7.5 billion, showed the report.

A steep cut of Rs500 billion in development spending in one year would slow the pace of economic growth to only 3.5% and unemployment rate would jump to 9.5%, said former finance minister Dr Hafiz Pasha.

The PTI government has promised to create 10 million jobs in five years and the cut in public sector spending will make it tough to achieve the goal.

ICCI laments Pakistan's huge debt, liabilities

Pasha said instead of massively scaling back development spending, the new government could raise import tariffs to a maximum 30% from the current highest slab of 20%. "This will generate Rs250 billion in tax revenues as well as restrict the import bill," he said.

Pasha suggested that the government could generate another Rs100 billion in tax revenues by enhancing income tax rates.
He opposed the idea of slapping wealth tax on corporations and the stock market, suggesting limiting the wealth tax to only individuals.
He said the development budget may be slashed by only Rs150 billion, adding all these measures would create fiscal space of about Rs500 billion.

The caretaker government's second scenario suggests increasing the tax collection target to Rs4.9 trillion. But Pasha said increasing tax collection by over 32% in one year would be highly impossible due to capacity constraints faced by the Federal Board of Revenue (FBR).

Published in The Express Tribune, August 21st, 2018.
https://tribune.com.pk/story/1785582/2-pakistan-pay-9-3b-external-debt-servicing/

PAKISTAN AMONG MOST VULNERABLE TO DOLLAR APPRECIATION: MOODY'S
By Salman Siddiqui

Published: August 25, 2018

KARACHI: Moody's Investors Service has painted a bleak picture of Pakistan's economy, identifying it among the markets most vulnerable to dollar appreciation, as its external vulnerability risk, and fiscal strength take toll on foreign exchange reserves.

The research, released on Friday, identified Argentina, Ghana, Mongolia, Pakistan, Sri Lanka and Zambia, beside Turkey, as the emerging and frontier market sovereigns that are most vulnerable to dollar appreciation.

The credit ratings agency, which downgraded the outlook on Pakistan's rating to negative from stable in June this year, said "sovereigns with relatively high debt burdens, weak debt affordability and smaller buffers are especially susceptible to a deterioration in their credit profiles in the event of rising funding costs".

"We reflect this vulnerability in our assessment of a sovereign's external vulnerability risk, government liquidity risk and fiscal strength. Looking at the size and composition of the balance of payments and foreign exchange reserves, we identified Argentina, Ghana, Mongolia, Pakistan, Sri Lanka and Zambia, beside Turkey, as the emerging and frontier market sovereigns that are most vulnerable to dollar appreciation.

Dollar hovers around Rs130.5 in open market

"Out of these, Argentina and, to a lesser extent, Pakistan's currencies have experienced marked depreciations against the dollar year to date."

The report comes at a time when foreign exchange reserves held by Pakistan's central bank have dropped to $10.23 billion – enough to only cover a month and a half of imports – while the current account deficit widened to $17.99 billion in fiscal 2017-18.

Economic managers have already let the rupee fall on four separate occasions since December 2017, and increased the key interest rate by 175 basis points this year.

But heavy demand and expenditure on account of the China-Pakistan Economic Corridor (CPEC) have squeezed the country's finances, prompting the new government to consider going back to the International Monetary Fund (IMF) for yet another programme.

"Pakistan is facing elevated external pressures stemming from strong domestic demand and capital-import heavy investments related to CPEC," stated Moody's on Pakistan. "We expect a current account deficit of 4.8% of GDP this year. While reserve coverage of external debt repayments remains adequate, we expect that coverage to weaken. Unless capital inflows increase substantially, possibly through and in combination with an IMF program, we see elevated risk of a further erosion in foreign exchange reserves."

Moody's said Pakistan's gross borrowing requirements are among the highest among rated sovereigns at around 27-30% of GDP, driven by persistent fiscal deficits and the government's reliance on short-term debt, with an average maturity of 3.8 years.

"Around one-third of government debt is denominated in foreign currency.

"Although Pakistan is not a major recipient of volatile capital inflows, local currency depreciation could raise inflation and prompt additional domestic rate hikes, which would pass through to borrowing costs and further weaken the government's fragile fiscal position. We find that Pakistan's debt affordability would weaken significantly from already low levels in the event of a sharp and sustained increase in the cost of debt."

Impact on asset, debt markets

The report also mentioned several other economies in the light of Turkey's currency crisis and saw the impact of vulnerabilities of emerging and frontier economies on the capital and debt markets.

The ratings agency said a slump in the Turkish currency, bonds and stocks, amid investor concerns about the country's economic, fiscal and external stability, has sparked renewed selling in the assets and a focus on the vulnerabilities of other emerging and frontier market nations, following periods of financial market volatility earlier this year.

"The emerging market countries that the Institute of International Finance (IIF) tracks daily experienced $2.7 billion of portfolio outflows over the week to 17 August 2018 when concerns over Turkey escalated, compared with broadly balanced flows in the first six months of the year. In the month to mid-August, emerging markets still experienced net portfolio inflows overall, although South Africa saw substantial net outflows for both equities and debt," it said.

Published in The Express Tribune, August 25th, 2018.

https://tribune.com.pk/story/1787175/2-pakistan-among-vulnerable-dollar-appreciation-moodys/

FY18 FISCAL DEFICIT HITS 5-YEAR HIGH
ZAHEER ABBASI

ISLAMABAD: Country's fiscal deficit hit a five-year high or 6.6 percent of the Gross Domestic Product (GDP) as it was Rs 2,260 billion in absolute terms for the recently-concluded fiscal year of 2017-18 against the targeted 4.1 percent in the budget.

A summary of consolidated fiscal and budgetary operations for fiscal year (2017-18), uploaded by Finance Division, noted total revenue of Rs 5,228 billion or 15.2 percent of the GDP against the total expenditure of Rs 7,488.395 billion or 21.8 percent of the GDP, which ensued a deficit of Rs 2,260 billion or 6.6 percent of the GDP.

Fiscal deficit target was revised upward to 5.5 percent from the budgeted 4.1 percent a few days before the unveiling of budget for the current fiscal year on April 26, 2018.

A larger deficit increased government reliance on borrowing from domestic and external sources, especially from banks to finance a Rs 2,260.380 billion budget deficit. Foreign borrowing for financing budget deficit stood at Rs 785.166 billion while domestic borrowing at Rs 1475.214 billion. The government borrowed Rs 352.719 billion from non-bank sources and Rs 1,120.495 billion from banks to finance the budget deficit.

The total revenue collection in the last fiscal year was recorded at Rs 5,228.015 billion with tax revenue standing at Rs 4,467.160 billion; of which Rs 4,065.788 billion was federal revenue and Rs 401.372 billion was provincial revenue. The non-tax revenue collection stood at Rs 760.855 billion with Rs 614 .157 billion federal and Rs 146.698 billion provincial revenue. The FBR revenue collection was Rs 3,842 billion against the target of Rs 4,013 billion, which was revised downward to Rs 3,935 billion.

The total expenditure during the last fiscal year was Rs 7,488 billion, including a Rs 5,854.267 billion current expenditure, a Rs 1,621 billion development spending and net lending to provinces. Mark-up payments component in the current expenditure included Rs 1,499.922 billion and defence remained a Rs 1030.407 billion. The statistical discrepancy of Rs 12.446 billion was recorded in fiscal operations.

The total revenue was 15.2 percent of the GDP with tax revenue 13 percent and non-tax revenue 2.2 percent against the total expenditure of 21.8 percent. The current expenditure included 17 percent of the GDP of which mark-up payments were 4.4 percent and defence remained at 3 percent of the GDP.

The development expenditure and net lending were 4.7 percent of the GDP. The provincial government fiscal operations for the last fiscal year were closed with a deficit of Rs 22.370 billion against the projected budgeted surplus of Rs 347.3 billion.

https://epaper.brecorder.com/2018/08/26/1-page/735147-news.html

NEWS COVERAGE PERIOD FROM AUGUST 13TH TO AUGUST 19TH 2018
CIRCULAR DEBT OF RS 1.1 TR PASSED ON TO NEW GOVT

By Zafar Bhutta Published: August 18, 2018

ISLAMABAD: Though the previous Pakistan Muslim League-Nawaz (PML-N) government claimed to have brought about improvement in power production, it still passed on a gigantic circular debt of Rs1.148 trillion to the new government of Pakistan Tehreek-e-Insaf (PTI), which faces a bumpy road ahead.

The PML-N had come up with a slogan in 2013 that it would bring load-shedding to an end during its five-year tenure. It solely focused on setting up thermal power plants to increase electricity production, but failed to streamline and upgrade the transmission and distribution network, which could not bear the load of additional power generation.

Of late, the circular debt has become a mammoth challenge for all governments, including the Pakistan Peoples Party (PPP), which ran the government from 2008-13. The situation is no different for the new government which will have to deal with a debt burden of over Rs1 trillion.

In a meeting of the Senate special committee on circular debt on Friday, officials of the Ministry of Energy (Power Division) revealed that out of the total circular debt, Power Holding Private Limited (PHPL) had borrowed Rs582.86 billion whereas Rs566 billion was borrowed to cover receivables of power distribution companies.

The meeting, chaired by Senator Shibli Faraz, was informed that PHPL was to pay Rs153 billion in annual interest on the loans.

The Power Division had also requested the power-sector regulator to include the amount in consumer tariff, but the National Electric Power Regulatory Authority (Nepra) dismissed the plea. Nepra argued that the loans were not part of the development budget and were acquired for smoothly running the distribution companies.

The committee was told that the power sector was to receive Rs817.5 billion from private and government clients. On the other hand, power consumers were paying Rs159 billion on account of taxes in electricity bills.

It was revealed that the Central Power Purchasing Agency (CPPA) was receiving Rs66 billion out of the Rs100 billion charged in electricity bills.

During the meeting, the committee chairman and Senator Musaddik Malik traded allegations.

Faraz held the PML-N government responsible for the mess in power sector, to which Malik responded by saying he would walk out if his opinion was not heard. The committee chairman told Malik that he was disturbing environment of the meeting.

Malik argued that it was not possible to stop theft without installing smart meters, adding the loan offered by the Asian Development Bank (ADB) for the purpose had some drawbacks.

He emphasised that the government would have to bring improvement and efficiency in those power distribution companies where theft and losses stood quite high.

The committee noted that the circular debt would rise further after the production of electricity by new plants. Responding to that, Power Division officials said the government would have to enforce load-shedding in areas where losses and theft were high.

Published in The Express Tribune, August 18th, 2018.

https://tribune.com.pk/story/1783395/2-circular-debt-rs1-1tr-passed-new-govt/

USAID-IFMP TRAIN PROFESSIONALS ON CAPITAL MARKETS
RECORDER REPORT | AUG 19TH, 2018 | KARACHI

The second in a series of master class workshops on ‘Capital Market and Fixed Income Investment Certification’ concludes in Karachi, stated a press release on Saturday.

More than 30 industry professionals as well trainers nominated by the Institute of Financial Markets of Pakistan (IFMP) have attended the two-week long ‘Training the Trainers’ organized by the United States Agency for International Development ‘s (USAID) Financial Market Development Activity in collaboration with the Institute of Financial Markets of Pakistan (IFMP).

“USAID support has been crucial in helping us deliver on our mandate with international trainers,” said Mohammad Ali Khan, Chief Executive Officer IFMP, “These master class workshops are part of the sustainability planning in order to engender long-term impact of the efforts undertaken,” he said.

Two trainers' trainings were held in Karachi while two more, one each in Lahore and Peshawar are planned over the next few weeks.

Overall, fifty 'Fixed Income and Investment Trading Certification' workshops have also been conducted across different cities and regions in Pakistan, preparing a cadre of 3,800 certified professionals. "A strong, diversified and vibrant capital market is an area of high priority for both IFMP and USAID.

With these trainings, we are developing a small select pool of resource persons to help us continue to develop the capacity of practitioners and trainers working in this sector," said Khan, addressing the participants.

The training is specifically designed for professionals and trainers working in the financial sector to build their capacity to train practitioners on fixed income, improve understanding of emerging trends and increase skills in the areas of marketing, trade, and investment of fixed income products.

The training will also develop their ability to assess the risks related to credit products and the techniques for managing such risks. USAID's Financial Market Development Activity is a multi-year project to assist and promote the development of competitive and diversified debt capital markets in Pakistan, working with key regulatory agencies. Its capacity building programs strengthen the debt market as well as professional standards as part of an overarching goal of USAID's Economic Growth Program to help Pakistan build robust market institutions in the country.-PR

https://fp.brecorder.com/2018/08/20180819400683/

NEWS COVERAGE PERIOD FROM AUGUST 6TH TO AUGUST 12TH 2018
'PAKISTAN IN WORST THAN 2008 ECONOMIC CRISIS; INTEGRATED VAT IS ESSENTIAL'
BR RESEARCH | AUG 6TH, 2018

As a new government takes shape in Islamabad in the thick of a serious economic crisis, talks of tax reforms have begun to make headlines once again. What could be the way forward; and what long and short run options lay before the incoming government? To answer these and other related questions BR Research turned to Dr Ehtisham Ahmad this weekend. A seasoned economist with over two decades of IMF experience behind him, his research interests include taxation, federalism, intergovernmental fiscal relations and other ancillary affairs.

Currently, he is a Senior Fellow at the LSE, and Pao Yu-Kong Professor at Zhejiang University; he is also associated with the Chinese Academy of Fiscal Science and Ministry of Finance Research Institute. Dr Ehtisham Ahmad has advised Mexican and Chinese governments for their respective tax reforms and was asked to write research papers for the Indian Finance Commission. He directed a research program on tax reform in Pakistan, India and Mexico with Lord Stern during 1980-90.In 2008, he was Pakistan's Senior Advisor to the IMF Executive Board and assisted with the 2008 programme that had tax reforms as a key performance criterion. He resigned at the end of 2009.Below is edited transcript of that conversation.

BR Research: What is the most important component of a modern tax system?

Ehtisham Ahmad: A simple tax policy design is needed to generate revenues, improve the business climate and stop cheating, and for ease of administration. The modern design of tax administration is based on management of information: the VAT yields information on the whole value chain because the information on wages and profits is generated at each stage of the value chain. This together with information from assets is critical to make income taxes effective. A simple and integrated design of policy and administration are critical.

The tax administration should operate on an arm's length principle to improve the business climate and reduce opportunities for corruption. This also requires self-assessment together with an effective and strong audit. A modern tax administration does not have to be very large.

Unfortunately, things start getting complicated if tax policy and administration are not in sync. So even if there is an independent tax agency, often headed by a separate minister as is in China, there has to be close coordination to ensure that tax policy proposals from the Finance Ministry can be implemented. If tax policy and administration are not in sync, the reforms will generally not work.

BRR: Is VAT the only answer to collect that information?

EA: The collection of sales tax on goods and services in VAT mode provides the information needed to stop cheating of taxes, as it generates full information on wages and profits at each stage of the value chain. But this does not work if there are breaks in the value chain (e.g., SROs) or the base itself is split across provinces and separate administration. These breaks not only make life harder for taxpayers and businesses, they make it very hard to issue prompt export refunds. The SROs also seldom achieve national distributional or investment objectives, although individual rents are collected.

I have worked on tax reforms in India and Pakistan since the early 1980s, and the major problem in both countries is the splitting of tax bases between levels of government that is a colonial legacy from the Government of India Act 1935—applying both to income taxation as well as sales taxes on goods and services.

BRR: How have other countries managed fixing VAT?

EA: The reforms in Mexico in 2013, that I had the opportunity to contribute to, and in China in 2015, focused on "fixing the VAT"—which had previously the same "holes" as in Pakistan. In Mexico, the tax/GDP ratio rose from less than 11% in 2012 to over 17% in 2017, largely due to the reduction of cheating in the income taxes.

China also integrated the VAT on services (the provincial business tax) with the national VAT to reduce the cost of doing business and consolidate the economic space helping to remove borders around SEZ, like Shenzhen, to better develop growth and employment linkages.

Recently, India has tried to integrate the GST base through a constitutional amendment, although separate administrations and additional state level rate setting powers greatly complicate the system that has not yet achieved the efficiency of the Chinese or Mexican solutions.
The attempt is to create a unified information management system, which is the crux of a modern tax administration design, and a uniform audit system, although separate administrations complicate matters for the taxpayers and businesses.

One of the main objectives of the Indian reforms are to ensure their competitive edge Vis a vis China, and countries like Viet Nam with a modern VAT system. Pakistan has gone in exactly the wrong direction by assigning GST on services to provinces in the 18th Amendment, along with a split in tax administrations.

BRR: But isn't it true that GST on services was already a provincial right as per the 1973 constitution.

EA: In 1973 Constitution, the taxation of services was primarily related to "final activities" such as haircuts. The VAT had only just been introduced in some European countries and had not been considered an option for developing countries.

However, a Tax Reform Commission set up in 1970 headed by State Bank Governor M. Raschid, and then reconstituted in 1972 after the separation of the Eastern Wing, considered that the VAT would be a possible instrument to stop "corruption" in addition to raising revenues, which at 13% of GDP were higher than they are today.

Their report in 1974 was marked "SECRET" and buried. Thus, there was no consideration of the VAT or how it might operate in the 1973 Constitution. As a matter of fact, the VAT is still not correctly understood in Pakistan, and operates much like a production excise—where businesses try to get exemptions and SROs. This actually destroys the logic of the VAT and actually adds to the cost of doing business, and it is consequently is one of the worst performing in the world in terms of revenue collections.

BRR: Are you not in favour of assigning provinces any major taxes?

EA: I am all for giving provinces a major tax handle to generate revenues. This is critical to ensure true accountability under a federal system. Unfortunately, the split VAT is a dreadful base to assign to the provinces, and results in a pathetic revenue performance. As Pakistan's moth-eaten and split GST actually adds to the cost of doing business, it makes it even more difficult for firms to compete with Chinese competitors. This also succeeds in creating trade distortions and domestic barriers across provinces. A much better base for the provinces would be a surcharge or "piggy back" on a consolidated income tax, as in the US and many other countries.

If Pakistan hopes to learn from China, its 1993/4 tax reform is a good place to start. At that time, the tax/GDP ratio was around 10% but is around 20% today, largely due to the VAT and a new tax administration at the center. The fiscal reform generated one of the fastest growth performances the world has seen, taking 750 million people out of poverty since then. After the integration of the goods and services base in 2016, the VAT in China is one of the most efficient in the world, and all taxes on inputs are refunded on exports.

BRR: How does one restructure the tax regime?

EA: Given that the 18th Amendment is in place and cannot be changed easily, an intermediate solution could be to have a unified information management function and audit between the centre and the provinces. And I had worked on alternatives with representatives from Sindh in 2011, at the request of the then Finance Minister Hafeez Shaikh. The objective was to develop a proposal that would protect the value chain keeping the legal constraints of the 18th Amendment in mind. The

options were never seriously considered and the split in the tax base and administration has gelled over the past eight years. In the long run, however, Pakistan really has to revisit the constitutional tax assignments, including the VAT and the incomes taxes. In order to get the tax/GDP ratio anyway near the 20% target, an integrated VAT will be essential. In return, the provinces should have the power to tax incomes on an integrated tax base managed by the federal government. Also, the property tax system needs a major overhaul – and again simplification would help, perhaps adapting the simple UK-band system based on occupancy and local spending needs – creating a beneficial tax for local accountability and sustainable access to credit for city infrastructure.

In the United States, the federal IRS manages the income tax base and audit, but the provincial and city governments add their rates on top of the federal rates. The sub-national governments get the revenues automatically without going through the federal treasury system.

BRR: How robust are Pakistan's GST laws; can we tweak it into VAT mode without reassignment of taxes between centre and provinces?

EA: As part of the 2008 IMF programme, I coordinated redrafting the VAT laws with a team of Pakistani lawyers, for presentation to the parliament by end-2009. This was a structural benchmark. It kept the legal split of GST on goods and services between federal and provincial governments, but it also created an integrated administration. The draft was later buried; in fact, it was never submitted to the parliament. I quit my position as Senior Advisor for Pakistan on the Board at the end of 2009, as a golden opportunity to "fix" Pakistan perennial domestic resource mobilization weaknesses was missed.

BRR: So in your opinion, some sort of national tax agency could be the solution. And whether FBR could be made into one or should Pakistan set up a new agency altogether ala Peru?

EA: In the short term a national tax agency is perhaps the best solution; an agency that collects on behalf of the centre and the provinces, manages information on behalf of both, and also conducts the audit function in an arm's length manner.

Coordination among several tax administrations is never easy and adds to the cost of doing business, as is also evident in India. In the long run, the revenue reassignments commensurate with the spending responsibilities will require a constitutional amendment; there is no question about that. But that's probably not on the cards at present.

BRR: Do you think Pakistan can avoid going to the IMF this time?

EA: Pakistanis in an economic crisis of unparallel proportions; and is in a position worse than in 2008, with a hostile United States and a much tougher IMF than in 2008 or 2012. Raising the tax-to-GDP ratio is critical. Without an IMF program the cost of borrowing will be much higher, if the markets are willing to lend to Pakistan to roll over the large amounts that are coming due in 2019. Short cuts to raise the tax to GDP ratio by the imposition of inefficient presumptive taxes, and restrictive duties raises the cost of doing business, and makes it less likely that the Chinese or anyone else for that matter would be interested in investing in Pakistan. Tax amnesties create an incentive to wait for the next amnesty and punish the honest ta
The IMF dropped the VAT condition in the 2013 programme, even though it had been a staple requirement since the early 1990s. But the 2013 program was defensive lending on the part of the

IMF to recoup the amounts disbursed under the 2008 program. Unfortunately, successive governments have avoided structural reforms for domestic resource mobilization to ensure that the country can stand on its own feet and actually “break the begging bowl.” The poor domestic resource mobilization may have serious security consequences.

BRR: Whole scale reforms or piecemeal. What should be the strategy?

EA: Mexican Finance ministers tried piecemeal reforms over two decades but failed. Things began to improve when they rolled out whole scale reforms off setting gainers and losers among states (provinces) and households. As a result, Mexico’s tax-to-GDP ratio rose from less than 11% in 2012 to 17% percent in 2017.In geo-political terms, because of higher domestic resource mobilization, Mexico is now in a much stronger position to negotiate with the United States.

BRR: The incoming PM wants to learn from China. What key lessons are there to be learnt in so far as taxation is concerned?

EA: China addressed the political economy question very nicely. A package approach ensured that no province lost revenues, and that the overall revenues continued to grow strongly, ensuring a buy-in from the provinces, not an easy task even in China. The funds were not wasted on handouts, but went to education and infrastructure, with tightened budgetary procedures. Also, better information was generated that greatly helped identify and tackle corruption. This is part of an integrated strategy of taxation and spending, linked to sustainable growth, effective management of risks, attention to poverty reduction and income distribution and concern for the environment.
BRR: Would you agree that taxation lies at the heart of current NFC deadlock in Pakistan?

EA: The 18th Amendment and the 7th NFC Award shifted wide ranging spending to the provinces, but these cannot be financed with 6% of GDP, which should be spent on education alone. With an 18-20 percent tax to GDP ratio, there would be fiscal space for debt servicing and defence at the central level, and basic services. With 10 percent of GDP there is an impossible trade-off between social and development requirements and the need to spend on security and debt service. The idea behind having an NFC Award every five years is that you should periodically look at the system of sharing revenue and spending responsibilities. But unfortunately, this hasn’t been the case in Pakistan.
https://www.brecorder.com/2018/08/06/432386/pakistan-in-worst-than-2008-economic-crisis-integrated-vat-is-essential/

PAK-US ECONOMIC ENGAGEMENT INCLUDE $6.26BN ASSISTANCE
TAHIR AMIN

ISLAMABAD: The United States economic engagement with Pakistan includes disbursement of $6.26 billion assistance ($ 5.78 billion under Coalition Support Fund and $ 471 million grant as budget support), a trade deficit with Pakistan of $ 7.395 billion, net Foreign Direct Investment of $586 million and remittance inflows to Pakistan of $12.6 billion during the five years of the PML-N administration (2013-18).

This was revealed from data collected by this newspaper from the State Bank of Pakistan (SBP), Economic Affairs Division (EAD) and US Embassy in Pakistan.

The PML-N government received $5.78 billion as CSF and an additional $471.24 million under the head external resources in budget documents as grant during the past five years (though budgeted estimates were $901.41 million).

The CSF is the reimbursement of expenditures that Pakistan incurred while fighting the war on terror.

Pakistan received $ 1.8 billion under CSF in fiscal year 2013, $1.05 billion in 2014, $1.452 billion in fiscal year 2015, $937 million in fiscal year 2016 and $550 million in the fiscal year 2017.

The USA released $101.65 million in the first eleven months of 2017-18 against the budgeted estimates of $117.56 million; it disbursed $82.35 million in 2016-17 against the budgeted estimates of $111.41 million. In 2015-16 USA disbursed $159.94 million against the budgeted $102.94 million and $97.41 million in fiscal year 2014-15 against budgeted $357.5 million. Pakistan received $118 million against the budgeted estimates of $212 million in 2013-14.
According to the Board of Investment (BoI) US net foreign direct investment (FDI) in Pakistan was $586.1 million during the past five years (2013-18): $212.1 million in 2013-14, $223.9 million in 2014-15, $13.2 million in 2015-16, $44.6 million in 2016-17 and $92.3 million in 2017-18.

According to the United States Census Bureau, Pakistan exports to US stood at $18.065 billion during the PML-N government's five-year tenure. Pakistan exports to US was $1.85 billion in 2013 (July-December), $3.675 billion in 2014, $3.7 billion in 2015, $3.44 billion in 2016, $3.57 billion in 2017 and $1.82 billion in 2018 (Jan-June).

Pakistan imports from US stood at $10.67 billion during the past five years: $769 million in 2013 (July-December), $1.512 billion in 2014, $1.838 billion in 2015, $2.107 billion in 2016, $2.808 billion in 2017 and $1.635 billion in 2018 (Jan-June).

According to the SBP Pakistani workers remitted around $12.674 billion from US during the past five years: $2.4 billion in 2013-14, $2.585 billion in 2014-15, $2.524 billion in 2015-16, $2.452 billion in 2016-17 and $2.713 billion in 2017-18.

https://epaper.brecorder.com/2018/08/06/5-page/731855-news.html

PAKISTAN DEFENDS ITS ECONOMIC PARTNERSHIP WITH CHINA
By AFP Published: August 8, 2018

ISLAMABAD: Pakistan defended its economic partnership with China, amid fears that the terms of opaque multi-billion dollar investments by Beijing could be exacerbating Islamabad's economic woes as it considers a fresh International Monetary Fund (IMF) bailout.

"We have noted recent media reports questioning the viability of the China-Pakistan Economic Corridor (CPEC), claiming that it would create an unbearable debt burden for Pakistan," the government said in a statement issued to the media on Wednesday.
"Such media reports are often one-sided, distort facts, and are based on irresponsible statements by individuals who either have no understanding of CPEC or are driven by ulterior motives," the statement continued.

CPEC is an ambitious plan by Beijing to build infrastructure in Pakistan, mainly energy and transport, connecting the western Chinese region of Xinjiang with the Arabian Sea.

It is part of China's massive "Belt and Road" initiative seeking to revive ancient trade routes through a massive rail and maritime network via $1 trillion in investments across Asia and Europe.

But the opaqueness of the CPEC terms has led to concerns as Pakistan faces a looming balance-of-payments crisis, with analysts saying it will need to take urgent action, potentially seeking a bailout from the IMF.

"It is because of the favourable financing arrangements that Pakistan opted for Chinese investment under CPEC," said the statement, issued under the caretaker administration currently running the country pending the formation of a new coalition government by election winner Imran Khan.

"China stepped forward to support Pakistan's development at a time when foreign investment had dried up, and economic activity was being crippled by energy shortages and infrastructure gaps," it said, calling CPEC a "win-win".

Chinese energy companies have "raised funds from Chinese banks and investors", and these do not constitute any debt obligation on Pakistan, the statement said.

"CPEC projects are financed through a composite financing package comprising long-term government-to-government concessional and preferential loans, as well as grants from the government of China. Repayments on these loans would not commence in the immediate future," it added.

The details come after US Secretary of State Mike Pompeo voiced concerns in July over any IMF bailout being used to repay Islamabad's debts to China, with whom Washington is engaged in a trade war.
On Tuesday Pakistan's likely future finance minister Asad Umar announced that the decision on a possible IMF loan would be taken by "the end of September".

"There is a general perception that we have picked up very expensive loans from the Chinese. I personally don't think so," he told reporters in Islamabad.

"They are like most commercial loans," he said, denouncing the "lack of transparency" by the previous government on the subject.

China's financial largesse, in the form of the Belt and Road project, has raised concerns over the vulnerability of poorer nations to such massive debt.

Last year Sri Lanka was forced to hand over majority control of its Hambantota port to China after being unable to repay its loans.

https://tribune.com.pk/story/1776215/2-pakistan-defends-economic-partnership-china/

OFFICIAL INDICATORS POINT TO BLEAK ECONOMIC OUTLOOK
By Shahbaz Rana Published: August 9, 2018

ISLAMABAD:The incoming Pakistan Tehreek-e-Insaf (PTI) government will have to redouble its efforts to pull the national economy from nose diving, party's financial guru Asad Umar was cautioned by the Ministry of Finance.

He was warned that the country's foreign currency reserves would again fall below $9 billion mark soon and budget deficit trends were also not positive.

Umar, likely to become the 35th federal minister for finance, held a one-on-one meeting with Caretaker Finance Minister Dr Shamshad Akhtar, who briefed him about the latest developments on the economic front.

The meeting was held a day after Umar met with the media and described the current state of the economy as "dire". Before the meeting, he briefly met with all senior officers of the ministry.

In his media briefing, the corporate executive-turned-politician described Pakistan's external sector's performance "far worse than five years ago" but still manageable.

Umar did not disclose the details of his interaction with Dr Shamshad but said that he "discussed cricket with Dr Shamshad Akhtar".

However, sources in the Ministry of Finance said that the interim finance minister gave a detailed briefing on the economic indicators for FY2017-18 and a possible strategy to deal with those issues.

Umar, sources said, was informed about the issues related to the Financial Action Task Force (FATF) and the role the caretaker minister played in this regard.

He was reportedly informed that Pakistan's gross forex reserves would slip below $9 billion by the end of September even after securing a $2 billion official inflow from China and arranging $1.4 billion commercial loans over the past two months.

The assessment was in line with Umar's opinion. He is reported to have said that the PTI government would have to make crucial decisions about handling the external sector challenges before the end of September.

The would-be-finance minister was informed that forex reveres were expected to remain around $10 billion by the end of this month, the sources said.

After the Chinese injection of $2 billion, the gross official reserves had bounced back to over $10.4 billion by the end of July.

The caretaker finance minister is also said to have informed him about the fiscal situation, which Umar had already described as being unsustainable.
He was told that over the previous fiscal year (2017-18), budget deficit increased to 6.8% of GDP or Rs2.3 trillion.

In absolute terms, it was the highest-ever budget deficit recorded in the country's history.

The previous PML-N government had set the budget deficit target at 4.1% of GDP, which had been breached by a wide margin.

Historically, the budget deficit and current account deficit were major reasons behind seeking bailout packages from the IMF.

Sources said the caretaker finance minister favoured seeking an IMF bailout package.

Umar was also briefed about fiscal trends witnessed in the current fiscal year.

For this year, the last parliament had approved a budget deficit target of 4.9% of GDP or Rs1.9 trillion. But, Umar was informed that initial trends were not positive.

The budget deficit in the first month of the new fiscal year was close to Rs150 billion or 0.4% of GDP, significantly higher than the one recorded in the same month of the last fiscal year.

Higher interest payments were said to be the main reason for excessive spending in July, sources said.

They said that interest payments in July alone amounted to two-thirds of the total spending, indicating that controlling current expenditures would be an uphill task for the PTI government.

The last National Assembly had sanctioned Rs1.62 trillion for debt servicing in the ongoing fiscal year and about 15% of that has already been consumed in a single month, sources said.

The caretaker finance minister also informed Umar about the steps she had taken to ‘contain’ expenditures and correct macroeconomic imbalances, said sources.

They said she listed increase in interest rates and devaluation of the rupee as measures to improve the balance of payment situation.

Another challenge that Umar will have to face is building a good team at the Ministry of Finance.

He might not have been briefed about that but almost all additional finance secretaries had either gone on leave or were planning to take long leaves.

Those include additional secretaries dealing with human resource management, budget, internal finance and external finance.

https://tribune.com.pk/story/1776472/1-official-indicators-point-bleak-economic-outlook/

September 2018

NEWS COVERAGE PERIOD FROM SEPTEMBER 24TH TO SEPTEMBER 30TH 2018

ADB SEES PAKISTAN’S ECONOMY SLOWING DOWN IN CURRENT FISCAL

Khaleeq Kiani Updated September 27, 2018

ISLAMABAD: Anticipating a one percentage point fall in the rate of growth and two percentage points rise in inflation during the current fiscal year, the Asian Development Bank has advised the newly elected government to address rising debt obligations, falling reserves and large twin deficits.

In its flagship Asian Development Outlook 2018 update, the Manila-based lending agency said the economy appeared slowing down and forecast GDP growth rate to touch 4.8 per cent this year, compared to 5.8pc in the fiscal year ending in June 2018.

It said Pakistan's 5.8pc growth last fiscal was higher than the ADB forecast, but the outlook is clouded by a large budget deficit, a deteriorating current account deficit and falling foreign exchange reserves. "The growth forecast for Pakistan in 2019 is downgraded in light of a pressing need to deal with large budget and external imbalances," it said.

Also, the ADB noted rate of inflation growing significantly to 6.5pc at the end of current fiscal against about 4.5pc last fiscal year.

Manila-based lending agency forecasts GDP growth rate to touch 4.8pc this year compared to 5.8pc in fiscal year ending in June 2018

The bank said Pakistan required mobilising substantial external financing to buy time for orderly reform to reduce the large external and domestic imbalances. Such resources can be acquired from bilateral and multilateral sources, the diaspora, or international capital markets. "The key challenges are to adopt the right reforms and achieve good outcomes to sustain public support," the report noted.

The good thing is that Pakistan's economy has time and again shown resilience and the capacity to bounce back, it said. Although formidable development challenges remain, the ADB expected the stability fostered by the smooth political transition and the new government's strong commitment to focus on pockets of vulnerabilities and implement pro-job and socioeconomic development policies that will stimulate robust, sustainable growth in the years ahead, said ADB Country Director for Pakistan Xiaohong Yang.

The 4.8pc growth prospect is linked to success of the government in obtaining finance and on the strength of an improved security and energy supply, continued investment in the CPEC and other initiatives, and recognition of the need to rein in deficits. "Challenges to maintaining the growth momentum are tighter monetary and fiscal policies to contain domestic demand, currency depreciation, and tension in the global trade environment," the ADB noted.

On the supply side, water shortages in some areas are likely to keep agricultural production below target in fiscal 2019. Growth in manufacturing and services will likely be affected by fiscal and monetary tightening. On top of dealing with macroeconomic imbalances, the new government faced long-delayed decisions on raising tariffs to contain rapidly rising and potentially disruptive inter-company arrears in the energy sector — so called "circular debt" that exceeds PRs1.4 trillion, or 5pc of GDP.

Average annual inflation is projected to reach 6.5pc in fiscal year 2019 because of currency depreciation and elevated international oil prices. Inflation accelerated sharply for both food and other purchases in the first two months current year to 5.8pc from 3.2pc a year earlier. The SBP increased

the policy rate by 100 bps to reach to 7.5pc in July 2018 in an effort to contain the inflation pressure and is likely to continue further as part of its monetary tightening.

The new government needs to move swiftly to put in place its macroeconomic policies including fiscal, monetary, tax, and trade reform policies to promote financial stability and growth. Pakistan needs to institute mechanisms to increase competitiveness, attract private sector investments, and strengthen the ease of doing business as well as Pakistan's position in the global value chain, the ADB said.

The bank appreciated a 5.8pc growth, highest in 13 years, and was credited to an uptick in industry, better agricultural crops, and an expanding services sector. Inflation remained moderate. However, with the new government considering policy options to implement its economic and social agenda, twin deficits widened by a rising import bill and higher spending continue to pose a challenge.

Published in Dawn, September 27th, 2018

https://www.dawn.com/news/1435256

IMF, GOVT IN TALKS ON ECONOMIC DATA, FUTURE POLICIES
Khaleeq Kiani Updated September 28, 2018

ISLAMABAD: A staff mission of the International Monetary Fund (IMF) on Thursday started consultations with Pakistani authorities on the exchange of economic data and future economic policies that may ultimately lead to a possible balance of payments support programme.

Informed sources said the delegation, led by Herald Finger, IMF's senior economist, had separate meetings with Finance Minister Asad Umar and a team led by Finance Secretary Arif Ahmed Khan. The mission will stay here until Oct 4.

No official word was available from the IMF or the government side while the finance minister did not return calls for comment. Sources, however, said that the two sides would complete consultative sessions on macroeconomic indicators, particularly the most challenging energy-sector problems, details of the China-Pakistan Economic Corridor (CPEC) and the PTI government's plans for structural reforms including the privatisation of bleeding public-sector enterprises.

Privatisation plans at the heart of the discussion

The authorities have been indicating financing needs of around $8-9 billion for the current year but are still unclear how much support could materialise from the friendly governments of China and Saudi Arabia.

"You may consider them pre-programme engagements", said a senior official, but hastened to add that the leadership has not yet decided if the IMF programme is really required or not.

At the heart of discussions would be the government's privatisation plan as the previous government could not make reasonable progress on the divestment of loss-making entities. The Pakistan Steel Mills, Pakistan International Airlines, two gas utilities, gas producers — OGDCL and PPL — and power sector entities were the most crucial items on the privatisation list, the official said.

Informed sources said the IMF mission was seeking details of the CPEC programme, particularly those relating to energy-sector projects, projects that had been completed and those in the pipelines with completion timelines. “They obviously want to know the financing modalities, particularly repayment schedules, along with details of revolving funds and guarantees given to Chinese power-sector sponsors for timely payments against power purchases,” the official said in respond to a question.

The mission has also sought details from the government, particularly the power and finance divisions, about the proposed steps to ensure full cost recovery from consumers and if not, how to bridge the gap given limited space in the budgetary allocations. “We have not yet reached that stage but would share with them the upcoming tariff increase currently on the agenda of the government to generate around Rs200bn”, the official said. He conceded that the total circular debt was around Rs1.2trillion including the fresh flow of Rs640bn and old stock of about Rs560bn, and the upcoming tariff increase would be an insufficient measure. The major worry for the fund is not the current stock but the future strategy to block its recurrence, the sources said.

The finance and power division would be required to share the latest data on new arrears and its breakdown including line losses, non-recoveries, refunds held by the tax authorities on account of GST, accrued mark-up on non-payments on the one side and loan repayments and rollovers on the other, justifiable reasons for delays in tariff notification due to litigation, and how outstanding stock of Rs1.2tr would be settled.

The government’s technical teams comprise the finance secretary, the governor of the State Bank of Pakistan, the chairman of the Federal Board of Revenue, assisted by the secretaries of the privatisation, power and petroleum divisions. Finance Minister Umar will lead the policy-level discussion and wind up the consultations by Oct 4.

The minister is expected to engage with the IMF leadership on the sidelines of the annual meetings of the IMF and the World Bank scheduled for Oct 8-14 in Bali, Indonesia, for a final future course of action.

Published in Dawn, September 28th, 2018

https://www.dawn.com/news/1435464/imf-govt-in-talks-on-economic-data-future-policies

NO PLAN TO GO FOR IMF BAILOUT INSTANTLY: ASAD UMAR
Agencies Updated September 29, 2018

ISLAMABAD: Finance Minister Asad Umar on Friday said that the government had no plan to go for a programme with the International Monetary Fund (IMF) instantly to get fresh loans.

Talking to media after addressing the business community at the Islamabad Chamber of Commerce and Industry (ICCI), Umar said that an IMF team is here on a routine review visit, carried out after completion of a programme. However, he said that whenever Pakistan would need to start a new programme with the IMF, the current negotiations would act as a base for it.

Earlier, while addressing businessmen, the minister said that the government was working to separate the tax policy and tax connection functions as part of tax reforms to facilitate the taxpayers.

“Tax policy board would be formed in which the business community would be given representation.” he added.

The minister also inaugurated the newly constructed Export Display Centre building of the ICCI.

He urged the chamber to develop a master economic plan for Islamabad, keeping in view the natural endowments of this region and share it with the government.

He said the ICCI should also prepare recommendations to guide the government regarding types of industries that should be set up in the planned special economic zone in Islamabad.

He pointed out that Islamabad has good potential for information and communications technology (ICT) industry as 27 higher education institutes were already producing IT professionals in the federal capital.

Asad Umar also added that the government was working on a plan to provide 100 million gallons of water per day to Islamabad that would resolve water shortage issue and would also benefit the local industry in Islamabad. He assured that the government would cooperate with the ICCI for a new industrial estate in Islamabad.

Speaking on the occasion, President ICCI, Sheikh Amir Waheed, said that Islamabad was in dire need of a new industrial estate, as there was no further space in the available industrial estates for setting up new industries. He urged that the government should provide suitable land in the capital for this project.

He said almost 90 per cent issues of trade and industry were related to Central Development Authority’s (CDA) jurisdiction and the government should appoint the president ICCI as a member of the CDA board for smooth resolution of key issues of business community.Separately, a delegation of chief executive officers of Islamic banking institutions met the finance minister and briefed him on the Islamic banking sector.

Mr Umar assured them that the government was committed to promoting Islamic banking and would help resolve issues besides ensuring a level playing field for all the players.

Meezan Bank President Irfan Siddique said that the sector has grown by 35pc since its inception in 2005 and highlighted the obstacles faced by the sector impeding its growth.

Published in Dawn, September 29th, 2018

https://www.dawn.com/news/1435683/no-plan-to-go-for-imf-bailout-instantly-asad-umar

NEWS COVERAGE PERIOD FROM SEPTEMBER 17TH TO SEPTEMBER 23TH 2018
IN AUGUST 2018: CURRENT ACCOUNT DEFICIT CONTRACTS 72% DUE TO DROP IN IMPORTS
By Salman Siddiqui

Published: September 20, 2018

KARACHI:Pakistan's current account deficit (CAD), a major source of concern for the past couple of years, surprisingly narrowed down 72% to $600 million in August 2018 compared to the previous month because of a notable drop in imports.

The deficit – which is the outcome of higher expenditures in foreign currencies than the earnings – stood at $2.12 billion in the previous month of July, the State Bank of Pakistan (SBP) reported on Wednesday.

Imports slowed down 19% to $4.47 billion in August compared to $5.49 billion in July.

"The drop in imports (however) indicates an economic slowdown," economist Ashfaque Hasan Khan said in comments to The Express Tribune.

A steady growth in export proceeds and worker remittances also extended their due support to the massive drop in the current account deficit, "which seems to be seasonal due to Eidul Azha in August," said Arif Habib Limited Head of Research Samiullah Tariq.

He said the current trend showed the deficit would come down in fiscal year 2018-19 from the one booked in the previous year. However, it may not remain as low as $600 million in each of the remaining months of the year.

"We have estimated current account deficit for the year (FY19) at $16 billion," he added.

While presenting the amended Finance Bill 2018 in the National Assembly on Tuesday, Finance Minister Asad Umar said the full year's current account deficit would widen to $21 billion from last year's $18 billion, if his government would not take corrective measures through the mini-budget.

Citing the Pakistan Bureau of Statistics' latest data, Tariq said imports of almost all goods fell notably in terms of both value and volume, except for fuel oil due to the uptrend in crude oil prices in international markets.

"However, the import of oil in terms of volume also dropped notably in August," he noted.

He said imports may continue to remain moderately low due to a drop in machinery imports for the China-Pakistan Economic Corridor (CPEC).

Previously, Pakistan has seen an exorbitant increase in CPEC-related imports due to purchase of thermal power machinery from abroad. This caused a widening of the current account deficit.

The recent beginning of the second phase of CPEC developments, under which hydel power projects were being constructed, would nominally contribute to the deficit as 70-80% of the cost of projects would be borne in local currency, he said.

The central bank said exports improved 4% to $2.08 billion in August compared to $2 billion in July.

Worker remittances enhanced approximately 6% to $2.03 billion in August compared to $1.93 billion last month.

Also, the foreign direct investment (FDI) improved 26% to $160 million in August compared to $127 million in July.

Jul-Aug deficit

Cumulatively, in the first two months (July-August) of the current fiscal year, the current account deficit was recorded at $2.72 billion, which was 10% higher than $2.47 billion in the corresponding period last year, according to the central bank.

Published in The Express Tribune, September 20th, 2018.

https://tribune.com.pk/story/1807460/2-august-2018-current-account-deficit-contracts-72-due-drop-imports/

NEWS COVERAGE PERIOD FROM SEPTEMBER 10TH TO SEPTEMBER 16TH 2018
GOVERNMENT TO EFFECT CHANGES IN FINANCE ACT
ZAHEER ABBASI SEP 12TH, 2018 ISLAMABAD

Finance Minister Asad Umar said on Tuesday the government would soon introduce necessary changes in the Finance Act 2018 to make it more relevant to the current economic state of the country and reflective of the new government"s vision.

The minister was talking to a delegation of Overseas Investors Chamber of Commerce & Industry (OICCI) led by its President Irfan Wahab Khan that called on him.

An official said that the budget wing of Finance Ministry is working on the changes to be made in the budget presented by the previous government at the fag end of its tenure, which is termed unrealistic by the new setup.

He said that key ministries have identified areas for revenue generation and these may be presented before the Parliament in a few days as fiscal deficit is a major challenge for the government following significant relief in exemptions and income tax provided by the former government in the last few days of its tenure.

The minister said the government wants to address the issues of twin deficits on a long-term basis and he believes that the key to the problem lies in promoting manufacturing industry and creating jobs for the youth of the country and this is the area where Overseas Chamber could assist and lead the way.

The minister also assured the delegation of his all possible support in improving business environment in the country.

The president OICCI informed the minister that OICCI wants to share its vision of future development of the country and how the overseas investors can become the driver of change in the journey. The delegation shared its ideas and proposals to build the confidence of investors, both local and foreign, for bringing in more investment to Pakistan.

The finance minister appreciated the efforts of OICCI in assisting the government in the matters of policy formulation that could help attract further investment.

Asad Umar stated that the government is firm on its commitment to address the key structural issues of Pakistan"s economy. The minister said that the government is holding consultation for setting up the Business Advisory Council to establish a liaison between government and business community to make Pakistan a regional hub for investors.

The minister said that it is his vision to introduce the latest technology in tax system to reduce hassle and bring in more transparency.

https://fp.brecorder.com/2018/09/20180912406591/

ECONOMY VERY NEAR TO TOUCH DANGER CRISIS POINT: BENGALI
RECORDER REPORT SEP 13TH, 2018 KARACHI

The economy of Pakistan is very near to touch the danger crisis point and we have taken a loan of $2 billion from China to maintain our reserves, renowned economist Dr Kaiser Bengali expressed these views.

Dr Bengali was speaking on a dialogue programme titled 'Our Vision of Pakistan: Impediments to Development' organised by Ziauddin University here at versity's auditorium on Wednesday. "Any economy is required to maintain foreign exchange reserves equal to at least 3 months of imports, and if it goes below that, it means the economy is at crisis point and unfortunately, Pakistan is very near to this danger," Dr Kiser Bengali said. He said taking loan to maintain reserves shows that in future it would be very difficult for us to get loans from IMF and We would have to accept their hard economical and political conditions.

He pointed out that currently Pakistani's economy is facing two gap crises which is the biggest loss for our economy. We have more than US$ 100 billion foreign debt and this occurred because of dollar and rupee gap. In 1995 on every $100 there was a gap of Rs 125 and at present, we have import of 23 billion dollars and export is around 60 billion dollars.

Speaking to the audience, Dr. Kaiser Bengali said in 2013 our total exports were about 3.5 percent, and in 2016 it decreased to only 12.2 percent. And the average percentage of our exports from year 2013 to 2016 is 11.7 percent. We observed a lot of decrease in exports during the year 2015 and 2016 which means our own industries are no more in working conditions. Whereas, our imports in 2013 were about 0.1 percent, and in 2016 it increased to 2.5 percent, and the average percentage from 2013 to 2016 is 2.4 percent.

"Our GST rate is 7 percent it should be only 5 percent. Our Income deficit is 70 percent higher than services deficit…" he further said. Ziauddin University chancellor Dr Asim Hussain expressed shock on annual imports of more than ten billion dollar food items and over $2 billion import of cosmetics raised a question if we are one nation why wasting such a huge amount on lavish living and increasing the debts through trade deficit every year.

In his address Dr Asim Hussain advised that we should take serious notice of the increasing foreign influence on our country and the nation as a whole. He expressed his concern over the national failure in change of curricular in our educational institutions since last seven decades.

National and international relations expert Dr Huma Baqai said we are afraid of asking right questions. Culture of questioning is almost ended. We do not have any right to ask a question about armed forces and terrorist because we have fear in our hearts that if we ask, we will be called a perfidious or disloyal to our country. This shows our state is not strong enough to provide safety and security to common public. "When you lose economic sovereignty, you lose all sovereignties it means your economy is on mortgage and unluckily we are at that stage…" said Dr Baqai.

Earlier, Ziauddin University vice chancellor Dr Pirzada Qasim Raza Siddiqui welcomed all the panellists and appreciated the enormous number of young students for taking part in the programme. He also advised the students to always keep in mind that they all are future of Pakistan.

https://fp.brecorder.com/2018/09/20180913407279/

LACK OF ACCESS TO ELECTRICITY TO COST PAK ECONOMY $5.8BN P.A: WB
TAHIR AMIN

ISLAMABAD: Lack of reliable access to electricity in Pakistan is conservatively estimated to cost the economy $5.8 billion, 2.6 percent of GDP, a year, maintained the World Bank in its latest policy research working paper titled "Electrification and Household Welfare."

The research paper further states that reducing power shortages in Pakistan require adopting energy sector reforms to address inefficiencies in the allocation and distribution of natural gas, increasing fuel efficiency in electricity generation, reducing losses in the transmission and distribution of electricity, and correcting pricing problems in the electricity market.

The study uses a two-stage propensity score – weighted fixed effects model to control for unobserved village and individual specific effects that may simultaneously affect electrification status and the welfare outcomes of interest. The results show that electrification is associated with a broad range of social and economic benefits in Pakistan, including income and expenditure, better health outcomes for children, improved school enrollment and school completion for boys (but not girls), and increased women's labor force participation and decision-making power.

The report further states that all these benefits from expanding and improving electricity supply are important, although not all of them can be quantified in monetary terms. The potential gains in income growth alone are substantial.

According to the 2014 Household Integrated Economic Survey, the average rural household in Pakistan earned Rs 26,452 ($253) a month in fiscal 2014. With an estimated average income gain of 37 percent a year, the increase in monthly household income would be about Rs 9,787 ($93). Assuming the marginal cost associated with electricity generation and transmission is about Rs 12.2 ($0.12) per kWh, annual average per capita electricity consumption is 471 kWh, and the average household includes 6.7 people, the net per capita gain from gaining access to electricity is estimated at Rs 11,782 ($113) a year.

The report states that there is no consensus on the access rate of electricity in Pakistan. The official estimate based on household surveys suggests that about 5 million people remained off-grid in 2016.

Data from the 2017 census and utility connections lead to an estimate that is almost 10 times as high: almost 50 million people (36 percent of the population). Based on the more conservative figure of 5 million, connecting the entire off-grid population would raise income by $565 million a year. Based on the higher figure, the annual income gain could reach $5.7 billion. Improving the reliability of electricity supply would add to these gains.

Anecdotal evidence suggests that power cuts have been reduced over the past few years, due to additions of generation capacity and low global oil prices.

Lacking official estimates of loadshedding hours, the analysis assumes that average load shedding was reduced to six hours a day in fiscal 2015. With an estimated income loss of 1.6 percent associated with every hour of daily outage, rural households would reap another $3.9 billion in annual income gains if electricity were provided 24/7.

The net income loss from the lack of reliable access to electricity for households in Pakistan is therefore conservatively estimated at $4.5 billion (about 1.7 percent of GDP) a year.

This estimate is likely to grossly understate the actual loss, because it does not capture the impact of lack of reliable access to electricity on health and education outcomes and because access rates could be much lower than the officially reported 97.5 percent.

These results suggest that increasing reliable access to electricity would yield huge gains. Pakistan could do so by both continuing to expand the electric grid and by developing alternatives to grid electricity, especially given that Pakistan has large potential for renewable energy from wind, solar, and hydro power.

The actual access rate to electricity in Pakistan is very much up to debate, however, and by any measure, a large share of the population continues to live without electricity 24/7. Pakistan's latest official household survey reported that 97.5 percent of the population had access to electricity in 2016 (99.7 percent in urban areas and 95.6 percent in rural areas).

Estimates based on census data and the number of connections reported by utilities suggest that access to grid electricity was only about 74 percent in 2016 (90 percent in urban areas and 63 percent in rural areas in 2016).

The household survey sponsored by the IFC suggests that 35 percent of Pakistan's population lacked access to electricity in 2014 and that the access rate in parts of the country was still alarmingly low (almost half of the population in Sindh lived off-grid, for example).

http://epaper.brecorder.com/2018/09/15/19-page/739175-news.html

CROSS-BORDER PARTNERSHIP: CHINA TO CREATE GREEN ECONOMIC BELTS IN BRI COUNTRIES

By APP

Published: September 15, 2018

BEIJING: China has launched cross-border partnerships with several international, non-governmental and civic organisations to create three “green economic belts” in the countries involved in the Belt and Road Initiative (BRI), including Pakistan.

Three belts will be created using poplar trees, under a plan released by the China Green Foundation at the Belt and Road International Forum on public cooperation for ecological remediation, which was held in Wuwei, Gansu province, the China Daily reported on Friday.

The belts are expected to start in northwest China and connect countries in central and west Asia, such as Pakistan, Kazakhstan, Iran and Turkey.

“Under the plan, a cooperative partnership will be established to encourage more exchanges of experience in developing a green economy in different countries,” said Chen Shuxian, chairman of the foundation.

Poplar trees now cover about 648,000 hectares worldwide, according to the foundation. Most of them are located in 17 countries that are involved in the BRI.

China holds 61% of the world’s total poplar tree forests, which provide important economic value to people. For example, the poplar forest covering an area of 31,840 hectares in Hotan, Xinjiang Uygur autonomous region, generates an annual income of 672 million yuan ($98 million), according to the National Forestry and Grassland Administration.

In Inner Mongolia’s Ejin Banner, residents developed a tourism industry themed on poplar tree forests, which attracted more than 1.1 million tourists from home and abroad in 2015, generating 1.4 billion yuan annually.

At the forum, the foundation also announced the launch of an international ecological restoration fund, drawn from donations worldwide to promote green economy in countries involved in the BRI.

Published in The Express Tribune, September 15th, 2018

https://tribune.com.pk/story/1803672/2-cross-border-partnership-china-create-green-economic-belts-bri-countries/\

NEWS COVERAGE PERIOD FROM SEPTEMBER 3TH TO SEPTEMBER 9TH 2018
INFLATION SURGES TO 5.8PC
Mubarak Zeb Khan Updated September 04, 2018

Food inflation was up 3.3pc with tomatoes recording the single largest increase at 47.59pc.

ISLAMABAD: The country’s inflation surged to 5.8 per cent in August, up from 3.4pc in the same month last year – marking the biggest jump in three years and eight months.

Compared to July this year, the consumer price index (CPI) showed no change in the rate.

Inflation is steadily on the rise, following the recovery in global commodity prices including oil, consolidating domestic demand and depreciation of the rupee, suggested data of Pakistan Bureau of Statistics released on Monday.

The government has projected a 6pc annual inflation target for 2018-19. The average rate in FY18 was 3.92pc versus 4.16pc in the year before.

The CPI tracks the prices of around 480 commodities every month in urban centres across the country.

In 2017-18, a nearly 14pc depreciation in the exchange rate pushed up fuel prices as well as cost of imported goods, while the State Bank of Pakistan raised the policy rate by 100 basis points to 7.5pc this fiscal year.

Food inflation was up 3.3pc on an annual basis but edged up 0.2pc month-wise. Prices of perishable products were higher by 3.15pc, while those of non-perishable food items slightly fell by 0.32pc during the month under review.

Food items whose prices increased the most in August were tomatoes, up 47.59pc, onions 25.95pc, potatoes 6.84pc, besan 1.43pc, meat 1.42pc, gur 1.32pc, sugar 0.92pc, rice 0.91pc, honey 0.86pc, readymade food 0.6pc, jam, tomato ketchup and pickle 0.55pc, and spices 0.53pc.

In the same category, however, chicken dipped 20.11pc month-on-month, betel leaves and nuts 4.59pc, fresh vegetables 3.46pc, fresh fruits 3.02pc, eggs 2.39pc, gram whole 0.82pc, pulse moong 0.14pc and pulse mash 0.10pc.

On the other hand, non-food inflation rose 7.6pc 0.2pc on yearly and monthly basis, respectively.

The increase in non-food inflation is mainly driven by uptick in prices of motor vehicles, crawling up 2.41pc, recreation and culture 1.91pc, motor fuel 1.43pc, utensils 1.21pc, construction input items 1.10pc, motor vehicle accessories 0.92pc, plastic products 0.85pc, kerosene oil 0.74pc, medical equipments 0.72pc, and cosmetics 0.58pc.

The non-food prices also remained under pressure on account of education index, which rose to 12.93pc, clothing and footwear 6.47pc, housing, water, electricity, gas and other fuel 5.97pc, furnishing and household equipment 6.2pc, health 5.70pc, transport 17.26 pc and recreation and culture 6.91pc.

Core inflation, measured by excluding volatile food and energy prices, was recorded at 7.7pc year-on-year and 0.2pc on a monthly basis. Core inflation has been steadily rising for the past couple of months.

The gradual build-up of domestic demand is evident in the upswing in core inflation. Of the 89 commodity groups of CPI, it covers the price movement of 43 items. Due to the continuous increase in education and healthcare costs, core inflation remained higher on average compared to the same period last year.

Average inflation, measured through the sensitive price index, crawled up 3.42pc in July-August as against negative 0.24pc in the previous year, while wholesale price index was up 10.75pc from 0.84pc in 2017-18.

Published in Dawn, September 4th, 2018

https://www.dawn.com/news/1430853/inflation-surges-to-58pc

SINDH SEZS RECEIVE RS50B WORTH OF INVESTMENT
By Bilal Hussain Published: September 6, 2018

KARACHI:The investment in Sindh's Special Economic Zones (SEZs) has touched Rs50-billion mark with approximately Rs34 billion worth of injection made into the 930-acre Bin Qasim Industrial Park (BQIP).

The remaining SEZs – Korangi Creek Industrial Park (KCIP) and Khairpur Special Economic Zone (KSEZ), spread over 250 and 140 acres respectively – have attracted combined investment of around Rs16 billion.

Kia-Lucky Motors, which has already started operations with completely built units (CBU), will be manufacturing Kia cars soon and has invested Rs15 billion in BQIP.

"At the SEZs, companies get three things. First, they get a 10-year income tax holiday. Second, they don't have to pay duty on the machinery and plant imported to set up a manufacturing unit. And last, infrastructure and utilities are at their doorsteps," Sindh Board of Investment Director Projects Abdul Azeem Uqaili told The Express Tribune.

Two other SEZs have been proposed in Sindh – one is the Dhabeji SEZ which comes under the China-Pakistan Economic Corridor (CPEC) and will be established over 1,500 acres of land while the other is the 300-acre Marble City.

Although investment is coming into Sindh as a result of CPEC for developing the road infrastructure, the province has lost big investors – Hyundai and Renault, who initially planned to establish their plants at BQIP, but shifted focus to the Faisalabad Special Economic Zone – the Faisalabad Industrial Estate and Development Management Company (FIEDMC).

Sindh Board of Investment Chairperson Naheed Memon blamed bureaucratic hurdles for the two big investors opting for Faisalabad instead of Karachi.

She said if the Lucky Cement group had established Kia plant here, then there was no reason for others to move away. Kia-Lucky has already started operations in Pakistan with its 11-seater Carnival.

"The reason Al-Futtaim (Renault's partners) moved to Faisalabad was because they had a problem that the land could not be registered in the company's name. It is because the land comes in the steel mill's area," Memon said. "There is this loophole and (former) Punjab chief minister offered them cheaper land and available utilities. That was the reason for abandoning the idea of working in Sindh."

She believes that Pakistan has a huge potential for auto part manufacturing, saying she has also been trying to facilitate such manufacturing at the proposed SEZ at Dhabeji.

"I have asked auto part manufacturers to come forward and take around 15 acres of land at the Dhabeji SEZ and start facilitating small and medium-scale manufacturers," the SBI chairperson said.

Half a dozen new auto assemblers have already started or will soon be starting their operations, therefore, the market for auto parts will soon be ripe for exploitation.

Published in The Express Tribune, September 6th, 2018.

https://tribune.com.pk/story/1796290/2-sindh-sezs-receive-rs50b-worth-investment/

October 2018

NEWS COVERAGE PERIOD FROM OCTOBER 15TH TO OCTOBER 21TH 2018

CHINA ENDORSES PAKISTAN'S AID REQUEST TO IMF

Baqir Sajjad Syed Updated October 16, 2018

ISLAMABAD: China on Monday endorsed Pakistan's request to International Monetary Fund (IMF) for financial assistance for addressing its economic challenges, but cautioned that the facility should not affect economic cooperation between Islamabad and Beijing.

"As a member of the IMF, China supports the organisation in making an objective evaluation of Pakistan based on professionalism and earnestly helping it properly address the current difficulty," Chinese foreign ministry spokesperson Lu Kang said at his press briefing in Beijing. His remarks were shared with the Pakistani media by the Chinese Embassy in Islamabad.

Pakistan had last week formally applied for IMF assistance to deal with the impending balance of payments crisis. Although, it isn't clear as yet how much money Pakistan could be requiring, Prime Minister Imran Khan has said that the country could need around $12 billion to deal with the problem.

A team of IMF officials is scheduled to visit Islamabad on Nov 7 for talks on the size of the loan facility that Pakistan would be requiring. As IMF considers Pakistan's request, its Managing Director Christine Lagarde has said that the lender would need to determine the debt sustainability of the country by having "a complete understanding and absolute transparency about the nature, size and terms" of its debt.

Beijing cautions Islamabad that the facility should not affect economic cooperation between the two countries

Certain quarters believe that Pakistan, which is undertaking China-Pakistan Economic Corridor (CPEC) — a massive infrastructure and connectivity project in collaboration with China, is finding itself in difficult situation because of mounting Chinese debt. This view is supported by the US, which has significant influence on the IMF board.

State Department spokesperson Heather Nauert had after submission of Pakistan's request for IMF assistance said: "Pakistan has formally requested assistance from the International Monetary Fund. In all cases, we examine that closely from all angles of it, including Pakistan's debt position, in evaluating any type of loan programme. … I think part of the reason that Pakistan found itself in this situation is Chinese debt and the fact that there is debt that governments have incurred that they maybe thought wouldn't be so tough to bail themselves out of, but has become increasingly tough".

Secretary of State Mike Pompeo had spoken about it long before Pakistan had even reached out to IMF for help. He had on that occasion said that IMF bailout for Pakistan would benefit China.

Chinese spokesman Lu strongly rejected the perception that CPEC debt was adding to Pakistan's financial woes. Recalling Pakistani finance ministry's figures, he said, "the debt incurred by CPEC makes up a very small proportion of Pakistan's debt composition and it is not to blame for the current financial difficulty in Pakistan".

While China is supporting Pakistani request, the spokesman underlined that any programme for Pakistan should not affect the normal bilateral cooperation between China and Pakistan.

Finance Minister Asad Umar had after returning from Bali, where he held talks with IMF officials, said that Pakistan might not accept an IMF facility if it finds its conditions unsuitable for its national security.

It should be recalled that China is on the third spot in terms of voting shares at IMF, behind the United States and Japan.

Published in Dawn, October 16th, 2018

https://www.dawn.com/news/1439290/china-endorses-pakistans-aid-request-to-imf

NEXT IMF LOAN WILL BE 'THE LAST' BAILOUT PROGRAMME FOR PAKISTAN: UMAR
The News, October 21, 2018

KARACHI: Economic numbers showed sign of improvement in the last two months on painful and politically difficult measures taken by the PTI government and the planned financial support from the IMF to avert a looming balance of payments crisis, which would be the country's last bailout program, finance minister said on Saturday.

"The government has managed a restructuring package comprising trade finance and one-time inflows to cover $12 billion fiscal gap… this will be the last time Pakistan goes to IMF," Finance Minister Asad Umar told brokers at the Pakistan Stock Exchange.

The finance ministry did not specify how much in emergency financing the government would seek from the IMF, but Umar earlier said the government would need at least $10 billion to cover its external debt payments through the end of the year.

"The monetary measures and fiscal measures taken by the government have helped in reducing the current account deficit, which is likely to come around at monthly average of $1.0 billion for August-September compared with monthly average of $2.0 billion for May, June and July".

Umar said trade deficit stood at $35 billion and after netting off remittances and other inflows, the annual deficit stood at $18 billion, while the country had to meet financial obligations of $9.0 billion.

The ministers said robust growth in exports is expected during the current fiscal year and the first quarter's data indicates that "exports are up, imports are down and remittances have grown by 13 percent".

"All the fundamental indicators are moving in the right direction as imports have started to decline, exports and remittances are going up. By third year of our government, the current account balance will achieve breakeven."

The economy is going through a familiar boom-and-bust cycle that pushed it back at IMF. Debt is soaring, the current-account deficit is widening, reserves are falling and the currency has been devalued multiple times since December.

The IMF bailed out the last government of Pakistan Muslim League-N through a standby loan of $6.6 billion disbursed over 36 months. The finance minister said the recent steps taken by the government have saved the country from bankruptcy.

"The country was heading rapidly towards bankruptcy. I have to save 210 million Pakistanis," the minister said.

"If we had not taken measures to curb imports, the rupee would have been devalued by 100 or even 200 percent," the minister said, "…. segments of the society will have to bear the pain, but if I ignore the financing gap then the consequential pain will be far greater than that."

The finance minister said businesses needed investment flows to promote industrial growth and increase exports, adding that the capital markets played an important role in investment generation.

Speaking of ease of doing business, the minister said that it was at the core of the government's agenda, and the PTI government had planned to bring Pakistan to at least 99 from the current 147 in the global ease of doing business index.

"Doing business in Pakistan is quite difficult, which is visibly reflected on the state of the country's economy."

Talking about the recently imposed regulatory duties and measures to discourage imports, he said Pakistan was nearing bankruptcy and imports needed to be cut down as the country could not spend beyond means.

FPCCI Meeting: Federal Finance Minister Asad Umar also visited the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) on Saturday, where he said the draft amendments in the laws to control illegal money dealings have been finalised.

"Pakistan would tighten rules governing money transfers," he said.

“Once the illegal money transfers (hawala and hundi) are completely controlled, the flight of funds would stop. The legislation in this regard will be completed soon.”

Prime Minister had formed a committee in September this year, headed by the attorney general and comprising officials of Customs, State Bank, FBR and Federal Investigation Agency (FIA), to recommend necessary amendments to current laws in this regard.

Responding to the concerns of the business community, Umar said new automated system, to deal with the refund claims, would be put in place. “I am leaving with the prime minister this week, and a plan would be finalised on my return.” The Prime Minister and his team is leaving for Saudi Arabia.

Talking about the increase in gas prices, he said the rates were increased to incentivise investment in exploration activities. However, the gas prices for export industries had not been revised, he added.

“We are familiar with the current economic situation,” he added. “The issues faced by the country and its industries cannot be solved through people’s wishes. I cannot remove gas infrastructure cess.”

The minister also said, “Petroleum products are Pakistan’s biggest import… we have reduced taxes on petroleum products.”

The minister underlined the importance of small and medium enterprises and said the sector needed to be promoted to increase exports and generate employment opportunities.

https://www.thenews.com.pk/print/383348-next-imf-loan-will-be-the-last-bailout-programme-for-pakistan-umar

NEWS COVERAGE PERIOD FROM OCTOBER 8TH TO OCTOBER 14TH 2018
WORLD BANK SEES FRAGILE ECONOMIC SITUATION IN PAKISTAN FOR TWO YEARS
By Shahbaz Rana

Published: October 9, 2018

The report warned that Pakistan’s external financing needs are expected to increase further over the next few years, partly due to loan repayments and profit repatriation related to projects in CPEC.

ISLAMABAD:Pakistan’s economic situation is expected to remain fragile for at least two years as a combination of low economic growth and high inflation due to stabilisation policies will undermine efforts to lift people out of poverty and create jobs, says a new World Bank report.

Findings of the World Bank’s report – the South Asia Economic Focus, Budget Crunch – contrast with the PTI government’s agenda of creating jobs and lifting people out of poverty.

The report says Pakistan is the only country in South Asia that has a limited room for manoeuvring, is exposed to serious boom-and-bust economic cycles and has high build-up of liabilities.

Rising global interest rates and tighter liquidity situation will also pose challenges for Pakistan, given the high gross external financing requirements, said the Washington-based lender in the report that was released on the eve of World Bank-IMF annual meetings.

The World Bank has warned that a sharp decline in foreign exchange reserves – now standing at only $8.4 billion – and elevated debt ratios have diminished Pakistan's ability to withstand external shocks and risks will remain predominantly on the downside.

It seems that there is consensus among the three leading international financial institutions that the economic growth rate will slip below 5% this year. After the Asian Development Bank (ADB) and the International Monetary Fund (IMF), the World Bank has also projected that economic growth is projected to decelerate to 4.8% in this fiscal year, as the government is expected to tighten fiscal policy to correct imbalances. It said the growth rate is expected to recover in fiscal year 2019-20 and may reach 5.2% as macroeconomic conditions improve.

But short-term measures for fiscal consolidation and export growth need to be complemented with the implementation of medium-term structural reforms to uplift the economy out of frequent boom-and-bust cycles, it added.

The World Bank report showed that this year all the three main sectors of the economy will face a slowdown, most notably the services sector that contribute nearly 60% in total national output.

Similarly, inflation is expected to rise to 8% in this fiscal year and could remain high in the next fiscal year due to devaluation of the rupee against the US dollar and increase in domestic prices, stated the World Bank.

"The growth deceleration and higher inflation are expected to slow down poverty reduction in fiscal year 2018-19, though overall poverty decline is projected to continue reflecting GDP growth," according to the lender.

The bank underlined that Pakistan's macroeconomic situation would remain fragile as consumption-led growth is expected to slow down due to fiscal and possible monetary tightening.

The lender noted that the pressure on the current account is expected to persist and the trade deficit is projected to remain elevated during the next two years as well. The report said Pakistan faced sharpest deterioration in the current account deficit in the region. The growth of imports is partly the result of capital goods imports for the China-Pakistan Economic Corridor (CPEC), but it is also the consequence of growing macroeconomic imbalances, according to the report.

It further stated that the fiscal consolidation would improve debt dynamics, but the public debt to GDP ratio is expected to stay around 70% of GDP during two years. The debt has already climbed to 74% of GDP, it added.

It said a delayed adjustment of the exchange rate led to considerable loss of reserves, bringing coverage down to only one and half months of import cover by end-September 2018. The State Bank of Pakistan (SBP) intervened heavily in the foreign exchange market in the first half of FY18 to maintain the value of the Pakistani rupee, resulting in a large decline in international reserves.

These debt levels are high in international perspective. The report warned that Pakistan's external financing needs are expected to increase further over the next few years, partly due to loan repayments and profit repatriation related to projects in CPEC.

The government has estimated $31-billion external financing needs in the current fiscal year in the baseline scenario.

Published in The Express Tribune, October 9th, 2018\

https://tribune.com.pk/story/1821186/2-world-bank-sees-fragile-economic-situation-pakistan-two-years/

IMF WARNS PAKISTAN AGAINST 'EXCESSIVE LOANS' FROM CHINA
Reuters Updated October 10, 2018

NUSA DUA: Pakistan has not yet formally approached the International Monetary Fund for financial assistance, but if bailout talks get underway this week, the goal will be to help Pakistan reach its full potential, the IMF's chief economist said on Tuesday.

Addressing a news conference at the IMF and World Bank annual meetings in Bali, the IMF's Maurice Obstfeld cautioned that increased Chinese involvement in Pakistan's economy could bring both benefits and risks.
Obstfeld said Pakistan is facing financing gaps as it has been hit by a large fiscal and current account deficit, a low level of reserves and a currency he described as "too rigid" and over-valued.

Finance Minister Asad Umar said on Monday the government would seek to open talks with the IMF in Bali this week for emergency financial assistance.

Prime Minister Imran Khan had earlier sought alternatives to a second bailout programme in five years from the IMF as it impose austerity and limit his vision of an Islamic welfare state.

Obstfeld said that if the IMF does enter into talks with Pakistan this week on a possible new financing programme, the goal would be reforms that would help Pakistan reach its "immense potential" without providing specific details.

"The government has expressed its desires to enact deep structural reforms that might break the cycle of Pakistan needing financial support from the Fund," he said.

Infrastructure needs
Pakistan needs more infrastructure development, Obstfeld added, and the country could benefit from China's role in supporting its project financing.

But China's involvement could also bring potential risks, he said.

"It is important that the design of the projects… be solid and excessive debts which cannot be repaid are avoided," the IMF chief economist said.

Islamabad has cut the size of the biggest Chinese "Silk Road" project in Pakistan, a reconstruction of the main rail line between the port city of Karachi and Peshawar in the northwest by $2 billion, citing government concerns about the country's debt levels.

The changes are part of Islamabad's efforts to rethink key Belt and Road Initiative projects in Pakistan, to which China has pledged about $60bn in financing.
The Trump administration has been critical of China's Belt and Road initiative, saying that it has saddled some developing countries with debts they cannot afford to repay.

In July, US Secretary of State Mike Pompeo said there was "no rationale" for an IMF bailout of Pakistan that pays off Chinese loans to Pakistan.

Chinese officials have rejected criticism that the so-called China-Pakistan Economic Corridor projects have burdened Pakistan with unsustainable debts. Instead, the Chinese maintain, they have boosted the country's economic growth and provided 70,000 jobs.

Published in Dawn, October 10th, 2018

https://www.dawn.com/news/1438023/imf-warns-pakistan-against-excessive-loans-from-china

IMF TEAM TO VISIT SOON FOR BAILOUT NEGOTIATIONS
Khaleeq Kiani Updated October 12, 2018

BALI (Indonesia): Finance Minister Asad Umar and IMF chief Christine Lagarde shake hands before their meeting on Thursday.—AFP

ISLAMABAD: Pakistan officially asked for financial support from the International Monetary Fund on Thursday in a meeting with IMF Managing Director Christine Lagarde in Bali, Indonesia.

"Today, I met with Pakistan's Minister of Finance, Revenue and Economic Affairs, Asad Umar, Governor of the State Bank of Pakistan Tariq Bajwa, and members of their economic team," said a statement released by Ms Lagarde's office. "During the meeting, they requested financial assistance from the IMF to help address Pakistan's economic challenges."
No statement was released by the Pakistani team, though Finance Minister Umar had made it official that he would be seeking Fund's support before his departure for Bali on Monday.
"An IMF team will visit Islamabad in the coming weeks to initiate discussions for a possible IMF-supported economic programme," Ms Lagarde said, adding that the Fund looked forward to "the continuing partnership" with Pakistan.

Finance minister makes formal request for loan during meeting with Fund chief in Bali

This will be Pakistan's 13th loan from the IMF since 1988 when the era of structural adjustment began.

Just before going into the meeting with Pakistan's finance team, Ms Lagarde was asked about Pakistan's growing stockpile of Chinese debt at a press conference. "[W]e need to have a complete understanding and absolute transparency about the nature, size, and terms of the debt that is bearing on a particular country," she replied, words that echoed widely around the world as multiple global news outlets picked them up.

"[To] really understand the extent and composition of that debt, both in terms of sovereign, in terms of state-owned enterprises and the like of it," she continued, "the Fund needs a full picture so that we

can actually really appreciate and determine the debt sustainability of that country, if and when we consider a programme."

Nowhere did she specifically mention Chinese debt, though global news outlets added that missing link for her, causing concerns about Pakistan's growing stockpile of Chinese debt to grow further still. The question of how the IMF will deal with the Chinese debts of Pakistan has dogged the run-up to the approach for assistance that began formally on Thursday.

US Secretary of State Mike Pompeo had in July issued a stern warning to the IMF that its funds should not "go to bail out Chinese bondholders or China itself". Those sentiments were later echoed by a number of US senators, as well as a few global media outlets.

Ms Lagarde, instead, made it clear that the issue of debt transparency and appropriate understanding of debt was not only applicable to Pakistan but also to all countries. "It is part of a necessary disclosure exercise that we have to agree with our members for the purpose of a debt sustainability analysis," she said, adding that debt disclosure was also important for the purpose of the governance and corruption project approved by the IMF board and now being implemented.
The Fund appears to be caught in a high wire act. The United States is the largest contributor of resources for the IMF and has 16 per cent of the votes on the Fund's board, but China is not far behind with 6pc, and the Fund cannot by its own rules refuse to lend to a member country.

Ms Lagarde cannot afford to anger either of these two countries. "We have to serve the entire membership, each and every one of them," she told reporters when asked specifically about Pakistan's Chinese debt.

Officials said the finance minister is scheduled to return to Islamabad on Friday night. A heavy agenda of choices awaits him on his return, including a Rs2 per unit (almost 18pc) increase in electricity tariff. This will be followed by a Fund mission. The process can take four-five weeks before an agreement is reached, during which both sides need to work out the exact size, tenure and conditionalities of the programme.

The finance ministry expects a three-year programme of $7.5bn based on a recent weeklong discussion with the IMF, but a final decision will be made by the Fund, ministry officials told Dawn.

Sources said the government was in the process of completing some 'prior actions', including increase in gas and electricity rates, currency depreciation following IMF's call for a free float and increase in central bank's policy rate.

The Fund has already indicated authorities to take further tough decisions, including increase in energy prices, additional taxation measures and structural reforms like "strengthening the performance of public sector enterprises".

On Thursday, the government also announced the appointment of an air marshal to lead the Pakistan International Airlines, saying he had been tasked with "immediately fixing the institutions financial condition".

An IMF team led by mission chief Harald Finger concluded a 10-day visit to Pakistan on Oct 4, a week before the Bali meeting. The official reason given for that team's presence in Pakistan was for

routine Article IV consultations, but the government dropped hints that these talks could lead to programme negotiations. That is what appears to have happened.
The team noted that Pakistan had begun taking corrective action against its growing fiscal and external imbalances as far back as December 2017, noting also more recent steps by the current government. But it added that these were inadequate, and "[a]dditional decisive policy action, anchored in a comprehensive strategy, and significant external financing will be needed in the near term.

Policies should include more exchange rate flexibility and monetary policy tightening, further fiscal adjustment anchored in a medium-term consolidation strategy, and strengthening the performance of key public enterprises together with further increases in gas and power tariffs".

Published in Dawn, October 12th, 2018

https://www.dawn.com/news/1438023/imf-warns-pakistan-against-excessive-loans-from-china

IMF TO SEEK 'ABSOLUTE TRANSPARENCY' OF PAKISTAN'S DEBTS IN BAILOUT TALKS
October 11, 2018

NUSA DUA, Indonesia: The International Monetary Fund launched formal bailout talks with Pakistan on Thursday, and IMF managing director Christine Lagarde said she would require "absolute transparency" of Pakistan's debts.

She said such disclosures were necessary to determine the debt sustainability of countries seeking IMF loans.

The equirements are likely to shine a spotlight on the extent, composition and terms of Pakistan's debts to China for infrastructure projects as part of Beijing's massive Belt and Road building program.

China has pledged some $60 billion in financing to Pakistan for ports, railways and roads, but rising debt levels have caused Islamabad to cut the size of the biggest Belt and Road project by some $2 billion.
"In whatever work we do, we need to have a complete understanding and absolute transparency about the nature, size, and terms of the debt that is bearing on a particular country," Lagarde told a news conference when asked about Pakistan's debts to China.

The United States has criticized China's infrastructure lending, warning that it has saddled some developing countries with debts that they cannot afford to repay. U.S. Secretary of State Mike Pompeo has said there would be "no rationale" for an IMF bailout of Pakistan that pays off Chinese loans.

Lagarde said that the IMF would need to know the extent and composition of the country's debt, including sovereign debt and state-owned enterprise debt, "so that we can actually really appreciate and determine the debt sustainability of that country, if and when we consider a program," she added.

Lagarde said in a statement that Pakistan requested IMF assistance during a meeting with Pakistani Finance Minister Asad Umar and central bank governor Tarik Bajwa on the sidelines of the IMF and World Bank annual meetings in Bali.

"An IMF team will visit Islamabad in the coming weeks to initiate discussions for a possible IMF-supported economic program," Lagarde said. "We look forward to our continuing partnership."
If a package is agreed, it would be Pakistan's 13th IMF bailout since 1988. The Fund lent Islamabad $6.7 billion in 2013.

https://www.thenews.com.pk/latest/379648-imf-to-seek-absolute-transparency-of-pakistans-debts-in-bailout-talks

NEWS COVERAGE PERIOD FROM OCTOBER 1TH TO OCTOBER 7TH 2018
OPPOSITION IN NA SLAMS GOVT 'FOR ACCEPTING IMF CONDITIONS'
Syed Irfan Raza Updated October 03, 2018

ISLAMABAD: The opposition in the National Assembly on Tuesday lashed out at the Pakistan Tehreek-i-Insaf (PTI) for allegedly accepting International Monetary Fund's (IMF) conditions for increasing gas, electricity and petrol prices.
The opposition rejected the 'mini-budget' presented by the government recently and claimed that marginalised classes had already been put under extra burden of taxes and inflation.

"Increase in the prices of gas… shows that the government has already accepted the IMF conditions," said former foreign minister Hina Rabbani Khar while speaking on the 'mini-budget'.

She said the government, during its first 40 days, had made the life of the poor more miserable than ever and had given benefits to the elite in the mini-budget.

Ms Khar said Prime Minister Imran Khan had promised to create 10 million jobs but soon after his party came to power, services of employees of state-owned organisations like the Utility Stores, National Highway Authority and Radio Pakistan were being terminated.

Responding to the opposition's allegations, Defence Minister Pervez Khattak said not a single government employee was being removed from service. "Members on the opposition benches are lying as nothing is being done against the poor and suppressed class of society," he added.

"No one is being removed from Radio Pakistan, NHA and Utility Stores. Similarly, the Khyber Pakhtunkhwa government is not removing any teacher in the information technology sector," he said.

In response to an allegation that the outgoing KP government had awarded many contracts to former PTI secretary general Jahangir Tarin, Mr Khattak, who has served as KP chief minister for five years, said not a single contract was given to Mr Tarin during his government in the province.

The defence minister said the previous KP government had brought reforms in police, education and health sectors in the province.

Mr Khattak agreed that a close relative of Prime Minister Imran Khan had been appointed as member of the board of governors of a state-run hospital.

"He is a world renowned Pakistani doctor based in the US. He does not receive salary and travels on his own expenses to attend meetings of the board," the minister added.
He said the PTI came to power because of its performance and service of the people, while the Pakistan Muslim League-Nawaz was rejected in the recent general elections.

"You (PML-N) will face worse defeat in the next polls," he maintained.

Mr Khattak spoke in response to a fiery speech delivered by Ibadullah Khan of the PML-N.
Minister of State for Communications Murad Saeed rejected the opposition's allegations and levelled counter-allegations on opposition parties, especially the PML-N.
Rao Ajmal of the PML-N said the government had offered nothing to the farmers in the mini-budget.
"Nawaz Sharif had fixed Rs5 per unit electricity tariff for the agriculture sector to support farmers, but this government has increased it to Rs8.3 per unit," he said.
He said the agriculture sector required 10 million bags of urea, but the government had allowed import of only 100,000 bags. He feared a huge reduction in wheat production due to shortage of urea.

Abdul Shakoor Shad of the PTI, who had defeated Pakistan Peoples Party chairman Bilawal Bhutto-Zardari in the July 25 election in PPP's stronghold Lyari, said the Sindh government had given nothing to his area where poor people had no basic facilities like water, electricity and gas and sanitation.

Shagufta Jumani of the PPP said her party's government had established a hospital and two universities in Lyari.

Published in Dawn, October 3rd , 2018

https://www.dawn.com/news/1436516/opposition-in-na-slams-govt-for-accepting-imf-conditions

November 2018

NEWS COVERAGE PERIOD FROM NOVEMBER 19TH TO NOVEMBER 25TH 2018

DIFFERENCES REMAIN OVER TOUGH CONDITIONS OF IMF BAILOUT

Khaleeq Kiani Updated November 20, 2018

ISLAMABAD: Pakistan and the International Monetary Fund are facing differences over tough conditionalities on key areas of an IMF bailout programme, including further increase in energy prices, more taxes and complete disclosure of Chinese financial support.

"There are still gaps in the position of the IMF and the position that we have," Finance Minister Asad Umar said after a series of meetings with an IMF team on Monday. He, however, said the talks were continuing positively and gaps reducing.

He said that $1 billion of the $3bn committed by Saudi Arabia had been remitted to the State Bank of Pakistan on Monday and the remaining $2bn would follow over the next few days.

Informed sources said the two sides had a wide gap in their positions on the need for increase in electricity tariff, upward revision in the revenue target and additional tax measures on matters relating to Chinese assistance and its impact — both inflow and outflow.

Fund wants further increase in power tariff, more taxes and complete disclosure of Chinese financial support

The sources said the IMF also demanded that the provincial governments finance the Benazir Income Support Programme (BISP), instead of the federal government, and wanted committed cash surpluses to minimise the consolidated fiscal deficit.

The two sides are expected to conclude the talks on Tuesday before Finance Minister Umar leaves for Malaysia in the evening.

The sources said the IMF was insisting on revising the revenue target upward to Rs4.75 trillion for the current year — more than eight per cent increase from the existing target of Rs4.39tr. Practically, this means raising about Rs360bn additional revenue from the remaining seven months of the current fiscal year.

Finance Minister Umar, according to the sources, told the IMF mission led by Herald Finger that the revenue target could be increased at best to Rs4.5tr and the government’s major focus would be on recovering taxes through administrative measures.

Responding to a question, he said the talks would end on Tuesday and declined to go into specifics of the sticking points. Regarding the Chinese financing, the minister said there was complete transparency in the Chinese assistance and whatever the external debt was would have to be shared with the IMF as part of the programme.

In response to another question, he said the people in the United States might have some issues, but there was no secret in Chinese loans and investments which were transparent and open.

The sources said the IMF mission wanted a clear roadmap for elimination of power sector circular debt that currently stood at Rs1.2tr and welcomed administrative measures to recover some arrears, but insisted on further increasing electricity rates for full cost recovery of power supply. The sources said the IMF team was not satisfied with the power sector reforms plan and wanted the government to surrender its powers to set electricity tariff and let these be independently dealt with by the power regulator.

The finance minister insisted that maximum funds would be generated through administrative measures against theft and recovery of past bills and there was no more room for further increase in electricity rates in the short term.

The sources said the IMF was very critical of the fiscal federalism arrangements at present and noted with concern that the Centre had transferred all profitable taxes to the provinces while keeping all necessary expenditures of provincial nature as federal responsibility.

In this regard, the IMF wanted the provinces to finance the BISP that currently stood at about Rs150bn a year and is increasing because poverty reduction should be a shared responsibility of the

federal and provincial governments. Likewise, the special areas like mainstreaming of the tribal region should also be a responsibility of the provinces.

The IMF mission also sought a complete market-based free float of the exchange rate and complete independence to the State Bank of Pakistan.

Asked if he expected a successful completion of a Fund programme on Tuesday, the finance minister said the IMF visit would conclude on Tuesday and he had no funding emergency to worry about day after tomorrow. The sources said the IMF also suggested an increase in the GST rate.

Published in Dawn, November 20th, 2018

https://www.dawn.com/news/1446670/differences-remain-over-tough-conditions-of-imf-bailout

TALKS ON BAILOUT PACKAGE WITH IMF INCONCLUSIVE
Khaleeq Kiani Updated November 21, 2018

ISLAMABAD: Talks remained inconclusive between the International Monetary Fund (IMF) and the government of Pakistan for a bailout needed to build reserves and avert the possibility of a balance of payments crisis.

A late night press release issued by the Fund said that "[o]ur dialogue with the Pakistani authorities will continue over the coming weeks".

Contrary to past practice, no press conference was held at the conclusion of the talks and the Fund team, headed by mission chief Herald Finger, left the country without any further comment. Both sides issued brief, but carefully drafted, statements of their own to the media. Both statements read substantially the same.

Negotiations to continue as Fund team departs

Pakistan's case for an IMF programme can now be taken up by the executive board of the Fund in the second half of January at the earliest. Programmes are finalised and funds released only after the board's approval.

The two sides had a concluding round of discussion before Finance Minister Asad Umar and IMF mission chief Herald Finger departed to Malaysia and Washington, an official said.

In background discussions, senior officials said the two sides were able to agree on "80 per cent" of policy measures and had still "20pc" gap to bridge on all the five major areas — fiscal adjustment, monetary policy, further increase in electricity and gas rates and structural reforms.

A statement issued by the Ministry of Finance said the two sides made "substantive progress" and the "positive engagement" will "continue over the coming weeks to finalise the programme with the Fund".

Likewise, the IMF mission said the two sides made "significant progress toward reaching an understanding on policy priorities and reforms" and the "discussions will continue in the coming week toward reaching staff-level agreement".

Officials said the main obstacle to the staff-level agreement on a Fund programme was the timing and pace of the fiscal adjustment and reforms programme. "There is little disagreement on policy measures between the two sides but the PTI government wanted a gradual process to pass on impact of painful fiscal and monetary policy adjustment to the people," an official said.

He said the IMF wanted upfront deliverables on increase in taxes and energy costs while Finance Minister Umar wanted three years to complete the adjustment process.

"These are unusually difficult negotiations in view of many reasons including prevailing geopolitical situation," said an official but disagreed that recent exchange of harsh tweets by President Trump and Prime Minister Imran Khan had anything to do with the process.

He also ruled out its negative impact on Pakistan's exports to the United States.

The official said: "This is not business as usual talks and everything is being discussed in detail even though we are not in panic."

Another official said the IMF wanted an upfront plan to eradicate Rs1.2 trillion worth of power sector circular debt including around 20pc increase in tariff to ensure full cost recovery. "We believe the circular debt actually payable is no more than Rs630bn for which we will commit a three-year framework. This is not possible immediately," he said, adding the government had only recently increased power and gas rates.

There is a need for proper spacing, he said. In the meanwhile, he said, the government was working on recovery of Rs140bn outstanding arrears from defaulters during the current year.

He said Pakistan was now in a comfortable position after availability of $6bn from friends against a $12bn financing gap and another $3-4bn could be arranged "from here and there".

"We are not dying for the bailout at this stage and can capitalise on the available cushion, otherwise we would not have allowed the mission to go like this."

Officials said the IMF wanted to complete programme benchmarks in two years and the finance ministry wanted to stretch them out to full three years to prolong the painful adjustment. They said the two sides would revive dialogue through email and video-conferencing next week to work out differences before Christmas holidays and hopefully the IMF staff would take Pakistan's case to the executive board by second or third week of January.

Responding to a question, finance ministry officials did not agree that IMF wanted to include in its programme benchmark the compliance with Financial Action Task Force targets regarding anti-money laundering and counter terror financing (AML/CTF) efforts, or otherwise link the programme with the action plan Pakistan has committed to FATF.

The officials also denied that the IMF pressed for an increase in GST rate and explained it came up internally from a stakeholder to boost revenues and was rejected by the finance minister himself.

Informed sources said the two sides disagreed on the revision in revenue target to Rs4.75 trillion instead of Rs4.39tr at present. A gap also existed on further devaluation, increase in currency exchange rate and some other issues but the officials declined to discuss specific details.

The IMF only said that the "two sides made substantive progress towards developing a common understanding on the policy and structural reforms framework for the prospective IMF programme, including fiscal and monetary measures, corrective interventions for balance of payments sustainability, pro-poor spending, governance and development of a business-friendly environment".

The Fund's resident representative remained unavailable for further comment or discussion till filing of this report.

The IMF said its mission had "been engaged in productive discussions with the Pakistani authorities on economic policies and reforms that could be supported by a financial arrangement with the IMF. In this context, there has been broad agreement on the need for a comprehensive agenda of reforms and policy actions aimed at reducing the fiscal and current account deficits, bolstering international reserves, strengthening social protection, enhancing governance and transparency, and laying the foundations for a sustainable job-creating growth path".

Published in Dawn, November 21st, 2018

https://www.dawn.com/news/1446938/talks-on-bailout-package-with-imf-inconclusive

NEWS COVERAGE PERIOD FROM NOVEMBER 12TH TO NOVEMBER 18TH 2018
IMF TEAM MEETS OFFICIALS TO START THE BALL ROLLING
ZAHEER ABBASI & SOHAIL SARFRAZ | NOV 13TH, 2018 | ISLAMABAD

The International Monetary Fund (IMF) mission met with the officials of Finance Ministry and Federal Board of Revenue (FBR) on Monday and initial level discussion on macro-economic framework and revenue measures were held for new bailout package.

Sources in the Finance Ministry, however, said that so far visiting IMF mission has not met with Finance Minister Asad Umar, as meetings were held with the officials of Budget Wing, Ministry of Finance, at additional secretary level and in Federal Board of Revenue at the chairman level.

They added that the finance minister will meet the IMF team at the tail end when discussion on the conditionalities of a new IMF bailout package will be held. As per agenda, the plenary meeting of IMF mission was scheduled with the finance minister on Monday; however, an official said, "They (IMF mission) are yet to meet him."

Another official of the Finance Ministry said that the policy level talks with the IMF are premature and there would be full disclosure before media about the terms and conditions of the new package at the end of the discussion with the IMF. A senior official of Planning Commission said that they will meet the visiting IMF mission if any specific question about China-Pakistan Economic Corridor (CPEC) is asked by them.

The chairman FBR has informed the IMF team that FBR has issued notices to over 3,000 high net worth individuals during the last two months under the reform initiatives taken to broaden the tax base.

Sources told Business Recorder that the IMF mission visited the FBR House on Monday. The FBR team headed by FBR Chairman Mohammad Jehanzeb Khan briefed IMF team on reforms and revenue generation measures during 2018-19. The next round of talks would be held at Ministry of Finance on Tuesday (November 13).

The tax authorities briefed IMF team that the government has decided to set up a Tax Policy Board (TPB) under major reform initiatives to separate revenue collection administration from tax policy formation with the objectives of enhancing revenue collection and promoting transparency in the tax machinery.

The FBR is facing a shortfall of Rs 60 billion revenue during the first four months (July-October 2018-19) of the current financial year, as provisional collection during July-October stood at Rs 1,106 billion against the target of Rs 1,166 billion.

Under short-term plan, the first priority in the reforms measures is to identify potential taxpayers who do not exist on the tax roll of the country. In this regard, FBR has sent notices to over 3,000 high net worth individuals during the last two months under the drive for broadening the tax base.

The FBR has also informed the IMF that the exercise will vigorously be extended on continuous basis to identify major non-filers drawing huge amounts of income/holding high value assets.

The FBR also shared progress on establishment of national databank, action against tax evaders, high net worth individuals and expansion in the tax-base, besides measures taken to raise tax-to-GDP ratio. FBR Chairman Jehanzeb Khan briefed about administrative and enforcement measures to generate Rs 92 billion in 2018-19 using technology.

https://fp.brecorder.com/2018/11/20181113423166/

PAKISTAN SEEKS EUROPE’S HELP TO SECURE IMF LOAN
By Shahbaz Rana

Published: November 13, 2018

ISLAMABAD .: Pakistan has sought help from European countries to ensure smooth sailing during talks at the International Monetary Fund (IMF) Board for securing a bailout package and recovering ‘stolen’ assets, presumably stashed in the European states, including Switzerland.

The request for help was made by Finance Minister Asad Umar during an interaction with ambassadors of some 15 European nations. The interaction took place at the Board of Investment (BOI) and was also attended by BOI Chairman Haroon Sharif and Advisor to Prime Minister on Commerce Abdul Razak Dawood.

The interaction was also aimed at conveying to the European capitals that Pakistan was open to doing business with the developed world, as the incumbent government's tilt has so far remained towards China and the Middle East.

It was the first such high-level interaction by Pakistan's economic managers with the European ambassadors. Before that Prime Minister Imran Khan had visited Saudi Arabia twice, besides going to China last month.

"Pakistan has communicated the message that it is open to all countries for investment and would provide level-playing field to all," said Sharif, the BOI Chairman, while talking to The Express Tribune. He said Pakistan looked forward to European investment and technology.

Moreover, Finance Minister Umar has appreciated the UK response to Pakistan's request for legal assistance in recovering assets acquired through illegal means.

However, Umar said Switzerland was not forthcoming in discussing issues related to the provision of mutual legal assistance, sources told The Express Tribune. He sought support from the envoys in this regard, but the Swiss ambassador was not present in the meeting.

The interaction with the envoys took place a day before the start of policy-level talks with the IMF team which is in town to negotiate a bailout package. IMF's Washington-based Mission Chief Harald Finger on Monday joined the talks on the last day of the technical round.

The European Union has four members in the IMF Board and their vote will be critical in view of the United States' apparent opposition. Umar also briefed the European envoys about actions his government has so far taken to put the economy on track.

The European ambassadors asked questions about Pakistan's strategy to deal with the IMF, the loans it is expecting from the friendly countries, and implications regarding the second phase of the Free Trade Agreement with China, said the sources privy to the discussions at the meeting.

The envoys conveyed that Pakistani businesses had expressed apprehensions about an adverse impact of the FTA with China.

At least two ambassadors questioned Pakistan's strategy to deal with the IMF as they were of the view that Pakistan should have waited for the right time before devaluing its currency and increasing utility prices, said the sources.

"Our government is acting in the interest of the country with an aim to take the ownership of these reforms instead of throwing responsibility on the IMF," Umar said while replying to them.

He then informed the ambassadors that Pakistan wanted to get the IMF package to implement reforms and to provide a sense of satisfaction to global and local investors. He informed the envoys that Pakistan would soon receive $1 billion out of the $3 billion committed by Saudi Arabia.

Umar also told the ambassadors that talks were underway with China and the United Arab Emirates for a bailout package.

Dawood, the PM's adviser, is said to have told the ambassadors that China had assured doubling Pakistan's exports, but he admitted it was difficult for Pakistan to avail this facility due to lack of exportable surplus.

There was, however, no mention of any immediate direct cash assistance from China, said the sources.

Instead of highlighting the opportunities that can be offered to the European capitals, the adviser focused more on the challenges and issues being faced by Pakistan on the trade front.

The BOI chairman, meanwhile, urged the European envoys to invest in Pakistan as their investment had been falling for the last five years, except in 2015-16, when a European company bought stakes in EngroFoods. Compared to this, the European investment was going up in Bangladesh, he noted.

https://tribune.com.pk/story/1846114/1-pakistan-seeks-europes-help-secure-imf-loan/

OIL PRICE DROP PROVIDES OPPORTUNITY TO FIX ECONOMY
By Salman Siddiqui

Published: November 17, 2018

KARACHI:Pakistan's economy, which is underperforming mainly due to an unwanted growth in imports, has been blessed with a golden opportunity to fix some of the grave challenges following a notable drop of around 25% in global crude oil prices in the last five months.

The price of US benchmark West Texas Intermediate (WTI) fell to $56.3 per barrel on Thursday from around $74.5 in June 2018 on supply glut amid a notable drop in demand from across the world.

Indian daily The Economic Times anticipated that the oil price may slip below $50 per barrel going forward.

"If the price remains around the current level, it is expected to benefit the domestic economy, especially in second half of the current fiscal year," BMA Capital Economist Fawad Khan told The Express Tribune.

Pakistan heavily relies on imported petroleum products to fuel the economy. According to estimates, it meets around 70% of the energy needs through imports.

The import of crude and other petroleum products comes to around one-fourth of the total import bill of the country.

Pakistan imported oil worth $3.78 billion – around 26.5% of total imports of $14.25 billion – in first three months (Jul-Sept) of the current fiscal year 2018-19, according to the Pakistan Bureau of Statistics.

With the lower oil prices, Pakistan will be able to arrest the runaway current account deficit, which has continued to widen for the second successive month in October 2018 due to import growth.

"The low oil price will help Pakistan push the inflation rate down, curtail subsidies and rationalise general sales tax (back to the high of 17%) on petroleum products," Khan said.

Pakistan usually imports Arab Light oil from Gulf countries, mainly from the UAE. The price of Arab Light oil has dropped over 21% to $67 per barrel on Thursday from the peak of around $85 in mid-October.

Earlier, the government had reduced sales tax to keep oil prices low in the retail market.

The rationalisation of tax rates would help the government collect higher revenues and curtail the fiscal deficit. "Low imports help narrow down the fiscal deficit… and the current account deficit," he said.

The situation will also lead to a reduction in the demand for dollars and other world currencies as the government is negotiating a bailout with the International Monetary Fund (IMF) following the decline in foreign currency reserves to a four-and-a-half-year low of $7.48 billion as on November 9, 2018.

The reduction in the oil price would help the domestic economy to partially offset the additional cost of imports due to a massive 27% depreciation of the rupee against the dollar in the last 11 months.

Besides, oil refineries and oil marketing firms may build inventories before the prices bounce back in the future.

Sector-wise impact

While the drop in the international oil prices is taken as positive for the domestic economy, this would simultaneously impact different sectors of the economy differently.

The low oil prices is negative for oil and gas exploration and production firm, oil marketing companies and refineries.

On the other hand, it would positively impact the agriculture, power producers, chemicals, cement, steel, textile, car manufacturers and transportation sectors of the economy.

BIPL Research said in a commentary to its clients, "Oil prices have slid 25% after hitting a multi-year high of $86/barrel on Oct 3, 2018. The impact of such a swing is observed in the petrochemical industry where prices tracked the volatility in oil."

"Continued downtrend in oil prices may push PVC-Ethylene and PTA-PX deltas (chemicals) even further. Similarly, improving CRC-HRC margins will support flat rolled manufacturers, it added.

Besides, the government may partially pass-on the reduction to end-consumers and partially retain it to fix the faltering economy. "The government may pass on 30% of the reduction to the public. This would work," he said.

The partial pass-on would also keep prices stable in retail market as if they bounce back at any point of time in the future the government would have fiscal space to adjust them accordingly.

Published in The Express Tribune, November 17th, 2018.

https://tribune.com.pk/story/1848805/2-oil-price-drop-provides-opportunity-fix-economy/

IMF MISSION TOLD HOW GOVERNMENT PLANS TO RESTRUCTURE SOES
WASIM IQBAL & ZAHEER ABBASI | NOV 18TH, 2018 | ISLAMABAD

The government"s economic team has briefed the International Monetary Fund (IMF) mission on the proposed "Wealth Fund and Holding Company" for restructuring of state-owned enterprises (SOEs). Sources in the finance ministry said that the IMF mission was informed about the envisaged SOE reforms, including setting up a Wealth Fund staffed with experts from the private sector who would first restructure and then privatize these entities as the government believes that in their current state they will not fetch a reasonable price.

"There will be no influence from the bureaucracy, board members would be hired from the private sector and all decisions regarding the revamping of loss-making institutions will be done through these members, who will only be answerable to the prime minister," the IMF mission was informed.

The management of SOEs would also be from the private sector, sources said, adding that the IMF delegation was given a briefing on the contours of the envisaged plan that the government maintains is the only way to revamp them. The process to appoint/nominate board of governors of the company will be completed in less than one month and the board will be tasked to identify entities for privatization and SOEs for revamping and restructuring.

Economists however added that in the event of a revenue shortfall the IMF will press the government to undertake privatization to bridge the shortfall. Under the government"s finalized privatization plan the following entities are to be privatized: SME Bank Ltd, First Women Bank Ltd, Jinnah Convention Centre, Islamabad, Lakhra Coal Development Company and Services International Hotel, Lahore. Additionally, privatisation of 1,233 MW Balloki Power Plant and the 1,230 MW Haveli Bahadur Power Plant are in the early privatization list However, the government has excluded PIA and PSM from privatization list and decided to revamp and restructure them.

https://fp.brecorder.com/2018/11/20181118424835/

IMF DEMANDS RAISING INTEREST RATE, DEVALUATION OF RUPEE

Mehtab Haider

November 18, 2018

ISLAMABAD: The International Monetary Fund (IMF) has linked its bailout package for the struggling economy of Pakistan with the curtailment of budget deficit and the current account deficit with viable plans.

The IMF has also demanded the government to jack up the discount rates up to double digit, allow further adjustments of rupee against dollar, increase tax rates and bring potential tax evaders into the tax net.

The IMF considers there is not much room for reducing the expenditure side, so the government will have to undertake additional revenue measures to restrict the budget deficit at 5.1 percent of GDP. The IMF desires to bring changes in National Finance Commission (NFC) but under the existing structure it is not possible to slash down the share of provinces without agreement among all the stakeholders. “Different options have been discussed to increase non-tax revenue in order to provide fiscal space to the federal government,” sources said.

The Pakistani side informed the IMF that the government would launch Sukuk and Eurobond to build up foreign currency reserves and reduce the current account deficit. A Pakistani diaspora bond will also be launched to attract investment from overseas Pakistanis. The trade deficit will be reduced and impact to this effect is already appearing on the trade front.

Meanwhile, Finance Minister Asad Umar chaired a meeting on Economic Advisory Council’s (EAC) Sub-Groups on National Financial Inclusion Strategy (NFIS) and Fiscal Sector here at the Ministry of Finance. The meeting was attended by all major stakeholders/members of the sub-group from the Ministry of Finance, State Bank of Pakistan (SBP), Federal Board of Revenue (FBR) and Securities and Exchange Commission of Pakistan (SECP).

The SBP Governor Tariq Bajwa presented the National Financial Inclusion Strategy to improve quality and increase access to financial services in Pakistan. He outlined targets and necessity policy actions to be taken at various levels in the coming years to achieve the targets. Discussion revolved around fast-tracking the digitisation of financial services to reach out to larger number of consumers, small and medium business and newly emerging entrepreneurs throughout the country.

The finance minister appreciated the Financial Inclusion Strategy and emphasised on diligently time-lining the goals, targets and actions to be taken, and cautioned against delaying the implementation process of the strategy.

In the fiscal policy sub-group meeting, the FBR representatives made a presentation on the problems currently the ailing tax administration system in Pakistan, and ad-hocism of tax policy; it was noted that these issues consequently lead to low tax collection contributing to massive fiscal imbalances.

The sub-groups also considered solutions to fix the crippling tax system of Pakistan by recommending policy measures targeting two major areas, tax administration and tax policy. It was noted that information technology held greater promise in getting more and more people into the tax net, and spotting tax-avoiders.

Also, the coherent and continuous coordination among provinces and between federal government and provincial governments is of paramount importance in avoiding incidence of double-taxation. Asad Umar appreciated the work done by the groups which was assisted by the Senior FBR officers and directed for setting timelines to various administrative and policy reforms suggested so the huge fiscal burden facing our economy is reduced to minimal possible level and the government gets much needed fiscal space. The FBR chairman informed the minister that to uphold the spirit of transparency and easing the relations between the tax payers and FBR, the Board is starting an awareness campaign to let the people know how their tax money is being utilised.

https://www.thenews.com.pk/print/395153-imf-demands-raising-interest-rate-devaluation-of-rupee

NEWS COVERAGE PERIOD FROM OCTOBER 29TH TO NOVEMBER 4TH 2018
IMF: ONE LAST HUG?
SHABIR AHMED NOV 1ST, 2018 ARTICLE

It was becoming a bit of a cliffhanger. Will default become imminent or 'all options' will pull us back from the edge just in time?

The doomsayers were all set to take the bailsoff to signal the endgame. Government's ace batsman, the diaspora, was run out by its own spokesmen – in their effort to malign the previous government they painted such a bleak picture that the diaspora thought better of getting on a sinking ship. SBP tried all it could but couldn't control the FX market. The 'no-yes-no' IMF raga failed to rouse the market, and it reacted like a spoilt child when the Kaptaan returned empty-handed from KSA because the 'conditionalities were unacceptable'.

The second trip brought the goodies. What happened to the 'conditionalities', we don't know. It will be too much to attribute it to the Khashoggi moment. But there is strangeness to the deal: it is not usual to have a 'MoU' for balance of payment support. We don't want it to rain on the Kaptaan's parade, but is it like a refundable down payment: $3 billion parked with the State Bank for a year, which can be withdrawn without notice if you don't keep your end of the bargain? Copy that for the deferred payment oil facility as well.

Hype has also been created for more from other friends. If all that materializes where does it leave the IMF option? Did 'all options on the table' mean 'cash-in all options' – or create greater negotiating space with the IMF? We suspect the latter; otherwise, why keep insisting it will be the last trip to the IMF?

But why do we need more negotiating space? What is it that IMF would ask us to do that we shouldn't be doing anyway, for our own sake? Is it transparency that we are afraid of?

We turn to friends and IMF to get dollars not rupees (notwithstanding the nexus between rupee-dependent fiscal policy and dollar-dominated external sector). What will it take for us to earn more dollars and 'break the begging bowl' (which by now has acquired an antique value)?

At the risk of stating the obvious, the only thing that will keep IMF and the bowl at bay is a quantum jump in exports. Remittances are invaluable but not a substitute. FDI, if not export-oriented, takes out more dollars over time than it brings in. That's in the nature of the beast.

The government has started to make the right kind of noises about exports but one is yet to see signs of a directional change. It is still fiddling with the basics: tentative steps towards zero-rating, cheaper gas and electricity, compensatory rebates to selected sectors, and incentives for new markets. All this is needed but it won't send our exports soaring.

One good thing that the Prime Minister has done is to slash down the expenditure on the Dubai extravaganza – except it is still five million dollars too many. If projection of Pakistan's culture is the idea, it should be reflected in some Ministry other than Commerce. It's time we learnt the zero value-add to exports that such expensive giveaways fetch.

Advisor Commerce keeps saying export-led growth strategy is the way forward. We agree, except we are not sure if he means it. If he does, how do we explain the long queue of trucks outside the ports, some of which get 'shut out' as the ship sails away? Why do exporters have to curry favour with all kinds of officialdom? What are stuck up refunds doing to exporters' costs, or for that matter the cost of cajoling the SBP for their DLTL claims?

These are aspects of 'export culture' that could be resolved by TDAP. But TDAP is in a sad state of disrepair; rudderless. The office of Chief Executive TDAP, the 'first partner' of exporters, has remained vacant for so long, giving way to speculations that the Commerce Secretary wishes to keep it as his fiefdom.

Could it be that the Advisor Commerce mistakes export promotion (handouts) for export-led growth strategy (requiring proactive policies to achieve growth through expansion of exports)? What we are seeing in practice is a focus on balance of payments through a combination of import duties and export subsidies; not on growth. Advisor seems to be caught in the import substitution-export-led maelstrom.

Literature tells us that in general countries with a preference for planning, regulated markets, and public enterprises go for import substitution. Those who believe in the merits of market mechanism and private enterprise go for export-led. We like to think the Advisor belongs to the latter school. What is stopping him then?

He has his role cut out for him. While competitiveness and productivity are serious impediments, what is really holding our exports back is the lack of diversity in our export mix. We have got to produce what the markets want. Even in textiles, where our concentration is on cotton-based, the world has moved on. The name of the game now is synthetics, like performance fabrics.

The shift to demand-driven production fits in seamlessly with export-led growth strategy. We have to incentivize investments, both domestic and foreign, in export-oriented industries – and in Agriculture. We have to seek economies of scale, optimal use of technology, and productivity levels that match those of competition. Our reasonably good market access needs to be better marketed to attract FDI in exporting industries.

In our negotiations with the Chinese, we should really be working more on leveraging the FTA into a vehicle for FDI. It will be a shortsighted strategy to focus merely on 'preference erosion' caused by lower tariffs for Bangladesh and ASEAN. These mostly cover 'sunset products'. We must focus more on products that we do not produce today but should be producing to respond to shifts in demand – on 'sunrise products'.

We should not get carried away by blips in our export trend. 'A swallow does not a summer make'. Secretary Commerce can take all the credit he wants, and we will be the first to tip our hat, if he could only share with us the specific policy measures that made this blip possible.

Without an export-led effort we just won't be able to make the math work. We will keep returning to IMF for that 'last hug'.
https://fp.brecorder.com/2018/11/20181101420309/

December 2018

NEWS COVERAGE PERIOD FROM DECEMBER 24TH TO DECEMBER 30TH 2018

BAILOUT IMPASSE CAUSED BY THREE IMF CONDITIONS

ZAHEER ABBASI & TAHIR AMIN | DEC 25TH, 2018 | ISLAMABAD

There is a stalemate in ongoing discussions between International Monetary Fund (IMF) and Pakistan for a bailout package with the government"s refusal to accept three Fund conditions: free float exchange rate, across the board 22 percent increase in power tariff to address the issue of circular debt (in addition to the recent rise in rates by 11 percent) and full disclosure of the financing details of all China Pakistan Economic Corridor (CPEC) projects with an estimated inflow/outflow chart for a number of years.

This was revealed by a senior Finance Ministry official, a participant of the negotiations with IMF, on condition of strict anonymity.

The impasse is not on the amount of the package itself, he added, but on the conditions that are not acceptable to the government. No administration can possibly accept a free float, especially not given the current state of the economy, as it would lead to hyper inflation in the country; nor accept a notification of an additional across the board 22 percent increase in electricity that would not only have serious implications on the disposable income of the poor but also seriously raise input costs making Pakistani products even more uncompetitive in the international market; and neither is the government in a position to release CPEC details without explicit Chinese approval with China identified as the third major "friendly" country willing to support the country deal with the prevailing economic crisis, he further clarified.

However, Advisor & Spokesman Ministry of Finance Dr Khaqan Najeeb stated, "The issue of exchange rate never came under discussion during recent talks with the IMF. The government has given no commitment on the exchange rate target." He further stated that Pakistan and IMF continue to remain engaged on all issues and the discussions are focused on what measures to take to put the economy on the path of fiscal consolidation, macroeconomic stabilization and structural reforms. Najeeb added that the government has shared CPEC project details with the IMF, a claim supported by Asad Umer recently, and added that Pakistan is committed to strengthen its revenue collection and this is not because of IMF as broadening of tax base has always been on top of this administration"s agenda.

This statement was echoed by the IMF resident representative Teresa Daban in response to Business Recorder query and she wrote "at this stage there is a strong understanding between the Pakistani authorities and Fund staff on the diagnostic of Pakistan"s macroeconomic challenges, the need for adjustment policies, and the goals to be achieved."

The understanding is for the need to implement "good" polices, including a revenue-based medium-term fiscal consolidation, monetary policy tightening, transition towards a flexible exchange rate regime, with a strong, independent and accountable SBP, the reduction of the losses of public enterprises (including circular debt), and the strengthening of the social safety net to protect the most vulnerable from the adjustment.

Against this background, dialogue and discussions continue. Main items for discussions are the composition, sequencing, and prioritization. The objective continues to be the achievement of understanding on these items, and on a set of "good" policies that could be the base of a staff-level agreement".

Clearly both Najeeb and Daban"s intent is not to scuttle the talks that are expected to resume in February next year.

The World Bank local representative stated, "We have not yet made any decision on Development Project Financing. It will be dependent on a sound and adequate macro economic framework and the ambition of the policy reform agenda. An IMF letter of assessment will inform our decision making.

"We have not made any determination yet on the volume of financing as it depends on the ambition of the reform agenda. We will consider instruments including guarantees for Pakistan to access markets and direct budget support to boost human capital outcomes in the country".

Business Recorder has calculated that the total policy loans disbursed by World Bank and Asian Development Bank to Pakistan were on average around one billion dollars till 2016 and subsequent to the end of the previous Fund package, Extended Fund Facility, in September 2016 no policy loan by either of these two multilaterals has been disbursed to Pakistan.

On 18 December, 2018, Finance Minister Asad Umar informed a Senate Standing Committee on Finance that the Memorandum of Economic and Fiscal Policies (MEFP) for a new package had been sent to the IMF but the country is not in an urgent need for a Fund bailout package as the financing gap of $12 billion for the ongoing fiscal year had been managed due to assistance from the friendly countries including Saudi Arabia, UAE and China. There is a difference of opinion as to how much of the 18 billion dollar current account deficit needs to be met on an emergent basis.

Pakistan has reportedly offered a rate of 150 rupees to the dollar, unconfirmed by official sources, by the end of the fiscal year and to-date has refused to raise electricity rates by a further 11 percent and has informed the IMF in no uncertain terms that a further raise of the same amount before August-September 2019 may be politically suicidal. Additionally the government has refused to raise rates for those who consume up to 200 monthly units. However, the government has committed to the IMF that it would put in place measures to reduce the flow of circular debt by July 1, 2019.

https://fp.brecorder.com/2018/12/20181225434116/

NEWS COVERAGE PERIOD FROM DECEMBER 17TH TO DECEMBER 3RD 2018
'MINI-BUDGET' PLANNED AS IMF, GOVT STILL DIFFER
Khaleeq Kiani Updated December 20, 2018

Fund wants sharp adjustment, government seeks graduated path
• More taxes but reduced duties for exporters in money bill
• Senate panel questions depreciation
ISLAMABAD: Preparations are on for introducing the third money bill of this fiscal year, while discussions between the government and the International Monetary Fund have been ramped up. Reports following a late evening hour-long video conference between the government and the IMF suggest that differences persist between both sides over a broad spectrum of issues.

Finance Minister Asad Umar announced his intention to bring a new money bill when he appeared before a parliamentary panel on Wednesday morning along with State Bank Governor Tariq Bajwa.

Informed sources said that during the video conference, the government and the Fund could not agree on the timing and pace of the fiscal adjustment and structural reforms. They said the IMF mission raised questions over Pakistan's memorandum of economic and financial policies (MEFP) submitted last week and the finance minister responded.

The questions related to the proposed fiscal adjustment, energy pricing, monetary and exchange rate policy and structural reforms contained in the government's MEFP, an informed source told Dawn, adding that the IMF team had reservations over viability of the government's proposals in all areas, although the degree of disagreement varied. The mission also raised questions over the way forward on the state-owned entities.

Separately, the IMF's resident representative to Pakistan confirmed in a short message to Dawn that the plan referred to by the finance minister had been received by them.

"The Pakistani authorities have shared with us a document called 'Pakistan: Stabilisation and Medium-Term Sustainable Growth Framework'," she said via text message from Washington DC where she is these days.

"We are in the process of reviewing this particular document and the objective continues to be to achieve understanding on policies and reforms that could be the base of a staff-level agreement."

The source said the IMF was demanding most of the policy actions, both fiscal and structural, to be frontloaded in the first year, while the government wanted them spread out over the three years of the programme and in some cases to run into the fourth year of the government. Further details were not available.

The two sides also discussed the external financing gap for the current year. The IMF agreed that financial requirement for the current year had largely been met but wanted more clarity on financing plan for the next year and beyond.

"It is not yet clear if the IMF package would be finalised next month," the source said.

The finance minister was not available for comment, but his adviser and spokesman Dr Khaqan Hassan Najeeb said the two sides held "fruitful discussions".

"They raised some queries on Pakistan's policy document shared last week and we answered and explained things; both sides agreed to remain engaged, maybe tomorrow and beyond," he said.

In the morning, the minister took a parliamentary panel into confidence over his plans to table a money bill early next month and then discussed its details and other fiscal and monetary adjustments with the IMF mission chief Harald Finger and his team through a video conference in the evening.

Responding to an observation from a senator, Mr Umar agreed that the pace and timing of structural reforms had political and economic costs, like public protests in some European countries, and the government wanted to move in a phased manner.

Speaking before the Senate Standing Committee on Finance headed by Senator Farooq H. Naik, the finance minister said the proposed measures would not necessarily mean increase in taxes and duties but reduction as well so that the wheel of the economy also starts moving. He said these measures had come from the Economic Advisory Council (EAC).

The minister said the non-oil imports had already registered a 20 per cent reduction but the impact was compensated by higher oil prices. He said there was a difference of opinion in the definition of "luxury items" but the total import bill of such items was about $2 billion and was also a key source of revenue.

The minister said the money bill would carry some tax proposals and reduction in duties on raw material. He hastened to add that no final decision had been taken yet but tax proposals and tariff reduction on inputs used in production of export items were under consideration.

He said there was no urgency to approach the IMF for a bailout package because the $12bn financing gap for the current fiscal year had been arranged from friendly countries. He said that $2bn from Saudi Arabia had been received and another $1bn would be available early next month. The loan had been made available at 3.18 per cent return.

The Saudi oil facility would also become operational early next month with a monthly amount of $274 million. In the first year, the annual bill would be about $1.5bn. Practically, therefore about $4.5bn cushion for balance of payments support from Saudi Arabia would become effective during the current fiscal year.

Mr Umar said talks with the United Arab Emirates on a support package were also in final stages and hopefully would conclude on a positive note and agreements with China were also at the final stage. He said the two governments had desired secrecy until finalisation of the plan.

He said Pakistan had difference with the IMF over the pace of reforms. "They want us to fast-track adjustment, but we believe it has political and economic implications. We have submitted a complete plan to the IMF and discussions are continuing as to how we want to move ahead for stabilisation," he said.

Meanwhile, replying to questions in the Senate, the finance minister said flight of capital had been taking place and exports had gone down for two reasons: first due to erosion of exporters competitiveness owing to high input cost of electricity and gas, and second that most of the foreign investment has been in the power sector, banking and telecom and investment, not in productive industry.

He laid emphasis on the need to improve ease of doing business and tax reforms and said both these issues were being addressed on a priority basis with gas supply at $6.5 per unit and electricity at 7.5 cents per unit to industry.

Also, a mechanism to clear the pending refunds of Rs250bn of sales tax and drawback of local taxes and levies (DLTL) was being developed to ensure that they get an auto-debit through the State Bank once documentation is complete so that exporters need not visit FBR offices.

In response to some questions on the exchange rate, the finance minister repeated his earlier remarks that the recent depreciation was necessary, though did not need to be as sudden as it was. He underlined that the total depreciation was only Rs3 per dollar.

The State Bank governor also emphasised that market mechanism determined the rate, and the sudden movement seen a few weeks ago lasted only 30 minutes, with one major transaction of $200m compared to daily traded volume of $300m.

Published in Dawn, December 20th, 2018

https://www.dawn.com/news/1452469/mini-budget-planned-as-imf-govt-still-differ

GOVT OFFERS IMF RS190B IN NEW TAXES FOR BAILOUT
By Shahbaz Rana

Published: December 20, 2018

ISLAMABAD: Pakistan has offered the International Monetary Fund (IMF) to impose Rs190 billion worth of additional taxes to restrict budget deficit to Rs2.2 trillion and to further increase interest rates and devalue currency to increase foreign exchange reserves to $13 billion.

These aggressive policy measures have potential to stifle economic growth rate, slowing its pace to only 3.9% in this fiscal year and stoking inflation. A major inflationary measure will be increase in sales tax rates on locally sold textile, leather, surgical, sports and carpets goods, which are currently charged at lower than standard rates. The petroleum products will also be subject to further taxation.

The fiscal and monetary proposals are part of the draft memorandum of Economic and Financial Policies that Pakistan shared with the IMF for securing a bailout package, sources in the Finance Ministry told The Express Tribune. The plan also includes over Rs300 billion anticipated earnings from sale of two government-owned LNG-fired power plants.

Pakistan proposed these measures after the IMF assessment revealed that the country's overall budget deficit could still widen to Rs2.4 trillion or 6.1% of the Gross Domestic Product (GDP) at end of this fiscal year even after a mini budget introduced just three months ago.

Finance Minister Asad Umar on Wednesday told a parliamentary committee that his government may unveil second mini budget within four months – in early January.

As a result of these new measures, the government hopes that the budget deficit could be restricted to 5.6% of the GDP or Rs2.2 trillion in the first year and to 4.5% or Rs2.6 trillion at the end of the IMF programme. In addition to taking Rs190 billion additional revenue measures, Pakistan has also proposed that quasi-fiscal losses will be cut by Rs380 billion in this fiscal year alone.

However, the IMF has not yet accepted Pakistan's position of allowing budget deficit equal to 5.6% of the GDP in this fiscal year. It seeks to bring the deficit below 5% in this fiscal year and below 4% at the end of the IMF programme.

Pakistan and the IMF on Wednesday held another video conference aimed at narrowing down their differences. "Fruitful discussions were held and the IMF raised certain queries on the policy document," said the Finance Ministry spokesperson Dr Najeeb Khan. He said both the sides have agreed to keep engaged to further narrow down the policy differences.

The government has also assured completely ending price differential subsidies in three years period, sources further revealed. But the IMF was asking an upfront increase in electricity tariffs by Rs3.82 per unit including Rs1.27 per unit increase that the government has already allowed.

The government has also promised to recover cost of syndicated loans taken from the banks to retire circular debt from the end consumers by building in the tariffs. Except for 200 monthly units' consumers, the subsidies for all other categories will come to an end under the IMF programme.

The government has given an overarching assurance to the IMF that Pakistan will make adjustments in fiscal policies, would tighten import regime and a monetary policy will primarily aimed at targeting inflation.

Revenue measures

Without new measures, the Federal Board of Revenue's (FBR) tax collection has been projected to increase to just Rs4.1 trillion. With a combination of currency devaluation and new taxes, the collection could jump to Rs4.5 trillion in this fiscal year, Rs5.8 trillion by June 2020 and Rs7 trillion by June 2021.

Pakistan has proposed that it will increase sales tax rate on petroleum products in addition to further increasing petroleum development levy rates. The federal excise duty on beverages will be imposed.

The locally manufactured and imported vehicles could be slapped with federal excise duty. Similarly, the withholding tax rates on non-filers and on imports of finished goods will be massively increased.

The government has also hoped recovering Rs75 billion that are currently stuck up in courts. The Supreme Court of Pakistan has also set up special bench to hear tax relates cases.

The non-tax revenue collection target has been proposed to be increased to Rs1.2 trillion on back of privatisation proceeds of two power plants and sale of 3G and 4G licenses by the Pakistan Telecommunication Authority (PTA).

It has also proposed to the IMF that the current expenditures on account of those subjects that have been transferred to the provinces will be gradually reduced.

Pakistan has proposed to increase tax revenues by 3% of the GDP to 18.1% by 2021-22. The FBR's tax collection has been proposed to be increased from 11.2% to 13.9% in three years.

But this would require massive tax efforts, particularly in the next fiscal year when Pakistan will have to collect more than Rs5.7 trillion in taxes, the sources said.

Compared to increase in tax revenues, the expenditures have been proposed to slash from 17.4% of the total size of economy to 16.5% in three years.

The PSDP spending will be drastically slashed from 4.2% of the GDP last year to 3.5% by end of the IMF programme. In absolute terms, the PSDP spending will not be more than Rs850 billion even after four years.

The defence expenditures have been projected to increase from Rs1.1 trillion this year to Rs1.7 trillion by June 2022. The interest payments would touch Rs2 trillion mark by June 2019 and will hit Rs3.5 trillion by June 2022. Because of these reasons, the public development spending will be slashed.

Monetary and exchange rate policies

The government has proposed that it stood ready to further adjust the exchange rate in the current fiscal year, which would also be a tool to get additional revenue collection at the import stage. Further currency devaluation will be close to the adjustment made in October.

The interest rate will be further adjusted in the next monetary policy announcement. The increase could be between 50 basis points to 100 basis points over the current rate of 10%, the sources said.

These measures would help build up foreign exchange reserves to around 2.5 months of import or $13 billion at the end of this fiscal year. But all this will hurt the economic growth rate that will plunge to 3.9% this year – down from 13-year high level of 5.8%.

The agriculture sector is expected to take a major hit and could grow only 1.5%, industrial sector 4.5% and services sector 4.4%. Even at the end of the IMF programme, the economic growth rate will be still lower than what the Pakistan Muslim League-Nawaz (PML-N) government had left last year.

“The economic growth rate will be subdued in the first year but the sustainable rate will pick up from ensuing years,” said Dr Khaqan Najeeb while commenting on the possible adverse impacts of the IMF programme.

There will also be a condition to ask four commercial banks, two of them in the private sector, to meet their minimum capital requirements. A national financial stability council will also be setup by the SBP.

The sources said against the free float demand by the IMF, the SBP has proposed to pursue flexible exchange rate policy. It has also assured the IMF that in future the central bank will target only inflation and economic growth rate will not be a major consideration.

There will be strict restrictions on the federal government from borrowing from the State Bank of Pakistan (SBP). The SBP has also assured that it will lift restrictions on advance import payments against the letters of credit (LCs) and other administrative measures taken in the recent months to contain pressures on the balance of payments.

As part of the central bank autonomy, the term of the SBP governor could be increased to five years from three years, the sources said. There will be new criteria for the appointments of SBP governor, deputy governors and the Monetary Policy Committee members.

https://tribune.com.pk/story/1870680/2-govt-offers-imf-rs190b-new-taxes-bailout/

NEWS COVERAGE PERIOD FROM DECEMBER 10TH TO DECEMBER 16TH 2018
OVERSEAS WORKERS: REMITTANCES SLOW DOWN BY MASSIVE $400M IN NOV
By Salman Siddiqui

Published: December 11, 2018

KARACHI: Remittances sent home by overseas Pakistani workers slowed down by a massive $400 million, or 20%, to $1.6 billion in November 2018, the State Bank of Pakistan (SBP) reported on Monday.

This will pile pressure on the rupee against the US dollar and will further undermine the country's capacity to make international payments, according to analysts.

Remittances stood at $2 billion in the previous month of October 2018.

"The slowdown in remittances has increased pressure on the balance of payments as the country's foreign currency reserves have already gone down to critically low levels that cover only one and a half month of imports," Sherman Securities' analyst Chander Kumar told The Express Tribune.

Reserves stood at around four-and-a-half-year low of $7.5 billion on November 30, 2018.

"With this unexpected drop in remittances, the challenge of narrowing down the current account deficit seems difficult to address (in the short run)," he said. "Remittances play a significant role in containing the deficit and stabilising the balance of payments."

Kumar said they were expecting a little bit lower remittances in November 2018 since Pakistanis had send significantly higher remittances in the prior month apparently due to a fresh round of rupee depreciation against the dollar.

"October's remittances were at one of the high levels…and these were not expected to touch such a peak again in any month in the remaining part of the year (FY19)," he said.

With the fresh data, average monthly remittances for first five months (July-November) of the current fiscal year dropped to $1.8 billion, indicating that the country would miss the target of around $22 billion for FY19, he said.

"Remittances are expected to stay low due to economic slowdown around the world," he added.

Citing low international crude oil prices, he said Pakistan's imports would remain on the lower side and would partly ease the pressure emerging in the wake of slowdown in remittances on the current account and balance of payments.

Cumulatively, in the first five months of FY19, remittances from overseas Pakistani workers increased 12.56% to $9.02 billion compared with $8.02 billion in the same period of previous year, the SBP said.

Country-wise details for November 2018 showed that remittances from Saudi Arabia dropped to $395.12 million compared with $409.52 million in November 2017.

Remittances from the UAE decreased to $343.21 million compared with $352.64 million in November 2017 whereas from other Gulf Cooperation Council (GCC) countries, which included Bahrain, Kuwait, Qatar and Oman, remittances dropped to $151.37 million compared with $191.83 million.

From EU countries, remittances shrank to $42.18 million compared with $49.06 million last year.

However, remittances from the US increased to $255.78 million compared with $204.28 million last year and from the UK, they increased to $228.19 million from $213.47 million.

From Malaysia, Norway, Switzerland, Australia, Canada, Japan and other countries, remittances rose to $192.74 million compared with $155.92 million in November 2017, according to the central bank.

Around 10 million Pakistanis are working overseas while a majority of them are based in oil-producing and exporting countries in the Gulf.

Published in The Express Tribune, December 11th, 2018.

https://tribune.com.pk/story/1864035/2-overseas-workers-remittances-slow-massive-400m-nov/

IMF PACKAGE: SOFTENING STANCES RAISE HOPE OF EARLY BAILOUT DEAL
By Shahabaz Rana

Published: December 15, 2018

ISLAMABAD: Islamabad and the International Monetary Fund (IMF) have narrowed down their differences on monetary and fiscal policies but the disagreement still persists on two critical issues of exchange rate adjustment and increase in electricity prices.

Both the sides have softened their positions on the targets of budget deficit and increase in interest rates after talks collapsed on November 20, sources in the Ministry of Finance told The Express Tribune. Pakistan has conceded more ground than the IMF, they said.

The IMF has shared a programme design with the Finance Ministry, which raises hopes for an early agreement on the bailout programme. In the light of new positions taken by both the parties, the government is preparing a draft of Memorandum of Economic and Financial Policies (MEFP).

The MEFP could be dispatched to Washington next week, detailing the policies that the government of Prime Minister Imran Khan would implement under the IMF umbrella from 2019 to 2021.

The sources said Pakistan is willing to make further fiscal adjustments, primarily on account of Public Sector Development Programme (PSDP). The development spending may be slashed below Rs500 billion, around 30% less than the actual spending in the previous fiscal year.

The revised deficit target for fiscal year 2018-19 may be close to 4.5% of the Gross Domestic Product (GDP) in this fiscal year. The Federal Board of Revenue's (FBR) target could be jacked up significantly.

As a result of fiscal and monetary adjustments, Pakistan expects that the economic growth rate would remain around 4% in this fiscal year and inflation could be restricted to 7%. However, the IMF sees economy slowing down to below 3.5%.

In case of staff-level agreement, the interest rates would be further increased in coming months as a prior action but these will be lower than what the IMF had demanded during the staff level talks.

While addressing the Pakistan Economic Forum on Thursday, Prime Minister Imran Khan said the talks with the IMF were under way. The Fitch rating agency reported on Thursday that the delay in the IMF bailout package is a temporary phenomenon and Pakistan would successfully achieve the bailout worth $8 billion during January-March 2019.

The State Bank of Pakistan (SBP) has increased the interest rates by 4.25% since January including 1.5% increase in the last monetary policy.

The present 10% interest rate was 50 basis points higher than the rate the SBP Governor Tariq Bajwa had anticipated for June 2019 during a presentation to the PM couple of months ago.

The sources said the IMF has not budged from its demand of introducing a totally free float exchange rate regime. Pakistan has rejected this condition and is ready to introduce a flexible exchange rate.

The central bank has already devalued the rupee by 32.7% since January. The SBP governor said on Thursday that the exchange rate at Rs139 to a dollar was 'near the equilibrium'. Pakistan would not crack under the IMF pressure on certain conditions, said the Finance Ministry sources.

The Fitch rating agency expects the rupee to weaken further against the dollar over the coming quarters as the IMF would typically require the central bank to build up its foreign reserve buffers.

The government has managed to carve out space till June next year due to financial support committed by China and Saudi Arabia. However, it does not have a plan beyond June 2019. Pakistan on Friday received another $1 billion from Saudi Arabia out of $3 billion cash commitments.

The government has already consumed $1 billion that Saudi Arabia disbursed last month and the reserves have again fallen to $7.2 billion, which was the level before the Riyadh disbursed the first tranche.

The sources said increase in electricity prices is another stumbling block in early finalisation of the programme. The IMF has termed it a non-negotiable condition.

Against the National Electric Power Regulatory Authority's determination of Rs3.82 per unit increase, the government has approved only Rs1.27 per unit increase in tariffs. The IMF wants that the government should fully pass on the increase to the end consumers.

The sources said timing of the implementation of the IMF conditions is another outstanding issue. Pakistan wants that majority of the tax measures should be come into effect from July 2019 so that the government may avoid public criticism on yet another mini budget.

The Finance Ministry wants to make the fiscal adjustment by slashing the PSDP, increasing non-tax revenues through Gas Infrastructure Development Cess and raising the sales tax rates on petroleum products to 17%.

https://tribune.com.pk/story/1867312/2-imf-package-softening-stances-raise-hope-early-bailout-deal/

IMF DEMANDS SHARP REVENUE HIKES
Mubarak Zeb Khan Updated December 16, 2018

ISLAMABAD: The road to an International Monetary Fund (IMF) bailout is going to be a steep one for the government in the months ahead.

According to a source with direct and detailed knowledge of the matter, the Fund has asked for Rs160 billion worth of new tax measures in the current fiscal year, which ends in June 2019, in order to stabilise the fiscal framework.

The Federal Board of Revenue (FBR) calculates that the 1.1 per cent increase alone means Rs400-500bn additional tax revenue measures. If undertaken, the steps will lift the country's tax-to-GDP ratio to 13.9pc by end June 2021. The government has set a fiscal deficit target of 5.6pc for 2018-19 whereas the IMF's projection is slightly below this.

The emphasis on a revenue target is a departure from standard practice for IMF. Previous Fund programmes were built around a fiscal deficit target, and it was left to the government to decide how it was going to be achieved — through some combination of revenue increases and expenditure cuts.

Programme unlikely before February; Rs160bn fresh taxes before June

This time IMF is laying out specific revenue targets for each year of the proposed programme and is asking the government to commit to raising the tax-to-GDP ratio by 0.4pc of GDP by June 2019, followed by 1.1pc in FY20 and 1.2pc in FY21.

In addition to these revenue measures, the Fund has also asked for concomitant increases in provincial revenues, from current 1.1pc of GDP to 1.5pc by end of the programme. This means that provinces will also have to introduce new revenue streams.

According to earlier reports, the tax machinery has already asked the finance ministry to approach the Supreme Court to find a way to restore taxes on prepaid mobile cards. The annual collection from these taxes on prepaid cards alone is around Rs80bn, which can help plug half of the revenue demand for the first year of the programme.

In another proposal, the FBR has proposed to fix sales tax on petroleum products by volume instead of as a percentage of the price, starting from January. According to the board, petroleum products prices in Pakistan are on the lower side as compared to the regional countries. The FBR admits the new price mechanism may lead to oil price increase but justifies it on the plea to raise additional revenue and also to control its consumption.

These two measures, according to the source, could generate around Rs100bn for the government kitty. These, however, still leave the government with Rs60bn gap before June and will necessitate further tax measures.

The government is looking to tax luxury consumption for higher income earners in an effort to meet the IMF's condition. Moreover, FBR is expecting to raise around Rs30bn alone from sales tax evasion in the next half year of 2018-19. The source suggested that the steep revenue increases demanded by the Fund are the lead reason why the government is having difficulty finalising the IMF programme.

Another source in the Finance Division told Dawn that talks are still continuing with the IMF through video conferencing. "We have suggested to share proposals next week with the Fund before the Christmas and new year holidays." the finance official said.

"We are expecting to reach an understanding in January." However, the source said the IMF package will not go to the board until February or March.

The focus of the IMF programme is now only on revenue generation. There is no demand for a cut in expenditures in the ongoing fiscal year, the source added.

The IMF's resident representative in Pakistan, Teresa Daban Sanchez, when reached for comment did not confirm or deny the numbers, but said a fiscal consolidation is required and that "the policies have to be on the revenue side."

Published in Dawn, December 16th, 2018

https://www.dawn.com/news/1451694/imf-demands-sharp-revenue-hikes

NEWS COVERAGE PERIOD FROM DECEMBER 3RD TO DECEMBER 9TH 2018
'PKR DEVALUATION, POLICY RATE RAISE TO HAVE DEVASTATING IMPACT ON ECONOMY'
N H ZUBERI

KARACHI: Business and industrial community has expressed that currency devaluation and increase in policy rate for a country like Pakistan will have negative economic implications in the long run.

Steps have to be taken to create an enabling business environment which is the only way forward to pull the economy out of crisis, they emphasized.

Expressing deep concerns over continue devaluation of rupee against dollar, they said dollar has risen sharply to all time high which has to be controlled, otherwise it will have a devastating impact on the already beleaguered economy.

Pakistan Businessmen and Intellectuals Forum (PBIF) president Mian Zahid Hussain said the rupee depreciation needs immediate remedial measures; if PKR is not stabilized, the markets will further shrink and inflation will rise which will last drastic impacts on all sectors including trade and industry. Government and financial institutions should form short and long run policies simultaneously.

Problems pertaining to export sector need early consideration in order to control and minimize the trade deficit and get economy on the developing track.

He said the State Bank of Pakistan has increased policy rate by 1.5 percent to 10 percent, effective from December 3, 2018.

In October 2018, the general inflation rate has increased to 6.8 percent while the estimated inflation rate for the FY 2019 was set to be 5.2 percent. Keeping the economic indicators and increase in price of utilities including gas and electricity, it is expected that inflation will further rise by 3 – 4 percent.

He said that with constant increase in policy rate, the economic activities are shrinking in the country.

The higher inflation due to certain reasons is directly affecting the purchasing power of masses. Instant policy measures are required to control the trade deficit.

The frequent depreciation in USD highly affects the business opportunities and cost of doing business.

He said in the first four months of current fiscal year the remittances and exports are improved by 15 percent and 3 percent respectively, however due to increasing oil imports the current account deficit is accumulated to $5 billion which is 28 percent higher than the same period of previous year.

Given to the ongoing economic crisis industrial production and exports will be reduced and large scale manufacturing will be highly affected; the growth rate of LSM in the current fiscal year is already negative by 2 percent.

He said that rupee devaluation is now a routine. USD reached to Rs 136 in the open market and experts anticipate a further valuation of dollar. If timely efforts have not been made for rupee stability, it will further decline.

Mian Zahid Hussain said encouraging local and foreign investors is of significant importance and need of time.

To get Pakistan out of the ongoing crisis, it is important to promote the industrial, agriculture, trade and services sectors of the country.

Stable and firm economic policies should be implemented to restore the investors' trust and eliminate the impact of unstable economy in the country.

President of SITE Association of Industry (SAI), Saleem Parekh expressed his deep concerns on rupee devaluation.

He said frequent devaluation is disturbing the entire system and inflation is going unbounded and no strings can be attached to control the inflation. He said industries have not fully recovered from

previous devaluation and this devaluation would affect in the most severe manner as the raw materials would suddenly become very expensive.

In addition, interest rates increased by 1.5 percent would make industries further non-competitive, as investment will go towards money markets and bank deposits; and banks would lend even more to government rather to industries and corporate sector.

https://epaper.brecorder.com/2018/12/04/6-page/752320-news.html

THERE IS NO ECONOMIC CRISIS IN THE COUNTRY: FINANCE MINISTER ASAD UMAR
Dawn.com Updated December 04, 2018

Finance Minister Asad Umar on Tuesday rejected the notion that the country is facing an economic crisis, saying the “financing gap for the current fiscal year has been met”, Radio Pakistan reported.

He said “those spreading rumours about the economy are not doing any favour to the country”.

The minister’s comments come a day after stocks suffered the worst single-day decline in 16 months as the KSE-100 index tumbled 1,335.43 points (3.30 per cent) and closed at 39,160.60.

While speaking at the 11th South Asia Economic Summit in Islamabad, Umar said that “all the fundamental economic indicators are improving as a result of effective policies of the present government”.

He also pointed out that exports are increasing while imports and current account deficit are witnessing downward trend, Radio Pakistanreported.

Talking about the record rise of the US dollar against the Pakistani rupee in the interbank market, the finance minister pointed out the rupee has been witnessing depreciation since last year. He, however, said that the situation is now improving.

Umar, according to Radio Pakistan, also made it clear that no compromise will be made on the independence of State Bank of Pakistan (SBP).

A day earlier, during a meeting with TV anchors at PM House, Prime Minister Imran Khan had revealed that he was unaware of the SBP move [on Friday] to decrease the value of the currency against the US dollar and came to know about rupee depreciation through the media.

The prime minister said the SBP was compelled to depreciate the rupee in order to preserve the country’s foreign currency accounts, as the government inherited a $19bn trade deficit from the last PML-N government.

The premier said although the SBP was an autonomous body, he had asked the authorities that no such decision be taken without taking the government into confidence first.

Later at night, Minister of State for Finance Hammad Azhar told a private TV channel that the prime minister did not intend to roll back his commitment to an independent central bank, but only meant that he wanted greater “information sharing” between the bank and the government.

https://www.dawn.com/news/1449378/there-is-no-economic-crisis-in-the-country-finance-minister-asad-umar

PAKISTAN'S EXTERNAL DEBT, LIABILITIES SHOOT TO RECORD AT $96.7B
By Shahbaz Rana

Published: December 5, 2018

ISLAMABAD: Pakistan's external debt and liabilities soared to a record $96.7 billion by the end of September 2018, which appeared understated by $3 billion, as the central bank did not explicitly show the debt taken from China for shoring up foreign currency reserves.

The external debt and liabilities increased to $96.7 billion as of September-end, reported the State Bank of Pakistan (SBP) on Tuesday.

The figure, in reality, could be nearly $100 billion. The People's Bank of China, through China's State Administration of Foreign Exchange (SAFE), has deposited $3 billion with the SBP. The latest tranche of $2 billion came in July this year.

The central bank's debt bulletin put foreign exchange liabilities at nearly $5 billion. These included $700 million in central bank deposits; $2.9 billion in swap trade deal with China and $1.4 billion worth of SDR allocations, according to the SBP data. The response of SBP's chief spokesman Abid Qamar was awaited till the filing of this report.

The $96.7-billion external debt and liabilities were higher by $1.4 billion or 1.5% compared to the level recorded in June 2018. Of the total external debt and liabilities, the government's public debt obligations including foreign exchange liabilities were $79.4 billion at the end of September.

The external public debt increased to $76.3 billion, an addition of $983 million in three months.

There was a reduction in the debt obtained from the Paris Club and multilateral lenders. The multilateral lenders' total outstanding debt stood at $27.6 billion.

The reduction in multilateral loans indicated that Pakistan's debt repayments were higher than the new inflows from international financial institutions, said former finance minister Dr Hafiz Pasha.

He said all the debt was not essentially bad as the country needed inflows to repay its maturing loans aimed at protecting the low foreign exchange reserves.

Pakistan's external debt has been growing every year due to successive governments' inability to implement policies that could ensure sufficient non-debt creating inflows. The Pakistan Tehreek-e-Insaf (PTI) government too does not have any option in the short term except for taking more loans to meet Pakistan's international debt obligations.

The International Monetary Fund (IMF)'s first post-programme monitoring report shows Pakistan's gross external debt in terms of exports was 193.2% in 2013, which deteriorated to an alarming 411% by June this year.

During this period, Pakistan's gross external financing requirements swelled from $17.2 billion to over $28 billion.

The Public Debt Management Risk Report of June 2018 showed that most of the indicators moved further towards dangerous levels while three breached the red line set in the medium-term debt strategy.

If the government is unable to have a concrete back-up plan to handle its external account, the situation may deteriorate. There are apprehensions that the country may not survive financially for long without IMF support.

The currency depreciation is expected to further increase the debt burden. IMF's past reports noted that stress tests suggest that Pakistan's external debt-to-GDP ratio would be affected by adverse shocks. Pakistan's gross official foreign currency reserves as of the end of November stood at only $8 billion. Net international reserves are negative $10 billion.

The gross official foreign currency reserves include loans of $7.2 billion the central bank has acquired from domestic banks to shore up its reserves and $4 billion Chinese and Saudi Arabian deposits.

Owing to the huge domestic and foreign borrowings, debt servicing is now the single largest expenditure in the federal budget, estimated at Rs1.84 trillion or 34.7% for fiscal year 2018-19. A sum of $2.5 billion was spent on servicing the outstanding stock of external debt during first quarter of this fiscal year, according to the SBP.

The country paid $1.9 billion in principal loans and $522 million in interest on outstanding loans in just three months.

Published in The Express Tribune, December 5th, 2018.

https://tribune.com.pk/story/1860332/2-pakistans-external-debt-liabilities-shoot-record-96-7b/

PAKISTAN'S DEBT AND LIABILITIES SURGE TO RS31 TRILLION
By Shahbaz Rana

Published: December 7, 2018

ISLAMABAD: Pakistan's debt and liabilities rose to nearly Rs31 trillion at the end of September 2018 with an addition of Rs984 billion in just three months.

The increase comes amid concerns over a rapid rise in the debt burden in coming months owing to currency depreciation and interest rate hike.

Statistics released by the State Bank of Pakistan (SBP) showed that by the end of first quarter of the current fiscal year, the country's total debt and liabilities soared to Rs30.9 trillion. Within a span of just three months, there was an increase of Rs984 billion, or 3.3%, in the overall debt.

Of the Rs30.9 trillion, the gross public debt, which is the direct responsibility of the government, stood at Rs25.8 trillion. There was an increase of Rs839 billion in the gross public debt in three months, which was far higher than the overall budget deficit of Rs542 billion for the period.

One of the key reasons behind the higher debt was the increase in interest rate and depreciation of the rupee during July-September 2018.

A single rupee devaluation adds Rs97 billion to the public debt. Similarly, a 1% increase in interest rate increases the cost of debt servicing by roughly Rs180 billion. This ultimately increases borrowing requirements of the finance ministry.

The impact of currency depreciation and interest rate hike after September will be visible in next bulletin of the central bank. Since January, the central bank has let the currency weaken by one-third and has jacked up the interest rate by 4.25%. Total debt and liabilities also include the public sector enterprises' (PSEs) debt, non-governmental external debt and inter-company external debt from direct investors abroad. Excluding liabilities, the country's total debt swelled to Rs29.4 trillion.

The Ministry of Finance has not yet initiated the formal process to amend the Fiscal Responsibility and Debt Limitation Act 2005 to correct an anomaly created by the previous government. Former finance minister Ishaq Dar had twice amended the law to understate the debt. Because of the change in definition, the public debt, reported by the finance ministry, is Rs2 trillion lower than the actual debt burden.

Finance Minister Asad Umar has promised to address the issue.

The government's domestic debt surged to Rs16.9 trillion with an addition of Rs507 billion in first three months of the current fiscal year.

The government's external debt increased to a record Rs8.1 trillion by the end of September, a net addition of Rs327 billion in three months. The total external debt and liabilities surged to Rs12 trillion on the back of currency devaluation. The non-government external debt has also crossed Rs2 trillion.

The PSEs' total debt grew to Rs1.5 trillion at the end of September, registering an increase of Rs80.7 billion or 6% in just three months. Their domestic debt soared from Rs1.07 trillion to Rs1.12 trillion. Their external debt also increased by Rs29 billion to Rs353.6 billion.

The Pakistan Tehreek-e-Insaf (PTI) government has promised to reform the loss-making enterprises. It has announced that it will set up Pakistan Sarmaya Company to separate these entities from the line ministries. The debt taken by Pakistan from the International Monetary Fund (IMF) remained unchanged at Rs741 billion in the three months due to currency devaluation. This was despite the fact that Pakistan returned nearly $133 million to the IMF during the first quarter.

Total liabilities, which are indirectly the responsibility of the finance ministry, slightly decreased to Rs1.42 trillion by the end of September. Domestic liabilities dropped from Rs820 billion to Rs809 billion. External liabilities decreased from Rs622 billion to Rs620 in the three months. Owing to a massive increase in the debt stock, the country's interest payments have increased significantly.

Interest payments on debt stood at Rs362.8 billion at the end of first quarter. The government paid Rs298.3 billion in interest payments on domestic debt and Rs64.5 billion on external debt, which was quite a high figure. The external debt servicing in the first quarter of the last fiscal year was only Rs40 billion.

The depreciation of the currency has also significantly increased the cost of external debt servicing.

https://tribune.com.pk/story/1861720/2-pakistans-debt-liabilities-surge-rs31-trillion/

‘ONLY 1PC OF THE POPULATION ARE TAX FILERS, 70PC OF THE ECONOMY IS UNDOCUMENTED’

Farman Ali December 08, 2018

ISLAMABAD: Economists and energy experts on Friday called for structural, legal and fiscal reforms to bring the country out of crisis.

They suggested increasing the tax base, improving the capacity of state institutions, inclusiveness and creating a technology-friendly environment to create jobs and harnessing the talents and skills of the younger generation, who comprise 60pc of the population.

During a panel discussion on ‘The Dynamic Global Economy: Fostering the Pakistan Advantage’ organised by a public diplomacy initiative, Raabta, experts attempted to address some of the tricky questions such as population growth, fiscal and financial imbalances, the direction of the government for steering the country out of economic crisis, the International Monetary Fund (IMF) bailout and its impact on the citizens.The discussion was moderated by broadcast journalist Sidra Iqbal.

Zuhair Khalique, co-founder and partner at TeamUp, the service delivery partner of the National Incubation Centre, pinpointed flaws in the tax collection system, laws and population growth as major impediments to the economic development.

“Only two million people, or 1pc of the population, are tax filers and 70pc of the economy is undocumented and the population is growing at an alarming rate,” he said, and suggested expanding the tax base and other corrective measures to turn around the downward slide in the economy.

A business executive with global experience in telecom, technology and micro-finance, Mr Khalique said there were lots of opportunities for young people to address local issues.

He highlighted the importance of a knowledge economy in the global economy and cited the example of freelancers who together earn billions of dollars while working from home. He emphasised skill training and creating a value chain to tap the potential of youth.

Sarim Sheikh, president and CEO of General Electric Pakistan, Central Asia Region, expressed concern about the global economic outlook which is posing a challenge for Pakistan.

He said the short-term issue was not of the availability of energy but its affordability. He spoke about global trends in addressing energy issues and suggested more investment in digitisation and the promotion of new technologies. He said the world had invested two-thirds of its resources in alternative energy while Pakistan was investing 85pc of its resources in thermal energy generation.

About the global economic outlook, Mr Sheikh described the technology wave as a major challenge which was taking away jobs and quoted an Oxford University study which stated that 40pc of the jobs in UK would vanish by 2030. He lauded the former PML-N government for taking the country out of the energy crisis.

Mr Sheikh stressed improving the capacity of state institutions and listed three global trends that Pakistan needed to emulate, including the decentralisation of power generation and transmission, decarbonisation of energy and digitisation.

He said most subsidies were directed towards rich people rather than facilitating the poor.

Hasaan Khawar, an international development and public relations professional, said time was running out for Pakistan and that the situation would worsen if the current deficit was not curtailed.

While some of the panellists were of the opinion that the government was in a stronger position to make legislations and revamp laws making them compatible with modern needs, Mr Khawar dispelled the notion that the present government was strong. He said it was in fact fragile because of many allies and was unprepared to meet the current challenges.

“The government has no political will to deliver on major promises it had made before elections,” he said.

Responding to a question, World Bank Manager Operations Melinda Good said there was no magic wand for bringing back money laundered abroad, adding the exchange rate was a reflection of competitiveness.

She said creating jobs and building houses was not an easy job.

Noted defence expert retired Lt-Gen Talat Masood said Pakistan’s advantageous location had not been exploited to the full and stressed on the normalisation of ties with neighbouring countries.

Published in Dawn, December 8th, 2018

https://www.dawn.com/news/1450045/only-1pc-of-the-population-are-tax-filers-70pc-of-the-economy-is-undocumented

WORLD BANK SEES MODERATE GROWTH IN REMITTANCES
Amin Ahmed Updated December 09, 2018

ISLAMABAD: While remittances to South Asia are projected to increase by 13.5 per cent in 2018, the growth of remittances in Pakistan is projected to remain moderate at 6.2pc due to significant declines in inflow from Saudi Arabia, the largest remittance source for the country.

The new World Bank report, “Regional Trends in Migration and Remittance Flows”, released on Saturday, says that the remittances to Pakistan is expected to touch the figure of $20.9bn in 2018, which is 6.9pc of GDP. India remains on top with the figure of $79.5bn.

After slow growth of 2.4pc in 2016, remittances remained nearly flat in 2017 largely due to significant declines in inflows from Saudi Arabia, and this trend continued into early 2018, the report says.

Bangladesh remained at third position with $15.9bn followed by Nepal, Sri Lanka, Afghanistan, Bhutan and Maldives. Remittances to South Asia are projected to increase by 13.5pc in 2018, a faster pace than the 5.7pc growth seen in 2017.

The upsurge is driven by stronger economic conditions in high-income economies particularly the United States and an increase in oil prices up to Oct 2018, which had positive impact on remittance outflows from some Gulf Cooperation Council (GCC) countries such as the UAE, which reported 13pc growth in outflows in the first half of this calendar year.

In the GCC countries, which host a significantly larger per capita share of foreign workers, the deployment of workers from South Asia has been declining.

According to the World Bank's Remittance Prices Worldwide Database, the cost of sending money to LMICs remained almost stagnant at 6.9pc in the third quarter of 2018.

This is more than double the Sustainable Development Goal target of 3pc by 2030. The cost for South Asia was the lowest, at 5.4pc, while Sub-Saharan Africa continued to have the highest average cost, at 9pc.

South Asia had the lowest average remittance costs of any world region – at 5.4pc – in the third quarter of 2018. But this is somewhat higher than the 5.2pc costs seen in the previous quarter and a reversal of the steady declines seen since the second quarter of 2017, the report says.

With regard to the migration trends, the report estimates that in Pakistan, the number of workers registered for overseas employment dropped by 41pc — 0.83 million in 2016 to 0.5m in 2017.

According to the report, remittance flows to low- and middle-income countries are expected to reach $528bn in 2018, an increase of 10.8pc over 2017. Remittance flows rose in all six regions, notably in Europe and Central Asia (20pc) and South Asia (14pc).

Growth was driven by a stronger economy and employment situation in the US and a rebound in outward flows from the GCC countries and the Russian Federation. However, downside risks to economic growth and restrictive immigration policies in many countries may moderate the future growth of remittances.

Published in Dawn, December 9th, 2018

https://www.dawn.com/news/1450354/world-bank-sees-moderate-growth-in-remittances

NEWS COVERAGE PERIOD FROM NOVEMBER 26TH TO DECEMBER 2ND 2018

INITIATIVES TO REVIVE ECONOMY, FIGHT POVERTY FINALISED

Syed Irfan Raza Updated November 26, 2018

ISLAMABAD: Prime Minister Imran Khan on Sunday chaired a meeting of the Economic Advisory Council (EAC) and took important decisions to revive the crippling economy and overcome poverty.

The meeting approved a grant of Rs5 billion for Prime Minister's Naya Pakistan Housing Programme (NPHP). It also accorded approval to utilisation of $40 million for poverty alleviation.

The money is already available under the International Fund for Agricultural Development's (IFAD) 40-year zero per cent loan arrangement.

IFAD is an international financial institution and a specialised agency of the United Nations.

Talking to Dawn, a participant of the meeting said the prime minister had approved a grant of Rs5bn for the NPHP and it was decided that $40m loan, available under the last year's IFAD programme, would be spent for overcoming poverty in the country.

Economic Advisory Council okays utilisation of $40m IFAD fund

The EAC meeting, held at the prime minister's Banigala residence, approved policy recommendations for a medium-term structural reforms framework for the economy. It also approved a social protection framework for vulnerable segments of society.

The framework is aimed at overcoming the challenges of poverty, health, stunted growth and education and enabling the youth to realise their potential and extricate themselves from generational poverty traps.

The meeting was attended by Minister for Finance Asad Umar, Minister for Planning Makhdoom Khusro Bakhtiar, PM's adviser Dr Ishrat Hussain, State Bank Governor Tariq Bajwa, Finance Secretary Arif Ahmad Khan, former SBP governor Syed Saleem Raza, Professor Dr Naved Hamid of Lahore School of Economics, economist Sakib Sherani, LUMS Associate Professor Dr Faisal Bari, Pakistan Institute of Development Economics Vice Chancellor Dr Asad Zaman, Sustainable Development Policy Institute Executive Director Dr Abid Qayyum Sulehri, Adviser/Executive Director General (IERU) Dr Khaqan Hassan Najeeb and other senior officials.

The meeting was briefed on policy recommendations for mobilising finance for development, increasing exports, strengthening small and medium enterprises (SMEs), carrying out tax reforms, job creation impact of major policy actions and social protection priorities in the light of deliberated proposals of the EAC working groups.

The policy recommendations were finalised to focus on acceleration of under-utilised areas, including agriculture, housing, SMEs in terms of incentives, reliance on export-oriented and labour-intensive growth, reversal of anti-export bias, enhanced system automation and use of technology, transparency in trade regime, facilitating importers, job creation through skill development, ease of doing business through business-friendly environment while focusing on productivity and moving on technology sophistication.

Prime Minister Khan said the finalisation of these policies was essential for laying foundation of a sustainable, inclusive, job creating and export-oriented economic growth strategy as part of the government's 100-day plan.

Published in Dawn, November 26th, 2018

https://www.dawn.com/news/1447690/initiatives-to-revive-economy-fight-poverty-finalised

PM APPROVES SOCIAL PROTECTION FRAMEWORK FOR VULNERABLE SEGMENTS OF SOCIETY
APP November 25, 2018

Prime Minister Imran Khan on Sunday approved a social protection framework for the vulnerable segments of the society, ensuring that they were protected against certain issues affecting them.

The comprehensive social protection framework is aimed at overcoming the challenges of poverty, health, stunted growth, education and would enable the youth to realise their potential and extricate themselves out of the generational poverty traps.

Chairing a meeting of the Economic Advisory Council, the prime minister also approved the policy recommendations for a medium-term structural reform framework of the economy, read a statement issued by the PM Office media wing.

Finance Minister Asad Umar, Minister for Planning Khusro Bakhtiar, premier's adviser Dr Ishrat Hussain, former State Bank governor Syed Saleem Raza, Lahore School of Economics professor Dr Naved Hamid, economist Sakib Sherani, Associate Professor at LUMS Dr Faisal Bari, and other senior officials were present during the meeting.

The meeting was briefed on the policy recommendations for mobilising finance for development, enhancing exports and strengthening SMEs, tax reforms, job creation impact of major policy actions and social protection priorities in Pakistan, in the light of the deliberated proposals of the working groups of the Economic Advisory Council.

The policy recommendations were finalised to focus on acceleration of underutilised areas including agriculture, housing, small and medium enterprises in terms of incentives, reliance on export-oriented and labour intensive growth, reversal of anti-export bias, enhanced system automation and use of technology, transparency in trade regime, facilitating importers, job creation through skill development, ease of doing business through business-friendly environment while focusing on productivity and moving on technology sophistication.

Finalisation of these policies is for laying the foundation of a sustainable, inclusive, job creating and export-oriented economic growth strategy as part of the government's 100 Days Plan, it added.

https://www.dawn.com/news/1447594/pm-approves-social-protection-framework-for-vulnerable-segments-of-society

PAKISTAN CAN LIVE WITHOUT IMF BAILOUT, ECONOMIST SAYS
Farman Ali November 29, 2018

ISLAMABAD: Economists and academics called for a home grown package to avoid the harsh prescriptions of an International Monetary Fund (IMF) bailout and protection for the vulnerable segments from the burden of structural adjustment programmes.

Speaking at a panel discussion on the Current Economic Challenges and the need for Social Protection: Where Does Pakistan Stand, held at the Oxford Bookshop on Tuesday, experts called for collective political efforts for meeting the challenges of balance of payment and budged deficit.

They also stressed on structural reforms in financial institutions, economy and tax system and cuts in the defence expenditure to tackle the financial crisis among other measures.

“We should refuse IMF dictations as Pakistan can live without it,” said economist Asfaque Hassan Khan who is also a former federal secretary.

He said he had advised the premier to not go for an IMF bailout package. He proposed floating sukuk and sovereign bonds to generate $17 billion and advocated a free float of the Pakistan currency, saying no country can be stable with a fixed exchange rate.

MNA Dr Aisha Ghaus-Pasha said the gap between resources and expenditure is widening and that it cannot be narrowed by short-term programmes.

She said the government should make a concrete plan on how to deal with the energy issue, the increasing circular debt and budget deficit and share it with other political parties and the public.

Board of Investment Executive Director-General Saleem Ahmed Ranjha stressed on local investment which amounts to 90pc to 95pc of the total investments, adding that foreign direct investment has never crossed $10 billion, which is 6pc of the budget.

He said the Saudi and UAE investments in oil and energy sectors may offset IMF dependency.

Published in Dawn, November 29th, 2018

https://www.dawn.com/news/1448272/pakistan-can-live-without-imf-bailout-economist-says