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Advancement of skills for tomorrow's challenges
Awareness of social and community responsibility
Value creation for all stakeholders

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CHINA–PAKISTAN ECONOMIC CORRIDOR

AN OUTLINE

Strategic Framework and Significance

With the end of cold war, the world has entered a multipolar phase of global governance with the increasing powers of emerging economies China, India, Brazil, Russia and South Africa (BRICS). As a result, interdependence among states increased and now states have begun to develop their diplomatic relations with each other on the basis of their geostrategic and geopolitical interests. Likewise, Pakistan and China, considered as two all 'weathered' strategic and diplomatic partners in South Asia, decided to enlarge their relationship in broader spectrum. In the past, generally they did cooperate with each other in political and military affairs but over the time, they felt the need to develop economic ties with each other to gain compatibility in the changing dynamics of the international milieu.

The CPEC is being conceived as a kingpin of the plans by the two countries to deepen their economic cooperation. Early implementation of the CPEC would be transformational for Pakistan's economy and fit together perfectly with China's strategy of developing its inland and western regions.

Benefits for Pakistan

For Pakistan, trade is not the only motivation for advancing the CPEC. The CPEC is a project for a network of railways, roads and pipelines connecting Pakistan's port city of Gwadar in the province of Balochistan with the Chinese city of Kashgar in the landlocked XUAR. As given in the European Parliament's (Policy Department) analysis, it requires infrastructural upgrades to Pakistan's outdated railway system, road network, pipelines, ports and electricity production, as well as the stabilization of the country's security environment. According to the analysis, apart from trade, "the project may also help tackle Pakistan's volatile security situation. The CPEC route is supposed to cross the province of Khyber-Pakhtunkhwa and an area of North Waziristan that falls in the Federally Administered Tribal Areas (FATA). Both are home to Taliban and militant activity. [...] Local terrorism represents a danger for the Chinese workers and infrastructure in the region, and to the CPEC project as a whole: it is currently uncertain that the routes will ever be secure enough to be economically viable."

The Pakistani government has, at Beijing's request, established a special security division for the sole purpose of providing security for Chinese workers, engineers and other personnel.

Pakistan and China have signed 39 agreements worth of $46 billion under CPEC. The four main areas of collaboration between the two countries are infrastructure, transportation, energy, and industrial cooperation.

China Is Going To Be an Equal Beneficiary

While economic opportunities and development will largely benefit Pakistan, CPEC's importance to China's geopolitical and economic goals is reflected by the inclusion of the project as part of China's 13th five year development plan by the leaders of the Communist Party of China who approved proposals for the plan.

1. China's interest in the project is strategically driven by its President Xi Jinping's visionary concept of integrating regions and countries across the globe under the Silk Road Economic Belt and the 21st century Maritime Silk Road initiative. "It envisages deepening policy

coordination amongst countries and regions, extending and improving infrastructure connectivity in all its forms—road, air, rail, telecommunications, energy, etc.—across regions, fostering trade and investment flows, and last but not the least, enhancing people to people connectivity. CPEC fits naturally into this vision of a 'road and belt' with Gwadar and Karachi serving as its southern nodes and an outlet to the Arabian Sea and Persian Gulf."

2. The Gwadar-Xinjiang route will also provide China with access to the Indian Ocean and the Middle East's vast trade in petroleum, an important factor in securing access to long term raw material supplies. The route can also serve as an alternative to the Malacca straits, which China currently uses to access the Middle East, Africa and Europe. According to a report, "around 80% of China's trade and energy imports travel through the pirate-swarmed Strait of Malacca and Indian Ocean, both patrolled by the United States and Indian Navies. These possible chokepoints at Malacca Strait are a security issue for China, particularly regarding oil as 40% of China's general consumption passes through the Malacca Strait. Any conflict could block the China's energy supply; as a result, supply ships would need to travel an extra 500 miles to avoid the Malacca Strait, currently the fastest route from the Indian Ocean to the Pacific. China is aware of this vulnerability and is looking to Pakistan to provide a shorter and safer alternative."

3. Further, CPEC also provides China with an entry point to the Persian Gulf. Strategically some countries are worried that China is broadening its geopolitical influence and possibly its military presence in the region. They suspect that Gwadar port would serve as a Chinese Naval facility, and it only comes at a cost of about $46 billion.

4. It is said that China would be able to make attractive financial returns as all these projects are being done in an investment mode, returns on which would be much better than the US treasury instruments where China parks bulk of its foreign exchange.

5. Moreover, the projects "would help Chinese firms and labor as machinery used in the infrastructure projects would be procured from China and the projects would also employ a large number of Chinese labor." Additionally, China's market will further boost up, and it will become economically stronger. In fact, "China can play a significant role in the Asian region in terms of economic uplift and regional stability as an economic giant and future super power."

6. China will also get the chance to develop its North-western province Xinjiang, which is an under developed area, and a separatist movement has also been started by Uyghur's Muslims. By developing the socio-economic framework of that region, China can curtail aggressive sentiments against its central government. In the words of the European Parliament (Policy Department) report,

   > *"The Chinese government, for which territorial integrity is of paramount importance, is not ready to relax power over its furthermost provinces. In addition to adopting domestic initiatives, Beijing is working to stabilize its western neighbours and eradicate foreign breeding grounds for extremism. Beijing hopes that the CPEC can alleviate poverty in XUAR [Xinjiang Uighur Autonomous Region] and thereby reduce local's resentment of the central government. In this sense, China could be said to pursue its commercial objectives across Pakistan not in spite of the security situation, but because of it."*

7. China can also counter the US dominance in the region through the accomplishment of CPEC. China sees US "pivot to Asia" strategy against its fundamental interests, with a view that "US wants to hamper its progress and development by improving cooperation and making alliance with rising powers (India, Singapore, Malaysia, North Korea and other East-Asian countries) so that it can keep its supremacy and hegemony in the South-Pacific region."

Beneficial for the whole region: the Eurasian Union

The Eurasian Union is a trade organization led by Russia with Belarus, Armenia, Kazakhstan and Kyrgyzstan as the other members of the union. Kazakhstan and Kyrgyzstan theoretically move its potential economic reach closer to South Asia, but the unincorporated nature of Uzbekistan and the security problems in Afghanistan pose a major impediment to direct trade with South Asia. To deal with these geopolitical obstacles and reach that regional market, two alternatives have thus developed, and they are the North-South corridor between Russia–Iran–India via the Caspian and Arabian Seas and the CPEC. Additionally, by bringing the Eurasian Union into contact with SAARC-member Pakistan, a steadfast and growing economy, it can provide a direct trade opening with the rest of the South Asian bloc.

In a major sense, CPEC represents not only a geopolitical pivot for China, but also a geo-economic one as well, since it will position the country within easy access to the Mideast oil fields on which so much of its economy depends. creating a system of real-sector trade infrastructure such as roads and rails between Central Asia (Eurasian Union) and Pakistan (SAARC) intersecting in Xinjiang would lead to enormous economic development in China's most far-flung and vulnerable province Xinjiang. Should Xinjiang succeed in becoming a significant Eurasian trading hub in connecting China, the Eurasian Union, SAARC and Iran, then it would catapult in geo-economic significance and become an extension of the super continental and ultra-strategic Heartland region.

One of the primary themes of the 21st century is shaping up to be Eurasian integration, in the sense of establishing a super continental-wide economic space. The EU is presently being kept out of this exciting process out of its own prerogative, having succumbed to American pressure to mistakenly believe that its economic future resides in the trans-Atlantic direction instead of the trans-Eurasian one. Nonetheless, the rest of the main continental economic powers – the Eurasian Union, Iran, SAARC, and China – stand poised for closer integration with one another owing to the infrastructural overlap that Pakistan's geostrategic location provides.

Understanding the pivotal importance of Pakistan and also eager to build a foundation of political trust with its leadership so as to better assist in managing Pakistani-Indian tensions, Moscow took the bold step in reaching to Islamabad and soliciting a strategic partnership. The quick pace that it has developed over the past year suggests that this revolutionary relationship is a natural fit for both partners, notwithstanding the threats of Balochistan separatist movement, Al-Qaeda/ ISIL terrorism, and internal political strife that it faces. If these threats can properly be defended against, perhaps with unified trilateral assistance from Russia, China, and Iran, then Pakistan can prevail in becoming Eurasia's economic 'zipper' and linking these (and perhaps even SAARC's) economies together in an emboldened multipolar future.

In Summary

The CPEC project is being viewed as very beneficial not only for the states involved but also for the region as well. Pakistan, Afghanistan and Central Asia have missed out on Asia's economic boom, leaving them vulnerable to unrest. Ideally, CPEC would promote growth in Pakistan, weaken the extremists, encourage the country's Army to support peace efforts in Afghanistan, and begin to knit together a fragmented region with new development and trade.

China has like a true friend provided Pakistan with the means to improve its road infrastructure as well as to overcome its energy shortages. Both are vital for economic progress and can have a multiplier effect on the economy by creating jobs as well as by increasing production and output. A huge responsibility now rests on the shoulders of the government, opposition politicians, the

bureaucracy, the entrepreneurs and the people of Pakistan to lay their differences and concerns aside and make this huge and daring enterprise a success.

PLANNED PERIOD

The planned period of the project is 2014-2030, with the short-term 2014-2020 (with priority projects before 2018), medium and long term 2021-2030 as well as long-term prospects after 2030.

Planned Stages

1. **Short-Term Objectives (2014-2020)**

   Roads: On the basis of achieving comprehensive connection of Kashghar–Islamabad Section, to improve road safety and service levels; enhance the traffic capacity of Mansehra–Islamabad Section; relieve traffic pressure of Islamabad–Karachi Section; improve the traffic capacity; build up Islamabad–Karachi Expressway in addition to Sukkur–Hyderabad Section; build up Sukkur-Gwadar Section basically.

   Railways: To implement the expansion and reconstruction of existing line ML-1 and improve the transport capacity of railway from Islamabad to Karachi.

   Gwadar Port: To promote port-city construction, gradually from the collection and distribution system, gradually recover the handling capacity of the port, create a safe, excellent business environment and build favorable conditions for the development of the port, urban area and industries to achieve the initial development of trade and logistics.

2. **Mid And Long Term Objectives (2021-2030)**

   Roads: China–Pakistan Economic Corridor reaches Grade II and above technical standards. Among which the road between Kashgar to Mansehra reaches Grade II and above technical standards; the Mansehra–Islamabad–Lahore–Karachi section is comprehensively connected by expressways; the road between Sukkur to Gwadar (M8) reaches the Grade II technical standards.

   Railways: To complete the expansion and reconstruction of existing line ML-1 and build a new railway from Gwadar to Sukkur. (Jacobabad)

   Gwadar Port: Basically, to complete the collection and distribution system, perfect the Free Trade Area (FTA) construction, and initially built Gwadar International Maritime Logistics Distribution Center.

PROJECTS UNDER CPEC:

1) **Roadway Infrastructure Projects**

a) Northern Route
   i) Karakoram Highway
b) Eastern Route
   i) M-5 Motorway
   ii) M-9 Super Highway
c) Western Route
   i) N-85 Highway (Central Balochistan to Hoshab)
   ii) M-8 Motorway (Hoshab to Gwadar)

2) **Railway Infrastructure Projects**

a) Overhauling of 1,2, and 3 main Railway Line
b) Orange Line Metro
c) Khunjerab Railway

3) **Energy Sector Projects**

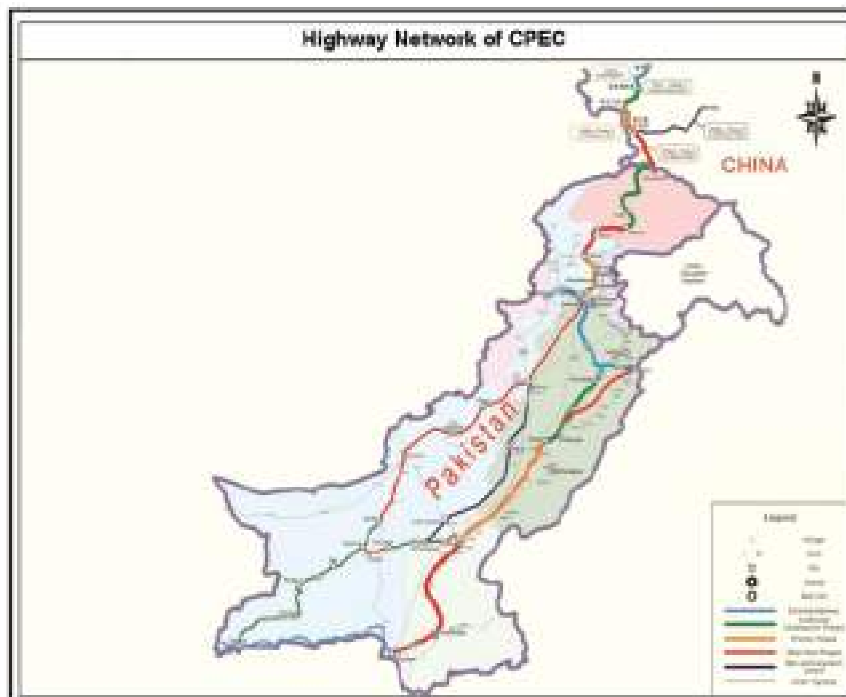
a) Renewable Energy Projects
   i) Quaid-e-Azam**1000 MW** Solar Park
   ii) Jhimpir**100MW** Wind Power Plant (Pakistan Wind Farm II (Jhimpir, Thatta)
   iii) UEP 100MW, Sachak**50MW**,Sunnec**50MW** Wind Farm (Jhimpir, Thatta)
   iv) Dawood**50MW** Wind Farm, Sindh
   v) SukiKinari**870MW** hydroelectric power plant, Kaghan Valley
   vi) **720MW**Karot Hydro Power Station
   vii) **1,100MW**KohalaHydel Power Project

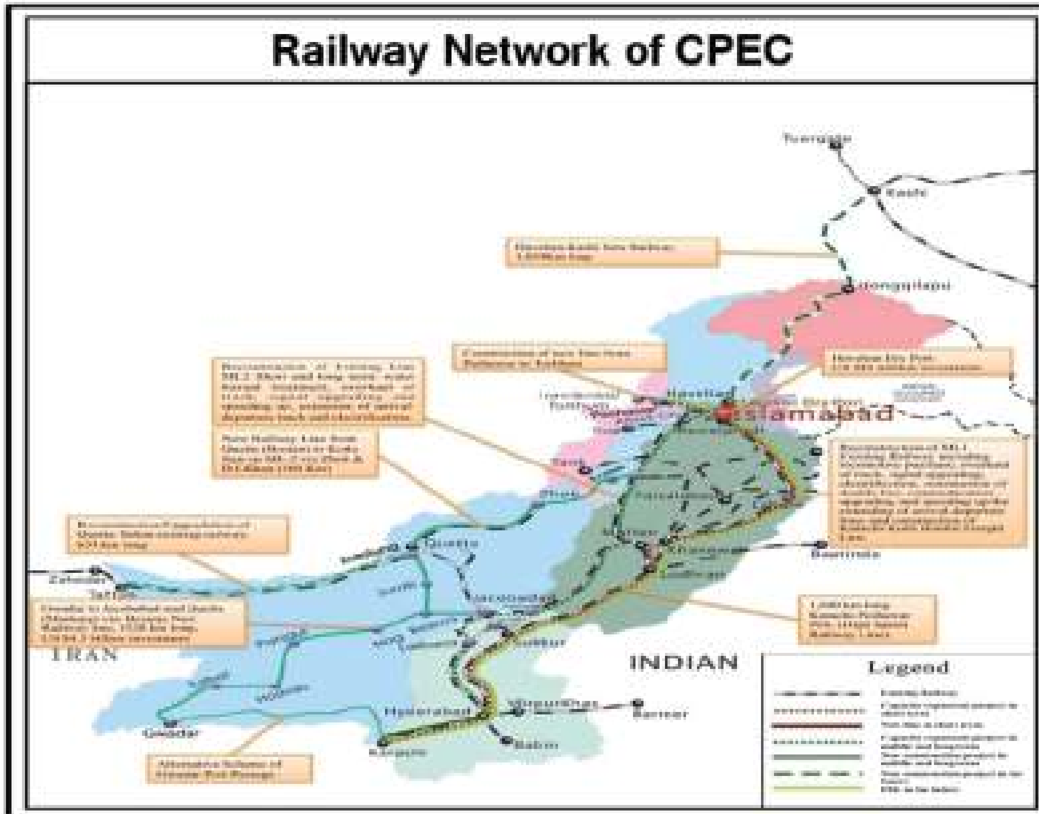
b) Coal
   i) **4x660 MW** power plant as part of the "Thar-I" project
   ii) Pakistan's Engro Corporation will construct two **330MW** power plants
   iii) Engro Corporation to develop coal mine capable of producing up to 3.8 million tons of coal per year as part of the first phase of "Thar-II Project"
   iv) **1320MW**Muzaffargarh Coal Power Project "Thar-II Project"
   v) **1320MW**Rahimyar Khan Coal Power Project "Thar-II Project"
   vi) **1320MW** SSRL Thar Coal block 6.5mpta & CPIH Mine "Thar-II Project"
   vii) US$ 1.5 Billion Matiari to Lahore Transmission Line
   viii) US$ 1.5 Billion Mitiari to Faisalabad Transmission Line
   ix) **1320MW** US$ 2.08 Billion Port Qasim Power Project
   x) **1320MW** US$ 1.8 Billion Sahiwal Coal Power Project
   xi) **300MW** coal power plant in Punjab's Salt Range along with Coal Mine
   xii) **660MW** HUBCO Coal Power Plant
   xiii) **300MW** Coal Power Plant at Gwadar

c) Gas
   i) **525MW** Gas Power Plant at Chichoki Malian

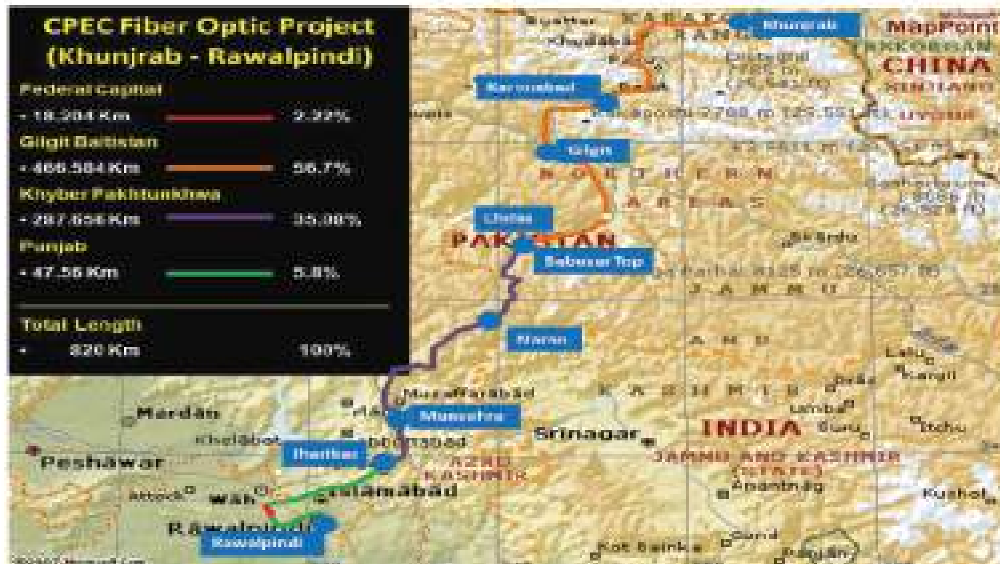
4) **Projects in Gwadar Port and City**

a) Eastbay expressway along Gwadar's east bay
b) US$ 230 Million Gwadar International Airport
c) Construction of breakwaters
d) Dredging of berthing areas & channels
e) Infrastructure for Free Zone & EPZs port related industries
f) Necessary facilities of fresh water treatment and supply
   i) Desalinization Plant
g) 300 bed Hospital at Gwadar
h) Technical and vocational training institute at Gwadar
   i) Pak-China Technical and Vocational Institute at Gwadar completed in March 2016 at the cost of Rs943 Million





Railway Network of CPEC
Islamabad
Quetta
IRAN
INDIAN
Legend
Hyderabad



CPEC Fiber Optic Project (Khunjrab - Rawalpindi)
Federal capital
- 18.204 Km 2.22%
Gilgit Baltistan
- 466.584 Km 56.7%
Khyber Pakhtunkhwa
- 287.656 Km 35.08%
Punjab
- 47.56 Km 5.8%
Total Length
- 820 Km 100%
Khunjrab
Karimabad
Gilgit
Chilas
Babusar Top
Naran
Mansehra
Mardan
Peshawar
Islamabad
Rawalpindi
Srinagar
INDIA
CHINA
MapPoint
PAKISTAN

Existing Gwadar Airport **Proposed Gwadar Airport**

Quaid-e-Azam Solar Park

Gwadar Port

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SUMMARY OF PROJECTS

CPEC Portfolio Projects

As of November 12, 2015

PROJECTS	COST (US$ in million)
Energy	32,663
Transport & Infrastructure	
Roads	6,100
Railways	3,690
Gwadar Port	793
Others	46
TOTAL	43,292

Projects Identified – With Specs

CPEC: Energy Priority Power Projects

S.No.	PROJECTS	MW	COST (US$ in million)	COMPANY	STATUS	COMPLETION
1	Port Qasim Coal Fired	1,320	1,980	Sinohydro& Al-Mirqab	IA/PPA Signed	Dec-2017
2	Sahiwal Coal Fired Power Plant	1,320	1,600	Shandong Ruyi Group &Huaneng Shandong power Gen Co.	Gen. License Issued	Dec-2017
3	EngroThar Coal Fired	1,320	2,000	CMEC China Machinery Engg/ Engro Power Gen	IA/PPA Signed	Dec-2017
4	Surface Mine Thar Coal Block 2		1,720	CMEC China Machinery Engg/ SECMC	Term Sheet by Finance Div. approved	Dec-2017
5	Gwadar Coal Power Project	300	360	China Communication Construction Company	Pre-feasibility submitted to PPIB	To be determined
6	Muzaffargarh Coal Power Project	1,320	1,600	Not Awarded	Plant ESIA	To be determined
7	Rahimyar Khan Coal Power Project	1,320	1,600	Huaneng Shandong power Gen Co.	Plant ESIA	To be determined
8	SSRL Thar Coal Block 1	1,320	1,300	Sino Sind Resources Ltd.	CCTEG &Global Mining China	Dec-2017
9	SSRL Thar Mine Mouth Power Plant			Sino Sind Resources Ltd. & Shanghai Electric Group	OB Removal	Dec 2018
10	QuadiAzam Solar Park	900	1,350	Zonergy	IA/EPA	Dec-2017
11	HUBCO Coal Power Plant	660	970	China Power Intl & Hub Power Co.		
12	Dawood Wind Farm	50	125	Hydro China	Financial Close	Sept-2016
13	UEP Wind Farm, Jhimpir Sindh	100	250	HydroChina/Gold Wind China/ United Energy Pak.	Financial Close	Sept-2016
14	Sachal Wind Farm, Jhimpir Sindh	50	134	Hydro China, Sachal Energy Development	Financial Close	Sept-2016
15	12 Sunnec Wind Farm, Jhimpir, Sindh	50	125	Sunnec China	IA Issued	Sept-2016
16	SukiKinari Hydropower Project, KPK	870	1,802	China Gezhouba Group	Term Sheet	Jun-2022
17	Karot Hydropower Project	720	1,420	Karot Power Company Subsidiary of CTG	Term Sheet Finalization	Feb-2022
	Total Priority	11,620	18,336			

CPEC: Energy Actively Promoted Projects

S.No.	PROJECTS	MW	COST (US$ in million)	COMPANY	COMPLETION
18	Gaddani Power Park	1,320	3,960	ANC Dubai, GoP, Ciner group of Turkey	
(i)	Jetty & Infrastructure		1,200	To Be Confirmed	
(ii)	Transmission line from Lahore 7 Faisalabad to Mittiari		3,000	State Grid Corporation of China	Oct-2017
19	HUBCO Coal Power Plant	660	970	HUB Power Company	Dec-2017
20	Chichoki Malian 525MW combined cycle Power Plant (Gas Power Plant)	525	550	To Be Confirmed	
21	Salt Range Mine Mouth Power Project inc mining, Punjab	300	800	China Machinery Engg. Company	Dec-2017
22	KohalaHydel Project, AJK	1,100	2,397	China Three Gorges	Feb-2022
23	Pakistan Wind Farm II (Jhampir, Thatta, Sindh)	100	150	To Be Confirmed	
24	Thar Mine Mouth Oracle, Thar Sindh	1,320	1,300	To Be Confirmed	
	TOTAL (Actively Promoted)	**5,325**	**14,327**		

CPEC: Infrastructure Projects

S.No	PROJECTS	LENGTH (KM)	COST (US$ in million)	COMPANY	STATUS	COMPLETION
	Roads					
1	KKH Phase-II (Raikot-Islamabad Section)	440	3,500	Not Awarded	FC-I Approved FA signed for only Havelian-Thakot Section (120KM) MOU with MoF signed	June-2018
2	Peshawar-Karachi Motorway (Multan-Sukkur Section)	392	2,600	Not Awarded	FC-I Approved MOU with MoF com signed	Nov-2017
	TOTAL	832	6,100			
	Rail Sector Projects					
3	Expansion & Reconstruction of existing line ML-1	1,736	3,650	China Railway ERYUAN &Engg. Company, NESPAK & FRACS	FC-II Approved Framework agreement and commercial contract with consulting firms/ company signed for joint feasibility study.	Dec-2018
4	Havelian Dry Port	450 mu	40	Joint feasibility Study will be carried out by China Railway ERYUAN &Engg. Company, NESPAK & FRACS	Framework agreement and commercial contract with consulting firms/ company signed for joint feasibility study.	Dec-2018
	TOTAL		3,690			

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CPEC: Gwadar Port

S.No.	PROJECTS	COST (US$ in million)	COMPANY	STATUS	COMPLETION
1	Eastbay Expressway	141	Not Awarded	Framework agreement signed on 20-04-2015	Dec-2017
2	Gwadar Intl. Airport (landing facility for boeing-777 & airbus A-380 aircrafts)	230	Not Awarded	Framework agreement signed on 20-04-2015	Dec-2017
3	Construction of Breakwaters	123	Not Awarded	Port operationalization plan needs to be finalized to move forward on the project	Dec-2017
4	Dredging of Berthing areas & channels	27	Not Awarded	Port operationalization plan needs to be finalized to move forward on the project	Dec-2017
5	Infrastructure for Free Zone & EPZs port related industries	32	Not Awarded	Land measuring 2281 acres acquired	Jun-2018
6	Necessary Facilities of fresh water treatment & supply	130	Not Awarded	Approval of PC-I in process	Jun-2017
7	Hospital at Gwadar	100	Not Awarded	Feasibility study to be conducted	Dec-2017
8	Technical & Vocational Institute at Gwadar	10	Not Awarded	Grant application forwarded by EAD to Chinese side. MoU signed. MoU on pro-bono project at Gwadar	Dec-2017
	TOTAL	793			

CPEC: Others

S.No.	PROJECTS	COST (US$ in million)	COMPANY	STATUS	COMPLETION
1	Cross Border Optical Fiber Cable	44	Special Communication Organization, Huawei	Inaugurated during high level visit April-2015	Mar-2018
2	Hari-e-Ruba Economic Zone				
3	DTMB	2		Inaugurated during high level visit April-2015	
	TOTAL	46			
	TOTAL COST OF CPEC PROJECTS	43,292			

CPEC – PROJECT DETAILS

Transport Infrastructure Projects:

1. Karachi–Lahore Motorway, Sukkur–Multan Section, 387 Km

Karachi–Lahore Motorway (KLM) envisages construction/ development of 6-lane access controlled motorway having total length of 1152 km. The proposed Karachi–Multan–Lahore Motorway shall be a tolled facility. It shall originate from Karachi through Motorway M-9 (136 km) up to Hyderabad. From Hyderabad onwards, the proposed alignment shall follow a virgin alignment for 296 km up to Sukkur. The Sukkur–Multan section, 387 km, essentially follows the left bank of River Indus. The Motorway from Multan to Khanewal is 57 km and from Khanewal up to Lahore is 276 km.

a) Location: Province of Punjab and Sindh
b) Responsibility: Ministry of Communications (sponsoring agency)
National Highway Authority (NHA) (executing agency)
c) Project cost: Sukkur–Multan section: Rs. 259.353 billion
Sukkur–Multan section: EPC (engineering, procurement and construction) Mode Credit Financing (GoP share 10%)

2. Karakoram Highway (Phase II), Raikot to Islamabad Section

Envisaging improvement and widening of KKH section of 487 km from Raikot to Islamabad. The scope also includes provision of bridges, culverts and other allied facilities. The project has been divided into priority sections and **Thakot–Havelian** section (120 km) is taken first. This road will originate from Havelian and after passing through Abbottabad, Mansehra, Shinkiari will end at Thakot. To speed up the pace of work, the project is divided into three sub sections: Havelian–Abbottabad, Abbottabad–Mansehra and Mansehra–Thakot.

a) Location: GilgitBaltistan and KPK
b) Responsibility: Ministry of Communications (sponsoring agency)
National Highway Authority (NHA) (executing agency)
c) Project cost: Thakot-Havelian section: Rs. 92.919 billion
d) Project financing: Financing through Government Concessional Loan (GCL)
Modality: EPC

Prime Minister Muhammad Nawaz Sharif performed the ground-breaking of Havelian–Thakot section of CPEC in Mansehra on 28 April 2016. The 120 kilometer long section will be completed in 42 months at a cost of Rs. 133.98 billion. China's Exim Bank will provide 90 percent funding for the project while the Government of Pakistan will share 10 percent of the cost. The project has been awarded to M/s China Communications.

3. Rehabilitation and up-gradation of ML-1 Railway Track (1756 km)

This involves rehabilitation/ improvement of existing track that will follow the existing alignment except at locations where sharp curves are to be eased out or eliminated to allow higher speed up to 140 km/hour.

a) Location: Karachi to Peshawar via Hyderabad, Nawabshah, Rohri, Rahimyar Khan, Bhawalpur, Khanewal, Sahiwal, Lahore, Gujranwala, Rawalpindi, Peshawar

b) Responsibility: Ministry of Railways (sponsoring agency)
Pakistan Railways (executing agency)
c) Project cost (tentative): US $3.650 billion (feasibility study ongoing)
d) Project financing: Work will be carried out by financing through GCL.

4. **Havelian Dry Port** (including cargo handling facilities)

To meet the demand of containerized future freight traffic in connection with Pak-China Economic Corridor, the dry port will be established at Havelian by utilizing the railway land, railhead facilities, high-speed/ capacity stock, and potential of well-established off-dock terminal for handling bonded import/ export containers. Pakistan Railways network exists up to Havelian Railway Station situated at more than 680 km from Khunjrab. Initially, it will act as Dry Port/ container terminal for goods traffic coming through road from China through KKH. Trans-shipment arrangement will be provided at Havelian for loading/ unloading on railway wagons.

a) Location: Havelian, District Haripur, KP
b) Responsibility: Ministry of Railways (sponsoring agency)
Pakistan Railways (executing agency)
c) Project cost (tentative): US $40 million (feasibility study ongoing)
d) Project financing: Work will be carried out by financing through Chinese Government Concessional Loan

Gwadar Port related projects:

5. **East-Bay Expressway, Gwadar Port**

Currently, Gwadar Deep-Sea Port is connected through a narrow 16 feet wide thoroughfare of Gwadar town at the West-Bay. All the trawlers/ trucks loaded with imported shipments pass through this strip causing disruption of normal traffic. The port does not have a dedicated wide highway to cater the transporting requirements of the port. The port operationalization, even with the available 3 multipurpose berths, necessitates construction of the planned East-Bay expressway. This 18.981 km 4-lane expressway with embankment for 6 lanes along with the provision of 30 meters ROW (Right of Way) for railway corridor shall connect the Gwadar port with the Makran Coastal Highway through the 2300 acres Free Trade Zones of Gwadar Port.

a) Location: Gwadar district, Balochistan
b) Responsibility: Ministry of Ports and Shipping (sponsoring agency)
Gwadar Port Authority (GPA) (executing agency)
c) Project cost: Rs. 13.543 billion
d) Project financing: Chinese Government Concessional Loan
e) Duration: 30 months

6. **New Gwadar International Airport (NGIA) Project**

Construction of New Gwadar International Airport (NGIA) along with allied facilities for new airport that will be capable of handling a combination of ATR 72, Airbus (A-300), Boeing (B-737), Boeing (B-747), Airbus A-380 and Boeing 777 aircrafts for domestic as well as international routes.

a) Location: Gurandani, 26 km east of Gwadar City, Balochistan
b) Responsibility: Aviation Division (sponsoring agency)
Civil Aviation Authority (CAA) (executing agency)
c) Project cost: Rs. 23.0 billion
d) Project financing: Chinese Government Concessional Loan

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National Bank of Pakistan

7. **Pak China Technical and Vocational Institute at Gwadar**

People of Gwadar are the main/ fundamental stakeholder of the port city of Gwadar. Their participation in operation and management of the deep-sea port, participation in industrial and commercial businesses, and in urbanization processes is key to the all long-term developmental initiatives. This project is proposed to shape and enhance skills of active population of Gwadar to participate in the growth of the port city.

a)	Location:	Gwadar district, Balochistan
b)	Responsibility:	Gwadar Port Authority (sponsoring agency) Ministry of Ports and Shipping (supervising agency)
c)	Project cost:	Rs. 1 billion
d)	Project financing:	Chinese Government Grant

8. **Construction of Breakwaters, Gwadar Port**

In May 2013, operation of Gwadar Port was assigned to China Overseas Ports Holding Company Ltd. (COPHCL) for a period till 2047. Besides the operations of the existing port facilities, the operator has to carry out expansion works all along the seashore of Gwadar East Bay constructing additional terminals and port infrastructure. Under the Concession Agreement, however, construction of breakwaters and dredging works are the responsibilities of Gwadar Port Authority. For construction of berthing facilities on the eastern side of the existing multi-purpose terminal (4200 km), a 1.200-1.500 km long breakwater has to be constructed.

a)	Location:	Gwadar district, Balochistan
b)	Responsibility:	Gwadar Port Authority, MoPS (sponsoring agency) Ministry of Ports and Shipping, Government of Pakistan (supervising agency)
c)	Project cost:	Rs. 13 billion
d)	Project financing:	mix of Chinese Government Concessional Loan and Grant

9. **Dredging of berthing areas and channels, Gwadar Port**

In May 2013, operation of Gwadar Port was assigned to China Overseas Ports Holding Company Ltd. (COPHCL) for a period till 2047. Besides the operation of the existing port facilities, the operator has to carry out expansion works all along the sea shore of Gwadar East Bay constructing additional terminals and port infrastructure. Under the Concession Agreement, however, construction of breakwaters and dredging works are the responsibilities of Gwadar Port Authority. For construction of container terminals on the western and northwestern side (initially 1.200 km and up to maximum 10.000 km) of the existing multi-purpose terminal and second phase terminals on the eastern sides (4.200 km), capital dredging works and maintenance dredging on continual basis are required.

a)	Location:	Gwadar district, Balochistan
b)	Responsibility:	Gwadar Port Authority, MoPS (sponsoring agency) Ministry of Ports and Shipping, Government of Pakistan (supervising agency)
c)	Project cost:	Rs. 2.8 billion
d)	Project financing:	Chinese Government Concessional Loan

10. Infrastructure Development for Free Zone and Export Processing Zones (EPZs), Gwadar

At present, following areas have been allocated as free zones and export processing zones in the industrial locations of Gwadar. Pieces of lands have already been earmarked/ acquired for the purpose.

- Gwadar Port Free Zone: 2,280 acres
- Gwadar Industrial Estate Development Authority (GIEDA) Industrial Zone: 3,000 acres
- Export Processing Zone Authority (EPZA) EPZ: 1,000 acres

Infrastructure is required to be developed for these industrial zones, for example access roads, internal roads, water, gas, power, custom facilities, fencing, security, some warehouses, office and other allied infrastructure, etc.

a) Location: Gwadar district, Balochistan
b) Responsibility: (sponsoring agency) Gwadar Port Authority (GPA), Ministry of Ports & Shipping (MoPS)
GPA, GIEDA, and EPZA (implementing agency)
MoPS, Government of Pakistan, BOI, Government of Balochistan (GoB) (supervising agency)
c) Project cost: Rs3.450 billion (US$ 32.550 million)
d) Project financing: Chinese Government Concessional Loan

11. Necessary facilities of fresh water treatment, water supply

The project is aimed at implementing water supply, distribution system, desalination plant, sewerage collection system, and treatment plant as planned in the Master Plan of Gwadar as a mega port city in the medium term (2030) and long term (2050) scenarios.

a) Location: Gwadar district, Balochistan
b) Responsibility: Gwadar Development Authority (implementing agency)
P&D Deptt., Govt of Balochistan, and Planning, Development and Reforms Commission (supervising agency)
c) Project cost: Rs13.222 billion (US$ 130.22 million)
d) Project financing: Chinese Government Grant

12. Hospital at Gwadar (up gradation of existing 50 bedded hospital, i.e. Phase II of GDA Hospital, to be named as China-Pakistan Friendship Hospital)

This project is proposed for implementation of Phase II of 50-bedded hospital constructed under GDA Business Plan (Federal PSDP). The hospital is planned on 68 acres of land. One out of six medical blocks (each 50 bedded) and almost 20% of the residential blocks are completed. Under the proposed project, remaining medical blocks, nursing, and paramedical institutes, medical college, central laboratory, and other allied facilities are to be constructed with supply of medical equipment and machinery.

a) Location: Gwadar district, Balochistan
b) Responsibility: Gwadar Development Authority (implementing agency)
P&D Deptt., Govt of Balochistan, and Planning, Development and Reforms Commission (supervising agency)
c) Project cost: Rs. 10 billion
d) Project financing: Chinese Government Grant

13. Other important aspects of Gwadar Port

Land for Free Zone (FZ): 2282 acres (923 hectare) of land as per the land agreement has been acquired by GPA from private owners (1628 acres), Pak Navy (584 acres), and the coast guard (70 acres). The land availability requirement for signing of land lease agreement has been accomplished by the transfer of land of Navy and Coast Guards. Government has provided Rs. 6.6 billion for procurement of land for the FZ.

Gwadar Port Operational Plan – COPHCL:

1) Phases
   - Phase 1 (2015–2020): Period of market cultivation. To develop commercial logistics and other industries with local resources (for example, fishery). It is very important from investment and business environment.
   - Phase 2 (to 2025): Period of expansion and development. Processing and manufacturing industries will be developed. The influence of the industrial park will be formed gradually.
   - Phase 3 (to 2030): Maturity period. Enlarge the scale of FZ; FZ will be an important part of CPEC and engine of local economic development.
2) Spatial Layout: The spatial layout is planned into commercial logistics area in the south and manufacturing area in the north.
   - Southern Commercial Logistics Area: Based on existing port, commercial logistics area is constructed nearby as the initial area of FZ. The function should be dominated by exhibition and sales, and logistics processing will be developed appropriately.
   - Northern Manufacturing Area: The main development of industries are commodity and household appliance manufacturing, textile and garment processing, transport machinery, equipment manufacturing, and metal product manufacturing.

14. Gwadar Master Plan

RFP floated. Pre-bid meeting scheduled in Karachi. The PCII has been approved and project is included in current PSDP. However, release of funds is still awaited, needs to be expedited.

Energy projects:

15. Port Qasim Electric Power Company

a) Sponsors/ EPC: Power China/ Sinohydro and M/s Al-Mirqab Capital, Qatar
b) Primary energy input: Coal (imported)
c) Technology: Super critical
d) Installed capacity (MW): 1320 (2X660)
e) Location: Port Qasim
f) Province: Sindh
g) Est. cost US$ bn: 1.98
h) Executing Co./ Sponsors: Sinohydro Resource Ltd. And Al Mirqab
i) Coordinating ministry: Ministry of Water and Power
j) Coordinating agency: Private Power & Infrastructure Board (PPIB)

16. EngroThar Coal-fired Power Plant

a) Sponsors/ EPC: Engro PowerGen& CMEC
a) Primary energy input: Coal (local)

b) Technology: sub critical
c) Installed capacity (MW): 1320
d) Location: Thar Block II
e) Province: Sindh
f) Est. cost US$ bn: 2.0
g) Executing Co./ Sponsors: China Machinery Engg. Corp. (CMEC)/ Engro PowerGen
h) Coordinating ministry: Ministry of Water and Power
i) Coordinating agency: PPIB

17. Surface Mine in Block II of Thar Coal 3.8 mt/a

a) Sponsors/ EPC: Government of Sindh &Engro PowerGen (SECMC)
b) Primary energy input: N/A
c) Technology: Open pit mining
d) Installed capacity (MW): N/A
e) Location: Thar Bock-II
f) Province: Sindh
g) Est. cost US$ bn: 1.720
h) Executing Co./ Sponsors: CMEC-China Machinery Corporation/ SECMC
i) Coordinating ministry: Ministry of Water and Power/ Ministry of Petroleum and Natural Resources
j) Coordinating agency: Thar Coal & Energy Board (TCEB)

18. Sahiwal Power Plant

a) Sponsors/ EPC: Shandong Ruyi Group &Huaneng Shandong Power Generation Company Limited
b) Primary energy input: Coal (imported)
c) Technology: Super critical
d) Installed capacity (MW): 1320 (2X660)
e) Location: Sahiwal
f) Province: Punjab
g) Est. cost US$ bn: 1.6
h) Executing Co./ Sponsors: Huaneng Shandong Rui Group, China
i) Coordinating ministry: Ministry of Water and Power
j) Coordinating agency: Punjab Power development Board (PPDB)

19. SukiKinari Hydropower Project

a) Sponsors/ EPC: China Gezhouba Group
b) Primary energy input: Hydel
c) Technology: Hydel
d) Installed capacity (MW): 870
e) Location: River Kunhar (a tributary of River Jhelum)
f) Province: Distt. Mansehra, KP
g) Est. cost US$ bn: 1.802 (as per feasibility)
h) Executing Co./ Sponsors: M/s Mott McDonald, UK, and M/s Coney Blair of France/ Al Jomaih Holding Company, (LLC) Riyadh, KSA; Eden Inc. Berhad, Malaysia
i) Coordinating ministry: Ministry of Water and Power
j) Coordinating agency: PPIB

20. Installation of 300 MW Coal-fired Power Plant at Gwadar

Keeping in view the future power needs of Gwadar, the Government of Pakistan under CPEC project has planned to install a new 300 MW coal based thermal power plant in Gwadar district on the land owned by GDA/ GOB. The project shall be built over an area of approximately 250 acres. A potential site has been identified in the outskirts of city near the shoreline in the industrial zone. The proposed plant could be based on combusting imported coal.

a) Location: Gwadar district, Balochistan
b) Responsibility: GDA/ CCCC (sponsoring agency)
PPIB (implementing agency)
Ministry of Water & Power/ PPIB (supervising agency)
c) Project cost: Rs3.60 billion (US$ 360 million)
d) Project financing: IPP mode

21. Sachal Wind Power Project

a) Sponsors/ EPC: ArifHabib Group
b) Primary energy input: Wind
c) Technology: Wind turbine
d) Installed capacity (MW): 50
e) Tariff: cost + tariff (US cnt/ kw)
f) Location: Jhimpir
g) Province: Sindh
h) Est. cost US$ bn: 0.134
i) Executing Co./ Sponsors: Hydro China/ ArifHabib Corporation Limited
j) Coordinating ministry: Ministry of Water and Power
k) Coordinating Agency: Alternative Energy Development Board (AEDB)

22. Quaid-e-Azam Solar Park

a) Sponsors/ EPC: Zonergy
b) Primary energy input: Solar
c) Technology: PV Solar
d) Installed capacity (MW): 900
e) Location: Bhawalpur
f) Province: Punjab
g) Est. cost US$ bn: 1.350
h) Executing Co./ Sponsors: Zonergy
i) Coordinating ministry: Ministry of Water and Power/ GoPb
j) Coordinating Agency: PPDB/ AEDB

23. HUBCO – Coal based Coastal IPP

Hubco is Pakistan's first and largest IPP with experience in 3 different technologies implemented under different policy frameworks. Hubco management has experience of developing and managing large-scale IPPs and chemical process plants.

a) Sponsors/ EPC: Hub Power Company
b) Primary energy input: Imported coal
c) Technology: Super critical

d) Installed capacity (MW): 2X660 MW
e) Location: Hubco
f) Province: Balochistan
g) Est. cost US$ bn: 1.940
h) Executing Co./ Sponsors: Hub Power Company
i) Coordinating ministry: Ministry of Water and Power
j) Coordinating Agency: PPIB

24. Gwadar–Nawabshah LNG Terminal and Pipeline Project

Pakistan is currently facing acute shortage of natural gas. Since the indigenous production of natural gas is decreasing rapidly, Government of Pakistan (GoP) has decided to import Liquified Natural Gas (LNG) and regasify it at terminals for onward injection into the existing gas transmission and distribution network of the country. In this regard, Inter State Gas Systems (ISGS) has been mandated the task to import gas (including LNG/ RLNG) into Pakistan and develop projects including LNG terminals and associated pipelines facilities.

The pipeline route in Pakistan has an approximate length of 700 km. It follows mainly the Coastal Highway in west-eastern direction up to 470 km and then crosses the Kirthar ranges in north east direction, followed by the Indus River crossing and then heading towards the tie in point located near Nawabshah from where the gas shall be injected into the national gas transmission network of Pakistan.

25. Trans-border Power Transmission Line

Meeting of State Grid of China and National Transmission & Dispatch Company Limited (NTDC) took place and based on that request has been sent by Ministry of Planning, Development and Reforms to NDR China for inclusion of the project in Early Harvest Projects after prefeasibility and feasibility studies.

26. 300 MW Salt Range Mine Mouth Power Project including mining

a) Sponsors/ EPC: China Machinery Engineering Company (CMEC)
b) Primary energy input: Local coal
c) Technology: Super critical
d) Installed capacity (MW): 300 MW
e) Location: Salt range
f) Province: Punjab
g) Executing Co./ Sponsors: CMEC
h) Coordinating ministry: Ministry of Water and Power
i) Coordinating Agency: PPIB

Other projects:

27. Orange Line Metro Lahore Project

Orange Line is a part of the integrated network of mass transit corridors of Lahore Metro network. It is 27 km long (20 km elevated and 7 km underground) starting from the southwest of Lahore at Ali Town to DeraGujran in the north-east. It runs along Raiwind Road to ThokarNiazbeg, Multan Road, Lake Road, McLeod Road, GT Road, and terminates east of Lahore Ring Road and GT Road Interchange. The Orange Line has an interchange station with each of the other three lines of the network, and would also provide a direct interchange with the main

line services of Pakistan Railways at Lahore Main Station. It will provide link within the transportation network of Lahore and with the national bus and train networks. It has been considered as an important project of CPEC owing to its linkages with the Motorway, National Highway, i.e. N-5, and its connection with the main line of railway network.

a)	Location:	Lahore, Punjab Province
b)	Responsibility:	Punjab Metro Bus Authority, Govt of the Punjab
c)	Project cost (tentative):	US$ 1.6 billion
d)	Project financing:	Government to Government Concessional/ Preferential Loan + EPC (Engineering, Procurement and Construction)
e)	Duration:	27 months

28. Optical Fibre Cable Project

Pakistan's connectivity with the world is through undersea cables, SEA-ME-WE-3/4, which transcends from Nordon (Germany) to Shanghai (China). Disturbances in these cables due to different technical reasons have caused tremendous financial loss around the world in the past, and it is a security concern also. Trans Asia Europe (TAE) Optical Fibre Cable originating from China connects central Asian republics and Europe. The disturbances and security concerns can be addressed if another international connectivity is established through China by linking submarine cables with TAE or any other cable systems passing through China. Presently, mainland Pakistan is well-served with a number of Optical Fibre Cable (OFC) systems running from North to South. However, a link between Rawalpindi to Khunjrab Pass (Pak China border) is missing to make this alternative international connectivity possible. This project ensures high capacity international connectivity by laying 820 km of OFC from Rawalpindi to Khunjrab backed by a high capacity Microwave link. This system would be connected with SEA-ME-WE-3/4 through already available OFC systems in Pakistan.

The only IT/ telecom project included in CPEC, the total project cost is US$ 44 million including 15% local component through PSDP (Public Sector Development Plan) and 85% FEC. 85% funding in FEC is to be provided through soft loan by Chinese Ministry of Commerce. The project is planned to be completed within three years' time while the anticipated payback period of this project is also three years.

The project was included in the priority list and graded as Early Harvest (EH) project by Planning Commission.

29. DTMB (Digital Terrestrial Multimedia Broadcast) Project

On the instructions of Ministry of Planning, Development and Reforms, the Ministry of Information, Broadcasting and National Heritage was asked to prepare a PC-1 for the pilot phase of DTMB project in the light of the MoU signed between Pakistan and China. Accordingly, a draft PC-1 was prepared and shared. The scope of the work is to supply pilot system (equipment, corresponding software, purpose trial, testing, and evaluation). The price of agreement is US$ 2 million (PKR 200 million). M/s Zhongxing Telecom (ZTE) was designated to take up the pilot project and the project was inaugurated in April 2015.

FUTURE PROSPECTS (PROJECTS LIKELY OR IN PIPELINE)

Special Economic Zones (SEZs) and Industrial Parks

To generate economic activities for the social and economic uplift of the adjoining areas alongside the corridor, Special Economic Zones (SEZs) will be established and each economic zone will target specific products and services based on the availability of local raw material, workforce and other such factors. The size of the economic zone/ industrial park will depend on the availability of the raw materials, agricultural production, mineral deposits, local skill set and overall connectivity, location advantages and economic strength of the particular area. The establishment of these economic zones would attract foreign and local investment and create appropriate job opportunities for the local communities, which would directly raise the living standard of the people residing in those areas.

SEZs Framework: The legal framework to establish SEZs in Pakistan is the SEZ Act, promulgated in 2012, that provides SEZs to be set up by the Federal or Provincial Governments themselves or under different modes of public-private partnership.

The fiscal benefits under SEZ law includes

a. A one-time exemption from custom duties and taxes for all capital goods imported into Pakistan for the development, operations and maintenance of a SEZ
b. Exemption from all taxes on income for a period of ten years

Potential of the areas for development of SEZs: Board of Investment (BOI) in consultation with the Provincial Governments has developed a plan to assess various logistic aspects and other allied issues to identify most suitable locations for setting up economic zones/ industrial parks alongside the CPEC. Prefeasibility studies will be made for the projects/ enterprises to be established in these Zones, keeping in view the potential of the identified sites. These studies will serve as the marketing instruments to attract domestic and foreign investment, especially Chinese investors.

PLANNING FOR TRANSPORT PROJECTS IN PAKISTAN

1. Highways

As stated in "Decade Investment Plan" enacted by Pakistan National Highway Authority in 2009, it is planned to comprehensively expand highway network in the next decade (2010-2020), increase the highway density to 0.64km/km^2 and the transportation speed by 25% and reduce operation costs by 10% and the highway failures by 50%. The planning mainly includes the following:

i. **National Trade Corridor Plan**: The project includes the construction and expansion of multiple expressways and national highways, with total investment of US$ 3.643 billion and US$ 1.134 billion in place (including US$ 328 million for KKH upgrading and reconstruction provided by China). Pakistan plans to loan US$ 1.488 billion, 333 million and 124 million from the World Bank, Asian Development Bank and Japan International Bank respectively, with the rest self-raised.

ii. **National Highway Upgrading Plan:** According to the consensus previously reached by Pakistani Government and Asian Development Bank in support of Asian Development Bank, it is planned to reconstruct or expand some sections of 8 national highways, with a total investment of US$ 656 million and US$ 126 million implemented.

iii. **Multan Road Development Plan:** Plan to invest US$ 551 million to comprehensively reconstruct the highway network of the Multan city, currently, with US$ 68 million implemented; in addition, apply for US$ 126 million loans from Islamic Development Bank – the rest shall be self-raised.

iv. **Development plan of roads in Sind Province:** Plan to invest US$ 411 million to comprehensively reconstruct the highway network in Sindh Province. The funds were proposed to be allocated by the federal government but most funds are not in place.

v. **Other roads construction plan:** In addition, the National Highway Authority has also planned 62 highways and auxiliary bridges construction projects, focusing on road construction in rural and remote areas, with estimated construction funds of US$ 3.317 billion. Pakistan plans to apply for US$ 260 million, 207 million & 886 million loans from World Bank, Asian Development Bank and the Japan International Cooperation Agency respectively, and the rest shall be self-raised.

2. **Railways**

The government of Pakistan has established the goal of "making railway the main national transportation means and transportation systems profitable gradually to effectively promote national economic development" in 2030 Prospective Plan. Major contents are:

i. **Gradually upgrade the exiting track and signal system.** At present, Pakistan Railways has launched the track replacement project to uniformly replace all tracks of railways in Pakistan with broad gauge tracks. Pakistan plans to apply for US$ 2.02 billion loans from foreign governments to repair the tracks at Khanpur-Lodhran-Shahdara section in Punjab Province. The railways in this section will be upgraded to 140-160 km/hr high speed railway, with estimated construction cycle of 56 years (constructed by two sections), but so far it has no substantive progress. It is proposed to invest US$ 210 million to upgrade the signal system of railways in Lodhran (Punjab)-Kotri (Sindh) section, with construction cycle of 5 years.

ii. **Build some railway sections and increase the mileage of double track railway.** Pakistan Railway has planned to build the railway in Zhob-Kotla Jam section of Balochistan province (including the replacement of Zhob-Bostan Section) and the railway in Peshawar-Kotla Jam Section of KPK with construction funds of US$ 75 million respectively and construction cycle of 6 years. Pakistan government has proposed to carry out such two projects by BOT or joint venture, but the funds have not been determined. In terms of double tracks, it is planned that Pakistan Railways will apply for preferential loans from foreign governments to construct the double tracking project in Shahdara-Lalamusa section of Punjab province, with construction funds of about US$ 120 million and construction cycle of 3 years. In addition, it is proposed to construct the Lahore-Faisalabad double-tracking railway project by BOT and BOO with construction funds of about US$ 120 million and construction cycle of 3 years.

iii. **A railway accessing to Gwadar region will be constructed.** Pakistan Railways plans to construct the Gwadar port-Mastung railway by BOT, BOO or PPP which connects the national railways with construction funds of US$ 1.3 billion and construction cycle of 7 years. However, the funds have not yet been determined.

iv. **Railways accessing to neighboring countries will be constructed or reconstructed.** On one hand, the China-Pakistan Railway from Khunjerab at the border of China to Havelian city in Pakistan will be constructed by BOT, BOO or PPP with total length of 673.5

km, construction funds of about US$ 10 billion and construction cycle of 6 years. On the other hand the Pakistan–Iran–Turkey railway will be upgraded with total length of 6,566 km including 1,990km in Pakistan. Pakistan and Turkey will co-invest US$ 20 billion to upgrade this railway and 1000km –long railway in Quetta–Taftan section of Pakistan are to be reconstructed with estimated total cost of US$ 500 million and construction cycle of 5 years.

By 2018, the national railway cargo turnover will increase from 400 million ton-kilometers to 800 million ton-kilometers. To this end, main measures to be taken by Pakistan are as follows:

1. Double-tracks will be constructed for major intercity railways.
2. In the next three years, the average speed of trains will be upgraded from the current 60km/hr. (passenger train) and 25km/hr. (freight train) to 100km/hr. and 90 km/hr. respectively. The cargo transport time will be halved to 28 hr.
3. The railway lines connecting to the foreign one will be increased for future system.
4. In terms of rolling stock, the new-type platform container trucks, high-speed locomotive and passenger trains will be imported.
5. Signal system will be upgraded.
6. Enhance management, especially, accelerate the service delivery.

Medium and Long Term Plan for Transport Scheme under CPEC

In August 2013, Joint Cooperation Committee of CPEC held its first meeting in Islamabad to jointly carry out the long term plan for CPEC and identified transport infrastructure and energy as the key points of cooperation. In this context, Transport Team of Long term Plan for CPEC was established by the Ministry of Transport of China (MOT) according to the requirements of National Development and Reform Commission (NDRC) to organize the preparation on monographic study of transport planning.

The planned period of the plan is 2014–2030, with the short term 2014–2020 (with priority projects before 2018), **medium and long term 2021-2030**, and **long term prospects after 2030**.

The construction schemes for transport infrastructure of CPEC in the futures are determined according to the analysis of social development and traffic demands therein in combination of transportation planning of Pakistan, especially the meeting minutes signed by both parties based on the investigation in January and April 2014.

According to the mid- and long term objectives of this study, CPEC reaches Grade II and above technical standards as discussed below:

Roads

The road between Kashgar to Mansehra reaches Grade II and above technical standards; the Mansehra-Islamabad-Lahore-Karachi section is comprehensively connected by expressways; the road between Sukkur to Gwadar (M8) reaches the Grade II technical standards.
Channel construction:

- **For Kashgar-Islamabad Section**: Implementing the KKH Phase II Project involving Raikot-Thakot section, and building a new road from Yarkant to Taxkorgan in China.
- **Islamabad-Karachi Section**: Constructing the Sukkur-Hyderabad expressway.
- **Sukkur-Gwadar Section**: Building the Grade II highway M8 from Rango to Hoshab to basically realize the direct connection from Sukkur to Gwadar by road.

Railways

Completing the expansion and reconstruction of existing Line ML-1 and building a new railway from Gwadar to Sukkur.

Channel construction:

- **Islamabad-Karachi Section**: Continually implementing the expansion and reconstruction of the existing Line ML-1, including the extension of the receiving-departure tracks, electrification and construction of double freight line from Karachi to Kotri, as well as the expansion and reconstruction of the existing Line ML-2 upon completion of the Line ML-1.
- **Sukkur-Gwadar Section**: The new railway from Sukkur to Gwadar to be started at a proper time.

Gwadar Port

To perfect the construction of Free Trade Area (FTA) and expand the port in good time.
Channel construction: Completing the collection and distribution systems and perfecting the Free Trade Area (FTA) construction. Gwadar International Maritime Logistics Distribution Center will be initially formed.

Gwadar Airport

Appropriate expansion of the airport to be conducted in view of the aviation business, and the class of the airfield will be upgraded to Class 4E (meeting requirements of a temporary alternate airport for F planes).

By 2030, the Kashgar–Islamabad section will have opened to traffic under all climates, and the operating efficiency and safety will be comprehensively improved. The transportation capacity and efficiency of the Islamabad–Karachi section will be improved greatly. The railway speed will reach 120 km/hr.; the collection and distribution system will be basically constructed from Sukkur to Gwadar, and Gwadar International Maritime Logistics Distribution Center will be initially formed.

LONG-TERM PROSPECTS (After 2030)

1. **Connection line of Islamabad–Darya Khan–DeraAllahyar**: Reconstruction of Islamabad–Darya Khan–DeraAllahyar Highway and opening of the second channel from Islamabad to Gwadar in CPEC.
2. **New railway in Kashgar–Havelian Section**: The line starts from Kashgar station of southern Xinjiang railway passing southwards through Shule, Shufu and Taxkorgan, and along Karakoram Highway to Mintaka Port at the border between China and Pakistan, and then through Sust, Hunza, Gilgit and Abbottabad, to end in Havelian, with total length of 1059 km.
3. **New passenger dedicated line in Karachi-Peshawar Section**: The line starting from Karachi passes through Lahore and Islamabad, and ends in Peshawar, parallel to the existing trunk line ML 1, to gradually realize the passenger and cargo transportation on separate lines. The planning speed is 250 km/h. The total length of the line is 1600 km.
4. **Expansion and reconstruction of existing railways in Quetta–Taftan and Peshawar–Landikotal Sections**
5. **Expansion of Gwadar Port and the hinterland toward sea** to build it into a regional hub port and a free trade port

FEDERAL BUDGET 2016-17

SALIENT FEATURES

1. The **total outlay** of budget 2016-17 is Rs. 4,894.9 billion. The size is 10% higher than the size of budget estimates (BE) 2015-16.
2. The **resource availability** during 2016-17 has been estimated at Rs. 4,442.0 billion against Rs. 4,168.3 billion in 2015-16 budget estimates. Government estimates **gross revenue receipts** of Rs. 4,915.6 billion (up by 13.5% with that in FY16) in which 80% would be generated through taxes.
3. The **net revenue receipts** for 2016-17 have been estimated at Rs. 2,779.7 billion indicating an increase of 12.8% over the budget estimates of 2015-16.
4. In **total tax revenues**, FBR revenues are envisaged at Rs. 3,621 billion. Government estimates to raise Rs. 1,538.7 billion (upby 17.7%) from income tax, while reform measures may improve GST collection by 16.8% to Rs. 1,437 billion.
5. In **non-tax revenues** of Rs. 959 billion, government is pinning hope to realize another Rs. 75 billion through 3G licenses. SBP profit is estimated at Rs. 280 billion while defense services would bring Rs. 171 billion to the government exchequer.
6. The **provincial sharein federal taxes** is estimated at Rs. 2,135.9 billion during 2016-17 – 15.5% higher than 2015-16 BE.
7. The **net capital receipts** for 2016-17 have been estimated at Rs. 453.6 billion against Rs. 606.3 billion in 2015-16 BE – a decline of 25.2%. The **external receipts** are estimated at Rs. 819.6 billion. This shows an increase of 9.1% over 2015-16 BE.
8. **Current expenditures** are envisioned at Rs. 3,844 billion, in which **debt servicing** would eat up 47% (Rs. 1,803 billion) while 22% (Rs. 860 billion) would be spent on **defense**.
9. For FY16, government aims to reduce **subsidies** to Rs. 141 billion (from estimated Rs. 197 billion in FY16) in which power sector subsidies would be Rs. 118 billion as against Rs. 171 billion in FY16 BE.
10. The share of current expenditure is 78.5% and development expenditure is 21.5% in total budgetary outlay.
11. The size of **Public Sector Development Program (PSDP)** for 2016-17 is Rs. 1,675 billion (up 20% from Rs. 1,393 billion in FY16), out of which Rs. 875 billion has been allocated to provinces. Federal PSDP has been estimated at Rs. 800 billion (up 21%), which is 76.1% of total development expenditure and 16.3% of total outlay of 2016-17 BE.
12. To meet expenditure, **bank borrowing** for 2016-17 has been estimated at Rs. 452.9 billion, 127.8% higher than revised estimates of 2015-16 and 60% higher than 2015-16BE.

COMPARATIVE BUDGETARY POSITION (2015-16 AND 2016-17)

(Rs. in billion)

Classification	Budget 2015-16	Revised2015-16	Budget2016-17
RESOURCES (R=A + B + C)	**4,168.4**	**4,279.7**	**4,441.9**
A Internal Resources	**3,366.9**	**3,406.4**	**3,572.3**
- Net Revenue Receipts	2,463.4	2,480.7	2,779.7
- Net Capital Receipts	606.3	588.9	453.6
- Estimated Provincial Surplus	297.2	336.8	339.0
B External Resources	**751.5**	**859.7**	**819.6**
C Privatization Proceeds	**50.0**	**13.6**	**50.0**
EXPENDITURE (E=A + B)	**4,451.2**	**4,478.6**	**4,894.9**
A Current Expenditure on Revenue A/c	**3,482.2**	**3,599.9**	**3,844.0**
- Current Exp. on Revenue A/c	3,482.2	3,599.9	3,844.0
B Total Development Expenditure	**969.0**	**878.7**	**1,050.9**
- Federal PSDP	700.0	661.3	800.0
- Dev. Expenditure outside PSDP	164.4	127.6	156.6
- Dev. Loans & Grants to Provinces	104.6	89.8	94.3
BANK BORROWING (E-R)	**282.8**	**198.9**	**453.0**

[Source: Budget in Brief 2016-17, Government of Pakistan, Finance Division]

MACRO OUTLOOK

Macroeconomic indicators for 2016-2019:

Consolidated Fiscal Projections	Budget 2015-16	Revised 2015-16	Budget 2016-17	Forecast 2017-18	Forecast 2018-19
Real GDP (%)	5.5	4.7	5.7	6.2	7.0
Inflation (%)	6.0	3.5	6.0	6.0	6.0
	(as percentage of GDP)				
Total Revenue	15.1	15.9	16.0	15.9	16.1
- Tax Revenue	12.0	12.6	12.9	13.4	13.9
- FBR Tax Revenue	10.1	10.5	10.8	11.5	12.1
- Non-Tax Revenue	3.1	3.3	3.1	2.5	2.2
Total Expenditure	19.4	20.2	19.6	19.4	19.6
- Current	14.9	15.9	14.9	14.6	14.6
- Development	4.5	4.3	4.7	4.8	5.0
Fiscal Balance	−4.3	−4.3	−3.8	−3.5	−3.5
Revenue	0.1	0.0	0.9	1.3	1.6
Total Public Debt	62.0	64.8	61.4	57.8	54.3
GDP at market prices (Rs in billions)	**30,672**	**29,598**	**33,509**	**37,944**	**43,215**

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INFLOWS: RESOURCES

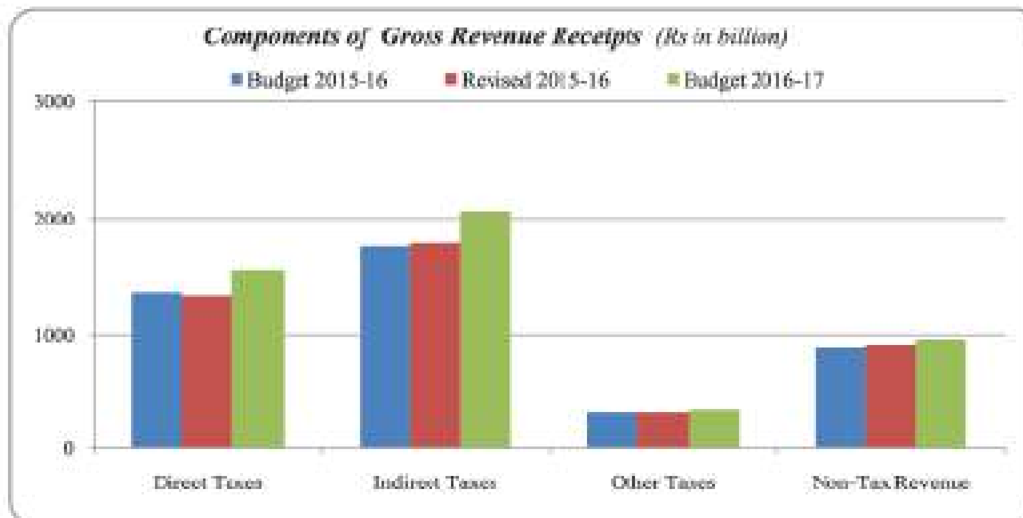
There are two types of resources: internal and external. The internal resources comprise of revenue receipts, capital receipts and estimated provincial surplus. The external resources come from foreign loans and grants. We are giving below information on various components on tax revenue and non-tax revenue:

Gross and Net Revenue Receipts

(Rs in billion)

Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
Tax Revenue (A+B)	3,418.2	3,419.8	3,956.1
A. FBR Taxes	3,103.7	3,103.7	3,621.0
Direct Taxes	1,347.9	1,324.0	1,558.0
Indirect Taxes	1,755.8	1,779.7	2,063.0
B. Other taxes	314.5	316.1	335.1
Non-Tax Revenue	894.5	912.8	959.5
Gross Revenue Receipts	**4,312.7**	**4,332.6**	**4,915.6**
Provincial share in gross revenue	**1,849.4**	**1,851.9**	**2,135.9**
NET REVENUE RECEIPTS	**2,463.3**	**2,480.7**	**2,779.7**

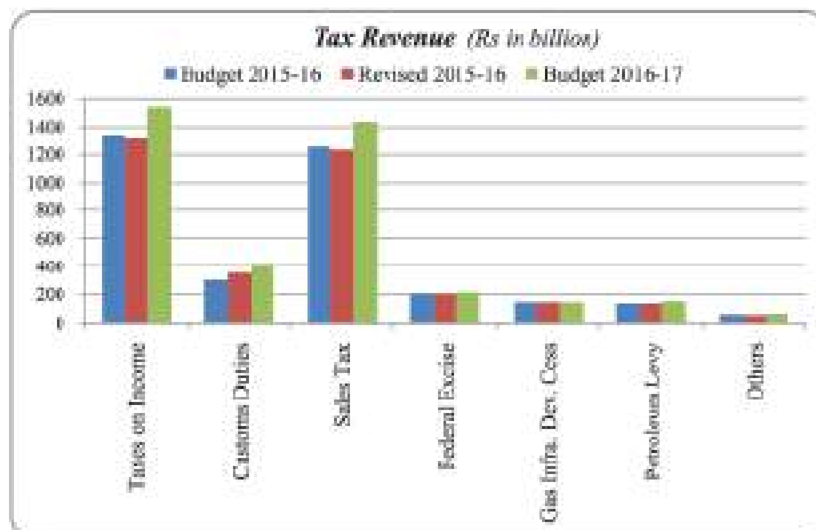
Gross Revenue Receipts

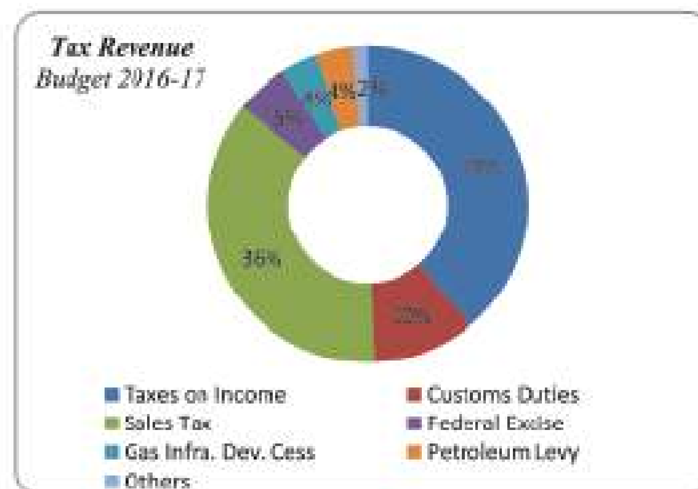


Tax Revenue

(Rs in billion)

Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
Taxes on Income	1,326.8	1,307.6	1,538.7
Customs Duties	299.1	348.5	413.0
Sales Tax	1,250.3	1,230.3	1,437.0
Federal Excise	206.4	200.9	213.0
Gas Infra. Dev. Cess	145.0	145.0	145.0
Petroleum Levy	135.0	135.0	150.0
Others	55.6	52.4	59.4
Total Tax Revenue	**3,418.2**	**3,419.7**	**3,956.1**

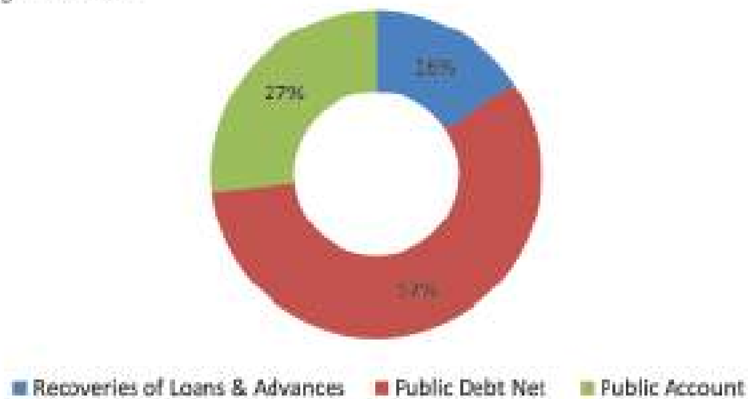




Net Capital Receipts

(Rs in billion)

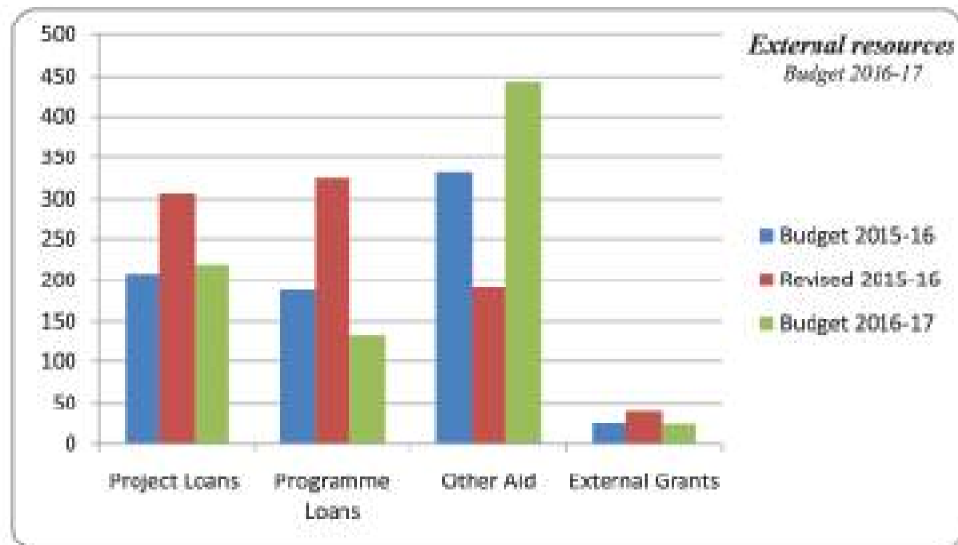
Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
I. Capital Receipts (A + B + C)	739.3	703.0	640.5
A. Recoveries of Loans and Advances	89.8	101.9	101.9
B. Public Debt Net (1 + 2)	395.2	445.1	367.7
1. Permanent Debt	219.9	(62.5)	150.4
2. Floating Debt	175.3	507.6	217.3
C. Public Account	254.3	156.0	170.9
II. Disbursements	133.0	114.1	186.9
Net Capital Receipts (I – II)	**606.3**	**588.9**	**453.6**



External Resources

(Rs in billion)

Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
I. External loans (A to C)	727.5	821.4	796.8
A Project Loans (i + ii)	208.3	306.5	219.2
i. Federal Government	141.1	258.2	150.4
ii. Provinces	67.2	48.3	68.8
B Program Loans	187.4	324.6	133.8
C Other Aid	331.8	190.3	443.8
II. External Grants	24.0	38.3	22.8
- Project Aid Grants	24.0	38.0	22.8
- Kerry Lugar	-	0.3	-
TOTAL (I + II)	**751.5**	**859.7**	**819.6**



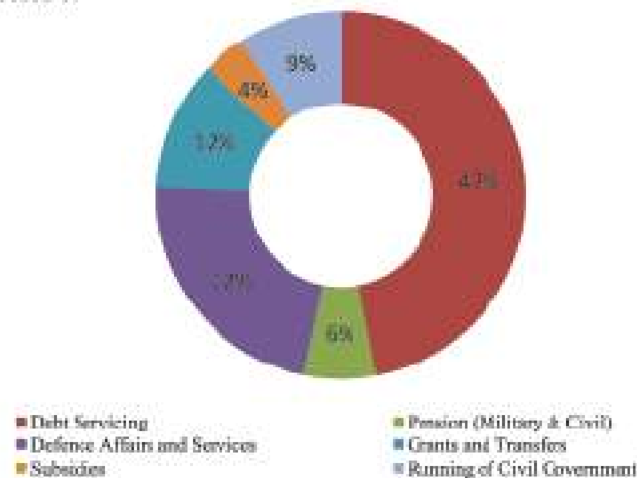
OUTFLOWS: EXPENDITURES

The tables and graphs given below present the comparative position of the budget and revised estimates of current expenditure for the year 2015-16 along with the budget estimates of 2016-17:

Current Expenditure

(Rs in billion)

Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
Mark-up Payment (Domestic & Foreign Debt)	1,596.2	1,633.1	1,803.8
Pension (Military & Civil)	231.0	236.0	245.0
Defence Affairs and Services	781.2	775.9	860.2
Grants and Transfers	409.9	418.2	441.6
Subsidies	137.6	196.5	140.6
Running of Civil Government	326.3	340.1	352.8
Total Current Expenditure	**3,482.2**	**3,599.8**	**3,844.0**



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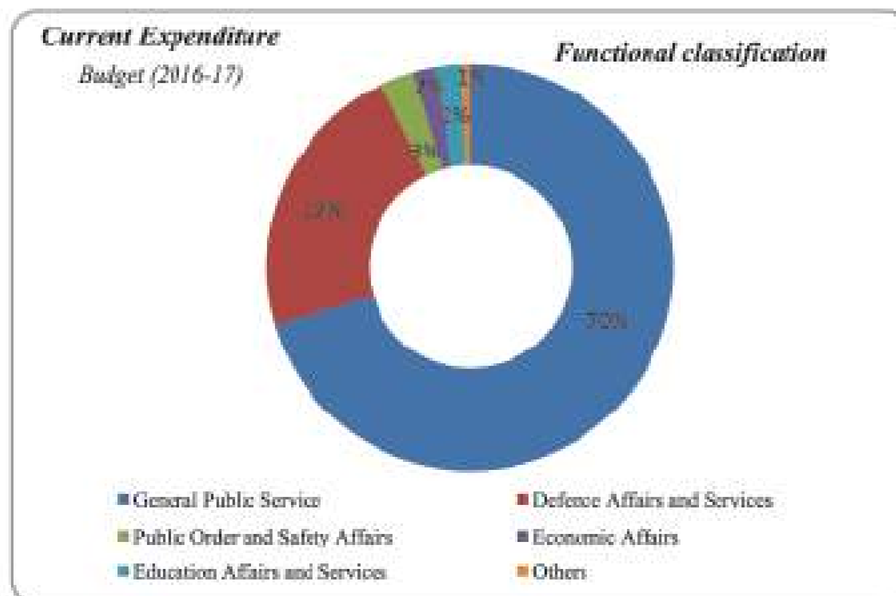
Current Expenditure According To Functional Classification

(Rs in billion)

Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
General Public Service	2,446.6	2,558.9	2,707.2
Defense Affairs and Services	781.2	775.9	860.2
Public Order and Safety Affairs	94.9	95.2	103.4
Economic Affairs	60.2	68.1	63.5
Environment Protection	1.1	1.1	1.1
Housing and Community Amenities	2.2	2.2	2.3
Health Affairs & Services	11.0	11.4	12.1
Recreation, Culture and Religion	7.6	9.2	8.0
Education Affairs and Services	75.6	75.5	84.2
Social Protection	1.8	2.3	2.0
Total Current Expenditure	**3,482.2**	**3,599.8**	**3,844.0**

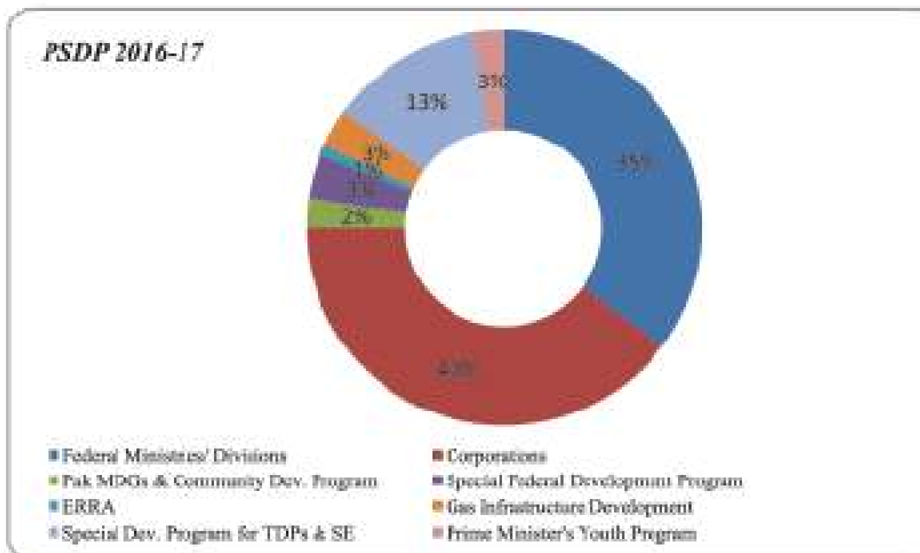


PUBLIC SECTOR DEVELOPMENT PLAN (PSDP)

For the year 2016-17, National Economic Council (NEC) has approved an overall size of Public Sector Development Plan (PSDP) at Rs. 1,675 billion, which is 5% of GDP. The following table gives the main components of PSDP:

(Rs in billion)

Classification	Budget 2015-16	Revised 2015-16	Budget 2016-17
A. Federal Ministries/Divisions	252.6	258.6	282.0
B. Corporations	271.9	298.4	318.0
WAPDA	112.3	120.5	130
NHA	159.6	177.9	188
C. Pak MDGs and Community Dev. Program	20.0	20.9	20.0
D. Special Federal Development Program	28.5	-	28.0
E. ERRA	7.0	7.0	7.0
F. Gas Infrastructure Development	-	-	25.0
G. Special Dev. Program for Temporary Displaced Persons (TDPs) and Security Enhancement	100.0	55.3	100.0
H. Prime Minister's Youth Program	20.0	21.1	20.0
Total Federal PSDP (A to H):	**700.0**	**661.3**	**800.0**
I. Provinces	813.7	732.3	875.0
TOTAL NATIONAL PSDP (A to I):	**1,513.7**	**1,393.6**	**1,675.0**



TAX PROPOSALS

Income Tax

1. Super tax, levied for the tax year 2015, has now been extended to tax year 2016 also on the same basis. Further, it excludes brought forward business losses and depreciation from the definition of income for the purpose of Super Tax.
2. Fixed tax regime for builders and developers has been introduced for business and projects, initiated and approved after 1 July 2016. Tax is proposed to be charged on the basis of geography and size of plot.
3. Property income of individuals and associations of persons would not be clubbed with income under other heads and may be taxed as a separate block of income for which graduated tax rates (5-20% tax rate from income above Rs. 200,000) has been suggested.
4. A final tax (minimum tax abolished) is being imposed on builders/ land developers on the basis of per unit area at Rs. 210 per sq. ft. for commercial buildings, and Rs. 10 to Rs. 70 per sq. ft. for residential buildings.
5. The time limit for tax on sale of immovable property has been extended from 2 to 5 years, with flat rate of tax of 10%, irrespective of holding period.
6. The right to surrender losses within a group shall be restricted to the percentage holding in the entity.
7. Exemption for inter corporate dividends in a group structure (other than 100% owned group) is proposed to be abolished.
8. Exemption to income from export of computer software or IT services or IT enabled services that are expiring on 30 June 2016, is proposed to be extended to 30 June 2019 if 80% of the export proceeds are brought into Pakistan in foreign exchange through normal banking channels.
9. Corporate tax rate is proposed to be reduced to 31% for tax year 2017 from 32%.
10. To encourage enlistment of companies on stock exchange, tax credit of 20% of tax payable is being extended to 2 years instead of currently one year.
11. Relaxing the conditions of Income Tax Ordinance 2001, clause 65-B and 65-E, government has proposed to allow tax credit to the company incorporated and industrial undertaking setup by June 2019 (current June 2016) with minimum 70% of new equity (current 100% new equity required). Exemption from minimum tax in case of gross loss is also being withdrawn.
12. Tax credit for additional contribution allowed to individuals aged 41 years and above to an approved pension plan is proposed to be restricted to 30% of taxable income of the preceding year and up to 30 June 2019.
13. Tax credits for investment in BMR projects, etc. has been extended to 30 June 2019.
14. Tax credits for investments under sections 65-D and 65-E shall also be available to entities with equity of 70% and above.

15. Specific documents and information are required to be maintained in respect of transactions with associates.
16. Rationalized minimum tax regime for specified service sectors extended to 30 June 2017 while also including IT services and IT enabled services.
17. Entire income of insurance business proposed to be taxed at the applicable corporate rate.
18. Scope of eighth schedule enhanced to include collection of tax on gain on redemption of mutual fund units and future commodity contracts of PMEX.
19. Service rendered/ contracts executed outside Pakistan to be taxed at higher rates.
20. An allowance against income is proposed for children education fee earning up to Rs. 1 million a year. The deduction will however be restricted to the lower of 5% of the fee or 25% of income or Rs. 60,000 per child.
21. Deductible allowance for profit on debt on house loan of up to Rs. 2 million (current Rs. 1 million) is being allowed.
22. Employer contributions up to Rs. 150,000 per annum in a recognized provident fund are made exempt (current Rs. 100,000).
23. Excess tax deducted in case of non-filer would be adjustable for income taxable under final tax regime.

Withholding Tax

1. Withholding tax on cash withdrawals above Rs. 50,000 a day would be applicable on aggregate cash withdrawals by a person from all bank accounts.
2. Advance tax on purchase of immovable property above Rs. 3 million is being increased from 1% to 2% for filer and 2% to 4% for non-filers.
3. Advance tax would not be collected at the time of motor registration if the date of first registration is more than 5 years ago.
4. Advance tax at 3% of the value of the vehicle to be collected from non-filer lessees.
5. Advance tax at 4% for general insurance and at 1% for life insurance would be collected by insurance companies from non-filers on payment of insurance premium. In the case of life insurance, the amendment will apply to policies where premium exceeds Rs. 200,000.
6. Advance tax at 5% on the value of mineral extracted by a non-filer to be collected by relevant provincial authorities.
7. 3% advance tax on turnover to be paid by non-filers on filing of provincial sales tax returns.
8. Withholding tax on dividend for non-filers increased to 20% from 17.5%.
9. Withholding tax on supplies made by distributors of FMCGs would be reduced from 4% to 3% for companies, and from 4.5% to 3.5% for other than companies.

Sales Tax

1. Five export oriented sectors (textile, leather, carpet, surgical and sports goods) will be subject to zero rated regime.
2. The definition of Input Tax has been proposed to be amended to exclude the sales tax paid under respective provincial laws.
3. A zero-rated invoice shall be issued by the transferor to the transferee on sale of taxable activity or transfer of ownership of such activity as an ongoing concern to another registered person.
4. The threshold for turnover for qualifying as cottage industry is proposed to be enhanced at Rs. 10 million from Rs. 5 million. Cottage industry is exempted from payment of sales tax.
5. The bill proposes to empower the tax collector to recover taxes not withheld, from the withholding agent which was previously an oversight in the Act.
6. Laptops, notebooks and personal computers are being exempted from sales tax; fertilizers, currently taxed on retail prices at 17%, are now proposed to be kept at 5% of ex-factory price.

Federal Excise Duty (FED)

1. FED on services on which provinces are collecting sales tax is being withdrawn.
2. FED on cigarettes proposed to be enhanced on semi-annual basis.
3. FED on aerated beverages and locally produced cigarettes has been enhanced. FED on certain types of cement is proposed to be modified. Exemption from duty is proposed to be withdrawn on white cement.

Customs Duty

1. Tariff slabs reduced from existing 5% to 4% by merging 2% slab and 5% slab in new 3% slab.
2. 10% and 15% slabs substituted with 11% and 16% slabs respectively.
3. Concessions of customs duty for dairy, livestock and poultry sectors from 5% to 2%. Regulatory duty of 25% imposed on powdered milk and whey.
4. Reductions in customs duty on raw material of PVC Resin from 5% to 3%.

Gwadar Port

1. Tax exemptions for 20–30 years are proposed for various undertakings in Gwadar Port and Gwadar Free Zone Area.
2. Exemption from GST and FED for 40 years on the import and supply of materials, equipment, ship bunker oils brought and sold to ships calling on/ visiting Gwadar Port for the development of Gwadar Port and Gwadar Free Zone
3. It is also proposed that businesses in the Gwadar Free Zone be also exempted under the Sixth Schedule for all supplies within the Gwadar Free Zone for 23 years.

Key Taxation Measures for Agriculture and Export Oriented Sectors

- **Agriculture:**In the backdrop of a dismal performance, agriculture sector has been provided relief measures which target at

  - lower taxation through sales tax and custom duty exemptions on machine import;
  - lower input costs through fertilizer price reduction and concessionary power tariff; and
  - Enhanced credit availability through higher guarantee and decrease in markup rates on farmer loans.

- **Exports:** As given above, major export oriented sectors have been granted zero-rated status. Besides, Rs. 6 billion have been allocated for the Strategic Medium-term Framework introduced last year. Special measures for textile sector include

  - continuation of Drawback of Local Taxes and Levies (DLTL) scheme;
  - duty free import of machinery; and
  - customs duty withdrawal on Man-Made Fibers.

IMPACT OF BUDGETARY MEASURES

Sector	Key measures	Impact
Fertilizers and Chemicals	Urea prices reduced from Rs. 1,790/bag to Rs. 1,400/bag	**Positive:** Price reduction would provide much needed push to tumbling demand.
	Subsidy on DAP extended, although by lower amount.	**Positive:** Continuation of subsidy would augment sales.
	Subsidy on urea imports has been kept at Rs. 7 billion (Rs. 25 billion in FY16, which was revised to Rs. 5billion).	**Negative:** Urea imports may restrict pricing power of local companies, but chances of imports are remote under oversupplied market scenario.
	Off-peak electricity tariff on tubewells has been reduced to Rs. 5.35 from Rs. 8.85 per unit, while pesticides have been exempted from 7% sales tax.	**Positive:** Reducing key input costs may create more room for expenditure on fertilizer.
	Rs. 1 billion has been allocated for credit guarantee up to 50% of financing made to small farmers. Credit target increased to Rs. 700 billion from Rs. 600 billion in FY16.	**Positive:** Access to finance and that too on lower rates would improve monetary situation of loss affected farmers, thus expanding the cultivated area and use of fertilizer per acre of land.
Construction	PSDP budget jacked up by 20%	**Positive:** Higher PSDP expenditure will support the local cement dispatches resulting in improved profitability of the companies.
	FED on cement has been fixed at Re. 1 per kg, whereas earlier it was charged at the rate of 5% per bag.	**Negative:** Implying nearly 5% increase over the earlier rate, the measure is negative for cement manufacturers.
	Increase in custom duty on clinker from 2% to 11%	**Neutral:** A non-event for cement manufacturers as most of the plants have in-house clinker manufacturing
	Withdrawal of exemption of FED on white cement	**Slightly negative** for MLCF, the biggest white cement producers
	Introduction of non-income based fixed tax regime for builders and developers.	**Neutral:** Builders would bear the brunt.
Personal goods	Zero rated GST for the export oriented sector	**Positive:** No tax, no refund policy would eliminate outflows of working capital, improving overall liquidity situation of the sector.
	All pending sales tax refunds (till 30 April2016) will be paid by 31 August 2016. Drawback of local taxes (DLTL) to continue	**Positive:** Expedition of refund payments would provide much needed cash injection to the sector and mitigate working capital crunch.
	Reduction in Export Finance Scheme (EFS) markup rate by 0.5 bps to 3.0%	**Positive:** Reduction would bring down refinancing costs, improving profitability for those manufacturers who avail the facility.
	Duty free import of machinery extended for FY17 with broadened scope to include more garment-specific machinery	**Positive:** To promote Investment in up-gradation of machinery and technology. Value addition and diversification to improve competitiveness of textile exports.

Consumer goods	Withdrawal of zero rating on packed milk and fat-filled milk. Zero rating on preparations of infant milk to be retained.	**Negative:** Prices of packed dairy products would rise as higher sales tax impact would be passed on to the consumers. Sales volumes might fall owing to higher price differential between raw and packed milk.
	Imposition of additional 25% regulatory duty along with current 20% customs duty on powdered milk and whey milk	**Negative:** Powdered milk prices are likely to go up substantially. In the case of liquid dairy, full pass on would be difficult due to intense competition.
	Customs duty on dairy, livestock and poultry machinery reduced from 5% to 2%.	**Positive:** Import of dairy products would get cheaper to compete with local producers.
	Sales tax on mineral water proposed to be charged at retail price	**Slightly Negative**: Prices of mineral water products will lightly increase
	Increase in FED on aerated beverages from 10.5% to 11.5% on retail price	**Negative:** Prices of aerated beverages will increase.
	Regulatory duty on carbon steel strips used by razor blades manufacturers removed	**Positive:** Manufacturing cost of local razor blades would decline.
	8% FED on sugar proposed to be replaced with 8% GST	**Positive** for the industry as previously sugar industry was GST exempt rendering it unable to claim input GST.
Oil and gas	Corporate tax rate reduced by 1% to 31%, but remains unchanged for E&P companies.	**Neutral:** Reduction in corporate tax rate would improve profitability of some OMCs and refineries, but a non-event for E&Ps.
	Imposition of super tax at 3% of taxable income	**Negative:** Super tax will drag earnings of OMCs and Refinery.
	Increase in customs duty on motor spirit from 2% to 3%	**Neutral:** No impact on OMC's profitability
Automobiles	ADP 2016-21 incorporated through Finance Act 2016.	**Neutral**: The policy may succeed in bringing in new players and the revival of sick units, but local car pricing regime may not alter much as costs of new facilities usually remain higher.
	Advance collection of 3% WHT from non-filers by all banks and FIs while leasing any motor vehicle.	
	Further, government has developed a framework through SBP to reduce markup rates of a few government banks by 2%.	Supports the tractor sales volume.
	Regulatory duty on bead wire tyre manufacturers removed. Corporate tax reduced to 31% (but super tax of 3% proposed again)	**Positive:** Would reduce the manufacturing cost for the local tyre manufacturing industry.
Power producers	31% YoY lower power subsidy of Rs. 118 billion for FY17	**Positive:** Lower quantum of power subsidies would help in slowing down the buildup of circular debt menace. However, government would increase the power tariffs thus curtailing the power payables and easing the cash flow position of IPPs.
	The government has allocated 16% YoY higher PSDP of Rs. 130 billion to this sector in FY17.	**Positive:** This would uplift the generation capacity as several new power projects come online, helping the country in resolving the power outage issues.
	Imposition of super tax at 3% while corporate tax rate reduced to 31%	**Neutral:** No impact on IPPs universe as it is exempt from taxation except for KAPCO. 3% super tax would drag down the company's FY16 earnings.

Commercial banks	Clearance given on WHT on banking transactions, whereby the tax would be applicable on transactions above Rs. 50,000 aggregating from all bank accounts of a single person. WHT rate remains unchanged at 0.6%.	**Negative:** The proposed changes seem practically non-implementable unless the tax department has a system to determine cash withdrawal from different banks by same person in a single day. The tax would continue to pose challenges to banking deposits.
	Imposition of super tax at the rate of 4% for banking companies	**Negative:** Super tax would drag the profitability of the banks in 2QCY16.
	Agriculture credit is targeted to be increased to Rs. 700 billion from Rs. 600 billion.	**Positive:** Higher agri tax would provide an opportunity to banks to jack up their agri loans and expand NIMs.
Insurance	A uniform tax rate of 31% proposed on income from all sources for the insurance companies	**Negative:** Uniform tax rate of 31% would result in higher effective rate, thus hurting the bottom-line of insurance companies. (Currently, dividends and capital gains are being taxed at 12.5% and 7.5-15% respectively.)
	Imposition of WHT at the rate of 1% and 4% on life insurance and non-life insurance premiums for non-filers.	**Slightly Negative**: This may slightly affect the growth of insurance premiums of the companies.

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PAKISTAN ECONOMY 2015-16

KEY ECONOMIC INDICATORS

Key Metrics	Units	2015-16	2014-15
GDP growth rate	%	4.71	4.04
- Agriculture	%	-0.2	2.5
- Manufacturing	%	5.0	3.9
- Services	%	5.7	4.3
Per capita income	USD	1561	1517
Foreign direct investment (FDI) (Jul-Apr)	USD million	1016	964
Inflation (CPI) – average	%	2.8	4.5
Tax-to-GDP	%	8.4	11.0
Non-tax-to-GDP	%	1.6	3.3
Public debt	PKR billion	19,168	17,381
- Domestic	PKR billion	13,399	12,199
- Foreign	PKR billion	5,769	5,182
Fiscal deficit (Jul-Apr)	% of GDP	3.4	3.8
Exports (Jul-Apr)	USD billion	18.2	20.1
Imports (Jul-Mar)	USD billion	32.5	33.9
Remittances (Jul-Apr)	USD billion	16.034	15.235
Current account (Jul-Apr)	% of GDP	-0.6	-0.8
Forex reserves	USD billion	21.6	18.7

HIGHLIGHTS OF ECONOMIC SURVEY 2015-16

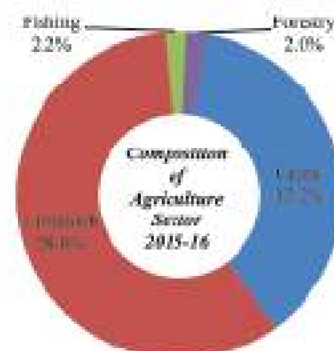
The outgoing year witnessed slow global recovery amid a bleak outlook for major world economies keeping demand weak. Pakistan's economy maintained its growth momentum for the third year in a row with GDP growing at 4.71 percent in FY16, which is the highest in eight years, as against 4.04 percent last year. However, it stayed lower than the government target of 5.5 percent owing to a major setback in agriculture growth.

Sectoral Contribution

1. **Commodity Producing Sectors:**

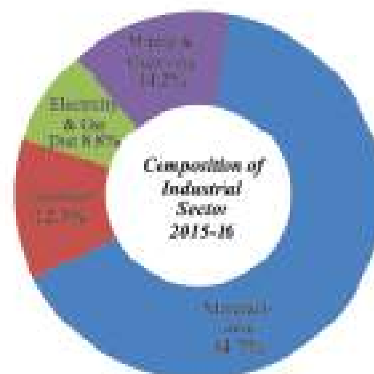
a. **Agriculture Sector**: This sector, accounting for 19.82% of GDP and 42.3% of the country's labor force, recorded a dismal performance, with a growth of –0.19% (negative growth) against 2.53% growth last year, and the growth target of 3.9%. The growth of crops declined by 6.25%, while the other subcomponents of agriculture sector namely livestock, forestry and fishing posted positive growth of 3.63%, 8.84% and 3.25% respectively. While maize and rice contributed to the decline in value added through crops, there was a major decline of 27.83% in cotton crop, mostly owing to prolonged and frequent rains.

	Agriculture	Growth 2015-16 (in %age)	Growth 2014-15 (in %age)
1.	Crops	-6.25	1.04
	Important crops	-7.18	-6.52
	Other crops	-0.31	3.09
	Cotton ginning	-21.26	7.24
2.	Livestock	3.63	3.99
3.	Forestry	8.84	-10.43
4.	Fishing	3.25	5.75



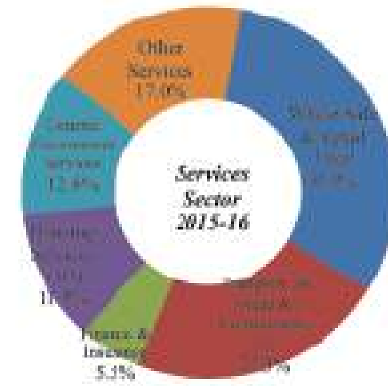
b. **Industry**: The industrial sector contributing 21.02% in GDP recorded a growth of 6.80% as against 4.81% last year, surpassing the target of 6.4%. This sector has four subsectors, viz. manufacturing; mining and quarrying; electricity generation and distribution and gas distribution; and construction.

	Industry	Growth 2015-16 (in %age)	Growth 2014-15 (in %age)
1.	Manufacturing	5.0	3.90
	Large scale	4.61	3.29
	Small scale	8.21	8.22
	Slaughtering	3.63	3.35
2.	Mining and quarrying	6.80	3.97
3.	Electricity generation/ distribution, and gas distribution	12.18	11.98
4.	Construction	13.10	6.24



2. **Services Sector**: Services sector met the planned target and emerged as the most significant driver of economic growth. With a 59.16% share in GDP, it witnessed a growth of 5.71% this fiscal year as compared to 4.31% last year, just surpassing the target of 5.7%.

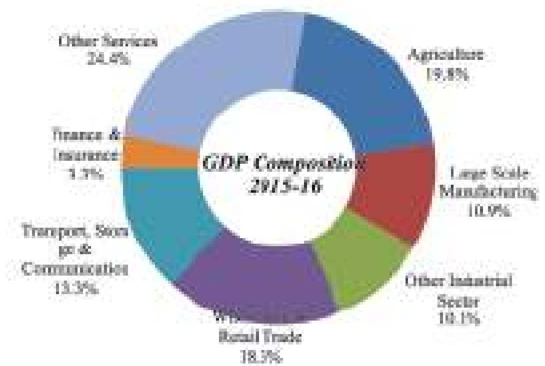
	Services	Growth 2015-16 (in %age)	Growth 2014-15 (in %age)
1.	Wholesale and retail trade	4.57	2.63
2.	Transport, storage and communication	4.06	4.85
3.	Finance and insurance	7.84	6.48
4.	Housing services	3.99	3.99
5.	General govt. services	11.13	4.82
6.	Other private services	6.64	5.96



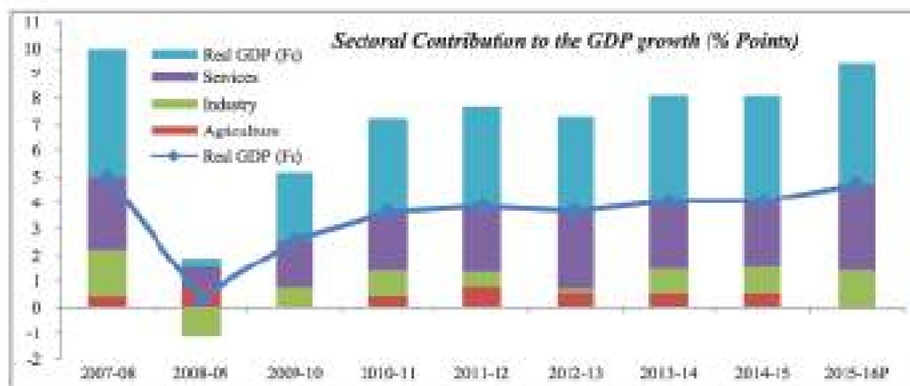
3. **Sectoral contribution to the GDP growth**

Sector	2015-16	2014-15
Agriculture	-0.04	0.53
Industry	1.40	0.99
Manufacturing	0.68	0.53
Services	3035	2.52
Real GDP (fc)	4.71	4.04

Sectoral share in GDP growth



Sectoral Contribution to the GDP growth (% Points)



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Other Macroeconomic Indicators

On the expenditure side, **private consumption expenditure** in nominal terms reached 80.1 % of GDP in FY-16 as compared to 80.0 % of GDP last year, while **public consumption expenditure** was 11.8 % of GDP as compared to 11.0 % last year. Private consumption was a major contributor for growth in 2016, largely due to consistent growth in remittances, and better growth in small scale manufacturing and services sector.

Total investment reached Rs. 4,502 billion as compared to Rs. 4,256 billion last year, showing a growth of 5.78 % in FY-16, with **investment-to-GDP ratio** at 15.21 % in FY-16.

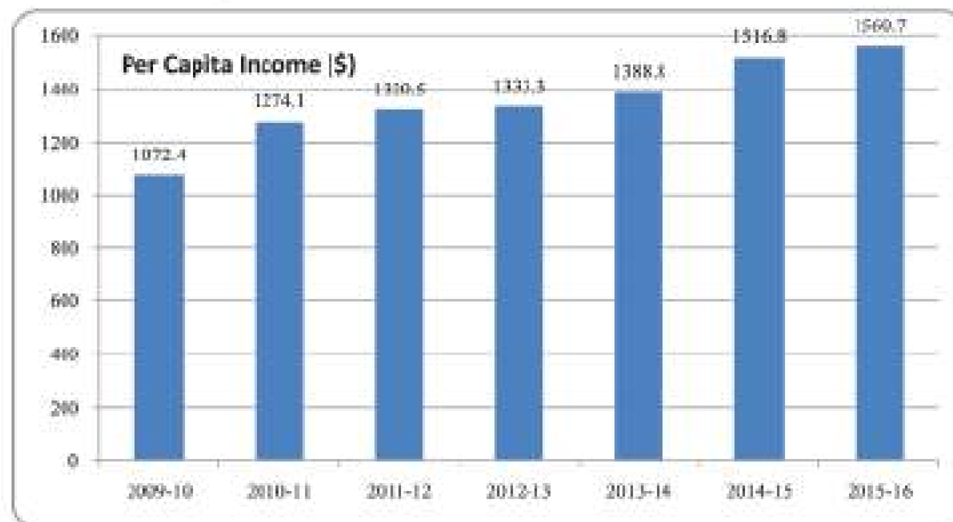
Fixed investment increased to Rs. 4,028 billion as compared to Rs. 3,816 billion last year, recording a growth of 5.57 %. Fixed investment as a %age of GDP is recorded at 13.61 % in FY-16.

Private investment recorded a growth of 3.71 % and as %age of GDP reached 9.79 % in FY-16.

Public investment grew by 10.63 % and as a % of GDP increased from 3.72 % to 3.82 % in FY-16.

Per capita income in dollar terms has increased from US$ 1,516.8 in FY-15 to US$ 1,560.7 in FY-16, recording a growth of 2.9 % in FY-16 as compared to 9.2 % last year, owing to acceleration in real GDP growth, lower growth in population and stability of Pak Rupee.

Improvement in Per Capita Income since FY-10

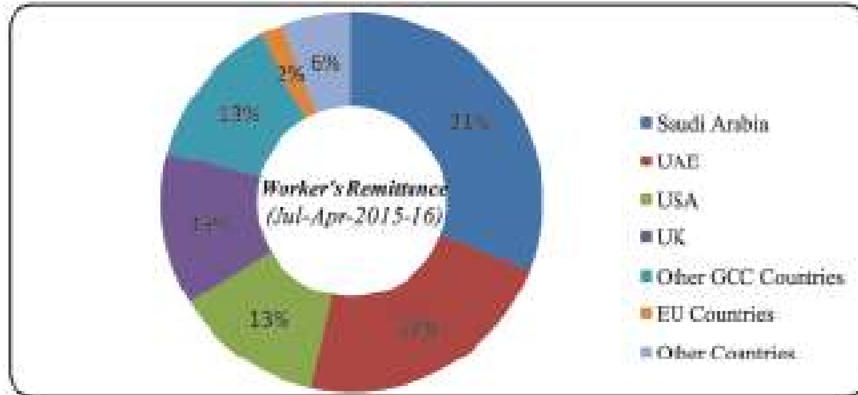


National savings increased to 14.6 % of GDP in this fiscal year as against 14.5 % last year.

Domestic savings are recorded at 8.3 % of GDP in FY-16 as compared to 8.4 % last year.

Worker's remittances, the largest source of foreign exchange earnings after exports, reached US$ 16.034 billion during July–April FY-16, as compared to US$ 15.235 billion during the same period last year, recording a growth of 5.25 % owing to measures taken under Pakistan Remittance Initiative (PRI).

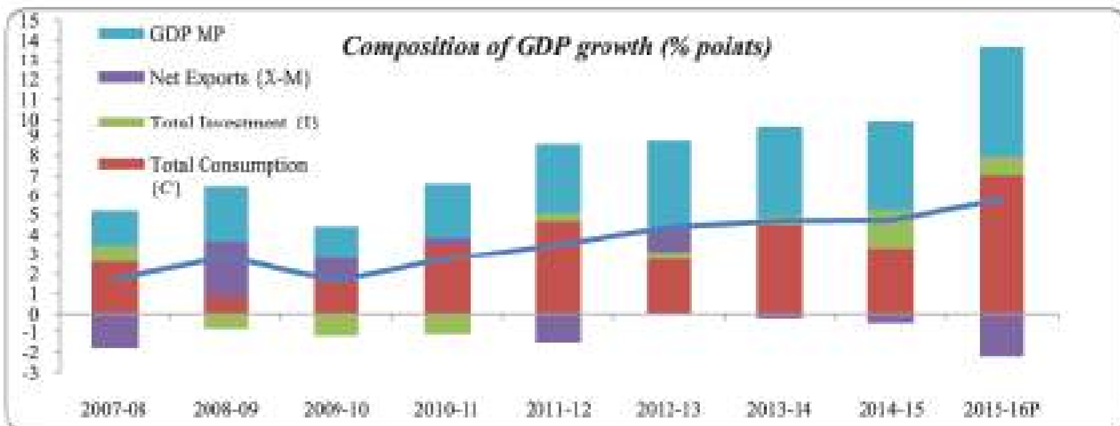
Country-Wise Worker's Remittances (2015-16)



Unemployment rate has declined from 6.2 % in FY2013 and 6 % in FY-14 to 5.9 % in FY-15.

Composition of GDP Growth (Points Contribution)

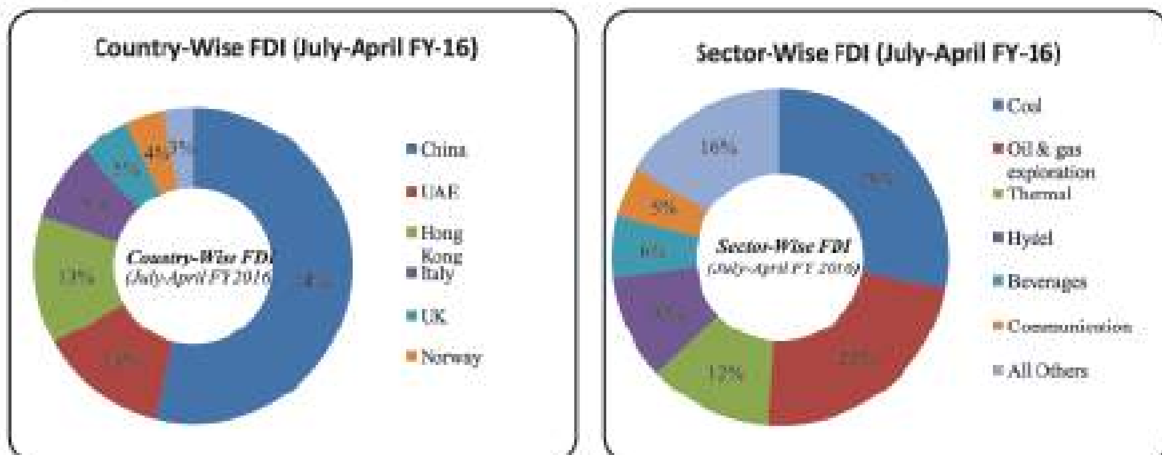
Flows	2015-16	2014-15
Private consumption	5.39	2.46
Public consumption	1.66	0.86
Total consumption [C]	**7.05**	**3.33**
Gross fixed investment	0.80	1.81
Change in stocks	0.09	0.08
Total investment [I]	**0.89**	**1.88**
Exports (goods & services) [X]	-0.49	-0.73
Imports (goods & services) [M]	1.71	-0.24
Net exports [X-M]	**-2.20**	**-0.50**
Aggregate demand [C+I+X]	7.45	4.48
Domestic demand [C+I]	7.94	5.21
GDP MP	5.74	4.71



Foreign direct investments

During July–April of FY-16, net foreign direct investment crossed US$ 1 billion and reached US$ 1,762.3 million with the growth of 5.4 %, while outflows registered at US$ 746.0 million. The major FDI inflows are from China, US, UAE, Hong Kong, UK, Switzerland, Italy, Austria, Norway, Luxembourg, Saudi Arabia, Japan and Singapore. Oil and gas exploration, financial business, power, communications and chemicals remained major sectors for foreign investors.

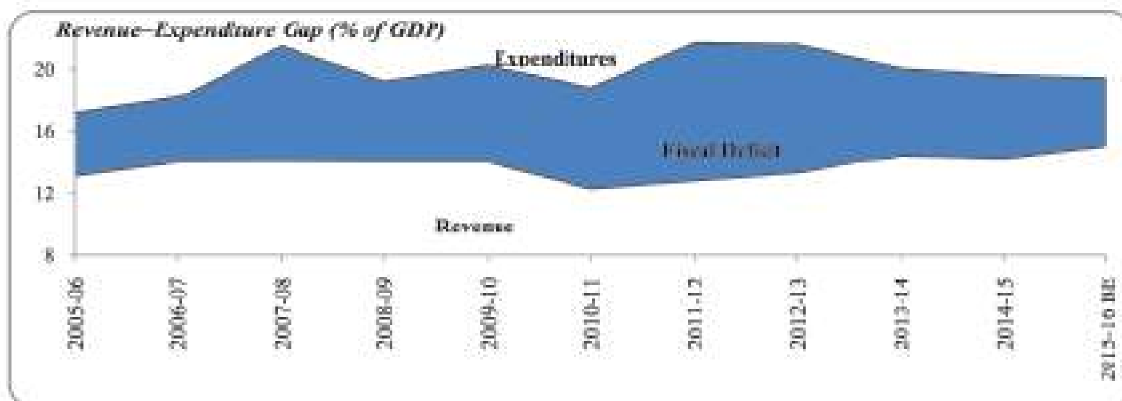
Pakistan remained focused and committed to implement CPEC which is a mega project of US$ 46 billion.



Fiscal Development

The fiscal sector of the economy has witnessed improvement in terms of contained expenditures and increased revenues. The **budget deficit** declined substantially from 8.2 % of GDP in FY-13 to 5.3 in FY-15. During the current fiscal year, the **fiscal deficit** has been contained at 3.4 % of GDP during July–March period, as against 3.8 % of GDP in the same period last year. A fiscal deficit target for FY-16 has been set at 4.3 %, which will be further brought down to 3.5 % of GDP by FY-18.

Revenue–Expenditure Gap



Overall **tax-to-GDP ratio**, which was 9.8 % of GDP in FY-13, has been increased to 11.0 % of GDP during FY-15.

FBR tax revenues posted a growth of 14.9 % during FY-15 and stood at 9.4 % of GDP against 9 % of GDP in FY-14.

During FY-16, the overall size of **Public Sector Development Plan (PSDP)** has been increased to Rs. 1,513.7 billion, 85.8 % higher than the revised allocation of Rs. 814.7 billion in FY-14. The allocation under Benazir Income Support Program, BISP (development expenditure outside PSDP) has also increased significantly from Rs. 70.3 billion (revised) in FY-14 to Rs. 102 billion in FY-16, posting an increase of 45.1 %.

Total revenues grew at 10.4 % and stood at Rs. 2,961.9 billion during July-March FY-16 against Rs. 2,682.6 billion in the same period of FY-15. Within total revenues, **total tax revenues** reached Rs. 2,481.0 billion during the first nine months of current fiscal year from Rs. 2,063.2 billion recorded in the same period last year - a growth of 20.2 %. Non-tax revenues witnessed a negative growth of 22.4 % and stood at Rs. 480.9 billion during the first nine months of current fiscal year against Rs. 619.5 billion in the same period of last fiscal year.

Total expenditure registered a growth of 6.4 % during July–March FY-16, and stood at Rs. 3,971.3 billion against Rs. 3,731.6 billion in the comparable period of last year. A %age of GDP, total expenditure reduced to 13.4 % during the first nine months of current fiscal year against 13.6 % recorded in the same period of last fiscal year.

Current expenditure amounted to Rs. 3,407.0 billion during first nine months of current fiscal year against Rs.3,199.1 billion in the same period of preceding fiscal year, thus posting a growth of 6.5 %. Of which, **expenditure on markup payments** stood at Rs. 1,079.4 billion during July-March FY-16, and **defence expenditure** remained at Rs. 482.9 billion during the first nine months of current fiscal year. **Development expenditure** (excluding net lending) grew by 20.6% and stood at Rs.699.4 billion during July-March FY-16 against Rs. 579.7 billion in the comparable period of FY-15.

During July–April, FY-16, FBR has collected Rs. 2,346.1 billion as **provisional tax revenues** against Rs. 1,973.6 billion in the same period last year, thus reflecting a growth of 18.9 %. As %age of GDP, FBR tax revenues stood at 7.9 % during July-April, FY-16 against 7.2 % in the same period last year.

During July-April FY-16, the share of **direct tax** in total FBR tax collection is 37.9 %. **Direct taxes** have registered a growth of 14.4 % during the first ten months of the current fiscal year. The net collection has gone up from Rs. 775.9 billion to Rs. 888 billion. The gross and net collection of **indirect taxes** has witnessed a growth of 20.4 % and 21.7 % respectively. It has accounted for 62.1% of total FBR tax revenues during the first ten months of the current fiscal year.

Inflation

The inflation rate, measured by the changes in **CPI**, has been contained at 2.79 % during July-April FY-16, which is the lowest in 13 years.

Food and non-food inflation have been estimated at 2.1 % and 3.3 % as compared to 3.6 % and 5.7% in the same period last year, respectively.

The **core inflation** during July–April FY-16 recorded at 4.1% as against 6.9% during the same period last year. **WPI** during July–April FY-16 on annual average basis recorded a decrease of 1.29% against increase of 0.03% last year.

Trade and Payments

The overall external account balance recorded US$ 0.9 billion during July-April FY-16 compared to US$ 2.1 billion during the same period last year, on the back of higher financial inflows and lower international oil prices.

- During recent years, Pakistan **exports** recorded a sluggish growth. The exports target for FY-16 was set at US$ 25.5 billion. During July–April FY-16, **exports** declined by 9.5 % and stood at US$ 18.2 billion as compared to US$ 20.1 billion in July-April FY-15.
- Pakistan's overall **import** remained 4.3 % less during July-March FY-16 compared to the same period last year. Imports target was set at US$43.2billion (an increase of 6 %) during FY-16. In July–April FY-16, the imports declined by 4.7 % as compared to last year. Like other developing countries, Pakistan also benefitted by the falling global oil and commodity prices.
- The **current account balance** shrunk by 17.7 % during July–April FY-16 as compared to last year (US$ 1.519 billion in FY-16 against US$ 1.846 billion). As a %age of GDP it stood at -0.6 % compared to -0.8 % of the comparing period last year.
- The overall **trade deficit** posted an increase of 2.1 % during July–April FY-16, mainly reflecting decline in exports.

Foreign Exchange Reserves

Foreign exchange reserves have reached a record level of US$ 21.6 billion on 30 May 2016. Exchange rate remained at Rs. 104.75 per US$ in May 2016, compared to Rs.101.78 per US$ at end June 2015.

Public Debt

Public debt was recorded at Rs. 19,168 billion as at end March 2016 registering an increase of Rs. 1,787 billion during first nine month of current fiscal year. Out of this total increase, increase in domestic debt was Rs. 1,200 billion while government borrowing from domestic sources for financing of fiscal deficit was Rs. 786 billion.

Increase in external debt contributed Rs. 588 billion to public debt. Apart from fresh external inflows, revaluation loss on account of depreciation of US Dollar against other international currencies as well as depreciation of Pak Rupee against US Dollar contributed to this increase.

Money and Credit

During current fiscal year 2016, SBP decreased the **policy rate** to a historically low level of 5.75 %w.e.f. 21 May 2016, which is the lowest rate in the last 44 years.

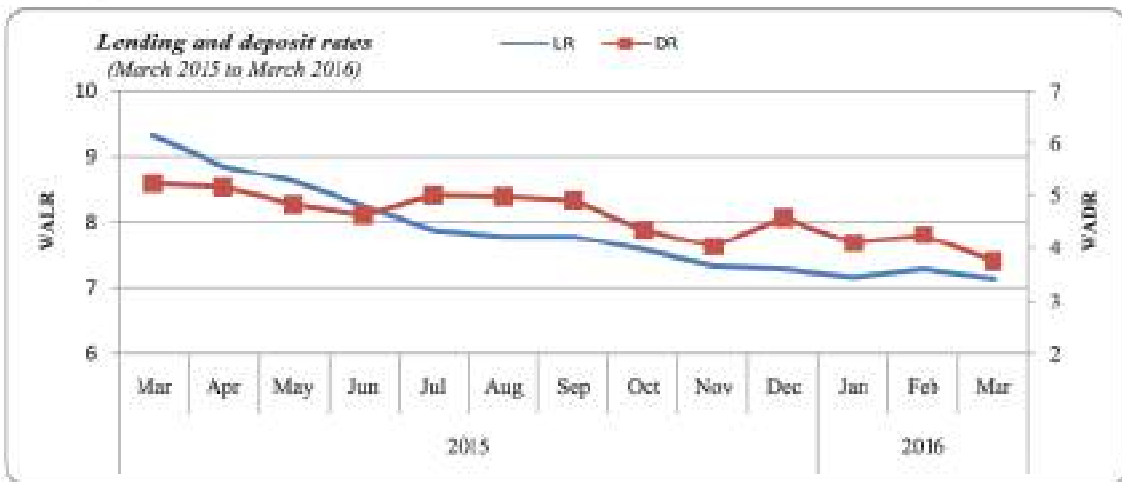
Broad money (M2) increased to 6.93 %during July-May FY-16 against the expansion of 6.92 % in the same period last year. **Reserve money** increased to Rs. 697.6 billion and grew by 22.20 % during July-May FY-16 as compared to Rs. 329.5 billion (11.52 %) in corresponding period last year.

Government borrowing from scheduled banks remained lower and stood at Rs. 702.9 billion during July-May FY-16, against Rs. 1,093.2 billion in comparable period, last year. Government retired Rs. 59.8 billion to the State Bank of Pakistan during the same period against the retirement of Rs. 532.3 billion in the comparable period last year.

The outgoing fiscal year 2016 has seen more expansion in credit to private sector due to expansionary monetary policy stance by SBP. The flows of **Credit to Private Sector (CPS)** have seen expansion of 82.0 % compared to the contraction of 41.5 % during same period last year. The flows of CPS stood at Rs. 311.7 billion during Jul-May FY-16 against Rs. 171.2 billion in the same period of last year.

The **Weighted Average Lending Rate (WALR)** on gross disbursements has decreased from 9.31% in March 2015 to 7.13 % in March 2016. Likewise, **Weighted Average Deposit Rate (WADR)** offered on fresh deposits also reduced from 5.22 % in March 2015 to 3.74 % in March 2016.

Lending and Deposit Rates



NBP
National Bank of Pakistan

PAKISTAN'S ECONOMIC PERFORMANCE

IMF 11TH Review (June 2016)

[Under the extended arrangement and request for modification of performance criteria and extension of the extended arrangement]

Introduction & Program Performance

1. **Macroeconomic stability has been strengthened and structural reforms are progressing.** Since the start of the program in September 2013, economic growth has gradually recovered, inflation was brought down to low single digits, foreign reserve buffers have been rebuilt, social safety nets have been strengthened, and the fiscal deficit has significantly declined. Tax exemptions and concessions have been reduced. In the energy sector, power blackouts and subsidies have declined, and the accumulation of arrears has dropped significantly, although the existing stock remains to be addressed. Despite recent setbacks to privatizing ailing public sector enterprises (PSEs) due to labor unrest and political opposition, the authorities continue working towards reforming PSEs and putting them on a sustainable financial path.

2. **The economic recovery is gradually strengthening with improved macroeconomic stability.** Despite a weak cotton harvest and declining exports, real growth will likely reach 4.7 percent in FY 2015/16, supported by large scale manufacturing and buoyant construction activity, and higher private sector credit growth. Growth is expected to strengthen to 5 percent in FY 2016/17, supported in part by an expected pick-up of investment related to the China Pakistan Economic Corridor (CPEC). Core inflation has remained contained (4.6 percent in May 2016). Inflation is expected to remain contained at 5.2 percent in FY 2016/17, well-anchored by prudent monetary policy.

3. **International reserves continue to rise amid a broadly stable current account deficit.** Despite declining exports and sustained real exchange rate appreciation, the current account deficit is expected to remain contained at 1.0 percent of GDP in FY 2015/16 and international reserves will likely further increase to 4.3 months of imports. Pakistan's exports fell by 9.2 percent (y-o-y) during the first three quarters of FY 2015/16, owing to lower international prices of cotton and rice, ongoing security issues, a poor business climate, and competitiveness losses related to real exchange rate appreciation (1.3 percent y-o-y in March 2016 and cumulatively 19 percent over the past two years). However, favorable oil prices and so far robust remittances from the Gulf Cooperation Council (GCC) countries continue to counterbalance the decline in exports. The recovery in oil prices along with higher CPEC-related imports will likely lead to a widening of the current account deficit to about 1.8 percent of GDP in FY 2016/17, still allowing for additional reserves accumulation to close to 4½ months of imports. Over the medium term, completed CPEC projects would contribute to promoting exports, offsetting the CPEC-related imports of industrial goods for investments.

4. **The financial system remains sound.** The banking system continues to be profitable and well-capitalized, with high earnings and solvency ratios, although nonperforming loans remain significant. Two small banks recently fell below the minimum capital adequacy ratio (CAR) requirement and one other bank is still below the absolute minimum capital requirement (MCR). The SBP is actively engaging with these banks to address their shortfalls, and legislation to introduce an appropriate resolution framework to address NPLs is under discussion in parliament.

5. **Downside risks to the outlook remain.** Further appreciation of the real effective exchange rate in the context of an appreciating U.S. dollar would continue to erode export competitiveness; lower growth in advanced and emerging market economies (including China and GCC) could weaken exports, remittances, and FDI; tighter global financial conditions could have an adverse impact on capital inflows; and a faster-than-expected rise in oil prices could worsen the external position. Furthermore, medium- to long-term risks could arise from repayment obligations and profit repatriation related to large-scale investments such as those under CPEC. Domestically, policy slippages, further delays in restructuring or privatizing public sector enterprises (PSEs), ongoing legal challenges to electricity surcharges and revenue measures, political uncertainty, and the still difficult security conditions could affect economic activity and undermine fiscal consolidation.

6. **Program performance has been strong with all end-March 2016 performance criteria, and most indicative targets and structural benchmarks met**: all Performance Criteria (PCs) at end-March 2016 are met, including net international reserves and government borrowing from SBP with significant margins. They also met the program's Indicative Targets (ITs), except for the IT on tax collection, which was missed by a very small margin. Structural Benchmarks (SBs) on strengthening the central bank's autonomy, tax administration, fiscal responsibility and public private partnership framework legislation, and anti-money laundering were met. The public sector enterprise reform SB (legislation on corporatization of a key loss-making public enterprise) was also met, although it was accompanied by constraints on future restructuring and privatization. Delays occurred in energy (notification of multi-year tariffs) and financial sector (establishment of deposit protection scheme) SBs, which are proposed to become SBs for the twelfth review.

7. **The authorities remain committed to their Fund-supported economic policy and structural reform agenda but continue to face significant challenges.** These include increasing political polarization, social and political obstacles to privatization of public sector enterprises (PSEs), and ongoing legal challenges to tax revenue and power sector measures. The security situation has improved but remains fragile amid fallout from terrorist attacks and widening anti-terror operations.

Policy Developments

A. Fiscal Policy

8. **Program fiscal targets for FY 2015/16 are within reach.** Building on the strong fiscalperformance in the first three quarters of FY 2015/16, the authorities are on track to reduce thebudget deficit (excluding foreign grants) to 4.4 percent of GDP. Staff noted an increase in the statistical discrepancy inthe fiscal accounts (0.5 percent of GDP as of end-March 2016), which, if unwound, could entailpressure on the deficit in the last quarter. Moreover, underperformance in the collection of the GasInfrastructure Development Cess (GIDC) and risks related to the planned auctioning of telecomspectrum could lead to a revenue shortfall. In light of these risks, the authorities agreed to managespending prudently, coordinating closely with the provinces, and scaling back non-priorityexpenditures as needed to ensure reaching the end-year deficit target.

9. **Staff supports the authorities' commitment to continue gradual fiscal consolidation in FY 2016/17 with a deficit target of 3.8 percent of GDP.** To put the debt-to-GDP ratio on a firm downward trajectory and preserve medium-term fiscal sustainability, the authorities plan to reduce the budget deficit (excluding foreign grants) to 3.8 percent of GDP in FY 2016/17. On the revenue side, measures (about ½ percent of GDP) include further eliminating tax concessions and

exemptions, introducing or expanding withholding taxes to strengthen income tax payment compliance, raising excises on cigarettes and cement, and adjusting the customs duty structure for certain goods. On the spending side, measures (about 0.1 percent of GDP) focus on rationalizing noncritical current expenditures, containing energy subsidies, and managing the public sector wage bill prudently, while preserving increases in social and capital spending.

10. **Reducing the outstanding stock of tax refund claims remains important to strengthen the FBR's credibility and improve the business climate**. The FBR has started publishing the stock of outstanding tax refund claims—including GST, income tax and customs duties—on a monthly basis to enhance transparency in tax administration. Overall tax refund claims have declined to 0.7 percent of GDP in March 2016 (about half of this amount pertains to GST refund claims), from 0.8 percent of GDP in March 2015.

B. Monetary & Exchange Rate Policies:

11. **Further accumulation of international reserves and greater exchange rate flexibility will help bolster external buffers and reduce vulnerabilities**. The authorities are committed to continue with the SBP's spot purchases and take advantage of favorable oil prices to continue raising foreign exchange reserves. Staff supported the authorities' plan to increase the end-June 2016 NIR target by $350 million, which will contribute to further bolstering external buffers, containing appreciation pressures on the real effective exchange rate, and hence supporting competitiveness.

12. **A prudent monetary policy stance is needed to preserve achievements in containing inflation and support macroeconomic stability**. The SBP's monetary policy stance has been in line with program objectives, as monetary targets have been met and inflation has remained well contained. Following the reduction in the policy rate by 25 bps to 5.75 percent in May 2016, staff cautioned that in light of an expected moderate increase in inflation and tighter global financial conditions, maintaining a prudent monetary policy by targeting clearly positive real interest rates and setting the policy rate in a forward-looking fashion will be important to preserve achievements in anchoring low inflation expectations and support stable financial conditions.

C. Financial Sector Issues:

13. **While the overall banking system capitalization remains strong, efforts are under way to address undercapitalization in some small banks**. Two small banks (1.5 percent of banking assets) recently became marginally CAR–noncompliant, in part due to an increase in the CAR requirement. One bank has already received a partial capital injection and is expected to be brought into regulatory compliance by August 2016, while the other is in the process of being privatized and expected to become CAR-compliant by December 2016. One other small bank, which is below the absolute minimum capital requirement (MCR), has initiated the process of merging with another bank by December 2016.

14. **Staff welcomed ongoing financial sector reforms aiming at strengthening the resilience of the banking sector**. The authorities are advancing with the establishment of a deposit protection scheme. The Deposit Protection Corporation (DPC) Act was passed by the National Assembly and is expected to be enacted, following Senate approval, by August 2016. Staff supports the ongoing strengthening of the regulatory and supervisory framework with the phased implementation of Basel III capital and liquidity standards, which will help banks meet the new prudential norms.

D. Structural Issues

Energy Sector

15. **The authorities are committed to further move ahead with the energy sector reform.** Since the start of the program, power blackouts declined distribution losses were reduced, payment collection rates increased, energy subsidies were reduced, electricity tariffs were increased, surcharges were introduced to allow for cost recovery, and the regulatory framework was strengthened. Efforts are underway to continue strengthening the performance and monitoring of power distribution companies. Although the outstanding stock of power sector arrears remains to be addressed, new arrears are accumulating at a significantly reduced pace.

16. **Improved performance of distribution companies and favorable oil prices have helped contain the accumulation of power sector arrears**. The end-March 2016 IT on the accumulation of power sector arrears was met with a large margin, owing to the positive impact of low oil prices, significant strengthening in collection rates, and further loss reduction. Half of the DISCOs met their quarterly performance targets at end-March 2016, and the authorities are taking disciplinary actions against noncompliant DISCOs as appropriate.

17. **The regulatory process for gas tariff determination has resumed and growing LNG imports are strengthening supply to the domestic market**. The authorities are resuming semi-annual notification of gas tariffs, key to ensure cost recovery and strengthen the regulatory framework. They are increasing imports of Liquefied Natural Gas (LNG) to tackle domestic gas shortages, with the price of imported LNG continuing to be fully passed through to consumers. Staff welcomed the authorities' commitment to further reduce distribution losses, including by strengthening infrastructure and tackling gas theft.

Public Sector Enterprises

18. **The authorities remain committed to restructuring and attracting private sector participation in PSEs and are renewing efforts to contain PSEs' losses.** In light of legislative constraints, political opposition, and widespread strikes, the authorities have reassessed their strategy for PSEs, scaling back planned privatization transactions but continuing efforts to attract private sector participation and putting in place additional measures to contain PSEs' losses

Business Climate and Trade Policy

19. **Staff welcomed the authorities' focus on implementing their new business climate reform strategy and further simplifying the trade regime to foster higher and more inclusive growth** the authorities have started implementing short-term measures to ease the process of starting a new business, paying taxes and trading across borders, and facilitate access to credit. Furthermore, they are simplifying the import tariff structure by reducing tariff slabs from five to four by July 2016.

Program Modalities and Other Issues

20. **Financing, program risks, and capacity to repay the Fund.** Pakistan's financing needs are fully covered for the remainder of the program and the country's capacity to repay the Fund remains strong owing to supportive macroeconomic policies, resilient remittances inflows, and increasing foreign exchange reserves.

Staff Appraisal

21. Performance during the current review period has been strong, with macroeconomic stability consolidating, structural reforms progressing, and all PCs and most ITs and SBs met.

22. Continued progress on rebuilding buffers and advancing with growth-supporting structural reform policies is important also in the context of downside risks

23. The authorities are on track to achieve their end-year fiscal deficit target and are committed to continue gradual fiscal consolidation in FY 2016/17.

24. Sustained progress with tax administration reforms is needed to increase tax revenues.

25. The authorities should continue to build international reserves, maintain a prudent monetary policy stance, and further strengthen the SBP's autonomy.

26. Advancing with financial sector reforms is important to reinforce financial stability.

27. Restructuring and privatizing ailing PSEs remain key to ensure their financial viability, reduce fiscal costs and strengthen the efficiency of Pakistan's economy.

28. Further strengthening DISCOs' performance and updating the power sector arrears reduction plan will be important to reduce fiscal risks.

29. Swift implementation of the new business climate reform strategy is needed to foster investment and support private-sector led growth.

BANKING SECTOR – AN ASSESSMENT

- Pakistan's banking sector continued to post strong performance in 2015 despite tougher regulatory measures introduced by the State Bank of Pakistan and the Ministry of Finance as well as falling interest rates.

- Profitability of the banking sector reported growth of 14% to Rs. 175 billion, driven by core business (net interest income up 20 % to Rs. 445 billion) and higher capital gains (up 85% to Rs. 56 billion). Pre-tax profit of the sector grew by 28%; however, higher effective tax rate of 40% in 2015 compared to 33% in 2014 contained bottom-line growth to 14%.

- The government introduced a one-off super tax of 4% on bank's income and flat tax of 35% on all sources of bank income including capital gains and dividend income.

- Earnings of top 5 banks (in terms of deposits) grew by 9% to Rs. 122 billion in 2015, whereas smaller banks (all listed banks excluding Top 5) outperformed the sector as profits grew by 38% to Rs. 54 billion.

- Within the top 5 banks, **National Bank (NBP) reported highest earnings growth of 25 % helped by above average deposit growth (16 % vs. 12 % industry average), loan recoveries, capital gains and major investment in PIBs**. Similarly within smaller banks, Samba Bank (SBL) and Faysal Bank (FBL) recorded earnings growth of 90% and 71% respectively, driven by a sharp rise in capital gains on PIBs.

- Net Interest Income (NII) of top 5 banks grew by 19% to Rs. 276 billion whereas smaller banks reported an increase of 22% as investment in long term high yield bonds had a profound impact on smaller banks.

- Along with a sharp rise in NII growth, strong increase in capital gains led to an above average bottom-line growth for smaller banks. Capital gain of smaller banks was up 110% to Rs. 25 billion, whereas capital gain for top 5 banks was up 70% to Rs. 32 billion.

- Deposits of the banking sector grew by 12 % to Rs. 9.5 trillion in 2015, which is in line with last year's growth of 12 %. Top 5 banks' deposits rose by 11 %, whereas deposits of smaller banks grew by 15 %.

- Advances of the sector grew by 4 % to Rs. 4.2 trillion in 2015, lower than last year's growth of 9%. Advances growth of top 5 banks was up 2%YoY, whereas growth of smaller banks stood at 8%.

- Within the top 5 banks, Habib Bank (HBL) and Allied Bank (ABL) reported highest credit growth of 6% and 5% respectively. Within smaller banks, advances growth of JS Bank (JSBL) and NIB Bank (NIB) stood at 35% and 18% respectively in 2015.

- Total assets of the sector grew by an impressive 17 % to Rs. 12.7 trillion aided by strong deposit growth and repo borrowing during the year. Similarly, total equity size of the banks increased by 4% to Rs. 1.1 trillion.

- Total branch network of the industry grew by 5% taking total branches of the industry to 10,487 throughout the country.

- Banks with high CAR have some cushion as they can lend aggressively in the wake of improving macros and China–Pakistan Economic Corridor (CPEC) related lending. Within the top 5 banks, Allied Bank (ABL) tops the list with CAR of 21%.

Outlook

- Despite low interest rates, demand for credit is still slow. It seems that the banks are still interested in risk free government papers as banks are still reluctant to make headways into advances. However, banks are trying to meet targets for healthy loans as evident from some movement in advances. Banks need to focus on boosting advances base to be profitable in the long run. Furthermore, upcoming materialization of CPEC and other government backed mega projects will help credit off-take numbers in coming months.

Summary of Financial Information (top 6 banks)

Number of branches and legend

(Including sub-branches)

Banks	Legend	Number of branches	
		2015	2014
Habib Bank Limited	HBL	1,716	1,644
National Bank of Pakistan	NBP	1,424	1,377
United Bank Limited	UBL	1,330	1,313
MCB Bank Limited	MCB	1,257	1,232
Allied Bank Limited	ABL	1,050	1,000
Bank Alfalah Limited	BAF	653	648

NBP
National Bank of Pakistan

Balance Sheet

Assets*

(Rs in million)

Bank	Cash and bank	Investments	Lending to financial institutions	Loans and advances (net of provisions)	Operating fixed assets andintangible assets	Other assets	Total assets
HBL	207,721	1,244,887	44,318	633,383	31,342	56,772	2,218,423
NBP	171,830	826,247	10,639	580,094	33,301	89,763	1,711,874
UBL	141,476	747,599	31,305	487,278	36,678	41,851	1,486,187
MCB	71,325	564,300	5,132	315,311	32,957	31,915	1,020,980
ABL	60,789	544,833	3,628	321,648	28,870	32,971	992,739
BAF	78,952	397,516	53,629	327,300	17,318	28,701	903,416
	732,093	4,325,382	148,651	2,665,014	180,506	281,973	8,333,619

Liabilities and Equity

(Rsin millions)

Bank	Bills payable	Borrowings	Deposits	Subordinated loans	Other liabilities	Equity	Total
HBL	28,082	314,319	1,634,944	10,000	48,458	182,620	2,218,423
NBP	9,172	22,385	1,431,535	-	77,127	171,655	1,711,874
UBL	13,396	164,232	1,119,953	-	33,007	155,599	1,486,187
MCB	11,975	118,615	706,240	-	41,973	142,177	1,020,980
ABL	4,942	137,960	734,546	-	25,166	90,125	992,739
BAF	9,734	172,393	640,137	9,983	17,076	54,093	903,416
	77,301	929,904	6,267,355	19,983	242,807	796,269	8,333,619

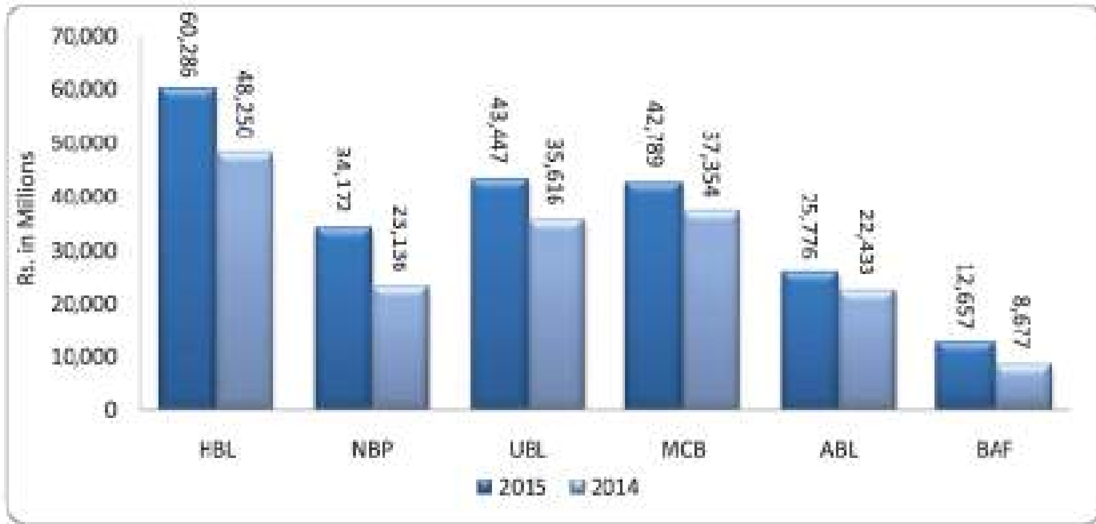
Income Statement

(Rs in millions)

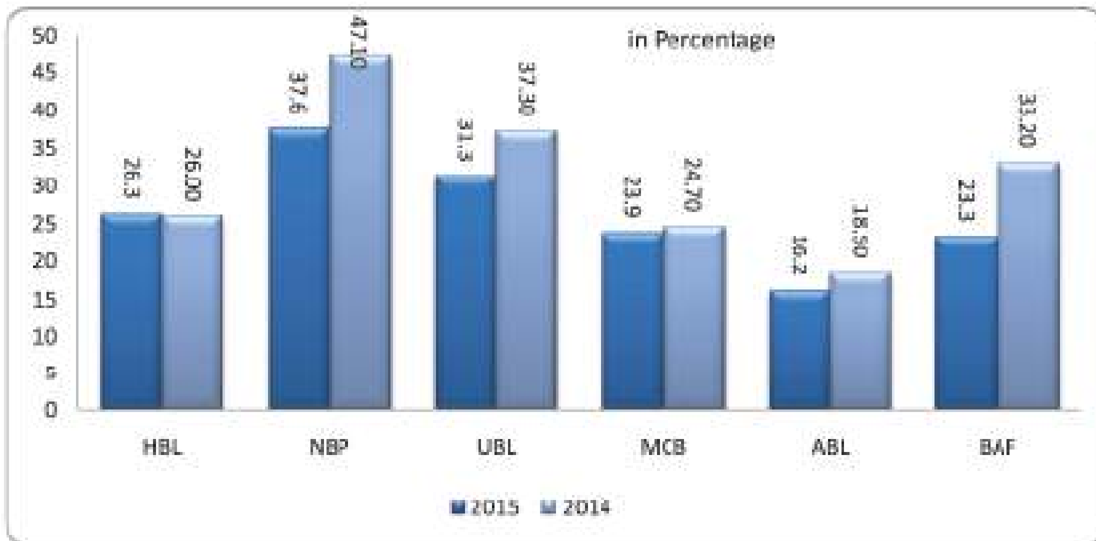
Bank	Spread	Net Provision	Non-markup, non-interest Income	Operating expense	Operating income	Profit before tax	Net Tax	Profit after tax	Other comp. income
HBL	78,169	4,508	36,584	110,245	49,959	60,286	25,185	35,101	358
NBP	54,387	9,945	35,104	79,546	45,374	34,172	14,096	20,076	−19,284
UBL	57,859	3,823	24,549	78,584	35,137	43,447	16,438	27,009	7,179
MCB	49,555	545	17,859	66,868	24,079	42,789	17,754	25,035	−989
ABL	36,152	1,586	10,309	44,876	19,100	25,776	10,461	15,315	1,556
BAF	28,614	2,288	9,103	35,429	22,772	12,657	5,143	7,514	4,049
	304,736	22,695	133,508	415,548	196,421	219,127	89,077	130050	−7131

*as of December 2015

Profitability

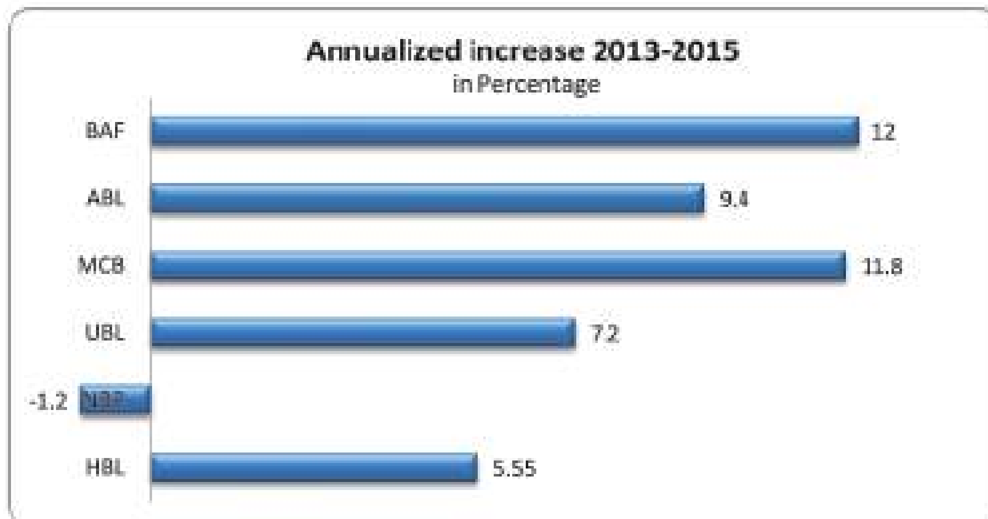


Non-Funded Income

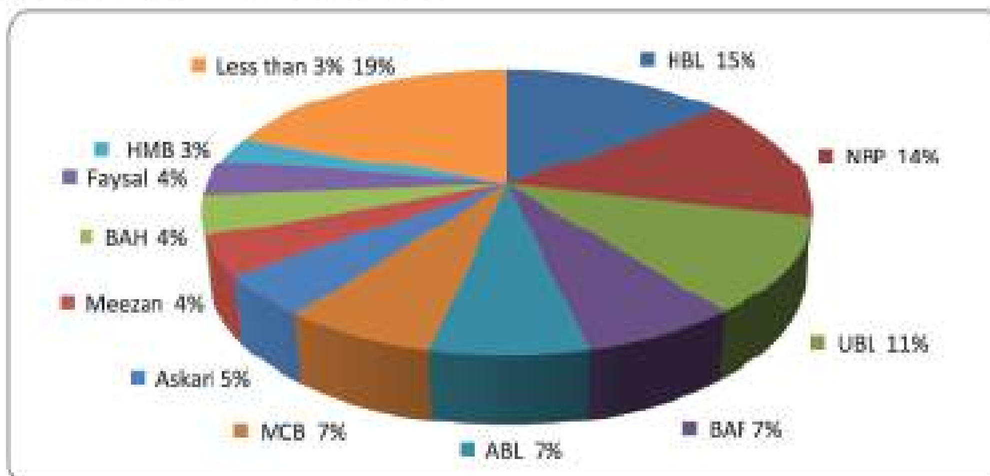


Loans and Advances

	Annual Increase %		Gross Advances (in millions)		
	2014-2015	2013-2014	2015	2014	2013
HBL	6.2	4.9	702,562	661,476	630,422
NBP	-5.1	2.7	694,385	731,980	713,043
UBL	3	11.4	529,915	514,283	461,675
MCB	3.4	20.2	333,815	322,759	268,471
ABL	4.6	14.2	340,812	325,868	285,411
BAF	12.7	11.3	343,492	304,820	273,827
	4.13	**10.78**	**2,944,981**	**2,861,186**	**2,632,849**

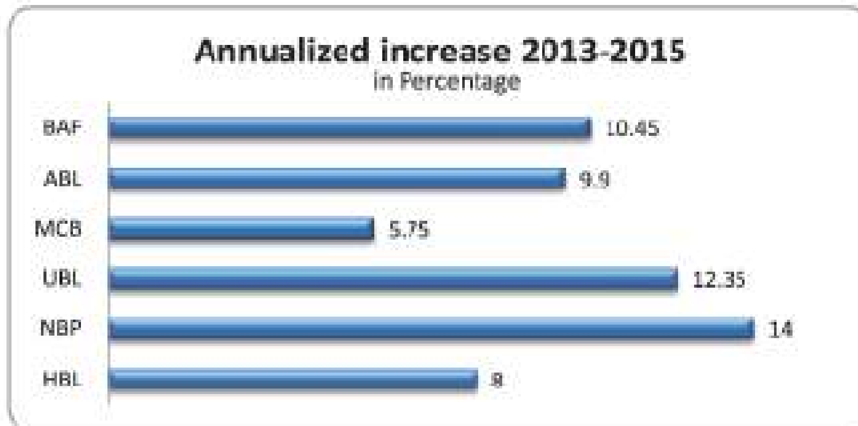


Market Share of Loans and Advances

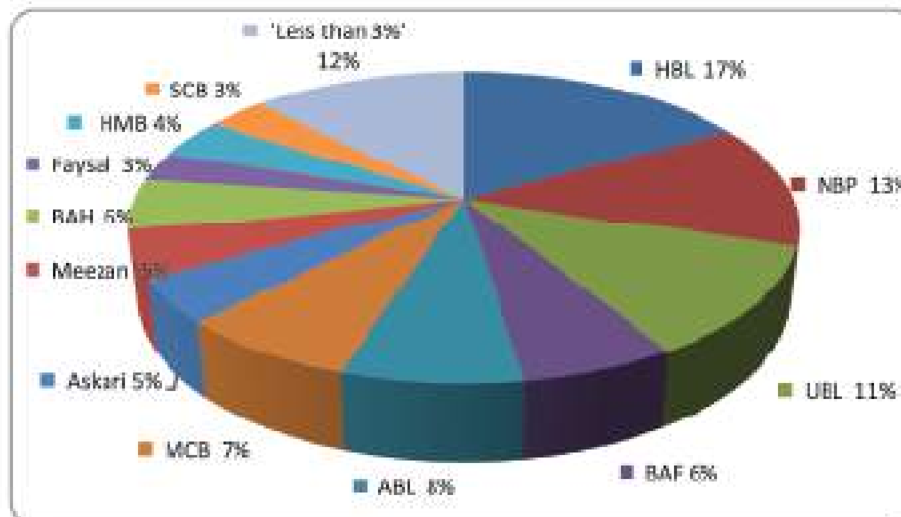


Deposits

	Annual Increase %		Deposits (in millions)		
	2014-2015	2013-2014	2015	2014	2013
HBL	7.2	8.8	1,634,944	1,524,645	1,401,230
NBP	16	12	1,431,535	1,234,405	1,101,845
UBL	17.7	7	1,119,953	951,902	889,526
MCB	2.6	8.9	706,240	688,270	632,309
ABL	10	9.8	734,546	667,864	608,407
BAF	5.6	15.3	640,137	605,957	525,526
	9.85	**10.3**	**6,267,355**	**5,673,043**	**5,158,843**



Market Share of Customer Deposits

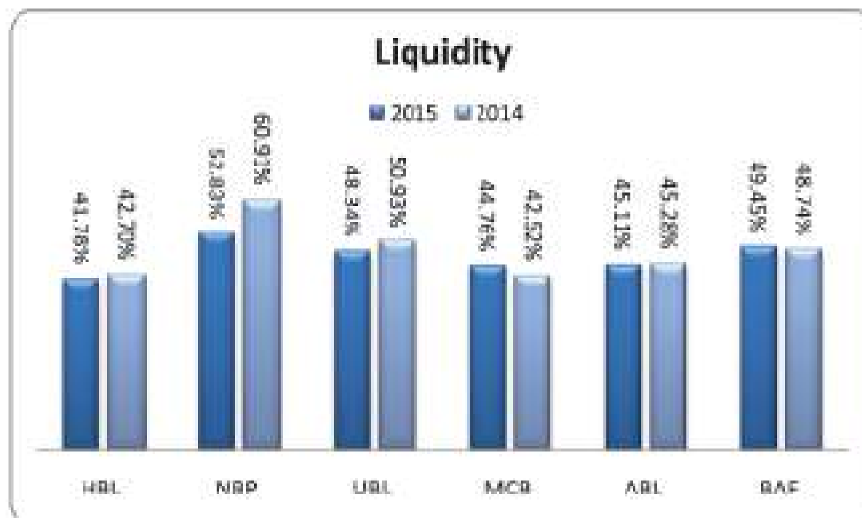


Liquidity (average advances to average deposits)

(Rs in million)

	Advances*			Deposits		
	2015	2014	2013	2015	2014	2013
HBL	679,570	640,367	608,869	1,634,944	1,524,645	1,401,230
NBP	686,549	721,785	701,312	1,431,535	1,234,405	1,101,845
UBL	508,252	493,346	444,425	1,119,953	951,902	889,526
MCB	317,491	306,757	254,814	706,240	688,270	632,309
ABL	325,201	307,458	270,482	734,546	667,864	608,407
BAF	326,062	290,143	261,308	640,137	605,957	525,526
	2,843,125	**2,759,856**	**2,541,210**	**6,267,355**	**5,673,043**	**5,158,843**

*Excluding export refinance, finance against locally manufactured machinery and long term finance against export oriented projects as its counter refinance is not included in deposits.



IMF: INTERNATIONAL ECONOMIC OUTLOOK

[Excerpted from IMF's *World Economic Outlook*, "Too Slow for Too Long", April 2016]

Recent Developments and Prospects

Major macroeconomic realignments are affecting prospects differentially across countries and regions. These include the slowdown and rebalancing in China; a further decline in commodity prices, especially for oil, with sizable redistributive consequences across sectors and countries; a related slowdown in investment and trade; and declining capital flows to emerging market and developing economies. These realignments—together with a host of noneconomic factors, including geopolitical tensions and political discord—are generating substantial uncertainty. On the whole, they are consistent with a subdued outlook for the world economy—but risks of much weaker global growth have also risen.

The World Economy in Recent Months

Preliminary data suggest that global growth during the second half of 2015, at 2.8 percent, was weaker than previously forecast, with a sizable slowdown during the last quarter of the year. The unexpected weakness in late 2015 reflected to an important extent softer activity in advanced economies—especially in the United States, but also in Japan and other advanced Asian economies. The picture for emerging markets is quite diverse, with high growth rates in China and most of emerging Asia, but severe macroeconomic conditions in Brazil, Russia, and a number of other commodity exporters.

Macroeconomic indicators suggest that economic activity in sub-Saharan Africa and the Middle East also fell short of expectations, a result of the drop in oil prices, declines in other commodity prices, and geopolitical and domestic strife in a few countries. More generally, geopolitical tensions have been weighing on global growth. Global industrial production, particularly of capital goods, remained subdued throughout 2015. This weakness is consistent with depressed investment worldwide—particularly in energy and mining—as well as the deceleration of China's manufacturing activity.

Low Inflation: Headline inflation in advanced economies in 2015, at 0.3 percent on average, was the lowest since the global financial crisis, mostly reflecting the sharp decline in commodity prices, with a pickup in the late part of 2015. Core inflation remained broadly stable at 1.6–1.7 percent but was still well below central bank targets. In many emerging markets, lower prices for oil and other commodities (including food, which has a larger weight in the consumer price indices of emerging market and developing economies) have tended to reduce inflation, but in a number of countries, such as Brazil, Colombia, and Russia, sizable currency depreciations have offset to a large extent the effect of lower commodity prices, and inflation has risen.

Declining Commodity Prices: Oil prices decreased further by 32 percent between August 2015 and February 2016 on account of strong supply from members of the Organization of the Petroleum Exporting Countries and Russia, expectations of higher supply from the Islamic Republic of Iran, and concerns about the resilience of global demand and medium-term growth prospects, as well as risk-off behavior in financial markets, leading investors to move away from commodities as well as stocks. Coal and natural gas prices also declined, as the latter are linked to oil prices, including through oil-indexed contract prices. Nonfuel commodity prices weakened as well, with metal and agricultural commodities prices declining by 9 percent and 4 percent,

respectively. Oil prices recovered some ground in March, on the back of improved financial market sentiment.

Exchange Rates And Capital Flows: Between August 2015 and February 2016, the currencies of advanced economies tended to strengthen, and those of commodity exporters with floating exchange rates – especially oil exporting countries – tended to weaken further. Across advanced economies, the Japanese yen appreciation was particularly sharp (about 10 percent in real effective terms), while the US dollar and the euro strengthened by about 3 percent and 2 percent, respectively. In contrast, the British pound depreciated by 7 percent. Among emerging economies, depreciations were particularly sharp in South Africa, Mexico, Russia, and Columbia. The Chinese renminbi depreciated by about 2 percent, while the Indian rupee remained broadly stable.

The Macroeconomic Implications of Global Realignments

Trade Spillovers from China: The current slowdown in China's growth has been driven mainly by investment and exports. The weakening in investment reflects a correction after an extended period of very rapid growth. Given China's size, openness, and high investment rate and the high import content of its investment and exports, the slowdown has entailed sizeable global spillovers through trade channels. These trade effects are both direct (reduced demand for trading partners' products) and indirect (impact on world prices for specific goods that China imports – for example, commodities), affecting other countries' exchange rates and asset markets.

Commodity Price Declines and Disposable Income: The recent further declines in prices of commodities, especially oil, have compounded sizable shifts in international relative prices since 2011. These shifts have generated sharp changes in disposable income across countries. Steep declines in oil prices during the second half of 2014 and late 2015 triggered large income losses for oil-exporting countries and gains for oil-importing countries. Relative to GDP, the windfall losses for oil-exporting countries were larger and more concentrated than the windfall benefits for oil-importing countries. These changes in disposable income have had sizable macroeconomic repercussions.

Investment In Energy And Mining: One important channel through which changes in commodity prices affect aggregate demand is through their impact on investment, particularly in energy and mining, which are very capital intensive activities. Investment weakness appears to have extended to exporters of extractive products more broadly; countries where energy and mining products account for a large share of GDP experienced large declines in domestic investment in 2015 relative to the previous three years. In turn, the weakness in investment has contributed to weakness in global manufacturing activity and trade.

Slowdown in Global Investment and Trade: Trade growth was particularly weak in relation to GDP growth in 2015 in emerging market and developing economies. The slowdown and rebalancing in China plays an important role in explaining these trends, given China's large share of global trade. But declining investment and imports in some commodity exporters also played a major role.

Global Implications Of Lower Oil Prices: Scenarios outlining the global impact of a supply-driven price decline indicate that a positive oil supply shock should be expansionary for the global economy, primarily reflecting a higher marginal propensity to consume in countries receiving the windfall from oil compared to oil-exporting countries, as well as a boost to aggregate supply stemming from the decline in the cost of an input to production.

NBP
National Bank of Pakistan

Global Outlook for 2016 And 2017

- Global output is estimated to have grown by 3.1 percent in 2015, with 1.9 percent growth for advanced economies and 4.0 percent growth for emerging market and developing economies. Global growth is projected to remain modest in 2016, at 3.2 percent, before picking up to 3.5 percent in 2017.
- The projected pickup in growth in 2017, in turn, reflects stronger performance in emerging market economies. In particular, growth in countries experiencing severe macroeconomic conditions in 2015–16 (including Brazil, Russia, and some countries in Latin America and in the Middle East), while remaining weak or negative, is projected to rise, with a return to positive growth in both Latin America and the CIS and a sizable pickup in growth in sub-Saharan Africa. These developments more than offset the projected continuation of the slowdown in China.
- Among advanced economies, growth is again projected to increase marginally, as the projected decline in growth in Japan due to the planned consumption tax increase is more than offset by slightly stronger performance in most other advanced economies.

A Pronounced Increase in Downside Risks

WEO growth forecasts form a central, or modal, scenario—growth rates that the IMF staff estimates to be the most likely in each year of the forecast horizon. The weakening in global growth in late 2015 and the escalation of threats to global economic activity since the start of this year have led the staff to reduce the projected growth rates under the central scenario. Alongside these reduced central projections, the staff views the likelihood of outcomes worse than those in the central scenario as having increased.

Over the near term, the main risks to the outlook revolve around the following:

1. **Financial Stability Risks in Emerging Markets:** After five years of declining economic growth and a downward shift in capital inflows that gained momentum in 2015, emerging market economies are increasingly vulnerable to a change in investor sentiment.

   A stronger pullback of capital flows could tighten financial conditions in emerging market economies and put additional downward pressure on their currencies, leading to adverse balance sheet effects and possibly funding challenges. The trigger for such a development could take a variety of forms: increased investor concerns about stressed emerging market economies and commodity sectors, idiosyncratic events in the larger emerging market economies, or the materialization of other risks to the outlook, such as a weakening in global demand due to protracted financial market turbulence. Regardless of the trigger, a flight from riskier asset classes could spark disruptive declines in asset prices and currency values, generating contagion effects and harming growth further. The countries that are potentially more vulnerable to a discrete change in investor sentiment are those with larger external financing needs, weaker net international investment positions, and higher yield spreads.

2. **International Ramifications of Developments in China:** China's transition to a new growth model and a more market-based economy is inherently challenging and has been bumpy at times. Corporate profitability in China has eroded over the past few years, as growth has declined toward a more sustainable pace following a period of rapid credit growth and investment. Lower corporate earnings, in turn, are hindering the ability of Chinese firms to service their debt obligations, raising banks' levels of nonperforming loans. As bank lending capacity is increasingly constrained, Chinese firms are turning to capital markets. The

combination of corporate balance sheet weakness, a high level of nonperforming loans, and inefficiencies in bond and equity markets is posing risks to financial stability, complicating the authorities' task of achieving a smooth rebalancing of the economy while reducing vulnerabilities from excess leverage. Limited progress on key reforms and increasing risks in the corporate and financial sectors have led to medium- term growth concerns, triggering turbulence in Chinese and global financial markets. Policy actions to dampen market volatility have, at times, been ineffective and poorly communicated.

A sharper-than-forecast slowdown in China could have strong international spillovers through trade, commodity prices, and confidence, with attendant effects on global financial markets and currency valuations. That outcome could lead to a more generalized slowdown in both emerging market and advanced economies, especially if it should further compromise investment, potential growth, and expectations of future income.

3. **Risks Of Further Strains In Oil-Exporting Countries:** With diminishing fiscal buffers, the renewed declines in oil prices in late 2015 and early 2016 could force oil-exporting countries to cut spending more significantly than envisaged in the WEO forecast. Additional retrenchment in spending could be motivated by a tightening of global financial conditions and market perceptions of heightened sovereign risk.

   These risks would be exacerbated if oil prices were to decline even further. And in the current low-inflation environment, a scenario of even lower oil prices comes with a risk of a further reduction in inflation expectations and possibly also core inflation rates in advanced economies, raising real interest rates and deflation risks. At the same time, further declines in oil prices could bolster the perception that prices will stay low for long, boosting oil-importing countries' spending out of the windfall and thereby cushioning some of these adverse effects.

4. **Recent Turbulence in Financial Markets and Losses in Equity Wealth:** Equity markets worldwide posted large losses in early 2016, with price declines in advanced economies especially large for banking sector stocks. From the end of December 2015 to mid-February 2016, stock price indices in advanced economies fell by more than 12 percent and those in emerging market economies by about 9 percent. Markets have since rebounded, bringing the year-to-date changes to about –2 percent for advanced economies and into positive territory for emerging market economies as of the end of March. Nevertheless, stock price indices remain well below the peaks reached in the spring of 2015, especially for emerging market economies. As discussed in the April 2016 GFSR, a lasting increase in financial market turbulence and persistent declines in equity valuations could tighten financial conditions, by increasing risk premiums and some interest rates, while reducing capital availability for firms, further depressing investment levels, which have yet to fully recover (Chapter 3 of the April 2015 WEO). Such asset market disruptions could also generate adverse wealth and confidence effects that harm private consumption, especially in those advanced economies in which equity holdings are an important part of household wealth. Though the global equity valuation losses so far in 2016 are likely to have a very small adverse impact on consumption, the decline follows larger losses in the second half of 2015 that, if increasingly seen as persistent by households, would weaken consumer demand and growth in advanced economies and, ultimately, in the global economy. Weaker growth would leave the global economy vulnerable to further shocks and raise recession risks, feeding back into weaker investor risk appetite.

5. **Possible Delays in Normalization of Conditions in Economies in Recession**: The economies of Brazil and Russia, which together account for about 6 percent of world output based on purchasing-power-parity exchange rates, have been contracting since mid-2014.

Lower-than-expected growth in Brazil was a major contributor to the downward revisions to estimated 2015 growth in the January 2016 *WEO Update*. The baseline WEO forecast factors in a very gradual normalization of conditions in these two economies, with a somewhat reduced pace of contraction in 2016 and zero or mildly positive growth in 2017. The outlook for Brazil and Russia remains uncertain, however, and possible delays in their return to more normal conditions could once again push global growth below the current forecast.

6. **Geopolitical Tensions and Strife:** The incidence of armed conflicts and terrorist acts has increased in the last couple of years. Ongoing events in parts of Africa and the Middle East, as well as in Ukraine, could further heighten domestic and international tensions, with increased disruptions in trade, tourism, and financial flows. In Europe, the surge of refugees is presenting major challenges to the absorptive capacity of EU labor markets and testing political systems, fueling skepticism about economic integration, as well as EU governance, and potentially hindering policymakers' ability to respond to both legacy and emergent economic challenges.

7. **Potential Exit of The United Kingdom from the European Union:**A British exit from the European Union could pose major challenges for both the United Kingdom and the rest of Europe. Negotiations on post-exit arrangements would likely be protracted, resulting in an extended period of heightened uncertainty that could weigh heavily on confidence and investment, all the while increasing financial market volatility. A U.K. exit from Europe's single market would also likely disrupt and reduce mutual trade and financial flows, curtailing key benefits from economic cooperation and integration, such as those resulting from economies of scale and efficient specialization.

8. **Secular Stagnation, Hysteresis, and Lower Potential Output**: In advanced economies, the risk of a protracted shortfall in domestic demand and a further weakening of potential output due to hysteresis effects remains a concern, especially in view of heightened risks to near-term activity. In some economies, especially in vulnerable euro area countries, demand remains particularly sluggish, and slack in labor markets remains sizable. The declines in the price of oil and other commodities since December 2015 raise the risk of deflation in advanced economies. The scenario presented later, in the "Policy Priorities" section, provides an illustration of how secular stagnation could affect global economic activity. A rising likelihood of lower potential output due to a protracted demand shortfall is increasingly a worry for emerging market economies as well, in particular for economies experiencing deep and prolonged recessions. A combination of ongoing supply-side constraints, persistently weak investment, and in some cases, high unemployment rates and skill losses could weigh on medium-term supply potential in these economies, especially where structural reform momentum is weak. Last but not least, economies facing domestic strife and surging refugee outflows are facing a massive loss of future economic potential.

GEOPOLITICAL AND GLOBAL ECONOMIC PERSPECTIVES- A Snapshot of Key Risks

GLOBAL ECONOMIC PERSPECTIVES

Europe's Brexit Hangover

Aug 1, 2016
Project Syndicate, by NourielRoubini

The risk of European and global volatility may have been only briefly postponed. Leaving aside other global risks, there is plenty of reason to worry about Europe and the Eurozone. An ugly divorce may lead Scotland and Northern Ireland to leave the UK. In that scenario, Catalonia may also push for independence from Spain. And without the UK, Denmark and Sweden, which aren't planning to join the Eurozone, may fear that they will become second-class members of the EU, thus leading them to consider leaving as well. [...]Italy, the Eurozone's third-largest member, is too big to fail. But, with a public debt ten times larger than Greece's, it is also too big to be saved. No EU program can backstop Italy's €2 trillion ($2.2 trillion) of public debt (135% of GDP). [...] A revisionist Russia has become more assertive not just in Ukraine, but also in the Baltics and the Balkans. And the consequences of the continuing turmoil in the Middle East are at least twofold: renewed episodes of terrorism in France, Belgium, and Germany, which may over time dent business and consumer confidence; [...] Given the current slow pace of reforms, potential growth remains low, while actual growth is on a very moderate cyclical recovery that is now threatened by post-Brexit risks and uncertainties. At the same time, high deficits and debts, together with Eurozone rules, constrain the use of fiscal policy to boost growth, while the European Central Bank may be reaching the limits of what even unconventional monetary policy can do to sustain the recovery.

The Next Global Boom – and Bust

Apr 29, 2016
Project Syndicate, by Simon Johnson

The latest IMF forecast for global growth has been revised downward to just over 3% this year and again in 2017. If realized, this would be a dismal performance. [...]Now the US faces the uncertainty of a presidential election, weaker parts of the Eurozone continue to struggle, and Japan is teetering on the edge of outright economic contraction. Brazil is in the midst of a political crisis, China is dealing with the aftereffects of prolonged fiscal expansion and explosive growth in its shadow banking system, and lower commodity prices are undermining economic performance in many other emerging markets. [...]Policymakers know that excessive debt brings financial fragility and some efforts at reform over the past decade have aimed to scale back leverage.[...]Established nonfinancial firms have learned the hard way that they need to be careful with leverage and keep large cash cushions. It's the big banks that continue to prefer being highly leveraged. And too many policymakers are deferring to them. Like it or not, that means we are in line for another stomach-turning round on the global economy's wild ride.

'Dramatic deterioration' in UK economy since Brexit
Jul 22, 2016
EurActiv, by Matthew Tempest

The British economy has suffered a "dramatic deterioration" in the four weeks since the UK voted to leave the EU. [...]July saw a dramatic deterioration in the economy, with business activity slumping at the fastest rate since the height of the global financial crisis in early-2009.

Central Banking Goes Negative
Feb 18, 2016
Project Syndicate, by Stephen S. Roach

Central banks are abdicating effective control of the economies they have been entrusted to manage. First came zero interest rates, then quantitative easing, and now negative interest rates – one futile attempt begetting another. Just as the first two gambits failed to gain meaningful economic traction in chronically weak recoveries, the shift to negative rates will only compound the risks of financial instability and set the stage for the next crisis.

Donald the Destroyer
May 31, 2016
Project Syndicate, by Simon Johnson

Trump's ideological mix comprises three main components: virulent anti-immigrant animus, ignorant anti-trade rhetoric, and extreme anti-government sentiment. Taken separately, any one of these would be damaging. Together, they would deal a major blow to US and global prosperity, while also weakening national and international security. [...]Trump's vow to tear up the rules is a recipe for another Great Depression. [...]Trump's proposed policies would undermine America's security, depress its economy, and destroy the financial system. [...] Rejection of his candidacy is necessary to keep America and the world safe.

The world's biggest hedge fund thinks the next radical change in central-bank policy is almost upon us
Aug 3, 2016
Business Insider, by Rachael Levy

The world is not transpiring as most central bankers had expected. They have had to consistently adjust their thinking about what interest rates and monetary policies are appropriate, and they have had to be more accommodative than they had expected and buy more 'risky' assets. At this stage either fiscal stimulation that is monetized or putting money directly into the hands of spenders (i.e., MP3) is the logical next move.

Why a brewing global economic storm is turning gold into the perfect trade
Aug 5, 2016
Market Watch, by Barbara Kollmeyer

Gold is poised to benefit from a "perfect storm" of fewer viable investment alternatives and bigger risks. [...] investors are using gold to hedge portfolio risk as they add more stocks and low quality bonds to their asset mix. [...] The World Gold Council point out that gold has been one of the year's best-performing assets.

Bond Market's Big Illusion Revealed as U.S. Yields Turn Negative
Aug 8, 2016
Bloomberg, by Brian Chappatta

Last month, yields on U.S. 10-year notes turned negative for Japanese buyers who pay to eliminate currency fluctuations from their returns, something that hasn't happened since the financial crisis. It's even worse for euro-based investors, who are locking in sub-zero returns on Treasuries for the first time in history. [...] bonds of France and Italy offer some degree of yield and the currency-hedging costs are cheap. Demand from non-U.S. investors in April and May was the weakest in a two-month stretch since 2013. [...]Negative interest rates outside the U.S. have caused a surge in demand for dollars and dollar assets, pushing up the cost to get into and out of the greenback at the same exchange rate to levels rarely seen in the past. [...]Treasuries will remain a better alternative for many overseas investors as long as an advantage exists, no matter how small the hedged yield pickup has become because of forces like negative rates and quantitative easing outside the U.S., "you clearly have a long-lasting bid."

The World Is Unraveling
Aug 23, 2016
Forbes Staff, by Steve Forbes

THE WORLD IS UNRAVELING and only the U.S. has the power and moral stature to stop a slide that could have catastrophic consequences. The global economy continues to sputter; the IMF has once again lowered projected growth rates for the remainder of this year and for 2017. The long economic stagnation is fueling fiercer political resentments as radical, authoritarian parties gain strength in Europe.

Why the Bearish Oil Market Could Be Over In a Flash
Aug 03, 2016
Oil Price.com, by Nick Cunningham

The oil market is being driven by its own momentum and currently that is down, but extreme positioning coupled with improving fundamentals should ultimately – and at potentially any time – result in a strong reversal. [...] because there is not enough oil that is profitable at today's prices, there could be a shortage somewhere down the road. The painful cutbacks in spending across the oil industry will sow the seeds of the next price spike.

The IMF Still Misunderstands the Euro Crisis
Aug 4, 2016
Project Syndicate, by Anders Aslund

The European economy grows slowly because it is overtaxed and overregulated. Rather than being told to restructure debt, European countries should be told to deregulate markets for labor, products, and services; and southern countries such as Italy, Greece, Spain, and Portugal should be told to expand secondary education and vocational training. As the Baltic example shows, quicker fiscal adjustments can drive structural changes.

GEOPOLITICAL PERSPECTIVES

The Old Order Collapses, Finally
May 22, 2014
Stratfor, by Robert Kaplan

As anarchy has increased over the years in the region, the ability of America to influence things has diminished. Thus, we have the slow-motion demise of the old order. [...]The annexation of Crimea, triggered by the fall of the pro-Russian regime in Kiev, signaled to the world that Russia was no longer contained. And thus everyone has come to realize that the old order in Europe is gone, too. [...]Policy elites have no trouble imagining a world of rival hegemons to replace an American imperial-like system. What they have a more difficult time imagining is a world in which nobody is sufficiently in charge anywhere, where formlessness rules, where hierarchy itself has decayed. This anarchic formlessness combined with postmodern technology may help define the world that ultimately awaits us.

Four Predictions on the Future of Europe
Jan 15, 2016
Real Clear World, by Jan Techau

My first prediction is that in the medium to long term, there will be more integration of European foreign policy, and even of security and defense. [...]My second prediction is that the euro will not be part of a future EU. There is no compelling need for the euro. Political and economic globalization can be weathered without one. [...]Third, I foresee, after heavy pains, a more complete single market, and also a common EU approach to migration - though not to the integration of migrants, which will remain primarily a national matter. There is a huge need for more closely integrated markets in Europe. [...]Finally, the EU will be a lot more realpolitik-driven. Realpolitik here means that the EU will be a union less of values and more of transactional politics. It will be less idealistic and more functional.

US war hawks' Eurasia goal: Prevent Russo-German coalition, China's OBOR project
Jul 29, 2016
Asia Times News & Features, by Christina Lin

US wants to stop a coalition between Germany and Russia because the combination of German capital and technology with Russian natural resources and manpower can counter American dominance. Its move to destabilize and throw countries "off balance" in Eurasia threatens China's 'One Belt, One Road' project that would help Eurasian economic integration and reduce ungoverned space for terrorist organizations to thrive. The world now waits to see if the US November election can usher in a new era of a multi-partner world to confront global challenges. [...] Singapore and other Asian partners are worried about US actions that may increase tensions and destabilize the region. Likewise in Europe, the Brits told US to mind its own business regarding their sovereign decision for Brexit, the German foreign minister accused US-led NATO of warmongering, the Bulgarian prime minister rejected joining a NATO fleet against Russia in the Black Sea, and a German MP blasted the US as the biggest threat to European peace and stability. [...] US strategy of throwing countries "off balance" to maintain dominance in the Mideast is actually what has helped fuel the global jihadi movement.

President Trump and the future of the West
Aug 08, 2016
Real Clear World, by Nicholas Vinocur

As Trump secured the Republican nomination, and his campaign barreled from one shock statement to another, he revealed details of a foreign policy agenda that was far more worrying for U.S. allies than anything he had said in the primary. [...] France, Belgium and Germany have all suffered terrorist attacks over the past year. But instead of offering sympathy to allied nations, Trump served up a ban on letting citizens of terror-struck countries into the U.S. [...] He also denied that Russian-backed rebels or proxies were in Ukraine, despite ongoing fighting in the country's Donbas region that has claimed hundreds of lives. [...] While Trump was forced to admit, after an explicit denial from Putin, that he had ever met or even spoken to the Russian leader, his call on Russia to spy on Clinton implied a level of coziness that raised eyebrows among EU security analysts.

Yes, of course Donald Trump can win
Jul 25, 2016
Washington Post, by Chris Cillizza

Two new national polls out either put Trump ahead of Clinton by three points or tied with the presumptive Democratic nominee. The broad trend in polling suggests a tightening contest. [...] Clinton is a uniquely flawed candidate. She has been in the national eye for a very long time and people have largely made up their minds about her. [...] In a binary choice election — which is what this is — Trump benefits from the fact that he is simply not Clinton. [...] What this all means is that the race is close today and there's plenty of reason to believe it will stay like that all the way until the election.

Germany Cozying Up to Beijing
June 14, 2016
Deutsche Welle, by Dagmar Engel

Legal uncertainty is one of the problems that German companies mention time and again when it comes to investing in China, along with concerns about intellectual property theft and lack of free market access. China has been promising to deliver on that account for years, though it has little to show for it. Despite this, Germany continues to do business in China: The contracts agreed for the government consultations have a total volume of 2.73 billion euros. The reverse is also true: China wants to be part of Germany's push for "Industry 4.0" - the application of automation and information technology to manufacturing.

The New Great Game between China and the U.S.
Nov 23, 2015
Real Clear World, by Pepe Escobar

With business booming, right now the third industrial revolution in China looks ever more like a mad scramble toward a new form of modernity. [...] China's currency, the yuan, which may, by November 30th, join the International Monetary Fund's Special Drawing Rights reserve-currency basket. If so, this will in practice mean the total integration of the yuan, and so of Beijing, into global financial markets, as an extra basket of countries will add it to their foreign exchange holdings and subsequent currency shifts may amount to the equivalent of trillions of U.S. dollars. [...] For Chinese leaders, the One Belt, One Road plan -- an "economic partnership map with multiple rings interconnected with one another" -- is seen as an escape route from the

Washington Consensus and the dollar-centered global financial system that goes with it. And while "guns" are being drawn, the "battlefield" of the future, as the Chinese see it, is essentially a global economic one. [...] No one in Washington wants to "lose" Eurasia to China and its new Silk Roads. Whatever Washington may want, China is indeed the rising power in Eurasia and a larger-than-life economic magnet. From London to Berlin, there are signs in the EU that, despite so many decades of trans-Atlantic allegiance, there is also something too attractive to ignore about what China has to offer.

China's rise as a regional and global power: The AIIB and the 'one belt, one road'
Jul 15, 2015
Brookings, by David Dollar

China's growth has been impressive compared to the rest of the world, but lost in the admiration is the fact that the growth rate has slowed down to around seven percent. [...] This pattern of growth manifests three problems. First, technological advance, as measured by Total Factor Productivity (TFP) growth, has slowed down. Second and closely related, the marginal product of capital is dropping. The third manifestation of China's growth pattern is that consumption is very low. [...] this period of excess capacity at home is the moment at which China launched expensive new initiatives, such as the Asian Infrastructure Investment Bank (AIIB), the BRICS Bank, and the 'One Belt, One Road' initiative in order to strengthen infrastructure. [...] Domestic reform is a much more promising road to deal with China's surplus problem, and to rebalance its economy away from such a heavy reliance on investment. The resolutions that are likely to have the greatest effect on rebalancing China's economy fall into four areas: (1) the household registration system (hukou); (2) inter-governmental fiscal reform: (3) financial liberalization; and (4) opening up China's service sectors to competition. [...] The AIIB will be funding infrastructure that can be thought of as the "hardware" of integration. Equally—if not more—important is the "software," that is, the rules and regulations that govern international trade and investment. TPP aims to expand trade into new areas, such as services. [...] There is a risk that these competing initiatives will result in the development of trade blocs, but more likely the end result will be cooperation.

China's "One Belt, One Road" to Where?
Dec 29, 2015
Foreign Policy Research Institute, by Felix K. Chang

China's engines of growth—export manufacturing and infrastructure construction—have sputtered, as the debt that fueled them and the overcapacity that they created have ballooned. Over the last year and half, Chinese leaders have been forced to repeatedly "fine tune" their economy to keep it growing. They boosted China's government spending, devalued its currency, cut its interest rates six times, lowered its bank reserve ratio seven times, and even directly intervened in its stock market. Still, China's economy continues to slow. [...]If the Chinese economy continues to soften, it means that China will need to import fewer raw materials and export fewer finished goods. Unless global demand revives or Chinese consumers pick up the slack, Beijing might well expect its "One Belt, One Road" initiative to yield more long-lasting political than economic benefits.

Russia eyes 'Greater Eurasia'
June 20, 2016
Asia Times News & Features, by Sergei Blagov

Last year, for the first time in its 15-year history, the SCO made a decision on its enlargement. The upcoming entry of India and Pakistan is expected to change the balance of power in the SCO. Yet before official materialization of the SCO enlargement plans, Russia came up with the even more ambitious "Greater Eurasia" vision. The new entity is supposed not only to unite major Asian states, but also to mend fences with the European Union. [...] Therefore, the 'Greater Eurasia" grouping is supposed to become a major global power. However, it is far from certain how the proposed grouping could be reconciled with the existing multilateral organizations and agreements in Eurasia. It remains to be seen whether the 'Greater Eurasia" vision have chances to materialize any time soon.

Russia is building network of ties with disgruntled US allies in Asia
May 19, 2016
Asia Times News & Features, by Salman Rafi

By offering countries things that they have traditionally depended upon the U.S. for, Russia is seeking to build a network of relations that would allow it and the member states of ASEAN to operate relatively independently of the U.S. For Russia, least dependence on the US and EU for imports would allow it to pursue its objectives and protect its interests in Europe and the Middle East more aggressively. Pragmatic as it looks, these developments can yield results that can withhold or limit the U.S. influence, if not eliminate it altogether, to an extent where the U.S. might find itself unable to operate through its traditional methods of domination and diplomatic coercion.

MIDEAST

Turkey's Erdogan pivots to Putin as tensions rise with the West
Aug 9, 2016
Washington Post, by Andrew Roth and Erin Cunningham

The leaders of Turkey and Russia meet to restart key energy projects and roll back sanctions, seeking to rebuild ties as Turkey looks beyond its NATO partners for support following a failed coup attempt last month. [...] The Turkish leader repeatedly thanked Putin for his rapid offer of aid following the coup attempt, and called for relations between the two countries to return "to their pre-crisis level, or even higher."

Putin and Erdogan Vow to Repair Ties as West Watches Nervously
Aug 9, 2016
New York Times, by Neil Mac Farquhar

Erdogan can use Russia as a trump card in his negotiations with the West, for him, the main goal is the West, not Russia. [...] In the bleak days, planning was suspended on the Turkish Stream pipeline meant to deliver Russian gas to Europe, as well as on the Akkuyu nuclear power plant that Russia is building in southern Turkey. [...] the two leaders said they were planning to restart all that. Mr. Erdogan repeated their pre-crisis pledge to eventually increase annual trade between the countries to $100 billion.

EU on edge as Putin, Erdogan set to meet
Aug 4, 2016
Asia Times, by M.K. Bhadrakumar

EU officials and diplomats are worried and are "watching warily" the Turkish-Russian rapprochement. [...] Turkey needs one line of TurkStream carrying 16 bcm to meet its needs but may also be persuaded to agree to be a transit country for Russian supplies to southern Europe. The Russians envisage TurkStream as a trans-Black Sea project with a total capacity of 64 bcm of gas with the option for the pipeline to branch off at the border between Turkey and Bulgaria to supply the Balkans as well. Gazprom delivered 27 bcmgas to Turkey through 2015, making that country the second biggest buyer of Russian gas after Germany. Additional supply of 16 bcm guarantees Russia's status as the anchor sheet of Turkey's energy security. TurkStream opens the door to more exports of Russian gas to Europe, whereas EU (and US) would hope to reduce heavy dependence on Russian supplies. EU abhors the idea of Turkey, a problematic partner, emerging as transit country for the continent's gas imports. TurkStream will kill EU's trans-Caspian pipeline projects bypassing Russia. TurkStream diminishes Russia's dependence on Ukraine as transit country for gas exports to Europe, while it also compels Kiev to turn to Brussels to meet its own energy needs by crediting that country. TurkStream strengthens Russia's hands as regards the proposed Nord Stream 2 project.

The Strategic Consequences of Turkey's Failed Coup
Jul 18, 2016
Project Syndicate, by SinanÜlgen

The effectiveness of the joint fight against the Islamic State (ISIS), which relies heavily on air strikes originating from the Incirlik airbase in southern Turkey, would doubtless be jeopardized. More broadly, a breach in this key bilateral relationship would weaken NATO cohesion in its policy toward Russia, with Turkey seeking to move beyond the confrontational framework set out at the Alliance's recent Warsaw summit. [...] Finally, the botched coup will have repercussions on Turkey's ability to contribute to regional security. The Turkish military will now undergo a painful process of purging its Gülenist elements. [...] Turkey's botched putsch has already heightened the likelihood that critical milestones soon will be reached in the country's relationship with the US and Europe.

Saudi Arabia's moment of truth in Yemen
Aug 2, 2016
Almonitor, by Bruce Riedel

The Houthis and Saleh formed a council last month to govern the capital and most of north Yemen. This effectively partitions the country between the Shiite-dominated north and east and the Sunni-dominated south and west. [...] The war is expensive for the kingdom. Last year, the kingdom had the third-largest defense budget in the world. The United States and the United Kingdom have been selling Saudi Arabia huge amounts of munitions and other supplies to keep the war effort going. [...] Washington has been mostly an observer to the Yemeni crisis. Yemen is simply not a priority. Meanwhile, half the Yemeni people are undernourished. Tens of thousands of children are at risk. The richest countries in the Arab world are bombing the poorest country and the world is preoccupied with other affairs.

Arab Decline and Iran's Rising Influence
Feb 10, 2016
Huffington Post, by Michael Sharnoff

With Iranian influence extending into Baghdad, Damascus, Beirut, and Sana'a, Iran directly and indirectly influences one-fifth of the Arab world. This is something Nasser could never have imagined. However, Iran's ability to exert its influence in four Arab nations should be assessed in relation to the relative decline of Arab state power, not innate Iranian strength. Yet following the Iranian nuclear deal, the rise of Iranian power will continue in the foreseeable future. At least $100 billion in frozen assets will flow into Tehran's coffers, and while much of that money will be injected into Iran's cash-strapped economy, it can be expected that some will go to support Iran's interests in Iraq, Syria, Lebanon, and Yemen.

The New Mideast Power Couple: Russia & Iran
Sep 13, 2016
European Council on Foreign Relations, by Ellie Geranmayeh&KadriLiik,

Iran-Russia relations have reached an unprecedented peak, fueled by military cooperation in Syria, a shared vision of the global order, and mutual criticism of Western policy in the Middle East....Tehran is a useful ally to Moscow in a highly unstable region, but it is just one thread in Moscow's patchwork of important relationships that need careful balancing....Moscow offers Tehran a critical means of protecting its regional security interests. However, Iran's leadership is divided on how best to hedge bets between Eastern and Western powers to achieve the country's strategic objectives....Despite their differences, the war in Syria looks set to be the crucible of Moscow-Tehran cooperation for some time to come, given its centrality to the strategic ambitions of both parties....Instead of pursuing policies that attempt to exploit divisions between Iran and Russia, Europe should use its limited leverage to reduce violence in Syria and, if possible, pave road for political transition later down the road. This can only happen with better understanding of the drivers of Iran and Russia's policy in the region.

Syria's World War: How the West Let Russia & Iran Take Charge
Sep 10, 2016
New Statesman, by John Jenkins, New Statesman September 10, 2016

As the civil war rages on, Syria has become a theatre for great-power rivalry, with Russia and Iran turning cynical opportunism into high policy.... The Middle East will be a huge challenge for whoever is elected the new president of the United States. The usual American approach to conflict management in the region, which rested on clear political resolve, may no longer work: if Russia now shapes the battle space in Syria, who will shape it in Gaza and northern Israel? It will be a challenge for the European Union, which is intimately affected by the collapse of Arab states.

NBP
National Bank of Pakistan

OBOR & CPEC

Asian Century as Brexit rattles old order
Jul 10, 2016
Agence France-Presse, by Emily Ford

Britain's vote to leave the European Union and simmering discontent in other Western countries is seen as hastening the arrival of an "Asian Century", led by the rise of China and India. By 2050, Asia will account for over half the world's GDP. [...] Rising economic stars Indonesia and the Philippines are growing at around five percent a year, while Europe remains sluggish. [...] With a name that harks back to those days, Beijing's flagship "One Belt, One Road' policy seeks to revive the ancient Silk Road trade route with huge investment from central Asia to Europe. [...] Asia's growing clout rests on various assumptions, including that nations continue on the same economic trajectory and aren't derailed by unforeseen financial crises. Other threats include rising inequality, the middle-income trap -- where an economy gets stuck at a certain stage of development -- and competition for natural resources.

Implications, options for India
Feb 24, 2016
Deccan Herald, by Brig PilluSubrahmanyam (rtd)

India has objected to CPEC passing through GB which is an integral part of India by virtue of having been part of the princely state of Jammu & Kashmir. However, China is trying to overtly downplay such concerns. [...] Gwadar, though being developed as a commercial port, has the potential to be transformed into a military facility for China's navy with capability to threaten India's energy routes from Gulf and as well impinge on India's naval operations in the Arabian Sea and the Indian Ocean. India cannot be oblivious to such strategic changes taking place in its neighborhood with far-reaching regional and global ramifications. [...]For sustained economic growth and devlopment, India certainly needs peace and as well infrastructure connected to markets in the region. The CPEC offers such a platform and engines for growth. If India is to become a reckonable power, it is but incumbent for the nation to ensure robust economic growth for the next decade or two and strengthen itself militarily.

Why the new Balochistan strategy is the best option for India
Aug 22, 2016
Observer Research Foundation, by Rajesh Rajagopalan

A Balochistan in the throes of an insurgency could also scupper at least a part China's efforts to flank India through the China-Pakistan Economic Corridor (CPEC). India is only belatedly realising the strategic import of both the China-Pakistan axis and specifically, the CPEC. India needs to do everything in its power to curtail this move and supporting the Balochistan rebellion is one way to do this. [...]Supporting the rebellion in Balochistan will help India in expanding its intelligence and covert action footprint within Pakistan. [...]Still, there is at least one serious problem with this initiative: A failure to follow through on the Baloch initiative, after the Prime Minister was seen to be announcing it from the ramparts of the Red Fort, will only reinforce the credibility problem. This, India cannot afford anymore.

Behind China's Gambit in Pakistan
May 12, 2016
Council on Foreign Relations, by Daniel S. Markey and James West

The primary obstacle to the CPEC's full implementation is security. To address Chinese concerns and ensure the safety of these projects, Pakistan announced in early 2016 the creation of a dedicated CPEC force of ten thousand security personnel, but even a force of that size will be stressed by the task at hand. [...]If successful, the CPEC could provide important benefits to Pakistan's economy. [...] Gwadar Port is perceived in India as less likely to become a vibrant economic hub than to serve as a naval base for China's expanded blue water fleet and operations throughout the Indian Ocean. [...]The United States will also have its own long-term concerns about the CPEC, as it represents the leading edge of China's expanding access to, and likely influence within, Eurasia. As Pakistan grows closer to China, there may be temptation in Washington to compete for influence in Islamabad. [...]Finally, though Chinese and Pakistani officials are wary of U.S. overtures, the CPEC should be appreciated as an opportunity for closer trilateral cooperation. The United States could redirect a portion of current civilian assistance funds into projects that are aligned with CPEC goals to help create jobs, spur economic growth, and provide incentives for additional outside investment.

PAKISTAN AND INDIA – THE 'CPEC' FLARE-UP *(POST URI)*

The best among limited options
Sep 21, 2016
The Hindu, by M.K. Narayanan

The issue for India would be whether it is possible to impose a heavy economic burden on Pakistan. The inherent weakness in any such step is that few nations would be willing to follow India's lead and, treating Pakistan as an outcast, impose an economic blockade on that country [....] Utmost care again needs to be taken when considering any military option [...] it is a 'militarized' state which has 'nuclear teeth' [....] Sub-military options available to India to put pressure on Pakistan are not too many [...] The reality is that India's security agencies, including the armed forces, still do not have adequate capabilities of this kind — notwithstanding claims to the contrary [....] All this should induce sober reflection. India is, of course, in a position to engage in a 'water war' with Pakistan, to deprive Pakistan of water from the Indus River. This would, of course, mean reneging on India's international obligations under the Indus Waters Treaty. Perhaps, India's best option would be to engage in cyber sabotage and cyber warfare, hiding behind the plausible deniability available in such attacks. Our capacity in this area is considerable, and it should be possible to engage in extensive cyber sabotage and cyber warfare to bring Pakistan to its knees.

2 US lawmakers move bill to declare Pakistan 'state sponsor of terrorism'
Sep 21, 2016
DAWN

Two United States lawmakers moved a bill in Congress seeking designation of Pakistan as a 'state sponsor of terrorism'. The bill titled the Pakistan State Sponsor of Terrorism Designation Act was introduced by Chairman of the House Subcommittee on Terrorism Ted Poe and Congressman Dana Rohrabacher at a time when the Prime Minister is in the US to address the United Nations General Assembly.

Retaliation or restraint? India has limited options over Kashmir attack
Sep 19, 2016
The Guardian, by Michael Safi

Even if swift military retaliation were possible, both sides are keenly aware of the limits of armed coercion, particularly since Pakistan acquired nuclear capacity in 1998. "The government actually has a very narrow band of options, and even those are not without a certain amount of risk," says DhruvaJaishankar, a foreign policy fellow at the Brookings Institution in New Delhi. "All options come with latent risks and latent costs, but the short answer is there are no good options, and if there were, they would have been explored already," Jaishankar says. Yet if the Indian government can ride out the public anger, a restrained, diplomatic response might be its wisest route.

Pakistan: Challenges for U.S. Interests
Sep 08, 2016
Testimony, by Toby Dalton

Against the backdrop of an evolving U.S. role and presence in the region and the challenges to U.S.-Pakistan relations, but considering the potential consequences of a nuclear incident, there continues to be a profound need for the United States to sustain options to mitigate perceived nuclear threats. Notwithstanding the challenges posed by Pakistan to U.S. interests, this means preserving to the extent possible patterns of cooperation and institutional relationships that facilitate U.S. influence.

India's new rules of engagement
Aug 24, 2016
India Today, by Raj Chengappa

By raising Balochistan, Modi has succeeded in blunting Pakistan's offensive on Kashmir and also addressed the public demand for a strong answer. But it has limited tactical utility. While Iran and Afghanistan may be happy that India is taking on Pakistan on Balochistan, they would be wary as they have sizeable populations of Balochis in their respective countries. China, too, may begin to flex its muscle, and India would find it difficult to combat two foes on its borders. So Modi needs to follow intent with action. He needs to have an organised game plan to follow through in a carefully calibrated manner. Modi has shown that he is capable of thinking out of the box. But he has to be careful not to be boxed in by his actions.

COMMODITIES OUTLOOK

SUGAR:

SUGAR PRICES

Year	Rs/ kg (local)	$/ kg (local)	$/ kg (global)
2011	72.82	0.86	0.71
2012	57.16	0.64	0.61
2013	53.41	0.56	0.39
2014	54.80	0.54	0.37
2015	58.91	0.58	0.30

Source: *PSMA; WB, Commodity Markets Outlook (April 2016)*

SUGAR PRODUCTION

Year	Million Tonnes (Local)	Million Tonnes (Global)
2011	4.2	162.2
2012	4.6	172.3
2013	5.1	177.6
2014	5.6	175.6
2015	5.1	174.3
2016 (provisional)	5.2	173.4

Source: *Pakistan Economic Survey 2015-16; WB, Commodity Markets Outlook (April 2016)*

- **Higher sugar demand in developing countries** should help prices recover from lowlevels. However the prices will remain volatile as a result of the sugar production cycle in some key Asian sugar-producing countries.

- **International sugar prices continued their decline** as production exceeded consumption for the fifth consecutive season. This decline was particularly pronounced due to the devaluation of the Brazilian real with respect to the US dollar. The current season is expected to be a turning point, with nearly no growth in global sugar production as production increases in Europe were offset by large decreases in Brazil and Pakistan. However, the turnaround is not expected to be sufficient, and at the start of the outlook, some of the major sugar producers are expected to cut their production in response to the low prices.

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WHEAT:

WHEAT PRICES

Year	Rs/ kg (local)	$/ kg (local)	$/ kg (global)
2011	24.9	0.3	0.3
2012	27.1	0.3	0.3
2013	29.1	0.3	0.3
2014	26.2	0.3	0.3
2015	22.0	0.2	0.2

Source: *OECD-FAO Agricultural Outlook 2015-2024; WB, Commodity Markets Outlook (Apr 2016)*

WHEAT PRODUCTION

Year	Million tonnes (local)	Million tonnes (global)
2011	25.2	649.9
2012	23.5	702.0
2013	24.2	658.7
2014	26.0	715.1
2015	25.1	725.5
2016 (provisional)	25.5	732.8

Source: *Pakistan Economic Survey 2015-16; WB, Commodity Markets Outlook (Apr 2016)*

- **Global production of wheat is expected to reach a new record in the 2015-16 season**, 1.4 percent higher than last season. However, early assessment for the next season shows that next season's global production may fall by as much as 3 percent, with notable declines in the Russian Federation and Ukraine, both key wheat exporters.

- **Consumption during 2016-17 is projected to remain largely unchanged**, with some decline in feed use offset by increasing food consumption. As a result of tighter wheat supplies, the stocks-to-use ratio (a measure of the abundance of supplies relative to demand) is anticipated to decline, after reaching a 14-year high of almost 34 percent in 2014-15. Trade volume for next season is expected to increase marginally.

NBP
National Bank of Pakistan

RICE:

RICE PRICES

Year	Rs/ kg (local)	$/ kg (local)	$/ kg (global)
2011	44.0	0.52	0.56
2012	49.4	0.53	0.58
2013	48.0	0.49	0.52
2014	39.7	0.41	0.43
2015	35.0	0.35	0.39

Source: *OECD-FAO Agricultural Outlook 2015-2024; WB, Commodity Markets Outlook (Apr 2016)*

RICE PRODUCTION

Year	Million tonnes (local)	Million tonnes (global)
2011	4.8	450.6
2012	6.2	485.9
2013	5.5	472.8
2014	6.8	478.4
2015	7.0	478.8
2016 (provisional)	6.8	474.0

Source: *Pakistan Economic Survey 2015-16; WB, Commodity Markets Outlook (Apr 2016)*

- **Rice production**, which began the current crop year on a positive note, has been gradually declining due to the El Niño-related climatic changes shortfall in various East Asian rice producing countries, notably Thailand, the world's dominant rice exporter. Global rice production, which is expected to decline by 2 percent this season, will partly recover in 2016-17, perhaps by as much as 1 percent. Increased production is expected to materialize in India, the Philippines, and Thailand, which together account for more than one-quarter of global rice supplies. The stock-to-use ratio, however, is likely to decline as consumption is projected to outpace production growth and a stock drawdown is expected to take place in India and Thailand

- **Rice price levels will recover later due to the accumulated stocks in Thailand, which are expected to put downward pressure on prices for several years.** The world reference price of rice has been changed back to the Thai price after two years of using the price in Vietnam.

COTTON:

COTTON PRICES

Year	Rs/ pound (local)	US cents/ pound (local)	US cents/ pound (global)
2011	122	141.9	155
2012	77	81.1	89
2013	84	84.0	90
2014	76	76.8	83
2015	64	62.8	71

Source: *OECD-FAO Agricultural Outlook 2015-2024; WB, Commodity Markets Outlook (Apr 2016)*

COTTON PRODUCTION

Year	Million bales (local)	Million bales (global)
2011	11.5	114.7
2012	13.6	127.4
2013	13.0	123.9
2014	12.8	120.4
2015	14.0	118.9
2016 (provisional)	10.1	107.4

Source: *Pakistan Economic Survey 2015-16; WB, Commodity Markets Outlook (Apr 2016)*

- **Early indications for the upcoming 2016–17 season** suggest a 3 percent increase in global production of cotton from the current season. Although consumption is projected to be higher than production for a second consecutive year, the cotton market is mired by unusually high stocks, the equivalent of almost one year's worth of consumption. More than half of those stocks are held by China; fears that they could be released will prevent any significant recovery in cotton prices.

- **No change is expected in cotton prices for 2016** and only a marginal increase is projected in 2017. The decline in Chinese import quota has been an important feature of the global cotton market. **Between 2011/12-2012/13 and the current crop year, Chinese imports have decreased 74%** (–16.7 million bales). **The corresponding contraction in global import demand** (world imports in 2015/16 forecasted to be 12.3 million bales less than the average from 2011/12 and 2012/13) **has been a factor pushing prices to lower levels.**

- **In their latest set of forecasts, the IMF lowered their estimates for world GDP in both 2015 and 2016. Since global cotton demand is correlated with global economic growth, this represents another obstacle for drawing down stocks.As a result, it appears unlikely prices will be able to increase beyond their recent trading range in the near future.**

- During the season 2015-16, the cotton crop was sown on an area of 2917 thousand hectares, showing a decrease of 1.5% overprevious year. Moreover, low prices discouraged farmers from investing into fertilizers and pesticides, which result in lower production and yield of cotton crop. Growth over 2015–24 begins at a relatively lower base as Pakistan has lagged considerably behind in the adoption of GM cotton.

CRUDE OIL:

CRUDE OIL PRICES

Year	$/ barrel (global)
2011	104.0
2012	105.0
2013	104.1
2014	96.2
2015	50.8
2016 (forecast)	41.0

Source: *IMF Global Commodity Price Index (Apr 2016); WB, Commodity Markets Outlook (Apr 2016)*

- **Crude oil prices are projected to average $41/ bbl in 2016**, a decline of 19 percent from last year. This implies small increases through the rest of the year as the oversupply in the oil market diminishes. The market surplus is expected to extend in the first half of the year amid weak seasonal demand, but stocks are expected to fall during the second half of the year as refinery demand increases and US production declines steepen. OPEC production excluding the Islamic Republic of Iran is expected to remain flat, while Iranian output is expected to climb by some 0.5 mb/d.

- **Near-term upside risks to the price forecast include larger non-OPEC supply declines** and slow expansion of Iranian exports. In addition, there are risks of supply disruptions among key OPEC producers (Iraq, Nigeria, and the RepúblicaBolivariana de Venezuela) due to internal conflict and financial constraints.

- **Higher global demand, particularly for transport, would also help reduce the stock overhang.** Downside price risks include a slower rebalancing because of weak demand, and continued resilience of US producers to sustain output and develop uncompleted wells. A large increase in the Islamic Republic of Iran's exports and higher production from the rest of OPEC could help sustain the surplus.

GOLD:

GOLD PRICES

Year	$/ troy ounce (global)
2011	1568
2012	1669
2013	1412
2014	1266
2015	1161
2016 (forecast)	1150

Source: *IMF Global Commodity Price Index (Apr 2016); WB, Commodity Markets Outlook (Apr 2016)*

- **The adoption of negative interest rates in a number of developed economies increased gold's attractiveness by reducing its holding costs.** Conversely, rising interest rates typically have negative implications for gold prices, as investors seek yield-bearing assets.

- **Physical gold demand was weak in the two largest consuming countries.** In India, higher prices and uncertainty over the government's end-February budget restrained purchases. An excise tax of 1 percent was announced in March and many Indian jewellers went on strike. In China, demand was weak due to slowing economy. Global gold mine supply growth has trended lower due to declining investment, but has been partly offset by cost reductions and depreciating producer currencies. Nevertheless, significant new production is expected this year as mines commissioned last year continue to ramp up.

- **Gold prices are projected to fall largely driven by expectations of a rising dollar and tightening in U.S. monetary policy.** Downside risks to the forecast include stronger-than-expected monetary tightening and dollar strength. **Significantly weaker U.S. growth (and the ramifications for the dollar) and monetary policy pose upside risk.**

- **Weakening of Euro/ Euro risks pose on upside risk.**

PALM OIL:

PALM OIL PRICES

Year	$/ MT (global)
2011	1077
2012	940
2013	857
2014	821
2015	623
2016 (forecast)	630

Source: *IMF Global Commodity Price Index (Apr 2016); WB, Commodity Markets Outlook (Apr 2016)*

- **The price of edible oils**, which are produced primarily in East Asia (notably palm oil and coconut oil), were affected by El Niño (an irregularly occurring and complex series of climatic changes).

- **The oilseed supply outlook is healthy**, with current season global supplies for the 10 major oilseeds expected to exceed 621 million tons, 12 million tons higher than last season.

- **Four dynamics will cause production growth to slow to 3.5% annually (2015-2019), from 6.1% (2005-2014):**

  1. **Strong limits to plantation expansion**: Malaysia will keep 50% of the country forested, and Indonesia imposed a forest moratorium in 2011.
  2. **Stagnating yields**, but these could improve due to replanting programs in Malaysia.
  3. **Higher operating costs**, especially in terms of labor
  4. **Subpar infrastructure in Indonesia**, especially for ports

NBP Performance at a Glance

(Rs in billion)

Items	2009	2010	2011	2012	2013	2014	2015
Total Assets	944.6	1037.7	1149.6	1309.5	1364.3	1543.0	1706.3
Deposits	727.5	832.2	927.4	1036.7	1101.1	1233.5	1431.0
Advances	475.2	477.5	525.0	654.7	615.4	626.7	577.9
Investments	217.6	301.3	319.5	343.5	397.9	561.7	826.3
Equity	94.1	103.8	110.5	104.7	100.8	110.3	116.0
Pre-Tax Profit	21.3	24.4	26.0	21.3	7.1	22.0	33.2
Profit After-Tax	17.6	17.6	17.6	14.9	5.5	15.0	19.2
Earnings per share Rs.	8.25	8.25	8.27	7.02	2.59	7.06	9.03
Number of Branches *	1287	1289	1300	1306	1365	1377	1424
Number of Employees	16248	16457	16924	16921	16619	16190	15548

** includes Foreign Branches*

NBP Products

NBP Saiban *

- At present, finance available for Home Purchase and Home Construction.
- Period of repayment ranges between 3–20 years.
- Loans available up to a maximum of Rs15–35 million.
- Mark-up is variable and is the lowest in the banking industry.

NBP Advance Salary *

- For permanent employees of government, semi-government and autonomous bodies receiving salaries through National Bank of Pakistan.
- 20 months salaries in advance (certain conditions apply).
- Minimum documentation.
- Repayable in instalments of up to 60 months.

NBP Cash n Gold *

- Facility of Rs30000 against 10 gms of gold
- No Maximum limit of cash
- Roll-over facility
- Mark-up 15.5 percent per annum
- Repayable after one year
- No penalty for early repayment

NBP Kisan Dost *

- Loans available for the farmers for production, development purposes, for purchase of tractors, for installation of tubewells, for purchase of agricultural implements, micro loans, for godown construction, for construction of fish pond, for livestock farming, for milk processing, for cold storage, bio-gas plants etc.
- Competitive mark-up rate.
- Loans available at the farmer's doorsteps.
- Agricultural experts to guide farmers.
- Loans available against agricultural passbooks, residential/commercial property, gold ornaments and paper security.
- Financing facility also available for landless farmers.

NBP Premium Aamdani Certificate *

- A monthly income scheme. Minimum amount of investment required is Rs25,000/- and maximum allowed is Rs10,000,000/-.
- A 5-year Scheme, with year-wise increasing profit rates.
- Added incentives for investors.
- Financing facility available against these Certificates.

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ECONOMIC BULLETIN

Research Division
Credit Management Group
National Bank of Pakistan
Head Office: I. I. Chundrigar Road, Karachi - Pakistan

Telephone : (021) 99220315, 99220274, 99220251, 99212100-50, Ext. 2334, 2390
Email : economic.research@nbp.com.pk, Website : www.nbp.com.pk

Can be accessed at NBP Website : https://www.nbp.com.pk/E-BULLETIN/index.aspx

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