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PAKISTAN ECONOMY DURING 2016-17

[Excerpted from Pakistan Economic Survey 2016-17, SBP Third Quarterly Report for FY17, and other SBP reports]

Pakistan's economy grew by 5.3 pc in FY17 – the highest in 10 years, and up from 4.5 pc growth recorded in FY16. This accelerated growth was achieved on the back of rebound growth in agriculture sector and strong performance of services sector. The agriculture and services sectors grew by 3.5 pc and 6 pc respectively in FY17, compared with 0.3 pc and 5.5 pc last year.

Some of the other macroeconomic indicators, such as subdued inflation, investment growth, and rising private sector credit, also showed an encouraging picture. However, decline in exports is overshadowing the otherwise reviving economy.

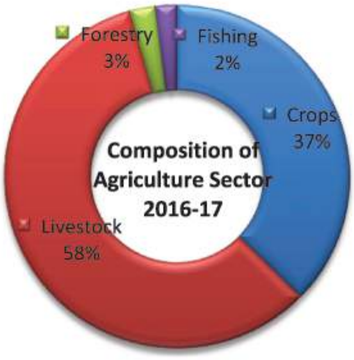
Economic review

A. Production side analysis

The key factors enabling the decade-high growth in real GDP included improved supply of energy, increased developmental spending, supportive monetary policy, and a better law and order situation. We are giving below an overview of the contribution made by different sectors of our economy from a production-side approach:

1. **Agriculture sector**: This sector was able to achieve its growth target primarily due to better-than-expected performance of five major crops, classified as ***important crops***, namely rice, cotton, sugarcane, wheat and maize (4.1 pc growth in FY17 as compared to a decline of 5.5 pc in FY16). The bumper crops of sugarcane, maize and cotton compensated for positive but lower growth in rice and wheat production. However, the performance of minor crops remained slightly lower as compared to the last year. The improvement in crop sector could have been even better, had the country not faced a decline in area under cotton and dry weather during Rabi season. The growth in livestock value added has also increased during the year.

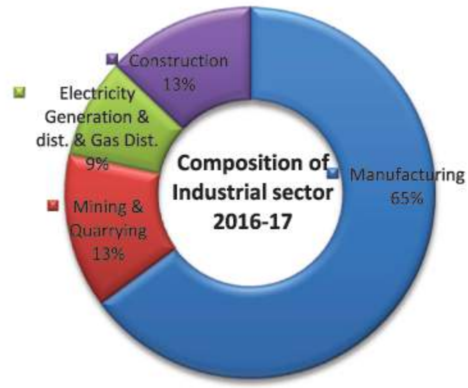
	Agriculture	Growth 2015-16 (%)	Growth 2016-17 (%)
1.	Crops	-4.97	3.02
	Important crops	-5.47	4.12
	Other crops	0.59	0.21
	Cotton ginning	-22.12	5.59
2.	Livestock	3.36	3.43
3.	Forestry	14.31	14.49
4.	Fishing	3.25	1.23



2. **Industry**: The industrial sector remained short of both the target as well as last year's performance, mainly due to a drag from ***mining & quarrying*** (on the back of decline in

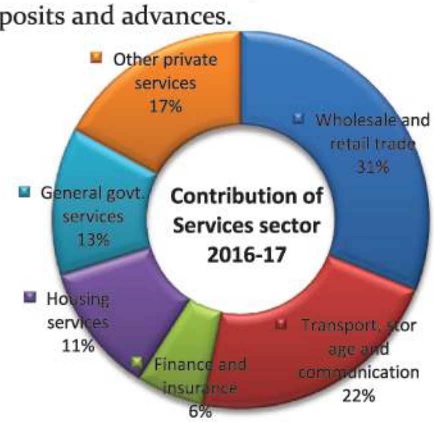
natural gas, which has a weight of about 66 pc in the mining sector) and ***electricity generation & distribution and gas distribution*** subsectors. These sub-sectors, which contributed almost one-third of the industrial growth last year, could not maintain their momentum. Similarly, the growth in ***construction*** moderated, but this was expected as this subsector had a very strong growth of 14.6 pc last year. In contrast, ***manufacturing*** experienced a significant improvement over last year, stemming mainly from higher sugar production. Excluding sugar (which grew by 29 pc in FY17), the LSM grew by 2.8 pc during FY17 compared to 4.8 pc in FY16.

	Industry	Growth 2015-16 (%)	Growth 2016-17 (%)
1.	Manufacturing	3.70	5.30
	Large scale	2.90	4.90
	Small scale	8.20	8.18
	Slaughtering	3.61	3.61
2.	Mining and quarrying	6.86	1.34
3.	Electricity generation/ distribution and gas dist.	8.43	3.40
4.	Construction	14.60	9.05



3. **Services sector**: The services sector continued to consolidate its share in the overall GDP, posting a growth of 6 pc in FY17 on top of the 5.5 pc improvement realized last year. The performance of its largest subsector ***wholesale and retail trade*** was particularly encouraging. Increase in imports, and growth in both the commodity producing sectors were the major stimulants for the subsector. ***Finance and insurance*** also posted a remarkable growth, mainly due to an encouraging growth in deposits and advances.

	Services	Growth 2015-16 (%)	Growth 2016-17 (%)
1.	Wholesale and retail trade	4.25	6.82
2.	Transport, storage and communication	4.82	3.94
3.	Finance and insurance	6.12	10.77
4.	Housing services	3.99	3.99
5.	General govt. services	9.72	6.91
6.	Other private services	6.78	6.28

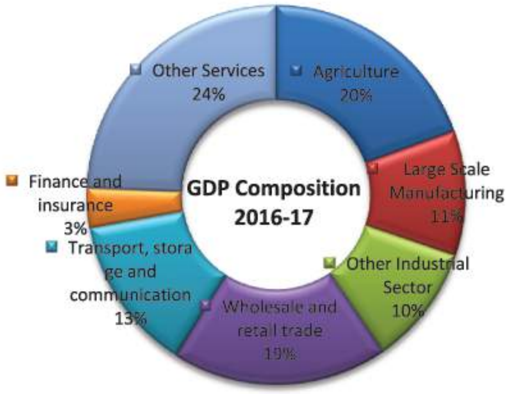


Meanwhile, the value addition in ***general government services*** remained low as compared to last year due to a smaller increase in wages and salaries. Slowdown in ***transport, storage and communication*** continued in FY17 owing to constrained growth of Pakistan Railways and PIA, and lower growth in value addition by the road transport. However, in view of the ongoing expansion in infrastructure, the outlook of the sector remains promising.

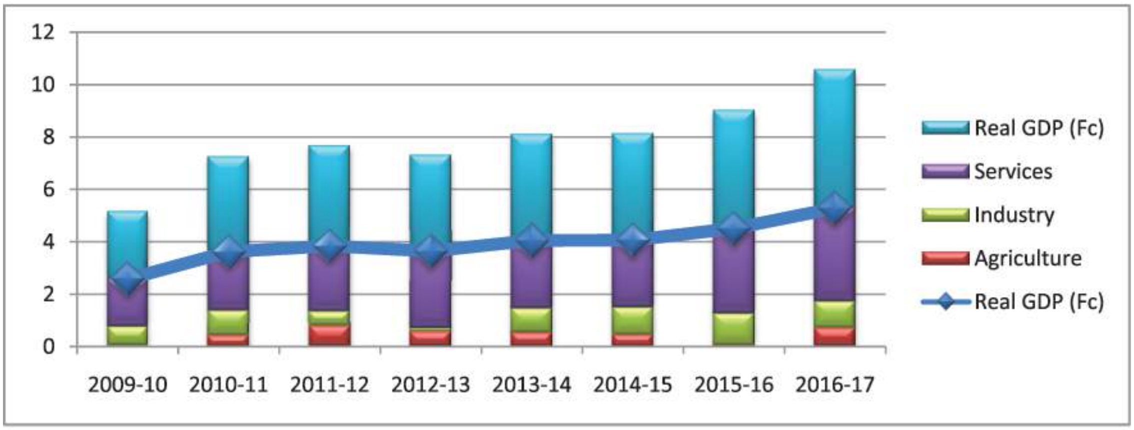
Sectoral growth rates

Sector	2015-16 %	2016-17 %
Agriculture	0.27	3.46
Industry	5.80	5.02
Manufacturing	3.70	5.30
Services	5.55	5.98
Real GDP (fc)	4.51	5.28

Sectoral share in GDP growth (sectors)



Sectoral contribution to the GDP growth (% points)



B. Expenditure side analysis

The sectoral analysis of expenditure approach provides a wider information and deep insight of growth drivers based on consumption, investment and exports, also known as aggregate demand side of the economy. During FY17, the growth trend continued the previous trend with major contribution by private consumption largely due to remittances inflows, better growth in agriculture, small scale manufacturing, and services sector.

- **Total consumption** shared 7.92 percentage points to overall economic growth, while the investment contributed 1.28 percentage points, and net exports contribution is negative (–3.52) percentage points.

- **Total investment** reached Rs. 5027 billion as compared to the Rs. 4527 billion last year **Investment to GDP ratio** rose to 15.78 pc in FY17.

- **Fixed investment** have increased to Rs. 4517 billion as compared to Rs. 4061 billion last year, and recorded growth of 11.23 pc. Fixed investment as percentage of GDP recorded at 14.18 pc.

- **Private investment** registered a growth of 6.63 pc and private investment as percentage of GDP reached to 9.90 pc.

- **Public investment** grew by 23.55 pc and as percentage of GDP it has increased from 3.79 pc to 4.28 pc, reflecting development oriented government policy. It has spillover effects on private sector investment. Public sector investment increased by Rs. 1363 billion in FY17 compared to Rs. 1103 billion in FY16.

- Contribution of **national savings** to domestic investment is the mirror image of foreign savings required to meet the investment demand. Foreign savingsare needed to finance saving investment gap, which reflects the current account deficit in the balance of payments. National savings reached 13.1 pc of GDP in FY17 against 14.3 pc last year. Domestic savings are recorded at 7.5 pc of GDP in outgoing fiscal year as compared to 8.2 pc of GDP last year.

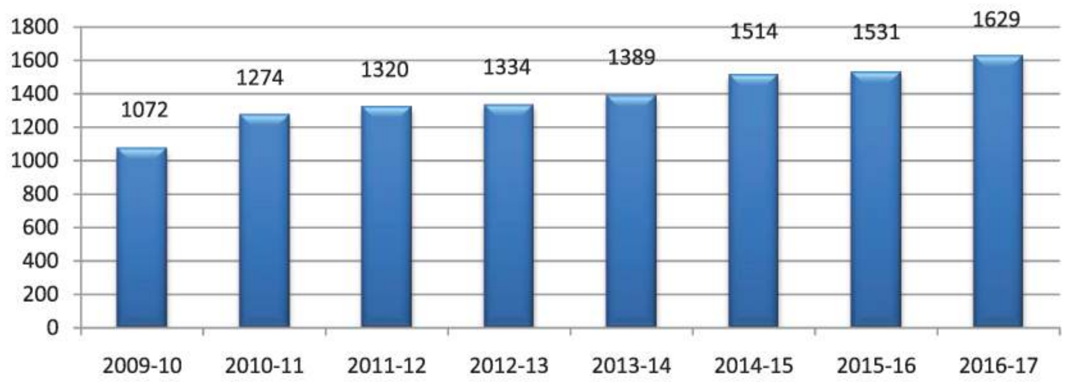
- The contribution of **net exports** remained negative due to lower exports and higher imports.

Savings and investment
(as percentage of GDP)

	FY16	FY17
Total investment	15.55	15.78
Gross fixed Investment	13.95	14.18
- Private Investment	10.16	9.90
- Public Investment	3.79	4.28
Foreign savings	1.22	2.69
National Savings	14.3	13.1
- Domestic Savings	8.2	7.5

- **Per capita income** in dollar terms has witnessed a growth of 6.4 pc in FY17 as compared to 1.1 pc last year. The per capita income in dollar terms has increased from US$1531 in FY16 to US$1629 in FY17, main contributing factors for the rise being higher real GDP growth, lower population growth, and stability of Pak rupee.

Improvement in Per Capita Income since FY10



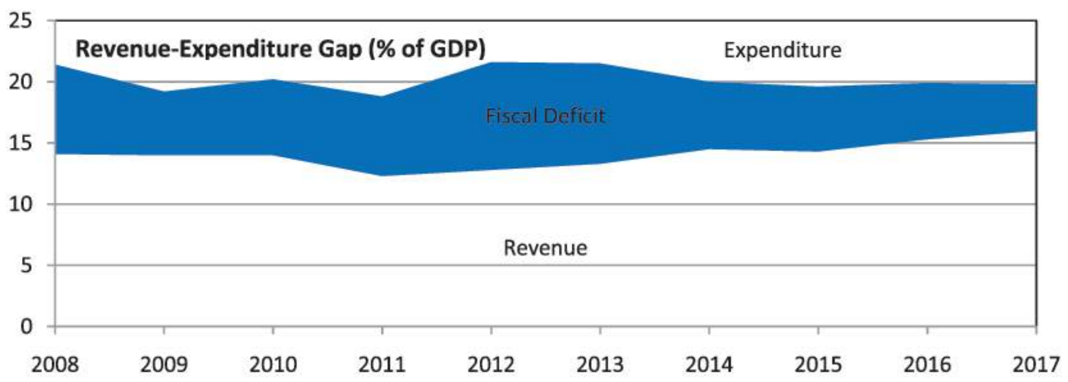
C. Fiscal operations

The fiscal deficit stood at 3.9 pc of GDP during Jul–Mar FY17, compared with 3.5 pc in the corresponding period last year. This was despite a surplus of Rs. 227.6 billion provided by provinces during this period.

- ***Revenue collection*** could not keep up with the growing economic activities and fiscal needs. A growth of 8.2 pc in FBR taxes in Jul–Mar FY17 was in fact half the growth attained last year. This slowdown in tax collection was partly due to fiscal relief measures and tax incentives provided to support investment and growth in the economy. ***Non-tax revenue*** also declined, mainly on account of lower receipts under Coalition Support Fund and SBP profit.

- Growth in ***current expenditures*** slowed down in Jul–Mar FY17 as compared to the same period last year, despite an increase in defence and security related spending. This slowdown was due to interest payments, which remained close to last year's level.

Revenue–expenditure Gap

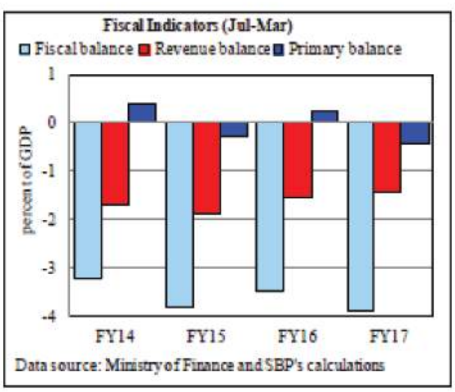


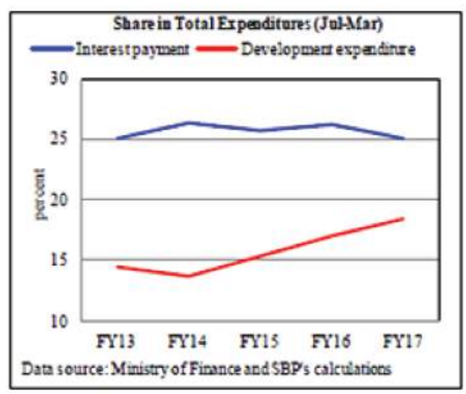
Summary of fiscal operations: FY15–FY17

(Rs in billions)

	FY15	FY16	FY16	FY17	% growth
				(Jul–Mar)	
Total revenue	3931.0	4447.0	2961.9	3145.5	13.1
Total expenditure	5387.8	5796.3	3971.3	4383.6	7.6
Fiscal balance	**-1456.7**	**-1349.3**	**-1009.4**	**-1238.1**	**-22.3**
Financing	-1457	-1349	-1009	-1238	
External sources	181	370	223	220	-1.3
Domestic sources	1276	979	786	1018	29.5
- Banks	892	787	538	695	29.2
- Nonbanks	366	192	248	323	30.2
- Privatization	18	0	0	0	
Fiscal deficit as % of GDP	5.3	4.6	3.5	3.9	
Revenue as % of expenditure	73	77	75	72	

[Data source: Ministry of Finance and SBP's calculations]





Public debt

Gross public debt rose to Rs. 20.9 trillion as on end-March 2017, showing an increase of Rs. 1.2 trillion during Jul–Mar FY17. A large part of this increase (more than 90 pc) came from domestic borrowing, while increase in external debt remained moderate on account of revaluation gains and marginally higher debt repayments during the period.

Domestic debt: With higher fiscal deficit and net external financing slightly lower than last year, the burden of deficit financing fell on domestic sources during Jul–Mar FY17. Yet, the pace of domestic debt accumulation decelerated during the period. Almost the entire increase in domestic debt during the period was contributed by short-term debt, as the government retired long-term debt. With an increase of Rs 1.6 trillion in Jul–Mar FY17, the share of floating debt rose to 44.8 pc by end-Mar FY17 from 36.7 pc as of end-June 2016.

Pakistan's public debt profile

	Stock (million Rs)		Flow (million Rs)	
	Jun-16	Mar-17	Jul–Mar FY16	Jul–Mar FY17
Gross public debt (FRDLA definition)*	**19,676.7**	**20,873.9**	**1787.7**	**1197.2**
Domestic debt	13,625.9	14,746.0	1205.5	1120.1
External debt	5417.7	5501.4	415.4	83.8
– Debt from the IMF	633.1	626.4	166.8	-6.7
– External liabilities	377.1	368.1	4.7	-9.0
Net public debt **	17,823.2	18,925.4	1360.2	1102.1

* Fiscal Responsibility and Debt Limitation Act 2005 defines total public debt as the debt of the government serviced out of consolidated fund and debts owed to IMF

** Gross public debt minus govt. deposits with the banking system

[Data source: State Bank of Pakistan]

Public external debt: Pakistan's public external debt and liabilities stock increased by US$595.6 million during Jul–Mar FY17 and reached **US$62.0 billion**. Despite an increase in fiscal deficit and substantial disbursements, debt accumulation was significantly lower during Jul–Mar FY17 (on the back of US$ 1.5 billion revaluation gain during the period) as compared to the last year. ***Gross external loan disbursements stood at US$4.9 billion***, largely in line with the full-year target. In addition to US$1.0 billion Sukuk bond proceeds, Pakistan also received substantial inflows from external creditors, especially from ADB, foreign commercial banks, and China.

Public external debt and liabilities

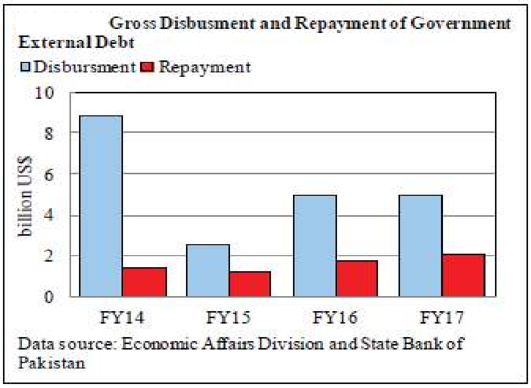
	Stock (billion US$)		Flow (billion US$)	
	Jun-16	Mar-17	Jul–Mar FY16	Jul–Mar FY17
Public external debt & liabilities (1+2+3)	61.4	62.0	4.1	0.6
Public external debt (1+2)	57.7	58.5	4.1	0.9
1 Government debt	51.7	52.5	2.6	0.8
- Paris club	12.7	11.9	0.6	-0.8
- Multilateral	26.4	25.9	0.9	-0.4
- Other bilateral	4.4	5.2	0.2	0.8
- Euro/ Sukuk bond	4.6	5.6	0	1.0
- Commercial loans	1.5	2.2	1.2	0.7
2 IMF	6.0	6.0	1.5	0.1
3 foreign exchange liabilities	3.6	3.5	-0.1	-0.1

[Data source: State Bank of Pakistan]

Financing availed from foreign commercial banks Jul–Mar FY17

Bank	million US$
China Development Bank (CDB)	700
Industrial and Commercial Bank of China (ICBC)	300
Noor Bank	315
Total	1,315

Gross disbursement and repayment of government external debt



The ***servicing of external public debt*** increased by US$ 40.5 million during Jul–Mar FY17, the main burden coming from (i) repayment to the multilateral donors that reached around US$ 1.0 billion, and (ii) repayment of China Safe Deposits worth US$ 500 million in Jul-Mar FY17.

D. Inflation and monetary policy

CPI inflation remained quite stable in the first two quarters of FY17, but picked up gradually in the third quarter. The average inflation during Jul-Mar FY17 was 4.0 pc, compared with 2.6 pc in the same period last year. However, it is still significantly lower than the annual target of 6.0 pc. Some of the uptick in inflation was a result of partial pass-through of the increase in international oil prices to domestic POL prices; a surge in global prices of some key food commodities (like palm oil); increase in medicine prices; and upward revision in education fees.

This gradual uptick in inflation along with external imbalances had a bearing on the monetary policy decisions during Jul-Mar FY17. Keeping in view the delicate balance between macroeconomic risks and ongoing growth momentum, the policy rate was kept unchanged at 5.75 pc throughout the year FY17.

Credit to private sector

The low interest rate and benign business environment (as manifested by the country's better risk perception) stimulated demand for credit by the private sector, which reached Rs 438.6 billion during Jul-Mar FY17, against Rs 323.4 billion in the same period last year. Both demand and supply-side factors were at play and reflected better macroeconomic conditions.

On the supply side, the ability of banks to extend credit increased during Jul–Mar FY17 – thanks to impressively high deposit generation, lower government borrowing from banks, and modifications in subsidized SBP credit refinance scheme, along with a better perception of future in terms of investment opportunities and gains in asset quality. Banks generated deposits worth Rs604.9 billion during Jul–Mar FY17 – the highest level since FY10 – compared toRs217.5 billion in the same period last year.

The increase in credit to business sector was visible across all categories: fixed investment, working capital, and trade finance:

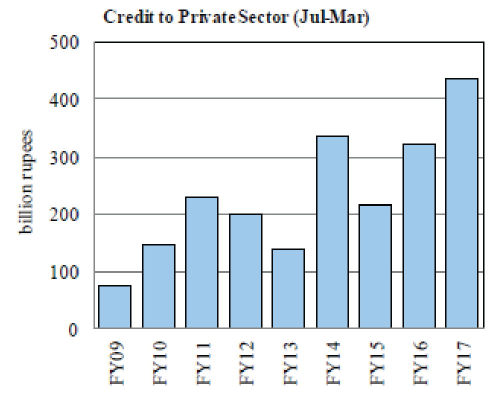
- ***Fixed investment loans*** accounted for 42 pc of the total increase in credit to private businesses in Jul-Mar FY17. Over 90 pc of the increase in fixed investment loans by textiles was under SBP's LTF Facility for export oriented projects.

- The demand for ***working capital loans*** also accelerated due to high input prices and greater availability of raw materials (e.g. sugarcane and cotton), with manufacturing firms having a 70 pc share in loans to privates business during Jul–Mar FY17. Sugar producers dominated the credit market – their higher demand for working capital loans a result of an impressive crop. In addition, to capitalize on the available commodity surplus and exporting opportunities, ***trade-related borrowings*** also went up during the period.

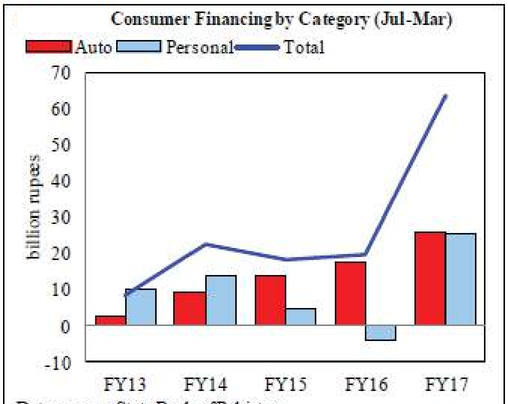
- ***CPEC related borrowing*** continued during the period under review. However, compared to last year, their share in fixed investment declined. This was because the expansion plans for power and road infrastructure were slightly contained in FY17, while some of the long-term projects in electricity sector are at advanced stages with higher working capital requirement.

- Overall activity in the ***fertilizer sector*** was fairly subdued during Jul-Mar FY17, with net retirement of working capital loans. This was because of high domestic production and imports of fertilizer last year with significant working capital borrowing, which left a glut for the commodity in domestic market in FY17.

- While **consumer financing** was already buoyant during Jul–Mar FY14–FY16 (averaged around Rs20 billion), its volume tripled in in the same period of FY17 (when it rose by Rs63.9 billion) with auto financing continuing to hold the biggest share. Personal loans also showed an impressive turnaround with growth in excess of 20 pc during Jul–Mar FY17.



Data source: State Bank of Pakistan



Data source: State Bank of Pakistan

E. External sector

Pakistan's overall external balance recorded a deficit of US$ 1.6 billion in Jul-Mar FY17, against a surplus of US$ 1.1 billion in the same period last year. This was mainly caused by a large trade deficit on the back of high imports – without a matching performance by exports. The imports of fuel, machinery and food items (mainly palm oil and pulses) – all increased sharply due to robust domestic demand and ongoing power and infrastructure development activity. On the other hand, the decline in exports is mainly attributed to lower quantums despite recovery in global commodity prices (cotton and rice) during Jul-Mar FY17.

Current account

As mentioned above, the current account posted a deficit of US$ 6.1 billion during Jul-Mar FY17, more than double the level recorded during the same period last year. This expansion, on the back of a large trade deficit and slowdown in remittances, pushed the current account deficit (CAD) to US$ 2.6 billion in Q3 – the highest since Q2-FY09. The higher CAD was recorded despite the receipt of US$ 550 million inflow under Coalition Support Fund in the third quarter. **Current account balance (deficit) for FY17 (Jul–Jun) stands at US$12.1 billion,** as compared to US$ 4.9 billion deficit last year (FY16).

On the other hand, the ***services deficit*** has exhibited a slight improvement, based on relatively better performance of exports of telecom services, and a lower travel deficit. The primary income deficit has also narrowed by 17.4 pc providing some relief to the current account balance. However, Pakistan's services export to GDP ratio is lower than its regional peers (like India, Sri Lanka, Vietnam, Thailand, Indonesia and Malaysia), mainly on account of challenging security environment in the country.

Worker Remittances

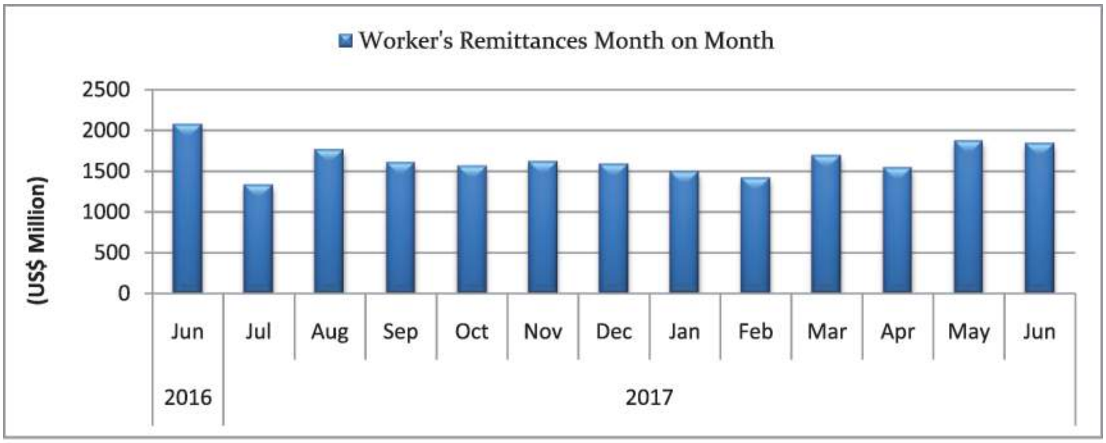
The global remittance business has not yet recovered, as the magnitude of cross-border flows was further squeezed during CY-2016. Remittance flows to developing countries fell 2.4 pc in CY16, after declining 1.0 pc in CY15. (In South Asia, it fell by 6.4 pc in CY16.)

During Jul-Mar FY17, remittances to Pakistan dropped by 2.3 pc. The decline was observed from all major corridors, including Saudi Arabia, UAE, US and UK; however, different factors – all exogenous in nature – were responsible for each destination.

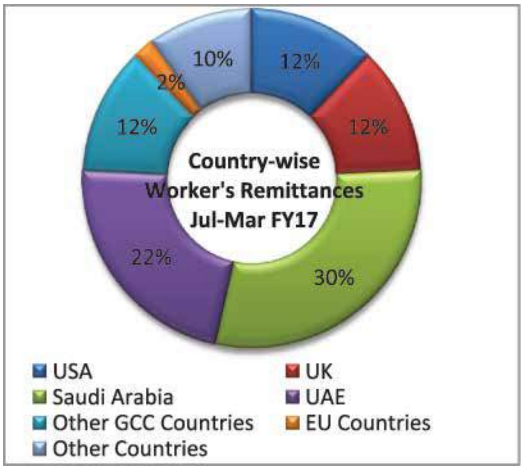
During Jul–Jun FY17, **workers' remittances amounted to US$ 19.3 billion**, as against US$ 19.9 billion in FY16 (Jul–Jun), with YoY growth during FY17 (Jul–June) being –3.08 pc.

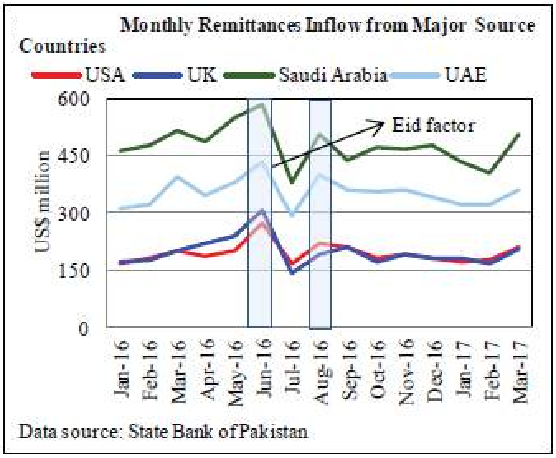
For GCC countries, subdued oil prices have led to adoption of fiscal consolidation measures, which in turn, caused workers layoffs. The lower inflows from Saudi Arabia seem to have been partially influenced by the Kingdom's tightening of labor market policies, such as discouraging hiring of foreign workers to lower the unemployment rate of nationals. However, this decline in inflows from Saudi Arabia is expected to be compensated by a gradual pick up in inflows from other GCC countries, going forward (for instance, Kuwait's recent decision to lift visa restrictions on Pakistani citizens; the Expo 2020 in Dubai; and the FIFA World Cup 2022 in Qatar).

The decline in remittance inflows was more than offset by a US$ 371 million YoY decline in outflows in the form of profit and dividend repatriations, particularly by foreign oil and gas firms.



[Source: SBP report on country wise workers' remittances]

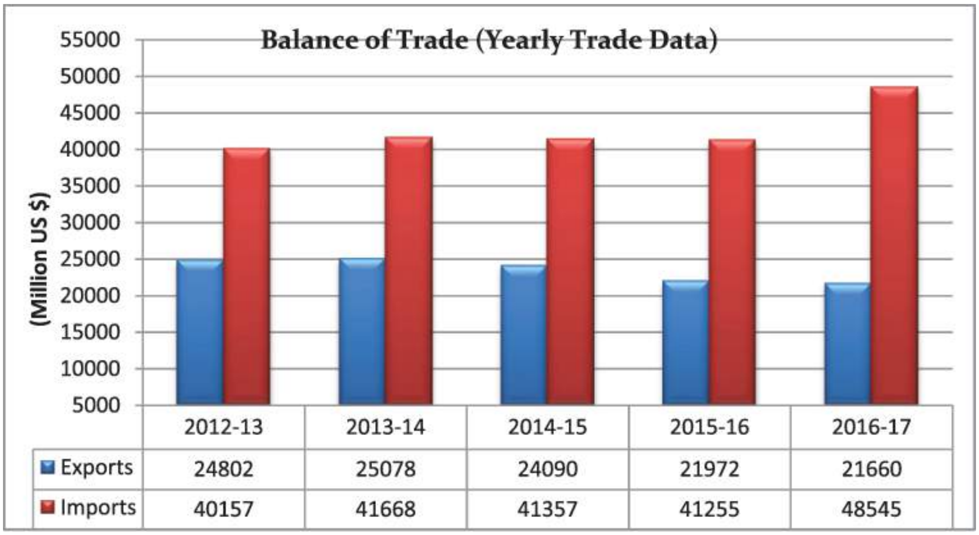




[Source: SBP]

Trade account

The trade deficit widened by 38.5 pc YoY during Jul–Mar FY17 to US$23.4 billion, against US$16.8 billion in the same period last year. This expansion was largely witnessed in the third quarter, when the deficit increased by 79 pc YoY and reached its highest level of US$ 8.9 billion. A hefty rise in imports alongside a decline in exports contributed to the widening deficit.



[Source: State Bank of Pakistan]

As provided in the graph above, the **trade deficit reachedUS$ 26.9 billion during Jul–Jun FY17**, as compared to US$ 19.3 billion in the same period last year, widening by 39.4 pc YoY.

Exports: Exports declined by 3.1 pcYoY during Jul-Mar FY17, after declining 13.0 pc in the same period last year. This was mainly due to a significant drop recorded in the first quarter, when both lower prices and quantums were in play. While the subsequent recovery in international commodity prices (mainly of cotton and rice) held some promise (particularly in the third quarter), their impact was more than offset by a decline in quantum exports of these commodities. The export of rice fell 14.9 pc YoY in Jul–Mar FY17. Pakistan's exports have been afflicted by a number of structural, institutional, and entrepreneurial gaps, which have constrained the country's competitiveness for the last many years.

Exports declined by **1.4 pc YoY in FY17**against FY16**.**

Export receipts: top five groups of goods

(Million US$)

Goods	July–June			
	FY16	Fy17	% change	% share
Other made-up textile articles	3,803	3,798	-0.1	17.5
Cotton	3,795	3,404	-10.3	15.7
Articles of apparel & clothing accessories (knit/ Cr.)	2,389	2,410	0.9	11.1
Articles of apparel/ clothing access. not knitted/ Cr.	2,149	2,273	5.8	10.5
Cereals	1,895	1,612	-14.9	7.4
Total export of goods	**21,972**	**21,660**	**-1.4**	

[Source: SBP reports]

Export of goods: top five countries

(Million US$)

Major exporters	July–June			
	FY16	Fy17	% change	% share
USA	3,718	3,682	-1.0	17.0
China	1,905	1,622	-14.9	7.5
UK	1,629	1,619	-0.6	7.5
Germany	1,217	1,236	1.6	5.7
Afghanistan	1,230	1,128	-8.3	5.2
Total export of goods	**21,972**	**21,660**	**-1.4**	

[Source: SBP reports]

Imports: The imports continued to surge and reached a historic peak of US$ 38.5 billion in Jul-Mar FY17, with an increase of 14.1 pc in the comparable period last year. Most of this increase was observed in Q3FY17, when imports of *petroleum, machinery and chemical* items all rose significantly: in fact, machinery and petroleum imports contributed around 55 pc to the overall increase in imports in Q3-FY17. POL imports were entirely driven by higher quantum product imports, with crude oil shipments declining during the period on YoY basis. Machinery imports contributed more than 40 pc to the overall import growth during Jul–Mar FY17, with power, electrical and construction-related equipment leading the change.

Imports increased by 17.7 pc in FY17, YoY against FY16.

Import payments: top five groups of goods

(Million US$)

Goods	July–April			
	FY16	Fy17	% change	% share
Mineral fuels, oils and their distillation product	7,298	9,200	26.1	23.7
Nuclear reactors, boilers, machinery and appliance	2,553	3,719	45.7	9.6
Iron and steel	1,915	1,985	3.6	5.1
Electrical machinery & equipment and parts thereof	2,337	1,976	-15.5	5.1
Organic chemicals	1,503	1,718	14.3	4.4
Total import of goods	**33,517**	**38,858**	**15.9**	

[Source: SBP reports]

Import of goods: top five countries

(Million US$)

Major importers	July–April			
	FY16	Fy17	% change	% share
China	6,946	7,815	20.3	20.1
UAE	4,948	5,837	18.0	15.0
Singapore	2,476	3,405	37.5	8.8
Saudi Arabia	1,725	1,946	12.8	5.0
USA	1,161	1,649	42.0	4.2
Total import of goods	**33,517**	**38,858**	**15.9**	

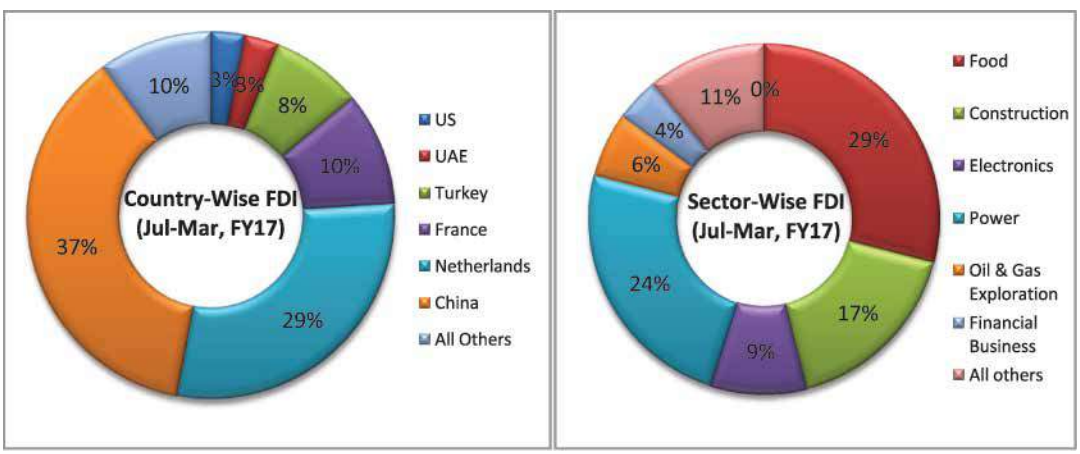
[Source: SBP reports]

External Financing Inflows: Foreign Direct Investments (FDI)

During Jul–Apr FY17, foreign direct investments (FDI) amounted to US$ 1.733 billion compared to US$ 1.537 billion during same period, posting growth of 12.75 pc. On YoY basis, it registered a significant growth of 17.1 pc in April 2017. In the period under review, Pakistan did have access to funding avenues, both public and private, which partially financed the higher current account deficit. Net official external financing inflows in July–March FY17 (in the form of project, non-project and commercial loans, and sovereign bonds) stood around the same level as last year (i.e., US$ 1.9 billion), with increase in both foreign portfolio investment (FPI) and FDI. This indicates that IFIs and international capital markets are comfortable with Pakistan's growth trajectory.

According to latest data released by SBP, **net FDI comes toUS$ 2.411 billionin FY17** (Jul–Jun) compared to US$ 2.305 billion in FY16 (Jul–Jun), with 4.6 pc growth rate.

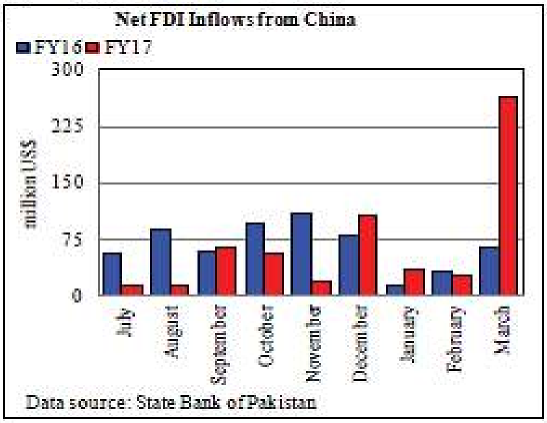
Foreign Direct Investments



In addition to China and besides CPEC related activities, a significant amount of FDI (majority of inflows) came from other countries through merger and acquisition transactions in food and electronics as given below:

- US$ 458 million from the majority stake sale of Engro Foods to Dutch conglomerate FrieslandCampina
- US$ 127.7 million from the complete sale of Dawlance Pakistan to Turkish firm Arcelik
- US$ 61 million from a 40 pc stake sale of the Pakistan Stock Exchange to a Chinese-led consortium

China, however, continued to be the top contributor of FDI, accounting for 37.1 pc (US$ 594.8 million) of total net inflows of US$ 1.6 billion during July-March FY17. Less than half of it (US$262.5 million) materialized in March 2017 alone, mainly in electricity generation and construction sectors under the CPEC initiative. That said, FDI in the power sector declined 36.6 pc on YoY basis to US$ 389.3 million in Jul-Mar FY17; at the same time, direct investment to the sector increased to US$ 264 million, from just US$ 34.8 million in Jul-Mar FY16. [Net FDI from China amounted to US$ 1.18 billion (49 pc) in Jul–Jun, FY17.]

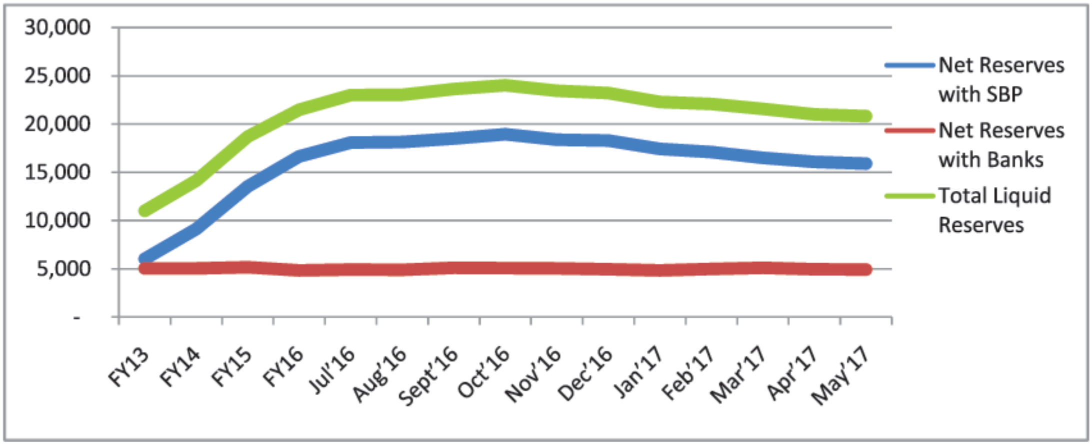


Reserves and Exchange Rate

With the current account deficit widening and not being fully offset by financial inflows, the country's total liquid FX reserves, as on end-June FY17, declined to US$ 21.4 billion of which SBP liquid FX reserves were US$16.1 billion and net reserves with scheduled banks US$ 5.3 billion.

In October 2016, foreign currency reserves hit all time high at $ 24.03 billion, of which net reserves with SBP were US$18.9 billion and scheduled banks $ 5.1 billion, as proceeds from US$1.0 billion Sukuk were received. However, the level could not be sustained owing mostly to a widening current account gap, lower external government financing, and conclusion of IMF programme. SBP reserves particularly declined in the Q3FY17 as the monthly CAD crossed US$1.0 billion mark in January 2017 and Pakistan also repaid US$500 million of SAFE China Deposits that month.

Pakistan's Foreign Exchange Reserves (US$)



FEDERAL BUDGET 2017-18 – Highlights

Salient Features

1. The **total outlay** of budget 2017-18 is Rs5.1 trillion. The size is 4.3 pc higher than the size of budget estimates (BE) 2016-17.

2. The **resource availability** during 2017-18 has been estimated at Rs4.7trillion against Rs4.4 trillion in 2016-17 budget estimates.

3. Out of the overall **expenditure**, current expenditure has been estimated atRs3.8 trillion (73.7 pc) and development expenditure at Rs1.3 trillion (26.3 pc).

4. The size of **Public Sector Development Programme (PSDP)** for 2017-18 is Rs2.11 trillion (up 26.1 pc from Rs1.68trillion in FY17), out of which Rs1.11trillion has been allocated to provinces. Federal PSDP for the year 2017-18 has been kept at Rs1.0trillion, which is higher by 25.1 pc than budget estimates 2016-17.

5. To meet expenditure, **bank borrowing** for 2017-18 has been estimated at Rs390.1 billion, which is significantly lower than revised estimates of 2016-17.

6. **Fiscal deficit** is targeted to be limited to 4.1 pc of GDP next year, with tax revenues budgeted at 13.7 pc of GDP, up from 13.1 pc of GDP in FY17.

7. **FBR tax collection** for FY18 is estimated at Rs 4.0 trillion. FBR missed its FY17(BE) target of Rs 3.62 trillion with collection expected to amount to Rs 3.52 trillion in FY17.

8. While tax restructuring on the stock market is material, corporate budgetary implications remain largely neutral for the market with cement and allied, fertilizers, and auto parts manufacturers to benefit.

Comparative Budgetary Position – Fiscal Years 2016-17 and 2017-18

(Rs in billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
RESOURCES (A + B + C)	**4,441.9**	**4,099.8**	**4,713.7**
A Internal Resources	**3,572.3**	**3,085.7**	**3,825.9**
- Net Revenue Receipts	2,779.7	2,616.0	2,926.1
- Net Capital Receipts	453.6	180.2	552.5
- Estimated Provincial Surplus	339.0	289.5	347.3
B External Resources	**819.6**	**996.3**	**837.8**
C Privatization Proceeds	**50.0**	**17.8**	**50.0**
EXPENDITURE (I + II)	**4,894.9**	**4,841.2**	**5,103.8**
I Current Expenditure on Revenue A/c	**3,844.0**	**3,904.8**	**3,763.7**
- Current Exp. on Revenue Account	3,844.0	3,904.8	3,763.7
II Development Expenditure	**1,050.9**	**936.4**	**1,340.1**
- Federal PSDP	800.0	715.1	1,001.0
- Dev. Expenditure outside PSDP	156.6	127.5	152.2
- Dev. Loans & Grants to Provinces	94.3	93.8	186.8
BANK BORROWING	**453.0**	**741.4**	**390.1**

INFLOWS: RESOURCES

Internal resources:
Tax revenues

(Rs. in Billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
FBR TAXES (I + II)	**3,621.0**	**3,521.0**	**4,013.0**
I. Direct taxes	**1,558.0**	**1,378.8**	**1,594.9**
Income tax	1,538.7	1,363.8	1,577.6
II. Indirect taxes	**2,063.0**	**2,142.2**	**2,418.1**
Customs Duties	413.0	491.1	581.4
Sales Tax	1,437.0	1,445.0	1,605.2
Federal Excise	213.0	206.1	231.5
OTHER TAXES	**335.12**	**304.2**	**317.5**
TOTAL TAX REVENUE	3,956.1	3,825.2	4,330.5

Gross &Net Revenue Receipt

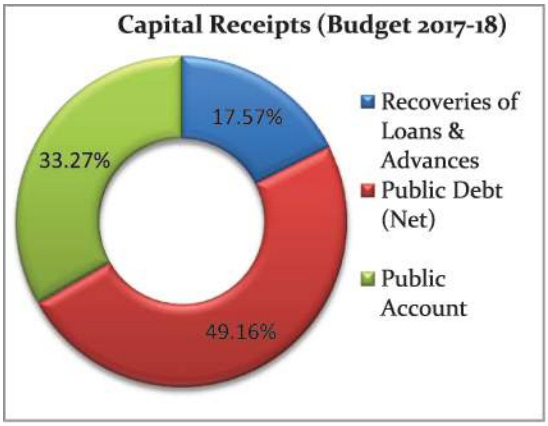
(Rs in billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
Tax REVENUE (A+B)	**3,956.1**	**3,825.2**	**4,330.5**
A. FBR TAXES	**3,621.0**	**3,521.0**	**4,013.0**
Direct Taxes	1,558.0	1,378.8	1,594.9
Indirect Taxes	2,063.0	2,142.2	2,418.1
B. OTHER TAXES	**335.1**	**304.2**	**317.5**
NON-TAX REVENUE	959.5	912.1	979.8
Gross Revenue Receipts	**4,915.6**	**4,737.3**	**5,310.3**
Provincial Share in Gross Revenue	2,135.9	2,121.3	2,384.2
NET REVENUE RECEIPTS	2,779.7	2,616.0	2,926.1

Net Capital Receipts

(Rs in billions)

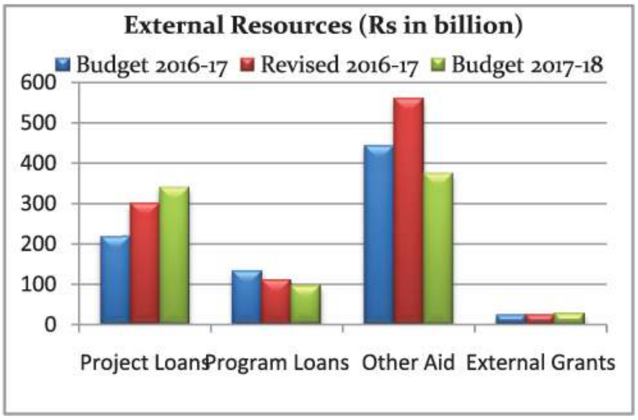
Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
I Total Capital Receipts (A + B + C)	640.5	324.9	640.5
A Recoveries of Loans and Advances	101.9	107.7	112.5
B Public Debt (Net)	367.7	52.1	314.9
Permanent Debt	150.4	114.4	184.9
Floating Debt	217.3	(62.3)	130.0
C Public Account	170.9	165.1	213.1
II Disbursements	186.9	144.7	88.0
Net Capital Receipts (I – II)	453.6	180.2	552.5



External Resources

(Rs in billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
I. External Loans (A to C)	796.8	971.6	810.7
A Project Loans	219.2	299.8	340.6
B Program Loans	133.8	112.2	95.6
C Other Aid	443.8	559.6	374.5
II. External Grants	22.8	24.7	27.1
Total External Resources (I+II)	819.6	996.3	837.8



OUTFLOWS: EXPENDITURES

Current Expenditure

(Rs in billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
Debt servicing(incl. domestic &foreign debt)	1,803.8	1,868.1	1,649.6
Pension (military & civil)	245.0	245.0	248.0
Defenceaffairs and services	860.2	841.4	920.2
Grants and transfers	441.6	382.4	430.2
Subsidies	140.6	168.9	138.8
Running of civil government	352.8	398.8	376.8
Total current expenditure	3,844.0	3,904.7	3,763.7

Net Capital Receipts

(Rs in billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
I Total Capital Receipts (A + B + C)	640.5	324.9	640.5
A Recoveries of Loans and Advances	101.9	107.7	112.5
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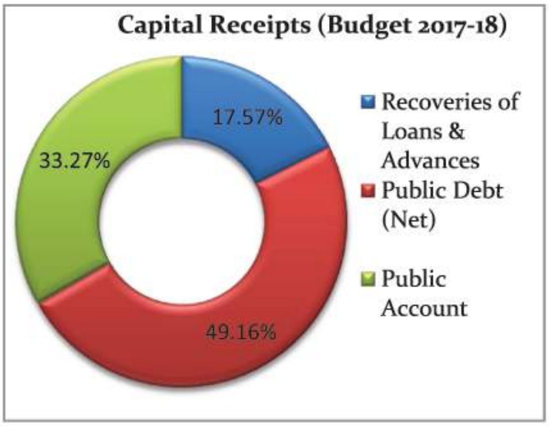

External Resources

(Rs in billions)

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
I. External Loans (A to C)	796.8	971.6	810.7
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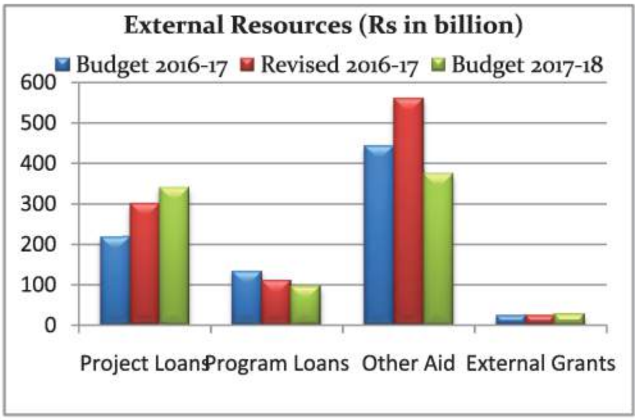
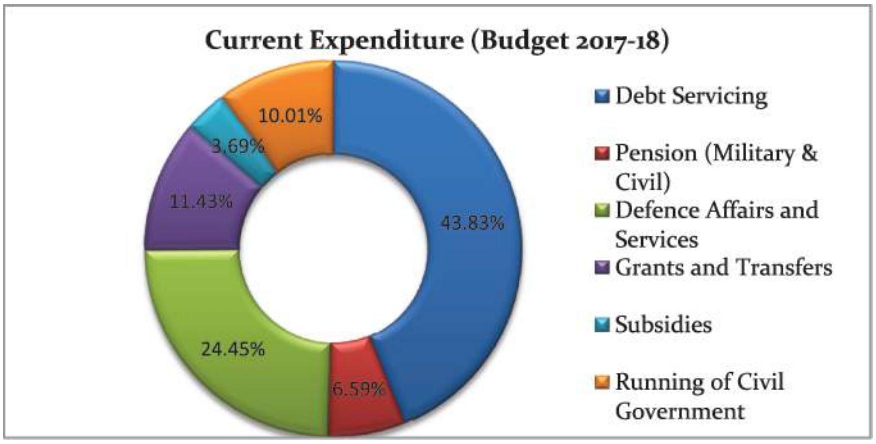


OUTFLOWS: EXPENDITURES

Current Expenditure

(Rs in billions)

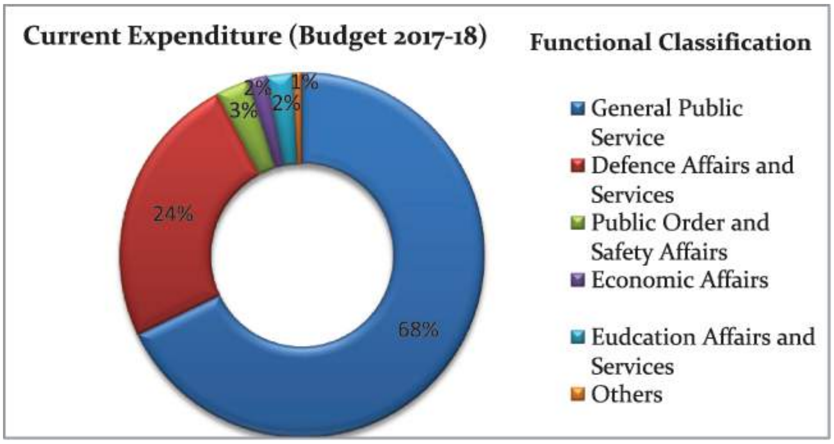
Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
Debt servicing(incl. domestic &foreign debt)	1,803.8	1,868.1	1,649.6
Pension (military & civil)	245.0	245.0	248.0
Defenceaffairs and services	860.2	841.4	920.2
Grants and transfers	441.6	382.4	430.2
Subsidies	140.6	168.9	138.8
Running of civil government	352.8	398.8	376.8
Total current expenditure	3,844.0	3,904.7	3,763.7



Current expenditure – functional classification

(Rs in billions)

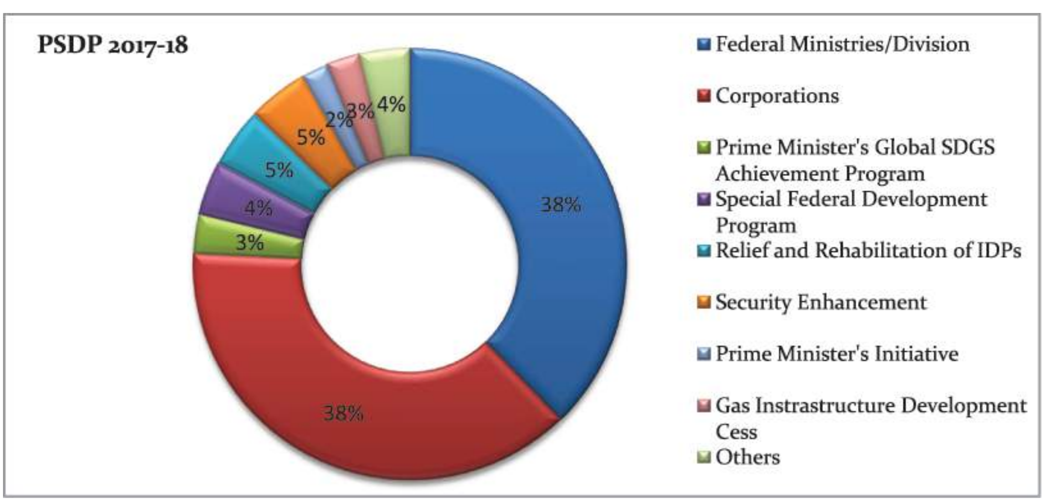
Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
General public service	2,707.2	2,741.4	2,553.6
Defenceaffairs and services	860.2	841.4	920.2
Public order and safety affairs	103.4	119.5	109.6
Economic affairs	63.5	86.7	62.9
Environment protection	1.1	1.3	1.1
Housing and community amenities	2.3	2.5	2.3
Health affairs & services	12.1	12.4	12.8
Recreation, culture and religion	8.0	10.7	8.4
Education affairs and services	84.2	84.7	90.5
Social protection	2.0	4.1	2.1
Total current expenditure	3,844.0	3,904.7	3,763.7



Public Sector Development Programme (PSDP)

For the year 2017-18, National Economic Council (NEC) has approved an overall size of Public Sector Development Programme (PSDP) at Rs. 2,113 billion, which is 5.9 pc of GDP. The following table gives the main components of PSDP:

Classification	Budget 2016-17	Revised 2016-17	Budget 2017-18
A. Federal Ministries/Division	282.0	298.5	377.9
B. Corporations	318.0	344.0	380.6
i. WAPDA	130.0	134.3	60.9
ii. NHA	188.0	209.7	319.7
C. Prime Minister's Global SDGS Achievement Program	20.0	42.5	30.0
D. Special Federal Development Program	28.0	-	40.0
E. Energy for All	-	-	12.5
F. Clean Drinking Water for All	-	-	12.5
G. ERRA	7.0	10.7	7.5
H. Special Provision for Competition of CPEC Projects	-	-	5.0
I. Relief and Rehabilitation of IDPs	100.0	-	45.0
J. Security Enhancement		14.0	45.0
i. SAFRON	-	8.4	-
ii. FATA	-	5.6	-
K. Prime Minister's Initiative	20.0	5.2	20.0
L. Gas Instrastructure Development Cess	25.0	0.2	25.0
Total PSDP (A to L)	**800.0**	**715.1**	**1,001.0**
M. Provinces	875.0	824.0	1112.0
Total national PSDP (A to M)	**1,675.0**	**1,539.1**	**2,113.0**



Macro Outlook

Macroeconomic indicators for 2016-2020:

Consolidated fiscal projections	Budget 2016-17	Revised 2016-17	Budget 2017-18	Forecast	
				2018-19	2019-20
Real GDP Growth (%)	5.7	5.3	6.0	6.5	7.0
Inflation (%)	6.0	4.5	6.0	6.0	6.0
	(as percentage of GDP)				
Total Revenue	16.0	16.2	17.2	17.3	17.5
- Tax Revenue	12.9	13.1	13.7	14.2	14.6
- FBR Tax Revenue	10.8	11.1	11.2	11.8	12.2
- Non-Tax Revenue	3.1	3.1	3.5	3.2	2.9
Total Expenditure	19.8	20.4	21.3	21.3	21.4
- Current	14.9	15.9	15.0	14.6	14.6
- Development	4.7	4.5	6.3	6.7	6.8
Fiscal Balance	-3.8	-4.2	-4.1	-4.0	-3.9
Revenue Balance	0.9	0.2	2.2	2.7	2.9
Total Public Debt-(Gross)	61.4	64.8	61.4	57.8	54.3
Total Public Debt-(Net)	58.1	61.3	59.2	56.7	54.2
	(Rs in billions)				
GDP at market prices	33,509	31,862	35,919	40,876	46,597

FEDERAL BUDGET 2017–18 – Highlights
TAX PROPOSALS

INCOME TAX

Revenue Measures

- Tax rate on dividend, i.e. 12.5 pc proposed to be increased to 15 pc flat-rate. Dividend paid by mutual funds also taxable at the rate of 12.5 pc from the existing 10 pc. Rates for non-filers remain unchanged (20 pc).

- The current three-tier rate structure for capital gain tax (CGT) on securities is proposed to be replaced with a uniform rate of 15 pc for filers and 20 pc for non-filers for simplification and promotion of stock market transactions. Though no CGT is applicable on securities held since Jul'13 or earlier.

- Slabs for taxation of interest income have been revised as follows:
  - Income up to Rs25 million (mn) changed to income up to Rs5 mn
  - Income between Rs25 mn and Rs50 mn changed to between Rs5 mn and Rs25 mn
  - Above Rs50 mn changed to above Rs25 mn.

  Slab rates have remained unchanged.

- Super tax, introduced as one time levy for 2015 on the income of affluent and rich individuals, association of persons and companies earning income above Rs500 mn, at a rate of 4 pc of income for banking companies and 3 pc of income for all others, levied previously is proposed to be extended by one more year.

- A public limited company not distributing 40 pc or more of its after tax profit either through cash dividend or bonus shares shall be subject to tax on undistributed profits at 10 pc.

- The rate of minimum tax on turnover is proposed to be increased from 1 pc to 1.25 pc to improve profit declarations of companies.

Other revenues measures

- The bill proposes to enhance withholding tax rates by 0.5 pc to 5 pc for non-filers under different categories.

- Provisional assessment due to non-filing of return is proposed to be withdrawn.

- Tax credit @ 3 pc of tax liability available to manufacturers making 90 pc of sales to persons registered under the Sales Tax Act 1990, is proposed to be withdrawn.

- A new condition is proposed that if administrative and management expenses of a non-profit organization exceed 15 pc of total receipts, then tax credit will not be available. Besides, surplus funds of non-profit organizations are proposed to be taxed at 10 pc.

- Fixed tax per unit area announced for builders and land developers has been withdrawn.

Relief measures

- Widows, orphans, and disabled persons will not be required to file income tax return, even if they own immovable property or flat located in rating area or a motor vehicle.

- Individuals having latest assessed taxable income of Rs 1 mn (presently Rs500,000) or more will be required to discharge quarterly advance tax.

- Corporate tax rate is proposed to be reduced to 30 pc for Tax Year 2018 from 31 pc.

- To encourage enlistment of companies on stock exchange, tax credit of 20 pc of tax payable is being proposed for the first 2 years of enlistment and 10 pc tax credit for the succeeding two years.

- The limit of 5 pc of turnover, placed on sale promotion expenses by pharmaceutical sector,has been enhanced to 10 pc of turnover.

- Threshold for non-taxability of interest free or concessional loan from employer is proposed to be enhanced from Rs500,000 to Rs 1 mn.

- The limit of taxable income for claiming deductible allowance in respect of education expenses is proposed to be increased from Rs 1 mn to Rs1.5 mn.

- The limit for health insurance premium is proposed to be enhanced from Rs100,000 to Rs150,000 for the purpose of tax credit.

- Threshold of life insurance premium for collection of advance tax from non-filer is proposed to be increased from Rs200,000 per annum to Rs300,000 per annum.

- Threshold for payment of Advance Tax in four installments on the basis of tax paid for the last tax year has been enhanced to Rs 1mn from Rs 500,000.

- Withholding tax on registration of motor vehicles is proposed to be reduced - For 850CC from Rs 10,000 to Rs 7,500

  - For 851 CC to 1,000 CC from Rs 20,000 to Rs 15,000; and
  - For 1,001 CC to 1,300 CC from Rs 30,000 to Rs 25,000. The rates for non-filers will remain unchanged.

- Revision of withholding tax statement is proposed to be allowed within 60 days from filing of statement where any omission or wrong statement is discovered.

SALES TAX, FEDERAL EXCISE

Revenue measures

- Rate of Sales Tax to be enhanced from 5 pc to 6 pc on retail sales by five major export oriented sectors.

- FED is proposed to be enhanced on locally manufactured cigarettes.

- The bill proposes to introduce strict penalties on manufacturers and transporters of counterfeit cigarettes, including confiscation of stocks as well as vehicles used for such cigarettes.

Relief measures

- With the aim to harmonize procedural matters with income tax laws, the bill proposes to allow stay against recovery of tax dues, provided that taxpayer deposits 25 pc of the tax demand, and his appeal is pending for decision before the Commissioner (Appeals).

- Extra sales tax @ 2 pc on lubricating oils supplied by Oil Marketing Companies is proposed to be withdrawn.

- Exemption in sales tax at import stage for new and up to 5 years old imported combined harvesters to discourage harvesting losses owing to use of imported but 20-30 years old machinery.

- Reduction of sales tax on seven different types of imported machinery for poultry from 17 pc to 7 pc.

- Imported and locally supplied agricultural diesel engines, between 3 to 36 Horse Power for tube-wells, currently having rate of 17 pc are proposed to be exempt from sales tax.

- Zero rated sales tax regime introduced last year on five export oriented sectors – including textile, leather, sports goods, surgical goods and carpets – has been proposed to be continued during the next financial year.

- FED is proposed to be reduced from 18.5 pc to 17 pc on telecommunication services.

- Sales tax reduced rate at 10 pc is proposed on multimedia projectors if imported by any educational institution.

- The bill proposes serving notice via email or e-folder maintained for the purpose of e-filing sales tax cum federal excise return by limited companies.

CUSTOMS DUTY

Revenue measures

- On recommendations of the State Bank of Pakistan, the government is also enhancing regulatory duty on various items as part of its regulatory review.

- It is proposed that the value of invoice retrieved from the consignment shall be taken for assessment purpose, if the invoice value is higher than the value declared at the time of import or export.

Relief measures

- Import of solar panels and related components exempt from the condition of local manufacturing till 30 June 2017, now extended till 30 June 2018.

- Exemption in customs duty for new and up to 5 years old imported combined harvesters, to discourage harvesting losses owing to use of imported but 20-30 years old machinery.

- Duty free import of textile machinery has been proposed.

- The custom duty on raw-hides and skins has been proposed to be reduced to zero.

- CD rate on bituminous coal and other coals equalized @5 pc. However, for power projects in IPP mode, custom duty on import of both types of coal is reduced to 3 pc.

- The bill additionally empowers Chief Collector of Customs to extend the time period of warehousing for perishable and non-perishable goods.

[*Please refer to the next section onimpact of budgetary measures on sectorsfor sector-wise details.*]

FEDERAL BUDGET 2017–18 – HIGHLIGHTS

IMPACT OF BUDGETARY MEASURES ON SECTORS

Sector	Key measures	Impact
Fertilizers and chemicals	Continuation of current subsidy on urea (price Rs1400/bag)	**Positive:** Lower urea prices provide support to the subdued demand. FFC and EFERT major beneficiaries.
	Subsidy on various other fertilizers (except urea) to be substituted with reduction in sales tax rate. GST on DAP fixed at Rs100/bag in place of cash subsidy.	**Positive:** Decreased GST rates may result in lower working capital requirements.
	Imported urea prices fixed at Rs1000/bag.	**Neutral:** No major impact on local urea manufacturers.
	Rs1 billion has been allocated for agriculture credit while subsidized tariff on agri-tube wells at Rs5.35/unit to continue in FY18	**Positive:** Reducing key inputs and access to finance at lower rates would improve monetary situation of farmers, thus creating more room for expenditure on fertilizers.
Construction and cement	PSDP allocation jacked up to Rs2.1 tr., by 26%.	**Positive:** Higher PSDP expenditure is likely to sustain local demand growth momentum.
	FED on cement has been proposed to be fixed at Rs1.25 per kg, compared to current Rs1 per kg.	**Slightly negative:** The impact, Rs12.5 per kg increase in local cement price, is expected to be passed on by cement manufacturers.
	Super tax of 3% being extended to tax year 2017	**Negative:** Adverse impact of 4-5% on the earnings of cement manufacturers.
	Risk sharing guarantee scheme for low-income housing to be launched. Govt. to provide 40% credit guarantee cover to banks and DFIs for home financing up to Rs1 million.	**Positive** for cement and construction sectors amid increased construction activities.
	Non-income based fixed tax regime for builders and developers, introduced last year, withdrawn	**Neutral:** This would increase the tax bill of builders and developers. However, neutral for the cement sector
Textile	Continuation of zero rated GST for the export oriented sector (inputs). Sales tax levy of 10% on import of fabrics	**Positive:** No tax, no refund policy would eliminate outflows of working capital, improving overall liquidity situation of the sector. The sales tax on imported fabric would protect local industry.
	5% RD levied on import of synthetic filament yarn (of polyesters)	**Positive:** This would provide relief to local spinning players engaged in artificial fiber production and augment local sales.
	Retail sales tax of 5 zero-rated sectors revised upwards from 5% to 6%.	**Slightly negative**, as local garments would become expensive, though majority of our textile products are exported.
	Continuation of duty free import of machinery and Technology Upgradation Fund (TUF) Scheme 2016-19; uninterrupted electricity and gas supply ensured; 1000 units for stitching to be established from next year.	**Positive:** As witnessed in FY16, machineries have been imported and installed. Value added exports have resultantly shot up.

	15% taxation on dividends	**Negative**: Imposition of higher rates could influence earnings by 1-3%. (Dividends income accounts for 50-70% of leading textile manufacturers NML & NCL)
Consumer goods	WHT on distributors of FMCG products reduced to 2% and 2.5% from 3% and 3.5% previously. No reduction for non-filers.	**Positive:** The move would encourage distributors to reach out to more consumers as they would enjoy healthier margins.
	WHT collected by wholesalers of electronic goods increased from 0.5% to 1%.	**Neutral:** No major impact on companies.
Oil and gas	Corporate tax rate reduced by 1% to 30%, but remains unchanged for E&P companies. Minimum turnover threshold being increased to 1.25%.	**Neutral:** Reduction would improve profitability of some OMCs and refineries, but a non-event for E&Ps. PSO might fall into the trap of Minimum Turnover Tax.
	Imposition of super tax at 3% of taxable income	**Negative**: Super tax will drag earnings of OMCs, refineries and E&Ps.
	Withdrawal of 2% extra tax on lubricating oils supplied by OMCs.	**Neutral**: Marginal increase in sales volume of local OMCs importing finished/ semi-finished goods, as the same tax was also applicable on imported lubes (benefitting NRL).
	More LNG based power plants to come in.	**Positive** impact if LNG business is retained with PSO. Positive for HASCOL too as it plans to venture into this business.
	15% taxation on dividends	**Neutral to negative**: Attock Refinery's stake in NRL, APL and other unquoted companies generate substantial dividend income, and this might take the overall profitability down.
Automobiles	Current concessionary rates of customs duty and taxes on import of Hybrids up to 1800 cc stand at 50%. 25% concession on total duty and taxes to apply on Hybrids, 1801 – 2500cc.	**Neutral** on the auto sector. Major changes expected when new players enter in the wake of ADP 2016-21.
	11 more components for local assembly of trailers can be imported at 5% custom duty in view of CPEC upcoming projects. Currently only 10 components can be imported.	**Neutral:** Will encourage new entrants and present players to increase their indigenization levels. But present auto manufacturers would find new competition entering into the market at lower duties.
	Reduced WHT for tax filers buying cars with engine displacement between 850–1300cc with reduction of Rs2500–Rs5000 per unit.	**Neutral**: No significant impact on the dynamics of this sector, but a relief for the consumers.
Steel	Sales tax on the steel sector has been increased to Rs10.5/KwH from current Rs9/KwH.	**Neutral** for steel manufacturers as they hold pricing power amidst regulatory protection. Should they not (highly unlikely), it would result in earnings loss by 9–13%.
	PSDP budget increased and federal PSDP component of the development budget set 25% YoY higher at Rs1001 bn.	**Positive:** A higher PSDP budget will lead to a surge in infrastructure and construction projects, ultimately leading to an increase in the quantity demanded

		and supplied of steel – a major positive for producers of both long and flat steel products.
Telecom	Reduction in WHT on cellphone calls from 14% to 12.5%, plus a cut in FED from 18.5% to 17%.	**Neutral:** Will ultimately benefit the consumer. No significant impact expected on market dynamics.
	Customs duty reduced from Rs1000 per set to Rs650 per set.	May lead to an increase in the number of mobile phones being imported.
Power producers	No allocation made to resolve the outstanding stock of circular debt	**Negative:** Circular debt still hovering around Rs400-415 bn. NCPL and NPL particularly suffering from this issue.
	A power subsidy of Rs118 bn for FY18, similar to last year	**Neutral:** The amount majorly used for rationalization of inter DISCO tariff differential.
	Continuation of 7.5% tax on dividends from the sector	**Positive:** Relatively beneficial for the investors in the sectors, when compared with the raised levy of 15% on all other sectors
	Corporate tax rate reduced to 30% from 31%. Imposition of super tax at 3%.	**Neutral to negative**: No impact of change in corporate tax rate on IPPs as they are exempt from taxation, except KAPCO. 3% super tax would drag down its FY17 earning by an estimated 4%.
Commercial banks	Exemption from WHT on cash withdrawals by branchless banking agents	**Positive**: Will translate into strong fee income growth for banks.
	Continuation of super tax at the rate of 4% for banking companies	**Negative**: Super tax would drag the profitability of the banks by 7-10% in CY17.
	Agriculture credit targeted to be increased to Rs1001 billion from Rs700 billion.	**Positive**: Growth in agri credit to boost credit off-takes. Allows banks to improve NIMs.
	Govt. planning to introduce risk mitigation facility for SMEs through a Rs3.5 billion fund in the SBP.	**Positive:** The scheme provides banks incentive to gain from high yield at a lower bad debt cost. SME segment has the highest infection ratio. (20.13% in Dec'16)
	Tax neutrality between Islamic banking and conventional banking products	**Positive**: Deposit deployment issues of Islamic banks would be addressed.
Stock market	Capital gains tax recommended at a flat rate of 15% for filers and 20% for non-filers. (Securities purchased before 1 Jul 2013 will be exempted.)	**Positive** for market activity as it will discourage investors to hold stocks for a longer period to avoid CGT.
	Super tax extended for another year, while corporate tax rate further reduced to 30% for NBCs	**Neutral** for the market.
	Tax on dividend income to be raised to 15% from 12.5% (with the exception of power companies). Dividend from mutual funds proposed to be taxed at 12.5% from 10% earlier.	**Slightly negative** for the market. However, increasing capital gain scenario would mitigate the impact of higher tax on dividend.

SPECIAL REPORT

POWER SECTOR CIRCULAR DEBT

Coverage

- Power sector circular debt
- Power sector in Pakistan – current size and trend
- Correlation to oil prices
- The supply chain
- OMCs, IPPs, GENCOs, DISCOs – PSO
- GoP strategy on circular debt – PES FY17
- IMF pressure for power sector rationalization
- Outlook

CIRCULAR DEBT DEFINED

'Circular debt', or the unpaid bills of the country's power sector, was officially defined by the Economic Coordination Committee (ECC) of the Cabinet in 2014, in the following words:

> **The circular debt is the amount of cash shortfall within the Central Power Purchasing Agency (CPPA), which it cannot pay to power supply companies.** The overdue amount is a result of:
> (a) the difference between the actual cost and the tariff determined by National Electric Power Regulatory Authority (NEPRA) which is the distribution company's loss over and collections under that allowed by NEPRA
> (b) the delayed or non-payment of subsidies by government, and
> (c) delayed determination and notification of tariffs.
>
> It is the government's policy to reduce, limit to a certain amount which would be reduced over time, and eliminate the causes of the circular Debt. [1]
> (National Power Tariff and Subsidy Policy guidelines 2014)

The shortfall emerges due to

- Higher costs resulting in lower margins
- Uncollected bills/ receivables from consumers, especially corporations and other large entities, including public sector entities
- Line losses & pilferage

Current size

According to the definition, given above, Pakistan's circular debt currently stands at **Rs402.14** billion as on 24 May 2017.

Circular debt (receivable side)

(Rs in billions)

Line losses	135.5
Outstanding dues of consumers	182
Subsidy shortfall	62.5
K-Electric receivables	22.0
Total	402

Circular debt (payable side)

(Rs in billions)

Outstanding payment for electricity	238
Payable to WAPDA and related	37
Oil arrears	99
Debt servicing	17
Outstanding payment for gas	11
Total	402

If we include the total amount parked in Power Holding (Private) Limited (PHPL), the total circular debt of the power sector crosses **Rs800 billion** – for the first time in Pakistan's history.

Total circular debt

(Rs in billions)

Circular debt according to ECC definition	402
Amount parked in PHPL	425
Total	827

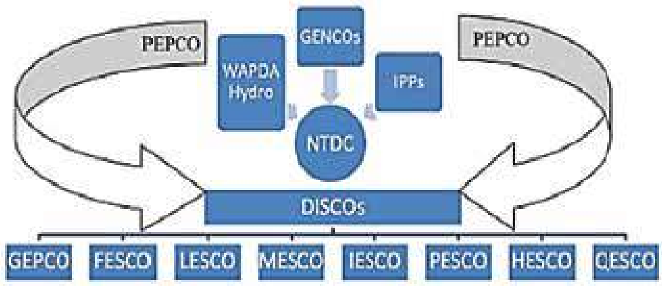
PHPL was created in 2009 following the approval of federal cabinet to resolve the circular debt issue and clear the outstanding liabilities of distribution companies. The Ministry of Water and Power raised hundreds of billions of rupees from banks from time to time and parked these on the books of PHPL. It was decided that the Ministry of Finance would provide sovereign guarantee for the repayment of principal loan along with interest payment.[2]

The country is currently producing electricity at an average Rs8.52 per unit and selling it to consumers at Rs11.97 per unit. The National Electric Power Regulatory Authority (NEPRA) allowed power generation companies to charge for line losses to the tune of 15.3 pc, but actual losses stand at 17.9 pc. [3]

POWER SECTOR IN PAKISTAN

Pakistan is a power deficit market that requires significant investment to meet growing demand. Government owned distribution companies (DISCOs) and system operator National Transmission and Dispatch Company (NTDC) are functioning as distribution and transmission monopoliesrespectively; government owned generation companies (GENCOs) are competing with private power producers (IPPs) to supply electricity in the system.

Power sector in Pakistan



[Source: 'Structure and Regulations of the Electricity Networks in Pakistan' by Amir Jahan Khan]

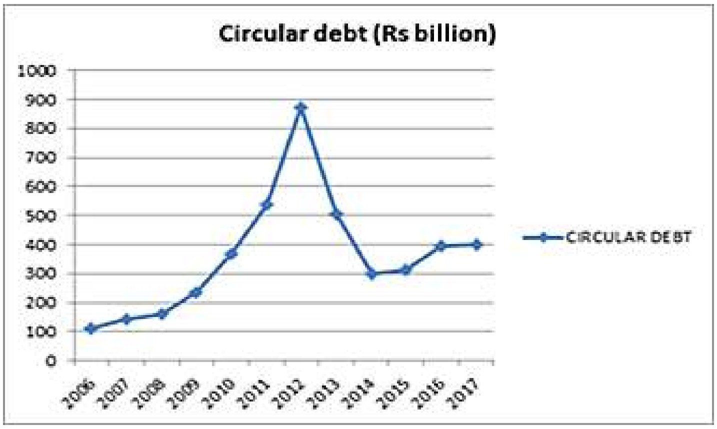
Note: 'NTDC' is NTDC/ CPPA. DISCOs now have 11 unbundled entities, incl. SEPCO, TESCO and K-Electric. MESCO changed to MEPCO.

Government of Pakistan (GoP) has restructured the sector through privatization process/ unbundling. Nine DISCOs and four GENCOs are still in the privatization pipeline.

Trend in circular debt[4]

Time	Circular debt (billion Rs)	Time	Circular debt (Billion Rs)
End-Jun 2006	111.26	End-May 2013	503
End-Jun 2007	144.99	28 Jun –21 Jul 2013 *	Rs480 bn retired *
End-Jun 2008	161.21	31 Dec 2014	298
End-Jun 2009	235.65	End-Jun 2015	313
End-Jun 2010	365.66	31 Dec 2016	393
End-Jun 2011	537.53	15 Feb 2017	414
End-Jun 2012	872.41	24 May 2017	402

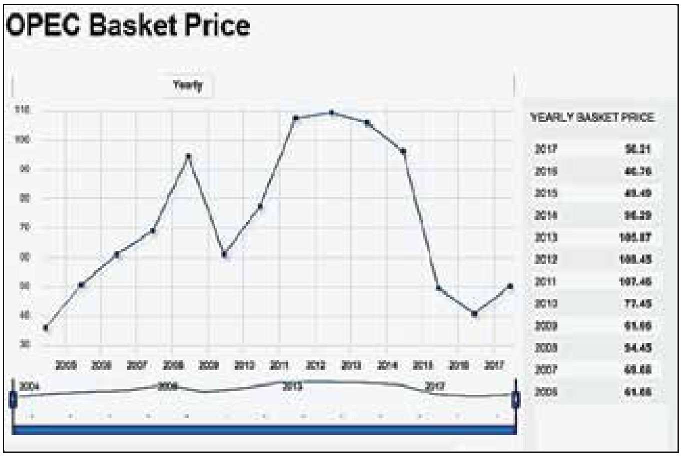
* In FY13, the government settled Rs 480 billion under the outstanding circular debt. In the first phase, an amount of Rs 342 billion was paid on 28th June 2013, whereas the second phase involved the non-cash settlement of Rs 138 billion as on 21st July 2013. (Ref: Pakistan Economic Survey FY14.)



Correlation to oil prices: the OPEC Reference Basket

The OPEC Reference Basket (ORB), also referred to as the OPEC Basket, is a weighted average of prices for petroleum blends produced by OPEC countries. It is used as an important benchmark for crude oil prices.

Barring GoP intervention, as oil prices rise, the total amount of circular debt should shows an increase on account of higher payables and receivables, given minimal changes in total volume. However, historical circular debt does not show a correlation with changes in oil prices owing to GoP interventions.



[Source: OPEC website]

THE SUPPLY CHAIN

The dilemma of "circular debt" is a phenomenon that emerges from the difference between higher production costs of electricity and the lower total revenues accrued from the rate payments received from consumers, with the government subsidizing the shortfall.

Broad structure

The supply chain for power generation in Pakistan operates in a non-transparent manner:

- GENCOs, IPPs, and the state-owned WAPDA purchase furnace oil and gas from oil marketing companies to generate electricity.

- The government's CPPA purchases each unit produced by GENCOs and then sells them to state-owned power DISCOs.

- DISCOs are responsible for channeling electricity from the transmission substations to the consumers at different distribution voltages.

- The DISCOs are required to make payments to the CPPA; the CPPA, in turn, is required to pay the GENCOs which in turn must pay the oil-marketing companies. Thus the circular nature of these transactions.




This somewhat inefficient process creates opportunities for CPPA payment defaults in two very glaring ways:

- The cost of providing electricity to consumers by DISCOs is not covered by operating revenues (due to rate-fixing and failure to adjust those rates as world oil prices fluctuate), and hence the DISCOs are unable to pay the CPPA; or

- the DISCOs assign a higher priority to their own cash flow instead of paying their invoices to the CPPA.

The result is circular debt, caused when the cash-starved CPPA is unable to pay GENCOs that, in turn, then cannot pay oil-marketing companies, which then stop future deliveries of oil, leading to power shortages. The government, then, is forced to borrow and extend additional and seemingly unending new subsidies to the GENCOs.[5]

Higher tariffs/ costs

In theory, the tariff charged to consumers in Pakistan is based on generation mix, structure and transmission cost, and distribution losses suffered by each utility. It is, however, not adjusted in a timely manner and in line with changes in oil and gas prices.

- Expensive mix: The cheapest source of power generation is Hydel, which is not sufficient to meet the ever-increasing demand of electricity in the country. Gas, though cheaper, is not available as per requirement of country's power system.

- Thus, the demand is mostly met through high-cost thermal generation. Thermal is also suffering from inefficiencies and billing accordingly. [6]

System losses

The electricity industry in Pakistan suffers with **high system losses** (including theft) and hence high revenue losses, imposing high costs for the electricity supply.

- The **non-theft system losses** – which are also significant – can be attributed to the current poor state of technology and maintenance of the distribution network.

- System losses caused by **theft and revenue losses** also arise from managerial inefficiency of DISCOs.

High losses suggest basic infrastructure getting overstressed, requiring maintenance and replacements. **Investment in substations, distribution lines, and human capital requires substantial investment into the distribution system**, which is still trailing GENCO investments. [7]

Thesupply chain: KEY ISSUE

The most critical bottleneck in the Pakistani electricity supply chain is thus created by

- Inefficiencies in its distribution network and delays, and
- Defaults in collecting receivables from consumers including large entities [8]

OMCs, IPPs, GENCOs, DISCOs

Furnace oil sourcing/ supply – PSO

Bulk of the furnace oil used by power plants is supplied by Pakistan State Oil (PSO), the major importer of petroleum products. Out of the total circular debt of energy sector, PSO receivables have now climbed to Rs296 billion.[9]

In late 2014, PSO receivables rose to Rs 222 billion, and consequently many L/Cs for import were dishonored. This led to the shortage of petrol, especially in Punjab. To avoid such crisis, **PSO receivables needs to be kept within a manageable range proactively.**[10]

IPPs

In Pakistan, there are 31 IPPs, with share in installed capacity in the sector of 37 pc. (Out of 9071 MW installed capacity of IPPs, KAPCO has 1638 MW and HUBCO 1200 MW.) However, the share in electricity generated is higher at over 43 pc.

IPPs have managed their liquidity problem of large receivables by building up large payables with fuel suppliers like PSO and the gas companies. For instance, at the end of 2015, payables of HUBCO were equivalent to 80 pc of its receivables. Besides, their post-tax rate of return isrelatively highand over twice the national average owing to the fact that the Power Policy 1994 gave lifetime income tax exemption to all IPP projects.Clearly, the circular debt problem has primarily affected much more entities like PSO and much less the IPPs.

HUBCO

KAPCO Power Plant

Most of the members of the Independent Power Producers Advisory Council (IPPAC) have now called the GoP Guarantees for a portion of these overdue amounts (receivables).

Somewhat exaggerated by IPAAC, a situation, nevertheless, should be avoided where sovereign guarantees are invoked. This negatively impacts the perception of foreign investors.[11]

GENCOs: WAPDA/ public sector

The inefficient public sector GENCOs – producing around 35 pc of total production as opposed to 49 pc of installed capacity– have also emerged as one of the main contributing factors in the circular debt. They have further aggravated the situation due to accumulated loss of Rs 17.73 billion by wasting 1.540 billion units of electricity during years 2012, 2013 and 2014that also emerged in circular debt.

These losses were incurred mostly in the head of auxiliary consumption and standby mode. [12]

A power plant (Source: *The Express Tribune* website)

DISCOs

The overall distribution system, especially in urban areas, is overstressed and needs to be upgraded, augmented, and expanded.

(Source: *Dawn* website)

DISCOs network loses more than the NEPRA determined transmission and distribution (T&D) loss range (which ranges from 0.02 pc to 11.52 pc). The cost pertaining to excess loss over and above the NEPRA determined loss level is not being recovered from any tariff and adds to the circular debt. [14]

Due to poor revenue collection by the DISCOs, liabilities of power sector towards power cost are not being paid and this is adding to the circular debt as well as load shedding. According to NEPRA, the dues of the running defaulters of the DISCOs are a major contributor to circular debt.

Uncollected amounts had climbed to Rs335 billion by end-Dec.2016. (In 2014-15, the dues of the running defaulters stood at Rs 318 billion.) [15]

GoP STRATEGY ON CIRCULAR DEBT (as per Pakistan Economic Survey 2016-17)

"The subsidy for power sector which was Rs464 billion (2.3 percent of GDP) in FY 2012 has been consistently reduced to Rs217 billion (0.7 percent of GDP) in FY 2016. During July-March FY 2017, the subsidy remained at Rs85 billion compared to Rs99 billion in the corresponding period last fiscal year. Circular Debt Capping Plan is effectively managing the power sector financial flows, stocks and subsidy budget."

"The power sector line losses have reduced to 17.9 percent during FY 2016 from 18.7 percent during FY 2015 and collection from consumers has improved to 94.6 percent during FY 2016 as compared to 89.2 percent in FY2015. During the first half of FY2017, the line losses have declined further to 17.2 percent. ..."

"Overhauling of financial and management system in Distribution Companies (DISCOs) and Generation Companies (GENCOs) is being carried out to improve their performance to sustainable levels."

"Efforts are underway to improve power sector fuel mix..."

IMF PRESSURE FOR POWER SECTOR RATIONALIZATION

Continuing the energy sector reform is crucial in view of the serious issues at stake for the fiscal, economic and social landscape. Sustained efforts have helped in reducing budgetary subsidies and containing the accumulation of arrears, and have brought about important operational improvements in the performance of DISCOs. Stringent monitoring and enforcement, upgraded electricity transmission and distribution network, enhanced revenue-based load management and incentives to collectors have resulted in reduction in distribution losses and higher collection over the program period. With these improvements the DISCOs, starting with FESCO at first and followed by IESCO and LESCO, would now be offered for sale in the stock market through IPOs. The authorities have completed considerable preparatory work in this regard, and the proceeds from these IPOs would be utilized to reduce the outstanding circular debt.[16]

Bringing the power distribution sector to full cost recovery will be critical to ensure long-term success of new energy initiatives and minimize fiscal costs. [17]

OUTLOOK

GoP strategy to overcome debt issue

- Government to reduce energy subsidies and deregulate all distribution and power generation companies
(Estimated period: 3–5 years)

- Diversify the energy mix
(Within 5–7 years)

(Source: *The Express Tribune* website)

- Key measures to be adopted in the power sector:
  - Substantial improvement in efficiency of DISCOs (collections and reduced line losses) – by 2019
  - Introducing automatic tariff adjustment (ATA) mechanism to overcome fuel price adjustment – by 2019
  - Privatization of DISCOs – by 2019-20

Net outlook for circular debt

During the next few years:

- **2017-18**
  - Pressures of an election year
  - Tariff charges changes unlikely
  - Aggressive collection – unlikely
  - Prospects of circular debt coming down depend exclusively on GoP intervention
  - Circular debt to fluctuate between Rs300-400 billion

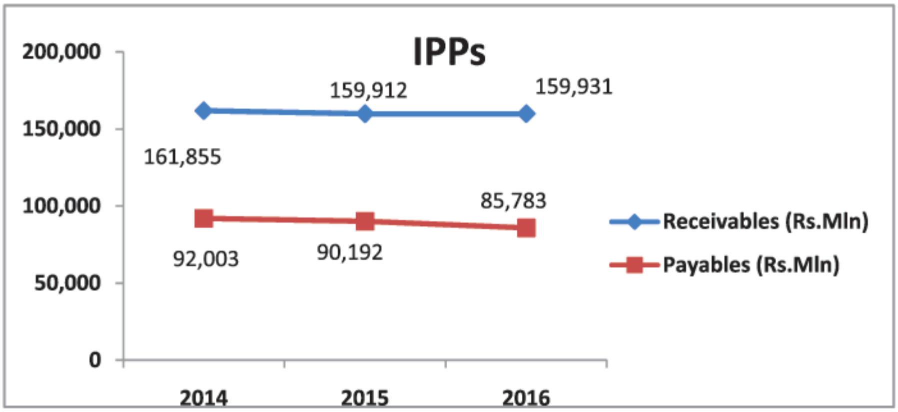
- Over a period of **3-5 years**, given the required structural changes, circular debt would start coming down substantially.

Thus,

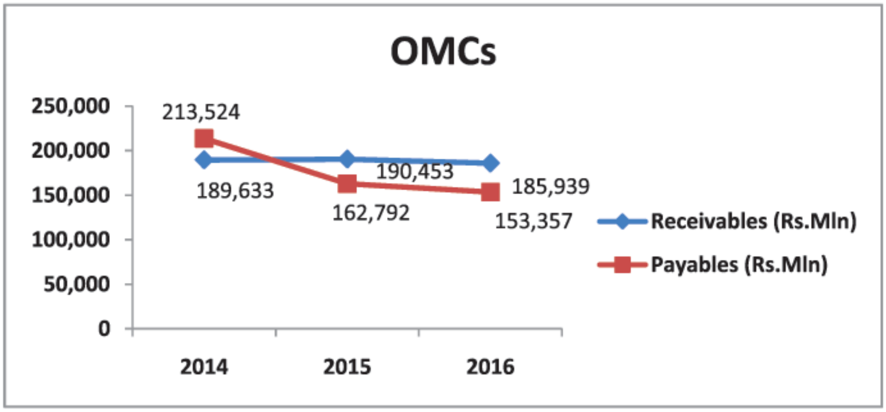
- Short Term outlook for resolution of circular debt – not favorable
- Medium-Long term outlook for circular debt – positive

AT A GLANCE: RECEIVABLES AND PAYABLES OF KEY IPPs AND OMCs

IPPs		
Year	Receivables (Rs in million	Payables (Rs in million)
2014	161,855	92,003
2015	159,912	90,192
2016	159,931	85,783



OMCs		
Year	Receivables (Rs in millions)	Payables (Rs in millions)
2014	189,633	213,524
2015	190,453	162,792
2016	185,939	153,357



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15. Khalid Mustafa, "Inefficient Gencos contribute Rs17.73 bn to circular debt," *The News,* 1 May 2017
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CPEC – AN UPDATE

CPEC vision &mission

To improve the lives of people of Pakistan and China by building an economic corridor promoting bilateral connectivity, construction, explore potential bilateral investment, economic and trade, logistics and people to people contact for regional connectivity.

It includes:

- Integrated Transport & IT systems including Road, Rail, Port, Air and Data Communication Channels
- Energy cooperation
- Spatial layout, functional zones, industries and industrial parks
- Agricultural development & poverty alleviation
- Tourism cooperation & people to people communication
- Cooperation in livelihood areas
- Financial cooperation
- Human Resource Development

CPEC projects – progress update

Updated energy projects (19.05.2017)

CPEC-Energy Priority Projects

S.#	PROJECT	PROGRESS UPDATE
1	2×660MW Coal-fired Power Plants at Port Qasim Karachi	• Financial Closed (FC) achieved. • Civil works on site started in May 2015. • Approximately 65% Power Plant and 70% Jetty completed • Energization in October 2017. • Expected Commercial Operation Date (COD) June 2018.
2	870MW SukiKinari Hydropower Station, Naran,KhyberPukhtunkhwa	• Financial Close achieved. • Land acquisition award announced on 17th Nov, 2016. • EPC Contractor mobilized to initiate construction activities. • Commercial Operation Date (COD) 2021/2022.
3	2x660MW Coal-fired Power Plant, Sahiwal, Punjab	• Financial Closed (FC) achieved. • Civil works on site 95% completed. • Planned energization in October 2017. • Commercial Operation Date (COD) 25 Dec, 2017. • However, project is 06 months ahead of schedule i.eenergization in May 2017.
4	• 2×330MW Coal fired EngroThar Block II Power Plant • 1×330MW Mine Mouth Lignite Fired TEL Power Project at Thar Block-II, Sindh, Pakistan • 1×330MW Mine Mouth Lignite Fired ThalNova Power Project at Thar Block-II, Sindh, Pakistan	• Financial Closed (FC) achieved in April, 2016. • Team mobilized at site. • Construction work in progress. • Construction of Transmission line-contract awarded. Contractor mobilized • Commercial Operation Date (COD) June, 2019

	• Surface mine in block II of Thar Coal field, 6.5 million tons/year	• Financial Closed (FC) achieved. • IA/EA signed. • COD expected 2018/2019
5	50MW Hydro China Dawood Wind Farm(Gharo, Thatta)	• Financial Close (FC) achieved • Construction started. • Testing in Progress. • Commercial Operation Date (COD) Jan, 2017.
6	300MW Imported Coal Based Power Project at Gwadar, Pakistan	• CCCC has registered with PPIB • It was agreed on the proposal of Chinese side to facilitate issuance of LoI by PPIB after submission of bank guarantee and agreements with the view to start work on the project by 31st March, 2017 at the latest
7	1000MW Quaid-e-Azam Solar Park (Bahawalpur) Quaid-e-Azam	• COD of 3 x 100 MW attained in August 2016.
8	100MW UEP Wind Farm (Jhimpir, Thatta)	• Construction started. • Erection of 61 out of 66 turbines completed. • Sub-station under construction, to be completed by March, 2017. • Independent Engineer mobilized. • Commercial Operation Date (COD) Expected June, 2017
9	50MW Sachal Wind Farm (Jhimpir, Thatta)	• Financial Close (FC) achieved. • Construction in progress. • Commercial Operation Date (COD) June, 2017
10	2×660MW SSRL Thar Coal Block-I 7.8mtpa &SEC Mine Mouth Power Plant	• Expected Commercial Operation Date (COD) 2018/19
11	720MW Karot Hydropower Station	• Land acquisition award done. • Financial Close (FC) 2017. • Construction in Progress. • Work initiated through equity – 25% civil works completed. • Commercial Operation Date (COD) 2020/2021.
12	• 50MW Three Gorges Second Wind Power Project • 50MW Three Gorges Third Wind Power Project	• LOS issued in August 2016. • EPA initialed on 30th Nov, 2016. • Construction activity already started from equity. • Financial Close April 2017. • COD Sep, 2018.
13	1,320MW CPHGC Coal-fired Power Plant, Hub,Balochistan	• IA/EA Signed • Commercial Operation Date (COD) expected 2018/2019
14	• Matiari to Lahore ±660kV HVDC Transmission Line Project • Matiari (Port Qasim) —Faisalabad Transmission Line Project	• Feasibility study completed. • Tariff determined by NEPRA. • TSA/IA initialed in December 2016. • Land acquisition for converter stations at Lahore and Matiari completed. • China Electric Power Equipment and Technology Company(CET) / State Grid nominated by Chinese side. • COD expected in 2018 / 2019.
15	Thar Mine Mouth Oracle Power Plant (1320MW) & surface mine	• Feasibility stage tariff obtained for coal. • Shareholding agreement on new equity partners in process.

CPEC-Energy Actively Promoted Projects

S.#	PROJECT	PROGRESS UPDATE
1	1,100MW KohalaHydel Project, AJK	• Feasibility Study (stage-1) Tariff Announced by NEPRA. • Land Acquisition process started. • Environmental Impact Assessment study being updated. • EPC Contractor has been selected. • Financial close planned in Dec 2017. • Expected Commercial Operation Date (COD) 2023.
2	1,320MW Rahimyar khan imported fuel Power Plant	• Feasibility in process

CPEC Infrastructure Projects

S.#	PROJECT	PROGRESS UPDATE
	ROAD	
1	118KM KKH Phase II (Thakot -Havelian Section)	• Contractor mobilized. Work commenced in September, 2016. To be completed by March, 2020 • Havelian- Abbotabad-Mansehra (40 KM) section will be completed by May, 2018
2	392KM Peshawar-Karachi Motorway (Multan-Sukkur Section)	• Contractor mobilized • Construction works commenced in August, 2016
3	110KM Khuzdar-Basima Road N-30	• Procedural formalities to be completed shortly
4	210KM Upgradation of D.I.Khan - Zhob, N-50 Phase-I	• Procedural formalities to be completed shortly
5	136KM KKH Thakot-Raikot N35 remaining portion	• Procedural formalities to be completed shortly
	RAILWAY	
6	1,872KM Expansion and reconstruction of existing Line ML-1	• Feasibility completed • Request for Chinese financing submitted on 29th Nov, 2016 • Senior Officials to discuss and finalize modalities/terms of financing • Both side agreed to have extensive communication in the first fortnight of Jan, 2017 to reach consensus within three months
7	Havelian Dry port (450 M. Twenty-Foot Equivalent Units)	• Feasibility completed • Request for Chinese financing submitted on 29th Nov, 2016
8	Capacity Development of Pakistan Railways	• Focus groups be established for effective training and capacity enhancement

CPEC Gwadar Projects

S.#	PROJECT	PROGRESS UPDATE
1	Gwadar East-Bay Expressway	• Minutes of EAD-MOFCOM signed
2	New Gwadar International Airport	• Minutes of EAD-MOFCOM signed in August 2016 • Grant request is being processed by Chinese Side
3	Construction of Breakwaters	• Draft business plan has been received from Chinese (COPHCL), under review by MoP&S and GPA
4	Dredging of berthing areas & channels	• Draft business plan has been received from Chinese 5(COPHCL), under review by MoP&S and GPA
5	Development of Free Zone	• Tax exemptions for port and Free Zone notified in

		Finance Bill 2016 • Ground breaking done by the Prime Minister • 100% private Investment inside Free Zone. To be operated by COPHCL • 1st phase completion date is December 2017 • Significant progress and response from investors • Gwadar Free Zone investment guide line published
6	Necessary facilities of fresh water treatment, water supply and distribution	• PC-I for 5 MGD RO plant for Gwadar cleared by CDWP in Dec 2016 • Draft Framework Agreement shared with Chinese side and likely to be signed soon
7	Pak China Friendship Hospital	• Grant request sent by EAD to MOFCOM • Feasibility study completed by Chinese team to add 100 beds from existing 50, for subsequent extension to 300 beds • LOE is expected to be signed in early 2017
8	Technical and Vocational Institute at Gwadar	• Chinese technical team expected to visit early this year to conduct feasibility study • MoU likely to be signed soon
9	Gwadar Smart Port City Master Plan	• LOE signed in August 2016 • Name of one Consultant received by EAD. The case is being processed on fast track to ensure completion within twelve months
10	Bao Steel Park, petrochemicals, stainless steel and other industries in Gwadar	• Necessary approval process would be completed at the earliest for inclusion as new CPEC Project under Gwadar JWG
11	Development of Gwadar University (Social Sector Development)	• Chinese side will identify a leading Chinese university for collaboration with University of Gwadar on marine & maritime related subjects along with other disciplines
12	Upgradation and development of fishing, boat making and maintenance services to protect and promote livelihoods of local population	• COPHCL would take effective measures for social sector development

CPEC Others Projects

S.#	PROJECT	PROGRESS UPDATE
1	Cross Border Optical Fiber Cable	• Ground breaking ceremony performed by the Prime Minister • Work commenced October 2015 Work on 220km/ 820km segment completed
2	Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	• Project completed at a cost of US$ 2 million • As confirmed by Mo I &B LoE on demonstration project with Chinese side is being processed

CPEC Rail Based Mass Transit Projects

1. Karachi Circular Railway
2. Greater Peshawar Region Mass Transit
3. Quetta Mass Transit
4. Orange Line – Lahore

Update

- JCC agreed in principle for inclusion of Rail Based Mass Transit Systems in Provincial headquarters as part of CPEC
- JWG on Transport Infrastructure has been asked to complete the necessary formalities

CPEC New Provincial Projects

1. KetiBunder Sea Port Development Project
2. Naukundi-Mashkhel-Panjgur Road Project connecting with M-8 & N-85
3. Chitral CPEC link road from Gilgit, Shandor, Chitral to Chakdara
4. Mirpur – Muzaffarabad - Mansehra Road Construction for connectivity with CPEC route
5. Quetta Water Supply Scheme from Pat feeder Canal, Balochistan
6. Iron Ore Mining, Processing & Steel Mills complex at Chiniot, Punjab

Update

- Further studies and consultations to be initiated
- Projects referred to concerned JWGs for consideration

CPEC Special Economic Zones (SEZs)

Update: The work on SEZs to be started on priority.

S.#	PROJECT	TYPE OF INDUSTRY
1	Rashakai Economic Zone , M-1, Nowshera (1000 acres)	Fruit/Food/Packaging/Textile Stitching/Knitting
2	China Special Economic Zone Dhabeji (1000 acres)	To be determined during feasibility stage
3	Bostan Industrial Zone (1000 acres)	Fruit Processing, Agriculture machinery, Pharmaceutical, Motor Bikes Assembly, Chromite, Cooking Oil, Ceramic industries, Ice and Cold storage, Electric Appliance, Halal Food Industry
4	Punjab - China Economic Zone, M-2 District Sheikhupura (5000 Acres)	Mix Industry
5	ICT Model Industrial Zone, Islamabad	Feasibility studies yet to be carried out
6	Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi (1500 acres)	Feasibility studies yet to be carried out
7	Bhimber Industrial Zone	Feasibility studies yet to be carried out
8	Mohmand Marble City	Feasibility studies yet to be carried out
9	Moqpondass SEZ Gilgit-Baltistan (250 acres)	Marble / Granite, Iron Ore Processing, Fruit Processing, Steel Industry, Mineral Processing Unit, Leather Industry

CPEC Social Sector Development Projects

- **People to People exchanges**: Efforts for intensification of People to People contact, media and cultural exchanges (including movies, drama, theatre etc.) would be done through agreed yearly programmes. Both sides resolved to promote Chinese and Pakistani culture and heritage as a way of long term partnership

- **Transfer of Knowledge in different sectors**: Experts from Industrial zones, rural and urban development, job creation & SMEs, water resources management & treatment and agriculture

CPEC Fact Sheet

Local employment:

- 8,000 Pakistanis- Multan-Sukkur Motorway (Manager, China State Construction)
- 1,200 Pakistanis (Tharcoal)-1,320MW (Sindh Engro Coal Mining Co.)
- 3,000 Pakistanis- 1,320MW Sahiwal Coal Power Plant
- 1,600 Pakistanis -1,320 MW Port Qasim Coal Power Plant

Local material:

- Relying on indigenous coal reserves in Tharparkar- Sindh Engro Coal Mining Co.
- Domestic cement growth of 17% in 2015-16

Coal plants:

- Sahiwal Coal Plant is super critical technology with de-sulphurisation process ensuring minimal carbon emissions

Local enterprises:

- 1,320MW Thar Coal Power Plant-EngroPowergen
- 1,320 MW Port Qasim Coal Power Plant- Al-Miraqib
- 660 MW HUBCO Coal Power Plant- Hub Power Company
- 1000 MW Quaid-e-Azam Solar Power Park-QA Solar Power Company
- 50 MW Dawood Wind Farm, Bhambore- DawoodLawrencepur Limited
- 100 MW UEP Wind Farm, Jhimpir- United Energy Pakistan
- 50 MW Sachal Wind Farm, Jhimpir- ArifHabib Corporation
- D.I. Khan- Hakla Motorway- Frontier Works Organization (FWO)
- Gwadar- Hoshab Motorway- Frontier Works Organization (FWO)

SECTORAL UPDATE ON KEY SECTORS

AUTOMOBILE:

Production & Sales of Vehicles

	2015-16		2016-17		%increase/decrease	
	Production	Sales	Production	Sales	Production	Sales
Passenger Cars	179,944	181,145	186,936	185,781	**3.88**	**2.55**
Trucks & Buses	6,736	6,567	8,830	8,629	**31.08**	**31.39**
LCVs, Vans & Jeeps	35,836	35,759	24,265	23,804	**-32.28**	**-33.43**
Farm Tractors	34,914	33,986	53,975	54,992	**54.59**	**61.80**
Motor Cycles & Three Wheelers	1,362,096	1,358,643	1,627,450	1,625,080	**19.48**	**19.61**

- Pakistan is hoping that $2 billion will make its way into the country as it seeks investment in its auto sector with the arrival of four new companies. A total of nine companies had applied to set up new manufacturing plants and four had been granted permission already, whereas two had completed documents and would be given the go-ahead in a week.

Tractor sales again exhibited an upward trajectory with demand growing65% in the first 11 months. Lower retail prices due to reduced general sales tax, improving crop yields and continuation of fertilizer subsidy to address liquidity concerns of the farmers were expected to improve the overall tractor demand.

- A major incentive for the new investors is the reduced 10% customs duty on non-localized parts for five years against the prevailing 32.5%. Similarly, localized parts can be imported by new entrants at 25% duty compared to the current 50% for five years. A-category investors will be entitled to import of 100% parts at 10% customs duty for a period of three years in respect of passenger cars below the 800cc category.

- They will also be entitled to import 100% parts at prevailing custom duties applicable to non-localized parts for a period of three years in respect of buses, trucks, tractors and prime movers.

- Domestic auto sales (including jeeps and light commercial vehicles) jumped to 20,720 units in May 2017, up 21.5% compared to 17,052 units in the same month of previous year

- Tractor sales again exhibited an upward trajectory with demand growing 65% in the first 11 months. Lower retail prices due to reduced general sales tax, improving crop yields and continuation of fertilizer subsidy to address liquidity concerns of the farmers were expected to improve the overall tractor demand in the near future. Moreover, in the next fiscal year 2018, the Sindh government has set aside Rs7 billion for improving agriculture produce, including Rs2 billion in subsidies for the farmers on tractor purchase.

- Truck and bus sales of PAMA member companies in the first 11 months of FY17 remained strong. It is expected that the growth in sales will continue, fuelled by increased demand under the China-Pakistan Economic Corridor and infrastructure-related activities.

Leasing has been growing rapidly for the last two years and reached a record high of Rs.127 billion by the end of 2016.

- The Pakistan Automotive Manufacturers Association (Pama), in its budget proposals for the upcoming fiscal year, has asked the government to remove anomalies in SRO 499. The provisions of SRO 499 only extend duty and tax relief at the import stage and not at the subsequent retail stage. This anomaly results in Original Equipment Manufacturers (OEMs) paying full 17% general sales tax at the retail stage in addition to the income tax, whereas used car importers are paying low fixed duties and taxes.

- Car leasing has been growing rapidly for the last two years and reached a record high of Rs.127 billion by the end of 2016. This highlights the growth in car demand in Pakistan and makes it understandable the willingness of local investors like Lucky Cement and Nishat Mills in a bid to start importing different variants of Kia and Hyundai. They are expected to first ascertain demand for these and then to launch actual assembly plants in the country.

- Pakistan is the 6th largest populated country and has half of its population living below 30 years. Car penetration stands at as low as 13 vehicles per 1000 persons and an increasing per capita income Pakistan offers huge potential for growth to global car-makers. It is, therefore, essential to reach out to this huge clientele on a platform that is most accessible.

Car sales for the period 2016-2017 are expected to stand at 270,000 units with imports amounting to 60,000

- Auto sales have continued to experience a robust growth rate in the eleven-month current fiscal year. According to some analysts, car sales for the period 2016-2017 are expected to stand at 270,000 units with imports amounting to 60,000.

CEMENT:

Production Capacity & Dispatches (Operational Units Data)

July to June	Production Capacity	% age Incr/(Dec)	Local Dispatches	% age Incr/(Dec)	Exports	% age Incr/(Dec)	Total Dispatches	% age Incr/(Dec)	Capacity Utilization	Surplus Capacity
	(Mn. Tonnes)		(Mn. Tonnes)		(Mn. Tonnes)		(Mn. Tonnes)	(Total)	% age	(Mn. Tonnes)
2013-2014	44.64	0.00%	26.14	4.33%	8.14	-2.84%	34.28	2.54%	76.79%	10.36
2014-2015	45.62	2.19%	28.20	7.89%	7.20	-11.57%	35.40	3.26%	77.60%	10.22
2015-2016	45.62	0.00%	33.00	17.01%	5.87	-18.38%	38.87	9.82%	85.21%	6.74
2016-2017 (12 Month)	46.39	1.69%	35.65	8.03%	4.66	-.20.59%	40.32	3.71%	86.90%	6.08

- During the year 2016-2017, domestic cement dispatches by north zone mills were 29.141 million tons and export dispatches were 3.150 million tons depicting a growth of 7.72 percent and negative growth of 18.22 percent, respectively.

The domestic demand declined steeply in June by 19.62 percent that was almost double than the decline of 10.95 percent in exports.

- Domestic cement dispatches by south zone mills were 6.511 million tons and export dispatches were 1.514m tons depicting a growth of 9.47 pc and negative growth of 25.10 percent, respectively.

- The overall growth in cement dispatches during the year 2016-17 was a mere of 3.71 percent. The capacity utilization for the year 2016-17 was 86.90pc.

- The cement industry closed the fiscal year 2016-17 on a sour note as the domestic demand declined steeply in June by 19.62 percent that was almost double than the decline of 10.95 percent in exports. According to industry stakeholders, the decline in domestic demand was beyond the usual reduction in construction activities during Ramazan that fell in June. They said that instead of reducing duties the government has slapped additional tax on cement in the 2017-18 budget. This would further reduce domestic consumption and the revenue that the government expects from the new tax would in fact decline because of lower consumption. the huge decline in domestic demand in June was shocking for the industry that fears further erosion of demand as a result of new taxation

- The figures reported by All Pakistan Cement Manufacturers' Association (APCMA) show the sector bid the fiscal farewell with 40 million tons of cement— of which only 12 percent was exports. In FY16, this share was 15 percent, still much lower than earlier years when exports and local sales mix used to be 30:70. A good chunk of cement sales used to constitute exports going to Afghanistan which was a key market for Pakistan; the latter a key supplier of cement to the economy that had very little capacity to manufacture cement itself. However, once sanctions from Iran lifted, the country which is one of the largest producers of cement with a capacity of 80 million tons started exporting to Afghanistan, Central Asia and Iraq at cheaper rates. As a result, Pakistani cement manufacturers lost their market share in Afghanistan, and nearly two years later are still finding it difficult to find their footing in that market.

South Africa was a key market but currently has an anti-dumping duty on Pakistani cement. India was proving to be a saving grace when we kicked off this fiscal year as cement exports to the country started to increase despite border skirmishes that have hurt trade relations between the two nations

- Other markets it seems remain unexplored. South Africa was a key market but currently has an anti-dumping duty on Pakistani cement. India was proving to be a saving grace when we kicked off this fiscal year as cement exports to the country started to increase despite border skirmishes that have hurt trade relations between the two nations. However, these two slowed down in the months after. India is the second largest cement manufacturer in the world. Pakistan was able to export after 2007 when India removed the countervailing and additional duties on imported cement to fill the demand-supply gap in the economy. There are also only select markets in the country that welcome Pakistani cement because of the price cut—around 10-15 percent less than Indian cement reaching those locations (e.g. Amritsar). Now the country is expanding so it may not even require imports to meet any gap. India can only be a limited market for Pakistani cement.

- At 46 million tons of capacity, the sector is now fast in expansion mode with most players racing to add capacity to their plants in the hopes to capture this elusive construction demand. So while the capacity utilization has reached a high of 90 percent, this utilization would significantly fall over the coming years. The companies that will be able to benefit the most as they embark on their combined journey to add capacities will be those who try to reach other exporting markets.

- All Pakistan Cement Manufacturers Association (APCMA) has urged the government to support the industry by placing anti-dumping duty on the Iranian cement and reducing taxes to make the cement more affordable for consumers, which will increase its demand and result in capacity enhancement of the industry, thus creating more job opportunities.

- Falling exports have continued to mar the performance of the cement sector registering a decline of 44.58 percent in May 2017. It is the fourth massive decline in exports which declined by 45.69 percent in February, 60.39 percent in March and 50.75 percent in April. Exports during May 2017 were 0.309 million tons against 0.558 million tons during May, 2016 showing a reduction of 44.58 percent.

- DG Khan Cement's new plant at Hub in Balochistan will officially start production by December 2017. The 9000t/day plant is scheduled to complete civil engineering work by September 2017 and then start commissioning by the end of the year. The new plant is expected to support infrastructure development near Gwadar and support residential schemes in Balochistan and Sindh.

ENERGY:

Power Plants started operation since 2015:

2015	2016	2017
30 MW, Bagasse based RYKML	100 MW, Solar based, Apolo Solar	120 Mw, Coal/ Bagasse base, Fatima Power
50 MW, Wind based, FWEL-I	100 MW, Solar based, Best Green solar	15 MW, Bagasse based, Hamza
100 MW, Solar based, Quaid-e-Azam	100 MW, Solar based, Crest Energy solar	760 MW, Gas based, Bhiki
425 MW, Furnance Oil based, Nandipur Power	50 MW, Wind based, Yunus Power	50 MW, Wind based, Dawood Wind
50 MW, Wind based, Sapphire Power	50 MW, Wind based, Metro Power	50 MW, Wind based, Sachal Wind
62 MW, Bagasse based, Chiniot Power	30 MW, Wind based, Tapal Power	
	50 MW, Wind based, Master Power	
	50 MW, Wind based, Tenaga Power	
	50 MW, Wind based, Gul Ahmed Power	
	50MW, Nuclear Power based, Chashnupp-III	
717 MW	**919 MW**	**995 MW**

Performance of Pakistan Power Sector Players:

1. **Pakistan Atomic Energy Commission (PAEC)**

At present, four nuclear plants i.e. Karachi Nuclear Power Plant (KANUPP) at Karachi, Chashma Nuclear Power Plant Unit-1, Unit-2 and Unit-3 (C-1, C-2 and C-3) at Chashma (Mianwali) are operating with gross capacity of 1,090 MW. The construction of fifth nuclear plants, Chashma Nuclear Power Plant unit-4 (C-4) at Chashma site is underway. Sixth and Seventh Nuclear Power Plants Unit-2 and Unit-3 (K-2 and K-3) are under construction near Karachi. The first concrete pours of K-2 and K-3 were performed on Aug 20, 2015 and May 31, 2016 respectively.

2. **Private Power and Infrastructure Board (PPIB)**

The Private Power and Infrastructure Board (PPIB) is a 'One Window' facilitator to the private investors in the field of power generation on behalf of the Government of Pakistan (GOP). The main achievements are:

- Successfully managed to induct 31 independent private power projects totaling about 9071 MW.
- Attracted an investment of around US$ 9.4 billion.
- IPPs are around 50% of the country's present installed generation capacity.
- Attracted leading international / local investors and lenders to the Pakistan Power Sector.

- Contributed in development of domestic capital markets.
- Supported economic growth and enhanced power supply.
- 84 MW New Bong Hydropower Project, the first hydro IPP in Pakistan/AJK Commissioned.
- 870 MW SukiKinari, Financing Agreements with the Lenders Signed.
- 1320 MW PQEPCL started construction activities.
- 1320 MW Sahiwal Power Project started construction activities at site from its equity.
- 102 MW Gulpur Hydropower Project, Ground Breaking Ceremony held on 15- October-2015.
- 660 MW EngroPowergenThar Limited started construction activities.

3. Alternative Energy Development Board (AEDB)

The current and expected status of Renewable Energy power generation projects are as under:

- **Wind Power Projects:** Twenty Four wind power projects having a cumulative capacity of 1397.6 MW are at different stages of development / operation. In 2016, five wind power projects by Yunus Energy Ltd (50 MW), Metro Power Company Ltd (50 MW), Tapal Wind Energy Private Ltd (30 MW), Master Wind Energy Private Ltd (528 MW) and Gul Wind Energy Ltd (50 MW) are situated at Jhampir while TenagaGenerasi Ltd (49.5 MW) is situated at Gharo. Till now, twelve wind power projects of 590.5 MW cumulative capacity have achieved commercial operation and are supplying electricity to National Grid. Eight (08) projects with a cumulative capacity of 445 MW have achieved financial close and are under construction and expected to be completed within 2018. These are Hydro China Dawood Power Private Ltd (49.5 MW), Sachal Energy Development Private Ltd (49.5 MW), United Energy Pakistan Private Ltd (99 MW), Jhampir Wind Power Limited (49.6 MW), Hawa Energy Pvt. Limited (50 MW), Hartford Alternative Energy Private Limited (49.3 MW), Three Gorges Second Wind Farm Private Ltd (49.5 MW), Three Gorges Third Wind Farm Private Ltd (49.5 MW). Further, four (04) wind power projects with a cumulative capacity of 197.1 MW have been issued LOS and are expected to achieve Financial Closing during 2017.

- **Solar Power Projects:** Four solar projects (100 MW each) named Quaid-e-Azam Solar Park, Bahawalpur with different IPPs with cumulative capacity of 400 MW are operational. Out of four, three were completed in Aug 2016. Seven IPPs with a cumulative capacity of 72.52 MW have obtained Letter of Support (LOS) from AEDB and are in the process of achieving Financial Closing of their projects while seventeen solar power projects of 484 MW cumulative capacity have obtained Letter of Intent (LOI) from AEDB and are at different stages of project development and will be completed during 2018-19.

- **Biomass / Waste-To-Energy:** In order to tap the potential of electricity generation from the sugar mills in Pakistan, the Government of Pakistan on recommendation of AEDB announced the Framework for Power Co-Generation 2013 (Baggase/Biomass) in 2013. Twenty Four (24) companies / sugar mills of 817.5 MW cumulative capacity have been issued Letter of Intent (LOI) from AEDB and are at different stages of project development and will be completed during 2018-19.

Other Updates:

- The government initiated many energy projects and some of those are functional in the near future. The 969MWs of Neelum-Jhelum Hydropower Project's first unit will start generation by February 2018, second unit in mid-March and third and fourth units will be completed in April 2018, and so the entire four units will give 969MWs to the grid.

- Similarly, the first unit of 1,410 MWs of Tarbela-IV extension will be completed by end of December 2017, whereas its other two units will be completed in high water flow season in 2018.

- The third unit of Chashma Nuclear Power Plant in Mianwali district, the total nuclear technology based power generation has reached the mark of 1040 megawatt, but still much below 8000 Megawatt, the target set by Pakistan Atomic Energy Commission.

- There is resentment in the solar and wind power circles that while competitive bidding has been announced, no practical steps are being taken towards arranging it. The renewable energy investors also complain that RLNG plants are being approved one after the other, and the recent one has been done for Jhang of a capacity of 1100MW, while renewable energy projects are being put on the backburner under the excuse of impending capacity glut or trap. Since many of such projects are to be located in Sindh, the issue assumes a political dimension and creates tension within the federation.

Disruption to Pakistan's domestic trade flows of fuel oil due to almost $5 billion of circular debt is swelling stocks and causing severe power shutdowns during the country's peak summer demand season.

- Minister of Petroleum and Natural Resources invited Chinese companies to explore investment opportunities in energy sector, expecting a five-time growth in demand of liquefied natural gas (LNG) within the next five years.

- Disruption to Pakistan's domestic trade flows of fuel oil due to almost $5 billion of circular debt is swelling stocks and causing severe power shutdowns during the country's peak summer demand season. Fuel oil accounts for close to 40% of fuel consumption in Pakistan's power sector, which is grappling with increasing load shedding and power cuts, a costly economic fallout for the industrial and manufacturing industries.

The government has issued a policy note instructing power project operators to pay protection cost

- Circular debt in Pakistan's energy sector has been an ongoing issue since 2008. Debt-burdened power utilities cannot make timely payments to the country's oil suppliers, who in turn cannot meet their international payment obligations, leading to a credit crunch and supply disruptions.

- Power producers are grappling with widespread electricity theft, payment delays and defaults by their customers -- including government offices and state-owned companies -- and high downstream subsidies that prevent them from recovering the costs of fuel purchases, power generation and distribution.

- Keeping in view the internal and external security threats to the multibillion-dollar China-Pakistan Economic Corridor (CPEC) projects, the government has issued a policy note instructing power project operators to pay protection cost so that they could be ensured sustainable security by special forces. Project sponsors have been asked to pay $150,000 each in protection cost in the very first year. The cost will continue to increase 3% per annum for the remaining project life.

The total energy cost to be paid by the power project sponsors in the first year comes in at around $2.85 million.

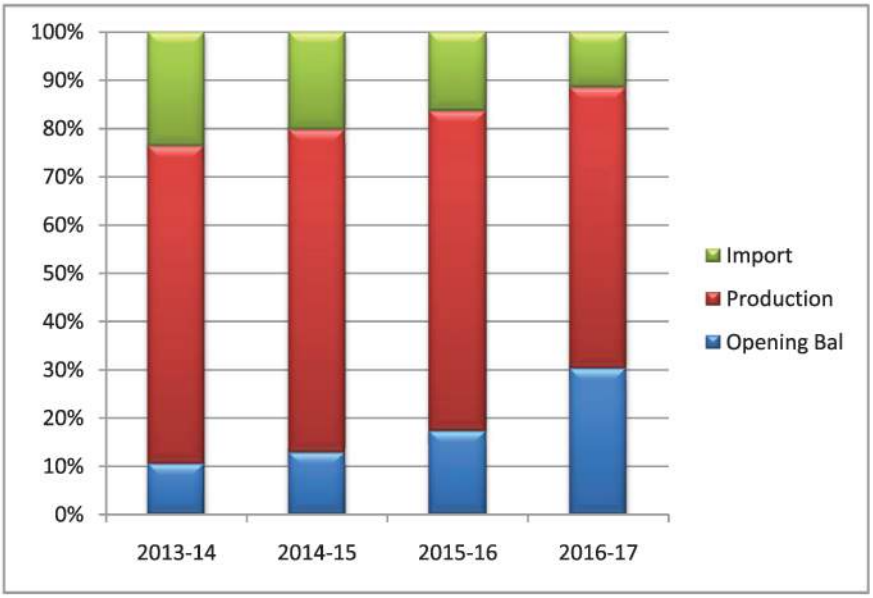
- Nepra has notified a total of 19 power projects that will be developed under the CPEC programme. These will have a cumulative capacity of 9,887 megawatts and coupled with a gigantic project for the transmission of 4,000 megawatts of electricity, the total cost stands at $15.56 billion. Accordingly, the total security cost to be paid by the project sponsors in the first year comes in at around $2.85 million.

[For details on circular debt see "Special Report on Circular Debt" page #31]

FERTILIZER:

(000 Tonnes)

Year (Apr-Mar)	Opening Balance	Domestic Production	Import
2013-14	899	5,625	2,039
2014-15	1,099	5,676	1,720
2015-16	1,647	6,293	1,553
2016-17	3,476	6,706	1,325



- The Fertilizer Manufacturers decide to resume the sales of Urea after the government gave the assurance to issue subsidy notification within 10 days' time period. Urea sales were stopped when the ministries showed reluctance to issue notification for the disbursement of newly announced subsidy in 2017-18 budgets.

The industry ended June with an inventory of 1.08 million tons, down 35% year-on-year. Inventory levels are expected to pick up again as Kharif sowing season is going to a close

- Urea off-take stood at 1.06 million tons in June 2017, up 79% year-on-year and 103% month-on-month. The numbers remained in line with expectations.

- Di-ammonium phosphate (DAP) sales also came in line with expectations and were recorded at 112,000 tons, an increase of 161% year-on-year and 61% month-on-month.

- Cumulatively, in the first six months of 2017, urea off-take showed an increase of 51% year-on-year to 2.75 million tons whereas DAP sales during the period recorded a rise of 21% year-on-year to 590,000 tons.

- The industry ended June with an inventory of 1.08 million tons, down 35% year-on-year. Inventory levels are expected to pick up again as Kharif sowing season is going to a close. In June 2017, Fatima Fertilizer remained the star performer with urea sales of 152,000 tons, up 426% year-on-year and 107% month-on-month, followed by Engro Fertilizers with sales of 318,000 tons, up 168% year-on-year and 129% month-on-month.

- Exports continued in June as well as all mainstream manufacturers – Fauji Fertilizer Company, Fatima Fertilizer and Engro Fertilizers exported 5,000 tons, 7,000 tons and 43,000 tons respectively.

Despite providing subsidy and relaxation in GST to fertilizer sector, the prices of DAP and Urea in Pakistan are much higher as compared to the other south Asian countries

- The federal budget 2017-18 went a long way to address ambiguities amongst the farmers' community, especially in terms of fertilizer pricing. Channel checks suggest that urea off-take has picked up considerably in the last two months, as Government had announced maintaining urea prices at the current market rate of Rs1400 per bag.

- Despite providing subsidy and relaxation in GST to fertilizer sector, the prices of DAP and Urea in Pakistan are much higher as compared to the other south Asian countries.

- The price of 50Kg DAP bag in Pakistan was Rs 2588 in April, which was 57.61 percent or Rs 946 per bag higher than Bangladesh and 31.64 percent or Rs 622 per bag higher than India, said the Pakistan Economic Survey 2016-17. The prices of DAP in Bangladesh and India are Rs 1642 and Rs 1966 per bag respectively.

- Similarly, the price of Urea which was Rs 1368 per bag was also much higher than India and Bangladesh. The price of Urea in Pakistan was 163.07 percent or Rs 848 higher than India, while from Bangladesh it was 30.16 percent or Rs 317 per bag higher. The prices of Urea in India and Bangladesh are Rs 520 and Rs 1051 per bag respectively.

- The domestic production of fertilizers during 2016-17 (July-March) decreased slightly by 0.3 percent over the same period of last fiscal year. The imported fertilizer also decreased by 5.8

percent. Therefore, total availability of fertilizer also decreased marginally by 1.5 percent during current fiscal year.

- The total off take of fertilizer nutrients witnessed increase by 30.5 percent. Increase in off take of fertilizer is due to substantial reduction in prices of all fertilizer products as a result of subsidy announcement by the government in June, 2016 which includes cash subsidy on phosphate fertilizer equivalent to Rs. 300 per 50 kg bag of DAP, reduction in GST on urea from 17 to 5 percent, cash subsidy on nitrogenous fertilizer equivalent to Rs156 per 50 kg bag of urea.

- Total availability of urea during Kharif 2017 will be about 4018 thousand tonnes comprising of 1318 thousand tonnes of opening balance and 2700 thousand tonnes of domestic production. Urea off-take is expected to be around 3000 thousand tonnes, reflecting a closing balance of 1018 thousand tonnes. Total availability of DAP will be 639 thousand tonnes against expected off-take of 900 thousand tonnes. Thus, there is gap of 261 thousand tonnes of DAP which should be met through imports by private sector.

The international urea prices are expected to remain under pressure after a short-lived relief at the beginning of the year due to increase in demand from North America ahead of corn season in the region.

- Fertilizer manufacturers have asked the government to extend the urea export deadline until December 2017 to be able to get rid of their surplus production. The government had allowed local manufacturers to export 300,000 tons of urea by the end of April 2017. At the end of the first quarter of calendar year 2017, only Engro Fertilizers had exported the urea to Eastern Africa region at an estimated Freight on Board (FOB) price of $230-240 per ton.

- Local producers are looking at export opportunities in various regions including East Africa, Afghanistan and India amongst others. The international urea prices are expected to remain under pressure after a short-lived relief at the beginning of the year due to increase in demand from North America ahead of corn season in the region.

FINANCIAL INSTITUTIONS:

- The resurgent activity of banks in the credit market continued during FY17: credit extension has crossed Rs 300 billion in three of the past four years. Both demand and supply-side factors were at play and reflected better macroeconomic conditions, as evident in improved security situation and investment prospects triggered by CPEC.

While conventional banks continued to extend the biggest chunk of that credit, the combined share of Islamic bank and Islamic bank branches (IBBs) of conventional banks in the credit flow also increased (from 36.7 percent to 43.9 percent)

- On the supply side, ample liquidity available with banks also contributed to higher credit off-take. Specifically, the ability of banks to extend credit increased during Jul-Mar FY17, due to impressively high deposit generation, lower government borrowing from banks, and modifications in subsidized SBP credit refinance schemes.

- A better perception of the future in terms of investment opportunities and gains in asset quality also played a part in encouraging banks to expand their credit portfolios. The increase in credit to businesses sector was visible across all categories: working capital, fixed investment and trade finance (Table). While conventional banks continued to extend the biggest chunk of that credit, the combined share of Islamic bank and Islamic bank branches (IBBs) of conventional banks in the credit flow also increased (from 36.7 percent to 43.9 percent).

Loans to Private Sector Businesses (Jul-Mar)

flow in billion rupees

	Total credit		Working capital		Fixed investment		Trade financing	
	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Total credit to private business	**249.0**	**368.4**	**65.4**	**150.9**	**140.3**	**155.1**	**43.3**	**62.4**
Manufacturing	206.4	259.7	116.5	104.5	34.1	97.8	55.7	57.4
Electricity, gas & water	39.8	38.3	13.0	21.7	31.9	14.2	-5.1	2.4
Construction	26.7	22.4	-2.6	7.4	28.1	15.8	1.3	-0.8
Commerce & trade	11.3	19.3	4.0	21.0	7.1	-0.3	0.1	-1.4
Mining & quarrying	-1.3	11.8	-2.7	-0.2	1.7	9.3	-0.3	2.7
Real estate	7.1	7.6	3.2	-2.5	1.0	6.4	3.0	3.7
Community & social service	7.1	0.6	6.1	1.9	1.2	-0.2	-0.1	-1.1
Agriculture	-1.4	0.1	-7.4	2.7	6.1	-2.4	-0.1	-0.2
Transport, storage & comm.	20.9	-0.6	-9.2	-9.4	30.2	8.8	0.0	-0.1
Education	1.5	-6.2	-0.1	0.1	1.6	-6.3	0.0	0.0

[State bank of Pakistan]

- The asset base of the banking sector has expanded by 2 percent during Q1CY17; faster than the corresponding period of last year.

- Both the growth in advances and investments has contributed in achieving this growth. Contrary to cyclical slow down usually observed in advances portfolio in the first quarter, Q1CY17 is marked with a growth of 1.8 percent in gross loans (1.9 percent in net advances). Investments saw a significant growth of 7.1 percent, after declining consecutively during the last two quarters of CY16.

- On the funding side, deposits have increased by 0.1 percent in Q1CY17 in contrast to 0.6 percent contraction in Q1CY16; while banks' borrowing from SBP has grown by 23.5 percent owing to liquidity needs to sustain asset growth.

Highlights of the Banking Industry:

PKR Billions

	CY14	CY15	Q1CY16	CY16	Q1CY17
Total assets	12,106	14,143	14,281	15,831	16,155
Investments (net)	5,310	6,881	7,421	7,509	8,003
Advances (net)	4,447	4,816	4,782	5,499	5,605
Deposits	9,230	10,389	10,323	11,798	11,809
Borrowings	1,001	1,766	1,967	1,942	2,183
Equity	1,207	1,323	1,277	1,353	1,405
Profit before tax	247	329	82	314	75
Profit after tax	163	199	53	190	49
NPLs	605	605	619	605	604
NPLs (net)	122	91	102	90	88

- Gross advances (domestic private) have surged by a higher rate of 2.4 percent during Q1CY17 as against 0.78 percent during Q1CY16. Interestingly, most of the growth is resulted from Islamic Banking Institutions (IBIs) which added PKR 102 billion of fresh loans in the quarter under review.

Relatively higher growth in advances compared with the increase in deposits has led to an improvement in Advances-to-Deposit ratio (ADR),

- The major thrust (in volume terms) has come from the sugar, automobile/transportation, electronic & electrical appliances sectors. Most of the other sectors have observed net retirements in Q1CY17.

- Relatively higher growth in advances compared with the increase in deposits has led to an improvement in Advances-to-Deposit ratio (ADR), elevating it to 47.5 percent in Q1CY17 from 46.6 percent in Q4CY16.

Advances flow (domestic)

	Q1CY16		Q1CY17	
	Flows (Bn)	Growth (%)	Flows (Bn)	Growth (%)
Chemicals & pharmaceutical	1.03	0.48	(11.63)	(4.79)
Agribusiness	(55.81)	(11.88)	(71.83)	(13.18)
Textile	(7.31)	(0.98)	(2.50)	(0.30)
Cement	1.45	2.62	(0.23)	(0.35)
Sugar	87.55	61.12	99.41	56.68
Shoes & leather garments	(1.09)	(4.75)	(2.07)	(8.01)
Automobile	13.18	33.99	8.86	11..91
Financial	0.14	0.19	(3.11)	(3.32)
Insurance	0.53	142.73	(0.28)	(9.39)
Electronics &appliances	(7.60)	(11.63)	6.18	10.67
Energy	(10.69)	(1.59)	22.69	2.56
individuals	4.86	1.13	8.37	1.62
others	(49.16)	(2.49)	44.68	2.20
Total (domestic sector)	**(22.92)**	**(0.47)**	**98.54**	**1.77**

- During second half of CY16, the government shifted its reliance for budgetary borrowing from commercial banks to central bank; this resulted in shrinking of treasury investments of the banking sector. However, this trend has reversed in Q1CY17 as the government has borrowed PKR 268.1 billion from commercial banks while retiring PKR 121.1 billion to SBP.

- Most of the growth (12%) has been seen in Treasury bills which are short term in nature. Resultantly, Investment to deposit ratio (IDR) has inched up from 64 percent to 68.2 percent in a single quarter. Banks' investment in other avenues (TFCs, Bonds, debentures and other investments etc) has also increased during first quarter of CY17.

Composition of Bank's investment in Govt. Securities

PKR Billion

	Q1CY15	Q1CY16	Q1CY17
MTBs	387	22	383
PIBs	222	327	95
Other Govt. Securities (Sukuk)	10	197	0
Total Govt. Securities	619	546	479
Total Investment	646	542	492

- The banking sector continues to invest in infrastructure which is reflected in the absorption of new employees, a rise in Point of Sales (POS) machines and ATMs cards etc. This has resulted in pick-up in the cost to income ratio from 53.1 percent in Q4CY16 to 55.5 percent in Q1CY17.

* The issuance of ATM Propriety cards, which witnessed a decline of 7.1 percent during Q4CY16, increased by 13.5 percent during Q1CY17. It may be mentioned that a major proportion of these cards is issued by smaller microfinance banks. On expiry or due to lack of activity in accounts, these cards are deactivated, only to be re-activated/re-issued later after the accountholders fulfill the conditions.

* Moreover, the branch network has recorded a slight decline, mainly due to consolidation of branch network post completion of merger of two banks in the last quarter of CY16.

Banking sector infrastructure

	As of Dec 31, 2016 (No.)	As of Mar 31, 2017 (No.)	Growth in Q1CY17 (%)
Total bank branches	14,219	14,193	-0.2
Online branch network	13,926	13,899	-0.2
ATMs	12,352	12,515	1.3
Point of sale machines	52,062	52,854	1.5
ATM propriety only cards	6,806,138	7,727,967	13.5
Credit cards	1,208,763	1,247,836	3.2
Debit cards	17,470,297	17,542,788	0.4
Social welfare cards	10,357,706	10,239,238	-1.1
Full time employees	189,360	191,632	1.2

Soundness of the banking system:

* The **asset quality** of the banking sector continues to observe improvement. In Q1CY17, infection ratio (NPLs/Total Loans) moved down to 9.9 percent; showing noticeable improvement of 182 bps over the same quarter of previous year. This positive development has been brought about by a decline of 2.4 percent (YoY) in NPLs and a strong growth of 15.5 percent (YoY) in advances. The infection ratio stands at its lowest level since 2009.

* **Liquid assets** to total assets ratio has slightly improved to 54 percent in Q1CY17 from 53.7 percent in Q4CY16. Marginal improvement in the ratio has been observed on account of greater proportionate increase in liquid assets. Noticeably, increase in liquid assets (PKR 222.5 billion) during Q1CY17 was almost exclusively due to investment in government securities (PKR 478.9 billion).

Non-interest income, however, has declined by PKR 2.2 billion mainly on account of low income from gain on sale of securities and dividend income

- The **profitability** of the banking sector has moderated as the profits (before taxation) experienced a decrease of PKR 6.4 billion during Q1CY17 compared to an increase of PKR 1.7 billion in the same quarter of previous year.

- The prevailing low interest rate environment is weighing on the interest earnings of the sector as the **net interest income** has shown a marginal improvement of PKR 0.12 billion during the reviewed quarter. The recent increase in volume of advances has led to this nominal increase, though return on advances remains on the downhill. **Non-interest income**, however, has declined by PKR 2.2 billion mainly on account of low income from gain on sale of securities and dividend income.

- **Return on assets** (before tax) has declined to 1.9 percent during Q1CY17 from 2.3 percent in Q1CY16.

Banks appear to be well positioned from solvency point of view as CAR is well above the minimum required level.

- **Capital Adequacy Ratio (CAR)** has slightly declined to 15.9 percent during Q1CY17 from 16.2 percent in Q4CY16. Banks are, however, well positioned from solvency standpoint as the prevailing CAR is well above the minimum required level of 10.65 percent.

- **The analysis of banking sector soundness** during Q1CY17 suggests three prime facts. First, improvement in asset quality is primarily on account of significant expansion in advances. Second, reduced banking sector profitability is due to almost stagnant net interest income, decline in non-markup income and elevated administrative expenditures. Finally, banks appear to be well positioned from solvency point of view as CAR is well above the minimum required level.

SUGAR:

World Sugar Balances (October / September)					
in mln tonnes, raw value					
	2016/17	2015/16	2014/15	2013/14	2012/13
Production	168,010	169,371	171,340	171,386	172,029
Consumption	175,058	172,898	169,160	165,391	164,384
Surplus/deficit	-7,048	-3,527	2,180	5,995	7,645
Import demand	56,695	57,010	55,484	57,957	60,600
Export availability	56,610	57,049	55,530	57,958	60,605
End stocks	75,598	81,788	85,354	83,220	77226
Stocks/consumption ratio in %	43.18	47.30	50.46	50.32	46.98

Domestic Sugar at a glance

Sugarcane & Sugar – Estimates					
Sugar Year(Oct-Sept.)	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**2011-12**
Sugarcane produced(Tonnes)	61,607,794	63,203,485	67,427,975	63,718,523	58,038,200
Total Sugar Production	5,080,114	5,162,293	5,614,957	5,063,158	4,670,380
Beginning Stocks 1st Oct.	1,344,421	1,197,128	844,171	*1,394,013	
Imports/TCP		**28,166	**32,259	**25,043	-
Total Available		6,359,421	6,459,128	6,457,171	5,779,701
Export		415,000	750,000	1,193,000	48,672
End Stock 30th Sep. (Mills)		1,344,421	1,197,128	844,171	1,394,013
Consumption / Marketing		4,600,000	4,512,000	4,420,000	4,385,688
Average Consump. / month		383,333	376,000	368,333	365,688
Season's Av. Retail price / kg		58.91	54.80	53.41	57.16
Intl. Av. Sugar Trade Price US $/T		377.30	459.28	502.84	607.45
Molasses Prod. (C+B+R) *		2,247,137	2,524,202	2,252,751	2,207,632

* C: Cane, B: Beet, R: Raw

** TCP stock as on 31-08-2015(Ignored)

- The country, this year, has witnessed a mammoth rise in sugar production with a surplus volume of 1.8 million tons preceding the end of this crushing season. The representative of PSMA (PZ) argued that unless these produced quantities are dispelled through exports, the industry will not be able to pay to its growers. Already, protests have started in some parts of Punjab where numerous mills have not cleared their dues and the situation shall worsen by the end of the coming crushing season when another bumper crop of sugarcane is expected.

- The government allowed exports of 300,000 tonnes of sugar provided the industry maintains stable domestic prices. The decision was taken at a meeting of the Cabinet's Economic Coordination Committee (ECC). The committee rejected a call for the export of 600,000 tonnes of sugar recommended by the ministries of commerce and industries. Instead it decided that sugar exports would be immediately stopped in case of abnormal increase in domestic prices. The exports would entail no rebate or subsidy.

- The export of 0.3 million tons of sugar, in addition to the quantities already allowed for export by the ECC, may be allowed subject to the following conditions:

    a) The committee constituted by the prime minister will meet during first week of every month to review the sugar stock/export and price situation;

    b) In case of any abnormal increase in the domestic price of sugar, the committee would recommend to the ECC the stoppage of further exports;

    c) The export quota will be approved and monitored by the State Bank of Pakistan (SBP) on first come first served basis; exports will be completed within 60 days of quota allocation by the SBP;

    d) Inter-Ministerial Committee will meet again to review the stock/export and price situation and recommend enhancement of export quantities, if deemed appropriate.

After failing to strike a deal with government over export subsidy, the sugar mill owners have started sharply increasing ex-mill price, leading to slow lifting of commodity by the dealers

- With sugar stocks at their lowest in the main wholesale market after an unprecedented increase of Rs14/kg in about 13 days, the ex-mill price of sugar jumped to Rs60-61/kg on Thursday. The price showed no improvement as powerful mill owners continued squeezing supplies in an attempt to keep the price of the commodity hiked.

- After failing to strike a deal with government over export subsidy, the sugar mill owners have started sharply increasing ex-mill price, leading to slow lifting of commodity by the dealers.

- There has been daily increase of about Re1/kg increase in ex-mill price during the last nearly two weeks.

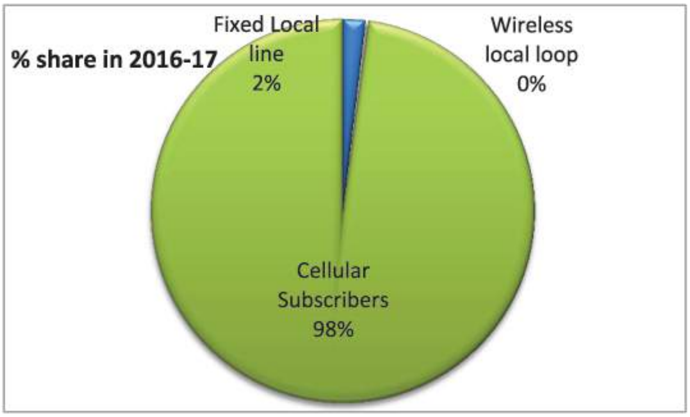
- Pakistan produced 74,685 tonnes of sugar, white value, in May 2017, up sharply from 32,791 in the same month last year. This brought total sugar production in the 2016/17 season so far to 7,044,310 tonnes, up 38% from 5,114,899.

- The Sugar Advisory Board (SAB) had recommended the Ministry of Commerce to allow exporting 1.2 million metric ton surplus sugar without any time restriction, as the total surplus sugar till season closing would be 1.884 million tons. However, the ministry followed half the recommendation, and permitted export of 600,000 tons of sugar. The sugar industry sought the permission when the international price was on the higher side to pay the sugarcane growers' dues. However, the government delayed the decision. In the meantime, the international sugar price dropped to $400 metric ton which makes local sugar unviable for export. The sugar industry has asked the government to pay Rs15/kg export rebate to the industry in order to ensure exports of the allowed surplus sugar. Without export rebate it would not be possible to export the sugar.

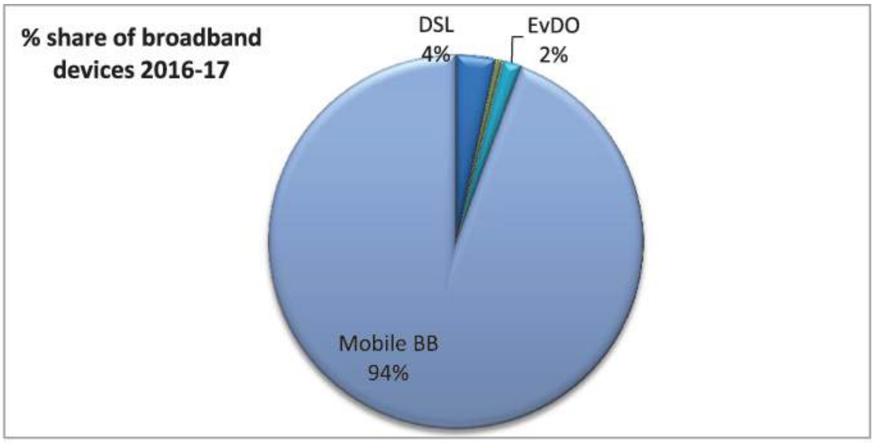
TELECOMMUNICATION:

Telecom Service Providers' Subscribers

	Fixed Local line	Wireless local loop	Cellular Subscribers	Card Payphones
2005-06	5,240,012	1,006,461	34,506,557	353,194
2014-15	3,141,700	789,596	114,658,434	53,887
2015-16	2,793,954	457,565	133,241,465	2,912
2016-17	2,692,225	375,653	139,758,116	



Broadband Subscribers by Technology								
Technology	DSL	HFC	WiMax	FTTH	EvDO	Others	Mobile BB	Total
2005-06	26,611							**26,611**
2014-15	1,480,672	43,362	487,582	19,490	1,334,725	6,089	13,498,677	**16,885,518**
2015-16	1,421,746	43,167	183,181	25,665	1,084,367	6,906	29,530,254	**32,295,286**
2016-17	1,527,306	50,571	168,511	48,020	729,625	-	42,084,032	**44,608,065**



- Overall telecom imports saw a decline of 0.38 percent during the year under review as compared to the same period last year. The total imports were recorded at Rs 141.8 billion against Rs 141.9 billion in the same period of last year.

- Pakistan spent about Rs 74 billion on import of mobile handsets in the fiscal year 2016-17 (FY17). This import in the outgoing fiscal showed an increase of 5.78 percent as compared to FY16. The country, with more than 133 million mobile phone subscribers' base, imported Rs 78.6 billion worth of mobile phones in same period of FY15.

The government of Pakistan in Budget 2017-18 reduced the customs duty on mobile phones to attract foreign brands to come to Pakistan.

- Pakistan is on number 9 in the world in terms of the number of mobile phones in use. Other countries in the top-10 list include US, China, India and Japan.

- However, other telecom apparatus and accessories' import witnessed a 6.3 percent increase during this period, as it stood at Rs 67.6 billion in FY17 against Rs 63.4 billion in FY16.

- The government of Pakistan in Budget 2017-18 reduced the customs duty on mobile phones to attract foreign brands to come to Pakistan. The government also reduced withholding tax on mobile phones from 14 percent. Moreover, customs duty on smartphone sets will be cut to Rs 650 per set.

- Introduction of next generation technologies in Pakistan pushed the import bill up as the people tend to buy updated technology and this factor has made the launch of 3G & 4G successful, with its effect on the usage of mobile phones increasing its imports. It has been observed that out of all the imports, 20 percent of the imports are of smartphones in the country, which has directly linked to the introduction of 3G & 4G data services.

- Q-Mobile remained the top importer of the country last year as well, contributing more than 70 percent in total imports. Nokia was the second largest importer and Voice mobile remained in the third place, while Samsung and Huawei contribute most to the import of mobile phones in Pakistan.

The telecoms sector, a significant source of revenue generation, has contributed around Rs 582.95 billion to the national exchequer during the last three and a half years

- Apart from the legal mobile imports, thousands of mobiles were smuggled into the country using different grey channels. Used and refurbished sets are imported in Pakistan from Dubai and European countries. Grey import of mobile handsets remains the biggest challenge to the customs authorities, as when the government tightens legal import policy then illegal import goes on the rise.
- A Swiss Telecom Company 'Global Message Services' Likely to Enter Pakistan. **Global Message Services (GMS) AG** is a telecommunication services provider based in Switzerland and is likely to enter Pakistan's telecom market very soon.

The National Telecommunication Corporation is pursuing strategic partnership with private operators in the telecom industry to bring new services for its subscribers.

- The telecoms sector, a significant source of revenue generation, has contributed around Rs 582.95 billion to the national exchequer during the last three and a half years. The contributions comprised all PTA's receipts including Initial and Annual License Fees, Annual Radio Frequency Spectrum, Spectrum Administrative Fee, Universal Service Fund (USF) and Research & Development Fund Contributions, APC for USF, Numbering Charges, License Application fee etc.

- **Global telecom operator VEON said it was making progress in its strategy to reinvent itself as an online player by introducing its messaging and mobile services app in four new markets, including its largest in Russia and Pakistan**

Major contribution has been made in shape of 3G and 4G subscribers by Mobile Phone Operators which reached 41.73 million by May this year

- The National Telecommunication Corporation is pursuing strategic partnership with private operators in the telecom industry to bring new services for its subscribers. It has also introduced new apps such as Go-Smart and has extended 3G / 4G mobile data connectivity to its subscribers under the public-private partnership.

- NTC's future plans and projects include establishment of strategically vital submarine cable landing station at Gwadar as an alternative route to the existing network. It also envisions expanding its network to all districts of Pakistan within the next three to four years.

- The National Telecommunication Corporation is also managing country code top level domain (CCTLD) for Urdu and local languages. It will continue to serve through reliable and secure telecom infrastructure to safeguard against cyber threats.

Easypaisa has been nominated for the prestigious GSMA Global Mobile Awards – 2017 (a.k.a GLOMO 2017) for the fifth consecutive year.

- The total broadband subscribers including for 3G and 4G services have crossed around 44.32 million mark in the country, registering a reasonable growth rate with each passing month.

- As per latest figures issued by Pakistan Telecommunication Authority (PTA), major contribution has been made in shape of 3G and 4G subscribers by Mobile Phone Operators which reached 41.73 million by May this year.

- The number of broadband subscribers in other technologies included DSL 1,531,428, HFC 52,096, Wimax 171,011, FTTH 42,611, EvDO 786,211 and other 9,264 subscribers.

- Easypaisa has been nominated for the prestigious GSMA Global Mobile Awards – 2017 (a.k.a GLOMO 2017) for the fifth consecutive year. Easypaisa has been nominated in the “Best Mobile Payment Solution” category for Easypay, Pakistan’s first consolidated payment solution. In 2014, Easypaisa won two GSMA awards for “Best NFC/Mobile money product or service” and “Best Mobile Product or service for women in emerging markets

TEXTILE:
Declining Export Analysis:

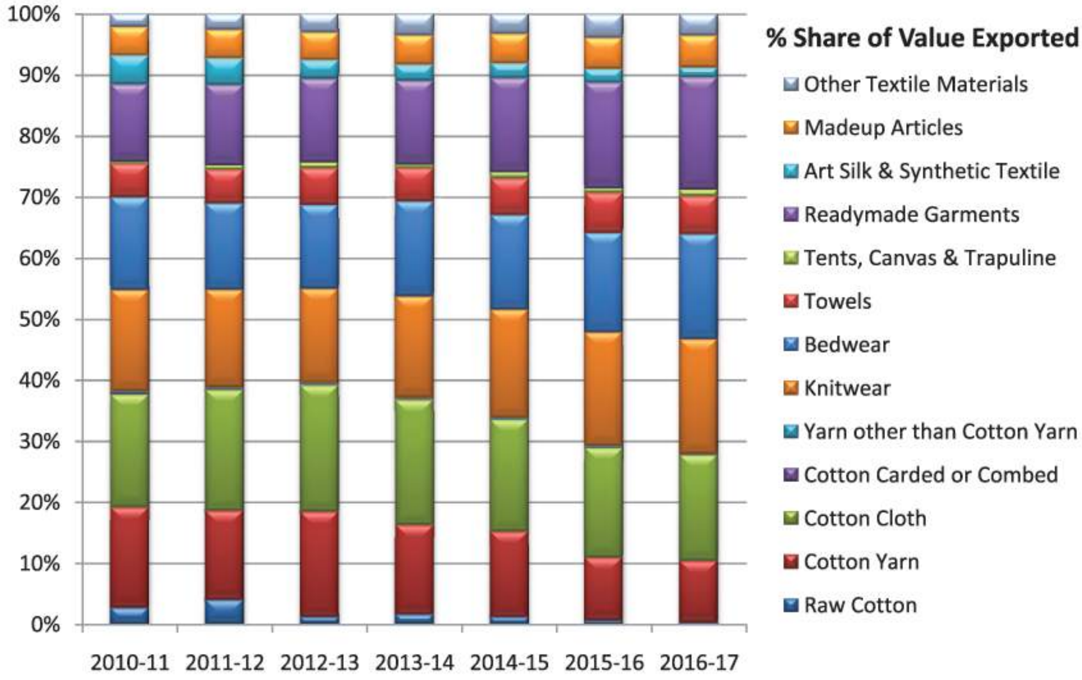
Historic Trend of Textile Exports (Commodity-wise Analysis):

Value in Million USD

Unit price $ per unit

Quantity in M.T except for Cotton cloth & Art silk & synthetic textile (000 SQM) and Knitwear & Readymade garments (Dozens)

	2014-15			2015-16			2016-17		
	Quantity	Value	Unit Price	Quantity	Value	Unit Price	Quantity	Value	Unit Price
Raw Cotton	93,384.0	146.3	1,566.2	48,961.0	76.0	1,552.2	23,451.0	40.2	1,712.9
Cotton Yarn	602,352.0	1,728.5	2,869.5	392,302.0	1,177.0	3,000.2	413,749.0	1,134.2	2,741.3
Cotton Cloth	1,919,974.0	2,276.6	1.2	2,020,705.0	2,065.8	1.0	1,755,919.0	1,945.7	1.1
Cotton Carded or Combed	5,434.0	6.2	1,140.6	143.0	0.1	972.0	237.0	0.2	1,008.4
Yarn other than Cotton Yarn	13,301.0	40.3	3,030.9	11,706.0	30.6	2,618.1	7,867.0	22.3	2,831.4
Knitwear	95,800.0	2,191.2	22.9	103,118.0	2,146.7	20.8	103,680.0	2,107.3	20.3
Bed wear	296,638.0	1,927.1	6,496.4	303,054.0	1,862.7	6,146.4	318,070.0	1,922.6	6,044.7
Towels	159,596.0	737.1	4,619.0	170,428.0	740.0	4,342.0	163,136.0	704.7	4,319.7
Tents, Canvas &Trapuline	41,838.0	116.9	2,795.0	30,765.0	81.3	2,644.0	40,528.0	124.3	3,067.6
Readymade Garments	28,110.0	1,901.2	67.6	29,584.0	1,992.2	67.3	30,689.0	2,073.9	67.6
Art Silk & Synthetic Textile	246,962.0	305.5	1.2	259,127.0	267.0	1.0	103,005.0	179.0	1.8
Madeup Articles		599.0			586.1			583.5	
Other Textile Materials		401.0			435.8			397.0	



The major decline can be seen in quantity exported of raw cotton, cotton carded or combed, yarn other than cotton yarn, & art silk & synthetic textile in 2016-17 compared to base year 2010-11.

- The quantity of raw cotton exported declined by 83%, whereas the value of the export of raw cotton declined by 88.5%. (The unit price of raw cotton declined by only 31.9%).

- Cotton carded or combed almost lost its export share in the international market as quantity exported drop by 98% whereas the total value of exports dropped by 99% in 2016-17 as compared to 2010-11 (the unit price in international market decline by 23%).

- The export quantity of yarn (other than cotton yarn) is declined by 40% whereas its value declined by 51.9% (the unit price reduced by 17.4%).

- Another segment of textile export that almost lost its export share is Art silk & Synthetic textile whose exported quantity declined by 81% in 2016-17 compared to 2010-11. The decrease in value earned is less (69%) owing to 63.6% increase in per unit international price.

- The quantity exported of cotton yarn is decreased by 16% however, the total value of cotton yarn exported declined by 44.3% due to per unit price decline of 33.2%.

- The major increase is seen in the quantity exported and the value of tents, canvas &trapuline which increased 191.4% and 188% respectively. However, despite the major increase, the percentage share of tents, canvas &trapuline in overall textile exports remains a mere 1.1% in 2016-17.

- The value of exports of Readymade garments showed an increase of 31.5% despite a decline of 1.5% in its quantity exported in 2016-17 compared to 2010-11 mainly due to increase in per unit price by 33.5%.

- Other segments that showed increase in the value of exports are Knitwear (1.9%), Bed wear (2.1%). Towels (3%), Made-up Articles (1.7%), Other Textile Materials (44.3%).

- The overall value of textile exports declined by 9.9% from $ 12,472.3 million in 2010-11 to $ 11,234.94 million in 2016-17.

Historic Trend of Textile Exports (Country-wise Analysis):

Value in 000 USD

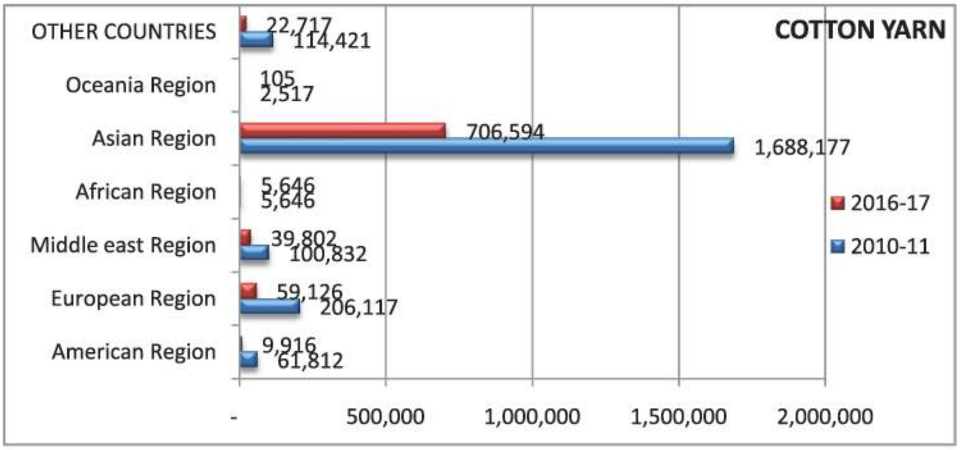
Based on comparison of exports in 2010-11 to 2016-17 (Jul-Feb)

(Cotton Yarn, Cotton Cloth, Knitwear, Bed Wear, & Readymade Garments make up 80% of overall textile exports' value)

REGIONS	COTTON YARN		COTTON CLOTH		KNITWEAR		BED WEAR		READYMADE GARMENTS	
	By Value	% Decline	By Value	% Decline	By Value	% Decline	By Value	% Decline	By Value	% Decline
American	(51,896)	-84%	(127,828)	-54%	(823,965)	-57%	(329,202)	-49%	(178,426)	-33%
European	(146,991)	-71%	(347,820)	-43%	68,726	9%	(247,575)	-21%	(88,197)	-8%
Middle east	(61,030)	-61%	(375,038)	-79%	(30,711)	-48%	(45,898)	-58%	(53,907)	-50%
African	(21,883)	-79%	(52,664)	-38%	(1,440)	-22%	(10,849)	-32%	(6,360)	-65%
Asian	(981,583)	-58%	(190,201)	-27%	26,325	125%	(2,963)	30%	31,573	62%
Oceania	(2,412)	-96%	(6,385)	-57%	4,290	68%	(28,006)	-47%	(389)	-3%
Other Countries	(91,704)	-80.1%	(83,975)	-38.7%	1,119	4.2%	(20,409)	-35.4%	1,737	6.6%

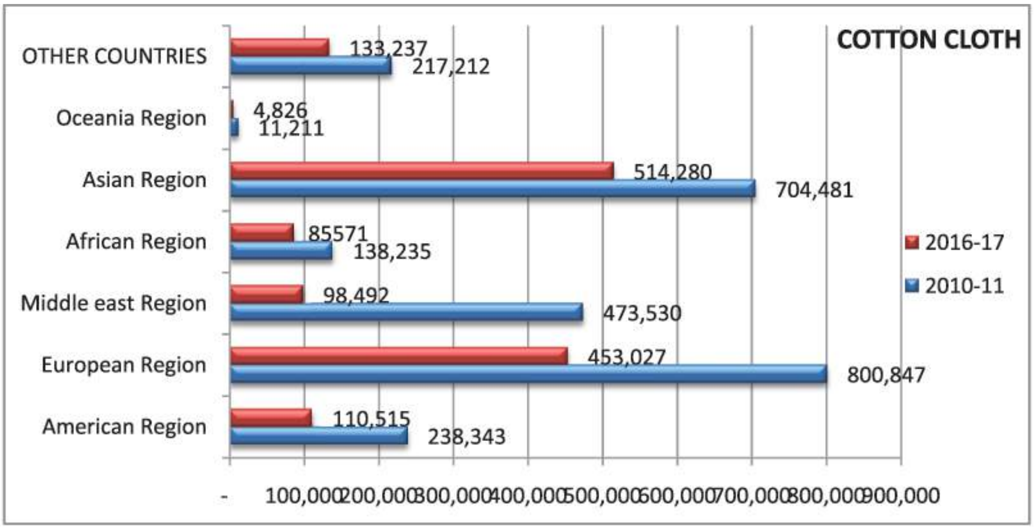
Cotton Yarn:

Countries having major decline (000 USD)	
	Decline (2010-11 to 2016-17)
CHINA	(336,188)
HONG KONG	(257,320)
BANGLADESH	(145,452)
KOREA, REP. OF	(117,088)



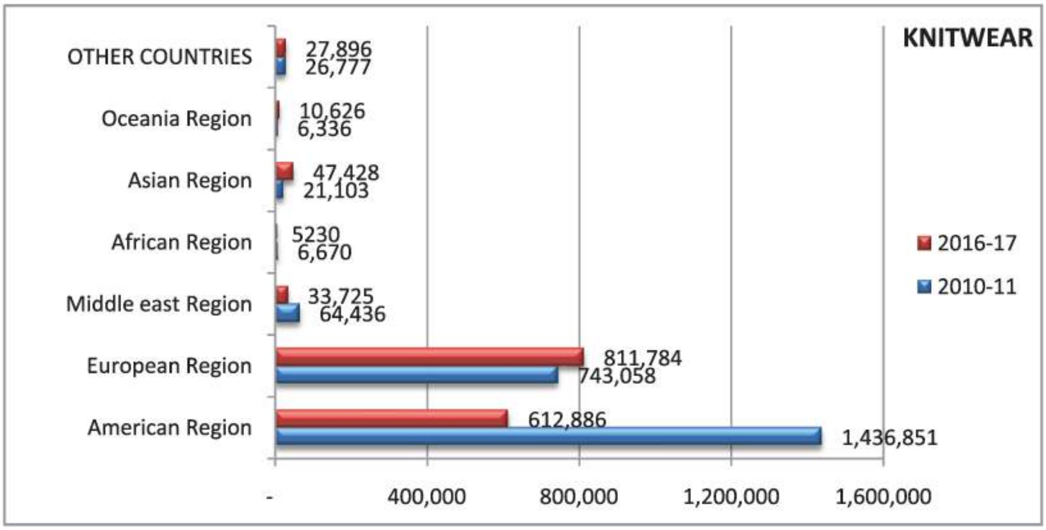
Cotton Cloth:

Countries having major decline (000 USD)	
	Decline (2010-11 to 2016-17)
ITALY	(104,515)
BELGIUM	(31,908)
GERMANY	(61,191)
SPAIN	(40,492)
RUSSIAN FED.	(34,406)
TURKEY	(353,936)
U.A.E.	(19,351)



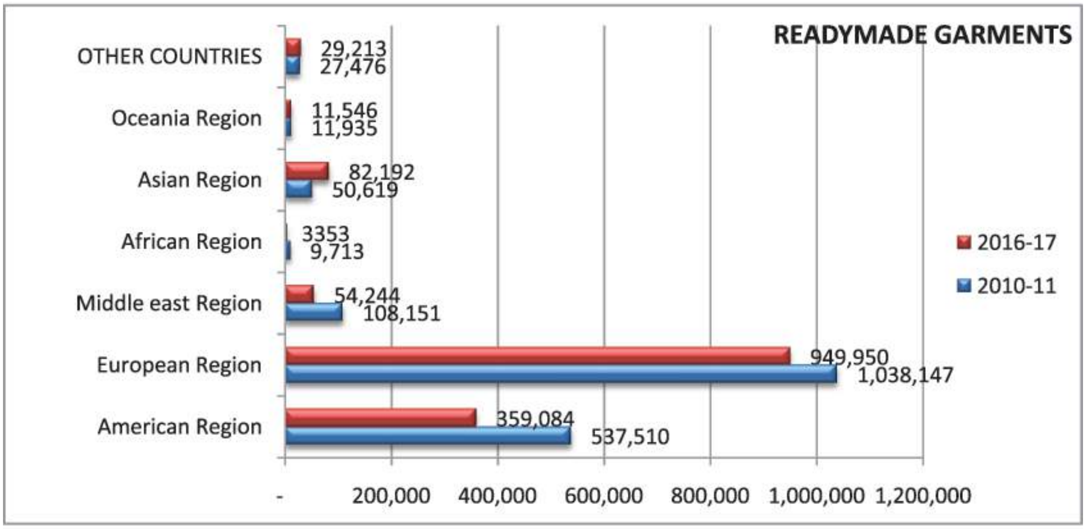
Knitwear:

Countries having major decline (000 USD)	
	Decline (2010-11 to 2016-17)
U.S.A	(794,596)



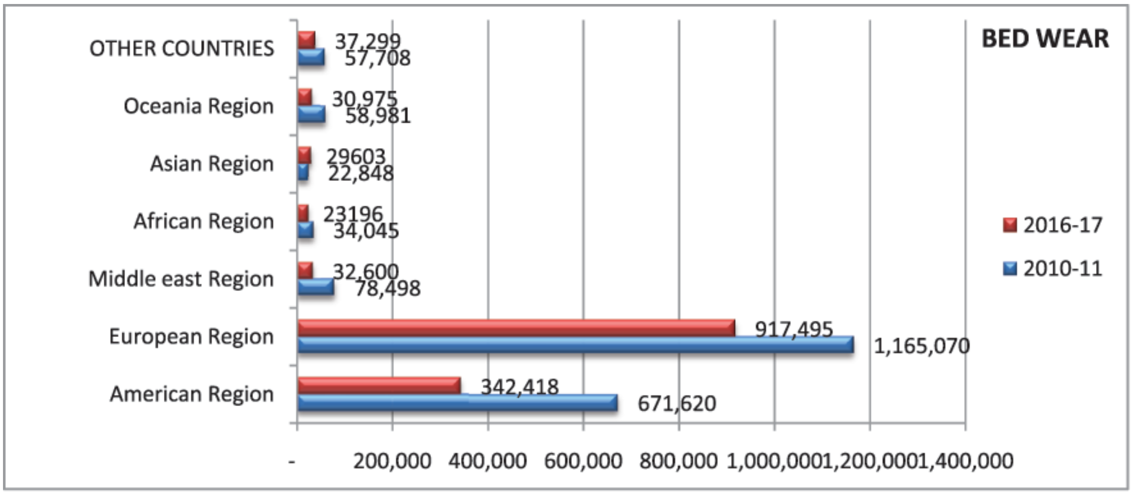
Readymade Garments:

Countries having major decline (000 USD)	
	Decline (2010-11 to 2016-17)
U.S.A	(170,580)
GERMANY	(125,139)



Bed Wear:

Countries having major decline (000 USD)	
	Decline (2010-11 to 2016-17)
U.S.A	(288,196)
GERMANY	(111,159)
BELGIUM	(61,920)
SPAIN	(22,848)
FRANCE	(45,166)



Other Updates:

- In a mammoth blow to exports, Pakistan has lost its textile export share in global market by 23 percent from 2.2 percent to 1.7 percent unfolds the latest presentation on restoration of viability and growth of textile industry prepared by Aptma.

- The investment in textile and clothing massively declined by 44 percent in 2016-17 on account of which, the country's textile production capacity has got impaired by 30-35 percent owing to which 150 industrial units have become non-functional resulting in 30 percent unemployment. More shockingly, the textile industry of Pakistan lost 15 percent technological edge advantage over competitors.

- The other competitive countries have performed far more better than Pakistan showing that Vietnam is the country that ranked first showing 107 percent in growth in textile and clothing exports followed by Bangladesh with growth of 64 percent in exports of the said items, India with 31 percent, Sri Lanka 20 percent growth whereas Pakistan stayed in the red zone with negative growth of 11 percent.

The high cost of doing business, shortage of liquidity, the ongoing policy-implementation divide and realization of only Rs03 billion out of Rs180 billion textile package are a few major concerns of the industry at present

- Prime minister's export led growth package has got reversed as despite the shortage of cotton- - 3.8 million bales, 4 percent customs duty and 5 percent sales tax has been re-imposed. It also mentions that energy cost is more than 30 percent of the total conversion cost in spinning, weaving and processing industries. And the industrial gas tariff of Pakistan is 100 percent whereas electricity tariff is 50 percent higher than the regional competitors. More importantly, gas is burdened with various add-ons, including (GIDC, UFG and cost of supply) and textile industry cannot pass system inefficiencies to its international buyers.

- The high cost of doing business, shortage of liquidity, the ongoing policy-implementation divide and realization of only Rs03 billion out of Rs180 billion textile package are a few major concerns of the industry at present.

- The production capacity worth $4 billion has been closed down all across the textile value chain, besides a potential $12 billion exports through conversion of basic textile into the value added garments.

- All sub sectors of the textile industry are running under capacity and 25-35% of all projects have shut down. Only garments and made-ups sub-sectors have been able to sustain production. The textile sector was hoping that the Government would allocate the requisite amount for announced export incentives in the budget of 2017-18 but nothing has been allocated as yet, leaving this productive sector in the lurch.

- The major complaint of the sector is the Government's lack of interest and indifference in eradicating the menace of under invoicing and smuggling (including the Afghan TV Assist Trade – ATT) which is playing havoc with local industries. Afghanistan imports raw materials under the ATT for industries that do not exist in Afghanistan and these raw materials end up in Pakistan without payment of import duties. These two factors have not only caused colossal losses to the national exchequer but have also resulted in the closure of industries which has led to unemployment.

Competing countries have incentivized investment as well as production and exports in various forms. In Pakistan, the situation is the opposite

- National Assembly Standing committee on Textile Industry emphasized for value addition and priorities the garments exports to enhance the country's exports. The committee gives recommendations for giving incentives to garments sector and small industries for enhancing their capacity in value addition.

- The committee informed that Rs.15 billion would pay to the textile sector through Prime Minister "Trade Enhancement Package" by August 14,2017. Priority of the government is to facilitate the textile sector for providing them competitiveness to enhance the country's exports.

- Competing countries have incentivized investment as well as production and exports in various forms. In Pakistan, the situation is the opposite. Although policies are announced time after time, they are not implemented completely. The initial textile policy 2009-14 was partially implemented. Similarly, with regard to the 2014-19 textile package, no notification has been issued. Recently, the export-led growth package was announced with much fanfare, but the government hasn't disbursed or allocated funds to date. To top it all, the textile industry has been deprived of its legitimate tax. Export refunds to the tune of nearly Rs200 billion have not been given back for nearly two years.

The recently released textile export numbers paint a bleak picture of the sector.

- One of the major barriers that are constraining exports is the inability of exporters to tap into new markets. The traditional export markets of North America and Europe have become saturated with thin margins and extreme competition. Coupled with the high cost of production borne by Pakistan exporters and the lack of any new market linkages established in untapped markets, the lackluster export trajectory is not surprising.

- The recently released textile export numbers paint a bleak picture of the sector. Even though there was an increase of 24 percent and 30 percent on a year-on-year and month-on-month basis respectively in June-17; overall textile exports remained almost stagnant showing a measly increase of 0.4 percent for FY17 over the previous year.
- More alarming is the fact that the FY17 figure of $12.45 billion is 6 percent lower than the previous 3 year average number of $13.2 billion.

The value added garments sector and bed wear were the only areas that registered positive growth

- The value added garments sector and bed wear were the only areas that registered positive growth while cotton yarn, cotton cloth, knitwear, towels as well as the others segment registered negative or stagnant growth. The garments sector registered an increase in exports of 6 percent for FY17 on year-on-year basis.

- Given the rising global competition in textiles, as more and more countries realize (including developed western economies) that this sector holds paramount importance in shoring up employment and exports in an economy at low cost (or low capital deployment), the practice - in almost every textile country - of resorting to advance yearly planning cum policymaking on cotton crop is now taken as a given. This new proactive approach is giving an altogether new meaning on how to support respective national manufacturing competitiveness in 'real time', in-turn shoring up domestic demand of the home cotton crop to match farm output targets with those of domestic industrial production.

- The Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA) and China Chamber of Commerce for Import and Export of Textile and Apparel (CCCT) have decided to give a practical shape to the MoU signed between the two associations in March 2016 to promote cooperation between Pakistan and Chinese textile and apparel companies.

INTERNATIONAL ECONOMIC OUTLOOK

[Excerpts from IMF Economic Outlook – July 2017]

The Global Outlook:

The pickup in global growth anticipated in the April World Economic Outlook remains on track, with global output projected to grow by 3.5 percent in 2017 and 3.6 percent in 2018. The unchanged global growth projections mask somewhat different contributions at the country level. U.S. growth projections are lower than in April, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth has been revised up for Japan and especially the euro area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum. China's growth projections have also been revised up, reflecting a strong first quarter of 2017 and expectations of continued fiscal support. Inflation in advanced economies remains subdued and generally below targets; it has also been declining in several emerging economies, such as Brazil, India, and Russia.

	Estimate (%)		Projections (%)	
	2015	2016	2017	2018
World Output	**3.4**	**3.2**	**3.5**	**3.6**
Advanced Economies	**2.1**	**1.7**	**2**	**1.9**
United States	2.6	1.6	2.1	2.1
Euro Area	2	1.8	1.9	1.7
Japan	1.1	1	1.3	0.6
United Kingdom	2.2	1.8	1.7	1.5
Canada	0.9	1.5	2.5	1.9
Other Advanced Economies	2	2.2	2.3	2.4
Emerging Market & Developing Economies	**4.3**	**4.3**	**4.6**	**4.8**
Common Wealth of Independent States	-2.2	0.4	1.7	2.1
Emerging & Developing Asia	6.8	6.4	6.5	6.5
Emerging & Developing Europe	4.7	3	3.5	3.2
Latin America & the Caribbean	0.1	-1	1	1.9
Middle east, North Africa, Afghanistan & Pakistan	2.7	5	2.6	3.3
Sub-Saharan Africa	3.4	1.3	2.7	3.5
Low-Income Developing Countries	4.6	3.6	4.6	5.2
World Growth Based on Market Exchange Rates	2.7	2.5	2.9	3

Risks to Global Growth:

While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term. On the upside, the cyclical rebound could be stronger and more sustained in Europe, where political risk has diminished. On the downside, rich market valuations and very low volatility in an environment of high policy uncertainty raise the likelihood of a market correction, which could dampen growth and confidence. The more supportive policy tilt in China, especially strong credit growth, comes with rising downside risks to medium-term growth. Monetary policy normalization in some advanced economies, notably the United States, could trigger a faster-than-anticipated tightening in global financial conditions. And other risks discussed in the April 2017 WEO, including a turn toward inward looking policies and geopolitical risks, remain salient.

Projected Global Growth Rates:

Projected global growth rates for 2017–18, though higher than the 3.2 percent estimated for 2016, are below pre-crisis averages, especially for most advanced economies and for commodity-exporting emerging and developing economies. Among the former, many face excess capacity as well as headwinds to potential growth from aging populations, weak investment, and slowly advancing productivity. In view of weak core inflation and muted wage pressures, policy settings should remain consistent with lifting inflation expectations in line with targets, closing output gaps, and—where appropriate—external rebalancing. Reforms to boost potential output are of the essence, and slow aggregate output growth makes it even more important that gains are shared widely across the income distribution. Financial stability risks need close monitoring in many emerging economies. Commodity exporters should continue adjusting to lower revenues, while diversifying their sources of growth over time.

Project Growth in Advanced Economies:

- The growth forecast in the **United States** has been revised down from 2.3 percent to 2.1 percent in 2017 and from 2.5 percent to 2.1 percent in 2018. While the markdown in the 2017 forecast reflects in part the weak growth outturn in the first quarter of the year, the major factor behind the growth revision, especially for 2018, is the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of U.S. fiscal policy changes. Market expectations of fiscal stimulus have also receded.

- The growth forecast has also been revised down for the **United Kingdom** for 2017 on weaker-than-expected activity in the first quarter.

- By contrast, growth projections for 2017 have been revised up for many **euro area countries**, including France, Germany, Italy, and Spain, where growth for the first quarter of 2017 was generally above expectations. This, together with positive growth revisions for the last quarter of 2016 and high-frequency indicators for the second quarter of 2017, indicate stronger momentum in domestic demand than previously anticipated.

- The growth forecast for 2017 was also revised up for **Canada,** where buoyant domestic demand boosted first-quarter growth to 3.7 percent and indicators suggest resilient second-quarter activity, and marginally for **Japan,** where private consumption, investment, and exports supported first-quarter growth.

Project Growth in Emerging and Developing Economies:

- **China's** growth is expected to remain at 6.7 percent in 2017, the same level as in 2016, and to decline only modestly in 2018 to 6.4 percent. The forecast for 2017 was revised up by 0.1 percentage point, reflecting the stronger than expected outturn in the first quarter of the year underpinned by previous policy easing and supply-side reforms (including efforts to reduce excess capacity in the industrial sector). For 2018, the upward revision of 0.2 percentage point mainly reflects an expectation that the authorities will delay the needed fiscal adjustment (especially by maintaining high public investment) to meet their target of doubling 2010 real GDP by 2020. Delay comes at the cost of further large increases in debt, however, so downside risks around this baseline have also increased.

- Growth in **India** is forecast to pick up further in 2017 and 2018, in line with the April 2017 forecast. While activity slowed following the currency exchange initiative, growth for 2016––at 7.1 percent––was higher than anticipated due to strong government spending and data revisions that show stronger momentum in the first part of the year. With a pickup in global trade and strengthening domestic demand, growth in the ASEAN-5 economies is projected to remain robust at around 5 percent, with generally strong first quarter outturns leading to a slight upward revision for 2017 relative to the April WEO.

- In **Emerging and Developing Europe**, growth is projected to pick up in 2017, primarily driven by a higher growth forecast for Turkey, where exports recovered strongly in the last quarter of 2016 and the first quarter of 2017 following four quarters of moderate contraction, and external demand is projected to be stronger with improved prospects for euro area trading partners. The Russian economy is projected to recover gradually in 2017 and 2018, in line with the April forecast.

- After contracting in 2016, economic activity in **Latin America** is projected to recover gradually in 2017–18 as a few countries––including Argentina and Brazil—exit their recessions. In comparison to the April 2017 WEO, Brazil's growth forecast for 2017 is now higher in light of the strong first quarter, but ongoing weakness in domestic demand and an increase in political and policy uncertainty will be reflected in a more subdued pace of recovery, and hence in lower projected growth in 2018. Mexico's growth forecast for 2017 is revised up from 1.7 to 1.9 percent on the back of strong activity in the first quarter of the year, with an unchanged forecast for 2018. Revisions for the rest of the region are mostly to the downside, including a further deterioration of conditions in Venezuela.

- Growth in the **Middle East, North Africa, Afghanistan, and Pakistan** region is projected to slow considerably in 2017, reflecting primarily a slowdown in activity in oil exporters, before recovering in 2018. The 2017–18 forecast is broadly unchanged relative to the April 2017 WEO, but the growth outcome in 2016 is estimated to have been considerably stronger in light of higher growth in Iran. The recent decline in oil prices, if sustained, could weigh further on the outlook for the region's oil exporters.

- In **Sub-Saharan Africa**, the outlook remains challenging. Growth is projected to rise in 2017 and 2018, but will barely return to positive territory in per capita terms this year for the region as a whole— and would remain negative for about a third of the countries in the region. The slight upward revision to 2017 growth relative to the April 2017 WEO forecast reflects a modest upgrading of growth prospects for South Africa, which is experiencing a bumper crop due to better rainfall and an increase in mining output prompted by a moderate rebound in commodity prices. However, the outlook for South Africa remains difficult, with elevated political uncertainty and weak consumer and business confidence, and the country's growth forecast was consequently marked down for 2018.

Risks to the Global Outlook:

Short-term risks are broadly balanced, but medium-term risks are still skewed to the downside. Risks to the U.S. forecast are two sided: the implementation of a fiscal stimulus (such as revenue-reducing tax reform) could drive U.S. demand and output growth above the baseline forecast, while implementation of the expenditure based consolidation proposed in the Administration's budget would drive them lower. On the upside, the pickup in activity in the euro area, with buoyant market sentiment and reduced political risks, could be stronger and more durable than currently projected. On the downside, protracted policy uncertainty or other shocks could trigger a correction in rich market valuations, especially for equities, and an increase in volatility from current very low levels. In turn, this could dent spending and confidence more generally, especially in countries with high financial vulnerabilities. Lower commodity prices would further exacerbate macroeconomic strains and complicate adjustment needs in many commodity exporters. Other downside risks threatening the strength and durability of the recovery include:

- **A more protracted period of policy uncertainty**. Despite a decline in election related risks, policy uncertainty remains at a high level and could well rise further, reflecting—for example—difficult-to predict U.S. regulatory and fiscal policies, negotiations of post-Brexit arrangements, or geopolitical risks. This could harm confidence, deter private investment, and weaken growth.
- **Financial tensions**. In China, failure to continue the recent focus on addressing financial sector risks and curb excessive credit growth (mainly through tighter macro prudential policy settings) could result in an abrupt growth slowdown, with adverse spillovers to other countries through trade, commodity price, and confidence channels. A faster-than expected monetary policy normalization in the United States could tighten global financial conditions and trigger reversals in capital flows to emerging economies, along with U.S. dollar appreciation, straining emerging economies with large leverage, U.S. dollar pegs, or balance sheet mismatches. At the same time, to the extent that such monetary policy tightening reflects a stronger U.S. outlook, U.S. trading partners would benefit from positive demand spillovers. In some euro area countries, weak bank balance sheets and an unfavorable profitability outlook could interact with higher political risks to reignite financial stability concerns, and a rise in long-term interest rates would worsen public debt dynamics. Finally, a broad rollback of the strengthening of financial regulation and oversight achieved since the crisis—both nationally and internationally—could lower capital and liquidity buffers or weaken supervisory effectiveness, with negative repercussions for global financial stability.

- **Inward-looking policies**. Over the longer term, failure to lift potential growth and make growth more inclusive could fuel protectionism and hinder market-friendly reforms. The results could include disrupted global supply chains, lower global productivity, and less affordable tradable consumer goods, which harm low income households disproportionately.
- **Noneconomic factors**. Rising geopolitical tensions, domestic political discord, and shocks arising from weak governance and corruption can all weigh on economic activity.

These risks are interconnected and can be mutually reinforcing. For example, an inward turn in policies could be associated with increased geopolitical tensions as well as with rising global risk aversion; noneconomic shocks can weigh directly on economic activity as well as harm confidence and market sentiment; and a faster than-anticipated tightening of global financial conditions or a shift toward protectionism in advanced economies could reignite capital outflow pressures from emerging markets.

RAPIDLY CHANGING GEO-POLITICAL SCENARIO

Key excerpts from insightful articles that shed light on developing scenarios. These have been bunched under:

1. **US's New 'Af-Pak' Policy**
2. **Growing Pak-China Alignment**
3. **Growing US-India Alignment**
4. **China vs. India**
5. **North Korean Crisis**
6. **Qatar Crisis**
7. **Venezuelan Crisis**

1. US's NEW 'AF-PAK' POLICY

The conflict at the heart of Donald Trump's foreign policy
FT, By Robert Zoellick
August 22, 2017

Half a year into his presidency, **Mr. Trump's foreign policy has five distinctive features.** [...] **First, Mr. Trump is transactional, not institutional. He views foreign policy like a dealmaker** and does not care whether the outcomes fit America's traditional practice of building systems that advance its interests and values. [...] **Second, Mr. Trump's domestic political interests will dominate his foreign policy.**Accordingly, he welcomes battles over trade, immigration and his wall with Mexico. Note as well that the president's directive in the Middle East is to destroy the terrorists of Isis — obvious enemies that his backers can recognize. [...] **After being compelled to remain in Afghanistan when he wanted to withdraw, Mr. Trump will redefine the battle as smashing terrorism in line with his supporters**, even though he really will need to strengthen the Kabul government's capacity to succeed. [...] **Third, trade policy will reflect most explicitly Mr. Trump's dissonant outlook.** [...]The president's problem will be that bilateral trade deficits are hard to modify through trade policies; to address them, the administration will most likely turn from rules for fair competition and openness toward managed outcomes, dictated market shares and requirements for national content. [...]**Fourth, Mr. Trump is ambivalent about alliances.** He believes that the US has been too generous and can no longer afford the 70-year old security system that America led in creating after the Second World War. [...]Finally, Mr. Trump's tenure is underscoring a vital point about America: it is far bigger than the president. [...]But in foreign policy, some patriots will not support Mr. Trump's pitting of American nationalism against the country's internationalism. They recognize that most often US nationalism and internationalism have been in synchrony, not conflict, and that the mixture created America's unique global leadership.

Delaying the Inevitable in Afghanistan
Geopolitical Futures,By Kamran Bokhari
August 22, 2017

On Aug. 21, President Donald Trump rolled out yet another U.S. strategy to try to bring closure to the war in Afghanistan. The core of the new strategy is based on the idea that U.S. support for Afghanistan is not unlimited and that Washington should not be engaged in nation-building in the country – even though it is not opting for a rapid withdrawal. [...]Afghanistan's more fundamental problem is that the central government has scarcely any influence over the rest of the country. [...]In addition to these divisions, the Afghan armed forces suffer from another problem: too many generals. And this is the core problem of Afghanistan: It lacks a social contract to tie the various factions together. [...]A U.S. withdrawal would lead to the collapse of a regime the West spent 15 years nurturing. This doesn't mean the Taliban will soon come to power, but it does mean that Afghanistan would return to the intra-Islamist warfare that it experienced in the 1990s.In years past, the battle lines were clear between the Taliban and the anti-Taliban factions under the old Northern Alliance umbrella. The situation today is far messier. The Taliban are internally divided and are being challenged by the Islamic State. On the other side, the factions that make up the anti-Taliban camp are at each other's throats. The other governments in the region also don't have clear sides. Pakistan no longer holds the influence over the Taliban that it once held and believes the rise of the Taliban will make its own jihadist problems worse. **Pakistan would also risk greater anarchy if it cracks down on the Afghan Taliban** sanctuaries on its soil as Trump's new strategy demands, **which means there will be a reckoning between Washington and Islamabad.** Meanwhile, Iran, Russia and China have moved beyond simply siding with the enemies of the Taliban and have cultivated a significant degree of influence with the main Afghan jihadist movement.**The continued presence of American forces is delaying the tumult, but not for much longer. With the way things are going, Afghanistan's dramatic unraveling will begin even with a U.S. military presence on the ground**.

Mr. Trump on Afghanistan: More of the Same; No End in Sight
NYT, By The Editorial Board
August 22, 2017

Rather than the comprehensive strategy that is called for, his plan amounted to a jumble of ideas that lacked detail and coherence and were often contradictory. [...]New troops will be required, he suggested, but he did not say how many (there are 8,400 there now). Nor did he explain, much less guarantee, how a few thousand more troops could succeed when the more than 100,000 troops deployed during the Obama administration did not. [...]**With this speech, Mr. Trump has taken ownership of the war, which until now he has essentially fobbed off on the Pentagon.** [...]What we are left with is a set of intentions, which are what? Nothing less than "victory, Attacking our enemies, obliterating ISIS, crushing Al Qaeda, preventing the Taliban from taking over Afghanistan, and stopping mass terror attacks against America before they emerge," he proclaimed, which seemed a million miles away from his earlier doubts about foreign entanglements. [...]Any successful strategy must consider the regional context and, to some extent, Mr. Trump did that. **He took a tough tone on Pakistan.** [...]Not mentioned were Russia, China and Iran, all of which have an interest in Afghanistan and should be enlisted to help promote regional stability. [...]A case can surely be made for maintaining American troops at current levels to keep the government from being overrun by the Taliban and to offset Pakistan, Iran and Russia as they seek to enlarge their influence. **But as to the future? Mr. Trump and his administration need to provide many more answers**.

Trump announces new strategy for Afghanistan that calls for a troop increase
The Washington Post, By David Nakamura and Abby Phillip
August 21, 2017

President Trump outlined a revised vision for the U.S. war in Afghanistan on Monday, pledging to end a strategy of "nation-building" and instead institute a policy aimed more squarely at addressing the terrorist threat that emanates from the region. [...]Trump's decision to further commit to the nation's longest war, rather than withdraw, reflects a significant shift in his approach to Afghanistan since taking office and marks a new willingness to take greater ownership of a protracted conflict that he had long dismissed as a waste of time and resources. [...] In his speech Monday, **Trump laid out a strategy that included pressuring Pakistan to do more to stop terrorists** from finding safe haven within its borders. **He also said that India would play a greater role in providing economic and developmental support.**Trump acknowledged that his approach is a departure from his campaign rhetoric, but he said he would prioritize American security over attempting to "dictate" to the Afghan people how to live. [...]But **foreign policy analysts said Trump's decision on Afghanistan is tricky because his strategy does not represent a radical departure from the past.**"To be honest, it's probably pretty close to what a Hillary Clinton would do," said Derek Chollet, an assistant secretary of defense in the Obama administration who now serves as a defense analyst at the German Marshall Fund.

Why Trump's Afghanistan strategy risks the worst of both worlds
Guardian
August 22, 2017

By marching US troops back up the Afghan hill, having previously solemnly vowed to march them down and out of the country, Trump risks the worst of both worlds: leaving the US and its allies neither up nor down, without a clearly defined mission, and stuck in the middle of a worsening conflict. [...] Two things have changed. One is that Trump has agreed with his generals that troop levels must be increased, reversing the drawdown during the Obama years. [...] The other change is more dangerous. **After the searing US experience in Iraq, policymakers broadly agreed that future overseas missions should have attainable objectives, a fixed duration, and a clear exit strategy.** [...]Trump has ignored that hard-won knowledge.**He has committed the US to waging an open-ended conflict with no limit on its scope or duration, and with no agreed measure of what constitutes victory.** Now Britain and other Nato allies will be under pressure to perform a similar volte-face, and increase their combined troop deployments above the current level of roughly 6,500. [...]**The Taliban dismissed the president's speech as vague and unhelpful, and have threatened to cause more American pain if the war is intensified**.

Five key pieces of Trump's Afghanistan plan
CNN, By Jeremy Herb,
August 22, 2017

The President is giving the Pentagon authority to ramp up troop levels in Afghanistan by several thousand, but Trump declared the US military would not talk specifically about troop levels there. [...]Perhaps the biggest military change Trump announced Monday was to relax US authorities to attack the Taliban and other terrorist groups in Afghanistan. [...]**The end-goal of Trump's plan in Afghanistan was to bring the Taliban to the negotiating table to find a political solution to the Afghan war.** [...]Trump echoed comments from his predecessors in their desire to get Pakistan to change its terrorist-harboring ways. [...]When Obama talked about the war in Afghanistan, he focused on bringing US troops home. **Trump made clear he wants victory there.** [...]"We want them to succeed, but we will no longer use American military might to construct democracies in far-away lands or try to rebuild other countries in our own image," Trump said. "Those days are now over."

Trump's Recycled Afghanistan Policy
The Atlantic, By Joshua A. Geltzer
August 22, 2017

What Trump insisted was "new" about his approach to Afghanistan—"the integration of all instruments of American power—diplomatic, economic, and military—toward a successful outcome"; the refusal to "be silent about Pakistan's safe havens for terrorist organizations, the Taliban and other groups that pose a threat"; and so on—could be ripped from the pages of Obama-era strategy documents. [...]**The president who claimed to have "studied Afghanistan in great detail and from every conceivable angle" seemed still not to have grappled with—or perhaps even grasped—the truly big questions that face the United States at its current and critical juncture in Afghanistan. What are U.S. objectives there—countering terrorists who threaten Americans, or defeating the Taliban, or promoting regional stability, or something else entirely?** And how much is America willing to invest to achieve those objectives—how many troops, for how long, at what cost, and with what opportunity cost? And, finally, once it has defined ends and means, how will it connect them—in other words, what's the strategy?Those are questions worthy of a president. **Alas, what Trump provided was, yet again, a stump speech of a perpetual candidate.**

Afghanistan – Trump to Announce Four More One-Year Wars
Global Research, By Moon of Alabama
August 22, 2017

Neither the military nor the CIA nor the local Afghan government will let the U.S. leave. Fear mongering is abound: "What happens if Afghanistan becomes a hotbed for international terrorists?" But **few if any international terrorist incident in the "west" were ever organized in Afghanistan. In all recent incidents the culprits were locals.**For the military it is all about optics. **The generals do not want to concede that they lost another war.** The CIA wants to keep its militarized forces and drones which it justifies through its engagement in Afghanistan. **The drug production in Afghanistan, which the U.S. never really tried to suppress, is**

rumored to finance "black" CIA operations just like it did during the Vietnam war and throughout various South American conflicts. The members of the Afghan government all live off U.S. largess. The war in Afghanistan is a racket paid for with the lives of countless Afghans and U.S. taxpayer money. [...]Then there is the fairy tale of the mineral rich Afghanistan. $1 trillion of iron, copper, rare-metals and other nice stuff could be picked out of the ground. But in reality the costs of picking minerals in Afghanistan is, for various reasons, prohibitive. [...]**A "new" part of the plan is to put pressure on Pakistan to stop the financing and supplying of Taliban groups. This has been tried before and the Pakistani response was to close down the U.S. supply route to Afghanistan. An alternative supply route through Russia had been developed but has now been shut down over U.S. hostilities towards that country.**The U.S. cannot sustain a deployment in Afghanistan without a sea-land route into the country. [...]**Trump's likely decision means that the story of the U.S. occupation of Afghanistan will continue throughout the next years exactly as it happened during the last 16 years.**

More American Troops to Afghanistan, To Keep the Chinese Out? Lithium and the Battle for Afghanistan's Mineral Riches
Global Research, By Prof Michel Chossudovsky
August 24, 2017

Unknown to the broader public, Afghanistan has significant oil, natural gas and strategic raw material resources, not to mention opium, a multibillion dollar industry which feeds America's illegal heroin market. These mineral reserves include huge veins of iron, copper, cobalt, gold and lithium, which is a strategic raw material used in the production of high tech batteries for laptops, cell phones and electric cars.**An internal 2007 Pentagon memo, quoted by the New York Times suggests that Afghanistan could become the "Saudi Arabia of lithium."** [...]Chinese companies have acquired rights to extract vast quantities of copper and coal and snapped up the first oil exploration concessions granted to foreigners in decades. [...]**The unspoken objective of US military presence in Afghanistan is to keep the Chinese out, i.e hinder China from establishing trade and investments relations with Afghanistan**. [...]US military presence, however, has not prevented the expansion of trade and investment relations between China and Afghanistan. [...]**Pakistan, Afghanistan, Iran and China are cooperating** in oil and gas pipeline projects. The SCO of which Turkmenistan, Uzbekistan and Tajikistan are full members is providing a geopolitical platform **for the integration of Afghanistan into the Eurasian energy and transport corridors.** [...]Already in 2010, Washington feared "that resource-hungry China will try to dominate the development of Afghanistan's mineral wealth which would upset the United States"... After winning the bid for its Aynak copper mine in Logar Province, China clearly wants more".

Trump's Afghanistan Strategy Isn't to Win, But to Not Lose
NYT, By David Ignatius
August 23, 2017

Why did Trump ignore the advice often offered by business professors that "sunk cost" -- the money and effort already spent -- does not by itself justify further investment?The answer isn't really very complicated. **Trump doesn't want to be the president to pack up and go home.**

He doesn't want the stain of defeat. The best argument for Trump's Afghanistan policy is that it avoids losing, and at relatively low cost. It maintains a platform that can operate against what Trump said are 20 terrorist groups in the region; **it sustains a base that will allow the U.S. to keep watch on nearby Pakistani nuclear weapons.** It avoids a quick win by the Taliban and allows eventual reconciliation. Those are all worthy goals. [...]Trump seems to have opted for a stay-the-course policy to "seek an honorable and enduring outcome worthy of the tremendous sacrifices that have been made."**No victory parades, but no defeat, either.**

Why Donald Trump's new Afghanistan strategy isn't much different from Barack Obama's
What does it mean for India and Pakistan?
Scroll.in, By M.K. Bhadrakumar
August 24, 2017

The key template in Trump's speech was the so-called South Asia strategy, outlining the approach towards Pakistan. [...]**Would the US military expand its counterterrorism operations to Pakistani territory? If that happens, a stormy parting of ways between the estranged partners becomes unavoidable, and the consequences will be hard to predict. Both have the capacity to wound each other lethally.** This may seem an asymmetrical confrontation, but Pakistan knows precisely where the US and the Afghan government's weaknesses lie, and they will be most vulnerable. [...]Indeed, **it is difficult at this point to assess how far Trump actually meant his rhetoric against Pakistan**. He was addressing the nation and he spoke with the domestic opinion in mind.Therefore, the Narendra**Modi government's delight over Trump's rhetoric against Pakistan is premature.** Equally, on closer look, **Trump said some strange things about India's role in Afghanistan.** He commended India's constructive role in Afghanistan's development. But then **he didn't invite India to participate in the war. Instead, curiously, Trump recalled the US' $24 billion trade deficit with India and taunted that India should, therefore, "help us more with Afghanistan, especially in the area of economic assistance and development." This is a strange kind of South Asia strategy for a superpower**.

Afghanistan, Pakistan, and the limits of U.S. influence
War on the Rocks, By Christopher Clary
August 23, 2017

Pakistan is also critical for the U.S. mission in land-locked Afghanistan, even as its behavior undermines U.S. objectives there. The troubled state of U.S.-Russia relations following the latter's invasion of Ukraine resulted in Russia shutting down the so-called Northern Distribution Network that re-supplied Afghanistan through the Central Asian republics. U.S.-Iran relations have become only more troubled since the beginning of Trump's presidency, and appear likely to worsen further still. The United States has begun using Turkmenistan for "humanitarian cargo," a euphemism that in this case likely means "nonlethal" supplies to the U.S. mission in Afghanistan. Thus, **the United States presence in Afghanistan depends — and will depend for the foreseeable future — on Pakistan, which permits U.S. ground and air lines of communication.** Absent unexpected, major improvements in U.S.-Russia or U.S.-Iran relations, or a U.S. withdrawal from Afghanistan, **this dependence on Pakistan cannot be alleviated.** [...]The U.S. presence in Afghanistan is primarily about preventing terrorist groups operating there, but **there is some reporting that suggests elements of the U.S. government are wary of losing basing in Afghanistan that is useful to monitor** Pakistani terrorist groups and **Pakistan's nuclear weapons development efforts**. [...]**These U.S. interests** — collecting intelligence on potential radicals in the Pakistani diaspora in the West, operating drones over Pakistani territory to engage in targeted assassinations of dangerous terrorists, resupplying the U.S. military presence in Afghanistan, and preventing the loss of control of Pakistan nuclear weapons — **are substantially more important than the list of U.S. grievances against Pakistan. [...]Pakistan has alternative partners, namely China** and Saudi Arabia, that can pick up some of the slack created by any U.S. funding cuts**, and has been cultivating improved ties with Russia. [...]For those who assert Pakistan's current actions already merit such a rogue moniker, they ignore how much worse it can get. Pakistan is a frenemy — and as unpleasant as Pakistani behavior is, it could be much worse.**

Make Hay While the Barn Burns
Spearhead Research, By Lt. Gen. ® AsadDurrani
July 10, 2017

Some of us also know that no Afghan, or for that matter any other army—even the most powerful, as you must have noticed—can ensure stability in that country—which is essentially a function of tribal consensus. But then billions in defence contracts bring-in a hefty commission. Half of the total aid to Kabul—about eight billion dollars every year—will therefore serve mainly the defence contractors. [...]Wars certainly benefit the huge American defence industry, especially if its major client, the American armed forces, were also involved. But then the US has not achieved its unique status merely by selling arms. [...]**Pakistan did well when it** cooperated with Iran to defang Jundullah that was violating the latter's territory, and **then turned around its adversarial relationship with Russia. Along with China, and lately Turkey, the countries on the wrong side of the US in our region have been closing ranks for the past many years.** Two factors have still helped the US to keep its ball in the court.There is a fair number of state or non-state actors who believe that once their rivals were taken care of with American help, they would be left to rule the roost. [...]America also controls the narrative. All the above may find space on the net, even in print, but is assiduously kept out of the mainstream. Most of us thus continue to believe that the mess created by the US was an unintended consequence of benign policies. Those who do not, are labeled conspiracy theorists.

Trump Owns the Afghan War
Spearhead Research, Gen (r) JehangirKaramat, *Former COAS, Ambassador to USA. And Founder and Director of Spearhead Research.*
August 23, 2017

The new policy is a shift from nation building in Afghanistan to 'killing terrorists' and a reminder to the world that the US and NATO had gone to war against terror after the 911 attack on the US and that they had gone into Afghanistan because it had given sanctuary and space to those who planned the 911 attack. [...]**The fact that almost 50 percent of Afghan territory is under Taliban control** and that other groups as well as IS have sanctuary there **was not mentioned. It would have highlighted the complete failure of US policy in Afghanistan. There was also no mention of Iran or Russia or China and their linkages and possible influence with the Taliban. Nor was India mentioned in the context of its declared policy of isolating Pakistan internationally and destabilizing it internally as well as its disastrous Kashmir**

policy and refusal to have a dialogue with Pakistan. [...]They also know that the billions that President Trump mentioned are scant compensation for the services rendered by Pakistan and the cost it has paid in lives and resources. [...]**This is no time for outlandish conspiracy theories. President Trump's declaration should lead to an inward look and action to put the country on the right track**. This will be the best consolidation of the gains made through military operations and for this the government has to work in the national and not party interests and **priorities have to change.**

The US Dilemma
By Lt Gen (r) Tariq Khan
August 28, 2017

The most damning aspect of this whole sorry episode is the narco issue that no one wants to talk about. A thriving drug trade amounting to a market value of $ 38 billion is hushed up. A trade under the nose of the US, and just as they do not control 40 % of the space, the damning implication of such a drug economy cannot be ignored. [...]Well here are the bare facts; taking the year 2009 as a constant; we have received from the US a total of $ 61 Billion. Working on another constant of 180 million people at the time, this translates to $10.30/ head. Surely we can do without this $10.30, even if it did get to the people which it never did. We have also received a total of $14 Billion since 2002 till today. Against a 175 Billion national economy, this hardly amounts to .0.5% of our GDP. [...]but in no way do we feel that we are obligated due to such an insignificant amount or for that matter any amount, nor is the US entitled to make unreasonable demands on account of it, **nor can we put our sovereignty or what remains of it, at the disposal of the US, because of it. We are not for sale. [...]In my mind, the US will do what it has decided to do regardless of any explanations we have, any reasoning, narrative or argument that we present. [...]We should** be wary of the total lack of support from the Islamic countries and the so called Ummah as they have amply displayed and **rely on ourselves more than anyone else. My recommendation: a warning to Afghanistan that any hostile activity emanating from its territory will be taken as an act of war. That we shall respond by causing as much damage as we can in Kabul, Jalalabad, Kandahar and Bagram. We have the range, capability and capacity; they should be wary of testing it. This may deter any adventure the US has in mind - never beg a bully!!!!**

Donald Trump's lack of understanding of the tension between India and Pakistan risks destabilising the region
The Independent, By AbhishekParajuli
August 26, 2017

Pakistan is a recalcitrant yet critical ally in the "War on Terror" and critical Nato supply routes go through the country. Pakistani leaders must have been left fuming when Trump asked their nuclear nemesis to intervene in their backyard. Antagonising it may backfire, because what Islamabad is likely to do now is grow even closer to China. China is already planning to spend $55bn as part of a new infrastructure project and its growing military partnership is underlined by a Pentagon report suggesting it wants to open a military base in Pakistan. The speech threatens to push Pakistan further into China's arms.Finally, calling on India to do more simply will not work. ...If India had the will to do more in Afghanistan, it would have already done so...**Trump does not seem to know the war he is fighting. The US and its allies will pay a steep price for his ignorance.**

2. GROWING PAK-CHINA ALIGNMENT:

Is Trump driving Pakistan deeper into China's orbit?
South China Morning Post, By Tom Hussain
August 26, 2017

President Donald Trump's televised ultimatum to Pakistan to abandon its support for terror is unlikely to yield any fruitful result, except perhaps alienate the Pakistanis further and strengthen China's hand in the region.China would be worried about Trump's positioning of the Afghan war as part of the wider geopolitical rivalry in the Indo-Pacific region, particularly during its military stand-off with India in Bhutan. "Unless complemented by private diplomatic reassurances, Trump's address may aggravate Beijing's anxieties about US objectives in the region. Trump failed to mention China, despite its involvement in the embryonic reconciliation process with the Taliban and promise of investments in Afghanistan. Instead, Trump asked India – which, unlike China, does not border Afghanistan – to increase economic aid to Kabul. **Policymakers in Beijing may suspect the US seeks to position India as a counterweight not only to Pakistan, but also to China and its Belt and Road Initiative.**

China and Pakistan after Trump
Pakistan Today, By Sultan M Hali
August 26, 2017

Donald trump pointed out that Afghanistan was rich in minerals and China was taking advantage of the situation to establish mining development centers while the US was busy fighting wars. [...] it has come to light that the US was fully aware of the presence of rich mines in Afghanistan and that was its clandestine rationale to invade it in 2001 so that it could control the natural resources.The signals emanating from White House, Capitol Hill and mainstream media on **'US policy on Afghanistan' point to a rather frustrated and confused mindset.**

Trump beware: Pakistan's luck playing china card is turning
South China Morning Post, By Andrew Small
August 27, 2017

Beijing is also keen to ensure that Pakistan takes no risks with its internal security, lest it pose risks to Chinese assets and personnel, and is sympathetic to Pakistani warnings of blowback if it is expected to move quickly against militant groups operating from its territory. In addition, Beijing is likely to view with suspicion any US moves to expand the scope of drone strikes beyond the tribal areas. [...]As a result, **if Pakistan comes under real pressure, China will probably be willing to extend forms of economic support and political protection it would previously have balked at.** [...]China has its questions about Pakistan's use of militant proxies in the region too. But the two sides have become more deeply enmeshed. And while **CPEC might help to shift Pakistan's security calculus in a benign direction over the longer term, in the short term, it is likely to give Pakistan additional breathing space if it decides to face the US down**.

3. GROWING US-INDIA ALIGNMENT

Trump Meets India's Leader, a Fellow Nationalist Battling China for His Favor
New York Times; By Mark Landler and Gardiner Harris
June 26, 2017

India, like other countries in the region, has watched Mr. Trump's cultivation of Mr. Xi with concern. [...]For now**, the United States and India are finding common cause in pushing back against China's maritime ambitions. [...]India has its own deep-rooted suspicions of China. Mr. Xi's marquee development project — known as One Belt, One Road — seeks to knit together China, South and Central Asia, and Europe** through a vast array of ports, roads and railways, mostly funded by China. **India views the project as a threat to its historically dominant position in South Asia.**

With China in mind, Donald Trump and PM Modi announce elevated consultation
Real Clear World, By ChidanandRajghatta
August 16, 2017

Two other **significant disclosures made in the White House readout that point to the growing geo-political engagement between the two countries on the opposite sides of the planet but now on the same side of the geo-political alignment**: Trump talking up US energy supplies to India, including what the White House called the "first ever shipment of American crude oil to India... from Texas this month," while pledging that the "United States would continue to be a reliable, long-term supplier of energy," and Modi thanking Trump for his "strong leadership uniting the world against the North Korean menace."

4. CHINA *versus* INDIA

China and India Are Dangerously Close to Conflict
Washington Post, By Annie Gowen& Simon Denyer
August 17, 2017

For the past two months, Indian and Chinese troops have faced off on a plateau in the Himalayas in tense proximity, in a dispute prompted by moves by the Chinese military to build a road into territory claimed by India's close ally, Bhutan. [...]As China fortifies islands in the South China Sea and exerts its influence through ambitious infrastructure projects throughout the continent, its dominance of Asian affairs is growing, as is its unwillingness to brook rivals. India is seen by some as the last counterbalance. [...]India says the road would have moved Chinese troops closer to India's strategically important Siliguri Corridor, known as the Chicken's Neck, the narrow stretch of land that separates India's northeast from the rest of the country. [...]**In recent days, Chinese media has kept up its overheated rhetoric,**

culminating in the release by a state-run news agency of a bizarre video mocking India as a bad neighbor.

Is a Second Sino-Indian Border War Imminent?
The Strategist, By Feng Zhang,
August 10, 2017

Talk of war is now heard from both sides, and Chinese voices, both official and unofficial, are particularly strident in accusing India of 'invading' Chinese territory. [...]although the diplomatic success of the BRICS summit is desirable, territorial sovereignty now ranks as one of China's highest national priorities. The summit will offer a precious chance for President Xi and Indian Prime Minister Modi to find a diplomatic solution. But **if no agreement is reached the probability of a military showdown will increase significantly**.Second, an orderly party congress is desirable to further anoint Xi's power and authority. But **a successful limited war fought on Chinese terms won't necessarily damage that prospect.** [...]Third, Chinese moderates will oppose a war with India on the grounds that the national interests involved are nowhere as vital to generate such a forceful response. [...] **Aside from bending India to China's will it would send a ripple effect throughout Asia about the new strategic reality of Chinese power and resolve. Moreover, with a weakened US, isn't this an opportune moment for some strategic surprise?** India and the US may have moved closer in recent years, but they aren't treaty allies. **In a war with China, India would fight alone.** [...]None of the above is to suggest that war is about to break out next week or next month. **Chinese leaders will have to weigh the cost–benefit calculus before making the final call.**

Standoff with China prompts revamp of India's regional policies
Asia Times, M.K. Bhadrakumar
August 15, 2017

China's South Asian policies may now come to acquire for the first time a pronounced anti-India thrust on a regional scale. Arguably, such a shift could have been expected ever since India began wading into the South China Sea disputes with gusto over the past few years. [...]**India's overall strength is far from that of a major power, but its hegemonic ambitions are world-class. India's regional hegemonism has expanded to harm China's national interests, forcing Beijing to take action**.... It's necessary for China to spread this initiative to South Asia.... China is also capable of influencing how India is perceived by these countries. [...]Significantly, Chinese Vice-Premier Wang Yang is visiting Nepal this week on the second leg of a regional tour, which took him also to Pakistan. This will be Wang's second interaction with the Nepalese leadership regarding the Belt and Road Initiative in the past three-month period. Beijing may be firing the first salvo in its South Asian diplomacy to undercut India's influence. All signs are that China could be preparing a Belt and Road package for Nepal that India cannot possibly match. It cannot be ruled out that President Xi Jinping could be scheduling his long-awaited visit to Nepal.

Are China and India on the Road to War?
Geopolitical Futures, By Allison Fedirka
August 1, 2017

This standoff is not about to lead China and India to war in Doklam. Though both sides have strategic interests in the region, the costs of warfare would outweigh the potential gains. Regardless of which side won, the simple participation in such a war would be very costly in terms of finances, supplies, logistics and troops. Any territory gained would be strategically valuable, but neither country is in a position to capitalize on it. In India, Prime Minister NarendraModi is still trying to centralize government control and sustain the economy. A military conflict could compromise the progress he has made so far. China has its own list of challenges that need to be resolved. Its impressive growth numbers paper over the gaping holes in its economy. Moreover, **relations with the U.S. are tense, and there's still the potential for military conflict on the Korean Peninsula. These issues are far more immediate and important than Doklam**. The area matters greatly to both countries, but not enough to outweigh the other issues they're facing, and not enough to justify the costs of war.

How India and China Have Come to the Brink
New York Times, By Steven Lee Myers & Ellen Barry & Max Fisher
July 27, 2017

The conflict shows no sign of abating, and it reflects the swelling ambition — and nationalism — of both countries. Each is governed by a muscular leader eager to bolster his domestic standing while asserting his country's place on the world stage as the United States recedes from a leading role. Jeff M. Smith, a scholar at the American Foreign Policy Council who studies Indian-Chinese relations, said a negotiated settlement was the likeliest outcome. But asked whether he thought the standoff could spiral into war, he said, "Yes I do — and I don't say that lightly." [...]Given the unbending nature of Chinese statements, few analysts believe he would do anything that would seem weak in response to India's moves.

It's High Noon in the Himalayas
Japan Times, By Mihir Sharma
July 24, 2017

In Beijing a few weeks ago, I got the clear impression from some Chinese policymakers and diplomats that they thought India was getting, well, a bit above itself. Unhappy about China's big Belt and Road Initiative, India not only stayed away from President Xi Jinping's recent forum showcasing the project but released a stinging denunciation of the principles underlying the grand infrastructure scheme. That same language found its way into the joint statement issued by U.S. President Donald Trump and NarendraModi when the Indian prime minister visited Washington last month. And India has recently taken a harder line on Tibet and the border than it has in the past.**For leaders in Beijing, this behavior seems inexplicable. [...]this is without India even seeking to live up to its conception of itself.** The question for China soon won't be how the world manages its rise, but how well it manages India's.

5. NORTH KOREAN CRISIS

Trump and Korea. I'm Also Scared
Global Research, By Eric Margolis
August 26, 2017

President Trump's ability to trigger a nuclear war is 'pretty damn scary' said former US intelligence director James Clapper this week...This week, Trump proclaimed he would continue the pointless, stalemated US colonial war in Afghanistan and might ask India to help there – a sure-fire way to bring nuclear-armed India and Pakistan into a terrifying confrontation.Meanwhile, **Trump has backed himself into a corner over North Korea**. His threats and bombast have not made the North's leader Kim Jong-un stop threatening to launch nuclear-armed missiles at the US island of Guam, Hawaii, Japan and South Korea [....]Nuclear fallout would shower South Korea, Northern China, and Pacific Russia – and eventually blow east to the US and Canadian west coasts. If the Trump administration decided to use nuclear weapons against North Korea, then why not in Afghanistan? The temptation will be obvious. [...] President Dwight Eisenhower refused pleas by France to use nuclear weapons to rescue the besieged French garrison at Dien Bien Phu. **Trump may not be as cautious. He can't afford to be seen backing away from the Korean crisis. His aides clearly did not think through the ramification of his bellicose threats against North Korea. Bullies tend to grow lazy. That's why I'm as nervous as Lt. Gen. Clapper.**

Bannon Is Right about North Korea
Washington Post, By Josh Rogin
August 18, 2017

Bannon admitted what everyone already knew: Trump's threats to attack North Korea are empty...Bannon's view is that any preemptive attack on North Korea would result in horrendous casualties in South Korea and elsewhere and therefore cannot be seriously considered. That view is shared by many officials, former officials and North Korea experts. Whether President Trump believes it is unknown. [...] By publicly declaring that the U.S. threat of military force in North Korea is a bluff, Bannon may have undermined the credibility of that threat. He may also have nudged the United States toward a more diplomacy-focused approach and reduced the risk of war.

This Is the Moment of Truth on North Korea
Washington Post, By David Ignatius
August 9, 2017

Among the clearest points of consensus among former officials was that the North Korea crisis provides what one participant called a "catalytic" moment. If China and the United States can find a common path and resolve the crisis peacefully, they will succeed in "modernizing the global order," which was the broad topic of the Aspen discussions.And if they fail? If Trump's fiery rhetoric alienates Beijing rather than motivates it? If Pyongyang decides to test its doctrine of self-sufficiency with a roll of the nuclear dice? If Trump becomes the first president since John F. Kennedy to truly find himself at the nuclear brink? **One way or another, the coming months will shape global security for many years ahead.**

6. QATAR CRISIS

Iran Could Win Saudi Arabia's Qatari Gamble
RCW, By MeysamTayebipour
June 28, 2017

The Qatar crisis flared up when the official Qatar News Agency quoted Sheikh Tamim, the Emir of Qatar, as saying that "there is no wisdom in harboring hostility towards Iran". These words not only effectively supported Iran, but criticized the US and Saudi Arabia's policies towards it. [...]Cheeringly for Iran, Qatari officials' first response to Saudi Arabia's moves signaled that at least for now, defiance is trumping compliance. If that changes and they give in to the pressure the Saudis are applying, Iran could end up more isolated than ever in the region. [...]**All in all, by trying to pressurize Qatar into backing away from Iran, Saudi Arabia has handed its great rival various opportunities that it's been chasing for years. If Qatar resists the Saudis' pressure, the Middle East will witness one of its greatest foreign policy backfires for years.**

7. VENEZUELAN CRISIS

Countdown to War on Venezuela – Step II: Trump Imposes More Sanctions
Global Research, By *Moon of Alabama*
August 26, 2017
A month ago we warned of the upcoming war on Venezuela. Such a war could blow up huge in many nations of the region.

The U.S. trained and financed opposition has tried to create violent chaos in the streets but failed to gain traction with the majority of the people. The only support it has inside the country is from the richer bourgeois in the major cities which despises the government's social justice program. Workers and farmers are better off under the social-democratic policies of first Hugo Chavez and now Nicolas Maduro. **The coup attempt as step one of a U.S. takeover of Venezuela has failed. U.S. President Trump threatened to use military force should the dully elected President Maduro not give up his position. [...]The new sanctions will likely increase the support for the current government...Venezuela will now have some troubling times. But unless the U.S. launches an outright military attack on the country -by proxy of its neighbors, through mercenaries or by itself- the country will easily survive the unjust onslaught.**

COMMODITIES OUTLOOK

SUGAR:

SUGAR PRICES

Year	Rs./Kg (Domestic)	$/Kg (Domestic)	$/Kg (Global)
2012	60.99	0.65	0.47
2013	53.25	0.52	0.39
2014	53.82	0.53	0.37
2015	56.37	0.54	0.30
2016	62.30	0.59	0.40
2017 (Forecast)	55.04*	0.52	0.40

Source: OECD-FAO Agriculture Outlook 2015-2024; WB, Commodity Market Outlook (April 2017), Pakistan Sugar Mills Association

*Based on July 2017 Price

SUGAR PRODUCTION

Year	MMT (Domestic)	MMT (Global)
2012	4.6	172.3
2013	5.1	177.6
2014	5.6	176.0
2015	5.2	177.5
2016	5.3	165.8
2017 (Forecast)	5.7	170.9

Source: Pakistan Economic Survey 2016-17;WB Commodities Market Outlook (April 2017)

Preliminary data suggest that a production deficit will also prevail in the 2016/17 season, as the anticipated production increases are considered insufficient to cover world sugar demand. This global supply shortage can be partially attributed to production setbacks in some key exposrting countries, namely Brazil and thailand, however, that the global sugar stock-to-use ratio will return to the low levels observed in 2009 and 2010, despite stock releases on the domestic market undertaken by China.

Sugar crop production is projected to expand in many parts of the world, driven by remunerative returns in comparison to other crops. Sugarcane, cultivated largely in developing countries (Africa, Asia & South America) will continue to be the main crop used to produce sugar. The share of sugar from sugar beet is expected to decline slightly from 14% during the base period to 12.9% in 2026. Brazil is the world's largest sugar producer and exporter, and its sector is expected to recover from the severe financial problems of the last several years.

Nominal prices are projected to decline over the next few years and then remain at a reletively high plateau when compared to the long term average, prior to the 2009 price hike. Prices are projected to reach USD 86/t. in real terms, sugar quotations are expected to decline consistantly and average lower than the previous ten years.

The outlook for sugar production is dependent on a number of factors, such as weather events, macroeconomic conditions and national policies. Any change to these factors will condition the results of the projections and alter the outcome of the sugar balance and prices.

Sugar production in Pakistan is forecast at a record 6.0 million metric tons for 2017/18. Sugar has emerged as a favored crop among farmers who value the government established procurement price for sugarcane as prices for other commodities have declined. Pakistan's high cane support price and high import tariff are leading to rising stocks of sugar. While the government has attempted to reduce stock levels with export subsidies in recent years, it has currently announced an export quota of 425,000 metric tons, but interest has been limited due to high domestic prices and the absence of an exports subsidy. The quota is valid through May 31, but significant exports appear unlikely.

WHEAT:

WHEAT PRICES

Year	Rs./Kg (Domestic)	$/Kg (Domestic)	$/Kg (Global)
2012	25.85	0.27	0.31
2013	26.98	0.26	0.31
2014	24.47	0.24	0.28
2015	19.04	0.18	0.20
2016	14.99	0.14	0.16
2017 (Forecast)	15.25*	0.14	0.15

Source: OECD-FAO Agriculture Outlook 2015-2024; WB, Commodity Market Outlook (April 2017), Indexmundi.com

*Based on July 2017 Price

WHEAT PRODUCTION

Year	MMT (Domestic)	MMT (Global)
2012	23.4	702.0
2013	24.2	658.7
2014	25.9	715.0
2015	25.0	728.1
2016	25.3	735.2
2017 (Forecast)	25.7	751.4

Source: Pakistan Economic Survey 2016-17;WB Commodities Market Outlook (April 2017)

Grain prices increased 4 percent in the first quarter (q/q), but stand at just half their late-2012 peak. The 2017Q1 price uptick reflects shortfalls of maize and wheat output in the United States. Overall, the April assessment for the 2016-17 season continue to point to a favorable crop for most grains. Global production of wheat is expected to reach a new record high of 751 million metric tons (mmt), according to the U.S. Department of Agriculture (USDA). Conditions for the global wheat crop are generally favorable in most key producing and exporting areas, including Australia, the European Union, the Russian Federation, and Ukraine. The stocks-to-use ratio (a measure of abundance of supplies relative to demand) exceeded 34 percent in the current season, a 15-year high, and is expected to stay high next season. Looking ahead, preliminary estimates for the upcoming 2017-18 season published by FAO-AMIS point to a lower global wheat crop in major producing countries, including Canada and the United States, where planted area is down.

Two policy challenges have surfaced in the current environment of ample agricultural supplies. The first stems from policies aimed at increasing farm gate prices through production subsidies and trade measures. For example, the Arab Republic of Egypt increased its wheat procurement price by 25 percent (effective April 15-July 15); India reinstated a 10 percent import duty on wheat; Indonesia, in an effort to promote self-sufficiency, announced the provision of fertilizer and other input subsidies for the production of maize; and the Philippines, also citing a self-sufficiency objective, announced support to the rice sector through credit and seed subsidies. The second policy challenge relates to China's transition from stock-piling mechanisms to less price distorting support programs. China's importance in agricultural commodity markets is reflected in its disproportionately high level of stocks for a number of important commodities, including maize, rice, and cotton. Thus far, the transition to lower stocks has taken place in an orderly fashion, as confirmed by the destocking process of China's cotton sector

RICE

RICE PRICES

Year	Rs./Kg (Domestic)	$/Kg (Domestic)	$/Kg (Global)
2012	54.19	0.58	0.53
2013	52.54	0.51	0.47
2014	43.13	0.42	0.38
2015	39.03	0.38	0.37
2016	40.68	0.38	0.38
2017 (Forecast)	40.73*	0.38	0.40

Source: OECD-FAO Agriculture Outlook 2015-2024; WB, Commodity Market Outlook (April 2017), Indexmundi.com

*Based on July 2017 Price

RICE PRODUCTION

Year	MMT (Domestic)	MMT (Global)
2012	6.1	485.9
2013	5.5	472.8
2014	6.7	478.3
2015	7.0	478.6
2016	6.8	472.2
2017 (Forecast)	6.8	481.1

Source: Pakistan Economic Survey 2016-17;WB Commodities Market Outlook (April 2017)

Rice production is expected to increase by more than 5 percent in 2016-17, driven by favorable crop conditions in Southeast Asia, including in Indonesia, Thailand (the world's top rice exporter), and the Philippines. Given that consumption is expected to increase by 4 percent, the stocks-to-use ratio will reach a 15-year high, as in the cases of wheat and maize, according to the USDA. The early FAO-AMIS assessment for 2017-18 indicates a favorable rice crop, and global production and consumption are expected to increase by about 1 percent each. Based on the USDA's April assessment—the last for the current season—combined global supplies (i.e., beginning stocks plus production) of wheat, maize, and rice are projected to reach 2,856 mmt this season, 5 percent higher than last season. These projections, which are almost final, imply that 2016-17 will be the fourth consecutive surplus year. Furthermore, FAOAMIS preliminary projections for 2017-18 point to yet another surplus year.

The weather pattern negatively impacted output of several countries including Thailand, India and the United States of America (USA). Changing demographics, urbanization and improved technology have led to the emergence of new major producers. In Africa, development of new hybrid seeds like WITA and New Rice for Africa (NERICA) has increased yields, facilitating farmers in rice cultivation instead of sorghum (a grain used for livestock feed and ethanol production). As a result, total rice production in West Africa alone has more than doubled from 7.1m tonnes in 2000 to 16.8m tonnes in 2014. In 2016, total world rice consumption decreased to

473.1m MT (2015: 477.7m MT) with lower demand from India. Around 90% of the world's rice continues to be consumed in Asia with 60% of demand emanating from China, India and Indonesia. Average consumption per capita was reported at 54.2kg (2015: 54.4kg) in 2016. Barring Pakistan, people in every Asian country eat more rice than the global average . Since 2000, rice consumption per capita has fallen in China, Indonesia, South Korea and Singapore. Reasons for such a trend are increasing income levels, changing preferences and increasing urbanization leading to dietary diversification. As a result, wealthy consumers are substituting rice with vegetables, fruit, meat, fish and dairy products. In contrast, rising population is leading to higher demand in areas like Bangladesh and Africa. According to FAO, per capita rice consumption in Sub-Saharan Africa increased from 20.2kg to 26.6 kg. With population in the region growing steadily by 3% a year on average, the trend is likely to persist, going forward.

COTTON:

COTTON PRICES

Year	Rs./Pound (Domestic)	$/Kg (Domestic)	$/Kg (Global)
2012	83.16	0.89	1.97
2013	91.28	0.89	1.99
2014	83.95	0.83	1.83
2015	72.36	0.70	1.55
2016	77.75	0.74	1.64
2017 (Forecast)	89.95*	0.85	1.85

Source: OECD-FAO Agriculture Outlook 2015-2024; WB, Commodity Market Outlook (April 2017), Indexmundi.com

*Based on July 2017 Price

COTTON PRODUCTION

Year	MMT (Domestic)	MMT (Global)
2012	2.31	27.1
2013	2.21	27.0
2014	2.17	26.2
2015	2.37	21.04
2016	1.68	22.7
2017 (Forecast)	1.81	23.1

Source: Pakistan Economic Survey 2016-17;WB Commodities Market Outlook (April 2017)

Following years of relative stability around $1.60/kg, cotton prices rose 7 percent in 2017Q1, up 27 percent from a year ago (Figure 18). The strength reflects last season's sharp drop in global production, from 26.2 mmt in 2014-15 to 21.0 mmt, most of which was accounted for by China. With consumption just above 24 mmt, the decline in production created a 3 mmt market deficit. The deficit was managed by China, drawing down its stocks from 12.9 mmt in 2014-15 to an estimated 7.5 mmt in the upcoming 2017-18 crop season. This managed stock draw created a stable price environment. Cotton prices are projected to increase 13 percent in 2017 on expected demand strengthening.

Cotton production in Pakistan, Brazil, and Australia is also forecast to increase in 2017/18. In Pakistan, higher area and an above-average yield are expected to push the crop 10 percent higher to 8.5 million bales, the largest in 3 years. For Brazil, increased area is nearly offset by a lower yield, resulting in a crop that is expected to expand 3 percent and equal the 2014/15 production. In

Australia, production is projected to increase 9 percent in 2017/18 despite a considerable anticipated area reduction; most of the area decline is expected in dryland planting. As a result, the larger share of the Australian crop under irrigation will boost the national yield forecast some 40 percent in 2017/18.

In Pakistan, cotton mill use is forecast at 10.4 million bales in 2017/18, slightly above a year ago. Mill use in Bangladesh and Turkey are expected to see growth rates of 6 percent and 4 percent, respectively, as cotton mill use reaches 6.9 million bales in Bangladesh and nearly 6.6 million bales in Turkey. The largest growth of the major cotton spinners, however, is forecast to occur in Vietnam, where 2017/18 cotton mill use is projected 11 percent higher at 5.9 million bales.

CRUDE OIL:

CRUDE OIL PRICES

Year	$/barrel (Global)
2011	104.0
2012	105.0
2013	104.0
2014	96.2
2015	50.7
2016	42.8
2017 (Forecast)	55.0

Source: WB Commodities Price data (August 2017); WB Commodities Market Outlook (April 2017)

Crude oil prices rose 8 percent in the first quarter, averaging $52.9/bbl, following agreements by OPEC and some non-OPEC producers to cut output in the first half of 2017. Prices traded in a narrow range near $54/bbl for much of the quarter on expectations that output cuts would draw down stocks and rebalance the market in coming months. However, prices dropped sharply in the second week of March, as money managers liquidated sizeable long positions on futures markets.

The selloff was prompted by three main concerns: perceived weak comments from Saudi Arabian and Russian officials over commitments to production cuts; the persistence of high U.S. crude oil stocks; and robust recovery in U.S. shale oil activity. Prices traded between $50 and $54/bbl in April, as investors await the expected decline in stocks.

With steady growth in demand, rebalancing of the oil market continues. The sharp decline in investment since the price collapse in 2014 led to a decline in non-OPEC production last year. The group is projected to record a modest gain this year, led by U.S. shale, but gains are not expected to keep pace with the growth in global demand. OPEC's imposed production limits are expected to further restrict supply. Crude oil stocks in the United States remained high during the first quarter, reflecting buildup at refineries due to higher imports and reduced refinery production because of seasonal maintenance. The rise in imports was partly because of a surge in OPEC production in the fourth quarter, ahead of January cuts. Much of that increased output arrived into U.S. storage in the first quarter. U.S. stocks are expected to decline in the second quarter owing to a seasonal pickup in refinery demand.

Crude oil prices are projected to average $55/bbl in 2017, an increase of 26 percent over 2016, as global supplies fall short of demand. Stocks are expected to fall, especially in the second half of the year, assuming continuation of OPEC/non-OPEC production restraint. This increase reflects rising oil demand and falling stocks, and assumes an extension of the OPEC/non-OPEC agreement. Prices are projected to increase to $60/ bbl in 2018, assuming inventories returning to more typical levels.

GOLD:

GOLD PRICES

Year	$/troy ounce (Global)
2011	1,569
2012	1,669
2013	1,411
2014	1,265
2015	1,160
2016	1,248
2017 (Forecast)	1,225

Source: WB Commodities Price data (August 2017); WB Commodities Market Outlook (April 2017)

Precious metals prices rose marginally in the first quarter, but fluctuated widely during the period because of swings in investor sentiment. Gold prices fell slightly in the first quarter, averaging $1,219/toz, but were volatile over the period. Prices reached a low of $1,125/toz in late December, following the U.S. Fed decision to raise interest rates. They have been on an upward trend this year on strong investment demand amid geopolitical and economic uncertainty. Prices dipped before a U.S. Fed interest rate increase in mid-March, but reversed and approached $1,300/toz in early April. A number of factors have pushed investors towards gold as a safe haven asset, notably raising global tensions surrounding Afghanistan, Syria, and North Korea; the deterioration of U.S./Russia relations; and upcoming elections in several countries amid rising populist sentiment. In addition, uncertainty about inflation, deficits, and the level of the dollar have also helped propel gold prices higher. Physical gold demand remains weak, with China facing reduced preference for gold jewelry, particularly among the millennial generation. In India, gold demand is expected to recover following the government's decision last November to take 500 and 1,000 rupiah notes out of circulation. This created a temporary liquidity crisis and pullback in gold demand. Demand in India is also rising due to higher incomes, restocking, and marriage/festive season demand. Gold mine supply continues to rise, supported by lower costs.

Precious metals prices are projected to fall 1 percent in 2017, but with some divergence. Gold prices are expected to decline 2 percent on expected further U.S. interest rate increases this year. Silver and platinum prices are expected to rise 1 percent, partly buoyed by strong industrial demand. Upside risks to the forecast include widening geopolitical tensions, stronger-than expected physical demand in China, delays in anticipated central bank rate increases, and mine supply shortfall. Downside risks include stronger economic growth, faster-than-expected increases in U.S. interest rates, and weaker physical demand.

PALM OIL:

PALM OIL PRICES

Year	$/MT (Global)
2011	1125
2012	999
2013	857
2014	821
2015	623
2016	700
2017 (Forecast)	750

Source: WB Commodities Price data (August 2017); WB Commodities Market Outlook (April 2017)

The World Bank's Oil and Meals Price Index increased 2 percent in the first quarter of 2017; it stands 17 percent higher than a year ago. A 3 percent increase in palm oil prices (due to supply tightness in Malaysia and Indonesia) was counterbalanced by a 5 percent drop in soybean oil prices (due to ample supplies in South America, notably Argentina and Brazil).

This season's outlook for edible oils also remains favorable. Following last year's diminished crop due to El Niño, global production of the 17 most consumed edible oils is expected to reach 214 mmt in 2016-17, a 6 percent increase. More than half of the growth is projected to come from palm oil (produced equally in Indonesia and Malaysia) and soybean oil (due to a shortfall in South America).

Production of palm oil declined by the greatest amount on record in 2016-17 due to El Niño. The oilseed supply outlook during the current season (October 2016 to September 2017) is also healthy, with global supplies for the ten major oilseeds projected to reach a new high of 552 mmt, 41 mmt higher than the previous season. Most of the increase in supplies is projected to come from a robust soybean crop, which is expected to reach 343 mmt in 2016-17, more than 10 percent higher than last season. Brazil and the United States are the major contributors to the increase. According to preliminary estimates by the International Grains Council, next season's soybean crop will be even higher.

ECONOMIC BULLETIN

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