Contents

CPEC – AN UPDATE

Progress made in different sectors
China–Pakistan Economic Corridor (CPEC) is a long-term broad framework with multiple sectoral projects, to be completed in different phases through bilateral agreements agreed upon by both sides as a win-win equation. It is considered to be the flagship of China's One Belt One Road initiative. Pakistan and China had signed an agreement in the year 2015 to commence work on CPEC development projects worth over $46 billion.

The corridor aims to connect Gwadar port in Balochistan to China's Xinjiang region via a network of highways, railways and pipelines spread over 3,000 kilometres, and create energy as well as socioeconomic connectivity between Pakistan and China.

Work on several sections is in progress.

Gwadar Port
Situated at the southern end of CPEC near the ocean mouth, Gwadar port is an important project of the CPEC. In order to improve the operational capacity of the port, China Overseas Ports Holding Company Ltd. (COPHC) has carried out repairs and up-gradation of the port facilities, and now the port has restored its designed capacity. Cargo liners are visiting the port every month since mid-2016.

China and Pakistan are actively promoting the East Bay Expressway project and the New Gwadar International Airport project. Both sides are working together to develop a Gwadar smart port city master plan. Efforts are being made to improve the livelihood of the local people, particularly the construction of educational and medical projects such as China-Pakistan Friendship Primary School in Faqeer, Gwadar, Gwadar Hospital, Gwadar Vocational College, and Water Desalination Plant. Faqeer Primary School has become the first project completed under CPEC. [1]

Pilot project trade convoy: On November 13, 2016, a ceremony for CPEC Pilot Project First Trade Convoy at Gwadar Port was held as the first Chinese trade convoy arrived at the port through CPEC. Contingents of special security division of the Pakistan Army provided security to the convoy. Starting its journey from Kashgar, the Chinese trade cargo reached Gwadar safely from Gilgit-Baltistan after travelling throughout the country. This is the first time that a trade convoy successfully passed through the western part of Pakistan from the north to the south, the first time that Gwadar Port exported a large number of containers to overseas destinations, and the first time that China and Pakistan co-organized trade convoy through Pakistan to Gwadar Port.

Transportation infrastructure
The CPEC shall essentially follow the North-south corridor in Pakistan. The existing road network shall be used in the beginning, developing the missing connections first, with easiest one on priority, through scientific planning.

Currently, two major CPEC transportation projects have been inaugurated and are under expeditious construction: KKH Phase-II (Havelian–Thakot section) and Peshawar–Karachi

Motorway (Sukkur–Multan section). Preferential Chinese government loans are provided for these projects. At the same time, the feasibility study of Railway Line ML1 (Peshawar–Karachi) up-gradation project has been completed and governmental framework agreement is being actively discussed.[2]

Western route: The 2492 kilometres long western route of Pakistan China Economic Corridor (CPEC) will connect Khunjerab, Burhan, Hakla, Dera Ismail Khan, Zhob, Quetta, Surab and Gwadar. 650 km from Gwadar to Surab has already been completed and become functional. Work on this project is continuing rapidly and it would be completed in the next two years.[3,4]

Railway tracks: Railways will upgrade its existing tracks besides installing new railway tracks from Gwadar-Quetta-Jacobabad via Besima Tehsil in Balochistan, under China-Pak-Economic Corridor (CPEC):

- *New railway tracks*: Under the project, a total 560 kilometres track from Bostan–Kotla Jam on the main line-II via Zhob and Dera Ismail Khan and another 682 kilometres track from Havelian to Khunjerab will be laid.
- *Upgradation*: The upgradation of 1872 kilometres track from Karachi to Peshawar via Kotri, Multan, Lahore and Rawalpindi (including Taxila–Havelian), along with dualization of the track from Shahdara to Peshawar, will be carried out. Further, to enhance connectivity and improve transportation facilities, 1254 kilometres of railway track from Kotri to Attock City via Dadu, Larkana, Jacobabad, Dera Ghazi Khan, Bhakkar and Kundian will be upgraded.[5]

Energy sector

In total, around 17,045 megawatts of energy would be generated through early harvest prioritized as well as actively promoted China Pakistan Economic Corridor (CPEC) projects all across the country to overcome energy crisis, bolstering economic activities and promote growth.

Electricity of 5785 megawatts would be generated through various hydel, coal, wind and solar projects in Punjab provinces followed by 5630 megawatts in Sindh, 2940 megawatt in Baluchistan, 870 megawatts in Khyber Pakhtunkhwa while 1820 megawatt electricity would be generated in Azad Jammu and Kashmir under the project.

Early harvest projects: The early harvest projects under China-Pakistan Economic Corridor (CPEC) are moving forward swiftly and first batch of projects including energy and infrastructure will be completed by 2017-18. According to official sources in the Ministry of Planning, Development and Reforms, with the completion of the energy projects in early harvest projects, 10,000 MW would be added in national grid by 2018.

Out of the total CPEC energy projects, 10,400 megawatts would be generated through early harvest prioritized energy projects including 4210 megawatts in Sindh, 3,640 megawatts in Punjab, 960 megawatts in Baluchistan, 870 MW in Khyber Pakhtunkhwa and 720 megawatts in AJK.[6] The details of these early harvest prioritized projects are given below:

- ***Hydel projects***: 870 megawatts Suki Kinari hydel project in Khyber Pakhtunkhwa and 720 megawatts hydel project at Karot in Azad Kashmir

- ***Coal projects***: 3960 megawatts Thar Coal I and II projects in Sindh, 2640 megawatts coal project in Sahiwal Rahimyar Khan Punjab, and 960 megawatts coal project at Hubco Gwadar in Balochistan
- ***Wind and solar projects***: 1000 megawatts to be generated through solar project in Bahwalpur Punjab, and 250 megawatts through four projects in Thatta, Sindh

As of end of 2016, 300MW of Quaid-e-Azam Solar Park in Bahawalpur Punjab has been completed, combined to the grid, and 50MW Dawood Wind Farm (Thatta) is completed and awaiting connection test.

Construction is also under way for the following **actively promoted/ priority projects**:

- Port Qasim 2×660MW Coal-fired Power Plant
- Sahiwal 2×660MW Coal-fired Power Plant
- 660MW HUBCO Coal Power Plant
- 100MW Jhimpir UEP Wind Farm
- China Three Gorges Second Wind Power Project
- 2×330MW Mine Mouth Coal Fired Power Plant at Thar Block II

Further, ground breaking for Matiari (Port Qasim) to Lahore Transmission Line, and 2×660MW Mine Mouth Coal Fired Power Plant at Thar Block I, Sindh with its matching mining project is expected to be achieved soon. Other projects being actively promoted include 1100MW Kohala Hydro-Power Project, Gwadar Coal-fired Power Plant and Matiari (Port Qasim) to Faisalabad Transmission Line.[7]

Industrial and investment Cooperation

Industrial cooperation is an important field of CPEC. China has advantages in experience, technology, financing, and industrial capacity, while Pakistan enjoys favorable conditions in resources, labor forces and market. Through mutual cooperation, both sides can achieve favourable results and success. Under the CPEC framework, the two sides have identified two industrial cooperation projects.

- Under the CPEC framework, the two sides have identified two industrial cooperation projects, namely **Haier-Ruba Economic Zone (2006) phase II** and **Gwadar Free Zone**. On 1 September 2016, Ground Breaking Ceremony was held for the Gwadar Free Zone. China Overseas Ports Holding Company Ltd. (COPHC) is constructing Gwadar Free Zone expeditiously. The Chinese side is willing to provide high quality industrial capacities to Pakistan and encourage reputable Chinese companies to make investment in Pakistan. Meanwhile, the Pakistani side is expected to carry out in-depth research on the locations of industrial zones, and provide preferential policies and necessary services to mutually-agreed zones in this regard.

- The Chinese Government decided to provide interest-free loans for the laying of **Optical Fiber Cable from Rawalpindi to Khunjerab** and construction started in April 2016. Besides, the relevant Chinese company has finished feasibility study on the utilization of **Digital Terrestrial Multimedia Broadcast** in Pakistan. The two countries are working on the Long-Term Planning of CPEC and its draft has been completed.[8]

Costs involved and this year's budget

The total estimated cost of 38 on-going projects under the China-Pakistan Economic Corridor (CPEC) is Rs 1.43 trillion, including foreign assistance of Rs 282.32 billion, while a total of Rs 179.85 billion has been spent till June 30, 2016. [9] CPEC loans for infrastructure creation are at the interest rate of 2 percent while the payback time for such loans ranges from 20 years to 25 years. Most of the CPEC outlay is in the form of investment and in energy generation and transmission. [10]

The federal government has budgeted Rs 129.858 billion for 38 projects in the current fiscal year.

Besides, the government has allocated one percent of total cost of the CPEC projects for security. A total of 9000 troops are being appointed permanently while 6000 temporary civilian security personnel are being appointed for the security projects of CEPC.[11]

The 6th meeting of the Joint Cooperation Committee (JCC) on CPEC

The 6th JCC meeting of the CPEC in Beijing approved many new projects. Some of these projects are:

- Eight industrial zones will be set up in each province, including FATA, Azad Jammu & Kashmir, Gilgit–Baltistan, and Gwadar free zone. Sindh would have the SEZ at Dhabeji.
- North to South transmission line for the power projects completed under CPEC
- Rail based mass transit projects for all the provincial capitals namely Peshawar greater circular railway, Quetta circular railway, Karachi circular railway, and Lahore Orange line train projects
- Rehabilitation work on the 136 km section of Thakot dry port at Karakorum highway.
- Approval for Khuzdar Baseema road linking Gwadar with Khuzdar, dualizing the Dera Ismail Khan and Zhob road, and Karachi–Peshawar fast track railway [12, 13]

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CPEC projects – update at a glance

Gwadar Port City

Project	Company	Status	Progress
Gwadar Eastbay Expressway (19 km, connecting Gwadar Port to Mehran Coastal Highway)	TBD	Government Framework Agreement signed	40%
Gwadar New International Airport	TBD	Government Framework Agreement signed	40%
Gwadar Free Zone	China Overseas Ports Holding Company Ltd. (COPHC)	Under construction	50%
Gwadar Smart Port City Master Plan	TBD	Feasibility stage	15%
Expansion of Multi-purpose Terminal including Breakwater and Dredging	TBD	Feasibility stage	15%
Gwadar Eastbay Expressway II (19 km, connecting Eastbay Expressway I to New Gwadar International Airport)	TBD	Feasibility stage	15%

Fresh Water Supply, Wastewater Treatment Plants for Gwadar City	TBD	Feasibility stage	15%
Gwadar Primary School	China Communications Construction Company Ltd.	Completed	100%
Gwadar Pak-China Friendship Hospital Upgradation	TBD	Feasibility study under way	10%
Gwadar Pak-China Friendship Technical and Vocational College	TBD	Feasibility study under way	10%

[Source: CPEC Portal, Pakistan–China Institute]

Energy

Project	Company	Status	Progress
Prioritized/Early Harvest Projects, 10400 MW			
2x660MW Port Qasim Coal-fired Power Plant	Power China Resources Ltd.	Under construction	60%
2x660MW Sahiwal Coal-Fired Power Plant	Huaneng Shandong Ruyi (Pakistan) Energy (Private) Ltd.	Under construction	60%
4x330MW Engro Thar Coal-fired Power Plant and Surfice Mine in Block II of Thar Coal Field	China Machinery Engineering Corporation (CMEC)	Under construction	60%
50MW Dawood Wind Farm	Hydrochina International Engineering Co. Ltd.	Under construction/ almost completed	90%
900MW Quaid-e-Azam Solar Park in Bahawalpur	Zonergy Company Ltd.	Under construction/First 300MW completed	60%

100MW Jhimpir Wind Farm	UEP Wind Power (PVT) Ltd.	Under construction	60%
50MW Sachal Wind Farm	Hydrochina International Engineering Co. Ltd	Under construction	60%
720MW Karot Hydro-Power Project	China Three Gorges South Asia Investment Ltd.	Under construction	60%
873MW Suki Kinari Hydropower Project	China Gezhouba Group Corporation International Ltd. (CGGC)	To be inaugurated	50%
50MW China-Sunec Wind Farm	China Sunec Company	-----	15%
2x660MW Rahimyar Khan Coal Power Plant	TBD	Feasibility stage	15%
Thar Coal Block I and 2x660MW Mine Mouth Power Plant	Shanghai Electric	To be inaugurated	50%
660MW Hubco Coal Power Plant	China Power International Holding Ltd.	Negotiation in Process	15%
300 MW Gwadar Power Plant	TBD	Feasibility stage	15%
Matiari-Lahore Transmission Line	China State Grid	Negotiation in Process	15%
Matiari-Faisalabad Transmission Line	China State Grid	Negotiation in Process	15%
Actively Promoted Projects, 17045 MW			
2x660MW Gadani Power Plant at District Lasbela, Balochistan	TBD	Feasibility stage	15%
1100MW Kohala Hydro-Power Station	China Three Gorges South Asia Investment Ltd.	Negotiation in Process	15%
2x50MW Wind Farm Phase II of Pakistan	China Three Gorges South Asia Investment Ltd.	Under construction	15%

660MW HUBCO Coal Power Plant	China Power International Holding Ltd.	Negotiation in Process	15%
300MW Salt Range Mine Mouth Power Plant including Mining	China Machinery Engineering Corp. (CMEC)	-----	15%
2x660MW Thar Mine Mouth Coal Fired Power Plant by Oracle	TBD	Feasibility stage	15%
2x660MW Muzaffargarh Coal-fire Power Plant	China Machinery Engineering Corp. (CMEC)	Feasibility stage	15%
525MW Gas Fired Power Plant	TBD	Feasibility stage	15%

[Source: CPEC Portal, Pakistan–China Institute]

Transportation infrastructure

Project	Company	Status	Progress
KKH PhaseII (Havelian-Thakot Section),120 km	China Road and Bridge Corporation	Under construction	60%
Karachi-Lahore Motorway (Sukkur-Multan Section),392 km	China State Construction Engineering Corp. Ltd.	Under construction	60%
Joint Feasibility Study for upgradation of ML1 and Establishment of Havelian Dry port	China Railway	Completed	100%
Upgradation of ML-1 (Multan-Lahore Section, 339 km; Hyderabad-Multan Section, 749 km; Kemari-Hyderabad Section, 182 km)	TBD	Government Framework Agreement under discussion	40%
New Havelian Dry Port	TBD	Feasibility stage	15%
Khuzdar-Basima Highway (N-30), 110 km	TBD	Feasibility stage	15%
KKH Phase III(Raikot-Thakot Section)280km	TBD	Feasibility stage	15%

D.I.Khan–Quetta Highway (N-50), 533km	TBD	Feasibility stage	15%

[Source: CPEC Portal, Pakistan–China Institute]

Industrial cooperation

Project	Company	Status	Progress
Gwadar-Nawabshah LNG Terminal and Pipeline, 700 km	China Petroleum Pipeline Bureau	To be inaugurated	40%
Haier & Ruba Economic Zone Phase II	Haier Electrical Applications Corporation Ltd.	Feasibility stage	15%
Optical Fiber Cable from Rawalpindi to Khunjerab	Huawei Technology Co., Ltd.	Under construction	50%
DTMB Demonstration Project	TBD	Government MOU Signed	5%
Lahore Orange Line Metro Train	China Railway-China North Industries Group Corporation(CR-NORINCO)	Under construction	60%
Promotion of TD-LTE commercialization in Pakistan	TBD	Feasibility stage	15%

[Source: CPEC Portal, Pakistan–China Institute]

GEO-POLITICAL AND GLOBAL ECONOMIC PERSPECTIVES

Key incisive excerpts from insightful articles that shed light on how things will be shaping up over the next few years. These have been bunched under:

A. **IMPLICATIONS OF THE POPULIST FAR RIGHT REGIME IN US**
B. **ECONOMICALLY TRUMPED (Impact of Trump on global economy)**
C. **THE EUROZONE CRISIS**
D. **OIL**
E. **MIDEAST**
F. **PAKISTAN/ CPEC & INDIA**

A. IMPLICATIONS OF THE POPULIST FAR RIGHT REGIME IN US

1. This Is How Steve Bannon Sees The Entire World
Nov. 17, 2016, J. Lester Feder, BuzzFeed News

The soon-to-be White House chief strategist, and Trump's ideologue, laid out a global vision in a rare 2014 talk – one that reveals the far right ideas that will now be put into motion from the White House:

A **racist element** in far-right parties "all gets kind of washed out", that the **west was facing a "crisis of capitalism" after losing its "Judeo-Christian foundation"**, and he blasted "crony capitalists" in Washington for failing to prosecute bank executives over the financial crisis. [...] whatever the causes of the current drive to the caliphate was - and we can debate them, and people can try to deconstruct them - **we have to face a very unpleasant fact: and that unpleasant fact is that there is a major war brewing, a war that's already global.** [...] I think strong countries and **strong nationalist movements in countries make strong neighbors, and that is really the building blocks that built Western Europe and the United States**, and I think it's what can see us forward. [...] in the United States where Putin is playing very strong to social conservatives about his message about more traditional values, so I think it's something that we have to be very much on guard of. Because **at the end of the day, I think Putin and his cronies are really a kleptocracy, that are really an imperialist power that want to expand.** [...] **you should take a very, very, very aggressive stance against radical Islam. And I realize there are other aspects that are not as militant and not as aggressive and that's fine.**

2. The Trump Administration's "Alternative Right": The Swamp Deepens...
By Tony Cartalucci
Global Research, November 15, 2016

Barack Obama's foreign-policy legacy includes reduced American global influence, dramatically underfunded military and intelligence capabilities, and rising concern among longtime allies about Washington's understanding of international threats. A world of nuclear-weapons proliferation and growing radical Islamic terrorism are the consequences. [...]What is perhaps most ironic and telling of all of just how manipulative and disingenuous both Bolton and outlets like Breitbart News are, **they have repeatedly and desperately deferred to the use of Islamophobia to polarize and reassert pro-war establishment narratives among the "alt-right."** [...]In the midst of this wasteland that has developed over the past eight years, Israel and America's Arab friends are desperately waiting for a strong American president who understands who his friends are. President-elect Trump can change the regional political dynamic quickly, signaling that US elections do truly have consequences.

These "Arab friends" of Bolton's are in fact Saudi Arabia and Qatar, two nations that have been revealed during the Wikileaks John Podesta-Hilary Clinton e-mail deluge as direct sponsors of ISIS and other terrorist organizations. [...]The U.S. has also taken part in clandestine operations aimed at Iran and its ally Syria. A by-product of these activities has been the bolstering of Sunni extremist groups that espouse a militant vision of Islam and are hostile to America and sympathetic to Al Qaeda.

3. A Simple Tool For Understanding Trump
   Stratfor, By RevaGoujon
   November 16, 2016

The election of straight-talking populists amid a stressful global environment has laid bare the basic imperatives of the nation-state. [...]Russia's sprawling landmass and lack of natural defenses compel it to reach beyond its borders and build buffers against the West. [...] Should the Kremlin perceive the next U.S. president to be a more pliable negotiator, **its biggest imperative will be to try to reach an understanding that rolls back NATO's encroachment in the former Soviet Union.** But this also means Russia cannot be expected to make any concessions that fundamentally weaken its grip on the critical buffer territory it has seized in eastern Ukraine. [...]**Continental powers such as Germany are trying to manage the fallout from the European Union's disintegration**. For nations sitting on Russia's front lines, such as Poland, now is the time to band together and bolster their defenses. But for those such as Hungary that rest easier behind the shield of the Carpathian Mountains, now is the time to stay close to Moscow and keep their options open. [...]But in the face of economic stress, political tumult, North Korea's nuclearization and uncertainty over Washington's role in the region, they will eventually break with one another to tend to their own needs. And when they do they will become more vulnerable, **giving China ample space to assert its military dominance and extend economic concessions in an attempt to reshape the regional status quo in its favor.[...] Turkey is determined to reclaim its sphere of influence in the former Ottoman belt** reaching from Aleppo through Mosul to Kirkuk. At the same time, **Iran is trying to preserve its influence in the arc between the Persian Gulf and Mediterranean Sea.** As the two countries collide amid the region's broader ethno-sectarian struggle, the volatile Middle East will continue to draw in the United States, as well as Russia. [...]Meanwhile, Israel will wait and react to the larger rivalries unfolding around it. Though the **United States will maintain its relationship with Israel, it is unlikely to go out of its way to support Israel** in ways that could alienate the region's key Muslim powers.[...] Still, the nuances of the United States' policy adjustments and the time it takes to shape them will spread **uncertainty in many parts of the world and drive nations to prepare for their worst-case scenarios.** So now is the time to put our ears to the ground and feel the earth tremble. We then need to raise ourselves up, dust ourselves off and watch the map come alive.

4. What a Trump America Can Learn from a Berlusconi Italy
   New York Times, BeppeSevergnini
   Nov. 15, 2016

   Next to Mr. Trump, our former prime minister, Mr. Berlusconi, looks like Winston Churchill. At least he didn't insult his neighbors, mock foreign powers, snub NATO or plan to build a wall to keep out immigrants. [...] Perhaps our most important lesson, though, is that of not giving the president the benefit of the doubt. Social-media sniping aside, Americans have a tendency to want to see the best in their leaders, to see them succeed. Europeans, and Italians above all, have learned better. [...]But Italy can also offer hope. We survived Mr. Berlusconi, and the United States will survive Mr. Trump. The United States is not Russia or Turkey, and Mr. Trump is not Mr. Putin or RecepTayyipErdogan. He's the elected leader of a well-established democracy and a friendly country. And the rest of the world is not about to give up on the United States, the home not just of Donald Trump but also of Bob Dylan, Bruce Springsteen, Jeff Bezos and Philip Roth. We just hope that this election, and what comes after, **makes America a little less willing to lecture the rest of us on what does and does not constitute good government.**

5. Could Trump Reform US Foreign Policy?
   Stephen Kinzer, *Boston Globe*, November 10, 2016

   Donald Trump's victory in our presidential election set off many convulsions, but few were as shattering as the one that dynamited the Washington foreign policy elite. Almost every member of this incestuous band of Beltway bombers supported Hillary Clinton's campaign.

   Several months ago, an evidently frustrated President Obama lamented that American foreign policy comes from a playbook that says Americans have a duty to shape the rest of the world. [...]**To say that Trump's foreign policy ideas are unformed would be an understatement, but he has a few. Three sound highly promising. First, he wants to de-escalate our spiraling conflict with Russia.** [...]Trump's unorthodox view of Russia leads to his second wise foreign policy instinct, about the horrific war in Syria. [...] he is using common sense. It tells him that **Syria poses no threat to the United States, and that our priority**

there should be crushing ISIS, not overthrowing the government. [...]The **third way Trump's foreign policy may break with the playbook has to do with his view of NATO** and the other alliances through which we project military power. During his campaign, he said **he would ask our European and Asian partners to pay for their own defense**. [...]**The common sense with which he sees Russia and Syria fails him when he views Iran.** He also looks suspiciously on Cuba, even though it is poor, weak, and no threat to us. His anti-Mexican and anti-Muslim tirades have alienated huge numbers of people. He has dismissed climate change as a hoax invented by the Chinese to weaken our economy. [...]It would be a delicious irony if Trump gives us the post-Cold War foreign policy that we should have adopted a generation ago.

6. California versus President Trump
   LA Times, Harold Meyerson, November 13, 2016

Just how long that long run lasts will determine how much damage the nation will sustain, and how well California will be able to resist it.

In the short term, California will play the role of progressive outlier in a Trumpified United States. In the long run, however, as the nation becomes more racially diverse and as the liberal millennial generation plays a larger role in national politics, chances are good that America will move closer to California's standards of tolerance and egalitarianism. **Just how long that long run lasts will determine how much damage the nation will sustain, and how well California will be able to resist it.**

7. America's new president - The Trump Era
   The Economist
   November 12, 2016

Mr Trump has pledged to scrap the hated Obamacare. But that threatens to deprive over 20m hard-up Americans of health insurance. **His tax cuts would chiefly benefit the rich and they would be financed by deficits that would increase debt-to-GDP by 25 percentage points** by 2026. **Even if he does not actually deport illegal immigrants, he will foment the divisive politics of race.Mr Trump has demanded trade concessions from China, Mexico and Canada on threat of tariffs and the scrapping of the North American Free Trade Agreement.** [...]Abroad Mr Trump says **he hates the deal freezing Iran's nuclear programme. If it fails, he would have to choose between attacking Iran's nuclear sites and seeing nuclear proliferation in the Middle East. He wants to reverse the Paris agreement on climate change**; apart from harming the planet that would undermine America as a negotiating partner. **Above all, he would erode America's alliances—its greatest strength.** Mr Trump has demanded that other countries pay more towards their security or he will walk away. **His bargaining would weaken NATO, leaving front-line eastern European states vulnerable to Russia. It would encourage Chinese**

expansion in the South China Sea. Japan and South Korea may be tempted to arm themselves with nuclear weapons. [...]As Mr Trump prepares to enter the White House, the long, hard job of winning the argument for liberal internationalism begins anew.

8. The Trump administration - What to Expect: Something between Reaganism and France's National Front, probably
   The Economist
   November 12, 2016

   Optimistic Republicans predict that Mr Trump will be a sort of CEO-president, setting grand strategy while delegating day-to-day governance to Congress and to his vice-president. [...] They describe Mr Trump as a boss who disdains policy memos in favour of face-to-face briefings, and is more fussed by what works and what resonates with his base of working-class voters than with the niceties of ideology. Republicans certainly have a chance to shape America as they will. Mr Trump will get to appoint at least one justice to the Supreme Court, and in the country at large will enjoy support from 34 Republican governors. Overall the party of Mr Obama is weaker than it has been in generations, and faces still more losses in 2018, when the Senate map strongly favours Republicans. [...]During the campaign **foreign-policy grandees from prior Republican administrations were among Mr Trump's harshest critics, shuddering at his geopolitical views.** Now they must decide whether to help a new president with no experience in public office.

9. What Donald Trump's signature says about his personality, according to an expert: 'He's hungry for power'
   The Independent
   November 13, 2016

   His signature transmits wild ambition, dynamism, bravery and fearlessness. He's hungry for power and has both determination and stubbornness in spades. Mr Trump's style indicates that, despite his forceful nature, he is protective too, especially when it comes to his family. He isn't much of a listener, but is "undoubtedly a tough negotiator - he excels at being hard lined, bold and direct. There is a sign in Mr Trump's handwriting of flexibility. The long tall letters indicate "**he's not quite as inflexible** potentially **as people think**.

10. What Will Trump Do?
    Project Syndicate
    November 13, 2016

    The US has never before had a president with no political or military experience, nor one who so routinely shirks the truth, embraces conspiracy theories, and contradicts himself. But, arguably more important, **much of what Trump has promised – on trade, taxation, health care, and much else – either would not improve his voters' economic wellbeing or would cause it to deteriorate further.**

11. The End of US Soft Power?
    Project Syndicate
    November 13, 2016

> **A country's soft power arises from "its culture, its political values, and its foreign policies. But I believe that it also emerges from the world's perceptions of what a country is about: the associations and attitudes conjured by the mention of a country's name.** Hard power is exercised; soft power is evoked. [...] **three types of countries are likely to gain soft power: "those whose dominant cultures and ideals are closer to prevailing global norms; those with the most access to multiple channels of communication** and thus more influence over how issues are framed; **and those whose credibility is enhanced by their domestic and international performance."** The US had done pretty well on all of these fronts. [...]**Trump's ascent to power has shattered that image. It has exposed and encouraged tendencies the world never used to associate with the US: xenophobia, misogyny, pessimism, and selfishness**.[...] The US has long been the "land of the better story." But the story of America told in **this election has deeply diminished the soft power the US evokes. Fear trumped hope. The American Dream became the world's nightmare. In our eyes, America will never be the same – and Trump's term hasn't even begun**.

12. The Republic Repeals Itself
    New York Magazine
    November 9, 2016

> **The only sliver of hope is that his promises cannot be kept. He cannot bring millions of jobs back if he triggers a trade war.** He cannot build a massive new wall across the entire southern border and get Mexico to pay for it. He cannot deport millions of illegal immigrants, without massive new funding from Congress and major civil unrest. He cannot "destroy ISIS"; his very election will empower it in ways its leaders could not possibly have hoped for. [...]**In time, as his failures mount, the campaigns of vilification will therefore intensify. They will have to. And then there will be a terror attack — or several, as he defines the global battle against terror as one against an entire religion and breathes new life into Al Qaeda and ISIS.** [...]**Then he will reinstate Guantánamo and capture prisoners and torture them until the truth he wants is extracted. That truth will be used to further advance the "war against Islam." He will make every Muslim American feel afraid — and foment suspicion and hatred among their neighbors.** [...]**A country designed to resist tyranny has now embraced it. A constitution designed to prevent democracy taking over everything has now succumbed to it.** A country once defined by self-government has openly, clearly, enthusiastically delivered its fate into the hands of one man to do as he sees fit. **After 240 years, an idea that once inspired the world has finally repealed itself. We the people did it.**

13. White Nationalism in the White House
Slate, By Jamelle Bouie
November 9, 2016

According to the campaign press release, **Bannon and Priebus will work "as equal partners to transform the federal government." This means that Trump is serious about the racist and white nationalist rhetoric** he deployed in his bid for the Oval Office. [...]According to conservative writer Ben Shapiro, who worked as "editor-at-large" of *Breitbart*for four years before his anti-Trump views brought waves of anti-Semitic harassment, **Bannon "openly embraced the white supremacist alt-right," strategically pushing "white ethno-nationalism as a legitimate response to political correctness."** If Shapiro's allegation is true—if *Breitbart*'s content reflects the character of its leadership—then **Stephen Bannon is substantively indistinguishable from David Duke and other white supremacists.** [...]We still don't know what Trump's administration will look like. **We do not know his full priorities, and we do not know what he will pursue** upon inauguration in January. But putting Bannon in the White House gives us a clue. The same white nationalist thinking that drove the Trump campaign will soon have a prominent place in the West Wing, working—in Team Trump's words—to "transform the federal government."

14. League of nationalists – All Around the World, Nationalists are Gaining Ground. Why?
The Economist
November 19, 2016

All societies draw on nationalism of one sort or another to define relations between the state, the citizen and the outside world. [...] The most recent example is Donald Trump, who persuaded 61m Americans to vote for him by promising to build a wall on the Mexican border, deport illegal immigrants and "make America great again". [...]**Britain's vote in June to leave the EU was also the result of a nationalist turn.** Campaign posters for "Brexit" depicted hordes of Middle Eastern migrants clamouring to come in. [...] **Vladimir Putin, Russia's president, is not sure what to make of Mr Trump. Though he doubtless welcomes Mr Trump's promise to reset relations with Russia, if America ceases to be the enemy, he will need another one.** [...]In China a similarly ethnic, non-universalist nationalism is being pressed into service by the Communist Party. The party seeks to blur the distinction between itself and the nation, and to prop up its legitimacy now that economic growth, long the main basis of its claim to power, has slowed. [...]**Perhaps unsurprisingly, given the jingoism, many Chinese now see international affairs as a zero-sum game, believing that for China to rise, others must fall.** [...]**A similar story is playing out in Turkey**, a country that only a few years ago appeared firmly on course to join the EU. Now its president, Recep Tayyip Erdogan, vows to build a "New Turkey", bravely standing up to coup-plotters and their imaginary Western enablers. [...] **In India ethnic nationalism, never far beneath the surface, is worryingly resurgent.** Since 2014 the country has been ruled by Narendra Modi of the Hindu-nationalist BharatiyaJanata Party (BJP). The party seeks to distance itself from **radical *Hindutva* (Hindu nationalist) groups, which criticise it as**

"soft" on Pakistan, Muslims and those who harm cows (which are sacred to Hindus). The new nationalism owes a lot to cultural factors, too. Many **Westerners, particularly older ones, liked their countries as they were and never asked for the immigration that turned Europe more Muslim and America less white and Protestant.** They object to their discomfort being dismissed as racism.

15. The Iron Law of Oligarchy
    New Statesman, by John Gray
    November 19, 2016

    The age of unchecked globalization and armed missionaries for liberal values is over. And we are entering a new age of great-power rivalry.
    Having won out against the US media while deploying far smaller resources of money and organization than those of his opponents in both parties, **Trump is not going to be quietly assimilated into the elites he has dislodged from power. No doubt he will be constrained by American institutions.** [...]The economic policies that have so far emerged from Trump's team are eclectic, featuring New Deal-like infrastructure spending, Reagan-style military Keynesianism involving a large increase in defence spending, and tax-cutting supply-side economics. If a programme along these lines is implemented it will amount to a huge stimulus and could spark a spectacular US economic boom. [...]It is too soon to talk of Trump having any fixed stance towards Russia. But **there can be no doubt that, in this regard, the future will be quite different from the recent past.** [...] Beyond the Middle East, Trump has to decide how to approach China. Given that China is the only global power that has consistently implemented a rationalist foreign policy so far, they seem to view his demands for high trade barriers against Chinese exports as campaign rhetoric. [...]Attention will be focused on Italy, where a constitutional referendum called by Prime Minster Matteo Renzi for 4 December could strengthen Beppe Grillo's Five Star Movement, which is pressing for a referendum on Italian membership of the Eurozone. [...]For the UK, Trump's election points to a clean break with the EU.[...] But **Trump's victory has changed world politics irrevocably. The age of unchecked globalization and armed missionaries for liberal values is over.**

16. Our Next President, the Godfather
    Real Clear World, by Richard Cohen
    November 22, 2016

    If Donald Trump were a candid man, if the lie were not his usual first response, if he had shown us his taxes and if he had not compiled a record and reputation as a deadbeat, then his admixture of businesses and family and their convergence in the White House would be troubling enough. But in his head **Trump did not win the White House as the leader of the Republican Party. He won as the head of a family.**

17. A Besieged Trump Presidency Ahead
Real Clear World, by Patrick Buchanan
November 22, 2016

> **His presidency promises to be embattled from Day One.** Already, two anti-Trump demonstrations are being ginned up in D.C., the first on Inauguration Day, Jan. 20, by ANSWER, Act Now to Stop War and End Racism. A second, scheduled for Jan. 21, is a pro-Hillary "Million Woman March." **While the pope this weekend deplored a "virus of polarization," even inside the church, on issues of nationality, race and religious beliefs, that, unfortunately, is America's reality. In a new Gallup poll, 77 percent of Americans perceived their country as "Greatly Divided on the Most Important Values,"** with 7 in 8 Democrats concurring. On the campuses, anti-Trump protests have not ceased and the "crying rooms" remain open. Since Nov. 8, mobs have blocked streets and highways across America in a way that, had the Tea Party people done it, would have brought calls for the 82nd Airborne.[...] **A time for truth. Despite the post-election, bring-us-together talk of unity, this country is hopelessly divided on cultural, moral and political issues, and increasingly along racial and ethnic lines.** Donald Trump's presidency will be a besieged presidency, and he would do well to enlist, politically speaking, a war cabinet and White House staff that relishes a fight and does not run. **The battle of 2016 is over. The long war of the Trump presidency has only just begun.**

18. Trump: Making America White Again
New York Times, by Charles Blow
November 21, 2016

> ***This may well be the beginning of the end: the early moments of a historical pivot point, when the slide of the republic into something untoward and unrecognizable.***
> **Increasingly, as he picks his cabinet from among his fawning loyalists, it is becoming clear that by "Make America Great Again," he actually meant some version of "Make America a White, Racist, Misogynistic Patriarchy Again."** It would be hard to send a clearer message to women and minorities that this administration will be hostile to their interests than the cabinet he is assembling. **He has promoted Stephen Bannon, an alt-right, white nationalist cheerleader and sympathizer, to chief White House strategist. [...]He has chosen the extreme anti-Islam hyperbolist Lt. Gen. Michael Flynn — who also happens to be a stop-and-frisk apologist and has tweeted that "fear of Muslims is RATIONAL" — as his national security adviser.** [...]Trump is making a statement that it would behoove America to heed: **The America he envisions, and is now actively constructing from his perch of power, is not an inclusive America. It is a society driven by a racial Orwellianism that seeks to defend, elevate and enshrine the primacy of white men and is hostile to all "others."** That orange glow emanating from the man is the sun setting on America's progress, however slow and halting, on race and gender inclusion and equity.

19. Team Trump's Message: The Clash of Civilizations Is Back
Real Clear Politics / Politico, by Michael Hirsh, November 21, 2016

This (Trump's election) **has lent new credence to the projection made a quarter century ago by the scholar Bernard Lewis—who coined the phrase "clash of civilizations" (though it was later made famous by political scientist Samuel Huntington)**—that the Arab world would not advance until it had its own Reformation analogous to the West's, vanquishing religion from the realm of politics and confining it to the mosque. Until that happens, Lewis argued in his original 1990 essay—in which he also included the Islamic Republic of Iran— **"This is no less than a clash of civilizations—the perhaps irrational but surely historic reaction of an ancient rival against our Judeo-Christian heritage**, our secular present, and the worldwide expansion of both."

B. ECONOMICALLY TRUMPED

1. With Trump in Power, the Fed Gets Ready for a Reckoning
New York Times, by Binyamin Appelbaum
Nov 12, 2016

Donald J. Trump, **the president-elect, has embraced criticism that the Fed is causing more problems than it is solving, and he has surrounded himself with advisers who would like to rein in the institution that has the greatest influence over the direction of the nation's economy.** [...]Presidents in recent decades also have sometimes backed away from replacing the Fed's leadership, because transitions can roil financial markets. President Clinton twice reappointed the Republican Alan Greenspan. In 2010, President Obama reappointed Ben S. Bernanke, first nominated by President George W. Bush, before naming Ms. Yellen in 2014. But **Mr. Trump said in May he would "most likely" replace Ms. Yellen. "She is not a Republican.** [...]Fed officials have strongly opposed any increase in congressional oversight, describing such measures as infringements on the Fed's operational independence that might interfere with the central bank's ability to promote growth.

2. Donald Trump's Impossible Economic Mission Donald Trump's Impossible Economic Mission
Real Clear Markets, by Robert Samuelson
November 14, 2016

Near the top of Trump's to-do list is a pledge to double economic growth from its recent desultory rate of 2% a year to 4% - through massive tax cuts, the relaxation of government regulations and measures that curtail imports. **A huge**

contradiction sits at the core of his economic agenda. He wants faster economic growth (who doesn't?), but his proposed policies would also elevate economic uncertainty - and uncertainty hurts growth. [...]**It's also an open question as to whether Trump's economic strategy will work as expected.** Zandi, for one, is skeptical. Supply and demand are at odds, he says. Trump is stimulating demand with his massive tax cuts but limiting supply by discouraging imports and expelling illegal immigrants. Strong demand will ultimately collide with constricted supply. Inflation and interest rates will rise; a slump might follow. Under the most favorable circumstances, Trump's big plan - his quest for faster economic growth - would be a daunting task. Under realistic circumstances, it could be mission impossible.

3. It's not the election, but what happens after it, that should have investors worried
   Market Watch, by Shawn Langlois
   November 14, 2016

   It's not just the uncertainty leading up to the election that should have bulls worried, it's what could happen after that. **I expect the biggest surprise from this election isn't happening on November 8th, but in the days and weeks that follow. Some chart readers believe the "three peaks and domed house" pattern above tends to flash when long, sustained bull markets near their end. [...] if you don't see how this chart reflects an absolute failure of those roaming the corridors of power, then you're either delusional, protected from the consequences of it, or are getting enriched by the failed system**.

4. Opinion: Donald Trump's next default lies dead ahead
   Market Watch, By Brett Arends
   Nov 16, 2016
   Voters get a dubious IOU to fulfill campaign promises

   Donald Trump's 60 million voters are about to learn something the hard way that Wall Street could have told them for free: You give this man your trust at your own peril. [...] **Trump has few if any firm beliefs. He has no political core.** He was a Democrat before he was a Republican. He was for the Iraq War before he was against it. He was for Barack Obama before he was against him. He was for the Electoral College before he was against it. He's held contradictory opinions on everything. **There is absolutely no reason to believe he was sincere about a single thing he said during the campaign. The only constant is that Trump will do whatever is best for him, and, probably, his children**.

5. Populism Takes a Wrong Turn
   Janus Capital Group, by CEO Bill Gross
   Nov 16, 2016

   The Trumpian Fox has entered the Populist Henhouse, not so much by stealth but as a result of Middle America's misinterpretation of what will make America great again. **Investors, as *The Economist* astutely pointed out, face a possible no-**

win situation. Unless the worker's share of GDP reverses its downward trend, and capital's share peaks, then populists worldwide will reject establishment parties in almost every future election – initiating in some cases growth-negative policies revolving around trade, immigration, and yes, in Trump's case, lower taxation that may lower GDP growth, not raise it. Investors must drive with caution, understanding that higher deficits resulting from lower taxes raise interest rates and inflation, which in turn have the potential to produce lower earnings and P/E ratios. There is no new Trump bull market in the offing. Be satisfied with 3-5% globally diversified returns. The Wall Street, finance-led hegemon is fading. The Populist sunrise has barely broken the horizon.

6. Are Republicans Opening the Door to More Pork Barrel Spending?
   The Fiscal Times, by Rob Garver
   November 15, 2016

   An unexpected move to vote on a proposal to restore earmarks to the federal appropriations process has conservative groups on Capitol Hill scrambling to drum up resistance before the incoming members of the House of Representatives take a vote on the chamber's rules for the next Congress. [...]Any member of Congress who votes to bring back old-school, backroom, pork-barrel spending through earmarks is putting himself or herself firmly against the American people who just elected Donald Trump president, as he campaigned emphatically on the issue of draining the swamp in Washington. [...]In the years since earmarks were eliminated, this argument goes, low-ranking members have felt free to buck leadership on a regular basis because there isn't much of a price that an angry House Speaker can extract. Others argue that earmarks have a place in the appropriations process because members of Congress know their individual districts far better than bureaucrats in Washington, and therefore have more insight into where federal dollars might do the most good.

7. Here's What Could Scuttle Trump's Big Spending Plans
   The Fiscal Times, by Eric Pianin
   November 11, 2016

   No longer able to use seat-of-the-pants calculations, **Trump will be obliged to operate within the confines of budget resolutions, statutory spending caps, debt ceilings and Congressional Budget Office audits as he promotes his agenda.** [...]If they do decide to drag out the process with another continuing resolution, Kogan noted, it would work a hardship on government agencies that already are struggling to operate with added responsibilities under last year's appropriations levels. **Regardless of what the Republicans ultimately decide, "There will be one elephant in the room,"** according to Taxpayers for Common Senate, a government watchdog. **And that is the persistent tight spending caps mandated by the Budget Control Act of 2011. Congress approved those caps in a bid to get a better handle on the rising debt.The BCA caps on defense and non-defense spending will last until 2021 unless Congress and the new president decide to change them.**

8. Economic Doctors Have Misdiagnosed the Economy
   Real Clear Markets, by Ray Keating
   November 15, 2016

   During the 2016 presidential campaign, there was a great deal of bad diagnoses served up on the U.S. economy. As a proposed successor to President Barack Obama, Hillary **Clinton ran, more or less, a status quo campaign. In her view, the patient was pretty darn healthy. Such a conclusion missed glaring symptoms that something was desperately wrong. [...]However, Donald Trump - now President-elect Trump - saw that the patient was very ill. And while he threw about an assortment of possibilities of what might be wrong, he clearly was passionate about trade being a key negative - another misdiagnosis**. [...]On trade, whether individuals and businesses exchange domestically or across borders, it's critical to understand that the economy is not a zero-sum game. Under free trade, more robust growth in places like Mexico and China mean expanded opportunities for U.S. businesses and workers. [...]Contrary to fictional TV doctor shows, however, when it comes to the economy, no guarantee exists that someone is going to offer the right diagnosis and treatment. To the extent that President-elect Trump focuses on sound policy prescriptions of substantive tax and regulatory relief, and reining in the size of government, while putting aside anti-trade snake oil, the U.S. economy will recover and return to robust growth.

9. Trump Can't Repeal the Laws of Economics
   Washington Post, by Lawrence Summers.
   November 14, 2016

   Investors have, on balance, concluded that the combination of a shift to very expansionary fiscal policy and major reductions in regulation in sectors ranging from energy to finance to drug pricing will raise demand and reflate the U.S. economy. [...]I am optimistic regarding the efficacy of fiscal expansion. **But any responsible economist has to recognize that, past a point, it can lead to some combination of excessive foreign borrowing, inflation and even financial crisis.** [...]. While there are reasonable arguments that China manipulated its exchange rate for commercial advantage in the past, the reality is that for the past year the country has intervened to prop up its exchange rate. The same is true of most emerging markets. **Not even U.S. presidents with political mandates can repeal the laws of economics. Populist economics will play out differently in the United States than in emerging markets. But the results will be no better**. All with a stake in the global economy must hope that now, as has happened often in the past, a U.S. president faced with the responsibility of governing preserves the valid core of campaign economic plans while making major adjustments.

[Lawrence Summers is a professor at and past president of Harvard University. He was treasury secretary from 1999 to 2001.]

10. I'm Not Worried about a US Recession, I'm Worried about Another Great Depression
CNBC, by Paul Gambles, Managing Partner at MBMG Group
November 11, 2016

One of the main aftershocks could well be trade. The U.S. president does have a relatively large amount of discretion in trade. New agreements, such as the Trans-Pacific Partnership (TPP) and The Transatlantic Trade and Investment Partnership (TTIP), are likely to be halted. [...]Reform of both individual and corporate taxation is a priority of Congressional Republicans. However, even with control of the House, it will likely face several obstacles, especially without a supermajority. [...]**Trump's victory may mean large parts of the post-financial crisis Dodd-Frank financial reform act being retracted.** [...]In his campaign, Trump alluded to a $1 trillion spending package. Some of this may get past Congress, but it's unlikely the whole lot would. Just a few ripples here, but the obvious opportunity may be in U.S. Treasurys that appear to have reacted badly to the result. [...]Not only has Trump spoken of repealing the Affordable Care Act (ACA) and replacing "Obamacare" (within 100 days) but it is also a priority of Republican Congress members in 2017. [...]we'll never know the counterfactual but **we were getting closer to being trapped between rocks and hard places anyway with nowhere to hide from the inevitable volcanic eruption, especially in China and in Europe whose depressions may well precede and be the catalysts for America's next Great Depression.**

11. What Trump Means for Interest Rates
Bloomberg, by Mohamed A. El-Erian
November 14, 2016

Trump's ascent to the White House is more than a seismic political shift. It has already moved markets and is influencing expectations about economic prospects.

... Trump's economic advisers who seemed to question the effectiveness of prolonged central bank stimulus and expressed concerns that such measures were creating a "false economy." These indications followed complaints during the campaign about the independence of the Fed and the competence of its leadership. If such signals become more frequent in the weeks ahead the potential convergence in interest rate expectations would take on a different complexion. By triggering market concerns about the operational autonomy of the Fed higher bond yields would likely be accompanied by weaker stocks, thereby risking headwinds to economic growth.

12. The Crisis of Interdependence
Stratfor, by George Friedman
October 03, 2016

What occurred in 2008 was a massive decompression of the system. The subprime crisis was the trigger. Excess capital without promising investment was the problem. Capitalism is not kind, but it is efficient, and

that excess capital was destroyed to such a degree that the state had to invent cash to cushion the immolation of capital. [...]**A new ideology has emerged. It is not yet in power, but it is growing. It argues that the nation-state controlling and limiting its dependence is superior to interdependence. It also argues that the nation-state provides benefits that globalism cannot: a sense of community, the preservation of culture, a sense of self. This argument says that humans without a nation are humans without a community. They are alone, lonely, and helpless. And at the root is the argument that there are more important things than money.** [...]**The elite condemns this as racist. Whether it is or is not, it is the response to the dominant ideology after 2008.** The repercussions of 2008 have been milder and slower in coming than in 1929. But **that has ground down the system all the more dramatically. The world after 1929 changed and was never the same. That is true today. All regimes have shifted the way they operate, most democratic elites have been stunned by the changes**, and their contempt for the incivility of their challengers is not enough to maintain the status quo.

C. THE EUROZONE CRISIS

13. Italy Is the Mother of All Systemic Threats
    Forbes, by John Mauldin
    September 13, 2016

    Italy has been in a crisis for at least eight months. The high level of non-performing loans (NPLs) has been a problem since before Brexit. Italian loans are packaged and resold, and Italian banks take loans from other European banks. These banks in turn have borrowed against Italian debt. Since Italy is the fourth largest economy in Europe, this is the mother of all systemic threats. [...] **Germany exports heavily to the EU, and the Italian crisis could cause an EU-wide banking crisis. That would cut deeply into German exports, slashing GDP and driving up unemployment. Logically, the Germans should be desperately trying to head off an Italian default.** [...] German consumption can't possibly make up for half of Germany's GDP. In addition, **the IMF recently said Deutsche Bank is the single largest contributor to systemic risk in the world. A rippling default through Europe will hit Deutsche Bank.**

14. Italy's Countdown to Default has Begun
    The DaftBloggereJournal (Risk Management Open Platform), by Ernest Levy
    October 1, 2016

    S&P's downgrade of Italy's credit rating outlook from stable to negative two weeks ago was like hitting the 'Start' button on the *default stopwatch*. [...]**A Greek default, with Greece having a public debt of 'only' €330 bn, has already caused, and is causing, a lot of unrest in the international markets. An Italian default – with Italy having a public debt almost six times that of Greece – would be impossible to mend by any bailout plan and would have**

catastrophic consequences in the world economy. This is the reason why no politician dares to admit such possibility, afraid of destabilizing the markets. Nevertheless, such a taboo has had tremendous consequences for Italians internally. Lack of international pressure on internal fiscal policies has permited to the governments of the last decade, especially the ones led by Berlusconi's right, to take several steps in the wrong direction. What Italy needs are severe reforms, both financial and political. Otherwise, the nightmare of all european politicians will come true.

15. Will Italy Provoke a Systemic Financial Crisis after December 4?
    Huffington Post, by Georges Ugeux
    November 29, 2016

    Italy is a $2,273 billion time bomb and nobody knows when the markets will decide to stop trusting Italy. As experienced in most financial crises the timing of such change of opinion is both immediate and brutal. At that level of debt, there is no rescue possible... To address the notorious inefficiency of Italian politics, Prime Minister MatteoRenzi launched a national Referendum on constitutional reform scheduled for December 4, 2016. There is some similarity between this referendum and Brexit that was supposed to be won and was having a considerable influence on Europe. Meanwhile, the worst crisis of its banking system threatens the financial stability of his country. **With Italy's banking sector still weak and unsteady, a defeat in the December 4 referendum could deal another blow to political and economic confidence in the Eurozone. Some say this could lead to the end of the euro**, as populists' voices eager to realize that are then given free play.

16. The Problem with Europe is the Euro
The Guardian, by Joseph Stiglitz
August 10 2016

    The euro has failed to achieve either of its two principal goals of prosperity and political integration: these goals are now more distant than they were before the creation of the Eurozone. [...]A single currency entails a fixed exchange rate among the countries, and a single interest rate. Even if these are set to reflect the circumstances in the majority of member countries, given the economic diversity, there needs to be an array of institutions that can help those nations for which the policies are not well suited. Europe failed to create these institutions.

17. Italy's Economy on the Brink
    Deutsche Welle (DW)
    November 14, 2016

    Sluggish growth and rising debts - **Italy is the new Sick Man of Europe. But unlike tiny Greece**, Italy has the third largest economy in the Eurozone and **is considered too big to fail**.

18. Italy Braces For Referendum That Risks Brexit-Style Consequences
    The Bull (.au)
    November 14, 2016

    The danger for investors is that a country of 61 million, which has sick public finances, a crisis-prone political system, weak institutions, a stalled and inefficient economy and a wobbly banking system, could face political upheaval within weeks**. If Renzi departs David Cameron-style after a lost referendum, the Eurozone's third-largest economy could be beset by similar political turmoil to that unleashed in the UK when the Brexit vote succeeded**. [...]Italy's EU and euro membership thus compound the country's political and economic woes. Italians are turning away from the superstate they joined eagerly as a way to bypass their country's political dysfunctions.

19. Fitch Revises Italy's Outlook to Negative
    Reuters
    Oct 21, 2016
    Fitch Ratings has revised Italy's Outlooks to Negative from Stable.

D. OIL

1. Oil is in for an Explosive Move
   Forbes
   Nov 15, 2016

   The distraction for the oil market has been the OPEC decision coming later this month...this would be the first production cut in eight years. It's a huge deal. And it would be a response to the oil price crash they created, two years ago...Oil ultimately fell from around $70 to a low of $26 earlier this year and nearly destroyed the competitive U.S. shale industry...This sets the table for a potentially explosive move in oil next week, when we hear a formal decision from OPEC. From current levels of just over $45 today, there is clear asymmetric outcome on this event. The market has already priced in a balk by OPEC. If they do balk, oil prices probably don't go much lower. If the market has been wrong, and they cut, **we could see $60 oil very quickly.** At least this time, the announcement won't come in a thin holiday market like it did in 2014.

E. MIDEAST

1. Israel in the Trump Era
   Real Clear Politics, By Caroline Glick
   November 15, 2016

   Another establishment that fell on its sword in this election is the American-Jewish establishment. Led by the Anti-Defamation League, **the American-Jewish establishment, including its largest donors, stood almost as one in its**

support for Clinton. The members of the American- Jewish leadership placed their partisan preferences above their communal interests and responsibilities. In so doing they enfeebled the community in a manner that will be difficult to repair. (However) Trump's election provides Israel with the first opportunity in 50 years to reshape its alliance with the US. This new alliance must be based on a common understanding and respect for what Israel has to offer the US as well as on the limits of what the US can offer Israel. The limits of US assistance are in large part the consequences of the many genies that Obama unleashed during the past eight years. And the opportunities will come more in areas related to Israel's relations with the Palestinians and the political war being waged against it by the Europeans and the international Left than to the challenges posed by the ascendance of Islamism in the Middle East. **To be sure, Trump is inconsistent. But from what we do know we must recognize that his rise marks a deflection point in US history. It is a rare moment where things that were unimaginable a month ago are possible. And if we play our cards right, like the American people, Israel stands to gain in ways we never dreamed of.**

2. Donald Trump's dangerous team of crackpots will spread corruption and start new wars in the Middle East
   The Independent, Patrick Cockburn
   November 18, 2016

   Foreign policy advisor John Bolton proposes carving out a Sunni state in northern Iraq and eastern Syria. As a recipe for deepening the conflict in the region, it could scarcely be bettered.Nor will this propaganda about the anti-Muslim bias of the new administration be so far from the truth, going by the track record of many of the people in its security and foreign policy team. Trump is reported to have offered the post of National Security Adviser to General Michael Flynn, **Flynn notoriously sees Islamic militancy not only as a danger, but as an existential threat to the US.** He tweeted earlier this year that **"fear of Muslims is RATIONAL"**. [...]ISIS and al-Qaeda may underestimate the degree to which they will benefit from Trump's election, which came at a bleak moment in their fortunes. **He and his henchmen have already frightened and enraged hundreds of millions of Muslims and vastly expanded the constituency to which the jihadis can appeal. [...]There have always been crackpots in Washington, sometimes in high office, but the number of dangerous people who have attached themselves to the incoming administration may be higher today than at any time in American history.**

F. PAKISTAN/ CPEC & INDIA

1. China's Rise as a Regional and Global Power: The AIIB and the 'One Belt, One Road'
   Brookings, by David Dollar
   Jul 15, 2015

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

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

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

3. Implications, Options for India
   Deccan Herald, by Brig PilluSubrahmanyam (rtd.)
   Feb 24, 2016

   India has objected to CPEC passing through GB which is an integral part of India by virtue of having been part of the princely state of Jammu & Kashmir. However, China is trying to overtly downplay such concerns. [...] **Gwadar, though being developed as a commercial port, has the potential to be transformed into a military facility for China's navy with capability to threaten India's energy**

routes from Gulf and as well impinge on India's naval operations in the Arabian Sea and the Indian Ocean. India cannot be oblivious to such strategic changes taking place in its neighborhood with far-reaching regional and global ramifications. [...]For sustained economic growth and development, India certainly needs peace and as well infrastructure connected to markets in the region. The CPEC offers such a platform and engines for growth. If India is to become a reckonable power, it is but incumbent for the nation to ensure robust economic growth for the next decade or two and strengthen itself militarily.

4. Why the New Balochistan Strategy is the Best Option for India
   Observer Research Foundation, by Rajesh Rajagopalan
   Aug 22, 2016

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

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

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

6. CPEC: The Devil is Not in the Details
Herald, by Mushtaq Khan and Danish Hyder
November 2016

> **To understand the policy motivation behind OBOR, one must realize that China is desperate to maintain its growth momentum, especially with the uncertain outlook for the global economy**. [...] We disagree with the perception that OBOR aims for global domination. First, the specific focus on Asia (effectively ignoring Africa and Latin America) does not reveal global ambitions; and, secondly, since **China is the third-largest country by landmass and the second-largest economy in the world, any of its long-term strategy – by definition – will be on a "global" scale. [...]Although Pakistan's support for CPEC is clear from the army's active role in guaranteeing security and the endorsement by Pakistan's main political parties**, if the placement of the various routes is hampered by bureaucratic red tape and provincial self-interests, the key Gwadar-Kashgar corridor could be the only route that will be built. This "CPEC-lite" will fulfill China's needs, but will not create the economic spillovers the other routes promise. [...]**As China targets Central Asia, the Middle East and Africa as part of its strategy for the 21st century, it <u>simply cannot afford to have an economically unstable partner in CPEC</u>. This geopolitical compulsion should generate the political will to undertake tough economic reforms in Pakistan and also ensure that CPEC is sustainable and profitable for the country.**

7. Chinese Naval Ships in Pakistan's Gwadar Port Call for a Rethink of India's Regional Policy
Scroll.in/*Dawn*, by MK Bhadrakumar
November 28 2016

> **What we are witnessing is a historic shift in regional alignments, which is bringing together China, Pakistan, Russia and Iran on the template of the CPEC. From the Indian perspective, these developments hold profound implications, especially against the backdrop of the unravelling of the United States' pivot strategy in the Asia-Pacific. Some hard conclusions need to be made. Difficult decisions lie ahead for the Indian establishment. Quite obviously, India has been tilting at the CPEC windmills in vain, fancying its capacity to block the flagship of China's One Belt One Road appearing in its north-western neighborhood ... the manifest China-Pakistan-Russia-Iran regional convergence highlights the geopolitical realities of the emergent world order.**

8. Mad Hubris on Indian Side: 'War Has Started, Official Announcement has not Made'
Senior BJP leader Subramanian Swamy advises Indians to get ready for nuclear war with Pakistan
India.com
September 24, 2016

Bharatiya Janata Party leader and recently appointed Rajya Sabha MP, Subramanian Swamy on Friday made a sensational statement by urging the Indian government to attack Pakistan in the aftermath of Uri attack that led to the death to 18 Indian soldiers. **Subramanian Swamy urged the Narendra Modi government top not to give undue importance to Pakistan's nuclear weapon and attack the neighbouring country if full fledge even if it results in a full-blown nuclear war.** In a news channel interview, Subramanian Swamy also advised: "10 crore Indians to be prepared to get killed by nuclear strikes". Speaking at ABP News' flagship programme, Subramanian Swamy said, "If there is a nuclear war with Pakistan, only 10 crore Indians will die. But India will still be left with 110 crore population. **Our nuclear bombs will wipe off Pakistan from world's map".**

9. India's Great Rupee Fail
   November 15, 2016
   Bloomberg, By Mihir Sharma

   One week after India's sudden declaration that 500- and 1,000-rupee notes were no longer legal tender, the economy is in chaos. And that's perhaps because the policy was designed as much to shock and awe observers with the government's command of the Indian economy as to control India's "black money" problem. **What seemed at first to be a masterstroke by Prime Minister Narendra Modi now looks like a grave miscalculation.**

10. India's armed forces: Guns and Ghee
    The Economist
    September 24 2016

    There are serious chinks in India's armour. Much of its weaponry is, in fact, outdated or ill maintained. "Our air defence is in a shocking state," says Ajai Shukla, a commentator on military affairs. "What's in place is mostly 1970s vintage, and it may take ten years to install the fancy new gear." **On paper, India's air force is the world's fourth largest,** with around 2,000 aircraft in service. But an internal report seen in 2014 by IHS Jane's, a defence publication, revealed that **only 60% were typically fit to fly.** A report earlier this year by a government accounting agency estimated that the "serviceability" of the 45 MiG 29K jets that are the pride of the Indian navy's air arm ranged between 16% and 38%. They were intended to fly from the **carrier currently under construction, which was ordered more than 15 years ago and was meant to have been launched in 2010. According to the government's auditors the ship, after some 1,150 modifications, now looks unlikely to sail before 2023.**

    Such delays are far from unusual. India's army, for instance, has been seeking a new standard assault rifle since 1982; torn between demands for local production and the temptation of fancy imports, and between doctrines calling for heavier firepower or more versatility, **it has flip-flopped ever since. India's air force has spent 16 years perusing fighter aircraft to replace ageing Soviet-era models.** By demanding over-ambitious specifications, bargain prices, hard-to-meet local-content quotas and so on, **it has left foreign manufacturers**

"banging heads against the wall", in the words of one Indian military analyst. Four years ago France appeared to have clinched a deal to sell 126 of its Rafale fighters. The order has since been whittled to 36, but is at least about to be finalised.

India's military is also scandal-prone. Corruption has been a problem in the past, and observers rightly wonder how guerrillas manage to penetrate heavily guarded bases repeatedly. Lately the Indian public has been treated to legal battles between generals over promotions, loud disputes over pay and orders for officers to lose weight. In July a military transport plane vanished into the Bay of Bengal with 29 people aboard; no trace of it has been found. In August an Australian newspaper leaked extensive technical details of India's new French submarines.

The deeper problem with India's military is structural. The three services are each reasonably competent, say security experts; **the trouble is that they function as separate fiefdoms. "No service talks to the others, and the civilians in the Ministry of Defence don't talk to them,"** says Mr Shukla. Bizarrely, **there are no military men inside the ministry at all.** Like India's other ministries, defence is run by rotating civil servants and political appointees more focused on ballot boxes than ballistics. "They seem to think a general practitioner can perform surgery," says AbhijitIyer-Mitra, who has worked as a consultant for the ministry. **Despite their growing brawn, India's armed forces still lack a brain.**

IMF'S TWELFTH AND FINAL REVIEW OF PAKISTAN'S THREE-YEAR ECONOMIC REFORM PROGRAM SUPPORTED BY EXTENDED FUND FACILITY (EFF) ARRANGEMENT

The Executive Board of the International Monetary Fund (IMF) on September 28, 2016 completed the twelfth and final review of Pakistan's three-year economic reform program supported by an Extended Fund Facility (EFF) arrangement. The Board's decision enables the immediate disbursement of the final tranche in an amount equivalent to SDR 73 million (about US$102.1 million). On September 4, 2013, the Executive Board approved the 36-month extended arrangement under the EFF in the amount of SDR 4.393 billion (about US$6.15 billion, or 216 percent of Pakistan's current quota at the IMF).

1. **Pakistan: Progress made under the IMF's Extended Fund Facility (EFF) and future outlook**

    - Economic growth has gradually increased. Growth estimated at 4.7% in FY 2015-16 and 5% in FY 2016-17, supported by buoyant construction activity and healthy expansion of the services sector.

    - Headline inflation, after declining to 2.9% (on average) during the last fiscal year, from about 7.5% in FY 2012-13, is expected to remain at 5.2% in FY 2016-17. Pakistan has been benefitting from lagged effects of the pronounced fall in oil prices and a marked reduction in domestic interest rates, accompanied by strengthened private sector credit growth.

    - The overall budget deficit (excluding foreign grants) narrowed by 3.9% of GDP under EFF program. The tax-to-GDP ratio increased by nearly 2.5 percentage points of GDP owing to significant reduction in tax concessions and exemptions, increased withholding taxes on non-filers of income tax returns, and improvements in tax compliance and enforcements. Administrative authority to grant new tax concessions were restricted, energy subsidies reduced by about 1.5% of GDP, and capital expenditure increased by about 0.5% of GDP.

    - CPEC, with a total size around US$44.5 billion of which US$28 billion is allocated to early-harvests projects over the next few years, is an opportunity for Pakistan to boost investment and growth.

    - The performance of the banking sector improved, as reflected in higher profitability, strengthened liquidity indicators, robust capital adequacy, and declining (though still substantial) nonperforming loans (NPLs). Steps have been taken to strengthen the framework for NPL recovery, and the regulatory and supervisory framework is being reinforced, including through phased implementation of Basel III standards. Next steps in the reforms agenda include

        - Finalizing the introduction of the deposit insurance scheme
        - Ensuring that all banks are in compliance with regulatory requirements
        - Addressing the still high level of NPLs

2. **Pakistan: Challenges to economic progress**

- Exports small in relation to GDP and declining
- Private investment (including FDI) too low to support higher growth
- Public debt still too high. It increased by about 2.5% of GDP over the 3-year period and remains high at 65% of GDP (430 percent of revenue) as of end-June 2016, well above the emerging market average. [Total debt and liabilities is 73% of GDP in FY 2015-16 (Mar).] Pakistan's tax-to-GDP ratio remains below comparator emerging market countries.
- Fiscal revenue still insufficient to support public investment, health and education
- International reserves still low despite having tripled
- Unemployment remains relatively high at 6% (10.5% among the youth and 9.5% among women)
- Informal economy remains large
- 30% population lives below the poverty line
- Income and gender inequality significant

3. **Risks to Pakistan's future outlook**

- Lower growth in advanced countries, like UK and other EU countries, could weaken exports, remittances and FDI
- Financial crisis in Europe and other markets can affect Pakistan.
- Continued appreciation of rupee would further erode export competitiveness and affect remittances
- Tighter global financial conditions could have an adverse impact on capital inflows
- Lower remittances if the GCC (Gulf Cooperation Council) slow down lasts longer due to low oil prices
- A more pronounced recovery of oil prices

- Domestic risks, such as political uncertainty, security conditions, policy slippages, and delay in privatizing PSEs could affect economic activity and undermine fiscal consolidation.

- On the upside, lower oil prices and a slower pace of increase in international interest rates, would be beneficial for Pakistan's external position and growth.

[Source: IMF's *Pakistan: Twelfth and Final Review – Oct 2016*]

FINANCIAL POSITION OF SELECTED BANKS (Q3, 2016)

- The banking industry has witnessed certain improvements during the period, particularly the Q3 FY 16 in terms of liquidity and balance sheet growth.

- Banking sector deposits posted an overall growth during 9M'16. Market deposits continued to grow during the quarter, reaching a record Rs 10.5 trillion, a growth of 9% over December.

- Gross domestic advances gained some momentum during the period in 9M'16. Banking sector advances declined slightly during the quarter in line with seasonal trends, increasing 5% over December 2015.

- Non-performing loans for the industry went up slightly during Q2'16 with a QoQ increase of 2.5% and stood at Rs. 635 billion as of Jun'16. However, with the growth in the gross advances portfolio, the industry's overall infection ratio declined to 11.1% in Jun'16 from 11.7% in Mar'16.

- In its September Monetary Policy review, the SBP kept its policy rate unchanged at 5.75%, citing concerns on the external account and rising inflationary pressures driven by increased industrial activity.

- The significant market event during the quarter was the maturity of Rs 1.5 trillion of PIBs, as a result of which banking sector spreads are expected to hit a new low.

- Banking sector margins shall remain under pressure, given the low interest rate regime. The Bank remains focused on managing its lending and investment strategy cautiously, with an objective of maximizing shareholder returns.

- The pressure on profitability will stem from declining yields on government securities and lower interest rates, which are eroding net interest margins, while higher lending growth and lower provisioning requirements will only partially offset this pressure.

FINANCIAL POSITION OF SELECTED BANKS

Third quarter-2016 (Rs. in Million)

	NBP	HBL	MCB	UBL	ABL	AL FALAH
Assets						
Sep 2016	1,829,481	2,382,932	974,492	1,593,289	1,029,575	870,405
Dec 2015	1,706,361	2,218,423	1,004,410	1,400,651	991,666	902,608
Equity						
Sep 2016	115,167	167,298	117,127	114,261	73,770	47,312
Dec 2015	116,011	158,352	113,186	105,867	67,969	42,425
Deposits						

Sep 2016	1,416,737	1,716,574	754,885	1,147,451	758,005	641,441
Dec 2015	1,431,037	1,634,945	696,805	1,051,235	734,596	640,189
Advances						
Sep 2016	620,860	671,067	334,411	508,856	334,011	327,718
Dec 2015	578,122	637,384	304,122	455,414	321,605	334,159
Investments						
Sep 2016	868,902	1,367,477	497,162	852,659	561,315	409,547
Dec 2015	829,246	1,270,824	565,696	719,518	544,350	423,100
Interest Expenses						
Sep 2016	44,574	44,617	18,297	30,356	24,045	21,761
Sep 2015	45,850	48,424	24,657	28,996	27,239	24,976
Change Sept over Sept	1,276	-3,807	-6,360	1,360	-3,194	-3,215
Interest Income						
Sep 2016	39,268	62,230	33,716	42,998	25,946	21,687
Sep 2015	37,640	58,153	37,009	41,141	26,776	21,240
Change Sept over Sept	1,628	4,077	-3,293	1,857	-830	447
Net Mark-Up						
Sep 2016	37,149	61,108	34,572	41,869	26,175	21,352
Sep 2015	29,447	55,517	38,434	38,462	26,301	19,887
Change Sept over Sept	7,702	5,591	-3,862	3,407	-126	1,465
Non-Interest Income						
Sep 2016	58,041	83,287	46,430	60,287	34,999	28,279
Sep 2015	54,506	83,577	51,140	55,605	34,108	26,776
Change Sept over Sept	3,535	-290	-4,710	4,682	891	1,503
Admn Expenses						
Sep 2016	34,294	38,858	16,413	23,666	14,094	17,459
Sep 2015	31,790	35,216	16,203	22,318	12,968	15,915
Change Sept over Sept	2,504	3,642	210	1,348	1,126	1,544
Profit/Loss before Tax						
Sep 2016	22,845	43,494	29,164	35,580	20,344	10,621
Sep 2015	22,112	47,125	34,068	32,286	20,513	10,283
Change Sept over Sept	733	-3,631	-4,904	3,294	-169	338
Profit/Loss after Tax						
Sep 2016	13,415	25,755	17,426	21,305	12,228	6,266
Sep 2015	12,105	25,719	20,215	19,271	11,862	6,045
Change Sept over Sept	1,310	36	-2,789	2,034	366	221

BALANCE SHEET OF ALL BANKS

(Rs. in Million)

FINANCIAL POSITION AS OF END	Q3 CY15	Q3 CY16
ASSETS		
Cash & Balances With Treasury Banks	745,977	1,106,360
Balances With Other Banks	142,899	156,287
Lending To Financial Institutions	475,674	331,997
Investments - Net	6,713,758	7,624,525

Advances - Net	4,535,921	5,052,083
Operating Fixed Assets	303,220	320,935
Deferred Tax Assets	62,098	67,288
Other Assets	538,223	474,307
TOTAL ASSETS	**13,517,769**	**15,133,782**
LIABILITIES		
Bills Payable	143,388	154,495
Borrowings From Financial Institution	1,824,998	2,011,892
Deposits And Other Accounts	9,715,165	11,092,103
Sub-ordinated Loans 55,160	41,358	61,525
Liabilities Against Assets Subject to Finance Lease	15	45
Deferred Tax Liabilities	54,137	64,445
Other Liabilities	416,756	424,917
TOTAL LIABILITIES	**12,195,816**	13,809,423
NET ASSETS	**1,321,952**	**1,324,359**
NET ASSETS REPRESENTED BY:		
Share Capital	591,947	580,073
Reserves	224,854	199,717
Unappropriated Profit	254,774	312,400
Share Holders' Equity	**1,071,575**	**1,092,189**
Surplus/Deficit On Revaluation Of Assets	250,377	232,169
TOTAL	**1,321,952**	**1,324,359**

PROFIT & LOSS STATEMENT OF ALL BANKS

(Rs. In Million)

FINANCIAL POSITION AS OF END	Q3 CY15	Q3 CY16
Mark-Up/ Return/Interest Earned	732,693	701,993
Mark-Up/ Return/Interest Expenses	366,382	337,693
Net Mark-Up / Interest Income	**366,311**	**364,300**
Provisions & Bad Debts Written Off Directly/(Reversals)	30,170	10,128
Net Mark-Up / Interest Income After Provision	**336,142**	**354,172**
Fees, Commission & Brokerage Income	60,425	65,349
Dividend Income	13,025	12,061
Income From Dealing In Foreign Currencies	16,429	10,172
Other Income	74,115	57,253
Total Non - Markup / Interest Income	**163,994**	**144,835**
	500,135	499,007
Administrative Expenses	242,581	262,074
Other Expenses	5,922	3,661
Total Non-Markup/Interest Expenses	**248,503**	**265,735**
Profit before Tax and Extra ordinary Items	251,632	233,272
Extra ordinary/unusual Items - Gain/(Loss)	0.45	0.30
PROFIT/ (LOSS) BEFORE TAXATION	**251,632**	**233,272**
Less: Taxation	103,348	94,358
PROFIT/ (LOSS) AFTER TAX	**148,284**	**138,913**

[Source: State Bank of Pakistan reports and financial statements of banks]

INTERNATIONAL ECONOMIC OUTLOOK

[Based on IMF's *World Economic Outlook*, Subdued Demand – Symptoms and Remedies, October 2016]

Global outlook for 2016 and 2017
Global growth is projected to slow to 3.1 percent in 2016 before recovering to 3.4 percent in 2017. The forecast, revised down by 0.1 percentage point for 2016 and 2017 relative to April, reflects a more subdued outlook for advanced economies following the June U.K. vote in favor of leaving the European Union (Brexit) and weaker-than-expected growth in the United States. Financial market sentiment toward emerging market economies has improved but prospects differ sharply across countries and regions, as several emerging market and developing economies still face daunting policy challenges in adjusting to weaker commodity prices.

These worrisome prospects make the need for a broad-based policy response to raise growth and manage vulnerabilities more urgent than ever.

Baseline scenario
The current outlook is shaped by a complex confluence of ongoing realignments, long-term trends, and new shocks.

1. The main unforeseen development in recent months was Brexit. An unfolding event, the long-term shape of relations between the UK and the European Union, and the extent to which their mutual trade and financial flows will be curtailed, will likely become clear only after several years.

2. The impact of the referendum results on political sentiment in other EU members, as well as on global pressure to adopt populist, inward-looking policies, is adding to the uncertainty.

3. Important ongoing realignments—particularly salient for emerging market and developing economies—include rebalancing in China and the macroeconomic and structural adjustment of commodity exporters to a long-term decline in their terms of trade.

4. Slow-moving changes like demographic and labor-market trends and an ill-understood protracted slowdown in productivity are playing an important role in the outlook for advanced economies (as well as for some emerging market economies), hampering income growth and contributing to political discontent.

Forecast for advanced economies
The 2016 forecast reflects weaker-than-expected U.S. activity in the first half of the year as well as materialization of an important downside risk with the Brexit vote. Although financial market reaction to the result of the U.K. referendum has been contained, the increase in economic, political, and institutional uncertainty and the likely reduction in trade and financial flows between the United Kingdom and the rest of the European Union over the medium term is expected to have negative macroeconomic consequences, especially in the United Kingdom. As a result, the 2016 growth forecast for advanced economies has been marked down to 1.6 percent.

Forecast for emerging markets

Growth in emerging market and developing economies is expected to strengthen slightly in 2016 to 4.2 percent after five consecutive years of decline, accounting for over three-quarters of projected world growth this year. However, the outlook for these economies is uneven and generally weaker than in the past. While external financing conditions have eased with expectations of lower interest rates in advanced economies, other factors are weighing on activity. These include

- A slowdown in China, whose spillovers are magnified by its lower reliance on import- and resource-intensive investment
- Commodity exporters' continued adjustment to lower revenues
- Spillovers from persistently weak demand in advanced economies
- Domestic strife, political discord, and geopolitical tensions in several countries

While growth in emerging Asia and especially India continues to be resilient, the largest economies in sub-Saharan Africa (Nigeria, South Africa, Angola) are experiencing sharp slowdowns or recessions as lower commodity prices interact with difficult domestic political and economic conditions. Brazil and Russia continue to face challenging macroeconomic conditions, but their outlook has strengthened somewhat relative to last April.

Global outlook for the medium term

The recovery is projected to pick up in 2017 as the outlook improves for emerging market and developing economies and the U.S. economy regains some momentum, with a fading drag from inventories and a recovery in investment. Although longer-term prospects for advanced economies remain muted, given demographic headwinds and weak productivity growth, the forecast envisages a further strengthening of growth in emerging market and developing economies over the medium term. But this forecast depends on a number of important assumptions:

- A gradual normalization of conditions in economies currently under stress, with a general pickup in growth in commodity exporters, albeit to levels more modest than in the past
- A gradual slowdown and rebalancing of China's economy with medium-term growth rates that—at close to 6 percent—remain higher than the average for emerging market and developing economies
- Resilient growth in other emerging market and developing economies

Both economic and noneconomic factors threaten to keep these assumptions from being realized.

Risks

1. ***Political discord and inward-looking policies***. The Brexit vote and the ongoing U.S. presidential election campaign have highlighted a fraying consensus about the benefits of cross-border economic integration. Concerns about the impact of foreign competition on jobs and wages in a context of weak growth have enhanced the appeal of protectionist policy approaches, with potential ramifications for global trade lows and integration more broadly. Concerns about unequal (and widening) income distribution are rising, fueled by weak income growth as productivity dynamics remain disappointing. Uncertainty about

the evolution of these trends may lead firms to defer investment and hiring decisions, thus slowing near-term activity, while an inward-looking policy shift could also stoke further cross-border political discord.

2. ***Stagnation in advanced economies.***As global growth remains sluggish, the prospect of an extended shortfall in private demand leading to permanently lower growth and low inflation becomes ever more tangible, particularly in some advanced economies where balance sheets remain impaired. At the same time, a protracted period of weak inflation in advanced economies risks unmooring inflation expectations, causing expected real interest rates to rise and spending to decline, eventually feeding back to even weaker overall growth and inflation.

3. ***China's ongoing adjustment and associated spillovers*** continue to be pertinent, even as near-term sentiment regarding China has appeared to recover from the acute anxiety at the start of the year. The economy's transition away from reliance on investment, industry, and exports in favor of greater dependence on consumption and services could become bumpier than expected at times, with important implications for commodity and machinery exporters as well as for countries indirectly exposed to China through financial contagion channels. That risk is heightened by the current short-term growth-promoting measures on which China is relying, as a still-rising credit-to-GDP ratio and lack of decisive progress in addressing corporate debt and governance concerns in state-owned enterprises raise the risk of a disruptive adjustment.

4. More generally, although ***financial conditions in emerging markets*** have continued to improve in recent months, ***underlying vulnerabilities*** remain among some large emerging market economies. High corporate debt, declining profitability, weak bank balance sheets—together with the need to rebuild policy buffers, particularly in commodity exporters—leave these economies still exposed to sudden shifts in investor confidence.

5. A range of ***additional noneconomic factors*** continues to influence the outlook in various regions—the protracted effects of a drought in eastern and southern Africa; civil war and domestic conflict in parts of the Middle East and Africa and the tragic plight of refugees in neighboring countries and in Europe; multiple acts of terror worldwide; and the spread of the Zika virus in Latin America and the Caribbean, the southern United States, and southeast Asia. If these factors intensify, they could collectively take a large toll on market sentiment, hurting demand and activity.

6. **Upside risks:** Despite the abundance of downside risks, the world economy had begun to record slightly stronger-than-expected growth in the first quarter of 2016. Upside developments include the orderly re-pricing in financial markets after the initial shock of the Brexit vote; sustained improvements in the U.S. labor market; and a modest recent uptick in commodity prices, which should ease some of the pressure on commodity exporters. These developments point to the possibility of a better-than-envisaged pickup in momentum, which could be even stronger if countries adopt comprehensive frameworks to lift actual and potential output.

Policy priorities

Urgent action relying on all policy levers is needed to head off further growth disappointments and combat damaging perceptions that policies are ineffective in boosting growth or that the rewards accrue only to those at the higher end of the income distribution.

- **Policies – advanced economies**: In advanced economies, output gaps are still negative, wage pressures are generally muted, and the risk of persistent low inflation (or deflation, in some cases) has risen. Monetary policy therefore must remain accommodative, relying on unconventional strategies as needed. But accommodative monetary policy alone cannot lift demand sufficiently, and fiscal support—calibrated to the amount of space available and oriented toward policies that protect the vulnerable and lift medium-term growth prospects—therefore remains essential for generating momentum and avoiding a lasting downshift in medium-term inflation expectations. Comprehensive policies that combine demand support with reforms targeting a country's structural needs, anchored in coherent and well-communicated policy frameworks, can fire up both short-term activity and medium-term potential output.

- **Policies – emerging market and developing economies**: Across emerging market and developing economies, the broad common policy objectives are continued convergence to higher incomes by reducing distortions in product, labor, and capital markets and giving people a better chance in life by investing wisely in education and health care. These goals can only be realized in an environment safe from financial vulnerability and the risk of reversals. Economies with large and rising nonfinancial debt, unhedged foreign liabilities, or heavy reliance on short-term borrowing to fund longer-term investments must adopt stronger risk management practices and contain currency and balance sheet mismatches. For countries hardest hit by the slump in commodity prices, adjustment to reestablish macroeconomic stability is urgent. This implies fully allowing the exchange rate to absorb pressures for countries not relying on an exchange rate peg, tightening monetary policy where needed to tackle sharp increases in inflation, and ensuring that needed fiscal consolidation is as growth friendly as possible.

- **Policies – low-income developing economies**: Low-income developing economies must rebuild fiscal buffers while continuing to spend on critical capital needs and social outlays, strengthen debt management, and implement structural reforms—including in education—that pave the way for economic diversification and higher productivity. While essential at the country level, these policies for all country groups would be even more effective if adopted broadly throughout the world, with due attention to country-specific priorities.

- **Multilateral policies**: With growth weak and policy space limited in many countries, continued multilateral effort is required in several areas to minimize risks to financial stability and sustain global improvements in living standards. This effort must proceed simultaneously on a number of fronts. Policymakers must address the backlash against global trade by refocusing the discussion on the long-term benefits of economic integration and ensuring that well-targeted social initiatives help those who are adversely affected and facilitate, through retraining, their absorption into expanding sectors. Effective banking resolution frameworks, both national and international, are vital, and emerging risks from nonbank intermediaries must be addressed. A stronger global safety net is more important than ever to protect economies with robust fundamentals that may nevertheless be vulnerable to cross-border contagion and spillovers, including strains that are not economic.

COMMODITIES OUTLOOK

SUGAR:

SUGAR PRICES

YEAR	Rs/Kg (LOCAL)	$/Kg (LOCAL)	$/Kg (GLOBAL)
2011	72.82	0.86	0.71
2012	57.16	0.64	0.61
2013	53.41	0.56	0.39
2014	54.80	0.54	0.37
2015	58.91	0.58	0.30

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

SUGAR PRODUCTION

YEAR	Million Tonnes (LOCAL)	Million Tonnes (GLOBAL)
2011	4.2	162.2
2012	4.6	172.3
2013	5.1	177.6
2014	5.6	175.6
2015	5.1	174.3
2016 (Provisional)	5.2	173.4
2017 (Forecast)	5.3	176.9

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

- World sugar prices, with the return to a deficit phase, are expected to increase only slightly for a couple of years as a consequence of high level of stocks and low oil prices. They are then foreseen to follow a moderate upward trend.

- Global sugar production, despite an expected fall in the coming season in some producing countries, should rise over the course of the decade, sustained by demand growth and a reduction in stocks. Over the ten-year period, the growth in production is foreseen to average 2.1% per annum (p.a.), with production reaching 210 Mt by 2025, an increase of around 39 Mt over the base period (2013-15). Most of the additional production will originate in countries producing sugarcane rather than sugar beet, and the main driver of output growth is area expansion, notably in Brazil, even though yield improvements are foreseen for sugar crops and sugar processing in some other producing countries (India and Thailand).

- The anticipated growth in world sugar demand for the next decade is steadier with an increase of 2% p.a. resulting in a decrease of the stock-to-use ratio from 45% in the base period to 39% in 2025. However, the growth in demand is mixed with nearly no growth in the matured developed countries and stronger prospects in developing countries, in particular Africa and Asia. In developing countries with high sugar calorie intake, no noticeable changes in consumer habits are foreseen, as sugar is an available, cheap source of energy, which is easy to transport and store.

WHEAT:

WHEAT PRICES

YEAR	Rs/Kg (LOCAL)	$/Kg (LOCAL)	$/Kg (GLOBAL)
2011	24.9	0.3	0.3
2012	27.1	0.3	0.3
2013	29.1	0.3	0.3
2014	26.2	0.3	0.3
2015	22.0	0.2	0.2

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

WHEAT PRODUCTION

YEAR	Million Tonnes (LOCAL)	Million Tonnes (GLOBAL)
2011	25.2	649.9
2012	23.5	702.0
2013	24.2	658.7
2014	26.0	715.1
2015	25.1	725.5
2016 (Provisional)	25.5	732.8
2017 (Forecast)	26.0	745.0

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

- Global production of wheat is expected to reach a new record, at 745 million metric tons (mmt), according to the U.S. Department of Agriculture (USDA). Overall, conditions for the global wheat crop are favorable in most key producing and exporting countries, including Argentina, Australia, the European Union, the Russian Federation, and the United States. Minor weather problems (e.g., wet conditions in Western Canada and dry soil in Ukraine) are unlikely to alter current wheat production.

- As a result of the favorable crop conditions, the stock-to-use ratio (a measure of the abundance of supplies relative to demand) is anticipated to reach 34 percent, marginally higher than last season's ratio of 33.8 percent, and a 17-year high. Trade volume is also projected to increase on stronger import demand in the European Union and Thailand.

RICE:

RICE PRICES

YEAR	Rs/Kg (LOCAL)	$/Kg (LOCAL)	$/Kg (GLOBAL)
2011	44.0	0.52	0.56
2012	49.4	0.53	0.58
2013	48.0	0.49	0.52
2014	39.7	0.41	0.43
2015	35.0	0.35	0.39

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

RICE PRODUCTION

YEAR	Million Tonnes (LOCAL)	Million Tonnes (GLOBAL)
2011	4.8	450.6
2012	6.2	485.9
2013	5.5	472.8
2014	6.8	478.4
2015	7.0	478.8
2016 (Provisional)	6.8	474.0
2017 (Forecast)	7.1	493.0

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

- Rice production is projected to increase 4 percent in 2016-17, driven by production increases in Asia—particularly China, India, Pakistan, and Thailand. The expected uptick follows last year's poor crop due to an El Niño-related shortfall in some producing countries in Asia, especially Thailand, where rice output declined by approximately 16 percent from 2014-15 to 2015-16 seasons. Despite increased production, the stocks-to-use ratio of rice is envisaged to rise marginally, due to a 3 percent boost in global consumption. Trade volume in rice is projected to change little as higher exports by India will be offset by reduction in Thailand and Vietnam.

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

COTTON:

COTTON PRICES

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

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

COTTON PRODUCTION

YEAR	Million Bales (LOCAL)	Million Bales (GLOBAL)
2011	11.5	114.7
2012	13.6	127.4
2013	13.0	123.9
2014	12.8	120.4
2015	14.0	118.9
2016 (Provisional)	10.1	107.4
2017 (Forecast)	10.4	110.6

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

- China's stockpiling mechanisms are expected to be replaced by less price-distortionary programs, which are anticipated to resemble programs introduced in the past by the European Union, Mexico, the United States, and others. The policy shift in China is important because the country holds a disproportionally large amount of stocks compared to the rest of the world. Any destocking action by China, even though it is intended towards a less price-distortionary program, is likely to depress world prices.

- Cotton prices rose to near $1.80/kg earlier in the quarter, a 26-month high. This strength reflects a drop in global production in 2015-16 to 21.1 mmt, a decline of 7 percent from 2014-15. World cotton production is expected to change little next season as gains in productivity offset reductions in allocated land. Despite the recent rally in cotton prices, the sector is still mired in unusually high stocks, with China holding more than half of those stocks. Cotton prices are projected to rise 4 percent next year.

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

- **Pakistan accounts for the second largest share of increased global production and is expected to realize faster growth in cotton area than in other crops.** However, growth over 2015-24 begins at a relatively lower base as Pakistan has lagged considerably behind in the adoption of GM cotton.

CRUDE OIL:

CRUDE OIL PRICES

YEAR	$/BARREL (GLOBAL)
2011	104.0
2012	105.0
2013	104.1
2014	96.2
2015	50.8
2016 (Provisional)	41.0
2017 (Forecast)	55.0

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

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

- Oil prices are expected to average $55/bbl, next year, higher than the $53/bbl forecast in July, reflecting OPEC's intention to limit output. Upside risks to the oil price forecast include further supply disruptions among key producers and stronger-than-expected OPEC production cuts. In contrast, greater-than-expected oil output and further weakening in EMDE economic growth could lower prices.

- On September 28, OPEC agreed to limit crude oil output to 32.5-33.0 million barrels per day, effectively ending two years of unrestrained production. This marked an important policy shift, especially for Saudi Arabia, the organization's largest producer. The details of the new plan are to be worked out and announced at the group's meeting on November 30. The Islamic Republic of Iran, Libya, and Nigeria, all OPEC members, are likely to be exempted from the production limits because of earlier production losses. The plan, if implemented, would be the first production cut since 2008.

- Crude oil prices are projected to average $43/bbl in 2016, a decline of 15 percent from last year, and average $55/bbl in 2017. Consumption is expected to begin to exceed production in 2017, particularly in the second half of the year, and help reduce the large inventories. The forecast assumes OPEC will succeed in limiting global production, and that U.S. production will flatten out next year.

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

GOLD:

GOLD PRICES

YEAR	$/TROY OUNCE (GLOBAL)
2011	1568
2012	1669
2013	1412
2014	1266
2015	1161
2016 (Provisional)	1150
2017 (Forecast)	1242

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

- The gold prices are expected to rise 8 percent in 2016, but decline going forward on expectations of U.S. monetary policy tightening and a stronger dollar. Physical demand for gold is expected to recover and remain robust in India and China, while mine production is expected to expand.

- Downside risks to the forecast include stronger-than-expected monetary tightening, dollar strengthening, and weaker demand. Upside risks include rising inflation, macro-economic concerns, adverse geopolitical events, and stronger physical demand from consumers, central banks and investors.

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

- Global gold mine supply growth has trended lower due to declining investment, but has been partly offset by cost reductions and depreciating producer currencies. Nevertheless, significant new production is expected this year as mines commissioned last year continue to ramp up.

- Physical gold demand has been very weak this year, and fell in the two largest consuming countries—India and China. Jewelry demand in India should improve in the fourth quarter during the festival and wedding seasons.

PALM OIL:

PALM OIL PRICES

YEAR	$/MT (GLOBAL)
2011	1077
2012	940
2013	857
2014	821
2015	623
2016 (Provisional)	630
2017 (Forecast)	643

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

- This season's outlook for edible oils remains favorable. After last season's diminished output due to the El Niño-related shortfall in palm oil production—only the second shortfall during the past two decades, both related to El Niño—global production of the eight most consumed oils during 2016-17 is expected to rise 4 percent to reach 183.2 mmt.

- The oilseed supply outlook during the current season (October 2016 to September 2017) is also healthy, with global supplies for the 10 major oilseeds projected to reach 701.1 mmt, 34 mmt higher than the previous season. Most of the increase in supplies is projected to come from a robust soybean crop, expected to reach 53.7 mmt in 2016-17, up from last season's 51.7 mmt.

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

  - **Strong limits to plantation expansion**: Malaysia will keep 50% of the country forested, and Indonesia imposed a forest moratorium in 2011.

  - **Stagnating yields**, but these could improve due to replanting programs in Malaysia.

  - **Higher operating costs**, especially in terms of labor

  - **Subpar infrastructure in Indonesia**, especially for ports