NBP
National Bank of Pakistan

The Nation's Bank

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Research Division, Credit Management Group

To be a leading bank for partnering in financial growth through innovation and service

To be a catalyst for economic growth, serving the nation through diversified product offering, innovation, superior service quality, universal banking capabilities, multiple delivery channels, investment in people and processes and work towards sustainable higher returns for stake holders

People: We will continue to value our *people* and will reward performance.
Service: Our main focus will be on providing superior *service* quality through diversification and development.
Integrity: We will not compromise on *integrity* - zero tolerance for corruption and believe in doing the right thing.
Respect: We *respect* our customers' needs, beliefs and values, working towards their benefit.
Excellence: We will continue to strive for *excellence* in all that we do.

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NBP: Performance at a Glance

Special report

Pakistan: 70 Years of Banking

Pre-partition and independence

At the time of partition, the areas which now constitute Pakistan were mainly agricultural, producing food-grain and agricultural raw material. There were practically no industries as commerce and industry were concentrated in limited and well-defined areas in and around cities like Calcutta, Bombay, and Madras.

Similarly, the areas that were to form Pakistan had a very limited role in banking and finance, as far as Muslims were concerned. The role of domestic banks was particularly limited at that time, accounting for only 25 out of 195 bank offices. This was because much of the banking business before independence was handled by foreign banks – mostly British. Chartered Bank was the oldest, operating since 1863, while Grindlays Bank, operating since 1883, acquired and absorbed many other banks, Lloyds Bank and National Bank of India among others.

In 1947 at the time of partition,

- There were 81 ***scheduled banks*** operating in the sub-continent, with 3496 branches between them. Of these, 631 branches were operating in the territories that now form Pakistan.
- At the same time, there were 751 ***non-scheduled banks*** with 3498 offices, and of these, 148 were established in Pakistan with 704 branches – 70% of the non-scheduled banks being established in East Pakistan.
- The third category of banks operating at the time of independence were the ***exchange banks*** whose business was mainly concerned with financing the export of raw materials, principally jute, cotton and other agri products. These banks, also having a joint stock, were mostly registered.
- Among the Indian banks, the ***Imperial Bank of India*** was the premier banking institution. Established in 1921, it was the largest with the largest number of branches. Besides commercial banking, it also handled central banking functions until a full-fledged central bank, Reserve Bank of India, was established in 1935.

Table 1: Scheduled and non-scheduled banks in Pakistan and British India (31 March 1947)

Types of banks	Number of banks			Number of banking offices		
	Pakistan	British India	% in Pakistan	Pakistan	British India	% in Pakistan
Scheduled banks	13	81	16.0	633	3496	18.1
Non-scheduled banks	148	751	19.7	704	3498	20.1
All joint stock banks	161	832	19.3	1337	6994	19.1

Source: C N Vakil, *Economic Consequences of Divided India*
The Story of the National Bank of Pakistan(1949–1966), NBP publication

Note: The actual number of scheduled banks' offices in Pakistan, on the eve of partition was 631. The difference is due to difference in dates.

The following banks were owned by Muslims at that time in areas that now comprise Pakistan:

1. **Habib Bank Limited** was owned and operated by Muslims in Bombay. Established in 1941 by the sons of Habib Esmail, the founder of Habib Group, in Bombay, it had over 30 branches operating in India at the time of partition. Later, after partition and following the advice of Quaid-e-Azam, Habib family shifted all of its businesses, including Habib Bank, to Pakistan.
2. **Muslim Commercial Bank** (MCB) was established in Calcutta in July 1947, under the ownership of Adamjees and some support from Ispahanis, when the Quaid wished that there should be another Muslim bank in Calcutta.
3. **Australasia Bank** was the only Bank operated by Muslims in pre-partition Pakistan. Established in Lahore in 1942 on a small scale by a businessman who had some trade with Australia, the bank had a very few branches and operated in and around Lahore only.
4. Another small bank, **Bank of Bahawalpur**, was set up in December 1947 in Bahawalpur State in West Pakistan.

Following the announcement of Independence Plan in June 1947, the Hindus residing in the territories now comprising Pakistan started transferring their assets to India. There were many small banks, owned by non-Muslims in the areas that constituted Pakistan. They quickly moved their head offices and branches to India. The two larger ones were **Punjab National Bank** in Lahore and **Comilla Banking Corporation** in East Pakistan.

Resultantly, the number of banking offices (including head offices, regional offices, and branch offices) declined from 631 to 195 between 14 August 1947 and 30 June 1948. Most of these offices belonged to Imperial Bank of India that closed many of its offices in Pakistan and maintained the remaining in partial operation with skeleton staff. The exit was thus faster than the opening of new branches of the four Pakistani banks.

Creation of the central bank – a landmark in Pakistan's banking history

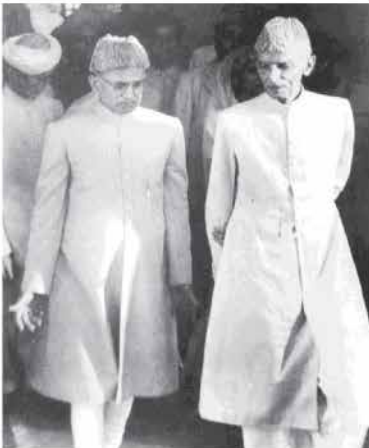
A landmark was made in the history of banking when State Bank of Pakistan (SBP) was created as a central bank and assumed full control of banking and currency in Pakistan in a very short time.

Given the limited financial resources available in Pakistan, it was difficult to run a full-fledged banking system immediately. The Imperial Bank of India acted in its capacity as an agent of the Reserve Bank of India at that time and was not willing to purchase even token amounts of Government of Pakistan securities on the plea that these securities were not marketable. Further, the Indian government withheld Pakistan's share of Rs 75 crore in cash balances with them at the time of partition.

An Expert Committee, appointed in accordance with the provisions of Indian Independence Act, 1947, recommended that the Reserve Bank of India should continue to function in Pakistan till 30 September 1948 to settle the issues relating to time and demand liability, coinage, currencies, exchange rates, etc. between India and Pakistan. It was also stipulated that Pakistan would take over the management of public debt and exchange control from Reserve Bank of India on 1 April 1948, and that Indian Notes would continue to be legal tender in Pakistan till 30 September 1948.

The foreign experts in the committee were also of the opinion that establishing central bank was not practicable until conditions became favorable as suitably qualified staff for running the bank was missing. Contrary to these recommendations, the government of Pakistan worked very sincerely and speedily, and was able to create the central bank, the State Bank of Pakistan, on 1st

July 1948, originally scheduled to be setup in September 1948. Mr Zahid Husain was the founder and the first Governor (1948-53) of SBP who worked with professional acumen, vision and devotion to make it happen. SBP was inaugurated by the Governor General of Pakistan, Quaid-e-Azam Muhammad Ali Jinnah, in his last public appearance, for which he was specially flown from Quetta to Karachi. (*Below: photographs taken on the occasion*)



Quaid-e-Azam's speech on the occasion of the opening of the State Bank of Pakistan (1 Jul 1948)

Mr. Governor, Directors of the State Bank, Ladies and Gentlemen

The opening of the State Bank of Pakistan symbolises the sovereignty of our State in the financial sphere and I am very glad to be here today to perform the opening ceremony. It was not considered feasible to start a bank of our own simultaneously with the coming into being of Pakistan in August last year. A good deal of preparatory work must precede the inauguration of an institution responsible for such technical and delicate work as note issue and banking. To allow for this preparation, it was provided, under the Pakistan Monetary System and Reserve Bank Order, 1947, that the Reserve Bank of India should continue to be the currency and banking authority in Pakistan till the 30th September, 1948. Later on it was felt that it would be in that best interest of our State if the Reserve Bank of India were relieved of its functions in Pakistan, as early as possible. The date of transfer of these functions to a Pakistan agency was consequently advanced by three months in agreement with the Government of India and the Reserve Bank. It was, at the same time, decided to establish a Central Bank of Pakistan in preference to any other agency for managing our currency and banking. This decision left very little time for the small band of trained personnel in this field in Pakistan to complete the preliminaries and they have by their untiring effort and hard work completed their task by the due date which is very creditable to them, and I wish to record a note of our appreciation of their labours.

As you have observed, Mr. Governor, in undivided India banking was kept a close preserve of non-Muslims and their migration from Western Pakistan has caused a good deal of dislocation in the economic life of our young State. In order that the wheels of commerce and industry should run smoothly, it is imperative that the vacuum caused by the exodus of non-Muslims should be filled without delay. I am glad to note that schemes for training Pakistan nationals in banking are in hand. I will watch their progress with interest and I am confident that the State Bank will receive the cooperation of all concerned including the banks and universities in pushing them forward. Banking will provide a new and wide field in which the genius of our young men can find full play. I am sure that they will come forward in large numbers to take advantage of the training facilities, which are proposed to be provided. While doing so, they will not only be benefiting themselves but also contributing to the wellbeing of our State.

I need hardly dilate on the important role that the State Bank will have to play in regulating the economic life of our country. The monetary policy of the Bank will have a direct bearing on our trade and commerce, both inside Pakistan as well as with the outside world and it is only to be desired that your policy should encourage maximum production and a free flow of trade. The monetary policy pursued during the war years contributed, in no small measure, to our present day economic problems. The abnormal rise in the cost of living has hit the poorer sections of society including those with fixed incomes, very hard indeed and is responsible to a great extent for the prevailing unrest in the country. The policy of the Pakistan Government is to stabilise prices at a level that would be fair to the producer, as well as to the consumer. I hope your efforts will be directed in the same direction in order to tackle this crucial problem with success.

I shall watch with keenness the work of your Research Organisation in evolving banking practices compatible with Islamic ideals of social and economic life. The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a miracle can save it from disaster that is now facing the world. It has failed to do justice between man and man and to eradicate friction from the international field. On the contrary, it was largely responsible for the two World Wars in the last half century, The Western world, in spite of its advantages of mechanization and industrial efficiency, is today in a worse mess than ever before in history. The adoption of Western economic theory and practice will not help us in achieving our goal of creating a happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare, happiness and prosperity of mankind.

May the State Bank of Pakistan prosper and fulfill the high ideals which have been set as its goal.

In the end I thank you, Mr. Governor, for the warm welcome given to me by you and your colleagues and the distinguished guests who have graced this occasion as a mark of their good wishes and the honour you have done me in inviting me to perform this historic opening ceremony of the State Bank which I feel will develop into one of our greatest national institutions and play its part fully throughout the world.

Pakistan Zindabad

Normally, a central bank is established when the commercial banking is already well developed. In the case of Pakistan, this was done the other way round because of the special and peculiar circumstances. It was for this reason that one of the functions of the State Bank of Pakistan was to promote and develop commercial banking in the country, which it did successfully.

There were two most urgent tasks that the SBP had to attend immediately. The first was the issuance of currency notes and withdrawal of Reserve Bank of India notes. The first Pakistan notes were issued in October 1948 in the denominations of Rs 5, 10 and 100, and by August 1949, the SBP withdrew the Reserve Bank of India notes of the value of Rs 125.02 crore with the help of Pakistan notes.

National Bank of Pakistan – another landmark

As a central bank, the other most important task for SBP was to set up a national banking system in the country. Besides encouraging Habib Bank to expand its network of Branches, it also recommended to establish a new bank that could supplement the central bank and serve as its agent on the lines of the Imperial Bank of India. The National Bank of Pakistan (NBP) came into being in 1949, and by 1952 it became strong enough to take over the agency function from the Imperial Bank of India.

It was planned to establish NBP in 1950, but it had to be set up early owing to the following events:

- British Pound Sterling was devalued in September 1949, and it was followed by devaluation of the Indian Rupee. Pakistan decided not to devalue (a decision that attracted some criticism at that time, but justified itself in the way it facilitated industrialization of the country.) Consequently, India found our jute and cotton more expensive, and Pakistan found its imports from India cheaper. A ratio controversy ensued, and as a result regular trade and payments between the two countries came to a standstill. India froze the trade surplus earned by Pakistan from a favorable balance of trade.
- A huge crisis threatened when as a result of the above, the jute crop, already in the market, could not be moved as Marwari merchants withdrew Indian finances for the annual movement of jute crop and there was no money to move it. As mentioned earlier, at the time of Partition, there was an absence of mercantile or industrial community in Pakistan. We had nothing except our primary crops like jute and cotton, and even these were handled by India. Calcutta *Marwaris,* who financed, moved and marketed jute did not cooperate, expecting disaster for our jute cultivators.

Thus, NBP had to be set up at once to take over the financing of the jute crop as there was no jute industry in Pakistan and not a single jute loom or spindle; mills had to be built and international connections found for trade. It became necessary to make trade flow into new channels as Pakistan had no normal flow of trade from India for about a year after partition. The government moved quickly and passed two ordinances:

- Ordinance for setting up of Jute Board to reorganize and rehabilitate the jute trade by helping parties to handle it and stabilize the market, and
- Ordinance to establish the National Bank of Pakistan to provide finance to suitable parties.

Thus, NBP stood behind the jute trade; the SBP stood behind the NBP; and the government stood behind the SBP. NBP was established as a public sector bank on 20 November 1949, ahead of its schedule, with 25% of its capital subscribed by the government of Pakistan. It was all organized very speedily and six branches of NBP came into being at once – any doubts about Pakistan's ability to deal with such a situation dispelled, once and for all. The foreign merchants and bankers rushed into the market lest they lose their business to the Jute Board and the NBP, and NBP had to lay out much less money by way of jute finance than it had provided for.

Until June 1950, the bank was engaged exclusively on jute operations. Thereafter, it was felt that it could expand its business to include other commodities as well.

NBP was able to maintain its position in the country's banking business and made significant contribution to the development of the economy largely due to the efforts made by the staff, particularly the senior officers, to improve the bank's efficiency, to secure more business, and build up sound banking traditions.

Developing sound banking, 1949 –1960

Banking Companies (Control) Act that was promulgated in 1949 empowered the SBP to control the operation of banking companies in the country and also train the manpower. While it restricted opening of new branches by foreign banks, Pakistani banks were allowed to open as many branches as possible within the country.

Between 1948 and 1955, the number of Pakistani banks increased from 4 to 5, and their number of branches rose from 23 to 163. By contrast, the number of foreign banks decreased from 34 to 27 with their number of branches declining from 172 to 88. The two large banks, HBL and NBP, strived hard to provide much needed banking facilities. Total volume of bank deposits rose from Rs 191.3 million to 1919.1 million, about ten times, between 1949 and 1955, and further rose to Rs 3236.6 million in 1960.

Side by side with commercial banking, GoP also established development finance institutions (DFIs):

- Pakistan Industrial Finance Corporation (PIFCO) in 1949. In 1961 it was transformed into Industrial Development Bank of Pakistan (IDBP) to perform additional financing functions.
- Pakistan Industrial Development Corporation (PIDC) in 1952
- Agricultural Development Finance Corporation (ADFC) in 1952, which was later merged with Agricultural Bank of Pakistan (established in 1957) to form Agricultural Development Bank of Pakistan (ADBP) in 1961
- Pakistan Industrial Credit and Investment Corporation (PICIC) in 1957, with the advice and help from the World Bank and the USA

Pakistan entered into a phase of ***planned economic development*** in 1956 and further expansion in the banking and credit facilities was essential. Though the number of banks and branches had increased, it was mostly concentrated in large cities. With this in view, SBP accorded priority to the setting up of bank branches in the rural areas, and thus also established ADBP. The State Bank of Pakistan Act, 1956 broadened its powers to increase credit facilities for both agriculture and industry, and required the Bank to regulate the monetary and credit system of Pakistan.

Money supply increased greatly as the government borrowed heavily against treasury bills from SBP, but the credit demand in the private sector did not rise so sharply due to rigorous restrictions on imports. However, in 1958 the government liberalized imports and transferred food-grain trade to the private sector, which made the commodity market firm and demand for funds became acute. The banks had to reduce down their excess reserves and increased their indebtedness to the SBP.

Another significant event in the development of banking in Pakistan was the appointment of the **Credit Enquiry Commission** in 1959 to examine the scope and working of the institutions providing credit facilities to agriculture, trade, industry and commerce and to recommend measures for improvement. All these measures had positive effects on Pakistan's economy.

Sixties – the golden era for economic development

The decade of 1960s was a golden era for economic development of Pakistan, and the banking sector expanded very rapidly. Bank of Bahawalpur became a subsidiary of NBP in 1965 and expanded its operations. Several new banks were established:

- United Bank Limited
- Commerce Bank Limited
- Standard Bank Limited
- Premier Bank Limited
- Eastern Mercantile Bank Limited
- Eastern Banking Corporation

The last two banks were established (in 1959 and 1965 respectively) especially for East Pakistan to promote private enterprise and their head offices were in Dhaka. United Bank was established in 1959 by Agha Hasan Abedi with support from the Saigols and it soon took over the third position (after Habib Bank and NBP) from Muslim Commercial Bank that became the fourth largest bank. As shown in table 2, Habib Bank became the top bank followed by NBP. Australasia Bank, which was operating on a regional level before, now chose to operate on a national level, including East Pakistan, and moved its head office to Karachi.

Table 2: Deposits of major banks (million Rupees)

Banks	1950	1966	1970
National Bank	885.1	2273..1	3342.8
Habib Bank	772.3	2614.5	4270.8
United Bank	70.1	1616.4	3234.5
Muslim Commercial	228.6	730.0	1326.4
Australasia Bank	38.0	231.8	339.0

Source: *Economy of Pakistan: Perspective and Problems* by Dr Mohammad Uzair (2004)

In 1960, **Rural Credit Fund** was also set up with an appropriation of Rs 1 crore to provide medium and long term credit in rural areas. NBP also came forward and in 1964 established its **People's Credit Department** to allow credit facilities to small borrowers.

Foreign banks: As far as foreign banks were concerned, most of the British banks in Pakistan had merged operations with National Grindlays (later ANZ Grindlays) while others wound up their operations in Pakistan. Interestingly, a number of foreign banks, other than British, started their

operations in Pakistan. Some of these banks were ABN (later ABN AMRO), American Express Bank, First National City Bank of New York (later, Citibank), Bank of America, European Asian Bank (later, Deutsche Bank), Bank of Tokyo, Indosuez Bank, etc.

Seventies and eighties decades – nationalization

Nationalization of banks: The separation of East Pakistan and its repercussions in the form of economic depression; rampant world-wide inflation; demonetization of currency in 1972; and nationalization of all banks adversely affected the banking system in Pakistan. All Pakistani banks, excluding foreign banks in Pakistan, were nationalized on 1 January 1974. The government of that time believed in nationalization of key sectors in the economy but did not touch foreign companies in any sector (except life insurance). It was decided to have only five nationalized banks and other smaller banks were merged with them. Thus,

- Habib Bank (Overseas) Limited and Standard Bank Ltd merged with Habib Bank Limited
- Bank of Bahawalpur Limited merged with NBP
- Commerce Bank Limited merged with United Bank Limited
- Premier Bank Limited merged with Muslim Commercial Bank Limited
- Besides, the Pak Bank Ltd., the Sarhad Bank Ltd., and the Lahore Commercial Bank Ltd. merged with Australasia Bank and renamed as Allied Bank of Pakistan Limited

The process of mergers and nationalization led to serious problems, especially human resource related, as after nationalization, uniform grades/ designations and salary scales were prescribed. Adjustments were difficult, like for instance, smaller banks were managed by staff with senior designations but lower pay scale and qualification/ experience. Pakistan Banking Council (PBC) was thus established as a buffer between the government and nationalized banks. However, in due course of time, banks started functioning like government departments, for all practical purposes, and PBC became a powerful empire instead of a professional buffer. Top bankers either left the country or retired and some died of heart attacks because of much stress and pressures. Besides, political loans became common with poor recovery rates.

Table 3: Growths of Deposits after Nationalization (million Rupees)

	1974	1977	1980	1985	1988
Habib Bank	8210.8	16,423.0	27,958.1	82,086.0	92,754.2
National Bank	7071.6	14,209.1	21,384.1	52,477.1	71,824.5
United Bank	6392.5	14,305.6	21,075.5	48,947.7	57,815.1
MCB	2506.7	5416.8	9887.4	19,922.0	21,833.4
Allied Bank	1460.2	2665.2	4365.2	8044.8	14,571.2

Source: *Economy of Pakistan: Perspective and Problems* by Dr Mohammad Uzair (2004)

As shown in table 3, deposits of nationalized banks doubled between 1974 and 1977. This was because several banks were merged in the five banks and the effect was increased business as the process of merger was completed. Further, the banks were asked to expand their operations in smaller cities and rural areas to serve the common man. However, towards the end of the decade of seventies and during eighties, expansion became counter-productive, and PBC had to direct the banks to close loss-incurring branches. The phase of expansion thus gave way to caution and consolidation. There was again a leap between 1980 and 1985. However, the growth slowed down again between 1985 and 1988.

Oil boom in the Middle East: Oil boom in the Middle East in 1970s led to development of several banks in the Gulf. Most of these banks were operated and managed by Pakistani bankers who left the country after nationalization. They knew the market here and opened branches in

Pakistan, giving a tough competition to local banks. These banks operated in the style of foreign banks with select clients and efficient and comfortable service. Some of these oil-based banks were BCCI, Middle East Bank, Bank of Oman (later Mashreq Bank), Emirates Bank, Doha Bank, etc. Two Bangladeshi banks also entered the market in Pakistan at that time.

Islamization: The government of Pakistan took a number of initiatives from 1979 onwards to introduce interest free products in the market, especially in the banking sector. In 1981, the nationalized banks were required to open interest-free accounts that operated on profit and loss sharing, for their customers. In 1985, regulators prohibited new interest-bearing loans and interest-bearing rupee deposits. By 1990, more than 63% of funds on deposits were held in profit-and-loss sharing schemes.

First Women Bank Limited – catering to women at all levels of economic activity: First Women Bank, a scheduled commercial bank, was set up in November 1989 by Pakistan's Prime Minister Benazir Bhutto – also the Islamic world's first woman prime minister – who wanted a bank that would meet the banking needs of women. The Bank provides women with the support services required to navigate the obstacles to the development of business and looks at its micro-finance borrowers as potential SME and Corporate clients, and its unique credit policies promote asset ownership for women. However, the Bank seeks deposits from and provides services to both genders.

Nineties – privatization

In the early nineties, as a part of government's general program of economic liberalization and privatization of state owned entities, two nationalized banks, Muslim Commercial Bank (1991) and Allied Bank (1993), were privatized. Allied Bank was sold to the employees and executives of the bank itself, but later the ownership was transferred to a consortium in 2004 and renamed Allied Bank Limited in 2005.

By early 1994, there were 24 commercials banks: 10 private banks that had opened since 1991, 2 privatized banks, and 12 banks that remained in the state sector.

It can be noticed from table 4 (below) that the two privatized banks registered a much larger growth than the other three banks (still nationalized commercial banks at that time). While the gap between HBL and NBP narrowed with NBP moving towards first position, UBL declined and in fact registered a loss in 1995, for the first time in its history.

Table 4: Deposits of Major Banks (million Rupees)

	1990	1995	Growth %
Habib Bank	120,880	194,661	61.0
National Bank	87,917	208,283	136.9
United Bank	71,067	109,280	53.8
MCB	27,891	99,841	258.0
Allied Bank	19,825	51,124	157.9

Source: *Economy of Pakistan: Perspective and Problems* by Dr Mohammad Uzair (2004)

Bank of Credit and Commerce International (BCCI), founded by Agha Hasan Abedi in 1972, was an important foreign bank in Pakistan in the 1970s and 1980s. The Bank was registered in Luxembourg with head offices in Karachi and London. In 1990, Al-Nahyan Group of UAE obtained a majority share in the company. It collapsed in July 1991 when the Bank of England

closed BCCI's operations amid allegations of massive losses, fraud and money laundering. The Pakistan operations of BCCI were taken over by State Bank of Pakistan and nationalized to safeguard the consumer interests, under a new identity of HCEB or 'Habib Credit and Exchange Bank'. In 1997, the bank was privatized and taken over by Abu Dhabi Group of UAE, with a new identity of 'Bank Alfalah Limited'.

In the decade, some new banks also emerged: Askari Bank, Bank AL Habib, Metropolitan Bank, Bolan Bank, and Prime Bank among others. In the 1990s, we started to have a somewhat similar position that we had in the beginning – a small number of large banks, a reasonably large number of foreign banks, and a larger number of small banks – co-existing successfully as in the past.

Reforms and post-reforms era – 1997 to present

Regulatory reforms: After privatization, regulatory reforms for banks were introduced as under financial sector reforms, the State Bank of Pakistan was granted autonomy in February 1994. This autonomy was further strengthened on 21 January 1997 when Amendment Ordinances to State Bank of Pakistan Act, 1956, Banking Companies Ordinance, 1962 and Banks Nationalisation Act, 1974 were issued and approved by the Parliament in May 1997. The changes in the State Bank Act gave full and exclusive authority to SBP to regulate the banking sector, to conduct an independent monetary policy, and to set limit on government borrowings from the SBP.

The amendments in Banks Nationalisation Act abolished the Pakistan Banking Council and institutionalized the process of appointment of the Chief Executives and Boards of the nationalised commercial banks and development finance institutions, with the SBP having a role in their appointment and removal. The amendments also increased the autonomy and accountability of the Chief Executives and the Boards of Directors of banks and DFIs.

Thus, bank supervision and internal controls were enhanced and corporate governance strengthened. The scope of prudential regulations, introduced in 1989, was widened and capital adequacy regime effectively implemented in line with the Basel Accord. SBP now relies on supervisory pillars like on-site assessment and off-site supervision to identify and assess potential risks to the safety and soundness of banks. CAMELS and CAELS rating systems are used as tools for such assessments. SBP also takes enforcement and resolution actions, ranging from imposition of penalties, administrative and financial sanctions and reference to concerned law enforcement/prosecution agencies, against those institutions that breach rules, regulations or instructions issued by it under various statutes.

Further mergers and acquisitions: In the period from 2000 to 2006, quite a few banks were merged with or acquired by other banks. The branches of Bank of America operating in Karachi/Lahore and Islamabad, a branch of a French bank operating in Karachi, Societe Generale, and the branches of the Emirates International Bank operating in Pakistan were acquired by and merged in Union Bank, a Pakistani bank, while Union Bank itself was later acquired by Standard Chartered Bank in 2006. Likewise, Credit Agricole Indosuez,Pakistan merged with NDLC-IFIC Bank; Bank of Ceylon, Pakistan merged with Dawood Bank; acquisition of majority shares of Dawood Bank Limited by Atlas Group; Trust Commercial Bank merged with Crescent Commercial Bank; Rupali Bank merged with Arif Habib Rupali Bank, etc.

First Islamic banking license: In 2002, Al Meezan Investment Bank converted itself into a full-fledged Islamic commercial bank and concurrently acquired the Pakistan operations of Societe

Generale. The first Islamic banking license was issued to the bank and it was renamed Meezan Bank Limited.

Branchless banking: This significantly cheaper alternative to conventional branch-based banking allows financial institutions and other commercial players to offer financial services outside traditional bank premises by using retail agents, mobile phones, etc. as delivery channels. It can be used to substantially increase the financial services outreach to the unbanked communities, and thus has been the SBP's flagship initiative for increasing financial inclusion. The availability of new mobile banking applications and platforms, biometric verification mechanism, and emergence of 3G/ 4G spectrum has created ease and opportunity for the branchless banking operators.

The number of branchless banking accounts has shown a phenomenal growth, increasing by 87.38% in FY17, as compared to last year, to reach 27.3 million as at the close of FY17.

The Green Banking initiative: This concept, initiated around two years back, may be seen as a model of banking that envisions reorientation of banking practices to incorporate resource efficiency, renewable energy and environmental protection in their policies, products, services and operations. The Green Banking has the potential to address two major concerns of Pakistan – energy shortfall and climate change.

Table 5: Deposits of major banks (31 Dec 2016)

Banks	Deposits (million Rupees)
Habib Bank	1,885,959
National Bank	1657,312
United Bank	1179,887
MCB	781,430
Allied Bank	805,111

Table 6: total deposits and advances (as on 30 Jun 2017)

Total deposits and advances	Amount (Million Rupees)
Total deposits: scheduled banks	11,592,100.6
Total advances: scheduled banks	5,965,939.0

Table 7: Banking infrastructure (30 June2017)

Banking infrastructure	Total number
No. of scheduled banks	30
– Public sector comm. banks	5
– Local private banks	21
– Foreign banks	4
No. of branches	13,039
No. of deposit accounts	49,006,112
ATMs	12,689
Full-time employees*	193,670

* Number corresponds to all banks incl. four specialized banks

[Source: SBP reports]

Moving forward

It can be seen from the above analysis of 70 years that the country has made significant progress in the sector with an overall competitive and healthy market structure. Prudent regulatory measures help the banks to identify and assess potential risks and take pre-emptive measures to

enhance reliability safeguard its soundness and security. The banking industry is thus more resilient now in absorbing both external and internal shocks.

That said, there is still a huge potential for growth in this sector. Given a population of over 207 million, the number of deposit accounts in Pakistan is a little over 49 million (table 7) – mostly because of the unbanked rural population. The advent of branchless banking, Islamic banking products, and vast opportunities for acquiring knowledge and information promise a clearly attainable growth trajectory and bright future for the industry.

Source:

The Story of the National Bank of Pakistan (1949–1966), NBP publication

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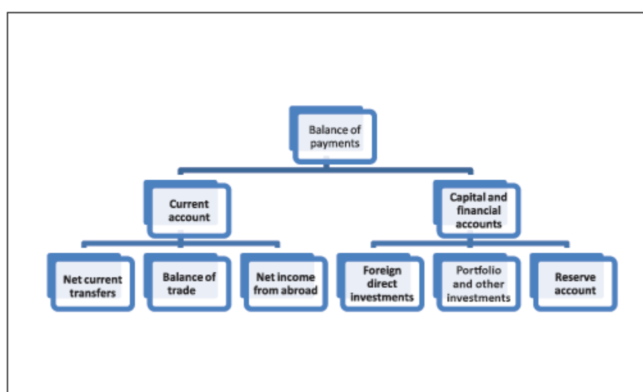
Imbalances in Pakistan's Trade Account

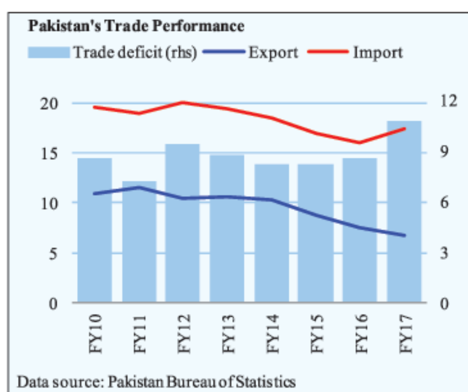
IMPACT OF GLOBAL ECONOMY ON PAKISTAN'S BOP

After a prolonged spell of subdued growth and modest job creation, the global economy at the moment is characterized by an uneven recovery with considerable downside risks, heightened by major changes in political regimes. However, global GDP is estimated to post a steady growth of 3.5% in 2017, up from 3.3% on average during FY16, owing to a rebound in global manufacturing and rising trade volumes. Following the pickup in economic activity, global commodity prices posted a recovery. (Average prices 11.9% higher than last year)

Rising global prices have had a magnified impact on the trade balances of net commodity importers like Pakistan. Moreover, modest growth in advanced countries for the last two to three years has affected demand for Pakistani exports. Further, economic slowdown and political volatility in remitting countries has declined remittances inflow in Pakistan.

FACTORS CONTRIBUTING TO RISING CURRENT ACCOUNT DEFICIT





Factors	Amount in billions (Jul–Jun FY17)	Remarks
Current a/c deficit	US$ 12.1	**149%** ↑ as compared to FY16
Trade deficit	US$ 26.9	**39%** ↑ as compared to FY16
Exports	US$ 21.7	six-year low: **1.3%** ↓ as compared to FY16
Imports	US$ 48.6	**17.8%** ↑ as compared to FY16
Remittances	US$ 19.3	**3.1%**↓ as compared to FY16

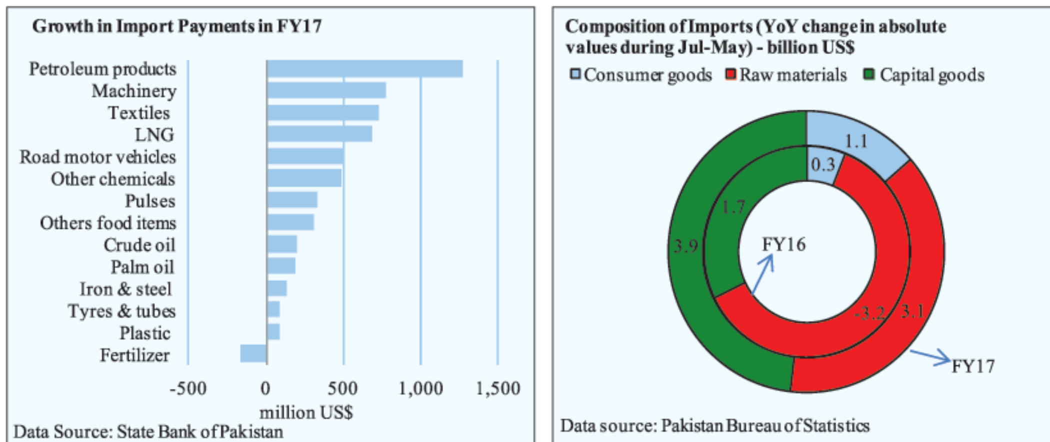
1. Rising imports

Rising imports is the primary reason for such a high current account deficit (US$ 12.1 billion). As Pakistan's economy recovered and picked up pace, the following trends triggered a surge in imports:

- Rising consumer spending
- Growing energy needs of the domestic manufacturing and consumer transport sector
- Industrial expansion, particularly capacity expansions by cement manufacturers leading to a significant increase in the import of grinding and crushing machinery
- Steady progress on CPEC-related power and road construction projects stimulating the demand for machinery, heavy vehicles and fuel

Besides, the following factors also contributed to a rise in imports:

- **Rising global prices**: A reversal in international commodity prices, especially palm oil, has inflated food imports. Import of palm oil, having over 30% share in overall food imports, grew by 12.8% on average in FY17, after declining 8%, on average, in the last four years. It may be noted that quantum palm oil imports declined, while the entire increase was due to higher unit values. [PBS data] Besides, there have been particularly sharp increases in crude oil and metal prices. [International prices have somewhat stabilized after January 2017 on the back of comfortable supplies.]
- **Production losses in the minor** crop sector leading to higher import of pulses and other food items.



Thus, imports grew by 17.8% in FY17 and reached a record level of US$ 48.6 billion.

2. Services account deficit

A substantial increase in imports also led to a sharp rise in freight charges (17%), leading to a rise in services account deficit (4.9% increase), as the freight deficit tends to track the direction of the merchandize import bill. Higher average crude prices in the year also contributed to the increase in freight charges. Further, a sharp fall in inflows under Coalition Support Fund (CSF) – a US$ 387 million decline – also put pressure on the services account.

3. Falling exports

With exports falling for the third consecutive year, the trade deficit increased to a record high US$ 26.9 billion in FY17. Despite a recovery in global consumer spending, the price impact was still negative for many traditional export items during the year, like cotton yarn, bed-wear, readymade

garments, tanned leather and fruits. This depressed their values despite an increase in their export quantum.

In FY17, the overall export performance largely mirrored that of the textile group, whose exports grew by 1.9% in H2, after dropping by 1.8% in H1. However, exports of major non-textile, especially non-basmati rice, leather, footwear and cement, declined throughout the year. Overall *food* exports fell 7.0% in FY17, mainly due to lower shipments of non-basmati rice, meat, and fruits & vegetables; these more than offset the growth noted in exports of seafood, spices and tobacco. In case of non-basmati rice, the decline is evident mainly in the Chinese market, where a glut-like situation has been developed due to excessive stockpiling over the past two years.[PBS data]

Positives for exports:

- Quantum exports of a number of traditional items posting an increase in FY17, owing to increased consumer spending in European countries. This has also boosted quantum textile exports.
- Improvement in energy supplies positively affecting the real sector of our economy
- Availability of low cost financing to export industries through SBP's refinance scheme

4. Decline in worker remittances

The impact of decline in exports and services balance, and rise in imports would not have been to such an extent if worker remittances from abroad had followed its previous growth trajectory – instead it fell by 3.1% in Jul-Jun FY17. Remittances flow fell for the first time in 13 years and recorded US$ 19.3 billion in FY 17. Major factors responsible for the decline are:

- The decline was concentrated in the six oil-rich Gulf Cooperation Council (GCC) countries owing to oil price recession which had set in from mid-2014 onwards. Owing to mounting budget deficits, these countries responded by slashing their infrastructure spending. Besides, labor nationalization drives in many of these economies also contributed to the underlying challenging environment, particularly for aspiring white-collar emigrants.

- The pound's depreciation following the Brexit vote also pulled down the dollar value of remittances sent from the UK.

- Remittances from the US to Pakistan declined 3.2% YoY in FY17 – a decline for the second year in a row. The reason for decline is generally a combination of more stringent regulations regarding global cross-border money transfers with emphasis on due diligence requirements for institutions involved in remitting funds from the country.

Long term view: measures taken to consolidate exports and remittances

a) **Export package and refunds for exporters** : The government is now focused on clearing stuck up refunds to exporters so as to remove cash-flow constraints faced by them. It also aims to ensure timely disbursements under the incentive-based Rs 180 billion export package.

b) **Special Economic Zones (SEZs) under CPEC**: The benefits of these non-power CPEC projects will be visible in the long term when Pakistani exporters enter new markets and diversify their products by using SEZ facilities.

c) **Boosting remittances**: Pakistan Remittance Initiative (PRI) has recently introduced new financial products to facilitate Pakistani expatriates in sending their savings to the country. PRI is also taking its tie-up arrangements model used in the GCC and UK to non-traditional corridors, like Malaysia, South Africa and New Zealand. It is also making efforts to ensure that the cost of remitting funds back home remains manageable for emigrants, so that they do not have to use illegal modes to transfer funds.

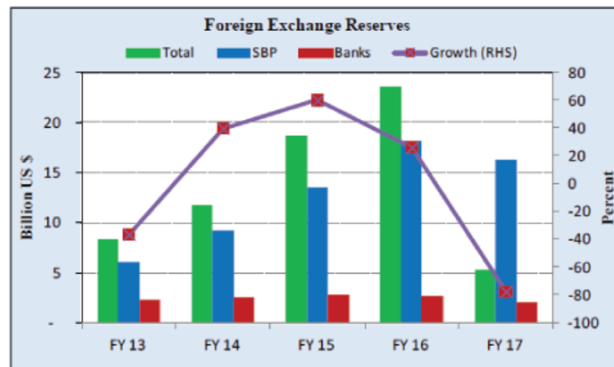
d) **Mobile banking channel for remitting funds**: SBP and PRI are also encouraging wider use of the mobile banking channel in the remittance business.

FINANCING OF CURRENT ACCOUNT DEFICIT

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

  In October 2016, SBP foreign currency reserves had hit a peak of US$ 19.5 billion as proceeds from US$ 1.0 billion Sukuk were received. The level could not be sustained owing mostly to a widening current account gap, lower external government financing, and conclusion of IMF program. SBP reserves particularly declined in the Q3FY17 as the monthly CAD crossed US$ 1.0 billion mark in January 2017; Pakistan repaid US$500 million of SAFE China Deposits that month; and trade deficit increased by almost US$ 3 billion YoY in Q3FY17.

End-period	Total liquid FX reserves (million US$)
FY11	18,244
FY12	15,289
FY13	11,020
FY14	14,141
FY15	18,699
FY16	23,099
FY17	21,402
10-Nov-17	19,695



[Source: SBP economic data and SBP Annual Report 2016-17]

- **Foreign direct investment (FDI)**: At the start of the year, the government had envisaged net FDI of US$ 4.5 billion for FY17. The key assumption was that CPEC-related power projects would receive the bulk of this higher foreign investment. However, the actual inflow of FDI into the power sector declined by 31.4% in the year. Power sector's share within total FDI, as well as in overall FDI received from China, declined significantly over last year. [Sector share: 50.6% of net FDI from China in FY17; 82.8% in FY16] Most of the power firms that had received Chinese FDI in FY16 continued to receive investment from the country in FY17, albeit in lower volumes.

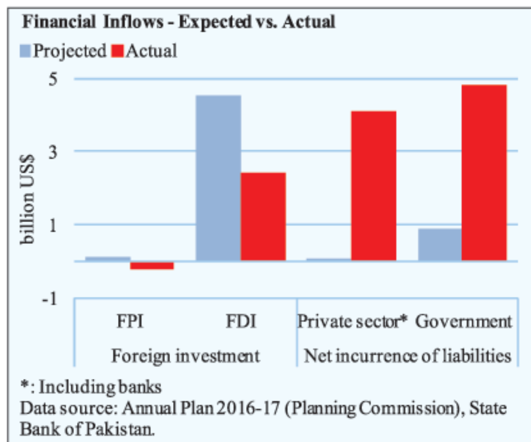
  These trends do not imply that funding for CPEC projects is drying up. In fact, a large portion of the envisaged financing for CPEC power projects came into the country, but in the form of direct borrowings from Chinese banks (i.e. FX coming in the interbank

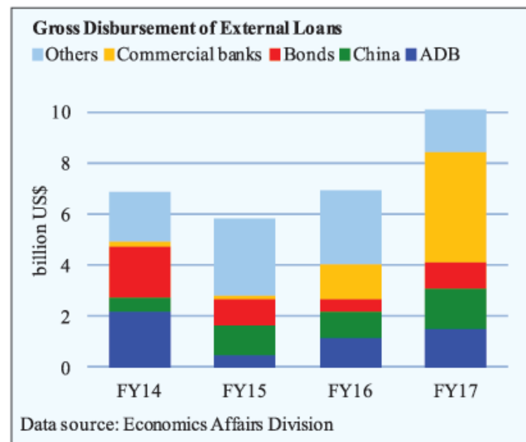
market). That said, in most cases, offshore borrowings were used to purchase power generation machinery to be sent to Pakistan, and to pay foreign contractors working on the CPEC projects (i.e. import of goods and services).

Meanwhile, FDI (as well as official loans from China) into the construction sector spiked this year, as work progresses on multiple road projects under the CPEC umbrella. Among other sectors, food and electronics stood out, mainly because of completion of stake sales of two local companies to foreign investors. On the other hand, a net outflow was noted from the telecom sector in FY17.

Net FDIs in FY17 (Jul–Jun) were recorded at US$ 2.411 billion, rising by 4.6% as compared to FY16. [Net FDI US$ 2.305 bn in FY16 (Jul–Jun)]

- **External borrowings**: In FY17, since both FDI and portfolio investments inflows fell short to finance the current account gap, the country had to scale up external borrowings, mostly commercial loans (including short term) that exposed the economy to both rollover and re-pricing risks.





The strategy for moving forward would thus be based on reviving exports and remittances, and attracting more equity inflows.

SHORT TERM SCENARIO: CRITICAL FACTORS

- **Dollar inflow and outflow**: Exports on a downward trend, remittances marginally declining and expected to decline at a faster rate. On the outflow side, imports are growing while a major outflow is scheduled in the form of debt repayments to IMF. If left unattended it will likely cause significant hemorrhaging of the economy and cause further destabilization, making the country vulnerable to foreign pressures.

- **Artificial reserves**: With a trade deficit now larger than total exports, the country has borrowed to shore up the country's FX reserves, more so since SBP has been maintaining a strongly managed PKR parity, and the only way to keep the FX market calm, was by ensuring that SBP's reserves were growing and comfortable. FX reserves peaked in October 2016 and have been falling consistently ever since.

- **Major debt payments due by 2018:** The current trade (& remittance) fundamentals are not helped by committed FX repayments. The repayment spikes in 2018 will have to be compensated by fresh inflows in 2017.

- **Further devaluation, and fall in the value, of rupee:** If or when a PKR adjustment *does* take place (likely range: 110-115/$), it will be larger and far more disruptive compared to what would have happened if the MoF had not intervened on 6 July 2017. Such one-time adjustment will stoke inflation (beyond current projections), creating strong expectations that interest rates will increase.

  - Impact of rupee devaluation on exports is unlikely to be significant, while
  - Remittances are likely to maintain their flat or marginally downward trajectory

- **Inflationary Effect:** Given the above BoP situation, an abrupt adjustment in the parity is likely in the remaining part of 2017 or early 2018. Impact will be: an automatic increase in retail fuel prices which could unhinge inflation and easily exceed projections. A declining rupee value, hence higher inflation, will necessitate a higher inflation rate likely to move towards double digits along with base interest rates.

RESOLUTION OPTIONS

The traditional IMF Option

- Not yet on the public radar is how the IMF will interpret this worsening BoP situation, given a soft approach to IMF-driven reforms.

- **In case of a future bailout package**, Pakistan's policymakers will be asked to reverse government borrowing from the central bank.This will increase interest rates and also depreciate the PKR to narrow the growing external deficit.

- **The IMF also likely to reverse certain import restrictions imposed by SBP in early 2017** (e.g. cash margins, regulatory duties, and financial conditions imposed on the import of machinery). IMF would likely claim that these policies are distorting trade flows. This could further worsen the BoP situation – at least in the short term.

More innovative option

To nullify the effect of the current crisis and put the economy on an even keel for a rapid take off, **debt equity swap** in which Pakistan's balloon payment is paid off through a loan from China against strategic equity stakes in key PSEs (such as PIA, Steel Mills, others) could provide an optimal and effective resolution.

This would pre-empt the need for a new IMF program, greatly reducing any effect of US pressures and putting the economy (along with institutional reforms) on the road to rapid economic growth and strength. It would also likely lead to further investments into these entities and much needed restructuring.

Update: GoP lays out plan for raising US$ 2 to 3 billion

According to Daily *Business Recorder* newsreport dated 22 November 2017, the government has laid out plans to raise US$ 2 to 3 billion in Eurobond and Sukuk. Both Sukuk and Eurobond are

expected to be offered with tenors ranging from 5 to 30 years and priced at 5.5 – 7.0%. This will provide the much-needed support to Pakistan's foreign exchange reserves.

GoP last raised US$ 1.0 billion in October 2016 through issuance of 5-year Sukuk at historic low rates of 5.5%. In 2015, Pakistan floated a 10-year Eurobond of US$ 500 million size at 8.25%. The government plans to hold investor road shows for the purpose soon. The actual issuance of the bond may take place in December this year.

Current yields of Pak Eurobonds range from 4.5% to 7.5% for maturities from 2019 to 2036.

BOOSTING EXPORTS IN THE SHORT-TO-MEDIUM TERM – SOME SUGGESTIONS

- **Encouraging cotton-polyester mix products.** US demand for cotton-only textile products has declined from 40% in 2011 to about 35% in 2016 which has been replaced by polyester. This is in line with trends in other places as well. Polyester use in finished products needs to be encouraged. More export rebates tilting towards cotton-polyester mix products can help increase finished textile goods exports. *(Potential: US$ 1-5 bn over 1-3 years)*

- **Exports of Halal products.** Total meat exports from Pakistan to Gulf is US$121.924 million (July–Feb 2016-17). Decreased from US$171.888 million (July-Feb 2015-16). Food imports value in the Gulf is around US$32 billion in 2017, out of which Pakistan food export comprise around 1% of total – around US$ 330 million. Here government to government level targets need to be negotiated, especially with Gulf countries, to support growth - as well as incentive packages for exporters of food products. *(Potential: US$ 1-5 bn over 1-3 years)*

- **Hospital / Medical Care.** Cheaper higher-end medical care facilities can be incentivized to be set up in the country to attract foreign patients given the preponderance of qualified doctors and surgeons in the country. *(Potential: US$ 1 bn over 3-5 years)*

The current strategic alignment with China offers significant opportunities for growth of the export sector that can be, and need to be, exploited prudently:

- **Developing CPEC Regional Value Chain: Strategic Chinese investments in Textile Spinning for exports to China** (via large economies of scale). To move away from being a competitor to Chinese textile industry towards being a strategic partner, Chinese economies of scale in the spinning sector in particular, can play a huge role in optimizing and significantly improving the exports of yarn. (An average spinning plant in China is around 300,000 spindles compared to a large spinning plant here with around 40-50,000 spindles. Around 6 plants in China are more than 1 million spindles each.) A government to government agreement and facilitation of Chinese investments/ buyouts in the Spinning sector can lead to a drastic jump in yarn exports to China (and elsewhere) and also provide huge employment opportunities. *(Potential: US$ 4-7 bn over 2-5 years)*

- **Developing CPEC Regional Value Chain: Strategic Chinese involvement in Agro sector for exports to China.** Similarly a government to government exploration and negotiation needs to take place to enable a significant quantum of agro exports (including packaged/specialty foods) including non-basmati rice. Chinese companies/advisors can be

invited here to help organize the sector to boost its exports to China. *(Potential: US$ 3-5 bn over 2-5 years)*

- **IT Exports**. Pakistan's IT exports reached an all-time high for the outgoing financial year of 2016-17 with receipts of nearly US$1 billion received through the banking channel. Pakistan Software Export Board (PSEB), on the other hand, reported almost 3 times higher exports (US$2.81 billion) as compared to SBP's numbers through the input of companies/software houses. This discrepancy needs to be investigated and all proceeds routed through the banking channels. The estimation of PSEB suggested that exports of freelance software alone stand at much more than what the official proceeds have captured.

BREAKUP OF 'OFFICIAL' IT EXPORTS OF SERVICES AND PRODUCTS

Heads of IT Exports	Financial Year 2015-16	Financial Year 2016-17
Call Center	$72.824 million	$82.823 million
Telecommunication Services	$221.446 million	$281.917 million
Hardware Consultancy	$2.282 million	$3.443 million
Software Consultancy	$139.167 million	$227.437 million
Computer Repair/Maintenance	$0.663 million	$ 0.737 million
Export of Computer Software	$286.564 million	$264.065 million
News Agency Services	$0.981 million	$1.011 million
Information Services	$0.559 million	$0.539 million

IT industry has a huge potential with a capacity to expand itself internationally for exports of services. Needs a review of specific policies and tax incentives. *(Potential: US$ 1-3 bn over 1-3 years)*

- **Northern Areas Tourism Initiative.** Aggressive international promotion of Northern Areas tourism, alongside the planned opening of Islamabad's new airport. Places like Swat valley can be showcased as success stories given the successful turnaround of the terror menace in the country. This will also have synergistic advantages on other export sectors by showcasing the country in a new, positive light. *(Direct Potential: US$ 0.5-1 bn over 1-3 years; indirect potential could be significant across all export sectors.)*

- **Fisheries Initiative.** Alongside the development of the coastal belt stretching all the way to Gawadar, new fishing townships and fishing harbor facilities can be put up along with rebate and other initiative to encourage more deep sea fishing and hence exports to Gulf countries, primarily. *(Potential: US$ 0.5-1 bn over 2-4 years)*

- **New Marketing Initiatives via PRGMEA** (the readymade garments association).*(Potential: US$ 0.5-1 bn over 1-2 years)*

Source:

SBP economic data reports and SBP Annual Report 2016-17

Daily *Business Recorder*, Raising $ 2-3 bn, Government lays out plans, 22 November 2017
https://epaper.brecorder.com/2017/11/22/1-page/683488-news.html

<u>Special report</u>

Islamic Banking Industry in Pakistan

PROGRESS AND MARKET SHARE

Presently, 21 Islamic banking institutions (5 full-fledged Islamic banks and 16 conventional banks having Islamic banking branches) are operating in the country. Branch network of Islamic banking reached to 2320 branches spread across 110 districts of the country as of 30 June 2017.

The growth of the Islamic banking industry (IBI) and its market share in overall banking industry seems promising despite being a relatively new concept in our banking system as compared to the long established conventional banking.

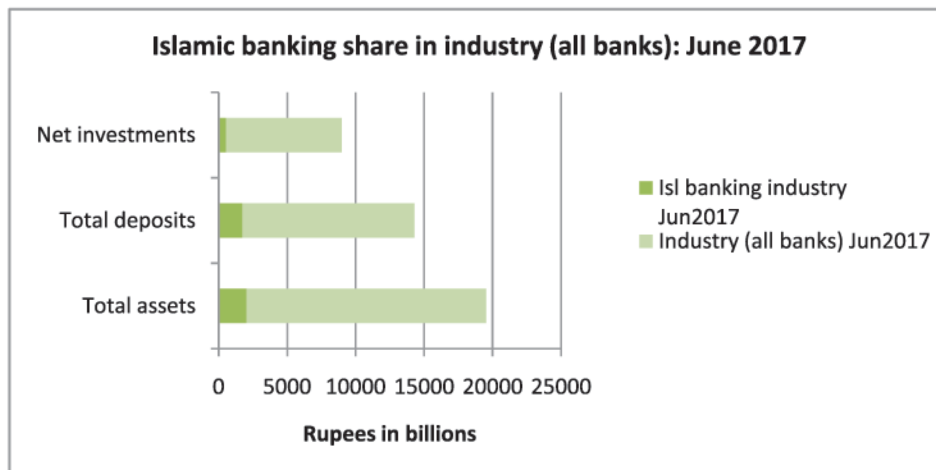
- **Assets**: Islamic banking assets account for **11.6%** share in the overall assets of the banking industry as on end-June FY17. (11.4% on end-June FY16) Total assets of Islamic banking increased by 16.6% on end-June 2017 as compared to end-June 2016. (see table 1)
    - YoY growth in total assets of full-fledged Islamic banks was 13.9% in FY17, while that for Islamic banking branches of conventional banks was 20.8% in FY17.
    - Assets of the five full-fledged Islamic banks 59.5% (Rs 1210 billion) and assets of 16 conventional banks having standalone Islamic banking branches 40.5% (Rs 825 billion) of the total assets of Islamic banking institutions on end-June FY17.
- **Deposits**: Market share of Islamic banking industry's deposits in overall banking industry was **13.7%** by end-June FY17. (13.2% on end-June FY16). Total deposits of Islamic banking increased by 17.8% on end-June 2017 as compared to end-June 2016.
    - YoY growth in total deposits of full-fledged Islamic banks was 15.8% in FY17, while that for Islamic banking branches of conventional banks was 20.8% in FY17.
    - The share of full-fledged Islamic banks and Islamic banking branches of conventional banks in overall deposits of Islamic banking institutions were 60% and 40% respectively on end-June FY17. (Rs 1028 billion and Rs 693 billion resp.)
- **Profit after tax** of IBI registered at Rs 8.8 billion on end-June FY17, as compared to Rs 89.9 billion of the overall banking industry (**9.8% industry share**)
    - The share of full-fledged Islamic banks and Islamic banking branches of conventional banks in overall profit (after tax) of Islamic banking institutions were 43% and 57% respectively on end-June FY17. (Rs 3.8 billion and Rs 5 billion resp.)
- **Investments:** Net investments of Islamic banking account for **6.4%** of the overall investments (net) of the banking industry as on end-June 2017 (8.2% at end-June 2016). Net investments of Islamic banking declined by 16.3% on end-June 2017 as compared to end-June 2016, despite issuance of GoP Ijara Sukuk of Rs 71 billion in June 2017.

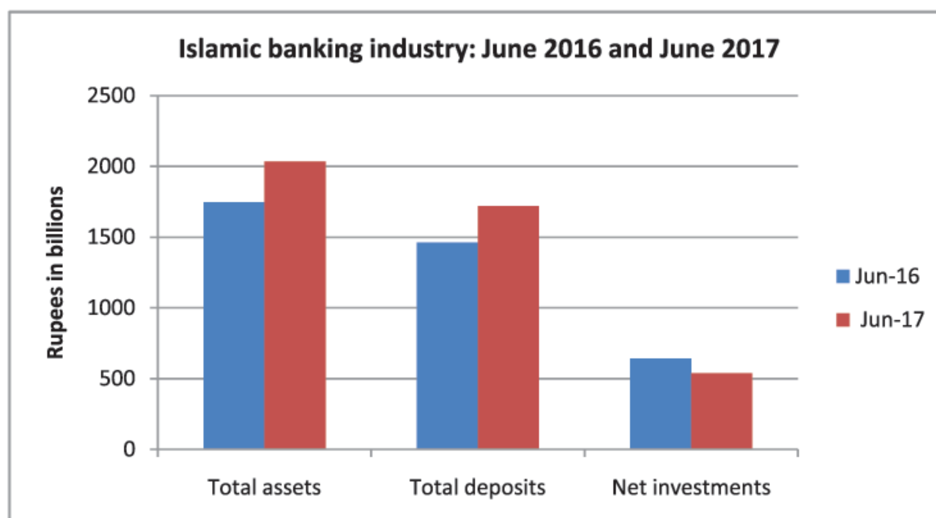
- YoY growth in net investments of full-fledged Islamic banks was **–32.4%** in FY17, while that for Islamic banking branches of conventional banks was 1.2% in FY17.
- The share of full-fledged Islamic banks and Islamic banking branches of conventional banks in overall investments of Islamic banking institutions were 42% and 58% respectively on end-June FY17. (Rs 226 billion and Rs 311 billion resp.)

Table 1: Islamic banking industry (IBI) progress (billion Rupees)

	IBI, Jun-16	IBI, Jun-17	Industry (all banks) Jun-17
Total assets	1745.3	2035.1	17,500.5
Total deposits	1460.7	1720.3	12,573.3
Net investments	641.7	537.1	8448.5
Profit after tax	6.1	8.8	89.9

[Source: SBP reports]





FINANCING MIX

- **Financing and related assets (net)**: Financing and related assets (net) of Islamic banking industry were recorded at Rs 977.4 billion on end-June FY17 and witnessed growth of 40.6% YoY (Rs 694.9 billion on end-June FY16)

    - Full-fledged Islamic banks grew by 31.7% in FY17 under this category and stood at Rs 640.1 billion at the end of the period (Rs 485.9 billion on end-June FY16), while the growth rate for Islamic banking branches of conventional banks was 61.3% and reached Rs 337.2 billion by end-June 2017 (Rs 209.0 billion on end-June FY16).

    - In terms of mode wise financing, Diminishing Musharaka remained the leading mode of financing followed by Musharaka and Murabaha (table 2). Major portion of financing of Islamic banking industry was extended to production and transmission of energy and textile sectors – in line with the overall banking industry's trend. (table 3)

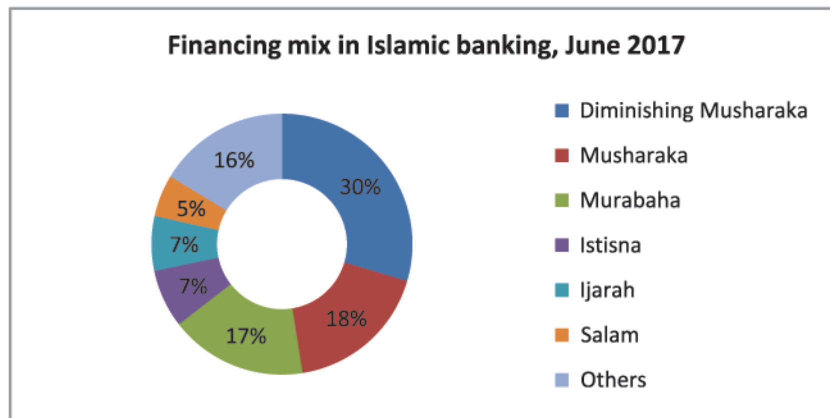
Table 2: Financing mix (% share)

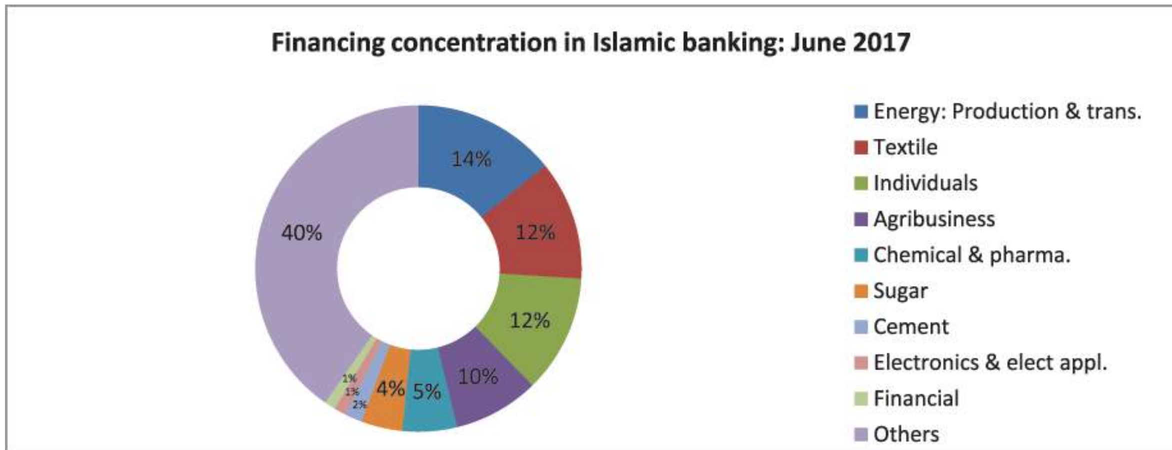
	Jun-16	Jun-17
Diminishing Musharaka	35.8	29.6
Musharaka	12.9	17.9
Murabaha	20.1	17.0
Istisna	7.3	7.2
Ijarah	7.2	6.8
Salam	3.3	5.2
Others	13.4	16.3
Total	100.0	100.0

Table 3: Financing concentration (% share)

	IBI, Jun-16	IBI, Jun-17	Industry Jun-17
Energy: Production & trans.	14.9	14.2	14.6
Textile	13.9	11.8	12.8
Individuals	13.2	11.7	8.9
Agribusiness	4.0	8.5	8.9
Chemical & pharma.	6.5	5.4	4.1
Sugar	2.8	4.1	3.9
Cement	1.7	1.7	1.3
Electronics & elect appl.	1.1	1.2	1.2
Financial	0.6	1.1	3.1
Others	41.2	40.3	41.2
Total	100.0	100.0	100.0

[Source: SBP reports]



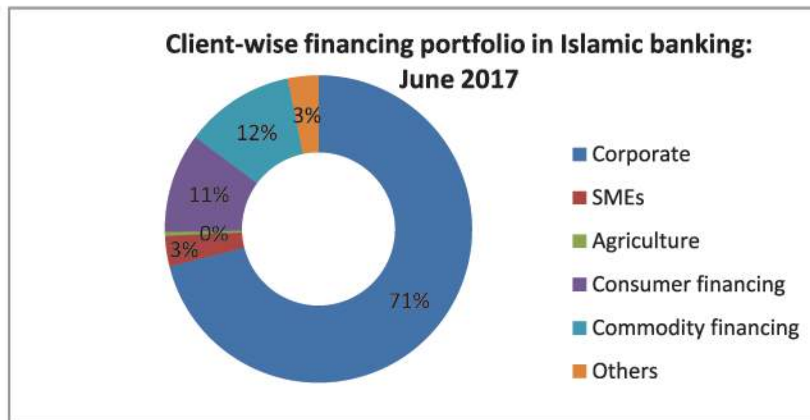


Client-wise financing remained concentrated in the corporate sector, having a share of 71.1% followed by commodity financing with a share of 11.6% by end-June 2017. (table 4)

Table 4: Client-wise financing portfolio of Islamic banking industry (IBI): % share

	IBI Jun-16	IBI Jun-17	Industry Jun-17
Corporate	78.1	71.1	67.5
SMEs	2.8	3.2	5.9
Agriculture	0.8	0.4	4.5
Consumer financing	10.9	10.5	6.2
Commodity financing	5.6	11.6	11.6
Others	1.8	3.2	4.3
Total	100.0	100.0	100.0

[Source: SBP reports]



[Data from SBP reports]

- **Asset quality**: Key asset quality indicators of Islamic banking industry, including non-performing finances (NPFs) to financing (gross); net NPFs to net-financing; and net non-performing assets (NPAs) to total capital remained better than those of overall banking industry's averages. (table 5)

Table 5: Asset quality ratios (%) of Islamic banking industry (IBI)

	IBI, Jun-16	IBI, Jun-17	Industry, Jun-17
NPFs to financing (gross)	4.5	3.7	9.3
net NPFs to net financing	0.4	0.8	1.6
Net NPAs to total capital	2.8	6.8	7.7
Provision to NPFs	91.5	79.6	83.7

[Source: SBP reports]

Table 6: Other financial sensitivity indicators (FSIs) * of Islamic banking industry (IBI)

(percent)

	IBI, Dec-15	IBI, Jun-16	IBI, Dec-16	IBI, Jun-17	Industry, Jun-17
Capital					
Total Capital to Total RWA*	13.8	13.4	12.9	12.9	15.6
Tier 1 Capital to Total RWA*	12.2	11.9	10.5	10.7	12.7
Capital to Total Assets	6.6	6.2	6.7	6.6	7.8
Earnings					
Return on asset, ROA (after tax)	0.9	0.7	0.7	0.9	1.1
Return on equity, ROE (after tax)	13.3	11.3	10.6	13.8	13.1
Operating expense to gross income	70.0	75.6	75.1	68.2	55.8
Liquidity					
Liquid assets to total assets	35.1	38.6	32.9	30.2	53.8
Liquid assets to total deposits	41.2	46.2	38.8	35.7	74.9
Financing to deposits	46.9	47.6	52.2	56.8	48.7

[Source: SBP reports]

* Capital adequacy ratios pertain to Islamic banks only, while remaining FSIs are based on statistics of Islamic banks and Islamic banking branches.

Financing to deposits ratio of IBI was recorded at 56.8% by end-June 2017 as compared to all bank (industry)'s advances to deposits ratio of 48.7%, showing IBI's greater focus on core banking business. (table 6)

[Note: Statistics for Islamic banks are also part of the overall banking ('Industry') statistics.]

SBP INITIATIVES FOR PROMOTION OF ISLAMIC BANKING

Some of the key initiatives taken by the State Bank of Pakistan (SBP) for promotion of Islamic banking during FY17 are given below:

1. **Committees for promotion of Islamic banking**: A high-level Steering Committee for development of Islamic banking and finance, comprising of shari'ah scholars, senior government officials, industry experts and business leaders, was formed in December 2013. The committee submitted its report in March 2016 and gave recommendations for development of the Islamic banking industry in Pakistan on sound footings. In order to implement the recommendations, an implementation committee and its four sub-committees have been formed for smooth and efficient implementation of the steering committee's recommendations in their respective areas.

2. **Exemption from KIBOR as benchmark rate**: To encourage participatory modes of financing, the Islamic banking institutions (IBIs) were exempted during the year from the requirement of using KIBOR as benchmark rate on Musharakah, Mudarabah, and Wakalah (Agency) based financing.

3. **External shari'ah audit report**: For strengthening shari'ah governance framework and transparency, necessary instructions were issued to IBIs during FY17 on the role and responsibilities of external shari'ah auditors. These cover important areas like avoidance of conflict of interest, training and capacity building of staff of external shari'ahaudit firms, etc.

4. **Publication of Urdu Translation of Shari'ah Board Report:** In order to enhance public understanding of Shari'ahBoards' reports, IBIs were advised to publish the Urdu translation of their Shari'ah Board's report in their annual report with effect from December 31, 2016.

5. **Tax neutrality:** The Government on SBP's recommendation provided the much needed and long-awaited tax neutrality to Islamic banking industry through Finance Bill 2017. The major changes in the taxation laws and provisions made for the purpose include the following:

   - Trade based Islamic modes of finance offered by Islamic financial institutions (IFIs) have been exempted from definition of "Supply" under Sales Tax Act 1990. This will exempt the purchases made by IFIs for onward sale to their clients under trade based modes of finance from the levy of sales tax.
   - Customers availing financing under Musharaka and Diminishing Musharaka modes have been provided with equal tax treatment as under conventional financing.
   - Turnover tax on Murabaha and Commodity Murabaha transactions to be levied on gross income instead of gross receipts
   - Allowing benefit of depreciation under *Ijarah* financing

6. **Liquidity management solutions for IBI**: During FY17, the following shari'ah compliant open market operations (OMOs) were carried out by the SBP and GoP:

   - **GoP Ijarah Sukuk**: In support of the objective to provide the Islamic financial market an investment avenue amid rising liquidity levels, SBP, with consultation and consent of GoP, successfully conducted auction of Fixed Rental Rate-Government of Pakistan Ijara Sukuk (FRR-GIS) on June 29, 2017 to raise Rs 71.007 billion for the GoP.
   - **Bai-Muajjal of GIS by SBP**: Under this transaction, SBP purchased GoP Ijara Sukuk (GIS-15) worth Rs 7.15 billion and 17.492 billion from IBIs on Bai-Muajjal basis for a period of 6 months and one year respectively through competitive auction process.

Global recognition

SBP is recognized as an active global partner in Islamic banking as it has developed and put in place a robust regulatory and shari'ah governance system for the global Islamic banking and finance industry. In recognition of its contribution, SBP was given an honorary award at the Islamic Finance Forum of South Asia (IFFSA) Awards 2016 held in Colombo. Further, Global Islamic Finance Awards (GIFA) Committee gave its Special Award (Advocacy Role) 2016 to Mr Saeed Ahmed, the then Deputy Governor, SBP, and current President, National Bank of Pakistan, for spearheading several key initiatives to promote and develop Islamic banking and finance industry of Pakistan.

NBP National Bank of Pakistan

OUTREACH – ISLAMIC BANKING NETWORK

List of Islamic Banking Institutions (as of 30 June 2017)

	Name of Banks	No. of Branches	Windows
	Islamic Banks	**1219**	-
1	AlBaraka Bank (Pakistan) Ltd.	178	-
2	BankIslami Pakistan Ltd.	204	-
3	Dubai Islamic Bank Pakistan Ltd	200	-
4	Meezan Bank Ltd	571	-
5	MCB Islamic Bank Ltd.	66	-
	Conventional banks having standalone Islamic banking branches	**967**	**1255**
1	Allied Bank Ltd.	83	-
2	Askari Bank Ltd.	91	-
3	Bank Al Habib Ltd	42	109
4	Bank Alfalah Ltd	151	121
5	Faysal Bank Ltd.	157	-
6	Habib Bank Ltd.	45	494
7	Habib Metropolitan Bank	25	213
8	National Bank of Pakistan	134	-
9	Silk Bank Ltd.	10	-
10	Sindh Bank Ltd.	14	13
11	Soneri Bank Ltd	18	-
12	Standard Chartered Bank	9	88
13	Summit Bank Ltd.	14	35
14	The Bank of Khyber	79	39
15	The Bank of Punjab	48	-
16	United Bank Ltd.	47	143
	Total branches of 21 Islamic institutions (=5+16):	**2186**	**1255**

Sub-branches of Islamic banking institutions

	Sub branches	No. of sub-branches
1	AlBaraka Bank (Pakistan) Ltd.	8
2	Askari Bank Ltd.	3
3	BankIslami Pakistan Ltd.	118
4	The Bank of Punjab	2
5	Habib Bank Ltd.	2
6	United Bank Ltd.	1
	Total sub branches	**134**
	Total branches	**2186**
	Grand total branches/ sub-branches	**2320**

Note: Burj Bank Limited was merged into AlBaraka Bank (Pakistan) Limited in FY17.

Writeup based on the following SBP reports:

State Bank of Pakistan, *Islamic Banking Bulletin, April–June 2017*
State Bank of Pakistan, *Quarterly Compendium: Banking Statistics, June 2017*
State Bank of Pakistan, *Quarterly Compendium: Banking Statistics, June 2016*
State Bank of Pakistan, *Annual Performance Review, FY17*

CPEC projects – Progress Update

CPEC– Energy Priority Projects

SN	Project	Primary energy input	Technology	Progress update
1	2×660MW Coal-fired Power Plants at Port Qasim, Karachi	Coal (imported)	Super-critical	• Financial Close (FC) achieved • Civil works on site started in May 2015. • Energization in October 2017 • Expected Commercial Operation Date (COD): June 2018
2	870MW Suki Kinari Hydropower Station, Naran,Khyber Pukhtunkhwa (River Kunhar)	Hydel	Hydel	• FC achieved • Land acquisition award announced in Nov 2016 • EPC contractor mobilized to initiate construction activities • COD: 2021/2022
3	2x660MW Coal-fired Power Plant, Sahiwal, Punjab	Coal (imported)	Super-critical	• PROJECT COMPLETED and connected to national grid • First unit (1x660MW) inaugurated in May 2017 • Current status: operational
4	• Engro Thar Block II 2×330MW Coal fired Power Plant • TEL 1×330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh • ThalNova 1×330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh	Coal (local)	Sub-critical	• FC achieved in April 2016 • Team mobilized at site and construction work in progress • Construction of transmission line contract awarded. Contractor mobilized • COD: June, 2019
5	Surface mine in Block II of Thar Coal field, 3.8 million tons/year	N/A	Open pit mining	• FC achieved • IA/EA signed • 3.8 metric tons per annum • 72/185 m depth achieved • COD expected: 2018/2019
6	50MW Hydro China Dawood Wind Farm, Gharo, Thatta	Wind	Wind turbine	PROJECT COMPLETED & OPERATIONAL
7	300MW Imported Coal Based Power Project at Gwadar	Coal (imported)	Imported coal	• PPIB issued LOI • Site finalized by China Communications Constr. Co. (CCC) • Environment report submitted to EPA and GDA
8	1000MW Quaid-e-Azam Solar Park, Bahawalpur	Solar	PV solar	• COD of 3 x 100 MW attained in August 2016
9	100MW UEP Wind Farm, Jhimpir, Thatta	Wind	Wind turbine	PROJECT COMPLETED & OPERATIONAL

SN	Project	Primary energy input	Technology	Progress update
10	50MW Sachal Wind Farm (Jhimpir, Thatta)	Wind	Wind turbine	PROJECT COMPLETED & OPERATIONAL
11	2×660MW SSRL Thar Block-I, 6.8 mtpa&SEC Mine Mouth Power Plant	Coal (local)	Subcritical	• Mine commercial production expected by 2019 • Expected COD: 2020
12	720MW Karot Hydropower Station, River Jhelum	Hydel	Hydel	• FC achieved in Feb 2017 • Construction of access road/bridge, concrete batching plant, diversion tunnel and spillway,etc. in process • Work initiated through equity – 25% civil works completed • COD: 2020/2021
13	• 50MW Three Gorges Second Wind Power Project, Jhimpir, Thatta • 50MW Three Gorges Third Wind Power Project, Jhimpir, Thatta	Wind	Wind turbine	• Construction activity already started from equity • FC:Mar 2017 • COD: Sep, 2018
14	1,320MW CPHGC Coal-fired Power Plant, Hub,Balochistan	Coal (imported)	Super-critical	• First extension to LOS issued in Jan.2017 • Ground breaking held in March 2017 • COD: expected in Dec 2018 and Aug 2019 (for each 660MW)
15	• Matiari (Port Qasim) to Lahore, 4000MW Transmission Line Project • Matiari to Faisalabad, 2000MW Transmission Line Project		±660kV HVDC Bipole with converter/ ground electrode stations	• COD expected in 2018/ 2019
16	Thar Mine Mouth Oracle Power Plant (1320MW) & surface mine, Block VI	Thar coal	–	• Feasibility stage tariff obtained for coal. • Upfront tariff on Thar coal ceased to exist on 19th January 2017

CPEC – Energy Actively Promoted Projects

SN	Project	Primary energy input	Technology	Progress update
1	1,100MW Kohala Hydel Project, AJK (River Jhelum near Muzaffarabad)	Hydel	Hydel	• Financial close planned in Dec 2017 • Transmission/interconnection study has been approved by NTDC. • COD expected in 2023
2	1,320MW Imported Fuel Power Plant, Rahimyar Khan	Coal (imported)	Super-critical	• Feasibility in process

CPEC Energy projects

2×660MW Coal-Fired Power Plants, Port Qasim, KHI

Sahiwal 2x660MW Coal-Fired Power Plant, Punjab *(COMPLETED)*

Hydro China Dawood 50MW Wind Farm (Gharo, Thatta)*(COMPLETED)*

Sachal 50MW Wind Farm (Jhimpir, Thatta) *(COMPLETED)*

UEP 100MW Wind Farm (Jhimpir, Thatta) *(COMPLETED)*

[Source: CPEC Secretariat website, Ministry of Planning, Development & Reform, GoP]

CPEC – Infrastructure Projects

SN	Project	Details	Progress update
		Road projects	
1	440 km KKH Phase II, Thakot–Havelian section, (Gilgit Baltistan–KPK)	Improvement and widening of KKH Section of 440 km from Raikot to Islamabad. The scope also includes provision of bridges, culverts and other allied facilities.	• Work commenced in Sep2016. • To be completed by Mar 2020. • Havelian–Abbotabad–Mansehra (39 KM) section to be completed by May 2018.
2	392 km Multan–Sukkur section of Peshawar–Karachi Motorway (Sindh–Punjab)	PESH-KHI motorway envisages construction/ development of 6-lane access-controlled, tolled facility motorway, 1,100 km long. To originate from Karachi through Motorway M-9 (136 km) up to Hyderabad. From Hyderabad onwards, to follow a virgin alignment for 345 km upto Sukkur. The Sukkur–Multan section, 392 km, essentially follows the Left Bank of River Indus. Multan–Khanewal and Abdul-Hakeem designated as M-4 (101 km).	• Construction commenced in Aug 2016 • 129 km Multan–Tranda Muhammad Panah (Bahawalpur) section to be completed by April 2018 • 125 km Sukkur–Sadiqabad section to be completed by April 2018 • 04 out of 07 sections to be completed by April 2018
3	110 km Khuzdar–Basima Road, N-30 (Baluchistan)		• Feasibility and PC-I completed • LOI forwarded to Chinese side • Procedural formalities to be completed shortly
4	210v km, Upgradation of D.I.Khan (Yarik)–Zhob, N-50, Phase-I (KP–Baluchistan)		• PC-I approved by ECNEC in April 2017 • Land acquisition in progress • Frame work Agreement forwarded to MOC
5	136 km KKH Thakot-Raikot, N35, remaining portion		• Feasibility and PC-I completed • LOI forwarded to Chinese side • Procedural formalities to be completed shortly
		Railway sector projects	
6	Karachi–Lahore–Peshawar (ML-1) railway track 1,872 km expansion and reconstruction of existing Line	Rehabilitation/improvement of existing track. Follows the existing alignment except at locations where sharp curves are to be eased out or eliminated to allow higher speed up to 140 Km/h. Karachi to Peshawar via Hyderabad, Nawabshah, Rohri, RahimyarKhan, Bahawalpur, Khanewal, Sahiwal, Lahore, Gujranwala, Rawalpindi and Peshawar.	• Framework agreement signed • Project to be put on fast track

SN	Project	Details	Progress update
7	Havelian Dry port (450 M. Twenty-Foot Equivalent Units), Distt. Haripur, KP	To meet the demand of containerized future freight traffic in connection with CPEC. Utilizes the railway land, railhead facilities, high speed/capacity stock, and potential of well-established off-dock terminal for handling bonded import/ export containers. Initially it will act as Dry Port/ container terminal for goods traffic coming through road from China through KKH. Trans-shipment arrangement will be provided at Havelian for loading/ unloading on railway wagons.	• Feasibility completed • Request for Chinese financing submitted on 29th Nov, 2016
8	Capacity development of Pakistan Railways		• Focus groups to be established for effective training and capacity enhancement

CPEC – Gwadar Projects

SN	Project	Details	Progress update
1	Gwadar East-Bay Expressway	Gwadar deep-sea port does not have a dedicated wide highway to cater the transporting requirements of the port. The port operationalization, even with the available 3 multi-purpose berths, necessitates construction of the planned East-Bay expressway. This 6-lane expressway along with a provision of 30 meters wide railway corridor shall connect the port with the Mekran Coastal Highway (N-20) through the 2300 acres Free Trade Zone of Gwadar Port.	• Minutes of EAD-MOFCOM signed • Ground-breaking ceremony held in Nov 2017
2	New Gwadar International Airport	Construction of a new international airport along with allied facilities will be capable of handling a combination of ATR 72, Airbus, (A-300), Boeing (B-737) and Boeing (B-747) for domestic as well international routes.	• Minutes of EAD-MOFCOM signed in August 2016 • Grant request is being processed by Chinese side

SN	Project	Details	Progress update
3	Construction of Breakwaters, Gwadar, Baluchistan	Construction of berthing facilities on the eastern side of the existing multi-purpose terminal (4.200 km). A 1.2–1.5 km long breakwater has to be constructed.	• Draft business plan has been received from COPHCL. • Draft MoU for joint technical and commercial feasibility has also been prepared and being vetted by concerned ministries.
4	Dredging of berthing areas & channels, Gwadar, Baluchistan	For construction of container terminals on the western and north western side (initially 1.200 km &upto 10km max) of the existing multi-purpose terminal and second phase terminals on the eastern side (4.200 km), capital dredging works on continual basis and maintenance dredging on continual bases are required.	• Draft business plan has been received from COPHCL under review by MoP&S and GPA.
5	Infrastructure development of Free Zones and EPZs, Gwadar, Baluchistan	Infrastructure like access roads, internal roads, utilities, and custom facilities are required to be developed for Gwadar port free zone (2,280 acres); GIEDA industrial zone(3,000 acres); and EPZA export processing zone (1,000 acres.)	• Ground breaking done • 100% private Investment inside Free Zones. • 1st phase completion date is Dec 2017 • Significant progress and response from investors • Gwadar Free Zone investment guide line published
6	Necessary facilities of fresh water treatment, water supply and distribution	Aims at implementing water supply, distribution system, desalination plant, sewerage collection system and treatment plant as planned in the Master Plan of Gwadar	• PC-I for 5 MGD RO plant for Gwadar cleared by CDWP in Dec 2016 • Draft Framework Agreement shared with Chinese side and likely to be signed soon
7	Pak China Friendship Hospital, Gwadar	Phase-II of 50-bedded hospital constructed under GDA Business Plan (Federal PSDP). The hospital is planned on 68 acres of land.	• Feasibility study completed by Chinese team to add 100 beds from existing 50, for subsequent extension to 300 beds • LOE expected to be signed in 2017
8	Technical and Vocational Institute at Gwadar	Aims at creating state-of-the-art vocational and technical training institute to shape and enhance skills of active population of Gwadar so that they participate in the growth of the port city.	• MoU likely to be signed soon
9	Gwadar Smart Port City Master Plan		• Name of one Consultant received by EAD. The case is being processed on fast track to ensure completion within twelve months.

SN	Project	Details	Progress update
10	Bao Steel Park, petrochemicals, stainless steel and other industries in Gwadar		• Necessary approval process to be completed at the earliest for inclusion as new CPEC Project under Gwadar JWG
11	Development of Gwadar University (Social Sector Development)		• Chinese side will identify a leading Chinese university for collaboration with University of Gwadar on marine & maritime related subjects along with other disciplines
12	Upgradation and development of fishing, boat making and maintenance services to protect and promote livelihoods of local population		• COPHCL would take effective measures for social sector development

CPEC – Others Projects

SN	Project	Progress update
1	Cross Border Optical Fiber Cable (Gilgit Baltistan–Baluchistan–Punjab)	• Ground breaking ceremony performed • Work commenced in October 2015 • Work on 450km/ 820 km segment completed • Expected completion by Dec 2017
2	Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	• PROJECT COMPLETED • Demonstration project with Chinese side is being processed
3	Early Warning System (EWS), Pakistan Meteorological Department	• PC-I for CPEC is being revised in the light of CDWP observations • Planning Division allocated EWS (unapproved project), Rs. 100.00 million for PSDP Projects 2017-18 • EWS stands split between CPEC and World Bank • Work is at advance stage with World Bank • The components don't overlap • System will be integrated to draw maximum benefit

Source: CPEC Secretariat website, Ministry of Planning, Development & Reform, GoP
http://cpec.gov.pk/progress-update

THE SECOND PHASE OF CPEC: LONG TERM PLAN (LTP 2017-2030)

Salient features

The Joint Cooperation Committee (JCC) of the CPEC formally approved on 21 November 2017 the Long-term Plan (LTP 2017-30) envisaging broad parameters for future bilateral cooperation in facilitating and financing the projects under CPEC.

The salient features of the plan are:

1. Joint working group (JWG) formed to launch agriculture projects to help Pakistan produce more value added agricultural products by utilizing Chinese technology. JWG to work on drip irrigation techniques and transfer of technology from China.

2. Financing agreement (cost estimates) for Main Line One (ML-1) project (upgrading railway line from Karachi to Peshawar) to be finalized within three months and operationalized afterwards

3. Fresh feasibility report on Karachi Circular Railway (KCR) to be vetted by the China Railway Institute for subsequent inclusion in the CPEC framework

4. Two hydro power projects (100MW and 80MW) in Gilgit Baltistan approved

5. Work on Gwadar Port to be expedited. Work on Gwadar airport, funded by Chinese grants, to start by the middle of 2018 after its design is examined by the Chinese side.

6. All infrastructure projects, with completed feasibility reports and cleared by the 6th JCC, approved

7. SBP to examine an arrangement for treatment of Chinese equipment related to the CPEC against the Chinese currency.

8. Working group formed to settle taxation and security issues

9. Exchange of trade and business delegates at official level to speed up the pace of projects

10. Final agreement on financing of special economic zones (SEZs) could not be reached in the meeting. Establishment of the nine SEZs, cleared in the 6th JCC, to be approved after evaluation of their feasibility studies by the Chinese side.

Source:

CPEC Secretariat website, Ministry of Planning, Development & Reform, GoP
http://cpec.gov.pk/progress-update

Daily *Business Recorder*, JCC okays CPEC long term plan, 22 Nov 2017
https://www.brecorder.com/2017/11/22/382581/jcc-okays-cpec-long-term-plan/

Daily *Dawn*, Top cooperation body okays CPEC long-term plan, 22 Nov 2017
https://www.dawn.com/news/1372079/top-cooperation-body-okays-cpec-long-term-plan

Population and Housing Census 2017 – Provisional Results

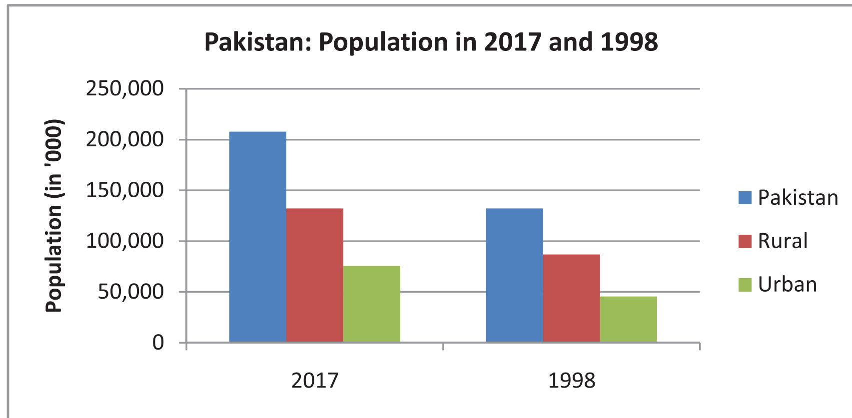
[Based on provisional summary results of 6th Population and Housing Census-2017, Ministry of Statistics, Pakistan Bureau of Statistics, GoP]

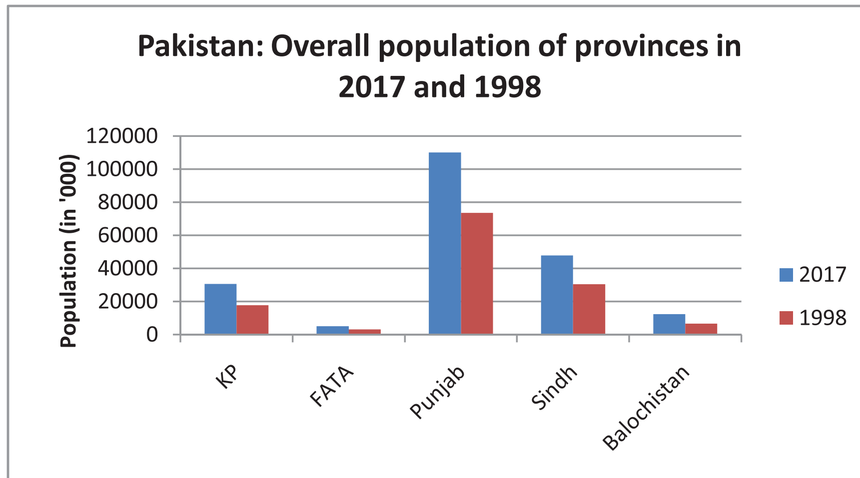
According to the provisional results of the Sixth Population and Housing Census-2017, the total population of Pakistan is **207,774,520** (207.8 million), with an average annual **growth rate of 2.4%** over a period of 1998-2017. Given below is a summary of the results:

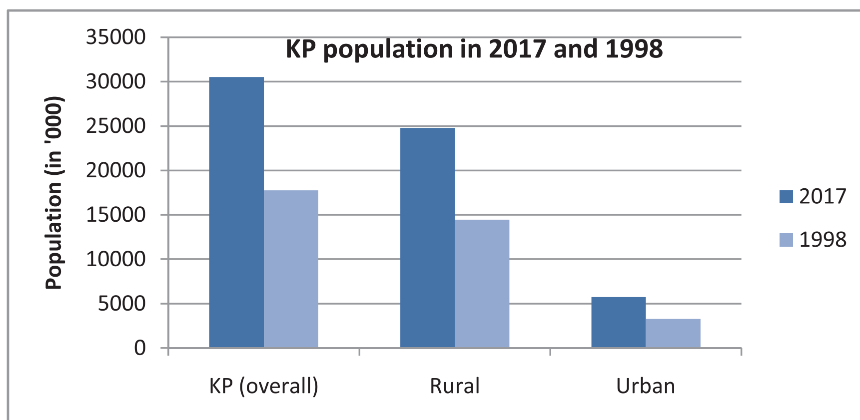
- An overall increase in population by 57% over the year 1998
- Decline in the population growth rate at national level and in the Punjab and Sindh
- An increase in the population growth rate in KP, Baluchistan, and FATA
- 36.38% of the population living in urban areas. Sindh the most urbanized province. (52% population lives in urban areas). The urban population of Islamabad Capital Territory has gone down from 65.72% to 50.58% indicating growth in the rural areas of Islamabad.
- The provisional results of Census in AJK and Gilgit Baltistan have not been made a part of the population of Pakistan.

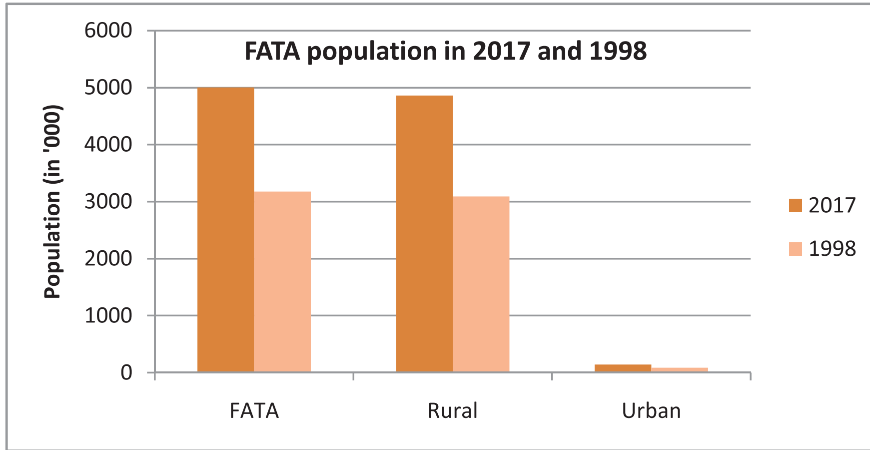
Provisional province-wise population of Pakistan – Census 2017
(Population in thousands)

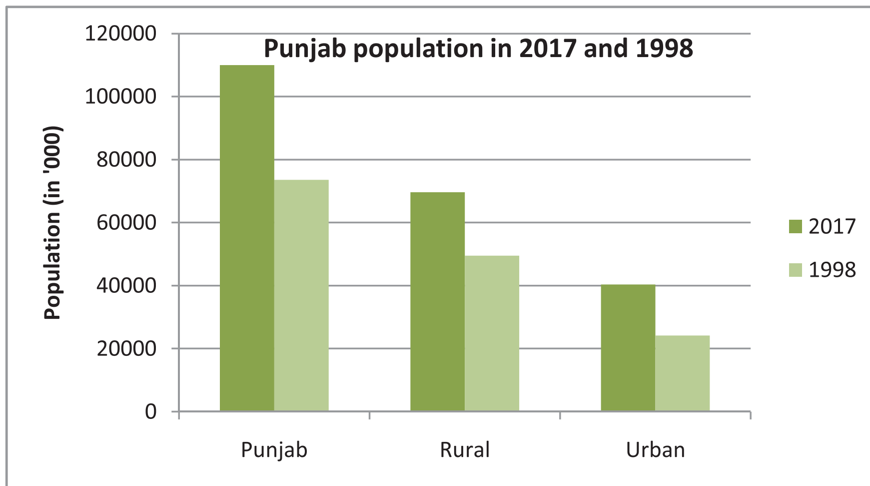
	Households	Population 2017				Population	1998-2017 average annual
		Male	Female	Transgender	Total	1998	growth-rate %
Pakistan	32,205	106,449	101,315	10.42	207,775	132,352	2.4
– Rural	20,013	67,300	64,887	2.77	132,190	86,855	2.23
– Urban	12192	39,149	36,428	7.65	75,585	45,497	2.7
KP	3845	15,468	15,055	0.91	30,523	17,744	2.89
– Rural	3104	12,495	12,298	0.22	24,794	14,456	2.87
– Urban	741	2972	2757	0.69	5730	3287	2.96
FATA	558	2556	2445	0.03	5002	3176	2.41
– Rural	542	2482	2378	0.03	4860	3091	2.41
– Urban	16	74	67	0.00	142	85	2.70
Punjab	17,104	55,959	54,047	6.71	110,012	73,621	2.13
– Rural	10,714	35,198	34,425	2.12	69,625	49,490	1.81
– Urban	6390	20,761	19,622	4.59	40,387	24,131	2.74
Sindh	8586	24,927	22,956	2.53	47,886	30,440	2.41
– Rural	4186	11,919	11,056	0.30	22,976	14,744	2.36
– Urban	4400	13,008	11,900	2.23	24,910	15,695	2.46
Balochistan	1776	6484	5861	0.11	12,344	6566	3.37
– Rural	1301	4690	4253	0.04	8944	4797	3.33
– Urban	475	1794	1607	0.07	3401	1769	3.49
Islamabad	336	1056	951	0.13	2007	805	4.91
– Rural	165	516	476	0.05	992	276	6.95
– Urban	171	540	475	0.08	1015	529	3.48

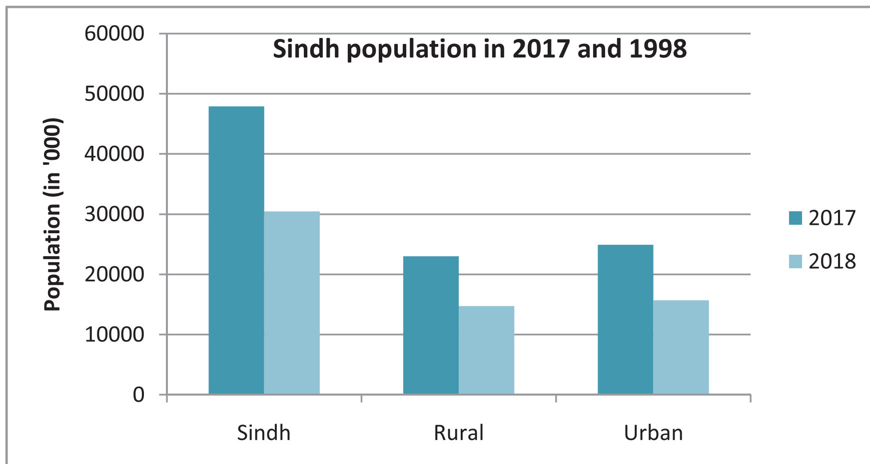

Pakistan: Population in 2017 and 1998
Population (in '000)
250,000
200,000
150,000
100,000
50,000
0
2017
1998
Pakistan
Rural
Urban


Pakistan: Overall population of provinces in 2017 and 1998
Population (in '000)
120000
100000
80000
60000
40000
20000
0
KP
FATA
Punjab
Sindh
Balochistan
2017
1998


KP population in 2017 and 1998
Population (in '000)
35000
30000
25000
20000
15000
10000
5000
0
KP (overall)
Rural
Urban
2017
1998


FATA population in 2017 and 1998
Population (in '000)
6000
5000
4000
3000
2000
1000
0
FATA
Rural
Urban
2017
1998


Punjab population in 2017 and 1998
Population (in '000)
120000
100000
80000
60000
40000
20000
0
Punjab
Rural
Urban
2017
1998


Sindh population in 2017 and 1998
Population (in '000)
60000
50000
40000
30000
20000
10000
0
Sindh
Rural
Urban
2017
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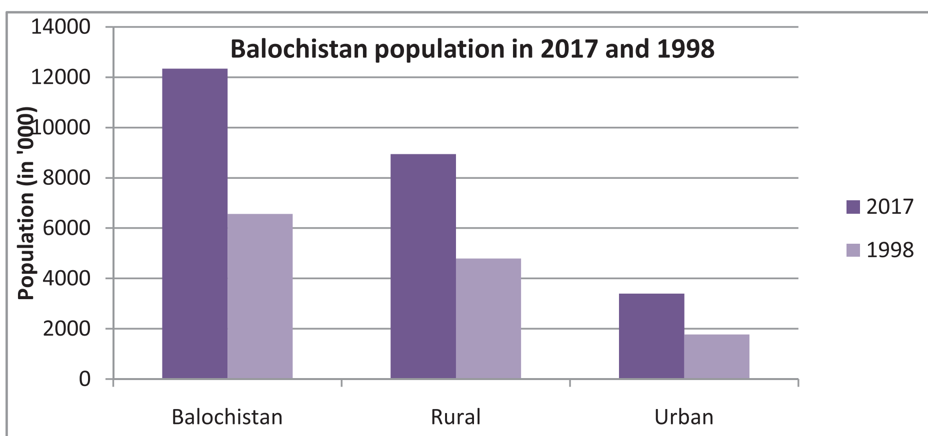
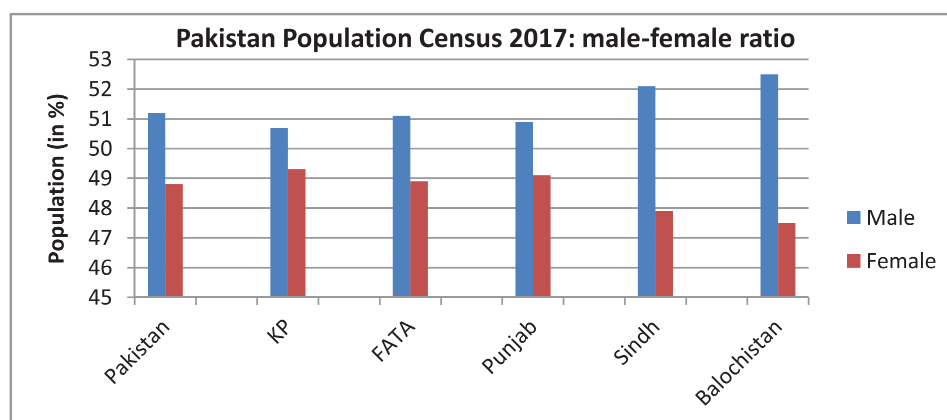


Population of major cities and male-female ratio in Pakistan

SN	Top 10 cities	Population (in millions)	
		Census 2017	Census 1998
1.	Karachi	14.910	9.339
2.	Lahore	11.126	5.143
3.	Faisalabad	3.204	2.009
4.	Rawalpindi	2.098	1.410
5.	Gujranwala	2.027	1.133
6.	Peshawar	1.970	0.983
7.	Multan	1.872	1.197
8.	Hyderabad	1.733	1.167
9.	Islamabad	1.015	0.529
10.	Quetta	1.001	0.565

Provinces	Male-female ratio (%)	
	Male	Female
Pakistan	**51.2**	**48.8**
Khyber Pakhtunkhwa	50.7	49.3
FATA	51.1	48.9
Punjab	50.9	49.1
Sindh	52.1	47.9
Balochistan	52.5	47.5



Note: Total population includes all persons residing in the country including Afghans and other aliens. However, it does not include Afghan refugees living in refugee villages and diplomats. Further, 1998 urban/ rural population is adjusted for analytical purpose.

International Economic Outlook

[Excerpted from IMF World Economic Outlook October 2017: *Seeking Sustainable Growth – Short-term Recovery, Long-term Challenges*]

The global upswing in economic activity is strengthening.

- Global growth, which in 2016 was the weakest since the global financial crisis at 3.2%, is projected to rise to 3.6% in 2017 and to 3.7% in 2018.
- Broad-based upward revisions in the euro area, Japan, emerging Asia, emerging Europe, and Russia
- Downward revisions for the United States and the United Kingdom.

But the recovery is not complete: while the baseline outlook is strengthening, growth remains weak in many countries, and inflation is below target in most advanced economies. Commodity exporters, especially of fuel, are particularly hard hit as their adjustment to a sharp step down in foreign earnings continues. And while short-term risks are broadly balanced, medium-term risks are still tilted to the downside.

The global pickup in activity that started in the second half of 2016 gained further momentum in the first half of 2017.

GROWTH OUTLOOK

Advanced economies: In line with stronger-than-expected momentum in the first half of 2017, the forecast sees a stronger rebound in advanced economies in 2017, driven by stronger growth in the euro area, Japan, and Canada. In contrast, growth has been marked down for 2017 in the United Kingdom and for both 2017 and 2018 in the United States, implying a 0.1 percentage-point aggregate growth downgrade for advanced economies in 2018.

While the notable 2017 growth pickup is broad based, prospects for medium-term growth are more subdued, however, as negative output gaps shrink (leaving less scope for cyclical improvement) and demographic factors and weak productivity weigh on potential growth.

Emerging and developing economies: Growth is projected to rise over this year and next in emerging market and developing economies, supported by improved external factors—a benign global financial environment and a recovery in advanced economies. Growth in China and other parts of emerging Asia remains strong, and the still-difficult conditions faced by several commodity exporters in Latin America, the Commonwealth of Independent States, and sub-Saharan Africa show some signs of improvement.

Growth prospects for emerging and developing economies are marked up by 0.1 percentage point for both 2017 and 2018 relative to April, primarily owing to a stronger growth projection for China. The country's 2017 forecast (6.8% against 6.6% in April) reflects stronger growth outturns in the first half of 2017 as well as more buoyant external demand. For 2018, the revision mainly reflects an expectation that the authorities will maintain a sufficiently expansionary policy mix to meet their target of doubling real GDP between 2010 and 2020. Growth forecasts have also been marked

up for emerging Europe for 2017, reflecting stronger growth in Turkey and other countries in the region, for Russia for 2017 and 2018, and Brazil in 2017.

Economic prospects in **Pakistan** have improved, with growth expected to reach 5.3% in 2017 and 5.6% in 2018, benefitting from investment in the China–Pakistan Economic Corridor and strong private sector credit.

FINANCIAL MARKET

Financial market sentiment has generally been strong, with continued gains in equity markets in both advanced and emerging market economies. Given current expectations of a more gradual pace of monetary policy normalization compared with March, US long-term interest rates have declined by some 25 basis points since then, and the dollar has depreciated by more than 5% in real effective terms, with a commensurate real appreciation of the euro. Despite expectations of more robust global demand going forward, commodity prices have remained low, with oil prices reflecting stronger-than-anticipated supply.

INFLATION

Headline consumer price inflation has softened since the spring, as the boost to prices from the oil price recovery of 2016 has faded and the decline in oil prices in recent months has started to exert downward pressure. Despite stronger growth in domestic demand, core inflation has generally remained muted across advanced economies, reflecting still-weak wage growth. Inflation is likely to rise only gradually toward central bank targets. Across emerging and developing economies, the waning of pass-through effects from earlier currency depreciations against the US dollar, and in some cases recent appreciations, have helped moderate core inflation rates.

RISKS TO GROWTH

Short-term risks are broadly balanced. On the positive side, the recovery could strengthen further, supported by strong consumer and business confidence and benign financial conditions. At the same time, in an environment of high policy uncertainty and geopolitical tensions, policy missteps—which the baseline assumes will be avoided—could take a toll on market confidence, resulting in tighter financial conditions and weaker asset prices.

Risks to growth in the **medium term** are still skewed to the downside, owing to several potential hazards:

- ***A more rapid and sizable tightening of global financial conditions***. This could take the form of higher long term interest rates in the United States and elsewhere, triggered by faster-than-expected monetary policy normalization or a decompression of term premia, with adverse repercussions for vulnerable economies. Monetary policy tightening in the euro area, if it had to come while the recovery in prices and growth is still lagging in highly indebted member economies, could pose risks for these economies if they have not undertaken the needed fiscal adjustment and implemented structural reforms to boost supply potential. Tighter global financial conditions could also result from a sharp decrease in global risk appetite from its currently strong levels, which would take a toll on

macroeconomic activity through weaker confidence, lower asset valuations, and wider risk premia.

- ***Financial turmoil in emerging market economies***. The upward revision to China's growth forecasts reflects a slower rebalancing of activity toward services and consumption, a higher projected debt trajectory, and diminished fiscal space. Unless the Chinese authorities counter the associated risks by accelerating their recent encouraging efforts to curb the expansion of credit, these factors imply a heightened probability of a sharp growth slowdown in China, with adverse international repercussions. Following a period of abundant credit supply, a sudden tightening of global financial conditions (and an associated US dollar appreciation) could expose financial fragilities in some emerging markets, imposing strains on economies with US dollar pegs, high leverage, and balance sheet mismatches.

- ***Persistently low inflation in advanced economies***. If domestic demand were to falter, it could lead to a decline in medium-term inflation expectations, prolonging and reinforcing the weakness in inflation. Low inflation and nominal interest rates would in turn reduce central banks' capacity to lower real interest rates to restore full employment in an economic downturn.

- ***A broad rollback of the improvements in financial regulation and oversight achieved since the global financial crisis***. Such a rollback could lower capital and liquidity buffers or weaken supervisory effectiveness, with negative repercussions for global financial stability.

- ***An inward shift in policies***. A shift toward protectionism would reduce trade and cross-border investment flows, harming global growth.

- ***Noneconomic factors.*** These would include geopolitical tensions, domestic political discord, risks from weak governance and corruption, extreme weather events, and terrorism and security concerns, which could derail growth.

These risks are closely interconnected and can be mutually reinforcing.

POLICY PRIORITIES

Advanced economies:

Although cyclical positions across advanced economies are varied, most of the larger economies are still estimated to be operating somewhat below potential and are experiencing inflation rates below central bank targets. Potential growth faces headwinds from population aging and a widespread slowdown in productivity growth. Although income distribution has remained broadly stable in most advanced economies in recent years, ongoing advances in labor-saving technologies and cross-border competition—important drivers of higher income inequality during the past few decades—suggest that inclusiveness cannot be taken for granted. Deliberate policy efforts are needed in many countries to ensure that most people see their living standards improve as national income increases.

- With a lack of steady progress toward bringing inflation closer to target and stabilizing long-term inflation expectations around those levels, monetary policy in advanced economies should chart an accommodative course.

- A cyclical upswing provides a golden opportunity for adopting structural reforms and will amplify and accelerate their beneficial effects. Policymakers can safeguard and improve prospects for potential output through measures to expand labor supply and create an environment conducive to stronger productivity growth. Many of these reforms would also help raise the inclusiveness of income gains, and some would broaden economic opportunities across the skills spectrum. Reform priorities vary across countries, depending on the key impediments to potential output.

Emerging market economies:

A critical challenge facing many emerging market economies is to preserve and extend the improvements in living standards achieved in recent decades. Priorities vary greatly, reflecting heterogeneity in cyclical positions and in the main impediments or risks to attaining strong medium-term growth.

- Cyclical conditions are even more diverse in emerging market and developing economies than in advanced economies, but output gaps are estimated to be negative in most of the larger countries in the group. The scope for easing fiscal policy to support economic activity is constrained, however, given that most countries have limited fiscal buffers and need to return their public finances to a sustainable footing. In several cases, the limited fiscal space reflects the incomplete withdrawal of the stimulus injected during the global recession, or a continued loosening in fiscal policy in recent years.

- Safeguarding and furthering past gains in per capita incomes and living standards is imperative across emerging market and developing economies in light of the sizable development needs of most countries. Some countries that are projected to maintain strong growth rates in the baseline forecast will need to keep the main downside risks in check. Countries with modest medium-term growth prospects will urgently need to tackle the most binding structural impediments to growth. Priorities vary, but, in many countries, include improving the quality of infrastructure and education, strengthening governance, enhancing the business climate, and facilitating greater female labor market participation, as well as a host of product and labor market reforms and further trade integration.

Low income developing countries:

As with the broader group of emerging market and developing economies, low-income developing countries dependent on commodity exports continue to face weaker economic prospects than those countries with more diversified export bases. With policy adjustments to lower oil revenues delayed, fiscal deficits in some commodity-exporting low-income countries remain large, external positions are weaker, and financial sector vulnerabilities are emerging.

With divergent prospects, policy priorities continue to differ across low-income developing countries.

- Prospects for commodity exporters are heavily influenced by the process of adjustment to lower commodity prices. The adjustment needs to continue and, in some cases, accelerate, based on comprehensive and internally consistent sets of policies.

- Policy priorities for diversified low-income developing countries vary. However, an overarching goal for these economies should be to strike a better balance between spending for development and social needs and improving public debt sustainability by rebuilding fiscal positions and foreign reserves holdings while growth is strong.

Multilateral policies:

- **Maintaining rules-based, open multilateral trade with broadly shared gains**. Global trade has slowed dramatically in recent years, mostly reflecting weakness in aggregate demand along with the slower pace of trade reforms and an uptick in protectionist measures. Rolling back temporary trade barriers introduced since the global financial crisis and reducing trade costs would support the nascent recovery in trade. However, open trade policies should be complemented by comprehensive policy approaches at national levels to reduce adjustment pains and provide opportunities for all.

- **Maintaining robust national financial regulatory regimes** and recapitalizing institutions, and cleaning up balance sheets where necessary produces positive spillovers for global financial stability. Coordinated and collective action is needed to manage risks to financial stability from cyber-attacks, money laundering and terrorism financing.

- **Cooperation in international taxation issues.** As increased capital mobility across borders has fueled international tax competition, governments have found it more challenging to finance their budgets without increasing taxes on labor income or imposing regressive consumption taxes. Policy makers can make more meaningful progress towards equitable tax systems if their national efforts to safeguard revenues are backed by multilateral cooperation.

- **Noneconomic challenges**. Multilateral cooperation is also indispensible for addressing important medium term global challenges, such as meeting the 2030 SDGs, and providing financial support to vulnerable economies and fragile states that face the greatest development needs and, in many cases, deep economic and security challenges.

NBP
National Bank of Pakistan

Global Geo-Political and Economic Perspectives

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1. The Global Economy: Key Risks
2. The Shifting World Order: The Rise of China
3. The Shifting World Order: Geo-strategic Risks
4. The Explosive Middle East Conundrum

The Global Economy: Key Risks

Here are the five biggest risks facing the global economy
The Telegraph, by Szu Ping Chan
11 Jan 2017

GLOBAL GROWTH

More than eight years after the global financial crisis, growth remains weak and discontent high. The WEF said "many countries" were gripped by a "mood of economic malaise", which had contributed to "anti-establishment, populist politics and a backlash against globalisation"... She said some of the respondents to the WEF's survey even believed that the world was close to a "tipping point" towards de-globalisation. There is a risk that the world will turn away from globalisation."

The world (is) close to a "tipping point" towards de-globalisation.

TECHNOLOGICAL DISRUPTION

The rapid pace of technological change has raised questions about the future of the labour market as well as rising cyber threats.

SOCIAL COHESION

"Increasing polarisation" was ranked by the WEF as the third most important trend for the next 10 years and was cited by almost a third of respondents. Donald Trump's victory in the US Presidential election reflected the demographic and cultural divide between generations more than issues over income inequality, according to research cited by the WEF.

GEOPOLITICAL THREATS

The WEF described global developments such as the withdrawal by Russia, South Africa, Burundi and Gambia from the International Criminal Court and China's rejection of a 497-page international ruling tribunal on its territorial claims in the South China Sea as a "worrying sign of deteriorating commitment to global cooperation". Scrapping the mutual accountability and respect for common norms created by these mechanisms was a dangerous path to follow, the WEF warned. It said Mr Trump's threat to tear up Iran's nuclear deal and the Paris Climate Change agreement also had significant implications.

CLIMATE CHANGE

Environment-related risks stand out in this year's report, with every risk cited now more likely to occur with more devastating consequences than ever. And it's not just the Paris agreement that policymakers are worried about....water scarcity could cost some regions up to 6pc of gross domestic product (GDP) by 2050, spur migration, and spark conflict if not addressed.

The Real Risk to the Global Economy
Project Syndicate, by Christopher Smart
8 Nov 2017

One might assume that the brewing crises on the Korean Peninsula and in the Middle East pose a serious threat to the current global economic expansion. But political crises often induce only brief market corrections, whereas gradual shifts in international global institutions can be far more consequential for investor behavior.

Looking ahead, if Trump and future US leaders continue to engage with other countries through zero-sum transactions rather than cooperative institution-building, the world will be unable to muster a joint response to the next period of global market turmoil.

One of the great mysteries of today's global markets is their irrepressible enthusiasm, even as the world around them appears on the verge of chaos or collapse. And yet, investors may be more rational than they appear when it comes to pricing in political risks. If investing is foremost about discounting future cash flows, it's important to focus precisely on what will and will not affect those calculations. The potential crises that may be most dramatic or violent are, ironically, the ones that the market has the easiest time looking through.

Far more dangerous are gradual shifts in international global institutions that upend expectations about how key players will behave. Such shifts may emerge only slowly, but they can fundamentally change the calculus for pricing in risks and potential returns.

Changes in broadly shared economic assumptions are far more likely to trigger a sell-off, by prompting investors to reassess the likelihood of actually realizing projected cash flows. There might be a dawning awareness among investors that growth rates are slowing, or that central banks have missed the emergence of inflation once again. Or the change might come more suddenly, with, say, the discovery of large pockets of toxic loans that are unlikely to be repaid.

The greatest political risk to global markets today, then, is that the key players shaping investor expectations undergo a fundamental realignment. Most concerning of all is the United States, which is now seeking to carve out a new global role for itself under President Donald Trump.

By withdrawing from international agreements and trying to renegotiate existing trade deals, the US has already become less predictable. Looking ahead, if Trump and future US leaders continue to engage with other countries through zero-sum transactions rather than cooperative institution-building, the world will be unable to muster a joint response to the next period of global market turmoil.

Ultimately, a less reliable US will require a higher discount rate almost everywhere. Unless other economic cycles intervene before investors' expectations shift, that will be the end of the current market boom.

Europe's Economic Dilemma
Project Syndicate, by Martin Feldstein
30 Oct 2017

Whatever the cause of the next downturn (in the Eurozone), ECB policies that helped in the past would no longer be available. The conventional response – reducing interest rates – is impossible, because current short-term interest rates in the Eurozone countries are already near zero or negative.

The European Central Bank deserves credit for the economic improvements that have occurred in the past few years. But the ECB's policies also mean that the eurozone has no ammunition left to fight the next recession, because interest rates cannot be reduced further and fiscal policy remains in the hands of national governments. ...the next recession, which could be caused by a collapse of asset prices, starting with the price of long-term bonds. German ten-year bond prices are extremely high, reflecting a current yield of less than 0.5%. A fall in US stock and bond prices, which are also out of line with past experience, could cause European asset prices to decline in sympathy.

Alternatively, European exports could fall in response to geopolitical events in Asia or the Middle East, depressing overall economic activity in Europe. An end to the US expansion, now in its ninth year, could pull down demand in Europe. Although the US economy is now performing very well, the excessive level of asset prices – the result of a decade of near-zero interest rates – poses a threat to stability.

Whatever the cause of the next downturn, ECB policies that helped in the past would no longer be available. The conventional response – reducing interest rates – is impossible, because current short-term interest rates in the eurozone countries are already near zero or negative.

To be sure, the ECB could expand its purchases of long-term bonds. But doing so would not have the same effect that it did in the past. One of the goals of large-scale bond purchases – so-called quantitative easing – was to drive down long-term interest rates in order to stimulate business investment and housing construction. But with long-term interest rates now close to zero, bond purchases would not be able to lower them any further.

Three Scenarios for the Global Economy
Project Syndicate, by Nouriel Roubini
10 Oct 2017

The International Monetary Fund, which in recent years had characterized global growth as the "new mediocre," recently upgraded its World Economic Outlook. But is the IMF right to think that the recent growth spurt will continue over the next few years, or is a temporary cyclical upswing about to be subdued by new tail risks?

For the last few years, the global economy has been oscillating between periods of acceleration (when growth is positive and strengthening) and periods of deceleration (when growth is positive

but weakening). After over a year of acceleration, is the world headed toward another slowdown, or will the recovery persist?

One can envision three possible scenarios for the global economy in the next three years or so. In the bullish scenario, the world's four largest, systemically important economies – China, the eurozone, Japan, and the United States – implement structural reforms that boost potential growth and address financial vulnerabilities. By ensuring that the cyclical upswing is associated with stronger potential and actual growth, such efforts would produce robust GDP growth, low but moderately rising inflation, and relative financial stability for many more years. US and global equity markets would reach new heights, justified by stronger fundamentals.

In the bearish scenario, the opposite happens: the world's major economies fail to implement structural reforms that boost potential growth. Rather than using this month's National Congress of the Communist Party as a catalyst for reform, China kicks the can down the road, continuing on a path of excessive leverage and overcapacity. The eurozone fails to achieve greater integration, while political constraints limit national policymakers' ability to implement growth-enhancing structural reforms. And Japan remains stuck on its low-growth trajectory, as supply-side reforms and trade liberalization – the third "arrow" of Prime Minister Shinzo Abe's economic strategy – fizzle out.

The lesson is clear: either political leaders and policymakers demonstrate the leadership needed to secure a better medium-term outlook, or downside risks will materialize before long – and do serious damage to the global economy.

As for the US, the Trump administration, in this scenario, continues to pursue a policy approach – including a tax cut that overwhelmingly favors the rich, trade protectionism, and migration restrictions – that may well reduce potential growth. Excessive fiscal stimulus leads to runaway deficits and debt, which results in higher interest rates and a stronger dollar, further weakening growth. Trigger-happy Trump could even end up in a military conflict with North Korea – and, later, Iran – diminishing America's economic prospects further.

In this scenario, the lack of reform in major economies will leave the cyclical upswing constrained by low trend growth. If potential growth remains low, easy monetary and credit policies could eventually lead to goods and/or asset inflation, eventually causing an economic slowdown – and possibly an outright recession and financial crisis – when asset bubbles burst or inflation rises.

The third – and, in my view, most likely – scenario lies somewhere between the first two. The cyclical upswing, in both growth and equity markets, continues for a while, driven by the remaining tailwinds. Yet, while major economies pursue some structural reforms to improve potential growth, the pace of change is much slower, and its scope more modest, than is needed to maximize potential.

In China, this muddle-through scenario means doing just enough to avoid a hard landing, but not enough to achieve a truly soft one; with financial vulnerabilities left unaddressed, distress becomes all but inevitable over time. In the eurozone, this scenario would entail only nominal progress toward greater integration, with Germany's continued rejection of true risk-sharing or fiscal union weakening incentives for struggling member countries to undertake tough reforms.

In Japan, an increasingly ineffective Abe administration would implement minimal reforms, leaving potential growth stuck below 1%.

In the US, Trump's presidency would remain volatile and ineffective, with a growing number of Americans realizing that, despite his populist pretense, Trump is merely a plutocrat protecting the interests of the rich. Inequality rises; the middle class stagnates; wages barely grow; and consumption and growth remain anemic, at barely close to 2%.

But the risks of muddling through extend far beyond mediocre economic performance. This scenario represents not a stable equilibrium, but an unstable disequilibrium, vulnerable to economic, financial, and geopolitical shocks. When such shocks eventually emerge, the economy will be tipped into a slowdown or, if the shock is large enough, even recession and financial crisis. In other words, if the world does simply muddle through, as seems likely, it could, within three or four years, face a more bearish outlook. The lesson is clear: either political leaders and policymakers demonstrate the leadership needed to secure a better medium-term outlook, or downside risks will materialize before long – and do serious damage to the global economy.

China's 'Petro-Yuan' is Set to Challenge the U.S. Military-Backed 'Petro-Dollar'
Information Clearing House, By Timothy Alexander Guzman
13 Nov 2017

China has made the decision to price oil in their own currency the "Yuan" by a new gold-backed futures contract which will change the dynamics of the world's economy. China is preparing to launch the petro-Yuan later this year that will eventually threaten the U.S. dollar as the world's reserve currency.

China is preparing to launch the petro-Yuan later this year that will eventually threaten the U.S. dollar as the world's reserve currency.

China's move will have consequences. For starters, it will certainly undermine Washington's ability to impose economic sanctions on any nation at will and at the same time, will slowly diminish the purchasing power for U.S. consumers as imports become more expensive.

China (the largest holder of U.S. debt) is the largest importer of oil, while Russia, one of the largest exporters of oil in the world have agreed to use the petro-Yuan to bypass the petro-dollar. The petro-Yuan threatens the U.S. dollar's hegemony around the globe as several nations have recently demonstrated as they all share an interest in joining the transition from the U.S. dollar to the Yuan for oil transactions including Washington's arch enemies Iran, Venezuela and even Indonesia (currently not on Washington's hit list).

The mainstream-media has been reporting on the latest developments concerning China's plan to bypass the dollar and introduce the petro-Yuan to the international community in an article by CNBC titled 'China has grand ambitions to dethrone the dollar. It may make a powerful move this year':

The new strategy is to enlist the energy markets' help: Beijing may introduce a new way to price oil in coming months — but unlike the contracts based on the U.S. dollar that currently dominate global markets, this benchmark would use China's own currency. If there's widespread adoption, as the Chinese hope, then that will mark a step toward challenging the greenback's status as the world's most powerful currency.

China is the world's top oil importer, and so Beijing sees it as only logical that its own currency should price the global economy's most important commodity. But beyond that, moving away from the dollar is a strategic priority for countries like China and Russia. Both aim to ultimately reduce their dependency on the greenback, limiting their exposure to U.S. currency risk and the politics of American sanctions regimes

However, there are people in the mainstream-media that are not convinced that the petro-Yuan will overthrow the U.S. dollar anytime soon, for instance, David Fickling from Bloomberg News recently wrote 'The Petro-Yuans time hasn't come'.

Look, for instance, at the most-traded product on the Dalian Commodity Exchange in China, iron ore. While mainland commodity markets have seen febrile activity in recent years, bid-ask spreads are still several times higher than those on major contracts traded in London and New York. That makes trading more costly, volatility higher, and price discovery weaker — and as a major consumer of crude, Beijing ought to be opposed to that sort of change.

There are the producers to consider, too. Most of the Middle East's oil exporters have currencies that are pegged to the greenback. Switching to yuan pricing would introduce foreign-exchange risk to their budgets for little obvious gain, especially as China generally consumes less than 20 percent of their exports.

There are people (like Fickling) in the mainstream-media that are not convinced that the petro-Yuan will overthrow the U.S. dollar anytime soon (however) James Rickards, the author of 'Currency Wars: The Making of the Next Global Crisis' will most likely disagree with Fickling's analysis....Whether you agree or not, a currency war has begun and we are all going to be paying close attention in the coming months and years ahead to see how far Washington will go to maintain the supremacy of the U.S. dollar. So as China is getting ready to launch the petro-Yuan, is the U.S. willing to launch a war against North Korea?

That doesn't mean the planned contract is useless. China will benefit from having a benchmark that's more appropriate for its own purposes — particularly one that reflects the medium sour grades of crude that are chiefly consumed by local refineries, as opposed to the sweet, light varieties that underpin the main Western contracts.

Just don't expect it to change the world. While the economic center of gravity has been moving east, oil's connections to West Texas and the North Sea will remain strong for years to come

James Rickards, the author of 'Currency Wars: The Making of the Next Global Crisis' will most likely disagree with Fickling's analysis:

Printing dollars at home means higher inflation in China, higher food prices in Egypt and stock bubbles in Brazil. Printing money means that U.S. debt is devalued so foreign creditors get paid back in cheaper dollars. The devaluation means higher unemployment in developing economies as their exports become more expensive for Americans. The resulting inflation also means higher prices for inputs needed in developing economies like copper, corn, oil and wheat. Foreign countries have begun to fight back against U.S.-caused inflation through subsidies, tariffs and capital controls; the currency war is expanding fast

The U.S. dollar is failing because of Washington's economic and foreign policies and its collusion with the Wall Street banking cartels, multi-national corporations and the Military-Industrial Complex. Max Keiser of The Keiser Report was interviewed on RT News and explained why the world is seeking to move away from the U.S. dollar:

Countries worldwide are tired of funding the America's "military adventurism by being a party to the 'Empire of Debt,' as it's known around the world – the US dollar," and therefore, will likely join the de-dollarization movement, Keiser said. The US financial sector and its military-industrial complex are unlikely to give up the dollar hegemony without a fight, though, as the dollar is both the basis and the main product of America. And the US will use its other favorite tool for it – war, Keiser believes.

"Maybe they will start a war between Japan and China, and maybe they will start a war with North Korea. America will do anything to keep the US dollar as the world's reserve currency," Keiser said. "They will invade the countries, like Afghanistan, they will stop at nothing. Because this is the basis of the US empire. It's not land-based, it's not based on material goods, it's based on rent-seeking. It's based on landing dollars, getting out income and when countries can't pay they dismantle the assets and take them over. We saw it in Latin America, South America, this is how America built its empire"

Whether you agree or not, a currency war has begun and we are all going to be paying close attention in the coming months and years ahead to see how far Washington will go to maintain the supremacy of the U.S. dollar. So as China is getting ready to launch the petro-Yuan, is the U.S. willing to launch a war against North Korea?

The Shifting World Order: The Rise of China

China's New World Order?
Project Syndicate, by Ramesh Thakur
10 Nov 2017

Now that Chinese President Xi Jinping has solidified his position as China's most powerful leader since Mao Zedong, he will be able to pursue his vision of a China-led international order. But if China wants to enjoy the benefits of regional or even global hegemony in the twenty-first century, it will have to prove itself ready to accept the responsibilities of leadership.

> **The potential decline of the US-led international order, along with Xi's bid to assume a larger leadership role on the world stage, immediately raises a host of critical issues.**

Looking forward, China's strategic vision will most likely mirror that of its president, Xi Jinping, who has now consolidated his position as the most powerful Chinese leader since Mao Zedong. In his marathon address to the 19th National Congress of the Communist Party of China (CPC) on October 18, Xi proclaimed a new era of Chinese national strength, self-confidence, and global power.

Xi envisions a world in which China, having achieved geopolitical parity with the US, asserts itself diplomatically and assumes a larger role in writing the rules of the international system. Accordingly, the world should prepare for a surge in Chinese foreign-policy activism.

Donald Trump's presidency has called into question the future of the US-led postwar international order itself. Yet even before Trump announced his candidacy, Yoon Young-kwan, a former South Korean foreign minister, pointed out that China's leaders have long believed "that the 2008 economic crisis and the high costs of two foreign wars have left the US in no position to exercise international leadership."

The potential decline of the US-led international order, along with Xi's bid to assume a larger leadership role on the world stage, immediately raises a host of critical issues...

China's main focus.. has been on promoting political stability and domestic economic growth, by securing access to resources and markets abroad. The ultimate embodiment of this approach is the Belt and Road Initiative (BRI)... BRI is exactly what the world needs now that the US and other "influential countries are turning inward, talking about erecting trade barriers and constructing border walls.

China's seemingly random maritime provocations do not always intimidate other governments to the point of backing down. But they do test America's will and capacity to support its allies and strategic partners. In deliberately keeping its actions below the threshold of open warfare, China is seeking gradually to induce strategic fatigue in the US and its partners. The strategy seems to be paying off... The Chinese leadership, notes Bill Emmott, a former editor of The Economist, "believes that China ought to be able to project military power and defend what it regards as its strategic space – just like the US." This poses a strategic dilemma for the US. A rising China cannot be expected to tolerate indefinitely the US's intrusive military presence in the region.

China has also stepped up its provocation of India. Chellaney reports that "this year, China decided to withhold [hydrological and meteorological] data from India, undermining the efficacy of India's flood early-warning systems – during Asia's summer monsoon season, no less." And this summer, India and China were locked in a tense standoff, owing to China's "stealth incursions" into India's Himalayan borderlands.... China has also vetoed India's bid to join the Nuclear Suppliers Group, and "built a 'China-Pakistan economic corridor' through Pakistan-controlled parts of Kashmir," which "China itself recognizes" as disputed territory. And in April of this year, China lobbed a barrage of threats and recriminations at India after the Dalai Lama paid a visit to a historic Buddhist monastery in the Indian state of Arunachal Pradesh.

China is extending its power and influence through the BRI and other initiatives, and these efforts have allowed it to cement diplomatic ties, boost trade, and create energy corridors.... if China's leaders are to succeed at positioning their country for global leadership, their focus should be on maintaining economic growth and social stability at home, while nurturing alliances and influence that serve to preserve the existing rules-based international order. Otherwise, China's rise will disrupt that order, implying near-certain regional and global volatility for years to come.

Rethinking the Next China
Project Syndicate, by Stephen S. Roach
25 May 2017

Once an adapter to globalization, China is increasingly a driver of it. The Next China is becoming a Global China, upping the ante on its connection to an increasingly integrated world – and creating a new set of risks and opportunities. In short, the Next China is shaping up to be more outwardly focused, more assertive, and more power-centric than I envisioned.

Does China have a 'Grand Strategy'?
European Council on Foreign Relations, by A. Stanzel, N. Rolland, J. Jacob & M. Hart
18 Oct 2017

Do China's leaders have a strategy for the long-term direction of their country? For a while now Chinese thinkers have been discussing this very question, even speaking about the parameters of an all-encompassing "grand strategy"

The BRI and the establishment of the AIIB are already "solutions" China offers to improve global infrastructure and transportation. China's ambition to be a global power must therefore be seen in the context of its US policies.

The "emerging disorganization in the Western world (...) could be a strategic opportunity for China". But in order to profit from it, Beijing first needs to define its interests more narrowly and slow down its pace, otherwise "we might not be able to make use of the opportunities brought by the decline and disorganization in the West.

China today engages more in counter-terrorism efforts (nationally as well as internationally) as well as within multilateral institutions; it makes efforts to advance its economy further, and it tries to improve China's image abroad. Meanwhile, Beijing's foreign policy is more assertive than it ever used to be, implying that the times of keeping a low profile seem to be over.

China's new strategic military concepts, its improved military capabilities, its competition with the US and Japan, and its assertive maritime policies, have damaged Beijing's soft power reach and increased the risk of a conflict springing up with the US or Japan.

The concept of a grand strategy is still very fluid in China and continues to develop. While it might be too simple to say that China will phrase its grand strategy according to whatever the US is doing, the apparent decline of the US under Trump has triggered a renewed debate on China's standing as a global power. Whether this is the beginning of a renewed thinking on a grand conceptual strategy for China remains to be seen.

The Belt And Road Initiative: China's Grand Strategy?
European Council on Foreign Relations, by Nadège Rolland
Oct 2017

A grand strategy reflects the vision that a state has for itself and for its desired position in the international system. It is meant to shape the international environment in a way that benefits the state's long-term strategic objectives.

With BRI's great potential also come growing challenges. In the face of increasing risks to its overseas investments, it will be difficult for China to stick to its non-interference principle and to maintain its expanding overseas interests through peaceful diplomatic means in a complex and ever-changing situation.

The Belt and Road Initiative (BRI), launched by Xi Jinping in late 2013, perfectly matches this description. It is a long-term endeavor ... BRI is a grand strategy, coordinating and giving direction to a large array of national resources to achieve a political objective, which Xi Jinping has defined as the "China Dream of the great rejuvenation of the nation" (中华民族伟大复兴*zhonghua minzu weida fuxing*): the achievement of China's unimpeded rise.

China has invested large amounts of its financial resources in Belt and Road countries, offering loans up to $110 billion for more than 600 projects. In 2016 alone, 61 countries signed industrial cooperation agreements with China. Created to help fund BRI projects, the Asian Infrastructure Investment Bank (AIIB) has become the world's second largest multilateral development agency, surpassing the Asian Development Bank in its number of members.

With BRI's great potential also come growing challenges. In the face of increasing risks to its overseas investments, it will be difficult for China to stick to its non-interference principle and to "maintain China's expanding overseas interests through peaceful diplomatic means in a complex and ever-changing situation".

Overall, BRI coordinates "both domestic development and international economic cooperation", in order to serve a great "strategic ambition." This "substantial" and "clear plan" is meant to "forcefully shape China's geopolitical and economic path to further achieve its rise" and to help China "consolidate its status as a global economic power and lead a new phase of globalization".

Trump Is Ceding Global Leadership to China
New York Times, by Anthony Blinken,
9 Nov 2017

Amid the pomp that President Xi Jinping of China is bestowing upon his visiting American counterpart, President Trump, it's hard not to see two leaders — and two countries — heading in very different directions.

Mr. Xi emerged from last month's Communist Party Congress the undisputed master of the Middle Kingdom. "Xi Jinping Thought" was enshrined in the party constitution — an honor

previously granted only to Mao Zedong and Deng Xiaoping. Breaking with precedent, Mr. Xi neglected to anoint a successor — a big hint that he feels emboldened to extend his rule beyond the second five-year term he has just begun. The Economist heralded Mr. Xi with an honorific usually reserved for America's president: the world's most powerful man.

As the personal trajectories of Mr. Trump and Mr. Xi diverge, so too does the focus of their leadership. While Mr. Trump is obsessed with building walls, Mr. Xi is busy building bridges.

If the Trump-led retreat into nationalism, protectionism, unilateralism and xenophobia continues, China's model could carry the day. By abdicating the leadership role it has played since World War II, the United States is giving the terrain to others who will do the organizing on the basis of their values, not America's.

At the World Economic Forum in January, Mr. Xi proclaimed China the new champion of free trade and globalization. His "One Belt, One Road" initiative — with funding from the made-in-Beijing Asia Infrastructure Investment Bank — will invest $1 trillion in linking Asia with Europe through a network of sea routes, roads, railways and, yes, bridges. China will gain access to resources, export its excess industrial capacity and peacefully secure strategic footholds from which to project power.

At home, Mr. Xi is making strategic investments that could allow China to dominate the 21st-century global economy, including in information technology and artificial intelligence — where, Eric Schmidt of Google has warned, China is poised to overtake the United States in the next decade. Mr. Xi is all-in on robotics, aerospace, high-speed rail, new-energy vehicles and advanced medical products.

Mr. Trump's "strategic" investments — in coal and a quixotic effort to bring back manufacturing lost to automation — would make the United States the champion of the 20th-century economy.

All of this positions China to become, in Mr. Xi's words, "a new choice for other countries" and the principal arbiter of something long associated with the United States: the international order. China has a profound stake in that order and a globalized world: It needs access to advanced technology and the export markets upon which its growth depends.

China's shortcomings may not matter in the absence of a compelling alternative. I'd never bet against the United States, but if the Trump-led retreat into nationalism, protectionism, unilateralism and xenophobia continues, China's model could carry the day.

By abdicating the leadership role it has played since World War II, the United States is giving the terrain to others who will do the organizing on the basis of their values, not America's.

Mr. Xi is not shy about who that someone else will be. With Mr. Trump ceding ground to China, the liberal international order that defined the second half of the 20th century could give way to an illiberal one.

China Begins an Earnest Push Toward the Global Center Stage
Elcano Royal Institute *(Spain)*, by Mario Esteban,
8 Nov 2017

Over the coming five years Xi Jinping will undertake a more assertive foreign policy aimed at increasing Chinese influence on global governance and within its region. China's growing surge positions it as a global power that can serve as a model for other countries and as a leader in the effort to guarantee global public goods. The 'low profile' foreign policy, designed a quarter of a century ago by Deng Xiaoping, is being left behind for a new road map designed to turn China into a moderately wealthy society by 2020, a developed country by 2035 and a first-rate national power with a world class military by 2050.

The 'low profile' foreign policy, designed a quarter of a century ago by Deng Xiaoping, is being left behind for a new road map designed to turn China into a moderately wealthy society by 2020, a developed country by 2035 and a first-rate national power with a world class military by 2050.

China will further develop, during the coming five years, a rhetoric which presents itself as a responsible power committed to the defence of global public goods, and engaged in concrete actions in those areas which coincide with Chinese domestic policy priorities (such as the promotion of exports and environmental protection). This vision is pushed even more explicitly through other instruments of Chinese public diplomacy, such as foreign-language media, in which the 'the community of shared destiny for humanity', multilateralism and the promotion of economic and cultural exchange through the One Belt and One Road Initiative –all of which China now promotes – is sharply contrasted with the 'America First' unilateralism and economic and cultural protectionism embodied by Trump.

Furthermore, in this effort to position itself as a normative power, China is not only disseminating values which are already part of the liberal international order; it is also pushing, with increasing confidence, alternative values – such as a more relativist conception of human rights and a 'Westphalian' vision of sovereignty– which are much more opposed to the kinds of international interventions which Washington and its allies have engaged in since the end of the Cold War.

This growing confidence on the part of Chinese authorities to put forward its values reached a new peak at the recent National Congress of the CPC when Xi explicitly presented China as a possible model, even in political terms, for other countries that wish to deepen their socioeconomic development and maintain their independence: 'We are fully confident in our ability to maximise the strengths of the defining features of Chinese socialist democracy and to contribute to the political advancement of humanity'.

Surviving America's Political Meltdown
Project Syndicate, by Jeffrey D. Sachs
11 Aug 2017

The US political system is falling apart, with the Trump administration having proved unable to manage a domestic economic agenda or a coherent foreign policy. Understanding the sources of this collapse is critical to overcoming it.

The hope in Washington is that "adults in the room" will keep Trump's dangerous tendencies in check. But the "adults" in Trump's administration are increasingly military figures rather than civilians, including three generals. Wise civilian leaders are the key to peace, especially given that America's vast war machine is always revving.

The US is in the midst of a political meltdown, unable to manage a domestic economic agenda or a coherent foreign policy. The White House is in turmoil; Congress is paralyzed; and the world is looking on in astonishment and dread. If we are to survive and overcome this collapse, we must understand its sources.

There are two power centers in Washington, DC: the White House and the Capitol. Both are in disarray, but for different reasons.

The dysfunctionality of the White House is largely a matter of President Donald Trump's personality. To many experts, Trump's behavior – grandiose self-regard, pathological lying, lack of remorse or guilt, expressive shallowness, parasitic lifestyle, impulsiveness, failure to accept responsibility for his own actions, and short-term marital relationships – are symptoms of narcissistic personality disorder.

The consequences could be dire. Pathological narcissists have a tendency to indulge in violent conflicts and wars (think of Lyndon Johnson and Vietnam or of Andrew Jackson and the ethnic cleansing of Native Americans). At a minimum, Trump lacks the psychological characteristics needed for constructive governance: honesty, dignity, competence, empathy, relevant experience, and the capacity to plan. According to some observers, Trump also shows signs of diminished mental capacity.

The hope in Washington is that "adults in the room" will keep Trump's dangerous tendencies in check. But the "adults" in Trump's administration are increasingly military figures rather than civilians, including three generals (John Kelly, the new White House Chief of Staff, National Security Adviser H.R. McMaster, and Secretary of Defense James Mattis). Wise civilian leaders are the key to peace, especially given that America's vast war machine is always revving.

There are two other escape valves: the 25th Amendment, which charts a course for removing a president who is unable to discharge the responsibilities of office, and impeachment for "high crimes and misdemeanors." Both measures are extreme in the US constitutional order, and both would depend on the agreement of Republican leaders. Nonetheless, one or the other may prove necessary and even urgent in the event that Trump's psychological instability or political weakness leads him to launch a war.

The political meltdown in Congress is less dramatic, but serious nonetheless. There, the cause is not a personality disorder; it's money. The legislative branch has been deeply corrupted by corporate lobbying and campaign contributions. Two brothers, the industrialists David and Charles Koch, worth a combined $100 billion, virtually own the votes, and voices, of Speaker Paul Ryan and Senate Majority Leader Mitch McConnell.

The result is politically perverse. Ryan and McConnell relentlessly push legislation favored by the Koch Brothers rather than the American people. The attempted repeal of President Barack Obama's signature health-care legislation, the 2010 Affordable Care Act ("Obamacare") had nothing to do with voters' views or interests; it was simply what the Koch brothers (and other Republican mega-donors) wanted.

Washington is still filled with many smart and talented people of both parties, but America's political institutions and formal processes are diminished. The federal government is hemorrhaging scientific expertise, as researchers leave or are purged, and as agency budgets are targeted for deep cuts. Seasoned diplomats are flooding out of the State Department. Lobbyists, meanwhile, are installing cronies and hacks throughout the government.

Through the din, new drumbeats of war can be heard, most ominously against Iran and North Korea. Is it posturing or real? Nobody knows. Trump's foreign and military policies are now announced in early-morning tweets, without the foreknowledge of the White House staff or senior officials. The situation is dangerous and deteriorating.

The Shifting World Order: Geo-Strategic Risks

A Grand Tour of the Crisis in Europe
New York Times, by Sheri Berman
9 Nov 2017

It is easy to forget how difficult democracy, prosperity and social stability are to sustain. During the postwar period the achievement of all three in Western Europe depended on social democratic, welfare-state capitalism at the domestic level, European integration at the regional level, and a liberal economic and American-led security order at the international level. Today all are crumbling.

The collapse of the Soviet Empire left Europe more united than ever before. Most of its countries shared a political (democratic) and economic (capitalist) system; Germany and Russia — the great powers that had caused so much instability in the past — were no longer threats, and the European Union was on the verge of incorporating much of Eastern Europe and creating a single currency. At the end of the 20th century, the view that a "united Europe" was on its way to becoming "the next global superpower," and the West was at the dawn of a new golden era, was widespread.

Could history prove itself any more unpredictable? Today, there are growing fears that Europe and the West have entered a period of terminal decline. How did we get from there to here? How did the unified, peaceful Europe of the late 20th century turn into the fractured, discordant continent of the early 21st?

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level, and a liberal economic and American-led security order at the international level. Today all are crumbling. "Fractured Continent" doesn't tell us whether these arrangements can be revivified and what Europe's fate will be if they aren't, but it does remind us that the challenges faced by Europe and the West right now are seriously daunting.

The Future Germany Envisions
Geopolitical Futures, by Antonia Colibasanu
8 Nov 2017

Since the 2008 financial crisis, Germany has been the de facto leader of the European Union. It has been a voice of calm, urging unity and coordination through the ensuing turbulence, from the financial troubles of Greece, Portugal, Ireland and Spain to the political troubles in the wake of last year's Brexit vote. Behind the scenes, however, the German Ministry of Defense in February produced "Strategic Perspective 2040," a federal defense policy document – the first of its kind in Germany since the end of World War II. Some details of the document were leaked recently to the German publication Der Spiegel. The document, and especially the planning scenarios in it, send a message to the world: The structure of Western Europe since World War II, and of all of Europe since 1991, is no more. And Germany intends to look out for itself.

The German Ministry of Defense in February produced "Strategic Perspective 2040," a federal defense policy document – the first of its kind in Germany since the end of World War II. It considers six scenarios, all relating to the future of the EU and its relationship with the world in general and the United States in particular.

Strategic Perspective 2040 considers six scenarios, all relating to the future of the EU and its relationship with the world in general and the United States in particular. The first two scenarios see the EU surviving its ongoing existential crisis. Strong trans-Atlantic relations prevail. This was regarded as the current state of affairs for Germany, where its defense and security focus has been on local and international peacekeeping operations. The third scenario describes heightened tensions on a local level in the Western world. It covers rising nationalism – which is already happening – and an elevated threat of terrorism.

The final three scenarios are the bleakest. They detail the further deterioration of the economies of Europe and, ultimately, the collapse of the European Union, coupled with an "increasingly overstrained" United States still serving as the world's "stabilizing factor." In the fourth scenario, economic troubles in Europe and in China – Germany's two main export markets – pose a serious threat to the German economy.

Scenario five outlines a bipolar world, where the West consists of the U.S. and Europe – not the EU – and the East consists of Russia and China. Economic competition grows between the two blocs, but while tensions are high, trade prevents major military conflicts. Dependence on fossil fuels and other raw materials drives some Eastern European countries to ally with Russia. The sixth scenario sees a complete collapse of the European Union. The leadership in the United

States is no longer able to act decisively to prevent global crises from escalating. The prevailing sentiment from the perspective of the German defense and security establishment is uncertainty.

The release of details about Germany's first national defense strategy in decades is a signal to the world that it doesn't intend to set idle. The system that was built after the war no longer works. The EU and NATO are cracking under the weight of an increasingly divergent set of interests among their members. So Germany must make its own plans, and it must plan for the worst.

Germany Has Plunged Into Unprecedented Political Chaos
Foreign Policy, By Paul Hockenos
20 Nov 2017

Immediately after the Sept. 24 vote, the Social Democratic Party (SPD), the Christian Democrats' partner in power for eight of the last 12 years, categorically refused to be Chancellor Angela Merkel's sidekick for another term, having recorded its worst showing ever in the September vote — a disaster that the Social Democrats attributed directly to Merkel's political style.

> **The limbo casts Europe into an existential quandary… Now everything, including the EU's prospects, is up in the air …**

This left the four unlikely bedfellows, whose agendas span the political spectrum, to hash it out between them and find a way to rule Europe's economic powerhouse and mainstay of stability. But they failed to do so, and what the near future holds — for Merkel, Germany, and Europe as a whole — is clouded by the events of the past sleepless weekend. The collapse of the talks has thrown Germany into profound political crisis, casting it into waters the country has no experience in navigating: Never before in German postwar history has an election been repeated due to the inability to form a governing majority coalition. Nor since the days of the interwar Weimar Republic have Germany's democratic parties been under such pressure from the far-right, which stands to gain whether there are fresh elections or not. Moreover, the unexpected turn of events further undermines Merkel's authority, putting her in an even weaker position than where she had landed after the September vote, in which her CDU and the CSU fared significantly worse than expected — and a far-right party entered the Bundestag for the first time in its history.

But the limbo also casts Europe into an existential quandary: the European Union, mired in the severest crisis since its founding, was counting on Merkel and a new German government to deliver, in tandem with France's President Emmanuel Macron, the energy and vision for far-reaching reforms to deepen European integration. EU proponents had assumed that both politicians would have strong, four-year mandates in front of them, as well as auspicious personal chemistry. But now everything, including the EU's prospects, is up in the air — even the political future of Angela Merkel, who just months ago was a pillar of stability in a shaky, disoriented Europe.

The Afghan Abyss, Deeper All the Time
Real Clear World, by Alfred McCoy
12 Nov 2017

After nine months of confusion, chaos, and cascading tweets, Donald Trump's White House has finally made one thing crystal clear: the U.S. is staying in Afghanistan to fight and – so they insist – win.

According to the U.S. commander in Afghanistan, General John Nicholson, a single Afghan province, Helmand, "produces a significant amount of the opium globally that turns into heroin and ... provides about 60 percent of the Taliban funding." The country's president, Ashraf Ghani, agrees.

After 16 years of continuous war in that country, the obvious question is: Does this new campaign have any realistic chance of success, no less victory? To answer that, another question must be asked: How has the Taliban managed to expand in recent years despite intensive U.S. operations and a massive air campaign, as well as the endless and endlessly expensive training of Afghan security forces? After all, the Afghan War is not only the longest in U.S. history, but also one of the largest. ...

As with any movement, there are multiple reasons for the Taliban's success, including the failure of the government in Kabul – a cesspit of corruption – to deliver anything like rural prosperity, the country's martial tradition of fighting foreign occupiers, and Pakistan's sub-rosa support, as well as the wide-open sanctuaries in its tribal backlands along the Afghan border. But there is one other factor, more fundamental than all the rest: the opium poppy.

The Taliban guerrillas are, like many insurgent armies, largely made up of teenagers who fight, at least in part, for cash to feed their families. Every spring for the past 15 years, as snow melts from mountain slopes across that country, new crops of such teenage recruits emerge from impoverished villages ready to take up arms for the rebel cause. Each of them reportedly makes at least $300 a month, far more than they could possibly hope to earn from the usual agricultural wages. In other words, it takes an estimated $90 million in salaries alone for the Taliban to field its 25,000 strong guerrilla army for a single fighting season. With an overall budget approaching a billion dollars annually, the cost of the insurgency's 15-year war rings in at something close to $15 billion.

So where, in that impoverished, arid land, has the Taliban been getting nearly a billion dollars a year? According to the U.S. commander in Afghanistan, General John Nicholson, a single Afghan province, Helmand, "produces a significant amount of the opium globally that turns into heroin and... provides about 60 percent of the Taliban funding." The country's president, Ashraf Ghani, a former World Bank official, agrees. "Without drugs," he's said, "this war would have been long over. The heroin is a very important driver of this war."

World war 3 is coming ...
The Independent, by Youssef El-Gingihy
10 Mar 2017

Although there has been no major combat between the great powers since the Second World War, there are three key fronts emerging that make the prospect of a third global conflict alarmingly conceivable.

The prospect of a global conflict – World War III if you like – appears somewhat unthinkable. Since the Second World War, there has been no major war between the great powers. The original post-war European project was based around peace, social justice and harmony. The unravelling of this project, accompanied by rising nationalism, is likely to exacerbate the dangers of war on a continent with a fraught history of bloody conflict. ... Yet it is possible that future conflict between the great powers may take the form of another cold war or even a conventional (as opposed to thermonuclear) hot war. In the 21st century, there are three key fronts emerging as the loci for future wars. The first is the Europe-Russia front with a new cold war triggered by the Ukrainian conflict. The second is the Middle East cauldron centred around the Syrian war. The third is the Asia-Pacific front with a face-off between the United States and China.

One might even argue that capitalism often resolves systemic economic crises through war. After all, a war economy with militarisation, mobilisation, full employment and jingoism can be viewed as the ultimate solution to economic woes and social unrest.

China will eventually overtake the US in economic terms but US supreme military dominance is unchallenged. This is a dangerous discrepancy as it means that the US will use this military power to guarantee its economic prerogative – particularly as a massive national security apparatus now seems to dictate US foreign policy. As Obama has put it, the US is exceptional because it acts.

This would be in keeping with the default operational mode of capitalism. One might even argue that capitalism often resolves systemic economic crises through war. After all, a war economy with militarisation, mobilisation, full employment and jingoism can be viewed as the ultimate solution to economic woes and social unrest. The transition of Western democracy to oligarchy and the descent into soft fascism is under way.

The Explosive Middle East Conundrum

The Middle East Is Nearing an Explosion
The Atlantic, by Robert Malley
8 Nov 2017

Fear is the one thing preventing it—but could also precipitate it.
The news came on November 4 in the form of three back-to-back developments in a mere 10 hours. First, Saad Hariri, Lebanon's prime minister, announced his resignation. That he made the

statement from Riyadh told much of the story; that he delivered it with the genuineness of one forced to read his own prison sentence told the rest.

Act two was news that Saudi Arabia had intercepted a missile launched from Yemen and purportedly aimed at Riyadh's airport. This was not the first missile that the Houthis, a Yemeni rebel group enjoying Iranian and Hezbollah support, had fired at its northern neighbor, but its timing and unprecedented range could make it one of the more consequential.

All three developments point in a similar direction: that of an increasingly emboldened and single-minded Saudi leadership eager to work with the U.S. to counter an Iranian threat.

Act three was the massive Saudi purge in which over 10 princes and dozens of businessmen and senior officials were put under house arrest. This was bin Salman cleaning house, eliminating any potential competing military, political, economic, or media-related source of power. Combined with earlier moves, this means that he now essentially has gone after every one of the regime's traditional pillars. Some wonder whether, untested and unseasoned, he might have provoked too many enemies at the same time. What he lacks in experience he more than makes up for in ambition however, and for now he stands precisely in the position he craved: able to do away with years of assumed Saudi passivity and refashion as he sees fit both the Kingdom's domestic and foreign policies, notably in order to more effectively confront Iran.

All three developments point in a similar direction: that of an increasingly emboldened and single-minded Saudi leadership eager to work with the U.S. to counter an Iranian threat.

Missing from this picture is any hint of diplomacy—between Iran and Saudi Arabia, Iran and the U.S., or Saudi Arabia and the Houthi; rather, the region faces a free for all in which the only operative restraint on one's actions is nervousness over what it might provoke.

Saudi Arabia has united with Israel against Iran – and a desert storm is brewing
The Spectator, by John R. Bradley
11 Nov 2017

Mass arrests are the Crown Prince's opening salvo in a fight against corruption and an embrace of moderate Islam.

Bin Salman's power grab is in itself spectacular. But the wider significance of this can only be fully understood in conjunction with events in Israel. The Jewish state is hardly a natural ally for Saudi Arabia, but they have long shared a common enemy: Iran. Both fear the latter is exploiting the opening created by the fall of Isis, and the triumph of the Assad regime in Syria, to dominate the region. Iran and its proxies — whether the Houthi rebels in Yemen or Hezbollah in Lebanon — are in the ascendant, and neither Israel nor Saudi Arabia are going to sit on the sidelines.

So the two have been working together: close diplomatic cooperation, intelligence sharing and perhaps more. Israeli media recently reported that a senior Saudi prince, possibly Bin Salman

himself, paid a secret visit to the Jewish state. The idea of a Saudi-Israeli alliance is still deeply controversial in both countries, but details are starting to leak out.

Amid the recent madness, for example, we saw the resignation of Lebanese Prime Minister Saad Hariri, a Saudi puppet. He was summoned to Riyadh, where he was forced to read a letter announcing his immediate departure, the official reason being that he feared an assassination attempt by Hezbollah. But why would a prime minister visit a foreign capital to resign? The odds are that he had no idea he was resigning until he landed in Riyadh to meet Saudis furious at him for holding talks with both Iranian and Hezbollah officials. His departure has shocked the region.

A leaked memo shows Israeli diplomats being instructed to back the Saudi version of events, and start to join Riyadh in denouncing the Houthi rebels. Such diplomatic coordination is dangerous, given that an alliance has the potential to create a massive backlash among ordinary Saudis.

But it didn't shock the Israelis. A leaked memo shows Israeli diplomats being instructed to back the Saudi version of events, and start to join Riyadh in denouncing the Houthi rebels. Such diplomatic coordination is dangerous, given that an alliance has the potential to create a massive backlash among ordinary Saudis.

This brings us back to the night of the long knives. An outpouring of anti-Israeli sentiment might, only a few months ago, have provided a rallying cry for those determined to oust the Crown Prince. They would have likely turned to Al-Waleed bin Talal, a fierce critic of Trump and the most vocal Saudi supporter of the Palestinians. But he is in prison, presumably as a warning to anyone who shows opposition to the young new broom.

Whose side will the West be on? Jared Kushner, Donald Trump's adviser and son-in-law, recently left Riyadh after his third visit this year, staying up talking with the Crown Prince until the small hours of the morning at a ranch in the desert. Robert W. Jordan, a former American ambassador, says that the recent purges were conducted after 'what people would call a green light from President Trump'. And all this while Israel was conducting its biggest-ever aerial military drill, just a month after its largest-ever land military drill — both simulating war with Hezbollah.

So two months after his 32nd birthday, the Crown Prince has established himself as a despot, albeit one hailed by the West as an enlightened visionary. He has tightened a military alliance with Israel, all but declared war on Iran and prepared Lebanon as the first scene of this war — with Hezbollah as the first target.

Saudi Arabia, at War With Itself
Geopolitical Futures, by Kamran Bokhari
6 Nov 2017

Forget Yemen, Syria and Lebanon, just a few of the countries in which Saudi Arabia is fighting a proxy war with Iran, its long-time enemy. The Saudi royal family now appears to be at war with

itself. Regardless of who wins, the conflict could destabilize Saudi Arabia, which was already weakening anyway.

Arresting these individuals accomplishes two things. First, it guarantees their capitulation to Mohammed bin Salman. Second, it gives the Salman faction more mileage out of the anti-corruption drive. Between that and their calls for a more moderate version of Islam, the king and his son are moving away from the traditional sources of support (clerics and tribal establishments) and toward new ones: popular appeal among the country's youth, which makes up about two-thirds of the population. The old guard is an obstacle for the reforms needed to move the kingdom beyond its current impasse – put simply: depending almost solely on oil revenue – and thus a threat for the leadership. They are using populism to inoculate themselves from the potential consequences of their power grab.

They are using populism to inoculate themselves from the potential consequences of their power grab.In the process, though, they are inadvertently laying the foundations for the next crisis.

In the process, though, they are inadvertently laying the foundations for the next crisis. Relying on popular support means they will be forced to enact more reforms than they actually want to – or are even capable of. Despots who try to be populists usually end up being neither and, in their failure, lose power.

The kingdom cannot both change its nature and hope to meet the external challenges at the same time. It has to consolidate at home before it can act effectively beyond its borders. But this sequence of priorities is not a luxury that the Saudis enjoy. Their historical enemies the Iranians are gaining ground, and they cannot simply focus on domestic politics.

The leader of Riyadh's main proxy in Lebanon, Prime Minister Saad Hariri, resigned after criticizing Iranian interference in his country. By having Hariri pull out of the coalition government in Lebanon, the Saudis hope to weaken Iran's premier proxy, Hezbollah, which benefits from the coalition government in Beirut. But it's a weak and probably ineffective move. Now that the Islamic State is weakened, Iran has the advantage in Iraq and Syria.

Riyadh's inability to deal with external threats, if anything, will only intensify its domestic ones. Even though the king and his son have the upper hand, an inability to effectively counter the Iranian threat could weaken their position at home and thus aggravate the infighting.

Muhammad Bin-Salman's Purge in Saudi Arabia Is the Prelude to Something Bigger
Global Research, by Abdel Bari Atwan
11 Nov 2017

The region stands on the brink of war. We should not let small details — such as the resignation of Lebanese Prime Minister Saad al-Hariri's resignation or the detention of princes and former ministers in Saudi Arabia — divert us from the big picture and the real developments taking place behind the scenes. The really dangerous phase is the one that will follow Crown Prince Muhammad Bin-Salman's purge on the domestic Saudi front. It may be the precursor to scenarios

for a regional war that could, without exaggeration, end up being the most devastating in its modern history.

The old Saudi Arabia is no more. Wahhabism is breathing its last, has been all but buried and is in the process of becoming history. A fourth Saudi state, dressed in the garb of modernity and based on different alliances, is being born.

All that is currently happening is part of a carefully planned and crafted scheme, and the prelude to a sectarian war waged in 'Arab nationalist' guise against the growing power of 'Shia' Iran and its surrogates in Yemen, Lebanon and Iraq with American, regional and Israeli backing.

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When its would-be founder and man of the moment, Muhammad Bin-Salman, accuses Iran of mounting a 'direct military attack that may amount to an act of war' against his country by allegedly supplying missiles to factions in Yemen, and his stance is endorsed and supported by the US, it is clear that a new American-led alliance is taking shape in the region.

Muhammad Bin-Salman's domestic purge, including the detention of 11 princes and scores of businessmen and former officials under the banner of fighting corruption, is only a first phase. It seems to haves proceeded smoothly so far, without encountering any serious obstacles.

The man now has now brought the four major pillars of state power – the economy, the security and military forces, the media and the religious establishment (both the official Council of Senior Ulema and the unofficial 'awakening' clerics) — totally under his control. He has thrown all his opponents, and anyone who uttered any criticism of his rule, behind bars (or, in the case of the princes and other high-ranking figures, incarcerated them in a luxury hotel for now). The latest round of detentions is unlikely to be the last, for we are dealing here with a bulldozer that levels everything that stands in its path.

In due course, Muhammad Bin-Salman will move on to what we believe will be the second and more serious phase, that of military confrontation.

This could include the following steps:

First, precipitating a military confrontation with Iran against the backdrop of the crushing siege on Yemen, after imposing a total land, air, and sea blockade of the country on the pretext of preventing Iranian missiles from reaching the Houthis.

Secondly, forming a new alliance along the lines of the Desert Storm coalition formed in 1990 to expel Iraqi forces from Kuwait. Candidates for membership in addition to Saudi Arabia and the UAE include UAE, Jordan, Egypt, Sudan and Morocco. (The King of Morocco has, coincidentally, been in the UAE capital Abu-Dhabi reportedly seeking to mediate with Saudi Arabia over the

recent detentions: but he was sent a clear message from Riyadh not to interfere in what is happening inside Saudi Arabia, according to reliable sources).

Third, the bombardment of Lebanon and destruction of its infrastructure on the pretext of trying to eradicate Hezbollah. Such an assault would prompt the party to retaliate with intensive missile strikes against Israel, and would be more likely than ever before to drag in Iran and Syria.

Fourth, an invasion of Qatar by Egyptian, Emirati and Saudi forces aimed at overthrowing its regime, precipitating a clash with the 30,000-strong Turkish force deployed there.

Fifth, an American-Saudi-Israeli counteroffensive in Syria aimed at recapturing the areas lost by the US and its allies' rebel proxies such as Aleppo, Homs and Deir az-Zour. The US cannot easily stomach its defeat in Syria at the hands of Russia and Iran, even at the risk of causing a collision with Russia. It deliberately foiled the Syrian national dialogue conference in Sochi which Moscow had called for by getting the Syrian opposition to boycott it.

Sixth, mobilizing the Kurdish militias in northern Iraq and Syria as US proxies in these wars with the aim of weakening and destabilizing Iran, Turkey, and Iraq.

These are just the most obvious of the steps that may be taken by the new US-led alliance – whatever it chooses to call itself. But none of this means that it is assured of success in achieving its aims and reshaping the region to its specifications. The counter-scenario may be that of the consolidation of an Iranian-Syrian-Turkish-Iraqi alliance with which Russia would sympathize to begin with, and which it may eventually end up leading. These countries combined possess formidable missile arsenals which would mostly be aimed at Saudi Arabia, the UAE, and Israel. The targeted states' much-vaunted US-made Patriot anti-missile systems would be ineffective in the face of intensive strikes by thousands of missiles fired simultaneously.

The gauge of success in this anticipated and possibly imminent regional war would be the destruction of Iran, regime-change in Qatar and the eradication of Hezbollah. But its failure would mean devastation for Saudi Arabia, Israel and the UAE and the dismemberment of the Saudi kingdom into fragments.

We are neither soothsayers nor fortune-tellers. Nevertheless, this may prove to be the last war that transforms the region, changing its states, its borders, and perhaps its populations as well. The Arabs and Iranians will certainly survive such a cataclysm. But can Israel in its current form survive it too?

Russia's Hand Is Visible Everywhere in the Middle East
Real Clear World, by Nikolas Gvosdev
13 Sep 2017

The Russian hand is visible everywhere in the Middle East. Moscow is presiding over the effort to tap down the Syrian civil war and establish the deconfliction zones between the various factions and their outside patrons. Russia has inserted itself into the volatile Kurdish issue—both with regards to any Kurdish zone in Syria vis-a-vis Turkey and the efforts to clarify a final status between Iraqi Kurdistan and the government in Baghdad. Russia has played a major role in sustaining the Iran-Iraq-Syria "Shi'a Crescent" but also is involved in direct talks with Saudi

Arabia and the Gulf emirates on how to maintain a fragile balance of power in the region. Egypt and Israel both now have their own lines of communication with the Kremlin and see Vladimir Putin as a more reliable statesman who does what he says and follows through on his commitments. This assessment is also apparently shared by Turkish president Recep Tayyip Erdogan, who seems prepared to forge a new strategic axis with Russia on energy, Eurasian security and the future alignment of the Middle East.

The twenty-first century Russian approach is not to displace the United States, which continues to bankroll much of the costs of regional security, but instead to act as the "hedge bet" for the regimes of the region to balance against America's preferences and to have options to escape America's conditionality.

The twenty-first century Russian approach is not to displace the United States, which continues to bankroll much of the costs of regional security, but instead to act as the "hedge bet" for the regimes of the region to balance against America's preferences and to have options to escape America's conditionality.

It is clear that Washington lacks the ability to follow-through on its grandiose promises, and in particular no U.S. presidential administration is now in a position to commit large amounts of U.S. personnel or resources. This has been evident in the manic search by the United States for nonexistent proxies.

It would be a mistake to assume that Russian efforts are being driven solely by the prestige demands of being seen as a great power. Moscow also expects to reap tangible benefits from its policies. Beyond validating Russia as a global power, the Russian calculation is that a return to playing a more active role in Middle Eastern affairs can create demand for Russian goods and services, starting with arms and nuclear power plants, and particularly technologies that the United States does not want to provide.

The Middle East is critical to Russia's geo-economic strategy: Turkey is set to become Russia's replacement for Ukraine as a transit country for energy shipments to Europe, while Russian investments in Iraq and Libya are designed to further Russia's ability to supply Europe with oil. Meanwhile, Russia wants to create a new north-south route that will connect the Russian heartland with the Persian Gulf and Indian Ocean.... Now, instead of competing against Moscow, Riyadh is actively coordinating with the Russians in an effort to set a stable price "floor" for energy, to help guarantee revenues for both their treasuries.

During the Cold War, the Soviet Union attempted to compete frontally against the United States—and found itself outclassed. Today, Russia is engaged in a more subtle strategy. So far, it appears to be paying dividends.

Commodities Outlook

SUGAR

**SUGAR PRICES
(Domestic V/s Global)**

Year	Retail Price Rs/kg (Domestic)	$/kg (Domestic)	$/kg (Global)
2012-13	53.26	0.54	0.44
2013-14	53.84	0.54	0.40
2014-15	57.14	0.58	0.33
2015-16	62.62	0.63	0.33
2016-17	66.43	0.67	0.42
2017-18 (Forecast)	60.55	0.61	0.40

Source: *PSMA; SBP; WB, Commodities Price Data (July 2017)*

**SUGAR PRODUCTION
(Domestic V/s Global)**

Year	Million Tons (Domestic)	Million Tons (Global)
2012-13	5.1	177.6
2013-14	5.6	175.6
2014-15	5.1	174.3
2015-16	5.1	173.4
2016-17	6.4	174.9
2017-18 (Forecast)	6.7	183.7

Source: *PSMA; SBP; Economic Survey 2016-17*

Sugarcane production in Pakistan grew by 12.4% in FY17 to reach a record high of 73.9 million tons. This was the first time in the past six years that sugarcane output growth reached double figures. The improvement was achieved on the back of both the larger area under crop as well as better yields. The continued low cotton prices (along with frequent pest attacks) and changing weather pattern marked by excessive rains have driven growers towards more resilient sugarcane crop that yields stable and attractive returns. In addition, relocation and capacity enhancement of some sugar mills spurred growers' interest in the crop.

The policy of keeping indicative prices at attractive level has led to an increase of 25% in sugarcane production over a period of last five years, with a corresponding increase in the sugar output by the industry. Since the domestic consumption is growing at a moderate pace, the country has been building up the unsold stock of sugar. As a result of growth in sugarcane production, the reserves of sugar in the country have increased.

Bumper sugarcane crop, increased domestic prices (in tandem with international sugar prices), favorable weather, and timely commencement of crushing activities by millers helped the sugar industry record an impressive growth of 26% in FY 2016-17 compared to 2% in the corresponding period last year.

The International Sugar Organization (ISO) sees a modest sugar surplus emerging in 2017/18 as Brazilian producers allocate more cane to sugar over ethanol. The inter-governmental body said it

anticipated a surplus of roughly 3 million tonnes in the 2017/18 season, which runs from October to September.

WHEAT

WHEAT PRICES
(Domestic V/s Global)

Year	Retail Price Rs/kg (Domestic)	$/kg (Domestic)	$/kg (Global)
2012-13	30.63	0.31	0.34
2013-14	37.04	0.37	0.31
2014-15	34.57	0.35	0.25
2015-16	33.95	0.34	0.17
2016-17	34.16	0.35	0.14
2017-18 (Forecast)	34.00	0.34	0.16

Source: *Economic Survey 2016-17; SBP; WB, Commodities Price Data (July 2017)*

WHEAT PRODUCTION
(Domestic V/s Global)

Year	Million Tons (Domestic)	Million Tons (Global)
2012-13	24.2	658.7
2013-14	26.0	715.1
2014-15	25.1	728.1
2015-16	25.6	736.9
2016-17	25.8	754.3
2017-18 (Forecast)	26.5	737.8

Source: *Economic Survey 2016-17; SBP; USDA-WASDE*

Wheat production recorded a rise of 0.5% to reach 25.8 million tons in FY17. FY17 was the fourth consecutive year when the wheat harvest crossed 25 million tons mark. Since the harvest exceeds the domestic consumption, this impressive performance over the years has also led to a sharp buildup of domestic wheat stocks to record 5.7 million tons by June 2017 (from just 1.2 million tons in June 2014). We expect this stock to increase further in FY18 due to better harvest and large procurement target (7.05 million tons) for the current season.

This year's bumper crop will add to the already substantial stockpile with no bright prospects for exports. Wheat exports seem implausible without adequate export subsidy, as the price differential between domestic and international market is unfavorable at this stage. More importantly, the policy challenge is likely to continue going forward, as the wheat prices in the international market are likely to remain sluggish due to better harvest in major wheat exporting countries.

Global 2017/18 wheat supplies are decreased fractionally on lower production forecasts for the U.S., Australia, China, and the EU, which are partially offset by higher production expected for Russia and Turkey. While global supplies are expected to fall slightly to 737.8 million metric tons (mmt), the second highest level ever, global ending stocks are projected to increase to a record of 258 mmt, up almost 3 mmt from 2016/2017, on account of reduced feed use and weaker exports.

RICE

RICE PRICES
(Domestic V/s Global)

Year	Retail Price Rs/kg (Domestic)	$/kg (Domestic)	$/kg (Global)
2012-13	49.90	0.50	0.58
2013-14	54.05	0.54	0.46
2014-15	51.99	0.52	0.42
2015-16	47.16	0.48	0.38
2016-17	48.52	0.49	0.39
2017-18 (Forecast)	49.0	0.49	0.39

Source: *Economic Survey 2016-17; SBP; WB, Commodities Price Data (July 2017)*

RICE PRODUCTION
(Domestic V/s Global)

Year	Million Tons (Domestic)	Million Tons (Global)
2012-13	5.6	472.8
2013-14	6.8	478.4
2014-15	7.0	478.8
2015-16	6.8	471.9
2016-17	6.8	483.8
2017-18 (Forecast)	6.9	483.7

Source: *Economic Survey 2016-17; USDA-WASDE*

Domestic production of rice posted a marginal growth of 0.7% (6.849 million tons in FY17 as compared to 6.801 million tons in FY16), as higher yields more than offset the impact of reduced area under the crop. This is the second consecutive year when the crop area fell. However, unlike FY16 when area under rice had declined for all varieties, it was non-basmati variety (e.g., irri), particularly in Punjab, which experienced a contraction in area during FY17.

The rice cultivation in Punjab has been witnessing some interesting trends. For example, the area under non-basmati rice has almost halved over last five years, whereas that of basmati has risen by 36% (351 thousand hectare) during the same period. Within basmati, southern districts (e.g., Sahiwal, Multan, DG Khan and Bahawalpur) are gaining share against Gujranwala and Lahore (which traditionally have remained stronghold for basmati). The frequent setbacks with cotton crop in recent years largely explain this shifting of southern districts to rice cultivation.

There are many reasons for the declining trend in rice exports; these include strong competition with India, lack of R & D in new varieties and loss of our key customers like Iran. Pakistan's share in Saudi Arabia's market has also declined to 20%. As the issue of banking channels with Iran has been resolved and business has resumed, the opening of this major market will help to boost the exports of rice.

Global rice supplies for 2017/18 are raised primarily on increased production for India and Thailand. India production is raised 2.0 million tons to 108.0 million, and Thailand production is raised 0.9 million tons to 20.4 million; both changes are on improved rainfall thus far in the growing season. The largest production decrease was a 0.3-million-ton reduction for the United States. Foreign exports are raised 0.6 million tons led by increases for India and China. Global use is reduced fractionally and world ending stocks are raised 2.0 million tons to 122.5 million.

COTTON

COTTON PRICES
(Domestic V/s Global)

Year	Spot Price Rs/pound (Domestic)	Spot Price $/kg (Domestic)	Spot Price $/kg (Global)
2012-13	67.93	1.48	1.85
2013-14	71.28	1.57	2.07
2014-15	59.40	1.31	1.57
2015-16	57.60	1.26	1.53
2016-17	65.31	1.44	1.82
2017-18 (Forecast)	68.60	1.50	1.93

Source: *Karachi Cotton Association (KCA); SBP; WB, Commodities Price Data (July 2017)*

COTTON PRODUCTION
(Domestic V/s Global)

Year	Million bales of 375 lbs each (Domestic)	Million bales of 375 lbs each (Global)
2012-13	13.0	158.6
2013-14	12.8	154.1
2014-15	14.0	152.6
2015-16	9.9	123.9
2016-17	10.7	136.4
2017-18 (Forecast)	11.9	146.9

Source: *Economic Survey 2016-17; USDA-WASDE*

Cotton crop in Pakistan showed a marked recovery as the output reached 10.671 million bales in FY17, from 9.917 million bales a year earlier (when the crop suffered from pest attack), registering 7.6% increase. This performance is notable given a decline of 14.2% in area under the crop, as the high risk of infestation and low prices in early months of FY17 led farmers to go for more profitable crops. However, favourable price in the later months attracted more farmers and encouraged them to use more inputs and take better care of crop against pest attacks, which in turn helped in achieving higher yields. Nonetheless, the cotton crop still appear under stress as the output remained way below the average of 13.3 million bales for three years preceding FY16.

While the subsequent recovery in international commodity prices (mainly of cotton and rice) held some promise, their impact was more than offset by a decline in quantum exports of these commodities.

The fall of cotton inventories in China is offset by the higher stocks elsewhere, especially in India. The level of Chinese stocks will be approximately the same at the end of the season than in the rest of the world. China continues rapidly selling its state-owned reserves with strong demand for Xinjiang cotton. However, Chinese cotton officials may be expected restricting imports until the cotton stocks will have reached a much lower level. Outside China, demand for cotton is further rising in Vietnam, Bangladesh and Indonesia where cotton use at spinning mills is rapidly increasing.

Cotton production is expected to rise sharply not only in Pakistan, but also in India, the United States and China, not only due to higher prices this year but also due to favorable weather in many parts of the cotton world. Pakistan is every year the first country receiving new cotton as of

July, whereas the US, Chinese and Indian crops will not arrive before September, October or even November.

Prices have not been significantly changed since last October in China, with cotton officials paying attention to the long-term stability of the market. Farmers and spinners are satisfied by the price level that allows them to expand cotton areas in the coming season while competing with foreign yarn producers at the same time. In India and Pakistan by contrast, the relatively high level of cotton prices is limiting market activities, with cotton production expected to rebound in the coming season.

CRUDE OIL

CRUDE OIL PRICES (GLOBAL)

Year	$/bbl
2013	104.1
2014	96.2
2015	50.8
2016	42.8
2017	49.0
2018 (Forecast)	52.6

Source: *WB Commodities Price Data (Nov 2017);*
WB Commodity Markets Outlook/Price Forecast (Oct 2017)

The milestone deal in November 2016 marked OPEC's first production cut in eight years. It envisioned reduction in OPEC's output by approximately 1.2 million barrels per day by January. Significantly, even Russia – a non-OPEC member – agreed to cut production by 300,000 barrels per day.

As a counter measure, several OPEC members agreed (in a meeting held on May 25, 2017) to extend the output cut till Mar 2018. However, this agreement failed to have its desired impact, as prices fell soon after the meeting. Looking at recent history, Brent crude oil prices seem to fluctuate within the 45 - 55 USD per barrel range. As economic growth around the world picks up, crude oil prices may drift up on a more sustained basis but probably not above a 60-65 USD per barrel level in the next few years.

There is growing demand for oil products from the emerging markets but this is countered by the declining demand from developed countries where environmental standards are getting tougher and electric vehicles are spreading. Also, demand in the emerging markets would probably taper off as cleaner technologies become cheaper and more accessible. There also seem to be abundant proven reserves of oil for decades to come. There may be occasional spikes due to supply disruptions but they would be temporary.

Oil prices rebounded in the middle of May as the market priced in the extension of OPEC production cut through March 2018. The extension beyond the end of this year was a surprise. However, oil prices have since decreased amid continued U.S. supply growth and strong export from OPEC to the U.S despite weak import demand in the U.S.

Futures contracts point to oil prices (APSP) staying almost flat at $49.67 in 2017 (compared to the current IMF baseline of $51.92) and $49.29 in 2018 (compared to current IMF baseline of $52.00). Future curves are very gradually increasing for the next 5 years.

PALM OIL

PALM OIL PRICES (GLOBAL)

Year	$/mt
2013	856.9
2014	821.4
2015	622.7
2016	700.2
2017	734.0
2018 (Forecast)	732.0

Source: *WB Commodities Price Data (Nov 2017);*
WB Commodity Markets Outlook/Price Forecast (Oct 2017)

After falling almost 15% between February and April 2017, the price of palm oil increased for the first time in four months on account of stronger export demand in South-East Asia, increasing by 5.2 percent, month-on-month, in May 2017. Despite this month's price spike, the outlook for palm oil for the remainder of the year is bearish. After last year's El Niño induced crunch, output in top producing countries Indonesia and Malaysia is expected to increase, while demand for palm oil exhibits weaker growth due to the availability of other competitive vegetable oils. As of May 2017, Malaysian palm oil futures curves remain in backwardation, indicating that market participants expect supplies to grow in the near foreseeable future.

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

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

Imports of palm oil in Pakistan, which has an over 30% share in overall food purchases from abroad, grew by 12.8% YoY in FY17, after declining 8.0%, on average, in the past four years. This entire increase was an outcome of higher unit values, which reflected the strong recovery in global prices of the commodity; quantum palm oil imports declined during the year. However, international prices have somewhat stabilized after January 2017, on the back of comfortable supplies: in Indonesia, a major producer, the harvested area increased by 2.6% YoY in FY17, and the yield has also improved due to favourable weather conditions, according to the USDA.

GOLD

GOLD PRICES (GLOBAL)

Year	$/toz
2013	1411.5
2014	1265.6
2015	1160.7
2016	1249.0
2017	1258.0
2018 (Forecast)	1238.0

Source: *WB Commodities Price Data (Nov 2017);*
WB Commodity Markets Outlook/Price Forecast (Oct 2017)

Precious metals prices are projected to fall in 2018, but with some divergence. Gold prices are expected to decline as U.S. interest rate increases this year. Upside risks to the forecast include widening geopolitical tensions, stronger-than-expected physical demand in China, delays in anticipated central bank rate increases, and mine supply shortfall. Downside risks include stronger economic growth, faster-than-expected increases in U.S. interest rates, and weaker physical demand.

A number of factors have pushed investors towards gold as a safe haven asset, notably rising global tensions surrounding Afghanistan, Syria, and North Korea; the deterioration of U.S./Russia relations; and upcoming elections in several countries amid rising populist sentiment. In addition, uncertainty about inflation, deficits, and the level of the dollar have also helped propel gold prices higher. Physical gold demand remains weak, with China facing reduced preference for gold jewelry, particularly among the millennial generation. In India, gold demand is expected to recover following the government's decision last November to take 500 and 1,000 rupiah notes out of circulation.

This created a temporary liquidity crisis and pullback in gold demand. Demand in India is also rising due to higher incomes, restocking, and marriage/festive sea-son demand. Gold mine supply continues to rise, supported by lower costs.

NBP Performance at a Glance

(Rs Bn)

Items	2010	2011	2012	2013	2014	2015	2016
Total Assets	1037.7	1149.6	1309.5	1364.9	1543.0	1706.3	1975.7
Deposits	832.2	927.4	1036.7	1101.1	1233.5	1431.0	1657.3
Advances	477.5	525.0	654.7	615.4	626.7	578.1	667.4
Investments	301.3	319.5	343.5	397.9	561.7	829.2	897.1
Equity	103.8	110.5	104.7	100.8	110.3	116.0	120.0
Pre-Tax Profit	24.4	26.0	21.4	7.1	22.0	33.2	37.1
Profit After-Tax	17.6	17.6	14.9	5.5	15.0	19.2	22.8
Earnings per share (Rs.)	8.25	8.27	7.02	2.59	7.06	9.03	10.69
Number of Branches*	1289	1300	1306	1365	1377	1424	1469
Number of Employees	16457	16924	16921	16619	16190	15548	15793

**Includes Foreign Branches*

NBP Products

NBP Saiban*

- At present, finance available for Home Purchase and Home Construction.
- Period of repayment ranges between 3-20 years.
- Loans available upto a maximum of Rs35 million.
- Mark-up is variable, which is lowest in the banking industry.

NBP Advance Salary*

- For permanent employees of government, semi-government and autonomous bodies receiving salaries through National Bank of Pakistan.
- 20 net take-home salaries in advance (certain conditions apply).
- Minimum documentation.
- Repayable in installments of upto 60 months.

NBP Cash n Gold*

- Facility of Rs32,000 against 10 gms of gold.
- No maximum limit of cash.
- Roll-over facility.
- Mark-up 13.5% per annum.
- Repayable after one year
- No penalty for early repayment.

NBP Kisan Dost*

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

NBP Premium Aamdani Certificate*

- A monthly income scheme. Minimum amount of investment required is Rs25000/- and maximum allowed is Rs10,000,000/-.
- A 5-year Scheme, with year-wise increasing profit rates.
- Added incentives for investors.
- Financing facility available against these Certificates.

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