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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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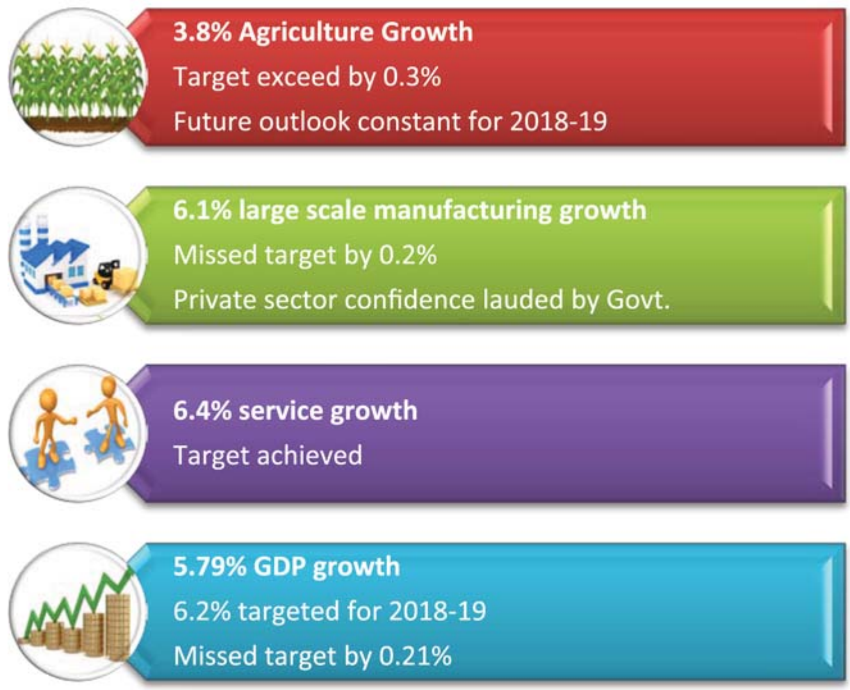
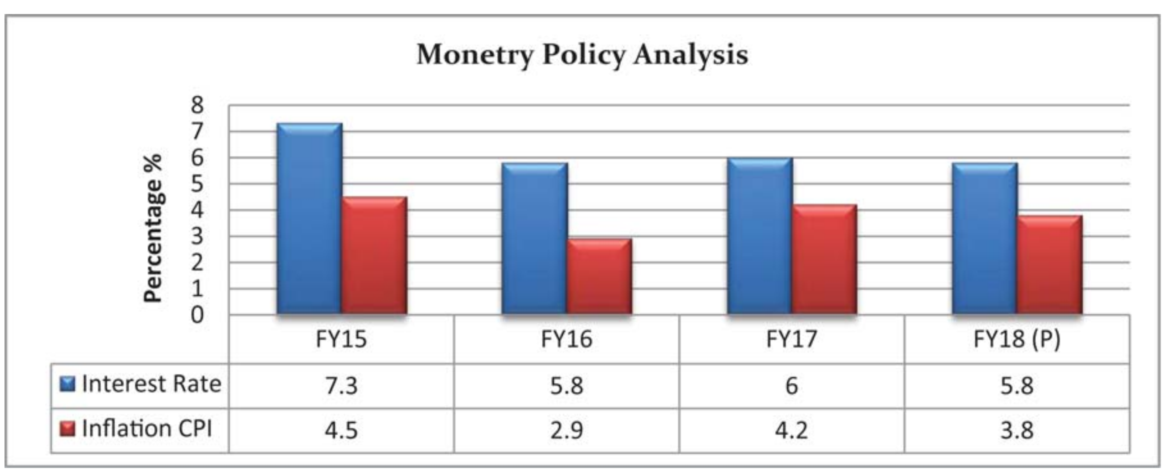
PAKISTAN ECONOMIC SURVEY 2017-18 KEY HIGHLIGHTS

Economic Scenario:



Fiscal year 2017-2018 marked the continued improvement in economic growth, as the GDP is estimated to have grown by 5.79%, which is highest in the last thirteen years. While this is short of the planned GDP growth of 6%, there has been steady upward trend from around 5.3% growth achieved in 2016-2017. This fastest pace of real GDP growth is backed by the robust growth in agriculture, manufacturing as well as in services. The growth across different sectors of the economy is captivating the various international companies towards Pakistan optimistically, where they see immense potential, a huge consumer market, strategic location and macroeconomic stable environment. Consistent with last five years trend, service sector has demonstrated a growth of 6.4% and remained the key contributor of GDP growth. This growth was majorly supported by the non-commodity producing sectors including wholesale and retail trade. The industrial and agricultural sectors also reflected healthy growth of 5.8% and 3.8% respectively. Agriculture sector surpassed its targeted growth of 3.5% and also last year's growth of 2.07%. Level of private consumption and investments largely contributed the enhancement in the GDP growth. In the year under review, household's average tendency to consume continued around same level at 85.5% at constant prices and at around 82% in current prices. It reveals that the growth rate of private consumption was about the same as the growth rate of GDP both in constant and in current price. Low interest rates also supplement the consumption level as people are interested to purchase durables during periods when relatively cheap money is available. Achievement of 5.79% real GDP growth was attributed to a number of factors ranging from stable macroeconomic environment due to improvement in supply of electricity to the industrial sector. Key drivers of GDP growth are listed below:

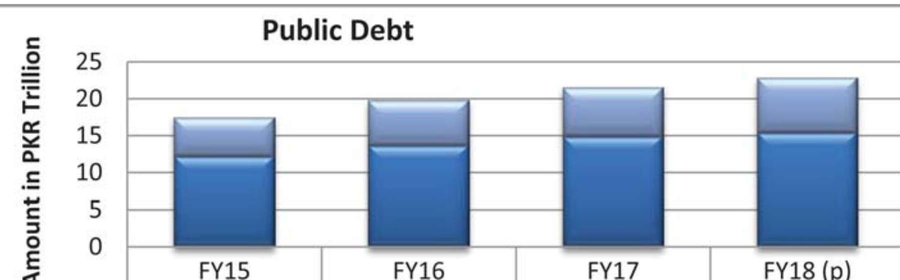
The government's objective of containing inflation in single digits was fulfilled as per the Economic Review with inflation during July 2017 to March 2018 standing at 3.78 per cent, which is lower in comparison to 4.01 per cent in the same period of last year.



The social indicators, although not officially released, do not seem to be improving as the last known numbers show a dismal picture.

POVERTY 24.3%	**•Poverty:** •As per last available ststistics, 24.3% Pakistani's live below poverty line of Rs. 3,030 per adult per month in 2013.
STUNTED CHILDREN 44%	**•Children under5 stunted:** •2 out of every 5 (44%) children under the age of 5 are stunted, 32% are underweight and 15% children are suffering from acute malnutrition.
NER 46%	**•Deficit in net environment rate at primary level:** •household income and expenditure survey 2015-16 shows 46% NER at primary level.
ALLOCATION TO EDUCATION 2.6%	**Allocation to education:** Approximate allocation for the first three years to education comes at about 2.6% of GDP.

Total public debt provisionally stood at Rs. 23,608 billion at end February 2018 while total debt of the government was Rs. 21,552 billion. Gross domestic debt recorded an increase of Rs 1,093 billion during first eight months of current fiscal year while external debt increased by Rs 1,107 billion. In addition to financing of fiscal deficit, increase of credit balance with banks and depreciation of currency contributed towards the increase in debt. The government has justified this increase as utilization for capacity additions in energy sectors and infrastructure development.



	FY15	FY16	FY17	FY18 (p)
Foreign Currency Debt	5.2	6.1	6.6	7.4
Domestic Currency Debt	12.2	13.6	14.9	15.4

Regardless of the significant growth shown by numbers, there is growing skepticism on the sustainability of this growth momentum owing to continuing bulge in the current account deficit and falling foreign exchange reserves. Pakistan's exports have shown negative growth in previous four years, and have only witnessed some growth in the current year whereas rising imports of capital goods and fuel kept the import bill high. Imposition of additional regulatory duty has done little to slow down imports. The current estimate of Current Account Deficit of 5% of GDP is expected to increase till the year-end as it currently does not take into account the circular debt which has crossed Rs. 1 trillion. The recent devaluation has not helped much in stabilizing the foreign exchange reserves and the rising Current Account Deficit may lead to the situation of approaching IMF, a position which the government assured to the public would not be reached in January this year. Should that happen, Pakistan will continue the tradition of being the only country of its size to have repeatedly approached IMF at a slow-down of economy after going through an artificial boost fueled by the previous round of funding with no sustainable improvement in economy.

Overview of the Economy

The most important achievements of the outgoing fiscal year include the fastest pace in real GDP growth on the back of strong growth in agriculture, impressive growth in manufacturing as well as in services. All macroeconomic indicators exhibited remarkable progress; such as contained inflation, healthy credit flows to private sector, recovery in exports, slowdown in imports, lowest policy rate, increase in FDI and remittances, strengthening of the banking sector, uninterrupted energy supplies to the industrial sector, higher LSM growth, enhanced incorporation of companies, encouraging response from the capital market, increase in per capita income, impressive revenue collections, higher PSDP spending, progress on CPEC projects, and an added impetus coming from the global economic recovery.

Apart from these positive developments, risks/challenges remain on domestic and external fronts, particularly the unfavorable BOP position due to a widening Current Account Deficit (CAD) along with less than expected foreign inflows and a decline in exports in the last two to three years. Slow global growth in international trade flows was an external factor that contributed to the low export growth. However, this declining trend has started to fade out due, on the one hand, to government's supportive initiatives for export growth along with efforts to limit the import of luxury goods and a recovery of the global economy on the other.

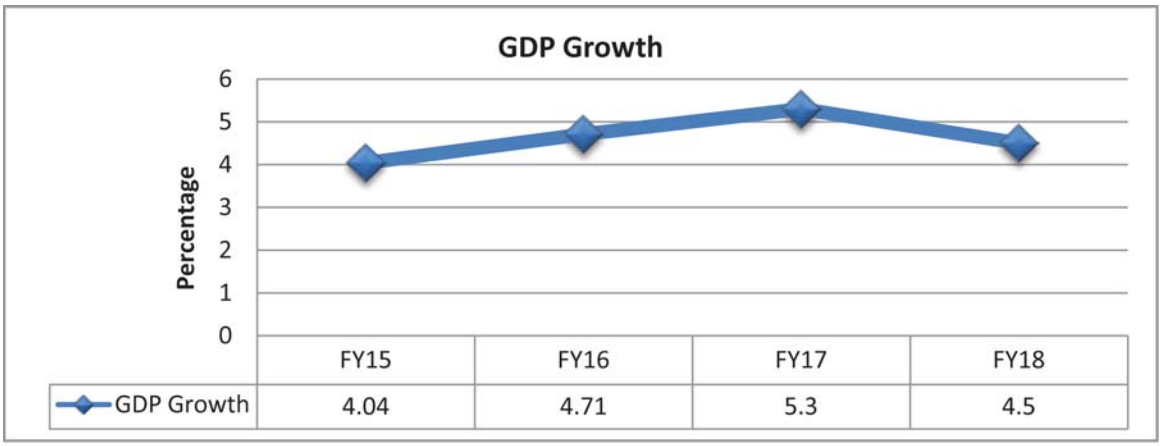
The current fiscal year has seen continued exports growth in all 9 months. Exports increased by 12.0 percent while imports have slowed down to 16.6 percent as compared to 48 percent at the start of current financial year. The government has been able to get GSP Plus preferential tariffs scheme renewed from the European Union for the next two years which will help boost exports, going forward.

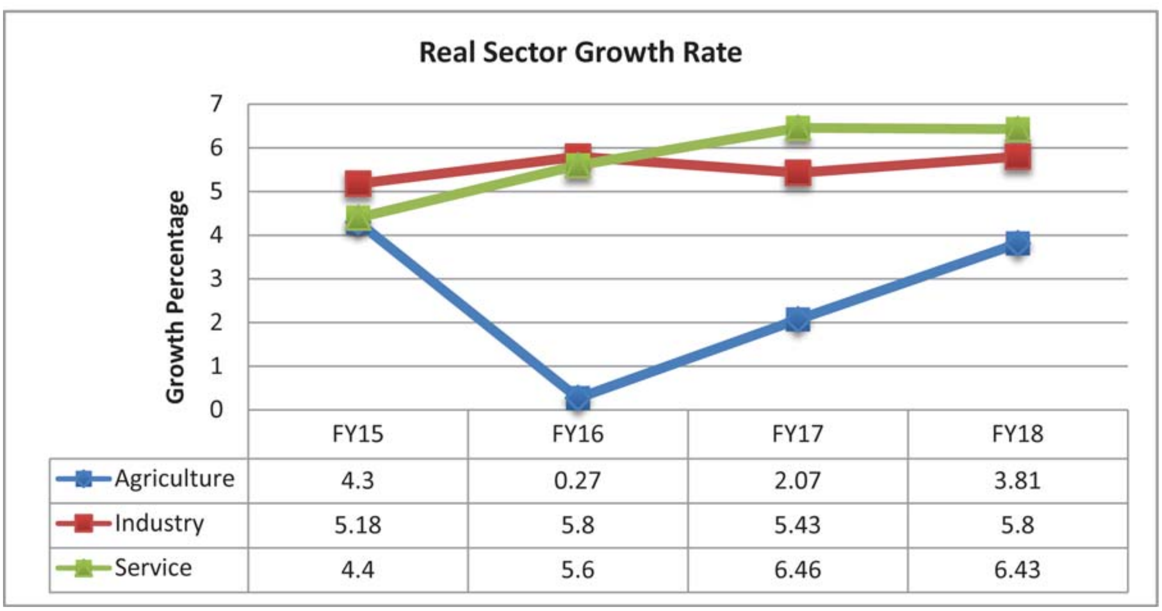
Amid all these developments there could be downside risks, such as turmoil in the global economy that could worsen the outlook for exports, more than anticipated rise in oil prices, or an uncertain geo-political environment.

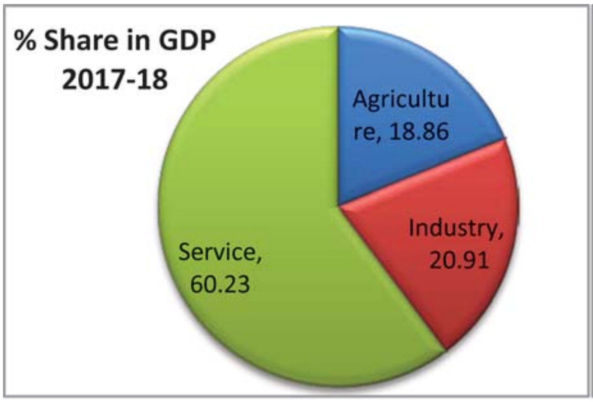
Moreover, as the world economy lurches into crisis or slides downward due to an emerging trade war between two big economic giants, the growth of many economies could face serious challenges.

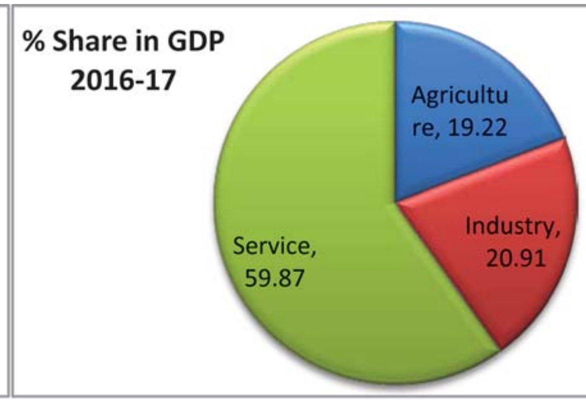
Growth & Investment:

The growth momentum remained above 5 percent for the last two years in a row and reached 5.79 percent in FY2018 which is 13 years high on account of a strong performance in agriculture, industry and services sectors which grew by 3.81 percent, 5.80 percent and 6.43 percent, respectively.









Agriculture

Agriculture sector recorded a remarkable growth of 3.81 percent and exceeded its targeted growth of 3.5 percent and also last year's growth 2.07 percent. This stemmed from higher yields, attractive output prices, and better availability of certified seeds, pesticides, agriculture credit and intensive fertilizers off take.

The crops sector performed well and witnessed a growth of 3.83 percent against the last year's growth of 0.91 percent. The growth in sub sectors, important crops, other crops and cotton ginning registered a growth of 3.57 percent, 3.33 percent and 8.72 percent respectively, against the last year growth of 2.18 percent, -2.66 percent and 5.58 percent.

Pakistan's agricultural productivity is dependent on the availability of water. During 2017-18, the availability of water for Kharif 2017 stood at 70.0 Million Acre Feet (MAF) showing a decrease of 2.0 percent over Kharif 2016 and increase of 4.3 percent over the normal supplies of 67.1 MAF. During Rabi season 2017-18, the water availability stood at 24.2 MAF showing a decrease of 18.5 percent over Rabi 2016-17 and 33.5 percent less than the normal availability of 36.4 MAF.

Agriculture credit disbursement continued to remain high by 39.4 percent to Rs 570 billion during FY 2018 (July-February). The banks have disbursed Rs 570 billion which is 57 percent of the overall annual target of Rs 1,001 billion and 39.4 percent higher than disbursement of Rs 409 billion made during the corresponding period last year. Similarly, outstanding portfolio of agriculture loans has been increased to Rs 79.5 billion to Rs 452.6 billion or 21.3 percent.

Manufacturing & Mining

During July-February FY 2018, the Large Scale Manufacturing (LSM) registered a growth of 6.24 percent as compared to 4.40 percent in the same period last year. On Year on Year (YoY), LSM recorded a growth of 5.52 percent in February 2018 compared to 9.47 percent in February 2017.

Fiscal Development

Total revenues grew by 19.8 percent to reach Rs 2,384.7 billion (6.9 percent of GDP) during July-December, FY2018 against Rs 1,990.6 billion (6.2 percent of GDP) in the same period of FY2017. The impressive performance both in tax and non-tax revenues attributed to this significant rise in total revenues.

Total expenditure increased by 14.0 percent during July-December, FY2018 and stood at Rs 3,181.0 billion (9.2 percent of GDP) against Rs 2,789.7 billion (8.7 percent of GDP) in the same period of FY2017.

Money and Credit

The accommodative monetary policy remained instrumental for conducive macroeconomic environment. The cautious monetary policy stance consolidated the gains from historic-low policy rate at 5.75 percent till January, FY2018. The SBP has changed the monetary policy stance in January 2018 by 25 bps to 6 percent to anchor expected rise in inflation in view of reversal of international oil and commodities prices and to address the domestic demand pressures as well exchange rate movement.

During the period 01July- 30 March FY2018, government borrowing for budgetary support stood at Rs 858.3 billion against the borrowing of Rs 704.0 billion in the corresponding period of FY2017. During the period under review, government borrowed Rs 2,236.7 billion from SBP as compared to the borrowing of Rs 801.6 billion in the comparable period last year. Conversely, government retired Rs 1,378.5 billion to Scheduled Banks during 01 July-30 March FY2018 against the retirement of Rs 97.5 billion last year. Whereas, net government borrowing from the banking system reached to Rs 804.2 billion during 01 July-30 March FY2018 compared to Rs 568.7 billion over the previous year.

Credit to private sector has seen expansion of Rs 469.2 billion during 01July-30 March, FY2018 compared to the expansion of Rs 438.6 billion in the comparable period of last year. On (YoY) basis as on 30th March FY2018, CPS registered a growth of 15.9 percent compared to 13.4 percent witnessed in the same period last year. Credit demand for fixed investment contained to Rs147.9 billion against Rs158.0 billion in the comparable period of last year. Credit disbursement for working capital increased to Rs 151.5 billion during the period under review compared to Rs 92.9 billion during the corresponding period of last year.

Capital Market

During the period under review, the market remained volatile. Till August 2018, it reached the peak of 47,084 index on August 03, 2017, after then it started moving down touched the lowest 37,919 Index on December 19, 2017. The behavior might be linked to the depreciation of Pakistani rupee. However, at the start of new calendar year 2018, the market gained momentum and on March 30, 2018, KSE 100 index closed at 45,560.30 whereas market capitalization was Rs 9,370.6 billion.

The average daily value traded (T+2) in first nine months of FY 2018 was Rs 8.54 billion and the average daily turnover was 192.25 million shares. The average daily trade value in futures was 3.7 billion and the trading volume was 61.4 million shares.

Inflation

The average inflation during first nine months of the current fiscal year, July-March FY 2018 has been contained at 3.78 percent which was lower than the level observed during the same period of last year recorded at 4.01 percent.

Trade and Payments

Exports during July-March FY2018 reached to US$ 17.1 billion as compared to US$ 15.1 billion in July- March FY2017, registered a growth of 13.1 percent. Pakistan imports were up by 15.7 percent in the first nine months of the current fiscal year, rising from $ 38,369 million during FY2017 (July- March) to 44,379 million, showing an increase of $ 6010 million in absolute term (15.56%).

Pakistan's balance of payments remained under stress due to rising imports of capital equipment and fuel during July-March FY2018. The SBP's liquid foreign exchange reserves declined by US $ 4.5 billion during July-March FY2018.

The current account deficit widened by 50.5 percent and reached to US$ 12.03 billion (3.8 percent of GDP) during July- March FY2018. This was mainly due to 20.7 percent widening in the trade deficit, amounted US$ 22.3 billion. The widening of trade deficit is mainly due to surge in import bill by 16.6 percent and reached to US $ 40.6.

The remittances registered a significant growth of 3.6 percent during July-March FY 2018 against the decline of 2.0 percent last year and reached to US$ 14.6 billion during first nine month of FY-2018 as compared to US$ 14.4 billion during the same period last year.

Net FDI inflows rose 4.4 percent to US$ 2.1 billion in July- March FY2018, against US$ 2.0 billion of the same period last year. While China continued to have a major share (accounting 55 percent in overall inflows), significant FDI from other countries like Malaysia and UK also witnessed during this year.

Public Debt

Total public debt stood at Rs 22,820 billion at end December 2017 while Total Debt of the government was Rs 20,878 billion. Total public debt recorded an increase of Rs 1,413 billion during first six months of FY-2018.

Recent Developments in Public Debt

Total public debt provisionally stood at Rs. 23,608 billion at end February 2018 while total debt of the government was Rs 21,552 billion.

Gross domestic debt recorded an increase of Rs. 1,093 billion during first eight months of current fiscal year while external debt increased by Rs 1,107 billion. In addition to financing of fiscal deficit,

(i) increase in credit balances of the government with banking system;
(ii) depreciation of Pak Rupee against US Dollar; and
(iii) depreciation of US Dollar against other international currencies contributed towards the increase in debt.

EDL stock provisionally stood at US$ 91billion at end February 2018 out of which external public debt was US$ 69.3 billion. Disbursements against external public debt were cumulatively recorded at around US$7,300 million during first eight months of current fiscal year while external public debt servicing was US$ 3,338 million during the said period.

Education

The overall education condition is based on key performance indicators such as enrolment rates, number of institutes and teachers which have experienced minor improvement. The total number of enrolments at national level during 2016-17 stood at 48.062 million as compared to 46.223 million during 2015-16. This shows a growth of 3.97 percent and it is estimated to further rise to 50.426 million in 2017-18. The total number of institutes stood at 260.8 thousands during 2016-17 as compared to 252.8 thousands during last year and the number of institutes is estimated to increase to 267.7 thousands in 2017-18. The total numbers of teachers during 2016-17 were 1.726 million compared to 1.630 million during last year showing an increase of 5.9 percent. This number of teachers is estimated to rise further to 1.808 million in FY 2017-18.

PSLM survey was not conducted in FY 2017- 18 due to Population & Housing Census 2017. Therefore, the figures for the year 2015-16 are considered for the current year.

Public Expenditure on Education as a percentage of GDP was estimated 2.2 percent in FY 2017 compared to 2.3 percent of GDP in FY 2016. The education related expenditure increased by 5.4 percent to Rs 699.2 billion in FY2017 from Rs 663.4 billion in FY2016. The provincial governments are also spending sizeable amount of their Annual Development Plans (ADPs) on education.

Pakistan's Economic Performance in the last four years

Last four years of the government has shown a baggage of mixed economic performance. Where some variables have improved in the last 4 years, other important economic indicators have shown considerable deterioration.

Real GDP growth has increased from 3.7% in FY13 to 5.79% in FY18.

Service sector showed growth of 6.43% in FY18 as compared to 5.1% in FY13.

Industrial sector also showed growth of 5.8% in FY18 as compared to 0.75% in FY13.

Similarly, **agriculture sector** showed 3.81% growth in FY18 as compared to 2.7% growth in FY13.

Inflation rate has also declined from 7.4% in FY13 to 3.8% in July-March 2017-18.

Fiscal deficit showed impressive improvement and declined to 4.1% of GDP in FY18 as compared to 8.2% in FY13.

The annual economic growth of 5.79% in the fiscal year 2017-18 was the result of growth in the services sector and infrastructure development, energy projects, etc.

Infrastructure Development and Controlling Energy Crisis
The government performed well in infrastructure development including high tech infrastructure, high ways, motor ways, and transmission lines across the country as part of CPEC. Government has successfully overcome the energy crisis by initiating new energy projects/power plants.

Increase in Foreign Reserves
The country's official foreign currency reserves which were $11 billion in 2013 surged to $15.9 billion as of April 2018.

Policy rate
Low and stable prices have facilitated and eased the process of economic decision making and also allowed the SBP to keep the policy rate at 5.75% till January 2018 which after an increase of 25 basis points is now at 6%.

But there are some indicators where the government's performance remained questionable including external debt, current account deficit, and un-competitiveness of Pakistani products in international market, etc.

Rise in External Debt In June 2013, external debt stood at $61 billion in 2013 which have increased to $91 billion as of March 2018.

Widening of Current Account Deficit Since the government has not been able to enhance exports and attract significant foreign direct investment; the external sector has remained under pressure. In June 2013, the current account deficit was $2.5 billion or 1.1 % of the GDP which surged to at a record deficit of $12.03 billion, equal to 3.8 % of the GDP in July-March FY-18.

Exports Stagnation Pakistani products are not competitive in international market due to;

- High electricity tariff.
- Imposition of RD on raw materials and capital goods.
- Low value addition, etc.

Poor performance in Ease of Doing Business ranking
Pakistan has slipped three places on the Word Bank's Ease of Doing Business Index and is now ranked at 147th among 190 economies, denting the government's pro-business image.

However, the international donor agencies like IMF, World Bank and ADB have recently issued favorable economic outlook of Pakistan despite the weak external sector performance. External sector poses a real risk.

BALANCE OF PAYMRNT OUTLOOK

Overview:

Pakistan's balance of payments position remained under stress in H1-FY18, as the rise in imports overshadowed a healthy turnaround in FX receipts from exports and workers' remittances. Pakistan's balance of payments has remained under severe pressure over the last one year with current account deficit surging to $12.4 billion (or 4.1% of GDP) in 2016-17 from almost $5 billion (1.7% of GDP) a year ago (2015-16).

Pakistan's balance of payments has further deteriorated during the current fiscal year (2017-18). The current account deficit has widened to $7.4 billion or 4.4 percent of GDP during the first half of the fiscal year (July - December 2017) as against the full year target of $9.9 billion and $4.66 billion or 3.1 percent of GDP during the corresponding period of the last year, showing a deterioration of 59 percent. This deterioration has taken place primarily on account of an extraordinary surge in imports (18.8%). Prominent import items that exhibited extra-ordinary growth included Petroleum (26.7%), Transport (24.9%), Machinery (19%) that include telecom (43%), electrical machinery and apparatus (62%) and power generating machinery (26%). Bulk of the contribution to the increase in imports has come from Petroleum (32.3%), machinery (17.1%), agriculture and other chemicals (14.5%) and metal group (12.3%). In other words, more than three fourth (76%) of the contribution to the surge in imports has come from these four groups.

Exports on the other hand did register a reasonable growth (10.8%) after almost five years of perpetual decline. Nearly all (96%) the contribution to export growth came from four items, that is, textile (41.2%), food (25.1%), chemical and pharmaceutical products (22.2%) and petroleum groups (7.2%). It is important to note that this relatively impressive growth in exports owes heavily (93%) to the autonomous rise in international prices of these export items and only 7 percent to the increase in quantity of exports.

In the financial account, overall FDI went up slightly, driven mostly by significant Chinese investment under CPEC. Meanwhile, the participation of foreign investors in the domestic equity market also remained subdued, mainly due to prevailing expectations of a PKR depreciation through most of H1-FY18. Nonetheless, Pakistan was able to tap the international capital market and floated a Eurobond worth US$ 1.5 billion and a Sukuk worth US$ 1.0 billion in December 2017 at favorable rates. The sovereign debt issuance, along with other official borrowings (from commercial, bilateral and multilateral sources) helped slow down the decline in official FX reserves, albeit partially, to US$ 2.0 billion in H1-FY18. Due to strong pressure on reserves, PKR depreciated by 4.4 percent against the USD in December 2017. Though this depreciation might help FX receipts from exports and foreign equity investors, other structural bottlenecks, such as high cost of doing business and higher export concentration towards the textile sector, need to be addressed. Promoting Pakistan's business friendly image at the global level will be key in this context.

Summary of Pakistan's External Account:

	H1		Change in H1	
	FY17	**FY18**	**FY17**	**FY18**
Current account balance	**-4,660**	**-7,920**	**-2,164**	**-3,260**
Trade balance	-11,342	-14,643	-1,543	-3,301
Exports	10,629	11,795	-154	1,166
Imports	21,971	26,438	1,389	4,467
Oil imports	4,998	6,330	214	1,332
Non-oil imports	16,973	20,108	1,175	3,134
Service balance	-2,256	-2,672	-815	-416
Primary income balance	-2,418	-2,511	342	-93
Secondary income balance	11,356	11,906	-148	550
Worker's remittances	9,505	9,746	-183	241
Financial account balance	**-4,730**	**-6,364**	**-710**	**-1,634**
FDI in Pakistan	1,421	1,496	174	75
FPI in Pakistan	743	2,320	523	1,577
Eurobond/ Sukuk	1,000	2,500	500	1,500
FX loans (Net)	2,880	2,575	-617	-305
IMF	102	0	-1,029	-102
SBP's liquid FX reserves	**18,272**	**14,107**	**129**	**-2,038**
Exchange rate (PKR/USD)	**104.6**	**110.4**	**0.2**	**-5.0**

Based on the developments in the first half of the fiscal year, it is safe to predict that exports are likely to end in the range of $23.5-24.5 billion in 2017-18. Imports on the other hand, are likely to be in the range of $57-58 billion with trade balance further deteriorating to $33.5 billion in 2017-18. Net service and net income are likely to be $4.5 billion and $4.9billion, respectively, in 2017-18. With net current transfers projected to be $24.9 billion, the current account deficit is expected to be $18 billion in 2017-18. With $8.5 billion external debt servicing, Pakistan needs $26.5 billion to finance current account deficit and to meet external debt servicing payments requirements.

Pakistan is likely to receive external financing from various traditional sources, Chinese sources, and FDI amounting to $14.0-14.5 billion. This leaves a financing gap of $12.0-12.5 billion in 2017-18.

HIGHLIGHTS FROM THE FINANCE SUPPLEMENTARY BILL-2019 (2ND AMENDMENT)

INCOME TAX

TAX ON UNDISTRIBUTED PROFITS

Undistributed reserves were taxed in tax years 2015 and 2016. This was replaced by a tax on undistributed profits in the tax year 2017. Presently, such tax is payable for tax year 2017 and onwards at the rate of 5% of the whole profits, if distribution (including by way of bonus shares) is less than 20% of after-tax profits.

This tax has now been abolished from tax year 2020 and onwards as the Finance Supplementary (Second Amendment) Bill, 2019 now proposes to restrict this levy up to tax year 2019.

INTER-CORPORATE DIVIDEND IN GROUP COMPANIES

The Finance Minister in his speech stated the desire of the Government to promote holding company and group structures. One of the major impediments in the creation of such group structure is dual taxation of inter corporate dividends within the group. In 2016, a regressive step was undertaken by way of elimination of exemption from tax on inter corporate dividend. In the Finance Bill, a new regime has been introduced to exempt inter corporate dividend in case of companies availing group relief. Resultantly, this exemption will be available only:

(i) where there is a surrender of losses in that Tax Year, and
(ii) to the extent of percentage holding of parent company in the subsidiary company.

TAXATION OF BANKING COMPANIES

Reduced rate of tax for certain advances

Under the existing regime, all income of banking companies is subject to uniform rate of tax of 35%. It is now proposed that 'income' from advances to the following will be subject to reduced rate of 20% for tax years 2020 to 2023:

a) Micro and small enterprises
b) Low cost housing finance
c) Farm credit

The above terms are defined as per State Bank of Pakistan's Prudential Regulations. With regard to farm credit and low-cost housing finance, advances would not qualify for the aboveconcessional rate and the same is subject to submission of details of advances along with gross and net margin earned from such advances.

The above concessional rate is available on 'additional advances', which term has been defined as advances in addition to average amount of advances to the above sectors for tax year 2019.

SUPER TAX

The phase wise reduction in rate of Super Tax for Banking companies as was introduced through Finance Act, 2018 has been reversed. The existing and proposed rates of Super Tax for respective years are as under:

Tax Year	Existing Rate (%)	Proposed Rate (%)
2018	0	4
2019	4	4
2020	3	4
2021	2	4

SUPER TAX - PERSONS OTHER THAN BANKS

In the case of persons (other than banking companies) having taxable income of Rs 500 Million or above, the rate of super tax of 1 per cent for tax year 2020 is proposed to be reduced to 0 per cent.

PROVISIONAL ASSESSMENT FOR UNDECLARED OFFSHORE ASSETS

The process of provisional assessment which was earlier limited to assets which could have been impounded has been extended to undeclared offshore assets of any person. This extension has been made in order to encompass the right of provisional assessment on assets which could not have been impounded by the Government of Pakistan on account of being held outside Pakistan. This amendment has been apparently made to avoid unnecessary delay in the recovery of taxes due from the offshore assets which have been discovered by Government of Pakistan.

ADVANCE TAX ON BANKING TRANSACTIONS

Advance tax on cash withdrawal and certain banking transactions is proposed to be withdrawn for Filers. Collection of advance tax on such transactions from 'Non-Filers' would remain unchanged at 0.6 per cent.

The provisions relating to advance tax collection on cash withdrawals are proposed to be inapplicable on filers as well as non-filers with respect to a Pak Rupee Account if the deposits in the account are made solely from foreign remittances credited directly into such account.

RESTRICTION ON PURCHASE OF CERTAIN ASSETS BY NON-FILERS

Through Finance Act, 2018 restrictions were introduced on non-filers from purchasing of immovable property and motor vehicles. The said restrictions were relaxed through Finance Supplementary Act 2018 for purchase of motor cycles, rickshaw, agricultural tractor and any other motor vehicle having engine capacity of less than 200 cc.

It is now proposed to extend the above relaxation to locally manufactured motor vehicle having engine capacity not exceeding 1,300 cc. As regards other vehicles, the concession earlier given is now made restricted to locally manufactured vehicles only.

Another relaxation was also given through Finance Supplementary Act, 2018 for NICOP and POC holders in respect of purchase of immovable properties and vehicles, subject to certain conditions including that with regard to financing of such assets from money brought from outside Pakistan through normal banking channels. It is now proposed that non-resident Pakistani Citizens holding international passports will also be excluded from such restrictions.

RESTORATION OF PRESUMPTIVE TAX REGIME FOR COMMERCIAL IMPORTERS

Through Finance Act, 2018 a very major shift had been made in the tax policy measures whereby the right to be taxed under presumptive regime has been abolished for commercial importers. Such importers were taxable on net income arising from such import transactions, and the tax collected at the import stage has been treated as minimum tax liability in this respect. The minimum tax payable under this clause was 5% of the import value as increased by customs duty, sales tax and federal excise duty.

Now the bill proposes to restore the position prior to Finance Act, 2018 and the commercial importers will be taxed under final tax regime.

SPECIAL PROCEDURE FOR SMALL TRADERS AND SHOPKEEPERS

In order to address the grievances genuinely portrayed by small traders and shopkeepers, such as abuse of personal interaction, harassment by concerned jurisdiction, delayed appellate procedures and complicated manner of computation of income and requirements of books of accounts to ascertain taxable income, the bill seeks to empower the Federal Government to prescribe taxation scheme for such small traders and shopkeepers.

For that purpose, an enabling provision is proposed to be inserted, whereby the Federal Government may prescribe special procedures for the scope and payment of tax, filing of return and assessment in respect of small traders and shopkeepers, in such cities or territories, as may be specified. As per the speech of the Finance Minister, this scheme will be initially implemented in Islamabad Capital Territory.

WITHHOLDING STATEMENTS

The requirement to file monthly withholding statements has been replaced with bi-annual statements. The Commissioner is however empowered to ask any taxpayer to file a withholding statement. This amendment will be applicable immediately upon passing of Finance Act. The Banking Companies have also been absolved from requirement of furnishing certain particulars of customers in relation to withholding tax statements in respect of cash withdrawals and profit on debt. This amendment has been proposed in consequence of an earlier amendment in Rules whereby special statements were prescribed for the said withholding taxes.

CARRY FORWARD OF CAPITAL LOSSES ONDISPOSAL OF LISTED SECURITIES

Under the present regime, loss on disposal of listed and other securities (covered under section 37A of the Income Tax Ordinance, 2001) which is not fully set-off against capital gains is not allowed to be carried forward to subsequent tax year. It is proposed that any unadjusted capital losses for tax year 2019 and onwards can be carried forward for set-off against capital gains on such securities up to a maximum of three tax years.

COMMISSION INCOME OF STOCK BROKERS

Under the provisions of section 233A, advance tax is collected by Stock Exchange from its members on purchase and sale of shares in lieu of tax on commission income earned by such members. The said withholding tax was adjustable against their income. It is now proposed that such advance tax collection will not be made from February 1, 2019 and onwards. As a consequence of the above amendment, the general provisions applicable on brokerage and commission income under section 233 will become applicable whereby the tax is collected on brokerage and commission amount as against the existing manner of collecting the tax on whole transaction value. The tax now deductible on brokerage and commission income will be final tax.

RENEWABLE ENERGY PROJECTS

Exemption available to industrial undertakings engaged in renewable project is extended to such undertakings which are set up between March 1, 2019 to June 30, 2023 for a period of five years.

AUCTION OF FRANCHISE RIGHTS

There was a dire need to address the concerns of Sports league franchisees in relation to advance tax collection on auction of franchise rights especially when there is no or low profitability from such activities in initial years. The amendment has therefore been proposed to exempt from advance tax collection primarily in respect of PSL. However, the same will also apply in respect of auction of franchise rights in participating teams in a national or international league organized by any board or other organization established by the Government in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by Government. This exemption will apply from July 1, 2019.

ADVANCE TAX ON IMPORT OF MOBILE PHONE

Advance tax at the time of import of mobile phone is proposed to be collected as per the rates tabulated below:

S. No.	C & F Value of mobile Phone (in US Dollars)	Tax (in Rupees)
1	Up to 30	70
2	From 31 to 100	730
3	From 101 to 200	930
4	From 201 to 350	970
5	From 351 to 500	3,000
6	Above 500	5,200

ADVANCE TAX ON PURCHASE, REGISTRATIONAND TRANSFER OF MOTOR VEHICLES

Advance tax for 'Non-Filers' is proposed to be increased as per the engine capacity of motor vehicle as tabulated below:

S. No.	Engine Capacity	Existing Rate (Rs.)	Proposed Rates (Rs.)
1	Up to 850 cc	10,000	15,000
2	From 851cc to 1,000 cc	25,000	37,500
3	From 1,001cc to 1,300cc	40,000	60,000
4	From 1,301cc to 1,600cc	100,000	150,000
5	From 1,601cc to 1,800cc	150,000	225,000
6	From 1,801cc to 2,000cc	200,000	300,000
7	From 2,001cc to 2,500cc	300,000	450,000
8	From 2,501cc to 3,000cc	400,000	600,000
9	Above 3,000cc	450,000	675,000

ADVANCE TAX ON FUNCTIONS AND GATHERINGS

Adjustable advance tax for marriage function in a marriage hall, marquee or a community place with total function area of less than 500 square yards or in case of multi-story premises with function area of less than 500 square yards on each floor is proposed to be collected at higher of 5 per cent of bill ad valorem or Rs. 5,000.

Presently, the advance tax to be collected for marriage functions in larger cities is higher of 5 per cent of bill ad valorem or Rs. 20,000 and for those in smaller cities, the advance tax to be collected is higher of 5 per cent of bill ad valorem or Rs. 10,000.

FEDERAL GOVERNMENT, PROVINCIAL GOVERNMENT AND LOCAL GOVERNMENT INCOME

By way of a special provision, income from sale of spectrum license by Pakistan Telecommunication Authority (PTA) is treated as income of the Federal Government and not that of PTA for the purposes of taxation under the Ordinance.

The Finance bill now proposes to include the income from renewal of spectrum and licenses to be the income of Federal Government and not the PTA. Consequentially, now the income of the Federal Government both from the sale of spectrum licenses and renewal of spectrum and licenses is exempt from tax.

DIRECTORATE OF TRANSFER PRICING

Through Finance Act, 2017 a separate Directorate for Transfer Pricing was proposed to be established for conducting transfer pricing audits. It is now proposed to be abolished.

SALES TAX

PAYMENT OF REFUND THROUGH PROMISSORY NOTE

A totally new concept of clearance of refunds available to taxpayers has been introduced by way of introduction of a tradeable, negotiable instrument to be issued for the amount of Sales Tax refunds due. Now, the persons entitled to refunds can opt for acquiring a sovereign negotiable instrument in the form of promissory notes issued by the Government of Pakistan, instead of cash.

Salient features of such instruments will be as under:

- The notes will be transferable in the manner provided;
- Maturity period will be three years from the date of issuance;
- These will be traded freely in the country's secondary market;
- The notes shall bear annual simple profit at 10 percent;
- These shall be redeemable after the period of maturity;
- These shall be accepted by banks as collateral; and
- These shall not be subject to compulsory deduction of zakat.

SIXTH SCHEDULE - EXEMPTIONS

Following changes are proposed to be made in the Sixth Schedule:

a) Exemption on import or supply of items with dedicated use of renewable source of energy like solar and wind has been proposed to be restricted up to June 30, 2023. The exemption was previously available without any time restriction.

b) Exemption from sales tax on import or supply of appliances for colostomy has been proposed to be restricted for such appliances and items required for ostomy procedures as specified in Chapter 99 of the First Schedule to the Customs Act, 1969.

c) Exemption from sales tax on import or supply of colostomy and urostomy bags has been proposed to be withdrawn.

d) A new entry is proposed for exemption from sales tax on import of plant and machinery, excluding consumer durable goods and office equipment as imported by Greenfield industries to manufacture taxable goods, during their construction and installation period, subject to certain conditions and issuance of exemption certificate by the Commissioner Inland Revenue.

e) Exemption for machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of project for power generation through renewable energy sources like solar, wind, micro-hydel bio energy, ocean, waste to energy and hydrogen cell etc. has been proposed to be restricted upto June 30, 2023.

f) Exemption on various systems and items for dedicated use with renewable source of energy like solar, wind, geothermal, etc. is now proposed to be restricted up to June 30, 2023.

NINTH SCHEDULE

Rates of sales tax on import or local supply of cellular mobile phones have been rationalized by proposing substitution of Serial No 2 in the following manner:

Description / Specification of goods	Sales tax on import or local supply	Sales tax (chargeable at the time of registration of IMEI Number by CMOs)
Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category: --		
A. Not exceeding US $ 30	Rs. 150	Rs. 150
B. Exceeding US $ 30 but not exceeding US $ 100	Rs. 1,470	Rs. 1,470
C. Exceeding US $ 100 but not exceeding US $ 200	Rs. 1,870	Rs. 1,870
D. Exceeding US $ 200 but not exceeding US $ 350	Rs. 1,930	Rs. 1,930
E. Exceeding US $ 350 but not exceeding US $ 500	Rs. 6,000	Rs. 6,000
F. Exceeding US $ 500	Rs. 10,300	Rs. 10,300

FEDERAL EXCISE DUTY

INCREASE OF DUTY ON IMPORTED MOTOR VEHICLES

The rate of excise duty on imported motor cars, SUVs and other motor vehicles principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars has been proposed to be increased as under:

- For vehicles having cylinder capacity of 1800 cc but not exceeding 3000 cc, the duty is proposed to be increased from 20% to 25%.
- For vehicles having capacity of 3000 cc or above, the duty is proposed to be increased from 20% to 30%.

LEVY ON LOCALLY MANUFACTURED MOTOR VEHICLES

Excise duty of 10% has been proposed to be levied on locally manufactured or assembled motor cars, SUVs and other motor vehicles of cylinder capacity of 1800 cc or above, principally designed for transport of persons (other than those of headings 87.02), including station wagons and racing cars of cylinder capacity of 1800 cc or above.

LEVY ON SMART PHONES

Through the Finance Act 2018, a new levy was imposed on smart phones valuing in excess of Rs. 10,000. This is payable at Rs 1,000, Rs 3,000 and Rs 5,000 depending on their import values in Rupee terms.It is now proposed to impose the levy on the basis of C&F value in terms of US Dollars instead of Rupees.

Mobile handset levy on smart phones of different categories is proposed to be abolished up to USD 100 C&F value (earlier for Rs 10,000 including duties and taxes). While the maximum levy is enhanced to Rs 7,000 from Rs 5,000 as under:

Mobile phones – C&F value	Revised rate per set (PKR)
Above USD 100 & up to USD 200	500
Above USD 200 & up to USD 350	1,500
Above USD 350 & up to USD 500	3,500
Above USD 500	7,000

CUSTOMS DUTY

REDUCTION OF DUTY ON IMPORT OF INPUTS/RAW MATERIALS OF INDUSTRIAL SECTOR

It is proposed to reduce incidence of customs duty on certain raw materials / inputs, if imported by following industrial sectors, subject to certain prescribed conditions;

- Footwear
- Tanners
- Leather
- Gloves
- Furniture
- Ceramics
- Diapers / Sanitary Napkins
- Home Appliance
- Infant Formula
- Chemical Manufacturing; and - Other items falling under PCT 3812.3900, if imported by PVC / plastic manufacturers.

Above reduction is proposed to be effective from March 31, 2019.

ZERO RATING OF CUSTOM DUTY

Currently, import of Newsprint in rolls or sheets [PCT Code - 4801.0000] is subject to reduced rate of customs duty of 5%. It is proposed to further reduce the rate to 0%.

REDUCTION OF DUTY ON PLASTIC MOULDING COMPOUND

Currently, import of Polymers of ethylene, in primary forms (PCT Code - 3901.0000) and Polymers of propylene or of other olefins, in primary forms (PCT Code - 3902.0000) is subject to reduced rate of customs duty of 5%. It is now proposed to further reduce the rate to 3%.

EXEMPTION OF DUTY TO ITEMS FOR OSTOMY USE

The scope of exemption provided for Ostomy items is proposed to be extended.

POWER SECOR - An Update:

➢ **MAJOR POWER GENERATION PROJECTS: CHINA-PAKISTAN ECONOMIC CORRIDOR:**

A number of major power generation projects using imported and indigenous coal are at different stages of development under the CPEC arrangement. Following list provides some of the major projects under implementation with their reported progress so far:

S#	Name of Project	Capacity (MW)	Expected COD
1	Sahiwal Imported Coal Power Project, Sahiwal, Punjab	1320	Operational
2	Port Qasim Imported Coal Power Project, Port Qasim, Sindh	1320	Operational
3	Engro Thar Power Project, Thar, Sindh	660	June, 2019

China Power Hub Generation Company, another major project having an installed capacity of 1320 MW is also being developed on imported coal. The project was expected to achieve commercial operation by August 2018, however due to procedural delays the project is now expected to be operative by August 2019. In addition to the above, following power generation projects under CPEC are expected to achieve Commercial Operation Date (COD) by the end of 2019:

S. No.	Name of Project	Capacity (MW)	Expected COD
1	Thar (HUBCO) Thar Block-II	330	December, 2019
2	ThalNova Coal Power Project Thar Block-II	330	December, 2019
3	Oracle Thar Oracle PLC UK Thar Block-VI	1320	December, 2019
4	Shanghai Electric Coal Project Thar Block-I	1320	December, 2019

Following large Hydropower Projects (HPP) also included in CPEC, have either achieved financial closing stage, or nearing it:

S. No.	Name of Project	Capacity (MW)
1	Suki Kinari Hydropower Project	870
2	Karot Hydropower Project	720
3	Kohala Hydropower project	1124

➢ **MAJOR POWER GENERATION PROJECTS (OTHER THAN CPEC):**

Three major companies, Lucky Electric Power Company Limited (660 MW), Siddiqsons Energy Limited (350 MW) and Grange Power Limited (165 MW) planned to set up their projects on imported coal and had already achieved financial close, however due to change in the GOP Policy, Lucky Electric Power Company Limited and Siddiqsons Energy Limited have now revised their plans and contemplating to develop their projects using indigenous coal. The completion dates of these two projects are not firm yet. 165 MW Grange Power Plant on imported coal is expected to reach commercial operation stage by January, 2019. The Patrind HPP (147 MW) has achieved its COD in February, 2017 whereas, Gulpur HPP

(102 MW) is expected to achieve commercial operation by October, 2019. The following RLNG based power plants are under construction and expected to meet the target dates based on the reported progress:

S#	Name of Project	Capacity (MW)	COD
1	Quaid-e-Azam Thermal Power Project, Bhikki	1180	December, 2017
2	Balloki Power Project, Balloki	1223	January, 2018
3	Havelli Bahadur Shah Power Project, Jhang	1230.5	January, 2018

Further, capacity of 1410 MW through under construction Tarbela 4th Extension Project is completed in 2017, whereas 969 MW through Neelum-Jhelum is planned to be added by the middle of 2018.

➢ **OVERALL GENERATION CAPACITY ADDITIONS:**

From the above data, it may be noted that new projects of around 8800 MW would be added to the system over the next couple of years, along with more than 1000 MW through mostly renewable energy based projects which will be expected in the system during this timeframe. In addition, another around 6000 MW is expected to be available by December, 2019.

➢ **POWER SUPPLY AND DEMAND IN NTDC SYSTEM:**

The following table shows the power generation capability and projected demand during peak hours of NTDC system for the next five years in view of the future generation and transmission plans:

Year Ending 30th June	Installed Capacity (MW)	Planned Gen. Capability as per NTDC (MW)	NTDC's Projected Demand Growth Rate (%)	NTDC's Projected Demand during Peak Hours (MW)	Surplus/ (Deficit) (MW)
2017	24,643	20,106	6.05	23,816	(3710)
2018	32,812	24,640	5.56	25,140	(500)
2019	34,018	26,663	5.17	26,439	224
2020	38,740	29,059	4.86	27,725	1,334
2021	41,950	33,776	4.89	29,082	4,694

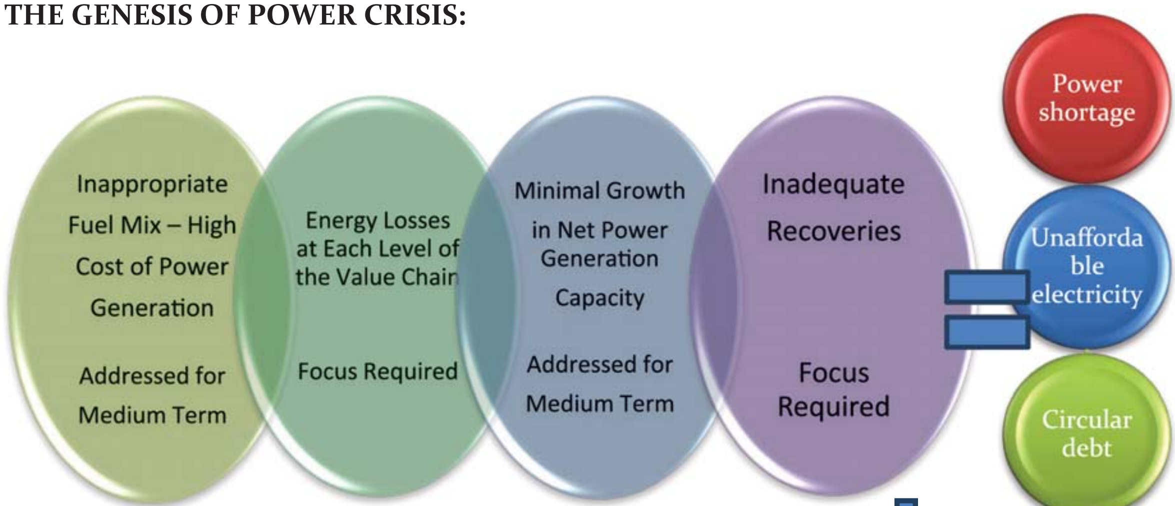
The installed capacity would be higher than the demand of NTDC system in 2017 and 2018, whereas the capability of the power generation plants will be lower due to de-rating on account of aging, deterioration due to imprudent utility practices, seasonality and also due to site conditions. With prudent operation by the National Power Control Centre (NPCC) the load shedding in May, June and July can be minimized in 2017 whereas in 2018, no load shedding is expected in the system due to shortage in power generation, however power shortages may be experienced due to constraints in the transmission and distribution networks.

➢ POWER SUPPLY AND DEMAND IN K-E SYSTEM

Power supply and demand balance in K-EL system is shown in the following table for next four years in accordance with its future generation and transmission expansion plans indicating no deficit from 2018 and beyond:

Year ending 30th June	Installed Capacity (MW)	Planned Gen. Capability as per K-EL (MW)	K-EL's Projected Demand Growth Rate (%)	K-EL's Projected Demand during Peak hours (MW)	Surplus/ (Deficit) (MW)
2017	3,316	3,128	5.00	3,359	(231)
2018	3,569	3,666	5.00	3,528	138
2019	4,019	4,146	5.00	3,699	447
2020	4,719	5,726	5.00	3,894	1,832

THE GENESIS OF POWER CRISIS:



- . High reliance on most expensive imported fuel source- oil (32%) with no power generation from coal (vs. 41% world average).
- . Oil & LNG import totaling US$ 11BN in FY17 (22% of entire import bill)

- . Pakistan's power T&D losses stand at 19.6% which is highest amongst the comparable countries.
- . Pakistan's weighted average consumer power tariff @ 12.51 cents/Kwh, highest in comparable countries due to high T&D losses, duties, surcharges.

- . Only minimal 4000 MW Power Capacity added during 2004 – 2013 coupled withcontinuous capacity de-rating of existing public sector power plants which were supposed to be privatized
- • A peak demand shortfall of 5,000 to 7,000 MW experienced in the years 2013 to 2016
- • Growth in power sector installed capacity has been significant after 2013 with anaddition of approx. 10,000 MW by 2018 and a total of approx. 24,000 MW by 2025.

- . Discos experienced a huge shortfall of ~PKR 80 Billion in recoveries in FY 2015-16 Vs. the billed amount
- • Around 2% of distribution losses notallowed by NEPRA to Discos resulting inadditionalrevenue shortfall of around PKR 30 Billion/Annum
- • Circular debt has ballooned to over **PKR 525 Billion**

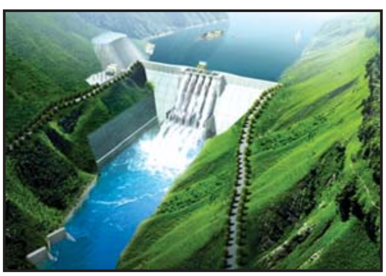
Government's Initiative to Address Power Crisis:

The Government of Pakistan policies have currently resulted in creating a surplus power generation capacity inPakistan. Power supply availability has been ensured for the medium term, however, the focus needs to move beyond2025 for which investments should continue. Key emphasis is also required on the Transmission & Distribution Sectors.

Imported Coal Based Power Projects

Local Coal Based Power Projects

RLNG Power Projects



Hydel Power Projects

Solar Power Projects

Wind Power Projects

Nuclear Power Projects

Transmission Network Projects

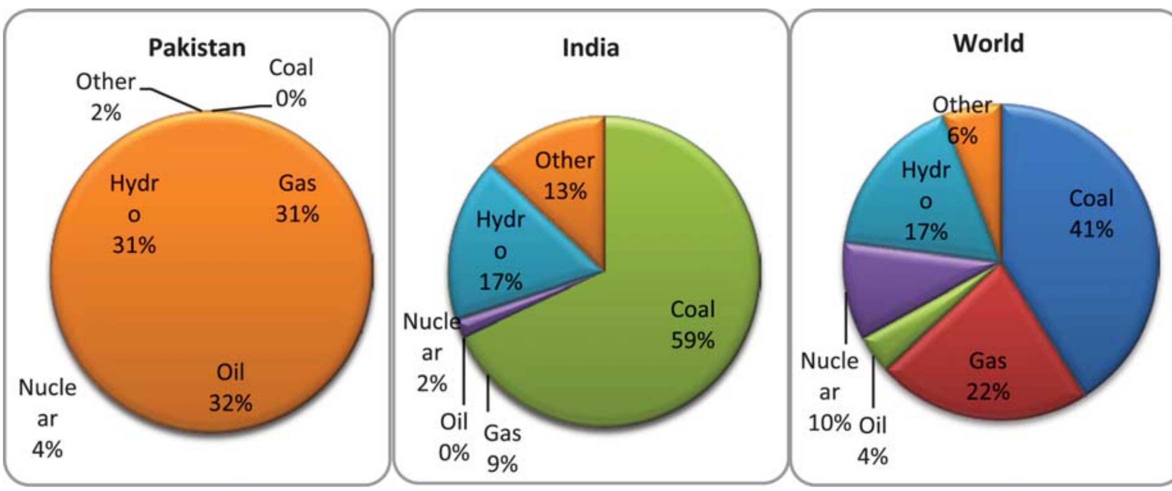
CHALLENGES OF PAKISTAN ENERGY SECTOR:

1. High Reliance on Imported Fossil Fuel:

- Heavy reliance on fossil fuels -particularly oil and natural gas (over 90% of energy consumption in 2016)
- Energy imports totaling $11 Bn. worth of Oil and LNG in FY 2016-17 -nearly 22% of the entire import bill!

FUEL MIX COMPARISON:

- Despite being a poor country, Pakistan has one of the most expensive choice of fuel mix for power generation
- According to SBP, the country imported approximately $10 Bn worth of oil and approximately $1 Bn worth of LNG in FY 2016-17 - nearly 22% of the entire import bill!



2. Depletion of Indigenous Gas:

- Indigenous natural gas has reduced (from 43% of energy mix in 2011 to 34% in 2016) with indigenous reserves only sufficient to sustain current levels of gas consumption of (15.5 MTOE) for the next 25 years
- Indigenous supplies are expected to decline by approx. 50% in the next 10 years, which will also have to be covered through LNG imports in addition to catering incremental demand growth
- Current consumer prices of indigenous gas range between US$1-7/MMBTU. LNG prices are currently@ 11 US$/MMBTU
- This necessitates a complete overhaul of the consumer gas pricing structure under the projected scenario of indigenous gas depletion

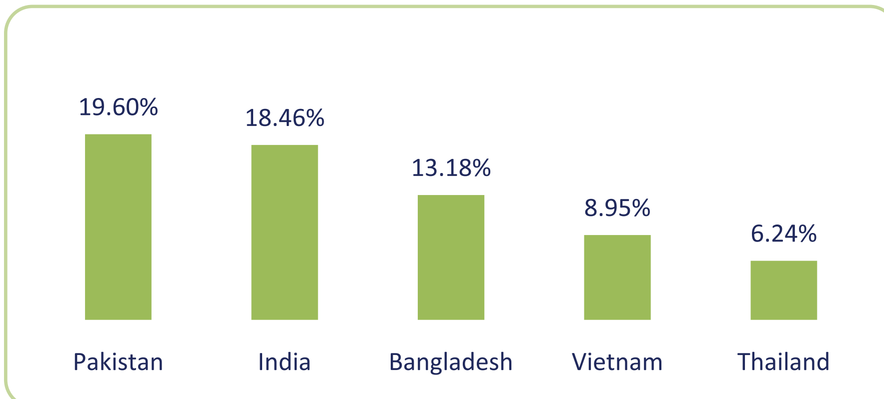
3. Energy T&D Losses:

- Pakistan's energy sector has been marred by transmission and distribution losses mainly due to:

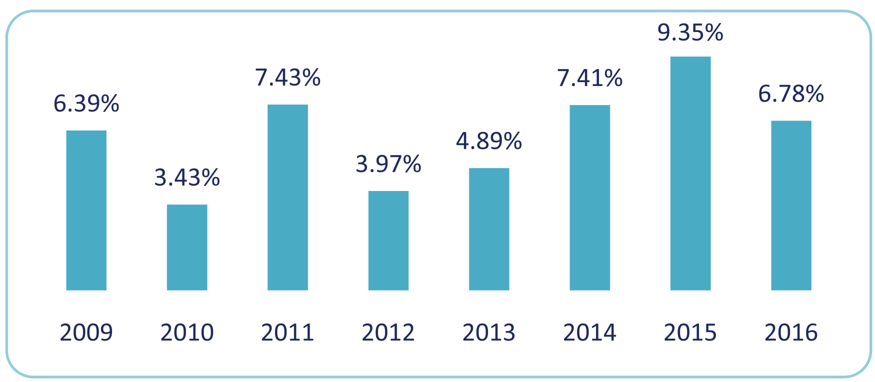
  1. Leakages
  2. Theft
  3. Poor Maintenance

- Natural Gas Unaccounted for Gas (UFG) in Pakistan is approximately 14%, which is much higher than global industry best practices

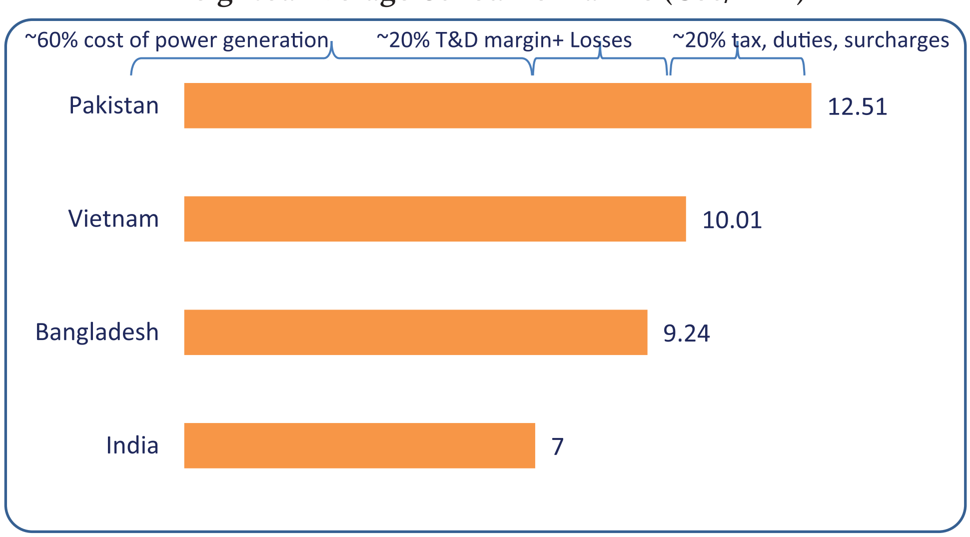
Regional Comparison of T&D Losses



Pakistan total energy T&D Losses

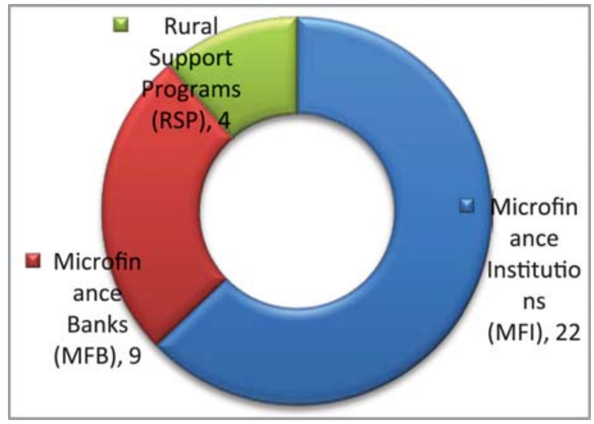


Weighted Average Consumer Tariffs (Usc/Kwh)



MICRO FINANCE BANKS' ANALYSIS:

Industry players are categorized into three groups for benchmarking and comparison purposes: Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs). The MFI peer group comprises of the largest number of respondents followed by MFBs and then RSPs.



Micro-Finance Banks (MFB):

S.NO.	BANK NAME	RATINGS	OUTLOOK
1	Khushhali Micro-Finance Bank (KBL)	A+/A-1	Stable
2	Telenor Micro-Finance Bank (TMFB)	A+/A-1	Stable
3	First Micro-Finance Bank (FMFB)	A+/A-1	Stable
4	NRSP Micro-Finance Bank (NRSP-B)	A+/A-1	Stable
5	FINCA Micro-Finance Bank (FINCA)	A+/A-1	Stable
6	U- Micro-Finance Bank (U-Bank)	A-/A-2	Stable
7	Mobilink Micro-Finance Bank (MMFB)	A-/A-2	Stable
8	Apna Micro-Finance Bank (AMFB)	BBB/A-3	Stable
9	Advans Micro-Finance Bank (ADVANS)	BBB/A-3	Stable

Micro-Finance Institutions (MFI):

1. ASA Pakistan limited (ASA-P)
2. Agahe
3. Akhuwat
4. Al-Mehran Rural Development Organization (AMRDO)
5. BRAC-Pakistan
6. Community Support Concern (CSC)
7. Development Action for Mobilization and Emancipation(DAMEN)
8. Farmers Friend Organization (FFO)
9. Ghazi BarothaTaraqiatiIdara (GBTI)
10. Jinnah Welfare Society (JWS)
11. Kashf Foundation (KF)
12. Micro Options (MO)
13. Organization for Participatory Development (OPD)
14. Orangi Charitable Trust (OCT)
15. Orix Leasing Pakistan Ltd. (OLP)
16. Organization for Social Development Initiative (OSDI)

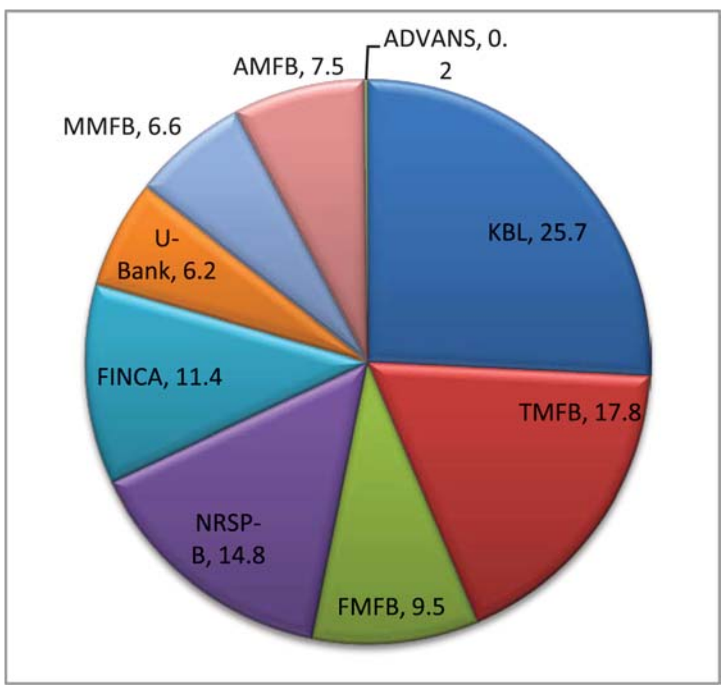
17. Rural Community Development Program (RCDP)
18. SAFCO Support Fund (SAFCO)
19. Saath Development Society (SDS)
20. Shadab Rural Development Organization (SRDO)
21. Sindh Rural Support Organization (SRSO)
22. Soon Valley Development Program (SVDP)
23. Villagers Development Organization (VDO)

Rural Support Program (RSP)

1. National Rural Development Program (NRSP)
2. Punjab Rural Support Program (PRSP)
3. Thardeep Microfinance Foundation (TMF)
4. Sindh Rural Support Organization (SRSO)

   [Pakistan microfinance network]

% SHARE OF MICROFINANCE BANKS:



[JCR-VIS sector report]

THE MICROFINANCE INDUSTRY

- Outreach continued to grow at a double-digit rate with notable expansion in the deposit base of the microfinance industry.
- Overall, the microfinance industry is now viewed as an important pillar in furthering the financial inclusion agenda in the country.
- As a follow up to the launch of the National Financial Inclusion Strategy (NFIS) and the introduction of a regulatory framework for Non-Bank Microfinance Institutes (NBMFI) by the Securities & Exchange Commission of Pakistan (SECP) in 2015, 2016 saw steps being taken to promote access to finance and transition of Microfinance Institutes (MFIs) and Rural Support Programs (RSPs) to Non-Bank Microfinance Institutes.
- On the funding side the microfinance industry saw a practitioner successfully tapping capital markets to raise debt and several successful debt placements were made by international lenders.
- Branchless banking continued to grow and mature as the percentage of transactions through m-Wallets picked up as compared to over-the counter (OTC) transactions.
- Lending to microenterprises by MFBs and Interest Free Loans under the Prime Minister's Youth Loan Scheme also witnessed an increase.
- On the responsible finance side, a number of advances took place especially in setting up client grievance redressal mechanisms.

INDUSTRY INITIATIVES

1. Branchless Banking:

- All the main indicators of branchless banking have exhibited robust growth over the last one year.

	2015	2016	Growth%
Value of Transactions (Mln)	1,872,451	2,169,541	16
No. of Transactions (Mln)	374	478	28
No. of Accounts (Mln)	15.35	19.96	30
Active A/c		49%	
A/c held by Women		21%	
Deposits of m-wallet a/c (Mln)		11,717	
M-wallet to OTC transaction ratio	34%	49%	

- Branchless banking continues to be dominated by three players namely Easypaisa, Jazzcash and UBL Omni which accounted for 98 percent of the branchless banking accounts at the end of 2016 as compared to 97 percent in the previous year despite the entry of several new players in the arena.

- Nearly 19 MFPs are using branchless banking channels primarily for recollection for loans, however, there remains scope for using them for additional services such as disbursements, savings and insurance.

2. Client Protection and Social Performance Management:

- The State Bank of Pakistan introduced revised protocols for Client Grievance Handling Mechanisms (CGHM), which are a comprehensive set of guidelines, highlighting the overarching principles to establish robust CGHM in banks. The protocols put forth specific rules for establishment and operation of the systems at all banks including microfinance banks.

- Considering the importance of Grievance Redressal Mechanisms in ensuring the provision of responsible and client-centric financial services, PMN in collaboration with The Smart Campaign, developed a progressive GRM framework to establish minimum standards of good practice for its member MFPs, keeping in view their scale and scope of operations. The project was undertaken realizing the need for standardization in the GRM domain as there remains a great deal of variation in the GRM processes employed by the MFPs.

3. International Lending:

- Eco Trade & Development Bank, ADB, Symbiotics, Incofin, Triple Jump, Proparco, Blue Orchard and Microvest were among the investors who actively explored the markets largely for debt placement.

- Last year, saw the successful finalization of deals worth over USD 14.5 million by various funds to Kashf Foundation, USD 20 million by ADB and USD 5 million by ECO Trade & Development Bank to KBL and USD 10 million for NRSP Bank.

- Going forward it is expected that several mid-tier entities would also likely finalize deals with international lenders this year for debt.

4. Tapping Capital Markets:

- NRSP Bank issued a Term Finance Certificate worth PKR 3 billion with a tenor of 2 years. JS Bank and Faysal Bank were lead arrangers for the facility. The principal amount is payable in 8 equal installments and the bonds are priced at 3-months KIBOR + 2.35. The facility is secured against a cash coverage of PKR 300 million and hypothecation of current and future current assets of the bank. A key highlight of the transaction was that unlike previous issues the Term Finance Certificate was not secured through a credit guarantee.

5. Smart Certified:

- FINCA Microfinance Bank and Khushhali Bank Limited underwent a comprehensive third party smart assessment in 2016 and earlier 2017 respectively, with both banks becoming the first ones among microfinance Banks in Pakistan to be Smart Certified- a testament to the organizations' focus on client centricity and responsible practices. Client protection has always been a conscious decision made by FINCA and KBL and institutionalizing it has been a process of exchange and learning from the clients.

- An international recognition of these standards will help stakeholders, including clients; understand the level of commitment to FINCA and KBL's clients and its priority of aligning products, services, and procedures to clients' needs.

6. Interest-Free Loan Scheme:

- The Interest Free Loan Scheme was launched by the current Government as part of the Prime Minister's Youth Loan Scheme in 2014. Pakistan Poverty Alleviation Fund (PPAF) has been tasked by the Government of Pakistan to mobilize, implement and monitor the scheme. A key element in the monitoring process has been to ensure that there is no overlap between conventional microfinance and interest free loans.

- The scheme was launched with an allocation of PKR 3.5 billion out of which PKR 3.1 billion was for on-lending. By the end of 2016, PKR 5.5 billion had been disbursed through the revolving of funds15. The scheme is being implemented in 431 Union Councils across the country through 26 MFIs16. Moreover, more than 50,000 recipients of the loans were BISP beneficiaries who are now running their own businesses instead of relying on cash grants.

7. Micro-enterprise Lending:

- Micro-enterprise lending has the potential to fill the financing gap between the microfinance and traditional Small and Medium Enterprises (SME).

- At present 8 out of 11 MFBs are lending to this segment.

Year	2013	2014	2015	2016
Number of Loans	136	2,185	12,612	32,958
GLP	33,902,858	530,587,461	3,061,824,879	7,279,497,227
Average Loan Size (PKR)	249,286	242,832	242,771	220,871

8. Commencement of Operations by PMIC:

- Incorporated in August 2016 as an Investment Finance Company, PMIC is setup jointly by Pakistan Poverty Alleviation Fund (PPAF), Department for International Development (DFID) through Karandaaz Pakistan and the German Development Bank (KFW) to catalyze and lead the next phase of growth in the microfinance sector of Pakistan as the wholesale lender and sector developer. Recognized as an important financial sector player in the National Financial Inclusion Strategy (NFIS) launched by Government of Pakistan in 2015, the purpose of the organization is to improve financial inclusion, employment and wellbeing of the poor by providing wholesale financing to the microfinance service providers in the country.

The institution also has a role in the development and strengthening of the microfinance sector by actively contributing to policy and regulations for microfinance, capacity building of microfinance players as well as to promote innovation and responsible financial practices in the sector. In sync with the Microfinance Growth Strategy 2020 articulated by the sector, PMIC envisions to become the largest provider of wholesale funds to the sector to increase the number of microcredit borrowers to 10 million by 2020. [Pakistan microfinance network]

MICROFINANCE INDUSTRY DYNAMICS:

Total Branches Sep16: 3,053 (YoY: 11%)	Total Branches Sep16: 3,053 (YoY: 11%)	Gross Loan Portfolio (GLP) Sep16: 123,378mln (YoY: 45%)
Districts Covered: 104 (Pakistan-Wide Coverage YoY: 77%)	No.of Depositors Sep16: ~16.6mln (YoY: 24%)	No. of Borrowers Sep16: 4.3mln (YoY: 19%)

Product Portfolio:

Some MFBs specialize in group lending methodology while others prefer individual lending especially for Micro Small and Medium Enterprises (MSME). Major sectors in the microcredit portfolio include trade, agriculture, livestock/poultry, services and small scale manufacturing. Agriculture and livestock loans are offered mainly under bullet repayment structure while other loans follow Equal Monthly Installment (EMI) repayment. Loans against gold as collateral have witnessed continuous decline following a regulatory intervention of capping gold loans at 35% of total gross loan portfolio.

To keep pace with the borrowers increasing loan requirement, the sector has gradually increased the average loan size. At end-FY16, average loan balance of the sector stood at Rs. 46,281 (FY15: Rs. 38,184). Considerable variation in average loan balance is notable among MFBs with some institutions specializing in higher ticket size loans. Being well below the regulatory limit of Rs. 150,000, large space for growth is available here.

KEY FINANCIAL FIGURES OF MFBs:

	KBL	TMFB	FMFB	NRSP-B	FINCA	U-Bank	MMFB	AMFB	ADVANS	TOTAL
Total Assets	33,773	36,304	16,878	26,452	15,618	10,592	14,233	13,554	685	**168,089**
Microcredit Portfolio	22,939	15,835	8,183	13,127	10,082	5,528	5,856	5,484	208	**87,242**
Deposits	21,179	27,830	12,237	16,922	11,070	8,110	10,306	12,347	21.5	**120,023**
Net Worth	4,937	4,586	3,831	3,204	2,433	1,122	1,231	694	615.2	**22,653**
Profit/Loss after Tax	1,272	895	316	685	631	72	230.8	-735.5	-205.9	**3,160**
No. of Active Clients	556,787	38,5417	220,493	325,520	132,880	118,160	91,747	50,096	2,922	**1,884,022**
Average Loan Size	41,547	41,372	37,202	40,766	76,279	47,197	64,677	127,698	72,590	
No. of Branches	139	74	159	97	105	75	35	120	5	**809**
Incremental Infection (%)	2.6	0.66	0.4	0.59	1.0	0.6	0.06	33.8	4.9	
Cost of Funds (%)	7.5	5.1	5.4	8.6	7.6	8.9	3.8	7.9	4.6	
Liquid Assets to Total Deposits (%)	26.3	63	60.5	51.1	31.8	49.2	67.8	47.1	17.6	
Capital Adequacy Ratio (%)	20.2	31	39.4	18.6	20.6	17.6	n/a	6.8	114	
Net Worth to Total Assets (%)	14.6	12.6	22.7	12.2	15.6	10.6	8.6	5.1	89.9	
OSS (%)	128.7	136.6	121.3	165.9	138.5	107.5	124.7	42.0	36.9	
Spreads (%)	16.6	15	14.6	15.6	24	15.2	11.8	11.5	12.1	
Return on Average Equity (%)	28.6	21.6	11.8	24	29.1	6.7	20.1	-84.1	-40.9	

INDIVIDUAL MICROFINANCE BANKS' FINANCIAL PERORMANCE:

S.NO.	BANK NAME	TOTAL ASSETS			% GROWTH
		2014	2015	2016	
1	KBL	16,692	26,696	33,773	27%
2	TMFB	16,393	21,058	36,304	72%
3	FMFB	10,674	12,187	16,878	38%
4	NRSP-B	11,797	14,306	26,452	85%
5	FINCA	6,380	8,451	15,618	85%
6	U-Bank	1,832	2,270	10,592	367%
7	MMFB	2,540	4,895	14,233	191%
8	AMFB	1,758	5,670	13,554	139%
9	ADVANS				

S.NO.	BANK NAME	NET PROFT/LOSS			% GROWTH
		2014	2015	2016	
1	KBL	703	824	1,272	55.36%
2	TMFB	708	851	895	5%
3	FMFB	109	311	316	1.60%
4	NRSP-B	197	459	685	49%
5	FINCA	176	166	631	280%
6	U-Bank	-96	8	72	800%
7	MMFB	-107	-37	230.8	724%
8	AMFB	6	-29	-735	-2434%
9	ADVANS				

Conclusion

Overall, the microfinance industry continued its upward trajectory in the 2016. With the NFIS in place and the entire microfinance sector under a regulatory umbrella, the players have in place a supportive environment to grow and become a significant part of the financial landscape. Moreover, with the industry infrastructure in place including the credit information bureau, digital financial services, responsible finance initiatives, players have an excellent opportunity to continue expanding outreach and tapping new market segments.

Capital markets, international lending and the Pakistan Microfinance Investment Company (PMIC) all provide avenues for MFPs to meet their increasing financing needs. Continued economic stability will continue to play a crucial role in the progress of the sector. In addition, players need to strengthen their corporate governance, build capacity, focus on product development and innovation and explore newer markets to become an increasingly important part of the financial landscape.

INTERNATIONAL ECONOMIC OUTLOOK

EXPANSION CONTINUES AT A LESS EVEN PACE

As the global cyclical upswing approaches its two-year mark, the pace of expansion in some economies appears to have peaked and growth has become less synchronized across countries. Among advanced economies, growth divergences between the United States on one side, and Europe and Japan on the other, are widening. Growth is also becoming more uneven among emerging market and developing economies, reflecting the combined influences of rising oil prices, higher yields in the United States, sentiment shifts following escalating trade tensions, and domestic political and policy uncertainty. While financial conditions remain generally benign, these factors have resulted in capital inflow reductions, higher financing costs, and exchange rate pressures, more acute in countries with weaker fundamentals or higher political risks.

Commodity prices and inflation

Largely reflecting supply shortfalls, global oil prices increased 16 percent between February 2018 and early June 2018. The increase in fuel prices has lifted headline inflation in advanced and emerging market economies. Core inflation has strengthened in the United States as the labor market has tightened further, and inched up in the euro area. Core inflation in emerging markets has also increased, reflecting pass-through effects from currency depreciation in some cases and second-round effects of higher fuel prices in others. Prices of agricultural commodities have increased marginally, reflecting diminishing excess supply.

Financial conditions in advanced economies

With firmer readings on inflation and strong job creation, the US Federal Reserve continued the course of gradual policy normalization. It raised the target range for the Federal Funds rate by 25 basis points in June. US Treasury 10-year yields, at around 2.85 percent as of early July, have risen modestly since February, while yields on German 10-year bonds, at around 30 basis points, have declined over the same period. Among other advanced economies, in late May Italian sovereign spreads widened by their largest amount since 2012, following difficulties around the formation of a new government. They have since declined but remain around 240 basis points as of early July on concerns about future policies. Spillovers to other advanced economies' bond markets were mostly contained, with other euro area spreads remaining compressed. Equity prices in advanced economies are generally higher than their February-March levels. After the February spike, volatility has subsided and risk appetite has been strong. Consequently, financial conditions in advanced economies remain generally accommodative.

Financial conditions in emerging markets

Central banks in key emerging market economies -including Argentina, India, Indonesia, Mexico, and Turkey-have raised policy rates, responding to inflation and exchange rate pressures (coupled with capital flow reversals in some cases). Long-term yields have also increased in recent months, and spreads have generally widened. Most emerging market equity indices have declined modestly, reflecting, in some cases, concerns about imbalances (e.g., Argentina and Turkey), and, more generally, rising downside risks to the outlook.

Exchange rates and capital flows

As of early July 2018, the US dollar has strengthened by over 5 percent in real effective terms since February, while the euro, Japanese yen, and British pound sterling are broadly unchanged. In contrast, some emerging market currencies have depreciated sharply. The Argentine peso has weakened by over 20 percent and the Turkish lira by around 10 percent, due to concerns about financial and macroeconomic imbalances. The Brazilian real has depreciated by over 10 percent on a weaker-than-expected recovery and political uncertainty. Weaker-than-anticipated macroeconomic data for South Africa contributed to the 7 percent depreciation of the South African rand, unwinding part of the sharp appreciation that had occurred in late 2017 and early 2018. The currencies of the largest emerging market economies in Asia have remained broadly in line with their levels in February, with the Chinese renminbi depreciating modestly. Reflecting signs of financial stress in some more vulnerable countries and growing trade tensions, capital flows to emerging economies weakened in the second quarter (through May) after a strong start to the year, with a pickup in non-resident sales of portfolio debt securities.

Global Growth Forecast

			Projections	
	2016	2017	2018	2019
World Output	**3.2**	**3.7**	**3.9**	**3.9**
Advanced Economies	**1.7**	**2.4**	**2.4**	**2.2**
United States	1.5	2.3	2.9	2.7
Euro Area	1.8	12.4	2.2	1.9
Japan	1	1.7	1.0	0.9
United Kingdom	1.8	1.7	1.4	1.5
Canada	1.4	3.0	2.1	2.0
Other Advanced Economies	2.3	2.7	2.8	2.7
Emerging Market & Developing Economies	**4.4**	**4.6**	**4.9**	**5.1**
Common Wealth of Independent States	0.4	2.1	2.3	2.2
Emerging & Developing Asia	6.5	6.5	6.5	6.5
Emerging & Developing Europe	3.2	5.9	4.3	3.6
Latin America & the Caribbean	-0.6	1.3	1.6	2.6
Middle east, North Africa, Afghanistan & Pakistan	5	2.2	3.5	3.9
Sub-Saharan Africa	1.5	2.8	3.4	3.8
Low-Income Developing Countries	3.5	4.7	5.0	5.3
World Growth Based on Market Exchange Rates	2.5	3.2	3.3	3.3

Global growth for 2018 and 2019 is projected at 3.9 percent, as forecast in the April 2018 WEO. While headline numbers suggest a broadly unchanged global outlook relative to the April WEO, underlying revisions point to differing prospects across economies. The baseline forecast assumes gradually tightening but still favorable financial conditions, with localized pressures based on differences in fundamentals. Monetary policy normalization in advanced economies is assumed to proceed in a well communicated, steady manner. Domestic demand growth (notably investment, which has been an important part of the global recovery) is expected to continue at a strong pace; even as overall output growth slows in some cases where it has been above trend for several quarters.

Growth in Advance Economies

Advanced economy growth is expected to remain above trend at 2.4 percent in 2018- similar to 2017-before easing to 2.2 percent in 2019. The forecast for 2018 is lower by 0.1 percentage point compared to the April WEO, largely reflecting greater-than-expected growth moderations in the euro area and Japan after several quarters of above-potential growth.

- **In the United States,** near-term momentum in the economy is expected to strengthen temporarily in line with the April WEO forecast, with growth projected at 2.9 percent in 2018 and 2.7 percent in 2019. Substantial fiscal stimulus together with already-robust private final demand will lift output further above potential and lower the unemployment rate below levels last registered 50 years ago, creating additional inflationary pressures. Imports are set to pick up with stronger domestic demand, increasing the US current account deficit and widening excess global imbalances.

- Growth in the **euro area economy** is projected to slow gradually from 2.4 percent in 2017 to 2.2 percent in 2018 and to 1.9 percent in 2019 (a downward revision of 0.2 percentage point for 2018 and 0.1 percentage point for 2019 compared with the April WEO).

- Forecasts for 2018 growth have been revised down for **Germany and France** after activity softened more than expected in the first quarter, and in Italy, where wider sovereign spreads and tighter financial conditions in the wake of recent political uncertainty are expected to weigh on domestic demand.

- The growth forecast for **Japan** has been marked down to 1.0 percent for 2018 (0.2 percentage point below the April-2018 WEO projection) following a contraction in the first quarter, owing to weak private consumption and investment. The economy is expected to strengthen over the remainder of the year and into 2019, aided by stronger private consumption, external demand, and investment.

Growth in Emerging Market & Developing Economies

Emerging market and developing economies have experienced powerful crosswinds in recent months: rising oil prices, higher yields in the United States, dollar appreciation, trade tensions, and geopolitical conflict. The outlook for regions and individual economies thus varies depending on how these global forces interact with domestic idiosyncratic factors. Financial conditions remain generally supportive of growth, though there has been differentiation across countries based on economic fundamentals and political uncertainty. With the updraft on oil exporters from higher oil prices largely offset by the combined drag on other economies from the forces described above, the group's overall 2018 and 2019 growth forecasts remain unchanged from the April-2018 WEO at 4.9 and 5.1 percent, respectively.

- Emerging and Developing Asia is expected to maintain its robust performance, growing at 6.5 percent in 2018-19. Growth in China is projected to moderate from 6.9 percent in 2017 to 6.6 percent in 2018 and 6.4 percent in 2019, as regulatory tightening of the financial sector takes hold and external demand softens. India's growth rate is expected to rise from 6.7 percent in 2017 to 7.3 percent in 2018 and 7.5 percent in 2019, as drags from the currency exchange initiative and the introduction of the goods and services tax fade. The projection is 0.1 and 0.3 percentage point lower for 2018 and 2019, respectively, than in the April-2018 WEO, reflecting negative effects of higher oil prices on domestic demand and faster than-anticipated monetary policy tightening due to higher expected inflation. Growth in the ASEAN-5 group of economies is expected to stabilize at around 5.3 percent as domestic demand remains healthy and exports continue to recover.

- In Emerging and Developing Europe, growth is projected to moderate from 5.9 percent in 2017 to 4.3 percent in 2018 and further to 3.6 percent in 2019 (0.1 percentage points lower than in the April-2018 WEO for 2019). Financial conditions have tightened for some economies with large external deficits- notably Turkey, where growth is set to soften from 7.4 percent in 2017 to 4.2 percent this year.

- Growth in Latin America is projected to increase modestly from 1.3 percent in 2017 to 1.6 percent in 2018, and further to 2.6 percent in 2019 (0.4 and 0.2 percentage points lower than projected in the April-2018 WEO). While higher commodity prices continue to provide support for commodity exporters in the region, the subdued outlook compared with April reflects more difficult prospects for key economies, owing to tighter financial conditions and needed policy adjustment (Argentina); lingering effects of strikes and political uncertainty (Brazil); and trade tensions and prolonged uncertainty surrounding the NAFTA renegotiation and the policy agenda of the new government (Mexico). The outlook for Venezuela, which is experiencing a dramatic collapse in activity and a humanitarian crisis, was revised down further, despite the pickup in oil prices, as oil production has declined sharply.

- Oil exporters in the Middle East, North Africa, Afghanistan, and Pakistan region have benefited from the improved outlook for oil prices, but the outlook for oil importing countries remains fragile. Several economies still face large fiscal consolidation needs and the threat of intensifying geopolitical conflict continues to weigh on growth in the region. Growth is projected to strengthen from 2.2 percent in 2017 to 3.5 percent in 2018 and further to 3.9 percent in 2019-0.2 percentage point higher than in the April-2018 WEO for 2019.

- The recovery in Sub-Saharan Africa is set to continue, supported by the rise in commodity prices. For the region, growth is expected to increase from 2.8 percent in 2017 to 3.4 percent this year, rising further to 3.8 percent in 2019 (0.1 percentage point higher for 2019 than forecast in the April WEO). The upgraded forecast reflects improved prospects for Nigeria's economy. Its growth is set to increase from 0.8 percent in 2017 to 2.1 percent in 2018 and 2.3 percent in 2019 (0.4 percentage point higher than in the April-2018 WEO for 2019) on the back of an improved outlook for oil prices. Despite the weaker-than-expected first quarter outturn in South Africa (in part due to temporary factors), the economy is expected to recover somewhat over the remainder of 2018 and into 2019 as confidence improvements associated with the new leadership are gradually reflected in strengthening private investment.

➢ Growth in the Commonwealth of Independent States is projected to stabilize at around 2.3 percent in 2018-19, with an upward revision of 0.1 percentage point for each year compared with the April-2018 WEO. The outlook for the Russian economy is similar to the April projection, with the positive effects of higher oil prices counterbalanced by the impact of sanctions, while the outlook for Kazakhstan has improved on stronger oil prices.

Risks Tilted to the Downside

While the baseline forecast for global growth is roughly unchanged, the balance of risks has shifted to the downside in the near term and, as in the April 2018 WEO, remains skewed to the downside in the medium term. The possibility for more buoyant growth than forecast has faded somewhat in light of the weak outturns in the first quarter in several large economies, the moderation in high-frequency economic indicators, and tighter financial conditions in some vulnerable economies. Downside risks, on the other hand, have become more salient, most notably the possibilities of escalating and sustained trade actions, and of tighter global financial conditions.

▽ **Financial Tensions**

Recent bouts of volatility highlight the possibility of abrupt shifts in global financial conditions due to markets' reassessment of fundamentals and risks, including changing expectations about monetary policy or the effects of rising trade tensions, sudden increases in risk- or term premia, and increasing political uncertainty. As discussed in the April 2018 WEO and Global Financial Stability Report, signs of firmer-than expected inflation in the United States could lead to a shift in market expectations of US interest rate hikes, which are currently well below those in the WEO baseline forecast. A sudden deterioration of risk appetite could trigger disruptive portfolio adjustments, accelerate and broaden the reversal of capital flows from emerging markets, and lead to further US dollar appreciation, straining economies with high leverage, fixed exchange rates or balance sheet mismatches. In some euro area countries, policy inaction and political shocks at the national level could lead to sovereign spread decompression, worsening public debt dynamics and weakening bank balance sheets. In China, where the authorities are taking welcome steps to slow credit growth, uncoordinated financial and local government regulatory action could have unintended consequences that trigger disorderly re-pricing of financial assets, increase rollover risks, and lead to stronger-than-forecast negative effects on activity.

Trade Tensions

The outlook is also clouded by ongoing trade tensions and waning support for global economic integration in some advanced economies. In the past few months, the United States has imposed tariffs on a variety of imports, prompting retaliatory measures from trading partners. At the same time, NAFTA and the economic arrangements between the United Kingdom and the rest of the European Union are under renegotiation. An escalation of trade tensions could undermine business and financial market sentiment, denting investment and trade. Beyond its immediate toll on market sentiment, the proliferation of trade measures could increase the uncertainty about the potential breadth of trade actions, thus hindering investment, while higher trade barriers would make tradable goods less affordable, disrupt global supply chains, and slow the spread of new technologies, thus lowering productivity.

Noneconomic Factors

By raising the possibility of slower reform implementation or significant changes in policy objectives, political uncertainty, including in the context of upcoming elections or their immediate aftermaths in several countries, could deter private investment and weaken economic activity. In Europe, the late May sell-off in Italian bonds has once again turned the spotlight on deep structural challenges and thin buffers at the national level, posing significant risks to the outlook. Geopolitical risks and domestic strife are weighing on the outlook in several economies, especially in the Middle East and sub-Saharan Africa. Furthermore, many countries remain vulnerable to the economic and humanitarian costs of extreme weather events and other natural disasters, with potentially significant cross-border ramifications through migration flows.

[Excerpts from IMF Economic Outlook - July 2018]

WORLD VIEW- 2019

The Great Power Competition Intensifies.

The United States will escalate its strategic offensive against China with tariffs, sanctions, regulatory buffers around emerging technologies, stronger backing for Taiwan and a more assertive posture in the South China Sea. At the same time, failing arms control pacts will accelerate an arms race among the United States, Russia and China. The edgier geopolitical climate will create strategic opportunities for more vulnerable borderland powers, such as Poland and Taiwan, but will also create massive headaches for middle powers trying to find neutral ground, such as Turkey, India and Vietnam.

Increased Geopolitical Risk for Business.

Citing national security threats, the United States will lean heavily on Europe, Japan, Australia, Canada, South Korea and Taiwan to erect stronger barriers to Chinese investment. This will affect research and trade in strategic areas, from artificial intelligence to 5G network rollouts beginning in 2019. China's imperative to catch up in critical areas like aerospace and high-end semiconductor development will only increase cyberthreats to corporations and compel an overall more offensive U.S. policy in cyberspace. In addition, corporations will have to contend with supply chain disruptions and heavier fines and lawsuits for data breaches.

Measuring Trade Volatility in the Global Economy.

A U.S. showdown with the World Trade Organization could paralyze the body's dispute settlement process, forcing countries into a less predictable bilateral track to resolve their trade differences. Canada, Mexico, Japan and South Korea have a better chance of negotiating quotas to mitigate the threat of U.S. auto tariffs, but the European Union's trade talks with the United States are doomed to fail. And while additional U.S. tariffs on China will add to trade uncertainty, the overall effect on the global economy from White House trade policy in 2019 will be relatively muted.

Hair-Raising Scenarios for Italy and Brexit.

A defiantly populist Italian government will pose the biggest threat to the eurozone in 2019 as concerns grow over the country's rising debt levels and fragile banking sector. Financial markets and dangerously wide spreads in bond yields - rather than threats from Brussels - will prove to be Rome's biggest disciplinarians. Brussels will simultaneously work to avert a no-deal Brexit scenario with the United Kingdom, but a British parliamentary veto remains the single biggest obstacle to its orderly exit from the European Union.

The Next Steps in the Anti-Iran Campaign.

With far-reaching secondary sanctions in place, the United States will forge ahead with its campaign to isolate Iran regionally and weaken the country from within. This will increase friction between Washington and Tehran and diminish the already scant likelihood of a constructive negotiation. A common agenda opposing Iran will help insulate strategic, high-level ties between the United States and Saudi Arabia despite rumblings within the royal family and foreign governments over Saudi Crown Prince Mohammed bin Salman's leadership.

An Eye on Growing Supply in Global Energy Markets.

Saudi Arabia and Russia will carefully manage oil output to prevent a price plunge as they monitor the effects of residual Iranian exports on the market. There is also the potential for production growth out of Iraq and Libya and a significant easing of export capacity constraints on the United States later in the year. Global liquified natural gas markets will be shaken up when the United States assumes its place among the top three LNG exporters in the world in 2019.

Disruptive Forces at Work in the Americas.

Hard-line and U.S.-aligned governments in Brazil and Colombia could drive an atypically proactive regional effort to contain spillover from Venezuela's ongoing crisis. Brazil's efforts to shake up and reform the Mercosur trading bloc will come up against a politically hamstrung Argentina. The power of the referendum will meanwhile be put to the test in Mexico, where an aggressive populist agenda will raise investor risk.

Ethiopia Drives Big Change in the Horn of Africa.

Ethiopia's ambitious agenda is generating economic interest and attracting outside powers to the Horn of Africa. But internal challenges to the current leadership and ethnic strife risk slowing Addis Ababa's momentum.

GLOBAL TRENDS:

A New and Uncomfortable Global Reality

More than a year ago, it is noted that the intensifying competition among the United States, China and Russia would emerge as the defining feature of the international system, creating a conundrum for the middle powers caught in the throes of great power rivalry. It didn't take long for trade wars, cyberattacks, shifting defense strategies and arms races to convince the world that this is the new and uncomfortable global reality.

Great power competition is set to only intensify in 2019. The White House will double down on its attempts to short-circuit China's advances across a number of strategic fields. Beijing will take some blows along the way, but China still has the means and more motivation than ever to accelerate its timetable and efforts toward reaching parity with the United States. And while there is no love lost between China and Russia, the potential for a tighter alignment in 2019 is likely to overcome the friction points in their uneasy partnership.

The year will expose the limits the United States faces in trying to isolate China both from within tightly interwoven supply chains and from even the most dependable U.S. allies, caught between maintaining a tight security relationship with the United States and a growing need to expand their economic ties with China. This global dynamic will create a massive headache for middle powers and globally exposed businesses trying to navigate this complex landscape. Even as major European powers try to assert EU sovereignty on the global scale to avoid becoming collateral damage, they will remain largely reactive to the broader competition. And for those powers lying along the borderlands, from Poland to Turkey to Taiwan, a tenser geopolitical climate will translate in some cases into strategic opportunities as they try to work quickly to shore up security alliances and extract special economic benefits from powerful suitors. The rapid development of disruptive weapons technology combined with the steady deterioration of arms control pacts will accelerate the high-stakes arms race among the United States, Russia and China. Washington's likely imminent withdrawal from the Intermediate-Range Nuclear Forces Treaty and a shakier negotiation over the New Strategic

Arms Reduction Treaty will deepen divisions in Europe as Western powers try to avoid getting caught in an arms buildup while states on the front lines with Russia, like Poland, the Baltic states and potentially Romania, volunteer to host U.S. military assets. At the same time, the United States will be freeing itself to build up a formidable arsenal to challenge China, all while Beijing strategically avoids entering such arms pacts and continues apace with its own buildup in the Western Pacific.

The ideological dimension to the great power competition will play out more subtly. The United States is rising to the challenge of competing with a China-Russia axis, but it is relying on unorthodox tactics and a broadly unilateral course that will risk alienating many of the middle-power allies it needs on its side. With the Western front divided and the United States no longer actively defending - and in some cases actively battling - the postwar rules-based system of managing the global order, China will find plenty of inroads among middle powers to blunt the U.S. offensive. Moreover, the technology-driven form of digital authoritarianism that China is harnessing to manage affairs at home and export abroad will offer a compelling alternative to powers with autocratic leanings that have grown wary of the liberal political conditions that traditionally come with partnering with the West.

U.S. and China, Ready to Rumble Into 2019

The U.S.-China competition will escalate on practically all fronts in 2019. Not only will China face heightened economic pressure from tariffs and regulatory blocks against Chinese firms, but the United States will also use sanctions to tighten the screws on Beijing over potential issues including cyberattacks and human rights. (Beijing's treatment of the Uighurs and other minority groups, for example, will present a prime target for U.S. sanctions policy.) On the security front, the United States will more assertively challenge China directly in the South China Sea and over Taiwan, possibly leading to more standoffs and close calls between U.S. and Chinese forces in maritime hot spots. U.S. economic efforts to directly counter China's Belt and Road Initiative, in contrast, will face much greater limitations, as Beijing leverages joint economic access and partnership deals with powers big and small to dilute U.S. alliances.

On trade, temporary truces between Washington and Beijing will be possible as the two sides negotiate some economic reprieve, but the key word is "temporary": The gulf between U.S. demands for deep structural reform in China's economy and the reality of what Beijing is willing to offer without compromising its critical industrial technology strategy and stability at home is simply too wide to allow for a more comprehensive and enduring deal to emerge between them. The United States has already imposed tariffs on roughly $250 billion in Chinese imports. Frustrated by the limited concessions it will be able to extract from Beijing, the White House can still blast China with another round of tariffs targeting a remaining $267 billion in imports.

U.S. economic pressure against China will also extend well beyond tariffs. U.S. tech firms will face more regulatory oversight as the United States tries to restrict Chinese access to dual-use technologies and scrutinizes the U.S.-China supply chain for national security vulnerabilities. Potential export controls on "dual-use" targets, from high-performance chips to general artificial intelligence research, will be highly disruptive to many corporations. The United States has already been erecting barriers to Chinese investment and research in strategic sectors, but it will also be heavily lobbying other countries - particularly Japan, Canada, European nations, Australia, New Zealand, South Korea and Taiwan - to downgrade their ties with major Chinese tech companies, like Huawei and ZTE, that will be branded as a critical national security risk to their countries.

The next two years will bring a game-changing level of speed and connectivity to underpin transformative technologies, like the "internet of things," virtual and augmented reality, artificial intelligence processing, autonomous vehicles, and telemedicine - which are already areas of intense U.S.-Chinese competition. And since Huawei and ZTE are two among a small handful of technology companies that have developed the technological infrastructure and standards around 5G, the U.S. government will do whatever it can to prevent its biggest strategic competitor from embedding itself deep inside the economic nervous systems of itself and its allies. That growing imperative will naturally add fuel to an already building fire between the state and the corporation in several advanced economies as multinational tech firms with deeply layered supply chains try to resist a rise in regulatory handicaps to business models that rely on open trade and cross-border data flows.

Intensifying great power competition in cyberspace will only aggravate state-corporate friction overpolicy. As the biggest target of cyberattacks, the United States is moving down a more offensive path, with China and Russia squarely in its sights. (The lead-up to the 2020 U.S. presidential race will draw additional attention to the cyberthreat posed by China, in particular.) A growing trend can be seen in Western countries where governments will rely on heavy fines and the buildup of consumer lawsuits to hold corporations accountable for large-scale data breaches. Calls among major powers to develop global norms for cyberspace will grow more urgent, but consensus and enforcement for any such agenda will remain elusive given widely divergent positions among the United States, Europe, Russia and China over the priorities and methods needed to govern cyberspace.

The Global Headwinds of U.S. Trade Policy

Outside of the tight U.S. economic focus on China, the looming threat of U.S. auto tariffs and a showdown between the United States and other major powers at the World Trade Organization (WTO) will reverberate throughout the global economy. The White House's economic policy, while prone to the machinations of rival ideological camps, remains largely driven by an interest in reducing trade deficits through bilateral negotiations. The U.S. administration is also not afraid to use heavy-hitting tactics as leverage. Even as the White House threatens tariffs on auto imports - a major driver of the U.S. trade deficit - in the name of national security, it will not settle on trade deals that fail to include significant concessions in markets like agriculture, where U.S. exporters are more competitive. The United States will also use bilateral trade agreements to discourage U.S. trading partners from signing free trade agreements with China (Canada's pursuit of such a deal will test the credibility of that tactic).

The finalization of the United States-Mexico-Canada Agreement (USMCA), which already includes greater protections for U.S. auto manufacturers and quota provisions, will largely insulate Mexico and Canada from the threat of U.S. auto tariffs. A diminished economic threat to North American trade will reduce urgency from the U.S. Congress to impose legislative checks on White House trade policy.

Japan runs a good chance of mitigating the threat of U.S. auto tariffs through a limited trade deal with the United States given the agricultural concessions it made in its free trade agreement with Canada and in the Comprehensive and Progressive Trans-Pacific Partnership in 2018. South Korea will also likely agree to quotas to fend off auto tariffs. In contrast, the prospects for a comprehensive U.S.-EU trade resolution in 2019 look outright dismal. Germany has the most to lose from a trade battle with the United States over autos but will not be able to force the European Union as a bloc, and France in particular, into making concessions on agriculture to satisfy the White House. Depending on which administration trade hawks and pragmatists have the president's ear at the time, the White House will likely choose between reneging on a truce, imposing auto tariffs anyway and doubling down on Europe in hopes that it will eventually drive Brussels to a deal; or tempering its ambitions and focusing instead on ongoing negotiations over regulations and standards that fall short of formal free trade talks.
The World Trade Organization is currently arbitrating a number of national security-related cases, including one regarding the U.S. justification for imposing tariffs on steel and aluminum in early 2018. The White House will make an example of these cases to argue that the multinational body has no right to arbitrate matters of national security in the first case. Should the White

House win this argument, it could make it easier for other states to erect protectionist barriers in the name of national security.

Should the White House lose, the decision will only add to its building crusade against the WTO's credibility. To be clear, Congress has the authority toprevent an outright U.S. withdrawal from the WTO, which would upend the global economy. But the United States does have the means to paralyze the organization's dispute resolution process. Because of the United States' continued block on new appointments, by December 2019 the appellate body risks falling below the minimum three members required to rule on cases.

This form of protest by the United States, which preceded the presidency of Donald Trump, is designed to spur support from the European Union, Japan, Canada and other major trading partners for WTO reforms that would speed its rulings and clarify jurisdictional boundaries as the United States tries to prevent the body from stepping into sovereign trade territory. It's also intended to get the WTO to hold China and other developing nations more accountable for trade abuses including state subsidization and intellectual property theft. Relatedly, a WTO panel on a case brought against the European Union by China, which is seeking recognition as a market economy, will wrap up in 2019. If the European Union loses this case, it will add momentum to the U.S. argument that the WTO is unfit to regulate China on trade.

But U.S. demands for reform will be a lot to ask from the slow-moving and fractious multinational organization that's ruled by consensus. There's a real threat that the United States will grind the dispute settlement process to a halt, a scenario that would drive economic powers back into bilateral negotiations to sort out their differences as they did under the General Agreement on Tariffs and Trade, the pre-WTO system that governed global trade in a geopolitical climate oozing with uncertainty.

The Global Energy Outlook

A collapse in oil markets is unlikely in the first half of 2019 as sanctions diminish Iranian oil exports and pipeline constraints limit U.S. production growth. But that supply picture will shift significantly in the second half of the year when U.S. pipeline capacity expands. Saudi Arabia and Russia will remain highly reactive to any signs of oversupply that could send oil prices into a tailspin. Iran still will be able to export about 1 million barrels per day for around the next five months under limited sanctions waivers, and there's potential for Libya and Iraq to sort out internal political differences long enough to notably affect the market. At the same time, the potential of an internal meltdown decreasing production in Venezuela and discord in the Persian Gulf impeding tanker traffic in the Strait of Hormuz will be closely watched for more acute supply disruptions.

The United States, meanwhile, is preparing to shake up global liquefied natural gas (LNG) markets. By the end of 2019, the United States will join Qatar and Australia as one of the world's largest LNG exporters. The broader geopolitical effects will take several years to play out as a more competitive LNG market drives short-term contracts and gas-on-gas pricing, particularly in Asian markets with rapidly growing demand. U.S. trading partners under siege by the White House will try to leverage increased purchases of U.S. LNG to temper trade frictions, while Eastern European powers will use U.S. LNG purchases to better insulate themselves from Russia.

Slow and Steady as She Goes for the Global Economy

When we step back and look at all the factors likely to drive instability in the global economy in 2019, there is cause for concern, but not necessarily panic. Growing levels of corporate and sovereign debt, slow growth in workers' incomes, demographic stresses and building political constraints to structural reform make a troubling backdrop to the longer-term economic outlook. Nonetheless, the biggest threat to the U.S. economy from White House trade policy - the collapse of NAFTA - has been mitigated. The potential for more U.S. tariffs on Chinese imports and on U.S. auto imports from outside North America will create localized, sectoral pains but will have a limited impact on the U.S. economy and global economy at large. The White House will point to stable U.S. economic growth to justify an aggressive approach on trade, though the stimulant effects of U.S. tax cuts and fiscal spending will wane in the next few months and keep U.S. monetary tightening on a relatively moderate course.

As long as U.S. economic growth remains relatively stable, U.S. importers struggle to find cheap alternatives to Chinese products and American consumers continue to tolerate slightly higher prices on Chinese goods, China will be able to weather the economic blows from its enduring competition with the United States while relying more heavily on fiscal adjustments at home to maintain stability.

In Europe, a no-deal Brexit scenario can still be averted, even if narrowly. Even as the Italian government and European Commission will avoid escalating their confrontation into a systemic crisis, the fragility of Italy's banking sector will remain the biggest risk to eurozone stability. The European Central Bank will implement its shift toward monetary tightening slowly and cautiously as the Italian risk hangs over the eurozone and as economic expansion in Europe slows overall.

An International Monetary Fund (IMF) bailout agreement is preventing the Argentine economy from collapse but is also raising the potential for a more fiscally lax Peronista comeback in October elections. Turkey will have a bit more political room to pursue light reforms in 2019 while trying to prevent the more controversial aspects of its foreign policy from aggravating economic stability at home. Pakistan is cobbling together IMF and foreign assistance to avoid a balance-of-payments crisis, while the Indian government will prepare for spring elections by avoiding big trade concessions and pressuring the central bank to keep monetary policy loose. Mexico's new government was spared a NAFTA nightmare but will drive up political risk for investors with an aggressive populist agenda. And while smaller Asia-Pacific economies, including Thailand, Vietnam, Malaysia and Taiwan, will be caught in the crosshairs of the U.S.-China trade battle, they are also among the first places that U.S.-based companies in China looking to diversify supply chains will consider as the competition between the economic giants endures

COMMODITIES OUTLOOK

SUGAR:

SUGAR PRICES

Year	Domestic (Retail Price Rs/kg)	Domestic ($/kg)	Global ($/kg)
2012-13	53.26	0.55	0.42
2013-14	53.84	0.52	0.38
2014-15	57.14	0.56	0.33
2015-16	62.62	0.60	0.32
2016-17	66.43	0.64	0.42
2017-18	54.88	0.52	0.32
2018-19 (Forecast)	54.82	0.40	0.26

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

SUGAR PRODUCTION

Year	Domestic (Million Tons)	Global (Million Tons)
2012-13	5.1	177.6
2013-14	5.6	175.9
2014-15	5.2	177.5
2015-16	5.3	164.7
2016-17	6.1	171.5
2017-18	6.5	185.0
2018-19 (Forecast)	6.5	176.8

Source: *United States Department of Agriculture/Foreign Agriculture Service (USDA/FAS)*

Despite a generous export subsidy aimed at moving 2017/18 sugar off the domestic market, stocks continue to rise as only 1 million metric tons of sugar that are expected to be exported, well below the 2 million metric tons that were eligible for a subsidy. 2018/19 stocks are projected at 4.7 million metric tons, equivalent to nearly a full year of domestic consumption. Pakistan's marketing year (MY) 2018/19 sugar production is forecast at 6.5 million tons, down 12 percent from the revised 2017/18 estimate as delays in cane payments and reduced expectations surrounding support pricing are prompting some farmer to switch to other crops such as cotton.

Refined sugar production is forecast at 6.5 million metric tons (MMT) for marketing year 2018/19 (MY Oct/Sept), down 12 percent from the current year's estimate of 7.4 million metric tons due to a projected 10 percent decrease in area. During 2017/18, record sugar exports of 1.8 MMT are estimated with a government supported export subsidy of $97 per metric ton in order to reduce sugar stocks. Consumption will continue to grow modestly in MY 2018/19 and is projected at 5.5 MMT, 4 percent higher than last year. Record sugar production in 2017/18 drove stocks to a record 3.1 MMT despite exports of 1.8 MMT.

WHEAT

WHEAT PRICES

Year	Domestic (Retail Price Rs/kg)	Domestic ($/kg)	Global ($/kg)
2012-13	30.63	0.32	0.34
2013-14	37.04	0.36	0.31
2014-15	34.57	0.34	0.24
2015-16	33.95	0.33	0.17
2016-17	34.16	0.33	0.14
2017-18	32.82	0.31	0.18
2018-19 (Forecast)	34.42	0.25	0.22

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

WHEAT PRODUCTION

Year	Domestic (Million Tons)	Global (Million Tons)
2012-13	23.3	658.5
2013-14	24.0	716.1
2014-15	25.0	725.0
2015-16	25.1	735.3
2016-17	25.6	750.4
2017-18	26.5	757.0
2018-19 (Forecast)	25.6	733.5

Source: *State Bank of Pakistan (SBP); United States Department of Agriculture (USDA/FAS)*

Global production of wheat is projected to be 4 percent lower than last season's record of 759 mmt, according to the USDA. Yields have been adversely affected by heat waves in key producing countries of Eastern Europe and Central Asia. Global consumption of wheat is expected to grow by less than 1 percent from last season, pushing the stocks-to-use ratio (an approximate measure of supply relative to demand) down by 2 percentage points, still the second highest level of the past two decades.

Pakistan's 2018/19 wheat production is estimated at 26.3 million metric tons (MMT), 800,000 tons higher than current USDA estimate. Federal and provincial governments procured 5.9 MMT, which, while slightly below target, leaves the government with 10.6 MMT of wheat stocks at the start of the marketing year, one of the highest stock levels ever. Continuing devaluation of Pakistani rupee against dollar is making Pakistani rice more competitive in the world markets. Pakistan has so far exported 3 MMT of rice during the current marketing year and is now expected to export a record 4.3 MMT during 2017/18.

The Government of Pakistan (GOP) granted approval for the export of an additional 500,000 tons of wheat with a subsidy of $105 per ton. Consequently, Pakistan's MY 2018/19 wheat export forecast is revised upward to 1.7 MMT. Pakistan's MY 2018/19 wheat production is adjusted downwards to 25.1 MMT, in accordance with the latest GOP data. Based on preliminary official data, Pakistan has exported 4.0 MMT of rice during MY17/18 as compared to 3.6 MMT during the preceding marketing year.

RICE

RICE PRICES

Year	Domestic (Retail Price Rs/kg)	Domestic ($/kg)	Global ($/kg)
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	49.00	0.49	0.39
2018-19 (Forecast)	54.5	0.39	0.40

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

RICE PRODUCTION

Year	Domestic (Million Tons)	Global (Million Tons)
2012-13	5.5	473.8
2013-14	6.8	478.7
2014-15	7.0	479.4
2015-16	6.8	473.0
2016-17	6.8	487.1
2017-18	7.4	484.7
2018-19 (Forecast)	7.1	491.1

Source: *State Bank of Pakistan (SBP); United States Department of Agriculture/Foreign Agriculture Service (USDA/FAS)*

GlobalRice production is projected to decline marginally in 2018-19 to 488 mmt in line with earlier assessments. Growing conditions have been mixed: delays in Vietnam's harvest due to late plantings and reduced yields in Thailand due to heavy rains have been offset by favorable conditions in China, India, and Indonesia. Global consumption of rice is expected to increase marginally, leaving the stocks-to-use ratio largely unchanged at 30 percent.

Pakistan has exported rice worth around 2 billion U.S. dollars during the last fiscal year (FY), June 2017-July 2018. country's rice export hit the 2-billion-U.S.-dollar mark for the first time since the FY2014-15 as it achieved the target of 4 million tonnes of the crop yield this year. During the last fiscal year, exporters not only fetched huge orders from a number of countries, including even the rice-exporting Indonesia, but also managed to sell rice at a higher value per tonne, taking advantage of stable market prices and focusing on exports of branded rice in consumer packaging.

Average per-tonne export price of rice in the last fiscal year also rose to around 1,040 U.S. dollars, from below 950 U.S. dollars in fiscal year 2016-17. Rise in international prices of rice coupled with a higher demand of Pakistani rice and local rice exporters investment on processing and packaging of rice also contributed to the achievement.

COTTON

COTTON PRICES

Year	Domestic (Rs.per 37.32 kg)	Domestic ($/kg)	Global ($/kg)
2012-13	6,242	1.73	1.92
2013-14	6,864	1.79	2.02
2014-15	5,371	1.42	1.58
2015-16	5,319	1.37	1.54
2016-17	6,566	1.68	1.82
2017-18	6,300	1.59	1.79
2018-19 (Forecast)	6,930	1.33	1.77

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

COTTON PRODUCTION

Year	Domestic (Million bales of 375 lbs each)	Domestic (Million bales of 480 lbs each)	Global (Million bales of 480 lbs each)
2012-13	13.0	9.3	123.9
2013-14	12.8	9.5	120.4
2014-15	14.0	10.6	118.9
2015-16	9.9	7.00	96.10
2016-17	10.7	7.70	106.60
2017-18	11.5	8.20	120.00
2018-19 (Forecast)	9.2	6.6	115.8

Source: *State Bank of Pakistan (SBP); Foreign Agricultural Service (FAS)/United States Department of Agriculture (USDA)*

Cotton prices declined marginally in the third quarter of 2018 but are still 15 percent higher than a year ago (Figure 10). Although global cotton production outpaced consumption by a small margin in 2017-18, production next season is projected to decline by 4 percent, creating room for the unwinding of China's stocks. Cotton prices are expected to remain nearly flat in 2019, following a projected gain of 11 percent in 2018.

Based on current market arrivals, Pakistan's 2018/19 cotton production is estimated at 7.8 million 480 lb bales, down 8 percent from the previous estimate and 5 percent from the last year's production level mainly due to area reductions. Uncertain conditions in domestic and international markets, coupled with pest infestations, also affected cotton production. The shortfall in domestic supplies will be bridged through imports, with 2018/19 imports forecast at 3 million 480 lb bales.

CRUDE OIL

CRUDE OIL PRICES

Year	Global Prices ($/bbl)
2012-13	102.3
2013-14	105.5
2014-15	71.8
2015-16	42.1
2016-17	49.0
2017-18	54.4
2018-19 (Forecast)	55.40

Source: *World Bank (WB) Commodities Price Data*

Crude oil prices averaged $75/bbl in the third quarter of 2018, an increase of just over 2 percent on the previous quarter and 46 percent on the previous year, although prices were volatile over the quarter. Trade tensions and rising production in the United States weighed on crude oil prices in July and August, with the price of Brent crude oil falling to $70/bbl in August. Prices have since fluctuated as markets weigh the impact of U.S. sanctions on Iranian oil exports, with prices peaking at $86/bbl in early October, their highest level since October 2014. The price of West Texas Intermediate (WTI), rose from $65/ bbl to $75/bbl over the same period. Oil prices have also been supported by ongoing production losses in Venezuela and concerns about the level of spare capacity in OPEC countries. However, recent downgrades to global growth and increased supply from other OPEC members, notably Saudi Arabia, have since weighed on prices.

Global oil consumption in 2019 is expected to increase at a similar pace to 2018, driven by countries in Asia, primarily China and India. However, weaker global growth and higher oil prices may weigh on demand in 2019, particularly in emerging markets. While oil prices have risen 21 percent this year, the depreciation of many emerging market currencies over this period means that domestic prices in some countries, notably Turkey and Argentina, have risen much faster. Indeed, the IEA and OPEC both revised down their expectations for oil consumption in 2019 in their October reports, by 110 kb/d and 50kb/d respectively, citing weaker global growth and higher prices.

On production, forecasters including the EIA and IEA expect further rapid growth in 2019. While higher oil prices will support increased global oil production, the forecasts rely heavily on continued robust growth in production in the United States. However, pipeline limitations and other capacity constraints in the United States may limit output by more than expected, especially in the first half of 2019.

There is considerable uncertainty about the total loss of Iranian production when sanctions come into effect in November, with a potential reduction of between 1mb/d to 1.5 mb/d. The impact is expected to be greater than in 2012 as the United States has been more stringent in its use of sanctions and has not yet granted any waivers to countries who import oil from Iran, although the U.S. administration has suggested this may change. While other countries who previously supported the sanctions, including the European Union, do not support the reintroduction of sanctions, their ability to circumvent them is limited. China, the European Union, and Russia have investigated the use of an alternative non-dollar payments system. However, it is not clear how effective this could be as the United States can still sanction companies dealing with Iran-it may only benefit companies who do not access the U.S. financial system.

GOLD

GOLD PRICES

Year	Global Prices ($/toz)
2012-13	1605.0
2013-14	1295.4
2014-15	1223.0
2015-16	1167.9
2016-17	1258.1
2017-18	1276.6
2018-19 (Forecast)	1532.0

Source: *World Bank (WB) Commodities Price Data*

The World Bank's Precious Metals Price Index declined 8 percent in the third quarter (q/q), reaching its lowest level since 2016 Q1. The decline was sharpest in platinum (down 10 percent) followed by silver and gold. Contraction of physical demand of gold from China and India, weaker investment demand, an appreciation of the U.S. dollar, and tighter monetary policy in several advanced economies, have all contributed to the weakness. Precious metals prices are projected to decline by almost 1 percent in 2019 in addition to the 2 percent loss in 2018 owing to continued tightening of monetary policy and a further weakening of demand. Upside risks to the forecast include the possibility of a weaker-than-expected dollar or a slower pace of monetary policy tightening in the U.S. Conversely, downside risks stem mainly from further strengthening of the U.S. dollar and weakening of physical demand.

Gold prices, which have been declining since April, fell 7 percent in 2018 Q3 (q/q) and are 5 percent lower compared to the same period in 2017. Gold demand, which experienced the largest decline since 2009 over the first half of 2018, has been weak both for use as a production input and for investment purposes (including gold-backed exchange-traded funds). The appreciation of the U.S. dollar and tightening monetary policy in some advanced economies has reduced the attractiveness of gold as an investment asset. The appreciation of the U.S. dollar made gold more expensive in domestic currency terms, especially in China, India, Iran, and Turkey (the world's most important consumers). Supply, on the other hand, increased 4 percent in the first six months of 2018, supported by stronger-than expected mine production in several countries, including Canada and Indonesia, as well as recycling in India, Iran, and Turkey. Strengthening supply and weak demand are expected to push gold prices marginally lower in 2019. The possibility of tighter-than-expected U.S. monetary policy, along with a further strengthening of the U.S. dollar, represent key downside risks to the forecast, while increased demand by China and India could boost gold prices.

PALM OIL

PALM OIL PRICES

Year	Global Prices ($/mt)
2012-13	876.3
2013-14	880.8
2014-15	708.6
2015-16	619.5
2016-17	733.8
2017-18	693.9
2018-19 (Forecast)	593.1

Source: *World Bank (WB) Commodities Price Data*

The World Bank's Oils and Meals Price Index fell almost 11 percent in the third quarter of 2018 (q/q) and stands 3 percent lower than the same quarter of last year. The weakness reflects favorable crop conditions across-the-board and, in the case of soybeans, trade policies. Prices for soybean meal and coconut oil each plunged 13 percent in the quarter, followed by palm oil (down 11 percent) and soybean oil (down 8 percent).

The production outlook for the current season (October 2018-September 2019) looks promising in view of continuing favorable growing conditions. Global output of the 17 major edible oils (including palm, soybean, and rapeseed) is forecast to increase 3 percent in the 2018-19 season, and a cumulative 14 percent above the 2015-16 season, an El Niño year. About half of the anticipated production gains are expected to come from palm oil-the fastest growing edible oil-which is produced primarily in Indonesia and Malaysia, both of which are experiencing favorable weather conditions. Most of the remaining growth is projected to come from soybean oil, produced primarily in Argentina, Brazil, and the United States.

Production of oilseeds in 2018-19 is also expected to be healthy, with global supplies of the ten major oilseeds projected to reach 590 mmt, up from last season's 564 mmt. Almost all of this growth is expected from soybeans, mostly from Argentina, and less so in Brazil and the United States.

NBP National Bank of Pakistan

NBP Performance at a Glance

(Rs Bn)

Items	2011	2012	2013	2014	2015	2016	2017
Total Assets	1149.6	1309.5	1364.9	1543.0	1706.3	1975.7	2369.8
Deposits	927.4	1036.7	1101.1	1233.5	1431.0	1657.3	1727.1
Advances	525.0	654.7	615.4	626.7	578.1	667.4	739.7
Investments	319.5	343.5	397.9	561.7	829.2	897.1	1295.7
Equity	110.5	104.7	100.8	110.3	116.0	120.0	125.7
Pre-Tax Profit	26.0	21.4	7.1	22.0	33.2	37.1	35.6
Profit After-Tax	17.6	14.9	5.5	15.0	19.2	22.8	23
Earnings per share (Rs.)	8.27	7.02	2.59	7.06	9.03	10.69	10.82
Number of Branches*	1300	1306	1365	1377	1424	1469	1525
Number of Employees	16924	16921	16619	16190	15548	15793	15616

**Includes Foreign Branches*

NBP Products

NBP Saiban*

- At present, finance available for Home Purchase and Home Construction.
- Period of repayment ranges between 3-20 years.
- Loans available up to a maximum of 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 or Rs.2,000,000/- whichever is lower (certain conditions apply).
- Minimum documentation.
- Repayable in instalments of up to 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 tube wells, 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.

**** Terms & Conditions apply***

ECONOMIC BULLETIN

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