PRIME POLICY REPORT

TAX AMNESTY SCHEMES: HELPFUL OR COUNTERPRODUCTIVE?

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PPR

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NOTE FROM THE EDITOR

The Pakistan International Airlines received another bailout package last month – something not seemingly promising for the privatization process where 31 state owned enterprises are on the priority list. The ECC seems to be meddling in the market yet again while the only positive revenue being gained by the FBR is from customs, signifying that we only believe in export led growth instead of focusing on domestic competitiveness.

Given the recent amnesty schemes announced by the government e.g. on the real estate sector, this month we decided to delve deeper into whether tax amnesty schemes have been able to increase revenue for the government, or have been counter-productive overall. The market analysis gives an overview of the past tax amnesty schemes and their relevant issues and shares some ideas for the future.

The macroeconomic picture of the country again shows improved growth prospects, however, the current trends seem worrisome. The industrial growth is declining and the FDI from China has also decreased. Moreover, Pakistan does not seem to be doing so well in some of the key factors included in the "Doing Business Index Ranking" as the rankings for "Starting a Business", "Getting Electricity", "Protecting Minority Investors", "Paying Taxes" and "Enforcing Taxes" have all declined.

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Business Climate Review

by Ali Salman

Business Climate Review sums up important developments spanning entire federal government economic governance over last month. It discusses possible consequences of decisions, policies and regulations announced by the federal cabinet, regulators and Federal Board of Revenue for business climate of Pakistan. The analysis is based on this idea that economic freedom is good for business climate and any law that increases arbitrari- ness, red-tape and size of government is counterproductive. Also, we believe that government should not choose winners and losers by legalizing exemptions or favors.

Whither away Privatisation!

According to a news item (Dawn, 28th January 2017), federal government has authorized another bail-out package for the ailing national airlines. Pakistan's Privatisation Commission, largely mandated to save public exchequer money from wasteful spending on inefficient and loss-making SOEs, has not privatized any such entity in last three and a half years- though the priority list has 31 companies. The Commission has not plugged even a single rupee loss that has been burdening public finance.

It is not to suggest that the Privatisation Commission has not earned any revenue from its transactions in these three and a half years. In fact, it has realized Rs. 172.9 billion in four capital market transactions and one strategic sale. These capital market transactions included: UBL (38.2 billion), PPL (15.4 billion), ABL (14.4 billion) and HBL (102.4 billion), whereas the strategic sale of National Power Construction Company fetched Rs. 2.5 billion.

There is one common feature in all five transactions- none of these companies were loss making!

ECC meddling in the market, again

The ECC has approved a proposal of the Ministry of National Food Security and Research (NFSR) to increase total exportable wheat quantities to 1.3m tonnes from 900,000 tonnes. According to a news item (Dawn, 20th January 2017), it also approved extension of time period for export of surplus wheat and its products till March 15. This amounts to a direct intervention in the market and will have negative consequences. It may be mentioned that the crops where government presence is heavy- such as wheat and sugar- there is always a crisis- whether in the form of short supply of sugar or an excess production of wheat. Whereas in crops, where the government presence is minimal, such as rice and cotton, any wide-scale crisis is not observed. The result is straight forward: government should exit from all markets including the food market. Opening up of borders is best national food security strategy.

FBR Trailing Behind

The mid-term figures on tax collection do not appear good. The FBR is trailing behind by Rs. 127 billion- mostly on account of zero-rating on exports, drop in fertilizer taxes and petroleum products. According to a news item (Dawn, 4th January 2017), the only increase observed is the customs, a healthy increase of 19%. This means that the government is fixated with curbing imports and subsidizing exports. This is driven by the old development school which linked economic growth with the level of exports. However increasingly the growth in modern economies is coming from domestic economy and not necessarily from international trade. A related development is a fall in remittance income, which has also created extra pressure on the Balance of Payments account. Tax compliance in Pakistan is in a constant decline. The tax compliance level fell to 21.32pc in the tax year 2016 from 26.17pc in tax year 2012, reflecting a poor tax culture in Pakistan. The tax-compliance in the tax year 2010 was 65pc.

The government must focus on its efforts on reviving domestic commerce instead of relying on excessive taxation for funding its projects. The number of new companies being registered under SECP is encouraging signally an appetite in the entrepreneurs and investors to start business. One may want to learn a lesson from India: where start-ups of all kinds have been exempted from all kind of taxes or even inquiry from tax authorities during first two years of their existence. The government should let the enterprises grow first, and tax later.

MARKET ANALYSIS

Tax Amnesty Schemes:
Helpful or Counterproductive?

Introduction

Taxation is a key factor affecting the economic climate of any country. Taxation revenue is used for economic development, typically by financing public goods. Business friendly tax policies have the power to attract new investors and encourage the development of industries and infrastructure. A lax taxation policy, however, can have the opposite effect of plunging governments further into debt, halting development and encouraging the growth of the black market.

When faced with declining tax revenues, governments often resort to tax amnesties in order to increase revenue and broaden the tax base. A tax amnesty can be defined as an offer made by the government to a group of taxpayers to pay a specific amount, in exchange for which the taxpayers' previous tax liabilities are forgiven and no legal action is taken against them.[1] These can be general in nature, covering all tax payers, or may be applicable to certain groups only.

Pakistan often brings tax amnesties into play, given its long-standing taxation issues. With a narrow tax base, complicated taxation procedures, and impractically high tax rates, our tax revenue as a fraction of national income lags behind those of other emerging economies. Pakistan's tax-to-GDP ratio has increased from about 10% to about 12.4% in 2016 over the past three years, but most of its meager tax revenue ends up financing interest payments on government debt.[2] The tax system makes it difficult even for citizens willing to comply- according to a report by World Bank and PwC, Pakistan ranks at a dismal 156 out of 190 countries based on ease of paying taxes.[3] Tax professionals in Pakistan spend 312 hours a year complying with taxes – 100 hours more than the regional average.[4] Income tax filers form a dismal 0.5% of the Pakistani population, compared to 5% in India.[5]

Structure of the analysis

Section 1
A brief history of tax amnesty schemes in Pakistan

Section 2
Analyzing the effectiveness of amnesty schemes

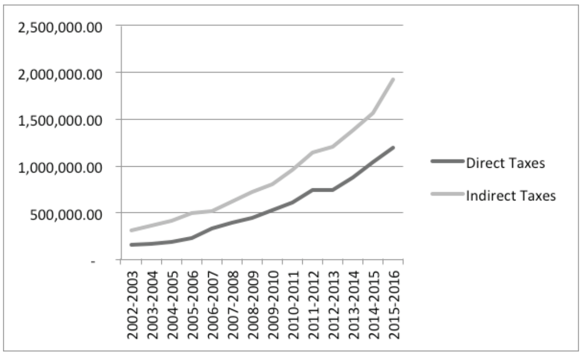
Section 3
Recommendations

[1] Eric Le Borgne and Katherine Baer, Tax Amnesties: Theory, Trends, and Some Alternatives (International Monetary Fund, 2008), 5.
[2] Serhan Cevik, "Unlocking Pakistan's Revenue Potential," IMF Working Papers, August 2016, https://www.imf.org/external/pubs/ft/wp/2016/wp16182.pdf.
[3] World Bank Group and PwC, "Paying Taxes 2017," November 17, 2016, http://www.doingbusiness.org/reports/thematic-reports/paying-taxes.
[4] Ibid.
[5] Mubarak Zeb Khan, "A Flawed System," Dawn, November 14, 2016, http://www.dawn.com/news/1296150.

Pakistani citizens are also hampered by indirect taxes, as illustrated by Figure 1. Indirect taxes are not only higher, but are also biased against the lower and middle classes, while those with a higher income may escape without paying taxes commensurate with their income.[6] Multiple sectors are also subject to double taxation – banking and insurance, for example, are charged by both the FBR and provincial authorities through sales tax.[7]

Issues in tax administration also abound. The vague, technical language of tax laws makes it difficult for SMEs to understand the process. Furthermore, frequent changes to taxes occur – Pakistan's income tax law underwent 16 changes in 2014 alone.[8] Such frequent changes not only make compliance difficult and time-consuming, but also leave tax laws open to abuse as tracking so many changes is also difficult for authorities.

Figure 1: Direct and Indirect Taxes



Source: State Bank of Pakistan

Given this environment, tax amnesties appear to be an attractive option, one that ought to add a large number of people to the tax net as well as boost revenue, in relatively little time. This analysis will begin by providing an overview of tax amnesty schemes that have been offered in Pakistan over the years. This is followed by a discussion of the effectiveness of such schemes – they are largely ineffective, failing to add to the tax base and serving as yet another inequitable tax scheme.. The analysis will conclude with some recommendations to improve the taxation system of Pakistan.

1: A brief history of tax amnesty schemes in Pakistan

Given Pakistan's age-old taxation crisis, the government has often sought to recover taxes through tax amnesty schemes.

The practice began in Pakistan in 1958, during the Ayub Khan regime. This amnesty scheme was the only one to result in reasonable success, contributing 7% to the GDP and bringing more than 70,000 people into the tax net.[9]

However, subsequent schemes did not bear similar fruit. The next scheme was introduced in 1969 by Yahya Khan, contributing only 1.52% to the GDP. Amnesty schemes were also introduced by Zulfiqar Ali Bhutto and Zia-ul-Haq in 1976 and 1986 respectively, but resulted in a GDP contribution of only about 2.2% each.[10]

In relatively recent times, the tax amnesty of 1997, introduced by the PML-N government, generated Rs.141 million only. The amnesty scheme introduced in 2008 fared somewhat better, generating Rs.2.8 billion,[11] albeit a meager fraction of the GDP of USD 170 billion.[12]

Apart from general amnesty schemes,

6 Mubarak Zeb Khan, "Pakistan Must Reduce Indirect Taxes," Dawn, July 4, 2015, http://www.dawn.com/news/1192195.
7 Anna Reva, Toward a More Business Friendly Tax Regime (Washington DC: World Bank, 2015), 17-18.
8 Ibid.
9 Umar Cheema, "Traders' Tax Amnesty: Facts and Future Challenges," The News, January 5, 2016, https://www.thenews.com.pk/print/86542-Traders-tax-amnesty-Facts-and-future-challenges.
10 Ibid.
11 Ibid.

voluntary tax compliance schemes for specific sectors of the economy have been introduced during different governments. These schemes provide exemptions and concessions to certain sectors and taxpayers only.

Voluntary tax compliance schemes seem to be a particular favorite of the PML-N government. Three amnesty schemes of this kind have been introduced by the current government. A brief overview of these would be instructive.

The first scheme in the current government was announced by Prime Minister Nawaz Sharif in November 2013 to industrialists. The amnesty was aimed at facilitating investment and, as is the case with every scheme, broadening the tax base. Anybody who chose to invest in "Greenfield industrial undertakings", i.e. new industrial ventures, would have to offer no explanation as to the source of the capital. This included investment in livestock development, low cost housing, construction, power plants, and mining in Thar, Balochistan and Khyber Pakhtunkhwa. It would, however, exclude non-developmental and saturated industries such as arms, cigarettes, sugar, and textiles, to name a few.[13] The Federal Board of Revenue does not have data on the outcome of this scheme.

Another tax amnesty scheme, aimed specifically at traders, was introduced in the beginning of 2016. The scheme was proposed with the lofty goal of documenting informal traders, requiring traders to declare their capital and make incremental payments for four years. Unfortunately, Finance Minister Ishaq Dar's vow to bring at least 1 million traders into the tax net remained unfulfilled, with only about 3000 traders availing the scheme in spite of multiple extensions. The scheme was eventually rolled back.[14]

Recently, toward the end of 2016, a tax amnesty scheme for the real estate sector was announced. As per the scheme, property owners have to pay a 3% tax for two years, calculated on the difference between the valuation of said property by the FBR and the District Commissioner.[15] The results of this scheme are yet to be seen.

Unsurprisingly, it was also during the PML-N government in 1992 that a permanent tax amnesty of sorts was introduced in the form of the Protection of Economic Reforms Act. The Act, introduced to "create a liberal environment for savings and investments", allows any citizen to move foreign exchange between Pakistan and elsewhere without declaring anything or being questioned. Under this act, any foreign currency accounts cannot be questioned with regards to any taxation or source of income.[16] Similarly, section 111(4) of the Income Tax Ordinance 2001 ensures that no questions will be asked of money remitted to Pakistan through regular bank channels.[17] In short, foreign exchange is virtually exempt from taxation in Pakistan.

The above may not be an exhaustive list, but it reveals how the taxation history of Pakistan is rife with amnesties. Though the FBR often fails to provide detailed documentation of the outcome of these schemes, the limited information above reveals the inefficacy of making such offers to taxpayers.

[12] The World Bank, "GDP", Data Bank, accessed 21 February, 2017, http://data.worldbank.org/indicator/NY.GDP.MKTP.CD.

[13] Mubarak Zeb Khan, "Govt Launches Tax Amnesty Scheme," Dawn.com, December 21, 2013, http://www.dawn.com/news/1075475.

[14] Shahbaz Rana, "Only 3205 Traders Pay Tax under Amnesty Scheme," The Express Tribune, March 15, 2016, https://tribune.com.pk/story/1065635/dismal-revenue-base-only-3205-traders-pay-tax-under-amnesty-scheme/.

[15] Mubarak Zeb Khan, "Real Estate Amnesty May Deprive FBR of Billions in Revenue," Dawn, November 29, 2016, http://www.dawn.com/news/1299312.

[16] The Gazette of Pakistan, July 28, 1992: 462-465, http://www.na.gov.pk/uploads/documents/1334289655_675.pdf.

[17] Khurram Baig, "Rewarding dishonesty?: Another tax amnesty scheme, another impending failure," The Express Tribune, October 1, 2012, https://tribune.com.pk/story/444754/rewarding-dishonesty-another-tax-amnesty-scheme-another-impending-failure/.

2: Analyzing the effectiveness of amnesty schemes

Tax amnesties are short-term measures taken by the government in the name of broadening the tax base. The following are some aspects to consider regarding the effectiveness of such measures:

i. Tax amnesties are largely ineffective: At best, tax amnesty schemes appear to have limited effectiveness. A 2008 report on Pakistan's taxation system by the IMF and World Bank attests to this, stating that "the impact of amnesties will be minimal or negative in the long run unless there is change in behavior of previously non-compliant taxpayers." Based on the experience of other countries, amnesties fail to raise revenues beyond the short term, and do not increase tax compliance, according to the report.[18] Such schemes have the effect of neglecting structural weaknesses in favor of quick fixes. They do not do much to encourage voluntary compliance, as potential taxpayers are wary of entering a tax net that is fundamentally flawed, with unpredictable and unfair taxes.

ii. The undocumented economy continues to grow: The government's repeated failure to document the informal economy, coupled with weak enforcement of tax laws, leads to further growth of the undocumented economy. The traders' amnesty offered in 2016, for example, was scrapped after it failed to produce results, strengthening the conviction of black market entities that they can survive undocumented indefinitely. According to some estimates, the black economy makes up more than 60% of the documented economy.[19]

iii. Amnesties do not remedy underlying issues: Amnesties ignore the fact that high taxation rates, a complicated tax administration system, multiple rates, and discriminatory taxation are key reasons why citizens are wary of entering the tax net. A tax amnesty is simply an invitation to become part of a complicated, flawed system. By providing exemptions and relief to specific sectors and taxpayers, tax amnesties only add to the uneven tax policy of Pakistan.

Pakistan's tax system has a history of providing exemptions and multiple tax rates – sales tax, for example, varies between a 17% standard tax and as high as 70% on diesel oil.[20] The corporate tax rate is also one of the highest in the world – 34% compared to a global average of 24%.[21] Tax amnesties only add to this inequitable mix, as they are often offered to specific sectors, especially in the case of those offered by the current government.

This is not to say that tax amnesty schemes are lacking completely. It is entirely possible that the exemption of remittances from taxation may have led to millions from abroad being injected into Pakistan's economy. Other tax amnesty schemes also have the effect of adding a boost, however small, to revenues. Non-taxpayers do enter the tax net through amnesty schemes, a relatively easy path to become a taxpayer. The aforementioned 1958 tax amnesty is an example, in which more than 70,000 people entered the tax net, contributing 7% to the GDP.[22]

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18 Mehtab Haider, "How Present Tax Amnesty is Different from Past," The News, January 6, 2016, https://www.thenews.com.pk/print/86762-How-present-tax-amnesty-is-different-from-past.

19 Khurram Baig, "Rewarding dishonesty?: Another tax amnesty scheme, another impending failure," The Express Tribune, October 1, 2012, https://tribune.com.pk/story/444754/rewarding-dishonesty-another-tax-amnesty-scheme-another-impending-failure/.

20 Huzaima Bukhari and Ikramul Haq, Towards Flat, Low-rate, Broad and Predictable Taxes (Islamabad: PRIME Institute, 2016), 11.

21 Anna Reva, Toward a More Business Friendly Tax Regime (Washington DC: World Bank, 2015), 5. https://www.thenews.com.pk/print/86542-Traders-tax-amnesty-Facts-and-future-challenges.

However, these meager positives too fall flat when examined in detail. Though exemption from any scrutiny may encourage the inflow of remittances, it does not discriminate between legal and illegally earned money. Furthermore, any injection of revenue from tax amnesties is a one-time boost at best, with little to no long-term benefits to the treasury. The goal of bringing more citizens into the tax net cannot be achieved without long-term, systematic reforms to remedy Pakistan's taxation system at its core.

3: Recommendations

Given the proven futility and injustice of tax amnesties, particularly in Pakistan, what is to be done? Over the years, experts have proposed various solutions to the issue of insufficient tax revenues.

i. Overhaul the tax system: Huzaima Bukhari and Ikramul Haq, advocates and tax experts, propose setting up a fair and efficient tax administration in the form of a National Tax Authority (NTA).[23] This will replace the multitude of existing tax collection agencies hampered by inefficiency and corruption.[24] They also suggest a massive restructuring of the tax appellate system to aid in litigation and dispute resolution.[25]

On the other hand, according to Sakib Sherani, former economic advisor to the government, there needs to be a complete overhaul of the existing Federal Board of Revenue. He is of the opinion that the FBR should be made a relatively autonomous body, independent of the political system, administratively, legally, and financially.[26]

For such purposes, Sherani recommends that a commission take charge of assessing the current state of the economy, and devise ways in which to modernize it.[27] It is not enough to simply eke out more revenue out of the existing system, which appears to be fundamentally flawed. He gives the example of the Mirrlees Review, a 2010 study conducted in the UK by an independent think tank, which critiqued the existing tax system of the UK and suggested sweeping reforms.[28]

Discriminatory taxation of industries should also be reduced, allowing the free market to determine the structure of the economy as well as the relative growth of different sectors.

ii. Introduce confidence - building measures: Unfair tax policies have damaged the confidence of citizens in the taxation machinery. In order to reform the tax system, it is necessary to conduct reforms in a sequence that will build confidence in administrative institutions. This would involve the aforementioned restructuring, followed by simplifying the tax code and then making some visible, publicized moves, such as rescinding income tax privileges granted to certain sectors of the economy. This will aid in reforming the image of the tax system as an equitable, fair one, thus facilitating tax compliance.[29] Box 1 illustrates the case of Indonesia, where people's increased trust in the tax system led to them availing a tax amnesty in large numbers. Transparency and simplification are key, such as in the form of flat taxes as suggested by Bukhari and Haq.[30]

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22 Umar Cheema, "Traders' Tax Amnesty: Facts and Future Challenges," The News, January 5, 2016, https://www.thenews.com.pk/print/86542-Traders-tax-amnesty-Facts-and-future-challenges.

23 Huzaima Bukhari and Ikramul Haq, Towards Flat, Low-rate, Broad and Predictable Taxes (Islamabad: PRIME Institute, 2016), 9.

24 Ibid.

25 Ibid.

26 Sakib Sherani, "Political Economy of Taxation," Dawn, January 8, 2016, http://www.dawn.com/news/1231503.

27 Sakib Sherani, "Tax Reform Suggestions," Dawn, January 9, 2015, http://www.dawn.com/news/1155752.

28 Vanessa Houlder, "Mirrlees Calls for Sweeping UK Tax Reforms," Financial Times, November 10, 2010, https://www.ft.com/content/37cbbf60-ecc8-11df-88eb-00144feab49a.

29 Sakib Sherani, "Tax Reform Suggestions," Dawn, January 9, 2015, http://www.dawn.com/news/1155752.

Box 1: In July 2016, Indonesia launched its Tax Amnesty Program, under which more than 392,000 taxpayers participated and USD 291.8 billion were collected – in just the first three months of the program. 95% of the government's target was achieved in just this period. Why was Indonesia's tax amnesty so wildly successful? The answer lies in the widespread tax reforms introduced in 2015:

- The introduction of electronic social security systems, which significantly reduced the number of hours to comply with taxes to 221 hours (compared to Pakistan's 312 hours). Compulsory e-payment for taxes has also been introduced, the effects of which are to be determined.

- The total tax rate reduced from 29.7% to 30.6% because of a new 2% pension contribution, paid by employers. The tax rate is expected to reduce further.

- Tax literacy has improved through nationwide communication campaigns.

- As a result, Indonesia has climbed 40 places in the global ranking of ease of paying taxes, since 2016. This study is instructive for Pakistan, and shows that amnesty schemes can yield drastically better results if the underlying approach to taxes is reformed.

iii. Increased automation: It is about time that the government makes use of the development of information technology to improve the taxation process. By fully or partially automating the process and requiring taxpayers to go through a defined portal, the existence of multiple tax collection agencies will also become redundant. This will also incentivize tax evaders to join the tax net as the elimination or reduction of middlemen and complicated procedures will make the system more transparent.

iv. Use both the carrot and the stick: If the government persists in offering tax amnesties to tax evaders, it must also develop a system to penalize those who fail to pay up even when given sufficient incentive to do so.

According to Khurram Husain, a business and economy journalist, you cannot use only one tool out of the carrot or the stick to raise revenues – the number of tax evaders and untaxed transactions are simply too many to be managed by using just one of these methods, especially given the inefficiency of our existing tax system.[31] Only using incentives, such as in the case of most tax amnesties, gives taxpayers no reason to comply as there is no threat of enforcement. Even in cases where the government does announce penalties for those who do not avail amnesty schemes, said penalties are rarely, if ever, enforced. On the other hand, using only the stick, penalizing tax evaders without rewarding honest taxpayers, is akin to "swatting a herd of bees with a sledgehammer."[32] There is a need to combine both methods in order to persuade taxpayers to comply.

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30 Huzaima Bukhari and Ikramul Haq, Towards Flat, Low-rate, Broad and Predictable Taxes (Islamabad: PRIME Institute, 2016).

31 Khurram Husain, "Who wants a tax amnesty?" Dawn, January 7, 2016, http://www.dawn.com/news/1231249.

32 Ibid.

Conclusion

The tax revenue system of Pakistan is in need of serious reform, as it is one that fails to generate adequate revenue because of its complicated and often discriminatory nature.

Unfortunately, the government often resorts to short-term solutions in the form of tax amnesties. This study gives an overview of major tax amnesties offered throughout the history of Pakistan, sheds some light on the issues associated with such schemes, and suggests possible reforms to better remedy the tax system of Pakistan.

Tax amnesty schemes are largely ineffective unfair. They also encourage tax non-compliance and the growth of illegal activities and the undocumented economy.

Instead of resorting to such schemes, the government should engage in reforming the tax system of Pakistan. It is suggested that authorities overhaul the FBR, build confidence in tax institutions, automate tax systems, and introduce a system that incentivizes citizens to join the tax net.

Tax amnesties, based on their nature, widen tax gaps and do nothing to address structural inefficiencies. There is a need to take pragmatic steps to deal with tax evasion and increase tax revenues, which in turn will fund the construction and reconstruction of public goods and services, resulting in a more prosperous Pakistan.

SNAPSHOT OF KEY ECONOMIC INDICATORS

Outlook of Pakistan's Economy (July-February FY17)

Government of Pakistan has set an ambitious GDP growth rate target of 5.7 percent for the current fiscal year. The forecasts of International Monitory Fund (IMF) and Asian Development Bank (ADB) also appear optimistic, predicting around 5 percent growth in GDP for FY17.

However, there are certain factors which may pose serious challenges in achieving the targeted growth. During the first six months of FY17 (6M-FY17) the exports hovered around the $13 billion mark, reflecting a decline of around four percent as compared to the same period of last fiscal year. As a result, the trade deficit which was $10.6 billion in 6M-FY16 reached $12.5 billion in 6M-FY17.

Despite some positive developments in the internal security and energy crisis- primary factors blamed for sluggish industrial growth- the industrial growth is still not up to the mark. As per the data of Pakistan Bureau of Statistics (PBS), 6.8 percent was the growth rate of Large Scale Manufacturing Industries during 5M-FY14, came down to 4.4 percent in 5M-FY16 and now in 5M-FY17 it has further declined to 3.2 percent.

During the first half of the current fiscal year, foreign direct investment increased by around 10 percent as compared to the same period in the last fiscal year. However, this increase may be difficult to sustain, as investment from China (the major contributor to the FDI) has declined by 54%.

Experts believe that the economy of Pakistan cannot get the desired momentum unless there is an improvement in the overall business climate. In the recently revealed Doing Business Index ranking (DB 2017), Pakistan's rank has declined in “Starting a Business”, “Getting Electricity”, “Protecting Minority Investors”, “Paying Taxes” and “Enforcing Taxes”. Overall, out of 10 indicators Pakistan's ranking has declined in five and improved in only two.

While the forecasts of IMF and ADB are encouraging, the government of Pakistan should focus on structural issues prevailing in the economy to make the economic growth sustainable and inclusive.

Table 1: Economic Snapshot

Particular	Reporting Period	Value
T-Bill		**(%)**
03-M	Dec-16	5.9
06-M	Dec-16	5.9
12-M	Dec-16	5.9
PIB 10-years	Dec-16	8.4
6-M Kibor	Dec-16	6.1
Discount Rate	Dec-16	5.8
Inflation	**Dec-16**	**3.7**
External Indicatrors		**($ Bn)**
Export	Dec-16	2.3
Import	Dec-16	4.9
Trade Deficit	Dec-16	-2.6
Home Remittances	Dec-16	1.6
Current Account	Dec-16	-1.1
FDI ($ Mn)	Dec-16	595
Public Finance		**(Rs. Bn)**
Tax Collection	Sep-16	26
Direct Taxes	Sep-16	11
Indirect Taxes	Sep-16	15
Credit to Private Scetor (Rs. Bn)	As of Dec 16	4,411
LSM growth MoM (%)	Sep-16	4.8
FX Reserves ($ Bn)	13 Jan 17	23.2

Sources: SBP, Finance Ministry

Table 2: Key Targets and Projections

	Govt Target*	SBP Projection**	IMF Projection***	ADB Forecast****
		Percent		
Real GDP Growth	5.7	5.7	5	5.2
CPI- Full year average	6	4.5 - 5.5	5.2	4.5
		% change		
Export	n.a	n.a	4.1	n.a
Import	n.a	n.a	9.9	n.a
		% of GDP		
Current a/c Balance	n.a	n.a	-1.8	-1.2
Fiscal Balance	-3.8	n.a	-3.8	-5.3
Remittances ($ Bn)	n.a	n.a	20	n.a
Tax Revenue (Rs. Bn)	3,956	n.a	4,244	n.a

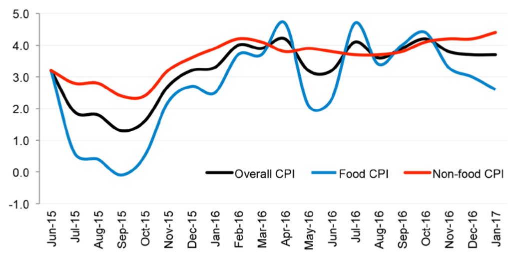
*Sources: *Budget in Brie 2016-17, **Monetary Policy Statement, ***IMF Country Report (June 2016), ****AsianDevelopment Outlook 2016*

Table 3: Balance of Payment Account - Key Items Only

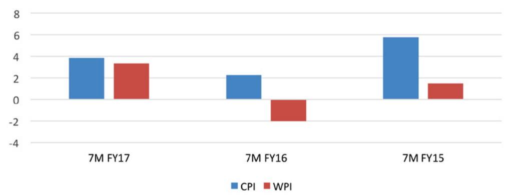
$ (Mn)	6M (FY17)	6M (FY16)	% change
Current Account Balance	**-3,585**	**-1,865**	**n.a**
Balance on Trade in Goods	**-10,819**	**-9,361**	
Exports of Goods FOB	10,527	10,776	-2%
Imports of Goods FOB	21,346	20,137	6%
Balance on Trade in Services	**-1,709**	**-1,275**	
Exports of services	2,535	2,895	-12%
CSF inflows	121	126	-4%
Imports of services	4,244	4,170	2%
	6M (FY17)	**6M (FY16)**	
Workers' Remittances	**9,459**	**9,688**	-2%
U.S.A	1164	1305	-11%
U.K	1094	1251	-13%
Saudi Arabia	2,735	2,896	-6%
UAE	2,118	2,173	-3%
	6M (FY17)	**6M (FY16)**	
Direct Investment in Pakistan	1081	979	10%
U.S.A	38	-44	**n.a**
U.K	45	84	-47%
Saudi Arabia	77	76	2%
China	204	444	-54%
Portfolio Investment in Pakistan	254.4	237	**n.a**
Equity	254.4	237	**n.a**
Debt	998	455	**n.a**

Figure 1: Trends in Inflation

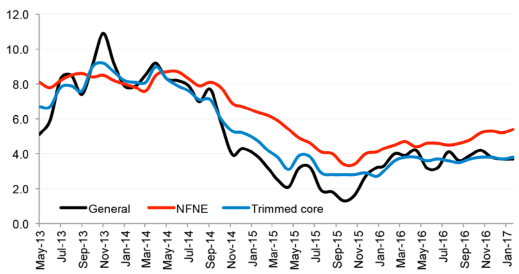
YoY Food versus Non-food Inflation (%)
Source: PBS



YoY Average CPI and WPI (% change of indices)
Source PBS



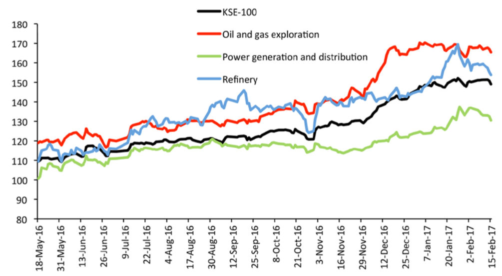
YoY Headline versus Core Inflation (%)
Source: PBS



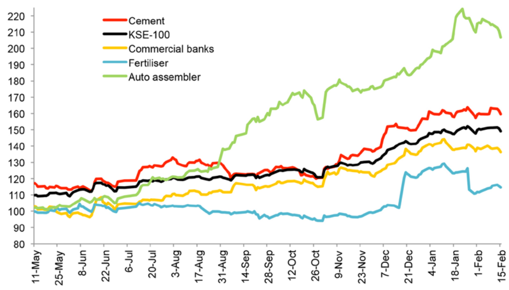
Source: PBS

Figure 2: Performance at Stock Market

Year to-date PSX's benchmark index versus sectoral performance (rebased to 100)
Source: www.khistocks.com



Year to-date performance at Pakistan Stock Exchange (indices rebased to 100) *Source: www.khistocks.com*
KSE-100 is benchmark PSX index; others are BR's sectoral indices



Source: www.khistocks.com
KSE-100 is benchmark, PSX index, others are sectoral indices

Table 4: Key Export Categories: Percentage Year on Year Change (FY16)

KEY EXPORT CATEGORIES - PERCENTAGE CHANGE 6M FY17 over 6M FY16					
Commodities (units)	**Quantity (total)**	**Price ($ Mn)**	**Price (% change)**	**Quantity (% change)**	**APR* (% change)**
Total	n.a	9,911	-4%	n.a	n.a
Food (M.T)	**n.a**	**1,659**	**-11%**	**n.a**	**n.a**
Rice	1,697,439	713	-18%	-13%	-5%
Basmati	192,354	170	-26%	-21%	-6%
Non-Basmati	1,505,085	543	-15%	-12%	-3%
Sugar	0	0	-100%	-100%	-100%
Textile	**n.a**	**6,156**	**-2%**	**n.a**	**n.a**
Raw cotton (M.T)	21,626	36	-50%	-53%	7%
Cotton yarn (M.T)	243,557	651	-7%	6%	-12%
Cotton cloth (TH.SQM)	930,271	1,048	-6%	-15%	12%
Knitwear (TH.DOZ)	62,926	1,193	0%	17%	-14%
Bedwear (M.T)	172,988	1,043	5%	9%	-4%
Towel (M.T)	84,196	373	-8%	-7%	-1%
Readymade garments (TH.DOZ)	15,615	1,101	6%	2%	4%
Art, silk & synthetic textile (TH.SQM)	53,941	102	-31%	-64%	94%
Petroleum products	**n.a**	**89**	**-93%**	**n.a**	**n.a**
Naphtha (M.T)	65,043	35	32%	52%	-13%
Other manufacturing goods	**n.a**	**1,511**	**-7%**	**n.a**	**n.a**
Sports good	n.a	145	-8%	n.a	n.a
Football (TH.DOZ)	1,528	71	-12%	-7%	-5%
Gloves (TH.DOZ)	1,129	51	3%	4%	-1%
Leather tanned (TH.SQM)	7,358	170	-8%	-16%	10%
Leather products	n.a	255	-6%	n.a	n.a
Leather garments (TH.DOZ)	426	159	-5%	-5%	0.05%
Leather gloves (TH.DOZ)	2,348	89	-8%	-6%	-2%
Footwear (TH.Paris)	4,641	46	-6.7%	-14%	8.0%
Surgical goods	n.a	164	-7%	n.a	n.a
Chemical & pharma products	n.a	394	-3%	n.a	n.a
Plastic material (M.T)	63,428	106	15%	-1%	16%
Engineering goods (TH.NOS)	n.a	84	-2%	n.a	n.a
Cement (M.T)	2,798,553	145	-15%	-10%	-5%
All other items	**n.a**	**495**	**7%**	**n.a**	**n.a**

***ARP= Average Realised Price**

Sources: PBS

Table 5: KEY IMPORT ITEMS - PERCENTAGE CHANGE 6M FY17 over 6M FY16

Key Import Items - Percentage YoY Change FY16					
Commodities (units)	**Quantity (total)**	**Price ($ Mn)**	**Price (% change)**	**Quantity (% change)**	**APR* (% change)**
Total		24,402	10%		
Food (M.T)	**n.a**	**2,864**	**9%**	**n.a**	**n.a**
Tea	107,406	257	-8%	18%	-22%
Palm Oil	1,214,248	844	2%	-9%	11.3%
Pulses	458,738	371	38%	4%	33.3%
All other food items	n.a	1,064	19%	n.a	n.a
Machinery group	**n.a**	**5,667**	**41%**	**n.a**	**n.a**
Power generation	n.a	1,652	109%	n.a	n.a
Textile group	n.a	259	11%	n.a	n.a
Electrical	n.a	962	8%	n.a	n.a
Telecom	n.a	660	-5%	n.a	n.a
Transport group	**n.a**	**1,407**	**6%**	**n.a**	**n.a**
Road motor	n.a	1,198	28%	n.a	n.a
CBU Heavy vehicles	n.a	337	41%	n.a	n.a
CBU Motor cars	n.a	163	10%	n.a	n.a
CKD Heavy vehicles	n.a	147	22%	n.a	n.a
CKD Motor cars	n.a	307	21%	n.a	n.a
Other transport	n.a	137	75%	n.a	n.a
Petroleum group (M.T)	**n.a**	**4,992**	**11%**	**n.a**	**n.a**
Petroleum products	7,738,132	3,206	19%	60%	-26%
Petroleum crude	4,021,888	1,155	-22%	35%	-42%
Textile group (M.T)	**n.a**	**1,364**	**-12%**	**n.a**	**n.a**
Agriculture group	**n.a**	3,595	-5%	**n.a**	**n.a**
Metal group	**n.a**	**1,959**	**3%**	**n.a**	**n.a**
Iron and Steel (M.T)	1,544,559	973	6.6%	17%	-9%
Miscelleanous group	**n.a**	**574**	**7%**	**n.a**	**n.a**
All other items	**n.a**	**1,979**	**3%**	**n.a**	**n.a**

n.a = not available; PBS does not release data *ARP= Average Realised Price

Sources: PBS

Figure 3: Trends in Exchange Rate

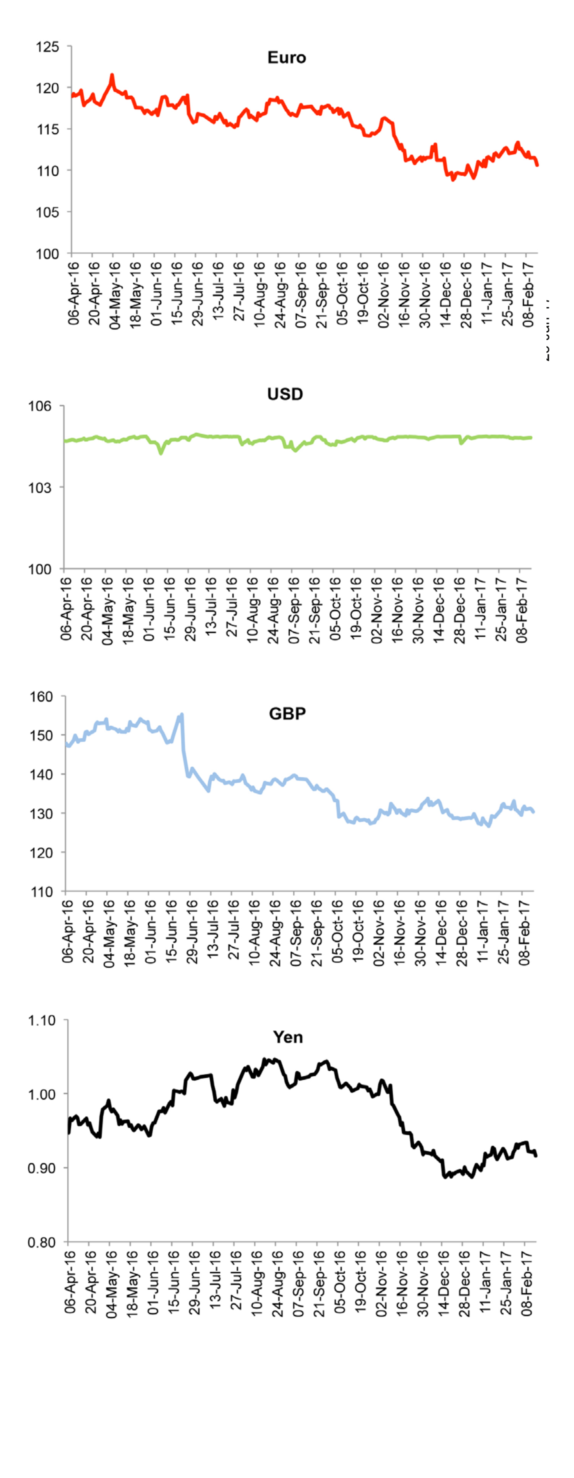


Figure 4: Key Commodities World Market

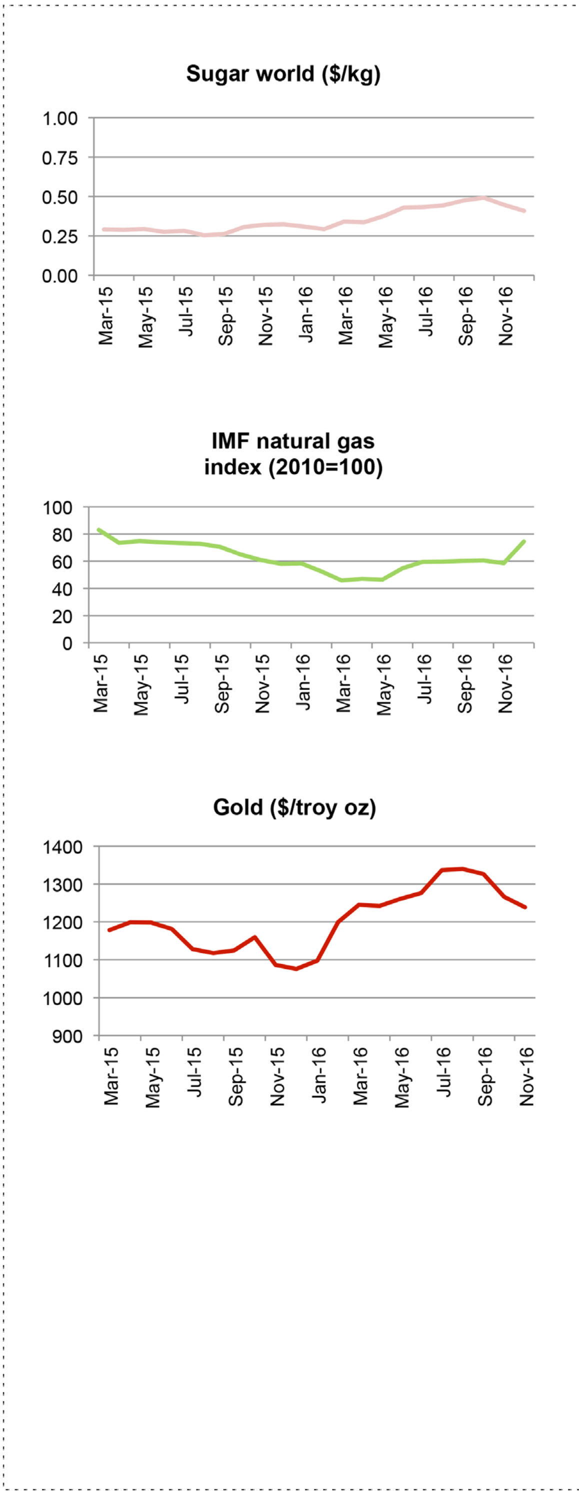


Figure 4: Key Commodities World Market

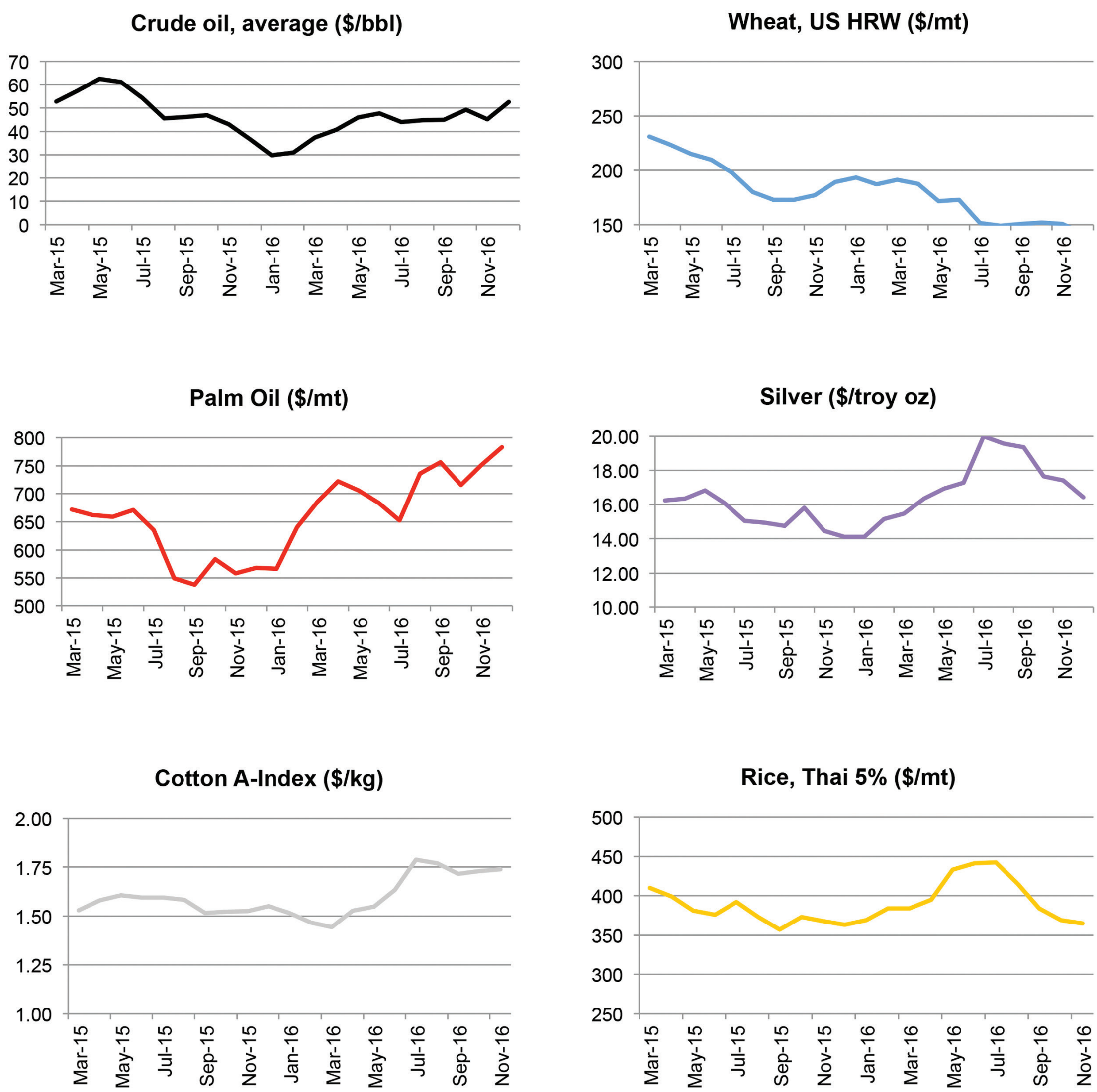


Table 6: Ease of Doing Business Index

Doing Business Rankings - Key Indices only								
	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Trading across border	Paying taxes	Enforcing contracts
Pakistan	141	150	157	169	82	172	156	157
India	155	185	26	138	44	143	172	172
Bangladesh	122	138	187	185	157	173	151	189
Singapore	6	10	10	19	20	41	8	2
Vietnam	121	24	96	59	32	93	167	69
Turkey	79	102	58	54	82	70	128	33

Source: Doing Business

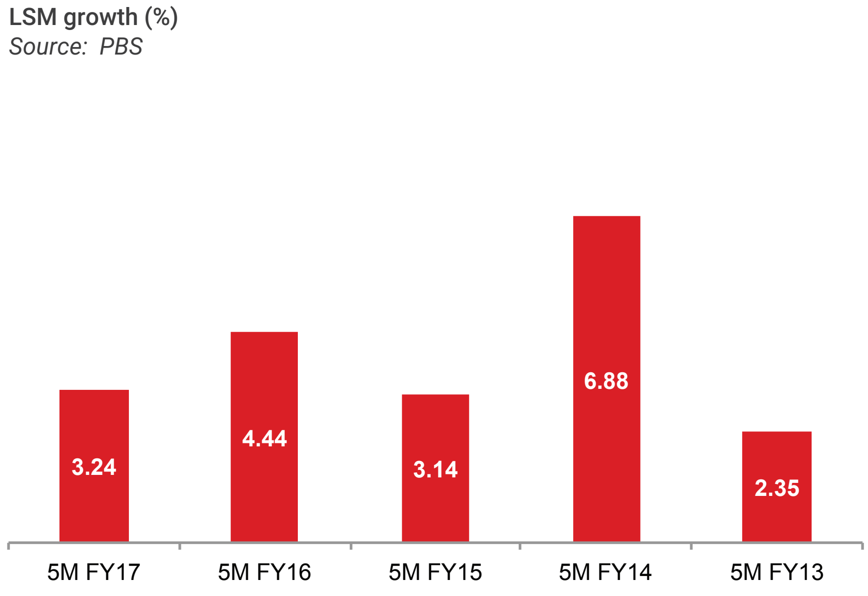
Performance of Large and Medium Scale Enterprises

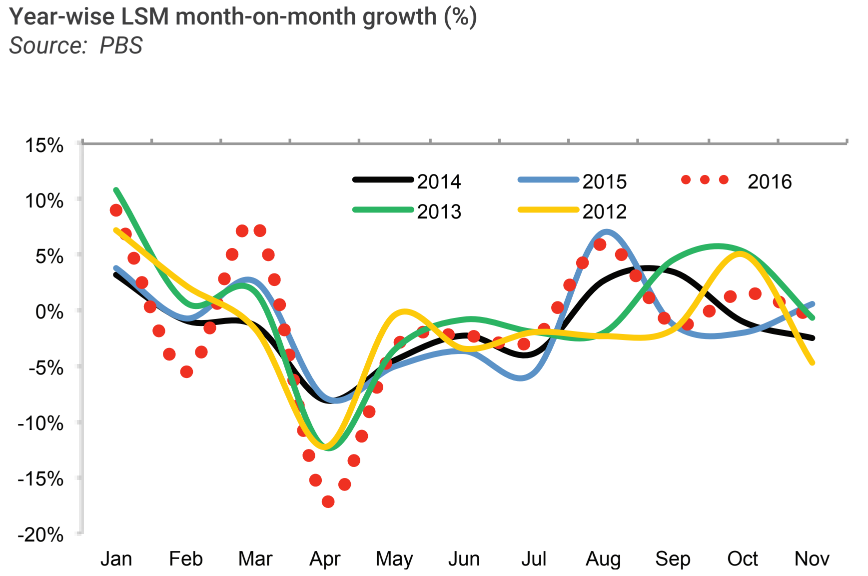
Major LSM Drivers

		Percentage change	
	Weight	5MFY17	5MFY16
Textile	20.92	0.02	1.03
Food, Beverages & Tobacco	12.37	3.78	4.89
Coke & Petroleum Products	5.51	-1.68	4.59
Pharmaceuticals	3.62	7.64	7.05
Chemicals	1.72	-3.60	11.67
Automobiles	4.61	5.57	32.26
Iron & Steel Products	5.39	14.53	-6.01
Electronics	1.96	14.52	-7.25
Leather Products	0.86	-17.85	1.12
Paper & Board	2.31	3.76	-18.17
Engineering Products	0.40	-5.86	-19.39
Rubber Products	0.26	0.47	10.04
Non-Metalic Mineral Products	5.36	10.48	5.95
Wood Products	0.59	-97.08	-23.48

Source: PBS

Performance of Large and Medium Scale Enterprises





Source: PBS

INDICATIVE TOPICS FOR PPR

01. Taxes
02. Credit Market
03. Capital Market
04. Investment Policy
05. Business Regulations
06. Civil Service Reforms
07. Research and Innovation
08. Tariffs and Trade Barriers
09. Inflation and Sound Money
10. State Owned Enterprises
11. Legal System and Property Rights
12. Human Capital, Labour Market and Regulations

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