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PPR

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**PRIME Policy Report** is a monthly publication that provides actionable intelligence at both micro and macro levels of the economy. Each report is segmented into: Business Climate Review, Market Analysis and bird-eye view of major Economic Indicators. It is a one stop information hub for business leaders, SMEs, Corporations, trade commissioners, MNCs, Institutions and Individuals aspiring to understand the policy dynamics, business prospects and interpretations of key economic indicators.

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# NOTE FROM THE EDITOR

In the first section of this month's PPR, I bring you commentary of five selected issues taken from the print media that give us a closer look into the actions and policies affecting the business climate. One of these is particularly close to my heart which I call "the most expensive judgement of Pakistan's history" – the decision of not to privatize the Pakistan Steel Mills – which has sucked up more than Rs. 350 billion of taxpayers' money to date! The section includes commentary on the role of ECC and CCP, and, the wrath and myths related to taxation.

Pakistan remains far behind most of the developing and developed economies in terms of credit absorption by the private sector. The minimal credit available too is skewed towards big corporate borrowers while the government takes up more than two-third of the pie. In this month's market analysis, we try to understand the demand and supply side dynamics revolving around the credit market, including the role of informal sector, and also, the affect regulations have on credit uptake.

The last section presents economic data which exhibits that the macroeconomic picture is somewhat deteriorating. The FDI has decreased owing largely to decrease in investment from China, which shows the vulnerability of Pakistan's economy, and Inflation has also increased. One hopes that it is a temporary phenomenon and investment can raise again soon.

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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 arbitrariness, red-tape and size of government is counterproductive.

## The Most Expensive judgement of Pakistan's history

The Prime Minister has refused to allow sale of Pakistan Steel Mills inventory to pay the salaries of the employees (Express Tribune, 10th Sep 2016). In 2006, led by Chief Justice Iftikhar Muhammad Chaudhary, the Supreme Court upheld a petition filed against the federal government sanction of privatisation of Pakistan Steel Mills, reversing the government decision to privatize. The judges thought that PSM is being sold too cheap at Rs. 22 billion. Ten years down the line, PSM has sucked more than Rs. 350 billion of tax payers' money.

Till 2015, PSM's accumulated losses and liabilities, which stood at Rs26bn at end-2008, had increased to about Rs350bn, including Rs160bn in losses and Rs190bn in payable debt liabilities. In addition, the government has injected over Rs85bn out of the federal budget in different bailout packages. In 350 billion rupees, Pakistan could have built three new steel mills from scratch based on latest technology. These three mills could have easily absorbed all 16,000 employees currently at payroll at PSM. These three steel mills could have easily produced a production surplus leading to export income.

However, we threw 350 billion good money against a bad decision and continue to pay the cost of indecision. It is unfortunate that Nawaz Sharif, who was once a clear thinker, has succumbed to the temporal, which will only hasten his political downfall. His refusal to take bold economic decisions will start showing the signs of strains on economic growth, which is currently clouded in infrastructure spending.

## ECC-Exemptions Coordination Committee

The Exemptions Coordination Committee of the Federal Cabinet, commonly known as Economic Coordination Committee has waived 10 taxes on recently launched Sukuk bonds (Express Tribune 27th September 2016). The ECC exempted up to 15% of income tax on the profit that the investors would enjoy by purchasing Pakistani bonds. It also waived 17% alternate corporate tax, the advance income tax and the tax on dividend income. The 15% tax on gross payments to non-residents on account of royalty and technical services was also waived. Up to 12% tax on payments for goods and services was also removed. It waived 0.3% tax on cash withdrawals on these transactions and 0.4% tax on banking transactions related to the issuance of Sukuk. Income tax on the sale and purchase of air tickets was also exempted.

ECC has become the business arm of the central government. According to a retired government official, who participated in and facilitated many of ECC meetings, the decisions taken by the ECC are not well-informed. The mode of policy proposals forwarded by various ministries on this platform is a “summary”. The former official actually considers them “command summaries”, where hardly any research is done. According to a paper, that this author published earlier this year, the accumulated monetary impact of the ECC decisions during 2013-15 is a colossal sum of Rs. 750 billion. Economic Coordination Committee of the Cabinet, generally known as the ECC, was formed as an emergency war time committee in 1965 Indo-Pak war following suspension of economic and military assistance. Even though the war finished in 17 days, the Committee has existed well over 50 years now.

## Increased taxes dilute savings and wealth

The federal government has waived ten taxes on sukook bonds, however it has imposed taxes on every person who receives a return on investment in sukuk (Business Recorder, 2nd September). The rate of tax imposed under section 5AA on return on investment in sukuks received from a special purpose vehicle shall be 25% in the case the sukuk-holder is a company; 12.5% in case the sukuk-holder is an individual or an association of person, if the return on investment is more than one million; and 10% in case the sukuk-holder is an individual and an association of person, if the return on investment s less than one million.

This new tax is just a replica of all problems of our tax system. It zpenalizes corporatization of economy by imposing higher taxes on companies, and a much lower on individuals individuals and associations. It also penalizes wealth creation, as it imposes higher rates if the underlying investment is more than one million, thus signalling that either savings be kept low or divided in a way that it does not exceed one million under a single owner. Thus, this new tax, like all other taxes in the country, incentivizes corruption, mal-practice and tax frauds.

## The meat-less report by CCP

In its new report, the Competition Commission of Pakistan has termed price mechanism of meat as ineffective in the whole country and recommended that the regulatory mechanism for both price and quality should be improved (The News, 2nd September 2016). CCP has argued that meat is an essential item and its price should be regulated; the farmers do not get good price and hence more animal markets should be set up eliminating middlemen; the government should invest more in slaughter-houses; and it should also curb smuggling of animals. This CCP report suggests that the Commission is becoming a price watchdog, whereas its primary mandate is to check anti-competition business practices. It does have a role in consumer protection but that is considered secondary.

The recommendations of this report indicate that the authors are not aware of new phenomenon of a fast growing formal sector in the meat sector, with branded outlets opening up in our cities. At least, they don’t seem to be aware of basic economic laws. These outlets provide high quality meat at competitive rates. Mercifully, they are not under strict price regime, otherwise, they will close down immediately. This is perhaps because our bureaucratic and political elite also enjoy high quality meat which will be simply not available if a stricter price control is enforced. Many of them would be actually investors in this business. Half of Pakistan’s rural economy lives on livestock, and if we want to make them prosperous, we should liberate price control regime.

The job of CCP should be to see if any cartels in the emerging meat market are being formed, or if a single player in abusing its dominating market position, or best if there is an explicit case of consumer deception under its fair trade regulations. By chartering into price and quality regulations, CCP will be diluting its main role and in fact taking meat out from its judgements.

## The 60 million mobile tax payers of the country

The Federal Board of Revenue (FBR) has decided to collect withholding taxes from mobile phone operators on real-time basis (The News, 3rd September 2016). The FBR collected Rs47.65 billion as withholding income taxes during the fiscal year of 2015/16 as compared with Rs44.67 billion in the preceding fiscal year, showing a 6.7 percent growth. If only unique users are considered, approximately 60 million Pakistanis pay taxes through mobile phone bills.

Obviously a very thin majority gets any benefits from this tax, as they do not file returns. It means majority of mobile phone owners actually pay income tax in an indirect mode but they can't call themselves income tax payers. The government should consider declaring all such mobile phone owners as tax payers, even if they are not filing returns. This will increase the tax base tremendously and will encourage accountability by citizens, as they will consider them a part of tax contributing population.

# MARKET ANALYSIS

# Credit Access Conundrum

In Pakistan, limited access to banking finance is perhaps one of the key factors which are preventing private businesses in achieving their actual potential. However, in terms of credit availability to this segment, Pakistan lags far behind other regional economies.

Domestic Credit to Private Sector by Banks a percentage of GDP as of 2015 in China mounts to 155 percent, in India 52 percent, Bangladesh 43 percent, Turkey 75 percent and 111percent in Vietnam. Whereas, this ratio is only 15 percent in Pakistan. Moreover, the flow of credit is usually tilted largely towards government securities and somewhat towards big businesses which is why small businesses are usually deprived of credit availability.

This trend leads to questions like: Why are private businesses unable to get enough credit from the banking sector? Why does the banking sector hesitate in giving credit to this important segment of the economy? Is the regulatory framework in the country conducive for private enterprises or not? This analysis attempts to answer these questions.

We begin with an overview of some of the major factors which are hindering the flow of credit towards the private sector and highlight some major constraints in the demand and supply of formal credit. The later section sheds light on the credit market regulatory framework.

## Structure of the analysis

**Section 1**
Trend of private sector borrowing

**Section 2**
Constraints in the supply of credit

**Section 3**
Demand side factors

**Section 3**
Credit regulatory environment in Pakistan

# 1. Trend of private sector borrowing

Availability of credit is often considered as a driving force behind the development of private enterprises. It is expected to be more crucial for organisations which are at their entrepreneurial stage seeking to expand. Any change in the access to credit can have a significant impact on the cash flows of such enterprises. The importance of access to credit can also be gauged through the impact of credit availability on the industrial sector. Figure 1 depicts that in Pakistan, credit intake by the private sector and growth of Large Scale Manufacturing (LSM) have been following parallel trends for the last several years. This indicates that there is a possibility of positive relationship between credit intake and the LSM growth.

Despite the fact that access to finance has a lot of beneficial impacts on the economy, private sector in Pakistan is at the verge of credit starvation. The historical data reveals that the availability of credit to private sector is still in its infancy in Pakistan. In nominal terms the credit extended to private sector has followed an annual growth of around 5.47 percent over the last 10 years. However, the deflated data - adjusted for inflation - indicates that the credit off-take actually declined by around 6.59 percent annually during the same time period.

Figure 2 presents sectoral analysis of the top 10 private sector businesses. It presents the skewed nature of credit distribution. As shown, around 44 percent of the credit

Figure 1: Month-on-month % change in LSM vs loans to manufacturing sector

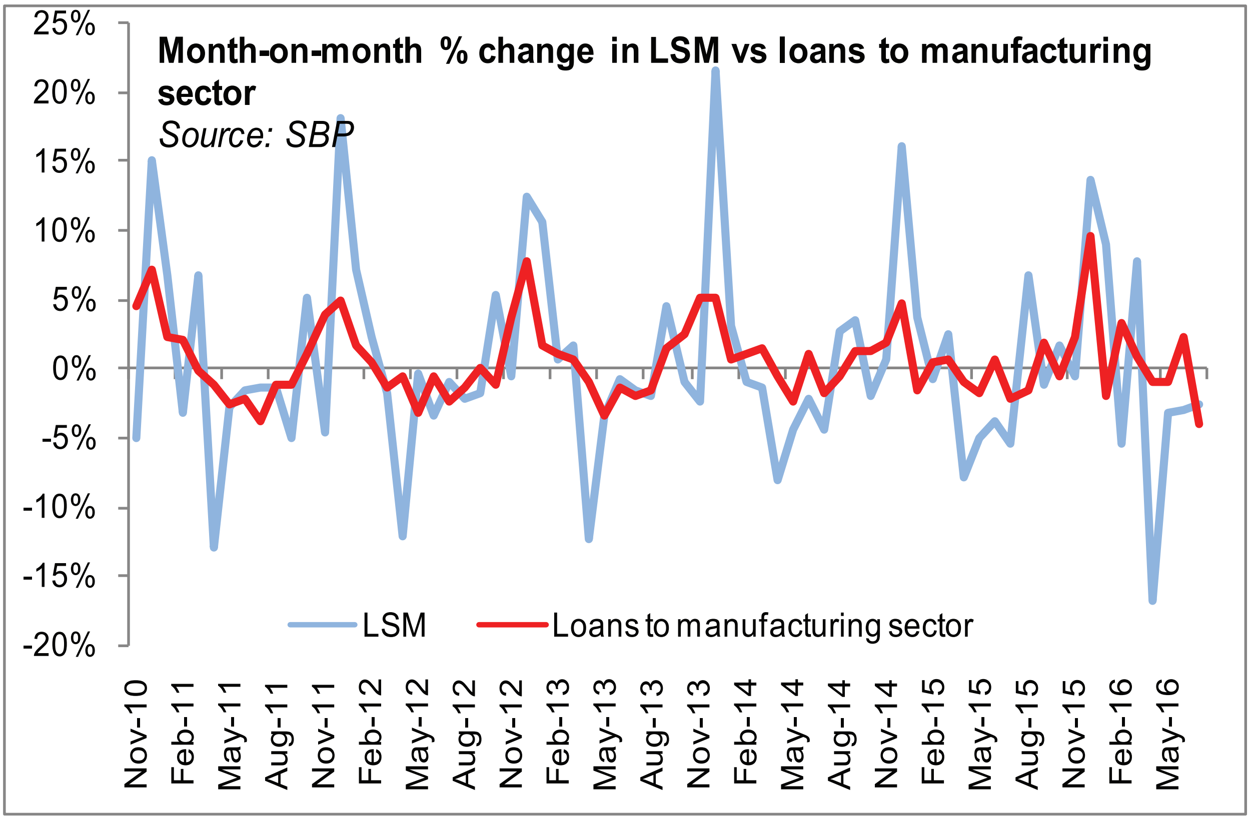
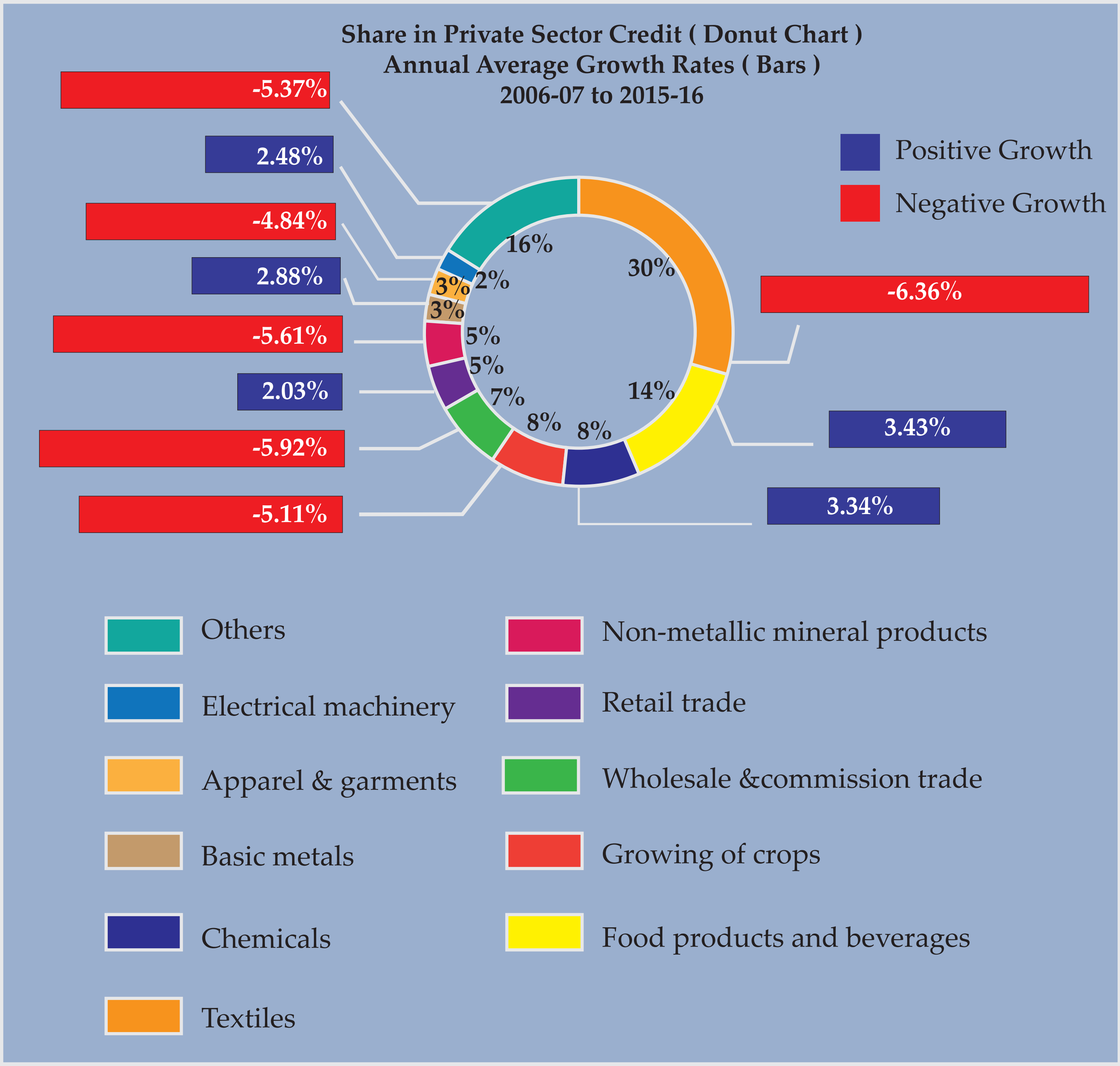


Figure 2: Pakistan' private sector credit picture



available to businesses has been absorbed by just 2 segments, namely 'apparel and garments' and 'food products and beverages'. Furthermore, it shows that unfortunately, the industries which consume 69 percent of the credit are facing a declining trend in the flow of credit.

**Table 1: Nominal and Deflated CAGR of Public and Private Sector**

| | Nominal CAGR | Deflated CAGR |
|---|---|---|
| Public Sector | 6.55 | 6.06 |
| Private Sector | 6.55 | -6.95 |

Source: Author's calculation using SBP data

CAGR = Compound Annual Growth Rate

Pakistan has also not been growing in terms of credit availability in comparison to other regional economies. Figure 3 shows that in the year 2000, domestic credit to private sector through banks, as a percentage of GDP, was 22 percent in Pakistan, 27 percent in India, 21 percent in Bangladesh, 111 percent in China, 32 percent in Vietnam and 17 percent in Turkey. However, in the later years Pakistan started lagging behind its peer economies. During 2015, the credit off-take by the private sector has rocketed up to 52 percent in India, 43 percent in Bangladesh, 155 percent in China, 111 percent in Vietnam and it reached to 75 percent in Turkey. Whereas in Pakistan, the credit off-take by the private sector declined to 15 percent in 2015.

Though the private sector has a lot of potential to run the machine of the economy, limited access to credit is one of the biggest hurdles in the development of private enterprises in Pakistan. The next section will highlight some of the major supply and demand side factors that have severely affected the credit off-take in Pakistan.

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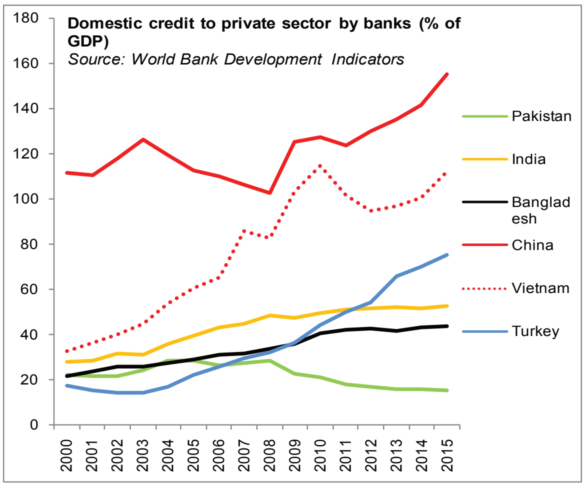
**Figure 3: Domestic Credit to Private Sector by Banks (As % of GDP)**




Source: World Development Indicators

## 2.Constraints in the Supply of Credit

One of the major factor which is creating hurdles in unleashing the full potential of private businesses in Pakistan is the constraints in the supply of formal credit. As a result, private enterprises usually rely on the informal sector to fulfil their credit demand. This section will highlight some of the major factors which are creating barriers in the access to credit.

### 2.1 Non-Performing Loans: Aftermath of the Global Financial Crisis

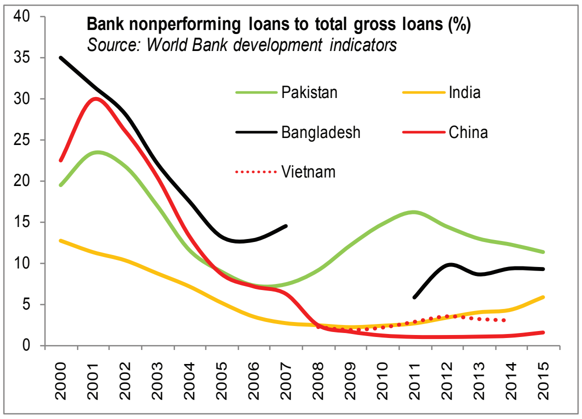
In the start of the 21st century banking industry was flourishing globally. The non- performing loans were declining, banks were successfully attracting depositors,their profits were increasing

increasing and most importantly they were generously extending loans to the private sector. Then came the Global Financial Crisis (GFC) in 2008, which severely affected both the lenders and the borrowers. The borrower's capacity to pay back contracted and the profits of the banks declined. As a result, the share of non-performing loans which were declining in the first half of the decade started increasing after 2008 in most of the countries.

Although banking industry in other economies sustained that crisis, the situation was not the same for Pakistan. The banker's confidence shattered due to GFC and most importantly due to the twin deficit at home. Inflation rocketed up to double digits and the economic growth came down to around 2 to 3 percent. As a result, the percentage of non-performing loans started rising in Pakistan. As shown in Figure 4, non-performing loans, which were 6 percent of the gross loans during 2006-07, reached to around 16 percent in 2011. Consequently, banks adopted a conservative banking policy. They became more risk averse and they left aside their core objective of lending to private sector.

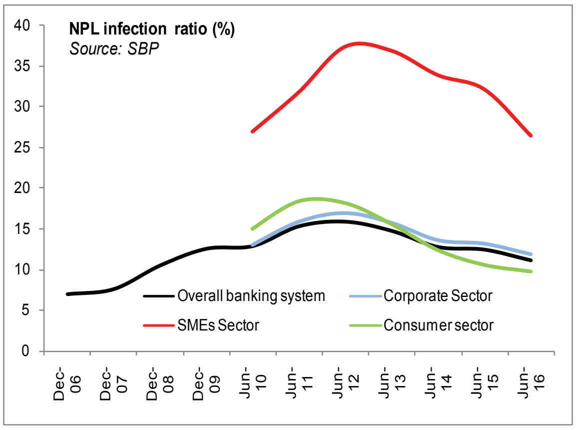
The segment-wise break down (Figure 5) indicates that the non-performing loans infection ratio - the share of non-performing loans in the overall advances - is contentiously being dominated by the SMEs. Although low in absolute terms, NPL infection ratio in other segments such as corporate, consumer and banking sectors is following similar trends. The overall infection ratio declined by around 11.1 percent in the FY2016 as compared to the previous year, however, the magnitude of NPLs in absolute terms is still very high. The NPLs during FY2016 is reported as high as Rs. 634 billion as compared to Rs. 630 billion in FY 2015.

**Figure 4: Bank Nonperforming Loans to Total Gross Loans (%)**




Source: World Development Indicators

**Figure 5: Non Performing Infection Ratio (%)**




Source: State Bank of Pakistan

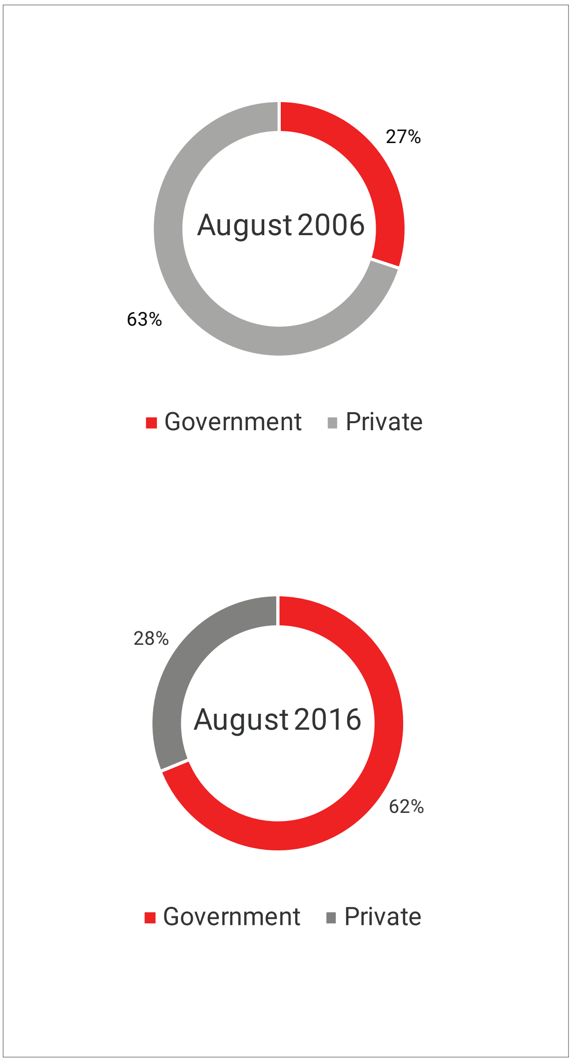
## 2.2 Excessive Government Borrowing

The GFC resulted in banks being more risk averse. They preferred to invest in risk proof government securities. Ultimately government sector emerged as a major recipient of the commercial lending while the share of private sector in the commercial borrower shrunk enormously.During June 2006, the Government of Pakistan's share in the total credit off-take was 27 percent while private sector had a share of 63 percent.

However, the distribution of credit intake totally reversed in August 2016 (Figure 6) - the share of government sector rocketed up to 62 percent while the share of private sector went down to 28 percent.

Dominance of the government sector in the credit intake has ultimately crowded out the private borrowers from the banking finance market.

**Figure 6: Share in Commercial Borrowing (as % of total loans)**




The theme of the policy is based on four principles. 1) Reducing the cost of doing business in Pakistan; 2) Reducing the processes of doing business; 3) Ease of doing business with creation of industrial cluster and special zones; and, 4) Linkages of trade, industrial, and monetary policies for greater convergence.

When Pakistan's performance is evaluated on these parameters, the real answer for our central question becomes evident. The investment policy has failed to achieve any sustained progress in any of these areas.

Pakistan's rank in ease of doing business has worsened by 2 notches to 138 in 2016 from 136 in 2015[12]. No progress has been made on the number of procedures and number of days it takes to start a business[13]. Secretary General, Overseas Investors Chamber of Commerce and Industry (OICCI), Mr. Abdul Aleem elaborated that "Pakistan's regular decline in independent surveys like World Bank's 2016 "Ease of Doing Business" where Pakistan ranks at 138 positions out of 189 nations does not help in attracting FDI in the country[14].

Commenting on the investment climate of Pakistan, one review by the US embassy[15] highlights that, **"execution of contracts can be problematic because of inefficiency and lack of transparency in domestic courts".** The commentary further contends that no duration is specified for resolving disputes.

Additionally, the protection of property rights and intellectual property rights outlook in Pakistan is quite dismal. Weak IP protection in Pakistan is discouraging local investment and encouraging Pakistani investors to set up businesses abroad.

[12] Doing Business Report, The World Bank.
[13] It has stayed constant at 10 numbers of procedures and 19 days for starting a business since 2014.
[14] Secretary General's message at OICCI website.
[15] 2015 Investment Climate Statement. US. Department of State, June 2015

## 2.3 Credit Misallocation

Due to conservative banking policy, banks now prefer to provide credit to the government sector, as shown in the last section, or large scale enterprises. They left behind their important duty of ensuring financial inclusion- availability of credit to the deprived segments of the economy at affordable costs. The bifurcation of credit off-take according to the size of advances generated to private entities indicates that big borrowers (size of loan Rs.10 million and above) are 7 percent of the total borrowers.[1] However, they hold more than 93 percent of the total advances. This means that 93 percent of borrowers hold less than 7 percent of the total advances generated by private sector.

In the same context, services sector has a share of 59 percent in the GDP, which means that its share in the credit off-take should also be higher. However, the manufacturing sector which contributes only around 13 percent of the GDP consumes more than 50 percent of the banking credit. During FY16 the credit advanced to this sector was around 54% of GDP.[2] This indicates that credit off-take is not only skewed but also highly misallocated.

## 2.4 Other Barriers in Access to Credit

High mark-up rate is another obstacle in the access to finance. Mr. M. Asghar Nasar[3] from SMEDA stated that the banks are currently charging 16 to 30 percent mark-up which is very high when compared with the mark up rate prevailing in many other regional economies. For instance, the commercial banks in Bangladesh are charging 4 percent mark-up on lending to private sector. Thus, banks should revise their credit policies and provide some relaxation to SMEs by reducing their mark-up to 6 to 8 percent. In this context, Prime Minister Youth Loan Scheme is a good example, under which less cost of borrowing is showing some favourable results.

The credit limits which are in placed by SBP sometimes also create problems for a bank in the provision of loans. When someone demands above the credit limit, banks cannot entertain such type of loan applicants. Enhancement in the credit limits can therefore be helpful in the provision of greater access to the credit. It is also recommended that SBP should increase the clean financing limit so that banks can generate loans to SMEs without any collateral constraint.

Procedural complexities along with financial illiteracy are additionally hindering the access to credit for private sector. A private entity has to go through a number of procedures to get the required credit. Banks demand a lot of documentation, affidavits, records of financial accounts etc. against the loans. Due to lack of financial education most of the SMEs cannot fulfil such type of documentation requirements on their own and therefore, it results in the dismissal of credit applications.

# 3.Demand Side Factors

When a demand of a particular product is low, its supply automatically gets adversely affected. This section will highlight some of the demand side factors which are affecting the credit off-take by the private sector.

## 3.1 Low Banking Penetration

In Pakistan the credit penetration is quite low. It is even much lesser than its peer economies. This is one of the major reasons due to which Pakistan lags behind most of the other Asian economies in terms of credit availability. According to Global Financial Index (2015) only 8

[1] Source: State Bank of Pakistan: Classification of Schedule Banks' Advances by Size of Account.

[2] Source: State Bank of Pakistan.

[3] Mr. M. Asghar Nasar is working in SMEDA as Regional Business Coordinator for Rawalpindi Islamabad.

percent of the population (age 15 years and above) holds an account at a financial institution. Whereas the ratio of account holders is 29 percent in Bangladesh, 78 percent in China, 52 percent in India, 56 percent in Turkey, Sri Lanka 82 percent and it is 30 percent in Vietnam.

Further bifurcation of the data indicates that only 14 percent males (age 15 years and above) and 3 percent females have an account at a financial institution. During 2015, only 23 (per 1,000) adults have borrowed from commercial banks. Whereas, the borrowers from commercial banks (per 1000 adults) were 81 in Bangladesh, 317 in China and 844 in Turkey.

This low penetration of the banking sector ultimately leads to very little percentage of the population demanding credit from the formal sector.

## 3.2 Preference towards Islamic Banking

Religious phenomenon - prohibition of Riba in Holy Quran - is considered as a major reason behind such a low penetration in the country. Although there are certain segments in the society who believe that interest is not prohibited, this seems a minority view. According to a recent survey conducted by SBP[4] around 94 percent of the respondents who hold an account at a financial institution believe that Interest is prohibited and around 88.41 percent of them believe that, "contemporary practice of interest in banks is prohibited".[5] The responses of respondents who did not hold any account at a financial institution have more found views; around 98 percent of them believe in the prohibition of interest and 93 percent of them view that the interest charged by banks is prohibited.

There is a significant demand for Islamic Banking in the country which is equally spread across rural and urban areas. The Islamic Banking's demand is higher among the household (retail) i.e. 95 percent. Whereas, 73 percent of the businesses demand Islamic Source of Finance.

However, religious phenomenon is not the only determinant of Islamic Banking's demand. Rather, satisfaction, use and knowledge are some other major determinants of people's preference towards Islamic Banking. As per the SBP's survey 23 % of the demand arises from religious reasons. The satisfaction that users get from financial services offered by Islamic banks contributes to 39 % of the demand for Islamic Banking. The use - past banking experience, procedure and documentation - contributes to 22 percent of the demand. The least significant factor in the demand index is the Knowledge (15 %) - basic knowledge of Islamic Finance Model, practices and products offered by Islamic Banks.

The lack of knowledge about Islamic finance and due to the general perception that the overall Islamic Banking model does not comply with the Sharia, 38% of the people prefer voluntary financial exclusion. The report further states that, "Among religious sensitive financially excluded group, majority (65 %) are not convinced of the Shari'a compliancy in Islamic banks, though majority of them do not have much knowledge or information about Islamic banking model." Hence, there is a need to enhance the awareness of the general public about Islamic Banking in the economy.

In majority view (60%) Islamic Banking is a demand driven phenomenon and the most

[4] Knowledge, Attitude and Practices of Islamic Banking in Pakistan (State Bank of Pakistan)

[5] http://www.sbp.org.pk/publications/KAPStudy.pdf

dominant factor which is hindering the demand for Islamic Banking is the lack of knowledge about Islamic Banking model. This is creating a severe demand-supply gap. Thus, there is a need to start a robust awareness campaign to satisfy the existing clients. Banks should enhance their outreach to connect with the majority who are still voluntarily out of credit market - mainly due to misconceptions about Islamic Banking Model.

Since most of the Islamic banking customers have got the basic knowledge about Islamic Banking through television. Therefore, policy makers and bankers can use it as a medium to initiate their awareness campaign.

### 3.3 Untaxed Money

It is well documented that due to procedural complexities, time consuming process and due to high tax rate, majority of the businesses prefer to stay out of the tax net. In the Doing Business Index, in terms of paying taxes, Pakistan is ranked at 171 out of 189 countries. According to World Bank, tax payer has to pay 47 different payments over the year, it takes around 594 days and there is 32.5 percent overall tax rate on profit. In order to avoid such type of soaring taxation, people prefer to borrow from informal sectors which ultimately affect the demand for formal credit. Most people would prefer not go to a bank when they can sell a plot or get their own money from abroad via hundi or otherwise use their or their family/friend's untaxed stash to fund a project or working capital need.

### 3.4 Low Credit Demand by SMEs

According to the latest authentic available figures, Small and Medium Scale Enterprises constitutes around 90 percent of the businesses in Pakistan.[6] Yet, majority of this sector usually operates under informal economy. The cost of doing business is too high that it outweighs the benefits of operating under the informal social contracts which are supported by the whole community.

As of August 2016, the SMEs have taken around Rs. 295,490 million from the financial business markets - which is only 9.8 % of the loans granted to businesses other than SMEs.[v] This is not only due to Bank's reluctance in giving loans to the SMEs but it also due to the lack of demand by the private sector.

A private entity has to go through a number of procedures to get the required credit. Banks demand a lot of documentation, affidavits, records of financial accounts etc. against the loans. Moreover, due to lack of sound collateral and also, due to financial illiteracy, they usually avoid formal sector. Yet, they operate efficiently because such enterprises can successfully fulfil their credit demand through the informal sector - but at a higher cost.v

According to Mr. Mudassar Aqil, the Chief Operating Officer of Finca Microfinance Bank, a shopkeeper usually buys goods from retailers on credit at higher rates than the rate on which they are available on cash. He stated that the annual cumulative interest rate incurred on these products goes up to 120 percent - much higher than the existing mark-up of 26 percent offered by commercial banks.[8] In this context, if the procedural complexities are removed, small entrepreneurs can give preference to formal sector and can save up to 94 percent (120 – 26 = 96) of their borrowing cost.

## 4. Credit Regulatory Environment in Pakistan

Pakistan is ranked 133 out of 189 Countries in the area of getting credit - which is based on the quality of laws designed to expand credit, and it also measures the scope, access and quality of

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[6] www.smeda.org (State of SMEs in Pakistan) retrieved on 5th October, 2016.

[7] State Bank of Pakistan

[8] Source: https://www.thenews.com.pk- "Credit-availability-for-small-businesses-can-create-jobs" retrieved on 10th October 2016.

credit information available through public registries and private bureaus.[9] In the strength of legal rights index, which measures the strength of collateral and bankruptcy laws in protecting the rights of borrowers and lenders and thus facilitates lending, Pakistan's score is 3 out of 12, whereas it is 4.9 in South Asia.

As reported by World Bank, this dismal position is mainly due to the absence of a unified legal framework for secured transactions that "extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets". The legal framework does not protect the rights of secured creditors in case of default - by paying them first i.e. before tax claims and employee claims they are not even paid on priority basis when a business is liquefied. Furthermore, the legal framework does not allow the creditors to sell the collateral through a public auction.

When the regulatory framework for the credit availability is inefficient, absent or uncertain, it may create a situation where there will be very little access to formal credit. State Bank of Pakistan has taken numerous steps in order to overcome supply and demand gaps prevailing in the availability of the credit to the private sector. This section will shed some light on the overall regulatory framework related to financial sector in Pakistan.

## 4.1 Transparency of Credit Info: Credit Bureau Regulations

For sound risk management and financial sustainability, the availability of transparent credit information is a necessary condition. Credit Bureaus and Credit Registries are considered as the corner stones of financial stability and efficiency of financial markets. Banks depend on credit information provided by these institutions to monitor the risk profile of existing borrowers and to assess the new loan applicants. Regulators, on the other hand rely on these systems to establish policies for the essential oversight of the credit markets. The transparency of credit information, ensured by credit reporting institutions, then ultimately helps financial intermediaries in reducing the magnitude of non-performing loans. Creditors then eventually also get benefit through lower interest rates.

By providing sound credit information, efficient credit reporting systems also help in preventing the financial market failures which arise usually because of adverse selection and also due to asymmetry of information between borrowers and lenders. As a result, it ensures the efficiency in the allocation of resources. One of the most important outcomes of such a system is that it allows creditors to use their clean credit history as reputational credit in order to access credit through formal sectors. Thus, it is more beneficial for small enterprises and new borrowers who usually lack physical collateral.

Recently, in April 2016, State Bank of Pakistan issued Credit Bureau Regulations for setting up Credit Information Bureaus (CIBs) in private sector. Credit Bureaus collect and organise creditor's data from its member financial institutions. Any member financial institution can get access to this database for the purpose of credit valuation and risk management. As SBP states, "The major purpose of this database is to enable the financial institutions to know the credit history of their prospective customers, thus, enabling them to make more prudent decisions". [10]

As per the Credit Bureau Act of 2015, it is mandatory for any company or individual to take licence from the State Bank of Pakistan before

[9] Doing Business Index of World Bank 2016
[10] http://www.sbp.org.pk/ecib/faq.htm

carrying on its business as a CIB. Under the Act, banks are required to obtain Credit Information Report before providing any financing facility of Rs. 500,000. The credit institutions are also responsible for submitting the entire borrower's records online to CIB on monthly basis.

The process sounds simple, however, since State Bank of Pakistan is also running a CIB, conflict of interest may occur. The Credit Bureau Act 2015 empowers SBP to issue licence and formulate regulatory framework. It is possible that SBP may exploit its powers and may not allow the private companies to flourish. For the time being SBP is charging Rs 60 per query while the private CIBs are charging Rs. 70 per query. Since both public and private companies are running the same business and since SBP has got the regulatory powers, there is a strong apprehension that it will kill the necessary competition amongst CIBs. Government's monopoly in this segment can be a reason of currently having only four private CIBs in the country.

The "Depth" of the Credit information index[11] - which is based on the quality of rules and practices affecting the coverage, scope and accessibility of credit information available through Credit Bureaus and Credit Registries - Pakistan's score is 3 out of 8.[12] This presents a dismal condition of credit information system in the country.

World Bank's survey reveals that the credit information is not distributed both in terms of positive credit (e.g. amount of loan, ratio of outstanding loans, and pattern of on time payments) and in terms of negative credit (e.g. in which late payments, number and amount of defaults are reported).

Historical data up to last two years is not available. Under the regulatory framework, borrowers are not allowed to get Credit Information Report directly from these institutions. The Financial Reporting Institutions do not offer credit scores to help banks to assess the credit worthiness of the banks.

The World Bank reports that individuals and firms which are covered under the credit bureau are only 4.8 percent of the adult population whereas it is 6.7 percent in terms of credit registry. It is quite possible that the low coverage of creditors under Credit Bureau can be due to the monopoly of public sector in this area.

## 4.2 Financial Institutions (Secured Transactions) Bill, 2016

In order to facilitate small borrowers in getting loans from the banks, Senate Committee on Finance and Revenue recently passed a bill, titled "Financial Institutions (Secured Transactions) Bill, 2016".

The bill allows small scale borrowers, who usually lacks sound collateral, to pledge their moveable assets such as "receivables, rights under letter of credits, rights under trust receipts, securities, right to funds credited in a deposit account, title documents and negotiable instruments". Other moveable assets include "intellectual property including patents, trademarks, copyrights, trade-names, goodwill, royalties, stock in trade, inventory, interest in partnership and other form of entity, ornaments, jewellery, stones, goods in transit, agriculture produce, leaves, grass (including growing grass), petroleum and minerals, motor vehicles and property attached to immovable property."

The law allows the lender to sell that collateral in case of default. This process of restriction of property is called creation of a security interest. In case of default, the law states that the secured creditors (i.e. a financial institution in whose

[11] Doing Business Index 2016

[12] Ibid

favour the security interest is created by the customer) would be paid first.

The process is mutually beneficial for both the borrower and the lender. This is because the creditor bears less risk of lending and the debtors gets benefited from cheap financing. Though it protects the rights of secured creditor, the law only allows a financial institution to be a secured creditor. This means that the law gives a preferential treatment to financial institutions while neglecting the rights of any other creditor. All other authorised creditors cannot get any preference under the new Law. As a result, other creditors will not be able to compete with financial institutions, and therefore, they may have to quit from the banking finance market. Moreover, lender base for creditors will be reduced and the cost of borrowing will increase. Thus, the core objective of the new law-availability of affordable credit and protection of lenders cannot be ensured.

## 4.3 Financial Institutions (Recovery of Finances) Bill 2001

In 2001, Financial Institutions (Recovery of Finances) Bill was promulgated in the National Assembly to deal with the recovery process of bank loans and loan defaults.

Supreme Court of Pakistan in 2013, declared certain sections of the bill as ultra vires to the constitution of Pakistan. After consultation with relevant stakeholders, the bill was again presented in the National Assembly in March 2016.

In the amended bill, the pecuniary limit of High Court was enhanced to Rs. 100 million to reduce the burden on superior courts. It also includes those loans which are taken from our domestic banks in other countries.

The law contains provisions to deal with frivolous applications under which heavy fines will be charged on such filers. The law declares wilful default as an offence and states that writing off of loans shall be open to trial at any stage without application of any limitation.

The financial institutions (recovery of finances amended) bill was again blocked as it was found against the Supreme Court's orders.

## 4.4 Prudential Regulations

In order to unleash the potential of private sector and to provide safe lending criteria to commercial banks, State Bank of Pakistan issued "Prudent Regulations" in 2003, which were then amended in 2013. The objective of these regulations is to strengthen the commercial banks, and also, to ensure proper flow of credit towards different segments of the economy as per their specific needs.

Prudential Regulations state a proper definition of small and large scale enterprises, where they are categorised on the basis of number of employees and annual sales turnover (Table 2). The objective behind this categorisation is to ensure credit availability to different important segments of the economy as per their needs and it can also help in monitoring the flow of credit to small and large scale borrower.

However, a Small Scale Enterprise (SE) has to fulfil both the criteria - number of employees and sales turnover. If any of the two conditions exceed the prescribed number, it shall fall in the category of Medium Scale Enterprises (MEs).

One benefit of this categorisation is that banks can easily determine the scale of a business and decide the lending rate accordingly.

[9] Doing Business Index of World Bank 2016
[10] http://www.sbp.org.pk/ecib/faq.htm

Table 2: Criteria for Small and Large Scale Enterprises

| Category | Number of Employees* | Annual Sales Turnover |
|---|---|---|
| Small Scale Enterprise | Up to 50 | Up to Rs. 150 million |
| Medium scale enterprise | -Manufacturing & Services: 51-250<br>-Trading MEs: 51-100 | From Rs. 150-800 million |
| Large Scale Enterprises | Above 250 | Above Rs. 800 million |

*Including contract employees

Banks usually charge different interest rates on loans generated to SMEs and Large Scale Enterprises.

Prolonged delays in the availability of credit acts as a constraint to industrial growth especially for SMEs. However, under the current credit regime as per the Prudential Regulations, the commercial banks have to ensure the release of credit within 20 to 30 days after receiving the complete documents.

Moreover, in order to facilitate SMEs, these regulations encourage commercial banks to offer clean financing i.e. a bank shall offer credit up to a maximum of Rs. 5 million to an SME without any tangible collateral but on the basis of personal guarantees. Also, in case of Small Enterprises a bank can lend up to Rs. 15 million without obtaining the details of audited accounts. . Since most of the SEs usually do not maintain proper financial accounts, therefore, banks are using relevant/practical cash flow to estimation techniques and other proxies to assess repayment capacity of a private enterprise.

For the facilitation of borrowers, Prudential Regulations also make it mandatory for the banks to translate important documents such as loan application form in Urdu language, and, they have to make sure that important terms are properly explained to borrowers. Furthermore, to avoid any hidden charges, banks are bound to usually mention all the important details such as mark-up rate, service charges etc. explicitly in the loan agreements.

Although the regulatory framework devised certain rules for the facilitation of SME's, its provisions do not affect the independence of commercial banks. The regulatory framework does not put any limit on the rate of return. The policy states that "Banks/Development Financial Institutions (DFIs) are free to determine the margin requirements on securities against facilities provided by them to their clients taking into account the risk profile of the borrower(s) in order to secure their interests.”

Furthermore, it is at the discretion of banks to use any mode of risk assessment. In order to enable the recovery efforts, “banks/DFIs are allowed to undertake cash collection/recovery at places other than their authorized places of business as stipulated in the ‘Fair Debt Collection Guidelines’ issued by Banking Policy and Regulations Department.”

The Prudent Regulations also aim at proper utilisation of funds. In this context the regulations states that, “Banks/DFIs shall ensure that loan has been utilized for the same purposes as specified in the Loan Application Form. In case of financing to medium enterprises, banks/DFIs shall develop and implement an appropriate system for monitoring utilization of loans.”

The overall regulatory framework can be helpful in strengthening the commercial banks and it can also help private businesses in getting uninterrupted access to credit. The Credit Officer of a Corporate Bank, situated in Islamabad, also endorsed that the existing regulatory framework not only aims at facilitation of private sector but it also helps in strengthening the businesses of commercial banks. According to him, the percentage of non-performing loans under this regulatory framework is around 2 percent for his bank - which is the lowest for any bank in Pakistan.

The regulatory framework provides an enabling environment to both SMEs and financial institutions, however, without the proper enforcement of contractual obligations, the problems in access to credit cannot be solved. The contract enforcement mechanism in Pakistan is highly ineffective.the Doing Business Index of the World Bank, Pakistan is

highly ineffective. In the Doing Business Index of the World Bank, Pakistan is ranked 151 out of 189 countries in this area. The contractual disputes cannot be resolved in timely and cost effective manner. This makes banks more conservative and therefore, they hesitate in providing loans to private enterprises.

# Conclusion

Private enterprises in Pakistan have a tendency to play a vital role in fostering economic growth of the country. However, one of the constraints which is hindering the growth of this sector is lack of credit availability. The analysis presented in this report depicts that the situation of credit available to this sector is not promising.

Although GFC is much blamed for the current dismal position of credit off take by the private sector, this report indicates there are many other factors due to which the formal credit is flowing away from the private businesses.

The analysis reveals that, currently, government is consuming a major chunk of commercial credit. This is incentivising commercial banks to invest in the risk free government securities.  As a result, private sector is crowding out from the credit market.

The report highlights that financial illiteracy, improper maintenance of financial accounts and non-availability of sound collateral are some of the major problems due to which private entities usually face problems in availing the formal credit.

The analysis of the regulatory framework indicates that, with some exceptions, it is generally conducive for the private businesses. Regulatory framework is not only facilitating the private enterprises but it is also playing a major role in strengthening the commercial banks.

The analysis therefore suggests that the State Bank of Pakistan has played a promising role in facilitating both these sectors. Thus, commercial banks and private entities should lower their expectation from the State Bank for its further involvement in the banking finance market. Otherwise, the regulatory burden will disincentivise private entities to do business in the country.

The analysis presented in this report suggests that private sector and especially SMEs need to invest in their accounting systems to make their cash flows and financial statements more robust and reliable, so that banks could increase in their comfort level. Corporatization of SMEs is also needed to link them with formal banking finance. On the other hand, banks should realign their banking policies according to changing market conditions. In order to facilitate private businesses, especially SMEs, they should develop demand oriented financial products (such as collateral free lending products).

# SNAPSHOT OF KEY ECONOMIC INDICATORS

# Pakistan's fragile economy

The overall macroeconomic outlook of the country, in the first two months of the current fiscal year, does not look stable when compared with the same time period of the last fiscal year (FY16).

Country's external position is deteriorating, foreign direct investment is outflowing, the rate of inflation is getting pace and the performance of Large Scale Manufacturing does not look promising.

The current account balance posted a $1,316 million deficit in the first two months of FY17 as compared to a deficit of $686 million in the same time period in FY16.

Foreign investment is flowing out from the country. The 81 percent decline in Chinese investment and 52 percent decline in the UK's investment resulted into an overall decline of 52 percent in the total FDI of the country.

The downward trend in workers' remittances is also putting pressure on the country's external account. During the period under review, workers' remittances declined by around 5 percent.

From July to August 2016, the country's overall trade registered $4.4 billion deficit with a negative balance of $3.7 billion in the trade of goods and $0.6 billion in the trade of services. As compared with the first two months of FY16, the price of overall Pakistani exports declined by 8 percent in the first two months of FY17. Whereas, the price of imports increased by around 10 percent.

The rate of inflation is again gaining pace. The rate of inflation is reached to 3.9 percent in September 2017 as compared to 3.6 percent in August 2017. This is mainly due to acceleration in the food prices. The food price inflation which was 3.4 percent in August 2017, reached to 4.0 percent in September 2017.

As compared to July 2015, the production of Large Scale Manufacturing increased by 2.6% in July 2016. However, if compared to June 2016, the LSM output depicts a decline of 2.59 percent.
Nevertheless, during the past several months, Pakistan's stock market is showing a tremendous performance, where the index of Auto Assemblers is outpacing all other indices.

## Table 1: Economic Snapshot

| Particular | Reporting Period | Value |
|---|---|---|
| **T-Bill** | | **(%)** |
| 03-M | Aug-16 | 5.8 |
| 06-M | Aug-16 | 5.9 |
| 12-M | Aug-16 | 5.9 |
| PIB 10-years | Aug-16 | 7.7 |
| 6-M Kibor | Aug-16 | 6.0 |
| Discount Rate | Aug-16 | 5.8 |
| **Inflation** | **Aug-16** | **3.9** |
| **External Indicatror** | | **($ Bn)** |
| Export | Aug-16 | 2.1 |
| Import | Aug-16 | 4.6 |
| Trade Deficit | Aug-16 | -2.5 |
| Home Remittances | Sep-16 | 1.6 |
| Current Account | Aug-16 | -0.7 |
| FDI | Aug-16 | 0.04 |
| **Public Finance** | | **(Rs. Bn)** |
| Tax Collection | Jun-16 | 47 |
| Direct Taxes | Jun-16 | 20 |
| Indirect Taxes | Jun-16 | 27 |
| Credit to Private Scetor (Rs. Bn) | As of August 16 | 3,892 |
| LSM Growth (%) | Jul -16 | 2.62 |
| FX Reserves ($ Bn) | 05 Oct 16 | 23.5 |

*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 | 4.8 |
| **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 |

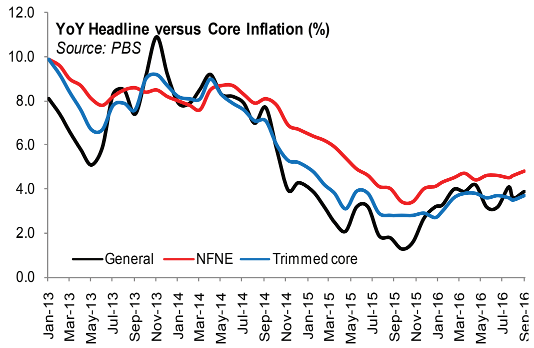
*Sources: *Budget in Brie 2016-17, **Monetary Policy Statement, ***IMF Country Report (June 2016), ****AsianDevelopment Outlook 2016*

Table 3: Balance of Payment Account - Key Items Only

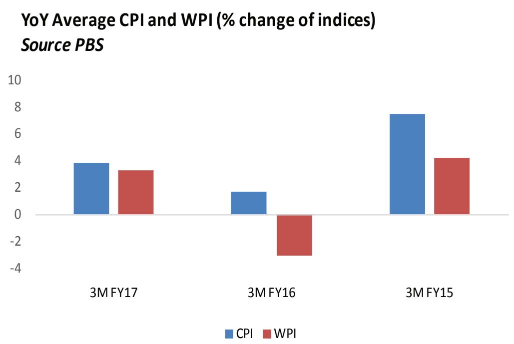
| $ (Mn) | 2M (FY17) | 2M (FY16) | % change |
|---|---|---|---|
| **Current Account Balance** | -1316 | -686 | n.a |
| **Balance on Trade in Goods** | -3,748 | -3,309 | |
| Exports of Goods FOB | 3,221 | 3,494 | -8% |
| Imports of Goods FOB | 6,969 | 6,803 | 2% |
| **Balance on Trade in Services** | -619 | -384 | -31% |
| Exports of services | 713 | 1,040 | -53% |
| CSF inflows | 3 | 6 | -6% |
| Imports of services | 1,332 | 1,424 | |
| | 3M (FY17) | 3M (FY16) | |
| **Workers' Remittances** | 4,698 | 4,966 | -5% |
| U.S.A | 604 | 715 | -16% |
| U.K | 546 | 672 | -19% |
| Saudi Arabia | 1,324 | 1,441 | -8% |
| UAE | 1,057 | 1,115 | -5% |
| | 2M (FY17) | 2M (FY16) | |
| **Direct Investment in Pakistan** | 113 | 241 | -53% |
| U.S.A | 25 | -71 | n.a |
| U.K | 12 | 25 | -52% |
| Saudi Arabia | 24 | 23 | 4% |
| China | 26 | 136 | -81% |
| **Portfolio Investment in Pakistan** | 41 | (72) | n.a |
| Equity | 41 | (72) | n.a |
| Debt | n.a | n.a | n.a |

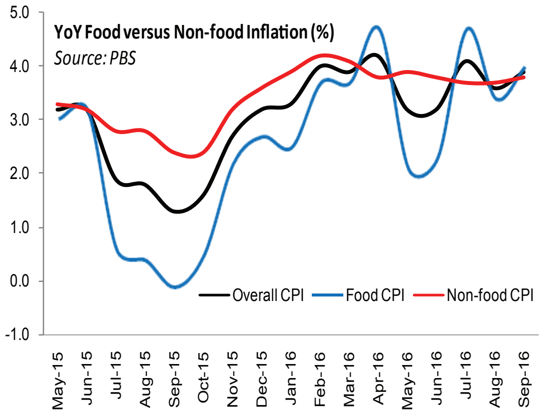
## Figure 1: Trends in Inflation

YoY Headline versus core inflation (%)



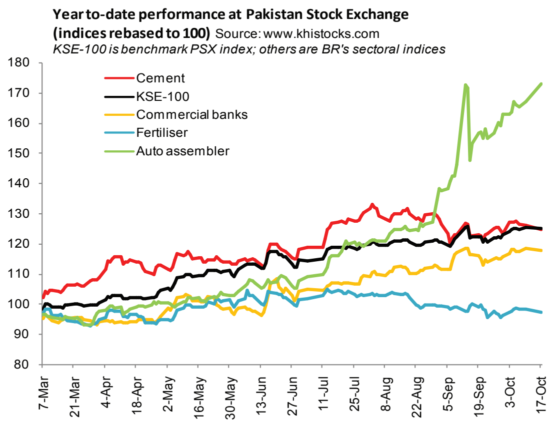

YoY Average CPI and WPI (% changes of indices)

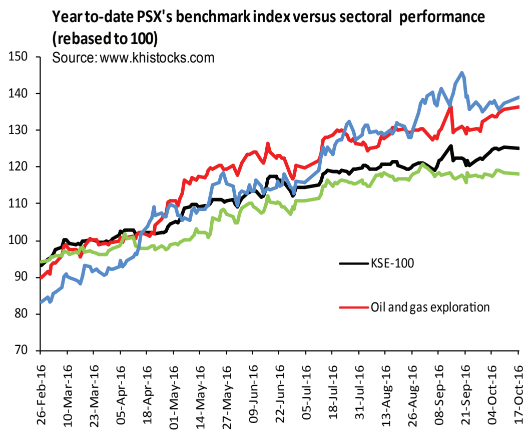



*Source: PBS*

## Figure 2: Performance at Stock Market




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

## Table 4: Key Export Categories

| KEY EXPORT CATEGORIES - PERCENTAGE CHANGE 2M FY17 over 2M FY16 | | | | | |
|---|---|---|---|---|---|
| **Commodities (units)** | **Quantity 2M FY17 (total)** | **Price 2M FY17 ($ Mn)** | **Price (% change)** | **Quantity (% change)** | **APR* (% change)** |
| Total | n.a | 3,137 | -8% | n.a | n.a |
| **Food (M.T)** | | **395** | **-23%** | | **n.a** |
| Rice | **318,401** | **159** | **-25%** | -19% | **-7%** |
| Basmati | **66,846** | **58** | **-28%** | -9% | **-21%** |
| Non-Basmati | **251,555** | **101** | **-23%** | -21% | **-2%** |
| Sugar | **0** | **0** | **-100%** | -100% | **-100%** |
| **Textile** | **n.a** | **2,071** | **-3%** | n.a | **n.a** |
| Raw cotton (M.T) | **6,592** | **10** | **-56%** | -54% | **-4%** |
| Cotton yarn (M.T) | **91,315** | **217** | **-17%** | 9% | **-23%** |
| Cotton cloth (TH.SQM) | **285,573** | **352** | **-4%** | -15% | **13%** |
| Knitwear (TH.DOZ) | **23,516** | **415** | **-3%** | 29% | **-25%** |
| Bedwear (M.T) | **58,365** | **355** | **5%** | 12% | **-6%** |
| Towel (M.T) | **24,748** | **114** | **-17%** | -20% | **3%** |
| Readymade garments (TH.DOZ) | **5,109** | **364** | **4%** | 3% | **0%** |
| Art, silk & synthetic textile (TH.SQM) | **21,817** | **47** | **-3%** | -62% | **153%** |
| **Petroleum products** | **n.a** | **15** | **-68%** | n.a | **n.a** |
| Naphtha (M.T) | **7,782** | **2** | **0%** | n.a | **n.a** |
| **Other manufacturing goods** | **n.a** | **502** | **-14%** | n.a | **n.a** |
| Sports good | **n.a.** | **46** | **-6%** | n.a | **n.a** |
| Football (TH.DOZ) | **543** | **25** | **-9%** | 0% | **-9%** |
| Gloves (TH.DOZ) | **259** | **14** | **-10%** | -28% | **25%** |
| Leather tanned (TH.SQM) | **1,976** | **56** | **-11%** | -34% | **35%** |
| Leather products | **n.a** | **82** | **-11%** | n.a | **n.a** |
| Leather garments (TH.DOZ) | **134** | **52** | **-8%** | -17% | **11%** |
| Leather gloves (TH.DOZ) | **769** | **27** | **-17%** | -31% | **21%** |
| Footwear (TH.Paris) | **1,927** | **19** | **-3%** | 11% | **-13%** |
| Surgical goods | **n.a** | **49** | **-9%** | n.a | **n.a** |
| Chemical & pharma products | **n.a** | **129** | **-25%** | n.a | **n.a** |
| Plastic material (M.T) | **20,040** | **36** | **4%** | -28% | **45%** |
| Engineering goods (TH.NOS) | **n.a** | **31** | **6%** | n.a | **n.a** |
| Cement (M.T) | **1,011,741** | **52** | **-11%** | -2% | **-10%** |
| **All other items** | **n.a.** | **153** | **5%** | n.a | **n.a** |

***ARP= Average Realised Price**

*Sources: PBS*

## Table 5: Key Import Categories

| KEY IMPORT ITEMS - PERCENTAGE CHANGE 2M FY17 over 2M FY16 | | | | | |
|---|---|---|---|---|---|
| **Commodities (units)** | **Quantity 2M FY17 (total)** | **Price 2M FY17 ($ Mn)** | **Price (% change)** | **Quantity (% change)** | **APR* (% change)** |
| Total | | 7,888 | 10% | n.a | |
| **Food (M.T)** | n.a | 883 | 15% | n.a | n.a |
| Tea | 42,196 | 94 | 15% | 60% | -28.3% |
| Palm Oil | 355,438 | 243 | -12% | -15% | 4.5% |
| Pulses | 146,278 | 131 | 51% | -1% | 65.8% |
| All other food items | n.a | 287 | 29% | n.a | n.a |
| **Machinery group** | n.a | 1,876 | 63% | n.a | n.a |
| Power generation | n.a | 556 | 150% | n.a | n.a |
| Textile group | n.a | 76 | 5% | n.a | n.a |
| Electrical | n.a | 300 | 22% | n.a | n.a |
| Telecom | n.a | 174 | -10% | n.a | n.a |
| **Transport group** | n.a | 468 | 14% | n.a | n.a |
| Road motor | n.a | 385 | 33% | n.a | n.a |
| CBU Heavy vehicles | n.a | 44 | 116% | n.a | n.a |
| CBU Motor cars | n.a | 50 | -8% | n.a | n.a |
| CKD Heavy vehicles | n.a | 55 | 31% | n.a | n.a |
| CKD Motor cars | n.a | 102 | 25% | n.a | n.a |
| Other transport | n.a | 48 | 125% | n.a | n.a |
| **Petroleum group (M.T)** | n.a | 1,488 | -14% | n.a | n.a |
| Petroleum products | 3,446,270 | 992 | -1% | 105% | -44.1% |
| Petroleum crude | 1,116,203 | 304 | -52% | 22% | -59.4% |
| **Textile group (M.T)** | n.a | 453 | 7% | n.a | n.a |
| **Agriculture group** | n.a | 1,200 | 0% | n.a | n.a |
| **Metal group** | n.a | 648 | 6% | n.a | n.a |
| Iron and Steel (M.T) | 604,768 | 321 | 5% | 37% | -29.0% |
| **Miscelleanous group** | n.a | 197 | 0% | n.a | n.a |
| **All other items** | n.a | 671 | 2% | 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

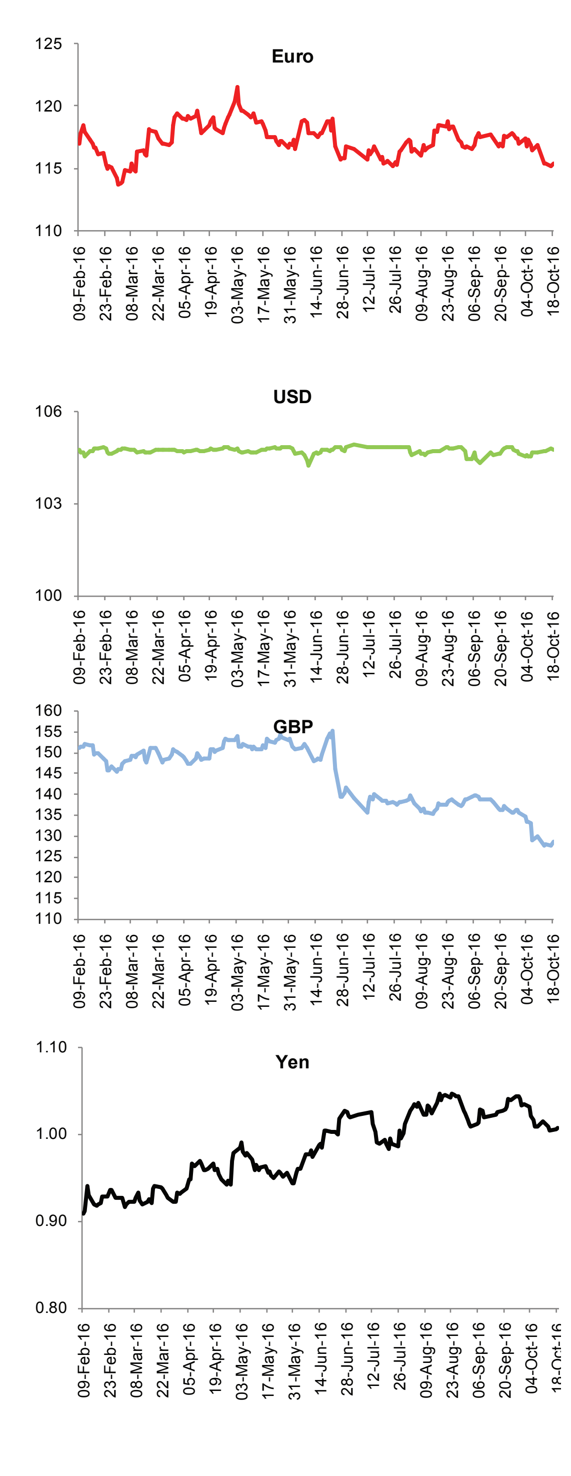
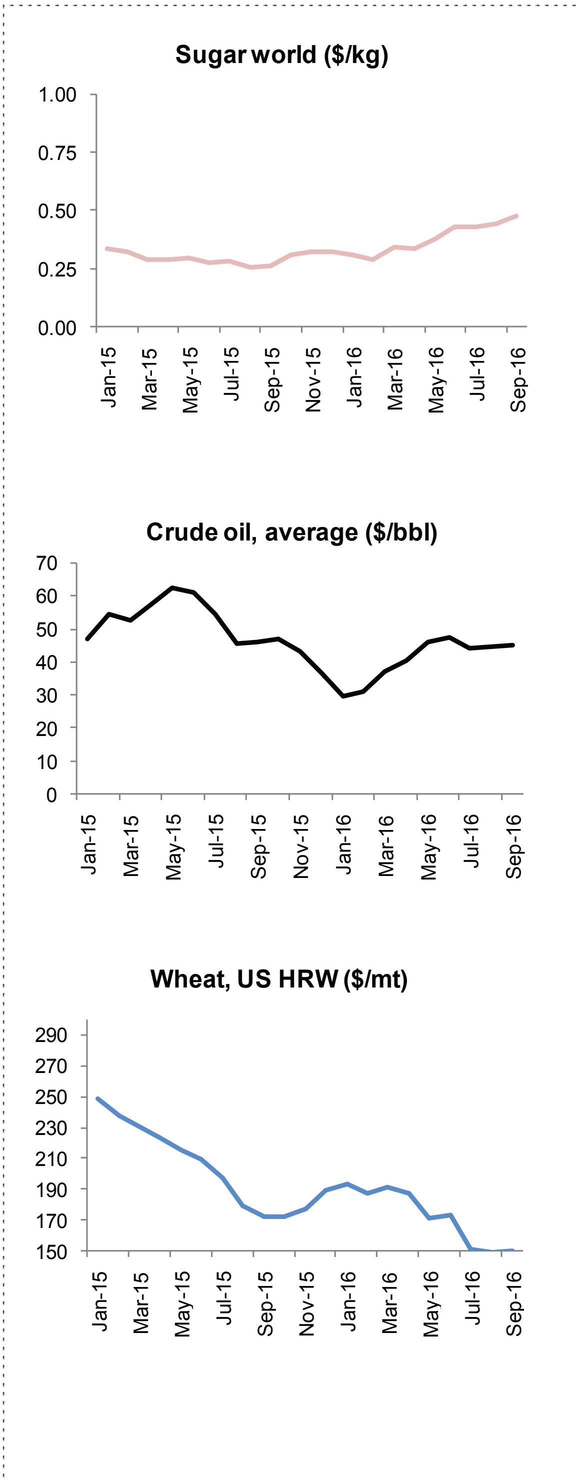



Figure 4: Key Commodities World Market



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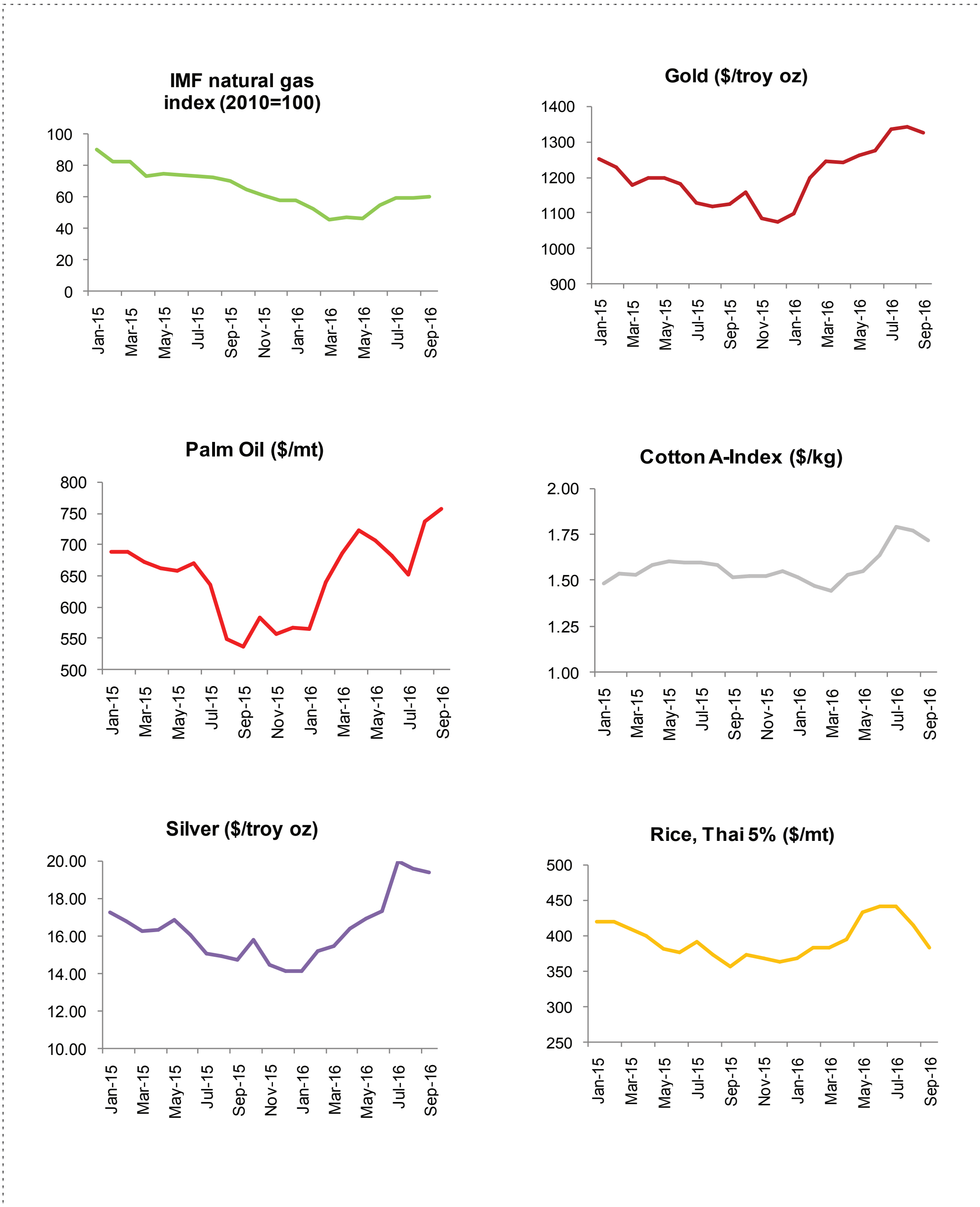


Table 6: Ease of Doing Business Index

| 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 | 122 | 61 | 157 | 137 | 133 | 169 | 171 | 151 |
| India | 155 | 183 | 70 | 138 | 42 | 133 | 157 | 178 |
| Bangladesh | 117 | 118 | 189 | 185 | 133 | 172 | 86 | 188 |
| Singapore | 10 | 1 | 6 | 17 | 19 | 41 | 5 | 1 |
| Vietnam | 119 | 12 | 108 | 58 | 28 | 99 | 168 | 74 |
| Turkey | 94 | 98 | 36 | 52 | 79 | 62 | 61 | 36 |

*Source: Doing Business*

## Performance of Large and Medium Scale Enterprises

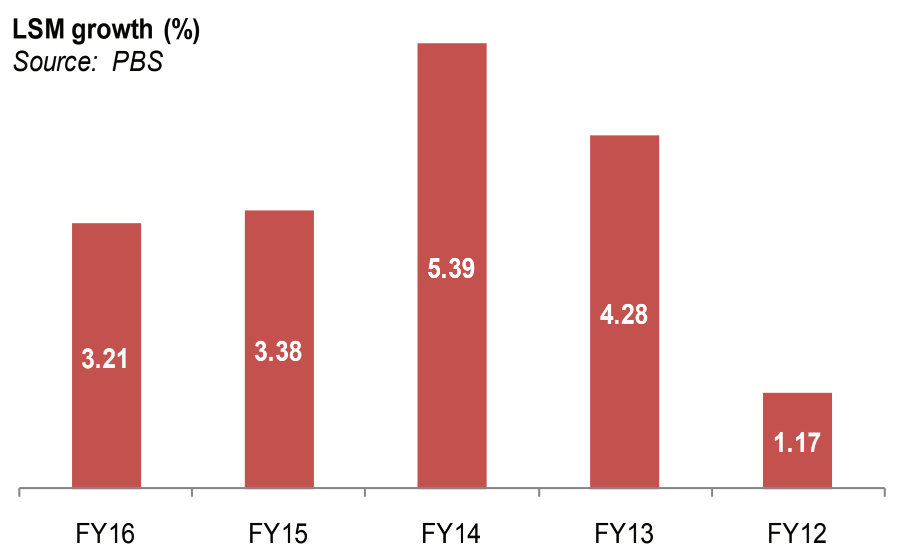
### Major LSM Drivers

| | | % change |
|---|---|---|
| | Weight | Jul16/Jul15 |
| Textile | 20.91 | (0.10) |
| Food, Beverages & Tobacco | 12.37 | (2.92) |
| Coke & Petroleum Products | 5.51 | (1.20) |
| Pharmaceuticals | 3.26 | 6.94 |
| Chemicals | 1.72 | (4.10) |
| Automobiles | 4.61 | 0.90 |
| Iron & Steel Products | 5.39 | 19.02 |
| Electronics | 1.96 | 4.83 |
| Leather Products | 0.86 | (0.96) |
| Paper & Board | 2.31 | 33.14 |
| Engineering Products | 0.40 | (21.58) |
| Rubber Products | 0.26 | 6.27 |
| Non-Metalic Mineral Products | 5.36 | 12.68 |
| Wood Products | 0.59 | (97.72) |

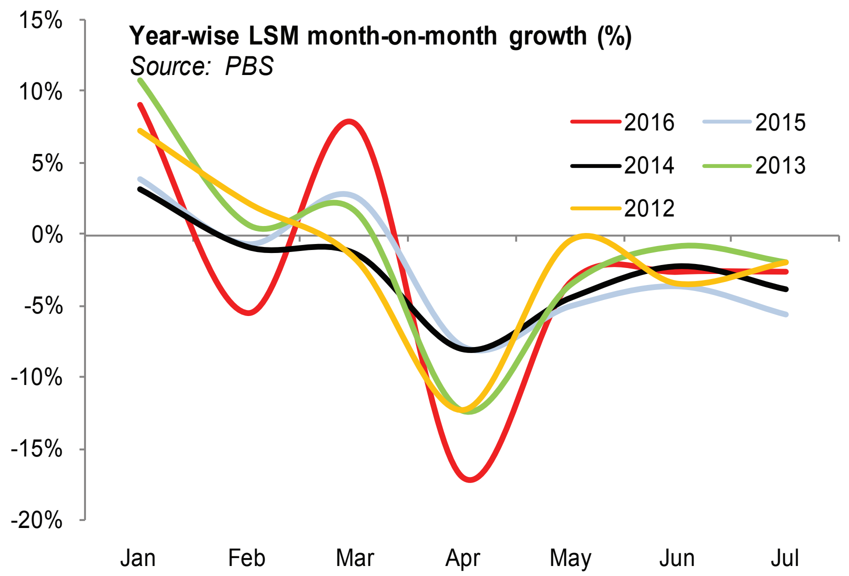
*Source: PBS*

## Performance of Large and Medium Scale Enterprises

LSM Growth (%)




Year-wise LSM month-on-month growth (%)




*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

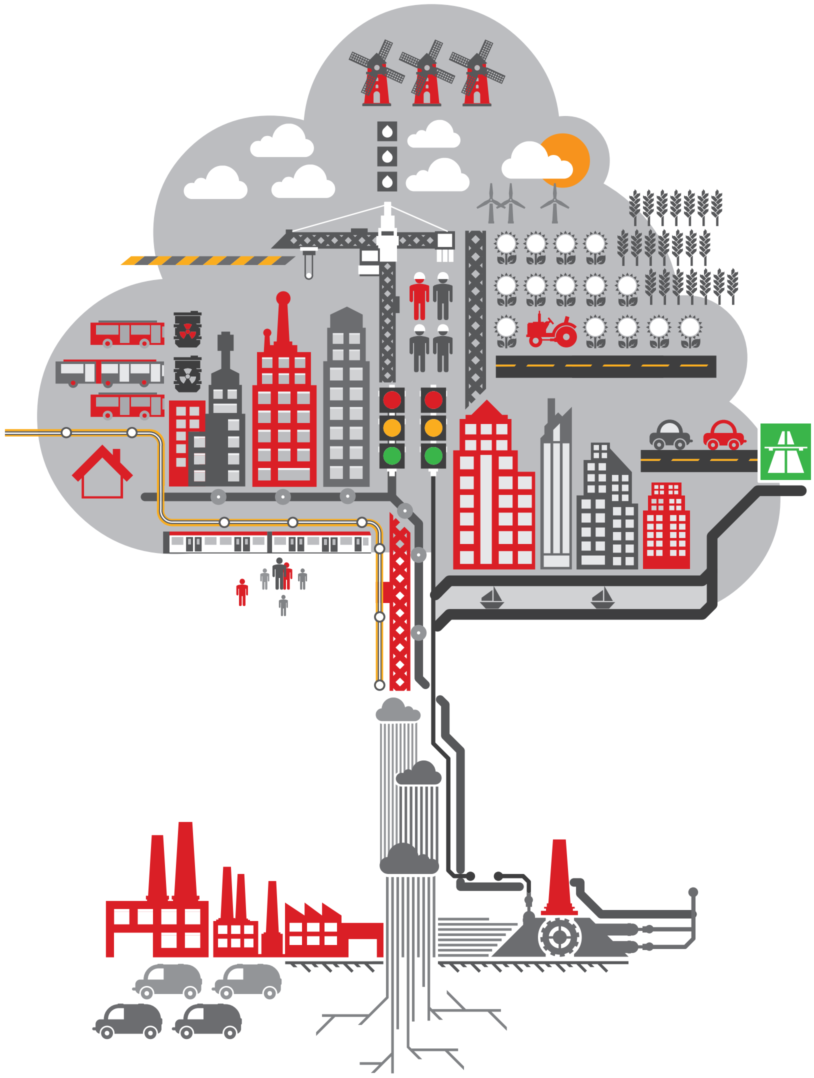
08. Tariffs and Trade Barriers

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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