PRIME POLICY REPORT

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PAKISTAN'S EXPORT PERFORMANCE: OBSTACLES AND POTENTIAL SOLUTIONS

JUNE 2017

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Business Climate Review

by Ali Salman

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

Last month, the present 'business-friendly' government presented, what is most likely, its fifth and final budget. The reaction of business associations to this budget indicates acute dissatisfaction and frustration. In this commentary, I will delve into the issues which were identified by business associations as not having been addressed in the budget. These views were collected by PRIME.

The Budget has Not Addressed Falling Exports

The All Pakistan Textile Mills Association (APTMA) has dubbed this budget "non-aligned" with falling exports. It has also criticized the prevalence of high duties on the import of cotton. APTMA represents the sector, which is the mainstay of Pakistan's exports, and is one of the most powerful business associations of Pakistan. The Pakistan Hosiery Manufacturers and Exporters Association raised similar concerns. However, all fiscal incentives, including the Rs. 180 billion package by the Prime Minister announced specifically for the textile sector last year, has failed to play a role in arresting the decline in textile exports. Therefore it is high time that both the government and the private sector move away from their incessant focus on fiscal incentives and refocus themselves on global market competitiveness as a whole. On the issue of the import duty on cotton, the Finance Ministry is usually under pressure from competing demands from textile manufacturers and cotton growers. Instead of picking winners and losers, which is what the government does through its fiscal policy, the government should introduce a predictable and low duty on the import of cotton to introduce some certainty to decision making in the sector.

Capital Gains Tax and Corporate Tax Remain High

The Pakistan Stock Exchange has said that there has been "no consideration of PSX proposals", referring to it demands of lowering the corporate and capital gains taxes. The government announced back in 2013 that it will bring the corporate tax rate from 35% to 30% in five years, issuing a one percent decline every year. It has fulfilled its promise on that account, though even at 30% the corporate tax rate remains one of the highest in the world. One of PRIME's reports on taxation has already recommended a corporate tax rate of 20%. Similarly, capital gains should not be taxed, as this may act as a deterrent to prudent savers and investors. Capital gains tax also leads to double taxation as shareholders pay income taxes as well.

Job Creation has been Ignored

The All Pakistan Business Forum has said that no concrete measures were taken to revive the job market. When responding to demands such as these, governments usually resort to an increase in development spending. In this case, the federal government has already increased its PSDP allocation, crossing the one trillion rupee mark. This, on its own merit, is no mean achievement. However, this is funded by borrowed money, which will bring negative consequences for debt sustainability if projects are not chosen wisely. Political factors in deciding development projects cannot be ignored, and the government should move towards more balanced budgets eventually. Job creation is essentially the mandate of the private sector. By asking the government to include more measures for job creation, the business community is only displacing its own entities.

The Undocumented Economy Remains Elusive

The Pakistan Business Council, representing large national companies of the country, has observed that the government has not taken any measures to reform the largely undocumented real estate sector of the country. Earlier, the governor of the central bank had expressed the fear that the commercial loans taken by the private sector are being diverted towards real estate instead of productive investments. The real estate sector is not only the most popular vehicle of savings by the public at large, but also a haven for illegal and untaxed wealth by the corrupt. Last year, the government did introduce some measures to document this sector and bring taxation on real estate at par with other sectors. One of the measures was that the prices of real estate, instead of being benchmarked with the "DC rate", should be determined by the Federal Board of Revenue. However, this was incorrect treatment of a rightly diagnosed problem. We cannot solve this problem by introducing more bureaucracy- the less of it, the better. Instead, the government should consider alternative measures. One such measure is to tax the parcel of landed property on a uniform basis.

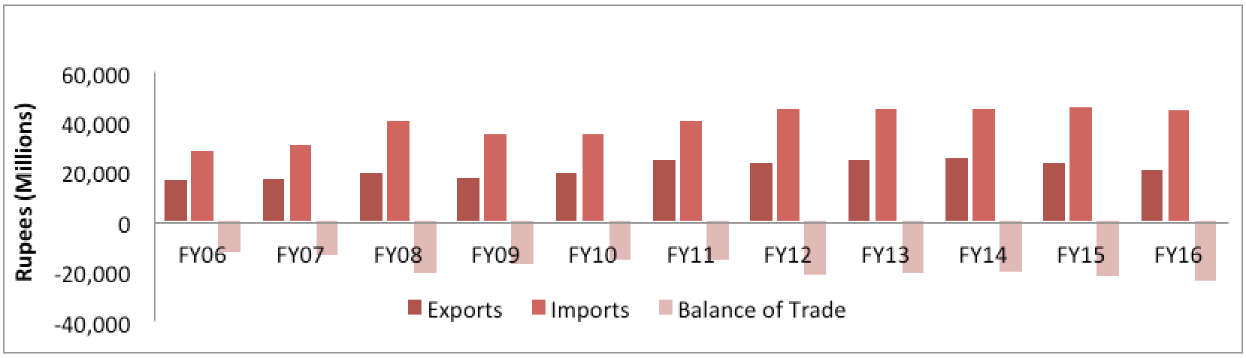
MARKET ANALYSIS

Pakistan's Export Performance: Obstacles and Potential Solutions

An Overview of Pakistan's Export Performance

Pakistan continues to produce discouraging export numbers, consistently lagging behind other regional economies. As of 2015, the country's share in total world exports stood at 0.13%, compared to India's 1.62% and 0.2% for Bangladesh.[1] Pakistan's trade deficit soared to a massive $30 billion over the first eleven months of fiscal year 2016-2017, up 42% from the same period last year.[2] Exports for the month of May have also fallen 11% year-on-year, with exports for eleven months falling to $18.5 billion from $19.1 billion last year. Imports, on the other hand, have from $40.2 billion last year to $48.5 billion over the same period currently. [3]

The graph below shows how Pakistan's trade deficit has been growing over the past few years, with dismal export numbers and imports that remain consistently high.



Structure of the analysis

1 "Trade Profiles," World Trade Organization, http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=IN,PK,BD.
2 "Monthly Summary on Foreign Trade Statistics," Pakistan Bureau of Statistics, last modified May 2017, http://www.pbs.gov.pk/trade-summary.
3 Ibid.

Exports appear to be deteriorating in spite of the Strategic Trade Policy Framework announced in March 2016, which hoped to enhance annual exports to $35 billion by 2018, improve export competitiveness, promote innovation and increase Pakistan's share in regional trade. It proposed to achieve this through a series of tax incentives,

investment support measures, and other steps to facilitate the export sector.[4] The 2016-2017 budget also introduced zero-rating for five export-oriented sectors – textiles, leather, sports goods, surgical goods, and carpets – with the current budget announcing the continuation of these measures.[5] An additional Rs.180 billion package to revive exports was revealed in January, but it appears from Pakistan's dismal export figures to have not achieved the desired effect.[6]

Even foreign agreements, such as the granting of Generalised Status of Preferences (GSP) Plus by the EU in 2014, have had little effect. The status allows Pakistani exports duty-free access to the EU. However, Pakistan's exports only grew about 3% - a sign that the economy's export issues are too entrenched to be solved by any preferential status.[7] The next section takes a look at the reasons why Pakistan's exports consistently remain low.

Causes of Pakistan's Stagnant Export Performance

Pakistan's poor export performance has been a constant cause of concern, even when the economy as a whole experiences a growth spurt. Even though the economy registered a GDP growth rate of 5.28% in the previous fiscal year, an unprecedented figure in the last decade or so, the export goals set out in the Strategic Trade Policy Framework appear to be out of reach.[8]

Why have Pakistan's exports failed to look up? There are myriad issues affecting the export sector, ranging from dips in the global economy to hurdles in local tax machinery. The major issues preventing exports from taking off are detailed below:

Low global demand: To begin with, lukewarm demand for exports in the wake of the global recession is a factor that has affected many countries, Pakistan included. Even in FY16, a number of emerging markets have witnessed a drop in exports – including India, China and Indonesia.[9] A number of major currencies, including the Pound, Euro, Yen, and Yuan, also depreciated against the dollar during FY16, resulting in a drop in global exports. This was mainly the result of the monetary policies of developed countries as well as other political factors such as the Brexit vote in the United Kingdom. Falling oil prices further contributed to slow growth in the global economy.[10] Global trade grew by a very low 1.3% in 2016, the fifth year in a row that trade has grown by less than 3% - mainly due to the slowing down of investment spending in the USA and China.[11]

Perhaps part of Pakistan's sluggish export performance can be attributed to the above mentioned global factors. However, the country's exports have remained meager for too long to be attributed solely to poor international performance. The main factors affecting Pakistan's poor exports are continued below.

Import substitution policies: A report by

4 "Strategic Trade Policy Framework," Ministry of Commerce, 22 March 2016, http://www.commerce.gov.pk/wp-content/uploads/2016/08/STPF-Final-English.pdf.
5 "Budget Speech 2017-18," Ministry of Finance, 26 May 2017, http://www.finance.gov.pk/budget/budget_speech_english_2017_18.pdf.
6 "PM Announces Rs.180bn Package for Export Sector," Dawn, last modified 10 January 2017, https://www.dawn.com/news/1307569.
7 Mubarak Zeb Khan, "GSP+ Failed to Revitalise Exports to EU in 2016," Dawn, last modified 26 February 2017, https://www.dawn.com/news/1316990.
8 Mubarak Zeb Khan, "Government to Revise Trade Policy," Dawn, last modified 16 June 2017, https://www.dawn.com/news/1339771/govt-to-revise-trade-policy.
9 State Bank of Pakistan, "External Sector," State Bank Annual Report 2015-2016, accessed June 19, 2017, http://www.sbp.org.pk/reports/annual/arFY16/Chapter-06.pdf.
10 Ibid.
11 "Trade recovery expected in 2017 and 2018, amid policy uncertainty," World Trade Organization, last modified 12 April 2017, https://www.wto.org/english/news_e/pres17_e/pr791_e.htm.

the State Bank of Pakistan points to Pakistan's legacy of import substitution policies as a factor contributing to a lack of export-oriented policies. Throughout the 1950s and 60s, a number of developing countries , including East Asian ones, adopted import substitution industrialization policies in a bid to promote local industry and reduce foreign dependency. Though other countries simultaneously provided incentives to exporting sectors, Pakistan in fact discouraged them by hiking up the prices of imported inputs. Even when the government did introduce export boosting measures, these were nullified by high tariffs on key industrial imports.[12]

A recent Trade Policy Review by the World Trade Organization points to how Pakistan's high tariff levels weaken its productivity.[13] The economy is yet to adopt an export-led growth strategy, akin to that of China. The box provides a short summary of how China has managed to achieve unprecedented growth through the opening up of its economy.[14]

In 1978 Den Xiaoping, leader of the People's Republic of China, initiated an ambitious economic reform programme. This included encouraging foreign trade and investment. This was the beginning of China's immense growth, leading it to lift more than two hundred million citizens out of poverty. Some key features of China's liberalization policies are listed below:

- FDI inflows grew from under $1 billion in 1983 to more than $45 billion in 1997, primarily because of special economic zones
- By the end of the 1990s, total FDI in China was over $300 billion
- High FDI coupled with low import tariffs for inputs has led to a number of foreign firms manufacturing goods in and exporting from China, making it one of the largest exporters in the world.

lack of a unified export-oriented growth strategy is a major reason why Pakistan's exports have failed to take off. The country lacks a policy whereby industry and the training of human capital is geared specifically towards enhancing exports. Instead, economic managers rely on sporadic measures to give a temporary boost to certain sectors. Each Federal Budget announces duty concessions on highly specific inputs – the latest released budget includes concessions for items such as ostriches and aluminum scrap. Zero rating for five export-oriented sectors – textile, leather, carpets, sports goods, and surgical goods – was also continued from the previous budget.[15]

Though such measures are commendable, these are usually one-off reliefs that continue for a year or two at best. Even the export numbers set out in the aforementioned Strategic Trade Policy Framework tend to be unrealistically ambitious, and focus more on offering reliefs to certain sectors than on improving human capital and the overall trade environment of the economy. The lack of a clear-cut and time-bound policy to revive exports has resulted in a failure to drive the economy towards the lofty export goals set by the government.

Tax issues: The export sector is an unfortunate victim of the whims of the Pakistani taxation system. A common complaint is the delay in refunds for exporters: even the zero-rating of five export-oriented sectors in FY16 failed to raise exports, as delayed refunds gave rise to a liquidity crisis in those sectors.[16] Furthermore, most tax rebate facilities such as these seem to be offered without much research – according to Secretary Commerce Yousaf Dagha, a lot of sectors

[12] Asma Khalid, "Special Section 3: What has Caused Stagnation in Pakistan's Exports," State Bank Annual Report 2014-2015, accessed June 19, 2017, http://www.sbp.org.pk/reports/annual/arFY15/Special-Section3.pdf.
[13] "Trade Policy Review of Pakistan 2015," World Trade Organization, accessed June 19, 2017, https://www.wto.org/english/tratop_e/tpr_e/tp411_e.htm.
[14] Nicholas R. Lardy, "Is China a 'Closed' Economy?" Brookings, last modified 24 February 2000, https://www.brookings.edu/testimonies/is-china-a-closed-economy/.
[15] "Salient Features: Budget 2017-18," Federal Board of Revenue, http://www.fbr.gov.pk/Budget2017-18/SalientFeatures/SalientFeatures.pdf.
[16] Mushtaq Ghumman, "Five export oriented sectors zero rating to continue: Haroon," Business Recorder, 17 May 2017, http://fp.brecorder.com/2017/05/20170517179497/.

that contribute highly to exports have been ignored in the zero-rating scheme. This includes sectors such as rice, fruits, meat, and pharmaceuticals.[17]

A number of other tax measures serve as a deterrent for potential exporting sectors. Since imposing duties on exports is forbidden, these are usually levied in the guise of "regulatory" duties and other surcharges.[18] An "export development" charge of 0.25% is levied on all exports, and exporters pay a 1% income withholding tax. The Federal Board of Revenue also has the power to impose a regulatory duty of up to 100% on any export, not subject to parliamentary approval.[19] Such duties imposed include regulatory duties of 35% imposed on wheat products and pulses.[20] The tax system seems to function on an ad hoc basis when it comes to exports, resulting in these measures stifling exports or being ineffective at best.

No environment for innovation: A major reason why Pakistani exports suffer is the lack of value-added products being exported. This is particularly true of the textile sector, whose only boosts in exports come thanks to value-added products.[21]

Unfortunately, Pakistan does not provide an environment conducive to the development of new and innovative value-added products for the international market. Measures to protect intellectual property rights, for example, are inadequate – this includes copyrights, patents, trademarks, and other legal measures.[22] This has delivered another blow to Pakistan's all-important textile exports, as companies have refrained from developing high-quality cotton seeds. Consequently, low quantities of cotton are produced, which fail to boost exports. Basmati rice suffers a similar fate. According to a State Bank report, high quality seeds have raised yields in other countries, including India.[23] Until the government strengthens intellectual property rights and introduces other measures to encourage innovation and value addition, exports are likely to remain suppressed.

Lack of quality products: A number of Pakistani exports have also suffered due to not being of optimal quality. Exports that have faced bans due to not meeting regulations include surgical instruments and seafood. Not only are standards not met, but exporters are often not aware of requirements from different countries, which in turn prevents them from expanding their exports.[24] Certifications that exporters tend to be unaware of include International Organization of Standards (ISO) standards and EurepGAP, which is used by several supermarket chains in European countries.[25]

Resource availability issues: An oft-quoted issue plaguing the industrial sector, and by extension the export sector, is that of resource availability. This includes availability of power, trained labour, and quality raw material. A survey conducted by the Pakistan Institute of Development Economics (PIDE) revealed that 23% of industries use a UPS and 38% use a generator due to electricity load shedding.[26] Furthermore, the quality of labour suffers due to low quality

[17] Ibid.
[18] The Government of Pakistan, Customs Act 1969, Section 18(2).
[19] "Trade Policy Review of Pakistan 2015," World Trade Organization, accessed June 19, 2017, https://www.wto.org/english/tratop_e/tpr_e/tp411_e.htm.
[20] "Customs Active/Operative Notifications/SROs Export," Federal Board of Revenue, http://www.fbr.gov.pk/SROsExportA.aspx.
[21] Mubarak Zeb Khan, "Export of textile items remained flat in December," Dawn, last modified 21 January 2017, https://www.dawn.com/news/1309670.
[22] Asma Khalid, "Special Section 3: What has Caused Stagnation in Pakistan's Exports," State Bank Annual Report 2014-2015, accessed June 19, 2017, http://www.sbp.org.pk/reports/annual/arFY15/Special-Section3.pdf.
[23] Ibid.
[24] Ibid.
[25] "Export Barriers in Pakistan: Results from Firm Level Survey," Pakistan Institute of Development Economics, July 2012, http://pide.org.pk/pdf/Books/Export%20Barriers%20in%20Pakistan.pdf.
[26] Ibid.

education and a lack of vocational training.[27]

The textile and leather industries also have complaints regarding the unavailability of abundant raw materials of good quality. Low quality raw cotton and substandard slaughtering practices contribute to this shortage.[28] This not only leads to a decline in existing exports, but also prevents exporting sectors from developing better quality products that may attract new markets.

Recommendations

As the above section has detailed, the issues affecting Pakistan's exports are much more structural in nature than the ebbs and flows of the international market. Some recommendations for reviving Pakistan's exports are detailed below:

An export oriented policy: At the most fundamental level, there is a need to re-orient Pakistan's industrial policy to work for reviving exports. Economic managers need to deliberately propel the economy towards exports instead of relying on sporadic incentives for specific industries. There is a need for administrative support for supporters as a whole – reducing taxation on inputs, providing export sector oriented vocational training, availability of cutting-edge technology, and providing export credit for small firms to expand their operations.[29] There is also a need to focus on exports in the services sector, such as the IT, telecom and tourism industries. In taking a holistic view of things, the government must also consider enhancing the export capacity of the oft-ignored services sector.[30] In addition to this, the government must refrain from macroeconomic policies that penalize exports, such as an overvalued exchange rate. Pakistan must correct any overvaluation of its currency, mostly by correcting the appreciating effect of remittances.[31] Only by gearing the economy as a whole towards exports can the sector be revived.

Promote local R&D: Providing legal cover for intellectual property rights (IPRs) is essential for promoting innovation and development in exporting industries. Though the government has been carrying out some enforcement through raids, seizures, and arrests, this only occurs if an official complaint is registered by the rights' holder.[32] Piracy remains a problem in Pakistan, and the Intellectual Property tribunals and a policy board listed in the Intellectual Property Organization act have yet to be set up.[33] It is imperative that these institutions are set up so that a comprehensive property rights regime can be put in place. Furthermore, ex officio authority must be granted to these institutions so that they can enforce laws without holders having through go through administrative red tape.

Furthermore, the government can promote cutting-edge research through public-private partnerships, tax incentives for spending on R&D, and providing credit for firms to acquire new technology.[34] Providing an environment conducive to innovation and development will encourage Pakistan's industries to catch

27 Ibid.
28 Asma Khalid, "Special Section 3: What has Caused Stagnation in Pakistan's Exports," State Bank Annual Report 2014-2015, accessed June 19, 2017, http://www.sbp.org.pk/reports/annual/arFY15/Special-Section3.pdf.
29 Ibid.
30 Tayyab Tariq Narula, "How to boost Pakistan's dwindling exports," Pakistan Today, last modified 6 November 2016, https://www.pakistantoday.com.pk/2016/11/06/how-to-boost-pakistans-dwindling-exports/.
31 Naved Hamid et al, "A Strategy for Reversing Pakistan's Dismal Export Performance," Centre for Research in Business and Economics, July 2010.
32 "Trade Policy Review of Pakistan 2015," World Trade Organization, accessed June 19, 2017, https://www.wto.org/english/tratop_e/tpr_e/tp411_e.htm.
33 Ibid.
34 Naved Hamid et al, "A Strategy for Reversing Pakistan's Dismal Export Performance," Centre for Research in Business and Economics, July 2010.

up with those in better performing economies.

Improve tax machinery: Improving Pakistan's unwieldy taxation system will improve ease of doing business as a whole. The tax refund system should be made more transparent and time-bound, with procedures publicly advertised and refunds returned according to a fixed timeline. A system of incentives could also be introduced for compliant exporters to receive early refunds, thereby promoting timely behavior on both ends. Furthermore, taxes that act as a deterrent to exporting industries must be rescinded. This includes taxes on key imported raw materials, which only serve to drive up the cost of production.[35] This must be part of a comprehensive tax reform, whereby the tax regime as a whole is made simpler, more transparent, and more business friendly.

Improve resources: There is a need for a comprehensive policy that focuses on improving resource availability for industry as a whole, and exporting sectors in particular. This includes the availability of labour and power. Capacity building for labour should be enhanced through institutions such as the Technical Education and Vocational Training Authority (TEVTA) and related trainings about international certifications. Universities should also collaborate with industry to determine the sectors in which a human resource shortage exists, and work to produce graduates that are trained in the specific skills required by those sectors. Entrepreneurship should also be promoted through trainings and awareness campaigns about business management and export processes.[36]

Moreover, while it is true that the power crisis cannot be solved overnight, the government should consider subsidizing gas and power for upcoming export industries, as high tariffs have led to the pricing-out of several exporters.[37]

Harness the power of CPEC: With the rapid establishment of the China-Pakistan Economic Corridor (CPEC) as an economic powerhouse in the region, Pakistan must certainly use this opportunity to revive its dwindling exports. This can be done by participating in regional value chains alongside Chinese industries.[38] There are already plans to export seafood to China through land routes that the Chinese will be using to import oil and gas from the Middle East.[39] Though the eventual benefits of the road networks established under CPEC are often advertised, utilizing existing routes in this manner will help give a much needed boost to Pakistan's exports even in the short term.

Quality control: The public sector needs to ensure that there is awareness of international standards required by different economies, and that there are mechanisms that enable industries to acquire certifications to meet them. This includes building a facility that can test quality standards.[40] There is also a need to improve marketing facilities so that higher quality products can be exported from Pakistan. This would involve measures such as setting up an effective cool-chain facility for fruits, as Pakistani fruit exports often suffer because of inadequate cooling facilities. Furthermore, the government should improve linkages with importers of Pakistani goods, such as supermarkets, and provide incentives for industries that comply with international standards.[41] This would prevent exports from suffering in spite of adequate resource availability and outputs.

[35] Asma Khalid, "Special Section 3: What has Caused Stagnation in Pakistan's Exports," State Bank Annual Report 2014-2015, accessed June 19, 2017, http://www.sbp.org.pk/reports/annual/arFY15/Special-Section3.pdf.

[36] Ibid

[37] Sakib Sherani, "Reviving Pakistan's Exports," Dawn, last modified 28 April 2017, https://www.dawn.com/news/1329677.

[38] Ibid

[39] "Pakistan to export seafood to China via land routes," The Express Tribune, last modified 17 February 2017, https://tribune.com.pk/story/1330540/trade-enhancement-pakistan-export-seafood-china-via-land-route/.

[40] Naved Hamid et al, "A Strategy for Reversing Pakistan's Dismal Export Performance," Centre for Research in Business and Economics, July 2010.

[41] Ibid

Conclusion

It has become clear that the problems affecting Pakistani exports are multi-faceted, and thus require dynamic solutions through different avenues. The government must play an important role here, and focus on institutional development instead of introducing ad-hoc regulations that only serve to hinder an already suffering sector. Fundamental reform is required – one that addresses faulty underlying mechanisms and low quality human capital. Being part of a global market requires measures that ensure that the local economy can effectively compete in said market. This requires a broadening of horizons and the promotion of an entrepreneurial mindset among existing and potential exporters. Only through a forward-looking and export-oriented industrial policy can this all be achieved in time to meet the lofty goal of becoming one of the 25 largest economies in the world by 2025.

SNAPSHOT OF KEY ECONOMIC INDICATORS

Outlook of Pakistan's Economy (July-MayFY17)

Pakistan has reached the penultimate month of the current fiscal year, and economic indicators continue to be a mixed bag. Direct investment has shot up to more than $2 billion in July-May FY17, up more than 22% from the same period in the last fiscal year. This increase in foreign direct investment has been attributed mainly to inflows from China under the China-Pakistan Economic Corridor (CPEC). A large fraction of this investment is in the power sector.

Though Pakistan's rising FDI is often touted as a huge positive, there is a need to examine other economic indicators as well. Pakistan's imports have risen to about $26 billion in these eleven months, bringing the trade deficit to a record high of $30 billion. It certainly does not help that exports are failing to pick up. Rice and textile exports in particular have seen a decline.

The stock market, too, has been rocky during the past weeks, with experts citing panic selling as a reason. Pakistan's record high trade deficit and political upheaval as reasons for this, coupled with the fact that the market had reached an unsustainable high. Fortunately, the market seems to be recovering on the eve of Eid holidays.

LSM growth is appearing to be a positive, as it is higher than that of the previous two fiscal years over the same period. Nonetheless, the country's economic managers need to work hard to minimize the negative effects of a large trade deficit, and make sure that high FDI translates into employment and business opportunities for Pakistani citizens.

Table 1: Economic Snapshot

Particular	Reporting Period	Value
T-Bill		**(%)**
03-M	May-17	5.85
06-M	May-17	5.90
12-M	May-17	5.90
PIB 10-years	May-17	8.23
6-M Kibor	May-17	6.15
Discount Rate	May-17	5.75
Inflation	**May-17**	**5**
External Indicatrors		**($ Bn)**
Export	May-17	1.6
Import	May-17	5.1
Trade Deficit	May-17	-3.5
Home Remittances	May-17	1.9
Current Account	May-17	-1,581
FDI ($ Mn)	May-17	328
Public Finance		**(Rs. Bn)**
Tax Collection	Dec-16	38
Direct Taxes	Dec-16	18
Indirect Taxes	Dec-16	20
Credit to Private Scetor (Rs. Bn)	As of May 17	4,620
LSM growth MoM (%)	July-Apr FY17	5.6
FX Reserves ($ Bn)	12 May 17	20.7

Sources: SBP, Finance Ministry

Table 2: Key Targets and Projections

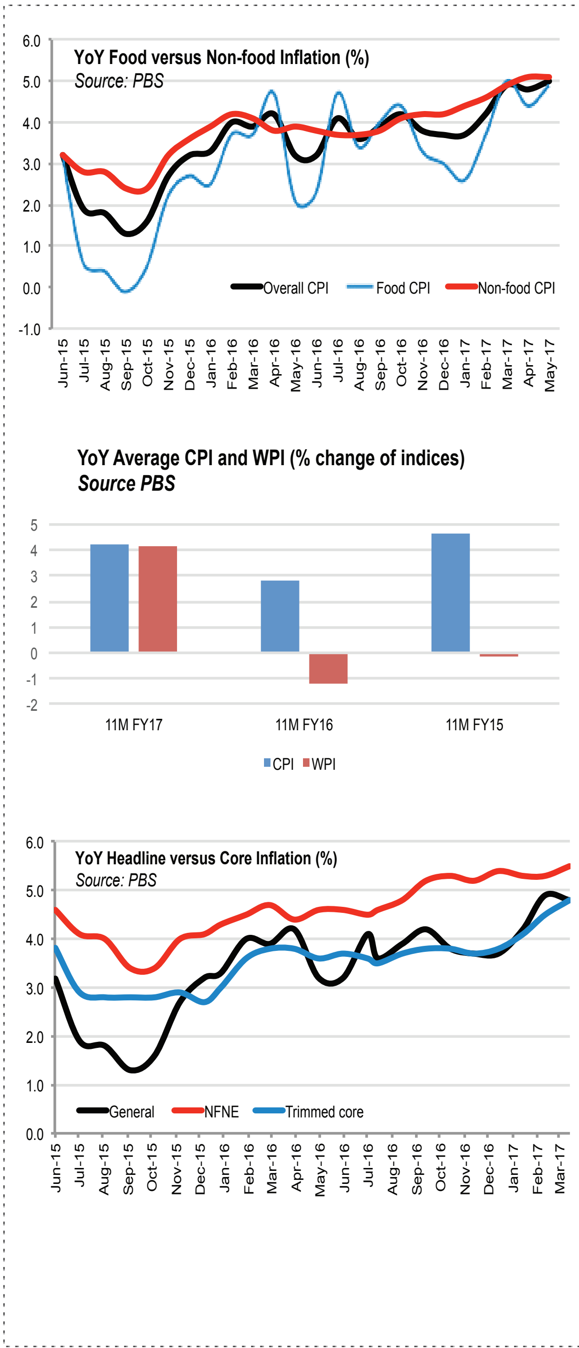
	Govt Target*	SBP Projection**	IMF Projection***	ADB Forecast****
		Percent		
Real GDP Growth	5.7	5.7	5	5.2
CPI- Full year average	6	4.5 - 5.5	5.2	4.5
		% change		
Export	n.a	n.a	4.1	n.a
Import	n.a	n.a	9.9	n.a
		% of GDP		
Current a/c Balance	n.a	n.a	-1.8	-1.2
Fiscal Balance	-3.8	n.a	-3.8	-5.3
Remittances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

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

Table 3: Balance of Payment Account - Key Items Only

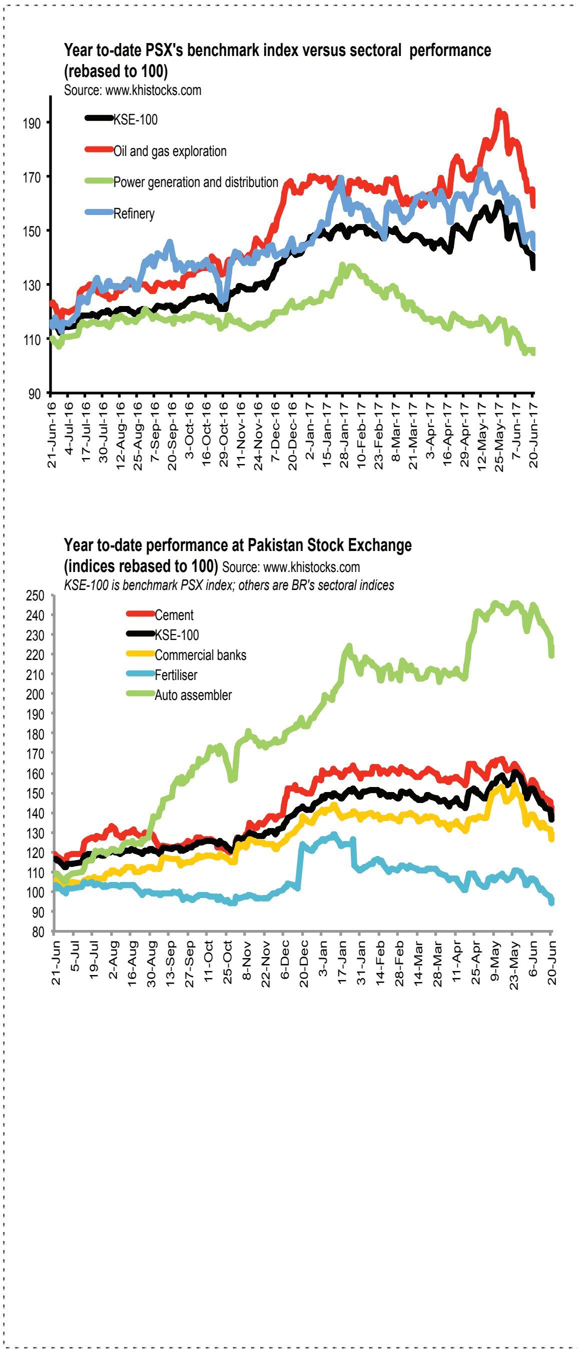
$ (Mn)	11M(FY17)	11M(FY16)	% change
Current Account Balance	-8,929	-3,217	n.a
Balance on Trade in Goods	-22,662	-16,357	
Exports of Goods FOB	19,830	20,105	-1%
Imports of Goods FOB	42,492	36,462	17%
Balance on Trade in Services	-2,778	-2,675	
Exports of services	5,068	5,039	1%
CSF inflows	109	282	-61%
Imports of services	7,864	7,714	2%
	11M (FY17)	11M (FY16)	
Workers' Remittances	17,463	17,843	-2%
U.S.A	2,178	2,250	-3%
U.K	2,085	2,270	-8%
Saudi Arabia	5,032	5,385	-7%
UAE	3,896	3,930	-1%
	11M (FY17)	11M (FY16)	
Direct Investment in Pakistan	2,028	1,654	23%
U.S.A	110	334	n.a
U.K	52	250	-79%
Saudi Arabia	51.9	220	-76%
China	920	701	31%
Portfolio Investment in Pakistan	616	-400	-254%
Equity	-413	-381	8%
Debt	1,029	-19	-5516%

Figure 1: Trends in Inflation



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 - PERCENTAGE CHANGE 11M FY17 over 11M FY16

KEY EXPORT CATEGORIES - PERCENTAGE CHANGE 11M FY17 over 10M FY16					
Commodities (units)	**Quantity (total)**	**Price ($ Mn)**	**Price (% change)**	**Quantity (% change)**	**ARP* (% change)**
Total	n.a			n.a	n.a
Food (M.T)		**3,427**	**-8%**		**n.a**
Rice	**3,269,579**	**1,463**	**-15%**	**-17%**	**3%**
Basmati	**409,669**	**383**	**-6%**	**-7%**	**1%**
Non-Basmati	**2,859,910**	**1,080**	**-17%**	**-18%**	**0.8%**
Sugar	**302,759**	**159**	**20%**	**3%**	**-100%**
Textile	**n.a**	**11,235**	**-2%**	**n.a**	
Raw cotton (M.T)	**23,451**	**40**	**-47%**	**-52%**	**10%**
Cotton yarn (M.T)	**413,749**	**1,134**	**-4%**	**5%**	**-9%**
Cotton cloth (TH.SQM)	**1,755,919**	**1,946**	**-6%**	**-13%**	**8%**
Knitwear (TH.DOZ)	**103,680**	**2,107**	**-2%**	**1%**	**-2%**
Bedwear (M.T)	**318,070**	**1,923**	**3%**	**5%**	**-2%**
Towel (M.T)	**163,136**	**705**	**-5%**	**-4%**	**-0.5%**
Readymade garments (TH.DOZ)	**30,689**	**2,074**	**4%**	**4%**	**0.4%**
Art, silk & synthetic textile (TH.SQM)	**103,005**	**179**	**-33%**	**-60%**	**69%**
Petroleum products	**n.a**	**167**	**22%**	**n.a**	
Naphtha (M.T)	**96,027**	**36**	**3211%**	**2948%**	
Other manufacturing goods	**n.a**	**2,794**	**-6%**	**n.a**	
Sports good	**n.a**	**280**	**-6%**	**n.a**	
Football (TH.DOZ)	**2,834**	**138**	**-13%**	**-12%**	**-1%**
Gloves (TH.DOZ)	**2,005**	**98**	**17%**	**7%**	**9%**
Leather tanned (TH.SQM)	**19,031**	**315**	**-6%**	**20%**	**-22%**
Leather products	**n.a**	**444**	**-8%**	**n.a**	
Leather garments (TH.DOZ)	**677**	**264**	**-10%**	**-17%**	**9.1%**
Leather gloves (TH.DOZ)	**4,339**	**169**	**-5%**	**-7%**	**2%**
Footwear (TH.Paris)	**8,953**	**87**	**-12.9%**	**-19%**	**6.9%**
Surgical goods	**n.a**	**307**	**-7%**	**n.a**	
Chemical & pharma products	**n.a**	**783**	**6%**	**n.a**	
Plastic material (M.T)	**147,155**	**198**	**15%**	**41%**	**-19%**
Engineering goods (TH.NOS)	**n.a**	**159**	**-6%**	**n.a**	
Cement (M.T)	**4,184,521**	**220**	**-27%**	**-25%**	**-3%**
All other items	**n.a**	**917**	**6%**	**na**	

***ARP= Average Realised Price**

Sources: PBS

Table 5: KEY IMPORT ITEMS - PERCENTAGE CHANGE 11M FY17 over 11M FY16

KEY IMPORT ITEMS - PERCENTAGE CHANGE 11M FY17 over 11M FY16					
Commodities (units)	**Quantity (total)**	**Price ($ Mn)**	**Price (% change)**	**Quantity (% change)**	**APR* (% change)**
Total					
Food Group (M.T)	n.a	5,651	16%	n.a	n.a
Tea	187,070	491	3%	18%	-12%
Palm Oil	2,409,220	1,746	13%	-4%	18.0%
Pulses	1,174,215	902	71%	44%	18.3%
All other food items	n.a	1,868	16%	n.a	n.a
Machinery Group	n.a	10,884	40%	n.a	n.a
Power generation	n.a	2,839	71%	n.a	n.a
Textile Group	n.a	516	23%	n.a	n.a
Electrical	n.a	2,119	27%	n.a	n.a
Telecom	n.a	1,253	-0.3%	n.a	n.a
Transport Group	n.a	2,984	22%	n.a	n.a
Road Motor	n.a	2,300	31%	n.a	n.a
CBU Heavy Vehicles	n.a	284	43%	n.a	n.a
CBU Motor cars	n.a	366	23%	n.a	n.a
CKD Heavy Vehicles	n.a	242	27%	n.a	n.a
CKD Motor cars	n.a	617	32%	n.a	n.a
Other transport	n.a	226	361%	n.a	n.a
Petroleum Group (M.T)	n.a	9,896	33%	n.a	n.a
Petroleum Products	13,309,955	6,208	31%	50%	-12%
Petroleum Crude	7,413,572	2,332	12%	41%	-21%
Textile Group (M.T)	n.a	3,089	5%	n.a	n.a
Agriculture Group (M.T)	n.a	6,930	5%	n.a	n.a
Metal Group	n.a	4,026	8%	n.a	n.a
Iron & Steel (M.T)	3,270,553	1,944	7.5%	16%	-7%
Miscelleanous Group	n.a	1,120	11%	n.a	n.a
All other items	n.a	3,960	16%	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

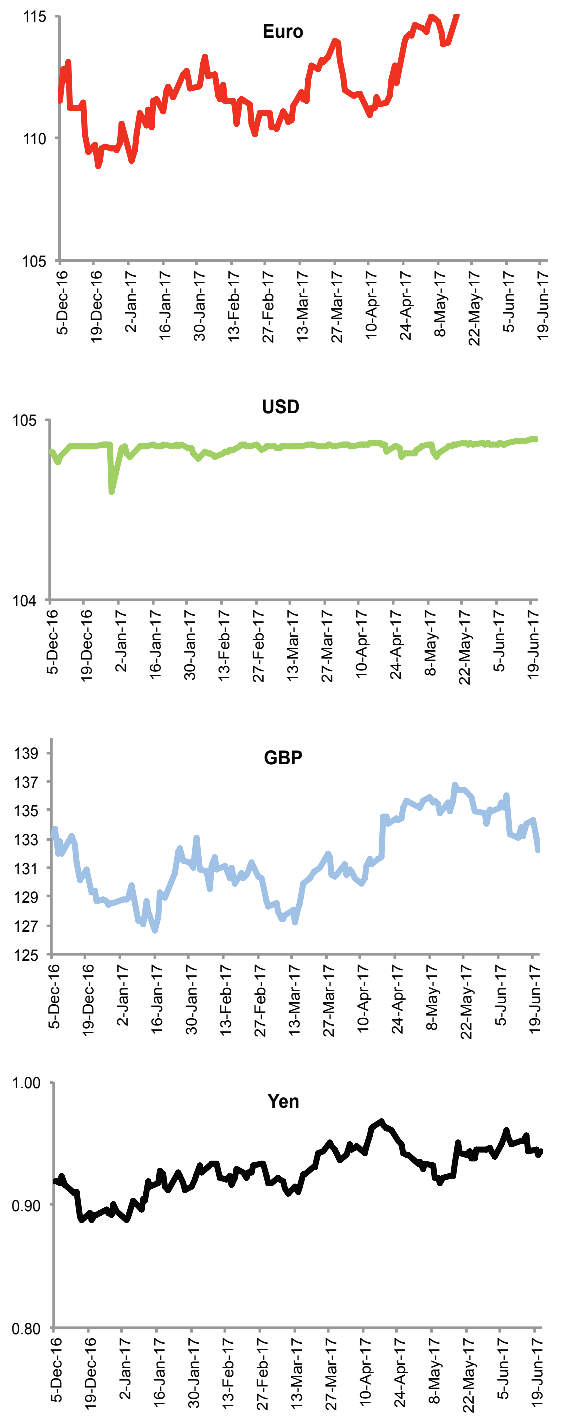


Figure 4: Key Commodities World Market

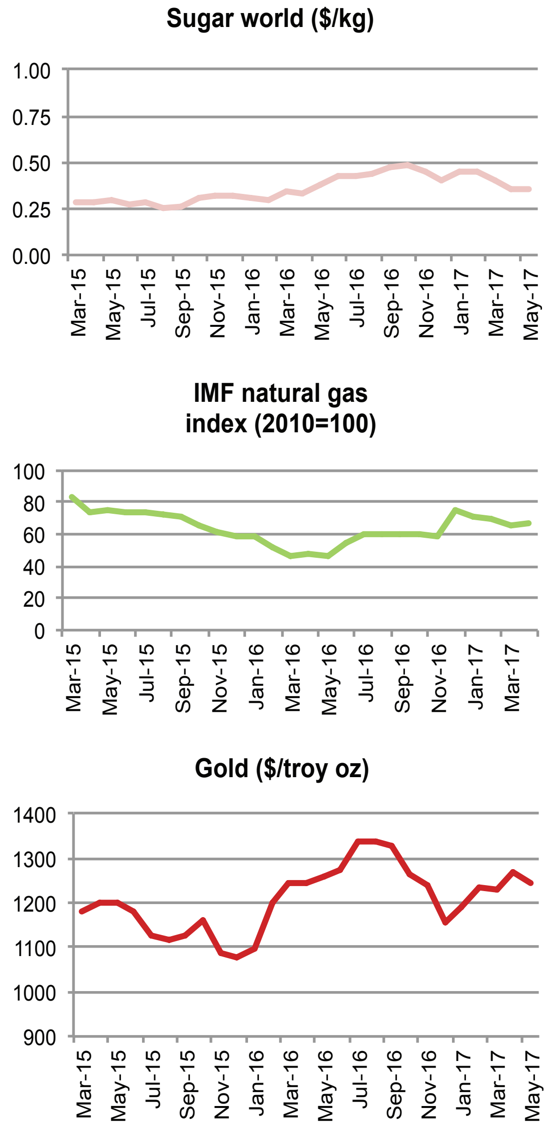


Figure 4: Key Commodities World Market

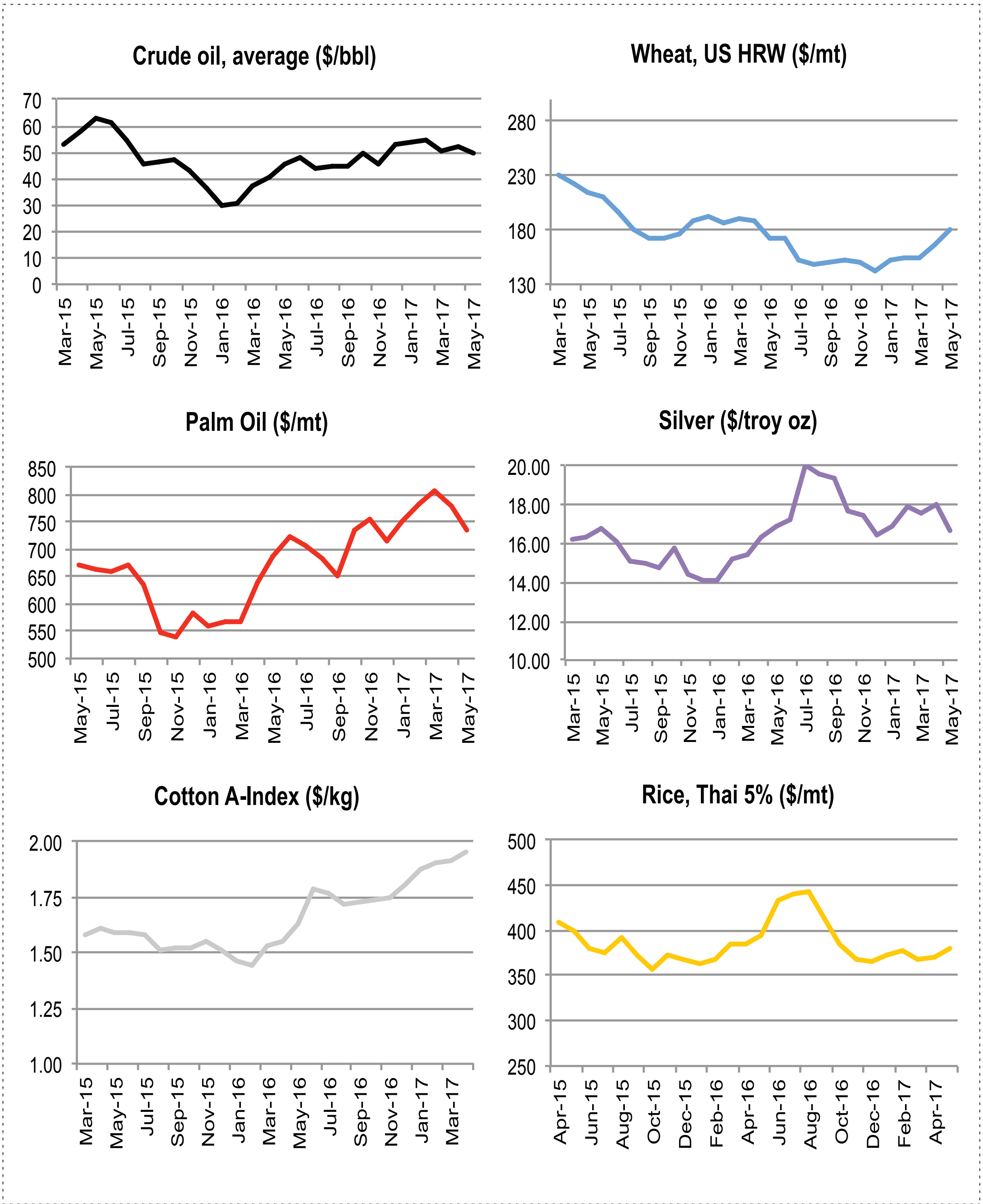


Table 6: Ease of Doing Business Index

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

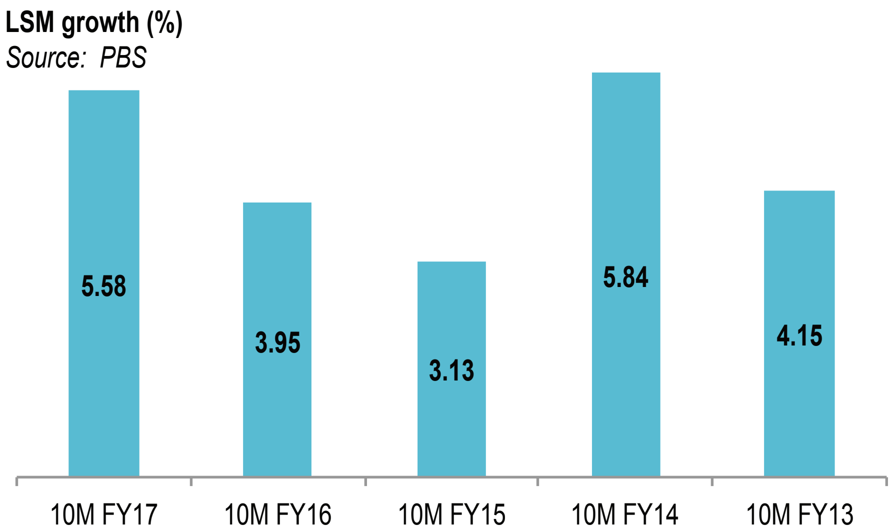
Performance of Large and Medium Scale Enterprises

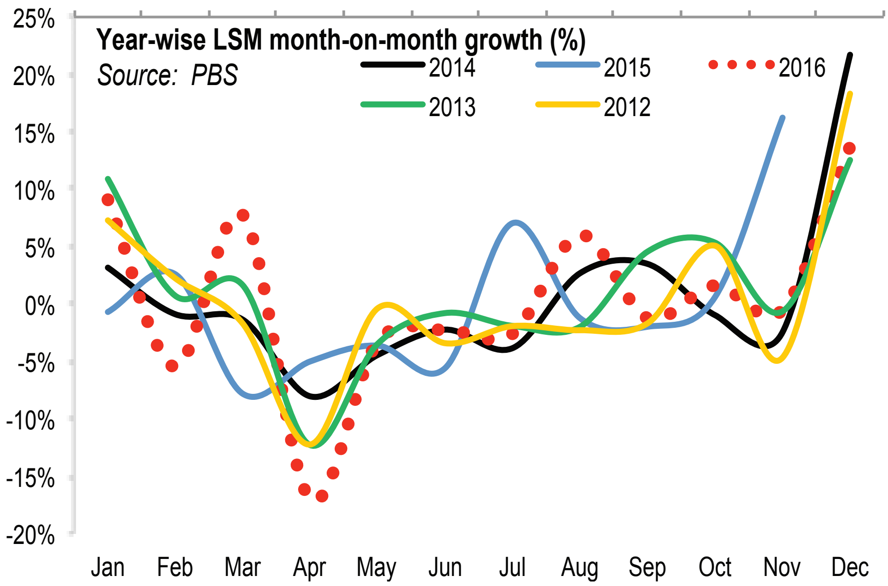
Major LSM Drivers

		Percentage change	
	Weight	10MFY17	10MFY16
Textile	20.92	0.73	0.55
Food, Beverages & Tobacco	12.37	11.60	1.84
Coke & Petroleum Products	5.51	0.97	0.1
Pharmaceuticals	3.62	9.01	6.29
Chemicals	1.72	-2.33	9.29
Automobiles	4.61	11.41	20.51
Iron & Steel Products	5.39	20.26	-8.94
Electronics	1.96	15.1	-3.67
Leather Products	0.86	-17.76	8.91
Paper & Board	2.31	5.56	-1.61
Engineering Products	0.40	4.29	-13.58
Rubber Products	0.26	0.36	8.17
Non-Metalic Mineral Products	5.36	6.54	10.37
Wood Products	0.59	-94.64	-60.01

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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