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FOREIGN EXCHANGE RATE POLICY: CONSEQUENCES FOR BUSINESSES

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PPR

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NOTE FROM THE EDITOR

In this issue, we present to you a brief commentary on this month's economic developments.The government of Punjab has recently recommended the inclusion of businessmen into policy boards. I argue that pro market policy makers should instead be included, because business interests are too narrow. A welcome development comes in the form of a law curbing "Benami" transactions. Pakistan and Turkey are now exploring ways to expand trade, and Pakistan has proposed a tariff reduction plan under the Turkey Pakistan Free Trade Agreement. The federal government is also considering an increase in the regulatory duty on Wheat.

In the second section, Jazib Nelson dives into exploring the Exchange Rate Policy, and the most recent trends in forex. He argues that the recent exchange rate stability and over valuation are politically driven, leading to an increase in input import intensity of Pakistani businesses. For Pakistan, almost 60 percent of economic activity as percent of GDP involves exchange value of rupee. Despite the importance, experience suggests that Pakistani rupee has always remained far from being "sound money" for businesses.

Syed Talha Hassan lastly examines key economic indicators tracking Pakistan's macro-economy. He notes that despite macro economic stability, business related indicators have failed to improve.

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CONTENTS

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. Also, we believe that government should not choose winners and losers by legalizing exemptions or favors.

Saving Capitalism from Capitalists!

The Governor of Punjab has recently suggested that policymakers must take businessmen on board (The News, August 23, 2016). It has become commonplace to demand bringing of businessmen on policy making platforms in the name of representation and participation. It is understood that the private sector interests can only be watched by the private sector representatives. However, this suggestion is fraught with danger. Every businessman has a legitimate narrow interest, and for the profit maximization goal, he will attempt to bend the policy when afforded an opportunity. Their own interest will be best served by a pro-market policy maker on board. The government actually exploits businessmen in the name of participation because the excessive power it enjoys. Therefore, both government and businessmen should consider risks of joint decision making in the better interest of market. That is how we can save capitalism from capitalists!

No more "Benami" Transactions

A law curbing "benami" (lit. without name or owner) transactions is a positive development as benami transactions are used to stash untaxed or illegitimate moneys (The News, August 17, 2016). The law will increase the risks and costs associated with a benami transaction thus hopefully increasing compliance and transparency. This law should be preceded with a swift action to improve property titling system, as has been recommended in several studies. At the same time, the provincial governments should bring down the property related taxes significantly, so that the cost of compliance can be further reduced.

Protection Does Not Safeguard Industries

Pakistan has proposed a tariff reduction plan under the Turkey-Pakistan Free Trade Agreement that calls about immediate elimination of custom duties on 35% of tariff lines amid steady progress in talks for early finalization of the deal (Express Tribune, August 5, 2016).

Trade tariffs are mostly taken in the name of safeguarding local industry. However, instead of safeguarding the local industry, government ends up protecting them.

While government should be actively engaged with the industry in common challenges like it should shun picking of winners and losers. Many big local industries actually support protectionism, as it will keep their market share consistent. Our experience on FTA with China should have a lesson for trade policy: we should open up tariffs to all instead of selecting one

Food Security Important Than Protecting Wheat Farmers

Government is considering increasing regulatory duty on import of wheat from the current 40% to 60% (Express Tribune, August 16, 2016). At the same time, it is considering to increase the subsidy it offered on export with an additional $30 per ton, thus doubling the rebate.

The problem is rather simple to understand. Pakistan has produced surplus wheat in the time when global food commodity pricing is depressed and there is very little demand for Pakistani wheat despite any subsidy that government is offering. On the other hand, Pakistani traders who would like to import cheaper wheat from the world cannot do now. Government is only protecting farmers, which is not the same as ensuring food security for its citizens. In fact, it is denying the possibility of cheap wheat to half of its population which now live in residential areas and potentially a huge proportion of rural population which also depends on market for their wheat consumption.

This folly can be traced back to 2008-09, when the peasants' friendly PPP government started increasing the support price of wheat. This gave a signal to farmers to grow more wheat, and they responded to government policy instead of market trends. Announcing of an extra ordinary wheat support price was wrong then, and government is simply adding to its wrongs by imposing regulatory duty on import of wheat and offering subsidy on its export now. The best way forward for the government is not do more, but to do less, and may be nothing.

MARKET ANALYSIS

Foreign exchange rate policy: Consequences for businesses

Foreign exchange rate, its stability and predictability holds critical importance in the international trade of any country. Pakistani Rupee is volatile. Pakistan's experiments with various exchange rate policies in the past have also fed into this uncertainty. Adding to that, these policies are inconsistently adhered to and frequently withdrawn.

Studies in Pakistan are mostly limited to understanding the implications of exchange rate on macroeconomic performance of the country, like GDP growth and current account balance. In this analysis, we focus on businesses. As Pakistani rupee has remained stable around Rs. 104 per dollar during the last 12 months, it is important to highlight what new patterns it has created in Pakistani businesses and how these patterns can potentially affect our exchange rate policy options in the future.

We begin with a brief overview of Pakistani exchange rate policies in the past and present in section I. Section II highlights how SBP has intervened in the forex market during past few years since 2013 and what results it has produced.

Finally, in section III we present changing business patterns due to a stable Pakistani rupee and how it has affected business in the economy. Based on this, will rupee remain a stable currency" in the future is also analyzed from the perspective of private business.

Structure of the analysis

Section 1
Exchange rate policies: past & present

Section 2
SBP's explanation of current ER trend

Section 3
Current ER policy: Why businesses should care?

Exchange rate policies: past and present

Before we analyze the exchange rate policies in Pakistan, some definitions are in order – given in Box 1.

Pakistan kept its exchange rate pegged to dollar from 1974-1981 to the rate of Rs. 9.9 per dollar. For the next 19 years from 1982-2000 a managed float was maintained as per official SBP stance. Pakistan first adopted floating exchange rate regime in 2001 and has held it as an official policy up until now. However, from 2001-2007 it was a de jure floating exchange rate policy. This choice was mainly due to “fear of floating” of Pakistani rupee. The de facto exchange rate was still managed. After the fall of General. Pervaiz Musharraf’s regime, the exchange rate policy was that of “benign neglect”, as rupee was floating from 2008-2013.

So how have these different regimes fared? This evaluation is conducted in Figure 1. It shows that across each performance indicator, the Float-FOF has fared better than others.

Why has this been so? The key lies in predictability. Foreign investors prefer to invest in a currency that has stable exchange value. It serves as a hedge in any business contract, which is why we see lower inflation and high GDP growth during Float-FOF regime.

Based on this analysis, can we safely conclude that the rather stable exchange rate regime being followed now has, or will, produce similar results?

While the regime during the first half of 2000s and the one being followed now are apparently similar, their underline considerations or reasons are different. What is the basis of the current “fear of floating”?

Box 1: Exchange Rate Policies – Some Definitions

Fixed exchange rate: A fixed exchange rate is a country's exchange rate regime under which the government or central bank ties the official exchange rate to another country's currency or to the price of gold.

Floating exchange rate: A floating exchange rate is a regime where the currency price is set by the forex market based on supply and demand compared with other currencies.

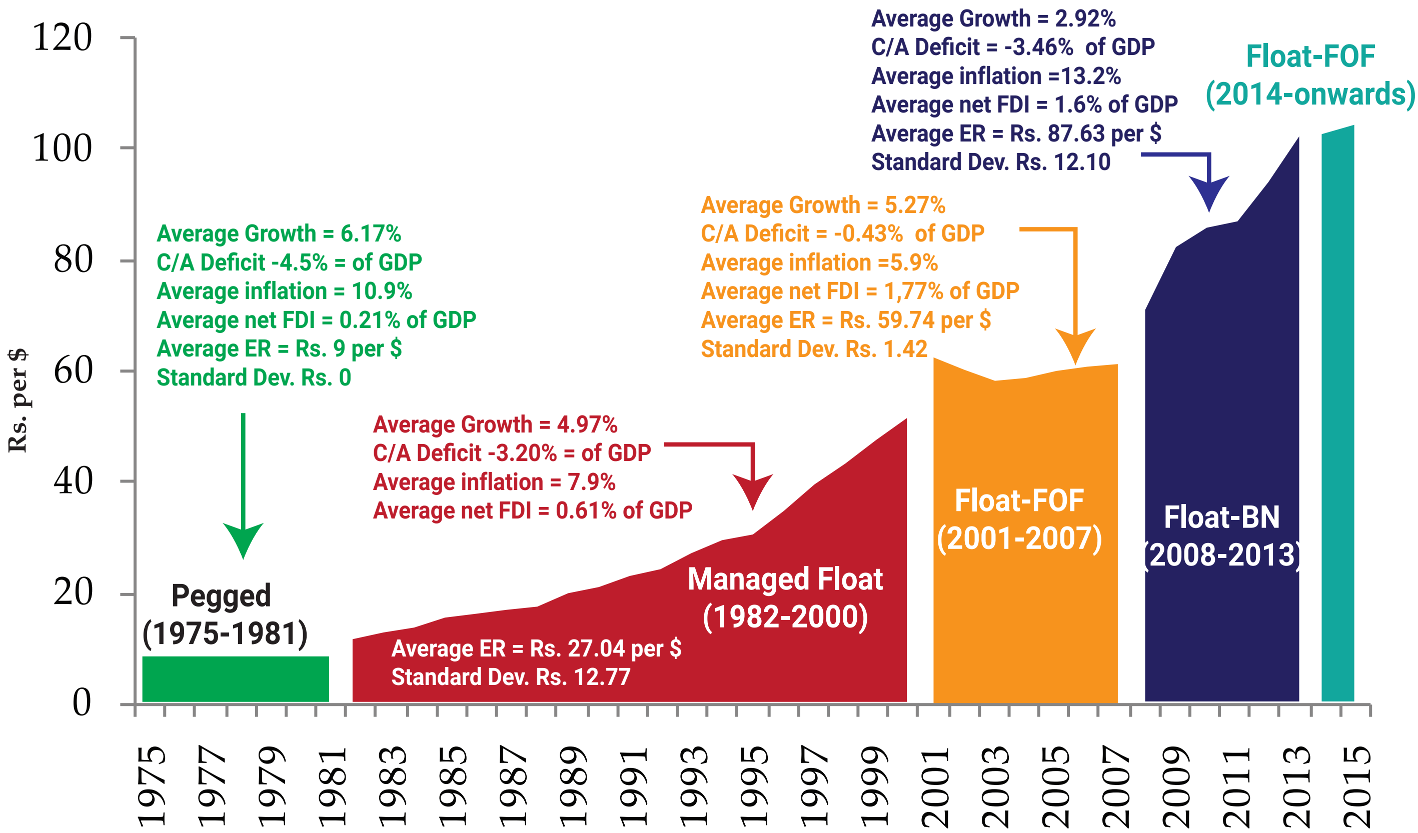
Managed float: A combination of both fixed and floating exchange rate regimes.

De jure & de facto exchange rate: Exchange rate regime “claimed” to have been followed by a country is called de jure exchange rate and that which it “actually” follows is called de facto exchange rate regime.

Fear of floating (FOF): When monetary authority of a country manages its exchange rate fearing excessive volatility in its exchange value.

Benign neglect (BN): When monetary authority of a country adopts “hands-off” policy and doesn’t intervene in the exchange rate market at all to influence exchange value of money.

Figure 1: Exchange rate regimes: Scanning outcomes



Source: Kumail, S. et al., 2014. From fear of floating to benign neglect: The exchange rate regime roller coaster ride in Pakistan. The Lahore Journal of Economics.
ER = Exchange rate; FOF = Fear of floating; C/A = Current account; FDI = Foreign direct investment; & BN = Benign neglect

First, the fear of floating during 2001-2007 was genuine especially after the Asian financial crisis which was mainly a currency crisis. There were fears that Pakistani rupee may fall prey to a speculative attack. Secondly, the reason why Pakistan had a stable exchange rate during this time was high foreign inflows in the country. Foreign reserves went up to $16.4 billion by October 2007 from $1.3 billion in 1999-2000. This was also aided by three years of surplus current account from 2001-02 to 2003-04. Even when current account turned into deficit in 2004-05 ($1.75 billion), 2005-06 ($5.6 billion) and 2006-07 ($7.5 billion), this was overcome by record capital inflows.

As per Economist Dr. Ashfaque Hassan Khan, "…..Pakistan's exchange rate remained stable at around Rs.60 per US dollar owing to the massive inflow of foreign capital including foreign investment which surged to $8.4 billion and helped in adding $3.5 billion in gross official reserves in 2006-07. Hence, even with a $7.5 billion in current account deficit in 2006-07, Pakistan succeeded in adding to foreign exchange reserves. Such inflow not only helped the rupee to fluctuate within a narrow band (Rs.60.27 to Rs.60.62 per dollar) against the US dollar but the real effective exchange rate remained stable as well."[1]

In contrast, current account deficit and foreign flows have not been promising enough to inspire such stability in exchange rate since the incumbent government's tenure started off in 2013. We can actually see this stabiity using monthly exchange rates. While the exchange rate has depreciated since 2008, its volatility has considerably reduced during the current government's tenure. This is shown in Figure 2.

If we compare this with Figure 1, the volatility now is just a bit higher than that in 2001-2007. While the stability achieved during 2001-2007 can be explained through economic sense, the current stable exchange rate seems contradictory. The reason we have marked political events in Figure 2 is crucial to our understanding of this apparent contradiction.

There are three explanations for this stability on political grounds. First explanation is that the IMF program Pakistan is now about to complete first time ever which was initiated in July 2013. The loan amount of $6.6 billion was meant to avert balance of payment crisis. These loans are conditional. The conditions are intended to ensure repayment of the disbursed loan money.

One of IMF's most recurrent conditions is to maintain exchange rate value. Part of the second reason is also related to the first one. Another IMF condition is to reduce budget deficit. There are two ways this can be achieved. Either government reduces its expenditure or increases revenues.

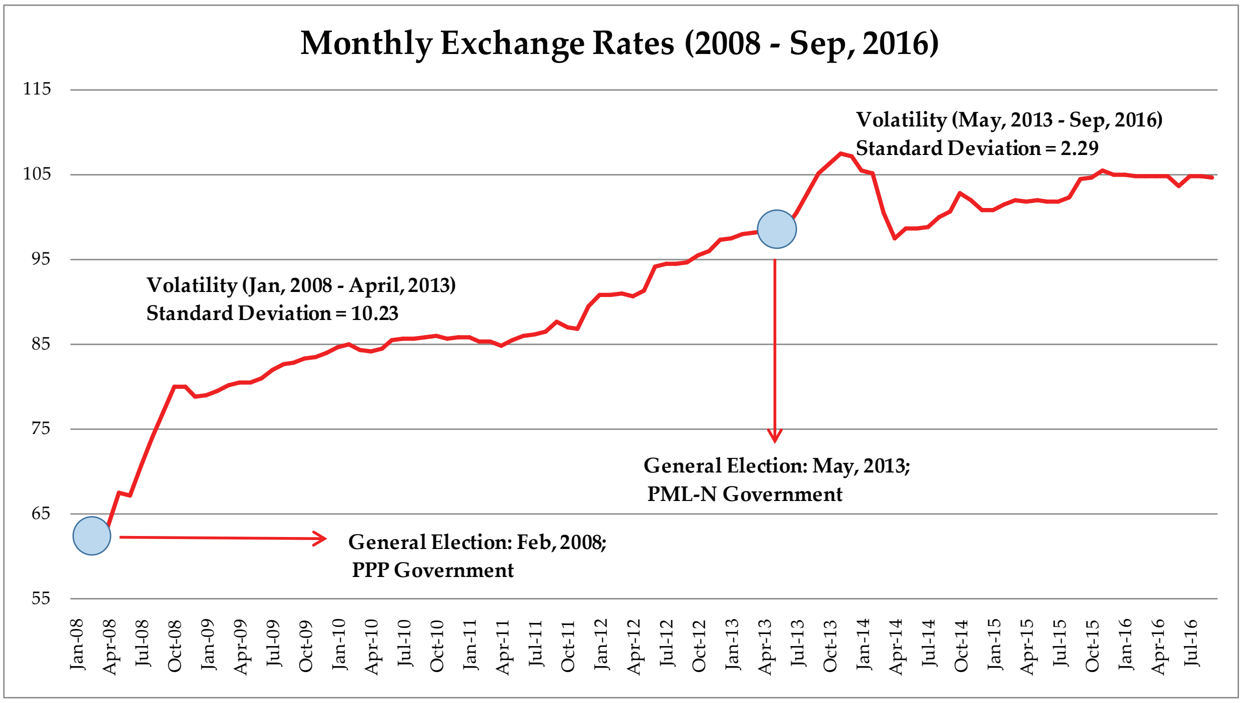
Current government has tended more towards building up revenues through high taxes. It has also relied heavily on loans both from domestic and foreign sources for budget financing. On the expenditure side, it has compromised on development expenditure only while current expenditure, defence expenditure and debt servicing is on the up.

But what does it have to do with the current exchange rate policy? Well, it is precisely these policies that have actually resulted in the current exchange rate strategy. Stable exchange rate is

[1] Khan, I. K. Misconception about exhcange rate. APML US

[2] Volatility is measured from standard deviation. The higher the value the more the volatility and otherwise.

Figure 2: Recent Exchange Rate Trends



Source: www.usforex.com

necessary to secure foreign loans. No foreign creditor gives money to a country with a volatile exchange rate. So fiscal consolidation is one reason we see a stable exchange rate regime.

The third reason is to make debt stocks look smaller in rupee terms. Depreciation in exchange rate will definitely produce a huge debt stock in rupee terms. So that is also one reason exchange rate is kept in check.

In a nutshell, the fear that is behind the current over-valued and stable exchange rate policy was to make sure that government can secure foreign loans. So fiscal considerations have masked economic logic. What explanations SBP offers for recent movement in exchange rate?

SBP's explanation of current exchange rate policy[3]

State Bank has attributed the recent trends in exchange rate to market sentiments. Along with this, SBP also intervened in FX market. These interventions involved total purchases of $3.5 billion worth of US dollars from FX market from July 2013 to August 2015. These purchases were staggered spanning over 18 months from October 2013 to March 2015

At the time of first purchase in October 2013, exchange was Rs. 106.24 per $. It reduced to

[3] Largely based on: Khalid, A. 2015. Is the PKR over-valued? SBP Staff Notes.

Rs. 101.87 per $ by March 2015. During these 18 months, exchange rate also went as low as Rs. 97 per $ in April 2014. Figure 3 shows SBP purchases and exchange rate movements.

However, about its various interventions in the Forex market; it claims that rupee would have appreciated even had it not intervened.

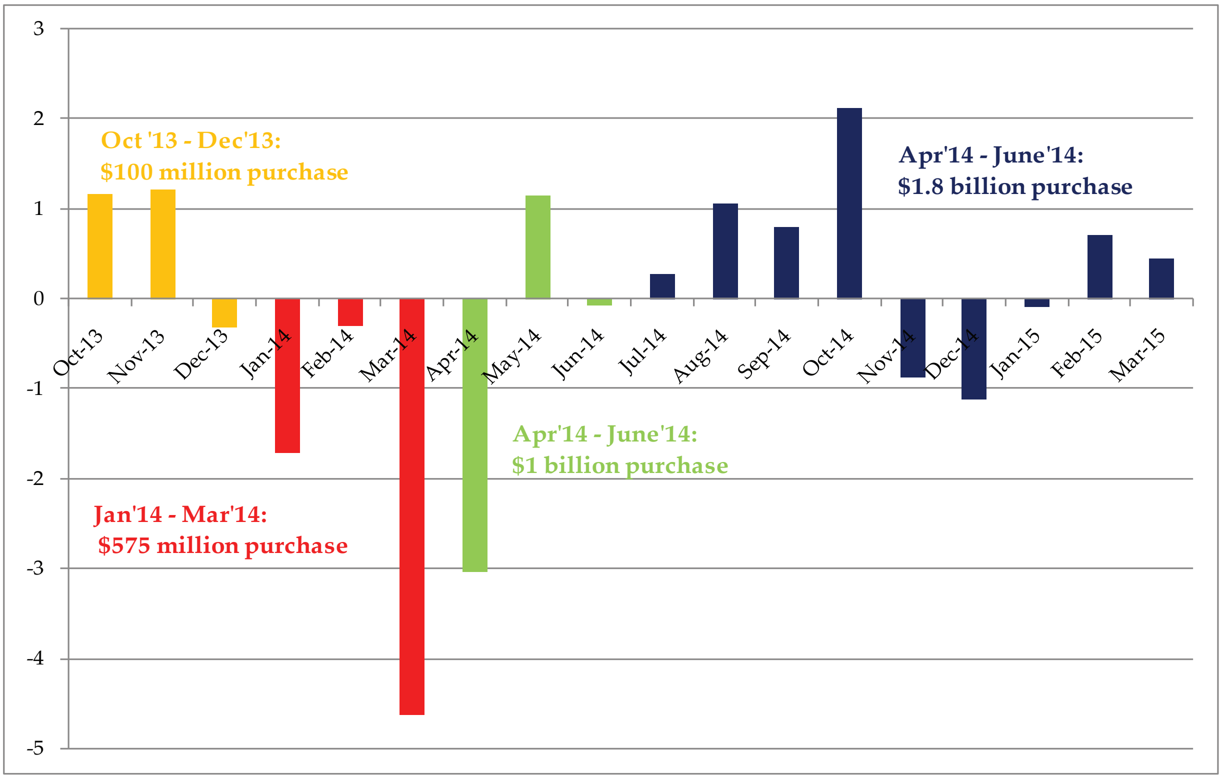
This explanation runs counter to economic sense. Exchange rate would have definitely depreciated given the pressures on the FX market due to mounting current account deficits and muffled foreign exchange inflows. Even purchases by SBP should technically have depreciated rupee.

This is evident from Figure 3. Barring the purchases from Jan'14 to Mar'14, SBP intervention has actually depreciated rupee.

As per the SBP document, along with this inflows like Saudi grant of $1.5 billion inspired market sentiments that propelled the value of rupee. Additionally, public commitment by Finance Minister to maintain exchange rate at Rs. 98 per $ also played into market movements.

However, the document itself goes on to claim that this commitment to Rs. 98 exchange rate was "too unrealistic" and was not bought by the market players. As a result, the intended outcome was not obtained.

Figure 3: SBP Purchases and ER Movements (+) Depreciation & (-) Appreciation)



Source: www.usforex.com and State Bank of Pakistan

The question here again arises as to why stable exchange rate was kept in the first place. Our answer to this are the three political factors described in the previous section.

This also proves our analysis above as to why we have seen stability of Pakistani rupee since the start of this government. Pakistan is effectively running a de jure fixed exchange rate which is also over-valued. Even according to the IMF, Pakistan's exchange rate is over-valued by as much as 20 percent.[4] The fear of floating is more political than economic.

Now that we have explained the current exchange rate policy and its underlining reasons, the question we now take up in the next section is what patterns has it caused to emerge for Pakistani businesses and what can be the future implication of those patterns both for Pakistani businesses and the economy as a whole.

Current exchange rate Policy: Why businesses should care?

Should the businesses care about the exchange rate policy prevalent in Pakistan? One may be tempted to conclude that exchange rate is not crucial for an economy like Pakistan where trade volume is quite low as compare to other countries. Currently, trade volume is just $69.5 billion.

However, there are host of other economic activities that involve foreign transactions. Once these activities are accounted for, total transactions sensitive to exchange rate balloons to $163 billion.[5] So any exchange rate regime in Pakistan has bearings on businesses.

The main outcome of the last two sections is that since 2013 the exchange rate policy has been to keep the value of rupee on the high and stable. From business point of view, there are merits to it. We have already mentioned above how this is especially good for foreign investors. Not only are their profits secured but they are also high in terms of foreign currency. A volatile and consistently depreciating currency can hurt profit margins of foreign investors.

However, on the domestic front, exporters are hurt by an over-valued rupee. An over-valued exchange rate results in loss of competitiveness for Pakistani exporters internationally

S. M. Tanveer, Chairman All Pakistan Textile Mills Association (APTMA) claimed that, "Twenty percent textile mills have already closed down operations due to loss of competitiveness oozing out of real exchange appreciation."[6]

Noted economist Dr. Hafiz Pasha also seconded this view, stating that "The rupee is overvalued by over 17% and this has severely affected the competitiveness of exports....".[7]

Asian Development Bank, Pakistan Country Director, Wener Liepach, asserted that "The exchange rate is currently overvalued and I think it would help Pakistan if the exchange rate was perhaps a bit lower. Whether it is a 110 to the dollar or 115, one can hypothesise about it."

At the same time, it must be emphasized that an over-valued rupee is not the only factor behind

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[4] Overvalued currency hits Pakistan exports. Gulf Times. Accessed on 5th September, 2016.
[5] This ratio is calculated by adding trade volume, remittances, all foreign investment flows, external debt and liabilities (public and private) for FY 2014-15. Trade volume for FY15 was $69, 493 million, foreign investment flows (both outflows and inflows) totaled $6, 385.5 million, external debt and liabilities were $68, 456 million as of 31st December, 2015 and remittances were $18, 720 million. GDP at market prices was $269, 970 million.
[6] Saleem, F. 2015. Rupee devalued? The News. Accessed on 9th September, 2016.
[7] Pasha, H. A. 2016. Risks to BOP. Business Recorder. Accessed on 9th September, 2016.

the loss of competitiveness for our exports. But it sure does aggravate the inherent low competitiveness of our exports

Pakistani exporters have also moved to other countries. As per a news item, in 2012 alone, “More than 40 percent of the Pakistani textile industry and around 200,000 power looms have been shifted to Bangladesh in the last five years, causing employment problems. In the whole Punjab, 200,000 families have thus been directly or indirectly affected”.[8] There were many reasons behind it. This situation may have been reversed now that business sentiment has improved in Pakistan. But an over-valued rupee may encourage those textile businesses to again re-open their facilities in Bangladesh as a short term response.

The main pattern that this regime has produced is increasing input import intensity of Pakistani businesses. Fortunately, we can back up this claim. The Figure 4 categorizes imports to Pakistan into different types and shows it as percentage of total imports for the last five years.

All of the indicators point out increasing import intensity of businesses in Pakistan. Cheaper imports due to an over-valued exchange rate are prompting businesses to rely more on imported inputs. Pakistani businesses which can provide these inputs as well are being phased out. We can see examples of it as well.

There is a construction boom going on in the Pakistani economy. In FY 2016, construction grew by as much as 13.1 percent year-on-year compared to 4 percent average growth seen in the last four years.[9] We can even expect more of this construction boom as Chinese money under CPEC starts pouring in. One of the major ingredients in construction work is cement. Local price of cement is higher than cement produced by regional countries like Iran & China.[10] For example, Iranian cement was 40 percent lower than Pakistani cement late last year.[11] If we add in an over-valued rupee into this equation, advantage to Iranian cement will increase even more. By our estimate, one percentage appreciation in rupee against Iranian Rial, translates into one percentage reduction in price of Iranian cement as compare to Pakistani cement.

Similarly, coal is also being imported for CPEC coal-fired power projects just because it is cheaper than local sub-standard coal. For these projects, coal is being imported from South Africa and Indonesia.

But there is also a benefit of it. Through cheap inputs, Pakistani businesses are able to produce using more efficient and high quality inputs. It can also import high quality technological knowledge during this period as well. So the current exchange policy can be an opportunity for businesses to make foreign purchases of both high quality inputs & production knowledge. It can also rope in services of foreign consultants of specific industries that can guide Pakistani businesses in their respect fields.

Apart from this, there is a caveat to this as well which can also be significant to future exchange policy options for Pakistani economy. That caveat can also have implications for Pakistani businesses. The current policy of an over-valued rupee will put pressure on rupee as foreign reserves will go down. This pressure will mainly realize due to high imports and low exports that such policy can cause. As exchange rate management so much depend on availability of foreign reserves, this scenario can dent our ability to manage the value of rupee in the future. Depreciation may transpire turning an already high input import intensity into a costly affair for Pakistani businesses. However, in this scenario it can be a boon for exporters.

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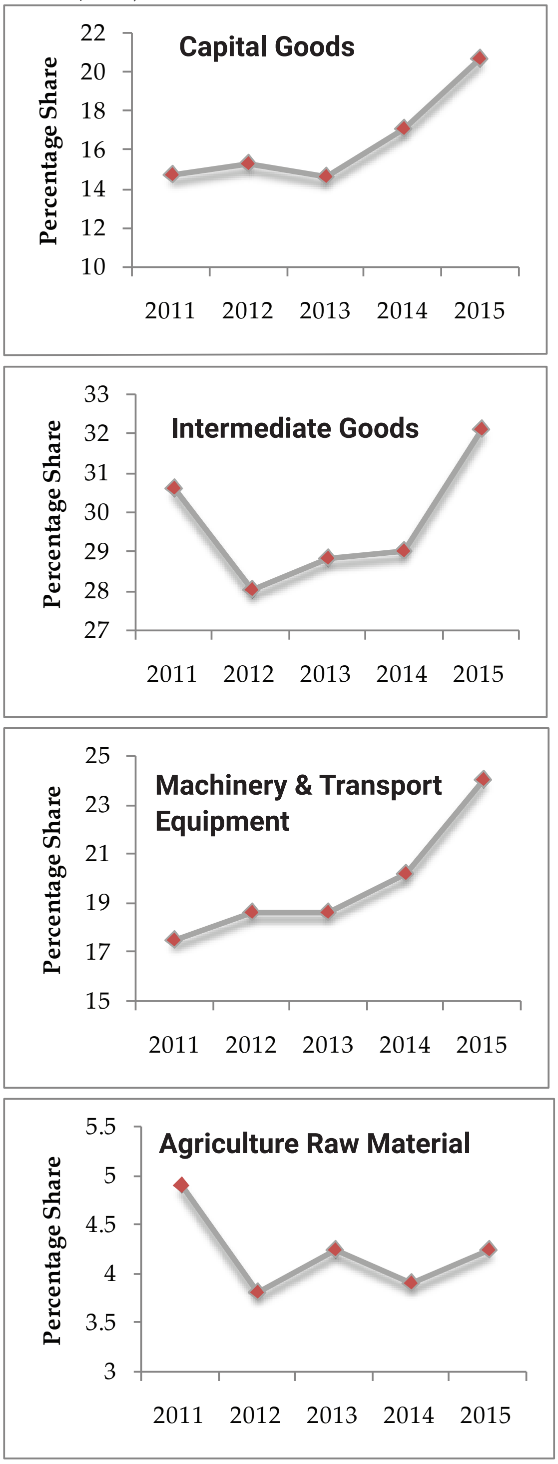
[8] Over 40pc Pak textile units relocate to Bangladesh. The News. Accessed on 9th September, 2016.
[9] Builders associations reacts to govt. increasing cost of construction excessively: ABAD Chairman. Express Tribune. Accessed on 9th September, 2016.
[10] Ibid.
[11] Iranian cement harming local industry. Dawn. Accessed on 9th September, 2016.h

Figure 4: Increasing import intensity (% share out of total imports)



Source: World Bank

It can also have an impact on Pakistan through an indirect channel. The one of remittances.

A depreciated rupee means more rupees per dollar. The remittances coming to Pakistan will increase in rupee terms. Hence, households will spend more on Pakistani businesses. So a depreciated rupee may prove favourable for consumer-centric businesses like retail businesses.

Conclusion

A stable Pakistani rupee is of crucial importance for businesses. Pakistan has experimented with different exchange rate regimes. We have analyzed in this report these different policies and have found that floating exchange marked by a fear of floating during 2001-2007 has fared far better than others. Now that Pakistan has again resorted to this regime, can we expect same positive results? We have noted in the analysis that the underling consideration for fear of floating now is more political than economic. During 2001-2007, it was economic. Now, fiscal consolidation is a prime factor behind current exchange rate policy.

This current exchange rate policy of over-valued and stable rupee has dented exports and has increased the input import intensity of Pakistani businesses. Those domestic businesses that can also supply these inputs may have gone out of business. On the other hand, it can also be beneficial as foreign inputs are more efficient. Based on this, the analysis suggests that Pakistani businesses should use this opportunity by importing high quality production knowledge through industry-specific consultancy services.

At the same time, an appreciated & over-valued rupee will incentivize cheaper imports and discourage expensive export. This will exert pressures on rupee to depreciate in the future. The potential spectre of depreciation is still hanging. If this realizes, high input import intensity can be costly for domestic businesses in the future, eating out profit margins.

SNAPSHOT OF KEY ECONOMIC INDICATORS

Laggards among performers

The GDP growth, better performance of stock market, declining inflation and the stability of Pakistani Rupee against major foreign currencies, depict a stable macroeconomic outlook. However, there are certain key macroeconomic indicators which are underperforming and creating problems in reaping the benefits of this macroeconomic stability.

The large scale manufacturing which was growing at a rate of 5.4 percent during FY14 came down to 3.21 percent in FY16. The major LSM drivers such as textile, petroleum, pharmaceuticals, automobiles, electronics, iron products, engineering and wood products have relatively underperformed in FY16.

Foreign direct investment is also observing a downward trend. The FDI which was $75 million in July FY16 shrunk to $64 million in July FY17, showing a decline of 17 percent. One of the major reasons behind this is a 76 percent reduction in the Chinese investment in July FY17 as compared to the same period in last year.

The foreign trade sector witnessed a negative balance of around $2 billion in July FY17. The trade in goods faced a deficit of $1.6 billion and deficit in the trade in services was of $0.3 billion.

The deficit in the current account reached to $591 million in July FY17 ($234 million in July FY16) and it is projected that it will remain negative in FY17. Fiscal deficit is also expected to be around 4 percent to 5 percent of GDP in FY17.

Table 1: Economic Snapshot

Particular	Reporting Period	Value
T-Bill		(%)
03-M	Jul-16	5.9
06-M	Jul-16	5.9
12-M	Jul-16	6.0
PIB 10-years	Jul-16	7.5
6-M Kibor	Jul-16	6.0
Discount Rate	Jul-16	5.8
Inflation	Jul-16	3.6
External Indicatror		($ Bn)
Export	Jul-16	1.5
Import	Jul-16	3.6
Trade Deficit	Jul-16	-2.1
Home Remittances	Jul-16	1.3
Current Account	Jul-16	-0.6
FDI	Jul-16	0.6
Public Finance		(Rs. Bn)
Tax Collection	Jul-16	47
Direct Taxes	Jul-16	20
Indirect Taxes	Jul-16	27
Credit to Private Scetor (Rs. Bn)	As of Jul16	3,922
LSM Growth (%)	FY16	3.21
FX Reserves ($ Bn)	26 Aug 16	23.4

Sources: SBP, Finance Ministry

Table 2: Key Targets and Projections

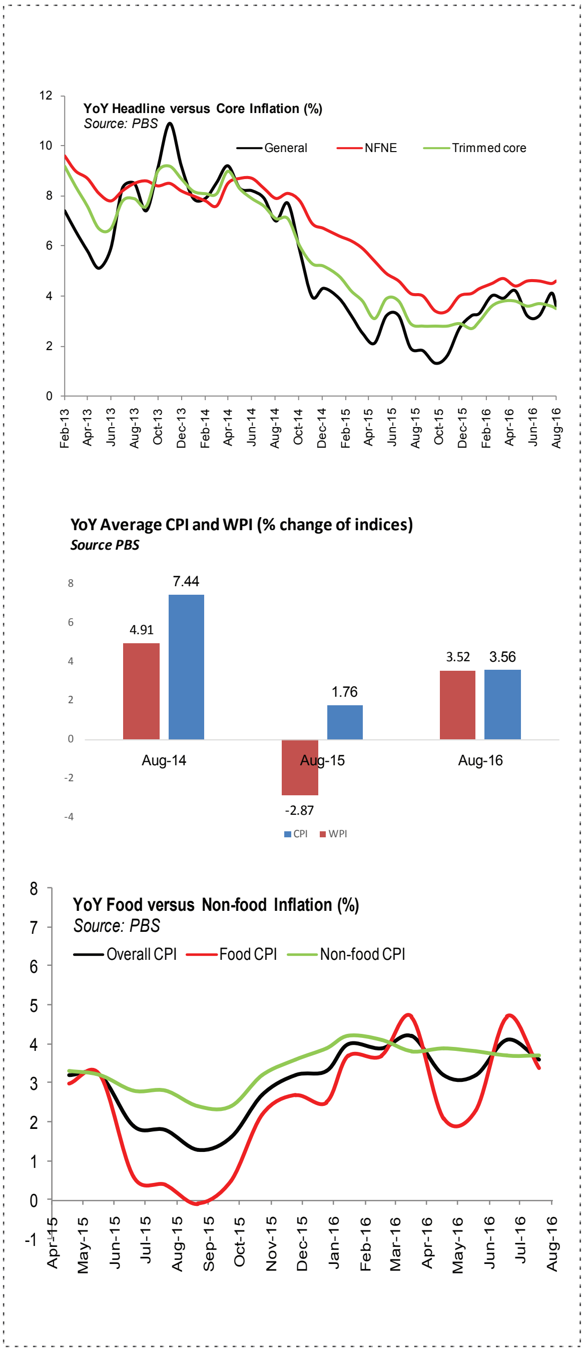
	Govt Target*	SBP Projection**	IMF Projection***	ADB Forecast****
		Percent		
Real GDP Growth	5.7	5.7	5	4.8
CPI- Full year average	6	4.5 - 5.5	5.2	4.5
		% change		
Export	n.a	n.a	4.1	n.a
Import	n.a	n.a	9.9	n.a
		% of GDP		
Current a/c Balance	n.a	n.a	-1.8	-1.2
Fiscal Balance	-3.8	n.a	-3.8	-5.3
Remittances ($ 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

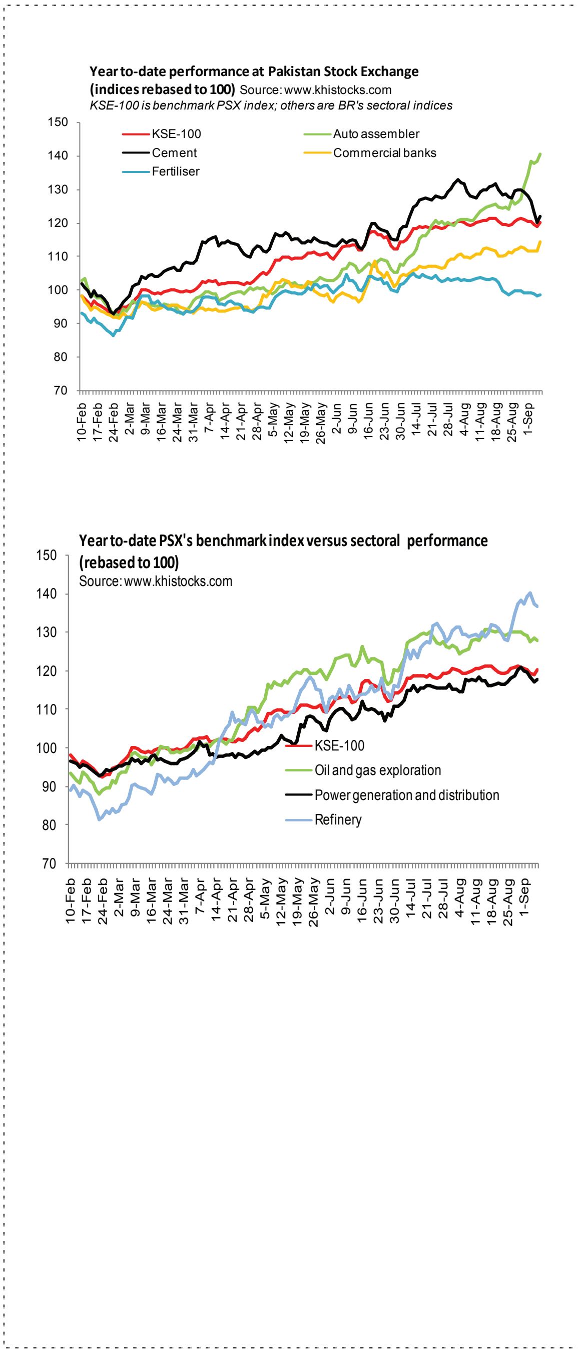
$ (Mn)	Jul-FY17	Jul-FY16	% change
Current Account Balance	-591	-234	n.a
Balance on Trade in Goods	-1,588	-1,829	
Exports of Goods FOB	1,506	1,757	-14%
Imports of Goods FOB	3,094	3,586	-14%
Balance on Trade in Services	-290	51	
Exports of services	327	701	-53%
CSF inflows	3	6	-53%
Imports of services	617	650	-5%
Workers' Remittances	1,328	1,664	-20%
U.S.A	170	255	-33%
U.K	144	232	-38%
Saudi Arabia	379	474	-20%
UAE	294	368	-20%
Direct Investment in Pakistan	64	75	-15%
U.S.A	6	-50	n.a
U.K	9	7	30%
Saudi Arabia	12	12	-4%
China	13	53	-76%
Portfolio Investment in Pakistan	51	-25	n.a
Equity	50	-5	n.a
Debt	1	-20	n.a

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

Key Export Categories - PERCENTAGE CHANGE Jul-FY17 over Jul-FY16					
Commodities (units)	Quantity (Jul-FY17)	Price (Jul-FY17) ($ Mn)	Price (% change)	Quantity (% change)	APR* (% change)
Total	n.a	1,479	-6.8%	n.a	n.a
Food (M.T)	n.a	186	-15.3%	n.a	n.a
Rice	166,203	84	-7.9%	-0.5%	-7.4%
Basmati	37,571	33	-10.6%	18.9%	-28.4%
Non-Basmati	128,632	51	-6.1%	-5.1%	-1.1%
Sugar	0	0	-100%	-100%	-100.0%
Textile	n.a	983	-3.8%	n.a	n.a
Raw cotton (M.T)	2,390	3	-41.5%	-31.2%	-15.0%
Cotton yarn (M.T)	44,501	103	-14.2%	14.8%	-25.3%
Cotton cloth (TH.SQM)	127,365	156	-7.8%	-13.6%	6.8%
Knitwear (TH.DOZ)	11,305	205	-5.1%	38.0%	-31.2%
Bedwear (M.T)	27,183	165	5.6%	10.3%	-4.2%
Towel (M.T)	12,144	56	-16.2%	-23.4%	9.4%
Readymade garments (TH.DOZ)	2,544	180	0.03%	-2.0%	2.1%
Art, silk & synthetic textile (TH.SQM)	10,759	24	4.7%	-60.5%	165.1%
Petroleum products	n.a	6	-79.3%	n.a	n.a
Naphtha (M.T)	2,484	1	0.0%	n.a	n.a
Other manufacturing goods	n.a	239	-5.1%	n.a	n.a
Sports good	n.a	25	-1.2%	n.a	n.a
Football (TH.DOZ)	285	13	-4.1%	3.3%	-7.1%
Gloves (TH.DOZ)	135	7	-19.5%	-36.9%	27.7%
Leather tanned (TH.SQM)	900	26	-17.3%	-42.7%	44.4%
Leather products	n.a	40	-19.2%	n.a	n.a
Leather garments (TH.DOZ)	68	27	-14.2%	-15.0%	1.0%
Leather gloves (TH.DOZ)	351	13	-28.5%	-48.0%	37.5%
Footwear (TH.Paris)	951	10	1.3%	10.1%	-8.0%
Surgical goods	n.a	23	-23.1%	n.a	n.a
Chemical & pharma products	n.a	61	33.9%	n.a	n.a
Plastic material (M.T)	7,729	14	0.7%	-33.3%	50.9%
Engineering goods (TH.NOS)	n.a	14	-2.0%	n.a	n.a
Cement (M.T)	438,346	23	-17.4%	-6.7%	-11.5%
All other items	n.a	67	-0.5%	n.a	n.a

**ARP= Average Realised Price*
Sources: PBS

Table 5: Key Import Categories

Key Import Items - Percentage Jul-FY17 over Jul-FY16					
Commodities (units)	Quantity (total)	Price ($ Mn)	Price (% change)	Quantity (% change)	APR* (% change)
Total		3,556	-6.3%		
Food (M.T)	n.a	374	11.4%	n.a	
Tea	19,113	421	13.6%	58.3%	-28.3%
Palm Oil	150,726	105	-1.6%	-5.8%	4.5%
Pulses	66,947	62	47.4%	-11.1%	65.8%
All other food items	n.a	104	10.6%	n.a	n.a
Machinery group	n.a	739	37.5%	n.a	n.a
Power generation	n.a	163	74.0%	n.a	n.a
Textile group	n.a	45	-90.3%	n.a	n.a
Electrical	n.a	143	-10.3%	n.a	n.a
Telecom	n.a	74	-5.1%	n.a	n.a
	n.a				
Transport group	n.a	208	13.8%	n.a	n.a
Road motor	n.a	174	30.4%	n.a	n.a
CBU Heavy vehicles	n.a	22	107.1%	n.a	n.a
CBU Motor cars	n.a	25	7.9%	n.a	n.a
CKD Heavy vehicles	n.a	28	17.7%	n.a	n.a
CKD Motor cars	n.a	44	17.4%	n.a	n.a
Other transport	n.a	23	119.2%	n.a	n.a
Petroleum group (M.T)		755	-1.7%	n.a	n.a
Petroleum products	1,420,746	481	3.8%	85.6%	-44.1%
Petroleum crude	649,924	182	-17.1%	104.4%	-59.4%
Textile group (M.T)	n.a	215	-1.1%	n.a	n.a
Agriculture group	n.a	578	-8.4%	n.a	n.a
Metal group	n.a	293	12.7%	n.a	n.a
Iron and Steel (M.T)	257,000	135	27.1%	79.1%	-29.0%
Miscelleanous group	n.a	88	-10.5%	n.a	n.a
All other items	n.a	307	-3.1%	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

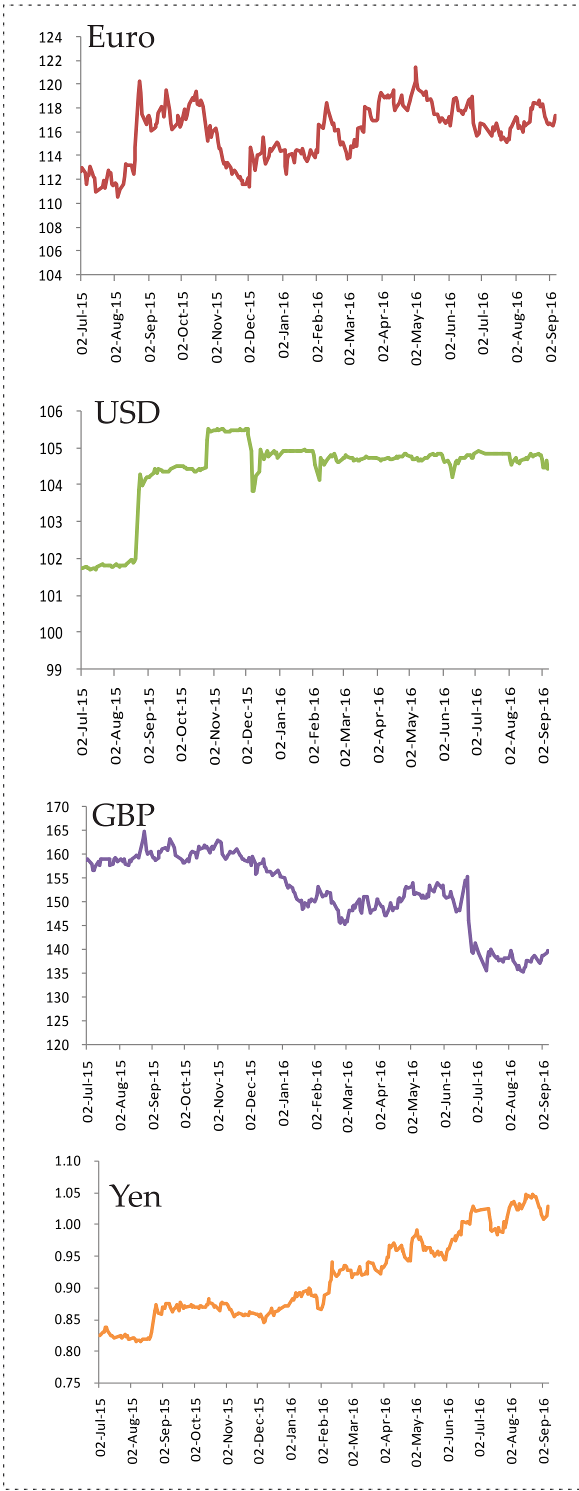


Figure 4: Key Commodities World Market

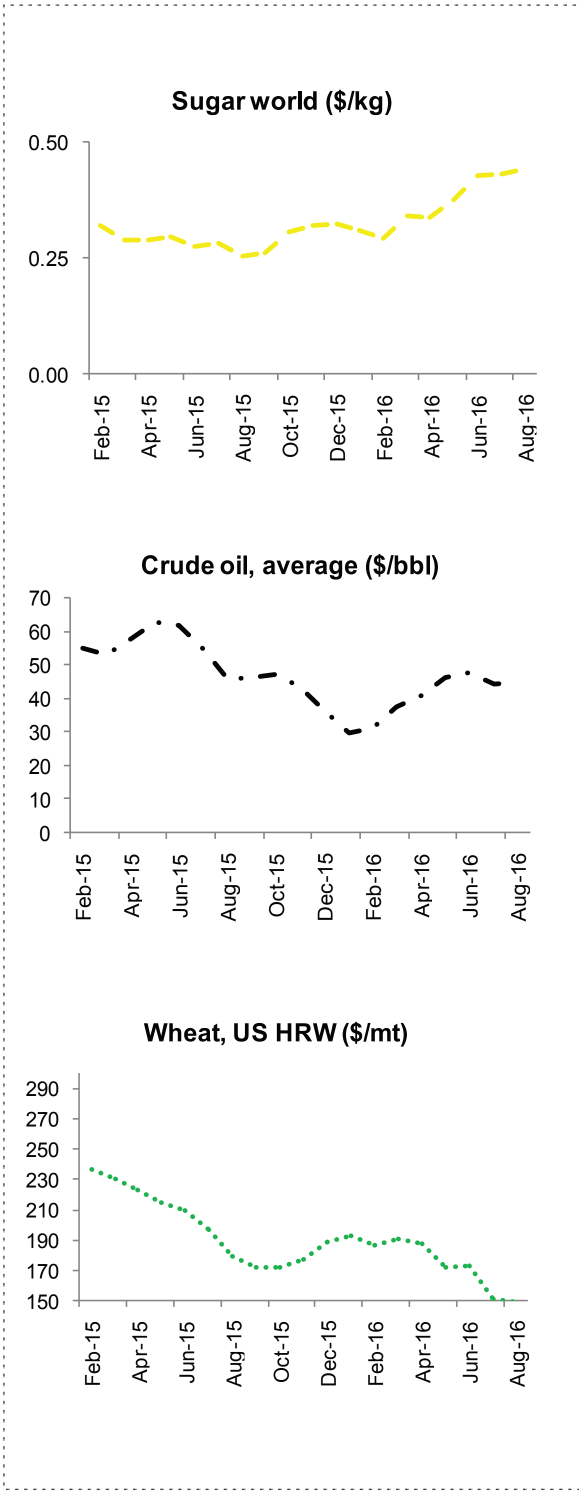


Figure 4: Key Commodities World Market

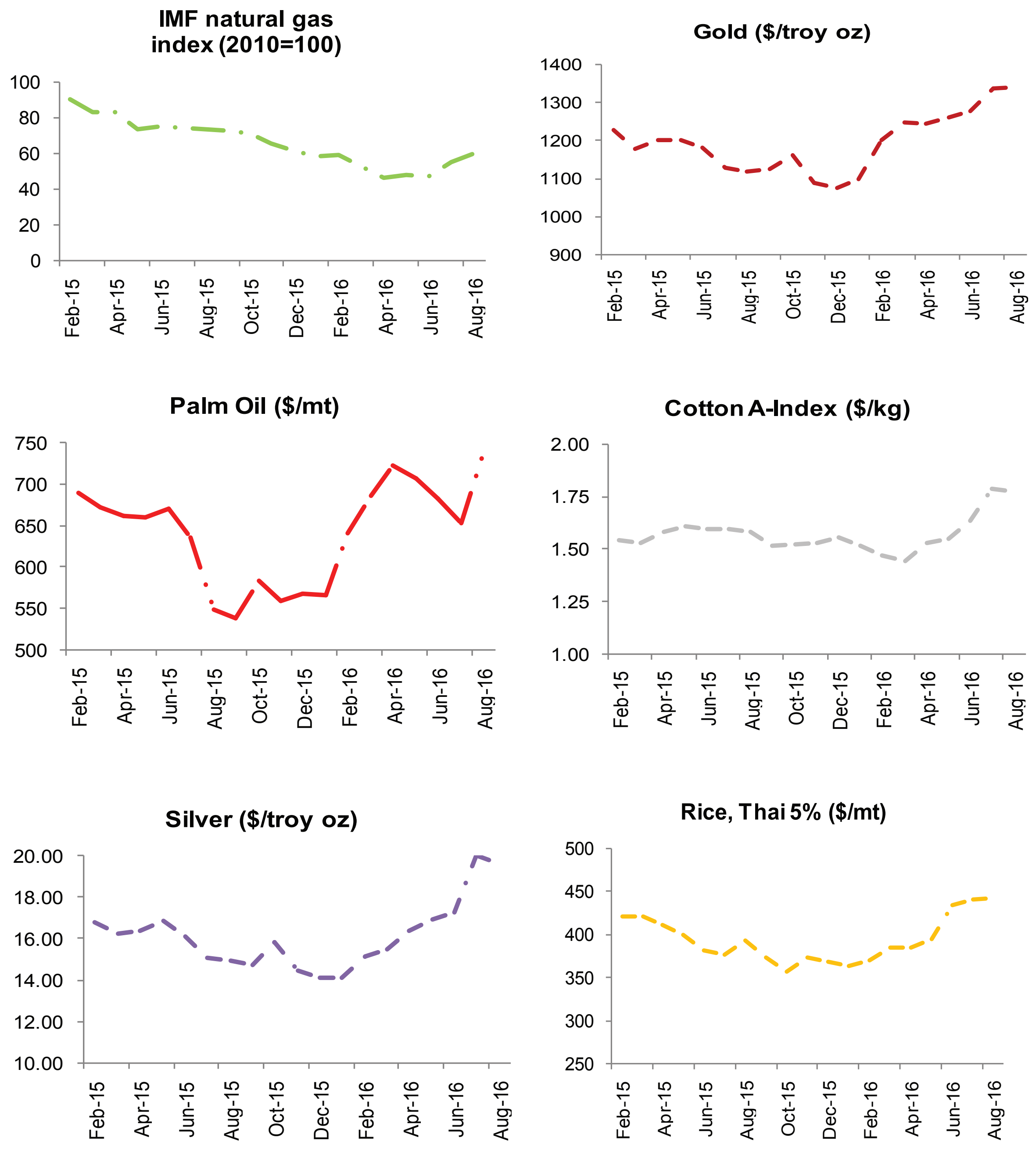


Table 6: Ease of Doing Business Index

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	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

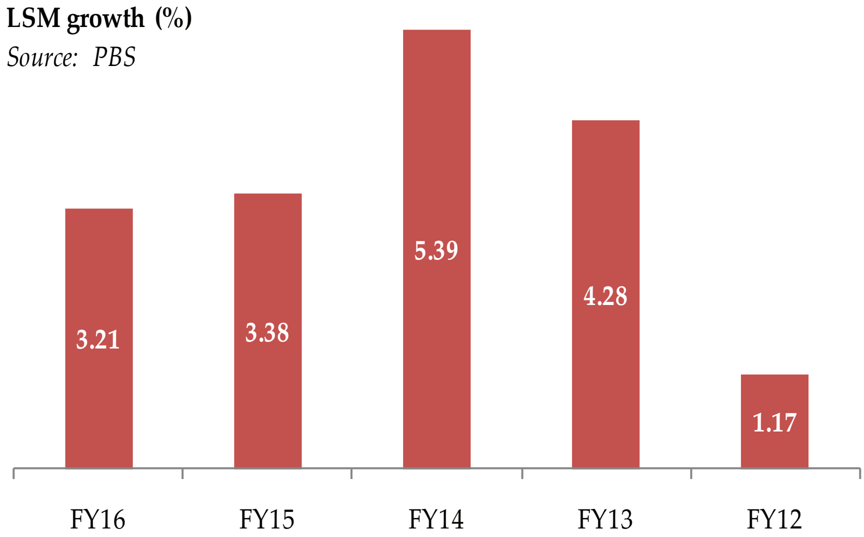
Performance of Large and Medium Scale Enterprises

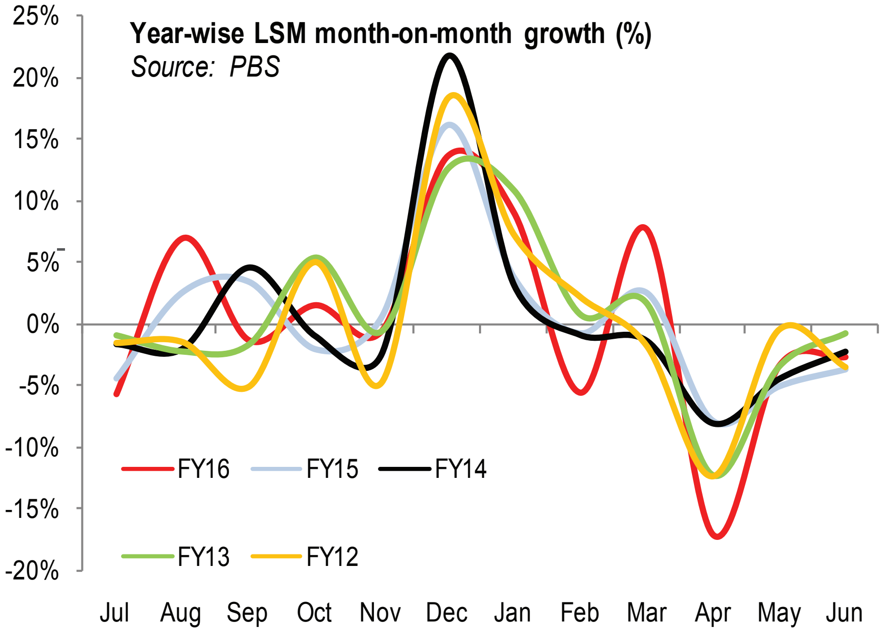
Major LSM Drivers

		Percentage change	
	Weight	FY16	FY15
Textile	20.91	0.42	0.92
Food, Beverages & Tobacco	12.37	0.92	-1.38
Coke & Petroleum Products	5.51	-2.59	8.50
Pharmaceuticals	3.26	6.54	7.56
Chemicals	1.72	8.13	8.68
Automobiles	4.61	13.11	23.52
Iron & Steel Products	5.39	-9.26	35.40
Electronics	1.96	-1.68	5.50
Leather Products	0.86	7.76	8.05
Paper & Board	2.31	-1.58	-9.47
Engineering Products	0.40	-14.43	-19.03
Rubber Products	0.26	7.16	3.10
Non-Metalic Mineral Products	5.36	10.02	2.25
Wood Products	0.59	-65.83	-75.26

Source: PBS

Performance of Large and Medium Scale Enterprises

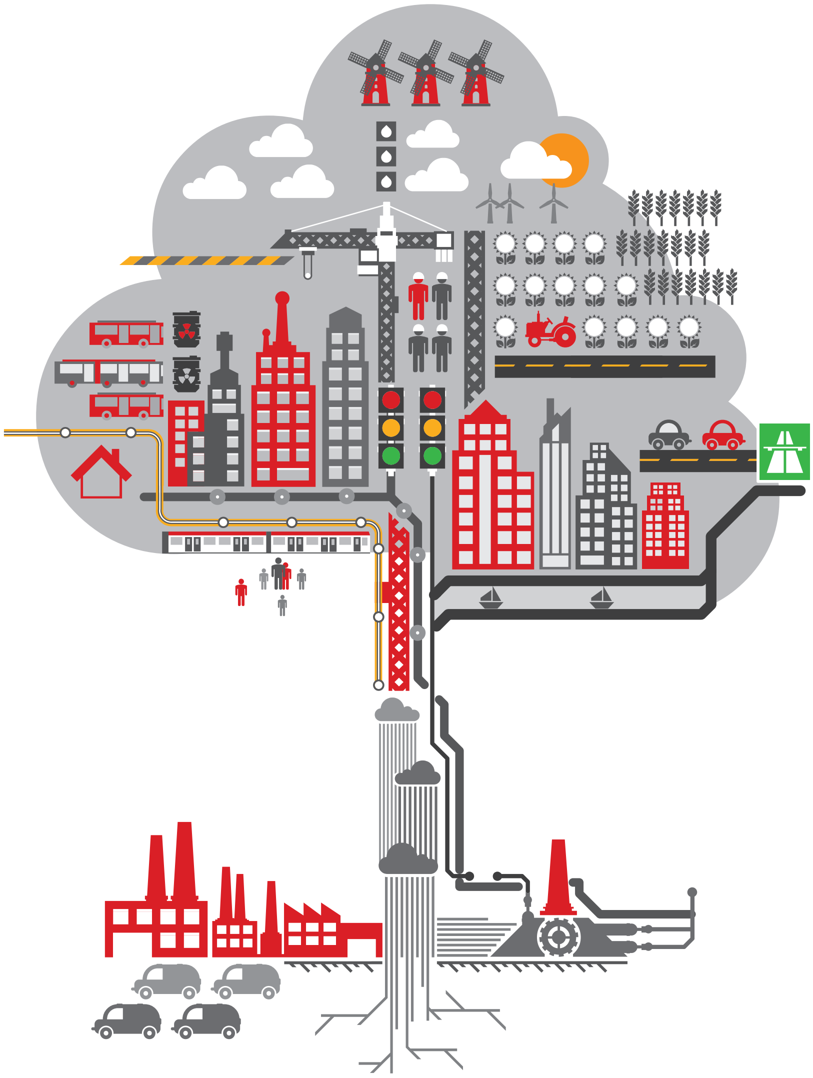




Source: PBS

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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