



Image credit: Global Village Space



Prime Buzz

March 20 to 26
Issue No. 6: 2021

Weekly roundup on the business climate and economic development in Pakistan including growth drivers, risk factors and policy signals.

Author: Fatima Mahmood
Research Associate PRIME



Growth Drivers



Risk Factors



Policy Signals



01

Key Messages

Every Monday, we bring you this independent report on Pakistan's business climate by providing concise comments on growth drivers, risk factors, and policy signals worth your attention. In 20 minutes, you get a well-rounded review of Pakistan's business, economic and policy outlook.

GROWTH DRIVERS

- IMF's **fiscal review** cleared – green signal for foreign lenders
- The **current account deficit** narrows down by 75%
- CDWP approves **9 development projects**
- **Indo-Pak** relations – mini-steps towards cordial ties

RISK FACTORS

- **COVID** evades control, positivity rate of the test rises to 10%
- Pakistan at the brink of **water scarcity crisis**
- **Regional exports dwindling** – call for the revival of trade ties
- **Non-tariff measures** adding to existent trade barriers

POLICY SIGNALS

- **Vaccine price cap** – the tradeoff between limiting profits and restricting COVID
- **IT Amendment Act 2021** overburdens the tax compliant sector
- **Wheat Support Price** – the solution or the problem?



Growth Drivers 02

Growth drivers encompass recent developments that show promising potential for economic and business growth in Pakistan.

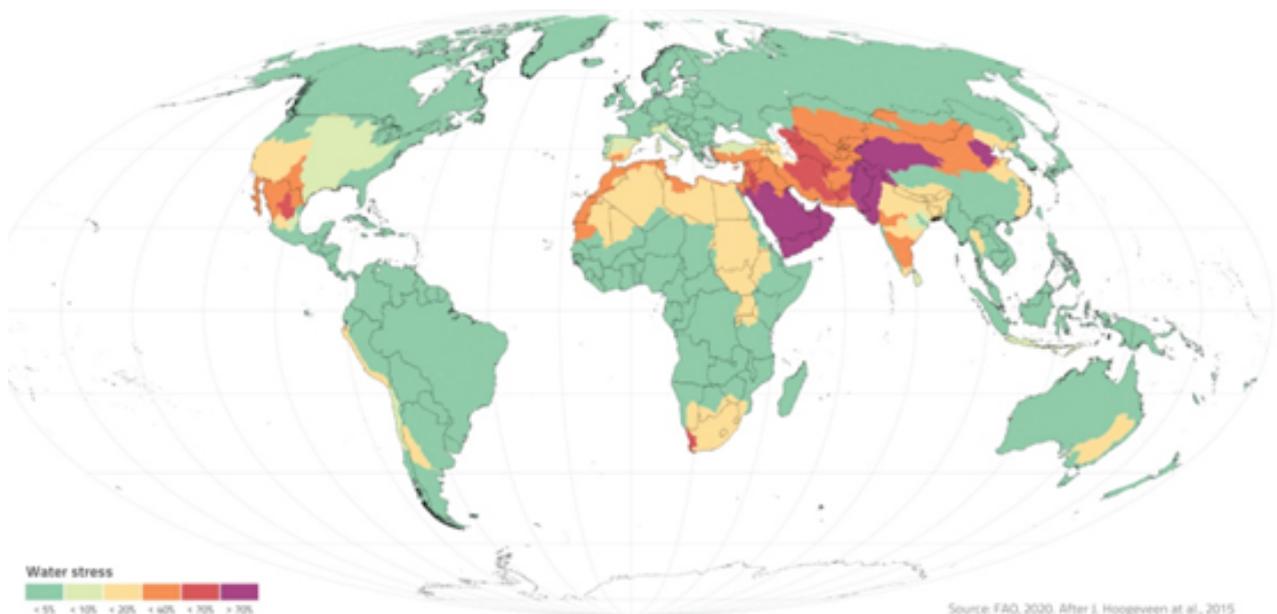
- 🔗 In these challenging economic times, the **International Monetary Fund's (IMF)** release of tranche payment of USD 500 million, provides Pakistan a much-needed cushion. Pakistan's economy is heavily reliant on external funds. IMF's decision to resume its **Extended Fund Facility (EFF)** sends a green signal to foreign lenders about our economic and fiscal discipline.
- 🔗 Pakistan's **current account deficit** has witnessed a reduction of **75%** in February 2021 (YoY). The reduction is attributable to the rising foreign inflows as opposed to dwindling outflows. February also saw a growth of exports (9% YoY), which complementarily boosted imports. According to the State Bank of Pakistan (SBP), the current account deficit is predicted to remain below 1% of GDP for the remainder of FY 2021.
- 🔗 In the development sector, the **Central Development Working Party (CDWP)** has approved 9 projects worth **PKR 15 billion** aimed at improvement in the domains of health, food, and agriculture. The major proportion of this expense is dedicated to the health sector, encompassing expansion, up-gradation, and set up of various health facilities across the country.
- 🔗 The incumbent government's mandate promised the incorporation of green electricity into the grid network and increasing reliance on renewable energy. The effort towards the realization of this goal is apparent in the surge of demand for **solar modules**.
- 🔗 **Indo-Pak ties** offer hope of normalization as Indus water talks conclude amicably. Pakistan's army chief, **General Qamar Javed Bajwa**, has maintained that it is high time to “bury the past and move forward.” Pakistan's efforts towards establishing cordial relations with the neighboring nation of India were reciprocated by Indian Prime Minister, **Narendra Modi**, as he wrote a letter indicating similar intentions to Pakistani Prime Minister, **Imran Khan**, last week.



03 Risk Factors

Risk factors are identified threats and pitfalls that can potentially limit and constrain economic and business development in Pakistan.

- The 3rd wave of COVID'19** is showing no signs of easing down despite the restrictions and lockdowns across the nation. The positivity rate of the COVID test has shot to above **10%**. The **National Command and Operation Centre (NCOC)** has decided to further tighten the restrictions and extend partial lockdowns. The commercial activity is bound to suffer, deteriorating the business outlook.
- Owing to the rising population in Pakistan, inevitable effects of climate change, and minimal to negligible water management and preservation practices, Pakistan is a high-risk country for a **water scarcity crisis**. IMF ranks Pakistan 3rd in countries facing acute water scarcity. Per capita availability of water has been going downhill and faces further decline. Predictions indicate Pakistan is at risk of facing absolute scarcity by the year 2040. The report titled, "Water availability, use, and challenges in Pakistan" (2021), by the **Food and Agriculture Organisation (FAO)** of the United Nations (UN), calls for a change in the water pricing regime and water subsidies in Pakistan. It further advocates for technological advancement in long-term water management techniques.

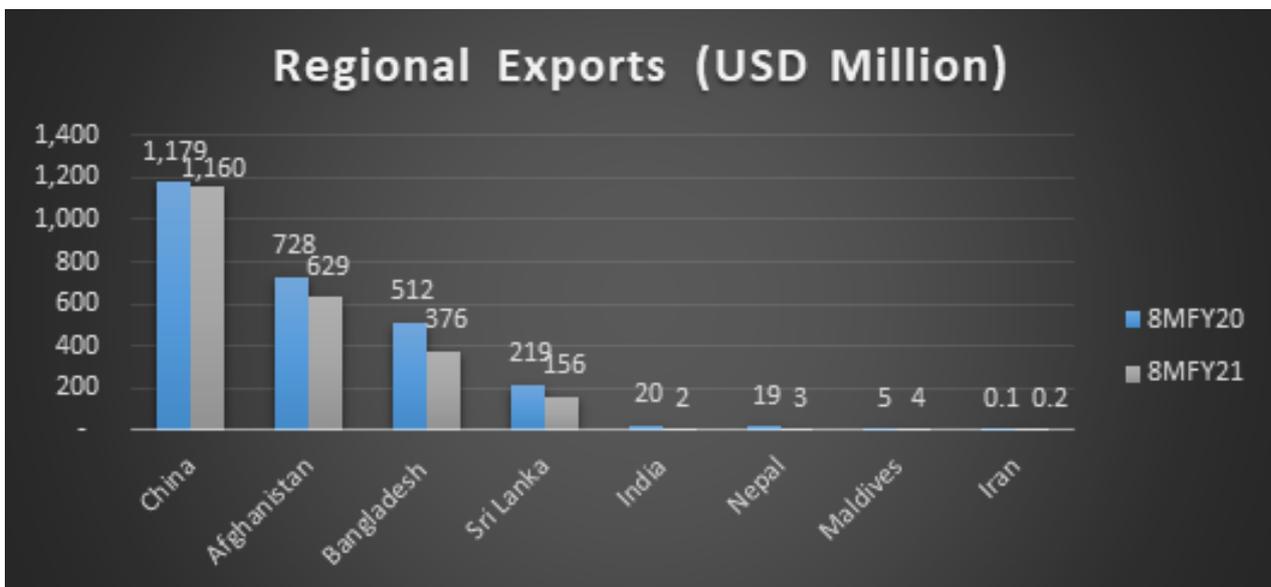


Source: Habib, Z. 2021. Water availability, use and challenges in Pakistan – Water sector challenges in the Indus Basin and impact of climate change. Islamabad. FAO.



Risk Factors 04

Due to COVID, **regional trade** remained qualified in the first 8 months of FY21. Regional exports **dipped by 22%**. Open trade is the key to economic growth. Government should work to maximize the trade potential, especially with regional economies, as many opportunities remain untapped due to trade constraints.



Source: State Bank of Pakistan (SBP)

Multiple **trade barriers** restrict Pakistan's trade-in potential markets. In addition to high duties and customs, many **non-tariff measures** limit export. Such is the case of **Mangoes** - the unexploited gap between mango export by Pakistan and demand in international markets is due to the absence of approval for local irradiation facilities, as the government of Pakistan refuses to bear the cost. Despite the **Generalized System of Preferences (GSP)** facility offered by the US, Pakistan has been unable to capitalize on its mango demand.



05 Policy Signals

Key policy actions and signals shape the business environment, directly and indirectly affecting all stakeholders.

-  Despite the worsening situation of **COVID'19**, the government has yet to approve the commercialization of the COVID vaccine by the private sector. The government intends to put a **price cap** on the sale of **imported vaccines** to avoid the exploitation of consumers. The government can hardly evade COVID long enough to complete a public immunization campaign. The private sector has the potential to assist the government's inoculation drive to reach maximum immunization as swiftly as possible. This decision needs to be fast-tracked as the long-term costs of COVID are too monumental.
-  The business community of Pakistan has raised multiple concerns regarding the **Income Tax (Second Amendment) Act, 2021**. The proposed act terminates many fiscal concessions and incentives for registered and listed companies. Further, it adds to the history of inconsistent tax policy. The act increases the burden on the already compliant sectors of the economy, squeezing revenue from them rather than focusing on broadening the tax net.
-  The last year was marked by a **shortage of wheat**, price hike, and disparity in inter-provincial prices coupled with restrictive trade. To counter the problems, the **minimum support price (MSP)** for wheat has been set at PKR 1,800 per 40 kg, by the federal government. Additionally, a target of 26 million tons of wheat production has been specified by the government. Pre-determination of prices by external rather than market forces threatens free-market enterprise, creating inefficiency and distortions.





Prime Buzz

"Everyday, newspapers, TV channels, portals and social media accounts generate information and comments on Pakistan's economy. The question about the overall direction of our economy remains influenced by what we read and who writes. To help you stay clear of the clutter, Prime Buzz presents you a weekly round up of important news about the business outlook following our daily scanning of a wide spectrum of sources. This is not just aggregation of contents, but a careful selection, with our own short comments. We classify these news as 'growth drivers', 'risk factors' and 'policy signals' and present a cogent summary that you can read in 20 minutes."

-PRIME Team

For subscription, please visit this link:
<https://forms.gle/u1LCQsJcRAP3nqYz6>



<https://primeinstitute.org>



<https://www.facebook.com/primeinstitute.org>



<https://twitter.com/primeinstitute>



<https://pk.linkedin.com/company/primeinstitute>



<https://www.youtube.com/primeinstituteorg>



For queries email at fatima@primeinstitute.org