WORLD BANK, IN ITS LATEST REPORT UNVEILED ROADMAP TO REDUCE DISTORTIONS IN ECONOMY

ISLAMABAD: The World Bank, in its latest report, has observed that Pakistan's inability to allocate all its talent and resources to the most productive uses has stunted the economic growth.

Pakistan's economy can grow sustainably only if the country introduces productivity enhancing reforms that facilitate a better allocation of resources into more dynamic activities, and of talent to more productive uses, according to the World Bank report, "From Swimming in Sand to High and Sustainable Growth", released on Friday.

The report presents a roadmap to reduce distortions in the economy that are currently acting as a deterrent to productivity growth. Critical reforms include: harmonizing direct taxes across sectors, so that more resources flow into dynamic tradable sectors like manufacturing and tradable services, instead of real estate and non-tradables; reduce the anti-export bias of trade policy by lowering import duties and reversing the anti-diversification bias of export incentives.

"Pakistan's economy is at a critical stage. It could be a turning point where long-term structural imbalances that have prevented sustainable growth for too long ought to be addressed urgently. The report puts forward a series of policy recommendations to achieve this in a sequenced way," said Gonzalo J. Varela, senior economist and co-author of the report.

"First, reduce distortions that misallocate resources and talent. Second, support growth of firms through smart interventions, rather than through blanket subsidies. Third, create a positive, dynamic loop between evidence and policymaking, strengthening feasibility analysis of publicly funded projects or programmes," the World Bank official said.

Positive impact on productivity

The report urges Pakistan to maximise positive impact on businesses and productivity across the board by: reducing regulatory complexity; harmonizing the general sales tax (GST) across provinces; reforming investment laws to attract more foreign direct investment; and upgrading insolvency laws to reduce the costs of liquidating non-viable firms.

The report focused on how Pakistan has performed in three areas that are at the core of the growth process: productivity, growth of firms and investment, and female labour force participation. It presents new evidence on firms' productivity dynamics across different sectors of the economy, the patterns of firms' growth and investment, and the allocation of female talent.

Women's participation

Productivity is further affected by the fact that Pakistan does not tap into all of its talent. "Women in Pakistan have made progress in educational attainment, but this accumulated human capital is underused because of constraints they face to participate in the labour force," said World Bank Country Director for Pakistan, Najy Benhassine.

Pakistan displays far lower female labor force participation rates than expected for a country at its level of development. Pakistan can accrue GDP gains ranging between 5pc and 23pc by closing the female employment gap relative to its peers, depending on the extent of implementation of complementary labor market policies. About 7.3m new jobs would be created if Pakistan were to close its female employment gap with Bangladesh.

The report pointed out that aggregate productivity in Pakistan has been stagnant or declining during the past decade, mostly driven by firms and farms becoming less productive over time. The Covid-19 pandemic exacerbated the decline in firms' productivity, with a contraction of 23 per cent in 2020.

In the agriculture sector, focusing on Pakistan's main crops, while yields have grown over the past decades, this has been due to a more intensive use of inputs. At the same time, total factor productivity has been falling for most crops, although, in this case, with provincial heterogeneity: Punjab and Sindh have been relatively good performers, compared with Khyber-Pakhtunkhwa or Balochistan.

Crop productivity in Pakistan is highly susceptible to elevated temperatures and rainfall variations, putting the crop segment at severe risk due to climate change.

'Zombies'

Part of the borrowing of the government that crowds out private investment is used to support firms that may be unviable without state support.

Pakistan exhibits a relatively large share of firms known as ‘zombies’, that is, firms that are loss-making for at least three consecutive years state-owned enterprises (SOEs) and family-owned domestic firms are more likely to be zombie firms, according to this definition, and to display low investment rates. To increase investment rates and bring in large firms that could add dynamism to markets, the country could leverage its untapped FDI potential – estimated at $2.8 billion annually.

Pakistan’s untapped FDI potential is estimated at around $2.8bn a year. Tapping that potential would lead to more than doubling current inflow levels.

Dawn 11-2-2023

IMF-GOVT TALKS GIVE BIRTH TO ‘MINI-BUDGET’

ISLAMABAD: Finance Minister Ishaq Dar said on Friday that the government has agreed to impose Rs170 billion in additional taxes, halt the flow of circular debt in the power sector and reduce the circular debt of the gas sector to zero, as well as withdraw untargeted subsidies as prior actions during 10-day extensive discussion with the International Monetary Fund (IMF) programme staff-level team on 9th review. Addressing a news conference here Friday along with Minister of State for Finance Aisha Ghaus Pasha, the SAPM on Finance, and others, he stated after reaching an agreement on broad contours of the review, draft memorandum of economic and financial policies (MEFP) is provided to Pakistan and he would go through it over the weekend ahead of virtual meeting with the Fund on Monday. He added that the final round ended on Thursday and all the matters were agreed following the 10-day extensive discussion with the Fund on power, gas, fiscal, monetary, etc., and meetings were attended by the SBP governor, as well as, relevant heads of Divisions, the FBR, the BISP, power, and others, and subsequently, Fund’s courtesy call was also arranged with Prime Minister Shehbaz Sharif through Zoom meeting, wherein, it was reiterated to implement the agreed reforms. He said that the prior actions agreed with the Fund included;(i) fiscal measures of Rs170 billion;(ii) reforms in the energy sector with the main thrust to stop the flow of circular debt; (iii) minimising untargeted subsidies; and (iv) flow of circular debt in the gas sector to be reduced to zero from Rs260-270 billion.

Dar said that the fiscal measure would be introduced through Ordinance or bill in the Parliament. He added that commitment of petroleum levy has almost fulfilled except Rs10 per litre increase on diesel – to Rs50 from Rs40 – and this would be increased in two instalments of Rs5 each from March and April, adding that sales tax on petroleum products was not agreed with the Fund.

The finance minister said that Pakistan would be disbursed US$ 1.2 billion once the review is approved by the Executive Board meeting of the IMF. Replying to a question, the finance minister said that the lifeline consumers would not be burdened through electricity tariff adjustment. He said that reforms in some sectors are in the interest of the country and added that the power sector is one of them whose recovery is Rs1,800 billion against the generation cost of Rs3,000 billion. He said that out of this gap, Rs550 billion is included as subsidy in the budget and the remaining Rs650 billion would have to be parked either in the fiscal deficit or somewhere else.

The finance minister said that the government would increase the BISP allocation by Rs40 billion to Rs400 billion for the vulnerable from the existing Rs360 billion. He said that the government is implementing the Fund programme signed by the previous government in 2019. He said that debt servicing has been increased from Rs1750 billion to Rs5000 billion during the last five years and stated the mismanagement of the previous government was responsible for the prevailing situation. When asked about foreign exchange sliding below $3 billion, Dar stated that commitments from friendly countries would materialise besides, roll-over of recently made payments once the programme is finalised. Additionally, he said that the privatisation process of power plants, Haveli Bahadur Shah and Balloki, is on track.

The finance minister accused the previous government of the Pakistan Tehreek-e-Insaf (PTI) of creating a credibility issue by reversing the measures, which were agreed with the IMF when the vote of no confidence was moved against it.

IMF GRUDGINGLY AGREES TO 45PC POWER SUBSIDY SLASH

ISLAMABAD: The government and International Monetary (IMF) are said to have agreed on reducing power subsidy by 45 per cent to Rs 300 billion from July 2023 onwards to protect vulnerable segments from the existing subsidy of Rs 550 billion earmarked for 2022-23, well informed sources told Business Recorder.

This understanding, sources said, was reached during recent negotiations between Pakistani authorities and IMF Mission, which has left for Washington without declaring the ninth review a success.

The government has to do away with untargeted subsidies including unfunded Rs 100 billion approved for five zero-rated sectors. The government is supplying electricity to the five zero-rated sectors at Rs 19.99 per unit all-inclusive despite opposition by the Fund. Industrial Support Package (ISP) will also have to be readjusted. The IMF, sources said, came down very hard on the government’s failure to reduce losses, and improve recovery of receivables as per the agreement.

Pakistani authorities had assured IMF that recovery will be around 94 percent, but in fact it remained less than 90 percent. Transmission and Distribution losses were higher than 17 percent against the commitment of 15.83 percent. The authorities have also been quizzed for extending subsidy of Rs 281 billion to K-Electric (KE) sans budget allocation, which is increasing circular debt stock. According to Finance Minister Ishaq Dar, total cost of electricity per annum is Rs 3 trillion of which recovery is just Rs 1.8 trillion, which implies that there is a gap of Rs 1.2 trillion. The government earmarks about Rs 550 billion in budget as subsidy whereas the remaining amount goes to circular debt.

The government has assured IMF that flow of circular debt will be stopped with new policy measures aimed at bridging the gap of Rs 1 trillion and if this gap is filled with increase in tariff, the tariff would have to be raised by about Rs 10 per unit from next fiscal year. Some officials maintain that the government is unlikely to increase tariff by over Rs 5.50 per unit including rationalization of base tariff from fiscal years 2023-24 as Rs 10 per unit would have massive negative impact on electricity consumption and would further encourage theft.

The government has also decided to impose surcharge of Rs 3.39 per unit across the board for those consuming over 300 units monthly till June 2023 to recover over Rs 76billion aimed at bringing down the flow of circular debt of Rs 2.6 trillion as per understanding with International Monetary Fund (IMF).

GAS TARIFFS TO BE RAISED FOR CONSUMERS OF SNGPL, SSGC

ISLAMABAD: Gas tariffs will have to be raised by Rs 98 per mmbtu for SNGPL consumers and Rs 109.91 per mmbtu for SSGC consumers to meet the International Monetary Fund ninth review prior condition of zero increase in gas sector circular debt for the remaining four months of the current fiscal year.

Informed sources told this correspondent that to arrest any further addition to the circular debt Oil and Gas Regulatory Authority (Ogra) must raise tariffs immediately that would stop the projected addition of Rs 70 billion into the existing Rs 670 billion circular debt of the two gas companies.

In a press conference on Friday, Finance Minister Ishaq Dar said that thegovernment has pledged to stop any further rise in circular debt adding that around Rs 170 to Rs 270 billion is added to the gas circular debt annually though the actual figures are available with Petroleum Division.
However, if 11.5 percent price hike for SNGPL and 11 percent tariff for SSGC is not implemented then the circular debt will rise to Rs 740 billion by end-June 2023, according to an official of petroleum division on the condition of anonymity.

Former Member Gas, Ogra, Mohmmad Arif told Business Recorder that gas companies usually inflate their loss figures prior to finalising their audited annual accounts. At present, the gas tariff for residential consumers is Rs 450 per mmbtu in the Sui Southern Gas Company system against the prescribed price of Rs 850 per mmbtu and Rs 400 per mmbtu in the Sui Northern Gas Pipeline Limited system against the prescribed price of Rs 1,007 per mmbtu, showing a significant gap between sale price and actual cost of gas.

The government is considering introducing WACOG tariff to recover the RLNG cost and the matter is pending with Council of Common Interests (CCI). At present, the RLNG price is ring-fenced and classified as a gas product. Earlier, RLNG was being treated as a petroleum product owing to which its cost could not be recovered from residential gas consumers. In the last four winters, RLNG valued at Rs 108 billion was injected into the system and an addition of Rs 110 billion RLNG is to be provided in the ongoing winter season or a total of Rs 218 billion will be diverted to the domestic sector in Punjab till February 2023.

In its recommendations on January 9, 2023, Ogra maintained that all classes of consumers should at least pay the average cost of service or the average prescribed price except wherever federal government policy guidelines have been provided, which shall be implemented accordingly.

R 11-2-2023

BONDS SLUMP, MOODY'S SEES EXTERNAL POSITION UNDER STRESS

KARACHI: Sovereign bonds slumped on Friday after Pakistan's bailout talks with the IMF ended without an agreement. The country's bond due for repayment the soonest, in April 2024, tumbled 4.6 cents on the dollar or roughly nine per cent. Other bonds with longer repayment dates fell between two and three cents to leave them at less than half their face value. The country is in the middle of a dollar shortage, which is causing a depreciation in the rupee's value against the greenback. The country's inability to finance its imports has resulted in a scarcity of industrial raw materials and production halts.

Sentiments in the capital markets have dropped amid a growing foreign exchange crisis as the country desperately attempts to revive the long-delayed $7bn IMF loan programme. Separately, in a separate statement on Friday, Moody's Investors Service said revenue-raising measures will likely be among prior actions that the IMF requires before releasing the next tranche of financing to Pakistan.

"Pakistan's government liquidity and external vulnerability risks are elevated, and there remain considerable risks around Pakistan's ability to secure required financing to fully meet its needs for the next few years," Moody's said.

ECC OKAYS INCREASE IN PRICES OF 19 ESSENTIAL DRUGS

ISLAMABAD: The Economic Coordination Committee (ECC) of the cabinet has approved an increase in prices of 19 essential medicines, including over-the-counter (OTC) painkiller Paracetamol.

A meeting of the ECC, however, also recommended a reduction in maximum retail prices (MRPs) of 20 drugs. "The ECC considered a summary of the Ministry of National Health Services, Regulations and Coordination and allowed fixing of MRPs of 18 new drugs as recommended by the Drug Pricing Committee (DPC). The prices of these new drugs are at the lowest side as compared to the prices of same drugs in neighbouring countries, especially India," said a press release issued after the meeting.

The ECC considered another summary of the health ministry and approved the recommendation of DPC for an increase in the prices of Paracetamol products, fixing Paracetamol Plain (500mg) rate at Rs2.67 per tablet and Paracetamol Extra at Rs3.32.

The ECC also recommended a reduction in MRPs of 20 drugs. The health ministry had sought ECC's approval for an increase in the prices of 119 drugs under hardship category as recommended by the DPC in its 53rd meeting. Similarly, an approval was also sought for increasing the prices of four more drugs, under same category, suggested by the DPC in its 52nd meeting.

Companies claim that it has become unviable for them to produce medicines as the cost of manufacturing medicines, under hardship category, has increased from cost of maximum retail price.

Dawn 11-2-2023

PERMISSION TO ESTABLISH AND RELOCATE SUGAR MILLS IN COTTON GROWING AREAS: SC ANNOYED AT WITHDRAWAL OF CASE AGAINST SUGAR MILLS

ISLAMABAD: The Supreme Court Friday adjourned further hearing of petitions filed against the transfer of sugar mills to cotton areas till February 28.A three-member bench — comprising Justice Ijaz ul Ahsan, Justice Munib Akhtar and Justice Sayyed Mazahar Ali Akbar Naqvi — heard the case against permission to establish and relocate sugar mills in cotton growing areas. During the course of proceedings, the Punjab government pleaded the court to withdraw the petition.

The Supreme Court expressed annoyance over the Punjab government for withdrawing the case against the sugar mills.

Justice Mazahar Ali Akbar asked why the provincial government wanted to withdraw the case. The Punjab Industries and Commerce Department representative replied that the problem of transfer of sugar mills had been resolved as permission had been given to the mills.

Justice Mazahar Ali Akbar asked how was the problem solved as the case was pending with the court. He asked how the Punjab government could write a letter and withdraw the pending case and ordered withdrawal of the letter immediately. He asked if the courts were run by the Punjab government. Justice Ijaz said the Punjab government should file its request according to the procedure and the court would review it.

Advocate Imtiaz Siddiqui, counsel for Ashraf Sugar Mills, said that the sugar mills had started crushing. He said contempt petitions against the sugar mills were also pending.

Advocate Tariq Raheem, counsel for the JDW Sugar Mills, said he had attached some documents in the case and pleaded the court to allow him to review the new application.

The court adjourned further hearing of the case till February 28 on the request of the lawyer.—APP

TN 11-2-2023

INTERFERENCE IN EXECUTIVE MATTER: IHC SEEKS REPLY FROM NA BODY IN EOBI'S CONTEMPT PLEA

ISLAMABAD: The Islamabad High Court (IHC), Friday, sought reply from members of the National Assembly Special Committee on Affected Employees, in a contempt petition, filed by the EOBI alleging unlawful interference in an executive matter. A single bench of Chief Justice Aamer Farooq issued the notices while hearing a contempt of court petition moved by the Employees' Old-Age Benefits Institution (EOBI) through advocate Barrister Umer Ijaz Gillani.

During the hearing, counsel for EOBI submitted before the Court that the National Assembly's Committee's decision to issue a show-cause notice to the institution's chairperson amounts to clear contempt of the court. He maintained that the EOBI is a statutory body which is under an obligation to comply with its own statute; it cannot meet the political demands being made of it.

The petitioner stated that the separation of powers between the legislative and executive branches of the state is a fundamental tenet of our Constitution; if this principle is not honoured, no institution would be able to perform its statutory roles. After hearing the preliminary arguments, the IHC chief justice admitted the contempt petition for hearing and sought written comments from all the respondents within a fortnight. Later, the bench deferred the hearing till February 23 for further proceedings.

In the petition, the EOBI alleged that the Committee is trying to exert unlawful pressure on the statutory body to reinstate 358 terminated employees, who were terminated upon the orders of the Supreme Court of Pakistan in 2014 and whose Review Petition had also been dismissed.

Special Committee's Chairperson, Qadir Mandokhail, its Secretary Tahir Farooq and 11 other Committee Members have been arrayed as respondents in the contempt petition filed by EOBI through Barrister Umer Ijaz Gilani.

The petition said the background of the case is that back in 2014, the EOBI had terminated the services of some 358 employees on the orders of the Supreme Court of Pakistan. This termination was challenged by the terminated employees but was upheld by the courts all the way to the Supreme Court which settled the matter in 2016. However, recently, a National Assembly Special Committee on Affected Employees has been set up.

It added that the Special Committee, which actually can give its recommendations as per rules, has been holding meetings with the federal ministries and Heads of Statutory Bodies and issuing directives for the reinstatement started of earlier terminated employees.

On 27th December 2022, the committee issued a directive to the EOBI ordering reinstatement of the 358 employees; terminated by the EOBI on the orders of the Supreme Court of Pakistan.

The counsel said that later, the EOBI Board decided to challenge the Committee's decision/direction in the IHC. He added that while hearing the EOBI's writ petition on 13th January 2023, Chief Justice Aamir Farooq of the IHC issued an injunction restraining the Committee from taking any further action on the matter.

However, he continued that the Special Committee paid no heed to the stay order and, on 8th February 2023, proceeded to issue a show-cause to chairperson EOBI for non-implementation of its earlier direction/decision dated December 27, 2022, and this compelled the EOBI to file a contempt petition.

R 11-2-2023

MADKHOL LAUNCHES ITS ROBO-ADVISORY PLATFORM FOR SHARI'A INVESTMENTS

Shariyah Review Bureau, Madkhol Madkhol is a Saudi-based technology platform that provides Robo-advisory investment services to its customers. Today it announces receiving Shariah certification for its platform and investment activities from Shariyah Review Bureau (SRB). The platform provides its users with financial planning and wealth management service. Saad bin Atyan, CEO of Madkhol said, "We believe we are at an inflection point where the burgeoning financial services are growing into a more connected yet decentralised digital financial world. Madkhol aims to understand the client's investment goals from the start, and then automate the investing needed to get there. The use of AI and robo-advisors allow us to manage investments with less human intervention, making investment and wealth management more affordable, secure, and reliable for our clients." "At Madkhol, we assess your risk profile and financial goals to determine what works for you—providing automated investing with guidance along the way. We have developed an automated approach and are utilizing the progressive digital asset regulatory framework of Saudi Arabia in offering digital financial services that are safer, faster and better" he added.

On assigning Shariyah Review Bureau as Madkhol's Sharia advisor, Saad commented, "We wanted to ensure that we have the best technological platform and comply with shariah. Designating Shariyah Review Bureau to oversee the business model's Sharia compliance was the natural step towards the objective. They carry a reputable name in the market for Shariah advisory and we stand to benefit from their experience and market exposure." Over the years, Shariyah Review Bureau has strongly established itself as one of the leading Sharia Advisory firm in the Kingdom of Saudi Arabia.

PO 10-2-2023

INDIA'S SC SAYS INVESTOR INTERESTS MUST BE PROTECTED AFTER REPORT BY A US SHORT SELLER ON THE ADANI CONGLOMERATE

NEW DELHI: India's top court, hearing two petitions related to large investor losses following a report by a US short seller on the Adani conglomerate, said on Friday that investor interests need to be protected.
"Now the stock market is not a place where only high-value investors invest. It is also a place where ... investment is made by a wide spectrum of middle class,"

Chief Justice D.Y. Chandrachud said.

"The point of concern here is how (to) ... protect the interest of investors," Chandrachud said. The petitions were filed days after the Jan. 24 report by New York-based Hindenburg Research, which accused the Adani group of improper use of offshore tax havens and stock manipulation.

The ports-to-energy conglomerate, controlled by billionaire Gautam Adani, one of the world's richest people, has seen shares in its seven companies lose more than $100 billion in market value since the report was made public. Adani has denied the charges.

The petitions were filed under a provision of Indian law that allows any individual to raise an issue concerning public interest before the Supreme Court.

Chandrachud is part of a three-judge bench hearing the petitions, one of which asks the court to take action against Nathan Anderson, who runs Hindenburg Research, for causing investor losses via short selling. The hearings will continue on Monday.

Last week, the group's flagship entity Adani Enterprises pulled its secondary share offering, India's largest ever, because of the selloff.

On Friday, ratings agency Moody's downgraded the ratings outlook for some of the group's entities in the latest in a series of blows for the group.—Reuters

R 11-2-2023