BACK COVER

ECONOMIC BULLETIN

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FRONT COVER

NBP
National Bank of Pakistan
The Nation's Bank

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Quarterly In-house

Economic Bulletin

Research Division, Credit Management Group

FRONT INSIDE COVER

To be recognized as a leader and a brand synonymous with trust, highest standards of service quality, international best practices and social responsibility.

Institutionalizing a merit and performance based culture
Creating a distinctive brand identity by providing the highest standards of services
Adopting the best international management practices
Maximizing stake-holders' value
Discharging our responsibility as a good corporate citizen of Pakistan and in countries where we operate

Highest standards of integrity
Institutionalising a teamwork and performance culture
Excellence in services
Advancement of skills for tomorrow's challenges
Awareness of social and community responsibility
Value creation for all stakeholders

BACK INSIDE COVER

NBP Performance at a Glance

(Rs Bn)

Items	2008	2009	2010	2011	2012	2013	2014
Total Assets	817.8	944.6	1037.7	1149.6	1309.5	1364.3	1543.0
Deposits	624.9	727.5	832.2	927.4	1036.7	1101.1	1233.5
Advances	413.0	475.2	477.5	525.0	654.7	615.4	626.7
Investments	170.8	217.6	301.3	319.5	343.5	397.9	561.7
Equity	81.4	94.1	103.8	110.5	104.7	100.8	110.3
Pre-Tax Profit	23.0	21.3	24.4	26.0	21.3	7.9	22.0
Profit After-Tax	15.5	17.6	17.6	17.6	14.29	5.5	15.0
Earnings per share Rs.	7.27	8.25	8.26	8.27	7.02	2.59	7.06
Number of Branches*	1276	1287	1289	1300	1306	1365	1377
Number of Employees	15441	16248	16457	16924	16921	16619	16190

**Includes Foreign Branches*

NBP Products

NBP Saiban*
- Finance available for Home Purchase and Home Construction.
- Period of repayment ranges between 3-20 years.
- Loans available upto a maximum of Rs15-35 million.
- Mark-up is variable.

NBP Advance Salary*
- For permanent employees of government, semi-government and autonomous bodies receiving salaries through National Bank of Pakistan.
- 20 months salaries in advance (certain conditions apply).
- Minimum documentation.
- Repayable in installments of upto 60 months.

NBP Cash n Gold*
- Facility of Rs30000 against 10 gms of gold.
- No Maximum limit of cash.
- Roll-over facility.
- Mark-up 15.5 percent per annum.
- Repayable after one year
- No penalty for early repayment.

NBP Kisan Dost*
- Loans available for the farmers for production, development purposes, for purchase of tractors, for installation of tubewells, for purchase of agricultural implements, micro loans, for godown construction, for construction of fish pond, for livestock farming, for milk processing, for cold storage, bio-o gas plants etc.
- Competitive mark-up rate.
- Loans available at the farmer's doorsteps.
- Agricultural experts to guide farmers.
- Loans available against agricultural passbooks, residential/commercial property, gold ornaments and paper security.
- Financing facility also available for landless farmers.

NBP Premium Aamdani Certificate*
- A monthly income scheme. Minimum amount of investment required is Rs25000/- and maximum allowed is Rs10,000,000/-.
- A 5-year Scheme, with year-wise increasing profit rates.
- Added incentives for investors.
- Financing facility available against these Certificates.

Terms & Conditions apply

CONTENTS

Disclaimer: Economic Bulletin is a quarterly in-house publication that relies largely on other well established sources for information. Opinions expressed in these periodicals form an independent analytical perspective and do not necessarily reflect the views and positions adopted by NBP.

Introduction

NBP's Economic Bulletin is back! It's with great pleasure that I pen these lines after almost a year's gap in its publication prompted by the retirement of the erstwhile editor of this Bulletin – Ms. Ayesha Mahmood. Everything from her approach to work, her competence, her dedication and focus were an inspiration for all her colleagues. It is she who had made this bulletin what it is today - a staple and essential publication of the bank. A publication that was looked forward to by readers that ranged from bank employees to a broad based external readership. While it's going to be a challenge to fully fill Ayesha's shoes we will endeavor to take this publication to newer heights in a way that may make her proud!

The pause in publication has given us an opportunity to reorganize the research function in a more optimal manner. And to re-think and re-set our publications altogether for maximum, business enhancing, informational value. In this information age it is vital to get the right information at the right time – in a way that is useful. In order to enable this organizationally we have fused Industry and Economic Research wings and brought the Library back to Research to form the Research Division as part of the Credit Management Group.

In terms of publications, after in-house consultations we have settled for four regular publications during the year – one each quarter, as follows:

Quarter	Publication	Primary Focus
Quarter I	Industry Bulletin: Industry Analysis & Comparative Ratings (Annual)	A comparative composite assessment of key sectors in terms of their relative attractiveness as well as relative industry risk
Quarter II	Economic Bulletin	A multifaceted *user friendly* economic coverage with special emphasis on the national economy. With additional focus on: international economic outlook, pertinent geo-strategic developments, updates of key sectors as well as outlook for various commodities.
Quarter III	Economic Bulletin	-do-
Quarter IV	Economic Bulletin	-do-

In the current issue we start out with a fairly comprehensive overview of the national economy that brings out the key trends over a 8-10 year period in a manner that is hopefully meaningful and easy to grasp. To do this we have relied on graphs and charts and tried to simplify them as much is possible for a clearer understanding. The areas focused on cover the entire economic spectrum and includes:

- Growth & Investment
- Agriculture
- Fiscal Management
- Money & Credit
- Inflation
- Trade & Payments
- Public Debt

This detailed overview of the economy is then followed by key highlights of IMF's assessment of current performance which is of common and practical interest to all domestic economic observers. This is followed by a brief synopsis of the current crisis like situation in the textiles area and our baseline assessment and outlook. This along with the last section on commodities completes the strictly domestic coverage in this issue. Commodities' focus is on the outlook for various commodities that include: sugar, wheat, rice, cotton, crude oil, gold, and palm oil. These are all key commodities that are vital to the national economy.

Two areas that we now intend to cover on a regular basis are the international economic outlook – particularly for countries and regions where the bank has presence as well as geo-strategic developments and perspectives. Both of these areas have major implications for the country and its economic performance and/or prospects. For example to understand the nature and prospect of the China-Pakistan Economic Corridor (CPEC) is to get a glimpse of the sorts of effects this huge geo-strategic alignment will have on the economy. To understand the overall global and regional context will be to have a better idea of the sorts of opportunities and/or snags that the country and its economy may be faced with. On the geo-strategic side we will rely on excerpts from incisive articles from the global media sources with a view to providing cutting edge insights into relevant international/regional developments.

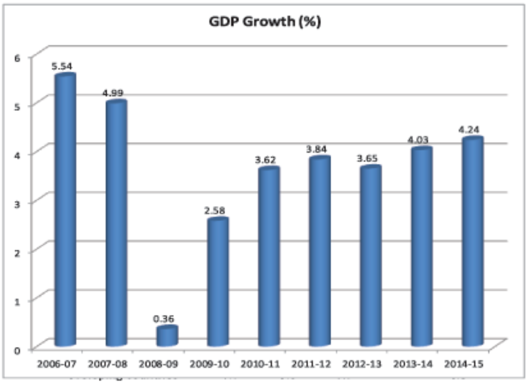
From the next issue of the Economic Bulletin – which will be in the second quarter of 2016 – we will also add a regular feature to provide updates on key developments in major industries. This would then cover almost the entire economic spectrum, from an NBP perspective, to enable our management and staff to stay abreast of the ever changing economic and industry developments, trends, outcomes and dynamics and thus be able to fine tune and shape their responses and/or policies armed with pertinent and timely assessments.

NBP National Bank of Pakistan

Pakistan Economic Overview

We start with a fairly comprehensive overview of the national economy that brings out the key trends over a 8-10 year period in a manner that is hopefully meaningful and easy to grasp. To do this we have relied on graphs and charts and tried to simplify them as much is possible for a clearer understanding. The primary source document for the information presented in this section relies largely on this year's Economic Survey (2014-15). The areas under focus cover almost the entire economic spectrum, and include: Growth & Investment, Agriculture, Fiscal Management, Money & Credit, Inflation, Trade & Payments and Public Debt.

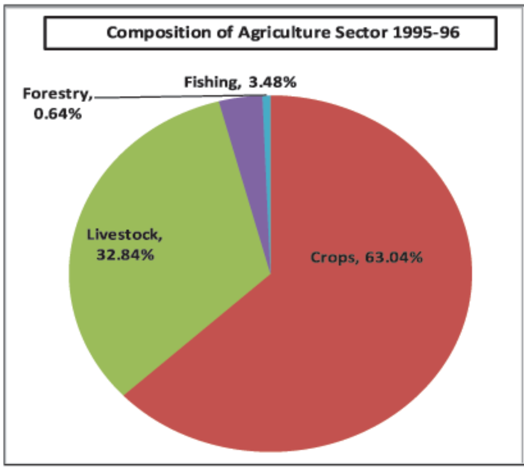
GROWTH & INVESTMENT

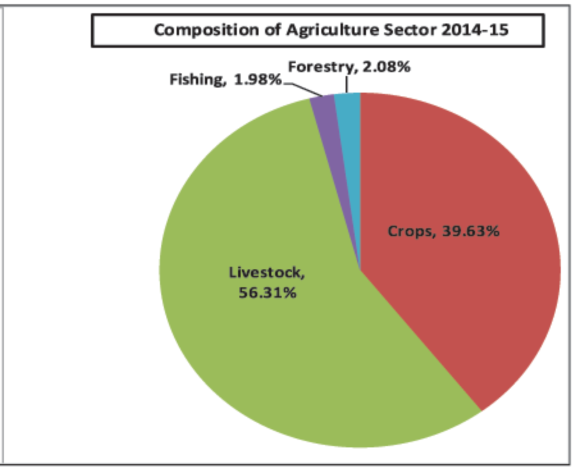


The GDP growth recorded at 4.24 percent in the outgoing fiscal year 2014-15 as compared to 4.03 percent last year. This represents a welcome upward trend after a fairly dismal period of growth from 2008-9 to 2012-13. Growth is expected to increase to 4.5 percent during the current year supported by lower oil prices, a projected reduction in electricity outages, and an improving business climate. Real GDP is expected to rise at a higher rate after that, i.e. over the medium-term, with expected improvements in the energy sector and the investment climate.

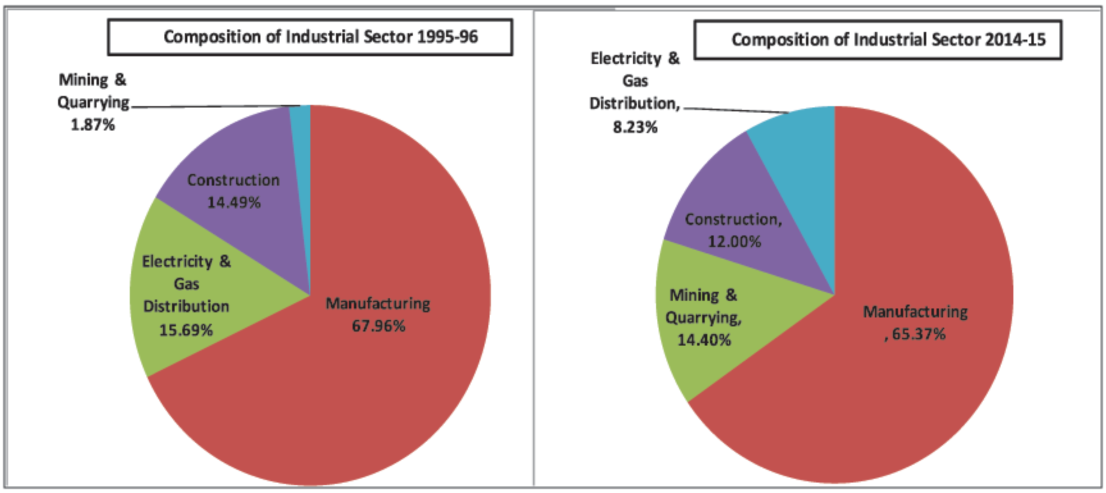
SECTORAL BREAKUP

The economy is still essentially an agricultural one where agriculture is a major determinant of overall growth. It accounts for 20.88 percent of GDP and 43.5 percent of employment.

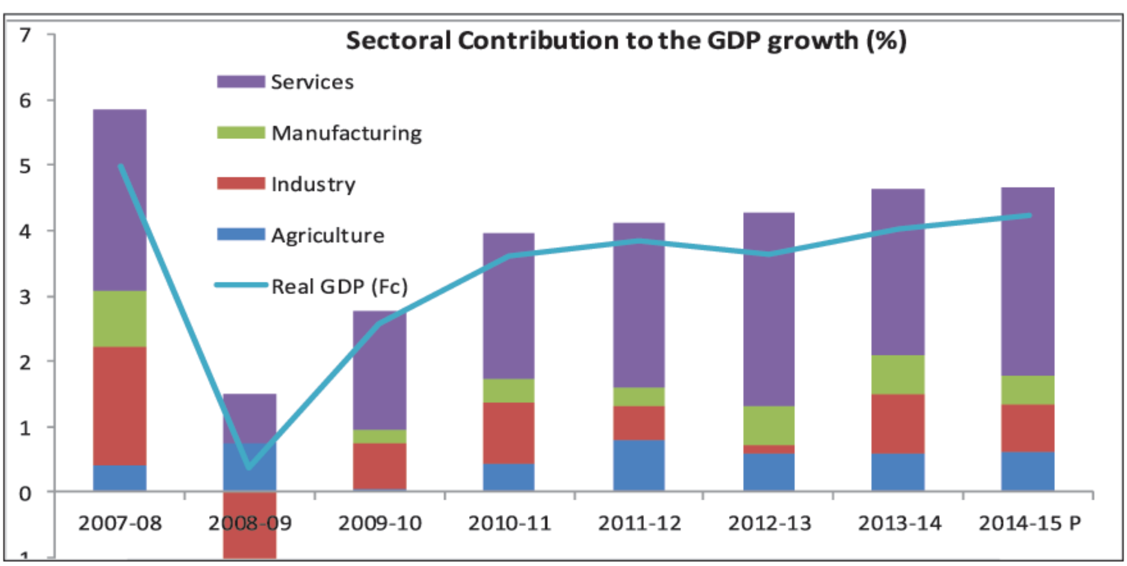




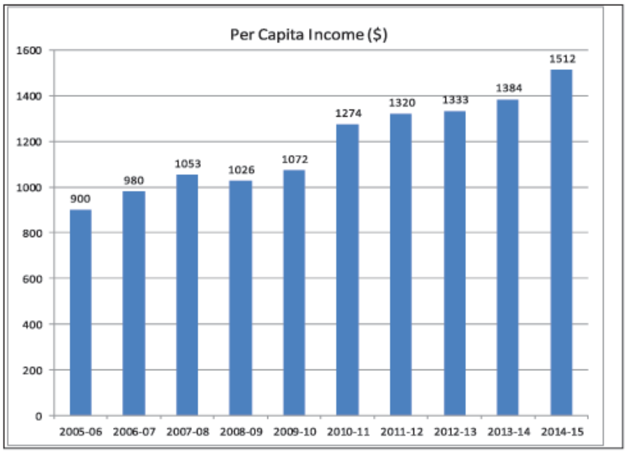
The industrial sector contributes 20.30 percent in GDP of the country and in outgoing year it grew at 3.62 percent as compared to 4.45 percent last year.



However, as can be gleaned from the chart below it is the services sector that is the single biggest driver of economic growth – although much of the growth and size of the services sector is determined by the growth and strength of the agricultural and industrial sectors.

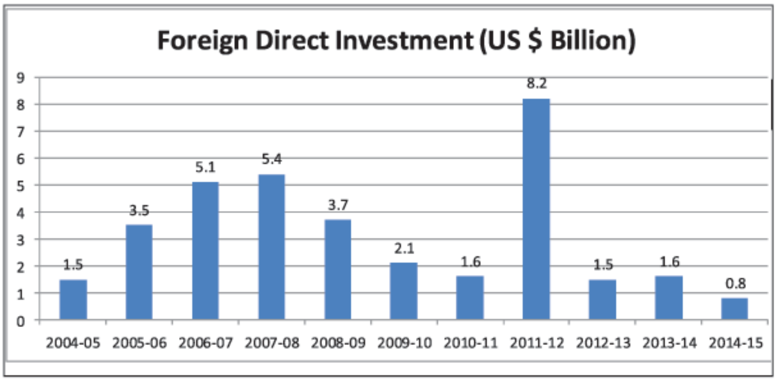


In line with the over growth per capita income - in dollar terms - has increased from $ 1,384 in 2013-14 to $ 1,512 in 2014-15. Fig. shows the improvement in per capita income during the last ten years.



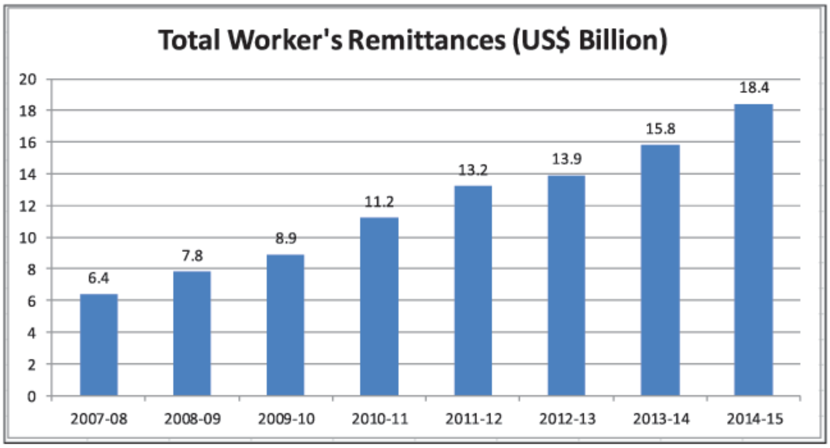
INVESTMENT:

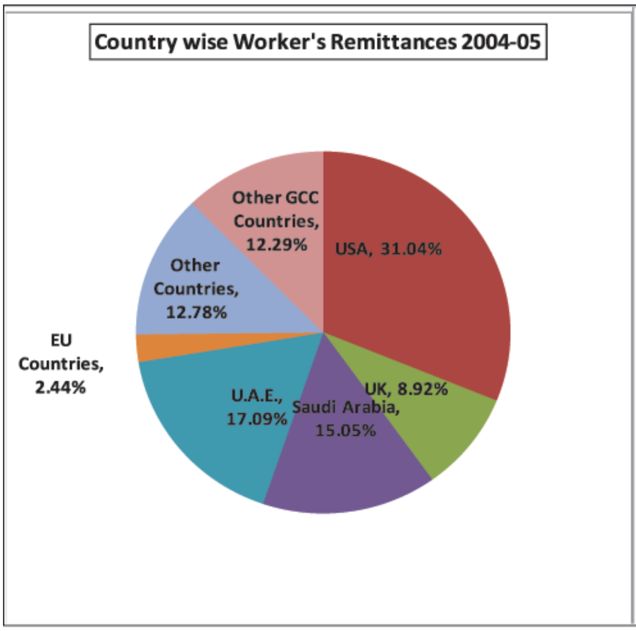
FDI – Foreign Direct Investment – a key indicator of the investment in the economy to generate accelerated growth – has remained dismally low despite efforts on account of multiple endemic factors ranging from stability perceptions to corruption, lack of governance, poor deliverability of the legal system, infrastructural issues as well as the geo-strategic environment surrounding the country. Of late these specifically included: the long march/dharna demonstrations, continuing energy shortages, and the domestic acceleration in the war against extremism. The situation has, however, improved radically over the last 6-9 months with the formal launch of China-Pakistan Economic Corridor - CPEC further aided by the tremendous successes of the domestic anti-terror drive, and relatively greater political maturity that has prevailed in the end. CPEC – with an initial figure USD45 billion over 5 to 7 years - is a major geo-strategic and economic break- through for the country – a game-changer in the real sense of the word. Starting from 2015-16 Pakistan can expect a major uptick in the FDI which would be expected to boost the economy to a growth rate in excess of 7 percent over a sustained period.

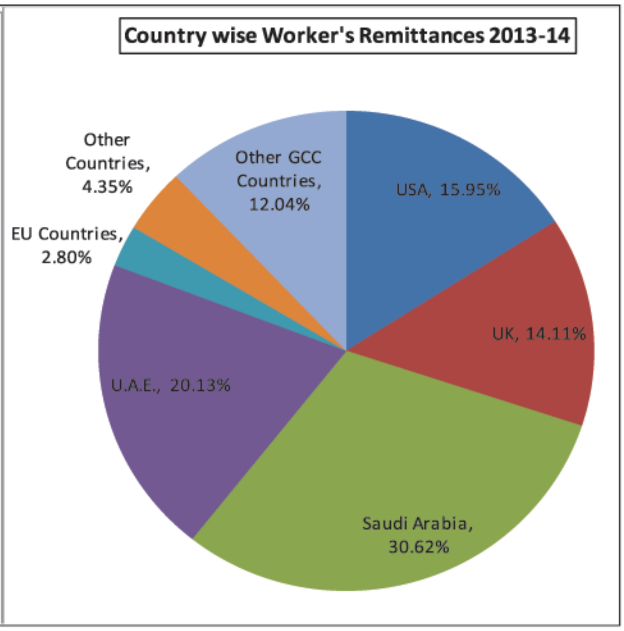


REMITTANCES:

Remittances to South Asian Region (SAR) are estimated to have risen by 4.5 percent in 2014, compared to 2.5 percent in 2013, reflecting soaring remittances to Pakistan (16.6 percent increase), and to a lesser extent, Sri Lanka (9.6 percent) and Bangladesh (8 percent). Pakistan's healthy remittance growth helped insulate the economy from external vulnerabilities. Remittances to South Asia grew despite concerns that lower oil prices might dampen remittance flows from the GCC countries. This may reflect the concentration of migrant workers in the construction and services sectors, which are relatively less affected by falling oil prices.

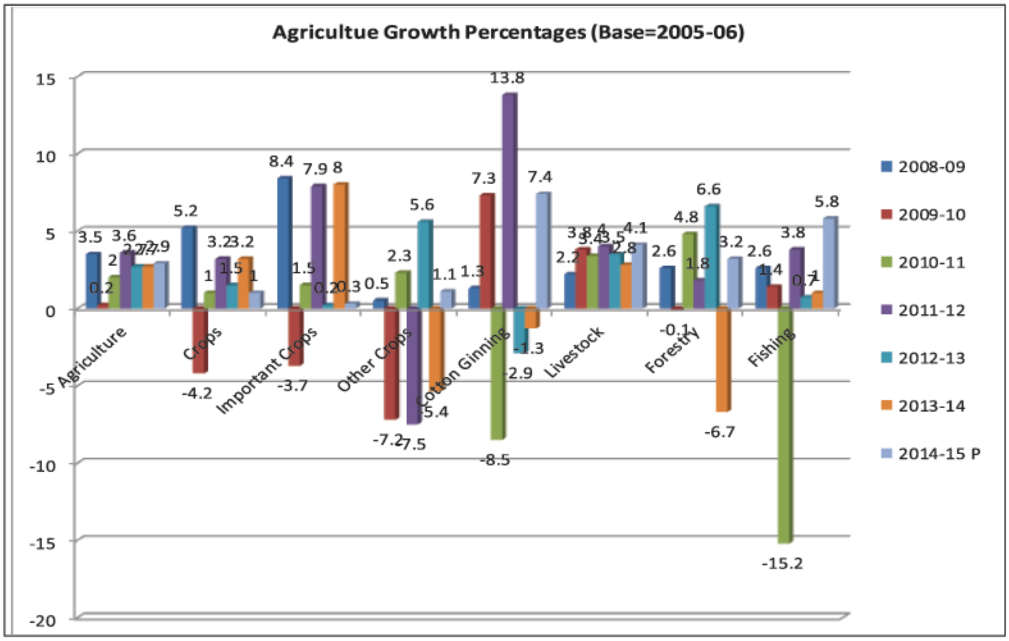






AGRICULTURE

Agricultural performance in Pakistan remained subdued. Major factors underlying this slow performance include slow rate of technological innovation, limited adoption of progressive farming techniques, problems with quality, quantity and timeliness of input supply, limited investment in construction and maintenance of infrastructure; marketing and trade restrictions, pest and livestock disease problems, and limited amounts of credit for agricultural production, processing and the lack of agriculture-specific financing.



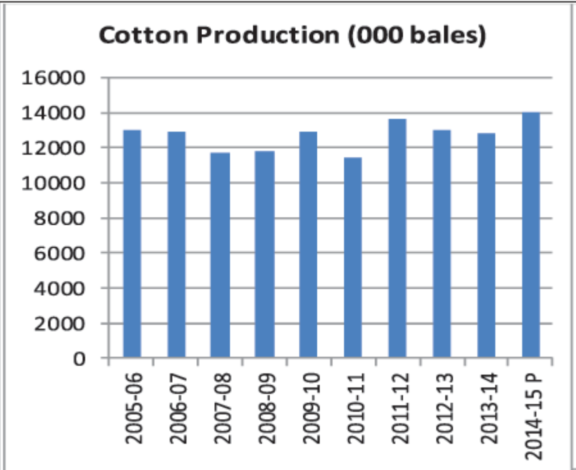
Important Crops

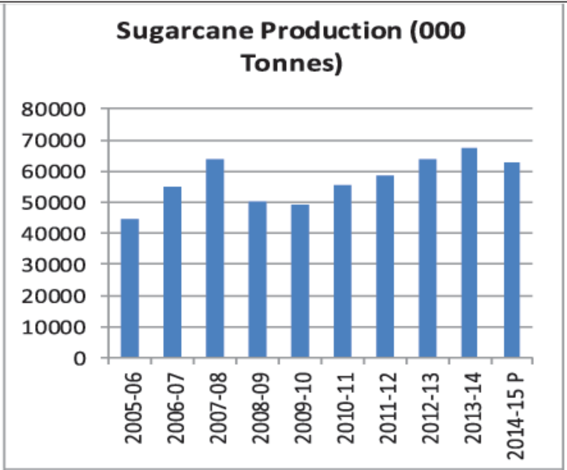
Cotton: The cotton crop production accounts for 1.5 percent in GDP and 7.1 percent in agriculture value addition. During July-March 2014-15, textile industry fetched foreign exchange of US$ 10.22 billion. During 2014-15, the cropped area of cotton stood at 2961 thousand hectares, showing an increase of 5.5 percent over last year's area of 2806 thousand hectares. Cotton production for the year 2014-15 stood at 13.983 million bales against 12.769 million bales last year showing an increase of 9.5 percent.

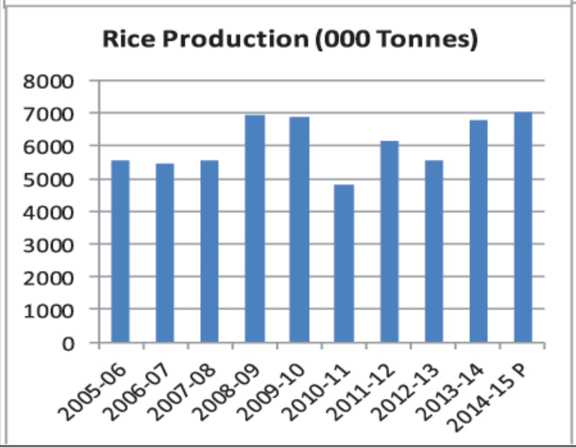
Sugarcane: Sugarcane is an important cash crop. The cropped area for sugarcane stood at 1141 thousand hectares during 2014-15 against last year's area of 1173 thousand hectares showing a decrease of 2.7 percent.

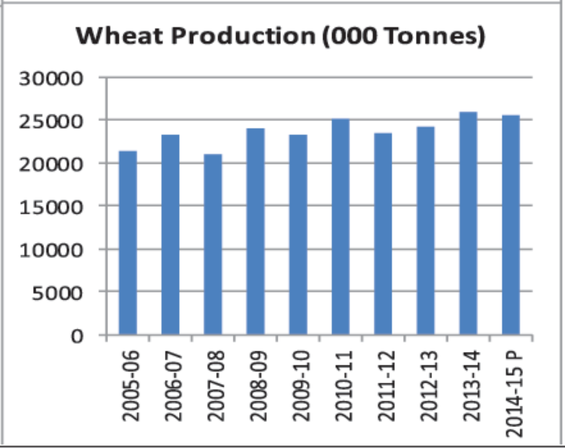
Rice: Rice is the second largest staple food crop and is also an exportable item. During 2014-15, rice was sown on an area of 2891 thousand hectares showing an increase of 3.6 percent over last year's area of 2789 thousand hectares. Rice recorded highest ever production at 7005 thousand tons, showing a growth of 3.0 percent over corresponding period of last year's production which was 6798 thousand tons.

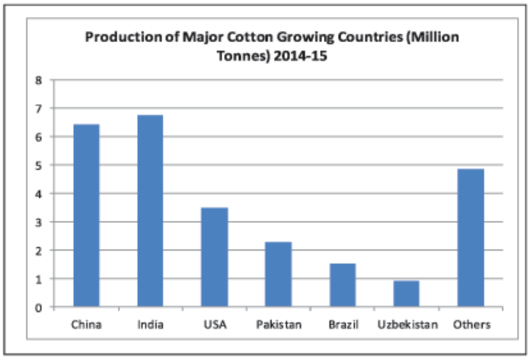
Wheat: Wheat is the leading food grain of Pakistan occupying the largest area under single crop. Wheat contributes 10.0 percent to the value added in agriculture and 2.1 percent to GDP. Area under wheat has decreased to 9180 thousand hectares in 2014-15 from last year's area of 9199 thousand hectares which shows a decrease of 0.2 percent. The production of wheat stood at 25.478 million tons during 2014-15, showing a decrease of 1.9 percent over the last year's production of 25.979 million tons.





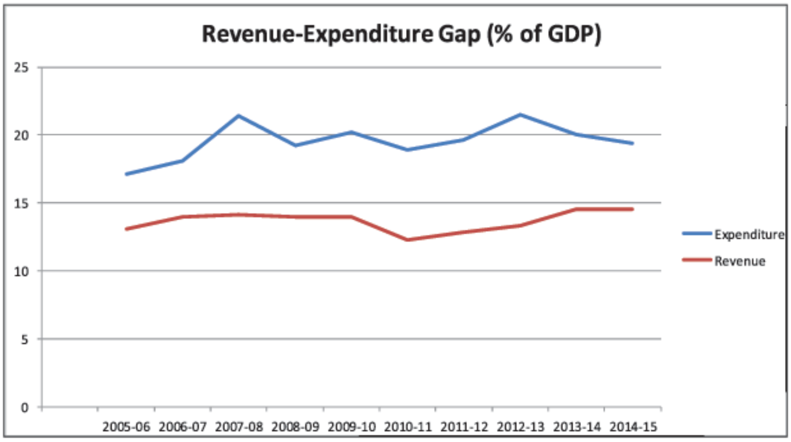






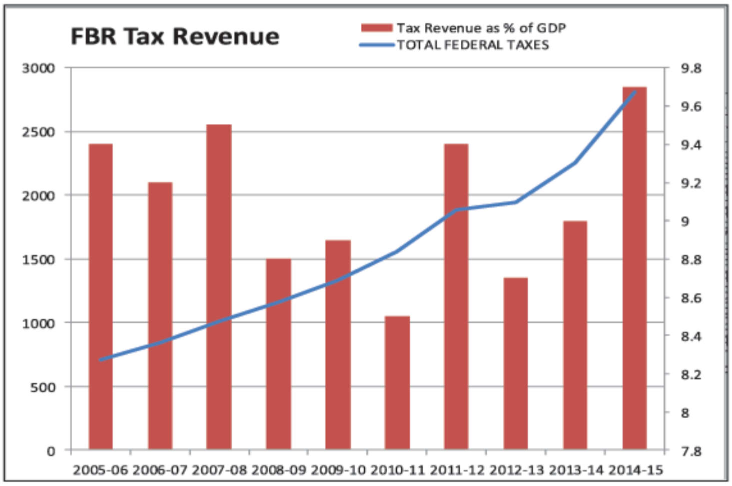
FISCAL MANAGEMENT

Fiscal policy as an important part of economic framework can play an important role in influencing the economic direction of the country as it can bolster economic growth and human development through efficient utilization of resources and prudent expenditure management. Over the years, Pakistan has faced formidable challenges on fiscal front due to inefficient utilization of resources and ineffective expenditure management strategy in the wake of less efficient tax system and unplanned expenditures.



The government succeeded in reducing the deficit on account of 22.0 percent growth in total revenue in 2013-14 against 16.2 percent increase in 2012-13 on account of increase in tax and non-tax revenues during the same period. While as percent of GDP, it grew by 14.5 percent of GDP in 2013-14 against 13.3 percent of GDP in 2012-13.

On expenditure side, due to prudent expenditure management strategy, growth in total expenditures significantly reduced to 4.4 percent in 2013-14 against 22.4 percent in 2012-13.



Inefficient tax system in developing countries has long been a major concern. Resultantly narrow tax base lead not only lower tax to GDP ratio but also posed serious threats to fiscal sustainability.

STRUCTURE OF FEDERAL TAX REVENUE

(Rs. In Billions)

YEARS	Tax Revenue as % of GDP	TOTAL FEDERAL TAXES	DIRECT TAXES	INDIRECT TAXES			
				CUSTOMS	FEDERAL EXCISE	SALES TAX	TOTAL IND. TAXES
2005-06	9.4	713.5	225	138.4	55.3	294.8	488.5
2006-07	9.2	847.2	333.7	132.3	71.8	309.4	513.5
2007-08	9.5	1008.1	387.9	150.7	92.1	377.4	620.2
2008-09	8.8	1161.1	443.5	148.4	117.5	451.7	717.6
2009-10	8.9	1327.4	526	160.3	124.8	516.3	801.4
2010-11	8.5	1558.2	602.5	184.9	137.4	633.4	955.7
2011-12	9.4	1882.7	738.4	216.9	122.5	804.9	1144.3
2012-13	8.7	1946.4	743.4	239.5	121	842.5	1203
2013-14	9	2254.5	877.3	242.8	138.1	996.4	1377.3

In Pakistan considerably high expenditures on account of unplanned expenditures incurred due to floods, security related issues, high interest payment, untargeted subsidies particularly to loss making PSEs, energy subsidies, non-development projects and less than expected tax collection has dominated the scene of fiscal management. Consequently, fiscal deficit rose by 6.6 percent on average during the past five years.

Trends in Components of Expenditure (As % of GDP)

YEAR	TOTAL EXPENDITURE (A)	CURRENT EXPENDITURE (B)	INTEREST PAYMENTS (C)	DEFENCE (D)	DEVELOPMENT EXPENDITURE (E)	NON-INTEREST NON-DEFENCE EXPENDITURE (A-C-D)	FISCAL DEFICIT	REVENUE DEFI SURPLUS (TR-TOTAL CE)	PRIMARY DEFICIT (TR-NI EXP)
2005-06	17.1	12.6	2.9	2.9	4.4	11.2	4.0	0.5	-1.1
2006-07	18.1	14.9	4.0	2.7	4.7	11.4	4.1	-0.8	-0.1
2007-08	21.4	17.4	4.6	2.6	4.2	14.2	7.3	-3.3	-2.7
2008-09	19.2	15.5	4.8	2.5	3.6	11.8	5.2	-1.4	-0.3
2009-10	20.2	16.0	4.3	2.5	4.1	13.4	6.2	-2.1	-1.9
2010-11	18.9	15.9	3.8	2.5	2.8	12.6	6.5	-3.5	-2.7
2011-12	19.6	15.6	4.4	2.5	3.7	12.7	6.8	-2.8	-2.4
2012-13	21.5	16.4	4.4	2.4	3.5	14.7	8.2	-3.0	-3.8
2013-14	20.0	16.0	4.6	2.5	4.5	13.0	5.5	-1.5	-1.0
2014-15	19.4	15.3	4.6	2.4	4.0	12.4	5.0	-0.8	-0.3

MONEY & CREDIT

Monetary Policy is an influential tool to attain medium term objectives for macroeconomic developments. Furthermore, it ensures financial stability which is in fact a key foundation for long-term economic growth and stability. It has not only a broad effect on financing conditions in the economy but it additionally affects the cost and accessibility of credit by controlling inflation.

Accommodative monetary policy stance during current fiscal year continues to signal improved key macroeconomic indicators like contained fiscal deficit, contracted current account deficit, low inflationary pressure, improvement in FX market sentiments as issuance of Sukuk Bond contributed to improvement in overall Balance of Payment (BOP) position and external accounts.

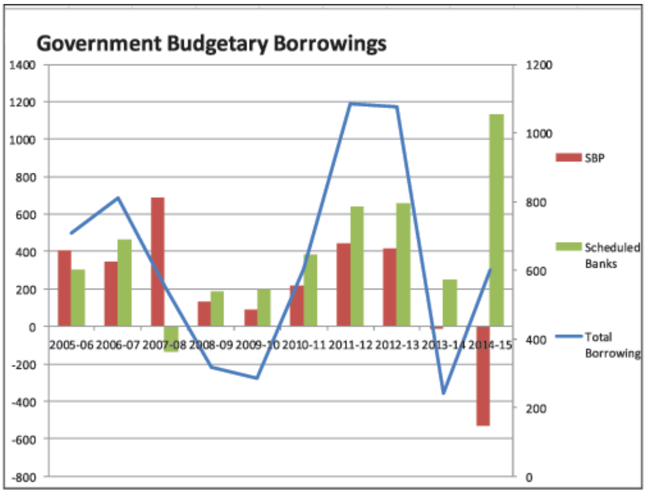
SBP adopted easy monetary policy stance during fiscal year 2012-13 keeping in view the significant decline in inflationary pressures and to stimulate the growth in credit to private sector.

SBP has decided to introduce a "Target Rate" for overnight money market repo rate as a new "Policy Rate". SBP will ensure that the overnight rate remains close to this target rate. This will be the main Policy Rate of SBP.

Significant borrowing from scheduled banks for budgetary support during the current fiscal year reflects a major shift from the central bank to scheduled banks because of State Bank of Pakistan (SBP) Amendment Act 2012, which required net zero government borrowing from the SBP at the end of each quarter.

Policy Rate

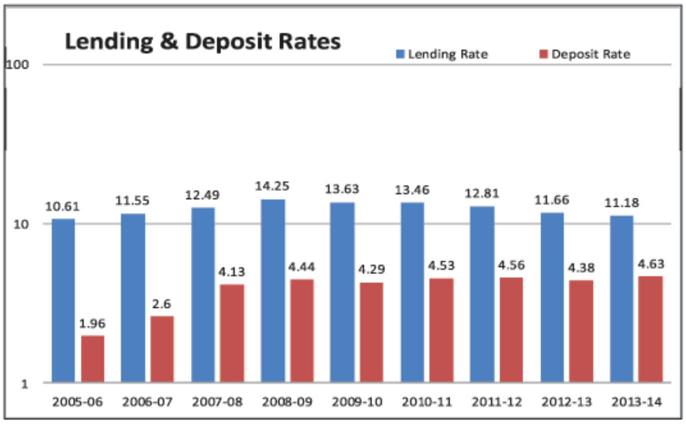
w.e.f	Policy Rate
Oct-11	12.0
Nov-11	12.0
Feb-12	12.0
Apr-12	12.0
Jun-12	12.0
Aug-12	10.5
Oct-12	10.0
Dec-12	9.5
Feb-13	9.5
Apr-13	9.5
Jun-13	9.0
Sep-13	9.5
Nov-13	10.0
Nov-14	9.5
Jan-15	8.5
Mar-15	8.0
May-15	7.0



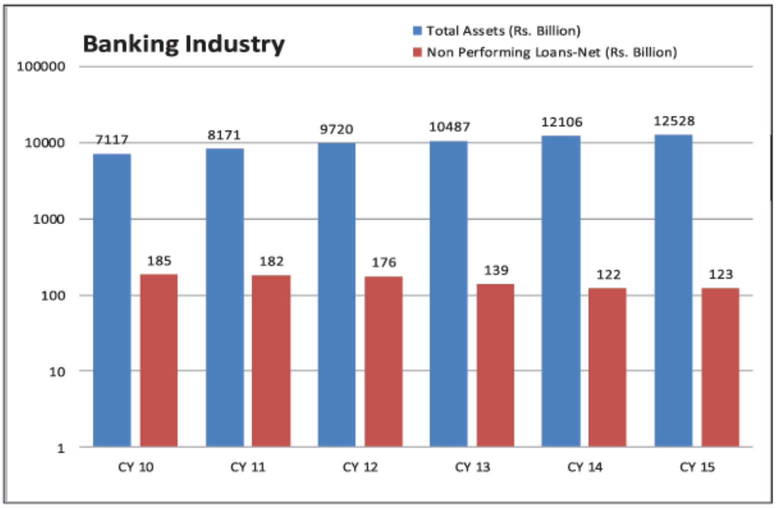
Credit to Private Sector

YEAR	AMOUNT (Rs. Bln)
2004-05	1,404
2005-06	1,647
2006-07	1,885
2007-08	2,241
2008-09	2,222
2009-10	2,460
2010-11	2,386
2011-12	2,540
2012-13	2,684
2013-14	2,896

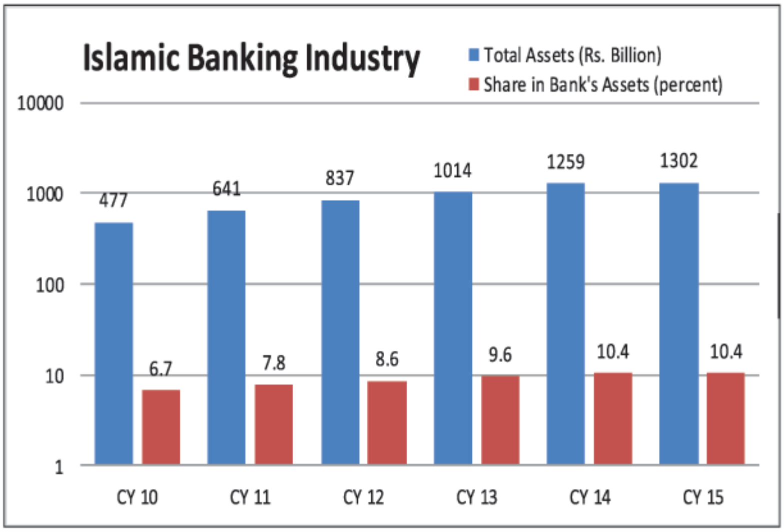
In view of continued heavy borrowing from the government credit availability to business sector is likely to remain constrained for the current and upcoming years hovering around Rs. 3 trillion – up from Rs. 2.8 trillion.



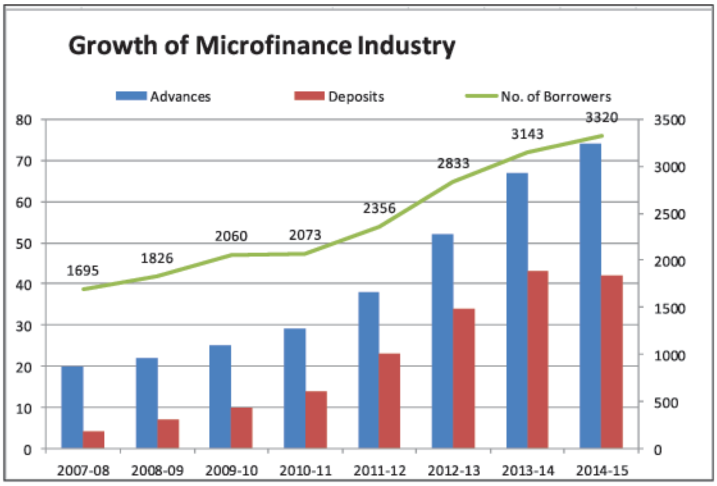
Asset quality of the banking sector has improved and NPLs to loans ratio gradually came down from 16.7 percent in September 2011 to 12.3 percent in December 2014. Net NPLs to loans ratio reduced from 3.4 percent to 2.7 percent year on year basis. While Gross NPLs to loans ratio recorded at 12.3 percent in December, 2014 against 13.3 percent in same period of last year. However, the asset quality observed a marginal setback during first quarter of CY15 as NPLs to Loans ratio increased by 50 bps to reach 12.8 percent and net NPLs to Net Loans by 9 bps to 2.8 percent.



The Islamic banking industry witnessed significant growth in CY14 with both assets and deposits contributing in this expansion. As of March 2015, the asset base of the Islamic banking industry reached to Rs.1.3 trillion while deposits reached to Rs. 1.1 trillion. Consequently, the market share of Islamic banking assets and deposits in the overall banking industry increased to 10.4 percent and 12.2 percent, respectively by end March 2015.



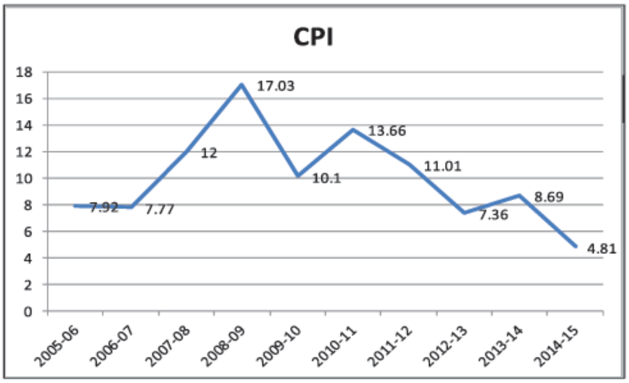
The microfinance banking sector is expanding fast with ten privately-owned MFBs operating in the country. Eight of them are operating at national level, while two at the provincial level (Sindh province). All the MFBs are privately owned with both foreign and national investors. The microfinance sector (MFBs and MFIs) witnessed a 29.2 percent growth in its aggregate loan portfolio which grew by Rs. 16.7 billion; reaching to Rs. 73.7 billion against a total of 3.3 million borrowers as of March, 2015 compared to loans worth Rs. 57 billion to 2.9 million borrowers in the corresponding period last year.



INFLATION

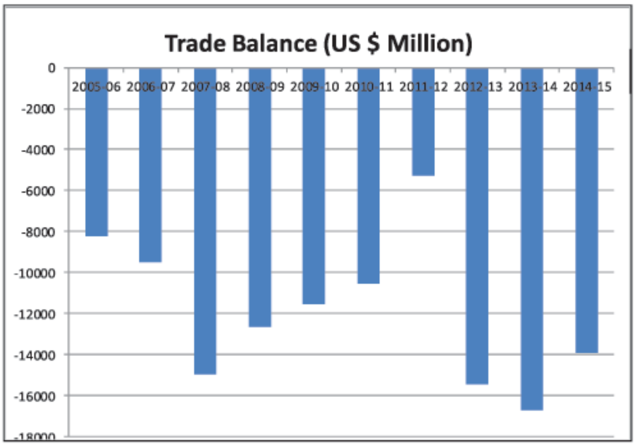
Decline in global prices of imported items significantly impacted domestic price level and bring down inflation rate. Global Oil prices have fallen by nearly 30 percent over the last six months. The CPI headline inflation recorded at 4.8 percent for first ten months (July-Apr) of the fiscal year 2014-15 which is the lowest since 2003.

The slowing down of inflation has resulted more from the decline in commodity prices in global markets (especially that of oil) whereas additional borrowings have enabled the maintenance of the rupee at a level higher than its intrinsic value (with an adverse effect on exports, however, this situation is more of a transitory and temporary nature.

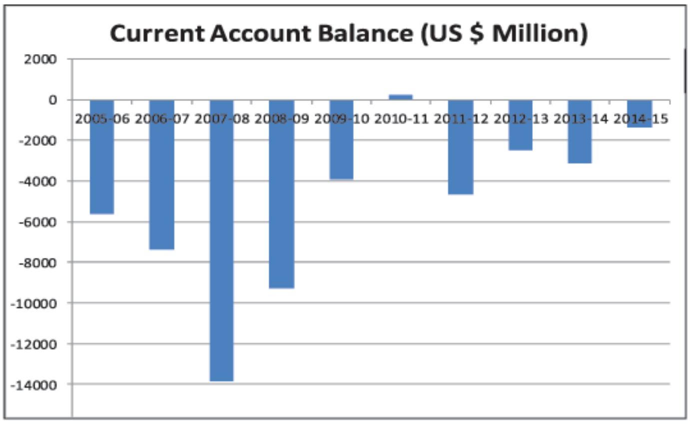


TRADE & PAYMENTS

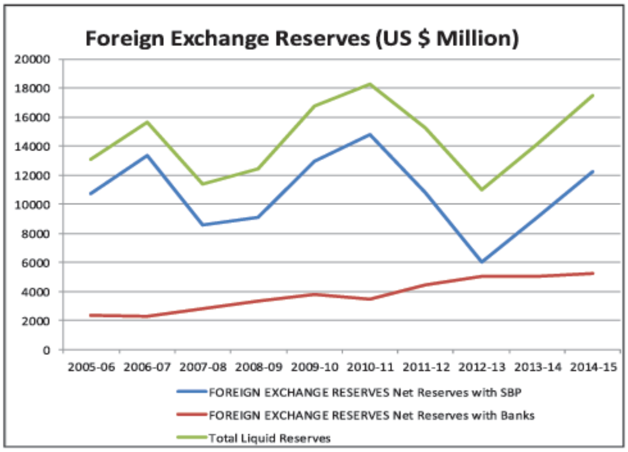
Geopolitical tensions and natural phenomena also weighed on trade growth last year. The crisis in the Ukraine persisted throughout the year, straining trade relations between Russia on the one hand and the United States and European Union on the other. Further, conflict in the Middle East also stoked regional instability. In case of Pakistan, given continued energy shortfalls, overall security challenges, international regional currencies depreciation, sluggish world economic growth and trade, Pakistan's external sector performance remained satisfactory. Overall balance remained surplus despite slow export performance. Pak Rupee remained stable during July-April 2014-15.



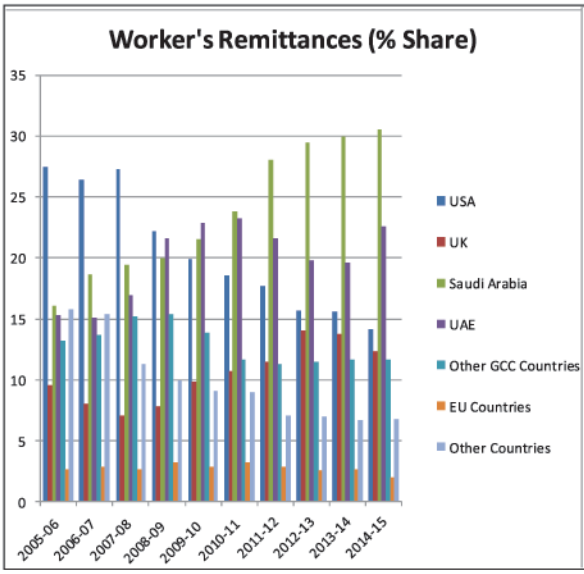
Thanks to marked improvement in the current account and substantial foreign exchange inflows, Pakistan's overall external account balance posted a surplus of US$ 2.12 billion during July-April, 2014-15 this improvement in the external account helped country's FX reserves to reach around US$ 17.8 billion by end April, 2015 from end June 2014 level of US$ 14.1 billion. The current account deficit stood at US$ 1.4 billion in July-April 2014-15, which was 53.5 percent less than the deficit of US$ 2.9 billion in July-April 2013-14. Although the major contribution came from the CSF inflows and a sustained growth in workers' remittances also helped towards improving the current account.

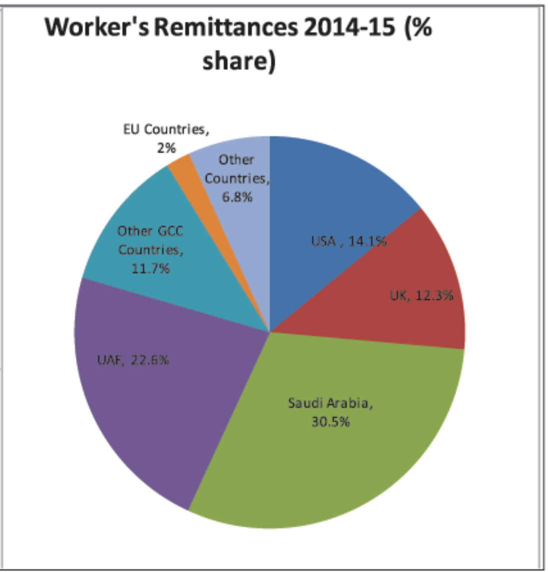


Foreign Exchange Reserves are often taken as a yardstick to gauge a country's financial strength. Credit rating agencies like Moody's, S & P etc. give significant importance to country's foreign exchange reserves. In Pakistan, a consistent volatility had seen in Net Reserves with SBP and thus in total Foreign Exchange Reserves. During FY 11, country's Foreign Exchange Reserves reached at US $ 18.2 billion. However unluckily these were not maintained and thus started depleting. By end June FY 12 and FY 13, these were depleted by 16 percent and 28 percent respectively thus entered into dangerous zone. With consistent effort of the present government, in FY 14, there was 28 percent growth in foreign exchange reserves, thus entering safe territory and no longer existence of any risk to the economy.



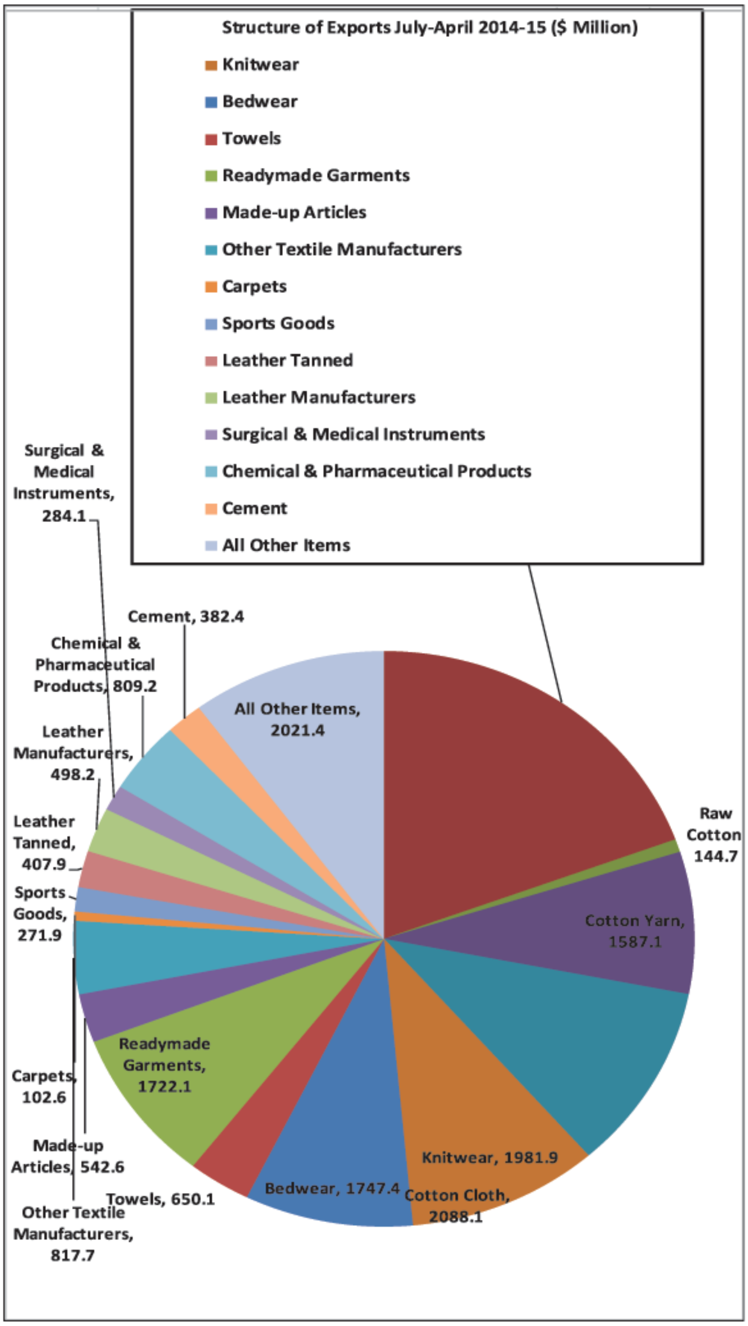
Most of the rise in remittances came from the GCC countries, especially the UAE and Saudi Arabia, mainly reflecting the vibrant non-oil sector in this region. According to the IMF, the GCC is expected to post 4.4 percent growth during 2014, on the back of expansion in the infrastructure.



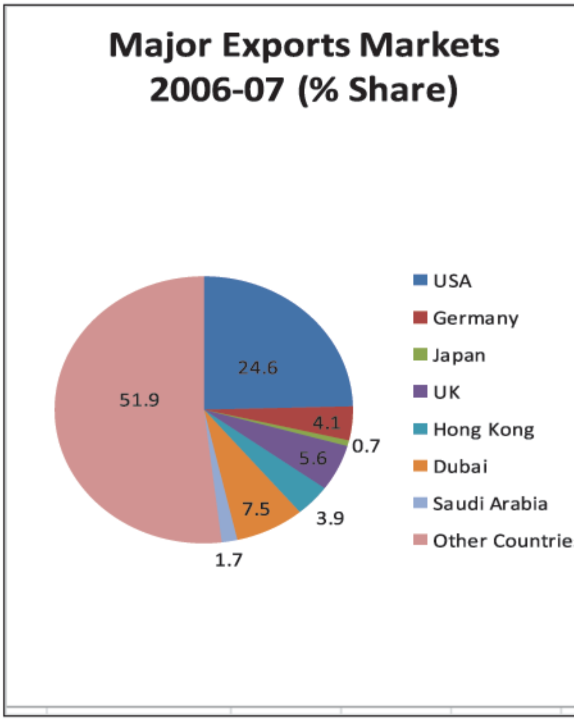


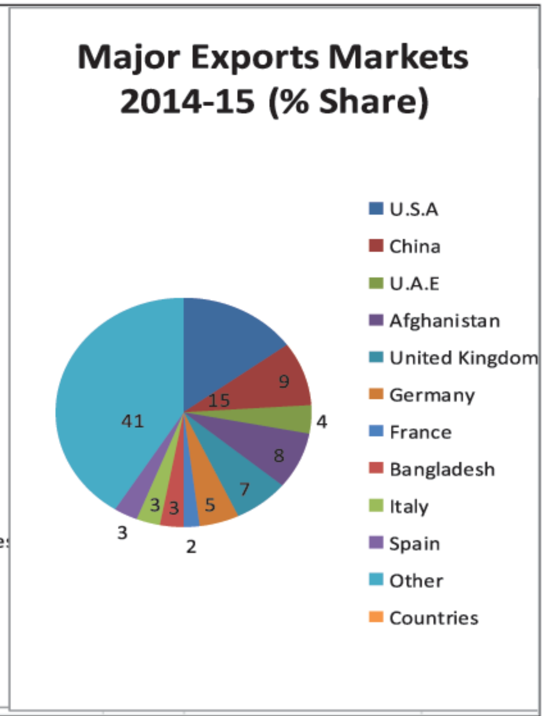
Pakistan's exports have been stagnant for the last few years, wavering around US$ 24-25 billion. During July-April, 2014-15, exports stood at US$ 19,926 million against US$ 20,979 million during corresponding period last year. Bangladesh's exports, for instance, surpassed the $30 billion-mark last year and is set to hit the current year's target of $34.5 billion.

Pakistan's exports are highly concentrated in few items namely, cotton and cotton manufactures, leather, rice, chemicals & pharma products and sports goods. These five categories of exports accounted for about 69.3 percent of total exports.



Although Pakistan trades with a large number of countries, its exports nevertheless are highly concentrated in few countries. About 60 percent of Pakistan's exports' destinations are to ten countries namely, USA, China, UAE, Afghanistan, UK and Germany, France, Bangladesh, Italy and Spain.

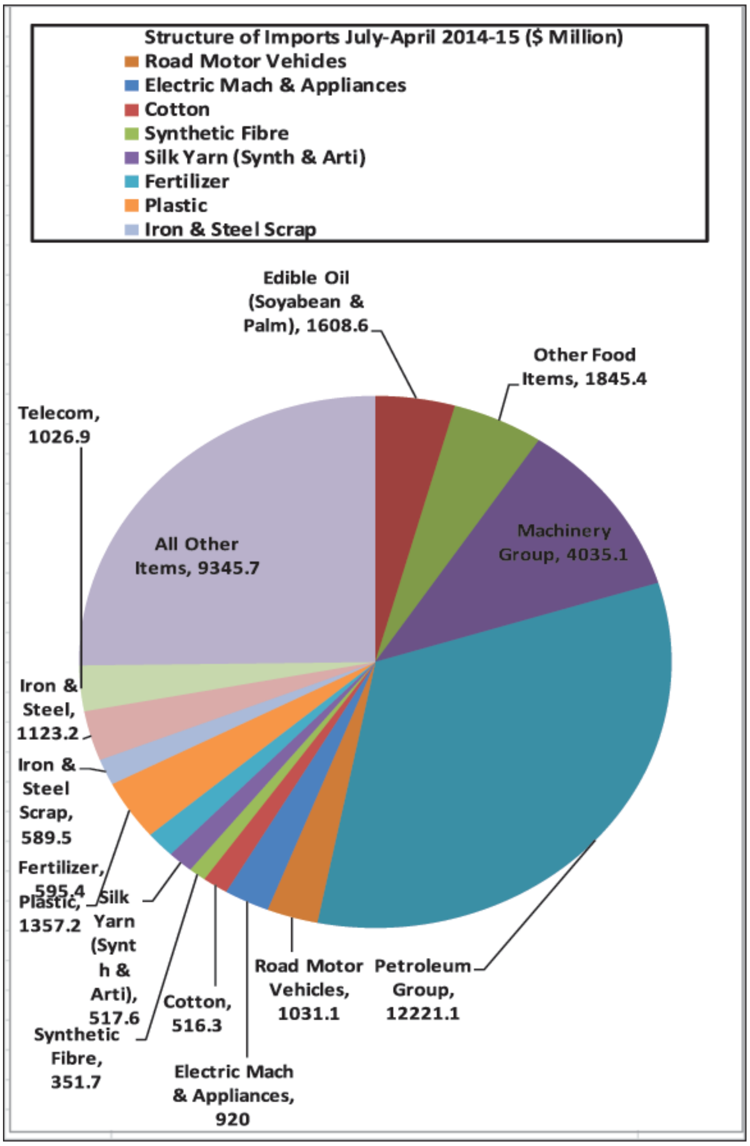


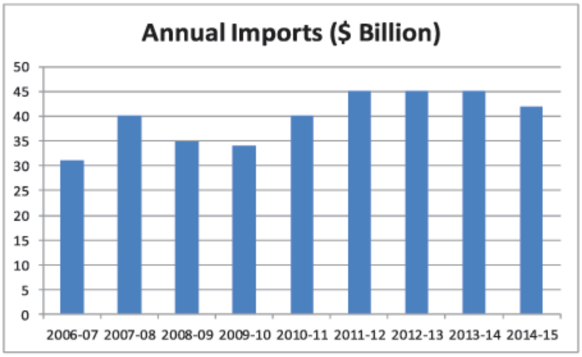


Pakistan like other developing countries benefited by the sharp decline in global oil prices during current financial year as far as their import bill is concerned. Almost one third of Pakistan import bill constituted by petroleum products including crude oil.

The curtailment of import bill mainly comes from Petroleum group which as a whole down by US $ 2,366.1 million (19.4 percent). Import of Petroleum crude declined by 24.3 percent (US $ 1,150.9 million) during July-April 2014-15 compared to corresponding periods last year.

Like exports, Pakistan's imports are also highly concentrated in few countries. Based on current year data, around 50 percent of Pakistan imports originate from just few countries like China, Kuwait, Saudi Arabia, UAE, India, Indonesia, etc.


Structure of Imports July-April 2014-15 ($ Million)
Road Motor Vehicles
Electric Mach & Appliances
Cotton
Synthetic Fibre
Silk Yarn (Synth & Arti)
Fertilizer
Plastic
Iron & Steel Scrap
Edible Oil (Soyabean & Palm), 1608.6
Other Food Items, 1845.4
Telecom, 1026.9
Machinery Group, 4035.1
All Other Items, 9345.7
Iron & Steel, 1123.2
Iron & Steel Scrap, 589.5
Fertilizer, 595.4
Plastic, 1357.2
Silk Yarn (Synth & Arti), 517.6
Synthetic Fibre, 351.7
Cotton, 516.3
Road Motor Vehicles, 1031.1
Petroleum Group, 12221.1
Electric Mach & Appliances, 920


Annual Imports ($ Billion)
50
45
40
35
30
25
20
15
10
5
0
2006-07 2007-08 2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15

PUBLIC DEBT

Public debt management is the process of establishing and executing an effective policy for managing public debt portfolio in order to raise required amount of funding, achieve cost and risk objectives and to meet other goals such as developing and maintaining an efficient debt market. Prudent management of public debt can help countries reduce their borrowing cost, mitigate the risks of refinancing, exchange rate fluctuations and debt accumulation. The absence of such prudence has forced myriad countries to give priority to debt servicing instead of pursuing their social and development goals.

The portion of total debt which has a direct charge on government revenues as well as the debt obtained from the IMF is defined as public debt. Pakistan's public debt has two main components, namely domestic debt (which is incurred principally to finance fiscal deficit) and external debt (which is raised primarily to finance development expenditure). Each of these types of debt has its own benefits and drawbacks, with a trade-off between costs of borrowing and exposure to various types of risks that needs to be balanced in order to ensure ample and timely access to cost efficient funding. Public debt was recorded at Rs. 16,936 billion or 61.8 percent of GDP as at end-March 2015 compared with 62 percent during the same period last year.

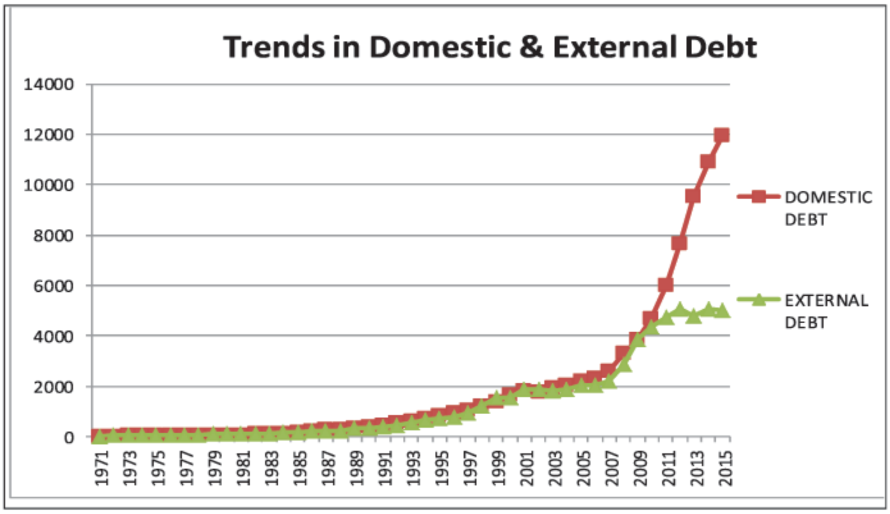
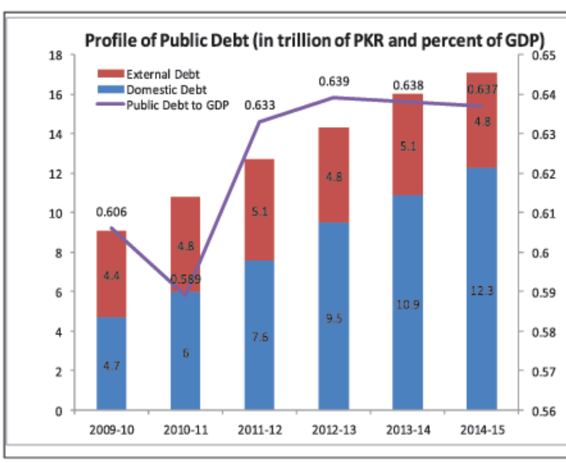
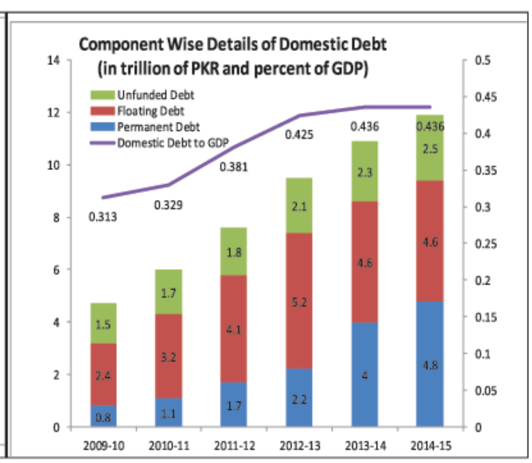


Table: Public Debt (In Billion Rupees) As on end Period						
Debt Instruments	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
	(In bln Rs)					
Domestic Debt	4,721.7	6,091.9	7,724.1	9,621.5	11,028.3	12,226.1
External Debt	3,789.2	4,159.4	4,543.7	4,461.8	4,856.0	4,640.2
Total Public Debt	8,510.9	10,251.3	12,267.9	14,083.3	15,884.3	16,866.3
(In Billion Rupees)	(% of Total Debt)					
Domestic Debt	55.5	59.4	63.0	68.3	69.4	72.5
External Debt	44.5	40.6	37.0	31.7	30.6	27.5
	(% of GDP)					
Domestic Debt	31.8	33.3	38.5	43.0	44.0	44.6
External Debt	25.5	22.8	22.7	19.9	19.4	16.9
Total Public Debt	57.2	56.1	61.2	62.9	63.4	61.6
	(% of Revenues)					
Domestic Debt	355.8	391.0	410.2	494.4	489.1	435.1
External Debt	285.5	267.0	241.3	229.3	215.3	165.1
Total Public Debt	641.4	658.0	651.5	723.7	704.4	600.2
Memo:						
Exchange Rate (Rs./US$,End of Period)	85.5	86	94.5	99.7	98.8	101.9
Foreign Currency Debt (US$ In billion)	44.3	48.4	48.1	44.8	49.1	45.5
GDP (Rs. In billion)	14,867	18,276	20,047	22,379	25,068	27,384
Revenues (Rs. In billion)	1,327	1,558	1,883	1,946	2,255	2,810

As envisioned in Medium Term Debt Management Strategy (MTDS), the government was able to substantially improve the composition of public debt due to substitution of short term Treasury Bills (T-bills) with medium to long term Pakistan Investment Bonds (PIBs) and increase in external inflows during 2013-14.





An Economic Summary –
Excerpts from IMF's Seventh Review (Jun 2015)

- **Economic conditions remain favorable.**

Real GDP is projected to expand by about 4.1 percent in this fiscal year, 0.2 percent lower than previously forecast. Growth is supported by strength in services and construction, while softening in manufacturing and private credit growth are limiting factors. The current account turned positive in Q3 FY2014/15, helped by the decline in international oil prices and strong growth in remittances (15 percent y-o-y). However, exports have declined due to lower global commodity prices, ongoing shortages in electricity supply, and real exchange rate appreciation (by 8 percent in the first nine months of this fiscal year). Headline consumer price inflation stayed near multi-year lows (3.2 percent y-o-y in May 2015, driven largely by lower commodity prices, with core inflation gradually easing to around 5 percent.

- **Banking system indicators remain sound with robust earnings and high solvency ratios.**

Despite a slight deterioration in banks' asset quality, banking system profitability and the capital adequacy ratio (CAR) have increased in Q3, 2014/15. While government debt has increasingly shifted from the SBP to commercial banks, private sector credit growth decelerated to 6.4 percent y-o-y in April. Liquidity in the banking system has remained adequate.

- **Budget deficit, tax revenues and social cash transfers**

The budget deficit (excluding grants) in the first nine months of FY2014/15 was better than envisaged (by PRs 34 billion), in part due to restraining development expenditure. Tax revenues at the federal level, however, fell short of the third- quarter IT by PRs 69 billion, due to legal challenges to some revenue measures, lower tax collections related to the fall in oil prices, and lower inflation.

- **Net international reserves and net swaps/forward position.**

The end-March NIR target was comfortably met (by over US$700 million), as the lower oil bill, robust remittances, and improving macroeconomic conditions allowed for SBP spot purchases of US$750 million over the quarter.
The authorities remain committed to their economic reform program but continue to face significant challenges.

The security situation remains fragile amid ongoing anti-terrorist operations and fallout from terrorist attacks. The authorities continue to face political obstacles in implementing some structural reforms. Legal challenges to privatization and revenue measures have also been constraining progress.

MACROECONOMIC OUTLOOK AND RISKS

- **The macroeconomic outlook is favorable, with low inflation and robust growth, and broadly balanced risks.**

➢ **Growth** is expected to increase to 4.5 percent next year (0.2 percent lower than previous projections), supported by lower oil prices, a projected reduction in electricity outages, and an improving business climate. Real GDP is expected to rise further over the medium-term with expected improvements in the energy sector and the investment climate.

➢ **Inflation** is expected to rebound to about 4.7 percent next year, due to the likely bottoming out of commodity prices, but to remain well-anchored by continued prudent monetary and fiscal policies.

➢ **The current account deficit** is expected to remain stable at around ½ percent of GDP in the next fiscal year. The benefits of lower oil prices and strong remittances could be partly offset by continued weak export performance in light of real exchange rate appreciation and low export commodity prices.

➢ **Foreign exchange reserves** reached US$11.6 billion in end-March—covering nearly three months of imports and 55 percent of the Assessing Reserve Adequacy (ARA) metric—and are expected to exceed US$14 billion (65 percent of the ARA metric) by end- June 2015 (65 percent of the ARA metric), supported by the oil windfall, SBP interventions, multilateral and bilateral disbursements, and privatization proceeds. Reserve coverage is now expected to reach about 78 percent of the ARA metric by end of FY2015/16.

- **Crisis risks have eased compared to previous reviews, as stabilization policies begin to reduce macroeconomic imbalances.**

Key domestic risks include slippages in policy implementation, particularly in the structural and legislative fronts, and the still challenging political and security conditions, which could affect economic activity and undermine fiscal consolidation. Conversely, an improvement in the security situation could boost investment and growth. External vulnerabilities include a protracted period of slower growth in key advanced and emerging market economies, which could weaken exports and hurt remittances. A persistent U.S. dollar appreciation with limited exchange rate flexibility could further erode export competitiveness. Increased volatility in oil prices could affect efforts to reform energy subsidies.

A. Fiscal Policy

- **The FY2014/15 deficit target remains within reach.**

The authorities over performed on the end-March 2015 deficit target, in part by holding back budgeted development spending.

- **The authorities plan to continue on a path of adequate fiscal consolidation to reduce public debt and lay the foundations for sustained and inclusive growth.**

The authorities are committed to reducing the budget deficit (excluding grants) to 3½ percent by the end of the program, while putting in place measures, including reforms to broaden the tax base, to create fiscal space for priority spending on infrastructure, security and defense, education, healthcare, and targeted social assistance.

- **Within this strategy, the FY2015/16 budget targets a deficit of 4 percent of GDP**

Consolidation is based on further raising tax revenue by about 1 percent of GDP (to 12.2 percent of GDP) and rationalizing energy subsidies by 0.4 percent of GDP, while an expected drop in SBP profits will lead to a decline in nontax revenues by 0.6 percent of GDP.

- **Revenue mobilization efforts** include (i) further elimination of tax concessions and exemptions amounting to 0.3 percent of GDP, and (ii) new revenue measures amounting to 0.7 percent of GDP, including improved collection under the Gas Infrastructure Development Cess (GIDC). Measures include a higher excise on tobacco products, raising tax rates for income and capital gains on high-income and non-filer taxpayers, rationalizing the customs duty and GST rates for a range of goods including food, mobile phones, petroleum products, pharmaceuticals and steel, and abolishing zero-rated GST status of brand dairy products, among others. The authorities have addressed legal challenges to GIDC collection through the ratification of the GIDC Act that is consistent with achieving the budgeted GIDC revenue (PRs 145 billion or 0.5 percent of GDP in FY2015/16).
- **On the expenditure side**, in addition to reducing subsidies, the government is taking steps to contain the circular debt problem in the energy sector and to streamline public administration, including wage and salary costs. These steps will allow for growth in spending on the public sector development program and for a further increase in social spending through the BISP (below). In addition, due to extraordinary circumstances, the authorities will incur one-off spending of up to PRs 100 billion (program adjustor) on security enhancements related to fighting terrorism and resettlement of internally displaced persons.

- **The authorities significantly restricted the legal authority for administrative tax exemptions.**

  The authorization for the Federal Board of Revenue (FBR) to grant exemptions has been permanently removed.

- **Improving tax compliance and enforcement remains critical to achieve fiscal sustainability.**

  The plan to merge the National Tax number (NTN) system (covering 3.6 million individuals) with the Computerized National Identity Card (CNIC) database (covering 150 million people) is on track to be completed by end-September 2015 (SB). To enhance the efficiency and progressivity of Pakistan's tax regime, the FBR will focus enforcement efforts on non-filers who have the potential to contribute at least the average tax paid by currently registered taxpayers and especially high wealth businesses and individuals.

- **Provincial governments remain crucial in the fiscal reform process.**

- **Enhancing the quality and effectiveness of public debt management remains a priority.**

  The stock of public debt is declining from 63 percent of GDP in FY2013/14 to 62 percent this year and is expected to remain at that level next year. Efforts continue to diversify financing from domestic and external sources and further lengthen the maturity profile. The DPCO, following its reorganization as a middle office, is planning to publish an updated MTDS by end- January 2016. It will also appoint risk management staff (director and two staff) and begin publishing quarterly debt management risk reports covering all government liabilities including guarantees, to allow monitoring of fiscal and financial risks and the implementation of the MTDS by end-October 2015. These actions should lead to savings in, and more effective decision-making for, government borrowing.

- **The authorities continue to accumulate reserves and reduce external vulnerabilities.**

  Taking advantage of the continued low international oil prices, the authorities have agreed to increase NIR targets for forthcoming reviews. The SBP has significantly stepped up its spot market purchases of foreign exchange, which have netted some US$2.9 billion so far in this fiscal year. These efforts will increase the reserve coverage to well above three months of imports by end-June 2015, bolstering resilience against future external shocks.

- **A continued prudent monetary policy stance remains important to preserve price stability and anchor low inflation expectations.**

  Headline inflation has fallen significantly, while core inflation has also eased.

- **Enhanced central bank independence is important for an improved monetary policy framework.**

C. Financial Sector Policies

- **Progress with bank capitalization is satisfactory.** Following the amalgamation of one capital adequacy ratio (CAR) noncompliant bank into a private bank in May 2015, only one remaining bank still has a small CAR shortfall, which is expected to be CAR-compliant through a rights issue by June 2015.

D. Structural Issues

Energy

- **Despite significant efforts over the first half of the EFF, the power sector remains a key bottleneck for growth and a drain on public resources.**
  Power outages of nearly six hours per day on average remain unacceptably high. The system

still does not operate at cost recovery levels, leading to underutilization of existing capacity and the build-up of arrears (so- called circular debt). Despite the large drop in oil prices, budgetary subsidies also remain significant.

- **Performance of distribution companies (DISCOs) has been mixed.**

  So far in this fiscal year, collections remained at around 89 percent, while technical losses were reduced to 17.6 percent.

- **The authorities continue with their plans to bring electricity tariffs toward cost recovery levels**

  The government implemented the new tariffs including surcharges. In case of a negative outcome concerning legal challenges to electricity surcharges, the authorities are committed to protect the level of revenue in the electricity sector by adjusting tariffs accordingly. The tariff adjustment is expected to reduce the electricity subsidies too.3 percent of GDP in FY2015/16 from around 0.8 percent in the current year and will lower power sector arrears by 0.1 percent of GDP.

- **The authorities adopted a comprehensive medium-term plan to deal with the accumulation of arrears in the electricity sector.**

  The plan is expected to eliminate both the stock and flow of new circular debt over time.

- **Power sector regulatory reform is progressing.**

  Preparations for a multi-year tariff framework are on track. Determinations of multi-year electricity tariffs for three distribution companies will be finalized. These determinations will reduce tariff uncertainty for companies in the privatization list.

- **Progress in the gas sector has been satisfactory.**

  Construction of a Liquefied Natural Gas (LNG) terminal has been completed, and LNG imports started in April 2015. The authorities are fully passing through of the cost of imported LNG to the end-user purchase price. The authorities are also planning to award contracts for an additional 10–15 exploration fields by end-December to help tackle gas shortages.

- **The authorities are continuing their privatization program.**

  The privatization program has raised about US$1.7 billion, broadly in line with expectations. In line with the energy arrears reduction plan, the authorities are stepping up the agenda of privatization of power companies.

- **The authorities are moving forward with the restructuring of key loss-making firms.**

  The due diligence process for Pakistan International Airlines (PIA) is expected to be completed by end-June 2015. Plans for private participation will be developed thereafter and a potential offering to a strategic investor is scheduled for end-December 2015. Operational efficiency at Pakistan Steel Mills has begun to improve and capacity utilization was increased to 40 percent from 18 percent in the last three months. The company is expected to be privatized by end-2015. Pakistan Railways continues to focus on improving its freight operations and has doubled revenues from freight operations.

China-Pakistan Economic Corridor

- **The China-Pakistan Economic Corridor (CPEC) could help boost Pakistan's long term development prospects.**

  Under CPEC, part of China's efforts to expand trade and transport linkages across central and south Asia, about US$44 billion could be invested in transport infrastructure and energy-related projects—including roads, railways, pipelines, and power plants—in Pakistan over the next 15 years. While the modalities, terms, and timelines of the various investments under CPEC are yet to be determined, CPEC has the potential to improve Pakistan's business environment by reducing infrastructural bottlenecks, and thus to stimulate domestic and foreign investment over the longer run. Sound practices in public debt management and in the evaluation, prioritization, and implementation of public investment projects will be important to ensure that maximum benefit accrues.

Business Climate and Trade Policy

- **Investment climate and trade policy reforms are under way.**

  The review of the filing process for sales and income tax has been completed. The review identified 30 processes that will be streamlined. The authorities are also developing 9 IT-based modules to eliminate redundant manual steps. A National Financial Inclusion Strategy (NFIS) has been launched in May 2015 to improve access to finance in general with emphasis on the poor, women, and marginalized segments of the society. A critical component of the NFIS is to improve credit information: the Credit Bureau Act was passed by the National Assembly in March 2015.

- **Financing, program risks, and capacity to repay the Fund.**

  Pakistan's program financing needs are fully covered for the next 12 months and Pakistan has the capacity to repay the Fund. The materialization of risks to the economic outlook could erode Pakistan's capacity to repay to the Fund, particularly in a context where Fund exposure is expected to increase further.

CRISIS IN TEXTILE SECTOR-A BRIEF ASSESSMENT

This section presents a brief synopsis of the current crisis like situation in the textiles area and our baseline assessment and outlook.

KEY ISSUES

1. **The high cost of doing business, energy shortages, aging machines, relatively higher exchange rate**, raw material shortages, and the perceived gap between policy and its implementation have eroded the economic viability of textile business both at home and abroad.

2. **Slack demand in EU zone due to stagnant and lustreless growth** with deflationary pressures looming on the horizon.

3. **The supply of cotton & yarn in both local and exporting markets by regional competitors**, mainly India, continues to test Pakistani textile manufacturers. This excessive supply is exerting undue pressure on the local industry that is already facing dull demand from major consumers like China.

4. **The textile industry has largely aging and/or obsolete machinery and equipment**. The inability to modernize the equipment and machinery has led to the decline of Pakistani textile competitiveness. Due to obsolete technology the cost of production is higher in Pakistan as compared to other countries like India, Bangladesh & China.

5. **Low Chinese demand**, abundance of Indian yarn, higher power tariffs & intense competition from regional competitors are other major issues faced by the domestic textile industry.

6. **There has been addition of only one million spindles during the period 2008-13 as against more than 14 million in India and 35 million in China.** There has been addition of only 131 shutter-less rooms in Pakistan as against 36,000 in India.

7. **Due to underperformance of the textile industry, Pakistan's share in the global market also decreased from 2.2 per cent to 1.8 per cent during 2006-13**, whereas market share of regional competitors increased by 75 per cent from 1.9 per cent to 3.3 per cent. Maximum exported quantity is 2,625 million square meter last year, the current export quantity has only been 1,880 million square meter causing a decline of export worth $3,225 million.

OTHER ISSUES

1. **The cost of yarn is 219 per unit in Pakistan as against 208 in India** and this has resulted in importing 211,105 tons of yarn from India constituting 83percent of total import of yarn. Likewise, energy is available 24/7 to the manufacturers in India and China whereas industrial units in Pakistan experience power outages.

2. **Slow clearance of sales tax refunds** of the industry. This is besides domestic other problems. The government has to pay Rs. 100 billion of tax refunds to the textile industry.

3. Instead of withdrawing 2 percent sales tax on exports, the government has increased sales tax on exports by 50 percent in the last budget 2015-16. According to certain segments in the industry if the sales tax imposed on the exports is not withdrawn the value added textile exports would further decline ultimately by as much as 20 percent.

4. **The shrinking textile sector, with major players moving their spinning mills to destinations abroad, including Bangladesh, has been well-documented**; the crisis in the power sector and easier terms available for importers have provided major disincentives to textile producers, who have little interest in keeping their base in Pakistan.

5. **A smaller cotton crop than expected earlier has pushed up the local cotton prices** as both the domestic mills. As such, despite the weaker cotton prices on the international markets, the domestic prices range from being firm to tight. The mills are reported to be buying cotton actively while the exporters are also said to be purchasing cotton sporadically.

FORECAST AND SENSIVITY ASSESSMENT

Textile exports to European Union (EU) rose after January, 2014 on account of GSP Plus status, however, because of the **declining overall demand in EU due to stagnant growth and continued stagnancy forecasts** – in line with the IMF forecast – **the total textile exports are likely to continue their downward trend.**

In addition to the slack demand **there are two structural shifts that are continuing to take place** within the textile industry. These are:

a) **A gradual shift in production capacity to other locations abroad, such as Bangladesh**, which in effect are reducing the value added component of textile exports. The **primary reason for this shift appears to be the endemic energy shortages in the country**, and

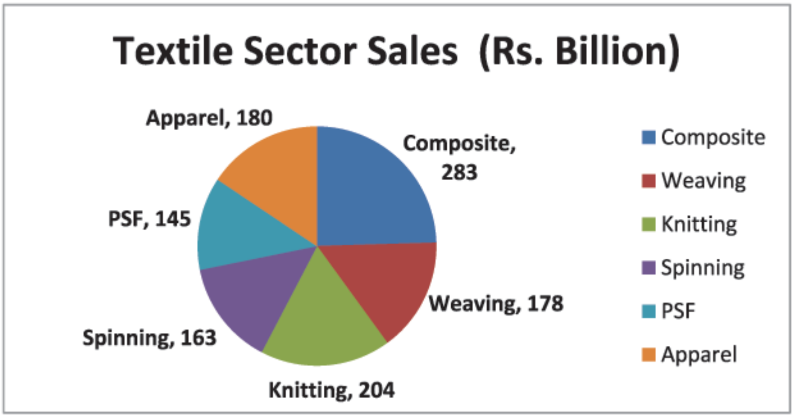
b) **A shift from value added exports to lower value added categories such as yarn and cotton**. This also appears to be on account of the same endemic problems.

Given this declining trend, a 10% devaluation in rupee against dollar is likely to increase total exports to USD 14.7 billion during the current year as compared to USD 13.5 billion for 2014-15. On the other hand a more drastic, 20%, devaluation could yield USD 16.5 billion in textile exports.

TEXTILE SECTOR: SUB-SECTORAL COMPOSITION

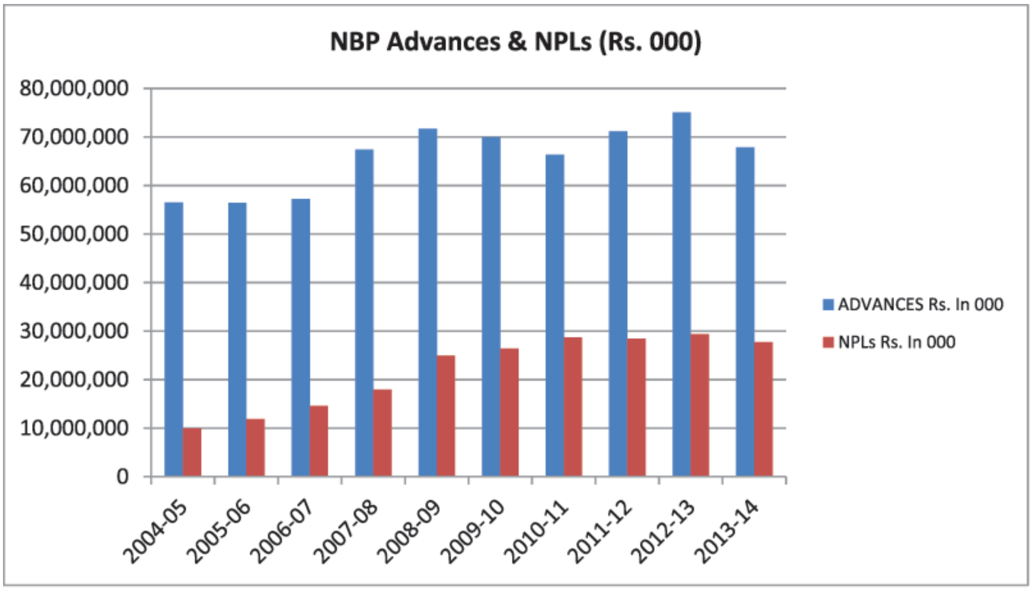
Year	Sub-Sector	Units	Sales Rs in Billions	Profit (AT) Rs in Billions
2013*	Composite	32	283	12
	Weaving	40	178	8
	Knitting	800	204	7
	Spinning	57	163	9
TOTAL SALES (Rs in Billions)	PSF	8	145	13
1,154	Apparel	500	179	21

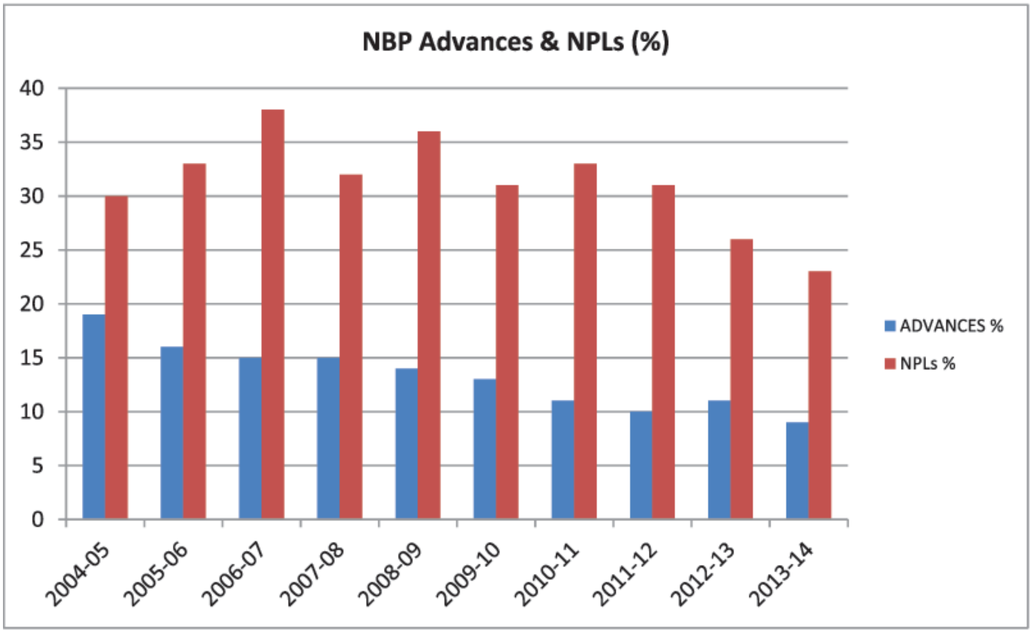
*Last full industry data availability is 2013



SIZE OF TEXTILES TO NBPs BALANCE SHEET

YEAR	ADVANCES Rs. In 000	PERCENTAGE %	NPLs Rs. In 000	PERCENTAGE %
2004-05	56,495,604	19	9,939,566	30
2005-06	56,452,813	16	11,883,548	33
2006-07	57,239,248	15	14,555,983	38
2007-08	67,390,147	15	17,964,960	32
2008-09	71,667,650	14	24,952,031	36
2009-10	69,925,475	13	26,432,192	31
2010-11	66,317,171	11	28,724,029	33
2011-12	71,143,655	10	28,470,055	31
2012-13	75,001,909	11	29,350,844	26
2013-14	**67,854,542**	**9**	**27,695,737**	**23**


NBP Advances & NPLs (Rs. 000)
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
ADVANCES Rs. In 000
NPLs Rs. In 000


NBP Advances & NPLs (%)
40
35
30
25
20
15
10
5
0
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
ADVANCES %
NPLs %

International Economic Outlook

THE WORLD ECONOMY

The following write-up is composed of excerpts from **IMF's World Economic Outlook (Oct 2015).**

Global growth in the first half of 2015 was 2.9 percent; about 0.3 percentage point weaker than predicted Growth was below forecast for both advanced economies and emerging markets.

Overview of the World Economic Outlook Projections

		PROJECTIONS	
	2014	2015	2016
World Output			
Advanced Economies			
United States	2.40	2.60	2.80
Euro Area	1.80	2.00	2.20
Japan	-0.10	0.60	1.00
United Kingdom	3.00	2.50	2.20
Canada	2.40	1.00	1.70
Other Advanced Economies	2.80	2.30	2.70
Emerging Market and Developing Economies			
Commonwealth of Independent States	1.00	-2.70	0.50
Russia	0.6	-3.80	-0.60
China	7.3	6.80	6.30
India	7.3	7.30	7.50
ASEAN-5	4.60	4.60	4.90
Emerging & Developing Europe (Inc. Turkey)	2.8	3.00	3.00
Latin America & the Caribbean	1.3	-0.30	0.80
Brazil	0.1	-3.00	-1.00
Mexico	2.1	2.30	2.80
Middle East, North Africa, Afghanistan, and Pakistan	2.7	2.50	3.90
Saudi Arabia	3.5	3.40	2.20
Sub-Saharan Africa	5	3.80	4.30
Nigeria	6.3	4.00	4.30
South Africa	1.5	1.40	1.30

Risks to the Global Outlook:

Downside risks differ between advanced and emerging market economies to some extent. However, there would be spillovers if any of the risks materialized, and these spillovers, could be substantial. In regard to upside risks, lower oil and commodity prices could have a stronger impact on demand than currently expected.

Disruptive Asset Price Shifts and Financial Market Turmoil

As elaborated in the October 2015 GFSR, disruptive asset price shifts and financial turmoil could take a toll on global activity. Emerging market economies are particularly exposed, as these risks, if they materialized, could involve capital flow reversals. Four factors underpin these risks.

- Term premiums and risk premiums in bond markets are still very low. A correction to higher term premiums in the United States could lead to sharply higher yields abroad, given the strong linkages among longer-term bond yields.
- The change in term premiums is assumed to be gradual, but news that changes expectations about these fault lines and unexpected portfolio shifts could trigger disruptive asset price adjustments.
- Vulnerabilities and financial stability risks in emerging market economies have likely increased amid lower growth, recent commodity price declines, and increased leverage after years of rapid credit growth.
- Policy and political uncertainty reemerge in Greece, sovereign and financial sector stress in the euro area could also reemerge, with potentially broader spillovers.

Lower Potential Output

Potential output is projected to grow at a rate lower than it did before the crisis, in both advanced and emerging market economies. Risks are that the growth rate of potential output could be even lower than expected. Recent revisions in U.S. national accounts data suggest that productivity growth in recent years was weaker than estimated previously.

Risks to Growth in China

There are risks of a stronger growth slowdown if the macroeconomic management of the end of the investment and credit boom of 2009–12 proves more challenging than expected. Risks span a broad spectrum, with real and financial spillovers, including through commodity market channels.

A Further Sizable Strengthening of the U.S. Dollar

U.S. dollar appreciation against most currencies could thus continue, causing a lasting upswing in the dollar. If this risk were to materialize, balance sheet and funding strains for dollar debtors could potentially more than offset trade benefits from real depreciation in some economies. Which might negatively affect the interest-sensitive components of domestic demand. In the energy sector, increased leverage remains a concern, especially if energy prices were to fall while the dollar appreciated.

Geopolitical Risks

Ongoing events around Ukraine, the Middle East, and parts of Africa could lead to escalation in tensions and increased disruptions in global trade and financial transactions. Disruptions in energy and other commodity markets remain a particular concern, given the possibility of sharp price spikes, which, depending on their duration, could substantially lower real incomes and demand in importers. More generally, an escalation of such tensions could take a toll on confidence.

Secular Stagnation and Hysteresis

The risk of a protracted shortfall of domestic demand associated with excess saving will remain a concern. In some advanced economies, especially in the euro area, demand continues to be relatively weak, and output gaps are still large. Deflation risks remain elevated amid crisis legacies and constraints on monetary policy at the zero lower bound. Furthermore, after six years of demand weakness, the likelihood of damage to potential output is increasingly a concern.

A Combined Risk Scenario

The possible global repercussions of a generalized slowdown in emerging market and developing economies includes the materialization of a number of risks—a slowdown in investment and growth across emerging market economies, more severe in faster-growing economies such as China and India; lower commodity prices, arising from this slowdown; and higher risk premiums and exchange rate depreciation across emerging market economies. The implications for growth in emerging market economies and developing countries would be sizable, with growth rates 1.5 to 2 percentage points lower after five years—even though the model assumes no "sudden stop" in capital flows or crisis outcomes with contagion effects. Spillovers onto advanced economies would also be material,

Geo-Strategic & Global Economic Perspectives

Pak-China Partnership: Moving towards SAFE? (A Strategic And Financial-Economic Partnership)

Why Pakistan's Future Looks Bright
The Express Tribune, May 7, 2015.
By M Bilal Lakhani

"Is Pakistan the most exciting place to live in the 21st century? It's almost as if someone has unleashed good news for the country on all fronts; economic, political and security. Over $40 billion in Chinese investment are on their way but more importantly a bet by the world's next superpower to tie its regional ambitions to Pakistan's prosperity. On security, the army, civilian leadership and civil society are steadily taking the battle to religious extremists."

New Silk Road Could Change Global Economics Forever
Time, May 22, 2015
By Robert Berke

"China is building the world's greatest economic development and construction project ever undertaken: The New Silk Road. The project aims at no less than a revolutionary change in the economic map of the world. It is also seen by many as the first shot in a battle between east and west for dominance in Eurasia." [...] "When completed, like the ancient Silk Road, it will connect three continents: Asia, Europe, and Africa. The chain of infrastructure projects will create the world's largest economic corridor, covering a population of 4.4 billion and an economic output of $21 trillion." [...] "The idea for reviving the New Silk Road was first announced in 2013 by the Chinese President, Xi Jinping. As part of the financing of the plan, in 2014, the Chinese leader also announced the launch of an Asian International Infrastructure Bank." [...] "China has invited the international community of nations to take a major role as bank charter members and partners in the project." [...] "Some 58 nations have signed on to become charter bank members. There are 12 NATO countries among AIIB's founding member states along with three of the main U.S. military allies in Asia." [...] "The first major economic development project will take place in Pakistan, where the Chinese have been working for years, building and financing a strategic deep-water port at Gwadar, on the Arabian Sea, that will be managed by China as the long-term leaseholder." [...] "No doubt a project as large and complex as this is likely to have failures, and is certain to face many western geopolitical obstructions. Assuredly, the "great game" will continue."

Is China-Pakistan 'Silk Road' a Game Changer?
Int. Herald Tribune, April 22, 2015
By M Ilyas Khan

"China has announced a $46bn investment plan which will largely centre on an economic corridor from Gwadar in Pakistan to Kashgar in the Chinese region of Xinjiang. The money China is planning to pour into Pakistan is more than twice the amount of all foreign direct investment (FDI) Pakistan has received since

2008, and considerably more than the entire assistance from the United States, Pakistan's largest donor until now, since 2002." [...] "This is Pakistan's first opportunity since the 1960 Indus Water Treaty to change its economic geography," [...] "A part from being long, it can be blockaded in times of war." [...] "Experts say much of Chinese activity is geared towards boosting domestic income and consumption as its previous policy of encouraging cheap exports is no longer enough to sustain growth. On the external front, it is investing in a number of ports in Asia in an apparent attempt to access sources of energy and increase its influence over maritime routes."

China's Big Plunge in Pakistan
NY Times, April 23, 2015
By The Editorial Board

Quote "President Xi Jinping of China showed up in Pakistan this week with one of his government's most powerful weapons — money, and lots of it. He signed agreements worth more than $28 billion as part of a total promised investment of some $46 billion in a new "Silk Road". [...] "The corridor is intended to shorten the route for China's energy imports from the Middle East by bypassing the Straits of Malacca, which could be blocked in war." [...] "Pakistani officials said that about $10 billion would be invested in infrastructure projects." [...] "Up to $37 billion is earmarked for coal-based power plants, hydropower plants and solar parks to fill Pakistan's huge energy needs." [...] "The United States pursued many of the same goals when it poured $31 billion into Pakistan between 2002 and 2014, yet achieved little." [...] "China's government is flush with money and has considered Pakistan among its closest allies since the 1970s. It may have learned from America's mistakes by going big on development and targeting assistance to specific needs. But it will face the problems of Pakistani corruption and incompetence that the Americans experienced, as well as safety issues." [...] "Both the United States and China share an interest in a stable Pakistan. If China can advance that goal through development programs, the whole region would benefit."

'Iron Brothers': Sino-Pakistani Relations And The China-Pakistan Economic Corridor – Analysis
Eurasia Reviews, May 7, 2015
By Alvin Cheng-Hin Lim

"In his first state visit to Pakistan on April 20, 2015, Chinese President Xi Jinping announced a massive package of investments in Pakistan's infrastructure." [...] "Some observers have noted that several previous Chinese mega-investments in Pakistan were unsuccessful because of problems with corruption and political violence. However, CPEC is different given the commitment by China's leadership to the success of the "Belt and Road" initiative." [...] "When completed, CPEC will also offer an economic stimulus to China's underdeveloped western provinces, including Xinjiang, by opening their markets to global competition, thereby reducing their income gap with China's developed coastal cities and provinces." [...] "Indeed, the US has encouraged China's increased investment in Pakistan, as it recognizes that this will improve the stability of not just Pakistan but also the region.39 The US has so far failed to bring economic growth to the region with its development projects."

Changing Geostrategic Realities: China-Pakistan Economic Corridor
April 28th, 2015
By Misbah U. Azam, Ph.D.

"The New York Times highlighted the high profiled visit of Chinese leader to Pakistan and commented on the future of US-Pakistan relations. Times noted, "...laden with tens of billions of dollars in infrastructure and energy assistance on a scale the United States has never offered in the past decade of a close relationship, a gesture likely to confirm the decline of American influence in that nation". [...] "the CBS News quoted some Western diplomats saying that China's increasing economic engagement with Pakistan should be seen in the context of Beijing's "efforts to counter the US efforts to deepen alliances around the Asia-Pacific region". [...] "China has fears that if the dispute in the East and South China Sea is aggravated and such alliance is ever materialized, it may have a potential to impose a naval blockade on the narrow Malacca strait and strangle China economically. China believes that it must pre-empt the situation and form its own alliances to counter the possible hostility against China. Significant number of Chinese believe that allowing Taiwan independence is simply a signing its own death warrant." [...] "The independent Taiwan and Japan with help of Philippines and Vietnam can assert their influence on Chinese interests in East and South China Sea and can suffocate China economically by depriving China from its right of the wealth of sea and trade corridors." [...] "In coming days, the overall geopolitical situation of the region has potential to change significantly. China's expansion in the Indian Ocean, Mid East and in Africa will be the matter of concern for the West." [...] "Now this is an opportunity for Pakistan government to exploit this ground reality and channel all the benefits to common people who are the actual stakeholders of these relations."

10 Lodestars from Xi's Pakistan Visit
Rediff, April 23, 2015
By M.K. Bharadakumar

"Looking at it from any angle, Chinese President Xi Jinping's visit to Pakistan last week has been an extraordinary event." [...] "anything China does with Pakistan also affects India and a wide arc of countries in the South and Central Asian regions." [...] "**#1. Sino-Pak ties transforms.** The proposed investments by China will boost Pakistan's $274 billion GDP by over 15 percent. For China, it has significantly tackled its 'Malacca Dilemma.' Simply put, China has become a real 'stakeholder' in Pakistan's stability and security." [...]"**#2. China has confidence in Pakistan's future.** On the face of it, China is running against mainstream world opinion, which is that Pakistan is one of the most dangerous places on the planet." [...] "China seems determined to make Pakistan a success story." [...] "**#3. China overtakes US as top ally.** The Chinese influence in Pakistan has touched an all-time high level." [...] "Given the solid foundations of friendship at the people-to-people level between China and Pakistan, Chinese influence in Pakistan is destined to endure the test of time. On the contrary, the US is widely disliked and feared by the Pakistani people. A quasi-alliance, all in all, is taking shape between China and Pakistan." [...] "**#4. Pakistan-India gap is narrowing.** With such massive economic assistance from China, backed also by the military cooperation, Pakistan has significantly bridged the gap with India's growing economic and military power in recent years." [...] "**#5. Shift in Pakistan's strategic orientation gets reinforced.** The discretion that the Pakistani elites -- civilian and military -- have shown by steering clear of any involvement in the Saudi-led war in Yemen has been extraordinary."[...] "The consolidation of China-Pakistan relations strengthens this reset." [...] "**#6. Afghanistan is unquestionably a net gainer.** China and Pakistan now would have a shared interest in the stabilisation of Afghanistan, because the main threat to the realisation of the 'Belt and Road' projects in Pakistan come from the terrorist groups operating out of the Af-Pak region." [...] "**#7. Chinese navy anchors at Gwadar.** The development of the port of Gwadar and improving the infrastructure in the hinterland would inevitably help China sustain its permanent naval presence in the Gulf of Oman and the Arabian Sea." [...] " **#8. South Asian capitals hold breath.** China has conveyed a big message to the other South Asian countries, especially the smaller countries surrounding India that it pays to climb on board the Chinese 'Belt and Road' initiative." [...] "**#9. Power dynamic in the region changes.** Pakistan's gravitation in the direction of China (and Russia) at this juncture underscores a strategic realignment in the making." [...] "**#10. Modi has an existential dilemma.** The Modi government's lurch toward America has not brought it any dividends so far and objectively speaking, the Western world is simply not in a position to make big investments in India. At the same time, criticism is mounting within India that Modi has not achieved anything so far in the fulfilment of the development agenda during this past 11 months in office." [...] "Xi's Pakistan visit ought to provide food for thought to Modi personally. To be sure, Xi's visit to India last September turned out to be a lost opportunity, and it is not only India's, but Modi's loss too."

With China, for China
India Today, July 10, 2015
By Wajahat S. Khan

"The Sino-Pak axis has matured." [...] "The comprehensive Chinese assistance package - hinged on the 3000 kilometre-long China-Pak Economic Corridor, an aggressive energy build-up and military modernization - is the largest planned foreign investment program for any country, ever, touching almost crossing over $100 billion in the next decade and a half, and is being seen as the next, and perhaps the last, big thing that war-weary Pakistan must grab on to, at any cost." [...] "The strategic setting is critical. The post-US/NATO withdrawal vacuum created in Afghanistan cannot be filled by Pakistan alone. And Pakistan won't let India fill it, either. That's where China has been invited by Pakistan, authorities claim, to underwrite the Taliban peace process, Washington providing the background music." [...] "Pakistan is China's Israel," once quipped General Xiong Guangkai, the Chinese spy chief, and almost everybody south of the Karakoram believes him, still." [...] "There is a school of thought that believes that inevitability of Indo-Pak conflict may only be turned around by a friendly neighborhood yet clearly dominant China."

Pakistan Is The "Zipper" Of Pan-Eurasian Integration
Russian Institute for Strategic Studies, Sept 15, 2015
By Andrew Korybko

"To introduce the dynamics taking place before the world's eyes, Russia and Pakistan are clearly moving closer to one another, and this is occurring despite Russia being "India's closest friend". [...] "From India's perspective, Pakistan is a proxy of China and undermines its western border security, while China and Pakistan see India as an American partner managing both of them on Washington's Lead From Behind behalf." [...] "With this future awareness in mind, and combined with its multipolar ideology and Great Power revival, Russia has a clear impetus to diplomatically and strategically intercede to the best of its capacity in keeping Indian-Pakistan tensions at a minimum in order to maximize the economic benefit of their peaceful collaboration." [...] "The first thing that most readers may not be aware of is just how significant of an inroad the US has made in supplying the Indian defense industry" [...] "The saliency in this underreported military development is that the US is making itself more integral to India's national security, and this coincides with New Delhi's strategic overlap with the US in containing China." [...] "the US undoubtedly has a few dirty tricks up its sleeve for preventing Pakistan from fulfilling its geo-economic destiny" [...] "A Better Middle East Would Look" specifically earmarks a "Free Baluchistan" carved out of

Iranian and Pakistani territory as one of its key components." [...] "The quick pace that it's developed over the past year suggests that this revolutionary relationship is a natural fit for both partners, but their solidifying partnership has incited the US' geopolitical jealousy, which is keen to call upon a mixed bag of secessionist, terrorist, and Color Revolution destabilizations to offset Pakistan's catalytic role in bringing Eurasia together. If these threats can properly be defended against, perhaps with unified trilateral assistance from Russia, China, and Iran, then Pakistan can prevail in becoming Eurasia's economic 'zipper' and linking these."

China Has a Plan to Take Over Eurasia — and America Loves It
An FP special report from the front lines of Beijing's aggressive push into Pakistan and beyond, Sept 18, 2015
BY John Hudson

"Both economically and diplomatically, Pakistan has become the focal point of China's ambitious plan to expand its influence westward in a policy known as One Belt, One Road." [...] "As U.S. troops prepare to withdraw from Afghanistan by the end of President Barack Obama's presidency, Washington is desperately looking for stable governments in the region to share the burden of trying to contain terrorist groups. If China wants to play that role to advance its regional ambitions, the United States says it won't get in the way." [...] "It's been a long-term U.S. objective to wean Central Asia off its dependence on Russia and give the Central Asian states a wider set of security and economic relationships," said Small in an interview. "Preferably that would've been the Europeans and Americans, but the specific objective of balancing Russia's role in Central Asia is something China is doing to the benefit of the autonomy of some of the states of the region."

China's actions, India's worries
European Council on Foreign Relations (ECFR), July 15, 2015
By Angela Stanzel

"Not the first time, India is worried about China's actions. Indeed, a 2013 poll from the Lowy institute found that a majority of Indians – 83 percent - consider China a security threat." [...] "Despite many areas of confrontation, open conflict between India and China war is highly unlikely in the near future. Economic cooperation is a win-win: India needs Chinese investment, China sees in India an opportunity for growth. How far such cooperation between the two rivals can go is another question."

The New Silk Road: China's Marshall Plan?
The Diplomat, Nov 06, 2014
By Shannon Tiezzi

"Beijing is naturally trying to take advantage of its advantageous financial situation to boost foreign policy influence. It's no coincidence that some are comparing China's Silk Road Economic Belt and Maritime Silk Road to the Marshall Plan enacted by the U.S. after World War II. In both situations, a rising global power wants to use its economic strengths to secure foreign policy goals. The Marshall Plan helped establish the U.S. as a bona fide super power; Beijing is betting its twin Silk Roads can do the same."

The existential threat to India posed by China's Pakistan gambit
First post (India), May 4, 2015
By Rajeev Srinivasan

"The time may have come for India to return the favour to Pakistan by instigating subversion in Balochistan quite openly: they do it in J&K, why shouldn't we in Balochistan? After all, there is a serious human rights crisis there, and Balochis never wanted to be part of Pakistan anyway: it was forced upon them. So why not ship fake Pakistani and Chinese currency to Balochistan, along with weapons carefully marked "Made in China"? Similarly, why not do the same in Xinjiang, by instigating Uighurs against China with fake Chinese currency, atrocity tales, and weapons marked "Made in Pakistan"? And let's not forget the Tibetans either: their spirit hasn't been extinguished after decades of oppression, and they were once upon a time warriors. How can China's economic interests in Tibet be subverted by India? And we should do all this while professing unending friendship with China. China is forcing upon India certain unpleasant choices." [...] "They are used to harming India's interests with no fear of retaliation, or of pain to themselves. But if they feel there will be consequences, much of this trumpeted Chinese investment in Pakistan will be quietly withdrawn. This is a trial balloon, but it has enough risk for China that it can be gently persuaded to scale down its ambitions."

Pakistan: Russia's New Best Friend?
The National Interest, Sept 27, 2015
By Arif Rafiq

"As the U.S.-India embrace tightens, former Cold War foes Pakistan and Russia are bolstering ties with one another." [...] "Budding cooperation between Pakistan and Russia goes beyond military sales. The two countries will also boost economic and energy cooperation. And a strategic partnership may be down the road—potentially involving China." [...] "Pakistan and Russia are also intent on enhancing economic ties. They are close to finalizing a $2-2.5 billion pipeline deal that would transmit natural gas from the port city of Karachi to Lahore, Pakistan's second largest city. Russia may also join [28] Tajikistan and Kyrgyzstan in the CASA-1000 energy project, providing Afghanistan and Pakistan with electricity." [...] "Islamabad and Moscow are also looking to expand bilateral trade. Pakistan has expressed interest in establishing a free trade agreement with the Russian-dominated Eurasian Economic Union." [...] "All is not well between India and Russia. Recent defense sales by Moscow to Islamabad signal the former's discontent with New Delhi." [...] "India will have to learn to adjust to Russia's new-found fondness for Pakistan. If it has difficulty in doing so, there is risk that we may be entering a period in which India's tighter embrace of the United States brings Russia closer to Pakistan, and Russia's bolstering of ties with Pakistan brings India closer to the United States." [...] "For a country that faced potential global isolation in 2011, Pakistan's growing list of friends is a testament to its diplomatic prowess and a civil-military consensus to push these relationships forward."

Global Economy

The Middle East Meltdown and Global Risk
Project Syndicate, Oct 1, 2015
By Nouriel Roubini

“Among today’s geopolitical risks, none is greater than the long arc of instability stretching from the Maghreb to the Afghanistan-Pakistan border.” [...] “In the past, geopolitical instability in the region triggered three global recessions.” [...] “This time around, instability in the Middle East is far more severe and widespread. But there appears to be no “fear premium” on oil prices; on the contrary, oil prices have declined sharply since 2014. Why?” [...] “Perhaps the most important reason is that, unlike in the past, the turmoil in the Middle East has not caused a supply shock.” [...] “Indeed, there is a global glut of oil. In North America, the shale-energy revolution in the US, Canada’s oil sands, and the prospect of more onshore and offshore oil production in Mexico. Moreover, South America holds vast hydrocarbon reserves.” [...] “That belief is wishful thinking: a burning Middle East can destabilize the world in many ways. First, some of these conflicts may yet lead to an actual supply disruption, as in 1973, 1979, and 1990. Second, civil wars that turn millions of people into refugees will destabilize Europe economically and socially, which is bound to hit the global economy hard.

The Liquidity Time Bomb
Project Syndicate, May 31, 2015
By Nouriel Roubini

"Policy interest rates are near zero in most advanced economies, and the monetary base has soared – doubling, tripling, and, in the United States, quadrupling relative to the pre-crisis period. This has kept short- and long-term interest rates low, reduced the volatility of bond markets, and lifted many asset prices" [...] “combination of macro liquidity and market illiquidity is a time bomb. So far, it has led only to volatile flash crashes and sudden changes in bond yields and stock prices. But, over time, the longer central banks create liquidity to suppress short-run volatility, the more they will feed price bubbles in equity, bond, and other asset markets. As more investors pile into overvalued, increasingly illiquid assets – such as bonds – the risk of a long-term crash increases."

The Boehner Shock
Project Syndicate, Sep 28, 2015
By Simon Johnson

“Ever since the financial crisis erupted in 2008, media outlets and specialists alike have devoted much attention to anticipating negative shocks to the global economy.” [...] “One such risk is that political partisanship will cause another disruption to the US federal government’s finances, weakening the American economy and roiling world financial markets.” [...] “Boehner’s forced departure makes it likelier than ever that the US – and the world – will soon face the prospect of another self-inflicted economic shock, caused entirely by the Republicans’ scorched-earth budget tactics.”

Managing Europe's Perfect Storm
Project Syndicate, Oct 2, 2015
By Richard N. Haass

"While it is indeed true that crisis and opportunity often go hand in hand, it is difficult to see much opportunity in Europe's current circumstances. One reason the current situation facing Europe is so difficult is that it was so unexpected." [...] "Another reason to be worried is that Europe faces not one crisis, but several. The first is economic: not just the current reality of slow growth, but the prospect that slow growth will continue without respite, owing above all to policies that often discourage businesses from investing and hiring." [...] "the second crisis results from Russian actions in Ukraine. There is no prospect of Russia giving up Crimea, and questions about its intentions in eastern Ukraine and the Baltics are mounting." [...] "The third, and most pressing, crisis is the result of massive flows of migrants from the Middle East and elsewhere into Europe."

Debt Déjà Vu
Project Syndicate, Oct 6, 2015
By Adair Turner

"We are caught in a trap where debt burdens do not fall, but simply shift among sectors and countries, and where monetary policies alone are inadequate to stimulate global demand, rather than merely redistribute it. The origin of this malaise lies in the creation of excessive debt to fund real-estate investment and construction." [‘'] "Before 2008, China's economy was highly dependent on credit expansion, but not within the country itself." [...] "China's government unleashed a massive credit-fueled construction boom." [...] "That boom has now ended, leaving apartment blocks in second- and third-tier cities that will never be occupied, and loans to local governments and state-owned enterprises that will never be repaid." [...] "Within China, the consequences for growth may be less dire than some commentators fear." [...] "But for the global economy, the consequences of the dramatic slowdown in China's construction and industrial sectors are profound." [...] "The fact is that QE alone cannot stimulate enough demand in a world where other major economies are facing the same challenges. By boosting asset prices, QE is meant to spur investment and consumption. But its effectiveness in stimulating domestic demand remains uncertain. The European Central Bank's QE program, for example, has so far produced no significant increase in corporate investment." [...] "At the global level, exchange-rate devaluation must be a zero-sum game, with the depreciation of the yen and the euro balanced by appreciation of the US dollar." [...] "The United Kingdom has also faced exchange-rate appreciation, with the erosion in export competitiveness reflected in a current-account deficit of around 4% of GDP." [...] "Seven years after 2008, global leverage is higher than ever, and aggregate global demand is still insufficient to drive robust growth."

The Sino-American Co-dependency Trap
Project Syndicate, Sep 28, 2015
By Stephen S. Roach

"Trapped in a web of co-dependency, the US-China relationship has become fraught with friction and finger pointing. In human behaviour, the endgame of this pathology is usually a painful breakup. The just-concluded summit between Obama and Xi did little to dispel this possibility."

Oil's New Normal
Project Syndicate, Aug 14, 2015
By Mohamed A. El-Erian

Quote "Oil prices have been heading south again, with a barrel of US crude recently falling below $42 – the lowest level since March 2009. [...] "At the same time, oil markets are discovering what it is like to operate under the regime of a new swing producer: the United States." [...] "The dynamics of the energy markets changed notably as shale-oil production came on stream at a market-moving scale in 2013-2014. With this new source meeting more of world energy demand, particularly in the US; energy users were no longer as dependent on OPEC and other oil producers. In the process, they also became less vulnerable to geopolitical concerns." [...] "Over the next few months, the US will indeed alter its supply and demand conditions in a way that puts a floor under oil prices and enables a gradual recovery in the market."

The Great Emerging-Market Bubble
Project Syndicate, Aug 17, 2015
Bill Emmott

Quote "One mantra of recent years has been that, "the emerging-economy story remains intact." By this, investment strategists mean that they still believe that emerging economies are destined to grow a lot faster than the developed world." [...] "There is, however, a problem with this mantra; so many emerging economies are having trouble now. It is that the main determinants of an emerging-economy's ability actually to emerge, sustainably, are politics, policy and all that is meant by the institutions of governance." [...] "The democracies of Brazil, Indonesia, Turkey, and South Africa are all currently failing to perform what is a basic task for any political system: to mediate smoothly between competing interest groups and power blocs in order to permit a broader public interest to prevail." [...] "No matter. It is not a question of whether democracy or authoritarianism is best. The bottom line is that unless emerging economies can ensure that they remain flexible and adaptable, they will not continue to "emerge." And the determinant of that flexibility and ability to adapt lies in political institutions and their willingness to challenge interest groups, mediate social conflicts, and maintain the rule of law."

After the Iran Deal
Project Syndicate, JUL 14, 2015
By Volker Perthes

"In exchange for its cooperation, Iran will eventually be relieved of the punishing sanctions that the United Nations, the European Union, and the US have imposed upon it for years. This is a huge diplomatic success. Of course, the negotiations have attracted plenty of critics, but the agreement's potential benefits cannot be denied." [...] "it is in everyone's interest to ensure that developments hew more closely to the reform-oriented path, it should be clear to all that the diplomatic work with regard to Iran is far from complete."

Is the House of Saud teetering on the edge of collapse?
The Washington Post, April 27, 2015
By Daniel W. Drezner

*"T*oday, Saudi Arabia is brazenly and obnoxiously bombarding and massacring a nation, which is seeking the denial of the hegemonic system, Today, Al Saud is teetering on the edge of collapse," [...] "It's not like the Middle East is a beacon of stability at the moment. The House of Saud is dealing with rising Iranian influence in the Shia Crescent, wars in Syria and Yemen, simmering discontent in Bahrain, and the prospect that its principal global ally is about to cut a deal with its enduring rival in the region. Oil prices are higher than they were a few months ago but still a good deal lower than the previous few years. Oh, and lest we forget, the Saudis just had to deal with a leadership transition."

Commodities Outlook

SUGAR:

SUGAR PRICES

YEAR	Rs/Kg (LOCAL)	$/Kg (LOCAL)	$/Kg (GLOBAL)
2011	72.82	0.86	0.71
2012	57.16	0.64	0.61
2013	53.41	0.56	0.39
2014	54.80	0.54	0.37
2015 (Estimated)	60.50	0.60	0.36

Source: *PSMA; WB, Commodity Markets Outlook (October 2015)*

SUGAR PRODUCTION

YEAR	Million Tonnes (LOCAL)	Million Tonnes (GLOBAL)
2011	4.2	162.2
2012	4.6	172.3
2013	5.1	177.6
2014	5.6	175.6
2015 (Estimated)	4.8	174.3
2016 (Forecast)	4.5	173.4

Source: *Pakistan Economic Survey 2014-15; WB, Commodity Markets Outlook (October 2015)*

- **Nominal prices for sugar are expected to recover from the current low prices**, which are a reflection of four years of global surplus combined with devaluation of the Brazilian real with respect to the US dollar. **Sugar producers are adjusting their output, which will lead the world sugar market into a deficit phase and hence move prices slightly upwards.**

- **During the projection period, sugar prices will remain volatile and exhibit an oscillating pattern as a result of the production cycle in some key Asian sugar-producing countries.** The impact of the abolition of sugar quotas in the European Union in 2017 is expected to lead to a decline in sugar prices within the European Union in 2017, although this decline has already started in 2014 as efficient producers have already begun to produce more to gain market shares (combined with a record crop), but the impact on world prices remains uncertain. **In real terms, sugar prices are expected to return to their levels before the 2009 price peak.**

WHEAT:

WHEAT PRICES

YEAR	Rs/Kg (LOCAL)	$/Kg (LOCAL)	$/Kg (GLOBAL)
2011	24.9	0.3	0.3
2012	27.1	0.3	0.3
2013	29.1	0.3	0.3
2014	26.2	0.3	0.3
2015 (Estimated)	22.0	0.2	0.2

Source: *OECD-FAO Agricultural Outlook 2015-2024; WB, Commodity Markets Outlook (Oct 2015)*

WHEAT PRODUCTION

YEAR	Million Tonnes (LOCAL)	Million Tonnes (GLOBAL)
2011	25.2	649.9
2012	23.5	702.0
2013	24.2	658.7
2014	26.0	715.1
2015 (Estimated)	25.5	725.5
2016 (Forecast)	26.0	732.8

Source: *Pakistan Economic Survey 2014-15; WB, Commodity Markets Outlook (October 2015)*

- **Global production of wheat is expected to reach a new record in 2015-16 following upward revisions to output by China, the European Union, and Kazakhstan.** Trade volume, however, is expected to decline for the year following lower imports by Morocco and several Asian wheat importers. Although global wheat consumption is projected to increase moderately, the stock-to-use (S/U) ratio (a measure of the abundance of supplies relative to demand) will reach a record high during 2015/16.

- **Pakistan government has fixed 26 million tons wheat production target for 2015-16 same as that of last year's following surplus wheat stock and difficulties in the export of the commodity owing to low commodity prices in the global market.**

RICE:

RICE PRICES

YEAR	Rs/Kg (LOCAL)	$/Kg (LOCAL)	$/Kg (GLOBAL)
2011	44.0	0.52	0.56
2012	49.4	0.53	0.58
2013	48.0	0.49	0.52
2014	39.7	0.41	0.43
2015 (Estimated)	35.0	0.35	0.39

Source: *OECD-FAO Agricultural Outlook 2015-2024; WB, Commodity Markets Outlook (Oct 2015)*

RICE PRODUCTION

YEAR	Million Tonnes (LOCAL)	Million Tonnes (GLOBAL)
2011	4.8	450.6
2012	6.2	485.9
2013	5.5	472.8
2014	6.8	478.4
2015 (Estimated)	7.0	478.8
2016 (Forecast)	6.9	474.0

Source: *Pakistan Economic Survey 2014-15; WB, Commodity Markets Outlook (October 2015)*

- **Rice price levels will recover later due to the accumulated stocks in Thailand which are expected to put downward pressure on prices for several years.** The world reference price of rice has been changed back to the Thai price after two years of using the price in Vietnam.

- **Global rice production is expected to decline marginally** as well on weakening prospects in Asia, particularly India and Thailand, the world's top rice exporter. For the first time in a decade, global rice utilization surpassed production, resulting in a drawdown of global rice stocks to 177 Mt.

- This outcome is largely due to climatic setbacks in Asia resulting in production declines.

COTTON:

COTTON PRICES

YEAR	Rs/pound (LOCAL)	US cents/pound (LOCAL)	US cents/pound (GLOBAL)
2011	122	141.9	155
2012	77	81.1	89
2013	84	84.0	90
2014	76	76.8	83
2015 (Estimated)	64	62.8	71

Source: *OECD-FAO Agricultural Outlook 2015-2024; WB, Commodity Markets Outlook (Oct 2015)*

COTTON PRODUCTION

YEAR	Million Bales (LOCAL)	Million Bales (GLOBAL)
2011	8.5	114.7
2012	10.6	127.4
2013	9.3	123.9
2014	9.5	120.4
2015 (Estimated)	10.6	118.9
2016 (Forecast)	9.5	107.4

Source: *Pakistan Economic Survey 2014-15; WB, Commodity Markets Outlook (October 2015)*

- The decline in Chinese import quota has been an important feature of the global cotton market. **Between 2011/12-2012/13 and the current crop year, Chinese imports have decreased 74%** (-16.7 million bales). **The corresponding contraction in global import demand** (world imports in 2015/16 are forecast to be 12.3 million bales less than the average from 2011/12 and 2012/13) **has been a factor pushing prices to lower levels.**

- Another factor is depressed mill-use. As the world's largest consumer, China is also been at the center of the decline in global consumption. **The USDA's current forecast of 33.5 million bales for Chinese mill-use in 2015/16 is 16.5 million bales lower than the 50.0 million bales consumed in China in 2009/10.**

- **In their latest set of forecasts, the IMF lowered their estimates for world GDP in both 2015 and 2016. Since global cotton demand is correlated with global economic growth, so this represents another obstacle for drawing down stocks. As a result, it appears unlikely prices will be able to increase beyond their recent trading range in the near future.**

- **Pakistan accounts for the second largest share of increased global production and is expected to realize faster growth in cotton area than in other crops.** However, growth over 2015-24 begins at a relatively lower base as Pakistan has lagged considerably behind in the adoption of GM cotton.

- **World cotton production is projected to grow 2.1% annually in the next ten years, reaching 29.9 Mt in 2024.** Following the 2008 global financial crisis and subsequent cotton price volatility, world cotton production starting from a relatively low level in 2015, rises as world consumption rebounds. **Cotton prices are projected to fall during the early years as China is expected to reduce its substantial cotton stocks. Prices will recover and stay relatively stable for the remainder of the period.**

CRUDE OIL:

CRUDE OIL PRICES

YEAR	$/BARREL (GLOBAL)
2011	104.0
2012	105.0
2013	104.1
2014	96.2
2015 (Estimated)	52.5
2016 (Forecast)	51.4

***Source:** IMF Global Commodity Price Index (Oct 2015); WB, Commodity Markets Outlook (Oct 2015)*

- **There are a number of risks to the price forecast. On the downside, higher Iranian exports could extend the current surplus, particularly if the rest of OPEC continues to maintain market share. Non-OPEC production may hold up better than expected due to cost reduction and efficiency improvements.** Looked at another way, lower prices may be needed curtail surplus output. Finally, **demand could also disappoint given the slowdown in China and other emerging markets.**

- **Upside risks include stronger consumer demand** (especially for gasoline), **delay in implementing the Iran agreement, more rapid decline in non-OPEC output, and disruptions to key producers (e.g., Iraq and Nigeria).**

- **Average oil prices are expected to fall slightly in 2016, averaging $51/bbl, assuming a steady return to balance throughout the year.**

GOLD:

GOLD PRICES

YEAR	$/TROY OUNCE (GLOBAL)
2011	1568
2012	1669
2013	1412
2014	1266
2015 (Estimated)	1179
2016 (Forecast)	1156

Source: *IMF Global Commodity Price Index (Oct 2015); WB, Commodity Markets Outlook (Oct 2015)*

- **Following a strong start to the year, gold prices have declined despite concerns over the Chinese economy and debt/political issues in Greece. These conditions were outweighed by investor expectations of dollar strength and a U.S. interest rate increase—the key drivers going forward.** While the decision by the U.S. Federal Reserve to defer a rate hike provided some respite, it was quickly followed by the Federal Reserve's statement that the central bank is on track to raise interest rates this year. **Rising interest rates typically have negative implications for gold prices, as investors seek yield-bearing assets.**

Gold prices are projected to fall largely driven by expectations of a rising dollar and tightening in U.S. monetary policy. Downside risks to the forecast include stronger-than-expected monetary tightening and dollar strength. **Significantly weaker U.S. growth (and the ramifications for the dollar) and monetary policy pose upside risk.**

PALM OIL:

PALM OIL PRICES

YEAR	$/MT (GLOBAL)
2011	1077
2012	940
2013	857
2014	821
2015 (Estimated)	615
2016 (Forecast)	631

Source: *IMF Global Commodity Price Index (Oct 2015); WB, Commodity Markets Outlook (Oct 2015)*

- **Palm oil prices should remain weak in 2015, but will start picking up from 2016, as global surpluses decline.**
- **Four dynamics will cause production growth to slow to 3.5% annually (2015-2019), from 6.1% (2005-2014).**
  - **Strong limits to plantation expansion**: Malaysia will keep 50% of the country forested, and Indonesia imposed a forest moratorium in 2011.
  - **Stagnating yields**, but these could improve due to replanting programs in Malaysia.
  - **Higher operating costs**, especially in terms of labor.
  - **Subpar infrastructure in Indonesia**, especially for ports.