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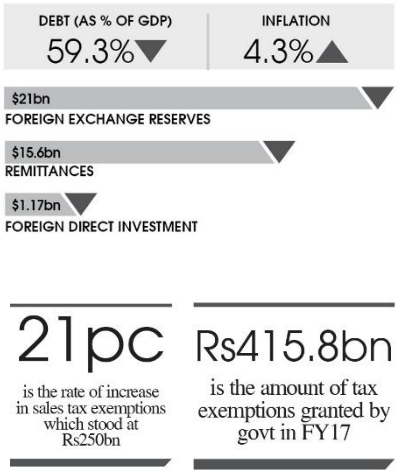

- ***Economic Survey 2016-17: Tax exemptions contain surprises:*** Some targets were missed, but after a decade-long slump growth is finally returning to Pakistan's economy. Much of the growth has come from a spurt in services, and a partial rebound in agriculture. A boom in consumption has swelled imports while exports continue to sag. The survey paints a mixed picture. Tax exemptions rose five per cent to Rs415.8 bn, following two successive years of reductions. Those years saw tax exemptions decline by almost Rs 300bn cumulatively. Exemptions to independent power producers (IPPs) are no longer mentioned in. Economic Survey 2016-17. The reasons for removal of this figure from the exemption list are unclear, but the removal resulted in Rs50bn no longer being reported as exemptions. Sources in the IPPs expressed surprise when told of this removal, while tax officials were not available for comment. Since 1994, the IPPs have enjoyed income tax exemptions on their profits.
- ***Customs exemptions:*** The customs exemptions surged to Rs151.7bn in 2016-17 from Rs120bn in the preceding year, an increase of 26.4%. The bulk of the increase was because of increase in cost of concession under the fifth schedule, which reached to Rs63bn in 2016-17 as against Rs30.6bn a year ago.
- ***Income tax exemptions:*** A huge benefit of Rs12bn in rationalisation of corporate tax rates has been extended, which is 87% of the total income tax exemption value for the year 2016-17.The rest of the exemptions are shared by relief on education expenses, tax credit for expansion in existing industries, new industries, and sales to registered taxpayers. Capital gains exemption worth Rs1.7bn has also been removed from the survey for 2016-17.
- ***Sales tax exemptions:*** Sales tax exemptions went up to Rs250bn in 2016-17 from Rs207.3bn a year ago, reflecting an increase of 20.6%. In the year 2014-15, the government shifted the exemptions based on statutory regulatory orders (SROs) into the schedules of the Sales Tax Act of 1990.An SRO is an executive order granting special tax treatment for an individual, industry or sector. It is usually issued on the directive of the finance minister, the cabinet's Economic Coordination Committee or on Federal Board of Revenue's proposal. One SRO-based sales tax exemption, extended to five export sectors — leather, textile, carpets, surgical and sportsgoods — stood at Rs50.4bn in 2016-17 compared to Rs43.4bn last year, reflecting an increase of 16%.Exemptions on the import and local supply of items placed under the sixth schedule of the Sales Tax Act have been recorded at Rs156.9bn this year as against Rs128.9bn last year.The sixth schedule is a list of exempted products, mostly consumer items.The cost of exemption on the import of products under Eighth schedule stood at Rs16.4bn this year as against Rs11.4bn last year. The schedule applies to items imported under specified conditions.
- ***Exemption removal programme:*** The government started a three-year programme to phase out exemptions given through SROs in fiscal year 2013-14 as part of an IMF programme. Economic Survey 2012-13 reported the figure of total exemptions at Rs239.5bn. In the first year of its rule, the PML-N government took this figure to Rs477.1 bn in fiscal 2013-14.In its second year (2014-15), exemptions worth Rs105bn given through SROs were withdrawn. In the subsequent two phases, a similar amount of withdrawal was announced in budget speeches.If the government had eliminated those SROs, the reduction would have reflected in the FY17 economic survey. Instead the survey released last night reflects an increase, in spite of not reporting the exemptions granted to the IPPs. (Dawn May 26, 2017)

- ***Government announces 5.28%GDP growth; Dar optimistic despite missed target:*** Finance Minister on Thursday announced that Pakistan's Gross Domestic Product (GDP) had grown 5.28% in fiscal year 2016-17 (FY17), against the target of 5.7%."There has been visible growth in the national economy," the finance minister said at his annual press conference for the Pakistan Economic Survey.Pakistan's 'growth story' was being celebrated all over the world, and called for a collaborative effort across party lines to help Pakistan maintain its economic momentum. This is the first time in 10 years that we have crossed the 5%GDP growth mark, said. "For the first time, Pakistan's economy has crossed the $300 billion mark," he added. "We are now targeting 6pc growth for next year," he said.
- ***Growth:*** According to the finance minister, the Industrials sector grew 5.02%, Agriculture 3.46% and Services 5.98%."Agriculture sector rebounded to 3.46% growth as compared to the muted growth last year and services sector performed better than expected," the government's accompanying report said. The better performance of agriculture is due to various measures of government under Kissan package to enhance agriculture produce like support price for production, significant increase in credit to agriculture sector, better arrangements for the provision of inputs like seed, fertilizers, insecticides and better arrangements for marketing. "Moreover favorable weather conditions during the FY 2017 also helped to achieve better yield," the report said. "Services sector also surpassed the planned target and has emerged as the most significant driver of economic growth and is contributing a major role in augmenting and sustaining economic growth in the country," the report noted, attributing growth in the sector to a wide-ranging expansion in its sub-sectors.
- ***Investment:*** Total investment has reached Rs5.03 tn as compared to Rs4.53tn last year, showing growth of 11.05% in FY 2017," the government's report said. "Investment to GDP ratio has reached 15.78% in FY2017," it added. "A number of massive infrastructure, power and other projects have been initiated which remained instrumental in attracting private sector investment. Over the medium term the target is to increase investment to 20 % of GDP from its present level," the report said. "During Jul-Apr FY2017, FDI amounted to $1.73bn compared to $1.54bn during the same period last year, posting growth of 12.75%," the govt said. The major FDI inflows during the period under review were from China ($744.4m), Netherlands ($478.6mn), France ($171.0mn), Turkey ($137.7mn), US ($103.2mn), UAE ($48.4mn), UK ($47.6m), Italy ($47.4mn), Japan

($42.1mn) and Germany ($40.5mn)." Food, Power, Construction, Electronics, Oil & Gas exploration, Financial Business and Communication remained the main recipient sectors."FDI inflows continued to maintain a moderate pace marked by improvement in multinationals' confidence in the country's economy," it added."We are hopeful of growth in foreign direct investment because our human resource cost is better than China," the finance minister said at the press conference. "Businesses are looking to relocate away from Japan and China, and Korean and Italian businesses have indicated that they want to set up plants here," he said.

- ***Remittances:*** During July-April FY2017, remittances reached the level of $15.6bn compared with $16bn in July-April FY2016," the government's report said. Remittances are expected to reach $19.5bn for the year, while foreign direct investment is expected to reach $2.58bn in FY17.During July-April FY2017, the major share of remittances is from Saudi Arabia 29.0% ($4,517.2mn), UAE 22.2%($3,468.4mn), USA 12.4% ($1,929.3mn), other GCC countries 12.1% ($1,881.2mn), UK 11.8% ($1,846.7mn), EU 2.4% ($374.4m) and Other Countries 10.1% ($1,579.0mn).
- ***Fiscal control:*** During the first nine months of current fiscal year, fiscal deficit has been recorded at 3.9% of GDP against 3.5%of GDP during the corresponding period of FY2016 on account of less than expected tax revenues owing to tax relief measures to promote investment and boost economic activity along with higher development & security related expenditures.""[...] It [the annual fiscal deficit] is likely to be higher than the [3.8%] target," it conceded."Total revenues grew at 6.2% to stand at Rs3.15tn during July-March FY2017 against Rs2.96tn in the comparable period of FY2016."Low growth in total revenues came from 8.6% growth in tax revenue and 6.2% decline in non-tax revenues."During July-March FY2017, tax revenues were at Rs2.69tn against Rs2.48tr in the same period of FY2016."Less than required growth in tax revenues is primarily attributed to the relief measures provided in five zero-rated sectors, fertilizers and pesticides combined with lower rates on petroleum," the report said. Tax revenues for the year are expected to reach Rs4,306bn for the year, whereas the overall fiscal deficit is expected to touch Rs1,276bn or 3.8% of the GDP.
- ***Inflation:*** Inflation clocked in lower-than-expected at 4.09%, compared to the expected 6%. Food price inflation remained at 3.86pc, while prices of non-food items grew 4.25% in Jul-Apr FY17."The current year started with inflation at 4.1% in July 2016, rose to 4.9% in March 2017 and then slowed down to 4.8% in April 2017."On average during Jul-April FY 2017, it recorded at 4.1%. The [...] present trend suggests that it will remain below the target. "The uptick in inflation is due to the revival of international commodity and oil prices, along with a rise in domestic demand due to pick up of economic activities," the government noted. "Increasing oil and commodity prices remains a concern. Global commodity and oil prices are expected to move in an upward direction, which will be affecting domestic inflation. "However, given the increase in agriculture production and sufficient food supplies, stable exchange rate, effective monetary policy, inflation is expected to remain below the target," it added.
- ***Trade:*** Pakistan's external sector continued to face severe stress during 2016-17."Though the rate of export decline was stemmed, Pakistan's exports declined by 3.06% during the first nine months of FY2017.Over Jul-Mar 2017, total exports reached $15.12bn dollars, compared to $15.6bn last year."Imports, however, continued to grow at a much faster rate and grew by a large percentage of 18.67 during the first nine months of FY2017 as compared to the previous year. Over Jul-Mar 2017, total imports reached $38.5bn dollars, compared to $32.44bn last year. "During July-March FY2017.
- ***Balance of payments & current account:*** A reversal in global oil prices led to an increase in POL imports, accompanied by falling exports, as a result the trade deficit grew by 33.1% to $17.8 bn in July-March FY2017."While remittances and Coalition Support Fund inflows both declined slightly over the same period last year, however, the impact was offset by an improvement in the income account, mainly due to lower profit repatriations by oil and gas firms. "The current account deficit increased to $6.1bn in July-March FY2017, against $2.4bn in July-March FY2016," the government reported.
- **Reserves & exchange rate:** With the current account deficit widening and not being fully offset by financial inflows, the country's total liquid foreign exchange reserves as on end-March FY2017 declined to $21.57bn, of which the State Bank's reserves accounted for $16.47bn and commercial banks $5.10bn."The level of foreign exchange reserves is a sign of economic stability that has been achieved due to the deep-rooted and comprehensive economic policies and reforms undertaken by the present government. Currently, foreign exchange reserves are at reasonable level," the government claimed. "The average exchange rate during July-May FY2017, at 104.79 to a dollar, was down marginally (0.5 %) against last year's comparable average of 104.30."The stability in the exchange rate was a result of the still elevated level of liquid reserves available with SBP; this helped keep interbank sentiments in control during the period under review," the government said.
- **Education:** The Government of Pakistan is cognizant increase the flows of resources to the education sector by ensuring proper and timely utilization of funds to achieve the target of 4.0% of GDP by 2018."FY2016 saw the education expenditure stand at 2.3% of GDP, while the trajectory of the provisional six-month record from the first half of FY2017 shows that the government's expenditure on education will not even match last year's proportion, let alone the set target of 4.0%.
- ***Health:*** Health spending is slow but persistently rising. "The country is spending 0.5 to 0.8 % of its GDP on health over the last 10 years. These percentages are less than the WHO bench mark of at least 6 percent of GDP required to provide basic and lifesaving services. "According to World Bank latest report, currently Pakistan's per capita health spending is $36.2 which is below than the WHO'S low income countries bench mark of $86. (Dawn May 26, 2017)

- **Financial sector's share in economy rises to 10.77%:** The country' financial sector reported an upsurge in real economic growth during the outgoing fiscal year of 2016/17 due to an increase in business volumes and banks' profits and other financial intermediaries, Economic Survey 2016/17 showed on Thursday."Financial service output in 10 months to April was 10.77 % higher than a year earlier," it revealed. Financial sector grew 6.12 % during the same period of the last fiscal year. The survey said rapid expansion of deposit formation and demand for loans gave a boost to finance and insurance activities. Bank deposits grew 15 %, while advances were 11 % in July-April FY17.Finance and insurance accounts for 5.7 % of services sector and its share in gross domestic product was 3.37 % in FY17.Finance and Insurance comprises the State Bank of Pakistan; all scheduled Banks (domestic and foreign), Development Financial Institutions (DFIs), all Insurances companies, modaraba/leasing companies, money changers and Stock Exchange Brokers."The services sector recorded a growth of 5.98 % in FY17 and surpassed its target which was set at 5.70 %," the survey said. (The News May 26, 2017)

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