Ceteris Paribus

Official Newsletter of the IBA Economics Club
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By the Editor

Hi all!

Ceteris Paribus comes back after a hiatus of a few months with a bold new look as well as a new and energized team. We've got some exciting additions to the magazine and some great contributions from the deep thinkers at IBA. We look forward to your continued enthusiasm and support as we aim to take the magazine to newer heights.

Cheers!
Hussain Ali Talib
EMBA

Assistant Editor

Hi all!

I would take this opportunity to tell you all that our aim for this newsletter is not only to expand your understanding of how Pakistan's economy works but also to share with you the global dynamics of how markets behave with each other. We want to make this newsletter not something filled with statistics and technical economic terms but rather with simple economic facts and other underlying factors the shape our economy. In doing so, we would require your assistance. So, feel free to express your thoughts, intuitions or expectations regarding global or Pakistan specific economic concerns at ceterisparibus@khi.iba.edu.pk.

Godspeed!
Javeria Dinar

News Snapshot

- The projected growth of world GDP by IMF is 3.4% this year and 3.6% in 2017; being greater than 2015 which is estimated to be 3.1%
- There has been a marked increase in oil prices since September 2015 but several factors have dampened the positive impact of lower oil prices.
- There has been a slowdown in the growth of China whereas Brazil Economy has shrunk 3.8% during last year.
- The debt crisis still persists in the global market after the America's housing bubble burst and has reached to emerging markets.
- The inflation rate in Pakistan has sore up to 4.3% in in January 2016 from 4.1% in December 2015 whereas the unemployment rate was 5.9% in the FY15.
- 42% of Pakistan's overall debt, amounting to $50 billion, is going to mature in 2016.
- Monetary easing in Pakistan, which was initiated last year, continued during the first quarter of FY16 as well.

Inside this issue:

A Dialogue with

PATCHAMUTHU ILLANGOVAN

Q1) Oil prices are predicted to stay low for the next 2-3 years by many private research firms. How do you think this will impact the global economy?

Ans) There will be both winners and losers from protracted low commodity and energy prices. Net fuel importers, such as Pakistan, will benefit from low prices while net exporters will need to undergo significant adjustments to balance their economy. From Pakistan's perspective, the windfall savings in the oil import bill can be used in a number of ways. Currently, the government is passing on much of the benefit to consumers and also using low oil prices to bolster the financial sustainability of electricity. There is risk of a potential negative impact, however. In recent years Pakistan has benefitted from significant remittances, to the order of US$18 billion in the past year alone. Most of the growth in remittances in the past decade has been from oil producing countries (GCC). Prolonged low oil prices may have an impact on these economies and remittances originating from these countries.
Globally, protracted low-price of oil and gas will have both pros and cons. Exporting countries will experience lower growth which may affect their demand for migrant labor and imports, and their willingness to provide official development assistance and trade with oil importing countries can shrink. As an exporter of goods and beneficiary of remittances from overseas workers, Pakistan may suffer from this slowdown. On the other hand, as an oil-importing country, Pakistan will experience lower input costs for many goods, which will help keep inflation in check and could improve Pakistan's international competitiveness.

Patchamuthu Illangovan
Country Director - Pakistan
World Bank

Q2) While absolute poverty has decreased substantially over the last few years, relative poverty has been increasing. With evidence of increasing income inequality, how do you see poverty being addressed?

Ans) Reducing extreme poverty and boosting shared prosperity are the twin goals of the World Bank Group. Equitable growth and provision of social safety nets for the most vulnerable segments of society are considered the bedrock of reducing inequality. Having said that, it must be kept in mind that some inequality is inevitable and periods of high growth are often accompanied by increases in inequality. What countries should be striving for is equity in opportunities, along with equity in outcomes.

Q3) World Bank President Jim Yong Kim said in his talk at IBA that World Bank assists nations such as Pakistan with evidence of past interventions and policies that had been adopted by other countries. Each country however, has a unique political setup which influences decision making and also the effectiveness of different policies and interventions. So, how do you think such evidence can prove helpful for each country having its own unique setup?

Ans) The World Bank is also a knowledge bank. What we mean by that is that experience gained from working with governments and people in more than 180 member countries gives us a unique perspective on developmental challenges as well as their possible solutions. You are absolutely right that one size does not fit all in development. Sometimes seemingly common challenges have nuances that are unique to a country's culture and society. In most country offices of the WBG, locally-recruited staff make up the bulk of the workforce. Their local expertise combined with regional and global knowledge enable us to propose solutions that have worked elsewhere, adapted for local conditions. In addition, our partnerships with governments and consultations with civil society and beneficiaries are central to project design. Just to give you one example, the Benazir Income Support Program (BISP) is considered among the cutting edge social safety net programs in the world. Teams working on the BISP are invited world over to share their experience and expertise. This does not mean that BISP can or should be replicated in Africa, but that its mechanisms can be tailored to the host country's needs and the lessons learnt in Pakistan employed in other countries to avoid mistakes and enhance benefits.

Q4) One of Pakistan's most important problem is lack of adequate energy. With huge solar potential, Pakistan can drastically reduce its reliance on thermal power production units and switch to more efficient and environmental friendly options such as solar energy and hydel power. Is there currently expertise being shared by the World Bank with Pakistan for solar development?

Ans) You are right; Pakistan can further tap its renewable energy potential where it makes economic sense. Pakistan has immense hydropower potential and the WBG is helping it access this by developing the Indus Cascade. The World Bank's financing for Dasu Hydropower project, and expansion of Tarbela Dam's power generation through Tarbela IV and V extension support the Indus Cascade development. The Bank is helping Pakistan in setting up wind and sunlight measurement stations across the country which will help the government and the private sector determine feasibility of setting up renewable energy plants. IFC, the private sector arm of the WBG is also financing private companies set up small hydro and wind power plants as well as supporting development of the solar market. To make solar and wind power competitive and affordable, policy and legislative work also needs to happen and the WBG is providing advisory services in that regard as well.

Q5) For young researchers in Pakistan, one of the most daunting tasks is to get hold of reliable data. Many good research questions are abandoned due to lack of data availability. World Bank possesses the resources which can be directed towards this area along with the help of the local government to collect and make data public for researchers. Is World Bank currently helping the government of Pakistan in collecting data specific to Air Pollution and Health?

Ans) The Bank relies a lot on its partner Governments for data collection. One of the roles we play is to help governments get better at collecting quality data, and being more open and transparent about it. Our Access to Information policy and role as a knowledge bank stresses knowledge sharing and transparency. Our Open Development and Open Data platforms are only a couple of such initiatives. I invite you to visit data.worldbank.org where you will find more than 9000 development indicators and access to all WBG datasets. The Open Data initiative allows you access to WB databases free of charge, use it legally, access microdata and documentation, simulate and collaborate on economic forecasting, automate economic analysis of survey data, estimate poverty and inequality, map poverty, mine global data on aid funding and access international trade and tariff data. On air pollution specifically, you can find our report titled 'Pakistan: Strategic Country Environmental Assessment'. I must alert you though that the report is a bit dated considering the fast moving nature of the subject, but it does provide annual cost of air pollution and health impacts and other such granular detail.

Q6) Lastly, what opportunities does the World Bank provide for the students of BS Economics & Mathematics and MS Economics at IBA? Are there any internships or research programmes which the World Bank currently has to offer?

Ans) The World Bank centrally runs an internship program which solicits interest twice a year globally. It is a competitive process and successful candidates are mostly deployed in the HQs, but at times country office deployment can also be possible depending upon preference and availability. Details can be found under the heading, Programs and Internships at www.worldbank.org/jobs

The Invisible Hand of CLIMATE CHANGE

Written by: Shayan Khan - Assistant Manager, IBA Economics Club

All of us are familiar with the numerous headlines recounting the damage caused by droughts, hurricanes, heavy rain and other natural disasters all around the world in the past few years. A common reason for this vastly changing weather of the world is Climate Change.

The Intergovernmental Panel for Climate Change (IPCC) defines climate change as the variability in climate over time due to natural factors or resulting from human intervention. The debate as to whether climate change has been caused by humans has been confirmed by climate scientists. Increased urbanization, industrialization and globalization has allowed developing nations like Brazil, China, Nigeria and India to grow substantially in the last 3-5 years even whilst developed economies witnessed recession. This rapid growth, especially that of China (aka the world's factory), has resulted in a massive increase in carbon emissions and other greenhouse gases, which get trapped in the earth's atmosphere for thousands of years, slowly heating up the planet. This heating up of the earth distorts the natural climate cycle of the earth resulting in unpredictable and extreme weather patterns.

Economists keep working with climate scientists to put a value on the potential damages of climate change. However, there are three main obstacles that make this process quite daunting. Firstly, climate change is surrounded by uncertainty. It affects everyone even though there are some who are major contributors to climate change whilst there are those who are only at the receiving end. It affects each country, each region, and each household differently. To top it off, climate models themselves are accurate only up to a certain degree, leaving a large room for error in estimating or predicting damages.

Secondly, the concept of time makes the estimation of damages difficult. As climate change is a delayed response of human intervention, therefor to isolate the exact cause and response is almost impossible and thus coming up with a value to represent the potential damages might be far off from the true damage value.

Lastly, it is a moral challenge. The damages need to be discounted using a pure discount rate. A higher discount rate means the current population is valued (would pay more damages) more than future generations and vice versa. Therefore, deciding the discount rate is subjective.

What's remarkable is that humans by nature respond to threats which are visible. Unfortunately, climate change isn't as visible because it does not have a uniform face. Yes, hurricanes come, tsunamis wipe off whole cities but then this is just nature right? It has been happening before and so it will continue to happen. To us, average citizens living in our own comfort zones, climate change might seem like a fantasy or an invisible hand but the recent heat wave in Karachi and the ongoing drought in California are just a couple of examples which make this fantasy a horrible nightmare for those who experience it.

Calculate your own carbon footprint and see how eco-friendly you are. Visit

http://www.nature.org/greenliving/carboncalculator/

Resuscitating SINDH

Written by: Seher Khan

Despite a recently growing Gross Provincial Product (GPP), Sindh has been unable to bring about commensurate growth in social development. Present circumstances foreshadow that Sindh will slide down a precipice as disparities within the region grow. Therefore, Sindh needs to focus on growth that is sustainable.

What initially stood out as the most prosperous province of Pakistan, with an income 55% higher than the rest of the country combined, steadily slid down to a much weaker position. In 2007, Sindh's income was approximated to be Rs 240 billion (Dawn, 2007). Sindh was contributing 27% to Pakistan's GDP, in contrast to 33% two decades ago. The decreasing trend in contribution was perhaps because Sindh did not pay Information Technology its due importance unlike Punjab (Aslam, 2003). This paved the way for Punjab to face the challenges of an increasingly IT based world while Sindh trailed behind. It was also during this period that Sindh experienced cataclysmic flooding which killed hundreds and affected many thousands of people, whilst severing impeding economic activity in the province.

The situation improved by 2010-2012, and Sindh's contribution to the national income swelled to 36%, with an income of Rs. 7,308 billion. Close to a dozen projects were initiated in Sindh pertaining to renewable energy, and primary sector industries. This boosted the FDI flowing into the province.

Unfortunately, the coal industry was among those that remained unaffected by the flow of funds. While Thar is home to one of the largest coal reserves in the world, it remains unexploited. The World Bank initially pledged funds for the development of the coal industry but the project was not carried out (PPI 2012) because it was not environmentally friendly. However, as a result of public private partnership, the project has been rejuvenated and these coal reserves are now being exploited (The Express Tribune, 2016).

The province has been unable to match its recent monetary growth with economic development. Sindh leads in the Human Development Index (HDI) among the provinces of Pakistan. Unfortunately, Sindh also showed the most minuscule growth in HDI since 2000 (The Nation, 2016). Despite development projects in different social sectors, real progress is difficult to detect. For example, the Second Sindh Education Sector Project of the World Bank was approved in March 2013, however results so far are dismal – enrollment rates at primary, middle and secondary level have fallen by 5% compared to 2012.

When we rely on averages, we overlook the underlying inequalities. The growth in Sindh is largely led by Karachi, which skews the averages for the province. These averages are then applied to the entire province, including the least developed district of the country, Tharparkar. Even though Sindh's income per capita is the highest, it has the second highest poverty level, at 33%, for the country. The Sindh Microfinance Bank was opened last year to encourage and assist entrepreneurs in Sindh who lack access to capital. This will undoubtedly bring about an increase in the GPP.

It is also ironic to note that Sindh leads other provinces in the health sector whilst Thar is enveloped by malnutrition due to severe droughts. Whilst the education sector of Sindh comes second only to Punjab, inequalities are also prevalent here. Analyzing the scores of SAT III indicates that the district a student belongs to has a significant impact on his or her score. Therefore underlying disparity among the districts exists and plays a role in widening inequality further. Gender inequality is also a critical issue but the statistics, if not ideal, are encouraging. The sample data of SAT III shows that the ratio of boys to girls enrolled in government schools is 3:2.

Of the hurdles that thwart Sindh from reaching its zenith, the task of taking all districts together remains the greatest. It is also the most vital to overcome.

Global Oil Price Decline & OPPORTUNITIES FOR PAKISTAN

Written by: Muhammad Ismail | IBA MBA Class of 2015 | BSC London School of Economics | ACCA | Senior Executive Marketing and Business Planning - Bakri Pakistan

Global Oil prices are on a decline since July 2014, coming down from almost $100, with a brief halt at $60 during May 2015 and are now as low as $30 today. The world watched with bated breath, waiting for prices to bounce back but the price war and a retention strategy by most buyers forced oil prices to continue on a downward streak. Saudi Arabia, the world's largest producer, has made clear that it is ready to sustain losses and will continue to supply and maintain its market share.

Historically, OPEC and Saudi Arabia (which contributes 30% to OPEC's production) have worked together to keep global oil prices in equilibrium. They controlled supply to keep oil prices within a profitable range. This strategy worked until US Shale exploration and an increase in Russian production began to eat into OPEC's market share. OPEC's decision to protect its market share from rising oil Prices and Shale drillers has helped oil prices spiral down. The doubling of U.S. domestic productions coupled with decreased demand from China and some European states due to sedated economic growth have added fire to the situation.

THE STATE OF ENERGY IN PAKISTAN

Pakistan is an Energy deficient country, the shortage has emerged as the biggest constraint on Pakistan's Economy. Around 68% of the total energy needs are being met from domestic resources (primarily Natural Gas) while remaining are being met through imports i.e. Crude / Petroleum Products and coal.

Pakistan's average GDP growth during the period 2009-14 was around 3.6% pa and is currently around 4.2%. With the Expected GDP growth rate of 4.5% to 6.5%, Pakistan's energy appetite is expected to grow at an ACGR (Annual Compound Growth Rate) of 4.3% to 6.0%.

With this expectation, reliance on Oil will increase in next years to come, since the country's gas production (which peaked to 4.3 BCFD – Billion Cubic Feet per day in 2012) has been on a slow decline. Current gas production is around 4.0 BCFD and is estimated to reach 4.2 BCFD in 2016 where after it will decline sharply to 2.4 BCFD by 2024. Domestic Crude production is to peak at 100 MBPD (Million Barrels Per Day) and will follow similar trend as gas.

OPPORTUNITIES FOR PAKISTAN

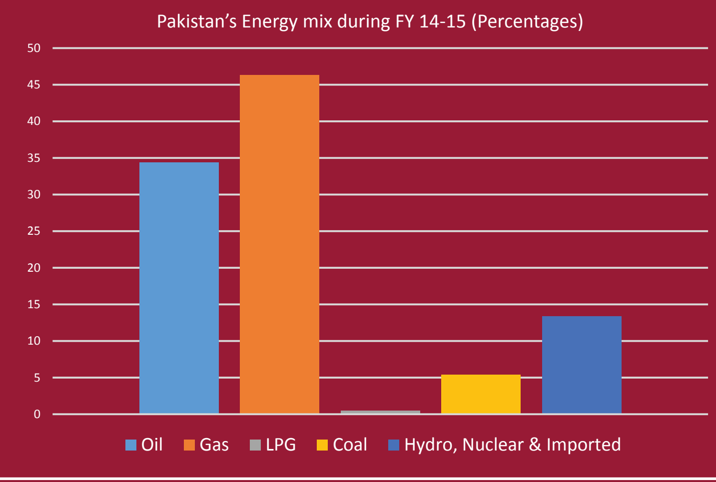
In terms of demand, industrial consumption takes the highest share with approx. 47% of total demand, followed by transport at 26%, residential and commercial users consuming 24% and agriculture and Defense at 3%.

Despite the decreasing trend of global oil prices, Pakistan's regulated product (HSD and PMG) prices have not been reduced proportionally, which means the government's income through petroleum taxes have increased, contributing over Rs. 200 billion annually. This should enable Pakistan to pay off international debt and invest in development.

A decrease in oil prices has been a blessing for Pakistan since the import bill during the Fiscal Year 2015-16 (July to October) was 43% lower than the comparative period from the previous year and has eased pressure on foreign exchange reserves.

For a country which relies heavily on imported oil products, decreasing oil prices can feed growth since most energy is used by the industrial and transportation sector. Lower oil prices reduce the cost of energy and consequently the cost of production of many raw materials like petrochemicals, paper and aluminum.

However, it is evident that oil price decline has a smaller effect on country's overall output vs the slowdown during increasing prices. This asymmetry is caused by the friction and adjustment costs associated with oil price changes.



Ceteris Paribus would like to request the faculty of economics and finance department to contribute their research developments and findings for the benefit of readers. Students are also encouraged to submit their articles on matters impacting Pakistan or global economy.

You can send in your research or articles at

ceterisparibus@khi.iba.edu.pk

Word length for contributions is a maximum of 600 words.