



AERC VOICE

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From the Desk of Editor

I feel really pleased and honored to announce about 6th issue of AERC Voice and now it is in your hands. This issue brought to you my second



Newsletter since I take up the editor's role.

In the current issue, the Newsletter included special section on AERC conference which held in March this year. The special section consist on two parts regarding the AERC conference. First it is all about of conference, its themes and reporting on two days sessions. In the second part, I am delighted to see that researchers from Pakistan and abroad had actively participated in this Conference by addressing different research issues on **Structural Reforms and Inclusive Development**, especially in Pakistan; Moreover this section highlights the policy recommendations of AERC conference which would be very interesting and informative for the reader.

AERC is always working to improve how we communicate with our alumni and online AERC Alumni directory is one example. We have also added more frequent e-newsletters to keep you up-to-date on news and events at your alma ata so you can stay connected and involved. The new Facebook page "Association of Applied Economists (AoAE)" is another great place to go for information. Please make sure that the AERC Voice has your latest contact information so you can send about your update on: voice@aerc.edu.pk. As your newsletter editor, I welcome your articles, news and input to help keep the newsletter entertaining and informative.

Let me now conclude with a warm thank you to all and my team for the wonderful job they have done, specially thanks to Mr. Joseph Cyprian for his kind support.

I look forward to hearing from you. For now, happy reading!

Uzma Iram

Quote

"Focused, hard work is the real key to success. Keep your eyes on the goal, and just keep taking the next step towards completing it. If you aren't sure which way to do something, do it both ways and see which works better."

John Carmack

Regional Accounts of Pakistan: Methodology and Estimates: 1973-2000

Kaiser Bengali and Mahpara Sadaqat

National Income Accounts explanation the output of goods and services in a country in excess of a specified period of time. It comprises the principal macro-economic procession for any country. In Pakistan, national income accounts are documentation and published on an annual basis and for the country as a whole along the lines of the United Nations System of National Accounts (United Nations, 1993), the international reference on national income accounting methodology. The annual national estimates are an aggregation of the output or income generated in the various parts of the country. However, the level and rate of change of output or income is not necessarily homogeneous in all the regions or provinces. While one region may have a primarily agricultural economy, another may be predominantly manufacturing. Even if the economies of the two regions may be similar in terms of activity, the rate of growth between the two may vary. There can also be differentiation in output mixes, efficiency, etc. National estimates do not reflect any such regional or provincial variations.

The priorities and development parameters of economic management of the various regions may possibly also vary significantly. Decisions regarding the allocation and distributions of resources almost always have a regional dimension. The resources used in the provision of goods and services may come from some region, the dynamic process may be located in another region, and the goods and services produced may be consumed largely in yet another region. Even with respect to stabilization functions of government, which are considered to have a national rather than regional relevance, the regional dimension is not absent. Regions respond in a different way to national economic changes, which are observable by regional variations from the national norm in business cycles, unemployment, price changes, economic growth, etc.

The major sectors constituting the core of the economy of the various provinces in Pakistan are believed to be as follows: mining and fruit farming in Balochistan province, manufacturing in Karachi and central Punjab, crop agri-

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Foreign Direct Investment, Institutional Quality and Economic Growth: Case Study of Pakistan

Mobsin Hasnain Ahmed

The role of FDI in economic growth is a hot topic for discussion among researchers and policy makers and has received growing attention in the literature. FDI is less susceptible as compared to other capital inflows; therefore it is more desirable as growth-enhancing component particularly in developing countries. Despite theoretical arguments in favor of the positive externalities generated through FDI, still the empirical literature provides mixed outcomes and yet it is a debatable question to reach on a conclusive answer that, whether FDI has positive impact on the economic growth or not? Many research studies identify that the role of institutional arrangements would encourage long-term FDI to supplement growth and development, whereas, inefficient institutional arrangements cause policy distortions. Poor institutional quality restrict FDI inflows and discourage FDI in long term investment in productive sectors, which might cause of low employment generation and low level quality technological transfers and hence leads to poor economic performance. Pakistan includes one of those countries that have experienced political turmoil in one form or the other, wide spread corruption, worse law & order situ-

ations and a poor record of property rights protection etc which may hurdles in the growth effect of FDI in Pakistan. On the institutional quality index, Pakistan world ranking is very disappointing when compared to other developing countries.

Numerous empirical studies reveal that host economies need to have a certain level of absorptive capacity in order to reap the benefits of FDI. Absorptive capacity of an economy can be measured by factors such as the stock of human capital, the level of financial market development and level of institutional quality. The available literature recognized institutional quality as one aspect of host countries absorptive capacity, however, few empirical studies investigated the role of the institutional quality for reaping positive externalities offered by FDI. Previous studies used aggregate FDI in the empirical analysis which assumes that FDI inflows into different sectors have same effect on economic growth of the host country. In case if FDI in different sectors have varying effect on economic growth, then the aggregation of FDI can blur the factual growth effect and lead to ambiguous results.

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Analyzing the Import Demand Function with Expenditure Components: Evidence from Pakistan

Sadaf Majeed and Abdul Waheed

The import demand function has become an important attention for policy makers by using different empirical models and methods. The empirical and theoretical approach used especially in developing countries as these countries have been suffering trade deficit from an extensive period of time. The case of Pakistan is not exceptional from other developing countries as the economy has been experiencing the high import penetration ratio (import as a percent of GDP) of 14.4 % in 2001–2002 to 18.9 % in 2010–2011 and 19.3 % in 2012–2013. The implication of the import demand model is also crucial for Pakistan's economy, as the country is heavily dependent on imported goods to fulfill the needs of domestic production as well as household demand. In case of Pakistan the efficacy of import policy in improving trade conditions in the long run is a controversial issue and therefore, it needs further investigation.

Theoretically, traditional import demand is based on the quantity demand of import for domestic real income and relative price of import. (Goldstein and Khan, 1985) demonstrated two models: the perfect substitute and imperfect substitute model. The perfect substitute model focuses on trade between the same goods while the key assumption of the imperfect substitute model is neither exports nor imports are perfect substitutes for domestic goods. In the current scenario, the empirical associations between import demand and expenditure components have received more attention to overcome the trade distortion in developing countries. Giovannetti, (1989) ; Abbott and Seddighi, (1996) argued that the various macro components of aggregate expenditure have different import content, than the use of a single demand variable to estimate import demand will create a problem of aggregation bias. Since macroeconomic policies can play a significant role to determine the trade deficit in Pakistan.

The finding suggests that the consumption expenditure is the main determinant to the movement in import demand in Pakistan. Import demand is inelastic with relative price. The empirical result of the error correction model represents the significant and short-run positive elasticities between expenditure components and aggregate import demand and negative elasticity with relative price in Pakistan. The short-run results justify the current situation in Pakistan as the country is highly dependent on imports, particularly for investment and consumer goods to full fill the domestic demand requirement. The policy implication of this study is that the relative price is inelastic in the case of Pakistan as 1% increase in relative price results -0.4% decrease in import demand. Therefore, depreciation of the currency to restrict the import growth may not be feasible in case of Pakistan because most of the imports are related to capital, consumer and industrial raw materials, which are more essential for the domestic economy. Policy makers should make a policy to control domestic inflation because if domestic inflation grows faster than import price, it will ultimately increase the import bill in Pakistan. The finding further demonstrates that aggregate import demand is highly elastic to the change in total consumption and investment expenditures. Since capital goods, consumer items and industrial raw material for capital and consumer goods imports have a large share of total imports, these findings suggest that the government should focus on the proper utilization of country's own resources in the domestic production and to construct the economic policy specially to design consumption and investment pattern in the context to remove the trade distortion in the long run. Furthermore, the policy makers need to take serious steps against the unnecessary imported items that are responsible for high trade deficit in Pakistan.

(Regional Account) Continued from Page 1

culture in the Indus basin of Sindh and Punjab provinces, forestry in northern parts of NWFP province, and so on. Karachi and central Punjab are stated to be more developed relative to the rest of the country; although in recent years, the rate of growth in central Punjab is believed to be higher than the rest of the country, including Karachi. In these respects, a Provincial Income Accounts within the context of a National Income Accounts can be of immense value.

This study attempts to decompose Pakistan's gross domestic product over the period 1972-1973 to 1999-2000 into its provincial components. It is important to note here that the exercise is limited to decomposing the national income accounts estimates as published officially. No attempt is made to revise the official annual estimates, either through adopting a superior methodology or through obtaining more reliable data sources.

The national base year has now been changed to 1999-00. the study presents gross provincial product estimates in constant values of 1980-81; one reason being the fact that the gross provincial product series is estimated up to 1999-00 only. In any case, the backward change of the series to 1999-00 base year is unlikely to alter inter-provincial shares, which is the basic objective of the study. An important point to note is that the provincial product estimates have been derived on the basis of 'income originating' as opposed to 'income accruing'. The implications are significant. It is likely that one province experiences net income outflow – on account of, for example, migrant worker remittances – and the recipient province experiences a net income inflow. In the event, income originating in the first province is likely to be higher than income accruing; correspondingly, income originating is likely to be lower than income accruing in the second province. In

other words, the provincial product that is actually available to the province is likely to be overstated in the first province and understated in the second province.

(Foreign Direct Investment) Continued from Page 1

Therefore, this research has attempted to investigate the impact of total FDI as well as different sectors FDI on economic growth of Pakistan by taking institutional quality as absorptive capacity. The empirical findings suggest that institutional quality plays an important role in determining the effect of FDI on economic growth of Pakistan .The findings confirm that threshold of institutional quality is required in order to enjoy the positive benefits from FDI. The findings recommend that FDI in the manufacturing sector plays a very important role in enhancing the economic growth of Pakistan. Therefore, favorable policies should be made to attract more FDI in manufacturing sector. Furthermore, government and policy makers should emphasis on the institutional reforms in order to get positive benefit from primary FDI. Pakistan has immense potential of natural resources. The channel of institutional quality can be helpful to increase revenues from the primary FDI which if used efficiently can boost economic growth and development of Pakistan. The role of FDI in stimulating economic performance depends on the nature and sectoral composition of FDI, which have different effects on the economic growth. Therefore, while chalking down the policies to attract FDI, the policy makers must take into account for the sectoral composition of FDI. Of course , FDI is not only the determinant of economic growth but there are other important factors that emerge from this study such as institutional quality, trade openness policies ,financial development, domestic investment and quality of human capital to augment growth in Pakistan.

Honour of AERC's PhDs

Karachi University Teacher's Society (KUTS) invited AERC faculty for the annual dinner in November 2014 and it was really pleasure for AERC to join KUTS annual dinner. It is an honor to Dr. Mahpara Sadaqat, Dr. Ambreen Fatima, Dr. Mohsin Hasnain Ahmad, Dr.



Faizan Iftikhar and Dr. Uzma Iram on receiving shields from KUTS on acquiring the highest academic degree of Doctor of Philosophy. We have many congratulations and wish all praises in their career ahead.

Orientation Ceremony for PhD Program

An orientation ceremony was arranged on 1st January 2015 to welcome the new PhD students. Dr. Muhammad Qaiser, Vice Chancellor of Karachi University was the chief guest in this ceremony, where Dr. Moonis Ahmer, Dean Faculty of Social Sciences/Acting Director, AERC organized it. Dr. Samina Khalil, SRE/Associate Profes-



sor and Head of PhD programme, and Dr. Pervez Wasim SRE/Associate Professor, Incharge of GSP congratulated new PhDs and highlighted the importance of this program. The rules and regulations for this program were also discussed. Dr Muhammad Qaiser congratulated AERC on commencing the PhD program and appreciated its efforts in initiating it. Dr. Moonis Ahmer concluded the ceremony by praising the PhD program with heartily wishes to the first batch and also emphasized the importance of research skills.

All PhD students were very excited as the PhD program was a hope for their future career and shared their views while interacting with faculty and other senior students during the refreshment session in a friendly environment.

Orientation Ceremony MAS 2015-16

The Orientation Ceremony of MAS/M.Phil leading to PhD Program. was held on 13th of February 2015. The newly MAS admitted students were accorded with welcome and recitation in the name of Allah. Dr. Samina Khalil, Senior Research Economist on the behalf of Dr. Pervez Wasim, Incharge, GSP, addressed the programme. She highlighted the importance of MAS course work and credit hours with the elaboration of predetermined rules and regulations. Dr. Khalil also provided the guidelines to the newcomers about course and research work which, of course, would be helpful for them during their study period. Students were asked to introduce themselves and also given the opportunity to put up any queries in a friendly environment. In an informal interaction, the AERC faculty and senior research fellows mixed up with these students. Finally, all students enjoyed the refreshments.

FACULTY DEVELOPMENT Welcome Back Dr. Shaista

AERC Voice and the all staff of AERC congratulate to Dr. Shaista Qaiser on completion her Post Doctorate research from University of Nottingham, United Kingdom. Indeed this is one of the greatest achievements of her professional life. We have many wishes and all praises for her career ahead.



Congratulation

We are pleased to inform that AERC has been appointed four new faculty staff. AERC Voice heartily welcomes to Ms.Sadaf Ma-jeed; Ms. Narjis Khatoon; Ms Lubna Naz and Ms. Uzma Tabbsum at AERC and congratulates them for their success and has all praises and wishes for their future endeavor.

AERC Voice pleased to inform that Mr. Tehseen Iqbal, faculty of AERC, participated KUTS elections in November, 2014 and selected as an executive member of KUTS.

Dr. Mahpara Sadaqat attended the IBA distinguished lecture series on "How New Giants are Shaping the World and What are the Challenges for Pakistan?" on 15th April, 2015. It was indeed very informative lecture given by Dr. Jean-Joseph Boillot. She also attended two days National Conference on "Role of Private Sector in the Socio-Economic Development of Pakistan" at Bahria University on 16-17 April, 2015. The conference presentations were very useful and informative.

Workshop on Geographic Information System (GIS)

Workshop on Geographic Information System (GIS) was organized at the Applied Economics Research Centre from 21st November to 1st December, 2014. The theme of the one week workshop was "The Innovative Use of GIS as a Powerful tool set to achieve best Practice". It was not only attended by the students and faculty members of AERC but also by the Researchers of Pakistan Agricultural Research Council, Zoology department and students of different educational institutions in Karachi. Dr. Khalida Mahmood former chairperson of Geography Department University of Karachi, along with her team including Dr. Razzaq Ahmed, Chairperson of Geography Department Federal Urdu University and Ms. Anila Fahad, Assistant Professor Geography Department, University of Karachi provided a platform to develop understanding about the use of GIS technology to manage resources, explore spatial relationships, and visualize ecological change. Indeed it was a very useful workshop as students learnt how to collect geographic data from Google maps and Google Earth. The students also received the understanding about how to add GPS data to GIS software, and how to geo reference a scanned map. The workshop also helped to provide ideas, knowledge and understanding on environmental modeling and the role of GIS.

A one day workshop on "Introduction to the basic tools of MATLAB" was arranged on 8th January 2015 for students and faculty members at AERC. The workshop was conducted by Dr. Haider Assistant Professor, Physics department, University of Karachi and Professor Saeed, former Dean, Federal Urdu University. The workshop covered basic MATLAB commands that are used in introductory signals and systems analysis, importing data into MATLAB, performing statistical analysis and curve fitting, automating analysis via automatic MATLAB code generation etc.

Seminar Series

A seminar presented by Dr. Ishrat Hussain, Dean and Director of IBA, Karachi on “Institutional Innovations and Reforms for the Economic Growth of Pakistan” and it was organized on 5th December, 2014 at AERC. Dr Hussain highlighted the importance of institutional reforms in Pakistan and discussed the link between good governance, economic and social development which has been well established in the last few decades. Dr. Hussain also spoke on the history of Governance and reforms agenda in Pakistan and proposed viable approach for government reforms. He concluded that those who agree the need of reforms have serious reservations about their implementation and contend that reforms cannot be implemented in real sense unless the bureaucratic actions are insulated from political interference.



A seminar was also organized on “Security Issues in Karachi and their Economic Impact” on 2nd March, 2015 at AERC. The honorable speakers were Mr. Waqar Hussain Ex-Director General/Administrator of NIPA/NIM, Karachi and Mr. Farooq Amin Qureshi, Additional IG, Police Foundation, Karachi. They shared that strong information data bank which has established to forecasting that unknown young children are vulnerable to insecurity because insecure educational institutional environment leads to absenteeism especially in female students. Comprehensive educational institution safety is the fundamental to success and safety and security concerns should be addressed at both government and educational institution to impart quality education. They emphasized that safety at educational institutions should not be restricted by the fences and walls but should be the responsibility of the community as a whole. Building of strong bounds between the educational institutions and the community ensures boys and girls safety in and out of the educational institutions.

A seminar on Agricultural Development Policy was presented by Dr. M.Ejaz Qureshi, Research Program Manager of the Agricultural Development Policy, Australian Centre for International Agricultural Research (ACIAR), Melbourne, Australia on 10th March, 2015. This seminar was indeed very informative with rich background on agriculture policies in Pakistan.



An interactive seminar on “Does Urbanization Increase Energy Demand an Application of the STIRPAT Model” organized on 16th April 2015. Dr. Muhammad Shahbaz, Assistant Professor, COMSAT, Lahore was invited to speak on the said issue. Dr. Shahbaz highlighted various aspects of urbanization and increase in energy demand and stressing that rapid increase in urbanization will generate more pressure on existing urban infrastructure, e.g. housing, health, education, power, transportation, and other public utilities. Dr. Shahbaz suggested that government should build energy efficient urban infrastructure and implement energy saving-projects to decline energy intensity not only at urban level but particularly at national level. Efficient policy must be implemented in urban areas to accelerate the switch from high energy intensive household durables to low energy intensive items.



AERC Alumni Party

The second Networking Event of MAS-Alumni was organized on 15th January 2015 by the AERC graduates. It was a very important day for the AERC graduates providing them with a chance to meet all Alumni



after five years (The First Alumni Party was held in 2009). It was indeed a moment of excitement to invite all MAS graduates from 1976 to 2014 within the AERC premises and also very impressive to know that till now more than five hundred students and forty one students were awarded MAS and M.Phil degrees, respectively.

The Students Society of AERC from 2014-15 session of devoted all their efforts to arrange this program and to provide a platform to scholars and practitioners in particular the alumni of national programs in their research by extending and exchange of the information for possible discussion. It is an honor for AERC to produce great scholars working in key posts in institutions of national and international repute including State Bank of Pakistan, CBM, IQRA and IBA, etc. The current MAS students were pleasant to have many senior graduates among them to share and memorize their student life. The environment was so impressive with sounding of intellectual conversation among MAS graduates.

The Program was arranged in the AERC lawn which was fully lighted with music to welcome the guests. Dr Moonis Ahmar, Director of AERC, Ms. Nighat Bilgrimi, Incharge of AERC along with faculty of AERC thanked all MAS graduates and that AERC feels proud with many well placed AERC graduates.

The alumni was given the opportunities to share their memories and also given suggestions to improve the quality of this networking for the next time. Dr. Ayub Meher, Director at FPCCI and Mr. Riaz Riazuddin, Deputy Governor of State Bank of Pakistan joined as alumni and making the event more pleasant when they shared their experiences. Dr. Mehar and Mr. Riaz appre-



ciated the idea and efforts of organizing team for this superb evening by recalling it as an event of golden memories.

The event became even more pleasant when Dr. Uzma Iram announced to invite the faculty for a parcel game with a given performance target. Everyone enjoyed when Dr. Moonis Ahmar, Ms. Nighat Bilgrimi, Dr Samina Khalil, and other faculty members performed wonderfully against the performance target. The MAS organizers paid tribute to Dr. Ehsan Rasheed with a great song. The program was followed by dinner and delicious dishes were served for the guests.

Where are they Now!

Dr. Bushra Yasmin is an Alumni of AERC. After completion of MAS, Dr. Yasmin attained her PhD degree from Quaid-i-Azam University, Islamabad and the University of Sussex, UK under the scheme of International Research Support Initiative Program of HEC. She is currently the Chairperson of the Economics Department in Fatima Jinnah Women University, Rawalpindi. She has acquired rich experience in teaching and research and as an author contributed many research articles in reputed journals. She performed many administrative assignments and completed them very successfully. Dr. Yasmin visited USA for Pakistan-US Partnership Workshop, hosted by University of North Texas, Denton, in November, 2014. She also presented the success stories of UT-FJWU Partnership in February, 2015 at US-Pak Partnership Follow-up workshop organized by HEC. Dr. Yasmin won the research grant for individual project under PSSP Competitive Grants Program in 2014 of the Planning Commission, GOP administered by the International Food Policy Research Institute. Recently a successful international conference is seen on her credit. We heartily congratulate her on all her enormous endeavors during her bright journey of successes and wishes her all praises in career ahead.



Dr. Ayub Mehar is an Alumni of AERC. After completion of MAS, Dr. Mehar attained PhD degree in Economics. Currently, he is serving as Director General (R & D) in the Federation of Pakistan Chambers of Commerce and Industry and visiting 'Research Professor' in Iqra University Karachi. He has also been appointed as 'Economic Advisor' for ECO (Economic Cooperation Organization) CCI. Dr. Mehar is member of the core committee of Economic Freedom Network Pakistan and alumni of the International Academy of Leadership (IAF) Germany. He has been advocating the economic liberalization process in public media, leading newspapers and TV channels. In recognition of his expertise, the Technology Policy and Assessment Center at Georgia Institute of Technology acknowledged his membership in the distinguished panel of international experts for Indicators of Technology-based Competitiveness, which is a project of the US National Science Foundation, United States Government. He is an author of Pakistani version of the world famous book on liberal economic "Commonsense Economics: What everyone should know about prosperity". In his book he mentioned several cases studies from trade, industry, and public policy where anti-liberal economic policies created obstacles in the way of prosperity. He also proactively completed several policy research studies on strategic issues. We heartily congratulate him on all her enormous endeavors during his bright journey of success and keep best wishes for more success and happiness.



Student's NEWS

Student's Research

The Nexus Between Disaggregate Savings and Economic Growth: Empirical Investigation for Pakistan

Ayesha Malik, Shafaq Shah and Mobsin Hasnain Ahmad

Previous studies investigated the relationship between aggregate saving and economic growth. Using aggregate saving may blur the in-depth causal relationship between saving and economic growth. The present paper explore the relationship between disaggregate savings (households savings, corporate savings and public savings) and economic growth in Pakistan over the period 1981-2013. The findings reveal that there is long run relationship exist between disaggregate savings (households savings, corporate savings and public savings) and economic growth. Furthermore, findings reveal that domestic savings components particularly household savings cause economic growth. Results also confirm that higher economic growth also cause components of domestic savings. As regards policy implications, findings suggest that two-pronged approach with the incentive-based measures to induce the motivation to save and the productivity-based measures to increase income and strengthen the capacity to save would be useful to generate higher household saving, and reinforce the acceleration of income and growth. To avoiding any disruption to the growth process would be useful for augmenting domestic savings particularly household saving and sustaining the savings-growth spiral in Pakistan.

Measurement of Child Poverty in Pakistan Using Multiple Deprivations

Adeel Ali, Lubna Naz and Nighat Bilgrami-Jaffery

Several studies have addressed the issue of child poverty to achieve the Millennium Development Goals (MDGs). This study measures the child poverty using multiple deprivations at National, Provincial and Regional levels in Pakistan. The analysis consists of five dimensions of child deprivations such as child immunization, Safe drinking water, Sanitation,

Overcrowding, and Mother's Education. For empirical analysis, the study uses Pakistan Social and Living Standards measurement Survey for the year of 2011 – 12. Our findings show that almost 23.5 percent of the total Pakistani children (under five) are living in poverty. The analysis of child poverty shows that among the four provinces, Baluchistan is the most deprived province of Pakistan, followed by Sindh and then Khyber PakhtunKhw. Punjab proved to be the less deprived province among the four. While the results at regional level show that almost 32 percent of the rural children are deprived.

Macroeconomic and Bank Specific Determinants of Non-Performing Loans in Pakistan: An Econometric Case Study

Mubammad Shafiq-ur-Rehman and Nighat Bilgrami-Jaffery

The minimization of Nonperforming loans (NPLs) is imperative for banking industry and for sustainable economic development. A loan is said to be nonperforming if the borrower has ceased to pay principal and interest due as specified in the loan repayment agreement (State Bank). The objective of the present study is to ascertain the macroeconomic and bank specific determinants of NPLs in Pakistan. The study contains panel data of 26 Pakistani Banks over the period of eight years ranging from 2006 – 2013. In order to find out the determinants of nonperforming loans, first differenced GMM has been used in this study. The results show that return on assets, size of the bank, growth in gross advances and leverage ratio are important bank specific determinants of Pakistani commercial Banks. Besides that, inflation and growth in real GDP are important macroeconomic determinants of Pakistani commercial Banks. The research may prove fruitful as it gives the possible solution of reducing NPLs and accordingly facilities inclusive or across-the-board economic development through the development of banking sector. This will consequently increase the employment level in addition to augmentation of contribution to National Exchequer.

(Student's Reserach on next Page)

M.Phil. Thesis Series

The Impact of Trade Liberalization on Macroeconomic Volatilities in Pakistan*Hira Mujahid*

Ms. Hira Mujahid has rewarded M.phil degree in August 2014. She completed her thesis under the supervision of Dr. Shaista Alam and which based on trade liberalization. According to her research the source and reflection of underdevelopment is macroeconomic volatility. The high aggregate volatility results from amalgamation of great external shocks, fickle macroeconomic policies and pathetic institutions. Instability has negative result through its links with a variety of vagueness in terms of economic, political, and related with policies. It causes direct welfare loss; deviates from a smooth lane of consumption. Macroeconomic volatility has a harmful effect on production growth and thus on future consumption. It also tightens compulsory investment limitation. The reasons of macroeconomics volatility in all developing countries including Pakistan receive bigger exogenous shocks; it experiences more domestic frights, caused by the fundamental instability of the development procedure and self-inflicted policy faults and because of feeble fright absorbers.



The purpose of this research is to discover the link between trade liberalization, economic size, government size and the macroeconomic volatility in case of Pakistan. Globalization integrated trade liberalization with country size and government size. This research mainly used JJ co integration for long run relation and VECM for short run analysis. By using data from 1967-2010 to analysis the relationship of trade liberalization, economic size and government spending with macroeconomic volatilities.

Moreover this study also applied Granger Causality test to find the uni/bi lateral relationships during 1966-2009. Present study also investigates the effect of trade-financial openness on macroeconomic volatilities, moreover long run and short run relationships with ARDL approach for the time period of 1970-2010. The study also discussed how the government spending trade liberalization and size of country affect the growth of Pakistan. In addition, Pakistan growth rate reflects dreadful condition over last few decades. Country and government size manipulates their economic performance and their inclination for international economic policies by example smaller countries have a greater wayer in maintaining free trade. Review of theory and verification regarding growing body of research consider both the impact of trade liberalization, government consumption on growth and endogenous determination of country size. This research addresses that economic performance and international economic incorporation can be greatly enhanced by bringing the issue of country size and government size at the front position in analyzing growth.

The policy proposition of the study is simple but still much linger to be done. Pakistan has been facing domestic and international threats which can be avoided through, improved trade liberalization, national; international polices and stable government spending. National Policies should also promote macroeconomic stability which smoothes the progress of trade among countries. The trade liberalization is the effect of globalization that improved trade; barriers and should reduce to bilateral or multilateral. Government less participation to sheltered sick industries and economic securities, creating unsustainable and dangerous results.

Impact of Trade & Financial Liberalization on the Economic Growth:**A comparative analysis for SAARC Region***Syed Arslan Wasti*

Syed Arslan Wasti in the supervision of Dr. Shaista Alam completed his M.phil thesis, the topic based on the Impact of trade& financial liberalization on growth with respect to SAARC countries. Following abstract shows that, In the modern world, trade and financial liberalization has been found necessary and pre-requisite for economic growth. Most of the macroeconomic variables as well as policies are focused to stimulate rapid economic growth through trade and financial liberalization, and foreign direct investment positively stimulates the economic growth. The emergence of rapid economic growth in most of the developing countries has however generated interest in the testing of financial as well as trade liberalization. Analysts believe that financial deepening is a catalyst for economic growth. Large extent by the rapid and spectacular deepening in the scale and complexity of the financial system of advance economies, the policy makers in developing countries have now made financial strengthening a priority with the expectation that will contribute significantly to economic performance. Trade is the transfer of ownership of goods and services from one person or entity to another by getting something in exchange from the buyer. In the world it is becoming a greater need of every country; particularly for developing countries it behave like a back bone for the acceleration of growth. Several studies conducted in this regards to validate that trade playing a vital role for promoting growth in the world. The purpose of this research is to estimate the relationship among financial, trade liberalization and economic growth. The study extracted dynamic relationship between trade, financial liberalization and economic growth using panel technique (Fixed Effect) and time series analyses (Johanson, 1999) for SAARC countries for the period of 1980 to 2011. The results suggested by heterogeneous panel investigation and time series analysis, that there exist a long-run equilibrium relationship between financial liberalization, trade liberalization and economic growth. This is consistent with the view of financial and trade liberalization playing the role as an "engine of growth" in the process of economic development.

*(Continue from Page 5)***Macroeconomic Determinants of Stock Market Volatility in Pakistan***Syed Monis Jawed, Shaista Alam and Ambreen Fatima*

The proposed study analyzed the impact of macroeconomic factors, such as growth rate, foreign exchange rate, interest rate and money supply on the volatility of Pakistan's prime equity market, the Karachi Stock Exchange. So far, relationship between macroeconomic factors and stock market volatility is ignored in empirical literature. The period of the study is from September 2001 to December 2013. Economic managers and investors would be benefited from the findings of this study, as this paper investigates that how the risk factor is evolving in KSE through macroeconomic factor and thus, can assess the impact of different macroeconomic factors on KSE in a more appropriate manner.

The AERC organized a two days international conference on 17-18 March, 2015. The motive of the conference was to investigate structural reforms needed for the inclusive development



of the economy of Pakistan. Inclusive development means equal distribution of benefits of development for the entire population. More specifically, development will be inclusive only when its benefits reach to the poorest segment and lead to sustainable economic development. The conference aimed to provide a forum for discussion on theoretical and empirical research in order to identify the key factors that influence development. The conference commenced with the name of Allah and recitation from The Holy Quran. Mr. Noman Saeed the prime host introduced and invited guests of the inaugural session on the stage. Following formal introduction, Dr. Moonis Ahmer, Dean of Social Sciences and Acting Director, AERC presented his welcome speech. He stated that the conference to be quite on time as the need to enter into a meaningful discourse on introducing structural reforms would accelerate the process of economic and human development in Pakistan. The Vice Chancellor of the University of Karachi, Dr. Muhammad Qaiser graced the occasion with his presence and in his speech highlighted the critical conditions and enormous challenges like illiteracy, poverty, intolerance, extremism, corruption etc which have had a direct negative impact on the economic development and growth of the country. Prof. Dr. Hafiz A. Pasha, former VC, University of Karachi and former Director of AERC/IBA, University of Karachi, the key note speaker this session, congratulated the AERC for conducting the international conference and appreciated the contribution of AERC towards the development of the economic profession in the country which cannot be underestimated. He also added that there is a need to reduce gender inequality by encouraging the



From right to left: Mr. Syed Murad Ali, Prof. Dr. Qaiser, Dr. Hafiz A. Pasha and Dr. Moonis Ahmar appreciating and expressing their views about AERC Conference in inaugural session.

provide a balanced thrust towards economic growth. On this occasion Syed Murad Ali Shah, Finance Minister of Sindh, was the chief guest of the conference. In his address, the finance minister emphasized on the importance of tax recovery in steering out the economy from the current financial crises. He further assured that universities will be granted ample funds in near future to tackle with their financial crises.

The AERC conference stressed actively to support policy oriented research to assist the Government in framing economic policies on the key issues. The presentation, speeches of the representatives, panel discussions and deliberations from the participants in the conference provided a wide range of perspective and perception for the acceleration of an inclusive development in Pakistan. Twenty-four papers were presented in this conference to highlight the core issues in Pakistan. The media also captured the memorable moments of this event. The coverage of the event is published in various news papers and aired on TV channels. At the end of each session shields and souvenir were awarded to each presenter, discussant and chairperson. Moreover, surprise gifts were also distributed to the organizing committee in appreciation

of their performance. The conference certificates were also awarded to the participants.



On the first day of the conference a dinner party was also arranged in the honor of guests and participants. It was a great time when all presenters/guests were sharing their views with each other on



Presenting conference souvenir to organizing team on their contribution: From right to left (Dr. Moonis Ahmar, Ms. Nighat Bilgrami-Jaffery, Dr. Ambreen Fatima, Dr. Mahpara Sadaquat, Dr. Mohsin Hasnain, Dr. Uzma Iram, Ms. Fouzia Kamal, Ms. Nigar Zehra and Ms. Humera)

women participation in the labor force and suggested that wages and opportunities of women should be equal to male counterparts which in turn would encourage them actively in the economy and

different research issues especially on those which has been presented on the same day. It was indeed wonderful party which was ended with serving delicious food.

AERC Conference Sessions (Day 1)

The Conference proceedings are provided in the following manner:



The first session was chaired by Dr. Hafiz A. Pasha while Mr. Shabar Zaidi was the discussant. Dr. Qazi Masood, Dr. Ashraf Wasti and Dr. Manzoor Ahmed were presenters on the issue of Fiscal Reforms. The session was very informative and interesting. The session concluded that the fiscal decentralization is more effective to enhance the delivering and augmenting the performance of education and health care services. It was suggested that with the contradiction of traditional public finance theory, the provincial Government can play a significant role to enhance the performance of education and health sector in Pakistan. The Policy Conference expressed concerns about the comparisons of fiscal decentralization among provinces. It has concluded that the effect of fiscal decentralisation on health and education



outcomes is weaker for Balochistan and KP compared to other provinces. So fiscal decentralisation is more effective in terms of education and healthcare facilities in Punjab and Sindh because of the latter better fiscal space and improved infrastructure.

Dr. Nuzhat Ahmed and Mr. Asif Iqbal were invited as the chairperson and discussant respectively, for the second session. Mr. Naem Alam, Dr. Muhammad Arshad and Dr. Tasneem Zafar were the presenters and discussed the issue of Government and Human security. The presenters and discussant finalized that there is a need to reduce poverty and income inequality on priority basis. The session also concluded that there are different sources to generate income like



provision of employment, ownership of resources, provision of micro-credit, laws protecting poor from economic damage, provision of education and health and advocacy to uplift economic status of the poor. Government should adopt such policies and plans to eradicate child poverty issue in Pakistan and special assistance should be given to the deprived children of Balochistan.

As greater part of employees belong to agriculture sector and are classified as properly employed, under employed, marginally attached and tenets. Improvements in agriculture sector can help in upgrading the status of these under-employed, marginally attached and tenets. Here agro-technology has a role to play. BISP and alike initiatives do have impact on reduction in poverty as well as income inequality but the impact of these initiatives will get obvious when such subsidies can help the subsidized to stand on their own and earn for themselves.



The third and final session of the day 1 was chaired by Dr. Sajjad Akhtar and who was also the discussant. The presenters on the discussion on the sectoral growth and reforms were Dr. Muhammad Shahbaz, Dr Ejaz Gul and Lubna Naz. It was recommended that there is a need to enhance domestic and foreign investment in a broad way. The commercial banks should provide more incentives to importers of modern technology for industrial sector that lead to the production as well as export growth in the economy. Energy efficient technology should be given serious consideration which can save energy and lower energy intensity. Resources should be allocated to research & development for exploring new sources of energy for sustainable economic development. The highest rating has obtained for hydro energy generation. Therefore, Government of Pakistan should start energy generation from hydro sources. Pakistan blessed with natural hydro sources all over its landscape, so there is a need to explore the vast natural hydro sources to couple up with existing energy crisis. Pakistan is located in the maximum solar radiation belt, which explored fully. It is needed to expedite the exploration of solar source for energy generation. These two most feasible alternatives, hydro and solar, if implemented in combination simultaneously, can create favorable energy environment for Pakistan.



A group photo of AERC faculty and students with Dr. Moonis Ahmar (After Conference)

AERC Conference Sessions (Day 2)

Dr. Asad Sayeed chaired the fourth session while Dr. Nooreen Mujahid was invited as a discussant. Dr. Nuzhat Ahmed, Mr.



Noman Saeed, Ms. Umme Laila and Mr. Asghar Ali contributed in this session by presenting their research work on the issues related to social sector reforms. The session concluded that Government should give the importance to social capital whereas policy maker, should focus more on network and association which will be more fruitful for social bonding. Moreover, different workshops to promote inter group linkages must be conducted. Microfinance institution, should design plans in accordance with the needs of poor and there should be reducing gender wage gap for fostering economic growth in Pakistan. The gender equality is the key factor which requires prompt action by the government for the betterment and economic development.



The fifth session pertained to external sector reforms and was chaired by Dr. Hafiz A. Pasha and the discussant was Dr. Mohsin Hasnain Ahmed, while the presenters were Dr. Mansoor Mushtaq, Dr. Syed Hasnaat Shah and Muhammad Umair. It was suggested that the role of FDI on sectoral decomposition and its impact on economic growth is more important. The policy makers should encourage FDI, by focusing the role of each sector in economic growth. Moreover, the FDI should be invested in export sector which ultimately stimulate the economic growth in the long run.



The findings proposed to shift emphasis on sectors, which have the capacity to enhance the employment generating ability of the economy.

Dr. Mohammad Nishat was invited as a chairperson and Dr. Zeeshan Atique as discussant for the sixth session. Dr. Wali Ullah, Muhammad Shafiq-ur-Rehman, Shafaq Shah, Syed Monis Jawed and Adeel Ali were the presenters on the discussion related to Banking and financial sector reforms. The panel suggested that foreign investors should be encouraged to promote investment in KESC. Furthermore, policy makers should make optimal policy tools to regulate the performance of banking sector as well as to reduce the burden of non performing loan which will facilitate the sustainable economic development.



The last session of second day was chaired by Dr. Nuzhat Ahmed and Dr. Khalida Mehmood was the discussant. Dr. Heman D. Lohano, Mr. Razzaq Ahmed and Mr. Sajjad Ahmed were the presenters. This session was based on the issues of environment and tourism. It was recommended that provincial government should be assisted and trained by the Centre to develop provincial tourism policies. Further, local communities should be encouraged to be involved in planning and implementing of tourism related projects. More urgent steps should be taken to protect the confidence of tourists. In this regard Pakistan needs to improve law and order situation to gain the trust of foreign travelers. It was also suggested that Opening of Kargil-Laddakh road can greatly benefit Pakistan as several foreign tourists who visit India annually will get a chance to cross the border and enter into Pakistan through this magnificent road link. This can give a sheer rise to the influx of foreign tourists and contribute in national income.



Finally in his concluding remarks by Dr. Qazi Masood Ahmad highly appreciated the conference papers to be the guidelines for policy makers and the government for on inclusive economic development in the country.



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