

18th August, 2008



WTO CELL
PLANNING & DEVELOPMENT DEPARTMENT
WEEKLY ECONOMIC DIGEST
11th -17th August, 2008

Cotton ginners strike and tardy official response

The cotton ginners have switched off their plants threatening textile exports which contribute around 68 per cent of the total export of merchandise. They also seek abolition of standardization fee of Rs. 5 per cotton bale. The government collects a fee of Rs. 700 million to run the Pakistan Cotton Standardization Institute, which the ginners say is a 'useless institution'. Most ginners do not pay this fee. This time ginners collectively refused to pay. Currently the ginners do not have licences to run their factories. All demands of ginners pertain to the federal government, but the Punjab government, which neither has stakes in tax collection nor can take any decision in this regard, is negotiating with ginners. The Punjab Agriculture Department, which is being used as tax collection agency by the federal government, extended the ginners working licenses for a month up to July 31 so that the dispute could be resolved without strike. The ginners maintain that most of the brokers are illiterate, do not pay taxes and do not have national tax numbers. (Dawn, 11th August, 2008)

Tackling cartels in fertilizer trade

Fertilizer usage is declining taking farming gradually down with it and exposing the country to severe food insecurity. Both DAP and urea share over 85 per cent (urea 68 per cent and DAP 17.5 per cent) of the national consumption. Unfortunately, these declining figures have failed to move officials into correcting irregularity of fertilizer trade, which include absence of cushion between world and domestic prices, cartelization of manufacturers, importers and traders, hoarders and stockists and overlapping federal and provincial jurisdictions over the trade. The availability of fertilizer at an affordable price is essential. Given the receding writ of government, the hoarders are dominating fertilizer trade. Even the semi-government agencies like the Fauji Fertilizer Corporation (FFC) are minting money. The government does not take effective measures against the fertilizer hoarders. It is the federal government that fixes crop targets, without creating necessary wherewithal and the provinces are supposed to ensure the targets. (Dawn, 11th August, 2008)

USAID's support for CSF needs time to show impact

The United States Agency for International Development (USAID) supported Competitive Support Fund (CSF) has not yet realized any impact because implementation of its studies and

recommendations is just beginning, according to the latest May 2008 report on evaluation of CSF available here. The USAID had signed a Limited Scope Grant Agreement (LSGA) with the Pakistan's Ministry of Finance (MoF) in January 2006 to support an organization charged with supporting technology, innovation, and regulatory reform to increase the competitiveness of Pakistan's industries. It also observed that the projects CSF and MoF have been working on mega projects that require time to be implemented and demonstrate impact." While USAID's primary intent was to provide CSF with funds to provide matching grants to support the sector strategies developed under PISDAC, it also co-funded CSF's establishment and administration, as well as a portion of the design and administration of technical assistance. (Business Recorder, 11th August, 2008)

Ban on export, duty-free import, crackdown

The Ministry of Industries and Production is to recommend three options to the government, imposition of ban on cement export; duty-free import of cement from China; and launching a crackdown on cement units to bring down prices in domestic market. According to Beijing-based Commercial Counsellor, the price of a cement bag in China is about Pakistani Rs. 115. Commercial Counsellor in Kabul has intimated to the government that price of Pakistani cement in Kabul is Rs. 300 per bag, which also includes Rs. 108 per bag freight charges. Industries Ministry has also rejected cement manufacturers' cost calculations on the grounds that the input cost was massively exaggerated. According to Industries Secretary, cement manufacturers said that the price of coal, a key input in cement manufacturing, had increased to \$ 200 per ton from \$ 76 in a year. (Business Recorder, 11th August, 2008)

Japan food safety concern due to 'fussy' consumers

Japan's government has to pay close attention to food safety because consumers here are "fussy", unlike in communist China which can hide uncomfortable truths from its people, the farm minister said. Japan is "constantly under pressure from consumers... unlike China, a socialist country, where in principle you do not have to tell consumers anything or you can keep inconvenient things under wraps," Agriculture, Forestry and Fisheries Minister Seiichi Ota told public broadcaster NHK. After the live television programme, Ota's office said his remark needed more explanation. (Business Recorder, 11th August, 2008)

Chinese trade data reduce slowdown fears

China has announced higher-than-expected exports and a surge in factory price inflation for July, reducing the pressure for an easing of monetary and fiscal policy. The figures, released, showed China's trade surplus grew last month by 4 per cent compared with July last year, on top of export growth of 26.9 per cent, reducing fears about a sharp slowdown in the economy at a time of fierce debate within the government over whether to take measures to stimulate higher growth and stop the currency rising. (Financial Times, 11th August, 2008)

Pak rupee hits record low amid political tension

The Pakistani rupee weakened to a record low against the dollar, hit by political uncertainty and a poor economic outlook, putting pressure on the central bank to raise rates to prevent a run on the currency. The central bank said the rupee closed at 73.35/39 to the dollar, the lowest level since an all-time low of 72.85/90 set on July 8, according to records. "The central bank's priority is to stabilize the currency and inflation expectations because a big run on the currency would be even worse," said Tim Condon, an economist at ING Bank in Singapore. The central bank last raised rates by 1 per cent to 13 per cent in July to tame inflation. Political uncertainty and economic problems

have pummeled the rupee this year. High oil prices have depleted the government's foreign exchange reserves and widened the trade deficit, while higher government spending has also increased the fiscal deficit. (Times of India, 11th August, 2008)

US, Pakistan agree to revive talks on BIT

Pakistan and the United States on Monday decided to revive the stalled negotiations on Bilateral Investment Treaty (BIT) and further strengthen controls against terrorism financing. The US side would help strengthen Pakistan's money laundering ordinance by providing necessary support to the State Bank of Pakistan to ensure legal transfer of funds from abroad. "While new options were discussed to help reduce Pakistan's energy problems, it was also decided to separately undertake dialogue for improving Pakistan's agriculture sector," Mr Daniel S Sullivan, US Assistant Secretary, Bureau of Economic, Energy and Business Affairs, told a news conference after the completion of third Pakistan-US Economic Dialogue. (Dawn, 12th August, 2008)

Government unlikely to accept private sector offers: Thermal power projects

The government is unlikely to accept private sector offers to install thermal power projects of 1,500MW on a fast-track basis because of capacity constraints, higher tariffs and resultant economic unaffordability. It may accept bids for a maximum of 1,000MW from independent power producers (IPPs) for setting up thermal plants in WAPDA's national grid system. There was a strong feeling among relevant institutions that hydel-thermal power generation mix had already declined from 30:70 ratio to 25-75 and hence the government should be cautious in accepting fresh offers for additional thermal power capacity because most of the new projects would be charging a tariff of over 18 US cents per unit (kWh). The government had invited offers for 1,500MW – 1,000MW fast-track projects and 500MW of rental power. Already, PEPCO is not utilizing its full thermal generating capacity because of fuel costs. More thermal projects would increase the overall tariff, reduce PEPCO's paying capacity and make it unaffordable for the economy and consumers. (Dawn, 12th August, 2008)

Tax amnesty for Pakistanis holding assets abroad

The Federal Board of Revenue (FBR) is considering allowing Pakistanis to declare their immovable assets held abroad and avail amnesty under the Investment Tax Scheme 2008. This was stated by FBR's Member (Direct Taxes) Irfan Nadeem in a meeting with Income Tax Bar Association Karachi (ITBAK) members on Monday at the bar chamber of the Regional Tax Office. Irfan Nadeem assured the tax bar members once they sit together, all their complaints would be resolved in a day or two. The bar members also pointed out that tax return forms were not available which may cause delay in preparing returns. The member direct taxes asked the bar members to give suggestions to help broaden the tax net and also improve tax-to-GDP ratio which stands lowest in the region. (Dawn, 12th August, 2008)

BIT to provide new cooperation framework

The US Assistant Secretary of State for Economic Energy and Business Affairs, Daniel S Sullivan said Bilateral Investment Treaty (BIT) is going to provide the US and Pakistan a new framework for long-term economic co-operation. He listed agriculture, energy, bilateral trade and US investment in Pakistan among those areas, which can benefit right from the beginning of BIT signing between the two sides. In response to a question, Sullivan said Pak-US dialogue covered a wide range of issues for deepening economic co-operation between the two countries. However, it did not include the

issue of civilian nuclear technology Pakistan is demanding since Washington signed an agreement with India. (Business Recorder, 12th August, 2008)

Pakistan and US for broad-based economic ties: joint communiqué issued

A joint communiqué, issued on Monday after third Pak-US economic dialogue, reaffirmed the two sides' commitment for deeper and broad-based bilateral co-operation in all sectors of the economy. The two sides discussed a wide-ranging agenda, including macroeconomic policy, labour, intellectual property rights, energy, agricultural cooperation, eliminating terrorism finance network, reconstruction opportunity zones (ROZs), a GOP scholarship proposal, foreign assistance and Fata development, regional co-operation and transit trade, private sector co-operation and a Bilateral Investment Treaty (BIT). Finance Minister Syed Naveed Qamar led Pakistan side. The joint communiqué further said that trade liberalization, protection of intellectual property rights and labour issues that are all aimed at fostering increased economic opportunities, were also discussed. (Business Recorder, 12th August, 2008)

China producer inflation soars; trade surplus strong

China's factory-gate prices jumped 10.0 percent in the year to July, the first double-digit rate since the mid-1990s, but many economists said the surge was unlikely to translate into a new burst of consumer inflation. The leap in the producer price index, up from June's reading of 8.8 percent, dwarfed market forecasts of a 9.1 percent increase and was the highest rate since 1996, according to the National Bureau of Statistics. Crude oil cost 41.2 percent more at the producer level than a year earlier; petrol was up 32.6 percent and coal 32.2 percent. Exports grew 26.9 percent in July from a year earlier, beating forecasts of an 18.1 percent rise. For the first seven months, exports have grown 22.6 percent, down modestly from the 2007 pace of 25.7 percent. (Business Recorder, 12th August, 2008)

Japan to issue economic package by end-August

Japan will issue a package of steps to support the economy by the end of this month, Economics Minister Kaoru Yosano said, as the world's number 2 economy grapples with high energy and food prices and faces the risk of a recession. The government has drafted a framework of the package, including measures aimed at helping people cope with a higher cost of living, providing financial assistance to small firms, and helping industry develop energy-saving technology. The government will implement the package step by step, with some measures expected to be carried out beyond the current fiscal year ending in March, Yosano said. The government previously compiled a 215 billion yen (\$ 1.96 billion) relief package last December to tackle rising oil prices. (Business Recorder, 12th August, 2008)

China reports 6.3% rise in CPI in July

China's consumer price index (CPI), a measure of inflation, was up 6.3 percent in July, the National Bureau of Statistics said. The figure, compared with 7.1 percent in June and 7.7 percent in May, was broadly in line with most forecasts. Food prices, which account for more than a third of the CPI calculation, soared 14.4 percent in July, 6.0 percentage points lower than the growth in the first half of this year. The price of meat increased 16.0 percent. Cooking oil price went up 30.8 percent, with vegetables up 8.4 percent, aquatic products up 18.3 percent and grains up 8.6 percent. In the first seven months of this year, the inflation indicator rose 7.7 percent from the same period last year, or 7.4 percent up for urban areas and 8.3 percent up for the countryside. (Xinhua, 12th August, 2008)

CCP opposes move to fix cement prices

The Competition Commission of Pakistan (CCP) has raised objections over the new move of the ministry of industries and production to help fix the prices of cement as it amounted to promoting cartelization. CCP Chairman Khalid Mirza has expressed his serious concern over the issue. Mr. Farooq agreed with the CCP chairman that no regulatory authority or the ministry concerned has the right to fix the price of any product and that all should respect the competition law that discourages cartelization. The officials concerned concede that the unusual hike in the prices of construction material is threatening the job market in the industry. (Dawn, 13th August, 2008)

Sri Lanka invites textile investment

Pakistani investors have been offered to set up textile units in Sri Lanka where there is no load-shedding and an easy access is available to markets in the USA and EU. The offer was made by High Commissioner of Sri Lanka Dr. W B Dorakumbore in a meeting with Sindh Industries Minister Rauf Siddiqui at the latter's office. The Sri Lankan envoy urged the Pakistan government to reduce import duty on betel leaf which has been raised in the new budget from Rs. 150 to Rs. 200 per kg. Dr. Dorakumbure urged Pakistan to send a larger trade delegation to the Saarc fair scheduled to be held in Colombo from August 28 to 31. Earlier on a directive from the Sindh minister, the Trade Development Authority of Pakistan (TDAP) increased the size of trade delegation for SAARC fair from 10 to 14. If the Sindh province publicizes its ancient Hindu and Buddhist sites, it can attract about 100,000 pilgrims from Sri Lanka. Earlier, he held a meeting with ambassadors of oil-rich Gulf states, inviting them to invest in Pakistan's telecommunications, real estate and agriculture sectors. (Dawn, 13th August, 2008)

Pakistan delays some palm oil purchases

Pakistan has delayed some palm oil purchases for the holy month of Ramazan, covering about 75 per cent of its requirements as traders pause to see where plunging prices of vegetable oil stabilize. Palm oil imports for the July-September period were expected to exceed 375,000 tons for Ramazan in early September, Rasheed Jan Mohammad, vice-chairman of the Pakistan Edible Oil Refiners Association, told Reuters. The only concern is that Pakistan will keep on delaying their purchases until the market stabilizes, he said in a telephone interview. Those who already bought are repenting. (Dawn, 13th August, 2008)

Budgetary, balance of payments support: US turns down Pakistan request

The United States of America (USA) has turned down Pakistan's request for budgetary and balance of payments support, sources in the government told. Balance of payments position is also unlikely to improve if oil prices remain high in the international market. Given the two deficits i.e. budget and trade deficit, the request by Pakistan government to the US team to extend assistance for budgetary support reflected its deep concerns over impending economic crisis. Pakistan's request for further financial assistance had been placed before the US team, which was present in the Finance Ministry, for the third US-Pakistan economic dialogue, but the response was not encouraging. "Pakistan's economy is in a serious condition, and the government has not prepared any contingency plan," sources quoted the leader of the US team, Assistant Secretary of State for Economic, Energy and Business Affairs, Daniel S Sullivan, as commenting. (Business Recorder, 13th August, 2008)

Current situation discouraging business activities: ICCI chief

High cost of doing business due to phenomenal spike in energy tariff and withdrawal of subsidy on electricity and gas is causing slump in economic activities in the country while squeezing purchasing

power of consumers on account of high inflation has put the survival of many trade and industrial units in danger, stated Muhammad Ijaz Abbasi, President, Islamabad Chamber of Commerce and Industry (ICCI). ICCI president said the current volatile situation in the country was discouraging the promotion and growth of business activities as over 30 small and medium steel re-rolling units in Karachi have shut down their operations because of slack construction work across the country due to rising prices of construction material including steel products. (Business Recorder, 13th August, 2008)

China posts more than 40% growth in FDI actually used in 1st 7 months

China saw a growth of almost 45 percent in foreign direct investment (FDI) actually used in the first seven months of this year, due partly to high interest from overseas investors, the Ministry of Commerce said. Mei Xinyu, a researcher with the ministry's research institute of foreign trade and economic cooperation, said the growth in FDI and the fall in the number of overseas-funded businesses established indicated the per project average FDI used had increased substantially. Analysts said foreign capital was shifting from the manufacturing sector to the service sector and new-technology and high-tech projects. In the first half, the central region doubled FDI it used, while the western region recorded a 140-percent growth. Analysts also noted that it was possible for large amounts of hot money to contribute to the fast growing FDI through Hong Kong, which accounted for 40 percent of the FDI nationwide. (Xinhua, 13th August, 2008)

Food Prices: Millions Could Starve as Fertilizer Prices Soar, Says UN

A global fertilizer crisis is reducing the harvests of the world's poorest farmers and could lead to millions more people going hungry, according to the UN and global food analysts. Hopes that soaring food commodity prices could lift millions of developing country farmers out of poverty and lead to more food being grown have been dashed, says the UN. Fertilizer prices have risen more than oil or any other commodities in the past 18 months. Much of the price rise is attributed to farmers in the developed world who have applied high levels of fertilizers to maximize harvests of grain to take advantage of record grain prices, said Balu Bumb, policy leader at the International Centre for Soil Fertility and Agricultural Development in the US. The UN fertilizer forecast blames capacity constraints for the price rises. 'Strong global demand for fertilizers is stretching current production capacity to its technical limits. (Web.worldbank.net, 13th August, 2008)

OPEC Pushes Output to Record Level

OPEC pushed its oil production to the highest level in its 48-year history last month, even as demand was slipping in the US and Europe, the International Energy Agency (IEA) said. The combination of surplus supply and weaker demand has pushed oil prices to \$ 113.50 a barrel, down 24 percent in the last month and the lowest level since late April. In mid-June, as oil inventories were running low, King Abdullah called a high-level international meeting in Jeddah and pledged to help reduce record prices by increasing Saudi production from 9.4m barrels a day to 9.7m b/d, the highest level in 30 years. It said demand in developing countries could offset declines in developed nations, and that it sees Chinese oil demand continuing to grow at a robust pace. (Web.worldbank.net, 13th August, 2008)

Government tightens fiscal control over public spending

The government has decided to tighten fiscal control over public spending both development programme and current expenditure through sweeping powers to the ministry of finance to overcome critical financial crunch faced by the economy. Until now, the line ministries, divisions and departments used to submit their cash and work plans to the planning commission. On the basis of

these demands, the planning commission used to direct the finance ministry to release funds to the line ministries. The ministries have now been advised that financial adviser organization would examine the reasonability of cash plan with reference to work plan during the process of approving a cash plan for development works. The financial adviser organization has been directed to “critically examine the proposals for release of funds in order to ensure the adequate requirement of line ministries/divisions and their attached departments. (Dawn, 14th August, 2008)

Rupee suffers largest single-day fall

The exchange market witnessed a free fall of rupee against the dollar. It slashed the value of local currency by Rs. 1.70, the largest cut in a single day during the fresh spell of devaluation. “The dollar was traded at Rs. 75.15 during the day while it was closed at Rs. 76.02,” said Atif Ahmed, a currency dealer in the inter-bank market. The currency watchers found no evidence of State Bank’s intervention, which has been a practice in the past to save the rupee from dollar’s bullish trend. Currency dealers said there was no end-line for the fall of rupee as no support was visible for the local currency. Market experts said unless the economy was not revived with the hope of better growth, inflows of foreign exchange through portfolio investment would remain a dream. The outflow of portfolio investment has caused serious damage to exchange rate and reserves. “Foreign investment is limited to oil and gas exploration, telecommunication and banks. The open currency market also witnessed massive erosion in rupee value against the dollar. The dollar was traded at Rs. 75.80 to Rs. 76.10. (Dawn, 14th August, 2008)

Food security a growing concern for Pakistan

Food security has emerged as a burning issue in the country, as prices of essential food items have increased tremendously. According to Dr. ME Tasneem, Chairman of the Pakistan Agricultural Research Council, the price of wheat flour is up 64 percent, basmati rice up by 104 percent and the price of grain is up by 60 percent. While presiding over a meeting of the subcommittee of the Food Security Taskforce, the scientist also mentioned that Masoor prices have increased by 134 percent, potatoes cost 29 percent more, milk 18 percent and broiler live 29 percent while the price of vegetable oil has increased by 56 percent. Presenting the agenda and objectives of "Medium-term Research Agenda and Agricultural R&D", he said that the committee should suggest measures to increase food production. (Business Recorder, 14th August, 2008)

IMF to Prod Countries on Currency Valuation

The International Monetary Fund says it will produce for the countries to change exchange rates that do not reflect economic fundamentals and cause problems for other nations. Mark Allen, director of the IMF's Policy Development and Review Department, said at a news conference, consultations would be initiated if the IMF becomes concerned that a country is violating rules that govern global currency relations or that a currency may be significantly misaligned and causing external instability. "The purpose of this is to persuade members to adjust their policies in their own interest and in the interest of the international system," Allen said. The IMF has recommended that Saudi Arabia consider alternative exchange regimes to its 22-year currency peg to the US dollar if inflation persists and the creation of a Gulf monetary union is delayed. (Web.worldbank.net, 14th August, 2008)

Cement price, cost statistics

The Finance Ministry and the Competition Commission of Pakistan are unlikely to endorse cement prices calculated by the Industries Ministry and its reliance on cost statistics provided by All

Pakistan Cement Manufacturers Association. The sources said the CCP, which is actively investigating the charge of cartelization against cement manufacturers, has calculated Rs 285 per bag retail price; while the Industries Ministry believes retail price should be between Rs. 320 and Rs. 330 per bag which means the ministry is allowing cement manufacturers Rs. 25-35 per bag more than the Commission. The Finance Ministry which is also investigating reasons for cement price hike has challenged the Industries Ministry's reliance on cost statistics provided by APCMA, the sources maintained. The total government taxation is Rs. 96 on one bag of cement. (Business Recorder, 15th August, 2008)

Indian inflation jumps

Indian inflation accelerated faster than expected in early August to a new 13-year high of 12.44 percent, and analysts said sustained price pressures would force the central bank to maintain its tightening bias. "Inflation is on the higher side and it should peak at 13.5 percent by mid-December. The 10-year bond yield ended at 9.14 percent compared to 9.09 as traders expected inflation to stay above 12 percent in the coming weeks. Higher food and energy prices contributed heavily to the latest jump in inflation after a month during which many prices had shown signs of stabilizing. (Business Recorder, 15th August, 2008)

Euro zone economy record first-ever Contraction

The euro zone economy recorded its first ever contraction in the second quarter, pulled down by falling activity in its biggest economies and raising the risk of a technical recession. The next weakest result was 0.0 percent growth in the second quarter of 2003. A technical recession is defined as two consecutive quarters of negative economic growth. Germany, Europe's biggest economy, reported a 0.5 percent quarterly fall in April-June GDP, which was better than the 0.8 percent drop expected by economists. French GDP fell 0.3 percent quarter-on-quarters instead of expanding 0.2 percent as markets expected. French Economy Minister Christine Lagarde rejected talk of a recession in France, but economists were less upbeat. Smaller economies fared better. Greece expanded 0.6 percent, Austria and Portugal 0.4 percent and Belgium 0.3 percent. (Business Recorder, 15th August, 2008)

SBP making efforts for economic development

The State Bank of Pakistan has been making relentless efforts for economic development of the country. Speaking at the flag-hoisting ceremony at the central bank to mark the 61st Independence Day, SBP Governor Dr. Shamshad Akhtar says this day provides the nation with an opportunity to reiterate our commitment with the homeland. She said the banking industry had made significant progress in recent years and the central bank had taken a number of measures to ensure that people at large reap the benefits of economic growth, sustainability of growth momentum and competitive environment. Dr. Akhtar said that despite several problems Pakistan as a country had come a long way since achieving independence in 1947. (Dawn, 15th August, 2008)

Hike in coal prices affect cement industry

Coal prices in the world market went up by 85 per cent compared to last year. According to latest IMF data coal prices increased mainly because of higher oil prices which inflated prices of goods. The coal prices vary from \$ 140 to \$ 200 per ton in the world market. The higher oil prices during 2008 resulted in higher freight charges. The ships carrying coals use oil as fuel and the surge in oil prices has increased the cost of transportation. Pakistani cement industry largely depends on coal and use fine coal to extract maximum heat. These stocks of fine coals are imported from abroad while

local coal from Quetta is used partially. Due to higher coal prices, gas has become cheaper than coal. It shows that gas is 50 per cent cheaper than coal. The higher coal prices will add burden on the foreign exchange reserves of the country falling sharply since October 2007. The reserves could be saved by exploiting local coal reserves. (Dawn, 15th August, 2008)

OGRA-CNG operators tug of war going on

As CNG consumers are multiplying rapidly following an unprecedented rise in fuel prices, a tug of war between the All-Pakistan CNG Association and the Oil and Gas regulatory Authority (OGRA) is going on fixation of new CNG prices. CNG operators are adamant to sell CNG at a price of their own choice which is higher than the price fixed by the government while OGRA wants to fix its own price to give relief to CNG consumers. People had received a big jolt last month when CNG stations had abruptly raised CNG rate from Rs. 38.80 to Rs. 48.38 per kg without the consent of the government. Earlier, CNG was the only cheap source of energy for public and private transport but after skyrocketing prices of petroleum and CNG products, consumers are increasingly expressing their anguish. The rising CNG prices may also discourage launching of CNG-based public transport in major cities of the country. Sana-ur-Rahman, Chairman of All-Pakistan CNG Association said the executive body of the association was not comfortable the way OGRA was handling the issue. (Dawn, 15th August, 2008)

Concern as US inflation jumps

Thursday's news of a 0.8 per cent jump in the US consumer price index in July, coupled with a 0.3 per cent increase in the same measure excluding food and energy, could damage or at least delay the emerging optimism on inflation. The recent drop in the price of oil had stoked hopes that inflationary forces could abate more rapidly than previously expected. (Financial Times, 15th August, 2008)

IMF urges S. Arabia to keep options open

The International Monetary Fund has recommended that Saudi Arabia consider alternative exchange regimes to its 22-year currency peg to the US dollar if inflation persists and the creation of a Gulf monetary union is delayed. It said that most of the Fund's directors believed the benefits of maintaining the peg outweighed the cost of higher short term inflation. The IMF said that inflation, which is largely driven by rising rent and food prices, poses the main challenge for Saudi Arabia. Inflation in Saudi Arabia reached a 30 year high of 10.6 per cent in June and the IMF said it was projected to peak at around that level in 2008. Still, with oil prices remaining high the outlook for the Saudi economy remains favourable, the IMF said, projecting real gross domestic product growth of 5 per cent this year and a record current account surplus of \$191bn. (Financial Times, 15th August, 2008)

Rupee suffers fresh setback

The rupee suffered another record devaluation against the US dollar. Currency dealers said they traded dollar at Rs. 77.10, a decline of Rs. 2, which was the single largest devaluation in a day. On Aug 13, the rupee lost Rs. 1.70 against the greenback. Within a week, the US dollar cut the local currency by Rs. 4 sending shockwaves to importers and manufacturers. At the close of the market, the rupee gained 40 to 50 paise. The dealers were unable to understand the phenomenon of daily devaluation of rupee. Analysts said that fast devaluation of rupee against all major currencies brought another wave of inflation and that was imported inflation. It was also feared that the devaluation of rupee would be counter-productive for the export-oriented industry. The Consumer Price Index showed an inflation 24.3 per cent for July, a figure already disastrous for the manufacturing industry. Traders said prices of all imported items have started increasing sharply

while the profit margin has also been increased due to curtailed purchasing power of the local currency. (Dawn, 16th August, 2008)

Banks asked to realize export proceeds

The State Bank of Pakistan criticized banks' inability to realize export proceeds worth \$ 220 million, which were overdue for less than a year. SBP Governor Dr. Shamshad Akhtar advised all commercial banks to ensure repatriation of overdue export proceeds. Addressing a meeting of heads of commercial banks held at the SBP she expressed concern over inability of banks to realize export proceeds within the stipulated period of 180 days. The State Bank and banks are to conduct analysis of reasons for delays in export proceeds beyond one year and work out linkages between the held-up proceeds and the export refinance. She said that banks and the State Bank should also develop a database of export proceeds region-wise and customer-wise in order to expedite repatriation of the held-up proceeds. Representatives of the commercial banks assured the central bank chief that they will make utmost efforts for realization of export proceeds. (Dawn, 16th August, 2008)

First domestic Sukuk in September

Pakistan will issue its first local currency Sharia-compliant bond in September, a government official said, as the country seeks to build its fledgling Islamic finance industry. Standard Chartered Bank and Dubai Islamic Bank are handling the deal, he added. The share of Islamic banking in the total banking system was 3.2 per cent last year, according to central bank data. Total assets of Islamic banks were about Rs135 billion while Islamic deposits and financings stood at 2.9 per cent and 2.4 per cent of market share, respectively. Islamic banks must grow at least 40-50 per cent each year to be able to raise their share from 3.5 per cent to about 15 per cent of the total banking system, the central bank has estimated. Mr. Khan said the government had no immediate plans to sell global Islamic bonds. The government raised \$600 million through an Islamic bond in the international market in 2005. (Dawn, 16th August, 2008)

Foreign reserves fall below ten billion dollar level

State bank of Pakistan (SBP) informed that country's foreign reserves have further plunged by 239.1 million dollars to 9.92 billion dollars during the week ended August 9, 2008, as against the 10.01591 billion dollars a week earlier. The reserves held by SBP declined by 323.8 million dollar to 6.6444 billion dollar during the last week that previously stood at 6.9682 billion dollar on August 2, 2008. After current surge bank's overall foreign reserves mounted to 3.2756 billion dollars as compared to some 3.1909 billion dollars a week earlier. (Business Recorder, 16th August, 2008)

Sanctions hurting Iran's economic activity: IMF

Stepped-up international pressure and sanctions against Iran over its nuclear programme are hurting its economy, making trade financing and payments difficult and discouraging foreign investment. Intensified international pressures on Iran have negatively affected economic activity. IMF staff met with Iranian Central Bank Governor Tahmasb Mazaheri and senior government officials in May for annual consultations on the economy. IMF staff said the recent increase in inflation suggested the economy was overheated because of high oil prices. There has been no political consensus to implement other (IMF) recommendations such as tightening monetary policy and reducing government interference in resource allocation. The IMF said the medium-term economic outlook for Iran was very sensitive to the oil price. According to IMF economic simulations, if Iranian economic policies remained the same and prices for Iranian crude prices decline to \$85-\$90 a barrel,

Iran's growth potential would dwindle, a budget deficit would require central bank financing and the economy's vulnerabilities would increase. (Business Recorder, 16th August, 2008)

United States consumer sentiment slightly better

US consumer sentiment improved slightly in early August thanks to a drop in gasoline prices as inflation expectations improved, while industrial output edged up last month. US Treasury prices gained on expectations that inflation would wane. Manufacturing output climbed 0.4 percent in July after a 0.1 percent gain in June. July motor vehicles and parts production rose 3.6 percent after a 4.8 percent increase in June. Excluding motor vehicles and parts, overall industrial output in July was up a scant 0.1 percent after a 0.2 percent June rise. The New York Fed's "Empire State" general business conditions index rose to 2.77 in August from minus 4.92 in July. The prices paid component dipped in August to plus 65.17 from a record plus 77.89 in July. Private sector bolsters US net inflows. Net capital inflows totalled \$51.1 billion in June, from a revised inflow of \$12.3 billion in May. (Business Recorder, 16th August, 2008)

Hong Kong economy shrinks on declining exports

Hong Kong's economy has shrunk for the first time in five years as the city falls victim to slowing exports and weaker domestic demand. The contraction follows negative growth data this week from Japan and Singapore, underlining how Asia's export-driven economies are affected by the US slowdown. (Financial Times, 16th August, 2008)

Government to cut borrowing, expenditures: minister

The government is trying to deal with the serious problem of inflation by reducing government borrowing as well as development and non-development expenditures, according to Minister for Finance and Privatization Syed Naveed Qamar. He said the government had decided to curtail borrowing from the central bank, which fuelled inflation. While non-development expenditures would be reduced, development expenditures too would have to be slashed, said Mr. Qamar. Both bilateral and international donors were being told that due to high prices in the international markets and the political crisis in the country they should help the government put the economy back on track. (Dawn, 17th August, 2008)

LPG prices go up; CNG rate fixation

Retailers have raised the rate of liquefied petroleum gas (LPG) to Rs. 85-86 per kg from Rs. 80-82 per kg following an increase in prices by marketing companies. LPG price in January this year was only Rs. 55 per kg. As marketing companies have increased the rate by Rs. 5 per kg, LPG prices would rise to Rs. 80 per kg in Lahore and up to Rs. 85-90 per kg in Peshawar and the Northern Areas, according to Irfan Khokhar, chairman of the Lahore-based LPG Distributors Association of Pakistan. As LPG prices are increasing ahead of Ramazan, bakers may push up rates of various items. Secretary, LPG Association of Pakistan (LPGAP), a group of marketing companies, Fasih Ahmed, said that Oil and Gas Regulatory Authority (OGRA) had issued strict instructions that consumer price of gas should remain at Rs. 68 per kg or Rs. 800 per 11.8 kg cylinder, but the LPG rate has now crossed Rs. 85 per kg. (Dawn, 17th August, 2008)

Strategy on inflation, rupee soon: Naveed: \$ 3.5billion forex inflow expected

The government expects about \$ 3.5 billion foreign exchange inflow by end of this month, while a strategy to tackle inflation and ease pressure on the rupee will be announced in the next few weeks,

said Federal Minister for Finance Naveed Qamar. “It was because, the previous government had concealed Rs. 100 billion borrowing from oil marketing companies, the minister said to explain that spike in government borrowing came from shifting of account entry from oil companies’ books to the government.” While the APTMA leaders estimate \$1 billion stake in this cross currency business, the minister said that the State Bank of Pakistan would be having accurate figures. The APTMA chairman informed journalists that textile industry leaders had asked the government to give top priority to inflation and help the poor and needy people. (Dawn, 17th August, 2008)

Government eying \$ 13 billion foreign financing

The government is eying to receive more than \$13 billion external financing in various sectors in the wake of its new multi-pronged strategy aiming to bolster over all economic scene in the fiscal year 2008-09. The money will flow into the country as a result of Saudi oil facility, reinvigorated privatization programme, expediting inflow of pending installments from already privatized units, floating of workers remittances securitization bonds, injecting foreign investment in KESC, FDI in oil and power sectors and renegotiated credit facility from international financial institutes (IFIs). According to the statement the government is also considering the floating of workers’ remittances securitization bonds worth \$ 800 million to provide additional cushion to the existing forex reserves. An increase of 26.5 per cent in the first month of the current fiscal year suggests that the remittances target is most likely to be achieved. (Dawn, 17th August, 2008)

SBP mulls consumer protection law

The State Bank of Pakistan is processing a draft consumer protection law to protect the banking consumers from losses. SBP Governor Dr. Shamshad Akhtar said in a statement that most of the issues related to consumers will be addressed as the central bank was processing consumer protection law and will issue fair debt collection guidelines in the near future. Complaints by certain quarters that banks charge very high mark-up rates on credit cards products need to be seen in the proper context, said Dr. Shamshad. Credit cards are not a debt instrument and the banks allow credit facility free of mark-up or interest to their card holders for the period of 30 to 45 days or as specified in their terms and conditions accepted by card holders. In addition to establishment of the office of the Banking Mohtasib, the SBP has established a full-fledged Consumer Protection department to effectively resolve consumers’ complaints against banks. (Dawn, 17th August, 2008)

Dollar hits 6-month high against Euro

The dollar surged to a six-month high against the euro as traders fretted over eurozone economic momentum while some US indicators revealed better-than-expected economic activity. The dollar had earlier struck 110.66 yen, its highest level since January. The British pound meanwhile hit a two-year low point against the dollar as dealers predicted likely future interest rate cuts from the Bank of England to combat flagging economic growth. Industrial production shows broad-based improvement in July,” said Barclays Capital analyst Julia Coronado. In late New York trade, the pound was trading at 1.8651 dollars, down from 1.8677 dollars. The British unit had earlier slumped as low as 1.8512 dollars the lowest point since July 2006 after the Bank of England issued a gloomy economic outlook earlier this week. The dollar had meanwhile climbed to 1.0961 Swiss francs from 1.0877. (Dawn, 17th August, 2008)

PSDP funded project staff hiring: Prime Minister approves 'Standard Pay Package'

Prime Minister Yousuf Raza Gilani has approved the proposal of the Planning Commission for 'Standard Pay Package' of the officers and staff directly recruited from the open market for execution of development projects funded from Public Sector Development Programme (PSDP). The pay package is market-based and would help in attracting highly qualified and talented professionals as 'Project Directors', 'Advisors', 'Specialists' and 'Consultants'. These professionals would help in timely completion of infrastructure projects, ensuring quality, and meeting international standards. The infrastructure projects play key role in accelerating socio-economic progress of the country. The Standard pay Package for the officers and staff of development projects under PSDP will come into effect immediately. The package is applicable to all PSDP projects countrywide. (Business Recorder, 17th August, 2008)

KCCI urges SBP to curb rising demand for dollar

Karachi Chamber of Commerce and Industry (KCCI) Vice President Muhammad Haroon Agar has proposed that the central bank should come forward aggressively to curb rising demand for dollar by intervening in the market and maintaining sufficient supply chain for support of local currency. Agar criticized the government and the Governor of State Bank of Pakistan for not adopting effective measures to check rupee slide against the greenback as the SBP's strict exchange policy measures had failed to stop fall of rupee against dollar, and demanded a roadmap to bring the country out of the economic crisis. Agar added: "Pakistan's economy is import-based and its imports are concentrated in a few items namely, POL products (24 percent), capital goods and machinery (30 percent), raw material (16 percent) and food items (seven percent), which account for about 77 percent of the total imports. (Business Recorder, 17th August, 2008)

Food and consumer groups get hedge smart

Food and consumer goods companies are overhauling the way they buy and hedge commodities after being caught out by increases in the prices of raw materials that have squeezed industry margins and cut profits. Companies are turning to commodity trading houses for the first time to hire traders and are buying complex financial trading systems to help them cope with a new era of global inflation. (Financial Times, 17th August, 2008)