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WTO CELL
PLANNING & DEVELOPMENT DEPARTMENT
WEEKLY ECONOMIC DIGEST
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World Bank to lend \$1.4 billion, DFID doubles aid

The World Bank has pledged to provide \$1.4 billion support for Pakistan in the current year, which can be front-loaded to fast track investment projects and budgetary lending. The amount includes \$600 million for investment portfolio and \$800 million for budget support as macroeconomic stabilization programme moves forward. Meanwhile, Department for International Development has doubled its economic assistance for Pakistan to UK pounds 586 million. The Advisor to Prime Minister also had productive meetings with German Minister for Economic Co-operation and Development Ms Wieczorek-Zeul, United States Under-secretary of State for Economic, Energy and Agricultural Affairs, Reuben Jeffrey and Assistant Secretary of State for Economic, Energy and Business Affairs Daniel Sullivan. The U.S. officials reaffirmed Washington's continued support for Pakistan's economic development. The Pakistani delegation including Governor State Bank Dr Shamshad Akhtar, Finance Secretary Dr Waqar Masood, Secretary Economic Affairs Division Farrukh Qayyum and Economic Minister at the Pakistani embassy in Washington Wajid Rana also participated in a number of events including the WB-IMF Constituency Meeting, SAARC Finance Governors Meeting and the International Monetary and Finance Committee meeting. (Business Recorder, 13th October, 2008)

No banking crisis in sight: ICCI president

President Islamabad Chamber of Commerce and Industry (ICCI), Muhammad Ijaz Abbasi said there was no banking crisis in the country and called upon the business community and general public not to withdraw cash from banks just on rumours because such moves badly hurt trade and industry. In a statement, he lamented that the past week has been a trying one for bankers and financial managers in Pakistan as rumours circulated of a possible freeze in foreign currency accounts and sealing of safe deposit lockers in banks had a negative effect on the general banking business in the country. ICCI President, however, lauded SBP initiative to lower the cash reserve requirement for banks from nine percent to seven percent and inject 100 million dollars to improve liquidity in the banking sector. (Business Recorder, 13th October, 2008)

India, Brazil, South Africa set \$15 billion trade goal by 2010

Emerging powerhouses India, Brazil and South Africa have set their trade target at 15 billion dollars by 2010, up from around 10 billion dollars a year ago, India's foreign minister said. Pranab Mukherjee also said trade between the three southern hemisphere economies was on the upswing "in all three

directions." "We have now established a target of 15 billion dollars in trade between the three countries by 2010," Mukherjee told a conference of editors from India, Brazil and South Africa. "The three countries have taken rapid strides in forging trilateral linkages in a number of key areas including health, agriculture, education, transport, energy, science and technology and IT," he said. The Federation of Indian Chambers of Commerce and Industry says trilateral trade has grown by up to 50 percent each year in the last five years and touched 10 billion dollars in 2007. (Business Recorder, 14th October, 2008)

\$1 billion Saudi investment in different sectors anticipated

Pakistan anticipates about \$1 billion investment from Saudi investors in different sectors of the economy with agriculture and petroleum considered the most attractive sectors. Sources said that a two-day Saudi-Pak investment conference attended by investors from Pakistan and Saudi Arabia will be held in Jeddah and Riyadh on October 20-21 to explore investment possibilities. Informed sources revealed that the government of Pakistan will be carrying a wish list from 12 sectors desperately seeking financial injection from Saudi investors. These sectors include: petroleum and petro-chemical, power sector, textile, manufacturing, banking and financial sector, fertilizer, Small and Medium Enterprises (SMEs), agriculture, infrastructure, construction, tourism industry and IT telecom sector. The major thrust is to be on the agriculture sector with the government seeking Saudi investment in dairy, livestock and fisheries sub-sectors. The Pakistan delegation is expected to propose a similar idea to the Saudi government and investors. Joint ventures may also be possible between Pakistani landowners and Saudi investors. Saudi investment will also be sought in petroleum and power sectors. The Pakistani investors' delegation will be led by Finance Minister, Housing Minister, Deputy Minister of Investment and Federation of Pakistani Chambers of Commerce and Industry (FPCCI). (Business Recorder, 15th October, 2008)

Government asked to explain reasons behind energy crisis

The Lahore Chamber of Commerce and Industry (LCCI) expressing grave concern over non-provision of electricity to the industrial sector despite withdrawal of subsidy and making steep upward revision in its prices has asked the government to explain the reasons behind the energy crisis. The ongoing energy crisis is deepening with every passing day and pushed the trade deficit to above \$5 billion in first quarter mainly because the severe shortage of power is giving bad name to the government, said LCCI President Mohammad Ali Mian in a statement here on Tuesday. At present total power production capacity in the country is about 17000 MW, while being produced only 10000 MW against the demand of 14000 MW thus creating a shortfall of about 4000 MW that calls for emergent measures on the part of government to explore all avenues of power generation. The LCCI President while terming the recent agreement between Pakistan and Iran for provision of 1000 MW a step in right direction said that the country needs more such agreements because of fast increasing energy demand. Since the shortage or high price of electricity has severe detrimental effect on all sectors of economy, the situation calls for concerted short-term, medium-term and long-term actions to overcome the problem of energy shortage. (Business Recorder, 15th October, 2008)

Saudi Arabia sees global crisis cutting inflation

The oil-based Saudi economy will continue to show "reassuring" growth rates despite the global financial crisis, which is expected to ease inflation, the economy minister said. The current crisis is "a global one that will affect almost all the world's economies", Economy and Planning Minister Khaled bin Mohammad al-Qusaibi said. "Forecasts by specialized local institutions the economy and planning ministry show that the Saudi economy will continue to achieve positive and reassuring growth rates over the next period," (Business Recorder, 15th October, 2008)

WTO sets up task force

The World Trade Organization has set up a special "task force" to examine the impact of the financial crisis on global commerce, WTO Director-General Pascal Lamy said. The task force will "follow up the effects of the financial crisis on our different areas of work," Lamy told the WTO's 153 members at a General Council meeting. Lamy announced last week that the WTO would hold a special meeting next month on the impact of the crisis on trade finance. Among the invitees are World Bank head Robert Zoellick, International Monetary Fund chief Dominique Strauss-Kahn and the presidents of the Inter-American, Asian and African development banks. Representatives from Citigroup, Commerzbank, the Royal Bank of Scotland, J.P. Morgan and HSBC have also been invited to the November 12 meeting in Geneva because they are the most active banks in the field of trade finance, trade sources said. (Business Recorder, 15th October, 2008)

Smeda preparing district economic plans of NWFP

The provincial office of Small and Medium Enterprises Development Authority (Smeda) is preparing district wise economic development plan in the tribal agencies and Frontier Regions (FRs). Under the plan, the authority identified 24 districts of the province as potential areas and would initiate small projects, while large-scale projects have been identified in the investment guide of the province. Managers in the provincial office Sarmad Hussein and Ashfaq Afridi accompanied him. The final draft of the plan, he said, would be submitted to the provincial government to facilitate the business community in the districts. "The economic development plan for 14 districts had been completed and work on the remaining districts was in progress, he added. He said that the authority had identified 14 projects in the potential tourism sector for different areas of the province. However, the prevailing security situation was creating hurdles in materializing the projects and arrival of investment in this sector. Regarding the initiatives of the Smeda in Federally Administered Tribal Area (Fata), Khattak said that the economic side of the 10-years Fata sustainable development plan, comprising skill development, lending packages, revival of women skill development centres, field internship programmes were initiated. (Business Recorder, 15th October, 2008)

Smeda facilitates investment of Rs 15,340.96 million during first decade of operation

The Small and Medium Enterprises Development Authority (Smeda) has facilitated investment of Rs 15340.96 million during first decade of its operation, out of which Rs 9,500 million investment was in the Transport Sector only. The projects include Gujranwala Business Center costing Rs 98.78 million, Agro-food Processing Plant, Multan costing Rs 135.19 million, Support Industries Development Center, Sialkot costing Rs 272.61 million, Women Business Incubation Center, Lahore costing Rs 31.22 million, Glass Product Design and Manufacturing Center, Hyderabad costing Rs 37.08 million. Revival Project of Cutlery Institute, Wazirabad costing Rs 39.36 million, Chromites Beneficiation Plant, Balochistan costing Rs 8.38 million, SME Subcontracting Exchange, Lahore and Gujranwala costing Rs 26.09 million, Women Business Incubation Center, Karachi costing Rs 34.03 million, Revival Project of Hyderabad Leather Footwear Center costing Rs 35.01 million. Women Business Development Center, Peshawar costing Rs 28.41 million, Washing and Pressing Plant, Matta Mughal Khel, NWFP costing Rs 5.38 million, Sialkot Business and Commerce Center costing Rs 341.67 million, Foundry Service Center, Lahore costing Rs 179.4 million and Product Development Center for Composite Materials, Sialkot costing Rs 382.22 million. Smeda chief claimed that Smeda had taken unique measures to promote e-business and introducing SMEs to new e-business techniques in Pakistan. (Business Recorder, 15th October, 2008)

PTDC to develop tourist village, corporate complex: MoUs signed

Pakistan Tourism Development Corporation (PTDC) in its move to promote tourism has planned to develop a 'Tourist Village' at 25 acres of land in Federal Capital with a modern three-star hotel, restaurants, conference halls, theatre facilities, gymnasium, health club, indoor sports facilities, corporate offices, tourist handling and promotional offices. Besides, it will develop a Corporate Complex to facilitate tourism related business community. The PTDC has signed two memorandums of understanding (MoUs) with Infrastructure Project Development Facility (IPDF), which will extend multiple assistance to the PTDC in developing these projects. The Complex will house the PTDC's head office and corporate offices, auditorium, areas for displays, audio/visual centre and tourism facilitation centre. (Business Recorder, 15th October, 2008)

Hike in food prices may drive additional seven million into poverty: ADB

Asian Development Bank's analysis shows that a 10 per cent increase in food prices could drive an additional seven million into poverty in Pakistan; a 20 per cent increase, 14.7 million; and a 30 per cent increase would add 22 million in poors. Poverty incidence was 25.5 per cent in the early 1990s, before rising to 34.5 per cent in FY2001, and declining to 23.9 per cent in FY2005 and 22.3 per cent in FY2006, according to government estimates. Food expenditures make up an average of about 60 per cent of household expenditures of the poor in Pakistan. ADB's analysis shows that a 10 per cent increase in food prices could drive an additional 7 million into poverty in Pakistan; a 20 per cent increase, 14.7 million; and a 30 per cent increase, 22 million. After food, the second major household expenditure is energy, the price of which increased by about 30 per cent in the first quarter of 2008. (Business Recorder, 15th October, 2008)

ILO warns financial crisis risks wider income inequality

The financial crisis risks further widening the gap between rich and poor, with people on lower incomes bearing the brunt of economic slowdown, the International Labour Organization (ILO) warned. "The gap between richer and poorer households widened since the 1990s," said Raymond Torres, director of the ILO's research arm which produced its "World of Work Report 2008". "The present global financial crisis is bound to make matters worse unless long-term structural reforms are adopted," he said. "Ongoing attempts to overcome the financial crisis are of course welcome and, in principle, should help avoid another Great Depression," Torres said. (Business Recorder, 17th October, 2008)

Sino-Pak agree to propel level of economic cooperation

Pakistan and China agreed to propel level of economic co-operation in diverse sectors on fast trajectory as an important plank of comprehensive strategic partnership. China stressed that Pakistan is China's good neighbour, close friend, dear brother and trusted partner. China will continue to view China-Pakistan relations from a strategic and long-term perspective and make joint efforts with Pakistan to lift China-Pakistan strategic partnership of co-operation to a new height, the statement said. Pakistan stressed that Pak-China relationship is the cornerstone of its foreign policy and friendship with China represents the common desire of all Pakistani people, the statement observed continuing that Pakistan appreciated the strong support and assistance provided by the government and people of China to Pakistan in its economic development. According to the statement, President Asif Ali Zardari extended invitation to President Hu Jintao to visit Pakistan once again at his convenience and President Hu Jintao thanked President Zardari for his kind invitation. China appreciated Pakistan's long term and staunch support to China on issues concerning China's sovereignty and territorial integrity, reaffirmed its support for Pakistan's efforts to uphold its sovereignty, independence and territorial integrity and appreciated Pakistan's important role in promoting regional peace, stability and

security and strengthening international counter-terrorism efforts. The all-weather friendship and all-round co-operation have become the distinctive features of China-Pakistan relations. (Business Recorder, 17th October, 2008)

Regular power supply for six days a week demanded

President of Multan Chamber of Commerce and Industry (MCCI), Khawaja Muhammad Jalaluddin Room said that Power tariff was doubled in a short span of four months and an increase in power tariff has created unrest among the industrial sector, especially the manufacturers already hard hit by high input costs including gas, petrol, electricity as well as fall in Pak rupee against dollar. The national economy is already in deep crisis due to the current political uncertainty, the high cost of production in the wake of hike in power tariff, heavy taxation, power and gas shedding for the industrial sector. President MCCI said that different power tariff in day and night would develop the corruption in Wapda and distribution companies and this increase in power tariff would further burden the industrial sector which, he added, is already facing high mark-up rate, and serious energy crisis. (Business Recorder, 17th October, 2008)

Plea to safeguard free trade

Leaders of the international business community urged politicians not to abandon the free market as the world's governments seek to resolve the problems that created the global financial crisis. Signalling fears that governments will be tempted to over-regulate, and even shift into protectionism, the business leaders defended free trade and a global market economy as the sole means to ensure economic growth. Laurence Parisot, head of Medef, France's employers' union, said: "History shows that growth comes from free trade, from giving space to people to innovate. "It must only be a temporary participation in financial markets," said Emma Marcegaglia, the head of Italy's Confindustria. Mr Lambert gave his backing for reform of the IMF. Over-regulation or any attempt to increase taxes on companies to fund rescue plans would simply exacerbate the adverse economic consequences, said Ms Parisot. Business leaders also called on governments to ensure the global banking system did not retreat into a risk-averse mentality. (Financial Times, 17th October, 2008)

NTA proposes formation of NEC

National Traders Alliance (NTA) proposed the formation of a National Economic Council (NEC) to bailout country from the economic turmoil and to ensure progress and prosperity for masses of Pakistan. Malik Sohail Hussain, VP, NTA opined that the council should comprise people of unparalleled integrity which would resolve all outstanding economic issues in consultation with all stakeholders. "The economy of US is in a shamble and its currency may feel the heat soon," he said adding that those running after dollars may regret their choice soon. President Blue Area Traders Association, Malik Sagheer Ahmed said that getting loans and privatisation will not work until political situation become stable in the country. He said that many departments are working without supervision of the ministers and the serving ministers are over burdened due to multiple offices. Proposed NEC should comprise of bureaucrats, technocrat, taxation experts, representatives of trade, commerce and industry and those public representatives who have understanding of economy. Such officials should be selected in the council, which would be acceptable for all the stakeholders including opposition, they maintained. (Business Recorder, 18th October, 2008)

Current account deficit widens by 74 percent in first quarter

The country's current account deficit widened by 74 percent to 3.9 billion dollars during the first quarter of the current fiscal year mainly due to slow foreign inflows and rising imports. Official

statistics revealed that during the July-September of FY09, the country faced current account deficit of 3.952 billion dollars against 2.271 billion dollars during the corresponding period of FY08, depicting an increase of 1.681 billion dollars in first quarter of 2009. Economists said that rising current account deficit is a major challenge for the economic managers and high current deficit would cast further negative impact on foreign exchange reserves and the economy. The State Bank of Pakistan statistics also indicated that principal factors responsible for the widening of current account deficit include a widening trade deficit, which surged by 84 percent to 4.366 billion dollars during the first quarter of FY09 against 2.369 billion dollars during the same period of FY08. (Business Recorder, 18th October, 2008)

SPI inflation surges by 29.96 percent

The weekly SPI inflation has surged by 29.96 percent during the week ending on October 16 over the same period of last year due to increase in the prices of essential commodities. The Sensitive Price Indicator (SPI) released by the Federal Bureau of Statistics showed that dearness for the lowest income group up to Rs 3,000 income group has gone up by 32.41 percent during the period under review after an increase of 0.31 percent during the week. Further analysis of the data showed that dearness for the families bracketed in Rs 3001 to Rs 5000 monthly income was up by 31.06 percent over the same period of last year while for Rs 5001 to Rs 12000 it increased by 30.55 percent. The price hike for the families earning over Rs 12,000 was recorded 29.80 percent during the same period. (Business Recorder, 18th October, 2008)

Economists present interim report on economic stabilization

The Advisory Panel of Economists has submitted its Interim Report on "Economic Stabilization with a Human Face" to the Deputy Chairman Planning Commission, Salman Faruqi. The Panel, headed by Dr Hafiz Pasha former Advisor on Finance, consists of Pakistan's leading economists, many of them with international experience with multilateral institutions. The Panel report has recommended setting of realistic GDP targets and a number of economic steps to restore the health of the economy. The interim report proposes a number of actionable programmes and policies to restore macro-economic balance and protect poor and vulnerable segments of the society. A number of measures are suggested to reduce the trade gap by removing the anti-export bias in the current trade regime and enhancing regional trade. The report calls for upgrading trade relations with India and proposes several other measures to reduce non-essential imports. The Interim Report proposes a number of actionable measures to restore macroeconomic balance with social protection interventions. The report is hopeful of a quick economic recovery if a sharp stabilization is put in place, not in a piecemeal way, but as an integrated package. A number of measures are also suggested to increase output growth especially in agriculture which together with SMEs is seen as leading sectors for the revival of economic growth. The Panel is expected very soon, to make a presentation to the Prime Minister, recommending specific steps so that the economy bounces back. (Business Recorder, 19th October, 2008)

Services trade deficit narrows down by 22 percent

The country's services sector trade deficit declined by 22 percent, to 1.2 billion dollars, during the first quarter of current fiscal year, mainly due to rising trend in services export. The State Bank said that the services sector trade performance was very encouraging and the services sector deficit had reduced by about 356 million dollars during the July-September period of the current fiscal year. During the quarter, services sector deficit stood at 1.238 billion dollars as against 1.594 billion dollars of the same period of last fiscal year. Economists said that although the services sector deficit had declined by about 22 percent but it was still at a high level, and should be reduced further in the future to save the forex reserves. According to the SBP, the services exports presented a significant growth during the

first quarter and surged by 67 percent, or 425 million dollars, to 1.053 billion dollars, as compared to 628 million dollars in the corresponding period of last fiscal year. However, this sector's imports continued to grow and increased by 69 percent, to 2.291 billion dollars, in this quarter, over the imports of 2.222 billion dollars of the same period of last fiscal year. Economists said that increasing trend in exports of services sector was a positive indication, but the rise in imports was a matter of concern. They said that the huge import payments of transportation travel services, insurance, technical fees, royalties and government sector were the major contributor in the high import of services. (Business Recorder, 18th October, 2008)

SAI, Aptma decide not to pay bills as per new power tariff: government, trade bodies' dialogue stressed

The Site Association of Industry (SAI) and All Pakistan Textile Processing Mills Association (Aptma) have unanimously passed a joint resolution that industry will not pay increased tariff of electricity bills till a decision is made by the government in consultation with trade bodies on the tariff issue. The decision was made in a joint meeting. The resolution was endorsed by Karachi Chamber of Commerce and Industry (KCCI). They also decided to establish a small committee comprising representatives of association and trade bodies to negotiate with the government to discuss the issue. They also decided not to attend Karachi Electric Supply Company (KESC) meetings in which they invited representatives of different associations at different times. They decided that the Chief Executive Officer of KESC Naveed Ismail should visit KCCI and hold an open meeting with its members. Speaking in the meeting Sindh Minister for Industries and Commerce M A Rauf Siddiqui assured business community that their power connection would not be chopped off till the settlement of power tariff issue. (Business Recorder, 19th October, 2008)

MoC issues trade bodies election schedule

The Trade Organisations Ordinance (TOO) has come into force as the Ministry of Commerce (MOC) has issued schedule to Federation of Chambers of Commerce and Industry (FPCCI) and other trade associations and chambers for 2008 elections. According to the schedule, all chambers and trade bodies will complete their election process by November 30, and FPCCI elections by December 31, 2008. Director, Trade Organisations, of MoC, has also issued the list of trade associations and chambers. TOO 2007 was put in place last year, but it was not implemented for not timely listing of all chambers and associations. Among trade bodies, Lahore Chamber of Commerce and Industry (LCCI) has submitted election schedule to DTO of the Commerce Ministry. LCCI is Pakistan's most vibrant trade body, which set a tone for FPCCI elections and plays a key role in trade bodies' politics. (Business Recorder, 19th October, 2008)