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WTO CELL

PLANNING & DEVELOPMENT DEPARTMENT

WEEKLY ECONOMIC DIGEST

16th to 22nd June, 2008

Hopes rekindled

The incentive and subsidy package for the agriculture sector proposed in the budget 2008-09 is expected to save the growers billions of rupees in input costs and boost farm output, say farmers from Punjab. The government has proposed in the budget to raise the subsidy on DAP fertilizer to Rs. 1000 per bag from Rs. 470, remove general sales tax (GST) on pesticides and fertilizer, abolish five per cent federal excise duty on crop insurance and 10 per cent customs duty on imported rice seed, allow duty free import of bulldozers and laser levelers, etc. "Farmers will save Rs. 30-Rs. 35 billion if the subsidy on DAP is fully passed on to them. "If you make agriculture profitable, you'll achieve higher economic growth. If the government manages to spend the allocated money on building new water reservoirs and improve the irrigation network, it will greatly boost the agriculture production Support the small farmers. **(Dawn, 16th June, 2008)**

Increasing returns on agriculture

Pakistan's agriculture is in dire straits and although the growth rates indicate a robust economy that is far from the facts that have been given in the Economic Survey. The indications are that services sector has done well and that in agriculture a sub-sector livestock has shown a reasonable growth rate. Take the question of factor inputs and the cost factor of fertilizer. Agriculture is the largest private sector and all the interventions by governments have been to control the sector. Pakistan farmers now require a different set of urgent knowledge requirements. Given Pakistan's agrarian structure of small farmers, it may now be necessary to work on the occupation of the farmers to see whether they are single occupation farmers, two occupation farmers [livestock and grains] or three occupation farmers [livestock, grains and vegetable] or four occupation farmers [livestock, grains, vegetables and fruits] and so on. The transaction cost will keep on increasing because the fossil fuel is with the largest crookest cartel that has successfully operated in the world economic structure. The same grass is available in Pakistan and growing wild. Wheat area can be increased. Agriculture has been disserviced by the policy makers. **(Dawn, 16th June, 2008)**

Government to borrow from state enterprises

The Finance Minister, Syed Naveed Qamar, has said that government borrowings from the State Bank have reached an "unacceptable level" and are a major source of inflationary pressures. These borrowings need to be contained. Partly, it is the result of fewer choices available to attract non-bank resources and relatively under-developed capital market. The government borrowings from the State Bank so far made public for the current fiscal year is at a record high of Rs. 551 billion. While the government would go for some limited borrowings from the central bank and national savings organization, some of the state sector corporations having enough liquidity available, were being asked to lend money to the government. Mr. Aziz lauded the government's decision of significantly limiting its borrowings from the central bank to contain inflationary pressures. The government should concentrate on improving the overall agricultural productivity. Agricultural exports could help generate enough resources to manage the financial affairs of the government. Vice Chancellor of Pakistan Institute of Development Economists (PIDE), Dr. Rashid Amjad when contacted said that government borrowings from the central bank have assumed serious proportions and the time has come to ponder over the issue. **(Dawn, 16th June, 2008)**

Banks' assets higher

The State Bank of Pakistan mopped up Rs. 15.4 billion from the banking system through an Open Market Operation. On June 13, banks borrowed Rs. 18.5 billion from the SBP discount window. Notes in circulation stood at Rs. 1,051.806 billion against earlier week's figure of Rs. 1,067.685 billion, a fall of Rs. 15.879 billion. It stood at Rs. 166.984 billion over preceding week's figure of Rs. 165.337 billion, a rise of Rs. 1.647 billion. The export sector received Rs. 100.215 billion against previous week's figure of Rs. 100.291 billion, smaller by Rs. 0.076 billion. Specialized banks deposits stood at Rs. 12.404 billion, against preceding week's Rs. 12.394 billion, a rise of Rs. 0.01 billion. It fell to Rs. 433.961 billion over preceding week's figure of Rs. 460.905 billion, a fall of Rs. 26.944 billion. Commercial banks investment fell to Rs. 961.804 billion, from earlier week's Rs. 977.550 billion, or by Rs. 15.746 billion. Specialized banks investment stood at Rs. 13.956 billion, against preceding week's Rs. 13.934 billion, smaller by Rs. 0.031 billion. Meanwhile, commercial banks assets stood at Rs. 4,866.991 billion, larger by Rs. 21.183 billion over previous week's figure of Rs. 4,845.808 billion. Specialized banks assets fell to Rs. 118.649 billion, or by Rs. 0.147 billion over previous week's Rs. 118.796 billion. **(Dawn, 16th June, 2008)**

Fictitious charges at ports: $147 million draining out annually on imports alone

An enormous amount of $147 million is draining out of the country annually on imports alone (leave aside the exports) due to "fictitious" on-port recoveries by the shipping lines, agents and terminal operators. Sources said under THC the Karachi International Container Terminal (KICT), Pakistan International Container Terminal (PICT) and Qasim International Container Terminal (QICT) were charging US $45 per twenty-foot container as "delivery" or "R&D". Justifying the levies the Pakistan Shipping Agents Association (PSAA) had told the meeting that the shipping agents were recovering the charges as a part of international tariff which was ultimately to be paid to the terminal operators. They said it was decided that the committee would visit, which would be funded by the three terminals and KCCI, some ports of developing countries like Mumbai, Chittagong and Colombo within a month time. **(Business Recorder, 16th June, 2008)**

Punjab government to set up SME industrial estates

Punjab government has evolved a strategy for establishment of SME industrial estates aimed at mitigating the problems confronting the SME sector engaged with various industries in the province. Sources said that special attention would be accorded on the development of industrial sector on modern and scientific lines aimed at enhancing export volume and bringing industrial revolution through setting up large-scale industries including agro-based industries in the province. Sources said the government was also providing loan facilities for the advancement and expansion of agro-based industries and dairy development, engineering and information technology in the Punjab. The prime aim of setting up large-scale industries is to ensure strong industrial base and keep the economic wheel in gear in the Punjab, sources said adding that maximum establishment of industries will not only help double the export volume but also create wide job opportunities. **(Business Recorder, 16th June, 2008)**

Rs. 14 billion being spent on new roads

Punjab government is spending more than Rs. 14 billion on the construction of new roads and widening of existing roads in the province. Official sources told that under the programme 600-KM long new roads would be constructed, while 700-KM long existing roads would be widened in various parts of the Punjab. Sources also disclosed that existing 10 feet roads will be widened to 20 feet and 12 feet roads would be widened to 24 feet in the province. The step has been taken for the improvement of means of communication as well as to ensure hurdle-free and safe traveling facilities to the masses in the Punjab, sources added. **(Business Recorder, 16th June, 2008)**

China's economic growth likely slows to 10.4% this year

China's economy is forecast to grow at a slower annual rate of 10.4 percent in 2008 because of a deteriorating external environment and domestic tightening policy, a research report said. The gross domestic product (GDP) in the world's fastest-growing major economy expanded 11.9 percent last year, the fifth year of double-digit growth. China's economy has a good chance of repeating earlier slowdowns that feature softening in the short term but accelerating weakening in the middle term. The report suggested the government increase fiscal spending and use more reserve requirement increases and bill sales rather than harsher interest rate hikes in the second half to boost the economy while taming inflation. It also advised the government order temporary controls on grain exports and increase government subsidies for agricultural production. The surging food prices are considered the major driver behind China's inflation as food accounts for one-third of the main inflation gauge, the consumer price index (CPI). The report added the CPI might rise 7.1 percent, well above the government target of 4.8 percent, and the trade surplus to fall by 3.4 billion U.S. dollars for all of 2008. Last year, it surged 47.7 percent to a record 262.2 billion U.S. dollars. **(Web. Xinhua. Net. 16th June, 2008)**

Punjab sets record Rs. 160bn ADP

The Punjab government has set aside a record sum of Rs. 160 billion for the Annual Development Plan (ADP) for 2008-09 which would mainly be financed through surpluses accruing from revenue and capital accounts of the provincial government. The current ADP is 6.67 per cent higher than the previous year’s Rs150 billion. According to budget documents tabled in the Punjab Assembly, the current ADP includes Rs. 132.947 billion net revenue account surplus, Rs. 13.593 billion net capital account surplus and Rs. 1.221 billion net public account surplus, besides Rs. 1.226 billion federal grants and Rs. 11 billion foreign project assistance. Of production sectors, a sum of Rs. 3 billion has been apportioned to agriculture sector, Rs. 1.9 billion to livestock and Rs. 2.3 billion for TEVTA. In the services sectors, Rs. 1.5 billion have been given to information technology, Rs. 2.5 billion to emergency service and Rs. 100 million to tourism sector. Planning and development department would get Rs. 3.15 billion and the environment sector Rs. 1 billion. **(Dawn, 17th June, 2008)**

Duty on shares transfer goes

The Sindh government has withdrawn stamp duty of 0.1 per cent on the par value of each electronically transferred share in the stock exchange, Chief Minister Syed Qaim Ali Shah announced in his budget speech. Within days after this gain, the chief minister announced doing away with stamp duty of 0.1 per cent enacted through finance bill 2006. “The management of Karachi Stock Exchange had reservations on this levy,” the chief minister recalled in his budget speech and announced to do away with this stamp duty for further development of capital market. Stamp duty collection amounted to Rs. 3.76 billion in 2006-07. While giving all concessions and incentives to the speculative traders of stock exchange, the Sindh chief minister in his budget speech announced a 0.3 per cent increase in infrastructure cess from existing 0.5 per cent of cost and freight (C&F) value of imported cargo. A cursory glance of Sindh budget documents shows that the landed gentry, too, enjoy “concessions and incentives” in taxation. In 2008-09 the big landlords are expected to contribute Rs. 350 million. **(Dawn, 17th June, 2008)**

Stamp duty coverage to be expanded

The Punjab government, in a major move to boost its own revenues, proposes to expand coverage of stamp duty to all forms of transfer of immovable property in the province. The proposal has been made to expand coverage of stamp duty to all forms of transfer of immovable property through sale, exchange, gift, or mortgage, as well as to transfer of right or interest from one person to another relating to an immovable property by a development authority, housing authority, statutory body, cooperative housing society, company or a developer/builder. A senior provincial finance department official explained later that broadening of the base of stamp duty on the new documents of consent decrees and transfer of right or interest relating to an immovable property would boost provincial revenues immensely. The tax proposals also seek to enhance the rate of general sales tax by one per cent to 16 per cent in line with a federal decision and double the entertainment tax on horse-racing tickets to Rs. 100 per ticket. **(Dawn, 17th June, 2008)**

Seeking withdrawal of subsidies: World Bank and IMF set December 31 deadline

The World Bank and the International Monetary Fund (IMF) have set December 31, 2008 deadline for Pakistan to withdraw subsidies on oil gas and electricity. Sources said the World Bank and the IMF missions, who visited Pakistan last month for getting briefing from the officials on Budget 2008-09, had conveyed the officials their demand in black and white. An official of the finance ministry told that the donors" demand to get out of subsidies" culture by the end of this calendar year specially oil, gas and electricity was inevitable to qualify for a $500 million World Bank loan. A clean chit from the World Bank will also pay it back in terms of securing more loans and assistance from other donors. The World Bank and the IMF were cautioning the government of Pakistan of negative impact of huge subsidy it was bearing on oil, gas and electricity every year, but Islamabad continuously ignored these pieces of advice. **(Business Recorder, 17th June, 2008)**

Rs. 171.9 billion tax-free NWFP budget effects changes in existing taxes

The coalition government of NWFP presented a Rs. 170.904 billion tax-free budget for financial year 2008-09. According to the budget estimates, the provincial government during the year will receive Rs. 100.089 billion in general revenue receipts, Rs. 400 million in general capital receipts, Rs. 13.179 million in head of developmental receipts, and Rs. 57.237 billion in general capital receipts (food). Against the total receipts of Rs. 170.904 billion, the estimated total expenditure would be Rs. 170.559 billion. The ADP budget also includes foreign assistance of Rs. 4.617 billion. An amount of Rs. 8.094 billion has been sanctioned for 61 schemes initiated in head of special programme, while Rs. 468 million would be spent on the population welfare programme of the federal government and another Rs. 1.218 billion for district development programme. The development of the social sector, the finance minister said, has been given priority and 43.05 percent funds are sanctioned for the sector i-e health (14.51 percent), education (20.29 percent), Tameer Sarhad Programme (4.56 percent), Water supply and sanitation (3.68 percent) besides 16.48 percent for roads, housing & works (2.95 percent), irrigation (4.70 percent), agriculture (2.63 percent). **(Business Recorder, 17th June, 2008)**

Rs. 3 billion allocated for Punjab ADP

The Punjab government has allocated Rs. 3 billion for ADP 2008-09 to meet the challenges of food security and increasing the growth rate in agriculture for employment generation and poverty reduction in rural areas. According to the budget documents, Rs. 628.5 million has been earmarked for water management, Rs. 934.955 million for agriculture extension, Rs. 270.074 million for agriculture research, Rs. 177.389 million for agriculture mechanization, and Rs. 944.175 million for Punjab Agriculture Research Board (PARB). The government will also give incentives for highest wheat produce and rehabilitation of marginal lands for cereal production in four districts namely Kasur, Sheikhupura, Gujranwala & Nankana (total cost: Rs. 800 million, ADP 2008-09: Rs. 200 million), rehabilitation of 169,000 hectares of marginal lands through soil treatment like gypsum, efficient use of water and social mobilization and promotion of tunnel technology for vegetable production (total cost: Rs. 551 million, allocation for 2008-09 Rs. 240 million). **(Business Recorder, 17th June, 2008)**

14 percent decline in FDI

Foreign Direct Investment (FDI) during the current fiscal year declined by 14 percent mainly due to uncertainty on political front and continued demonstrations in the country. Net foreign investment during the July-May of last fiscal year 2006-07 was $ 6.28 billion. Out of net foreign investment, FDI declined by 14.1 percent, or $ 639 million during July-May of 2007-08. Analysts said that besides FDI, portfolio investment also declined by 96.5 percent, to $ 62.2 million against $ 1.760 billion of corresponding period of last fiscal year. An economist that although overall FDI depict some declined during the current fiscal year, the present statistics are very encouraging and despite the political battle foreign investors are investing in the Pakistan. He said that portfolio investment is also recovering, and current statistics are proof that the country's economic fundamentals are strong and have ability to attract foreign investors despite last one year's uncertainty. It is clear that during the current fiscal year the country's net foreign investment would be less than last year. **(Business Recorder, 18th June, 2008)**

US senators want complaint against OPEC filed with WTO

Eleven senators urged the Bush administration to file a complaint with the World Trade Organization against eight members of the OPEC oil cartel accusing them of violating trade rules by colluding to hold down global oil supplies. The senators, all Democrats and one independent, maintained "the very existence of OPEC" violates the GATT trade agreement that prohibit nations from setting quotas or imposing other restrictions on exports. Schwab's office did not respond immediately to a request for comment on the senators' letter. The OPEC members for years have gathered periodically to establish production quotas. Despite the surge in oil prices well beyond $100 a barrel and growing world demand, OPEC as a group has refused to increase production. Saudi Arabia, the world's largest oil producer, is hosting a meeting of oil producing and consuming nations in Jeddah to discuss ways to deal with soaring oil prices. The 13 OPEC members account for about 40 per cent of world oil production. **(The Times of India, 18th June, 2008)**

16 trade pacts signed with different countries since 2003

Pakistan has signed sixteen bilateral and regional trade agreements for propelling its exports since 2003, official sources said. Bilateral and Regional Trade Agreements commonly referred to as Free Trade Agreements (FTAs), Preferential Trade Agreements (PTAs) or Regional Trade Agreements (RTAs) are contributing to the development of global trade and take members to one step nearer to the multilateral regime, the sources said. The Ministry of Commerce has initiated market access negotiations with various trading partners for two fundamental reasons i-e seeking maximum market share for Pakistani exports in foreign markets and ensuring level playing fields for Pakistani exporters vis a vis other competing exporters who have bilateral or regional arrangements FTA or PTA trade rights in these markets, sources added. **(Business Recorder, 18th June, 2008)**

Pakistan and UK working on cementing trade relations

UK Trade and Investment Director Robert Gibson have said Pakistan and Britain are seriously working on cementing their business relations. He said a British trade delegation might visit Pakistan in the near future to have first-hand knowledge about the available business opportunities and stressed the need for further improving regulatory environment. He met office-bearers of the Lahore Chamber of Commerce and Industry (LCCI) on Tuesday to say Pakistan had a huge potential for foreign investment with rich human resource. Pakistan, having a geo-strategic position, is a gateway to central Asian states where the setting-up of a manufacturing unit or initiating a joint venture means business in Pakistan and with the central Asian states. Ali Mian said Pakistan had a tremendous scope of investment in information technology (IT), telecommunications, infrastructure, education, and food preservation technology. Pakistan's liberal investment policies allow foreign equity up to 100 percent. Britain being one of the top three countries invested $ 279.1 million in 2007-08. **(Business Recorder, 18th June, 2008)**

Pakistan running out of diesel

Diesel supplies across Pakistan have begun drying up, largely due to a squeeze caused by a payments crisis, and some 15 per cent of outlets in the country have stopped selling the fuel. A number of factors were responsible for the crisis Dawn said on Wednesday, quoting an official of the government-run Pakistan State Oil (PSO). As of now, only PSO is partially supplying diesel and even its supplies are dwindling fast. According to Petroleum Dealers' Association secretary General Zakir Qureshi, the oil marketing companies had simply stopped supplying diesel to petrol stations without citing any reason in spite of the fact that the owners of the outlets paid up in advance. The companies were neither supplying diesel nor laying down a timeframe for restoring supplies, Qureshi added. **(The Times of India, 18th June, 2008)**

Pak in talks with China for more nuke plants

As the UPA government loses its nerve on the nuclear deal, it is becoming clear that Pakistan may be quietly powering ahead with its old friend China. The Pakistan economic survey, released last week, gave an interesting preview of the country's nuclear future. The two units in Karachi are a new element in Pakistan's nuclear plans. China is unlikely to be an enthusiastic supporter of the Indian nuclear deal in the NSG (which is believed to have inspired the Indian Left parties). The point is, whether the Chinese promised four more reactors to Pakistan. Nuclear experts say although China will have an uphill task to convince NSG of the Pakistan reactors, it's clear that China's increasing international clout could even see a nuclear deal working out between Beijing and Islamabad and going to the NSG for clearance. **(Times of India, 18th June, 2008)**

Cotton market maintains bullish outlook

The cotton market maintained a bullish outlook amid active trading as spinners continued to lift all the lots being offered by the ginners. After having fallen to around 66 cents per lb, a couple of weeks earlier, the New York cotton futures rose by limit-gains of 2.99 and 2.79 cents per lb at 74.62 and 78.37 cents for both the ruling July and the forward October settlements, respectively. Most of the deals finalized for ready delivery were in line with the quality of lint, highest and lowest rates being at Rs. 4,000 and Rs. 3,675 per maund, they said. The following are some of the retail deals, which gone through.: 400 bales, Mehrabpur at Rs. 4,000, 600 bales, Ghotki at Rs. 3,800, 200 bales, Mirpur Mathelo at Rs. 3,740, 200 bales, Saleh Pat at Rs. 3,700 and 800 bales, Dharki at Rs. 3,675. **(Dawn, 18th June, 2008)**

PHMA seeks R&D for 25 years

The manufacturers-cum-exporters of the value-added apparel sector, upset over withdrawal of research and development subsidy in the new budget, claimed that they stopped booking fresh export orders to avoid losses. PHMA zonal chairman Jawed Bilwani said that the lack of allocation of funds in the new budget for R&D support shocked the value-added textile sector. Besides, a new wave of hike in input cost triggered by increased labour wages and high utility charges due to levy of 20 per cent withholding tax would totally cripple the industry. He estimated that the net impact of budgetary measures on the cost of production would come close to 17 per cent and by withdrawing 6 per cent R&D in real terms the industry would be burdened with 23 per cent additional cost. Saleem Parekh, another former chairman of PHMA, said," If anyone thinks that the rupee depreciation has benefited export trade the government should fix the parity for export trade because this will give us surety about the level and rate of our remittances against export proceeds. Sultan Ahmed, also former chairman of PHMA, shared the experience of his recent visit to Bangladesh and said that CNG cost there was Rs. 8.5 per kg, power rate Rs4 per unit, and labour wages stand at around Rs. 4,000. **(Dawn, 18th June, 2008)**

US presses China to advance market-opening

US Treasury Secretary Henry Paulson called on China to press further on market-opening measures despite a troubled global economy as the two nations opened high-level talks. As talks kicked off in Annapolis, Maryland, east of the US capital, Paulson said the economic difficulties facing both China and the United States should not lead to restrictions on trade and investment. China is grappling with rising inflation and growing macroeconomic imbalances while the United States is also on alert against price pressures despite a weak economy. The two powers have expressed concern over protectionism amid their economic difficulties, fuelled by rocketing oil and food prices and financial market instability. **(Dawn, 18th June, 2008)**

Pakistan to help establish Chinese economic zone

Prime Minister Syed Yousuf Raza Gilani said Pakistan will extend all possible help to establish the first-ever Chinese overseas economic zone in the country, which will be yet another landmark in the all-weather friendship between the two countries. Chinese Ambassador to Pakistan, Luo Zhao Hui was also present on the occasion. The Prime Minister said Pakistan welcomes the Haier Ruba joint venture and the government would encourage more joint ventures to promote economic cooperation between the two countries. The prime minister said that foreign investment is fully protected in Pakistan and all economic sectors are open to Foreign Direct Investment (FDI). The Chairman of the Haier Group informed the Prime Minister that Chinese entrepreneurs are keen to invest in Pakistan and the establishment of the Special Economic Zone (SEZ) would go a long way in facilitating Chinese investment in Pakistan. The meeting was also attended by Ms. Hina Rabbani Khar, Special Assistant to PM, Principal Secretary to PM, Secretary Board of Investment and Secretary Industries.**(Business recorder, 19th June,2008)**

World Bank for financing National Trade Corridor Improvement Plan

The World Bank (WB) is planning a financial support program for Pakistan to develop its ports, roads and railways under the National Trade Corridor Improvement Program (NTCIP). Key upshots of the Program, the Bank's Transport Business Strategy was eyeing, included reducing the cost of domestic transport and non-factor services in the total value of commodities and the transport and transit costs and times for goods overall, increasing the satisfaction of Corridor users and rail share of longdistance transport of freight, reducing the operating deficit of railways with objectively determined and targeted subsidies, enhancing the safety and reliability of transport operations and improving the governance and accountability of entities participating in the Program, sources said. In 2005, the government had launched major initiatives around the Corridor to reduce the cost of trade by improving transport logistics infrastructure and services. **(Business recorder, 19th June, 2008)**

Rs. 846 million to be spent on 46 Fata projects

Fata Development Authority (FDA) is likely to spend Rs. 846 million, during financial year 2008-09, on 46 projects in six different sectors, including small dams, minerals, skill development and industries. Rs. 280 million has been allocated for 21 new development schemes whereas funds allocation for 25 ongoing schemes is Rs. 566 million, which is 33 percent and 67percent of total development budget, respectively. Two projects in the Tourism Development Sector have also been added to the program, including Khyber Steam Safari revival project. Other new projects include provision of safety and other equipment for scientific coal mining, feasibility study, design and establishment of coal fired power generation unit in FATA, feasibility study for use of solar energy in FATA and economic and social feasibility study for townships in FATA. **(Business recorder, 19th June, 2008)**

July-April services deficit crosses $5.574 billion

Pakistan services deficit has crossed 5.574 billion dollars during the first 10 months of the current fiscal (July-April), according to Federal Bureau of Statistics. With monthly deficit of 731.764 million dollars in April 2008, Pakistan services exports declined by 7.78 per cent during the month under review over previous month. It declined from 292.815 million dollars in March to 270.028 million dollars in April whereas imports increased from 899.077 million dollars to 1,001.792 million dollars during the same period. The current fiscal has been tough for trade in services, as exports of services have declined from 3.059 billion dollars in 2007-08 to 2.668 billion dollars in 2007-08 whereas import of services have gone up from 6.926 billion dollars to 8.243 billion dollars during the period under review with 19.01 per cent increase. The exports of services have declined from 286.307 million dollars in April 2007 to 270.028 million dollars in April 2008, while imports have gone up from 680 million dollars from last April to one billion dollars this April. **(Business recorder, 19th June, 2008)**

Rs. 1,250bn revenue target hard to achieve

Member Direct Taxes and additional secretary Federal Board of Revenue (FBR) Usman Khalid Mirza has said that the huge revenue target of Rs. 1,250 billion set for 2008-09 would be an uphill task to achieve under present bleak economic scenario. Speaking at a post-budget seminar organized by the Income Tax Bar Association Karachi (ITBAK) on Tuesday evening, the FBR member dilated on broad contours of the finance bill 2008. Consequently, it introduced a uniform rate of two per cent withholding tax on import of raw material by manufacturers and commercial traders. He said the previous arrangement of five per cent withholding tax on import of raw material by commercial importers and one per cent by manufacturing sector was being massively misused. Referring to a critical appraisal made by All Pakistan Income Tax Bar Association President Syed Naved Andrabi on the investment tax allowing taxpayers to whiten their undisclosed assets on payment of 2 per cent tax, the member FBR said it was more of a move to broaden tax net than a revenue measure. Earlier, ITBAK President Abdul Qadir Memon congratulated the team members of FBR for presenting the federal budget 2008 in the unfavourable economic circumstances. **(Dawn, 19th June, 2008)**

SBP raises cut-off yield on T-bills

The State Bank of Pakistan increased on Wednesday the cut-off yield on treasury bills of all the three maturities. The benchmark six-month T-bills rate went up to 11.49 per cent from 11.24 per cent. The rate of return on government papers is significantly higher in Pakistan as compared to other papers in the world market. Foreign portfolio investment witnessed poor situation as outflow remained higher than the inflow. The State Bank also increased cut-off yield on both three and 12-month T-bills. The cut-off yield on the 12-month T-bills rose to 11.73 per cent from 11.48 per cent while yield on the three-month paper reached 11.41 per cent, up from 11.23 per cent. The SBP sold six-month bills worth Rs. 312 million, 12-month bills worth Rs. 2.82 billion and three-month papers worth Rs. 12.06 billion. The SBP had failed to sell T-bills before this increase of interest rate. One of the reasons for increasing discount rate, which ultimately increased return on T-bills, was low return. **(Dawn, 19th June, 2008)**

Islamic Pension Savings Fund launched

JS Investments Limited (JSIL) has announced the launch of JS Islamic Pension Savings Fund (JS IPSF), which would be the company's second pension fund to enter the capital market this financial year. The company (formerly JS ABAMCO Limited) is the oldest and the largest private sector asset management company in the country. JSIL has a total of sixteen funds under its belt, which include eleven open-ended funds; three close-funds and two pension funds. In a statement released by the company, Najam Ali, Chief Executive Officer at JSIL, said that the launch of JS Islamic Pension Savings Fund would give investors the option to make long-term and Sharia-compliant investment to fulfill their retirement needs. Additionally, investors in JS Islamic Pension Savings Fund can also avail tax credit on their contributions of up to Rs. 500,000 per annum or 20 per cent of taxable income. The Sharia Advisory Council of JS IPSF is headed by Justice (Retd) Muhammad Taqi Usmani, the leading Islamic scholar of the country and includes Dr Aijaz Samdani and Maulana Hassan Ashraf Usmani, the company statement noted. **(Dawn, 19th June, 2008)**

WTO talks: Lamy slams new US farm bill

The head of the World Trade Organization on Wednesday criticized US legislation giving hundreds of billions of dollars of subsidies to farmers and said only a global trade deal could redress the balance. "Those who criticize US agricultural policy, quite rightly in my view, need a WTO deal if they want to change things and not just criticize," WTO director general Pascal Lamy said. Lamy also said that the Americans have just voted again on massive agricultural subsidies; this is the best proof, if proof were needed, that the only way to change the US positions on agriculture and subsidies is a deal at the WTO. US President George Bush had vetoed the bill but to no avail due to the veto override by Congress. **(The Times of India, 19th June, 2008)**

US and China to begin investment talks

The US and China announced plans for talks on a bilateral investment treaty at the close of two days of high-level meetings in Annapolis, Maryland. The talks will cover market-access issues and seek to establish formal "fair treatment" rights, under which inward investors would be assured the same treatment as domestic investors. **(Financial Times, 19th June, 2008)**

Banking regulators to tackle liquidity risks

Global banks are to hold a potentially crucial meeting next month with US, European and Asian regulators in Basel to discuss the best way for financial institutions to manage their liquidity risks in the aftermath of the credit turmoil. Regulators plan to press the banks to adopt tough new guidelines on how to handle their businesses so that they can weather liquidity shocks. It will include a demand that banks ensure they always have a large buffer of liquid assets on their books. **(Financial Times, 19th June, 2008)**

Govt. to facilitate Chinese economic zone

Prime Minister Syed Yousuf Raza Gilani said that the government would extend all possible help to establish the first-ever Chinese Overseas Economic Zone in Pakistan which would be yet another landmark in the all-weather friendship between the two countries. Chinese Ambassador to Pakistan, Luo Zhao Hui was also present. The prime minister said Pakistan welcomes the Haier-Ruba joint venture and the government would encourage more joint ventures to promote economic cooperation between the two countries. Mr Gilani said that foreign investment is fully protected in Pakistan and all economic sectors are open to foreign direct investment. The Haier Group chairman informed the prime minister that Chinese entrepreneurs are keen to invest in Pakistan and the establishment of the special economic zone (SEZ) would go a long way in facilitating Chinese investment in Pakistan. **(Dawn, 19th June, 2008)**

Govt. expects to earn Rs. 82bn in FY09 dividend

The government expects to earn dividend of Rs. 82 billion for the financial year 2008-09, from its investment in the stock market. OGDC is expected to provide dividend per share at Rs. 10.94, which would give a yield of 8.65 per cent; followed by SNGPL with dividend at Rs. 3.04 and yield at 6.44 per cent; PSO dividend at Rs. 22.85 and yield at 5.35 per cent; FFL per share dividend at Rs. 12; yield at 4.54 per cent; SSGC per share dividend at Rs. 1.13; yield at 4.26pc; NBP dividend at Rs. 6.51, yield at 3.95 per cent; PTCL per share dividend at Rs. 1.32; yield at 3.22pc; ABL dividend Rs. 1.99; yield 2.51pc; PNSC dividend Rs. 1.70 per share; yield 2.30pc and Mari Gas per share dividend for the upcoming year has been projected by the government at Rs. 3.13, which would provide a yield at 1.06pc. **(Dawn, 20th June, 2008)**

New wave of price hike to hit consumers

Prices of various consumer items are expected to go up further next month as impact of various budgetary measures is reflected in values at the retail end. Many companies have started analyzing the impact of budgetary measures on prices. With the increase GST from 15 per cent to 16 per cent and other changes in duties and taxes, distributors of many companies have alerted retailers about the new price rates. Karachi Retail Grocers Group General Secretary Farid Qureishi said the price of 25kg bag of imported milk has surged to Rs. 7,500-8,000 as compared to Rs. 7,000 owing to various reasons. The 400-gram pack of Surf Excel is now priced at Rs. 75 against Rs. 65. Ghee and cooking oil prices had been already raised in May. For example, Dalda’s five kg ghee and five litre cooking oil tins had been enhanced to Rs. 775 and Rs. 785 from Rs. 730 and Rs. 750. The rate for 2.5 litre/kg ghee and oil tins is Rs. 395 as compared to Rs. 373. A leading ghee packer said that the company has yet to start working on new price after one per cent hike in GST, one per cent excise duty on imports and one per cent increase in income tax and rise in wages. Traditionally, prices increased just ahead of Ramazan in anticipation of higher demand by retailers and wholesalers. **(Dawn, 20th June, 2008)**

Farm credit off-take up 30pc

The combined total disbursement of agriculture credit by the commercial and specialized banks jumped by 30.39 per cent at Rs. 184.892 billion during the first 11 months (July-May) of 2007-08 as compared to Rs. 141.798 billion in the corresponding period of last year. The State Bank of Pakistan said the overall credit disbursement by five major commercial banks Allied Bank Limited, Habib Bank Limited, MCB Bank, National Bank of Pakistan and United Bank Limited stood at Rs. 85.584 billion compared with Rs. 68.029 billion during the same period of last year, showing an increase of Rs. 17.56 billion or 25.81 per cent. The commercial and specialized banks had disbursed Rs. 168.83 billion to the agriculture sector in 2006-07. **(Dawn, 20th June, 2008)**

Reserves fall to $10.91bn
Pakistan's foreign reserves fell by $44 million to $10.91 billion in the week that ended on June 14, said the central bank. Reserves held by the State Bank of Pakistan fell by $12 million to $8.267 billion, while those held by commercial banks rose to $2.643 billion from $2.567 billion. Pakistan's foreign exchange reserves hit an all-time high of $16.486 billion on October 31, 2007. **(Dawn, 20th June, 2008)**

Heavy taxes to raise cost of production'
The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) said heavy taxation would increase the cost of production and hit exports by rendering local products uncompetitive on world markets. SAARC Chamber of Commerce and Industry Vice-President Iftikhar Ali Malik said that the imposition of 10 per cent withholding tax on electricity bills would further squeeze the liquidity of the industry, which is already facing severe energy crisis. Lahore Chamber of Commerce and Industry President Muhammad Ali Mian said that the one per cent increase in sales tax would further burden the trade and industry sector. "High markup rate, 35 per cent LC margin and energy crisis are driving the cost of doing business upward". **(Dawn, 20th June, 2008)**

Withdrawal of subsidies adds to miseries of common man: inflation may cross 12 %
Economic experts have forecast further inflationary pressures, predicted that inflation might cross 12 per cent owing to the government's decision to withdraw subsidies on petroleum products and power tariff, which would add to the miseries and hardships of the common man. The government would adjust petroleum product prices in accordance with the international market on fortnightly basis as well, clearing its backlog by further raising prices till December. The tough measures, approved by the government, are aimed at reducing the consolidated fiscal deficit to the tune of Rs. 582.3 billion or 4.7 percent of the GDP in 2008-09. The government is providing Rs. 1.25 billion subsidy on petroleum products daily, which is accumulated, to Rs. 37.5 billion every month. "If the government does not increase POL prices next fiscal year, it will have to face a budgetary hit of Rs. 450 billion," an official said. On electricity tariff, the cabinet has allowed automatic adjustment in power utility bills keeping in view fuel price fluctuations in the international market. External resources will provide Rs. 165.2 billion to bridge the fiscal deficit. Internally, non-banking resources will be Rs. 242.9 billion; banking resources Rs. 149.5billion and privatization proceeds Rs. 25billion. **(Business Recorder, 20th June, 2008)**

Pakistan to get Rs. 300 billion loans, grants during fiscal year 2009
Pakistan will get some Rs. 300 billion (around four billion dollars) foreign assistance in the shape of loans and grants for the next fiscal year from international financial institutions and different countries to run its development and non-development programmes smoothly. The external loan estimates including project loans, programme loans, earthquake loans rose by 24 percent to Rs. 283.776 billion for next fiscal year as compared to Rs. 229.685 billion estimates in FY08. While revenue estimates through external grants depict a decline of 43 percent to Rs. 16.393 billion in 2009 as against Rs. 28.848 billion in fiscal year 2008. Foreign project loans at Rs. 70.055 billion for federal government and provinces, while programme loans have been estimated at Rs. 145.625 billion for FY09. Some Rs. 46.417 billion project loans have been estimated for federal government projects comprising Rs. 23.019 billion for the ministries and divisions and Rs. 23.398 billion for provinces.

Finance department has estimated Rs. 23.638 billion loans for provinces and Rs. 5.596 billion for earthquake loans. **(Business Recorder, 20th June, 2008)**

FDA to spend Rs. 3,000 million on uplift schemes

The Faisalabad Development Authority (FDA) will spend Rs. 3,000 million on various development projects during next fiscal year 2008-09, said City District Nazim Rana Zahid Tauseef. Talking to newsmen, he said directives had been issued to the FDA to upgrade the existing roads, parks and green belts. While giving details of the proposed budget estimates, he said Rs. 205 million had been allocated to update master plan while Rs. 2,000 million would be spent on FDA City. Of it, Rs. 211 million have been allocated for the construction of roads whereas Rs 66 million will be spent on houses in FDA City. He also said that Rs. 104.7 million would be spent on the development of parks and green belts in Faisalabad. **(Business Recorder, 20th June, 2008)**

Pakistan and Turkey bilateral trade can be doubled

Senior Vice President, Karachi Chamber of Commerce and Industry (KCCI) Iftikhar Ahmed Sheikh has said that trade between Pakistan and Turkey can be doubled in just one year with little efforts and frequent exchange of trade delegations. Pakistan's share in imports is almost negligible. The senior vice president KCCI informed that during stay in Turkey the delegation has signed an agreement with Musiad, Istanbul Chamber of Commerce to disseminate information related trade, investment, products and joint ventures on regular bases. He pointed out that Turkey was importing rice from India and other countries on double of prices on which Pakistan exporting its rice to other countries. Iftikhar Ahmed Sheikh pointed out that Turkey was importing surgical goods from Germany. Likewise, Turkey was importing mangoes from UK. **(Business Recorder, 20th June, 2008)**

PPMA seeks upto 20 percent raise in medicine prices

Pakistan Pharmaceutical Manufacturers' Association (PPMA) has demanded the government to allow an increase of 15 percent to 20 percent in the prices of medicine for the survival of the industry. This has created disparity in drugs prices and unrest within the pharmaceutical sector. Additionally, the pharmaceutical industry is absorbing the everyday rise in cost increase, which has made production of majority of drugs manufacturer locally, unprofitable. With more than 100 percent increase in oil prices in the international market, the prices of numerous active and inactive raw and packaging materials (being petroleum based products) have increased substantially resulting in extra burden on the pharmaceutical manufacturers. The decision of SBP to impose 35 percent L/C margin on pharmaceutical imports will have serious implications for pharmaceutical manufacturing industry of Pakistan, he opined. PPMA appealed for exemption of all items relating to pharmaceutical industry from imposition of 35 percent margins. **(Business Recorder, 20th June, 2008)**

Exports grow by 14.47pc in May

Exports from Pakistan during May 2008 amounted to Rs. 131,572 million as against Rs. 114,943 million in April 2008 showing an increase of 14.47 per cent. Exports from July-May 2007-2008 totalled Rs. 1,071,127 million as against Rs. 935,697 million during the corresponding period of last year, showing an increase of 14.47 per cent. Main commodities of exports during May 2008 were readymade garments (Rs10,883 million), cotton cloth (Rs. 10,527 million), rice and others (Rs. 10,451 million), bed wear (Rs. 10,243 million), knitwear (Rs. 10,083 million), rice basmati (Rs. 9,826 million), cotton yarn (Rs.7,093 million), Art, silk & synthetic textile (Rs. 4,292 million), towels (Rs. 3,986 million), and made-up articles (excluding towels and bed wear) (Rs. 3,455 million). **(Dawn, 21st June, 2008)**

Current account deficit near $13bn

The current account deficit of the country has broken all records as it hit almost $13 billion in 11 months, indicating that more is to come at the end of the current fiscal. The 11-month current account deficit ($12.957 billion) is equal to 7.5 per cent of the Gross Domestic Product (GDP) and is far ahead of the target of 4.8 per cent of the GDP. It is higher than the country's total foreign exchange reserves and 81 per cent higher than the current account deficit during the corresponding period of last year. Analysts and economists assume that the government would rely on massive borrowing to finance the increasing external deficit. The current fiscal year witnessed poor foreign investment, especially portfolio investment, which deteriorated the health of the economy. The foreign direct investment declined to some extent, but the massive outflow from portfolio investment caused a serious problem for the government to finance the current account deficit. However, the support of overseas Pakistanis who remitted 18 per cent higher foreign exchange in the first 11 months of 2007-08 helped the government to minimize the intensity of rising current account deficit. **(Dawn, 21st June, 2008)**

Weekly SPI inflation up 26.7pc

The weekly inflation surged by 26.79pc during the week ended on June 19 over the corresponding week of last year. The SPI witnessed an increase of 30.32pc and 29.57pc for households in income brackets of up to Rs. 3, 000 and Rs. 3, 001 to Rs. 5, 000 respectively. Egg price went up by 4.82pc to Rs. 48.75 per dozen, vegetable ghee (2.5 kg) by 3.04 pc to Rs. 395, LPG cylinder (11-kg) by 2.50 pc to Rs. 687.53 and kerosene by 2.17pc to Rs. 55.02 per litre. Banana price increased by 2.05 pc to Rs. 51.23 per dozen, cooking oil (2.5 litre tin) by 2.04 pc to Rs. 398, milk powder (Nido) and salt powered by 1.11pc each to Rs.160 and Rs. 5.47 per kg, respectively. The rate of curd rose by 0.53 pc to Rs. 40.14 per kg, washing soap 0.53 pc to Rs. 11.32. Fresh milk price up by 0.38 pc to Rs. 34.16 per litre and wheat flour by 0.36 pc to Rs. 22.52 per kg, vegetable ghee (loose) by 0.13 pc to Rs. 134.27 per kg and mash pulse by 0.04 pc to Rs. 72.60 per kg. **(Dawn, 21st June, 2008)**

Credit to private sector up by 15.5pc

The Private Sector Credit Advisory Committee (PSCAC) of the State Bank is holding a meeting to review credit expansion to the private sector during the first 11 months of current fiscal year, which stands at Rs. 384.4 billion or 15.5 per cent higher over Rs. 287.1 billion in the same period last year. The issue related to higher growth in private sector credit during the second half of current fiscal year (H2FY08) up to May 31, 2008 thus pushing the flow of bank credit to Rs. 384.4 billion, one of the highest among the last five years credit flow, will come up for detailed discussion. The State Bank of Pakistan document further states that the weekly average credit increase for the period (H2FY08) works out to be Rs. 7.7 billion whereas the previous four years average is Rs. 4.4 billion. **(Dawn, 21st June, 2008)**

TCP scraps tenders for purchase of sugar

Pakistan Sugar Mills Association, Punjab zone, said that the Trading Corporation of Pakistan (TCP) cancelled two tenders for purchase of sugar from mills. “This bureaucratic attitude is damaging relations between the sugar mills and the TCP,” he added. The provincial chairman of PSMA is making efforts to contact TCP Chairman Abdul Malik but he has not succeeded so far. The PSMA appealed to the prime minister to immediately intervene and get the two scrapped tenders of TCP for purchase of sugar re-floated so that sugar prices in the market could stabilize. The spokesman claimed that the sugar market had started to stabilize when previous finance minister and chairman of secretaries committee on sugar Ishaq Dar announced to purchase 250,000 tons of sugar from the mills. **(Dawn, 21st June, 2008)**

E-banking: scope for IT sector

The computerization of banking systems technically termed as e-banking, on one hand has brought drastic changes in banking industry and consumers' lives, it has on the other hand, opened new doors of opportunities for IT industry in Pakistan. Kabir Farooqui, Regional Manager (Karachi), Pakistan Software Export Board" The field of e-banking is rapidly growing and there's no doubt that the automation of banking processes has opened new doors of opportunities for IT sector in Pakistan. The applications that most of the banks prefer are developed by the foreign software houses. The international software houses do have an advantage of experience that Pakistan's IT sector lacks. The automation of banking processes has definitely brought a positive change for IT sector in Pakistan. If the universities take this issue seriously and redesign their syllabus to include more practical courses on 'security', we can further improve our scope in e-banking. **(Dawn, 21st June, 2008)**

State Bank of Pakistan gives relief under export finance scheme

The State Bank of Pakistan (SBP) has decided to provide the following relief in respect of refinance availed by exporters under the export finance scheme for fiscal year 2007-08 to address the problems facing the exporters. The exporter, who availed pre-shipment finance during 2007-08 and could not ship goods within a maximum period of 180 days, would be allowed a grace period of 15 days. The central bank had received representations from chambers/exporters that heavy load shedding has adversely affected their production and as a result some of exporters could not ship export consignments in time or realize export proceeds within fiscal year 2007-08. Other instructions would remain unchanged. **(Dawn, 21st June, 2008)**

Security fears over food and fuel crisis

Western countries have upgraded the food and fuel crisis into a national security concern as they fear record high energy and agriculture commodity costs are destabilizing key developing regions of the world. The concerns come as the world suffers for the first time since 1973 from the confluence of record oil and food prices. Corn, soyabean and meat prices jumped this week to all-time highs, while oil prices hit a record of almost $140 a barrel. **(Financial Times, June 21st, 2008)**

LC margin on essential imports waived

The State Bank of Pakistan has waived requirement of 35 per cent cash margin on a number of essential import items with immediate effect. The SBP governor said overall private sector credit recorded higher growth of around 16 per cent in FY08 with Rs384 billion compared with Rs287 billion in FY07. On annualized basis, growth in private sector credit is 19 per cent in FY08, which is higher than 17 per cent last year. The distribution of credit was broad-based as almost all sectors of economy availed credit with major chunk i.e. 59 per cent availed by manufacturing sector, including textile sector. Inflationary pressure and higher cost of inputs are main reasons for higher credit flow for working capital needs in current fiscal year. Public sector and foreign banks lost their shares, coming down to 14 per cent and one per cent, respectively, from 22 per cent and five per cent last year. **(Dawn, June 22nd, 2008)**

APTMA seeks resolution to issues

The All-Pakistan Textile Mills Association, Punjab, Chairman Akbar Sheikh, has called upon the State Bank of Pakistan governor and the Federal Board of Revenue chairman to attend to anomalies resulting from the federal budget and SBP austerity measures announced in May. Pointing out the specifics, he said that SBP requirement of 35 per cent advance margin for opening of LCs had still not been removed for polyester staple and other manmade fibres which compromised the raw material for textile and engaged almost 50 per cent spindles of spinning industry. He said this delay by the State Bank had denied an opportunity for mills to book long-term export orders and cover their raw material position in the international markets. The FBR, he said, must not subject this sector to advance income tax requirement. Similarly imposition of 10 per cent advance income tax on electricity bills which appeared intended for non-assessee sector was also an unwanted burden the organized corporate sector. **(Dawn, June 22nd, 2008)**

SBP extends list of exempted goods

The State Bank of Pakistan has decided to extend the list of exempted goods requiring no cash margin on import letters of credit. In a circular letter issued to the presidents/chief executives of all banks, the SBP said “these instructions shall be enforced with immediate effect”. However, other instructions contained in the circular issued on May 22, 2008 will remain unchanged, it added. **(Dawn, June 22nd, 2008)**

Development funds for Q4 stopped

The ministry of finance stopped releasing development funds to the ministries and divisions in the last quarter of the current financial year ending on June 30 due to the weak kitty position. The financial advisers (FAs) and deputy financial advisers (DFAs) of the ministries and divisions have been directed to first “exhaust” their funds relating to third quarter to qualify for the releases of money for last quarter of 2007-08. When contacted a senior official of the ministry of finance said that so far about 80 per cent development funds had been released. The official said that there had been a stunning build-up in subsidies in the current budget totalling Rs. 407 billion, including Rs. 175 billion on petroleum, Rs. 133 billion on electricity, Rs. 40 billion on wheat and Rs. 48 billion on textiles and fertilizers. **(Dawn, June 22nd, 2008)**

IMF says US economy on the mend, slowly

The slowdown in the US economy is not as bad as previously estimated, the International Monetary Fund said, lifting its growth estimates slightly for 2008 and 2009. The IMF forecast annual growth of 1.1 per cent in 2008 and 0.8 per cent in 2009, compared with a prior estimate of 0.5 per cent and 0.6 percent, respectively. Despite housing and credit crises, the US economy has held up well, John Lipsky, the IMF’s first deputy managing director, said at a news conference, predicting it would avoid a hard landing. Monetary policy settings are now broadly supportive of recovery, and a risk-management approach would suggest that policy should be on hold, it said. The IMF predicted US inflation at 2.5 per cent this year, slowing to 2.0 per cent in 2009. Lipsky acknowledged that the situation on the financial markets was still far from normal, despite the recapitalizations undertaken by financial institutions and the Fed’s massive cash injections into the tight credit market. **(Dawn, June 22nd, 2008)**

Pakistan's per capita income rises from $926 to $1085

Pakistan's per capita income in dollar terms rose from $926 in financial year 2006-07 to $1085 in the outgoing financial year 2007-08 showing an increase of 18.4 percent, official sources said. "Per capita income, defined as Gross National Products (GNP) at current market price in dollar terms divided by the country's population, has grown at an average rate of above 13 percent per annum during the last five years rising from $586 in 2002-03 to $926 and further to $1085 in 2007-08", they added. The sources further said that real per capita income in rupee terms has also increased by 4.7 percent on average for the last five years adding real per capita income grew by 4.2 percent as compared to 4.8 percent of last fiscal year. **(Business Recorder, June 22nd, 2008)**