

May 27th, 2008



WTO CELL
PLANNING & DEVELOPMENT DEPARTMENT
WEEKLY ECONOMIC DIGEST
19th-25th May, 2008

Seed crisis and the rigged market

On the priority list of climatic and human agriculture inputs, seed ranks only after water and weather. Over 80 per cent farmers use uncertified and domestic seeds of unknown origin and quality. In case of wheat, only 18 to 20 per cent farmers use certified seed. For sugarcane, two per cent seed is treated. In case of agriculturally advanced countries, the ratio for cereal crops is 70 to 80 per cent, maize 100 per cent, rice 70 to 80 per cent and oilseed crops 100 per cent. Precisely for this reason, the developed world first moved beyond plain seeds to genetically modified seed (GMO) – hybrids, *Bacillus thuringiensis* (BT). The country needs concerted efforts at the national level to set the seed sector right, and bring the nation out of food crisis. For each crop, it needs to develop seeds according to the local agricultural requirements. Many countries have been successful in developing seeds according to their ecological needs. In addition to developing such seeds through public sector, it should also develop a screening mechanism to monitor private companies dealing in seeds business. (Dawn May 19th, 2008)

Agricultural income: time for effective taxation

The ministry of agriculture is conducting a survey of the incomes of big and small farmers. The objection is valid as agriculture is a provincial subject and the centre cannot indulge in taxing agricultural incomes. Making the feudal lords pay their share of the taxes is not an easy task. The expectation that federalization of agricultural tax will usher in large revenue may not materialize. The feudal lords mechanizing their farms and using tractors and harvesters should be ready to pay proper income tax and insure their crops. We have to develop an agricultural system which should include rational subsidies to the under-developed areas of agriculture. (Dawn May 19th, 2008)

Overcoming resistance to capital gains tax

THE issue of capital gains tax (CGT) has once again surfaced on the eve of the national budget. Some countries give total CGT exemption to stock exchanges, whereas in others either the CGT or the Capital Value Tax (CVT) is levied. The inflation penalty was one reason that, historically, capital gains had been taxed at lower rates than ordinary income. When taxpayers undertook risky investments, the government taxed fully any gain that they realized if the investment had a positive return. Capital gains are literally the appreciation in the value of an existing asset. Any additional tax is strictly double taxation. It says tax exemption had already been granted last year on transfer of capital assets of the existing stock exchanges to new corporatized stock exchanges and on transfer of

capital asset, being a membership right for acquisition of shares and trading or clearing rights in new corporatized stock exchanges. (Dawn May 19th, 2008)

UN: One Program to support government in five key areas

As many as 19 United Nations entities working in Pakistan would be joining hands in implementing the 'One UN Program' in Pakistan to address infrastructure, environment, health, agriculture, poverty reduction, and child and mother healthcare issues. The United Nations and the Environment Ministry gathered experts at a workshop on One UN Joint Country Program, to deliberate on the program and prepare outline to formulate a strategy to effectively implement the program. The Ministry considers that the One UN Joint Country Programme on Environment could serve as an important vehicle for implementing the National 'Environment Polices and effectively address the sectoral and cross-sectoral ISSUES. (Business Recorder, May 20th, 2008)

5.94 million tons of cement exported in July-April

Pakistan's cement export has registered a phenomenal growth during the first 10 months of the current fiscal year, which stood at 5.94 million tonnes for July-April. Pakistan exports cement to Afghanistan, India, Middle East and African countries with maximum about 50 percent to Afghanistan. So far, 10 months cement production was about 23.5 million tonnes with 18.5 million tonnes local consumption and 5.94 million tonnes export. Pakistan total cement export was 2.3 million tonnes last year with 20.3 million tonnes consumption for the year. The total production of 29 cement units is likely to remain below 30 million tonnes for the whole year of total 37 million tonnes capacity. Giving details, they said total production was about 24 million tonnes last year of the total capacity of 35 million tonnes with 20.3 million tonnes for domestic consumption and 3.2 million tonnes were exported. (Business Recorder, May 20th, 2008)

World Bank will continue support to PPAF

The World Bank would continue expanded support to 'Pakistan Poverty Alleviation Fund' (PPAF) for its countrywide interventions aimed at poverty reduction as the government has relied upon PPAF for delivery of a wide-range of services, including community mobilization, provision of health, education, micro-finance, and infrastructure schemes. PPAF's cumulative operational activities entail over 1.9 million micro-credit loans (impacting 11.4 million with 45 percent women beneficiaries and 100 percent recovery rate), over 16,500 health, education, water and infrastructure projects (impacting 8.3 million with 50 percent women beneficiaries), 238,900 trained individuals, staff and communities (42 percent women). (Business Recorder, May 20th, 2008)

Oil release will ensure supplies

China is releasing oil products from its state reserve stockpiles to areas stricken by last Monday's earthquake to ensure energy supply. China's leading oil company PetroChina has also resumed fuel distribution in those regions. China National Aviation Fuel Group Corp has sent 68 tankers carrying 3,200 tons of jet fuel to the airports. China National Aviation plans to release 5,000 tons of jet fuel to quake-hit airports and a further 10,000 tons if necessary. The NDRC also approved to release 10,000 tons from state reserves. Petro China has sent 16 tank trucks and five fuel tankers to quake areas to ensure vital energy supplies. (web.xinhua.net, May 20th, 2008)

Sugar mills told to pay Rs10bn to growers

The mills were required to pay these dues to growers by April. The minimum purchase price was Rs67 per maund up to Jan 20, and Rs63 per maund till the close of season in April, but the mills bought cane

from growers at Rs60 per maund. According to figures released from the office of the cane commissioner, Habib Sugar Mills Nawabshah was on top by producing 123,064 tons of sugar, followed by Al-Noor Sugar 98,113 tons, Ghotki Sugar Mills 90,917 tons and Sakrand Sugar Mills 81,096 tons. (Dawn, May 20th, 2008)

Competition Commission in financial blues

The Competition Commission of Pakistan (CCP), which for the first time has challenged the apparent cartel-like behaviour of banks and cement industry, is in financial blues and may become vulnerable to political interventions. Internationally, he said, competition commissions had their own sources of funding which came directly through payments of certain percentages of the fee to the commission charged by the regulators of different sectors i.e. the Pakistan Telecommunication Authority, Oil and Gas Regulatory Authority, State Bank of Pakistan and Securities and Exchange Commission of Pakistan, etc. He said the new competition law was ready and the commission had started functioning, but now the government needed to make the rules for the implementation of the state-of-the-art competition law. For it, the commission needed trained workforce and funds, he added. To a question, he said the commission would investigate several other sectors like oil industry, auto parts, etc, as well. (Dawn, May 20th, 2008)

Trade with Egypt

Pakistan and Egypt agreed to encourage their private sector to promote bilateral trade and economic relations. Prime Minister Syed Yousuf Raza Gilani, during a meeting with his Egyptian counterpart Ahmad Nazif on the sidelines of the World Economic Forum in Egypt's Sharm El Sheikh, said their economies enjoy a degree of complementarities which is conducive to promoting trade and investment in each other's country. (Dawn, May 20th, 2008)

G5 gets its say, G8 to discuss its wishlist

The G5 countries (India, China, Mexico, South Africa and Brazil) will finally get their wish fulfilled. The Hokkaido summit could have seen sparks fly between the G8 and G5 countries, but at this moment neither China nor India has the stomach for protracted battles. PM Manmohan Singh will be going to Japan. Issues like the sub-prime crisis and the consequent lack of regulation of the international financial system, as well as development issues like Africa will all be discussed. Singh was quoted as saying that we need a new global compact between the developed and the developing countries, between the land surplus and labour surplus economies, between food exporters and food importers, to stabilize global food prices. (The Times of India, May 20th, 2008)

New WTO text to make a breakthrough

World Trade Organization negotiators have made considerable progress in their efforts to clinch a deal on agriculture, and that will be reflected in a new text slated for release this week, European trade Chief Peter Mandelson said. The WTO's Doha Round of talks, now in its seventh year, aims to remove trade barriers and spur development. Crawford Falconer, who leads the WTO talks on agriculture, plans to release a revised proposal any day now that reflects progress since his Feb 8 draft, potentially opening the way for a meeting of ministers to approve a blueprint for a possible deal. WTO members will have about a week to study the text. Manderlay said that in the case of industrial goods, the developed countries are committed to making substantially further cuts on industrial tariffs. (The Times of India, May 20th, 2008)

\$5m ADB loan to Pakistan

The Asian Development Bank has agreed to provide a technical assistance loan worth \$5 million to Pakistan from its special funds resources aimed at increasing farm income and promoting wheat production in under-rain-fed and irrigated areas in all the four provinces of the country. The areas identified under the rural enterprise modernisation project for the technical assistance loan are Multan, Theri (near Khairpur), Charsadda and Quetta. According to the Project Administration Memorandum, the total project is estimated at \$6.5 million. The government has agreed to provide \$1.5 million, or 23 per cent of the project cost, to meet part of the local currency expenditure. (Dawn, May 21st, 2008)

KCCI's plea to diversify exports

The Karachi Chamber of Commerce and Industry has underlined the need for diversification of exports to get more share in regional and international markets. Talking to APP chairman KCCI committee on Exports Shariq Vohra suggested that Pakistan should enter varied potential markets to boost its exports rather than confining to the traditional goods like textiles. Mr. Vohra also said that we can also export huge quantity of vegetable, fruit, and seafood. Besides, there is also shortage of gas and water and the poor infrastructure hurting exports. (Dawn, May 21st, 2008)

5.78 percent GDP growth expected

The country's economic growth is likely to slip below a revised target of 6 percent for the 2007/08 fiscal year, mainly because of lower manufacturing growth and farm output, a government official said on Tuesday. Pakistan had set a 7.2 percent growth target for gross domestic product (GDP) at the beginning of the July-June fiscal year but revised that to 6 percent this year, citing weakness in manufacturing and farm-sector growth. "Agriculture grew by merely 1.49 percent against an original target of 4.8 percent, mainly due to less-than-expected growth in major crops, wheat and cotton," the official said. Growth in large-scale manufacturing is estimated to drop to 4.84 percent, compared with a target of 12.5 percent. The service sector was likely to post 8.16 percent growth thanks to a robust 17 percent expansion in the banking and insurance sector, the official said. (Business Recorder, May 21st, 2008)

Budget recommendations: OICCI for corporate tax at 30 percent for all companies

The Overseas Investors Chamber of Commerce & Industry (OICCI) has presented its Federal Budget Proposals for the forthcoming fiscal year aimed at increasing growth and investment into Pakistan. The OICCI emphasized the need to broaden the tax base and reduce the rate and multiplicity of taxes. The OICCI Budget Proposals 2008-09, were well received. OICCI appreciated the positive attitude of Abdullah Yusuf and FBR members, who in turn appreciated the proposals, presented by OICCI and discussed them in detail. Additionally, tax base must be broadened so that there is a significant increase in the tax to GDP ratio. The OICCI highlighted that corporate taxes are very high in Pakistan as compared to other developing and developed markets in the region. The Chamber has recommended that the corporate tax rate should be capped at 30% for all companies. The OICCI has also proposed that the third schedule of the Sales Tax Act should be deleted, as it obliges companies to suffer the sales tax on sales price, which does not pertain to the company, thereby eroding the true concept of sales tax law. (Business Recorder, May 21st, 2008)

WTO's draft on agriculture disappointing'

India said it was disappointed by negotiating drafts on agriculture and industrial products brought by the World Trade Organisation (WTO) in a bid to conclude the stalled talks on a new treaty on global commerce. The revised texts on agriculture and industrial goods, released late Monday in Geneva,

propose to curtail the ability of developing countries to shield their farmers and industries from cheap imports. India's main contention is on the special safeguard mechanism (SSM) for agriculture products. The draft text proposes to allow member states to raise import duties only if the world prices are lower than domestic prices by over 30 per cent. The draft text released by Chairman of the negotiating group on agriculture Crawford Falconer, does not include India's and many other developing country's proposal of setting the "price trigger" at between 5 and 10 per cent. (Hindustan Times, May 21st, 2008)

Inflation a global problem

It's not India alone, where authorities are battling to keep growth on track while reining in price. Governments and policymakers across the world are confronting the same challenge on the back of a sustained spike in global commodity prices that is stoking inflationary expectations. While India's wholesale price-based inflation rate rose to a three-and-a-half-year high of 7.83 per cent per cent for the week-ended March May 3, China's consumer price index, the main gauge of inflation, rose 8.5 percent year-on-year in April. A high rate of inflation could have a significant bearing on Indian economy's overall growth through lower aggregate demand of manufactured items and low investment growth, economists said. Economists now believe that the growth could fall further as policy focus shifts from high growth to price control. "The high rates of inflation would have a bearing on the India growth story. (Hindustan Times, May 21st, 2008)

New report on economic growth offers lessons on achieving sustained, high economic growth

The World Bank Group welcomes a new report by the independent Commission on Growth and Development, a global panel of eminent experts, which reveals important lessons from countries that have achieved high, long-term economic growth. The experts say the lessons learned could help policy makers in developing countries as they seek to set their countries on a steady growth path. The Growth Report: Strategies for Sustained Growth and Inclusive Development says integration into the world economy, maintaining high rates of savings and investment, and committed, capable governments are among the key features of countries that have sustained growth rates above 7 percent for 25 uninterrupted years since World War II. (Web .worldbank.net, May 21st, 2008)

KSE Board to meet Govt's economic team soon

The Board of Directors of the Karachi Stock Exchange is all set for a meeting with the economic team of the government in the next couple of days, a director on the board who asked not to be named said. The KSE expects to give 'presentation' to the economic advisory council constituted by Prime Minister Yousuf Raza Gilani. Earlier former Finance Minister Ishaq Dar had dillydallied on meeting the KSE representatives. "We would discuss the economy, the stock market and the taxation issues," said the KSE director." In case of a favorable decision by the government, the market could recover from its bearish trend, which has seen the KSE-100 index dip by 2,000 points in about a month," said the KSE director. The bourse was officially keeping quiet on the upcoming meeting with the government's economic team, but the news had filtered into the market. (Dawn, May 22nd, 2008)

Policy guidelines issued to PTA for m-banking

The federal government has decided to simplify financial and telecom sector regulations to introduce mobile banking which also include mobile money transfer and remittances. The information technology ministry has issued policy guidelines to the Pakistan Telecommunication Authority (PTA) to implement the framework for telecommunications sector development for reaching out with m-banking (mobile-banking) services through regulations to be framed by the PTA. The State Bank of

Pakistan had recently issued “Branchless Banking Regulations” based on “Bank-led model” for financial institutions for operation of m-banking, using wireless/cellular technology options. Sources said that the IT ministry was defining relevant telecom sector policy framework to compliment the SBP regulations. As per the branchless banking rules, financial institutions involved in m-banking services would carry the responsibility of fraud protection and other associated risk. (Dawn, May 22nd, 2008)

Slow trading on cotton market

Trading was relatively slow on the cotton market owing to higher asking prices by ginners, irrespective of quality of lint, floor brokers said. Stray lots did change hands but mostly at ginners option as some fine lots were traded as higher as Rs. 3,840 per maund just at the heels of an overnight deal at Rs. 4,000, they said. Reports of shortage of irrigation water in major crop areas are pouring in daily, which, ginners fear may curtail the acreage planned for the new crop on the one hand and increase production costs on the other. Mill ready off-take was light as under: 600 bales, Yaru Lund at Rs. 3,600 and 200 bales, Harappa at Rs. 3,840. (Dawn, May 22nd, 2008)

Current account deficit swells to about 7.3 percent of GDP

The current account deficit for July-April period has widened by 74.8 percent to all time high level of \$11.58 billion. The government had fixed the current account deficit target at 5 percent of GDP for the 2007-08 fiscal year. Analysts said that goods trade deficit, services deficit and income deficit are the chief factors behind the rising current account deficit. According to the State Bank, overall current account transfers stood at 9.899 billion dollars as against the deficits of 21.372 billion dollars. Goods trade deficit witnessed an upsurge of 53.36 percent to 12.74 billion dollars, services deficit went up by 44 percent to 5.575 billion dollars and income deficit rose by 15.4 percent to 3.057 billion dollars. The current account deficit without official transfers climbed to 12.071 billion dollars as compared to 6.888 billion dollars in 2007, depicting an increase of 75.24 percent or 5.183 billion dollars. (Business Recorder, May 22nd, 2008)

Government mulling over setting up fund for the poor

The government is mulling to establish a fund for giving relief to the poor, and the rich people will be encouraged to contribute to this fund in a big way. The government is devising the mechanism to properly target the poor, with the support of the rich families of the country, they said. Sources said that food and energy crisis is taking place at a time when the government is facing the highest ever fiscal deficit. The high oil prices in the international market are putting further pressure on the government, according to sources. After the fund is established, the government is expected to launch a media campaign to persuade the rich to contribute wholeheartedly to the fund. To minimize the impact of rising food prices, the government will have to allocate at least Rs 50 billion. (Business Recorder, May 22nd, 2008)

SMEDA asked to ensure feasibility-based lending

The President of Multan Chamber of Commerce and Industry (MCCI), Muhammad Jalal-uddin Roomi, has asked the Small and Medium Enterprises Development Authority (SMEDA) to ensure project feasibility-based lending to small and medium enterprises (SMEs) besides strengthening the banks-academia-SMEs linkage for promotion of small and medium enterprises in the country. It also contributes over 30 percent to the GDP, Rs 140 billion in exports and account 25 percent of the exports of manufactured goods besides sharing 35 percent in value-added manufacturing. Earlier, Project Director Salman Khalid said that a vast field and platform were available for online trade and they can get help through industrial information network, business to business trade website. (Business Recorder, May 22nd, 2008)

Gypsum board be included in FTA list

Lasbela Chamber of Commerce and Industry, President, Salim H Mandviwalla has suggested that 'gypsum board' be included in the list of free trade agreement with Saarc member as well as other South Asian countries. The President noted that there is great demand for gypsum board in countries like Sri Lanka, Malaysia, Iran and Turkey. He added that the inclusion of gypsum board in free trade agreement list would make it competitive with respect to prevailing prices in these countries. Iqbal said that a large production unit of gypsum/plaster board products has been established at the Hub industrial area and these products have great export potential as non-traditional items. Iqbal said that raw materials used in the manufacturing of these products are subjected to 5 percent custom duty, 15/20 percent sales tax, one percent withholding income tax and one percent special excise duty. Due to multiple tax imposition, it cannot compete with the imported goods having 25 percent custom duty, he added. (Business Recorder, May 22nd, 2008)

Central Bank: China's economy won't see galloping inflation

Despite global inflation, the Chinese economy is unlikely to see galloping inflation thanks to its own growing impetus, said Su Ning, vice governor of the People's Bank of China (PBOC). China's consumer price index, the main gauge of inflation, has risen from above three percent in March last year, to above 6 percent in August, and to 8.5 percent year-on-year last month, as a result of the robust national economy and domestic food price rises coupled with soaring international energy prices. Earlier, the PBOC announced that it would raise the reserve requirement ratio for commercial banks by half a percentage point to curb excess liquidity and ease inflation. (web.xinhua.net, May 22nd, 2008)

China denies imminent plan to liberalize oil, gas prices

China's economic planning department dismissed as a "groundless rumor" reports saying the country might liberalize the prices of refined oil and natural gas soon. The Shanghai Securities News, citing an official source, dismissed such reports, saying that it was impossible to liberalize oil and gas prices when China was in a critical period of earthquake relief and post-quake reconstruction. China's consumer price index, the main gauge of inflation, has risen from above three percent in March last year, to above 6 percent in August, and to 8.5 percent year-on-year last month, as a result of the robust national economy and domestic food price rises coupled with soaring international energy prices. (web.xinhua.net, May 22nd, 2008)

IMF paper moots new method puts inflation at 4.7 pc

The rate of Inflation in India may not be as high as it is made out to be from government data on wholesale prices, according to a discussion paper by the International Monetary Fund. The IMF paper has opted for week-over-week changes in prices as opposed to year-on-year comparisons done by the Indian government. Reserve Bank of India Governor YV Reddy said in Singapore the actual inflation rate could even be higher than the government's estimate of 7.83 per cent. Most of the developed economies follow the monthly sequential change for inflation calculation, he added. (Hindustan times, May 22nd, 2008)

Oil smashes 135 dollars in Asian trade

In Asian morning trade, New York's main oil futures contract, light sweet crude for July delivery, rose to a high point of USD 135.04 a barrel before easing to USD 134.87. The benchmark futures contract had closed a whopping USD 4.10 higher at a record USD 133.17 on the New York Mercantile

Exchange, and continued its upward spiral in after hour's electronic trade. London's Brent crude contract for July was also busting records, rising USD 1.75 to USD 134. (Hindustan times, May 22nd, 2008)

OPEC Unhappy with price surge

OPEC chief Abdala El Badri said members were unhappy with surging prices he blamed on speculators and a weak US dollar. El-Badri during a visit to Ecuador said that we are not very happy with this increase in oil prices. El-Badri, OPEC's secretary general, is on a week-long working visit to the two OPEC member states in Latin America, Venezuela and Ecuador. In a statement released by the cartel on Wednesday, El-Badri said that OPEC remained committed "to working for the stability of the international oil market, noting that the current high oil prices are not influenced by market fundamentals, as the market is well-supplied. (Dawn, May 23rd, 2008)

SBP asks banks to pay minimum 5 percent profit on savings, PLS deposits

The State Bank instructed banks to pay a minimum profit of 5 percent on savings, profit and loss saving products. The SBP increased its key discount rate to 12.0 percent from 10.5 percent, effective. Earlier, in the last monetary policy, the State Bank had taken some steps to raise saving ratio and in this connection exempted one-year maturity of banks for the Cash Reserve Requirement. The saving deposits category accounts for more than 43 percent of all bank deposits and constitutes 63 percent of the total number of countrywide deposit accounts, she said. While margins on deposit rates have risen, given the stock of deposits on which returns remain low, the average return on all saving accounts is at 2.1 percent. The SBP has been relying on moral persuasion and competition among banks to encourage rise in returns on deposits. Though this has facilitated greater awareness in banks and differential and higher returns by smaller banks, increment on deposit rates has happened by and large principally for large deposit holders, she said. (Business recorder, May 23rd, 2008)

Government asked to amend fiscal responsibility law, reduce borrowings

The State Bank advised the government to amend the Fiscal Responsibility and Debt Limitation Act, 2005 to incorporate appropriate provisions to restrict the debt monetization. State Bank Governor Dr Shamshad Akhtar expressed serious concern over the rising government budgetary borrowing, which reached Rs. 544.9 billion during the current fiscal year. Rather than retiring its borrowings from the central bank, as mutually agreed at the beginning of FY08, the government borrowing during July 1, 2007 to May 19, 2008 reached Rs. 544.1 billion. (Business recorder, May 23rd, 2008)

35 percent L/C margin imposed on imports

The State Bank of Pakistan has imposed a 35 percent Letter of Credit (L/C) margin on all imports except for oil and some selected food imports effective with a view to reducing the increasing trade deficit. The trade deficit was also on the rise due to increasing imports, while country was also spending billions of dollars on import payments, which were directly hurting the country's foreign exchange reserves and exchange rate. Last year, advance payments against Letters of Credit and firm registered contracts were allowed to importers via banks to the extent of 100 percent. The SBP said the rising external current account deficit owing to widening trade deficit indicates that, despite a decent export performance, a significant import demand pressure existed in the economy. (Business recorder, May 23rd, 2008)

World Bank to hold impact analysis of SMEDA services

World Bank has agreed to conduct impact analysis of the services rendered by the Small and Medium Enterprise Development Authority (SMEDA) for promotion of SME sector in Pakistan during the last

10 years of its operation. Earlier, SMEDA asked World Bank to hold an independent and impartial evaluation of its performance to enhance its credibility in future. A World Bank mission, led by Luis CP Miglino, Senior Consultant of the Bank, met Chief Executive Officer (CEO) of SMEDA, Shahid Rashid, here on Thursday to have the initial information on Smeda services. CEO SMEDA, Shahid Rashid apprised World Bank mission about SMEDA's organizational structure and range of services for SMEs. (Business recorder, May 23rd, 2008)

WTO customs union plan may hurt free trade

Proposals to give special treatment to customs unions between developing countries risk undermining efforts to open up markets for industrial goods, a senior developed country diplomat said. That analysis shows that some countries could more than double the proportion of imports that would be protected under special arrangements or “flexibilities” for developing countries, if customs unions get special treatment, he said. The customs union proposal in the latest negotiating text represents a demand by Brazil and Argentina to give special treatment to the Latin American trade bloc Mercosur, which also includes Paraguay and Uruguay. Taking limits of 12 per cent of products and 17 per cent of volumes, near the upper end of what is under negotiation; Brazil could shield 12 per cent of imports counting all trade but 20 per cent of all imports excluding intra-Mercosur trade. On the first assumption, with limits of 12 percent for both products and imports, Argentina can shield 12 percent of imports when all trade is counted. (Dawn, May 24th, 2008)

Instructions for banks, sponsors issued

The State Bank of Pakistan issued consolidated and revised instructions to facilitate the banks and their sponsor shareholders to ensure compliance of the SBP instructions earlier issued in this regard. All sponsor shares and subsequent right and bonus shares, including those deposited with SBP Banking Services Corporation (BSC) shall be deposited in a blocked account with Central Depository Company of Pakistan (CDC). All shares acquired by common shareholders, who are also sponsor shareholders, of amalgamating banking companies in amalgamation transaction shall be considered Sponsor Shares. Sponsor Shareholders mean all those shareholders of a bank holding sponsor shares. The members of the Board of Directors of bank holding sponsor shares will be considered Sponsor Directors. All the banks are advised to ensure meticulous compliance of these instructions. (Dawn, May 24th, 2008)

Inflation target for 2008-09 projected at eight percent

Inflation target for 2008-09 has been projected at 8 percent, which is well above the original target 6.5 percent for the current fiscal year. Reduction in the rate of inflation in next fiscal year as compared to estimate for this fiscal year will be achieved by ensuring fiscal stringency, tight monetary policy and adequate supply of essential items, according to working paper for the APCC meeting. The monetary expansion for 2008-09 will be in line with the projected GDP growth and inflation targets. The main thrust of fiscal policy during the next fiscal year would be to keep the fiscal deficit within a sustainable limit by furthering reforms in the tax system, broadening tax base and improving tax compliance and minimizing tax evasion. (Business recorder, May 24th, 2008)

PSDP size may be increased to Rs 470 billion

Public Sector Development Programme (PSDP) size of Rs. 437 billion proposed by the Finance Ministry Priorities Committee might be increased to Rs. 490 billion as the Planning Commission (PC) is seeking the increase in order to ensure the timely availability of resources for ongoing and some important new development projects. Corporations will get an allocation of Rs. 48.4 billion in 2008-09

or 2.4 percent less than this fiscal allocation of Rs. 49.6 billion. Food and agriculture will get Rs. 19.19 billion, interior Rs. 5.6 billion, industries Rs. 4.58 billion, defence Rs. 2.61 billion, housing and works Rs. 1.25 billion, law, justice division Rs. 2.38 billion, Revenue division 2 billion, defence production division will get Rs. 1.3 billion in 2008-09. Finance division will get Rs. 11.77 billion, education division Rs. 5.69 billion, Higher Education Commission, Rs. 18 billion, health division Rs. 18.15 billion, information technology and telecommunication Rs. 1.76 billion, science and technology Rs. 2.73 billion Kashmir Affairs and Northern Areas division Rs. 15.08 billion, states and frontier regions division Rs. 8.16 billion, environment division Rs. 2.1 billion. (Business recorder, May 24th, 2008)

Stocks crash by 615.26 points

The KSE 100-share index crashed from the recent highs by 615.26 points or 4.52 per cent wiping out Rs187 billion from the market capital on panic-selling triggered by 1.5 per cent hike in the discount rate to 12 per cent, which analysts say will make the borrowing more expensive. Rafhan Maize and Siemens Pakistan were top losers, off Rs. 133.25 and Rs. 63, respectively. (Dawn, May 24th, 2008)

Asia shifts priorities as inflation threatens

Singapore's inflation hit a 26-year high in April while Indian wholesale prices are surging, underlining a shift in priorities across Asia as policy makers focus on grappling with growing price pressures. Faced with the worst inflation since the 1970s, the State Bank of Pakistan raised interest rates, sending its main share index down nearly 5 per cent on Friday and prompting the rupee to firm 1.2 per cent against the dollar. Singapore's inflation jumped to 7.5 per cent in April on higher housing, food and oil prices, prompting the government to raise its full-year inflation forecast to 5-6 per cent from 4.5-5.5 per cent. Analysts said the inflation figures, coupled with the looming rise in fuel prices, would thrust the growth-versus-inflation dilemma firmly to the top of the central bank's list of concerns. There are a couple of important themes: rising inflation and central banks being behind the curve, still high oil prices, and some expectations of growth slowdown in Asia. Asia is not alone in facing an inflation threat. (Dawn, May 24th, 2008)

Trade, industry flay rate hike

Trade and industry leaders have criticized measures taken by the State Bank of Pakistan under the pretext of curbing inflation and said that these would rather hurt business activity already under pressure owing to high cost of doing business and tough global competition. It will adversely affect the industry. Mr. Tanvir disagreed with the SBP governor that the industry was paying lower interest rate in real term. Karachi Chamber of Commerce and Industry President Shamim Ahmed Shamsi said that the State Bank's new monetary policy measures were unlikely to control the inflation. Korangi Association of Trade and Industry Chairman Sheikh Fazl-e-Jalil said that the SBP's measures were entirely against the trade and industry as 1.5 per cent rise in discount rate will increase cost of doing business. Pakistan Association of Automotive Parts and Accessories Manufacturers Chairman M.A. Malik called upon the State Bank governor to take measures for reducing the big gap between borrowing and lending rates of the banks instead of raising the already high minimum interest rates. (Dawn, May 24th, 2008)

Banks profit to fall by 20pc

The interim monetary policy would reduce banks profit by 20-30 per cent, and a total liquidity of Rs62 billion would go out of the banking system, said analysts. The sudden announcement of major decisions by the State Bank of Pakistan (SBP) — raise in discount rate by 1.5 per cent, hike in Cash Reserve Ratio and Statutory Liquidity Ratio and fixation of minimum slab for rate of return on

deposits — jolted the banking sector and the money market. Analysts expected low credit growth in the wake of high interest rates which, they said, would reduce interest income of banks. The five major banks that have approximately 55 per cent of the total banking have been paying the lowest returns on deposits. The hike in discount rate would involve commercial banks to share debt burden with the SBP. Analysts expect KIBOR (Karachi Inter-Bank Offered Rate) to increase by 40-60bps, while Treasury bills could rise by 50-70bps as a result of the discount rate increase. (Dawn, May 24th, 2008)

Dollar slides

The dollar fell against the euro on Friday on US housing data showing a record number of unsold homes in the United States and falling real estate prices. The single European currency also managed to overcome the effects of a reported weakening in the euro zone industry and services sectors and was higher at \$1.5784 in late trade against \$1.5728 late Thursday in New York. The dollar was meanwhile at 103.20 yen, down from 104.04. The dollar encountered selling pressure on news that while sales of existing US homes were slightly better than expected in April, there was still a record number of unsold homes on the market as prices fell further. On the London Bullion Market, the price of gold rose to \$927.50 per ounce at the fixing from \$922.75. (Dawn, May 24th, 2008)

FPCCI seeks steps for broadening tax base

The Federation of Pakistan Chambers of Commerce and Industry has asked the finance ministry to announce measures in the upcoming budget to broaden tax base for adequate resource mobilization. An official announcement issued after the meeting said the FPCCI president presented his part of pre-budget proposals to the finance minister focusing social and industrial sector development, besides measures offering relief to the common man against existing price hike and other economic pressures resulting from spiraling fuel prices. It was also proposed to encourage agro-based industry to meet domestic food production needs. Power generation sector also merits government's special fiscal support. State Bank of Pakistan Governor Dr. Shamshad Akhtar and Special Assistant to Prime Minister on Finance Ms. Hina Rabbani Khar also attended the meeting. (Dawn, May 24th, 2008)

Rupee rallies after SBP move

The rupee firmed 1.2 per cent against the dollar on Friday, pulling away from a record closing low set this week, after the central bank raised interest rates sharply to tackle inflation. The State Bank of Pakistan raised its discount rate to 12 per cent from 10.5 per cent on Thursday to counter fiscal and current account deficits as well as inflation, which hit 17.2 per cent in April, the highest level since the mid-1970s. The statutory liquidity requirement, which sets the proportion of assets banks must hold in liquid assets such as government bonds, was increased to 19 per cent from 18 per cent. The central bank governor said the monetary tightening and moves to limit government borrowing from the central bank should help stabilize the rupee. The central bank expects the average inflation rate for 2007-08 to be 11 per cent, way above a target of 6.5 per cent. (Dawn, May 24th, 2008)

Oil rebounds towards record peak

Crude oil prices rallied beyond \$133, close to record highs reached this week on concerns that global output will not satisfy rising demand for energy, traders said. Brent North Sea crude for July delivery jumped \$2.93 to \$133.44 a barrel. New York's main oil futures contract, light sweet crude for July delivery, rose \$2.36 to \$133.17 a barrel. Oil prices have risen more than fourfold in five years, underpinned by Chinese demand for crude. Oil prices are also being supported by unrest in oil-producing countries, OPEC's unwillingness to hike output, and a weak dollar which makes

commodities priced in the US unit cheaper for foreign buyers. Algeria's energy minister and OPEC president, Chakib Khelil, said on Thursday that falling production in non-OPEC countries such as Russia has contributed to the spectacular rise in global oil prices. (Dawn, May 24th, 2008)

Interest rate rise to hit economic growth

Senator Salim Saifullah Khan has criticized the increase in the rate of interest by the State Bank of Pakistan, saying that it would further plummet the growth of national economy. He said that unwise measure of increase in bank rate has been taken at a time when global and national economy is faced with financial crises. The developed countries have lowered the rate of interest to avoid the emerging recession in the global economy. He said that United States has reduced the rate of interest, whereas Japan has brought it down to 0.50 percent to achieve high rate of economic growth. But, on the other hand, the bank rate in Pakistan has been kept at a high level of 12 percent and now an increase of 1.5 percent would badly affect the productivity in the major sectors of economy. "The interest rate of 14 percent will enormously increase the cost of production and bring a substantial rise in the prices of essential commodities," he argued. He said that enhancement of bank rate would wipe out the already declining margin of profit in small business and discourage trade and industry, resulting in unemployment in the country. Salim said that Islam forbids interest on loans and it would be appropriate that only service charges of 2.5 percent are levied on bank loans. (Business Recorder, May 25th, 2008).

PHARMA industry demands exemption of 35 percent LC margin

Pakistan Pharmaceutical Manufacturers Association (PPMA) asked the government to exempt the PHARMA industry from 35 per cent margin on Letter of Credits (LCs) to ensure smooth supply of medicines to the people. In a statement issued here, Chairman of the Association (North), Khawaja Muhammad Asad said the government had announced to impose 35 per cent LC margins on all imports except oil and selective food imports. (Business Recorder, May 25th, 2008).

Conditions ready for possible global trade agreement: Lamy

The head of the World Trade Organization (WTO) Pascal Lamy said in an interview on Friday that the conditions were at last in place for a possible global trade agreement under the Doha round by the end of the year. The WTO submitted new proposals on agriculture and industry to its 152 members. Developing countries had objected that the previous most-recent texts, put forward in February this year, were not even-handed. They said that requests for them to open their markets to industrial goods from rich countries were too big in comparison to concessions demanded by countries in the rich northern hemisphere for them to lower their subsidies to agriculture. Lamy said, "The countries in sub-Saharan Africa still have the possibility of applying customs tariffs of 60 to 80% on agricultural products under WTO rules. (The Times of India May 25th, 2008)

Budget makers likely to review fiscal measures

The recent monetary package announce by the State Bank of Pakistan may force budget markers to look again at their proposed fiscal measures for the next budget so as to bring them in line with the spirit of the money tightening measures of the central bank. The budget's revenue expenditure estimates are being drawn up when international oil prices are showing no signs of stability, the domestic market is hit hard by all time high inflation, the supply side of food grains is vulnerable because of a weak and corrupt administration that is proving ineffective to prevent smuggling and the SBP has restricted capacity of banks to give credits and has slapped a 35 % cash margin on imports

because even non-oil and non-food imports have risen by 46% in the last nine months. (Dawn, May 25th, 2008)

Banking system facing liquidity crunch

The banking system faced a liquidity crunch, the first real impact of the State Bank of Pakistan's decision to increase banks reserves with it. As part of SBP's interim monetary policy, banks lost liquidity and the central bank had to inject Rs. 23.450 billion through open market operation. SBP Governor Dr. Shamshad Akhter stated that the increase in CRR was supposed to have an immediate impact on inter-bank interest rates by drying up excess liquidity; this can be ensured at present only with a concomitant rise in the SLR since the banks are already keeping government papers over and above the current requirement of 18 percent. The State Bank of Pakistan believes that the positive outcome of this decision is likely to be an increase in deposit mobilization by banks as liquidity shortage would push them to generate more deposits. The SBP has fixed minimum saving rate as five percent which sent waves of shocks to the banking industry, especially the five big banks whose average rate of return was between two and three percent. (Dawn, May 25th, 2008)

US, Japan agree to calm rice market

US and Japanese officials agreed that quick action was needed to address global hunger and bring stability to the world rice market, the office of the US trade representative said. Japanese officials told the United States they would favorably consider the Philippines' request for the release of 200,000 tonnes of imported rice, Hamel said. Japan has long protected its rice farmers from foreign competition, but it is obligated under world trade rules to import a minimum amount each year. To the frustration of the United States and other foreign suppliers, the Japanese government stockpiles the imported rice. The United Nations' Food and Agriculture Organization forecast that rice, a staple for more than half the world's population, would remain in short supply on global markets, and poor countries that rely on food imports could see food bills up 40 percent this year after a similar price hike in 2007. (Dawn, May 25th, 2008)

Non-textile products export up by 32.8pc

The export of non-textile products witnessed a substantial increase of 32.86 per cent during the first 10 months of the current fiscal year over the same period last year mainly on account of rice exports. Increase in rice export occurred despite announcement of a minimum export price. Seafood export increased by 4.87 per cent, fruits by 33.71 per cent, vegetables by 4.17 per cent, sugar by 100 per cent and meat by 22.31 per cent. Export of leather goods (garments and gloves) increased by 23.74 per cent. Export of footwear increased by 1.99 per cent, but leather footwear dipped by 11.41 per cent and canvas footwear by 57.42 per cent. Export of surgical goods and instruments increased by 33.18 per cent, gems by 38.18 per cent, jewellery by 408.43 per cent, molasses by 52.57 per cent, cement by 170.05 per cent and gur products by 43.35 per cent. (Dawn, May 25th, 2008)

60pc of oil price termed pure speculation

With crude prices hovering around \$135-mark and no immediate end in sight to market turbulence, the question what is pushing the market to dizzying heights is of real concern. And with things beyond the very fundamentals, it is literally difficult to provide an explanation. Since the advent of oil futures trading and the two major London and New York oil futures contracts, control of oil prices has left OPEC and gone to Wall Street, Engdhal underlines in his paper. The development of unregulated international derivatives trading in oil futures over the past decade or more has opened way for the present speculative bubble in oil prices. In January 2006, the Bush administration's CFTC also

permitted the Intercontinental Exchange (ICE), the leading operator of electronic energy exchanges, to use its trading terminals in the United States for the trading of US crude oil futures on the ICE futures exchange in London - called "ICE Futures". The price for Brent and WTI futures prices since January 2006 indicates the remarkable correlation between skyrocketing oil prices and the unregulated trade in ICE oil futures in US markets. In January 2006, when the CFTC allowed the ICE Futures, oil prices were trading in the range of \$59-60 a barrel. This large purchases of crude oil futures contracts by speculators have, in effect, created an additional demand for oil, driving up the price of oil for future delivery in the same manner that additional demand for contracts for the delivery of a physical barrel today drives up the price for oil on the spot market. (Dawn, May 25th, 2008)